

**WHY DO BANKS DISAPPEAR?:
A HISTORY OF BANK FAILURES AND ACQUISITIONS
IN TRINIDAD, 1836-1992**

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ABSTRACT

Using the historical approach this paper examines the determinants of individual bank failures and acquisitions in Trinidad from 1836 to 1992. The historical approach is useful for diagnosing the origins of banking failures since it takes a long-term perspective and isolates the fundamentals of the problem. The historical perspective therefore, helps to avoid the mistake of diagnosing the symptoms of a problem for its causes. This paper argues that bank failure and acquisitions result from poor responsiveness to market structure and the competitive environment, lax lending and investment behaviour of banks, ineffective recruitment and retention of staff, government intervention and financial instability.

Keywords: bank failures; bank acquisitions; Trinidad

1.0 Introduction

As the worst economic crisis in decades takes its toll, many banks will disappear from the market because of failure or through consolidation. Bank failure occurs when a bank is unable to meet its obligations to depositors or other creditors, owing to unwarranted depositor withdrawals during events characterised by contagion or panic, or as a result of fundamental bank insolvency. To avert imminent failure, some banks may consolidate their operations with other banks through acquisitions or mergers. An acquisition refers to “an arm’s length deal, with the shares of the target firm being acquired in an act of mutual exchange and the owners of the acquired firm accepting cash, securities or some combination of both, in return for their shares. While in a merger one or both of the firms cease to exist, in an acquisition the acquired firm becomes a subsidiary” (Khan 2001). In cases where one company acquires all the assets of another company, the target company becomes merely a shell and will eventually liquidate. Contrastingly, a merger refers to a combination of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. A merger results in the creation of a new reporting entity formed from the combining businesses. Bank consolidation is not only a mechanism for rationalizing the operations of weaker firms, but can also be viewed as part of a normal process of growth.

While there is a rich array of literature on the history of bank failure and firm consolidation, many of these surveys focus on large economies at the centre rather than those at the periphery. This is partly due to the fact that banks in the periphery prior to 1970 were merely “branches”, which took instructions from multinational banks at the centre. As such, the domestic environment in which the branch operated was deemed to be irrelevant in the decision-making process. An examination of the history of banking in Trinidad, however, shows that such a perspective is misleading and inaccurate. In modern times, Augustine Nelson (1995) and Glenn Khan (2001) have researched the

issue of bank failure and bank consolidation in post-1962 Trinidad and Tobago. Additionally, there has been some attempt to examine the history of the banking sector in Trinidad and Tobago by Deryck Brown (1989) and in the corporate histories of Republic Bank (1987), Scotiabank (2004) and First Citizens (2007). With the exception of First Citizens' corporate history, little attempt has been made by these texts to investigate why banks disappear.

The subject of bank failure and consolidation has been the speciality of economists, who use various mathematical models to measure bank performance, asset quality, operating efficiency and managerial competence among other criteria. These models, however, often disregard the heterogeneity of decision rules and the impact of societal changes on firm performance. Moreover, economic models are based on the assumptions of "rational expectations" and a representative agent.¹ As a consequence, economic models often fall short of capturing and measuring the dynamic nature of competition and idiosyncratic investor behaviour. What previous and current financial crises have taught us, is that "mathematical models are a powerful way of predicting financial markets, but they are fallible".²

This paper does not propose to critique the use of history against economic models, but rather to highlight the fact that we need to construct economic models, that are capable of capturing the dynamic nature and interactions in market competition and to fundamentally rethink how financial systems are regulated (Shiller 2000). Although historians are accused of having a retrospective bias in analysis, the

¹ Rational Expectations refer to the assumption that people look to the government's current macroeconomic policy to form their expectations of future costs and price inflation. A representative agent model is a model in which all agents act in such a manner that their cumulative actions might as well be the actions of one agent maximizing its expected utility function.

² The Economist, January 24th -30th 2009 pp10-14, David Colander, Hans Föllmer, Armin Haas, Michael Goldberg, Katarina Juselius, Alan Kirman, Thomas Lux and Brigitte Sloth, 2009. "The Financial Crisis and the Systemic Failure of Academic Economics", Kiel Working Papers 1489, Kiel Institute for the World Economy.

historical approach can play an important role in this quest to find more robust, better equip economic models and theories.³

To commence this exploratory process, this paper investigates why some banks disappeared in Trinidad's long history of commercial banking from 1836 to 1992. As a preface to the study, a general history of the commercial banking industry in Trinidad is provided. Following this, the paper examines the various causation factors for the disappearance of commercial banks in Trinidad. In order to examine these causation factors, it is convenient to divide this study into four time periods. The first deals with the period 1836-1900; the second examines the years 1900-1939; the third 1940-1970 and the last considers the period 1970-1992. Throughout these periods, we discuss: (i) the factors driving growth in the banking sector; (ii) the competitive strategies of banks; and (iii) the impact of industry structure on bank competition and profitability. These discussion areas are useful for revealing the sources of an industry's current profitability, but also provide a context for understanding how and why competitive strategy is formulated and modified over time. The concluding section provides a summary of the major findings.

2.0 Historical Context

The history of commercial banking in Trinidad begins in 1837 with the establishment of a branch of the Colonial Bank. For most of the nineteenth century, the British-based Colonial Bank maintained a monopoly over the banking industry except for short episodes with the entry of the West India Bank (1846-1848) and the International Bank (1864-1866). At the turn of the twentieth century, commercial banks from Canada and the United States of America established branches in Trinidad

³ There are several reasons for this. Firstly, it may be argued that history allows us to see how economic change occurs through the changing relationship of economic and non-economic variables defined by time and space. Secondly, history provides "better economic facts" to test economic models and theories. Thirdly, history utilises inductive reasoning which takes us "beyond the confines of our current evidence or knowledge to conclusions about the unknown".

and elsewhere in the Caribbean region. In 1902, the Union Bank of Halifax became the first North American bank to open a branch in Trinidad, but was later purchased in 1910 by the Royal Bank of Canada. The Bank of Nova Scotia and the National City Bank of New York also established branches in Port of Spain. However, these closed shortly after they were opened. The Canadian Bank of Commerce, the forerunner to the Bank of Commerce (Trinidad) also established a branch in the 1920s.

By the 1950s, several foreign banks entered the banking industry owing to profitable opportunities arising from the North American trade. By the end of the 1960s, there were seven foreign banks operating in Trinidad—one British, three Canadian, two American and one jointly owned by British and Canadian interests. The eruption of social unrest in the 1970s caused the Government of Trinidad and Tobago to embark upon a policy of making foreign banks incorporate locally by offering their shares to locals. This localization policy was accepted with some reluctance by the Canadian banks, but was resisted by the American banks, Citibank and Chase Manhattan. Citibank eventually accepted to incorporate locally in 1984 following a government ultimatum, but later reconverted to a full foreign bank as the country entered into a process of economic and financial liberalization. Chase Manhattan opted to discontinue its operations in Trinidad and Tobago.

In response to the social upheavals of the 1970s, the Government of Trinidad and Tobago also embarked on a programme of indigenising the commercial banking industry. This led to the establishment of the National Commercial Bank and Workers Bank in the 1970s. The Trinidad Cooperative Bank, a saving institution formed in the early twentieth century, was also granted a license to carry on the business of banking in 1976. By the 1980s, the three indigenous banks found it increasingly difficult to sustain their operations and had to be merged into a single new entity in 1993.

3.0 The Establishment of Monopoly, 1836-1900

(i) *Growth Factors*

The establishment of banking corporations as the dominant organisation of the modern economy was not an abrupt event, but rather the culmination of a long history of financial innovation. Prior to 1837, finance was provided to estate proprietors and local merchants using the consignee credit system. Under this system, merchants advanced credit in the form of goods and estate supplies at commission fees of between 2½ and 5%. The ramification of such a business transaction was a commitment by the planter that his crop would be consigned to “the same merchant who would arrange its sale on the British market” (Williams 1972). At the end of the sale, deductions were made for both supplies shipped to the estates and commission charges and the remaining balance was deposited in the estates’ accounts. Consignee credit, however, became a risky financing instrument owing to the attack on the BWI sugar monopoly at the start of the nineteenth century.

The commencement of banking in Trinidad marked an evolutionary phase, in which “the banker [was] the transition from tradesman to merchant and then the further progression from merchant to banker” (Williams 1997). Unlike the consignee merchants who suffered unlimited liability, the subscribers to shares in the royal chartered Colonial Bank enjoyed limited liability up to the amount of their subscriptions—a right not given to ordinary individuals. The banking corporation also helped its owners (largely merchants) to reduce their agency costs by establishing branches in the host-country and recycled capital with the integrated mercantile firms thereby eradicating the need for associate merchant-bankers to raise capital externally. In addition, banking involved less credit risk than consignee financing since banks were confined by their charters to provide loans of a short-term nature with a high premium on security. The innovation of banking firms, therefore, was designed to minimise risk in a capitalist economy.

On May 15th 1837, the Colonial Bank (CB) became the initial occupant of the commercial banking sector in Trinidad and by extension,

several West Indian islands as well, which afforded the bank with certain incumbency advantages such as the pre-emption of scarce assets and consumer loyalty. As the first-mover firm, the CB easily captured demand for banking services amongst the island's small mercantile community and secured the responsibility to manage the Colonial Government's funds. These benefits can be attributed in part to the CB's ownership and locational advantages. In terms of ownership advantages, the CB's mercantile base provided the institution with a resourceful and well-networked directorship, which not only provided 'know-how' but the contacts necessary to create and capture demand. Although the CB maintained no domestic banking operations in London, its "free-standing nature" conferred crucial locational advantages. These included: (i) the ability to raise capital successfully on the London Stock Exchange by leveraging its reputation; (ii) access to valuable information at the centre for making informed business decisions at the periphery; and (iii) the capability to transfer business and technological skills since Trinidad had no prior experience in banking or capital investment.⁴ Taken together, these incumbency, locational and ownership advantages created an almost insurmountable barrier to entry, which made it extremely difficult for new entrants to penetrate the market or operate successfully.

The CB's monopoly was temporarily halted with the entry of the West India Bank (WIB) in December 1840. The WIB was formed by a group of regional merchants and planters, who were dissatisfied with the incumbent bank's limited credit facilities and high interest rates on loans. Additionally, the local proprietors felt that the CB exclusively served the English mercantile interest, which were intrinsically linked to the bank's London-based Board of Directors. To ameliorate this situation, the WIB promoters' assured its supporters that the local bank would restrict its loans to local planters and merchants. From its inception, the CB forcefully retaliated to the entry of the WIB. In a letter to the President of

⁴ A free-standing company may be defined as legally separate entity which is neither controlled by an operating enterprise in Britain nor functioned as an operating extension of a foreign multinational enterprise. Mira Wilkins, "The free-standing company, 1870-1914: an important type of British foreign direct investment", *Economic History Review*, XLI, 2 (1988) 262

the Board of Trade dated June 3, 1840, the CB Directors contended that there was no need for further banking firms since “as much accommodation has already been afforded by the Colonial Bank as the West India public has any legitimate use for or as can be advanced with safety”.⁵ Recognising that its condemnation was not sufficient to impede the new bank’s entry, the CB Directors contended that the WIB should not be granted a charter or privilege of issuing bank notes given its small capital base.⁶

There were also attempts to damage the reputation of the WIB. In September 1840, a rumour circulated in Trinidad that WIB shareholders would be responsible to the extent of twice the amount of their subscribed shares in the event that the bank was unable to cover its engagements. The rumour appeared to have originated from the CB to forestall the sale of WIB shares. Despite the publication of the WIB’s charter in the newspapers and attempts by the WIB Directors to pacify the situation, no less than 52 subscribers including James Kavanagh, joint manager of the WIB in Trinidad, withdrew their financial support for the bank. This resulted in the retraction of approximately 645 shares, or nearly one-half of the total subscription at the Trinidad branch. By October 1840, several disaffiliated members and opponents of the WIB proposed the establishment of a Bank of Trinidad. The plan never got off the ground possibly because it was unable to raise the necessary capital from the already financially strapped local planters and merchants.

Trinidad’s financial landscape also changed briefly with the establishment of the London and Colonial Bank, which began operating in Port of Spain on April 1st, 1864. The bank had branches in Barbados and Jamaica and had grand plans of expanding its operations to Australia and China. The new bank was formed on the London Stock Exchange with an authorised capital of £150,000 (\$720,000). By June, however, the London and Colonial Bank, at an extraordinary meeting gained its shareholders’ approval to merge with the British and American Exchange

⁵ Trinidad Standard, 14th December 1838

⁶ The West India Bank’s capital base was just \$2 million (£416,666) compared to the CB’s large capital base of \$9.6 million (£2,000,000).

Bank, which would give them a combined subscribed capital of £3 million (\$14.4 million) and a paid up capital of £450,000 (\$2.1 million). As a result, the name of the bank was eventually changed to the International Bank Limited. The International Bank, however, faced many challenges. At the outset, several of its promoters went into bankruptcy, including its chairman John Gladstone and W. J. Ferreira⁷. This inevitably caused investors to lose confidence in its operations even before it started. In February 1865, the British and American Exchange Bank was removed from the London Stock Exchange because it failed to inform the stock exchange about its merger and for failing to follow certain prescribed guidelines. To protect the inhabitants of the colony, the Trinidad Government passed an ordinance making the note circulation of the International Bank illegal.⁸ The International Bank discontinued its operations following a shareholders' meeting on March 2, 1866.⁹

(ii) Competitive Strategy

An important competitive strategy utilized by the Colonial Bank to retain and expand its monopoly position was the use of predatory tactics. From as early as February 1840, for example, the CB began mopping up excess liquidity in the market by calling in outstanding cash credits and reducing discounts. Consequently, “only an extremely small and prosperous group of planters received accommodation from the CB” (Brown 1989). In an attempt to further undermine its competitor (the WIB), the CB directors’ devised a malicious clearing system, which called for the periodic (not less frequent than once a week) exchange of notes and payment of balances. Although the CB recommended a weekly settlement, it proceeded to clear banknotes on a daily basis and even more than once a day, should they amount to a large sum. This had the effect of reducing the liquidity position of the WIB, which was already strapped for

⁷ W. J. Ferreira was the sole shareholder of 15,000 shares belonging to the British and American Exchange Bank.

⁸ Colonial Bank Correspondence (thereafter CBC), Calvert to Oscar Marescaux, 12th October 1865 [C/1865/19]; See also Ordinance No. 18 of 1865: Issue of Bank Notes.

⁹ CBC, Calvert to Alex Reid, 1st February, 1865 [C/1865/2]

cash. The WIB as a result was unable to provide optimal accommodation to its customers, causing many individuals early on to lose confidence in its operations.

The CB also used threats of violence or blackmail against its rival's suppliers. In December 1840, the WIB faced one of its greatest challenges when Messrs H & J Johnson and Company, its London Correspondent Agent, prematurely stopped making payments on its behalf and immediately withdrew its services from the bank. The WIB sought to allay its customers' fears by making arrangements with another prominent banking house in London—Messrs Smith, Payne and Smiths to act as its agents. By February 1841, Messrs Smith, Payne and Smiths also declined to act as its agents. In a letter to the editor of the Trinidad Standard, Henry Moore and Company of Liverpool tried to calm the sceptical public by telling them that Messrs. Smith, Payne and Smiths would continue to operate as the bank's agent until a replacement was found. Furthermore, Henry Moore blamed the "CB and another old and respectable house" for throwing obstacles in the WIB's way towards gaining a permanent correspondent agent in London. Eventually Messrs Mortimer and Company and the Union Bank assumed the role of London correspondents for the WIB.

As a late-mover, a major challenge for the WIB was the entry barrier posed by product differentiation. Given its initial occupation of the banking industry, the CB established a substantial level of brand identity and customer loyalty. The WIB therefore, had to spend heavily to conquer existing customer loyalties. In the area of deposits, the WIB lured customers by offering 2½% interest on the balances of current accounts, which undeniably was differentiated from the CB's zero percent of deposits. Fixed deposits lodged for twelve months received 4% interest and 3% for shorter periods. The CB offered only 3% for monies lodged on a twelve-month fixed deposit. Several customers were enticed by the new entrant's rates, which caused some consternation for the CB's Trinidad manager.¹⁰ In an attempt to capture Government funds, the

¹⁰ CBC, Calvert to Rennie, 14th November 1844 [C/1844/46]

WIB offered competitive interest rates of 3% on current accounts and 4% for monies lodged for twelve months. This differed from the CB's offer of 2% on all sums deposited for six months; 3% for nine months and 4% for monies lodged for twelve months. The CB having an established clientele and more experience exercised greater caution and adopted the view that it was better to "sacrifice profit than to run the risk of losing capital".¹¹

Notwithstanding its cautious stance, the CB was required at times to respond to the WIB's predatory pricing tactics. In the 1840s, the CB typically discounted bills of exchange for 8%. The WIB however, seeking to penetrate the market discounted at 6%. Many customers were attracted to the WIB's lower rates. The CB therefore, was forced to reduce its discount rate to 6% in 1841 but this reduction in the discount rate was only limited to bills of exchange from larger, more creditable planters.¹² The CB undoubtedly displayed tremendous experience and conservatism despite competitive pressure from a new entrant. On the other hand, the WIB in its quest to differentiate its brand accumulated significant start-up losses.

From early on, the WIB showed signs of financial difficulties and poor liquidity. In mid-1843, the WIB Manager, for example, requested a one-day moratorium from the CB on redemption of its drafts amounting to £4,000 (\$19,200). Without any overt hostility, the CB insisted on payment and advised its Branch Manager to avoid as far as possible collecting paper belonging to the WIB since as the Secretary noted that "such an establishment cannot fall without dragging many others with it" (Republic Bank, 1987). By November 1847, the WIB again found itself in financial difficulties and was forced to invoke its 60-day suspension clause. This allowed the WIB to defer cash payments until it could collect its receivables and pay off its outstanding liabilities. The WIB never

¹¹ CBC, Calvert to Rennie, 1st September 1841 [C/1841/28]

¹² CBC, Calvert to Rennie, 1st September 1841 [C/1841/28]

resumed operations after its 60-day hiatus and was completely liquidated in February 1848.¹³

The WIB's liquidity problems were partly due to its inability to raise paid-up capital. In the nineteenth century, commercial banking required a large investment in financial resources and working capital since Trinidad was a non-moneyed economy and a sugar-producing colony—a seasonal industry. Being a British mercantile-based bank, the CB found it much easier to raise capital on the London Stock Exchange. In contrast, the WIB was an indigenous bank, which did not enjoy the same prestige as their British counterparts. Thus, the WIB found it extremely difficult to raise the much needed capital to finance its operations. Up to 1847, the WIB had been unable to raise the \$2 million (£416,666) in paid-up capital required by the charter. At the time of its demise, the WIB's paid-up capital was estimated at just \$533,000 (£111,041). The WIB's strategic mistake, therefore, was to assume that the capital needed for such a venture could be raised exclusively in the colonies.

(iii) Bank Performance

Although bank managers play an important role in risk management and overall bank performance, external factors such as changes in the macro-economic or socio-political environment can adversely affect the ability of borrowers to repay their loans. When the CB launched its operations in 1837, Trinidad's economy faced numerous challenges including a recession in the sugar industry¹⁴; the impending emancipation of slaves; and a shortage of labour.¹⁵ As a new firm, the CB had high start-up costs which minimised its profit performance. In its first

¹³ In 1847, The West India Bank's liabilities far exceeded its liquid assets with the amount in hand standing at a mere £34,167 to meet constant liabilities of £413,510. *Port of Spain Gazette*, 11th January 1848

¹⁴ The recession could be attributed to the fall in demand for West Indian commodities following the defeat of Napoleon after 20 years of war and peace at Vienna in 1815.

¹⁵ Trinidad became engaged in sugar production only ten years before the abolition of the slave trade. Consequently, its slave population was very small given the large size of the island.

year, the Trinidad branch made a gross profit of \$24,620 and by 1840, this figure increased to \$49,786. Increased competition from the WIB in 1841, however, led to a sharp decline in the CB's profitability. In 1841, for instance, the CB's Trinidad branch made a gross profit of just \$26,286—a 47% reduction from the previous years performance. Although industry competition reduced the CB's profitability, the greatest blow to the banking industry came from the enactment of the Sugar Duties Equalisation Act in 1846. This led to the collapse of several sugar-cane estates and a huge increase in loan losses. The CB, for instance, had to write-off considerable losses amounting to \$67,433 and \$316,986 for 1849 and 1856 respectively.

During the 1850s, the island's economy gradually improved because of an increase in the value of exports and the introduction of Indian immigration. This momentary prosperity renewed interest in investment by the 1860s and Trinidad experienced a mini-construction boom. The sugar industry also received substantial investments in all kinds of machinery and tools including centrifugals and steam engines (Lobdell 1993). This improvement in Trinidad's economic state was also reflected in the bank's profit performance. In the ten-year period (1857-1866) for instance, the Colonial Bank's Trinidad branch average net profit increased to \$131,649 per annum from \$37,450 per annum for the previous ten-year period (1847-1856). Besides improved economic growth, the CB also assumed greater credit risks in the 1860s and 1870s to augment their profits. In an effort to capture more business and gain scale economies, the CB also opened a sub-branch in San Fernando in July 1873.

The last two decades of the nineteenth century were difficult ones for the BWI sugar industry, which faced considerable worldwide competition. As sugar production spread to countries in Asia and Africa, the British Caribbean's market share decreased from 15% in 1860 to a mere 7%. To worsen the situation, the beet sugar industry expanded its production and benefitted from 'bounties' or direct subsidies, which allowed them to sell below the BWI's production costs. It was during these testing times that the CB began to lend to advance credit to some

large cocoa proprietors. Cocoa enjoyed a tremendous boom between 1866 and 1920. Despite this, the CB did not adequately diversify its loan portfolio, which consisted mostly of loans to sugar cultivators. The beet sugar crisis had a devastating impact on the CB's performance. In 1877-1886, net profits averaged \$1,447,313 but declined in 1897-1906 to just \$690,108 or a 52% reduction. There was also an enormous rise in the amount of written-off bad debt. In 1877-1886, written-off bad debts amounted to just \$55,084 but had risen sky-high to \$617,326 in 1887-1896—a 1021% increase. Under these devastating circumstances, the CB found it extremely difficult to remain afloat and was forced to engage in acquisition discussions at the turn of the twentieth-century.

In summary, the banking industry in nineteenth century Trinidad was almost exclusively monopolized by the CB except for short interruptions with the entry of the WIB (1840-1848) and the London & Colonial Bank (1864-1866). The CB's monopoly was partly sustained by its incumbency advantage, which created considerable difficulties and entry barriers for new competitors. The CB also benefitted from ownership and locational advantages, which stemmed from its free-standing corporate nature and experienced British mercantile base. Although these competitive advantages provided the CB with some measure of protection, unstable economic conditions were found to have a negative impact on bank profitability and performance. Recessary conditions, for instance, made credit risk more acute and threatened the operations of even the CB, which enjoyed a monopoly in the last two decades of the nineteenth century. The probability of bank failure also seemed to increase when a bank was undercapitalised as demonstrated in the collapse of WIB and London & Colonial Bank in 1848 and 1866 respectively. Towards the end of the nineteenth century, it has also been shown that the CB's excess concentration of loans in the sugar industry or inadequate diversification contributed to its poor performance and struggle for survival.

4.0 From Monopoly to Oligopolistic Competition, 1900-1939

(i) *Growth Factors*

At the start of the twentieth century, Trinidad witnessed the entry of several multinational banks from Britain, Canada and the United States of America. These new entrants were not only attracted by the prospects of achieving huge profits, but also expanded overseas owing to encouragement from their respective home governments, increased intensity of competition at home, the need to follow and lead customers into new markets, and as a means of risk diversification and gaining scale economies.

The arrival of the Union Bank of Halifax (UBH) in 1902 marked the end of the CB's monopoly. It is plausible that the UBH opened a branch in Trinidad because of the strong influence of a bank director J.F. Stairs, who was also responsible for the establishment of the Trinidad Electric Company (Armstrong and Nelles, 1988). Although the UBH made some attempt to expand its operations regionally and abroad, it failed to recognize the need for further expansion into the growing national market. By this time, Montréal, and to a lesser degree Toronto, were becoming the financial centres for all of Canada. Within a few years, increased competition from much larger financial institutions meant that a merger with another bank was essential for the capital-starved UBH's survival (McDowall, 1993).

Royal Bank of Canada (RBC) recognised this and proposed a merger with the UBH given its strong regional branch network and well-trained staff. A deal was eventually struck and UBH's shareholders were asked to exchange their stock at a rate of five UBH's shares for two RBC shares. There was little reason for hesitation to this proposal since RBC's shares were nominally worth \$100 and trading at nearly \$250 whilst UBH's shares were nominally valued at \$50. In addition, RBC promised to boost its dividend to 12%, take UBH's chairman onto its board and to retain the UHB employees for at least a year at existing salaries. On September 7, 1910 the deal won unanimous approval at a UBH special shareholders meeting. The following morning RBC held a special

shareholders meeting and successfully approved an increase of \$1.2 million in the bank's paid-up capital to cover the 12,000 shares issued to UBH shareholders. By November 1910, the transaction was approved by the Ottawa Finance Department. In consequence, the UBH ceased to exist and resulted in the establishment of RBC into Trinidad via horizontal integration (McDowall, 1993).¹⁶

From as early as 1901, the General Manager Henry McLeod of the Bank of Nova Scotia (BNS) resisted pressure to establish a branch in Trinidad because of the difficulties involved in reaching the island. McLeod also complained "that there were very few men in service having the necessary experience, ability and caution that we would be justified in sending...so far away that control of their actions would be particularly nullified" (Quigley, 1989). In 1906, McLeod was persuaded by the prospect of receiving substantial commercial loans to open a branch in Trinidad. Within six month of opening, however, BNS Port of Spain's first manager, E.T. Hammer died from yellow fever (Schull and Gibson, 1983). McLeod used this event to abruptly close the branch in 1907. In his correspondence to the Board of Directors, McLeod disclosed that the real problem was that "the deposits on 23 March [1907] were less than \$30,000; the loans \$217,000, fully 80 percent of which are objectionable and dangerous...the place is hopeless in comparison with Canadian, Cuban, or Jamaican fields" (Quigley, 1989). Despite the BNS' exit, the Canadian Bank of Commerce in 1920 became the third Canadian bank to establish a branch in Trinidad.

Unlike their Canadian competitors, American banks faced tremendous difficulties penetrating the banking industry in Trinidad. In July 1919, the National City Bank of New York (NCBNY) was the first American bank to open a branch in Port of Spain; it promised to be a more competitive bank by providing "complete bank service for all people" regardless of age and occupation.¹⁷ From the onset however, the CB and RBC protested against NCBNY's entry, arguing that banks of the

¹⁶ Horizontal integration refers to the combination or acquisition of a company at the same level of the value chain.

¹⁷ Trinidad Guardian, 29 June 1919

British Empire were not afforded the same rights of entry in the State of New York.¹⁸ Despite attempts by the British Government to resolve this issue, the New York State Legislature upheld its restrictive policy barring British multinational banks from establishing branch banks in New York. In retaliation, the British Government drafted a bill regulating businesses carried on by aliens and brought it before the Trinidad Legislative Council in October 1919 for ratification. The Attorney General in his opening submission argued that the generative force behind the bill came from the Secretary of State for the Colonies and had not, as was generally believed, emanated from Trinidad. The bill therefore was imperial in its purview. He maintained:

British banks operating in foreign countries are subject to certain disabilities, whereas foreign banks operating in British countries are free to act without any such restrictions and I submit that as a matter of common sense such a condition is absolutely unfair to British enterprise and British trade, of which British banking is a very important part, and legislation has been adopted as a matter of Imperial policy.¹⁹

Dr Enrique Prada and Adam Smith, however, doubted whether the Alien Bankers Ordinance was in fact part of an imperial policy since the Mother Country and Australia were yet to adopt similar legislation restricting the operations of alien bankers. The local business community also rejected this claim, and called on the government to open up the economy to foreign competition, which they felt would increase competition and reduce the effects of collusion between the CB and RBC. Despite the attempts of the Chamber and the local business community,

¹⁸ Foreign banks were subject to range of regulations governing their entry and operations in New York. Firstly, before a bank could establish an agency, it had to secure a license from the New State Banking Department, which had the right to inspect their accounts. Secondly, they were prohibited from accepting deposits from any corporation, firm or individual in the State of New York, even those made from British firms with offices in New York. Thirdly, they were required to pay a tax of 5 per cent on the gross amount earned on funds loaned, used or employed in the State. No deduction of any kind was permitted in arriving at the amount on which this tax has to be paid. In addition, banks were also required to pay federal income tax. See WICC, 15 May 1919

¹⁹ Hansard, 14 November 1919: Debate on the Ordinance Regulating Banking Businesses carried on by Aliens

the Government enacted the Alien Bankers Ordinance, which placed American banks on the same footing as British banks operating in New York. NCBNY, however, was dissatisfied with this arrangement and wound-up its operations in Trinidad.

Having broken the monopoly in the banking industry, RBC in 1911 attempted to restore a monopoly in the banking industry by offering to acquire the CB's assets in the West Indies. RBC was willing to pay as much as £9 per share. Negotiations, however, broke down in 1912 causing the CB's share price to drop from a high £8 5/8 to £6 9/16. A few years later, the CB was again targeted, but this time by Barclays Bank to form a strategic alliance. In 1917, the Chairman of Barclays Bank, F.C. Goodenough, conceived the idea of an "Empire Bank" carrying on domestic banking on British lines throughout the sterling area and able to transfer funds through London to any part of the organisation as required. The CB was a prime target for this scheme since the Colonial Bank Act of 1916 extended the powers of the CB to carry on the business of banker in the United Kingdom or anywhere in the British Empire. This allowed the CB to expand into Africa. In 1917, the legislation extended the bank's powers to carry on business anywhere in the world where British citizens were able to transact business (Jones, 1993). In a note which he drew up for discussion with members of his own board, Goodenough showed how a strategic alliance with the CB could be beneficial to the business needs of the two banks as follows:

(i) Barclays could be a source of the badly needed capital for the Colonial Bank; (ii) Barclays could provide in depth throughout its branches in the United Kingdom a much needed potential of new business connections to stimulate the flow of business to the Colonial Bank's overseas branches; and (iii) the close association with one of the principal London clearing banks would enhance the standing of the Colonial Bank with the general business community both at home and overseas (Crossley and Blandford, 1975) .

By December 1917, Barclays Bank Limited (BB) issued a circular to its branches announcing that a joint working arrangement had been entered into with the CB, under which BB would act as its principal

banker and in return direct to the bank all its business relating to those areas overseas where it had branches. As part of this arrangement, BB made a modest investment of £40,000 in the CB by subscribing for 5,000 new ordinary 'B' shares of £20 each (£6 paid) at a premium of £2 per share. In that same year, BB merged with the London Provincial and South Western Bank, which held 18,501 shares in the CB (Crossley and Blandford, 1975). Goodenough also persuaded the Bank of Montreal and the National Bank of South Africa in 1919 to invest in the CB, which allowed them representation on the Board of Directors.²⁰ The following year, Goodenough bought 95% of the shares in the Anglo-Egyptian Bank (Ackrill and Hannah, 2001). After a thorough examination, BB in 1924 also decided to buy the National Bank of South Africa, which had encountered serious financial problems. Having the majority shareholding in these banks, BB embarked on creating a unified multi-regional banking group.

The first step in this process towards creating a unified multi-regional banking group involved reorganising the CB's capital and extending its powers. This would have provided the CB with "the foundation on which a much larger and more comprehensive institution might be built" (Baster, 1929). By August 1925, the CB was duly reincorporated by special Act of Parliament with an authorised capital of £10 million. In the month following, the CB's name was changed to Barclays Bank (Dominion, Colonial and Overseas) to reflect its new persona. During the months of November and December 1925, the shareholders of the Anglo-Egyptian Bank and the National Bank of South Africa agreed to participate in this scheme (Jones, 1993). Barclays DCO therefore, was controlled by BB, but not wholly owned by it.

(ii) Competitive Strategy

By 1920, competition in the banking industry intensified because of the introduction of RBC and CBC thus contributing to an oligopolistic industry. The CB/ Barclays Bank DCO, having the benefit of incumbency

²⁰ The Bank of Montreal purchased 10,000 of the new Colonial Bank 'B' shares.

advantages, led the way in formulating collusive agreements, which reduced the level of price competition within the industry. The banks adhered loyally to these collusive agreements since they recognised that much benefit could be derived through cooperation. Interest on deposit and savings accounts was one area controlled by these agreements. In the period 1921 to 1928, the cartelised banks paid 3% on all interest-bearing accounts. The banks however were forced to collectively reduce this rate on all deposits to 2% in 1932 and then again to 1½% in 1935 owing to the negative impact of the Great Depression.²¹ Although Barclays Bank DCO was able to exert tremendous influence on the other banks given its large market share, the Canadian banks were not mere bystanders in the construction of these collusive agreements and at times did influence the price at which banking services were offered. In 1937, for example, the Canadian banks thwarted Barclays Bank DCO's attempt to reduce the interest on deposit and savings accounts from 1 ½ % to a meagre 1%. This was largely owing to Canadian bankers' fear that such a reduction would allow outside competitors to penetrate the market and would put their institutions into disrepute with members of the public.²²

Furthermore, firms engaged in non-price competition, which included activities such as expanding the branch network, product differentiation, improving customer service, selection of quality personnel and the establishment of foreign agencies to facilitate trade. The Canadian banks were pioneers in this type of competitive strategy but were immediately imitated by Barclays Bank DCO, which enjoyed the benefits of first-mover advantage. Barclays Bank DCO consequently continued to dominate the market but was soon faced with even greater challenges as new entrants from Canada and the United States penetrated the market.

²¹ ACC0080-3554 Interest Rates and Turnover Charges (September 1932-March 1933)

²² ACC0080-3553 Reports of Visits to Branches by A.P.G Austin, Local Director in the West Indies (March 1935-December 1938)

(iii) Bank Performance

According to an internal report by Barclays Bank DCO in 1934, it was estimated that Barclays Bank DCO controlled some 65% of the exchange business in Trinidad whereas the Canadian banks, RBC and the CBC, accounted jointly for the remaining 35%. Added to this, the report claimed that Barclays Bank DCO maintained a good retail business and managed most of the big accounts on the island.²³

Barclays Bank DCO's dominance in the industry was also reflected in its note circulation position.²⁴ In 1933, Barclays Bank DCO's note circulation in Trinidad reached £150,761 (\$723,652.80), which was approximately 50% more than its closest rival. Comparatively, RBC had a note circulation of about £72,744 (\$349,171.20) whilst the CBC circulated just £14,475 (\$69,480). In 1938, Barclays Bank DCO came close to exceeding its note circulation limit of £750,000 (\$3.6 million) and also suffered a run on its operations at San Fernando, following the announcement that Britain was going to war with Germany in 1939. The "run on the bank" fortunately was averted when the Port of Spain Manager sent the bank van on its regular trip with a large set of coin bags, which had been ostentatiously filled with rocks. Barclays Bank DCO though, still had a shortage of funds and had to stock up on the notes of its competitors until it could get permission from the Treasury to increase its note circulation.²⁵ Despite reaching full capacity, Barclays Bank DCO continued to dominate the banking industry and maintained much of its initial market share.

²³ ACC0011-0197 Review And Statement Of West Indian Branches (March 1926-December 1934).

²⁴ According to business historian Kathleen Monteith, "the significance of the level of note circulation by a bank as an indicator of its market share lies in the fact that a bank's notes are indicative of its level of business". Kathleen Monteith, "Barclays (DCO) In the West Indies 1926-1962," PhD diss. University of Reading, 1997 161-164.

²⁵ Republic Bank Ltd, From Colonial to Republic 111.

5.0 The Challenge of Local Responsiveness, 1940-1970

(i) *Growth Factors*

During the period 1940 to 1970, commercial banks were faced with several competitive challenges and new demands, which necessitated the shift from a purely global strategy to an international strategy. There were several factors which facilitated the implementation of an international strategy. Firstly, the events of World War II (WWII) exposed the multinational banks' home-country operations to serious danger and threatened the communication system between the multinational banks' headquarters and their overseas branches. The transfer of knowledge and expertise to foreign subsidiaries in consequence came to be seen as being important. The war also facilitated an internally-generated economic boom in Trinidad, which enhanced the liquidity position of the state and ordinary individuals. Politically, Trinidad became a member of the British West Indian Federation and ultimately gained the right to self-determination in 1962 in its quest towards achieving greater local autonomy. Racial hostility also came into sharp focus during this period because of the American influence at the bases and the commencement of mass electoral politics. By the 1950s, the colonial government was managed almost exclusively by locals, who changed the direction of public policy towards supporting an industrial-centred economy. Given these changes in the local environment, it became progressively clearer that the multinational banks' global business strategies were not sufficiently locally responsive. In addition to these challenges, six new banks with varying degrees of success penetrated the banking industry, including Bank of Nova Scotia (1954), the Bank of Trinidad (Gordon Grant) Ltd (1959), the Bank of London and Montreal (BOLAM, July 1960), the Swiss West Indies Bank (October 1960), Chase Manhattan Bank (1963) and First National City Bank (1965).

By the 1960s, therefore, the banking industry was oversaturated, which made it difficult to acquire market share. In 1963, for example, the Bank of Trinidad (Gordon Grant) Ltd (1959) found it extremely difficult to penetrate the market and decided after four years of operation to sell its

assets to Barclays Bank DCO. The BNS and First National City Bank also faced a similar battle to acquire market share. BNS attempted to get around this situation by focussing on a new niche area in consumer financing, which proved to be viable in the long-run. In contrast, Citibank moved away from retail banking to focus almost exclusively on corporate and merchant banking in the 1980s. Although some of the other commercial banks have become involved in providing merchant banking services, Citibank retained a competitive edge over the other banks because of its huge capital base and international operations that span over 100 countries—a tremendous economies of scale advantage.

Government intervention was another factor that led to the exit of banking firms. In 1969, the Government of Trinidad and Tobago enunciated a policy in its Third-Five Year Plan, in which no new foreign commercial bank would be permitted to establish in the country unless a new kind of service of great priority in the development effort (such as development banks or mortgage banks) would be involved. Coincidentally, however, the triumvirate owners of BOLAM agreed to go their separate ways. In the process, BOLAM was allocated to the Bank of Montreal (BOM), which did not operate in the island. The BOM, in consequence, requested a license to operate in Trinidad. Dr. Williams, then Prime Minister of Trinidad and Tobago, however, did not see this transaction as simply a transfer of shareholding from one bank to the next but rather the entry of a new foreign bank, which had no special services to offer the people of Trinidad and Tobago. In consequence, Williams blocked the Bank of Montreal from purchasing the bank's shares, and commenced negotiations in March 1970 for the purchase of BOLAM and its finance company, BOLABAR, which was promptly purchased for TT\$1.4 million. By July 1, 1970, BOLAM was nationalised and converted into the National Commercial Bank of Trinidad and Tobago (NCB).

By 1972, the Government also decided to encourage the localisation of foreign banks. Six foreign banks heeded the call and became locally incorporated. Citibank and Chase Manhattan Bank resisted these attempts and were eventually given an ultimatum to incorporate locally or have restrictions placed on their operations. Citibank reluctantly

complied and offered its first share issue in 1984. In 1989, Citibank reconverted to full foreign ownership. Chase Manhattan, however, discontinued operations in Trinidad and Tobago. According to Philip Rochford, Chase Manhattan appeared perturbed by Government's intrusion into the banking sector and more so since, it came from a measly "Banana Republic". Joy Caesar conversely believed that Chase Manhattan Bank experienced tremendous difficulties penetrating the retail banking market, which was oversaturated with six commercial banks competing for the same market-segment and saw this opportunity to exit.

Another reason for the disappearance of banks might be attributed to fraud. In October 1960, the Swiss West Indies Bank announced its intention of making \$480 million available as credit for approved projects to the Federal and all unit governments of the Federation.²⁶ Initially, the Swiss Bank started operations in Trinidad as a Bureau de Change on Fredrick Street and later relocated to Chacon Street in Port of Spain. Interestingly, the Swiss Bank's registered office was located at Main Street, Scarborough in Tobago and not in the federal capital where all the major federal decisions would be undertaken (Brown, 1989). This was surprising since the Swiss Bank's main objective was to attend to the needs of the Federal Government. After a few months of operation, the Swiss Bank fell into disrepute following the publications of various statements and letters between bank officials and government officials in the opposition paper – The Statesman. In September 1961, one of the published statements by the Swiss Bank Managing Director Archibald Chapman alleged that certain PNM Government Ministers had been actively soliciting the Swiss Bank to make a donation of £100,000 (BWI\$480,000) towards the purchase of a newspaper press for the PNM, in the event of business materialising.²⁷ The Swiss Bank was expected to raise funds for

²⁶ Chronicle of the West India Committee, October 1960

²⁷ The Statesman, 30th September 1961

FISA²⁸, which was in negotiations with Compagnie Française de Transactions Internationales, TRANSACO.²⁹

In September 1961, Opposition M.P. Simbhoonath Capildeo exposed these allegations in the Legislative Council. Following this, Chapman filed an affidavit on September 8th 1961 declaring that he had been warned by a Government Minister to say nothing and was issued an indirect threat on his life. This matter was eventually raised in the Legislative Council where Government Ministers Dr Williams and Kamaluddin Mohammed refuted these claims.³⁰ Given the bank's damaged reputation, the Swiss Bank's three directors filed a declaration of solvency in the Port of Spain Supreme Court as a preliminary to voluntary winding-up. The declaration was made by Archibald Chapman (of France), Horace Whitaker (of Port of Spain) and Kenneth Good (Tobago). Consequently, Dr Williams launched his own investigations into the matter; and several implicated Ministers filed writs for libel against the Opposition Party paper "The Statesman" for damages. It was not entirely clear what happened after the Swiss Bank's departure or with Dr Williams' investigation (CO 1031/4078).³¹

(ii) Competitive Strategy/ Bank Performance

Notwithstanding the entry of several new entrants, the failure of other banking firms was perhaps pre-empted by the existence of the price cartel and the quick exit of some new firms. Although the BNS and BOLAM were new entrants, they were easily assimilated into the existing collusive agreements. Throughout most of the period, the collusive

²⁸ OFISA was a Venezuelan company which had been contracted by the Trinidad Government to carry out the \$43,000,000 Sewerage Scheme.

²⁹ Compagnie Française de Transactions Internationales, TRANSACO was expected to supply materials and extending credit in connection with electricity, equipment, shipyard facilities, buses and telephone to the Government of Trinidad and Tobago.

³⁰ Trinidad Guardian, 9th September 1961

³¹ In 1965, West Indian Cricketer and PNM Minister Learie Constantine was awarded monetary compensation for defamatory comments made in the Statesman. Constantine was accused of having shares in Metal Works Company, a company associated in some way with the Swiss West Indian Bank.

arrangement regulating prices remained intact. There were a few instances where participant banks engaged in price competition or cheated on the agreements. In spite of this, Barclays Bank DCO maintained tremendous market power and continued to exercise price leadership over the other participant banks. RBC however, proved to be a strong competitor. Even though RBC was unsuccessful in its attempt to set the prices for the collusive agreement in the early 1940s, it gained a much larger share of the medium and smaller customer base than Barclays Bank DCO because of its willingness to assume larger risks. RBC also adopted a locally-responsive product differentiation strategy, but maintained its global focus. This allowed RBC to increase its market share and capture new demand. The CBC and new entrant banks maintained their globally-centred strategies without making much effort to be locally-responsive. As a result, they did not expand much beyond their existing customer base.

6.0 The Creation and Demise of the Indigenous Banks, 1970-1992

(i) Growth Factors

In the aftermath of the 1970 Black Power Revolution, the Government of Trinidad and Tobago sponsored the introduction of two indigenous banks: National Commercial Bank (1970) and Workers' Bank (1971). The establishment of these indigenous banks were the result of government intervention rather than boom conditions. In the 1970s, a number of Indo-Trinidadian businessmen also promoted the establishment of a branch of the Bank of Baroda in Trinidad and Tobago. The PNM blocked this plan, which it considered to be contrary to its policy of indigenising the banking system.³²

During the oil boom years (1974 to 1982), the number of operating commercial banks increased from eight to nine because of the entry of another indigenous bank, the Trinidad Cooperative Bank in 1976. Even

³² Ryan and Lou Anne Barclay, Sharks and Sardines: Blacks In Business in Trinidad and Tobago (St Augustine: ISER, 1992) 102.

though there was only one new entrant to the industry in the boom period, there was a significant increase in the number of bank branches, which rose from eighty-one branches in 1970 to 117 branches by 1985. Correspondingly, the commercial banks' total assets increased exponentially from TT\$491.4 million in 1970 to TT\$5,215.9 million by 1980. Economic conditions may have helped to mute rivalry amongst the larger, established foreign commercial banks because of an expanding profit pool; hence, their conservative and bland response to competition.

By 1983, Trinidad was plunged into an economic recession because of falling oil prices, an ineffective petroleum tax regime and a decline in petroleum production and exports.³³ Another contributory factor was the generous wage increases given to public service workers for the period 1981-1983, which ranged from 62% to 86%. Moreover, the excessive demand for goods and services fuelled high inflation rates of 14.3% in 1981, 11.4% in 1982 and 16.7% in 1983.³⁴ Given these unsustainable expenditures, Trinidad experienced a fiscal deficit for a ten-year period from 1982 to 1993. The slowdown of the economy negatively affected the whole financial industry, which had been encouraged during the boom, because of excess capacity, to make loans to previously "uncreditworthy" customers. In terms of the commercial banks, the number of banks operating in Trinidad dropped to eight in 1985 owing to government's localization policy and/or arguably Chase Manhattan Bank's poor profit performance.³⁵ The recession did not result in a decline in the number of

³³ Oil production and exports dropped by as much as 30% and 36% between 1978 and 1983 respectively.

³⁴ Farrell, *Central Banking in a Developing Economy*, 88-90; Central Bank of Trinidad and Tobago, *Handbook of Key Economic and Financial Statistics* (Port of Spain: CBTT, 2005).

³⁵ Joy Caesar is of the view that Chase Manhattan Bank exited Trinidad because of Government's localization policy but also due to its inability to acquire a significant portion of market share. Joy Caesar, personal interview, San Fernando, 19 August 2004. Joy Caesar joined Citibank in the early 1970s after a short stint as a teacher at St Joseph's Convent, San Fernando. In 1993, Caesar became the first female Vice President in charge of operations, technology, human resources and public affairs at Citibank. Besides her successful career, Caesar was a former Director at the now defunct Trinidad and Tobago

bank branches (which totalled 121 by 1990) but significantly slowed the rate of branch expansion and product innovation. By the mid-1980s, the operations of the indigenous banks became unsustainable. This resulted in the Central Bank of Trinidad and Tobago taking over Trinidad Cooperative Bank and Workers Bank in 1986 and 1989 respectively. By 1992, the National Commercial Bank also found itself in financial difficulties. On March 9, 1993, these banks were taken over by the Central Bank and merged into a new entity called First Citizens Bank.

(ii) *Competitive Strategy*

In the 1970s, the new entrant banks faced an important challenge of having to gain initial market share. To start the process of capturing market share, the new entrants established and expanded their branch networks. Assuming that increased market power yields larger earnings, the NCB expanded from just one branch in 1970 to 18 branches with over 900 employees, 23 years later (Waterman, 2007). This involved investing millions in buying and building branches and hiring and training the staff to run them. By 1982, however, branch expansion slowed at all the commercial banks with the exception of NCB, given the sudden drop in petroleum prices and recessionary conditions. Rochford, the Managing Director writing to shareholders, explained why it was necessary for NCB to continue branch expansion during below minimum economic condition as follows:

Branch growth is critical for future profitability so that the NCB had to consciously accept a decline in profits in the short term to assure increasing profits and being able to compete more effectively with the longer established banks in the future...Branch growth was also necessary to give coverage to the whole nation (Waterman, 2007).

Although branch expansion allowed NCB to increase its market share from 3% for both total deposits and total loans in 1971 to 20% and 14% in 1992 respectively, the interest revenue collected was too small to sustain the bank's branch operations (Nelson, 1995). WB, however, was

more conservative in its branch expansion initiatives. Starting with just one branch in 1971, WB increased to four branches in 1978 and reached its peak number with eight branches by 1988. Nelson revealed that WB's share of total banking deposits grew from just 1% in 1972 to 7% in 1988, while its loan share grew from 1 ½ % to 10%. Although asset growth in the form of branch expansion did not guarantee increased profitability, it did appear to confer NCB with a slightly larger market share of total deposits and total loans.

Another competitive strategy utilized by the indigenous banks to capture market share was price competition. Prior to the arrival of the indigenous banks, the foreign-owned banks resisted price competition and loss of market share by maintaining formal collusive agreements to regulate interest rates and other competitive issues. By 1977, however, increasing competition for market share dismantled the long established price cartel and ushered in a new period of monopolistic competition. The indigenous banks, being recent entrants to the banking industry and perhaps having a social welfare objective, opted to offer higher rates of interest on deposits and charge lower rates on loans than the foreign-owned banks. Although the full extent of interest rate competition could not be gauged owing to data limitations, the available statistics showed that the indigenous banks were more aggressive price competitors. In the last quarter of 1987, Workers' Bank (WB) offered between 8.7% and 10.2% on fixed deposits, which were among the highest rates available at the time. NCB in contrast, offered 7% on deposits through its Chaconia Accumulator Plan. Both WB and NCB's deposit rates were extremely high, if compared to a weighted average deposit rate of 5% then prevailing in the banking system (Nelson, 1995). Additionally over the period 1986 to 1992, the rates on 3-month and 6-month deposits of the indigenous banks were on average 55 and 15 basis points higher respectively, than the other banks while the rates on 1-year time deposits were on average lower by two basis points (Seepersad, 1994). These competitive rates caused the deposit base of the indigenous banks to be skewed towards longer-term and time deposits, which were predominantly held by individuals rather than corporate clients, thus

resulting in higher, and in recessionary times, unsustainable, cost structures.

The indigenous banks also competed for and simultaneously catered to, the needs of the low-and middle-income earners by charging marginally lower rates of interest on some categories of loans. Data available for 1988 showed that interest rates charged on instalment loans were on average 26 basis points lower than the rates charged by banks with expatriate origin (Seepersad, 1994). Although the expatriate banks recognised the profit opportunities to be derived from consumer financing and long-term lending, their credit policies remained biased towards short-term, self-liquidating commercial loans. The large expatriate banks therefore, preferred to trade off greater rates of return (from mortgage financing and long-term lending) for lower risks. Additionally, the expatriate banks enjoyed longer standing, which allowed them to benefit from customer loyalty. This meant that intense competition amongst the new entrants and the longstanding expatriate banks did not occur. Instead, the indigenous banks found that they were competing among themselves in an already saturated market.

The monopolistically competitive environment also encouraged banks to engage in non-price competition. Product differentiation became an important means of establishing a competitive advantage over rivals. Interestingly, the indigenous banks were the earliest to install ATMs in 1974 and 1984 respectively. Following the BNS's lead, WB attempted to construct a credit policy covering low income workers, small businessmen, housing mortgages and education financing. A major financial innovation of Workers Bank was in mortgage financing. In 1973, Workers Bank began offering the Home Ownership Plan, through which borrowers could get loans to cover furniture and appliances as well as house and land, after making regular deposits over a two-year period. In 1978, Workers' Bank also introduced a series of Varinstall Graduated Mortgage Finance Plans (acronym for varied instalments). These plans offered inflation adjusted funding of taxes, insurance, maintenance and furniture and appliance replacement. The other elements of the Varinstall plans included using an initial base rate lower than the prevailing prime

lending rates, a reduction of rates in periods of low or falling prime rates and possibilities for converting conventional mortgage loans (Central Bank of Trinidad and Tobago, 2007).

NCB also tried to create a market niche in mortgage financing. In the 1970s, NCB launched the Loansaver Plan, which allowed customers to get into the habit of saving and repay a loan, by making a monthly deposit of up to 25% of his wages for a period of one year, which would have been comparable to a mortgage instalment. Besides allowing previously unqualified individuals from accessing mortgage loans, NCB offered as much as 90% financing whilst competing banks offered on average 60% of the value of the property being acquired. Additionally, NCB used a wife's earnings when assessing the qualifying income of mortgage applicants and was the first to offer life insurance on mortgage loans.³⁶

Although this paper does not provide a comprehensive account of the various price and non-price competitive strategies used, the competitive nature of the industry made the new entrants' survival an extremely difficult task given the cost structures attached to building a branch network, advertising, product innovation and so on. In contrast, the longer established banks would have managed better since they already enjoyed the advantage of customer loyalty and fewer overhead and start-up expenses.

(iii) Other Factors Affecting Bank Performance

(a) Gaining Public Confidence

As new entrants, the indigenous banks faced the big challenge of gaining public confidence. In the 1970s, the public was quite sceptical of

³⁶ Philip Rochford, personal interview, St. Augustine, 28th February 2004. Philip G. Rochford served as Chief Executive of the National Commercial Bank of Trinidad and Tobago and has held directorships on several large corporate boards. His greatest He is also an Economist, a Fellow of the Institute of Banking, both of the United Kingdom and Trinidad and Tobago, a Chartered Accountant, a Chartered Secretary and holds a Master of Science degree in accounting from the University of the West Indies. In 1975, he was awarded the Humming Bird Medal (Gold) in the field of Economics.

some banks given their ownership status and perceived racial biases. NCB, for instance, was generally perceived to be an “African bank” since its management was largely of “Afro-Trinidadian stock” and there was the notion that the Government had established it to provide resources to the so-called “small man”. The other banks were also perceived in ethnic terms: BNS as the Chinese bank; Republic and RBC as the Caucasian banks and BOC as the Syrian and Indian bank (Khan, 2001).

In retrospect, Philip Rochford contended that many individuals (especially large businessmen and government ministers) did not want to join NCB because it was a state-run bank since there was a general feeling that having an account with a state-run bank would put them at risk of their financial details being disclosed in the public domain.³⁷ Additionally, many citizens viewed the government-sponsored banks as venues through which political supporters and politicians could share in bank funds. This public perception gained greater creditability following WB’s collapse when it was revealed that the chairman of WB owed the bank approximately TT\$29 million. Another highly publicised loan was that of a PNM minister, who was indebted to the tune of about TT\$12 million.

(b) Threat of Substitute Products

The price cartel also collapsed because of the growth of the finance companies, which were in direct competition until 1981 for the commercial banks’ depositors and same set of borrowers. Finance companies became an instrument of inter-bank competition. Banks with affiliated finance companies, for example, used them to attract deposits at interest rates higher than those established by the commercial banks’ interest rate cartel (Bourne, 1986). The banks that did not have affiliated finance companies were therefore forced to secede from the cartel to capture higher economic rents (Farrell, 1988).

³⁷ Philip Rochford, personal interview, St Augustine, 28th February 2004

(c) *Managerial Incompetence*

The dominant view held that managerial incompetence was the primary cause for the failure of the indigenous banks. At the indigenous banks, attempts were made to recruit “quality” staff members. The NCB, for example, focussed on building a strong management team and competent staff regardless of their race or ethnicity.³⁸ Despite these efforts to hire knowledgeable and highly trained staff, the indigenous banks found it difficult to attract or retain experienced bankers.³⁹ They were therefore faced with the enormous challenge of having to build their organisations and personnel from the “ground up” by hiring university graduates and conducting internal training programmes.

The indigenous banks also suffered from a high staff turnover, which made it difficult for the banks to conduct their operations in an efficient and consistent manner. WB, for example, was particularly challenged by this problem and in fact faced the premature exit of its General Manager, Neville Mitchell, who resigned suddenly in 1972. It was not until 1974 that WB was able to find a replacement, not a local but an Englishman, Lawrence Levack, who had formerly served as the General Manager of the National and Grindlays Bank in Pakistan.

Psychological Factors

There is a growing body of evidence that suggests that psychological factors play an important part in the disappearance of banks. Following the closure of WB in 1988, for instance, a rumour circulated that NCB had also collapsed. This caused the immediate withdrawal of approximately TT\$100 million in just ten days. NCB’s Chairman suggested at the time that the run was deliberately instigated by the “old banking order” to try and close down the last remaining “Black” bank. The potential threat of rumour has also been sufficient for the Central Bank to intervene to prevent possible “runs” on troubled

³⁸ NCB’s management team included Philip Rochford, an economist and accountant; Ganace Ramdial, a barrister-at-law and Andrew Mc Eachrane, a LLB holder among others, some of whom went on to lead other commercial banks and financial institutions.

³⁹ Philip Rochford, personal interview, St Augustine, 28 February 2004

institutions. A case in point, involved the merger of NCB, WB (1989) and TCB into First Citizens Bank in 1993.

Government Intervention/ Neglect

One of the reasons suggested for the failure of the indigenous banks was a lack of government support. In the 1970s, Government provided initial support to meet the preliminary expense of the indigenous banks. In retrospect, considering the market niche targeted by the indigenous banks, it may be argued that inadequate safety buffers were provided by the Government. As such, the indigenous banks were not 'built to last' but rather built to crash.

There was also a suggestion that Government played a critical role in the demise of the three indigenous banks in 1992. In his 2009 autobiography, the former NCB CEO Philip Rochford asserted that prior to national elections a senior politician had approached him about the possibility of writing-off a sizeable loan, which had been in considerable arrears. Upon reviewing the loan, Rochford found that the supporting real estate security had declined considerably in market value and the multi-millionaire personal guarantor had died. In turn, Rochford pointed out that NCB was a public company and that such an attendant write-off would have been inappropriate. The senior minister objected and warned that he would deal with the matter after elections in which his party was expected to form the government. Despite these threats, Rochford and the consortium members later reviewed the loan. The consortium members decided not to write-off the loan, but rather to require that the personal guarantees of the politician and his wife be called upon. Rochford added:

It is interesting to note that the consolidation of the operations of the three indigenous banks by means of a private company, owned 100 percent by government rather than maintaining the identity of a public company with majority government ownership, provided an easier process to write off significant delinquent loans of any politician (Rochford, 2009).

(iv) Bank Performance

During the “boom years” 1974 to 1983, the commercial banking industry enjoyed high levels of profitability because of oil revenue windfalls. This was reflected in the commercial banks’ net profit accounts, especially those of longstanding and expatriate origins. The newly established indigenous banks were not particularly profitable (if at all profitable) in their first years of operation, as they placed greater emphasis on meeting their start-up costs and increasing their market share. WB, for example, did not make a profit until 1975. The NCB conversely issued a profit every year since its inception in 1970, but these were small profits compared to the expatriate banks.

Unlike the NCB and WB, the TCB opened at the end of the oil bonanza, which prohibited it from building its capital base or a sizeable market share. In consequence, the TCB, being a late entrant, found it much more difficult to become economically viable and recorded successive losses from 1978 to 1985, except for 1983 when it made a small net profit of TT\$151,000. However, by 1984, the growth of the commercial banks’ gross and net profits slowed drastically owing to recessionary conditions. In the period 1986-1989, the downturn in the level of economic activity had a negative impact on the commercial banking industry’s profitability. Republic Bank’s net profits fell drastically from TT\$34.2 million in 1984 to just TT\$1.9 million in 1987—a decline of about 94%. In comparison, Royal Bank’s net profits for the same period declined by 72.3%; BNS by 37.5%; BOC by 60.7; NCB by 89.8% and WB by 42.9% (Scotland, 1988).

By 1990, economic conditions improved causing the commercial banks’ net profits accounts to recover with the exception of NCB, whilst the profitability of the other two indigenous banks, WB and TCB was sustained artificially through the injection of capital from the Central Bank. From the foregoing data, there appeared to be some correlation between overall bank profitability and the macroeconomic environment. Farrell recognised this positive correlation, which led him to argue that booming conditions helped to mask poor bank management given the

commercial banks' weaker performance during the recession periods (Farrell, 1998).

A similar pattern is observed with regard to asset quality. In the mid-1970s, the new entrant banks under the pressure of "excess loan capacity" and high liquidity were forced to make loans to borrowers previously regarded as uncreditworthy. This undoubtedly affected the asset quality of the commercial banking industry. Over the period 1986 to 1989, the ratio of non-performing loans to total loans for the entire commercial banking industry rose from 11.7% to 24.6% respectively. This figure however, decreased to 14.9% in 1990 to 1992 because of the cleaning of two indigenous banks' balance sheets by the Central Bank and tighter credit screening (Seepersad, 1994). It is important to note that the indigenous banks' total non-performing loans to average total loans ratio in 1986 averaged a low 9.7% whereas the medium and large banks averaged 9.6% and 19.55% respectively. As economic conditions deteriorated in the 1980s, so did the asset quality of the commercial banking industry. By 1989, for example, the indigenous banks' total non-performing loans to average total loans ratio peaked at 48.93% compared with 12.1% and 29.3% for the medium and large banks respectively. According to Seepersad, this substantial deterioration of asset quality at the indigenous banks reflected the existence of weak credit controls and the provision of loans to highly risky individuals. Asset quality at the medium and large banks fared much better because they provided loans to perceivably less risky customers. However, asset quality in the large banks in comparison to the medium banks deteriorated significantly during the recessionary period (1983-1989) because of the failure of several large businesses. RBC, for example, was tested by Neal & Massy, Centrin and Gulf City. Republic Bank (formerly Barclays Bank DCO) was severely challenged by the retail giant Kirpalani's (which collapsed) and the McAL Group; thus, resulting in a 78.6% decrease in the bank's profits. Unlike the small and large banks which attempted to create niches in mortgage and long-term financing, the medium-sized banks focussed on short-term consumer financing instruments, which had a better asset quality or lower risk, thus, resulting in less loan losses.

7.0 Conclusion

This paper has surveyed the long history of bank failures and acquisitions in Trinidad from 1836 to 1992. In so doing, the historical data provided shows that banks disappear or fail for a variety of reasons. A major determinant of bank failure is the state of the economy. It was revealed that banks are more susceptible to bank failure or acquisitions during economic slumps, which aggravate mistakes made during periods of buoyant growth. There is also a tendency for banks to exit markets that are characterised by intense competition. Bank failures, however, were less frequent in oligopolistic market forms, in which firms cooperate to stabilise prices and minimise cut-throat competition. In the business of banking, incumbents generally have a competitive advantage over new entrants, who struggle to capture market share and enjoy little brand loyalty. The new entrants that survive over the long-term do not compete directly with incumbent firms, but must find new market niches to capitalise. Government involvement also impacted on the competitive nature of firms. This can be observed through the enactment of particular competitive policies or through direct intervention in the market. Although history is useful for highlighting areas of continuities, it also presents several areas of discontinuities. In examining the issue of market form, this paper has shown that the banking industry in Trinidad evolved through three distinct market forms starting with monopoly, and evolving to oligopoly and the monopolistic competition. Over time, these market structures have impacted on the business strategies employed by competing firms. In each of these market situations, competing banks were required to make some modification to their competitive strategy to fit the market form. However, firm survival depended not only on being responsive to changing market conditions, but required a balance between innovation and efficiency.

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