



**FINANCIAL SERVICES
COMMISSION**

Financial Services Commission
Annual Report
(2018-2019)

Letter of Transmittal

July 17th, 2019

The Hon. Mia Mottley, M.P. Q.C.
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Madam,

I have the honour of submitting for your consideration, the Annual Report of the Financial Services Commission for the year ending March 31, 2019, in accordance with the provisions of Sections 50 of The Financial Services Commission Act.

Yours faithfully,

FINANCIAL SERVICES COMMISSION

Avinash Persaud

Chairman

Table of Contents

About Us	1
Vision Statement	2
Mission Statement	2
Corporate Values	2
Message from Chairman of the Board.....	3
Chief Executive Officer's Report	7
Board Commissioners	10
Board Committees.....	13
<i>The Policy and Legislative Committee</i>	13
<i>The Authorisation and Licensing Committee</i>	13
<i>The Human Resources Committee</i>	13
FSC Management Team	14
Regulatory Developments	15
<i>Technical Working Group</i>	15
<i>Credit Union Sector Guidance Note</i>	15
<i>Cease Trade Order</i>	15
<i>Consultation – Proposal for a CARICOM Model securities legislation</i>	16
<i>The Regulatory Sandbox</i>	17
<i>Base Erosion and Profit Sharing (BEPS)</i>	17
<i>Amendment of Tax Rates</i>	18
<i>Debt Restructuring</i>	18
Regulatory Enhancements and Collaborations	20
<i>Enhancing the Regulatory Regime</i>	20
<i>Collaboration, Sector Development and Engagement</i>	20
<i>Participation in International, Regional and Domestic Meetings</i>	21
Statistical Highlights	23
<i>Licensing</i>	23
<i>Sector Performance</i>	28
• Credit Unions	34
• Securities	38
• Pensions.....	40
Regulatory Support	42

<i>Risk Analytics</i>	42
<i>Examinations</i>	43
<i>Internal Audit</i>	44
<i>Legal</i>	44
<i>Human Resources</i>	46
<i>Information Technology</i>	48
<i>Research and Policy</i>	49
<i>Communications</i>	50
<i>Finance and Planning</i>	51
Appendices	53
<i>Conferences</i>	53
<i>Training</i>	54

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:

- 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 financial stability, public awareness, and instill public confidence in the operations of non-bank financial institutions.

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

Message from Chairman of the Board



Protecting the financial system during the debt restructuring

This past year was an exacting one for a Financial Services Commission that has for too long been underfunded and understaffed. The team, ably led by Kester Guy, put in an admirable performance. In the fall of 2018 the FSC needed to ensure that in one of the largest debt restructurings in history as a percent of GDP, the non-bank financial sector remained solvent, consumers were protected, and the financial system was sound. The staff worked closely with the Government's economic team to ensure that the debt restructuring was large enough but also sustainable from the perspective of the financial sector.

The proof of the pudding is in the eating. Nine months on from the restructuring, there have been no tears in the financial system. The job of financial regulation is like that. Failures are open sores that everyone thinks in the wonderful vision of hindsight should have been avoided. Successfully saving the system so well that no one notices is unnoticed. The business sector often complains about Government's ability to implement. Here then, is perhaps the place where we should pause a little to reflect and say thank you for a job well implemented to Kester, the staff and those they worked closely for long hours with in the Government and Central Bank. It has been a busy year for other reasons too as you will see below and so I want to take the opportunity to thank my Deputy Chair, Ronald Bascombe, and all the members of the FSC's Board for the immense effort and time they have put in over the past twelve months to protect ordinary consumers and the financial system.

A new sustainable regulatory fee structure for the non-bank financial sector

The Barbados Economic Recovery and Transformation Plan (BERT) requires agencies like the FSC to be self-funded. It makes perfect sense for a financial system with international reach, to generate the revenues that pay for its proper regulation. The old fee structure was more akin to a registration fee with the Government making up the short-fall. It was also tangled up with promoting the international business sector rather than financial regulation. The old structure was prone to underfunding the agency, especially given the observation above that successful regulation is hard to see until it is has gone. The collapse of CLICO, a regional financial services company on January 30, 2009, and the massive cost to the public purse of supporting its former customers have helped to correct the balance in favor of effective regulation.

We have set a new fee structure more aligned to regulatory costs. This means substantially higher fees for larger institutions by asset base, and some untangling of promotion from regulatory activities. Consequently, the staff engaged the industry with a series of consultations before we introduced the new fee structure. Reputable firms want to be regulated in a reputable jurisdiction and the industry as a whole has accepted the new fee structure. No plan survives engagement with reality. As we roll out the new fees this year and next, we will likely make modest refinements to get the balance right. Barbados must be both a welcoming jurisdiction for international business and one that is and has a reputation for, effective regulation.

Promoting financial innovation while protecting consumers

Like night follows day, every major financial boom is followed by a major financial crash, the last one in 2008-2009 cost the world economy around \$20trn. A widely held belief that there has been some wondrous new technological innovation enables enough people to believe this time is different and the boom is not a temporary period of excess but some new trend. This belief makes the booms and their subsequent crashes large. The technological innovations are often real and transformative, but they are just not going to make everyone a millionaire. We have seen it before. We had financial booms and crashes around the advent of the railroads, the motor car, investment trusts, electrification, the telephone, financial portfolio insurance - 1987, the internet, and last time around, credit derivatives. It is enough to make any regulator who knows his financial history jaundiced over talk of the white heat of technology - especially when the protagonists are often arrogantly proud of being ignorant of history. And this is not just a matter of financial regulation. Financial crashes go beyond the boundary of finance and are episodes of recession, joblessness, homelessness, and hopelessness. Poverty rises, and suicides increase.

However, regulators need to strike a balance, because while each crash was devastating, there was also genuine technological innovation. Night falls after day, but the daylight returns. Economic growth and prosperity require technological change. New technologies may end up being owned by a few and be less democratic than their evangelists suggest, but they have the potential to increase access to finance and economic opportunity. Our approach is designed to promote innovation while protecting individual consumers and the financial system – our remit as regulators. First, we will generally approve a license for a non-bank financial product using new technology once it meets the other standards on financial conduct and prudence and the promoter is not selling it to the broader public, but a limited number of qualified investors. Qualified investors are people who know what they are doing and, critically, can afford to lose their shirt if they get it wrong. We are happy for these people to be the vanguard of technological revolution - not granddad.

The new regulatory sandbox regime

If a promoter insists that a new financial product must be sold to the wider public before the technology has been proven elsewhere, we may still say yes. We have established jointly with the Central Bank of Barbados a regulatory sandbox regime. Under this regime, new products can be rolled out, tested, and monitored closely for a set time. At the end of this period a review panel decides whether the product can be licensed under existing regulation, whether it will need to remain in a regime of tight scrutiny until a new licensing scheme is developed or whether it presents too high a risk to consumers of the financial system to be licensed and operations need to cease. In one of the first of many future joint operations, the Central Bank of Barbados and FSC jointly established the sandbox in October 2018. Bitt's M-money was the first new product to enter the sandbox, and after approximately six months, it has completed the sandbox. The product is now entering a new phase of continued operation and scrutiny until the Central Bank of Barbados has developed a new licensing regime for it and similar payment systems which we anticipate over the next few months.

The sandbox regime includes strict scrutiny on AML compliance, and we hope that this will give local banks a greater willingness to provide fintech companies with banking facilities. If they do not, the authorities will need to consider intervention on the grounds of stopping anti-competitive behavior. The Government cannot promote responsible innovation to see it snuffed out by those feeling threatened by competition.

Streamlining processes and reducing application times

In keeping with our commitment to continuously improve service standards, the Commission is trying to deliver more efficient turnaround times for applications for non-bank licenses. We have been reviewing our processes and have already made adjustments to facilitate this improvement. We will shortly be announcing an end to the annual renewal requirement for existing license holders and will provide details of a new process based around duties to inform the FSC of any material changes since an application was approved and the sanctions we would apply if licensees do not carry out these duties expeditiously.

There have been times when our service to applicants has not been to the standards we set ourselves. We extend our sincerest apologies for that and commit to doing better. We intend to reduce the times on straight forward applications significantly. To enable the public and our stakeholders to hold us to that commitment, we further commit to the values of public accountability and transparency - however embarrassing this may be to us. We will start publishing average turnaround times for decisions on new applications.

An exciting year ahead

The FSC looks forward to the year ahead. The domestic debt restructuring is behind us. The new fee structure allows us to match our regulatory obligations with our capacity better and improve customer service. One of the Government's critical objectives is to support greater access to finance, in part through the filling of missing financial markets and instruments, like crowd financing, junior stock markets, employee equity schemes, regionally regulated and marketed investments, and new forms of collective investment instruments. We will need to support innovation with carefully calibrated, effective, and efficient regulation. We willingly, excitedly, step up to the plate to play our role in the country's transformation.

Professor Avinash D. Persaud

Chairman

Chief Executive Officer's Report



The 2018-2019 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. One word which characterised our journey over this period was “transformation”; ranging from ensuring the enhancement of the regulatory framework through legislative review, to placing FSC on a sound financial footing. The legislation that currently governs the insurance, securities, and credit union sectors has been in existence for a while, having been amended in some instances, more than 15 years ago. Considering the non-bank financial services sector has since become far more dynamic, it is

incumbent upon us to ensure we can adequately respond to the regulatory needs of our stakeholders.

FSC moved to address two major challenges it currently faces – that of financial independence, and the need to strengthen our organisational capacity in order to administer an efficient regulatory system. To this end, we submitted a proposal outlining a new funding model to Cabinet for approval. The achievement of financial independence will dovetail with our objective of implementing the structure necessary to effectively undertake our remit.

A critical component of the transformation that will support the FSC we envisage, will be the completion of the e-Filing project, now in the early stages of its implementation. We eagerly look forward to the full roll out of this system, as it will significantly enhance our processes and redound to greater efficiencies within the organisation.

Collaboration

We continued our collaboration with various strategic partners on matters of national importance, such as the Caribbean Financial Action Task Force Mutual Evaluation Report; the OECD Base Erosion and Profit Shifting (BEPS) framework, and the Financial Stability Report. To advance our work on the national risk assessment – a key element in identifying areas of national vulnerabilities relating to Anti-Money Laundering/Combating Terrorist Financing (AML/CTF) considerations – we established an AML/CTF Working Group with responsibility for developing a framework to address inefficiencies identified in the Mutual Evaluation Report. On successful completion, this framework will be used as part of the national strategy for identifying the areas of risk and diverting resources to the most vulnerable areas.

As has been the case for the duration of FSC's existence, the Caribbean Regional Technical Assistance Centre (CARTAC) continues to provide us with support and technical guidance. We have benefitted tremendously from this investment and we look forward to an even greater strengthening of that strategic partnership.

Small countries like Barbados continuously strive to implement standards developed by international policy setting bodies, but because the market microstructure is very different from those in more developed countries, it is sometimes very difficult to apply the relevant standards. Hence, FSC continues to make whatever impact it can on the development of international standards, via its membership on the Macroprudential Committee of the International Association of Insurance Supervisors (IAIS). We are also currently Vice Chair of the regional Caribbean Group of Securities Regulators Fintech Committee, and a member of the International Organisation of Securities Commissions Fintech Network, where we participate in the Regtech workstream. These memberships are a result of our recognition of the importance of networking, ensuring that we are cognisant of what is transpiring in the Fintech arena, and how other regulators – both regionally and internationally – are navigating this space.

We believe there is much we can learn, as well as contribute, as we pursue efforts to design, develop and implement a rigorous risk-based supervisory framework in line with global regulatory best practices. As part of that process, we have moved to harmonise the insurance legislation. Effective January 1, 2019 the Exempt Insurance Act, Cap. 308 was repealed and the Insurance Act, Cap. 310 was amended to provide for, among other things, three (3) classes of licences under which all insurance entities will be classified, regulated and required to pay the relevant licence fee. FSC intends to ensure that all existing registrants are appropriately registered in the class that allows them to continue the structure and species of insurance business they currently conduct, in as seamless a manner as possible.

We also turned our attention to the facilitation of financial technology (Fintech) initiatives and jointly established what we believe is the appropriate regulatory framework, namely a regulatory sandbox, with the Central Bank of Barbados. Although only one entity participated in the sandbox during the period under review, we certainly have a better understanding of the process and are able to articulate our framework with greater confidence and clarity. It remains one that considers systemic risk and investor protection. We have also had requests from other jurisdictions keen to engage us on Barbados' regulatory sandbox.

As many institutions move to undertake technologies to digitise their frameworks and become more efficient, so too are players in the market considering digitising financial instruments to meet growing consumer needs or market demands. FSC is in the process of reviewing a digital asset framework, including its rules and operations, to determine its applicability and appropriateness for our financial market.

Recognising the importance of its human resource, FSC maintained its focus on employee training and development, and facilitated a wide range of training opportunities both locally and abroad. We also sought to focus on the health and well-being of staff by instituting various health and safety policies with planned initiatives. The overall goal is to introduce a comprehensive wellness programme aimed at improving employee health, increasing productivity, and boosting and maintaining employee morale.

Overall, it has been a very productive and transformative year, and while we celebrate these gains, our attention is fixed on continuous improvement as we strive to promote soundness, stability and transparency within Barbados' non-bank financial services sector. The entire FSC team's commitment, and that of our Board of Commissioners, despite the challenges faced and changes which have come about as a result of the transformation process, continue to contribute immensely to the achievement of this key objective. Ultimately, the changes necessary to move FSC forward are not beyond us and we are up to the task.

Board Commissioners

Professor Avinash Persaud's (Chairman) career spreads across finance, academia and public policy. He is currently on secondment as Special Envoy to the Prime Minister of Barbados for Investment and Finance. He is Emeritus Professor of Gresham College, and non-executive Chairman of Elara Capital PLC (UK). He was Chairman of the regulatory sub-committee of the UN Commission on Financial Reform; Chairman, Warwick Commission; member of the UK Treasury's Audit and Risk Committee and the Pew Task Force to the US Senate Banking Committee; Visiting Scholar at the IMF and ECB, and Distinguished Advisor, Financial Sector Law Reform Commission of India. He is a former senior executive of J. P. Morgan; UBS; State Street, and GAM London Ltd. He is a former Governor, London School of Economics, and 2010 President of the British Association for the Advancement of Science (Section F). He was elected Director of the Global Association of Risk Professionals, and the Royal Economics Society. He won the Jacques de Larosiere Award in Global Finance from the Institute of International Finance and was voted one of the top three public intellectuals in the world on the financial crisis, by a panel for Prospect Magazine.

Mr. Ronald Bascombe (Deputy Chairman), an Accountant by profession, is a Fellow of the Institute of Chartered Accountants of Barbados, and a member of the Chartered Professional Accountants of Nova Scotia, Canada. He holds a BSc (Accounting) from the University of the West Indies.

Mr. Bascombe was employed in the Public Service for over 40 years. He was Permanent Secretary in the Ministry of Housing and Lands; the Ministry of Energy and Telecommunication; the Ministry of Finance, and held assignments in several other government ministries and departments. He served as a member on a number of statutory boards during that time.

Ms. Vere Brathwaite is an Attorney-at-Law qualified to practise Law in Barbados, England and Wales, and the English-speaking Caribbean. She holds a Bachelor of Science degree (Hons.) and a Bachelor of Laws degree (Hons.), both from the University of the West Indies in Barbados. She was admitted as a Barrister to the Bar of England and Wales. Miss Brathwaite practises Civil Law with a concentration in Business Law, Corporate Law, International Business Law, and Corporate Governance. She is also a Director or Corporate Secretary of several entities including companies in the International Business sector. In addition to her legal practice, Miss Brathwaite also presented as a Conference Speaker in Florida State University/University of the West Indies joint conferences for several years; she was formerly a tutor at the University of the West Indies in the Faculties of Law and Social Sciences.

Mrs. Desirée Cherebin is a Banking Supervision and Financial Services Consultant working with regional and international agencies to assist countries with strengthening the regulation and supervision of their financial sectors. She is a former Director of Bank Supervision at the Central Bank of Barbados and also worked as an Economist with the Ministry of Trade in Barbados, and as an Advisor to the Governor of the Central Bank of Barbados.

Mrs. Cherebin is currently the Vice Chairperson of the CCRIF SPC, formerly the Caribbean Catastrophe Risk Insurance Facility and a Director of SigniaGlobe Financial Group Inc. She is a former Chairperson of the Barbados Anti-Money Laundering Authority and was previously a Commissioner with the Barbados Securities Commission and the Barbados Fair Trading Commission. She attended Bishop's High School in Guyana, the University of the West Indies and York University in Canada.

Mr. Harold Codrington was a Deputy Governor of the Central Bank of Barbados, where he gave invaluable service for more than three decades. He played an important role in the development of the organisation, particularly as a member of its management team.

Mr. Codrington joined the Central Bank as an economist in 1979 and rose up the ranks serving as Senior Economist, Deputy Director (Ag.), and Advisor to the Governor, before being appointed the post of Deputy Governor in 2011.

Ms. Debbie A.P. Fraser is an Attorney-at-Law qualified to practice in Barbados and Jamaica and has been in practice since 1992. She 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 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 financing.

Mr. Ian Carrington is Director of Finance and Economic Affairs; Ministry of Finance, Economic Affairs and Investments, with responsibility and oversight for the Government's financial management. He holds a Masters of Public Administration and a Post-Graduate diploma in Public Policy from Harvard University, and is a Fellow of the Certified General Accountants of Canada and of Certified Professional Accountants of Canada.

Mr. Carrington is former Director of National Insurance in Barbados where he was responsible for the administration of Barbados' social security system. He is also former Chief Executive Officer of the Financial Services Commission.

Mr. Carrington has a wealth of expertise and knowledge in the areas of Finance, Insurance, Banking and Economic Affairs.

Board Committees

The 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:

- Professor Avinash Persaud
- Ms. Debbie Fraser
- Ms. Vere Brathwaite
- Mr. Ian Carrington

The 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:

- Mr. Ronald Bascombe
- Ms. Desirée Cherebin
- Ms. Vere Brathwaite
- Mr. Harold Codrington

The 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:

- Professor Avinash Persaud
- Mr. Ronald Bascombe
- Ms. Desirée Cherebin
- Mr. Harold Codrington

FSC Management Team

Chief Executive Officer	Mr. Kester Guy
Deputy Chief Executive Officer	Ms. Rosina Knight
General Counsel	Mrs. Cyralene Benskin-Murray
Director, Risk Analytics	Ms. Gayle Marshall
Manager – Credit Unions	Mr. Curtis Lowe
Manager – Securities (Ag.)	Mr. Paul Watson
Manager – Insurance (Ag.)	Mr. Paul Griffith
Manager – Pensions	Mrs. Tanya Bretney
Manager – Examinations	Ms. Esther Griffith
Manager – Information Technology	Mr. Emmerson Cadogan
Manager – Human Resources	Ms. Joanne Mapp
Manager – Finance & Planning	Ms. J. Waveney Forde

Regulatory Developments

Technical Working Group

FSC was represented on a Technical Working Group to advance an initiative to establish a Credit Reporting Act to allow for the operations of regulated credit bureaus. The proposed Credit Reporting Act will allow financial institutions to mitigate credit risk and price credit facilities appropriately, by allowing for the determination of credit ratings for prospective borrowers.

Credit Union Sector Guidance Note

FSC developed and circulated a guidance note to the credit union sector, communicating its standards for the policy and procedural framework that credit unions investing in Repurchase Agreements must implement.

Cease Trade Order

FSC recognised the challenges that regulated entities may have experienced as a result of the debt restructuring exercise announced by the Government of Barbados with respect to Government-issued securities. Having responsibility for the promotion of stability within the local non-bank financial sector, FSC determined it was in the public's interest to issue an order to cease trading in securities that were subject to the debt restructuring. The Order was issued on July 5, 2018 to regulated entities licensed and registered under the Mutual Funds Act and the Securities Act, and other relevant entities.

Cease Trade Order Appeal

FSC received an application for the discharge and/or modification of the Cease Trade Order by interested parties who were affected by the issuance of the Order. Pursuant to the Securities Act, the applicants requested a hearing, which was granted before a Hearing Panel comprised of three FSC representatives.

The applicants posited that:

- Any Order issued by FSC must be restricted to securities falling within the ambit of the definition of a security as outlined within the Securities Act
- The Order ought to have been specific and define the securities with sufficient particularity

- To effect redemptions in the ordinary course of mutual fund business, mutual funds would have to liquidate other pooled investments and cash reserves to the detriment of mutual fund investors

The points raised by counsel for the interested parties highlighted sufficient areas of concern to persuade the Hearing Panel that the Cease Trade Order as issued, should be allowed to expire on July 20, 2018.

FSC increased its monitoring of the market following the expiration of the Cease Trade Order, specifically, daily review of the trading in Government securities listed on the Barbados Stock Exchange and review of redemptions in mutual funds that report on a weekly basis. It was found that following the expiration of the Cease Trade Order, there was no significant trading of Government securities on the Barbados Stock Exchange and no significant increase in the level of redemptions from mutual funds.

Consultation – Proposal for a CARICOM Model securities legislation

FSC issued a consultation document to the securities industry in March 2019 on behalf of CARICOM with respect to the facilitation of a model CARICOM Policy for the development and regulations of a Regional Securities Market.

The Policy seeks to give effect to Article 44 and 71 of the Revised Treaty of Chaguaramas, which sets out the mandate for Member States to adopt appropriate measures for the establishment of an integrated capital market, as well as the establishment of appropriate financial infrastructure to promote the growth of capital markets.

There was no formal response from members of the industry; however, FSC was pleased to participate in the initiative, and provided comments to CARICOM in this regard. Areas addressed were:

- the support of the conceptualisation of the mutual recognition principle
- a common take-over bid code
- prioritisation of domestic bond markets
- the recognition of financial technology and digital assets as a feature of the capital markets

The Regulatory Sandbox

FSC participated in the finalisation of the Barbados Regulatory Sandbox in conjunction with the Central Bank of Barbados in October 2018. The Sandbox allows for financial innovation within a controlled environment and facilitates the assessment of innovative activities where financial technology:

1. gives rise to ambiguity as to its appropriate regulatory regime
2. presents potential consumer protection concerns
3. poses a potential risk to financial stability

As at March 2019, the regulators have assessed participation of the “mMoney” product in the Regulatory Sandbox and determined that:

- the product is a hybrid product, which functions as a value transmission that holds customer funds; as a result, amendments to the Financial Institution Act, CAP 324A will have to be undertaken to regulate this type of activity
- holdings of this product do not represent a leakage of deposits from the financial system
- there were no signs of any negative impact on the payments or financial system, but this could change should there be a significant increase in activity across the platform; as a result, further monitoring should be considered in order to safeguard from any potential negative effects

Until the amendments to the Financial Institutions Act, CAP 324A are made, the “mMoney” product will continue to be in the regulatory sandbox arrangement.

Base Erosion and Profit Sharing (BEPS)

The International Business sector came under scrutiny from the Organization of Economic Cooperation and Development’s (OECD) review for BEPS, leading to radical and widespread legislative changes. The review by the OECD’s Forum on Harmful Tax Practices (FHTP) found many of Barbados’ “incentive regimes” possibly harmful and deemed the country as non-compliant with action 5 as outlined under the BEPS regime. The key characteristics contributing to the OECD’s findings were Barbados’ low tax rate, “ring-fencing” of international companies from the domestic ones and its wide treaty network.

To satisfy the BEPS Action 5 requirements, there was extensive consultation with the Barbados International Business Association (BIBA) Task Force, the Ministry of International Business and other insurance industry stakeholders in order to formulate policy recommendations for making Barbados BEPS compliant.

In response, Barbados has moved towards tax convergence of its domestic and international business sectors, with recommendations made to abolish aspects of the international business sector and amend the international insurance sector. The Exempt Insurance Act Cap. 308A was repealed and significant amendments were made to the Insurance Act Cap. 310 to create a single legislative framework for all insurance entities operating in or from within Barbados. The amendments resulted in the creation of three classes of licensees under the legislation:

- Class 1 licensee, which shall be an insurance company which underwrites related party business
- Class 2 licensee, which shall include an insurance company which underwrites risks of third parties
- Class 3 licensee, which shall include an insurance intermediary, an insurance management company and an insurance holding company

Amendment of Tax Rates

Other legislative changes impacting the insurance sector included the repeal of the Tax on Remittance Act, Cap. 91A, and amendments to the Company Act, Cap. 308 and the Income Tax Act, Cap. 73. The amendments made to the Income Tax Act, Cap. 73 resulted in the convergence downward of corporate tax rates. The Business Companies (Economic Substance) Act, 2018 was also enacted, which now requires resident companies to satisfy the economic substance test in relation to any relevant activity carried on by it.

Debt Restructuring

In May 2018, a newly elected Barbados government made a series of key decisions to address the state of the local economy at that time. Subsequently, the new administration announced that it had planned to restructure the country's debt. The debt exchange offer was launched on September 7th, 2018 to private creditors while the IMF approved the EFF programme for Barbados on October 1st, 2018.

The debt exchange offer included reductions in interest rates and extended maturity dates for investors. This restructuring of Government-issued debt had a significant impact on many investors, individuals and entities. The impact on the FSC-supervised, non-bank financial sector was recognised in all industries, but with higher severity in some than others.

In an effort to understand and estimate the impact of this debt exchange on the non-bank sector, FSC conducted scenarios which modelled the impact of various restructuring proposals. This process involved collaboration with a specialised team from the Central Bank of Barbados. FSC also met with the International Monetary Fund and with White Oak Advisory LLC, which negotiated the terms on behalf of the Barbados Government. Given the significance of this event, discussions were held with various industry players to create a channel for feedback and to affirm that the overall impact was adequately captured. This ultimately aided in the structuring of the new instruments.

FSC continues to regularly monitor the situation to ensure that the impact does not lead to any failures, which may have further undesirable consequences for the local economy and local stakeholders.

The domestic insurance industry remains highly exposed to Barbados government debt. Post restructuring, concerns were raised regarding the ability of these companies to meet their solvency and other statutory obligations. In response to these concerns FSC issued a statement offering regulatory forbearance to any company negatively impacted by the debt restructuring. During the period under review, only one insurance company submitted a request for regulatory forbearance; this is under active consideration. Similarly, administrators of two pension plans expressed interest in benefiting from regulatory forbearance.

As companies continue to file their annual returns, FSC will continue to monitor the liquidity, earnings and capital positions for any negative fallout from the debt restructuring.

Regulatory Enhancements and Collaborations

Enhancing the Regulatory Regime

FSC, through its Credit Union division, conducted ongoing quarterly risk assessments of the credit union sector. This was fortified by enhancements to the risk rating system for assessing the financial soundness of the entities. Benchmarks for risk rating categories were also rebased to strengthen FSC's ability to identify heightened risk in the sector, and to ensure consistency with applicable guidelines and international standards. This project allowed FSC to advance the full implementation of a risk based supervisory framework underpinned by a Net Risk approach to risk assessments.

FSC further enhanced its ability to assess the financial soundness of the sector by participating in specialised training relating to International Financial Reporting Standard 9, and Advanced Financial Modelling and Dash Boards with Excel.

Collaboration, Sector Development and Engagement

FSC continued to hold quarterly meetings with the Barbados Co-operative and Credit Union League Limited to advance matters relating to developments in the sector. Of key importance were advancements towards the agreement of IFRS 9 transitional provisions, and discussions relating to the introduction of annual registration fees for the sector. Meetings were also convened with the management and boards of several credit unions to discuss regulatory matters.

One of the important highlights of FSC's engagement with the sector was its participation in a credit union officers' forum where FSC presented on the topic ***"The regulator's perspective of the challenges and hot topics affecting the credit union sector"***. The session was hosted by the League and provided an interactive forum to discuss the regulator's assessment of credit unions and provide guidance in respect of a number of issues facing the sector.

FSC also issued a Compliance and Risk Assessment Questionnaire for the Securities sector in June 2018 for the year ended December 31, 2017. The questionnaire was issued to thirty-two (32) entities registered and licensed under the Securities and Mutual Funds Acts respectively. It was used to gather detailed information on activities of regulated companies, their risk management frameworks, and compliance with legislation and FSC issued guidelines.

A review of the questionnaire indicated that the major activities of regulated companies were equities trading, discretionary asset management, and mutual fund administration. It also

highlighted that the major risks faced by entities within the securities sector were operational, market, credit and liquidity risks.

Ninety-four per cent of the entities indicated the presence of a functioning Board of Directors; 60 % of these indicated the presence of risk management, internal audit, and investment committees. Eighty-one per cent of all the entities indicated that policies and procedures, which facilitate compliance with legislation and FSC-issued guidelines in the areas of market conduct, compliance, AML/CFT, insider trading, and corporate governance, were developed and had been approved by their Board of Directors.

FSC will continue to issue these questionnaires to the industry annually; and will utilise the information gathered as a supervisory tool to ensure that regulated companies in the securities industry have risk management frameworks in place to mitigate its associated inherent risks.

Participation in International, Regional and Domestic Meetings

FSC continued to be engaged on regional and international regulatory issues, particularly through its membership on, and association with, international standard-setting bodies.

Representatives attended a series of meetings during the reporting period, including:

- International Organization of Securities Commissions (IOSCO) sub-groups
- Inter-American Regional Committee and Council of Securities Regulators ... held in the Cayman Islands and focused on initiatives being led by IOSCO, including financial technology and sustainability finance. *(These meetings were followed by the Growth and Emerging Markets Committee Plenary meeting and public conference.)*
- Technical assistance working group of the Inter American Regional Committee, which focused on the development of Enforcement manuals. *(This resulted in FSC producing a draft enforcement manual complete with a case study.)*
- Caribbean Group of securities Regulators annual conference ... held in the Bahamas, where FSC presented on the topic **“Progress in Implementing a Financial Stability Framework”**. *(This presentation focused on threats to financial stability, and systemic risk identification and assessment.)*
- Caribbean Group of Regulators Financial Technology Working Group, where FSC was elected Vice Chair of a Fintech committee working group, with responsibility for researching new developments in the area of financial technologies, and discussing Fintech issues related to securities. The Committee will be working on policy frameworks for areas relating to peer-to-peer lending, digital assets and cybersecurity; FSC is expected to take a leading role in this policy framework initiative.

- The North American Bitcoin Conference where the industry group focused on Barbados' regulatory environment, particularly the Sandbox framework and Barbados' willingness to advance itself as a leading jurisdiction for financial technology. As a result of the high level of engagement expected, FSC has committed to fully participating in future activities on the advancement of financial technology.
- The 2018 Caribbean Association of Insurance Regulator's (CAIR) Conference and AGM ... held in St. Kitts and Nevis, this three-day meeting discussed the topic ***“Enhancing Domestic and Cross-Border Supervision and Stress Testing in the Insurance Sector”***. FSC was elected Vice President of the regional body for the term 2018-2020.
- Caribbean Association of Pension Supervisors (CAPS) Conference and Workshop, and AGM, also held in St Kitts and Nevis. FSC presented as part of a panel discussion on the topic ***“Supervising the Pension Industry in the Caribbean – Issues, Challenges and Next Steps”***.
- Royal Fidelity Merchant Bank & Trust (Barbados) Limited Pension Breakfast, where FSC delivered a speech on “The role of the plan administrator, statutory requirements and recent legislative amendments in the occupational pensions sector” to an audience of plan administrators and service providers.

FSC continued to work closely with Invest Barbados in the latter's efforts to promote international business in Barbados. Together, representatives from both organisations attended the annual conferences hosted by RIMS (Risk and Insurance Management Society Inc.) and CRIMS (Canadian Risk and Insurance Management Society Inc.). The collaboration extended to the updating of informational material for the international insurance sector following amendments to the insurance regime.

Statistical Highlights

Licensing

- Credit Unions**

	2015	2016	2017	2018	2019
Number of Credit Unions	34	33	33	33	33

Table 1: Number of Credit Unions as at March 31

As at March 31st 2019, the number of Credit Unions licensed and operating within Barbados stood at thirty-three (33). Table 1 above shows that the number remained consistent over the past four years indicating stability within the Credit Union Sector.

- Securities**

	2015	2016	2017	2018	2019
Balanced	3	3	3	2	2
Exchange-Traded Fund	3	3	0	0	0
Growth	6	6	6	5	5
Income	5	5	5	5	5
Property	3	3	3	5	5
Total	20	20	17	17	17

Table 2: Number of Domestic Mutual Funds by Type as at March 31

The number of domestic mutual funds had marginal changes from 2015 to 2019. Table 2 shows that the total number of funds decreased steadily between the years 2013 and 2017.

	2015	2016	2017	2018	2019
Market intermediaries (firms)	28	35	35	38	37
Market intermediaries (Individuals)	37	55	54	58	65
Mutual Funds (including sub-funds)	25	21	23	22	23
Issuers	49	47	41	42	44
Mutual Funds administrators (General)	10	10	9	9	9
Self-regulatory organisations	2	2	2	2	2

Table 3: No. of Registrants/ Licensees (Breakdown of Industry) as at March 31

The number of registrants was constant over the 2018 to 2019 period. A marginal increase of 7.1% was experienced in the total number of registrants within the aforementioned period and was as a result of the increase in Individual Market intermediaries and Issuers.

	2015	2016	2017	2018	2019
Securities company	13	18	17	17	17
Investment Adviser	15	21	19	20	23
Dealer	3	6	5	5	5
Underwriter	6	7	6	6	5
Mutual Fund Administrator (General)	10	10	9	9	9

Table 4: Breakdown of Market Actors (firms) as at March 31

The number of market actors, with respect to firms, experienced minimal change over the five-year period, as illustrated by Table 4. As it relates to Market Actors (Individuals), each category experienced steady growth over the six-year period as illustrated by Table 5 below.

	2015	2016	2017	2018	2019
Broker	22	28	28	26	31
Dealer	5	7	5	5	8
Investment Adviser	23	30	28	30	42
Trader	8	14	13	12	18

Table 5: Breakdown of Market Actors (Individuals) March 31

- **Insurance**

	2015	2016	2017	2018	2019
Number of Life Insurance Companies	6	7	8	7	6
Number of General Insurance Companies	15	14	15	15	15

Table 6: Breakdown of Domestic Insurance Companies registered

The table above displays the number of Life and General Insurance companies registered within Barbados as at March 31st 2019. The number of entities in the general insurance sector remained constant over the last three years. As at March 2019, the life insurance sector had one less company than the comparable period in 2018.

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Canada	128	133	133	138	141
USA	60	61	64	70	76
Latin America	1	6	10	14	18
Other	41	36	42	46	47
Total	230	236	249	268	282

Table 7: Number of Captives

Table 7 shows the number of registered international insurance companies in Barbados. As at March there were 141 companies. Canada and the United States of America (USA) continue to be the major sources of business and have accounted, on average, for 53.2% and 26.1% respectively.

The number of Holding companies remained constant, while the number of Management companies increased marginally.

	2015	2016	2017	2018	2019
Holding Company	11	11	11	11	11
Management Company	22	25	25	27	27

Table 8: Number of Holding and Management Companies

- **Pensions**

	2015	2016	2017	2018	2019
Defined Benefit (DB)	60	66	81	83	78
Defined Contribution (DC)	131	139	159	162	151
DB+DC (combination)	9	10	15	15	17
Multi-Unit	3	7	12	13	12
Multi-Employer DC	1	1	1	1	1
Total	204	223	268	274	259

Table 9: Number of pension plans registered by plan type as at March 31

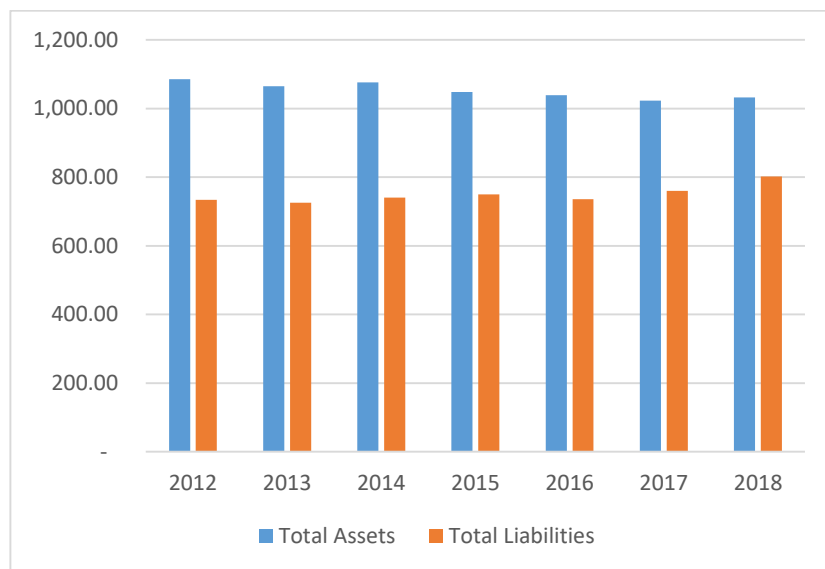
The number of occupational pension plans registered as at March 2019 was 5.5% lower than one year prior, given that 15 wind-ups occurred during the period. On average, Defined contribution plans continue to account for approximately 60% of the plans registered. A natural follow on is that the total member also fell during the period of review

	2015	2016	2017	2018
Active Members	n/a	19,777	20,391	17,536
Deferred Pensioners	n/a	3,589	3,597	3,298
Pensioners	n/a	4,524	4,522	3,920
Total	28,791	27,890	28,510	24,794

Table 10: Membership information as at December 31, 2018

Sector Performance

- **General Insurance Industry**



The general insurance sector experienced modest growth with the total assets increasing by 0.9% to reach \$1,032.4. Liabilities grew by 5.6% to reach 802.4 million dollars

Figure 1: Assets and Liabilities for the General Insurance Sector

	2012	2013	2014	2015	2016	2017	2018
Cash and Deposits	132.8	172.0	171.2	176.0	175.0	178.0	213.5
Investments	483.4	450.5	440.5	440.2	437.2	418.7	390.4
Re-insurers' share of insurance provisions	233.3	216.0	216.4	205.3	192.9	187.6	205.5
Accounts Receivable	105.1	87.9	109.6	95.6	98.1	104.0	88.8
Fixed assets	79.8	83.2	83.2	86.4	84.7	81.7	70.8
Other Assets	51.6	55.2	55.2	44.8	50.9	53.4	63.3
Total Assets	1,085.8	1,064.9	1,076.1	1,048.3	1,038.7	1,023.4	1,032.4

Table 11: Asset Composition

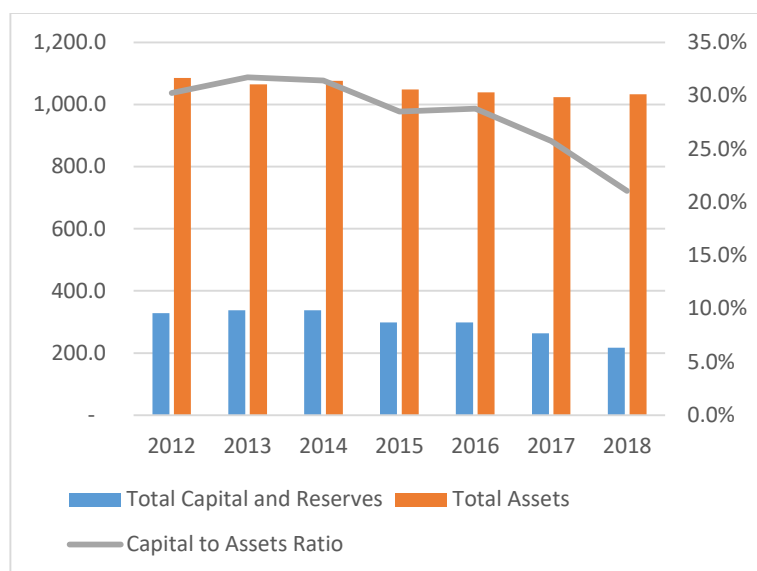
For the year under review, total assets of the general insurance sector grew by approximately \$9.0 million or 0.9% to reach \$1,032.4 million. This growth was driven primarily by increases in cash and deposits and other assets¹, which increased by 19.9% and 18.5% respectively. Quite notably, the value of investments declined by \$28.3 million dollars or 6.8%.

	2012	2013	2014	2015	2016	2017	2018
Government Securities	221.1	204.8	197.0	204.4	189.2	174.0	177.1
Company Bonds and Debentures	69.2	104.7	106.2	99.8	106.4	106.9	68.1
Secured Loans	16.9	15.9	21.1	21.7	22.1	20.5	17.6
Investments in Real Estate	51.0	35.4	31.9	23.3	23.0	14.1	17.1
Shares	30.3	26.2	21.1	21.4	29.0	46.8	35.3
Unit trusts and mutual funds	4.2	6.5	6.7	8.3	12.2	12.3	12.1
Investments in Related Parties	35.1	35.2	34.1	27.5	28.1	17.1	25.9
Other Investments	55.5	21.8	22.6	33.7	27.2	27.0	37.2

Table 12: *Composition of Investments*

The decline in company bonds and debentures, shares and secured loans was the primary contributor to investments for the sector falling by 36.3%, 24.6%, and 13.9% respectively. During the period, one of the larger insurance companies reported a significant decline in the value of its company bonds and debentures and a second company experienced a significant fall in the value of shares, both driving the overall decrease.

¹ Other Assets contains pension related assets, prepaid expenses, other receivables etc.



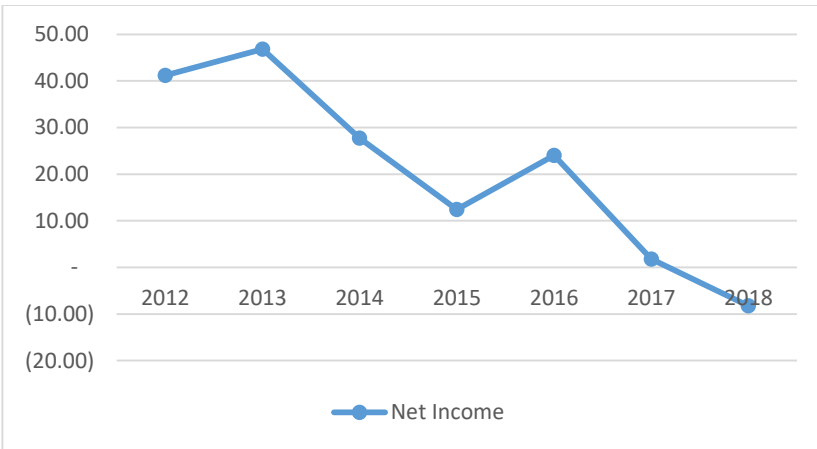
Total capital and reserves for the sector has fallen by \$45.9 million dollars (or 17.4%) to reach \$217.4 million dollars. This reflects a continuation of the deterioration in capital observed since 2017. Retained earnings also fell by 22.0% or approximately \$45.7 million during the period

Figure 2: Total Capital and Reserves

Gross premiums written for the sector increased by \$56.4 million to reach \$411.03 million, a 15.9 percent increase over 2017.

	2012	2013	2014	2015	2016	2017	2018
Gross Premiums Written	410.03	402.68	422.61	388.37	370.25	354.62	411.03
Net Premiums Written	145.94	141.73	154.52	148.48	148.26	147.24	175.82
Net Premiums Earned	144.89	145.31	147.67	154.74	150.90	141.19	171.87

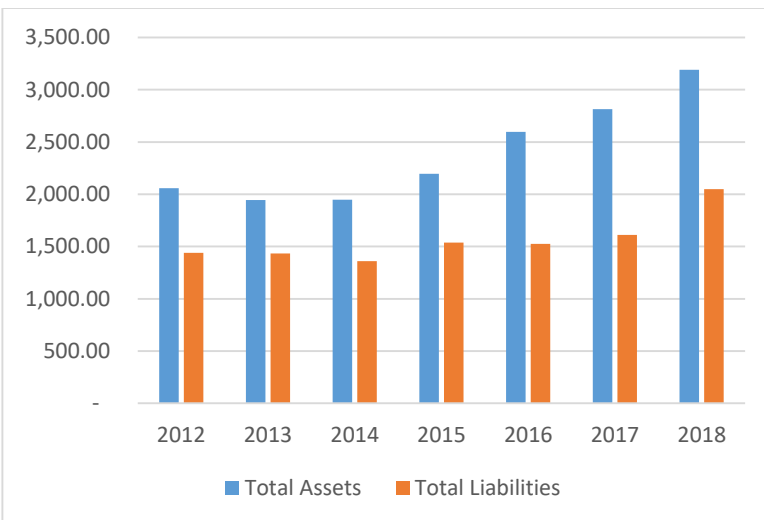
Table 13: Profitability in the General Insurance Sector



Net Income for the sector continued to decline. As underwriting income continues to be negative and the sector now faces lower than expected returns on investments, this downward trend in net income may continue.

Figure 3: Net Income in General Insurance Sector

- **Life Insurance Industry**



The assets of the life insurance industry continue to grow reaching an estimated \$3,191.4 million at December 2018. Assets grew by 13.4% while liabilities saw 27.3% to reach approximately \$2,049.8 million.

Figure 4: Assets and Liabilities for the Life Insurance Sector

	2012	2013	2014	2015	2016	2017	2018
Cash and Deposits	125.8	129.2	96.6	94.1	127.1	132.2	142.9
Investments	1,716.5	1,649.4	1,669.9	1,906.9	2,249.2	2,418.7	2,813.5
Accounts Receivable	16.4	20.2	27.4	29.8	38.8	29.2	24.6
Fixed assets	78.8	80.1	86.0	91.8	88.4	95.8	105.2
Other Assets	119.3	67.1	68.6	72.7	92.7	136.7	105.2
Total Assets	2,056.9	1,946.0	1,948.4	2,195.1	2,596.2	2,813.2	3,191.4

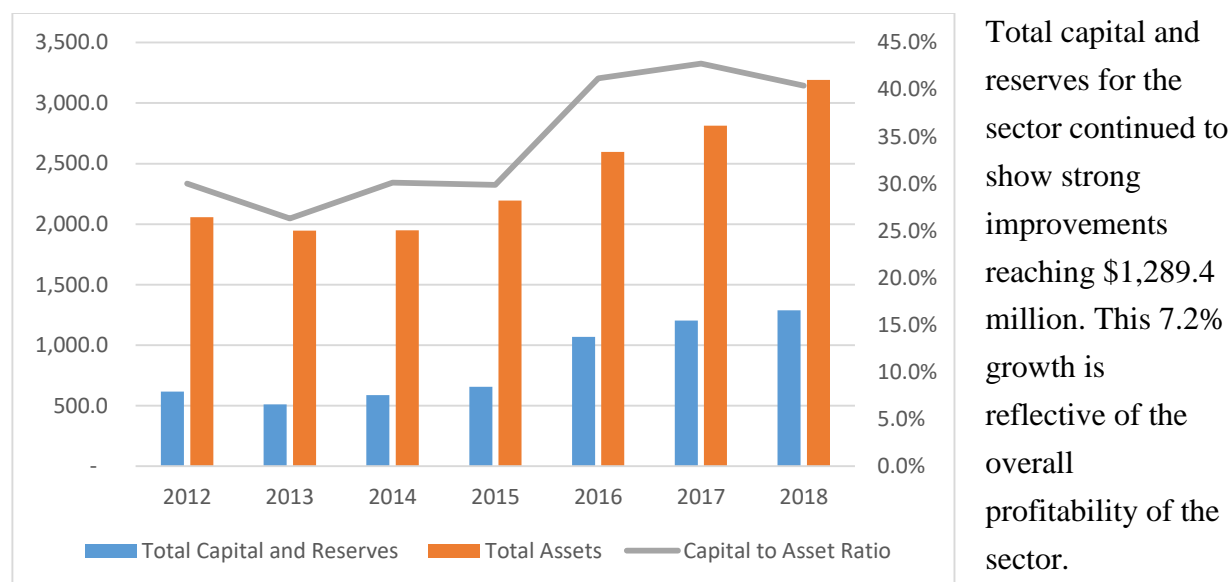
Table 14: Asset Composition

As at December 2018, investments for the life insurance sector increased by \$393.9 million to reach \$2,813.5 million. This category was the most significant driver for the growth of assets, driven by the increase in total government securities held by the sector. Cash deposits also grew \$10.7 million or 8.1%.

	2012	2013	2014	2015	2016	2017	2018
Government Securities	495.4	500.9	535.7	566.0	569.9	552.7	912.1
Company Bonds and Debentures	46.5	46.8	45.0	216.1	186.0	177.2	69.8
Secured Loans	215.1	192.6	192.4	185.0	172.6	183.4	156.7
Investments in Real Estate	106.0	104.0	100.2	89.4	87.2	89.1	142.1
Shares	177.6	133.7	92.6	110.4	135.7	225.4	210.3
Unit trusts and mutual funds	35.7	22.0	29.4	33.4	4.3	4.7	2.9
Investments in Related Parties	522.4	522.4	545.9	584.1	963.7	1,048.3	1,136.8
Policy Loans	115.0	124.2	125.5	122.0	126.5	129.5	154.4
Other Investments	2.8	2.8	3.2	0.5	3.3	8.4	28.4

Table 15: Composition of Investments

During the period under review Government Securities held by the sector increased by an estimated 65.0%. One company received a transfer of assets from another insurance company which is no longer writing business.



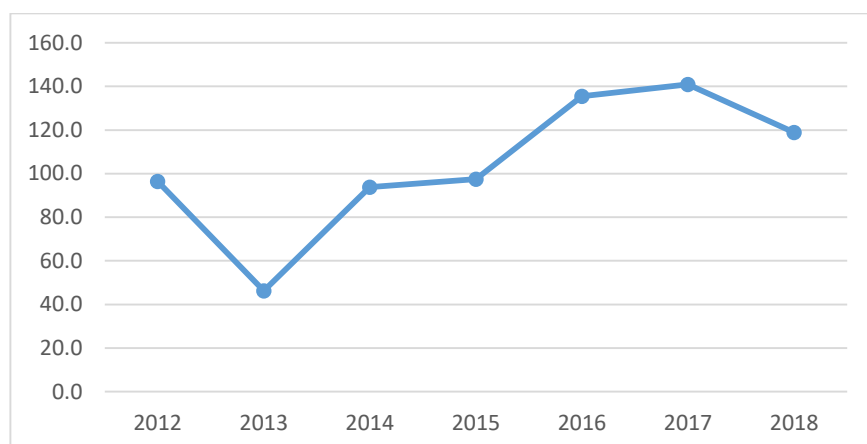
Total capital and reserves for the sector continued to show strong improvements reaching \$1,289.4 million. This 7.2% growth is reflective of the overall profitability of the sector.

Figure 5: Total Capital and Reserves

	2012	2013	2014	2015	2016	2017	2018
Gross Premiums Written	170.5	198.1	232.0	458.6	258.2	339.7	280.6
Net Premiums Written	157.7	190.9	213.3	429.6	227.3	304.9	250.4

Table 16: Profitability of Life Insurance Sector

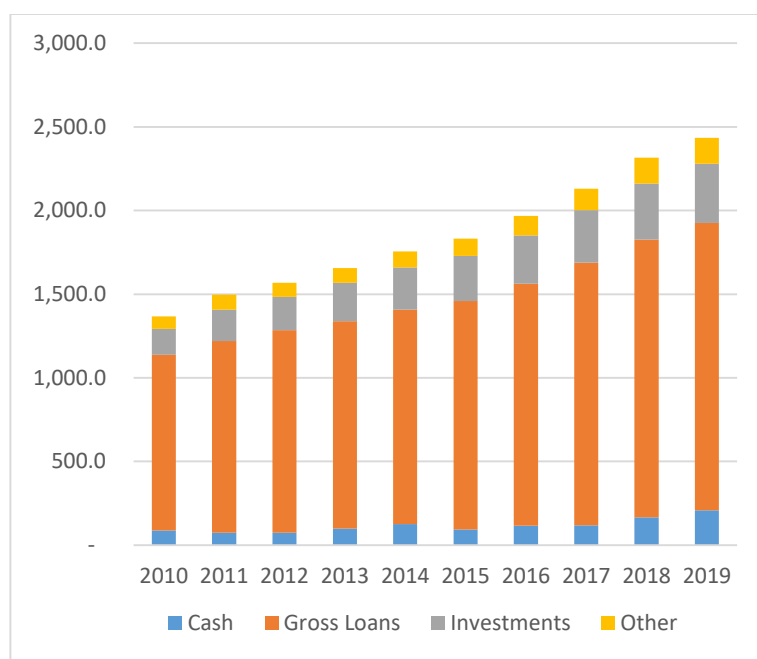
Gross premiums for the life insurance sector have declined by 17.4% and stood at \$280.6 million.



Net income for the sector remained positive, however it experienced a 17.4% reduction given a contraction in the investment income during the period.

Figure 6: Net Income for Life Insurance Sector

- Credit Unions



Assets of the Sector

The credit union sector continued to experience positive growth during the year under review. Total assets grew by 9.4 % to reach \$2,489.3 million. The most significant contributor to this growth in assets were cash holdings, which increased by 83.7 % or \$144.7 million to reach \$310.4 million; followed by loans to members, which grew by 3.4 % or approximately \$56.2 million dollars to reach \$1,717.1 million.

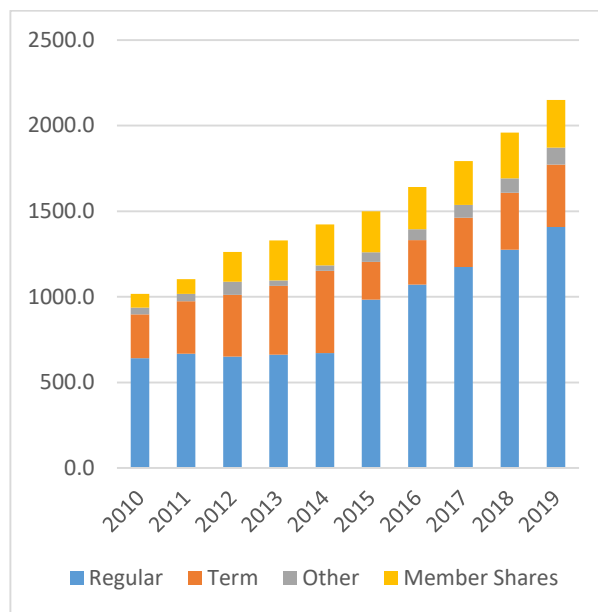
Figure 7: Asset composition of the Credit Union Sector

Year	Number of Credit Unions	Members (thousands)
2019	33	208
2018	33	207
2017	33	188
2016	34	178
2015	34	172
2014	35	163
2013	35	158
2012	35	147
2011	35	153
2010	35	133

Table 17: *Credit Union Membership*

Membership of the credit union sector increased by approximately 0.4 % to reach an estimated membership of 208,000. The number of credit unions remained the same.

Member Savings



Members' savings showed a significant increase of 9.8 % driven mainly by the growth of regular and term deposits, respectively. Regular deposits experienced 10.3 % growth to reach \$1,407.9. This figure was approximately \$132.0 million higher than the figure recorded one year prior. Members' term deposits increased by 10.1 % or approximately \$33.5 million to reach \$364.8 million. Other deposits increased by \$14.2 million dollars or 16.8 % to reach \$99.2 million.

Figure 8: Member Savings

Year	Capital				Total	Capital to Assets Ratio
	Share Capital	Statutory Reserves	Liquidity Reserves	Undivided Surplus		
2019	20.6	199.7	11.0	55.4	286.7	11.5%
2018	20.0	184.4	9.9	54.6	268.8	11.8%
2017	18.7	174.2	9.8	46.5	249.1	11.9%
2016	17.7	156.3	5.2	49.4	228.5	11.8%
2015	18.0	150.8	1.8	42.0	212.6	11.9%
2014	19.6	140.9	0.9	40.1	201.6	11.8%
2013	19.1	123.6	0.8	38.5	181.9	11.2%
2012	25.5	114.2	0.8	34.9	175.3	11.4%
2011	22.3	104.8	1.0	30.0	158.1	10.8%
2010	23.7	94.2	1.6	27.3	146.8	10.9%

Table 18: Capital composition for the Credit Union Sector

Given legislative requirements the credit union sector remains adequately capitalised. The capital to asset ratio was 11.5 %, 0.3 percentage points lower than the figure recorded as at March 2018. The growth of the asset base was greater than the growth seen in the capital held by the sector resulting in the marginal decline in the capital to asset ratio.

Profitability

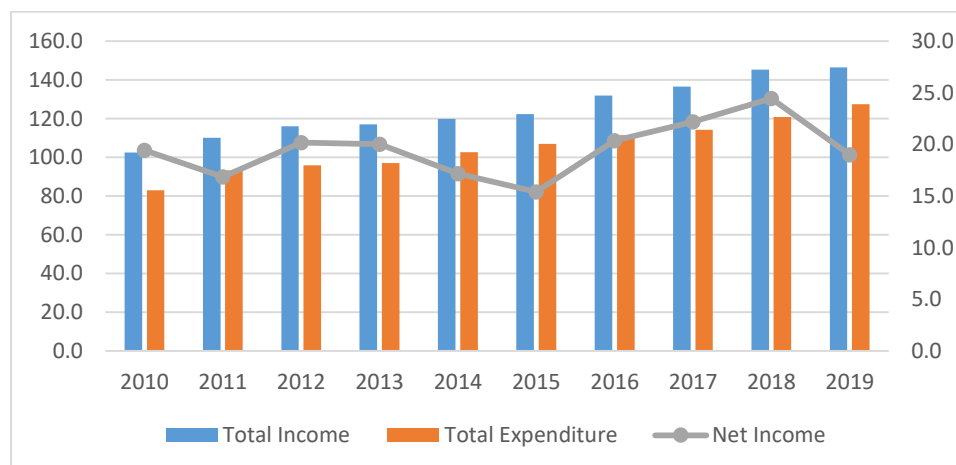


Figure 13: Net Income for the Credit Union Sector

Net income for the period under review declined by 22.2 % or \$5.4 million to reach \$19.0 million. Total expenditure for the sector has increased for the period under review by 5.5 % while total income has only seen 0.8 % growth. This slowing of the growth in the income was due to falling investment income for the period while interest-only loans showed only marginal growth.

- Securities

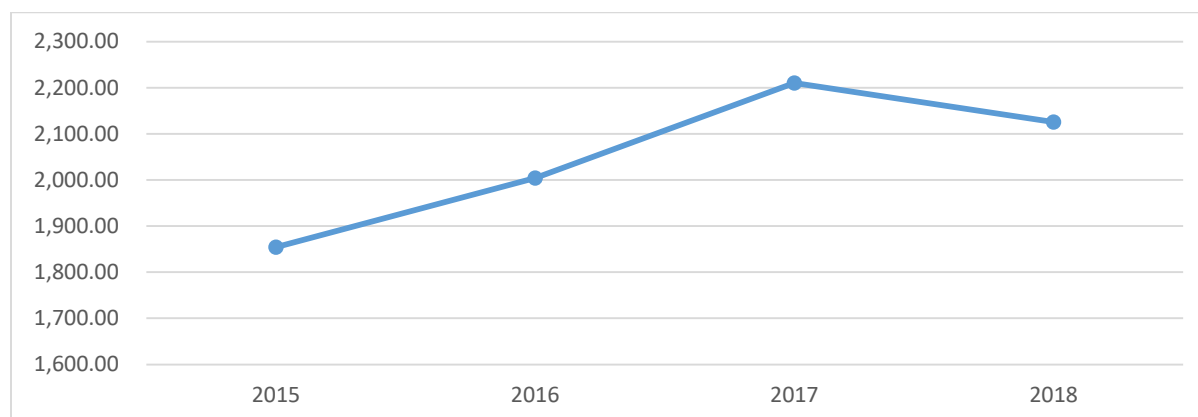


Figure 14: Net Assets under management for the mutual Funds

Net assets for the mutual fund sector stood at \$2,125.3 million representing a 3.8 % decrease over the value recorded in December 2017.

	2015	2016	2017	2018
Cash & Cash Equivalents	132.9	171.5	172.5	131.8
Derivatives	(0.8)	(0.1)	(0.1)	(0.5)
Equities	595.7	528.2	590.0	556.8
Fixed Income	391.5	479.9	483.8	373.4
Mortgages	94.7	93.0	90.8	97.2
Mutual Funds	432.0	529.7	669.7	749.6
Real Estate	144.9	120.0	113.0	108.5
Term Deposits	37.4	34.3	46.4	60.4
Other	89.3	96.3	80.8	101.4
Totals	1,917.7	2,052.8	2,246.8	2,178.6

Table 18: Asset Composition of the mutual Funds

The most significant contributors to this decline were fixed income instruments which fell by \$110.3 million or 22.8 %, followed by cash equivalents and equities which declined by \$40.7 million and \$33.1 million respectively.

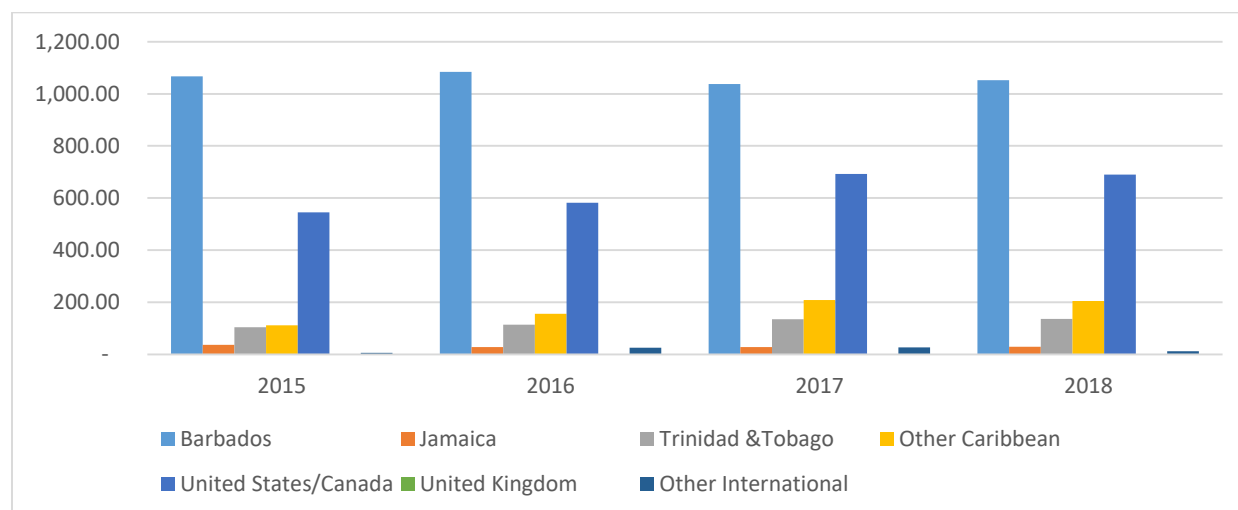


Figure 15: Jurisdictional Exposure

The trend in jurisdictional exposure remained relatively similar to that seen in prior years with the most significant exposure being to Barbados, followed by the United States/Canada. As at December 2018, an estimated \$1,052.1 million in assets were held locally, accounting for 49.5%; while United States/Canada accounted for 32.5%.

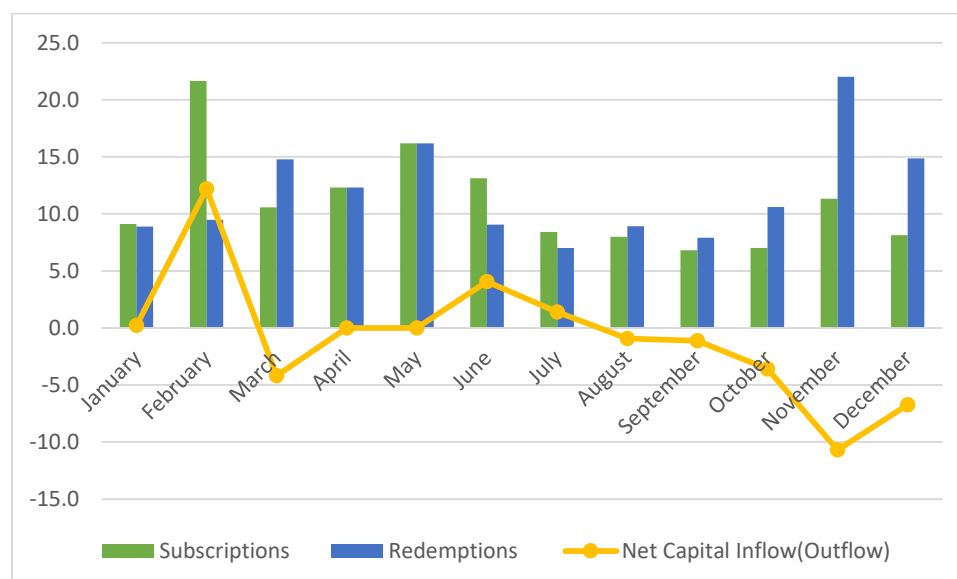


Figure 16: Net Capital Inflows/Outflows for 2018

For the year under review the sector experienced negative net capital inflows during the latter half of the year. From June onwards there was a downward trend in the capital inflows, accompanied by marginal increases in the redemptions up to November 2018. Additionally there were fluctuations in the subscriptions during the latter half of 2018; however, it was much lower than figures recorded at the onset of 2018.

- Pensions

For the period under review, the estimated assets of the occupational pensions sector stood at \$2,345.4 million dollars. This was a marginal increase over the value seen in 2017.

		2012	2013	2014	2015	2016	2017	2018
Assets		1,780.78	1,943.50	2,021.62	2,060.72	2,160.38	2,318.85	2,345.34
Cash	Cash and cash equivalents	67.59	72.93	78.30	86.94	178.93	109.73	139.21
Investments	Fixed Income	288.43	316.36	303.79	319.73	347.31	445.27	438.46
	Equity	180.21	190.01	190.27	189.99	207.13	225.38	235.75
	Mutual Funds	1,197.34	1,315.96	1,399.15	1,411.50	1,369.52	1,487.77	1,511.29
Other	Mortgage Loans	4.16	2.81	1.99	0.86	0.67	0.45	0.24
	Joint Ventures	40.72	42.33	44.71	48.23	53.23	44.52	14.96
	Other	2.33	3.11	3.42	3.46	3.60	5.74	5.43

Table 19: Assets of the Pensions Sector (\$BDS millions)

Investments in mutual funds were the main contributors to this growth in assets followed by holdings of cash. Table 19 below provides a snapshot of the estimated asset breakdown of the pension sector over the last 7 years. Table 20 shows the liabilities of the sector. It consist mainly of accounts payables and other liabilities which included items such as accrued expenses.

	2012	2013	2014	2015	2016	2017	2018
Accounts Payable	3.43	5.04	5.30	14.31	11.56	19.40	19.45
Other Liabilities	19.02	11.49	11.20	8.66	13.33	17.59	19.13
Total	22.45	16.53	16.50	22.96	24.89	37.00	38.59

Table 20: *Administrative Liabilities of the Pensions Sector (\$BDS millions)*

Regulatory Support

Risk Analytics

The Risk Analytics team at FSC was set up and given a mandate to develop and implement macro-prudential analysis, in an effort to reduce the overall exposure to systemic risk within the non-bank financial industry, and consequently the Barbados economy on a whole. The team also provides support to the regulatory divisions through the provision of analyses of the individual sectors, and stress tests specific scenarios mainly in the insurance and credit union sectors.

Macro-prudential Supervision

Part of the department's mandate in conducting macro-prudential analysis is to develop a framework which could be incorporated into the current micro-prudential systems implemented within the regulatory divisions. This process was started during the assessment period with the development of a draft Consolidated Supervision Framework, as well as a draft Macro Prudential Framework, for the purpose of review and feedback.

These documents represent building blocks for the team to develop a comprehensive system to assess the varying risks that may impact the industry. Training and further collaboration with experts in this area are planned with a view to ultimately producing and implementing a final comprehensive programme.

Risk Tools

In order to adequately assess the exposures of the non-bank financial sectors, the risk team needed to develop appropriate tools and structures to analyse the data received from the entities supervised by FSC. As an ongoing initiative the team has developed basic databases to be used for regular analysis of industry data and to fulfil data requests from our industry partners.

The team attended training sessions to aid in the development of tools that could be utilised towards the application of more complex analysis of industry data. These sessions included:

- Advanced Corporate Credit workshop – a session hosted by CariCris and presented by Fitch, two recognised rating agencies. The session provided valuable information on conducting comprehensive reviews of companies to determine structural strengths or weaknesses that may ultimately lead to financial problems, by examining some of the early warning indicators used to identify potential or existing credit risk in a company.

- Advanced Financial Modelling & Dashboards with Excel – Conducted through IBESForum, the workshop provided some of the useful formula and add-ins that may be used towards the modelling of financial information, including forecasting and analysis.

These sessions, and supporting research, allowed the team to develop a draft model template to assess the sensitivity of the insurance industry to specific financial risks; and also a forecasting tool which may be applied to financial data in any sector. Although these tools are still being finessed, it is anticipated that these will initiate the development of further structures to assist in the data analysis capabilities of the team.

Examinations

The Examinations Division embarked on a retooling exercise, which involved an update of FSC's Examinations Manual and the streamlining of its examination procedures. This exercise was aimed at enhancing the process and took into account FSC's implementation of its risk-based supervisory framework. Templates for internal and external purposes were also reviewed and amended.

Guidelines

The Division also posited a consolidated approach to the review of corporate governance requirements. Currently there are separate Corporate Governance Guidelines for the Credit Union, Insurance and Securities Divisions that were issued by FSC. The draft consolidated approach is currently being reviewed.

Relevant Engagements

Onsite Examinations

Six (6) examination reports were finalised and forwarded to the respective entities. These final examination reports included:

- Credit Unions (3)
- Insurance Brokers (2)
- Mutual Fund (1)

In all cases, one of the key findings of the examination was that risk assessments were not conducted and documented by the entities.

Internal Audit

The mandate of the Internal Audit Department is to provide independent assurance to the Board regarding the organisation's risk management, governance and internal control processes via the following:

- identifying internal control weaknesses
- identifying areas where controls or procedures may be enhanced or made more efficient
- designing effective risk-based evaluation of controls including financial, operational and information systems

The Internal Audit Department undertook the following activities during the period under review:

- Conducted an assessment to determine risks which may have an impact on the achievement of FSC's objectives. The different categories of risks reported on included:
 - financial
 - compliance
 - environmental
 - strategic
 - operational
- A training session was also conducted among the management team, the main objective of which, was to enhance managers' awareness of internal auditing and its importance to the organisation.

Legal

Legislative Developments

FSC embarked on an ambitious project to review its suite of FSC legislation. The project sought to:

- facilitate risk based supervision of the sector
- facilitate new emerging business
- remove impediments
- better permit FSC to fully discharge its international obligations to inter alia Caribbean Financial Action Task Force (CFATF); International Organization of Securities Commissions (IOSCO); International Association of Insurance Supervisors (IAIS);

Organization for Economic Co-operation and Development (OECD) and Base Erosion and Profit Shifting (BEPS)

During the first phase of this project, amendments were proposed to the *Financial Services Commission Act 2010-21*; *Securities Act Cap. 318A*, and the *Insurance Act Cap. 310*. During the period, FSC successfully introduced comprehensive legislative changes to the *Insurance Act, Cap 310* in order to give effect to the convergence of the international and domestic segments of the insurance sector; and as a result the *Exempt Insurance Act, Cap. 308A* was repealed.

FSC also set up an Anti-Money Laundering/Combating Terrorist Financing (AML/CTF) Working Group among its staff. The group is heading by the General Counsel and is fully involved in advancing the full implementation of the anti-money laundering legal framework. Members participated at various CFATF meetings and training courses to become knowledgeable in the areas of compliance with the Financial Action Task Force (FATF) Recommendations and the effectiveness of AML/CFT systems on an ongoing basis.

Litigation

The two litigious matters involving insurance companies placed under judicial management saw major advances. The Court approved the transfer of the insurance companies' portfolios in two critical applications.

Complaints Handling

FSC reviews stakeholder and consumer complaints received against the financial institutions which it regulates. Its complaint handling mechanism is beneficial to both the general public and to the regulator, whereby it:

- provides stakeholders and consumers with an avenue for addressing their grievances
- provides valuable information regarding the types and severity of issues experienced by consumers and stakeholders
- enhances dialogue with regulated entities regarding their obligations to consumers and market conduct requirements
- informs education initiatives for both consumers and industry partners
- informs the risk profiling of regulated entities
- enables FSC to target problematic areas, which may require regulatory enforcement

The Complaints Coordinator manages complaint matters received by FSC. This includes external requests for guidance on the submission of written complaints, which are assessed to determine whether the regulated entity acted in accordance with the relevant legislation.

A total of twenty-nine (29) complaints were reviewed during the period under review, inclusive of twenty-two (22) new matters. The majority of complaints concerned insurance issues (55.2%), followed by pensions (24%), credit unions (14%) and securities (7%). The complaints by sector are presented in Figures 17 and 18. There are currently sixteen (16) active complaint matters under review; these include nine (9) against insurance companies, two (2) against credit unions, four (4) concerning pensions and one (1) securities matter.

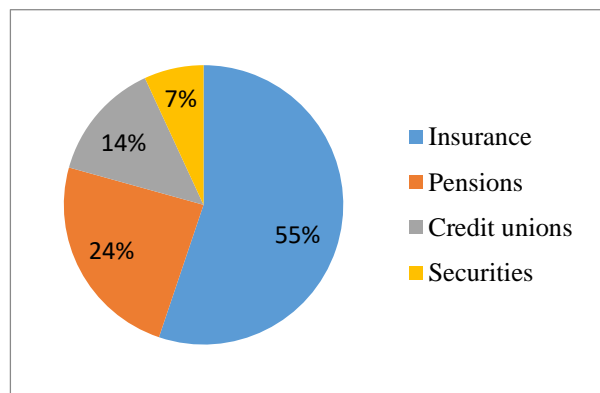


Figure 17: Total Complaints reviewed by sector

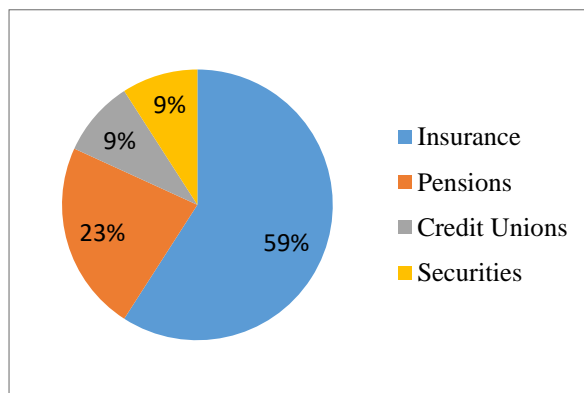


Figure 18: New Complaints received by sector

Developments

A document outlining the proper procedures for handling inactive complaints was developed. It provides a framework to ensure the efficient handling of complaints and the best use of resources. This document also provides considerations when assessing whether a complaint file should be classified as dormant or closed.

Human Resources

The details of the achievements of the Human Resources Department for the year under review are as follows:

Staffing

FSC, at its inception, was approved for a staffing complement of seventy-five (75). Due to financial constraints, this maximum was never realised. By the end of the assessment period, the organisation was staffed by fifty-three (53) full-time, and four (4) temporary employees. During

the financial year 2018-2019, three (3) new employees were on-boarded, three (3) employees resigned and one (1) other employee was reassigned to fill a vacant position.

There are currently five (5) positions vacant due to resignations. To ensure that those positions were manned, some employees were given the opportunity to act in those vacancies while temporary employees were hired to fill the posts, bar one, that were vacant as a result.

The following positions were filled during the year: Director - Risk Analytics; Research Officer; Examiner, and Administrative Assistant. As FSC implements its new fee schedule and earnings increase, it is anticipated that the vacant positions will be recruited.

FSC continues to recruit as needed to ensure that departments are adequately staffed, taking into consideration any constraints that exist.

Internships

FSC continues to partner with the University of the West Indies in facilitating internships for Masters' students who require job attachments to fulfil their programme criteria. During the year under review two (2) students benefitted from such internships.

Training and Development

As FSC seeks to ensure that its functions are adequately discharged, staff have been trained in the relevant areas of supervision and regulation. These include technical training provided through CARTAC.

The Human Resources Department generally makes arrangements, inclusive of travel, for staff attendance at international conferences, as well as training and development sessions. Employees benefitted from exposure at local, regional and international conferences in both regulatory matters and corporate support areas. Several training and development programmes were undertaken during the year, from which employees at all levels of the organisation benefitted. A list of conferences and training attended are provided at Appendix 2.

Performance Management Manual

A manual has been developed for managers and supervisors to provide guidance and assistance in managing the performance of their department members for the achievement of the goals and objectives.

Documentation of Human Resources Processes

The Department has undertaken an exercise in documenting its processes. This has allowed for the revision of standards which impact on the management of performance. It has also moved to undertake several initiatives to ensure that FSC remains compliant with legislation and that its conditions of employment meet the needs of the organisation and staff.

- **Terms & Conditions of Employment.** Having been established for seven years, FSC's Terms & Conditions of Employment are being reviewed to ensure that policies are clear and consistent with the applicable legislation and that they are appropriately applied. The Department has been working with the National Union of Public Workers in this exercise. It is anticipated that this will be completed by September 2019.
- **Legislative Compliance: Policy against Sexual Harassment.** In keeping with the new legislation, FSC established its policy against sexual harassment. Employees were trained in the area and the policy issued to all.
- **Group Life Insurance.** In keeping with the Terms & Conditions of Employment, FSC established its Group Life Insurance Plan for the benefit of all eligible employees. Premiums are shared equally between employee and employer.
- **Health & Safety.** It should be noted that FSC has established a Health & Safety Committee and implemented a policy on Occupational Health & Safety. All committee members were trained in CPR, first aid and fire safety. Non-committee employees were also trained in fire safety.
- **Environment.** FSC has had challenges with its physical environment and had engaged the Labour Department for a review. The environmental report suggested very few areas of concern and these were addressed to the satisfaction of the Labour Department.

Information Technology

The main focus of the IT department during the period of review was the creation of a Digital Technology Plan. Recognising that FSC operates in an interconnected digital world, this plan focuses on the need for the organisation to become a world class regulatory body by utilising digital technology to transform into a digital-first organisation.

One key ongoing aspect of that plan has been the Electronic Filing/Document Management Project (EFDm). The objective of the project is to provide FSC with a core integrated solution to afford it the tools necessary to collaborate electronically with both its internal and external stakeholders. This project is scheduled for completion of development by March of 2019 and

implementation in 2019. Other aspects of the plan were the implementation of a Human Resources Information System (HRIS) and the continuing upgrade of technology infrastructure.

In the year ahead, the department looks forward to the completion and implementation of the EFDM project and the full implementation of the other aspects of the Digital First Plan including additional modules for the HRIS system, and completion of the Business Continuity Plan.

Research and Policy

There was a deliberate effort on FSC's part to interact with regional and international policy setting bodies as a means of influencing regulatory standards. To this end the Research and Policy Department embarked on the following initiatives:

- Partnered with the Legal Department to produce a research paper entitled ***“If you are not at the table you are on the menu: Creating an inclusive framework”***. This paper was presented at a Caribbean Commercial Law Workshop in Bahamas, which was held from July 22 to 24, 2018. It discussed the importance of being involved in the decision making process in order to have a true inclusive framework as it related to the Action Plan on Base Erosion and Profit Sharing.
- Assisted in the preparation of a research paper that examined the benefits and drawbacks of imposing Judicial Management on entities whose financial systems were severely compromised. It also explored feasible alternatives that could be implemented by a regulator to either bring the entity back to financial health, or liquidate if necessary. The paper, entitled ***“Judicial Management: Is there a better alternative?”*** was prepared in conjunction with the Legal Department and presented at the Ninth Biennial Regional Central Bank Legal Seminar in Trinidad and Tobago, which was held from June 12 to 13, 2018.
- Participated in an exercise with fellow Barbados regulators to complete a detailed questionnaire to assist the Global Forum on Transparency and Exchange of Information for Tax Purposes in assessing Barbados' framework to eliminate harmful tax practices.
- Conducted research into social security systems in the Caribbean to assist in FSC being an active participant in a regional conference on ***“Pensions in the Caribbean: Trends and Technologies to Support Sustainable Solutions”***. The level of discussion and engagement led to Barbados gaining membership in the Inter-America Development Bank's Network for Pensions in Latin America and the Caribbean.

As a means of continuing FSC's development, the Department endeavours to:

- Assist in the consultation process by participating in meetings to share feedback and gather critical information with working group participants.
- Conduct in-depth research on developments and trends in financial services regulation applicable to the Barbados non-bank financial services sectors.

Communications

Internal and external stakeholder engagement continued to be a priority for FSC. As part of its strategic achievement focus, the in-house ***Live & Learn*** teaching and discussion series entered its second year. It was designed to support identified gaps in the organisation, placing particular emphasis on personal and professional development. Some of the topics covered during the reporting period included “Manage Stress and Remain in Control”, “Disaster and Emergency Preparedness”, “Emotional Intelligence” and “Business and Office Etiquette”.

The partnership between management and the FSC Sports & Social Club saw the organisation better placed to encourage staff involvement in activities that fostered camaraderie in the work environment. These activities helped to increase engagement, not only among club members, but also among staff in general, who participated in all planned initiatives.

Alliances with external entities continued to be strengthened, particularly with Invest Barbados, the Central Bank of Barbados, and the Barbados International Business Association (BIBA). FSC participated in local and international speaking engagements; joint industry discussions; collaborated on reports; contributed magazine articles, and was represented on steering and sub-committees, which allowed for the organisation to work toward achieving its eight strategic goals. Along the way, dialogue remained open with local journalists on matters of public interest.

More attention was paid to recognition of investor education, as FSC joined forces with the Caribbean Working Group for World Investor Week, to create and promote a video – “Voices of the Caribbean”. This video, along with other investor education material, was uploaded to the FSC website for general access.

Plans are afoot to transition FSC onto the social media platform, allowing for a more dynamic level of stakeholder engagement that will measure and evaluate its effectiveness in achieving its key strategic objectives.

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\$7,221,519. FSC also received BDS\$1,400,000 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.

FSC's expenditure is managed against an annual budget agreed by the Board of Commissioners. It manages its expenditure closely to ensure that it receives value for money and, as far as possible, that it remains within the approved budget.

Prudent cash management and cash flow forecasting has enabled FSC to invest a portion of its cash at bank in Government of Barbados Treasury Bills during the financial year. On September 14, 2018, the Government of Barbados, as part of its Comprehensive Domestic Debt Restructuring launched an exchange offer for holders of Barbados dollar denominated debt. FSC accepted the Government's offer, and effective October 1, 2018 received a new Series B Bond with a face value of \$3,987,341 in exchange for its existing Treasury Bills with face value of \$3,964,000 and accrued interest of \$23,341. This debenture comprises 11 amortizing strips with maturities ranging from 5 to 15 years, bearing interest at 1% per annum for the first 3 years, 2.5% per annum for year 4, and 3.75% per annum to maturity. Interest is paid quarterly, and the principal of each strip will be repaid in four equal quarterly instalments commencing one year prior to the maturity of that strip.

During the year, the Ministry of Finance, Economic Affairs and Investment instructed that all related party balances were to be written off. The effect of the interdepartmental write off is reflected in the surplus for this period.

FSC's major item of expenditure remains staff costs. As in previous years, FSC has only been increasing staff when absolutely necessary. During 2018-2019, the average number of employees was fifty three (53).

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\$860,176 in unclaimed/undistributed monies and refunded BDS\$76,835. The total held in escrow at the Central Bank of Barbados as at March 31, 2019 was BDS\$5,192,466. 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 will continue to manage its associated expenditure within the confines of its accessible income. Details of the financial position for the year ending March 31, 2019 are contained in the annexed Audited Financial Statements.

Appendices

Conferences

The following conferences/meetings were attended by staff.

	NO. OF ATTENDEES
2018 US RIMS Annual Conference	1
Caribbean Anti-Money Laundering & Financial Crimes Conference	1
Caribbean Group of Securities Regulators (CGSR) - Bahamas	3
Caribbean Association of Pension Supervisors (CAPS)	2
Caribbean Association of Insurance Regulators (CAIR) and AGM	2
ICAC-Bahamas	1
Annual Caribbean Commercial Law Workshop	1
Canada RIMS	1
ASSAL IAIS	1
AML/CFT & Blockchain Training-Miami	1
IOCSCO Technical Assistance Program -Panama	1
IFIE Caribbean Working Group- Bahamas	1
9th Biennial Regional Central Bank Legal Seminar	1
IOSCO IARC & COSRA in Cayman from	1
IDB -VIII Regional Dialogue on Labour Markets & Social-Washington	1
IARC Workshop -Bahamas	1
ECCB Annual Conference with Commercial Banks - St. Kitts	1
Caribbean Actuarial Association - Jamaica	1
Cyber-Risk Management Workshop	2
North American Bitcoin Conference	1
ACAMS Seminar	1

IAIS Committee Meeting	1
Leveraging Actuarial Skills Seminar (Trinidad & Tobago)	2
Barbados Association of Office Professionals Annual Conference	10
ICAB Annual Conference	2
HRMAB Annual Conference	1
Barbados International Business Association Conference	4
Eckler Consultants & Actuaries: Investment Policy Review for Pension Plans	2
Central Bank meets Blockchain Conference: From the Ground Up	5
BSE: Corporate Governance and Accountability Conference	4
Barbados Bar Association Conference	2

Training

Staff participated in the following Seminars/Certificate Courses:

	NO. OF ATTENDEES
NEBOSH International General Certificate in Occupational Health and Safety	1
Fire safety training	14
Health and Safety Committee Member Certification	1
Ethics & Governance in Business	4
CFATFXLVII Plenary and Working Group Meetings	2
CPR & First Aid Certification	7
International Association of Business Communicators - Doing more with social media: A Communicator's Playbook	1
Cave Hill School of Business: Conducting Performance Appraisals	8
Barbados Bar Association: Merger Regulation in Barbados	1

GOLCI seminar: Business Continuity & Disaster Recovery Planning	3
ICAB: Implementing Enterprise Risk Management	1
ISA/IFRS Update & Workshop	2
IFRS for SMEs	1
BEC – Managing for Success	29
Caribbean Catalyst Inc. Seminar: Neuroscience of Employee Engagement	2
Institute of Internal Auditors: The Importance of Ethics	4
Institute of Internal Auditors: Auditing IT	3
Sexual Harassment	All staff