



**Caribbean Centre for Money and Finance
(CCMF)**



Caribbean Regional Financial Conglomerate: Resilience in the face of Crisis

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Road Map



• **The Road to Global Economic Recovery**

- **Caribbean Paradigm**
- **Global Economic Crisis – Impact on Caribbean**
- **Global Economic Crisis – Caribbean responses**
- **Global Economic Crisis – Impact on Financial Institutions globally**
- **Global Economic Crisis – Characteristics of the Caribbean Financial Services industry**
- **Global Economic Crisis – Impact on Caribbean Financial Institutions**
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- **Conclusion**



The Road to Global Economic Recovery



V shaped recovery as against

U shaped recovery as against

L shaped recovery

- Anaemic – slower rate of decline
- Slower growth in developed economies

“New Normal”



Road Map



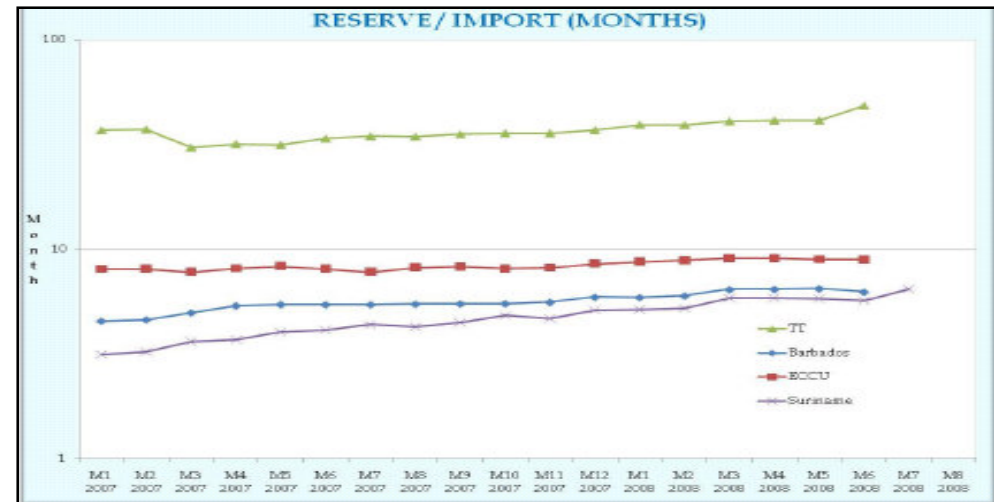
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The Caribbean Paradigm



- Caribbean economies are by nature:
 - Small and open economies.
 - Mono product-driven e.g. Leisure travel and commodities.
 - Maintain by and large fledgling international reserves
 - Carry perennial Current Account deficit balances.
 - Largely reliant on FDI and Remittances to fund Current Account balances.
 - High levels of debt to GDP



“Highly dependent on world economy”



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Global Economic Crisis - Impact on the Caribbean



- Exogenous shocks transmitted throughout the Caribbean via:-
 - Decline in Foreign Direct Investment (“FDI”)
 - Decreased remittances
 - Decline in Tourism
 - Decline in commodity prices
 - Increased pressure on domestic regional currencies
 - Increased pressure on international reserves.
 - Significant deterioration in the terms of trade

Impact felt both in the
Capital and Current
Account of the
respective Caribbean
Sovereigns

“Direct hit on all revenue drivers”



Global Economic Crisis - Impact on the Caribbean



- Deteriorating state of Government finances
- Failure of weak financial groups
- Private sector lay-offs and contraction
- State lay-offs
- Budgetary cuts in expenditure
- Project deferrals both private and public
- Consumer confidence index at low levels
- Low demand for emerging market paper/lower bond prices
- Limited access to capital markets

“Downward spiral”



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Global Economic Crisis Caribbean responses



- Fiscal stimulus **dependent** on fiscal flexibility
- Loosened monetary stance **where** possible
- Debt restructure **if** possible
- Social spending to keep employment levels up **where** possible
- Government expenditure to foster/sustain economic activity **where** possible
- Multilateral borrowing

“Limited options/hard choices”



Global Economic Crisis – The Time Factor for the Caribbean



- Caribbean lagged the crisis in the world economy
- Caribbean will lag the recovery in the world economy
- Outlook for 2010 tourism season
- 2010 will be a tough year for the region

“2011 silver lining”



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Global Economic Crisis Impact on Financial Institutions globally



- Credit market crisis
 - Asset write downs in both loan and investment books
 - Capital adequacy issues
- Difficult top line environment – growth in interest revenue and fees
- Expected increased market regulations – capital ratios, management, compensation, distressed assets
- Continuing consolidation – weaker banks are being forced to consolidate/cost of compliance
- Increased focus on derivatives, financial engineering, SPV's, CIV's
- Cost initiatives – much tighter non interest expense management
- More conservative, back to basic banking and insurance

“Greater transparency”



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Global Economic Crisis – Characteristics of Caribbean Financial Services industry



- Financial Institutions do direct underwriting and keep the assets on their books
- Markets relatively unsophisticated re: financial engineering
- Little dis-intermediation re: securitization
- Statutory and legal restrictions on investment classes, foreign currency investments
- Strong regulatory framework and Central Banks

“Protected”



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Global Economic Crisis – Impact on Caribbean Financial Institutions



- Therefore had little or no toxic international assets
- Largely unscathed from domino effect in developed world
- Interbank market remained strong
- By and large, no Financial Institutions crisis, no capital adequacy crisis



Global Economic Crisis Impact on Caribbean Financial Institutions



- Mark to market issues on regional paper when bond prices plummeted in last quarter of 2008
- As a consequence, potential capital issues
- No immediate impact on core loan portfolios
- By and large the international regional banks (largely Canadian – RBC, BNS, CIBC) were solid due to inherent strength of the Canadian banking system
- Indigenous banks, save for mark to market issues were/are in good shape



Global Economic Crisis Impact on Caribbean Financial Institutions



- CL Financial Group debacle (CLICO Investment Bank/Clico Insurance Company, British American)
- Stanford Bank - Antigua
- Millennium Bank – St. Vincent
- Acquisition of CMMB by First Citizens Bank in Trinidad and Tobago
- Crisis related ?
 - Yes, but had other fundamental issues which were endemic and internal in nature

“Aberration”



Global Economic Crisis Impact on Caribbean Financial Institutions



- In market Indigenous banks (e.g. NCBJ, FCB)
Regional indigenous banks (RBL)
International regional banks (RBTT, FCIB, BNS)
- Impact **now** is due to economic slowdown and being felt primarily in loan book and business prospects

“Normal?”



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Global Economic Crisis Impact/imperatives on any Financial Institution



- Lower revenue
 - Interest revenue – loan demand/interest rate
 - Fee income – transaction volume
 - margin compression
- Credit costs
 - Higher delinquency ratios
 - Non revenue producing Loans and investment
 - Provision for credit losses/actual credit losses
- Cost management – non-interest expense costs (NIE)
- People cost management – (FTE management)
- Capital management – lower earnings, mark to market write-downs via equity

“Lower earnings”



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Global Economic Crisis

RBTT/RBC case



- Focus on merger/integration in a tough business environment from acquisition in June 2008

Our markets:

- Trinidad and Tobago – energy, commodity based, investment grade
- Dutch Caribbean Islands – nexus to the Netherlands
- Jamaica – non-investment grade
- Barbados – investment grade
- Eastern Caribbean – non-investment grade
- Bahamas – investment grade
- Suriname – energy, commodity based, non-investment grade

“Diversified”



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Global Economic Crisis RBTT/RBC Focus in current operating environment



- Prudent lending and underwriting standards
- Rigorous risk management of portfolios
- Early Warning Systems re challenged accounts
- Strengthened collection units
- Working with clients through the cycle
- Treasury management – Interest cost management
- NIE management – discretionary spending, capital expenditure
- Leveraging parent’s capital/experience/expertise
- Access to credit via parent’s rating
- Building capacity for when the economic cycle turns

“Back to basics”



Global Economic Crisis Resilience of the Caribbean



- Caribbean has weathered many storms in the past
- This crisis is deep, all pervasive and potentially long
- The events will put pressure on small, indigenous banks and we may see consolidation as capital, regulatory and compliance requirements are strengthened.
- Regional Financial Institutions with prudent management will emerge stronger as the cycle turns
- International regional Financial Institutions with strong parents are best placed to manage through the crisis
- We just have to “batten down the hatches” through the cycle



THANK YOU