



CARIBBEAN ACTUARIAL ASSOCIATION



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2015 Conference “Strength in Numbers”

25th Annual CAA Conference

Hilton Trinidad & Conference Centre

Port of Spain, Trinidad & Tobago

2nd to 4th December 2015



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Are insurers systemically important? The Caribbean post CLICO

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December 3, 2015

What is systemic importance?

Financial stability board:

Systemically important financial institutions (SIFIs) are financial institutions whose distress or disorderly failure, because of their size, complexity and systemic interconnectedness, would cause significant disruption to the wider financial system and economic activity

Was CLICO systemically important?

Mr Ewart S Williams, Governor of the Central Bank of Trinidad & Tobago, for the CIB/Clico Media Conference, Port-of-Spain, 30 January 2009

1. the Group controls over (\$100) billion of assets in at least 28 companies located throughout the region and the world.
í SIZE

Trinidad & Tobago's GDP in 2008 was \$175 B TT



Was CLICO systemically important?

Mr Ewart S Williams, conø

2. The Groupø financial interests cover several industry sectors including banking and financial services, energy, real estate and manufacturing and distribution. The four largest financial institutions in the Group manage assets of over \$38 billion, over 25 per cent of the countryø GDP.

í COMPLEXITY

3. In addition to Clico, among the Groupø holdings is the British American Insurance Company Limited, which is one of the main insurance companies in the Eastern Caribbean í INTERCONNECTEDNESS



Impact of CLICO's failure

Guyana 2010 Article IV Consultation

Social Security Scheme (NIS):

An additional challenge is the large investment of 18.6 percent of total assets, or 1.3 percent of GDP that the NIS has in the CLICO conglomerate, for which the government has extended a guarantee.

Impact of CLICO's failure

Barbados 2011 ARTICLE IV CONSULTATION

On April 14, 2011, í the unaudited figures for CIL indicated a shortfall of the life insurance company of about US\$196 million (4.4 percent of GDP). The July 28 CIL restructuring plan filed by the JM in the Barbados Court proposed that a new company be incorporated to hold the business of CIL and that on a proportionate basis 60% of policyholder value be transferred to the new company. Both traditional and EFPA policyholders would be issued with common shares in the company in exchange for the 40 percent write off in their policy values. These shares would be issued at little value but based on the company's future growth the shareholders may recover some or all of the amounts lost.

Impact of CLICO's failure

Barbados Investors and Policyholders alliance ó Policyholders Stories

õI too am an investor of \$25,000 in CLICO's Executive Annuity after encouragement from my agent. Having read your article in today's Sunday Sun, I invested that money with the idea that I will be able to use it to build my home. Needless to say I cannot start my home, am running up lots of debt, falling behind in bill payments etc and of course watching my mother's dream of seeing me in my own home fade away (she is now 71 years old, I am 38).õ



What caused CLICO's failure?

Trinidad Express í Feb 1, 2009

Lawrence Duprey, Chairman & CEO of CLICO said a mix of factors ó the global financial crisis and the dramatic fall in methanol and real estate prices ó created the perfect economic storm which broad-sided the family-owned conglomerate.

"Our cash forecast was thrown into a kilter. We couldn't forecast what was happening," said Duprey.

Duprey said Friday's events were precipitated not by poor management or so-called toxic assets but by conditions that were way outside CL's realm of control.



Global recession

If this was an adequate explanation, then there would have been chaos throughout the Caribbean. However í

	Equity 2008	Equity 2009
GHL (\$TT M)	3,000	2,341
SFC (\$US M)	448	537
RBL (\$TT M)	5,559	6,204
NCBJ (\$J M)	31,313	41,015

Better explanations of CLICO's failure

- Shadow banking risk-taking
- Ineffective board of directors
- Risk-taking executive management
- Ineffective regulatory institutions

Shadow banking

FSB: That part of the financial system that extends credit but is outside the regular banking sector

Problems related to:

- a heavy reliance on short-term wholesale funding,
- a variety of incentives problems in securitisation that weakened lending standards,
- **general lack of transparency that hid growing amounts of leverage and mismatch between long-term credit extension and short-term funding.**

Shadow banking

Mary King blog post: CL Financial ó An innovation in finance

The nadir of the entity was CLICO, an insurance company that understood the potential power of local and regional money assets. Its architects also recognised that our people were willing to buy insurance, a sure thing, but would not put a penny in a venture that was of higher risk. Hence an innovative mechanism had to be devised which would attract this low risk money which CL could use to invest in higher risk ventures. In other words, CL had to assure the investors of a sure return, somewhat higher than what others were offering, and assume the risk of the target ventures

01 April 2015



Shadow banking

Wholesale funding

Statement from L Duprey, Trinidad Express Oct 23, 2012

"I was firmly of the view in January 2009 that the run on CIB and the resultant liquidity or cash-flow issues were much inspired by the decision of State-owned and run entities making decisions at or about the same time to withdraw rolling deposits which had been previously rolled over from maturity to maturity without question. The decision to seek the funds back came in reality out of the blue and caused severe problems."

Shadow banking

CLICO (Bahamas) 2006 financial statements indicate

- a heavy reliance on short-term wholesale funding and
- an asset-liability mismatch

Wholesale funding

Note 10. Due to related parties

í an amount due to to Clico (Trinidad) Limited \$22,003,846. This amount has been advanced at an interest rate of 12% per annum and has a maturity of December 31, 2007. It primarily consists of funds advanced for investment into CEL.



Shadow banking

Asset liability mismatch

Independent auditor's report

Emphasis of matter: Without qualifying our opinion, we draw your attention to Notes 2d and 8 to the financial statements. These notes provide details of the Company's advances to its wholly owned subsidiary, Clico Enterprises Limited, of \$68,301,770, which represents approximately 70% of the Company's total assets.

Shadow banking

Clico Enterprise Limited owns Wellington Preserve Limited (both of whom are in liquidation) whose Dec 2014 balance sheet is substantially:

Assets		Liabilities	
Cash	15.8 MM	Owed to CEL	73.8 M
		CEL payments	(24.1 M)
		Net	49.7

Weakness of the board of directors

FSB: Thematic Review on Risk Governance

The crisis highlighted that many boards had directors with little financial industry experience and limited understanding of the rapidly increasing complexity of the institutions they were leading. Too often, directors were unable to dedicate sufficient time to understand the firm's business model and too deferential to senior management.

Weakness of the board of directors

Dr. Bhoë Tewarie sat on CL Financial's board of directors:

- Doctorate in Comparative Literature
- Government Minister (1986-1991 and 2011-2015)
- Head of Institute of Business
- Principal of UWI St. Augustine (2001 ó 2007)

Weakness of the board of directors

Dr. Bhoë Tewarie testimony to CLICO commission of enquiry 2012 01 09 under cross-examination by Mr. Carter QC:

“In the CL Financial board the very structure of the board meant that the chairman was a dominant force and the executive directors were the most knowledgeable about their own domains. And as a result, the weight of their strength and knowledge and influence, you know, manifested itself in the way the board meetings were conducted and the way decisions were made.”

Weakness of the board of directors

Commission of enquiry cross-examination of B Tewarie:

Q: My difficulty is that you have said to the Enquiry, "Look, my hands were tied, non-executive director, no information, and I couldn't do anything."

A. Uh-huh.

Q. And I am saying that under the appointment to this autonomous Audit Committee charged with precisely that, getting information, there were things that you could have done.

A. The committee did not function as it was supposed to.

Weakness of the board of directors

Q. One element of the culture of governance is that you discharge the responsibilities placed upon you by the board. Isn't that so?

A. Obviously, but that would require that all other things be equal. The board would have to govern in such a certain way; the Chairman would have to function in a certain way; executive leaders would have to function in a certain way. The role of non-executive members of the board would have to be respected. Committees would have to be acknowledged and empowered; and that is the way things function. And if you don't have that culture in the organization, it is something that is very difficult.



Weakness of the board of directors

Anthony Fifi

- Degree in Geography (Cambridge, urban studies/development)
- CLICO director (1991 ó 2005)
- CLF director (1991 ó 2009)

9th evidence hearing 25-10-2012

Weakness of the board of directors

Anthony Fifi: testimony at 9th evidence hearing 25-10-2012

Q. í what CLF was doing was taking all the dividends from Republic Bank Limited and treating it as its own, although the assets belonged to Clico, isn't that so?

í

A. So it was.

Q. You were director.

A. I wasn't a director in Clico.



Weakness of the board of directors

Anthony Fifi - 9th evidence hearing 25-10-2012

Q. But the dividends from Republic Bank, they were substantial sums, and MHTL, they were very substantial sums.

A. Sure.

í The simple point I was making is that if, in fact, Clico was not advising, which eventually they did, Clico was not advising CLF that they were being starved for funds because all their funds were being taken.

Q. So who do you expect at Clico would have said that?

A. I would expect management would have made that statement.



Weakness of the board of directors

Q. Like whom? Here you have the Chairman of Clico is the same person as the Chairman of CLF. You have certain obligations of CLF as a director, you understand fully its policyholders' money are at Clico, you understood the inter-company balances, you understood the short-term investments at Clico were being taken by CLF and investing in projects with long-term returns, you were aware of all of that. So really, what CLF was then doing is treating the Republic Bank shareholding and the returns from those shareholding as its own.

Weakness of the board of directors

Q. What was really happening, Mr. Fifi, is your company, of which you were a director, CLF, was taking as much money as it could out of Clico, which were really policyholders' money, and investing it in various projects, without any regard to the implications it had for the existence of Clico and the consequences for policyholders assuming something went wrong. Isn't that true?

A. So it seems.

Weakness of the board of directors

Ewart Williams indicated in his witness statement that he gave a November 2006 presentation to CLICO's board of directors titled "What is expected of a well-functioning board"

Corporate governance:

- Directors to be well qualified and competent
- Value of independent directors
- Split Chairman and CEO roles

Weakness of the board of directors

Ewart Williams: "What is expected of a well-functioning board"

Risk Management:

- Liquidity and market risk
- Capital plan
- Maintaining an appropriately structured statutory fund
- Regime of market conduct to safeguard reputation

Management incentives

FSB: Effective governance of compensation

1. The firm's board of directors must actively oversee the compensation system's design and operation. The compensation system should not be primarily controlled by the chief executive officer and management team. í
2. The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended. The compensation system should include controls.

Management incentives

The compensation system should not be primarily controlled by the chief executive officer and management team.

Excerpts from Ms. Gita Sakalø's witness statement. At the time she was the General Counsel, Corporate Secretary of Clico Financial Limited:

¶109. Generally, employment contracts of senior persons never reached the Board. In my 15 years at CLF I have never been asked to review a contract of employment for any senior executive. The Board also never knew settlement details upon termination or departure.

Management incentives

The compensation system should not be primarily controlled by the chief executive officer and management team.

Excerpts from testimony of Ms. Gita Sakal:

Q. Okay. So on 22nd January 2008, you approved for payment onto your company the sum of \$253,000

í

A. Yes, I was the payee.

Management incentives

Q. í . again, 20th February 2008, you are approving a payment to yourself of \$6.2 million.

A. That was in keeping with my contract and it was part of my year-end bonus. It was a part payment of my year -end bonus and it was in accordance with the terms of my contract.

Q. You were approving payment onto yourself, isn't that so?

A. Yes, í

Q. We then continue on the other page. There are almost 14 items of approval of payment by yourself, in your favour, in the year 2008, to the tune of \$14.9 million.

A. Yes, í



Ineffective regulatory institutions

Institutions often don't work in the Caribbean

- Political connection of key players
 - Late Prime Minister of Barbados was close friends with Chairman of CLICO Holdings Barbados Limited
 - Former executives were ministers in different governments in Trinidad & Tobago

Conservative culture which shows excessive deference to leaders

- Recall the testimony of Bhoew Tawarie

Ineffective regulatory institutions

Ineffective resolution

- Trinidad had a Commission of Enquiry into CLICO's failure. Report has not been completed
- Lawsuit CBTT vs Duprey, Monteil, etc. was filed in June 2011
- Trinidad's Insurance Act still not passed
- CLICO's insurance liabilities throughout the Caribbean are at various stages of being liquidated, transferred, etc.

Could there be another CLICO?

- Nothing like CLICO is on the immediate horizon but í
- Aspects of the environment that allowed a CLICO still exist
 - Need greater accountability for directors
 - Manage compensation for executives
 - Need greater tools and flexibility for regulators
 - Passage of Insurance Bill

Could there be another CLICO?

Thank you!