

**Addendum to the June 14, 2013 Report to  
the  
High Court of Barbados**

**CLICO International Life Insurance Limited  
(Under Judicial Management)**

**June 24, 2013**

## **1. EXECUTIVE SUMMARY**

### **1.1 Background and Purpose**

- 1.1.1 On June 14, 2013 the Judicial Manager of CLICO International Life Insurance Limited (“CIL” or “the Company”) filed a report to the High Court of Barbados (“the High Court”) setting out two (2) alternative options for the restructuring of the Company.
- 1.1.2 Under the first option individual policyholders would recover either 100% of the value of their traditional insurance policy or 100% of the principal balance of their EFPA policy. These policies would be placed in a new entity that is then sold to an existing insurance company. As a result former individual CIL policyholders (Traditional Business and EFPA) would become policyholders of the acquiring insurance company. Corporate and Government EFPA policyholders would receive shares (in exchange for the principal balance of their EFPA policies) in a Property Trust that is established to hold the existing assets of CIL. The viability of this option however, was subject to confirmation of financial support from regional governments (primarily the Government of Barbados).
- 1.1.3 Under the second option, it was recommended that in the absence of funding confirmation from regional governments, the Company should be restructured on the basis of a new company being incorporated to hold the business of CIL and that on a proportionate basis the existing traditional insurance policies and EFPA policies be transferred to the new company but only up to a total of the current value of the Company’s assets. Based on the current value of the assets, approximately 50% of the existing policyholder value would be transferred to the new company.
- 1.1.4 The Judicial Manager has prepared this Addendum to its June 14, 2013 report to the High Court to detail its recommendations for the restructuring of the Company pursuant to written communication received from Ministry of Finance in Barbados on June 19, 2013.

### **1.2 Sources of Information**

- 1.2.1 Specific details of the sources of information used and relied upon are given where referred to in this Addendum.

### **1.3 Limitation**

- 1.3.1 In completing its work, the Judicial Manager has relied on the integrity of the information and documents supplied by the management of the Company and its related companies. Although the Judicial Manager has sought to cross check information from different sources to confirm its accuracy, it has not independently verified all of the information and documentation upon which it

has relied when preparing this Addendum. The financial information in this Addendum has not been subject to audit.

- 1.3.2 The Judicial Manager reports solely on factual matters and while it believes all of the information in this Addendum to be true and accurate; it reserves the right to amend this Addendum should additional information come to light.

#### **1.4 Currency**

- 1.4.1 The business of the Company is conducted in Bds\$ and EC\$ depending on the jurisdiction of operation. The Company's financial statements are presented in Bds\$ and the currency of the Addendum is presented in Bds\$ unless stated otherwise. It should be noted that where appropriate amounts recorded in EC\$ have been converted to Bds\$ for comparison purposes and consistency. The exchange rate between Bds\$ and EC\$ used in the report is EC\$1.35:Bds\$1.00.

#### **1.5 Restructuring Recommendation**

- 1.5.1 In a letter dated June 19, 2013 the Government of Barbados<sup>1</sup> confirmed that subject to final approval by Cabinet, the Barbados Government's proposal ("the Proposal") set out in the Judicial Manager's June 6, 2013 letter to the Ministry of Finance<sup>2</sup> was approved by the Minister of Finance. The Proposal reflected the following considerations:
- Existing CIL Traditional Business policies (Life, Health, Pensions) along with the principal balance of EFPAs owned by individual policyholders (converted into 10 year annuities) are to be transferred to a NEWCO;
  - NEWCO is then offered for sale to an existing insurance company;
  - Two (2) Property Trusts are established to hold all of CIL's real estate assets located in the Eastern Caribbean Currency Union ("ECCU") and in Barbados, respectively;
  - Corporate and Government EFPA policyholders are to receive shares in the two (2) Property Trusts;
  - The Barbados Property Trust issues interest bearing bonds that are guaranteed by the Government of Barbados and the ECCU Property Trust issues interest bearing bonds that are guaranteed by the ECCU Governments. These bonds would provide eligible statutory fund assets required to facilitate the sale of NEWCO to an existing insurance company; and

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<sup>1</sup> See Appendix I.

<sup>2</sup> See Appendix II.

- The Barbados Government will issue a bond, the proceeds of which will be used to provide additional eligible assets for sale of NEWCO, and to cover the estimated cost of implementing this restructuring plan.

## **1.6 Conclusion**

- 1.6.1 On the basis of the Ministry of Finance letter of June 19, 2013, the Judicial Manager recommends that the High Court approve the restructuring plan as set out in this Addendum. The Judicial Manager is of the view that this restructuring plan is in the best interest of all CIL policyholders.

## **1.7 Approval Process**

- 1.7.1 The Judicial Manager notes that this restructuring plan will require further consultation with various stakeholders to achieve support for its execution across the region and therefore proposes that a phased approach to the CIL restructuring plan be adopted.

## 2. RESTRUCTURING PLAN

2.1.1 Based on current valuations CIL remains chronically short of the necessary assets required to cover its policyholder liabilities. It is also recognised that CL Financial, the ultimate shareholder of the Company is unlikely to provide the necessary injection of funds required to correct the deficit position. The Judicial Manager therefore concludes that in the circumstances the best option available to protect the interests of all of the policyholders is for CIL to be restructured.

2.1.2 Under the proposed plan individual policyholders would recover either 100% of the value of their traditional insurance policy or 100% of the principal balance of their EFPA policy. These policies would be placed in a new entity that is then sold to an existing insurance company. Corporate and Government EFPA policyholders would receive shares (in exchange of the principal balance of their EFPA policies) in a Property Trust that is established to hold the existing assets of CIL.

### 2.2 Current value of CIL's Assets & Policyholder Liabilities

2.2.1 The Judicial Manager obtained updated valuations of CIL assets as at December 31, 2012. However the values have not materially changed from the March 31, 2012 figures.

2.2.2 Estimated value of CIL's assets by asset type (as at March 31, 2012)

Asset Type	Net book value	Fair market value
Cash and cash equivalents	43,979,471	42,936,147
Investments	40,891,393	40,891,393
Loans and advances	38,616,406	29,012,303
Investment properties	50,030,074	33,182,424
Development property for resale	12,864,044	11,265,431
Investment in subsidiary and associated companies	137,459,746	81,181,750
Amounts due from related companies	394,221,588	171,713,077
Due from agents	534,113	-
Reinsurance claims and other accounts receivable	3,088,830	627,173
Property, plant and equipment	42,839,217	30,203,522
<b>TOTAL</b>	<b>\$764,524,882</b>	<b>\$441,013,220</b>

2.2.3 Estimated value of CIL's assets by jurisdiction (as at March 31, 2012)

<b>Territory</b>	<b>Net book value</b>	<b>Fair market value</b>
Anguilla	1,354,651	994,466
Antigua	17,338,319	7,811,057
Barbados	571,709,169	288,109,084
Dominica	3,358,489	2,129,324
Grenada	13,503,471	13,069,525
Montserrat	302,128	282,059
St. Kitts	18,693,074	13,040,193
St. Lucia	123,524,708	102,832,497
St. Vincent	14,740,875	12,745,017
<b>TOTAL</b>	<b>\$764,524,882</b>	<b>\$441,013,220</b>

2.2.4 The table below sets out the estimated actuarial liabilities of CIL as of March 31, 2012 (most recent date of valuation):

BDS\$	Traditional Insurance Products	EFPA	EFPA	EFPA	EFPA	EFPA	EFPA	Total EFPA	Total Policyholder Liabilities
Territory	Actuarial liability	Individuals (principal only)	Individuals (accrued interest)	Gov't (principal only)	Gov't (accrued interest)	Corporations (principal only)	Corporations (accrued interest)		
Antigua	15,481,973	16,596,940	6,735,678	-	-	25,877,133	2,438,438	51,648,189	67,130,162
Dominica	4,517,155	11,574,684	2,750,441	15,873,235	3,911,534	15,673,903	3,527,517	53,311,314	57,828,469
Grenada	54,644,946	19,940,214	5,333,308	6,318,726	196,691	10,095,625	2,697,655	44,582,219	99,227,165
Montserrat	5,376,849	3,655,446	1,732,106	8,141,611	4,129,063	6,994,185	4,103,953	28,756,364	34,133,213
St Kitts	3,614,599	-	-	4,539,691	768,819	-	-	5,308,510	8,923,109
St Lucia	37,132,189	49,400,219	9,377,945	-	-	5,648,889	2,407,376	66,834,429	103,966,618
St Vincent	38,498,451	26,456,617	6,960,691	4,213,600	2,850,242	12,386,659	5,750,239	58,618,048	97,116,499
Anguilla	74,866	-	-	-	-	3,080,425	1,059,048	4,139,473	4,214,339
<b>EC Total</b>	<b>159,341,028</b>	<b>127,624,120</b>	<b>32,890,169</b>	<b>39,086,863</b>	<b>11,856,349</b>	<b>79,756,819</b>	<b>21,984,226</b>	<b>313,198,546</b>	<b>472,539,574</b>
Barbados	176,366,924	116,795,002	24,486,292	-	-	38,984,580	8,262,700	188,528,574	364,895,498
<b>Summary</b>	<b>335,707,952</b>	<b>244,419,122</b>	<b>57,376,461</b>	<b>39,086,863</b>	<b>11,856,349</b>	<b>118,741,399</b>	<b>30,246,926</b>	<b>501,727,120</b>	<b>837,435,072</b>

## 2.3 Detailed Restructuring Plan

2.3.1 Based on consultations with the Ministry of Finance and the Central Bank of Barbados, a plan has been developed for the restructuring of CIL. The objective of the plan is to ensure that there is no loss of principal amount for any individual policyholder. Under the proposal the principal balance of CIL's individually-owned EFPA policies are converted into 10 year annuities ("the restructured individual EFPAs") and along with the traditional insurance policies (Life, Health, Annuities, Pensions) will be transferred to a NEWCO which will then be offered for sale to another insurance company.

2.3.2 The key elements of the proposal are as follows:

a) **Establish NEWCO to hold CIL's portfolio of traditional insurance business and the restructured individual EFPAs:**

- Actuarial value of the portfolio of traditional business in Barbados of \$176MM
- Actuarial value of the portfolio of traditional business in the ECCU of \$160MM
- Present value of the restructured individual EFPAs in Barbados totalling \$99MM
- Present value of the restructured individual EFPAs in the ECCU totalling \$107MM

Total value of the policyholder liabilities transferred to NEWCO will be \$542MM

b) **Establish two Property Trusts each holding all of CIL's real estate assets located in the ECCU and in Barbados, respectively.**

- Total current value of CIL real estate assets is approximately \$325MM (CIL's non-real estate assets of approximately \$115MM would be transferred to the NEWCO);
- Barbados Property Trust to hold assets with current value of approximately \$230MM;
- ECCU Property Trust to hold assets with current value of approximately \$95MM; and
- Trustees for each Property Trust will be appointed by the relevant Governments to represent the interest of the various blocks of shareholders and will in turn appoint professional managers to manage the affairs of the Property Trusts with the objective of enhancing the value of the assets over time.

c) **Corporate and Government EFPA policyholders to receive shares in the two (2) Property Trusts based on the principal balance outstanding of their EFPAs:**

- Corporate EFPA principal balance of \$118MM
- Government EFPA principal balance of \$39MM

d) These shares will be issued at nominal value initially however there is a possibility that based on the future growth of the value of the assets in the Property Trusts that the

shareholders may recover some or all of the amounts lost. The ultimate aim is for these shares to be listed on the Barbados and Eastern Caribbean Securities Exchanges to provide the Corporate and Government EFPA policyholders with an option to realise value in due course.

- e) The Barbados Property Trust and the ECCU Property Trusts issue \$215MM and \$95MM respectively in interest bearing bonds guaranteed by the Government of Barbados and the ECCU Governments respectively. These bonds would be used to provide statutory fund eligible assets for a buyer of the CIL policies that have been transferred to NEWCO. Any remaining value will accrue for the benefit of the preferred shares in the Property Trusts.
- f) The Barbados Government will also directly issue a bond in the amount of \$150MM which will be used to provide eligible assets for the ECCU policies in NEWCO that are not covered by the ECCU Property Trust Bond (\$117MM), and to cover the estimated cost of implementing this restructuring plan (such as repayment of secured creditors, unpaid amounts to policyholders and management fees (\$33MM)).

2.3.2 The following table summarises the restructuring plan as outlined above:

	Barbados	ECCU	Total
Traditional insurance policies in NEWCO	\$176MM	\$160MM	\$336MM
Principal balance of Individual EFPAs converted to 10 year annuities and established in NEWCO	\$99MM	\$107MM	\$206MM
<b>Total policyholder liabilities/Eligible Assets required</b>	<b>\$275MM</b>	<b>\$267MM</b>	<b>\$542MM</b>
Provided by non-real estate assets currently held by CIL	\$60MM	\$55MM	\$115MM
Provided by Bonds issued by Barbados Property Trust	\$215MM	-	\$215MM
Provided by Bonds issued by the ECCU Property Trust	-	\$95MM	\$95MM
Interest bearing bonds provided directly by the Government of Barbados	-	\$117MM	\$117MM

### **3. CONCLUSION**

3.1.1 On the basis of the Ministry of Finance letter of June 19, 2013, the Judicial Manager recommends that the High Court approve the restructuring plan as set out in this Addendum. The Judicial Manager is of the view that this restructuring plan is in the best interest of all CIL policyholders for the following reasons:

- It has been over two (2) years since the appointment of a Judicial Manager and continued delay in the implementation of a solution will lead to further loss of confidence and likely reduction in premium income;
- The Judicial Manager has in the past examined and explored several alternative funding options with regional governments and have now received conditional confirmation of support for this plan;
- On the assumption that final approval is obtained from the Barbados Cabinet, the Proposal represents the best available solution at this time;
- Although there is no formal approval from the ECCU, there is indicative support from the ECCU's Core Committee which should enable a final equitable solution to be negotiated which avoids liquidation; and
- This restructuring plan represents a going concern solution which will minimise the social and economic impact on the region and maximise the returns to policyholders given the current state of the property market in the region.

### **4. NEXT STEPS**

4.1.1 The Judicial Manager notes that the success in the development and execution of a final scheme will require the continuation of active dialogue and participation of the policyholders, and the support of the regional governments, regulators and the Judicial Managers appointed in St. Lucia and St. Kitts.

4.1.2 The Judicial Manager however proposes to adopt a phased approach to the implementation of the CIL restructuring plan. In this phased approach the plan would be implemented in each jurisdiction upon approval of the relevant Court, Regulator and policyholders. The benefit of this approach is that it minimises any possible delays while awaiting approval in all jurisdictions.

## Appendix I



### MINISTRY OF FINANCE AND ECONOMIC AFFAIRS

GOVERNMENT OF BARBADOS

Government Headquarters, Bay Street, Barbados

Fax: (246) 429-4032 Tel. No. (246) 436-6435



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Mr. Oliver Jordan  
Deloitte Consulting Ltd.  
Judicial Manager  
"Deloitte"  
3<sup>rd</sup> Floor  
Goddard Building  
Haggatt Hall  
ST. MICHAEL

Dear Mr. Jordan,

We wish to advise that the Minister of Finance and Economic Affairs has approved the basic framework proposed by you based on the discussion held with the Ministry of Finance and Economic Affairs, the Central Bank of Barbados and yourself. The proposal was set out in your letter of June 6, 2013. However, consideration should be given to issuing preferred shares in the Property Trust to Corporate and Government holders of the EFPA instead of zero coupon bonds.

Naturally, the finer details would have to be negotiated amongst all of the critical stakeholders before the final framework is approved by the Cabinet. Additional refinement or improvement should be made.

The Minister of Finance and Economic Affairs has agreed that the basic framework proposal should be notified to the High Court of Barbados.

Yours sincerely,

**MARTIN E. COX**  
Permanent Secretary, Finance

## **Appendix II**

**Attached, CLICO Judicial Manager's letter to the Ministry of Finance, June 6, 2013.**