Annual General Meeting
Insurance Council of Saint Lucia
Address
by
Registrar of Insurance - J Calixte Leon

President
Guest Speaker - Mr. Cecil Jaipaul
Insurance Practitioners
Distinguished Guests

Thanks for inviting me to offer remarks to this Annual General Meeting of your Council. It is indeed truly comforting to be once again your Registrar. For your many congratulatory messages and in particular to those of you who have welcomed my return to office, I thank you most sincerely.

Mine is indeed an arduous task today. What do I say to you? In my search for answers I have revisited my collection of previous addresses and found at least four during my earlier tenure between 1996 and 2002 which I believe have some relevance. Surely, you must be asking why revisit that period? Actually I have resumed the function of Registrar in just over a month and the many issues confronting me today remain largely the same as they were then. So I have decided it might be prudent to address:

- some of the strategic initiatives being pursued by the office at this time (geared to enhance the supervisory framework, and which would invariably strengthen the insurance industry in Saint Lucia)
- the principal areas of concern; and
- Review briefly the industry performance during the past year.

Single Regulatory Unit (SRU)

In this year's budget address, the Honourable Prime Minister and Minister of Finance announced the decision to establish a Single Regulatory Authority (SRU) for the supervision and regulation of financial institutions operating within its jurisdiction. On realization of this new entity,-

Onshore Insurance Companies,

Deposit Taking Institutions (credit unions, building societies, development banks)

Money Services

Trust Companies

Offshore Institutions (International Banks, International Insurance companies, Mutual funds, Registered Agents & Trustees)

Will all be regulated and supervised uniformly. With assistance from the Caribbean Regional Technical Assistance Centre (CARTAC) the work of the unit has progressed to advanced stage and we expect the establishment of the SRU by the end of this financial year. A strong supervisory agency means a strong financial sector, which invariably would benefit all insurance practioner.

Uniform Insurance Act:

When I addressed you in 1999 I commented thus: *Most of you will be aware of the draft Insurance Bill for the O.E.C.S. Although this document has been in circulation for some time and I have invited comment from the industry, to date, this has not been forthcoming. Let me therefore advise that the process cannot be put on hold indefinitely. It is therefore incumbent on you to participate in the process and help shape the scope / extent of the regulatory framework for your industry."* The time for discussion has now passed. The Draft Uniform Insurance Act – 2008 is in final stage and very shortly, we ill receive it for enactment in Saint Lucia. The new Act will address, inter alia:

- Higher minimum capital and solvency requirement levels
- Capital Adequacy for risk based supervision

- Enhance power of the Registrar/Supervisor including adequate provisions for powers for inspection and intervention
- Reciprocal exchange of information within and outside the region
- Modern standards of corporate governance
- Insurance Adjuster is classified as insurance intermediaries and is require registering under the Act.

Uniform Regulatory Reporting Forms for the ECCU Member states:

ECCB, CARTAC and Saint Lucia are actively involved in the preparation and harmonization of the Uniform Regulatory Reporting Forms for the region. This would not only relieve foreign insurance companies from preparing different forms for the different regulatory jurisdictions but also assist the Registrars in exchanging data in the same format across the region.

Offshore Group of Insurance Supervisors (OGIS) and International Association of Insurance Supervisors (IAIS):

Presently Saint Lucia only has "Observer Status" of the OGIS; not membership status. The impending shift to a Single Regulatory Unit and the new appropriate legislations conforming to international best practices would pave the way to acquire full fledge membership of the OGIS. This would not only boost the confidence of the foreign institutional investors but also provide employment opportunities to our fellow citizens.

While Saint Lucia is not yet a member of the IAIS, we have been following very closely their insurance core principles as the benchmark for assessing insurance companies and monitoring insurance supervision.

Risk Based Capital (RBC) and the Solvency:

Risk-based capital is a method of establishing the minimum amount of capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. It provides an elastic means of setting the minimum capital requirement in which the degree of risk taken by the insurer is the primary determinant.

The object of the supervision of insurance business is to ensure that insurers will be able to meet their commitments to their policyholders when these obligations become due. Therefore it is imperative that companies must remain solvent and that implies the assets of the company must exceed by a stated amount all its liabilities except that to its policyholders. The

Registrar's motivation for imposing statutory solvency requirements is to protect the consumer. However, the industry itself also has an interest in avoiding insolvencies. In fact, sound financial management requires an adequate solvency margin to be maintained. These views are not new and embody a precept submitted at your 22nd AGM when I cited the necessity for your industry "to demonstrate, very practically, the ability and commitment to regulate itself. This I submitted was important as the Registrar had to have the faith in the competence and honesty of industry managers and equally important that policy holders had to have confidence in the integrity of the industry"

For companies operating on a slender margin, the ability to satisfy solvency requirements is of critical importance. The term solvency is sometimes used in this wider context to refer to financial health, long-term profitability and growth potential. Attention would also have to be paid in particular to the adequacy of premium rates and the long-term consequences of market strategy.

On line submission of Financial Returns:

The global phenomenon is that everything is available on-line. My predecessor had initiated this move and as an initial step provided a CD to the council for its trial. However, as you may observe the developments that I have enumerated thus far would significantly affect the:

1. the legislative framework;
2. the institutional framework for insurance supervision;
3. the modalities for conducting insurance supervision;
4. the manner in which industry practitioners will be expected to conduct business and provide financial returns.

In the circumstance, we are temporarily suspending further use of the CD until such time when the SRU is fully established and operational. The SRU is considering the introduction of an interactive website for the benefit and information of the industry.

Professional Monitoring of Insurance Supervision

We are pleased to advise that Mr. Sondawle is being retained to assist with regulation and supervision of the industry. Mr. Sondawle has the technical expertise and understands the industry, its practices and requirements. At present we are meticulously conducting off-site examinations of the financial statements to complement on-site examinations. Very shortly we intend to institute on-site examination. This is necessary as a comprehensive assessment of the performance of insurance companies, agents and brokers would necessitate an examination of their internal controls and other management systems.

Briefing on Insurance Reporting Forms:

Educating the insurance industry is one of the regulatory functions. We propose to provide an understanding on the completion of the various reporting forms, in particular, Forms B4 and B5 during the Council's annual retreat. I believe this is an appropriate and proper forum to address all the industry players simultaneously.

Form B4 – Claims Paid and Outstanding

Our analysis of the reporting forms suggest that the majority of the companies are not submitting a complete set of B4 and B5 forms or are submitting inaccurate information that is inconsistent with that provided in the B1 form. The information requested in the B4 form is crucial in order to determine the company's fund and solvency requirement. The B5 form on the other hand provides insight into the adequacy of the company's Catastrophe reinsurance requirements.

B5 Form – Property Insurance: Annual Aggregate and PML

As I mentioned in previously the submission of accurate B5 forms and the Reinsurance treaties is crucial for the Registrar's office to evaluate the company's reinsurance requirement and the limits purchased. By way of example we can consider a case in Jamaica in the aftermath of the 2004 hurricane experience:

- Losses from the hurricane caused the collapse of a small Jamaican Property and casualty insurance company
- The Probable Maximum Loss (PML) was estimated at 15 % of aggregate and so most insurance companies bought reinsurance policies within this limit
- the failed company had reinsurance limits of 20 %
- The catastrophe wreaked damage of up to 35 % of the aggregate. Hence the company failed as it had

no fund to meet the additional unreinsured claims

The insurance industry is not static and is constantly faced with threats and challenges. Natural disasters have proved to be a constant threat to our local industry whether or not such disasters occur within or outside our region. In fact, last year Saint Lucia was hit by hurricane Dean and a major earthquake (magnitude of 7.2 on the ricter scale) but we were fortunate and the losses were minimal. Already activity this year has resulted in significant liabilities in the Caribbean as three storms in succession have devastated Cuba, Jamaica, Turks and Caicos islands and Haiti.

While I have dealt in some depth on initiatives being pursued, it would be remise of me if I did not draw your attention to some of the perennial problems which continue to confront the Registrar. All of these issues are not new and have all been addressed previously:

Late submission of accounts:

We need to put this in proper perspective. Statute requires submission of the accounts four months after the close of the financial year. The act also provides for an extension of two months. Departmental review may necessitate an additional two month; a lag of 8 months from the close of the financial year. By then the financial information presented is so dated that it has become obsolete. As a consequence, certain negative financial trends would have remained undetected for more than a year allowing insolvent and struggling insurers to continue operating for months without correcting the deficiency in solvency margin or for that matter to manage their financial affairs prudently. Furthermore, there is also concern of errors and inconsistencies in the data presented. We take no joy in i*mposing a penalty for late submission as it is not a means for generating revenue, but rather an attempt to encourage timely submission of financial statements to enable the Registrar's office to monitor the company's financial stability.*

Perhaps my earlier pronouncements on this problem warrants reiteration. In my submission to your 24th session the articulation was thus: "*this is like a recurring decimal, addressed perhaps, on every occasion that I meet the industry. Despite my many appeals some insurers continue to submit their accounts late, exhausting the two months extension permissible by statute. Insurers must also note that partial submission is synonymous with non-submission. Accordingly, penalty fees ranging from $1,800 to $47,000 have been levied on delinquent companies. I take the opportunity once again to inform/remind Insurers that the Registrar does not* *have the Statutory authority, neither is there any provision in the Act for any waiver of the penalty fees. If as you have often submitted, your Auditors are responsible for the delays, I offer my earlier advice again, that the onus is on you to hold them accountable for the unnecessary expense to your company."*

Late submission of Reinsurance Treaties:

In assessing the solvency of a general insurance company it is important to consider the extent to which reinsurance has been efected and also the quality of the security offered by the reinsurers. The major area of uncertainty is where large claims can arise or where there is the probability of accumulation of claims in respect of single events. A properly constructed reinsurance program can reduce this uncertainty and help to ensure continued solvency. That not withstanding, it has been observed that the companies do not submit reinsurance treaties unless demanded by the office of the Registrar. I take the opportunity to remind you that this is a statutory requirement and must be adhered to without instigation from the regulator.

Shortfall in Insurance Fund:

The Insurance fund became a creature of statute in 1995 with the introduction of the Insurance Act. As this was a new provision, companies were given some time to, if I can use the St. Lucia vernacular, put their house in order. Thirteen years after full compliance remains an issue. You might note that of the 27 companies doing business under the Act, 4 companies are deficient in establishing insurance fund fully. Much time and energy has been devoted to this task in order to protect the policyholders' interest. I must caution however, that non-compliance cannot be allowed to continue indefinitely.

Non-submission of Actuarial Report & Certificate by the Long term companies:

The philosophy of maintaining a life insurance fund and outstanding claims is totally different than general insurance business. Hence the actuarial report on the investigation into a long-term company's financial condition, including a valuation of its liabilities, is an integral part of its submission to the office of the Registrar. Many life insurance companies by not providing the actuarial report delay the evaluation of the solvency of these companies. Again conformity to standard reporting requirements must be adhered to.

Late registration of intermediaries:

The Act and the Regulations require that every insurance agent, brokers, and salesmen shall submit to the Registrar an application to renew a certificate of registration not later than 30 days before the anniversary date of the issue of the certificate of registration. Compensation to unregistered agents, brokers, and salesmen is an offence. Insurers and principals are advised that you **MUST** ensure that the intermediaries with whom you do business are in possession of a valid registration certificate.

Non submission / Late submission of Financial Statements by the Agents and Brokers:

We thank to the president and all the agents for their cooperation and submission of "Additional Information" on agency performance. This information is a useful to monitor agents for the receivables and payables and to avoid policy cancellations by the insurers for non payment of the premiums by the agents and brokers.

However, non submission or late submission of the audited financial statements by the agents and brokers remains a major concern.

Ladies and Gentlemen: with all these changes and challenges you may be asking the question, how can the industry succeed in this changing environment?

I submit that success in the global economy requires the recognition of the need to be more security conscious, be consumer responsive, and be service oriented. You must equip yourselves to compete. You must devise new business strategies and be willing to work together, to help each other and take advantage of the global economy while seeking better ways to contain risk and achieve sustainable growth.

You must find ways to:

- increase profitability and the policyholders surplus to enhance premium retention capacity
- place and accept coinsurance within the industry in order to enhance market capacity and to arrest outflow of premium income
- Product innovation and product development. This is the key area in the global economy. Businesses and individuals are exposed to many extraneous risks which were non-existent in the past. They prefer all risks type products instead of buying separate policies for different products. This might be the reason they seek coverage in the external market. You should therefore engage in Research and Development (R&D) activities which will generate the capacity to introduce new products in the market not solely to compete in the local market but importantly to retain more premium locally.
- Re-engineer your operations to enhance efficiency and productivity

- Enhance customer service and satisfaction by prompt issuance of policies and timely settlement of claims

Review on Industry's Performance

Finally ladies and gentlemen, I will attempt a brief review of industry performance for the last reporting year.

General Insurance Business

- **Total Gross Premium** recorded in 2007 stood at XCD 153.3 million which was a 13.7 % ($18,461,769) increase from the previous year ($ 134,829,316)
- **Property business contributed** to 45.1 % of the total, followed by Motor vehicles (32.7 %) and Personal Accident (14. %)

- **Property insurance** recorded reduced growth of 4.9 % from the 32.8 % last year. This might be due to the slow down in the real estate industry in keeping with lower economic growth in the previous period
- **Growth in the Motor vehicle** business remained static at 19 %
- **Pecuniary Loss business** showed record growth of 122.1 % but it's significance to overall business was negligible contributing 1.6 % of the total. This means that there is a growth potential in this class and the insurers may wish to consider their efforts to develop this class of business
- **Net Written Premium** (% change) is reduced to 10 % as against of 12.4 % of last year. This indicate that the companies ceded higher reinsurance premiums acknowledging the increased frequency of natural catastrophe activities in the region

- **Underwriting Profitability**: The Combined Ratios for the three major classes of business are:

  Property: 42.1% Motor: 83% and Personal accident: 87.8 %,

The industry generated total underwriting profits of 29.5% reflecting its underwriting prudence. The concern here is that the outstanding claims are increased by 15 % pointing to the necessity for the companies to take a closer look at and the settlement of claims faster.

LONG-TERM INSURANCE BUSINESS

Long term business recorded growth of 3.8 %. Total gross premium for 2007 stood at XCD 81.2 million as against XCD 78.2 million in the previous year.

In closing, I commend the Insurance Council for your role in the continued development of the industry, for partnering with the Eastern Caribbean Central Bank in launching the Insurance Association of the Eastern

Caribbean States and for being an important partner in our efforts to make Saint Lucia one of the best insurance jurisdictions in the region.

We remain committed to delivering regulatory oversight that is fair, uniform and efficient to protect the public interest and sustain public confidence in the financial services sector.

Much remains to be done and I look forward to your continued support.

I thank you!

Registrar

Financial Services Supervisory Unit

Ministry of Finance

September 25, 2008