

MINISTRY PAPER 65/20
FINANCIAL SERVICES COMMISSION
ANNUAL REPORTS FOR YEARS ENDED MARCH 31, 2018 AND MARCH 31, 2019

1.0 Introduction

1.1 The matter for tabling in the Honourable House of Parliament is the Annual Reports of the Financial Service Commission (FSC) for the years ended March 31, 2018 and March 31, 2019.

2.0 Overview

2.1 The FSC was established under the Financial Service 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 Trust 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 leading to stability and confidence in financial institutions. Additionally, the FSC seeks to promote 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 have audited the financial statements of the FSC and indicated that the Commission's financial statements give a true and fair view of the financial position of FSC, and of its financial performance and of its cash flows for the years ended March 31, 2018 and March 31, 2019. KPMG also stated that the audit evidence obtained was sufficient and appropriate to provide a basis for their opinion and noted that the financial statement 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 package for senior executive of the Commission are enclosed. Salary and emoluments paid to senior executives totalled to \$108.54 million and \$106.53 million for 2017/18 and 2018/19 respectively. Details of the fees paid to Commissioners which totalled to \$1.85 million and \$1.82 million for the financial year 2017/18 and 2018/19 respectively are enclosed. Of note, the Executive Director was listed as a part of the Board of Commissioners, however he was not paid any fee during the period.

5.0 Financial Sector Overview

5.1 Jamaica continues to implement its economic reform programme which requires prudent monetary and fiscal policies. This has contributed to the improved performance of

Jamaica's economy. Nonetheless, external shocks from the global economy continue to present upside and downside risks to Jamaica's economic performance. In this context FSC continued to monitor and implement measures to ensure that regulated Entities manage these risks.

5.1.2 During the review period, the FSC maintained its focus on the protection of users of financial services in the specified sectors and expended significant resources in undertaking initiatives aimed at developing the three (3) sectors, executing its financial education programme and improving its technological capabilities. Much of this work was done under the Government of Jamaica's national financial inclusion strategy and included the following:-

1. Prudential Supervision- draft amendments to the pensions (Superannuation Fund and Retirement Schemes) Act with a view to allow pension funds to invest in broader categories and address the criteria for exemption of pension plans from submitting audited financial statements.
2. Market Conduct Supervision - for the financial year 2018/19 there was a total of 72 complaints received (2017/18 – 109 complaints). Complaints from the General and life insurance sector represented on average 70.20% of the total complaints over both periods. Pensions and securities represented on average 19% and 9.50% of complaints respectively over the periods. The Commission had 109 cases (101-2017/18) under investigation for fit and proper and breaches resulting in a number of enforcement activities.
3. Market Development – FSC sought to implement a number of regulatory and supervisory reforms over the period to better enhance the role of the Commission. During the period the Corporate Services Providers Act was enacted to facilitate the regulation of the providers of non-deposit-taking financial services to clients outside of Jamaica. Efforts are being made to assist with the development of the regulation for promulgation. In the insurance sector there have been ongoing developments of a supervisory and regulatory framework for the micro insurance industry.
4. Financial Education campaign – the Commission has continued its campaign to empower the financial decisions of the market in particular young persons. As such the FSC increased the number of town hall meetings to seven (7) after starting the initial series with two (2) town hall meetings in 2017/18. In addition, the Commission further expanded the School Education Programme which sponsors a programme to build the financial skills of young people. A total of seventeen (17) schools participated in the programme over a four (4) month period.
5. Anti-Money Laundering Procedures - FSC reviewed the 2015 guidelines for anti-money laundering and counter financing of terrorism (AML/CFL) for regulated entities to further develop the measures implemented by financial institutions. Further FSC established an AML Unit in April 2018 in keeping with recommendations by the Caribbean Financial Action Task force that AML/CFL activities be segregated from core supervision.

6. International Partnership – collaborations continued to be facilitated with global partners to advance areas of common interest in the insurance, securities and private pensions industries. One such engagement is with the Toronto Centre in developing a risk-based approach to supervision the Centre provides guidance on developing the supervisory framework and tools and training geared towards building institutional knowledge.

5.2 Industry Data

5.2.1 Insurance

5.2.1.1 The total number of registrants in the insurance industry as at March 31, 2019 was approximately 3,815 (March 2017/18 – 3,631). Some of the major contributors include insurance sales representative, general insurance companies and life insurance companies. For the 2018/19 financial year there were twelve (12) registrants for general insurance and seven (7) registrants for life insurance. For the year ended December 31, 2018, the general insurance companies employed approximately (1,192) persons and wrote 509,063 policies. The weighted average Minimum Capital Test (MCT) ratio for the general insurance companies at the end of 2018 was 385%, which exceeded the prescribed capital required of 250%. Nine (9) of the twelve registered general insurance companies reported MCT scores above the 250% regulatory benchmark as at December 31, 2018. The general insurance companies recorded total underwriting revenue of \$20.1 billion for the year which represented a 9.5% comparative increase over the \$18.3 billion recorded in 2017.

5.2.2 Securities

5.2.2.1 As at March 31, 2019, there were forty-one (41) companies and three (3) individuals licensed as securities dealers in the market. As at March 31, 2019 total assets managed by securities dealers totalled \$1,016.82 billion. The total balance sheet capital of the securities industry (comprising core and non –core securities dealers) stood at J\$184.8 billion, an improvement of 2.6% when compared to the similar period in 2017. The improvement in the total capital for the securities was primarily attributable to a 9.3% increase in capital held by the non-core securities dealers. Foreign currency denominated investments accounted for more than 50% of clients funds reported on the balance sheet. This as securities dealers have been repositioning their investment portfolios to take on more foreign exchange exposure.

5.2.3 Pension

At December 31, 2018, the number of active pension plans were 389, ten (10) fewer than the amount reported as December 31, 2017. The 389 active plans represented 48% of the total number of private pension plans and of the 389 active plans 292 were defined contribution plans.

6.0 Financial Highlights

Table 1: Profile and Loss Extract 2017/18 and 2018/19 (J\$M)

Particulars	2019 \$M	2018 \$M	2017 \$M	Changes (2019 and 2018)		Changes (2018 and 2017)	
				\$M	%	\$M	%
Income:							
Fees	1,150.66	1,027.70	919.03	122.96	11.96%	108.67	11.82%
Interest Income	22.7	44.42	57.68	-21.72	-48.90%	-13.26	-22.99%
IOSCO 2017	0	155.4	0	-155.40	-100.00%	155.40	100.00%
Other Income	48.86	2.50	6.06	46.36	1854.40%	-3.56	-58.75%
Total Income	1,222.22	1,230.02	982.77	-7.80	-0.63%	247.25	25.16%
Expenses:							
Staff costs	656.35	591.99	547.84	64.36	10.87%	44.15	8.06%
Training and Conferences	33.01	11.61	26.97	21.40	184.32%	-15.36	-56.95%
Professional Fees	45.26	37.12	16.12	8.14	21.93%	21.00	130.27%
IOSCO 2017	0	319.04	0	-319.04	-100.00%	319.04	
Public Education	49.26	28.05	23.40	21.21	75.61%	4.65	19.87%
Utilities	29.06	26.65	24.89	2.41	9.04%	1.76	7.07%
Depreciation and Amortisation	23.02	20.15	20.78	2.87	14.24%	-0.63	-3.03%
Other Administrative Cost	139.76	119.12	118.71	20.64	17.33%	0.41	0.35%
Total Expense	975.72	1,153.73	778.71	-178.01	-15.43%	375.02	48.16%
Net Surplus/Deficit	246.50	76.29	204.06	170.21	223.11%	-127.77	-62.61%

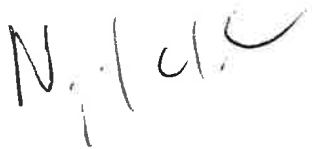
6.1 Table 1 shows that FSC recorded total revenue of \$1,222.22 million (2017/18 - \$1,230.02 million) which was net against expenses of \$975.72 million (2017/18 - \$1,153.73 million) which resulted in a surplus of \$246.50 million (2017/18 - \$76.29 million). The increase in the Commission's performance was influenced primarily by a decrease in expenses of \$204.06 million when compared to the 2017/2018 financial year. This was attributed mainly to cost associated with the hosting of the International Organization of Securities Commissions conference in May 2017.

7.0 Balance Sheet

7.1 The FSC remained solvent at the end of the 2018/2019 financial year. Net assets increased to \$1,424.47 million from \$1,198.98 million as at March 31, 2019. The positive variance was attributed mainly to an increase in fees collected as a result of the aforementioned improvement in the performance of the regulated entities. During the year, the Commission diversified its investment portfolio to reduce its risk exposure and over reliance on resale agreements. FSC has allocated its holdings in bonds, unit trust and resale agreement with securities dealers and commercial banks.

8.0 Conclusion

- 8.1 FSC continues to position itself to be able to offer an enhanced level of consumer protection while safeguarding the stability and reputation of Jamaica's non-deposit financial sector. Significant resources have been expended in conducting research to determine how to continue to build out an inclusive financial system that affords greater access to capital.



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