

VERBATIM NOTES
OF
COMMISSION OF ENQUIRY INTO CIRCUMSTANCES
THAT LED TO THE COLLAPSE OF THE FINANCIAL INSTITUTIONS
IN THE 1990s

HELD AT
THE JAMAICA PEGASUS HOTEL
81 KNUTSFORD BOULEVARD, KINGSTON S

ON
THURSDAY, JANUARY 21, 2010

PRESENT WERE:

THE COMMISSION

The **Hon.** Mr. Justice Boyd Carey (Ret'd) - Chairman

Mr. Charles Ross - Member

Mr. Warrick Bogle - Member

COUNSEL TO THE COMMISSION

Hon. R.N.A. Henriques OJ, QC, LLM

SECRETARY TO THE COMMISSION

Mr. Fernando DePeralto

MARSHALLING THE EVIDENCE

Mr. Ransford Braham - Attorney-at-Law

Mrs. Kelley Wong- Henry - Attorney-at-law

REPRESENTING THE BANK OF JAMAICA

Mr. Sundiata Gibbs

GIVING EVIDENCE

DR. MARSHALL HALL - Chairman of Mutual Life

MR. OLIVER JONES -- Chairman of Island Life

1 Thursday, January 21, 2010. 10:10 a.m.

2 CHAIRMAN: Good morning ladies and gentlemen, this
3 session now begins. Thank you for
4 coming. Please swear Dr. Hall.

5 (10:10 Dr. Hall sworn) Please take a
6 seat, thank you very much.
7 EXAMINED BY MR. BRAHAM
8

9 MR. BRAHAM: Could you state your name, sir.

10 CHAIRMAN: Before Dr. Hall begins giving evidence,
11 Mr. Braham, I would like to make a short
12 statement. Appearing in this morning's
13 editorial page of the Daily Gleaner is
14 an article which in my view, seeks to
15 impugn my character; I cannot therefore
16 allow this to go unanswered. The
17 Gleaner has set up itself as a court and
18 declared that this Commission is flawed;
19 it's flawed because the Chairman,
20 myself, has a family debt which is
21 unresolved. I wish to state
22 categorically that there is no
23 unresolved family debt --- there never
24 was a loan to create a debt. It would
25 be well if the Gleaner Company got its

1 facts right. This Enquiry will now
2 continue.

3 MR. BRAHAM: Could you state your name, sir.

4 A Marshall McGowan-Hall.

5 Q Yes, could you tell us a little bit
6 about yourself, about your qualification
7 and your experience.

8 A

9 CHAIRMAN: I think you have to speak into the
10 mike, Dr. Hall, please.

11 A I was born in 1934, I was schooled at
12 Camperdown Prep School and Kingston
13 College, and went on to Columbia
14 University and the University of
15 Wisconsin. After that period I ended up
16 with a PhD. in Economics in 1961. I was
17 a Faculty member of University of
18 Wisconsin Washington.

19 MR. BRAHAM: Dr. Hall, the young lady beside you is
20 taking notes and you are going with
21 such alacrity.

22 A I apologise, sir. I returned to Jamaica
23 in 1971 where I joined the Faculty of
24 Management at the University of West
25 Indies. I left there in 1974 and I

1 became Executive Chairman of the Jamaica
2 Public Service Company and in 1979 I
3 became the Chief Executive of the then
4 Jamaica Banana Producers Association
5 Limited, now Jamaica Producers Group. I
6 retired from that office a few years
7 ago. Along the way I served in a
8 variety of capacities on a variety of
9 Boards in Jamaica: Development Bank,
10 Mutual Life Insurance Company, Kingston
11 Restoration Company, and a range of
12 Boards.

13 Q Very well. We take you up now on Mutual
14 Life. The proper name was Jamaica Mutual
15 Life Insurance Society, was that the
16 correct and full name?

17 A I believe so. sir.

18 Q Very well.

19 A Mr. Chairman, i wonder if I could just
20 make a brief statement, just a comment
21 before I start, is that permissible?

22 CHAIRMAN: Very well.

23 A Chairman, I have deliberately not sent
24 in a written recommendation to this
25 august body or a written statement to

1 this august body. It isn't because I, (a)
2 don't regard the work of this Commission
3 as very important but having left Jamaica
4 Mutual from about 1996, I believe late
5 1996, I have not really been involved in
6 anything to do with
7 insurance companies or with Mutual Life
8 since then and I had gotten rid of all
9 of my papers. I did not know how to get
10 hold of any Mutual Life papers and so
11 today I will do my best to answer things
12 to best of my ability and with total
13 honesty; but my not sending a written
14 statement is not in any sense intended
15 to dismiss the importance of the
16 Commission because I think it is indeed
17 a very important Commission.

18 CHAIRMAN: Thank you for your statement, Dr. Hall.

19 MR. GRAHAM: Your association with Mutual Life, when
20 did that start?

21 A

22 CHAIRMAN: Round about?

23 A I would say that I joined the Mutual
24 Life Board in the late 1970s as a Board
25 member and I stayed until when I

1 indicated, late 1996.

2 Q And you became Chairman in what period,
3 generally speaking?

4 A I became Chairman in the middle of the
5 1980s.

6 Q I see. Now sir, could you just give us a
7 brief description of the nature of the
8 business of Mutual Life?

9 A Mutual Life is an insurance company, a
10 very, very old insurance company, or was
11 a very old insurance company, and it was
12 fundamentally life insurance in all its
13 forms, that includes a number of
14 different types of policies: ordinary
15 life, endowment, universal type policies,
16 term polices, at cetera. And because
17 Mutual Life was an insurance company and
18 since insurance companies have debts
19 that are long, along the way it acquired
20 a range of assets. Mutual Life is a very
21 interesting company in the sense, and I
22 mention this as a quick aside, as a
23 mutual company it sold policies in
24 Jamaica, in Trinidad and elsewhere for a
time, and it acquired -- I believe it

1 the 1900s?

2 A It is now certainly in excess of one
3 hundred and fifty years, before the
4 banking time.

5 Q I see. Now sir, I am sure you are aware
6 that at some point in the 1990s there
7 were financial difficulties in relation
8 to banks and some insurance companies,
9 and FINSAC was created. You are aware of
10 that period of time, sir?

11 A Yes , sir.

12 Q Very well. Now could you indicate sir,
13 whether during the period of your
14 stewardship Mutual Life had any
15 financial difficulty, and the nature of
16 that financial difficulty?

17 A You are talking narrowly about the
18 period, and I would put some time to it
19 say, 1990 and until when I left off
20 Board, you don't want to go back. Yes,
21 sir, I would say over that period Mutual
22 Life experienced a range of financial
23 difficulties.

24 Q And you could you give us a general
25 summary as to how that manifested

1 itself?

2 A If I could be allowed, Chairman, just to
3 perhaps, in answering that question set
4 the stage for the economic environment
5 of the period within which Mutual was
6 operating and indicate why I think the
7 economic environment had a lot to do
8 with Mutual's problem. Is that okay?

9 CHAIRMAN: Certainly.

10 A Just to remind the Board, I am sure --
11 the Commission, *sorry* -- that you are

12 well aware of this but just to set the
13 stage: We know that in the period of
14 the 1990s the Jamaican economy had a
15 very high inflation rate of the order of
16 44%, if we take the period 1991 to 1994,
17 but certainly in 1991 it was well over
18 70%, for example. Over that period we
19 had massive increases in the money
20 supply; the money supply increased some
21 47% over the period 1991 to 1994. The
22 banks had very, very high -- the
23 commercial banks that is --- had very
24 high interest rates and the average
25 weighted interest rate over the period

1 1991 to 1994 was of the order of 44
2 percent. There was a negative -- I got
3 that information from the paper you sent
4 me, sir -- I understand that there was a
5 negative NIR in 1991/92, if I read it
6 correctly. Over the period the Jamaica
7 Stock Market index fell in one year, for
8 example, in 1993 from 32,417 to 13,097
9 in closing the single year with a fall
10 of 59%. The exchange rate over that same
11 1991/94 period would have fallen by -the
12 currency was devalued by about 60%. Just
13 to describe the period, perhaps a
14 succinct way to recognise the difficulty
15 of the period is that the Bank of
16 Jamaica's penal lending rate -- and the
17 penal lending rate is the rate that the
18 Bank of Jamaica imposes on banks when
19 they are at the lending limit and they
20 have to borrow. The penal lending rate
21 of the Bank of Jamaica was a quarter of
22 one percent per day. So that describes
23 the climate. Now I went through that
24 description, Chairman, to say that a
25 company like Mutual Life of necessity

1 trades in assets of -- in real estate, in
2 equities and has deposits, and therefore
3 that climate would have significantly
4 impacted the Society. The Society is an
5 old Society and the thing about an old
6 insurance company is that it has a lot of
7 old liabilities, it has a substantial
8 portfolio. What these high interest rates
9 meant therefore is that, to the public
10 who would normally buy ordinary life
11 insurance, if you think about it for a
12 moment, the public that would normally
13 buy ordinary life insurance, if you can
14 put your money in an institution that you
15 regard as sound and generates interest
16 rates in order of 40 to 50 percent, the
17 business of you paying insurance premiums
18 -- because an insurance premium is
19 fundamentally a decision -- when you take
20 ordinary life which is a prime business of
21 Mutual what you are saying is: I am
22 buying a policy in the event that I die
23 quickly; because in the event that I die
24 quickly the policy pays off. If I live a
25 very, very

1 long time I would have paid in all these
2 premiums and more than likely over that
3 time frame the beneficiary so to speak is
4 probably the insurance company because
5 the insurance company is investing. The
6 insurance companies had had a -- I don't
7 want to be dishonest -the insurance
8 company has had a
9 portfolio and therefore it has a whole
10 population-base of varying lives and
11 deaths but I merely indicate how the
12 ordinary person might think about it. And
13 therefore if you say to yourself: I think
14 the 40, 45, 50% -- and if I do that over
15 the next five, six, seven, eight years
16 with the premium income I would have
17 paid, I would have amassed a reasonable
18 sum of money. And so what happened is that
19 ordinary life insurance sales fell
20 dramatically. And what an entity like
21 Mutual Life sought to do, and by
22 hindsight incorrectly, what an entity
23 like Mutual Life sought to do is to use
24 its salesmen, use it's sales force to
25 continue to sell life insurance

1 and the particular life insurance policy
2 that it chose to sell during that period
3 was what's called a universal life policy
4 and a universal life policy is a policy
5 which has a very small life insurance
6 component and a very large deposit
7 component. That large deposit component
8 attracted an interest rate and that
9 interest rate had to be related to the
10 interest rate that they could get
11 normally in the banking world or
12 elsewhere. And so that interest rate of
13 necessity had to be very, very large. So
14 the nature of the climate, Chairman,
15 caused a bit of shift in the product mix.
16 The second thing that we need to
17 know when we talk about the
18 problems that Mutual Life
19 faced -- and I am speaking
20 narrowly about Mutual Life --
21 is that insurance companies have
22 something which they called the
23 'new business strain' and the new
24 business strain is that because

1 the insurance company was set up
2 to sell ordinary life, and
3 because with ordinary life
4 insurance one expects to be
5 paying premiums over the entire
6 life of the individual. So if I
7 took out an insurance policy at
8 age 22 and I am now 65, I would
9 have paid premiums until I am
10 43. And therefore -- I mean,
11 sorry, paid premium for 43
12 years.

13 The industry then developed an
14 aggressive response to encourage the
15 salesmen to go out and get business, and
16 this behaviour well predates my becoming
17 a Board member of Mutual Life. Certainly
18 it was standard in Mutual Life where the
19 first year's premium was less than the
20 cost of putting the first year's premium
21 on the books, and that's what we call

1

22 the new business train. The first year's
23 premium paid by the individual was less
24 than the cost of putting insurance policy
25 on the books.

1 Now when you switch into universal life
2 policies or the type of policies that
3 have a small insurance and a large
4 deposit, the deposit portion has a very
5 very high cost ongoing, forever so to
6 speak, and the insurance portion is only a
7 small portion. Rightly or wrongly, the
8 new business train for those
9 policies became a massive burden on the
10 society because you are faced with these
11 kinds of interest rates. So what we had
12 therefore, Chairman, is the economic
13 environment causing a change in the
14 product mix and a failure, and I say so
15 quite frankly, a failure on the part of
16 Mutual to recognise that this high
17 interest rate regime was going to be
18 maintained for such a long period of
19 time.

20 So it came out with these policies, new
21 business train combined with those
22 policies. Mutual Life was a strong
23 financial organization with good assets.
24 If you look around the country, you know
25 the Twin Towers across the way, the

1 Springs Shopping Centre you know, all
2 over of the country, hotels, elsewhere in
3 the region it was the Guardian Life which
4 had been a mutual company, Mutual sold
5 life insurance policies in Trinidad under
6 the name Mutual Life so they were Mutual
7 Life policies. Trinidad took the view
8 that its insurance companies had to be
9 Trinidad companies. So we were forced to
10 divest if you wish, Guardian, our
11 business in Trinidad and the way we chose
12 to divest it was to create a stock company
13 where the then ordinary life
14 policyholders of Guardian were given in
15 essence 50% or thereabout of the shares
16 of new Guardian Life and Mutual Life, the
17 society in Jamaica retained 50 percent.
18 So we had a significant shareholding in
19 Guardian Life.

20 But when you look at the economy -- so
21 you are faced now with a difficulty in
22 your balance sheet, your income
23 statement starts to look not very good.
24 The natural thing for an entity like
25 ours should be: okay, you have a range

1 of assets, goods assets; you can sell
2 some of those assets and realise the
3 benefit, straighten out and go forward.
4 At that time, the equities market had
5 fallen; the real estate market was very,
6 very difficult to move things in, all
7 deriving from a very, very high interest
8 rate regime because why should anybody
9 buy real estate or buy equities when they
10 could get this interest? The problem with
11 an entity, with Mutual Life, is that an
12 entity like Mutual Life our stock in
13 trade, because we are accustomed to
14 investing long, our stock in trade is
15 real estate; our stock in trade is
16 equity; our stock in trade is assets that
17 are solid and will provide an income
18 stream down the road. The assets were
19 solid; the ability to realise any
20 interest from those assets was
21 constrained and so we hit a bump in the
22 road. Again by hindsight, what should one
23 have done? If you face that kind of
24 problem in a company what you do is you
25 pull back, you take a look at

1 two or three times with the hindsight.
2 When you referred to hindsight there, is
3 that a reference, a suggestion that
4 there was that failure of leadership of
5 Mutual Life to respond properly? The'
6 reason why I ask is that in this enquiry
7 statements have been made that
8 institutions, not necessarily life
9 insurance institutions but financial
10 institutions survived the period and are
11 still with us because of the better
12 management and in those cases some of
13 them overseas management. So that is
14 the context why I am asking the
15 question.

16 A Are you talking narrowly about insurance
17 companies or finance companies in
18 general?.

19 Q I am saying the reference is made in
20 relation to
21 fi
22 nance companies, not life insurance
23 companies, but that statement has been
24 made, and I am asking you whether you I
think there was a difficulty, whether the

competence, corruption, or otherwise within

1 management that caused them to respond
2 to the difficulty improperly.

3 A What I sought to do is to describe the
4 economic environment in which Mutual
5 found itself and I sought to explain
6 that Mutual Life is an insurance
7 company and as an insurance company it
8 deals in certain types of products and
9 its a tradition. I could not sit here and
10 tell you that all the management
11 decisions that Mutual Life made in this
12 in period were the best possible
13 decisions that could have made. I would
14 have be a mad man to say that. When I
15 used the term hindsight it is covering a
16 number of things. Did I believe that the
17 exchange rate was going to end up like it
18 was going to? Did the government tell me
19 that the exchange rate was going to end
20 up like that? Was

21 I told with the expectation was that
22 interest rates would remain as high as
23 they did over the period?

24 Q Chairman, I am obliged to just take you
25 to the current periods. In the current

1 period, it is universally agreed by
2 government and opposition, by all of us z
3 believe, that our interest rates
4 structure is currently too high: too high
5 for the government, too high for the
6 privates sector, too high for business.
7 The current interest rate structure makes
8 the -- we would have loved in that period
9 to have been able to reduce the interest
10 rates to the current high level. So you
11 have to understand the predicament. Now
12 another thing that I must say is that if
13 you are in business you have good years
14 and you have bad years. Equitable Life,
15 one of the largest mutual companies in
16 world, folded as a result of certain
17 financial crises in the UK and with the
18 same kinds of commitment that they had to
19 policyholders as we have.

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1 clear. Given the set of circumstances,
2 we took decisions that related to the
3 problems of the moment. Let me make that
4 abundantly clear. And my comments about
5 hindsight are that hindsight was always
6 20/20 and you can see with certainty, so
7 I would not like anybody to believe that
8 I am saying here that we had bad
9 management at all.

10 MR. BRAHAM: The nature of the company as a mutual,
11 and you indicated that the Board of
12 Directors had no personal stake, was
13 that a problem in terms of how the
14 management responded? The suggestion
15 being made is that if the Directors were
16 shareholders and so on, they may have
17 responded a different way as against a
18 mutual when they were not.

19 A: No, you misunderstood my answer.

20 Q: No, it's not based on your answer.

21 A: Oh.

22 Q: I'm asking a question.

23 A: Could you repeat the question. No, I
24 don't think so, I think the evidence is
25 very clear. Mutual Life is a hundred

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and fifty-plus year old institution, it

3

is has always been a Mutual Life. It has

4

always been a mutual society, so the

nature of it being a mutual society as a

7A

raison d'etre for our problems is not, I

6

can't see that could be taken seriously.

7

Q: Very well. And during the period sir,

8

prior to FINCSAC and so on, did the

9

management and board present to the

10

government of Jamaica any proposal

11

designed to rescue Mutual Life?

12

A: Mutual Life was then a very large

13

company and as a large company you

14

routinely have dialogue with the State

15

over a range of issues. Over the period

16

when Mutual Life looked at its

17

performance, one of the things it did

18

is, it went to the Minister of Finance

19

and said, "Look, this is our position

20

and we think an injection of funds would

21

go a long way to resolving our

22

problems." The government looked at what

23

we had submitted and said they were

24

unable to make any injection of funds at

1 Q: Do you recall what was the figure?

2 A: I don't think there was a figure as
3 such, I think what we did was detail our
4 balance sheet, give some expectations
5 about what we anticipated would be the
6 future, what the future would be like
7 and came up with a number of different
8 scenarios and attached to each scenario
9 might have been a number, but we never
10 got to the stage where there was what I
11 would call 'hard nosed' negotiation.

12 Q: I see.

13 A: We had a couple of meetings and
14 essentially what came back from those
15 meetings is that we had the assets, in
16 their opinion, to come out of the
17 problem.

18 Q: Was there a suggestion that Mutual Life
19 would have ceased writing new business
20 for a period of time as a part of this
21 rescue attempt?

22 A: If you look at the portfolio and you
23 look at the mix of policies that we then
24 had, reducing the sale of products that
25 did not generate a positive cash flow in

1 the year in which it was sold would have
2 been a sensible thing to do and so
3 Mutual had to start looking at its
4 product mix and perhaps contemplating a
5 reduction in some of its sales and that
6 was part of the recovery plan and we
7 talked about that, yes.

8 Q: At the time the regulator for the Life
9 Insurance industry, was it an office
10 called the Superintendent of Insurance?

11 A: Yes.

12 Q: At that time looking back, what comments
13 would you make as to the strength of
14 that entity and its ability to properly
15 regulate?

16 A: Again, if I may be permitted a little
17 generality. Jamaica, in the 1980`s I
18 believe, embarked on a massive
19 liberalization programme. The exchange
20 rate was freed up, a great many, in
21 percentage terms, of new financial
22 insitutions merged. There were new banks,
23 there were new insurance companies, there
24 were a range of finance houses of one kind
or another. I do not

1 think that in that liberalized
2 framework and change, that the regulary
3 framework which governed the broad mass
4 of financial entities underwent any
5 change and therefore my recollection
6 about the Superintendent's office is that
7 the office and perhaps its staff
8 compliment was roughly the same then as
9 it had been ten, fifteen years ago. This
10 is my recollection but I could be wrong
11 or certainly my observation. So in terms
12 of the impact of the regulatory
13 framework, I would say that the
14 regulatory entity or agency was faced
15 with a plethora of problems because
16 Mr. Jones is here, I don't want to speak
17 for his company -- but in the context of
18 this room we know that Mutual wasn't the
19 only insurance company that had problems
20 and so to the best of my knowledge, I
21 don't know and certainly at Mutual I saw
22 no evidence that the regulatory
23 authorities were beefed up. Was the
24 regulation framework adequate? It's a
25 hard question to answer. The real issue

1 is what I would call early warnings. At
2 what point in time does the regulator
3 feel that something is happening soon
4 enough for the regulator to say, "Hold
5 on gentlemen, you are going on a path
6 which I do not like, come in and talk
7 with me", and start laying down lines.
8 It is my feeling that the early warning
9 system was less than adequate.

10 Q: Is it correct, sir, that during that
11 period, I am calling it the FINSAC
12 period now, that sixty percent of the
13 liabilities of Mutual were short term,
14 non-insurance obligations?

15 A: You used the term the FINSAC period.

16 Q: Well, the period that you described, you
17 said between 199...

18 A: 1991 to 1994.

19 Q: Yes.

20 A: I would say that if we look at the new
21 mix of business coming on to Mutual
22 Life's books, as I had indicated
23 earlier, that new mix of business had an
24 insurance component and a deposit
25 component, and that deposit component

1 rapidly relative to what it was in the
2 past. In terms of liabilities on Mutual
3 Life's books, I mentioned the building
4 that was being built, and if you have
5 some debts in relation to that building
6 how do you classify it?
- Hotels, Guardian Life. It's hard for me
8 to answer whether sixty percent of
9 Mutual's debts was deposits but I can
10 say that a significant portion of it
11 would have been the insurance policies
12 that it sold, and I think it is very
13 important to remember that if I sell an
14 ordinary life insurance policy that's a
15 debt, that's a liability, that's a
16 commitment that the society has given to
17 make a payment sometime in the future.
18 So when you look at it like that, that
19 is the normal stock in trade of a
20 business.

21 Q: Yes, but the question was in relation to
22 the non-insurance obligations, I suppose
23 that's what you were referring to as
24 earlier as the Universal Life type
25 policies where the insurance was small

1 and then other things.

2 A: I use language perhaps somewhat loosely.
3 An insurance company is not a deposit
4 taking institution. Insurance companies
5 don't take deposits like a commercial
6 bank does, it doesn't take deposits.
7 What it sold was a policy which had a
8 component of life insurance and a
9 component which said in relation to this
10 sum of money we will pay a certain
11 interest rate. In the common parlance
12 that language that one has used is
13 deposit. In relation to what we did we
14 sold insurance policies. I am not
15 trying to make a picky point on the
16 matter but that's what you were doing.
17 Now it's possible to argue that that
18 could be deemed in the common parlance a
19 deposit, I just want to make that point
20 very clear, we were selling insurance
21 policies.

22 Q: Do you recall whether there was a
23 dispute between the society and the
24 auditors as to how the assets of the
25 society was to be valued and treated?

1 A: One never has disputes with auditors,
2 only a rash company would have a dispute
3 with an auditor. The auditor, like the
4 regulator, is another arm of monitoring
5 and so the auditor would have said to
6 us, "When you look at your balance sheet
7 we feel that how you classify certain
8 assets, we feel as auditors that they
9 should be classified in a certain way."
10 And ultimately you have to listen to
11 your auditor because the auditor has the
12 authority and the power to qualify your
13 accounts. To say that there is a
14 dispute with the auditor - we regard,
15 and I think the auditor would regard
16 themselves as employees, as servants of
17 the society in much the same way as a
18 society employs legal counsel and legal
19 counsel would advise the society as to
20 whether it is doing something that it
21 considers not sensible and the auditors
22 would have said that and we would have
23 had to listen to them.

24 Q: So that you are saying that there was
25 not a dispute?

1 some piece of this period was
2 significantly below what Mutual
3 anticipated when it made the
4 acquisition. Its performance in terms of
5 profit was significantly less than what
6 Mutual anticipated it would have been
7 when it made the acquisition. I don't
8 have before me any accounts which would
9 tell me whether it made losses or
10 profits but my recollection was that it
11 did not do well over at least two or
12 three years of this period.

13 Q: You recall when the Government of
14 Jamaica had to intervene in NCB to
15 rescue it?

16 A: I don't recall that in my time as
17 Chairman, sir.

18 Q: I see. Do you know whether the NCB was
19 required to use depositors funds to help
20 to shore up Mutual Life?

21 A: If I may be pardoned.

22 Q: Yes.

23 A: If the question you are asking is
24 whether NCB made a loan to Mutual, the
25 answer is yes.

1 Q: And if the question is whether using
2 depositors' funds, the answer is no?

3 A: I don't know what depositors' funds mean
4 in answer to that question because
5 depositors - remember you know, this is
6 a commercial bank you are talking about,
7 the funds are fungible.

8 Q: Yes.

9 A: And so I don't believe it took Mr. Ross'
10 deposit and loaned it to Mutual in that
11 sense of the word, so it would have
12 looked at its portfolio and out of that
13 portfolio it would have made a loan.

14 Q: I see. Now, this loan that was made by
15 the NCB was it serviced by Mutual Life
16 or it fell in arrears?

17 A: To the best of my knowledge during the
18 period Mutual Life was servicing its
19 loan reasonably well. I think it's the
20 last year in 1996 there was some concern
21 about interest rates and those very high
22 interest rates I think, which was May,
23 and I have to say May because I honestly
24 do not remember, but there is no
25 question that Mutual Life had a lot of

1 problems meeting all of its liability
2 over this period and the NCB loan would
3 have been one such liability.

4 Q: I see. I am going to read a statement
5 to you and I am going to ask whether you
6 agree with it or disagree with it. It
7 says that: "The life companies were
8 taking funds via the issue of policies
9 which carried a very thin wrap of
10 minimal insurance and with short term
11 encashment features to fund long term
12 illiquid assets such as real estate
13 developments which could not be
14 liquidated on a speedy basis to meet the
15 demand of encashing policy holders."

16 A: The statement had a number of parts to
17 it.

18 Q: Yes, sir.

19 A: Let me try and deal with them one at a
20 time. The type of policies Mutual Life was
21 selling, and I have indicated at some
22 length the type of policies that Mutual
23 Life was selling. The question of short
24 term, using your language, short term
deposits, to fund long term

1 liabilities, again I want to just take
2 you back to what Mutual Life is; Mutual
3 Life was an insurance company. Mutual
4 Life's stock in trade was assets that had
5 a very, very long life. If you take in
6 money of one kind or another you sell
7 policy and those policies generate, cost
8 you 'X' percent, the whole cost of
9 servicing the policy and all things
10 associated with it and you can make 'X'
11 plus something on the policy and that 'X'
12 plus something on the policy allows you
13 to service all your liabilities you don't
14 have a problem. The problem, if we go
15 back to the scenario that I painted at
16 the outset, is if you operate in the
17 financial world with certain expectations
18 about what interest rates are going to
19 be, what is going to happen to the
20 exchange rate, what is going to happen to
21 lending rates, you will find yourself in
22 a climate which can cause problems. Let
23 me give you an example. The Bank of
24 Jamaica, for example, puts out data, it
25 calls it Comparative Bank

1 and Treasury Bill rates, and I took
2 this from the Bank of Jamaica, and we are
3 looking at the period 1995. And it has
4 Jamaica - let me use just the year end.
5 It has Jamaica, December, The Bank of
6 Jamaica Treasury Bill rates, 34.97, and
7 then it compares that to United Kingdom,
8 United Kingdom, 6.21; then it compares
9 that to the United States, United States
10 5.16; then it compares that to Canada,
11 5.54; then it compares that to Guyana, 15
12 5; then it compares that to Trinidad and
13 Tobago, 9.04. This is the Bank of Jamaica
14 statistics. Now I put it to you that in
15 this kind of climate if one is in
16 business, if you see this as a
17 publication of the Bank of Jamaica one
18 would expect that action would be taken
19 because you live in a competitive world,
20 one would expect what action would be
21 taken for us to get closer, this is Bank
22 of Jamaica data, and so I put it to you
23 sir, that when you say to me that we had
24 liabilities that were short to fund
25 liabilities that were long and people

1 of Finance had with respect to the
2 range of problems which Jamaica faces
3 and therefore I think it would be remiss
4 of me to say that the Government of
5 Jamaica took action and that action
6 caused Mutual Life to fail. What I am
7 prepared to say is that the macro
8 economic environment of the day posed
9 some major challenges to Mutual Life. I
10 cannot indict the government and will
11 not indict the government but I will say
12 when you look -- and one uses the term
13 government, Bank of Jamaica, Ministry of
14 Finance, PM, Cabinet, I don't know which
15 one one means and so I would rather deal
16 with the facts and the facts are what I
17 have tabled with respect to interest
18 rates, with respect to exchange rates,
19 with respect to Treasury Bill rates,
20 with respect to inflation, those facts
21 indicate a harsh climate for a financial
22 instituion to operate in.

23 Q: Very well. Now, it has been said before
24 this enquiry...

25 CHAIRMAN: Just one moment please. All right.

1 Sorry, Mr -- well, maybe I can just ask
2 something. From what you have said
3 Dr. Hall, I gather that a significant
4 element in the, let's call it 'mix',
5 that caused the problem of collapse was
6 the high interest rate at the time?

7 A: Yes.

8 CHAIRMAN: Or if I could maybe be more accurate,
9 the continued and continuing high
10 interest rate at the time?

11 A: Very much so Chairman, because what I
12 tried to explain is that the change in
13 the product mix from selling heavily
14 ordinary life policies and selling
15 heavy term and heavy term endowment,
16 that was very difficult to stand up and
17 so companies sought to sell equity
18 linked or interest linked because all of
19 us faced the problem of a decline in the
20 ordinary life sales, that's my
21 recollection.

22 Q: Before this Commission sir, there has
23 been a statement made that the life
24 insurance companies including Mutual
25 Life, were engaging in banking type

1 activities, that is to say, and I
2 suppose from that it was meant that the
3 insurance companies were taking on
4 deposits again under the guise of or
5 under the wrap of a minimalist type of
6 insurance. I know that you have
7 addressed it before but I have to put it
8 to you. Were the insurance companies,
9 particularly Mutual, engaged in deposit
10 type activities similar to a bank?

11 A: You asked me a question sir, about
12 regulation.

13 A: Yes.

14 Q: If I understand the question correctly,
15 the question you are asking is: Did
16 Mutual engage in activities that it was
17 not licensed to do?

18 Q: Emmm, emmm.

19 A: And the answer to that, to the best of
20 my knowledge, no, to the best of my
21 knowledge nobody has ever said to Mutual
22 Life that the set of things that you
23 were doing was illegal or against the
24 law or anything like that.

25 Q: Let me take it a little further then.

1 the problem of Mutual is because it
2 fell between cracks then there were other
3 banks that fell between cracks but there
4 were banks and so they were fully under
5 the regulation of the Bank of Jamaica, so
6 again, I don't accept that sir, no.

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2 Q Would you agree with me that the same
3 macro-economic environment that affected
4 *the* life insurance companies affected
5 the banks?

6 A Yes sir, it affected me too.

7 Q I see what you mean; i won't get into
8 that.

9 A It affected us all, sir.

10 Q But nevertheless, I started out earlier
11 by pointing out that it has been said
12 before this Commission that banks that
13 were not owned locally survived the
14 situation, doing rather well and have
15 continued to do so while the Jamaican
16 owned entities collapsed. Of
17 course, the implicit suggestion was that
18 the foreign owned entities were better
19 managed and that explains why they were
20 able to survive. Do you have any
21 comment as to those statements?

22 A I don't know about your implicit
23 suggestion; my implicit suggestion might
24 be that as a Jamaican institution,
25 greatly concerned about our society, we

1 were not content to deal only in high
2 priced Government Paper, because we felt
3 strongly, and that was always the
4 tradition with Mutual Life over its 150
5 years, it would only generate assets,
6 real assets, for the benefit of its
7 policyholders and for the broader benefit
8 of Jamaica. It has been said that some
9 foreign institutions only buy Government
10 Paper. I would never say that. Each of us
11 take action in relation to the set of
12 circumstances that we face.

13 The better management issue, if the proof
14 of the pudding is who is the last man
15 standing, then your comments would have
16 to be correct. If your comment is, did
17 they face the same set of conditions that
18 Mutual Life faced, did they have a
19 massive real estate portfolio going back
20 in time? Did they have a range of new
21 business trade; did they have all of
22 those special kinds of conditions which
23 relate to an insurance company? I would
24 have to say no.

1 constrained to do certain kinds of things
2 and one doesn't expect a commercial bank
3 under normal circumstances to get heavy
4 into certain kinds of things. One expects
5 an insurance company to get heavy into
6 certain kinds of things. One expects an
7 insurance company to be in real estates
8 one expects an insurance company to be in
9 housing. That is the stock in trade of
10 insurance companies all over the world, I
11 might add.

12
13 Q Sir, could it be said that Mutal Life
14 invested in certain areas that were not
15 necessarily financially prudent but they
16 had a social value to the Jamaican
17 society so that investments were done in
18 in that area and as a consequent that
19 also assisted...

20 A No sir, I don't want you to
21 misunderstand me. Financial prudence is
22 the requirement of the financial entity
23 and if you want to engage in charity,
24 you engage in charity and Mutual Life
25 may have over time contributed sums to

1 charity, but when it did that it knew that
2 it would be engaging in charity. What I
3 will say is that if we -- we may have
4 undertaken an investment whose rate of
5 return, whose positive rate of return
6 forecasted may have been lower than an
7 alternative investment. Having said that
8 though, it is very important to

9 understand that when you engage in real
10 estate you are engaging in long and as
11 all of us know the capital gain
12 component of real estate over time in
13 Jamaica has been substantial. So you
14 maybe looking at an investment which
15 over the first ten years earns an income
16 stream that is not that great but
17 capital gain, capital depreciation is
18 substantial and you will realise that
19 capital gain and capital depreciation
20 when you sell things, when you sell the
21 asset, so that, I think one needs to
22 look at real estate investment in that
23 light and the investments Mutual Life
24 made in that light.

25 Q

Chairman, those would be my questions

1 for the moment.

2 CHAIRMAN: Thank you very much.

3 A Chairman, my examiner was very careful
4 with his words and he ended with some
5 very interesting words 'for the moment'.
6 I am interpreting that moment 'for the
7 moment' to mean forever? (laughter)
8 So I want to thank the Commission and
9 thank all here for being so patient with
10 me and I do hope that I have contributed
11 to the work of the Commission and I look
12 forward to seeing your report.

13 CHAIRMAN: Thank you. But before you rise and
14 retire, we have a question for you.

15 A You are violating -- anyway, go ahead.

16 CHAIRMAN: His question.

17 A Sorry, Mr. Ross.

18 COMM ROSS: Dr. Hall, could you give us a little
19 more background on what it was exactly
20 that led to the liquidity gap, if you
21 like. You did mention the burden of
22 investments and so on, but were there
23 other factors that led to the liquidity
24 gap that has been financed by short term
25 borrowing. Could you give us a little

1 bit on that piece?

2 A When you look at the range of assets
3 which made up Mutual Life's portfolio, 1
4 need to remind everybody that Mutual
5 Life being an insurance company would
6 have a number of segregated funds and
7 those funds, the assets in those funds
8 and the income throw off from those,
9 from the assets of those segregated
10 fund belong exclusively to the
11 segregated fund. And therefore it isn't
12 that you know, everything just washed
13 in. I think when one looks at the
14 range, if I think of the major assets
15 that we had and not in order of rank,
16 but significant, there was first of all
17 Guardian Life and Guardian Life was
18 significant at that point in time was
19 significant insurance company in
20 Trinidad. As an insurance company in
21 Trinidad they were keen on building their
22 strength and so the dividend throw off
23 from that asset relative to the value of
24 the asset was not -- in a real sense it
-- had significant capital

1 depreciation but didn't have income throw
2 off commensurate. When we come down to-
3 and just sticking with the other financial
4 entity that they had an investment in -
5 NCB over the period the investment in NCB
6 did not throw off the dividend expectation
7 and so that too did not generate. The
8 Tower 2, the large tower, had a little bit
9 of delay in completion and therefore the
10 throw off from income would have been
11 delayed.

12 And so when you look at it, if I can
13 generalise from those assets, banks,
14 real estates, when you look at it you
15 could conclude that the income throw off
16 from its range of assets combined with
17 the new business strain, combined with
18 the fact that it faced a very, very
19 harsh economic regime, all of those
20 things combined. I don't know if I have
21 answered the question that you.
22 COMM ROSS: We heard Mr. Braham speak that another

23 company opted to finance the
24 encashments from its segregated funds
25 through borrowing rather than exercising

1 its right to delay payments until it
2 realized all liquidity assests. Mutual
3 suffered from any of those sorts of
4 events, or did they similarly try to
5 meet encashments from the funds even
6 though the funds were not able to
7 liquidate assets in time to make those
8 payouts?

9 A As z believe all here would appreciate,
10 one of the things that a finance entity
11 has to do is to generate confidence.
12 Confidence is critical to any finance
13 entity and therefore if you find a
14 problem of a particular fund not
15 generating and all that you would
16 really try to make sure that fund is
17 taken care of, because you wouldn't want
18 to cause any melt down in confidence.
19 And so to that extent when things
20 reached a more complex stage they may
21 have undertaken some of the things that
22 you spoke of.

23 MR. BOGLE: Dr.Hall, you have spent quite a lot of
24 time on Mutual Life, which is fair and
25 reasonable, covering the period that you

1 were there. During that period and your
2 knowledge of the National Commercial
3 Bank, would you have any comment as to
4 what were the possible causes for the
5 failure of the National Commercial Bank?
6 A Chairman, it is very hard for me to
7 recall what I knew about National
8 Commercial Bank because my involvement,
9 although I was chairman for a short
10 time, my involvement was not that - was
11 not that great. I will say this that
12 the National Commercial Bank like a lot
13 of what was happening in Jamaica at the
14 time, everybody was caught up in this
15 notion of industrial development; we
16 were all caught up in one stop shop; we
17 were all caught up in group. So the
18 National Commercial Bank, for example,
19 invested in an orange growing entity in
20 western Jamaica. And I believe it had
21 invested, I believe it had some papaya
22 investment also, and that was applauded
23 by all Jamaica. This was a bank using
24 its assets to get into-- by hindsight,
25 by regulation one needs to make sure

1 that finance houses stay with things
2 that they have deep expertise in. I
3 can't tell to you what extent that
4 caused a problem in Mutual Life, I
5 can't give you a percentage. I know that
6 particular investment didn't do all
7 well. They were caught up in trying to
8 ensure that it met what I would call the
9 needs of Jamaica, not in any grand
10 nationalistic fervour but to recognize
11 as was the case with the orange company
12 that if you need to grow Jamaica needed
13 to push on in agriculture and if you had
14 some funds it made sense for you to get
15 involved in it. And I think there was
16 that kind of fervour inside the bank,
17 but its difficult for me to really give
18 you any thorough answer on that, sir.
19 COMM ROSS: One final question from me, Dr. Hall.

20 The general economy would grow, the
21 productive sector of the economy
22 certainly would have been affected by
23 the volatile climate that affected the
24 financial sector. How did that impinge
25 on Mutual Life itself? I think you

1 touched a little bit a while ago; was
2 there any negative feedback into Mutual
3 Life from the productive sector and the
4 difficulty that that sector would have
5 been going through?

6 A My recollection is that Mutual Life did
7 not really engage heavily in funding
8 what you might call a productive sector
9 independent or real estate, I am not
10 talking about real estate now, or I
11 think we had some loans in the tourist
12 sector, in the hotel sector, but I don't
13 think that we were heavily involved in
14 manufacturing and all that sort of
15 thing.

16 CHAIRMAN: Thank you Dr. Hall, we are grateful for
17 your contribution, much obliged, thank
18 you. We will take our usual short
19 adjournment -- 15 minutes.

20 BREAK

21 ON RESUMPTION 11:50 A.M.

22 CHAIRMAN: We are now resumed.

23 Q Could you please stand, Mr. Jones.

24 MR. JONES SWORN

25 MR. BRAHAM: Could you state your name, sir?

1 MR. JONES: Oliver Jones.

2 Q What is your present status in terms of
3 employment?

4 A To a large extent unemployed, but I do
5 some work, a number of motivational
6 seminars and I am a director and
7 chairman of Zenith Insurance Brokers.

8 Q Very well. Now sir, the company, Island
9 Life Insurance Company, you know that
10 company, don't you?

11 A Yes sir, I heard of the company having
12 been the person who I would say claim
13 paternity for it.

14 Q Meaning that you started it?

15 A Yes, sir.

16 Q Could you tell us when that was?

17 A In 1971, sir.

18 Q And you were -- what was your formal
19 position with the company?

20 A Well, to go back back a little in
21 history sir and that is important too, I
22 started as a life insurance agent in
23 1953 and did that for some six, seven,
24 eight, nine years until I did it the
25 chartered life underwriter's degree in

1 1958. Around that period I was asked to
2 start training the young insurance
3 agents in the business, so I moved a
4 little away from sales and took up the
5 position of training agent for the
6 Manufacturers Life Insurance Company.
7 Apparently, they were quite pleased with
8 some of the work that I was doing and
9 then the position came up later on where
10 the company needed a branch manager for
11 their Jamaican operations and I was
12 asked to take up that position; that was
13 in 1968.

14 Q In 1968. And then when was Island Life
15 started?

16 A And within a year of my being in office
17 as branch manager because Manufacturers
18 Life then had 113 branches throughout
19 the world, and in that particular period
20 Jamaica has never ranked above eight in
21 the history of Manufacturers Life. In the
22 one year that I was branch manager I took
23 the company to the number one position in
24 the world and from there they thought
 maybe it would have been

1 wise to invest a little in me as a
2 country boy to start the Island Life and
3 that was when I became President.

4 Q What year was that?

5 A 1971.

6 Q 1971 and you remained President of
7 Island Life for how long?

8 A I would say right up until the time when
9 my company was given away, sir.

10 Q Was given away?

11 A Given away, which I shall speak to later
12 on.

13 Q I am sure. But when was it given away?

14 A I would say in 2000 to 2001.

15 Q I see. Okay, sir. Could you tell us a
16 a little bit about island Life though,
17 the nature of its business and that sort
18 of thing?

19 A Island Life unlike Mutual Life or unlike
20 my friend with LOJ -- there are two
21 types of insurance companies sir, the
22 Mutual Life and the stockholders or the
23 proprietary company, and one has to
24 understand the history that was
25 happening in Jamaica at the time. You

1 beginning: all the the whole life
2 policies, the endowment policies, the
3 term policies- which both gentlemen who
4 came before me have explained. That was
5 the business, the stock in trade of a
6 life insurance company.

7 Q Yes. Was the business up to a point
8 successful?

9 A Tremendously successful, sir, so
10 successful that I was beginning to
11 believe that I had some ability - which I
12 now doubt. I have before me sir, with
13 respect, Mr Chairman, where my Vice
14 President (Finance) sent me a memo in the
15 '90's to say that the company moved from
16 a position of having cash surpluses in
17 1989 with a well balanced investment
18 portfolio generating high levels of cash
19 investment returns to a situation we have
20 never witnessed before. So I am here to
21 say...

22 Q So you agree then, you are saying that
23 the company was successful and then when
24 did it cease being successful, if I may
25 put it that way?

1 liquidity problem unlike a number of
2 others though again I must say there was
3 never ever one occasion that we asked any
4 of our policyholders or
5 beneficiaries even to wait for 24 hours
6 before they were paid, never ever, up to
7 the time they taken over, but we knew that
8 the liquidity problems were coming
9 up.

10 Q You used the words bordering and
11 insolvency. What exactly does that mean?
12 Was the company insolvent, what was the
13 state of the company?

14 A We were being told sir, with respect
15 that, yes, we were insolvent in terms of
16 our balance sheet status, but when we
17 were taken over and a meeting was being
18 held at the Terra Nova Hotel immediately
19 after, the company was then showing
20 profit and I remember a gentleman very
21 involved in the financial business here
22 who got up and asked of the then
23 chairman how come Island Life was
24 insolvent last year but is profitable
25 now? And the answer was we restructured

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the balance sheet. I don't know if that

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tells you anything, sir.

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2 MR. BRAHAM: Well, I won't comment on that. The
3 difficulties faced by Island Life, you
4 were earlier about to explain what were
5 the circumstances that led to those
6 difficulties?

7 A: Yes, but Chairman, I thought that as a
8 preamble to the question before I wanted
9 to be sure that we understood certain
10 things. In 1993, in terms of premium
11 income, the country, the industry had
12 over six billion dollars of premium
13 income and year by year we -- up to that
14 point we were increasing on an annual
15 basis our premium income, but by '94
16 that particular period which we all and
17 all the other speakers before me, by '94
18 there was a reduction of 17.5% percent
19 in terms of our premium income. There
20 was a little improvement in '95, but by
21 '96, there was a further reduction of
22 20.8% and in '97 and in '98, also. You
23 see, the problem I have with the
24 question, sir, is what was happening in
25 the macroeconomic environment, where if

1 year after year, after year, companies,
2 all of us were doing a little better, a
3 little better. Albeit sometimes not in
4 keeping with the inflation rate. But
5 what was happening between '94, '95,
6 '96...

7 Q: You going tell us then?

8 A: ...that was causing this problem.

9 Q: What was happening?

10 A: Well, sir, to me it was very clear.
11 Once we mentioned about confidence in
12 your industry. Confidence is critical.

13 Q: Yes, but I am going to ask you not to
14 refer to the other speakers just give
15 your evidence and your experience, it
16 would be most helpful.

17 A: My experience you know, sir.

18 Q: What was happening at that time in your
19

20 CHAIRMAN: Sorry, there was a document called, "The
21 FINSAC Period, " from Mr. Jones?
22 Perhaps you could look at that. Isn't
23 that what he is referring to?

24 A: And that's what I am referring to.

25 CHAIRMAN: That's what he is referring to I am

1 told.

2 MR. BRAHAM: No, he said?

3 CHAIRMAN: Very well, carry on.

4 MR. HYLTON: Mr. Chairman, I am wondering if I could
5 get a copy.

6 CHAIRMAN: I suppose so.

7 MR. BRAHAM: Yes I was asking you?

8 A: Yes, sir, the troubled period.

9 CHAIRMAN: Just a moment?

10 A: May I continue?

11 CHAIRMAN: Yes, please?

12 A: The troubled period to which you are
13 referring, sir, is reflected in the
14 investment table below which shows the
15 categories of investments during the
16 same periods as above. I give just two
17 examples.

18 Q : Just one moment before you go there.
19 The document is entitled, "The FINSAC
20 Period, " and dated the 9th of
21 25
22

23 CHAIRMAN:

24 MR. BRAHAM:

November, and
Mr. Chairman,
may it be
formally placed
before you...
Indeed.
...since the
witness is going
to refer to it?

1 CHAIRMAN: It is dated the 9th of November.

2 A: And what I am saying is...

3 MR. HYLTON: I am just wondering, Mr. Chairman, if my

4 friend would also indicate who is the

5 author as part of his notes.

6 CHAIRMAN: Well certainly.

7 Q: Could you tell us, this is your document

8 Mr. Jones?

9 A: Yes. Well as -- I was the President of

10 Island Life Insurance Company, I had...

11 CHAIRMAN: I am just talking about this document

12 please.

13 A: Yes, yes. I had about four, five, six

14 Vice-Presidents and we collaborated in

15 putting this together that's all I am

16 saying, thank you.

17 Q: Go ahead.

18 A: So I am saying that.

19 CHAIRMAN: You are not denying it?

20 A: Not denying it, sir, not denying it.

21 will stand by it to the end.

22 CHAIRMAN: Indeed, though the heavens fall?

23 A: Though the heavens fall, So, sir, how is

24 it that in 1994 real estate -- you see

25 the background of the industry has to

1 come before you take individual
2 companies. Real estate, we had some eight
3 billion dollars invested in real estate.
4 But by the time we get down to '99 or
5 '98, sir, we are down, not increasing but
6 instead of eight you are down to three
7 billion and this is happening at a time
8 when the stock market was also doing
9 reasonably well. And you say -- we all
10 have to agree that real estate and common
11 stock, a part of the stock in trade of an
12 insurance company, we were doing well
13 with that. And common stock at that time
14 was 2.2 billion, but by the time we get
15 further down four, five years, we were
16 below one billion, we were only 630
17 million and all I am saying to you, sir,
18 the reason why you see these figures
19 changing like that, and I was told I
20 shouldn't say this, but many people in
21 the private sector were not investing,
22 they took their money, they placed it in
23 government paper, bought themselves
24 bathsuits and went to the beach to swim.

1 Those things affect life insurance
2 companies and other institutions. So I
3 am only one of the many people who
4 continue to make that point.

5 Q: So what you are pointing out is that
6 during the period there was a decline in
7 the profitability of the industry?

8 A: Yes.

9 Q: Yes. Is there anything else in the
10 market or in the environment at the time
11 leading up to or at the point where

12 Island Life was undergoing difficulty?
13 A: Indeed, sir, because I have a very good

14 friend...

15 CHAIRMAN: There was a devaluation of the value of
16 the assets over time. I am saying there
17 was a decline, if that is more
18 accurate. What was happening, there
19 was a devaluation of the value of assets
20 over time.

21 A: Over time?

22 CHAIRMAN: Yes.

23 Q: You are saying -- the Chairman, you must
24 respond to him. He was correcting you.

25 A: You are correcting me, Mr. Chairman?

1 Q: No, I am not correcting anybody. I am
2 just trying to find out whether that is
3 what really occurred. I am not
4 correcting anybody.

5 A: Whether there was a reduction?

6 CHAIRMAN: Devaluation?

7 A: Devaluation.
8 CHAIRMAN: Of the assets.

9 A: Without a doubt, sir, without a doubt.

10 CHAIRMAN: The question that was put to you was
11 about decline, but to be more precise
12 wouldn't it be devaluation of the value
13 of the assets over time?

14 A: Devaluation of the assets because if
15 your real estate, as an example,
16 Mr. Chairman, is, X% of your portfolio
17 mix and you have so much hundred square
18 feet of real estate as an example and
19 the revenue stream that has to flow from
20 that depends on your rentals and so on
21 and the revenue per square foot, say of
22 your property, the moment business is
23 not going well, the moment interest
24 rates are too high then it means the
25 revenue stream coming out of that

1 particular investment obviously...

2 CHAIRMAN: Apart from that it affects the value.

3 Just one moment. Okay, yes, sir.

4 A: I just wanted to continue to say because
5 there is a little difference between the
6 formation of Island Life and some other
7 companies. Understood this way.

8 CHAIRMAN: So you are harking back?

9 A: Yes, because that point needs to be
10 cleared up early because...

11 CHAIRMAN: No, no, just want to know where we are.

12 A: ...as I mentioned about the mutual
13 company as distinctly different from
14 proprietary companies which are
15 shareholders companies. Now, at that
16 time in Jamaica it was difficult to
17 raise capital.

18 CHAIRMAN: Sorry, you were a proprietary company?

19 A: Yes, sir, but we didn't start out day
20 one that way because I thought it would
21 have been a good idea to go in
22 partnership with my parent company,
23 Manufacturers Life Insurance of Canada,
24 and it was a good idea then so we
25 started as a subsidiary company which

1 became a public company after. After we
2 were reasonably well on our feet...

3 CHAIRMAN: Named what, name Island Life?

4 A: Named Island Life. At that point in
5 time the Manufacturers Life and Island
6 Life decided to go together. In 1978 I
7 bought out the Dominion Life's portfolio
8 in Jamaica and took over the Manufacturers
9 Life business also and was paid a fee for
10 the servicing of that business. So
11 initially we didn't have too much
12 difficulty, but we had a problem later on.
13 The problem was when Canada saw how well
14 Island Life was doing although they had
15 agreed with me that they would not ask for
16 the majority shareholdings, I had a
17 difficulty because Canada now wanted
18 majority shareholding and I was prepared,
19 quite prepared to accept the 49%, I went
20 to the Government of Jamaica and said to
21 them I am willing to take the minority
22 position because today if that was done it
23 would have been one of the best decisions
24 ever made, but I was told no,

--

1 President. The Jamaican people must be
2 owners of at least 51%, and then
3 Manufacturers Life say I am sorry, I
4 have to break with you. So we had to
5 then go to the market to try and set up
6 the company on our own.

7 CHAIRMAN: Thank you.

8 Q: Very well. Can we then return to the
9 point as to the circumstances, in the
10 environment at the time which affected
11 Island Life. You spoke about the
12 devaluation of the value of the assets
13 and I was taking you now to other
14 circumstances whether there were any
15 issues with interest rates, for example?

16 A: Now before interest rates, sir, exchange
17 rate, exchange rate my golly!

18 Q: What's wrong with interest rates?

19 A: Destruction, sir. 1989 you had a dollar
20 at \$5.50. We broke ground for a
21 89 million dollar building which still
22 stands as the blue building in New
23 Kingston. I was a former chairman of
24 the National Housing Trust so I know a
25 little bit about building and I was told

1 in this country. How can you borrow at
2 sixteen in 1991 -- just to bring a
3 hypothetical case, and in '92 you hear
4 it's eighteen and in '93 you hear it's
5 twenty the same month, and then you are
6 at thirty three, then forty and so on.

7 CHAIRMAN: Then you go into the money lending
8 business.

9 A: Yes.

10 CHAIRMAN: But I think you better answer. Mr.
11 Braham, please, try help me out.

12 MR. BRAHAM: The question I am putting to you; you
13 spoke about devaluation, you gave an
14 example as to how devaluation affected
15 construction of a building that was
16 being undertaken by Island Life and you
17 said it moved from \$5.50 to \$22.20,
18 that's what you said?

19 A: Yes.

20 Q: And that forced you to borrow money, is
21 that so?

22 A: Yes.

23 Q: To finance the construction of the
24 building?

25 A: Oh, no, no. We had finished the

1 construction, not to finance it.

2 Q: What was the purpose of the borrowing?

3 A: To keep your balance sheet right now,
4 because a lot of our reserves would have
5 been sopped up to complete the building.

6 Q: I see.

7 A: If I had to borrow all that difference
8 we would have been killed even quicker.

9 Q: And did that adversely affect island
10 Life?

11 A: That's my point, sir. It adversely
12 affected island Life.

13 Q: Can you sort of explain in what way?

14 A: Well, it means that you don't have the
15 same amount of money to look for
16 opportunities or invest in other things.
17 It means that your stock market -- if
18 you remember I chaired an investment
19 committee in my company, and I give you
20 one example to show you how you have to
21 manoeuvre. As my legal friends would
22 say, you have to manoeuvre. So when
23 First Caribbean put their shares on the
24 market I encouraged the company to buy
25 some three million First Caribbean

1 shares at a price of two dollars,
2 whatever, per share. In five years we
3 sold those shares at a profit of 81
4 million dollars. That is how an
5 insurance company has to operate?

6 Q: Yes. And so you are saying that having
7 regard to the monies that you had to
8 borrow...

9 A: Yes?

10 Q: ...you did not have other liquid assets
11 to do other things?

12 A: To do other things and maybe instead of
13 three had it been nine I would have have
14 been looking at a profit of two hundred
15 and ten million.

16 Q: Fine. But, let's assume at the moment
17 that at time of constructing the blue
18 building, Island Life, would
19 devaluation have affected the operations
20 of Island Life?

21 A: Devaluation of necessity would have
22 affected any aspect of a company like
23 that whether you are in construction or
24 anything else.

25 Q: Would you touch a little bit on the

1 other ways that devaluation affected
2 Island Life?

3 A: The devaluation?

4 Q: Yes. Apart from the construction of the
5 blue building?

6 A: Well, to be fair to you the blue
7 building is the best example you can
8 give, because if you ordered tiles out
9 of...

10 Q: Yes, but Island Life is not in the
11 business of ordering tiles.

12 A: No, but they have to put up the
13 building.

14 Q: Yes, I have passed on the building now
15 and I am asking you...

16 A: Yes.

17 Q: ...apart from the blue building, whether
18 the devaluation, you can show in any
19 other way that it affected Island Life?

20 A: Indeed, because as far as your policies
21 are concerned, as you say don't mention
22 other people but Dr. Marshall Hall made
23 the point here, once you have
24 devaluation of your currency like that
25 it affects virtually everything across

1 the board in your company's operation at
2 that particular point in time. Now,
3 remember five-fifty didn't just go to
4 \$22.50, everything is a stage. Five fifty
to seven.

You re

6 seven went to eleven. You remember when
7 a Prime Minister of this country said if
8 it ever went to sixteen dollars there
9 would be riots in the street. We don't
10 seem to be remembering all these
11 history, you know.

12 CHAIRMAN: Could you just answer our question and
13 don't worry about what remembering.

14 A: So I am just saying, Mr. Chairman, how
15 we moved away from even sixteen and
16 twenty at that particular time.

17 Q: Yes, you spoke about the blue building.
18 Are you in a position to give us any
19 other examples as to how it affected
20 Island Life? If you are not then we move
21 on.

22 A: Move on, sir.

23 Q: Very well. Now apart from the
24 devaluation was there a problem with
25 high interest rate?

- 1 A: Apart from devaluation was there a
2 problem with high interest rate that
3 affected Island Life adversely?
- 4 A: Undoubtedly.
- 5 Q: Can you tell us what that means?
- 6 A: Well, you are saying that a life
7 insurance company should basically build
8 reserves. A life insurance company
9 technically should not be borrowing
10 money, people should be coming to an
11 insurance company to borrow money. So
12 we were in a reverse mode there. The
13 fact is that if you borrow money, and as
14 I indicated earlier the interest rate
15 kept moving away on you, then it is very
16 clear that it is going to affect your
17 bottom line come the end of each quarter
18 or the end of each year. I am not an
19 economist but it is very clear that your
20 operational...
- 21 Q: That's why I'm limiting my question to
22 what you know about the operations of
23 Island Life.
- 24 Q: And the operational cost...
- 25 Q: So if you limit yourself to that you

1 will do very well. Now, the interest
2 rate, you have any memory as to how it
3 moved, what was the interest rate
4 generally during the period?

5 A: Which period you are referring to?

6 Q: Say 1991 to 1996?

7 A: 1991 to 1996? There is a paper which
8 shows those rates. In 1991...

9 Q: What paper is that, sir, is that paper
10 with us?

11 A: Yes, that paper, I am actually quoting
12 from one of my colleagues. You see I
13 represent the industry you know, having
14 been President of the marketing first
15 and the companies association after.

16 Q: Very well, sir.

17 A: And not only once but the period after
18 the period of the 80s, and was recalled
19 in the period of the 90s again, thank
20 you.

21 Q: Can you tell us the rate?

22 A: So in 1989, as an example, you have your
23 inflation rate, you have your inflation
24 rate, you have your exchange rate and
25 all those were given. By 1991 as you

1 were saying, remember the inflation rate
2 now was 81% roughly.

3 Q: We going to come to that next, sir.

4 A: In '91, but the rates at that time are
5 over 35, 36%.

6 Q: And did it increase or decline?

7 CHAIRMAN: What he is using apparently is Dr.
8 Williams's paper.

9 A: Yes, I am using Dr. Williams' paper.

10 CHAIRMAN: If you have it there you can because
11 it's in evidence. Well you must tell
12 us, Mr. Jones, so that we know where we
13 are.

14 Q: Did the rate go up or go down? Did it
15 get higher?

16 A: Oh, yes, sir.

17 Q: You can speak, I'm not asking for
18 specific figures at the moment; you can
19 speak from your general experience that
20 the rate went down or you need
21 Mr. Williams to assist you?

22 A: No, no Mr. Williams is not here, today.

23 Q: Oh, I see. So did it go up?

24 A: It goes up and down, you know with all
25 those things it's an up and down

1 situation.

2 Q: And what was the highest?

3 A: It went up as much as 52, went to 62 and
4 if you talk about penal rates after sir,
5 that's another thing, it went all the
6 way to 120.

7 Q: And that was a favourable thing for
8 Island Life because you got extra money
9 on your investment, is that so?

10 A: No, you would have to explain that to
11 me. I got extra money?

12 Q: Yes, I mean if interest rate is higher
13 then of course if you put the money in
14 the bank...

15 A: No, I must have confused you, because
16 remember I just said I had to go and
17 borrow money to finish the blue
18 building.

19 CHAIRMAN: Penal rate is what the bank charges?

20 A: Yes, what the bank charges.

21 Q: How did that movement of interest rate
22 affect Island Life and if so, how?

23 A: Unfavorably, negatively.

24 Q: Explain the negatives, how did it affect
25 you. Mr. Jones, I see you looking at

1 me.

2 A: Yes.

3 Q: One moment. Let me give you a little
4 assistance.

5 A: Yes, please.

6 Q: Some of the answers to the questions I
7 am asking you I may be aware of. I see
8 the brow and I say what a stupid
9 question...

10 A: I never said that.

11 Q: But the brow speaks for itself. The
12 reason I have to ask is for the record.
13 There is a lady who is taking the notes
14 there, so although I may be aware of
15 it some of it I am not aware of as I was
16 not involved in Island Life at all. So
17 you have to be patient and explain it to
18 us so that it can get on the record and
19 those who don't know.

20 A: Will you repeat the question for me?

21 Q: The high interest rates that occurred,
22 how did it affect Island Life, the
23 operations of Island Life?

24 A: High interest rates in my view, sir, as
25 a policy curtails development. High

1 interest rates regardless of your
2 company does not help you to grow and...
3 CHAIRMAN: Sorry, that's the theory of it, but what
4 we want to know what actually occurred
5 insofar as Island Life was concerned.
6 That's the question counsel is putting
7 to you. I mean, you are giving us a
8 theory, this is what should happen.
9 What we want to know is what in fact
10 occurred in relation to Island Life
11 insofar as high interest rates regime is
12 concerned?
13 A: Well, sir, I can't tell you
14 specifically that it affected real
15 estate or it affected equities or it
16 affected the unit trust and so on. That
17 would have to be a much more detailed
18 thing.
19 Q: So I can draw from that that it did not
20 affect Island Life?
21 A: No, you can't say it didn't affect
22 Island Life.
23 CHAIRMAN: Sorry, one moment. The evidence so far
24 was that it affected it adversely, but
25 insofar as specifics are concerned that

1 so far has not been vouchsafed. You
2 going to tell us, can you, how
3 specifically it affected Island Life?
4 We are not asking you for figures or
5 that kind of thing. In what ways, in
6 relation to what?

7 A: Each company, each organization has to
8 operate at the moment within the
9 conditions, circumstances and situations
10 that surrounded them at that point in
11 time. That's a general statement first.
12 Now, if we are talking about high
13 interest rates which are causing -- and
14 I said that already which are causing
15 a problem to your balance sheet then it
16 is that same high interest rate which is
17 restricting Island Life's ability to
18 move into areas which they could earn
19 reasonably good profits and income.
20 That's the most I can tell you.

21 COMM. ROSS: You certainly mentioned the effects on
22 your balance sheet, Mr. Jones, but how
23 did it affect the operations? The
24 interest burden very high? How did it
25 affect the operations and operations

1 profitability of the company?

2 A: Well, naturally, sir, if you borrow X
3 million or 4X million, if your
4 expectations were such when you borrowed
5 X million, the rate was at 18% and you
6 are planning for 18% but by the time you
7 get to twelve months you hear it's not
8 18 anymore it's 20, then it is those
9 costs which you have to pay out, which
10 as as far as I am concerned is the
11 restrictive force of your ability to
12 improve your bottomline. I can't
13 explain it any better than that to you.

14 Q: Yes. Now you mentioned there was a
15 problem, was it with inflation, you
16 said?

17 A: Inflation?

18 Q: Yes. Was there a problem with
19 inflation?

20 CHAIRMAN: Is this a convenient time.

21 Q: Yes, sir.

22 CHAIRMAN: Very well. We take lunch and break. We
23 resume at 2 o'clock.

24 Lunch break