

September 2010

Staying Connected

For the Alumni of the ECCB
Savings and Investments Course

YOUR FINANCESYOUR FUTURE

YOUR FINANCIAL
NEWS

How The Legislative and
Regulatory Environment in
the Insurance Sector Can Be
Strengthened and Improved
*Lessons Learnt from regional
disasters like the failure of
CL Financial subsidiaries of British
American and Clico.*



What You
Need to
Know
Before You
Invest.

Make your dreams a reality
Save
and
Invest Wisely
Financial Information Month - October 2010

This is a Financial Information Month Initiative, October 2010



**Your Financial Success
Stories Financial Treasures
for Generations**

Owning a home, starting a successful business venture, going to college, living your best life are among the dreams that many share. Transforming that **dream** into a successful **reality** requires serious dedication, planning and wise saving and investing. *Share your dreams to reality stories with us for a chance to win attractive prizes.*

Criteria

- The candidate must be a citizen of ECCU and have normal residency in any of the member states for the past 15 years or more.
- The candidate must be someone who came from humble beginnings yet who through hard work and sensible money management practices was able to turn their dreams into reality. The life of this person must therefore serve as a blueprint for others in the community to see what is possible if one follows sound money management principles.
- The candidate must be at least 25 years of age.
- **Stories must be submitted to the ECCB on or before October 30 2010 and must be typed. The stories can range from 300 to 500 words.**
- Email entries to info@eccb-centralbank.org

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How The Legislative and Regulatory Environment in the Insurance Sector Can Be Strengthened and Improved

Lessons learnt from regional disasters like the failure of CL Financial subsidiaries of British American and Clico



Brian Glasgow addressing the graduands, ECCB Savings and Investments Course, St. Vincent and the Grenadines, Cohort 7

Thank you for inviting me to join you on this important occasion, as you and other persons throughout the Eastern Caribbean Currency Union graduate, after successful completion of ten weeks of studies in investments and savings in collaboration with the Eastern Caribbean Central Bank, the University of the West Indies and local financial institutions. I have had a look at your syllabus, and I am extremely impressed by the wide range of material that you have been able to absorb in such a short time. Subject areas like personal financial planning,

debt management, risk management strategies, financial markets, and trading on the securities market are extremely relevant in the prevailing financial climate, and will become even more important as our economies mature and evolve.

You must be proud of your accomplishment, and I applaud you and the course facilitators for your hard work. Many of you are self employed, and some of you, I understand represent financial and other institutions throughout St Vincent and the Grenadines. Those institutions obviously have a high level of confidence in you, and no doubt they also have great expectations. They are depending on you to bring back not only new information, new knowledge, and a greater understanding of savings and investment vehicles and how they operate in our region, but also recommendations. Recommendations on how we can restore confidence in our savings institutions; Recommendations on how we can continue to protect investors by strengthening the regulatory

environment; and Recommendations on how, in the future we can insulate our local investors from regional disasters like the failure of the CL Financial conglomerate of Trinidad and Tobago.

Just 2 years ago, the CL Financial empire was easily the largest privately held institution in the Caribbean Community. Like an unsinkable Titanic it churned its way through the Caribbean sea, acquiring whatever it chose to, including financial entities and insurance companies; and in many instances, it was protected from the normal discipline of the marketplace because of the perception that it was too big to fail.

About eighteen months ago, the Caribbean Titanic ran into icebergs of reality, of regulatory failure, and of corruption, leaving hundreds of thousands of stranded and bewildered passengers. Tens of thousands of these analogical passengers are citizens of the Eastern Caribbean Currency Union who invested in the CL Financial subsidiaries of British American

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and in Clico. Most were proud to know they were investing in regional institutions, and felt assured that their investments were well secured, above all, by the integrity of the financial systems which they believed to exist in Caricom. Thousands have had their dreams frustrated and lives shattered, and even at this stage the hope from the rescue plan put together by the Governments of the Eastern Caribbean is misted because of the uncertainty of the extent of further participation in the rescue effort by the Government of Trinidad and Tobago.

The individuals who have been affected by the failures of British American and Clico are not greedy people as some would have us believe. Most are not sophisticated investors who should have known better. The majority of investors are ordinary persons from the entire cross section of our society. As I speak, there are persons who are dying from cancer because they cannot access their own money to obtain the required medical attention. There are persons who are going blind for the same reason. There are

several students who have studied diligently for years to gain acceptance to Colleges and Universities only to be now told by their parents that the money that they meticulously saved for the past years has disappeared. And there are scores of aged individuals who have now been reduced to the lowest ebb of poverty and distress, and have to suffer the indignity of living off friends and relatives because their savings accounts no longer exist.

Quite possibly, you may have discussed this during your studies, and I am sure that many of you have asked yourselves the following questions:

1. How could a disaster of such magnitude happen in our midst?
2. Where did our systems go wrong?
3. What must we do to prevent a similar recurrence in the future ?

I would like to share with you some of the thoughts that I have on how the legislative and regulatory environment in the insurance sector can be strengthened and improved.

In the Currency Union, we already have a well regulated banking sector. However, a substantial amount of the financial activity of the Currency Union is controlled by the insurance sector, and large amounts of money are invested outside of the Eastern Caribbean banking system. Therefore, unless we are able to properly manage the activities of the insurance companies within our region, they will continue to pose a systemic risk to the entire financial system.

We must adopt a more robust regional approach to regulation of insurance companies. British American and Clico, as most of you are aware, sold banking products which were essentially certificates of deposit packaged to resemble insurance products, and given names such as Executive Flexible Annuity Policies. These products offered annual rates of return far in excess of what commercial banks could offer, and as a result, hundreds of millions of dollars were removed from the legitimate and well regulated banking system into a very grey area that was able to avoid regulation by the

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ECCB. The Ministries of Finance in many of the ECCU member countries eventually became concerned, and at least one Insurance Regulator was able to stop the local branch of British American and Clico from issuing these products from their local branch. However, what happened next was that the agents in that country continued marketing the same products, issued not by the local branch, but by British American in Anguilla. If there was a regional system of regulation in place, that would never have been allowed to happen.

Regulation of insurance companies needs to be more intrusive. When an insurance company submits financial statements, the Regulator needs to look behind the figures, even beyond the auditors' report. For example, in my role as Judicial Manager of British American, I was able to successfully apply to the United States Federal Bankruptcy Court for recognition of the Judicial Management proceedings in St Vincent and the Grenadines. This recognition allowed me to take control of

the Company's assets in the United States and to conduct certain investigations.

In this regard, earlier this month, pursuant to this authority, my legal team conducted a deposition with the custodian of mutual funds valued at approximately \$35 million in the balance sheet of British American. The fund custodian testified that he was presently self employed as a "ghost hunter". When asked for details of the fund and the composition of its investments, his reply, in almost every instance was "Upon advice of counsel, I decline to answer pursuant to my rights under the Fifth Amendment to the US Constitution". A significant portion of this \$35 million came from St Vincent and the Grenadines. We still do not know where the money is, or where it has gone to. We must have more intrusive regulation to empower Regulators to look beyond the figures, otherwise policyholders and investors in insurance companies will continue to be exposed. Business models must be challenged before they fail.

Our legislation needs to be dynamic. Presently, throughout the ECCU, new harmonized legislation is in various stages of pronouncement. But even the new legislation has weaknesses. The main factor contributing to the severity of the British American problem in the ECCU is the fact that British American is represented by branches throughout the Eastern Caribbean. A branch is not a legal entity, and the assets belong to the Company, not the branches. In order to associate assets with branches, the assets need to be legally pledged, and this was not done in the case of most of the Eastern Caribbean branches. In order to avoid disasters like this from recurring, we need to amend the existing legislation to make companies more directly and legally accountable for the liabilities of their branches.

Presently, there is no requirement for certification of Financial Advisors in the ECCU. This has been exploited by many institutions including insurance companies who recruit inexperienced persons, equip them with impressive titles like Financial Advisor or Investment Advisor, and let them loose on an unsuspecting

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public. Very often, potential investors are lured into a false sense of security and place confidence in untrained individuals, who in most cases do not offer advisory services, but are merely marketing high interest bearing, high risk, uninsured products. When the inevitable happens, as we have seen, investors are left to count their losses and the only beneficiaries are these inappropriately titled advisors. As a country, and as a currency union we must insist on a proper process of certification and licensing for anyone who is presented to the public as an investment advisor. I would even go further and suggest that the Institute [ECIB] should play a pivotal role in the certification of Financial and Investment Advisors in the ECCU.

I hope that your experience over the past ten weeks goes beyond the technical matters that you have studied; beyond learning about the tools of the trade.

I hope one of the things that you will take away from your time here is the importance of your role in the lives of others.

Savings and Investments is all about helping people fulfill their dreams. It's about helping people purchase their own homes, pay for their children's education, acquire the goods and services they need to improve their lives. It's about helping businesses grow and thrive and reducing unemployment. It's about channelling investment into the economy – but it is also about making other investments: Investments in people, investments in our culture, investments in our future.

Congratulations to all of you for successfully completing your studies.

It is an honour to be here with you, and it has been a privilege to address you. I wish you continued success in your various areas, and trust that you will use your new knowledge to the benefit, not only of St Vincent and the Grenadines, but of our entire Currency Union.

About the Presenter

Brian Glasgow a UK trained Chartered Certified Accountant, and is the Secretary of the Institute of Chartered Accountants in the Eastern Caribbean.

He is a partner of KPMG Eastern Caribbean, and presently heads KPMG's restructuring practice throughout Caricom.

For the past year, Brian has been the court appointed Judicial Manager of British American Insurance Company in St Vincent & the Grenadines, and also co-ordinates the activities of the Judicial Managers throughout the eight ECCU territories.

We must adopt a more robust regional approach to regulation of insurance companies.

What You Need to Know Before You Invest

1. Make Time Your Friend Not Your Enemy.

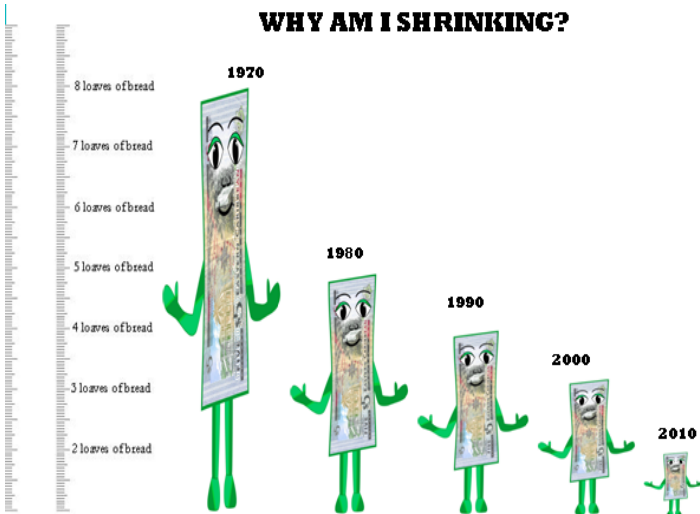


When is time not your friend?

INFLATION

Prices keep going up and so over time the same amount of money buys less and less of the same good.

WHY AM I SHRINKING?



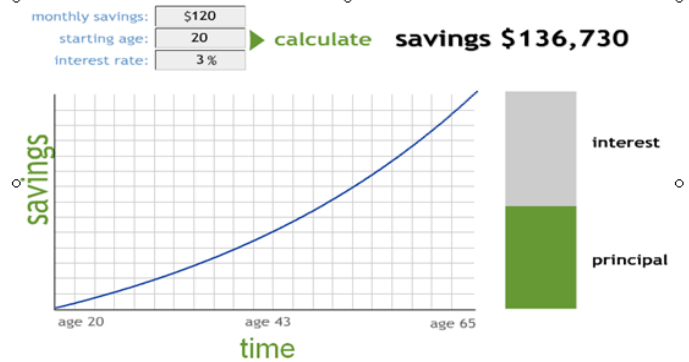
When is time your friend?

COMPOUNDING

Interest earning interest

The longer you SAVE the more money you will accumulate.

COMPOUNDING



2. Make Wise Investment Choices.

Risk vs Return

In almost every financial decision there is a choice to be made between the **risk** of an investment and the **return** on that investment.

3. The bigger the potential return the greater the potential investment risk.

While regulation offers some consumer protection, the burden of making sound investment choices remains with the investor.

5. Don't make investments you do not understand or that you are not comfortable with.

Learn all you can about the various types of investments and their related risks.

4. Set clear investment goals (short, medium, long-term).

6. Ignore investments that sound too good to be true.

Pyramid schemes and other get rich quick schemes are a sure way to lose your money. Remember, the quick buck is the last buck.

While speculation may sometimes look attractive, stick to stable investments with proven track records.

What Do You Want?

1. Do you want to preserve the value of your assets? **SAFETY OF PRINCIPAL**
2. Do you want to generate money from your asset holdings? **INCOME**
3. Do you want to increase the market value of your asset holdings? **GROWTH**

Take a few right decisions provided you do not make too many wrong decisions

Warren Buffett: Responding to a question for the recipe for success at the Berkshire Hathaway AGM 2003