

Adopting a pragmatic approach

INTERVIEW WITH LARRY HOWAI

CHIEF EXECUTIVE OFFICER, FIRST CITIZENS GROUP



LARRY HOWAI graduated with a BSc in Economics from the University of the West Indies (UWI) and is a Certified Management Accountant and a Fellow of the Institute of Banking of Trinidad and Tobago. He has 25 years' experience in the financial services industry and apart from his position at First Citizens (which he has held for the past ten years) he has held, and continues to hold, directorships on the boards of a number of companies. Mr Howai is also a former President of the Bankers' Association of Trinidad and Tobago (2004-2006).

When we spoke a year ago, you were very bullish on the Trinidad and Tobago economy, and the financial sector in particular. My perception as an outsider coming back now is that the picture is somewhat less rosy. What is your own assessment?

I wouldn't say that it's less rosy as such. What has happened is that interest rates have had to move up very aggressively, as we expected they would have to, because of inflation. And I suppose the crime situation here has acted as a bit of a damper on some of the middle income-type investments, small retail businesses and the like, although the larger scale investments haven't been affected. After all, companies invest in Afghanistan, so Trinidad is pretty mild by comparison.

The consumer side is still buoyant and the real estate sector remains healthy, although we're a little concerned about the possibility of a bubble developing there. Generally speaking, however, the economy is still pretty strong. Foreign investment is still coming in – a little bit more moderated now, partly through our own choice because we are starting to become more selective about who comes in for what in the energy sector. Essentially, we are looking for people who can add either upstream or downstream value to the energy sector, rather than simply taking the gas out, liquefying it and shipping it somewhere. We are looking for investors who can take the gas and do other things with it to create some added value, which is why the construction of an aluminium smelter here in Trinidad has become such an important issue. And there are a number of other things that we have been looking at, both upstream and downstream of the primary fuels market.

Where do you see the next stage of this economic diversification process heading?

I think that on the gas front we are looking at a number of downstream operations, such as ethylene and plastics. The other area that the government wants to focus on is the technology sector, and this is being coordinated by a company called eTecK, which is building a technology park based around the new the University of Trinidad and Tobago (UTT) at Wallerfield.

In a sense they're looking for it to be the next Point Lisas, which was initiated in the 1980s, gestated in the late 1990s and from which we are now deriving the benefits. The thinking is that in 20 years time, when the gas is no longer there, these new projects

that they are putting in place will have reached a point of maturity, so that they can then take the baton from the energy sector and move the country forward. And because it is being driven by (UWI Professor) Kenneth Julien, who was one of the original architects of the Point Lisas Industrial Estate, it has some credibility, which helps in the budget allocation process and that makes it a lot easier.

I expect that there will be a number of other initiatives like that, such as the International Financial Centre that they want to create here to attract international financial institutions to Trinidad. This is currently still at the pre-feasibility stage, but the idea of Trinidad as a financial centre is certainly another area that is slowly being developed.

As you mentioned earlier, the Port of Spain waterfront project and other big ticket infrastructure projects have been fuelling inflation in recent months. The Central Bank of Trinidad and Tobago seems to have used up most of the weapons in its arsenal to try and bring it under control – are you concerned that it might get out of hand?

It is a difficult situation. I don't think the politicians are going to hold the projects back, but I think we have to accept that a certain level of inflation is the price we are going to have to pay. They've been pushing for years to get these projects off the drawing board and to get them implemented, and now they pose a challenge for the next five to ten years as we see it, which is how to manage the rate of inflation. Which, I suppose, is a better problem to have than not having any money, but it's still a problem nonetheless.

We have had to learn to live with high interest rates in the past. I've been in the banking industry for about 28 years and interest rates are pretty low today in comparison to the last 25 years. The prime lending rate used to be 17.5 per cent, whereas now it is at 11.75 per cent, and even at 17.5 per cent the economy continued to grow. We didn't have as many petrodollars in those days either, so the feeling is that yes, interest rates are a bit on the high side, and yes, inflation is too high for comfort. We can't be complacent about it, but it's probably one of the prices we have to pay. We will see what we can do to bring it down, but if the price is to stop the projects then we will have an even bigger problem on our hands.

One of the other factors that has been driving growth in the region has been the preparations for the ICC Cricket World Cup in March-April. Are you concerned about the prospect of a hard landing in the aftermath of the event?

Well, of course, Trinidad won't have the same issues as the rest of the region and yes, there could potentially be a hard landing, but they have put certain things in place to help deal with that. A big part of keeping the economy going is getting the hotels built in the first place, because if you don't have the hotel rooms then you don't get the tourists. So the plan was to get the hotels up and get them filled while they went out did some more marketing. The other important aspect is making sure that the marketing drive is intensifying to the extent that you can keep the momentum going after the World Cup is over.

The infrastructure work that has been done in preparation for the World Cup provided the catalyst for doing so, and to that extent I think there is the potential for these economies to ramp up a little bit. They were heading for a hard landing anyway because of the phasing out of bananas and sugar, so at least the World Cup is giving them an opportunity to establish a base which could act as a springboard to take them forward.

There is no denying that there is a very real possibility of a hard landing, but one has to be as optimistic as one can, and certainly if you put the plans and the programmes in place it will help to ease the situation. You probably won't get up to 90 per cent occupancy next year but you may get to 60 or 65 per cent, so at least the hotels would be profitable and there's some positive economic spin-off. Then, hopefully, you can build on that year after year.

The normally staid banking sector in Trinidad and Tobago has been less settled of late, with rumours of a takeover bid for the country's largest banking group, RBT. Do you see potential for consolidation in the sector, and if so, will it be driven from within or without?

I think it's very unlikely that Scotiabank, for example, would be able to buy RBT, because anything over 25 per cent market share would need ministerial approval, and the Minister has already said that he is concerned about concentration within the system.


What might be more acceptable, politically at least, would be if a foreign bank that does not yet have a presence in the country – such as Royal Bank of Canada or CIBC – decided to make a move, because you would still have the status quo in terms of numbers of banks and market share. A new player entering the market could also bring some fresh ideas and perhaps help act as a spur to the development of the international financial centre.

HSBC recently established a Latin America and Caribbean division, presumably with a view to making acquisitions in the region. Are you expecting a call from (HSBC Chairman) Stephen Green any time soon?

Well, we certainly hope that banks like HSBC would choose to come to Trinidad. Everything is for sale here at the right price. Our shares are owned by the government; Republic Bank's shares are owned by Clico; Scotiabank might not wish to sell their asset here, but generally speaking if you put the right deal on the table you're likely to get a positive response.

It is not simply a question of dollars and cents either. In the case of First Citizens, for example, I don't think the government would make a decision based on money because their balance sheet is relatively strong. But they do want to see the economy grow and diversify and not be dependent solely on oil and gas, so if someone can bring extra add-ons to an investment in the country, whether it be in the financial sector or the energy sector, that's who they will talk to.

Are there any 'sacred cows' that the government might not be willing to divest?

I don't think there's any pressure on us (First Citizens Group) to issue shares on the market at this stage, but further down the line, who knows? The one government entity that could be considered a sacred cow might be the National Gas Company, which is a pivotal company through which all the country's gas is sold, so they would probably regard that as a strategic asset. Apart from that, however, I think it all depends on what you can bring to the table. 

Trinidad and Tobago's construction boom shows no sign of abating



Photograph courtesy of the Trinidad and Tobago Tourism Development Company Ltd

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