

Speech by the Honourable Winston Dookeran, Minister of Finance
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It is wonderful to see so many of you from the Caribbean here in one place in Port of Spain. I was told that Caribbean unity is very elusive at times and I was also told that when we look at our cricket team's performance we are united, but we are united in anger. I know tonight though that we are united with purpose and hope. And as I was speaking with a few of the delegates earlier, it became clear to me that this is perhaps one of the most resilient Caribbean organisations that exists in our region. And I want to say how pleased I am to have this opportunity on behalf of the Government of Trinidad & Tobago to share some thoughts with you tonight. But I do so in the name of the Honourable Kamla Persad Bissessar, Prime Minister of Trinidad and Tobago who has asked me especially to say to you how much she regrets not being here this afternoon. She was looking forward to being here to share her own thoughts with you and to share our thoughts on the insurance industry and the Caribbean movement. So I give you her regards and hope that I would be able to share some thoughts from the point of view of the Ministry of Finance and the responsibility that I have now in Trinidad & Tobago.

Mr Douglas Camacho, our President, Mr Stoute the Chairman, I met the Lieutenant Governor Gregory Francis earlier on and I also say that it was a great privilege to spend a few moments speaking to one of the visionary of the 1970's who had put together this idea. So I must therefore acknowledge Mr William Hansborough, who is one of the visionaries - I was told that he is perhaps the only one here who was there since inception. So I asked him briefly in our conversation what was the idea at the time, and did he feel that the idea was in fact articulated over the years since the 1970s. And he was kind enough to tell me that the idea at the time was to bring about an indigenous competency and an indigenous platform in the area of insurance. And that he felt – notwithstanding the hurdles you had to overcome – that in fact you have grown from strength to strength.

I was told by Mr. Douglas Camacho, your president, that this is perhaps the largest single meeting you have had in any one of your conferences. So I congratulate you, and I congratulate you for staying in the region. I also say a special word of welcome to those who have come from outside the region and those who are associated with the region's many years of development and particularly to our international brokers and to our reinsurers who play a very critical role in the insurance business in Trinidad & Tobago and therefore in the protection of our society's future.

Back to Basics

Let me start by applauding you, first of all, for the theme of your conference, which is "Back to Basics". Perhaps this could be no better time for us in many different aspects of endeavours. And going back to

basics means that there is a sense of reappraisal as to what we were here for in the first place, and what lessons we have learnt on the journey that we have had so far. And how do we now equip ourselves for moving forward. Going back to basics is always a very important part in any institutions development. We too in the region, perhaps we have to do this. For so often there is a cycle that we are at the bottom of that cycle and not the top of that cycle. And so often we have to go back to basics to try and understand how we chart the journey ahead of us. One of the interesting things over the Caribbean and since I was a student, many years ago, we always said that we are in uncharted waters and I don't think we have ever stopped really moving in uncharted waters. It is one of the peculiar characteristics of the region that our resilience allowed us to move in those uncharted waters and somehow continue to survive and continue to progress. And this time we are also in that situation.

World Recovery

To some extent we are fortunate that the world recovery process has begun to take some shape - notwithstanding some serious downside risks that we are facing -not only in terms of developments globally, particularly those in Europe, but also in terms of those in Japan. And we therefore are at a point where the recovery of the world economy -slow as it may be- is a positive sign for the Caribbean region.

There is indeed great disparity in the speed of the recovery process that is anticipated. And a very recent study that was done by the Inter-American Development Bank on Latin American and the Caribbean. Recovery prospects suggested that perhaps there will be two speeds of recovery in our region. Those that are likely to overheat of our economies and those that are likely to be located in the survival of the economies. So even in the region we are faced now with the prospect of overheating on one hand if the recovery process goes well and on the other hand we are faced with the daunting task of surviving in a different world. A world now that has changed radically over the last few years. But we cannot at all be daunted by these developments for right now in Europe what we have seen over the last week, a joint mission, comprising the European Commission, the European Central bank and the International Monetary Fund coming to an agreement with respect to Greece, providing for a second time a major bailout plan in order to safeguard the financial sector stability and at the same time to restore a sense of competitiveness and sustainability in the economies. This of course is in the context of similar proposals that have been put on the agenda globally over the last few months reaching Portugal, Ireland , Iceland and even Spain.

And the underlying aspects that have generated this new sense of stress in the world economy in Europe has to do with the issue of the management of their financial situation either through their banking sector or through the public sector. And therefore the issue of fiscal sustainability and debt sustainability has been at the core of that particular development.

I do not believe that that development would adversely affect the rate of growth of the world economy but I do believe it is something that we must learn from and that is why to some extent we have had to ensure that our picture in the region is one that can withstand the threats and risks from abroad as well as to ensure that there are buffers in the system. So we are engaged to a great extent in trying to find

the methods by which these buffers can be created and the method by which we can have this sustainable resilience. This conference therefore is taking place at a time when the Caribbean is indeed going back to basics and therefore the organization is only reflecting really what is our national responsibility.

In the case of Trinidad & Tobago, we too have undergone severe mishaps over the last few years in the financial world and to some extent we have gone into a cycle - A cycle in which we have had to find a new space to come out of it. I think however, that within the last year or so, we have been able to put our acts together, and Trinidad & Tobago's economy is now in my view in forward gear. How long would it remain in forward gear without being hampered by the risk ahead of us and how sustainable it would be is the challenge we have to undertake. Evidence of that has been reflected recently by the economic reporting that has taken place both by the Central Bank and indeed by international bodies who have an audience in the region. We feel that at this point, notwithstanding the decline in the economy in 2009 and to a lesser extent 2010, 2011 has found us in a position where we can be in that forward gear.

Our job losses seem to have ended and within recent times vacancies for employment, as evidenced in the announcement for such vacancies, have increased in 2011 and the Central Bank commented that that is a positive sign in the direction that we are in fact moving forward. We incidentally had a major decline in 2009 both in terms of the growth of the economy but also in terms of the fiscal disequilibrium that this country had to accept as perhaps the reality of global developments as well as what has happened in the local economy and particularly in the insurance sector.

The Stock Market

The stock market has been showing signs of decent recovery. For the first five months of the year, the composite index has risen by 11.2% and the Oil Trinidad & Tobago index is now 13.87%. Similar returns cannot be matched in the market place within recent times. In fact the top five performance stocks have recorded price increases from 47% to 28% with an average of over 37% - to the extent that the stock market is now our barometer of confidence building. We have seen that evidence within the last few months here in Trinidad & Tobago.

The Market Place

The market place will be greatly served with an injection of new listings. These new listings will provide perhaps better opportunities for those who have investment requirements in the insurance sector. And to that end the government has already announced its intention to move into a programme of public offerings, so that we can increase the capital market activity in Trinidad & Tobago and at the same time distribute stocks in the country on a much wider basis. We also hope and expect that private sector listings will increase and there has been some evidence that that is likely to take place. I say this all against the background of what has happened globally. And we have seen a new reflection of the global political order. We are all aware that the countries of the G20 have come center stage and they have indeed replaced many of the institutions that wielded political power in the past. And there is clearly a shift in global economic and political power and we too in the region must be very, very adaptive to that

global political change. Let me say for a few moments how we intend to approach the new political order with respect to the financial architecture that is being developed.

The Financial Architecture

The G20 countries in their most recent full meeting, commented on the insurance sector and the fact that it was not immuned to incidents that were taking place in the epicenter of the last financial crisis, that being the US Mortgage Market and the World Mortgage Market and that the insurance sector was indeed affected primarily through its investment portfolios and also through the fact that they too had to do major adjustments in the financial market evaluations. Insurance companies are typically large investors with longer-term horizons and therefore had the capacity to hold a relatively large part of the investments to maturity compared to several other financial institutions, and to some extent that has been a buffer. This buffer allowed the system to withstand short-term shock. So your sector plays an important international role in being a buffer to short term shocks that our economies are in fact subject to so often.

Notwithstanding this, the report from the G20 concluded and I quote

“beyond the immediate issues relating to the financial health of insurance sectors and companies. The crisis has clearly demonstrated that protection of against systemic risk should also include monitoring and mitigating risk in insurance sector and companies and it is in this regard that we must be concerned with the architecture of financial regulation that is now being discussed widely”.

A Voice for Small States

The Caribbean in the past has had to face some of the negative consequences of these architectural changes and now they are in fact once more on the national agenda. It is in that context that we in Trinidad & Tobago took the initiative very recently as we currently chair the small states forum at the World Bank. We began talks in that forum with both the IMF and the World Bank to find a voice in the G20 deliberations. We do not think that we could sit back and allow deliberations about small states to take place without us. So we have made substantial diplomatic moves at international financial meetings that we have attended to seek a voice for small economies and small countries in the G20 deliberations. I must say that the response at least from the international financial institutions have been quite encouraging. But there is much to be done in that respect, and we will be approaching our Caribbean islands and countries to join with us along with other small economies to secure that voice.

I think it is important to do so, especially since we are back to basics. Some of the basics that you speak about are the very basics that are now engaging the attention of the international financial architecture and the regulatory system. We are very conscious of the fact that there must be equilibrium between regulations and operations. We are aware that regulation is not an end in itself but it has a purpose to support our larger goal and operations must not be stymied regulatory features.

It is clear therefore that the efforts of the G20 and the IMF have had a positive role in the recovery that is before us. Some of the initiatives being pursued are:

- the conduct of stress testing for banking institutions
- more effective bankruptcy procedures and
- the strengthening of cross-border resolution mechanisms.

We must always be “in the know” of what’s happening in the financial architecture.

Clico/British American

Let me just go back to the region of Trinidad and Tobago so that we can see exactly how we are responding to some of these issues. Towards the end of 2010, the first year in government, we invited world stability organizations and the IMF to do a full assessment of Trinidad and Tobago so we can ascribe the confidence and financial soundness that is required. We did this at this time because we were facing a major setback with the near collapse of a major insurance company - Clico/British American- which affected not only Trinidad and Tobago but did affect the entire region. Our government inherited a problem that seemed to be unsolvable. The previous government, misdiagnosed the problem as one of liquidity when in fact, it was a solvency issue. Therefore the prescription, which had to be put into place, was more far reaching than simply injecting cash from a point of view of liquidity support.

When I became Minister of Finance, I knew and I recognized that how we handled this problem was going to determine our future financial soundness. A recent regional study showed that the Clico/British American issue affected some 17% of GDP of 15 Caribbean countries. In the case of Trinidad and Tobago, it was 10% of GDP. When we look at this in terms of the world financial crisis and the percentage by which the US economy was affected, you will understand the gravity of this problem. The world percentage was 2-3 %, if that high.

Public Policy on Clico

So, we were faced with a situation that affected 15 Caribbean countries and certainly Trinidad and Tobago at a greater extent. It was therefore a major thrust and the government, in its first year of public policy management had to handle the problem. Of course, there are going to be winners and there are going to be losers. Sometimes the voices of the losers are not heard but sometimes the voices of the winners are the next generation. And in that sense, we had to make choices. Public Policy is about choices and we therefore embarked on a very ambitious programme to create new conditions to deal with the problem.

- One was to provide an ***appropriate response to the policyholders***, especially those who held traditional policies and to be able to protect them from any future risk. There are 225,000 such Clico depositors in Trinidad and Tobago. I can say, that at this stage, although no green light yet, we have been able to ensure that the statutory reserves are back in order and 250,000 traditional policyholders can now feel a sense of safety. There are others that are still to be dealt with and we will ensure that we have an appropriate financial response, which protects the balance sheet of the country and solves the problem at the same time. And in dealing with the national balance sheet, we are very careful to ensure that the debt profile remains in tact. One

would recall that many years ago, Jamaica, our sister Caribbean Country faced a financial crisis similar to this size and they took a route which-in my view-led them to continuous stress. This lasted many years because they had responded largely to the populist sentiments at the time and all at the expense of their national balance sheet. We were very careful to ensure that this does not happen here in Trinidad and Tobago, as we must learn from this exercise.

- We have also begun to **address the Caribbean side** of the problem. We are not doing this alone but in the context of the Caribbean Development Bank who has recently been engaged in finding out the size of the problem and the response required regionally. I hope that in due course, we will be able to find an appropriate mechanism to at least alleviate and mitigate some of the risks facing us in the region.

I know that this is a concern to the insurance sector in the region, but it seems to me that we are in a fairly safe place and the systemic risk has decreased by a significantly large amount. It has cost a lot and it will cost lots more to deal with it but at the end of it, the sector itself would have a greater sense of comfort in this regard.

We are also looking very carefully at the following:

1. The agenda of strengthening the regulatory infrastructure of the financial sector
2. The revamping of the Securities Bill
3. The amendments of the Insurance Act (for which I understand there is some nervousness)
4. An Act to bring Credit Unions under the regulatory oversight of the Central Bank

So, in a sense and in a regional context, we are attempting to do three things.

Firstly, to ensure we champion the initiatives of **strengthening cross-border supervision and regulation**. For some time now, in spite of collaboration with regulatory bodies, there has been the feeling that information sharing is not adequate and that in terms of the new market dynamics, there is a need for deepening that process. And we will champion that because we are indeed in a world in which borders are no longer defined by national boundaries.

Secondly, (and this is a proposal that was made based on a report done on the financial stability of Trinidad and Tobago in the aftermath of the Clico/British American issue) we have to develop some sort of **protection scheme** that will only benefit policyholders in the future. At this stage, we have not yet begun to articulate this in public policy but we have begun the groundwork to ensure this could in fact happen in the future. This of course, would be an area where there would be dialogue among stakeholders like you before we get to that stage. The main objective is to ensure that the framework provides the conditions and incentives for the soundness on one hand and on the other hand provides the opportunity for investment and commercial activity to take place.

Thirdly, as per our first budget statement in 2010, given the situation globally, and given our own lapse in the regulatory system in Trinidad and Tobago, an **independent risk committee** will be established to monitor key risks to the financial sector with the view of preventing similar failures and to ensure that systemic risks contained. So in addition to what we have, we are in the process of articulating the general guidelines for the Independent Risk Committee, which will be established as an additional form of intelligence on this issue.

These are some of the issues that are relevant to the Caribbean Insurance Industry and our own response to it. I can say with a certain sense of confidence, that we have been able- here in Trinidad and Tobago - to put our financial situation in order and that there is now a safe place in terms of our balance sheet. While I do not underestimate the emergence of new risks in an exposed economy, I feel certain that we can find the appropriate response to protect the commercial and regulatory aspects of the insurance industry.

The need for new conversation: Corporate Governance; Compliance; Regulation

I do believe however, that there is need for a new agenda; a new conversation...In the one year that I have been the Minister of Finance, I have sensed the nervousness of the Insurance Industry here in Trinidad and Tobago and I presume it will be similar in other parts of the Caribbean.

Corporate Governance

The first conversation that needs to take place has to do with the broad issue of Corporate Governance. There has been the feeling that Corporate Governance has not been as strict as it should have been in the past and that there is need to have rules and regulations and incentives etc to enforce good corporate governance. This of course, in the final analysis, is the responsibility of the companies themselves and therefore we have to work together to establish incentives to ensure compliance.

Some have argued that we have taken a punitive approach to the problem. This is certainly something to have dialogue about. We do not wish to have a punitive approach but what we need to do is to have an effective responsibility of corporate governance where accountability can be clearly assigned, ascribed and dealt with. So, I suggest in terms of the agenda before us and in terms of the conversation that I think we can have in a very constructive way, place that issue of corporate governance up for discussion with the industry.

Compliance

The other area of course is compliance. Compliance is important to the regulatory standards that are being set and there is a lot of discussion with respect to the capital adequacy framework and the fact that it may be difficult to achieve the standards that have been set in a five-year frame. But we believe it is very important to have strict compliance with the regulatory system. To some extent, those parts of the world economy that were protected against the financial exposure of the past were those that had strong compliance at the regulatory level, and we will therefore not deter in any way from enforcing those compliances that are required. If there are any specific areas of concern, we will obviously deal with that in the conversation I am proposing.

Regulation

And finally- I believe that I alluded to this earlier – there is an optimal point between regulation and operations and many times there is a tendency to have regulations for its own sake. There is a cost to regulation, both to society and to the enterprise, but at the same time there is a need for it. I spoke of these issues earlier.

Therefore the commercial space in which insurance components operate must now be expanded and *how* we go about doing this is a challenge for all parties concerned. I understand that in the case of Trinidad and Tobago, our premiums are in the amount of 2.3 billion dollars. This has improved slightly but still this is not large enough. I understand that – excluding Clico and British American which were the largest groups in the country- total assets of the life insurance industry grew by 8% in 2010/2011 which shows a recovery process and today stands at 15.6 billion dollars compared to 14.4 billion dollars one

year ago. So, there is evidence of expansion and growth in the sector. In order to ensure greater commercial space for our operations, there are **three things that are on our agenda at the Ministry of Finance**.

Firstly, I'm sure you're very familiar with the aftermath of the Japanese experience and the issue of **building**? in the region. And this is a matter we would like to have dialogue on with the other regulatory bodies in the region. **Secondly**, scope for increasing investment opportunities and here, I am advised that the scope is too limited in investment and in the stock market. And **thirdly**, there is the need to review a zero risk security that can be made available to the stock market. This is one that should be given some consideration- an increase therefore in providing investment opportunities for the centre.

Now this is "back to basics"! This is where we started. We are here to grapple with these problems and to embrace them with a new confidence for the future. I have no doubt that we have had the resilience in the past, and certainly that resilience will remain part of our history and tradition. Notwithstanding some of the hurdles we've had to cross, I know that we can deal with these in a manner that would bring about a greater sense of integration in the region. It will be based on financial soundness on one hand and opening new commercial space in the other.

It is in that context that I thought I should share these views with you and I speak here primarily from the perspective of the Ministry of Finance. We of course, will be working with other bodies in order to effect a 'safe' place. The macro situation in this country has provided us with a 'safe' place but now, we have to get into the individual sectors. The insurance sector has several important roles.

- It provides a sense of protection for the individuals through its different products
- It provides the most durable source of savings for financing development and therefore it is indeed an area in which we must engage. Take the resources that you have mobilized. Use them for financing development and economic change and at the same time provide that sense of support for the policyholders and in doing so, manage risk.
- It has provided sustainability against external shocks in the past (it served us well in that respect)
- It now provides us the opportunity to ensure there is safety among citizens of country and especially as you look towards financial security for the future.

The task is big and we are 'back to basics' but we can't stay there very long. We have to move on to action shortly. Thank you very much.