

**40<sup>TH</sup> MEETING OF THE INSURANCE COUNCIL OF SAINT LUCIA,  
SANDALS LA TOC HOTEL, SEPTEMBER 24, 2015**

Remarks by  
Executive Director, Financial Services Regulatory Authority

President -Insurance Council of Saint Lucia,  
ICSL Executive; ordinary members of Council, ladies and  
gentlemen good afternoon.

I am indeed delighted to address you once again on this my 17<sup>th</sup> occasion as your Regulator. I bring you warm greetings on behalf of the Board of Directors and Staff of the Financial Services Regulatory Authority (FSRA). For various reasons last year I refrained from announcing my impending departure. Although I might not be doing so now, I suspect you might have a fervent desire to be listening to fresh and exciting voices.

I believe I must have spoken on every conceivable domestic issue over the years but difficulties / and differences remain. So, I've been wondering aloud about the futility of my messages or whether the messages have been too extensive as to cause them to be overlooked shortly thereafter. So this year, I am experimenting with a handful of issues, addressing just three primary concerns:

- The performance of your industry;
- Motor claims; and
- re-insurance.

I will also endeavour to update you on a couple of emerging issues / policies.

### **INDUSTRY PERFORMANCE:**

The performance of the insurance industry during the review period can best be described as mixed. Notable features were

the preponderance of client complaints, significant delays in claims settlement, cash flow difficulties etc.

Overall, income declined with gross collections of 5.6% lower than in 2013. Similarly, reinsurance ceded also decreased, but to a greater degree of 11.1%. It appears that insurers, in an effort to maintain profitability, are absorbing higher risk exposure with increased retention levels during that period.

Industry Total (EC\$ '000)	2014	2013 (revised)	2013	VAR	VAR%
Gross Premium	193,780	205,359	202,464	(11,579)	-5.6%
Reinsurance Ceded	77,652	87,351	85,310	(9,699)	-11.1%
Net Premium	116,128	118,008	117,154	(1,880)	-1.6%

The decrease in gross premium is attributed to an 8.3% decrease in the general sector and a 3.4% increase in the

life sector. We also see a 4.7% decrease in net premiums in respect of general insurance business and a 4.2% increase in respect of long-term insurance business. Details will be presented in the upcoming sections.

Analysis of General Insurance Business:

<b>General Insurance (EC\$ '000)</b>	<b>2014</b>	<b>2013 (revised)</b>	<b>VAR</b>	<b>VAR%</b>
Gross Written Premium	145,324	158,517	(13,193)	-8.3%
Net Written Premium	73,212	76,813	(3,601)	-4.7%
Net Earned Premium	76,382	77,463	(1,081)	-1.4%
Total Claims	38,291	43,529	(5,238)	-12.0%
Management & Commission expenses	29,318	33,093	(3,775)	-11.4%
Underwriting Profitability	8,774	841	7,933	943.3%

Collectively, general insurers experienced a \$13.2M reduction in the level of gross premiums generated in

2014 (\$145.3M) as compared to 2013 (\$158.5M). However, as a result of a \$9.6M reduction in premiums ceded to reinsurers, \$5.2M reduction in claims, and a \$3.8M reduction in management and commission expenses, underwriting profitability increased overall by \$7.9M.

A more detailed look at what obtained per class of general insurance business is presented in the following tables:

General Insurance (EC\$ '000)	Gross Direct Written Premium					
	2014	2014 % of total	2013 (revised)	2013 % of total	VAR	VAR%
Liability	6,634	4.56%	15,927	10.05%	(9,293)	58.3%
Marine, Aviation & Transport	1,693	1.16%	2,041	1.29%	(348)	-17.1%
Motor Vehicle	40,184	27.65%	42,592	26.87%	(2,408)	-5.7%
Pecuniary Loss	1,767	1.22%	2,038	1.29%	(271)	13.3%
Personal Accident	28,662	19.72%	22,661	14.30%	6,001	26.5%
Property	66,384	45.68%	73,257	46.21%	(6,873)	-9.4%
Total	145,324	100.00%	158,516	100.00%	(13,192)	-8.3%

General Insurance (EC\$ '000)	Net Written Premium					
	2014	2014 % ceded	2013 (revised)	2013 % ceded	VAR	VAR%
Liability	4,542	31.5%	13,418	15.8%	(8,876)	-66.1%
Marine, Aviation & Transport	844	50.1%	1,300	36.3%	(456)	-35.1%
Motor Vehicle	34,245	14.8%	37,423	12.1%	(3,178)	-8.5%
Pecuniary Loss	17	99.0%	548	73.1%	(531)	96.9%
Personal Accident	24,012	16.2%	16,005	29.4%	8,007	50.0%
Property	9,552	85.6%	8,119	88.9%	1,433	17.6%
Total	73,212	49.6%	76,813	51.5%	(3,601)	-4.7%

Notable are the following:

- The classes of business which contributed most to the decreased performance of the sector were the Liability (-\$9.3M), Property (-\$6.9M) and Motor Vehicle (-\$2.4M).
- 99% of business generated under the Pecuniary class was ceded to reinsurers, as compared to 73.1% the previous year (not shown here).

- Premiums retained by the industry in respect of General Insurance totalled \$73.2M (2013: \$76.8M).
- Certain trends were maintained; for example, (1) in respect of gross premium the class leaders are Property and Motor Vehicle, while in respect of net premium the class leaders are Motor Vehicle and Personal Accident; and
- the Property class is heavily ceded - 85.6% in 2014 (88.9% in 2013).

## Underwriting Profitability

### **Revised Table - Ratios based on Net Earned Premium**

<b>Ratios</b>	<b>2014</b>	<b>2013 (revised)</b>
Claims Ratio	50%	56%
Operating Expense Ratio	38%	43%
Combined Ratio	89%	99%
Underwriting Profit	12%	1%

### Analysis of Long-term Business:

<b>Long-term Insurance (EC\$ '000)</b>	<b>2014</b>	<b>2013 (revised)</b>	<b>VAR</b>	<b>VAR%</b>
Gross Premium	48,456	46,842	1,614	3.4%
Net Premium	42,916	41,195	1,721	4.2%
Total Policyholder Benefits	26,900	30,651	(3,751)	-12.2%



Net Income before tax	12,919	3,401	9,518	279.9%
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Long term insurance sector experienced an increase in gross premiums of \$1.6M in 2014 which represents a modest growth of 3.4%. Net premiums also increased in 2014, by 4.2% or \$1.7M.

A sharp decline of 12.2% was recorded in respect of total policyholder benefits, reducing the figure from \$30.7M in 2013 to \$26.9M in 2014.

The increased gross income, reduced benefits and other factors resulted in a substantial increase in net income before tax being reported of \$9.5M; from \$3.4M to \$12.9M.

## MOTOR CLAIMS:

The matter of slow settlement and non-settlement of claims, particularly in respect of Motor Insurance business continues to be a sore point for the Office of the Financial Services Regulatory Authority. The number of complaints from consumers in respect of delays in settlement of claims continues to increase. Some of those complaints are in respect of claims for which:

- I. liability has been accepted by the insurers
- II. court judgment has been given in favour of the claimants

Increasingly, it is observed that delay tactics are being employed by a few insurers (under the guise of technicalities) to either refuse to accept liability or to drag the claims to the courts resulting in long delays in claims settlement.

One of the reasons for the above behaviour by these insurers appears to be a lack of sufficient cash-flow. In some cases insurers compromise their underwriting risk management strategies, resulting in the acceptance of high risk business at "subsidized" prices in order to increase cash-flow and sales. However, such practice is counter-productive and is detrimental to the insurer as the experience has shown that the very cash-flow situation that this practice is intended to address has overtime resulted in chronic cash-flow problems as the

loss and combined ratios of these insurers continue to rise due to poor underwriting.

Based on industry statistics, in 2013 and 2014 over 50% of Insurers reported underwriting losses in respect of motor insurance business. This is surely an indication that the premiums generated from motor business are insufficient to cover operating expenses and claims.

While there may be legitimate reasons for the delays in some claims settlement or the acceptance of liability by insurers due to the inherent risk of fraud being perpetrated by consumers, it is imperative that claims are validated properly to ensure that the premium pool, which is funded by all policyholders, is not depleted by the fraudulent activities of some. However, the

regulator's office submits that if the underwriting process is designed to properly detect and classify risk and apply the correct price and conditions to insurance policies, the occurrence of fraudulent activities can be significantly reduced even before a claim is filed. This would have a direct impact on the timeline for settlement of claims and by extension increase consumer confidence in the insurance sector. Also, this would reduce the cost of claims fraud risk management.

Insurers must therefore ensure that the necessary due diligence is thoroughly conducted at the application and acceptance stage of the underwriting process. The inspection and valuation documents must be reviewed to ensure that the documents are obtained from the approved garages. According to our information it is

apparent that a lower level of due diligence is conducted in the case of motor third party risks; insurers must also ensure that the same level of due diligence is conducted. Insurers are also implored to incorporate assessment of brokers in their fraud risk management regime.

Another important area which requires attention is the wide variations in the valuations provided by garages. There ought to be a mechanism that would reduce the high level of subjectivity in the valuation process. There are also reported cases of garages issuing road worthy certificates/documents even before or without inspecting the vehicles. The road worthiness of a vehicle is not only necessary for compliance with statute but forms a critical part of the inherent risk of motor insurance business. Thus, we believe that closer attention

must be placed on the garages and a mechanism must be developed to assess garages in determining their continued registration.

These concerns must be taken very seriously by all stakeholders, as we endeavour to protect the integrity of the insurance market and to enhance consumer confidence.

Finally, I wish to address the issue of insurers imposing conditions on clients in the claims settlement process. For example, it is standard claims settlement practice that in the event where a vehicle has been written-off, for the insurer to settle the claim in full and keep the wreck as salvage. However, according to information reaching the Regulator's Office, some insurers have

made amendments to their Motor policies which allow the insurer the option of forcing the insured to accept the wreck (salvage value of a vehicle) as part of final settlement. We are also informed that other amendments or practices include the non-settlement of claims until the insured's driving license fee has been paid. Furthermore, there appears also to be the penchant for staggered claims payments, presumably because of cash-flow difficulties. As Regulator, we submit that such practices by insurers are unjustified and not in the public's interest.

Accordingly, I draw attention to Section 19 (1) of the Insurance Act which states:

***"Every company registered under this Act to carry on any class of insurance business shall, at least one***



*month prior to the date of issue of any standard form of policy, or of the use of any standard form of application for a policy, furnish the Registrar with a copy of such form of policy or form of application."*

Further subsections (2) and (3) state:

*"The Registrar may prohibit a company from issuing any form of policy, form of endorsement or form of application for a policy the issue or use of which, in his or her opinion is fraudulent, unjust or not in the public interest."*

*A company which continues to issue or continues to use a form of policy or a form of endorsement or a form of application for a policy the issue or use of which is prohibited by the Registrar under subsection (2) commits an offence."*

Insurers are therefore reminded that before making any amendments to their insurance policies, the amended policy documents must be submitted to the Regulator's Office for verification. Be assured that the Regulator's Office is paying close attention to these developments and where necessary will apply the provisions of statute.

### **REINSURANCE:**

The Insurance Companies (Reinsurance) Regulations mandates every company registered to transact general insurance business in Saint Lucia to submit to the Financial Services Regulatory Authority (the Authority) details of its reinsurance treaties within 14 days of the commencement of its underwriting year.

The frequency with which the regulator's office has had to remind some insurers of their obligation to provide details of their reinsurance treaties is unacceptable. Insurers must ensure that they comply with the requirements of statute and provide details of their treaties in accordance with the regulations.

As Saint Lucia is located in the hurricane belt particular attention must be paid to insurers' property reinsurance treaties to ensure adequacy of risk coverage. The majority of insurers largely satisfy the requirement of ensuring that property reinsurance treaties are purchased to protect their property portfolio. Many of you purchase quota share treaties with high ceded levels

averaging 70% to 80%, supplemented by catastrophe excess of loss treaties.

However, as regulator we are concerned that for some insurers, whilst obtaining property reinsurance coverage, their treaties are not adequately designed with consequential over exposure relative to the capital of the companies. There have been instances for example where property excess of loss per-risk treaties are purchased for a group through the parent company ignoring the per-risk limit (largest sum insured per-risk) of the branch/subsidiary operation in Saint Lucia. A case in point is a treaty arrangement where the first line was US \$1million in excess of US \$500,000 per risk; notwithstanding the largest sum insured per risk under the class of business written in Saint Lucia being EC \$1

million. In such a circumstance the entire portfolio remains exposed and any loss would fall entirely on the company. In such circumstance, notwithstanding Saint Lucia being named as a covered territory under the reinsurance treaty, there is effectively no protection to local policyholders under the treaty arrangement.

While the Authority understands the need for insurers to capitalize on economies of scale to reduce cost of reinsurance, Insurers must ensure that treaties are designed to protect the company and its policyholders and not merely to satisfy the requirement under the Act of having reinsurance treaty in place. The reinsurance treaty programme must form a fundamental part of the overall risk management programme of Insurers. Companies are encouraged to take a keen interest in

assessing their property insurance risk exposure. In assessing the adequacy of reinsurance coverage, particular attention must be given to Companies', Probable Maximum Loss (PML), policyholders' surplus and net retention levels.

### UPDATES:

#### FATCA:

Saint Lucia is on the throws of signing a Model IA IGA with the US. Discussions on the provisions of the agreement have been finalised. Furthermore, we have been notified of satisfaction by the US authorities of the arrangements for exchange of information. We are currently in discussion on administrative arrangements for an in country signing by the authorities.

Upon entry into force of the agreement, reportable information would have to be exchanged by the specified timelines. First reporting by Saint Lucia will likely be in 2016. Our competent authority, the comptroller of Inland Revenue will be engaging reportable foreign financial institutions on the reporting function in due course.

#### Uniform Insurance Act:

As you must by now be aware, a steering committee for the establishment of a single Insurance market in the ECCU has been operational for some time. The committee has been mandated to solicit comment and feedback on various sections of the insurance bill. The most recent submission relates to the regulation and

supervision of Lloyds. I am advised Mr. Royer Felix represents your industry on the committee. It will be necessary for your feedback to be communicated to the committee by September 30, 2015.

## Risk-based Assessment

In the coming months the FSRA intends to introduce risk-based assessment to its supervision toolkit. In preparation of this event, the FSRA has focused on building capacity in this area with technical assistance being provided by the Caribbean Regional Technical Assistance Centre. Simply put, risk based supervision will allow your regulator to review the manner in which you are identifying and controlling risks. Using this approach we will be able to assess system and individual insurer risk and to respond with our own processes and interventions in line with



the assessment. Given the limited resources of the FSRA, we will be better placed to allocate resources to insurers with the greatest risk and areas within insurance firms that are high risk.

Finally, I take the opportunity to commend your council for its role in the continued development of your industry. As a significant partner in our efforts to make Saint Lucia the best insurance jurisdiction in the region, I implore you to reflect a bit on your achievements and to devise new, exciting and stimulating initiatives which will redound in sustaining the success and development of your council.

My challenge to you is to become a highly proactive industry partner!

