

Interview between the Honourable Winston Dookeran and Business News Americas (BNamericas) on Friday 11th November, 2011

How CLICO bailout turned out for the best for Trinidad and Tobago's economy

Fearing systemic risk for the country's financial system, in January 2009 the Trinidadian government rescued Caribbean insurer CLICO by using the assets of its parent, CL Financial, as collateral. Winston Dookeran, the country's finance minister, said it took the government almost a year to make the decision to rescue the company, mainly due to political reasons related to the prior administrations.

Payments under the plan were set out in three stages over 20 years, using assets from many sources, including taxpayers' contributions. But what initially seemed a potentially dangerous move with a possible negative impact on local banks turned out to be the best economic decision for the country's banking system, according to the minister, who spoke with BNamericas about the CLICO rescue in further detail.

BNamericas: What went wrong with the CLICO business? Was it poor legislation on the government's part, or faulty administration at the company?

Dookeran: It was a combination of inadequate regulation, poor corporate governance and concentration of inter-group assets on the balance sheet, excessive related party transactions and, to some extent, the global economic downturn in 2008, which exposed the company's mismatched short-term liabilities against their longer-termed assets.

BNamericas: It's expected that Trinidad and Tobago's government bailout program for CLICO will last for the next 20 years. How much money is it expected to reach? Will this affect the country's banks and the local capital market?

Dookeran: Banks and other financial players will play a significant role as this provides an opportunity to create a more vibrant capital market, as the government's offer is to all short-term investment product holders of CLICO

(Trinidad) and British American (Trinidad, BAT), totaling TT\$12.8bn [US\$2bn].

The offer only refers to the principal balance as of September 8, 2010, at each eligible payee as per the company's records, and is summarized as follows:

All payments will be made in Trinidadian currency. For foreign currency contracts, payment shall be made at the selling rate in effect on September 8, 2010.

The Trinidadian government has already made payments to 92% of people holding contracts of under TT\$75,000, at a cost of TT\$316mn.

Over TT\$700mn will be paid in cash to credit and trade unions over a 12-month period. This process has already commenced.

For those who hold contracts with principal balances of TT\$75,000 and over, an initial cash sum of TT\$75,000 will be made by way of a direct transfer via the automated clearing house facility to an eligible payee's bank account belonging to a local bank. This will cost TT\$1.5bn, of which TT\$1bn will be raised on the local capital market.

The remaining balance would be paid through the issuance of 20 one-year government bonds. The government will issue TT\$10.2bn of zero coupon bonds in exchange for the liabilities of CLICO/BAT short-term investment product holders.

The bonds with maturity of 1-10 years can be cashed at local financial institutions within the first six months, while bonds with maturity of 11-20 years could be exchanged for units in a trust, currently referred to as NEL 2. These 11-20 year bonds can be exchanged for units - dollar for dollar - in other words, 100% of the principal.

The primary assets of the trust will be CLICO's shareholdings in [Trinidadian bank] Republic Bank. It's expected that the trust option will be made available within one year. Payments will be made in alpha sequence and are expected to run from December 2011 through to June 2012.

BNamericas: Where will the money for the bailout come from? It has been reported that assets of CLICO's parent, CL Financial, will be used as collateral, but where will the primary resources come from?

Dookeran: Funding will be raised issuing government bonds of TT\$6bn on the local capital markets. The government will also inject a further TT\$2bn in cash, while CLICO's shareholding in Republic Bank will be used to provide the investment base for a trust [NEL2] to satisfy the redemption of bonds for the

years 11–20. Further to the memorandum of understanding, CL Financial will be liable to repay the government's debt via the sale of its assets.

BNamericas: What role will the country's central bank play?

Dookeran: The central bank remains the manager of CLICO and BAT, and its role will be registrar and paying agent on behalf of GORTT with respect to the mentioned bonds.

BNamericas: How does this payment plan affect the country's economy? For instance, will it have an effect on pension funds, on infrastructure development; will it affect the social security sector?

Dookeran: The country's debt profile will not be affected, and so far there has been no effect on the country's rating. GORTT has introduced measures in its recent budget to ensure that infrastructure development continues and social security issues are addressed.

BNamericas: Will the government only take responsibility for the Trinidadian policyholders, or will it also assume payment for CLICO's subsidiaries across the Caribbean?

Dookeran: The government will assume responsibility to pay the resident and non-resident policyholders of CLICO (Trinidad) and British American (Trinidad). Non-resident policyholders are from the Caribbean and outside. Neither CLICO nor BAT own subsidiaries across the Caribbean. The companies which operate outside of Trinidad and Tobago are ultimately subsidiaries of CL Financial Limited.

BNamericas: What is happening currently with CLICO's policyholders? Who is insuring them?

Dookeran: CLICO and British American are in the process of being restructured and will result in a single merged entity, CLICO, which will be responsible for administering the existing traditional insurance portfolios and generating new business. Currently, both companies continue to market their products and service all of their clients.

BNamericas: How many policyholders have already been affected by this action, and how many will be the total by the end of the payment plan?

Dookeran: Approximately 11,000 clients holding short-term [policies] have received payments to date, and a further 15,000 will be affected.

BNamericas: Is the bancassurance model - banks selling insurance policies - growing in Trinidad and Tobago? In many other countries in the region it's growing very fast these days.

Dookeran: The model exists, but growth in this area has been slow. Insurance is primarily sold through agencies/brokers.

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