

**COMMUNICATION ON CLICO (BAHAMAS) LIMITED
BY
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COMMONWEALTH OF THE BAHAMAS**

Mr. Speaker,

I wish to make a statement to Parliament regarding the facts and circumstances surrounding the present state of CLICO (Bahamas) Limited (CLICO).

As you would be aware, on February 24, 2009, a winding-up Order was granted by the Supreme Court appointing Mr. Craig Gomez of Baker Tilley Gomez as Provisional Liquidator for CLICO (Bahamas) Limited (CLICO). The Order was made following a petition by the Registrar of Insurance Companies (ORIC) in accordance with authority granted under Section 41 of the Insurance Act. This action was taken in order to protect the interest of the policyholders of CLICO. A hearing of the application for liquidation is scheduled to be heard on March 17, 2009.

CLICO was petitioned into liquidation due to its insolvency on two counts: (i) it was unable to pay claims of US\$2.6 million in the Turks & Caicos Islands, and (ii) its liabilities were estimated to exceed its assets by at least \$9 million. As a consequence CLICO was deemed insolvent.

Mr. Speaker,

CLICO was incorporated under the laws of the Commonwealth of The Bahamas on May 10, 1960, as British Fidelity Assurance Company Limited (BACO), a life insurance company, licensed to sell individual and group life, and health and annuity products. All outstanding stock was purchased by Sammons Enterprises Incorporated in mid-1968.

In 1992 CL Financial Limited of Trinidad and Tobago purchased British Fidelity Assurance Company Limited from Sammons Enterprises Incorporated and on April 7, 2005, the Company's name was changed from British Fidelity Assurance Company Limited to CLICO (Bahamas) Limited.

In addition to its operations in The Bahamas CLICO has branch operations in the Turks and Caicos Islands and in Belize.

In 2008 The Bahamas accounted for some 68% of CLICO's total premiums; Turks & Caicos Islands 27%; and Belize 5% of total premiums.

The staff complement of CLICO Bahamas, Turks and Caicos and Belize is about 170. In The Bahamas, staff totals about 141, some 90 sales agents and 51 administrative staff. Belize has 31 persons employed. A detailed breakdown of CLICO's operations is as follow:

Territory	# Policies	Policy Liabilities (B\$ equivalent)	# Agents	# Admin Staff
Bahamas	23,191	\$44m	90	51
Barbados	192	Left from closed operations	0	0
Belize	5,363	\$5m	20	11
Cayman	16	Left from closed operations.	0	0
Turks & Caicos	255	\$51m	3	1
TOTAL	29,017	\$100million	113	63

The Bahamas serves as the parent jurisdiction for the Turks and Caicos Islands and Belize and regulator of CLICO. This, however, is not to be confused with the operations in Trinidad and Tobago or elsewhere, which are separate entities from The Bahamas operations, as will become clearer in this Communication.

Mr. Speaker,

The parent company of CLICO is CLICO Holdings (Barbados) Limited, a company incorporated in Barbados. CLICO Holdings (Barbados) Limited is itself owned by CL Financial Limited, the ultimate parent company of CLICO. CL Financial Limited is headquartered in the Republic of Trinidad & Tobago with an audited asset base in excess of US\$11 billion as at December 31, 2007.

CL Financial Limited is a global conglomerate with diverse investments in the manufacturing sector and is world renowned for its methanol, spirits, energy and financial services businesses in the Caribbean, including banking and insurance, most notably: the Republic Bank, British American Insurance Company (BAICO) and vast real estate holdings worldwide.

- Wellington Preserve Corporation of Florida, a company whose primary business is property development, the sale of lots and an equestrian project, is a subsidiary of CLICO Enterprises Limited a CLICO owned Company. Other real estate investments of CL Financial include the "W" Fort Lauderdale Hotel and Residences, Europa, Infinity 1 and 11 and Shabisco (a bakery incorporated in Haiti).

Mr. Speaker,

CLICO owns, through its Bahamian subsidiary, CLICO Enterprises Limited, a number of assets in The Bahamas, namely:

	Description	Reputed Value
2	12.5 acres Westridge, Nassau	\$3M
3	Townhouses in Freeport	\$1M
4	Lands & buildings(used for operations & GB millworks)	\$14M
5	Cash/ Bonds/Fixed deposits	\$14M
	TOTAL	\$32M

Mr. Speaker,

Since 2004 CLICO began making excessive cash advances called "loans to subsidiary" to CLICO Enterprises Limited. For example, in 2003 there was zero "loan to subsidiary". However loans to the subsidiary increased as follow:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Loan to subsidiary	57,010,248	68,301,770	53,760,786	37,092,149
Interest earned	9,507,569	8,363,556	4,292,670	1,705,884

Loans were granted at a rate of interest of 12% per annum with no fixed maturity date.

In 2007, loans to subsidiary represented 58.56% of total assets and 68% of invested assets. These advances to CLICO Enterprises Limited were made to Wellington Preserve Corporation's, Florida project. This US real estate investment was financed mainly from US dollar annuities placed in the Turks & Caicos Islands subsidiary, advances from CL Financial Limited and a US mortgage on the property where both Wellington Preserve Corporation and CLICO are mortgagors.

This US investment is in respect of a 600-acre real estate development with a reputed value of \$80 million. A write-down of \$25 million occurred in 2007, mainly as a result of the decline of sales in the Florida real estate market and the non-completion of the project. As at December 31, 2008, loans to subsidiaries of CLICO were \$73.6 million.

It was these advances totalling \$73.6 million by CLICO that compromised its financial integrity, as neither Wellington Preserve Corporation nor CLICO Enterprises Limited are in a position to repay the loans from the company. Additionally, with the significant decline in the Florida real estate market and the \$65 million needed to complete the Wellington Preserve Project, the market value of the property is now substantially less than its initial book value, further deteriorating the financial situation.

Mr. Speaker,

It appears that CLICO never sought the required "no objection" from The Bahamas Registrar of Insurance Companies in connection with the Company's investments, loans to subsidiaries or related party transactions.

Indeed, in several prudential meetings from as early as 2004, 2006 and 2007, I am advised, concern was expressed about this matter and a request was made for information regarding all investments undertaken by the Company within and outside The Bahamas. In fact, at one of the 2007 prudential meetings, the Registrar of Insurance Companies demanded that the Company return the then \$53 million invested in order to reduce the inter-company loan balances. The Company gave assurances that it would, I am advised, but failed to do so.

Mr. Speaker,

It was after the receipt of the 2007 audited financial statements in July 2008 that the extent of the real estate investments was again highlighted. On December 22, 2008, a letter was sent to CLICO placing the following requirements and restrictions on its operations:

- That it realize repayment of all inter-company balances not later than Friday, January 9, 2009, and, that
- - I. Any investments/advances of any nature to related parties and or subsidiaries; or
 - II. Any advances/ loans of any nature to non-related parties other than policy loans in the normal course of business; or
 - III. Any borrowings or mortgages; or
 - IV. Any investments in real estate; or
 - V. Any advances to directors or senior management; or
 - VI. Any dividend payments to shareholders; or
 - VII. Any guarantees to any entity; or
 - VIII. Any new or changes to the Company's insurance products;

Require the prior approval of the Registrar of Insurance Companies.”

The investments were not repaid within the time given. CLICO, however, requested to meet with the Minister of State for Finance to inform its position. The Minister agreed to a meeting which was scheduled for January 29, 2009, which CLICO subsequently requested be rescheduled. The new meeting was rescheduled for February 5, 2009, which CLICO also failed to attend.

On January 30, 2009, it became clear that CL Financial Limited, the Trinidad-based parent company of CLICO, was in serious trouble as the regulators in that country intervened in the company's operations citing shortfalls in its assets of the banking and insurance operations.

As CL Financial was the guarantor for the advances that CLICO made to CLICO Enterprises Limited for the Florida real estate project and given the difficulty that CLICO was having meeting its obligations, it became clear that further and drastic steps had to be taken to protect the policyholders of CLICO both in The Bahamas and in its regional jurisdictions in the Turks and Caicos Islands and in Belize.

Following upon further recommendations by the Registrar of Insurance Companies, the Registrar of Insurance petitioned the courts to liquidate CLICO.

Mr. Speaker,

I stress that this decision was taken only after very careful consideration of the interest of the policyholders, staff and creditors of the company in The Bahamas and in the region and only after discussions by the Registrar with the principals of the company over many months urging and directing them to inject additional capital and liquidity into the CLICO, without success.

The action was also precipitated by the continuing decline in the market value of the real estate investment in the United States via CLICO's subsidiaries CLICO Enterprises Limited and Wellington Preserve Limited, the uncertain financial position of its ultimate parent, C L Financial Limited of Trinidad and Tobago, the inability of CLICO to pay claims/surrenders of policies in one of the jurisdictions where it operates and the lack of a credible plan by CLICO to address the shortfall in capital and liquidity in a reasonable time. It was felt that to delay taking action would only further erode the assets of CLICO to the detriment of policyholders.

The overriding evidence suggested that in order to protect the policyholders, numbering some 23,000 in The Bahamas and 29,000 in the region, which is the ultimate responsibility of the Registrar of Insurance Companies, steps had to be taken to ensure that the assets of CLICO were not further compromised.

The liquidator has moved quickly to gain control of the operational affairs of CLICO, including taking steps to ensure that CLICO's clients are able to obtain information relative to their situation. Naturally, there are a number of pertinent questions that arise following the Court's granting of the provisional liquidation order.

Will Bahamian Policy Holders lose money?

Mr. Speaker,

I am advised that CLICO's operations in The Bahamas has some 17,297 Life Insurance policies with annual premiums of \$5.1 million; 11,230 Accident and Sickness Health policies with annual premiums of \$3.2 million, 2,689 Annuities with annual premiums of \$4.6 million and 7,402 Group policies with annual premiums of \$1.8 million. All told, the total individual and group policies amount to some 38,618 with annual premiums of \$14.8 million.

The many persons who own these policies would want to know if they stand to lose money. It is still too early to determine whether or not policy holders will lose any money. However, it is quite possible

that all the policies can be sold to a viable insurer here in The Bahamas who can assume the business and provide the coverage that CLICO policyholders purchased without any loss to the policyholders

Should I continue making my premium payments?

The answer is yes. The Company's principal office located at Mount Royal remains open for business. If the Liquidator enters into an agreement with a local insurer, he can only transfer policies that are in force and not those that have lapsed due to non-payment. The Liquidator will provide a full statement on this matter in short order to provide some practical guidance to the policy holders, I am advised.

Will the Government guarantee any losses to policy holders as was done in Trinidad & Tobago?

The Government does not anticipate providing any guarantees for the operations of CLICO Bahamas Limited.

What happens to my premiums which were paid to the CLICO after the liquidation was announced?

Those payments are being held in a separate account by the Liquidator for which full accounting is being made. If the Liquidator fails to reach an agreement to sell to a local insurer, all funds collected by the Liquidator from February 25, 2009, will be immediately returned to policyholders and annuity depositors.

Can I expect payment of a claim that I make?

It is best that the Liquidator be contacted directly in each case where a claim is made.

Will Annuity depositors and other policyholders be treated equally?

Yes. The discussions that will be held between the Liquidator and the local insurers will include benefits for both policyholders and annuity depositors.

Are the financial problems of CLICO a symptom of the industry as a whole?

No. The domestic insurance industry, at the end of 2007, had 52 local companies and branches of foreign companies, over \$1.2 billion in assets and total gross premiums of \$701 million. CLICO Bahamas represented less than 1% of the total assets and less than 1% of the total gross premiums. The financial difficulties of CLICO Bahamas are a direct result of the company's investment policies.

What is to happen with CLICO's staff?

CLICO's sales staff of 90 persons has been advised not to report for duty as the Company is not writing any new business. Sales persons essentially work on commission. The administrative staff of 51 persons remain in place and at work, I am advised, until further notice.

Mr. Speaker,

I believe that it is in the best interest of all to allow the Liquidator to develop a financial package for discussion with the various insurance providers.

This exercise effectively began on Wednesday of last week, 3 working days ago. Given the magnitude of the task, we believe that by this weekend, the Liquidator should be closer to finalizing a financial package.

I should note here that I received several telephone calls from the President of Guyana following the announcement regarding the liquidation order. He expressed that some 53% of GLICO's (Guyana) assets were tied up in the CLICO Bahamas operations. While there appears to be no record available at this time on this matter, it will be for the Liquidator to determine Guyana's claim. Guyana's claim does, however, represent a very serious potential impairment for the Guyana operations. As you know, since our actions here, Guyana has put its CLICO operation into judicial management. We have undertaken to keep Guyana updated as matters progress. We are doing likewise with the Turks and Caicos Islands and Belize – both of which were consulted in advance of the petitioning for CLICO's liquidation.

The Government regards this matter as a very serious one and will continue to monitor the situation with CLICO and provide regular updates to the public.

2 March, 2009