

Ewart S Williams: Launch of managed funds study

Address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the Securities and Exchange Commission breakfast, Port-of-Spain, 25 March 2010.

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Let me first of all thank the Securities and Exchange Commission for the invitation to make a few opening remarks at this breakfast meeting to launch this most timely study. As noted, since the start of trade and financial liberalization in the 1990s, the financial landscape of Trinidad and Tobago has undergone quite rapid growth and development both in terms of the structure of financial institutions as well as the array of instruments and services they provide.

While the commercial banks have remained the dominant sub-sector in terms of its share in total financial assets, we have witnessed relatively strong growth in non-banking institutions such as pension funds; insurance companies; collective investment schemes including mutual funds; and asset management business.

To a large extent, this rapid growth has been facilitated by the significant increase in personal incomes and the search for higher returns and portfolio diversification by investors. While a significant degree of effort has been expended on ***developing information and reporting regimes for the banking sector***, the information base for other critical segments of the financial system has lagged somewhat (behind that of the banking system).

In an effort to fill this gap and to provide a greater array of information for investors and decision makers, the SEC, in collaboration with the Central Bank, sponsored a baseline study in 2005 to gauge and assess the structure and performance of collective investment schemes.

This study which was subsequently published in August 2007, noted the rapid rate of growth of the collective investments scheme industry, with funds under management in the mutual fund sector increasing almost fivefold in the period 2000–2005. It also pointed to the high concentration of funds under management; fragmentation in the supervision and regulation of the industry and the need for a comprehensive regulatory framework for the sector.

It is now five years since the baseline study on collective investment schemes was undertaken and, in the meantime, the global financial landscape has undergone significant transformation following the global financial crisis. Here at home, the banking system has shown remarked resilience, the stock market performance has remained anemic, while mutual funds have continued to be attractive investment vehicles.

The regulatory environment has also been undergoing major reform with the upgrading of legislation for various segments of the financial services industry. A new Financial Institutions Bill was passed in December 2008 and new legislation covering the insurance industry, the credit union sector and the securities industry are well underway.

If there is one issue that the recent global financial crisis has driven home is ***the need for a better understanding of the products in our financial system, the levels of risk that are being assumed by various financial institutions***, the investments strategies that are being adopted and the quality of information disclosure being provided to investors and the public at large.

Today's launch is aimed at understanding the size, range, investment practices and impact of the managed funds industry in Trinidad and Tobago. Unlike, the previous baseline study which concentrated exclusively on collective investment schemes, this study is aimed at a wider array of collective investment institutions including mutual funds, trustee divisions of subsidiaries of financial institutions and long-term contractual institutions such as insurance

companies, pension funds and the NIB, which are also active participants in the securities markets. Its prime objectives are to:

- Develop a comprehensive profile of the managed funds industry in Trinidad and Tobago with respect to size, structure and institutional composition.
- Examine and evaluate the asset management practices and the framework within which fund managers make investment decisions.
- Gauge the impact of the managed funds industry on the size, growth and development of the securities market.
- Evaluate the effect of the regulatory framework and investment rules on the pattern of deployment of managed funds, on the efficiency of investment and on investment performance.
- Assess, from the point of view of market actors, the overall prospects for greater integration of the domestic and regional securities markets.

From the perspective of the Central Bank, this study provides us with a unique opportunity to gain a better understanding of the nexus between saving and capital market investment as well as the linkage between capital market development and economic growth. In the final analysis, it will go a long way in:

- providing potential investors with a greater understanding of capital markets;
- helping decision-makers better define priorities for the further development of the market; and
- allowing regulators to gain a better insight on how the regulatory framework and investment rules affect the efficient deployment of investment and overall investment performance.

The Bank lends its full support to this current initiative of the SEC and encourages all market participants to participate as effectively as possible to ensure the success of this study.

I thank you.