



CARIBBEAN ACTUARIAL ASSOCIATION



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# **2013 Conference**

## **“Risk, Recovery & Real Growth”**

23rd Annual CAA Conference

Secrets Wild Orchid Montego  
Bay, Jamaica.

4<sup>th</sup> to 6<sup>th</sup> December 2013



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# CLICO – A Case Study

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Milliman LLP

**Friday 6 December 2013**

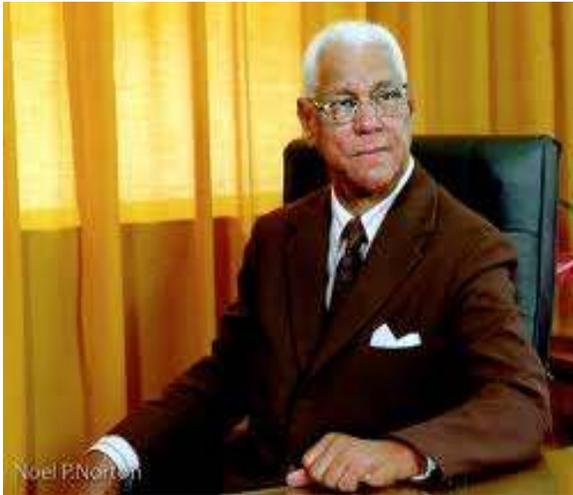
# My sources of information include ...

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- My recollections of the work done for Colonial Life Trinidad by R Watson & Sons, including in my role as Appointed Actuary to Colonial Life Trinidad from 1993 to 2001
- Information from the following:
  - The web site [www.clfhcuenquiry.org/](http://www.clfhcuenquiry.org/), which contains some evidence considered by the Commission of Enquiry into the failure of CL Financial Limited et al and the Hindu Credit Union Society Cooperative Limited.
  - The web site [www.clicobs.com/](http://www.clicobs.com/), which provides copies of the reports of the Official Liquidator of CLICO (Bahamas) Limited, CLICO Enterprises Limited and Wellington Preserve Limited.



# The early years



Cyril Duprey

*“Give a man value, give a man service and he will support you.”*



Cyril Monsanto



# 1988 onwards: new management team



Lawrence Duprey



Andre Monteil

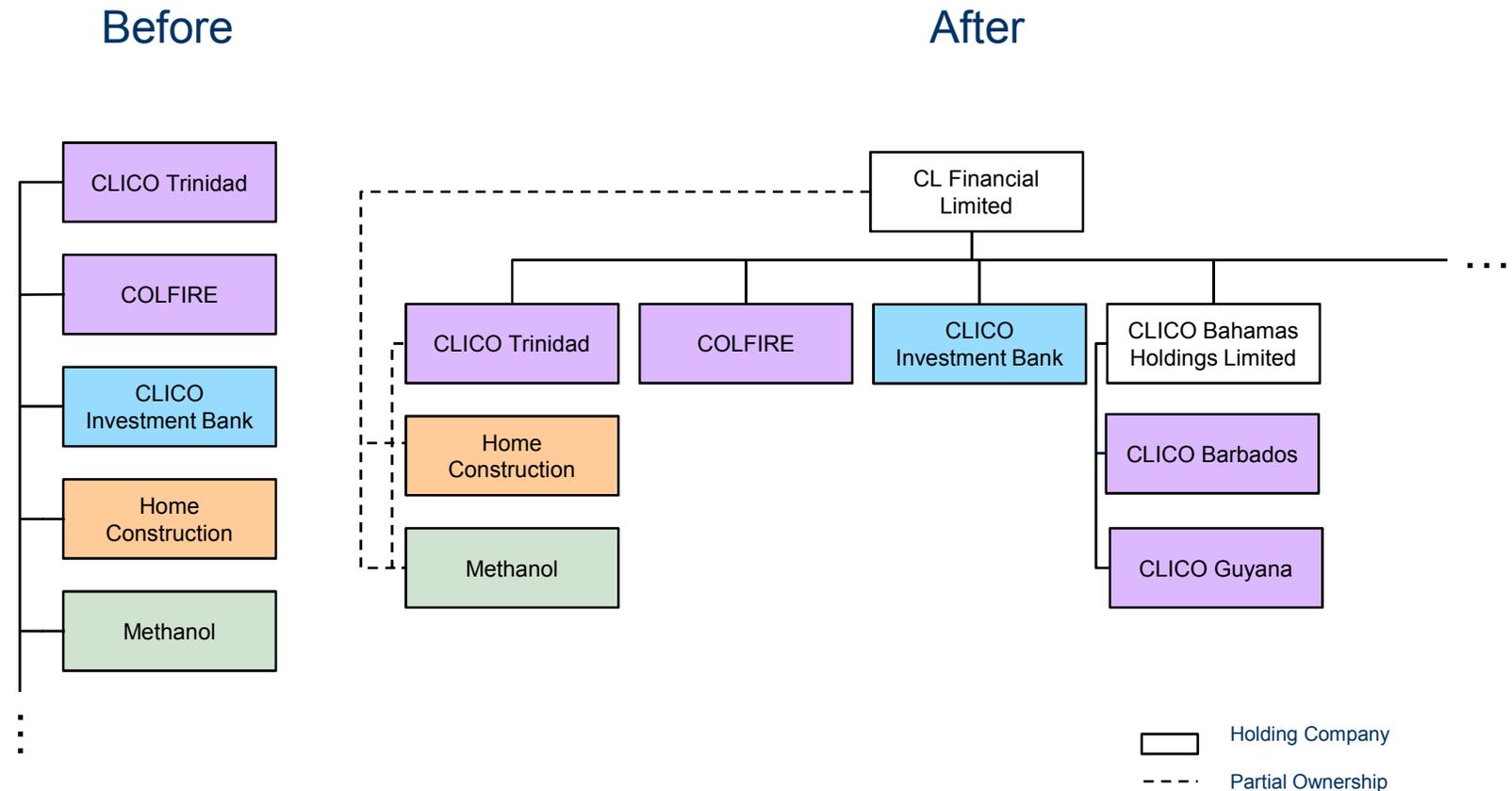


Claude Musaib-Ali

# CLICO invests ...



# Broad illustration of the restructuring of CLICO Trinidad in the 1990s



# EFPA – the “too good to be true” product

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- Executive Flexible Premium Annuity
- Guaranteed interest rate for a term selected by policyholder, not exceeding 5 years, provided held to the end of the guaranteed period
- Effectively a fixed rate term deposit, in direct competition with banks
- Interest rates became more attractive as need for cash to fund investments increased



# Position of CLICO Trinidad at the end of 1999

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- Very low yield on assets
- High expense levels
- Crediting interest rates to policyholders in excess of investment returns earned on investments
- An extreme mis-matching of assets (real estate, methanol and other long term assets) and liabilities (EFPAs) and a high risk of insolvency
- A deficit in the statutory fund
- Accounts had to be resubmitted



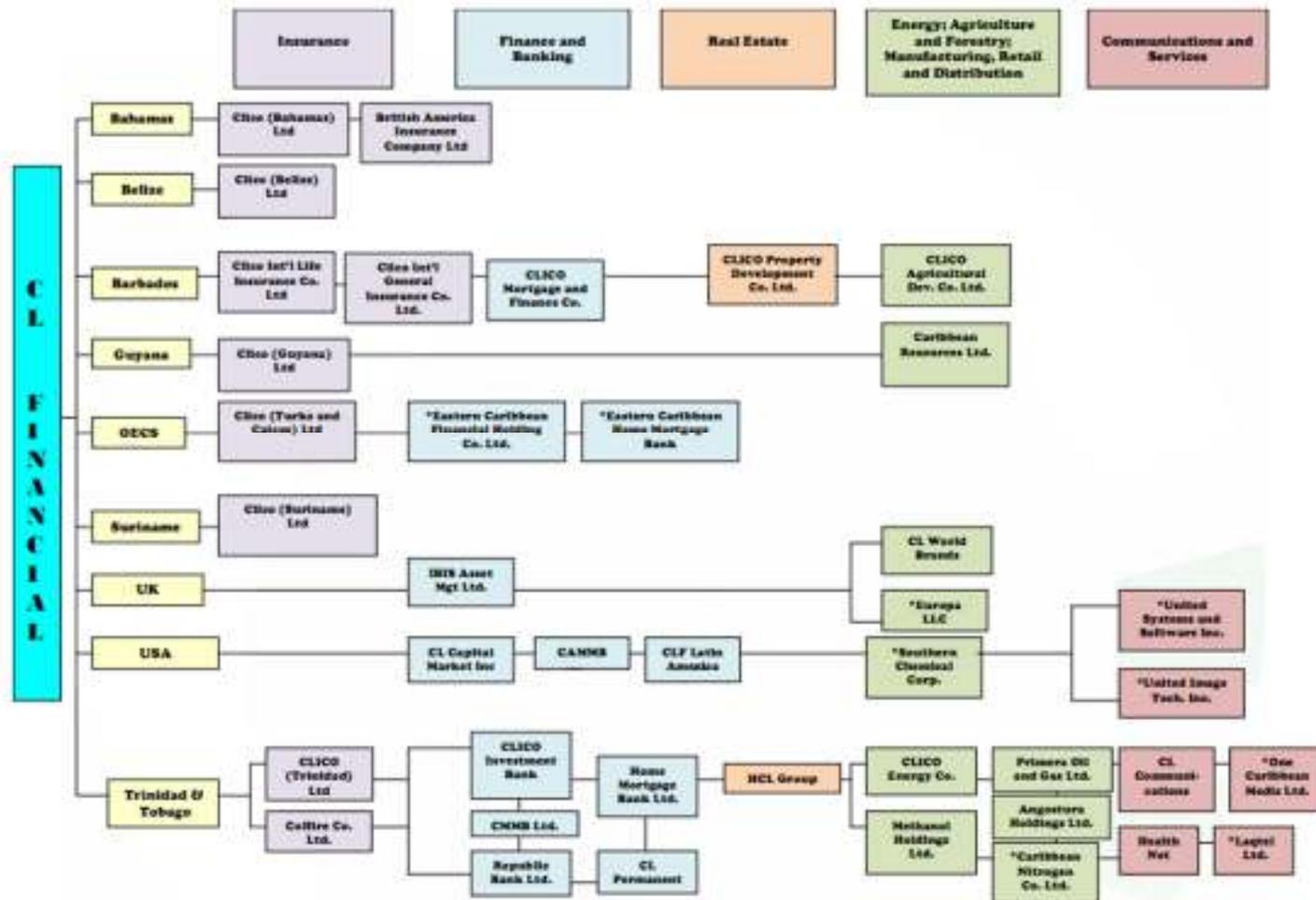
# A change of Appointed Actuary

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- Mr Gene Dziadyk of Buck Consultants, Canada appointed as actuary in February 2001
- He became CEO of CLICO Trinidad and British American in 2002; another actuary from Buck became appointed actuary
- Dziadyk replaced as CEO by Claudius Dacon, previously CEO at British Fidelity in Nassau, later that year; he became an actuarial consultant to CLICO Trinidad instead and remained a director of the company



# The CL Financial Group in 2007



Source: 2007 Annual Report of CL Financial Limited



# CLICO Bahamas

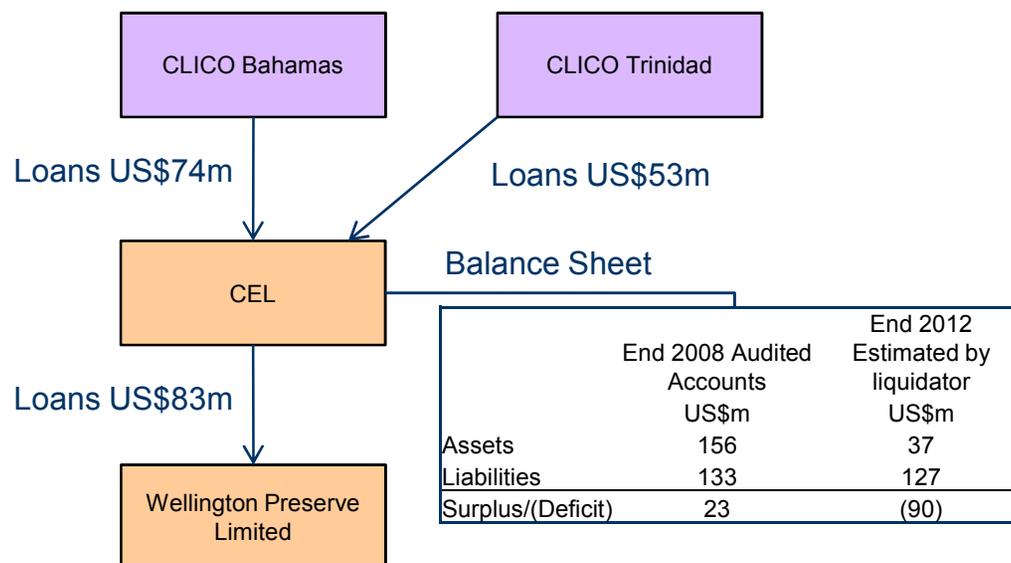


■ Loan to CEL (\$73m)      ■ interco balances (\$18m)  
■ loans to policyholders (\$6m)      ■ bonds (\$5 m)

- EFPA business represented 77% (US\$95 million) of total liabilities at the end of 2008: 99% of liabilities for the Turks & Caicos Islands, 57% of liabilities for the Bahamas and 50% of liabilities for Belize
- An inability to meet US\$2.6 million of claims in the Turks & Caicos Islands resulted in it being put into liquidation in 2009
- The liquidator has also received claims from CLICO Guyana (US\$34 m - 53% of CLICO Guyana's assets) and CLICO Suriname (US\$19 m) relating to annuity premiums apparently transferred to accounts in the name of CLICO Bahamas
- Loans to a subsidiary (CEL) and intra-group balances represented some 74% of its assets at the end of 2008



# CLICO Enterprises Limited (CEL)



- Loans to CEL of the following amounts were guaranteed by CL Financial:
  - US\$80 million from CLICO Bahamas;
  - US\$53 million to CLICO Trinidad.



# CLICO Barbados (1)

*“In overview, the activity of this inter-company account with CHBL [the holding company of CLICO Barbados] is indicative of CIL [CLICO Barbados] acting as CHBL’s banker. **The pattern of transactions on the account reflects a consistent net outflow of funds from CIL to CHBL to finance CHBL’s investment activities and operating expenses. Given that approximately one third of the current outstanding balance represents interest receivable from CHBL, this suggest that returns were not earned on those investments on a regular basis such that interest and principal amounts payable by CHBL could be paid to CIL.** That said, the nature of the investments made by CHBL appear to have been long-term (e.g. real-estate) and any gains and losses on those investments would be unrealized until such time as they were sold in whole or in part.”*

*Source: Executive Summary of the “Deloitte Forensic Audit of CLICO International Life Insurance Ltd. (under Judicial Management): Report as of 5 December, 2011” (the words shown in bold are not shown in this way in the original).*



## CLICO Barbados (2)

- *“Significant advances ([US\$14 million]) were made by CIL [CLICO Barbados] to CHBL [its holding company] in respect of operating expenses rather than to finance assets or investments. These included fees relating to the leasing and operation of a corporate jet, payroll costs, legal fees as well as bonuses ... **the Board minutes do not suggest specific Board approval in advance of the significant expenses.**”*
- *“The Board Minutes of CIL and CHBL show that Directors were advised of several significant transactions by CHBL and its subsidiaries that were financed by CIL. In certain cases ... the wording of the Minutes suggests that **the Board was informed of transactions only after CIL or CHBL was committed to them by Executive Management.** In other cases, the extent to which the Board was consulted and provided its input and approval **before concluding transactions, if at all, is not made clear from the Minutes. ...**”*



Source: Executive Summary of the “Deloitte Forensic Audit of CLICO International Life Insurance Ltd. (under Judicial Management): Report as of 5 December, 2011” (the words shown in bold are not shown in this way in the original).

# Lascelles de Mercado - a rum deal



- Described as ‘the straw that broke the camel’s back’.
- Michael Carballo said:
  - Significant available resources of CIB, CLICO Trinidad, CL Financial and Angostura Holdings Limited were used to make up the US\$654 million paid for 86% of the Lascelles de Mercado Group.
  - *“This placed significant strain on Group resources.”*
  - Existing management were left in place. *“The Lascelles top management placed great resistance on [our] strategies and sought various legal advice from Jamaican Counsel to prevent CLF from adopting these methods for CLF debt reduction. This therefore placed CLF in a hold position until we were able to come up with further strategies in the medium-term.”*



# Mr Duprey

## CLICO collapse caused by World recession - Duprey



**PORT-OF-SPAIN, Trinidad, Friday May 17, 2013** – Former chairman of the financially troubled CL Financial group, Lawrence Duprey, has blamed the world recession and not mismanagement for the collapse of the Colonial Life Insurance Company (CLICO), the flag ship company of the group.

# A few extracts from Michael Carballo's witness statement (1)

- *“CLICO and [CLICO Investment Bank] were invariably used as funding agents for the Group ... These two institutions were used to finalize acquisitions in excess of any third party debt funding that was raised. There was huge inter-company borrowing taking place throughout the Group.”*
- *“The short term working capital funding [of Group companies] was provided by CLICO very loosely, with no due diligence, accountability, performance targets or set dates for repayment.”*
- *“... in May 2008 ... [CL Financial] owed CLICO Trinidad ... approximately TT\$1.2 billion, ... built up over the past 15 or 16 years. ... There were no concrete plans [at that time] to deal with this major exposure.”*
- *“It was also evident that the cash inflows to [CL Financial] via dividend inflows from subsidiaries was grossly insufficient to deal with interest and principal repayments due by [CL Financial] on its existing borrowings.”*



## A few extracts from Michael Carballo's witness statement (2)

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- *“What would happen therefore is that a customer would borrow money from say [Republic Bank] at say 9% p.a., fully backed by an EFPA Policy purchased from CLICO at a rate of return of say 12.5%, with the customer earning 3.5%p.a. margin in a simple back to back arrangements.”*
- *“... I would keenly notice the line-up of CLICO salesmen outside the door of Lawrence Duprey when he was in the country, seeking special approvals and overrides of special rates for the taking of one year EFPA monies.”*
- *“CLICO and [British American Insurance, another CL Financial company] were “fighting” and competing heavily in the market place for EFPAs and in turn simply causing inherent interest rates to rise.”*



# The Colman Commission of Inquiry

- Appointed November 2010
- Began sitting December 2010
- Sat for 85 days
- Finished sitting May 2013
- Report expected April 2014
- 5 million pages of documents
- 77 lawyers involved



# Some media headlines

TRINIDAD and TOBAGO  
**NEWSDAY**

September 22<sup>ND</sup> 2011

## DUPREY'S MONEY BAG

FORMER CL Financial (CLF) executive chairman Lawrence Duprey



was in the habit of bagging a \$60 million annual salary, in addition to millions worth of bonuses, fees, commissions, personal loan write-offs and other perks, the group's former chief financial officer Michael Carballo confirmed yesterday.

**Trinidad Express Newspapers**

November 12<sup>th</sup> 2012

## READY TO TELL ALL

Former CLICO director broke and facing eviction in Canada.



Facing eviction from his home in Mississauga, Ontario, Canada as Christmas approaches, former consultant and director of Colonial Life Insurance Ltd (CLICO), Gene Dziadyk, is willing to tell all to the police, in the wake of a criminal investigation into key executives of the former insurance giant.

give information to the police or to anyone else. I have nothing to hide," he said in an interview with the Express.

"I absolutely stand ready to

**Guardian**

March 19<sup>th</sup> 2013

## UK Forensic Probe Raises Issues over PwC/CLICO Audit

The Institute of Chartered Accountants (ICATT) was moving to discipline the management of Pricewaterhouse Coopers (PwC) in 2009 after a report it commissioned from a London forensic accounting firm, FTI Consulting, raised serious concerns about how the firm had conducted its audit of Clico in 2007.

However, the Government decision to call a commission of enquiry into Clico after its collapse in 2009 scuttled the move. After reviewing PwC's 2007 audit of Clico, FTI expressed concerns about the audit in its October 2009 report to ICATT.



# The settlement for CLICO and British American policyholders in Trinidad

- Policyholders initially told that they would receive their policy proceeds in full
- New government announced that EFPA policies would be treated as short term investment contracts and:
  - Amounts up to TT\$75,000 would be paid in full
  - Excess would be paid as a series of 20 zero coupon bonds maturing over 20 years
- Under pressure, government subsequently agreed that bonds maturing in years 11 to 20 could be exchanged \$ for \$ for CLICO Investment Fund (mutual fund) units
- EFPA shortfall may be repaid if enough value realised from asset disposals
- The amalgamation of the remaining policies of CLICO Trinidad and BAT into a new adequately capitalised insurance company (Altruis) owned by the T&T state.



# Conclusions (1)

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“In the [T&T Central] Bank’s view, however, the current financial difficulties being faced by CIB and CLICO have more to do with four things:

- ***excessive related-party transactions which carry significant contagion risks. I should note that the high level of concentration is not specifically prohibited by the present legislation.***
- ***An aggressive high interest rate resource mobilization strategy to finance equally high risk investments, much of which are in illiquid assets (including real estate both in Trinidad & Tobago and abroad);***
- ***A very high leveraging of the Group’s assets, which constrains the potential amount of cash that could be raised from asset sales”.***

Source: Remarks for the CIB/CLICO Media Conference by Ewart Williams, Governor of the Central Bank of Trinidad & Tobago, 30 January 2009. The emphasis shown here is in the original document.



# Conclusions (2)

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Other factors include:

- A dominant Chairman focused on deal making and risk taking
- Weak internal governance and financial controls
- Poor management of some acquired assets
- Inadequate insurance regulations
- A culture of patronage
- A belief that CLICO was “too big to fail”

