

Ewart S Williams: Banks' liquidity challenges in Trinidad and Tobago

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

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Ladies and Gentlemen

Some of you may know that CIB has been facing **liquidity challenges** over the past few weeks. These challenges came to a head in the last few days when the bank began to face an **unusually high level of withdrawal requests** which put a strain on their available liquid resources.

Clico has also been facing liquidity problems, though nowhere near the levels of CIB. Of course, given the close integration of these two financial institutions within the CL Financial Group, it is just a matter of time before Clico also begin to come under severe liquidity pressures.

The Inspector of Financial Institutions and the Governor of the Central Bank met with the Chairman and Chief Financial Officer of **CL Financial on January 7 2009**. In a second meeting on **January 13 2009**, Clico's Chairman **formally raised the issue of possible financial assistance from the Central Bank**.

There is no doubt that the increase in **CIB withdrawals** and **the nervousness seen at Clico** have something to do with the depositors' concerns about the impact of **the sharp decline in methanol and real estate prices** on CL Financial's overall financial situation. In the 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 and 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.

In our regular monitoring of CIB, and of Clico since 2004 (when insurance supervision was transferred from the Ministry of Finance), the Central Bank has **consistently focused on these deficiencies but have been stymied by the inevitable challenge of change and by inadequacies in the legislative framework** which do not give the Bank the authority to demand these changes.

The Central Bank is very conscious of the **contagion risks** that financial difficulties in **an institution as vast as the CL Financial Group** could have on the entire financial system of Trinidad and Tobago and indeed in the entire Caribbean region.

For the record, ladies and gentlemen, the **CL Financial Group has an imposing presence** with potentially **systemic consequences** for the financial sector and the economy of Trinidad and Tobago and the entire region.

For example,

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

2. The Group's 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 country's GDP.
3. In addition to Clico, among the Group's holdings is the **British American Insurance Company Limited**, which is one of the main insurance companies in the Eastern Caribbean.

After intense discussions over the past week the Central Bank, the Ministry of Finance and representatives of the CL Financial Group **have reached agreement on a strategy to deal with the liquidity challenges of CIB and Clico** and to address the underlying problems that have given rise to the current financial stress.

The principal objectives of the strategy are **to ensure that resources are available to meet withdrawals of third-party CIB depositors** and Clico policy holders; to protect the funds of the depositors and policy holders and in so doing **maintain confidence in Clico and reinforce confidence in the financial sector as a whole**.

The main elements of the strategy are as follows:

- The Central Bank will take control of CIB under section 44D of the Central Bank Act.
- Early next week all **the third-party assets and liabilities** on the books of CIB and CMMB will **be transferred to First Citizens Bank**. These liabilities will be **matched by resources from the sale of CIB's holdings of certain high quality assets**. The Central Bank will provide short term liquidity as needed to ensure that these liabilities are serviced.
- Following the execution of these transactions, **CIB's banking license will be revoked**.
- Clico has a sizeable Statutory Fund deficit. CL Financial has agreed to divest additional assets to help fund this deficit. The Government has committed to provide **any additional funding** that is needed by Clico.
- Government funding will be **provided in exchange for collateral and an equity interest in Clico**. It will also act as a catalyst for implementing a **change in the current business model and corporate governance structure of Clico**. The intention will be to return Clico to its original moorings.

I would like to emphasize that these considerable steps being taken – by the CL Financial Group, the Government and the Central Bank are specifically designed to tell CIB's depositors that **your funds are safe and to maintain confidence in Clico** which for decades has been the strength of the insurance sector in Trinidad and Tobago and in the region. Clico's policy holders can also be assured that the **long term future of Clico will be guaranteed by the adoption of a more robust and less risky model**.

Because any stress in one corner of the financial system tends to raise concerns throughout the sector, I would also take the opportunity to remind the national community of **the tremendous strength of our financial system**, which indeed is the envy of the region. Excluding CIB, the banking system now boast of an average capital adequacy level of 18 per cent, compared with a recommended minimum of 8 per cent; in **contrast to the illiquidity of CIB**, the rest of the banking system is plagued by excess liquidity; the overall level of **non-performing loans** is an impressively low 2 per cent and the banks have more than **adequate level of provisions** against bad loans.

Let me support the point raised by Minister Tesheira on the need **to accelerate some aspects of the new Insurance Act** on which we have been working for some time in collaboration with industry stakeholders. We absolutely need updated insurance legislation to regulate the insurance industry in normal times as well as in times of financial stress.

The “fast track” amendments to the 1980 Insurance Act that are being proposed will provide us with the authority **to conduct on-site supervision**; will give us **the legal basis to share information** with other regulators (I should note that CLICO and its affiliate British American have vast regional operations) and will allow the Central Bank to take prompt corrective action to protect depositors, if and when necessary.

Before ending I would like to acknowledge the high level of cooperation that we have received from Mr. Duprey in our efforts to address what must be a very difficult period for the CL Financial Group.

I should also recognize the role of **First Citizens Bank** in doing its part to help stabilize the banking system.

Resolving the problems of Clico will call for continued collaboration between CL Financial, Government and the Central Bank, **but moreso on the collaboration of the entire financial community led by ATTIC and BATT**. While it is currently a CL Financial problem, only the concerted and vigorous action of the entire financial sector would stave off financial contagion. **This is not the time for companies to take advantage of CIB/Clico’s problems** to expand their balance sheet: this is the time to let competition take a back seat and to support the Government and the Central Bank to keep Clico as a functioning entity and to ensure the continued stability of our financial system.

The actions that we will be taking over the next several weeks and months will only work **if they have the support of the community of depositors and policyholders as well as the entire financial sector**.

We are confident that the proposed strategy will lead to a financial sector that is more resilient to deal with the adverse currents now buffeting the global economy.