COMMERCIAL BANK PORTFOLIO BEHAVIOUR IN TRINIDAD AND TOBAGO

by

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I: Commercial Banking in the Colonial Era.[1]

Before attempting an explanation of commercial bank asset portfolio behaviour, it will be useful to sketch the history of this activity and a general description of this sector's asset structure. This paper therefore, (a) surveys commercial banking in the colonial era and (b) outlines the factors which may have influenced the banks' asset structure in the periods 1946-1964 and 1965-1980.

Prior to 1837 banking transactions, as they related to Trinidad and Tobago, took place in Britain. This was so because of the pattern of production, trade and ownership which existed between Britain - the metropole and her colonies. Britain supplied the essential imports while the colonies exported their raw materials. External trading arrangements consequently were characterised by financial transactions restricted to the metropole. On the other hand, internal trade at this time was almost non-existent due to the segmentation phenomenon of the plantation system. The implication of this type of arrangement was the minimization of the need for banking services in the colonies. It should be noted though that as far as currency was concerned some use was made of non-British coins until the eighteen thirties when

[1] This section of the paper has drawn heavily on, the work by the Central Bank of Trinidad and Tobago, History of Banking: Trinidad and Tobago, 1776-1972.

British coins were introduced alongside the already existing currency.

With the coming of emancipation in 1838, certain inevitable changes occurred in the economic and social structure of Trinidad and Tobago. Firstly, the planters now needed some means to pay the ex-slaves and the indentured servants. Secondly, the former merchant-banker relationship based on financial transactions conducted abroad, could no longer satisfy the planter class. Thirdly, an embryonic class of craftsmen, commercial traders and others developed, which required some form of monetary compensation for their services.

All this meant that a general need for a "medium of exchange", if for nothing else, existed in Trinidad and Tobago. This was so, both for internal and external transactions.

The first commercial bank was established in Trinidad in 1837. The Colonial Bank, with head office in London, was the only commercial banking institution until the early twentieth century. Clearly, its role was to fulfill a need which could no longer be provided by financial intermediaries based in Britain, for according to the Charter under which it operated, its chief functions included issuing notes and discounting commercial bills.

Because it could not lend money against land or houses as security, according to the Charter, only the planter and commercial trading sectors benefitted from the loan services of the commercial banks.

It was not until the early twentieth century that other foreign banks established themselves in Trinidad. Thus, the first Canadian Bank - the Union Bank of Halifax was established in Trinidad and Tobago in 1902. The Royal Bank of Canada took over this Bank in 1910. The Bank of Nova Scotia, though previously established in 1906, returned to stay in 1954, after leaving in 1907. The Canadian Bank of Commerce established in 1921, became the Canadian Imperial Bank of Commerce in 1961.

Again, it was the increasing value of trade between Canada and the West Indies in general which fostered the establishment of these banks, for several trade agreements were signed during the period.

These subsidiaries of British and Canadian banks first established themselves in Port-of-Spain, and naturally so, since this was the main trading port. This meant, that the rural population along with those whose activities were unrelated to the commercial trading sector, had little or no access to banking services. It was in an attempt to provide some banking services to these under-privileged classes that the Trinidad Co-operative Bank Limited (1913) and the Post Office Savings Bank (1936) were established.

The 1960s witnessed the establishment of the last set of foreign banks. The Bank of London and Montreal, established in 1960, was as the name implies, part-British and part-Canadian. The American Banks entered the picture, with the establishment of

Chase Manhattan in 1963 and First National City Bank in 1965.

It has been argued that among the reasons for the timely entry of these American Banks was the fact that Trinidad and Tobago was in the midst of implementing the "industrialization by invitation strategy" - a strategy which was supported by foreign capital including American capital. The American Banks therefore, along with facilitating trade and providing usual banking services would understandably have a keen interest in facilitating American business transactions.

All commercial banks established between 1837 and 1951 except Trinidad Co-operative Bank were empowered to issue notes, while the British Government held the responsibility for issuing coins. The currency arrangements were such, that the colony's currency had to be backed by an equivalent amount of short term securities. However by 1951, note issues by commerical bank had ceased in Trinidad and Tobago. Under the Currency Ordinance, Ch. 35, No. 2, the authority to issue notes was transferred to the British Caribbean Currency Board.

Trinidad and Tobago had formally become a part of the "Sterling Area" in 1940. This meant that (a) all its foreign reserves were held in London, (b) the exchange rate between its domestic currency and sterling was maintained at a fixed parity, (c) the local currency was backed 100 percent by sterling reserves. The local Currency Board was responsible for ensuring this arrangement was maintained.

When independence was granted to Trinidad and Tobago in 1962, the need for a much more relevant central monetary authority arose. Thus, the Central Bank of Trinidad and Tobago was established under the Central Bank Act of 1964.

II: Commercial Bank Asset Portfolios: 1946-1964.

A brief review of the structure of the commercial banking sector after World War II will no doubt help to explain the pattern of the portfolio distribution during this period.

After the war, three banks with five branches among them operated in the colony. Barclays Bank D.C.O. (formerly the Colonial Bank), the Canadian Bank of Commerce and the Royal Bank of Canada, which were all branches of multinational banks whose chief function was to facilitate trade between the respective home country and Trinidad and Tobago.

Because of the nature of their activities as already explained, these banks were confined to the two major towns, Port-of-Spain and San Fernando. Thus, whereas the population per bank office was approximately 97,000 after the war, it should be noted that no offices and therefore no commercial banking services existed in the rural areas at this time, except for the rudimentary savings/safekeeping services provided by the Post Office Savings Bank.

By the time the Central Bank and Banking Acts were passed in Trinidad and Tobago in 1964 - two years after independence was granted, six commercial banks with forty-six branches among them, were operating in the country. These figures represent a 100 per cent growth in new banks and a nine-fold increase in new bank branches. The Bank of Nova Scotia, the Bank of London and Montreal (BOLAM) and ChaseManhattan Bank were the three new foreign banks. The population per bank office was now 20,675, a significant improvement from the 1946 ratio. But this rapid growth in bank branches, was characterized by a concentration of offices in certain areas, while other areas were totally neglected. Banking services were still not available to the broad masses of people.

With this background, a close look at the asset structure of these institutions will now be taken. Possible explanations will also be suggested.

While the number of asset categories may vary depending on the extent to which the asset portfolio is divided, it is convenient to define seven broad asset categories, as seen in Table 1. These include (1) Total Cash, (2) Balances due from Banks in Trinidad and Tobago, (3) Balances due from Banks Abroad, (4) Loans and Overdrafts, (5) Local Investments, (6) Foreign Investments and (7) Other Assets. It should be noted, however, that most of these asset categories can be further sub-divided. Thus, there would have existed different types of loans, for example.

TABLE 1 COMMERCIAL BANKS - ASSETS 1946-1963

At [illegible]	Total Assets	Total Cash	Balances due from other banks: Total	Balances due from other banks: In Trinidad and Tobago	Balances due from other banks: Abroad (net)	Loans and Overdrafts	Investments Local: Total	Investments Local: Treasury Bills	Investments Local: Other Securities	Investments Local: Real Estate Mortgages	Investments Local: Other Local Investments	Investments Foreign: Total	Investments Foreign: Treasury Bills	Investments Foreign: Other Securities	Total Investments	Other Assets	[illegible]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
1946	66,276	5,981	41,322	1,044	40,278	9,624	1,520			1,520		4,839	4,839		6,359	2,990	1946
1947	58,279	6,605	24,041	1,228	22,813	16,274	3,185			3,185		4,155	4,155		7,340	4,010	1947
1948	53,909	3,933	29,827	1,284	28,543	17,610	1,563			1,563		2,441	2,441		4,004	3,535	1948
1949	70,717	4,168	40,419	1,129	39,290	17,199	3,255			3,255		2,186	2,186		5,441	3,520	1949
1950	77,022	6,022	42,102	980	41,122	18,974	3,050			3,050		2,440	2,440		5,490	4,434	1950
1951	88,722	6,004	43,566	1,098	42,468	26,183	4,455			4,455		2,269	2,269		6,724	6,245	1951
1952	[illegible]	6,779	46,666	843	45,823	28,082	2,532			2,532		2,370	2,370		4,902	4,976	1952
1953	100,336	7,541	54,175	1,555	52,620	29,640	2,535			2,535		400	400		2,935	6,045	1953
1954	112,364	9,287	62,225	2,252	59,973	31,399	2,782			2,782		527	527		3,309	6,144	1954
1955	115,739	8,245	58,386	1,517	56,869	41,357	2,612			2,612		1,221	1,221		3,833	6,918	1955
1956	131,076	9,618	69,025	2,549	66,476	40,399	1,998			1,998		2,628	2,628		4,626	7,408	1956
1957	174,001	9,796	110,560	3,918	106,842	40,183	1,842			1,842		3,480	3,480		5,322	8,140	1957
1958	172,500	11,587	97,459	5,986	91,473	44,796	1,459			1,459		5,578	5,578		7,037	11,621	1958
1959	199,510	14,425	102,354	5,257	97,097	61,245	2,812			2,812		5,231	5,231		8,043	13,443	1959
1960	205,021	13,207	87,395	4,723	82,672	82,976	2,961			2,961		2,600	2,600		5,561	15,882	1960
1961	199,927	12,724	64,213	4,430	59,783	100,990	2,140			2,140		2,555	2,555		4,695	17,305	1961
1962	212,219	13,471	49,201	5,432	43,769	113,940	19,710	12,230	2,315	68	5,097	1,758	166	1,592	21,468	14,139	1962
1963	252,999	14,346	78,240	8,216	70,024	118,031	21,422	13,825	2,304	-	5,293	859	-	859	22,281	20,101	1963

SOURCE: Central Statistical Office. Annual Statistical Digest 1963.

One of the most outstanding feature of the commercial banks asset structure, during the period under review, was the dominance of the asset "Balances due from Banks Abroad". This asset referred to by Thomas as "Foreign Balances"[2] and which represented over 50 per cent of total assets for most of the period, dominated the portfolio until 1959. At this time its dominance was replaced by the asset category "Loans and Overdrafts".

Two competing hypotheses may be used to explain this feature of the asset portfolio, viz., a risk/return argument and an "institutional arrangement" analysis. A combination of these two hypotheses may not, however, be ruled out as a possible explanation in its own right.

Portfolio theory posits that portfolio allocation decisions are usually made on the basis of risk/return considerations. Thus, it may be argued that the decision by commercial banks in Trinidad and Tobago, to hold the greater proportion of their portfolio in foreign balances was based strictly on risk/return considerations, which decision, would consequently lead to profit maximisation for the local banking firm. Specifically, it may be argued, that the holding of foreign balances abroad represented an attempt to diversify the "unsystematic" component of total risk.

[2] Clive Y. Thomas, Monetary and Financial Arrangements in a Dependent Monetary Economy, (Mona: I.S.E.R., 1965, reprint ed., 1974), p. 46.

Essentially therefore, if it is assumed that risks both at home and abroad were zero, as Thomas (1965)[3] has done, then the return on foreign balances must have been greater, than the return on loans and advances, which asset category, was the second most significant, during most of the period.

The stringent standard of "creditworthiness" which was primarily based on metropolitan standards as noted by McClean for example,[4] has helped to ensure that risk on loans and advances were minimized, if not zero. At this time also, two factors operated to ensure risk minimization in the transference of funds from Britain to Trinidad and Tobago. First of all, a fixed exchange rate meant that no loss would be incurred at the time of transfer and secondly the free convertibility provision meant that no prohibitions existed in the conversion of sterling to Trinidad and Tobago dollars. It should also be noted that a diversification of funds within the economy was severely restricted by the absence of short term securities.

Now, the above discussion implicitly assumes that portfolio management decisions were taken by the local commercial banks. However, another explanation of the above mentioned feature of the asset structure suggests that decision-making was not located

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[3]Ibid., p. 47.

[4]A. Wendell, A. McClean, Money and Banking in the East Caribbean Currency Area, Mona, I.S.E.R., 1975.

locally, that is, with the subsidiaries, but instead, portfolio management decisions were a function of the metropolitan parent banks. The modus operandi of the multinational firm is well known and well documented. Suffice it to say, that it is global profit maximization which is the prime concern of these institutions. Thus, it is argued that balances held abroad, represented an export of capital. These funds were then used or allocated to other branches around the world by the parent banks in the metropole, in such a way that global profits would be maximized.[5]

This line of argument suggests therefore that the decision to hold a large quantum of total assets abroad was not an autonomous one by the local commercial banks but a direct result of their institutional relationship. In other words, profit maximization of the individual bank was not necessarily the aim of the local bank though it would have been of the parent bank. The investment of surplus funds in the form of foreign balances in the United Kingdom and in deficit areas around the world would have been in keeping with the practice of global profit maximization.

To this extent, therefore, portfolio management theory may not explain the large foreign balances feature of local commercial banks asset structure, at the level of the subsidiary during this period.

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[5] McClean (1975) for example is among those who have argued along this line.

Another feature of the asset portfolio of commercial banks in the post-war period, was that local assets represented less than 50 per cent of total assets between 1946 and 1959, except for 1947 when it was 55.4 per cent. Coupled with this, was the fact, that for most years during the period under consideration, local assets were at less than 50 per cent of total deposits. One plausible explanation of this observed phenomenon, was the scarcity of local securities. Further, the relatively easy access to overseas reserves militated against commercial banks seeking to increase the share of local liquid assets in their portfolios.

Yet another feature characteristic of the asset portfolio was the particular sectoral distribution of Loans and Advances.[6] While the lack of disaggregated data before 1963 hinders any in-depth analysis, a particular pattern of loan and advances allocation still emerges. Up to 1953 about 75 percent of total loans and advances was lumped into a category termed "other", with the rest allocated between "Industry" and "Agriculture". It is not unreasonable to assume though, that the category called "other" included primarily loans and advances to the distributive trades sector and personal and professional loans. This assumption is not unreasonable if it is remembered that the chief role of commercial banks was the servicing of the commercial trading sector and further, the slightly more disaggregated data for later years

[6]Central Statistical Office, Annual Statistical Digest, 1964.

conforms to such an assumption. After 1954, while loans and advances to the distributive trades sector predominated in the portfolio, newly defined category called "Personal and Professional" was showing increasing gains.

III: Commercial Bank Asset Portfolios: 1964-1980.

In 1965, one more commercial bank joined the previous seven - First National City Bank. The only other new bank to be established was the Workers Bank of Trinidad and Tobago which was an entirely local bank set up in 1971. The National Commercial Bank of Trinidad and Tobago established in 1970, was really bought over by the Government. It was formerly the Bank of London and Montreal which had been established in 1960.

In an attempt to ensure that local savings were allocated to the most productive sectors of the economy among other things, the Government in its Third Five-Year Development Plan, 1969-1973 expressed its intention to (a) encourage the formation of locally owned or controlled commercial banks and (b) urge foreign banks in the economy to incorporate locally.

Thus, by 1973, three foreign commercial banks had become locally incorporated, changing their names to Barclays Bank of Trinidad and Tobago Limited, The Royal Bank of Trinidad and Tobago Limited and Bank of Nova Scotia (Trinidad and Tobago) Limited. In 1980, another bank, having decided to incorporate locally, became Bank of Commerce (Trinidad and Tobago) Limited. The two American banks, First National City Bank and Chase Manhattan Bank resisted localization attempts up to 1980 with the result that action has been taken against them. However, faced with the threat of restrictions in 1981, First National Citibank decided to incorporate locally while the other bank chose to close down its Trinidad and Tobago operations.

With 105 commercial bank offices in Trinidad and Tobago in 1980 the population to bank office ratio had fallen to about 11,400. Banking services were now available to most rural villages except the most remote.

Along with institutional changes in the commercial banking sector during the 1964-1980 period, several changes were also inevitably taking place in the structure of commercial bank assets during the period.

One of these important changes was the decline in importance of the foreign assets component of the portfolio. In fact, this asset category was on the decline since 1960 when it represented 40.3 percent of total assets (See Table 3), thus playing a secondary role to the now major asset category, loans and advances. In 1980, foreign assets represented a mere 1.9 percent of the total asset portfolio.

The fall in this asset category can be attributed to several factors. In his work on British Guiana, Thomas (1965) suggested that the running down of foreign balances resulted from expansion in bank advances.[7]

[7] Thomas, "Commercial Banking in British Guiana", p. 49.

There is no reason to deny the operation of this factor in the case of Trinidad and Tobago. In fact, bank executives have pointed out, that the expansion of hire purchase lending by commercial banks in Trinidad and Tobago, began in the mid-sixties.

With the granting of independence in 1962 and the establishment of a central monetary authority in 1964, commercial banks no doubt thought that their portfolio structure should take cognisance of such changes. However, any doubts were removed by Section 17 (ii) of the Banking Act 1964 which empowered the Central Bank to prescribe a local assets ratio.

By 1967 therefore, the foreign assets component, which amounted to 6.3 percent of total assets was clearly on the decline. This figure fell further to 1.6 percent when the pound sterling was devalued in November 1967, and lead the commercial banks to convert sterling assets into Trinidad and Tobago dollars. Yet another decline in this component of the asset portfolio came in 1971 when the pound sterling was declared a foreign currency and therefore subject to exchange control. In 1972, foreign assets represented 0.4 percent of total assets - a level from which it has since not deviated much.

The issuing of local securities was undoubtedly a significant factor which strengthened the case against the holding of foreign assets by the commercial banks. For in 1962, the first issue of Treasury Bills were made in Trinidad and Tobago while in 1964, $29.7 million worth of government securities were issued on the market.

Concomitant with the fall in foreign assets holding by commercial banks during the period was a rise to dominance of the loans and advances component of the portfolio as seen in Table 2. The loans and asset category after rising to dominance in the portfolio in 1960, occupied that position until 1980, ranging from 40.5 percent in 1960 to its highest level of 69.8 percent in 1973, with an annual average of about 60.0 percent between 1964 to 1980, as seen in Table 3.

Some useful insights might be gained if the Trinidad and Tobago situation is compared to that which obtained in the developed economies; see Table 4. Firstly, after 1965 in particular, loans and advances in Canada, never rose beyond fifty percent of total assets. Secondly, this asset category was just over 50.0 percent during a similar period in the United States.

Now, while this pattern of portfolio allocation may not be unexpected in these developed countries in view of their larger supply of investment securities, the case of Trinidad and Tobago requires a different explanation, if only due to this developing country's limited investment opportunities. Thus, one possible explanation for such a proportion of loans and advances in the total portfolio may be related to the source of decision-making. That is, it might have been the case, that the proportion of total assets that could be held in any particular asset was a decision of the

STATEMENT OF ASSETS 1964-1980

/Dollars Thousand/

END OF PERIOD	A S S E T S									
	FOREIGN ASSETS	CASH	BALANCES WITH OTHER BANKS IN TRINIDAD AND TOBAGO		TREASURY BILLS & OTHER SECURITIES IN T.&.T.	COMMER-CIAL BILLS	REAL ESTATE MORT-GAGES	LOANS AND ADVANCES	OTHER ASSETS INCLUDING FIXED ASSETS	TOTAL
			Central Bank	Commercial Banks						
1964	38,754	19,968	-	12,254	31,765	7,371	2,673	121,503	26,749	260,767
1965	30,092	16,298	-	7,130	27,515	4,588	3,323	144,776	33,055	272,777
1966	20,989	11,209	12,477	8,004	27,923	4,141	2,065	162,891	43,342	293,041
1967	19,795	9,881	13,324	3,336	45,146	5,094	2,991	184,908	31,191	315,666
1968	5,970	13,288	26,906	4,768	57,019	6,759	2,673	206,222	53,299	376,904
1969	5,948	11,787	22,231	13,771	40,303	8,259	4,524	271,649	37,466	415,938
1970	15,477	11,564	25,195	14,262	54,139	7,794	5,626	324,886	32,472	491,415
1971	18,813	14,161	39,753	10,771	98,367	9,253	6,333	367,211	47,499	612,161
1972	3,015	18,304	34,867	13,964	98,033	10,781	12,710	506,820	60,544	759,038
1973	3,661	23,114	52,109	21,911	70,056	11,822	24,899	637,210	67,708	912,490
1974	3,051	28,018	179,642	28,799	116,469	25,601	30,774	676,414	89,882	1,178,650
1975	4,551	31,877	312,284	29,699	105,575	27,363	39,714	880,863	123,938	1,555,864
1976	11,221	31,784	432,521	36,723	128,779	39,775	56,910	1,187,383	159,907	2,085,003
1977	26,363	50,111	386,950	68,707	158,631	24,155	78,475	1,671,856	190,195	2,665,443
1978	41,145	61,517	341,770	105,232	167,712	43,058	94,901	2,262,654	357,069	3,475,058
1979	88,615	112,427	705,108	86,485	195,978	57,195	124,367	2,658,677	332,039	4,360,891
1980	97,485	100,031	773,156	74,197	185,090	71,965	178,601	3,293,446	441,897	5,215,868

SOURCE: Central Bank of Trinidad and Tobago, Monthly Statistical Digest

TABLE 3

End of Period	Balances due from Banks Abroad (net) (per cent of total assets)	Loans and Overdrafts (per cent of total assets)
1946	60.8	14.5
1947	39.2	27.9
1948	48.5	29.9
1949	55.5	24.3
1950	53.4	24.6
1951	47.9	29.5
1952	50.1	30.7
1953	52.4	29.5
1954	53.4	27.9
1955	47.9	34.8
1956	50.7	30.8
1957	61.4	23.1
1958	53.0	26.0
1959	48.7	30.7
1960	40.3	40.5
1961	29.9	50.5
1962	20.6	53.7
1963	27.7	46.7

SOURCE: Central Statistical Office - Annual Statistical Digest 1963.

TABLE 4

LOANS AND ADVANCES AS A PERCENT OF TOTAL ASSETS

	1955	1960	1965	1970	1975	1980
Trinidad and Tobago	34.8	40.5	53.1	66.1	56.6	63.1
United States of America	39.2	45.7	53.5	54.0	58.9 (1973)	n.a.
United Kingdom	—	—	61.7	84.3	71.6	76.1
Egypt	—	50.5	50.5	59.9	59.5	55.3[1]
Canada	—	42.0	50.2	36.2	44.4	42.2

[1]1978 figure.

SOURCES: H.E. Dougall and J.E. Gaumity_ Capital Market and Institutions, 3rd ed., New Jersey: Prentice-Hall Inc., 1975, p. 32.
Central Bank of Trinidad and Tobago Annual Reports; Bank of England Quarterly Bulletin; Central Bank of Egypt Economic Review; Bank of Canada Review.

parent bank and not of the subsidiary. In fact this explanation has been suggested by some of the banks themselves.[8]

But while the share of loans and advances in the portfolio might be considered somewhat low in the sixties its share has definitely increased during the seventies. Some of the factors responsible for this were the increasing investment opportunities in the sixties and the consequent stepping up of lending by the commercial banks. The increasing attractiveness of loans and advances compared to foreign balances in terms of rates of return, should not be ruled out. This contention in the case of Trinidad and Tobago assumes some similarity with that of British Guiana. With the use of Thomas's table[9] and assuming that the rate on foreign balances can be approximated by the U.K. Bank rate our contention seems reasonable.

Not only was there a change in the total value of loans and advances granted during this period, but changes in the distribution of this item also occured. For, while available data are not sufficiently detailed it can certainly be stated that in 1963, personal loans (44.8 percent) accounted for the largest proportion of total loans and advances. Loans to the distributive trades sector now represented a mere 23.1 percent of total loans.[10]

This sector, termed "Individuals (non-business loans)", in Central Bank data, continues to dominate the loans and advances portfolio, up to the present time, amounting to 35.2 percent of total loans and advances in 1980, (Table 5).

[8] Based on interviews conducted.
[9] Thomas, "Commercial Banking in British Guiana", p.71.
[10] C.S.O. Annual Statistical Digest, 1964.

TABLE 5

ANALYSIS OF LOANS AND ADVANCES ($m)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Distributive Trades	76.6	83.5	87.1	109.0	111.8	110.5	122.2	137.5	233.6	318.4	389.1	453.6
Individuals (non business loans)	79.3	91.3	112.7	153.4	195.3	237.4	369.9	554.2	714.4	932.7	977.9	1,153.6
Manufacturing	51.2	71.3	72.5	113.9	120.7	130.2	148.7	182.1	335.8	417.0	410.6	503.4
Agriculture	5.2	7.8	7.5	12.9	16.8	19.3	21.5	27.2	37.1	59.1	51.2	90.9
Government and other Public Bodies	15.2	9.4	22.0	30.6	89.1	72.9	70.4	50.4	40.2	81.3	118.0	238.7
Other	42.8	60.9	65.0	86.7	102.5	105.1	148.0	234.8	237.3	452.6	701.0	840.1
Total	270.3	324.2	366.8	506.5	636.2	675.4	880.7	1,186.2	1,598.4	2,261.1	2,647.8	3,280.3

SOURCE: Central Bank of Trinidad and Tobago Annual Reports.

The distributive trades sector, which represented the raison d'etre of commercial banking in the colonial period, declined to the third most important recipient of loans and advances. In 1972, the proportion of loans and advances allocated to this sector represented 21.5 percent of the total, with 22.5 percent channelled into the manufacturing sector. This ranking has been retained up to 1980, (Table 5).

One explanation for the relative growth in loans to "Individuals (non-business loans)" in the total loans and advances portfolio, is the expansion of hire-purchase lending in the early sixties by commercial banks culminating in Central Bank controls in the late seventies. On the demand side, growth in disposable income accomodated such lending. It may be added, that most bankers would agree that short term loans on hire purchase agreements is a most profitable avenue for loanable funds.

The fact that loans and advances to the manufacturing sector was begining to take a relatively larger share of the total loans and advances portfolio, might be an indication of the banking sectors response to the government's industrialization thrust in the sixties and early seventies.

Only marginal changes have occured in the distribution by type, of loans and advances, during the decade of the seventies (See Table Overdrafts, which represented more than fifty percent of total loans and advances for the entire period declined marginally from

1975. On the other hand "Other Demand" loans increased marginally from under 20.0 percent in the early seventies to just above the 20.0 percent level for the rest of the decade, beginning in 1971.

Term loans represented the most stable proportion of total loans and advances, varying little from approximately 20.0 percent of the total, during the entire period.

The general stability in the proportion of term loans in the portfolio was further reflected in the term to maturity of the loans involved, (Table 7). The pattern whereby more than a half of total term and real estate loans represented a one-to-four year repayment period which obtained in 1968 for example, was maintained up to 1980. A marginal decrease, however, occurred after 1974. Loans with a repayment period of less than one year constituted less than 10.0 percent of the total term and real estate loans during the period 1968 to 1980, as seen in Table 7. Loans contracted for over four years amounted to an annual average of about 37.0 percent during the similar period.

It is claimed that the basic rule employed by commercial banks like most other financial institutions is the principle of hedging through maturity synchronization, i.e. in matching their assets with their liabilities commercial banks help to ensure that on average their assets mature at the same time their debts become due. Thus, a four-year loan should mature around the time that a four-year debt is due. The interest rate spread between the loan

TABLE 6

TYPES OF LOANS AND ADVANCES (PERCENT)

TYPE	1972	1973	1974	1975	1976	1977	1978	1979	1980
Overdraft	61.8	61.6	60.8	57.0	56.2	56.7	57.3	55.0	56.2
Other Demand	17.3	16.4	18.2	21.1	23.6	24.9	22.5	23.5	23.0
Term	20.9	22.0	21.0	21.9	20.2	18.4	20.2	21.5	20.8
SOURCE: Central Bank of Trinidad and Tobago.									

TABLE 7

TERM AND REAL ESTATE LOANS - MATURITY STRUCTURE

	1968	1969	1970	1970	1972	1973	1974	1975	1976	1977	1978	1979	[1]1980
Under 1 Year	4.6	8.5	5.0	4.9	6.3	4.9	6.3	7.1	12.4	7.3	7.4	4.5	5.2
1-4 Years	62.2	47.5	66.4	64.0	62.9	52.2	52.0	62.2	48.3	54.0	56.3	56.6	52.2
4 Years and Above	33.4	48.3	28.7	31.2	30.7	42.9	41.8	30.7	40.0	38.2	36.3	38.9	42.6

[1]First Quarter.

SOURCE: Central Bank of Trinidad and Tobago.

rate and the rate on the debt would then be crucial in the calculation of the bank's profits.

Commercial banks in the United States appear to have adhered to this principle. Thus, "at the end of 1973, it was estimated that better than 90.0 percent of both their assets and liabilities were of a short term nature".[11]

The experience of commercial banks in Trinidad and Tobago has been different. On the liabilities side, (Table 8) total deposits have shown a tremendous increase over the 1964-1980 period, from $240.9 million in 1965 to $3,991.7 million in 1980. Time deposits have shown the most dramatic increase, moving from 15.2 percent of total deposits in 1965 to 41.9 percent in 1980. Savings deposits declined marginally from the forty-percent range in the sixties to the thirty-percent range in the seventies.

Long-term liabilities, i.e. saving and term (over one year) deposits have shown significant incremental increases as seen in Table 9. While the incremental increase between 1970 and 1972 measured $181.8 million, the increase between 1978 and 1980 reached $997.1 million - a more than five-fold increase in long-term liabilities. Marked increases in the intervening years also occurred as shown in Table 9.

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[11] Herbert E. Dougall and Jack E. Gaumity, <u>Capital Markets and Institutions</u>, 3rd ed., (New Jersey: Prentice-Hall, Inc., 1975), p. 23.

TABLE 8

TOTAL DEPOSITS AND ITS COMPONENTS (%)

	Total ($m)	Savings Deposits	Demand Deposits	Time Deposits
1965	240.9	47.1	38.0	15.2
1967	281.5	47.2	33.7	19.0
1969	365.3	49.1	24.6	29.0
1971	543.0	43.6	20.4	36.0
1973	748.8	37.8	17.6	44.6
1975	1,287.5	36.7	20.6	42.7
1977	2,163.1	37.2	23.1	39.7
1979	3,520.5	33.8	22.5	43.8

SOURCE: Central Bank of Trinidad and Tobago, Digests.

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SOURCE: Central Bank of Trinidad and Tobago, Digests.

TABLE 9

LONG TERM ASSETS AND LIABILITIES OF COMMERCIAL BANKS: INCREMENTAL COMPARISON ($M)

	1972	1974	1976	1978	1980[1]
Incremental Investment in Long Term Assets*	66.5	-1.8	164.1	270.3	173.2
Incremental Long Term Liablities**	181.8	297.2	594.1	712.2	997.1

SOURCE: Central Bank Digests.

[1] First Quarter.

* Includes term and real estate loans over one year to maturity plus all securities except T. bills.

**Savings deposits plus term deposits.

In the case of long-term assets, however, the observations are markedly different for the similar period, (Table 9). Long term instruments, approximated by term and real estate loans of over one year to maturity plus long term securities, show an incremental increase of $66.5 million in 1972 from 1970. The comparable 1980 figure stood at a mere $173.2 million. Indeed, a small decline of $1.8 million occurred in 1974 compared to the 1972 figure.

The evidence suggests, therefore, that commercial banks in Trinidad and Tobago during the period 1970 to 1980 did not adhere to the hedging principle in making portfolio management decisions. Increases in long-term deposit liabilities far surpassed the value of long term loans granted and other long-term investments made. Time, demand and savings deposits all represent significant components of total deposit liabilities for banks in Trinidad and Tobago. Thus, significant and prolonged variation in any one of the components would make synchronization with the asset side extremely difficult. The degree of synchronization was found to vary from bank to bank, however. This was partly due to the type of deposits individual banks attracted and also to the lending policy of each bank.

IV: Conclusion.

The commercial banking sector in Trinidad and Tobago has undergone inevitable and significant changes, both in its general institutional structure and also in its asset portfolio structure in particular, from the colonial period through the central banking era, to the present.

In terms of its institutional structure, the population per bank office declined from 277,651 in 1900, through 20,675 in 1964 to around 11,400 in 1980. Most areas now have bank offices except the most remote rural villages. Local ownership via equity holding by nationals and government, however, is only a recent phenomena, beginning in 1970. Major changes in the asset portfolio structure include:

(i) the rise to dominance of the Loans and Advances asset category from 1960 to the present,

(ii) the concomitant decline of the Foreign Assets category after 1960, from a position of dominance in the portfolio,

(iii) the holding of Balances with the Central Bank since 1966, and

(iv) investments in Treasury Bills and Other Local Securities since the early sixties.

Changes, not unexpectedly, also took place within the asset categories. For example, the major proportion of loanable funds in the Loans and Advances portfolio was channelled into the distributive trade sector until 1963, when this proportion was allocated for personal purposes. This sector has continued to receive the major proportion of total Loans and Advances. In 1972, the second most significant share of total loans and advances went to the manufacturing sector, replacing the distributive trade sector, which sector then fell into third position in terms of proportional loan allocation.

Essentially, two sets of factors may explain the changes in portfolio structure over the years. Firstly, risk/return factors within the context of portfolio theory and secondly certain "institutional" changes. However, the two sets of factors are not necessarily mutually exclusive, that is, "institutional" changes would have influenced risk/return considerations in certain cases.

Included in the first group of factors are (i) changes in interest rates in Trinidad and Tobago vis-a-vis the United Kingdom, notwithstanding the close proximity of rates in both countries particularly in the sixties, (ii) the increasing avenues for loans and advances in the late sixties and seventies as the economy expanded, (iii) the sterling devaluation of 1967 and (iv) the exchange control regulations of 1971.

The second set of factors which might explain portfolio adjustment included "institutional" changes like (i) the attainment of independence in 1962 and with this the establishment of the Central Bank under the Act of 1964, (ii) the various regulations that would have suggested portfolio adjustments on the part of the commercial banks and perhaps, (iii) the localisation thrust of the seventies. But perhaps the most important factor was the significant input of the parent bank in the decision making process of multinational banking.

But while the above sets of factors may be used to explaining the liquidation of one asset category in favour of another in the portfolio, such as foreign balances, vis-a-vis loans and advances, there are other explanations for changes within an asset category. For example, the non-synchronization of long-term assets and liabilities may be attributed to the very nature of the loans and deposits portfolio, as well as particular policies of individual banks towards these two elements.

Mention must be made of the impact of the oil boom on commercial banking in Trinidad and Tobago, and the related dramatic increase in liquidity of the banking system. Whereas, Balances with the Central Bank represented $52.1 million or a mere 5.7 percent of total assets in 1973, this figure, which constitutes commercial banks reserves, rose to $179.6 million or 15.2 percent of total assets in 1974 - a dramatic net inflow of funds into the economy. The comparable figure for 1980 was 14.8 percent.

In fact, commercial bank reserves held at the Central Bank, i.e. Balances with the Central Bank, replaced the asset category "Treasury Bills and Other Securities in Trinidad and Tobago" in 1974 as the second most significant asset in the total portfolio. This position was retained to 1980.

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