

All That Glitters: The Rise and Fall of the CL Financial Conglomerate

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Presentation Outline

- **Introduction to the issue**

- *The systematic risks of financial liberalization and the development of Ponzi Schemes (Making profit is the virtue)*

- **Evolution and Growth of CL Financial**

- *How did CL Financial evolve?*
- *What were the factors influencing the growth of the company?*

- **Fall of CL Financial**

- *Inadequate or Lack of regulation?*
- *Did CL Financial become a Ponzi Scheme*

- **Consequences**

- *Who and What are affected by this crisis?*

- **Conclusion and Recommendations**

Introduction to the Issue

- ▣ **Leopold Kohr warned that: “when something is wrong it is because something is too big”**

- ▣ **My main contentions here are that Financial Liberalisation**
 1. Rather than foster competition encourages concentration and “bigness” of firms which leads to failure
 2. *The Entire CL Rise and Fall was facilitated by the spirit and practice of FL*
 3. *Encourages the growth of Ponzi Schemes*
 4. *That CL, in spite of all its assets, morphed into a Ponzi scheme*
 5. *Its collapse was inevitable (was just “too big”)*

Introduction to the Issue

CL Financial grew to become “too big to fail” during the 12 year span 1993-2005 (coincided with FL)

It was admired as an indigenous firm that took bold initiatives- esp. its energy sector investments

Also Owned: Shopping Malls, Housing Developments
Supermarkets, Tobago Jazz, Football Teams

Expanded throughout the Caribbean (BAICO)

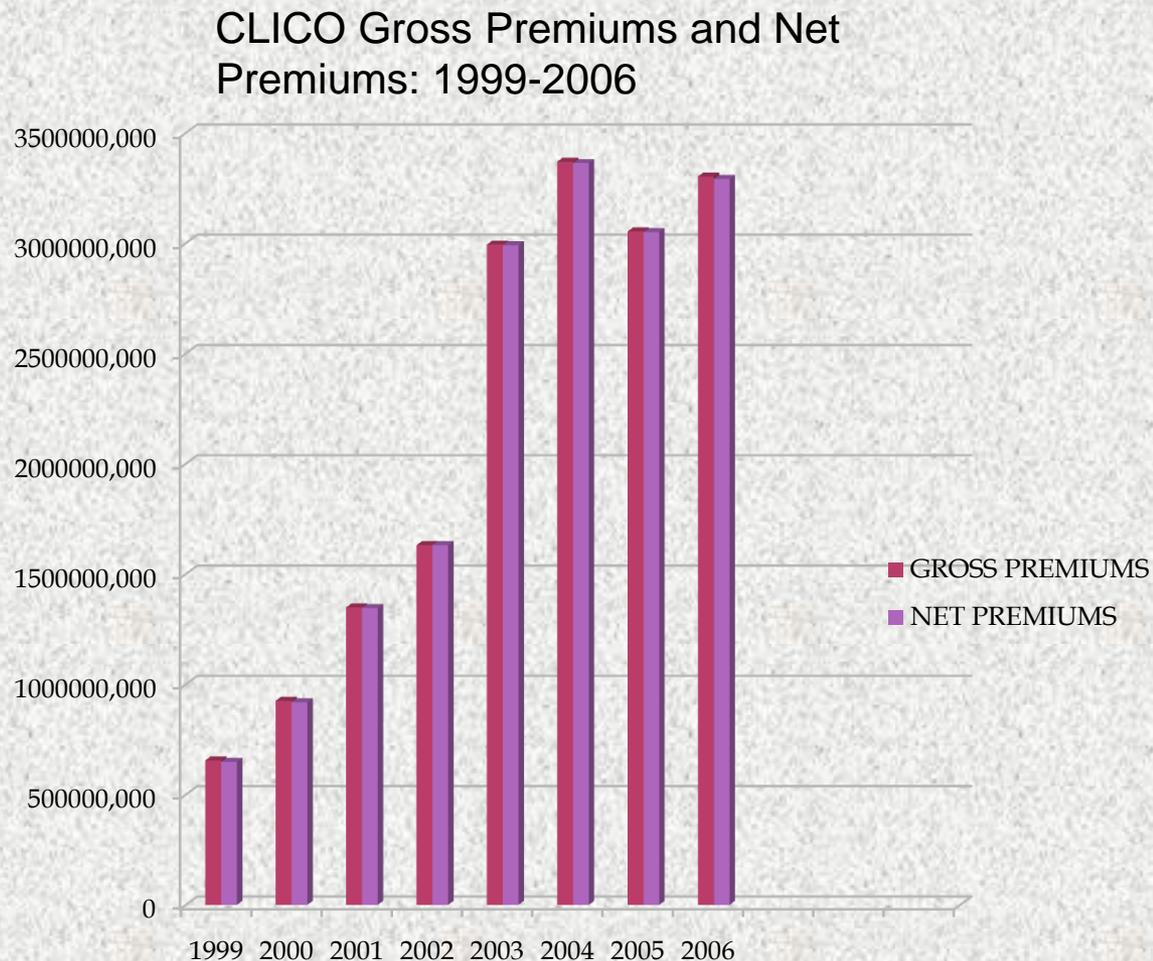
Pioneering International investments (Florida, US and Europe)

Lawrence Duprey – A maverick and a legend

Evolution and Growth of the Company : How was all of this Financed?

- CL Financial started as a holding company for Colonial Life Insurance Company (Trinidad) Limited in 1993

- The company then expanded its portfolio with interests in unrelated investments such as Real estate, Methanol, Banking, Spirits etc



Source: Ins and Pens 2006

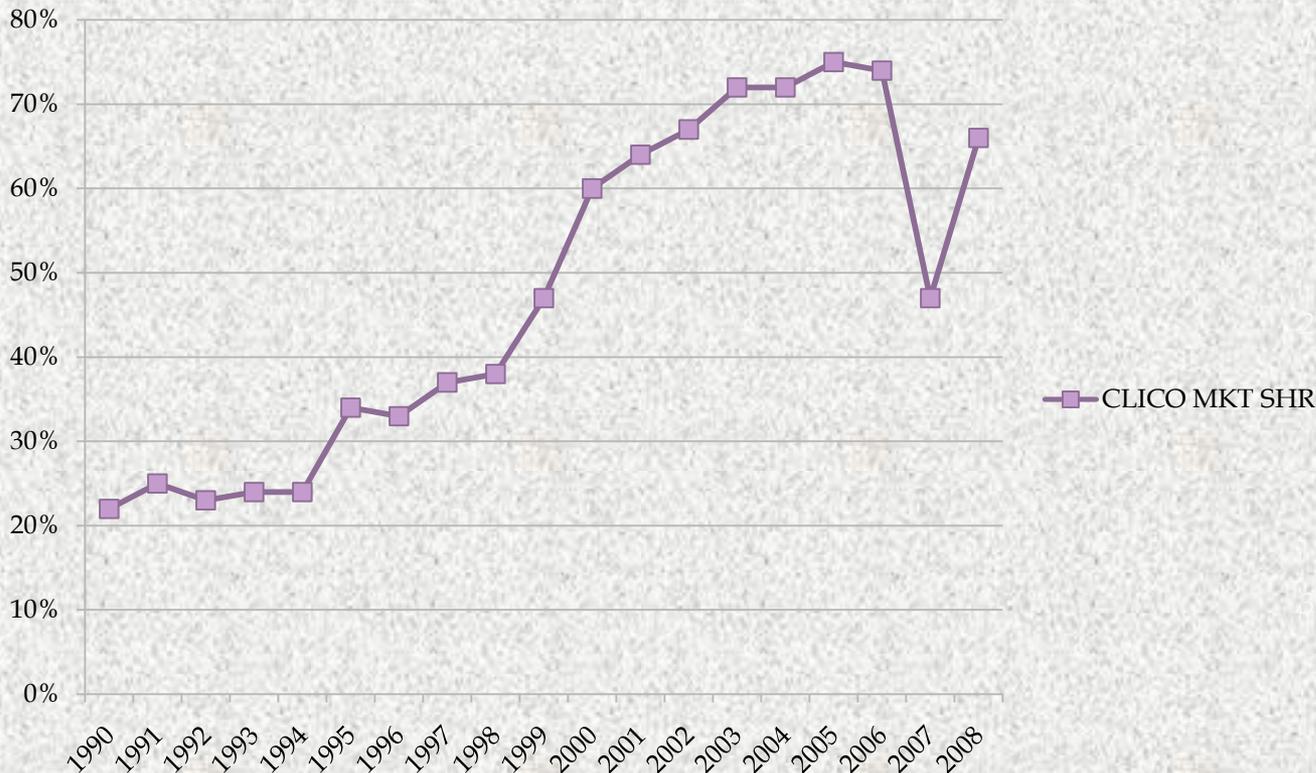
Evolution and Growth of the Company

	Gross Premiums- Long Term Insurance					
Company	2000	2001	2002	2003	2004	2005
ALGICO	131,779,29	103,631,673	97,554,747	108,052,425	117,928,858	129,618,968
CLICO	924,941,621	1,348,132,628	1,630,271,177	2,993,233,313	3,369,108,908	3,052,956,573
GUARDIAN LIFE	110,587,718	140,415,344	311,089,016	529,937,164	544,310,715	168,475,501
MARITIME	65,182,985	75,799,348	84,788,245	83,673,708	75,220,212	74,515,932
TATIL	72,408,711	67,120,969	69,882,101	70,165,064	74,755,870	71,563,501

Evolution and Growth of the Company

CLICO market share 1990-2008

CLICO MKT SHR



Reasons for such a large market share:

High ratings given by Credit rating Agencies such as Ernst & Young

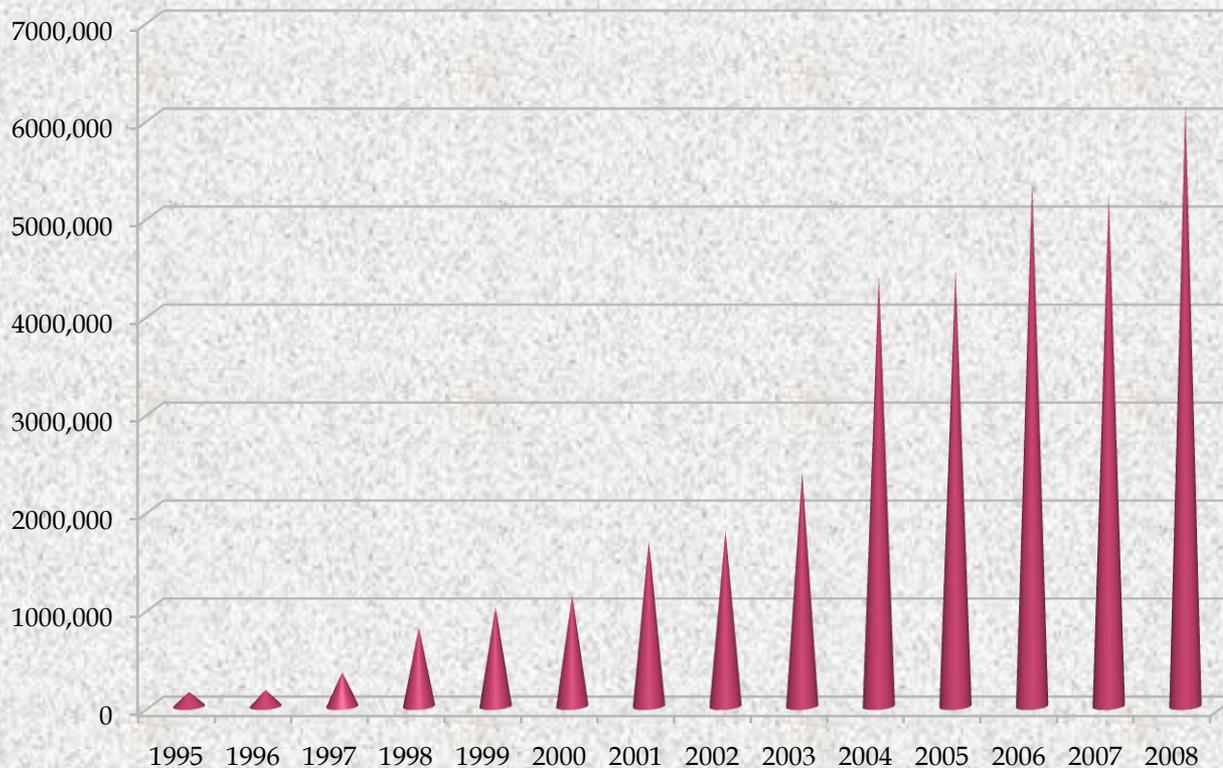
Higher interest rates paid than other companies in the same sector.

Weaknesses in regulation or lack of regulation

Evolution and Growth of the Company

CLICO Investment Bank

Deposits



- These deposits gave CL Financial the leverage to grant loans to a number of borrowers

- A loan to Capital Bank International Ltd of Grenada in the amount of US\$10m

- Today, the current amount owed to CIB amounts to US\$48.1 B

Major Acquisitions of the Company

- Despite the contributions of CLICO to the growth of the large conglomerate, other institutions such as Republic Bank, Angostura Holdings Limited and Methanol Company Limited contributed significantly growth of the company:

Republic Bank Limited

- *CLICO held 55% of the shares of Republic Bank Limited.*
- *Made possible through the Viveka shares*

Angostura Holdings Limited

- *Holds 95% of the local market and exports 60%-70% of what it produces*
- *'Buy out' of Lascelles de Mercado conglomerate*

Methanol

- *With increasing Methanol prices, the company enjoyed many years as being the largest supplier of methanol to the US.*

Fall of CL Financial

1) High reliance on rising Real Estate Asset prices

Sub prime Mortgage Debacle

2) Considerable inter-company and third- party transactions

Increasing use of depositors' funds to resolve difficulties that were being experienced by the affiliated financial companies in the conglomerates.

3) Mismatch between asset and liabilities

Creating major liquidity and solvency problems.

Short term liabilities paid above market interest rates

3) Falling price of Methanol

According to President of NGC, in 2009, methanol was coming down from highs of US\$ 700 a tonne from the previous year, to a low of US\$135 a tonne.

(Andrew McIntosh, 2009)

Fall of CL Financial

4) Regulation and Supervision

- *Local regulators had neither the tools or the ability or the willingness to reign in CL Financial*
- *Expansion took place in the absence of an appropriate legislative framework.*

CFinancial- L A Ponzi Scheme?

- ❑ *Forensic investigator Robert Lindquist has uncovered what is being described as an elaborate scheme within the CL Financial Group, where annuities, with attractive returns, were being sold by insurance power- house CLICO but that customers' investments were being funneled for ghost services to the group, (Sunday Express 2010)*
- ❑ *Internal e-mails since were referring the firm as a Ponzi scheme since 2006*
- ❑ *CLICO's insurance agents were rewarded highly with com missions to push the annuities that they offered at a rate of return of 30% every year. This rate far exceeded that offered by other insurance companies. (Sunday Express 2010)*

New investments required to pay off interest and withdrawals

Impact of the Crisis

- ❑ Massive bailout in TnT (over US\$ 2 billion) and OECS - Guyana
- ❑ Hardship and losses across the region
- ❑ Current Commission of enquirey
- ❑ Central Bank action against Duprey and Monteil

Facilitation of the Crisis

- 1. Political Patronage
 - *Andre Monteil - PNM treasurer*
 - *Duprey – major backer/financier of the UNC (Carlos John as Minister)*
- 2. *Ramesh Maharaj warned in 2000 about insolvency*
- 3. *FX must have been provided for foreign acquisitions*
- 4. *Employees paid huge salaries (to look the other way), separation “bonuses as “hush money” (best thing was to be fired from CLICO)*
- 5. *Greed is good mentality lead to admiration rather and scrutinization*

RECOMMENDATIONS

- ❑ *'Governments need to equip themselves in a timely manner with the necessary legal tools and supervisory instruments to effect adequate regulation of financial entities in the public interest.'* (Norman Girvan)
- ❑ *Regional regulation so that regional conglomerates cannot evade regulations in one country.*
- ❑ *No firm of the size of CL Financial Should be allowed to remain privately owned, i.e. It should be required to be listed on the stock exchange*
- ❑ *Develop ways to keep regulation in line with financial liberalisation.*

SUMMARY

- ❑ Financial Liberalisation does pose its challenges- *There is systematic risks*
- ❑ There is a need for adequate and appropriate regulation to complement financial liberalisation
- ❑ No company should be allowed to get to the point where it is considered 'Too Big to Fail.'



Thank You