



CENTRAL BANK OF
TRINIDAD & TOBAGO

Mergers and Acquisitions Involving Local Financial Institutions

Regulatory Considerations

A Presentation by:-

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PRESENTATION FLOW




- Recent Acquisitions involving T&T financial institutions



- Why do Mergers & Acquisitions Occur? Are they good or bad?



- Legislative Framework



- How Mergers & Acquisitions are Assessed



- Regulatory Cooperation and Consolidated Supervision



- Concluding Remarks – Key takeaways



- Q & A Session



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RECENT ACQUISITIONS INVOLVING FINANCIAL INSTITUTIONS IN T&T 2019 - 2021



MERGERS AND ACQUISITIONS

Merger

A merger is the process whereby 2 or more companies combine to form a new entity.

Acquisition

An acquisition involves the purchase of shares in a company by another company.

BANKING - APPROVED

Royal Bank of
Canada

2021

ACQUIRER:

Consortium of indigenous banks within
the Eastern Caribbean Currency Union
(ECCU) jurisdiction.

TARGET:

Royal Bank of Canada in the territories
of the Eastern Caribbean

ANSA Merchant
Bank Limited

2021

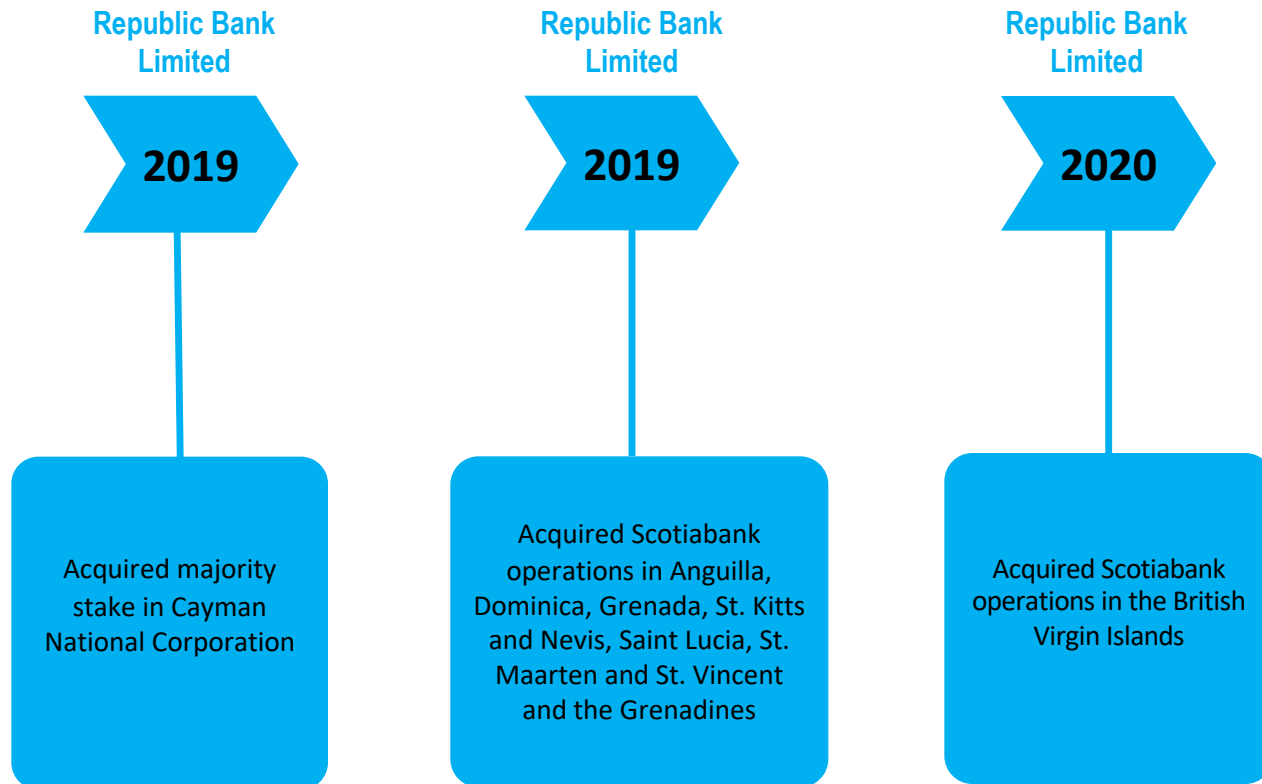
ACQUIRER:

Ansa Merchant Bank Ltd.

TARGET:

Bank of Baroda Ltd.

BANKING - APPROVED



INSURANCE - APPROVED

Guardian Holdings
Limited (GHL)

2019

TARGET: Guardian
Holdings Limited
(GHL)
ACQUIRER:
NCB Financial
Group

Sagikor Financial
Corporation

2019

TARGET:
Sagikor Financial
Corporation
ACQUIRER:
Alignvest
Acquisition II
Corporation

Motor One
Insurance Co. Ltd.

2019

TARGET:
Motor One –
ACQUIRERS:
General Accident
Insurance Company
Jamaica Limited
(GAIC), and
Micon Marketing
Limited (Micon)

The Beacon
Insurance Co. Ltd.

2019

TARGET:
The Beacon
Insurance
Co. Ltd.
ACQUIRER:
Colonial Group
International
Limited (now
known as
Coralisle Group)

BANKING & INSURANCE

NOT APPROVED / TERMINATED

Republic Financial
Holdings Limited

2019

PROPOSED ACQUIRER:
Republic Financial Holdings
Ltd.

TARGET:
Scotiabank Guyana
Denied by Bank of Guyana

Sagikor Financial
Corporation

2020

PROPOSED ACQUIRER:
Sagikor Financial Corporation

TARGET:
ScotiaLife
Terminated by mutual
agreement

CIBC

2021

PROPOSED ACQUIRER:
GNB Financial Group

TARGET:
Majority stake in FCIB
Denied by regional regulators

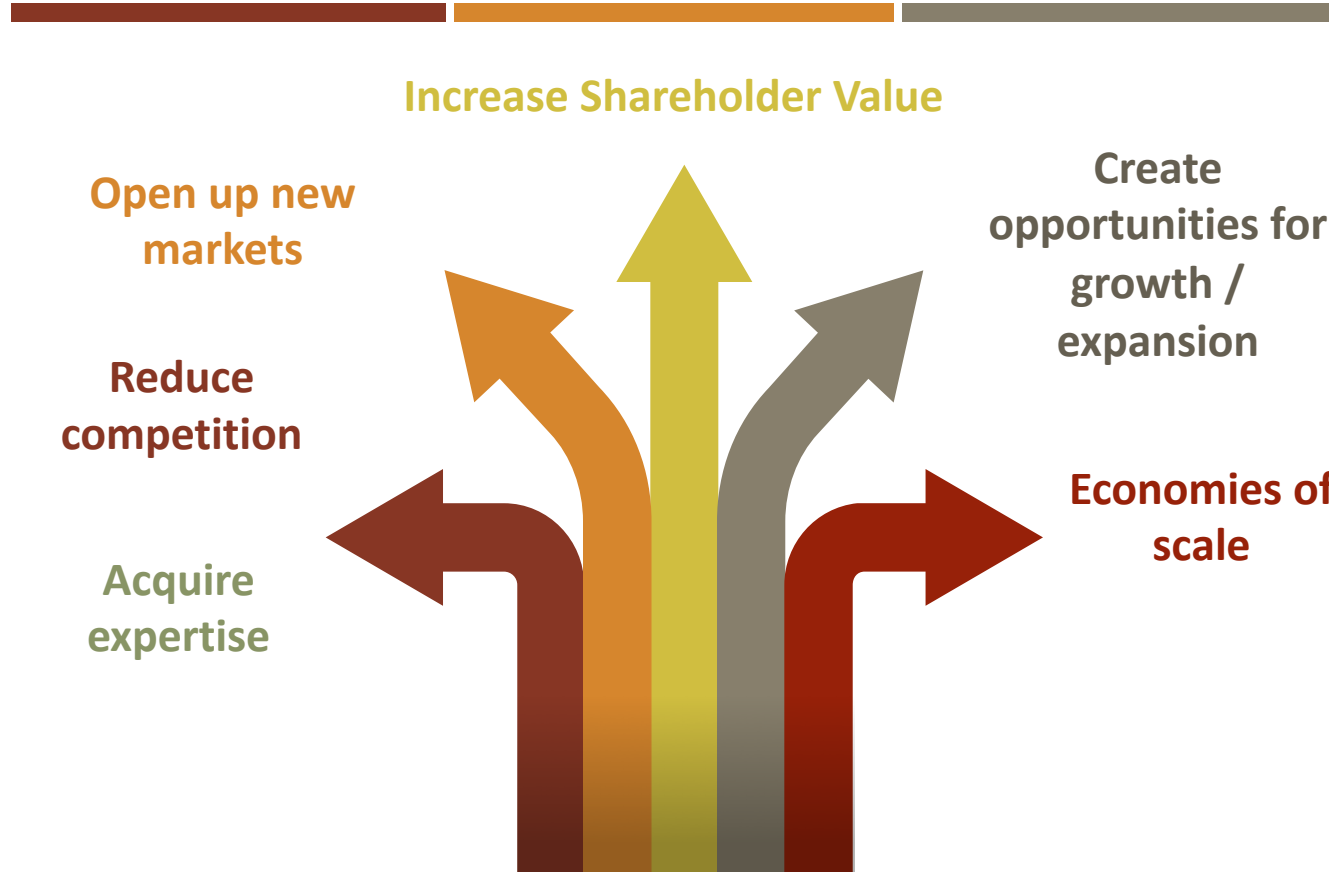


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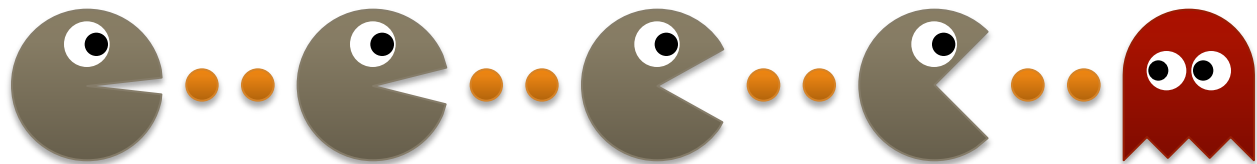
THE PROS AND CONS OF MERGERS AND ACQUISITIONS



POSSIBLE BENEFITS



POTENTIAL DRAWBACKS



**Increased
concentration
/ Reduced
competition**

Increased debt

**Increase in
reputational
risk where
things do not
go to plan**

**Differences in
corporate
culture**

**Concerns
among
employees,
consumers and
other
stakeholders**



CENTRAL BANK OF
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THE LEGAL FRAMEWORK



SCOPE OF APPLICATION

01

Banks

Licensed under
the Financial
Institutions Act,
2008

02

Insurers

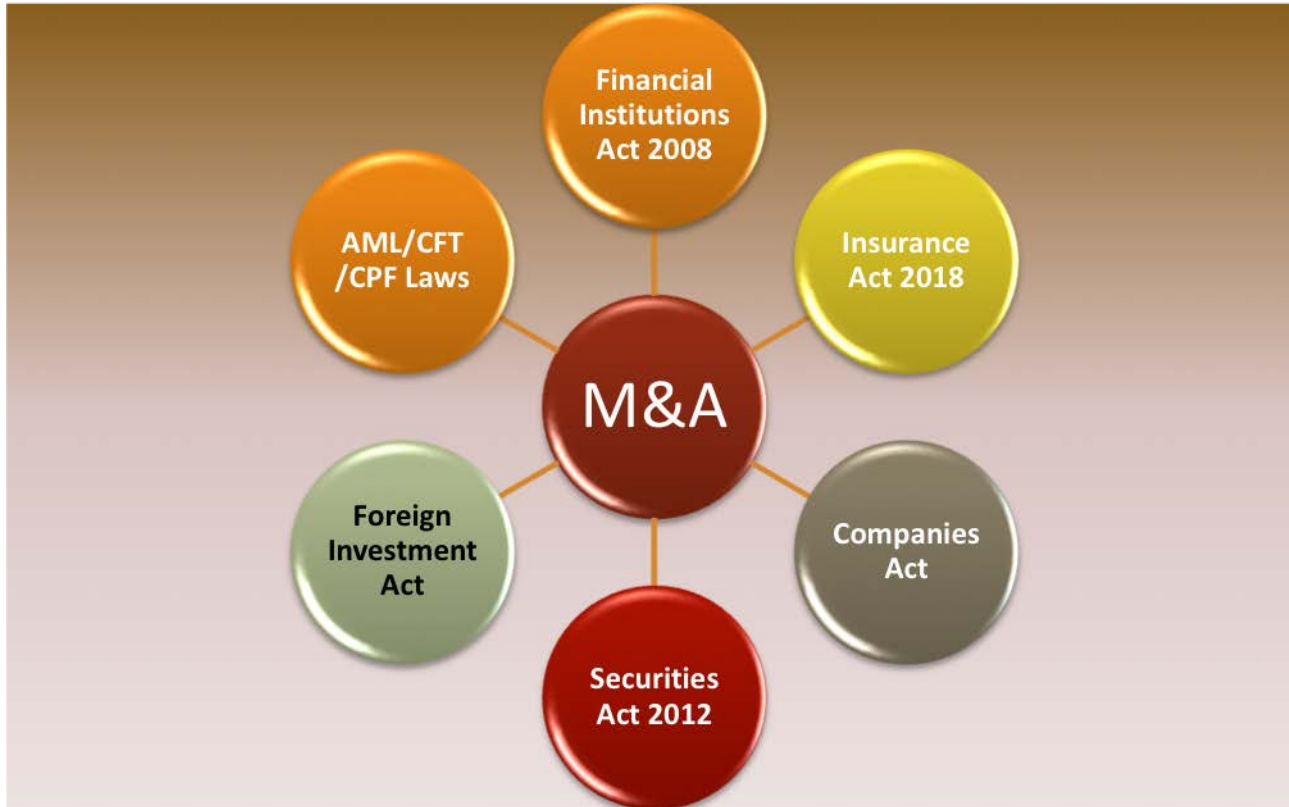
Registered Under
the Insurance
Act, 2018

03

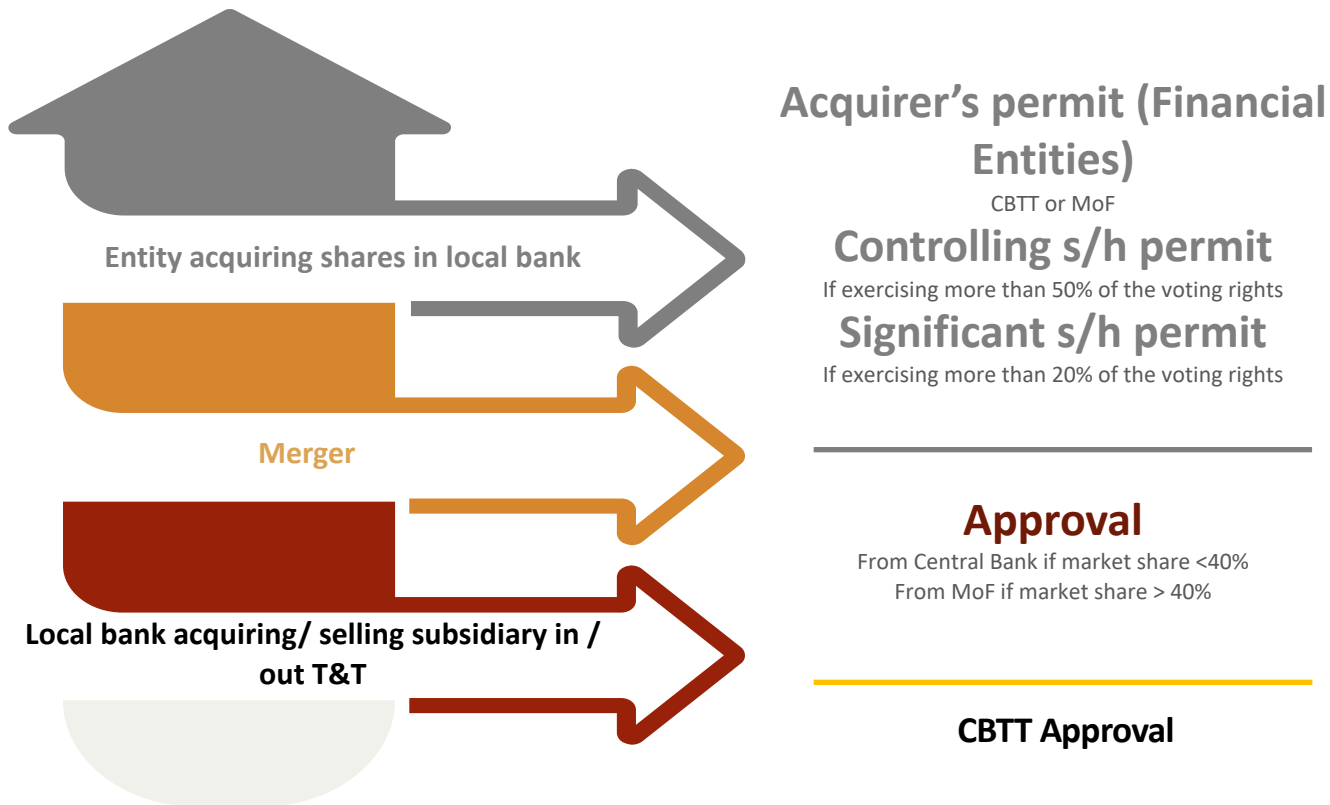
FHCs

Financial Holding
Companies of
licensees and
insurers

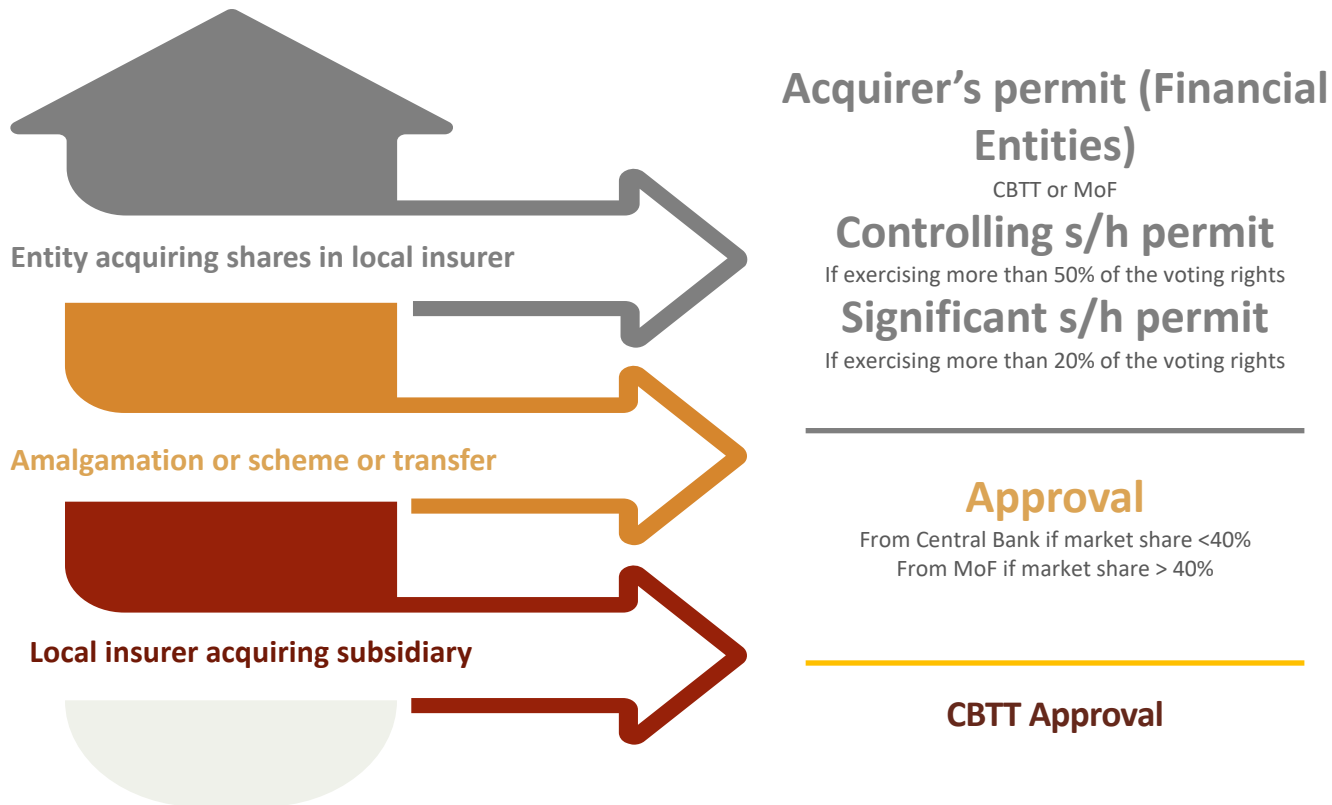
APPLICABLE LAWS



LEGAL FRAMEWORK - BANKING



LEGAL FRAMEWORK - INSURANCE



Market Concentration – Mergers & Acquisitions

Mergers	Acquisitions
Size of proposed merged company (and affiliates) in terms of any combined market share that will be serviced or controlled by the proposed merged company in T&T	Combined market share in T&T of the licensee (and any affiliated financial entity), the proposed acquirer and any financial entity that is affiliated with the proposed acquirer
Whether size and concentration (of economic power for acquisitions) will prevent or lessen substantially, or is likely to prevent or lessen substantially, competition in the financial services industry in Trinidad and Tobago	

Where market share \geq 40%, MOF to consider:-

- the interests of the financial services industry in Trinidad and Tobago; and
- the interests of consumers of financial services in Trinidad and Tobago.



CBTT GUIDELINES





CENTRAL BANK OF
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Assessing Mergers & Acquisitions – Some Key Regulatory Considerations



Summary of Key Areas of Assessment



FINANCIAL SOUNDNESS & CAPACITY

Financial Soundness

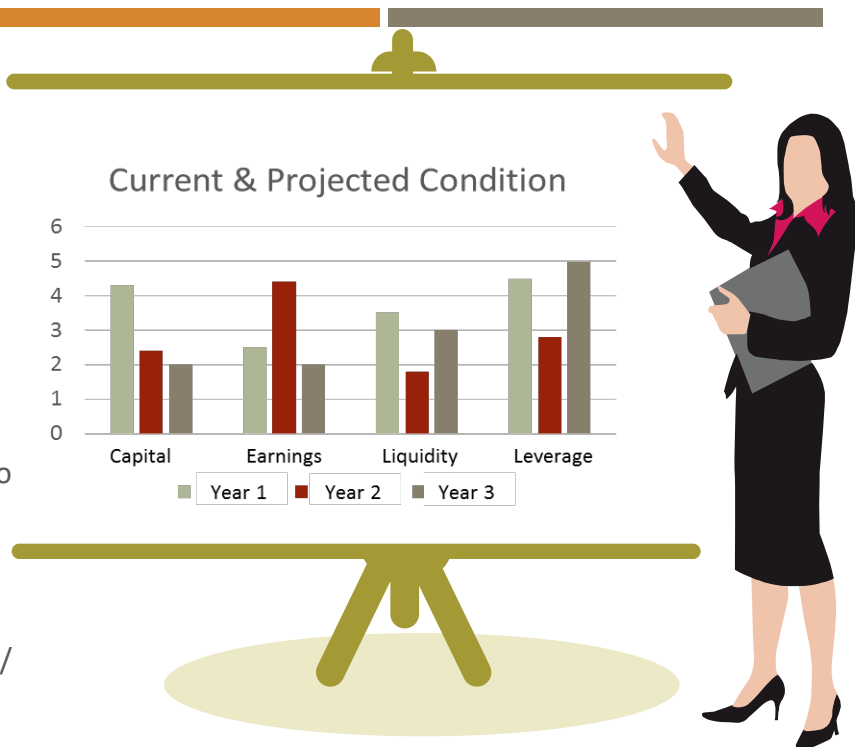
- Asset quality
- Liquidity
- Earnings and profitability
- Capital adequacy (solo and consolidated)

Capacity

- Leverage
- Funding of the transaction
- Ability of the controlling shareholder to provide current and ongoing support.

Other

- Dividend policy
- Projected balance sheet/ earnings/ cash flow



CORPORATE GOVERNANCE

Examination of elements articulated in Central Bank's Corporate Governance Guideline

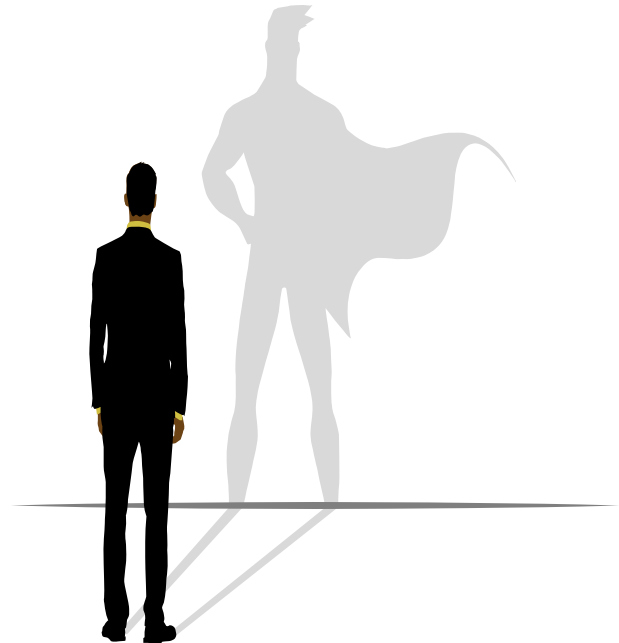
- *Senior management composition, competence / expertise*
- *Composition of board / parent board vs subsidiary board*
- *Number of independent directors on the board*
- *Board Committees – number, type and composition*



Ability to maintain
appropriate
corporate governance
and internal controls

GOVERNANCE – FIT & PROPER CONSIDERATIONS

- Who must be Fit & Proper?
 - ☐ *Individuals and companies including Acquirers, Controlling shareholders, and Significant shareholders*
 - ☐ *Directors, Officers, Actuaries*
- What is considered?
 - ☐ *Financial soundness and capacity, reputation, compliance and criminal history, competence, experience, integrity, conflicts of interest etc.*

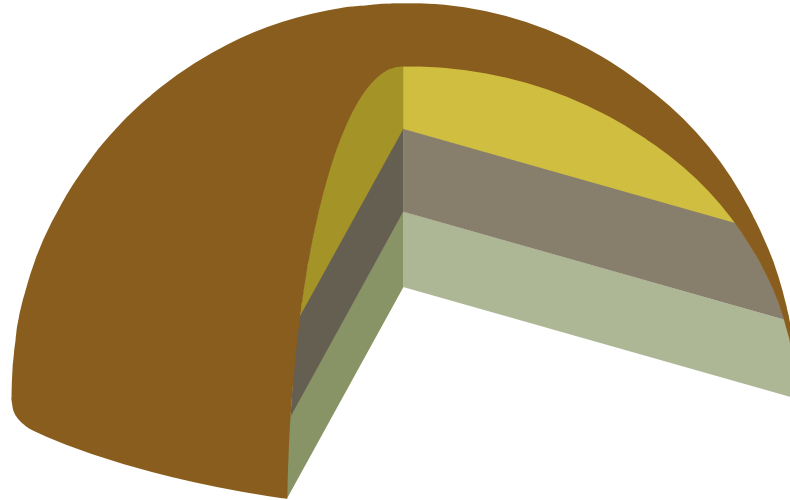


GOVERNANCE – OWNERSHIP STRUCTURE

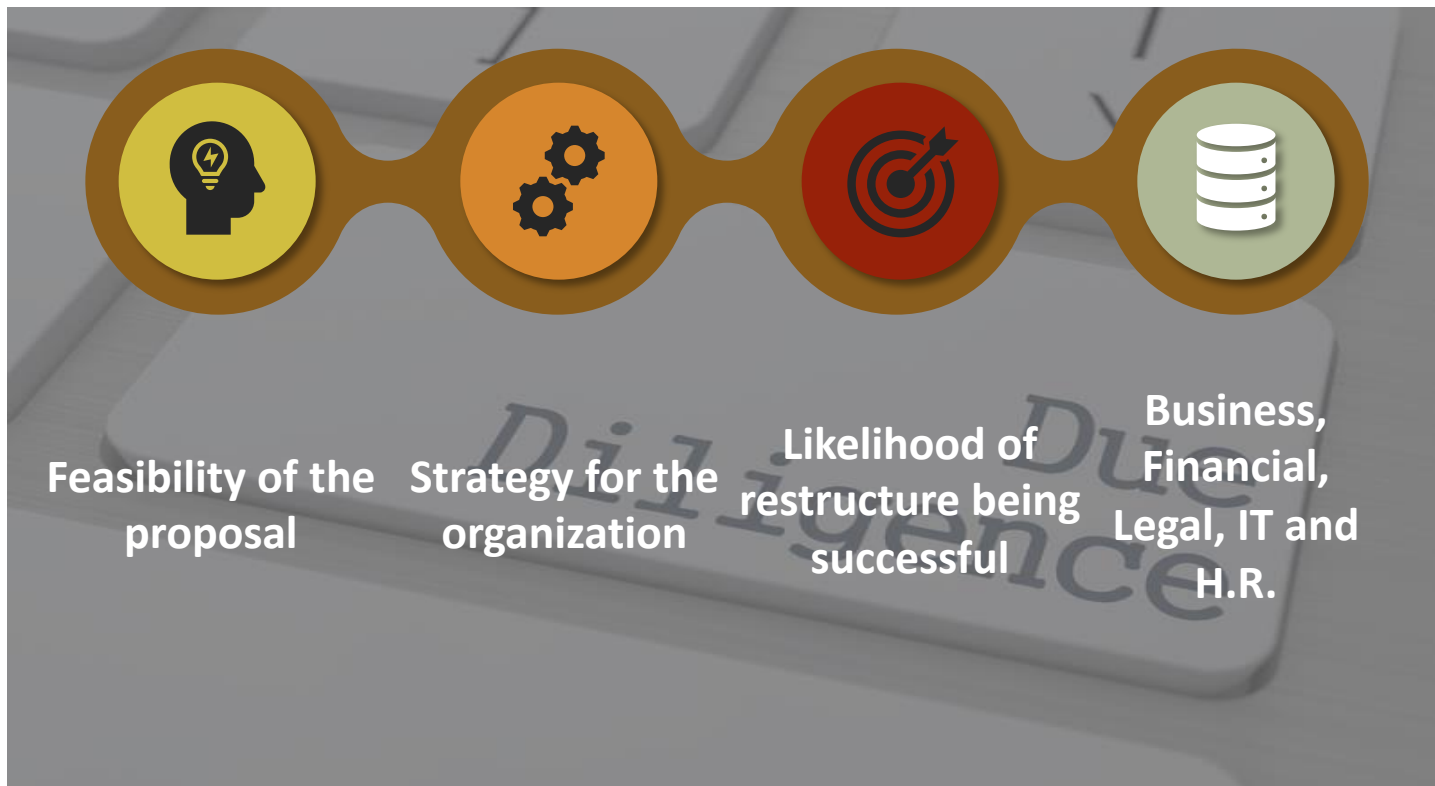
**Transparency of
ownership**

**Ability to identify
ultimate beneficial
owners (UBOs)**

**Activities
conducted by
UBOs**



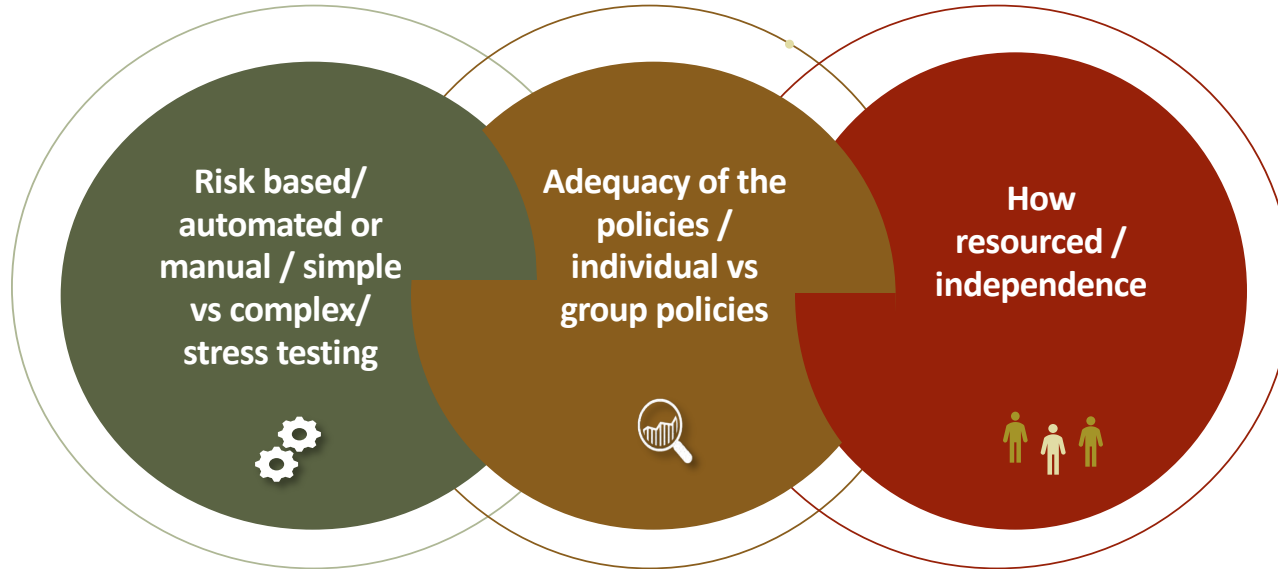
BUSINESS RISK – DUE DILIGENCE, STRATEGIC AND BUSINESS PLANS



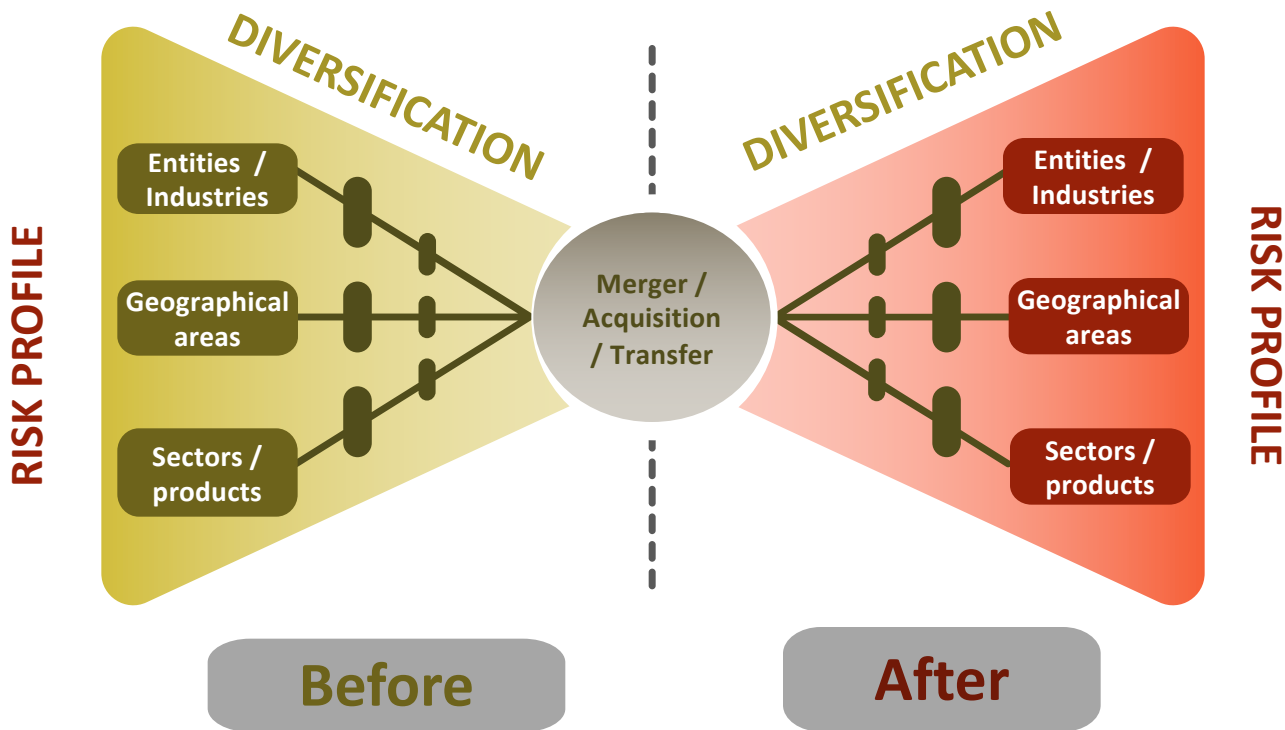
BUSINESS RISK – INFORMATION TECHNOLOGY SYSTEMS



BUSINESS RISK – RISK MANAGEMENT AND INTERNAL CONTROLS



BUSINESS RISK – RISK PROFILE



SYSTEMIC & CONCENTRATION RISK – MARKET SHARE

Market share

40%

- Assets
- Income
- Deposits
- # customer accounts
- policyholder liabilities

**Competitiveness of
the sector**

Size of affiliates



Stability

SYSTEMIC AND CONCENTRATION RISK – PUBLIC-INTEREST AND ENVIRONMENTAL CONSIDERATIONS

**Contribution to
financial system
soundness**

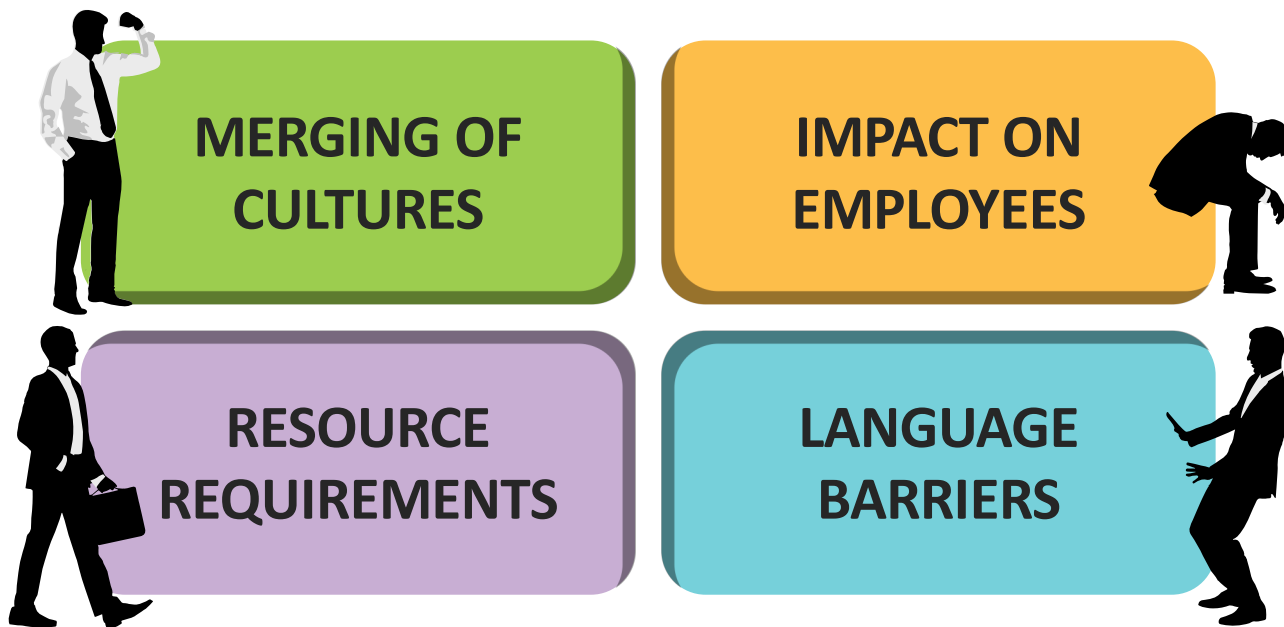
**Contribution to
efficient and fair
banking and
insurance markets**

**Legislative and
Economic
Environment**

**Economic
Outlook**



CULTURAL AND HUMAN RESOURCE CONSIDERATIONS





DOCUMENTATION REQUIRED



Application

- Cover letter
- Joint application from each company that is party to the merger or scheme of transfer or amalgamation



Financial Condition of Applicant and Target

- Audited financial statements of target and applicant(s) for the last 3 years
- At least a three (3) year Pro-forma projected Financial Statements
- Details of funding / financing
- Dividend policy of the acquirer and proposed dividend policy for the merged or acquired entity
- Report by the Actuary



Governance

- List of all nominal and beneficial s/h
- Name of the UBO
- F&P documents (PQDs, CQDs)
- Policies
- Board resolution
- Pre- and post-merger or acquisition group structure



Business / Operational

- Strategic & Business Plans
- Detailed due diligence reports
- IT consolidation / integration plan
- List of material lawsuits, settlement agreements, awards and judgments
- Listing of all products / services
- Key risk management policies
- Business continuity and recovery plans.
- Reinsurance arrangements.



HR and People

- Proposed organisational and operational structure



Group Structure

- Pre- and post-transaction group structure
- List of entities in the group
- List of divestments and acquisitions



Legal

- Proposed amalgamation agreement
- Share purchase agreement
- Constituent documents

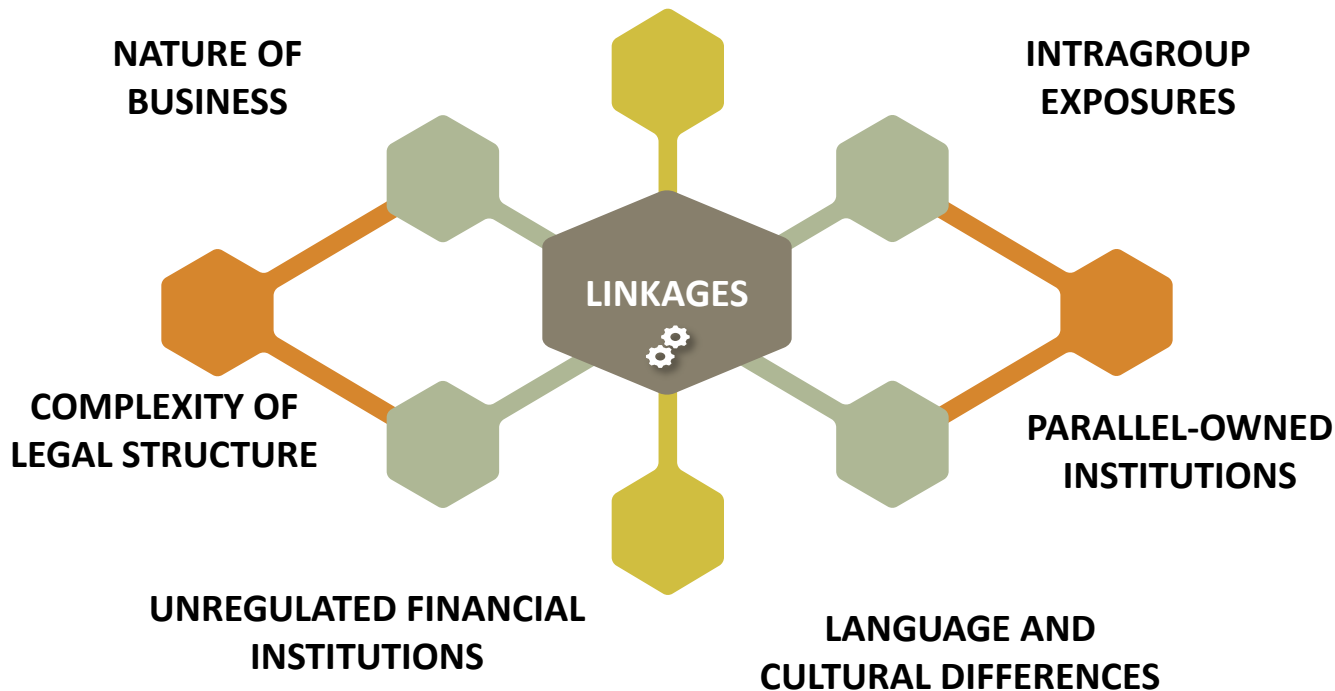


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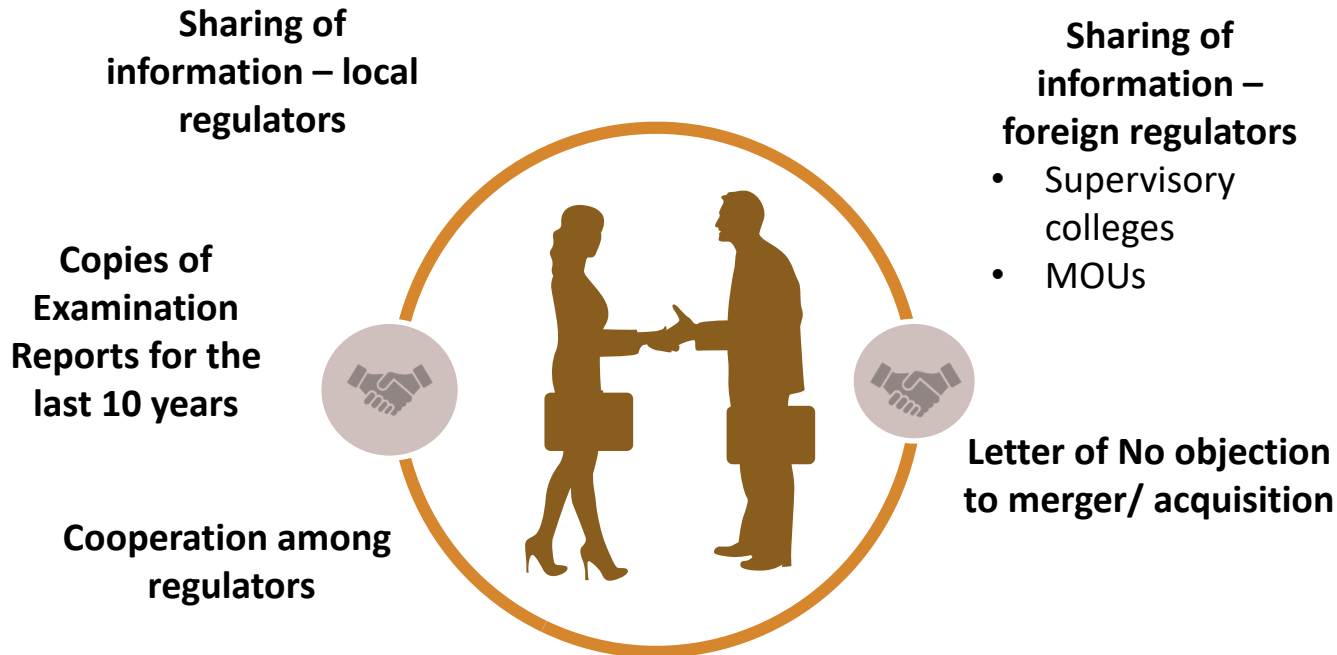
Group Structure, Consolidated Supervision, and Regulatory Cooperation



GROUP STRUCTURE



CONSOLIDATED SUPERVISION AND REGULATORY COOPERATION



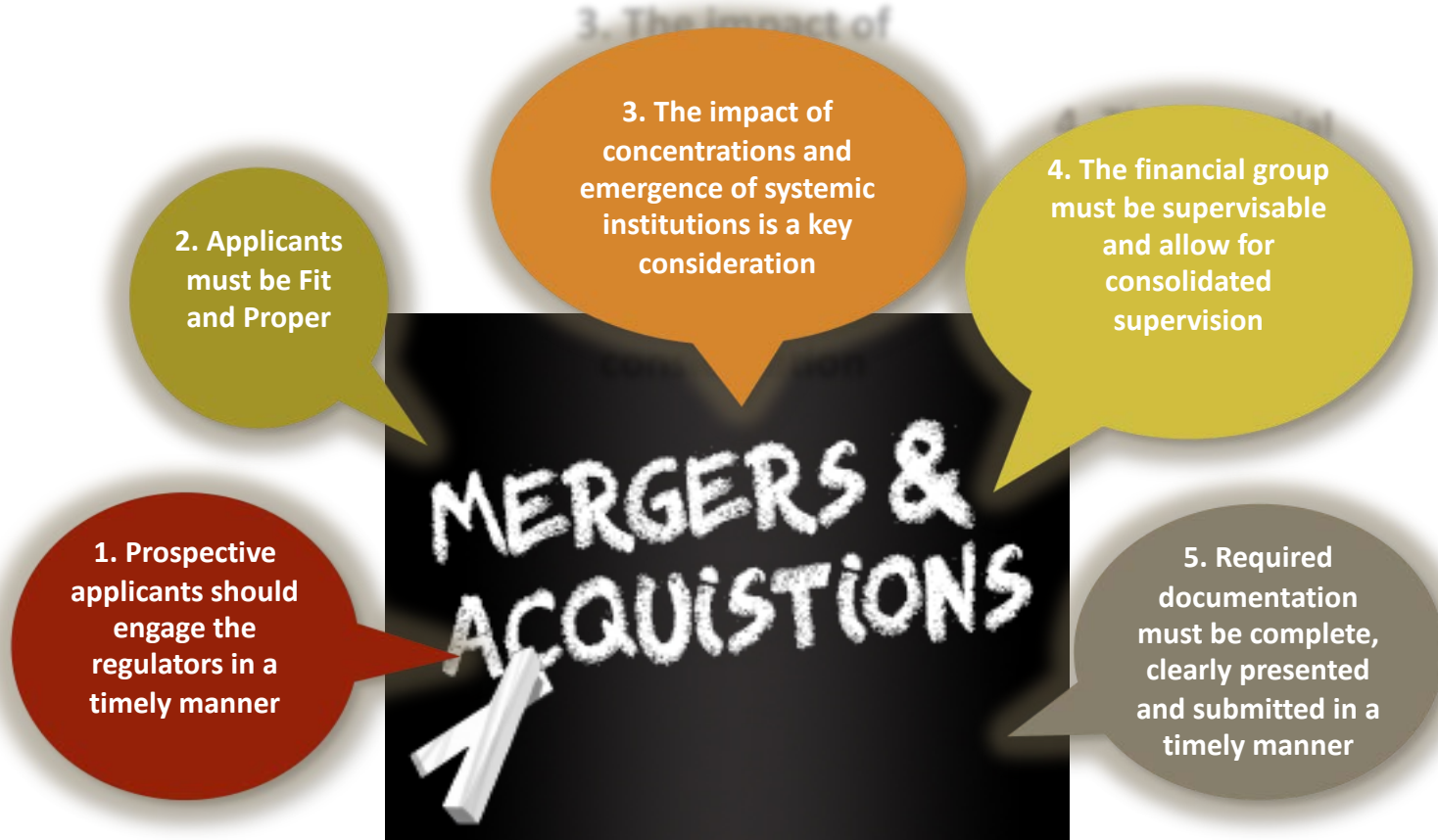


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CONCLUDING REMARKS



KEY MESSAGES



REGULATORY GUIDANCE

- CBTT has developed a draft Mergers & Acquisitions Guideline which is being issued today for public consultation.
- The Guideline documents:-
 - *Application information requirements; and*
 - *Key considerations in the assessment process.*
- Available on the Bank's website at <https://www.central-bank.org.tt/core-functions/supervision> "Drafts and Consultation Papers"

THE END

QUESTIONS? COMMENTS?



Thank You



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