Launch of Financial Stability Report 2020

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Impact of the COVID-19 Pandemic on Financial Stability

Key Points

1. The COVID-19 pandemic has caused significant disruption and hardship. It continues to weigh heavily on domestic macro-economic and financial conditions.
2. The domestic financial sector remained resilient throughout 2020, both operationally and financially, despite the contraction in economic activity.
3. Financial institutions have adapted to the prevailing predicament with alacrity.
4. Consumers, businesses and the Government have also managed and adapted.
5. Though the financial sector was resilient amidst the uncertain economic environment, risks to financial stability are slightly higher as the pandemic persists
6. The Central Bank has implemented extraordinary monetary and regulatory measures to help contain the financial implications of the pandemic. These have been broadly in line with international actions.
7. It is necessary to unwind policy interventions while preserving financial stability and ensuring that the flow of credit to the real economy is sustained.
8. Data indicates that loan deferral programmes have been winding down.
9. Banks promoted online banking channels and businesses promoted e-commerce opportunities in an effort to reduce ‘in door’ traffic at their establishments.
10. Supervisory and other priorities over the next 5 years encompass the potentially lasting impact of the pandemic.
11. The pandemic added new complications for private pension plans in Trinidad and Tobago.
12. Pension plans command tremendous financial resources.
13. Consistent and transparent communication among all pension plan actors is essential.
14. Maintaining a forward looking perspective is crucial when dealing with savings for retirement.
15. Reforms to the legislative and supervisory framework for pensions should be quickly advanced.

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1. The COVID-19 pandemic has caused significant disruption and hardship. It continues to weigh heavily on domestic macro-economic and financial conditions.

Economic Activity

Economic activity contracted, fuelled by the under-performance of the energy sector amid plant shutdowns due to tepid global energy demand

Employment

Labour market retrenchments climbed

Government Revenue

There was a sizeable shock to government revenue owing to lower energy prices and reduced non-energy tax receipts

Non-Energy Sector

There were pockets of recovery in the non-energy sector

Inflation

Inflation remains subdued

Intermediation

The financial intermediation function was not disrupted and our institutions continue to be safe, sound and resilient

2. The domestic financial sector remained resilient throughout 2020, both operationally and financially, despite the contraction in economic activity.

BANKING SECTOR

High capitalisation — capital adequacy ratios remained well above the regulatory minimum.

Relatively strong asset quality — the share of NPLs to total loans deteriorated but remained relatively low.

Some **erosion** in **profitability** — higher provisioning required under IFRS 9 eroded profitability.

Adequate liquidity — the ratio of liquid assets declined but remained adequate.

INSURANCE SECTOR

Strong capital and **liquidity** buffers in both long-term and general insurance sectors.

Economic slowdown and volatility in global financial markets **slowed** the **asset growth rate** in the long-term sector.

Asset quality and **profitability** ratios in the long term insurance sector **weakened** as expected in line with global economic downturn but the ratios remained within acceptable ranges.

Curtailed economic activity led to **reduction** in **motor insurance claims**. This contributed to an uptick in underwriting profits.

PENSIONS SECTOR

Several pension plans have **funding deficits** due in part to **lower than projected returns** on investments.

Due to Covid-19 containment measures, some businesses furloughed workers leading to **reduced contributions** being paid into their plans for the year and at least five plans were forced to sell assets in order to pay benefits.

PAYMENTS SYSTEM

Overall, the **total value** of electronic payments (large-value and retail payments) **fell.**

Banks **promoted online banking channels** and businesses promoted **e-commerce opportunities** in an effort to reduce ‘in-store’ traffic at their establishments.

3. Financial institutions have adapted to the prevailing challenges with alacrity.

Operational Risk Management

Financial institutions activated business continuity plans with work-from-home arrangements for staff

Reduction in the operation of some branches

Closure of certain branches / change in opening and closing hours

Enhanced sanitization protocols

Liquidity Risk Management

Given the anaemic growth in lending and to aid in the management of excess liquidity, the banking sector invested in government paper, as evidenced by significant increase of purchases of Treasury Bills

A few pension plans have sold assets to pay benefits but most plans remain liquid enough to pay benefits through their regular contribution inflows and interest income

Credit Risk Management

The banking sector introduced a number of measures, including payment deferrals, loan restructuring, rate reductions and waivers of penalty charges and late payment fees on credit facilities in anticipation of a precipitous decline in income for households and business

Insurers have also granted extensions for payment of premiums on long term insurance policies, thereby preventing the policies from lapsing

Digital Services

Although banks have been promoting digital capabilities for several years, the pandemic has propelled the issue to the forefront

Insurers have also ramped up their technology to be able to serve customers, particularly with respect to online policy renewals

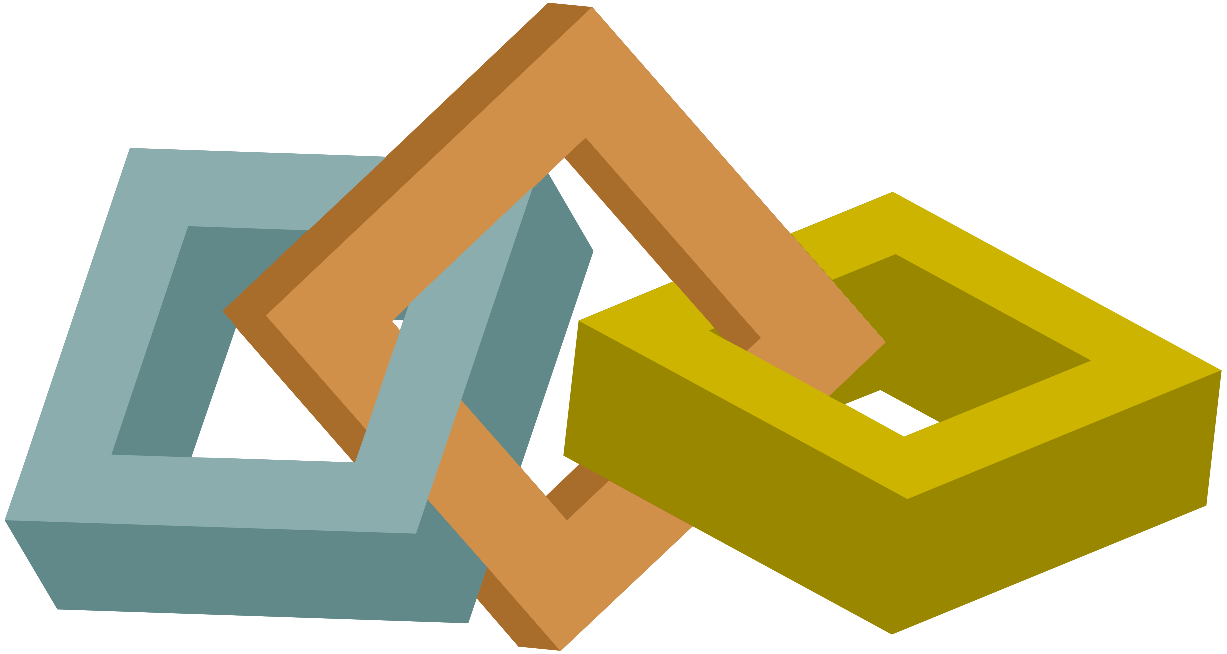
4. Consumers, businesses and the Government have also managed and adapted.

Businesses

- Waiting for conditions to improve before borrowing to expand or invest
- Lending remained relatively flat
- Effect of the pandemic has been most severe in the services sector, especially travel, leisure, and hospitality

Consumers / Households

- Offset of deposit balances held against loans
- Cautious approach to borrowing
- Increase in refinancing and debt consolidation



Government

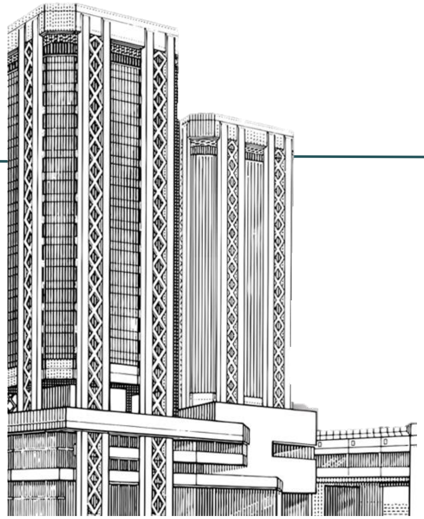
- Significant fiscal support provided to households
- Increase in borrowing to help with basic consumption needs and to fund the acquisition of vaccines => notable increase in public sector debt-to-GDP
- Small and Medium Enterprise ("SME") Loan Financing Programme also provided to support business

5. Though the financial sector was resilient amidst the uncertain economic environment, risks to financial stability are slightly higher as the pandemic persists.

VULNERABILITIES	KEY TRIGGERS	RISKS	OVERALL
High sovereign concentration in the financial system	- Shutdowns due to a hike in COVID-19 cases - Erosion of fiscal buffers to support COVID relief - Portfolio rebalancing - Credit rating downgrades	Adverse balance sheet valuation changes	High
Significant exposure of financial institutions to the household sector	- Shutdowns due to a hike in COVID-19 cases - Erosion of fiscal buffers to support COVID relief - Portfolio rebalancing - Credit rating downgrades	Deterioration in consumer loan portfolios	Elevated
Rapid digitalisation in the financial services industry	- Cyber-attacks	Loss of confidence in digital transformation	Elevated
High banking concentration and interconnections in the financial services industry	- Slowdown in the domestic economy fuelled by low energy sector activity and the COVID-19 pandemic	Spillovers of adverse financial performance to other segments of the financial sector	Moderate

6. The Central Bank has implemented extraordinary monetary and regulatory measures to help contain the financial implications of the pandemic. These have been broadly in line with international actions.

Policy measures implemented to ease the impact of the pandemic have been broadly in line with international measures.



Reserve Requirement

In March 2020, the MPC of the Bank reduced the reserve requirement & repo rate. This led to an immediate boost to system liquidity by approximately $2.6 billon

Regulatory Moratorium

Regulatory moratorium on the treatment of deferred loan payments and restructured facilities (Banking sector only).

Basel II/III

Deferred implementation of Phase 2 elements of Basel II/III Implementation Plan i.e. Pillars 2 & 3, capital conservation buffer, leverage ratio, HLA capital requirement for domestic systemically important banks and liquidity coverage ratio.

Supervision

Cessation of on-site supervision. Use of more desk based reviews and virtual walkthroughs.

AML/CFT

Joint regulatory guidance on digital onboarding of clients for AML/CFT purposes.

Regulatory Forbearance

Forbearance on timely submissions of hard copy submissions of regulatory returns, correspondence and TTPS Certificates of Character.

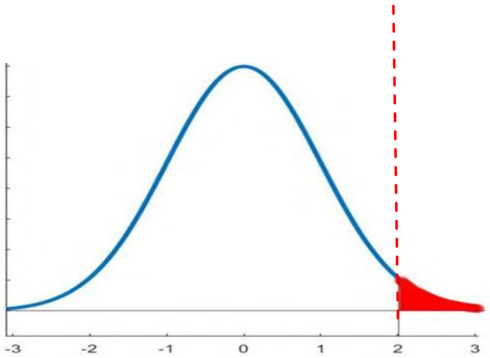
7. It is necessary to unwind policy interventions while preserving financial stability and ensuring that the flow of credit to the real economy is sustained.

Replace blanket moratoria with targeted support where necessary e.g. to vulnerable sectors like SMEs

Time-bound and based on needs

Should promote credit discipline and private investment

Intensify supervisory monitoring, require contingency and recovery plans

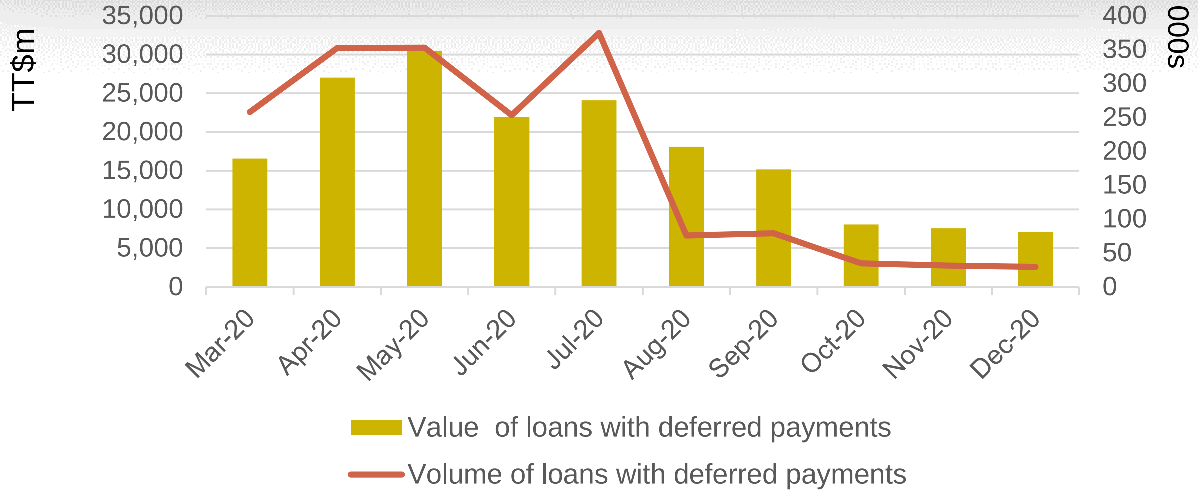


Support needed to avoid NPLs becoming systemic

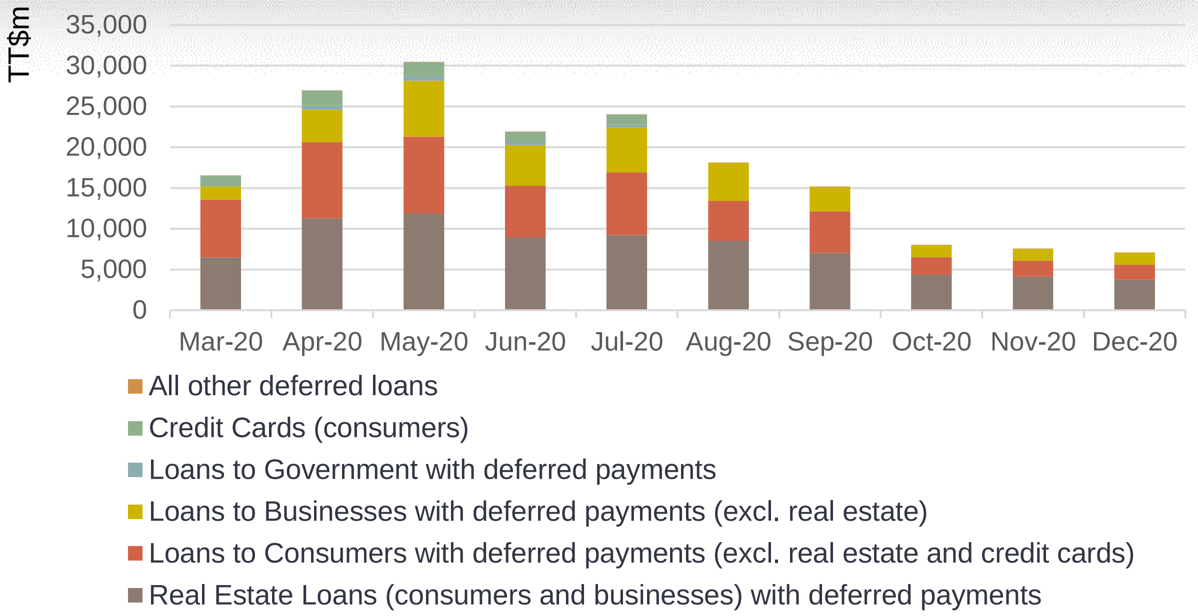
Intensify Financial Stability Committee activities and inter-agency cooperation

Source: IMF Unwinding COVID-19 Policy support measures

8. Data indicates that loan deferral programmes have been winding down.



Source: Central Bank of Trinidad and Tobago



- At the start of the 1st loan deferral program in March 2020, over one third of participating commercial banks' loans were deferred - equivalent to over TT$16 billion (11% of GDP).
- The value of deferred loans peaked in May 2020, declining thereafter to around TT$7 billion in December, with a growing concentration on business, as opposed to individual loans.
- Some banks initially deferred most loans automatically, unless clients specifically 'opted out' of the deferral; this helped to boost the number of loans deferred.
- As the program was extended in 2020, more banks required clients to 'opt in' to the deferral program.
- Due to new national lock down measures in May 2021, the Central Bank extended a 2nd moratorium on loan deferrals for the period May-September 2021; however deferral program must be on an 'opt in' basis and not automatic.
- Other things being equal, this is likely to result in a lower amount and value of loans being deferred in 2021 compared to the peaks in 2020.

9. Banks promoted online banking channels and businesses promoted e-commerce opportunities in an effort to reduce ‘in door’ traffic at their establishments.

	Volume	Value	Comments
ACH	↑	↑	Increased use by commercial banks to facilitate interbank transfers
RTGS	↑	↓	Migration of other, lower value and time critical payments (e.g. cheque payments) to the RTGS
Point of Sale (PoS)	Debit ↓ Credit ↓	Debit ↑ Credit ↓	Loss in income / jobs and containment measures => less in-store purchases. PoS still dominated retail payments in terms of its usage
Internet Banking credit transfers	↑	↑	Significant rise in utility payments made via the internet on commercial bank websites
ATM Withdrawals	↓	↑	Lower volume but higher value
Large Value Cheque Payments	↓	↓	Cheque transactions have been decreasing over the last several years
Telephone Banking	↓	↓	Consumers used the telephone to primarily conduct internal credit transfers followed by bill payments

10. Supervisory and other priorities over the next 5 years encompass the potentially lasting impact of the pandemic.

01

Ensure a well functioning and stable financial sector

- **Reinforce banking sector supervision** – Continue rollout of Basel II/III, and heighten focus on credit and liquidity risk management, capital and recovery planning.
- **Advance work on domestic (and regional) crisis management and resolution plans**.
- **Advance risk based supervision** of insurance industry given recent enactment of the new Insurance Act.
- **Determine the way forward on pension plan reform.**
- **Deploy Suptech and RegTech** to enhance supervisory capabilities, analytical strength and operational efficiency.

02

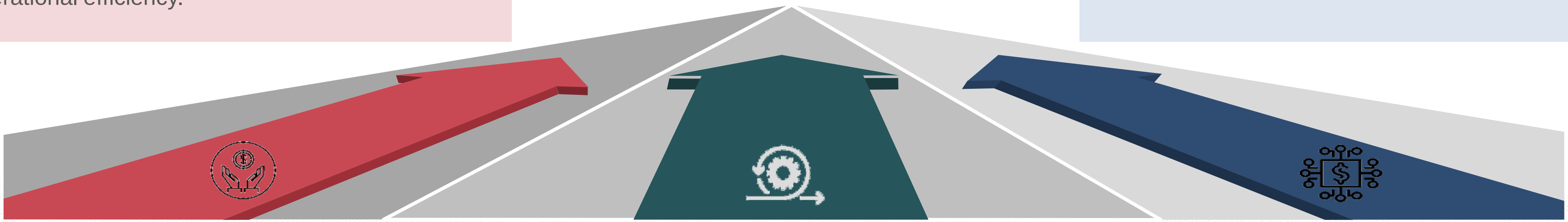
Prepare for an Evolving Financial Landscape

- **Determine the role of the Central Bank** in financial institutions outside its span of control (e.g. credit unions; shadow banks)
- **Issue guidance and enhance supervision of cyber and technology risks** - given increasing digitalization of financial services
- **Expand the Bank's market conduct initiatives and oversight** – ensure appropriate protection and redress to consumers of financial services.

03

Ensure development of a modern and efficient payments system

- **Progress the development of a new, modern and comprehensive payments law** – that treats adequately with systemic payment systems, fintechs, virtual assets service providers, access regimes and interoperability.
- **Examine the feasibility of a CBTT CBDC**.
- **Take steps to enhance cross-border payments** – implement the FSB's road map; treat with legacy infrastructure.



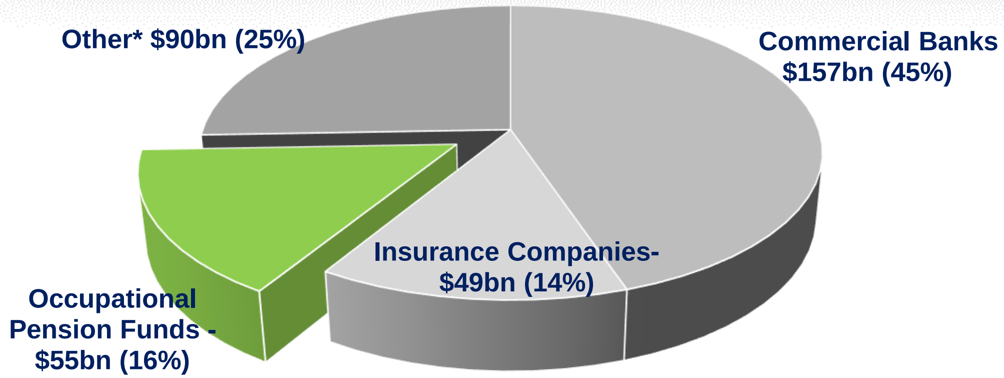
11. The pandemic added new complications for private pension plans in Trinidad and Tobago.

- Even before the pandemic **challenges to pension savings for a comfortable retirement** included:
  - **Demographics**: an ageing population as life expectancy increased.
  - **Macroeconomics**: sluggish growth affecting employment and contributions;
    and low interest rates hampering investment returns.
  - **Technology**: underlying cyber risk.

- **Pandemic-induced complications** involve:
  - **Job losses** that affect member contributions.
  - **Business losses** and closures impacting sponsor support.
  - **Lower interest rates** and **capital market volatility** affected investment earnings.
  - A greater **focus on the short term ('getting by') instead of savings** related to:
    urgent health and family needs,
    less employment income,
    pessimism on surviving the virus.

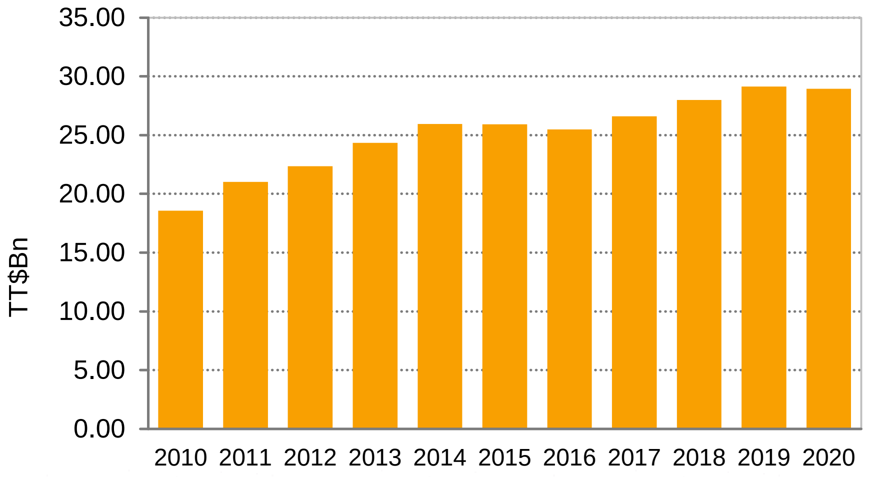
12. Pension plans command tremendous financial resources.

Occupational Pension Plans –
Share of Financial System Assets: 2020



Source: Central Bank of Trinidad and Tobago
*Non-banks, credit unions, development banks, thrift institutions, UTC, DIC and NIB.

National Insurance Scheme – Total Assets



Source: National Insurance Board

- Private pension plan assets in Trinidad and Tobago were **$55 billion** in 2020 (37% of GDP).
- Their assets under management **exceed those of insurance companies**.
- There are **182 active registered plans**, 5 in the process of registration and 76 being wound up.
- While most current plans **(56%) are defined benefit arrangements**, the incidence of defined contribution plans has been growing.
- **Assets of the National Insurance System totaled approximately $29 billion in 2020** and the system covers over 588,000 persons.
- As a result, movement of such funds can have **implications for the domestic capital market and overall financial stability**.

13. Consistent and transparent communication among all pension plan actors is essential.

- The concept of private pensions is simple: **companies (sponsors) and employees (members) contribute money to a 'fund' that will be used to pay members a monthly sum when they reach retirement age.**
- Private pension arrangements involve **deep commitments among several actors** to work together over a long period.
- The complexity of managing and investing pension funds requires **high level expertise and open, simple communication.**

Company (sponsor)

Employees (members)

Trustees

Tax Authorities

Investment Team

Actuary

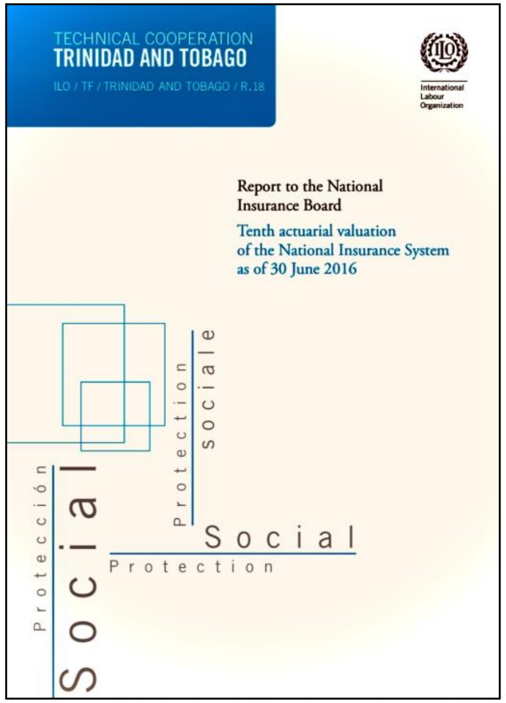
Management Committee

Lawyers

Legislators

Regulator/Supervisor

14. Maintaining a forward looking perspective is crucial when dealing with savings for retirement.


TECHNICAL COOPERATION
TRINIDAD AND TOBAGO
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International Labour Organization

Report to the National Insurance Board

Tenth actuarial valuation of the National Insurance System as of 30 June 2016

Protección Social
Protection sociale
Social Protection

- For many retirees, pensions represent their **primary source of income**.
- If these pensions are fixed, **inflation erodes their value** and retirees find their standards of living progressively slipping away.
- **Education is key**: The Central Bank's **National Financial Literacy Program** is renewing its focus on savings for retirement; Our Supervision Department recently issued **Guidelines** to pension funds' trustees and sponsors to strengthen communication with members.
- In the current circumstances, there is a **temptation to reduce retirement savings**.
- Proposals to withdraw or suspend pension contributions have some merit for dire situations but extreme care must be taken to rebuild contributions when possible and to **avoid compromising the financial integrity of the pension scheme**.
- **Plan participants should not 'kick the can down the road'**: actuarial reports provide a long term perspective and should be used in making decisions related to: features of the scheme; investment decisions; and sponsor contributions etc.
- The lessons above from private pension funds are also **applicable to public arrangements** such as the National Insurance Scheme.

15. Reforms to the legislative and supervisory framework for pensions should be quickly advanced.

- Pension laws need updating to cater more squarely on **governance, communication, oversight, and enforcement**:
  - A **1969 draft set of Regulations** governing pension arrangements has never been proclaimed.
  - While the Insurance Act was recently updated, the **provisions regarding pensions were not revised**.
  - The opportunity needs to be taken to **upgrade pension legislation and consolidate** with other relevant laws.
  - **Amendments** can be made to the Insurance Act itself **or a separate Act** can be designed.

Financial Stability Theme in Central Bank of Trinidad & Tobago 2021/22—2025/26 Strategic Plan

- Regarding supervision, the Central Bank is **strengthening oversight of pensions** using a more risk-based framework to focus on areas of greater concern.
- A **Policy Development Proposal on an Occupational Pension Bill** was issued in 2012 and is available on our website for comment.
- We align our supervision to the International Organization of Pensions Supervisors ***10 Principles of Private Pension Supervision*** which cover:

1. Objectives	2. Independence
3. Adequate resources	4. Adequate powers
5. Risk-based supervision	6. Proportionality and consistency
7. Consultation and cooperation	8. Confidentiality
9. Transparency	10. Governance.

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