CLICO POLICYHOLDERS' QUESTIONS ANSWERED

Present Situation

On September 8, 2010, Finance Minister Winston Dookeran, during his maiden Budget presentation, in the Parliament of Trinidad and Tobago told the nation that ***"the most pressing issue in the financial system is the CLICO fiasco. The CL Financial/CLICO issue was handled badly by the authorities from the start. This fiasco was a colossal, inexcusable, multibillion dollar mistake that has cost this nation enormously on several levels". He further stated that "this fiasco has put on hold the lives of thousands and endangered their financial future." But more importantly he confirmed that "this fiasco was caused by reckless corporate governance and the glaring failure of our financial regulatory institutions."***

His idea of a solution to the problem no doubt informed by this trusted advisors Steve Bideshi and Wendell Mottley, formally of Citibank and Credit Suisse respectively, was to separate the 225,000 traditional, "long term policyholders" affected by the crisis, whose liabilities total $6 billion from what he conveniently refers to as the 25,000 "non-traditional short-term investors" whose liabilities total $12 billion or twice that of the former group. He further explained that the obligations of the former group will be honoured but hastened to add that:

"Short term investment and mutual fund depositors whose principal balances exceed $75,000 will be paid through a Government IOU amortized over 20 years at zero interest. This Government IOU would be structured in such a way that it could be traded on the secondary markets (at a deep discount possibly between 50-55 percent), thereby creating a measure of immediate liquidity for the depositors."

He also indicated that he had instructed the Central Bank of Trinidad and Tobago (CBTT) to cease all interest payments to policyholders pending an investigation of so called ***"Phantom or Ghost accounts."*** It is noteworthy that it was from this point onward the all the problems of the policyholders began in earnest. Quickly, several groups were formed which eventually merged into one main group called the Clico Policyholders Group (CPG.) The CPG made several calls to Minister Dookeran for a meeting but they were to no avail. A mass meeting of over 3000 policyholders was eventually called at the Center Pointe Mall, Chaguanas. Policyholders present gave the CPG leadership an overwhelming mandate to seek an urgent meeting with the Prime Minister to address this sorry state of affairs. In response, the PM in her wisdom immediately assembled a five-member Inter-ministerial Committee (IC) which comprised Ministers Vasant Bharath (Chairman), Dr Tim Gopesingh, Caroline Seepersad-Bachan, Vernella Toppin and Prakash Ramadhar. The IC held several cordial and productive meetings with the CPG culminating in two formal proposals which were submitted by the CPG for the consideration of the GORTT. It is our understanding that the matter was discussed at last Thursday's Cabinet meeting and a decision taken to send the same to a Cabinet sub-committee calle the Finance and General Purposes (F&GP) Committee for further deliberation and discussions. The Committee was scheduled to meet on Monday so a final recommendation could be made to Cabinet in time for the November 4, 2010 meeting.

Whilst these positive developments have been occurring the CPG has noted with concern that a lot of misinformation relative to the above have found its way into the public domain, some of it fuelled by a genuine lack of factual information while a fair amount seems to be unabashed sophistry. The following series of questions and answers seeks to provide clarity and information to our various stakeholders on several areas of concern but is not exhaustive. Please note that the information provided is based on our understanding of the recent developments at the time of writing. We will provide additional updates as additional information and insight come to our attention.

Q1. Did the Central Bank of Trinidad and Tobago (CBTT) give policyholders a guarantee after the failure of Clico in 2009?

This guarantee can be found at Section 11 and 12 of the January 30, 2009 Memorandum of Understanding (MOU) is further substantiated by the transcripts of the Governor of the Central Bank of Trinidad and Tobago (CBTT) remarks during his January 30 and more specifically at the February 13, 2009 CIB/Clico Media Conference, when he stated inter alia:

"...In line with the spirit of the MOU, the focus in the first round will be on meeting policholders' liabilities and payments to pensioners. These steps would convince policy holders that Clico has the full backing and commitment of the Government and the Central Bank of Trinidad and Tobago. Policyholders should also feel confident that their funds are protected and this should encourage the maximum roll-over of policyholder funds. At worst, to facilitate an orderly recovery of Clico we would request that policyholders do not seek withdrawals before their maturity dates...for years Clico has been a most prominent domestic and regional brand. The objective of this rescue exercise is to restore confidence. But this process will obviously involve considerable public resources for which the Government and the Central Bank, as regulator, will be held responsible."

Q2. Does the GORTT have a legal responsibility to pay policy holders?

According to a recent opinion given by eminent legal counsel Bindra Dolsingh which stated inter alia:

The effect of the public pronouncements of the Governor of the CBTT and the Government provided a legitimate expectation that the investments of policyholders were safe and the terms and condition of repayment would be honoured. This was unequivocal and unconditional. Legally, these pronouncements were a legitimate expectation of the funds to be repaid and honoured by the Government and Clico. This acted as a lure of false comfort to investors for them to be patient and that their livelihood of existence would not be disrupted. When this did not happen it provided a basis of legal action for breach of the promise of legitimate expectation. "The Constitution of Trinidad and Tobago specified that no one should be deprived of their property without due process of law. Due process of law is a compendious term. It is not restricted by artifice of precise legal definition. If a Government gives an undertaking to the citizens of a country and the citizens are placed in a seat of comfort that things would be implemented but this does not happen, then the Government is responsible for the breach to the citizens," Legitimate expectation was well established in law; constitutionally, administrative and criminal. There are well established authorities throughout the Commonwealth that a Government cannot act irresponsibly in creating mental appeasement and then over passage of time the promise is breached. It is mentally torturous to have one's hopes lifted and then summarily dismissed and taken away. It is against the human rights of citizens. It forms the basis of thinking any government with proper governance ought not to give undertakings and then renege on them.

Q3. What is an EFPA and was this product guaranteed by the Statutory Fund?

The Executive Flexible Premium Annuity Policy (EFPA) and its many incarnations, (EFPA I, EFPA II, EFPA III, EFPA IV, EFPA V) is an insurance product that was first approved by the Supervisor of Insurance (SOI) for sale by Clico, in 1990. In 2004, when supervision of Insurance Companies was transferred to CBTT, the later incarnations of the product were approved by the CBTT. This product is known in the industry as a Single Premium Deferred Annuity designed for a policy owner to pay a single premium and to then elect to have a series of payments paid to him/her in the future either monthly, semi-annually or annually. In accordance with Section 56(2) of the Insurance Act 1980, Insurance companies are required to ensure that this SF is adequate to meet the liabilities of all policyholders at all times. In this regard an Actuarial Certificate must be provided to ensure that the assets of the company are adequate to cover these liabilities. Individual SF returns are also filed with the CBTT, which quantifies and qualifies the composition and admissibility of these assets. It should be noted over the years all of these requirements were met in the case of the EFPAs product. In fact, letters of guarantee were issued to policyholders, when requested, confirming that the premium, interest and cash surrender value, were guaranteed by the Statutory Fund.

Q4. Did the Minister of Finance take into account the true social impact/cost of his proposed Bailout Plan?

It should be noted that while Mr. Dookeran thinks that only 25,000 persons will be negatively affected, clearly he has not taken into account the fact that there is evidence of entire families in some instances of six or more individuals pooling their funds to purchase these EFPA policies in name of one family member in order to benefit from higher interest bands that were being offered. But more importantly some Institutions, for example Credit Unions and Trade Unions, made full use of the product on the basis of the SF guarantee, and invested, in some instances, in excess of $100 million at a time. These institutions represent hundreds of thousands of members who now stand to lose over of $300 million of their pooled financial resources. Failure to fairly pay these policyholders would therefore result in untold hardship and ultimately in financial ruin for these families and institutions respectively; along with tens of thousands of individuals who have invested their hard-earned life's savings.

Q5. Is this a Bailout or a Sellout and who exactly stands to benefit?

With the introduction of a zero coupon (non-interest bearing) bond and an extended tenor or term of 20 years this ensures that the bond remains as unattractive as possible to policyholders particularly those in their senior years, in that no one gets any interest payments and it guarantees that very few of them will be around at maturity to collect their money. This creates a situation whereby policyholders will have little choice but to in cash their bonds at deep discounts of approximately 50-55%. Accordingly, the middlemen such as foreign investment bankers, insurance companies and investment brokers will be literally smiling all the way to the bank.

Q6. What is the CPG proposal?

1. EFPA Policyholders and CSI Mutual Fund depositors whose principal plus capitalized interest are $75, 000 and under **will be immediately paid up to $75,000 or 100% of the amount due.**

2. Credit Unions and Trade Unions regardless of size of principal plus capitalized interest **will be immediately paid 100% of the amount due.**

3. EFPA Policyholders and CSI Mutual Fund depositors, other than CIB, Government/ State and Private Corporations, whose principal balances plus capitalized interest exceed $75,000 will **be immediately paid an initial cash payment of approx. 40% of the amount due and the balance via GORTT 5 -7 year Principal Protected Amortizing Notes (PAN) amortized over 5 -7 years at (4 – 4? %) percent Annual Coupon (interest) with Principal and Interest paid Quarterly.**

4. CIB, CIB, Government/ State and Private Corporations, whose principal balances plus capitalized interest exceed $75,000 will **be paid via a GORTT 7-year Zero Coupon Bond at the end of seven years.**

5. The Notes (bonds) must be Sovereign, redeemable by GORTT at full face value and Transferable.

6. There must be a specific cut-off date for determining liabilities owed to policyholders (i.e. November 30, 2010).

7. Policyholders with Capitalized Interest must be honoured up to an agreed cut-off date (i.e. October 31, 2010). A market rate will be paid beyond this date until the effective date of implementation of the proposal.

8. GORTT will mandate the Government Securities Intermediaries (GSI) (e.g. CMMB, Bourse Securities etc.) which are all members of the TTSE to make a market for this Government PAN which would be structured in such a way so that it could be traded on the secondary market via the Trinidad and Tobago Stock Exchange (TTSE) at fair market value, thereby creating a measure of immediate liquidity for the note-holders.

9. Notes will have equity participation by the issue of Warrants. The Warrants will give Note-holders the right to participate in the upside or any gain on the sale of all assets backing the EFPAs.

10. This will be calculated on the basis of 51% of the difference between the Book Value and Sale Price of the assets, distributed proportionately according to the note-holder's EFPA holdings.

11. Note-holders will also have access to additional liquidity by being able to trade not only the Notes but also the Warrants on the TTSE.

12. Policyholders should be allocated two (2) Directorships each on the Boards of Clico and CLF respectively - to protect their interest

13. The Government should immediately conduct a detailed financial review of Clico, CL Financial and its subsidiaries in order to determine the fair value of the assets. This information must be made available to policyholders and wider public. The Government should engage a firm with relevant expertise to assist with this exercise including the costing of this proposal assuming such talent is not resident in-house.

Q7. Is there a detailed breakdown of the Bailout cost and funding?

	$ Million	$ Million
EFPA Policyholders& CSI Investors		12,000
Less: Payment of $75,000 to all EFPA policyholders & CSI investors		1,500
Sub-Total		10,500
Of which Corporate policyholders comprise		
Government & State Corporations	300	
Clico Investment Bank	400	
Private Corporations	700	
Total Corporate Policy holders Liabilities		1.400
Total Individual Policyholders Liabilities		9,100
Less: Payment to Credit & Trade Unions		600
Net Other Policyholders Liabilities before down payment		8,500
Less: Down payment of 40%		3,400
Net Other Policyholders Liabilities after down payment		5.100
Issued		
5 year amortized bonds at 4.5%	2,550	
7 year amortized bonds at 4%	2.550	
Sub-Total		5,100

1st Tranche of Sinking Fund allocated in the Budget	1,800
Balance from initial $5 Billion injection into Clico	2,200
	4,000
Applied as follows:-	
Credit & Trade Unions	600
Individual policyholders 40% down payment	3,400
	4,000
Annual Funding required	
2011-17 50% quarterly amortized payments 5 year bonds	2,550
Interest on 5 year bonds @ 4%	510
50% quarterly amortized payments 7 year bonds	2,550
Interest on 7 year bonds @ 4.5%	803
	6,413
2018 Zero coupon bonds bullet payment 2018	1,400
Total funding for 2011 – 2018	7,813
Average funding per annum	1,116

Q8. Where will the money come from to fund the CPG proposal?

It is common knowledge now that although Clico owns several performing assets e.g. Angostura, 3 Shopping malls (Trincity, Valpark, and West Mall), a chain of supermarkets (TruValu), One Caribbean Media, One Woodbrook Place, several of these assets are encumbered in one way or another. However, CPG funding strategy targets only two (2) specific Clico assets, which according a March 2010 Credit Suisse/Milliman Report commissioned by the former PNM Administration are unencumbered. They are as follows:

1. Clico's 56% shareholding in Methanol Holdings Ltd (MHTL) which by virtue of its Articles attracts a minimum dividend of 8% per annum, forecasted. At US$29.9 million per quarter this is projected to be US$67million per annum. This has been paid for the last several years and continues to be paid religiously. The recent commissioning of the AUM (Ammonium Urea Melamine) plant earlier this month is expected to double MHTL earnings in 2011. This will represent the plant's first year of operation and is expected to realize another US$67million. Accordingly the total dividends expected in 2011 plus future dividends from MHTL are expected to be approx. US$134million or TT$844million per annum.

2. Clico's 34% shareholding in Republic Bank Ltd which according to the Republic Bank 2009Annual Report paid dividends of TT$542.1million to its shareholders for last year, of which 34% or $184.3 million was paid to Clico. Therefore Clico's annual dividend income from these two sources alone would be approx. TT$1028 million.

It should be noted that the funding required as per the CPG proposal is approx. $1,116 million per annum over the next 5-7 years. Hence the CPG proposal would effectively fund itself and more importantly there would be no additional burden on taxpayers and no impact on our debt to GDP ratio or country's credit rating.
The Government may wish to consider the above strategy if it wishes to hold on to the Clico's assets in order to benefit from the inevitable appreciation in the value of these assets going forward. Some other reasons the Government may wish to consider are:

- The 5-year oil forecast by international renowned energy consultants "Purvin & Gertz Inc." forecast a minimum 3% annual growth in oil prices. Methanol and ammonia prices similarly forecasted to increase in correlation with the global economic recovery which means that the value of the assets are more than likely to increase in the medium term.
- Jobs of the Clico employee base will be saved
- An opportunity to divest ownership of Clico's share holdings via the domestic stock exchange and thereby expand domestic stock market
- An opportunity to encourage the development of domestic entrepreneurs and preserve the strongest domestic industry brand name

Finally in the event that the Government prefers to dispose of the above unencumbered Clico assets, according to the Credit Suisse/Milliman Report conservatively the combined valuation for these two assets is $8.1 billion (i.e. $4.3 billion and $3.8 billion in the case of company's 56% shareholding in MHTL and 34% shares in Republic Bank shares.) This amount will be able to fully reimburse the Government for all funds advanced and ensure the following:

- No country credit rating risk
- No cost to taxpayers
- No middle men
- Complete satisfaction of all Clico policyholders.

Clico Policyholders Group
November 4, 2010