Review of
The Insurance Regulations, 2001

Regulations 94 and 100

Background

The Insurance Regulations, 2001 were implemented prior to the adoption of international accounting standards in July 2002. The thrust towards fair value accounting of the International Accounting Standards has brought significant changes to the way financial results are recognized and presented. Some of these changes have brought the requirements of current accounting standards in direct conflict with the regulations which provided comprehensive instructions on how investments should be valued and recorded in the financial statements of insurance companies.

The aim of these amendments is to realign the regulations with the requirements of the international financial reporting standards. While doing this, appropriate measures must also be established to prevent imprudent distribution of unrealized gains.

Financial Services Commission
April 2009

REGULATION 94

Current Regulation:
Accounting for Life Insurance Portfolio Investments Valuation: Equities.

(1) Equity portfolio investments held by life insurance enterprises shall be carried in the balance sheet at market value as follows:

(a) the market values for quoted ordinary and preference shares should be taken as the "last sale" price quoted by the Stock Exchange on the valuation date or on the trading date just prior to the valuation date;

(b) unquoted ordinary and preference shares and other financial assets whose fair value cannot be reliably measured shall be valued at the lower of cost and net realizable value;

(c) units held in unit trusts shall be valued at the bid price on the valuation date.

Fixed term, Fixed-Interest Securities

(2) Fixed Term, Fixed-Interest Securities are divided into two categories as follows:

(a) short term; and
(b) long term.

(3) Short term securities include:

(a) bank deposits;

(b) certificates of deposits;

(c) reverse repurchase agreements;

(d) short term loans (one year and under);

(e) treasury bills and other money market instruments, and the foregoing instruments (except treasury bills) shall be recorded at the lower of cost and net realizable value.

(4) Treasury bills are government securities that are normally issued at a discount whereby the cost to the company is the discounted price, which shall be recorded as the value of the security on date of purchase and valuations subsequent to the purchase date shall be recorded at the amortized value.

(5) Long term securities, including government bonds such as local registered stocks, corporate bonds, mortgages and preference shares with fixed redemption dates, shall be carried in the balance sheet at the amortized value and any premium or discount arising on purchase of these investments should be amortized to income over the period to maturity.

(6) Purchases of securities in the market place shall be recognized either at the trade date or the settlement date with recognition of any value changes between trade and settlement dates if the settlement date accounting is used.

(7) Transaction costs shall be included in the initial measurement of all financial instruments.

(8) Investment properties shall be carried at market value less allowances for selling expenses.

(9) Market values shall be determined by qualified, independent valuators.

(10) All real estate properties, held as investments, shall be valued at least once per year but valuations shall be done more frequently where market conditions indicate that the carrying values of the assets are materially different from values on the market.

(11) Purchased mortgages shall be carried at the lower of amortized value and the realizable value of the security.

(12) Policy loans shall be carried at cost less a provision for the excess of loans over cash surrender values.

(13) Short term loans shall be carried at cost less provision for loans in arrears but if a non- performing loan is secured, the carrying value should not be greater than the realizable value of the security.

(14) The following provisions apply in relation to interest income from investments:

(a) such income shall be recorded on the accrual basis;

(b) interest shall not be accrued if there is default in payment over a period of at least 90 days;

(c) where interest is in arrears for six months and over, a provision shall be made in the accounts for 100% of the principal amount in arrears.

Purchases cum div, cum interest

(15) Whenever purchases are made cum income, the dividend or interest receivable shall not be classified with the purchased investment but as income receivable.

Changes in Value

(16) On a change in market value, the carrying value of the affected investment asset shall be adjusted in the month of the change and the recording of the change in value shall not be spread over a number of months

(17) Realised gains and losses arising on the sale of investments shall be taken directly to the Statement of Operations.

(18) Unrealised gains and losses arising from stating investments at market values shall be taken to investment reserves and not directly to the Statement of Operations.

(19) Net unrealised gains shall be transferred from the investment reserve to the Statement of Operations at the rate of:

(a) 25% in the case of quoted equities on the reducing balance; and

(b) 10% in the case of real estate properties on the reducing balance.

(20) Where revaluation losses are in excess of the credit balance in an investment category in the investment reserves, the net loss in total is to be transferred to the Statement of Operations.

(21) Foreign exchange gains and losses are not to be included in investment reserves but shall be treated in accordance with Statement of Standard Accounting Practice [illegible]8.16.

Disclosure

(22) The following shall be disclosed:

(a) the policy adopted in accounting for realized gain;

(b) the movement in investment reserves balances for each category of investments;

(c) the values at which each category of investment is carried and the basis of valuation and in cases where appraisals are used to establish carrying values, the frequency of the appraisals;

(d) in the case of non-performing loans, including mortgages, where provisions have been made for losses, the original value of the loans and the provisions;

(e) the provision against rental income for rental in arrears;

(f) a statement of net income from each investment portfolio type;

(g) the assets and liabilities of the segregated funds in a note where a life insurance company manages investments in Segregated funds.

Issues:

- The regulation as it is titled addresses only the investment portfolio of life companies and excludes general insurers.
- The provisions in the regulations are too specific and do not provide the FSC with any room to maneuver and change as accounting standards change. For example Paragraph 21 refers to SSAP No. 16 which is no longer applicable in Jamaica.
- The method used to deal with the transfer of investment reserves contravenes the current applicable standards.
- The recognition of unrealized gains on investments which is allowed by the current accounting standards could result in distributions being made to shareholders from unrealized profits.

Proposed Regulation 94:
Accounting for Insurance Portfolio Investments.

Investments shall be valued in accordance with the provisions of the national accounting standards of Jamaica. Investments include financial assets, investments in real estate and investments in subsidiaries.

A financial asset includes:

- Cash;
- An equity instrument of another entity not considered to be a subsidiary or affiliate;
- A contractual right to receive cash or another financial instrument;
- A contract that may be settled in the entity's own equity instruments.

Investment properties shall be carried at fair value, which shall be determined by qualified, independent valuators. All investment properties, held as investments, shall be valued at least once per year but valuations shall be done more frequently where market conditions indicate that the carrying values of the assets are materially different from values on the market.

Unrealized gains and losses on investments which are recognized in the Income Statement shall be separately disclosed.

Unrealized gains on investments which are recognized in the financial statements shall not be available for distribution to shareholders.

Policy loans shall be carried at cost less a provision for the excess of loans over cash surrender values.

Disclosure

The following shall be disclosed:

(a) the policy adopted in accounting for realized gain and unrealized gain;

(b) the movement in investment reserves balances for each category of investments;

(c) a statement of net income from each investment portfolio type;

(d) the value at which each category of investment is carried and the basis of valuation and in cases where appraisals are used to establish carrying values, the frequency of the appraisals;

(e) in the case of non-performing loans, including mortgages, where provisions have been made for losses, the original value of the loans and the provisions.

REGULATION 100

Segregated funds accounting

(1) The financial records of the segregated funds shall be maintained separately from those of the life insurance company's general fund and the financial statements of the policyholders' segregated funds shall not be combined with the financial statements of the life insurance company's general fund.

(2) The financial statements of the Pension Plan Segregated Funds and the Policyholders' Segregated Funds shall be maintained separately and shall not be combined with each other.

(3) Investments of the segregated funds shall be carried at fair value in the balance sheet, while realized and unrealized gains and losses on investments shall be accounted for in the income statement in the current accounting period.

4) Deposits received from policyholders shall be included in the income statement.

(5) Deposits and withdrawals of funds in the Pension Plan Segregated Funds shall be included in the income statement.

Issues:

The requirement to keep separate records only relates to policyholders' segregated funds but should also relate to pension plan segregated funds.
The financial records of segregated funds should also be kept separately from each other.

Classification of financial instruments should conform to IAS 39 which allows entities to classify financial instruments into four categories:

- Financial assets at fair value through profit or loss.
- Available-for-sale financial assets.
- Loans and receivables.
- Held-to-maturity investments.

This would result in different ways to account for and measure the value of investments and the treatment of unrealized gains.

Proposed Regulation 100
Segregated funds accounting

The financial records of each segregated fund shall be maintained separately from those of the life insurance company's general fund as well as other segregated funds. The financial statements of segregated funds should not be combined with those of the general fund.

The financial statements of the Pension Plan Segregated Funds and the Policyholders' Segregated Funds shall be maintained separately and shall not be combined with each other.

Investment assets of segregated funds shall be measured and reported in accordance with the national accounting standards of Jamaica.

Policyholders' deposits and encashments in the policyholders' segregated fund shall be included in the income statement.

Deposits and withdrawals of funds in the Pension Plan Segregated Funds shall be included in the income statement.