

Ewart S Williams: Update on CIB/CLICO/CNMB

Media address by Mr Ewart S Williams, Governor of the Central Bank of Trinidad & Tobago, to update on CIB/CLICO/CNMB, Port-of-Spain, 13 February 2009.

* * *

Ladies and Gentlemen,

This is the first in a series of media conferences that the Central Bank intends to schedule to update the national community about progress with respect to resolving the financial difficulties in CLICO, CIB and CMMB. The Chairman of the Board will also be communicating with the media from time to time.

Since the Media Conference of Friday 30, January 2009, much has been achieved in the implementation of the MOU signed between CL Financial and the Government and in the clarification of the financial situation of the three institutions – CIB, CLICO and CMMB.

As you are no doubt aware, in accordance with the MOU, a new Board was appointed to run the affairs of Clico, in addition to a Manager/CEO (Mr. Andrew Claudius Musaib-Ali) and a Chief Financial Controller (Ms Carolyn John).

CL Financial, the signatory to the MOU has appointed a team to work with the Government on the implementation of the MOU. This team and the Government representatives have had one meeting but have otherwise been in constant communication with each other.

Meanwhile, with the assistance of the Manager appointed to Clico by the Central Bank, we have made much progress in **clarifying the present financial position of CLICO**, which unfortunately, appears to be much worse than we had envisaged. Let me give you some examples:

- Based on the audited accounts, Clico had surpluses in the Statutory Fund in 2004, 2005 and 2006; these surpluses shifted to a **deficit** of about \$600 million in 2007.
- Based on the un-audited accounts for 2008 the Statutory Fund deficit (measured on the same basis as in the period 2004-2007) has ballooned to \$5.1 billion. If this is correct, one interpretation would be that the premium income collected in 2008, and which should have been directed to the Statutory Fund, was otherwise utilized.
- Over the last few years Clico's statutory fund assets have included **several inter-group assets**, including deposits in CIB and securities issued by the parent CL Financial. Certainly at the present time, these instruments appear to be of little value. If we exclude these from the Statutory Fund calculation of 2008, the **notional deficit** rises to \$10 billion, on a policyholder liability base of \$16.7 billion.
- In the CL Financial business model, Clico was a major source of cash much of which was used to finance investments held in the name of other entities in the Group. In this model, Clico has ended up as guarantor for many of the Group's assets most of which are heavily pledged. Of course, pledging limits the potential proceeds from asset sales. A Canadian firm has been contracted to disentangle, inter alia, a whole range of complicated financial transactions, to review Clico's non-policyholders' liabilities and the extent to which Clico's assets are pledged.

Turning to the immediate situation:

- As at end-January 2009, Clico had **policy surrender requests** on maturing obligations of \$650 million; the monthly payment for **pensions and annuities is \$40 million**. Clico currently has a bank balance of \$15 million, in addition to a sizable bank overdraft.

In accordance with the MOU the Cabinet has approved a first tranche of a funding package to begin to ease the liquidity pressures on Clico and British American. In line with the spirit of the MOU, the focus in the first round will be on meeting policyholders' liabilities and payments to pensioners.

These steps would convince policy holders that Clico has the full backing and commitment of the Government and the Central Bank of Trinidad and Tobago. Policyholders should also feel confident that their funds are protected and this should encourage the maximum roll-over of policyholder funds. At worst, to facilitate an orderly recovery of Clico we would request that policyholders do not seek withdrawals before their maturity dates.

Ladies and Gentlemen, for years Clico has been a most prominent domestic and regional brand. The objective of this rescue exercise is to restore confidence. But this process will obviously involve considerable public resources for which the Government and the Central Bank, as regulator, will be held responsible.

As I noted earlier Clico's recent financial operations and the reasons for the emergence of very sizable statutory fund deficit in 2008 are still very unclear. The information that we have received so far points to a range of complex financial arrangements which have ended up with Clico as either direct debtor or guarantor. As regulator we need to understand these arrangements more clearly, if we are to continue recommending government financial support.

To facilitate this wide-ranging and very complex exercise, (which is critical to addressing the claims of policyholders and creditors in a comprehensive way) the Central Bank has decided to invoke the **powers provided under Section 44D** of the Central Bank Act (as amended) in respect of CLICO and British American. It is to be noted that this move is consistent with Clause 16 of the MOU which states that:

"The Memorandum of Understanding does not preclude (a) the Central Bank from requiring that CLF, CIB, CLICO and BA take any other action which in the opinion of the Central Bank is desirable; or (b) the Central Bank taking such action as the Central Bank may think fit under the provisions of the Financial Institutions Act, the Insurance Act or the Central Bank Act and any of them"

The invocation of these powers by the Central Bank is designed to achieve several specific objectives, including:

1. Conferring **legal authority** to the Board, appointed in accordance with the MOU, to manage all of the business and undertakings of CLICO.
2. Providing the necessary authority for beginning the restructuring of CLICO as envisaged under the MOU;
3. Providing the authority for conducting the requisite in-depth examination of the business operations, contracts and arrangements of CLICO that may have contributed to the current state of the company;
4. Providing a legal basis for entering into negotiations with creditors in order to facilitate any debt re-structuring that may become necessary;
5. Providing a legal basis for advancing the funding to which the Government is committed in order to ensure the protection of policyholders of CLICO.

I would like to assure the public that the exercise of its powers by the Central Bank will not cause any disruption of the day to day operations of the two companies.

The new arrangements that I have mentioned in respect of CLICO (specifically Section 44D invocation) will also be applicable to British American Insurance Company. Next week we plan to announce a new Board for BA.

As regards CIB, we are working frantically to prepare deposit files that need to be transferred to First Citizens Bank Limited. The exercise has turned out to be a major challenge because of the state in which CIB's records have been found. We give the assurance that this exercise will be completed in another week and that funds will be available by February 25, 2009.

I apologise for the delay in the execution of this transaction, and for the inconvenience it would have caused depositors. We are doing our absolute best to have this task completed as quickly as possible.

As you are aware, the MOU provides for the transfer to First Citizens Bank of the shares in CMMB as part of the consideration put up by CLF to balance the assets and deposit liabilities being transferred to First Citizens. Considerable progress has been made towards this end and the legal arrangements should be finalized within the next ten days or so. In the meantime, First Citizens continues to provide support and oversight over the operations of CMMB and has succeeded in returning a great deal of calm and stability to those operations.

Ladies and gentlemen, the Government and the Central Bank have undertaken a number of steps, including today's actions, to protect policyholders of Clico and BA, and to maintain stability and confidence in the financial system.

I am pleased to see that the steps we have taken so far have already succeeded in reducing the initial concerns. There is a greater stability in the banking system as a whole and customers of Clico, CIB and CMMB have shown tremendous maturity in responding to the current financial situation. There is still a considerable way to go and I therefore urge all members of the public to continue to support Clico and BA based on the commitments made by the Government and the Central Bank.

Remember, our banking system is enormously robust, well-capitalised and generally conservative and responsible. Clico/CIB were isolated cases of an overly-aggressive and risky business model. With the committed assistance of the Government and the Central Bank, and with the support of the general public, Clico will overcome its current difficulties and emerge as a transformed, more resilient part of an even stronger financial sector.