

invested

Information for investors in Securities, Pensions and Insurance

September 2020

In this issue:

Understanding Financial Regulation
- Insurance.....1

Overview of the Jamaican
Insurance Sector.....3

Jamaica Deposit Insurance
Fund.....4

World Investor Week 2020.....5

National Investor Education
Week 2020.....6



REPRESENTATIVES FROM THE FINANCIAL SERVICES COMMISSION (FSCJAMAICA)
DURING THE CARIBBEAN ASSOCIATION OF PENSIONS SUPERVISORS (CAPS)
VIRTUAL CONFERENCE 2020

Promoting Integrity in the Jamaican Financial Sector.

Understanding Financial Regulation – Insurance



Reasoning with Raymond

Mr. Raymond Knight
Senior Director, Insurance

What is the value of the Insurance Industry?

The insurance industry 2018 audited results were:

General Insurance

Class of Business	Gross Premium Written	
	J\$' Billion	Percentage
Liability	2.2	4.6
Property	21.6	44.7
Motor	22.3	46.3
Pecuniary Loss	1.5	3.1
Marine Aviation and Transport	0.4	0.8
Accident	0.2	0.4
Total	48.2	100.0

Life Insurance

Total gross premiums written in 2018 was around **\$61 billion** with **29%** for sickness & health, **8%** for annuities and **63%** for life insurance.

Are Jamaicans sufficiently educated about the importance of insurance coverage?

The Insurance Division is not aware of any recently conducted survey to determine the level of financial literacy of Jamaicans; nonetheless previous surveys indicated that the level was considered to be low.

<http://jamaica-gleaner.com/article/news/20190917/growth-jobs-be-financially-literate-miller>

What is the role of the Financial Services Commission in the Insurance Sector?

Under the Financial Services Commission Act, 2001 and the Insurance Act 2001, the Financial Services Commission (FSC) is responsible for the supervision of



all life and general insurance companies and insurance intermediaries. It is also the role of the FSC to ensure policyholder protection through a system of regulation and supervision. This supervision is directed from the Insurance Division of the FSC. The Division monitors the insurance industry to ensure that:

- Solvency standards for all entities are met
- The relationships between insurers and their holding, subsidiary and /or associated companies are in accordance with the legislation
- Policyholders have access to information
- Industry players practice good corporate governance as they owe a duty of care to their clients.

The Division monitors both local and branches of foreign companies offering life and general insurance products, and the activities of:

1. Brokers
2. Agents
3. Sales Representatives,
4. Insurance Consultants and
5. Adjusters

How can we achieve higher levels of insurance coverage?

People purchase insurance according to their personal needs, however; increased coverage may be possible:

- By lessening mistrust of participants within the insurance sector. The work of the FSC is intended to maintain the integrity of the insurance industry and in so doing, builds public confidence;
- By increasing the financial literacy level of our population. Specifically, educating persons on the importance and the benefit of having insurance coverage.

What are the national implications for low coverage?

As it relates to under insurance or having no insurance, then this could possibly lead to a financial burden on the government (think of the public healthcare system). In a situation where a breadwinner within a home dies and there is no insurance, then the household could suffer tremendous setback. Increase in poverty.

What is Micro Insurance and will this help increase overall coverage?

Micro Insurance is insurance coverage designed and targeted to the low income or underserved population. The following are some of the main features of the Micro Insurance Business:

- (a) the perils covered, if materialized, would severely impact the insured's livelihood;
- (b) the annual premium should not exceed more than the minimum monthly wage pursuant to the current National Minimum Wage Act; and
- (c) The policy duration should not exceed one year but may be renewed at the end of each year.

Additional information can be found in the **MICRO-INSURANCE CONSULTATION PAPER 2019 (IR-CONSUL-19/ 03-0018)**, which can be found on the FSC's website at: <http://www.fscjamaica.org/regulated-industries/content-1229>

With Micro insurance forming a part of Jamaica's National Financial Inclusion Strategy, this could possibly bring about an increased level of insurance coverage.

What is the role of the FSC when it comes to reinsurers and why are they important?

A reinsurer is a company that provides financial protection to insurance companies. The arrangement entered into by the insurer and the reinsurer is called a reinsurance arrangement. Reinsurers are important, as reinsurance:

1. Is used by insurers as a risk management tool;
2. Can stabilize financial losses;
3. Helps protect against insolvency major claims events, such as major disasters like hurricanes, earthquake and fires;
4. Allows an insurer to take on more policyholders by increasing its capacity.

Insurers are able to benefit from reinsurers valuable advice based on their expertise in underwriting and their ability to set appropriate premium for specific (specialized) risk.

In addition to the afore mention benefits of reinsurance, the FSC recognizes that by entering into reinsurance arrangements, insurers are exposed to various risks including operational, legal, counterparty and liquidity risks.

As such, the FSC developed **GUIDELINES ON REINSURANCE PRACTICES AND PROCEDURES (IR-GUID-14/10-00017)**, which can

be found on the FSC's website at: <http://www.fscjamaica.org/regulated-industries/content-1229>

The principles outlined in the Guidelines are intended to assist insurers in developing prudent approaches to managing its reinsurance risk. Included in the Guideline is a FSC requirement that every registered insurer have a formal Policies and Procedures document that is adopted by its Board of Directors and clearly establishes a framework for the insurer's reinsurance practices. This is in keeping with international standards on corporate governance.

Does self-insurance exist in Jamaica?

Yes. Self-insurance is a risk management technique utilized by a company or individual, in which a pool of money is set aside to be used to cover possible losses rather than by purchasing an insurance policy.

What is the process for establishing an insurance company in Jamaica?

The **Requirements for Registration as an Insurance Company (IR-ADVI-18/12-0008)** is located on the FSC's website. For ease of reference, please find same at the following link: <http://www.fscjamaica.org/registration/content-1178>

What is consolidated supervision and how does this impact insurance companies?

Consolidated Supervision otherwise called group-wide supervision can be defined as a comprehensive approach (involving qualitative and quantitative elements) to the supervision of financial institutions that provide services to the public in the insurance, securities and pensions sectors to (i) identify, assess and understand the non-financial and financial risks (on- and off-balance sheet) within the entire group and the possible threat posed to these institutions; and (ii) to address any deficiencies in management, operations, capital, liquidity or intra-group exposure before they pose a threat to other entities within the group and the wider financial market.

Simply put, group-wide supervision is the coordination and cooperation with regulators to supervise and monitor the activities in a financial group. Insurance companies with a bank in the group are required to have a holding company under the Banking Act.

Following amendment to the relevant legislation, an insurance company, its parent company, subsidiaries, affiliates and any other company in the group with the insurance company; will have to comply with the requirements to facilitate group-wide supervision. ♦





Overview of the Insurance Sector

There were nineteen registered insurance companies as at March 31, 2020. All of the seven registered life insurance companies were operational while eleven of the twelve registered general insurance companies were operational. Life insurance companies continued their dominance within the insurance sector, accounting for 80 per cent of the sector's total assets while the general insurance companies accounted for 20 per cent as at end-March 2020.

Life Insurance

Invested assets for the life insurance companies grew by 5 per cent to \$317.7 billion as at March 31, 2020 from the \$302.5 billion as at end March 2019. Aggregate total assets increased by 7 per cent to \$351.4 billion as at March 2020. Combined capital, surplus and reserves increased by 9.7 per cent over the amount seen at the end of March 2019 to \$106.8 billion (see Table 1). This was due to a 13 per cent growth in aggregate retained earnings to \$90.1 billion as at March 2020. (March 2019: \$79.7 billion)

For the quarter ended March 31, 2020, net premium earned for the industry amounted to \$18 billion, reflecting an increase of 15.3 per cent when compared to the net premium earned of \$15.6 billion for the similar period in 2019. Due to growth in (i) revenue from management fees and (ii) unrealized foreign exchange gains, other income rose by 53.3 per cent over the comparative period in 2019. Combined Net investment income eroded over the period, as there was net investment loss of \$ 6.2 billion in the June 2020 quarter, but for the comparative period in 2019, net investment income amounted to \$5 billion. The net investment loss was attributable to the unrealized capital loss due to the reduction in local and international equity prices as a result of the adverse impact of the COVID19 pandemic. Consequently, combined total revenue for reporting quarter was \$14.0 billion while for the first quarter of 2019 total industry revenue was \$22.2 billion.

Total expenses including taxes for life insurers amounted to \$9.95 billion (March 2019: J\$17.7 billion). This was partially due to a \$1.8 billion or a 27.03 per cent contraction in operational expenses, as well as a decrease of \$5.3 billion in actuarial reserves. The change in the company's actuarial reserves was mainly due to changes in the 2019 year end assumptions. Aggregate net income before taxes was \$5.2 billion, which was 2 per cent less than the \$5.3 billion earned for the similar period in 2019. Return on capital for the life industry, was 4.9 per cent (March 2019: 5.5 per cent) (See Table 3).

Table 1 - Statistical Information and Financial Position of the Life Insurance Industry

As at	Mar 19 \$'B	Jun 19 \$'B	Sep 19 \$'B	Dec 19 \$'B	Mar 20 \$'B	%age Change between Mar '19 & Mar '20
Balance Sheet						
Total Investment Assets	302.5	306.4	309.1	310.4	317.7	5.0
Total Assets	328.1	334.5	338.9	344.2	351.4	7.1
Insurance Liabilities	116.5	122.1	123.2	119.2	115.0	(1.3)
Other Liabilities	114.2	112.0	110.0	116.8	129.6	13.0
Total Liabilities	230.7	234.0	233.2	235.9	244.6	6.0
Capital & Surplus	97.4	100.5	105.7	108.3	106.8	9.7
Profit and loss (YTD)	Mar 19 \$'B	Jun 19 \$'B	Sep 19 \$'B	Dec 19 \$'B	Mar 20 \$'B	%age Change between Mar '19 & Mar '20
Net Premium Earned	15.6	31.6	49.9	66.9	18.0	15.3
Net Investment Income	5.0	13.4	23.0	28.4	(6.2)	(224.0)
Other Income	1.5	3.8	6.0	7.8	2.3	53.3
Total Expenses before tax	16.6	35.4	56.7	72.8	8.8	(-47.0)
Net Income before tax	5.3	13.4	22.1	30.3	5.2	(1.9)
Net Income	4.3	10.9	18.2	24.5	4.1	(5.0)

General Insurance

Total assets of the general insurance companies were \$88.9 billion as at March 2020. This represented a growth of 7 per cent over the amount recorded at March 31, 2019. Invested assets for the sector stood at \$51.5 billion at the end of the March 2020 quarter, which was 3.7 per cent below the figure at March 2019. While the combined total liabilities rose 14.5 per cent, the capital base for the sector fell by 8.1 per cent to \$24.8 billion.

For the reporting period, aggregate net premium earned was \$5.6 billion, representing a 14.3 per cent increase over the corresponding period in 2019. While the general companies made realized gains of \$79.9 million for the March 2019 quarter, the sector experienced realized losses of \$378 million for the quarter ended March 2020 due to the impact of the COVID-19 which contributed significantly to the increased stock market volatility locally and internationally. Consequently, combined net investment income decreased by 80 per cent to \$113.8 million

Total revenue for the industry grew by 0.2 per cent to \$5.8 billion for the March 2020 quarter (March 2019: \$5.6 billion). With combined total expenses including taxes amounting to \$5.9 billion, there was a net loss of 0.8 billion and as a result, there was a negative return on equity. (See Table 3).

Table 2 - Statistical Information and Financial Position of the General Insurance Industry

As at	Mar 19 \$'B	Jun 19 \$'B	Sep 19 \$'B	Dec 19 \$'B	Mar 20 \$'B	%age Change between Mar'19 & Mar '20
Balance Sheet						
Total Investment Assets	53.5	54.9	53.3	51.1	51.5	-3.7
Total Assets	83	91.7	88.5	86.3	88.9	7.1
Insurance Liabilities	44.9	50.3	49.8	48.6	49.1	9.4
Other Liabilities	10.8	13.4	12.4	11.7	14.6	35.2
Total Liabilities	55.7	63.7	62.1	60.3	63.8	14.5
Capital & Surplus	27	27.8	25.9	25.9	24.8	-8.1
Profit and loss (YTD)						%age Change between Mar '19 & Mar '20
Net Premium Earned	4.9	10.4	15.7	21.1	5.6	14.3
Net Investment Income	0.5	1.5	2.2	3.3	0.1	-80
Other Income	0.2	0.5	0.8	0.8	0.1	-50
Total Expenses before taxes	5.1	10.8	15.8	21.1	5.8	13.7
Income (Loss) before Tax	0.4	1.5	2.9	4.1	-0.01	-102.5
Net Income / Loss	0.3	0.9	1.9	3	-0.08	-126.7

Table 3 - Selected Prudential Ratio for Insurance Companies

Ratio	19- Mar	19- Jun	19- Sep	19 -Dec	20 Mar	FSC Benchmark
Life Companies						
Solvency Ratio	42.2	42.9	45.3	45.9	43.7	≥ 10%
Return on Capital (YTD)	5.5	13.3	21.0	28.0	4.9	≤ 20%
General Companies						
Solvency Ratio	48.6	43.6	41.6	42.9	38.7	≥ 25%
Return on Capital (YTD)	1.6	5.3	11.3	15.8	- 0.04	≤ 20%
Underwriting Ratio (YTD)	102.3	104.3	100.7	99.9	104.4	≤100%



DEPOSIT INSURANCE FUND NOW AT \$26 BILLION

THE Jamaica Deposit Insurance Corporation (JDIC) recently said that the build-up of funds secured to provide protection for the depositors of financial institutions under the deposit insurance scheme now totals approximately \$26 billion.

Chief executive officer (CEO) of JDIC, Antoinette McKain said the fund, which has been built up over several years, is financed from the annual premiums charged to financial institutions.

“The law [states] that banks, building societies and merchant banks are to pay to the JDIC every year a premium, and that premium is based on how much deposits are being held by the bank. JDIC invests those premiums every year in safe investments and a fund is built up — this has been built up over time and that fund is actually now at \$26 billion. That's what we [will] use to pay depositors. If the fund is not enough, JDIC can borrow to supplement that fund,” she shared while speaking at a digital town hall meeting.

She further noted that since the country has, fortunately, never had a bank failure since the corporation was established some 22 years ago, the fund has had a significant length of time to accumulate funds due to fact that funds have never had to be paid out to any depositor.

“The financial system is also regulated by the Bank of Jamaica — that's the first line of defense for the protection of depositors. The second line of defense, which if the bank actually fails, is the JDIC – which will make payments up to the prescribed maximum limit,” McKain said.

A ministerial order, approved by both Houses of Parliament, which took effect on August 31, saw the doubling of the deposit insurance coverage limit from \$600,000 to \$1,200,000. Minister of Finance and the Public Service Dr Nigel Clarke, in justifying the move, said it will help to increase depositors' confidence in deposit-taking institutions, support market discipline, and ensure continued financial system stability.



WORLD INVESTOR WEEK 2020

World Investor Week (WIW) is an annual initiative of the International Organization of Securities Commissions (IOSCO) geared towards promoting financial literacy and the inclusion of the citizens of the organization's members. Within the structure of IOSCO a sub-organization, the International Forum on investor Education (IFIE) is constituted by numerous countries (or jurisdictions) represented by their respective securities industry regulators, central banks, exchanges etc.; Jamaica's is the Financial Services Commission (FSC). The FSC along with its fellow members have gone through extensive planning to see to it that WIW 2020 comes to fruition despite the global pandemic that has been ravaging the world for the greater part of a year.

The jurisdictions of IFIE have shown great dedication and teamwork in organizing the proceedings for WIW 2020, which will be fittingly centered on Financial Resilience. This aspect of financial planning and management is a key part of everyone's financial future, especially given the circumstances we are currently presented with. Financial resilience is the ability to withstand life events that may impact the income and /or assets of an individual, their community or country. There are several tiers of financial resilience and the jurisdictions have all agreed to explore each and every one of them for this year's WIW.

If you are interested in WIW2020 or financial literacy, inclusion, resilience or would like to know more about IOSCO, feel free to visit their website <https://www.worldinvestorweek.org/index.html> . Also, be sure to follow the Financial Services Commission on Facebook, Instagram, LinkedIn and YouTube for great WIW content and more!



NATIONAL INVESTOR EDUCATION WEEK 2020

The NIEW was launched in 2007 by the JSE with a mandate to educate the population on the importance of savings and investments as the way to wealth creation. The Jamaica Stock Exchange (JSE) recognized that investment in financial knowledge pays the best dividend and that persons who are financially literate generally make better savings and investments decisions. Economists worldwide agree that savings and investments by individuals are important both for personal wealth creation and economic growth.

The JSE through the NIEW is playing its part to encourage these very important principles in the decision-making of all possible market participants.

This year, the NIEW is being held from September 27, 2020 to October 2, with particular focus on investing. The Financial Services Commission (FSC), a longtime partner of the Jamaica Stock Exchange during and beyond this week of activity, had representatives to both present and moderate at the JSE's Open House Free Market Tutorials. Senior Director of Compliance and Internal Control at the FSC, Robert Hamilton gave an in depth presentation on the FSC's role in regulating the securities industry to promote protection of its users, transparency and efficiency. Robert was partnered as a duo of FSC representatives by Manager of Communication and International Relations, David Geddes who was the moderator of the event.

Several important aspects of regulation were explored, including legislation governing the securities industry, the areas of focus in securities supervision, the various tools used to supervise the industry and others.

The week of activity ended on Friday October 2, 2020 with the JSE hosting its Market Research Final competition. As always, the FSC looks forward to the National Investor Education Week, as we seek to promote financial literacy as a means to realizing financial inclusion as part of the



NATIONAL INVESTOR EDUCATION WEEK 2020

National Financial Inclusion Strategy; a subcategory of Jamaica's Vision 2030 plan for socio-economic development.

Melanie Williams, Project Coordinator of Jamaica's National Financial Inclusion Strategy also shared her presentation on the importance of financial inclusion to the future of Jamaica and its citizens. This initiative to improve financial literacy is one of the many strategies used by the Bank of Jamaica to stimulate financial inclusion.

The FSC's strategy specifically targets young adults between the ages of 12 and 16, teaching them core financial skills that will inform their life decisions in the future. This initiative is called the Schools' Financial Education Programme (SFEP), and since inception has touched the lives of over 5,000 students across the island. The programme also encourages students to express themselves through various means including writing and the performing arts by making essays, skits, songs and/or jingles to embody the various themes of learning that each annual edition of the programme is centered on.



THANKS FOR READING!

FOLLOW US ON INSTAGRAM, FACEBOOK AND LINKEDIN!

ALSO BE SURE TO SUBSCRIBE TO OUR YOUTUBE CHANNEL WHERE WE POST AWESOME INFORMATIONAL CONTENT CENTRED AROUND THE FSC, WHO WE ARE AND WHAT WE DO!

CLICK THE ICONS TO GO TO OUR PAGES!

@FSCJAMAICA



FINANCIAL SERVICES COMMISSION



David Geddes
geddesd@fscjamaica.org

Patricia McDowell
mcdowellp@fscjamaica.org

Toni-Ann Bryson
brysont@fscjamaica.org

David Answer
answerd@fscjamaica.org

The editorial staff of the Invested newsletter welcomes your comments, suggestions and articles as we strive to share financial information with our many stakeholders.

The Financial Services Commission also welcomes invitations to speak at forums as well as community meetings.

Public education and financial literacy are critical elements as we pursue financial inclusion.