

**39th Annual General Meeting
Insurance Council of Saint Lucia**

Address by

Mr Calixte Leon- Executive Director of the FSRA

~~Mr~~ President - Saint Lucia Insurance Council,
Distinguished Guests, members of the Insurance
Council, ladies and gentlemen good afternoon.

I bring you warm greetings ~~On~~ behalf of the Board of
Directors and Staff of the Financial Services
Regulatory Authority (FSRA); ~~I~~ Thanks for the
~~Insurance Council of Saint Lucia for its~~ invitation to
address you at this your 39th Annual General Meeting.

I take the opportunity also to thank in particular, the
staff of the Insurance Council for the many discussions
we have had over the last few months.

For us as a Regulatory Authority this session is of particular significance as it marks the first address to Insurance Council's AGM in our new role. I therefore wish to offer some brief remarks on the FSRA since we met with you in January of this year when the Authority assumed its role as the new Regulator of the non-bank financial sector; including of course the Insurance Sector.

As previously indicated, the Financial Services Regulatory Authority Act is the new instrument through which the regulation of insurance companies, insurance intermediaries and pension funds will be effected.

- The Act: Financial Services Regulatory Authority Act, No13 of 2011
- Enacted: April 6, 2011
- Commencement date: August 15, 2011
- Type of entity: Statutory Body
- Administered: Board of Directors (7 Directors), Executive Director, and the other staff (XX).

- Sector regulated: Schedule 1. The list includes the Insurance Act, Chapter 12.08 of the 2008 ~~R~~revised laws of Saint Lucia.
- Financial Services Regulatory Authority (Amendment) Act, No. 15 of 2012.
- The Financial Services Regulatory Authority (Amendment of Schedules 1 and 3) Order, SI No. 80, 2013 amends Schedule 3 of the FSRA Act and the Insurance Act, Cap 12.08 to include that a reference in this Act to "Registrar" or "Registrar of Insurance" shall be construed as a reference to the "Financial Services Regulatory Authority" established under the Financial Services Regulatory Authority Act, No.13 of 2011.

In my remarks today I will:

- consider the current position of the sector based on our latest analysis of the data at hand;

- map out some thoughts on priorities for the year ahead which will, I think, pick up on some of the issues you have no doubt been discussing over the course of your meeting; and
- discuss a couple of the emerging issues in the financial space.

General Insurance (EC\$000)	2013	2012	VAR	VAR%
Gross Premium	155,622	157,368	(1,746)	-1%
Net written Premium	75,959	73,392	2,567	3%
Total Claims	41,657	30,223	11,434	38%
Underwriting Profitability	3,767	10,729	(6,962)	-65%
Life Insurance (EC\$000)	2013	2012	VAR	VAR%
Gross Premium	46,842	46,447	395	1%
Net written Premium	45,706	41,339	4,367	11%
Total Policyholder benefits	11,271	32,292	(21,021)	-65%
Net income before tax	28,892	10,114	18,778	186%
Total Industry	2013	2012	VAR	VAR%
Gross Premium	202,464	203,815	(1,351)	-1%
Net written Premium	121,665	114,731	6,934	6%

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The Insurance Sector experienced an overall decline in business of 1% in 2013. This is attributed to the general (-1%) and life (+1%) sector.

Analysis of General Insurance Business:

		Gross Direct premium written				Net written premium			
		2013	2012	Var	Var%	2013	2012	Var	Var%
General Insurance									
Liability	9%	13,971	12,413	1,558	11%	11,985	3,370	8,615	72%
Marine Aviation	1%	2,332	2,737	(405)	-17%	1,627	1,855	(228)	-14%
Motor Vehicle	27%	42,542	44,788	(2,246)	-5%	38,379	40,048	(1,669)	-4%
Pecuniary loss	1%	2,054	2,534	(480)	-23%	572	545	27	5%
Personal Accident	14%	22,666	23,681	(1,015)	-4%	16,014	15,417	597	4%
Property	47%	73,283	71,406	1,877	3%	8,624	12,172	(3,548)	-41%
Total	100%	156,848	157,559	(711)	0%	77,201	73,407	3,794	5%

General Insurance Business experienced a slight decline of 1% in 2013. Negative growth was seen in Motor Vehicle (-5%), Personal Accident (-4%), Marine, Aviation and Transport (-17%) and Pecuniary (-23%). This is consistent with the marginal decline in the economy in 2013 (the GDP declined of 2.3%)

- Total Gross premiums recorded in 2013 stood at XC\$ 155.6 M against XC\$ 157.3 M in the previous period.
- Property business remained the major contributor representing 47% of the total gross premiums, followed by Motor Vehicle (27%) and Personal

Accident business (14%) at \$73.3M, \$42.5M and \$22.7M respectively

- Net Written Premiums recorded at XCD 76M for 2013
- Total claims paid by the industry stood at \$41.6M for 2013 against \$30.2M in 2012 registering an increase payment of \$11.4M (+38%).
- Underwriting Profitability

	2013	2012
Claims ratio	55%	41%
Operating Expense ratio	30%	34%
Combined ratio	85%	75%
Underwriting Profit	5%	15%

Analysis of Long-term Business:

	Gross Direct premium written				Net written premium			
	2013	2012	Var	Var%	2013	2012	Var	Var%
Life Insurance	35,415	34,351	1,064	3%	33,389	32,255	1,134	3%
Ordinary Life	35,415	34,351	1,064	3%	33,389	32,255	1,134	3%
Industrial Life	-	-	-	#DIV/0!	-	-	-	#DIV/0!
Annuities	444	248	196	44%	444	248	196	44%
Registered Retirement Plan	419	237	182	43%	419	237	182	43%
Other	10,563	11,641	(1,078)	-10%	6,942	8,599	(1,657)	-24%
Total	46,841	46,477	364	1%	41,194	41,339	(145)	0%

Long term insurance business accounts a slight growth of 1% in 2013. Thanks to Ordinary Life class of business which recorded an increase of 3%.

The growth in Life insurance premiums could be attributable to:

- An increase of policyholders confidence, or
- A slightly worsen economy causing individuals to seek insurance coverage as a mechanism for mitigating potential income losses.

- **Insurance Brokers**

Given the prevailing and current circumstances in the market, and the response of the regulator to date, it is necessary to once again spend some time with an examination of the arrangements / situation with Brokers which continues to be of serious concern to the Authority.

In 2012, at you AGM right here at Sandals, I submitted that the brokerage model in Saint Lucia was flawed as the income stream of these entities was insufficient to cover operating expenses.

Review of Brokers financials, where submitted, show a continuous and deteriorating trend in this regard. Not surprisingly, ~~this situation~~ results in brokers utilizing clients' premiums and not remitting them when claimed by insurers. Last year we indicated ~~As stated in our 2013 speech, that~~ this type of behaviour is not only improper; but and has dire consequences for the entire sector.

As we submitted then, Iit creates a rollover loan effect (Ponzi scheme), whereby subsequent clients' premiums are remitted to insurers in place of the premiums collected from the previous clients which were utilized in the brokers' operations. As the cycle continues, those brokers' premiums payable continues to grow larger and older. Likewise, the insurers' premiums receivable exhibits the same characteristics.

The ~~end result is:~~ consequences are inevitable:

- I. Clients are exposed to possible cancellation of their policies for which they have paid their premiums. Clients may not be informed since, the clients postal address is that of the broker.
- II. Slow or non-payment of claims by insurers due to cash flow problems and premium remittance disputes between brokers and insurers, and

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- III. The general erosion of consumer confidence in the insurance sector

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These concerns must be taken very seriously by all stakeholders and we must all play our part to strengthen and maintain the integrity of the insurance market. For us, as the Regulator, we have intervened and cancelled ~~Lately,~~ the registration of two ~~of the~~ non-compliant brokers ~~was cancelled~~ recently, doubling the number of de-registrations since 2012; and there was one voluntary exit which we assume was triggered from the many frequent interventions of the Regulator and complaints of clients.

I take the opportunity to refer you to ~~The Authority again reminds insurers of s~~ Section 79 of the Insurance Act which regulates your existence:-
FAILURE TO PAY OVER MONEY TO CLIENT OR INSURER. The section provides:-

"(1) An insurance agent, an insurance broker or an insurance salesman commits an offence where he or she receives money—

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(a) from an insurer for the account of an insured and fails to pay over the same within 14 days; or

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(b) from a client for the account of an insurer and fails to pay over the same less any commission and other deduction to which he or she may be agreement be entitled, within 30 days after demand for payment made in writing.

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(2) Where an insurer at the request of an insurance broker provides cover to an insured, the insurance broker is liable to the insurer for the premium due in respect of such cover and such premium may be sued for and recovered from the insurance broker as a civil debt.

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~~Only a few~~ insurers have formally notified ~~written to~~ the Authority advising of the tardiness by some brokers' ~~tardiness~~ in remitting premiums collected.

~~At this point the Authority~~ On every occasion we have reiterated ~~reminded to these the~~ delinquent brokers ~~of that this is a~~ breach of section 79 and have advised of the actions that the Authority could undertake. ~~In all cases, insurers were paid the amount requested.~~

~~Thus I must emphasise,~~ only, the insurers could bring to the Authorities attention the breach of section 79 (1) (b).

~~The Authority maintains the position~~ We also continue to posit that insurers remain liable when they permit an insurance broker to provide cover to an insured.

- **Way Forward within the construct of the FSRA**
- **Onsite inspection**

- Discussion with the sector
- Education of the public

- Insurance Bill

With regard to the Bill we continue consultation with the Eastern Caribbean Central Bank on the last draft dated July 4, 2014. This latest draft was circulated to the industry for comment, expected for late August 2014. Some ~~major~~ significant changes arising from earlier industry feedback have been considered and included in this revision. These include, inter alia ~~such as for example:~~

Transition Period	The two years for obtain a licence has been extended to three years (S 14)
Minimum Capital	The requirements for minimum capital has been reduced to EC\$7 million (from EC\$8 million) for long term insurers and EC\$3 million (from EC\$5 million) for general insurers (S 21)
Reinsurers	The requirement for a register of reinsurers has been removed

Auditors	The maximum period that an audit firm can act is nine out of every 12 consecutive years to allow for small pool of qualified auditors but still provides some break after a period. (S 62(4))
Intermediary minimum age	The minimum age to qualify for licensing as an intermediary has been lowered from 21 to 18 (S 272)
Schedule of Classes of Insurance	Schedule 1 has now been included for review
Offences and Administrative fines	A new Part 25 has been added with a corresponding schedule.

We ~~hope~~trust that the industry has reviewed these changes and provided comments. If you have not yet done so, I urge you to make your voices heard, NOW.

- **FATCA**

Saint Lucia has submitted its draft Inter-Governmental Agreements (IGAs) - Model 1 A to the US Treasury and IRS.

The key compliance dates for FATCA are detailed below:

Key Activity	Due date
Opening of the IRS Portal for the registration of all financial institutions	15 June 2013
Deadline for registration on IRS Portal	25 October 2013
Circulation of list of compliant FFIs	31 December 2013
Commencement of collection of information by FFIs	01 January 2014
Commencement of submission of information to the IRS by National Competent Authority	31 December 2014

What about Insurance companies in the whole set up of FATCA.

I need to point out two (2) elements, that of **Registration** and that of **Reporting**.

Registration is to indicate to the US institutions that your insurance company is a participating institution. After, registration, the ~~credit union~~ **Insurer** —will obtain a GIIN (Global Intermediary Identification Number) which would exempt the insurance company from any withholding (30%) when

conducting any financial transaction with a US financial institution.

Reporting is to be done to the Competent Authority. Only few insurers may be subject to the reporting requirement since they do not provide insurance premium/annuities above the US\$50,000.00 threshold.

~~I insist that~~ Reporting and other requirements / guidance are elaborated upon in –Annexe II to the Agreement ~~will provide further guidance on the matter.~~

In summary, it is important and necessary for ~~that~~ all relevant insurers to register on the IRS Portal in order ~~to~~ to obtain ~~their a~~ GIIN; and not be subjected to withholding.

In conclusion, it is clear that while many things are changing for insurers in terms of the regulatory environment, they continue to have immense responsibilities to their policyholders.

I hope that this meeting will be valuable in discharging these responsibilities.

Finally, I wish you an interesting and successful end of meeting.

I thank you all for your attention.