

Cleviston Haynes: Redefining our "How" in Barbados' financial services sector

Speech by Mr Cleviston Haynes, Governor of the Central Bank of Barbados, at the Domestic Financial Institutions Conference, Bridgetown, 28 March 2019.

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Today we celebrate the 10th seminar for domestic financial institutions hosted this year by the Central Bank of Barbados and the Financial Services Commission. As regulators, we recognise that the financial services industry is dynamic and that, together with industry practitioners, we need to constantly reflect on emerging developments and new challenges. This seminar provides an opportunity for us to exchange ideas, to learn from experts, to learn from each other, to develop new ideas and to think of solutions for our challenges.

It supports our financial stability initiatives and creates the pathway for building a resilient financial system that supports economic growth through efficient mobilization and allocation of resources. Above all, it promotes our quest to develop more robust stakeholder engagement.

As we meet today, Government is implementing a recovery and transformation programme that is targeted to restore fiscal and debt sustainability, foster growth and rebuild the foreign reserves.

It does so in the context of a financial system that features substantial excess liquidity in an environment of weak private sector credit demand and historically low interest rates. In recent months, our financial institutions have shared in the economic adjustment through the domestic debt restructuring. At the same time, implementation of the new IFRS 9 accounting standard has also adversely impacted the profitability and capital of banks and insurance companies. However, the financial system remains stable and adequately capitalized.

Many persons focus on the stabilization aspect of the programme but this morning I wish to highlight that the process of transformation particularly as it relates to financial services has started. First, the domestic and international banking and insurance sectors each now operate under one act, the Financial Institutions' Act and the Insurance Act, respectively. This convergence of legislation represents the first step towards simplifying the regulatory regimes for these sectors.

Secondly, the Bank and the government are undertaking initiatives to modernise the payments system as we transition to a more digital economy. The initial focus is on reducing the use of cheques and cash in the financial system. Government already makes salaries, pensions and debt payments through the electronic RTGS system and their goal is to use the Automated Clearing House (ACH) and the RTGS for payments to its suppliers. Apart from enabling greater efficiency within government, this should allow suppliers to receive payments on a more timely basis. Extending this initiative to the National Insurance, a major issuer of cheques, should result in further efficiency in the financial system. It is envisaged also that facilitating electronic transfers to government for the payment of taxes and fees will enhance efficiency and productivity within both the public and private sectors.

Third, credit unions have become an important element of the financial sector and the Bank will facilitate access to the Automated Clearing House (ACH) for direct debits, subject to the completion of legislative, technological and administrative arrangements.

Fourth, in the past year, the Bank and the FSC partnered to develop a sandbox arrangement for companies interested in experimenting in new technologies. The first company to participate featured the use of an electronic wallet. Growth of this medium, whether by traditional players or new entrants has the potential to reduce substantially the use of cash and create flexibility in the choice of instruments available to citizens.

We anticipate that specific payments legislation and regulation will emerge from our efforts in these areas.

Finally, we have transitioned to the issuance of government securities in a dematerialized format, with the expectation that secondary trading of securities will be made easier. We did have some initial technology issues, but our team is working to resolve these problems. Arrangements are now in place to facilitate transfers of securities.

The Bank too is part of this transformation. My vision is to create a Bank that facilitates business in the efficient provision of our services. We have therefore committed to leverage technology to transform the delivery of the Bank's services and to enhance our communication about what we do. Later this year, we will strengthen our governance model to better align it with international best practices and we are in the process of modifying our exchange control regime to better facilitate business and bolster long term growth.

It is in the context of these developments that today, I encourage you to reflect on leadership guru Simon Sinek's challenge to never lose sight of your why, of your purpose.

As I reflect on our conference theme, "Repositioning the Financial Services Sector", I conclude that while our *why* has not changed, our what and our how are facing disruptive challenges, including:

- ♦ Internationalisation of services
- ♦ Technological advances and disruptions
- ♦ Consumer pressure for cheaper financial products, convenience, and caring service
- ♦ Tough competition
- ♦ The demand for simplicity in a world of complexity
- ♦ Stricter international rules and standards

How can and must we respond to these circumstances? What must we do to reposition the sector? It is my belief that we must relook our business model. We need a model that reinforces and supports our purpose, our why, and addresses our how and our what; a model that is customer centric, and technology driven, but which also accommodates the not-so tech savvy among us; a model that promotes economic and social transformation, while strengthening financial stability; a model that helps us to manage our risks, traditional and the non-traditional.

We have assembled a cadre of experts to deliberate on these issues. The leaders of two of the region's financial behemoths will speak on repositioning the sector and share their companies' journey to going global, their successes, their experiences, their challenges and their solutions. And the Bank will use the opportunity to describe the economic environment in which the repositioning will take place.

Deputy Governor of the Sveriges Riksbank (Central Bank in Sweden) will explain how his country automated its payments system. Sweden has eliminated cheques, and 70 per cent of the Swedish population does not use cash.

De-risking remains a bugbear for the financial services and other local industries. Much of the focus has been on the loss by regional banks of access to correspondent banking. This has resulted in domestic banks de-risking some local clients in what are considered high risk industries. We assess the phenomenon in the context of the national and regional discussion about legalising cannabis for medical purposes, and the problems that it poses for gaming

businesses.

After government's recent debt restructuring, we must reform the securities market. Our final panel will help us to look at the possibilities for reshaping how the market functions, including the potential for strengthening the secondary market. The recent announcement of Government's intention to establish a Unit Trust and introduce new vehicles to provide more investment opportunities for Barbadians will help to redefine the securities and investments space.

Join me in thanking the organisers for designing a rich agenda for the 10th anniversary of the Domestic Financial Institutions Conference.

I welcome you to this conference, and I look forward to the interaction and exchanges on how we can reposition the financial services sector.

I am confident that together we will redefine our what and our how as we live our why as Simon Sinek entreats us.

I thank you.