

A Silver Lining? Bank Indigenization and Regional Integration in the OECS Sub-region
The Empirics and Strategic Responses to “De-risking” in the Caribbean

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Abstract

Recently, many of the banks that operate within the Eastern Caribbean Currency Union (ECCU) have struggled to obtain or maintain access to the US financial system. A combination stepped-up regulatory enforcement and pressure from examiners, as well as investment losses across the Caribbean suffered in the wake of the 2007-08 global recession, led the international banks operating in the region to “de-risk” or “de-bank” by closing many branches, including more than 75 percent in Dominica and more than 50 percent in Antigua and Barbuda and St. Kitts and Nevis. These decisions have impacted access to the correspondent banking services critical to settling cross-border transactions. To date, some 13 indigenous banks and one (1) regional bank have stepped in to fill the void. Is there a silver lining to bank “de-risking” in the ECCU? This is the probing question that we ask in this paper, which we seek to answer by undertaking two tasks: 1) an empirical and strategic exploration into the challenges faced and strategies pursued by the subregion’s indigenous banking and financial institutions (bank indigenization) to creatively reorganize and reposition themselves in order to continue providing services to their local and international clients; and 2) an examination of the extent to which these strategies might be galvanizing economic restructuring within the Union. We argue that bank indigenization is likely to create a paradox of “too small to succeed” and “too big to fail” in the ECCU. On the one hand, it is likely to deepen regional integration by forcing members to “fundamentally restructure their economies at the individual and collective levels;” that is, move from single-country economies to multi-country ones. On the other hand, “de-risking” has resulted in the emergence of one powerhouse, regional indigenous bank—the RFHL Group—which has some 89 branches and 165 ATMs across the Caribbean, including 16 branches and 27 ATMS in the ECCU, and whose assets vastly exceed the small, indigenous banks in the region. This development, we contend, raises concerns about being “too big to fail.”

Introduction

Correspondent Banking Relationships (CBRs) are the lubricants essential to the smooth functioning of cross-border transactions that propel today's global commercial and financial engine. Without access to CBRs, countries become susceptible to economic contraction and, quite possibly, economic implosion. That is, the loss of CBRs can impose huge costs on an economy as financial institutions struggle to find appropriate means to settle their cross-border transactions. This is the situation in which the banks in the Eastern Caribbean Currency Union (ECCU) recently found themselves recently. These historically open economies¹ are highly reliant on international trade and commerce, including tourism and related services; foreign direct investment (FDI); remittances; and the presence of Offshore Banking and other Offshore Financial Services. For example, tourism and travel amounted to some \$915.2 million in 2021; FDI totaled some \$526 billion 2021; and remittances totaled some \$255.52 million in 2019 (wttc.org, 2022; unctad.org, 2021; WorldinData, 2021). However, many of the international banks that operate within the ECCU have struggled to maintain profitability along two separate but interrelated fronts.

On the one hand, the global recession of 2007-08 triggered huge investment losses across the Caribbean, including some \$1.5 billion in gross impaired loans reported by Scotiabank; \$835 million by CIBC; and \$800 million by RBC (Hartnell 2015; Kiladze 2015). On the other hand, increased regulation of banking systems to address concerns about tax evasion and combat money laundering and the financing of terrorism has had the unintended consequence of making CBRs costlier and less attractive to these global banks. Unclear regulatory expectations presented correspondent banks with the possibility of large fines for noncompliance, particularly in cases where local privacy laws prohibit the sharing of information about banks' customers. Risk aversion, therefore, triggered recession as these international banks sold their assets, especially in the small markets in the OECS, and opted to maintain and expand operations in the larger Caribbean and Latin American markets. This strategy of "de-risking" resulted in the

¹ The average openness ratio (the sum of exports and imports of goods and services divided by GDP) in the Caribbean amounted to 95 percent of GDP over 2011-15, which is slightly higher than the world average of 91 percent of GDP. An increase in the cost of making payments or a disruption in the ability to make or receive international payments would seriously undermine economic activity. See Trevor Alleyne, Jacques Bouhga-Hagbe, Thomas Dowling, Dmitriy Kovtun, Alla Myrvoda, Joel Okwuokei and Jarkko Turunen, (2017): "Loss of Correspondent Banking Relationships in the Caribbean: Trends, Impact, and Policy Options," IMF Working Paper WP/17/209.

withdrawal of CBRs for these economies long connected to and dependent on the global banking and financial system.

Early data indicate that the ECCU has been among the most affected jurisdictions by the for termination of CBRs, with more than 75 percent of banks in Dominica and more than 50 percent of banks in Antigua and Barbuda and St. Kitts and Nevis lost their CBRs during the last five years (See Table I).

	IMF	Caribbean Association of Bankers
Eastern Caribbean Currency Union (ECCU)	Between 25% and 75%	Between 25% and 75%
Antigua & Barbuda	Between 25% and 75%	Between 25% and 75%
Anguilla	Fewer than 25%	Fewer than 25%
Dominica	Fewer than 25%	Fewer than 25%
Grenada	Fewer than 25%	Fewer than 25%
St. Kitts & Nevis	Greater than 75%	Greater than 75%
Saint Lucia	Fewer than 25%	Fewer than 25%
St. Vincent & the Grenadines	Fewer than 25%	Fewer than 25%
Montserrat	Greater than 75%	Greater than 75%

Source: Reproduced from Alleyne, et al., “Loss of Correspondent Banking Relationships in the Caribbean: Trends, Impact, and Policy Options,” 2017.

To date, some thirteen (13) indigenous banks and one (1) regional bank have stepped in to fill the void left by these departing international banks. Is there a silver lining to bank “de-risking” in the OECS? Put differently, while the evidence speaks to the negative impacts on small economies, this paper asks the following probing question: To what extent has “de-risking” been a positive development for small banking and financial institutions in this region, whose economies are largely dependent on international trade, travel and tourism, remittances, and an uninterrupted access to the global banking system, especially the US banking system? We seek to answer this question by undertaking two tasks: 1) an empirical and strategic exploration into the challenges faced and strategies undertaken by the subregion’s national and indigenous banking and financial institutions to creatively reorganize and reposition themselves in order to continue to provide banking services to their local and international clients; and 2) an examination of the extent to which these strategies might galvanize efforts towards economic restructuring within the Union whereby member territories move from single-country economic entities to multi-economy ones.

As a point of departure, we draw upon the premise that countries and regions should avoid the situation in which their banks are either “too big to fail” or “too small to succeed,” to discuss and describe the banking and financial structure in the ECCU, the impacts of AML/CFT enforcement on these economies, and the consequent “de-risking” strategies of the international

banks that have led to the indigenization of banking and finance in this subregion. We argue that bank indigenization reflects a paradox in the ECCU. On the one hand, it is likely to deepen regional integration by forcing members to fundamentally restructure their economies at the individual and collective levels; that is, moving from single-country economies to multi-country economies through bank amalgamation as well as bank consortia, both within individual countries and between and among subsets of ECCU member countries. On the other hand, however, we argue that “de-risking” has not changed the fundamental asymmetric relationship between banks in the region, where the international banks long dominated the indigenous ones. Instead, the asymmetry has shifted to one in which a regional giant, the Trinidad and Tobago-based Republic Financial Holdings Group (RFHL), which recently purchased assets of Scotiabank in all but one of the ECCU countries, is poised to replace the departing, powerful international banks. While RFHL’s asset base for the subregion US\$1.6B compared to US\$7.12B for the indigenous banks, its overall asset base of US\$16.2B for the broader region dwarfs the combined assets of the indigenous banks in the ECCU, thereby making it a dominant financial giant in this region. We contend, therefore, that while amalgamations and consortia may alleviate the challenges associated with being “too small to succeed,” the growth and expansion of the RFHL Group across the region may result in a regional institution that is “too big to fail.”

The Structure of Banking and Finance in the OECS

The Eastern Caribbean Central Bank (ECCB) is the regional central bank for the Organization of Eastern Caribbean States (OECS) comprising Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines. The OECS, with a population of some 630,000, has a monetary union—the Eastern Caribbean Currency Union (ECCU)—which is one of only five monetary unions worldwide. International banks, such as Barclays, Canadian Imperial Bank of Commerce (CIBC), Royal Bank of Canada (RBC), and Bank of Nova Scotia (Scotiabank) had long operated in the Caribbean. For example, Barclays Bank, the forerunner to CIBC/FirstCaribbean, first entered the Caribbean in 1837 by establishing a presence in Antigua, Dominica, Grenada, Saint Lucia, and St. Vincent and the Grenadines. RBC has operated in the Caribbean for longer than its operations in many parts of Canada, having entered Grenada in 1913; Antigua, Dominica and St. Kitts in

1915; and Nevis and Montserrat in 1917 (RBC.com/en/about-us/). In 1916, Barclays Bank acquired the shares of then Colonial Bank, which was established in 1836 to provide banking services in the West Indies and British Guiana (referenceforbusiness.com/history2/82/Barclays-PLC). FirstCaribbean International Bank began operations on 14 October 2002, with Barclays Bank and CIBC each holding 45% of the shares. Scotiabank has been part of the Caribbean and Central American region since 1889, having opened its first office in Kingston, Jamaica, to support the thriving trade of rum, sugar, and fish.

Table II: ECCU BANKING AND FINANCIAL STRUCTURE (SELECTED) 2016

	ECCU	ANGUILLA	ANTIGUA & BARBUDA	DOMINICA	GRENADA	MONTserrat	ST. KITTS & NEVIS	SAINT LUCIA	ST. VINCENT & GRENADINES
Commercial Banks	27	2	4	3	4	1	5	4	4
Credit Unions	50	1	8	6	10	1	4	16	4
Development Banks	6	1	1	1	1	...	1	1	...
Insurance Companies	161	25	22	17	27	7	16	23	24
Money Service Companies	32	4	4	3	2	2	10	5	2
Offshore/Int'l Banks	47	3	8	17	...	4	3	11	1
Offshore/Intl Non-banks	448	94	1	...	...	1	165	42	145
Offshore IBCs, LLCs, MFs, etc.	17,460	53	...	...	...	2	12,641	19	4,725
	18,231	183	48	47	44	18	12,845	121	4,905
Source:	Compiled from	ECCU/IMF Report	No. 22/253						

As Table II and III indicate, the ECCU's financial and banking sector in 2016 consisted of 35 licensed commercial banks, 12 of which were national institutions and the other 23 were regional and international banks and their branches. Additionally, there were some 50 credit unions, 161 insurance companies, 32 money service companies, 47 offshore international banks, 448 offshore international non-banks, and 17,460 IBCs, LLCs, and MFs, etc., all dependent on access to the international financial system, and reflect the region's reliance on international trade and commerce, including tourism and related services; on foreign direct investment; on remittances; and on the presence of Offshore Banking and other Offshore Financial Services. For example, tourism and travel amounted to some \$915.2 million in 2021; FDI totaled some \$526 billion

2021; and remittances totaled some \$255.52 million in 2019 (wtcc.org, 2022; unctad.org, 2021; WorldinData, 2021). Carrying out these various cross-border transactions and financial activities requires the existence of reliable CBRs.

Territory	Name of Institution	Locally Owned Indigenous Banks		Foreign Owned	Details
		Private	Government		
Anguilla	National Commercial Bank of Anguilla, Ltd.		X		Public Company
	First Caribbean International Bank (Barbados) Ltd.			X	Branch
	Scotiabank (Anguilla) Ltd.			X	Subsidiary of Scotiabank International Bahamas Ltd.
Antigua & Barbuda	Antigua Commercial Bank	X			Public Company
	Caribbean Union Bank, Ltd.	X			Private Company
	Bank of Nova Scotia (Scotiabank)			X	Branch
	First Caribbean International (Barbados) Ltd.			X	Branch
	Royal Bank of Canada			X	Branch
Dominica	Eastern Caribbean Amalgamated Bank	X			Private Company
	National Bank of Dominica		X		Statutory Corporation
	Bank of Nova Scotia (Scotiabank)			X	Branch
	First Caribbean International (Barbados) Ltd.			X	Branch
Grenada	Royal Bank of Canada			X	Branch
	Grenada Cooperative Bank	X			Public Company
	Republic Bank (Grenada) Ltd.			X	Public Company (Republic Bank of Trinidad and Tobago has largest interest).
	Bank of Nova Scotia (Scotiabank)			X	Branch
	First Caribbean International (Barbados) Ltd.			X	Branch
Montserrat	RBTT Bank (Grenada), Ltd.			X	Public Company (RBTT Bank Caribbean Ltd., a subsidiary of RBTT Bank, Ltd., has largest interest).
	Bank of Montserrat, Ltd.		X		Public Company
St. Kitts & Nevis	Royal Bank of Canada			X	Branch
	Bank of Nova Scotia (Scotiabank)			X	Branch
	First Caribbean International (Barbados) Ltd.			X	Branch
	Bank of Nevis, Ltd.	X			Public Company
	RBTT (SKN), Ltd.			X	Public Company (RBTT Bank Caribbean Ltd., a subsidiary of RBTT Bank, Ltd., has largest interest).
	Royal Bank of Canada			X	Branch
Saint Lucia	St. Kitts Nevis Anguilla National Bank, Ltd.		X		Public Company
	Bank of Saint Lucia, Ltd.	X			Private Company
	First Caribbean International (Barbados) Ltd.			X	Branch
	Royal Bank of Canada			X	Branch
	RBTT (Caribbean) Ltd.			X	Branch
St. Vincent and the Grenadines	First National Bank of Saint Lucia, Ltd.	X			Public Company
	Bank of St. Vincent and the Grenadines	X			Public Company
	Bank of Nova Scotia (Scotiabank)			X	Branch
	First Caribbean International (Barbados) Ltd.			X	Branch
Total	RBTT (Caribbean) Ltd.			X	Branch
	35	8	4	23	

Source: ECCB Financial Stability Report December 2016

As large international banks with roots in Canada, CIBC, RBC and Scotiabank were able to establish CBRs at (relatively) affordable rates for clients in the ECCU. This process was profitable, cosmopolitan, and minimally risky. However, the same cannot be said of the local banking sector in the subregion, which, at best, is able to distribute its risk across these territories, all of which share a similar risk profile and face similar circumstances. In recent years, however, specifically in the wake of stepped-up regulatory enforcement and pressure from examiners, many of the banks that operate within the ECCU struggled to obtain or maintain

access to the US financial system due in large measure to risk aversion among many of their correspondent banking partners. Risk aversion among the international banks was due in part to investment losses across the Caribbean suffered in the wake of the 2007-08 global recession. For example, as noted above, Scotia Bank reported some \$1.5 billion in gross impaired loans; CIBC reported \$835 million; and RBC reported approximately \$800 million (Hartnell 2015; Kiladze 2015). These losses triggered recession as these banks closed many branches, thereby consolidating their operations given the low profitability prospects—decisions that greatly impacted small markets in the ECCU. These “de-risking” or “de-banking” decisions also resulted in a withdrawal of their CBRs to institutions within the ECCU, thereby placing this monetary union among the most affected jurisdictions for termination of CBRs in recent years. “De-risking,” therefore, has placed the onus or responsibility of accessing the international financial system necessary for processing cross-border financial transactions largely in the hands of 13 indigenous banks (See Table VI). Not only has the banking and financial landscape been altered but the resultant loss of significant access to international financial markets and, consequently, comparatively low international transaction costs have challenged these indigenous banks and financial institutions. For example, it has meant that the cost of financial products like insurance would rise as local banks and insurance providers act as middlemen, selling the risk they hold to foreign entities due to low monetary reserves, and earning a profit by charging above the international market rate.

Country	Name of Indigenous Institution	Name of Foreign Institution
Anguilla	National Commercial Bank of Anguilla Ltd.	Republic Bank (Anguilla) Ltd.
Antigua & Barbuda	Antigua Commercial Bank Ltd. Caribbean Union Bank Ltd. Eastern Caribbean Amalgamated Bank Ltd.	CIBC First Caribbean International Bank (Barbados) Ltd.
Dominica	National Bank of Dominica Ltd.	CIBC First Caribbean International Bank (Barbados) Ltd. Republic Bank (Dominica) Limited
Grenada	ACB Grenada Bank Ltd. Grenada Co-operative Bank Ltd.	CIBC First Caribbean International Bank (Barbados) Ltd. Republic Bank (Grenada) Ltd.
Montserrat	Bank of Montserrat Ltd.	
St. Kitts & Nevis	Bank of Nevis Limited BON Bank Ltd. St. Kitts-Nevis-Anguilla National Bank Ltd.	Republic Bank (St. Kitts and Nevis) Ltd.
St. Lucia	1st National Bank St. Lucia Ltd. Bank of Saint Lucia Ltd.	CIBC First Caribbean International Bank (Barbados) Limited Republic Bank (EC) Limited
St. Vincent & the Grenadines	Bank of St Vincent and the Grenadines Ltd.	CIBC First Caribbean International Bank (Barbados) Ltd. Republic Bank (St. Vincent and the Grenadines) Ltd.

De-risking

“De-risking,” which refers broadly to the restriction of CBRs or business services from major global banks to certain jurisdictions due to concerns over money laundering or potential involvement in the financing of terrorist activities. The guidelines for “de-risking” (risk management) are found in the anti-money laundering (AML) and Combating the Financing of Terrorism (CFT) regimes that banks are obliged to follow. It is a complex problem because it is the result of a mix of unclear or inconsistent regulatory expectations; enhanced efforts to combat money laundering and terrorism financing; weak compliance by correspondent banks, and countries with risky environments; and it also requires banks to adhere to a long list of criteria to evaluate financial transactions’ risks (Adriano 2017).

For example, banks are uncertain about how far customer due diligence should go in order to ensure regulatory compliance (i.e., to what extent banks need to know their customers’ customers – the so-called KYCC). This uncertainty is often cited by banks as being among the main reasons for cutting back their CBRs. Increased enforcement and unclear regulatory expectations, therefore, presented correspondent banks with the possibility of large fines for noncompliance, particularly in cases where local privacy laws prohibit the sharing of information about banks’ customers. The unintended consequence is that CBRs have become costlier and less attractive to global banks. International banks, mainly from Canada, the US, and Europe, as well as their governmental regulatory agencies, perceive and treat the Caribbean as if it is a region in which AML regimes and compliance mechanisms are weak. As a result, these banks have cut back services for respondent banks that a) do not generate sufficient volumes to overcome compliance costs; b) are located in jurisdictions perceived as too risky; c) provide payment services to customers about which the necessary information for an adequate risk assessment is not available; or d) offer products or services or have customers that pose a higher risk for AML/CFT and are, therefore, more difficult to manage (MacDonald 2019; Adriano 2017; Creary 2016).

Thus, rather than manage risk or assess banking partners on an individual basis, a blanket assessment is made and banking relationships are terminated. According to the World Bank, the products and services identified as being most affected by the withdrawal of CBRs are check clearing and settlement; cash-management services; and international wire transfers. In this regard, “de-risking” has also had a major impact on money transfer organizations (MTOs), which are financial companies engaged in the cross-border transfer of funds, using either their

local banking system or having access to another cross-border banking system. The largest of these companies include Western Union, UAE Exchange, MoneyGram, and PayPal. MTOs play an important role in countries with large flows of remittances, such as India, China, and much of the Caribbean (MacDonald 2019). And the ECCU has been among the most affected jurisdictions for termination of CBRs in the past few years (Alleyne et al, 2018).

De-risking, therefore, has resulted in the departure of the following long-established banks from the ECCU: Bank of Nova Scotia (Scotiabank), Royal Bank of Canada/RBTT Bank (RBC/RBTT), and CIBC FirstCaribbean International Bank. These decisions jolted the indigenous banks to recognize that their ability to continue to compete in the global financial system was incumbent on their ability to increase their asset base, and that the most expedient way to do so would be by a) purchasing the assets of departing international banks, and b) becoming more multi-country financial institutions through a combination of amalgamations and consortia.

ECCU Indigenous Banks: Too Small to Succeed!

A prescient former governor of the ECCB, K. Dwight Venner, noted in 2009 that the small, open, vulnerable and disaster-prone economies of the ECCU, with a population of approximately 630,000, were lagging in the Latin American and Caribbean region in growth, competitiveness, macro variables (such as fiscal and debt), the doing business index, and other critical elements in the Global Competitiveness Index. The viability and competitiveness of the banking system, especially the indigenous banks, he argued, demanded a rationalization of the financial sector that would entail member countries fundamentally restructuring their economies at the individual and collective levels by moving from single-country economies to a multi-country economy (Mitchell, 2015; ECCB Annual Report 2008/2009). This multi-stage process would be initiated with an adjustment phase from January 2012 to December 2014; next would be the economic transformational phase and the creation of a fully functional economic space from January 2015 to December 2020. The initial response was an Eight-point Stabilization and Growth Program, which, among other things, called for the amalgamation of indigenous banks to drive economies of scale and scope, efficiencies in operations and increased opportunities for a more diverse state of the art banking operations.

However, implementation was slow. Six years passed with little movement until renewed discussions in 2015 concluded that the consolidation of the sector should be undertaken, but over a period of time, and should begin with a shared services approach. The ECCB pushed for a shared service for the risk and compliance function,² arguing that without these banking relationships, businesses would be cut off from international trade and financing, families would be unable to collect remittances from relatives working abroad and, moreover, foreign investors may be unwilling to invest if there is a risk that they will be unable to repatriate their profits (CAB, Inc 2019). Among the expected benefits of consolidation would be economies of scale, greater efficiency in terms of back-of-office activities such as shared software for collaboration; shared investments in ATMS, online and mobile banking; and electronic due diligence that includes greater AML/CFT oversight.

Ultimately, the decisions of the international banks—CIBC, RBC and Scotiabank—to “de-bank” from the ECCU such that they could refocus their investment options into bigger markets in the Caribbean and Latin America jolted the indigenous banks into action. Recognizing the trend in the global financial sector towards mergers and acquisitions, indigenous banks acknowledged that consolidation would enhance financial stability, conduce growth, and provide modern services to customers at competitive prices in a dynamic environment. This was the case that was articulated in the ECCB’s June 2018 Consultative Paper on consolidation of national banks in the ECCU. The evidence was clear: these individual indigenous banks were too small to succeed.

Accordingly, among the first steps were the acquisition of the assets of the departing international banks, RBC, Scotiabank, and CIBC. For example, RBC’s Eastern Caribbean assets were sold to a Consortium of indigenous banks, including: the Antigua Commercial Bank (ACB), Ltd.; the Bank of Montserrat, Ltd.; the Bank of Nevis Ltd.; the National Bank of Dominica, Ltd.; and the 1st National Bank of St. Lucia, Ltd. As part of this transaction, the Consortium has also acquired the Royal Bank of Trinidad and Tobago (Caribbean) Ltd. in St. Vincent and the Grenadines, majority shareholding in Royal Bank of Trinidad and Tobago (Grenada) Ltd., and the Royal Bank of Trinidad and Tobago (St. Kitts Nevis) Ltd. According to

² Ensuring the timely establishment of an effective and efficient shared risk and compliance function; technical expertise; financial capacity; data protection capabilities; monitoring procedures; and good standing within the financial services industry; facilitating money transfers through transactions such as wire transfers, check clearing, and currency exchange.

Johnathan Johannes, Managing Director of 1st National Bank of Saint Lucia, “We formed the consortium for the express purpose of expanding the scale of the locally-owned financial entities in the Eastern Caribbean Currency Union. This transaction gives us the size and scale to play a more active role in the development of our respective countries. We see this transaction as the first step in achieving even greater synergies, efficiencies and cross-territory marketing opportunities” (Christopher, 2021; Gonçalves, 2019; Loop Business News Dec. 12, 2019).

Risk aversion witnessed Scotiabank striking a deal with the RFHL Group in 2018 to sell banking businesses in nine Caribbean countries for US\$123 million. Included in this deal were all of Scotiabank’s operations in the ECCU, along with those in Guyana and Saint Maarten (Zochdone 2018). The purchase price included \$25m for the business in Anguilla and \$98m for the other eight countries. De-risking, therefore, has placed banking services largely in the hands of indigenous institutions, which need larger asset bases in order to become more competitive. Finance and regional politics held up this deal as then Prime Minister of Antigua and Barbuda, Gaston Brown, became concerned about the disposal of the two branches that Scotiabank operated in his country in which approximately 75 employees were employed (Padin-Dujon, 2021). The impasse was resolved via a separate agreement by Scotiabank to sell those assets to the Antigua and Barbuda-based Eastern Caribbean Amalgamated Bank (ECAB), an outcome deemed consistent that country’s national priorities that included boosting the local financial sector.

De-risking has also resulted in the following consortium of indigenous banks in the ECCU—the Bank of Nevis Ltd.; Bank of Montserrat, Ltd.; Antigua Commercial Bank (ACB), Ltd.; National Bank of Dominica, Ltd.; and 1st National Bank of St. Lucia—which purchased the assets of RBC. Meanwhile, the assets of CIBC/FirstCaribbean International Bank in St. Kitts and Nevis were purchased by the St. Kitts Nevis Anguilla National Bank; and the agreement for the assets of CIBC/FirstCaribbean International Bank in St. Vincent and the Grenadines to be sold to the Bank of St. Vincent and the Grenadines is expected to be completed by May 2023. However, whether these indigenous institutions can compete with a Republic Bank and its parent company, RFHL, remains an open question.

RFHL: Too Big to Fail?

Having been in business since 1837, RFHL is the successor to the Colonial Bank in Trinidad and Tobago, and has established a huge footprint across the Caribbean. It operates in 24 subsidiaries with over 4000 employees in Trinidad, Grenada, Barbados and Guyana and an off-shore Corporation in the Cayman Islands. Additionally, RFHL operates in Suriname with approximately 5,500 employees, and made history in 2013 by becoming the first Caribbean Bank to conduct business on the African continent by purchasing a 40 percent stake in the HFC Bank in Ghana. In 2018, RFHL announced plans to purchase the operations of Scotiabank in the following 9 territories (Guyana, St. Maarten, Anguilla, Antigua and Barbuda, Dominica, Grenada, St Kitts and Nevis, St Lucia, and St Vincent and the Grenadines), for US\$123 million. A mixture of support and concern by both the public and private sectors greeted this announcement.

		No of Branches	No of ATMs
Cayman National Corporation	<i>Commercial Bank</i>		
Republic Bank (Anguilla) Limited	<i>Commercial Bank</i>	1	1
Republic Bank (Barbados) Limited	<i>Commercial Bank</i>	7	8
Republic Bank (BVI) Limited	<i>Commercial Bank</i>	1	3
Republic Bank (Cayman) Limited	<i>Commercial Bank</i>	6	21
Republic Bank (Dominica) Limited	<i>Commercial Bank</i>	1	1
Republic Bank (Grenada) Limited	<i>Commercial Bank</i>	6	8
Republic Bank (Guyana) Limited	<i>Commercial Bank</i>	13	50
Republic Bank (St. Kitts and Nevis) Limited	<i>Commercial Bank</i>	3	7
Republic Bank (St. Lucia) Limited	<i>Commercial Bank</i>	3	6
Republic Bank (St. Maarten) Limited	<i>Commercial Bank</i>	2	4
Republic Bank (St. Vincent) Limited	<i>Commercial Bank</i>	1	4
Republic Bank (Suriname) N.V.	<i>Commercial Bank</i>	6	27
Republic Bank (Trinidad and Tobago) Limited	<i>Commercial Bank</i>	39	42
		89	182

Among the cheerleaders was the Caribbean Association of Bankers (CAB), who opined that “this is a true reflection of the ongoing maturity of the financial services sector in the Caribbean (CAB Press Release Dec 11, 2018).” This statement paralleled simultaneous negotiations by RFHL’s Barbadian subsidiary, Republic Bank Trinidad and Tobago (Barbados) Ltd., for the purchase of Cayman National Corporation, Ltd. (CNC), the largest financial services company in the Cayman Islands, which includes banking, trust and company management, fund administration, and wealth management services. Established in 1974, the CNC Group has five subsidiaries: Cayman National Bank Ltd., Cayman National Fund Services, Ltd., Cayman National Securities, Ltd., Cayman National Bank (Isle of Man) Ltd., and Cayman National

(Dubai), Ltd. The deal resulted in RFHL acquiring 74.99 percent of the issued shares in CNC for an overall cost of US\$198M, which increased RFHL’s asset base to approximately US\$12B. The impact and import of this deal were reflected in CNC’s performance for fiscal 2018 (October 2017 to September 2018), in which it recorded an after-tax profit US\$26.5 million (<https://newsday.co.tt>; caymannationalnews.com; <https://tt.loopnews.com/>).

However, concerns that RFHL’s negotiations with Scotiabank reflected a positive opportunity for the regional financial services sector emerged from other quarters, most notably Gaston Brown, Prime Minister of Antigua, where Scotiabank maintained two branches that employed approximately 75 people. While some considered Gaston Brown’s objection to be reflective of a concern that the sale would make RFHL become a “too-big-to-fail” entity that might jeopardize the financial system in the ECCU, others viewed his objection as a concern about the sale’s potential impact on the competitiveness of the indigenous banks in his country and, by extension, the ECCU. The impasse was resolved with RFHL withdrawing its bid for Scotiabank’s assets in Antigua and Barbuda, which were sold, instead, to the Antigua and Barbuda-based Eastern Caribbean Amalgamated Bank (ECAB), and the acquisition of Scotiabank’s operations in the other eight territories.

BANKING/FINANCIAL ENTITIES	Year	Local \$B	US\$B	US\$B
Republic Financial Holdings Ltd.	2022/21	TT\$110.00		16.20
Republic (EC) Territories:		EC\$4.40	1.63	
ECCU Indigenous Banks			7.82	
<i>CIBC FirstCaribbean International Bank (Barbados) Ltd.</i>	2021	BD\$6.90	3.42	
ECCU Indigenous Banks Plus CIBC/FirstCaribbean Int’l				11.24
National Commercial Bank of Anguilla Ltd.	2021	EC\$0.13	0.80	
Antigua Commercial Bank Caribbean	2022	EC\$1.30	0.48	
Caribbean Union Bank Ltd.	2021	EC\$0.30	0.11	
Eastern Caribbean Amalgamated Bank	2022	EC\$2.10	0.78	
National Bank of Dominica Ltd.	2021	EC\$1.60	0.59	
Grenada Co-operative Bank Ltd.	2020	EC\$1.30	0.48	
Bank of Montserrat Limited	2021	EC\$0.40	0.15	
Bank of Nevis Group Ltd.	2021	EC\$0.90	0.34	
St Kitts-Nevis-Anguilla National Bank Ltd.	2021	EC\$3.70	1.37	
1st National Bank St. Lucia Ltd.	2021	EC\$0.90	0.33	
Bank of Saint Lucia Ltd.	2021	EC\$2.40	0.89	
Bank of St Vincent and the Grenadines Ltd.	2019	EC\$2.30	1.30	
Saint Vincent Cooperative Bank.	2022	EC\$2.00	0.20	

The RFHL Group’s subsidiaries in the Eastern Caribbean include Republic Bank (Grenada) Ltd. which was incorporated in October 1979. In November 2019, the RFHL Group

further expanded its regional footprint by acquiring assets in six (6) more territories: Anguilla, Dominica, St. Kitts and Nevis, Saint Lucia, St. Maarten, and St. Vincent and the Grenadines forming Republic Bank (EC) Ltd. Its consolidated asset base is \$5.8 billion, with a branch network totaling 19, and reliable suite of 56 ATMs serving these territories. More recently, RFHL's CNB has decided to merge Republic Bank Cayman into the operations of Cayman National Securities Ltd (CNS), thereby leaving CNB and CNS as the main financial services entities. This pending development is all the more significant given that its 30 September 2021 financial report indicated the Cayman Islands represented RFHL's second largest source of after-tax profit, having generated US\$219.6 million in after-tax profit, accounting for 15.2 per cent of Republic's after-tax total profit attributable to shareholders of \$1.44 billion (<https://trinidadexpress.com/>; <https://newsday.co.tt>). The RFHL group, therefore, which operates some 83 branches and 165 ATMs across the Caribbean, including 15 branches and 27 ATMS in the ECCU, whose asset base far exceeds that of the indigenous banks in the ECCU (See Table VI), and which continues to expand and strengthen its presence across the region, is potentially a "too big to fail" operation that is cause for concern among some in the region.

Conclusion

Bank indigenization in the ECCU results directly from risk aversion strategies implemented by the key international banks that had long operated profitably in the region. These strategic decisions were driven by several factors: huge investment losses across the Caribbean triggered by the global recession of 2007-08, and the perceived low profitability in certain parts of the Caribbean versus the prospects for greater returns in the bigger regional markets; and a mix of unclear or inconsistent regulatory expectations designed to combat tax evasion, money laundering and terrorism financing, coupled with the designation of the Caribbean as a high risk area by international banks, mainly from Canada, the US, and Europe, together with their governmental regulatory agencies. Driven by a desire to avoid reputational risks associated with allegations of financial fraud, and wary of the prospects of having to pay large fines for noncompliance, many international banks, not only claimed that the region is high risk due to weaker compliance and AML/CFT regimes, but opted to radically reduce their exposure to the region. As a result, many banks in these jurisdictions struggled to obtain or maintain access to the US financial system through correspondent accounts.

Risk aversion by these international banks, therefore, precipitated banking indigenization in the ECCU, which directly addressed the viability and competitiveness concern—the “too small to succeed” issue—raised by ECCB Governor Venner. Bank indigenization has witnessed, among other things, amalgamation initiatives, such as CIBC/Barclays Bank Plc and RBC/RBTT; consolidation initiatives such as the Bank of Antigua into Eastern Caribbean Amalgamated Bank, ABI Bank into Eastern Caribbean Amalgamated Bank, and National Bank Anguilla and Caribbean Commercial Bank into National Commercial Bank of Anguilla; the creation of bank consortia to purchase branches of amalgamated banks and/or branches of these international banks by and among different groupings of intra-regional national banks in the ECCU; and other concerted efforts to increase their asset base in order to meet ever changing minimum requirements demanded by correspondent banks in order to secure access the US banking system. “De-risking,” therefore, has altered the banking and financial landscape in the ECCU by shifting operations from single-country to multi-country operations. These changes are strengthening the other intra-regional integration institutions and mechanisms already in place in the OECS.

At the same time, however, RHFL, whose reach, spread and asset base, and its ongoing acquisition of banks and financial enterprises in the region and further afield, presents the ECCU with a dilemma. Can the indigenous banks effectively compete with this regional giant, whose banking assets are spread throughout all but one of the OECS countries? Or is RFHL likely to become “too big to fail”? These are questions to be explored in future research.

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