

Address by the Senator the Honourable Mariano Browne,

**At the 21st Annual General Meeting
of the
MTS Credit Union Cooperative Society Limited
Centre Point Mall
Saturday April 12, 2008.**

Malcom Alexander– President

Members of the Board

Fellow Co operators

Distinguished Guests

Ladies and Gentlemen

Mr. President and Members of the MTS Credit Union, I thank you for your kind invitation to address you on the occasion of the 21st Annual General Meeting. An occasion such as this is an important opportunity to meet and talk in small groups and to share ideas on the future and some times to explain the past.

I especially want to congratulate on the choice of your theme “ Sustaining the Momentum” . We must celebrate our achievements. But we also need to remember that the past is simply that: it is past and we must look to the future to envision the next challenge or alternatively, to meet the next opportunity. I congratulate on looking forward on maintaining momentum.

I would like to share some thoughts with you this morning on our present circumstances and to look to the future.

Ladies and Gentlemen, any thing the mind can see and believe it will achieve. But it must take place in the mind first. In defining a vision for the future of Trinidad and Tobago and the development of both of the economy and the society we must build institutions and institutional capacity in the private and the public sectors and in partnership. This task is not to be underestimated and requires dialogue and feedback.

We are on a development path. We must always remember that as much as change is inevitable and that we must adapt or die, there is also need for constancy. I therefore wish that you have a very successful meeting this morning and keep your eyes on an ever changing landscape.

Our view of the future is predicated in part on the establishment of a vibrant, non energy sector that will represent a sustainable source of growth for this country. This future must make allowances for the big and the small.

It is a widely cited fact that the Trinidad and Tobago economy has been and continues to rank among the top global performers.

This is upheld by the macroeconomic fundamentals for 2007 which indicate that economic growth averaged 7 percent, well above the global average of 3 to 4 percent.

In addition, Official Reserves which in 2007, stood at US\$6.1 billion amounting to 10 months of import cover – is more than three times the international benchmark of 3 months fiscal balances.

Public sector debt which was 28.3 percent of G.D.P., in 2007 was also favourably comparable to the international standard of 50 percent.

Other notable achievements include the Heritage and Stabilization Fund which represents a significant investment in the future of our country and now stands at US\$1.766 billion of TT\$11.106 billion.

But that is the past. What is now important is how we will shape our future.

Ladies and Gentlemen, as the country continues to grow and develop at an unprecedented pace the Financial Sector is naturally assuming an increasingly important role and has in fact recorded higher growth rates than all the other non energy sectors.

We are determined to create viable alternatives to our non-renewable resources, which have long been the corner-stone of our economy. The utilization of our oil and gas revenue to build modern, viable alternatives. The growth and encouragement of the manufacturing sector and Trinidad and Tobago's involvement in the CSME are part of this initiative. We are the dominant exporter in the region and now we must turn our sights even further afield.

Developing a competitive financial sector represents an important public policy initiative. In this regard, a key strategy is the establishment of the Trinidad and Tobago International Financial Centre (TTIFC).

We are fully confident that the TTIFC will position Trinidad and Tobago as a premier international financial market for trading and cross border assets.

Our strategic location creates a trading platform between North and South America, and is well positioned to bring the region's financial institutions into the mainstream of international finance.

We envisage that the Trinidad and Tobago International Financial Centre will be a designated hub that will provide a range of front office financial services, including, but not limited to banking, asset management, capital markets activities, specialized insurance operations and future transactions on the international commodities markets. This will require a range of skills sets that we now possess in limited quantities. The government has put a whole host of initiatives to assist all in acquiring the new skills for the future. Hence the creation of UTT which caters to be practical and professional and a range other programmes HELP GATE, MUST, YAPA to help all.

But this growing dynamism must be honed and nurtured in the context of rigorous standards of integrity, transparency, efficiency, independence and responsiveness. Government's role in ensuring that these foundational elements are in place is critical in this regard

Notwithstanding economic fundamentals Ladies and Gentlemen, paramount to supporting the growth of the economy is a sound financial system infrastructure. Recent financial improvements in this regard, encompassed the application of modern technology including the establishment of a Real Time Gross Settlement System; a Government Securities and Settlement System; and, an upgrade of the Inter-Bank Payment System encompassing international best practices.

In addition, Electronic Trading of securities on the Trinidad and Tobago Stock Exchange was launched in 2005. A market- based Electronic Auction system has also been introduced to replace the underwriting system for the distribution of government securities in the primary market. The Auction System has contributed to increased competition and greater transparency with respect to the process of price determination in the government securities market.

The Government is well aware that in order to achieve this ambitious objective the financial system must be upgraded and strengthened and that critical gaps in the legal, regulatory and supervisory structure must be closed. It is for this reason that the Government, largely through work taking place at the Central Bank, has embarked on a program to overhaul virtually the entire body of financial legislation in the country, and to strengthen regulation and supervision.

In light of the international and regional trends described earlier an important aim of the financial sector reform program is to implement a system that would enable the financial regulator to supervise the activities of complex financial firms even where these activities extend beyond the national borders of Trinidad and Tobago.

How do credit unions fit into all of this? The Credit Union movement is a peoples movement drawing its strengths from its product simplicity and people centeredness.

But few would disagree that the current oversight arrangements for the credit union sector represent one of the critical gaps in the legal, regulatory and supervisory structure which must be closed. The sector has undergone tremendous expansion over the last thirty years or so with collective assets currently estimated at around \$6 billion dollars and a membership numbering over 400,000. The movement is not small and is now a well established part of our financial system.

However, this growth has been somewhat uneven among credit unions as the majority has remained relatively small in size while a much

smaller group has risen to a position of dominance in terms of its share of the sector's assets and membership.

This dichotomy is further reflected at the operational level. The smaller credit unions have continued to raise funding from shares and deposits and to focus on consumer lending to their members. Their larger counterparts have tended to be a bit more sophisticated in their product offerings which in some cases have included credit and debit cards and brokerage services. They have also ventured into providing a variety of non-financial services such as property development, travel agencies and cambios, as well as conducting non-financial activities such as landlord services and investing in real estate.

All of this has been happening in the context of ineffective regulation resulting in part from a weak and outdated regulatory framework. It is against this backdrop, and in the context of growing recognition of the advantages of coordinating regulations that the decision was taken to bring credit unions under the regulatory authority of the Central Bank and to develop specific legislation to govern their financial operations. The Central Bank is already responsible for the regulation of commercial banks, non-bank financial institutions, insurance companies, trust companies, and pension funds. More recently the Home Mortgage Bank has been added to

the fold and it is expected that credit bureaus will also soon be regulated by the Central Bank.

While consideration is given to the special characteristics of credit union institutions and their special governance arrangements, the main concern of the legislation is to protect the safety and soundness of all credit unions. Members and especially those who place their entire life savings with credit unions must have confidence in the system. They must feel secure in the knowledge that their savings are well protected by good management practices and by strong prudential oversight by the financial regulator supported in the law.

How does the legislation seek to achieve this? The intent of the credit union act is to allow the credit union sector to continue to play the role it has always played in the economy, but from a position of greater strength, safety and soundness.

The new legislation will: encourage greater prudence in the management of loans granted by the credit unions; provide adequate conditions for the payment of dividends; ensure provision of adequate capital; provide greater guidelines for the investment activities of the credit union; and ensure more effective corporate governance. More importantly, the

legislation will safeguard the cooperative principles of volunteerism and democracy while improving prudential management.

Ladies and Gentlemen, I would like to share some of the key features of the proposed act:

We have noted that some credit unions, such as yourselves have already established a regime of Pearls ratios as a form of self-regulation to govern your liquidity targets, asset quality, capital and earnings. I commend you for doing so in the absence of strict legislation. This initiative would make the transition to new legislation so much easier.

While credit unions will still be able to set their own borrowing limits, either in absolute dollars or as a percentage of assets, the new act will set an outer limit. This should not be viewed as a major change since credit unions have not been traditionally large borrowers.

We recognize that the limit of less than 20% of total assets placed on the participation in non-financial business activity represents a significant change in the role of some credit unions as they have expanded their objects beyond financial services' activities. Today credit unions own several rental properties and engage in large property development projects, to name a few.

However, it is important to note that there are alternative approaches that would allow the members of credit unions to benefit from these types of investments and services, without direct risk to the credit union. Some alternatives have been proposed recently whereby a credit union may establish a cooperative to operate these activities on its behalf or a group of credit unions may pool to establish a cooperative to perform the same. These have great merit and are worth further exploration.

Based on a preliminary analysis, some credit unions and particularly many of the large ones, show that they already have in place sufficient capital to meet the requirements of the Credit Union Act, thanks to the existing 10 percent rule governing contributions to the reserve fund.

The new legislation recognizes that credit unions must continue to compete in meeting the expanding financial services' needs of its members. There appears to be a greater demand for investment management services and trusteeship as much of the membership matures into their retirement years. Credit unions with the requisite expertise and infrastructure will be permitted under the new act to add these products and services to their objects.

Today, there are already well defined governance rules and practices that apply to the management of many credit unions. But it is also known that in too many cases they have not worked well. The new legislation seeks to strengthen corporate governance within credit unions, among other things, by establishing ‘fit and proper’ requirements for members of the board and statutory committees and by providing for greater transparency and disclosure by the board to the members.

While this is not legislative in nature, it is nonetheless worthwhile to suggest an expanded role for credit unions, that is, to promote the entrepreneurship of your members. Credit unions can by the reorientation of your lending policies and through the education process, channel members’ savings into productive activities and make small entrepreneurs out of many of your members.

I have attempted today to assure you that it is the policy of Government to support the credit unions and the key role that they play in the financial services industry. The Central Bank is also committed to supporting credit unions and they have thus far demonstrated this in their receptivity to feedback throughout the consultative process with respect to the introduction of new legislation.

Credit unions are also encouraged to consider not only the legislation but also the forces that are contributing to the need for legislative change in adapting their methods of doing business and in providing for the expanded needs of their members.

I trust that you will agree with my thoughts on the need for credit unions to look at how they operate given the wave of globalization and the accompanying increased competition, advanced methods of service delivery of products and services, and the need for greater prudential management in the new legislation.

Mr. President, ladies and gentlemen, I thank you again for inviting me to be with you. Please accept my best wishes for the continued success of your credit union. Thank you.