PROBLEMS OF REGULATION AND INTERVENTION IN A SMALL FINANCIAL SYSTEM: TRINIDAD AND TOBAGO IN THE 1980s

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Perhaps more than any other Caribbean country, Trinidad and Tobago has experienced severe difficulties in its financial system from which lessons may be drawn for other countries in respect of bank regulation and intervention by the Central Bank. The paper discusses the evolution of the regulatory framework in Trinidad and Tobago, the cases of difficulty which prompted certain changes in the approach to and legal basis of regulation and intervention and then points to continuing problems which underscore the need for further legislative change, as well as changes in regulatory practice. We argue as well that countries in the Caribbean should resist stoutly pressures for the 'de-regulation' of the financial system which is very much in vogue in the industrialised countries.

The Evolution of Regulation

The regulation of banks in Trinidad and Tobago is provided for in the legislation establishing the Central Bank and in the legislation governing the activities of commercial banks, both of which were

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promulgated in 1964. Essentially, the legislation provides for the appointment by the President, which means in effect the Cabinet, of an Inspector of Banks who might be, and in fact has always been an officer of the Central Bank. The functions of the Inspector are (i) to recommend to the Central Bank and to the Minister the issuance of commercial bank licences, (ii) to determine the financial condition of a licensed institution, and (iii) to examine and report whether it is in compliance with the provisions of the Banking Act and the Central Bank Act. If the Inspector finds that an institution is insolvent or is unlikely to be able to meet the demands of its depositors, he would report these findings to the Minister and to the Central Bank. The Central Bank may then with the approval of the Minister, suspend the business of the institution for a period of not more than thirty days, and can then either re-open the institution with or without conditions, or the Bank can apply to the court for its winding up. It is important to note that the Inspector has no power to act independently of the Central Bank, which must in turn obtain the approval of the Minister.

The Central Bank created an inspection department in 1968, under Mr. A.K. Basu who had come under the auspices of the International Monetary Fund. The Bank did not intend to establish an inspection function so early in its life, but Governor Mc Leod was disturbed by the varying practices of the British, Canadian and American banks in the system and took the view that it was important for the Central Bank to get a good handle on what was going on. However, because the commercial banks were all subsidiaries of expatriate banks, most of considerable international repute -- Citibank, Scotiabank, Chase Manhattan, CIBC, Barclays Bank DCO, and the Royal Bank of Canada, the approach to bank

supervision was less to examine for insolvency or potential inability to pay depositors, but rather to ensure consistency of reporting and compliance with the legislation and the specific monetary policy and exchange control regulations issued from time to time by the Central Bank. The local subsidiaries all made use of well-documented and in some respects rigid procedures and practices laid down by their head offices, and in respect of lendings, large loans had to be reviewed by the head office before approval was granted. This system gave comfort to the regulatory authority in respect of the solvency of the banks operating locally. Neither was liquidity support a problem, since the head office could also be counted on to provide liquidity, if required.

This relaxed approach to bank supervision, focussing on policy and legislative compliance, continued throughout the 1970s. However, there were two important developments in the financial system in the 1970s which were to have profound implications for supervision of banks in the 1980s. First, there was the process of localisation of banks and the growth of 'indigenous' banking institutions. Second, there was the rapid growth of non-bank financial institutions. In respect of the first factor, the government, partly in response to social pressures, created the National Commercial Bank in 1970 by buying out the operations of the Bank of London and Montreal. In 1971, the Workers' Bank was created by the trade union movement, with some government participation and a great deal of government encouragement. In 1976, the Trinidad Cooperative Bank was granted a commercial bank licence thus transforming overnight and in a highly competitive environment, a 60 year old thrift institution into a fully-fledged commercial bank. In addition, the government persuaded the expatriate banks to incorporate locally and divest a majority of their

shares to locals. All the expatriate banks localised their operations with the exception of Chase Manhattan, which elected to sell its total operations rather than localise. Its operations were bought by the National Commercial Bank.

The second factor was the proliferation of non-bank financial institutions. These were created both by banks and by non-financial companies and their numbers and assets grew rapidly during the 1970s since their operations were unregulated. Indeed non-bank activity -- finance companies, trust business, mortgage financing and subsequently merchant banking, became important areas of competition for commercial banks in what was a booming economy. The entry of non-financial enterprises was a source of concern to the banks and to the authorities, but the authorities were slow to put a regulatory framework in place to deal with the new sector. This eventually came with the passage of Financial Institutions (Non-Banking) Act in 1979. This Act, was however, was not proclaimed until May 1981, when the relevant regulations were published.

The NFI Act contained many of the provisions of the Banking Act, the only difference being that it sought to demarcate commercial banking from non-bank activity. This it did by restricting non-banks to the acceptance of deposits and to the granting of loans for a period of not less than one year, with exceptions for merchant banking and trade confirming. The NFI legislation also provided for the annual application and issuance of licences, whereas banks merely paid a fee annually once they have been initially licensed. The NFI Act however, made no advance

in respect of the functions of the Inspector who was merely given the additional responsibility for supervising all non-bank financial institutions covered by the Act.

The system of regulation prevailing in 1980 may be described as follows. First, regulation extended only to commercial banks while other deposit-taking institutions were not yet regulated, and institutions such as credit unions and development finance institutions were not subject to regulation. Bank supervision focussed on compliance, and was therefore backward-looking. There was no power to prescribe or to enforce. Second, self-regulation was not in use. The commercial banks had created an informal pricing cartel in the 1960s and early 1970s, but this broke down, and the banks had established no formal mechanism that addressed prudential self-regulation. The informal meetings of bankers may have softened the sharper edges of competition in the marketplace, but could not really be considered a viable or useful self-regulatory mechanism. Third, unwittingly, the principle of 'caveat emptor' was the effective organising principle of regulation in a financial system where the average investor or depositor was quite unsophisticated, new institutions were being created and the institutions themselves were introducing new products at a rapid pace, with the average investor unable to properly evaluate the risk characteristics of the products. Yet the scramble to try to maintain relative real incomes prompted many of these individuals to accept risks, which became larger and crystallised as the economy slowed and began to decline. Fourth, there was no deposit insurance, nor indeed was the introduction of deposit insurance on the policy or legislative agenda of the monetary authorities.

If the system of regulation in the early 1980s was little different from a decade earlier, the regulatory environment was markedly different. The Inspection Department now had to supervise new commercial banks which did not have the comfort of an overseas head office in respect of liquidity and solvency, with new boards of directors reflecting local shareholding in formerly wholly foreign-owned banks, and in some cases, new management comprising mainly local professional bankers, and over 20 new non-bank financial institutions. In addition the economy began to decline at an accelerating rate, taking the real estate market and the construction sector first and hardest, and then spreading to all areas of economic activity. Before very long the financial system was in trouble, and required not only a regulatory response but also direct intervention by the Central Bank as lender of last resort.

The Shaking of the System

While the difficulties experienced in the financial system in Trinidad and Tobago can be dated back to August 1983 when the International Trust Limited (ITL) crisis broke, the genesis of the problems was much earlier. During the boom years, liquidity in the banking system reached historically high levels and there was intense competition to lend in a highly buoyant marketplace. The new finance companies, especially those owned by non-financial enterprises, the so-called 'independent' finance companies, were particularly aggressive in their lending and often ignored prudential norms such as loan to capital ratio, loan to deposit ratio and the adequacy of collateral security. There was a concentration of lending to the construction

sector and a significant proportion of loans were secured by real estate. Moreover, there was lending to affiliated or related companies which far exceeded prudential norms.

When the NFI Act came into force in May 1981, many of these finance companies were seriously in breach of the legislation in respect of (i) the acquisition and holding of land; (ii) the extent of unsecured lending to associate companies, employees or directors. Under the legislation, the options available to the regulatory authorities were to refuse to licence those institutions which were in breach of the law and thereby cause them to be wound up by their depositors and creditors, or to licence them conditionally, allowing them a period of time to put their houses in order by ensuring full compliance with the Act. At that stage, the regulatory authorities could have treated only with the issue of compliance, since without the benefit of an on-site inspection, the solvency or otherwise of these institutions could not be assessed.

The Bank Inspection Department of the Central Bank set about trying to organise itself to undertake the required examinations. However, it was hampered by both technical and resource constraints. The department now had three times as many institutions with which to deal and therefore required a substantial increase in its manpower resources, since bank examination is a highly labour-intensive activity. In addition, the nature of the examination required was different from the compliance-type examinations it had been accustomed to undertake. It was required to make a judgement on the condition of the business as a going concern, its liquidity and its managerial capacity. These judgements necessitated a higher order and greater amount of skill and knowledge

than was then resident in the Inspection Department. Importantly, a judgement on the solvency of the institutions required an assessment of the likely evolution of the economy and the financial system as a whole.

Circumstances did not permit the regulatory authorities to get their house in order to deal with a radically different regulatory environment. One finance company, Pinnacle Finance Co. Ltd. was refused even a conditional licence under the NFI Act, since its paid-up capital was the princely sum of $3. In March 1982, the officer of that company fled the country leaving behind depositors unable to recover their funds. In August 1983, a magistrate fined the managing director of International Trust Limited (ITL) the sum of $7.2 million in respect of an exchange control matter. The announcement of this fine precipitated a run on the institution which continued notwithstanding reassurances from the governor of the Central Bank. Eventually, the Bank, in order to stop the run, declared that the institution did not have to meet demands for fixed deposits until the maturity date of the deposit. This had the effect of slowing the run to a 'walk'. However, public confidence had been rudely shaken. ITL had a fairly large deposit base and about 4000 depositors.

The Central Bank suspended the operations of ITL under the Act on 15th September, 1983. It then formed the view that it was unlikely that the institution could be successfully re-opened without new management and a substantial injection of capital. The Central Bank sought unsuccessfully to obtain the assistance of the other banks and financial institutions since it did not have the legal authority to so itself. However, there were other parties interested in a purchase and

assumption transaction. Because of the legislative constraints in regard to the period of suspension, and to give the interested parties the opportunity to bid, the Central Bank exercised the only other option available under the Act. It applied to the High Court for the institution to be put into receivership on 14 October 1983. The application was challenged by the directors of ITL and the court case on the receivership which went to appeal and lasted a few years revealed a sorry and sordid tale of unsecured lending, self-dealing and mismanagement which began to reflect badly on all of the independent finance companies.

Several of the other independent finance companies began to come under pressure as depositors withdrew their funds on maturity despite the efforts of their managements to have deposits rolled over at even higher interest rates. In March 1984 the Central Bank suspended the business of another non bank finance company, Southern Finance, which was unable to meet the demands of its depositors. The company was allowed to re-open for business after the 30 day suspension period under certain conditions. Efforts to arrange the restructuring and recapitalisation of this institution by finding a buyer were frustrated by the company's management and eventually proved fruitless.

After the experience of ITL, Southern Finance and the continuing pressure on other finance companies, the Central Bank and the Inspector of Banks recognised that substantive changes to the legislation were required so as to give the Bank powers to deal with problem institutions, which would extend beyond suspension and liquidation and which would also offer depositors a greater measure of protection than was available

through court action on a liquidation. The Bank also recognised that there was need to provide liquidity support for the problem institutions pending the promulgation of the new legislation.

Accordingly, in July 1984, the Central Bank arranged a liquidity support facility through the commercial banks for the problem institutions. The support mechanism was arranged through the banks partly because the Bank felt that a demonstration of system support for the problem institutions would help to contain the erosion of confidence and prevent it from spreading to other institutions, including the banks themselves, and partly because of the legal restrictions in the Central Bank's own legislation on the terms of lending to financial institutions. Section 36(i) of the Central Bank Act permits the Bank to lend to commercial banks and NFIs for fixed periods not exceeding six months with approved security. The question of appropriate security was a vexing problem for the Bank since many of the problem institutions could offer only real estate as security which the Bank could not accept, and they usually did not have treasury bills, bills of exchange or other similar security appropriate to an advance from the Central Bank.

The amendments and additions to the legislation were however, long in coming and, it was not until February 1986 that both the Central Bank and NFI Acts were amended. In the intervening period, the Bank provided $142 million in support to the problem non-bank institutions, which were unable to improve their situations notwithstanding.

The amendments introduced in 1986 gave the Bank the power, with the approval of the Minister of Finance, to take over the management of an institution, dismiss its board of directors, and restructure its business and recapitalise its operations. The powers of the Bank are exerciseable where the interests of depositors or creditors are threatened or the institution is likely to become unable to meet its obligations or the intitution is not maintaining high standards of financial probity. It is important to note that the powers given to the Bank under these amendments are emergency powers which can be used only if the Bank is of the opinion that the financial system is in danger of disruption or damage. The amendments also provided for the creation of a Deposit Insurance Corporation (DIC) to provide protection for eligible depositors in member institutions of the Deposit Insurance Fund up to $50,000. All licensed institutions were required to be members of the Fund.

It is also interesting to note that the amendments make no mention of the role of the Inspector of Banks in the process of the exercise of the powers conferred on the Bank, save that the Central Bank may appoint the Inspector of Banks to perform some of its functions. The amendments therefore left the role of the Inspector essentially as a recommender and without power to enforce or direct in his own right.

Perhaps surprisingly, the first institution to be affected by the Bank's new emergency powers was not an NFI but a commercial bank. The Trinidad Cooperative Bank had been granted a commercial banking licence in 1976. Over the decade to 1986 it was quite unable to make an impression in a highly competitive, oligopolistic marketplace. The other

commercial banks had many more branches in far superior locations, and had invested heavily in new technologies and services such as ATMs, interest-bearing chequing accounts and easy consumer loans. The 'Penny Bank' as it is called found it difficult to mobilise deposits given its four, small, badly-located branches. It therefore gravitated into the wholesale deposit market in order to support a loan portfolio that was weak for being high-risk.

The issue which precipitated Central Bank intervention was that the bank, as a company listed on the Stock Exchange had to publish its accounts which would have shown a massive loss for the financial year. Fearing the effect this publication might have on a public already fearful and of waning confidence, the Central Bank assumed control of the institution under its newly-minted emergency powers. This it did in perhaps the smoothest intervention to date. The Penny Bank was never suspended or closed. The Central Bank assumed control over a weekened and on the Monday morning it had its inspection staff temporarily in control until new management, drawn from the National Commercial Bank, was emplaced. There was no run or loss of confidence, aided by the fact that the problems of the bank were not generally known to the public and the media, and it was a relatively small institution. The Central Bank also sold heavily the fact that it had assumed control and that it would not allow to fail an institution which was under its care. The intervention subsequently involved the purchase by the Central Bank of the portfolio of doubtful loans of the Penny Bank, and the appointment of a new board of directors. This latter exercise proved to be quite difficult since the bank discovered that although its emergency powers allowed it to dismiss a board and the management of a financial

institution, it did not have the power to appoint a new board. The Penny Bank remains under the control of the Central Bank up to this time, and although it has managed to record small profits in the last two financial years, it still carries a substantial accumulated loss position.

In September 1986, the Central Bank moved to close the independent finance companies which it had been supporting pending the introduction of the legislation and the establishment of the Deposit Insurance Corporation. This latter was most important since the Bank took the view that deposit insurance was a key element in the restoration of public confidence in the financial system, since it was clear that it would be impossible to successfully restructure the independent companies so as to protect depositors to any reasonable degree. Once the DIC had been established therefore, and the problem companies -- Trade Confirmers, SWAIT Finance, Summit Finance, Commercial Finance and MAT Securties -- had been registered as members, the Bank moved to suspend their operations and subsequently appointed the DIC to liquidate their operations. MAT Securities was however, given a reprieve since several large depositors agreed to convert their deposits into equity and developed a business plan for that institution which the Bank accepted. That plan failed, and in September 1988, MAT Securities too was put into liquidation.

Toward the end of 1988, the Central Bank became increasingly concerned about the Workers' Bank and its subsidiary trust company. The Inspector of Banks evaluation of the portfolio of both institutions suggested that they were technically insolvent. The trust company's portfolio was mainly in mortgages and many of these were based on a

variable payment amortisation plan which had assumed that mortgagors incomes would be rising into the medium and long-term future. With the decline in the economy, this assumption was no longer valid. The loan portfolio of the bank was also in poor shape since the bank had been able to attract only marginal and therefore high-risk or speculative business. Moreover, the bank had only eight branches which limited the raising of retail deposits and caused an inordinate reliance on wholesale corporate deposits and inter-bank borrowings for funding. These deposits were not only high cost but also volatile. Borrowings from the Central Bank by the institutions, ostensibly for liquidity support, had developed into hard core borrowing which reached 19 per cent of total liabilities.

Attempts at suasion by the Inspector's office over the years had failed to bring results and this helped to confirm the Bank's view that the management of the institutions was not up to the task of restructuring the institution without intervention. Indeed the state of the portfolio was assessed to be so weak that the option of closure could not be ruled out. The regulatory authorities elected to attempt to restructure and recapitalise the institutions because closure would be costly in terms of the deposit insurance payout, but even more so in terms of the confidence of the community in the banking system as a whole. Political, social and psychological factors combined to push the Bank toward accepting a restructuring solution.

Unlike the Trinidad Cooperative Bank case, however, the intervention was not as smooth. The institution had to be suspended, which meant that depositors were denied access to their accounts for the 30 day period, and a new institution incorporated in which the assets of

the Workers Bank and its trust company were vested. The Central Bank assumed control of both the new and old institutions in order to effect the transfer and to provide some assurance to the depositors and creditors who now had to deal with the new institution, which is called Workers Bank (1989) Limited.

Issues in Regulation

The experience of Trinidad and Tobago in the 1980s evinces a number of issues in the regulation of financial institutions in small financial systems, and might be especially pertinent to other Caribbean territories whose financial histories are similar, and which conceivably, may experience similar problems. The first issue surrounds the coverage of regulation. In Trinidad and Tobago, a large class of deposit-taking institutions remained outside the regulatory framework until as late as 1981. This class of institution -- trust and mortgage finance institutions and finance companies -- had been in existence when the Banking Act was promulgated although their numbers and significance were not great, and ought to have been included in coverage of regulated institutions at that time or soon after. As we have seen, when they were eventually brought into the framework of regulation, a great deal of mismanagement, misfeasance and mischief had already occurred, and the economic environment was not conducive to a speedy rectification of the problems.

Regulatory authorities also need to be concerned about institutions which are not deposit-taking, but whose activities may impact directly on the banking system. In Trinidad and Tobago, there

have also been failures among insurance companies and as well the casualty rate among credit unions is increasing. While clearly the Central Bank and the office of the Inspector of Banks cannot be expected to supervise these institutions as well, there is need for coordination among the various regulatory authorities. In Trinidad and Tobago, the supervision of insurance companies has been attended by several problems including late submission of data and problems of enforcement, and it is only recently that the position of Supervisor of Insurance has been vested in a position separate from the Permanent Secretary in the Ministry of Finance. Credit unions are not regulated in the same sense as banks as non-banks, or even insurance companies. yet some of these institutions have become major mobilisers of funds from the public and place large deposits with and have substantial borrowings from the commercial banks.

The second issue is the need to supplement regulation with deposit insurance, and if possible with some form of self-regulation. It should be noted that we do not view these as alternatives. Indeed some neo-classical analysts argue that regulation is inefficient and costly, and that therefore it should be replaced with deposit insurance and further, that the deposit insurance\premium must in some way be related to the risks assumed by institutions. In small economies and therefore in small financial systems, portfolio diversification in order to minimise risk is constrained by the skewness of the economy and the limited number of firms and therefore of risks which may be assumed. In small financial systems therefore, particularly where the economy is subject to external shocks, the overall riskiness of the portfolios of financial institutions is likely to be greater than that of institutions

in larger more diversified economies. In addition, in developing countries, the average investor is less sophisticated and informed than his counterpart in an industrialised country. The average investor is therefore less able to evaluate the risk/return profile of the financial institutions in which he may place his funds, and is, therefore, more vulnerable to losses.

These arguments, we think, are sufficiently persuasive of the need for regulation and some form of deposit insurance. Deposit insurance, without regulation, would be especially prone to the problems of moral hazard in an environment in which the diversification of risk is less possible on account of small size. Regulation alone would not be sufficient since failures are likely to occur notwithstanding, and without deposit insurance, public confidence would always be low and this would make the process of financial intermediation less efficient. Authorities in small financial systems would therefore do well to introduce a deposit insurance scheme at an early stage, especially in situation in which the financial institutions do not have a lender of first resort in the form of a parent or head office.

The question of self-regulation can only now be raised in the financial system of Trinidad and Tobago. The commercial banks have recently formed an Institute of Banking, which can admit non-bank institutions as members. Although the principal purpose of the institute is professional education of bankers, it has embraced a 'code of ethics' and it is not inconceivable that the Institute may be persuaded to adopt prudential norms binding on its members. This type of initiative could certainly help in regulation and could make the moral suasion of the Inspector and the Bank more effective.

A third issue illustrated by the Trinidad and Tobago experience is the potential problem of indigenous or localised institutions which do not have a lender of first resort in the persons of a head office or parent which can provide liquidity support and also help to diversify the riskiness of the loan portfolio. This is not to make a case for continued foreign ownership of financial institutions in small, open economies, but to recognise that foreign ownership carried a significant benefit in respect of providing an implicit guarantees of the solvency and liquidity of the banks operating in the local economy.

Localisation and the licensing as a commercial bank of a thrift institution meant that the new entities did not enjoy the first line of defence which foreign-owned institutions had, and therefore in the event of difficulty, they came immediately and directly to the lender of last resort. Indigenous institutions also had to develop their own procedures and systems, and did not always have experienced bankers at the helm. Moreover, the new indigenous institutions had to carve out a niche in the marketplace for themselves and often found themselves with marginal business, poor locations, high risk accounts and a volatile deposit base. This meant that their portfolios were even higher risk than might be indicated by the size of the economy and the availability of business opportunities.

A fourth issue concerns what may be described a regulatory capacity. We had noted that in 1981, the Inspector of Banks found his office having to deal with over 20 new institutions of varying sizes and types of business, and also with real concerns about the basic viability of certain finance companies. While it is true that the legislation was

passed in 1979, and therefore the Central Bank, in which the Inspector's office is housed, had two years to prepare, the recruitment of staff with the level and mix of skills needed to address, not only compliance, but also liquidity and solvency and to design strategies of intervention, proved to be difficult in a buoyant economy in which persons with those kinds of skills were being employed at high rates of pay elsewhere in the economy.

A fifth issue surrounds the question of intervention. Regulation is intended to avoid intervention, but experience world-wide has shown that at some time it becomes necessary to intervene in an institution either to cause it to take action to make certain changes in its operations or to close it down, or to restructure its management or capital base or its scope of operations. In a small financial system in a small country, an intervention may become highly politicised. The interests of depositors, creditors and shareholders compete and conflict and inevitably cause reactions in the political sphere. These reactions may put additional pressure on the regulatory authorities. In the case of the Workers' Bank, the fact that it was an institution owned by workers and their representatives, immediately brought a resolution of its deep-seated problems into the realm of politics. It also raised questions of ethnicity in what is a plural society in which the ownership and control of resources follows ethnic lines to a significant degree. The Trinidad and Tobago experience also suggests that legislation should provide for Central Bank's application for liquidation or receivership through the courts to be made ex parte and unchallenged on account of the length of the process, the publicity generated and the cost of litigation. This has been most evident in the ITL case which has not yet

been resolved, and where because of the length of time and the numerous legal battles, depositors have experienced a severe erosion of the value of their deposits.

The Trinidad and Tobago experience also suggests that is useful for the Inspector of Banks to have certain directive powers and powers of sanction before the Central Bank and the Ministry of Finance become formally involved. The Inspector should be able, after consultation with the Bank, to issue ' cease and desist' orders to financial institutions, and to require that certain managers be removed. The power to determine the board of directors of an institution is however, best left in the hands of the Bank since it is a serious step, indicating that the affairs of the institution are in disarray. The options available to the regulatory authorities should therefore span the spectrum from suasion to directives, to powers of appointment and dismissal of management and boards to restructuring or outright closure of an institution which cannot be salvaged, with the safety net of deposit insurance to protect the smallest and least sophisticated depositors.

A final observation is that the experience of Trinidad and Tobago has been that changes in the regulatory framework came only after a crisis had emerged and the inadequacies of the existing legislation were made crystal clear in actual practice. Even in a situation of crisis, the political directorate and the drafters of the legislation moved slowly to put new measures in place, and as experience subsequent to the new measures has shown, there are still gaps and loopholes in the legal framework of regulation. Admittedly, lawmakers have to be concerned about the protection of the fundamental rights and freedoms of

individuals, and removal of certain powers from the judicial realm to the administrative realm can be fraught with danger if these powers are abused. However, where judicial restraint of administrative power and judicial resolution is given prominence, we may have the perverse result that mismanagement and even fraud is protected on grounds of the constitutional rights of the individual, while the rights of depositors to the access to and enjoyment of their property takes second place. As far as the financial system is concerned, our preference is for the administrative exercise of power in the interest of depositors and creditors, with managers and directors having recourse to the courts ex post facto if they feel that they have been aggrieved by the intervention of the regulatory authorities.

Summary and Conclusion

This paper sought to review the experience of regulation in Trinidad and Tobago. This experience we think is particularly instructive because the financial system has been shaken by several failures over the last seven years, which in turn has precipitated changes in the framework of regulation. Several issues in regulation in the context of small financial were identified, based on the experiences of the financial system in Trinidad and Tobago in the 1980s. These were (i) the institutions which should be covered by regulation; (ii) the need for deposit insurance and if possible, some form of self-regulation to supplement and complement regulation; (iii) the special problem for regulation and for the lender of last resort posed by the localisation of financial institutions and the growth of indigenous institutions; (iv) regulatory capacity; (v) the 'political sociology' of intervention in a

small, plural society; and (vi) the problems which attend judicial vis-a-vis administrative resolution of problems in the financial system.

In conclusion we would want to point out that policymakers and their advisers in small open economies should at all costs avoid the 'de-regulation' of their financial systems in the interests of the efficiencies which are presumed to flow from such a move. Our financial systems need more and closer regulation, not less. It is also important that adequate regulatory and insurance measures be put in place before a crisis occurs. The loss of confidence which results from inadequate intervention is far more costly to the economy than concerns that administrative power will be abused.

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