

TTCSI Seminar

“The T&T FINANCIAL SECTOR – CREATING THE FUTURE WE WANT”

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Compliance with International Regulations

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Thank you very much Nirad. Members of the Head Table, Mr. Valley, distinguished guests, as well as those of the media, who are still here; I thank the TTCSI very much for bringing together this knowledgeable group of people to have these discussions today. I do apologise for my voice I seem to have a throat bug or throat fog so the sultriness that you hear is really not natural, it's not mine. I've been asked to speak on compliance and the first thing that came to mind was why do we do business? People get into businesses to make a profit but if you don't comply you don't make a profit so my presentation can end there; that is what compliance is all about: survival of a business and the success of a business. Compliance can be defined as any activity or established practice which you must put in place; or adherence to measures by an external authority. Many of the literature, when you look at it, use the terms compliance regulation and integrity interchangeably because compliance leads to integrity and improved reputation. What do financial institutions comply to? At the national level we have the financial institutions securities and exchange regulations. At the international level we have the **basic core principles. losro cosra practices (min 44 sec 05-10)**. Codes of conduct at the operational levels of financial institutions. FATF principles which countries must comply to, which cover anti money-laundering and counteracting the financing of terrorism and know-your- customer practices. And it is so critical because compliance has really forced a culture of corporate responsibility in financial institutions and other firms, so much so that firms have made significant investments I information systems, the control of these information systems, internal auditing, security systems, accountability by senior managers for corporate practices and for customer information, and the overall practice of corporate governance. Now I view compliance as really critical because of the following: Compliance issues are linked to credit ratings. Since the Global Financial Crisis, getting the AAA and the AA Ratings are not as easy anymore, so for countries who have gotten them consecutively all their lives, they find it really difficult when they have been downgraded. So many countries have been grappling with having their credit ratings downgraded. So much so that it has really shook investor confidence in some large countries. We have seen capital flight in some large countries which has also lead to fiscal imbalances across the globe. Compliance is also important because it creates a sound financial system and the Governor was just speaking about what exists in our market,; what he sees as the future of our market, underpinning all our practices in the financial services sector – the goal of a sound financial system. It is also important for competing in a Global market. We don't have market segmentation anymore, with regards to financial institutions. If you're operating here, your competitor is in the UK, your competitor is in the US; we have a seamless Global market when it comes to competition. Persons can do business online so you're not in an isolated space anymore. And compliance is also critical for reputational issues.

Without strong reputational practices a business would never survive. What makes compliance difficult from a financial sector perspective? Firstly, it would be the lack of consultation in the creation of standards and practices which govern industries. Many times we see measures being put in place, I serve on so many committees, and you're called in eighteen months later, when the measure is almost set for consultations on that particular measure? And then you ask why didn't you bring us on board at the first phase of this so we can give our contributions? It certainly delays the enactment of critical legislation and it certainly delays our compliance internationally. So consultation is critical in the implementation of standards, practices and procedures. Secondly, compliance becomes difficult also, when the relevant infrastructure is not in place to support the standards financial institutions and other businesses must adhere to. If you have to file for returns, if you see suspicious activity, how are these done? Mechanisms must be put in place to support these. It's also critical for record-keeping, and the customer plays an important role here. I had some discussions with people in compliance departments and he said "what for you would be the most difficult compliance issue?" A person said "updating customer records." The customer just does not feel they have a responsibility to be a part of that process. So you change your address, you should let your financial institution know this. Other elements have changed, inform your financial institution. Due diligence is a critical matter in compliance and the customer is equally responsible as the financial institution for due diligence practices and the updating of records. So you're travelling, you should inform your bank that you are leaving the country and that you'll be using your credit card. In the past I have often gone to meetings and not informed the bank. But I had one bad experience and thankfully I had informed the bank that time. My card was being used in three different countries at the same time; I was in one and it was used in a couple other countries at the same time. So it is critical to inform your financial institution; as the customer sees due diligence as your role also and certainly give the financial institution the information required to help them put measures in place to safeguard you against identity fraud. Now what are the concerns of compliance? Following the global financial crisis, you look at the European Union, who has implemented so many different practices for financial institutions. The US also will be implementing some legislation to try to ensure that what occurred will never occur again. Countries in this region have been really resilient and financial institutions have been resilient in withstanding that spillover/contagion effect from the Global Financial Crisis. However we should be mindful that the rules-based practices that are being suggested and the other new standards will certainly find their way in the standards-making body and would come back at us. And we would have to meet these stringent and maybe unreachable practices. Why do we also have concerns about compliance? It is because we would like to see the necessary infrastructure in place. We do not want compliance regulations becoming a burden to industries. Because of the Global Financial Crisis as I said and all these new regulations being put in place compliance could become burdensome. Banks have adhered and continue to adhere to core practices at the national level and the national level and we would like to see a collaborative with the regulators to ensure that all standards and practices are being put in place and that we're on the same page with them. Then you also have these challenges at the industry level and the regulatory level of these new skill-sets that would be required to meet the global standards challenges and new competencies that would be required. Those are some of the concerns that compliance poses from an industry poses. As persons who are involved in strategic management would say, any strategy can become outdated, even the best strategy. And therefore at an industry level, compliance audits are critical. And I would conclude, because I do not have a long presentation, firstly, compliance policy must be written at the institutional level. All institutions should ensure that their compliance policy is critically matched to their risk-management practices to ensure

sustainability and overall prudent practice. Secondly, what should be the role of the regulator in this new global dimension where so many stringent practices or new practices are being put in place? Do we sit back as developing countries and allow others to continue making rules for our guidance or do we find a place or create a space in that ruled development, or that standard development for ourselves? Compliance should be a culture. Culture in organizations, and it should be a national culture. Finally, and maybe the most critical, policy-makers and regulators, as long as they listen to the industry players, compliance measures will be met. I sat at a meeting two days ago, it was at a Caricom-Canada negotiation, and I heard one industry player indicate that they were unable to be involved in the Caricom-Canada negotiations. They could not meet some of the practices that were being articulated. They indicated some of the standards which govern their industry at the national level were not being met. So how do they get involved in an international negotiation that would put more trying measures upon them? We need to listen. Caricom-Canada negotiations are already underway. We need to listen to what the industry is saying and as long as we listen to what the industry is saying at the policy-making level, and at the regulatory level, we would find that some of these issues would be easier dealt with. And I'd like to note that for many countries which have suffered in recent times at a financial services level, it was in large part due to the sluggishness of policy-makers in responding to international standards and putting the necessary infrastructure in place, and in lesser part to the industry players themselves. You hear all these mixed views about the IFC's and is it relevant for Trinidad and Tobago, and how important is it? I see it as critical if it forces us to comply with standards. It is critical if it forces us to put the necessary measures in place to make our systems sound; to create a sound financial sector and therefore be able to compete equally in the global scenario. Thank you very much!"