



# CENTRAL BANK OF TRINIDAD & TOBAGO

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## OPENING REMARKS

at the Launch of

### Intercommercial Trust & Merchant Bank Limited

by

*Ewart S. Williams,  
Governor, Central Bank of Trinidad and Tobago  
February 16, 2006*

I am delighted to be here to share in the celebration of what I believe is the rebirth of the Intercommercial Trust and Merchant Bank Limited (ITMBL). Let me extend my sincere congratulations to the Board, management and staff of Intercommercial Bank Limited and its Trust and Merchant Bank.

The rebranding of the Intercommercial Trust and Merchant Bank and all that goes with it – its stand-alone status; a new, restructured entity; its new location, situated in Port of Spain, in the middle of the financial centre, as it were – all of this carries enormous significance. It sends the message that IBL is now a full-fledged national financial institution which, with the support of its strategic partners, is willing to take on competitors both locally and regionally.

Ladies and Gentlemen, this significant event is taking place at a most important juncture in our country's economic and financial (history). In 2005, Trinidad and Tobago registered its twelfth consecutive year of robust economic growth; with **inflation** still basically in check; with a very strong balance of payments and with unemployment at perhaps at its lowest point ever. While much of this success can be traced to our oil fortunes, it also has to do with several years of sound economic policies, of which the liberalization of the financial sector was a significant part.

This re-launch of Intercommercial Trust and Merchant Bank is taking place at a time when we are seeing the full benefits of financial sector liberalization. This is being reflected in the proliferation of a diversified range of financial institutions and the exponential growth in the financial asset base. With the structural changes now ongoing in the financial sector, Trinidad and Tobago has become a major source of regional financing, while our home-based financial institutions have expanded their presence through the CARICOM region.

Despite the rapid pace of expansion, the banking system has remained robust, as evidenced by all the main macro-prudential indicators. The data shows, for example, that:

- (i) the banks are more than adequately capitalized, with their capital adequacy ratio averaging close to 20 percent, far exceeding the statutory 8 percent minimum;
- (ii) non-performing loans for the banking system, as a whole, are in the region of 2 percent, having come down markedly from double-digit levels that prevailed during the nineties;

- (iii) provisions are at a reassuringly high level, with the coverage ratio relative to non-performing loans, exceeding 61 percent; and
- (iv) banks are recording strong profits with the average return on assets in the vicinity of 3.5 percent.

The Intercommercial Bank has been very much a part of this extraordinary period of development of the financial sector, having been born out of the process of financial liberalization, which dominated the mid-1990s.

From its inception, **IBL was a unique institution.** While the initial capital may have been foreign, it was essentially a local bank with local management, emerging not too long after three local commercial banks had got into difficulties and needed to be liquidated. As such, the creation of the IBL was a strong affirmation on the part of its founders, of their confidence in the economy and in the financial sector of Trinidad and Tobago.

From the outset, **IBL had to face severe challenges** – it was a small bank, in competition with much larger and long established banks. It did not enjoy the economies of scale that go with size but moreover, it was a regional bank, in central Trinidad, without the national reach of the larger banks.

Against this background, the fact that IBL has survived and has prospered, is a credit to its founders, to its Board and to the management and staff of the Bank, who had to substitute, efficiency and service quality for financial strength. With commendable insight the management of IBL, early in the game, staked out a strategic market niche focusing on core banking, geared to meeting the personal and business needs of a small but thriving geographical area.

**IBL is unique in another sense** – it has turned the conventional CARICOM order on its head. Over the last few years there has been a proliferation of cross-border ownership in the CARICOM region. However, invariably, this has meant Trinidad and Tobago banks expanding their wings abroad. The acquisition of IBL by the Jamaica Money Market Brokers reflected a reversal of this dominant order. Today, with its stake in IBL and CMMB, among others, JMMB has become an important player in the regional financial markets.

**The re-launch of the Intercommercial Bank Trust and Merchant Bank Limited** is an affirmation that IBL has consolidated its position in its core banking business and now feels itself secure enough, confident enough and strong enough to spread its wings. The re-launch is also timely from a business viewpoint as it places the bank in a position to participate in the burgeoning capital market, which is now rivaling the traditional banking sector institutions as a preferred source of business financing. It will certainly help that the Intercommercial Trust and Merchant Bank would have the capital market experience of both JMMB and CMMB to rely on.

Over the last five years the value of sovereign bond placements in Trinidad and Tobago has amounted to more than \$16 billion while private debt issues have amounted to \$10.5 billion over the period. Also, with the rapid diversification of the economy, trade and project financing, commercial paper and various forms of structured finance typical of merchant banks, are increasingly becoming important sources of funding business activity. So there is a good case for a re-entry into merchant banking.

However, merchant banking has its own challenges. As bankers, you know that dependence on diversified funding sources such as money market instruments and long-term foreign currency borrowings is invariably more risky than dependence on vanilla deposits.

On the assets side, secured loans and advances, which are the standard fare of commercial banks, carry lower risk than the investments that are likely to dominate the balance sheets of merchant banks.

In short, the shift to merchant banking will create demands for new competencies, new systems and new governance and risk management structures.

As you know, the evolving structure of the financial system is also creating new challenges for the Central Bank as regulator. We are currently addressing these challenges through:

- (i) transforming our supervisory system into a more integrated risk-based framework; and
- (ii) strengthening our overall legal and regulatory infrastructure, in line with international best practices.

In particular, this implies, *inter alia*:

- (i) ensuring that institutions – big and small – have adequate governance systems in place;
- (ii) insisting on enhanced reporting and disclosure standards;
- (iii) putting in place procedures for the sharing of information with other regulators both locally and regionally; and
- (iv) ensuring that financial institutions strengthen their risk management practices. In this context, the Bank is working on amending capital

adequacy rules to ensure that all major risks are appropriately identified and mitigated.

I was very impressed by the mission statement of the Intercommercial Trust and Merchant Bank – to be a champion for financial development and prosperity of individuals and companies while adhering to your core values of honesty, integrity, openness, respect and love. This is indeed a laudable mission.

But I am sure you know that to succeed, you will face challenges not least among which will be the reality of facing competition from your rivals, with greater financial strength and the tremendous advantage of a head-start.

But IBL, your parent institution, faced similar challenges and overcame.

I am certain that with the help of your strategic partners, JMMB and CMMB, you would not only survive but thrive and **hopefully** grow to be in your words “the most admired financial services organization”, **not only in Trinidad and Tobago, but in the region.**

Once again, let me congratulate the Board, management and staff of the Intercommercial Trust and Merchant Bank and extend my best wishes for your success.