

***“A NEW FRONTIER FOR INSURANCE SERVICES
WITHIN AN
INTERNATIONAL FINANCIAL CENTRE”***

FORUM: THE INTERNATIONAL FINANCIAL CENTRE
SYMPOSIUM

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It is an honour and privilege for me to participate in this Symposium as we explore the possibility of promoting Trinidad & Tobago as an International Financial Centre. In any venture there are challenges and opportunities, and it is imperative that we have a clear understanding of our current environment and what lies ahead as we seek to identify what direction we should take and to set achievable goals and a realistic Action Plan.

The Financial Services sector is comprised of many participants all playing different roles, yet in some instances the lines are blurred and certain parts of their operations might converge as can be the case in banking and insurance services.

International Financial Centres have been around for decades- the likes of London, New York and Tokyo and you may not be aware that the very first Offshore operations in the Western Hemisphere were established in the Bahamas in 1936. However, in more recent times with the evolution of global finance supported by technological advances and the expansion of international financial activities, the development of emerging economies and the deregulation of capital markets have all contributed to the establishment of financial centres, whether international, niche, local or regional.

It is important to understand that the size of a country's domestic economy does not in anyway determine the success of IFC's and so these financial centres have been springing up in developing markets as they try to make themselves attractive to international players so that they could share in the global financial services pie. There is no one size fits all model- they come in all shapes and sizes but they do have some common characteristics.

Since Insurance plays both a supportive role to a financial centre and is an important entrant in an IFC, and since there is no indication as yet as to the specifics of a best-fit IFC model for Trinidad & Tobago, today I will address the following:

- the commonalities and focus of IFC's
- the pre-requisites of an attractive IFC destination
- a brief overview of the current insurance market
- the main opportunities for insurance
- competition in the region
- ATTIC's view on the way forward in this New Frontier

Notwithstanding, the inevitability of repeating some of the issues mentioned previously, my intention is to locate insurance within the new frontier that an International Financial Centre can provide.

What do these IFC's have in common?

Saskia Sassen, a sociologist with a special interest in global cities, and quoted in the Economist, argues that the reason for the concentration of financial firms in a small number of centres is the social connection and information that comes from proximity with people in related fields.

Another reason is the increasing globalization of large multinational corporations. For as they expand in overseas markets their financial advisers follow and that tends to spawn related businesses such as legal, accounting and other services. In spite of the ease of doing business electronically today, people still prefer to cluster in one place.

Highly paid financiers consider the quality of life offered in the countries where these IFC's are located as a key attraction. It is not only the living accommodation which must be suitable and within easy reach of the financial district, but also its night life, restaurants, sound infrastructure and a safe environment must be enticing.

While these are important considerations for a desirable social environment, these destinations must offer low or no taxes (a powerful incentive); the legislative and regulatory frameworks must meet best practices in line with what exist in developed markets and very importantly – the availability of highly skilled talent.

Some major corporations establish themselves in IFC's because they want to ensure that they do not miss out on potential opportunities. For example, one major international player in insurance, asset management and banking, the German firm Allianz, felt that their presence in Dubai was essential although they were not sure what was achievable but they could not let the opportunity pass. This is a defensive strategy but it is consistent with the 'herd mentality' that tends to pervade the financial services sector.

Generally, an IFC serves as a hub in a regional setting and conducts a significant volume of cross-border transactions in a wide range of sophisticated financial services. Some IFC's might prefer to adopt a niche approach and select areas where they believe that they have a competitive advantage. IFC's tend to harbour lofty ambitions since they are aware of the competition and they have to offer hefty inducements in order to get the attention of international brand names.

IFC's are in the main attractive to banking services- i.e. capital markets, wealth management and fund management. Insurance services, in particular reinsurance, usually only plays a role in the IFC's after they (IFC's) have been become well established. These major reinsurers will enter the IFC in the first instance as providers of funds as they hold huge amounts of assets and they are always on the look out for investment opportunities. Reinsurance services are their core business and in their risk taking capacity they are established to provide on the ground service within a wider region as they believe that they should bring service nearer to where such services are required.

What are the IFC's focus?

Most IFC's have as their focus:

- banking services – whether investment, corporate and private
- capital markets- equity, derivatives
- asset management- hedge funds etc
- reinsurance
- catastrophe insurance schemes and Alternative Risk Transfer (ART) schemes
- insurance
- insurance broking
- captive management and ancillary insurance services
- back office operations to international brokers and insurance/reinsurance companies

In order to attract entrants into the IFC's, a climate conducive for investors must be provided:

- low tax rate or in some instances totally tax free
- double taxation treaties
- network of professional advisors and captive management expertise
- highly qualified human resources
- pro-business environment

As already mentioned, the Banking sector usually plays the dominant role in the establishment of an IFC. If international banks and fund managers establish operations and they bring brand recognition they would then pave the way for insurance services to follow. Bermuda is the exception as it is seen more as an insurance market than a financial centre that is competing with the foremost international market- London. It has established itself as a major market for international reinsurance in particular, underwriting of catastrophe risks, and it is now the third largest reinsurance market in the world. It has been able to attract a large flow of both capital and technical expertise, and is the home for over 1100 hedge funds. Bermuda is therefore an excellent example of a niche financial centre.

MAKING TRINIDAD & TOBAGO AN ATTRACTIVE DESTINATION FOR AN IFC

There are certain pre-conditions that must exist in order to be competitive and to attract players into the market. It must be understood there are many other destinations regionally and internationally that carry ambitions to become a well respected and reputable International Financial Centre.

The Insurance industry must therefore be properly regulated with a modern and effective legislative framework. This is an inescapable requirement as insurance legislation must meet best practices as defined in the Insurance Core Principles (ICP's) and co-operation among regulators has become a critical element in the oversight process.

Regulators must now adopt a risk-focus in preference to the prescriptive rules-based approach since the industry is dynamic and evolving requiring adaptation to changing circumstances. Moreover, insurance supervision must be integrated across industry as in the case of banking and insurance, as well as consolidated across borders.

However, while the new insurance legislation will create a strong regulatory framework for its domestic and regional companies, it will require a new suite of legislation to deal with insurance services in an IFC. Until now reinsurance operations have not been scrutinized to the same extent as insurance companies by regulators but this is likely to change as all jurisdictions want to ensure transparency and best practices.

In addition it will require new tax laws that will give the tax breaks and other inducements to encourage international companies to enter into the IFC. Consideration must also be given to domestic companies and whether they too will benefit from tax breaks and whether IFC's entrants will compete against them for domestic business. Many IFC companies are not permitted to compete for domestic business.

The country as a whole must provide opportunities to grow and the climate must be facilitative and pro business.

Cost competitiveness is a key component when compared with other destinations and there must be a large pool of highly skilled educated and experienced labour force.

Trinidad and Tobago as a destination must be endowed with an infrastructure that ensures easy access and an efficient internal transport network. There must also be easy and convenient air travel between gateways in the metropolitan countries and Trinidad and Tobago.

It is well established that insurance services play a less important role in IFC's compared with banking services so we would now examine what role insurance is likely to play in a Trinidad and Tobago setting.

AN ASSESSMENT OF OUR PRESENT POSITION

The current Insurance legislation is outdated and clearly in need of a complete overhaul in order to meet best practices as required by the Insurance Core Principles (ICP's) set out by the International Association of Insurance Supervisors (IAIS). ATTIC has been participating in the work of the Central Bank's Technical Team which has undertaken this herculean task of crafting insurance legislation that is intended to meet the ICP's but at the same time addressing the interests of the domestic insurance industry to ensure its continued growth. While this collaborative effort at consensus building between the regulators and the insurance industry has been the best approach, it has still been very challenging to shape a regulatory framework that considers both the national landscape and international best practice and imperatives.

The country can therefore expect a new legislative regime by mid 2009 depending on the parliamentary agenda. It is imperative that this new legislation is not delayed since without modern legislation there will be no comfort to regulators in jurisdictions from where we expect new entrants to come, and any ambition that Trinidad and Tobago harbours to transform the country into an International Financial Centre would be quickly extinguished.

While ATTIC's focus is insurance, there are many other institutions which must be reformed to deliver quick and timely services that will send a clear signal that the country is pro-business, and this can be referred to as infrastructure in its widest terms.

One such area in need of critical attention is the alleviation of the congestion on our roads as too much time is wasted in traffic jams. New players, in assessing the country's preparedness as an IFC would give us a poor grade in traffic management and this situation must be addressed. Air travel will also be a critical factor as there must be regular and reliable service from gateways from major developed countries.

A major challenge facing the country is the acute shortage of skilled insurance professionals in particular, as well as other skills required to manage the insurance industry. While it is possible that new entrants might wish to bring their own management and skilled professionals at the outset, it must be recognized that the local pool of talent is extremely limited at the present time and well into the medium term.

Capital is only one element of development and financial services in particular require highly skilled and experienced human resources and neither the country nor the region at present possesses them in sufficient quantity.

Another key ingredient is that the country must enact stronger anti-money laundering legislation and have the resources to monitor questionable transactions so that the country can gain the respect of international institutions. We do have the Proceeds of Crime Act, 2000 but it requires significant updating. It must ensure that the country's name is not tarnished as having weak anti-money laundering laws and inadequate enforcement.

Major companies with brand recognition worldwide do not want their name to be associated with any jurisdiction where the laws are lax and opportunities abound for the cleaning of questionable funds and we must be mindful of the stigma attached to offshore financial centres that are perceived to be involved in money laundering or other illegal activities.

INSURANCE INDUSTRY IN TRINIDAD & TOBAGO

In assessing the domestic insurance industry it is important that we first scan the landscape:

Insurance Penetration (Premiums in % OF GDP)

Country	Insurance Penetration (%)	Premium per capita (GENERAL) (USD)	Insurance Penetration (%)	Premium per capita (LIFE) (USD)
USA	3.6	1,614.6	3.4	1,375.25
Japan	1.5	528.8	4.0	1,366.1
France	2.4	881.7	7.9	2,894.3
UK	2.9	1,152.0	10.0	3,391.7
Italy	2.2	680.9	4.7	1,480.7
Canada	2.4	933.5	3.0	1,182.2
Australia	2.4	871.4	3.6	1,315.7
South Africa	1.8	95.1	8.9	471.5
Ireland	2.1	1,109.0	7.6	4,014.2
Jamaica	2.4	111.7	1.5	67.4
Barbados	6.7	738.4	3.4	379.9
Trinidad & Tobago	1.8	280.0	4.3	496.8

Source: Axco World 4th Quarter, 2007- except Jamaica – International Insurance Fact Book 2007-2008

Trinidad & Tobago: 6.1 % of GDP
Jamaica : 3.9 % of GDP
Barbados : 10.1% of GDP

Insurance companies registered to carry on business:

- LIFE (LONG-TERM) Companies 9
- GENERAL (NON-LIFE) Companies 18
- COMPOSITE Companies 5

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LIFE Premiums	TT\$ 4.097 BILLION
GENERAL Premiums	TT\$ 1.721 BILLION

	TT\$ 5.818 BILLION

Source: Central Bank of Trinidad and Tobago 2005 Annual report

13 Trinidad and Tobago Insurance companies currently have operations overseas either through branches or subsidiaries mainly within the Caribbean region.

Opportunities for insurance services in a Trinidad and Tobago IFC

13 Insurance companies - 40% of the domestic insurance industry operate branches/subsidiaries mainly in the Caribbean region. These companies are dominant in some markets but there is still room for Trinidad and Tobago insurers to play an increasing role within the region in the near term.

There is no Financial Services Chapter in the Caricom Single Market and Economy (CSME) at present but this is inescapable and will eventually form part of the Single Market. It will then permit cross border trade in financial services and therefore provide greater opportunities to Trinidad and Tobago insurance providers to become even more dominant in the region.

While retail insurance services to consumers will be expanded in an enlarged regional market, greater financial strength can provide opportunities to these insurers to move into the wholesale area of reinsurance.

A progressive International Financial Centre cannot be comprised of only domestic companies that may qualify for entry. It must be able to attract international companies and trans-national companies that are prepared to enter the market and compete as well as complement the domestic players.

The new players may not wish to establish retail operations but rather enter the wholesale/reinsurance sector which could be a market not only for domestic and regional insurers but the larger Latin American market.

Another sector is offshore/captive insurers. Captive insurers are established by major international corporations to act as an insurer of some of their own risks before going into the open market for their insurance needs. They require very little administrative and management infrastructure and any development of such captive can lead to a spin-off of management companies that provide services to achieve regulatory and legislative compliance.

On the matter of captives, there can also be opportunities by international companies to provide Alternative Risk Transfer (ART) and finite insurance programmes in particular to handle catastrophe reinsurance schemes.

Back office processing services could be another option. International insurers and many international reinsurance brokers in London send their back office processing overseas since these centres are able to process the paperwork at lower costs since they are mainly administrative and IT.

In addition, time zone is an important consideration in the decision to ship these services overseas.

COMPETING WITH THE REGION

Trinidad and Tobago is late in entering into the financial services arena when compared with other countries in the region.

Miami, many years ago sought to develop a market along similar lines as Lloyd's of London but this venture was unsuccessful. At different times over the past 2 decades a number of international reinsurers established operations as a means of bringing reinsurance capacity nearer to the markets they served e.g. Caribbean, Latin and South America. At times, the response was lukewarm as clients still preferred to deal with London and European markets rather than sourcing service from the regional office. However, with technology and the growth of Bermuda as a significant reinsurance market that can rival London as regards catastrophe reinsurance and other finite insurance schemes, Miami appears to have finally established itself as an office serving the region with respect to reinsurance capacity.

The challenge is whether some of those players can be lured to this new destination. They are already clustered in one place and there must be some special niche for an offshoot to establish here. If that can be found, then in keeping with the herd mentality some will come but it is critical to get some major players in the first place.

Nearer home, there are three (3) countries which have sought to establish themselves as offshore centres for insurance services- Cayman, St. Lucia and Barbados.

Cayman is seen as a domicile for captives and a market leader in Hedge funds with over 75% of the world's Hedge funds, numbering over 7000.

Barbados has promoted itself as a centre for captives –i.e. the insurance business of the parent under an Exempt Insurance Act. The attraction is low capital, no tax on profits for the first 15 years and 2 % thereafter and exemption from withholding tax and exchange control restrictions.

There are management companies that provide services in support of these captives and from time to time meetings are held to comply with the requirements of an offshore operation not dissimilar to convention or event tourism.

St. Lucia has also been in the same offshore business and there is an International Insurance Act under which these companies are licensed. They cater not only for captives but also reinsurance business and they require low capital levels. There are nominal annual fees and 1% tax is payable on profits.

The main attraction is the low taxation and they also promote business tourism in the sense that directors' meetings are held in the country to satisfy the requirements of the offshore status.

Trinidad and Tobago is obviously not the only country that is now trying to promote itself as an International Financial Centre within this hemisphere. There are other countries in Latin America that already have excellent infrastructure in terms of air travel and on the ground transport and they are promoting business activities so that it is a natural fit to pursue the financial services sector. In fact, the Dominican Republic's Independent Financial Centre of the Americas (IFCA), the world's first privately operated and independently regulated international financial centre is supposed to be up and running by 2009 and is supposed to serve as the capital markets hub for the Americas, similar to Dubai.

It is noteworthy here to mention that Bahamas ranks 36th in the March 2008 General Financial Centres Index which is produced in London and was the recipient of the Best International Centre in the Western Hemisphere Award in 2006 from the Financial Times Group Publication, "The Banker".

The British Virgin Islands just entered the Global Financial Centres Index, in 27th place with over 700,000 offshore companies being formed there, 450,000 being active and accounting for approximately 42% of the estimated 1.1M offshore companies incorporated worldwide. It too has over 2300 hedge funds. And last year, the Jamaican Chamber of Commerce proposed that Jamaica should look at becoming an IFC.

THE NEW FRONTIER –providing insurance services in a Trinidad and Tobago IFC

It is important that all the stakeholders- government, technocrats, advisers and the private sector learn from the experiences of other International Financial Centres and this Symposium is a good start as it brings together presenters who can tell their success stories. What we must avoid is to wholesale copy a model as the circumstances can be quite different and the conditions are not propitious in our environment. Being a late starter requires even greater ingenuity, sophistication and elegance of execution.

A comprehensive diagnostic study must be conducted in order to assess potential gains:

- Benchmark the country against established IFC's and what contributes excellence
- Analyze its main strengths as a market entrant
- Identify all improvements needed to maximize its potential

This would allow us to determine the priorities in every market segment as financial services cover a very wide spectrum, and certain activities may not present the best opportunities – in short we may have to select some activities in preference to others. It might be advisable to seek out market niches where Trinidad and Tobago might have the best chance of succeeding rather than seeking to provide the full range of services, at least initially. A Risk/Reward philosophy that recognises the duality of such an initiative will serve us well in our deliberations.

In terms of insurance it might be a goal for domestic insurers to increase their dominance in the wider regional market in advance of the signing of the Financial Services Agreement in the CSME. While Trinidad and Tobago insurers already have a significant presence in the region there is still room for greater dominance and they should seek to further consolidate their market position.

It is a positioning that can make it attractive for our domestic insurers to have a wide network that will give them greater leverage in negotiating alliances or joint venture projects.

In a single economic space promised by the CSME dominated by Trinidad and Tobago players there could be an attraction for international providers that might be interested in partnering in the retail insurance sector. Only worth or market share can be leveraged to stimulate interest by international companies.

The major players might wish to venture farther into major population centres where there is a significant Caribbean presence and this could be achieved through acquisition or alliances.

In order to attract new entrants, Trinidad and Tobago will have to provide a really unique competitive advantage compared to other destinations. Whether Trinidad and Tobago can become a centre that can attract offshore operators and captives is debatable since it would require low tax or no tax (tax holiday), nominal annual licence fees and only minimal oversight. That decision will rest with the policy makers as the resulting revenue might be negligible compared with whatever benefits or activities these operations might generate in terms of management fees and employment opportunities. It might also be argued by indigenous companies that they should be afforded the same preferential treatment.

As mentioned previously, insurance/reinsurance business follows 'herd mentality'. If international players enter the market this does not go unnoticed by their competitors and it is likely that others will follow.

A favourable climate for doing business or bringing service near to the client base is always a key factor in establishing a physical presence and Trinidad and Tobago must provide the right environment.

If an international company enters the market to provide reinsurance capacity it will surely seek to service not only the Caribbean region but also Latin and South America a bilingual business community would also be an assist. The issue is to find a way that will create the conditions that will attract them to set up a base in Trinidad and Tobago and this will be a step in achieving the status of an International Financial Centre as far as insurance/reinsurance services are concerned.

As already mentioned, the domestic as well as the regional insurance industry is suffering from an acute shortage of skills to the extent that it will be difficult for most companies to implement an effective Succession Plan. There is no short term solution and international companies are usually attracted to a destination where they perceive that skills are readily available. This is an area that requires urgent attention if only to satisfy existing needs. While international companies are likely to bring their expertise initially into the IFC, in the medium term they would want to have local management in place. In fact, research has shown that human capital is identified as the single most important factor in financial centre competitiveness. It has been highlighted that in Dublin for example, there is guaranteed availability of a quality workforce.

While we have been concentrating on the shortage of insurance related skills, entrants in the IFC would want to ensure that legal, accounting and other professional and administrative services are also available. It is well known that there is a manpower challenge at present in almost every field and the country would need to accelerate its efforts in research, education and training for the services required.

Captive management and finite insurance plans might present opportunities. These operators would only be attracted if the IFC provides extremely favourable tax treatment and that there are double taxation treaties in force.

Back office processing – i.e. the processing of accounts, claims and policy documentation has been outsourced by many large international reinsurance brokers into places like India and elsewhere. It requires a skilled and educated workforce in IT processing and call centre operations since these destinations are able to handle the work at costs lower than what obtained in the UK. This is an activity that can be investigated since we operate in a different time zone which in itself is a positive feature in the decision to outsource.

Finally, the country's infrastructure must be urgently addressed both in terms of transportation infrastructure on the ground, as well as reliable connections from major gateways. In addition, our telecommunications sector while significantly better in the recent past, still has some considerable way to keep current with technology advances. The cost and availability of buildings and office space are also a major consideration for new entrants.

The positioning of Trinidad and Tobago as an International Financial Centre is a bold step to take the country into the future. It requires the key players to recognize the challenges that lie ahead and to confront them. We are late in the game but can learn from the mistakes as well as the successes of others. We must be cognizant that while a balance of bureaucracy, tax, geographical location and people are the four key drivers for a competitive IFC we have to clearly establish a unique competitive advantage that will develop an IFC that has resilience to the uncertainty and volatility of a global market. If successful, there are also sure to have positive spill-over effects on other sectors of the local economy. The image and reputation of the country will also soar and this too will redound to the country's benefit.

ATTIC, the Association of Trinidad and Tobago Insurance Companies supports the government's initiative in the diversification of the economy away from energy towards the financial services sector. To this end, it requires a clear and audacious vision that will enthuse and challenge the country. There is no doubt that the task ahead is huge as it will entail both as a sector and a people, that we learn and embrace many new lessons and ways of doing business.

Notwithstanding the severe challenges and risks, we encourage this courageous step to take the financial services sector to another level that seeks to complement, the domestic insurers' dominance in the region.

The dialogue through this Symposium has started and the government must now take the domestic private sector insurers into its confidence. Collectively we could discover the pathway to success and launch Trinidad and Tobago on its course to establishing an International Financial Centre of Excellence.

It is indeed an exciting time to be a participant within the Trinidad and Tobago Financial Services Sector. Government has thrown down the gauntlet and we are equal to the task. To this extent, if we embark on this new frontier as an important pillar of economic growth, ATTIC will continue its work as a strong and vibrant body, playing its part towards the development of the Insurance industry and by extension the broader Financial Services Sector and national development.

Thank you.