

UPDATE ON ECCU RESPONSE TO ISSUES RELATING TO BRITISH AMERICAN INSURANCE COMPANY AND CLICO IN THE EASTERN CARIBBEAN ISSUED BY THE GOVERNMENTS OF THE ECCU

BRITISH AMERICAN INSURANCE COMPANY LIMITED (BAICO)

Since our last public update a number of regional developments have forced the ECCU Governments to reassess the viability of our proposed response to the BAICO collapse. We have continued to work diligently to address these developments and to re-evaluate the options available to the ECCU governments and policyholders.

New Insurance Company (Newco)

In November 2009, the ECCU Governments announced a proposed solution that would involve the establishment of a new insurance company to take over the majority of BAICO's business ("the Newco Plan"). Given BAICO's insolvency, the only feasible option to establish such a company was that its capital be provided mainly by Government contributions. These were intended to come from the ECCU Governments and a Strategic Investor, as well as US\$100 million from the Government of Trinidad and Tobago (GOTT) and US\$5 million from the Government of Barbados.

The successful finalisation of the Newco Plan would have taken time and significant will on the part of all stakeholders, but the ECCU Governments believe that the Newco Plan had real potential to produce a more favourable outcome for BAICO's policyholders within the Eastern Caribbean. Importantly, such a plan requires the political will and financial commitment of all the proposed stakeholders, including all of the anticipated government contributions.

Following the change of administration in Trinidad and Tobago in late May 2010, the ECCU governments worked hard to engage the new administration, and in particular to seek confirmation that GOTT was committed to the Newco Plan and the necessary financial contribution.

We pursued this for many months but, by the end of 2010, were unable to gain the necessary confirmation. Without the required financial commitment of the Government of Trinidad and Tobago, Newco is not feasible as originally envisaged.

The ECCU governments are therefore of the view that alternative solutions must now be embraced to protect against systemic economic risks, and to offer much needed relief to policyholders.

While discussions are ongoing, given the delays finalizing the contribution from GOTT, we have decided to concentrate on solutions in a phased approach as follows:

1. The ECCU/BAICO Health Insurance Support Fund
2. The Traditional Business
3. The annuity and investment contract business

New plan for BAICO policyholders

The EC Governments have now approved the following alternative plan:

1. *The ECCU/BAICO Health Insurance Support Fund*

Regrettably, a number of complications arose since our announcement in July 2010, mainly from critical third party stakeholders failing to provide the ECCU Governments with timely and accurate information about matters impacting the Fund.

We are pleased to confirm that most of these issues have now been resolved and significant progress has been made towards launching the Fund. This includes the establishment of a company to act as the Trustee, finalizing which insurance policies will be covered by the scheme, and developing the rules and materials under which the Fund will operate.

The main outstanding challenge is to ensure that British American in Trinidad (BAT) provides critical support services for the Fund. BAT, although a separate insurance company based in Trinidad but also a member of the CL Financial group, was in effect running BAICO's operations and possesses both BAICO's data and also the expertise in relation to claims and policy operations. BAT is now under the control of the Central Bank of Trinidad and Tobago. While the GOTT has generally expressed support for the Fund and the ECCU policyholders, and an understanding of BAT's critical role in facilitating its operation, to date neither BAT nor the Central Bank of Trinidad and Tobago have yet provided the necessary assurances as to the quality and continuity of BAT's services, which are essential to the Fund's operations.

We have formally raised this issue with the Government of Trinidad & Tobago and requested its support.

We expect that the Fund will commence operation shortly after these final issues are resolved.

2. *Traditional Business*

Approximately 22,000 of the 33,000 BAICO policyholders in the Eastern Caribbean hold traditional life insurance policies, which formed the heart of the company's longer term operations, and represent approximately 10% of BAICO's liabilities in this region (recently estimated at US\$38 million¹).

Our intention is that BAICO's traditional life insurance business will be sold in a competitive tender process. Court approval is likely to be needed for this approach.

However, because BAICO is insolvent, it would be impossible to sell the traditional insurance portfolio without first injecting some additional capital

¹ These are approximate numbers based on available data which will need to be confirmed.

into the portfolio. The ECCU governments have therefore agreed to make available sufficient funding to maximize the sale value of the portfolio.

There is much work ahead of us to clarify the details, including the mechanics of the transfer, the correct level of capital needed, and ascertaining which policies will be included. The objective is that policyholders with traditional policies will have minimal reduction in benefits.

We have commenced work with the Judicial Managers on this process, and will keep policyholders updated as milestones are achieved. At this stage, we expect that finalizing this solution will contain its own complexities, and will take at least 6-9 months to finalise.

3. *Annuity/Investment Business*

The annuity/investment (EFPA) policies were generally sold in the years leading into BAICO's collapse, and offered higher, unsustainable interest rates and terms. Annuitants constitute approximately 11,000 BAICO policyholders, and represent approximately 90% of BAICO's liabilities.

The total amount and nature of financial relief for annuitants is currently under consideration and will depend on the establishment of, and available funding for, a proposed regional support fund.

Establishment of a Regional Support Fund

Given the regional scope and impact of both BAICO and CLICO issues, the governments of Trinidad & Tobago, the Eastern Caribbean Currency Union (ECCU) and Barbados have agreed that their financial impact is a regional problem that requires a regional solution.

The Government of Trinidad and Tobago has agreed to collaborate to explore and establish a regional support fund through CARICOM to assist those affected by these and other similar events that threaten the region's economies. We will be working with our regional colleagues to consider funding and other options to resolve this issue with minimal delay.

Given the regional nature of this problem, we have requested that it be placed on the agenda of the upcoming meeting of CARICOM Heads from February 25-26, 2011. In the meantime, a regional technical committee chaired by the President of the Caribbean Development Bank and including representation from the ECCU, Trinidad & Tobago, Barbados and CARICOM are considering various options for consideration by the Heads.

Although we expect that this process will take time to finalise, the parties are aware of its urgency.

We will keep policyholders informed as important steps are achieved in the process.

Judicial Management of BAICO

Since the appointment of BAICO's Judicial Managers, ECCU representatives have met at regular intervals with the Judicial Managers to agree the optimum restructuring strategy for BAICO's policyholders.

The Judicial Managers have continued to work to minimize BAICO's liabilities, realise its assets, pursue potential claims against third parties (including BAICO's former directors and its parent, CL Financial.), and at the same time respond to a large number of policyholder concerns and enquiries.

Given the sheer scale of BAICO's operations and the fact that BAICO operated in 17 separate legal jurisdictions, the Judicial Management has been a highly complex and costly process.

To date the Judicial Managers have, or are in the process of, disposing of all of BAICO's non-EC branches and subsidiaries. At the same time, the Judicial Managers have also launched a number of legal actions in an effort to recover assets belonging to BAICO. Specifically, we are advised by the Judicial Manager in the Bahamas that a formal demand has been made to recover amounts owed to BAICO from its parent company CL Financial. Any amounts recovered will increase the amount ultimately available to policyholders upon liquidation.

However, as mentioned above, progress on agreeing a restructuring plan for the EC business has been slower than originally anticipated, largely as a result of the uncertainty and delay surrounding the GOTT's involvement in the previous Newco Plan.

The cooperation and expertise of the various Judicial Managers will be instrumental in implementing the revised restructuring plan. Therefore the EC Governments continue to work in close conjunction with the Judicial Managers in order to achieve the best outcome for policyholders, while at the same time minimizing the overall restructuring costs. For this reason, we would urge policyholders to exercise their continued patience and cooperation with the Judicial Managers in order to allow them and the ECCU to implement the restructuring plan.

CLICO

The Government of Barbados has announced that it will soon appoint a judicial manager to CLICO International Life Insurance Limited.

The ECCU Governments and regulators are continuing to liaise with the Government of Barbados, although this process has been slow. To facilitate the exchange of information, we have proposed a Memorandum of Understanding to the Government of Barbados and we remain hopeful that this will be executed soon. We are pursuing additional information on the financial position of CLICO, including how ECCU policyholders may be affected by any issues within CLICO.

We are still awaiting formal communication from Barbados in this regard and recognize that regional collaboration is the only effective way to resolve this issue.

Conclusion

The ECCU Governments wish to express our appreciation for the patience and calm with which policyholders have responded to the very painful and personal challenges arising out of BAICO and CLICO issues.

We wish that these matters were simpler, and that solutions could have been put in place faster. However, our experience in such a difficult and complex situation is not unique in this regard. Importantly, these solutions represent what the ECCU Governments are best able to achieve, particularly given available funding and the regulatory regime within which BAICO and CLICO are operating.

We anticipate that the next phase will take time, and that we will encounter obstacles, but we will continue to work tirelessly to overcome them.

Issued by the Governments of the ECCU

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