

## Ewart S Williams: Launch of AIC mutual funds

Keynote address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the launch of AIC mutual funds, 25 July 2005.

\* \* \*

Thanks to the Management of AIC Financial Group Limited for inviting me to present the Keynote Address on the launch of your family of funds, and sincere congratulations on this achievement.

These are very exciting times for the financial sector and indeed for the economy of Trinidad and Tobago. You must have seen that a few days ago, Standards and Poors raised the country's credit rating from BBB to the coveted A- category. That upgrade has as much to do with the strength of our financial system as with the stance of our macro-economic policies.

All over the world, banking is undergoing rapid transformation - **firstly**, because of the forces of globalisation which have resulted in the elimination of barriers to trade and financial flows; and **secondly**, because of advances in information technology which have facilitated the delivery of financial products and services at **sharply reduced costs**.

There is now a worldwide trend towards the formation of larger banking units through mergers and acquisitions, and these larger units are leveraging technology to transform both wholesale and retail financial markets. Another dominant trend is the universalisation of banking which is blurring the boundaries between bank and non-banking services.

While at a somewhat more measured pace, banking in Trinidad and Tobago is also undergoing rapid changes. Following financial sector liberalisation in the early 1990's and bolstered by a decade of robust economic growth, our banking system has expanded rapidly and has adopted new products and technologies, as well as many of the strategies of the more mature markets.

Total assets of the banking system have increased by one and a half times over the past decade. And even with this rapid expansion, the main financial stability indicators have remained very strong. Non-performing loans have come down markedly from 10 percent to just over 2 percent (close to international standards), capital adequacy ratios are well above minimum requirements (as is necessary for a small resource-based economy subject to exogenous shocks), and banks' profitability levels have soared over the last five years or so.

Some commercial banks have become universal banks offering banking insurance, securities, trading, leasing, and investment management under one roof. The conglomerate model is becoming more commonplace in the financial sector and the larger banks are pursuing aggressive regional growth strategies.

Regional expansion has provided additional growth opportunities to offset the constraints imposed by the small size of the local market. Of course, this very expansion has opened the financial sector in Trinidad and Tobago to potential risks because of the greater income volatility of some of our Caribbean neighbours.

Not unexpectedly, the expansion of the financial system and the emergence of new and liberal structures are proving to be a tremendous challenge for our supervisory authorities whose responsibility it is to ensure that institutions take adequate steps to manage exposure to systemic risk.

Accordingly, the Central Bank is currently working on amendments to the Financial Institutions Act which, inter alia, will give the Bank the authority to:

- (i) conduct consolidated supervision of conglomerates;
- (ii) facilitate a better focus on cross-border risks;
- (iii) allow the regulator to prescribe system-wide capital adequacy levels;
- (iv) make mergers and acquisitions subject to the approval of the Central Bank; and
- (v) authorise the exchange of information with other regulators both locally and regionally.

Ladies and Gentlemen, over the past few years, in the context of a lower interest rate environment, mutual funds (or as they are formally called, Collective Investment Vehicles) have assumed an ever-growing presence on the financial landscape of Trinidad and Tobago. As Mr. Benn has noted, the UTC established the first mutual fund in Trinidad and Tobago in 1981, but since the opening of the mutual fund market in 1993, subsidiaries and affiliates of commercial banks have become major players in the mutual fund market.

[In 1981, the local mutual fund market started with \$25 million under management, invested in equity-based and money market funds. Today the mutual fund market has in excess of \$24 billion under management with resources invested in equities, debt and real property or hybrids of these, as well as money market instruments.]

The growing importance of mutual funds as a savings vehicle is highlighted when compared with what is happening in the commercial banks. In 1997, commercial bank deposits amounted to \$14 billion while mutual funds totalled \$3.3 billion. However, by 2003 mutual funds accounted for \$20 billion, while commercial bank deposits accounted for \$23 billion. The data clearly indicate that over the period, the rate of growth of mutual funds was significantly higher than that for commercial bank deposits.

There are no indications that there will be an abatement of the growth of the mutual funds sector. In fact, it is becoming evident that mutual funds are quickly becoming the preferred form of investment in Trinidad and Tobago. Moreover, in addition to the UTC and the banks, other institutions (from less regulated environments) have entered or are seeking to enter the market. These developments have prompted the Central Bank and the Securities and Exchange Commission to initiate a study that would help clarify a number of issues pertaining to the market. Specifically, we are seeking to know more about:

- the structure of the funds;
- the value of the funds under management according to the jurisdiction of origin of the funds;
- the degree of cross-listing of the various funds in the market place; and
- the fund management strategies employed, with special emphasis on fund nomenclature, fee structures and performance presentations.

At the same time, the SEC is formulating urgent mutual funds legislation that would cover:

- (i) Increased disclosure: for example, mutual fund managers will be required to reveal in their prospectuses, the general and specific risks, the suitability of the funds for various types of investors, fees and expenses, relationships that may give rise to potential conflicts of interests.
- (ii) The new regulations would make all actors in the mutual funds industry (managers, custodians, trustees and sales persons) subject to licensing requirements.
- (iii) The regulations will seek to address the practice of imprecise or misleading nomenclature (for instance a bond fund must be investing in public or private sector bonds and an energy fund must be investing in energy projects); and
- (iv) Finally, the regulations would deal with risk-based capital requirements for promoters of mutual funds.

## **Conclusion**

Ladies and Gentlemen, the Government's vision is to make Trinidad and Tobago a Pan-Caribbean Financial Centre that is globally competitive, well diversified, responsive and market-driven.

AIC fits very well into that vision. AIC has a regional and international reach but with a local feel. In its short existence, AIC has already demonstrated the spunk to challenge the status quo and to bring greater competition to a financial sector, which, if anything, suffers from too much concentration. AIC's entry, in the banking market and now in the mutual funds industry is good for the industry because it will prompt greater efficiency, lower cost and provide more consumer choice. We wish AIC a long and successful and mutually-beneficial involvement in the financial sector of Trinidad and Tobago.