PARLIAMENT
REPUBLIC OF TRINIDAD AND TOBAGO

Summary of Proceedings
Public Hearing
Held on **Friday March 22, 2024 from 10:15 a.m. to 12:34 p.m.**

Subject matter: An examination of the existing anti-fraud and customer protection systems in the financial services sector of Trinidad and Tobago.

Venue: Linda Baboolal Meeting Room, Parliamentary Complex, Cabildo Building, St. Vincent Street, Port of Spain.

Objectives of the Inquiry:

The objectives of the inquiry are as follows:

1. To determine the nature and prevalence of fraudulent practices, cybersecurity threats and other operational risks within the financial services sector;
2. To gain greater insight into the impact of such practices, threats and risks on the well-being of clients/customers:
    a. Financial well-being
    b. Financial security
    c. Psychological well-being;
3. To determine the mechanisms that are being utilised by commercial banks and other financial services providers to counteract financial fraud, cybersecurity threats and other related risks; and
4. To determine the contribution that State actors can make in counteracting fraudulent practices, cybersecurity threats and other related issues within the financial services sector.

Committee Members

The following Committee Members were present:

1. Mrs. Hazel Thompson-Ahye

2. Mr. Keith Scotland, MP
3. Mrs. Jayanti Lutchmedial-Ramdial
4. Mr. Laurence Hislop
5. Mr. Hassel Bacchus

Witnesses who appeared

Central Bank of Trinidad and Tobago (CBTT):

1. Mrs. Michelle Francis Pantor	Deputy Inspector of Financial Institutions
2. Mr. Dominic Stoddard	Finance Services Ombudsman
3. Mrs. Nadira Rahamatula-Rajack	Manager, Anti-Money Laundering
4. Ms. Keisha Lashley	Assistant Manager, Information and Cybersecurity
5. Mr. Fareez Hardit-Singh	Assistant Manager, Office of the Financial Services Ombudsman (OFSO) – National Financial Literacy Program (NFLP) – Market Conduct Supervision

Trinidad and Tobago Police Service (TTPS):

1. Mr. Arlet Groome	Senior Superintendent, Fraud Squad
2. Mr. Damian Thomas	Inspector, Fraud Squad
1. Ms. Tricia Smith	W/Inspector, Fraud Squad

Financial Intelligence Unit of Trinidad and Tobago (FIUTT):

1. Mr. Nigel Stoddard	Director, FIUTT
2. Ms. Mary Campbell	Deputy Director, FIUTT
3. Mr. Kevin Radix	Director, Compliance and Outreach
4. Ms. Shivana Sharma	Legal Professional

Key Issues Discussed

The following are the main issues arising from the discussions**:**

Regulatory capacity of the CBTT

i. The CBTT was the supervisory authority tasked with ensuring that the requisite controls were implemented by financial institutions to mitigate the impact of fraudulent activity and cyberattacks;
ii. Assuming an operational risk management perspective, the CBTT had a multi-pronged anti-fraud approach, inclusive of supervision and monitoring through its Financial Institution Supervision Department and the issuance of Market Conduct Guidelines;

iii. Whilst the CBTT could provide financial institutions guidelines for conduct, it was outside of its remit to determine each entity's individual customer requirements to access certain services;
iv. IMF technical training and assistance had been commissioned by the CBTT to bolster its supervisory capacity with one recommendation to improve the Bank's cybersecurity resources receiving active consideration.

CBTT capacity to conduct on-site supervision

i. The CBTT had not yet performed any on-site (including cybersecurity) assessments of financial institutions but was in the process of training and re-skilling examiners to conduct such exercises. CBTT spearheaded cybersecurity supervision was scheduled to commence in fiscal 2024/2025;
ii. In lieu, the CBTT had relied on self-assessments completed by financial institutions to identify the gaps and detailed action plans of financial institutions. One such example was the cyber-security guideline issued in September 2023 and due at the end of March 2024;
iii. The Bank was cognisant of the fact that in the absence of its capacity to execute on-site audits, the institution was reliant on the sole judgement of financial institutions to conduct assessments.

Material risks

i. The determination of a material risk, though guided by parameters set by the Central Bank, was essentially a subjective judgment made by financial institutions based on the impact of the risk on their operations (number of customers impacted, reputation and capital flow etc.);
ii. There were six incidents of material risk reported by commercial banks for the period 2020-2023, inclusive of cheque fraud, employee fraud, withdrawal of funds in excess of funds deposited and identity fraud;
iii. Fifty-two incidents of financial fraud were also reported by insurance companies within the same period, inclusive of non-remittances of premiums, fraudulent use of documents and cheques. Cheque fraud appeared to be a major source of fraud for financial institutions.

The nature of financial fraud

i. For the period 2020-2023, the 20,000 cards that were compromised did not meet the threshold for a material risk, given this nominal figure out of a total of 850,000 debit and 250,000 credit cards in operation;
ii. Additional safeguards in European Mastercard Visa (chip and pin) technology implemented since 2017/2018 had enhanced card security features to prevent fraudulent activity such as skimming. To exemplify, within the 2020-2023 period, cases had fallen from 1, 159 to 195;

iii. Construction, land and travel agency fraud were mentioned, but online fraud, utilising individuals' card information had increased in prevalence.

Cybersecurity in the banking sector

i. A financial institution's cybersecurity mechanisms would be in line with their expenditure and operations, and based on self-assessments, appeared to be stronger than most other sectors;
ii. For the period 2020-2023, there were six cybersecurity incidents reported, five from insurance companies and one from a non-bank institution;
iii. A determination of what would be considered a material cybersecurity incident was also based on the discretion of the financial institution, however, the CBTT would investigate should an incident come to their attention;
iv. It was acknowledged by the CBTT that whilst they were responsible for the regulation of financial institutions, they could not realistically investigate every incident.

Adequacy of legislation

i. Although the legislation, when combined, could be considered adequate for mitigating against financial fraud, it was noted that certain updates e.g. to the Forgery Act, Chap. 11:13, as well as more specifically defined laws, would be advantageous to the regulation of the financial industry.

Financial education and mechanisms for redress

i. For the period 2020-2023, there were 219 complaints regarding financial risks received by the Financial Services Ombudsman. The resolution time for a complaint ranged from 30-120 days, with 90 days being the average;
ii. What qualified as a complaint to be addressed by the Financial Services Ombudsman did not appear to be well understood by the general public, as only 20% of complaints were considered valid during the 2020-2023 period;
iii. Fees attached to financial accounts, a well-ventilated issue in the public domain, was one that had also been considered by the CBTT. A thematic review of financial institutions' fees and charges was thus earmarked with a view to developing some sort of market conduct guideline in this regard;
iv. In terms of financial education, each of the agencies represented indicated that financial education was a routine part of their operations using a variety of media including: internet, radio, television, sensitisation sessions, publications, targeted workshops and social media. It was noted however, that whilst these activities were available, the proportionality of public awareness and uptake seemed less definitive;
v. The Financial Services Ombudsman seemed to be especially strategic with their financial literacy programmes, having given consideration to social demographics and carrying out active outreach sessions in Tobago;

vi. It was further noted that outreach needed to address some of the administrative frustrations (such as satisfying proof of income safeguards) that customers experienced with financial institutions, as this was a major source of public distrust and discontent in the sector.

Arrests and prosecutions

i. Automated Teller Machine (ATM) fraud appeared to be challenging to prove due to the fact that prosecution was dependent on CCTV footage which was often of poor quality;
ii. Lack of mutual legal assistance agreements with certain countries and/or lack of these countries' willingness to prosecute financial crimes falling below a defined dollar value were core reasons for the failure to close many financial fraud reports;
iii. Notwithstanding the compulsion of a production order, the Fraud Squad highlighted the issue of enforcement citing the recent hurdles to obtaining witness statements since the introduction of the Miscellaneous Amendments Act, 2020. The changes rendered to the Financial Institutions Act, Chap. 79:09, had resulted in some resistance from certain financial institutions to provide information requested in a timely manner;
iv. From the purview of the FIUTT, one consideration offered to treat with the issue of prosecutorial delays was the expansion of the entity's capacity to include both administrative and investigative powers.

KEY RECOMMENDATIONS EMANATING FROM THE DISCUSSIONS

1. It was proposed that the CBTT consider the implementation of objectively measurable criteria to be applied by commercial banks for the determination of material risk since the Financial Institutions Act, Chap. 79:09 (FIA) does not provide for or mandate financial institutions to report all incidents of fraud to the CBTT, however, developments which pose material risks and General Suspicious Activity Reports (SARs) on fraud must be reported.
2. It was proposed that CBTT commence on-site examinations with respect to cybersecurity measures of financial institutions as well as staff training and capacity building in cybersecurity risk assessment as a matter of urgency.
3. It was proposed that the CBTT's outreach programme include educating the public on how regulation of the financial services sector protects customers and their interests to improve customer knowledge, compliance, and overall satisfaction.
4. It was proposed that the Commissioner for Co-operative Development, Ministry of Labour, consult with the CCULTT on the progress of the development of a cybersecurity framework and cybersecurity controls within member institutions.

This public hearing can be viewed on demand via our YouTube Channel.

https://www.youtube.com/watch?v=knGPV177bnY

Contact the Committee's Secretary

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Committees Unit

April 02, 2024.