THE CARIBBEAN: RETHINKING POLICY FRAMEWORKS IN THE WAKE OF THE RECENT FINANCIAL FAILURES

Michael DaCosta[1]
DaCosta Associates

Kari Grenade
Caribbean Development Bank

Tracy Polius
Caribbean Centre for Money and Finance

November 2012

Abstract:
Until recently, most of the focus of analysis of Caribbean economies has been on weak fiscal performance, high debt burdens, and the need for reforms aimed at sharpening the capacity of the region to compete in the global economy. Financial sector risks were seen as benign, with assessments pointing to generally robust indicators and adequate regulatory frameworks. This analytical framework was upturned by the failures of the Stanford Financial Group, CL Financial, and others. The size and extent of the failures raise concerns about the current models of analysis and policymaking, including the hitherto almost single-minded focus on fiscal policy at the expense of financial stability. At the same time, the episodes provide an opportunity to re-assess the policy frameworks and set out elements of a revamped approach that incorporates (i) closer linkages between fiscal policy and financial sector regulation; (ii) a re-assessment of existing approaches to financial sector supervision and the work of regulatory agencies; and (iii) greater transparency about the cost and burden-sharing of financial failures. This paper sets out some initial proposals relating to such an approach.

Key words: Financial failures, Macroeconomic policy, Caribbean
JEL codes: G01, G18, E61, O54

[1] Corresponding author's contact information: dacostas@earthlink.net

1. INTRODUCTION

In recent years, most of the focus of macro-analytical work on Caribbean economies has been on their fiscal performance and prospects, high debt burdens, and the need for adjustment and reform to improve their capacity to compete in the global economy. This focus was evident in the early analyses on the region's fixed exchange rate regimes, particularly in Barbados and the countries of the Eastern Caribbean Currency Union (ECCU). The framework for much of that work centered on the notion that with the exchange rate instrument unavailable and monetary policy proscribed by openness and capital mobility, the only remaining option for policymakers seeking to maintain a stable macroeconomic environment was to control the operations of the public sector. In countries aiming to manage the exchange rate flexibly also, a fiscal framework for short-term management was seen to be useful in influencing expectations about the stability of the desired exchange rate band.

This framework was embedded further through the fiscal and debt programming exercises carried out by staff of the International Monetary Fund (IMF) and country officials in the course of the annual IMF missions to each country. Those exercises centered on the premise that public sector spending and/or deficits are the major cause of balance of payments, debt, and exchange rate crises. In the absence of alternative, operational frameworks to guide policy, this tool became the main focus for economic management in the Caribbean. Alongside the positioning of fiscal policy at the center of economic management was the widespread expert assessment that the region's financial systems were broadly sound. However, the assessments in recent years have recognized that there were risks associated with high exposures of the indigenous commercial banks to the public sector and with the regulation of financial conglomerates and nonbank institutions. In implementing fiscal and financial sector policies and oversight, the former was done in the framework of budgets, debt, and the operations of the public sector, while the latter was based largely in central banks and addressed compliance with regulatory ratios and norms.

This two-pronged policy mechanism was upturned by the crises that followed the failures of Bank of Antigua (BOA), Colonial Life Insurance Company (CLICO) Financial, and British American Insurance Company (BAICO). Imprudent behavior by financial institutions and/or their holding companies, together with inadequate laws, weak enforcement, and endorsements of financial soundness by rating agencies and auditors, combined to erupt into a costly and widespread fiscal storm that enveloped not only Trinidad and Tobago and Antigua and Barbuda, but also the other ECCU countries, Barbados, Belize, the Bahamas, Guyana, and the Turks and Caicos Islands. Almost four years after the failures, a clear path toward resolution is yet to be established in many of the affected countries, which has caused renewed uncertainty about their fiscal/debt sustainability and the prospects for economic recovery.

The size and extent of the failures raise grave concerns about the framework and practice of financial sector regulation, as well as the current approach to macroeconomic management based on an almost single-minded focus on fiscal policy. At the same time, the episodes provide an opportunity to re-assess policy frameworks and consider a revamped approach that incorporates closer linkages between fiscal policy and financial sector risks, and a re-assessment of existing approaches to financial sector supervision and the work of regulatory agencies. The development of more effective frameworks will also benefit from greater transparency about the origins, cost, and burden-sharing of the recent financial failures.

This paper aims to set out the elements of such an approach against the background of a review of the antecedents to the crises, efforts toward resolution, and initial estimates of the costs of the failures. The structure is as follows: Section 2 describes the framework of fiscal analysis and the wide-ranging adjustment efforts in the period before the financial failures. In practice, economic policy was dominated by fiscal policy, leaving little time for policy oversight of the burgeoning risks in the financial sector. Section 3 describes the path toward financial collapse in Antigua and Barbuda and Trinidad and Tobago, pointing to clear indications of weakness and excessive risk. Section 4 turns to the mechanisms through which jurisdictions intervened in the failed institutions, and summarizes the available information on the ongoing resolution process. Section 5 presents some estimates of the fiscal and other costs of the failures, and the response of governments to date through their efforts to strengthen the legislative and institutional framework. Section 6 makes some suggestions, based on the early lessons from the crisis, for revamping frameworks of economic analysis and policy in the Caribbean. The suggestions are based on the principles of transparency through explicit recognition of resolution costs in budgets and fiscal plans and regular communication with the public. Section 7 presents some conclusions.

2. FISCAL ANALYSIS AND POLICY BEFORE THE FINANCIAL FAILURES

This section assesses fiscal performance and policy during the pre-crisis period (2005-2008) in the countries[2] affected by the regional financial crisis. In this context, it examines developments in key fiscal and debt indicators and considers the implications for medium-term sustainability based on the fiscal stance in 2008. The section also examines fiscal policy frameworks and summarizes the fiscal adjustment programs undertaken in countries (some within the context of IMF programs and others designed as home-grown fiscal adjustment programs) in the run-up to the outbreak of the crisis in early 2009. Accordingly, the main features of the economic adjustment programs in strategic areas such as revenue/tax administration, expenditure management, debt management, and public financial management (PFM) are reviewed and factors underpinning success/failure of reform implementation are examined. The section concludes with some observations on the nature of macroeconomic policy discussions during the pre-crisis period and finds that fiscal issues dominated the policy discourse. In retrospect, the heavy focus on fiscal policy proved costly to the region as policy weakness, especially in the nonbank financial sector were inadequately dealt with due to regulatory and supervisory laxities that were more acute than the diagnosis at the time suggested.

2.1 Pre-Crisis Fiscal Context: 2005-2008

On average, the fiscal situation in the Caribbean improved throughout the pre-crisis period. However, by 2008, the majority of countries were dissaving and public debt in the majority of countries (though lower relative to 2005) was still at a level that could not be comfortably sustained in the medium-to-long term. As Table 2.1 shows, the simple average of the countries' overall fiscal deficit[3] (% of Gross Domestic Product [GDP] henceforth) narrowed to -1.6% in 2008 from -3.9% in 2005, aided by the expansion in the Region's average primary surplus (% of GDP henceforth) to 1.3% from 0.3%. Public debt (% of GDP henceforth) was on a persistent downward trajectory throughout the period, with the average falling from 85.1% in 2005 to 75.3% in 2008. The fiscal improvement was consistent with the positive trends in macroeconomic performance that had started in 2003, supported by benign global economic conditions that buoyed domestic economic activity. Relatively robust regional economic growth that averaged 3.8% over the period augured well for public finances, enabling many countries to adopt a pro-cyclical fiscal stance for most of the pre-crisis period. Fiscal performance varied

[2] By implication, Haiti, Jamaica, Suriname, and the overseas dependant territories are excluded from the analysis.
[3] Refers to central government deficit.

across countries with the improvement particularly marked in Guyana and Belize and to a lesser extent, the ECCU and Trinidad and Tobago. In contrast, fiscal performance deteriorated significantly in Barbados and the Bahamas.

In Barbados and the Bahamas, the fiscal deterioration was associated largely with substantial increases in public expenditure; in some years, much higher-than-budgeted transfers to public enterprises. In the case of Barbados, the growth in expenditure was mainly associated with expansion in public investment related to Cricket World Cup (CWC) preparations as well as major infrastructure projects, including the construction of a new prison and judicial centre and a highway expansion. In the Bahamas, the rise in expenditure was related to infrastructural upgrades of the social architecture (schools, roads, etc.). In Barbados, the overall fiscal deficit widened to -4.7% in 2008 from an average of -2.1% during 2005-2007, while persistent primary surpluses (averaging 1.6% of GDP during 2005-2007) eventually turned to a small deficit in 2008. The public debt-to-GDP ratio grew persistently in the pre-crisis period at an average annual rate of 7.8 percent to reach 100% in 2008. The significant increase in the ratio, was in part, associated with the 'bring to book' (in 2007 when accrual accounting was introduced) of several off-budget expenditure items related to public-private partnerships. In the Bahamas, the fiscal operations of the central government resulted in an erosion of the primary surpluses, which turned to a deficit in 2008 (0.4% of GDP). Public debt rose to 32.6% in 2008 from an average of 29.8% during 2005-2007.

In the remaining countries where the fiscal situation improved, expenditure restraint (primarily but not exclusively capital expenditure) was the main reason in Guyana and Belize. The two countries also benefitted from significantly reduced debt servicing costs as a result of debt forgiveness and restructuring respectively. Guyana's public debt fell to 61.6% in 2008 from the average of 89.6% during 2005-2007, while in Belize, the ratio declined from an average of 93.8% during 2005-2007 to 79.4% in 2008. Strong revenue performance accounted for the fiscal improvement in the ECCU and Trinidad and Tobago. For the ECCU, there was a cumulative decline in the public debt-to-GDP ratio of 10.5 percentage points over the four-year period. Nonetheless, the average ratio was still high at 80% in 2008. In Trinidad and Tobago, public debt was on a persistent downtrend, declining to 25.4% in 2008 from an average of 32.8% during 2005-2007.

Table 2.1: Pre-crisis Fiscal Performance (% of GDP)

	Overall Balance				Primary Balance				Public Debt			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
NonECCU Average	***-4.4***	***-1.2***	***-1.2***	***-0.1***	***-0.4***	***1.8***	***1.5***	***2.3***	***71.9***	***65.4***	***59.5***	***59.8***
Bahamas	-1.7	-2.6	-2.7	-1.8	0.2	0.3	-1.0	-0.4	29.2	29.4	30.8	32.6
Barbados	-3.3	-1.5	-1.4	-4.7	0.4	2.3	2.1	-0.2	76.6	79.6	90.4	99.9
Belize	-5.4	-1.8	-1.2	3.2	2.0	4.0	4.1	5.4	101.4	92.5	87.6	79.4
Guyana	-17.3	-7.2	-4.9	-4.7	-12.8	-5.8	-3.4	-3.4	115.7	93.1	60.1	61.6
Trinidad and Tobago	5.7	6.9	4.0	7.5	8.3	8.3	5.7	10.0	36.8	32.6	28.9	25.4
ECCU Average	***-4.1***	***-2.7***	***-1.7***	***-0.7***	***1.0***	***2.0***	***2.2***	***2.7***	***90.2***	***90.9***	***83.1***	***79.7***
Antigua and Barbuda	-5.7	-8.5	-6.4	-6.3	-1.5	-4.3	-2.9	-3.1	87.3	90.5	79.7	80.1
Dominica	1.2	3.6	1.8	0.7	6.3	5.8	3.7	2.4	66.6	89.4	71.7	64.7
Grenada	0.4	-6.1	-7.9	-5.1	2.4	-4.3	-5.8	-3.0	87.9	87.5	83.4	79.3
St. Kitts and Nevis	-4.1	-5.0	-3.5	-3.9	4.0	4.7	2.7	3.7	120.0	117.1	114.2	126.1
St. Lucia	-6.8	-6.1	-1.0	-1.1	-3.8	-2.8	2.6	2.3	64.9	64.6	64.7	61.9
St. Vincent and the Grenadines	-5.6	-3.9	-4.0	-1.4	-2.6	-0.5	-0.8	1.1	66.5	62.3	55.5	57.7
Caribbean Average	***-3.9***	***-2.9***	***-2.5***	***-1.6***	***0.3***	***0.7***	***0.6***	***1.3***	***85.1***	***82.5***	***75.9***	***75.3***

Sources: IMF; Caribbean Development Bank (CDB); and Country Authorities.

2.2 Pre-Crisis Fiscal Policy Framework: 2005-2008

During the pre-crisis period, notwithstanding fiscal surpluses in some countries and the general favorable fiscal context underpinned by sustained economic acceleration (at least up until 2007), the underlying pro-cyclical fiscal stance (in almost all countries) did not support long-term sustainability in the absence of significant fiscal tightening. Indeed, our estimates[4] of an illustrative debt sustainability analysis suggest that for most countries (with the exception of Belize, Dominica, and Guyana), the fiscal stance at end 2008 (primary balance and public debt ratios) was unsustainable and that in many cases, large-scale fiscal adjustments would have been required to reduce public debt to 60% by 2012. For example, the following are magnitudes of average annual fiscal adjustments (% of GDP) estimated for the period 2009-2012: 11.6% in Antigua and Barbuda; 7.0% in Barbados; 6.3% in St. Vincent and the Grenadines; 4.1% in St. Kitts and Nevis and

[4] The estimates are based on the fiscal outturns (public debt and primary balance as percentages of GDP) in 2008 (assuming no changes in fiscal policies) and assumptions for real GDP growth and interest rates over the period 2009-2012.

St. Lucia; 3.8% in Grenada; and 3.7% in both the Bahamas and Trinidad and Tobago. Indeed, because the large-scale fiscal adjustment that was required was not made, the fiscal challenge became more acute by 2010-2011 and the fiscal profile remained unsustainable in countries such as Antigua and Barbuda, Barbados, and St. Kitts and Nevis.

Against the backdrop of underlying weaknesses in fiscal frameworks and unsustainable fiscal performance, there was a clarion call by development partners throughout the pre-crisis period, but especially from 2007 for fiscal-structural reforms to be deepened so as to improve public finances, contain indebtedness, and entrench macroeconomic stability. Indeed, the need for fiscal consolidation dominated macroeconomic policy discussions, and by extension, shaped fiscal frameworks during the pre-crisis period. Ongoing reforms in strategic areas such as revenue administration, expenditure management, debt management, and PFM were in fact deepened in some countries during the pre-crisis period.

Of the ECCU countries, Antigua and Barbuda pursued its own home-grown adjustment programme (The National Economic and Social Transformation [NEST] Plan, 2005). The objective of the NEST Plan was to restore fiscal and debt sustainability. Dominica and Grenada pursued reforms in the context of IMF Poverty Reduction and Growth Facility (PRGF) programs, while in the remaining member countries, the authorities expressed commitments to a gradual approach to fiscal consolidation by pursuing fiscal-structural reforms. These reforms, although not anchored in a medium-term fiscal consolidation strategy, were taken within the context of annual Budgets.

The underpinnings of this sharp focus on fiscal policy were straightforward. In the case of the ECCU countries persistently weak fiscal outcomes and unsustainable debt burdens were seen correctly as risks to the fixed exchange rate peg on which the currency union is anchored. In the case of the other countries fiscal fragility would also raise concerns about the stability of the exchange rate and possible capital flight. In addition, an unsustainable fiscal position would lead to a ratings downgrade and an increase in the cost of commercial financing.

Of the non ECCU countries, Barbados, Belize, and Trinidad and Tobago undertook reforms within the context of home-grown economic programs, while Guyana's reforms were in the context of an IMF PRGF programme. In relation to Barbados, its National Strategic Plan (2005-2025) established the fiscal objectives of developing a transparent and sustainable public management system and promoting efficiency in tax collection and expenditure management. Belize's programme focused on correcting acute fiscal and external imbalances, while a major plank of the fiscal focus of Trinidad and

Tobago's program was establishing a permanent oil fund. The Bahamas did not have an explicit program, but reforms were implemented within the context of annual Budgets. Indeed, fiscal consolidation and entrenching debt sustainability were the overriding objectives of governments' economic programs. In essence, fiscal policy became economic policy.

While there was consensus on the need for fiscal consolidation from multilateral and other institutions (including the academy in the case of Barbados and Trinidad and Tobago), there were varying views on the nature of, and approach to fiscal adjustment. Generally, a gradual approach to fiscal consolidation and reforms was adopted in countries pursuing home-grown programs (Antigua and Barbuda being a notable exception), and there were little material differences in the context of adjustment measures and reforms pursued through home-grown or IMF programs.

With respect to revenue reforms, the most common adjustment measure in both IMF and home-grown programs was the introduction of new taxes and/or fees. In the context of IMF programs, a VAT was introduced in Dominica and Guyana in 2006 and 2007, respectively, and Grenada introduced a National Reconstruction Levy in 2006. In home-grown programs, sales taxes were introduced in Belize (2006) and Antigua and Barbuda (2007). Additionally, Antigua and Barbuda also reintroduced the income tax in 2005 and implemented a market-based property tax system in 2007. Also, Barbados increased fees and charges on several services in 2008. Regarding fiscal-structural reforms, several countries including Antigua and Barbuda, Barbados, Dominica, and Grenada sought to improve revenue administration by modernizing their Customs and Excise Departments; these reforms occurred in the context of both IMF programs and home-grown programs. In Trinidad and Tobago, a key milestone along the fiscal reform continuum was attained in 2007 with the establishment of the Heritage Stabilization Fund (HSF).

With respect to expenditure management, reforms typically focussed on reducing wasteful spending; improving cost effectiveness and efficiency of service delivery; restraining growth in wages and salaries (A Voluntary Separation Package was introduced in Antigua and Barbuda in 2005); improving procurement practices; and enhancing the targeting of social spending. PFM reforms generally focussed on improving fiscal planning as well as budget discipline and credibility. Noteworthy, Barbados transitioned from cash accounting to accrual accounting in 2007. With respect to debt management, some countries undertook debt restructuring: Antigua and Barbuda (2006 and 2008); Belize (2007); and Grenada (2006). Guyana received debt forgiveness under the Highly Indebted Poor Country Initiative (HIPCI) in 2006 and St. Vincent and the Grenadines had an external commercial loan written off by a bilateral creditor in 2007.

While there were no material differences in types of fiscal reforms under both IMF and home-grown programs, in the case of IMF programs, fiscal targets were generally met by countries; indeed, the consequences of nonadherence to set fiscal targets (withholding of loan disbursements) infused the discipline to stay the course of fiscal adjustment and reforms. However, in the case of Grenada, its primary balance target was not met at end June 2006 due to capital expenditure overruns associated with reconstruction spending in the aftermath of hurricanes in 2004 and 2005, all other targets were met. In the context of home-grown adjustment programs, reform progress tended to be impeded for reasons including weak political will to stay the course of reforms, and implementation capacity deficits associated with inadequate human resources and institutional arrangements. In the case of Antigua and Barbuda, reform progress was compromised in part because the institutional and legal underpinnings for reforms were weak and/or absent. Moreover, there were some policy reversals in 2008 as the Government pursued counter-cyclical measures to cushion the effects of rising commodity prices and to deal with the onset of the global economic crisis. In Barbados, its Central Government deficit target of 2.25% of GDP for 2008, was not met partly because of the impact of the onset of the global crisis but was also due to spending that coincided with the 2008 election period. In the Bahamas, the Government committed itself (in 2007) to medium-term fiscal targets of balancing the budget and reducing debt-to-GDP ratio to between 25% and 30% by 2012. However, the country's fiscal policies did not support the attainment of those targets.[5]

Indeed, macroeconomic policy discussions focused predominantly on fiscal policy at least up until 2007. Financial sector risks were generally assessed as benign. For example, in its 2003 Article IV Report on Trinidad and Tobago, the IMF noted, 'The banking sector appears sound'. The same assessment was made by the IMF of the banking system in Barbados in 2005, the IMF also added, 'financial soundness indicators have improved'. With respect to the ECCU, the World Bank's Financial Sector Assessment Report of 2004 noted that 'with its fixed exchange rate peg, it has experienced a sustained period of monetary and financial stability for many decades'.

By 2008, IMF Article IV policy discussions were broadened to give greater focus to financial sector stability risks that were emerging. IMF 2008 Article IV Reports for all countries with the exception of the Bahamas, Belize, and Dominica mentioned the need to limit vulnerabilities to the financial sector by restraining rapid growth in private sector credit to prevent a buildup in nonperforming loans (NPLs) in the context of economic deceleration. In Barbados and Grenada, the financial sector discussion went further than just the need to stem rapid credit growth. In the case of Barbados, the IMF expressed the need to strengthen banking regulation; enhance oversight of the nonbanking sector; and

[5] By end-2011 the ratio stood at 50.6 %.

promote cross-country cooperation among regulators to guard against spillover effects given the country's open capital account. In the case of Grenada, the IMF called for a speedy resolution of the issues relating to an unregulated commercial bank; the Government appointed a receiver for the institution in 2008. By and large, banks were well capitalized as evidenced by the regional averages of the Capital Adequacy Ratio (CAR) of 19.9% and 19.8% in 2007 and 2008 respectively. However, in retrospect, bank supervision was not as vigorous as it ought to have been. Additionally, insufficient attention was paid to the nonbank financial sector and as such, internal policy weaknesses were inadequately dealt with, perhaps because policymakers did not view financial sector issues as urgent or important as the fiscal issues and/or perhaps central banks were complacent.

To sum up, despite the general fiscal improvement in most countries throughout the pre-crisis period, the fiscal deficit and public debt were still at relatively high levels that did not support long-term sustainability. Given underlying weaknesses in fiscal frameworks, there were continuous calls from multilaterals as well as academia for tighter fiscal policies to consolidate fiscal stability so as to entrench macroeconomic stability and build economic resilience to face what was at the time, an impending global crisis. Indeed, during the pre-crisis period, fiscal reforms were undertaken in many countries and in some countries, reforms that were ongoing prior to 2005 were augmented and deepened. Discussions on fiscal issues dominated the macroeconomic policy discourse throughout the pre-crisis period.

However, during the latter part of 2007 and certainly in 2008, attention (though not equal to the fiscal issues) was paid to financial sector issues, which largely focused on the need to protect stability by addressing possible fallout from an extended period of rapid credit growth in many countries in the context of decelerating economic activity. By 2008, the economic deceleration that had started in 2007 became more acute and this, coupled with rising commodity prices (particularly food and fuel prices in the early part of 2008) and high deficit and public debt meant that some countries, especially Barbados, those in the ECCU, and to a lesser extent, Trinidad and Tobago, faced the global crisis with significantly compromised macroeconomic fundamentals. This situation, together with a large nonbank sector, to which inadequate attention was paid to by regulators, portended serious 'trouble' for the Region.

3. THE PATH TO FINANCIAL FAILURE: CASES AND ISSUES

This section aims to provide some evidence of the early signals of financial distress within the financial institutions which were intervened in the Caribbean in recent years. These institutions include CLICO, BAICO, BOA, and ABI Bank. Where possible, in each case information is provided that highlights the early signs and sources of financial distress. These signs include factors such as credit runs, liquidity problems, aggressive deposit taking initiatives, and over exposure to particular sectors. A case approach is adopted to clearly present the circumstances surrounding the failure or intervention of each entity.

3.1 Bank of Antigua

BOA was incorporated on 10 February 1981 in St John's, Antigua and Barbuda. The bank operated under the Banking Act of Antigua and Barbuda, No. 14. of 2005 and was regulated by the Eastern Caribbean Central Bank (ECCB). The bank was wholly owned by the Stanford Financial Group (SFG) but operated as an onshore entity separate to the offshore financial institutions owned by SFG. SFG was a privately owned group of financial services firms, including Stanford International Bank (Antigua and Barbuda), Stanford Trust Company and Stanford Capital Management, Stanford Group Broker-Dealer and was controlled by Texan Billionaire, Allen Stanford. SFG was headquartered in Houston, Texas and prior to receivership it claimed that it managed approximately US$8.5 billion (bn) in assets on behalf of about 30,000 clients spread over 136 jurisdictions.

SFG was placed in receivership on February 16, 2009 by order of the United States District Court for the Northern District of Texas. A receiver was appointed for all assets and records of the Stanford International Bank, Ltd., Stanford Group Company, Stanford Capital Management, LLC, R. Allen Stanford, James M. Davis, and Laura Pendergest-Holt ("Defendants") and of all entities, which they owned or controlled. The group was placed into receivership, as Allen Stanford was charged by the U.S. Securities and Exchange Commission (SEC) with fraud and conspiracy in the magnitude of US$8 bn. The SEC asserted a 'massive ongoing fraud' which involved 'misappropriation of billions of dollars of investor funds' on the part of the Stanford Financial Group.[6] The court indictment states that,

> The defendants and their conspirators would make and cause to be made false and misleading representations concerning SIBL's

[6] United States District Court, Southern district of Texas Houston Division, Unsealed Indictment Order against defendants; Robert Allen Stanford, Laura Pendergest-Holt, Gilberto Lopez, Mark Kuhrt, and Leroy King. Pp. 11-12. http://www.justice.gov/criminal/vns/docs/2009/jun/06-18-09Stanford.pdf.

> financial condition touting year-by-year percentage and dollar amount increases in the purported value of its earnings, revenue, and assets, including an increase in the purported value of SIBL's assets from approximately $1.2 billion in 2001 to approximately $8.5 billion in December 2008, when, in truth and in fact, those values were false and designed to deceive investors into believing that SIBL's "investments" were performing as falsely touted.[7]

Immediately following the news of the charge against Allen Stanford on February 17, 2009, long queues begun emerging outside the headquarters of BOA as individuals started the process of withdrawing deposits. Quick action by the regulator followed including issuing of press releases to calm the market, liquidity support to the entity, and takeover of the operations of the entity. These activities are detailed in the Chapter 4.

On February 22, 2009 the ECCB issued a press release which stated that the ECCB, together with representatives from the Government of Antigua and Barbuda, St. Kitts Nevis Anguilla National Bank, Eastern Caribbean Financial Holdings (Bank of St. Lucia), Antigua Commercial Bank, National Commercial Bank (St. Vincent and the Grenadines), National Bank of Dominica met over the weekend and agreed on the formation of a new entity to take over the operations of BOA. Over the period February 25, 2009 to February 2010, a period of calm ensued as the operations of the BOA were spearheaded by the management company-Eastern Caribbean Amalgamated Financial Company Ltd. appointed by the regulator.

3.1.1 Financial Indicators: Early Signs of Difficulties

Financial statements of BOA for financial years prior to the February 2009 intervention by the ECCB are unavailable, and it is therefore difficult to ascertain the financial health of the bank prior to the 'run' which occurred in 2009. However, a financial statement detailing the opening financial position of the ECAB is available, which allows for a limited assessment of the financial health of the old/new entity around the period of intervention.[8]

Table 3.1 presents a summary of the opening financial position of ECAB in comparison to Antigua and Barbuda's banking system. ECAB commenced operations with EC$385.7 million (mn)[9] in assets, representing approximately 7% of the total assets of

[7] United States District Court, Southern district of Texas Houston Division, Unsealed Indictment Order against defendants; Robert Allen Stanford, Laura Pendergest-Holt, Gilberto Lopez, Mark Kuhrt, and Leroy King. Pp. 15 http://www.justice.gov/criminal/vns/docs/2009/jun/06-18-09Stanford.pdf.
[8] The opening financial position is as at October 18, 2010.
[9] Exchange Rate is fixed at EC$2.7169 to US$1.00.

Antigua and Barbuda's commercial banking system. Customer deposits amounted to EC$289.9 mn accounting for 8.6% of the deposit base for the Antigua and Barbuda banking system. Liabilities amounted to approximately EC$361.8 mn, approximately 7.4% of the liability commitments for the aggregate banking system. Share capital of EC$24 mn amounted to roughly 8.9% of the capital position for the banking system. Total loans and advances to customers represented 11.5% of the total for the Antigua and Barbuda banking system. The ratio of tier I and regulatory capital to total risk weighted assets stood at 15%, which is well above the stipulated regulatory requirement.

Table 3.1: Summary of Opening Financial Position of ECAB as at October 18, 2010 (EC $ and %)

	Assets	**Deposits**	**Liabilities**	**Capital**	**Loans**
ECAB	385,758,234	289,915,533	361,758,234	240,000,000	340,058,881
Banking System	5,170,094,000	3,371,709,000	4,901,848,000	268,246,000	2,964,705,000
% of Total Banking System	7.5	8.6	7.4	9.0	11.5

Source: ECAB Opening Statement of Financial Position October 2010.

Examination of the allocation of the loan portfolio reveals significant exposure to the public sector. This suggests that prior to intervention BOA was highly exposed to the government sector and perhaps would have been in contravention of the regulatory 25% exposure limit to any sector. This suggests that any default on the part of the Government would have implications for the liquidity and solvency of the institution. Table 3.2 presents credit risk exposures as at October 2010.

Table 3.2: ECAB Credit Exposure as at October 2010 (EC $ and %)

	Total Credit Exposure	**Percent of Total**	**Impaired Assets**	**Percent of Total**
Public Sector	160,792,276	47.3	-	-
Personal	136,788,156	40.2	18,220,342	5.4
Construction/Real Estate	31,486,683	9.3	-	-
Credit Card Advances	4,494,327	1.3	613,446	0.2
Professional	2,721,207	0.8	-	-
Other Industries	1,532,105	0.5	-	-
Manufacturing	1,742,027	0.5	-	-
Tourism	502,100	0.2	-	-
Total	**340,058,881**		**18,804,602**	

Source: ECCB.

The credit exposure of ECAB to the public sector represented approximately 47.2% of the total loans and advances portfolio. In addition, ECAB's credit exposure to the public sector accounted for 47.0% of the total banking system's credit exposure to the public sector. This suggests that BOA served as a significant lender to the public sector of Antigua and Barbuda prior to intervention. On the investment side, ECAB is minimally exposed to the Government of Antigua and Barbuda. Table 3.2 indicates that approximately 5.6% of the total loan/advances portfolio was impaired with personal loans accounting for 5.4% of total impaired loans. This suggests that the level of NPLs was above the 5% regulatory limit during the period of intervention. Impaired loans were over collaterized by about EC$7.7 mn as at October 2010. Loans and advances past due 31-90 days but not impaired accounted for approximately 32% of the loans/advances portfolio of the bank, suggesting that approximately 40% of the ECAB loan portfolio was underperforming at the start of business in October 2010. Given that loans account for approximately 88.1% of total assets of ECAB, the underperforming loan portfolio will definitely have a dampening effect on future profitability of the entity. It should be noted that among the past due loans (31-60 days) was an advance to the public sector, which accounted for approximately 28.6% of the loan portfolio. Further, it is also noteworthy that past due loans (but not impaired) for ECAB were over collaterized by EC$12.8 mn at the start of business on October 18, 2010.

In summary, ECAB's opening financial position was characterized by high exposure to the public sector and a high level of NPLs. The bank was adequately capitalized. However, high levels of NPLs and over exposure to the government sector suggest that the bank may not have been in an adequate position to withstand any adverse shock or event that could result in even higher delinquencies from any portion of the credit portfolio. The profile of the bank revealed by the opening financial position suggests that BOA may have been operating on the fringes of financial health prior to the events that led to regulatory intervention.

3.1.2 Causes of Failure

The failure of BOA can be attributed mainly to the classic 'run' on its operations experienced in the days following the indictment of Sir Allen Stanford by the SEC in the U.S. Essentially, market perceptions regarding the likely survival of the bank in the context of the U.S. receivership order caused persons to withdraw their deposits from the entity. This placed enormous strain on its operations leading to liquidity injections from the Government and emergency takeover on the part of the regulator.

Notwithstanding the occurrence of a classic run on the operations of BOA induced by events occurring outside of the bank and the jurisdiction, the financial soundness indicators (FSIs) suggest that the entity was already 'fragile' prior to occurrence of the bank run. The entity was characterized by a high level of NPLs and over exposure to some sectors. These weaknesses would have limited the extent to which the bank could respond to withdrawal requests. However, one can argue that even a very sound commercial bank cannot cope with a significant volume of withdrawal requests, given the standard asset liability profile of commercial of banks.

3.2. ABI Financial Group (Antigua and Barbuda)

ABI Financial Group emerged from the operations of ABI Bank Ltd., formerly known as Antigua and Barbuda Investment Bank (ABIB). ABI Bank started banking operations in 1990 after acquiring Fidelity Trust Bank. Ten years later in 2000 ABI Bank also acquired Swiss American National Bank. Financial statements for the financial year 2008 reveal an asset base of EC$1073 mn with 129 employees spread across three branches in Antigua.

Twenty one years after ABI Bank Ltd. first launched their operations in Antigua and Barbuda, the ECCB, using emergency powers under the Central Bank Act, part IIA, Article 5B, assumed control of the institution July 22, 2011. In a press release issued the same day the ECCB asserted that 'close monitoring of the bank has revealed difficulties in carrying out its normal functions due to an inadequacy of liquid assets and an inability to meet the statutory reserve requirement.'[10] The press release indicated that normal banking operations would continue, with the ECCB staff assuming operations, supported by ABI staff and commercial bank specialists.

3.2.1 Financial Indicators-Early Signs of Distress

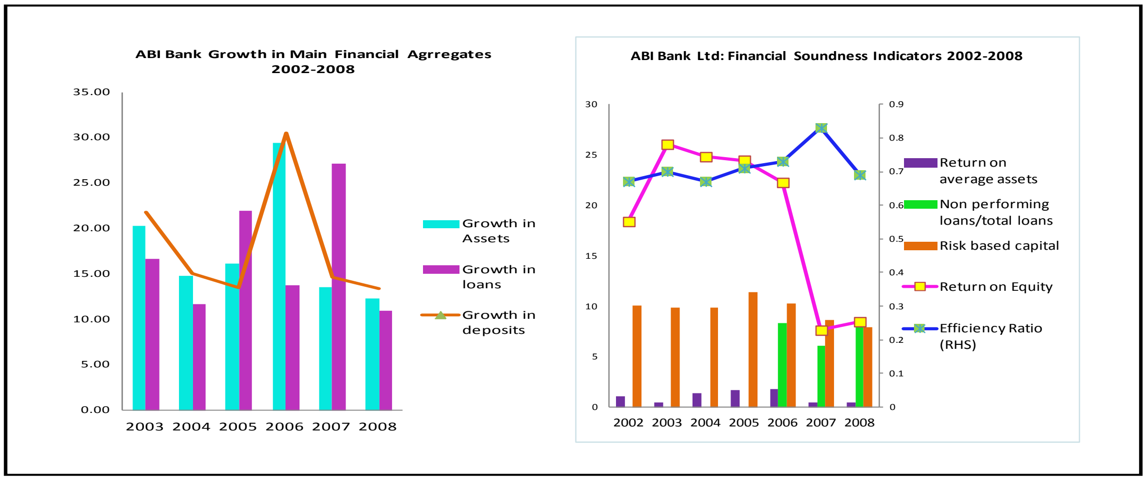
This section examines the financial performance of ABI Bank over the period 2006-2010 with a view to indentifying any warning signs prior to regulatory intervention. All data for analysis were derived from the audited financial statements. Over the review period, ABI Bank Ltd. accounted for an average share of 17% of total assets of the banking system in Antigua and Barbuda, a 20% share in banking sector loans, and a 22% share in total banking system deposits. Over the period 2002-2008, ABI Bank Ltd. experienced phenomenal growth in all the major aggregates such as deposits, loans, and assets. However, over the period 2007-2008, growth of the main financial aggregates slowed, consistent with adverse events in the global financial markets. In particular, since 2006,

[10] ECCB Press Release. *ECCB Assumes Control of ABI Bank*. July 22, 2011. http://www.eccb-centralbank.org/News/press2.asp?pressID=382.

there has been a deceleration in the pace of growth of deposits. The loans to deposit ratio for the period 2002-2008 averaged 73%, suggesting that the deposit base adequately supported the loans and advances portfolio of the bank. Available data for the period 2005-2008 suggest that the bank maintained an average of 20% of its total assets in cash and cash equivalents. The share of investments in total deposits for the four year period 2005-2008 averaged 13%.

Box 1 presents FSIs for the period 2002-2008. The indicators suggest weakening profitability as evidenced by a significant decline in the return on equity since 2005 and return on assets since 2006. The ratio of NPLs to total loans in 2008 stood at approximately 8%, 3 percentage points above the ECCB's statutory limit. The ratio of regulatory capital to risk weighted assets was also on the decline since 2005, reaching 7.97%, just below the statutory 8% requirement in 2008. The efficiency ratio shows that there was a general decline in operating efficiency over the period 2003-2007; however, some efficiency gains were made in 2008. The FSIs suggest a commercial bank with weakening profitability and deteriorating asset quality. Exposure to the government sector moved from 25.1% in 2006 to 34.7% in 2007 and 30.7% in 2008, above the prudential limits set by ECCB. It should be noted that this exposure does not include ABI Bank's holding of Government of Antigua and Barbuda's bonds and treasury bills.

<u>Box 1: Financial Soundness Indicators for ABI Bank</u>



Source: ABI Bank Financial Statements.

The notes to the financial statements are examined to determine whether there are other factors that might have impacted on performance of the commercial bank. The following two factors/events may have impacted on the performance of the ABI Bank Ltd. and contributed to its fragility:

(i) Rapid Group Expansion

The ABI Bank Ltd. initially operated as a stand-alone commercial bank but subsequently morphed into operating within the ABI financial group with the creation of a holding company. The ABI Financial Group initially included ABI Insurance incorporated in 1999, Antigua Overseas Bank (1990), and ABI Trust, incorporated in 1993.

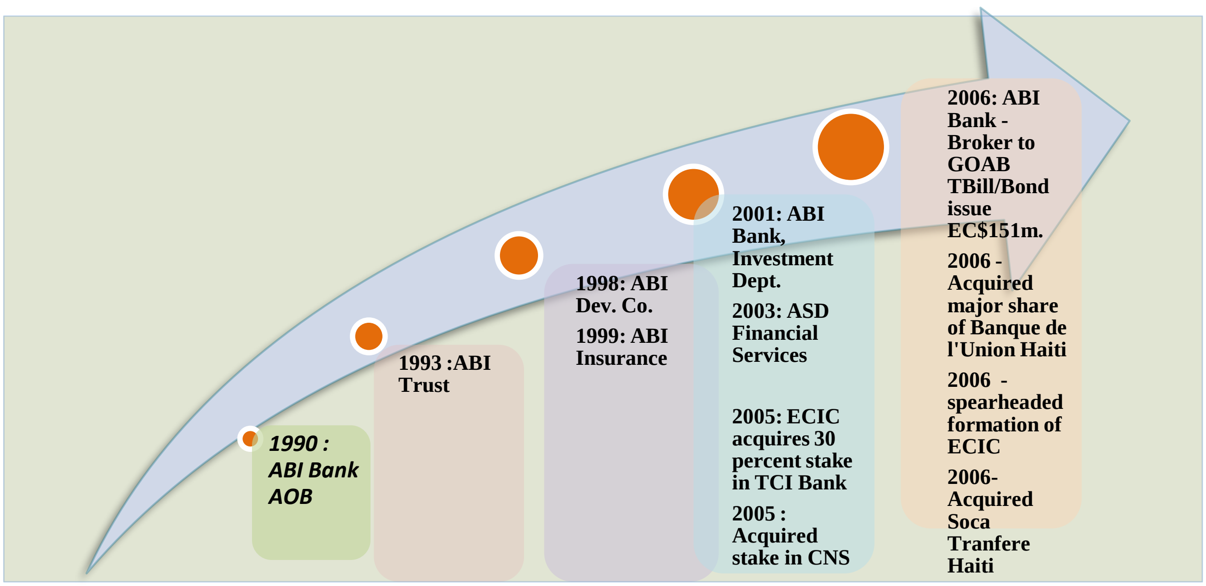
The ABI Bank Ltd. created an investment department in 2001, which sought to provide opportunities for investment to the public apart from traditional banking products. In 2003, ASD Financial Services, a full service brokerage and investment banking firm, was launched in the U.S., making ABI Bank Ltd. the first indigenous financial institution to enter the U.S. market. The ABI Development Company limited was incorporated in 1998 to facilitate real estate and property development. ABI Development Company is the majority stakeholder in the Jolly Beach Resort, Weatherills Estate (coastal villa and cottage development), Galleon Beach Resort, and Tranquility Bay Antigua (64 fully furnished suite accommodations).

The year 2006 saw the acquisition of a major share in Banque de L'Union Haiti and Soca Transfer, Haiti. ABI Bank Ltd. also spearheaded the formation of Eastern Caribbean Investment Corporation (ECIC), a company owned by indigenous banks within the ECCU. The ECIC subsequently purchased a major shareholding in the merchant bank, Caribbean Financial Services Corporation. Although one is not able to tell the exact time of investment, the financial statements also reveal that Communications Network Systems (37.5%) and Redcliff Holdings (29%) were also affiliate companies of the ABI Bank Ltd. Verona Investment (investment holding company in the Bahamas) limited is also listed as a subsidiary of the ABI Bank in its 2008 financial statements, apparently an investment that was made in that same year. The bank also invested in a Joint Venture – Straight through Processing (financial application services) with another financial firm. An overview of the bank on their website indicated that its reach extended to Guatemala, Brazil, and Europe. Moreover, in the 2007 financial statement, the Board of Directors signaled their intention to extend their reach to Guyana, Trinidad and Tobago, Jamaica, U.S. Virgin Islands, and Spain during 2008.

The 2006 financial statements for ABI Bank Ltd. reveal approximately EC$25.5 mn or 3.5% of the asset base represented investments in associates. A further 10.7% (EC$90.5 mn) of the asset portfolio was represented by investments in corporate bonds with no further explanation on entities which issued those bonds. The return on these assets would therefore be contingent on the performance of these entities.

The above details the very rapid development of the ABI Financial Group since the commencement of operations in 1990. In fact, there was never a time that the group stopped to consolidate its position within the market. The entire period of operation of the group was marked by a rapid growth and acquisition process. Given the small size of the bank relative to other commercial banks in the region; this continuous growth and acquisition process may have had a dampening effect on financial performance. The bank would have had to utilize vast amounts of liquid resources to finance the expansion process. Box 2 illustrates ABI's expansion phases.

Box 2: Expansion Phases of ABI Financial Group



Sources: ABI Financial Statements; ABI Financial Group Brochure.

(ii) Liquidity Requirements Associated with Being Broker to the Government

In July 2006, ABI Bank Ltd. Investment Department landed the role of broker to the Government of Antigua and Barbuda for issuing EC$151 mn in treasury bills and bonds on the Regional Government Securities Market (RGSM). This role involved structuring and arrangement of the transaction. The issue comprised of EC$51 mn in 91-day treasury bills (3 tranches each 17 mn) and EC$100 mn in 10-year bonds. One of the main marketing strategies employed by the Government of Antigua and Barbuda was to assure the market that the 91-day treasury bills would be retired after 2 years and replaced with the issuance of a one-year treasury bill or note. However, in 2008, the treasury bills were not retired by the Government of Antigua and Barbuda, but instead they continued to re issue at least two tranches. Regular re issue of the 91-day treasury bill meant that there would be a constant demand for liquidity on the part of the broker/arranger as investors needed to be repaid ahead of the new issues, with adverse effects for treasury management in the context of a small commercial banking entity.

In summary, the research points to the influence of key factors in contributing to the failure of ABI Bank Limited. First, over a relatively short-time frame, the ABI Bank Ltd. expanded rapidly from a standalone commercial bank to a full service financial conglomerate, which included an investment arm, property development arm, insurance, broker dealership, money transfer agency, and offshore banking. One can argue that this rapid expansion would have placed a strain on the resources of the entity without allowing for enough time for consolidation of benefits associated with acquisition or formation of new entities over time. Moreover, some of the investments were not as lucrative as anticipated and may have created a drain on resources. For instance the financial statements for 2008 show an accumulated loss of EC$4.1 mn on Banque Union de Haiti and impairment loss of EC$5.4 mn on Soca Transfer Haiti. Also, poor FSI's as well as the liquidity pressures associated with its role as Broker to the Government would also have contributed to the failure of the ABI Bank.

3.3. CLICO/CLCIO Investment Bank (CIB)/BAICO

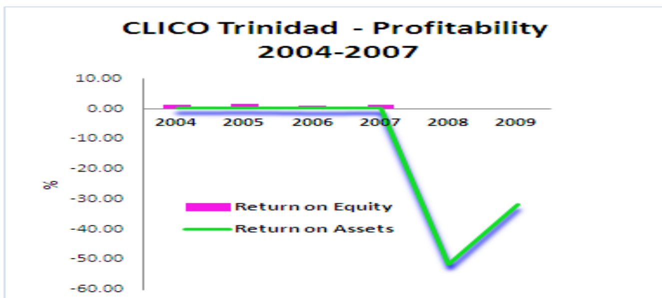
CLICO and BAICO were both subsidiaries of CL Financial Holdings headquartered in Port-of-Spain, Trinidad and Tobago. CL Financial Ltd. emerged out of operations of CLICO (Trinidad), which commenced business in 1937. Prior to 2009, CL Financial Ltd. had a presence in at least 20 countries, with assets of US$14 bn (as at 2006), and comprised more than 60 subsidiaries operating in insurance, banking, real estate, media/communication, and petrochemicals. Some of the main subsidiaries of CL Financial Ltd. Included Republic Bank Limited, Methanol holdings, Angostura Holdings, CLICO Holdings (Barbados), CLICO (Bahamas), CLICO Life and General (Guyana), British America Life Insurance (Bahamas), and Primera Oil and Gas Limited.

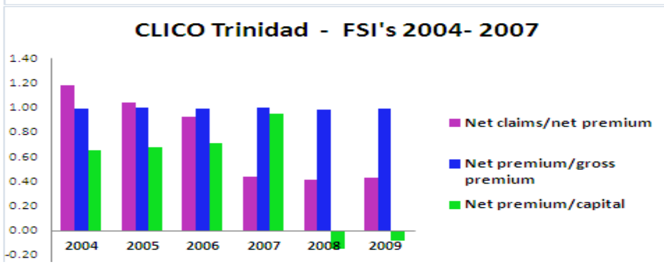
3.3.1 CLICO (Trinidad)

3.3.1.1 Early Warning Indicators

CLICO (Trinidad) is a long-term insurance company with assets of approximately US$2.4 bn as at December 2009. Prior to the intervention of 2009, CLICO accounted for a significant share of pension business and the single annuity policy market in Trinidad and Tobago. Based on data presented in Box 3, an analysis of the FSIs for CLICO (Trinidad) prior to the 2009 intervention was carried out, with a view to determining whether there were warning signs about the performance of the entity prior to the 2009 intervention.

Box 3: Financial Soundness Indicators for CLICO (Trinidad)





Source: Computed using data from CLICO (Trinidad) Financial Statements.

The loss ratio (ratio of net claims to net premium) showed that claims exceeded net premium revenue in 2004 and 2005, but fell to about 7% below net premium revenue in 2006. Over the period 2007-2009, the loss ratio dropped significantly, with claims representing an average of 42.6% of premium revenue. The risk retention ratio (ratio of net premiums to gross premium) captures the amount of premiums that is ceded to reinsurance companies and therefore gives an idea of how much risk the company retains. The risk retention ratio for the period 2004-2009 averaged 0.99, suggesting that CLICO (Trinidad) retained a significant portion of its risks with minimal risks passed on to the reinsurance market. An examination of the ratio of net premiums to net capital shows that the ratio increased over the period to 0.95 in 2007, suggesting that net premium revenue represented 95% of the capital base. Over the period 2008-2009 accumulated deficits wiped out the entire capital base of the firm, resulting in a negative ratio of net premiums to capital.

The profitability ratios indicate that CLICO (Trinidad) experienced very low profitability over the entire review period. The return on assets over the period 2004-2007 averaged

0.38%, while the return on equity averaged 1.46 % for the same period. The period 2008-2009 was marked by negative returns, with the return on assets plunging to -51.3% in 2008 and -31.7% in 2009. The return on equity for the period 2008 to 2009 was not computed, as the accumulated deficit over that period resulted in negative equity. The Insurance Act of Trinidad and Tobago requires companies that are engaged in the long-term insurance business to place assets in the amount equal to their liabilities and contingency reserves in trust to cover policyholders. The statutory fund deficit for 2008 presented to the Central Bank of Trinidad and Tobago (CBTT) in February 2009, stood at TT$10.03 bn (US$1.62 bn).

An analysis of the asset liability profile of CLICO (Trinidad) reveals that the entity may have been suffering from liquidity problems since late 2007, and also may have been 'nearing' insolvency during that period. We compare the current assets of CLICO (Trinidad) to the current liability profile in Table 3.3.

Table 3.3: CLICO (Trinidad) Asset/Liability Comparison (TT$) 2004-2009

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Insurance contracts	8,453,645	7,586,821	8,850,485	2,562,764	4,937,721	2,562,764
Investment contracts	-	867,695	890,198	11,085,141	13,851,178	12,742,614
Bank overdraft and short-term borrowings	410,531	347,341	505,440	1,912,035	2,135,467	429,302
Total	**8,864,176**	**9,150,696**	**10,743,123**	**16,233,750**	**22,313,529**	**17,215,928**
Bank and short-term deposits	3,939,598	3,419,553	4,043,855	4,967,795	618,671	336,981
Investment Securities	2,364,978	2,011,401	2,736,916	3,827,409	2,715,577	1,306,528
Total Liquid Assets	**6,304,576**	**5,430,954**	**6,780,771**	**8,795,204**	**3,334,248**	**1,643,509**
Investments in Associates	7,412,034	7,778,680	8,890,894	10,044,664	9,954,768	4,835,785
Investments in subsidiaries	4,348	6,424	35,693	153,782	187,262	5,183,000
Due from related parties	187,436	918,374	810,445	1,622,258	3,877,582	2,249,725
Asset exposure to Related parties	7,603,818	8,703,478	9,737,032	11,820,704	14,019,612	12,268,510
Asset Exposure to related parties/total Assets (%)	52.2	55.2	52.0	53.5	75.7	81.4
Investment and insurance contracts/liquid assets plus equity (%)	87.6	94.1	92.0	115.1	669.2	1047.5

Source: Computed from CLICO (Trinidad) Financial Statements 2004-2009. Equity figures not included in computation of insurance liabilities to liquid assets plus equity for 2008-2009.

Examination of the financial statements shows that the exposure of CLICO (Trinidad) to related parties on the asset side averaged 53.2% for the period 2004-2007. This high inter group exposure suggests that liquidity/solvency issues at other institutions within the group would have severe implications for CLICO (Trinidad). The period 2007-2009 saw the related party exposure increase from 53.5% in 2007 to 75.7% in 2008 and 81.4% in 2009, signaling that liquidity or solvency issues may have emerged from as far back as late 2007. The ratio of investment and insurance contracts to liquid assets plus equity moved from 0.88 in 2004 to 1.15 in 2007. This suggests increasing pressure on the liquid assets of the firm. The ratio of investments and insurance contracts to equity and liquid assets moved from 1.2 in 2007 to 10.5 in 2009. The level of liquid assets dropped by 62% in 2008, while the level of overdrafts and short-term borrowings increased by 11.7% and investment contracts rose by 24.9%. These figures point to a financial institution that sought to address liquidity difficulties through short-term borrowing and an intensive investment contract subscription initiative. It appears that these efforts were not adequate to ensure that the company remained solvent, and it sought the assistance of the CBTT early 2009. Liquid assets declined a further 50.7% in 2009, while investment contracts dropped by 8% during the period in which the financial institution had been intervened by CBTT.

The FSIs, the asset-liability comparison, and CBTT reports paint a picture of a financial institution with minimal profitability, minimal risk transfer, high leverage, and high loss ratio from the beginning of the review period in 2004. Moreover, the increasing ratio of net premiums to capital to 0.95 in 2007 suggests some shrinking of the capital base commencing 2007. The indicators therefore suggest a struggling financial institution since 2004, and certainly a more financially fragile institution commencing 2007.

3.3.1.2 Corporate Governance

As previously mentioned CLICO (Trinidad) was a subsidiary of the financial conglomerate CL Financial Ltd., which had investments in real estate, insurance, rum/spirits, methanol, energy, agriculture, manufacturing, and communications. The conglomerate CL financial encompassed at least 200 subsidiaries operating across the Caribbean and internationally. An examination of the structure of CL Financial (CLF) reveals that the lines of ownership did not always go from the parent (CL Financial) to the subsidiary, but sometimes ownership was from one subsidiary to another, with these subsidiaries also being responsible for lines of business in other countries. For instance, CLICO (Bahamas) was owned by CLICO International Life Barbados. However, CLICO (Bahamas) also had responsibility for CLICO Belize and Turks and Caicos. The ownership structure for the host of CL Financial subsidiaries was at best convoluted and is only now been studied in the post 'bailout' period.

The issue of the existence of interlocking directors on the board of directors of the various subsidiaries of CLICO emerged out of the commission of enquiry into the failure of CF Financial, CLICO, CIB, BAICO, and the Hindu Credit Union. Cross examination of former corporate secretary of CL Financial Ms. Gita Sakal, revealed that prior to 2005 there was a common board of directors for CLICO and CLF, with one board meeting held for the two entities, common operations (same building) while CLICO financed the bills associated with these operations.[11] At that time Mr. Lawrence Duprey served as executive chairman for both companies, with one executive financial director and one corporate secretary for both entities. The corporate secretary for CLICO and CLF also served as corporate secretary for CIB, while the group financial director, served as chairman for CIB. This suggests a major breach of corporate governance principles of separation of functions and powers. The evidence from the commission of enquiry further suggests that from 2005, CLICO functioned without a chief executive officer or a managing director, and the executive chairman and the director of finance and investments were responsible for all of the major decisions.[12] This again points to limitations in the corporate governance and decision making structure at CLICO (Trinidad), and demonstrated that independent decision making on the part of the board of directors for any of these entities was near impossible, given their plurality in terms of functions across the group. Other witnesses suggested that in terms of governance, the executive chairman was the sole decision maker with respect to the acquisition process, there was no established process for acquisitions and no formal due diligence took place for most acquisitions.[13] This points to lack of appropriate procedures to guide the operations of CLF and also to a major corporate governance weakness.

3.3.1.3 Gliding to Failure

On January 14, 2009, senior officials from CL Financial including group financial advisor and the executive chairman met with representatives from CBTT. The CLICO representatives indicated that the company had been having unusually high withdrawal requests from institutional investors and expected that the firm would experience liquidity shortages sometime during the first quarter of 2009. This meeting was followed by another between the same parties on January 16, 2009 where representatives from the company advised CBTT officials of a statutory fund deficit of TT$2.5 bn. A computation dated January 26, 2009 showed a deficit of TT$5.1 bn with the estimated deficit further widening to TT$10.03 bn by February 2009.

On January 30, 2009, Minister of Finance, Mrs. Karen Nunez-Tesheira announced that the Government of Trinidad and Tobago had reached an agreement with the CL Financial Limited Group for provision of financial support to the financial services subsidiaries within the group. The agreement included the following aspects:

[11] Commission of Enquiry CLICO/HCB. Third Evidence Hearing. November 18, 2011. Page 21.
[12] Commission of Enquiry CLICO/HCB. Third Evidence Hearing. November 18, 2011. Page 26.
[13] Commission of Enquiry CLICO/HCB. Third Evidence Hearing. November 18, 2011. Page 45., Witness Statement of Bhoendradatt Tewarie. Page 9.

- CL Financial Limited would liquidate or collateralize its valuable assets to facilitate reducing the Statutory Fund deficit in order to meet liquidity needs.

- The Government would provide funding to meet liquidity needs to support CLICO and BAICO to meet any Statutory Fund deficits that may emerge after the companies have made all satisfactory arrangements to place assets and cash into the Fund to meet long-term liquidity needs.

CBTT exercised its emergency powers under the Central Bank Act Chapter 79:02 in respect of CLICO (Trinidad) and took control of the operations, installing a new board of directors to oversee the operations of the firm on February 13, 2009.

3.3.2 CLICO (Bahamas)

British Fidelity Assurance Limited was acquired by CL Financial Ltd. through its subsidiary CLICO Holdings (Barbados) in April 2005. The company was renamed CLICO (Bahamas) Limited and operated branches in The Bahamas, Belize, and Turks and Caicos Islands. CLICO (Bahamas) was placed in liquidation by the Insurance Commission of The Bahamas in April 2009 following several months of liquidity shortfalls, which impacted negatively on its operations. These liquidity shortfalls were evidenced by the company's inability to pay claims of US$2.6 mn in the Turks and Caicos Islands.

The recent eleventh report of liquidator Craig A. (Tony) Gomez states that since 2003, CLICO (Bahamas) had made loans to CLICO Enterprises Limited (CEL) for the purposes of maintaining operating expenses and to support subsidiary investment properties. The full mandate of CEL is not clear from the available documents; however, real estate development appears to be part of its operations, as Wellington Park Reserve, a West Palm Beach, Florida land development project was its primary asset. Wellington Park Reserve is currently under possession of the liquidator, who is representing the interests of CLICO (Bahamas). As at December 2008, CLICO (Bahamas) had advanced US$73 mn with US$57 mn to CEL, due as at December 2007. The liquidator's assessment is that the loan may not be fully recoverable, as the balance sheet for CEL as at December 31, 2008 showed a deficit.

A statement prepared by CL Financial Limited on the progress of liquidation of selected assets of the firm as at April 25, 2009 (around the time of liquidation of CLICO Bahamas) states that the net deficit for CLICO (Bahamas) could be in the region of US$18 mn. The report further stated that the main asset of CLICO (Bahamas) is the loan due from CEL enterprises. The liquidator's statement of assets at estimated realizable value as at March 31, 2012 showed that the loan from CLICO Enterprises represents about one third of the asset base for the liquidated company.

The above suggests that CLICO (Bahamas) was experiencing liquidity problems in 2008, which affected its operations. However, according to the Liquidator's report, despite these liquidity problems CLICO continued to provide loans to other CL Financial subsidiaries, with the last of such loans effected on February 24, 2009 around the time of the intervention of CLICO (Trinidad) by CBTT. Further, there were a number of regulatory concerns regarding the operations of CLICO (Bahamas) including, purchase of real estate within and outside The Bahamas without regulatory approval, repatriation of revenue without approval of the Central Bank of The Bahamas by circumventing the Exchange Control Regulations, and transfer of funds to persons outside The Bahamas.

3.3.3. CIB

CIB was a wholly owned subsidiary of the financial conglomerate, CL Financial Ltd. and was headquartered in Trinidad and Tobago. CIB was licensed under the Financial Institutions Act 1993, as a nonbank financial institution. CIB served as the focal deposit taking institution of CL Financial conglomerate, with a major liability portfolio of fixed deposits estimated at TT$6.1 bn as at November 2006, which yielded higher than average interest rates. CIB's asset profile featured a significant share of commercial paper and reverse repurchase agreements, which were issued by CLICO (Trinidad) and the parent CL Financial Ltd.

Central bank reports detailing the financial condition of CIB became publicly available after the commission of enquiry into the failure of some CL Financial subsidiaries and the Hindu Credit Union. These reports suggest CIB's operations were constrained by a large portfolio of NPLs. The ratio of impaired loans to total loans was 17.3% as at December 31, 2008. The practice of ever-greening seemed to have been unchecked at CIB, with a large share of the loan portfolio restructured to create a scenario representing that they were being adequately serviced. Further, it appeared that the accounting practices of CIB allowed for accruing interest on loans with arrears, thus resulting in overstating interest income, while on the expenditure side there was a modest level of under-provisioning for loan losses. Consequently in 2008, CBTT directed the CIB to revise its financial submissions for the first three quarters of 2008. The revision resulted in a reversal of a net profit position of TT$14.3 mn to a net loss position of TT$32.6 mn.

In January 2009, CL Financial met with representatives of CBTT and indicated that they expected the CIB to experience some liquidity shortfalls during the first quarter of 2009 as a result of greater than forecast requests for withdrawal of funds. It was estimated that

CIB would not have been able to meet fixed deposit withdrawal requests of approximately TT$2.8 bn. Following those meetings, CIB was intervened by the Central Bank on February 13, 2009, resulting in eventual winding up of its operations.

3.3.4 BAICO

BAICO was incorporated in The Bahamas, with operations throughout the Eastern Caribbean and Trinidad and Tobago. According to a CL Financial report dated April 25, 2009, the total liabilities of BAICO within the Eastern Caribbean stood at about US$300 mn, of which US$60 mn represented unpaid policy redemptions. The report asserts that the main asset backing these liabilities was the Green Island Project- approximately 6000 acres of development property, and the Brickell Infinity Projects, both in Florida. The collapse of the real estate market in Florida meant that asset values would not be realizable in the short-to-medium term.

Financial statements for BAICO are not publicly available. However, the witness statement of Michael Carballo at the commission of enquiry into the failure of CL Financial, and some of its other financial subsidiaries present some information about the financial status of BAICO.[14] Draft financial statements as at December 2007 suggest that BAICO incurred a loss of US$13 mn during that financial year. Moreover, one of the main receivables for BAICO was a US$51 mn loan to the holding company CL Financial Ltd. The statement argued that there was a risk that this loan could be considered nonperforming if the interest element of US$12 mn was not paid prior to completion of the auditing process. The witness statement further posits that more than 50% of total assets for BAICO were concentrated within the Green Island Project Investment. Moreover, given the state of the U.S. housing market in 2007, US$7.5 mn of Florida real estate projects of BAICO were likely to become impaired. This therefore suggests that the problems of BAICO were evident as late as 2007 and may have been known earlier.

To sum up, this section presented case analyses of some of the failed or intervened financial institutions within the Caribbean in recent years. A common feature of the cases presented is that they formed part of financial conglomerates. The analysis suggests that operating within the ambit of a financial conglomerate brings an additional ‘risk’ to the operation of a financial institution. This point is borne out by the case of the BOA, which suffered a classic run on its operations due to the arrest of its lone shareholder Sir. Allen Stanford, for charges unrelated to the operations of the bank, but

[14] Witness Statement of Michael Everton Carballo. Commission of enquiry into the failure of CL financial Limited, CLICO (Trinidad), CLICO Investment Bank, BAICO, CMMB, and the Hindu Cooperative Credit Union.

related to the operation of an offshore financial institution also owned by Sir Allen Stanford. The other cases demonstrate the risks associated with operating within the context of a financial conglomerate, such as failure to implement standards of financial probity when they relate to intercompany and company directorate transactions, weak intercompany credit administration, poor corporate governance, and the tendency to finance operations or expansion of other subsidiaries within the conglomerate.

4. THE AFTERMATH OF FAILURES: THE MECHANICS OF GOVERNMENT AND CENTRAL BANK INTERVENTION

The financial institutions reviewed in Chapter 3 were all intervened by the central bank or government using emergency power or the authority of the Supreme Court in the respective jurisdictions where they operated. In some cases, intervention resulted in continued operation of an entity, others resulted in restructuring and sale of the entity, and others ended in winding up of the operations or forced liquidation of the entity. This section will compare and contrast the various approaches utilized, with a view to highlighting the differences and similarities across the cases presented. In each case the sequence of events that may have precipitated intervention and a sketch of the actions of the regulator are documented. There remains significant paucity of information regarding the resolution process for the 'failed' entities. This section therefore relies heavily on information sourced from press releases issued by the regulators, websites of judicial managers or liquidators and verifiable information from various news media. Resolution of ABI Bank Ltd. is largely in progress and therefore will not be discussed in this section.

4.1. BOA

Stanford Financial Group was placed in receivership on February 16, 2009 by order of the U.S. District Court for the Northern District of Texas. Sir Allen Stanford owner of the group was charged by the U.S. Securities and Exchange Commission with fraud and conspiracy of the magnitude US$8 bn. The SEC asserted that Stanford created a 'fraudulent, multibillion dollar investment scheme' justified largely by empty promises and fallacious data on historical returns. Immediately following the news of the charge of Allen Stanford on February 17, 2009, individuals intensified the process of withdrawing deposits from the related company (BOA), which had started the day before, initiated by negative press developments regarding Stanford International Bank. Long queues emerged outside the headquarters of BOA on February 17, 2009 and continued for a few more days. The regulator (ECCB) moved into action on February 18, 2009 in order to stem the run on BOA.

4.1.1 Power of Regulator to Intervene

The intervention by the regulator was conducted using the emergency powers of the ECCB which are provided by Part IIA, Article 5B of the *Eastern Caribbean Central Bank Agreement Act, 1983*. Part IIA, Article 5B states the following;

> Where the Bank is of the opinion-(a) that the interests of depositors or creditors of a financial institution are threatened; (b) that a financial institution is likely to become unable to meet its obligations or is about to suspend or has suspended payment to its creditors or depositors; or (c) that a financial institution is not maintaining high standards of financial probity or sound business practices; the Bank shall, in addition to any other powers conferred on it by any other law and notwithstanding the provisions of any other law to the contrary, have power to:
>
> (i) to investigate the affairs of the financial institution concerned and any of its affiliated institutions and to appoint a person or persons for that purpose; (ii) to such extent as it thinks fit, to assume control of and carry on the affairs of the financial institution and, if necessary, to take over the property and undertaking of the financial institution; (iii) to take all steps it considers necessary to protect the interests, and to preserve the rights of depositors and creditors of the financial institution; (iv) to restructure the business or undertaking of the financial institution or to reconstruct its capital base; (v) to provide such financial assistance to the financial institution as it considers necessary to prevent the collapse of the financial institution; and (vi) to acquire or sell or otherwise deal with the property, assets, and undertaking of or any shareholding in the financial institution, at a price to be determined by an independent valuer.[15]

From the above one deduces that Part IIA, Article 5B confers significant emergency power on ECCB, which supersedes that which exists in any other legislation. The underlying objective is depositor protection and financial stability. Thus, while the Banking Act does not provide the central bank with significant powers of intervention, and vests the powers of issuing and revoking a license with the minister of finance, the *ECCB Agreement Act, 1983* provides a strong platform that the central bank can use to facilitate protection of the financial system.

The emergency powers provided for the ECCB under Part IIA: Article 5B of the ECCB Agreement can be classified as a Special Resolution Regime (SRR). This means that the legislation allows for the regulator to intervene in the operations of a failing entity, group of entities or market, if there are serious concerns regarding the stability of the financial system. In such instances, use of corporate insolvency mechanisms may not be expedient enough to allow the regulator to execute its fiduciary mandate of preserving financial stability. Special Resolution Regimes differ across countries, with the U.S. regime including quantitative triggers, while that for Canada and the many European countries

[15] *Eastern Caribbean Central Bank Agreement Act, 1983*. Part IIA, Article 5B.

allow only for qualitative triggers, but require some pre insolvency actions.[16] While the ECCB Agreement Act. Article 5B powers are classified as a SRR, it is recognized that it may be a *'special case,'* and that there may be need to fully develop this regime within the context of a 'Financial Institutions Act' that covers the entire gamut of financial institutions, and which will also detail triggers, safeguards, resolution toolkits, and the resolution of financial groups.

Judging from the emergency powers conferred on ECCB, and the circumstances where a significant share of depositors attempted to withdraw their deposits from the BOA, it can be concluded that intervention into BOA by ECCB was warranted under the circumstances and the use of the SRR through the emergency powers provided under the ECCB Agreement Act would have been the most expedient mechanism under the circumstances. Use of the SRR meets one of the key IMF/World Bank recommendations in resolving banking sector difficulties. This principle relates to utilizing a mechanism that would allow for speedy and orderly resolution of the problems, with a view to safeguarding the franchise value of the entity in question.

4.1.2 Efficacy of Intervention

On examining the sequence of actions of ECCB, it can be concluded that the actions of the central bank sought to achieve three broad objectives; (a) market calming (b) entity stabilization through liquidity support and operational support; and (c) emergency takeover, restructuring, and recapitalization.

With respect to the first objective, the actions of ECCB mainly hinged on the issuance of press releases in an effort to reduce anxiety about the likely failure of BOA or takeover of the bank by U.S. authorities. The first press release about the state of affairs at the bank was issued on February 18, 2009, two days after negative information regarding the lone shareholder; Sir Allen Stanford began to emerge in the international press. The release stipulated that BOA was not an offshore institution, was regulated by ECCB and that the liquidity position of the bank was sound. Moreover the release outlined among other statements the following;

1. 'The Bank of Antigua, which is owned by the Stanford Group, is not an offshore institution. It is a domestic bank licensed under the *Banking Act of Antigua and Barbuda* and regulated by ECCB.'

[16] For a full understanding of Special Resolution Regimes see; The UK Special Resolution Regime for Failing Banks in the International Context: Financial Stability Paper No. 5. July 2009. Bank of England.

2. ‘The Bank of Antigua’s liquidity position is sound according to the Central Bank’s calculations as we have been monitoring the liquidity of the banks in the Currency Union very carefully since the onset of the international financial crisis.’

3. ‘The Bank of Antigua has sufficient liquidity at its offices and reserves at the Central Bank to meet the requirements of the public and its customers under normal circumstances. However, if individuals persist in rushing to the bank in a panic they will precipitate the very situation that we are all trying to avoid.’

Other releases which followed on February 20, 2009 and February 22, 2009 provided greater clarity when they announced the ECCB’s decision to assume control of the BOA effective February 20, 2009 and provided details about the resolution of the operations of the bank. These subsequent releases may have been more effective in calming individual fears about the safety of individual deposits and the future of BOA.

As early as February 18, 2009, ECCB provided both liquidity and operational support to BOA. On February 18, 2009 and February 19, 2009, ECCB sent two teams of bank examiners to provide operational support to the BOA. The ECCB also provided liquidity support to facilitate depositor withdrawals. The liquidity support provided by ECCB came in the form of a 3-year loan to the Government of Antigua and Barbuda, which represented 3% of GDP or approximately EC$89.3 mn. This amount represented the Government of Antigua and Barbuda’s contribution to recapitalization of the bank. While ECCB was transparent in its communication regarding the exact mechanism that would allow for continued operations of BOA, there were no details regarding resolution costs and the extent of liquidity support in its releases. In terms of timing of assistance to the *‘troubled entity’*, it can be argued the ECCB extended support in a timely manner.

4.1.3 Approach to Resolution

On July 16, 2009, the Eastern Caribbean Amalgamated Bank (ECAB) was incorporated, with its main shareholders being Government of Antigua and Barbuda, St. Kitts Nevis Anguilla National Bank, Eastern Caribbean Financial Holdings (Bank of St. Lucia), Antigua Commercial Bank, National Commercial Bank (St. Vincent and the Grenadines), and National Bank of Dominica. ECAB was issued a banking license on October 10, 2010 and began operations on October 18, 2010 after ‘assuming’ and purchasing certain assets and liabilities of BOA. All accounts of customers of the bank were transferred to the ECAB with no interruption to service provided to customers.

The literature suggests four main approaches to the resolution of the operation of a financial institution. They include: (a) liquidation where the bank is liquidated and insured deposits are paid out; (b) good/bad bank split, which involves the hiving off of ‘toxic’ assets; (c) recapitalization of the bank by government; and (d) open bank assistance where the entity in question is allowed to continue operations with no changes to ownership. The approaches to bank resolution are different in that they vary in terms of the level of costs carried by the shareholders, or the government and therefore imply different levels of moral hazard.

Analysis of the available information regarding the resolution of BOA and its transition into the ECAB suggests a fusion of approaches in the resolution of the operations of the bank. The research signals that ECCB utilized a combination of recapitalization through a credit facility provided to the Government of Antigua and Barbuda as well as the good/bad bank split in resolving the entity’s operations. In the case of the good/bad bank split, the original shareholders would have incurred losses, which means that moral hazard on their part would have been minimized or brought down to zero. Recapitalization allows for the payment of some creditors and means that they may not incur significant losses and therefore signal some moral hazard on the creditor side. The combination of approaches ensured minimal loss to depositors, and a smooth transition to the new entity. However, if the approach ensured the survival of deposits belonging to shareholders or parties related to shareholders moral hazard would increase. The information available does not allow one to conclude that moral hazard as it relates to deposits of shareholders or related parties arose as a result of the resolution process.

4.2 CLICO (Trinidad)/BAICO (Trinidad) /CIB/Caribbean Money Market Brokers (CMMB Trinidad)

Rumors regarding liquidity shortfalls at CL Financial intensified within Trinidad and Tobago late 2008. These liquidity shortfalls emerged as a major subsidiary (CIB) faced abnormally high number of withdrawal requests. The insurance arm of the conglomerate; CLICO also faced liquidity shortfalls due to high withdrawal requests from Executive Flexible Premium Annuities (EFPAs). At a meeting between the Inspector of Financial Institutions, the governor of CBTT and the chairman and CEO of CL Financial on January 13, 2009; the issue of liquidity support from the central bank/government was raised. The central bank was acutely aware of the contagion risks associated with failure a very large conglomerate like CL Financial and therefore engaged in discussions with the ministry of finance, and agents of the CL Financial Group to address the liquidity challenges at the main financial subsidiaries; CIB and CLICO.

4.2.1 Power to Intervene

Available information presents a twofold intervention authority for CLICO and CIB in Trinidad and Tobago. First, the government of Trinidad and Tobago entered into a

Memorandum of Understanding (MOU) with senior management that would facilitate liquidity support to CLICO, CIB, and BAICO of an initial maximum amount of TT$5 bn. This MOU was signed on January 30, 2009. It is interesting to note that the MOU acknowledged the independence of the central bank by stating clearly that it does not preclude the central bank from taking any action, which is permitted under the Insurance Act, Financial Institutions Act, or the Central Bank Act.

The MOU allowed for the provision of liquidity support to CIB, CLICO, and BAICO by the government of Trinidad and Tobago with the overall objective of protecting policy holders, creditors, depositors, and the overall financial system. CL Financial agreed to; sell its shareholdings in Republic Bank Ltd., Methanol Holdings, Caribbean Money Market Brokers and any other assets that would have been required to ensure that CLICO, CIB, and BAICO were returned to reasonable financial health. These actions were necessary to secure collateralized loan financing to CLICO and BAICO in order to meet their statutory fund deficits. The government would receive shareholdings in CLICO and BAICO in return for the liquidity support provided. The MOU allowed for CBTT to assume control of the CIB using its emergency powers under Section 44D of the Central Bank Act 79:02. In a press release dated January 30, 2009 CBTT outlined the elements of its rescue strategy for CIB and CLICO. The release states that the 'principal objectives of the strategy are to ensure that resources are available to meet the withdrawals of third party CIB depositors and CLICO Policy Holders; to protect the funds of depositors and policy holders and in so doing maintain the confidence in CLICO and reinforce confidence in the financial sector as a whole.'[17]

The central bank utilized its emergency powers under section 44D of the Central Bank Act Chap: 79.02 to take over the operations of the CIB and CLICO. An amendment order was assented to for Section 44D[18] on February 6, 2009, following the January, 30 media conference, to allow CBTT emergency powers to protect policy holders in addition to depositors and creditors. The emergency powers of Section 44D are very similar to the provision highlighted from the ECCB Act and are not presented for this reason. Given the size of CL Financial conglomerate and the extent of its reach through the Caribbean, it can be concluded that use of the emergency powers on the part of CBTT to avert collapse of the entity was an appropriate course of action. The method allowed for swift resolution of the liquidity problems which faced the two entities, restoration of confidence in the system, and preservation of customer deposits.

[17] CIB/CLICO Media Conference. Remarks by Governor Ewart S. Williams. January 30, 2009.

4.2.2 Approach to Intervention and Resolution

The process of resolution of the operations of CLICO and BAICO (Trinidad) has been very slow and has spanned two separate government administrations. The changes in administration resulted in some slight shifts in strategy regarding resolution.

At a February 13 2009 media briefing, the central bank noted that consistent with the implementation of the provisions stipulated in the MOU, a new board of directors had been appointed to manage CLICO, with CL Financial appointing a team to work with the government in the implementation of MOU. The central bank noted that the process of implementation of the MOU revealed a very large statutory fund deficit since 2008 and very complex financial arrangements that involved CLICO operating as a guarantor for debts incurred by other entities within the CL Financial group. The central bank argued that in order to facilitate clear understanding of those arrangements, it decided to utilize its emergency powers under Section 44D of the Central Bank Act Chapter. 79:02 and assume control of CLICO and BAICO. This means that the approach to resolution was effectively altered on February 13, 2009.

Over the period January 30, 2009 to February 13, 2009 when the second release was issued, the Government utilized a combination of open entity assistance and good/bad bank split to resolve the operations of the entities at stake; CIB, CLICO, and BAICO. Open entity assistance was utilized as the memorandum of understanding allowed for CLICO and BAICO to survive under initial ownership. This method allows for considerable moral hazard as owners of the firm may not face significant losses relative to the extent of financial/liquidity support required. Good/bad bank split through the use of emergency powers was immediately used to wind up the operations of CIB; and this method allowed for minimum moral hazard as the shareholders effectively have the same potential net gain from whole liquidation.

From February 13, 2009, the government/central bank altered the resolution strategy, moving from an open entity assistance approach to assuming control of CLICO and BAICO to facilitate recapitalization of the entities. This approach substantially reduces moral hazard on the part of the owners CLICO and BAICO unless other entities within the CL financial group are creditors of CLICO and BAICO and are compensated. The change of resolution strategy suggests that the Central Bank/Government recognized that the strategy of extending open assistance to the failing entities would have created significant moral hazard on the part of the main shareholders of CLICO and BAICO. While the MOU provided for sale of a number of assets that would have allowed for partly closing the statutory deficit in exchange for liquidity support, the governor of the central bank in a later media conference stated that it was later realized that although CL

Financial was asset rich, the collapse in the international real estate markets, slump in the domestic stock and real estate markets, and low prevailing methanol prices meant that those assets would not deliver the necessary revenue to cover the 'hole' in the statutory accounts.

In March 2010, the central bank posited that the underlying assumption of the resolution strategy, which involved the MOU that specified the sale of valuable assets within the group was to ensure that over time, enough revenue would have been generated to cover the liquidity advances made to the entities.[19] It was found that applications for refunds on EFPAs were substantially higher than anticipated, rollovers were much lower than expected, and assets of CL financial were far more leveraged. Accordingly, income from sales would likely be lower. Repayment of matured deposits of CLICO eventually focused on individuals and corporate investors. Short-term investment products that were valued at less than TT$75,000 would receive cash payments, while those with investments in excess of TT$75,000 would receive a combination of cash and zero coupon 1-20 year bonds. These bonds could then be redeemed at some of the local commercial banks. It should be noted that deposits less than TT$100,000 accounted for approximately 46% of the short-term deposit portfolio of CLICO. Therefore, the potential loss to small depositors would have been minimized by the resolution strategy.

With respect to CIB and CMMB, all third party assets and liabilities on the books of those entities were transferred to the First Citizens Bank (FCB). Sale of any valuable CIB assets and liquidity support from the Government would allow FCB to repay/service the liabilities of the two entities. In the case of CIB, the repayment of matured deposits followed the same strategy as CLICO, with the payments made by the FCB. CMMB continued as a going concern with a rebranding of all its operations in Trinidad and Tobago and the Eastern Caribbean as First Citizens Investment Services.

The resolution strategy also involved ring-fencing of the traditional insurance business of CLICO, with a view to focusing on that aspect of the business. In short, the strategies going forward centered on repayment of short-term deposits as they mature and returning CLICO to the traditional insurance model. This strategy is rational as the traditional insurance model is less susceptible to liquidity shortfalls given that assets and liabilities are more evenly matched in terms of maturity profiles and preservation of customer deposits. It should be noted that the financial architecture of Trinidad and Tobago does not allow for an orderly resolution of entities such as CLICO or CIB and a disorderly resolution would have allowed depositors to recover substantially less of their short-term deposits with a major segment of the population losing valuable life and health insurance

---

[19] Governor Ewart Williams presents an update on CLICO. March 24, 2010. http://www.central-bank.org.tt/content/governor-ewart-williams-presents-update-clico-24th-march-2010.

coverage. The final phase of the resolution process involves launching of the CLICO Investment Fund in November 2012. Trading of this fund will commence in January 2013 and this will allow persons to exchange their 11-20 year bonds for units within the Fund.

4.3 BAICO ECCU

The liquidity pressures within the CL Financial conglomerate meant that funds from the Eastern Caribbean operations were sometimes diverted to support operations of other entities within the CL Financial group. Moreover, a significant proportion of assets of BAICO were tied up in the collapsing real estate market in Florida. Consequently the operations of the company within the Eastern Caribbean also suffered significant liquidity shortages. The member countries of the ECCU monitored developments within BAICO for several months, and in late July or early August 2009, regulators from ECCB and The Bahamas intervened in the operations of BAICO Bahamas and the ECCU territories, respectively.

4.3.1 Power to Intervene

Governments of the ECCU and The Bahamas applied to the courts in all of the jurisdictions requesting that the court appoint a judicial manager to facilitate financial recovery of the ailing entities. A judicial manager was appointed in The Bahamas and in every ECCU country except Dominica, where the legislation does not allow for the appointment of a judicial manager. In that instance, the judicial manager for The Bahamas appointed an agent who oversaw the activities of the BAICO agency in Dominica. All the judicial managers for the ECCU were appointed from KPMG to allow for collaboration and to reduce costs in the execution of their mandate.

4.3.2 Approach to Resolution

In resolving the operations of BAICO ECCU, the judicial managers sought to compartmentalize various aspects of the business and seek to implement measures to improve operations in each of the major business lines; property insurance; medical/health insurance, the traditional life insurance business; and short-term investment business. Given that the company held a substantial portion of its assets in the U.S. real estate market, the judicial managers sought recognition as the judicial managers of BAICO assets that are located in the U.S. The judicial manager for St. Vincent and the Grenadines was successful in that regard in May 2010. With respect to property insurance aspect of the business, the judicial managers completed the transfer of the property insurance portfolio for the ECCU (except Dominica) to Caribbean

Alliance Insurance Company with little interruption to insurance cover and similar terms for policyholders.

The member governments of ECCU also pledged to establish a Medical Insurance Support Fund for BAICO policyholders. BAICO health insurance policyholders in the Eastern Caribbean had not been paid any claims on their policies since mid-2009. The ECCU/BAICO Health Insurance Fund commenced operations on May 18, 2011. The ECCU Governments established the fund under a trust deed with funding from the liquidity support fund. The Fund remained open for applications for settlement of health insurance claims up to December 31, 2011. The fund covered health claims under 8 different health related insurance policies. Claims had to be submitted using the BAICO guidelines and according to the terms of said policies and required approval by BAICO. All claims should have been incurred before June 18, 2011. Claims incurred between May 19, 2011 and June 18, 2011 would only be paid if there were residual resources in the fund to facilitate payment.

Resolution of the traditional life business was more complex than the property and health portfolios. Actuaries were contracted to value and perform a detailed analysis of the life portfolios and the volume of funds required for recapitalization of BAICO. Moreover, countries sought legal advice regarding the best mechanism to facilitate transfer of the traditional life portfolio across the ECCU countries as well as in The Bahamas. The judicial managers sent out invitations to tender for purchase of the traditional life portfolio and a number of bidders signaled their interest. In October 2011, the ECCU governments along with the judicial managers announced that they had reached an agreement to sell the BAICO traditional life portfolio and group pensions to Sagicor Life, Inc. As a condition to the sale, the governments of the ECCU agreed to provide funding to the maximum of US$38 mn to facilitate restoration of value to the life portfolio, which would be transferred. It was estimated that the deal would benefit approximately 17, 500 BAICO policyholders, with 2 out of every 3 BAICO policyholders receiving full value upon transfer of their policies. The traditional life portfolio would be transferred to Sagicor once all the necessary approvals were obtained from the courts and insurance regulators within the region. All unpaid amounts to policyholders including maturities, cash surrenders and claims would also be transferred to Sagicor, with the ECCU governments arranging for financing of these obligations according to policy terms.

The road to resolution of the nontraditional or short-term deposit portfolio for BAICO within the ECCU has been most challenging. In many instances, policyholders are institutional investors e.g. pension funds and commercial banks that invested large amounts in EFPAs. Caribbean governments have largely looked toward the government of Trinidad and Tobago for assistance in that area. It has been stated that the target for the fund which will 'rescue' short-term depositors from CLICO and BAICO across the region is EC$150 mn. The regional media suggests that after the 23rd inter-sessional of CARICOM leaders in Suriname, Prime Minister Skerrit of Dominica reported that the Government of Trinidad and Tobago committed to EC$74 mn, and therefore the ECCU countries would have to seek funding for the additional EC$76 mn.[20] Former Finance Minister of Trinidad and Tobago (Winston Dookeran) acknowledged that the former administration had committed US$50 mn to resolving the nontraditional or short-term deposit portfolio and current Prime Minister Bisserssar committing to a further EC$75 on condition that the ECCU governments do the same.[21] Despite news regarding all these commitments, the judicial managers have yet to make any announcements regarding the resolution of the short-term deposit portfolio for BAICO within the ECCU.

4.4. CLICO Barbados and ECCU

Resolution of the operations of CLICO ECCU has been far more daunting than the procedures for BAICO. The process is largely ongoing and therefore this section highlights work in progress, rather than specific solutions which have been implemented. The various branches of CLICO within the ECCU member countries are all owned by CLICO International Life (CIL) domiciled in Barbados. CLICO international Life is a subsidiary of CLICO Holdings Barbados, which in turn is a subsidiary of CL Financial headquartered in Trinidad and Tobago.

On April 13, 2011, consistent with Section 57 of the Barbados Insurance Act, a judicial manager was appointed by the Supreme Court of Barbados to oversee the affairs of CIL. The appointee firm, Deloitte Consulting Ltd, is represented by Oliver Jordan and Patrick Toppin. The first action of the judicial manager was to notify the public that existing policies and commitments remain in force as long as policyholders continued to honor their commitments. The judicial managers filed an interim report with the High court on May 27, 2011 and presented the report on June 22, 2011. The report essentially recommended a forensic audit. By August 2011, judicial managers were also appointed in Anguilla, Grenada, St. Kitts Nevis, St. Lucia, and St. Vincent and the Grenadines. These managers have all submitted interim reports to their respective courts. In July 2011, the CIL Advisory Committee was formed because of the significant challenges and risk posed by the entity to the regional financial system. The remit of the advisory committee was to work closely with the judicial managers and find possible solutions and a regional approach given the level of systemic risk posed by outright failure or liquidation of CIL.

[20] http://www.caribbean360.com/index.php/business/564322.html#ixzz28k6dIDaN.
[21] www.guardian.co.tt/news/2012.../clico-barbados-tt-govt-pay-us-660...

The judicial managers filed a restructuring plan for CIL with the High Court of Barbados on September 20, 2011. The plan recommended several restructuring options along with the associated financing requirements. The next step was for the judicial managers to engage with the various governments regarding the availability of financing, thereafter seeking final approval from the High Court. By October 13, 2011, the judicial managers announced that they had completed broad-based consultations with policyholders in Barbados, Grenada, St. Vincent and the Grenadines, Dominica, and Antigua and Barbuda, the results of which would feed into revised recommendations to the court. On December 2, 2011 the judicial managers provided an update to the High Court on their initial recommendations following discussions with policyholders. Consequent to discussions with policyholders, the judicial managers recommended to the court that action commence to find a suitable investor in order to establish a new company, which will gain the credibility and trust of regulators and policyholders.

Newspaper reports suggest that the judicial manger for CIL Barbados proposed the formation of a special purpose entity which will hold the assets of CIL and CLICO holdings Barbados, as well as the assets (real estate, land, etc.) of CIL in the ECCU member countries. This special purpose entity should be managed by the judicial manager. The judicial managers propose that this special purpose entity will then issue a bond to facilitate the acquisition of assets to support the transfer of the traditional life insurance liabilities to potential buyers. The judicial managers also hope that the proceeds from the bond issue will fund the partial repayment and restructuring of the EFPA portfolio. However, reports reveal that investment experts argue that a bond issued by the special purpose entity may only be attractive if it has a government guarantee or if the bond is structured using some form of credit enhancement provision. Consequently, the judicial managers proposed that the Government of Trinidad and Tobago contribute EC$300 mn, and the Government of Barbados contribute BDS$150 mn to facilitate credit enhancement provisions that will reduce the risk of the bond to potential investors.[22] These issues would have been discussed in the regional media as well as CARICOM Finance Ministers meeting held in July 2012. However, it is not clear that Caribbean governments and more specifically, the Government of Trinidad and Tobago have reached any agreement regarding financial commitments to resolve the operations of CLICO Barbados and the ECCU.

4.5 CLICO Bahamas, Belize, and Turks and Caicos

Shortly after the Government of Trinidad and Tobago announced its intention to offer support to CLICO and CIB in January 2009, the government and regulators in The

[22] www.guardian.co.tt/news/2012.../clico-barbados-tt-govt-pay-us-660...

Bahamas sprung into action. CLICO Bahamas Ltd (CBL) was placed into provisional liquidation on February 24, 2009, by order of the Supreme Court of Bahamas. Craig A. Tony was appointed provisional liquidator, with the designated role of winding up the operations of the company and protecting the interests of policyholders and assets of the Company. The court order for liquidation was granted on April 7, 2009. Immediately following the liquidation order, customers were advised that the company would be transacting no new business, but that they were to continue making payments for life, health, and pension policies. Legal notices of liquidations were also released and customers were advised in May 2009 to continue paying policies, as the life and health portfolio would be sold to a prospective buyer in the future.

To date, the liquidator has produced 11 official reports for use by the Supreme Court. Each report provides details for the respective quarter on the steps that the liquidator has taken over a certain period of time to wind up operations and realize fair value on the assets of CBL. The reports also outline challenges, court appearances, and any concerns, which the liquidator may have. The liquidation process effectively started in March 2009 and has been a slow and deliberate process. Since the commencement of the liquidation process approximately three years ago, the liquidator has not made significant progress in terms of asset sales to cover existing obligations of CBL.

Negotiations with a prospective buyer of CLICO's life, health, and pension policies broke down in January 2012, as the entity was concerned about the efficacy of migration of CBL policy data from CLICO Trinidad. On February 20, 2012, the data migration was completed with the CBL data now hosted by United Software Systems in Florida. The government of The Bahamas has stated that it will provide a guarantee of B$30 mn to support any deficits encountered in the process of liquidation. The guarantee will provide death coverage of B$300,000, per insured, maximum EFPA and annuity refund of B$100,000 per person and full life insurance, accident, and sickness coverage. However, the government would be reimbursed by the liquidator when revenues have been derived from sale of assets. The liquidator noted that he had not been privy to the first draft of the guarantee at the time of presentation of the 11th report. The 11th liquidators report signaled that a number of real estate properties owned by CBL are under sale contracts, with the sale of vacant land at Mt. Royal in The Bahamas already executed. However, sale of properties remain slow given the slump in the real estate market.

CLICO Belize was placed under judicial management in April 2009, and on August 6, 2010, an order was granted to force CLICO Belize into liquidation. The Court appointed Mr. Mark Hulse of Baker Tilly Hulse as the official liquidator for CLICO Belize. The Life and Health Insurance portfolios have since been sold to RF&G Life Insurance, which is a local company. Available information suggests that sale of the Turks and

Caicos Life and Health Portfolio is still under discussion with a prospective buyer. Sale of this portfolio may be challenging, because although the liquidator's report presents an estimated realizable surplus of US$18.2 mn, the assets of CLICO Turks and Caicos were concentrated mainly in exposure to CLICO Enterprises Limited (CEL). However, the liquidator has posited it is unlikely that CEL would be able to fully repay advances from other subsidiaries in full due to depressed real estate market conditions. The liquidator highlighted a number of remaining challenges to the liquidation process including but not limited to: the transfer of life, health and pension policies to a new insurer that is licensed by the Insurance Commission of the Bahamas, sale of Turks and Caicos policies, and funding the costs of liquidation and tracking the assets, which may belong to CBL.

4.6 CLICO Guyana and Suriname

CLICO Guyana was placed under judicial management on February 25, 2009 with Maria van Beek as the judicial manager. On September 20, 2010, a Supreme Court Judge in Guyana issued an order for liquidation of CLICO Guyana, naming the central bank as liquidator, and subsequently re issuing the order on September 24, to name governor Lawrence Williams as the liquidator. Justice Ian Chang also ordered the government of Guyana to distribute US$15 mn among policyholders to offset their potential losses. The government was also to explore the sale of the portfolio of life insurance policies to another insurer. At the time of writing it is unclear whether the life portfolio for CLICO Guyana has been sold/transferred to a new insurance provider.

The resolution of CLICO Suriname was different to the approach taken in most other Caribbean Countries. Suriname was the only country where the Court issued a moratorium on all payments for policies held with the failing entity. In June 2009, following the collapse of CLICO Trinidad and a run on short-term deposits of CLICO Suriname, the court ordered an 18-month moratorium on all payments. The 18-month period allowed the regulators and the Government sufficient time to create a rescue plan and negotiate a sale for ailing insurance entity. The life insurance portfolio of CLICO Suriname was subsequently sold to a local insurance company, Self Reliance Insurance Company. The government of Suriname has a 40% stake in Self Reliance Company and facilitated the transaction through the provision of a US$16 mn (0.4% of GDP) interest free loan to the company. The agreement also allowed for conversion of the loan to equity in the event that Self Reliance Insurance is not able to secure value for its claims from CLICO Bahamas and Trinidad and Tobago. CLICO Suriname continues to operate with the existing portfolio of annuities and EFPA's. The company entered into negotiations with policyholders where the interest rate on deposits was lowered and the maturity profile extended to facilitate eventual merger with Self Reliance Insurance Company.[23]

4.7 CLICO and BAICO Cayman Islands

The resolution of CLICO and BAICO in the Cayman Islands was relatively speedy. On April 4, 2009, the Cayman Islands Monetary Authority (CIMA) issued a cease and desist order to CLICO Cayman Islands, barring the provider from issuing new policies of any kind. Immediately following this order on May 15, 2009 the CIMA announced the appointment of Stuart Sybersma and Ian Wight, of Deloitte & Touche as the joint controllers of CLICO (Trinidad), trading in the Cayman Islands as CLICO (Cayman) Ltd. By December 16, 2009, BAF Insurance Cayman issued a press release stating that they had acquired the life insurance portfolio of CLICO Cayman Islands through an agreement with the judicial managers. BAF Cayman Islands also announced its acquisition of the business assets and liabilities of BAICO Cayman Islands, which had also been under judicial management in November 2009[24].

4.8. BAICO Bermuda

BAICO Bermuda was placed in provisional liquidation sometime around July 2009, with a team from KPMG Advisory Ltd. being the official liquidators. The repayment of short-term deposits hinges on the sale of the building that formerly housed the entity. Initial estimates were that policyholders would have received an estimated 50 cents for every dollar invested. However, given the economic climate and the soft real estate market the asking price of the building has been lowered twice; initially from \$3.6 mn to \$2.7 mn and to \$1.95 mn in October 2012. This suggests that the return for investors may be substantially lower than the 50% previously alluded to by the liquidators.

4.9. Summary

Appendix 1 summarizes resolution approaches and the status to date. The analysis presented suggests that a range of methods was used by countries in the resolution of financial sector difficulties across the region. The approaches vary in terms of the speed and efficacy of implementation. Use of emergency powers by central banks allows for speed in the intervention process, because there is no need to apply to the courts for

[23] See Suriname 2011 Article IV Consultation Report for more details of the resolution strategy.
[24] See: http://cayman.mybafsolutions.com/press-releases/baf-insurance-cayman-acquires-clico-life-insurance-portfolio-24.html.

permission to liquidate or place an entity into judicial management. The experience has shown that the process of liquidation can be slow, especially if the entity possesses significant levels of encumbered assets. The myriad of conflicts among judicial managers across jurisdictions regarding assets of various subsidiaries of CL Financial has also shown that resolution of a financial conglomerate with subsidiaries across the Caribbean is a very complex process. It also demonstrates the need for regulators across the region to develop a coordinated regulatory architecture, which would encompass procedures for resolution of the operation of such complex organizations.

The EFPAs and short-term deposit portfolios within CLICO and BAICO have proven to be the most difficult to resolve, given the paucity of assets available for liquidation and economic conditions. These short-term deposits form part of the shadow banking system, which is not covered by deposit insurance even in jurisdictions where deposit insurance schemes exist. This had therefore led to a situation where governments, in the context of deteriorating fiscal positions, have had to provide resources to facilitate repayment of short-terms deposits. Central banks in some instances have functioned as the lender-of-last resort to provide liquidity support where financial institutions experienced a run on their operations. In other instances, governments have had to engage in central bank borrowing for liquidity support. This raises issues about the extent to which central banks can monetize deficits under those circumstances and their ability to carry out a lender-of-last resort function in the event of systemic difficulties.

5. THE IMPACT OF THE FAILURES: AN INITIAL ASSESSMENT 2009-2011

The financial sector in the Caribbean has traditionally adopted a conservative stance in relation to investing in risky instruments, such as derivatives and subprime mortgages. To a large extent, the exposure of regional financial institutions to the global financial crisis was minimal and as such, the financial sector in the Caribbean was not fundamentally destabilized as a result of the global crisis. However, the CL Financial Group (CLF) collapsed because internal problems were compounded by the global crisis, including the collapse of the real estate market in Florida. Indeed, some have argued that the global crisis was not responsible for problems of CLF, in particular, its flagship entity, CLICO. Layne (2010) blamed 'bad management and an inadequate and indecisive regulatory environment.' Following a critical review of the Actuary Reports of CLICO dating back to 1992, Layne concluded, 'CLICO was a time bomb waiting to explode and explode it did.' Irrespective of the antecedents of the failures, the collapse of the conglomerate exacerbated the impact of the global crisis on the region's financial sector.

The collapse of CLF has had a profound and widespread impact not only on regional financial institutions (both banks and nonbanks) but the economy more broadly, given its sheer size and influence. It is estimated that the assets of CLF in 2007 approximated 30% of the Caribbean's GDP (Gold, Liu, Monroe, and Wu, 2010). Indeed, the collapse of CLF has had spillover effects to all CARICOM countries, with the exception of Haiti and Jamaica. Judging from its tremendous and far-reaching impact, Polius (2012) classified the collapse of CLF as a systemic event. The collapse of the SFG, particularly BOA, though largely confined to Antigua and Barbuda and not of the magnitude of CLF, also has had devastating financial, economic, and social consequences.

Only about 3 years have passed and the effects of the financial failures are still coursing through regional economies. However, some initial assessment can be hard from a careful analysis of developments not only in the financial sector but in the wider economy. Indeed, governments' efforts at protecting the financial system and resolving the crisis have had important fiscal effects that are only now emerging. Additionally, the social and psychological impacts of financial failures have been significant. The failures have also exposed gaps in the regulatory and supervisory frameworks that have eroded confidence in the financial system and its regulation and prompted reforms to strengthen financial sector governance.

5.1 Financial Sector Impact

The most significant effect of CLF's failure was the immediate illiquidity of its subsidiaries CIB and in turn, CLICO and BAICO. The liquidity problem started at the Trinidad-based CIB because depositors, on concerns about falling methanol and real estate prices in the U.S. (CIB had a large investments in those sectors) began to withdraw their funds, a process that escalated during the last week of January 2009 (UNECLAC, 2010). CIB's illiquidity problems spilled over to CLICO and eventually to BIACO, given the close ties between the subsidiaries. The dire situation prompted the government of Trinidad and Tobago's intervention to maintain financial sector stability, prevent contagion to other financial institutions, and protect depositors' funds. Soverall (2012) argued that without the government's intervention, the contagion effects would have been significant and moreover, CLICO would have been vulnerable to liquidation, resulting in catastrophic losses to policyholders. Notwithstanding the intervention of the government of Trinidad and Tobago, confidence in the financial system was severely damaged as financial sector performance weakened and financial soundness indicators became significantly impaired. Large nonbank financial institutions came under stress in 2010 because of their exposures to CLF (IMF, 2011).

The bailout of CIB by the Government of Trinidad and Tobago could not prevent the ramifications that eventually ensued, not only in Trinidad and Tobago, but across the Region. The government of Trinidad and Tobago's intervention triggered interventions by other countries in the region where CLICO and BAICO had operations. The ECCB had to intervene to avoid contagion and maintain stability given the exposure of large and systematically important financial institutions in the ECCU to both BAICO and CLICO. It is estimated that commercial banks and related offshore banks accounted for about 6.4% (US$47 mn) of total ECCU's exposure in 2010, which was equivalent to 8% of commercial banks' total capital. The exposure of state pension schemes and credit unions accounted for 7% (US$52 mn) and 4.2% (US$31 mn), respectively, of total ECCU's exposure in 2010. In some countries, the exposures of the pension schemes and credit unions are significant, and threaten their solvency (IMF, 2011). The ECCB also had to intervene to avoid contagion and maintain stability given the failure of BOA.

As evidenced by the data in Table 5.1, the collapse of CLF and its subsidiaries also contributed to adverse balance sheet effects, especially as regards the asset quality of commercial banks. In 2009, the ratio of NPLs to total loans rose, exceeding the accepted prudential benchmark of 5% in all countries with the exception of Trinidad and Tobago; with the regional ratio averaging 7.3%. Subsequently, the deterioration in asset quality became more acute, and by 2011 the NPL ratio rose markedly (relative to the pre-crisis period) in all countries with the exception of Guyana. The increase in the ratio was particularly significant in Belize and the Bahamas. While the extent is difficult to quantify, and notwithstanding the deterioration in economic conditions at the time, it is reasonable to assume that the failure of the CLF and BAICO would have contributed to increases in NPLs. Employees of the failed entities may have been unable to service their obligations to commercial banks having lost their jobs and policyholders/depositors (individual and institutional) having lost their investments/savings may have been unable to meet their obligations to commercial banks. General provisioning for loan losses declined in all jurisdictions (with the exception of Guyana) in 2011 relative to the pre-crisis period, reflecting for the most part, more rigorous management of nonperforming loans through write offs, recoveries, and restructuring. Commercial banks' profitability, though generally strong, has been on a downtrend since the crisis, as banks increased write-offs of bad loans. On the whole, in the post-crisis period banks in the region have been assessed as stable and sound as reflected in strong CARs. However, banks in the ECCU, particularly indigenous banks, have been experiencing significant pressure since the crisis, with the CAR falling by 2.6 percentage points in 2011 relative to the average in the pre-crisis period.

The financial failures also compounded the effect that the global crisis has had in dampening banks' appetite for lending. Credit to the private sector grew at an annual average rate of 3.7% at the regional level in 2009, compared with the regional average[25] of 10% in 2008, with mixed outturns at the country level. Credit growth slowed in the majority of countries and contracted in Antigua and Barbuda, Barbados, and Trinidad and Tobago. As the effects of the global crisis took hold, and following the region's two financial failures, commercial banks' lending policies, especially in relation to collateral requirements and underwriting procedures were significantly tightened.

Additionally, the failures dampened business confidence and this would have undoubtedly weighed on private sector borrowing. Moreover, banks (especially in Barbados and the ECCU) have been increasing their holdings of domestic government securities in search of safe assets. Consequently, the region-wide sluggish growth in private sector credit, which averaged 1.3% in 2011, compared with the regional average of 12% over the period 2005-2008, has resulted in a strong build up of liquidity in the regional banking system (Table 5.1). However, some indigenous banks in the ECCU still face severe liquidity constraints as well as declining profitability, as evidenced by the significant decline in the liquid assets ratio and the return on assets ratio in the currency union. Overall, at the regional level, commercial banks' risk aversion increased, accentuated in some countries by the CLF bailout and the loss of confidence in the stability of its subsidiaries across the region (Caribbean Centre for Money and Finance [CCMF], 2010). Although the surfeit of liquidity depressed lending rates, commercial banks' risk aversion was manifested through significant tightening of lending policies.

[25] Does not include Guyana where credit to the private sector has been growing robustly since 2005 (albeit at a decelerating pace since 2009).

Table 5.1 Key Financial Sector Indicators (%)

	Capital Adequacy Ratio		Liquid Assets/Total Assets		NPLs/Total Loans		Provision for Loan Loss/NPLs		Return on Equity		Return on Assets		Private Sector Credit (year on year change)	
	2005-2008	**2011**	**2005-2008**	**2011**	**2005-2008**	**2011**	**2005-2008**	**2011**	**2005-2008**	**2011**	**2005-2008**	**2011**	**2005-2008**	**2011**
Bahamas	24.5	27.2	21.8	36.1	4.9	13.0	49.5	36.8	18.6#	N/A	3.6#	N/A	10.4	1.1
Barbados	15.7	19.3^	8.9	14.3^	4.1	10.6^	43.7	32.6^	12.3	7.6^	1.7	1.0^	13.3	1.0
Belize	20.9	23.5*	19.3^^	46.1^^	8.5	19.8	28.7	27.7*	N/A	0.8*	N/A	6.3*	12.3	-0.3
ECCU	21.5	18.9	38.5	22.9	7.5	12.8	36.2	29.0	N/A	1.2	2.6	0.1	10.5	1.3
Guyana	15.0	18.9**	30.5	26.4**	11.4	6.5**	47.2	63.2**	25.9	28.9**	2.2	3.0**	19.5	19.0
Trinidad and Tobago	18.5	25.8*	18.6	26.8*	1.2	7.5*	77.7	30.8*	27.8	16.8*	3.4	2.3*	16.7	3.1

Source: IMF, Central Banks' Reports. Notes: N/A means unavailable. ^ means as at September, * means as at June, ** means as at December 2010. # refers to 2007 only. ^^ is the Excess Cash ratio.

5.2 Implications for Financial Sector Reform

The financial failures in the Region exposed alarming supervisory and regulatory gaps in the regional financial system relating mainly to conglomerates incorporating financial institutions, liquidity requirements, related party transactions, and enforcement.[26] These gaps prompted efforts, mainly in the legislative area, to strengthen regulatory and supervisory frameworks and reinforce good corporate governance. These reforms were particularly relevant and urgent in countries, such as the Bahamas and Barbados that are heavily dependent on financial services.

In the Bahamas, reforms undertaken involved among others, (a) implementing an enhanced risk-based supervision framework; (b) enhancing supervision of large financial institutions; (c) drafting legislation to facilitate consolidated supervision across different institutions; and (d) participating in regional supervision efforts and coordinating with Canadian regulators (IMF, 2012). The Barbadian authorities established a Financial Services Commission (FSC) that consolidates the supervision of insurance, pensions, and securities. The FSC became operational in April 2011.

In Trinidad and Tobago, new pieces of legislations were introduced in an effort to address some of the regulatory and supervisory weaknesses exposed by the CLICO crisis. Additionally, the central bank issued circulars in 2010 and 2011 that provided guidelines

[26] A memorandum from the Inspector of Financial Institutions to the Governor of the Central Bank of Trinidad and Tobago dated February 12, 2009, noted that 'CLICO has a documented history of not respecting the obligations imposed on insurance companies by the Insurances Act. The Company has over the years committed several breaches of the Insurance Act…' (see: http://www.clfhcuenquiry.org/).

pertaining to the statutory fund requirements for insurance companies, the approval and/or notification of new or amended insurance and banking products, and the product approval process (CBTT, 2011). In Guyana, legislation was enacted to establish a credit bureau and existing legislation was revised to bring the mortgage bank under the supervision of the Bank of Guyana (IMF, 2011). In the ECCU, Single Regulatory Units (with supporting legislation, adequate staffing and capacity building) have been established for the nonbank financial sector. Furthermore, insurance companies are now required to create statutory funds with sufficient assets under trusteeship to cover local insurance liabilities. Members of the ECCU have also sought to harmonize their respective Insurance Acts. To date, new Insurance Acts have been passed in Antigua and Barbuda, Grenada, and St. Kitts and Nevis (IMF, 2011).

At the CARICOM level, in light of the serious absence of coordination demonstrated in the wake of the CLICO/BAICO failure, work has started on a framework for regional collaboration on financial sector matters. CARICOM Heads of Government meeting in July 2009 agreed to create a College of Regulators to share information on a regular basis in order to adequately address cross-border financial issues and to allow for closer cooperation in supervision matters across the Region. However, organizational and operational details of the mechanism appear to be in very early stages of conceptualization and development.

5.3 Fiscal Impact

The financial failures have imposed substantial fiscal costs on some governments, particularly that of Trinidad and Tobago. For other governments, based on their countries' net exposures to the failed entities (Table 5.2), resolution will impose significant fiscal costs going forward, with estimates ranging from 0.2% of GDP in Belize to as high as 17% of GDP in the ECCU (Gold et al., 2012). Indeed, in most countries the full accounting for fiscal costs associated with complete resolution of banks and insurance companies will have profound implications for future fiscal adjustment.

In Trinidad and Tobago, the government provided US$343.2 mn to facilitate the transfer of CIB's third party deposit liabilities to FCB in 2009 and FCB's purchase of CMMB. In January 2012, the government announced that policyholders with principals valued at under US$11,700 (TT$75,000) will receive cash payment at a total estimated cost to the state of US$49.3 mn. Additionally, policyholders with principal values of TT$75,000 and over will be compensated at a total estimated cost to the government of US$234 mn, of which US$156 mn will be raised through a bond issue on the local capital market, and the remainder to be paid through direct transfers to an eligible payee's local bank account. The bond issue will total US$1.6 bn paid over 20 years. The government will also inject a further US$312 mn in cash, while CLICO's shareholding in Republic Bank will be used to provide the investment base for a trust to satisfy the redemption of the bonds.

The 2012/2013 Budget Address notes that 25,115 holders of short-term investment products, including credit unions and trade unions, have accepted the government's settlement offer as of September 18, 2012. The Address also states that the current resolution costs for the entities within CL Financial and the Hindu Credit Union stand at TT$19.7 bn (US$3.2 bn) or approximately 13.0% of GDP. It should be noted that payments toward resolving the Hindu Credit Union totaled approximately TT$700 mn, which signals that the resolution costs for the CL Financial entities in Trinidad and Tobago are around TT$19 bn (US$3.1 bn).

The costs associated with the CLICO bailout have undoubtedly contributed to Trinidad and Tobago's marked fiscal deterioration. The country's primary balance position in 2011 was a deficit of 3.8% of GDP compared with the surplus of 10% in 2008. Moreover, the public debt-to-GDP ratio in 2011 (50.4%) was twice that of the ratio in 2008. However, Trinidad and Tobago's credit rating (A: Stable)[27] has so far not been affected. A strong and credible medium-term fiscal framework will be needed to rebuild fiscal savings and reduce public debt.

In Barbados, to date, the government has not incurred any direct fiscal costs related to CLICO/BAICO. However, the central bank provided liquidity support to CLICO Mortgage and Finance Company (CMFC) in April 2009 in the amount of BD$10 mn (US$5 mn). Regarding the resolution of CLICO, the fiscal costs for the government could be as high as US$76 mn or as low as US$28 mn, depending on which of the restructuring options proposed by the Judicial Manger in September 2011 is adopted (IMF, 2012). As cited in IMF's report, the judicial manager proposed the following restructuring options: (i) corporate holders of EFPA would get full value of their policies in equity in a new company, while individual and quasi-government holders would receive full value of their policies in the form of annuities at a total financing cost of US$76 mn; (ii) corporate and quasi-government EFPA holders would receive the full values of their policies in shares in a new company, while individual holders would be refunded the full value of their policies in the form of annuities, at a total cost of US$52 mn; (iii) corporate EFPA holders would get full value of their policies in equity in a new company, while individual and quasi-government holders would receive annuities for their principal balances and shares for the interests accrued on their policies, at a total cost of US$47 mn; and (iv) corporate and quasi-government EFPA holders would receive the full value of their policies in shares in a new company, while individual holders would be refunded the full value of their principal in the form of annuities and the accrued interest in shares, at a total cost of US$28 mn.

[27] Standard and Poors as at November 2011.

The government is contemplating the options and has indicated a December 2012 timeline for the resolution of the CLICO issue. On June 26, 2012, the finance minister, in his presentation of the 2012/2013 Budget proposed a solution for CLICO that entails Barbadian policyholders and investors receiving BD$25,000 in cash, while 70% of their principal balance above this amount would be converted into a long-term annuity. If this proposal is agreed to by all parties, the financing of this resolution option will represent a major contingent liability for the government and will add to an already high and unsustainable public debt. At the end of 2011 gross public sector debt was estimated at 112% of GDP. Moreover, fiscal costs associated with the resolution of CLICO Barbados could derail the government's medium-term fiscal consolidation plan to achieve a balanced budget and reduce the public debt-to-GDP ratio to 70% by fiscal year 2016/2017.

In Guyana, it is estimated that the government contributed an estimated G$3.6 bn or US$17.4 mn (0.8% of GDP) toward the resolution of the operations of CLICO Guyana. Of the G$3.6 bn, G$3 bn (US$15 mn) was secured from the Petroleum Fund. Approximately G$2.7 bn was used to refund holders of short-terms deposits, annuities, and EFPAs up to a maximum of G$30 mn (US$150,000). A total of 7,744 EFPA holders were paid in full. The remainder of the funds were used to pay 39 large policyholders a maximum amount of G$30 mn, with emphasis placed on institutional investors. The government provided a guarantee to the largest institutional investor, the National Insurance Scheme (NIS), to cover its exposure to CLICO, which was estimated at US$30 mn in 2010. The guarantee could increase the public debt by 1.3% of GDP when the NIS investment matures in a few years (IMF, 2011).

For the Bahamas, exposure to CLICO's liabilities was estimated at 1% of GDP (US$77 mn) in 2010. CLICO Bahamas is currently in liquidation, and based on the Unaudited Financial Statement of the Seventh Report of the Official Liquidator of CLICO Enterprise Limited (In Liquidation) for the period July 1, 2011 to September 30, 2011, the total liabilities of CLICO Bahamas were estimated at US$127.1 mn (1.6% of GDP) and the deficit as regards members was estimated at US$118.9 mn (1.5% of GDP). Ultimately, the fiscal costs associated with any resolution option would be bound by the net liabilities of CLICO Life and the extent to which liabilities to investors are guaranteed by the government. In Belize, the fiscal costs associated with the resolution of CLICO are estimated at 0.2% of GDP (Gold et al., 2010). The fiscal accounts of both countries are already under pressure and potential contingent liabilities associated with the resolution of the insurance companies portend additional downside risks to their fiscal outlooks.

So far, direct fiscal costs incurred by member countries of the ECCU have been limited to US$33 mn incurred by the government of Antigua and Barbuda to stem the outflows of deposits from BOA. The funds were borrowed from the ECCB in 2009. Going forward however, the fiscal costs are likely to be significant based on the ECCU's total exposure to CLICO and BAICO, which is estimated at US$700 mn or 17.4% of GDP (IMF, 2011). At the country level[28], exposures to CLICO and BAICO combined are significant in nominal terms, ranging from US$187 mn in Antigua and Barbuda to US$68 mn in St. Lucia. In percentage of GDP terms, country exposures of 25% (St. Vincent and the Grenadines); 24.4% (Grenada); 19.9% (Dominica); 16.3% (Antigua and Barbuda); 17.1% (St. Kitts and Nevis); and 7.2% (St. Lucia) will, in part, determine the relative obligations associated with any resolution option.

Given already high debt burdens in the majority of the ECCU countries (the public debt-to-GDP ratio averaged 91.3% in 2011) fiscal costs that are likely to be associated with the CLICO and BAICO resolutions can severely worsen countries' debt dynamics. Based on the fiscal outturns in 2011 (public debt and primary balance ratios) and medium-term assumptions for real GDP growth and interest rate, large-scale fiscal adjustment will be required to reduce the public debt to more sustainable levels over the medium term. For example, estimates of the magnitudes of fiscal adjustment (in % of GDP) are 11.4% in Antigua and Barbuda; 9.8% in Grenada; 7.3% in St. Kitts and Nevis; 7.1% in St. Lucia; and 3.5% in St. Vincent and the Grenadines. These debt sustainability calculations[29] do not include potential fiscal costs associated with CLICO/BAICO resolutions. Indeed, the magnitude of fiscal adjustment could be much higher in the future depending on the nature of the resolutions.

Table 5.2: Estimated Fiscal Impact of the Financial Failures: US$

	Trinidad & Tobago	**Barbados**	**Guyana**	**Bahamas**	**Belize**	**ECCU**
Estimated Fiscal Cost Incurred to Date	$3.1 bn (13.0% of GDP)^	$5 mn Liquidity support to CMFC by the Central Bank in 2009.	$17.4 mn (0.8% of GDP)	N/A	N/A	$33 mn borrowed by Antigua and Barbuda from ECCB in 2009 to stem outflow of deposits from BOA.
* Estimated Exposure to CLICO/BAICO	$2 bn (10% of GDP)	$142 mn (3.25% of GDP).	$30 mn (1.3% of GDP): NIS exposure to CLICO	$77 mn (1% of GDP)	$2.9 mn (0.2% of GDP).	CLICO exposure: $366.4 mn (8.4% of GDP). BAICO exposure: $389.4 mn (8.9% of GDP)
*Estimated Resolution Cost	8-11% of GDP)	1-2 % of GDP.	1-3% of GDP.	N/A	(0.2% of GDP).	17.4% of GDP.

Sources: IMF Article IV Reports (various issues); Central Banks' Reports (Various issues); UNECLAC Reports (various issues); Country Authorities; and Various Newspaper Articles. Notes: * means 2010 estimate. N/A means data unavailable.

[28] The nonindependent territories are not included.
[29] Complete calculations not shown for brevity. Results are available upon request from authors.

5.4 Social Impact

The failures of CLICO and BAICO have had not only adverse financial and economic repercussions, but also significant, social, and psychological impacts, especially in the ECCU. The social impact in the ECCU was particularly significant in part because of CLF's specific targeting of the currency union countries in the sale of its short-term investments (EFPAs, Guaranteed Advance Annuity Protection Policies and the Group Advance Protection Policies). Based on anecdotal evidence, many individuals invested their life savings in BAICO and CLICO and have suffered major losses of their savings and other assets, which undoubtedly would have contributed to increasing the incidence of poverty throughout the region. In other cases, medical coverage has been lost and affected policyholders have found themselves unable to meet the cost of medical care.

Additionally, some policyholders used BAICO and CLICO investments as collateral for mortgages or higher education loans, and have had to seek alternative collateral cover. In cases where alternative cover is unavailable or too costly, policyholders could lose their homes and educational goals could be derailed. Furthermore, several civic organizations, government agencies, public utilities and more importantly, social security funds, pension schemes, and medical funds, are heavily exposed to CLICO and BAICO, with the total exposure estimated at around 2% of the ECCU's GDP in 2010. It is estimated that state pension schemes have claims of around US$52 mn. In the case of St. Vincent and the Grenadines, the exposure to CLICO is close to one fifth of total assets (IMF, 2011). According to Gonsalves (2009), the NIS's investments were scheduled to mature between 2010 and May 2012. The magnitude of the exposures of these important socio/economic institutions across the ECCU suggest that full provisioning can result in insolvency, with significant implications for already high poverty levels in the region.

In Guyana, as noted above, it is estimated that about US$30 mn of the country's NIS investments could be impaired by CLICO Guyana's liquidation process. If all or most of the NIS's investments are not recovered, its ability to honor the payout of old age and other benefits can be adversely affected, especially given the already weak financial standing of the NIS[30]. Given the uncertainties regarding the future of CLICO and its ability to honor its debts when they become due, government support is critical for the recovery of the NIS's investment. In the absence of state support, the viability of the NIS in Guyana could be compromised and this can have profound social implications.

In conclusion, while for the most part the regional financial system was resilient to the global economic crisis, the crisis contributed to the collapse of the region's largest

[30] Based on the 2010 audited NIS report, the NIS' expenditure is close to exceeding its revenue and the Scheme has already begun tapping into its reserves to meet some obligations (Kaieteur News, May 7, 2012).

financial conglomerate and its subsidiaries as well as to the demise of SFG. The financial failures, especially the CLICO/BAICO collapse, have had regional reach given the size and systemic importance. Not only was the resilience and, in some cases, solvency and stability of financial institutions dangerously threatened, but the collapse also inflicted tremendous fiscal costs on governments. Indeed, in some instances, the fiscal costs are still accumulating and the implications for future fiscal consolidation can be profound. While the full social costs are incalculable, anecdotes indicate that the CLICO/BAICO and SFG debacles continue to be a physiological drag on the regional economy and society.

The financial failures prompted efforts to institute much-needed reforms to strengthen fiscal sector regulation and supervision. Indeed, several salient lessons have emerged from the experience of the financial failures in the Caribbean. Three of these are (a) the critical need for a regional, coherent, and coordinated approach to financial sector governance; (b) the importance of constant monitoring and periodic assessments and adjustments of reforms to ensure effectiveness; and (c) the need to build capacity of regional regulators and supervisors to adequately deal with financial innovations that involve risky and complex financial transactions. However, it is still too early to assess whether these efforts—which have been largely of a legal nature—and the lessons learned mark the start of fundamental changes in the regulation of the financial sector in the region.

6. IMPLICATIONS OF THE FAILURES FOR THE DESIGN OF MACRO-FISCAL POLICIES & FINANCIAL SECTOR SUPERVISION

6.1 The International Environment: Illusions Lost

In the aftermath of the global financial crisis of 2008-2009, a broad sense emerged among economists in advanced and emerging market countries that the models underpinning conventional macroeconomics, and in particular, those relating to the operations of financial institutions and their role in the economy, had to be overhauled. Fundamental assumptions relating to information and rational decision-making, market efficiency, and risk assessment capacity were revealed to be flawed or unrepresentative of the behavior of financial market operators. Particularly shaken were the assumptions that efficient financial markets and institutions would price risk appropriately, providing early warning of emerging problems as well as opportunities for restructuring and change. The models and assumptions about market behavior led to the exclusion of financial risk from considerations of fiscal policy, with the view predominating that a self-correcting financial market would obviate the need for intervention. This view is captured well in a speech by Alan Greenspan in 2009, in which he observed:

> All of the sophisticated mathematics and computer wizardry essentially rested on one central premise: that enlightened self interest of owners and managers of financial institutions would lead them to maintain a sufficient buffer against insolvency by actively monitoring and managing their firms' capital and risk positions.[31]

A consequence of the efficient markets assumption was that policy frameworks paid little attention to the potential risks of financial sector behavior (for example, the risks associated with the price bubbles in real estate) for economic performance. A related risk to fiscal policy frameworks was that in many countries asset price bubbles helped boost government revenue, led to unsustainable expenditure growth, and created a mirage of robust fiscal performance. When asset prices fell sharply so did government revenues, leading to a scramble for financing at the same time as banks were cutting back their lending in response to shrinking asset valuations and tighter capital requirements.

The issue of the pro cyclicality of the financial sector was addressed by Irvin Fisher as far back as 1933 in his article, "Debt Deflation Theory of the Great Depressions." Fisher's analysis of depressions was then largely ignored. More recently, in the post 2008 period the pro cyclicality of the financial sector and its impact on financial stability has resurged, with, for example, New Keynesians such as chairman of the Federal Reserve,

[31] Greenspan, A., *Remarks to Economic Club of New York*, 17 February 2009.

Ben Bernanke highlighting the capacity of developments within the financial sector to amplify and reinforce economic cycles, leading to deeper recessions and larger expansions. In light of this, some policy makers are shifting attention to measures that would reduce the risk of financial instability and its attendant costs.[32] As part of these efforts, attention has turned to the development of macro financial stabilization frameworks that will allow for monetary and regulatory policies to target reductions in financial sector imbalances.

In the harsh light of the post-2008 world, the effectiveness of financial regulation was also shown to have been overestimated. To many, it seemed that supervisors could regulate effectively neither single institutions, nor market activities and instruments, nor cross-border operations. In addition, the widespread delegation to the rating agencies of due diligence in matters relating to the valuation of financial assets and the assessment of risk proved to be costly to individuals, business, and society. David Romer, a leading economist at the University of California, Berkeley, summed up the situation as follows, 'We had not paid much attention to issues of financial regulation and financial disruptions in macroeconomics, but they too have turned out to be critical to macroeconomic performance.'[33]

6.2 The Caribbean: Financial Failure, Currency Risks, and Fiscal Instability

In the Caribbean also, it became clear that popular assumptions about the skills, competence, and caution of bankers and other financial managers in the failed and fragile institutions had been misplaced. In addition, notions about the oversight role of boards, the value of audited financial statements and rating agency assessments, and the capacity of regulators to identify risks and enforce laws, particularly in institutions with cross-border activities and complex intra-group transactions, were shown to have been exaggerated. In the case of financial conglomerates, such as CLICO, their activities could not be treated simply as evidence of welcome regional financial integration under the purview of the regulators of the headquarters country. Instead, it was shown that their operations can result in swift and costly fiscal repercussions across the network of countries, since only governments or central banks have access to the financial resources needed to intervene in, and resolve financial sector collapses.

In summary, the episodes of financial institution failure in the Caribbean have demonstrated again that macro-fiscal frameworks cannot avoid ongoing consideration of

---

[32] For some earlier work in this area, see Borio, C E V, C Furfine and P Lowe (2001): Procyclicality of the financial system and financial stability: issues and policy options., BIS Papers No 1, March, pp 1-57.
[33] Remarks to the IMF Conference on Macro and Growth Policies in the Wake of the Crisis, March 2011. http://www.imf.org/external/np/seminars/eng/2011/res/index.htm

the fiscal risks and contingencies associated with financial sector behavior.[34] This stems from the experience during this crisis and previous ones which confirms that behavior in some institutions cannot be assumed to be efficient or conducted in the interest of shareholders and the public. In addition, the architecture of the region's financial system, which consists of still weak legal frameworks in some countries, the absence of consolidated supervision of financial conglomerates, state-owned banks with large public sector exposures, and the lack of clear resolution procedures, presents considerable fiscal risks. In the case of the ECCU, risks are heightened by the need to take all necessary action to preserve confidence in the currency union and the fact that fiscal action is the only available policy instrument. Particularly for the ECCU, therefore, there is no basis for the separation of financial sector risks from considerations of fiscal stability and economic performance.

It seems prudent, therefore, that fiscal policy frameworks in the Caribbean be adapted to take into account first, the cost of the recent failures and measures to restore fiscal sustainability; and second, the ongoing risks associated with a financial system still characterized by weak indigenous banks and the absence of a framework to regulate new or emerging multi-country financial institutions, such as SAGICOR and the Eastern Caribbean Financial Holdings. As noted earlier, fiscal frameworks in most regional countries center on (i) achieving debt sustainability by generating primary surpluses in the public sector; (ii) creating adequate fiscal space to allow adequate resources to be allocated to infrastructure, poverty reduction, and other development priorities; (iii) tax reforms; and (iv) addressing risks associated with natural disasters or reforms in the areas of civil service, pensions, and state enterprises. Fiscal programming frameworks also incorporate the financial sector through the limits or assumptions regarding public sector borrowing from banks and other institutions. However, with one exception, the authors are not aware of frameworks that specifically consider or address the risks associated with the financial sector. It is proposed that this gap be filled as a matter of priority.[35]

6.3 Revised Fiscal Frameworks

The adaptation of fiscal frameworks proposed here would retain the elements of the current approach mentioned above. However, the main new features would include:

- the requirement that fiscal frameworks include explicitly the actual and projected costs of government or central bank intervention in failed or weak financial

[34] Layne (2010) points out that risky activities of financial institutions and significant fiscal costs were key aspects of the FINSAC crisis in Jamaica in 1995.
[35] In St. Kitts and Nevis, recent proposals for debt restructuring and fiscal reform contemplated a specific set aside of contingency funds to address risks associated with the indigenous commercial bank's exposure to the local public sector.

institutions (including through loans, equity contributions, or compensation to depositors or other customers);

- a quantified assessment of all financial risks to the public finances, including risks associated with financial institutions or the operations of government-owned entities; and

- a listing of ongoing and proposed actions to meet the fiscal costs of financial failures and to address other contingencies.

Given the large taxpayer costs associated with the collapse of CLICO and BOA, the undertakings by the state in both cases to provide compensation to depositors or policyholders, as well as the need for transparency, it is important that full information on these costs be provided promptly to the public.[36] A complementary step, therefore, in building fiscal frameworks that incorporate financial sector costs and risks would be to ensure that such information is collected by governments and are included transparently in national budgets and medium-term fiscal plans. This quantification, covering loans, guarantees, equity contributions, and all other forms of support would help meet the need to inform the public of the costs and burden-sharing associated with financial sector failures, and allow public discussion of supplementary fiscal measures that might be needed over time to meet total costs.

The provision of information on fiscal risks in the financial and other sectors is already part of best practices recommended by the IMF. Specifically, the IMF recommendation is that: 'Countries should regularly prepare and publish a statement of fiscal risks, ideally accompanying annual budget documents, and including the different types of risks related to already-announced public interventions in support of the financial sector.'[37]

In addition, the IMF and the International Public Sector Accounting Standards Board have set up a joint task force to review the accounting policies applied by governments in reporting on the financial implications of crisis-related interventions (such as those in financial institutions), including exposure to contingent liabilities and other fiscal risks.

[36] On governments' commitment to compensate depositors and other clients, Antigua and Barbuda's Minister of Finance noted in his budget speech in December 2011 that:

> The principle of full protection and security of bank deposits is a fundamental pillar upon which confidence in our financial system rests. Hence, this UPP Government was neither tentative nor timid in stepping up to the plate, as costly as it maybe, in order that life savings and business earnings should be kept intact.

[37] Everaert et al (2009), p. 3. For a discussion of frameworks and country practices for handling and disclosing fiscal risks, see Cebotari, et al (2009).

This task force will also examine how actions taken by central banks and through special purpose entities are being reported.[38]

6.4 Revised Financial Sector Supervision

The failures of 2008-2009 in the Caribbean highlighted the need to strengthen the frameworks as well as the practice of financial supervision. The response of the region's governments included statements aimed at re-assuring the public that prompt action would be taken. Measures announced included the setting up of a regional College of Supervisors, preparation of a Caribbean Financial Stability Report by December 2012, and the development of 'early warning' systems to identify sources of distress. In addition, there has been considerable effort in most countries to update the legal framework for regulating nonbank financial institutions (see Section 5 above).

However, progress has been slow.[39] There has been little advance regarding the establishment of a college of supervisors or on any other mechanisms for improving regional collaboration on regulation. Central banks in the Caribbean have committed to implementation of an IDB-financed Caribbean Financial Sector Risk Assessment Project by the CCMF. Key deliverables from this project include training for regulators and a Caribbean Financial Stability Report. However, this project is just commencing. As a result, it is not clear four years after the failure of CLICO how the system-wide and regional risks associated with the operations of financial and quasi-financial conglomerates are being managed differently. More specifically, how is the group of regional regulators monitoring the risks associated with the cross-border and intra-group operations of the remaining regional entities with multi-country operations e.g. SAGICOR, Guardian Holdings, Republic Bank, First Citizens Bank, and the Eastern Caribbean Financial Holding Company? And what steps are being taken to reduce moral hazard associated with deposit placements in entities which are not regulated or poorly regulated? In the ECCU is there a sound basis now for the introduction of deposit insurance? And what is the ECCB's capacity for future liquidity support to failed banks/governments along the lines of that provided to BOA/the Government of Antigua and Barbuda?

At national levels there has been work on legislation, but it is not clear whether, or how, regulatory entities have been strengthened through staffing or operational improvements; i.e. to what extent have the work practices and monitoring systems of regulators changed

---

[38] Everaert et al (2009).

[39] Rogoff argues that at the global level also little has fundamentally changed since the crisis to fix the flaws identified as contributing to the crisis. Davies notes that the grander ideas for regulatory have disappeared from the global agenda. To date, the changes in the United States have been modest, or considerably diluted, and in the EU, there is a ' form ' of European-wide regulation, but not the substance.

since the crisis? Has the transition to Single Regulatory Units in ECCU countries been completed, and how are the risks in the transition period being handled? Also, how will future shortfalls of statutory reserves for banks and insurance companies be addressed? Part of this lack of clarity on progress in regulation may be due to the absence of communication from central banks and ministries of finance on advances being made in regulation. Filling this gap in communication through periodic progress reports for national and region-wide efforts would be an important achievement in strengthening public confidence and transparency in regulatory matters.

On reporting, analyses of financial statements for various failed entities suggest that there are no clear standards regarding the indicators and information provided in such documents. Thus, while these documents are prepared because they are a requirement imposed by the regulator or the Securities Exchange in some instances, in many cases the quality of the information is compromised. Moreover, close observation can discern attempts to shroud information pertinent to the decision making process, such as non performing assets, and exposure to key sectors. Any revision of the regulatory framework must therefore examine and provide clear standards for public reporting of financial information.

Based on the above-mentioned observations and questions, it seems important that a work program for revamping financial sector regulation in the post-failure period include steps to ensure that improved legal frameworks are accompanied by operational arrangements for supervisors that include clear mandates and enforcement authority, independence, and skilled staff. In addition, it seems vital that a style of supervision be implemented that is more 'intrusive, skeptical, proactive, and conclusive' than in the past (Viñals and Fiechter, 2010). At the regional level, it would be important for purposes of transparency and confidence-boosting that the group of regional regulators issue a public statement setting out actions taken since the outbreak of the crisis to strengthen regional collaboration in the regulation of financial institutions, particularly those with cross-border operations.

The message of this paper is that the key element in the necessary revamping of fiscal and financial sector regulation frameworks must be greater transparency, information, and communication with the public on costs, progress, and plans. The objectives are to ensure full public information on the costs of the crisis and on how these will be shared between taxpayers and depositors/policyholders, and to give reassurance to the public that the fiscal and regulatory lessons from the failure of CLICO and Stanford Group have been learned, with every effort being made to avoid a repetition of those experiences.

7. CONCLUSION

Three years after the collapse of CL Financial and BOA, several countries in the Caribbean continue to struggle with the consequences. The direct impact include gross fiscal costs; i.e. costs to taxpayers, ranging from less than 1% of GDP in Belize to perhaps as much as 11% of GDP in Trinidad and Tobago and 17% in the ECCU member countries. Other consequences that have to be addressed include repairing confidence in the region's financial system, rebuilding the regulatory framework, and addressing adverse social consequences that will stem from tighter fiscal adjustment and the effects of the failures on pension funds and personal savings. Interventions by governments and central banks through public assurances backed by swift liquidity support helped avoid widespread panic and contagion. ECCU member countries organized a relatively smooth transition from the failed BOA to a new regionally-owned entity. However, the resolution of CLICO/BAICO is still ongoing, creating considerable uncertainty about the prospects and timing of a return to fiscal sustainability and income growth. In many countries, the uncertainty has been compounded by the lack of communication to the public of fiscal/taxpayer costs incurred to date, and on likely fiscal costs in the period toward final resolution.

The timing of the failures was inconvenient. In 2007-2008 across the Caribbean most governments were engaged in determined efforts to reduce their fiscal deficits and public debt in order to create fiscal space to provide for much-needed improvements in infrastructure and the social sectors. In many countries, deficits were falling, and overall, debt ratios were declining. But there was much left to be done, particularly in the more fragile countries, such as Antigua and Barbuda, Barbados, Grenada, and St. Kitts and Nevis. In summary, the region was totally preoccupied with the fiscal agenda in the run up to the failures. By the time attention turned to the growing weaknesses in the financial system in 2007-2008, time had already run out on the failed institutions and their collapse helped reverse much of the progress that was being made toward fiscal sustainability and improving growth prospects.

One of the striking aspects of the episodes of failure was that there were clear signs of stress in the two failed institutions. These indicators in BOA included large public sector exposures, high NPLs ratios and larger than average numbers of impaired loans. At CLICO, there was a long history of noncompliance with regulatory requirements, including with the key statutory reserve ratio. Other warning lights flashed over risk ratios, low profitability, weak liquidity, and high exposure to related parties. But legislation was inadequate and there appeared to be considerable regulatory forbearance and weak enforcement.

The failures call for a revamped approach to macroeconomic policy that extends conventional fiscal programming, debt sustainability analysis, and medium-term fiscal scenarios. Extending the current approach means complementing the existing analysis and fiscal data with an explicit quantification of the costs of the financial failures, and adding to medium-term scenarios quantified estimates of the cost of resolution (together with other fiscal contingencies) as well as a discussion of how; i.e. through what policies/measures, the resolution costs and other contingencies will be addressed.

In the financial sector, there is a clear need to update and strengthen legislation, particularly regarding nonbanks. However, a key lesson from the failures was that enforcement of existing laws, i.e. compliance with the vital statutory reserve requirement, was not possible over several years—and this for the largest insurance company in Trinidad and Tobago. So while tighter legislation is desirable, enforcement of the legislation by strong regulatory entities in the face of legal challenges and procedural maneuvers is equally important. For this reason, it is essential that progress be made not only in legislation, but also in the operations of central banks and other regulatory agencies. At the regional level, it is worrying that little or no progress has been made on a college of supervisors or any other mechanism for better co-ordination of regulation that can address the continued concerns about oversight over financial and mixed conglomerates, especially those which operate across jurisdictions. Frameworks that seek to regulate such entities must ensure close collaboration and information sharing by regulators across countries, and review carefully the financing of their expansion processes as well as their governance structures. Overall, the foregoing implies that—based on the information at our disposal—the region is not much better positioned than it was in 2009 to respond to difficulties or failure of one of the new or emerging financial conglomerates.

The Caribbean experienced costly, but not surprising shocks in 2009 stemming from the failure of weak financial institutions. The heavy burden of taxpayers and whole societies which can ill-afford such failures, is still being calculated. The role of policymakers and regulators is to ensure that everything is done to learn from those mistakes and to minimize the risks of a repeat of such failures. Unfortunately, at this juncture, it is not clear that measurable progress has been made on either front. We believe that greater transparency regarding the fiscal costs, and better communication with the pubic on the efforts being made by regulators to minimize future failures, represent helpful and practical ways forward for policymakers committed to avoiding repetition.

References

ABI Bank Limited (2006). "Annual Report 2006". Available from: http://cdnabib.smartnet1.com/annual_reports/2006%20Annual%20Report.pdf [Accessed 12 June 2012].

ABI Bank Limited (2007). "Annual Report 2007". Available from: http://cdnabib.smartnet1.com/annual_reports/2007%20Annual%20Report.pdf [Accessed 12 June 2012].

ABI Bank Limited (2008). "Annual Report 2008". Available from: http://cdnabib.smartnet1.com/annual_reports/2008%20Annual%20Report.pdf [Accessed 12 June 2012].

BAF Insurance. "BAF Insurance Cayman acquires CLICO Life Insurance Portfolio" Available from: http://cayman.mybafsolutions.com/press-releases/baf-insurance-cayman-acquires-clico-life-insurance-portfolio-24.html. [Accessed 18 October 2012].

Bank of England (2009). "The U.K. Special Resolution Regime for Failing Banks in an International Context." Financial Stability Paper No. 5. Bank of England. U.K.

Barnes, Everton. " ECCB takes Control at ABI Bank." Caribarena Antigua Online. Available from: http://www.caribarena.com/antigua/business/banking/97983-eccb-takes-control-at-abi-bank.html. [Accessed 12 June 2012].

Borio, C E V, C Furfine and P Lowe (2001): .Procyclicality of the Financial System and Financial Stability: Issues and Policy Options., BIS Papers No. 1, March, pp. 1-57.

Business News Americas. (2011) 'How CLICO Bailout turned out best for Trinidad and Tobago's Economy', Business News Americas, 11 November, [online] p. 3. Available from: http://www.finance.gov.tt/content/interview-with-Finance-Minister-and-BNS-Americas-on-the-the-effectas-of-the-CLICO-Bailout-on-Trinidad-and-Tobago--.pdf [Accessed 17 April 2012].

Caribbean 360. "OECS Leaders Pressing TT for CLICO/BAICO Fund for Policyholders." Available from: http://www.caribbean360.com/business/564322.html#axzz2A4T4ze00. [Accessed 20 September 2012].

Caribbean 360. "St. Kitts Nevis deciding whether to free up CLICO assets to permit Sale." Available from: http://www.caribbean360.com/news/st_kitts_nevis_news/601066.html#axzz2A4T4ze00 [Accessed 23 October 2012].

Caribbean 360. "Sagicor to Acquire BAICO Traditional Life Insurance Business. "Available from:

http://www.caribbean360.com/mobile/http://www.caribbean360.com/index.php/news/st_kitts_nevis_news/593819.html

Caribbean 360. "Full refunds for CLICO Guyana Policyholders." Available from: http://www.caribbean360.com/index.php/news/40391.html#axzz2AFs1yCQ4. [Accessed 18 October 2012].

Caribbean Centre for Money and Finance (2010) Caribbean Economic Performance Report: December 2010 [online]. Available from: http://www.ccmf-uwi.org. [Accessed 18 April 2012].

Caribbean Centre for Money and Finance (2009). "CL Financial Company Profile." Available from: http://www.ccmf-uwi.org [Accessed 25 June 2012].

Cebotari, A., J. Davis, L. Lusinyan, A. Mati, P. Mauro, M. Petrie, and R. Velloso, (2009) 'Fiscal Risks: Sources, Disclosure, and Management,' IMF, Departmental Paper, Fiscal Affairs Department [online]. Available from: http://www.imf.org/external/pubs/ft/dp/2009/dp0901.pdf. [Accessed 15 September 2012

Central Bank of Trinidad and Tobago (2011) Financial Stability Report: December 2011 [online]. Available from: http://www.central-bank.org.tt. [Accessed 18 April 2012].

Central Bank Act Chapter 79:02. Available from: http://rgd.legalaffairs.gov.tt/Laws2/Alphabetical_List/lawspdfs/79.02.pdf [Accessed 23 October 2012].

CLICO (2004). "CLICO Annual Report 2004." Available from: http://www.clico.com/pdf/AR04/AR2004.pdfCLICO (2005). CLICO Annual Report 2005. Available from: http://www.clico.com/pdf/AR05/AR2005.pdf [Accessed 12 June 2012].

CLICO (2006). "CLICO Annual Report 2006." Available from: http://www.clico.com/pdf/AR06/AR2006.pdf [Accessed 12 June 2012].

CLICO (2007). "CLICO Annual Report 2007." Available from: http://www.clico.com/pdf/AR07/AR2007.pdf[Accessed 12 June 2012].

CLICO (2009). "CLICO Annual Report 2009." Available from: http://www.clico.com/pdf/Clico_2009_Signed_Financials.pdf [Accessed 12 June 2012].

CLICO Enterprise Limited (In Liquidation). (2011) Seventh Official Liquidators Report [online]. Available from: http://www.clicobs.com/download/cel_seven.pdf [Accessed 17 April 2012].

Colander, D., Föllmer, H., Haas, A., Goldberg, K., Juselius, A., Kirman, A., Lux, T. and Sloth, B. (2009) 'The Financial Crisis and the Systemic Failure of Academic Economics,' Kiel Institute for the World Economy Working Paper 1489.

Commission of Enquiry into the failure of CL Financial limited, Colonial Life Insurance Company (Trinidad) Limited, CLICO Investment Bank Limited, British American Insurance Company Limited, Caribbean Money Market Brokers Limited and the Hindu Credit Union Co-operative Society Limited. "Witness Statement of Michael Everton Carballo. (MEC 8)" Available from: http://www.clfhcuenquiry.org/Carballo/MEC8.pdf

Commission of Enquiry into the failure of CL Financial limited, Colonial Life Insurance Company (Trinidad) Limited, CLICO Investment Bank Limited, British American Insurance Company Limited, Caribbean Money Market Brokers Limited and the Hindu Credit Union Co-operative Society Limited. "Witness Statement of Bhoendradatt Tewarie. Available from: http://www.clfhcuenquiry.org/BTewarie/Witness%20Statement%20-%20Bhoendradatt%20Tewarie.pdf [Accessed 6 April 2012].

Commission of Enquiry into the failure of CL Financial limited, Colonial Life Insurance Company (Trinidad) Limited, CLICO Investment Bank Limited, British American Insurance Company Limited, Caribbean Money Market Brokers Limited and the Hindu Credit Union Co-operative Society Limited. *"Third Evidence Hearing Day 28"* November, 17 2011. Available from: http://www.clfhcuenquiry.org/component/docman/cat_view/84-transcripts-3rd-evidence-hearing?orderby=dmdate_published&ascdesc=DESC[Accessed 22 October 2012].

Davies, H. (2012) 'The Financial Crisis and the Regulatory Response: An Interim Assessment', *International Journal of Disclosure and Governance*, 9(3), pp. 206-216.

Eastern Caribbean Amalgamated Bank. "Opening Statement of Financial Position." http://www.ecabank.com/home/assets/files/Eastern%20Caribbean%20Amalgamated%20Bank%20Ltd%20Opening%20Statement%20of%20Financial%20Position.pdf [Accessed 12 June 2012].

ECCB Press Release. *ECCB Assumes Control of ABI Bank*. July 22, 2011. Available from: http://www.eccb-centralbank.org/News/press2.asp?pressID=382 [Accessed 18 October 2012].

Eastern Caribbean Central Bank Agreement Act, 1983. Available from: http://www.eccb-centralbank.org/PDF/bank_agreement1983.pdf. [Accessed 12 June 2012].

Elezar, G. (2012) 'Recovering $6B from CLICO, political will critical to NIS survival,' Kaieteur News, 7 May [online] p.1. Available from: http://www.kaieteurnewsonline.com [Accessed 10 May 2012].

Everaert, G., Manal, F., and Martin E. (2009) 'Disclosing Risks in the Post-Crisis World', IMF Staff Position Note, SPN/09/18.

Gold, J., Lui, P., Monroe, H., and Wu, Y. (2010) 'The Caribbean Experience with the Global Crisis'. Paper presented at the 42nd Annual Monetary Studies Conference, Port-of-Spain, Trinidad and Tobago, 9-12 November.

Gomez, Craig A (Tony). "First Report of the Official Liquidator of CLICO (Bahamas) Limited (In liquidation) for the period March 19, 2009-July 7, 2009" Available from: http://www.clicobs.com/download/first_report.pdf [Accessed 29 June 2012].

Gomez, Craig A (Tony). "Eleventh Report of the Official Liquidator of CLICO (Bahamas) Limited (In liquidation) for the period January 2012-March 2012." Available from: http://www.clicobs.com/download/clico-eleventh-report.pdf [Accessed 4 October 2012].

Gonsalves, R. (2009) Statement on the Recent Developments Regarding CL Financial Group and the Government of Trinidad and Tobago [online]. Available from: http://www.star983fm.com/clicott.PDF [Accessed 19 April 2012].

Government of Trinidad and Tobago (2012) Budget Statement 2013: Stimulating Growth, Generating Prosperity [online]. Available from: www.finance.gov.tt/content/Budget-Statement-2013.pdf [Accessed 11 October 2012].

Ingraham, Hubert. Communication on CLICO (Bahamas) Limited." Available from: http://www.caricom.org/jsp/speeches/clico_bahamas_ingraham.pdf Accessed 23 October 2012].

International Monetary Fund (2012) Barbados Article IV Consultations: IMF Country Report 12/7 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2012/cr1207.pdf [Accessed 17 April 2012].

International Monetary Fund (2012) The Bahamas Article IV Consultations: IMF Country Report11/338 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2012/cr1338.pdf [Accessed 19 April 2012].

International Monetary Fund (2011) Eastern Caribbean Currency Union: 2010 Discussion on Common Policies of Member Countries-Staff Report, Informational Annex, and the Public Information Notice on the Executive Board Discussion: IMF Country Report No. 11/30 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2011/cr1130.pdf [Accessed 19 April 2012].

International Monetary Fund (2011) Guyana: 2010 Article IV Consultation-Staff Report, Supplement, Public Information Notice on the Executive Board Discussion and Statement by the Executive Director for Guyana: IMF Country Report 11/152 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2011/cr1152.pdf [Accessed 19 April 2012].

International Monetary Fund (2011) Trinidad and Tobago 2010 Article IV Consultation-Staff Report, Supplement, Staff Statement, Public Information Notice on the Executive Board Discussion, and Statement by the Executive Director for Trinidad and Tobago: IMF Country Report No. 11/73 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2011/cr1173.pdf [Accessed 19 April 2012].

International Monetary Fund (2011). Suriname: 2011 Article IV Consultation—Staff Report, Informational Annex, Public Information Notice on the Executive Board Discussion and Statement by the Executive Director for Suriname. Report 11/256 [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2011/cr11256.pdf [Accessed 11 October 2012].

International Monetary Fund (2011). Trinidad and Tobago: Selected Issues. Report 11/74. [online]. Available from: http://www.imf.org/external/pubs/ft/scr/2011/cr1174.pdf [Accessed 11 October 2012].

Kashyap, A., Rajan, R., and Stein, J. (2008) ‘The Global Roots of the Current Financial Crisis and its Implications for Regulation’, University of Chicago Booth School of Business Working Paper.

Laeven, Luc and Fabian Valencia. (2012) “Systemic Banking Crises Database: An Update.” IMF Working Paper 12/163. International Monetary Fund, Washington D.C.

Layne, W. (2010) Recent Financial Failures in the Caribbean- What were the Causes and what Lessons can be Learnt? [online]. Available from: http://bajan.wordpress.com/2012/03/06/recent-financial-failures-in-the-caribbeanwhat-were-the-causes-and-what-lessons-can-be-learnt/ [Accessed 16 April 2012].

Polius, T. (2012) Financial Risk in the Context of a Financially Integrating Caribbean: A Rudimentary Analysis [online]. Available from: http://www.ccmf-uwi.org/? [Accessed 17 April 2012].

Rampersad, Curtis. "IMF 'Devastating' CL financial Collapse could cost Caribbean 17 percent of GDP." Trinidad Express [online] Available from: http://www.trinidadexpress.com/business-magazine/IMF___Devastating__CL_Financial_collapse_could_cost_Caribbean_17_per_cent_GDP-119301719.html [Accessed 11 October 2012].

Raymond, Afra. "CL Financial Collapse: What were the Regulators Doing?" Barbados Free Press [online] Available from: http://barbadosfreepress.wordpress.com/2010/10/03/cl-financial-collapse-what-were-the-regulators-doing/ [Accessed 11 October 2012].

Rogoff, K. (2012) 'Ending the Financial Arms Race', Project Syndicate.

Soverall, W. (2012) 'CLICO's Collapse: Poor Corporate Governance', *American International Journal of Contemporary Research*, 2(2), pp. 166-178.

United Nations Economic Commission for Latin America and the Caribbean. (2010) Effects of the Global Meltdown on Caribbean Economies [online]. Available from: http://www.eclac.org/publication/search [Accessed 18 April 2012].

Viñals, J., and Fietcher, F. (2010) 'The Making of Good Supervision: Learning to Say "No"', IMF Staff Position Note, SPN/10/08.-+

Williams, Ewart. "Banks Liquidity Challenges in Trinidad and Tobago." Remarks by Mr Ewart S Williams, Governor of the Central Bank of Trinidad & Tobago, for the CIB/Clico Media Conference, Port-of-Spain, 30 January 2009. Available from: http://www.bis.org/review/r090203b.pdf [Accessed 22 October 2012].

Williams, Ewart. "Governor Ewart Williams presents an update on CLICO 24 March 2010." Available from: http://www.central-bank.org.tt/content/governor-ewart-williams-presents-update-clico-24th-march-2010 [Accessed 17 October 2012].

Williams, Ewart. "Remarks for CIB/CLICO Media Conference." January 30, 2009. Available from: http://www.central-bank.org.tt/sites/default/files/CIB%20CLICO%20Media%20Conference%20by%20the%20Governor%20Central%20Bank%20January%202009.pdf [Accessed 22 October 2012].

Wilson, Anthony. "CLICO Barbados to TT Government: Pay US $660 million." Available from: http://www.guardian.co.tt/news/2012-06-06/clico-barbados-tt-govt-pay-us-660m [Accessed 16 September 2012].

Appendix

Appendix 1: Resolution of Financial Institutions in the Caribbean

Company	Intervention Power	Approach to Resolution	Status of Resolution	Liquidator/Judicial Manager
BOA	Emergency Power-Central Bank	Regulator Takeover (RT) /restructuring for sale	Bank sold to consortium of indigenous Banks	
CLICO/CIB Trinidad	Emergency Power-Central Bank	RT– CIB – good bank/bad bank split Open Entity Assistance –CLICO (initially)-moved to (RT)	CIB/CMMB moved to FCB CLICO Investment Fund to be launched on Nov. 1, 2012	
CLICO Barbados and ECCU	Courts	Judicial management	Restructuring Plan presented to the Court-countries discussing financing of the plan	Deloitte and Touche-B'dos
BAICO ECCU	Courts	Judicial management/Restructuring	Life Portfolio sold to Sagicor Smooth transfer of property portfolio to Caribbean Alliance Insurance Health Insurance fund created in 2011 to pay claims not paid since 2011.	
CLICO Bahamas	Courts	Liquidation	Liquidation in progress Asset sales are slow Gov. guarantee of approx US$30 mn	Craig A. Tony
CLICO Belize	Courts	Judicial management followed by liquidation	Life and Health Portfolio sold to RF&G Insurance	Mark C. Hulse
CLICO Turks and Caicos	Courts	Liquidation	Sale of Life and Health Portfolio still in discussion with prospective buyer	
CLICO Guyana	Courts	Judicial management followed by liquidation	Sale of Life and Health Portfolio in negotiation EFPA/short term deposits refunded to maximum of US$150,000	Maria van Beek
CLICO Suriname	Courts	Government/regulator Cease and desist order	Sale of life portfolio to Self reliance insurance company EFPA/annuity portfolio restructured and to be eventually merged with Self Reliance insurance	
CLICO & BAICO Cayman Islands	Courts	Judicial management	CLICO Life Insurance Portfolio sold BAF Insurance Cayman BAICO assets and liabilities sold to BAF Insurance	Stuart Sybersma and Ian Wight
BAICO Bermuda	Courts	Liquidation	Liquidation not complete – hinges on sale of main asset; the BAICO building	KPMG Advisory Limited