Embracing regional integration

INTERVIEW WITH DAVID DULAL-WHITEWAY

MANAGING DIRECTOR, REPUBLIC BANK LIMITED

DAVID DULAL-WHITEWAY holds a BSc in Management Studies from the University of the West Indies, an MBA from the University of Western Ontario and is a member of the Certified General Accountants (CGA) of Canada. Mr Dulal-Whiteway has been a member of the Board of Directors of Republic Bank Limited since 1998 and assumed the position of Managing Director in May 2005. His other directorships include positions on the boards of National Bank of Industry and Commerce Limited (Guyana), the Foundation for the Enhancement and Enrichment of Life (FEEL) and Trinidad Cement Holdings Limited.

What role can, and should the ACS be playing in the promotion of trade and investment in the Greater Caribbean?

It is unfortunate, but I think the ACS has been somewhat overshadowed by the whole FTAA (Free Trade Area of the Americas) brouhaha of the past few years.

When the ACS was formed back in the mid-1990s, the FTAA talks were just getting going and I think that as the talks progressed and everybody started to get excited about the possibilities that such a huge market represented, the ACS found it harder to differentiate itself and to make its voice heard.

Now that the FTAA is not even on the backburner, I think the ACS has a great opportunity to play a more significant role in the region. All this time Trinidad and Tobago has been fighting to be the headquarters of the FTAA it forgot that it was already the headquarters of the ACS. We should leverage on that fact.

As the countries of northern Latin America and the Caribbean are now carving out their own bilateral agreements with the United States – such as DR-CAFTA, for example – I think that the ACS could play an invaluable role in bringing these countries together to form a common position in their negotiations with the US, rather than them negotiating individually from a position of weakness. So there is definitely a role for it, it's just a matter of seizing the opportunity.

We as a bank have always said that we see ourselves operating in the ACS, because we like the idea of being able to operate in countries that are washed by the Caribbean Sea. I definitely think it is an idea whose time has come.

As one of the few indigenous banks with operations throughout the Caribbean, how do you see the outlook for the sector from a regional perspective?

In any country banks are a reflection of the economy, and the economy here in Trinidad and Tobago has been doing very well over the last few years, so the banking sector has more or less mirrored that performance. Our own core operations are up around 18 per cent year on year, for example, which is not bad going.

It is easy for an economy like ours to overheat, and we are seeing it taking place in one or two areas now, for example in the construction industry. We are seeing shortages of building materials such as aggregates; we are seeing shortages in respect of labour, which in turn is pushing rates up. It's very difficult to find a domestic plumber or a mason here these days because they're all tied up in the all the big construction activity that is taking place.

Having taken the decision to monetise our gas resources, the government is now faced with the challenge of using that money to develop the country's infrastructure in a timely fashion. That is why they are creating this construction boom that we see all around us, and placing all this pressure not only on labour but also on the foreign exchange situation. We saw some tightening in the foreign exchange at the end of last year and earlier this year because the country's foreign reserves were continuing to rise but the banking sector wasn't getting sufficient funds to fund the demand for foreign exchange, so the sector relied heavily on the Central Bank to place money into the system. The Central Bank has since then taken a more proactive role and has been very active in supplying the market with the foreign exchange it needs, so today it is not difficult for anybody who wants foreign exchange to get it, provided it is for trading purposes.

In terms of the wider region, we have also seen a lot of infrastructure work taking place, driven mainly by the fact that we are hosting the Cricket World Cup in 2007, so everybody is trying to get things done to make sure we are ready for it in time. That, in turn, is putting pressure on the construction industry, on labour, raw materials et cetera. As a result, you will find that interest rates are moving up throughout the Caribbean.

And specific to Trinidad, the third item which will more or less affect the business environment is the crime situation. Crime here is getting out of hand and this is inevitably going to have an impact on the psyche of the investor, because other than the big multinationals here – which are, by and large, in the energy sector – a lot of our mid-size businesses are family-owned. And if somebody doesn't feel safe, eventually they will no longer want to invest further in expanding their operations in the country and will prefer to keep some of their savings abroad as a safety net. They may not even want their children to come back to Trinidad after they finish studying abroad. So the implications of crime in the medium to long term could be significant if something is not done to stem the tide of increased criminal activity.

You've talked for the most part about the general business environment. How has this affected the banking sector specifically?

We have had a certain amount of buoyancy here; there has been a significant increase in liquidity due to the amount of money that the government is spending on its infrastructure programme, among other things. But despite that increased spending, the government is still running a fiscal surplus and we have a positive balance of payments. As a result, the Governor of the Central Bank is constantly looking at ways of mopping up this excess liquidity in the system.

In order to deal with that, the Central Bank has increased interest rates over the past six to nine months, but because there is so much liquidity in the system we find that deposit rates themselves have not increased to the same level. Therefore the banks are making a better spread than they were a year or so ago because again, on the deposit side it's easy to find money out there.

Despite all this spare cash, banks in Trinidad and Tobago seem strangely reluctant to invest in the energy sector. Why do you suppose that is?

On the contrary, both we and the other local banks are very keen to invest in the energy sector. It would be foolhardy not to, because at the end of the day this economy relies heavily on the energy sector.

The difficulties we have found in doing so however are threefold: firstly, the main players in the energy sector have credit ratings that are better than those of the government of Trinidad and Tobago, let alone a local bank such as ourselves, so we can't compete from an interest rate point of view because they can raise money more cheaply than we can. Secondly, the demand is all for US dollars, whereas our big balance sheets are really based on TT dollars. If you take all the banks together, I think the total US dollar deposits in our banking system would be in the region of US$1.2 billion, which is roughly the cost of a single LNG train. So even if the local banks could have competed on interest rates, because we are small relative to these world-scale projects we'll never be able to be a major player in the market. And the third thing is that these companies want long-term money, and while we are able to do long-term money in TT dollars, it is very difficult for us to do long-term money in US dollars because our US dollar portfolio is very short term in nature. Our deposits are funded mainly by the business sector, who will never place money for more than three months at a time, so to take that mismatch on our books becomes very, very difficult.

What we have identified, however, is that the big players in the sector, such as BP and BG, all rely heavily on a lot of local supply companies, and those are the companies which we, as an organisation, have targeted to provide financing for – and we have been very successful at it.

What opportunities do you see arising out of the CSME and greater regional integration more generally?

I think one of the main benefits for us is that the more the region is treated as a single entity, the easier it will become for us, as a major player in the Caribbean, to invest in different areas without being seen as an outsider. As one region and one market we will not be seen as outsiders but as people who are interested in investing in the development of the Caribbean, and our taking on a position there does not mean that we are some big, bad wolf come to take advantage of a smaller economy.

We are very keen on ensuring that economies that we invest in remain strong, because if these economies were to falter it would affect our business directly. We see it as a symbiotic relationship and one where all parties need to be involved and to contribute.

I think it's also important that investors from Barbados, Jamaica or wherever see Trinidad and Tobago as an opportunity as well. Barbados has a stronger currency than we do, so why is it that they have never invested outside of their own country?

By the same token, we in CARICOM need to look to opportunities outside our own comfort zone in the English speaking Caribbean. About five or six years ago, we realised that while we are creating a Caribbean bank, the English speaking Caribbean represents only about six million people, and banking is all a matter of scale. So looking around we then decided that we needed to find a way in which we could play a role in the Spanish speaking countries of the ACS. So we formed a trade finance group with the objective of building relationships in, and understanding of the Spanish speaking countries, and began to build our business within those areas.

We now have a rep office in Cuba, employing about 20 staff members, and it's doing extremely well for us. It's got the cleanest portfolio we've ever had, we've never made a loss there and we generally get good returns.

Then two years ago we has the opportunity to look at the Dominican Republic and decided to buy one of the smaller banks, Banco Mercantil, that had failed in the country's economic crisis of 2003. It hasn't been an easy experience, because in cleaning up the loan portfolio we had to downsize the bank quite considerably, and there are a certain amount of fixed costs that you can't get rid of in a bank. But it's an investment for the future and one that I think will yield dividends further down the road.

We need to think of where we will be in ten years' time, and if we limit ourselves to the English speaking Caribbean we will remain a relatively small player. But if we intend to position ourselves in the Spanish speaking countries we need to invest now if we are going to be ready in time. I am confident that we will be. F

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