

# 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**

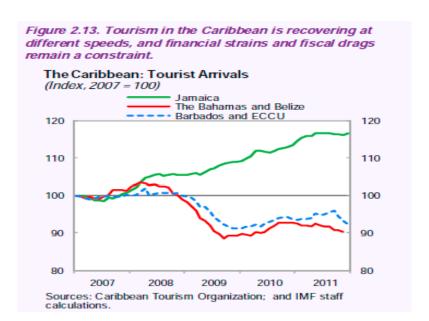
### Overcome the Challenge

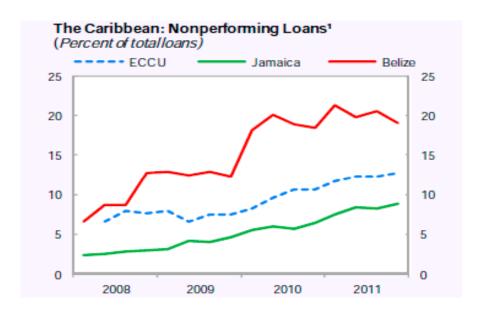
- Consolidate the banking sector as well as the banking market
- Continue harmonizing and strengthening regulations and supervision
- Amend the regulations that restrict non-resident ownership and management control of the local banks





### 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



