

INTERVIEW - Latvia Re-emerges as Off-shore Private Banking Hub for CIS Countries

By Denitsa Koseva

Latvia is winning back the confidence of private banking clients from the Commonwealth of Independent States (CIS) countries, after it stabilised its economy and lowered the budget deficit, a senior official from Latvian state-owned Citadele bank said.

"We will probably see an increase in the number of banks operating in Latvia because the country regained its status of an offshore private banking centre for CIS clients," Robert Idelson, Senior Vice President responsible for Private Capital Management Division, told ADPnews in an interview on the sidelines of the 4th Annual CEE Private Banking conference organised by Jacob Fleming Conferences.

He added that many CIS-registered banks want to be present or have a subsidiary in Latvia, and private investors from these countries are willing to have small-size banks there.

Idelson projected that due to this strong interest Latvia will not face consolidation of banks.

"In Latvia we do not see any changes in the landscape," Idelson said. "There is no point in consolidation. Many of the top banks are owned by international ones. Of course, if there is consolidation on a parent company level, this will affect all their units."

The local private banks that are focused on servicing Russian and CIS money are not expected to merge, either, he added.

"Most of them service a small number of customers which are usually very attached to the owners of the banks," Idelson said.

There are 21 commercial banks in Latvia, which has a population of 2.2 million.

BIG REVENUE UNLIKELY

The banking industry in Latvia will not return to the big revenues that it registered before the crisis, Idelson said.

"Banks will have to rely on fewer revenues and in order to increase them they will have to improve quality. That's why I think the industry as a whole will have much lower growth rates."

However, the few banks that manage to cope better with the new challenges have very good prospects.

"Their growth will be in two-digit numbers," Idelson said.

He added that the most important lesson the industry has learnt from the crisis is to think about the distant future and be more cautious.



"We have to think longer term and therefore be more cautious, both in terms of approach and managing clients' money, not overpromise, also be more cautious in placing money in banks' own accounts."

Citadele bank is a good example of the effect of the crisis on Latvia's banking system.

The bank, a successor of the privately-held Parex bank, was among the largest in Latvia before the crisis but faced liquidity problems and had to be taken over by the government in order to survive. Following a series of measures and a serious restructuring, it stabilised and started gradually to gain back its clients' trust.

Parex's state bailout in November 2008 was one of the reasons why Latvia had to take an International Monetary Fund (IMF) and European Union (EU) 7.5 billion euro (\$10.5 billion) rescue package in 2009.

"Our bank is a good story to tell," Idelson said.

After the bank was taken by the state, its new management restructured its internal organisation, cutting costs by around 50% through layoffs and elimination of unnecessary processes.

"We made the structure much simpler because before the crisis we used to have number of departments with similar functions."

In September the bank got EU regulatory approval for its plan to split up its sound assets into a new bank as part of a restructuring to ensure its viability.

After the restructuring Citadele focuses on its core business in the Baltic countries. It plans to return to profitability in 2011.

The bank is now preparing for privatisation in 2014.

"The government has the commitment to sell the bank in 2014," Idelson said.

Parex Banka was the second-largest in Latvia. Citadele has a 10% market share in terms of deposits and around 8.0% in terms of assets.

(\$ = 0.7155 euro)