Fogafín

Fondo de Garantías de Instituciones Financieras

International Expansion of Financial Conglomerates

November 29th 2017

MINHACIENDA

TODOS POR UN NUEVO PAÍS

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Agenda

1. Context

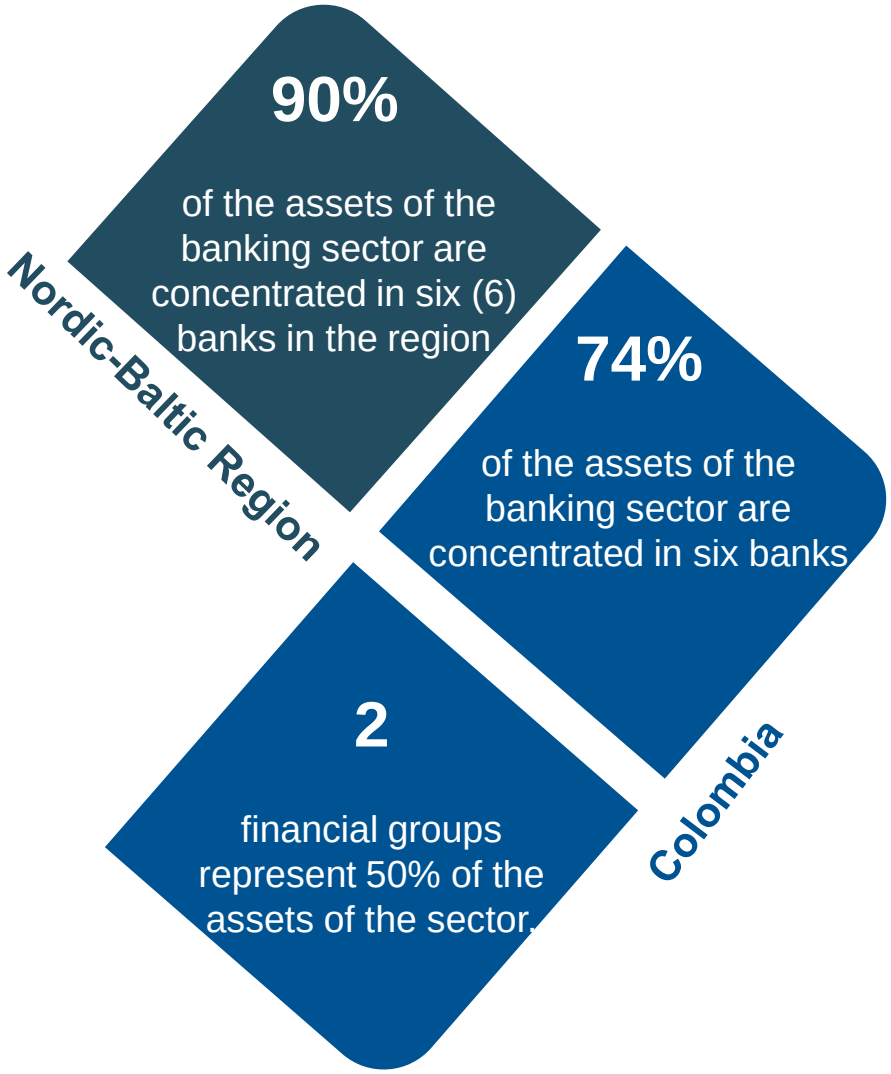
2. Challenges facing cross-border expansión

   I. Financial integration trade-offs
   II. Implementation of branches Vs subsidiaries model
   III. Need for coordination mechanisms in different levels

3. Macroprudential policy implementation

1. Context

Concentrated financial system:



Regional expansion:

Nordic-Baltic Region

Between the late 90´s and the first decade of 2000, the Nordic banks expanded, mainly towards the Baltic region.

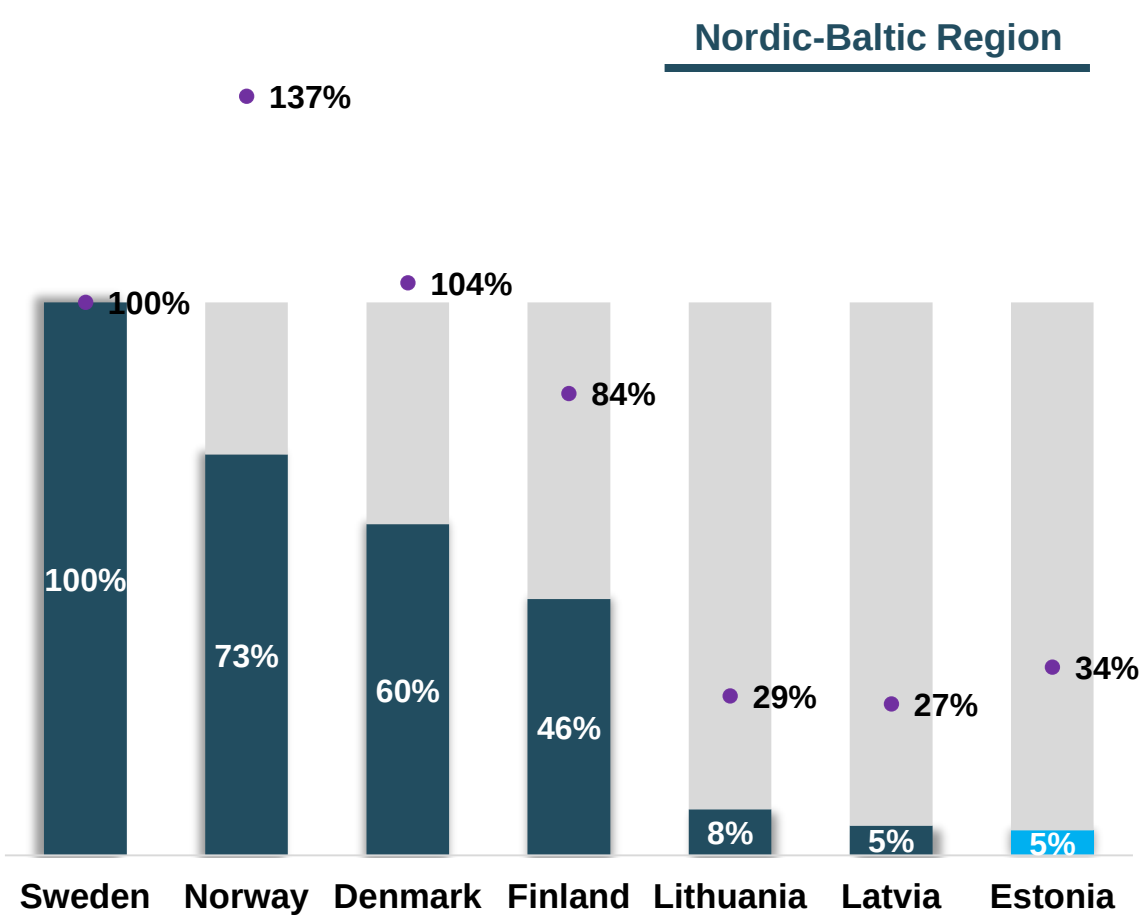
Colombia

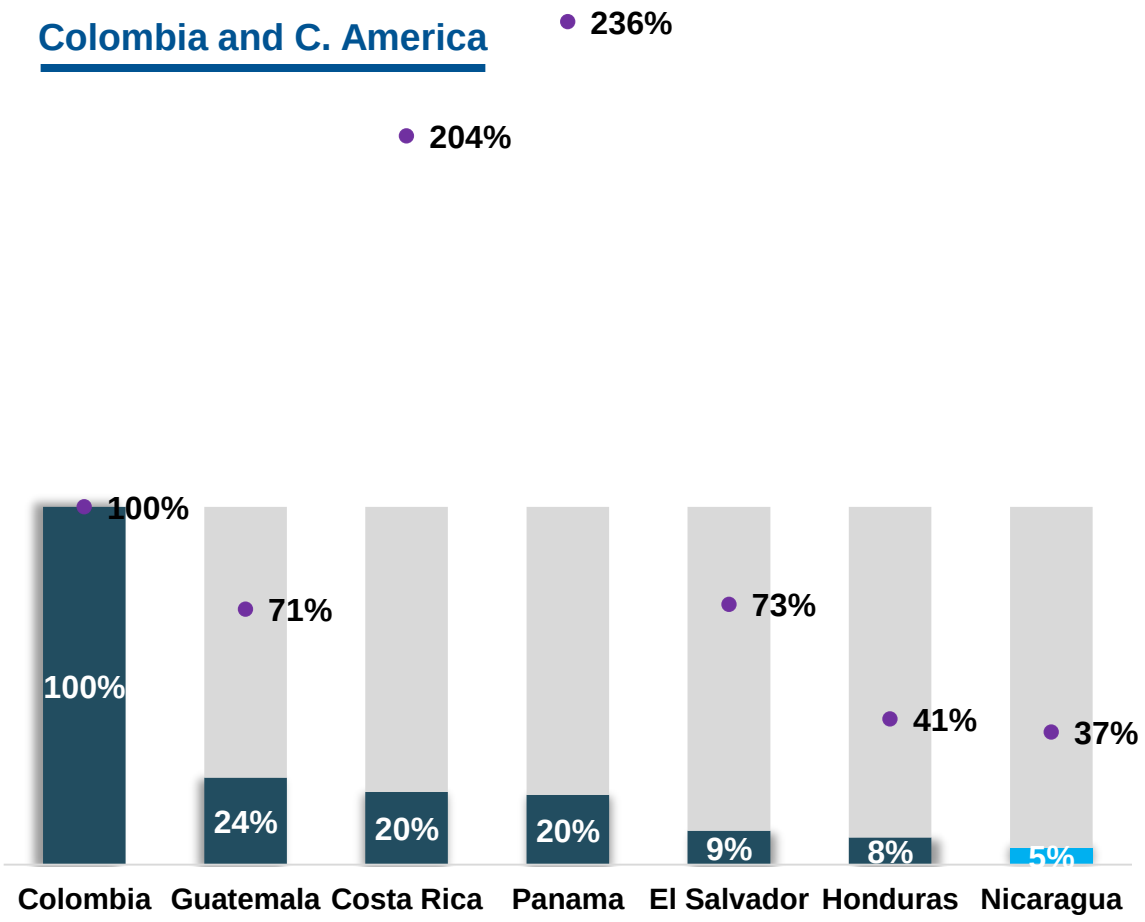
Between 2006 and 2017, the assets of Colombian banks abroad went from USD $ 3,861 million to USD $ 89,842 million, represented by an increase of 202 subordinates (231 in total in 2017 vs. 29 in 2006), an expansion that occurred mainly to Central America.

Increase in financial integration could develop cross-border spread of risk

1. Context

Country GDP and GDP per capita as percentage of home country

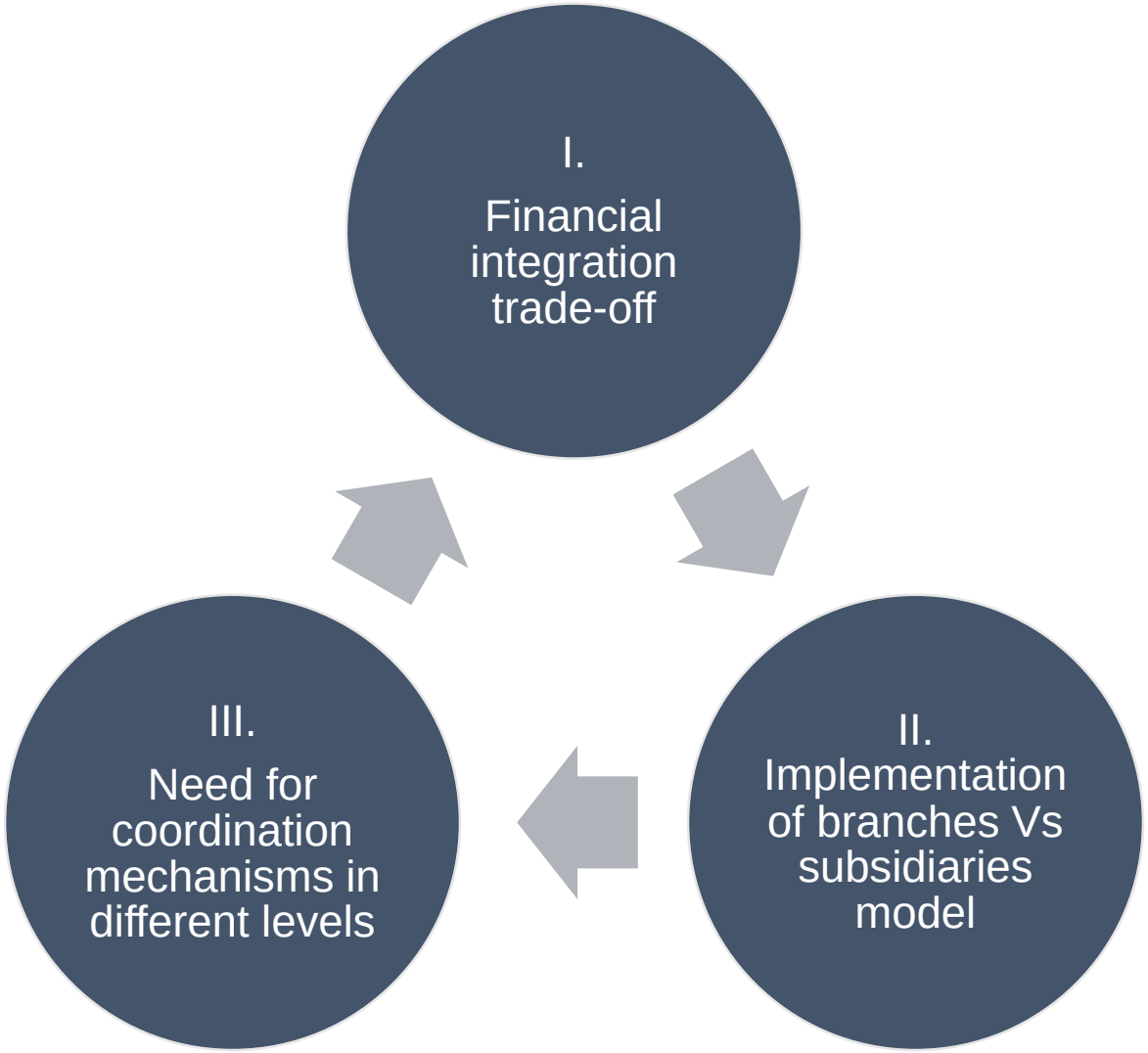




- **Significant differences between the countries: exchange rate regimes, size of economies and per capita income.**
- **Different priorities in financial sector regulation**

Source: World Bank

2. Challenges facing cross-border expansion



I. Financial integration trade-off

Understanding and monitoring cross-border financial expansion advantages and disadvantages

II. Implementation of branches Vs subsidiaries model

	Subsidiaries		Branches	
Bank	Presence	Deposits	Presence	Deposits
Bancolombia	El Salvador, Guatemala and Panama	$45 billion pesos	Miami, New York, Panama	$720.000 million pesos
Banco de Bogotá	El Salvador, Honduras, Costa Rica, Panama and Nicaragua	$45 billion pesos	Panama	$6.7 billon pesos
DAVIVIENDA	El Salvador, Honduras, Costa Rica and Panama	$14 billion pesos	Miami	$1.5 billon pesos

- Which supervisory and regulatory regime apply?
- What is the deposit insurance coverage?
- Access to markets

Source: Superfinanciera, july 2017

III. Need for coordination mechanisms in different levels

Need for coordination mechanisms in different levels:

- Supervision
- Regulation: Regulatory arbitrage – Deposit Insurance
- Resolution: Costs of the resolution - Host Vs Home

Nordic-Baltic Region

- Forum to discuss and evaluate the financial system stability such as the Nordic-Baltic Macroprudential Forum (NBMF).
- MoUs
- Establish a high-level forum for the joint implementation of macroprudential measures with emphasis on the management and resolution of cross-border crises (includes simulations).

Colombia and Central America

Although there is no high-level body for the implementation of joint macro-prudential policies, some progress has been made in the development of several communication and cooperation mechanisms:

- ASBA
- Consejo Centroamericano de Superintendentes de Bancos, Seguros y otras Instituciones Financieras
- Supervisory Colleges
- MoUs, among others.

III. Need for coordination mechanisms in different levels

Country	Bahamas	El Salvador	Guatemala	Honduras	Jamaica	Mexico	Nicaragua	Trinidad and Tobago
Institution	Deposit Insurance Corporation	Instituto de Garantía de Depósitos	Banco de Guatemala, as administrator of Fund for Savings Protection	Fondo de Seguro de Depósitos (FOSEDE)	Jamaica Deposit Insurance Corporation	Instituto para la Protección al Ahorro Bancario	Fondo de Garantia de Depósitos de las Instituciones Financieras (FOGADE)	Deposit Insurance Corporation (Trinidad and Tobago)
Year Established	1999	1999	2002	2001	1998	1999	2001	1986
System mandates	Pay-box Plus	Pay-box Plus	Pay-box	Pay-box	Loss Minimizer	Loss Minimizer	Pay-box Plus	Pay-box Plus
Maximum coverage limit (Per Depositor Per Institution)	50,000	10,171	2,621	9,401	4,983	125,071	10,000	19,562

- Which supervisory and regulatory regime apply?
- What is the deposit insurance coverage?
- Access to markets

3. Macroprudential policy implementation

1998-2002

- LTV limit: 70%
- Amortization period of 30 years.
- Loan to income limit

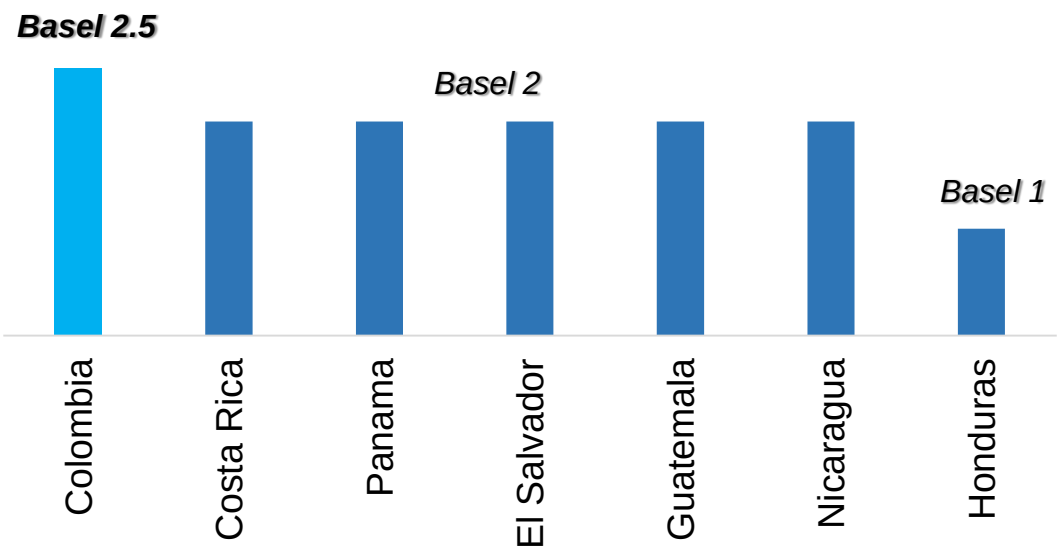
2008-2015

- Some Basel III standards were implemented (including contracyclical loans)

Recently

- Conglomerate Law was issued in September 2017. Its main objective focused to strengthen conglomerates supervision and regulation framework

Basel Implementation Across the Region



Source: ASBA, 2015. Regulatory and convergence challenges. Gradual convergence