



Financial Sector Resolutions: Lessons from the CLICO, BAT & CIB Experience



CENTRAL BANK OF
TRINIDAD & TOBAGO

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- Project 8 of the Central Bank of Trinidad and Tobago's Strategic Plan 2016/17—2020/21 (available on our website: www.central-bank.org.tt) involved finalization of the CLICO Resolution.
- A component of this project is *“Assess legal and other lessons learnt and adjust processes accordingly.”*
- This presentation by Central Bank staff summarizes the main lessons from the resolution experience to date and will form an important guide for the future.
- The Central Bank welcomes comments and suggestions as we aim to improve our contribution to financial stability in Trinidad and Tobago.

Overview



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I. Brief History

II. CLF Structure

III. Regulatory Issues and Actions

IV. Resolution Plan

V. Lessons Learnt

VI. Looking back, moving forward

I. Brief History



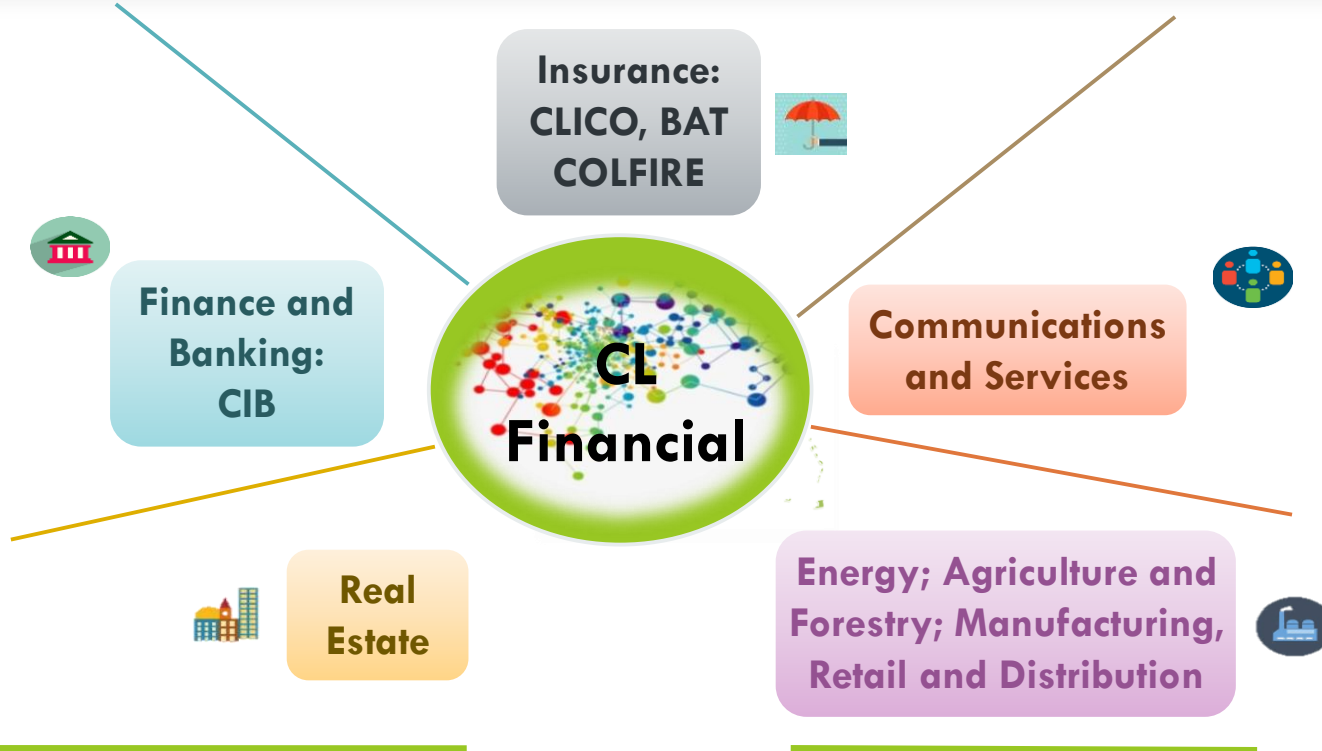
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Year	Event
1936	Mr. Cyril Duprey established the first locally owned insurance company incorporated in Trinidad and Tobago, Colonial Life Insurance Company (CLICO). Operations began June 01, 1937 offering industrial insurance.
1946	CLICO established branch offices in Grenada, Guyana, Antigua, Barbados, St. Vincent, St. Kitts and St. Lucia with subsidiaries and investments in financial sector businesses, in Trinidad and Tobago and the Caribbean region.
1958	CLICO entered the field of Group Insurance and grew to become the major group carrier in the country. Its services were further expanded with the formulation of Colonial Fire and General Insurance Company.
1988	Chairmanship of CLICO was handed over to Mr. Lawrence Duprey. Thereafter, the company began to further diversify its activities.
1988	Colonial Trust and Financial Company Limited was incorporated under the Companies Ordinance and changed its name in January 1991.
1991	Clico Investment Bank (CIB) was licensed under the Financial Institutions Act.
1993	The holding company, CL Financial Limited (CLF) was established.
1997	CLF acquired 77% shareholding of British American Insurance Company (Trinidad) Limited (BAT) and the Head Office moved from The Bahamas to Trinidad and Tobago.

II. CLF Structure



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III. Regulatory Issues & Actions - General



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Inadequate corporate governance

Lack of proper risk management

Inappropriate business strategies

Excessive related party transactions



Registered as a Composite insurer under the Insurance Act to carry on Long-Term and General Insurance, as well as Mortgage business and Mutual Funds

- ❑ Lack of corporate governance throughout the Group
- ❑ Excessive intercompany transactions and borrowings
- ❑ Unsustainable guarantees
- ❑ Improper investment decisions and acquisitions
- ❑ Explosion of expenses



Registered as a Composite insurer under the Insurance Act to carry on Long-Term and General Insurance, as well as Mortgage business

- ❑ Inadequate corporate governance
- ❑ Unsustainable guarantees
- ❑ Persistent statutory fund deficits
- ❑ Rapid growth without adequate controls

Regulatory Issues - CIB



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Registered as a Non-Bank under the Financial Institutions Act to carry on business of a Merchant Bank, Confirming/Accepting House, Leasing Corp., Finance House/Finance Company, Mortgage Institution and Trust Company

- ❑ Inadequate internal controls within the loan portfolio
- ❑ Critical weaknesses in liquidity risk management
- ❑ Significant concentration risk within deposit portfolio
- ❑ Breaches of the FIA 1993
- ❑ Excessive related party transactions.

Regulatory Actions by the Central Bank



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Conducted numerous onsite examinations

Supervisory meetings convened with Senior Management and Board

Aggressive monitoring to track implementation of remedial actions

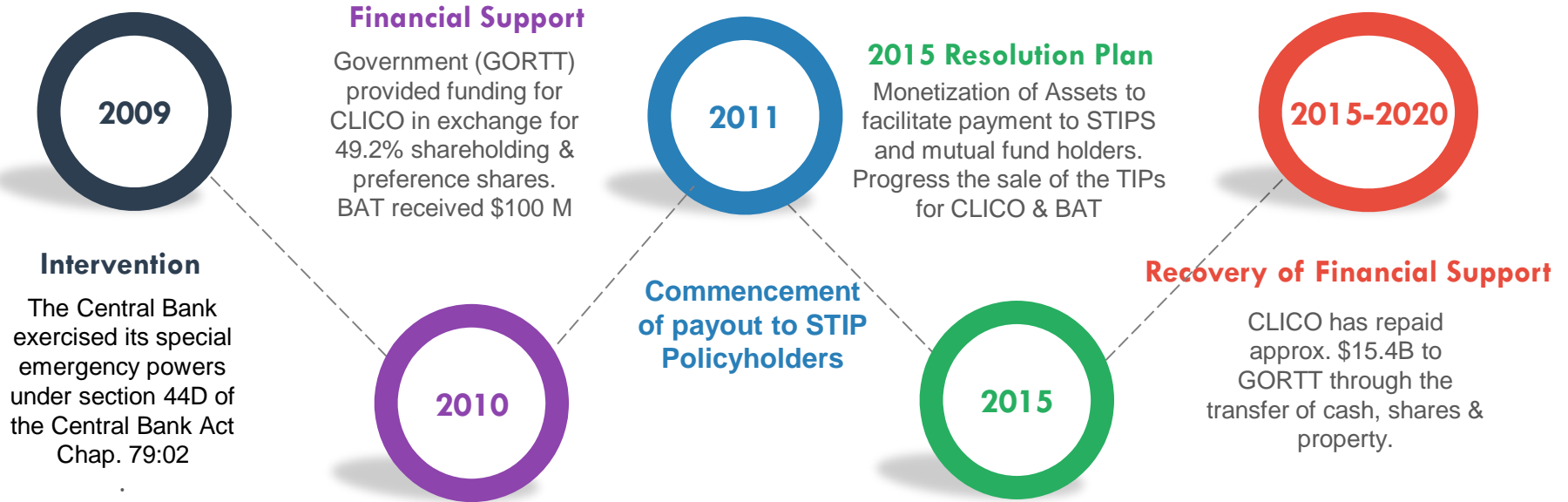
Pursued legal actions within our regulatory authority

IV. Resolution Plan –

Phases for CLICO/BAT



Resolution Plan – Milestones for CLICO/BAT



Resolution Plan - CIB



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2009-
2010

- Transfer of Deposit Liabilities to First Citizens

April 2010

- Petition Court to Wind Up CIB

October
2011

- Wind up Order Granted, DIC Appointed as Liquidator, Revocation of Licence by Central Bank

2018

- First and Second Distributions by DIC to Creditors

V. Lessons Learnt



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1. Ensure quality analytics

2. Be prepared to deal with a Crisis

3. Work through legislative gaps

4. Effective communication is crucial

5. Appoint the right management teams

6. Specialized skills are necessary

7. Close collaboration with fiscal authorities is essential

8. Coordination with other regulators is also critical

9. Expect high legal and associated costs

10. Resolution details should be meticulously documented



1. Ensure quality analytics

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Supervision of financial institutions

Risk-based, comprehensive and continuous

Integrated approach - micro and macro issues

Stress testing

Independent, fearless, willing to act and take early action

Open channels of communication between supervisor and institution

Strengthen technical and analytical capacity





2. Be prepared to deal with a crisis

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National Crisis Management Plan

- Recommendation of upcoming IMF Financial Sector Assessment Program Report
- Manage and resolve financial crises without systemic disruption
- Involve all supervisory and resolution agencies

Internal Crisis Management Plan

- Avoid a knee jerk reaction, acting in the moment
- Identify triggers and courses of action
- Strengthen inter-departmental collaboration within CBTT
- Activate designated crisis specialist team in CBTT

3. Work through legislative gaps



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Comprehensively review legislation to rectify hindrances to timely implementation of Resolution Plans

New insurance legislation should be proclaimed as soon as possible

“Fast-track” legislative amendments if necessary



4. Effective communication is crucial



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Who

Staff, stakeholders, regulators, public

What

Tailored to the audience, consistent

When

Timely, regular and as necessary

Why

Maintain confidence in the sector

Where

Internally, media, website

5. Appoint the right management teams



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**Develop
framework for
selection**

Judicial managers, Board of Directors,
Company management team

**Establish
robust
governance**

Objectives aligned with resolution mandate

Accountability

Effective Oversight

6. Specialized skills are necessary



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Wide range of highly specialized skills

- Actuarial, accounting, finance, asset valuations, legal, IT, custodian and brokerage

Develop transparent framework for selection

A pre-approved list of professionals with solid track records can help in expediting action

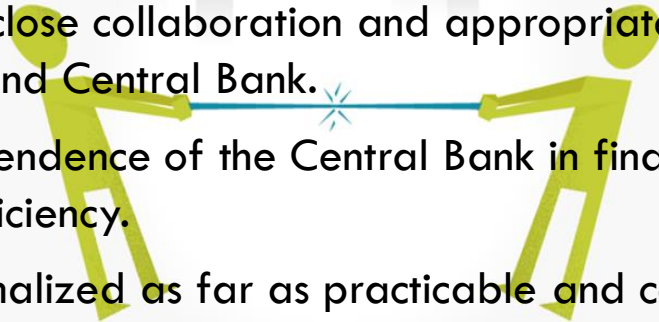


7. Close collaboration with fiscal authorities is essential



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- **In a situation of bailout of financial institutions, public resources are often utilized.**
- The Government therefore has a responsibility to ensure that the public funds are well deployed.
- There should therefore be close collaboration and appropriate information sharing between the Government and Central Bank.
- At the same time the independence of the Central Bank in financial stability issues must be preserved to ensure efficiency.
- Responsibilities can be formalized as far as practicable and communication plans coordinated to provide clear public messages to the public.

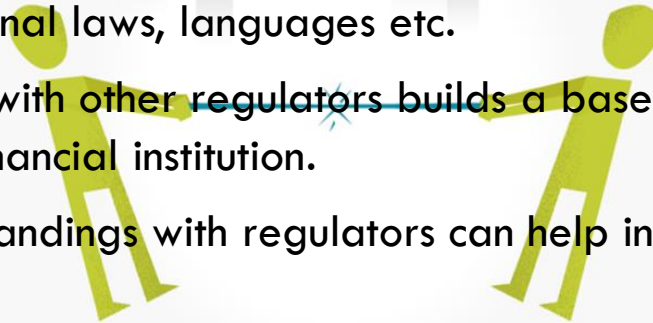


8. Coordination with other regulators is also critical



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- ❑ **Nowadays, most financial institutions have very complex structures.**
- ❑ This means that other domestic as well as foreign regulators are involved.
- ❑ There are potentially several complications with cross-border financial activities, including different national laws, languages etc.
- ❑ Ongoing collaboration with other regulators builds a base for action in case of problems faced by a financial institution.
- ❑ Memoranda of Understandings with regulators can help in information flows and taking action.



9. Expect high legal and associated costs



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Legal challenges are almost inevitable and can be drawn out.

Parliamentary scrutiny and Commissions of Enquiry can feature depending on the scale of the problem.

Civil or criminal proceedings against managers of the entity are possible.

There is often a limited pool of appropriate independent experts – legal, forensic accounting, actuarial, IT etc.

Different legal systems and enforcement action with cross border operations complicate the scenario.

Quick turnaround of expert opinions is often required.



10. Resolution details should be meticulously documented



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Document process for investigations, stewardship, decisions taken, rationale, personnel, expenses

Ensure safe and secure storage of information

Establish protocols for sharing information

Develop policies for transparency and consistency

VI. Looking back, moving forward....



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Specialized skills

Detailed record keeping

Be prepared



Modern legislation

Coordination

Analytics

Communication



THANK YOU.

Please send comments to
info@central-bank.org.tt