

# A Blueprint for Continued Financial Stability



CENTRAL BANK OF  
TRINIDAD & TOBAGO

Alvin Hilaire, Governor, Central Bank of Trinidad and Tobago

Launch of *2018 Financial Stability Report*  
Central Bank Conference Facilities,  
May 28, 2019

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# A Blueprint for Continued Financial Stability in Trinidad & Tobago

## Highlights

### A. The Background

- Trinidad and Tobago's financial system is very stable, but we cannot be complacent.
- We have had to deal with financial problems before.
- And in today's world, present and future risks abound.

### B. Site Plan—how we collaborate internationally

- We continue to receive excellent technical support from CARTAC, CEMLA, European Central Bank and regulatory bodies.
- High powered teams from the IMF and World Bank will be conducting a Financial Sector Assessment Program later this year.
- We have just joined the Financial Stability Board's Regional Consultative Group for the Americas.

### C. Architectural Drawings—establishing our design priorities

- The Central Bank's 5-year Strategic Plan, 2016/20 sets out details.
- A key immediate priority involves finalising the CLICO resolution.
- Legislative and supervisory frameworks for insurance companies, credit unions, payments system need to be fleshed out.
- Cyber security and digital currency issues have come to the fore.

### D. Engineering Elements—the people factor!

- Attracting the best people is critical.
- We place a large emphasis on training and capacity building, including via attachments.
- It's not a one man show—many departments in the Central Bank work closely to get the job done.

### E. Utilities Layout—cooperation with other financial actors

- Meaningful interaction with financial institutions is indispensable.
- The Central Bank is just one player on the regulatory front and works with other domestic and external actors.
- Major cross border financial investments demand an ongoing partnership with regional bodies.

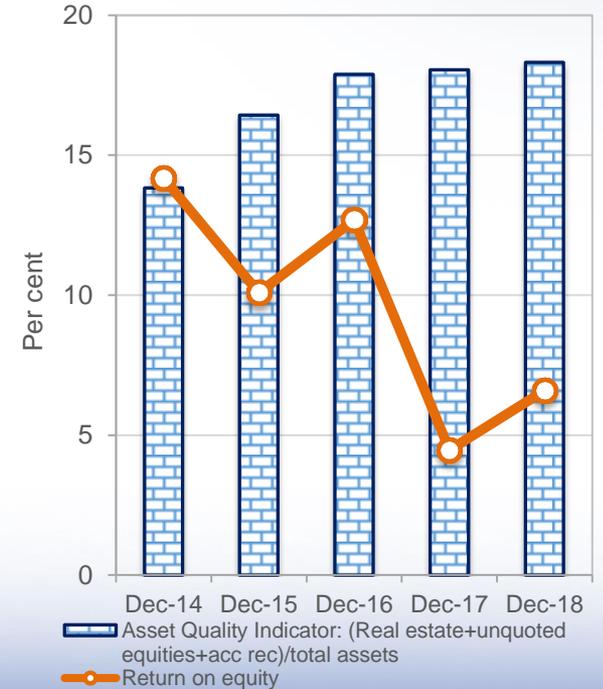
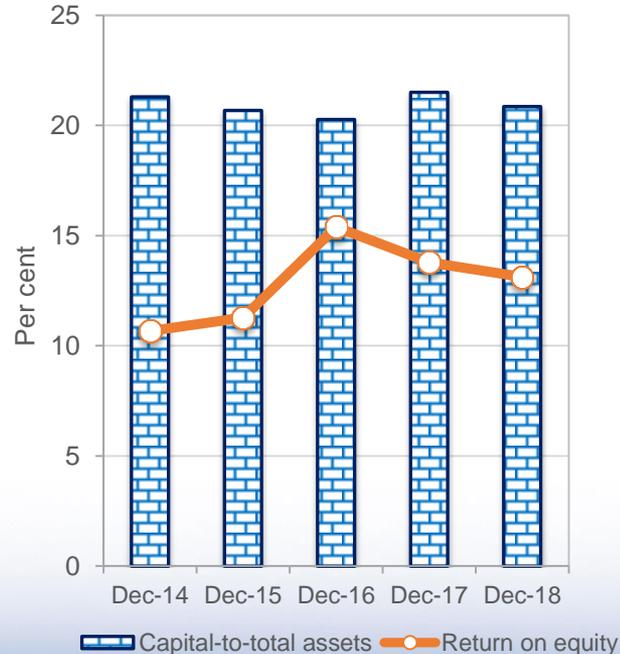
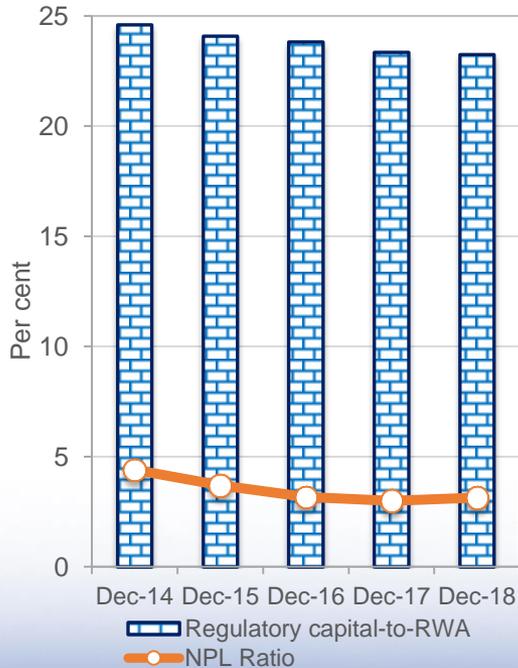


# A1. The domestic financial system remains sound and resilient, but we cannot be complacent...

*The banking sector possesses high capital buffers and healthy balance sheets...*

*the life insurance sector continues to have a strong capital base and is profitable...*

*while the non-life segment has exhibited resilience to weather-related shocks.*





## A2. Trinidad and Tobago has had to deal with problems in the financial sector before, partly related to the economic cycles...

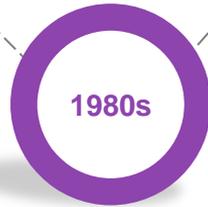


### 1970s oil boom

The number of financial institutions mushroomed during the oil boom era.

### Financial failures of the 1980s

International Trust Ltd (1986)  
The 5 Non-Banks (1986)  
Workers' Bank (1989)



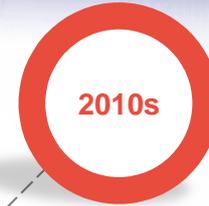
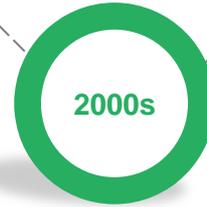
Workers' Bank (1993)  
National Commercial Bank (1993)  
Trinidad Cooperative Bank (1993)



### Continued challenges into the early 1990s

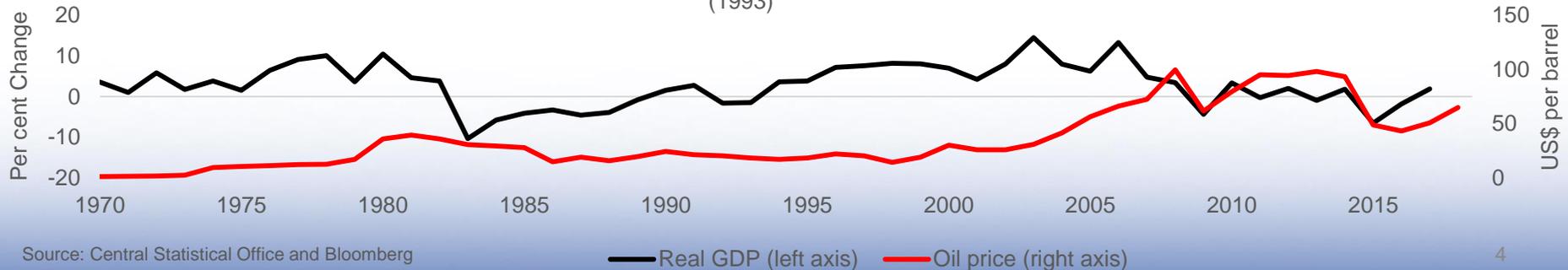
### The CLICO collapse

Clico Investment Bank (2009)  
CLICO (2009)  
BAICO (2009)



### Period of resilience

The financial system has been resilient in the face of difficult domestic economic conditions.



Source: Central Statistical Office and Bloomberg



## A3. And in today's world, vulnerabilities and risks abound.

### **Loss of correspondent banking relationships**

 Deficiencies in AML/CFT and tax requirement standards can lead to de-risking

### **Systemically Important Financial Institutions (SIFIs):**

 The too-big-to-fail dilemma

### **Cross border contagion**

 Mergers and acquisitions can amplify the transmission of shocks across the Caribbean region

### **Financial Institution Interconnectedness**

 Relationships between financial institutions are becoming more intertwined

### **Transmission of International Shocks**

 Trade tensions, lower global growth and shifting global financial conditions

### **Cyber attacks**

 Can disrupt financial services

### **Natural Disaster Shocks and Climate Change**

 Can result in significant damage and disruptions





IMF



CARTAC



FSB

HOW WE COLLABORATE INTERNATIONALLY

# SITE PLAN



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Ref: 013400



## B1. We continue to receive excellent technical support from CARTAC, CEMLA, European Central Bank and regulatory bodies.

- Technical assistance (TA) covers a wide array of areas including on legislation, risk-monitoring tools (e.g. stress testing), financial soundness indicators (FSI) compilation, etc.
- The Central Bank works closely with Centro de Estudios Monetarios LatinoAmericanos (CEMLA), the IMF's Caribbean Regional Technical Assistance Centre (CARTAC), European Central Bank and other Central Banks, Office of Supervisor of Financial Institutions (OSFI) in Canada and many other financial sector regulators.
- For example, TA from the IMF and CARTAC over the past few years includes:



2012

Non-life Insurance  
Regulation

2017

Credit Union  
Regulation

2014

FSI Compilation

2018

Digital Currencies and  
Central Banks'  
Response

2015

Macro-prudential  
Policy Framework

2017/  
2019

Basel II/III  
Implementation





## B2. High powered teams from the IMF/World Bank will conduct a Financial Sector Assessment Program (FSAP) in T&T later this year

*FSAP: a comprehensive and in-depth assessment of a country's financial sector.*  
The FSAP covers not only stability but also longer-run development aspects.

### T&T's Past Experiences with FSAPs

- T&T undertook a full FSAP mission in 2005 and a limited scope stability assessment in 2010.
- These missions helped strengthen the regulatory framework and financial system oversight.
- Past FSAP missions have helped in:
  - Advancing financial sector legislation;
  - Implementing risk-based supervision for banks; and
  - Improving the AML/CFT framework.



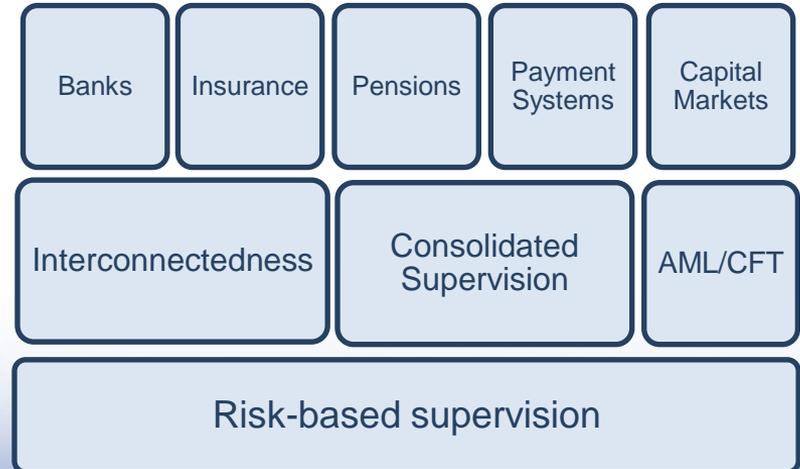
WORLD BANK



### T&T's Upcoming FSAP

3 missions expected—in June and October 2019 and January 2020.

#### Some Areas of Interest for the FSAP 2019/2020





### B3. We have just joined the Financial Stability Board's (FSB's) Regional Consultative Group for the Americas.



- Established just after the global financial crisis, the FSB is an international body which monitors and makes recommendations on the global financial system.
- The FSB comprises 24 jurisdictions, and major international financial institutions and standard-setting bodies.
- T&T's membership in the FSB's Regional Consultative Grouping for Americas will strengthen our understanding and influence on global financial standards and regulatory reforms.
- After being accepted as its newest member in early 2019, Trinidad and Tobago participated in its first RCGA meeting held in Buenos Aires, Argentina on May 17, 2019. See link to press release: <https://www.fsb.org/2019/05/fsb-americas-group-discusses-regional-vulnerabilities-market-fragmentation-sme-finance-and-correspondent-banking/>



ESTABLISHING OUR PRIORITIES

# ARCHITECTURAL



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# C1. The Central Bank's five-year Strategic Plan<sup>1</sup> sets out the plans of action and priorities in the sphere of financial stability

1

- **Finalise the Resolution of CLICO**

2

- **Strengthen technical and analytical capacity in supervision and resolution**
- Develop a crisis management plan

3

- **Improve risk-based supervision**
- Implement Basel II/III requirements for banks
- Implement new risk-based capital requirements for insurance companies

4

- **Improve governance standards in financial institutions**
- Develop appropriate AML/CFT framework
- Finalise guideline on pension plan governance

5

- **Identify and prepare for new strategies carried out by financial institutions**
- Evaluate options for treating financial mergers and acquisitions
- Enhance supervision of complex financial institutions

6

- **Coordinate with other supervisory agencies**
- Implement consolidated supervisory framework

7

- **Take stock of recent developments in payments systems**
- Develop a virtual currency policy

8

- **Complete the legislative agenda**
- Facilitate proclamation of Insurance Act, 2018
- Work with key stakeholders to develop suitable legislation for credit unions

1: <https://www.central-bank.org.tt/about/strategic-plan>



## C2. One key immediate priority is finalising the CLICO/BAT resolution

**Over the 10 year period since the CLICO/BAT intervention:**

- Central Bank took Emergency control of CLICO/BAT under Section 44 (D) of CB Act.
- Resolution Plan emphasises:
  - stabilising CLICO/BAT;
  - assuring overall financial stability;
  - repaying the Government as creditor;
  - ensuring traditional policyholders are protected.
- Accountability: The Bank has sent 30 Quarterly Reports to the High Court and Parliament to date.
- The sale of the traditional portfolio is an important component of the resolution plan as outlined to the Court.
- There are currently over 98,000 active traditional portfolio holders for CLICO.

**It is critical for financial stability and policyholders' welfare that the management of the CLICO/BAT traditional portfolios is in good hands.**

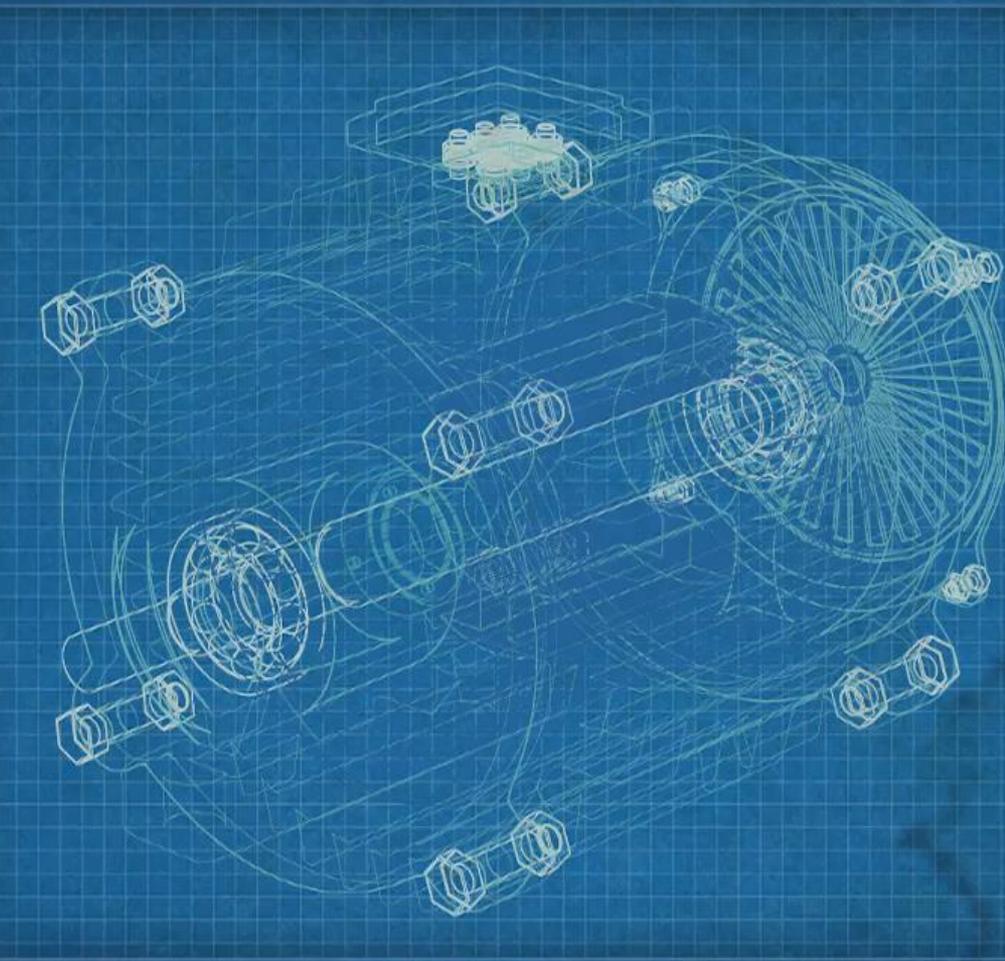
To this end the sale process involved:

- Adoption of a rigorous, transparent bidding mechanism to international standards.
- Dedicated in-house actuaries, lawyers, accountants, auditors, regulators.
- Contracting of experienced external counsel, an independent international valuator and a specialist financial firm to handle the bidding process.
- After 3 bid rounds and several years, a preferred bidder was identified and the sale and purchase agreement is to be signed.
- The Ministry of Finance is consulting with the Central Bank on the portfolio sale, consistent with existing legislation.



### C3. The legislative and supervisory frameworks for insurance companies, credit unions and the payments system need to be fleshed out.

- The Central Bank is working very closely with the Ministry of Finance, the Chief Parliamentary Counsel and Association of Trinidad & Tobago Insurance Companies (ATTIC) to finalise regulations to allow for full proclamation of the **Insurance Act, 2018** as quickly as possible.
- More generally, the Bank is adopting a **risk-based approach to supervising** insurance companies and other licensed institutions.
- Strengthening the **Anti-Money Laundering and Combatting Financing of Terrorism** framework would bolster efforts to curb financial crimes and also help avoid Trinidad and Tobago being seen as a “non-cooperative jurisdiction” with its implications for de-risking.
- The **Basel II/III framework** for banks is already being implemented.
- Other reforms governing **pensions, credit unions and the payments system** are being considered.
- The Central Bank hosted conferences in 2018 and is actively developing its approach to **virtual currencies, crypto assets and electronic money**.



THE PEOPLE FACTOR

# ENGINEERING

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## D1. Recruiting and training high quality staff is critical to successful plan execution.

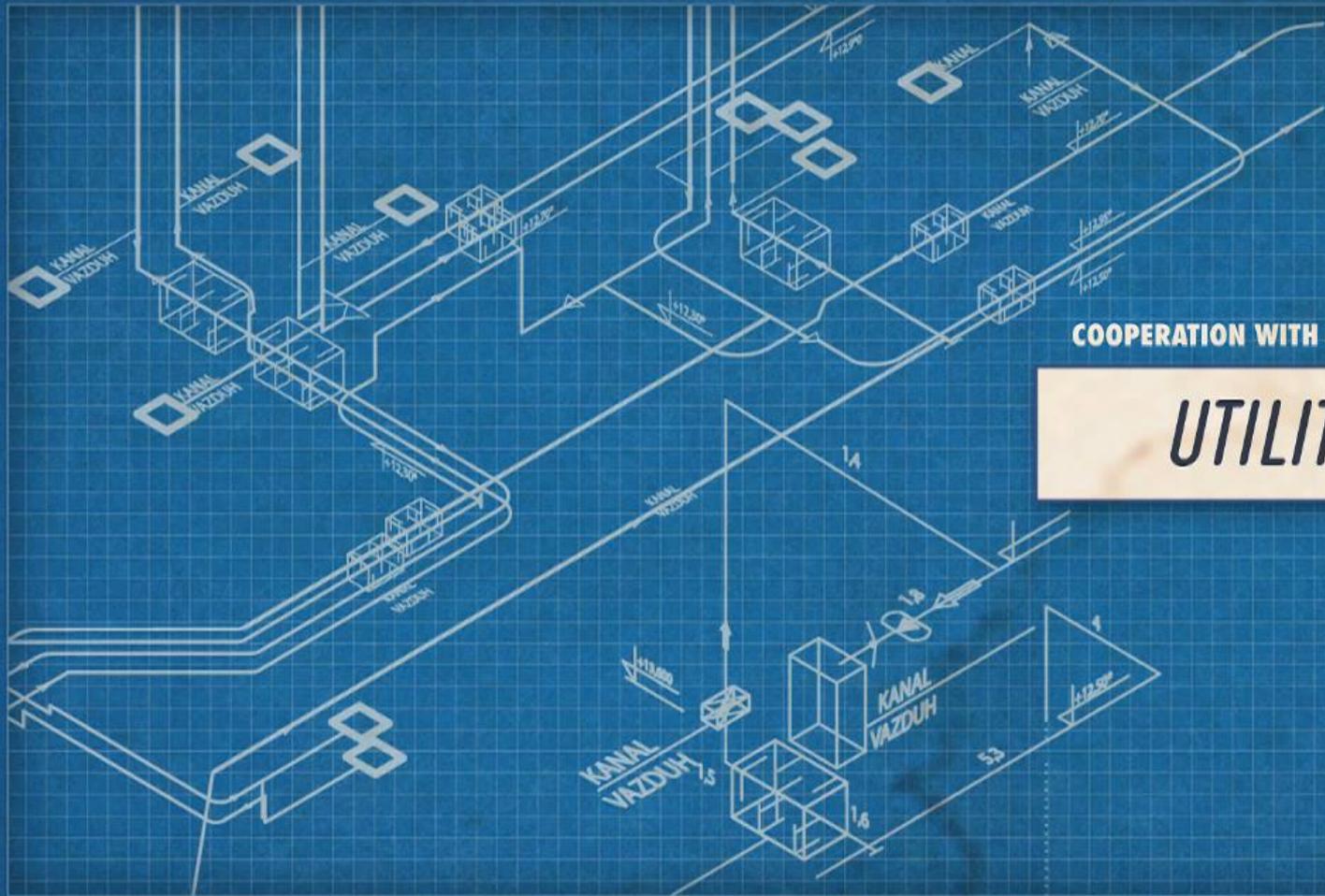
- Supervising and regulating financial institutions is a **specialised job**.
- However, the work of these specialists must be **supported by practitioners in other fields**, including actuaries, lawyers, economists, human resource, communications and IT experts etc. in the Central Bank or other regulator.
- Growing levels of interconnectedness and complexity within the financial sector require an **upgrading of skill sets**.
- The Bank lays emphasis on **continuous local and international training** in keeping abreast of a rapidly evolving financial landscape; recent examples—:
  - *‘Liquidity Risk Management Seminar’*, Federal Reserve Board/Caribbean Group of Banking Supervisors, Jamaica 2019
  - *‘Financial Network Analysis Workshop’*, CARTAC, Bahamas 2019
  - *‘Central Bank Communication’*, Short-term attachment, Bank of Canada, 2018
  - *‘Macro-prudential Regulation of SIFIs in the Caribbean’*, CARTAC, Jamaica 2018
  - *‘Financial Sector Surveillance’*, CEMLA/IMF, Ecuador, 2018
  - *‘Financial Soundness Indicator Users’ Workshop’*, IMF, Washington DC, 2017





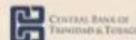
**D2. On a regular day, many departments work in sync on financial stability issues.**





COOPERATION WITH OTHER FINANCIAL ACTORS

# UTILITIES



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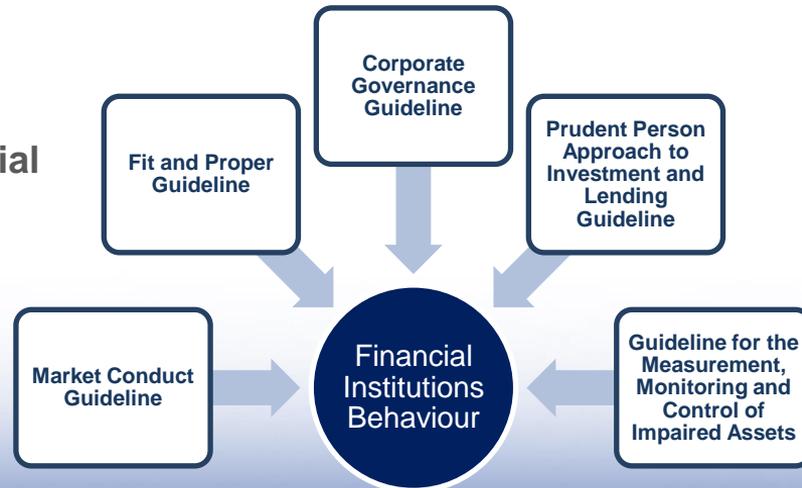




## E1. Meaningful interaction with financial institutions is indispensable.

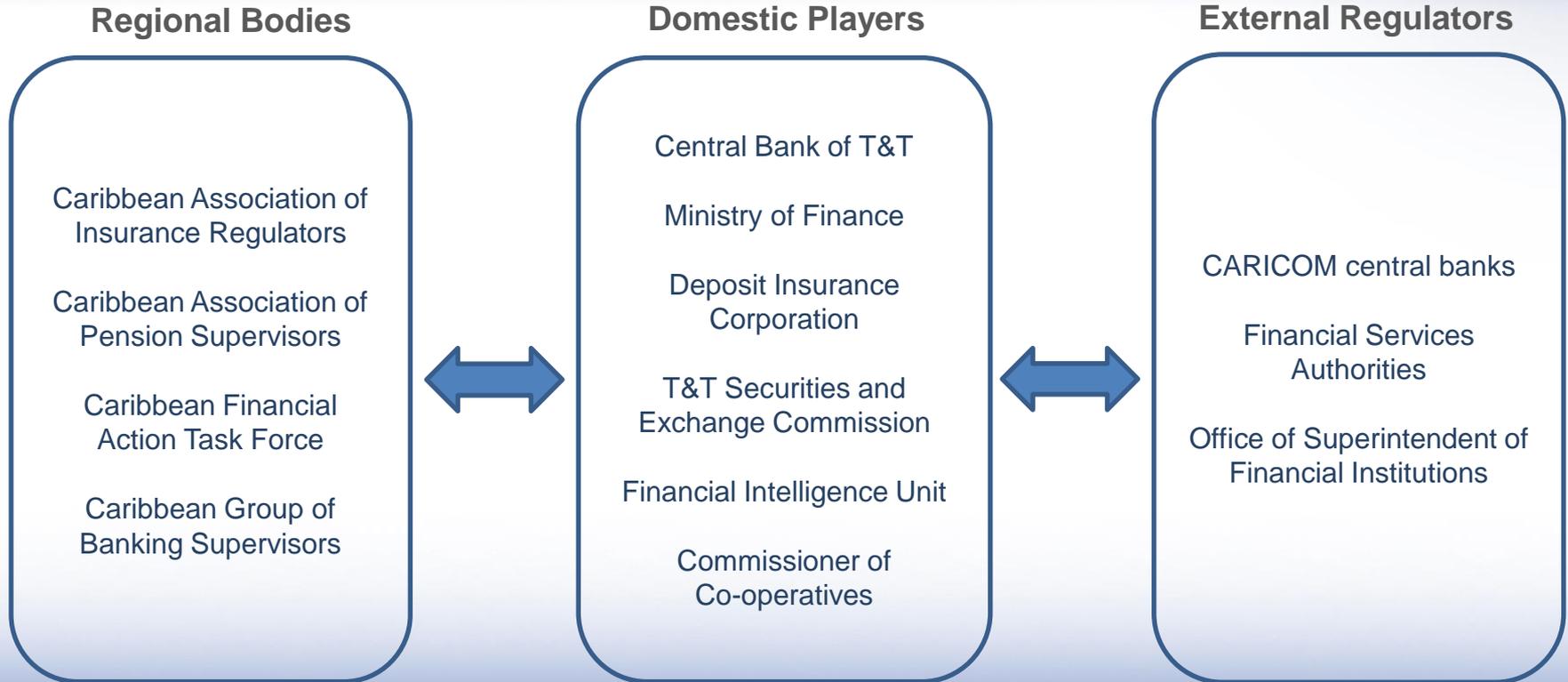
- Financial institutions have a responsibility to ensure that their governance structures are sound, including 'fit and proper' Boards of Directors and managers.
- The Central Bank is adopting a 'hands on' approach involving regular communication and feedback with licensees.
- The Central Bank has issued a number of Guidelines to encourage sound behavioural practices in the financial system and supports self governance in these institutions, including via their own Codes of Conduct.

### Selected Guidelines for the Financial System





## E2. The Central Bank is just one player on the regulatory front and works with other domestic and external actors.





## E3. Co-dependence: Major cross border financial investments demand an ongoing partnership with regional bodies.

### CARICOM Central Banks

- On-going projects to assist in cross-border supervision and better understand interconnectedness among regional financial institutions.
- CARICOM Fintech Working Group

### CARICOM Association of Insurance Regulators

- A Multilateral MOU was signed to establish a framework to cooperate and exchange information for the purpose of regulatory enforcement.

### Caribbean Financial Action Task Force (CFATF)

- The Central Bank engages with the CFATF to strengthen its AML/CFT framework.

### CARICOM Group of Banking Supervisors

- Supervisory Colleges
- Consolidated Financial Supervision
- Regional Financial Crisis Management Plan



...putting all the elements in action to keep things safe.





Thank You