TUESDAY, 29th MARCH 2011

COMM. BOGLE: Good morning ladies and gentlemen. This Enquiry is now in session. For the record may we have the name of the attorney present.

MR. GOFFE: Gavin Goffe, instructed by Myers Fletcher and Gordon for Jamaican Redevelopment Foundation.

COMM. BOGLE: Thank you very much. This morning we will be hearing from Reverend Jim Parkes. Reverend Parkes, could you please come forward.

REVEREND JIM PARKES CALLED AND SWORN.

Thank you very much. Reverend Parkes has a written submission. We will be getting copies of his presentation. In the meantime Reverend Parkes, I will just read to you the section of our terms of reference under which you were requested to provide information to this Enquiry and it says - this is coming from the Governor General.

"WHEREAS I have deemed it advisable to issue a Commission under the Commissions of Enquiry Act, appointing the Commissioners herein mentioned and authorizing such Commissioners -

(1) To examine the circumstances that led to the collapse of several financial institutions in the 1990s with particular regard to:

(a) the extent to which these circumstances were directly influenced by domestic or external factors;

(b) Government's fiscal and monetary policies;

(c) the management practices and the role of Board of Directors of the failed institutions.

(d) The performance of Government's regulatory functions."

Those are the main areas under which we ask that you make representation or submission to this Commission. We sent, I think it was in 1999, being a long time ago...

MR. DEPERALTO: 2009.

COMM. BOGLE: Yes, 2009, we sent a letter to you which I will read:

We draw your attention to the terms of reference of the Commission of Enquiry, a copy of which is attached.

To facilitate the work of the Commission you are hereby requested to make a written submission to the Commission of Enquiry stating the reasons leading to the failure of the financial institutions. Your submission should clearly outline the management practices and the role of the Board of

Directors in the management of the company. You may include any other information that in your opinion may be of assistance to the Commissioners.

Reports and documents required.

Annual reports of the institution for the years 1990 to the date operations ceased or its operations fell under FINSAC.

The full address of registered offices of the institution.

A complete list of directors, officers and executives of the institution from the inception to date.

A list of all shareholders..."

Some of these maybe fully applicable, some might not be.

A copy of the memorandum and Articles of Association or other documents of incorporation of the institution and any amendments thereto from the inception to date.

A copy of each and every agreement and amendment thereto between the institution, FINSAC and or the Government of Jamaica.

A complete list of all customers whose debts were transferred to FINSAC.

A complete list of the interest specifying the interest rates and other charges applied to the obligations of each debtor at the time the debt was transferred to or fell under the management of FINSAC.

Copies of the minutes, summaries or other compilation of the meetings of the board of directors, the executives of the institution, each committee of the board, and each management committee from 1990 up to the date the institution fell under the management of FINSAC.

Copies of minutes of meetings with regulators, FINSAC, the Ministry of Finance or other related government agency.

So this is pretty wide. We know that you may not have all the information so we will await your submission, receiving a copy of your submission and then we will ask you to go through that submission. So we will have two minutes break while we wait for the copies.

BREAK

COMM. BOGLE: Okay, this Commission is now back in session and just before Reverend Parkes is asked to make his submission, I would just like to point out that reports in the Press recently implied or stated that Justice Henderson Downer is a Commissioner in this Enquiry. I would like to make it clear that Justice Henderson Downer is not a Commissioner, but he is a legal adviser to the

Commission. So I would ask the Press, those who are responsible, to ensure that when they are referring to Justice Downer that they refer to him in that light and not as a Commissioner of the this Enquiry. Thank you.

Reverend Parkes, we have received your written submission and therefore we would ask you to take us through it. You may read, you may paraphrase, you are quite free to do that, because once we have received it, when you have read it into this Enquiry that is when we can accept it.

Mr. Chairman, let me just make a comment before I actually read the report, that it is my understanding that the meetings of this Commission take place in various rooms in this hotel; and it is very ironic and poignant that today's meeting is taking place under the watch of George William Gordon who, as you know, was one of the founding members of Mutual Life which I will talk to you about this morning.

COMM. BOGLE: Right.

So if I appear to be reverend it is because of the founder of the organization that I worked with for almost 30 years.

I start with a quote from the first Chairman...

COMM. BOGLE: Can you just bring the mike down a bit.

A: I start with a quote from the first Chairman, a man called Simon Peterson. "The Jamaica Mutual Life Assurance Society is one of the most remarkable of Jamaican achievements. It started operations entirely without capital, having nothing but the confidence, the standing, and the integrity inspired by its founder."

That quote is from the book "Time Tells Our Story".

I was one of those young Jamaicans, among many others in the 1960s that was so inspired by this entity that when I decided to enter the life insurance industry as a salesman in 1969 I chose to join Mutual Life - the only Jamaican company in the Life Insurance business at the time.

The birthday of Mutual Life is the 21st of March 1844, the date of the original Deed of Settlement that brought the Society into being. The first office was opened on the 22nd April, 1844, and the first policy issued in May of that year.

In 1994 as the financial crisis of the 1990s took hold of the Jamaican economy Mutual Life celebrated 150 years of existence, with the commitment, energy, experience, the intellectual and business confidence to take on the challenges of the next 150 years. It was the late Professor Nettleford who remarked, "If the energy and the collective wisdom of founders, builders, consolidators and active visionaries is to be taken seriously, the future of the Jamaica Mutual Life Assurance should not be in doubt. Mutual Life was poised for an even more colourful and meaningful contribution to Jamaica and to the lives of ordinary Jamaicans than it had experienced in the past 150 years. No one could have imagined that the financial environment of the 1990s would bring about the collapse of this truly outstanding Jamaican entity.

At the time 1994 the Board of Directors was led by Dr. Marshall Hall, and the Management team led by the Honourable Dr. Gloria Knight, P.C, with myself as the Deputy Managing Director with specific responsibility for the Life Insurance Business of the Society.

The Society's Board in 1994 was as follows: Dr. Hall, Chairman, Edward Ashenheim, Deputy Chairman, Christopher Barnaby, Sales Staff Representative. Simon Clarke, Robert Cranston, Fredrick Evans, Robert Hanniball, Mrs. Angela Hudson-Phillips, the Honourable Gloria Knight, Aubrey McLeod, Frank Myers, Professor the Honourable Rex Nettleford, myself, Dr. Rudolph Shoucair and Dr. Dhiru Tanna.

Chairman, in your copy you would have noticed I listed all the qualifications which I would not bore you with at this time. But I go on to say that the Society was blessed with a Board of Directors where each Board Member had a personal track record of integrity, experience, formal and academic training, competence, accomplishment and commitment to take Mutual Life into the decade of 2000 and beyond. The Board, in full, represented the policyholders and remained as the final authority in the overall management of the Society, particularly as it related to policy and performance. However, the Board delegated significant powers to its three main Committees mainly the 'Insurance' Committee, the 'Investments' Committee and the 'Audit and Conflict of Interest' Committee.

The Insurance Committee was charged with the monitoring and control of the Life Insurance business of the Society.

The 'Investments' Committee was charged with monitoring of the Society's various investments.

The 'Audit and Conflict of Interest' Committee was responsible for matters relative to internal control, to make recommendations on the Society's overall budget and accounts while ensuring that conflicts of interest by the staff of the Society were avoided.

This re-organization of the Board and Management of the Society had become necessary due to the significant growth and development experienced in the areas of assets, acquisitions, staff, sales of ordinary life insurance polices as well as of Group Life, Group Health and Pensions Business.

Mutual Life was the undisputed 'giant' of the Financial Sector in Jamaica and the Caribbean.

In light of this growth, it was also necessary to re-organize the management of the Society in order to achieve greater efficiency, control costs, influence and monitor the performance of its almost 30 subsidiaries, including National Commercial Bank and Royal Bank of Jamaica.

The re-organized Management structure included the establishment of a Group Office, headed by the President/Managing Director. Three major appointments with supporting staff were implemented:

1. A group Comptroller in charge of Corporate Planning, Human Resources and Information Systems.

2. A group comptroller in charge of investments and.

3. A group comptroller in charge of Finance.

Together they comprised the Office of the President. However, notwithstanding the above, the Core Life Insurance Business of the Society, concentrated on the selling and servicing of Life Insurance, Health and Pensions Business, as well as the granting and servicing of Mortgages. This core business remained at the heart of the Society's business and was headed by the Deputy Managing Director at the time and myself.

Therefore, it could never be said that Mutual Life had ever departed from its core business.

As at December 1992 the Assets and Investments of Mutual Life stood at over $15 Billion, broken down as follows: Government Securities $638,266.00 Million.

Other securities $107 Million.

Debenture and loan stock, $53,000 Million.

Preference Shares $549.000.

Ordinary shares $3,537,600 Million Dollars.

Unit Trust Investments $352,345 Million Fixed Deposits $900,157 Million.

Mortgages $479,339 Million.

Property Investments $1.4 Billion Investment in Associated Companies $1 Billion.

Loans to Associated Companies $254,599,000 Million.

Other Assets $6 Million.

Goodwill Arising on Consolidation $68 Million.

Total $15.3 Billion.

The Jamaica Mutual Life had become the largest conglomerate in the English-speaking Caribbean with offices in Jamaica, Trinidad, Cayman, Belize, USA, and London England. Hotel Investments totalled $2.8 Billion providing 1,207 rooms in the Tourist Industry.

Housing developments were undertaken in Christian Pen, St. Catherine, (90 units) in collaboration with the National Housing Trust; at Milford Manor in St. Ann; at Sydenham in Spanish Town; Dunrobin Acres, not too far from here and Renfrew Road, just around the corner here as well as Upper Waterloo Road, among others.

Mutual Life's Objective of pursuing ventures that advanced the productive capacity of Jamaica was further realized when in 1992 it was announced that the Society had entered into a $16 Million joint venture with Springvale Farms, located within the parishes of St. James and Trelawny. The Venture was a 200 acre banana project which was projected to yield nine tons of bananas per acre in its second year, 12 tons in its third year and 15 tons per acre in year 4.

In 1990 Mutual Life, in joint venture with Jamaica National, acquired a 95% interest in NEM Insurance (Ja.) - a very successful general insurance company.

At the end of 1992 Mutual Life employed nearly 600 persons on the Admin. staff and over 500 on the Sales staff. During that same year over $10 million was spent on staff training.

Over the years Mutual Life had become Jamaica's foremost Corporate Citizen with involvements in the Maxfield Park Children's Home; the Adopt-a-School Programme; The College of Arts, Science and Technology (now UTECH), full sponsorship of the Annual Mutual Games, Monthly Jazz Programmes at the Corporate Centre, Mutual Life gallery; the development of video tapes for the teaching of the CXC, Mathematics in consultation with the Ministry of Education, the Jamaica Teachers' Association and experts from the University of West Indies. The Society distributed these tapes free of cost along with the accompanying workbooks to schools preparing the students for the CXC Examinations. Through its Public Relations Office, Mutual Life gave considerable support to many and varied social and community projects across the island.

The beginning of the End.

Even as Mutual Life celebrated 150 years of success and contribution to the growth and development of Jamaica and the Caribbean, the clouds of financial failure were already forming above the Jamaican economy. Government policy which had as its objective, the encouragement and development of a market-led economy with the private sector as the main engine of growth began to have the opposite effect.

Up to August 1991, foreign exchange had been under very strict control. The liberalization of the exchange rate in September 1991, and the elimination of price controls and subsidies began to place severe pressures on the Jamaican Dollar. In July 1991 the value of the Jamaican dollar in relation to its US counterpart was approximately $10.00 to US1.00. By the end of December 1991, the same year, the rate was now $21.00 to US$1.00, i.e., more than 100% devaluation which resulted in another round of high inflation for the country.

The increase in the cost of living, as a result of the devaluation of the Jamaican Dollar had the effect of considerably increasing the cost of acquiring new business, as well as increasing management expenses of the Society. It became necessary to make substantial revision in the compensation packages for both administrative and sales staff.

In 1991 inflation peaked at 80% while averaging approximately 40% in the previous five-year period. This situation is a recipe for the destruction and decimation for the life insurance business, where once a premium is fixed it remains that way for the life of the policy. This is based on the Level-premium Concept of Pricing ordinary Life Insurance products.

Insurance companies cannot simply increase premiums to meet or to match these rates of inflation. Premium rates are established for the long term based on projections of exchange rates, inflation rates, interest rates, and projections of surpluses, and the costs related to the acquisition and maintenance of a "block of business".

In an effort to ameliorate the situation some companies including Mutual Life, introduced into the market-place equity-linked and universal life type policies. These types of investment-oriented policies have the potential to link returns to the existing economic environment to a greater degree than traditional policies". However, they suffer from one major weakness mainly the insured public begins to see the purchasing of life insurance more and more for investment purposes, as opposed to the concept of protection for their families against their untimely death or disability. Consequently, life insurance, which was always intended for the long-term, now is perceived as a short-term investment instrument to be compared with the benefits and returns of short-term investment instruments, such as Certificates of Deposit, Government paper, Commercial Paper and some aspects of the Stock Market.

The upshot of all this is that policy-holders begin to encash the benefits under their long-term insurance policies and to place them in shorter term investments yielding greater returns. If this situation of high inflation fueling higher and higher short-term interest rates is a one-off or occasional occurrence, then the life insurance business can accommodate it over the long term. However, where this policy of high interest rate persists for any length of time, it must have a deleterious effect on the life insurance product. Unfortunately, for all concerned, this is exactly what took place in Jamaica during the 10-year period from 1989 to 1998. Over that period Devaluation averaged 15%.

Inflation averaged 22%; Treasury Bill Rates averaged 32%; Commercial Bank Lending Rates average 40%.

Given what I have said about the nature and the structure of the life insurance product, is it any surprise that all the life insurance companies became insolvent? The only exception, to my knowledge, was the First Life Insurance Company which was a very minor player in the life insurance business; their focus was more on Health Insurance, where they could re-price their product every year. The fact that all these companies 'went under' at the same time must indicate that the cause must be due to something external to these companies. Can anyone with a knowledge of the economic conditions prevailing in Jamaica during the 1990s truthfully and honestly conclude that the common factor present in all these companies and because of which they all failed, was incompetent management and failure to contain costs? It must be remembered that the life insurance business had always been the backbone of long-term savings throughout Jamaica's history. It was long-term funding from the life insurance industry that had made possible the construction of the bulk of the commercial and residential development in Jamaica.

Additionally, it was the Life Insurance Industry that had almost single-handedly supported the government's divestment of its hotel from National Hotels and Properties. I submit if the industry was being run in an incompetent and cavalier manner, how could it have contributed so significantly to the development of Jamaica for decades?

The question must also be asked: Is it true that all the local banks that failed during the same period were being run in an incompetent and cavalier way? Further, did hundreds of other businesses, large and small, also fail during the period under review?

It would be naive of me not to concede that some businesses, including Mutual Life, did make mistakes in failing to recognize that these hostile financial conditions could persist for such an extended period of time, as they did. Maybe more drastic actions could have been taken in responding to these conditions. Certainly Mutual Life did consider halting the construction of the second tower at its Oxford Road Complex. Certainly Mutual Life did consider ceasing the writing of new business, and operating a 'closed portfolio', thereby 'sending home' approximately 800-1000 staff members. After the most careful and exhaustive analysis, we felt that such drastic moves would not have been in the best interest of the Country, as it would send a clear message that "If Mutual Life could not survive then who could?".

Such drastic actions could also exacerbate the economic conditions at the time.

Yet, Mr. Chairman, one cannot be too harsh on those responsible for the economic conditions of the 1990s. It was clear that honest and sincere efforts were being made to bring Jamaica in line with the rest of the world; to restrict the wanton consumption of especially foreign goods that had to be paid for with scarce foreign exchange; to curb the high levels of inflation that, of necessity would eventually bring the economy to its knees. There is no doubt that major corrections were necessary for the economy in order to get inflation under control. It is my view that drastic actions were required to achieve these corrections.

Certainly, some persons and some organizations benefitted from this regime of high interest rates and the devaluations which took place at the time. However, life insurance companies, given their nature and structure, would find it impossible to survive under these conditions. Life insurance companies are traditionally "lenders", not "borrowers" of money. However, many companies, including Mutual Life, found it necessary to borrow money to complete projects they had undertaken in an effort to protect their long-term assets. To a great extent this became necessary as policy-holders opted to encash the cash values on their policies and invest them in short-term instruments at much higher rates of interest. This process of what we call dis-intermediation sounds the death knell for any life insurance company, even for those which carry no debt. The effect of heavy encashments erodes the capital base of these companies forcing them to raise new capital, where this is possible, and eventually forced them into insolvency. This was the fate of the life insurance companies in Jamaica during the 1990s.

On reflection, no company can say that there were not pockets of incompetence in their operations; it is highly unlikely that such pockets of incompetence in the management of the companies that failed were present in all of them to the same fatal degree. After all, it was not the same set of people running all these companies.

I became President of Mutual Life on 1st April 1996, at which time it had not been clearly established that the Society was insolvent, and at least one meeting had already taken place with the Minister of Finance to apprise him of this situation. My mandate was to down-size the organization to the point where its expenses were in line with its income.

Additionally, I was charged with setting out a plan of de-mutualisation of the organization as part of the requirement of a Financing Package from FINSAC. These criteria were met; however, there was always something else that FINSAC required, while at the same time the level of financing required kept growing as the 'Insolvency Gap' kept getting wider and wider under the high interest rate regime. The society did receive some capital injection from FINSAC in the form of FINSAC Bonds which was used mainly to repay overdraft facilities obtained from the National Commercial Bank (NCB). The overdraft rate charged by NCB was a function of what NCB was being charged by the Bank of Jamaica, and on at least one occasion, the rate that NCB charged Mutual Life on overdraft was in excess of 100%. The Society's efforts to raise capital locally and overseas were all unsuccessful, leaving it with no option but to rely on the Government. When I resigned from the Society on 31st July, 1998, discussions with the Government were still being held. Subsequently, in November 1998, it was announced that the Government had taken a decision to close Mutual Life and sell its portfolio of business to Guardian Life of Trinidad. It is interesting to note that this portfolio of business sold to Guardian Life was instantly profitable to Guardian Life and the income stream there from has made the Company extremely stable.

In closing, Mr. Chairman, I say the Government is to be congratulated for its bailout of all the clients of Mutual Life and other companies, none of whom, to my knowledge, actually lost any money.

In hindsight, the entire country should always bear in mind the maxim, "An once of prevention is worth a pound of cure". Thank you very much.

COMM. BOGLE: Thank you, Rev. Parkes. The extent to which Mutual Life had invested in real estate during the '90s, earlier than the '90s and coming up, to what extent do you believe that impacted negatively and contributed to the failure of Mutual Life?

A: Mr. Chairman, in long term business, real estate is always a major part of investment portfolio. What happened that I think caused us the real problem was when policy holders began to encash their policies to take out the cash, real hard live cash. It had a negative effect on our cash flows. Mutual life took a decision that to hedge against the long term effect of these high interest rates, tradition has always taught us that real estate is the way to go, and we have seen that happen since. Therefore Mutual life felt it had to continue with its investments.

As I mentioned in the presentation, we seriously considered stopping the work on the second tower at the Oxford Road complex. That was the big issue, the real race in the project at that time, but we felt that it would send the wrong signal. We felt that over time it would have been prudent. We felt that the situation could not have continued for years and therefore we went ahead. We may have done it wrong but we went ahead.

As the rates continued, these high interest rates, the society found that its asset base was being eroded. The surpluses built up over years were dissipating daily and the question of insolvency began to emerge. And we saw this in 1993. We had a stock market crash in 1993, if you can recall. We called in Pricewaterhouse to look over all our numbers and they analyzed all the possible permutations, the possible options, and said to us that all the options that they saw going forward would result in insolvency, Mr. Chairman, unless the rates were to fall automatically, because the other thing, Mr. Chairman, is that as the rates rise you have to make greater provision for your liabilities because those also rise, liabilities of your policy holders. So we were struggling with the cost of high interest rates.

As I said, the way a life insurance product is designed, even if you call it equity or universal life it does not really matter. The product is designed based on projection for the long term, so you buy a policy today and you get to pay ten dollars per month, you pay that ten dollars until you die or the policy matures. So can you imagine having sold a policy in 1975, and I joined the business in 1969 and some of those policies are still on the books. Can you imagine the cost to the company to maintain those policies on the books at today's rate of cost. It is obviously uneconomic, it makes no sense and at one time we did consider paying out all the policy holders because you cannot maintain a policy sold twenty-five years ago at cost at that time versus cost twenty five years later. So for the life insurance business you require a fairly stable economy with projections that hold firm over time. When you have inflation rate at 40% and interest rate at 80% you can survive for one or two years but over time it becomes very uneconomical and any life insurance company will go under in that kind of situation.

COMM. BOGLE: One may argue that part of the problem as well, is Mutual Life and, maybe other institutions like Mutual Life, was their movement into other areas such as farming, that you mentioned, and possibly over investment in real estate. What is your view on that?

A: Mr. Chairman, if you look at Jamaica today you must ask the question, where is the long term investment taking place in this country. I am not so much in the financial world these days, but I still see a little bit. I don't see much taking place for the very simple reason the mobilization of long term funds is not happening. Whatever is happening now is based on borrowed money from somewhere else. What the real estate does, Mr. Chairman, is it allows you over time to build up surpluses, capital gains. It is those surpluses that then fund long term and you don't have a failure of those surpluses or those funds being recalled or being called upon to paid them out right away. That is how Mutual Life had grown over the years.

The other point I make is, development is a very neglected matter in this country and the funding for development comes from local organizations. Mutual Life saw itself in that way. Mutual Life engaged in various activities, for example, I mentioned the farming and at the time there was talk about the E.U. Regime with the bananas and there was a great noise about increasing production of bananas. Mutual life saw part of its role in Jamaica as assisting in that. It was not a great deal of money, it was sixteen million at the time. We went into a joint venture. We were not going to be in the business of growing and reaping bananas. We were in joint venture with Spring Plain Farms. We were funding; they were going to operate farm and do what needed to be done. So, we were not in the business of operating a farm. The same applied to the company investments. When the government found himself overloaded with these hotel and they wanted to divest them, it is not the long term funding that Mutual life had and other insurance companies that would allow us to do that. We didn't operate any hotel. We were in partnership with various companies operating the hotels. We funded the hotels by buying and refurbishing but the operations were not ours. We would receive a lease payment up front from the assets and share in a piece of the returns from the operation over time. So, we had a lease at two levels, lease for the property and a piece of the operation. We were not in the hotel business, so why we would share in the Board's decision, policy and so on? We were not distracted by the hotel business, and so, while I am sure that some persons would want to see it that way the reality is that we were more lenders and funders into various areas of development. Recognise that these would be long term but that is the nature of the insurance business. Mutual life is a testament to that. Mutual life was founded in 1844. As I said with no capital and therefore the surpluses were all from the business and policy holders and all those surpluses belong to the policyholders. As a mutual company we had no share holdings. We always were very strong on any kind of development of Jamaica because it was for Jamaicans.

COMM. BOGLE: You mentioned that Mutual Life was in discussions with FINSAC during the period, can you expand on why those discussions failed regarding the continuation of Mutual Life? You remember that you went to FINSAC with the hope that you would be able to negotiate a package of support in order to get Mutual Life continuing?

A: Yes.

COMM. BOGLE: What were the main considerations facing you why this failed? What was the main reason why this failed?

A: Chairman, I find that hard to answer. And FINSAC is better able to answer at this point, but there was always something else. We had many, many meetings and in fact, as I said, we did get some injections of capital but principally that was to deal with NCB because we were in overdraft facility with NCB and at one point that had caused NCB to be in breach of the Bank of Jamaica's regulation. And so we had to tidy that up, but in regard to the FINSAC arrangement we had many meetings and many, many consultants coming into the organization to comb over the matters.

COMM. BOGLE: Did you get the feeling that FINSAC was working with you or, what feeling did you get?

A: I got the feeling that they were working with us. I got the feeling that FINSAC was committed to saving companies including ours. But as I said, there was always something else, requirements, being asked for. And the problem that caused as a result of the high interest rate -- a billion dollars last week is not a billion dollar this week because the rates are calculated daily -- it was like moving goal posts. It was always being moved.

When I left Mutual Life we had in fact agreed on a programme in order to qualify to receive a complete package from FINSAC and that programme required many things to be done, there were many painful things. As I said, we had to downsize the organization, literally downsize and that caused tremendous pain for everybody which started the process of de-mutualisation because we felt that for FINSAC to get into the organization they had to have shares and you can't have shares in a mutual company so we started this process. The paper-work was well advanced. The staff had been briefed. I have to tell you, Mr. Chairman, I myself came into some personal abuse from many persons because that is what I had to do and we were well along the way, well along the way. The Board of the Company was now comprised of directors mainly from FINSAC and FINSAC would have had all the information, everything about the organization, as much as they would need. And when I resigned in July 1998, I had no idea that within months after the company would have closed.

COMM. BOGLE: You mentioned just awhile ago that the package was well on its way. I know one may say that the collapse took place just after you left.

A: The collapse was on the way years ago.

COMM. BOGLE: You have any idea what would have derailed that package?

A: You mean afterwards?

COMM. BOGLE: Yes. I know that you were not there at the time.

A: I could not comment. I really don't know. I really don't know, and I think FINSAC would be the best person to answer that question. I was in shock, I must tell you, when I heard on the radio that a decision was taken to close the organization. From my point of view, most of the arrangements, the conditionalities that were in the agreement were in place from my point of view and so I felt that the time had come for me to move on and for some new blood and spirit to take over and I was shocked, I was totally blown away because I felt, Mr. Chairman, and this is not in my presentation, but I personally felt that of all the companies in Jamaica barring none, Mutual Life represented the heart and soul of this country. It was put together at a time, and bear with me a little bit, it was put together at a time when if you live in the colonies, the cost of insurance was like 50 percent or 70 percent more than if you lived in England, and it became a problem because the planters, the owners who were Englishmen, at the time, who lived in Jamaica had to be paying more insurance here or paying more for insurance than they were paying in England, and they did not like it, they thought it was unfair; they thought it was inequitable. Obviously the conditions were not all that wonderful in England at that time but that is how it came about where it was felt that the insurance companies were unreasonable in charging this excess of premium because one lived in the Caribbean. And so they said, let us form an insurance company by ourselves and these twelve men including George William Gordon got together and said they will personally pay any claim that arises in the first year. That is how this company started. And that is the history of the culture of the organization, and so they put together and decided to start this company.

Well, the names are not here but there were names like Gordon, another National hero whose name I forget now and the property level and so it was a moment to bring equity to the situation.

So Mutual Life was always rooted in Jamaica and the Jamaica conditions and over the years, as I said, the surpluses belong to the policy holders and Mutual Life was very generous in using those surpluses for development in Jamaica. When Mutual Life went to the U.K., we opened a branch there to service Jamaicans in the U.K., with all the intent of providing the same kind of insurance to Jamaican residents in the U.K. And I know about that because I was there for four years and Mutual Life amassed significant surpluses from the U.K. operations which in many cases were repatriated to benefit Jamaica. That was the culture and nature of the organization and so when it was closed, when the decision to close came, many persons felt deeply hurt, deeply wounded because so much had gone into it. It was not there to make profit for any individual person. I worked there for 30 years. I had no shares in the company, I was paid a salary like anybody else and probably a little more, but the truth is no individual person, to my knowledge, benefitted in dividend on their own. Everything went to the policyholders and the Company grew and grew under the mutual concept.

When we had the 1907 earthquake we paid claims under a tree down at Barry Street.

This is a company deeply rooted in the heart of this country and it is going to take many persons a long time to get over it.

COMM. ROSS: I was to ask you a couple of questions about the very fact, the mutual structure of the Company. Firstly, was that a factor to have taken some of the decisions that were taken? You pointed out the very high calibre of the Board and the Board's members but at the end of the day nobody really had -- well the Board really had a lot to gain. Could that account for the fact that it seems, as you have said, the national considerations were put ahead of almost the survival of the Company at various points in time? If the Company was not a mutual company would it be able to survive those conditions any better?

A: I would say that Mutual Life was the only mutual company at the time. All the others were share capital holding companies and they too did not survive. So, I don't think that the structure, being mutual versus shareholding was an important factor there at all.

Mutual life would never have put or done anything to jeopardize its own existence. It would be like shooting yourself in the foot. We would not do that. We have never done that. So in response to your question, I would say, no, the organization was always conscious of its existence because we have always had a position called 'Re-counting Actuary' whose job was to monitor and measure the solvency levels at all times. So, whatever we were going to do, the impact on the solvency level was always paramount in our consideration because if you are not around, if you did not survive you cannot do much. So survival was always in front of our minds.

COMM. ROSS: What about the Government's attitude towards mutual companies? I certainly find it difficulty to understand the government had not shown a little more, I would say, simple understanding of the nature of the company. As you said, it is a mutual organization one hundred and fifty years old, started shortly after slavery was abolished. Certainly a very prominent company at the time and because of its mutual structure you really could not say that there was any particular interest that would have benefited from a survival. From what you can recall in your dealing with FINSAC, was there any special consideration given to the fact that this was a mutual company which, you know, had this tremendous history and very unique original structure, was there any special consideration given to that?

A: I don't think so, I think we were dealt with like any other company I believe. No, I don't think so, I don't think the fact that we were mutual -- it only came into prominence when we were talking about how the Government would deal with the interest in companies, in share capital shareholding companies; it would have taken shares in the company. In our case we spoke of the matter of subordinated debt, which is a complex term which simply means that subordinated debt takes precedence over any other kind of debt, any other form of debt, but as part of the support package the company was required to de-mutualise and so we all geared up our minds, conditioned ourselves to de-mutualise in a different format and that would have allowed the government to hold shares in the organization in a normal way.

COMM. BOGLE: To what extent do you think the ownership of NCB might have contributed to the problems of Mutual Life?

A: It didn't contribute at all. As a matter of fact it may have had a negative effect on Mutual Life in the sense that as you know losses made by a subsidiary are passed on to the parent company. In the case of NCB, Mutual Life was picking up 40% of the losses and that helped to undermine our balance sheet; it weakened our balance sheet considerably.

I mentioned earlier on that Mutual Life had an overdraft arrangement with NCB. I daresay, Chairman that NCB would have benefited significantly from the rates charged to Mutual Life on those overdraft facilities. We paid like any other customer, we received no special treatment from NCB and so in a sense, you know, Mutual Life did contribute to towards NCB being in breach of the Banking Act because they have regulations about what percentage of the share capital can be associated with the level of overdraft.

Yes, we did have that conversation; that situation did exist, but in terms of NCB being negatively affected by Mutual Life, no.

COMM. BOGLE: Would you say then that in a sort of flip side, that the fact that Mutual Life could get this level of overdraft from NCB that, that kept Mutual Life going during this period?

A: Well, in real terms one could say that because as the cash flows and the enhancement of policies escalated we had to rely more and more on overdraft facilities, yes.

It cost a fortune, I must tell you. I mean I used to check the interest addition everyday. Every morning you go into office, what did the interest add up to yesterday, and you see that on your liabilities. So it wasn't something that was - it wasn't something that one looked forward to because there was a significant cost to it.

COMM. BOGLE: Could it be, or could you say that possibly Mutual Life could have tried to dispose of some of its long term assets to pay down, for instance, the overdraft in order to reduce this heavy burden on your cash flow and on your income statement?

A: We did, Chairman, we did. In fact, I didn't have that in my document but we sold off tremendous properties; we sold off all the properties basically, literally sold off all the properties. We tried to sell the Towers to the Government as part of the deal but we sold off all the other properties, we really downsized the organization to raise cash as well as to reduce cost.

COMM. BOGLE: Do you think that that was a bit late or do you think with hindsight that, that might have been done a bit earlier? And I am talking about hindsight now.

A: Chairman, no. The issue for me, when you have a debt escalating at 80%, you are dead. There are peripheral matters, eh, there will always be minor matters, but the real issue, when you have inflation of 30/40% and your staff come to you and say we can't live on what you are paying us you have to look at the salaries; when you have the interest rate at you, whatever figure you want to choose; 30, 40,50, 60, 70%, as you know, Chairman, more than I do, a loan doubles in 72 months depending on what rate of interest you use. In one year a loan at 80% is almost twice what it was. So the real issue for us was our liabilities were increasing at a tremendous rate and no kind of income could stop that unless the income is 80% as well and in that environment it wasn't happening and it wasn't peculiar to Mutual Life, I would say, all the companies had the same problem.

COMM. BOGLE: In discussions with the Ministry of Finance, did Mutual Life point out to them that part of the problem that Mutual Life was facing, or the reason for Mutual Life to be in this situation was the matter of high interest rates and high inflation? Were these matters brought to their attention, discussed with them, and if so what was the type of response you got from them?

A: Chairman, I think those matters were public knowledge, it wasn't peculiar to us, it was common to everybody.

Q: But as I said I am sure it would have come up on a one on one organization with the government, would they have commented on this to Mutual Life as to where they might be going with this interest rate and inflation, in other words, to give Mutual Life some comfort that this will be short term or just nothing was said about it?

A: As I said, Chairman, we all knew what the figures were, what we didn't know was how long it was going to continue.

COMM. BOGLE: That is what I am trying to find out. Did you get any information from the Ministry as to where they be might be going with this interest rate?

A: Chairman, I think the Government also had its challenges. The economy was not right, and the objectives of the government were good objectives. There was sincerity in what they were doing, they saw what they were doing as the solution to a national problem. And so I believe they would have been committed to doing what they had to do. That's my belief. In good faith anyway. It just happens that some persons benefited from that policy and others were hurt no matter what your condition was -- well, speaking for Mutual Life, no matter what your condition was. So we were all aware of all the information. Projections were done, the options were set out, the rates assumed and I think it was a difficult time, it was a very difficult time for everybody and I for one, as I said earlier on, didn't detect any kind of, for want of a better word, bloody-mindedness. I think the government was trying its best to cope with some serious problems. We were in a liberalized economy, things were flying all around and so they did what they thought they had to do and the effect, as we can all look back and see, was negative on some persons and organizations.

COMM. BOGLE: Interest rates continued for a pretty long time and the government would have used interest rates to manage the economy as one of the tools to manage the economy. Do you believe that the policy of the length of the period that the interest rates, high interest rates were used might have been a bit too long for the economy and organizations such as Mutual Life?

A: Well speaking especially for Mutual Life yes, specifically. As I tried to outline, the way a life insurance company is structured, it is not structured to withstand that kind of onslaught of high inflation, high interest rates. When you set a premium you make some assumptions about expenses about the interest rates, about the mortality rate and about the surplus. You build all that into it and you end up with a number of maybe $200 per year. That number is put in a contract with the policy holder; the company cannot change that number. So if two years down the road interest rates move from the assumed 10% to 25% and continues like that four, five years, I don't think you have to be a rocket scientist to work out the impact that will have on the company. It is a real issue and unless you invest in nothing but cash, so that if rates change tomorrow you can take your cash and go put it on that high interest rate, unless you do that, and companies cannot do that.

COMM. BOGLE: Which is what some depositors did.

A: Of course. I used to have negotiations with policy holders. They come for their money, they want it right now. I said what are you going to do with your money? Well I am carrying it across the road and on many occasions, Chairman, we had to try and match those rates or we would have lost the money and you can see you are in a company where cash is running out, everyday you are on the wrong side of that formula and when that happened we had to match some of those rates. Some we had to let go because they wanted too much. Many were coming in and they wanted 50% on their money or we are going to take it right now, and taking it right now means writing a cheque because we are obliged to give them the money right now on the contracts so we had to write the cheques and the encashment went through. So unless you are in the business of taking cash and investing it as some people did, fine but we were not that kind of company; we were in long term development, with projects and so forth.

COMM. BOGLE: You mentioned that you had contracts with the policy holders. Let us say the equity linked policy and there is a premium of $10,000 per month, however as the interest rate moved was Mutual Life obliged to increase the interest rate to the policy holders?

A: Well in the case of equity, it was based on the value of the shares, stock market value, so everyday the value changed. So policy holders would say, okay, we want equity, I have ten units in the equity fund and everyday they would watch the value of those units and you got to some figures for some persons and they say well I have made my thing and they cash it out. That is the reality of that type of business, that type of product, which is why I said earlier on that equity linked policies and universal life policies have the potential for the benefits to grow with the environment but the downside is that people begin to think of life insurance purely as an investment product, you go in today come back out and go somewhere else tomorrow. That's what happened in this high rate. The mindset of many persons, especially those with large funds, the mindset changed from insurance which was designed specifically for the protection against untimely death or disability, that is the principal function; the mindset changed when the product was now an investment product and so somebody looking to buy would call up Mutual Life, what is your rate; would call up Life of Jamaica; would call up Island Life and they got into that kind of game which is not conducive to the life insurance business and so the rates were one challenge but the mindset that came about because of the rate was another challenge that we had to deal with.

COMM. BOGLE: Thank you.

COMM. ROSS: I just want to go back to the response of the government. I imagine that the companies like insurance companies would have alerted the government to the deleterious consequences of the high interest rate policy? What was their response to the complaints, what did they advise the companies to do? Did they offer any advice as to how the companies should respond?

A: Chairman, I am tempted to say I can't recall, but I don't think the conversation went along that route much. The conversation was more about what level of funding would solve the problem, and what you need to do to qualify for that level of funding, it went more along those lines. And so I really can't.

COMM. ROSS: The other question I would ask is, was there a tacit acceptance by the government authorities that the companies were going to fail and that as a consequence they were prepared to deal with?

A: Chairman, at the start it was very clear, the companies were going to fail In fact that's why the companies went to FINSAC, went to the government in the first instance and my recollection was that four life insurance companies; Mutual Life, Life of Jamaica, Island Life and Crown Eagle; those four companies, to the best of my recollection in the initial stages went to the government to outline the problem, so I feel that there was never a shortage of what the horizon was looking like.

COMM. BOGLE: Alright. On that note we will have our usual ten minute break and then we will reconvene.

A: You are not finished with me, Chairman?

COMM. BOGLE: Not quite, not quite but I see you are feeling no pains.

BREAK

Ladies and gentlemen, this Enquiry is now back in session. Rev. Parkes, you are reminded that you are still under oath.

I know that you have answered this in part but just a follow up. Funding. You mentioned that each time that you prepared a submission to FINSAC shortly therefore FINSAC wanted additional information and that the situation more than likely would have changed because of change in the interest rate. It therefore means that there could be no agreement then because if you make a submission today and you say that present conditions, for the company to exist or come out of the hole that the company is in, you needed twenty five billion dollars and an agreement was reached today, it means that tomorrow it might not be twenty five billion any more, it maybe twenty-seven billion. Which brings me to the question, was there, after the conditions that prevailed, was there any hope for the businesses to survive?

A: I think there was hope, Chairman, and what happened, you see, was that we made projections like for the next five years. In fact the idea was that whatever was received from FINSAC would have been repaid in five to seven years. That was the plan. And therefore the projections were not like for tomorrow or next week, they were five-year projections. So yes, there would be changes but over the five-year period we could accommodate those changes if we had an agreement. But if it takes you two years to talk about the agreement and to come to a solid agreement, then the numbers would in fact change significantly. But one of the things that I never did understand with FINSAC was that it took so long. Everybody recognized that there was a problem, everybody recognized that people may have different points of view, different perspective of the problem but at the end of the day everybody was short of capital. Insurance companies were short of capital, the banks were short of capital. I mean NCB survived because they got massive capital injection from the government. Life of Jamaica survived because they got massive capital injection from the government. Everybody had the same problem, a lack of capital or inadequate capital. So we knew what the problem was, we knew what the problem was as it developed. What I still don't understand is why it took years to get this thing done and further, Chairman, I will be bold enough to say that from my recollection FINSAC was set up to rehabilitate companies. Am I right.

COMM. ROSS: Yes.

A: They were set up to rehabilitate companies, the companies died. I don't understand it. The specific purpose, or the principal or the prime purpose of FINSAC was to rehabilitate - FINSAC is what, Financial Adjustment.

COMM. BOGLE: Financial Sector Adjustment.

A: Apart from the overseas entities all the players in the local financial sector and I disqualify First Life earlier on; all the players in the financial sector didn't make it. And I don't know if anybody has taken the time to look at that as we look at FINSAC. I can speak to the insurance companies and I see what happened to the banks, but it has baffled me. I left the industry in 1998 and I still can't figure out how is it a company set up to rehabilitate the financial sector, all the companies, all the local companies died. And one insurance company made it out, Life of Jamaica after massive injection of capital. One bank made it out, one local bank, after massive injection of capital.

COMM. BOGLE: Why is this so?

A: You have to ask FINSAC that question. And what I find as I reflect on it, and I have had a lot of time, Life of Jamaica ended up being sold to Sagicore and Sagicore has made billions out of it. I mean Mutual Life portfolio went to Guardian Life and maybe a couple of other smaller ones, couple maybe, those companies have made a fortune out of it. You know, it's not like they got into trouble and so on, the problem was inadequate capital and I believe that if the capital had been provided to all the companies or let's say the companies with whatever management changes they wanted to make, you know, because the truth is, that anybody who was responsible at the time for any of the companies can't walk away and say, oh I have nothing to do with it, that would be so unfair, you had something to do with it as miniscule as that might be; change all the management if you want, you know, change whatever you want, but let the companies continue and I have been amazed at those two points, why the mandate was so breached in the first place and secondly selling off the portfolio, those who bought it, and I think it's public knowledge, the moneys made by NCB, the moneys made by Guardian, maybe not so public for Guardian, because it was a private company but we have evidence around to see.

COMM. BOGLE: Would it be a matter that there might have been a change of Government's economic policy after the failure of the banks and insurance companies in terms of the mandate of FINSAC, do you think there was a change of policy when they failed?

A: I am not sure I get that question.

COMM. BOGLE: You mentioned that you do not -- well that FINSAC didn't seem to have carried through their mandate.

A: Yes.

COMM. BOGLE: Do you believe that this could have been a change of policy by the Government who had set up FINSAC?

A: You have to ask the Government that question, you would have to ask them.

COMM. BOGLE: The insurance companies, I know that some of the insurance companies got together and spoke and discussed mergers among themselves, they met and discussed mergers and I know that some of these discussions or proposals went to Government, are you familiar with that?

A: Well I know there were discussions among companies, I am not familiar with it.

COMM. BOGLE: Mutual Life was never a part of it?

A: No, we were not in that discussion, I think some of the smaller companies put together, the Dial Life and Horizon Life and some others, or Crown Eagle maybe.

COMM. BOGLE: I am still -- okay you mentioned that the policies of -- the portfolio of Mutual Life was sold to Guardian Life and they have made billions out of it.

A: They have done well.

COMM. BOGLE: They have done very well out of it?

A: Yes.

COMM. BOGLE: And therefore you are saying that had moneys been pumped into Mutual Life, preferably by some form of equity injection based on the fact that they were de-mutualising the company, you feel certain that Mutual Life could be benefiting today as is Guardian Life?

A: I am positive Chairman, I am very positive. As I said I was surprised, I was just blown away when I heard the announcement because when we got to a final agreement with FINSAC, there are many things in there, and I don't recall all the details of those things now but one of the major things was to align the company's income with its expenses or vice versa and that required major redundancies and I oversaw that process myself. I said I have made many enemies out of that process, persons who I have grown up with in the company over the years, I had to call them and say listen, things have changed and it didn't go down well. We had to have special counselling and so on, re- training for persons like those. So we were well on the way and the process of de-mutualisation was also well on the way, how we were going to now re-capitalize and restructure this organization and, therefore, I had no doubt that the company would have survived and continue to do that.

COMM. BOGLE: In that package that you mentioned awhile ago, would part of that money, would the type of support that you were seeking from FINSAC, from the Government, would it be in the form of investment whereby this money would be paid back to Government with interest?

A: Yes, in fact, what sticks out in my mind Chairman was the Corporate Centre, Mutual Life Corporate Centre. One of the very first proposals we made was a lease and purchase, repurchase arrangement involving that building, because we recognized that the Government had to get their money back and we offered to say, listen we could do a deal whereby you will purchase the building which would inject money to the company, we would rent the building, pay you a rent at market rate and in ten years time we buy back the building from you.

COMM. BOGLE: So you are saying that this package would be beneficial to the tax payers of this country?

A: Oh for sure.

COMM. BOGLE: And not a cost to the tax payers of this country?

A: Yes, that is a point that is of a myth, Chairman, companies like Mutual Life pays a lot of tax, employed a lot of people, at peak we were close to fifteen hundred people employed by Mutual Life.

COMM. BOGLE: I understand, but I am now dealing with the investment, Government would be lending the money to Mutual Life?

A: There was never any question about a gift, there was never any discussion about a gift, it was all to be repaid.

COMM. BOGLE: With interest?

A: Yes.

COMM. BOGLE: Okay, Mr. Goffe, do you have any questions.

MR. GOFFE: No, Mr. Chairman.

COMM. BOGLE: Okay, Reverend Parkes, on that note, we wish to thank you for coming to this Commission and your submission to this Commission. I thank you for your input, and you are now excused. We may call you back just in case, we like to leave that option open just in case for some reason or another we need to have you back with us, we are putting you on notice. We thank you very much. Thank you very much ladies and gentlemen, and that brings us to the end of the enquiry for today.

COMM. BOGLE: As you might have been made aware, tomorrow we should have had Dr. Chen Young but we have had to re-schedule that to a date to be announced and therefore we will not be having a sitting tomorrow but we will be having a sitting on Thursday, Thursday at 9:30. I think Mr. Anthony Hutchinson will be back with us.

Also I would just like to inform persons present that as you might be aware the matter of Justice Carey comes up in the court next week, and as such quite a number of the attorneys who normally would be here will be at those court sittings, therefore, next week there will be no sitting of the Commission, but definitely we will be back here the following Tuesday, so no sitting next week, but the following Tuesday we will be back here. Thank you very much and have a good day.

A: Thank you Chairman.

ADJOURNMENT