

A hand holding a pen is shown in the upper right, poised to write on a document. The document contains some blurred text. A large, stylized wave graphic in red and dark blue curves across the bottom of the page.

**Remarks by the Honourable Winston Dookeran, Minister of Finance
At the Media Briefing on CLICO/BAICO Proposal
Level 20, Eric Williams Finance Building, Port of Spain
Tuesday 28 September, 2010, 5:30 p.m.**

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Thank You very much our acting Prime Minister and our Attorney General and members of the media.

Since the announcement in the budget debate, of the line of action the government intends to take based on the principle of fiscal responsibility and also on the principle of satisfying the legitimate needs of our people, there has been a debate taking place in the country, and rightfully so. We intend, in the Ministry of Finance, from time to time, to have an update on the issues before us. This will allow us to do our part in bringing to this debate the information from the perspective of the Government of Trinidad and Tobago whose primary responsibility is to have a common satisfaction of all the people of Trinidad and Tobago.

Let me start by outlining some very basic facts, you are well aware that the previous administration had committed, somewhere in the order of \$7.3 billion, in an unstructured approach to dealing with the issue. In the last three months after we had analyzed in great detail, what was before us in this problem of fiscal stability in the country, we recognized that the problem was indeed significantly larger than what was first anticipated. And in so doing we marshaled our technical resources together, in order to find the right solution. There are many dimensions to this problem but today we speak largely on the economic solution. What we have found is that in order to deal with the short term depositors, it is required for the government to make a

commitment of \$12.3 billion. Remember a billion dollars is one thousand million dollars, and in order to honour that we have made provision in the 2010/2011 Budget for \$3.3 billion. Let me at the outset say that if we did not have to make that provision, our deficit of \$7.7 billion would have been \$3.3 billion less. And I hope that will shed some light as to how this particular problem affects the total financial formula of the Government's stability programme.

We've been told that there has been a guarantee that was given by the previous Government, and that we in the People's Partnership Government are not honouring that guarantee. Well let me first say, that a guarantee can only become effective in our system if there was a parliamentary appropriation of the funds. And I can say at this point, that even the \$7.3 billion that the previous Government had committed, 5 of which was directly and 2.3 was through the Central Bank, there was no appropriate budgetary allocation for it. So a guarantee cannot be a guarantee if it was not backed up by the funds. Those funds would not have been sufficient in any event. Therefore, what we were faced with is to establish clearly, new offerings to the people who are affected. And these offerings are based on the assumption that we can deal with this problem. But we first must pay consideration to those who have been involved either as policyholders of life and annuities and pension fund or as short term depositors.

Our approach was therefore based on providing two things. One that we intend to separate the traditional insurance business from the short term depositors. And in so doing, 225,000 persons who would have had policies of a traditional nature, will now find that their policies would be fully funded. And therefore there should be no concern in terms of any loss on their part. We have been able to do that by separating the traditional policy business from the short term investments that were made. So at the outset there are 225,000 persons whose policies will be honoured. In order to do that, we have taken the decision that we will bring together the CLICO operation and British American (BAICO) and start a restructuring process. That in itself was a decision based on a commitment to the people against the technical advice that the 2 institutions we are dealing with were insolvent. So as a Government we took the risk of taking these insolvent institutions and nurturing them back to some form of health. It will take some time. But this is what we had to do to protect the 225,000 policy holders of a traditional nature.

With respect to those who had short term investments, and there were approximately 28,000 such persons, according to our preliminary estimates, half of those or near to half of those in the vicinity of 40 to 50 percent, would have had deposits of less than \$75,000. So in our commitment to ensure that the small investors were protected, we decided that we shall provide a cash outlay of \$75,000 to all the investors. Not only those who had investments of less than \$75,000 but also those who had investments of more than \$75,000. That takes care of a further 10,000 individuals at the \$75,000 and below. What we are therefore left with, is those who would have had investments of over 75,000 dollars which amounted in total to \$12.6 billion. We organized a very creative plan that we shall provide to them 20 one-year bonds or to put it another

way, a 20 year bond in installments each year. And therefore the burden on the treasury will be considerably reduced by this measure. Let me say that if we had not done that, then we would have had to cut our expenditure for the basic needs of the people. Whether it be roads or bridges or pensions or whatever it may be. Or we would have had to go to a very high level of fiscal deficit. So in our view we had to take a fiscally responsible position; preserve the well being of our people. We did not cut any of our social expenditure programmes because we believe that those programmes while they must be transformed and quickly so, must also at the same time provide transition support. In other words our priorities that we established in the budget to move towards basic needs was a policy direction and therefore if one were to not to adhere to that policy priority we would have had to cut such programmes or increase our debt or perhaps increase our taxation and so retard the prospect of economic growth in Trinidad and Tobago.

But let me explain very quickly the 20 year bond issue. There have been some confusing comments on this issue. The 20 year bonds will be given to those who had investments of over \$75,000 and they will be allowed to cash in their bond each year at par. So in other words, if you were to cash in your bond in the first year for the first year bond at the end of the year you will be able to get 100 percent. There is no interest that will accrue but in any event, today's interest rates are very depressed and are in the order of 0.1 percent for bonds. If however individuals were to require cash before the year ends for the first one year bond, they can do so by discounting it in the financial system which includes the banks and the brokers.

Yesterday I met with the banks and the brokerage community and we discussed with them what was a technically-determined yield

curve. That is to say, what will be the discount rate if individuals were to cash in their bond in the first year? If they were to cash in all their bonds for the 20 years in the first year then clearly the rate would have varied from between 62 to 68 percent. If however, they were to cash in only that first year bond they will get a return in the order of 95 cents. We are continuing our discussions with the banking community and the brokerage community to ascertain whether they can make that better. But in layman's terms, you can get your one year bond cashed before it's due at the end of the year in the order of 95 cents. That is why many of you who have looked at this model we have put into place are amazed at how we can offer such a generous and fair deal to depositors to whom we shall be refunding their principal. Not their interest in the future, but their principal. And we expect that that rate will be the rate that can apply for the first five years. Beyond that, under the yield curve, the rate will become less attractive. Bear in mind also that these bonds can be used as security for borrowing funds and they can be used for any kind of collateral that individual may wish to provide.

It is important to note that these bonds are sovereign bonds. It is not guaranteed bonds to an enterprise like CLICO. It is now sovereign bonds. In other words, it is the bonds that have the first claim on the Government treasury. There is therefore no risk of default. So when I said that the previous Government had given utterances of guarantees without even allocating money in the budget much less to provide the instruments for that guarantee, there is a falsehood to the statement that there were guarantees. There were guarantees in utterances admittedly by the Governor of the Central Bank, by the then Finance Minister, by the then CLICO executive manager. But these guarantees had no backing, either in terms of the allocation of funds through the parliament or certainly in any other way. And there is no

way that the Central Bank can really guarantee these funds without the Government; and the Government commitment was made. But it took one year later for some of those funds to be made available and during the course of that year no steps were taken to really provide a guarantee. So what I am saying, those who have been arguing that this Government is not honouring the guarantee that the last Government has made, let us put that to a lie. What we have done instead, we have allocated in our budget \$3.2 billion for 2010/2011 and we will be issuing bonds so that the individual will have certainty now of getting back his principal, albeit over some years. But as I said, he can trade it as he sees fit in the market.

The third issue that has arisen is why doesn't the government simply sell the assets of CL financial and CLICO and pay these fifteen thousand people. In the first instance, let me let you know that most of the assets are encumbered. And the previous Government for 18 months could not do anything about it because they too had recognized, having wrongly diagnosed the problem as a liquidity one, that they could not sell the assets; most of which were encumbered. And therefore, as I pointed out in the budget statement, the net assets were in the order of \$17 billion and the net liability was in the order of \$23 billion of the CL Financial Group. So that is also a false argument that has been made by those that have been arguing with passion that that is an option. And even if it were an option, it would have been irresponsible on the part of the Government to engage in a fire sale of assets that belong essentially to the people of Trinidad and Tobago. It is also our intention to look at that in terms of its commercial possibilities. There are also other partners and other owners that are involved. It is not Government owned. So that argument, I want to put a lie to that - that could not happen.

What we have agreed to do is to start a full

assessment, now that we have established firm influence in CL Financial and in CLICO, as to the state of affairs and take appropriate commercial decisions as we move on. In the long run we intend to protect the public purse and at the same time satisfy the needs of the people.

The fourth point that I wanted to raise, and as an example; there is an investment in Florida which, I am told, was based on a loan by CL financial of about US\$450 million, the value of which, today, is in the order of US\$150 million. So if we were to sell that investment, as an example, we would have sold it and still have to maintain, and when I say we I mean CL Financial of which the Government has an interest now, US\$300 million in debt. So let us not fool our people that this is a situation where we can simply sell the assets and repay depositors. And that is but one example. As we go deeper and deeper into this situation we expect that there would be even more problems ahead of us.

I have already had calls from Caribbean Ministers of Finance who too have been affected by this multibillion dollar mistake on the part of the Government and on the part of the corporate managers at the time, who are seeking an urgent meeting with me to discuss the implication of the CLICO fiasco to the Caribbean economies. To date we have not met, but very shortly I hope that we can start addressing them because our Caribbean neighbours are important to us. What solutions can we come up with the? I do not know at this stage. My response when I got the request early on is to say let me deal with the situation at home; let me see light in the darkness that I have inherited before I start looking at light in other people's darkness. So that is one of the further situations we have to deal with in the future. I did say in parliament that this was not the end of the story. This was just simply the start of a solution that has put our country's

entire financial system at risk and has also placed 10 percent of the economy in problems. Now I have no doubt that we will be able to overcome. But we can only do so if we take a sensible approach and reflect a genuine commitment to deal with this matter. That is why we have premised a solution on the principles of fiscal responsibility on one hand and satisfying the legitimate concerns for reviving the financial sector and those who have been affected. What more can you give other than to provide funding for the principal of those who had invested over a period of time that will satisfy the national requirements and who can use that, if they wish, as entrepreneurs of their own to secure new investment opportunities because their principal is being protected. And in any event, I repeat, the current rate of interest for bonds is very low. I was told in the order of .1 percent. So there is nothing that they are losing and it amazes me when I hear those cries in the wilderness that they are losing.

We recognize that there are some individuals who may have hardship situations. We do not expect it to be many – and these are genuinely hardship situations. To that extent, we are considering a special window to deal with cases who have genuine hardship and by that I mean matters of life and death and living. But that will not in any way deviate us from pursuing for what is clearly our model for resuscitation of the financial sector. Funding a major hole that has developed, is an inheritance we would not have liked to have had but it is an inheritance that we will convert into possibilities for the future.

We have two major risks ahead of us and I will share that with you now. In our attempt to reestablish the CLICO/BAT operation as an ongoing operation given the state of its affairs today, it will be a major task. But we do that also with the view of protecting the workers and the agents for here is a company that had

lost its growth potential because for 18 months and more the previous administration did nothing on that score. Waiting, waiting for some solution to come like manna from the sky. And when I came into this office 4 months ago, one of the very first things as Minister of Finance I did was to take to cabinet a note, I believe that it was on June the 7th, appointing a high level technical team to in order to look into this issue with a sense of professionalism, with a sense of objectivity and with a sense of identifying how the nation's interest can be protected. Six weeks later, on July 20th that committee reported, made recommendations, and may I just for the benefit of the population point out what were the options.

The first option they said, let the companies liquidate. Liquidation – there is nothing you can do. In a financial sense the companies were no longer viable. If we were to adopt that option then clearly the policy holders whom today form the traditional policy holders and can go home with a sense of relief, would have really been in real trouble. The second option which they pointed out was to continue pouring in money. The previous Government had poured in \$7 billion and now you have to pour in a further \$12 billion, proceed with that plan. Not only would it have thrown the public finances into total disarray, but it would have created a lack of confidence in the financial stability of Trinidad and Tobago. Following the government's programme in the past was a recipe to bankrupt Trinidad and Tobago. Neither I nor the Cabinet of the People's Partnership will ever take the risk of bankrupting Trinidad and Tobago. And the third option, which is the option that we eventually agreed upon, is to satisfy the small investors, protect the policy holders of life policies and provide a mechanism to finance over a period of time what has turned out to be the 20 year bond.

I thought these were the key issues that have

emerged. There is a little issue that has cropped up over the weekend about the legality of the Minister of Finance taking such action. There was never any doubt in my mind nor is there any doubt now as to my legitimate function as the Minister of Finance to speak to parliament about the allocation and appropriation of funds for a specific purpose. I say no more. It is an absurd argument and it really deserves a silent answer.

At this stage I wish to also announce because within the last week we have begun to look into the affairs of both CLICO and CL Financial in greater depth, now that we have to take on this task in addition to what else we have to do. And I want to thank a former Minister of Finance Mr. Gerald Yetming who cabinet has recently agreed to appoint as the Chairman of CL Financial and CLICO. He has started his work with the same kind of passion that he worked with many years ago as Minister of Finance of this country.

I think that is all I can say at this point and I will be happy to elaborate further if you so wish.

Thank You.