

# OLIVER WYMAN



## Financial Services

April 1, 2008

## Trinidad and Tobago International Financial Centre Symposium

Opportunity overview



## Confidentiality

Our clients' industries are extremely competitive. The confidentiality of companies' plans and data is obviously critical. Oliver Wyman will protect the confidentiality of all such client information.

Similarly, management consulting is a competitive business. We view our approaches and insights as proprietary and therefore look to our clients to protect Oliver Wyman's interests in our presentations, methodologies and analytical techniques. Under no circumstances should this material be shared with any third party without the written consent of Oliver Wyman.

Copyright © 2008 Oliver Wyman



## Contents

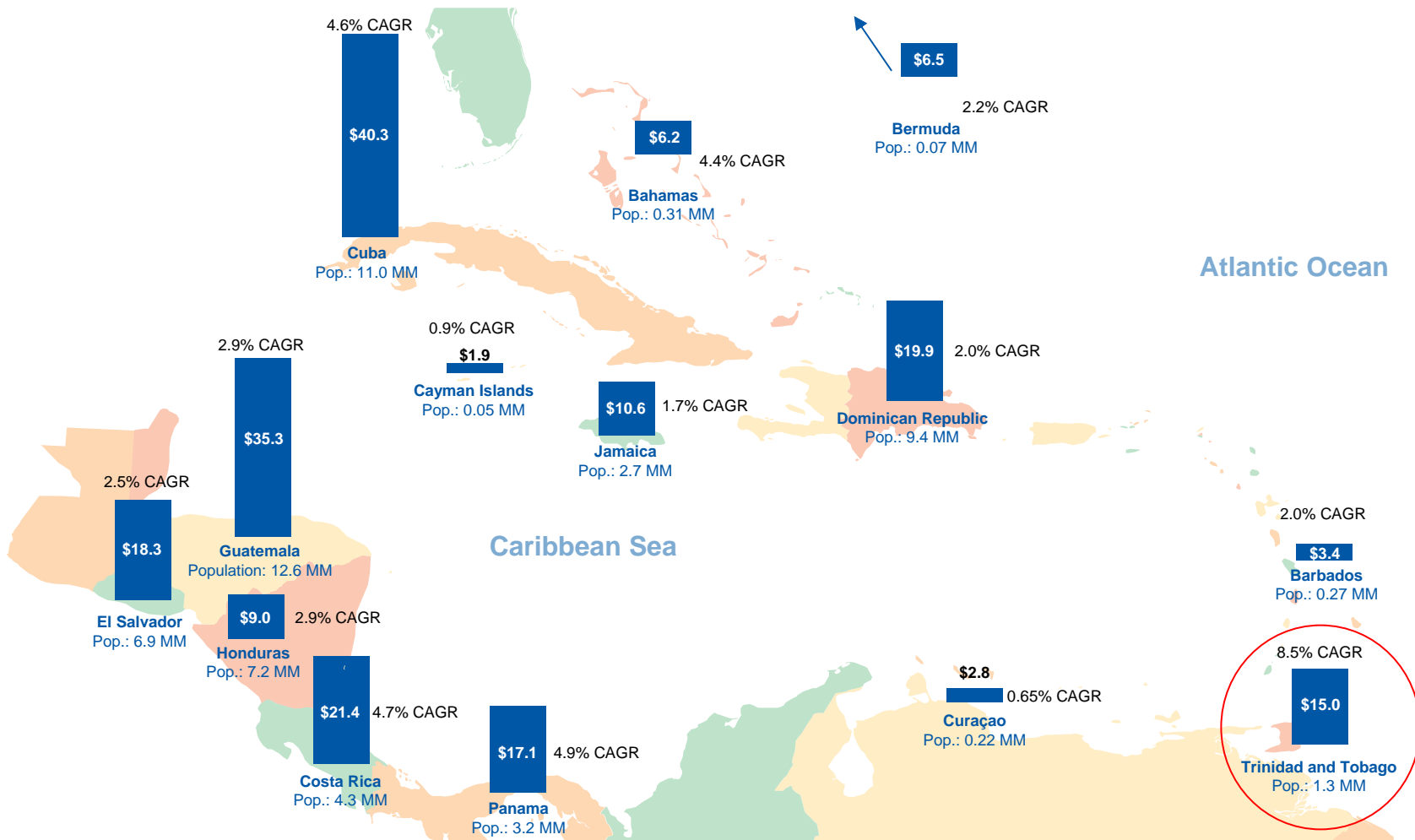
- 1. Opportunity: Why is an IFC a good fit for Trinidad and Tobago?**
- 2. What lessons can be learned from experiences of other IFCs?**
- 3. What is required to move forward and realize the targeted economic benefits?**

Section 1

# **Opportunity: Why is an IFC a good fit for Trinidad and Tobago?**

# Trinidad and Tobago has experienced strong economic growth in recent periods

2006 Real GDP (\$BN) and 2000-06 Compound Annual Growth (%)

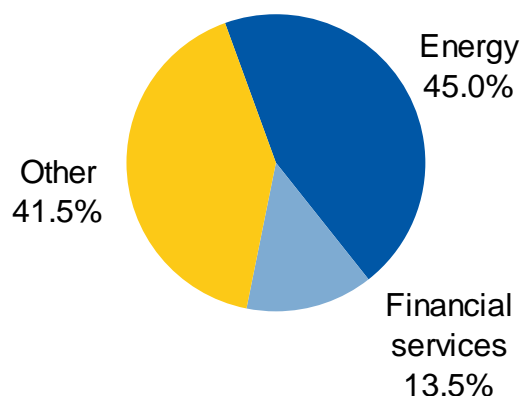


Source: IMF, EIU, Global Insight

## Going forward, greater economic diversification and per capita productivity are important priorities

- GDP growth has been strong in recent periods, and per capita GDP is high by regional standards – but only ~1/3 that of leading developed nations in North America and Western Europe levels
- The economy remains reliant on the Energy sector

**2007 GDP by sector**



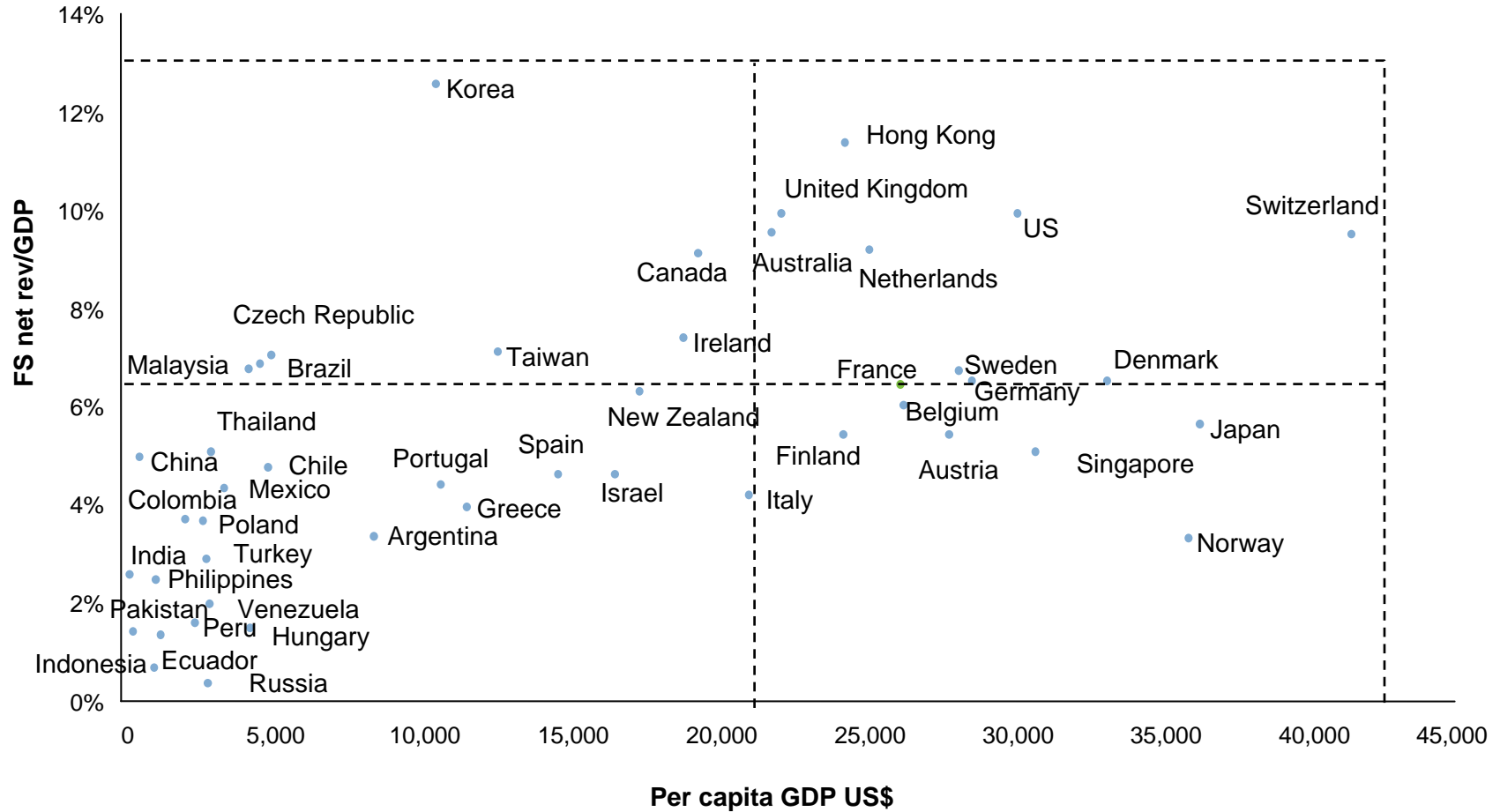
- A broad-based financial sector currently exists, serving local and regional markets

**Could the financial services sector, and specifically development of an TTIFC, enable greater economic diversification and per capita GDP growth?**

Source: 2007 U.S. Department of State, Bureau of Western Hemisphere Affairs - January 2008

# The role of the financial services sector is typically larger in more productive economies

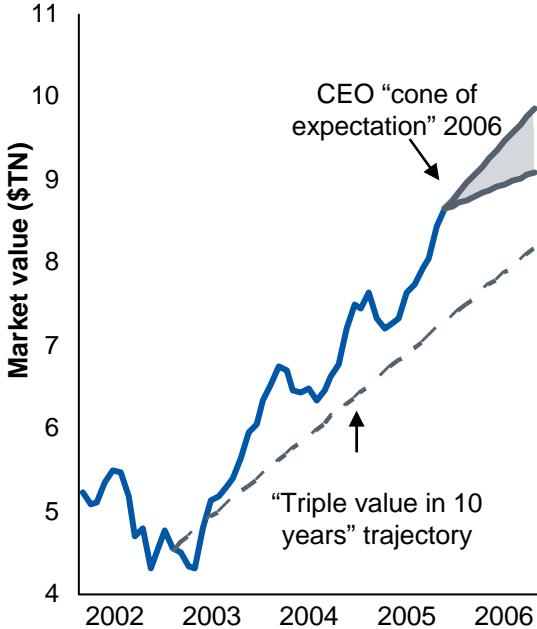
Financial Services revenue/GDP vs. per capita GDP



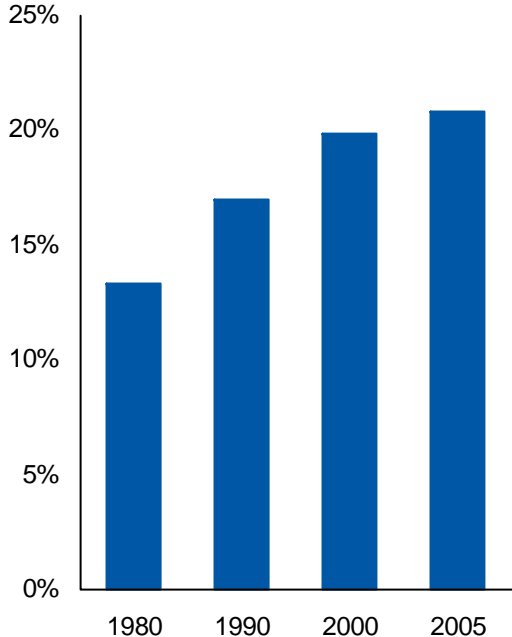
Source: Oliver Wyman analysis

**The financial services industry is large (US\$10 TN+ in market value, US\$2 TN+ in revenues), global and has robust growth prospects**

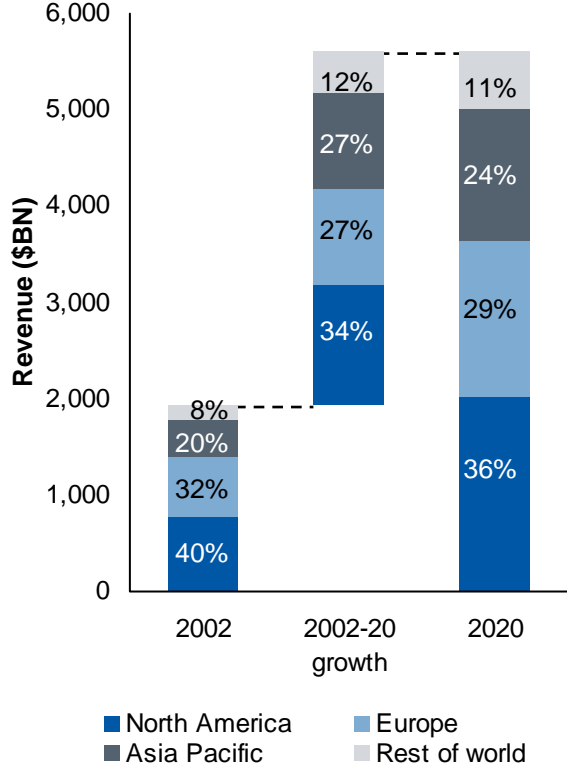
**Market value of global financial services**



**Financial services market value as % of total market value**



**Global financial services revenues 2002-2020**

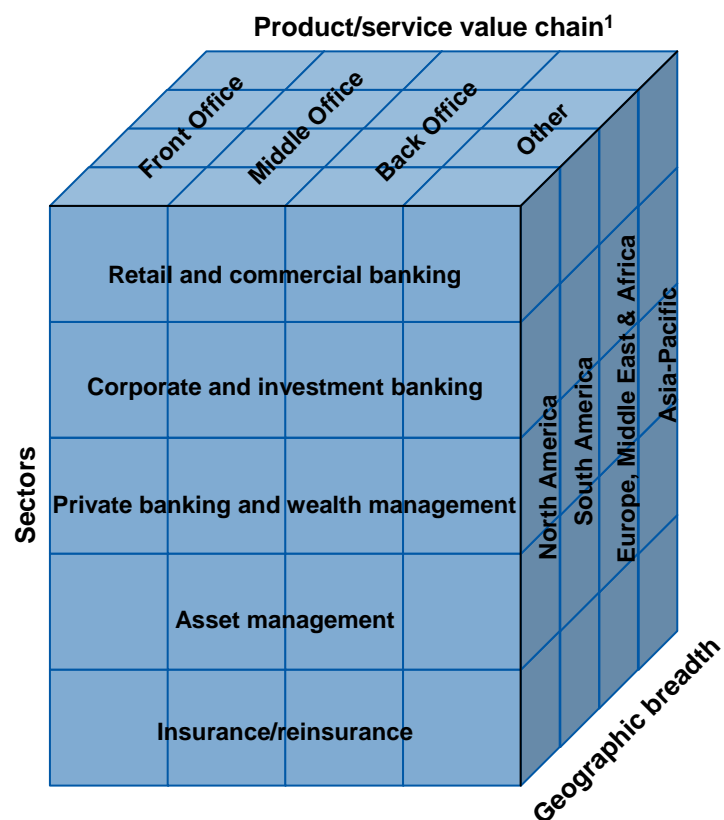


Source: Oliver Wyman analysis



# The industry operates on a global basis and offers a multitude of opportunities across sectors, geographies and value chain stages

## Financial services industry components



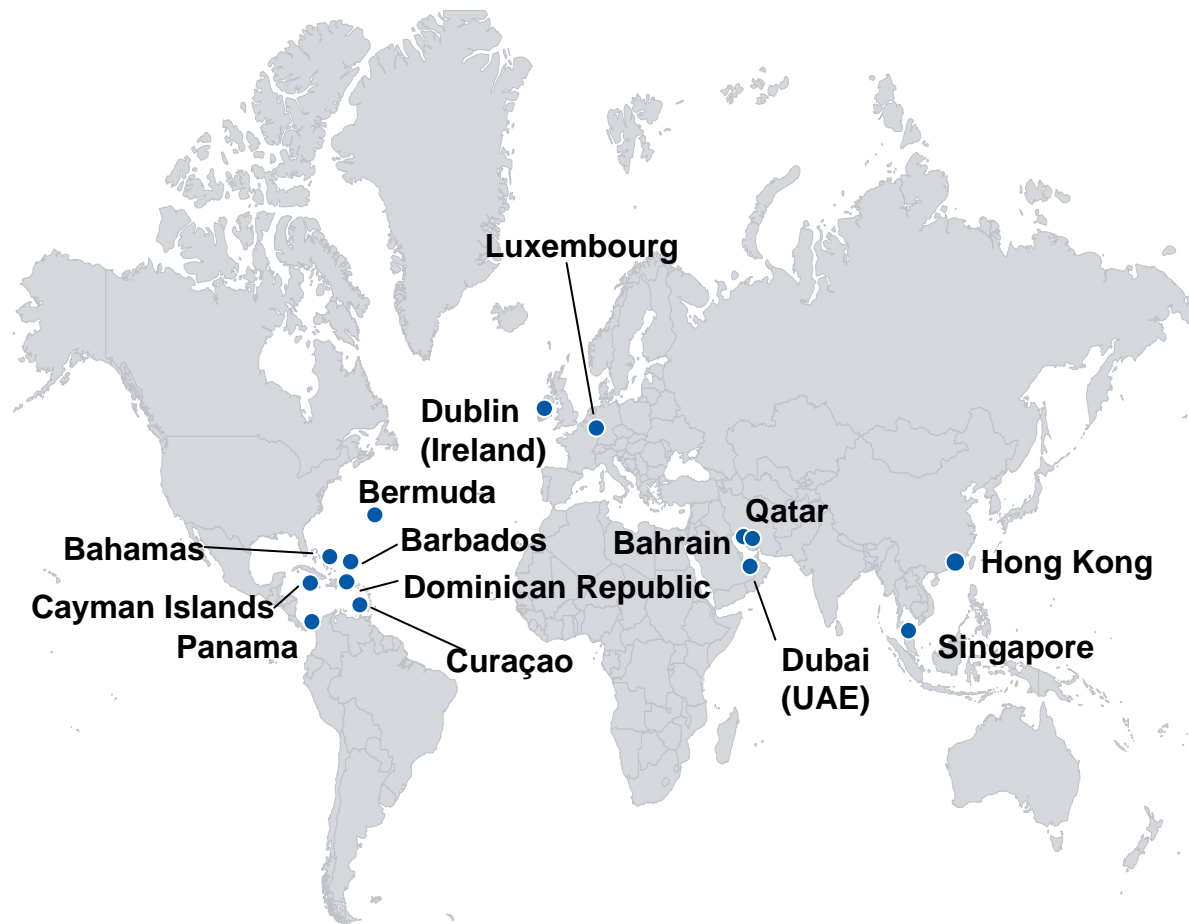
1. Other includes associated business services, e.g. for booking transactions

## Global and dynamic nature

- Dynamic industry with rapidly evolving needs
- Long history of and comfort level with international activity
- Leader in recent globalization developments such as operations/ technology off-shoring
- Large number of IFCs providing unique, critical mass of expertise, cost efficiency and tax advantages across borders
- Successful IFCs have played key roles in fostering economic development

# A large number of IFCs are already active in the global financial services industry

## Examples



## Observations

- At varying stages of maturity
- Active across financial services sectors, e.g. private banking, insurance, asset management
- Utilized for multiple purposes across front office, middle- and back- office, and “booking centre” activities

## Creation of the TTIFC is attractive given potential benefits, industry characteristics and building blocks already in place

### Targeted Trinidad & Tobago benefits

- Higher economic productivity
- Increased diversification
- Fostering of development in other sectors, e.g. via greater access to capital pools

### Financial services characteristics

- Large, global, diverse
- Long history of cross-border activity
- IFC creation can foster economic development

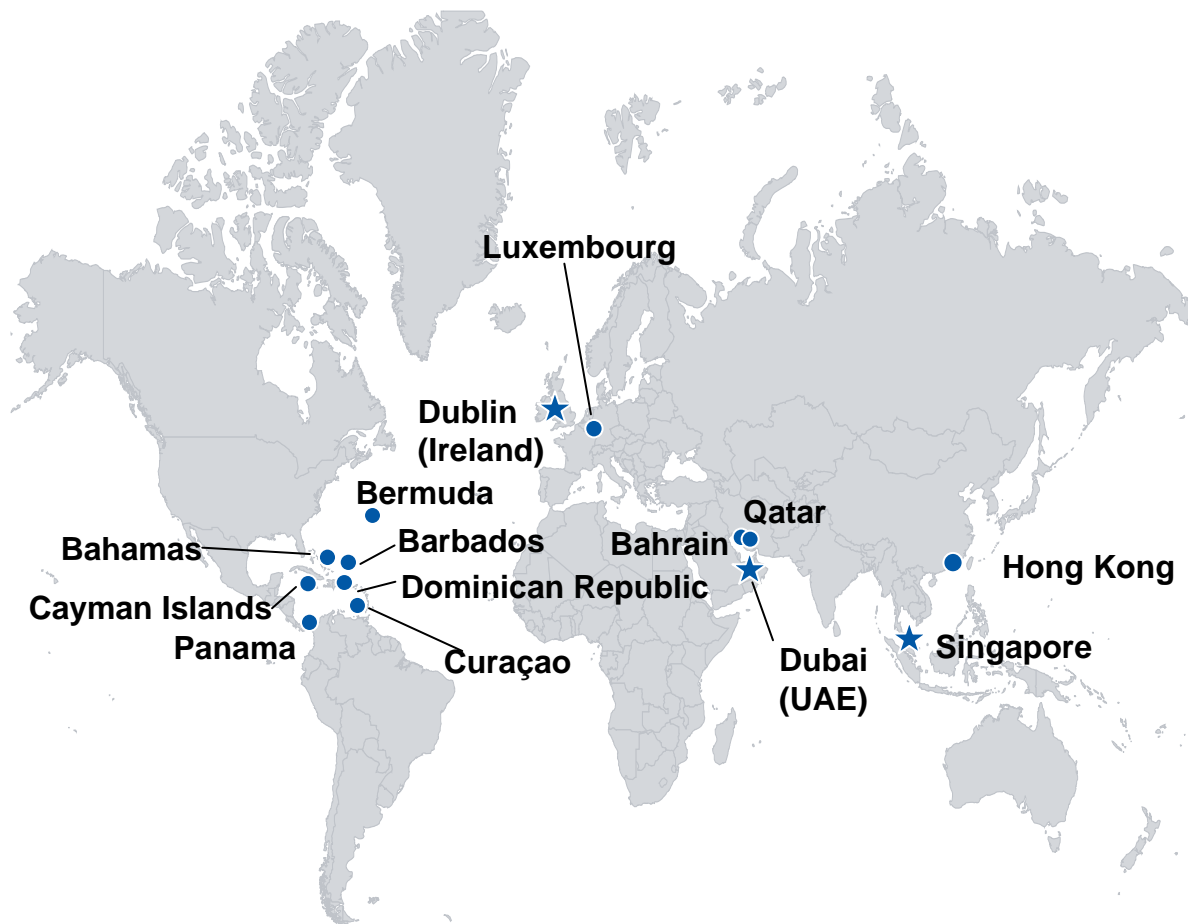
### Trinidad & Tobago building blocks

- Rapidly growing economy with strong reserves and investment grade rating
- Large skilled talent pool relative to regional levels
- UK-derived legal system; well developed regulatory environment
- Broad-based domestic financial sector across banking, insurance, capital markets and asset management
- Proximity and growing linkages to major North and South American markets

Section 2

# What lessons can be learned from other IFCs?

# IFCs represent an array of public policy objectives, development stages and strengths/weaknesses



## Case studies

1. Dublin (Ireland)
2. Dubai
3. Singapore

★ = Case studies with additional drill-down analysis    ● = Examples of other IFCs

# An IFC's attractiveness to the global market depends on both individual 'value proposition' elements as well as overall culture

## Value proposition elements

### 1 Economic and political strength

- Size and growth of economy
- Fiscal and monetary policies; inflation and unemployment levels
- Political stability; policy consistency across regimes

### 2 Regulatory, legal, tax environment

- Regulatory complexity, flexibility
- Legal requirements and protections
- Taxation levels and policies
- Levels of bureaucracy and transparency across above

### 3 Financial infrastructure

- Available financial services talent
- Capital-raising ability
- Infrastructure for payments, trade processing, etc.

### 4 Physical/business infrastructure

- Transportation, lodging
- Attractiveness of residence
- Quality of IT/telecom infrastructure
- Defined financial district

- Each of the above are important elements individually
- Critically, successful IFCs demonstrate a culture of **creativity** and **entrepreneurship** to address and overcome challenges and obstacles

# 1 Ireland created an IFC to foster economic development, leveraging its strengths into a clear value proposition

## Ireland's IFC vision

| Metric         | Goal  |
|----------------|---|
| Employment     | <ul style="list-style-type: none"><li>▪ Provide quality employment (unemployment rate &gt;17% in 1987)</li><li>▪ Gradually move up the service value chain</li></ul>                            |
| Urban renewal  | <ul style="list-style-type: none"><li>▪ Revitalize urban areas in Dublin, as well as its surroundings</li><li>▪ Attract high-end companies and human capital to Ireland</li></ul>               |
| Growth         | <ul style="list-style-type: none"><li>▪ Use the IFC to drive economic growth (Ireland one of the three poorest states in the EU in 1980s)</li><li>▪ Expand access to banking services</li></ul> |
| FS development | <ul style="list-style-type: none"><li>▪ Define Dublin and Ireland as a regional hub for financial services</li><li>▪ Avoid simply becoming a tax haven</li></ul>                                |

## Ireland's IFC value proposition

- Well-educated, young, English-speaking labor force
- Low cost structure for office space, labor, etc.
- Proximity to the rest of the UK and continental Europe
- Member of the EU
- Attractive tax and regulatory environment as one element of well-rounded value proposition

# 1 Ireland had several gaps that had to be addressed to create a successful IFC

## 1 Economic/political strength and stability

| Gaps  | How addressed  |
|---|--|
| <ul style="list-style-type: none"> <li>One of three poorest countries in EU</li> <li>High debt ratio (&gt;100% GDP in 1987)</li> <li>High inflation</li> <li>High unemployment</li> </ul> | <ul style="list-style-type: none"> <li>Leveraged low labor costs to attract foreign firms</li> <li>Tightened fiscal policy to lower inflation</li> <li>Benefited from EU membership</li> </ul> |

## 2 Regulatory, legal and tax environment

| Gaps  | How addressed   |
|---|---|
| <ul style="list-style-type: none"> <li>Decentralized regulation</li> <li>Tax environment not competitive enough to encourage foreign entry</li> </ul> | <ul style="list-style-type: none"> <li>Streamlined/centralized regulatory bodies</li> <li>Tax incentives created, and structured to encourage FS business in Ireland</li> </ul> |

## 3 Financial infrastructure

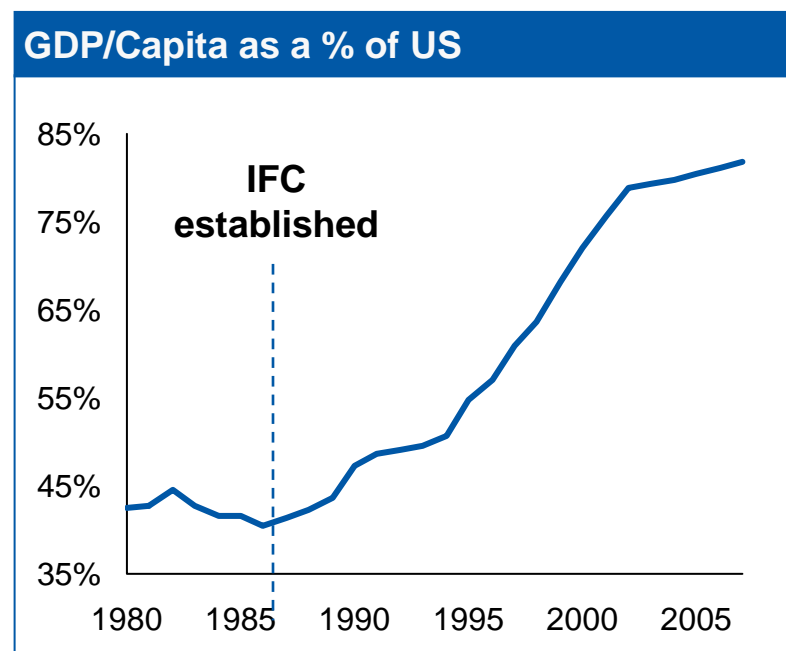
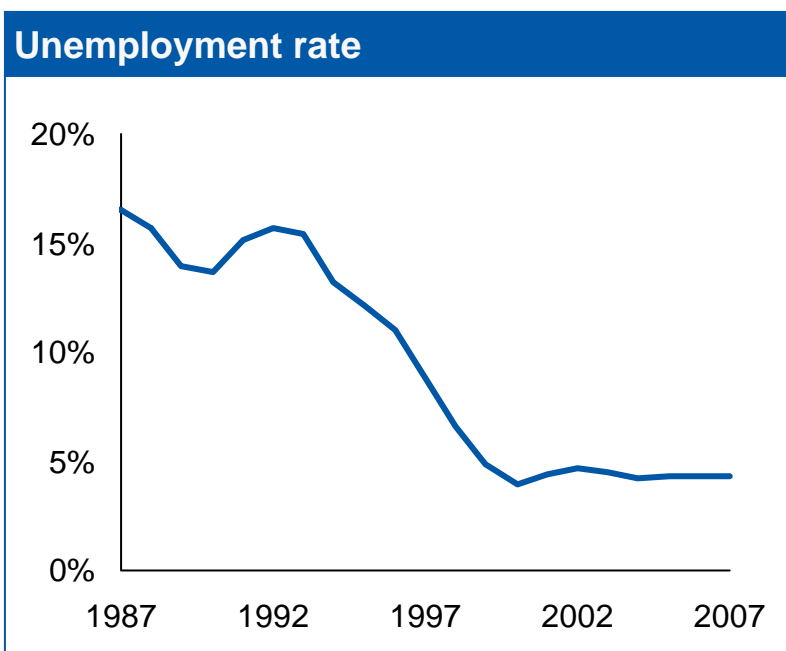
| Gaps  | How addressed   |
|---|---|
| <ul style="list-style-type: none"> <li>Poor data quality environment</li> <li>Limited financial market structure</li> </ul> | <ul style="list-style-type: none"> <li>Invested in telecoms, wireless</li> <li>Leveraged well-educated, English-speaking workforce to gain FS competencies</li> </ul> |

## 4 Physical/business infrastructure

| Gaps   | How addressed   |
|--|---|
| <ul style="list-style-type: none"> <li>Poor transportation infrastructure</li> <li>Limited IT infrastructure</li> <li>No defined financial district</li> <li>Few business hotels, restaurants, etc.</li> </ul> | <ul style="list-style-type: none"> <li>\$25 BN spent on physical infrastructure</li> <li>\$5 BN invested on optical networks</li> <li>Developed IFC site in Dublin docklands</li> <li>Hotels and restaurants added to site</li> </ul> |



# 1 Over the last 20 years, Ireland's economic status has improved dramatically, with its IFC playing an important role



## Key points

- Focused on activities associated with wholesale rather than retail financial services, e.g. for treasury management, custody, fund administration
- Primarily engaged in providing middle- and back-office services
- Gradually expanding into front-office businesses to expand opportunity set and in advance of potential competition from Eastern Europe

Source: Haver financial data

# 1 Dublin overview: Ireland has become a top-tier economy, with Dublin serving as a thriving and successful IFC

## Dublin today

|                          | <b>Economic/political strength and stability</b>  | <b>Regulatory, legal and tax environment</b>   | <b>Financial infrastructure</b>   | <b>Physical/business infrastructure</b>   |
|--------------------------|---|--|---|---|
| <b>Value proposition</b> | <ul style="list-style-type: none"> <li>Politically stable</li> <li>Strong, stable economic growth</li> </ul>  | <ul style="list-style-type: none"> <li>12.5% corporate income tax on trading income</li> <li>Flexible, business-friendly regulators</li> </ul>   | <ul style="list-style-type: none"> <li>Well-educated, young population (including some from US)</li> <li>Broad set of support services</li> </ul>   | <ul style="list-style-type: none"> <li>Modern infrastructure</li> <li>Continued govt. investment</li> </ul> |
|                          | <b>Centre overview and development</b>  | <b>Most significant foreign FS presence</b>  | <b>Key success factors</b>  |   |
| <b>Progress to date</b>  | <ul style="list-style-type: none"> <li>“International Financial Services Centre” (IFSC) established in 1987 in Dublin’s former docklands</li> <li>Strategy was to start with a hub in Dublin; companies are now expanding to other areas outside of designated financial centre</li> <li>Expanding to revenue generation roles from strong base in transaction processing</li> <li>Success of IFSC has brought Irish emigrants back to Ireland from the US and UK</li> <li>Tax revenues from IFSC companies topped \$1 BN for the first time in 2006</li> </ul> | <ul style="list-style-type: none"> <li>Half of top 50 global banks and top 20 global insurance firms have a presence in Ireland (e.g. Merrill Lynch, Sumitomo Bank, AIG, BNPP, JPMorgan Chase, Commerzbank)</li> <li>350 treasury entities currently operate in IFSC (e.g. Bear Stearns)</li> <li>Heavy focus on asset management, specifically mutual fund administration and custody services</li> <li>Other products include: Banking, asset financing, corporate treasury management, investment management, and specialized insurance operations</li> </ul> | <ul style="list-style-type: none"> <li>Attractive economic, tax, and regulatory environment</li> <li>Significant investment in infrastructure</li> <li>Political and economic stability</li> <li>Attractive labor force (English-speaking and well-educated)</li> <li>EU membership</li> <li>Support of the educational community, e.g. creating FS-oriented degrees</li> <li>Effectively marketed the IFSC to the international community using an independent marketing agency</li> <li>Broad array of ancillary professional services (e.g. lawyers, accountants)</li> </ul> |   |

## 2 Dubai: Financial services is a key component of Dubai's long-term plan for growth beyond the energy sector

### Dubai today

|                          | <b>Economic/political strength and stability</b>  | <b>Regulatory, legal and tax environment</b>   | <b>Financial infrastructure</b>  | <b>Physical/business infrastructure</b>  |
|--------------------------|---|--|--|--|
| <b>Value proposition</b> | <ul style="list-style-type: none"> <li>Pro-business government, most open market to foreign investment in the region</li> <li>Geographical location gives rise to some concerns regarding political stability</li> </ul>  | <ul style="list-style-type: none"> <li>Developing western judicial system within DIFC</li> <li>Corporate tax breaks within DIFC</li> <li>International standard regulations within DIFC</li> </ul>   | <ul style="list-style-type: none"> <li>Strong marketing of new exchanges (although post-trade infrastructure concerns remain)</li> <li>DIFC markets trade in US dollars</li> </ul> | <ul style="list-style-type: none"> <li>Best practice internet; large infrastructure investment (\$37 BN in 2006-2010)</li> <li>Good lifestyle/business environment within DIFC</li> </ul>  |
|                          | <b>Centre overview and development</b>  | <b>Most significant foreign FS presence</b>  |  | <b>Key success factors</b>   |
| <b>Progress to date</b>  | <ul style="list-style-type: none"> <li>Dubai International Financial Centre (DIFC) began in 2002; is a specific physical location where international-style regulations and civil law apply               <ul style="list-style-type: none"> <li>110-acre site for business, leisure and hotels</li> <li>Exchanges for equities, bonds and commodities (DIFX and DGCX/DME) opened</li> <li>Corporate governance institute linked to OECD, World Bank</li> </ul> </li> <li>Major infrastructure upgrades under way               <ul style="list-style-type: none"> <li>Trading infrastructure for local equities</li> <li>Physical infrastructure (communications, roads, transport, airport, offices, hotels, leisure facilities)</li> </ul> </li> <li>Progressing toward becoming regional financial hub</li> </ul> | <ul style="list-style-type: none"> <li>Full range of corporate and institutional banking services; no retail banking in DIFC</li> <li>46 banks present in Dubai (25 foreign, 21 domestic)</li> <li>Capital markets: Credit Suisse, HSBC, Morgan Stanley, Goldman Sachs</li> <li>Asset management/private banking: Credit Suisse, Deutsche Bank, UBS</li> <li>Developments in infrastructure, FS, and focus on shipping has enabled Dubai to court other major corporations (e.g. Halliburton)</li> </ul> |  | <ul style="list-style-type: none"> <li>Numerous tax advantages</li> <li>Substantial infrastructure investments</li> <li>Financial backing of the Emir</li> <li>Set up DIFC as a separate entity with UK-based laws and regulations</li> <li>Substantial marketing effort</li> <li>Emerging tourism industry</li> <li>Broadened global industry to include container shipping and port operation</li> <li>Have own high quality airline (Emirates Air)</li> </ul> |

### 3 Singapore differentiated itself from Hong Kong and Tokyo by being nimble and efficient

#### Singapore today

|                          | <b>Economic/political strength and stability</b>   | <b>Regulatory, legal and tax environment</b>  | <b>Financial infrastructure</b>  | <b>Physical/business infrastructure</b>   |
|--------------------------|--|---|--|---|
| <b>Value proposition</b> | <ul style="list-style-type: none"> <li>Politically stable</li> <li>Strong, stable economic growth</li> </ul>   | <ul style="list-style-type: none"> <li>Single regulatory body (MAS)</li> <li>55 tax treaties</li> </ul>   | <ul style="list-style-type: none"> <li>Well-educated population</li> <li>Liquid capital markets</li> </ul>   | <ul style="list-style-type: none"> <li>Modern infrastructure</li> <li>Safe, orderly place to do business</li> </ul> |
|                          | <b>Centre overview and development</b>   | <b>Most significant foreign FS presence</b>   |  | <b>Key success factors</b>  |
| <b>Progress to date</b>  | <ul style="list-style-type: none"> <li>Centre rose to prominence with creation of Asian Dollar market in 1970s</li> <li>Firm, decisive leadership led to IFC creation</li> <li>Incentives to encourage FS investment                             <ul style="list-style-type: none"> <li>Light business regulation and “red tape”</li> <li>Low tax rates; 55 tax treaties</li> <li>Fund management: Guarantee of assets from govt. funds to at least break even in year one</li> </ul> </li> <li>Monetary Association of Singapore (MAS) regulates across all of FS (established 1971)</li> <li>Developed financial and business infrastructure                             <ul style="list-style-type: none"> <li>Investment in telecoms, transport and cultural environment</li> <li>Economic links with Asian countries, e.g. 2005 agreement with India</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Broad diversity of and global financial institutions; 600+ FIs in Singapore</li> <li>Citigroup, HSBC, DBS and UBS are the largest offshore deposit takers in Singapore</li> <li>Growing presence in the REIT and real estate securitization market</li> <li>centre for US hedge funds’ Asian operations</li> <li>Recent government focus on fund management</li> </ul> | <ul style="list-style-type: none"> <li>Tiered banking into domestic (DCU) and international (ACU) activities</li> <li>Created a market that filled a key financial need (Asian Dollar market)</li> <li>More nimble and able to quickly adapt to change than Hong Kong</li> <li>Tax incentives, e.g. eliminated withholding tax on interest income earned by non-resident depositors</li> <li>Strong leadership and clear vision</li> <li>Preferred to regional competitors due to superior fundamentals (e.g. rule of law, independent judiciary, limited corruption, AAA credit rating)</li> <li>Significant investment in education</li> </ul> |   |

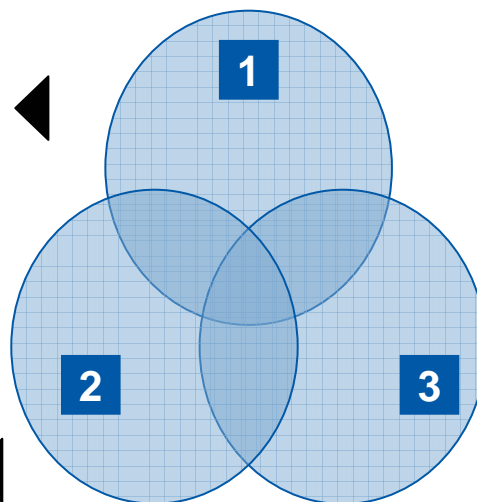
## Financial centers perform three main types of activities

### 1 Front-office production

- Leverage synergies created by critical mass of financial activity
- Require small number of highly compensated, specialized, local and expatriate talent and sophisticated infrastructure

### 2 Middle- and back-office support

- Supporting activities (operations, accounting, customer service)
- Require scaleable pool of proficiently educated primarily local talent at moderate compensation levels



IFC models for types of activities

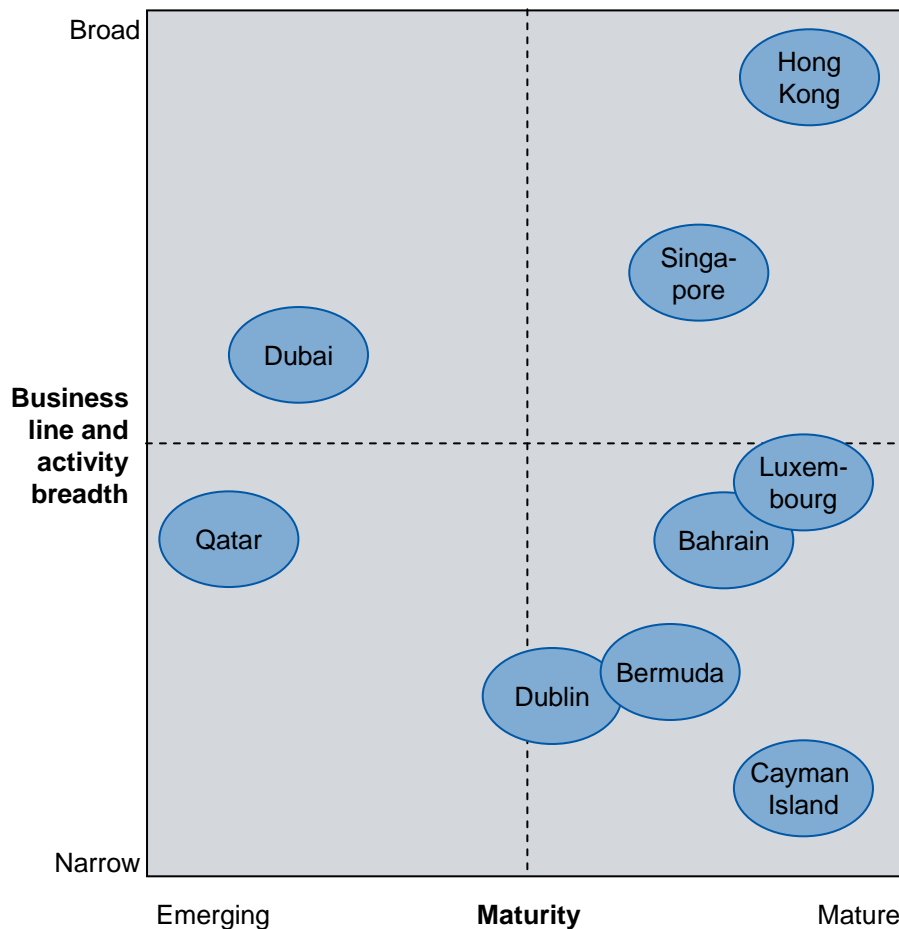
### 3 Booking centre

- Tax advantages critical element of value proposition
- Require small number of moderately compensated staff specializing in incorporation, accounting

- The greatest medium- to long-term benefits come from **1** and **2**
- However, bona fide IFCs may use elements of **3** as initial catalyst

## Successful IFCs are typically incubated with a narrow, highly specialized offering

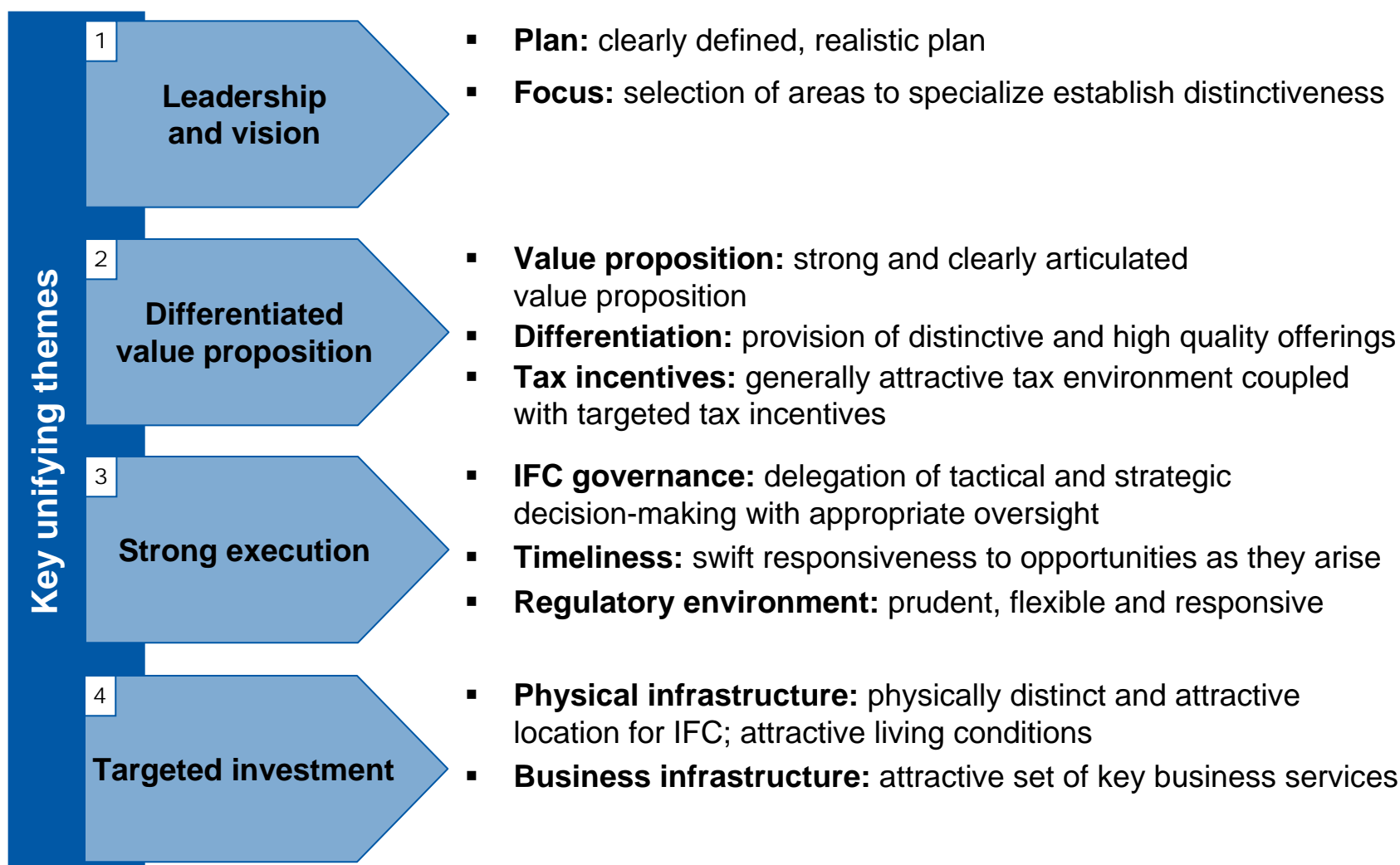
### Positioning of selected IFCs



### Observations

- Young IFCs tend to be narrowly focused, emphasizing deep specialization in particular niches
- Some successful IFCs have broadened their capabilities as they have matured
- The most successful IFCs maintain their competitive advantage over time by continuing to excel in a particular business (e.g. Bermuda reinsurance)
- There are no examples of successful, mature IFCs that started with a broad offering

## Several common themes emerge from case studies



## Section 3

**What is required to  
move forward and realize  
the targeted benefits?**



## Key considerations in moving forward

- Development of a IFC represents a potentially attractive means for Trinidad and Tobago to pursue economic growth and diversification
- Other economies have benefited from IFC development by carefully targeting opportunities that best fit with market needs and their own strengths
- Key discussion points
  - How can Trinidad & Tobago enhance the foundational elements necessary for success?
  - Which business lines are best suited for pursuit at various points in time?
  - What are the requirements and implications for stakeholders?

**The following pages contain a preliminary set of hypotheses for consideration and discussion during this symposium**

## Pursuing the IFC opportunity will require development of a strong value proposition foundation and targeted business line pursuit

### Medium- to long-term business lines

Expansion into more complex opportunities requiring some build-out of current capabilities but providing greater economic returns

### Short- to medium-term business lines

Initiatives immediately possible taking advantage of Trinidad and Tobago's existing capabilities and building the core skill set and reputation for long-term development of the IFC

### Foundation: value proposition elements

Establishment of a strong foundation by development of a clear and differentiated value proposition across economic/political stability, tax/legal/regulatory environment, financial infrastructure, physical/business infrastructure



# Foundation development: hypotheses for potential enhancements to building blocks currently in place

## 1 Economic/political strength, stability

| Building blocks   | Enhancements   |
|---|--|
| <ul style="list-style-type: none"><li>Strong GDP growth</li><li>Stable political environment</li><li>Attractive credit ratings, FX reserve levels</li></ul> | <ul style="list-style-type: none"><li>Contain inflationary pressures</li><li>Continue diversification efforts in other sectors</li></ul> |

## 2 Regulatory, legal and tax environment

| Building blocks  | Enhancements  |
|--|---|
| <ul style="list-style-type: none"><li>English legal code-influenced mechanisms</li><li>Clear regulatory mandates</li></ul> | <ul style="list-style-type: none"><li>Expedite dispute resolution</li><li>Streamline tax burden/complexity</li><li>Consider creation of Special Economic Zone</li></ul> |

## 3 Financial infrastructure

| Building blocks   | Enhancements   |
|---|--|
| <ul style="list-style-type: none"><li>Presence of skilled professionals</li><li>Cross-sector domestic industry</li><li>Key enablers present (exchange, settlement, ratings)</li></ul> | <ul style="list-style-type: none"><li>Expand skilled professional pool via education, job training etc.</li><li>Attract/repatriate skilled emigrants</li></ul> |

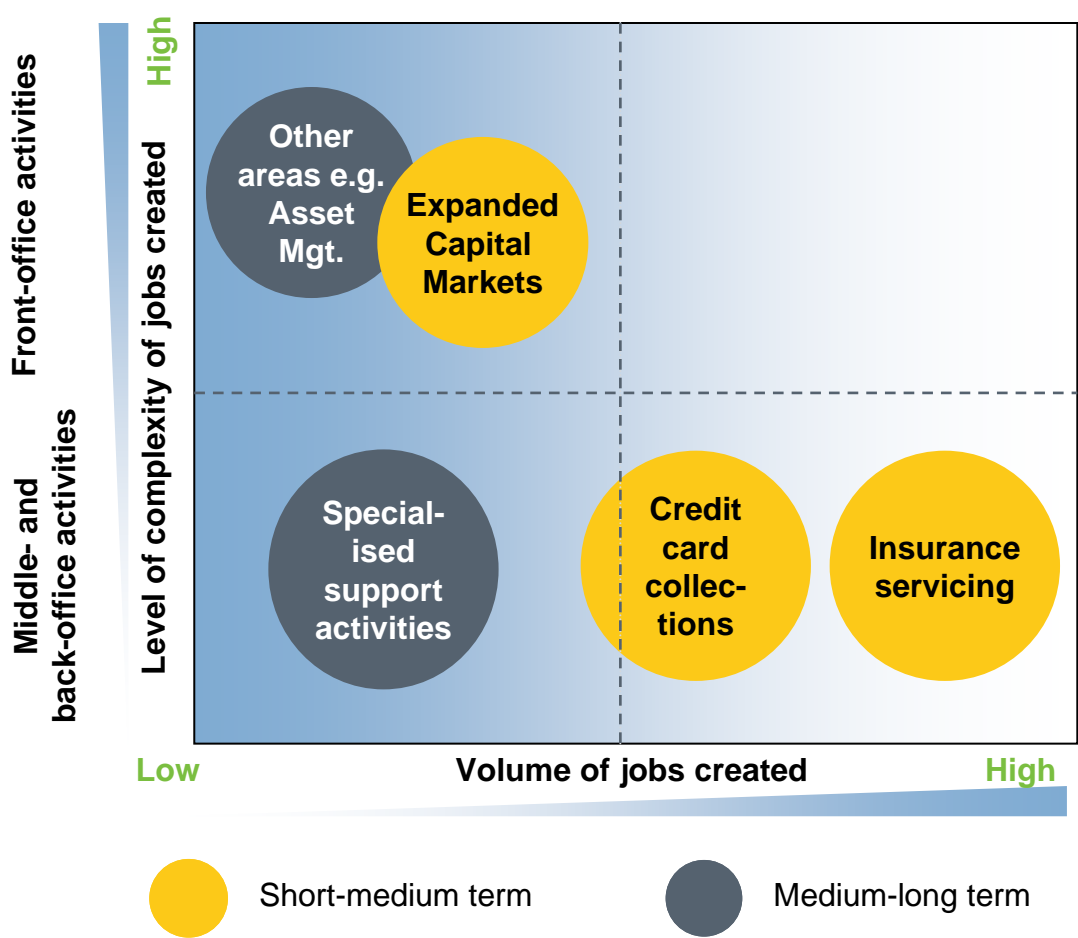
## 4 Physical/business infrastructure

| Building blocks   | Enhancements   |
|---|--|
| <ul style="list-style-type: none"><li>Attractive quality of life (English-speaking, diverse)</li><li>Significant recent investments</li></ul> | <ul style="list-style-type: none"><li>Develop distinct physical space</li><li>Expand air links, reduce road congestion</li><li>Address perceived security concerns</li></ul> |



# Consistent with development path of other successful IFCs, a small number of specific business lines should be pursued

## Potential business line initiatives: Hypotheses



## Comments

- The opportunity hypotheses have been selected on the basis of:
  - Level and sustainability of expected demand for such business lines
  - Their desirability from the perspective of Trinidad and Tobago, in terms of near-term direct benefits as well as potential future opportunities that they may create
  - Comparative sustainable advantage for Trinidad and Tobago in these areas
- Together, they represent a diversified portfolio of opportunities
- These must be road-tested before finalisation

## Requirements and implications for stakeholders: hypotheses

### Economy

- Potential for greater economic growth and diversity
- Creation of attractive employment prospects
- Benefits to regional economy with increased focus from global industry, upgraded infrastructure and skilled labour development

### Government/ public sector entities

- Leadership role in development of foundational elements and policy framework for systematic pursuit of available opportunities
- Investments required to enhance infrastructure – but with resulting benefits to broader economy beyond financial sector
- Key role for regulators in balancing prudence, flexibility and responsiveness

### Financial institutions/ private sector entities

- Leadership role in defining/developing business line initiatives
- Opportunity for nimble firms to pursue broader opportunity set created by IFC development (regionally, globally)
- Improved financial services access for businesses/ entrepreneurs

# Success will require clear leadership, a differentiated value proposition, nimble execution and targeted investments

## Elements for consideration and discussion

