From Hegemony to Hegemony: "De-risking," Indigenous Regional Banks and Regional Integration in the Caribbean Community

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Introduction

The paradox of geography continues to explain much of the opportunities and challenges facing the 20-member states and territories that comprise the Caribbean Community today, including those occasioned by the recent of "de-risking" phenomenon, which has witnessed the withdrawal of correspondent banking services. On the one hand, proximity to the US, coupled with economic openness, have created opportunities for economic development in the areas of tourism, hydrocarbons, and offshore banking and financial services upon which individuals and governments in the region depend. On the other hand, however, relatively small size and near absence of strategic natural resources, coupled with economic openness, have made them highly susceptible to decisions made abroad and over which they have very limited ability to exert influence. This paradox finds these countries at the vortex of two policy considerations formulated in the US in the wake of the 2007-09 global financial crises.

The received wisdom holds, generally, that the relatively laxity in the macro- and micro-financial system regulation and supervision not only played a major role in the emergence of these crises (Eichengreen and Park, 2012; Eichengreen, 2009) but also fostered and facilitated opportunities for tax avoidance/evasion, and further engendering an environment conducive to money laundering and terrorism financing, especially in the offshore financial services (OFS) sector. This complex of issues put the Caribbean Community directly in the cross-hairs of US policy makers, in particular, especially with regard to the OFS sector, which has become the region's singular of competitive advantage in the global banking and financial system. However, it was singled out as one area of vulnerability that needed to be better regulated because it was believed that the secrecy laws in many Caribbean jurisdictions facilitate money laundering and, consequently, provide terrorists the needed access to the global financial system (OECD, 2109).

If lax financial system regulation contributed to the financial system meltdown by facilitating tax avoidance through OFS, then stricter enforcement of anti-money laundering and counter-terrorism financing (AML/CFT) laws—including the imposition of stiff financial penalties on banks and financial institutions for non-compliance—not only would address this vulnerability but also help stimulate the US economic recovery from the Great Recession by simultaneously pressuring tax avoiders to bring moneys parked in offshore accounts back to the US. For a number of these banks and financial institutions, the costs of compliance would far outweigh the anticipated benefits of maintaining their operations; consequently, many opted to "de-risk" or terminate their correspondent banking relationships in the Caribbean.

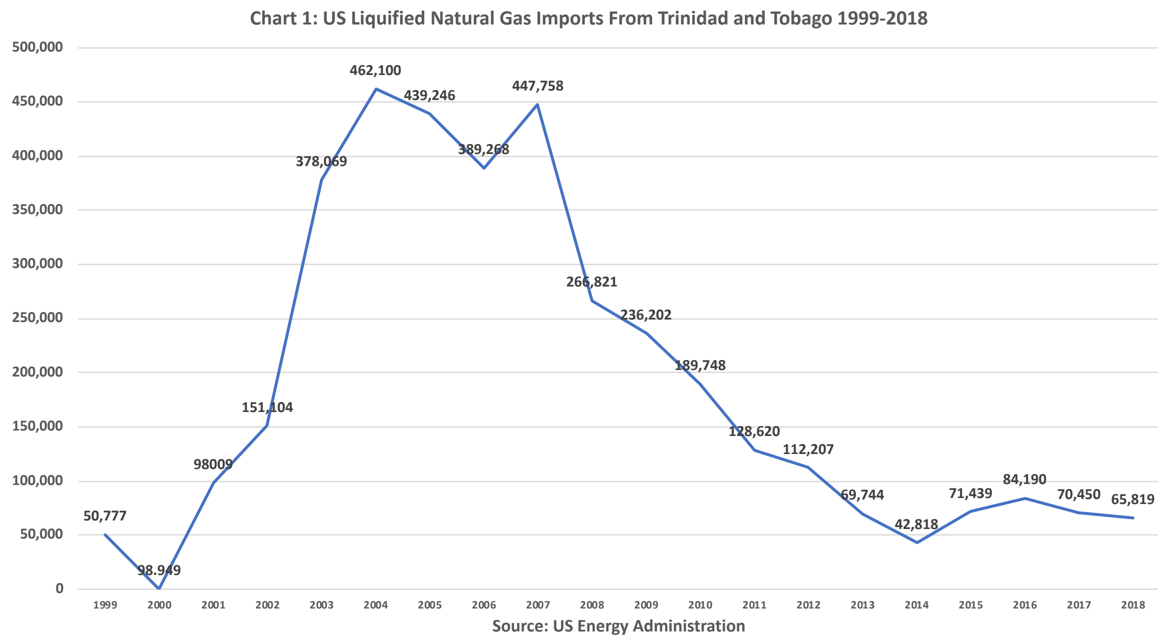
Table 1: Selected Sample of Fines and Penalties for AML/CFT Non-compliance

Bank	Amount	Date
HSBC	1.9 billion	December 2012
J.P. Morgan-Chase	1.7 billion	January 2014
BNP Paribas	8.9 billion	July 2014
Commerzbank	1.5 billion	March 2015
Mega International Commercial Bank	29 million	January 2018
US Bank NA	613 million	February 2018
Rabobank NA	360 million	February 2018
Canara Bank	1.2 million	June 2018
Charles Schwab & Co., Inc.	2.8 million	July 2018
TD Ameritrade, Inc.	.5 million	September 2018
Royal Bank of Canada	.1 million	September 2018
Capital One, N.A.	100 million	October 2018
Mashreqbank PSC and its New York Branch	40 million	October 2018
MoneyGram International	125 million	November 2018
Société Générale and its New York Branch	95 million	November 2018
Morgan Stanley Smith Barney	10 million	December 2018
UBS Financial Services, Inc.	15 million	December 2018
Standard Chartered Bank	463.4 million	April 2019
Source: Debevoise & Plimpton; Haley, 2018, Wilson Center		

There is no doubt that stricter enforcement of AML/CFT laws has played a major role in "de-risking" decisions in the Caribbean Community. A sample of penalties for non-compliance (See Table 1) included: $1.9 billion against HSBC in December 2012; $1.7 billion against J.P. Morgan-Chase in January 2014; $8.9 billion against BNP Paribas in July 2014; $1.5 billion against Commerzbank in March 2015; $613 million against US Bank NA in February 2018; .1 million against Royal Bank of Canada in September 2018; $125 million against MoneyGram International in November 2018; and S$463.4 million against Standard Chartered Bank in April 2019 (Debevoise & Plimpton 2019; Haley, 2018). But to what extent is enhanced AML/CFT enforcement the catalyst for "de-risking" in the Caribbean Community? The reality is that foreign banks and financial entities—especially Canadian banks—have long dominated the banking and financial sector in the region, and most of their investments have been in the tourism sector, which has not rebounded since 9/11. They have been heavily involved in the hydrocarbons sector in Trinidad and Tobago as well, which had served both as a cash-cow for banks—especially during times of high oil prices—as well as a hedge against lower profits in the tourism sector.

Trinidad and Tobago houses one of the largest natural gas processing facilities in the Western Hemisphere—the Phoenix Park Gas Processors Limited (PPGPL)—with a processing capacity of almost 2 billion cubic feet (Bcf) per day and an output capacity of 70,000 barrels per day (bbl/d) of NGL. Some 11 ammonia plants and seven methanol plants combine to make the country the world's largest exporter of ammonia and the second largest exporter of methanol (www.energy.gov.tt). Petrotrin, the Trinidad and Tobago government-owned refinery, once supplied domestic and neighboring island markets with kerosene, gasoline, and liquified natural gas (LNG), and was once the largest supplier of LNG to the US. However, the slump in world oil prices, occasioned in part by the rapid growth of hydraulic fracturing (fracking) in the US starting in 2005, has profoundly impacted the energy sector, such that declining revenues have forced the Government of Trinidad and Tobago (GOTT) to close 160,000 b/d refinery (See Chart 1). A confluence of factors, including a very low interest rate environment, high liquidity in the US banking system, and a Caribbean tourism sector failing to rebound despite hundreds of millions worth of capital investment, seems to have convinced key foreign banks in the region that projected returns on investment are too low to warrant continuing operations. When these factors are coupled with enhanced AML/CFT enforcement, the cost-benefit calculus of these foreign entities would suggest that the approximately 18 million market is too small to warrant the expenditure necessary to ensure full compliance US (AML/CFT) laws. Hence, a number of them have decided to terminate their relationships with respondent banks in the region.

The argument, here, then, is that "de-risking" has many dimensions, including decisions based solely on market risks. In this regard, while AML/CFT factors explain some of the "de-risking" decisions in the Caribbean Community, other standard financial risk management factors also play a role. This is the case in the Caribbean Community as three Canadian Banks—CIBC-FirstCaribbean; Scotiabank; and Royal Bank of Trinidad and Tobago (RBTT)—that dominate the banking and financial sector, demit the region. Their restructuring and/or departure raises the following probing question: What are opportunities and challenges for regional development, regional stability, and regional integration flow from these decisions?



This question is asked within the context of the development strategy being pursued by the Caribbean Community, a region that emerged from colonialism with the commanding heights of the respective economies, including the banking and financial system, dominated by external actors. The contention is that on the one hand, "de-risking" will reduce the level of foreign competition in the banking/financial services sector as these three foreign banks depart the region, thereby concentrating economic and financial power in one or two banking/financial institutions. The departure of these entities creates the space for Republic Bank, a part of Republic Financial Holdings Limited (RFHL) to further expand and strengthen its regional scope and, perhaps, enable the Caribbean Community to better manage the regional integration project. The downside to the emergence of a sole indigenous regional bank, however, is the possibility of creating a "too big to fail" financial entity whereby an entire region becomes practically dependent on a single financial entity. On the other hand, however, because RFHL's operational strategy has always been to be AMF/CFT compliant, not only will it be in a position to help meet the development capital needs of the region but it will also be able to access the US financial system via its corresponding banking relationship with Bank of America. Effectively, therefore, globalization has enabled the US to weaponize economic interdependence, thereby removing the Canadian competition and leave Bank of America as the US financial hegemon in the region through its Caribbean Community proxy, RFHL.

The structure of this is as follows: first, it will describe and discuss the nature of banking and finance in the region; second, it will then analyze the role that the Canadian banks have played in the region and proffer alternative "de-risking" reasons for their decision to terminate their correspondent banking relationships' third, it will discuss RFHL's market development strategy, including its goal of being the "go-to" bank in the region and beyond, and how this objective will be facilitated by the departure of the three top Canadian banks; and fourth, it will . conclude with a discussion of the structural factors that define the region's weaknesses that makes it susceptible to external forces, and suggest some of the key weaknesses that contribute to "de-risking" that the region must address.

Understanding Banking in the Caribbean

Some 473 financial institutions can be found across the 20-member Caribbean community. These include central banks, commercial banks, cooperative banks, development banks, investment banks, Islamic banks, merchant banks, offshore banks, private banks, retail banks, credit unions, and insurance companies, some of which perform multiple banking and financial functions (See Table 2). However, the fact that the power structure of the global system correlates with the ownership structure of financial institutions in the Caribbean Community is central to understanding the level of correspondent banking relationship terminations experienced from country to country across the Caribbean region. Generally, three classifications or typologies of banks operate in the region: 1) Regional Foreign Banks; 2) Large Regional Indigenous Banks; and 3) Small Indigenous Banks (Wright, Kellman, and Kallicharan, 2018). Typically, most Foreign Banks operate as direct subsidiaries or branches of North American and European banking groups, and their assets usually exceed US$1 billion. These entities operate regionally, and their significant size enable them to control large portions of the regional financial services market, including a large portion of total cross-border transactions between the Caribbean region and the rest of the world. Their strength includes strong oversight by their North American and European parent institutions, who will a) place their personnel on the board of directors of regional banking operations; b) rotate managers to fill key regional executive or senior management roles; and c) regular and extensive reporting of the regional bank to its parent on key issues, such as financial performance indicators, risk metrics, and major trends/projects. In turn, Regional Foreign Banks are able to leverage the resources and subject matter expertise housed at their parent institutions such that as correspondent banks, they can trade on their parent bank's reputation to obtain and/or maintain new or existing correspondent banking relationships. This interdependent relationship allows them to route their cross-border transactions through their parent bank/head office accounts, thereby significantly mitigating any risk of disruption from loss of correspondent banking relationships (Wright, Kellman, and Kallicharan, 2018). Of the five largest banks in Canada, three of them—Royal Bank of Canada (RBC), Bank of Nova Scotia (Scotiabank), and Canadian Imperial Bank of Commerce (CIBC FirstCaribbean)—operate in the Caribbean Community as dominant financial institutions acting as subsidiaries and not as branches.

Table 2: Financial Institutions in the 20-Member Caribbean Community by Type

Merchant Banks	3
Private Banks	16
Commercial Only Banks	22
Offshore Banks	7
Retail Banks	2
Development Banks	3
Co-operative Banks	1
Investment Banks	2
Central Banks	10
Islamic Banks	1
Cooperative and Retail Banks	1
Commercial and Private Banks	3
Commercial and Retail Banks	2
Commercial and Investment Banks	2
Investment and Retail Banks	1
Investment and Private Banks	1
Investment and Corporate Banks	1
Insurance Companies	50
Credit Unions	267
Mixed (Banks providing 3+ of the above services)	22
Total Number of Financial Institutions	**417**

Caribbean Association of Banks, 2017; The Caribbean Confederation of Credit Unions, 2017; Insurance Association of the Caribbean, Inc, 2019; Reed Business Information Limited, 2019; Trustbank Amanah, 2017

Their subsidiary status means that they are not required to give out loans to Caribbean companies; rather, they are allowed to raise capital and issue debts and loans to corporations and governments (Johns, 2018). This claim, notwithstanding, the experience in Trinidad and Tobago is that companies have been provided with full service banking by these entities, which suggests that this provision has not always been implemented or enforced.[1]

[1] Interview with David Robinson, General Manager Wealth Management, Republic Bank.

Small Indigenous Banks have an asset base of approximately US$500 million, which limits them to operations in just one or two jurisdictions. Their small size prevents them from enjoying economies of scale or accessing the level of resources and expertise available to their larger regional counterparts. They are not market dominant and, consequently, unable to capture large shares of cross-border financial flows. Their small size also not only limits the size of the transactions they are able to attract, but also the range and quality of expertise that can be commanded to participate in board oversight and management. All of these characteristics matter in the decisions of foreign banks to terminate CBRs with these entities, especially since their boards of directors and senior management may have little interest in addressing AML/CFT issues (Wright, Kellman, and Kallicharan, 2018).

The third group—Large Indigenous Regional Banks—which are very few, are uniquely situated to manage the dislocations caused by, and capitalize upon the opportunities brought about by the withdrawal of CBRs. These institutions are the products of decisions taken by Foreign Bank branches/subsidiaries to divest their regional operations, and typically similar to their foreign counterparts, their asset base is over US$1 billion, and their scale of operations extends across a number of different Caribbean countries. Their relatively large balance sheets and market share allow them to capture a substantial proportion of cross-border transactions, thereby providing scope for large volumes of transactions flowing through correspondent banks. These institutions are also becoming increasingly cohesive, resulting in robust head office oversight regionally, ensuring regional consistency in business policies and processes, and integrated approaches to risk management. The volume of cross-border transactions captured by these institutions is comparable to that of their foreign bank counterparts. This level of business activity underpins the positive business case at the level of the international correspondent bank, meeting correspondent banks' internal profitability hurdle, and justifying the continued correspondent banking relationship (Wright, Kellman, and Kallicharan, 2018). Republic Bank and its parent company, RFHL, fall into this category. However, its main competitors have been the subsidiaries of three of Canada's top five banks: Royal Bank of Canada (RBC), Bank of Nova Scotia (Scotiabank), and Canadian Imperial Bank of Commerce (CIBC-FirstCaribbean Bank).

Canada in the Caribbean

Foreign financial domination, an uncompetitive agricultural export sector, and a highly vulnerable tourism sector constitute monumental obstacles for Caribbean Community governments as they seek to achieve economic self-sufficiency. With regard to finance and banking, Canadian banks have had a presence in the Caribbean since the 1830s, and have been major players since the late 1800s largely due to traditional colonial ties with Britain (Johns 2018; Edmonds, 2012). However, until the beginning of the 21st century, they faced stiff competition from the likes of Barclays Bank and Citi Bank. Today, three of the five largest banks in Canada—Royal Bank of Canada (RBC), Bank of Nova Scotia (Scotiabank), and Canadian Imperial Bank of Commerce (CIBC FirstCaribbean)—operate in the Caribbean Community.

In 2001, for example, CIBC combined its regional operations with Barclays Bank to create FirstCaribbean International Bank, and by 2006, CIBC purchased Barclays' remaining share for approximately $1 billion (Kiladze 2017). In 2007, RBC, Canada's largest bank repurchased Trinidad and Tobago's RBTT Financial Group for $2.2 billion, making it the fourth largest bank by assets in the region, including 128 regional branches, and serving 1.6 million customers through 7,000 employees (Oliver and McCrank, 2007). RBTT was originally owned by RBC, but was sold to public shareholders during the late 1980s. However, once the Great Recession hit, things took a different turn. While the North American parent banks were lauded for sidestepping the US mortgage crisis and its spill-over effects in Europe, their performance in the Caribbean Community proved quite different—a development that is instructive with regard to "de-risking."

Canadian Imperial Bank of Commerce is Canada's most dominant international bank. Its Caribbean subsidiary, CIBC-FirstCaribbean, along with RBC and Scotiabank are by far the Caribbean's three largest lenders, dominating both personal and commercial banking. Scotiabank's strategy was to invest in its local wealth and insurance arms, both of which seemed promising at the time. With tourism booming and energy prices soaring, economic growth was robust: between 2000 and 2007, Trinidad and Tobago's growth averaged slightly over 8 percent annually. The region's profit margins were also fat, particularly in lending. (Kiladze 2017). Given their economic and financial footprint, these banks were well situated to capitalize on the region's economic potential. In 2007 CIBC FirstCaribbean earned $256 million, representing 7 percent of the bank's total profit. On 26 March 2008, the shareholders of Trinidad and Tobago's

Royal Bank of Trinidad and Tobago (RBTT), the largest regionally owned bank in CARICOM, voted to accept a takeover by the RBC, thereby giving Canada control of the English-speaking Caribbean's three largest banks with $42 billion in assets and four times those commanded by the remaining locally owned banks (*the Economist*, March 27, 2008). Shortly thereafter, the financial crisis struck and, in its wake, these three banks have combined to write off more than $1 billion in the region, decisions that have contributed to the "de-risking" phenomenon.

The first of these three entities to publicly acknowledge its financial reversals was Scotiabank. As the lead lender to a developer who bought resorts on Cable Beach in the Bahamas, the bank suffered a $75-million hit on its $200-million loan in 2010. Through a complex restructuring, a Chinese bank stepped in to bail out the developer, ultimately financing a project comprising six hotels, a 100,000-square-foot casino, 200,000 square feet of convention facilities and an 18-hole golf course. A year later, CIBC wrote down its investment in FirstCaribbean by $203 million (Kiladze 2017). By 2014, however, it was RBC's turn when it announced plans to sell its Jamaican operations to Sagicor, a transaction that reflected a loss of $100 million. This was followed by a) a $420-million write-down of FirstCaribbean's goodwill; b) the closing of RBC's Caribbean wealth management business; and c) scores of loan-loss provisions from all three lenders (Kiladze 2017). Between 2000 and 2004, RBC Jamaica had incurred over $9 billion in losses, and in May 2013, it closed four of its branches, leaving 13 open, and cut its workforce by 10 per cent to 630 (*Jamaica Observer*, January 31, 2014).

Today, total gross impaired loans issued by these three banks—financial instruments that raise concern about ability to repay—originate in the Caribbean. More than 50 percent of CIBC's total gross impaired loans—or loans that show any signs of trouble—originate in the Caribbean. For Scotiabank, the figure is 35 percent; and for and for RBC, the figure is 11 percent (See Table 3). In other words, despite the economic rebound in the US, and despite the fact the US is the largest sender of tourists to the region, the calculation that Caribbean tourism would grow and that the billions in tourism capital projects would yield huge dividends for shareholders have not materialized. This suggest, among other things, that something is fundamentally awry in the region that is devastating the tourism sector (Kiladze 2017).

The presence of these banks does not just result in significant foreign economic control over the Caribbean but also provides attractive havens where Canadian banks can avoid paying taxes at home. Four out of the ten top destinations for Canadian direct investment abroad are

Caribbean tax havens. A June 2008 study by the University of Quebec at Montreal concluded that the five major Canadian banks avoided some $16 billion in federal and provincial taxes through offshore affiliates in Barbados, Bermuda, the Cayman Islands, and the Bahamas between 1991 and 2003, and $2.4 billion in 2007 alone (Edmonds 2011; Gillespie, 2010).[2] In 2008, *the*

Table 3: Impaired Loan Among Canadian Banks in the Caribbean						
Bank	**Branches**	**Countries**	**Regional Revenues**	**Total Assets**	**Regional Gross Impaired Loans**	**Total**
CIBC	69	17	$593M	$13.4B	$835M	$1.43B
Scotia Bank	294	25 Inc. CA	$1.2B	$23.6B	$1.5B	$4.26B
RBC			$861M	$34.1B	~$800M	$1.98B
Source: The Globe and Mail, February 26, 2015; Nassau Guardian, March 3, 2015						

Economist reported that Canadian banks controlled "the English-speaking Caribbean's three largest banks, with $42 billion in assets, four times those commanded by its 40-plus remaining locally owned banks" (Engler, 2017; Rocha, Tilak, and Erman, 2015). In fact, Canadian institutions dominate the region's unsavory banking sector. In 2013 CIBC, RBC and Scotiabank accounted for more than 60 percent of regional banking assets. According to *The Star* and CBC/Radio-Canada, three Canadian banks, RBC, CIBC, and Scotiabank registered nearly 2,000 offshore companies and private foundations in the Caribbean tax haven of the Bahamas (Cribb and Oved, 2016). RBC registered 847 companies, CIBC registered 632 and Scotiabank registered 481 in the Bahamas between 1990 and May 2016 (Cribb and Oved, 2016; Dubinski, 2016). FirstCaribbean was implicated in the 2015 FIFA corruption scandal. To avoid an electronic trail of a $250,000 payment to former FIFA official Chuck Blazer, a representative of FirstCaribbean allegedly flew to New York to collect a cheque and deposit it in a Bahamas account (Harnell, 2015; *the Nassau Guardian*, 2015; Ruiz and Mather, 2015; Baxter, 2015).

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[2] According to Peter Gillespie of the Canadian Center for Policy Alternatives, a 2004 Library of Canada report noted that, between 1990 and 2003, Canadian corporate investments in Barbados increased from $1.5 billion to $24.7 billion, exceeding the GDP of Barbados by a factor of six. The report concluded that at least some of these investments could only be explained as tax avoidance measures. Also, that Statistics Canada reported that $88 billion of Canadian corporate assets were held offshore in 2003, mostly invested in the tax havens of Barbados, Ireland, Bermuda, the Cayman Islands, and the Bahamas. See "The Real Pirates of the Caribbean," December 1, 2010. Available at https://www.policyalternatives.ca/publications/monitor/real-pirates-caribbean

Reuters reported that the US Internal Revenue Service (IRS), in 2013, sent FirstCaribbean a summons for information on some of its customers who may have been evading US income tax and the CIBC subsidiary was placed on an IRS list of "financial institutions where taxpayers receive a harsher penalty if they are found to have undisclosed accounts" (Rocha, Tilak, and Erman, 2015).

When viewed against a poorly performing regional tourism sector, an anemic hydrocarbons sector in Trinidad and Tobago, and these major banks being overleveraged, the decision to terminate their banking relationships is understandable. Scotiabank, Canada's most international bank, stated that it was selling its Caribbean holdings as a reflection of its strategy to focus the bank's efforts on its core markets with significant scale. As part of this strategy, Scotiabank's subsidiaries in Jamaica (Scotia Group Jamaica Limited, 'Scotiabank Jamaica') and Trinidad & Tobago (Scotiabank Trinidad & Tobago Limited, Scotiabank Trinidad & Tobago) announced a 20-year distribution agreement with Sagicor Financial Corporation Limited (Sagicor) through which an enhanced suite of market-leading insurance products and solutions, underwritten by Sagicor, would be offered to Scotiabank customers in Jamaica and Trinidad& Tobago. As part of this partnership, Scotiabank Jamaica and Scotiabank Trinidad & Tobago entered into agreements to sell their respective insurance subsidiaries: Scotia Jamaica Life Insurance Company and ScotiaLife Trinidad and Tobago Limited to Sagicor, a leading financial services provider in the Caribbean, with operations in 22 countries in the Caribbean, Latin America, the United Kingdom and the US. As part of the proposed agreements, impacted employees of Scotiabank in the nine countries would join the Republic Group and employees of Scotia Jamaica Life Insurance Company and ScotiaLife Trinidad and Tobago Limited would join Sagicor, or a new licensed insurance sales entity to be created as a result of this transaction.

The government of Guyana, however, expressed concerne about the acquisition given that Republic Bank currently holds 35.4 percent of the banking systems assets and 36.8 percent of deposits, and that the acquisition would increase its holdings to 51 percent of both assets and deposits. The key issue here speaks to concerns about an over-concentration of banking services, market domination and the 'too big to fail' risks. The country's Finance Ministry stated that it would have to consider the effect on competition and the potential for Republic Bank to have too much influence on pricing of banking products and rates. Additional considerations are the burning issues related to correspondent banking options. For Guyana, the timing is significant given that Guyana's economy is on the cusp of financial transformation with the onset of a massive new oil and gas sector (Oxford Business Group)

Republic Bank and Republic Financial Holdings Limited

Trinidad and Tobago's population of approximately 1.4 million accounts for some 20.32 percent of the Anglophone Caribbean population. Its GDP in 2018 was $23,410 billion, the third richest in the entire Western Hemisphere after the US and Canada. For many years, the country was among the Caribbean's leading producers of petroleum and petroleum products. Non-oil exports, such as steel products, beverages, cereal products, sugar and other agricultural output also contribute to economic growth and development. Its banking sector, which comprises eight active banks, 16 non-bank financial institutions and four financial holding companies, all of which operate under licenses issued under the terms of the Financial Institutions Act of 2008. However, it is Republic Bank, a division of RFHL, which is considered the market leader and a bellwether for both the economy, in general, and the banking sector, in particular. Although not the biggest bank in the country or in the Caribbean Community, it is the only truly indigenous regional bank, which, because of its strategy of full compliance with US AML/CFT laws, is well positioned to take full advantage of the opportunities occasioned by the recent "de-risking" trend in the Caribbean. In fact, its objective is to become the "go-to" bank, not only within the Caribbean but further afield, as will be demonstrated.

Originally called Colonial Bank, it was the country's first commercial bank, which opened in 1837. Over the next 181 years, the bank has expanded through a combination of what bank leaders refer to as "acquisition and prudent risk management." Performing dual roles of a licensed commercial bank and a holding company for its subsidiaries, Republic Bank became Republic Financial Holdings Limited (RFHL) in December 2015. Headquartered in Trinidad and Tobago, RFHL is the registered owner of all of the banks in the Republic Group, including: Republic Bank Limited, Republic Bank (Guyana) Limited, Republic Bank (Barbados) Limited, Republic Bank (Grenada) Limited, Republic Bank (Suriname) N.V., and Republic Bank (Ghana) Limited, as well as Republic Securities Limited and other Caribbean subsidiaries in Suriname, Barbados, Cayman Islands, Grenada, Guyana, and Suriname. Across these markets, RFHL offers an extensive range of banking services, including credit and debit card issuance and processing, leasing, trustee services, mutual fund and investment management, and merchant banking. The

Group currently employs more than 5,570 staff in16 subsidiaries in Trinidad and Tobago, Grenada, Guyana, the Cayman Islands, Barbados, Ghana, and Suriname (Wright 2018).
In the fiscal year that ended on September 30, 2016, the bank reported total assets of TT$66.9 billion (US$10 billion), an increase of 1.3 percent over the year-earlier period. According to its Chairman Ronald F. deC. Harford, The Group and its subsidiaries recorded a profit of $1.232.6 billion for the nine months ending July 2019 or 24 percent over the prior period. Apart from RPL Barbados, there was general improvement with the group with RPL Trinidad and Tobago Group ($65.7 million), and Cayman National Corporation ($57.5 million). Approximately one-third of core profits are generated from overseas operations. Total assets stood at $85.5 billion as of June 30, 2019—an increase of $15.7 billion or 22.4 percent over June 2018. This was due mainly to the acquisition of Cayman National Corporation on March 30, 2019, which added $11.1 billion to the Group's asset base (*republictt.com*, June 2019).

RFHL's strategy of growth through acquisitions has been stealthy but effective. In July 2013, it completed the purchase of 100 per cent of RBC Royal Bank (Suriname) at an estimated cost of US$45.3 million (TT$290 million). The Suriname bank operates a six-branch network with assets of approximately US$525 million (as at October 31, 2014), and an employee complement of 199 persons. At the same time RFHL, which owned 51 percent of Republic Bank (Grenada), began to take steps to acquire the remaining 49 percent stake of its Grenada subsidiary. During the fourth quarter of 2013, Republic Bank acquired an additional 34.86 percent stake in Republic Bank (Barbados) Limited, for an estimated US$83 million, making the Barbados subsidiary wholly owned (Wilson, 2016). In May 2015, Republic announced that it had increased its shareholding in HFC Bank in Ghana from 39.94 per cent to 57.11 percent, with the additional 17.25 percent stake in the West African bank costing US$24.44 million. That is, between October 2013 and May 2015, the Republic Bank group spent an estimated US$153 million to purchase shares that took it to 100 per cent stake in banks in Barbados and Suriname and to a majority stake in a bank in Ghana. Continuing this strategy of acquisition and diversification, Republic Bank Trinidad and Tobago (Barbados) Limited—a subsidiary of RFHL—acquired 74.99 percent of the outstanding ordinary shares of Cayman National Corporation (CNC), thereby increasing RFHL's asset base by $11.1 billion and adding $92.6 million in profits over the seven months under RHFL's ownership (*republictt.com*, September 2019). Following the termination of Scotia Bank's CBR in the Caribbean, RFHL announced plans to acquire that entity's banking operations in Guyana, St. Maarten, Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. On November 6, 2019, RFHL Chairman Ronald F. deC. Harford announced the completion of this acquisition, which reflects an increase of $10.1 billion in assets and projected regional profits of $133.6 million (*republictt.com*, November 2019).

The preceding discussion, therefore, underscores the basic point that RFHL is strategically positioned to emerge as the largest banking and financial entity in the Caribbean Community and, as the evidence demonstrates, it is the main beneficiary of the divestiture undertaken by the once predominant Canadian banks (*republictt.com*, June 2019).

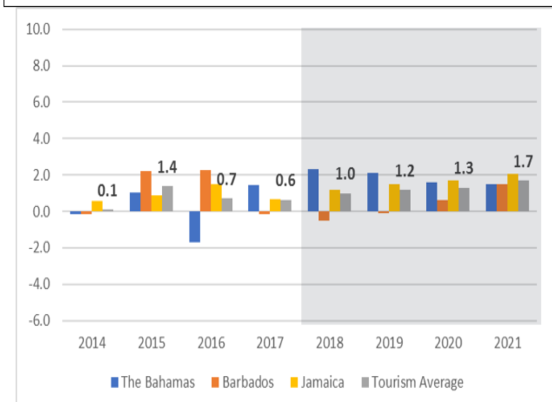
Conclusion

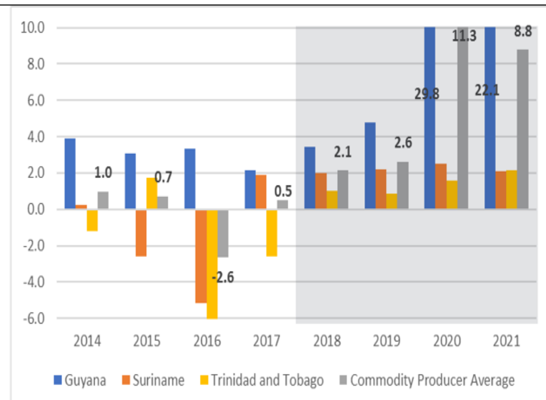
In a May 15, 2019 address to the National Press Club, Caribbean Community Chairman, Prime Minister Dr. Timothy Harris of St Kitts-Nevis declared that the biggest economic and financial challenges facing the 20-member grouping is the decision by large global commercial banks to terminate their correspondent banking services with commercial banks in the region. He bemoaned the fact that global commercial banks were also offering their services at unconscionable high rates, which produced a deleterious effect on the flow of remittances; the harmful effect on commercial trading activity that disrupts the flow of payments for services rendered; and that what was once an overnight bank-wire transfer of funds from the US is now taking as many as three months, or more, for delivery. His basic argument is that a perverse consequence of these policies is the channeling of many of these transactions to an underground black market through unscrupulous carriers with no certainty or guarantee of delivery (Caricom, 30 May 2019; *Jamaica Observer* 27 May 2019). While the large banks claim that they are seeking to minimize the risks associated with money laundering and terrorist financing given the heavy fines for violating AML/CFT regulatory guidelines, there is no evidence of significant money laundering activity in St Kitts and Nevis. Moreover, every Caribbean Community country has tax information exchange agreements with the US and major EU countries.

But while the Chairman's claim may be largely accurate, the uncomfortable reality for these countries is their weakness, reflected in part by their low capacity, which is related to their history of economic, political, cultural, institutional, intellectual and psychological dependence on the outside world (Knight 1990; Williams 1970). Metropolitan political relationships determined patterns of trade and economic alignments, such that a vertical linkage existed between the individual territory and its former colonial power. The Caribbean Community is endowed with certain natural resources that initially appeared attractive to Europeans and North Americans. However, because of the limitations and relative similarly of those resources, their political and economic history also limited the development of internal institutional partners, which, in turn, restricted their ability to develop a high level of transformational capacity. That is, not only did the region seem to lack a deep understanding of how risks and uncertainty are measured but also the level of financial and psychological flexibility to undertake the change processes they deemed suitable or necessary (Chafin, et al 2016; Marshall, et al 2014; Marshall, et al 2012). These countries, therefore, have had to compete against one another to grant outrageously disadvantageous (to themselves) long tax holidays for metropolitan firms to establish industries, branches and subsidiaries in their territory (Williams 1970: 499-500). And as Knight (1990) notes, while industrialization has contributed to their economic growth since the 1950s, its contribution has not exceeded 20 percent of GDP, and 'has provided neither sufficient jobs nor sufficient wealth to offset declines in agricultural production and labor absorption' (278-279). Resource limitations, therefore, have prevented these states have from developing strong and effective institutions over and through which they can fulfill their proper functions (Chafin, et al 2016; Marshall, et al 2014: 583-591; Isbester 2011: 12-13).

As a highly tourism-driven and tourism-dependent region that hasn't really rebounded from the effects of 9/11, this outcome has been a disappointment for the banks, and has served as a key reason for risk/reward-based decisions to leaving those markets. The sector accounts for approximately 25 percent of all exports and services, contributes 31 per cent to the region's GDP, is the region's primary generator of foreign exchange, provides the largest number of jobs, and has the greatest growth potential (Nurse 2002). Projections in 2006 estimated that travel and tourism in the Caribbean would generate $51, 325.8 billion of economic activity, and the direct and indirect impacts of these economic activities would account for 16.4 per cent of GDP and 15.4 per cent of total employment or 2,643,000 jobs. Moreover, the sector was expected to grow by 3.9 percent annually in real terms between 2007 and 2016 (*www.wttc.org*). However, as the following three comparative figures on Caribbean tourism-country/Caribbean commodity-producing country performance, not only have the projected growth rates not been realized but the economic headwinds remain.

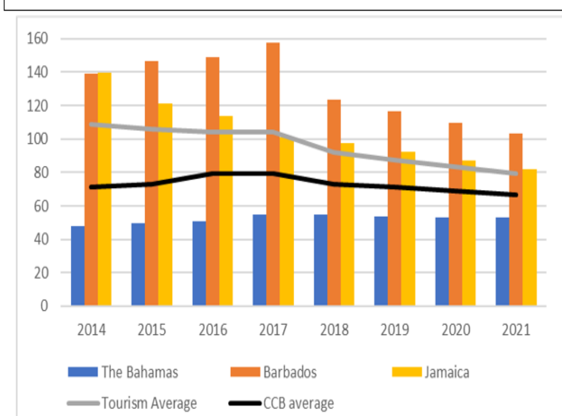
Growth is recovering…	… and projected to jump in Guyana.
Figure 1A. Economic Growth in Tourism Countries	Figure 1B. Economic Growth in Commodity Producer Countries

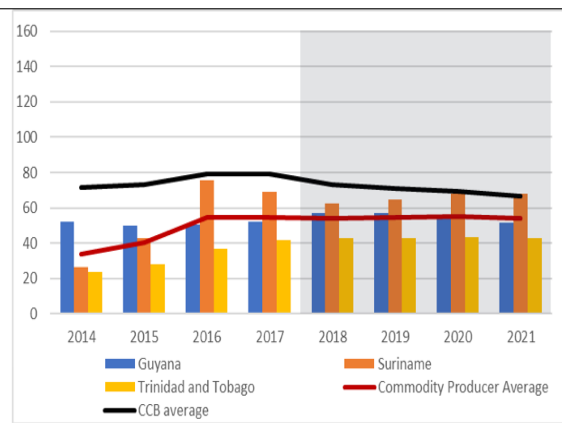




Source: International Monetary Fund, October 2018 *World Economic Outlook*.

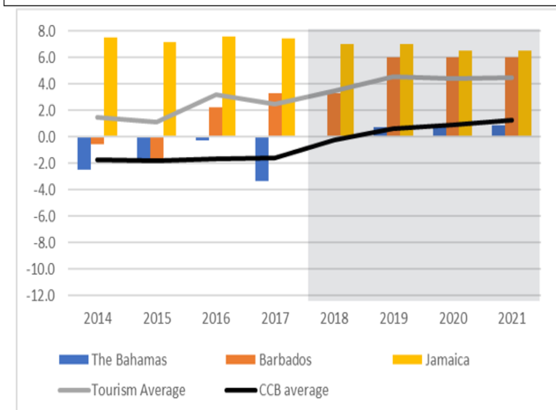
Debt is decreasing but at different speeds…	… and only stabilizing in commodity producers.
Figure 3 A. Debt-to-GDP in Tourism Countries	Figure 3 B. Debt-to-GDP in Commodity Producer Countries

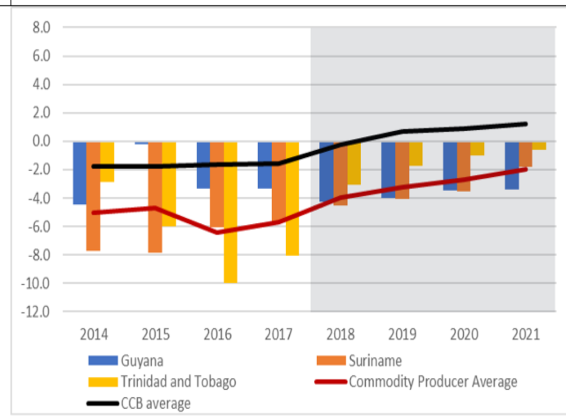




Source: International Monetary Fund, October 2018 *World Economic Outlook*.

While the fiscal adjustment is evident...	... commodity producers are lagging.
Figure 2 A. Primary Fiscal Balance in Tourism Countries	Figure 2 B. Primary Fiscal Balance in Commodity Producer Countries





Source: International Monetary Fund, October 2018 *World Economic Outlook*.

Complicating the challenge for these countries is that they are heavily leveraged, reflecting some of the world's highest debt-to-GDP ratios; growth has been anemic; and there is great fiscal imbalance (See Figures 1-3 and Table 3). Thus, while AML/CFT factors can explain some "de-risking" decisions, it can be concluded that either these predictions/projections were overly ambitious, or that there is some deep misunderstanding of the type of tourism product that the majority of visitors want, or the lack of product differentiation across the region, or the reality that citizen security as a result of rising crime is negatively impacting traveler choice, or some combination of these factors. Policy calls for a rethinking of the tourism sector to provide not only product differentiation across the region but also deliver the type of product experience that tourists want rather than that which the providers think that tourist want.

Finally, the Caribbean Community has an image problem. Weakness and lack of transformative capacity have strongly affected the ability of these countries to embrace internationalization while simultaneously deepening democracy and enhancing citizen security. As a consequence, these countries have become susceptible to some of the most pervasive forms of corruption in which powerful actors—domestic and transnational—secretly and subtly, seek to weaken, co-opt, disable or privatize governmental agencies, territory, and the state. Companies, organizations, and powerful individuals alike conspire to buy laws, amendments, decrees or sentences, as well as provide illegal contributions to political parties and candidates to influence and shape a country’s policy, legal environment and economy in furtherance of their particular interests. These efforts to systematically distort or displace the state are viewed as the most pernicious manifestation of political corruption. Some commentators maintain that it is in the interest of clandestine groups and transnational criminal organizations (TCO) for the state to be functional, if only for the sake of greater profit. While this type of relationship may be viewed as parasitical in more developed economies, it may be viewed as a malignant cancer in less developed countries with weaker, vulnerable governments because of the resultant meta-corruption (grand corruption) in which illicit political finance is used to systematically control public institutions (Kupferschmidt 2009: 4-7) and, thereby, threaten citizen security, visitor choice, investor confidence—all of which interact to inform and influence “de-risking’ decisions.

Table 3: Poverty Indicators For Selected Countries

Country	Survey Year	% Below Poverty Line	Survey Year	GINI Coefficient	Gross Public Debt (% of GDP 2012)
Antigua and Barbuda	2006	28.5	2006	0.31	97.8
Bahamas	2001	9.6	2006	0.48	52.6
Barbados	2003	13.9	1997	0.39	70.4
Belize	2003	33.0	2002	0.40	81.0
Dominica	2003	40.0	2002	0.35	72.3
Grenada	2008	37.7	1999	0.45	105.4
Guyana	2003	35.0	1999	n.a	60.4
Jamaica	2003	16.8	2002	0.40	143.3
Nevis*	2007	15.9	2000	0.37	144.9*
St. Kitts*	2003	23.7	2000	0.39	
St. Lucia	2003	28.8	1996	0.50	78.7
St. Vincent and the Grenadines	2003	37.5	1996	0.56	68.3
Trinidad and Tobago	2005	16.7	1997	0.37	35.7
Average		25.9		0.41	84.3

Source: “Inequality and Poverty in the Eastern Caribbean,” McDonald Thomas and Eleanor Wint, 2002; Caribbean Development Report, Vol. 2, CEPAL 2009; “Poverty and its Reduction in the Small Developing Countries of the Caribbean,” Andrew S. Downes, 2010; IMF.

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