

Financial Services Commission

Annual Report – 2017/2018



FINANCIAL SERVICES
COMMISSION

LETTER OF TRANSMITTAL

Dec. 3, 2018

The Hon. Mia Mottley, M.P. Q.C.
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Madam,

I have the honour of submitting for your consideration, the Annual Report of the Financial Services Commission for the year ending March 31, 2018, in accordance with the provisions of Sections 50 of *The Financial Services Commission Act*.

Yours faithfully,

FINANCIAL SERVICES COMMISSION

Avinash Persaud

Chairman

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MISSION STATEMENT

To promote soundness, stability and transparency within Barbados' non-bank financial sector, using professional staff to provide effective and efficient supervision and regulation in line with acceptable global best practices.

VISION STATEMENT

To be recognised as a financial services regulator that is committed to integrity, excellence and the development of Barbados as a sound and competitive financial services centre.

CORPORATE VALUES

EXCELLENCE | INTEGRITY | PUBLIC ACCOUNTABILITY
TRANSPARENCY

About Us

The Financial Services Commission (FSC) is an integrated regulatory body, established on April 1, 2011 by virtue of the Financial Services Commission Act, 2010. It represents a consolidation of the regulatory and supervisory functions previously conducted by the Supervisor of Insurance and Pensions, the Securities Commission and the Co-operatives Department, insofar as it relates to credit unions. FSC is, therefore, responsible for supervising and regulating entities in the insurance, occupational pensions, credit unions and securities sectors, which are licensed or registered under the following Acts of Parliament:

- *Exempt Insurance Act, Cap. 308A*
- *Insurance Act, Cap. 310*
- *Occupational Pension Benefits Act, Cap. 350B*
- *Securities Act, Cap. 318A*
- *Mutual Funds Act, Cap. 320B*
- *Co-operative Societies Act, Cap. 378A (as it relates to the supervision and regulation of credit unions)*

FSC issues guidelines, establishes standards for institutional strengthening and seeks to increase the competitiveness of the financial services sector. In addition, FSC endeavours to promote stability, public awareness, and instill public confidence in the operations of non-bank financial institutions.

Message from Chairman of the Board



Professor Avinash Persaud

Over the past decade, we have seen zero growth of the Barbados economy, massive fiscal deficits, and exploding debt to income ratios. Central Government's debt to GDP doubled to 157%. If we add central government arrears to that of tax payers, pensioners and businesses, debt reaches 175% of GDP, the third highest in the world. Government debt investors went on a buyers strike and the Government of the day increasingly resorted to printing cash to pay bills, leading to a steep slide in the international reserves. The international and historical experience is that this economic stress would have found its counterpart in financial stress and a doom loop might have developed as seen in Europe six years ago. It is striking, therefore, that the substantial economic pressure has not so far spilled over into financial institutions operating in Barbados.

In large part, the financial stability Barbados enjoys today relates to the capital strength of regulated institutions; but we cannot be complacent. We know that the comprehensive debt restructuring announced by the Barbados Government in June will diminish capital cushions. FSC has worked with the Government's debt advisors to stress test the sector and help ensure that the debt restructuring preserves financial stability. FSC has also prepared measures in case the restructuring does cause greater stress than expected. I must commend the CEO, Kester Guy, and his supervisory team for taking on this additional task with urgency and diligence, and for taking the time to engage with the industry to address its concerns.

Throughout this stress-testing exercise it has become clear that while non-bank institutions are well capitalised, this is not entirely by regulatory design. We need to modernise current non-bank regulation putting a greater emphasis on ensuring that risks are better matched with an institution's capacity to absorb risks, be it through natural hedges, capital or liquidity. This will

be a significant task over the next couple years and we invite the industry to work with us as we modernise our regulatory framework. Another reason not to be complacent is that the boundary of regulation looks a little misaligned with recent developments in the industry. Some institutions use new technologies to carry out what looks like financial services to the public, while being in regulatory limbo. These institutions are small and play a minor role in the financial system as a whole, but we need to respond with the appropriate regulatory framework before they grow large. FSC is responding by first setting out guidance to the industry on how the regulator sees different activities, what it will be regulating, and why. Not only do we want to be seen as protectors of traditional business, but we also want to be progressive in our approach.

To stay on top of a changing industry, we need to reassert ourselves as a purveyor of principle-based regulation, not rule-based regulation, where if a rule does not exist there is a predisposition that there is no regulation. Somewhere along the way, the purpose of regulation has gotten a little lost in a narrow interpretation of laws and it is helpful to reassert that the role of regulation is to protect consumers of financial services and the financial system. Policing the law and defending the reputation of the jurisdiction are considerations that follow from getting that protection right at the regulatory policy level, and that is our focus. The law follows regulatory policy, not the other way around.

Many new financial products are in regulatory limbo because it is not clear if they are a banking activity regulated by the Central Bank of Barbados, or a non-bank financial activity regulated by FSC. Consequently, we are working with the Central Bank in deeper partnership to make these assessments and, where appropriate, issue joint guidance notes. We are currently working together on developing a common regulatory sandbox regime with the pilot likely to be established in October 2018. Considering these and other activities, FSC has an exciting agenda of work over the next 12 months.

The Government has decided that FSC should become financially independent of Government. We are working with them on the legislation that will facilitate this move and we expect that it will receive Parliamentary approval before the end of the year. We welcome this step. Over the past year, FSC has operated under tight financial constraints and is understaffed. Financial independence will give it the level of financial security that it needs to better plan for the future. Among other things, this will help to secure more appropriate and permanent premises and develop the new training and capacity required to remain on top of a continuously evolving and innovating industry. I would like to praise the CEO and his team on their work over the past year, which they have had to do under trying circumstances. The Board and I look forward to supporting the management team on its packed but essential agenda over the next 12 months.

Chief Executive Officer's Report



Kester S. Guy, CEO

As FSC continued to pursue its strategic objectives, we recognised the need to enhance and modernise the regulatory framework for non-bank financial institutions. The development of the sector necessitates the implementation of “right-size regulation” so that each institution will be required to develop policies and adopt appropriate buffers relevant to the risks they undertake. Legislative modifications are required to undergird this philosophy, as well as to facilitate speedy adjustments and additions to the regulatory toolkit, such that an appropriate risk-based framework could be fully implemented.

Our capacity over the last year has grown exponentially as we had to quickly adapt to new and emerging matters, some of which were driven by national priorities. Barbados’ Mutual Evaluation Report (MER); engagement with key stakeholders on the Base Erosion and Profit Shifting (BEPS) framework; and navigating a series of scenario analysis on the impact of Government’s debt restructuring programme on the non-bank financial sector, are examples of substantive issues that gained our attention. While the work on these areas is not yet complete, we remain committed to the tasks.

Forward Thinking

Digitising FSC has been another high-priority matter over the last year. The first phase involved the development of an e-filing platform, which is still in progress. A significant amount of time and resources have been directed to the development of process maps, building the platform and carrying out the necessary tests. There has been technical training for staff, as well as initial engagement with selected entities. This project will provide a direct portal to FSC and allow for effective process flows and management of all submissions, including:

- regulatory filings
- applications for licences and registration
- requests for approvals and various considerations

This project is expected to be completed by March 2019 and we eagerly look forward to the full implementation of this system.

The emergence of financial technology as an important area for innovation and emerging developments in the financial services, has been recognised. FSC has been engaged with interest groups and has partnered with the Central Bank of Barbados to develop an appropriate regulatory framework for the facilitation of Fintech initiatives. While we are cognisant of the potential growth and development this sector can bring to Barbados, our key focus has been on protecting vulnerable consumers and minimising systemic risks.

Risk Based Approach

The effective implementation of a risk-based approach to supervision is another high-priority area. Much attention has been given to reviewing the categories of data collection and data quality to establish the platform for further developing our analytical models. The goal is to ensure that we are appropriately measuring both the micro and macro-prudential risks, and identifying the relevant policy toolkit for each regulated sector. This is an ongoing process and we are fine-tuning the procedural manuals which guide the various processes. We will sustain our engagement with all stakeholders in relation to aspects of the enhanced supervisory framework, thus ensuring that the high level of partnership established since FSC's inception is maintained.

Technical Support and Capacity Building

The Caribbean Regional Technical Assistance Centre (CARTAC) continues to provide support, facilitation and technical guidance to FSC. We have benefitted tremendously from its expertise and for this we express our sincerest gratitude and look forward to an even greater strengthening of that strategic partnership. Of particular note is the technical assistance received towards designing a regulatory framework for complex institutions. Some weaknesses were identified in our current operations, prompting us to correct those elements and where necessary, re-design the methodology so that our overall processes are enhanced.

Moving Ahead

The year has been full of new and emerging demands and as far as we can see, it is expected to increase in intensity. Notwithstanding, we embrace every new challenge and put our best efforts forward to ensure high-quality output is sustained. I must express gratitude to the outgoing Board of Commissioners, led by Sir Frank Alleyne. This team stewarded FSC with excellence over the years and laid the foundation upon which we now advance with greater confidence.

As the new Board of Commissioners, led by Professor Avinash Persaud, takes up the mantle, we have already seen an equally high level of insight, guidance, and accountability to ensure the good governance, high quality output and corporate development of FSC. The new Commissioners, the management and staff of FSC, have shown a commitment to achieving the ultimate objective of promoting financial stability in Barbados, and have been resolute in doing all that is necessary to build on our development as a regulator.

Our staff in particular, must be commended for their support, understanding and hard work despite the challenges faced. I certainly look to the future with excitement, as FSC continues to pursue its mandate of ensuring that stability in the non-bank financial sector is maintained.

Corporate Governance

FSC is an integrated financial services regulatory agency governed by a Board of Commissioners appointed by the Minister of Finance and Economic Affairs. The Commissioners – a chairman and six others – hold office for a period of three (3) years, with each member being eligible for reappointment. The Board sets policy and within a framework of effective controls, has ultimate responsibility for providing leadership and oversight to FSC’s operations. The Board and FSC’s executive management team are committed to conducting affairs according to the highest standards of corporate governance and integrity applicable to statutory bodies, particularly to regulatory agencies.

FSC Management Team

Chief Executive Officer	Mr. Kester Guy
Deputy Chief Executive Officer	Ms. Rosina Knight
General Counsel	Mrs. Cyralene Benskin-Murray
Director of Risk Analytics	Ms. Gayle Marshall
Manager – Credit Unions	Mr. Curtis Lowe
Manager – Examinations ¹	Ms. Esther Griffith
Manager – Finance and Planning	Ms. J. Waveney Forde
Manager – Human Resources	Ms. Joanne Mapp
Manager – Information Technology	Mr. Emmerson Cadogan
Manager – Pensions	Mrs. Tanya Bretney
Manager (Ag.) – Insurance	Mr. Paul Griffith
Manager (Ag.) – Securities	Mr. Paul Watson

¹

Regulatory Developments

Legislative Developments and Policy Initiatives

During the 2017/2018 financial year, FSC continued to build on its work to enhance the regulatory framework for the sectors under its supervision, through a number of different activities that included the following:

- *Regulatory treatment of foreign broker-dealers and investment advisers*

Since the last financial report, FSC received positive feedback from members of the industry on the proposal to establish a regime to exempt foreign broker-dealers and investment advisers who provide services to certain classes of persons in Barbados. The Policy and Legislative Committee (PLC) and the Board approved the recommendation to establish this regime. It permits foreign broker-dealers and investment advisers to engage with their clients within given parameters without the need for registration and compliance with the full range of regulatory requirements. On receipt of an Order of the Minister of Finance and Economic Affairs authorising the regime, a circular will be released to the industry outlining the details.

- *Consultation – Repurchase agreements Industry guideline*

The PLC also approved a recommendation for FSC to issue repurchase agreement guidelines for industry consultation. They outline the standards for the conduct of repurchase agreement business by financial institutions, with the objective of ensuring that a financial institution which engages in the repurchase agreement business (i) undertakes proper business practices and (ii) adopts and applies appropriate minimum financial standards. Subsequent to the dissemination of the draft repurchase agreement guidelines (draft guidelines), the industry responded with constructive and generally positive feedback, in addition to making its recommendations. The draft guidelines were revised following the consultation, and further internal review that included more recent research on regional and international guidance and best practices. A recommendation will be sent for the PLC's consideration to issue the revised draft guidelines to the industry.

- *Consultation – Proposal for new securities legislation and revisions to the mutual funds legislation*

Since the last financial report where FSC engaged in a preliminary consultation with an industry focus group regarding a proposal for amendments to the Mutual Funds Act and a full revision to

the Securities Act, focus was placed on recommendations for legislative amendments and full revision to the funds and securities legislation, respectively, to be submitted to the Ministry of Finance and Economic Affairs for its consideration. This included FSC meeting with the Chief Parliamentary Counsel regarding clarification on key areas pertaining to revisions to the Securities and Mutual Funds legislation, including (i) instructions pertaining to interim changes to the Mutual Funds legislation, (ii) the impact that the International Organization Of Securities Commissions Multilateral Memorandum Of Understanding will have on the revised Securities legislation and (iii) discussion on the logistics of a full revision of the Securities legislation. Subsequent to the meeting, policy papers continue to be drafted and updated for submission to the PLC in order to advance this matter.

Participation in International, Regional and Domestic Meetings

FSC continued to be engaged regionally and internationally on securities issues particularly through participation in the annual conference of the international standard setting body, the International Organization of Securities Commissions (IOSCO), which for the first time was held in the Caribbean region. FSC continued its engagement in meetings of IOSCO sub-group, the Inter-American Regional Committee, and participated in a technical assistance working group. FSC also liaised with regional regulators and industry experts at the 13th Annual Meeting and Conference of the Caribbean Group of Securities Regulators (CGSR) discussing common regulatory issues, concerns and solutions. This resulted in FSC being nominated as a member of the CGSR Financial Technology Committee. Additionally at the regional level, FSC participated in the CARICOM's Secretariat technical working group on the draft model Securities Market Law. The draft Securities Market Law seeks to promote the growth and development of an integrated capital market within CARICOM and harmonisation of securities legislation among member states.

FSC remained an active member of the Caribbean Association of Credit Union Supervisors (CACS), a regional grouping of prudential regulators that was established in 2014. It was pleased to host CACS Annual Conference and Workshop in September 2017, during which it made a presentation detailing the regulatory framework for local credit unions. FSC remains on the CACS advisory committee and was also selected to a steering committee charged with formulating and documenting the governing framework for CACS.

Representatives from FSC also attended the annual Caribbean Association of Pensions Supervisors (CAPS) conference, workshop and AGM held in Jamaica. The theme was “Advancing the Regulatory Agenda to Achieve Sustainable Pensions and Financial Stability” and it covered several key topics including:

- Investment of pension assets in the Caribbean
- The challenges of converting pension plans from DB to DC
- Financial Stability
- Trustees’ fiduciary duties
- Update on Pension Supervision in the Caribbean Region

During the AGM, Barbados was elected to the post of vice president in the executive committee of CAPS.

FSC also participated in the annual 2017 Caribbean Association of Insurance Regulator’s (CAIR) Conference and AGM which was held in Jamaica. CAIR is actively working on developing a Multilateral Memorandum of Understanding and a College of Regulators Framework to be adopted by its members. Barbados currently sits as vice president on the executive committee. The Group of International Insurance Centre Supervisors (GIICS), an organisation that consists of a group of regulators representing domiciles engaged in international insurance business, also held its AGM, at which FSC was represented.

FSC continued to work closely with Invest Barbados during the year under review, and joined its contingent to the RIMS (Risk and Insurance Management Society, Inc.) and CRIMS (Canadian Risk and Insurance Management Society, Inc.) conferences in the USA and Canada, respectively. FSC also participated in three supervisory colleges held to discuss regulatory oversight of two domestic and one international insurance company.

Supervision and Licensing

Table 1: Number of entities registered by FSC

Activity	Total No. of Registered Entities 2017/2018	Total No. of Registered Entities 2016/2017
Insurance Division		
• Exempt Insurance Companies	208	200
• Qualifying Insurance Companies	54	46
• Insurance Management Companies	26	25
• Insurance Brokers	25	25
• Agents/Sub Agents/Salespersons	586	554
• Insurance Underwriter	1	1
• Domestic Insurance Companies	24	24
• Holding Companies	11	11
• Insurance Adjusters/Surveyors	14	14
Securities Division		
• Brokers	26	29
• Dealers	10	11
• Investment Advisers	49	52
• Reporting Issuers	42	43
• Securities Companies	17	17
• Self-Regulated Organisations	2	2
• Traders	12	14
• Underwriters	6	6
• Mutual Fund Administrators	9	10
• Mutual Funds (including sub-funds)	23	25
Credit Unions		
	33	33
Occupational Pension Plans		
• Defined Benefit (DB)	81	66
• Defined Contribution (DC)	159	139
• DB+DC	15	10
• Multi-Unit	12	7
• Multi-Employer DC	1	1

Enforcement

One international insurance company was referred for enforcement during the period under review. The company was subsequently brought into compliance.

Supporting Effective Regulation

Research and Policy

FSC's research and policy department analyses current and emerging issues and developments related to the financial sector to help ensure timely and appropriate regulatory responses to changes in the regional and international environment. It produces quarterly statistical bulletins that provide highlights, key performance indicators and other statistics, for the four sectors of the financial system which fall under its purview. In addition, it facilitates requests for information and statistical data from FSC's external stakeholders, such as the Central Bank of Barbados; the Barbados Statistical Service; the Barbados Financial Intelligence Unit; Invest Barbados; the Ministry of Finance and Economic Affairs; and other Government Ministries, regulated entities, and some regional and international organisations.

For the period under review, the department continued collaboration with the Central Bank of Barbados to produce the annual Financial Stability Report, which looked at the soundness of the overall financial system in Barbados. This report was presented at the annual Domestic Financial Institutions Conference hosted jointly by the Central Bank of Barbados and FSC. Another collaborative effort was undertaken with the Division of Economic Affairs in the Ministry of Finance and Economic Affairs to produce the Barbados Economic and Social Report. FSC staff were also asked to participate in various working groups with other regulators and stakeholders that held discussions on the OECD Base Erosion and Profit Shifting project, and the OECD Global Forum on Transparency and Exchange of Information on Request.

Legal Services

- *Legislative Developments*

The *Securities (Amendment) Regulations, 2018*, was passed by parliament on the 13th February 2018. The Regulations amend the Securities Regulations 2002 by changing the fee structure for Stock Exchanges registered with FSC.

FSC remained directly involved in discussions with various stakeholders for the advancement of its legislative proposals pertaining to (a) the Financial Services Commission (Amendment) Bill, 2018; (b) interim amendments to the Mutual Funds legislation; and (c) new Securities legislation and its impact on international obligations as it relates specifically to disclosure and information sharing. Meetings were also held with stakeholders with a view to advancing legislation pertaining to deposit insurance for credit unions. This initiative aims *inter alia* to specifically provide for the imposition of a monetary limit on insured deposits for credit unions, of which an important initial step would be conducting a statistical analysis.

- *Industry Developments*

FSC worked closely with external stakeholders to develop fitness and propriety standards for key persons related to financial institutions. During the period, FSC issued an all-inclusive Fitness & Propriety Questionnaire. In response to industry requests for additional information on the questionnaire, a Fitness and Propriety Circular was also issued, which outlined requirements and procedures for enhancing the fit and proper assessment of key persons.

- *Complaints Handling*

For the second year, FSC's complaints handling programme was progressed to ensure the efficient and appropriate processing of all tasks relating to regulatory complaints, from record inception to record closure. To implement a fully functional complaints process, FSC developed a Rules of Practice and Procedures for Hearings Manual. The manual seeks to provide guidance to staff, regulated entities and members of the public on standard procedures for hearing complaints. This information may be found on FSC's website.

- *Litigation*

The two litigious matters involving insurance companies placed under judicial management continued to engage FSC's attention and that of the local courts. The solutions reached under the judicial management of both companies are at an advanced stage and the courts have approved the transfer of the insurance companies' portfolios.

Human Resources/Communications

During the period under review, the Human Resources Department undertook a number of activities in relation to FSC's strategic corporate objectives. Below is a snapshot of the activities undertaken, as well as relevant human resources data.

- *Training and Development*

Several employees benefitted from training during the financial year:

Supervisory Training

- Risk Based Supervision – Examinations, Inspections and Compliance Teams Conference, Dominican Republic
- Caribbean Group of Securities Regulators (CGSR) Members’ Meeting, Annual Conference and Workshop, Bahamas
- Group of International Insurance Centre Supervisors (GIICS) – Annual General Meeting London, UK
- CARTAC/CAIR 2017 Annual Conference and Workshop Annual General Meeting and College of Regulators’ Meeting, Kingston Jamaica
- CARTAC/CAPS Conference, Workshop and AGM, Kingston, Jamaica

Corporate Support Training

- Protocol – There is only one way; the right way
- Developing Managerial Effectiveness
- Importance of Ethics in Accounting and Auditing
- Triple S – Sexual Harassment, Sexual Orientation, Social Media

As the organisation moves forward with technology to assist in monitoring employee leave, attendance and personal data, it has implemented a Human Resources Information System. Plans are also in train to supplement the system with a time clock.

- *Performance Management*

FSC implemented a Senior Management Appraisal system. In addition, the current appraisal for staff was revised to ensure a better fit for the organisation.

- *Staff Welfare*

To foster camaraderie among staff, promote teamwork, and encourage personal development, FSC undertook a number of staff activities that included:

- The FSC “Wellness & Talent Expo”, held in April 2017. Employees were given the opportunity to showcase their talents in baking, sewing, knitting, jewelry making and

plant growing, among others. There were presentations on various health topics and sampling of local health products.

- A staff fun day, held in November, which saw employees being grouped and competing in a national quiz contest. This was well supported by employees and allowed them to get to know each other outside the office environment.
- The Annual Staff Appreciation and Awards luncheon, held in December. Eleven employees were presented with “Perfect Attendance” certificates. In addition three team member received “Peer Recognition Awards” for demonstrating *Integration*, *Support* and *Professionalism* to their colleagues.

The rollout of a revamped Non-Cash Awards incentive programme is anticipated for 2019.

- *Corporate Citizenship*

FSC’s charitable fundraising initiative, “Fitness for Charity” took on the cause of the Barbados Alzheimers Association this year. Staff were back at the partner gym, Flawless Performance Centre at Sky Mall, Haggatt Hall for the fitness portion of the drive with increased participation by staff, family and friends. The fundraising element was expanded to include a four-hour public outreach in the mall, where staff joined with members of the Association to solicit donations from shoppers, as well as provide information on Alzhiemers.

The activity not only brought a heightened level of awareness to the growing epidemic in Barbados, but it was a great demonstration of the staff’s commitment to the organisation’s corporate social outreach. Part of the promotion for the fundraising drive was an appearance with president of the Alzheimers’ Association on CBC TV’s Morning Barbados programme, and a live radio interview on VOB 92.9 FM. A cheque for \$7,000, all proceeds from the fundraising, was presented to the Barbados Alzheimers Association in a brief media ceremony at the FSC office.

Information Technology

FSC’s IT focus was mainly on the continuation of work on the Electronic Filing/Document Management Project (EFDM). The completion timeframe of the project, initially set for December 2015, has been further extended to September 2018. The hardware setup and technical and user testing aspects have been completed and everything is in place to complete system testing with entities for final implementation and rollout.

Finance and Planning

FSC is funded through fees charged to licensees and registrants in accordance with the fee schedules set out in the attendant legislation. During the fiscal year under review, fees collected totaled BDS\$6,482,586. FSC also received BDS\$1,105,000 from the Ministry of Finance & Economic Affairs to alleviate cash flow challenges imposed by the Exempt Insurance Act, Cap 308A, which compels Exempt Insurance companies domiciled in Barbados in excess of 15 years to pay a tax to the Barbados Revenue Authority, as opposed to fees to the regulator.

FSC's expenditure, the main item of which remains staff costs (FSC's average number of employees is 56), is appropriately managed against an annual budget agreed to by the Board of Commissioners. Prudent cash management and cash flow forecasting enabled FSC to invest a portion of its cash in Government of Barbados Treasury Bills – investments in 2017-2018 yielded BDS\$67,879 in interest.

In addition to regular financial responsibilities, FSC is responsible for the management of unclaimed moneys as referenced in the Insurance Act, CAP 310, which states:

(all sums of money that became or become legally payable by an insurance company in respect of policies but in respect of which the time within which proceedings may be taken for their recovery has expired, and includes sums of money payable on the maturity of an endowment policy or endowment insurance policy that are not claimed within seven (7) years after the maturity date of the policy).

For the period under review FSC received BDS\$354,613 in unclaimed/undistributed monies and refunded BDS\$481,581.

FSC also maintains records for, and custody of, securities placed as regulatory or statutory deposits based on the requirements of the Insurance Act, CAP 310. The total held in escrow at the Central Bank of Barbados as at March 31, 2018 was BDS\$11,174,446. Details of the financial position for the year ending March 31, 2018 are contained in the annexed Audited Financial Statements.

Statistics

Insurance

International Insurance

Barbados remained ranked in the top 10 domiciles for captive insurance companies and in 2017 FSC licensed an additional 20 captives and one management company. This added to a steady increase in the number of captives in Barbados since 2013, as illustrated in the table below.

Table 2: Summary of International Insurance Companies

	2013	2014	2015	2016	2017
Exempt Insurance Companies	179	189	192	200	208
Qualifying Insurance Companies	45	42	44	46	54
Holding Companies	12	11	11	11	11
Management Companies	22	22	24	25	26
Totals	258	264	271	282	299

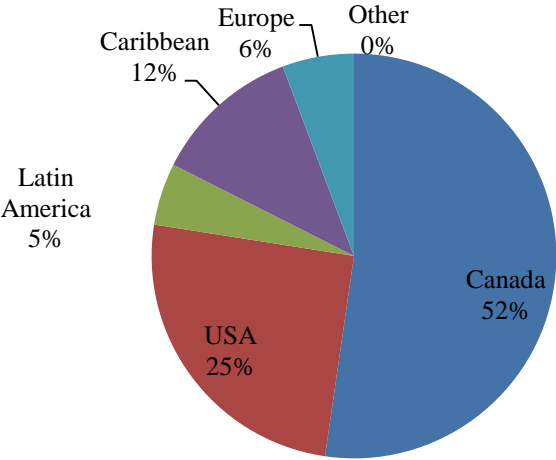
Total assets for the international insurance sector was BDS\$72,038 million, with liabilities of BDS\$55,663 million. International insurers' gross premium written was BDS\$26,341 million as at December 31, 2016.

Table 3: Select Financial Information – International Insurers

	2013	2014	2015	2016
	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)
Total Assets	126,023	104,116	132,816	72,038
Total Liabilities	89,944	70,249	99,165	55,663
Share Capital	10,831	10,631	9,405	5,780
Gross Premium	39,036	40,224	49,672	26,341
Net Earned Premium	42,421	34,225	44,117	23,552
Claims Paid	12,082	19,911	19,308	7,175
Investment Income	6,664	3,998	1,937	2,395
Net Income	6,803	9,138	6,824	3,464

In the international insurance sector, Canada was the most significant source of business, followed by the United States of America, Europe and Latin America.

Figure 1: Country of Origin – International Insurers



Domestic Insurance Sector

As at December 31, 2017 there were 24 domestic companies actively writing insurance business in Barbados. All other categories of registrants remained constant with the exception of registrations for agents, sub-agents and salespersons, which increased by 6% over the previous year.

Table 4: Insurance Entity Registration 2013 -2017

	2013	2014	2015	2016	2017
General Insurance Companies	15	16	14	15	15
Life Insurance Companies	7	9	7	8	8
Combined Life and General Insurers	1	1	1	1	1
Brokers	22	22	23	25	25
Agents, Sub-agents, Salespersons	534	516	547	554	586
Loss Adjusters/Surveyors	14	7	14	14	14
Totals	593	571	606	617	649

The sector recorded aggregated total assets of BDS\$3,831 million² and liabilities of BDS\$2,364 million for 2017, which represents a 5% and 4% increase respectively, over 2016. Aggregate gross written premium for the domestic insurance sector was BDS\$773 million in 2017. BDS\$259 million was ceded to reinsurers with net premiums of BDS\$525 million being reported for 2017. Incurred claims increased to BDS\$525 million in 2017 which represents a 17% increase over the BDS\$447 million reported for 2016.

Table 5: Select Industry Information 2013 -2017

	2013	2014	2015	2016	2017	% Change
	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	2016-2017
Gross premium written	668	724	916	704	773	10%
Reinsurance ceded	283	298	280	263	259	-1%
Net premiums written	396	433	643	447	525	17%
Incurred claims	155	175	176	173	186	7%
Commission paid	55	56	70	53	54	2%
Total assets	3,010	3,024	3,243	3,635	3,831	5%
Total liabilities	2,159	2,102	2,289	2,262	2,364	4%
Net income	87	123	109	158	141	-1%

Over the period 2013-2017, the assets of the domestic insurance sector have been gradually increasing. Companies writing long-term insurance business held assets of BDS\$2,808 million reflecting growth of 8% as at December 31, 2017. The assets of these companies were concentrated in government securities and related party investments. Liabilities, on the other hand, increased by 5% from BDS\$1,526 million to BDS\$1,610 million.

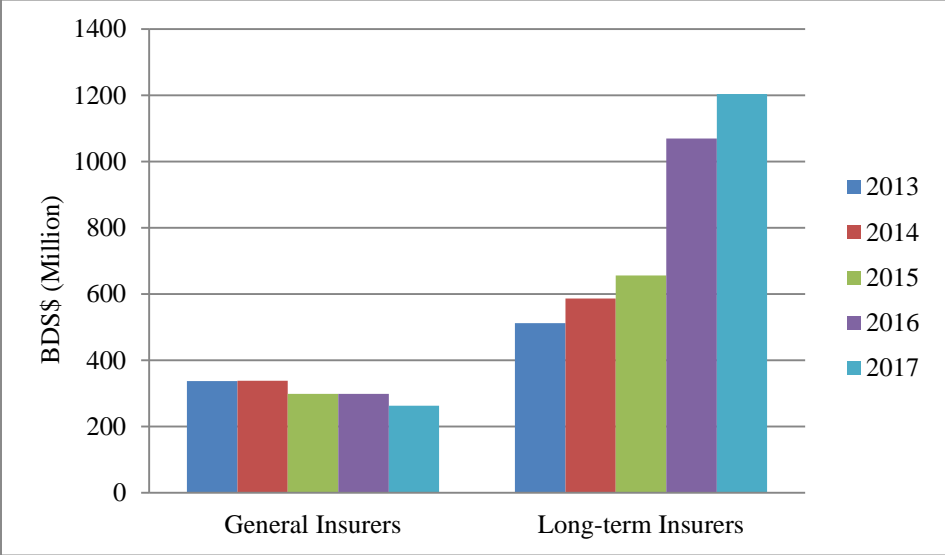
In 2017, companies writing general insurance business held assets of BDS\$1,023 million, which is a 1% decrease from the preceding year's figure. These assets mainly comprised of cash and deposits, government securities and reinsurance. Total general insurance liabilities increased by 3% over 2016.

Total capital and reserves for general insurers was BDS\$263 million in 2017, a 12% decrease from the 2016 figure. The decrease in the capital and reserves was due mainly to a decline in retained earnings from BDS\$227 million in 2016 to BDS\$207 million in 2017.

² Financial information presented is based on annual statutory returns received as at December 31, 2017.

Capital and reserves for long-term insurers increased by 12% from BDS\$1,069 million to BDS\$1,203 million. This increase was due to an increase in the retained earnings by 16% over the previous year from BDS\$616,312 million to BDS\$716,279 million in 2017.

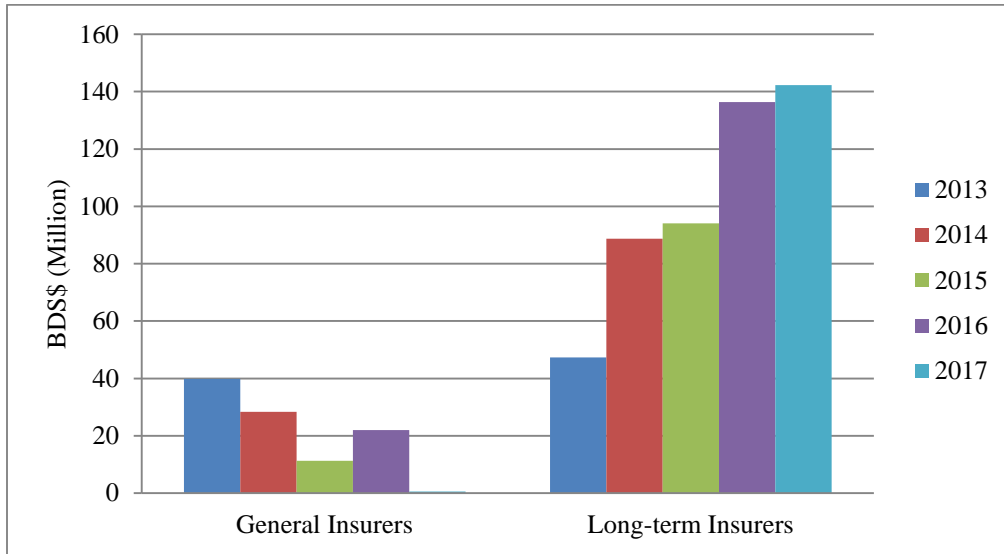
Figure 2: Total Capital and Reserves 2013-2017



Premiums attributed to general insurance business, accounted for 56% of the total premium written in 2017 (BDS\$433 million). Most companies writing general insurance business recorded decreases in the amount of premium written for 2017 when compared with the same period in 2016. Overall, there was a 3% decrease in general insurance gross premium written, relative to the sum recorded for 2016. A total of BDS\$224 million was ceded to reinsurers, which was 3% lower than the amount ceded in the preceding year. Incurred claims related to general insurance business was BDS\$142 million, an increase of 7% over the previous year. Companies undertaking general insurance business had a combined underwriting loss of BDS\$27 million. Investment income increased by 36%, from BDS\$22 million in 2016 to BDS\$30 million in 2017. Net operating income from general insurance activities was BDS\$617 thousand in 2017, which is a significant decline over the prior year’s figure of BDS\$22 million driven mainly by the increased underwriting losses.

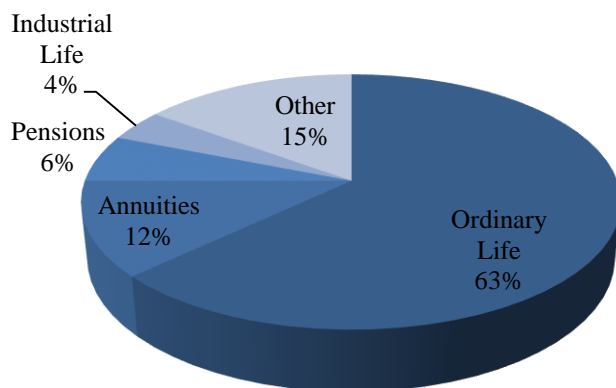
Gross written premium for long term insurance was BDS\$340 million. Companies writing long term insurance recorded a 29% decrease in investment income from BDS\$104 million in 2016 to BDS\$74 million in 2017. Net operating income for life operations was BDS\$142 million in 2017, a 4% increase over the prior year.

Figure 3: Net Operating Income 2013-2017



Premiums related to long-term insurance comprised largely of ordinary life insurance, which represented 63% of long-term insurance business. Annuities accounted for 12% of the premiums written for long-term insurance business; while industrial life, pensions and other classes (personal accident, creditor life and health) accounted for the remainder of premiums written in the long-term insurance market.

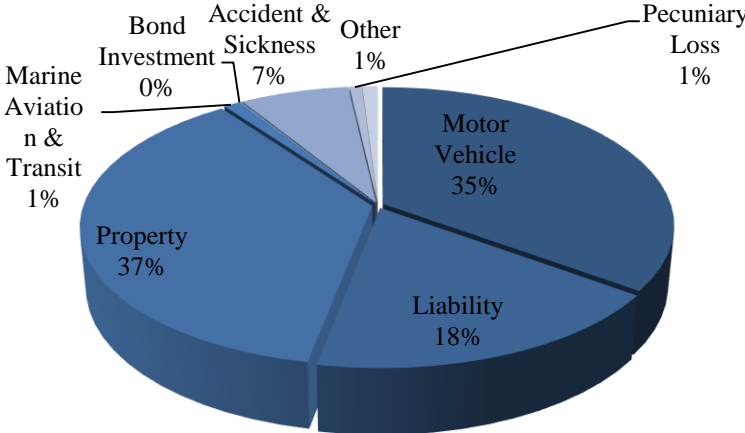
Figure 4: GPW by Policy Type-Long Term



Motor and property insurance remain the key segments of the general insurance market; accounting for 35% and 37% of the premiums written respectively. Liability insurance

accounted for 18% of the premiums written by general insurers. Marine aviation and transit, accident and sickness, pecuniary loss, bond investment and other classes represented the remainder of gross premiums written.

Figure 5: GPW by Policy Type- General



Credit Unions

Credit unions are integral to the financial sector, mobilising significant savings and generating notable lending activity. During the year, FSC reviewed and updated its monitoring system and Early Warning Indicators to enhance the efficacy of its oversight of this sector. Work continued on the refinement and application of the top-down stress testing framework which allows FSC to identify likely vulnerabilities and ensure that appropriate mitigating actions are taken. At the end of the review period there were 33 active credit unions, which taken together, recorded robust growth in assets and membership. This growth path is expected to continue over the short to medium term.

Table 6 – Credit Union Sector Profile at a Glance

	2014	2015	2016	2017	2018
Number of credit unions	35	35	34	33	33
Total Assets (billions)	\$1.71	\$1.79	\$1.94	\$2.09	\$2.28
Total Savings (billions)	\$1.42	\$1.50	\$1.64	\$1.79	\$1.96
Net Loans (billions)	\$1.24	\$1.32	\$1.42	\$1.53	\$1.62
Capital Ratio³	11.76%	11.86%	11.77%	11.90%	11.83%
Profitability (Return on Average Assets)	1.06%	0.64%	1.07%	1.09%	1.13%

Assets

Sector assets were reported at BDS\$2.28 billion as at March 31 2018, an increase of 9.0% over the previous year, surpassing the prior year growth rate of 7.8%. FSC considers a five-year compound annual growth rate of at least 5% as an effective benchmark of a credit union's viability. Over the five-year period 2014 to 2018, the industry reported a robust compound annual growth of 5.8% up from 5.2% for the previous year. This result is indicative of the continued sustainability and resilience of the sector and augurs well for its future. The sector continued to be characterised by its heterogeneous nature as assets ranged from BDS\$97,889 to BDS\$1.22 billion. The balance sheets were dominated by loans, with net loans reported at BDS\$1.62 billion or 71.2% of total assets in 2018. While there was absolute growth in loans, loans as a percentage of total assets declined largely due to growth in investment assets, driven by increased members' savings. Investments grew by 43.0% over the year ending March 2018.

Profitability

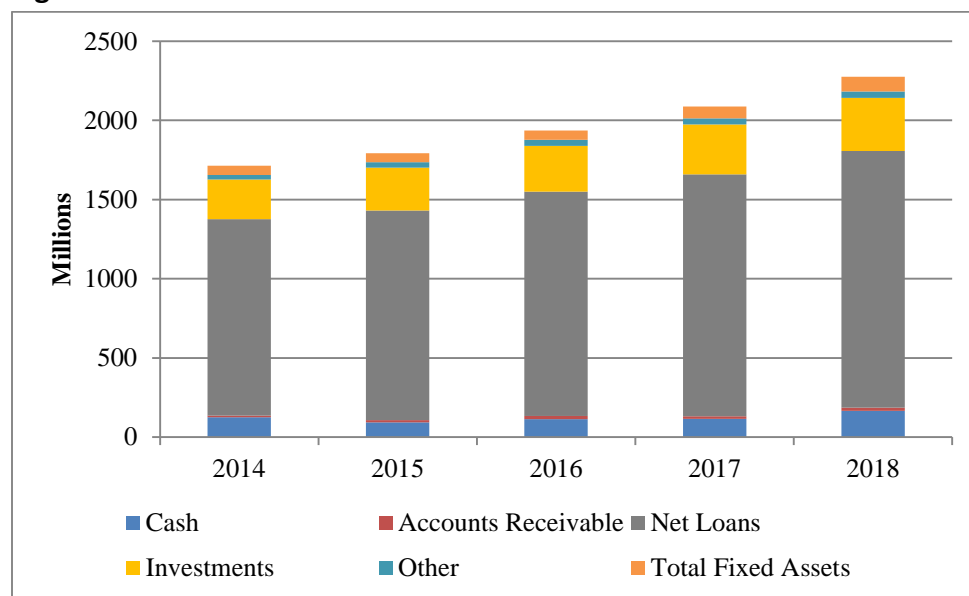
Profitability remained relatively stable despite increase in the Non-Performing Loans (NPLs). Expansion in the loan portfolio, as well as increase in investment income, supported a sustained return on assets of 1.1% over the reporting period.

Capital

A non-risk weighted capital ratio of over 7% is considered an adequate buffer to insulate the credit union against shocks. The domestic sector was characterised by an upward trend in capital levels which ranged from 11.8% to 11.9% over the period 2014 to 2018. Capital comprised primarily of reserves and retained earnings which constitutes tier I capital under the Basel standards.

³ Capital ratio inclusive of qualifying shares and non-risk weighted

Figure 6: Breakdown of Credit Union Sector Assets



The two largest credit unions held approximately BDS\$1.54 billion which represents 74.6% of the assets of the sector. This is consistent with the previous five years under review. New loans across the sector increased marginally by BDS\$4.10 million or 3.3% relative to 2017 as illustrated in Table 7. Lending remained concentrated in Consumer and Real Estate loans.

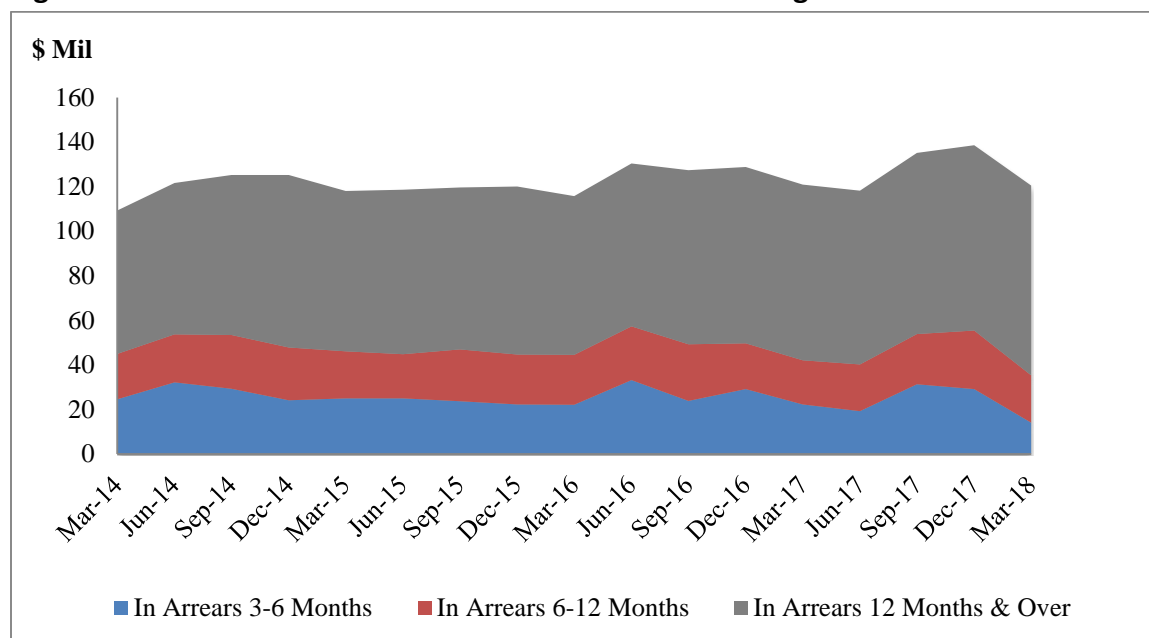
Table 7: Annual Loan Disbursements (In thousands)

	2014	2015	2016	2017	2018
Consumer	45,109.8	63,378	64,635.7	57,048.2	63,412.0
Real Estate	35,989.2	57,052	60,999.1	44,730.5	40,020.1
Private Transport	11,341.2	16,413	20,915.1	19,999.8	22,220.2
Commercial Transport	188.8	1,056	388.0	159.2	30.9
Agriculture	4.0	9	741.5	419.6	591.1
Other Business	380.4	1,021	2,508.5	1,680.8	1,864.5
Total	93,013.4	138,930	150,187.8	124,038.1	128,138.7

Prevailing economic conditions contributed to a deterioration in the sector's loan portfolio as NPLs increased from 7.1% to 7.7% between March 31, 2017 and March 31, 2018.

Concomitantly, loan loss provisions for the sector were reported at BDS\$40.24 million or 31.5% of NPLs, which represents an increase of 5% in provisioning levels relative to the previous year.

Figure 7: Breakdown of Credit Union Sector Non-Performing Loans



Members' Savings

At March 31, 2018, members' investments in savings and shares totalled BDS\$1,959 million, up from BDS\$1,791 million at March 31, 2017. The sector continues to be an attractive investment opportunity to market participants as term deposits and other deposits increased by 42.2% compared to March 31, 2017. Over the period March 31, 2014 to March 31, 2018 members' savings grew from BDS\$1,423 million to BDS \$1,959 million reflective of growth of 37.7% over the period. This inflow created potential liquidity challenges in the medium-to-long term.

FSC continues to enhance its ability to proactively assess potential risks in the credit union sector through the refinement of its stress testing framework.

Securities

A statistical presentation and comparison of the number of registrants and/or licences is outlined in Tables 8 and 9 below. A statistical representation of the market is outlined in Table 11.

Table 8: Regulated Entities

Category	Number of Regulated Entities				
	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Market Actors (companies) ⁴	21	28	35	35	37
Market Actors (individuals) ⁵	29	37	55	54	55
Self-regulatory organisations	2	2	2	2	2
Mutual funds (including sub-funds)	26	25	21	23	23
Mutual fund administrators (general)	10	10	10	9	9
Mutual fund administrators (restricted)	1	0	0	0	0
Issuers ⁶	48	49	47	41	42

Table 9: Market Intermediaries

Category	Breakdown of Market Intermediaries				
	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Securities company	10	13	18	17	17
Investment adviser	7	15	21	19	21
Dealer	3	3	6	5	5
Underwriter	5	6	7	6	6
Mutual Fund Administrator (General)	11	10	10	9	9

⁴ Market Intermediaries refers to firms registered in the categories of securities companies, underwriter, investment adviser, dealer and mutual fund administrator. Some firms are registered in more than one category.

⁵ Brokers, Dealers, Traders, Investment Advisers

⁶ Issuers refers to reporting issuers plus two entities that have registered securities but are not required to register as reporting issuers

Table 10: Mutual Funds data (as at date shown)

Funds under management BDS\$ (in millions)			
	Domestic (offered in Barbados)	Foreign (not offered in Barbados)	Total
March 31, 2014	1,834.7	3,322.3	5,157.5
March 31, 2015 ⁴	1,871.7	4,777.5	6,649.2
March 31, 2016 ⁷	1,902.8	727.2	2,630.1
March 31, 2017	2,072.7	471.7	2,554.5
March 31, 2018	2,227.1	471.8	2,698.9

Table 11: Stock exchange activity

	Market data⁸ (as at date shown)				
	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Listed companies	20	20	20	17	17
Listed securities	26	25	24	19	18
Local market index	2,568.58	2,194.13	2,478.82	2,866.91	3,236.81
Cross-listed market index	1,539.55	1,726.65	1,738.11	1,029.34	1,458.49
Composite market index	668.90	624.23	678.19	687.56	796.14
Local market capitalisation	6,395,315,382	5,499,741,673	6,272,039,643	6,226,553,949	7,029,939,065
Cross-listed market capitalisation	2,569,376,511	2,895,433,099	2,862,760,630	694,849,524	984,541,405
Composite market capitalisation	8,964,691,893	8,395,174,722	9,134,800,272	6,921,403,473	8,014,480,470
No. of major transactions ⁹	0	0	2	2	1

⁷ Previously reported AUM figures updated⁸ Source: The Barbados Stock Exchange Inc.⁹ Takeovers, mergers, rights issues etc.

Registration and/or licensed entities

For the period under review, the number of companies registered and/or licensed as market actors increased marginally. The increase in the number of individuals registered was mainly attributable to an increase in the number of persons registered in the category of investment advisers. There were minor fluctuations in the numbers throughout the year as a result of licensing new entities and the de-registration of other entities who had ceased to carry on business in regulated activities during the year. In terms of the reporting issuers, FSC recorded a slight increase, with one new registrant registered as at March 31, 2018. There was no change in the number of mutual funds licensed for the period under review.

Funds

The size of the domestic funds market experienced growth over the last year with an increase in assets under management of 7.5% or BDS\$154.4 million up from BDS\$2.07 billion. As at March 2018, 76% of the domestic mutual fund industry's asset allocation was to mutual funds, equities and fixed income securities, with the remaining 24% allocated to cash and cash equivalents, mortgages, real estate, repurchase agreements and term deposits. Approximately 80% of the industry's jurisdictional exposure was to Barbados and North America. Occupational and individual pension plans remain the significant investors in the domestic mutual fund industry with over BDS\$1.3 billion in assets, which represents approximately 60% of assets under management. Mutual funds classified as Balanced Funds averaged year-to-date (YTD) returns of -0.20%, while mutual funds classified as growth, income and property averaged YTD returns of -0.54%, -0.27% and 0.09% respectively.

Private placement regime

During the 2017/2018 fiscal year, BDS\$21.4 Million of capital was raised through Private Placements compared to BDS\$24.9 Million over the corresponding period representing a 14.4% decrease in capital raised through this mechanism. For the period 2017/2018 investors participating in the private issuance included Occupational Pension Plans, Mutual Funds, Banks and Trust Companies, as well as Security Companies.

Barbados Stock Exchange (BSE)/Capital Market Development

For the period under review, BSE reported improved recording increases for the market index and market capitalisation when compared with the prior financial year. These relatively positive results were as a result of several locally listed securities experiencing share price appreciation of approximately 16% when compared to the prior financial year.

The number of securities listed decreased from 19 to 18 as a result of voluntary de-listing at the end of the fiscal year.¹⁰ BSE conducted one inspection of its Trading Participants in 2017 to ensure compliance with its domestic rules. It is anticipated that BSE will conduct further inspections within the 2018 period.

International Securities Market (ISM)

During the 2017/2018 fiscal year, BSE registered three additional Listing Sponsors for the International Securities Market (ISM). As Listing Sponsors, the entities are authorised to engage International Business Companies domiciled locally and internationally, which may be seeking a primary or secondary listing of securities. One Issuer was duly registered after having successfully met the ISM's Issuer Requirements with two securities being listed. There was no trading on the ISM as at March 31, 2018 and market capitalisation was reported at US\$87,766.298.

Pensions

Over the period 2014 to 2018, there was a steady increase in the number of occupational pension plans registered. As at March 31, 2018 there were 274 pension plans registered under the OPBA. By the end of the review period, 28 active plans remained unregistered; these consists of 20 pension plans with a defined contribution benefit, seven pension plans with a defined benefit, and one plan with a combination benefit. FSC has continued to work with the administrator of unregistered pension plans to complete their registration process under the OPBA.

Table 12: Number of Pension Plans Registered by Plan Types as at March 31

Type of Benefit	2014	2015	2016	2017	2018
Defined Benefit (DB)	36	60	66	81	83
Defined Contribution (DC)	107	131	139	159	162
DB+DC (combination)	2	9	10	15	15
Multi-Unit	0	3	7	12	13
Multi-Employer DC	0	1	1	1	1
Total	145	204	223	268	274

¹⁰ Additional information on the activities of BSE is included under the statistical section of this report.

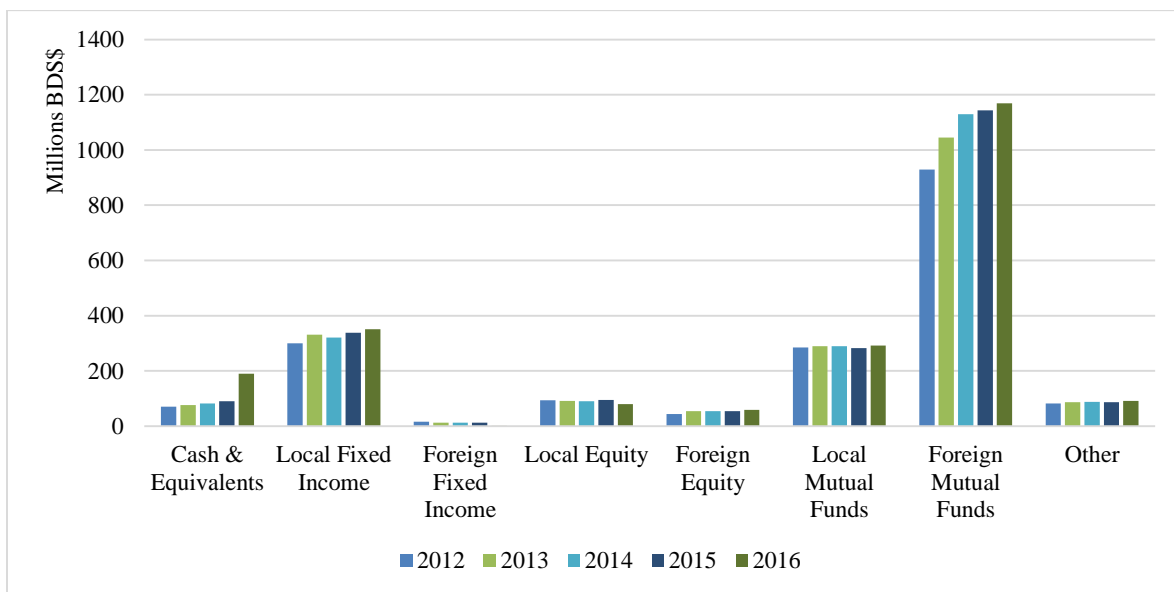
Supervision Process

The pensions sector continues to be a substantial contributor to the financial system in Barbados with considerable assets under management. This is why supervision of the sector and utilising the risk based supervisory framework is crucial. The statutory filings must be submitted by the administrators of pension plans within the stipulated timeframes and in accordance with the OPBA. The data extracted from these statutory filings are used within a quantitative risk assessment tool. This tool assesses the risk of each pension plan based on a substantive assessment model which would highlight areas of weaknesses and allow for corrective action. These corrective actions, once followed by administrators, should limit the risk that pension plans will fail to satisfactorily meet their explicit and implicit obligations to members and beneficiaries. The tool also includes benchmarks, which not only check that funding and investment restrictions are met, but also provides the foundation for the assessment of other risks e.g. credit, market and solvency risks. The results of the assessment tool play an important role in the overall assessment of risk for pension plans.

Assets under Management

The pensions industry, as at December 31, 2017, had approximately \$2.3 billion in total assets which was a 24% increase over the previous period. Figure 8 shows the asset distribution for the pension industry for the period 2012 to 2016, which indicates that the pension funds were invested in mainly local fixed income and foreign mutual funds.

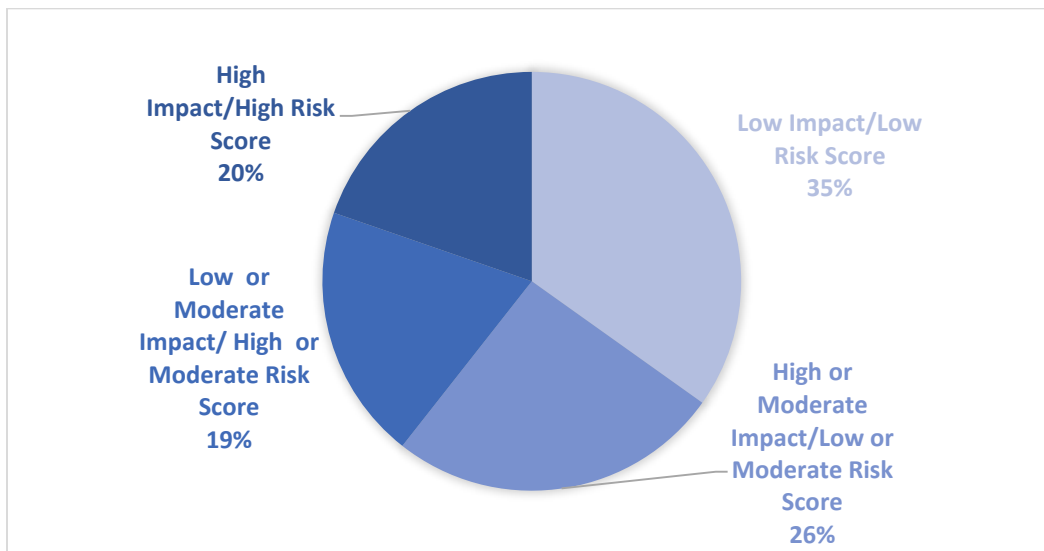
Figure 8: Pension Industry Assets as at December 31



Risk Assessments

FSC continues to place significant emphasis on the completion of risk assessments for the registered active pension plans. A total of 150 risk assessments on 66 pension plans were completed. 20% of the pension plans are rated as High Impact/High Risk, which has been due to the pension plan being in a deficit position, a qualified opinion by the auditor or the administrator funding the pension plan below the recommended funding rate by the Actuary. Figure 9 shows the risk assessments completed by risk ratings.

Figure 9: Risk Assessments completed by Risk Ratings for Pension Plans as at March 31



Wind-up Process

The number of pension plans whose administrators have applied and received approval to wind-up their pension plans has remained minimal at just two during the period ending March 31, 2018. Administrators have stated the reasons for winding-up as seeking alternative financial long-term benefits to employees, closure of plant and burdensome cost of the plan to the company.

2018/2019 Strategic Focus

During the upcoming 2018/2019 period, FSC will concentrate on improving early warning indicators by completing risk assessments for the registered pension plans under its regulatory supervision to determine the high risk pension plans. Additionally, focus will continue to be placed on the risk profiles for high risk plans, the regulatory action as per FSC's supervisory ladder, and the updating of the excel spreadsheet listing pension plans with their regulatory issues and the actions taken to date. FSC will also continue to convert all pension plans financial statements submitted, to excel and update the financial indicator spreadsheet on a monthly basis as this will assist with the monitoring of trends that would affect the financial soundness of the pension plans. The completion of the legislative amendments to the OPBA and the registration of the remaining unregistered pension plans would also be a priority for FSC in the upcoming period.

With regards to the Securities Division, FSC will continue its work on the update of the securities and mutual funds legislation, with a view to submitting recommendations to the Ministry of Finance regarding legislative changes that are needed to foster the development of the capital market and give FSC the capability to provide a robust and facilitative regulatory framework.

During the 2017/2018 year, FSC will be seeking to engage domestic insurance companies by having annual prudential meetings. The implementation of consolidated supervision will be the focus for the home regulated domestic insurance companies.

Financial Statements – Year Ended March 31, 2018