International Finance Corporation
World Bank Group

Opportunities and Challenges for Private Sector Investment in the Financial Sector

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Commercial Banking Investment

Opportunities

- Potential for market consolidation and scale through M&A for regional banks
- Historic ROEs for some local and regional banks were quite high
- Large risk averse banks aren't serving SMEs effectively creating opportunities for others
- Newly expanding industries emerging throughout the region will allow for diversification of loan portfolios

Commercial Banking Investment

Challenges / Barriers

External Factors

- Banking environment impacted by global financial crisis with knock-on effect for the borrowers
- Basel II and III likely to reduce the growth rate of the banks
- Competing opportunities from outside the region

Regional / Domestic Factors

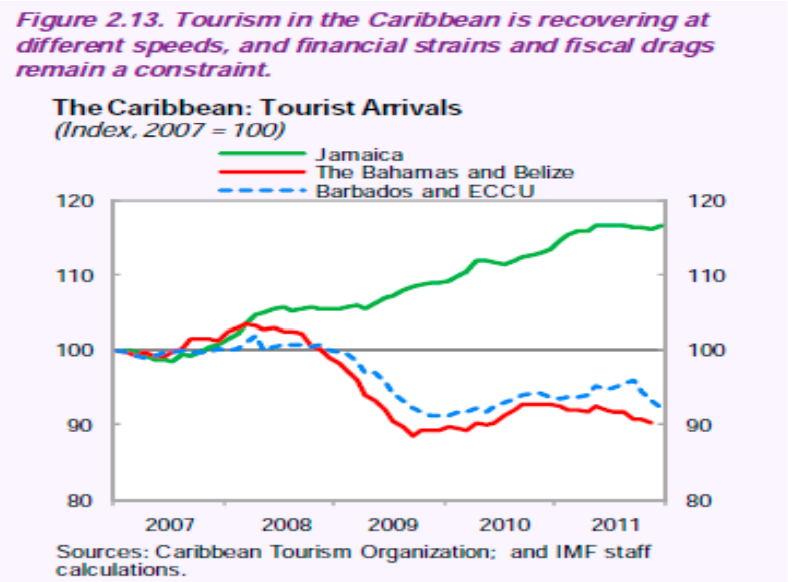
- The government high-indebtedness has distorted the interest rate market
- Highly fragmented markets with many local banks and NBFI players reduces scale for investors looking for a big play
- Over concentration in slumping tourism also reducing SME lending
- Limits on nonresidential ownership

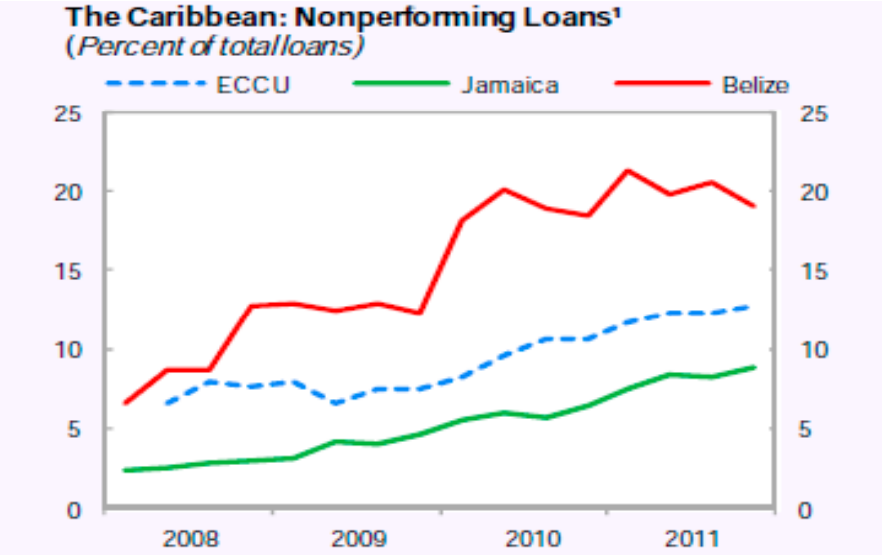
Commercial Banking Investment

Overcome the Challenge

- Consolidate the banking sector as well as the banking market
- Continue harmonizing and strengthening regulations and supervision
- Amend the regulations that restrict non-resident ownership and management control of the local banks

Non-performing Loans across the Region





Protecting financial system stability and encouraging private investment in the financial sector will require addressing distressed assets.

NPLs & Other Distressed Asset Investments

Opportunities

Investors

- Large numbers of NPLs regionally, especially in the tourism and real estate sectors gives rise to investment opportunities
- Reasonable returns can be realized with experienced work-out specialists

Banks

- Opportunity for banks to offload NPLs, improve liquidity and devote these resources to originating new loans
- Can also participate in upside structure to mitigate any capital effects

Public Sector

- Reduce public sector outlays in case of possible bailout

NPLs & Other Distressed Asset Investments

Challenges / Barriers

- Banks may not be willing to take the hit to capital from selling NPLs at a discount
- Investors must bring capital to an inherently high risk proposition;
- Attracting top-tier work-out partners (servicers) with expertise in valuing, turning around and resolving large numbers of distressed assets

NPLs and Other Distressed Asset Investments

Overcome the Challenge

- Structure purchase so that banks participate in asset recovery (upside)
- Create a regional fund to provide the scale and diversification necessary to bring-in investors and a top-tier servicer
- Create a regional fund platform which will provide scale, sector and country diversification

Successful NPL resolution will require private sector involvement integrated with public sector strengthening of regulatory framework, risk management, and corporate governance.

Other Private Sector Investments

Opportunities

- Private Equity
- Insurance
- Housing
- Leasing
- Consumer finance

Challenges

- Significant excess liquidity
- Government crowding out
- Ongoing negative impact of CLICO
- Modernization and expansion of regional infrastructure

- Public Private Partnerships
- Capital Markets Development– longer term assets; more listings
- Local / regional / int'l strategy including reduction of government ownership
- Stimulate equity market

Private Sector Investments in the Caribbean

Conclusions

- The creation of more specialized small financial institutions is not the answer.
- Private sector investors are chasing good investment opportunities across the globe.
- Consolidate the existing financial institutions to leverage on the private sector funding.

Thank You