IFC EXPERIENCE IN FOREIGN OWNERSHIP LIMITS

How Foreign Ownership Can Support Financial Sector Restructuring And Recovery

June 2021
AGENDA OUTLINE

1. SETTING THE STAGE: A Brief History of Financial Distress Across the Globe

2. ADDRESSING SYSTEMIC STRESS: Government Approaches to Foreign Ownership

3. LOOKING DEEPER: A Case Study of Indonesia

4. THE EVIDENCE: Impacts of Foreign Ownership Changes on Financial Systems

5. WHAT TO LOOK OUT FOR: The Role of Governments and Investors

ANNEX
1. SETTING THE STAGE

A BRIEF HISTORY OF FINANCIAL DISTRESS ACROSS THE GLOBE
“Nearly every country has experienced significant financial distress at some points over the last 50 years.”

2. ADDRESSING SYSTEMIC STRESS

GOVERNMENT APPROACHES TO FOREIGN OWNERSHIP
2.1 “Speed is of the Essence”

- Act decisively
- Demonstrate Government commitment and support to protect depositors
- Communicate clearly and effectively
- Supply a rapid injection of market liquidity, guarantees, and capital instruments
- Execute clear, pre-established procedures and assigned responsibilities
- Deploy temporary nationalization and stabilization measures
- Provide ongoing supervision, enforcement, and remedial actions
2.2 Easing FOL Can Increase New Investments

Malaysia (2011) ”A positive twist”

• Allowed foreigners to hold stakes in financial institutions
• Issued 6 Islamic banking licenses to foreign banks with the aim to promote Malaysia as a global Islamic financial hub
• Structural reform helped hasten its recovery from 2008 Global Financial Crisis, with real GDP growth averaging 5.3% per year between 2011 and 2015
• Government encouraged M&A of domestic banks to improve banks’ performance, profitability and value creation in 1999 and 2009 (23 banks reduced to 8)

Korea (1997-98) Asian financial crisis

• “What we need now, more than anything else, are foreign investors. Market reforms and foreign investment are the only solution” (President Kim Dae - Jung)
• 1988: Relaxed entry barriers to financial industry (banking, life insurance, investment trust)
• 1998: Foreign Investment Promotion Act (FIPA) only 13 out of 1148 sub-sectors remained closed to FDI and 18 are partially opened.
2.2 Foreign Ownership Limits Across ASEAN Countries

- **Indonesia**
  - 1992: 100%
  - 1999: 100%

- **Malaysia**
  - 1989: 20%
  - 2007: 100%

- **Philippines**
  - 1994: 100%
  - Pre-1997: 100%

- **Thailand**
  - 1997: 100%
  - 2007: 100%

- **Myanmar**
  - 2017: 100%

- **Vietnam**
  - 1993: 0%
  - 2004: 100%
2.2 Foreign Investments Aid Financial Restructuring

- **Reputable foreign investors** can provide resources that are not available from domestic institutions and investors, and can reduce the burden on government
  - Rapid injections of capital
  - Responsive to regulatory discipline
  - Skill building programs for local staff utilizing staff from strategic bank head office as well as recognized consultants
  - Increase transparency which increases investor interest as well as public trust
### 2.2 Foreign Investments Aid Financial Restructuring

#### Foreign bank roles in China, Indonesia and Poland

<table>
<thead>
<tr>
<th>Country</th>
<th>Foreign banks</th>
<th>% ownership</th>
<th>Local bank acquired</th>
<th>Critical Role</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CHINA</strong></td>
<td>Bank of America</td>
<td>8.5%</td>
<td>China Construction Bank</td>
<td>▪ Enhance Risk Management of all types</td>
</tr>
<tr>
<td></td>
<td>HSBC</td>
<td>19.9%</td>
<td>Bank of Communications</td>
<td>▪ Develop noncore businesses (credit cards)</td>
</tr>
<tr>
<td></td>
<td>BGZ BNP Paribas</td>
<td>18%</td>
<td>Bank of Nanjing</td>
<td>▪ SME banking, Corporate Governance, NPL management</td>
</tr>
<tr>
<td></td>
<td>Hang Seng Bank (Hong Kong)</td>
<td>16%</td>
<td>Industrial Bank</td>
<td>▪ Introduction of Green Banking</td>
</tr>
<tr>
<td><strong>INDONESIA</strong></td>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>92.43%</td>
<td>PT Bank BTPN</td>
<td>▪ Appoint key senior management personnel</td>
</tr>
<tr>
<td></td>
<td>MUFG Bank</td>
<td>92.47%</td>
<td>Bank Danamon</td>
<td>▪ Introduce supply chain finance, apply advanced technology and digitalisation</td>
</tr>
<tr>
<td></td>
<td>Bangkok Bank Public Company Limited</td>
<td>98.70%</td>
<td>Bank Permata</td>
<td>▪ Grow retail, SME and corporate business, expand strong regional network and relationship</td>
</tr>
<tr>
<td></td>
<td>ANZ</td>
<td>38.83%</td>
<td>Panin Bank (PNBN)</td>
<td></td>
</tr>
<tr>
<td><strong>POLAND</strong></td>
<td>Santander</td>
<td>68.13%</td>
<td>Bank Zachodni WBK</td>
<td>▪ Enhance the private banking and SME segments</td>
</tr>
<tr>
<td></td>
<td>Commerzbank AG</td>
<td>69.30%</td>
<td>MBANK</td>
<td>▪ Facilitate bank restructuring and create new organisational structure with a transformation programme</td>
</tr>
<tr>
<td></td>
<td>Banco Comercial Português, S.A.</td>
<td>50.1%</td>
<td>Bank Millennium</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Citibank (Poland) SA</td>
<td>75.0%</td>
<td>Bank Handlowy</td>
<td></td>
</tr>
</tbody>
</table>
2.2 Foreign Investments Aid Financial Restructuring

**2005:** Temasek, RBS, Merrill Lynch, Li Ka shing (10%) worth $3.1 Bn

**2006:** Goldman Sachs, Allianz and American Express (8.9%) worth $3.8bn

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**Bank of China (2005)**

- **2005:** BOC ROA 4.9%, BOC NPLs 0.7%
- **2006:** BOC ROA 2.65%, BOC NPLs 1.01%
- **2007:** BOC ROA 1.01%
- **2008:** BOC ROA 0.7%

**BOC Total Assets**

- 2005: 2.000,000
- 2006: 4.000,000
- 2007: 6.000,000
- 2008: 8.000,000

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**Industrial and Commercial Bank of China (2006)**

- **2005:** ICBC ROA 4.69%
- **2006:** ICBC ROA 2.29%
- **2007:** ICBC ROA 0.66%
- **2008:** ICBC ROA 1.21%

**ICBC Total Assets**

- 2005: 8,000,000
- 2006: 6,000,000
- 2007: 4,000,000
- 2008: 2,000,000
2.2 Foreign Investments Aid Financial Restructuring

**2005**: Bank of America (BOA) and Temasek invested $3.0bn and $2.5bn (9% and 6%, respectively)

**2004**: HSBC invested $1.75bn for 19% stake
## 2.2 Foreign Investments Aid Financial Restructuring

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>2%</td>
<td>51%</td>
<td>84%</td>
<td>85%</td>
<td>71%</td>
<td>53%</td>
<td>13%</td>
<td>14%</td>
<td>13%</td>
</tr>
<tr>
<td>Poland</td>
<td>4%</td>
<td>48%</td>
<td>67%</td>
<td>62%</td>
<td>76%</td>
<td>80%</td>
<td>34%</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4%</td>
<td>7%</td>
<td>33%</td>
<td>34%</td>
<td>26%</td>
<td>64%</td>
<td>44%</td>
<td>38%</td>
<td>38%</td>
</tr>
<tr>
<td>Brazil</td>
<td>9%</td>
<td>23%</td>
<td>21%</td>
<td>18%</td>
<td>16%</td>
<td>60%</td>
<td>42%</td>
<td>40%</td>
<td>44%</td>
</tr>
<tr>
<td>Korea</td>
<td>2%</td>
<td>15%</td>
<td>13%</td>
<td>11%</td>
<td>7%</td>
<td>29%</td>
<td>35%</td>
<td>22%</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Indonesia Financial Crisis 1997**  
**Mexico Peso Crisis 1994-1995**  
**Poland Economic Reform 1989-1994**  
**Korea 1998 Asian financial crisis**  
**Brazil financial crisis 1999**

Source: Claessens et al. (2015)
3. A CASE STUDY OF INDONESIA

CRISIS AND BANK RESTRUCTURING
3.1 An Economic Snapshot of Indonesia (Pre and Post Crisis)

Number of banks: 239 (161 domestic) 138 (76 domestic)

Domestic Currency per U.S. Dollar, End of Period
Domestic credit to private sector by banks (% of GDP)
GDP growth (annual %)
Foreign direct investment, net inflows (% of GDP)
Central government debt, total (% of GDP)
3.1 Post-Crisis Performance of Financial Institutions

Total Assets by Categories (billions Rp)

Capital Adequacy Ratio (2006-2012)

Non Performing Loans Ratio (2006-2012)

Sources: World Bank, OJK, BI Annual Reports
### 3.1 State and Private Bank Resolution Through the Crisis

- Large number of bank M&A between 1997 and 2010
- Recapitalization of all 7 state banks, 7 private banks and 12/27 rural development banks

#### Nationalizations of private banks: 12
#### Closures of private banks: 67
#### Mergers: 35
#### ...out of 7 State-Owned banks were merged: 4

#### Transition in number of banks 1996 - 2002

<table>
<thead>
<tr>
<th>Classification by Ownership</th>
<th>1996</th>
<th>2000</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of banks</td>
<td>Total Assets (Trillion Rupiahs)</td>
<td>%</td>
</tr>
<tr>
<td>State banks</td>
<td>7</td>
<td>141</td>
<td>36.4</td>
</tr>
<tr>
<td>Regional development banks</td>
<td>27</td>
<td>11</td>
<td>2.8</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>164</td>
<td>201</td>
<td>51.7</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>41</td>
<td>36</td>
<td>9.2</td>
</tr>
<tr>
<td>Total</td>
<td>239</td>
<td>389</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank Indonesia, Indonesian Financial Statistics
3.2 Asset Restructuring - A Case Study of IBRA

- PT Indonesia Risk & Business Advisory (IBRA) was established by the Government of Indonesia in January 1998 (supported by the IMF) in response to the banking and economic crisis.

- Significant progress made with the involvement of IBRA:
  - A stabilization of the country's GDP growth and inflation: Increase in annual GDP growth (but low investment flow until 2003)
  - Change in banking indicators:
    - The ratio of capital to total assets turned positive by 2000
    - Decrease in NPL ratio to normal in 2002
    - Market risk remained high as to compensate off the decrease of inflation rate (government intention)

- Following the Revision of Central Bank Law, IBRA was dissolved in 2004
3.3 Foreign Banks Played a Stabilizing Role in the Crisis

- Strengthened capacity for weaker banks through M&A
- Take over and resolve the non-performing loans pool from SOCBs and private banks
- New technology and risk management techniques
- Enhanced competition in retails and SME banking
- Encouraged digitalization of financial services to overcome geographical challenges, reducing transaction costs
- Significant deposits transferred from local private banks into foreign banks (Loans to deposit ratio among local private banks declined from 85% in 1998 to 36% in 1999).
4. THE EVIDENCE
 IMPACT OF FOREIGN OWNERSHIP CHANGES ON FINANCIAL SYSTEMS
4.1 Foreign Investors Help Across Multiple Dimensions

**Role of Foreign Banks in Investment and Management**
- Create competitive pressures leading to improvement in banking system efficiency
- Contribute to a more stable banking system with medium-term strategy of expansion of market share

**Role of Private Equity Funds for Non-performing Loan Resolution**
- Command a better position to take higher risk for higher returns
- Introduce expertise, advanced management techniques and finance to takeover distressed assets, which other finance companies are unable to provide
- In Spain, it has been common for banks to carve out pools of NPLs along with their servicing units, selling them to private equity funds. These transactions allow banks to deleverage their balance sheet and shed the costs.
- Selling NPLs enable banks to concentrate on developing new business and thus increasing earnings
4.2 NPL Resolution Policy Options

- Not mutually exclusive, can be mixed and matched

- **Establish government owned AMCs** - Korea (KAMCO), Indonesia (IBRA), etc.
  - Consolidation of problem debts and debtors into one place, with special powers, enables more efficient real sector restructuring than multi-creditor negotiations
  - Aids resolution of multiple insolvent and nonviable financial institutions
  - Helpful in restructuring multiple distressed but viable financial institutions
  - Useful in full or partial privatisation of distressed government-owned banks

- **Insolvency reforms** and resolution framework - new bankruptcy laws, changes in tax codes for loss recognition and write-off,

- **Financial sector restructuring** and bailout - “Bad Banks”, “forced mergers” - case by case

- **Macroprudential tightening**, including loan classification and provisioning stringency, increased capital and liquidity requirements, new minimum capital size requirements all aimed at forcing “voluntary” consolidation
### Impacts Knock-on Effects

<table>
<thead>
<tr>
<th>Impacts</th>
<th>Knock-on Effects</th>
</tr>
</thead>
</table>
| **1. Increase in Foreign Direct and Portfolio Investments** | • Increase capital inflows, company valuation and market share  
• Increase transparency, disclosure and confidence improvement  
• Upgrade market status (FM to EM) |
| **2. Broaden and Deepen Capital markets** | • Increase diversified equity and debt markets with new instruments  
• Diversify investment from banks and deposit fundings  
• Increase availability and deployment of long-term funding |
| **3. Reduce dependency on local bank lending** | • Reduce maturity mismatch of bank assets and liabilities  
• Improve financial inclusion and reduce bank credit risk and systemic risks  
• Improve financial disclosure and financial discipline |
| **4. Import and Deploy Skills and Technologies** | • Increase competition and productivity and improve stability  
• Raising skills and technology in local market |
| **5. Improve risk management** | • Reduce NPLs, FX and interest rate gap losses and risks  
• Reduce earning volatility and dampen boom and burst cycle |
| **6. Attract additional investors from global customers** | • Bring in global business relationship and insight at lower cost  
• Deepen and stabilise the local supply chain relationship, increase imports and exports |
| **7. Link the local economy to the Global economy** | • Economic integration with higher rates of technology transfer, greater access to capital and higher growth |
5. WHAT TO LOOK OUT FOR

THE ROLE OF GOVERNMENTS AND INVESTORS
## 5.1 Potential Challenges From Increased Foreign Ownership

<table>
<thead>
<tr>
<th>Potential Challenges</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflationary pressures arising from rapidly increased lending</td>
<td>Enhanced regulatory requirements for reserves, loan to deposit ratio, interbank borrowings</td>
</tr>
<tr>
<td>Reduced enthusiasm for lending to government preferred sectors</td>
<td>Incentives to lend including lower capital requirements for specific types of loans</td>
</tr>
<tr>
<td>Foreign directors propose strategies that serve shareholder interests at expense of the public good</td>
<td>All directors required to make decisions based on the interest of the bank rather than individual owners</td>
</tr>
<tr>
<td>Increased foreign currency lending</td>
<td>Limits imposed on volume of foreign currency loans</td>
</tr>
<tr>
<td>Introduction of products which domestic banks are incapable of replicating</td>
<td>Limits placed on volume of new products while domestic banks acquire product expertise</td>
</tr>
<tr>
<td>Replication of foreign market products for which domestic banks do not recognize related risks</td>
<td>Regulatory approval required for individual banks prior to initiating new products</td>
</tr>
</tbody>
</table>

- Regulators possess overriding tools ranging from reduced lending limits, suspension of rights to open new branches or introduce new products, terminate business lines, limit access to the interbank market or central bank discount window.
- More severe requirements can include appointment of a third-party monitor, removal of managers or directors who are deemed not ‘fit and proper’, require partial divestment or revoke the bank license.
- During the initial approval process the regulator can judge the likelihood of non-compliance and establish clear parameters of business.
5.1 Managing Regulations to Attract Money and Capabilities

- Government has a Role in Assuring Risk Containment and Investment Return
  - Property rights
  - Legal environment (Regulatory requirement and regulatory reporting)
  - Transfer and Convertibility Risks
  - Management control
  - Investor protections
  - Supervision processes
5.2 Bringing in Reputable Foreign Investors

- Focus on a strategic investor with substantial commercial banking functions.

**Primary requirements for a successful strategic investor include:**
- Good international track records
- Experience in the host country
- Commitment to long-term ownership
- Commitment to future sustainable capital investment
- High-quality staff
- Regular review of progress and update of strategy
- Ongoing technical assistance with training and seminars

**Avoid consideration of non-traditional financial institutions which:**
- Lack experience in managing commercial banking,
- May not be able to continue capital injections commensurate with asset growth, and
- Do not have overseas subsidiaries such as hedge funds or investment funds
- Have purely financial investors with short-term profit goals have had problems (e.g., Mexico)
## 5.3 Foreign Ownership among Top Banks in Indonesia

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Ownership</th>
<th>Country of Origin</th>
<th>% Ownership</th>
<th>% market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank CIMB - Niaga</td>
<td>CIMB Group Sdn Bhd, Malaysia</td>
<td>Malaysia</td>
<td>96.92%</td>
<td>4.61%</td>
</tr>
<tr>
<td>2</td>
<td>Bank Danamon Indonesia</td>
<td>DBS Group Holdings Ltd</td>
<td>Singapore</td>
<td>67.37%</td>
<td>3.92%</td>
</tr>
<tr>
<td>3</td>
<td>Bank Panin</td>
<td>ANZ Bank Group</td>
<td>Australia</td>
<td>39%</td>
<td>3.29%</td>
</tr>
<tr>
<td>4</td>
<td>Bank Permata</td>
<td>Standard Chartered Bank</td>
<td>United Kingdom</td>
<td>44.505%</td>
<td>2.84%</td>
</tr>
<tr>
<td>5</td>
<td>Bank Internasional Indonesia</td>
<td>Maybank, Malaysia</td>
<td>Malaysia</td>
<td>100%</td>
<td>2.62%</td>
</tr>
<tr>
<td>6</td>
<td>Bank OCBC-NISP</td>
<td>OCBC</td>
<td>Singapore</td>
<td>75%</td>
<td>1.77%</td>
</tr>
</tbody>
</table>
## 5.3 Foreign Ownership among Top Banks in Mexico

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Ownership</th>
<th>Country of Origin</th>
<th>% Ownership</th>
<th>% market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Citibank-Banamex</td>
<td>Citigroup</td>
<td>USA</td>
<td>100%</td>
<td>26%</td>
</tr>
<tr>
<td>2</td>
<td>BBVA-Bancomer</td>
<td>Banco Bilbao Vizcaya Argentaria</td>
<td>Spain</td>
<td>51%</td>
<td>26%</td>
</tr>
<tr>
<td>3</td>
<td>Serfin-Santander</td>
<td>Banco Santander Bank of America (24%)</td>
<td>Spain</td>
<td>74.97%</td>
<td>15%</td>
</tr>
<tr>
<td>4</td>
<td>Bital</td>
<td>HSBC Holdings</td>
<td>United Kingdom</td>
<td>100%</td>
<td>8%</td>
</tr>
<tr>
<td>5</td>
<td>Scotiabank Inverlat</td>
<td>Bank of Nova Scotia</td>
<td>Canada</td>
<td>97%</td>
<td>4%</td>
</tr>
</tbody>
</table>
## 5.3 Foreign Ownership among Top Banks in Poland

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Ownership</th>
<th>Country of Origin</th>
<th>% Ownership</th>
<th>% market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Santander Bank Polska</td>
<td>Santander Group</td>
<td>Spain</td>
<td>67.41%</td>
<td>16%</td>
</tr>
<tr>
<td>2</td>
<td>ING Bank Slaski</td>
<td>ING Group</td>
<td>Netherlands</td>
<td>75%</td>
<td>4.5%</td>
</tr>
<tr>
<td>3</td>
<td>BPH-BPK</td>
<td>Bayerische Hypovereinsbank</td>
<td>Germany</td>
<td>71.7%</td>
<td>10%</td>
</tr>
<tr>
<td>4</td>
<td>Bank Handlowy</td>
<td>Citibank</td>
<td>United Kingdom</td>
<td>91.4%</td>
<td>4.9%</td>
</tr>
<tr>
<td>5</td>
<td>BIG Bank Gdanski</td>
<td>Banco Comercial Portugues (44.1%)</td>
<td>Portugal</td>
<td>59.1%</td>
<td>4.2%</td>
</tr>
<tr>
<td>6</td>
<td>BRE SA</td>
<td>Commerzbank</td>
<td>Germany</td>
<td>50%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
### 5.3 Empirical Evidence

<table>
<thead>
<tr>
<th>Empirical Findings</th>
<th>Authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI improves allocative efficiency, including efficiency of domestic banks</td>
<td>Bonin, Hasan and Wachtel, 2005; Fries and Taci, 2005; Grigorian and Manole, 2006; Havrylchyk and Jurzyk, 2011</td>
</tr>
<tr>
<td>Accelerates technology transfer as foreign investors bring new products and processes</td>
<td>Demirgüç-Kunt and Huizinga, 1999; Micco et al., 2007, Claessens et al., 2001; Claessens and Van Horen, 2012</td>
</tr>
<tr>
<td>Improves regulation and supervision in host country institutional reform as foreign investors bring best practices</td>
<td>Barth et al., 2001; La Porta et al., 2002; Barth et al., 2004</td>
</tr>
</tbody>
</table>
5.4 Thailand: Changes in FOL Throughout the Years

LIBERALISATION OF FOREIGN OWNERSHIP

Weak Financial Sector

- MID-1980s
  - FOL: 25%
  - 12/15 commercial banks are family-owned
  - (54.3% total assets)
  - FDI in banking sectors: 3%

- PRE-CRISIS
  - FOL: 49%

1997 Asian Financial Crisis

- 1997
  - FOL: 100%
  - 4 banks sold to foreign companies
  - 38% banking shares held by foreign banks

- 1999
  - 56 finance companies closed, 6 banks were nationalised
  - NPLs reached 50%
  - FDI in banking sectors: 16% (1998)

- 2002

- 2007-NOW
  - FOL: 25% (Without Approval)
  - FOL: <49% (BOT approval)
  - FOL: >49% (MoF Approval)

IFC
Creating Markets, Creating Opportunities
5.5 Concluding Remarks

- Foreign Investment into the Financial System brings many benefits:
  - Capital
  - Technology and new products and services
  - Skills and know-how - that stays in the local financial system
  - Diversified shareholders and customers - that further increase investment

- Even in countries with no foreign ownership limits and with foreign banks holding a large domestic market share (Mexico, New Zealand, Poland), domestic governments maintain complete control over their financial systems.

- It is always important to ensure that foreign investors participating in the financial system are highly reputable, well managed, and investing for the longer term.

- In rare cases, some foreign owned banks introduced products that were inappropriate for local markets (e.g., foreign currency mortgages).
THANK YOU
1. Financial Distress Historically, 1900-2010

Source: Reinhart and Rogoff (2013)
## 2. FOL in G20 Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Foreign Ownership Limits</th>
</tr>
</thead>
</table>
| Indonesia     | • 99% FOL in an Indonesia bank  
• Note: certain ownership limits apply to a single shareholder: 40% for a shareholder in the form of a bank or financial institution, 30% for a non-financial institution shareholder and 20% for an individual shareholder |
| India         | • 74% for Banking- Private Sector (Automatic route: up to 49%; Government route: 49% to 74%).  
• 20% under Government Route for Banking- Public Sector.                                                                                                       |
| Mexico        | • For Development Banks: only Mexican government and Nationals can carry out.                                                                                                                                             |
| Russia        | • Acquisition of equity in a Russian bank over certain specified thresholds, or control over a shareholder holding over 10% in a Russian bank, is subject to prior consent by the CBR.  
• Foreign banks are allowed to establish subsidiaries, but not branches, within Russia and must register as a Russian business entity. |
| Saudi Arabia  | • There will be no minimum or maximum ownership limit, although the owners must hold the shares for two years before they can sell and the shareholder must be engaged in, “promoting the financial or operational performance of the company.”  
• Note: Foreign entities practicing accounting and auditing, architecture, or civil planning, or providing healthcare, dental, or veterinary services, must still have a Saudi partner. |
| South Korea   | • Financial authorities approval is needed to establish a foreign bank’s branch/agency.  
• A foreign person or entity is also subject to 10% shareholding limit (article 15 of the banking act), which does not apply to foreign financial companies, and there are also some other exemptions. |
2. Countries with lifted FOL in ASEAN and G20

CAMBODIA: 2003 Amended Law on Investment and related sub-decrees, removed limits regardless shareholder nationality or discrimination against foreign investors except in relation to investments in property or state-owned enterprises.

SINGAPORE: 40% FOL removed to practice "controlled shift toward greater competition."

LAO PDR: Foreigners may invest in any sector or business except in some cases regarding national security, health, or national traditions, or that have a negative impact on the natural environment.

AUSTRALIA: Liberalization started in the early 80s when new foreign banking businesses and foreign taking overs of existing banks were not permitted.

FRANCE: With a few exceptions, no FOLs applied but use a national security review mechanism to screen high-risk investments.

TURKEY: Deregulation started in 1980s, but Foreign Direct Investment Law No. 4875 (2003) established that foreign investors are treated on equal terms with domestic investors.

UK: Overall banking deregulation in 1980s followed by EU single market program (to ensure becoming a global financial hub) with increasing modernization.

USA: No FOL Limit, but subject to review by Federal Reserve Board (FRB)/state regulators.

JAPAN: Direct inward investment into Japan by foreign investors has been open and free since the Foreign Exchange and Foreign Trade Act (the Forex Act) was amended in 1998. In general, the only requirement for foreign investors making investments in Japan is to submit an ex-post facto report to the relevant ministries.

ITALIA: Italy is bound by the European Union’s treaties and laws. Banks, financial intermediaries and insurance companies are those subject to specific access formalities and supervision by national and EU authorities due to its nature of economic interests involved.

GERMANY: a very open economy with a well-developed financial sector, Germany welcomes foreign portfolio investment and has an effective regulatory system.

CHINA: Entry into the Chinese market is regulated by the country’s “negative list” since 2018. Before 2017, foreign investors were not allowed to controlling interest in Domestic Banks (max 20% for individual investors and 25% for affiliate investors). Bank ownership caps, 51% limit on asset management funds, insurance companies etc., reduced to zero under the revised version of China’s 2019 Foreign Investment Law which enables China to welcome foreign ownership in domestic banks.

BRUNEI: 2003 Amended Law removed limits regardless shareholder nationality or against foreign investors except in property or state-owned enterprises.

ARGENTINA: Restrictions on the entry of foreign banks and on the opening of new branches of domestic banks were removed since 90s. Domestic private banks reacted positively to foreign bank penetration.

SOUTH AFRICA: No FOL applied but Government Approval is necessary as the Bank Act 94 of 1990 prohibits any person (local or foreign) from holding more than 15% of the shares or voting rights in a bank (or its controlling company) without having obtained the necessary consent.

BRAZIL: Since 2019, the decree issued requiring president approval is no longer required. Domestic private banks reacted positively to foreign bank penetration.

CANADA: Liberalization of foreign ownership/banks started in the 80s. In 1999, the federal government allowed foreign-owned banks to establish full-service branches, rather than restricting them to forming subsidiary companies as in the past.

USA: No FOL Limit, but subject to review by Federal Reserve Board (FRB)/state regulators.

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4. Case study: Indonesia

- Texas Pacific Group (TPG) - US PE firm and Indonesian joint-venture partner Northstar Pacific (local investment bank) took control of unlisted PT Bank Tabungan Pensiunan Nasional (BTPN) with 71.6% for $195 millions (2008)
- BTPN collapsed after 1997-98 Asian financial crisis, Indonesian government took 47% stake in it
- TPG with 15 years of experience investing in financial services companies, TPG helped BTPN open more than 550 new branches and grow bank’s customer base to more than 2 million group lending program clients and 250,000 MSMEs.
- In 2013, TPG Capital sold 40% stake in BTPN to Japan’s Sumitomo Corp for $1.5 billion
Figure 2. FDI Inflows among ASEAN-5 (Source: World Bank Database)
4. Case Study: Mexico

• In 1982, commercial banks were nationalised in the context of major macroeconomic crisis. They acquired 58 out of 60 banks.

• The mid-1990s financial crisis in Mexico resulted in a huge banking crisis
  • Foreign investors paid a premium price to acquire distressed banks in Mexico
  • They want to recover the investment so it was prone to risky business
  • Investors who bought the banks had no previous experience of banking
  • NPLs surged leading to the government bailout

• In 1997, Mexico’s banking laws were amended to privatise large banks and allowing foreign firms for the first time since the 1880s, to own banks without restriction (irreversible until now)
4. Case Study: Eastern Europe

- In early 1990s, all CEECs were exposed to both domestic and external shocks that could not be accommodated by existing economic system.

- These shocks resulted in a deep decline in output and further deterioration of financial position of SOEs.

- Bad loans clean up turns out to be awkward, a delay in restructuring increased costs and require a stronger response.

- Privatisation of banks was accompanied by further government bailout. The ratio of new NPLs had increased in SOBs after consolidation due to unimproved corporate governance, too big to fail issue and lack of transparency about no future interventions by the government.

FDI in Vietnam since Doi Moi

Number of projects
Implementation capital (Mill. USD)

2007: WTO Accession

Total capital (US$m)
No of projects

[Graph showing FDI inflows with key milestones and years]
4. FDI inflows and GDP growth (I/III)

[Graphs showing FDI inflows and GDP growth for Thailand and Malaysia from 1994 to 2012]

- Thailand Foreign direct investment, net inflows (% of GDP)
- Thailand GDP growth (annual %)
- Malaysia Foreign direct investment, net inflows (% of GDP)
- Malaysia GDP growth (annual %)
4. FDI inflows and GDP growth (II/III)

Asian Financial Crisis 1997

- Thailand Foreign direct investment, net inflows (BoP, current US$)
- Philippines Foreign direct investment, net inflows (BoP, current US$)
- Thailand GDP growth (annual %)
- Philippines GDP growth (annual %)
4. FDI inflows and GDP growth (III/III)

Global Great Recession 2008

[Graph showing GDP growth and FDI net inflows for the Philippines and Vietnam from 2005 to 2019, with a focus on the Global Great Recession in 2008.]
5. Vietnam’s stock market Reclassification

- According to MSCI, Vietnam is currently in the Frontier Markets category and is expected to move closer to Emerging Markets status when assessed against its market classification criteria.

- Vietnam has been on the Secondary Emerging Market watchlist by FTSE Russell since 2018

- Upgrading to Emerging Market by MSCI requires improvements in three key areas:
  1) Foreign ownership limitation or, at least, foreign room levels
  2) Clearing and settlement
  3) Equal rights to foreign investors and information flow

- Upgrading to Secondary EM by FTSE Russell requires improvement in one key area:
  1) Removing the pre-funding of trade requirements
5. Use of Management Contracts

“Management control is more important to most foreign investors than 100% ownership”

a. Management Contracts can be used to bridge control issues that are important to foreign investors while maintaining lower ownership.

i. Case Study: Poland

- 1991: Poland government undertook to corporatize the banks and all new banks had been transformed into joint stock companies 100% owned by Ministry of Finance
- Weaknesses: lack of autonomy, small branch networks, limited product range, lack of banking skills, inadequate financial structure
- World Bank suggested to pursue twinning arrangements between foreign banks and newly created Polish banks
5. Twinning Arrangements: Case Study in Poland

• Perform broader scope of services than under more defined TA schemes and the duration is much longer (2-3 years)

• Use experience to deal with operational problems, that might happen with counterparts at earlier stage of development

• Tap into reservoir of ready-made systems, products, procedures, can use operational experience and in-house resources (i.e. international accounting firms)

• More flexibly adjust its staffing to the absorptive capability of the counterpart. Staffs from foreign partner are available for back-stopping and follow-up on implementation of recommendations, ensuring the assistance is productive

• Counterpart can access to commercial services offered by the foreign twinning partner more easily (banking relationship, co-financing or guarantess for attractive, large lending operations)
5. Foreign Banks’ Internal Decision-Making

- Will the investment achieve our shareholder return requirements, fit within our risk appetite and diversify our global risk profile?
- Do state-owned institutions enjoy implicit or explicit subsidies that distort markets, undercutting the private sector and raising risk?
- Are regulations and regulatory enforcement exercised on a level playing field for foreign investors and owners?
- How do we ensure we can exercise sufficient influence to achieve our objectives and protect the value of our investment?
- Will volatility in the local market cause volatility in earnings that pressure our global share price?
- Can we recruit staff - domestic and foreign - required to manage our local operations?
- Are shareholder rights respected and can we exit this investment without undue regulatory interference?
- Is there a history of nationalization, or transfer and convertibility issues, that might work against us at some point?
5. Stylized Financial Sector Map

**Government**
- **Legislature**
  - Laws
  - Taxes
  - Bankruptcy code
- **Central Bank**
  - Monetary, FX Policy
  - Reserves, “lender of last resort”
  - FI Regulations and Supervision
- **Deposit Insurance Co.**
  - Insurance administration
  - Supervision
  - Bank Resolution
- **MOF**
  - Fiscal policy, tax collection, Government debt Mgt, bond issuance, yield curve management
- **Securities Regulator**
  - Listing/reporting requirements
  - Investor Protection
- **Insurance Regulator**
  - Insurance Regulations
  - Investment restrictions
- **Courts**
  - Case Judgements
  - Penalties
- **Law Enforcement**
  - Investigations
  - Enforcement

**SOE Roles in Resolution**
- **State Banks and SOFIs:**
  - State directed credit allocation
  - Maintain market discipline
- **Asset Resolution Co Manage:**
  - Remove problem assets from banks
  - Auction distressed asset pools to private sector
  - Manage selected assets
  - Pursue legal remedies in courts
- **Land Registries, Collateral Registries Manage:**
  - Collateral tracking
  - Realization process related to problem asset resolution and ownership transfer
  - Enforce title claims/repossess assets
- **State Insurance and Pension Cos**
  - Guarantee pensions of failed companies
  - Manage State contractual savings pools
  - Manage investments in distressed assets, real estate, stocks and bonds

**Private Sector FI Functions**
- **Good Local Commercial Banks & FIs**
  - Continue financial intermediation
  - Lend to good borrowers
  - Lead innovation
  - Continue to make payments
- **Good Foreign Banks**
  - Invest/restructure problem FIs
  - Bring in technology and know-how
- **Foreign and domestic Private equity**
  - Invest in pools of distressed debt
  - Invest in and restructure companies
  - Bring in technology and know-how
- **Securities Cos Manage:**
  - Listing process – stocks, bonds, asset pools (NPL’s securitizations)
  - Securities sales and purchases
  - Liquidity and derivatives
- **Insurance and Pensions Manage:**
  - Contractual savings inflows and policy payouts
  - Investments