



CARIBBEAN ACTUARIAL ASSOCIATION



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2013 Conference “Risk, Recovery & Real Growth”

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Risk, Recovery & Real Growth

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The greatest risk

- The single greatest risk we face in the life insurance business in Jamaica is sovereign risk
- Jamaica has the second highest debt : GDP ratio at 147%
- Jamaica has a chronic current account deficit
 - Averaged 9.2% over last 16 years....3% considered normal
- Jamaica's average growth rate since 1952 is 1.7% vs 3.1% for the rest of the world
- The life insurance business is required to buy J\$ sovereign debt to back our liabilities.
- Currently xx% of our liabilities are backed by J\$ debt

What are our options?

- Can't sell off J\$ assets... have to find a national solution
- Haircut of 58% on all debt required to get us to 60% debt : GDP
- It would wipe out US\$6B of capital
 - Destroy confidence & Jamaican capital
(Jamaicans own >80% of the total debt stock)

The current IMF/GOJ plan

- Alternative route to a haircut is the current IMF/GOJ
 - 7.5% primary surplus
 - Competitive fx rate
 - Removal of structural distortions & inefficiencies
 - New tax regime
 - Fiscal rule
 - GOJ fiscal operational improvements
 - Defeasing the retail repo business

Expected outcome of the program

- No net new GOJ borrowing
- “crowding-in” of the private sector in the credit market
- Encouragement of exports & import substitution and therefore improvement in the current account
- But it’s a long and perilous route
 - By 2017 debt : GDP will be 126%
 - By 2020 debt : GDP will be 96%
 - By 2026 debt: GDP will be 60%

How is the recovery so far?

- Patient still in ICU...but heartbeat is stronger
 - Met the tough prior actions – taxes, debt exchange, budget with 7.5% primary balance target
 - Passed two quarterly IMF tests...14 to go
 - Passed most profound tax reform since 1948
 - S&P upgrade from CCC+ to B- with a positive outlook
 - Current account improvement in June quarter
 - 0.6% growth in Q2, only the 1st in 6 quarters

How do we spur growth?

- Classical methods not possible or not as effective
 - Higher government spending – all surplus has to pay down debt
 - Lower interest rates – with inflation at 10% interest rates cant go too low for fear of capital flight
 - Lower tax rates – have to balance with the need for revenues to pay down debt
 - Competitive exchange rate – yes but with constraints
 - Inflationary effect, imports in exports, foreign debt

How can we get growth in such a challenging economic environment?

- **With a proactive, managed, inclusive approach !**
- Communication
- Business confidence
- Availability of credit
- Ease of doing business
- Tax reform
- Shared leadership
- Investment opportunities
- Crime
- Energy

Communication (1)

- MEFP is a technically sound pathway to stability
- Most vulnerable in first 15 months because of the pain and the legacy of failure
- Need to keep our eyes on the prize
- It requires a vibrant, consistent communication program that articulates the near term vision of what we can accomplish, identifies a time for targets to be met, and celebrates large and small achievements in both the public sector and the private sector.

Business confidence (2)

- Confidence is encouraged by talk but is built by doing.
- Each quarterly test that is passed, builds confidence.
- Each investment made by the business sector, builds confidence.
- Each reform the Government delivers, builds confidence.

Availability of credit (3)

- Private sector must “crowd-in” and banks must be swamped with cash
- Why is it not happening?
 - Central Treasury Management
 - Tight J\$ policy to manage currency depreciation
 - Assets not liquid – devaluation, coupons, tenors
- Banks worried about their liquidity, not pursuing loans
- If we want broad based growth, liquidity is critical because credit drives growth

Ease of doing business (4)

World Bank ranking of Jamaica out of 183 countries

- Starting a business (23)
- Resolving insolvency (31)
- Dealing with construction permits (52)
- Protecting investors (80)
- Getting credit (109)
- Registering property (114)
- Trading across borders (118)
- Getting electricity (132)
- Enforcing contracts (129)
- Paying taxes (168)

- Needs a specialist team properly staffed and resourced
- Would not be a significant cost but could have a powerful impact on business morale



Tax reform (5)

- The most fundamental since 1948
- Reduces taxes on imports for producers
- Reduces corporate taxes
- Levels playing field for incentives
- Private sector been lobbying for this for 15 years!

Shared leadership (6)

- Credible leadership is critical to confidence building
- Incentives Working group (IWG)
- Economic Programme Oversight Committee (EPOC)
- Tackle tough issues and ensure projects executed in professional manner
- Persons of integrity from trade unions, civil society, business community
 - Have reputations to lose

Investment opportunities (7)

- Securitize large infrastructure projects
 - Kingston Container Terminal
 - 360 MW power plant
- We need a Caribbean stock exchange !
- Debt for assets swap
 - Land, beach front, offices, factories
- Import substitution
 - Publish import list by value

Crime (8)

- Needs to be treated with same boldness as debt
- Cost is direct (security expenses) and indirect (opportunities lost)
- US\$50 per room more = US\$275m
- Change economics of tourism business
- Security needs US\$200m over four years to address issues of technology and equipment.
- Must find room for it in capital budget

Energy (9)

- Impatient of debate – a disgrace
- New plant will save business and consumers 20% of current cost or about US\$156m
- LNG for Bogue will save a further \$40m
- Coal plant for bauxite at US\$0.12 per kWh
- This matter is so important to Jamaica...it needs oversight

Keep our eyes on the prize

- Cast our minds forward six months
 - Passed the December and March IMF tests
 - Completed the tax reform & legislated the fiscal rule
 - Budget that will produce another 7.5% primary surplus
 - Built the NIR in excess of US\$1.2B
 - Made headway with some of the “doing business” issues
 - Construction started on the 360 MW power plant
 - Three consecutive quarters of real GDP growth

It is possible!

It would change investor outlook

...and that would reduce risk



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Thank you