

1 **Feature Address of the Hon. Minister of Finance CCMF Seminar**

2 **Friday, May 04, 2011**

3 **Hyatt Regency Hotel**

4 **Port of Spain**

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7 **The Minister of Finance (Hon. Winston Dookeran):** Thank you
8 very much, Prof. Bourne, for your very kind remarks and also for the
9 very kind remarks of the Principal, Dr. Sankat, on this very important
10 and timely occasion. I'm also very privileged to share this platform
11 with the Governor of the Central Bank, an old and trusted colleague of
12 mine over the many years of servicing the people of the Caribbean
13 and Trinidad and Tobago.

14 The Caribbean Centre for Money and Finance must indeed be
15 commended for inspiring this conversation here this morning and, in
16 so doing, both the Principal and the Executive Director of the Centre
17 have already begun to shape what has to be a most intriguing day of
18 policy oriented discourse. I say so because when I look at the
19 programme, there is no doubt that it is relevant to our time and our
20 challenges in Trinidad and Tobago and indeed to the Caribbean.

21 There is no doubt that the programme has been organized with
22 a certain logic in mind and that logic is to enter into direct policy
23 initiatives for the reform of this important industry in our country.
24 And there is no doubt, when I look at the list of participants, that there

1 is an impressive list of credentials that are going to be with us during
2 the course of today and beyond, and for all these I congratulate the
3 University of the West Indies, its new leadership in intellectual
4 discourse on policy matters and for arranging this occasion here for all
5 of us to benefit.

6 Not too long ago, I was asked to contribute to a book that
7 eventually was called *No Island is an Island*. What it attempted to do
8 was to establish clearly the new interconnected world in which we
9 live. There could have been no better evidence of the implications of
10 that new integrated and interconnected world than in the financial
11 sector in particular. We are all aware of different interpretations that
12 had been placed on the events of the last few years when the financial
13 sector was indeed at the centre of many summits and many decisions.
14 The difficulties that these summits and decisions encountered, it was a
15 reflection of the need for us to understand really what was at stake in
16 what erupted in the global financial sector. We know in Trinidad and
17 Tobago we had our own fear of such eruption.

18 It was first thought that the world was facing what was
19 traditionally called the phenomenon of the market failure and large
20 financial institutions in the pursuit of greed in a lax regulatory system
21 had accepted in their behaviour. A large part of the resources of the
22 world through the international institutions and elsewhere were
23 devoted to fixing what was conceived to be a market failure issue, but
24 before we began to see the results of that set of initiatives, it became

1 clear that the issue was much deeper than a market failure issue.

2 You wonder how so many economists, so many policy
3 practitioners had not made the link between market failure in the
4 financial world to the issue of development, because the sovereign
5 debt crisis that emerged thereafter really was a continuation of a much
6 deeper crisis and we're all aware that even today those matters engage
7 the attention of the leaders in the world of finance and more so today
8 in the world of politics because what might appear at times to be a
9 technical problem eventually spill over into the streets of politics. We
10 have had many experiences of that over the many years.

11 So what was the market failure issue was then seen as a
12 sovereign debt issue, putting at risk the sovereignty of debt
13 management. But even that became somewhat an hassle analysis of
14 what was taking place. Soon it became very clear that even the
15 sovereign debt problems were but a reflection of an economy-wide
16 development issue. And so, the original formulation of the solution
17 with respect to Europe of a fiscal compact became inadequate to the
18 task.

19 And therefore the fiscal compact which was used as the basis to
20 introduce a new sense of discipline became a limited approach, and
21 now what is being discussed is the need for a growth compact and that
22 is why today the European Union is now going back to some of the
23 very fundamentals of integration, recognizing that the structures of
24 integration do not ensure that the processes of integration is placed

1 and we have a current debate taking place in the political arena in
2 France as they embark on the democratic exercise of going to the vote
3 of a debate among the leading contenders between the need for a
4 fiscal compact in Europe or a growth compact for Europe.

5 It is in that context that I thought that we can look at the theme
6 that “No Island is an Island”, for sooner or later the spillover effects of
7 these developments will affect us where ever we are and already
8 continue to affect us. And that is why today I want to place some
9 remarks on the issues of reform of our institutions. But before I go
10 into that, let me say in our own country we have been well aware of
11 the implications of these developments in the financial world and we
12 too have had our fair share of tremors. I say tremors but in truth it
13 was much more than tremors. And we too have been able to
14 overcome the hurdles of solving problems that were putting the
15 economy and the financial system at risk.

16 I must say that I believe that we have been able to successfully
17 overcome those challenges and have contained the risks that were
18 ahead of us and have averted the possibility of real danger in the
19 financial world in Trinidad and Tobago.

20 Having said that and having done that and having put the
21 balance sheet of the nation in all its manifestations in some form of
22 stability, we must now embark on the growth compact, because
23 already we have begun to see the emergence of new risk and today I
24 just want to point out for this discussion the two emerging risks that

1 we face in our own country if we are to sustain the advances of policy
2 measures over the last two years has to do in the absence of a
3 workable social compact.

4 Already, wage demands are going beyond our expectations or
5 affordability, especially since they're dealing with these demands of
6 the years of 2008 to 2010. We are yet to confront these demands of
7 today's and tomorrow's world. The action of such a social compact is
8 now one of the risks that we face as we manage the future of our
9 economic direction.

10 The other risk that I believe we face has to do with the
11 investment gap and the investment gap is the gap that emanates from
12 most of the public sector and from the private sector and within the
13 private sector includes our energy sector. The gap between delivery
14 and policy is too wide and I must say at this point that many of the
15 expectations that were to be realized in the investment scene, in the
16 energy sector, in the private sector and the government sector are yet
17 to be realized. This poses a great execution and delivery gap.

18 It is important for us in our policy to embrace to begin to
19 address those issues frontally, and this is one thing, as Minister of
20 Finance, I have never been afraid to do, regardless if the political cost
21 of so doing is to attack our economic problems frontally. And today
22 this seminar will give us an opportunity to deal with another aspect
23 that is extremely important. Institutions do matter, and really, policy
24 perspectives must have the right institutional framework and it is in

1 that context that the instruments as well as the governance, as well as
2 the effectiveness of our institutions in the pension industry must now
3 be addressed.

4 I believe this is what you were about to do during the course of
5 this month or this conference, and in addressing the issues of
6 institutions, we must look with a clinical eye real hard this morning,
7 the very good analytical framework expressed by the Governor of the
8 Central Bank which provides some of the deep choices that are ahead
9 of us. We must have a studied approach to making decisions on those
10 choices that he has outlined so clearly in his remarks.

11 The pension industry, globally and indeed locally and
12 regionally, have been faced with three major challenges in today's
13 world; the first being what I referred to as the investment challenge,
14 particularly with respect to lowering returns on investments and the
15 funding of long-term benefits, and that must indeed be a matter of
16 concern, for in the final analysis we have to look at the savings as a
17 nation, as well as the savings in the pension industry for that is the
18 fuel that allows the industry to grow.

19 And thirdly, the one that has been referred to here earlier is the
20 whole challenge of demographic change. It was pointed out that in
21 the United States the percentage of population over 60 is going to
22 move from 13 per cent to near to 25 per cent by 2015, and that trend is
23 worldwide and it affects us here too in Trinidad and Tobago and the
24 Caribbean. So the investment challenge, the savings challenge and

1 the demographic issues are the broad issues facing us in the pension
2 industry.

3 It is against those challenges that we must indeed develop a
4 reform agenda, a reform agenda that will, in fact, be able to confront
5 these issues kindly, urgently and with resolve. One of the problems
6 we have had in the Caribbean and in Trinidad and Tobago is
7 continuous conversation on the same topic for every generation. Even
8 pension reform, I am advised that the issue of pension reform was not
9 addressed for 30 years and although there were some attempts 10
10 years ago to start that dialogue, it soon faded into insignificance in
11 terms of articulating a public policy response to it. We must shorten
12 the periods of conversation in order to have the urgency of political
13 and policy action. I hope that this seminar will not be one of those
14 continuous seminars over the 30 years to talk about reform but to be
15 able to come with the very practical, policy oriented choices that must
16 be made to make it happen.

17 What are some of the gaps that have emerged over the last 10
18 years, and more specifically over the last three years, as we too
19 grapple with our financial crisis? We already have heard of the pillars
20 upon which our pension industry has been built. Senior citizens
21 pension, the National Insurance System, the contributory private and
22 public sector programmes and the individual retirement income, there
23 is no doubt that we must deal with this problem. But how do we deal
24 with it, the complex issues?

1 Well the complexity of those issues must not deter us with a
2 resolve to tackle them. When we looked at the legislative framework
3 that guides the pension industry, we see not only a long list of
4 legislation. I'm advised that there are over 10 pieces of legislation
5 that govern this industry, and if you add many of the minor
6 legislation, it is much more than that. We have dealt with pension in a
7 piecemeal manner in the past. As the problems arose we developed a
8 response, and that is why today we have so many pieces of legislation
9 dealing with pension.

10 As Finance Minister, I am always confronted with the issue
11 when I bring Finance Act each year to Parliament that I have to
12 amend numerous pension related Acts to be able to make it consistent.
13 That itself is a nightmare for the Legal Department in my Ministry to
14 have to undertake that task, and that to some extent explains why
15 there is a long gap between the budget presentation and the Finance
16 Act. This, in my view, is far too long.

17 Having presented a budget in October, it took us some four
18 months before we could have converted those ideas into a Finance Act
19 but the work that was required to do so because of the system of the
20 legislative framework assists in that long delay. It means therefore
21 that these new policy measures would have major gaps for
22 implementation.

23 Apart from the legislative gap, there is the architecture for the
24 pension industry and I must say that the pension industry has

1 performed well, and in spite of the fact that there are some financial
2 challenges ahead of us, it is fair to say that the pension industry as an
3 industry has been one of the major answers for the sustainability of
4 our financing system, and those who are involved in it should be
5 complimented for moving forward and building upon that answer.

6 Trinidad and Tobago can boast today of having a solid pension
7 industry, but that is not to deny that we must indeed move on with a
8 reform agenda that will harmonize the pension programmes. And in
9 so doing, we must look at the enforcement of new regulatory
10 measures. And I believe the Governor spoke to some extent on that
11 matter and, as the institution responsible for managing the regulation
12 of the sector, they have been involved in developing a new policy
13 document to enhance the governance as well as the effectiveness of
14 the regulation system. There is urgent need for action.

15 But while we are trying to build a new architecture, we must
16 always be conscious that we have to deliver to the people, for a
17 society will not always be patient on waiting for that day to come
18 because the challenge you face as a public policy person is to deliver
19 on the run, and that also is what we have been trying to engage in. It
20 is in that context that we began the reform with respect to the benefit
21 structure of the pension system as we go on increasing the senior
22 citizens grant to a minimum level of \$3,000, introducing some
23 additions that will improve the effectiveness of the national insurance
24 programme and also increase the basic minimum insurance to \$3,000.

1 By that we have tried to establish a minimum floor so that the
2 people would begin to see the benefits as we conduct the institutional
3 reform required. There is more that is in store. As we widen the net
4 of beneficiaries in the National Insurance Programme we shall move
5 to including the self-employed person into the programme and the
6 work to do that is ongoing. That involves an additional over 100,000
7 persons who would join that system in earnest. So on the run we are
8 widening the net of who will benefit from the pension contribution
9 and we are also in the process trying to make and take us measures
10 that will improve the efficiency of the management of these funds.

11 All this is being done within the framework of a social policy,
12 for, in the final analysis, this is a matter of having an effective social
13 policy and I believe Prof. Bourne in his introduction made direct
14 reference to the social policy aspects of pension reform. We have
15 been engaged in trying to find different ways that will complement
16 each other, both from the point of view of total expenditure and from
17 the point of view of pensions reform, to improve the survivor's benefit
18 of widows and orphans, to be able to introduce pensions for those
19 who, in today's current, can be classified as belonging to
20 postretirement because postretirement itself is an employment in our
21 country and as I indicated earlier the inclusion of the self-employed
22 into the NIS programme and we are actively engaged in putting into
23 place the pension programme that will affect the daily-paid workers in
24 the public sector who for too long have been without that coverage.

1 All this that I have mentioned are measures, some of which
2 have been put into place and others that are under serious
3 consideration, but it's all done in the name of sustainability. We can
4 say we had an interesting dialogue on what are the measures of
5 sustainability in terms of macromanagement, and we have argued that
6 sustainability is not a matter of arithmetical research but it's an ability
7 of how can we adjust, how can we cope and how can we build
8 buffers; and in that sense we have argued that the International
9 Monetary Fund, that their measures of sustainability are not
10 appropriate to small economies in today's world and that we must
11 change the measurement of sustainability to the issues that I have
12 raised.

13 I must indicate to you that they have begun to listen and they
14 have agreed that there is need to reassess the measures of
15 sustainability for small economies from the arithmetical ratios of the
16 past what were sometimes called the fundamentals, to new measures
17 that will measure your ability to adjust, your ability to cope and your
18 ability to sustain financial buffers.

19 That interest that they have now expressed has been converted
20 into a committee that has now been established by the International
21 Monetary Fund of all executive directors who have small economies
22 within their jurisdictions and informal meetings have begun to take
23 place and address this issue. These are issues that were raised by us in
24 Trinidad and Tobago in our deliberations for those meetings and we

1 hope to see in the short term, even at that level, the articulation of the
2 new requirements converted into policy measures at a global level.

3 The question that I pose, therefore, are the measures of
4 sustainability sustainable itself? This was an issue that I have no
5 doubt that you may want to explore and, as it affects the pension
6 industry, what are the measures of sustainability and what really ought
7 to be the measures of sustainability? We are well aware that in the
8 final analysis we are providing a sense of support for the population,
9 for the aging population, but we must not put at risk the sustainability
10 of that public function.

11 It is therefore in that context that I believe that this particular
12 seminar is extremely important for us from the point of view of the
13 nation and from the point of view of public policy. It must fit into a
14 larger programme of reform. Politics is not about winning immediate
15 applause. Politics is about securing the respect of the people towards
16 a programme of reform. This is an opportunity for us to link the
17 politics of our nation to the reform that is required in the future. But it
18 will only come on the basis of hard, technical and professional work,
19 the clear identification of the policy choices facing us and the capacity
20 to execute and implement whatever decisions were made. Those are
21 all issues.

22 There is a tendency in the Caribbean, Trinidad and Tobago, to
23 say that the execution aspect will happen on its own. All that is
24 required by policymakers from the university and elsewhere is to

1 identify the policy choices. That is not correct. Policy choices are not
2 complete unless it assess the capacity of those choices to be
3 implemented and therefore the work of the professional must go
4 beyond the mere identification of policy choices and must, in my
5 view, address the issues of execution and implementation, whether it
6 is through your legislative system, it is through the governmental
7 system or whether it is through the institutions at the microlevel.

8 Many of you who are here are involved at the microlevel in
9 pension reform and therefore the challenge is not only from the
10 practitioners at the policy level, but it is also for those who are
11 involved in the doing part of this exercise. It is in that context that I
12 have no doubt that you will look at the standards that in fact influence
13 the behaviour of the industry, the accounting standards, the adherence
14 to such standards, the compliance and regulatory system, the
15 transparency of that compliance, the service to the population in terms
16 of the complaints that they have on the functions of the insurance
17 industry, I think we can safely say that there are too many complaints
18 and although there is indeed the financial Ombudsman in place, that
19 remains a major problem for the population at large.

20 We cannot therefore ignore, in our reform agenda, the need that
21 in the final analysis we are about the service of the citizens of our
22 country, our people today, tomorrow, and in so doing we must be able
23 to articulate a road path. This in my view is an opportunity. Time the
24 opportunity that we have as we brought together, all of you have come

1 here today to articulate with a clear purpose in mind how can we
2 improve the insurance industry? How can we ensure that the dealings
3 of the past remain the answers for building the future? And what
4 steps we must take to so do? It is in that context that I look forward
5 very much myself, and my Ministry officials who are supposed to be
6 here, and I see many of the Central Bank officials are here, we're
7 more than delighted to continue this dialogue with the Principal, with
8 the Executive Director, so that your deliberations today can be
9 converted into policy actions of tomorrow in the service of the people
10 of Trinidad and Tobago.

11 No island is an island and in that sense we must not at all ignore
12 the international aspects of the policy changes that we're talking about
13 today, but I leave that for all the practitioners as well as the presenters
14 here today. I must say, of course, when I received this invitation from
15 the Caribbean Centre for Money and Finance I was delighted and that
16 is why I thought, let me come and see if I can get some of my
17 problems solved by your deliberations today. Thank you very much.