



CENTRAL BANK OF TRINIDAD & TOBAGO

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“Strengthening and Harmonizing Insurance Supervision”

OPENING REMARKS

at an

Insurance Seminar

hosted by

CARTAC

*Ewart S. Williams, Governor
Central Bank of Trinidad and Tobago*

March 31, 2004

Let me first welcome the seminar participants to Trinidad and Tobago. I hope your programme allows you a little time to see part of the country and enjoy a bit of our culture.

I want to take the opportunity also to welcome the seminar organisers and to congratulate CARTAC for the very useful work it has been doing. I had a fairly intense involvement in the birth of CARTAC (three years ago) when I worked at the IMF, and I am very pleased to see that the Centre is making the type of critical contribution that we had envisaged and hoped for.

The original idea was that the region would identify areas of greatest need in terms of capacity building and training, and that CARTAC would source the financial and technical resources to provide the training **in the region**. The strategy of bringing the training to the participants rather than sending one or two participants to Washington was attractive, as it permitted an increase in the number that could be trained and provided opportunities for regional technicians to exchange ideas, share experiences, and work to address common challenges. I would hope that the donors recognise the useful role that CARTAC is playing in the region and move to increase their support for the Centre.

This seminar, which focuses on “***Strengthening and Harmonizing Insurance Supervision***”, is critical and urgent, certainly for Trinidad and Tobago, and I suspect for all the other countries in the region.

Over the past several years, taking the cue from financial crises in Mexico, in Asia and in Russia, we in the Caribbean have taken decisive steps to improve bank supervision. At the same time, we have delayed in paying the appropriate attention to the rest of the financial system and particularly to the insurance industry. The reality is, however, that because of the volume of resources now intermediated and the extensive product diversification that has taken place in the industry, the stability of the insurance sector has become vital to the soundness of the financial system as a whole.

The Jamaican crisis of the late 1990’s is ample testimony to this fact.

Throughout the Caribbean region, the insurance sector is becoming a significant area of financial activity because of the increased

recognition of the need to manage risks and also because insurers are coming up with new investment-type products more akin to those traditionally offered by banks and securities firms.

And even as the insurance sector expands, in several (if not most) of our jurisdictions, the regulatory and supervisory regime for the insurance sector remains weak and in dire need of upgrading.

The sources of weakness are numerous and include:

- (i) inadequate capital provisions;
- (ii) capital requirements not related to risks;
- (iii) inadequate regulations governing investments; and
- (iv) weak legislative frameworks (invariably, existing laws do not provide adequate penalties for non-compliance, nor give sufficient powers to the supervisor to deal with insolvent companies or impose strict reporting requirements).

Another area of weakness is almost always the inadequate resources for insurance supervision. Invariably, the supervisory authority is a small unit in the Ministry of Finance with insufficient and inadequately trained staff and outdated systems and procedures.

I am not proud to say that in Trinidad and Tobago our Insurance Act dates back to 1980 and contains all the inadequacies that are typical of the region. We are, however, in the process of finalising the transfer of insurance supervision from the Ministry of Finance to the Central Bank and are well underway to formulating new insurance legislation in keeping with current international best practice.

The need for harmonization of our individual supervisory regimes is also urgent and critical because of regional developments in the financial sector.

Over the last few years mergers, acquisitions and strategic alliances in the financial sector in general, and in the insurance industry in particular, have made the large insurance companies operating in Trinidad and Tobago, essentially regional institutions. In effect, the companies with branches and agencies that operate in many of your countries are subject to regulation in multiple jurisdictions. Under these circumstances, Caribbean regulators cannot afford to have fragmented and diverse regulatory standards and supervisory systems.

As an added incentive, the movement of CARICOM towards a Single Market and Economy and the impending arrival of the FTAA, will require that member states take co-ordinated steps to regulate cross-border trade within the regional insurance industry.

Failure to harmonise systems and implement formalised regulatory co-operation is likely to have negative consequences both for the effectiveness of supervision as well as for the efficiency of the industry. Without harmonisation, there is the possibility of:

1. **Increased risks of contagion effects**, as instability in one jurisdiction or one large regional conglomerate impacts the financial system of states; and
2. **Regulatory Arbitrage**, whereby differences in regulatory requirements and supervision standards provide incentives

for institutions to seek out jurisdictions with less stringent rules.

I would hope that this seminar increases your awareness of the inadequacies that exist in each of your jurisdictions, and underscores the need for upgrading and help to bridge the capacity gaps that currently exist.

I would hope that in your discussions about harmonising insurance supervision, you find ways of reducing the duplication of effort that results from each jurisdiction working to achieve the same objectives.

I would hope that this seminar provides an opportunity for you all to discuss common approaches to legislative reform, coordinated reporting requirements and the establishment of formal and informal mechanisms to facilitate information sharing across jurisdictions.

I would suggest that you don't leave here without having each other's contact information. Let this seminar serve to strengthen the relationships between you all, as supervisors, to consult with each other, to learn from each other and to share common experiences. We are a small region and this kind of close collaboration would go a long way towards helping us devise a regulatory system that meets international standards, yet takes into account our unique regional environment.

In closing, I wish to thank the organisers for giving me the opportunity to share these thoughts with you. The Central Bank of Trinidad and Tobago is committed to the objectives of strengthening financial sector supervision and promoting regulatory harmonisation in the region.

Please do have a very productive seminar, and enjoy your stay in Trinidad and Tobago.

Thank you.