



Developments in the Resolution Strategy for Colonial Life Insurance Company (Trinidad) Limited and Related Companies



CENTRAL BANK OF
TRINIDAD & TOBAGO

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Launch of *November 2018 Monetary Policy Report*
Central Bank Conference Facilities,
November 15, 2018

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Key Points

1. In January 2009, the Central Bank received a request for extensive liquidity support from a major player in the domestic financial market.
2. The systemic reach of the institutions in difficulty meant that financial stability in Trinidad and Tobago was at risk.
3. The extent of support necessitated substantial fiscal outlay.
4. At the heart of the problems was a combination of poor governance, investment overreach and gaps in the legislative framework.
5. Over the decade overlapping phases in the resolution strategy involved: initial control; financial support; stabilizing the institutions; and recovery of the financial support.
6. These phases were bolstered by efforts to strengthen the legislative and supervisory framework.
7. The resolution plan is on track and the risks to financial stability in Trinidad and Tobago have been minimized.
8. Moreover, a substantial amount of the fiscal support to CLICO/BAT has been recovered.
9. The sale of the traditional portfolio of CLICO is nearing completion.
10. This would pave the way for Central Bank exit from control over CLICO and BAT once conditions are appropriate.
11. The stronger legislative apparatus and integration of the lessons learnt would help to further fortify supervision.

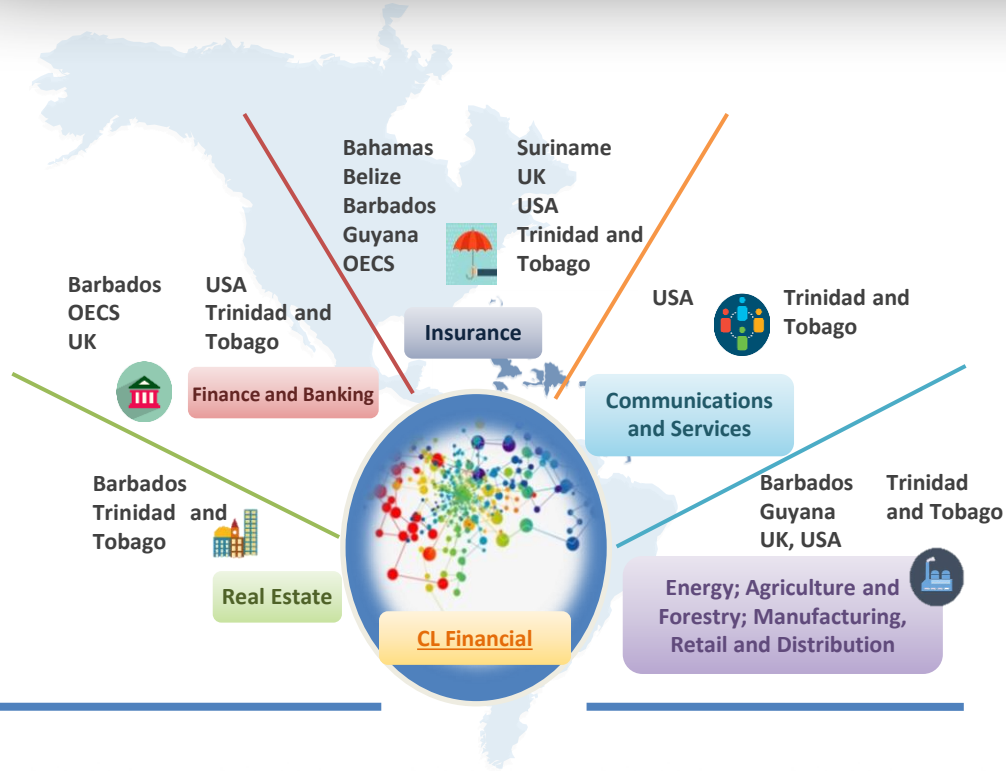


1. In January 2009, the Central Bank received a request for extensive liquidity support from a major player in the domestic financial market.

- CL Financial Group had either ownership or significant shareholdings in the country's largest bank and insurance company and a large non-bank financial institution.
- The Group had very material investments in the energy and spirits sectors and in total, controlled over TT\$100 billion of assets in more than 50 companies.
- CLF initially warned the Central Bank of liquidity issues at CLICO Investment Bank (CIB) and requested assistance in avoiding a run.



2. The systemic reach of the institutions in difficulty meant that financial stability in Trinidad and Tobago was at risk.



- Difficulties were more fundamental and far reaching than liquidity issues that could be contained to CIB.
- Significant Statutory Fund deficits in Colonial Life Insurance Company (Trinidad) Limited (CLICO) and British American Insurance Company (Trinidad) Limited (BAT).
- The various entities in the CL Financial Group were highly exposed to each other through related party transactions.
- Almost 83% of CLICO's assets were invested in related parties, with more than TT\$4 billion in CIB.



3. The extent of the support necessitated substantial fiscal outlay.

**Government of Trinidad
and Tobago:**
TT\$24 billion
17% of GDP

**Central Bank of Trinidad
and Tobago:**
Section 44D
Emergency Powers
Control of CLICO/BAT

**Deposit Insurance
Corporation:**
CIB in liquidation

International experience shows that increases in public debt and disruptions to financial systems may persist for many years after the initial fiscal outlay.



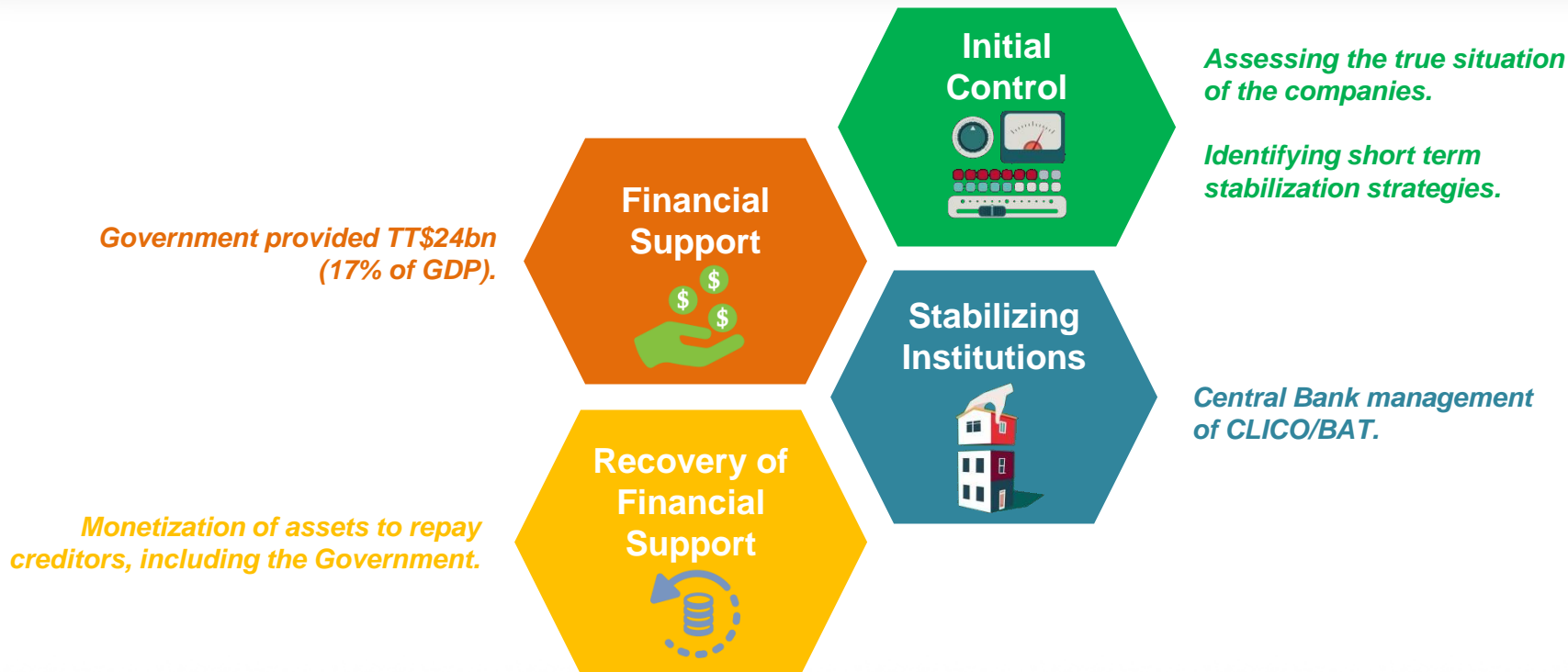
4. At the heart of the problems was a combination of poor governance, investment overreach and gaps in the legislative framework.

- Boards met infrequently with a limited numbers of independent directors.
- Audit and investment committees did not function effectively.
- Inter-company transactions were excessive.
- Asset-liability management was not at the forefront of investment decisions.
- Due diligence on acquisitions was exceptionally weak.
- The regulatory regime did not require that the level of capital held be commensurate with investment risks being undertaken.





5. Over the decade, 4 overlapping phases in the resolution strategy can be identified.





6. These phases were bolstered by efforts to strengthen the legislative and supervisory framework.

Insurance Bill

Lower House February 2018



Senate May 2018



Assented June 2018

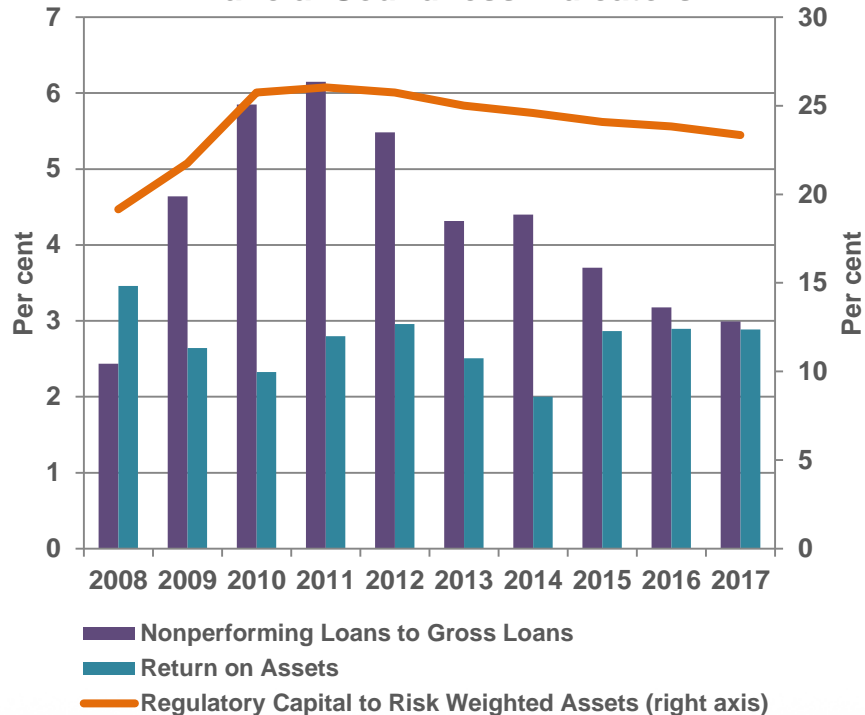


- More realistic capital positions.
- Stronger governance.
- More risk-based conditions.
- Fortify the regulatory powers of the Inspector of Financial Institutions.



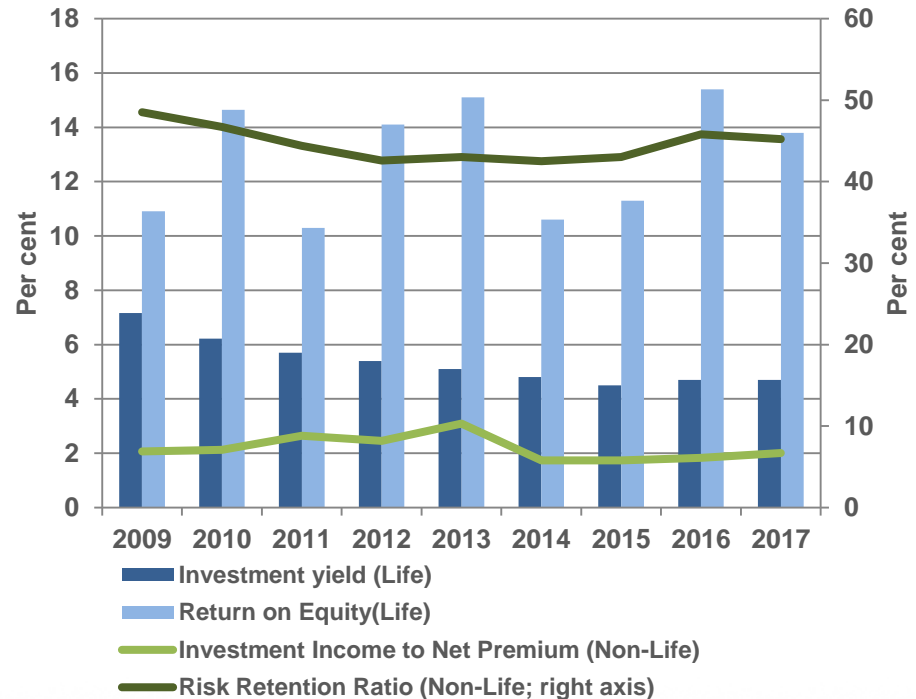
7. The resolution plan is on track and the risks to financial stability in Trinidad and Tobago have been minimized.

Chart 2: Banking System Financial Soundness Indicators



Source: Central Bank of Trinidad and Tobago.

Chart 3: Insurance Sector Financial Soundness Indicators*



* Indicators shown exclude CLICO.



8. Moreover, a substantial amount of the fiscal support has been recovered.

Table 1: Government support provided to CLICO – Sep-18*

	TT\$Bn
Total Support**	17.9
Total Repayment by CLICO***	13.9
<i>of which: CLICO recovery from DIC</i>	2.9
Balance Owed	4.0

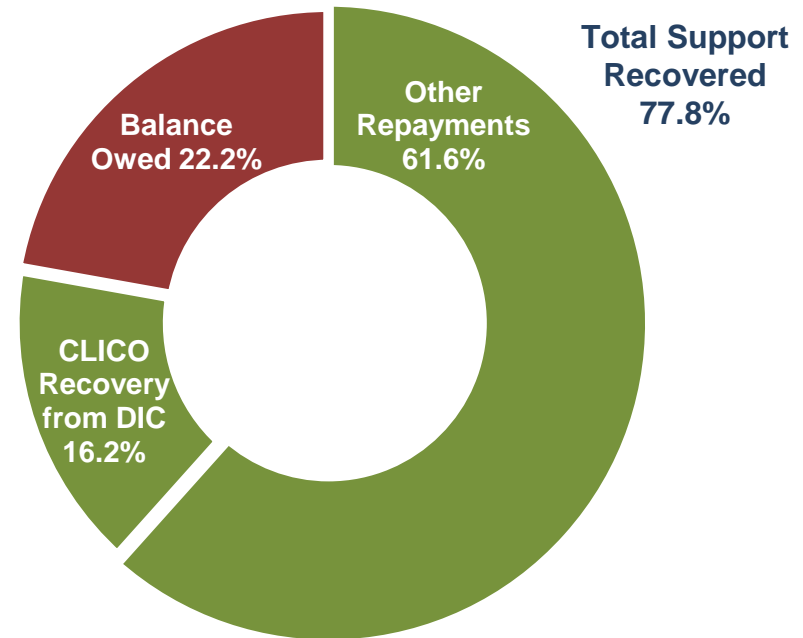
* Figures are approximate.

** Includes accrued interest on preference shares.

*** Includes cash and other asset sales.

Source: Central Bank of Trinidad and Tobago

Chart 1: Per cent of support recovered from CLICO/BAT – Sep18



Source: Central Bank of Trinidad and Tobago



9. The sale of the traditional portfolio of CLICO is progressing.

- March 2015 resolution plan included sale of traditional portfolio to a suitable purchaser.
- The traditional insurance portfolios of CLICO and BAT consist largely of universal life and term policies, deferred and immediate annuities and some group pension schemes.
- Following a rigorous process lasting several years, CLICO/BAT with Central Bank oversight identified a preferred bidder to acquire and manage the business.
- Sale and purchase agreements are to be finalised and parties will then work closely to get the necessary regulatory approvals.
- In the transition period of several months, CLICO and BAT will continue to manage their portfolios until the transfer is fully complete.



10. This would pave the way for Central Bank exit from control over CLICO and BAT once conditions are appropriate.

- The Central Bank assumed control of the companies in the interest of policy holders and financial system stability.
- The Bank however does not perceive its role as running a commercial enterprise.
- The next steps will be for the preparation of 'schemes of transfer' to seek regulatory approvals for the transfer of the policies from CLICO/BAT to the buyer.



11. The stronger legislative apparatus and integration of the lessons learnt would help to further fortify supervision.

- With the implementation of the new Insurance Act, the local insurance industry will be subject for the first time to a modern risk-based approach to capital, actuarial valuation and other aspects of insurance supervision.
- The Bank recognises that it will need to “up its own game” to facilitate the effective implementation.
- In preparation, the Bank is already engaging in technical support, staff training, appropriate recruitment and strengthening interaction with other local and external regulators.
- An IMF/World Bank Financial Sector Assessment Program in 2019 would help to further advance our capacity on insurance supervision.



Thank You