

Address by Hon. Douglas Orane
to the Caribbean Association of Indigenous Banks Conference
Opening Ceremony
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at the Hyatt Regency Trinidad

Good afternoon ladies and gentlemen. It's a real pleasure to have been invited to address your annual conference. My sympathies go out to the people of St. Vincent and the Grenadines, St. Lucia, Barbados and the other Caribbean islands that have suffered significant damage from Hurricane Tomas.

As we examine the role of the financial services industry in repositioning the region, I am speaking to you from two perspectives. Firstly, as the head of a highly diversified group of companies, namely the GraceKennedy group; and secondly as the Chairman of an indigenous commercial bank. As you are probably aware, the GraceKennedy group now focuses on two core areas, namely building branded foods and growing financial services. We are owners of First Global Bank, one of three indigenous commercial banks in Jamaica. I would therefore like to use this opportunity to share a perspective from both the real sector and the financial services sector on business activities in the region and beyond, particularly over the last few years.

It is very clear that the world is in crisis ever since Lehman Bros. went under on that fateful day in September 2008. What is startling is that a lot of the assumptions that we all made about the world have fundamentally changed. However, the critical question is how are we going to respond to this emerging new environment?

Rahm Emmanuel, former White House Chief of Staff for President Obama made a statement two years ago in the midst of the financial crisis. He said "Never allow a crisis to go to waste. They are opportunities to do big things."

Our approach in GraceKennedy has been, firstly to examine the adversities of the last two years to find the opportunities so that we are able to continue to run robust businesses to meet the needs of our customers in challenging times which ensures that our businesses continue to be strong. And, secondly, we are positioning ourselves for the inflexion point in the future when markets will turn and we will have the benefit of growth once more in our economies and in particular, the rebounding of consumer demand.

With specific reference to the banking industry, events over the last few years have had the effect of severely eroding public confidence in the industry. We, as bankers, need to realize that our clients, in fact, have a psychological issue on their hands – a crisis of confidence in the entire system worldwide. This has manifested itself in some markets with individuals literally going back to their mattresses as the depository for their savings. In this kind of environment it behoves us to embark on a fundamental reassessment of why are we in this business of banking in the Caribbean.

To me the answer is very clear. The answer is to serve the unmet needs of our customers. You may already know this but GraceKennedy's mission statement is 'to satisfy the unmet needs of Caribbean people wherever we live in the world', and so we draw on our mission statement to guide us as to where we go in this particular field.

The fact that we are indigenous banks, to me, is an important factor in the marketplace, but is not, in today's world, the preeminent one. The most important factor is "do we know our customers better than our competitors do?" The fact that we're indigenous implies that we ought to, because we originate from our respective territories steeped in our culture, life experiences and our education. Therefore this ought to be converted from a distinctive competence into a competitive advantage. But the question we have to ask ourselves as indigenous bankers is, have we done that effectively? And the corollary to this question is 'do the assumptions we made about doing this effectively in 2008, still hold true in 2010 and beyond in this new world in which we find ourselves?

For example, have we developed the competence at evaluating risk and responding to the needs of emerging industries such as entertainment, and telecommunications? Banks also need to acknowledge the emergence of a new generation of Caribbean people who have a much more independent entrepreneurial spirit. They are our 'Generation Y', who are leaving college less interested in working with a large company but very enthusiastic about starting their own businesses.

Let us explore the potential sources of competitive advantage. I have already pointed to the fact that, because we are immersed in our local environment we ought to know our customers better. However an experienced banker said something interesting to me recently. He said, "Douglas, as bankers we need to not only know our customers, but we need to know how far we can go with our customers."

In other words the whole issue of risk management is crucial in the world in which we do business. We therefore have to exhibit the discipline necessary to know that we are striking the fine balance between risk aversion and being risk prone. I will come back to this topic a little later in my speech.

The next area of potential competitive advantage is that, typically by virtue of being indigenous, our banks tend to be smaller than our competition. In any marketplace there are inherent advantages to smallness and the most important one is nimbleness. We ought to be converting the fact that we are relatively small, to real differentials in the level of customer satisfaction by being able to meet the needs of our customers in a shorter time and also in a more personalized way than our competitors. This applies equally to our online banking services. A recent report on the state of online banking in the US says that the customer service factor had taken on increasing importance in the past year in terms of what drove the decision by customers to do business with a particular bank. The report by the marketing research company ComScore, noted that, in 2009, when asked what were the top 5 attributes for opening a new checking or savings account only 4 % of respondents said 'quality of customer service'. For the 2010 survey the researchers reported that "While most attributes experienced a

marginal decrease in importance versus a year ago, quality of customer service surged 18 percentage points to 22 percent of respondents in 2010, indicating a fast-emerging point of differentiation among financial institutions". Providing quality customer service means deeply embedding a service culture based on a genuine sense of care and respect for one's customers.

I wish to return to the topic of risk. It is abundantly clear that because of the increasing globalization of the world economy and in particular the financial sector, the risk associated with operating in the financial services industry is multiplying exponentially.

The whole issue of electronic fraud is one that is expanding worldwide. A banker from the developed world shared this with me. He said global criminals who prowl the electronic world actively seek to infiltrate the firewalls of smaller banks because there is an assumption that the smaller a bank the weaker its defenses against electronic fraud. I found this a very sobering statement and I believe we all need to take it very seriously. You may be aware that over 100 arrests were made recently in a global electronic fraud case where viruses were attached to emails sent to individuals which caused malware to invade the individual's computer. This malware then extracted the individual's banking information and transmitted it back to criminals on the other side of the world who were able to withdraw millions of dollars from client accounts. This is just one example of what is happening worldwide as we speak. What is required of all of us is to raise our risk management very, very rapidly to world class standards for the protection of our clients and our businesses.

A parallel area I would like to comment on is the whole process of corporate governance. In GraceKennedy we have embraced best practice corporate governance as the best route for our company to progress. We began adopting this direction on a formal basis about ten years ago.

We believe that the benefits of good modern corporate governance with its checks and balances, transparency and reliance on continuous improvement creates not only a

sound platform for doing business but causes others who wish to do business with us to feel that they can trust us. If there is one ingredient in the world that seems to be becoming a more and more valuable commodity, it is trust. In fact we hear it everyday in the marketplace, 'who can I trust anymore?' This is where we come in. Our clients ought to be able to say 'I trust my local bank unreservedly'.

One of the balances that we need to be very disciplined at striking is the issue of concentration risk, both in terms of the asset side of our balance sheet regarding loans and on the liabilities side regarding deposits. This is a risk that is inherently likely to be higher, the smaller the financial institution. Therefore an important solution to this is for us to network more effectively with each other in order to diversify risk through syndications and other means.

Another area that we need to focus on is that when we were operating in economies that were growing at a fairly rapid rate there was the risk of taking fairly large exposures on the assumption that the economies in which our borrowers operated would be growing continuously. This is no longer the case. Therefore it means going back to basics in terms of our loan assessment and disbursement procedures. In this regard, there is an important implication for us in the Caribbean. We have been seeing increasingly higher levels of debt to GDP ratios in most if not all the countries in the English speaking Caribbean. This means that there is more public sector debt looking to find a home. As much as we want to support our respective governments' aspirations and consequent financing needs we need to do the correct due diligence and objectively evaluate the health of our respective economies and agree performance targets in making decisions to grant credit to our governments, in the same way that we scrutinise our private sector clients. This is an important issue and one that can be very difficult to deal with in small societies but we need to face it head on and realize that the funds we are lending out and have at risk are not our own but the funds of our depositors.

There is a longstanding tradition in larger, developed markets of the founding of new banks which grow from humble beginnings to become medium sized and quite often regional. In most cases they will eventually merge or sell out to a larger institution. And the process of renewal recommences with the formation of new banks which are born and grow in the marketplace. We need to fundamentally examine our own long term strategies as owners as to why we are in this business and what is the outlook for creating value for shareholders. Looking from the outside inwards at our region one would most likely come to the conclusion that there are actually too many banks. This may not be necessarily a bad thing in terms of competition but ultimately a shareholder needs to decide what is the best route forward. Is it to grow organically? Is it to grow by merger? Is it to reduce risk by becoming a larger institution with wider shareholding which can spread its activities over a larger asset base? Is it to sell out completely? These are all hard questions that we need to ask ourselves, rather than taking a static view that the market structure will not change significantly over time.

Putting on my hat of Chairman and CEO of a listed Caribbean conglomerate I consider it essential for us to create one Caribbean stock exchange in the near future for the benefit of the investing public as well as the clients of the current stock exchanges of the region, namely, the listed companies.

Our local stock exchanges have begun to take steps in this regard, with the establishment of the Caribbean Exchange Network. From a private sector perspective this is a welcome move and a necessary first step towards establishment of a truly deeper capital market in the Caribbean. I submit that the regional banking industry may also wish to explore how we can improve the competitiveness of the region's indigenous financial sector through similar cooperative activities.

The various ABM sharing facilities in some Caribbean countries that link proprietary networks of ABMs and POS terminals owned by their member financial organizations are good examples of how we can collaborate to invest in basic technology infrastructure to improve the service experience of the banking public. I am sure we can identify other areas of collaboration. Another opportunity is in the matter of educating

our customers on compliance requirements which are now at much higher international standards. This is an expensive venture for banks to undertake individually.

This is not to say we should be offering assembly line products and services to our clients, because even within this framework, we can differentiate by continuing to innovate in the design of the various products and services we bring to market.

Even as Caricom governments continue to give lip service to the idea of a single market and economy, I believe the financial sector is poised to provide leadership in this regard. We have the benefit of a regulatory system that can facilitate this in a way that would mitigate the risk to our clients while providing them with greater investment opportunities.

A word about our regulators. It has become somewhat fashionable to gripe about our regulators over the years but I think it is important to reflect on the fact that our region came through relatively unscathed from the mushrooming growth in sophisticated financial instruments that triggered the bankruptcies in 2008 of developed country financial institutions.

Our regulators have been very conservative generally in their approach, and it is at times like this that one recognizes the benefit of prudent regulation. Having said that we need to work with our regulators to ensure that the oversight processes work as efficiently as possible to ensure that all of us, interconnected as we are, thrive in the new environment in which we find ourselves.

I believe that these are exciting times for the regional banking industry as we have the opportunity to reinvent ourselves to provide the types of products and services that will support the aspirations of our people.

We need to be wary of the tendency to believe that because we are small, or because we are Caribbean we cannot be world class. In all our countries we have bucked the trend that one needs massive resources to produce excellence. St. Lucia has produced

two Nobel Laureates, Barbados has produced Rihanna, one of the most popular female R&B artistes in the United States, Jamaica has produced some of the world's fastest athletes, and up until a few years ago the West Indies had the world's strongest cricket team. Ironically, we have examples of building financial services brands in the field of life insurance underwriting in several territories across the Caribbean both through the collective action of groups of our indigenous people who founded the Caribbean's first mutual societies and also by the initiatives of our individual entrepreneurs. The point is that small size has never prevented us from creating strong brands.

Ladies and gentlemen, I have attempted to raise some fundamental questions that we need to consider, not only as bankers but also as Caribbean citizens. The recovery and return to sustained growth for our region is highly dependent on efficient financial markets. We need to make sure that we provide the vehicles to make this work. If we do not, others will do it for us.

I thank you.