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
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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”
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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

“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