

**FINANCIAL SERVICES COMMISSION
ANNUAL REPORTS
FOR YEARS ENDED MARCH 31, 2017**

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, 2017.

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 The FSC's independent auditors indicated that FSC's financial statements give a true and fair view of the financial position of the Commission as at March 31, 2017 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, the same as the prior year. Details of the compensation paid to Commissioners which totalled \$2.12 million are also enclosed.

5.0 FINANCIAL SECTOR OVERVIEW

5.1 During the review period, FSC developed a customer service manual and charter to improve its service delivery to customers. In order to enhance its regulatory functions, a number of amendments were undertaken, including amendments to the Securities Act, the Pensions (Superannuation Fund and Retirement Schemes) Investment Regulations with a view to allowing pension funds to invest in broader categories. The FSC, with technical assistance from international agencies and consultation with relevant industry groups, reviewed and revised the regulatory framework by strengthening the capital and prudential standards for insurance companies and securities dealers as well as improved the risk management practices by the regulated entities. The Financial Services Commission Act was amended to confer borrowing powers to provide available options to manage its financing.

5.2 Industry Data

5.2.1 The performance of the financial services industry is influenced by international and local economies. The global economy continues to present both opportunities and challenges for the Jamaican economy; the outlook of the industries regulated by the FSC continued to be favourable. Most data for the industry is 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, 2017, the combined number of registrants in the insurance industry was 3,473 (2015/16:3,382). Life and General Insurance companies recorded total assets of \$368.400 billion as at December 31, 2016 (December 31, 2015: \$346.700 billion); Life Insurance companies accounted for 80.67% of total assets as at December 31, 2016. Both General and Life Insurance companies recorded a Minimum Continuing Capital and Surplus Requirement (MCCSR) of 314.1% and 312.3% respectively; each noticeably above the regulatory benchmark of 150%.

5.2.3 Securities

5.2.3.1 At March 31, 2017 there were 46 securities dealers (companies); there were three (3) cancellations and one (1) addition during the year. At December 31, 2016, total assets managed by securities dealers (companies) amounted to \$1,016.82 billion, (2015: \$952.960 billion). Total Funds under Management increased by \$251.270 billion to \$1,401.800 billion. Approximately 50% of the total balance sheet assets are Government of Jamaica debt securities. Foreign currency denominated investments account for more than 50% of clients funds reported on the balance sheet. This as securities dealers have been repositioning their portfolio to take on more foreign exchange exposure.

5.2.3.2 At December 31, 2016, the Unit Trust sub-industry comprised thirteen (13) Funds managed by six (6) fund managers. The funds managed by Unit Trusts companies totalled \$184.300 billion, a \$42 billion or 29.52% increase over the \$142.300 billion at the prior year end. The growth was due mainly to the introduction of new funds, large purchases by investment managers for pension plans and the continued movement of clients' funds from the Retail Repurchase product into Unit Trust products.

5.2.3.3 The performance of the Equities and Private Debt Markets sub-sector showed that there were eighty six (86) exempt distributions registered (2015: 85) at December 31, 2016. The securities issued via exempt distribution were valued at \$177.600 billion (2015: \$120.100 billion). Meanwhile, the total number of transactions in both the Junior and Main Markets increased. The Junior Market recorded a 100% increase in total number of transactions, while there was a 41% increase in the Main Market. With respect to new public offerings, seven (7) publicly traded equity securities were registered with the FSC, all of which were listed on the Jamaica Stock Exchange. The combined value of these listings was approximately \$2.40 billion, reflecting a year-to-year decrease of 72% in the value of registered equity securities. A single Entity in the prior period was responsible for more than 50% of the total value registered in 2015 resulting in the year to year decrease for 2016.

5.2.4 Pensions

5.2.4.1 The Commission regulated 802 pension plans with assets totalling \$453.100 billion at December 31, 2016 (2015; \$396.900 billion). The total active membership of 115,138 with defined benefit accounting for 21,050 and defined contribution 85,610.

6.0 FINANCIAL HIGHLIGHTS

6.1 Table 1 shows that FSC recorded a total comprehensive income of \$204.06 million, an increase of \$45.54 million or 28.72% above the \$158.52 million for 2015/16. The increase in the Commission's performance was influenced primarily by an increase in fee income which rose by \$50.04 million to \$982.77 million. This was attributable mainly to increases in revenues from annual registration fees from the insurance (by \$43.06 million) and pensions (by \$14.89 million) industries consequent on the increase in the asset base of both industries. With a view towards improving the public's understanding of financial services the FSC undertook the flagship Schools Education Programme and the National Investor Education week 2016.

Table 1: Profit and Loss Extract 2016/17 (J\$ m)

Particulars	2016/17	2015/16	Change	
			\$ m	%
Income:				
Fees	919.03	868.99	50.04	5.76%
Interest earned	57.68	54.30	3.38	6.22%
Other Income	6.06	7.26	(1.20)	-16.53%
Total Income	982.77	930.56	52.21	5.61%
Expenses				
Staff costs	547.85	545.21	(2.64)	-0.48%
Training and Conferences	26.96	31.96	5.00	15.64%
Professional fees	16.12	25.19	9.07	36.01%
Bad Debt	14.41	13.21	(1.20)	-9.08%
Public education	23.40	11.87	(11.53)	-97.14%
Utilities	24.88	23.79	(1.09)	-4.58%
Depreciation and Amortisation	20.78	19.79	(0.99)	-5.00%
Other administrative costs	140.31	137.01	(3.30)	-2.41%
Total Expenses	814.71	808.03	(6.68)	-0.83%
Net Surplus	168.06	122.53	(45.53)	-37.16%
Grant	36.00	36.00	-	0.00%
Total Comprehensive Income	204.06	158.53	45.53	28.72%

7.0 BALANCE SHEET

7.1 The FSC remained solvent at the end of the 2016/17 financial year. Net assets increased to \$1,117.54 million at March 31, 2017 from \$917.79 million at March 31, 2016. The positive variance was attributed mainly to an increase in cash and cash equivalents (by \$170.12 million). At the end of the review period, the Commission held higher levels of cash and cash equivalents in an effort to provide for expected expenditure associated with the International Organization of Securities Commission (IOSC) conference which was held in the following financial year.

8.0 CONCLUSION

8.1 The FSC will continue to pursue its mandate by providing robust regulatory oversight to the insurance, pension and securities industries. This is in an effort to provide assurance to customers, while building a sound and vibrant financial market.

Handwritten signature of Nigel Clarke in black ink.

Nigel Clarke, DPhil., MP
Minister of Finance and the Public Service

May 25, 2018