

Ponzi Schemes, Crashes and Other Issues
Affecting the Financial service sector in the
Caribbean with Special Reference to Trinidad
and Tobago

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Outline

- Issues Affecting the State of the Financial Services Sector In the Caribbean
 - Fallout from the Global Financial Crisis
 - Regulation– compliance with Intl Guidelines for AML etc.
 - Avoiding Ponzi schemes: OLINT, CashPlus, Millennium Bank
 - Credit Card Fraud –
 - The Stanford Debacle
 - The CL Financial Debacle
 - Single Regulator
- Trinidad and Tobago
 - CLICO: Was it a Ponzi Scheme?
 - Backward or Non–Existent Financial Legislation
- Summary

Fallout from the Financial Crisis

- ▶ Lack of Recovery in the US
 - “Green shoots” become “dry grass”
 - Some estimates have Unemployment as high as 21%
- ▶ Some positive signs in China, Japan & Germany
- ▶ Investors rushing to Australia to get 2.5–3% return!!
- ▶ Long term decline of the US dollar
- ▶ Uncertainty over energy and food prices

Fallout from the Financial Crisis 2

- ▶ Continued slow down in remittances
- ▶ Uncertain prospects for tourism growth
- ▶ Further trade liberalization as the EPA with the EU takes effect and FTA with Canada/US
- ▶ Continued Pressure on Offshore financial Centers
- ▶ More CARICOM members forced to go to the IMF

Why Schemes are bad for the Financial Sector

- ▶ Undermining confidence in financial markets;
- ▶ Diverting savings from productive to unproductive uses and, in some cases, from the domestic economy to foreign destinations, with a balance of payments impact;
- ▶ Incurring fiscal costs, if bailouts occur
- ▶ Diverting deposits from banks and increasing non-performing loans if loan proceeds were diverted into schemes
- ▶ Causing swings in consumption driven by paper profits or early withdrawals
- ▶ Can lead to Social hardships and unrest
- ▶ Can undermine reputation of political authorities, regulators, and law enforcers for failing to prevent open frauds
- ▶ Source: Ana Carvajal, Hunter Monroe et al (2009)

Ponzi and Other Financial Schemes in the Region

▶ **OLINT Corporation**

- OLINT Corporation claimed to serve as a liaison for members of a club to invest in foreign currency
- ▶ OLINT and its offshoots also operated in some Eastern Caribbean Currency Union (ECCU) countries and in the British territory of the Turks and Caicos.
- ▶ the schemes (Cash Plus and OLINT in particular) grew dramatically after the FSC's intervention on OLINT and LewFam in late 2006

Ponzi and Other Financial Schemes in the Region

▶ **CASH PLUS Limited**

- Cash Plus took in investor funds of J\$22 billion (US\$260 million or 2 percent of GDP) during 2004–07 from 35–45 thousand investors
- ▶ For OLINT, Cash Plus, World Wise, LewFam etc. the amount invested/lost amounted to 12.5%– 25% in percent of GDP from 2004–2008 for Jamaica
- ▶ A study conducted on behalf of the FSC prior to liquidation concluded that the operations represented a Ponzi scheme
- ▶ Millennium Bank – St Vincent, Shut Down by the SEC

Credit Card Fraud

- ▶ A Recent Upsurge in Credit Card fraud in the Region
- ▶ Public data hard to get for most Islands
- ▶ However, Jamaica recorded J\$ 3 billion in credit card fraud in 2008 (about US\$33.7 million)
- ▶ To Date this years it has been reduced to About J\$600 million

The Stanford Debacle

- ▶ An US\$8 Billion Ponzi Scheme based in Antigua
- ▶ Fleeced over 30,000 depositors mainly in LA
- ▶ Stanford was initially run out of Montserrat after setting up Guardian Int'l Bank – was under investigation for ML for Columbian drug dealers
- ▶ This Conman was able to be Knighted in Antigua and take control of WI Cricket

The CL Financial Debacle

- ▶ OECS– US\$500Million (according to Ralph Gonzales, SVG)
 - ANTIGUA AND BARBUDA– EC\$ 266.22 Million (US\$102)
 - St Kitts/Nevis – EC\$300 million mainly in Annuities
- ▶ GUYANA– US\$34M (6.8billion Guyana Dollars)
- ▶ TRINIDAD AND TOBAGO– US\$2billion (TT\$12.6 billion)
- ▶ Undisclosed potential losses in other Islands– Barbados, the Bahamas etc.
- ▶ Was it a Ponzi Scheme?

Issues for Trinidad and Tobago

- ▶ T&T Financial System is Claimed to be stable, robust and highly profitable
- ▶ However, financial Legislation remains in a fairly backward state
- ▶ Financial Laws/Regulations are frequently found to be: weak, nonexistent, unenforceable and have limited application
- ▶ Financial Institutions not supervised by the CB can basically do whatever they want!!!
- ▶ These include: Money Transfer Operators etc

Issues for Trinidad and Tobago

(According to CB Governor earlier this week)

- ▶ New provisions relating to:
 - credit union legislation to govern the prudential regulations of these institutions
 - Central Bank's the ability to issue an immediate compliance direction in cases of urgency, without giving prior notification to the insurer
 - suspension of operations of any insurer or take control of a troubled company and suspend its operations.
 - the supervision of consolidated companies
 - the establishment of Financial Holding companies
 - the application of credit exposure limits
 - the Central Bank's ability to respond to non-compliance
 - the establishment of audit committees,
 - the certification of the internal financial controls and the development of policy to guide related party transactions.

SAR's resulted in the following figures on investigations, prosecutions and convictions:

| SAR | 2001 | 2002 | 2003 | 2004 |
|----------------|------|------|-------|-------|
| ANALYSED | 283 | 834 | 2,384 | 9,516 |
| DISSEMINATED | – | – | 30 | 6 |
| INVESTIGATIONS | 275 | 254 | 165 | 80 |
| PROSECUTIONS | – | 6 | – | 34 |
| CONVICTIONS | – | – | – | – |
| | | | | |

Source: Received from The Financial Intelligence Unit

T & T Compliance with AML/CFT (CFATF 2007)

Ratings of Compliance with FATF Recommendations

| <u>Forty Recommendations</u> | <u>NC</u> | <u>PC</u> | <u>LC</u> | <u>C</u> | | | | | | |
|----------------------------------|-----------|-----------|-----------|----------|--|-----------------------|--|--|--|--|
| Legal Systems | 1 | 2 | 0 | 0 | | C in non regarding LS | | | | |
| Preventive Measures | 15 | 6 | 1 | 0 | | NC in 15 of 22 Recms | | | | |
| Institutional and other measures | 3 | 4 | 1 | 1 | | | | | | |
| International Co-operation | 1 | 1 | 4 | 0 | | | | | | |
| Eight Special Recommendations | 8 | 0 | 0 | 0 | | | | | | |
| <u>Contribution in %</u> | 58.33 | 27.08 | 12.5 | 2.08 | | | | | | |

NC- NON COMPLIANT, PC- PARTIALLY COMPLIANT, LC- LARGELY COMPLIANT, C- COMPLIANT

Summary and Lessons from Recent Experiences

- ▶ All of the Above emphasizes the urgent need for cross border regulation
- ▶ No one firm should be allowed to account for significant share of GDP while remaining strictly a private entity
- ▶ Regulatory loopholes and cracks will always invite shady operators to establish pyramid schemes and other fraud
- ▶ Such operators should not be allowed to go “jurisdiction shopping” pitting one island against the other
- ▶ Pyramid Schemes flourish in times of uncertainty and low interest rates and attracts the middle class

Selected References

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- ▶ GINA (Guyana News and Information Agency) (2009) “Awaiting the CLICO Probe”, April 8th.
- ▶ Trinidad Guardian (2009) “Central bank Plans to Overhaul Financial Sector”, Sept. 28th.

▶ Thank You!!