ANNUAL REPORT 2018

FINANCIAL SERVICES REGULATORY AUTHORITY
SAINT LUCIA

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

www.fsrastlucia.org

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 elswehere;
- 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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Board of Directors

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 Central 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

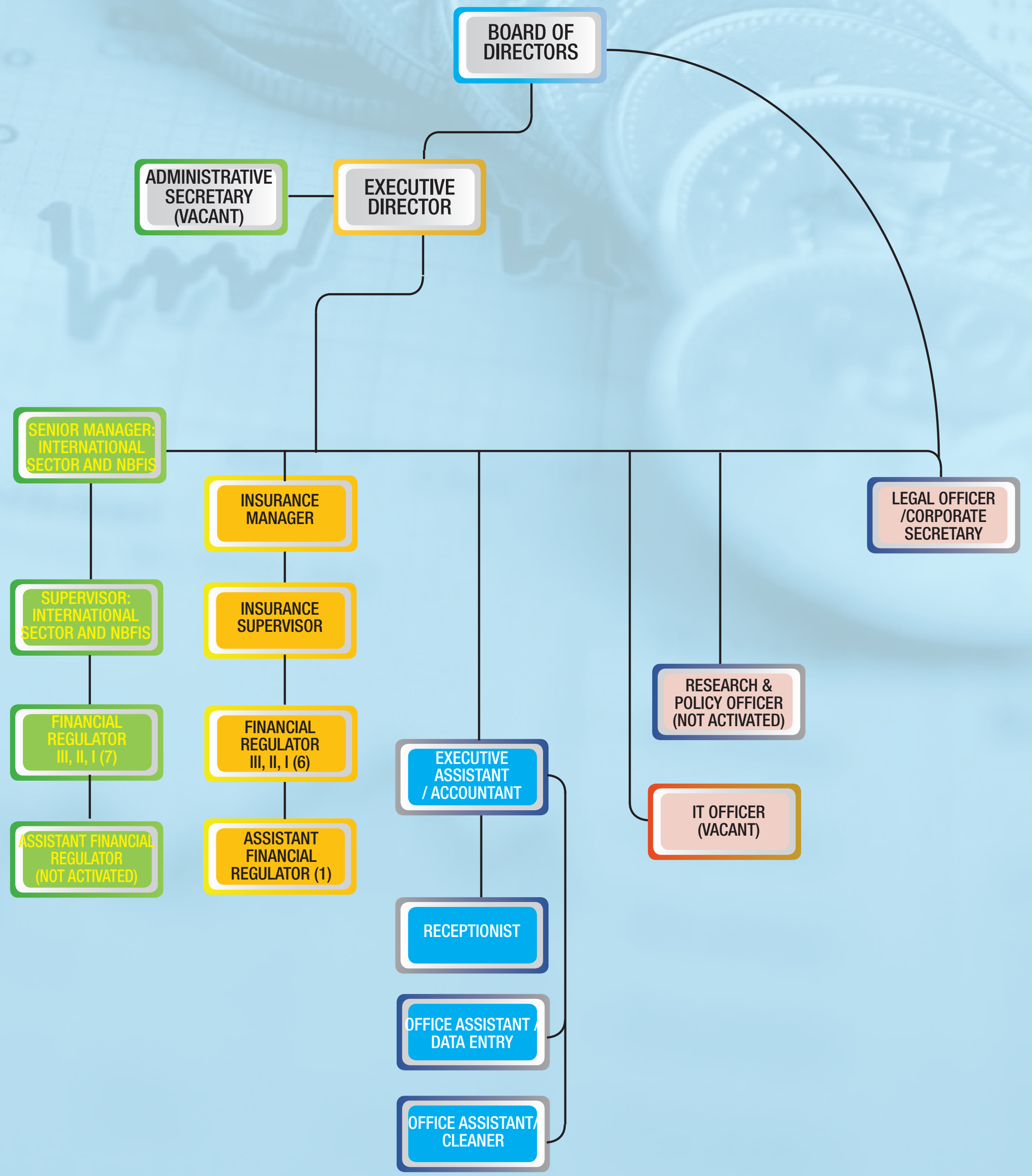
Back Row (Left to Right): Esther Francis, Hemish Lesmond, Curtis Paul, Hubert Deligny, Cuby King, Calixte Leon

Middle Row(Left to Right): Nathalie Dusauzay, Tyller Jules, Shelevon Louis, Suzanne James, Kerline Sylvester, Elva Naitram, Astrid Augustin, Germaine Maxwell, Ayanna Caesar

Front Row (Left to Right): Krishna Jn Baptiste, Francine Felicien, Krysta Anthony, Sancha Gervais-Victor

Absent: Germaine Isaac, Stephanie Gustave-Antoine, Hannah Mc. Donald

Organisational Chart



Chairman's Message

For the financial year under review, three (3) major objectives were determined and set, namely:

1. to review and where necessary propose for enactment new or improved legislative provisions for the enhancement of the sectors under supervision and of the jurisdiction as a whole;

2. to increase and improve the quality of the supervisory function; and

3. to train and develop the human resource to ensure sustainable capacity.

Draft legislation for credit unions which has been in a consultative phase of promulgation for some time now did not progress to the next phase, as there continued to be differences among stakeholders with respect to some of the substantive provisions. To date, the draft legislation which is meant to be a harmonized piece of legislation for the ECCU member territories, has been enacted in all, of the territories except Saint Lucia. By the end of the financial period under review, a new effort proffered some suggestions to redress the major differences among stakeholders. Indications are that those suggestions should enable consensus to be found among the stakeholders which should encourage progress through the remaining stages to enactment, in the ensuing period.

The International financial services sector was faced with three (3) robust challenges, all of which tested the provisions of the legislation. The Financial Services Regulatory Authority (FSRA) successfully addressed each challenge through the application of the provisions of its legislation. Despite the level of satisfaction derived from those challenges, the FSRA found it necessary to consider critically, some provisions for review and improvement. This effort started in the period under review and will continue in the ensuing period.

The FSRA commenced actively implementing a risk-based approach to the application of its regulation and supervision. This approach enabled the utilization of resources more efficiently and with greater effect. In fact, more resources were allocated to, and greater emphasis was placed on those licensees which posed a higher risk to the jurisdiction. This new focus in the allocation of resources contributed beneficially to improvements in corporate governance in the credit union and domestic insurance sectors. In addition to adopting the risk-based approach, the FSRA intensified its supervisory function by conducting more onsite inspections, meetings and interventions in the period relative to the previous period. This trend will continue into the new financial year.

The human resource establishment of the FSRA is 23. For the period eight (8) training and development activities were undertaken. Those activities exposed 17 professional employees to practical and knowledge skills enhancement in the areas of

The Financial Services Regulatory Authority (FSRA) has commenced actively implementing a risk-based approach to its regulation and supervision of licensees, utilizing its limited resources more efficiently and with greater effect

financial sector surveillance, financial health stability indictors, Pension fund Plan regulations, and Securities regulation

This new focus in the allocation of resources has contributed to the aforementioned improvement in corporate governance in the credit union sector, as well as in the domestic insurance sector

Besides the major objectives which were set for the period, the FSRA continued its collaboration with the judicial managers in the longstanding matters of Clico International Life (CLICO) and British American Insurance Company Ltd. (BAICO). This collaboration assisted in the process of ensuring that the majority of CLICO's judgment creditor policyholders were paid in full, the amounts which were due to them. This resulted in a reduced liability of approximately $5.97 million to the Saint Lucia operations. Similarly, in the British American Insurance Company (BAICO) matter, over 95% of Saint Lucian policyholders were settled in full. The amicable outcome in both of those cases was directly attributable to the Insurance Fund which was in place, as required by the Insurance Act Cap. 12.08 of the Revised Laws

In the international banking sector, the FSRA continued to improve on its approaches to minimizing reputational risk to Saint Lucia. Two (2) crucial matters involving two licensees were successfully resolved. The capacity shown in resolving them has encouraged the potential for the market's confidence in the jurisdiction to be enhanced.

In previous years, and in particular during the year under review, the credit union sector benefitted significantly from numerous training sessions conducted by the FSRA. A consistent theme highlighted has been the need to adopt a professional corporate governance culture. As alluded to earlier in this message, there is a significant deficiency in corporate governance across all sectors. This deficiency has been stressed in many fora, and most recently at the Carib DE conference in 2017. The FSRA's training outreach will continue across the sectors.

In closing, the Board of Directors acknowledges that the challenges facing Saint Lucia, particularly the matters of, de-risking, EU Blacklisting and the outcome of the Financial Action Task Force Mutual Evaluation process, are immense. Notwithstanding those challenges, the Board remains committed to undertaking the changes necessary to adapt and evolve successfully to meet the respective requirements.

VINCENT HIPPOLYTE
Chairman

Executive Director's Report

J. CALIXTE LEON
Executive Director

Four years ago, the Financial Services Regulatory Authority (the Authority/ FSRA) was born with the mandate of maintaining public confidence in the financial system. The Authority pursues this objective by promoting public understanding and awareness of the regulatory framework. Indeed, the FSRA was established to licence, regulate and develop the financial services industry in Saint Lucia.

The period under review was a challenging one for the FSRA. Our supervisory teams worked assiduously to achieve the Authority's core responsibilities as regulator, which include protecting the public from financial loss and safeguarding the reputation of our jurisdiction, as a key financial market in the Eastern Caribbean Currency Union.

In that regard, Saint Lucia is at a critical juncture as it is being subjected to major international developments which directly impact its future. Our nation must continuously enhance material requirements, in line with international standards as it relates to tax matters and the combating of money laundering and terrorist financing.

As a result, members of the FSRA have been involved in several committees established in response to upholding the international financial standards.

Also, the period 2017/2018 saw a marked increase in enforcement actions. The supervisory teams experienced a hectic period, dominated by a number of long-running cases. The trend indicates that the matters under investigation are growing in complexity, are being harder fought and involve more unusual issues that must be tested before the Courts.

While we anticipate that the years to come might bring forth more uncertainties, we remain confident and steadfast in our resolve and belief that such challenges create great opportunities.

INTERNATIONAL ENGAGEMENT

Over the period under review, the Saint Lucia business model has increasingly come under threat with international bodies challenging the basis on which the economy of our country operates.

EU Blacklisting

On 1 December 1997, the Council of the European Union ("the Council")

and the representatives of the governments of the Member States, adopted a resolution on a "Code of Conduct for Business Taxation" ("CoC"), with the objective of curbing harmful tax competition.
The European Union (EU)'s inter-governmental Code of Conduct Group (Business Taxation) (CoCG) has put forward guidance for determining substance when considering whether a tax measure is harmful or 'fair'. The guidance includes elements of behaviour that Member States must meet and requirements that non-Member States must adopt in order to avoid being included on the so-called blacklist of non-cooperative non-EU, third countries.

The first ever EU list of "non-cooperative jurisdictions for tax purposes" was adopted in December 2017 by the European Council. Saint Lucia was cited under criteria 2.1 and 3 indicating that:
"Saint Lucia has harmful preferential tax regimes, does not apply the BEPS minimum standards and did not clearly commit to addressing these issues by December 31, 2018."
The Base Erosion and Profit Shifting (BEPS) project emerged out of a growing concern about how large multinational enterprises handle their tax planning, and that aggressive tax minimisation has led to base erosion and double non-taxation of certain corporate income.

The action requested by the CoCG was the abolition or amendment of Saint Lucia's laws for the International Business Sector by the end of 2018. Consequently, Saint Lucia made a further commitment to the CoCG to bring the tax rules and practices in line with European Union standards by December 31, 2018. Accordingly, in March 2018, Saint Lucia was officially delisted from the "black list" by the EU and placed on the "grey list".

The Authority continues to be integral in assisting with the Island's response to the EU Code of Conduct matters; working with Government Departments and Law Officers to achieve Saint Lucia's complete delisting by December 2018.

CFATF Mutual Evaluation

In collaboration with the Saint Lucia Government, other public agencies and representatives of the private sector, the Authority is taking several steps to implement measures and recommendations in preparation for the Caribbean Financial Action Task Force (CFATF) 4th round mutual evaluation which will take place in September 2019. Upon the publication of Saint Lucia's 3rd round Mutual Evaluation Report in November 2008, a CFATF Oversight Committee was established comprising all the stakeholder agencies. Resulting from the establishment of the Oversight Committee was the creation of a Core Committee comprising representative officers from the Attorney General's Chambers, the Financial Intelligence Authority, the Financial Services Regulatory Authority and the Royal Saint Lucia Police Force, who continue to remain at the forefront of the process. Thanks to the dedication of this Committee, by the year 2013, Saint Lucia was able to present to the Plenary its legislative reforms and be removed from the International Cooperative Review group (ICRG) process and the follow-up process. While the 3rd round of mutual evaluation objective was focused on the appraisal of a country's legislative framework relating to the combating of money laundering and the financing of terrorism, the 4th round aims at assessing Saint Lucia's effectiveness in implementing the necessary measures to realize the AML/CFT provisions prescribed in statute.

In keeping with the revised FATF recommendations, Saint Lucia endeavours to close the gaps in relation to its laws and operations. Consequently, emphasis is being placed on the AML/CFT risk assessment of the sectors regulated by the Authority.

ENFORCEMENT

The Authority has been vigilant with enforcement actions particularly in the **Off-Shore Sector.** Two (2) International Banks were placed under liquidation. One licence was cancelled as the fitness and propriety of the directors was called into question. Additionally, red flags were raised upon receipt of several complaints alleging the Bank's failure to honour its financial obligations.

The Authority was concerned that the Bank was conducting business in a manner detrimental to the public interest and the risks these activities may pose to the reputation of Saint Lucia. In light of the above the FSRA required the Bank to surrender its licence and be placed under liquidation.

The second Bank was placed under administrative sanction for breach of conditions associated with the grant of its licence.
Further, alarms were raised when the FSRA received numerous complaints from depositors unable to access their funds from the Bank. The FSRA revoked that Bank's licence and placed the Bank under liquidation.

Domestic Insurance Sector: the FSRA applied regulatory sanctions against three institutions for breaches committed in contravention of the Insurance Act; two of which were cancellations.

The licence of one insurer was cancelled for multiple breaches of the Insurance Act including its failure to duly appoint a principal representative holding Power of Attorney. One insurance agent was cancelled for its inability to submit audited accounts in keeping with the requirement of statute.

The FSRA also intervened in the affairs of one insurance company and imposed additional regulatory requirements on the company in keeping with Section 39 of the Insurance Act.

ENHANCED MONITORING

Consumer protection continues to be a key feature of our mandate and in 2017/2018 we took a number of actions to address the risks to consumers in relation to financial services.

Risk based Supervision

During the period under review, we continued to develop our Risk Based Approach to regulation. The framework provides a structured approach for understanding and assessing key risks inherent to an institution's activities, and whether its risk management processes are adequate in the context of the key risks. The effectiveness and oversight of each key inherent risk is considered separately and then compiled into an assessment of the residual risk for the activity.

By adopting a risk-based approach to supervision, the Authority will ensure that resources are being deployed to licensees posing the greatest potential threats to our guiding principles.

This framework is also in keeping with the FATF standards which recommend that countries should adopt a risk based approach to combating money laundering and terrorist financing. By adopting such a framework, the FSRA and financial institutions are able to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the identified risks.

Onsite inspections

In keeping with our increasingly proactive approach to offsite reviews and onsite examinations, we intend to address identified key risk areas and simultaneously recommend early corrective action to regulated entities where appropriate.

Whilst by no means an exhaustive list, some of the key areas of focus include:

- Corporate Governance;
- The adequacy of claims reserving and reinsurance;
- Underwriting policies and procedures;
- Loan portfolio reviews to ensure that adequate loan underwriting is properly exercised;
- Assessment of the level of provisioning in relation to delinquent loans;
- Extent of Customer Due Diligence (CDD) procedures including verification of customer identification, customer profiling and collection of 'Know Your Customer' information;
- Additional due diligence requirement for high risk customers and businesses, e.g. 'high net worth' individuals, Politically Exposed Persons;
- Quality of internal systems and controls, including processes for identifying and reporting suspicious transactions;
- Policies (Operations Manual, Loan Administration, AML/CFT, etc) in place and their adherence;
- Scope, frequency of AML/CFT training;

LOOKING AHEAD

Going forward, the FSRA plans to reinforce its supervisory regime in response to international challenges, to promote robust regulation but additionally, to foster investor confidence and ensure more effective enforcement. The FSRA is looking forward to entering new Memoranda of Understanding ('MoUs') with other regulatory partners and reassessing existing ones if and when necessary, to stay abreast of the ever evolving international financial landscape. We believe that it is essential for the FSRA to increase and strengthen co-operation with counterparts in our continued effort to maintain the safety and security of our jurisdiction and the wider financial space.

The FSRA looks forward to continue playing an active and visible role in the regional arena. We have committed to host the Caribbean Association of Insurance Regulators (CAIR) conference in 2020. The CAIR Secretariat advocates, encourages and supports the development and enforcement of regionally consistent supervision in keeping with the International Association of Insurance Supervisors (IAIS) core principles and the sharing of best practices among its members. Over one hundred (100) participants, both regional and international, are expected to attend the conference, which will contribute to the island's tourism industry through increased hotel accommodations and subsistence.

While the road ahead may be challenging, as Saint Lucia prepares for the National Risk Assessment of its AML framework, we are confident that the changes under consideration will be beneficial to the FSRA, its stakeholders and Saint Lucia as a whole.

Looking back on our achievements for the period under review, I am reminded that the progress we have made must be attributed to the FSRA Staff. It is their hard work, dedication, and commitment that drives the organisation and ensures full realisation of our objectives.

I take this opportunity to thank the Board of Directors for their invaluable insight and wise counsel and every member of the FSRA family for their significant and vital contributions to the organisation and the Island.

J. CALIXTE LEON
Executive Director

Domestic Non-Bank Financial Sector

- Insurance Sector
- Credit Union Sector
- Money Services Business

Domestic Insurance Sector

The insurance industry plays a crucial role within the Saint Lucian economy. Apart from the vital benefits provided by way of facilitating risk management for individuals, businesses and the other financial sectors, the insurance industry invests heavily in government bonds and securities, thereby making it easier for the government to raise needed funds for budgetary support. In 2017, 13.4% of the total debt finance raised by the government was attained through insurance companies and intermediaries. The industry also contributes to the economy through the collection of insurance premium tax ($8.7 million in 2017), registration and licence fees paid by insurance companies and intermediaries ($192,740 in 2017) and claims paid to insurance policyholders ($74.3 million).

The sector also generates employment through the various insurance entities. As illustrated in the table below, the number of employees and contracted salespersons in the industry at the end of the 2017/18 fiscal year was 516.

Table 1: Domestic Insurance – No. of Employees and Salespersons

Insurance Entity	No. of Employees and contracted Salespersons
Insurance Brokers	63
Insurance Companies	189
Insurance Agents	96
Insurance Salespersons	168
Total	516

STATUTORY DEPOSIT AND INSURANCE FUND

As at March 31, 2018, a total of $270 million was contributed/pledged by insurers operating in the insurance industry. This total comprised $33 million pledged to the statutory deposit and $237 million to the insurance fund. Of the twenty – three (23) active insurers, only one company's net insurance fund and statutory deposit position was not fully satisfied. Non-compliant companies are required to inject funds to meet the requirements of the statutory fund and deposit as stated in the Insurance Act.

REGISTERED ENTITIES

Table 2: Domestic Insurance - Number of Registered Entities as at March 31, 2018

Types of Registrants	Registered at April 1, 2017	Additions	Less Termination/ Cancellations	Registered at March 31, 2018
Insurance Companies	26	1	1	26
Insurance Agents	18	1	1	18
Insurance Brokers	8	0	0	8
Insurance Salesmen	190	32	54	168
Association of Underwriters	1	0	0	1
Pension Fund Plans	30	1	0	31
Total	**273**	**35**	**56**	**251**

As illustrated in Table 2, the number of registered Insurance Companies, Insurance Agents and Insurance Brokers remained largely the same in 2017/2018. However, the number of registered pension fund plans increased to thirty-one (31). There were twenty-six (26) registered Insurance Companies, of which only twenty-three (23) are active. Generally, there tends to be significant volatility in the number of registered Insurance Salesmen throughout the year. The number of registered Insurance Salesmen declined by 11.6%, from 190 at March 31, 2017 to 168 at the end of March 31, 2018. An Insurance salesman must possess a valid certificate of registration in order to solicit insurance business. Prescribed minimum requirements must be satisfied including the attainment of the requisite insurance qualifications in order to qualify for registration. The Authority facilitates two types of registration:

Conditional/Provisional: For persons who do not possess academic qualifications in insurance but have undertaken in-house training. This certificate is renewable for up to two (2) years, during which time the salesman must attain the requisite academic qualifications in insurance.

Normal: For persons who have attained the requisite academic qualifications in insurance or are exempted from examinations under the grandfather provision of the Act.

Out of the 168 licenced Insurance Salesmen, 55 have held conditional licences for over 2 years. In an attempt to regularise the status of all conditional licensees, the Authority issued a circular on May 22, 2017, informing those Insurance Salesmen of the requirement to provide evidence of qualifications in insurance by May 31, 2018, failing which their registrations would be cancelled effective June 1, 2018.

Insurance Distribution Channels

Insurance is sourced through agents, brokers, salesmen or directly from insurance companies. Charts 1 and 2 illustrate the insurance premium distribution for General and Long Term Insurance respectively. The business generated through brokers only reflects brokers direct engagements with Insurance companies and does not include business channelled through agents. Fifty percent (50%) of General Insurance sales occur through agents, whereas seventy five percent (75%) of Long-term Insurance sales occur through salesmen. This is primarily due to the nature of Long-term Insurance products which are more complex financial/investment products and therefore must be explained to the potential client prior to purchase. Further, some general insurance products are mandatory; motor third party risk coverage is mandatory by law and property insurance is required by mortgagees. Moreover, Saint Lucia being located in a hurricane-prone region, individuals are more inclined to insure their properties against such perils vis-à-vis obtaining long-term insurance. Long-term insurance products are not typically required by law and therefore there is a tendency for companies to aggressively pursue sales by contracting salesmen.

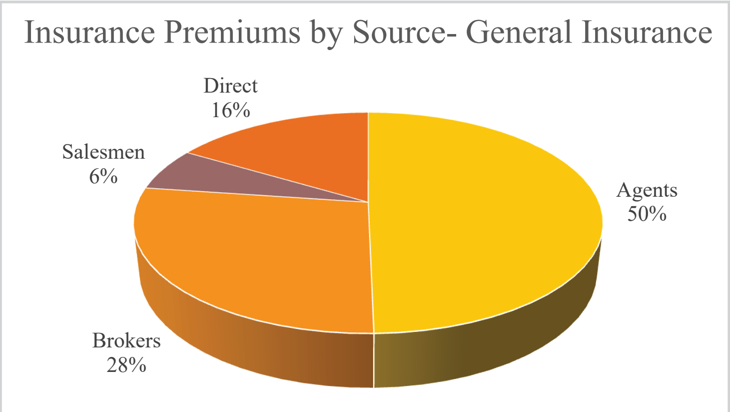


*Figure 1: **Domestic Insurance - General Insurance Premium Distribution by Source***

Note: Insurance premiums generated through the salesmen of insurance agents and brokers business through agents, are included as part of insurance premiums generated through agents.

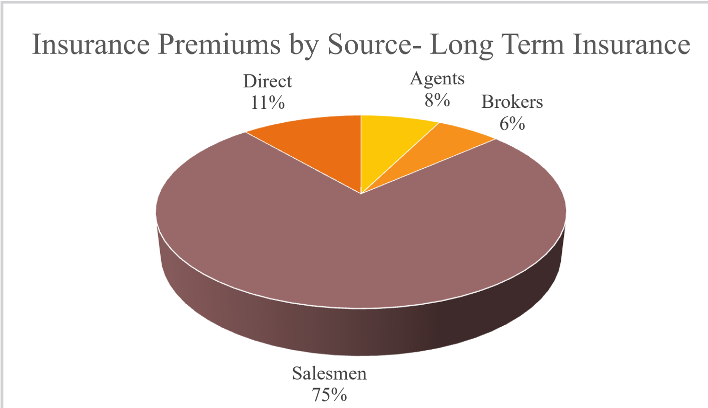


Figure 2: Domestic Insurance - Long-term Insurance Premium Distribution by Source

Sector Performance

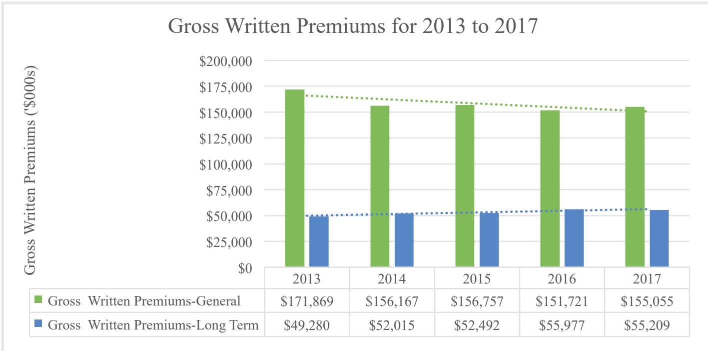


Figure 3: Domestic Insurance - Total Gross Written Premiums for the Years 2013 to 2017

Figure 3 illustrates that the domestic insurance sector expanded by 1.2% over the year 2017, generating premium income of $210.3 million (2016- $207.7 million).

The sector's growth was supported by a 2.2% increase in the gross written premiums for general insurance ($151.7 million in 2016 to $155.1 million in 2017). Notwithstanding the overall increase in the total premium income, the gross written premiums for long term insurance declined by 1.4% from $56 million in 2016 to $55.2 million in 2017, having previously exhibited an increasing trend. This decrease may be attributed to a reduction in premium written by one company which is currently under Judicial Management.

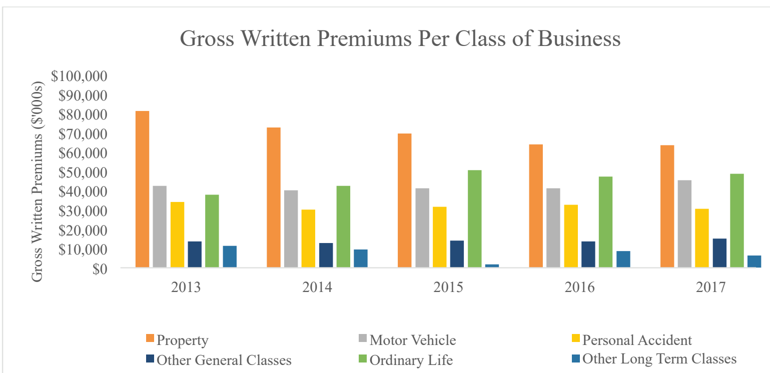


Figure 4: Domestic Insurance - Gross Written Premiums per Class of Business for the Years 2013 to 2017

Property and motor insurance jointly dominate the general insurance industry, constituting more than half (52%) of the total gross written premiums of the insurance sector; 30% and 22% respectively. However, as depicted by Figure 4 above, the gross written premiums for property insurance have been decreasing over the years due to falling premium prices. The gross written premium for motor insurance has however increased over the last year and may be attributed to the upsurge in imported motor vehicles on the island. Ordinary Life insurance forms a significant proportion of the long-term insurance business, representing 23% of the total gross written premiums of the insurance sector. A significant part of this may be due to term/creditor life for satisfying mortgagees' requirements.

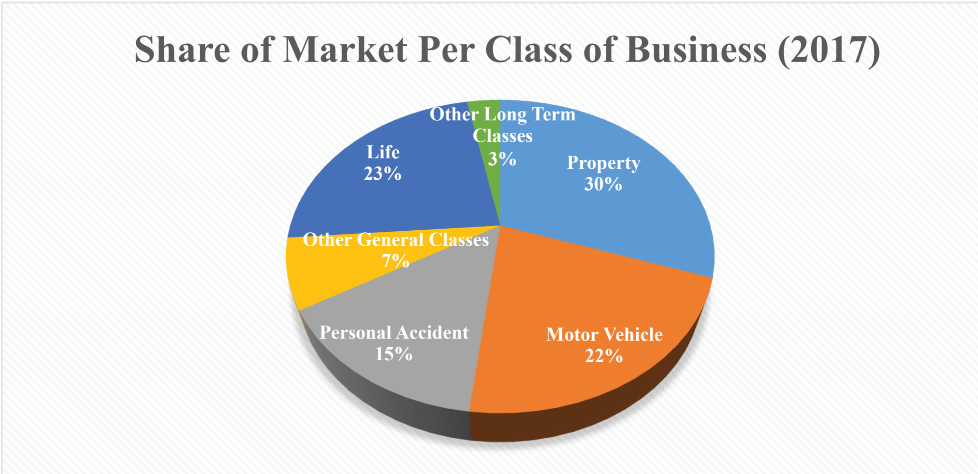


Figure 5: Domestic Insurance - Share of Market per Class of Business for 2017

The industry's asset base fell by 4.5% from $611.1 million in 2016 to $583.6 million in 2017, as a direct result of a 10.7% drop in Cash and Investments; Cash and Investments constitutes over 60% of Total Assets of the sector. The significant fall in Cash and Investments was primarily due to the repatriation of funds by a leading insurer.

Table 03: Statement of Financial Position for the Domestic Insurance Industry

	Years '$000s					% Annual Growth (2017/2018)
Statement of Financial Position	**2013**	**2014**	**2015**	**2016**	**2017**	
Cash and Investments	$392,206	$399,270	$404,046	$405,541	$362,147	-10.7%
Other Assets	$169,725	$209,693	$207,233	$205,552	$221,413	7.7%
Total Assets	**$561,931**	**$608,963**	**$611,279**	**$611,093**	**$583,560**	**-4.5%**
Insurance Liabilities	$308,832	$322,557	$321,336	$324,811	$306,422	-5.7%
Other Liabilities	$43,928	$42,444	$51,929	$51,330	$65,227	27.1%
Total Liabilities	**$352,760**	**$365,001**	**$373,265**	**$376,141**	**$371,649**	**-1.2%**
Total Capital and Reserves	**$207,456**	**$243,963**	**$238,013**	**$234,952**	**$210,521**	**-10.4%**

Claims

Total gross incurred claims provide a useful measure of the risk management support to the economy facilitated by the insurance sector. In 2017, the gross incurred claims totalled $74.3 million ($58.2 million for general insurance classes of business and $16.1 for long term insurance business). The chart below provides a breakdown of gross claims incurred for the various classes of insurance business.

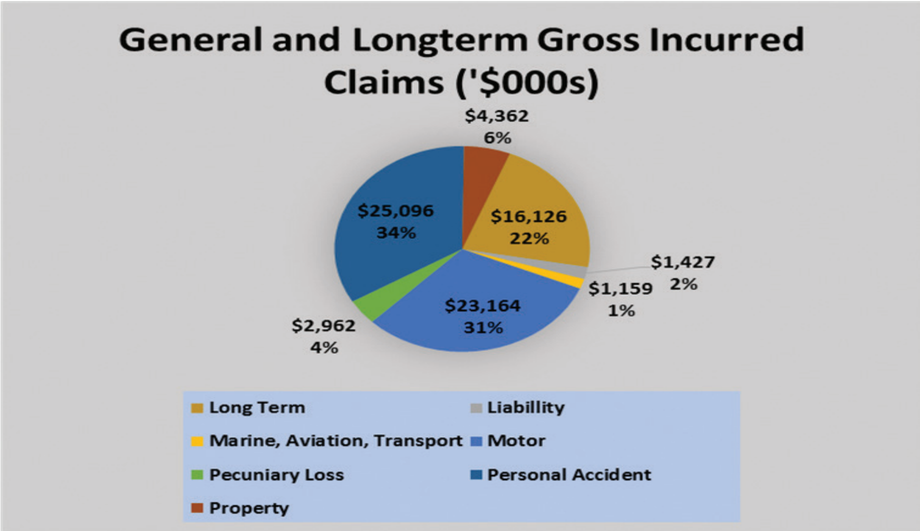


Figure 6: Domestic Insurance - General and Long-term Gross Incurred Claims

Personal Accident recorded the highest amount of claims at 34%, closely followed by Motor, 31% and long-term business at 22%.

The gross incurred claims were compared with the gross premiums written for the financial year, 2017, the results of which, are illustrated in Figure 7.

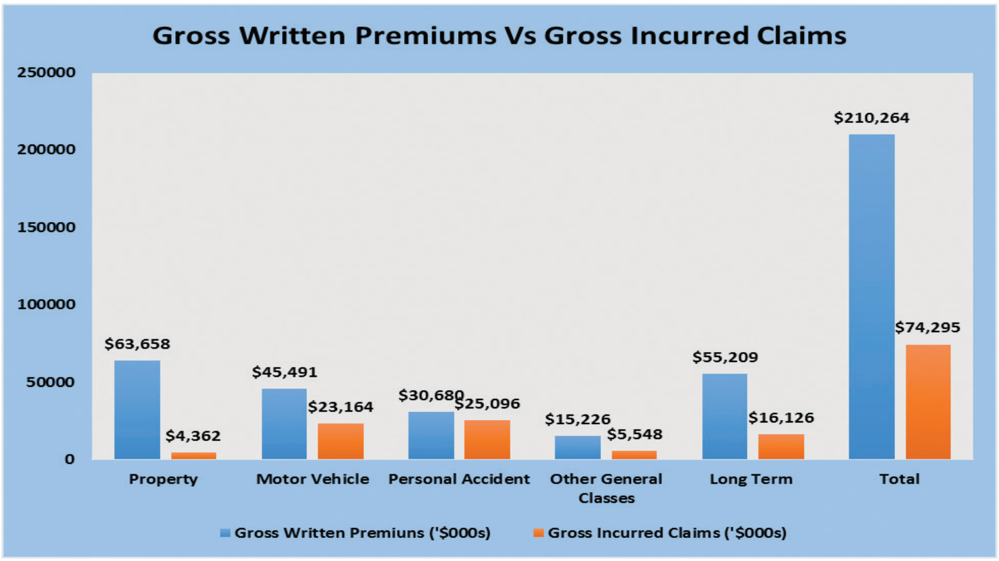


Figure 7: Domestic Insurance - Gross Written Premiums vs. Gross Incurred Claims

The percentage of total gross incurred claims to total gross written premiums was 35.33% ($74,295: $210,264).

However, the percentage of incurred claims to written premiums varied significantly among the various classes of insurance. Property insurance claims constituted only 6.85% of the gross written premiums for property business. This low percentage of claims is attributable to Saint Lucia not being directly impacted by any significant catastrophic events in 2017. Inherently, property insurance experience large fluctuations in claims.

Long-term insurance also recorded a significant difference between the claims incurred and premiums written with the percentage of claims to written premiums being 29.21%.

Life insurance claims percentages to written premium are usually moderate, exhibiting minimal fluctuation due to the nature of life insurance business; with the existence of long maturity periods matching long term investments undertaken by life insurers.

In contrast, for Motor and Personal Accident insurance classes, the percentages of claims to gross incurred claims were high at 50.92% and 81.80%, respectively. The large percentage of incurred claims for personal accident insurance may be credited to the increased health insurance claims reported and incurred. Traditionally, the health insurance portfolio reports slim margins on premiums written. Similarly, motor insurers incurred a high percentage of insurance claims for the period due to the high number of vehicular accidents and low level of premiums charged.

Sector Risk Assessment

The Domestic Insurance Department performs both offsite monitoring and onsite examinations of each regulated entity. For the financial year 2017/2018, the department completed six (6) onsite examinations, two (2) of which were pre-registration onsite examinations.

Offsite monitoring of each entity is performed using information derived from the quarterly returns and audited financial statements. The department uses several methods to perform offsite monitoring which focus on identifying risks.

The Risk Based Supervision (RBS) framework uses a structured approach for understanding and assessing the most critical risks, in particular, the financial risks inherent in a company's activities, whether the risk management processes are adequate for each risk and whether its earnings, capital and liquidity are sufficient to enable it to support its risk profile and withstand unexpected shocks.

At the end of the assessment, the framework provides an overall risk rating for the company. Companies which are deemed to be of higher financial risks are placed under enhanced monitoring and greater supervisory resources are assigned to them.

The department began the implementation of the Financial Health and Stability Indicators (the FHSIs) Framework in 2017. This project is an initiative of the Caribbean Regional Technical Assistance Centre (CARTAC), designed to assist insurance supervisors within the Eastern Caribbean Currency Union become more effective by building their capacity to assess the financial performance and strength of insurers. The FHSIs facilitate the financial analysis and stress testing of each insurer and the insurance industry as a whole. It examines the impact of shocks on various items on the Statement of Financial Position and Statement of Income. The CARAMELS framework is embedded in the FHSIs workbook and is used to determine the financial risks faced by each entity.

Table 4 depicts the risk outlook for long term insurance companies using the CARAMELS ratios and 2016 data. The risk assessment for general insurance companies is currently ongoing. Ratings from one to five were utilised to rank each risk as follows:

Table 4: Domestic Insurance - Risk Outlook for Long Term Insurance Companies

	Capital adequacy	Asset quality	Reinsurance	Actuarial issues	Management soundness	Earnings	Liquidity & ALM	Overall
1	Moderate	Low	Medium High	Low	Medium Low	Medium High	Low	Medium Low
2	Low	Low	Medium Low	Moderate	Low	Low	Low	Low
3	Low	Low	Medium Low	Low	Medium High	Moderate	Low	Medium Low
4	Low	Low	Medium Low	Moderate	Medium Low	Moderate	Moder-ate	Medium Low
5	Low	Low	Medium Low	Moderate	Medium High	Low	Low	Medium Low
6	Low	Medium Low	Medium Low	Low	Low	Low	Medium High	Medium Low

	Low
	Medium Low
	Moderate
	Medium High
	High

As illustrated by Chart 8 above, of the six (6) active long term insurance companies, one (1) was ranked as Low Risk and the remaining five (5) were ranked as Medium Low Risk.

Credit Union Sector

Credit unions can be defined as member-based financial co-operatives which exist to provide sustainable living for members and the wider community. The membership is based on a common bond (such as community or employment sectors) which allows them to bring together their resources to achieve common goals. Credit unions follow a basic business model: members pooling their funds ($702.3 million in 2017) in order to be able to provide loans ($628.7 million in 2017) to each other.

Credit unions in Saint Lucia, seek to provide financial services to encourage development while coping to survive amidst challenging economic times and changing financial fortunes created by globalization and modern day technology. The sector comprises 16 credit unions, 1 league, 99,773 members (53% of St Lucia's population), 263 employees, and 110 directors (volunteers).

Total assets have surpassed EC$871.2 million, and represent an increase of 11% from the previous year. This is in keeping with the rise of members' savings showing an 11% growth. This is reflective of the diverse products being offered by credit unions to satisfy members changing demands. Indeed, members' culture of saving stems, in particular, from the competitive deposit interest rates offered by some credit unions as compared to other commercial financial institutions and the savings benefit by way of tax deductibility. These influxes of funds assist in making loans more attractive and affordable (representing 72% of total assets) while reducing the cost of borrowing to members. Hence, credit unions do not increase the international debt burden as they do not depend on external capital.

Core capital (institutional capital) as a percentage of total assets remained fairly constant over the years in terms of percentages and reflected a rate of 17% over the past three consecutive years which is above the industry standard of a minimum of 10%. This suggests that the sector may be able to adequately cushion any adverse economic shocks and continue to be viable in the long run. Notwithstanding the sector's performance in this regard, some individual credit unions fall below the minimum acceptable standard and are expected to create realistic and sustainable means to increase their performance in this regard. Currently, there are seven (7) credit unions which meet the 15% requirement of the Cooperative Societies Bill.

Table 5: Comparative Financial Performance of the Credit Union Sector

Income Year	Total Assets	Total Withdrawable shares & Deposits	Total Liabilities	Institutional Capital	Percentage of Institutional Capital / Assets	Total Share Capital (Permanent)	Percentage of Permanent Shares / Assets	Total Members	Total Staff
2013	552,034,054	393,046,497	448,037,150	86,872,722	16%	18,664,445	3%	75,653	203
2014	604,358,592	480,486,613	493,021,469	98,588,790	16%	22,613,683	4%	83,397	232
2015	672,371,519	536,970,193	536,970,193	117,570,935	17%	27,340,439	4%	91,637	237
2016	782,988,581	632,332,205	639,847,975	132,577,697	17%	34,795,966	4%	99,098	255
2017	871,240,735	702,329,185	711,737,295	148,765,822	17%	41,118,809	5%	104,142	263

Regrettably, total delinquent loans remain an area of tremendous concern for this sector as it continues to be above 10% for the last 4 years. The ratio remains significantly greater than the maximum 5% benchmark set by PEARLS (financial assessment tool for credit unions). While the deviation from the benchmark is marginal in some cases, the majority of credit unions remain significantly above the 5% mark. This poor performance indicates the extent of the problem and the need for greater attention to be placed on the critical factors influencing poor loan performance such as job security, loan underwriting practices and overall loan administration.

Table 06: Credit Union Sector - Total Loans and total delinquent loans.

Income 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	Percentage of Institutional Capital less Deliquent Loans / 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%
2017	871,240,735	628,710,244	64,761,574	11%	13,832,028	21%	84,004,248	10%

Overall, credit unions play a pivotal role in creating and maintaining social economic development in St Lucia by enriching the lives of members and the wider/extended communities they serve.

Risk Assessment, Vulnerability & Challenges:

The fundamental role of FSRA is to ensure the stability of the financial industry, primarily through the establishment and enforcement of prudential standards. Effective December 1, 2014, the FSRA took the decision to supervise institutions using the Risk Based Supervision Framework. The framework provides a structured approach for understanding and assessing key risks inherent in an institution's activities, whether its risk management processes are adequate in the context of the key risks.

The FSRA has categorized credit unions in relation to their capital adequacy, loan delinquency level, corporate governance, etc.

Table 07: Categorization of credit unions in relation to their risk profile

Quality of Risk Management		Level of Inherent Risk				
		1 Low	2 Medium Low	3 Moderate	4 Medium High	5 High
1	Strong					
2	Satisfactory		Credit Union 1	Credit Union 3 & 4	Credit Union 6	
3	Needs Improvement		Credit Union 2	Credit Union 5	Credit Union 8 & 9	**Credit Union 11&12**
4	Deficient			Credit Union 7	**Credit Union 10**	**Credit Union 14&15**
5	Critically Deficient				**Credit Union 13**	**Credit Union 16**

	Low		Moderate		High
	Medium Low		Medium High		

As indicated from the table above, from the sixteen (16) Credit Unions, one (1) low risk, three (3) are medium low risks, two (2) moderate risks, three (3) medium high and seven (7) high risks credit unions.

For the years 2014-2017, the Authority has:

- embarked on outreach activities. An average of 15 meetings were convened per year, where we attended annual general meetings, conducted training, handled claims.
- conducted onsite inspections of all credit unions classified as high risk. These onsite inspections have brought to the forefront the many weaknesses which pervade the existing credit unions such as poor loan underwriting, lack of capacity on the part of the Board of Directors and Committees. Therefore, appropriate recommendations have been made and enhanced monitoring is taking place.

Apart from the prudential regulation of credit unions, the FSRA has also embarked on the supervision of the sector in relation to the combating of money laundering. The Money Laundering (Prevention) Act, Cap 12.20 stipulates regulations to guide financial institutions in relation to due diligence requirements for customers, record keeping and the other policy guidelines using a risk-based approach. Credit unions therefore, are challenged to develop policy guidelines in keeping with internationally acceptable standards to combat money laundering and terrorist financing.

Our outreach activities and onsite examinations have helped many credit unions in establishing adequate operating systems to allow for proper screening and due diligence of members. Credit unions are also encouraged to have software systems capable of capturing and generating unusual transaction reports and to foster ongoing training for its management team in relation to the combating of money laundering and terrorist financing.

In conclusion, the credit unions sector plays a critical role in creating sustainable living and enrichment for the socio-economic development of our people and therefore must be guarded against any risk of abuse by criminals.

Money Services Business

Money service businesses (MSB) cater primarily to the domestic market and the governing legislation allows them to offer an assorted range of services which includes money transmission services, cheque cashing, currency exchange and micro-lending. The sector serves as a necessary alternative to the banking sector for the members of the population who encounter barriers to using the services of commercial banks.

As at the year ended December 31, 2017, the number of money services businesses licensed by the Authority remained at eight (8). It is worth noting that MSBs currently operating in St Lucia have chosen to engage in either micro-lending and/or money transmission. To date there are no MSB licensees offering cheque cashing or currency exchange and despite these services being allowable with a Class 'A' MSB licence, the local demand for cheque cashing and currency exchange is currently only satisfied by the commercial banks.

MONEY REMITTERS

Remittances are cross border transfers of money from persons in one country to a receiver in another jurisdiction. Remittances are associated with greater human development outcomes across a number of areas such as health, education, and gender equality. There are also positive spill-over effects, with some of the expenditures and investments made by remittance-receiving households accruing to entire communities. Remittances are the most tangible link between migration and development.

While money may be remitted across borders through various means, in St Lucia, Class 'A' MSB licensees are a popular avenue for remittances due to ease of access, convenience and speed of transmission.

Most Economists agree that remittance inflows have a significant direct impact on poverty reduction by increasing disposable income, smoothing consumption and easing capital constraints of the poor.

In St Lucia, demand for Western Union and MoneyGram services in the rural communities has resulted in approximately 50% of the total money transmission outlets being located in smaller rural villages where conventional banking services are not readily available. Typically, most other financial service outlets tend to restrict their physical presence to the busy towns and city centres. The dispersion of money remittance outlets provides strong evidence to support the importance of remittances to the poorer communities.

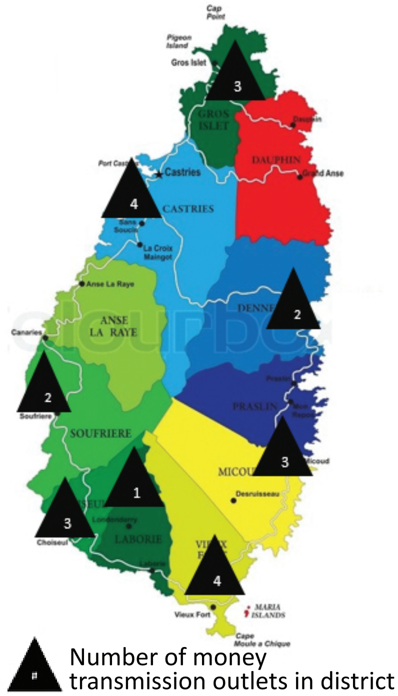


Figure 8: Money Services Business - Distribution of Money Remittance Outlets

Owing to the high rate of migration to developed countries, the majority of remittances to St Lucia tends to be from migrants sending money back home through payments to family members. Accordingly, statistics from local MSB money remitters support this trend, with the highest proportion of inflows over the years having originated from the USA, UK, Canada and European Union.

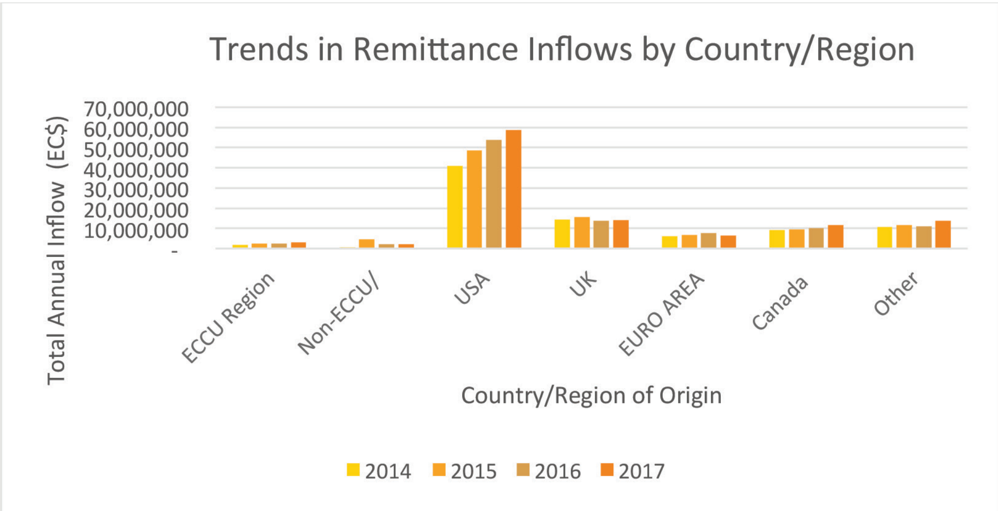


Figure 9: Money Services Business - Trends in Remittance Inflows by Country/Region

Total incoming remittances to Saint Lucia during 2017 through the three (3) Class A Money transmitters stood at EC$ 109,793,141, with a recorded increase in both number (4%) and value (8.4%) over the previous year. Incoming remittance numbers have been trending upwards since 2014. These results are consistent with the trends observed in the region according to the World Bank[1] which reported that overall remittances flows into Latin America and the Caribbean grew 8.7 % in 2017.

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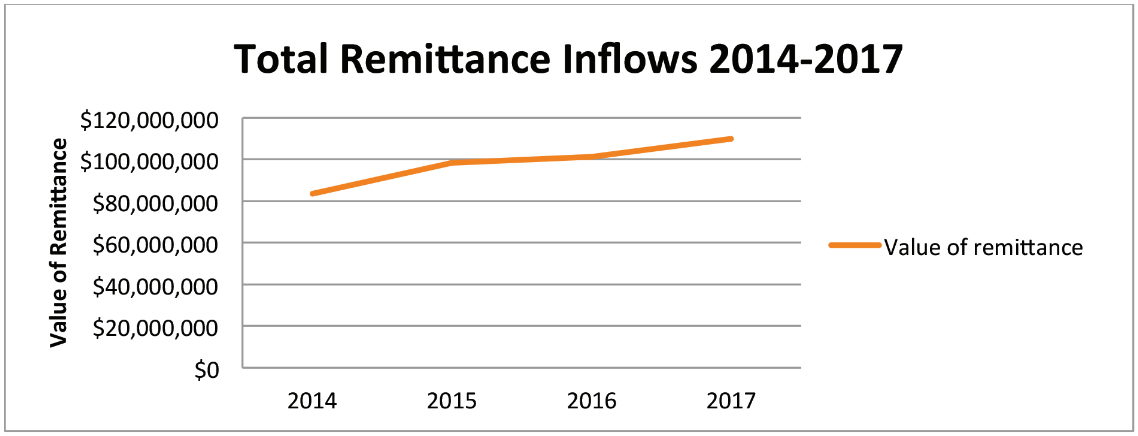

Figure 10: Money Services Business - Total Remittance Inflows 2014-2017

The main factors given for the 2017 increase are, (1) stronger economic growth in the United States and (b) tighter enforcement of U.S. immigration rules which may have impacted remittances as migrants remitted more savings in anticipation of shorter stays in the United States. Notably, the US has always been responsible for the highest percentage of incoming remittances to Saint Lucia via money transmitters. From 2014 remittances from the US represented 48% of total remittance inflows to St Lucia and have continued to grow to EC$58.8m (54%) in 2017.

In contrast to inflows, outgoing money transmissions suffered a decrease of 2% during 2017, recording a total of EC$ 22,804,009 for the year. With the exception of the US, the developed countries are not very popular destinations for remittances from St Lucia.

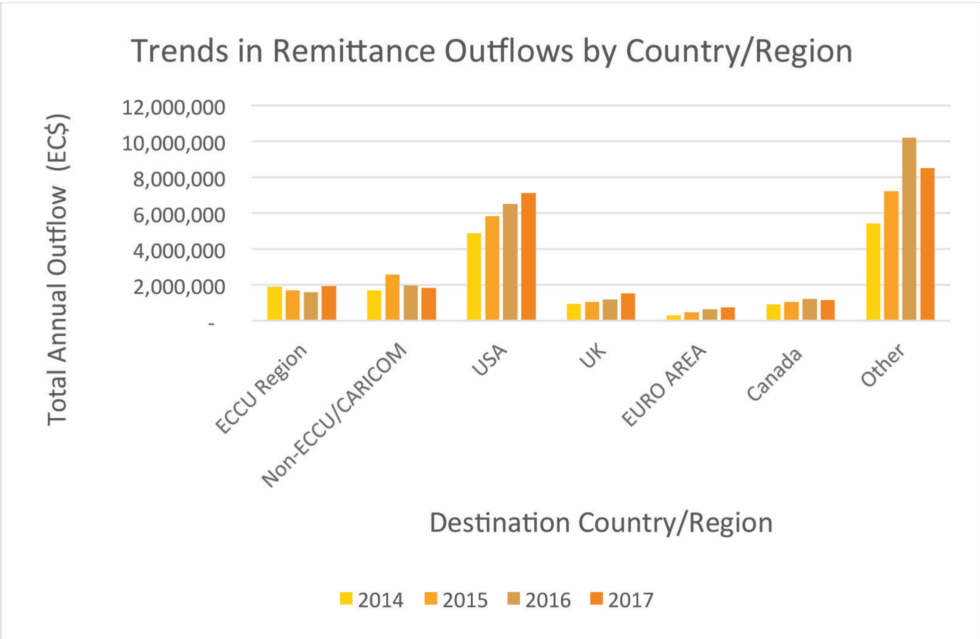

Figure 11: Money Services Business - Total Remittance Outflows by Country/Region

MICRO-LENDERS

The portfolio of Money Services Businesses regulated by the FSRA consists of five (5) micro-lending entities to which Class E licenses were issued. Micro-lending service providers form part of a small niche market in St. Lucia which caters for individuals desiring loans of up to $50,000.

Growth

For the year 2017, total loans disbursed by the sector amounted to EC$78 million. This represented an increase of EC$11 million or 16.46% from the 2016 figure. Since 2015 when the MSB Act was amended to provide for the licensing and regulation of micro-lenders, the sector has experienced 46% growth in the annual value of loan disbursements. The fact that the sector has also expanded to employ 70% more persons during this period, also suggests that the sector is experiencing significant growth and expansion.

Table 8: Micro-Lenders - Loans and Number of Employees

Category	2017	2016	2015
Total number of loans disbursed for the year	20,850	18,368	16,455
Total value of loans disbursed	$78,074,987	$67,036,066	$53,473,390
Number of employees	95	76	56

Accessible Credit

Micro-lenders tend to be a popular source of credit for persons experiencing temporary shortfall in cash flow. They provide a vital solution in helping people in the lower income category become more resilient and better able to provide for their families in times of economic difficulty. While banks are usually reluctant to offer unsecured loans, the local micro-financing operations do not require collateral for the smaller amounts of credit. This feature makes short-term credit more accessible to persons who may not qualify for traditional bank loans. It is not surprising therefore, that more than 83% of the loans disbursed by micro lenders during 2017 were for amounts less than EC$5,000, with average loan size recorded at EC$ 3,745. This suggests that the majority of these loans are 'tide you over' in nature, rather than for funding larger/high value projects. In contrast, only 1% of 2017 loans were for values above EC$ 30,000.

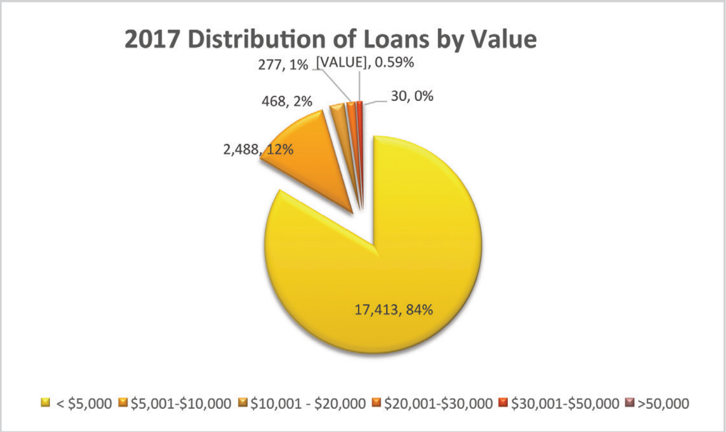

Figure 12: Micro Lenders - Distribution of Loans by Value during 2017

Almost half of the loans granted during 2017 were personal loans. Personal loans provide flexibility to use the funds as needed to help meet the borrower's current financial needs, whether it be household expenditure, vacation, repairs or retail purchases. In the specific Saint Lucian context, borrowers would rely heavily on personal loans to meet the back to school and Christmas expenses. During 2017, micro-loans for personal spending totalled over EC$ 35 million. Vehicle loans, the second largest category of loans granted during the year, accounted for just over half as much as personal loans (EC$ 18.3m). Loans for agricultural purposes reflected the lowest demand at less than EC$ 0.21 million.

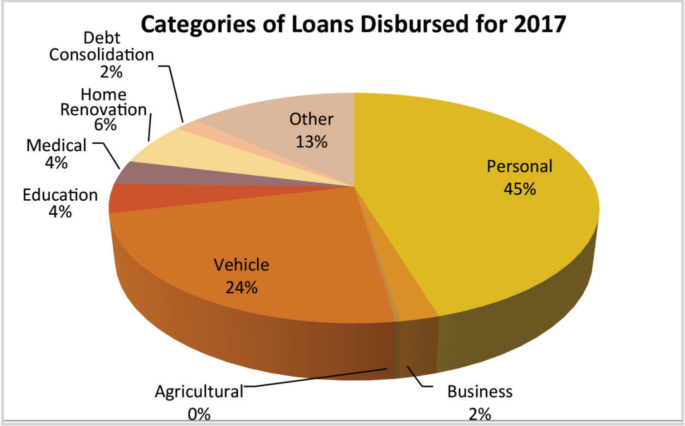

Figure 13: Micro Lenders - Category of Loans disbursed for 2017

Risk Assessment

As part of its supervision and monitoring of the money service business sector, the FSRA conducts regular on-site inspection of its licensees to assess their compliance to AML legislation including CDD and KYC procedures, and to make recommendations for improving areas of weakness.

The money service business is very cash intensive. Money remitters for instance, operate by accepting cash at an agent location which is then electronically transferred to the recipient location for the receiver to pick up in cash. The nature of this service makes it attractive to persons seeking to 'layer' proceeds of criminal activity by transferring those between jurisdictions, or passing them through the system via micro loan repayments.

Our licensed money remitters act as agents for large money transfer companies such as Western Union and MoneyGram. These large international money transfer companies have developed comprehensive AML/Compliance programmes which are applied to all their agents, and conduct self-regulation on their agents to ensure they comply with various governing pieces of legislation. The international money transmitters embark on regular training activities to ensure that their agents remain up to date with relevant developments in the field. Consequently, most of the sectors have a well-developed understanding of the threats they face, and controls have been put in place to limit the use of operations for layering of illicit funds.

While the inherent risk to money laundering exists, the relatively small size of the sector, a low average transaction size and the predominantly face to face customer base, constraints the possible negative impact of money transmission on the financial space. These features, combined with the capacity and capability of the FSRA and the law enforcement agencies (FIA for example) to combat money laundering through the sector means that while the MSB sector remains a sector with significant high-risk elements within it, the overall residual risk is assessed to be reduced significantly.

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 two (82) licensed IBCs regulated by the FSRA in 2017.

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 Sector

The international insurance sector comprises incorporated cell companies, incorporated cells and international insurance companies which are registered and/or licenced under the International Insurance Act, Chapter 12.15 of the Revised Laws of Saint Lucia.

As at year end, there were a total of five (5) incorporated cell companies, 15 incorporated cells and 34 international insurance companies within the sector. Two (2) international insurance companies were licensed and one (1) international insurance company and incorporated cell each surrendered their license during the year. One of the newly licenced companies was re-domiciled from a country which had been hard hit by hurricanes in 2017.

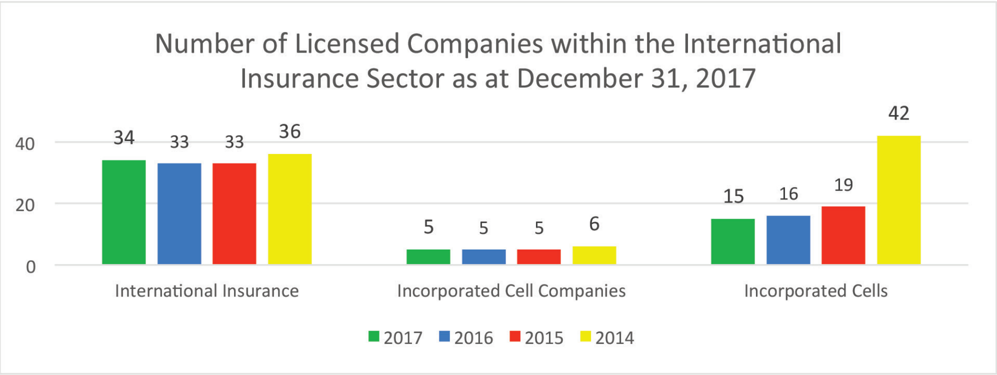

Figure 14: Number of licensed international insurance entities 2014 - 2017

Risk Assessment

The international insurance sector has been in existence since the year 2000. International insurance companies cover risks that are not generally available in the traditional insurance market or are not generally available at appropriate/competitive pricing level. General insurance business is provided by 96% of our licensed and registered insurance companies, with only 4% of the companies licensed to provide long term life insurance business.

International insurance companies which offer captive/general insurance business are not required to have their 'mind and management' and premises in Saint Lucia. By 'mind and management', we mean that the company should have a physical presence (premises) and employ more than two (2) individuals on a full time basis. As a result, there is no face-to-face interaction in the domestic space which could pose a greater money laundering risk to the sector. Notwithstanding, the general insurance companies operate through their Registered Agent and are expected to maintain permanently at the principal office in Saint Lucia such books of accounts and records of their insurance business and financial affairs.

However, 96% of the entities are captive insurance companies providing insurance risk coverage to their shareholders and affiliates, thereby minimising the risk of money laundering. Further, international insurance companies are required to implement policies and procedures relating to money laundering. The FSRA has also issued guidelines to international insurance companies to elaborate on some of the requirements of the International Insurance Act, Chapter 12.15. The threat of money laundering in the international insurance sector has therefore been assessed as low risk.

During the year ended, the entities in the international insurance sector originated from the United States of America (USA) (72%), Caribbean (22%) and other (6%). Recent amendments to US Legislation allowed the establishment of captive insurances in the USA to become more competitive, resulting in increased voluntary de-registration and re-domiciliation applications and a drop in new applications. Revenue earned from the sector has therefore declined in response to this development by 41% from 2015 to 2016 and 18% from 2016 to 2017. In addition to the fall in revenue, recorded overall economic activity has also reduced.

Table 09: International Insurance – Key Performance and Position Indicators, Revenue Earned by the Authority (in US$)

	2017	2016	2015	2014
Gross Written Premiums	107,642,772	105,551,449	141,005,133	147,364,579
Net Written Premiums	95,416,840	94,203,197	139,041,070	129,090,795
Claims incurred	6,111,141	4,836,084	1,795,113	14,074,718
Allowable assets	374,423,316	371,568,283	341,920,959	222,761,722
Liabilities	230,764,959	225,733,471	204,486,849	86,108,171
Revenue earned by Authority	111,183	136,221	231,643	31,311

International Banks

The International Banking Sector continues to be the international sector which attracts many investors from all over the globe. Therefore, the Authority wants to ensure that its regulatory framework is robust and effective and that banks are run in a prudentially sound manner. Currently, the sector comprises fourteen (14) licensed banks of which ten (10) are operational and four (4) have not been granted permission to commence banking operations. The international banks' none-active status is as a direct result of their inability to secure a correspondent banking relationship that satisfies regulatory requirements.

Statistics

The International Banks Act, Cap 12.17 provides for the issuance of two (2) classes of licences. The sector comprises ten (10) Class A international banks and four (4) Class B international banks. Class A banks are allowed to receive funds from third parties while Class B banks have a restricted licence and can only source funding from affiliates in keeping with the FSRA Guidelines. As a risk reduction measure, all holders of Class A licences are required to have their "mind and management" in St. Lucia.

The shareholders of the currently licensed banks are mainly from the Caribbean Region, which is seconded by countries within the European Union Block.

Table 10: International Banks - Shareholding by country of origin

38%	Caribbean
31%	Europe
23%	USA
8%	Canada

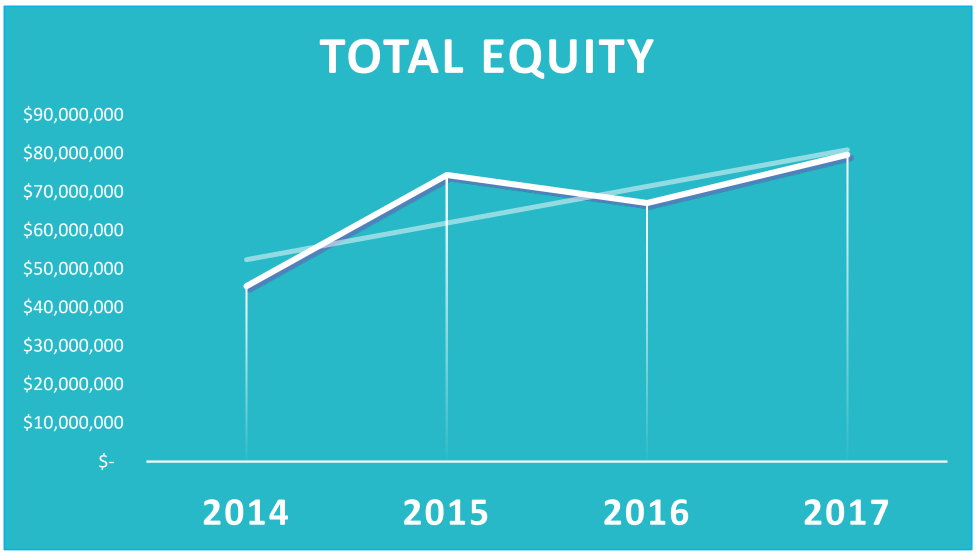

Figure 15: International Banks – Total Equity

The Banking Sector reached an all time high of US$79.5 M in total equity representing an increase of US$12.5M (18.7%) suggesting that licensees are reacting positively to the aforesaid pending shifts/amendments in legislative requirements. Trend analysis demonstrates increasing growth in the Banking Sector's capital account for the past 4 years.

Total assets and liabilities as at 31 December 2017 stood at US$511M and US$432M, respectively.

Total assets and total liabilities increased by US$16.6 M and US$4 M, respectively, from December 31, 2016. Investments during the financial year 2017, generally took the form of corporate securities and loans to affiliates. On the other hand, the sector's financing activities was dominated by deposits from persons emanating from the European Union Block, which grew by 0.21% ($602,130). Total deposits in the Banking Sector represent approximately 68% of total liabilities for the year ending December 31, 2017.

The Banking Sector generated for the year ended December 31, 2017, return on equity (ROE) of 14.15% and return on assets (ROA) of 2.2%.

Table 11: International Banks-Net Interest Income, Assets, Deposits, Loans and Equity (in US$)

	2017	2016	2015	2014
Net interest income	15,578,713	12,464,301	13,308,021	18,670,905
Assets	511,517,962	494,840,694	774,893,559	774,656,194
Deposits	294,289,166	293,687,036	574,946,168	611,549,832
Loans	181,533,990	175,771,799	354,250,772	208,394,754
Equity	**79,595,171**	**67,055,462**	**74,308,417**	**45,510,850**

The International Banking Sector currently provides employment to sixty six (66) individuals in St. Lucia excluding external auditors and other service providers. As banks operating within the sector mature in size and product offering, it is expected that the demand for more specialized staff in the field of banking will be required.

As anticipated, the Banking Sector continues to play a role in the direction of career paths and research conducted by nationals operating within the local financial sector. The increased interests in the field of risk and compliance seem to be leading the charge in that regard.

Risk assessment

Our key focus for international banks is to ensure that customers' deposits are protected and that such corporate vehicles are not used by persons to launder their illegal proceeds. Thus, as part of the Authority's sector risk mitigation program, capital adequacy and anti-money laundering reviews form an integral part of our licensing procedures and on-going supervision.

The FSRA holds the view that the stronger an entity's capital position, the less vulnerable it likely will be within a volatile market place. Accordingly, during the period reviewed, the Guidance Notes to the International Banks Act were amended increasing the minimum capital from US$1 million to a minimum of US$2.2 million. Additionally, it is proposed to amend the Statutory Deposit requirement from US$ 0.1 million to US$0.3 million bringing the total capital requirement to US$2.5 million.

In an effort to limiting the infiltration of threats to the jurisdiction, the FSRA continues to require established correspondent banking relationships with banks domiciled in OECD Countries, and has enhanced its due diligence processes. This requirement assist in providing reasonable certainty that the funds channeled through licensees are from legitimate sources. In essence this relationship provides an extra layer of oversight with respect to the flow of funds within the international financial system. Notwithstanding the efforts outlined above, certain licensees and applicants continue to face challenges in obtaining correspondent banking relationships due to de-risking measures employed by some OECD banks. Furthermore, the Authority issued guidelines requiring that all Class A international banks submit an independent audit to be conducted at least annually with professionals retained specifically to assess the Anti-Money Laundering (AML) controls of the bank.

With increased oversight regime of international banks, the period under review was one where the Authority had to apply more than usual administrative sanctions. Applicants were denied licences (3 applications), licensees were placed under receiver manager (1 licensee) and liquidation (2 licensees). Indeed, where the Authority had doubts about the veracity or adequacy of information or source document the business relations have been severed.

We are also concerned with the rapid pace of new technologies and continue to see movement in the banking sector business models in line with broader global developments, in particular increased interest in the use of financial technology and growing embrace of banking in the digital age. As a result, the Authority looks forward to issuing guidelines geared at improving its supervisory processes.

International Mutual Funds Sector

The international mutual funds sector remains the smallest subsector in the international financial sector and comprises private and public mutual funds and mutual fund administrators and managers. Currently, there are eight (8) private mutual funds registered. Three (3) public mutual funds, two (2) mutual fund administrators and one (1) mutual fund manager are also licenced with the Authority.

Mutual funds exist to pool the funds collected from multiple investors, with a common investment objective, for the purpose of investing in securities and other assets so as to diversify risk and maximise returns. The mutual funds in our jurisdiction have been invested primarily in debt securities (29%), equity securities (14%) and real estate and property (14%), with small investments in foreign exchange (7%), art, and oil and gas investments.

Noteworthy, the Caribbean islands account for the largest percentage of mutual fund ownership (61%) followed by the United Kingdom and European Union with 17% each.

Table 12: International Mutual Funds sector - Assets, liabilities and income for the year ended 2017

	Assets (US$)	Liabilities (US$)	Income (US$)
Public mutual funds	262,974,656	6,854,569	12,049,264
Mutual fund administrator	4,796,986	23,222	1,046,197
Mutual fund manager	6,336,052	20,813	2,164,235

Public Mutual Funds have a large Asset base of which 91% are Financial Investments. Sixty eight percent (68%) of these Financial Investments are from the Caribbean, which are mainly government and corporate securities.

Risk Assessment

The nature of the services provided by the sector can make it attractive to persons seeking to conceal the origins of criminal proceeds with the use of investment vehicles such as stated above. Saint Lucia has developed comprehensive legislation for the registration and licensing of the different vehicles in the mutual fund sector as evidenced by the International Mutual Funds Act, Cap.12.16 of the 2008 revised laws of Saint Lucia (the Mutual Funds Act).

One of the controls to mitigate inherent risks of International Mutual Funds is a vigorous analysis of applications before consent is given to incorporate in our jurisdiction. The documents required for submissions to analyse the applications for the sector is extensive as seen in the International Mutual Funds Guidance Notes. The Authority ensures that all documents to verify the identity of Shareholders and Beneficial owners submitted with Applications are authentic in keeping with the Act. Where any suspicions arise, enhanced due diligence is conducted.

While private mutual funds are not mandated by law to submit an Offering Document or Prospectus, which is a requirement for public mutual funds, the Authority has nonetheless issued guidelines requesting such submission. The Authority has determined that this additional condition allows for enhanced monitoring of private mutual funds bringing them to a similar level of supervision as public mutual fund.

Registered Agents and Trustees

Saint Lucia enacted the Registered Agent and Trustee Licensing Act, Cap 12.12 in the year 2000 to regulate trust and company service providers. The sector consequently reflects a maturity and breadth of firms ranging from holding companies to regulated entities of many years standing.

The services, provided mainly to institutions, include: company incorporation – forming a company and having it duly constituted; registered office – providing a statutory address and a place where process can be served; directorship – providing qualified directors to sit on the boards of directors; and statutory filing of documents.

Registered Agents (RAs) and Registered Trustees (RTs) operating in St. Lucia are required to be residents of the country, having physical presence via an official Saint Lucian address to which official correspondence is sent and kept. The Sector comprises mostly accountants and legal professionals, who are well versed in the relevant laws and regulations governing the industry.

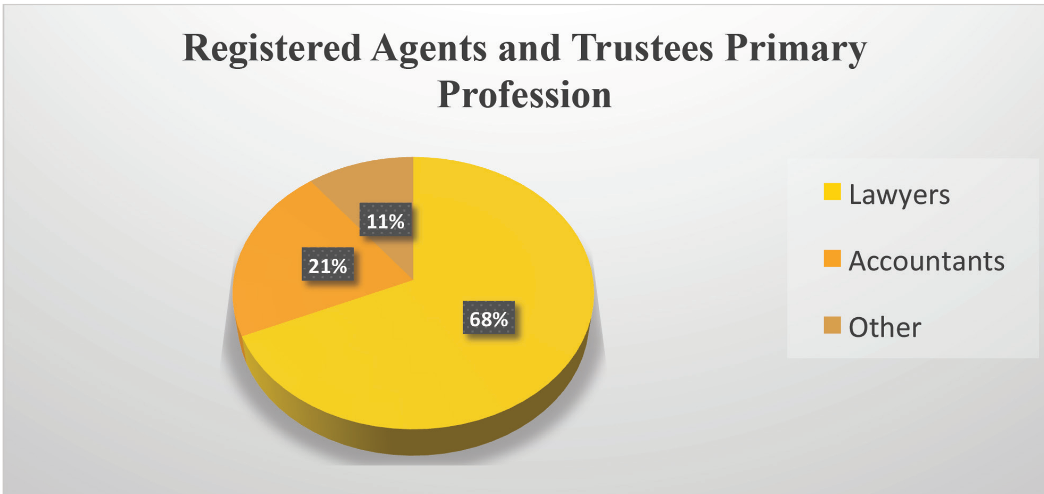

Figure 16: Primary Profession of Registered Agents and Trustees in St. Lucia

At the end of 2017, Saint Lucia was home to 18 Registered Agents and 4 Registered Trustees representing 3,812 international business companies and 40 international trusts (see appendix). While the number of players remains unchanged one (1) Registered Agent has communicated its intention to surrender its licence and two new applications are currently under review.

The table below reflects the annual entry to the IBCs sector from 2010.

Table 13: New International Business Companies (IBCs) Registrations (2010-2017)

Year	2010	2011	2012	2013	2014	2015	2016	2017
New Incorporations	370	381	414	487	184	468	429	470

The pie chart below shows the place of residence of the beneficial owners of IBCs incorporated in Saint Lucia. Noteworthy, the Caribbean islands such as Barbados, Jamaica and Trinidad and Tobago account for the largest percentage of IBCs (40%) followed by the United States of America with 20%.

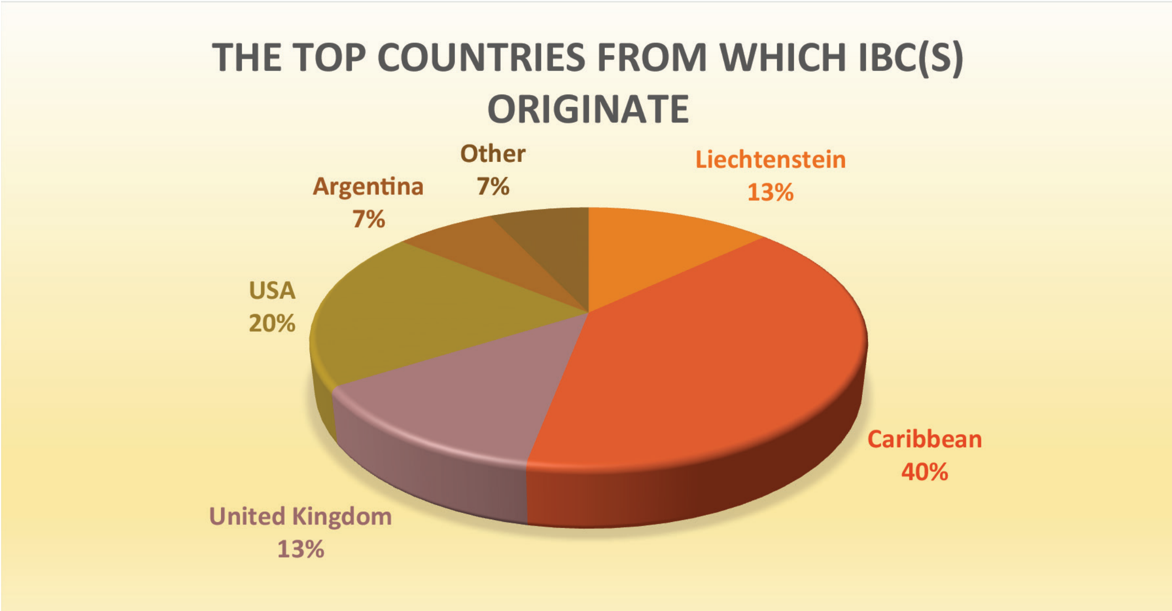

Figure 17: Residence of Beneficial Owners of IBCs

Risk Assessment

One of the main risks identified is that RAs and RTs are engaging with promoters of IBCs remotely which often does not involve any face to face interaction. The absence of a face to face verification process increases the ability to execute transactions anonymously or using false data. Indeed, it is noted that this area of weakness seems to concern several jurisdictions as it pertains to customer due diligence and the reliability of information obtained on customers and beneficial owners.

In fulfilment of Saint Lucia's international commitment to the combating of money laundering and terrorist financing and tax information exchange, over the years, RAs and RTs have seen an increase in their statutory duties, such as maintaining beneficial ownership and accounting information in Saint Lucia for all entities for which they provide services.

Accountant's Report

The Financial Services Regulatory Authority received a subvention in the amount of EC$2,160,000 for the fiscal year April 01, 2017 to March 31, 2018, unchanged from the previous year.

Total expenditure for the said period was EC$2,194,911, resulting in an operating shortfall of $34,911. Notwithstanding the accuracy of previous activities, the review period was characterized by unanticipated expenses, occasioned by forced regulatory intervention by the Authority.

The subvention constraint mandates strict budgetary control and can hinder/limit the capacity for greater/enhanced surveillance by the Authority. As in the previous reporting period the introduction of a specialized onsite inspection team has to be deferred.

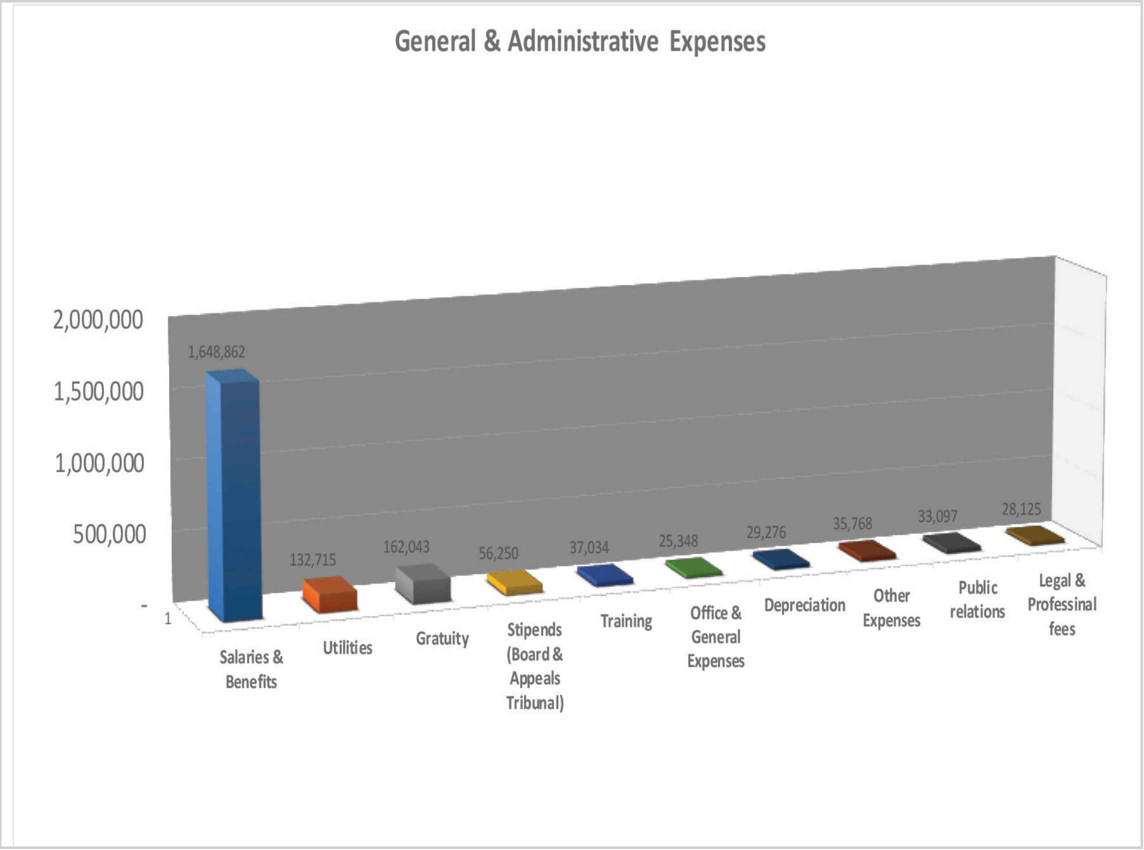

Figure 18: General and Administrative Expenses of the FSRA for 2017

The Authority's revenue collection comprising licence, application, registration and penalty fees from regulated entities, amounted to EC$2,015,977, a favorable variance of EC$251,007 over the projected figure for the year of EC$1,764,970. This amount also represents an increase of 13.48% over the previous years' collection. This was a result of an increase in Penalty fees and licencing of International Banks and International Insurance Companies during the period. All revenue collected is remitted to the Central Government.

The largest percentage of funds collected is in respect of annual licence fees, with international banks contributing 49% and insurance entities (domestic and international) accounting for 24%. Overall the Authority recognized a positive variance in all its fee categories.

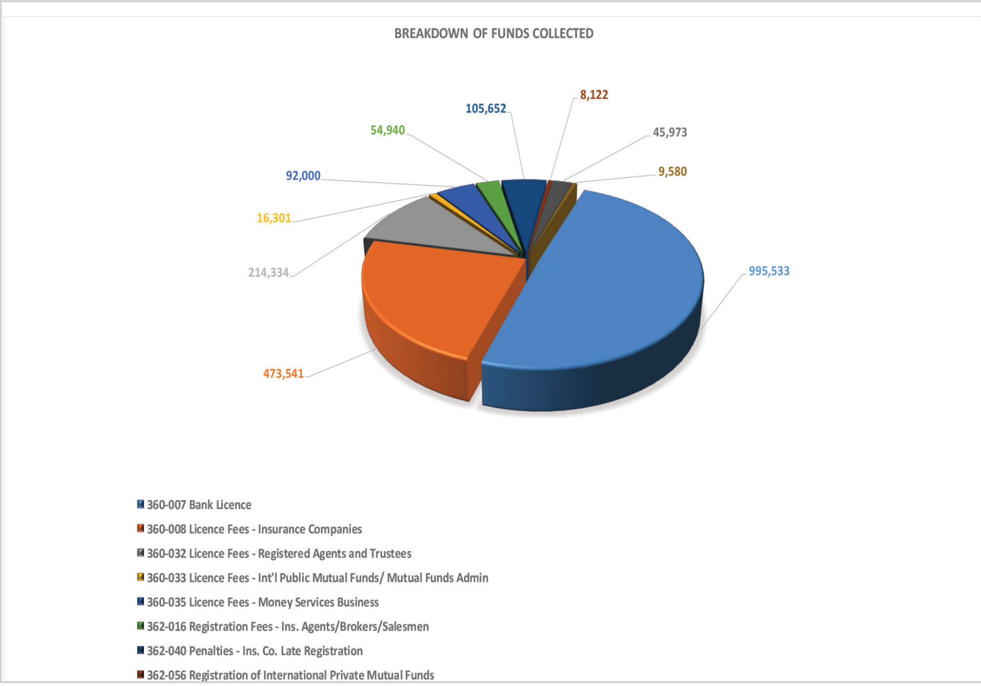

Figure 19: Breakdown of Funds Collected and Deposited with the Accountant General for 2017

FSRA Training & External Representation

The table below reflects instances where staff represented the FSRA/Saint Lucia at conferences and workshops, or participated in other opportunities for training and development during the period April 2017 to March 2018.

Table 14: Training and External Representation

Date	Location	Programme	Sponsor
May-17	Washington DC	Financial Sector Surveillance	IMF
Jun-17	St Kitts	Workshop on Financial Health Stability Indicators	CARTAC
Jun-17	Jamaica	Caribbean Association of Pension Supervsors (CAPS) and Caribbean Institute of Insurance Regulators (CAIR) Workshops	CARTAC/FSRA
Aug-17	Saint Lucia	IFRS 9 Training	KPMG
Sep-17	Saint Lucia	CCCU Caribbean Development Education	FSRA
Sep-17	Jamaica	IOSCO/FSC International Conference on Securities Regulation	CARTAC
Sep-17	Saint Lucia	ICAEC IFRS Training	FSRA
Jan-18	Guyana	CFATF	Accountant General

Appendix

Table 15: Domestic Insurance - Gross Written Premiums per Class of Business

Gross Written Premiums Per Class of Business					
	Year				
	2013	**2014**	**2015**	**2016**	**2017**
Property	81,491	72,838	69,727	64,000	63,658
Motor Vehicle	42,592	40,184	41,351	41,309	45,491
Personal Accident	34,166	30,251	31,577	32,757	30,680
Other General Classes	13,620	12,895	14,102	13,654	15,226
Total General	**171,869**	**156,167**	**156,757**	**151,721**	**155,055**
Life	37,854	42,432	50,745	47,338	48,830
Other Long Term Classes	11,427	9,583	1,747	8,639	6,379
Total Long Term	**49,280**	**52,015**	**52,492**	**55,977**	**55,209**
Gross Written Premiums	**221,150**	**208,182**	**209,249**	**207,698**	**210,264**

Table 16: Domestic Insurance - Gross Incurred Claims per Class of Business

Class of Business	**Total Gross Incurred Claims $(000)**
Long term	$16,126
Liability	$1,427
Marine, Aviation, Transport	$1,159
Motor	$23,164
Pecuniary Loss	$2,962
Personal Accident	$25,096
Property	$4,362
Total	**$74,295**

TYPE OF LICENCE		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**

Table 17: Classes of Licence for Money Services Businesses

	INFLOWS				OUTFLOWS			
	2014	**2015**	**2016**	**2017**	**2014**	**2015**	**2016**	**2017**
ECCU Region	1,833,330.00	2,386,972.19	2,537,238.61	3,152,826	1,893,002.40	1,678,782.54	1,603,591.61	1,917,814.53
Non-ECCU/ CARICOM	585,322.81	4,421,385.85	2,219,904.010	2,095,697.100	1,699,287.00	2,574,594.76	1,976,152.77	1,831,179.65
USA	40,811,850.00	48,459,213.37	53,840,474.740	58,801,500.510	4,864,990.00	5,815,604.55	6,496,511.73	7,110,028.04
UK	14,480,880.00	15,506,117.11	13,865,221.910	13,986,656.960	946,930.00	1,040,831.95	1,196,368.22	1,518,704.31
EURO AREA	6,238,020.00	6,623,778.90	7,707,976.48	6,441,150.11	314,420.00	463,717.76	632,061.70	755,923.04
Canada	8,996,610.00	9,309,441.22	10,061,273.41	11,477,658.95	911,610.00	1,037,848.36	1,201,275.01	1,151,823.22
Other	10,632,080.00	11,620,639.62	11,043,624.34	13,837,651.85	5,408,570.00	7,219,362.68	10,196,259.44	8,518,535.75
Total	83,578,092.810	98,327,548.260	101,275,713.500	109,793,141.440	16,038,809.40	19,830,742.60	23,302,220.48	22,804,008.54

Table 18: Money Services Businesses - Remittances (2014-2017)

Table 19: Money Services businesses - Loan Categories for Micro -Lenders

Type of Loan	Number of Loans	Total Amount
Personal	11,123	35,391,470.29
Business	343	1,683,886.68
Agricultural	106	211,536.66
Vehicle	1,195	18,392,988.81
Education	1,225	3,185,173.48
Medical	810	2,675,460.85
Home Renovation	1,514	4,704,482.62
Debt Consolidation	322	1,472,986.96
Other	4,212	10,357,001.05
Total	**20850**	**78,074,987.40**

5 **Table 20: Comparison of Credit Union Sectors in Four (4) ECCU Territories (2013-2016)**

Below presents a snapshot of the Credit Union Sector, in various countries within the region

Regional Data

Country	Financial Year	Total Assets	Total Members	No. of Employees	No. of Credit Unions
St Vincent	2016	427.1 M	65,488	135	4
Grenada	2016	669.9M	63,624	165	10
Dominica	2016	720.5M	73,540	248	6
St Lucia	2016	782.9M	99,098	255	16
St Vincent	2017	459.9 M	70,546	158	4
Grenada	2017	779.3M	69,493	204	10
Dominica	2017	813.5M	63,624	236	6
St Lucia	2017	871.2M	104,142	263	16

Financial Services Regulatory Authority

Financial Statements
For the Year Ended March 31, 2018
(Expressed in Eastern CaribbeanDollars)

FINANCIAL SERVICES REGULATORY AUTHORITY
Index to the Financial Statements
For the Year Ended March 31, 2018
(Expressed in Eastern Caribbean Dollars)

REGISTERED OFFICE

6th Floor
Francis Compton Building
Waterfront
Castries

EXECUTIVE DIRECTOR

Mr. John Calixte Leon

DIRECTORS

Mr. Vincent Hippolyte - Chairman
Mr. Marcus Joseph - Deputy Chairman
Mr. Paul Thompson
Mr. Carlton Glasgow
Ms. Cointha Thomas
Ms. Karen Fontenelle-Peter
Mr. Paul Hilaire
Ms. Sophia Henry - Alternate for Ms. Cointha Thomas (Permanent Secretary, Ministry of Finance)

BANKERS

Bank of Saint Lucia Limited

AUDITORS

PKF St. Lucia

PKF St. Lucia

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

Accountants & business advisers

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 the **Financial Services Regulatory Authority** (the "Authority"), which comprise the statement of financial position as at March 31, 2018, and statement of income, 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, 2018, 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 Authority 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.

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.

PKF Professional Services Inc., P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, LC02 801, St. Lucia

PKF

Accountants & business advisers

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.

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.

Chartered Accountants
Castries, St. Lucia
August 30, 2018

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Financial Position
As at March 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Assets			
Current assets			
Cash and cash equivalents	5	869,561	825,963
Accounts receivable and prepayments	6	5,599	9,651
		875,160	835,614
Non-current assets			
Property, plant and equipment	7	33,848	61,340
Intangible assets		3,500	2,434
		37,348	63,774
Total assets		912,508	899,388
Liabilities and equity			
Current liability			
Accounts payable and accruals	9	147,591	99,560
Equity			
Contributed capital	10	61,431	61,431
Accumulated surplus		703,486	738,397
Total equity		764,917	799,828
Total liabilities and equity		912,508	899,388

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 Income
For the Year Ended March 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Revenue			
Subventions		**2,160,000**	2,145,000
Administrative and general expenses	**11**	**(2,194,911)**	(2,066,261)
(Deficit)/surplus for the year		**(34,911)**	**78,739**

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

FINANCIAL SERVICES REGULATORY AUTHORITY
Statement of Changes in Equity
For the Year Ended March 31, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Contributed capital			
At beginning and end of year	**10**	**61,431**	61,431
Accumulated surplus			
At beginning of year		**738,397**	659,658
(Deficit)/surplus for the year		**(34,911)**	78,739
At end of year		**703,486**	738,397
Equity, end of year		**764,917**	799,828

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, 2018
(Expressed in Eastern Caribbean Dollars)

	Notes	2018 $	2017 $
Cash flows from operating activities			
(Deficit)/surplus for the year		**(34,911)**	78,739
Adjustment for non-cash item:			
Depreciation and amortization	**7 & 8**	**29,276**	41,974
Operating income before working capital changes		**(5,635)**	120,713
Decrease in accounts receivable and prepayments		**4,052**	351,680
Increase/(decrease) in accounts payable and accruals		**48,031**	(7,577)
Net cash from operating activities		**46,448**	464,816
Cash flows used in investing activity			
Purchase of intangible assets	**8**	**(2,850)**	(7,532)
Net increase in cash and cash equivalents		**43,598**	457,284
Cash and cash equivalents - beginning of year	**5**	**825,963**	368,679
Cash and cash equivalents - end of year	**5**	**869,561**	825,963

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 (FSRA) Act No. 13 of 2011, and commenced operations on January 1, 2014.

The Authority is the single regulatory body which licenses, supervises and regulates financial institutions within the financial sector of Saint Lucia, with the exception of Financial Institutions licensed under the Banking Act Chap. 12.01 and the Securities Act Chap. 12.18

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

The financial statements were approved by the Board of Directors and authorized for issue on August 30, 2018.

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.

Statement of compliance

The financial statements of the Authority have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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

There were no new and revised International Financial Reporting Standards ("IFRSs") adopted in the current year.

(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.

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

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 and expenditure.

(f) Intangible assets

Intangible assets are stated at historical cost less accumulated amortization. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Amortization is calculated using the straight line method to allocate cost less residual value over the estimated useful life of four years.

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

(g) 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.

(h) 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.

(i) 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 anybody that is a related party to the Authority.

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

(j) Contribution capital

Contributed capital relates to property, plant and equipment acquired by the Authority at inception.

(k) Revenue recognition

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

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

(l) Expenses

Expenses are recognized on an accruals basis.

(m) 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.

(n) 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.

(o) Comparatives

Where necessary, comparatives have been adjusted to conform with changes in the presentation in the current year.

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 of cash and cash equivalents. The Authority places its deposits with a regulated financial institution and as such, management does not believe that significant credit risk exists as at March 31, 2018.

(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.

(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. In order to maintain or adjust its capital structure, the Authority may adjust its levels of expenditure.

5. Cash and cash equivalents

	2018	2017
	$	$
Cash on hand	**500**	500
Cash at bank	**869,061**	825,463
	869,561	825,963

6. Accounts receivable and prepayments

	2018	2017
	$	$
Prepaid expenses	**5,599**	9,651

7. Property, plant and equipment

	Furniture $	Equipment $	Total $
As at March 31, 2016			
Cost	77,483	75,843	153,326
Accumulated depreciation	(26,100)	(31,684)	(57,784)
Net book value	51,383	44,159	95,542
For the year ended March 31, 2017			
Opening net book value	51,383	44,159	95,542
Additions during the year	-	6,068	6,068
Depreciation charge for the year	(16,686)	(23,584)	(40,270)
Closing net book value	34,697	26,643	61,340
As at March 31, 2017			
Cost	77,483	81,911	159,394
Accumulated depreciation	(42,786)	(55,268)	(98,054)
Net book value	34,697	26,643	61,340
For the year ended March 31, 2018			
Opening net book value	**34,697**	**26,643**	**61,340**
Additions during the year	**-**	**-**	**-**
Depreciation charge for the year	**(16,685)**	**(10,807)**	**(27,492)**
Closing net book value	**18,012**	**15,836**	**33,848**
As at March 31, 2018			
Cost	**77,483**	**81,911**	**159,394**
Accumulated depreciation	**(59,471)**	**(66,075)**	**(125,546)**
Net book value	**18,012**	**15,836**	**33,848**

8. Intangible assets

	Computer software $
As at March 31, 2016	
Cost	4,012
Accumulated amortization	(1,338)
Net book value	2,674
For the year ended March 31, 2017	
Opening net book value	2,674
Additions	1,464
Amortization charge for the year	(1,704)
Closing net book value	2,434
As at March 31, 2017	
Cost	5,476
Accumulated amortization	(3,042)
Net book value	2,434
For the year ended March 31, 2018	
Opening net book value	**2,434**
Additions	**2,850**
Amortization charge for the year	**(1,784)**
Closing net book value	**3,500**
As at March 31, 2018	
Cost	**8,326**
Accumulated amortization	**(4,826)**
Net book value	**3,500**

9. Accounts payable and accruals

	2018	2017
	$	$
Gratuity payable	**120,030**	73,208
Accounts payable	**18,811**	25,102
Other payables	**8,750**	1,250
	147,591	99,560

The accounts payable amount represents outstanding utility payments, audit fees and other payments due to suppliers.

10. Contributed capital

	2018	2017
	$	$
Property, plant and equipment	**87,093**	87,093
Gratuity payable	**(25,662)**	(25,662)
	61,431	61,431

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

11. Administrative and general expenses

	2018 **$**	2017 $
Salaries and benefits	**1,648,862**	1,634,448
Gratuity	**162,043**	67,393
Utilities	**120,640**	110,664
Board Stipends and Appeals Tribunal	**56,250**	52,350
Public relations	**33,097**	12,672
Depreciation and amortization	**29,276**	41,974
Legal and professional expenses	**28,125**	1,290
Office and general expenses	**25,348**	44,436
Travel and subsistence	**23,296**	50,421
Training	**13,738**	14,331
Hosting and entertainment	**13,014**	10,729
Grants and contributions(subscriptions)	**12,988**	5,653
Communications	**12,075**	7,070
Audit fees	**8,350**	9,050
Maintenance	**6,393**	614
Bank charges	**1,416**	1,816
Advertisements	**-**	1,350
	2,194,911	2,066,261

12. Related party transactions

Key management compensation

	2018 **$**	2017 $
Salaries and other benefits	**760,550**	661,139
Board stipends	**56,250**	48,750
	816,800	709,889

During the year, the Authority collected funds totaling $2,015,977 (2017 - $1,744,204) 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 FSRA Act No. 13 of 2011.

13. Taxation

In accordance with Section 32 of the Financial Services Regulatory Authority Act No. 13 of 2011, the Authority is exempt from the payment of taxes, levies, duties and fees on income, property and documents.

Notes

Notes


6,750
6,500