



**FINANCIAL SERVICES
COMMISSION**

“Building a Roadmap to Regulatory Excellence”

**Annual Report
(2015/2016)**

LETTER OF TRANSMITTAL

September 15, 2016

The Hon. Christopher Sinckler, MP
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Sir,

I have the honour of submitting for your consideration, the Annual Report of the Financial Services Commission for the year ending March 31, 2016, in accordance with the provisions of Sections 50 of *The Financial Services Commission Act*.

Yours faithfully,

FINANCIAL SERVICES COMMISSION



Sir Frank Alleyne K.A, Ph.D
Chairman

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Vision Statement

To be recognised as a financial services regulator that is committed to integrity, excellence and the development of Barbados as a sound and competitive financial services centre.

Mission Statement

To promote soundness, stability and transparency within Barbados' non-bank financial sector, using professional staff to provide effective and efficient supervision and regulation in line with acceptable global best practices.

Corporate Values

- *Excellence*
- *Integrity*
- *Public Accountability*
- *Transparency*

About Us

The Financial Services Commission (FSC) is an integrated regulatory body, established on April 1, 2011 by virtue of the Financial Services Commission Act, 2010. It represents a consolidation of the regulatory and supervisory functions previously conducted by the Supervisor of Insurance and Pensions, the Securities Commission and the Co-operatives Department, insofar as it relates to credit unions. FSC is, therefore, responsible for supervising and regulating entities in the insurance, occupational pensions, credit unions and securities sectors which are licensed or registered under the following Acts of Parliament:

- *Exempt Insurance Act, Cap. 308A*
- *Insurance Act, Cap. 310*
- *Occupational Pension Benefits Act, Cap. 350B*
- *Securities Act, Cap. 318A*
- *Mutual Funds Act, Cap. 320B*
- *Co-operative Societies Act, Cap. 378A (as it relates to the supervision and regulation of credit unions)*

FSC issues guidelines, establishes standards for institutional strengthening, and seeks to increase the competitiveness of the financial services sector. In addition, FSC endeavours to promote stability, public awareness and instill public confidence in the operations of non-bank financial institutions.

MESSAGE FROM CHAIRMAN OF THE BOARD



Sir Frank Alleyne K.A, Ph. D

The Financial Services Commission (Commission) was established on April 1, 2011. The first five years was focused on the building of the relevant infrastructure that would facilitate the development of an operational and governance framework which would allow for sustained supervision of the non-bank financial sector. Although still considered to be in its early stages of operation, we are encouraged by the substantial achievements recorded. During the 2015-2016 fiscal year the Commission maintained its focus on implementing its strategic plan. Although a young organisation, the Commission invested much intellectual energy into crafting a five-year strategic plan to serve as the road map for its development. The plan also sought to ensure that we created and maintained an effective governance structure for the Commission's operations. At the outset we documented the Commission's key strategic objectives and core values within the strategic plan, thereby establishing the foundation for the policy decisions that are necessary to ensure that the plan was effectively implemented and that the new policies and procedures became institutionalised in the FSC. By institutionalising the policies into the Commission's operations, we are able to maintain quality output in the short and medium-term.

The Commission is satisfied that the governance structure it has implemented is of a high quality, and that the internal operational activities are structured with a view to maintaining appropriate oversight of all entities registered with the Commission in a timely and consistent manner. This type of ongoing financial supervision of the entities will support the Commission's mandate of promoting financial stability in the non-bank financial sector.

The steady progress recorded augurs well for the development of the Commission into an efficient and effectively managed regulator. The solid performance recorded tells the story pertaining to the outcome of an energised staff, working in harmony with a Board of Commissioners that offer a range of professional skills and experiences. The Commission, however, has no intention of resting on the basis of any achievement it has made to date. We will continue to ensure that we strive for excellence with respect to the oversight of the non-bank financial sector, and the transformation of the Commission into a highly efficient, effective, and respected financial regulator locally, regionally and internationally. We are satisfied that the strategic plan we have in place will support our continued development as an institution and promote financial stability in the Barbados. We will review our strategies to respond to the internal and external developments as necessary.

I am pleased to report that the Board of Commissioners and its respective sub-committees have recorded another productive year as it relates to the decision-making at the Commission. The policies and strategies that we implemented have conduced to the enhancement of governance, creation of a higher level of operational efficiency and improvement in the financial management of the Commission. Based on the progress made during the past five years we are confident that the Commission is on the right development path and has the necessary technical capacity and vision to become a financial services regulator of the highest quality.

The Commission places on record its continued appreciation for the effective partnership it shares with the Central Bank of Barbados and the Ministry of Finance and Economic Affairs in the pursuit of its remit. We also acknowledge our gratitude to the management and staff of the Caribbean Development Bank, and the Caribbean Regional Technical Assistance Centre (CARTAC), for their unwavering support with respect to the enhancement of the Commission's regulatory capacity. On behalf of my colleague commissioners, management and staff of the Commission, I convey our gratitude to the Minister of Finance and Economic Affairs – the Hon. Christopher P. Sinckler, M.P. who has been steadfast in his support for the work of the Commission.

CHIEF EXECUTIVE OFFICER'S REPORT



Mr. Randy Graham

The 2015-2016 financial year was another productive period for FSC as we continued to focus on our mandate of promoting stability in the non-bank financial services sector in Barbados. We reviewed our first five years which was dedicated to the building out of the Commission's architecture. The first order of business during that period was allocated to the operational structure, honing our technical skills, and building regulatory capacity to develop a robust regulatory framework in our mission to do what is best for the development of Barbados.

We have worked diligently to improve the robustness of our risk-based supervisory framework by building financial soundness and early warning indicators into our risk assessment models employed to assess companies operating in the insurance, pensions, securities, and credit union sectors. The Commission places on record its sincere gratitude to all strategic partners who aided the process and facilitated the development of FSC's risk assessment models. In particular, special mention to the Ministry of Finance and Economic Affairs and the Caribbean Regional Technical Assistance Fund (CARTAC) which combined to provide global specialists and technical assistance to review our assessment models and provide training which contributed to the benchmarking of our regulatory tools against international best practices.

The Board of Commissioners, management and staff of FSC are committed to achieving the ultimate objective of promoting financial stability, and have been resolute in putting in the effort and making the decisions necessary to ensure our continued development as a regulator. To this

end, we distilled several important regulatory lessons from the recent global financial crisis that devastated developed and developing economies, and the institutional defaults at home and abroad which ensued from the crisis. The Commission has taken several decisions to strengthen the regulatory environment thereby providing improved ongoing supervision and protection of investors, and consumers of non-bank financial products in Barbados. Some of these improvements include:

- Institution of mandatory quarterly statutory reporting to the FSC in addition to the annual audited financials submitted by regulated entities to ensure that we have current financial statements from which to conduct timely analysis; Released amended statutory reporting forms to capture more of the critical statistical information needed to assess entities;
- Assignment of each regulated entity to an officer who has the responsibility of conducting annual assessments of the company, and holding these officers accountable for completing the annual assessments;
- Implementation of a risk-based supervision framework to ensure that entities are ranked according to their individual risk to the financial system and regulatory resources are apportioned to the entities in relation to their risk;
- Submitted proposed legislative amendments to the FSC Act, Insurance Act, Securities Act, Cooperative Societies Act, Occupational Pension Benefits Act, and Deposit Insurance Act aimed at strengthening the legislative framework and filling the lacunae in the legislation identified from previous financial institution defaults particularly as it relates to related party transactions and statutory filings;
- Released several guidelines to the non-bank sector to establish best practices for operations of financial institutions in Barbados;
- Ensured that all statutory funds for insurance companies are properly established under trust agreements and funded in accordance with the legislation;

- Worked to advance the creation of deposit insurance for credit unions;
- Increased our public outreach with additional publications into the Financial Stability Report and additional statistical releases on our website; and
- Took enforcement action where necessary to rehabilitate financial institutions trending in the wrong direction and suspend or cancel the license of others where applicable.

The Commission will continue to advance its work in the area of assessment, inclusive of the assessment of the risk culture inherent in our regulated financial institutions, as a key factor in promoting financial stability across all sectors. We are building capacity in our unique stress testing models which are specific to the non-bank sector which will give us improved predictive power from our analytical assessments. In the area of Anti-Money Laundering (AML), the Commission has established an internal team to support the country's preparation for the Caribbean Financial Action Task Force (CFATF) 4th round Mutual Evaluation Exercise. We are acutely aware of the importance for Barbados to have robust AML procedures in operation throughout our regulated entities and we are committed to working with our colleague departments to do what is necessary to have positive results in this area.

Externally, the FSC continues to be recognised by its regulatory peers as a progressive regulator. We have been invited to sit on committees for various decision-making bodies, and asked to participate in various regulatory conferences and meetings. We are committed to doing the right things to ensure that our reputation as a pristine, strong and fair regulator is maintained and by extension, maintaining the pristine reputation of Barbados as an international financial services centre.

Internally, the FSC's Board, management and staff, continue to look for innovative ways to run efficient operations while maintaining a high-performance culture and high levels of productivity. Our Finance Department conducts ongoing assessments of our expenditure and our cash flow to ensure that our allocations of expenditure are cost-effective at all times, and our expenditure is in line with our income. This is reflected in our most recent audited financial

statements. We will continue to focus on expenditure control and on financial independence. The staff of the FSC must be commended for their ongoing commitment to this task.

On behalf of the management team, I place on record, our appreciation for the professionalism shown by FSC's Board of Commissioners in executing their duties. The Board has at all times acted in a manner that exemplifies good governance and has supported our corporate development. In addition, we recognise that our staff members are the most important element of our effectiveness as a regulator. They demonstrate their dedication to ensuring that the Commission's work contributes to promoting financial stability and public confidence in Barbados. Our staff must also be commended for their open-mindedness and flexibility in approach as we managed a period of sustained change at FSC, while building a new risk-based supervisory framework and simultaneously seeking financial independence. We have adopted a motto of "One Team, One Goal" at the FSC and this has paid dividends as we band together to create a regulator which is committed to excellence. Without good quality staff we would not be where we are today. I close by recording my profound appreciation to the staff for demonstrating their ownership of our vision, and I look to the future with excitement as we actualise our potential as a robust regulator.

FSC Management Team

Chief Executive Officer	<i>Mr. Randy Graham</i>
Deputy Chief Executive Officer	<i>Mr. Kester Guy</i>
General Counsel	<i>Mrs. Cyralene Benskin-Murray</i>
Manager – Credit Unions	<i>Mr. Curtis Lowe</i>
Manager – Examinations	<i>Mr. David Shepherd</i>
Manager – Finance & Planning	<i>Ms. J. Waveney Forde</i>
Manager – Human Resources	<i>Ms. Joanne Mapp</i>
Manager – Information Technology	<i>Mr. Emmerson Cadogan</i>
Manager – Insurance	<i>Mrs. Leticia Alleyne</i>
Manager – Research & Policy	<i>Ms. Kerry-Ann Alleyne</i>
Manager – Securities	<i>Ms. Rosina Knight</i>

Corporate Governance

The FSC is an integrated financial services regulatory agency governed by a Board of Commissioners appointed by the Minister of Finance and Economic Affairs. The Commissioners hold office for a period of three (3) years, with each member being eligible for reappointment. The Board sets policy and within a framework of effective controls, has ultimate responsibility for providing leadership and oversight to FSC's operations. The Board and FSC's executive management team are committed to conducting affairs according to the highest standards of corporate governance and integrity applicable to statutory bodies, particularly to regulatory agencies.

Board of Commissioners

Sir Frank Alleyne is a retired University of the West Indies Professor of Economics. He has extensive management experience having served as University and Campus Dean, Head of Department and has sat on several high-level University of the West Indies committees. During the past four decades, Sir Frank has served in leadership positions on several local and regional non-governmental organisations and statutory corporations including the Central Bank of Barbados and the Securities Commission of Barbados.

Ms. Debbie A.P. Fraser is an Attorney-at-Law qualified to practice in Barbados and Jamaica and has been in practice since 1992. Commissioner Fraser is a graduate of the University of the West Indies and the Norman Manley Law School in Jamaica, where she received the Legal Education Certificate of Merit. Ms. Fraser joined the law firm of Clarke Gittens and Farmer in November 2003 as an associate and became partner in May 2005. She is currently the partner responsible for the firm's commercial department, specialising in mergers and acquisitions, takeovers, energy law, securities law, project finance and both international and domestic capital markets for debt financings.

Mr. Basil Murray graduated in 1980 from the University of the West Indies, Cave Hill with a B.Sc. (Hons) degree in Public Administration. He served in the civil service of Barbados for over 41 years before retirement in 2003. Seventeen of those years were spent in the Ministry of Finance, including nine in the Office of the Supervisor of Insurance and ten (10) years in the Co-operatives Department of the Ministry of Commerce as Deputy Registrar and later as Registrar of Co-operatives and Friendly Societies.

Mr. Felton Burton is a Chartered Accountant by profession, having qualified as a Certified Management Accountant with the Society of Management Accountants of Canada. He is also a Chartered Secretary having gained the designation from the Institute of Chartered Secretaries Association of Canada. Mr. Burton spent many years in accounting and management with a number of local companies in the manufacturing, retail, wholesale and security sectors. He served as a Director of a local insurance company for thirteen (13) years, a Director in the local credit union movement both at the primary level as well as in the League, and spent over ten (10) years in the international business community.

Mr. Jefferson Cumberbatch teaches Contracts, Torts and Employment Law at the University of the West Indies and has research interests in Consumer Protection, Freedom of Association, Dismissal Law and Media Law. He is co-author of the text *West Indian Law of Contract* and has published extensively in leading international legal journals. Mr. Cumberbatch drafted the Electronic Transactions Act 1999 and the Consumer Guarantees Act 2002 of Barbados and has undertaken several legal consultancies for various foreign, regional and local institutions. Commissioner Cumberbatch served as a member of the Regional Judicial and Legal Services Commission during 2009-2012. Locally, he is Chairman of the National Insurance Scheme NIS (Benefits) Appeals Tribunal, the Consumer Claims Tribunal and the Anti-Money Laundering Authority. Commissioner Cumberbatch has acted as a Justice of Appeal of the Eastern Caribbean Court of Appeal.

Mr. Lawson Yearwood is a member and Deputy Chairman of the Anti-Money Laundering Authority. He brings over twenty-seven (27) years of commercial banking experience to the FSC Board, having worked at Barclays Bank Plc and the Barbados National Bank. He

established the Wilkey branch of the Barbados National Bank in 1981 and served as its first manager until 1984. Commissioner Yearwood also worked at the Barbados Development Bank as Manager of Internal Audit. Commissioner Yearwood has a strong interest in the promotion of sound education standards and served as a member of the Board of Management of the Princess Margaret Secondary School from 1983-2003. Commissioner Yearwood is a keen agriculturalist. He served as a member and Deputy Chairman of the Barbados Agricultural and Development Corporation – now called the Barbados Agricultural Development and Marketing Corporation – from 1986-1994.

Mr. Martin Cox is currently Director of Finance and Economic Affairs (Ag.) and has served as Permanent Secretary in various ministries such as tourism, education, health, international business, and labour. Commission Martin Cox has been working in the government service since 1978 and was appointed to the position of Permanent Secretary in 1995. He is a graduate of the University of the West Indies, with a B.A Hons and MSc. in Economics. Commission Martin Cox is a Certified Management Consultant (Canada).

Board of Committees

Corporate Governance Committee

The Corporate Governance Committee directs the implementation of sound corporate governance principles at FSC. Its principal objectives are to provide the Board with recommendations relating to the composition of the other committees and the establishment and implementation of an efficient system of corporate governance, in an effort to ensure that transparency and accountability are promoted.

Committee members are:

- *Sir Frank Alleyne K.A – Chairperson*
- *Debbie Fraser – Deputy Chairperson*
- *Lawson Yearwood – Commissioner*
- *Chief Executive Officer – FSC*

- *Human Resources Manager – FSC*

Policy and Legislative Committee

The Policy and Legislative Committee reviews legislation and related issues requiring legislative resolution and provides an overall position to the Board on proposed policy, legislation and regulations. The main aim of the Committee is to develop appropriate solutions and make recommendations on the adoption of appropriate legislative priorities.

Committee members are:

- *Jefferson Cumberbatch – Chairperson*
- *Debbie Fraser – Deputy Chairperson*
- *Martin Cox – Commissioner*
- *Chief Executive Officer – FSC*
- *General Counsel – FSC*

Finance, Tenders and Audit Committee

The Finance, Tenders and Audit Committee assists the Board in ensuring that the integrity of the financing and financial reporting process is maintained. This is achieved by reviewing the financial reporting process; the systems of internal control and management of financial risk; the audit process; the tendering process and the financing process. The Committee also ensures that the FSC's process for monitoring compliance with laws and regulations and its own code of business conduct is sufficiently robust.

Committee members are:

- *Martin Cox – Chairperson*
- *Felton Burton – Commissioner*
- *Basil Murray – Commissioner*
- *Chief Executive Officer – FSC*
- *General Counsel – FSC*

- *Manager, Finance and Planning – FSC*

Authorisation and Licensing Committee

The Authorisation and Licensing Committee considers and determines matters concerning applications made by individuals and financial institutions. It provides recommendations to the Board for authorisations, licensing and registration in accordance with the relevant legislation. The Committee ensures that all directors of regulated entities satisfy “fit and proper” criteria for the conduct of financial services business.

Committee members are:

- *Sir Frank Alleyne K.A – Chairperson*
- *Debbie Fraser – Deputy Chairperson (Alternate member)*
- *Basil Murray – Commissioner*
- *Chief Executive Officer – FSC*

Human Resources Committee

The Human Resources Committee formulates and ensures the implementation of plans, policies and procedures relating to employee recruitment, assessment and development. It also reviews organisational design and development, along with other related administrative functions.

Committee members are:

- *Debbie Fraser – Chairperson*
- *Sir Frank Alleyne K.A*
- *Felton Burton – Commissioner*
- *Chief Executive Officer – FSC*
- *Human Resources Manager/Officer – FSC*

Enforcement Committee

The purpose of the Enforcement Committee of the Board of the FSC is to review and address proposed enforcement actions. It also ensures that appropriate action with respect to all compliance and enforcement matters, relating to financial institutions and entities regulated by FSC is implemented in a timely and proficient manner.

Committee members are:

- *Basil Murray – Chairperson*
- *Jefferson Cumberbatch – Commissioner*
- *Lawson Yearwood – Commissioner*

Internal Audit Department

The Internal Audit Department exists to provide independent assurance that the organisation's risk management, governance and internal control processes are operating effectively. Consistent with FSC's mission statement "*to promote soundness, stability and transparency within Barbados' non-bank financial sector, using professional staff to provide effective and efficient supervision and regulation in line with acceptable global best practices,*" the Internal Audit Department provides management with information, recommendations and counsel regarding the activities examined and other significant issues.

The department was established primarily to:

- identify internal control weaknesses or areas where controls or procedures may be enhanced or made more efficient;
- design effective risk-based evaluation of controls including financial, operational and information systems;
- contribute to the development of sound audit recommendations and assist in monitoring management's responses and implementation;

In support of its mandate, procedures were undertaken by the department during the year under review and these included:

- Execution of an annual audit plan approved by FSC's Board of Commissioners;
- Performance of walkthrough procedures within the regulatory divisions. This includes understanding of the processes and objectives of the divisions under review;
- Conducting an internal audit within the Finance & Planning department. Copies of the audit report were circulated to the Manager of Finance & Planning, Chief Executive Officer and the Governance Committee.

Going forward the department will focus on developing strategies to perform risk-based audit as well as the compilation of an Internal Audit manual. The department will continue to provide support to all other departments for the achievement of the organisation's objectives.

Regulatory Developments

Legislative Developments and Policy Initiatives

Since the establishment of the Financial Services Commission (FSC), its Insurance Division has issued several guidelines and circulars to enhance the supervision of domestic insurance companies. These guidelines related to a range of topics including Asset Valuation, Corporate Governance, Internal Control and Risk Management, Market Conduct, Related Party and Statutory Reporting. In addition, twelve (12) circulars were released during the five-year period ending March 2016. The circulars released dealt with issues related to the licensing, registration, reporting and monitoring of insurance companies.

The FSC issued a guideline related to Insurance Broker Agreements during the period under review. The objective of this guideline was to ensure 'best practices' with respect to the establishment of written agreements between insurers and brokers registered under the Insurance Act Cap 310. During the fiscal year 2015/2016, the FSC issued a circular pertaining to the Requirements for Incorporated Cell Companies in response to amendments to the Companies Act, Cap. 308. This circular outlined the requirements for establishing Incorporated Cell Companies, including the fees, application and registration process, licensing, capital and solvency requirements as well as issues related to financial reporting.

Over the past five years, regulation of the credit union sector has been enhanced through the development and implementation of a comprehensive set of guidelines. These guidelines established FSC's expectations with respect to the risk management practices of credit unions. They allow each credit union to develop a risk management framework commensurate with its size and complexity in light of the heterogeneity of credit unions. In addition to the guidelines issued to this sector, the FSC, together with key stakeholders made significant strides in the development of an appropriate deposit insurance framework for the credit union sector. This deposit insurance coverage is expected to be implemented during the 2016/2017 financial year.

The implementation of deposit insurance was vital to the maintenance of retail customer confidence in the financial system.

The FSC continued to build on its work to enhance the regulatory framework for the securities and funds sectors during the 2015/2016 financial year. In this regard, it consulted with the industry on guidelines for the conduct of repurchase agreements business and introduced new reporting forms for market intermediaries and funds. These new reporting forms provided more detailed financial information which has been employed in the offsite analysis and monitoring of entities. In addition, these forms have facilitated an assessment of entities' compliance with guidelines for market intermediaries previously issued by FSC. The proposed guidelines, which are expected to be issued during the 2016/2017 financial year, are the first product-specific guide to the industry and are designed to among other things, encourage proper business practices by entities conducting repurchase agreements business.

The pensions division is currently conducting a comprehensive review of the Occupational Pensions Benefits Act (OPBA) and its accompanying regulations. More specifically, the review was designed to address possible drafting errors, various concerns raised by stakeholders in the industry, as well as attempt to provide greater fluidity necessary for the promotion of growth of the sector in accordance with section (IV) of the FSC Act. The overall aim is to ensure that the Pensions Division remains pre-emptive rather than reactive to potential changes.

Participation in International, Regional and Domestic Agenda-Setting Fora

The FSC continued to build its regulatory capacity and deepen its involvement in the regional and international arena through participation in selected meetings of regional and international regulatory bodies:

- Annual Meeting and Conference of the International Organisation of Securities Commissions (IOSCO);
- Interamerican Regional Committee/Counsel of the Securities Regulators of the Americas' meeting, as a member of this IOSCO sub-group;
- Caribbean Group of Securities Regulators (CGSR) meeting with regulators from various Caribbean territories to discuss matters of mutual concern, particularly the (i) regulatory approach to crowd-funding initiatives and (ii) provision of statistical industry information across jurisdictions;
- 2015 annual Caribbean Association of Insurance Regulators (CAIR) Conference and Annual General Meeting (AGM) in Port of Spain, Trinidad. At the AGM, the FSC was elected to the post of Vice President on the Executive Committee for a one-year period;
- Group of International Insurance Centre Supervisor (GIICS) AGM in London, United Kingdom. GIICS is an organisation which consists of insurance regulators and supervisors from jurisdictions that provide international insurance services. The FSC is also a member of International Association of Insurance Supervisors (IAIS) and has adopted the Insurance Core Principles as part of the guidelines for regulation in Barbados.
- Caribbean Association of Pensions Supervisors (CAPS) conference and workshop in June 2015, which covered several key topics including Effective Communication of Pension Reforms; Crisis Preparedness and Management; Financial Soundness Indicators; and Managing Investments and Risk-Based Supervision;
- The FSC participated in three insurance supervisory colleges (two domestic insurance companies and one international insurance company) – these provide opportunities for regulators across the world to discuss regulatory oversight of a specific insurance group;

- FSC periodically provides Invest Barbados with statistical information regarding the regulated sectors. Stakeholder relations continued and representatives of the FSC's senior management accompanied Invest Barbados to the Risk and Insurance Management Society, Inc. (RIMS) and the Canadian Risk and Insurance Management Society, Inc. (CRIMS) meetings.

The FSC is a member of the Caribbean Association of Credit union Supervisors (CACS), a regional grouping of prudential regulators of credit unions in the Caribbean which was established in 2014. The FSC currently serves on the advisory committee of this body. It also participates in conferences held by the International Credit Union Regulators' Network (ICURN), an independent international network of cooperative financial institutions regulators that promotes the guidance given by the leaders of the Group of 20 nations, for greater international coordination among financial services regulators.

Supervision and Licensing

Registration and Licensing

The Registration and Licensing Department is responsible for collecting and recording data on all the registrations which FSC receives, as well as for the preparation of Licences and Certificates of Registration issued. The department's functions also include:

- receipt and recording of registration fees paid by all registrants;
- conducting due diligence checks on proposed regulated persons and companies;
- adjudication of matters and share transfers submitted by estates for shares held in public companies;
- preparation of books for and participation in the meetings of the Authorisation and Licensing Committee;

These data are kept not only for use by FSC's regulatory division but, in accordance with statutory requirements, are kept in registers and made available to the public on request.

Licences Issued

During the period under review, the following licences were issued:

- Insurance
 - New licences were approved and prepared for issuance to nine exempt insurance companies, compared to twenty (20) issued during the corresponding period of the previous year. Additionally, six existing exempt insurance companies were granted approval for new lines of business, while one company converted from a qualifying insurance company to an exempt insurance company.
 - Licences were approved and prepared for issuance to nine (9) qualifying insurance companies during the period under review, compared to one (1) new

licence issued during the same period of the previous year. Additionally, three (3) existing qualifying insurance companies were granted approval for new lines of business.

- New licences were approved and prepared for issuance to four (4) insurance management companies, this compared to two for the previous corresponding period.
 - Two new licences were approved and prepared for two insurance brokers, compared to twelve (12) new licenses for the same period of the previous year.
 - Four new licences were approved and prepared for insurance agents.
 - Thirty-nine (39) licences were approved and prepared for insurance salesmen, compared to twenty-five (25) during the last reporting period.
-
- Pensions
 - 33 Certificates of Registration for Occupational Pension Plans were issued. Additionally, seven pension plans registered for wind-up during the same period.
-
- Securities
 - Forty-three (43) new licences were prepared and issued to new registrants. With regard to mutual funds, fourteen (14) were registered and ten (10) mutual fund administrators were registered.

Share Transfer Adjudications

The Registration and Licensing department is also responsible for the adjudication of the transfer of shares of public listed companies from estates to beneficiaries, under the authority of the *Property Transfer Tax Act, Cap 84A*. The adjudication grants approval for the estate to transfer shares and render this transfer as exempt from the payment of *property transfer tax*. During the period under review, seventy-three (73) matters of share transfers were adjudicated by FSC.

Due Diligence Assessments

The department also conducts due diligence checks on companies and any non-Barbadian individual seeking to be registered with the FSC. These checks are carried out via the World-Check facility to which the FSC subscribes annually. In the case of the Securities Division, these checks are also performed by utilising the International Organisation of Securities Commission (IOSCO) Database. During the reporting period sixty-two (62) requests for background checks were made to the department by the FSC's regulatory divisions. These requests consisted of due diligence assessments on ninety-nine (99) individuals and twenty-one (21) companies.

Risk Assessment/Early Warning Indicators

Securities Division

The risk assessment programme for market intermediaries focuses on the specific business activities undertaken by individual intermediaries and the associated risks. The programme assesses prudential soundness of market intermediaries through monitoring capital, profitability and liquidity. It also requires an assessment of the quality of risk management of the entities by evaluating, among other things, corporate governance, compliance, and the management of business risks. The result of the assessment exercise is a rating of an intermediary based on a scale which ranges from 'low risk' to 'high risk'. The rating influences the regulatory steps to be taken in respect of a particular entity including the frequency with which it may be subject to an onsite examination.

With regard to funds, the exercise includes an evaluation of the liquidity of a fund in the context of its ability to meet redemption requests, a review of a fund's portfolio, and its trend as it relates to growth or decline. The assessment exercise also results in the generation of a rating system which is derived from an assessment of specified factors which may affect the risk level of a fund.

The risk assessment and monitoring programme for market intermediaries and funds during the financial year showed that while generally entities sought to properly manage their risks, improvement was needed in some areas, including (i) consistent compliance with periodic regulatory requirements, and (ii) internal monitoring to ensure that requisite and best standards were implemented and adhered to. The department's focus for the 2016/2017 financial year is to refine the current risk assessment programme to deal with the aforementioned risk.

Insurance Division

The Insurance Division graduated from a compliance-based supervisory framework to a risk-based framework. In 2014 the FSC released the annual statutory returns and quarterly returns for insurance companies. It implemented a EWI system which identifies areas of risk for an insurance company and monitors its capital, liquidity and earnings. Based on the results of the EWI, the FSC then determines the amount of regulatory oversight it places on an entity. The risk-based supervisory framework has allowed FSC to put focus on those areas of risks that are heightened, as well as on the inherent risks within the insurance company business model. This in turn, will facilitate an approach that will ensure the FSC's early intervention and necessary corrective measures taken by the insurance company.

Credit Union Division

FSC's EWIs for the credit union sector were developed based on the PEARLS framework. This framework has allowed the FSC to make early interventions in a number of credit unions. However, as credit unions become larger and more complex and heterogeneity in the system is amplified, it was recognised that as this system is benchmark-based, there is the possibility that entities with higher degrees of risk may not be appropriately identified and relevant actions taken. The system is currently under review with a view to implementing a system that draws on relevant aspects of the PEARLS, CAMEL and Basel.

Pensions Division

A significant focus of the Pensions Division is to ensure that it maintains the strategic fit within the financial system to ensure that the level of systemic risk is minimised through effective regulation. The aim is to provide linkages within the system and ensure there is no major loss of

economic value should there be turbulence within the sector itself, and by extension, within the financial sector as a whole. The systemic risks and macro-prudential risks have been at the forefront of risk management within the sector and as such, the Pensions Division has been able to devise risk metrics to assist with the containment of various levels of risks. These risk metrics involve the development of safety nets calculated based on the level of risk estimated and systematically negotiates how each perceived risk may be dealt with most effectively. The risk assessment tool acts as a necessary check-and-balance mechanism overseeing the industry by providing EWIs for measuring the stability of the system. The level of risk is determined by the score obtained utilising a result-oriented rating scale.

In addition to the risk assessment tool, the Pensions Division continues to work on a number of EWIs and financial ratios to assist with the identification of the residual risks involved. The intention is to allow plan administrators to identify the specified areas of weakness for which corrective action needs to be taken. Further, plan administrators are to be formally notified by way of letter and/or meeting, of the results of the FSC's investigation. It is hoped that this initiative would form part of the risk assessment process and lend itself to establishing and enhancing effective communication protocols among the relevant parties involved.

Stress Testing

During the 2015/2016 financial year and after a series of CARTAC sponsored workshops, the FSC began to use stress testing as part of its regulatory framework for the Insurance and Credit Union divisions.

Insurance

The first workshop was conducted by Mr. Peter Antal from Swiss Re and saw the development of an analytical tool designed specifically for the insurance industry. Using information gathered from the submitted statutory returns as the driving input, this framework employed a combination of sensitivity and scenario testing on both the company level as well as the aggregate industry level.

The statutory returns and company business models were examined to determine the largest and most risky assets on each company's books. The sensitivity tests were then carried out in the following areas:

- Sovereign Bond Haircuts
- Increase in Claims
- Technical Provision Revaluation
- Reinsurance Default

The following scenarios tests were also conducted:

- Recession (for both Life and General companies)
- Banking and Sovereign Crisis (for both Life and General companies)
- Pandemic (for Life companies only)
- Natural Catastrophe, specifically Hurricane damage (for General companies only)

There were six (6) life insurance companies in Barbados during the year with one major company holding over 75% of assets for the entire life industry. The general insurance sector is a

bit more competitive and no single company dominated the industry as clearly as in the life insurance sector. Market share was a bit more even amongst these fourteen (14) companies. Unlike in the life insurance sector where tests were conducted on all six (6) life insurers, only the largest six (6) general insurers representing 70% of all industry premiums were tested.

Credit Unions

The second stress testing workshop hosted by CARTAC focused on the Credit Unions sector and the FSC was able to begin sensitivity testing on some of the 34 entities under its purview at the time. Shocks were applied in the following risk areas:

- Credit Risk
 - Generalised Non-Performing Loans (NPL) increase
 - Underprovisioning Correction
- Sectoral Shocks
 - Consumer Loan NPLs
 - Mortgages NPLs
- Interest Rate Risk
- Concentration/ Large Exposure Credit Risk
- Depositor Withdrawal (Liquidity Test)

The output from such tests was determined both as ratios and in terms of capital lost from the respective institutions. These results for the insurance sector were presented in the FSC's contribution to the Central Bank of Barbados' bi-annual Financial Stability Report (FSR) for 2015. In 2016, it is expected that the results from Credit Unions will also be included in the FSR.

Examinations

The recommendations of the 2008 Financial Sector Assessment Programme (FSAP) highlighted the need for the individual regulatory bodies now consolidated under the FSC's umbrella to increase the frequency and number of examinations across varying sectors. In 2012, the Examinations Division became functional and subsequently contributed to the on-going supervision and regulatory process of the FSC. The Division is responsible for planning, coordinating, performing, reporting and following-up on-site examinations across all regulatory sectors under the FSC's purview, in addition to reviewing and examining anti-money laundering practices across all applicable regulatory sectors under the FSC's purview. It forms part of the organisation's regulatory operations and is integral to providing an overall view with respect to the total risk position of regulated entities. It also functions to help identify deficiencies in the entities' risk management practices.

** To date, FSC does not have the regulatory authority to perform on-site examinations of pension plan administrators.*

Regulatory Approach

The Examinations Division function is dependent on the work conducted by the FSC's regulatory divisions in the form of the on-going monitoring of the inherent risks facing the regulated entities via financial analyses and additional qualitative information. The output of this on-going monitoring is a risk assessment and/or updated risk profile of a regulated entity. These assessments guide the examination activity in terms of focus on key pertinent risks that could impact financial soundness, or inappropriate market conduct practices. The Examinations Division builds on these risk assessments by reviewing the applicable inherent risks and evaluating the quality of both corporate governance and risk management practices over the identified or applicable inherent risks.

In addition to this approach, the FSC performed full scope examinations due to the lack of examinations previously conducted pre- 2012, as a deliberate strategy to building institutional knowledge on the entities to better inform FSC's understanding of their operations which is in-line with the stated strategy of risk-based supervision. The results of the examination activity allow for the FSC to derive a total or net risk picture that could otherwise not be determined from just financial analysis, and this supports a holistic approach to supervision and monitoring on these entities.

Examination Strategy

FSC's examinations strategy has focused on the Systemically Important Financial Institutions (SIFIs), as well as on those entities classified as medium to high risk based on the Early Warning Indicators EWIs which are monitored on an on-going basis by the various regulatory divisions. At the end of the financial year, the Department, with the collaborative efforts of the other regulatory divisions completed a significant number of examinations across the regulated entities. See table below:

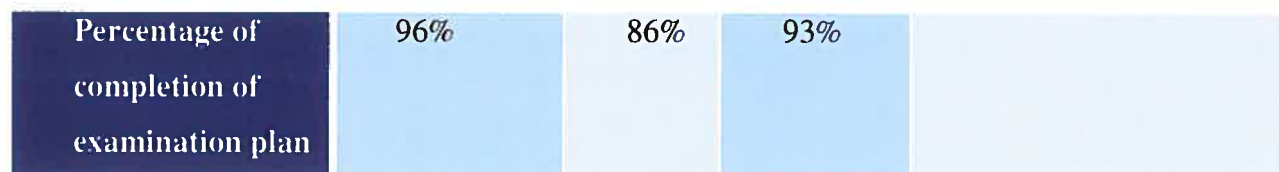
Sector	Total cumulative position as at March 31, 2015 (from Aug 2012)	Total for FY 2016 and in progress	Total cumulative as at March 31 2016	Total cumulative percentage of sector's assets examined as most recent available information
Life insurance	3	0	3	94% ¹ - December 31 15
Non-life insurance	5	0	5	58% - December 31 15
Composite	0	1	1	100% - December 31

¹ Excludes the companies under judicial management and Amphora Life

insurer				15
Insurance broker	7	4	11	Note 2 – Approx. 80% of commission income covered
Credit Unions	12	0	12	93% - December 31 15
Self-regulatory organisation	2	0	2	100% - December 31 15
Domestic registered Mutual funds (sub funds)	10	2	15	94% - June 30 15
Mutual fund administrator (MFA) for domestic funds	3	0	3	Covers 94% of the domestic mutual funds' assets under management.
International Mutual funds	0	2	2	99% - June 30 15
International MFA	0	1	1	Covers 94 of the domestic mutual funds' assets under management – June 30 15
Securities Broker ²	3	2	5	Based out of 9 brokers represents 56%
Total	45 ³	12	57	
Total per examination plan in financial year	47	14	61	

² FSC examined a MFA that also had registered brokers on the Barbados Stock Exchange

³ Three examinations were in progress at March 31, 2015 year-end



Enforcement

Following due process, FSC cancelled the licence of one domestic broker prohibiting the broker from engaging in insurance business due to non-compliance with the provisions of the Insurance Act Cap 310.

Corporate Support for Effective Regulation

Research and Policy

The Research and Policy Department is responsible for the development and co-ordination of all policy and research within FSC, and to this end the department has provided technical support to all regulatory divisions. During the period under review, the department provided such support to the regulatory divisions on a number of different topics, which included:

- Multi-unit pension plans and registered retirement savings plans
- Facilitation of increased securities and investment fund business
- The reporting and solvency requirements for incorporated cell companies
- Risk-based capital for credit unions
- A risk-based supervisory framework for insurance companies

The department continued to produce quarterly statistical bulletins which provide key statistical indicators and performance highlights of the four sectors regulated by FSC. In addition to the statistical bulletin, the department produced the first International Insurance Statistics Bulletin, an annual publication which provides relevant statistics on Barbados' international insurance sector. The department also has responsibility for responding to data requests received by FSC.

During the financial year 2015/2016, the department responded to a number of data requests from the Central Bank of Barbados, the Barbados Statistical Service, various Government Ministries, Invest Barbados, regulated entities and affiliated bodies, as well as other regional and international organisations.

The department also assisted with the preparation of a number of reports including the Financial Stability Report produced by the Central Bank of Barbados and the Barbados Economic and Social Report produced by the Division of Economic Affairs. Additionally, the department has also prepared a number of articles, speeches and presentations for publication and presentation at various local, regional and international meetings and conferences. The department has also provided assistance on a number of different projects including the regional financial stability project and CARTAC sponsored national crisis management plan.

Legal

Legislative Developments

During the 2015/2016 fiscal year, FSC continued its legislative initiatives to enhance its regulatory and supervisory framework. One such initiative was the enactment of the *Occupational Pension Benefits (Amendment) Regulations 2015*. This enactment amended the *Occupational Pension Benefits Act 350B* to allow for the establishment of draw-down accounts as a form of pension payment for a member or deferred member who retires under a defined contribution plan. In addition, the other amendments addressed, *inter alia*, provisions to facilitate the draw-down account and the disparate calculation of the fees associated with the registration of pension plans by imposing reduced fees.

The *Occupational Pension Benefits (Provisional Registration Extension) Order, 2015* was also enacted during the period under review. This Order extended the period of provisional registration granted under section 89(1) of the *Occupational Pension Benefits Act* from 1st February 2014 to 1st February 2017.

Likewise, the Securities (Dealer Exemption) Order 2015 was enacted pursuant to section 127A (1)(a) of the Securities Act Cap. 318A. This Order exempts International Business Companies dealing in foreign securities from the registration requirements under section 46(1) of the Securities Act Cap. 318A, if certain conditions are met. The enactment of this Order also necessitates timely responses to entities, which will in turn facilitate growth of securities business in Barbados.

During the period under review, the FSC engaged in focused analysis on the consequential amendments required to the provisions of the *Co-operative Societies Act Cap. 378A* and the *Financial Services Commission Act 2010-21* to facilitate the deposit insurance scheme for credit unions. These amendments will seek to establish the role and responsibilities of FSC in its regulation of the credit unions sector's participation in the deposit insurance scheme.

Industry Guidelines

In January 2016, the FSC facilitated a period of industry consultation on its proposal to issue a guideline on Repurchase Agreements. This proposed guideline is intended to develop and promote the adoption of best practices and standards pursuant to section 53(1) of the *Financial Services Commission Act, 2010-21*.

Litigation

During the current fiscal year, FSC participated in four litigation matters in the local law courts which had important consequences for the regulator. Firstly, the law court was engaged in determining the matter of the interpretation of section 89(5) of the *Occupational Pension Benefits Act Cap. 350B* pertaining to the preservation of rights of members of a specific pension plan who were vested prior to the proclamation of the *Occupational Pension Benefits Act*. The Court declared and ordered *inter alia* that those pension plan members were entitled to the full value of the cash refund of their pension contributions.

Secondly, FSC's time and resources were engaged in court hearings of an application in respect of a take-over bid and its subsequent appeal. The Claimant petitioned the Court for a declaration on the validity of a Convertible Debt Purchase agreement and an interim injunction to stop the

competitive bidding process pending an expedited trial and the Court's determination. Prior to this application, the Court granted an *ex-parte* injunction freezing the competitive bidding process. The Court subsequently discharged the *ex-parte* injunction. The Claimant appealed the decision to discharge the injunction and after a lengthy hearing, the Court of Appeal reserved judgment in the matter.

In addition to the matters above, the Court made determinations in two litigious matters involving insurance companies in which FSC was the Petitioner. Final reports from the Defendants were filed in the matters.

Human Resources

During the period under review, the Human Resources Department undertook a number of activities in relation to the organisation's strategic objectives. In the summary below, a snapshot is provided of the activities undertaken, as well as of relevant human resources data.

Training and Development

Several employees benefitted from a series of training opportunities either provided by or facilitated via FSC/stakeholder partnership. See table below:

Training Course	Training Course
Advanced Excel for Professionals	BIBA Workshop
Caribbean Group of Securities Regulators (CGSR)	Caribbean Association of Pension Supervisors (CAPS) Conference and AGM - TNT
Group of General International Insurance Centre Supervisors (GIICS)	Toronto Centre - Balancing the Needs for Integrity and Proportionality (Canada)
Risk and Insurance Management Society (RIMS)	Financial Services Commission of Ontario meeting/training
Insurance Supervisory Training	Training Seminar FSC of Ontario (FSCO)

Caribbean Commercial Law Workshop	IOSCO Conference
Certified Anti-Money Laundering Specialist	Unites States Securities & Exchange Commission (USSEC)
CARTAC/CACS Credit Union Workshop	Capital Market Oversight and Development Workshop
International Financial Reporting Standards (IFRS) Refresher Workshop	International Credit Union Regulator Network (ICURN)
Corporate Governance and Accountability	CARTAC Mission Stress Testing for Credit Unions
Financial Stability, Interconnectedness and Risk Assessment in the Caribbean	CARTAC Financial Soundness and health indicators for the Barbados pension sector
Supervisory College of the Bermuda Fire & Marine Group (BF&M Group) Bermuda Monetary Authority (BMA) for Insurance Corporation of Barbados Limited (ICBL)	CARTAC Financial Soundness and health indicators for the Barbados insurance sector
Barbados Statistical Service	International Public Sector Accounting Standards
Financial Programming and Policies, Macroeconomic Accounts and Analysis	Training Administration Division - Seminar for First Level Supervisors
IT Service Management - BCS ITIL Service Management Foundation Certificate	Training Administration Division - Seminar for Clerical Officers
Barbados Employers Confederation 55th AGM	Training Administration Division - Open Office - Base
Labour and Custom/Practice	Training Administration Division - Open Office - Impress
CHSB/UWI Public Sector Leadership - Overcoming the implementation deficit from planning to performance	Certificate in Protocol, Social and Business Etiquette for Professionals
Risk Analysis and Mitigation Strategies Seminar - CPA	Public Service Document Preparation

Training Administration Division - Training Delivery Skills	National Risk Assessment workshop
Barbados Association of Office Professionals - Reducing Employee Absence and Enhancing Workplace Productivity	

Staffing

FSC continued its practice of cross training and internal promotion to allow for the development of individual skill sets. Two employees were promoted and one benefitted from a lateral transfer. As a result of these internal changes, the position of Receptionist was recruited externally.

Staff Welfare

In order to foster camaraderie and promote teamwork among staff, as well as encourage personal development, FSC undertook a number of staff activities. These included:

- A staff fun day which was well supported by employees and allowed employees to get to know each other outside the work environment
- An FSC version of the popular local television show "Bus' Yuh Brain" which was well received and supported by the staff
- The Annual Staff Appreciation & Awards luncheon where staff were recognised in line with the below titled awards:
 - Perfect Attendance
 - FSC Spirit Award
 - FSC Stability Award
 - FSC Corporate Support Award
 - FSC "Yes We Can" Award

Communications

The Communications Department's main focus was on the rollout of an internal communications strategy. It was developed to help engender greater appreciation among staff of the dynamic functions of each department to operational excellence. This was, in part, facilitated under a themed programme called "One Team, One Goal". The flagship activity was a three-month "Tea Time Learning" series that called on work teams to make 15-minute presentations to their colleagues on their typical work week, internal challenges to getting the job done and ways they believed their departments may contribute to the building of "One Team, One Goal".

Anniversary Lecture

FSC's anniversary lecture series continued in April 2015 with noted economist from Trinidad and Tobago, Mr. Osborne Nurse, presenting on the topic *"Financial Innovation: Key Challenges that Regulators Face"*. This event, held each year in FSC's anniversary month, not only headlines the programme of activities, but forms part of the organisation's public outreach and educational efforts to assist stakeholders in their understanding of the FSC and its role in Barbados' financial services landscape.

Partnerships

Partnerships with key stakeholders continued during the review period and included FSC's customary participation in Barbados International Business Association's (BIBA) International Business Week (IBWeek) events. FSC staff reached out to students at IBWeek's Career Showcase at the University of the West Indies, Cave Hill campus, and the CEO helped to facilitate, as well as participated in the two-day annual conference at Hilton Barbados Resort. This resource-based collaboration was also extended to Invest Barbados where FSC assisted in efforts to increase international awareness and industry appreciation for the robustness of Barbados' regulatory framework.

FSC also maintained its existing positive relations with the media and was happy to assist in adding to the news worthy content of business articles on issues pertaining to the financial sector. The media remains a key stakeholder group as the Communications Department continues to focus on its core function of supporting FSC's mandate to promote stability, public awareness and public confidence in the operations of the non-bank financial sector.

Information Technology

The information technology department is responsible for the planning, organizing and oversight of all technology functions within the FSC. The department provides technical services and support to both internal divisions and departments and external stakeholders as they interact with the FSC.

During the period the department achieved a number of objectives including

- Design of IT Strategic plan in support of the FSC's strategic plan
- Completion of the full staffing of the department.
- Acquisition and installation of hardware under the technology aspect of FSC setup project.
- Design, review and implementation of Technology and IT Governance policies.
- Design and implementation of several internal projects to increase internal efficiencies.
- Design and implementation of projects to strengthen technology systems and security
- Seamless relocation of infrastructure during the FSC's relocations.
- Identification of technical training program.
- Selection of consulting firm for the e-filing project, in collaboration with the Ministry of Finance and other associated agencies.

The Commission is seeking to develop an e-filing/document management system for the purpose of the electronic filing of information from registrants and licensed entities. The objective in a risk-based approach, to the management of the complex scale of interconnected financial networks which are constantly evolving, is to ensure stability. The objective of this project is to

provide the Commission with the appropriate information technology tools and frameworks necessary, to enable it to effectively execute on its mandate, to supervise, regulate, monitor and review the non-banking financial services sector. The eFiling/document management system will be designed to provide the FSC with an integrated solution enabling the Commission with the tools necessary to collaborate electronically both internally amongst users at the FSC and between internal users and external entities- licensees entities and applicants and the wider general public.

The project which started in December 2015, consists of nine (9) phases and is expected to specifically address the following

- The electronic submission and approval of application for registration by potential licensees.
- The digitization of the standard forms.
- The electronic submission of financial data by licensed entities to the FSC.
- The creation of a data warehouse to ingest the financial data (discussed in #3 above) in order to assess the health and risk exposure of the managed entity.
- The creation of a dashboard and reporting tool to facilitate the managing and monitoring of licensed entities.
- The automation of business processes across the FSC.
- The conversion of historic physical documents to electronic version and the management of documents electronically across the FSC.
- The transformation of the Registry into a digitized, electronic operation of all incoming and outgoing correspondence.
- An eBoard Management system- automating the creation and submission of Board and Committee papers electronically.
- The Non Regulatory Departments will be underpinned by an electronic document and process management system.
- The entire solution will be supported by a Disaster Recovery and Back-Up solution.

Finance and Planning

FSC is funded through fees charged to licensees and registrants in accordance with the fee schedules set out in the attendant legislation. During the fiscal year under review, fees collected totaled BDS\$5.8 million. FSC also received BDS\$1 million from the Ministry of Finance & Economic Affairs to alleviate cash flow challenges imposed by the Exempt Insurance Act, Cap 308A, which compels exempt insurance companies domiciled in Barbados in excess of 15 years to pay a tax to the Barbados Revenue Authority, as opposed to fees to the regulator.

Prudent cash management and cash flow forecasting enabled FSC to invest a portion of its cash at bank in Government of Barbados Treasury Bills – the investment yielded \$43,494 in interest. FSC's major item of expenditure remains staff costs. As in previous years, FSC has only been increasing staff when absolutely necessary. During 2015-2016, the average number of employees was 55.

In addition to regular financial responsibilities, FSC is responsible for the management of unclaimed moneys as referenced in the Insurance Act, CAP 310:

(all sums of money that became or become legally payable by an insurance company in respect of policies but in respect of which the time within which proceedings may be taken for their recovery has expired, and includes sums of money payable on the maturity of an endowment policy or endowment insurance policy that are not claimed within seven (7) years after the maturity date of the policy).

For the period under review FSC received BDS\$551,848 in unclaimed/undistributed monies and refunded BDS\$212,369. The total held in escrow at the Central Bank of Barbados as at March 31, 2016 was BDS\$3.5 million. FSC also maintains records for and custody of securities placed as regulatory or statutory deposits based on the requirements of the Insurance Act, CAP 310. The organisation continues to manage its associated expenditure within the confines of its accessible income. Details of the financial position for the year ending March 31, 2016 are contained in the annexed Audited Financial Statements.

Statistical Highlights

Insurance

International Insurance

Barbados remained ranked in the top 10 domiciles for captive insurance companies for the financial year 2015/16⁴. Total assets for the international insurance sector was BDS\$104,116 million, with liabilities of BDS\$70,249 million. International insurers' gross premium written was BDS\$40,223 million as at December 31, 2014.

Table 1: New Registrations 2015

Type of Company	2015
Exempt Insurance Companies	10
Qualifying Insurance Companies	2
Holding Companies	0
Management Companies	3
Total	15

During 2015, an additional 12 international insurers and three management companies were licensed.

Table 2: Analysis of International Insurance Companies

Type of Company	2012	2013	2014	2015
Exempt Insurance Companies	166	179	189	192
Qualifying Insurance Companies	45	45	42	44

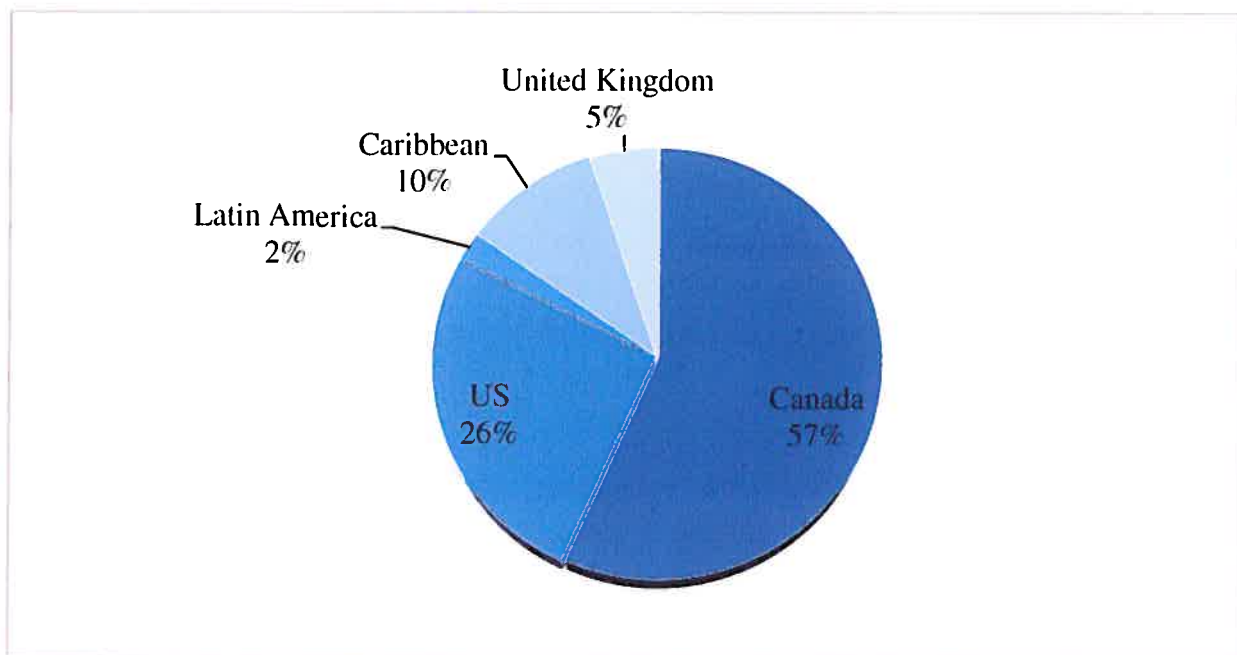
⁴ Captive Review (2015) *World Domicile Update* [Online] Available at: http://www.captivereview.com/wp-content/uploads/2015/03/CaptiveDomicile_-5.pdf

Holding Companies	12	12	11	11
Management Companies	22	22	22	24
Total	245	258	264	271

Barbados continues to be a captive domicile of choice as shown by its retention rates of international insurance companies. From 2012 through to 2015, there has been a steady increase in the number of captives in Barbados.

In the international insurance sector, Canada (57%) was the country of origin for the largest percentage of international insurance companies, followed by the United States of America (26%) and the United Kingdom (5%).

Figure 1: Country of Origin-International Insurers



Pure captives represent the largest type of insurer in the international insurance sector, holding 46% of total assets. Captives writing third party business accounted for 73% of the gross premium written. Of the total liabilities 47% was attributed to captives writing third party business.

Table 3: Statistics by type of Insurer⁵

Company Type ⁶	No of licences	Gross Premium Written	Total Assets	Total Liabilities
Pure Captives	148	9,404,142,419.97	48,115,597,011.18	32,266,449,084.46
Captives Writing third party business	52	29,560,774,298.05	45,310,975,420.35	33,055,625,061.64
Group/Association captives	29	1,189,101,148.78	10,461,789,459.52	4,795,754,905.92
Rent-a-captives	7	69,869,947.00	227,182,805.00	131,636,691.00
Total	236	\$40,223,887,813.80	\$104,115,544,696.06	\$70,249,465,743.02

Table 4: Select Financial Information- International Insurers (BDS Millions)

	2012	2013	2014
Total Assets	122,554	126,023	104,116
Total Liabilities	76,660	89,944	70,249
Share Capital	9,338	10,831	10,631
Gross Premium	33,709	39,036	40,224
Net Earned Premium	20,991	42,421	34,225
Investment Income	2,053	6,664	3,998
Net Income	16,179	6,803	9,138
Claims Paid	14,267	12,082	19,911

⁵ Number of licences as at December 31, 2015. Financial Information as at December 31, 2014.

⁶*Pure Captive*: Single parent captive, writing only the risk of its owners and/or affiliates.

Rent-a-captive: Captive is owned by un-related persons and provides captive facilities to others for a fee.

Captive writing third party business: Insurer that writes unrelated, open market risks, in addition to the risks of its owners and/or affiliates.

Group and/or association captive: Multi-owned insurance companies, only writing the risks of their owners and/or affiliates, usually within a specific trade or activity.

Domestic Insurance Sector

As at December 31, 2015, there were 21 domestic companies writing insurance business in Barbados.

Table 5: Insurance Entity Registration 2012-2015

Type of Registrant	2012	2013	2014	2015
General Insurance Companies	16	16	15	15
Life Insurance Companies	9	9	7	6
Combined Life and General Insurers	1	1	1	1
Brokers	24	22	22	23
Agents, Sub-agents, Salespersons	560	516	534	547
Loss Adjusters/Surveyors	16	7	14	14
Total	626	571	593	606

At the end of 2015, total aggregate assets for the domestic insurance sector stood at BDS\$3,243 million,⁷ while total liabilities of BDS\$2,288 million. Combined gross written premium for the domestic insurance sector was BDS\$ 916 million in 2015, while overall net income was BDS\$95.2 million for the same period.

Table 6: Select Industry Information 2012-2015 (BDS\$ Millions)

	2012	2013	2014	2015	% Change 2015/2014
Gross premium written	648	655	721	916	27
Reinsurance ceded	291	279	295	280	-5
Net premiums written	357	376	432	643	49
Incurred claims	151	155	175	176	1

⁷ Financial information presented is based on annual statutory returns received as at December 31, 2015.

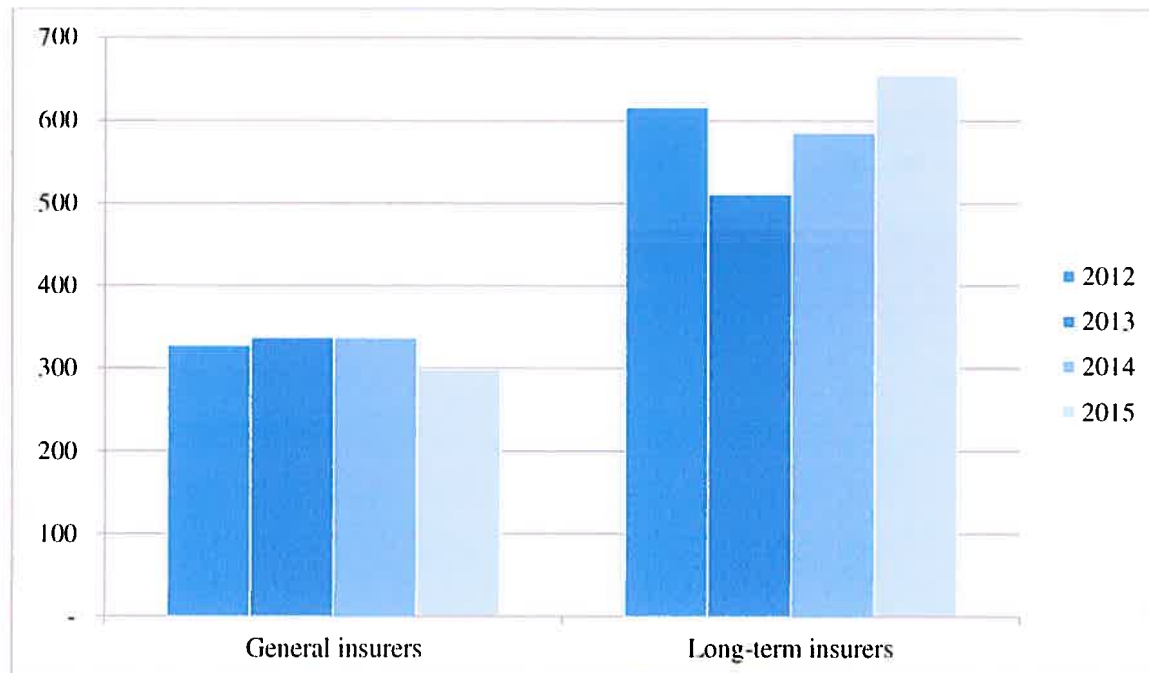
Reinsurance recoverable	47	131	133	125	-6
Commission received	43	43	61	62	2
Commission paid	36	48	56	70	25
Total assets	3,142	3,010	3,024	3,243	7
Statutory fund requirement	987	1,340	1,153	1,301	13
Net income (after tax)	129	80	115	95	-17

Over the period 2012/2015, the domestic insurance industry has seen a gradual decline in assets being held by general insurers, while experiencing a gradual increase in general insurance-related liabilities. In 2015, companies writing general insurance business held assets of BDS\$1,048 million a 3% decrease over the preceding year's figure. These assets mainly comprised of government securities and reinsurance. Total general insurance liabilities increased by 1% in 2015, when compared to the previous 2014, primarily due to small increases in accounts payable and other liabilities.

BDS\$2,195 million in assets was held by companies writing long term insurance business as at December 31, 2015. For these companies, assets were concentrated between related party investments and government securities. Long-term insurance liabilities increased by 13% over the previous financial year.

Total capital and reserves for general insurers was BDS\$298.8 million in 2015, this represents a 12% decrease from the previous year's figure. On the contrary, capital and reserves for long-term insurers increased by 12% in 2015 when compared to 2014.

Figure 2: Total Capital and Reserves (BDS\$ Millions)

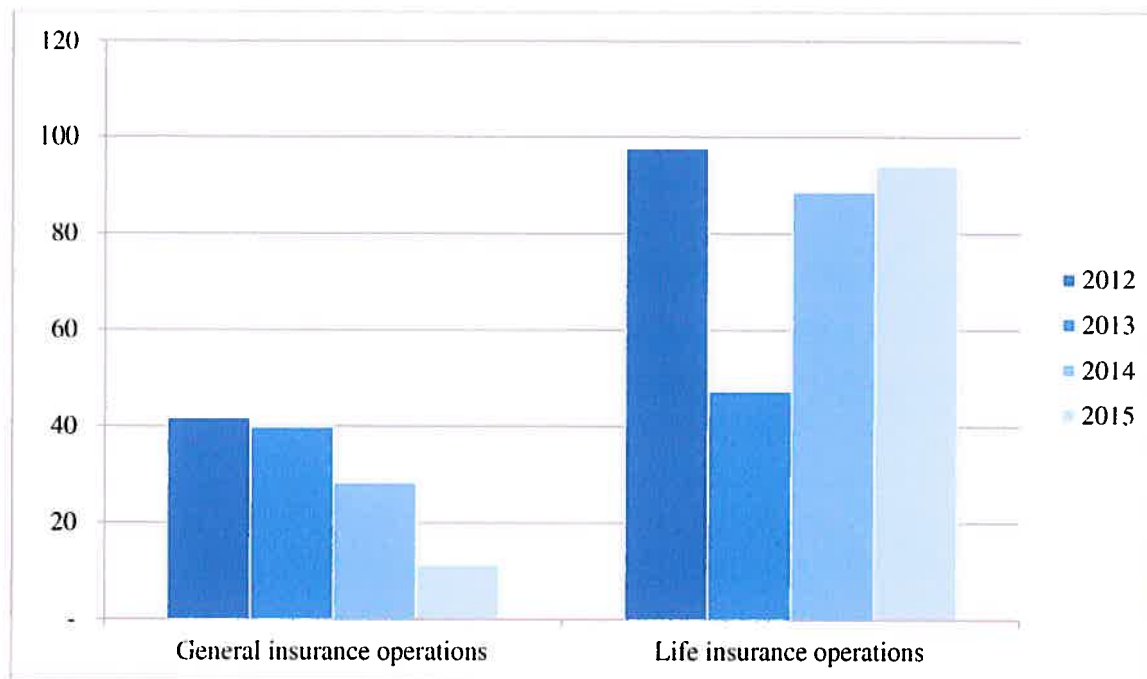


Premiums attributed to general insurance business, accounted for 48% of the total premium written in 2015 (BDS\$457 million). Most companies writing general insurance business recorded reductions in the amount of premium written for 2015. More specifically, there was a 7% decline in general insurance gross premium written over the amount recorded for 2014. A total of BDS\$251 million was ceded to reinsurers, which was 10% lower than the amount ceded in the preceding year. The incurred claims related to the general insurance industry were BDS\$136 million, an increase of 12% over the previous year. Additionally, companies undertaking general insurance business had a combined underwriting loss of BDS\$7.4 million. Investment income declined by 36%, from BDS\$33 million in 2014 to BDS\$21 million in 2015. Net operating income from general insurance activities was BDS\$11 million in 2015.

Gross premiums written for long-term insurance were BDS\$458 million, this represented a 98% increase in business written when compared to the previous year. This increase was fuelled predominantly by a portfolio transfer of one large life insurer. Expenses related to policy holder benefits and commission expenses totalled BDS\$456 million during the period under review. Additionally, there was an 11% increase in investment income from BDS\$53.8 million in 2014

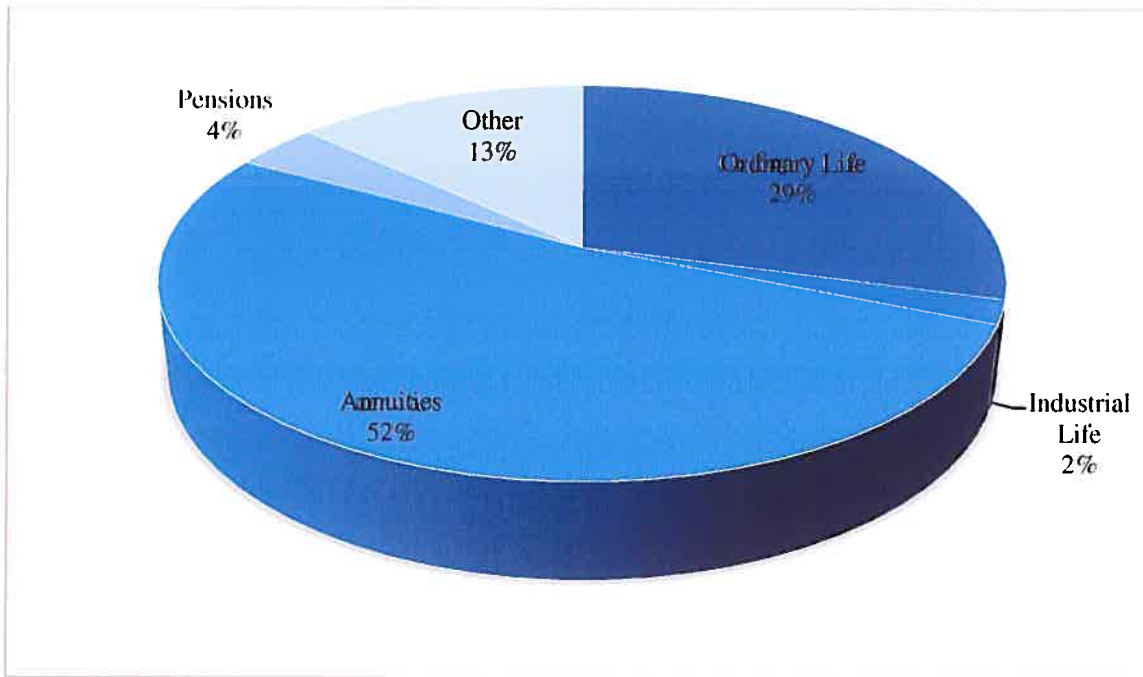
to BDS\$59.8 million in 2015. Net operating income for life insurance companies was BDS\$94 million in 2015, an increase of 6 % when compared to 2014.

Figure 3: Net Operating Income (BDS millions)



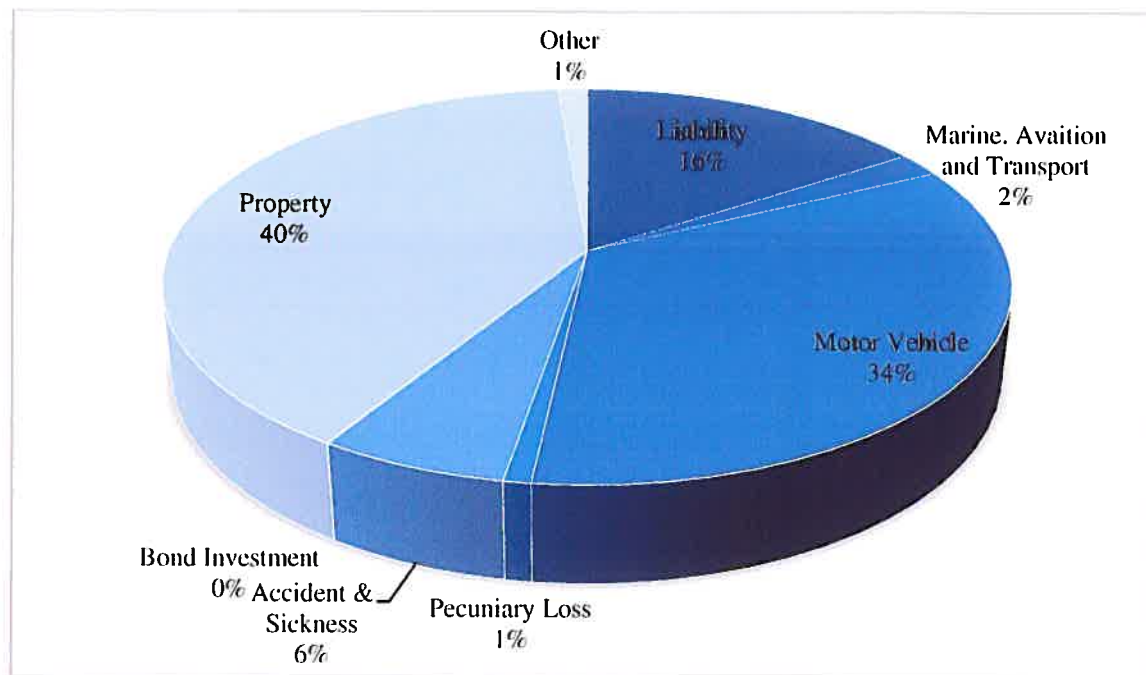
Premiums related to long-term insurance comprised mainly of annuities, which represented 52% of total long-term insurance business. Ordinary life and industrial life accounted for 31% of the premiums written for long-term insurance business. Pensions and other classes (personal accident, creditor life and health) accounted for the remainder of premium written in the long-term insurance market.

Figure 4: Gross Premium Written by Policy Type – Long-Term Insurance



With regard to general insurance companies, motor and property insurance remained the key segments accounting for 74% of the premiums written followed by liability insurance which accounted for 16% of the premiums written by general insurers. Marine aviation and transit, accident and sickness, pecuniary loss and bond investment represented the remainder of gross premium written.

Figure 5: Gross Premium Written by Policy Type – General Insurance



Credit Unions

At March 31, 2016 there were 34 credit unions registered in Barbados, one less than the corresponding period one year earlier. This resulted from the members of a small credit union agreeing to transfer their assets and liabilities to a larger credit union, therefore resulting in no asset loss to the system.

Table 7: Credit Union Sector Profile at a Glance

	2012	2013	2014	2015	2016
Number of credit unions	35	35	35	35	34
Total Assets (billions)	\$1.53	\$1.62	\$1.71	\$1.79	\$1.94
Total Savings ⁸ (billions)	\$1.29	\$1.33	\$1.44	\$1.53	\$1.64
Net Loans	\$1.18	\$1.20	\$1.24	\$1.33	\$1.42

⁸ Savings are inclusive of Qualifying Shares

Capital Ratio ⁹	9.77%	11.24%	10.73%	10.74%	11.78%
Profitability (Return on Average Assets)	1.34%	1.32%	1.06%	0.64%	1.07%

Total assets were reported at BDS\$1.94 billion as at the end of March 2016, up from BDS\$1.79 billion at the end of March 2015. Over the five year period ending March 2016, the industry reported a robust compound growth of 5.69%. This result is indicative of the sustainability and resilience of the sector and is striking given the prevailing economic environment. The sector continued to be characterized by its heterogeneous nature as the total assets for individual credit unions ranged from BDS\$116,256 to BDS\$1,019.4 million. The sector's combined balance sheet were dominated by loans, with net loans reported at BDS\$1,417.1 million or 73.16% of total assets at the end of March 2016, compared to BDS\$1,324.7 million or 73.9% a year earlier. While there was growth in the absolute growth of loans, loans as a percentage of total assets declined due to large part to strong growth in assets, buttressed by members' savings. The trend for the period under review has been a concentration of assets in productive areas including loans, investment and cash.

Profitability among credit unions rebounded somewhat as the return on average assets was 1.07% at the end of March 2016, up from 0.64% for the comparable period of the previous year. This was due in part to continued favorable margins on loans and adjustment by large credit unions to the unplanned expenses resulting from the temporary tax imposed on the sector. The action taken by credit union to remediate NPLs and the associated benefits of this action also resulted in improvements in the profitability of the sector.

With regard to capital, the domestic sector over the 2012 – 2016 reported capital levels exhibited an upward trend ranging from 9.77% to 11.78%. Capital consists primarily of reserves and retained earnings which serve as risk and loss buffers.

⁹ Capital ratio excludes Qualifying Shares

Figure 6: Asset Distribution as at March 31 (In BDS \$ Millions)

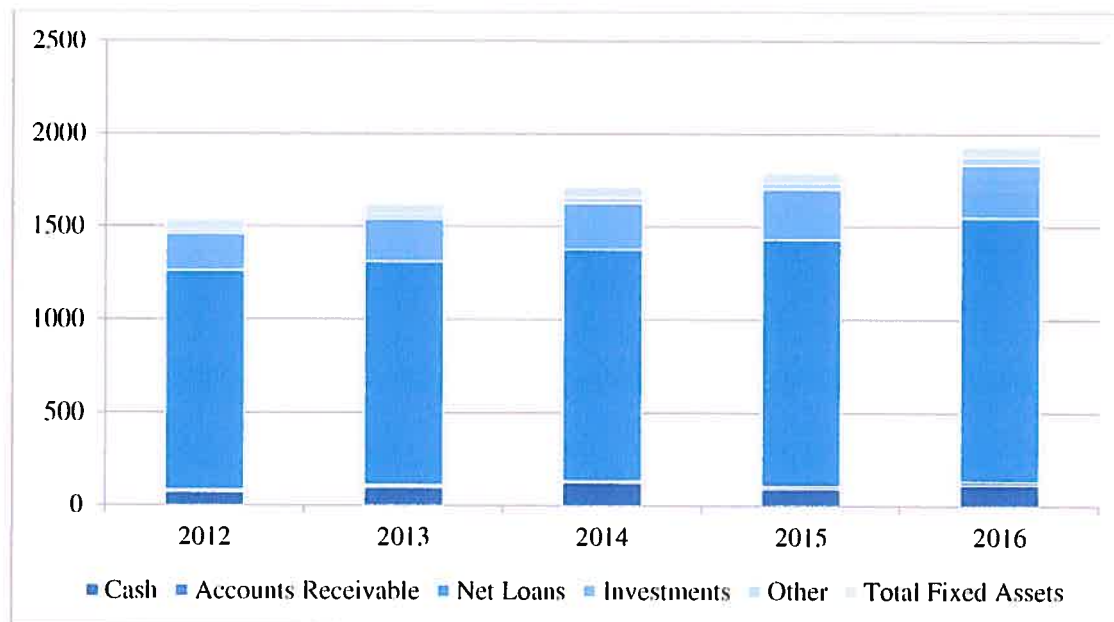


Table 8 below gives a breakdown of the sector by asset size.

Table 8: Sector Profile by Asset Size (BDS\$ Millions) and Number of Institutions

	2012		2013		2014		2015		2016	
	Assets	Number of Institutions	Assets	Number of Institutions	Assets	Number of Institutions	Assets	Number of Institutions	Assets	Number of Institutions
> \$40 million	1,318	5	1,432	6	1557	7	1,636	7	1,777	7
\$10 million to \$40 million	167	7	135	6	104	5	103	5	116	6
< \$10 million	49	23	51	23	52	23	53	23	44	21
Total	1,534	35	1618	35	1713	35	1,792	35	1937	34

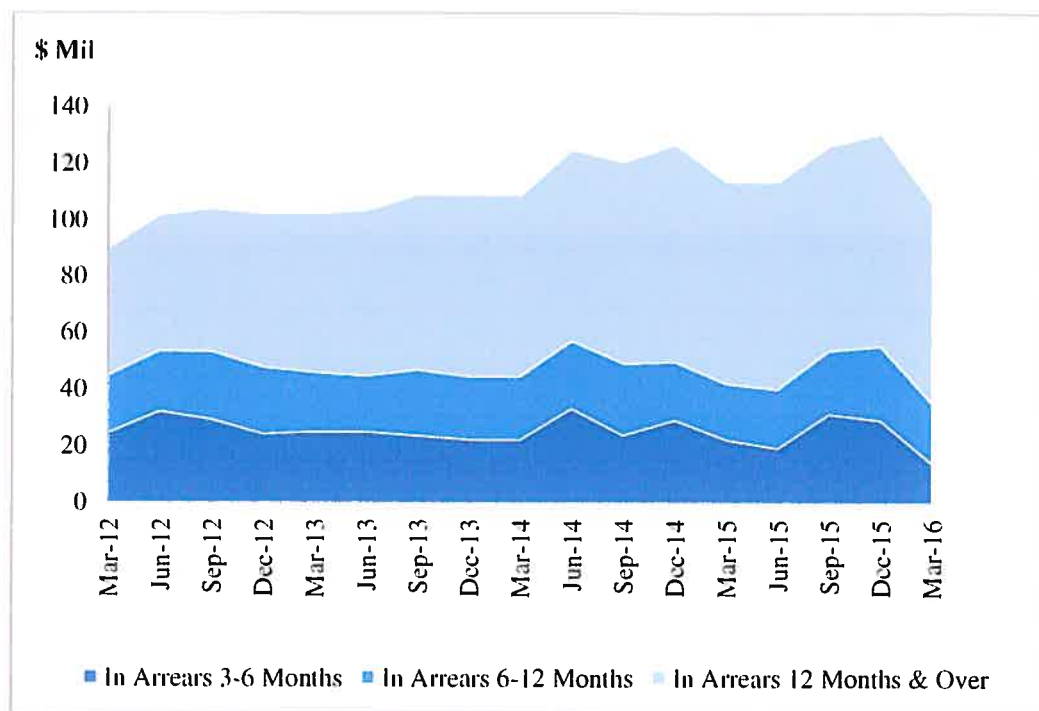
The two largest credit unions held approximately BDS \$1.43 billion which represents 74% of the assets of the sector. This result is commensurate with the previous year and is indicative of comparable growth across the sector as members have strongly patronised all credit unions.

Table 9: New Credit Issued – January to March (In BDS Thousands)

	2012	2013	2014	2015	2016
Consumer	42,469.5	40,466.0	45,109.8	63,378	64,635.7
Real Estate	46,941.9	47,854.3	35,989.2	57,052	60,999.1
Private Transport	10,041.0	9,874.7	11,341.2	16,413	20,915.1
Commercial Transport	433.3	242.2	188.8	1,056	388.0
Agriculture	15.5	9.8	4.0	9	741.5
Other Business	635.8	513.2	380.4	1,021	2,508.5
Total	100,536.9	98,960.2	93,013.4	138,930	150,187.8

New loans across the sector amounted to BDS \$150.2 million continuing the recovery seen in 2015 after a period of decline over the previous three years, Table 3. Lending was equally concentrated in Consumer and Real Estate loans. The most significant recovery was in the property market.

Figure 7: Non-Performing on Loans



Moderation in the growth rate of non-performing loans (NPLs) in the sector continued as these declined from 8.35% to 7.33%. This decrease was due to action taken to address delinquent mortgages and significant write off during the period. At March 31, 2016 loan loss provisions were reported at BDS\$36.3 million down from BDS\$39.5 million the previous year in large part due to this activity.

At March 31, 2016, members' investments in savings and shares totalled BDS\$1,642 million up from BDS\$1,508 million at March 31, 2015. Over the period March 2012 to March 2016 deposits grew from BDS\$1,016 million to BDS\$1,642 million; this represented an average annual growth rate of approximately 10% over the five-year period. The influx of new funds was driven partly in response to the liberalisation of savings rates in the banking sector. This inflow created the potential for liquidity challenges in the medium to long term as members may in fact be seeking the highest short-term interest rates possible.

Securities

A statistical presentation and comparison of the number of registrants and/or licencees is outlined in Tables 10 and 11 below.

Table 10: Number of Regulated Entities (as at the date shown)

Category	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
Market Actors (individuals) ¹⁰	55	37	29	27	25
Market Intermediaries (companies) ¹¹	35	28	21	17	16
Self-regulatory organisations	2	2	2	2	2
Mutual funds (including sub-funds)	21	25	26	26	23
Issuers ¹²	47	49	48	46	44

Table 11: Breakdown of Market Intermediaries (as at the date shown)

Category	March 31, 2016	March 31, 2015	March 31, 2014
Securities company	18	13	10
Investment adviser	21	15	7
Dealer	6	3	3
Underwriter	7	6	5
Mutual Fund Administrator (General)	10	10	11

¹⁰ Brokers, Dealers, Traders, Investment Advisers

¹¹ Market Intermediaries refers to firms registered in the categories of securities companies, underwriter, investment adviser, dealer and mutual fund administrator. Some firms are registered in more than one category.

¹² Listed and unlisted issuers

Mutual Fund Administrator (Restricted)	0	0	0
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A statistical representation of the market is outlined in Tables 12 ad 13 below.

Table 12: Activity on the Barbados Stock Exchange

Market data ¹³ (as at date shown)					
	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
Listed companies	20	20	20	23	23
Listed securities	24	25	26	28	26
Local market index	2,478.82	2,194.13	2,568.58	3,084.37	3,261.28
Cross-listed market index	1,738.11	1,726.65	1,539.55	1,325.98	1,162.64
Composite market index	678.19	624.23	668.90	738.76	725.94
Local market capitalisation BDS\$	6,272,039,643	5,499,741,673	6,395,315,382	8,869,156,101	9,319,483,623
Cross-listed market capitalisation BDS\$	2,862,760,630	2,895,433,099	2,569,376,511	2,214,570,569	1,987,204,618
Composite market capitalisation BDS\$	9,134,800,272	8,395,174,722	8,964,691,893	11,103,526,670	11,314,638,241
No. of major transactions ¹⁴	2	0	0	1	1

¹³ Source: The Barbados Stock Exchange Inc.

¹⁴ Takeovers, mergers, rights issues etc.

Table 13: Mutual Funds data (as at date shown)

Funds under management BDS\$ (in millions)			
	Domestic (offered in Barbados)	Foreign (not offered in Barbados)	Total
March 31, 2016		727.2	2,678.5
March 31, 2015	1,877.3	4,758.0	6,635.3
March 31, 2014	1,834.7	3,322.3	5,157.5
March 31, 2013	979.8	1,489.9	2,469.7
March 31, 2012	942.5	339.3	1,281.9

Registered and/or Licensed Entities

FSC recorded a significant increase in the number of companies registered and/or licensed as market actors, as well as the number of individuals registered with FSC. The increase in the number of registered market actors was mainly attributed to an increase in the number of persons registered in the category of investment adviser. The number of issuers marginally declined as at March 31, 2016, and this was attributable to qualifying issuers utilising the option of the private placement regime to seek an order declaring that they are no longer reporting issuers.

Stock Market

There were declines in the market capitalisation and index, particularly in the domestic market until an increase in activity including value traded and major transactions as at March 31, 2016. The reported activity of Barbados' sole securities exchange, the Barbados Stock Exchange (BSE) showed marginal increases in regular market activity in terms of the cross listed index and local and cross listed capitalisation.

Funds

The Funds market generally continued to show growth in the domestic and foreign sectors in terms of reported assets under management. The domestic market recorded steady growth throughout the period; the foreign funds also continued to show growth until the beginning of 2016 when there were redemptions in one of the foreign funds. The number of entities licensed as fund administrators/managers has remained relatively constant for the period under review.

Pensions

Table 14 presents the number of pension plans registered with FSC as at the end of March 2016. The table shows that the majority of pension plans registered with FSC were Defined Contribution (DC), while approximately 63% less were registered under the Defined Benefit (DB) scheme when compared to the DC scheme. The results are consistent with views expressed by pundits who have argued that there has been a significant shift from DB to DC. Plan sponsors are leaning towards divesting themselves from promised benefits required by defined benefit pension plans and transferring the risk to members.

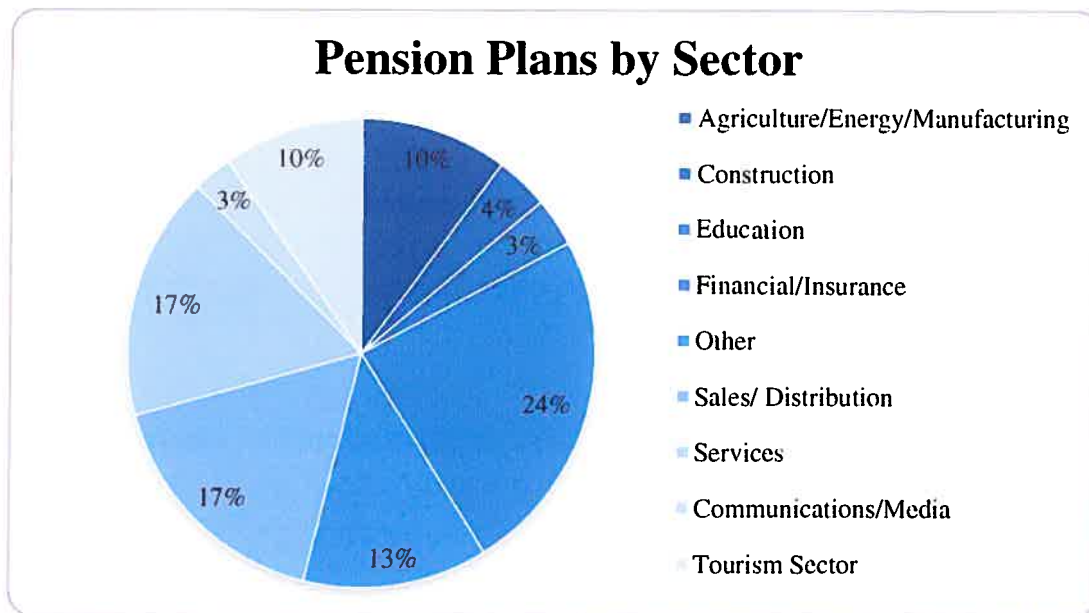
Table 14: Fully and Provisionally Registered Pension Plans as at March 31, 2016

Type of Pension Plan	Fully Registered (FR)	Provisionally Registered (PR)	Total (FR+PR)
Defined Benefit (DB)	65	29	94
Defined Contribution (DC)	138	43	181
DB+DC (combination)	10	3	13
Multi-Unit (DB)	5	0	2
Multi-Unit (DC)	1	1	1
Multi-Unit (DB+DC)	1	0	5
Multi-Employer DC	1	0	1
Total Registered	221	76	297
Percentage (%) Registered	74%	26%	100%

The pension sector has demonstrated its importance through the provision of retirement income to its members which, in fact, precludes them from relying solely on the government or public pension funds. An investigation of the total assets generated by the sector reveals that it has the potential to impact the financial stability of the entire financial system with an estimated BDS\$2.33 billion in total assets, as at the end of March 2016. Liabilities with respect to pensions are based on the promised pension benefits, actual pension benefits and expenses.

Figure 8 depicts that there has been no substantial changes with respect to the principle business of the pension plan sponsor when compared with figures from the corresponding period last year. The Financial/Insurance Sector continues to dominate the pensions sector, followed by Sales/Distribution and Services.

Figure 8: Pension Plans by Sector as at March 31, 2016



As at March 31, 2016 the total pension plan membership registered totalled approximately 30,125 of which approximately 49% were male (14,611) and 51% were female (15,514). There has been a 2.64% increase in membership from the previously published report a total of 29,350

members. Notably, the Barbados Statistical Service has published data with respect to the Barbados labour force.

The size of the pension plans ranged from having one member to having 2,824 members. The pension plans have been categorised based on size. The majority of registered pension plans had a total membership of less than 100. Table 4 provides a representation of the data of the pension sector as at March 31, 2016.

Table 15: Number of Pension Plans and Membership as at March 31, 2016

Membership	Number of Pension Plans	%
<100	234	79%
101-200	27	9%
201-300	14	5%
301-400	8	3%
401-500	1	0%
>500	13	4%
Total	297	100%

There is no requirement by law to establish pension plans for employees, yet employers have sought to continue to provide this as a benefit. There has also been the growing trend in which plan sponsors opt to wind-up pension plans and in some cases, subsequently, provide alternative benefits to employees. Documented reasons for the wind-up of pension plans include:

- replacement of occupational pension plan with registered retirement savings plan
- closure of plant or reduction in plant size/termination of members
- complexity of administration
- administrative cost

Table 16: Pension Plans Wound-up: Fully and Provisionally Registered as at March 31, 2016

Type of Pension Plan	Wind-up of Fully Registered Pension Plans	Wind-up of Provisionally Registered Pension Plans	Total Wind-ups
Defined Benefit (DB)	0	3	3
Defined Contribution (DC)	6	10	16
DB+DC (combination)	0	0	0
Multi-Unit (DB)	0	0	0
Multi-Unit (DC)	0	0	0
Multi-Unit (DB+DC)	0	0	0
Multi-Employer DC	0	0	0
Total	6	13	19

Table 16 reveals the total number of wind-ups. Nineteen plans (16% DB and 84% DC) have been granted approval to wind up in accordance with the wind-up report. Further reviews of this trend will be conducted in the future to ascertain whether the recent decision made by the Minister responsible for Occupational Pensions to remove the tax benefit will have an impact on the sector's justification for winding-up pension plans.

Looking Ahead – 2016/2017 Strategic Focus

CFATF Assessment

As noted earlier under the regulatory developments section of this report, Barbados is preparing for an upcoming fourth round mutual evaluation process. The national risk assessment process is critical to Barbados adequately completing its responses for the mutual evaluation process, for if Barbados cannot adequately identify, assess and understand its ML/TF risks, then responses to the 40 FATF recommendations in the technical questionnaire for the mutual evaluation process will not be well informed. As a result, Barbados must strive to meet the established timelines of CFATF's upcoming mutual evaluation while seeking to better inform its identification and understanding of ML/TF risks.

FSC, as the integrated regulatory body for the non-bank financial sector, will seek to assist with the completion of the mutual evaluation process and national risk assessment process through the following:

- completion of deliverables at a sectorial level for the following sectors in scope – Credit Unions, Insurance, Securities
- participation at National Risk Assessment Working Group Committee level to discuss national threats, national vulnerabilities and risks to better inform the country's position

During the financial year 2016-17, FSC's process in this regard will be phased as follows:

- assisting with the completion of the effectiveness component and the technical component of the technical questionnaire by providing responses to the 40 FATF recommendations specific to FSC, along with providing a preliminary understanding of FSC's sectorial risks assessment
- assisting with the completion of the effectiveness component and the technical component of the technical questionnaire for Barbados through representation and participation on the Working Group Committee
- assisting with the completion of the updated sectorial risk assessment for the sectors in focus under FSC

- assisting with the completion of the updated national risk assessment for Barbados through representation and participation on the Working Group Committee
- preparing for the upcoming on-site visit during December 2016 as it relates to the assessment of the sectorial risks that assisted with forming the national view

Securities

In keeping with its strategic plan, FSC is working on revisions to the Securities Act, Cap 318A and Mutual Funds Act, Cap 320B which are intended to modernise the regulatory framework in these sectors.

Insurance

During the 2016/2017 year, FSC will produce a discussion paper on the topic ***Risk Based Capital for Insurance Companies***. It will also seek to engage domestic insurance companies by having annual prudential meetings. A review of the Statutory Forms for domestic and international insurance companies is also being planned.



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