

MINISTRY PAPER 6/18
FINANCIAL SERVICES COMMISSION
ANNUAL REPORTS
FOR YEARS ENDED MARCH 31, 2016

1.0 INTRODUCTION

1.1 The matter for tabling in the Honourable Houses of Parliament is the Annual Report of the Financial Services Commission (FSC) for the year ended March 31, 2016.

2.0 OVERVIEW

2.1 The FSC, was established under the Financial Services Commission Act 2001. The Commission's mandate is to regulate and supervise its licensees in the insurance, securities and pension industries, under the FSC, Insurance, Securities, Unit Trusts and Pensions (Superannuation Funds and Retirements Schemes) Acts. In pursuing its mandate, FSC seeks to promote the adoption of procedures to control and manage risk, stability and confidence in financial institutions; the modernization of financial services and public awareness of the financial sector.

3.0 DISCLOSURES

3.1 Auditor's Report

3.2 KPMG, independent auditors of FSC, conducted examinations of the Commission's financial statements in accordance with the International Standards on Auditing and expressed an unqualified opinion. The Auditors indicated that FSC's financial statements give a true and fair view of the financial position of the Commission as at March 31, 2016 and of its financial performance and cash flows for the year. KPMG also stated that the audit evidence obtained was sufficient and appropriate to provide a basis for their opinion and noted that the financial statements were prepared in accordance with International Financial Reporting Standards.

4.0 Compensation of Executive Management and Commissioners

4.1 Pursuant to the Second Schedule (Part 1) of the Public Bodies Management and Accountability Act 2001 (Amendment 2014), details of the compensation packages for senior executives of the Commission are enclosed. For the period under review, salary and emoluments paid to senior executives totalled \$107.38 million, an increase of \$13.38 million or 14.23% above the \$94 million in the prior year. The increase in emoluments was attributed chiefly to the retroactive payment of gratuity to the Executive Director for the year 2014/15. Details of the compensation paid to Commissioners which totalled \$1.61 million are also enclosed.

5.0 FINANCIAL SECTOR OVERVIEW

5.1 The Commission's strategic objectives for the medium term, are aligned with the Government's growth agenda and hence, various legislative amendments were advanced during the year. Specifically, FSC was instrumental in amendments to the Insurance Act, which among other things, require that insurance companies improve their risk management practices and provide enhanced disclosures to policy holders. The Securities (Collective Investment Scheme-CIS) Regulations, 2013 were amended to address operational concerns, chief of which allows a

CIS to hold more than 10% of their portfolio in securities with the Government of Jamaica and the Bank of Jamaica. The Securities (Retail Repurchase Agreements) Regulations, 2014, were also amended to enable FSC to effect the transition of the repurchase agreements into a trust based arrangement, in line with the benchmark agreed under the Extended Fund Facility. It is also of note that through collaborative efforts with the Jamaica International Financial Services Authority, significant work was undertaken as it relates to the proposed International Trust and Corporate Services Provider Bill. This legislation, which will enable the FSC to regulate international trust and corporate services providers, was tabled in Parliament in 2016/17 and is to be debated.

5.2 Industry Data

5.2.1 The outlook remained favourable for the three industries regulated by the FSC, which all grew in size and remained solvent during 2015/16. Most data are available for December 31 due to the reporting timelines for the industries, relative to the timeline for the annual report.

5.2.2. Insurance

5.2.2.1 At March 31, 2016, the combined number of registrants in the insurance industry was 3,383 (2014/15: 3,249). Life and General Insurance companies recorded total assets of \$346,500 million at December 31, 2015 (December 31, 2014; \$321,700 million); Life Insurance companies accounted for 81%. It is notable that the General Insurance companies recorded an average Minimum Continuing Capital and Surplus Requirement (MCCSR) of 362.1% (2014: 357.0 %), which more than doubled the regulatory benchmark of 150%.

5.2.3 Securities

5.2.3.1 At March 31, 2016, there were 44 securities dealers (companies); there were two cancellations during the year. At December 31, 2015, total assets managed by securities dealers (companies) amounted to \$952,960 million, (2014: \$958,820 million). However, total Funds Under Management increased by \$124,620 million to \$1,150,530 million. FSC is of the view that the entities may have strategically managed more of their client's funds off balance sheet.

5.2.3.2 At December 31, 2015, the Unit Trust sub-industry comprised twelve (12) Funds managed by five (5) fund managers. The funds managed by Unit Trusts companies totalled \$142,500 million, a \$39,900 million or 35.81% increase over the \$111,400 million at the prior year end. The growth was due mainly to large purchases by investment managers for pension plans and the movement of clients' funds from the Retail Repurchase product to the Unit Trust products. Meanwhile, the total number of transactions in both the Junior and Main Markets increased. The Junior Market recorded a 77% increase in total number of transaction, while there was a 35% increase in the Main Market.

5.2.4 Pensions

5.2.4.1 The Commission regulated 801 pension plans with assets totalling \$396.95 million (2014; \$341,410 million) at December 31, 2015. The total active membership (102,112) was divided between defined benefit (21,856) and defined contribution (80,473).

6.0 FINANCIAL HIGHLIGHTS

6.1 Table 1 shows that FSC recorded a total comprehensive income of \$158.52 million, a decrease of \$87.29 million below the \$245.81 million for 2014/15. The decline in the Commission's performance was influenced primarily by additional expenses which rose by \$142.60 million to \$808.03 million. This was attributable mainly to increases in costs related to

staff (by \$102.76 million), training and conferences (by \$14.13 million) and bad debt (by \$14.07 million). In respect of staff costs, increased salaries, wages and related emoluments were approved by the Ministry of Finance and the Public Service. The retroactive gratuity payment to the Executive Director was also a contributing factor. It is of note that income increased by \$55.31 million to \$930.55 million, chiefly as additional fees (\$45.90 million) were earned in line with the growth in the assets of the combined regulated industries.

Table 1: Profit and Loss Extract 2015/16 (J\$ m)

Particulars	2015/16	2014/15	Change	
			\$ m	%
Income:				
Fees	868.99	826.10	42.89	5%
Interest earned	54.3	48.52	5.78	12%
Other Income	7.26	0.62	6.64	1071%
Total Income	930.55	875.24	55.31	6%
Expenses				
Staff costs	545.21	442.45	(102.76)	-23%
Training and Conferences	31.96	17.83	(14.13)	-79%
Professional fees	25.19	19.96	(5.23)	-26%
Bad Debt	13.21	-0.86	(14.07)	1636%
Public education	11.87	18.87	7.00	37%
Utilities	23.79	26.22	2.43	9%
Depreciation and Amortisation	19.80	15.00	(4.80)	-32%
Other administrative costs	137	125.96	(11.04)	-9%
Total Expenses	808.03	665.43	(142.60)	-21%
Net Surplus	122.52	209.81	87.29	42%
Grant	36.00	36.00	-	0%
Total Comprehensive Income	158.52	245.81	(87.29)	-36%

7.0 BALANCE SHEET

7.1 FSC remained solvent at the end of the 2015/16 financial year and net assets increased to \$917.77 million at March 31, 2016 from \$744.10 million at March 31, 2015. The positive variance was attributed mainly to an increase in resale agreements (by \$203.80 million). Contributors to the aforementioned enhancement were accounts receivable, as well as cash and cash equivalents, which declined by \$25.84 million and \$17.88 million respectively.

8.0 CONCLUSION

8.1 FSC through its regulatory role, continued to contribute to the stability of the insurance, pension and securities industries. During 2015/16, the Commission was integral to the strengthening of the legislative framework, which resulted in amendments to related legislation. There was an overall increase in the total assets of the industries in the financial sector and this contributed to an increase in the revenues of the Commission. It is anticipated that FSC will continue to invest in developing strategies to ensure continued confidence in the regulatory environment remains, given the potential impact of the industries on Jamaica's growth initiative.



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