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OPENING REMARKS

at the

Regional Seminar on Integrated and Consolidated Supervision

hosted by

Financial Stability Institute and the Caribbean Group of Banking Supervisors

by

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Good morning. Welcome ladies and gentlemen.

Let me first thank the Financial Stability Institute (FSI) and Caribbean Group of Banking Supervisors (CGBS) for organizing this Seminar.

The Caribbean Group of Banking Supervisors, in a very unique, low-keyed (perhaps under-funded) way, is turning out to be a most effective forum for promoting discussion on regulatory issues, for representing the region's views in international financial fora, and generally for information-sharing among Caribbean supervisors. This group has been effective even where formal legal arrangements for information-sharing are lacking.

Also, I'm very pleased that the FSI is involved in this Seminar. Your sister body, the Financial Stability Forum, does not have a good reputation for being mindful and sensitive to the concerns of developing countries in the Caribbean. However, you certainly deserve credit for your considerable efforts to promote sound supervisory standards and practices globally, and to support implementation of these standards in all countries. I am very pleased that you are focusing more of your efforts on developing countries, and your co-sponsorship of this Seminar is ample testimony.

To all participants, let me welcome you to Trinidad and Tobago and specifically to Central Bank. We are delighted to be your host and we wish that you have a productive and enjoyable week with us.

This Seminar is very timely for countries in the Caribbean because of the far-reaching changes that are taking place in our financial landscape - in Jamaica, in Barbados, in Trinidad and Tobago, in fact, in the entire region.

In all our countries there are rapidly **growing linkages among different segments of the financial system** – banks, insurers, pension funds, credit unions and security firms. These linkages are becoming increasingly complex and appear in different forms, the two most popular being **strategic alliances** between financial firms and the emergence of financial conglomerates. In odd instances there are alliances and conglomerates, involving financial and non-financial partners.

A second major development in the region is the prevalence of cross-border linkages between financial firms. Now you have a pretty sizable network of financial institutions, controlled by holding companies, operating throughout the region.

The emergence of these financial conglomerates in the region was inevitable and a logical outgrowth of the forces of globalization that are running rampant throughout the world. One can identify several factors that have been driving the trend towards the formation of these conglomerates. These include:

- financial system liberalization which now allows cross-ownership among firms in different sectors;

- competitive pressures which are forcing the need for revenue enhancement; and

- the need to reduce the unit cost, through economies of scale in the production of financial services.

Of course, the conglomerate model also enhances the ability of the financial enterprise to widen product mix, to offer one-stop shopping to customers, all of which also boost the bottom line. The impending arrival of the CSME is another factor providing the impetus for firms to rush to seize greater market share in the region.

This new financial environment—the conglomerates and cross-border organizations—obviously poses a range of regulatory challenges for all jurisdictions in the region. And each country is trying to deal with it in its own way. Currently, in **Jamaica** for instance, the Bank of Jamaica regulates all deposit-taking institutions while the Financial Services Commission (the FSC) regulates all non-banking financial institutions.

In **Barbados**, the Central Bank regulates the banks and non-banks while the Office of the Supervisor of Insurance in the Ministry of Finance is the regulator for the insurance companies and the pension funds. The OECS, with its federal structure, has a unique arrangement, with the ECCB, the regional Central Bank, being the main regulator overseeing the commercial banks and the securities market, but with important roles for the finance ministries of the various states in respect of the non-banks financial institutions.

A World Bank survey conducted in 2003 shows a **clearly-discernible trend worldwide towards the single regulator model**.

We in Trinidad and Tobago have formally opted to pursue this single regulator model. As a first step in this direction, in May 2004, an amendment to the Insurance Act gave the Central Bank regulatory authority over insurance companies and pension funds, adding these to the banks and non-banks.

The recent budget has foreshadowed the next step whereby the larger credit unions would be brought under the regulatory ambit of the Central Bank. While the timetable has not been specifically defined, we are working towards the establishment of a single regulator, also incorporating securities industry somewhere down the road.

The **integrated regulator concept** undoubtedly offers several advantages.

Firstly, it is better suited to addressing the problem of unequal regulation and supervision of the different financial sectors, which provides incentives for risks to be passed on to the least regulated entities in the group for regulatory arbitrage.

Secondly, integrated supervision provides a better framework for dealing with product convergence among the banking, insurance and securities industries, and avoids different regulatory treatment for similar products.

Thirdly, the regulatory burden placed on financial firms, as a result of duplication or overlap of regulatory requirements is reduced.

Fourth, the integrated regulator is better able to address gaps in consumer protection.

Fifth, the approach facilitates dealing with cross-border expansion of financial institutions.

There are other practical benefits that can derive from the integrated regulator model: there are possible economies of scale from the development of joint administrative, IT, HR and other support functions; the approach could enhance recruitment and retention of suitably qualified staff; and finally, the integrated approach could provide efficiencies in the deployment of highly skilled staff.

Of course, all of this is theory and theory does not always convert into practical and real advantages. During this seminar, you are going to spend a lot of time discussing the pros and cons, the nuances, and the unintended consequences of the integrated regulator model. So I guess that by Thursday afternoon we would be better informed about our options. I look forward to your deliberations.

And then there is consolidated supervision ……… **Again**, large conglomerates with complex structures could be extremely difficult to understand and to supervise effectively. We in Trinidad and Tobago can speak with authority about this issue because our financial system is dominated by three or four financial conglomerates with extensive cross-border linkages. Unfortunately, our legal regulatory infrastructure is not yet in tune with this reality.

I am aware that the CGBS has been studying the practical implication of consolidated supervision. I understand that the Group is focusing on a number of specific issues including for instance:

(i) whether financial holding companies should be licensed under banking legislation in order to allow regulators greater access to information and to give them the authority to impose sanctions;

(ii) whether parent companies in a separate jurisdiction from its banking subsidiary should be registered under a limited banking license to allow for supervisory access;

(iii) whether consolidated supervision should also be practiced by other financial regulators, for example, by insurance and security regulators.

There is no doubt that legislation related to consolidated supervision should be harmonized across the region, and perhaps we should consider incorporating provisions that force the restructuring of mixed conglomerates into financial groups that are more easily supervised.

We in Trinidad and Tobago are currently working on amending our Financial Institutions Act to ensure conformity with Basel Core Principles and other international best practices, especially in the areas of:

- supervision of conglomerates and financial holding companies;

- consolidated and cross-border supervision;

- large exposures, including intra-group and related party exposures;

- enhanced enforcement provisions for the Central Bank; and

- minimum capital adequacy standards, calculated on a consolidated basis.

We also need to amend our legislation to provide legal authority for information sharing and supervisory co-operation.

A quick glance of your packed programme suggests that over the next four days you will be covering these and related topics in some detail. I am very pleased to see included in your agenda one or two sessions devoted to **accounting issues,** which are a real challenge in our region – particularly, insurance accounting (accounting for insurance liabilities). I am also pleased to see that **risk management techniques** will receive close attention, importantly with participation from a practitioner with a commercial bank perspective; that's a very interesting idea.

I think this is an excellent programme and I wish you a week of stimulating lectures and discussions, with sufficient time for the sharing of experiences.

Through it all, take some time to relax and enjoy the country.

Once again a hearty and sincere welcome.