Jwala Rambarran: Financial inclusion in the Caribbean

Opening remarks by Mr Jwala Rambarran, Governor of the Central Bank of Trinidad and Tobago, at the Caribbean conference on financial inclusion "From agenda to action", Port of Spain, 28 August 2012.

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Ladies and Gentlemen,

I thank the Commonwealth Secretariat for the invitation to speak at this important Caribbean Conference on Financial Inclusion, an issue that has jumped quite quickly to the front burner for policymakers and financial regulators, and which is now integral to the G-20 international economic agenda.

Indeed, the growing priority placed on unlocking the economic and social potential of the "unbanked" is illustrated in the fact that more than 60 countries have implemented financial inclusion reforms in recent years. In addition, financial regulators from over 25 developing and emerging market countries have endorsed the 2011 Maya Declaration on Financial Inclusion, the first global and measurable set of commitments to foster greater financial inclusion. More governments are expected to endorse the Maya Declaration over the coming year.

I believe that a convenient starting point for my remarks is to first clarify what we mean by the term "financial inclusion" since there is no universally accepted definition of financial inclusion. Some definitions imply that all persons should have access to financial services; others define a vulnerable group, usually with lower income or the poor, as the target of inclusion.

A definition that I consider appropriate for the purpose of policy is the one used by the World Bank. "Financial inclusion refers to efforts to expand public access to and usage of tailored financial services". By this definition, the scale of the financial inclusion challenge is daunting. Almost half of the world's adults – an estimated 2.5 billion people – lack access to basic financial services.

Imagine what it would be like if you had no access to banking services or credit; if you did not understand how mortgages or credit cards work, or if you had no way to save some of your earnings to invest in your education or to start a business.

Imagine if you were cut off from opportunities to improve your economic well-being against illness, accidents, theft and unemployment, and, over time, to escape poverty.

This, Ladies and Gentlemen, is the case of those who endure financial exclusion. Sadly, the global economic crisis, which is now in its fifth year, has worsened the plight of those who face financial exclusion, preventing even more of the world's poor from gaining a foothold on an important ladder out of poverty.

In my Remarks this morning, I will first share my perspective on why financial inclusion matters to our economic development in the Caribbean. Second, I will briefly describe the efforts of the Central Bank of Trinidad and Tobago to promote financial inclusion, focusing on the Office of the Financial Services Ombudsman, which is the only such Ombudsman Office in the Caribbean, and on the National Financial Literacy Program, which is another pioneering initiative in the Caribbean that has received strong support from the Commonwealth Secretariat. I will end with some key messages for moving financial inclusion issues from agenda to action.

Financial inclusion in the Caribbean

Ladies and Gentlemen, for most people, having an account at a financial institution not only serves as an entry point into the formal financial sector, but also meets their core financial needs.

For some time, rigorous, objective and reliable indicators of how people save, borrow, make payments, and manage risk had been lacking for most countries. In April 2012, the World Bank's Development Research Group released the Global Findex database, which provides some systematic indicators of financial inclusion in almost 150 countries.

Unfortunately, the Global Findex covers only 2 countries in the Caribbean – Haiti and Trinidad and Tobago. It is, therefore, very difficult to know about the overall reach of the Caribbean financial sector – the extent of financial inclusion and the degree to which such groups as the poor, women and youth are excluded from the region's formal financial systems. So, I will use the available data that covers what is considered a relatively high-income country (Trinidad and Tobago) and a low-income country (Haiti) to give some sense of the financial inclusion gap across Caribbean countries.

While about half of all adults around the world have an account with a formal financial institution – a bank, credit union, cooperative, post office or micro finance institution – within the Caribbean the limited data suggest a large variation in account penetration. In Trinidad and Tobago, more than 75 percent of adults report having an account at a formal financial institution. On the other hand, in Haiti, almost 80 percent of adults are "unbanked" (that is, they do not have an account at a formal financial institution).

Not surprisingly, the gap between both countries is very wide from an income distribution perspective. In Trinidad and Tobago, adults in the richest income quintile are as likely as those in the lowest income quintile to have an account at a formal financial institution. In Haiti, adults in the highest income quintile are six times as likely to have a formal account as those in the poorest income quintile.

Financial inclusion also differs in important ways by individual characteristics such as gender, education level and age. The data suggests that, in the Caribbean, men are more likely than women to have an account at a financial institution, though the gender gap in account use is relatively wide in Trinidad and Tobago, but not in Haiti. While 82 percent of men in Trinidad and Tobago have an account, only 70 percent of women do. In Haiti, 23 percent of men have an account while 21 percent of women do.

In both Trinidad and Tobago, and Haiti, adults with at least a secondary education are more likely to report having an account at a formal financial institution than those with a primary education or less.

In Haiti, older adults ages 25–64 are five times more likely to report having an account at a formal financial institution than young adults ages 15–24. This situation is reversed in Trinidad and Tobago, where young adults are as likely as older adults to have an account.

In many Caribbean countries with the deepening of the financial sector, more financial services, especially credit, is now provided to individuals and enterprises. If one compares the ratio of private sector credit to GDP – a main indicator of financial depth – to the indicators of account penetration, it shows a positive but imperfect relationship. In other words, Caribbean financial systems can become deep without delivering access to all.

I believe that we should all reflect on this cautionary note. The current economic challenge facing the Caribbean is how to reinvigorate and sustain growth while reducing high unemployment and poverty rates, restoring fiscal and debt sustainability, and securing a more sustainable external position in an increasingly competitive global environment.

Unless growth is enhanced and debt reduced, Caribbean economies are at risk of eroding the social gains of the past three decades and curtailing any meaningful progress towards financial inclusion.

Central bank's efforts to strengthen financial inclusion in Trinidad and Tobago

For many central banks, financial inclusion is now seen as a complement to their financial stability goals. More importantly, the absence of strong financial consumer protection may severely erode the benefits of expanded financial inclusion, even threatening financial stability. In fact, the third commitment of the 2011 Maya Declaration on Financial Inclusion recognizes consumer protection and empowerment as "***key pillars of financial inclusion efforts to ensure that all people are included in their country's financial sector***".

In this regard, Trinidad and Tobago is seen as a frontrunner in the Caribbean, establishing the first and only financial services ombudsman scheme in the region. In May 2003, the Central Bank of Trinidad and Tobago established the Office of Banking Services Ombudsman to facilitate the resolution of complaints from individuals and small businesses with respect to banking services. The Ombudsman's mandate was expanded in May 2005 to include oversight of the insurance industry, and the Office renamed to the Office of the Financial Services Ombudsman.

In the case of the banks, the Ombudsman is empowered to treat with specific types of complaints involving deposit and loan accounts; investment services, trusts and mutual funds. Outside the Ombudsman's terms of reference, however, are complaints related to interest rates, fees and charges and other pricing decisions.

The Ombudsman's jurisdiction, in the case of the insurance sector, covers life policies, individual annuity products, fire and general insurance and third party property damage claims (up to $50,000) under motor insurance policies. However, the complaint must not involve a company's risk management policies, product pricing or interest rates.

Despite its limited jurisdiction, the Ombudsman's Office can claim many successes over its near decade of operations. The number of qualifying banking complaints referred to the Financial Ombudsman amounted to 215 over the past nine years. The number of qualifying complaints against the insurance companies referred to the Office amounted to 1,792 over the period 2005 through 2011, most of which were related to motor vehicle insurance.

Ladies and Gentlemen, it is instructive to note that the Ombudsman has been able to achieve an impressive 94 percent resolution rate for banking complaints and a 97 percent resolution rate for insurance complaints. The objective, confidential and speedy dispute resolution mechanisms of the Financial Ombudsman are no doubt major contributing factors to these accomplishments.

Notwithstanding these successes, there is a genuine concern that the Ombudsman's Office lacks "teeth". Upgrading the existing regime of financial consumer protection in Trinidad and Tobago requires that we expand the Ombudsman's mandate and empower the Office. Ultimately, this will require a change in legislation from a voluntary scheme to one enshrined in law.

In the meantime, the Financial Services Ombudsman is preparing a Strategic Plan which would give consideration to:

1. Removing the current limitations in the scope of services for addressing complaints that come under the Ombudsman;
2. Expanding the Ombudsman's mandate to have oversight over new financial institutions – Credit Unions, the Unit Trust Corporation, Pension Schemes and Mutual Funds;
3. Formalizing the Office's consumer protection programs in line with the World Bank's Good Practices for Financial Consumer Protection, and the G-20 High Level Principles for Financial Consumer Protection, which are useful reference points;
4. Resourcing the Office with the skill sets and talent consistent with the increased scope and expanded mandate.

The work of the Financial Ombudsman's Office is complemented by that of the National Financial Literacy Program (NFLP), another ground-breaking project for the Caribbean region. In January 2007, the Central Bank launched the NFLP to give citizens of Trinidad and Tobago the knowledge and skills to understand the risks and rewards of using financial products and services.

As the recent global financial crisis and the CL Financial debacle harshly illustrate, consumers who can make informed decisions about financial products and services not only serve their own best interests, but collectively they can also help promote financial stability.

For a country in which the financial sector accounts for almost one-fifth of the non-energy economy and employs close to one-tenth of the non-energy workforce, many citizens in Trinidad and Tobago still have limited knowledge about basic financial practices and money management.

Indeed, the results of a 2007 financial literacy survey conducted by the NFLP revealed that a worrying 36 percent of respondents were classified as having a low financial literacy. Even more worrisome is that just over one-fifth of respondents reported that they had defaulted on their financial commitments for 3 months or more at least once during the past five years.

Ladies and Gentlemen, the 2007 survey took place at a time when Trinidad and Tobago was experiencing its third energy boom, marked by a period of strong economic growth, increasing employment and rising incomes. Since then, the world has been grappling with a global financial crisis which has impacted the economic fortunes of Trinidad and Tobago.

Despite the NFLP's impressive outreach efforts, Trinidad and Tobago's prolonged economic slowdown and tepid recovery have undoubtedly forced lower and moderate income families to make some very difficult financial choices about budgeting, saving for emergencies and even postponing retirement, for which many are still not well prepared. We need to ramp up our financial literacy program.

As a result, the NFLP has begun preparations to launch a follow up national financial literacy survey during the first quarter of 2013. This survey would be consistent with the fourth commitment under the 2011 Maya Declaration on Financial Inclusion which states "***making evidence-based financial inclusion policy a priority by collecting and analyzing comprehensive data, tracking the changing profile of financial inclusion, and producing comparable indicators in the network***".

The findings of the follow up survey would not only help the NFLP to determine its impact in raising national awareness of personal finance issues, but also better target its financial literacy training interventions to more vulnerable segments of the population. The survey results would also complement that of the Global Findex, giving local policymakers a richer data set from which to craft a national financial inclusion strategy.

In this regard, the Central Bank again looks forward to working with the Commonwealth Secretariat in developing and taking the NFLP's interventions to the next level of financial inclusion and financial education.

From agenda to action

Ladies and Gentlemen, I have noted the wide scope of this Conference agenda and I am most impressed with the calibre of the presenters. I have no doubt that you have the right ingredients for stimulating and fruitful discussions over the next two days.

But we must be realistic. There is no silver-bullet solution to the challenge of empowering the excluded. The expansion of financial services as a priority is only a start. Achieving the ideal of full financial inclusion in the Caribbean will require sustained action from governments across the region.

Please allow me to make three suggestions for us here in the Caribbean to move financial inclusion matters from agenda to action. In all three areas, I see the Commonwealth Secretariat playing an active role.

First, we must demonstrate a strong commitment to developing national financial inclusion strategies. The evidence suggests that comprehensive programs and clear mandates can accelerate progress towards financial inclusion.

As I indicated earlier, more than 25 developing countries have signed onto the Maya Declaration on Financial Inclusion. No Caribbean country is yet on that list, although many countries already have elements of a financial inclusion strategy in place.

I encourage Caribbean financial regulators to build on these components to create a national platform for financial inclusion consistent with the Maya Declaration. Different countries will inevitably progress at different rates. But it is progress within countries, not between countries, that matter.

Second, we must inform our financial inclusion strategies with "***demand side***" data directly from users of financial services (e.g. individuals and firms). This information is important to understand financial needs (met and unmet) of users, barriers encountered when seeking formal financial services, and to provide socioeconomic and demographic characteristics of users. Demand side data will help policymakers to more accurately diagnose the state of financial inclusion, agree on targets, identify existing barriers, craft effective policies, and monitor policy impact.

I urge more Caribbean countries to actively participate in the next round of the Global Findex survey and to launch their own national financial literacy education surveys, so as to better inform the design and sequencing of their financial inclusion strategies.

Finally, we must ensure that financial inclusion reform is "***Responsible***". Financial inclusion strategies need to include sufficient focus on responsible finance, with financial capability and consumer protection as central themes. In this framework, consumers must take responsibility for their financial decisions. It is my respectful view that advancing work on establishing Financial Ombudsman Schemes across the Caribbean region is critical to building more responsible finance.

Conclusion

In closing, Ladies and Gentlemen, we must recognize that the road to financial inclusion is long and challenging, but models for accelerating the journey are emerging.

Let me assure you all of the continued support and collaboration of the Central Bank of Trinidad and Tobago in closing the gap and reaching full financial inclusion, every step of the way.

I, thank you.