FINANCIAL SERVICES REGULATORY AUTHORITY

"TO BECOME A WORLD CLASS FINANCIAL SERVICE REGULATOR"

ANNUAL REPORT 2017

www.fsrastlucia.org

OUR VISION

"To Become a World Class Financial Services Regulator"

OUR MISSION

"To maintain the integrity of the Financial Sector through efficient and effective administration of the Financial Sector laws and regulations and the application of best international practices and standards."

OUR CORE VALUES

The following comprise our value proposition:

- Reduction of the risk to the public of financial loss due to dishonesty, incompetence or malpractice by or through the imprudence of persons carrying on the business of financial services in or from within Saint Lucia;
- Protection and enhancement of the reputation and integrity of Saint Lucia in financial matters;
- Upholding the best economic and social interests of Saint Lucia;
- The need to counter financial crime both in Saint Lucia and elsewhere;
- The protection and fair treatment for consumers;
- Stable and secure financial markets;
- Competitive and innovative financial markets (including a choice of organizational options);
- Proportionate, risk-based regulation;
- Prudential supervision and enforcement;
- Management responsibilities (including the maintenance of adequate financial and managerial resources); and
- The application of ethical conduct at all levels of the regulated entity.

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VINCENT HIPPOLYTE
Chairman

MARCUS JOSEPH
Deputy Chairman

COINTHA THOMAS
Permanent Secretary,
Ministry of Finance

KAREN FONTENELLE-PETER
Director

SOPHIA HENRY
Alternate Director to the Permanent Secretary, Ministry of Finance

G. CARLTON GLASGOW
Director
Designated by the Governor of the Eastern Caribbean Bank

PAUL HILAIRE
Director

PAUL THOMPSON
Executive Director
The Financial Intelligence Authority

Management Team

JOHN CALIXTE LEON
Executive Director

NATHALIE DUSAUZAY
Senior Manager

HEMISH LESMOND
Legal Officer & Corporate Secretary

HUBERT DELIGNY
Insurance Manager

GERMAINE ISAAC
Executive Assistant/ Accountant

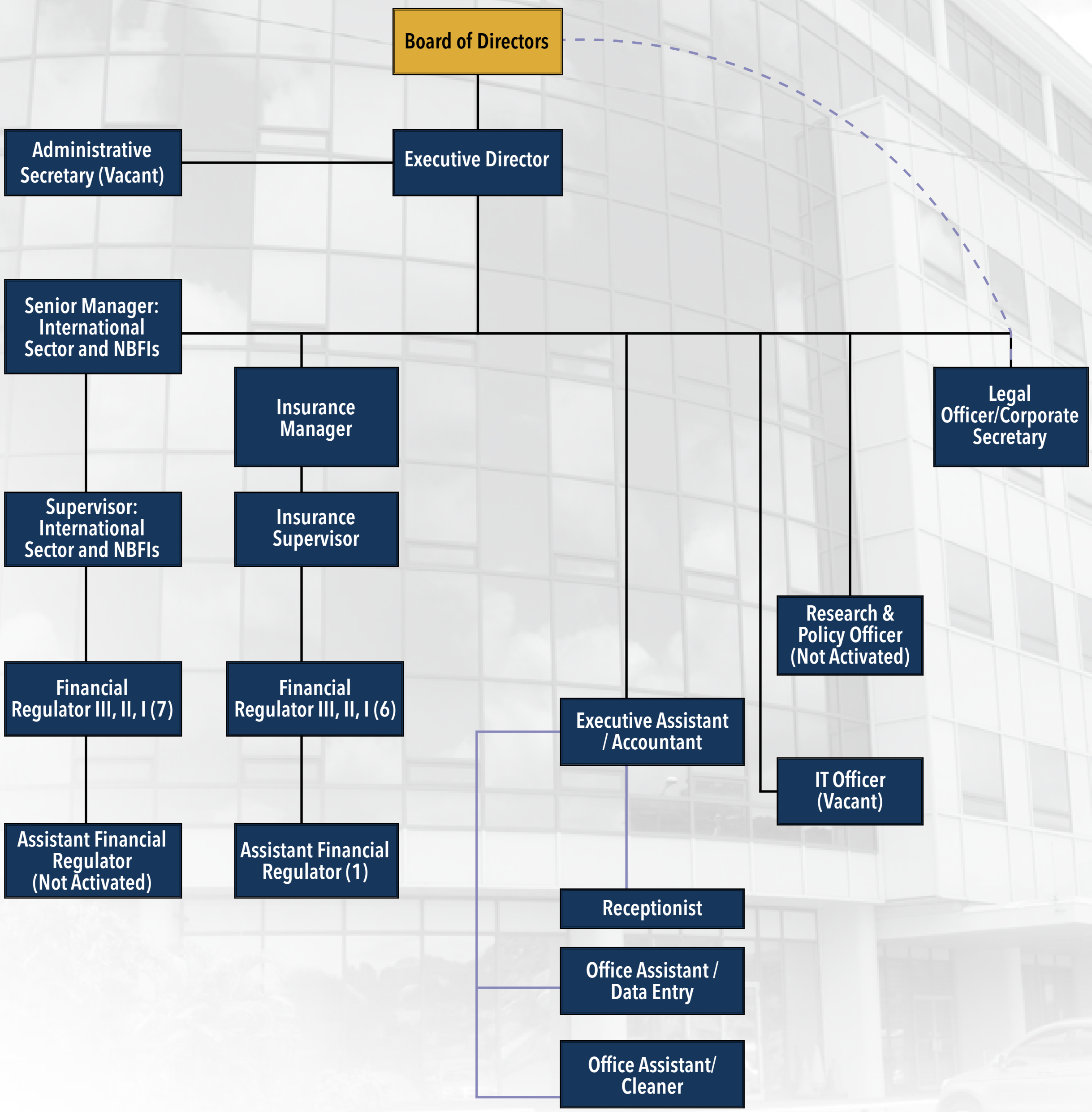
Staff

Back Row (Left to Right): Germaine Maxwell, Calixte Leon, Cuby King, Esther Francis, Hubert Deligny, Hemish Lesmond, Curtis Paul,

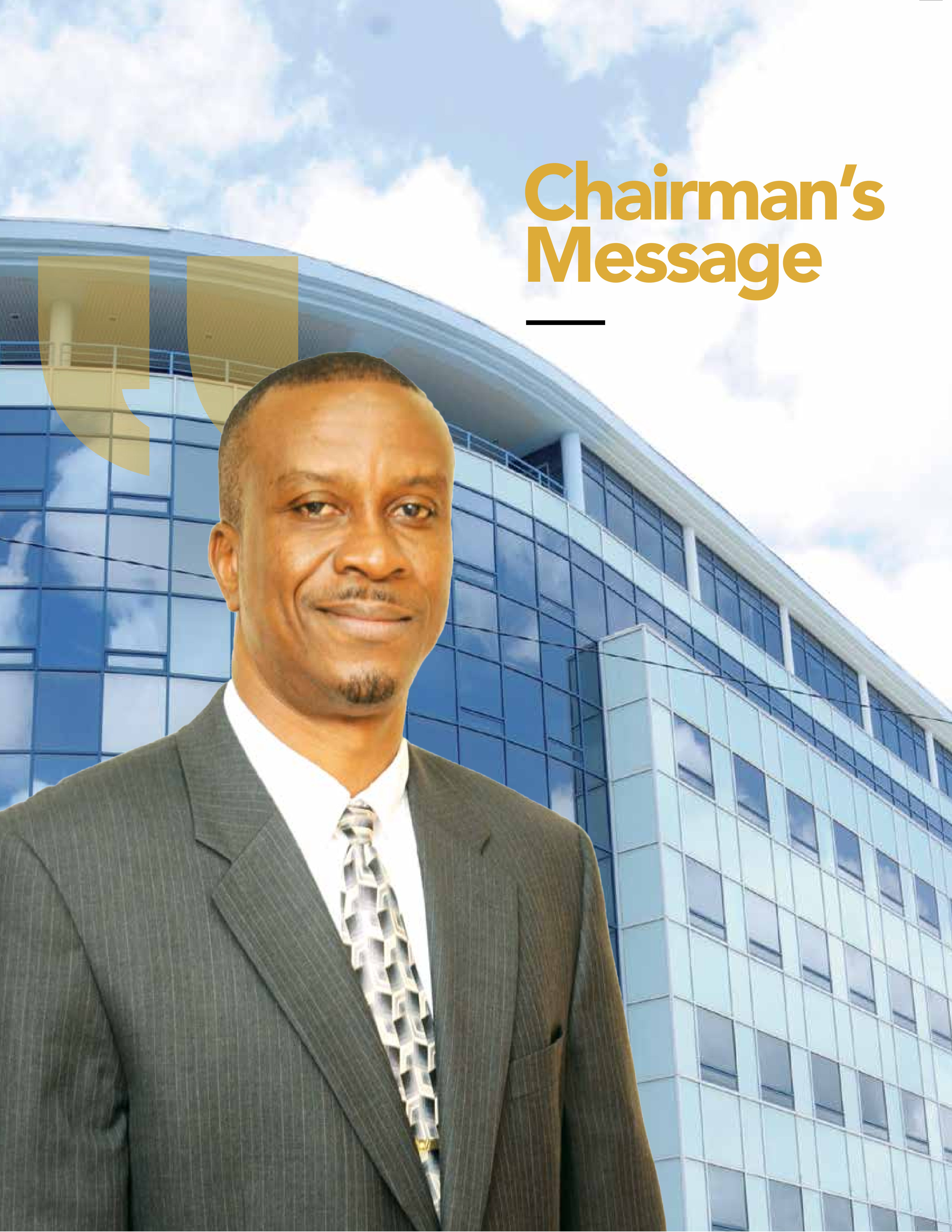
Front Row (Left to Right): Germaine Isaac, Krysta Anthony, Sancha Gervais-Victor, Francine Felicien, Elva Naitram, Shelevon Louis, Tyller Jules, Nathalie Dusauzay, Astrid Augustin

Absent: Ayana Caesar, Stephanie Gustave-Antoine, Suzanne James, Hannah McDonald, Krishna Solomon, Kerline Sylvester

Organisational Chart



Chairman's Message



The Board of Directors of the Financial Services Regulatory Authority (FSRA/ Authority) is pleased to submit to the Minister for Finance its Annual Report, on its operations, activities and transactions, for the financial year ended March 31, 2017. As the regulatory authority for the financial services sector in Saint Lucia, the FSRA is responsible for the supervision and monitoring of licensed financial institutions within the jurisdiction. This excludes domestic banks and other financial institutions which are regulated by the Eastern Caribbean Central Bank. As in previous periods, the FSRA continued to fulfil its mandate as set out in the Financial Services Regulatory Authority Act, No. 13 of 2011. It also ensured that the capacity of its regulatory team was strengthened through training, promotions and the recruitment of new personnel. This enabled the organisation to have maintained its stability and to have carried out its regulatory functions responsibly, professionally and smoothly. Steady growth was experienced in most sectors of the financial services industry during the financial year. The level of growth was generally consistent with historical trends, and all indications are pointing to a continuation of steady growth in the ensuing financial period.

In the domestic insurance sector which comprises 23 active insurance companies with an asset base of EC$690 million, 30 Pension Fund Plans and a total of 236 intermediaries, which included 210 salespeople, there were challenges which resulted in the deregistration of a broker and interventions in the operations of two companies in keeping with the legal responsibility of the FSRA to protect the interest of policyholders. Notwithstanding those challenges, the overall performance of the industry was stable, generating gross written premiums of EC $207.4 million and maintaining an overall profit margin of 6.7%. The British American Insurance Company Limited (BAICO) and Clico International Life Insurance Limited (CIL) judicial management processes continued throughout the period. In early 2017, the Plan of Arrangement BAICO Act, No. 2 of 2017, was passed by Parliament, and this provided the legal framework for the resolution of the outstanding claims of policyholders in Saint Lucia and the OECS region. Having established the statutory Insurance Fund, it is expected that policyholders' liabilities which form part of the Saint Lucia branch operation will be settled in full. It is also expected that the BAICO, St. Lucia branch, judicial management process will be completed by December 2017.

In the case of the CIL judicial management process, the Judicial Manager has received approval from the High Court of Saint Lucia to begin the process of paying out Policyholders with High Court Judgments (Judgment Policyholders). The Judgment Policyholders will be paid from some of CIL's available assets. Those policyholders are to be paid under two (2) options; namely Option one (1) which will pay policyholders 65% of their claim in full and final settlement, or Option 2 where 40% of the principal sum owed under the judgment held by the policyholder will be paid, with the

Steady growth was experienced in most sectors of the financial services industry during the financial year.

balance becoming payable, together with all other policyholders.

In the International Insurance sector, pure captive insurance companies dominated the market with a market share of 55%. While the numbers of International Insurance Companies and Incorporated Cell Companies have held steady over the two previous financial years, the FSRA has seen a significant decline in the number of Incorporated Cells (ICs). The decline is due to the re-domiciliation of those ICs to the United States because of its more competitive legal arrangements. This migration has highlighted the need for aggressive marketing and constant legislative review to redress the trend.

The past year was not without significant challenges, which precipitated the need for intervention by the Authority.

De-risking continued to pose a significant challenge to the growth of the International/ Offshore Banking sector. During the review period, out of the total of fifteen (15) licensed offshore banks, four (4) remained non-active, and one exited the jurisdiction due to the loss of correspondent banking. However, despite continuing challenges, the FSRA received six (6) new applications of which, one was licensed in the period and the remaining five (5) were under review. With respect to the Credit Union sector, it registered a 16% increase in its asset base and had EC$780 million under management. Its loans portfolio which represented more than 70% of its total assets and which has had some weaknesses in underwriting practices, resulted in a loan delinquency ratio of 10%, by the end of the period. This ratio which has been decreasing over the years, remains significantly above the established international prudential benchmark of 5%. In an effort to have reduced the high rate of delinquent loans, the FSRA continued with interventions at redressing maladministrative practices, strengthening underwriting policies and procedures and enhancing the nascent introduction of good corporate governance principles. .

The FSRA continued its review of legislation to enable the jurisdiction attain and sustain competitive advantages in its respective markets. In particular, a review of the legislation for the insurance sector which is aimed at incorporating the harmonised ECCU Accounting Forms for the mandatory submission of quarterly accounts got underway in the review period. In addition, amendments for the protection of policyholders which will equate the role of the Broker to that of an Agent for the purpose of receiving premiums under a contract of insurance reached the proposal stage. In the International sector, Saint Lucia's commitment to the OECD/ Global Forum was strengthened through legislative amendments which improved its overall Peer Review rating, and as a direct result, in June 2016 Saint Lucia improved its overall international compliant rating from 'Partially Compliant' to 'Largely Compliant'.

Saint Lucia as a financial services jurisdiction received a major boost from the enactment of the International Business Companies (Amendment) Act No. 3 of 2017. This amendment which introduced a new class of International

Business Company (the vehicle used in most international financial services transactions in Saint Lucia) namely, the Head Office Company, is expected to significantly increase the number of regional companies with Head Offices located in Saint Lucia, and promote the jurisdiction's profile as a regional business hub.

In closing, the Board of Directors undertakes to continue to ensure that the FSRA strengthens and sustains the capacity to progressively pro-act and respond to the considerable challenges in the financial services industry. As we look ahead into the next financial period, our agenda for legislative amendments together with the operationalisation of good corporate governance practices in all sectors, we anticipate a progressively more holistic and competitive financial services jurisdiction for Saint Lucia.

Furthermore, we continue to stress the need for enhanced corporate governance within the sector.

VINCENT HIPPOLYTE
Chairman

Executive Director's Report

J. CALIXTE LEON
Executive Director

The Financial Services Regulatory Authority (FSRA) continues to be the centrepiece of the regulatory regime in Saint Lucia, replacing the Financial Sector Supervision Unit (FSSU) along with the prudential regulator of credit unions, for the last 3 years.

During the review period (April 2016 to March 2017), the FSRA continued to engage a rapidly evolving financial services sector. Therefore, as regulators, we provide the necessary platform by setting the structure and associated accountability mechanisms to be aligned with our improved mandate.

Indeed, after many years of regulating the domestic insurance and international financial services sectors, the FSRA has established itself as a reputable authority, locally and internationally. Over the years, it has contributed to the stability of this industry while meeting its mandate of protecting consumers of financial products and services.

DOMESTIC INSURANCE SECTOR

The insurance sector continues to significantly contribute to the local economy, generating 207.3 million dollars in premium income and 8.1 million dollars in premium tax revenue, in 2016. The non-life sector, comprising eighteen (18) active insurers, generated $151.7m of gross written premiums in 2016, whereas five (5) active life insurers contributed $55.6m for that same period. Consequently, given its significant impact on the domestic climate, regulating the insurance sector forms a significant part of the workload of the Authority.

Market Conditions

Our research reveals that the non-life sector continues to be highly competitive with a Herfindahl-Hirschman Index (HHI) of 738 points in 2016; an HHI greater than 1800 points is an indication of high insurance market concentration. The existence of a soft (non-life) market provides favourable conditions for insurance buyers including more insurer options, lower premium rates and a wider range of products. Insurance brokers also stand to benefit from such market conditions as they can obtain cover for their clients with less effort at competitive rates and comparative terms. Brokers may also benefit from higher commission rates offered by insurers. Conversely, the lower premium rates may affect brokers' total commissions.

Several factors have contributed to these conditions including the emergence of new entrants in the market, over the past few years, offering a range of innovative insurance policies and reduced premium rates.

In addition, the injection of new capital into existing operations has allowed for the (insurers) acceptance of more business, due to increased capacity.

This competitive environment has resulted in significant under-cutting of rates in order to increase market share or retain existing business. A reduction in rates can affect the liquidity position of insurance companies; thus affecting their ability to manage liabilities and claims. There are some noted delays in the settlement of claims due to cash flow problems, with a few general insurers offering mainly structured settlements.

Unconventional Behaviour

To confront new market challenges, inappropriate promotional campaigns deemed to be rebating and the adoption of improper underwriting practices are being pursued in order to increase market share. The practice is also being juxtaposed with reduced cover being offered to policy-holders. The existence of a soft market has raised the debate of enacting some form of rate regulation for the non-life sector; particularly motor and property insurance.

To their credit, in order to avoid competing solely on price, some insurers within the sector have sought to gain the competitive edge by focusing on other areas. For instance, there has been the emergence of niche markets incentivized by the offering of micro-insurance products. Insurers have also sought to rebrand or offer more flexible options and extensive cover with the inclusion of add-ons, clauses and riders to existing insurance policies.

Furthermore, some insurers are using technology to simplify the underwriting process, to outsource some insurance functions and to promote new and innovative insurance products.

Another important development in the insurance industry is the establishment of new and innovative distribution channels which include the use of e-commerce or the online forum and the move towards mobile insurance applications. Consumers can benefit from easier access to information and faster and more fluent business transactions.

DIGITAL INNOVATION IN THE DOMESTIC & INTERNATIONAL SECTORS

Digital innovation is considered to be reshaping the landscape of the financial sector. Innovation carries both opportunities and risks for established and new financial institutions, as well as for the financial sector as a whole. The financial services industry is experiencing an increase in financial activity that encompasses the availability of new products and services introduced to meet a growing demand for efficiency, access and speed. During the year 2016, the FSRA has engaged in several discussions with individuals and entities desirous of introducing a plethora of digital products and services to Saint Lucia.

Emerging Products

Of all financial services, the payment services industry has arguably been among the most innovative. Several financial services providers have introduced innovative business models in recent years, which will strengthen their competitiveness in a new banking environment. These new products and services are broadly captioned as financial technology innovations such as mobile payments, cryptocurrency (Bitcoin), e-wallet, digital trade finance and peer-to-peer lending. These new products and services are changing traditional banking and investment management roles and practices as well as risk exposures.

Investors are looking forward to introduce to our shores, the mobile wallet which allows users to store their debit or credit card details on a smartphone and use them to make mobile payments, as well as the digital payment system known as Bitcoin. Bitcoin is a form of digital currency, created and held electronically. It is reliant on a system called the blockchain, in which all transactions are recorded in a public ledger. The system validates financial exchanges without the need for a central authority.

International financial services sector innovations

In relation to our international/offshore banks several of our new licensees are moving away from offering traditional banking products and services. Many are offering trade financing and are looking to expand the range of services linked to digital banking. New instruments such as the bank payment obligation, have facilitated the development of more streamlined, automated trade settlement for multinationals. More traditional instruments, such as the letter of credit (L/C), are being re-purposed to help a new generation do business in frontier markets.

The fact that many of these innovations are brought to markets outside of the regulated realm has raised concerns regarding the potential for heightened risk associated with consumer protection, risk management and financial stability. The FSRA is watchful of the key drivers of profit and consumer treatment in the sale of new and innovative products and will arduously seek appropriate regulatory frameworks to capture the risks posed by these new trends while remaining cautious not to stifle innovation or limit credit availability.

LEGISLATIVE UPDATES

In the past year the Financial Services Regulatory Authority collaborated with industry partners in amending legislation for fulfilling the requirements of the Supplementary Peer Review of the Global Forum namely, maintaining beneficial ownership and accounting information in Saint Lucia for all entities. As a result, the laws governing the international sector had to be updated to improve the ranking of Saint Luca from "Largely Compliant" to "Compliant".

Accordingly, the following pieces of legislation were amended:

- International Business Companies (Amendment) Act No. 17 of 2016.
- International Business Companies (Amendment) (No.2) Act No. 25 of 2016.
- International Partnership (Amendment) Act No. 15 of 2016.
- International Partnership (Amendment) (No.2) Act No. 24 of 2016.
- International Partnership Regulations SI 9 of 2017.
- International Trusts (Amendment) Act No. 16 of 2016.

Generally, the above legislation ensures that the Registered Office is the repository of underlying documents and records that can show and correctly explain financial transactions of the business entities. This requirement will enable the financial position of the business entity to be determined with reasonable accuracy. Further, the amendments oblige the Registered Agents of business entities to keep annual director, shareholder and partner returns and to forward tax information that is requested pursuant to an agreement for tax purposes or an agreement for mutual legal assistance. In 2017, the International Business Companies (Amendment) Act No. 3 of 2017 was enacted. This piece of legislation introduced a new class of International Business Company, namely the Head Office Company.

NEW Initiatives

E-money Legislation

In the spirit of setting an appropriate regulatory framework to capture the emergence of electronic payment systems, the FSRA has embarked on the journey of researching adequate legislation for monitoring e-money services business providers.

E-money regulation should provide for:

- the authorization of e-money issuers and the conduct of the business of e-money issuing;
- the appointment of agents by e-money issuers and the registration of such agents; and
- appropriate measures to protect the interests of the clients of e-money issuers.

Caribbean countries such as Jamaica and Barbados have already embraced electronic payments service providers, and thus investors are looking forward to explore other markets within the Caribbean space.

AML Requirement

The emergence of new products and services in the financial arena has indeed increased the risk profile of certain institutions. In keeping with the Money Laundering (Prevention) Regulations, financial institutions will be required to conduct an independent audit, with professionals retained specifically to assess the AML controls of the firm. This will aid in assessing the level of compliance with existing regulations within the organization and as a measure of the effectiveness of the work being done by the Compliance Officer.

Website Launch

On June 28, 2017, the FSRA launched its website. For some time now we have been considering how best to give expression to one of the core objectives prescribed in our enabling legislation—namely the promotion of public understanding and awareness of the financial system operating in Saint Lucia, including the awareness of benefits and risks associated with investments and other financial dealings, and the provision of appropriate information and advice. Indeed, for the first time, all information relating to financial services regulation in Saint Lucia is available in one place (www.fsrastlucia.org) for all who seek it with a few simple clicks of a mouse.

In closing, the FSRA would like to acknowledge the unrelenting efforts of all the stakeholders and players in the space for their contributions to the Authority's many accomplishments during the year. We are confident that the Authority will meet the challenges ahead and will continue to solidify its long standing reputation, as a renowned international financial services jurisdiction.

Domestic Non-Bank Financial Sector

- **Insurance Sector**
- **Credit Union Sector**
- **Money Services Business**

Domestic Insurance Sector

The St. Lucian insurance industry is the largest in the Eastern Caribbean comprising of twenty-three (23) active insurance companies, one (1) association of underwriters, seventeen (17) insurance agents, nine (9) insurance brokers, thirty (30) registered pension fund plans and two hundred and ten (210) registered insurance salespersons. The sector plays an essential role in the local economy, contributing roughly $8.1million in insurance premium taxes to the government in 2016 (2015 - $8.3million) and generating $203,000 in registration and license fees (2015- $190,800).

Sector Performance

The sector experienced a negligible decrease of 0.9% in gross written premiums in 2016, generating $207.4 million in premium income (2015- $209.2 million). More specifically, the gross written premiums for long-term insurance increased by 6.0% (2016- $55.64 million; 2015- $52.49 million) while the gross written premiums for the general insurance classes of business exhibited a reduction of 3.2% (2016- $151.73; 2015- $156.76 million).

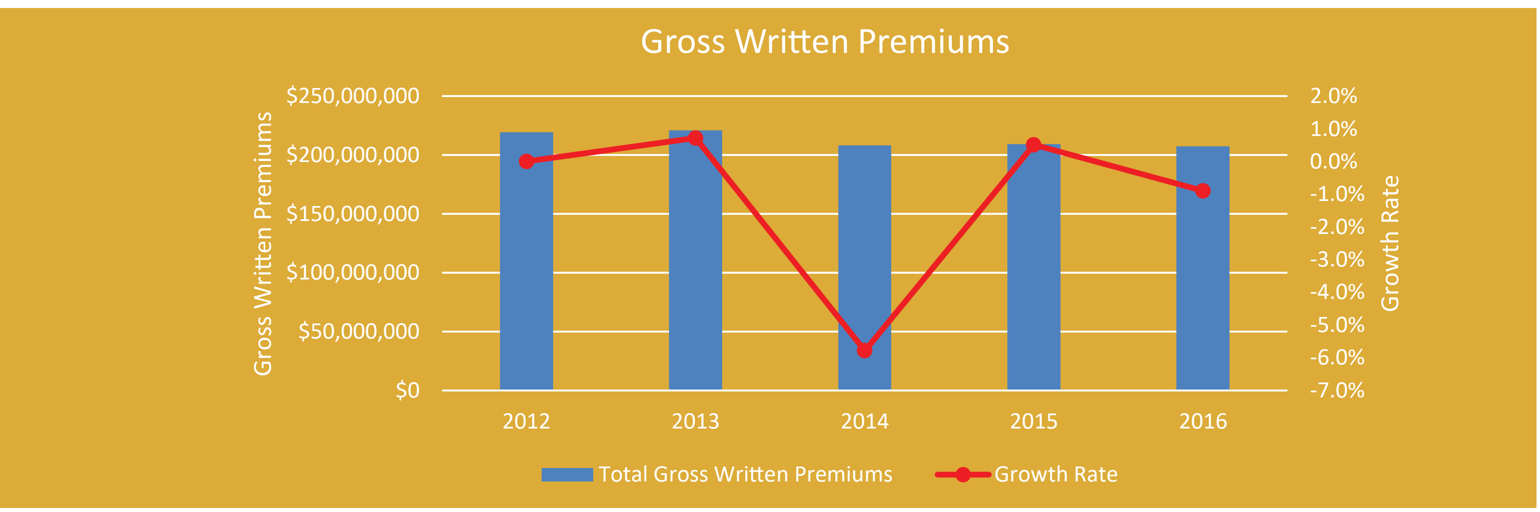


Figure 1: Domestic Insurance - Gross Written Premiums and Growth Rate (2012-2016)

Statutory Deposit and Insurance Fund

It is a statutory obligation that companies conducting motor and long term insurance business establish an insurance fund equal to their policyholders' liabilities, less amounts held in the statutory deposit for motor and long term insurance business. This fund must be held in Trust to the order of the FSRA for the protection of policyholders. Additionally, all general insurance companies are required to maintain/establish a statutory deposit equal to 40% of the Net Written Premiums, up to a maximum of $1,500,000. In respect of life insurance the deposit is fixed at $100,000. Currently $248 million is pledged to the insurance fund and $33 million to the statutory deposit, giving a total amount pledged of $281 million.
Fifteen (15) general insurance companies conduct motor insurance business and are required to establish a Motor Fund. Industry-wise, 86% of the Net Fund and deposit was in place as at March 31, 2017. As at March 31, 2017, company-wise results are as follows:

- 13 companies are in full compliance
- 2 companies are over 90% compliant

The companies who failed to meet the fund requirements have subsequently injected assets to meet the shortfall and are therefore in compliance.

In respect of long-term insurance business industry-wise, 100% of the net fund and deposit was in place as at March 31, 2017.

Underwriting Performance of the Industry

The timely detection of weak or troubled insurance companies is of utmost importance for the effective and stable functioning of the insurance sector. Monitoring the financial performance and position of insurance companies, through the use of early warning tests is fundamental in that regard. The Authority pays particular attention to the underwriting performance of insurers. The analysis of underwriting ratios assists in identifying companies which fall outside the prudential limits thereby enabling early intervention and corrective action. The ratios are based on information from audited financial statements and the statutory annual returns submitted to the Authority in accordance with Section 26 of the Insurance Act. The key underwriting ratios used are the loss ratio, the operating expense ratio and the combined ratio. These are calculated below.

Loss Ratio

The loss ratio measures the percentage of premiums used to pay claims and is calculated as claims expense divided by net earned premiums (Loss Ratio = Claims Expense / Net Earned Premium).

The loss ratio for the general insurance sector ranged from 43% to 59% for the period 2012 to 2016 respectively, significantly below the prudential limit of 70%. The ratio for the long term insurance sector has been volatile, exceeding the prudential limit in 2012 and 2013 and was higher than that of the general insurance sector in each of the five respective years. This may be due to the high incidence of policy surrenders. It needs to be noted however, that the long term insurance sector is highly concentrated and the volatility may be due to the performance of the major players in the market.

Table 01: Domestic Insurance - Loss Ratio (2012-2016)

Loss Ratio	Prudential Limits	2012	2013	2014	2015	2016
General Insurance	< 70%	43%	56%	50%	58%	59%
Long Term Insurance	< 70%	78%	77%	64%	57%	69%

Operating Expense Ratio

The expense ratio measures the percentage of premiums used to pay all the costs of acquiring, writing, and servicing insurance and is calculated as Commission Expense plus Management Expense divided by Net Earned Premiums (Operating Expense Ratio = (Commission Expense + Management Expense) / Net Earned Premiums).

The operating expense ratio for general and long term insurance exceeded the prudential limit of 30% in each of the respective years under review, signifying that companies within the industry may not be operating efficiently. The ratio was notably higher for long term insurance than general insurance. The management expenses for long term insurance tend to be higher than for general insurance as it may include expenses relating to research, investment, risk and product pricing. Further, in addition to acquiring new business, life insurers also incur the costs of servicing and maintaining existing business. Notably, the major players in the life insurance sector have more complex structures and as such, they tend to have higher costs on average. Notwithstanding the high operating expense ratios, the industry remained profitable, producing before tax profits in each of the respective years.

Table 02: Domestic Insurance - Expense Ratio (2012-2016)

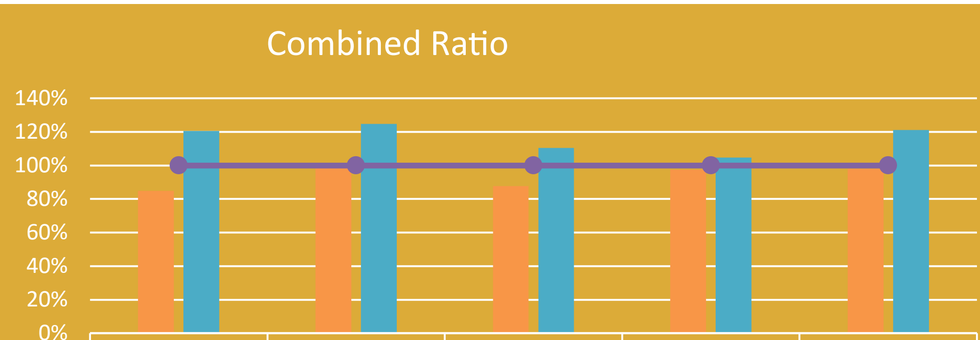
Expense Ratio	Prudential Limits	2012	2013	2014	2015	2016
General Insurance	< 30%	42%	43%	38%	39%	39%
Long Term Insurance	< 30%	42%	48%	46%	48%	52%

Combined Ratio

The combined ratio is the summation of the loss and operating expense ratio and measures the underwriting performance of the insurer (Combined Ratio = Loss Ratio + Operating Expense Ratio).

A ratio below 100% indicates that the company is making underwriting profits while a ratio above 100% indicates that the company's underwriting expenses exceed the premiums collected.

As illustrated in the graph below the combined ratio for the general insurance sector has remained well below 100% while the combined ratio for the long term sector exceeded the benchmark of 100%. The combined ratios for both sectors were highest in 2013 (General 99% and Life 125%).



	2012	2013	2014	2015	2016
General Insurance	85%	99%	88%	97%	98%
Long Term Insurance	121%	125%	110%	105%	121%
Prudential Limit	100%	100%	100%	100%	100%

Figure 2: Domestic Insurers Combined Ratio (2012-2016)

Insurance Market Concentration

In assessing the competitiveness of the insurance industry, the department made use of the Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration.

The HHI takes into account the relative size and distribution of the firms in a market and approaches zero when a market consists of a large number of firms of relatively equal size. The HHI increases both as the number of firms in the market decreases and as the disparity in size between those firms increases. Markets in which the HHI is between 1000 and 1800 points are considered to be moderately concentrated and those in which the HHI is in excess of 1800 points are considered to be concentrated.

The graph below illustrates the trend in the competitiveness in the industry for the period 2012- 2016

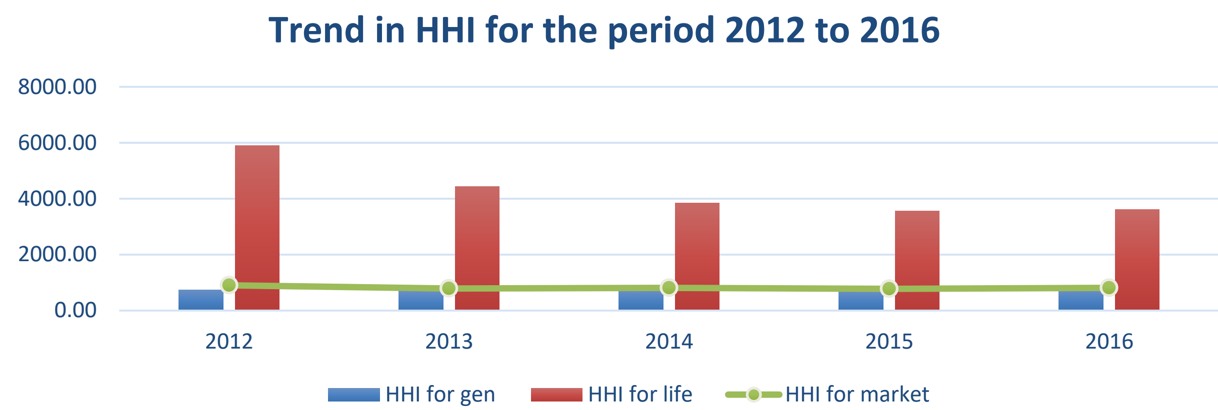


Figure 3: HHI for Domestic Insurance Industry (2012-2016)

According to the Herfindahl-Hirschman Index, the insurance market in St. Lucia is largely un-concentrated with a HHI of 809.9 points in 2016. The market has exhibited this trend for the past five years averaging 816.2 points over the period. Dissecting the industry into Long-term Insurance and General Insurance business however, gives very different results.

Long-term Insurance Business

The Long-term Insurance Sector is highly concentrated with a few players dominating the market. In 2016 the HHI was 3,606 points, an increase in concentration over the prior year by 53 points. It must be noted however, that the concentration has dwindled over the past five years decreasing from 5,899 points in 2012 to 3,606 points in 2016, a reduction of 2,294 points. This can be attributed to the shift from one player controlling nearly 80% of the market in 2012 to holding a market share of roughly 60% in 2016.

The two largest companies hold about 78% of the market share, with the market leader controlling nearly 60%; more than 40% above its nearest competitor. These results suggest that the market is at the high end of oligopoly.

General Insurance Business

The General Insurance Sector is largely un-concentrated with an HHI of 737 points in 2016. This indicates that the industry is highly competitive.

While a highly mature and competitive market is desirable, some players are at risk of being expelled from the market. In recent times, insurers have demonstrated a proclivity to engage in irregular practices, such as price undercutting in an effort to maintain and increase market share with a consequential erosion of profits; a practice that is unsustainable. The general insurance market operates with limited growth potential and long-term sustainability might require industry consolidation by way of the acquisition of other insurers or mergers. This would increase market share and achieve competitive advantages in terms of size, scope and distribution.

Notwithstanding the benefits to be derived from consolidation, there are potential drawbacks, including loss of jobs. Additionally, excessive consolidation could have adverse consequences in the form of a market that is highly concentrated. An imbalanced market could lead to the detriment of existing companies and policyholders. Accordingly, any decision has to be calculated with a view to reaching a balance wherein no stakeholder is disadvantaged.

Insurance Density and Penetration

Insurance density and insurance penetration are used as indicators of the level of development and reach of the insurance sector within a country. Insurance density is measured as the ratio of gross written premiums (in $) to total population and determines the average amount spent on insurance per person while insurance penetration measures the percentage of gross written premium (in $) to gross domestic product (GDP in $).

Insurance Density

The density of the insurance sector appears to be declining. However, an analysis of the general and long term insurance sectors revealed a decreasing trend for the general insurance sector and an increasing trend for long term insurance. In respect of general insurance the decrease may be attributed to the relatively soft market which has resulted in declining premium rates. The average amount spent per person for long term insurance is $300.65 annually whereas the average amount spent on general insurance is $939.13; three times that of life insurance.

Possible explanations for this large disparity could be:

- the wide variety of classes of business comprising general insurance i.e. personal accident, motor, property, pecuniary loss, liability and marine, aviation & transport
- some forms of general insurance are mandatory (e.g. Motor Insurance and House Insurance for mortgagors)
- the degree of risks associated with these classes of business

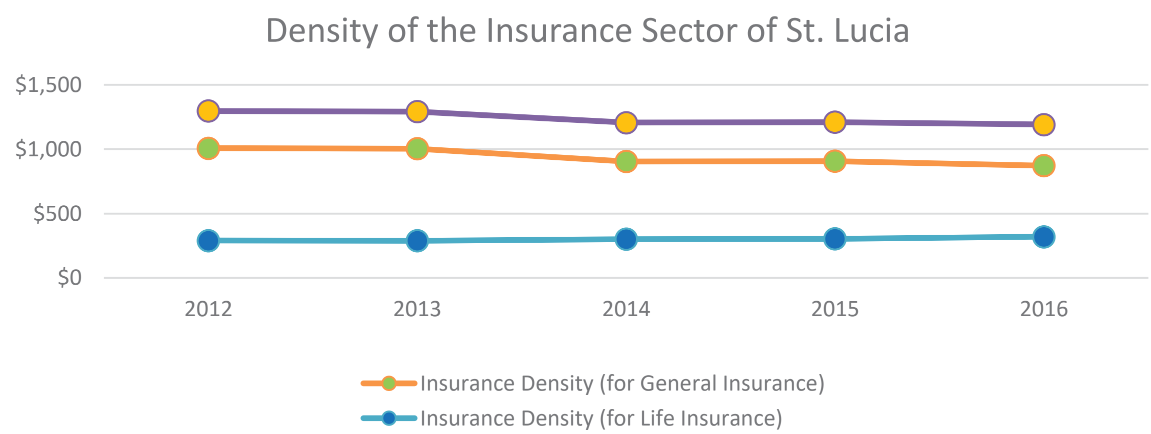


Figure 4: Density of Insurance Sector (2012-2016)

Insurance Penetration

The penetration of the sector follows a similar trend to the density, illustrated by the chart below.

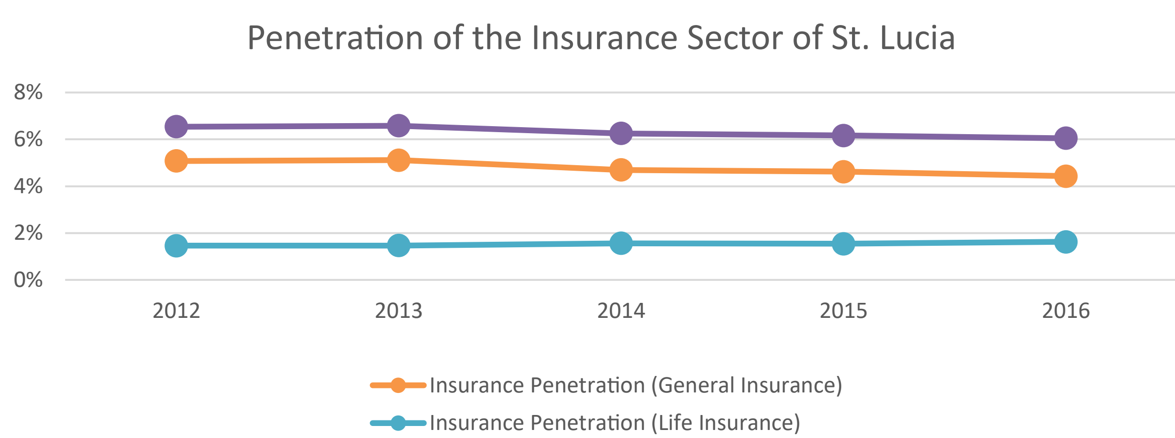


Figure 5: Penetration of Insurance Sector (2012-2016)

The average penetration of insurance as a percentage of GDP for the industry as a whole is 6.3%. Dissecting the ratio into long-term and general insurance shows an average penetration of 1.5% and 4.8% for the long-term and general insurance sector respectively. The result suggests that there is good potential for growth in the long-term insurance sector which is supported by the yearly increases in penetration as depicted in the graph.

A Closer Look into the Market's Density and Penetration

The trend suggests a contracting insurance sector, in particular the general insurance sector. However, statistical data has shown that though gross written premiums have been declining for the general insurance sector, the total sum insured and number of policies have been increasing. Thus it may be deduced that the movement is due to the falling prices.

Property insurance is the largest class of business within the general insurance sector, accounting for 43% of the total general insurance premiums. The gross written premiums of this class has been declining with little to no movement in the number of policies and the total sum insured.

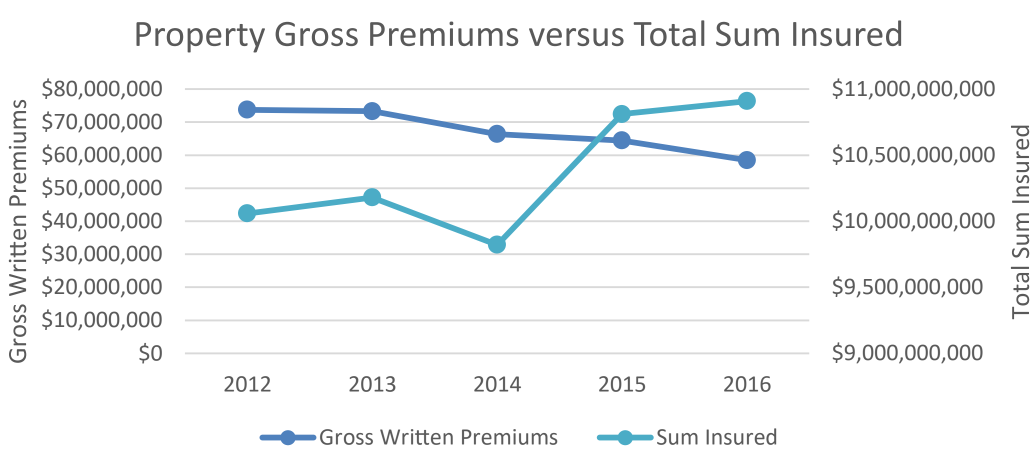


Figure 6: Gross Premiums vs. Total Sum Insured for Property Insurance in Domestic Market

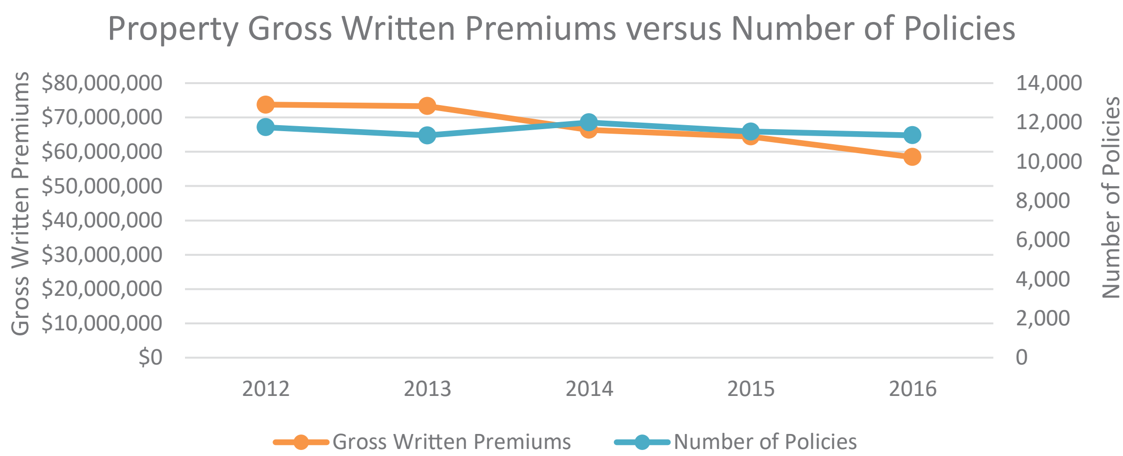


Figure 7: Gross Premiums vs. No. of Policies for Property Insurance in Domestic Market

Motor insurance premiums account for 30% of the total general insurance gross written premiums. The premiums generated by this class of business have been dwindling while the total number of policies continues to rise. Possible reasons for this are:

1. Falling premium prices
2. The shift in market dynamics as more used vehicles are being imported, resulting in an increase in third party insurance coverage as opposed to comprehensive insurance coverage

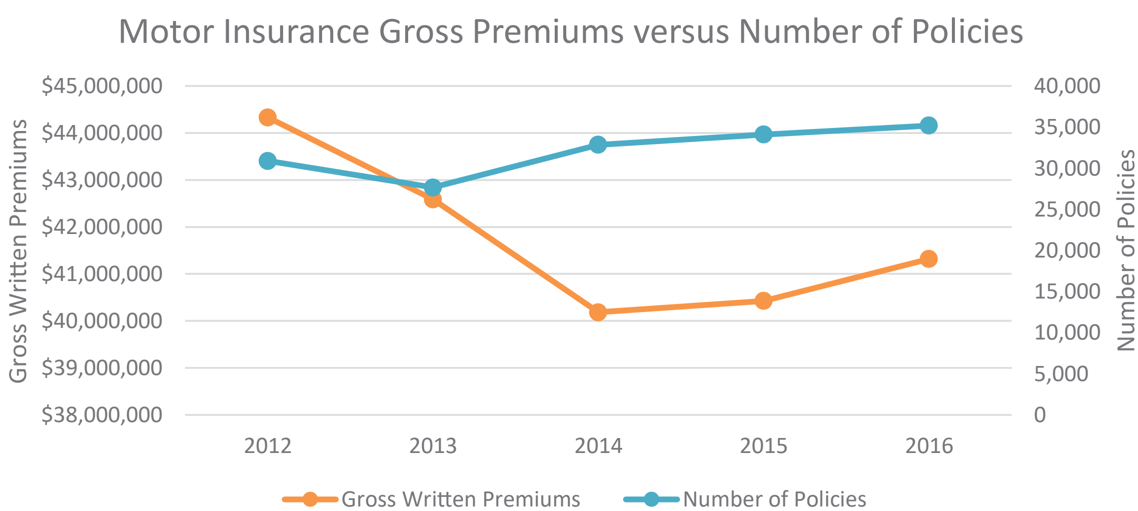


Figure 8: Gross Premiums vs. No. of Policies for Motor Vehicle Insurance in Domestic Market

The graphs clearly depict that the overall reduction in gross written premiums were primarily due to falling prices as opposed to a decline in insurance penetration. The general insurance sector is highly competitive. Under these conditions there is a large incentive for individual companies to cut prices in order to gain/maintain market share. Notwithstanding decreasing gross written premiums, conversely the total sum insured has increased signifying that the risks covered have been rising. Underpricing insurance policies is a significant risk to the solvency of insurance companies and the ability to pay claims, as it erodes profit margins and hampers their ability to build adequate reserves for the eventual payment of claims. Thus, insurers must be mindful of their pricing strategies.

Credit Union Sector

The credit union sector continues to play an integral role in the economic and social development of St. Lucia, by providing financial and other services to its members and by fulfilling their corporate social responsibility through various means, inclusive of but not limited to bursaries and summer camps. The sector comprises 99,098 members, 255 employees, 110 directors (voluntary) and boasts an asset size of EC $783 million, which represents an increase of 16% from the previous year.

Table 03: Financial Performance of the Credit Union Sector (2013-2016)

Income Year	Total Assets	Total Withdrawable shares & Deposits	Total Liabilities	Institutional Capital & Permanent Shares (PS)	Percentage of Institutional Capital & PS / Assets	Total Share Capital (Permanent)	Percentage of Permanent Shares / Assets
2013	552,034,054	393,046,497	448,037,150	86,872,722	16%	18,664,445	3%
2014	604,358,592	480,486,613	493,021,469	98,588,790	16%	22,613,683	4%
2015	672,371,519	536,970,193	536,970,193	117,570,935	17%	27,340,439	4%
2016	782,988,581	632,332,205	639,847,975	132,577,697	17%	34,795,966	4%

There has been a steady increase in total assets over the past four (4) years which is indicative of the sector's viability and continued presence in the market. Lower deposit interest rates offered at other commercial financial institutions and the government's tax allowance for investing in the sector continue to contribute to members saving more at the credit union, leading to an increase in total deposits and withdrawable shares (18%) and by extension total assets.

Credit union loans, the main income generating activity, remain attractive to members as they offer lower fees and charges than that of other financial institutions and a patronage refund where members earn back interest paid on loans. Overall, loans represented 70% to 75% of total assets and grew by 13% in keeping with the sector's continued growth. Notably, loan funds are domestically acquired from their members; hence, credit unions do not increase the international debt burden as they do not depend on external capital.

Total delinquent loans remain a sore area for this sector as it continues to grow in absolute terms annually. Although delinquent loans as a percentage of total gross loans has fallen consistently, albeit by 1% annually between 2014 and 2016, the recorded ratios are significantly greater than the 5% benchmark set by PEARLS. Eleven (11) credit unions present figures above the 5% requirement which further confirms the gravity of the situation regarding delinquent loans.

Table 04: Analysis of Loan Performance in the Credit Union Sector (2014-2016)

Year	Total Assets	Total Loans	Total Deliquent loans	Total Deliquent loans/ Total loans	Total Provisions on Loans	Provisions on Loans/Total Deliquent Loans	Institutional Capital less Deliquent Loans NO PROVISION	Percentage of Institutional Capital less Deliquent Loans No Provision / Assets
2014	604,358,592	439,318,934	50,711,135	12%	16,696,548	33%	64,574,203	11%
2015	672,371,519	505,270,587	56,173,728	11%	16,028,098	29%	77,425,305	12%
2016	782,988,581	568,918,047	58,220,553	10%	14,693,315	25%	89,050,459	11%

The institutional capital and permanent shares over total assets has remained fairly stable over the years, averaging 17% (Table 3) in the current year. There are currently five (5) credit unions meeting the 15% requirement of proposed legislation and of the remainder, four (4), fall below 10%. Furthermore, such ratios remain fragile should all delinquent loans be provisioned, hence resulting in an average industry level of 11% for institutional capital & permanent shares over total assets.

Land and mortgage is the largest loan category primarily as a result of lower loan fees, namely zero stamp duties associated with credit union financing as opposed to banks. Business loans, although representing only 3% of the total loan market has the highest rate of delinquency, followed by personal loans. The collateral for the latter two categories remain challenging in terms of assessment and recovery. This indicates that increased and stricter measures need to be implemented to ensure the reduction of these delinquencies.

Table 05: Credit Unions - Loan Delinquency by Category (2016)

Total Loan Portfolio:	Outstanding Loans (EC$)	% of Total Loan Types	Delinquent loans	% of Delinquent loans/Total Loans	Number of Loans
Personal	111,622,971	20%	17,854,351	16%	9,941
Land & Mortgage	187,666,146	33%	12,568,728	7%	2,286
Business	17,999,430	3%	4,684,993	26%	584
Vehicle	53,189,713	9%	6,202,654	12%	2,040
Study/Education	28,837,873	5%	2,723,854	9%	1,952
Medical	4,649,955	1%	385,367	8%	445
Agriculture	5,588,078	1%	490,344	9%	295
Other	159,363,882	28%	13,310,262	8%	10,126
Total	**568,918,047**	**100%**	**58,220,553**	**10%**	**27,669**

The Way Forward

We were heartened to address the sector on the occasion of the St Lucia Co-operative Credit Union League's 40th Anniversary and the opening of its building on the William Peter Boulevard, at the center of the financial hub of the city.

The completion of this project symbolised a significant milestone in the growth and development of the credit union sector over the years in St Lucia. The location of the building is indeed strategic and the presence of the credit union sector will not go unnoticed.

The project emerged from the shared vision, that is, to enhance the convenience, delivery and accessibility of financial services for credit union members through a country-wide shared services network. Through shared services for credit unions, a participant credit union can serve members financial service needs where they live, work or travel.

Indeed, credit unions operate under strict and limiting rules. They can only conduct business with members sharing a common bond. They also operate under the competitive disadvantage of limited channels of distribution or branching system. A credit union may not be able to branch out, unless it can service enough members to justify and support the facility within a specified location. Because of these limitations, many credit union members are severely underserved.

While we understand that the original concept has changed, it is our expectation that the credit union players will encourage shared branching as a solution for the provision of credit union services nationwide.

Money Services Business

Money services businesses (MSBs) play a vital role in providing financial services to consumers and small businesses across the island. MSBs have become a popular vehicle for the daily payment of bills, small loans and the transmission of funds to and from family members and friends domestically and abroad. MSBs are especially useful to persons located in small communities across the island who are less likely to use traditional banking services.

The Money Services Business Act No. 11 of 2010, as amended, requires the licensing of companies and individuals engaging in money transmission and micro-lending. Additionally, MSBs are responsible for and qualified to do business, and serve as an ongoing measure of accountability for the public. By regulating these businesses, the Authority limits potential money laundering risk and adds stability to financial markets by increasing confidence in the market.

The number of money services businesses licensed by the Authority remained at eight (8) for the year 2016. These comprise:

Table 06: Classes of Licence for Money Services Businesses

CLASS OF LICENCE	SUB - CLASS	DESCRIPTION	NO. OF LICENCEES
Class A	1	Transmission of money or monetary value in any form	3
	2	Issuance, sale or redemption of money orders or traveller's cheques	
	3	Cheque cashing	
	4	Currency exchange	
Class B	1	Issuance, sale or redemption of money orders or traveller's cheques	0
	2	Cheque cashing	
	3	Currency exchange	
Class C	1	Cheque cashing	0
Class D	1	Currency exchange	0
Class E	1	Micro-lending	5
TOTAL			8

Class A1 Licence Holders

There were no new registrations of Money Transmitters in 2016. However, approval was granted for the opening of a total of three (3) sub-branches to two of the operators; two in Rodney Bay and one in Fond St. Jacques, Soufriere. The number of offices and branches run by the three companies totalled twenty-three (23) at the end of 2016. These companies operate as agents for either Western Union or Money Gram.

Remittance Inflows

Money Transmitters processed 245,361 incoming transactions during 2016 valued at EC $101.3 million. This represents an increase from 2015 of 3.7% in the number of transactions and 2.9% in the value. Total inflows were distributed among the three licence holders in market shares of 37%, 35% and 28%.

Money Transmitters are required to file returns with the FSRA on a quarterly basis providing, among other things, particulars of all transactions conducted. Review of the data indicates that the largest inflow of funds ($53.8M) originated from the United States, with the second largest amount of $13.2M being received from persons in the UK. This was followed by inflows from Canada and Europe of $10M and $7.7M, respectively.

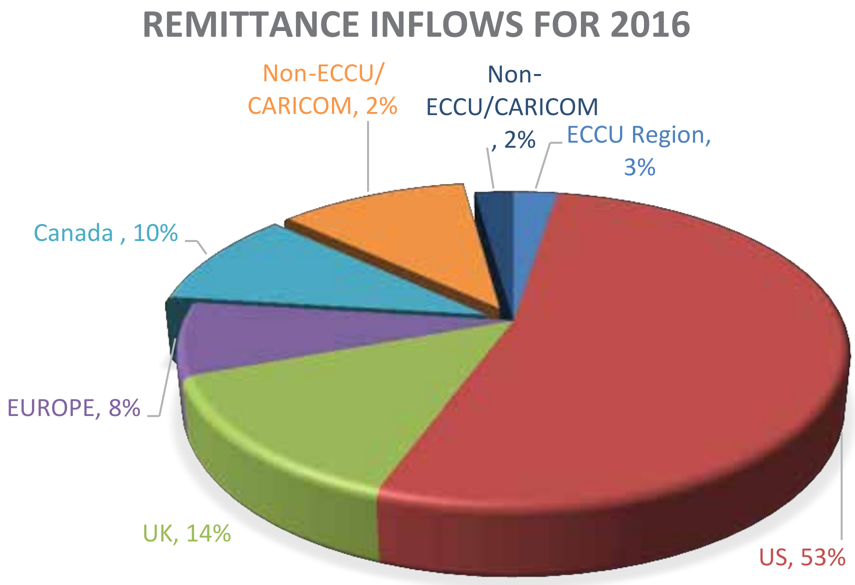


Figure 9: Money Services Businesses - Remittance Inflows

The increase in the value of remittances into the country from $83.6M in 2014 to 101.3M in 2016 represents an increase in funds received from all territories except the UK where $615,618 less was received (2016: $13.86M; 2014: $14.48M) although the number of transactions increased; a reduction in service providers is attributed to the devaluation of Sterling.

Remittance Outflows

During the year 2016, fifty thousand, two hundred and thirty three (50,233) outgoing transactions valued at EC $23.3 million were processed by money transmitters. This represents an increase from 2015 of 18% in both the number of transactions and in the value. Total outflows were distributed among the three licence holders in market shares of 55%, 28% and 17%.

'Other territories' accounted for the largest percentage of Outflows of Remittances for the year 2016; which stood at 44% ($10.1M) with the second largest amount of 28% ($6.49m) going to the United States. Money remitted to Non-ECCU/CARICOM countries accounted for the third largest category, while the ECCU countries followed with a 7% share.

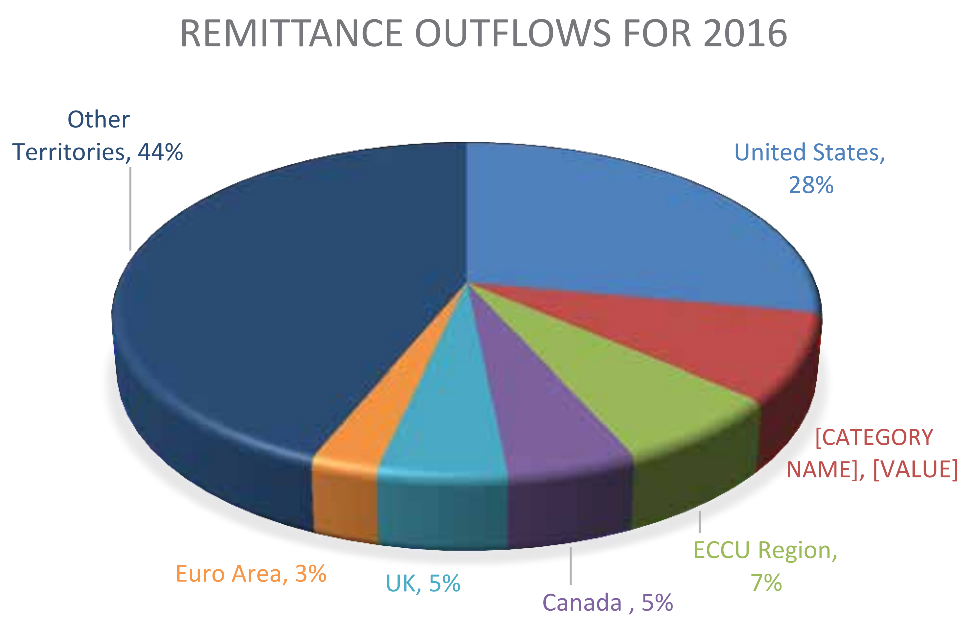


Figure 10: Money Services Businesses - Remittance Outflows

The value of remittances sent out of the country increased from $16.0M in 2014 to 23.3 in 2016. This represents an increase in funds sent to all territories except the ECCU where $289,410 less was sent out (2016: $1.60M; 2014: $1.89M). The decline is due to a 4.4% reduction in funds received in 2016 from the prior year, notwithstanding an increase of 7.3% in the number of transactions; from 4,309 to 4,622.

Net Flow of Funds

Overall, there has been a marked increase in the net flows from money transmitters over the three year period of 2014 to 2016, with the United States of America revealing the highest level of net flows over this specified period. For this country, money transmitters experienced a 16% increase from the years 2014-2015 and a 10% increase from the years 2015-2016. From the ECCU region they experienced a 34% increase from 2014-2015, however there was a slight decrease of 0.39% from the period of 2015-2016.

It is worthy to note that in 2014, total net flows from all the countries listed, was 4.9% of the total GDP of St. Lucia, in 2015 it was 5.5% while in 2016 it was 5.6%. This marked a steady increase in the total net flows as a percentage of GDP over the three year period and brings to light the significant contribution which the sector is making to the overall economic viability of St. Lucia as a whole.

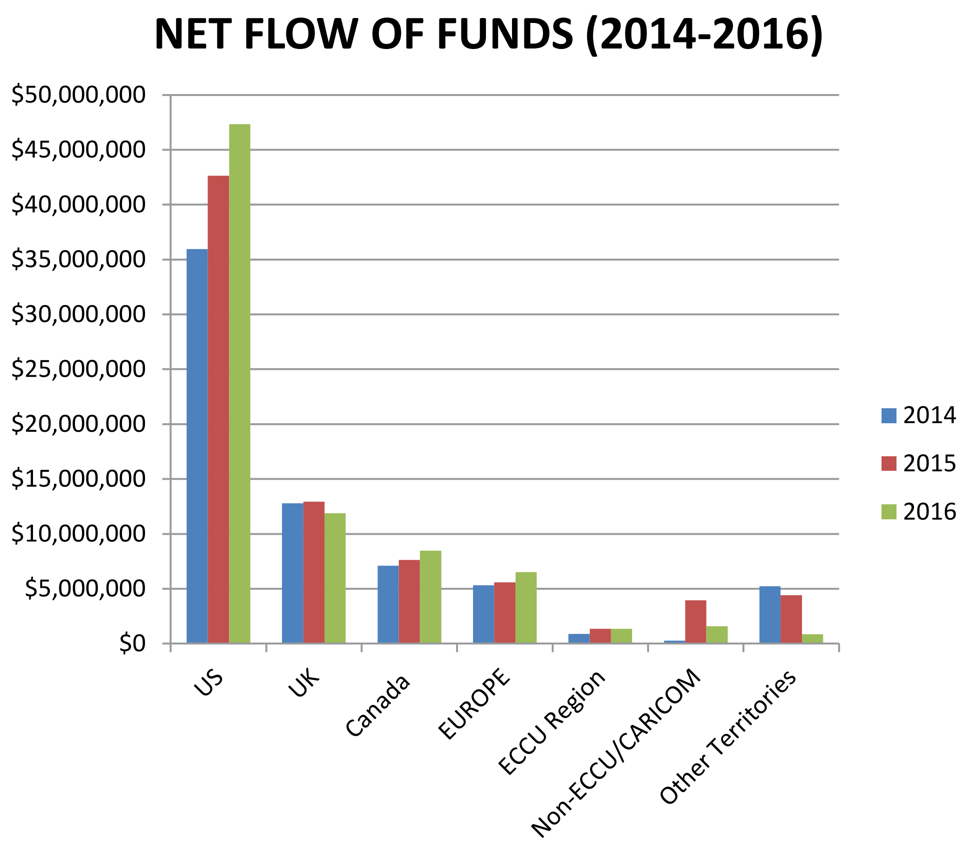


Figure 11: Money Services Businesses - Net Flow of Funds (2014-2016)

Impact of De-risking on Money Service Businesses

Money transmission presents a potential high risk to the financial system as transmitters are known to be targeted by persons to support criminal activity. Many financial institutions have decided that the enhanced oversight and compliance necessary for the MSB industry as a whole outweighs any benefits in maintaining a banking-customer relationship. As a result, the banking environment has responded by wholesale de-risking; all financial services to MSBs are withdrawn. To address this de-risking dilemma some banks have applies a risk-based approach wherein MSBs are required to develop and implement rigorous AML Policies where strict customer identification and verification procedures are applied in order to deter and detect money laundering schemes.

Money transmitters operating in Saint Lucia rely on their overseas-based Head Offices for assistance with combatting money laundering. This support includes compliance training on an annual basis either on request or mandatory as part of the compliance programme. Heavy supervision from the overseas head offices also forms part of the entire compliance framework. Such monitoring is done remotely on a daily basis but may also include annual compliance audits carried out on-site at the office of the main agent.

During 2016, meetings were held with officials from the head offices of both Western Union and MoneyGram during their annual visits to St Lucia. The Money Transmitters remain committed to work with the FSRA and other regulatory bodies to ensure their agents remain compliant with relevant legislation and guidelines.

MICRO-LENDERS

Micro-Lenders are non-bank financial institutions belonging to the Class E licence category for money services business. A licence of this nature provides for the granting of loans up to fifty thousand dollars ($50,000). Licensees are not permitted to solicit deposits in any form to fund these loans. As a result of the associated risk, loans granted can attract an annual interest rate as high as 36%. The Financial Services Regulatory Authority currently regulates five (5) Micro-Lending Services providers.

There was an increase in the number of loans disbursed from 2015 of 11.62%. The entity holding the largest value of loan book at year-end commanded a market share of 30.67%, while the others followed with 26.35%, 17.38%, 17.18% and 8.41%.

Table 07: Micro Lenders – Loans and Number of Employees

Financial Year End 2016	2016	2015
Total number of loans disbursed for the year	18,368	16,455
Total value of loans disbursed	$67,036,066	$53,473,390
The total value of the loan book at the end of the period	$56,848,085	$50,965,624
Number of employees	76	56

In 2016, total loans disbursed for the sector amounted to EC $67million. This represents an increase of 25% from the 2015 figure ($53.4million). Loan agreements ranging from up to $5,000 (medical, debt consolidation…) held an 81% market share and represented 48% ($32,196,809.75) of aggregate loans, followed by the $5,001-$10,000 range with a share of 29% ($19,445,332.35). This was followed by ranges of $20,001- $30,000 (9.09%), $10,001- $20,000 (6.48%), $30,001- $50,000 (6.03%) and over $50,000 (1.36%).

It is noteworthy, that loans of $5,000 and below are easily refinanced with a maximum repayment period of up to 2 years.

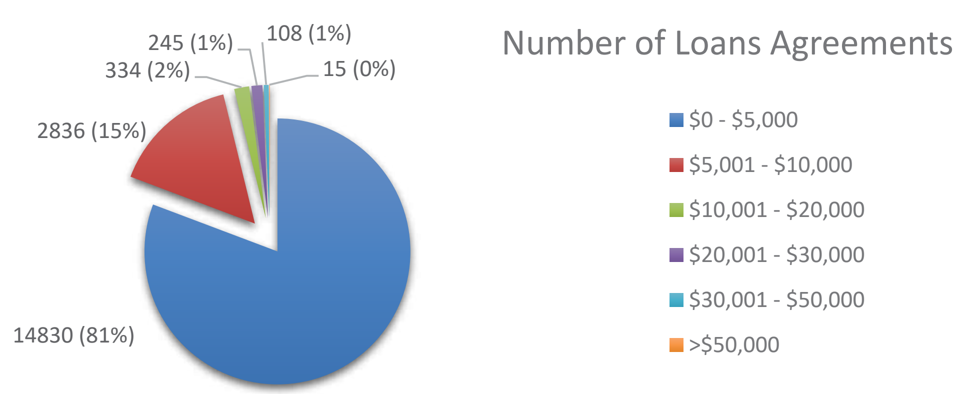


Figure 12: No. of Loan Agreements Issued by Micro Lenders

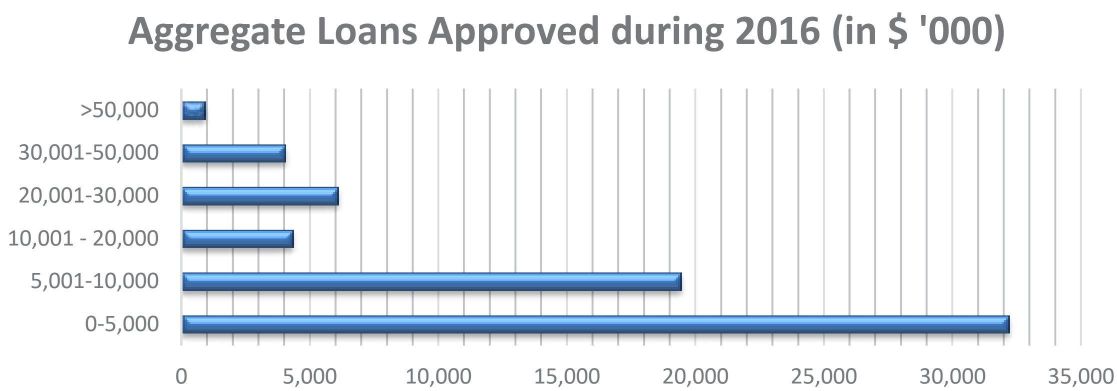


Figure 13: Aggregate Value of Loans Disbursed by Micro Lenders

International Financial Sector

The international financial sector refers to all international Business Companies (IBC) that are licensed/ registered to engage in mutual funds, banking and insurance, along with the Registered Agents, Registered Trustees. These entities and representatives serve clients who are non-resident.

There were eighty three (83) licensed IBCs regulated by the FSRA in 2016. An additional fourteen (14) Registered Agents and Trustees provided international financial services representation for the aforementioned.

Twelve (12) applications for new licenses were received in 2016, while seven (7) entities exited the jurisdiction by either surrendering their licenses or re-domiciliation. The reasons for either surrendering or re-domiciling include:

- To provide services for companies in other countries
- The parent company going out of business
- The IBC is no longer being relevant
- To take advantage of regulatory terms that fit the modus operandi of the IBC

The international financial sector contributes to the Saint Lucian economy in various ways including:

- Payment of annual licence and International Business Companies (IBC) fees;
- Payment of taxes where the 1% tax option has been exercised
- Payment of retainer fees to resident directors and lawyers; and
- Engaging the services of Auditors and Registered Agents.

International Insurance

The International Insurance Act, Cap 12.15 provides for the registration/ licensing of:

- Incorporated cell companies (ICC);
- Incorporated cells (IC); and
- International Insurance Companies

There were a total of five (5) incorporated cell companies, 16 incorporated cells and thirty-three (33) international insurance licensees at the year end, comprising eleven (11) Class A1, twenty-one (21) Class A2, and one (1) Class C2, within the international insurance sector. While pure captives continue to dominate the international insurance sector, holding a market share of 55%, we have seen a decline in incorporated cells, with many choosing to either re-domicile or surrender their licence as a result of more competitive legal arrangements within the United States of America.

A Class "A" license is issued for conducting general insurance business. A Class "B" licensee can conduct long-term insurance business from Saint Lucia, while a Class C licensee may conduct both general and long-term insurance business.

A subclass 1 license is granted to pure captives, with the sole purpose of insuring the risks of one or more persons. On the other hand, a subclass 2 license is granted to broad captives where no special relationship is required between the insurance company and the insured.

An ICC is a company which has the power to establish ICs as part of its corporate structure, with each holding separate and distinct assets and liabilities. Each IC therefore, transacts separate and distinct insurance business.

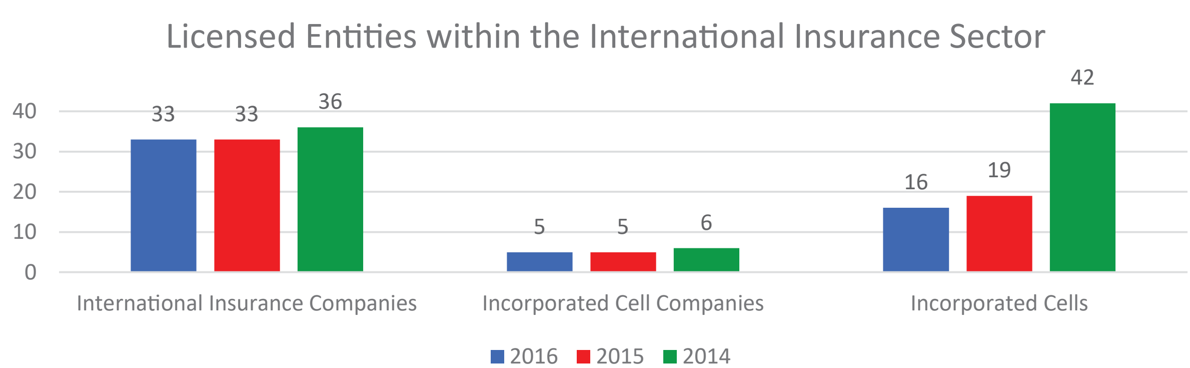


Figure 14: No. of Licensed Entities within the International Insurance Sector (2014-2016)

Although there was a significant drop in the number of incorporated cells from 2014 to 2015, it did not negatively impact the results reported in 2015 since the surrendered licensees were relatively inactive prior to de-registrations. During 2016, the incorporated cell sector has continued to decline steadily in numbers as a result of fewer applicants and increased voluntary de-registrations. This has resulted in a decline in activity and overall reduced economic impact of the international insurance sector, most notably in respect of total premiums written and total licence fees.

Table 08: International Insurance - Premiums, Claims Incurred, Allowable Assets and Liabilities (in US$)

	2016	2015	2014
Gross Written Premiums	105,551,449	141,005,133	147,364,579
Net Written Premiums	94,203,197	139,041,070	129,090,795
Claims incurred	4,836,084	1,795,113	14,074,718
Allowable Assets	371,568,283	341,920,959	222,761,722
Liabilities	225,733,471	204,486,849	86,108,171

The countries of origin of entities in the international insurance sector are United States of America (73%), Caribbean (20%) and other (7%). There has been no significant shift in representation for the sector since Saint Lucia opened up its jurisdiction to conduct international insurance business. This clearly underscores the countries that propel the international insurance sector.

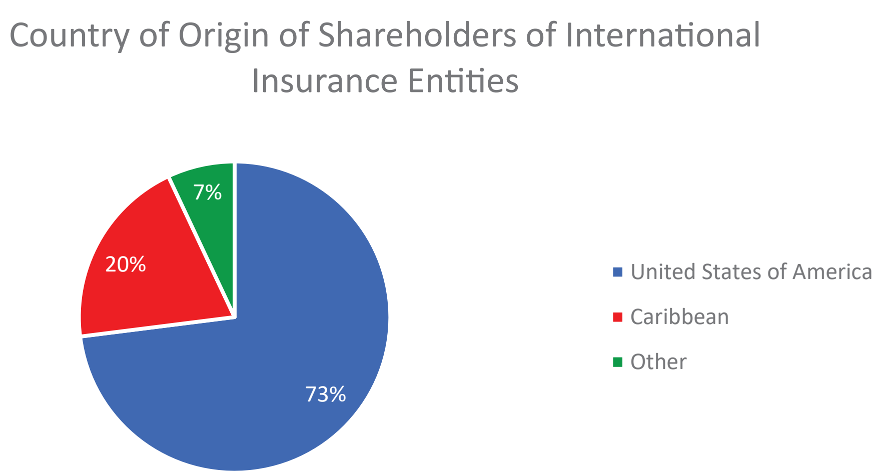


Figure 15: Country of Origin of Shareholders of International Insurance Entities

International Banking

The International Banking Sector (the Banking Sector) of Saint Lucia comprises fifteen (15) licensed banks (10 Class A and 5 Class B); eleven (11) of which are operational and four (4) pending commencement of banking operations as a direct result of their inability to secure correspondent banking relationships in fulfilment of regulatory requirements.

The Banking Act provides for the issuance of two (2) classes of international bank licence; Class A and Class B. The Class A licence allows the holder to accept deposits from third parties who are not citizens or residents of St. Lucia. Class A banks are required to maintain physical presence in St. Lucia with a complement of staff and offices from which they operate.

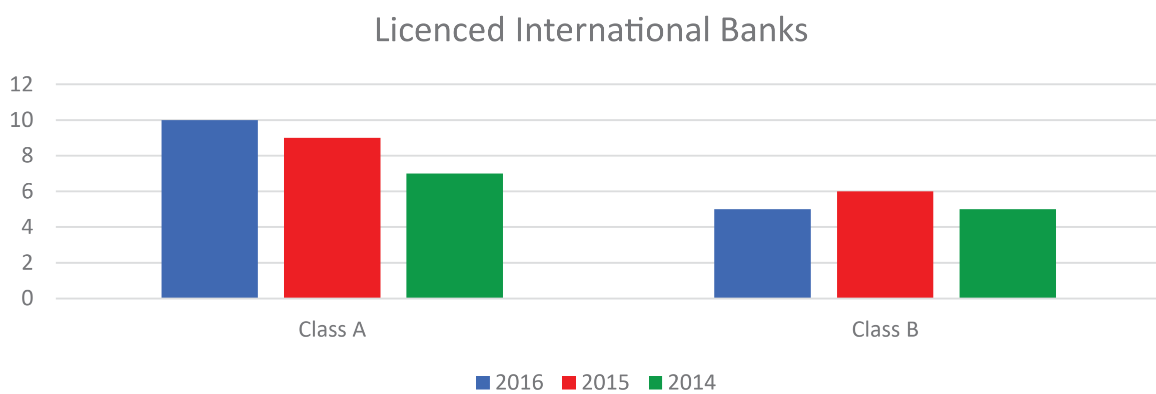


Figure 16: Licensed International Banks (2014-2016)

In keeping with international expectations, the FSRA's effort to combat the infiltration of threats into the Banking Sector requires banks to establish correspondent banking relationships preferably with regulated commercial banks in OECD countries. This is to provide an extra layer of oversight to the monitoring of the flow of funds and enhanced due diligence reviews on clients.

The intensification of de-risking efforts in the major markets as a result of the Caribbean region being deemed to be high risk continues to present a challenge for the Banking Sector. Banks in OECD countries are reluctant to offer correspondent relationships to our regional banks due to the potential for high penalties if said OECD banks are found to be dealing with non-compliant regional banks. This situation continues to be an impediment to the growth and stability of the Banking Sector, not only in Saint Lucia but throughout the Caribbean Region.

A review of the Banking Sector over the past three years (2014-2016) reveals an overall downward trend. The contraction reflected by the sector during 2016 can, for the most part, be attributed to irregularities within two (2) of the class A banks; one having undergone major restructuring while another exited the jurisdiction due to loss of its correspondent banking relationship.

Table 09 International Banks - Net Interest Income, Assets, Deposits, Loans and Equity (in US$)

	2016	2015	2014
Net interest income	12,464,301	13,308,021	18,670,905
Assets	494,840,694	774,893,559	774,656,194
Deposits	293,687,036	574,946,168	611,549,832
Loans	175,771,799	354,250,772	208,394,754
Equity	67,055,462	74,308,417	45,510,850

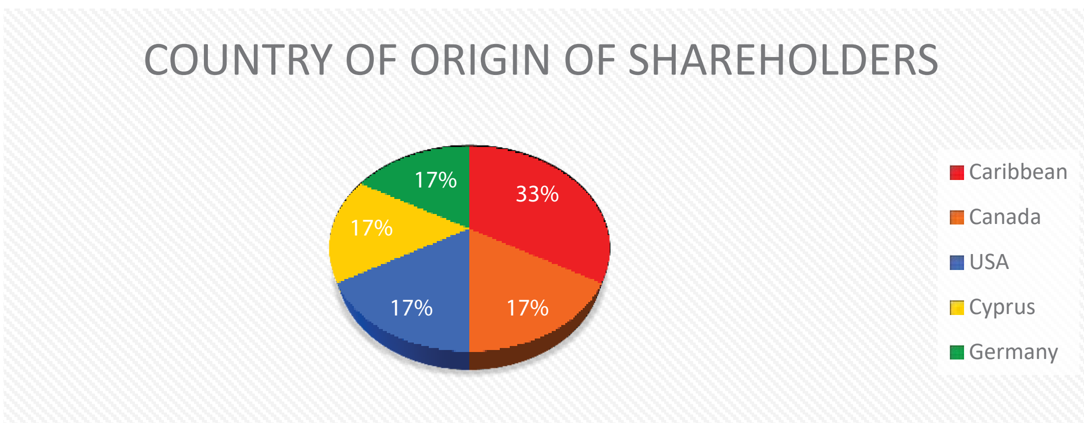


Figure 17: Country of Origin of Shareholders of International Banks

Within the international financial sector, international banks have the largest impact on the local economy. This is because all Class A banks are required to have physical presence, including their "mind and management", in Saint Lucia. To achieve this, office spaces in prime real estate locations, are let to house the banks. This provides an income generating stream for the local economy. Additionally, the local "mind and management" requirement has resulted in approximately sixty four (64) individuals being employed by the international banks operating in Saint Lucia. This is in addition to the professional services of attorneys and external auditors and registered agents.

As the banking sector continues to grow and mature, it is anticipated that the need for qualified human capital would play a role in sustaining the increased interest in fields relevant to the sector, such as, risk management and compliance.

International Mutual Funds

The International Mutual Funds Sector, which comprises Private & Public Mutual Funds and Mutual Fund Administrators & Managers, continues to be the smallest subsector in the international financial sector. The Authority currently oversees eight (8) Private Mutual Funds, three (3) Public Mutual Funds, two (2) Mutual Fund Administrators and one (1) Mutual Fund Manager.

Mutual funds are established to pool funds for collective investment. The aim of such an entity is to spread risk and maximise returns. The Mutual Funds existing in our jurisdiction spread their risk by investing in different sectors as illustrated below.

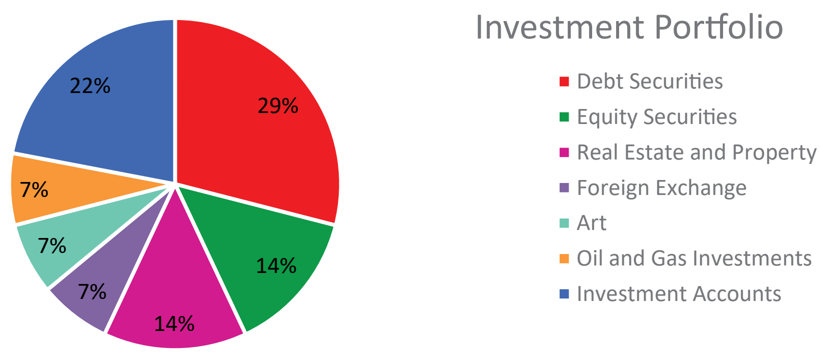


Figure 18: International Mutual Fund Investment Portfolio

International mutual funds contractually outsource their operations and utilise the services of licensed administrators and managers. Eighty percent (80%) of the funds administrators being engaged by Mutual Funds are registered and licensed in St Lucia, 16% in Europe and 4% in other jurisdictions. Fund Managers on the other hand, originate primarily from the Caribbean, with a small percentage existing in Europe.
While the origins of the shareholders of International Mutual Funds include the Caribbean, UK, South America and the EU, the directors governing these funds are sourced mainly from the Caribbean, holding a 74% representation.

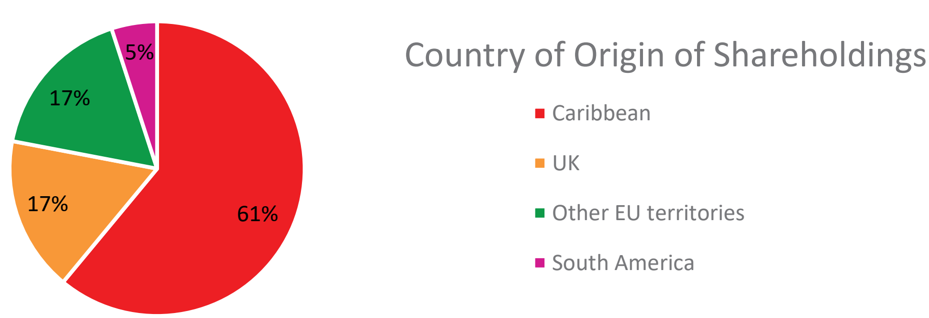


Figure 18: International Mutual Fund Investment Portfolio

Private Mutual Funds are registered with the Authority, while Public Mutual funds are licensed and have greater reporting requirements. Table 2 below compares the distinguishing factors of the said funds.

Figure 17: Country of Origin of Shareholders of International Banks

Private Mutual Funds	**Public Mutual Funds**
1. Must be registered. 2. Not required to submit an offering document 3. Limited regulation/reporting of business activities: - Not required to submit audited accounts or returns 4. Service providers such as fund administrators or managers are not required to be entities registered or licensed in Saint Lucia. 5. Investors must have a minimum net worth of US $1,000,000 and must be experienced in the said field of investment 6. Allows for a maximum of 100 investors with a minimum investment of UDS50,000	1. Must be licensed 2. Must file an offering document 3. Monitored through: - submission of audited financial statements - submission of returns 4. It is a requirement that the fund administration and manager of a public mutual fund be licensed under the International Mutual Funds act of Saint Lucia. 5. Must have a least 2 directors

Registered Agents & Trustees

The FSRA regulates eighteen (18) Registered Agents (RAs) and four (4) Registered Trustees (RTs). Of the RAs, fifteen (15) are resident companies. RAs and RTs employ approximately forty (40) persons locally, while some have contracted overseas personnel.
Generally, the RA serves as the link between the promoters of International Business Companies (IBCs) and the regulatory bodies such as the FSRA, Registrar of International Business Companies, the Financial Intelligence Authority and the Inland Revenue Department/ Competent Authority for Tax Information Exchange.

RAs provide a large portfolio of corporate and administrative services to IBCs including Incorporation, Registered Office/Business Address, Directorship, Nominee Shareholder, legal advice and regulatory filing.
The year 2016 was marked by a suite of legislative amendments geared towards the tightening of the reporting and monitoring requirements for IBCs. Consequently, IBCs are now required to:

- File annual director and shareholder returns
- Provide unaudited financial statements
- Make a declaration indicating the associated records and underlying documents will be maintained (and made available) for at least 6 years.

A more significant change to the role of RAs and RTs is the requirement to inform the Registrar of IBCs of entities which are non-compliant; as non-compliance could result in the IBC eventually being struck off the registry. RAs and RTs are required by statute to abide by a Code of Conduct which sets out standards of conduct and professional ethics governing the relationship with their clients. RAs and RTs are also classified as a "financial institution" under the Money Laundering (Prevention) Act, No.8 of 2010. Such code of conduct and AML legislation must be adhered to in order to safeguard the reputation of Saint Lucia as an international financial centre.

Furthermore, commitments with international organisations such as the Global Forum, require the collection of information on beneficial owners by all providers.

In some instances, the RA is part of a regional or international group of companies and may outsource some of their functions, such as Client Due Diligence, to parties outside the jurisdiction. Indeed, the terminology "Eligible Introducers" is used when introducers (law, accounting and consulting firms) based outside our jurisdiction conduct due diligence on behalf of the RAs. Currently twelve (12) RAs have eligible introducers worldwide, predominantly from the Caribbean (59%), followed by Europe (24%), the USA (12%) and other territories (5%). Most of the Eligible Introducers from the Caribbean, originate from Jamaica and Barbados.

There are currently over 3500 IBCs in Saint Lucia. The table below demonstrates how the sector has grown from the year 2010.

Table 11: New IBCs Registrations (2010-2016)

Year	2010	2011	2012	2013	2014	2015	2016
New Incorporations	370	381	414	487	184	468	429

The Caribbean accounts for the largest percentage of new incorporations with respect to their countries of origin. This is followed by North America (predominantly USA) with 19%, EU territories (13%) and the UK (12%). Barbados, Jamaica and Trinidad & Tobago occupy the largest percentages of IBCs from the Caribbean.

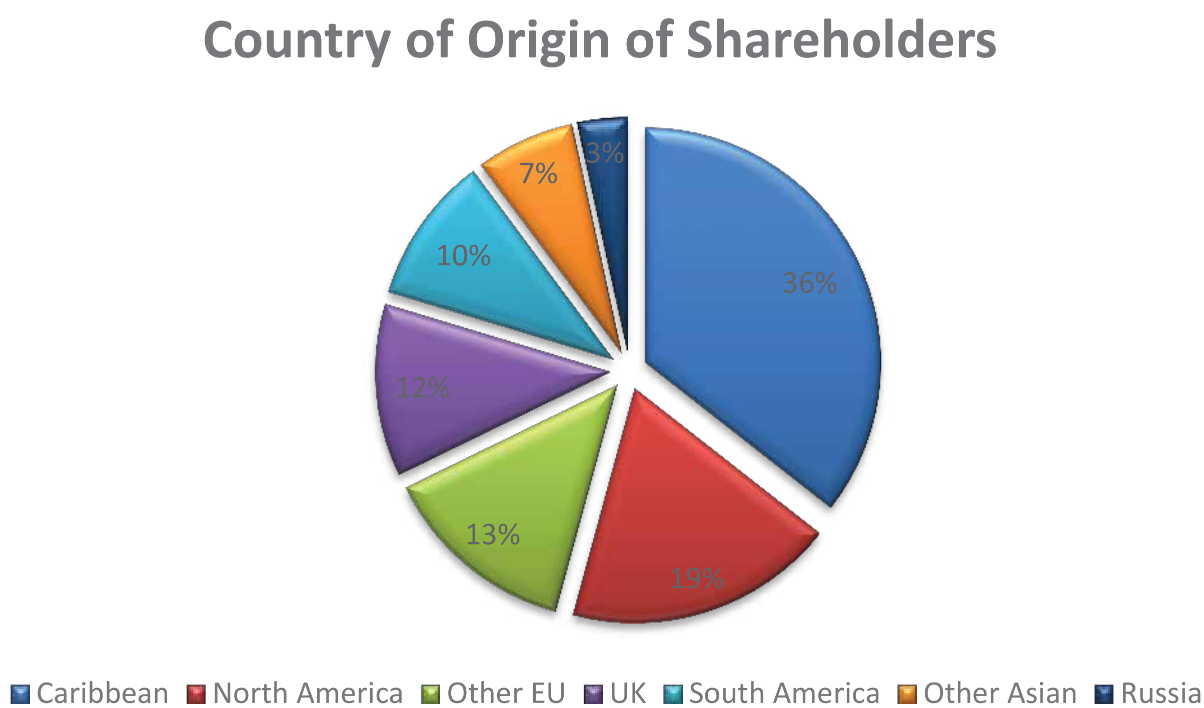


Figure 20: Country of Origin of Shareholders of International Business Companies

Accountant's Report

The Financial Services Regulatory Authority received a subvention in the amount of EC$2,145,000 for the fiscal year April 1, 2016 to March 31, 2017.

Total expenditure for the period ended March 31, 2017 was EC$2,066,261 and fell within the approved budget. The Authority has been able to project its expenditure reasonably well, thereby minimising variances from budget. Additionally, certain expenses, such as training, are not indicative of actual cost because of supplementary financing and sponsorship from external agencies. While the approved expenditure has facilitated the current activity level within the FSRA, it is worth noting that the current budget has not allowed for recruitment of additional staff necessary for a specialised onsite inspection team within the organisation. It was anticipated that a dedicated inspection unit/team would have allowed the Authority to be better equipped to fulfil its mandate of supervision and monitoring of Saint Lucia's financial space.

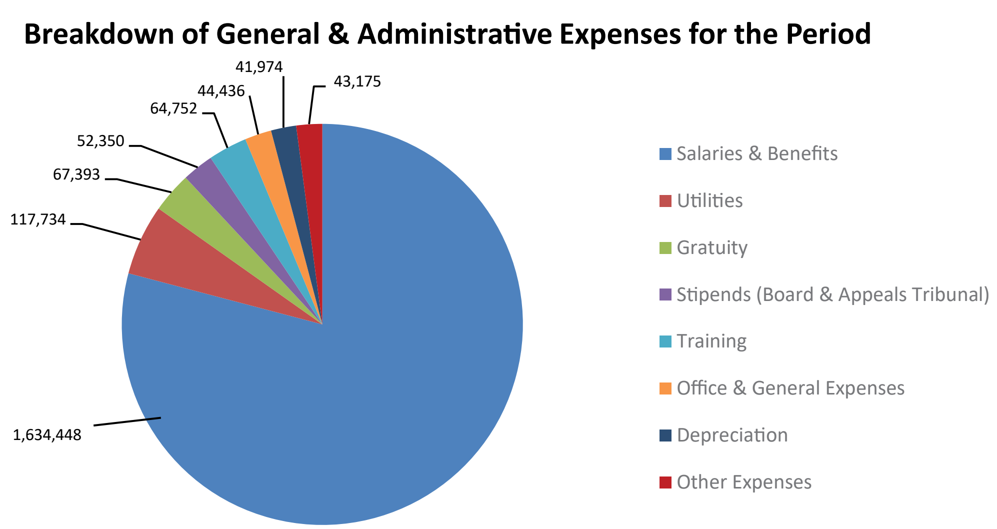
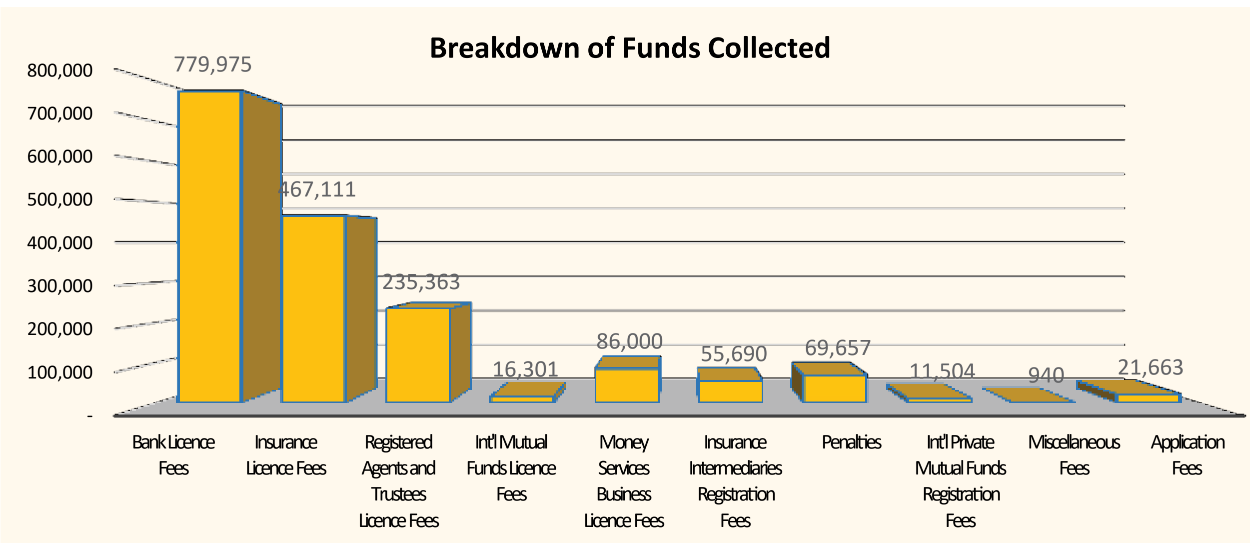


Figure 21: General & Administrative Expenses of the FSRA for 2016

Additionally, revenue comprising licence, application, registration and penalty fees amounting to EC$1,744,204 were collected from regulated entities, for remittance to the Government of Saint Lucia.

The largest percentage of funds collected was in respect of annual licence fees, with international banks licences contributing 45% and insurance entities (domestic and international) accounting for 27%. While total collections for the period were in line with the projected amount (Estimates of Revenue & Expenditure (2016/17), it is worth noting that this amount represents a 16% decline from the previous year's figures. This shortfall was the result of a fluctuation in licence fees from international insurance entities, brought about by the exit of a few international insurance companies from Saint Lucia's jurisdiction.

Figure 22: Breakdown of Funds Collected and Deposited with Accountant General



FSRA Training & External Representation

The table below reflects instances where staff represented the FSRA/St Lucia at conferences and workshops, or participated in other opportunities for training and development during the period April 2016 to March 2017.

Table 12: Training and External Representation

Date	Location	Programme	Sponsor
Apr-16	Saint Lucia	BASEL II Framework	CARTAC
Jun-16	Suriname	Caribbean Association of Pension Supervisors (CAPS) and Caribbean Institute of Insurance Regulators (CAIR) Workshops	CARTAC
Jun-16	Norway	Global Forum Peer Review	FSRA
Jul-16	Orlando, Florida	CCCU Convention 2016	FSRA
Sep-16	Saint Lucia	ICAE IFRS Training	FSRA
Nov-16	Washington, DC	Exchange of Information on Request	FSRA
Nov-16	Sri Lanka	International Micro-insurance Conference	Munich Climate Insurance Initiative
Feb-17	Jamaica	IOPS/FSC International Seminar on Pension & Regulation	CARTAC
Mar-17	Jamaica	CCCU Caribbean Development Education	FSRA

Appendix

Table 13: Insurance Density of Domestic Insurance Sector (2012-2016)

	2012	2013	2014	2015	2016	Average
Insurance Density (General Insurance)	$1,007	$1,004	$905	$907	$872	**$939**
Insurance Density (Life Insurance)	$290	$288	$301	$304	$320	**$301**
Overall Insurance Density	**$1,297**	**$1,293**	**$1,206**	**$1,211**	**$1,192**	**$1,240**

Table 14: Insurance Penetration of Domestic Insurance Sector (2012-2016)

	2012	2013	2014	2015	2016	Average
Insurance Penetration (General Insurance)	5.1%	5.1%	4.7%	4.6%	4.4%	**4.8%**
Insurance Penetration (Life Insurance)	1.5%	1.5%	1.6%	1.5%	1.6%	**1.5%**
Overall Insurance Penetration	6.5%	6.6%	6.3%	6.2%	6.1%	**6.3%**

Table 15: Licence Fees Collected from Insurance Sector (2012-2016)

	2012	2013	2014	2015	2016
Insurance Companies	125,300	117,300	117,800	140,500	149,600
Insurance Agents	17,000	16,000	17,000	15,000	18,000
Insurance Brokers	14,200	14,100	11,000	13,600	15,100
Insurance Salesmen	18,000	22,900	21,200	21,700	20,300
Total	**174,500**	**170,300**	**167,000**	**190,800**	**203,000**

Table 16: Insurance Premium Tax (2012-2016) in Thousands of Dollars ($ '000)

	2012	2013	2014	2015	2016
Insurance Premium Tax	$7,300	$9,300	$8,100	$8,300	$8,100

Table 17: Premiums Written and Reinsurance Ceded by Domestic Insurers (2012-2016)

	2012 ($)	2013 ($)	2014 ($)	2015 ($)	2016 ($)
Gross Written Premiums -General	170,347,200	171,687,268	156,167,077	156,755,740	151,727,813
Gross Written Premiums- Life	49,044,989	49,280,549	52,014,746	52,491,370	55,642,272
Total Gross Written Premiums	**219,392,189**	**220,967,817**	**208,181,823**	**209,247,110**	**207,370,085**
Reinsurance Assumed	76,000	0	5,000	543,000	2,386,000
Reinsurance Ceded	89,190,539	87,206,135	77,841,205	72,513,694	72,818,729
Net Written Premiums	**130,277,650**	**133,761,682**	**130,345,618**	**137,276,416**	**136,937,356**

Table 18: General and Long-term Insurance Business Net Income before Tax (2012-2016)

	2012	2013	2014	2015	2016
General Insurance	13,063,088	6,201,359	14,761,713	6,370,185	4,002,530
Long Term Insurance	10,114,000	2,652,000	11,496,000	12,999,000	7,004,000

Table 19: HHI for Domestic Insurance Sector (2012-2016)

	2012	2013	2014	2015	2016
HHI for Insurance Sector	933	814	859	823	874
HHI for General Insurance	739.8	698.3	722.5	702.6	737.6
HHI for Long-term Insurance	5,899.6	4,433.3	3,849.1	3,552.8	3,606.1

Table 20: Property Insurance – No. of Policies, Gross Written Premiums and Sum Insured (2012-2016)

	2012	2013	2014	2015	2016
Number of Policies	11,754	11,335	11,994	11,529	11,340
Gross Written Premiums	$73,731,853	$73,293,231	$66,383,905	$64,441,902	$58,470,820
Sum Insured	$10,058,034,822	$10,180,298,682	$9,821,377,427	$10,810,424,969	$10,908,360,594

Table 21: Motor Vehicle Insurance – No. of Policies and Gross Written Premiums (2012-2016)

	2012	2013	2014	2015	2016
Gross Written Premiums	$44,331,183	$42,587,182	$40,184,137	$40,424,936	$41,317,866
Number of Policies	30,883	27,651	32,847	34,095	35,185

Table 22: Comparison of Credit Union Sectors in Four (4) ECCU Territories (2013-2015)

	2015				2014				2013			
	Total Assets	Total Members	No. of Employees	No. of Credit Unions in Sector	Total Assets	Total Members	No. of Employees	No. of Credit Unions in Sector	Total Assets	Total Members	No. of Employees	No. of Credit Unions in Sector
Saint Lucia	$552m	75,653	203	16	$604.3m	83,397	232	16	$551m	79,333	203	16
Dominica	$668m	67,787	252	8	$623.4m	65,201	229	8	$574m	67,092	231	10
Grenada	$590m	58,000	168	10	$490.8m	52,659	153	10	$380m	44,928	141	10
St. Vincent	$392m	69,282	133	4	$357.9m	69,006	121	4	$331m	64,104	104	6

Table 23: Credit Union Sector – Membership and Employees (2015-2016)

2016				2015			
Total Employees	Membership			Total Employees	Membership		
	Females	Males	Total		Females	Males	Total
255	51,986	47,112	99,098	240	50,454	45,982	96,436

Table 24: Money Services Businesses – Remittances (2014-2016)

	INFLOWS			OUTFLOWS		
	2014	2015	2016	2014	2015	2016
US	$40,811,850	$48,459,213	$53,840,475	$4,864,990	$5,815,605	$6,496,512
UK	$14,480,880	$15,506,117	$13,865,222	$1,699,287	$2,574,595	$1,976,153
Canada	$8,996,610	$9,309,441	$10,061,273	$1,893,002	$1,678,783	$1,603,592
EUROPE	$6,238,020	$6,623,779	$7,707,976	$911,610	$1,037,848	$1,201,275
ECCU Region	$1,833,330	$2,386,972	$2,537,239	$946,930	$1,040,832	$1,196,368
Non-ECCU/CARICOM	$585,323	$4,421,386	$2,219,904	$314,420	$463,718	$632,062
Other Territories	$10,632,080	$11,620,640	$11,043,624	$5,408,570	$7,219,363	$10,196,259
Total	$83,578,093	$98,327,548	$101,275,714	$16,038,809	$19,830,743	$23,302,220

WEBSITE LAUNCH

JUNE 28, 2017

WORKING TEAM

Financial Services Regulatory Authority

Financial Statements
For the Year Ended March 31, 2017
(Expressed in Eastern CaribbeanDollars)

FINANCIAL SERVICES REGULATORY AUTHORITY
Index to the Financial Statements
For the Year Ended March 31, 2017
(Expressed in Eastern Caribbean Dollars)

REGISTERED OFFICE

6th Floor
Francis Compton Building
Waterfront
Castries

EXECUTIVE DIRECTOR

Mr. J. Calixte Leon

DIRECTORS

Mr. Vincent Hippolyte - (Chairman)
Mr. Marcus Joseph - (Deputy Chairman)
Mr. Paul Hilaire
Mr. Paul Thompson
Mr. G. Carlton Glasgow
Ms. Karen Fontenelle-Peter
Ms. Corinthia Thomas
Ms. Sophia Henry

BANKERS

Bank of Saint Lucia Limited

AUDITORS

PKF St. Lucia

PKF

Accountants &
business advisers

PKF St. Lucia

Tel. (758) 453 - 2340
Tel. (758) 450 - 7777
Fax (758) 451 - 3079
Email: admin@pkf.lc

INDEPENDENT AUDITOR'S REPORT

To the Directors of the Financial Services Regulatory Authority

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Financial Services Regulatory Authority** (the "Authority"), which comprise the statement of financial position as at March 31, 2017, and statement of income and expenditure, the statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in St. Lucia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

There are no key audit matters to communicate.

Responsibilities of Management and the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Authority's financial reporting process.

P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, LC02 801, St. Lucia

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

PKF

Accountants &
business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Richard Surage.

Chartered Accountants
Castries, St. Lucia
July 20, 2017

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Financial Position
As at March 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Notes	2017 $	2016 $
Assets			
Current assets			
Cash and cash equivalents	5	**825,963**	368,679
Accounts receivables and prepayments	6	**9,651**	361,331
		835,614	730,010
Non-current asset			
Property, plant and equipment	7	**63,774**	98,216
Total assets		**899,388**	828,226
Liabilities and equity			
Current liability			
Accounts payable and accruals	8	**99,560**	107,137
Equity			
Contributed capital	9	**61,431**	61,431
Accumulated surplus		**738,397**	659,658
Total equity		**799,828**	721,089
Total liabilities and equity		**899,388**	828,226

The accompanying notes form an integral part of these financial statements.

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS

Director

Director

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Changes in Equity
For the Year Ended March 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Note	**2017** $	2016 $
Contributed capital			
At beginning and end of year	**9**	**61,431**	61,431
Accumulated surplus			
At beginning of year		**659,658**	497,659
Surplus for the year		**78,739**	161,999
At end of year		**738,397**	659,658
Equity, end of year		**799,828**	721,089

The accompanying notes form an integral part of these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Income and Expenditure
For the Year Ended March 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Note	**2017** **$**	2016 $
Revenue			
Government subventions		**2,145,000**	2,144,643
Administrative and general expenses	**10**	**(2,066,261)**	(1,982,644)
Surplus for the year		**78,739**	161,999

The accompanying notes form an integral part of these financial statements.

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Cash Flows
For the Year Ended March 31, 2017
(Expressed in Eastern Caribbean Dollars)

	Notes	2017 $	2016 $
Cash flows from operating activities			
Surplus for the year		**78,739**	161,999
Adjustment for non-cash item:			
Depreciation	7	**41,974**	33,907
Operating income before working capital changes		**120,713**	195,906
Decrease/(increase) in accounts receivables and prepayments		**351,680**	(361,331)
Increase in accounts payable and accruals		**(7,577)**	7,265
Net cash generated from/(used in) operating activities		**464,816**	(158,160)
Cash flows from investing activity			
Purchase of property, plant and equipment		**(7,532)**	(55,283)
Net increase/(decrease) in cash and cash equivalents		**457,284**	(213,443)
Cash and cash equivalents - beginning of year	5	**368,679**	582,122
Cash and cash equivalents - end of year	5	**825,963**	368,679

The accompanying notes form an integral part of these financial statements.

1. Incorporation and principal activity

The **Financial Services Regulatory Authority** (the "Authority"), formerly the Financial Sector Supervision Unit, is a statutory body of the Government of Saint Lucia which was established on April 1, 2011 under the Financial Services Regulatory Authority Act No. 13 of 2011 (the "Act"). The Authority commenced operations on January 1, 2014.

The Authority is the single regulatory body which licenses, supervises and regulates the financial institutions within the financial sector of Saint Lucia, with the exception of financial institutions licensed under the Banking Act Chap. 3 of 2015, and the Securities Act Chap. 12.18

The Authority's registered office and principal place of business is located on the 6^{th} Floor, Francis Compton Building, Waterfront, Castries, Saint Lucia.

The financial statements were approved by the Board of Directors and authorized for issue on July 20, 2017.

2. Summary of significant accounting policies

(a) Overall policy

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgment in the process of applying the Authority's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

(b) Adoption of new and revised IFRS

During the current year the Authority adopted all the new and revised International Financial Reporting Standards ("IFRS") which are relevant to its operations and are effective for the relevant accounting period.

(c) Standards and interpretations issued and not yet effective

The Authority has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that the adoption of any other standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements of the Authority.

2. Summary of significant accounting policies (cont'd)

(d) Cash and cash equivalents

Cash and cash equivalents are carried on the statement of financial position at cost. For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with a maturity period of three months or less from the date of acquisition including cash on hand and deposits held on call with banks.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost net of accumulated depreciation and or impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis to allocate the cost of each asset to their residual values over their estimated useful lives as follows:

Furniture	5 - 10 years
Equipment	3 - 5 years
Software	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains and losses on disposal are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

2. Summary of significant accounting policies (cont'd)

(f) Impairment of non-financial assets

The carrying amounts of the Authority's property, plant and equipment are reviewed at each reporting date to determine whether there are any indicators of impairment. If any indicators exist, the asset's recoverable amount is estimated.

The recoverable amount of the asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(g) Accounts payable

Accounts payable are classified as current liabilities if payment is due within one year or less. Accounts payable are initially recognized at fair value and subsequently measured at amortized cost.

(h) Related party transactions

A party is related to the Authority if:

i) Directly or indirectly the party:
   a. Controls, is controlled by, or is under common control with the Authority;
   b. Has an interest in the Authority which gives it significant influence over the Authority;
   c. Has joint control over the Authority.

ii) The party is a member of the key management personnel of the Authority.

iii) The party is a close member of the family of any individual referred to in (i) or (ii).

iv) The party is a post-employment benefit plan for the benefit of employees of the Authority or any Authority that is a related party to the Authority.

2. Summary of significant accounting policies (cont'd)

(i) Revenue recognition

Revenue is recognized on an accruals basis and comprises of subventions received from the Government of Saint Lucia on an annual basis.

The annual subventions are approved by Parliament and is included in the Government of Saint Lucia's Estimates of Revenue & Expenditure for the given financial year.

(j) Expenses

Expenses are recognized on an accruals basis.

(j) Contingencies

Contingent liabilities represent possible obligations and are disclosed in the financial statements unless the possibility of the outflow of resources embodying the economic benefit is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(k) Subsequent events

Post year-end events that provide additional information about the Authority's position at the reporting date (adjusting events) are reflected in the Authority's financial statements. Material post year-end events which are not adjusting events are disclosed.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Authority based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstance arising beyond the control of the Authority. Such changes are reflected in the assumptions when they occur.

The most significant use of estimates and assumptions are disclosed in Note 2(e) and (f) respectively.

4. Financial risk management

In accordance with the provisions of International Financial Reporting Standard No. 7, disclosures are required regarding credit risk, liquidity risk, market risk, fair value of financial instruments and capital management.

(a) Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Authority. The Authority's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

The financial assets which may potentially expose the Authority to concentrations of credit risk consist primarily of cash and cash equivalents and subventions receivable. The Authority places its deposits with a reputable and regulated financial institution and the Government of Saint Lucia has met its obligation to the Authority as they become due. As such, management does not believe that significant credit risk exist as at March 31, 2017.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet contractual obligations. Management reviews cash flow forecasts on a regular basis to determine whether the Authority has sufficient cash reserves to meet future working capital requirements. All contractual obligations are expected to be settled within the next year, using available cash resources. As such, management does not believe that significant liquidity risk exist at March 31, 2017.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest and foreign exchange rates will affect the value of the Authority's assets, the amount of its liabilities and/or the Authority's income. The Authority has minimal exposure to interest rate risk as it has no significant interest bearing financial assets or liabilities. The Authority also has minimal exposure to foreign exchange risk as the majority of its foreign transactions are quoted in its functional currency, the Eastern Caribbean Dollar.

(d) Fair value of financial instruments

Fair values represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market values, if they exist. None of the Authority's financial assets or liabilities are traded on formal markets and as such their fair values are assumed to approximate their carrying amounts.

(e) Capital management

The Authority's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to collect funds on behalf of the Government of Saint Lucia.

5. Cash and cash equivalents

	2017	2016
	$	$
Cash on hand	**500**	500
Cash at bank	**825,463**	368,179
	825,963	368,679

6. Accounts receivable and prepayments

	2017	2016
	$	$
Prepaid expenses	**9,651**	3,831
Government subvention	**-**	357,500
	9,651	361,331

7. Property, plant and equipment

	Furniture $	Equipment $	Software $	Total $
As at March 31, 2015				
Cost	47,044	50,999	4,012	102,055
Accumulated depreciation	(11,761)	(13,454)	-	(25,215)
Net book value	35,283	37,545	4,012	76,840
For the year ended March 31, 2016				
Opening net book value	35,283	37,545	4,012	76,840
Additions during the year	30,439	24,844	-	55,283
Depreciation charge for the year	(14,339)	(18,230)	(1,338)	(33,907)
Closing net book value	51,383	44,159	2,674	98,216
As at March 31, 2016				
Cost	77,483	75,843	4,012	157,338
Accumulated depreciation	(26,100)	(31,684)	(1,338)	(59,122)
Net book value	51,383	44,159	2,674	98,216
For the year ended March 31, 2017				
Opening net book value	**51,383**	**44,159**	**2,674**	**98,216**
Additions during the year	**-**	**6,068**	**1,464**	**7,532**
Depreciation charge for the year	**(16,686)**	**(23,584)**	**(1,704)**	**(41,974)**
Closing net book value	**34,697**	**26,643**	**2,434**	**63,774**
As at March 31, 2017				
Cost	**77,483**	**81,911**	**5,476**	**164,870**
Accumulated depreciation	**(42,786)**	**(55,268)**	**(3,042)**	**(101,096)**
Net book value	**34,697**	**26,643**	**2,434**	**63,774**

8. Accounts payable and accruals

	2017	2016
	$	$
Gratuity payable	**73,208**	64,812
Accounts payable	**25,102**	40,325
Other payables	**1,250**	2,000
	99,560	107,137

The accounts payable amount includes utilities, audit fees and other payments due to suppliers. It also includes an amount for license fees paid to the FSRA in error which will be transferred to government in the upcoming financial year.

9. Contributed capital

	2017	2016
	$	$
Property, plant and equipment	**61,431**	61,431

The above represent balances assumed by the Authority from the Financial Sector Supervision Unit on the assumption of the corresponding responsibilities.

10. Administrative and general expenses

	2017 $	2016 $
Salaries and benefits	**1,634,448**	1,505,048
Utilities	**110,664**	122,684
Gratuity	**67,393**	64,812
Board stipends and appeals tribunal	**52,350**	42,734
Travel and subsistence	**50,421**	3,721
Office and general expenses	**44,436**	39,815
Depreciation	**41,974**	33,907
Training	**14,331**	126,233
Public relations	**12,672**	11,080
Hosting and entertainment	**10,729**	8,772
Communications	**7,070**	7,296
Grants, contributions and subscriptions	**5,653**	5,968
Audit fees	**9,050**	8,550
Bank charges	**1,816**	1,645
Advertisements	**1,350**	379
Legal and professional expenses	**1,290**	-
Maintenance of equipment	**614**	-
	2,066,261	1,982,644

11. Related party transactions

Key management compensation

	2017 $	2016 $
Salaries and benefits	**661,139**	418,238
Board stipends	**48,750**	44,750
	709,889	462,988

During the year, the Authority collected funds totaling $1,744,204 (2016 - $2,073,747) on behalf of the Government of Saint Lucia for license fees, fines and forfeitures from the financial services sector, in keeping with Section 39 of the Act.

12. Taxation

In accordance with Section 32 of the Act, the Authority is exempt from the payment of taxes, levies, duties and fees on income, property and documents.

Notes

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