



CENTRAL BANK OF
TRINIDAD & TOBAGO

Financial Stability Report 2016

Financial Stability in Times of Economic Uncertainty

June 13th, 2017

PRESENTATION FLOW

1

- Assessing Resilience in the Domestic Financial System

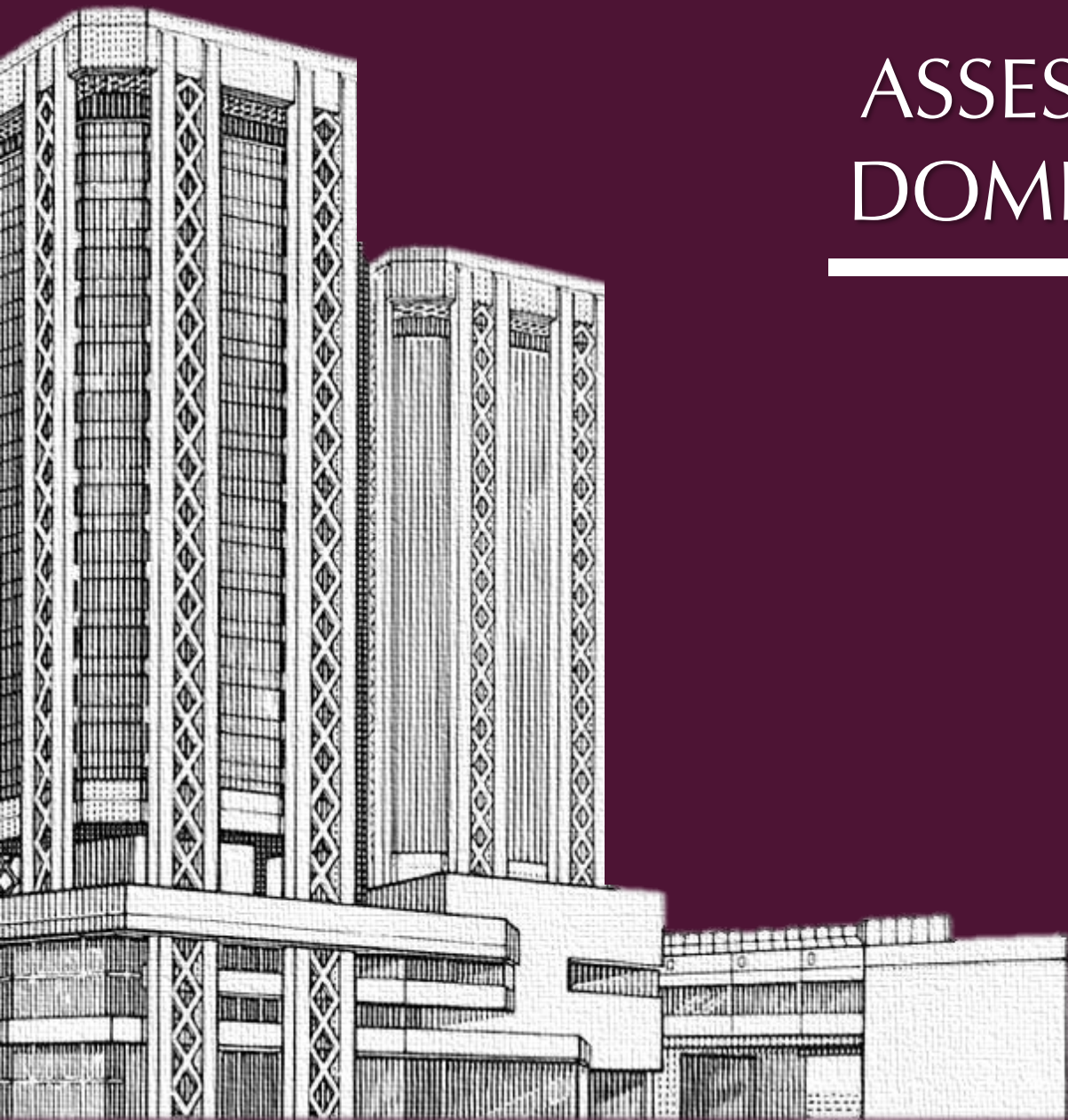
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- Promoting Financial Stability

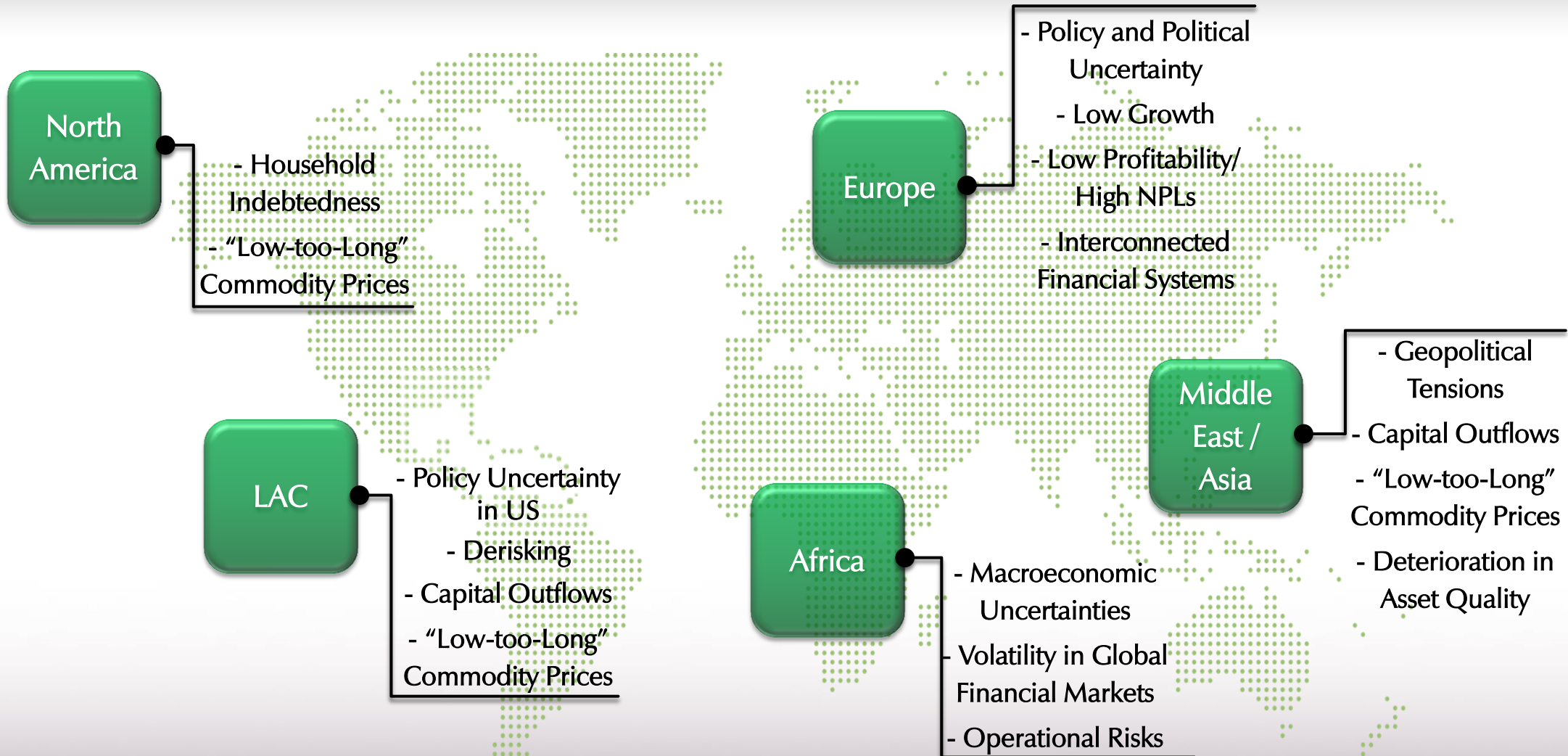
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- The Imperative of Strong Corporate Governance for Financial Stability

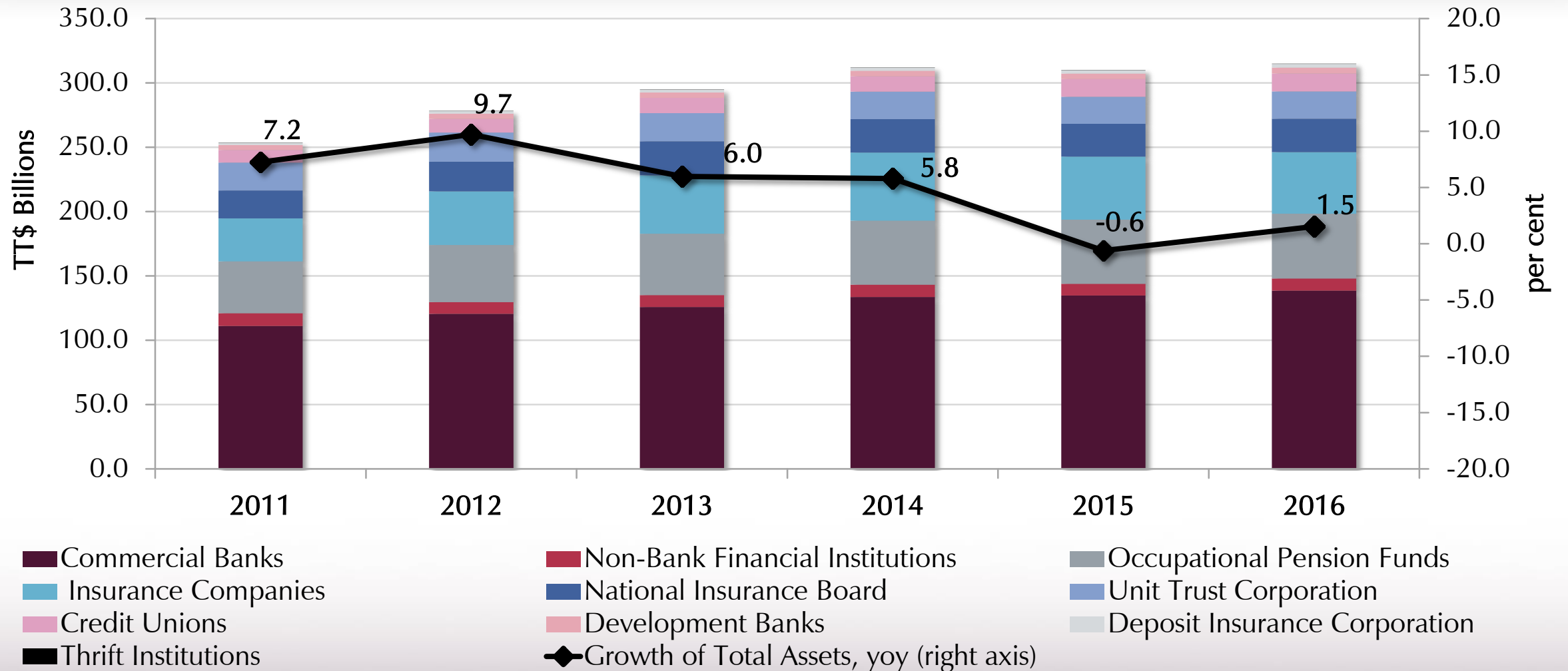
ASSESSING RESILIENCE IN THE DOMESTIC FINANCIAL SYSTEM



GLOBAL FINANCIAL STABILITY RISKS



COMPOSITION OF ASSETS IN THE DOMESTIC FINANCIAL SECTOR



Source: Central Bank of Trinidad and Tobago.

KEY FINANCIAL SOUNDNESS INDICATORS

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
BANKING SECTOR						
Regulatory Capital-to-Risk-Weighted Assets	26.0	25.7	25.0	24.6	24.1	23.8
Non-Performing Loan Ratio	6.2	5.5	4.3	4.4	3.7	3.2
Return on Equity	17.5	18.3	15.8	12.9	18.2	19.9
Liquid assets-to-total assets	26.7	24.7	26.8	25.0	23.1	21.8
LIFE INSURANCE SECTOR						
Investment yield	5.7	5.4	5.1	4.8	4.5	4.7
Return on Equity	10.3	14.1	15.1	10.6	11.3	15.4
NON-LIFE INSURANCE SECTOR						
Loss ratio	50.3	47.6	45.3	44.3	48.6	47.1
Investment income / net premium	8.8	8.2	10.3	5.8	5.8	6.2

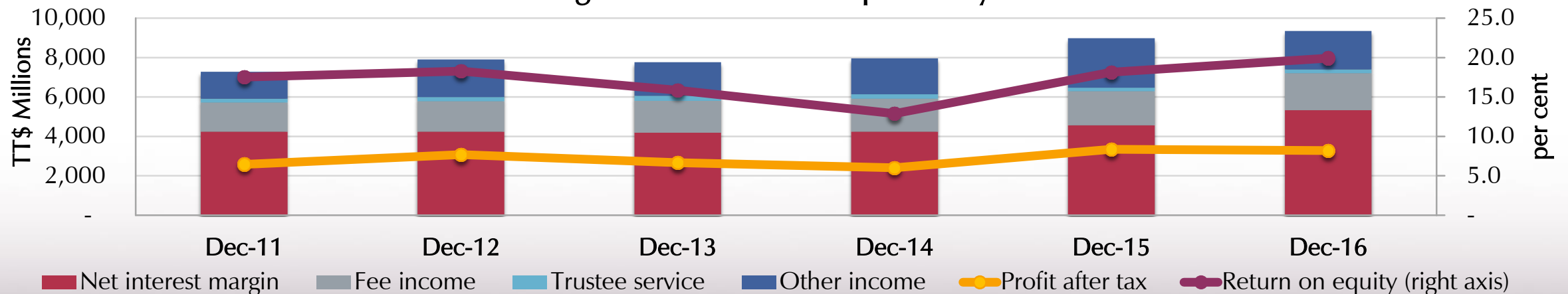
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Banking Sector Profit and Expenses by Source

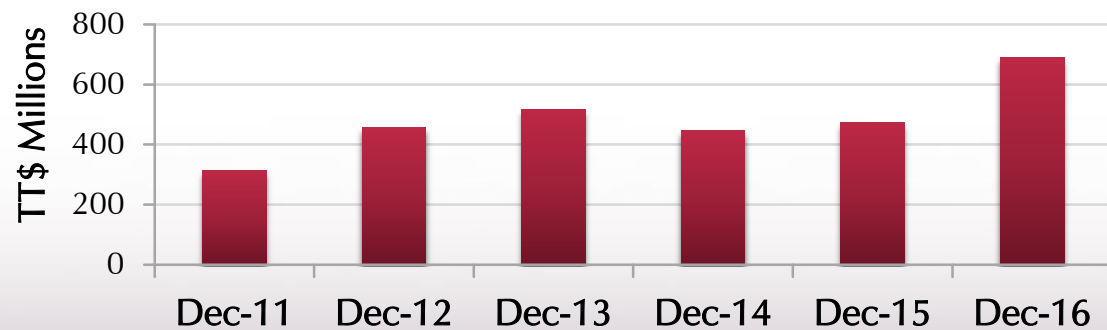


Source: Central Bank of Trinidad and Tobago.

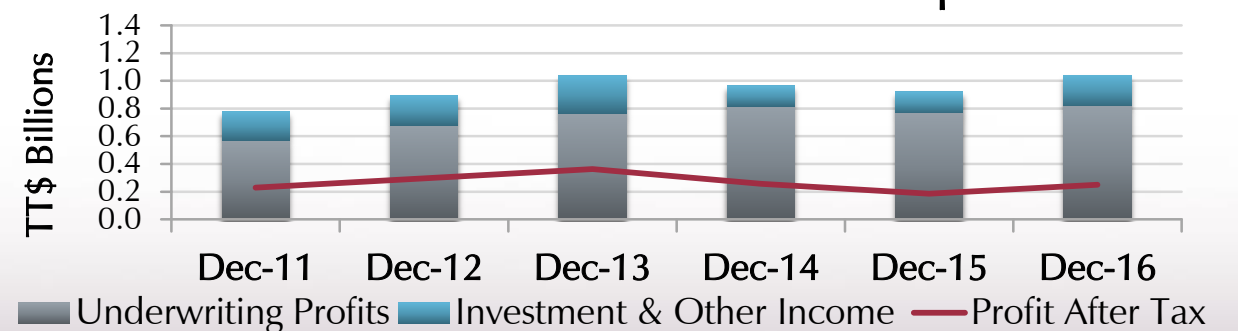
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Life: Profits Before Taxes

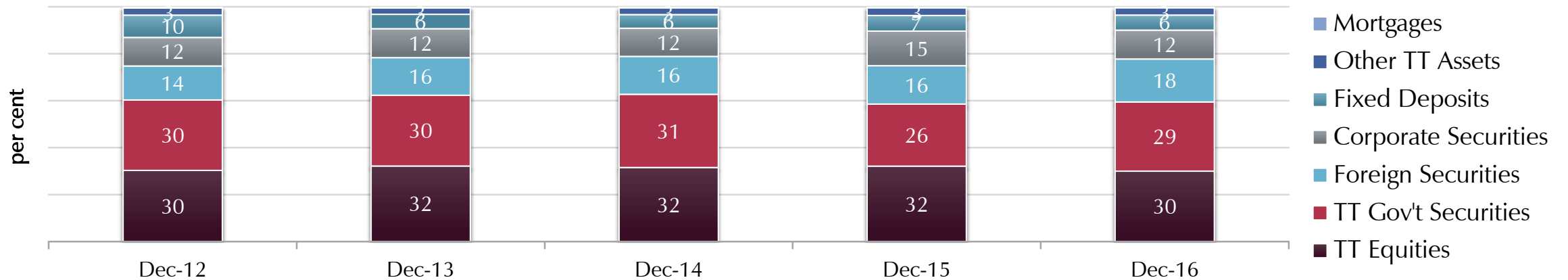


Non-Life: Contribution to Profit and Expenses



KEY INDICATORS - OCCUPATIONAL PENSION PLANS

Assets as a proportion of funds
(Pension Plans Asset Mix)



Pension Plans by Type
(2016)

	Sponsored by Govt or Govt-Related entities		Private Company Sponsored	
	Defined Benefit	Defined Contribution or Hybrid	Defined Benefit	Defined Contribution or Hybrid
Number of Plans	35	6	83	64
Total Assets (TT\$ Billions)	\$29	\$0.25	\$12	\$6.74

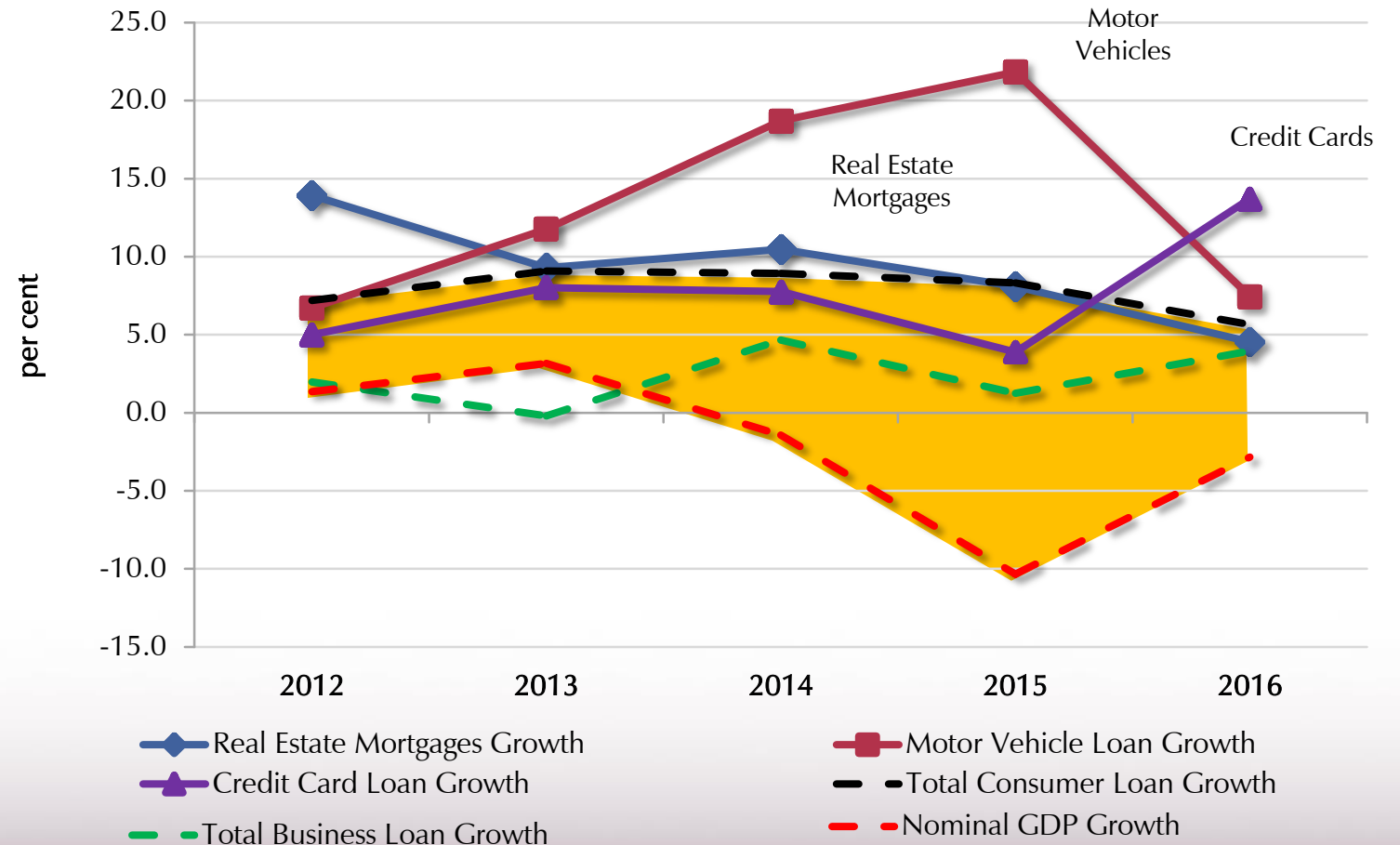
VULNERABILITY: RAPID BUILD-UP OF CONSUMER CREDIT

REAL SECTOR

VULNERABILITY

Rapid build-up of consumer lending in a competitive credit environment, particularly in motor vehicle and real estate segments.

Banking Sector Consumer Credit Growth,
year-on-year



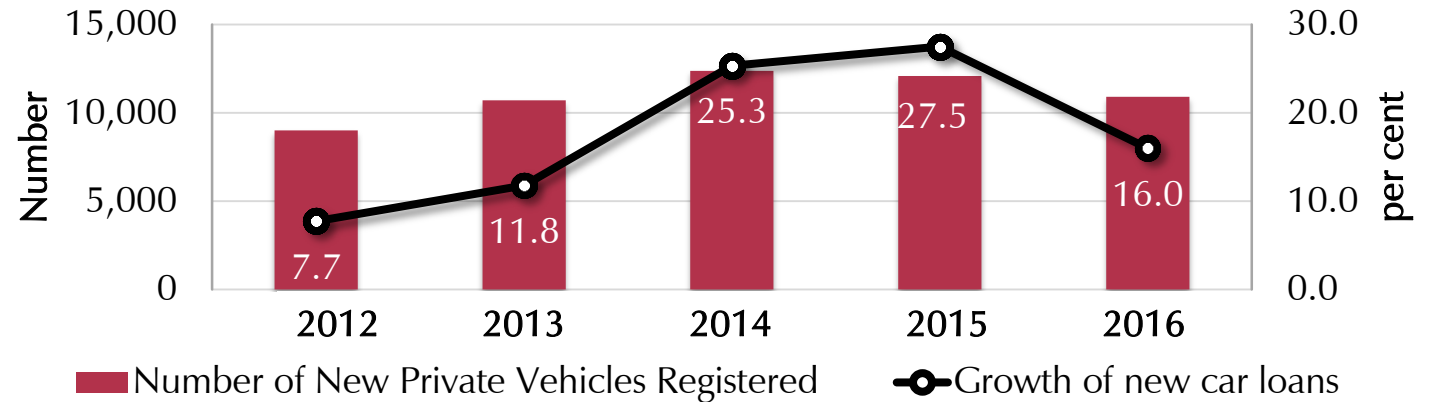
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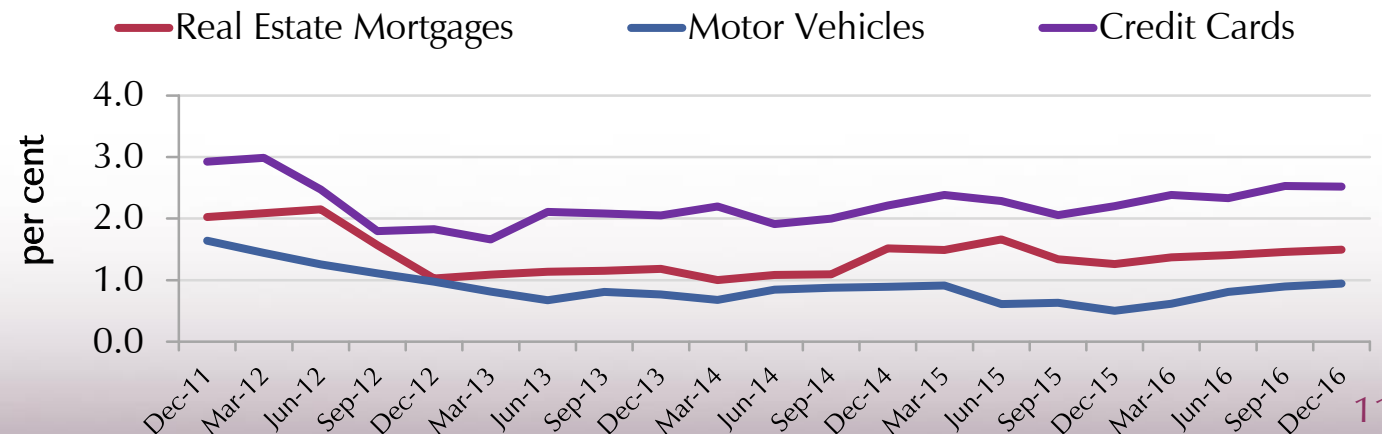
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New Private Vehicles Registered against Growth of New Car Loans

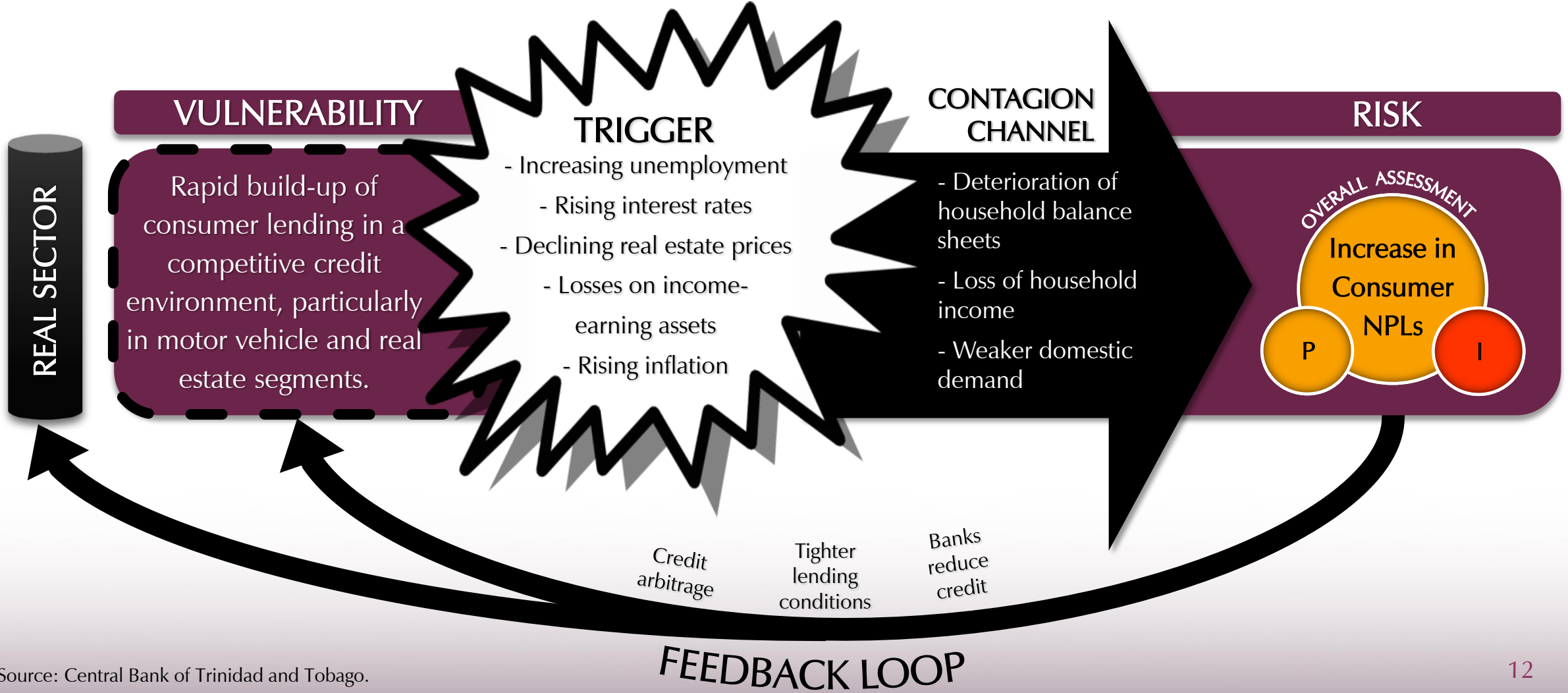


Commercial Bank NPLs



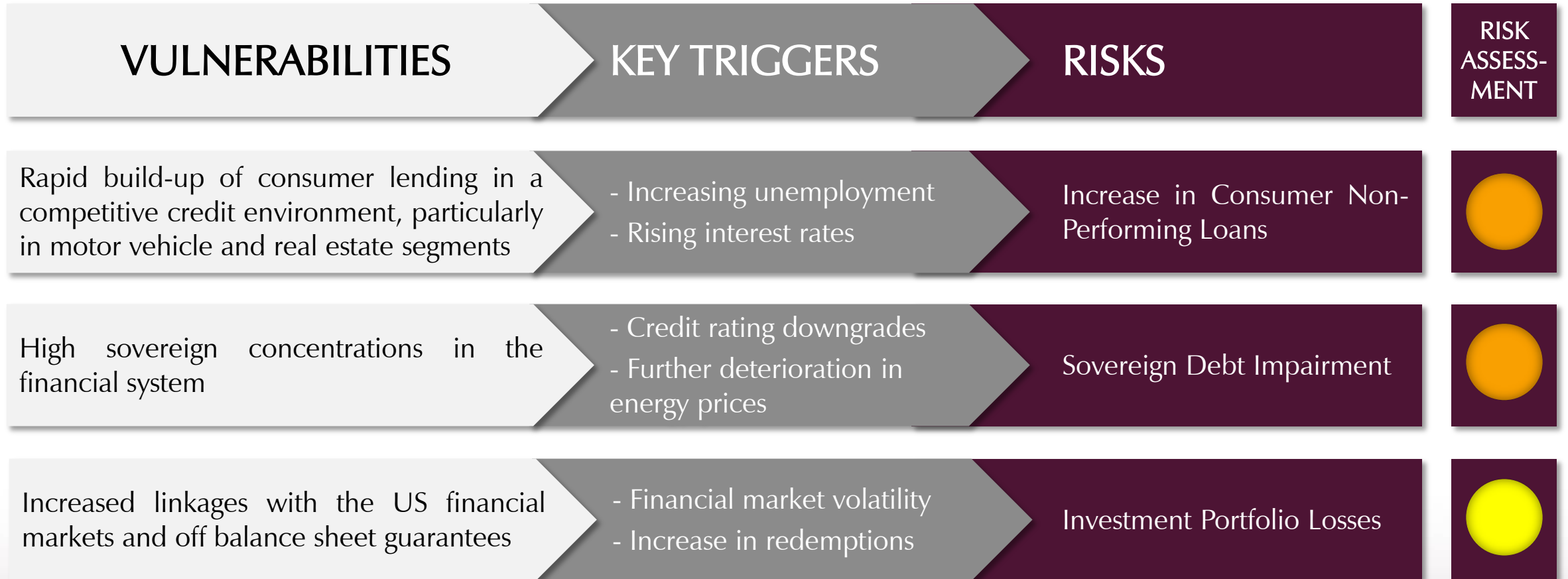
RISK: INCREASE IN CONSUMER NON-PERFORMING LOANS

Low Moderate Elevated High Very High



Source: Central Bank of Trinidad and Tobago.

DOMESTIC FINANCIAL STABILITY RISKS



PROMOTING FINANCIAL STABILITY



STRATEGIC PROJECTS



KEY LEGISLATIVE DEVELOPMENTS

Insurance Bill 2016

- Laid in Parliament on July 1, 2016. Currently under review by a JSC of Parliament.

Foreign Account Tax Compliance Act (FATCA)

- **Tax Information Exchange Agreement Act, 2017** was enacted on March 20, 2017 but is awaiting proclamation.

Compliance with Global Forum Common Reporting Standards (CRS)

- **The Mutual Administrative Assistance in Tax Matters Bill, 2017** was introduced in Parliament on April 21, 2017.

ANTI-MONEY LAUNDERING AND COMBATTING OF TERRORISM FINANCING - KEY LEGISLATIVE DEVELOPMENTS

Several Bills to enhance law enforcement and prosecution for AML/CFT matters were introduced in Parliament in 2017.

Finalization of the Action Plan and the National Risk Assessment to address identified deficiencies in the country's AML/CFT framework by the National Anti-Money Laundering Committee (NAMLC).



The Central Bank is:

- Revising its AML/CFT Guideline;
- Developing a policy for the regulation of money remitters;
- Chairing the Supervisory Working Group of NAMLC in order to develop proposals to amend legislation for the supervision of financial institutions and listed businesses.

IMPROVING RISK-BASED SUPERVISION

Basel II/III Implementation



Key strategic project and priority of the Bank over the five year period to 2021.

Strategic priority for many regional regulators. This will allow for greater harmonization in capital requirements for cross border banking groups.



The Central Bank has adopted a **two-phased approach** to the full implementation of Basel II/III.

The Central Bank has been **working closely with the banking sector** via the Basel II Technical Working Group and other industry wide engagement.



BASEL II /III IMPLEMENTATION KEY OBJECTIVES

1

To establish minimum capital adequacy requirements.

- which provide quantitative triggers for supervisory intervention.

2

To provide incentives to banks to improve risk governance and capital management.

- banks must ensure that their capital is sufficient for their risk.

3

To enhance resilience of the financial sector.

- banks should continue to maintain adequate high quality capital in excess of the regulatory minimum requirements to treat with unforeseen losses.

BASEL II /III IMPLEMENTATION

Pillar 1 - Minimum Capital Requirement

- Improved risk sensitivity
- Comprehensive methodology for the calculation of credit risk capital charges
 - Inclusion of capital charges for operational risk
- Better recognition of credit risk mitigants (eligible collateral and guarantors)
 - Higher minimum capital ratios

Basel III Capital Measures

- Common Equity Tier 1 Ratio
 - Increase Tier 1 Ratio

PHASE 1

2014 - 2018

PHASE 2

2018 - 2021

Pillar 2 - Supervisory Review Process

- Internal Capital Adequacy Assessment by banks
- Supervisory Review of Internal Capital Assessment
 - Stress Testing

Enhanced Supervisory Guidance

- Risk Management Guidelines
- Revised Corporate Governance Guideline

Basel III Standards

- Leverage Ratio
- Qualitative and Quantitative Standards for Liquidity Risk
 - Capital Conservation Buffer

BASEL II /III IMPLEMENTATION WHERE ARE WE?



PHASE 1 2014 - 2018

- A significant milestone of Phase 1 of the Basel II/III project was the **completion of the first Quantitative Impact Study (QIS1) in July 2016** to test the impact of the new policy proposals on the licensees' capital adequacy ratios.

Metric	Basel I	Basel II/III	Change	Proposed Min.Ratios
RWA (TT\$'000)	75, 744, 764	93, 699,426	23.7%	NA
Qualifying Capital (TT\$'000)	18,244,035	19,938,452	9.3%	NA
Common Equity Tier 1 Ratio (%)	NA	20.2	-	4.5
Tier 1 Capital Ratio (%)	25.1	22.2	(2.9)	7.0
Capital Adequacy Ratio (%)	24.1	21.3	(2.8)	10.0

- A **second QIS is currently being conducted** and is due to be completed in July 2017.
- Phase 1 is due to be completed in June 2018.

PAYMENTS SYSTEM DEVELOPMENTS

- **Payment Service Providers**

- Bill Payment Service Providers
- Payment Aggregators
- FinTechs?

- **New Products**

- Mobile Banking App
- Mobile POS App

- **Digital Currencies**

- E-money
- Virtual Currency



PAYMENTS SYSTEM DEVELOPMENTS



Cyber Risk &
Cyber Security
is a growing concern

Cyber Resilience

- BIS June 2016 “Guidance on Cyber Resilience”
- Strengthening of Industry Standards for Payment Cards

WHAT IS THE CENTRAL BANK DOING?



Amending
the
Regulatory
Framework
for Payments



Cyber
Governance
Health
Check



Cyber
Information
Sharing
Group



Caribbean
FinTech
Working
Group

THE WAY FORWARD...

THE IMPERATIVE OF STRONG CORPORATE GOVERNANCE FOR FINANCIAL STABILITY

