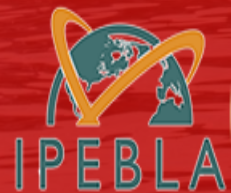


CAPITAL ISSUES IN THE CARIBBEAN: A CASE STUDY

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Content

- **Company Overview**
- **Caribbean Environmental Scan**
- **Engagement Process**
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- **Roadshow**

Company Overview

- **History**
 - **176 years, first 147 years, domestic, mono line, mutual**
 - **Next 29 years evolved into a regional, multi line, proprietary**
 - **Widely held company, 98% of s/holders own less than 25,000 shares and own 42%**
- **Financial Highlights**
 - **Equity \$739m (\$152m:2001)**
 - **Assets \$6.4bn (\$1.3bn:2001)**
 - **Revenue \$1.1bn (\$314m:2001)**
 - **PAT \$77m (\$7m:2001)**
- **Ratings & Leverage**
 - **A- Excellent**
 - **BB-**
 - **Debt/Capital 30%**
 - **CAR 221%**

Caribbean Environmental Scan

- **Economic**
 - **Main activity tourism (ex Trinidad & Tobago, oil & gas)**
 - **Primary deficits (ex Jamaica) and hence fiscal deficits**
 - **Debt stocks (ex Trinidad & Tobago, Guyana) more than 100% GDP**
 - **Current account deficits (ex Trinidad)**
 - **High structural unemployment**
 - **Weak economic growth (ex Guyana & Surinam)**
- **Regulatory**
 - **No common rules on investment, capital, reserving, market conduct, reporting**
 - **Distressed entities receive a free pass**
 - **Disorderly resolution of distressed entities**
 - **Governments continue to write pension & insurance liabilities with no rules**
 - **Capital controls**

Caribbean Environmental Scan

- **Capital Markets**

- **Insufficient long term assets**
- **Fiscal position results in high risk free rates and cost of capital**
- **Borrowing needs of government crowds out private capital**
- **Weak stock market microstructures so markets highly illiquid**
 - ✓ **No market makers**
 - ✓ **No stock lending**
 - ✓ **No short selling**
 - ✓ **Rights issues successful only if underwritten by anchor investor**

- **Industry**

- **Multi nationals “exiting” region**
- **Capital eroded through restructurings of debt**
- **Localisation of capital results in sub optimal use of capital**
- **Capital rules ignore entities that are diversified by country, line & customer segment**

Engagement Process

- **Timing**
 - **Close to existing maturities, investors have the edge**
 - **Too early, carrying cost of additional capital**
- **Size**
 - **Minimum, \$200m to warrant interest**
 - **\$300m qualifies for index and attractive to indexed fund managers**
- **Actors**
 - **Investment bank, investors, 2x lawyers, auditors, rating agencies**
- **Prospectus**
 - **Shelf life so limited window so clocks starts existing**
 - **Reality is no one reads it**
- **Rating**
- **Roadshow**

Rating

- **At least one rating**
- **Issues**
 - **Rating agencies US centric view of risk**
 - **Entity complex by line of business and countries**
 - **Rating of entity and then rating of instrument**
 - **Instrument rated lower than entity due to subordination of bondholders to policyholders**
 - **Capital controls create further transfer and convertibility risks**

Rating

- **Rating agencies provide few hours notice before issuing rating**
- **Rating usually cannot exceed rating of country of domicile**
- **Exceptional circumstances can result in a rating capped at two notches above country of domicile**
- **Choices were change in rating methodology or change in domicile**
- **Redomiciliation chosen**

Roadshow

- **Must show intimate knowledge of your company and its environment**
- **No question should be unanswered**
- **No further engagement**
- **Investors place bids on amounts and price over 1-2 trading days**
- **Pricing at margin so oversubscription critical**
- **Allocation subjective because want mix of institutions, geography to ensure continued access**

Roadshow

- **Timing critical, 1-2 days after roadshow to decide go/no-go**
 - **One week delay due to Greece & Brazil**
 - **Start of roadshow, fall in markets triggered by China**
- **Present over internet and field questions**
- **Two weeks in London, New York, Los Angeles, Boston, Chicago**
- **10ish face to face presentations each day**
- **Many interrogate from start to end and ignore any presentations**

Summary

- **Management's Performance in Roadshow**
- **Rating**
- **Timing**
- **Size of issue**
- **Market conditions**
- **Luck**