



CENTRAL BANK OF
TRINIDAD & TOBAGO

Feature Address

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Power, Profits and Responsibility: Realities of Bank Professionals in Trinidad and Tobago

Dr. Alvin Hilaire
Governor
Central Bank of Trinidad and Tobago

1. Good afternoon, ladies and gentlemen, and thank you for your kind invitation to this important ceremony—a passage towards the world of professional banking in our beloved Trinidad and Tobago. I warmly congratulate the 66 freshly minted successful candidates of the Professional Certificate for Financial Advisors and Diploma in Banking Programs who have been unleashed on our financial sector. I also wish to commend the first IBF graduate of the Chartered Banker Master's in Business Administration as well as the distinguished Fellows—Mrs. Garcia-Brooks, Mr. Downie and Dr. Frost. The Institute of Banking and Finance marks its 37th birthday in 2021 and continues to make an important contribution to developing capacity in banking on technical issues as well as broader matters related to ethical behavior. This concept of knowledge as power is a good introduction to the remarks I'd like to share with you this afternoon, as you continue on your career, on the topic of "Power, Profits and Responsibility—Realities of Bank Professionals in Trinidad and Tobago".

2. First of all, banks are very powerful entities in Trinidad and Tobago. The combined assets of the 8 commercial banks in Trinidad and Tobago approximate TT\$157 billion, representing a remarkable 106 per cent of the nominal gross domestic product of our entire country! Banks also dominate the financial system that serves the public, comprising about 60 per cent of the system's assets. As if this direct influence were not enough, banks have many linkages with other financial institutions (nonbanks, insurance companies etc.) via investments, shareholding, outright ownership, or interlocking directorships

that expand their sphere of control. Increasingly, banks are also becoming more involved in either investing in Government instruments on their own account or brokering large financing deals on behalf of the sovereign.

3. Such power and sway are not confined to our shores but extend to the regional and international levels. In today's interconnected world, and given Trinidad and Tobago's open capital account, external financial developments have a direct and early bearing on our local banks. Capital flows across our borders in relation to relative incentives: this is why, in calibrating our monetary policy, the Central Bank monitors closely interest differentials between Trinidad and Tobago and the rest of the world. One of the starkest examples is the global financial crisis of 2007/8 where the meltdown in the US spread like wildfire to other territories. Fortunately we were spared the brunt of this contagion due in part to the conservatism of our banks, which limited their involvement in high risk activities. Moreover, the domestic/external influence goes both ways, especially given cross investments in the Caribbean region. We are witnessing a growing wave of financial sector mergers and acquisitions across the region as Trinbagonian banks and other institutions search for more profit centers. The impact of such actions on power and profitability must be balanced by the heightened vulnerability to the economic fortunes of other Caribbean

territories. While we witnessed the spillover effect of the CLICO/BAT/CIB difficulties on some Caribbean nations, domestic debt restructurings in Jamaica and Barbados had a knock-on impact on our institutions that had branches/subsidiaries/investments in those countries. As a result, Caribbean regulators have intensified their coordination and collaboration—via groupings like the Caribbean Group of Banking Supervisors (CGBS) and the Caribbean Association of Insurance Regulators (CAIR)—in order to identify problems early and conduct joint assessments.

4. Bank services also affect the lives of the ordinary man/woman in the street—from birth to death (and oftentimes beyond!). Virtually all of our population is tied to a commercial bank and depends heavily on that relationship to successfully conduct affairs. The first foray into the banking world often comes via a parent starting an account for a minor, or a young person recognizing the benefits of a savings account. Throughout one's working life, the bank-client relationship transitions from salary deposits and withdrawals to borrowing for a car, house or education, and to investments. I suspect that most people, if they have a good experience, become customers for life of a particular bank and prolong the relationship beyond their time on earth by enrolling their children and grandchildren. However, some people are not comfortable with the power that banks wield over them (especially in terms of service fees) and choose therefore to limit their interaction with your institutions. The demonetization exercise at the end of 2019 provided dramatic evidence of how many persons chose to keep their \$100 bills at home, despite the evident safety risk! Many claimed they did

not trust the banks, preferred to keep their own eye on their notes, were turned off by the fees, or simply could not open an account. On this subject, let me use the opportunity to once again thank our banks for doing yeoman service through this demonetization project, by facilitating large exchanges of cash in a very tight time frame, including to persons who were not their customers. I believe that this opened the way for registration of new customers and building of fresh relationships. Moreover, the amount of deposits in banks rose markedly as customers who brought in large sums of \$100 cotton notes from their mattresses did not convert all to polymer, but deposited a significant proportion into their savings accounts—our statistics show that savings deposits rose by \$7 billion in the final quarter of 2019 alone.

5. Now let's turn to profits: for the most part, banking in Trinidad and Tobago is a profitable endeavor. As private (or quasi-public) entities with shareholders interested in dividends, banks keep a keen eye on the bottom line—the financial reward from doing business. For the most part, bank profits are driven by the difference between the cost of the funds they get from the public and the price they charge when they lend these funds. This interest spread is relatively high in Trinidad and Tobago. Over the last couple of decades, commercial bank spreads between loan and deposit rates averaged (a “healthy” or “exorbitant”—depending on who you talk to) 8.04 per cent. This compares to averages

of 3.09 per cent in the United States and 3.89 per cent in Mexico. In TT dollar terms, net after tax profits of banks rose from \$2.7 billion in 2015 to over \$3 billion in 2019. But of course we know what happened in 2020 and continues to this day. The dreaded and unanticipated global pandemic has affected all facets of our lives, reducing personal and commercial earnings and financial dealings which form the basis of banks' operations. As a result, post-tax profits plunged to \$1.5 billion in 2020. In similar fashion, bank profits throughout the world have taken a meaningful hit in the wake of the coronavirus, as reflected in bank stock prices. In this context, there is concern internationally that a generalized rise in nonperforming loans could morph into wider banking problems. We at the Central Bank are keeping a close eye on credit developments.

6. Advances in technology will enhance competition in financial services, while new mergers and acquisitions continue to blur the lines defining a “commercial bank.” As we all can appreciate, the level of profit also depends on the extent of competition. It is a cold fact that the lines demarcating categories of financial intermediation are becoming fuzzier, providing individuals and companies with other options than banks to serve their needs. In these days of rapid and easily available communication and strides in technology, three of the sources of threat to the privileged profit position of banks are: (i) New players who offer facilities via mobile or other devices that bypass banks altogether—the services could encompass not only basic bill payments, but almost instantaneous money transfers across the world, investment alternatives, and loans; (ii) Foreign banks (and other institutions) providing

services to the domestic market—it is becoming easier for Trinis to access insurance and other financial products (traditionally only available locally) from external providers via the internet; and (iii) Retail and other companies offering their own credit cards, prepaid cards, and/or a range of bundled offerings. As professionals you will no doubt be charged with finding solutions to others muscling in on your profit margins—do you block new potential competitors, invest in them or offer new products? Ultimately, banks will need to constantly step up their game in providing high quality and efficient service to customers given the growing options available.

7. Making high profits takes its toll in terms of stress, long work hours and dealing with difficult bosses, so prioritizing work-life balance is essential for you professionals. At times (perhaps most of the time), you may feel like you are on a treadmill—going, going, going... Make no mistake, banking is a high stress vocation that won't get less intense over time. Technology will make work processes less tedious, but it also means that staff can be replaced easier. This makes it more important to be aware of the personal and family cost in terms of extended working hours, tight deadlines and an ever changing dynamic environment populated with beady-eyed competitors and more demanding customers. As if this were not enough, at present you have to deal with 'work from home' arrangements for you

and your staff, school children at home woozy from long computer sessions, family finances that may be stretched, and personal fears due to the uncertain path out of the virus conundrum. I cannot pretend to have a panacea for this, but I strongly advocate that you and your institutions consciously recognize the potential toll on your health and welfare of your chosen path and give high priority to work-life balance.

8. So finally, let's address the issue of responsibility: not every applicant for a banking license in Trinidad and Tobago is successful—the acquisition of such a license represents a privilege with commensurate responsibility.

The power and profits you enjoy come with important obligations. The Central Bank receives many submissions from parties desirous of setting up financial institutions in Trinidad and Tobago. In conducting our assessment, we look not only at fitness and propriety of directors and managers and the financial health of the applicants, but also at how the upcoming institution can contribute to Trinidad and Tobago—for example, will this institution fill an important missing niche in the financial market by providing previously unavailable service to remote parts of the country? Behind this analysis is a careful judgement on the optimal amount of banks to cater to our population. Consequently, while we acknowledge that competition is good for the banking industry and that over concentration in a few hands should be avoided, it is not the case that “the more, the merrier” when it comes to the number of banks. Once past the licensing hurdle, day-to-day banking operations must be conducted diligently and to the highest standards as the cost of failure could not only impact shareholders,

staff and depositors but also taxpayers in general. Deposit insurance does provide some limited coverage, but the evidence domestically and internationally is that the cost of banking failures can be quite high in terms of shaking confidence in a financial system and possible public sector bailouts.

9. As professionals, it is also your responsibility to look beyond the salary slips, business plans and balance sheets to see the true nature of your clients and go the extra mile to help them.

Much of what I've said earlier can be translated into hard numbers, graphs and various technical ratios. But behind each number there's a company, an individual, a family member with dependents. So professional bankers need (while maintaining prudence) to cultivate the capacity to talk to clients, understand their needs and gaps and determine how you—in your powerful and profitable position—can help. Many times it does not take much to point someone in the right direction so that they can take advantage of opportunities that they were unaware of. For the most part, such investments in honestly building relationships represent win-win propositions and you gain a client and their circle of influence for life. So, make the time to create a comfortable, supportive environment for your clientele, and pay special attention to the vulnerable individuals in the society and the small businesses that have great projects but don't know how to present their plans in the traditional format. And a further parting

bit of advice to each of you: *Don't wait, take the initiative and reach out to your precious clients.* You can thank me later!

10. So, congratulations and best wishes to the Institute of Banking and Finance graduating class of 2021! You (and your families) have made the sacrifice to study and advance your professional skills, notwithstanding the current difficult circumstances. Your choice of career is demanding but rewarding and you are poised to make a huge difference in the lives of many Trinbagonians, most of whom you may never meet. I am sure that you will perform admirably. We are depending on you. Please be safe.