

Honourable Dennis Lalor
Wednesday, January 27, 2010

CHAIRMAN: Good morning, ladies and gentlemen. We are now in session.

MR. BRAHAM: Mr. Chairman, the witness for this morning is the Honorable Mr. Dennis Lalor, present, sir and I will ask that he be called and sworn.

DENNIS LALOR CALLED AND SWORN

CHAIRMAN: Thank you, please have a seat. Will counsel please, for the purposes of the record, announce your names please.

MR. SHELTON: Steve Shelton, I am here with the Honorable Dennis Lalor.

CHAIRMAN: Thank you.

MR. GARCIA: Dave Garcia, Mr. Chairman, appearing on behalf of Patrick Hylton.

MISS WESTON: Good morning, I am Mellissa Weston and I am observing on behalf of Bank of Jamaica.

CHAIRMAN: Did you say appearing?

A Honorable Chairman, yes, only observing, I am a legal counsel but observing on behalf of Bank of Jamaica.

CHAIRMAN: What is the name?

A Mellissa Weston.

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CHAIRMAN: Thank you.

MR. BRAHAM: Mr. Lalor, just state your full name for me, please.

MR. LALOR: Dennis Hugh Lalor.

MR. BRAHAM: And your occupation at this time, sir?

A I am chairman of ICWI Group.

Q Did you submit two documents to the Commission? First one entitled 'Statement of the Honourable Dennis Lalor re Life of Jamaica, dated the 22nd of January 2010'. Do you recall submitting that statement?

Yes, sir.

Did you also submit another statement, entitled 'Statement of the Honorable Dennis Lalor, O.J., re Citizens Bank'?

Yes, sir.

Very well. Mr. Chairman, may I ask that those two statements be formally admitted before the Enquiry. I understand that they have been

given some numbering so far?

CHAIRMAN: Yes, DL 1 and 2, respectively. DL 1 relates to the LOJ and DL 2 is related to Jamaica Citizens Bank.

MR. BRAHAM: Now sir...

MR. GARCIA: Mr. Chairman, would I be able to receive copies, sir?

CHAIRMAN: Sure you can.

MR. BRAHAM: You indicated sir, that you are presently the Chairman of island -- sorry, ICWI Group.

AICWI Group, yes.

QDid you at any time have a connection with Life of Jamaica?

AYes sir. I was at one time -- ICWI Group was at one time the majority shareholder in Life of Jamaica and at one time I became Chairman of Life of Jamaica.

QAre you in a position to give us a sort of general idea as to the time?

AI think it could have been -- it was in the 90's, probably 1995. I don't

remember when, but it was at a time when the Honorable Patrick Rousseau retired as Chairman, but it was sometime in 1992 -- in the 1990's.

QCould you say about how long you were Chairman of Life of Jamaica?

A Probably three, four years, I think.

Q Were you a Director prior to that?

A Yes, I was a Director sir, for many years.

Q Say in excess of ten years?

A Yes.

Q I see. Now sir, could you just tell us a little bit about Life of Jamaica, what was the nature of the company and what it...

A Life of Jamaica was predominantly a life insurance company which is the issuing of life insurance policies, handling pension schemes, and of course, it would invest the funds so gathered in activities throughout Jamaica.

Q I see. And the company, was it a company that was trading in the Stock Exchange?

A Yes.

Q So it was a public company?

A A public company.

Q Trading in the Stock Exchange. Very well. Now sir, the company, ICWI Group, is still not, is it the majority

shareholder of the company still?

A No.

Q Or it has changed?

A No. When the dust settled following the government's intervention in the financial sector, ICWI Group sold its shares and prior to that I ceased to have been a member of the board and its Chairman.

Q Could you indicate to whom ICWI sold its shares?

A No sir, I can't, but I do know that the transaction was done through NCB Capital Market.

Q The Government of Jamaica did not acquire those shares?

A No.

Q Do you recall an entity called FINSAC?

A Yes, sir.

Q Do you recall what was the purpose of FINSAC?

A My understanding of its purpose was to assist the government in dealing with the consequences of what is referred to as the financial sector melt down.

Q I see. Did FINSAC have anything to do with Life of Jamaica?

A Yes, FINSAC did, yes.

Q What was its role in Life of Jamaica?

A Well, its initial role was to have discussions with the board and management regarding the financial state of Life of Jamaica. Subsequent to that it injected some capital in Life of Jamaica. Subsequent to that it decided that or Life of Jamaica needed more capital, and subsequent to that it as far as I recall it disposed of Life of Jamaica's shares to Sagicor, a Barbadian company.

Q I see. So let's go back a little bit. You said that FINSAC was assisting or having discussions concerning Life of Jamaica's financial ---- should I use the word 'difficulties'?

A Yes.

Q Could you sort of give us a little well, first of all about what time this was, was it in 90's?

A It was in 90's.

Q Was it after '95 or was it before 95?

A I would think it was before '95, it was yes, I would think it was before '95.

Q But certainly between 19 say -- put a year on it, '93, '94?

A I wouldn't put a year on it because frankly once the government intervened and I ceased to be a member of the board and ceased to be the Chairman, I had no further interest other than my shareholding, sir. I never really paid attention to dates or anything like that.

Q I see. Could you give us a general idea as to the nature of the financial difficulties that Life of Jamaica was having?

A What happened is, as far as I understand it, there was a nexus between the government's introduction of a high interest rate regime, the objective of which was to curb inflation that was particularly high, and so interest rates that the government imposed went, as far as I can recall, up to probably 60% and

1 then there were penal rates where
2 breaches imposed by government on
3 financial institutions -- not Life of
4 Jamaica, I mean it wasn't affected with
5 that -- reaching some hundred's, that
6 was more the banks, reaching some 150%.
7 Q Did you say it was designed to curb
8 inflation?
9 A That was the message from the government
10 of Jamaica at the time. LOJ was one of
11 the two institutions undertaking long
12 term obligations.
13 Q What do you mean by long term
14 obligations?
15 A Providing pension fund benefits and life
16 insurance; both of those obligations
17 required longer term investments which
18 based on actuarial recommendations and
19 conventional wisdom meant investment at
20 the time in real estate and equities in
21 the stock market.
22 Q And this high interest rate -- the
23 question that you were addressing, sir,
24 was the nature of the difficulties,
25 financial difficulties that Life of

1 Jamaica was experiencing?
2 A Yes. Well, what happened is that the
3 property market and the stock exchange
4 equities boomed and overheated and then
5 government suddenly changed its policy
6 to one designed to achieve low
7 inflation. So the value of the
8 properties and the equities plummeted
9 and the fall in asset values no longer
10 made it -- the asset values no longer
11 matched the liabilities contracted, and
12 therefore, LOJ needed a substantial
13 injection of capital.
14 Q I see. The cause, as I understand it if
15 I may follow you, is the change of
16 government policy: first of all the high
17 interest rate policy and then later on
18 the policy change to achieve low
19 inflation. Do you recall exactly what
20 were some the things done in aid of this
21 policy to achieve low inflation?
22 A The main thing, as I recall it, was to
23 increase the interest rates and insofar
24 as my recollection is concerned I think
25 at one stage Jamaica's Stock Exchange

1 was among the fastest growing in the
2 world and overnight, because of the high
3 interest rates, equities were no longer
4 as attractive as they were at the time
5 prior to that; so that there was a
6 massive selling off of equities on the
7 Stock Exchange in order to take
8 advantage of the high interest rate
9 policy that the government had
10 introduced and pari passu with that,
11 there was a fall in the value of
12 properties and there was nobody around
13 to purchase those properties. So that
14 that was, I would say, the major impact
15 of the high interest rate policy.
16 Q And in terms of the business of Life of
17 Jamaica, could you give us an example or
18 some examples as to how it translated
19 itself in terms of the business?
20 A What happened then was that investor
21 confidence wavered. Life of Jamaica sold
22 life insurance policies plus some equity
23 linked policies, and as soon as the high
24 interest rate regime was introduced the
25 equity linked policies ceased to have

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they did and so they started withdrawing
their -- from those policies and
cancelling the insurance policies
because of the fall in user yield and
the fact that they could get better
yields from the alternatives, And I like
to be very simple, and perhaps my more
recent activity causes this, but to me
the analogy would be that you are
flying an aircraft at 36,000 feet, you
see the oxygen masks come down and you
turn the nose of the plane down towards
getting to a lower altitude and the
wings fall off. That is my analogy.
I don't think I will ask if you are now
a pilot but you have some experience.
I have some experience with the pilots.
But sir, in particular, could you say
where they invested?
Pardon me, sir?
When they withdrew their funds.
No, Chairman.
You have no idea?
But I would suspect that the attraction

1 was the high interest rates that they
2 could get in government paper.
3 MR. BRAHAM: You mentioned equity linked policies, are
4 those policies the same thing as what I
5 was informed were policies with a very
6 small insurance section which allowed
7 companies or persons buying the policies
8 to invest?
9 A Yes, and that was to take advantage of
10 the existing taxation legislation.
11 Q Now, in these proceedings sir, it has
12 been suggested that that was not quite
13 the selling of insurance and that the
14 insurance companies were in fact
15 deviating from their core business when
16 they undertook that type of business?
17 A A point of view sir, not one that I
18 share; I don't share that at all.
19 Q I see. Now it was also suggested in
20 these proceedings sir, that those
21 policies, that the issuing of those
22 policies was a major factor in the
23 financial difficulties that Life of
24 Jamaica and other companies experienced
25 at the time?

1 A I don't have the actuarial statistics,
2 but when I was involved I didn't have
3 any reason to believe that that was so,
4 and so it is not something that I can at
5 this point contradict or support.
6 Q I see. Well sir, just to bring you up
7 to date as about other comments made in
8 this Enquiry: that the investment
9 portion of these policies was tantamount
10 to the receiving of deposits like a bank
11 except that of course, it had a veneer
12 of insurance. To the comment that it was
13 tantamount to receiving deposits like a
14 bank, would you make a comment on that?
15 A No, I wouldn't make a comment on that.
You know, sir, what I think I would say is that the prevailing
circumstances at the time lent themselves to the activity of which
you speak. I certainly don't believe that it was the reason for
any opprobrium to be thrown at the insurance industry although it
was intended. I just think that it was an opportunity that the
actuaries and the specialist saw to take advantage in the

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1 interest of the policyholders of a
2 situation that was illegal and was
3 created by the government.
4 Q Was illegal, you say?
5 A Illegal and created by government.
6 Q Just finally on that issue sir, the
7 suggestion and statements made before
8 this Enquiry was that this alleged
9 deposit taking facilitated escape from
10 regulations by the Bank of Jamaica and
11 allowed the insurance company to proceed
12 with large without regulations because
13 the Superintendent of insurance wasn't
14 regulating deposit taking and because
15 you weren't a bank, the Bank of Jamaica
16 was not regulating the alleged deposit
17 taking situation?
18 A I wouldn't support the word 'escaping'.
It was not illegal; it was something that the taxation
legislation at the time permitted and it was in the ordinary
course of business that was operating within the framework of the
interest rate regime and all the other ingredients that go up or
go to make up

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a business that this was an

2 seen and I certainly don't see any nexus
3 between an escape from supervision and
4 the activity. As far as I can recall,
5 it was a product that was created to
6 facilitate growth in the investment that
7 people made because it was a product
8 that facilitated the Jamaican Stock
9 Exchange from having one of the highest
10 growth rates in the world at the time.

11 Q The regulator for the life insurance
12 industry at the time was the
13 Superintendent of insurance, do you
14 recall?

15 A Yes.

16 Q Again sir, the suggestion has been made
17 that the Superintendent's office in
18 terms of staff and expertise was
19 inadequate. Any comment as to that?

20 A I wouldn't venture any comment on any
21 government organization, sir.

22 Q I see. And indeed is it -- you may feel
23 safer then to make a comment as to
24 whether the legal and legislative regime
25 was given sufficient powers?

1 A Not having your qualification sir, I
2 wouldn't venture into that domain at
3 all.

4 Q Well I was sort of trespassing because I
5 noticed that you had gone to flying.

6 A I will remind you however, I sit on the
7 Privy Council.

8 Q I see. Very well sir. In terms of the
9 management and I am sure you if you
10 probably speak of Life of Jamaica, in
11 terms of the expertise available to the
12 insurance companies, would you
13 characterise the management -- the
14 suggestion is that because the
15 management was weak it wasn't able to
16 adjust itself to changes in the economic
17 environment. Would you agree with that
18 statement?

19 A No, I wouldn't agree with that at all
20 and in fact I would go back to my
21 analogy.

22 Q Yes.

23 A I mean you are flying comfortably at
24 36,000 feet because the Air Traffic
25 Controllers have allowed you to fly in

1 a space that the weather is perfect
and
2 all of a sudden you come up against
3 something unexpected over which you have
4 no control and the reaction to that is
5 to turn the nose of the plane down and
6 the wings come up. I cannot support any
7 suggestion that the management of the
8 insurance industry -- and I tell you I
9 was never in the management field of the
10 insurance industry but I have the
11 highest regard for those people who were
12 the CEO's of the leading companies, the
13 actuaries and the technology people. My
14 experience is that they were among the
15 brightest and the best available in
16 Jamaica, so I would never support that.
17 Q Up to the time when you demitted office
18 as Chairman of Life of Jamaica, how old
19 was that company?
20 A Oh, it was formed in 1971 or
21 thereabouts; Life of Jamaica was formed
22 I think it was 1971.
23 Q And you demitted office in the early
24 '90s?
25 A Yes, probably 1992 or '96.

1 Q And would you say that up to when it
2 started to have the financial
3 difficulties was the company otherwise
4 successful?
5 A Extremely successful, and the envy of a
6 large number of people throughout the
7 Caribbean.
8 Q I see.
9 CHAIRMAN: Mr. Lalor, as you appreciate, a part of
10 our remit is to look at the management
11 practices and the role of board of
12 directors of the failed institution.
13 A Yes sir.
14 CHAIRMAN: That is part of our remit.
15 A I understand that sir, but I have no
16 hesitation whatsoever in saying that my
17 own experience, and I have had
18 experience throughout the Caribbean and
19 elsewhere in the insurance industry and
20 I would say that the attractiveness of
21 the Jamaican institutions was not so
22 much the fact that they had suddenly
23 become available but because of the
24 quality of the management that had seen
25 them from the 60's to the time of the

1 financial crisis.
2 MR. BRAHAM: Is it a reasonable summary from what you
3 have said so far that the financial
4 difficulties facing Life of Jamaica was
5 due to the prevailing government
6 policies?
7 A You see, I wouldn't use the word
8 prevailing because it could connote a
9 period; it was rather than like
10 Nicodemus, it came upon the industry
11 overnight and the high interest rate
12 regime -- and one can't quarrel with it,
13 it was an opportunity open to the
14 government to curtail the galloping
15 inflation and I mean, there were times
16 when inflation had got so high that any
17 government would have wanted to deal
18 with it. The way they dealt with it was
19 one that was available to them, the one
20 they chose. So it was just an election
21 so...
22 Q Meaning they made a choice?
23 A Yes, they made a choice.
24 Q I just want to make sure we clarify
25 that.

1 CHAIRMAN: And stuck by it?
2 A And others got stuck by it.
3 CHAIRMAN: No, others got stung by it.
4 MR. BRAHAM: Now sir, when Island Life found itself
5 in financial difficulties did it
6 approach government for assistance?
7 A Well, unfortunately for me I wasn't
8 involved in Island Life.
9 Q I am sorry, we had such a colorful --
10 Island Life just stuck in my mind. My
11 apologies, Life of Jamaica.
12 A Yes, one of the first things that I did
13 when I became Chair, I wanted to know --
14 I had been on the board for a long time
15 but of course you don't really as a
16 director get to know the innards of a
17 business in quite the same way that
18 somebody who is the Chair of the
19 business is expected, so I got together
20 the Chairs of one or two of the other
21 companies and asked them if they would
22 agree to Price Waterhouse which firm
did most of the audits for the life insurance industry, to look
at the insurance industry and see what the

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implications of the high interest rate were. Richard Downer who I think at the time was either the senior partner or fairly high up in the hierarchy undertook that and it showed that the

1 industry on a year-end projection the
2 industry required a substantial amount
3 of capital in order for it to meet what
4 would be the prudent solvency
5 requirements. I then went to the
6 Ministry of Finance and discussed with
7 them the problem and...

8 Did you meet with Mr. Patrick Hylton and
9 Mr Dennis Boothe at that time.

10 No, sir, they came after. I met with
11 16 the then
12 Financial Secretary and the
13 17 Minister.

14 18 Q That is Dr. Omar
15 Davies?

16 19 A Dr. Davies and I
17 didn't get the
18 20 impression that
19 at first blush the
20 21 severity of the
21 situation was
22 appreciated and
23 that that was an

24 impression that I had formed. 24
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2 MR. BRAHAM: Subsequent to that, did you have any
3 further meeting with either the
4 government or FINSAC?
5 A: Yes, I continued to be in touch with the
6 Financial Secretary who was very helpful
7 and...
8 CHAIRMAN: By the Financial Secretary, is that
9 Miss Tyndall?
10 A: Yes, Miss Tyndall. She was very
11 helpful -- understood that there was a
12 problem but the magnitude of the
13 problem, I think, still had not been
14 impressed upon her appreciation and then
15 they brought, as I recall, they brought
16 in some external -- I think it was KPMG
17 out of the UK, to advise the government.
18 And then as I recall it, then the
19 magnitude of the problem seemed now to
20 become appreciated.
21 Q: Did LOJ receive any assistance?
22 A: Oh, yes, LOJ received some assistance.
23 I think it was in the order of about a
24 billion dollars, but it was what I call
25 a Tier Two Capital, but pari passu

with that one of the things I did try to do -- LOJ had at the time probably, I am going from memory, at the time, probably had about 400 to 450 agents and about 25,27 branches -- in excess of ten branches -- and one of the ways in which I thought we could help ourselves was to significantly reduce the field force and reduce the number of branches and I think that while I was there the field force was reduced to a little over 200 and the branch organization was reduced to under 20, 16, 17. The result of that was that Life of Jamaica's operating expenses were significantly reduced and as far as I am concerned Life of Jamaica was on the way towards restoring financial debt?

19 Q: I see. What do you mean by Tier Two Capital?

21 A: It's debt. It's not equity, it's debt.

22 Q: You were given loans?

23 A: Yes.

24 Q: And Tier One?

25 A: Tier One is an injection where you get

1 dividends if you make money and you
2 don't get dividends if you don't make
3 money.
4 Q: So you wanted the government to invest
5 a billion -- not a billion dollars but
6 whatever the figure was -- in the
7 company as against lending the company?
8 A: No, no, no, that was what was offered.
9 We made no distinction at the time. I
10 am merely mentioning that was Tier Two
11 Capital because it was a debt and had a
12 particular interest rate, which I don't
13 recall what it was. It was a debt and
14 we had to pay the interest on it.
15 Q: So who was it who arranged this debt,
16 was it the government?
17 A: It was the agent of the government who
18 was at the time, Mr. Dennis Boothe.
19 Q: I see.
20 A: And Mr. Patrick Hylton.
21 Q: I see. This...
22 CHAIRMAN: One moment, please.
23 COMM. ROSS: Sorry. Mr, Lalor could you give us an
24 idea of the size of the problem that you
25 had uncovered at the time of the PWC?

1 A: One of the problems is that when I left
2 Life of Jamaica and left the chair I
3 turned my back on it, my only interest
4 at the time was the disposition of my
5 shares, so I don't have any documents.
6 I didn't take any with me, so I really
7 don't remember what it was. I honestly
8 don't remember. It was something
9 that was a chapter closed, I had another
10 business to run and I focused on that.
11 Q: Thank you.
12 MR. GRAHAM: In relation to the loan, could you just
13 briefly say why you think, if you had
14 gotten Tier One injection as against the
15 loan it would have been more beneficial
16 to the organization?
17 A: Well, first of all it wouldn't have been
18 accruing additional debt and from the
19 point of view of solvency, I am sure
20 that no well regulated organization sees
21 debt as capital. So that it didn't
22 help because we had the government paper
23 and it meant that we could utilize that
24 paper to help facilities which would
25 allow it to continue to operate.

1 Q: Very well, In terms of the company,
2 LOJ, it was eventually sold to a
3 Barbados entity?
4 A: Yes.
5 Q: That was after you had left the company?
6 A: Yes, yes.
7 Q: I see. Now, insofar as the sale, do you
8 know whether that Barbados entity, was
9 that Barbados Mutual Life?
10 A: Barbados Mutual, yes.
11 Q: Did they make any capital injection in
12 Life of Jamaica.
13 A: Well, sir, I don't know. What I do
know is that the view expressed by FINSAC at the time was that
the company needed a further one billion dollars.
It was not a view that I shared, but the powers that be felt that
way, and it is my understanding that the agreement with Barbados
Mutual was that they would have put in a billion dollars. From
where I sat I didn't see the necessity for the billion, but my
view didn't prevail, and I don't know whether the billion was
actually put in, I don't know.

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1 Q: So you are saying the reason why you
2 came to the view, and you can correct me
3 if I am wrong, that a billion wasn't
4 necessary, was because of the
5 reorganization of the company?
6 A: Quite so. I thought that a large part
7 of a life insurance operations -- I
8 don't have the expertise of anybody who
9 is in this room this morning -- the life
10 insurance is not my bailiwick, but the
11 expenses of a life insurance company are
12 by and large centered on field force and
13 the commission structure, and so by
14 removing a significant part of the field
15 force, you remove a significant part of
16 the expenses; and by removing a
17 significant part of the accommodation
18 you likewise remove a significant part
19 of the expenses. So that my own view
20 was that the steps that had been taken
21 were sufficient to see the company
22 through. Now that was not the view
23 then.
24 Q: And that is even without additional...
25 A: Without additional funding.

1 Q: I see.
2 A: But that wasn't the prevailing view.
3 Q: So is it then appropriate to say that
4 you did not agree that the sale of the
5 company was required to salvage it?
6 A: No, I wasn't in a position to agree or
7 disagree. A decision was taken that the
8 company needed a further billion or 1.2
9 billion dollars and I said fine, if
10 that's what it needs, so be it. I mean,
11 that's the regulator's view and that's
12 it. So I really had no say and at that
13 time, you know, the atmosphere was:
14 this is what it is going to be, and
15 that's how it's going to be.
16 CHAIRMAN: Excuse, me, just a moment.
17 COMM. ROSS: Could you explain a little bit more for
18 us, please, under what legislation was
19 this action enforced now, and what was
20 the legal power exercised to take
21 control of the company?
22 A: I don't have any answer to that,
23 Mr. Ross. It was the prevailing wind at
24 the time and we -- it was said that the
25 company needs this and the regulator at

the time would have, I am not even sure whether the government had introduced any additional powers for the Superintendent of Insurance to allow them to intervene in a situation like that;

1 but I suppose with the existing
 2 legislation that the regulator does have
 3 power to intervene and if the feeling was
 4 under the then legislation, the Insurance
 5 Act that should happen, then so be it. I
 6 don't think that there was
 7 any choice
 8 available at the time.
 9 MR. BRAHAM: And the choice
 10 you mean to the..?
 11 A: To the
 12 shareholders.
 13 COMM. ROSS: I just find this
 14 quite incredible but
 15 perhaps if we
 16 could explore the
 17 appropriate
 18 authorities, just what was
 19 the legal process
 20 that would have led to
 21 that intervention
 22 and bid to take over
 23 the company?
 24 MR. BRAHAM: Were you required

to give up your

22 directorship in Life of Jamaica?
 23 A: The government appointed their directors
 24 and when the Sagicor thing was coming
 25 all of the directors resigned.

1 Q: Voluntarily, or they **were** requested to
2 do so?

3 A: I think they were **requested** to resign.

4 Q: It is your view that if Sagicor or
5 Barbados Mutual did not make an
6 investment of a billion dollars in Life
7 of Jamaica, is it your view that Life of
8 Jamaica would then have been sold at an
9 undervalue?

10 A: I would have to tell you that I really
11 have no view on that. My thought is
12 that at the time it wasn't needed and I
13 wouldn't want to speculate.

14 Q: I see. Your company, ICWI Group, was a
15 shareholder?

16 A: Yes, sir.

17 Q: What became of **those** shares?

18 A: Like I said earlier in these
19 proceedings, we sold the shares to --
20 through NCB Capital Market.

21 Q: I see.

22 A: And i know we sold it at the then stock
23 market price.

24 Q: I see. Was that after, before you
25 resigned as Chairman?

1 A: No after, sometime after, and you have
2 to remember that at no time did LOJ
3 shares come off the stock exchange; they
4 were always on the stock exchange.

5 Q: I see.

6 COMM. BOGLE: Mr. Lalor, in your document here at
7 point 12 and this is DL1 -- yes, this is
8 the LOJ one, you commented: If the
9 **purchase price in** the sale to Sagicor
10 **took account** of the need for **a capital**
11 **injection of** some **J\$1 billion dollars** by
12 **Sagicor in order** for it to meet the
13 solvency standard when this in fact this
14 was not required, it **would indicate** the
15 **sale to Sagicor would have** been **carried**
16 **out at a gross undervalue.**

17 A: If.

18 Q: Right. Then you went on: **This would have**
19 been a consequence of the **failure** of the
20 **Government and** the regulators to
21 recognize the efficacy of the business
22 **plan provided to and approved by** the
23 **regulators.** Could you give us some
24 information on the business plan?

25 A: A large part of the business plan was --

1 a great part as I mentioned, they
2 removed the expenses. A life insurance
3 company selling a policy today breaks
4 even, as I recall it, somewhere in the
5 5th or 6th year because of the high up
6 front costs and consistent with the way
7 the industry works world-wide and by
8 cutting back on the field force, cutting
9 back on business written, what we call
10 the new business strain was removed from
11 the company. At the time I was Chairman I
12 had calculated that for every dollar of
13 premium written it cost about \$2.50 cents
14 or \$3.00 to put it on the books and the
15 company wouldn't break even under five
16 years on a policy. What we did, we cut
17 back significantly on business written.
18 So what we call the new business strain
19 came off the balance sheet and that
20 coupled with the significant downsizing
21 of the field force and the branch offices
22 contributed a lot of surplus which would
23 be capable of filling, in my view, the
24 hole if there was a hole in the balance
25 sheet.

1 Q: What was the response therefore, of the
2 government to this business plan?
3 A: I believe that it did not get the
4 serious consideration that I thought it
5 deserved but that might be egomania.
6 didn't get the impression it got a
7 serious consideration.
8 Q: Do you believe or do you have any idea
9 why this might have been so?
10 A: No. I would suspect that, you know, if
11 you go on an aircraft and you are
12 sitting in the pilot seat, don't take
13 it. It might be the same thing.
14 Q: Well.
15 MR. BRAHAM: If I may just ask a question as to
16 that: Could it be that at that time
17 the government or the authorities no
18 longer trusted the management and
19 directors of the industry?
20 A: Could very well be; could very well be.
21 I mean, I won't speculate on their
22 motives; and to be very honest, Life of
23 Jamaica was in no way a significant part
24 of my life and so I did what I thought I
25 could do. When I realized that I

1 couldn't do anything more, I said that's
2 it.
3 Q: Life of Jamaica, did it own another
4 financial institution?
5 A: Yes, sir.
6 Q: What was the name of that institution?
7 A: Jamaica Citizens Bank.
8 COMM. BOGLE: Just before you leave that -- again
9 going back to your document DL1; Point
10 13 you mentioned that: **Mrs. McLure who**
11 **headed up the team of regulators with**
12 **oversight of the life** insurance industry
13 **and to whom the original business plan**
14 **was submitted and duly approved when I**
15 **was Chairman, was appointed President**
16 **of Life of Jamaica.** Is there any
17 special reason why you made this
18 observation?
19 A: Just to show that a business plan was
20 produced, it was rejected -- -- there
21 was no significance at all, its just
22 that it was the person who succeeded me
23 or succeeded Milverton Reynolds.
24 Q Jamaica Citizens Bank -- that bank was
25 it also listed on the stock exchange?

1 insurance company on behalf of whom --
2 she was working with ..?
3 A: She was working with the Government of
4 Jamaica as a consultant and she was very
5 much involved, as I recall it, in the
6 discussions regarding the life insurance
7 industry and she, I think it was, who
8 along with Mr. - the then head of the
9 thing, Mr. Patrick Hylton -- they were
10 the people with whom we were in dialogue
11 and they were the ones who conveyed to
12 us that the government had decided to go
13 a different route.
14 Q: So she was operating on the side of
15 FINSAC?
16 A: Yes.
17 Q: Okay, and who appointed her as President
18 of Life of Jamaica?
19 A: That would have to be Sagicor because by
20 then Sagicor had become the owners of
21 Life of Jamaica.
22 Q: Therefore she would have been
23 representing FINSAC in the negotiations
24 with Sagicor as well?
25 A: Yes, yes.

1 Q: Would you say it's a bit odd for her to
2 have been a part of the negotiations
3 with Sagicor on behalf of FINSAC and the
4 moment Sagicor took over that she gets
5 this appointment with Sagicor?
6 A: Well, I can't tell you the timing
7 between the one or the other and I don't
8 know the extent of the negotiations that
9 she would have had with Sagicor, if any.
10 She may have recused herself, I don't
11 know.
12 Q: So you don't see it as odd?
13 A: Well, I would assume in the normal
14 course of properly conducted
15 negotiations that somebody in one
16 position would recuse themselves if they
17 found themselves in any compromise. I
18 would assume that.
19 Q: Okay.
20 MR. BRAHAM: Did Life of Jamaica being a owner of
21 the Jamaica Citizens Bank, you as the
22 majority holder...
23 A: Because it was on the stock exchange?
24 Q: Yes. Very well, you had control?
25 A: Yes.

1 Q: Did Life of Jamaica use that control to
2 gain financial assistance from Citizens
3 Bank to assist Life of Jamaica?
4 A: No, sir, at no time did Life of Jamaica
5 ever receive any assistance from Citizens
6 Bank in any shape, way or form; at no
7 time.
8 Q: Whether any loans or?
9 A: No loans, nothing. They were completely
10 separate, operating separately. Danny
11 Williams, although he was President of
12 Life of Jamaica, Chairman of Citizens
13 Bank, he acted scrupulously. The Board
14 of Life of Jamaica and the Board of
15 Citizens Bank totally separate and apart
16 and there was no occasion, to my
17 knowledge, when Citizens Bank provided
18 Life of Jamaica with one dollar of
19 support.
20 Q: So it is not true to say that because of
21 the support that Citizens Bank had to
22 give Life of Jamaica that was a major
23 cause for the collapse of Citizens Bank?
24 A: Well, first let me correct you, sir:
25 Citizens Bank never collapsed.

1 Q: It never collapsed?
2 A: No, and I want you to understand and I
3 want this Enquiry to understand that
4 Citizens Bank never collapsed. Citizens
5 Bank was bought at the behest of the
6 then head of FINSAC who was at one stage
7 the Deputy Governor of the Bank of
8 Jamaica, Mr. Gladstone Bonnick. He and,
I think it was Mr. Dennis Boothe, called me one evening and asked
me if we
would sell Citizens Bank. I went to
see him, I took two directors with me, one director, Noel Levy,
and one Price Waterhouse partner, Brian Young. We went to see him
and what they said to us was, Citizens Bank, they would like to
acquire Citizens Bank in order to take that vehicle to absorb
the other banks that had failed, and they were going to make a
thing call Union Bank and so Citizens was going do absorb them.
9 We were paid the stock market price and a
condition of the sale to them was that
10 they would buy our 20 or 25% in CIBC,
which they did. So Citizens Bank never
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1 failed. What happened with Citizens Bank
2 is that the same way that was a run on
3 the banks, we went to the government and
4 they wanted to give us again tier two
5 capital and we said no, it didn't make
6 sense. But you have to remember that
7 Citizens Bank had as its partner Banco
8 Popular out of Puerto Rico, which is one
9 of the largest, certainly the largest
10 bank in Puerto Rico, but one of the
11 largest United States banks. They were on
12 the on audit committee, they were on the
13 Board, so that the governance of Citizens
14 Bank was way and beyond reproach. But I
15 do want to set the record straight, sir,
16 the bank didn't fail.

17 It didn't fail. Very well. Well, but
18 Q: I assume though that to the extent that
19 they had financial difficulties, you
20 would not agree that it was because of
21 the relationship, an abuse of the
22 relationship by LOJ?

23 No, sir, no. I pride myself, and I know
24 Danny Williams and the Board Life of

24 A:

25

1 Jamaica and Citizens Bank, pride
2 themselves on the fact that there was
3 never any suggestion and there would
4 never ever be that kind of behaviour.
5 Certainly I would not be a party to
6 that kind of behaviour.
7 Q: But the...
8 CHAIRMAN: Just one moment. The Bank of Jamaica,
9 I think described Citizens Bank as - I
10 think they used the words 'intervened
11 institution'?
12 A: Yes, intervene, sir, because of the fact
13 that there was this run and there was
14 this high interest rate and they offered
15 us some tier two capital which we did
16 not accept.
17 CHAIRMAN: Yes. Maybe I am not following all of
18 this. How does the adjective intervened
19 become an apt description, you mean
20 partial -- perhaps you could explain
21 that, if you can?
22 A: I don't know in what context they
23 mentioned that.
24 CHAIRMAN: You see .

1 CHAIRMAN: May I just say this: our terms of
2 reference speak about failed
3 institutions, so when we wrote to the
Bank of Jamaica, we say, well tell us who they are; and we got a
long list of something entitled 'Intervened
7 Institutions', so they apparently use
8 the word
4 interchangeably.
9 A: I don't know,
5 sir, I really don't know.
10 CHAIRMAN: It all depends.
6 As far as you are
11 concerned Citizens Bank was not a failed
12 institution?
13 A: Yes, sir.
14 CHAIRMAN: Whatever the adjective might be.
15 A: Whatever the adjective might be. You
16 see I remember meeting with the team
17 from the Century Bank and I outlined the
18 problems and the proposal from Banco
19 Popular and Citizens Bank was used to --
20 my words -- mop up a number of banks
21 that the government had become involved
22 with.
23 COMM. BOGLE: Mr. Lalor, what would you say was the
24 main cause for the problems that
25 Citizens Bank faced when you say here

1 that representation was made to the
2 partner at BP.
3 A: Banco Popular.
4 A: We had a liquidity problem and there are
5 two reason for that: One of them was
6 that there was a run on Citizens Bank, a
7 significant run for about three days on
8 Citizens Bank based on a rumor; and the
9 second thing was that we had a number of
10 non-performing loans because of the high
11 interest rates. We lent money at say
12 12% percent and then the government
13 rates caused the rates to go up and at
14 one stage as I said, the rates went up
15 to 65, 70%. So that we had a liquidity
16 problem and so we went to Banco Popular
17 and they invested in it.
18 COMM. BOGLE: Coming back to the point that, the
19 question was put to you earlier...
20 A: Yes.
21 Q: In these enquiries so far we have been
22 told, or surely reference has been made
23 that the management of these
24 institutions that suffered from
25 liquidity problems and suffered from

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high level of delinquent loans that that
was a reflection on the management of
the institutions. What would you say
regarding that?
A: You know, sir, I used to play a lot of
cricket and Z was never out when I was
given out lbw.

1 (CONT' D)
2 Wednesday, January 27, 2010
3 10:55 A.M.
4 MR. BRAHAM: But now with technology...
5 CHAIRMAN: Now we have a review system.
6 COMM BOGLE: Now that we have a review system?
7 A I am still...
8 Q So you are therefore saying that as far
9 as you are concerned the management and
10 the loan policies of Jamaica Citizens
11 Bank to your knowledge were sound?
12 A Yes sir, because when you look at the
13 Loans Committee you know, you had people
14 like Desmond Blades; Paul Geddes, Noel
15 Levy. When you look at that Committee,
16 committee of highly respectable,
17 responsible people. They were not going
18 to get involved in frivolous or
19 extremely dangerous activities regarding
20 both the shareholders and the depositing
21 public. And I pride myself on the fact
22 that I was associated at the time with
23 both at Life of Jamaica and Citizens
24 Bank with highly qualified, reputable
25 people who would never and never could

that Jamaica is suffering from right now the answer can perhaps
 be found in what happened then, because we got into in the habit
 of issuing papers at extraordinarily high interest rates and that
 1 was one way for the government to borrow
 money. And I would never use the word
 2 reckless but the needs of the country at
 the time required it
 according to the people who controlled
 3 our economy. If you have high interest
 rates -- we issue the paper, you invest
 4 13 in it, I don't
 have the money to spend
 5 14 buying US dollars
 or have inflation.
 6 15 There was a time
 when I was the
 7 16 President of the
 PSOJ when I kept
 8 17 preaching that we
 were on a path to
 9 18 destruction
 because we were spending
 10 19 more than we were
 earning and the way to
 11 20 salvation was not
 high interest rates.
 12 21 COMM BOGLE: What would you
 say was the main cause of
 22 the high
 inflation that we were
 23 experiencing at the time?
 24 A It was a lot of money chasing few
 25 opportunities. That was what it was. A

1 lot of money chasing few opportunities.
2 Q Would you say then that it had nothing
3 to do with the policy at the time in
4 terms of money supply?
5 A Well, that is it. You see sir, that is
6 the point, but you know, not being an
7 economist I am not going to delve too
8 much into that but suffice it to say
9 that the way that I would run my
10 business was not necessarily on all
11 fours with what I was witnessing in the
12 government.
13 MR. BRAHAM: If I may return to the issue as to
14 failed institutions or not...
15 CHAIRMAN: Excuse me, don't think me facetious, but
16 you asked how to stop the horse? But
17 perhaps you could shoot it!
18 A Well, perhaps that was of the course
19 taken, sir. (Laughing) Wearing another
20 hat I know how to stop the horse.
21 CHAIRMAN: I mean the horse did lie down and I
22 don't know if it got up yet.
23 A I think it had been buried, sir.
24 MR. BRAHAM: Are you suggesting, sir...
25 CHAIRMAN: Excuse me, it maybe a convenient time.

1 On this high note maybe we should take a
2 break. Resume in fifteen minutes.
3 (Break at 11 o' clock)
4 May we resume? Thank you.
5 RECONVENED AT 11:15 A.M.
6 Mr. Lalor, you are still under oath.
7 A Thank you, sir.
8 Yes, Mr. Braham.
9 MR. BRAHAM: Mr. Lalor, the Citizens Bank, would you
10 describe it at the time prior to sale as
11 insolvent?
12 A Yes, it was insolvent according to the
13 rules of accounting. And it is for that
14 reason that we had approved, the then
15 head of, I don't remember what post he
16 held, but Deputy Governor.
17 MR. BRAHAM: Mr. Bonnick?
18 A Mr. Bonnick. And his approach to it was:
19 why don't you sell us the bank? So the
20 answer is yes, it was with a capital
21 injection and then our partner Banker
22 Popular were prepared to put in that
23 money.
24 Q Well, I want to come back to BP; but you
25 are not saying sir, that if the

1 government acquired the bank that it
2 would have been able to continue?
3 A Yes, it would have been able to continue
4 because Banker Popular were willing to
5 put in the capital, because they had
6 bought some shares to get themselves --
7 I think they were 20 percent holder at
8 the time -- I am dealing with this from
9 memory. And what they would have put in,
10 the rest of the money -- and I would
11 rather not repeat the statement that was
12 made when I suggested that they would
13 have put in the money..,
14 MR. BRAHAM: Statement made by government official?
15 A Yes. It was clear that they did not wish
16 a foreign financial institution to
17 acquire more interest in the bank.
18 Q I see. But didn't Bank BP have some
19 sort of condition for the investment? In
20 other words, there was recommended, for
21 example, what is called a "Mexican
22 Model?"
23 A Good bank, bad bank.
24 Q Yes.
25 A Yes, that was a recommendation that we

1 put to the Central Bank and they said --
2 I don't think they had heard of it at
3 the time. It was a novel approach but
4 the Banker Popular people had said that
5 this is the way that these things go:
6 you take out the bad assets, hold them,
7 dispose of them, because it was really
8 assets that we could have recovered the
9 money but it would make the bank liquid.
10 So the good bank/bad bank was rejected
11 out of hand.

12 Q And that the government would have taken
13 out of control the assets, the debts?

14 A They would have taken, yes. But we were
15 undertaking to service those debts but
16 it was just a matter of organizing the
17 illiquidity of the bank and then BP,
18 Banker Popular, would have increased its
19 equity share in the bank.

20 Q The government having rejected that
21 proposal, BP was still interested in
22 making an investment?

23 A Yes.

24 Q Would have made an investment?

25 A They would have made an investment.

1 MR. BRAHAM: I see.
2 CHAIRMAN: And this was known to, for want of a
3 better word, the authorities?
4 A Certainly, sir. To my knowledge it was
5 known, but that prompted the remark.
6 The totality of the remark I can't
7 remember but it was not complimentary to
8 the foreigners.
9 CHAIRMAN: I see.
10 MR. BRAHAM: There was an official who had stated
11 that the bank...
12 CHAIRMAN: But excuse me, eventually everything was
13 taken over by foreigners, so to speak?
14 A Precisely, but then...
15 CHAIRMAN: At the time wisdom wasn't an interest
16 there?
17 A Yes, or the vision.
18 Q Or the vision, yes. I don't now wish to
19 accuse anybody of lack of vision.
20 MR. BRAHAM: There was an official sir, that you said
21 indicated that the bank was not on a
22 radar screen?
23 A Yes, that was very early -- the then
24 Financial Secretary; because shortly
25 after the run I went to see her and she

1 was very cordial and she said: 'But your
2 bank is not on the radar screen". And
3 she even made the statement that we were
4 a principal lender in the overnight
5 banking -- because you know, you have
6 this interbank thing, a bank is short of
7 cash, they can borrow overnight. And so
8 we were still on the positive side of
9 overnight lending, so she didn't see us
10 on the radar screen at all.

11 Q I see. Did you feel that you had an
12 option? When the proposal was put to
13 you for the government to acquire the
14 bank you had an option as to whether you
15 could refuse to sell the bank or not?

16 A Oh, yes! We could have. The consequences
17 of that action I am not aware of but I
18 knew that the, or I was made to
19 understand that the government needed a
20 vehicle that would have been able to
21 accommodate other financial
22 institutions, banking institutions that
23 had fallen afoul of the solvency
24 requirements of whatever it is.

25 COMM BOGLE: Mr. Braham, may I just -- Mr. Lalor when

1 the representation was being made to the
2 then Financial Secretary and she said
3 that the company was not on the radar
4 screen, you had gone -- or the
5 representation was made because you
6 realised the problem that the bank was
7 facing at the time?
8 A Yes.
9 Q Was any suggestion made to you as to
10 what you should do since it's not on the
11 radar screen? You have come to, because
12 you have thought that well, we are going
13 to end up in a problem...
14 A Right.
15 Q And you are not yet on the radar; was
16 any suggestion made as to what you
17 should to?
18 A I don't recall, sir, but if a suggestion
19 was made it was never acted upon. And I
20 venture to say that if a suggestion was
21 made to me that we could have acted
22 upon, I would have acted upon it. So I
23 would say in fairness that no suggestion
24 was made because Z certainly didn't
25 exercise any opportunity to act upon it.

1 Q So you would say that surely the
2 management of JCB was forward-looking
3 and seeing this down the road, trying to
4 preempt anything that might have
5 happened?
6 A Yes sir, yes.
7 Q Thank you.
8 MR. BRAHAM: Could you just summarise for me, sir,
9 what you consider to have been the
10 alternative to the acquisition of the
11 bank?
12 A As I see it, the alternative would be an
13 increased stake by our partner Banker
14 Popular.
15 MR. BRAHAM: Willingness to?
16 A To do.
17 Q And that would have caused an injection
18 of capital?
19 A That would have caused an injection of
20 tier-one capital. Because remember, the
21 Bank of Jamaica wanted to put in that
22 loan and we said rather than give us a
23 loan, give us tier-one capital and take
24 the bad assets; we will service them
25 and you will get back your money. But it

1 wasn't seen as an option.
2 Q Then the other option was partner to
3 inject capital into the bank?
4 A Yes.
5 Q And that was put to the government,
6 government officials?
7 A Yes. I must tell you that we are not
8 complaining about the ultimate action
9 because we did get a good price and we
10 were able to sell our shares in CIBC, so
11 that Life of Jamaica got some cash, a
12 few couple hundred millions or probably
13 three millions towards its liquidity.
14 Q I understand. Now you mentioned Union
15 Bank, that was a change of name from
16 Citizens Bank?
17 A Well, I am not sure whether they had
18 changed the name or they just put all
19 the assets into this newly constituted
20 bank; I really don't know, because like
21 Pilate, I had washed my hands of the
22 thing. Who was innocent?
23 (Laughter)
24 A I see the Chairman went to a religious
25 school.

1 MR. BRAHAM: He had a Priest as his teacher.
2 CHAIRMAN: in fact, the colour speaks.(Pointing to
3 his shirt).
4 A Subsequent to that, sir, you have any
5 information about whether Union Bank
6 while it operated, whether it operated
7 at a loss?
8 A No, I don't know.
9 Q I see. Would you look at paragraph 10 of
10 your statement.
11 A Yes, you are right.
12 A Yes. So then, it wasn't your
13 understanding that while Union Bank
14 operated it continued to make losses?
15 A Yes, it did, and as it would have
16 because it was the merger of all the
17 losing banks.
18 Q The intervened banks?
19 A Yes, the intervened banks.
20 Q Sir, you were reported to have said, and
21 you can tell me whether you said this
22 statement and so on: FINSAC has been an
23 extremely good intervention at a time
24 when the financial service sector came
25 under pressure. The trick will be for

1 FINSAC to dispense of the assets in a
2 timely fashion to put the economy back
3 into the private sector". This was in
4 the Gleaner of February 18, 2000, did
5 you say that, sir?
6 A I may have said that; I have no
7 recollection. It depends on the time of
8 night and the circumstances.
9 (Laughter)
10 Q Indeed, I can see.
11 CHAIRMAN: We are looking back in hindsight. What
12 is the position?
13 MR. DRAHAM: Is it your view that FINSAC was
14 extremely a good intervention?
15 A I don't think so. Something had to be
16 done. I don't think that the way in
17 which it was done optimised what could
18 have been done.
19 Q Do you have a sort of general idea,
20 another approach?
21 A If I were to have been doing that I
22 might have looked at it in a way that
23 did not see the operators as villains. T
24 think that perhaps the approach that was
25 used could have been described as

1 less-caring about the overall result
2 than about punishment.
3 Q So you are suggesting that the
4 authorities had a great interest in
5 punishing from your perspective?
6 A I am not sure, it was not probably the
7 methodology used.
8 Q Of that result?
9 A Yes, I think so. I don't get the
10 impression that there was any
11 understanding on the part of the people
12 who held the handle..
13 CHAIRMAN: But you know, it reminds me of school
14 days and doing French where there is
15 that man who spoke prose and knew it
16 not, just like your people there. They
17 were speaking prose but does not know
18 it, because the effect of the action was
19 punitive.
20 A I take your point, sir.
21 CHAIRMAN: It would seem.
22 MR. BRAHAM: Chairman, not only went to a good
23 religious school but had a good French
24 Tutor. (Laughter)
25 A Now there was a suggestion in

1 the Article that at the time Life of
2 Jamaica was having its difficulties, you
3 were in acquisition mode elsewhere and
4 that may have affected your sort of
5 attention to Life of Jamaica?
6 A No, I don't know what the acquisition
7 was, I have always been in an
8 acquisition mode because I started out
9 with a philosophy of growth by
10 acquisition and that continues up to
11 today.
12 But Life of Jamaica had what T regard as
13 being one of the finest set of senior
14 officials I had worked with anywhere. I
15 mean, I am not a life insurance person,
16 never sold insurance but when I became
17 Chairman I did take the time to
18 understand how the business worked. My
19 presence or absence would only have been
20 in terms of chairing the Board and
21 providing a framework of guidance but
22 nothing technical. So my absence would
23 not have made one row a bit of
24 difference.
25 Q Just to come to my last question, sir:

1 you were developing an alternative
2 approach and you indicated that an
3 approach most sympathetic to the
4 operators may have been preferable?
5 A Yes, I think the results would have been
6 considerably better for the country.
7 Q Would you have been able to sort of --
8 develop that a little bit?
9 A I think that the way -- I genuinely
10 believe that a lot of money was spent
11 which need not have been spent. I think
12 the cost of the exercise could have been
13 significantly mitigated if the approach
14 taken was.: Okay, we are in trouble, we
15 understand the reason, the cause of the
16 trouble. Because stripped of all the
17 facade, high interest rates, the only
18 instrument that the Bank of Jamaica had
19 available to it to curb inflation, high
20 interest rates did do damage. Now
21 recognising that was the cause why adopt
22 the attitude that you are dealing with
23 rogues and vagabonds and that sort of
24 thing? I think that perhaps a change of
25 attitude, a change of approach would

1 have made a considerable difference.
2 Q May I? I did say it was my last
3 question.
4 CHAIRMAN: You are due an ultimate one, that maybe
5 final but there is an ultimate one so
6 keep going on.
7 MR. BRAHAM: I will seek your advice shortly, sir.
8 But insofar as persons who were
9 borrowers from JCB, are you aware as to
10 what happened, what arrangements were
11 put in place on the sale of the bank?
12 A No. No, I am not.
13 Q I see.
14 A I am not.
15 Q The high interest rate that was
16 prevailing in the economy at the time,
17 how did that translate itself in
18 relation to the borrowers of JCB?
19 Q Well, effectively if I had arranged with
20 JCB a loan at 12 percent interest and
21 all of a sudden interest rates by decree
22 were increased to 17 or 20; a loan that
23 was extremely viable as it were, was not
24 viable at 20. And then when you got to
25 the stage where you had the punitive

1 rates for overdrafts -- and remember at
2 the time the liquidity arrangements
3 between the banks and the Central Bank
4 were also amended so that the banks had
5 considerably less cash available to
6 them at the time. So that it was a
7 vicious circle. The borrower at
8 12 percent found himself paying
9 25 percent and if he went into overdraft
10 the rates could have gone up to
11 16/17 percent. Now a viable project at
12 the 12, 15 or even 17 just became
13 totally unviable. So that the poor
14 borrower was running at a very fast
15 Bolt--like pace and getting nowhere
16 except backwards. So people who had
17 those loans, unless they had unlimited
18 supplies of cash and could pay them out,
19 they were bound to be in dire straits.
20 Q Do you know whether the rates exceeded
21 the 25 percent, not the punitive but the
22 regular rates?
23 A I think so. I don't remember but I
24 think they went up, I think they went up
25 significantly more than that.

1 Q Very well. Subject to the ultimate, sir,
2 those will be my questions.
3 CHAIRMAN: No, I had thought you were breaking the
4 ultimate. Anyway, thank you very much.
5 Mr. Garcia, you have no interest?
6 MR. GARCIA: A few, yes, questions, Mr. Chairman.
7 CHAIRMAN: Feel free.
8 Mr. Garcia represents Mr. Patrick
9 Hylton formerly of FINSAC.
10 EXAMINED BY MR. GARCIA
11 MR. GARCIA: Good morning, Mr. Lalor.
12 A Yes.
13 Q Could you clarify for me the amount of
14 the assistance that was provided to Life
15 of Jamaica, was it one billion dollars
16 in cash?
17 A No, no it was a piece of government
18 paper. 1.23 I think it was, I don't
19 remember.
20 Q Was it not \$1B in cash and \$1.2B
21 in Government paper?
22 A I don't remember.
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2 MR. GARCIA: And in terms of the Government Paper,
3 was that FINSAC notes?
4 A: Yes.
5 Q: And those FINSAC notes were to be
6 converted to GOJ local registered stock
7 within a month, is that correct?
8 A: I don't remember.
9 Q: Now, I wanted to ask you a question also
10 in relation to a particular insurance
11 product in respect of which Mr. Braham
12 had asked you some questions, and that
13 was the product in respect of which
14 policyholders can surrender fairly
15 easily and recoup what I think was being
16 referred to as their investment. In the
17 context of such a product, would you
18 agree with me that it is appropriate
19 that an institution that markets such a
20 product have fairly substantial liquid
21 assets available?
22 A: Well, yes, but at the time the liquidity
23 of the stock exchange was never in
24 doubt.
25 Q: And so it would be your position that it

1 was the change in the market at the time
2 that caused what might be referred to as
3 a mismatch of the assets and
4 liabilities?
5 A: Absolutely.
6 Q: Now, I wanted to ask you also about the
7 sale of, was it ICWI's holdings in LOJ
8 that was done through NCB Capital
9 Market?
10 A: Yes, it was done through Capital Market.
11 Q: That sale was to a specific buyer?
12 A: I don't know. We were approached by a
13 capital market and we sold.
14 Q: So NCB Capital Market approached you on
15 behalf of...
16 A: They wouldn't have told me.
17 Q: ...a client or a number of clients
18 unknown to you?
19 A: Yes.
20 Q: What was the size of ICWI's share-
21 holding immediately prior to that sale?
22 A: I don't remember but it was considerably
23 less. At the time of the government
24 intervention, ICWI holdings had probably
25 55 percent of Life of Jamaica; with the

1 government intervention they had
2 acquired 75 percent of the company, and
3 so our equity percentage was
4 significantly reduced.

5 Q: You don't know approximately what
percentage it might have at the time?
No.

6 A: Do you recall when it is that you
7 demitted office as Chairman of LOJ?
Was it '95 or -- I don't remember, could

8 Q: be '95, '96.

9 Was there a dispute between yourself and
the government or any of the government
10 A: representatives concerning your eventual
separation from that company?

11 Yes, there was a dispute which went to
Court which was amicably settled and the
matter is at an end.

12 Q: Sorry, why is that relevant Mr. Garcia,
what in our Terms does that come under?

13 Well, Mr. Chairman, I think it may be
14 relevant to the question of the
15 witness's views as to the quality of the
intervention in respect of which I
16 A: believe that based on the questions that

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19 CHAIRMAN:

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21 A:

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Mr. Braham has asked, the witness may be reported to have expressed different views. On one occasion, as I understand

4 it -- in fact, Mr. Chairman, perhaps
5 what I could do is to go to the report
6 to which Mr.

1 Braham had made some
2 7 reference and
3 perhaps I can put things
4 8 in some better
5 context.

9 Q: Mr. Graham had referred you, Mr. Lalor,
10 to a report in the Gleaner in February
11 of the year 2000.

12 CHAIRMAN: And he said he didn't recall or
13 something like that.

14 MR. GARCIA: I believe the witness -- well, perhaps
15 the witness could be refreshed. T
16 believe what he was specifically...

17 CHAIRMAN: Mr. Garcia, we don't want to repeat
18 ourselves unnecessarily. So far as I
19 recall, and you can correct me, the
20 witness said that he recalled making the
21 statement, but he said what time and
22 date it was, he didn't recall. Aren't
23 you bound by that answer? What is it
24 that you are...

25 Q: Let me ask something else, Mr. Chairman,

1 in relation to that. Do you recall
2 appearing on the Gleaner's Talk 2000
3 Chat Session, February of 2000?
4 A: How would I?
5 Q: I would like to show the witness a
6 document, sir.
7 (Document shown to witness)
8 A: What particularly are you interested in,
9 Mr. Garcia?
10 CHAIRMAN: Yes, the question you want?
11 A: You want me to read the entire thing?
12 Q: I prefer that you read it, it's fairly
13 short sir, and then I will ask the
14 question.
15 (Mr. Lalor reads document) Yes.
16 Q: Do you now recall having appeared on
17 that Chat Session, Mr. Lalor?
18 A: Yes.
19 Q: And does that document accurately recall
20 statements that you made during that
21 chat session?
22 A: I would imagine so, if this is what I
23 said, yes, I recall being there, I can't
24 tell you that this represents what I
25 said.

1 Q: Have you seen this article before?
2 A: Mr. Garcia, if I had seen this article
3 before 2000, I mean since 2000, why
4 would I remember it?
5 Q: It is sometime ago, I appreciate that,
6 sir. Mr. Chairman..
7 A: If you tell me what you are trying to
8 find out, I can help you.
9 Q: Certainly. There are certain other
10 questions and answers there that perhaps
11 you can assist us with.
12 A: Let me tell you. On the third one,
13 "FINSAC has been an extremely good
14 intervention at time when the financial
15 sector came under pressure. The trick
16 will be for FINSAC to dispense of the
17 assets in a timely fashion to put the
18 economy back in the private sector."
19 There was no other way but for FINSAC or
20 some institution to get involved. What
21 my quarrel is, if it's a quarrel, is
22 methodology.
23 Q: But you were also at that time asked:
24 Do you think FINSAC was doing a job
25 worthwhile to the Jamaican economy? To

1 which your response is reported to have
2 been: "Without FINSAC the Jamaican
3 economy would have collapsed with dire
4 consequences, all things considered
5 FINSAC has done a good job." - in the
6 recorded response at the time.
7 A: In the context of question and the time,
8 yes.
9 Q: Yes. And you are also reported earlier
10 in that session to have been asked:
11 Does Jamaica need FINSAC? by a
12 participant to which it said, you shot
13 back, "Yes."
14 A: Did I fire a gun?
15 Q: I assume it meant you responded. The
16 overleaf, Mr. Lalor, you are also
17 reported to have said: "I think the
18 Minister of Finance has done a good job
19 in difficult circumstances, the country
20 has had its difficulties and what we
21 need now is less diversity on the issue
22 and more prescriptions in dealing with
23 them." Would that be an accurate
24 description of your views at the time?
25 A: What I was trying to do is to calm

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people, I wasn't trying to praise Caesar or the Minister. The fact of the matter is that mistakes were made, mistakes in implementation; serious mistakes were made and what needs to be done now, past achievements, achievements past. Let's get on and stop the disunity and move forward. That was really the real gist of this. In other words, blessed are the peacemakers.

MR. GARCIA:

Thank you, sir. In the context of the financial condition in which LOJ found itself in the late 1990's and early 21st century and regardless of what were the circumstances that led to that condition, did you consider the intervention in the financial sector and particularly involving LOJ, to be necessary at the time?

A:

There was a need, as I think I said earlier, there was a need for some intervention. Had I been responsible, the methodology would have been different but you deal- you play the hand that you are dealt and there was no

1 point in complaining. To whom would one
complain?

2 3 MR. GARCIA: Thank you, Mr.
Lalor. Thank you
4 Mr. Chairman.

5 CHAIRMAN: You are welcome. Is there any other
6 counsel, representing any party? The
7 Bank of Jamaica had an observer.

8 MR. GARCIA: She has no question, sir.

9 CHAIRMAN: I don't suppose counsel who appears...

10 MR. GARCIA: She has indicated she doesn't wish to
11 ask any question, sir.

12 CHAIRMAN: Is there anyone else? Mr. Shelton, you
13 wish to?

14 MR. SHELTON: No, Mr. Commissioner.

15 CHAIRMAN: Counsel?

16 MR. HENRIQUES: No.

17 CHAIRMAN: I have no more. Mr. Braham, no ultimate
18 question?

19 MR. BRAHAM: No, sir.

20 CHAIRMAN: Mr. Lalor, we are very grateful for your
21 presence and for your submission that
22 you have made, you were of much help.
23 So we wish you bon voyage.

24 A: Thank you, sir.

25 CHAIRMAN: Please do not go in the pilot seat.

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Well this is an end to today's
proceedings. We will resume, God
willing, on Tuesday at 9:30, 2nd of
February. Thank you for your
attendance.

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TAKEN

ADJOURNMENT