



CENTRAL BANK OF TRINIDAD & TOBAGO

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Feature Address

at

ATTIC/CBTT Breakfast Meeting

by

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Governor, Central Bank of Trinidad and Tobago

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I welcome all of you today and thank you as well as ATTIC for so readily responding to our request for this session. I see today as the formal start of hopefully a continuous process of collaboration, geared towards strengthening the insurance industry and ultimately the financial system of Trinidad and Tobago.

At this crucial time, with our assumption of regulatory responsibility imminent, we feel that it is absolutely necessary for the Bank to provide an update, as to where we are and how we will proceed to go forward. The main purpose of this morning's session is therefore to give a brief overview of our operating arrangements and our transition plans, and more importantly, to answer any questions you may have and provide clarification where this is needed.

I would like to emphasise this morning, that I really see the relationship between the Central Bank (as regulator) and the insurance

industry as one of cooperation towards the common goal of ensuring that the industry operates and thrives on a sound prudential and business footing that benefits the consumer and the economy. And I don't think that there is any inconsistency in achieving these objectives while still making a handsome profit for yourselves and your shareholders.

Ladies and gentlemen, we should be proud that we have become the **pre-dominant financial centre** in the Caribbean (and further afield). It is also true that our prudential and regulatory systems are lagging behind those of several Caribbean jurisdictions.

The weakness in our regulatory regime (and the insurance industry is an excellent example) seriously increases the vulnerability of our financial sector. Regulatory deficiencies also encourage operators that do not meet minimum criteria and minimum standards. This can sometimes give the entire industry a bad name.

If we are to avoid the debacle that Jamaica experienced, if we are to reduce the risks of a financial crisis, if we are to strengthen confidence in the insurance industry, we need to strengthen the regulatory framework. And that is what I would want us to work at together.

As you know, the legislation which was finally passed by Parliament last week essentially did three things:

1. transferred responsibility from the Supervisor of Insurance to the Central Bank;
2. amended the appeal provision of Section 205 of the Insurance Act whereby any regulatory action by the Central Bank will now continue to have effect, unless the appellant is granted an injunction by the Court;

3. regulation under the Insurance Act will now be made by the Minister but on recommendations from the Central Bank.

Changes in the Regulatory Structure

The administrative regulatory structure which you were accustomed to will change in several aspects when the provisions of the Bill come into effect:

- The designation and position of Supervisor of Insurance will no longer exist.
- The position of Inspector of Banks which is now responsible for the supervision of banking institutions will be renamed, the Inspector of Financial Institutions, with responsibility for banking institutions, the insurance industry and registered pension plans.
- In keeping with this re-designation and our expanded regulatory mandate, the Bank Inspection Department in the Central Bank will be renamed accordingly.
- The Office of the Supervisor of Insurance in the Ministry of Finance will no longer be functional. All matters pending at that Office will become the responsibility of the Central Bank and will be addressed by the Inspector of Financial Institutions.
- In the circumstances, all correspondence issued after the Bill receives assent should be addressed to the Inspector of Financial Institutions at the Central Bank. Arrangements have been made however, for any correspondence sent to the

Supervisor in the transitional period, to be received by the Central Bank.

Operating Structure for Supervision

The Central Bank's supervisory responsibilities in relation to banking institutions, the insurance industry and registered pension plans will be mainly discharged by our **Financial Institutions Supervision Department**.

This Department will be headed by the Inspector of Financial Institutions who functions at the level of Deputy Governor.

This Department is divided into three sections, each with a manager:

- **Bank Supervision**, which is responsible for the supervision of institutions licensed under the Financial Institutions Act;
- **Insurance Supervision**, which is responsible for the supervision of insurance companies and registered pension plans;
- **Policy and Support**, which is responsible for:
 - (i) all market conduct issues;
 - (ii) registration of all insurance Intermediaries;
 - (iii) processing and analysing of all data (including annual returns filed by insurance companies), development of guidelines and regulatory policies.

The Bank, in an effort to ensure access to an appropriate mix of skills, has employed staff with training and/or experience in:

- Actuarial principles
- Insurance companies' operations
- Financial sector supervision
- Accounting
- Financial Analysis

The recruitment process is on-going and we are very open to persons being employed from the industry.

Operational Initiatives

Despite the fact that substantive amendments have not been made to the Insurance Act, the Bank will improve the level of supervision of the industry by more effective administration of the existing legal provisions. In particular, the Bank will:

- Require compliance with the current requirements by all participants. A review of the records of the Supervisor of Insurance has established that there are several instances where companies do not meet filing deadlines, do not comply with the Statutory Fund Requirements and in some cases, do not meet the minimum capital requirements prescribed in the Act.
- We plan to continuously monitor the financial soundness of insurers.
- In preparation for assuming the regulatory oversight, the Bank Inspection Department conducted a series of diagnostic studies on the industry. While these studies indicate that many of the insurance companies are financially sound and

reasonably well managed, they also point to a number of concerns that need to be addressed urgently. These concerns include:

- (i) excessive related party activity
- (ii) weak corporate governance.

Financial soundness will be assessed by implementing a risk-based on-site inspection and continuous off-site monitoring of companies operations. On-site examinations will entail, among other things, Central Bank's staff coming to companies' premises and holding meetings with management, interfacing with company staff and reviewing records. This is precisely what we now do with the commercial banks and non-banks.

As part of the off-site monitoring process, insurers will be asked to furnish information in addition to what is currently required by law. This will assist us in improving the effectiveness of the supervisory process. It is not intended to increase the information burden on companies and any additional information requested would generally be part of what should be currently produced for management's use.

The Bank will make its best efforts to assist any weak companies with a view to protecting the interests of the policyholders [and will] place focus on market conduct practices, including fair claims settlements.

(Not surprisingly, the market conduct issues are those which receive the greatest public scrutiny and which bring the credibility of the industry into question. I understand that some of you stakeholders were sent a draft market conduct self-assessment questionnaire. We would like to get your complete replies in as soon as possible, since we would like to work closely with you on market conduct guidelines.)

The Bank intends to improve the regulatory processes by the establishment of guidelines to promote best practices in the industry. In this regard, some guidelines already developed will soon be circulated for comment. We count on your participation in these exercises. These cover the important areas of:

- (i) investment
- (ii) fit and proper criteria
- (iii) corporate governance; and
- (iv) anti- money laundering

Communication

The Bank has embarked on a **communication strategy** to adequately inform the industry, other interested parties and the general public. Our session here this morning is an element of this strategy.

We will be holding other sessions as we continue our process of dialogue and consultation, and in this regard we plan to arrange a similar meeting with the pension industry to discuss regulatory and supervisory issues.

Let me focus now on your communication with us. Your correspondence should now be addressed to the Inspector of Financial Institutions; however, you can also send correspondence directly to:

- (i) The Manager, Insurance Supervision.

- (ii) The Manager, Policy and Support. As I said before, this office will be responsible for registration of intermediaries and market conduct matters.

The Inspector, managers and staff of the department can also be accessed via our telephone numbers.

During the transition period, to promote ease of access of information, the Bank has arranged for a member of the Department's staff to be stationed at the ground floor, reception area, to provide information on insurance regulatory arrangements, procedures, etc. to members of the public and the industry.

Special Issue – Payment of Fees

With specific reference to payment of fees and other monies required under the Insurance Act, please note that the current arrangement where payments are made at the Treasury and District Revenue offices will continue. In addition to that, payments can now also be made at the cashiers at the first floor at Central Bank.

Ladies and gentlemen, it's no secret that current insurance legislation which was enacted since 1980 is woefully inadequate to meet the regulatory demands of the modern-day insurance industry. We intend to work closely with you—the industry stakeholders—to draft new legislation that meets our local requirements but is also in line with international best practices. We have already started this dialogue with some of you and now that the transfer of regulatory authority has been completed, these discussions will need to be broadened and intensified. As we commence operations in supervising this industry, rest assured that we are committed to fostering and maintaining good relations with all stakeholders, while at the same time fully meeting our responsibilities as a regulator.

I count on your full cooperation in making the transition a success.

Thank you.