

# Financial Services Commission

Annual Report – 2017/2018



FINANCIAL SERVICES  
COMMISSION



## LETTER OF TRANSMITTAL

Dec. 3, 2018

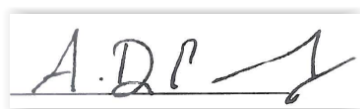
The Hon. Mia Mottley, M.P. Q.C.  
Minister of Finance and Economic Affairs  
Ministry of Finance and Economic Affairs  
Government Headquarters  
Bay Street  
St. Michael

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, 2018, in accordance with the provisions of Sections 50 of *The Financial Services Commission Act*.

Yours faithfully,

FINANCIAL SERVICES COMMISSION

A handwritten signature in black ink, appearing to read 'A. Persaud', is written over a horizontal line. The signature is enclosed in a thin black rectangular border.

Avinash Persaud

Chairman



## Contents

<b>LETTER OF TRANSMITTAL</b> .....	iii
.....	2
About Us .....	3
Message from Chairman of the Board.....	4
Chief Executive Officer's Report .....	6
Corporate Governance.....	9
FSC Management Team .....	9
Regulatory Developments .....	10
Legislative Developments and Policy Initiatives .....	10
Participation in International, Regional and Domestic Meetings.....	11
Supervision and Licensing .....	13
Supporting Effective Regulation .....	14
Statistics .....	19
Insurance.....	19
Credit Unions .....	24
Securities.....	27
Pensions .....	31
2018/2019 Strategic Focus .....	34



---

## 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.

## 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.

## 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



***Professor Avinash Persaud***

Over the past decade, we have seen zero growth of the Barbados economy, massive fiscal deficits, and exploding debt to income ratios. Central Government's debt to GDP doubled to 157%. If we add central government arrears to that of tax payers, pensioners and businesses, debt reaches 175% of GDP, the third highest in the world. Government debt investors went on a buyers strike and the Government of the day increasingly resorted to printing cash to pay bills, leading to a steep slide in the international reserves. The international and historical experience is that this economic stress would have found its counterpart in financial stress and a doom loop might have developed as seen in Europe six years ago. It is striking, therefore, that the substantial economic pressure has not so far spilled over into financial institutions operating in Barbados.

In large part, the financial stability Barbados enjoys today relates to the capital strength of regulated institutions; but we cannot be complacent. We know that the comprehensive debt restructuring announced by the Barbados Government in June will diminish capital cushions. FSC has worked with the Government's debt advisors to stress test the sector and help ensure that the debt restructuring preserves financial stability. FSC has also prepared measures in case the restructuring does cause greater stress than expected. I must commend the CEO, Kester Guy, and his supervisory team for taking on this additional task with urgency and diligence, and for taking the time to engage with the industry to address its concerns.

Throughout this stress-testing exercise it has become clear that while non-bank institutions are well capitalised, this is not entirely by regulatory design. We need to modernise current non-bank regulation putting a greater emphasis on ensuring that risks are better matched with an institution's capacity to absorb risks, be it through natural hedges, capital or liquidity. This will



be a significant task over the next couple years and we invite the industry to work with us as we modernise our regulatory framework. Another reason not to be complacent is that the boundary of regulation looks a little misaligned with recent developments in the industry. Some institutions use new technologies to carry out what looks like financial services to the public, while being in regulatory limbo. These institutions are small and play a minor role in the financial system as a whole, but we need to respond with the appropriate regulatory framework before they grow large. FSC is responding by first setting out guidance to the industry on how the regulator sees different activities, what it will be regulating, and why. Not only do we want to be seen as protectors of traditional business, but we also want to be progressive in our approach.

To stay on top of a changing industry, we need to reassert ourselves as a purveyor of principle-based regulation, not rule-based regulation, where if a rule does not exist there is a predisposition that there is no regulation. Somewhere along the way, the purpose of regulation has gotten a little lost in a narrow interpretation of laws and it is helpful to reassert that the role of regulation is to protect consumers of financial services and the financial system. Policing the law and defending the reputation of the jurisdiction are considerations that follow from getting that protection right at the regulatory policy level, and that is our focus. The law follows regulatory policy, not the other way around.

Many new financial products are in regulatory limbo because it is not clear if they are a banking activity regulated by the Central Bank of Barbados, or a non-bank financial activity regulated by FSC. Consequently, we are working with the Central Bank in deeper partnership to make these assessments and, where appropriate, issue joint guidance notes. We are currently working together on developing a common regulatory sandbox regime with the pilot likely to be established in October 2018. Considering these and other activities, FSC has an exciting agenda of work over the next 12 months.

The Government has decided that FSC should become financially independent of Government. We are working with them on the legislation that will facilitate this move and we expect that it will receive Parliamentary approval before the end of the year. We welcome this step. Over the past year, FSC has operated under tight financial constraints and is understaffed. Financial independence will give it the level of financial security that it needs to better plan for the future. Among other things, this will help to secure more appropriate and permanent premises and develop the new training and capacity required to remain on top of a continuously evolving and innovating industry. I would like to praise the CEO and his team on their work over the past year, which they have had to do under trying circumstances. The Board and I look forward to supporting the management team on its packed but essential agenda over the next 12 months.

## Chief Executive Officer's Report



***Kester S. Guy, CEO***

As FSC continued to pursue its strategic objectives, we recognised the need to enhance and modernise the regulatory framework for non-bank financial institutions. The development of the sector necessitates the implementation of “right-size regulation” so that each institution will be required to develop policies and adopt appropriate buffers relevant to the risks they undertake. Legislative modifications are required to undergird this philosophy, as well as to facilitate speedy adjustments and additions to the regulatory toolkit, such that an appropriate risk-based framework could be fully implemented.

Our capacity over the last year has grown exponentially as we had to quickly adapt to new and emerging matters, some of which were driven by national priorities. Barbados’ Mutual Evaluation Report (MER); engagement with key stakeholders on the Base Erosion and Profit Shifting (BEPS) framework; and navigating a series of scenario analysis on the impact of Government’s debt restructuring programme on the non-bank financial sector, are examples of substantive issues that gained our attention. While the work on these areas is not yet complete, we remain committed to the tasks.

### ***Forward Thinking***

Digitising FSC has been another high-priority matter over the last year. The first phase involved the development of an e-filing platform, which is still in progress. A significant amount of time and resources have been directed to the development of process maps, building the platform and carrying out the necessary tests. There has been technical training for staff, as well as initial engagement with selected entities. This project will provide a direct portal to FSC and allow for effective process flows and management of all submissions, including:

- regulatory filings
- applications for licences and registration
- requests for approvals and various considerations

This project is expected to be completed by March 2019 and we eagerly look forward to the full implementation of this system.

The emergence of financial technology as an important area for innovation and emerging developments in the financial services, has been recognised. FSC has been engaged with interest groups and has partnered with the Central Bank of Barbados to develop an appropriate regulatory framework for the facilitation of Fintech initiatives. While we are cognisant of the potential growth and development this sector can bring to Barbados, our key focus has been on protecting vulnerable consumers and minimising systemic risks.

### ***Risk Based Approach***

The effective implementation of a risk-based approach to supervision is another high-priority area. Much attention has been given to reviewing the categories of data collection and data quality to establish the platform for further developing our analytical models. The goal is to ensure that we are appropriately measuring both the micro and macro-prudential risks, and identifying the relevant policy toolkit for each regulated sector. This is an ongoing process and we are fine-tuning the procedural manuals which guide the various processes. We will sustain our engagement with all stakeholders in relation to aspects of the enhanced supervisory framework, thus ensuring that the high level of partnership established since FSC's inception is maintained.

### ***Technical Support and Capacity Building***

The Caribbean Regional Technical Assistance Centre (CARTAC) continues to provide support, facilitation and technical guidance to FSC. We have benefitted tremendously from its expertise and for this we express our sincerest gratitude and look forward to an even greater strengthening of that strategic partnership. Of particular note is the technical assistance received towards designing a regulatory framework for complex institutions. Some weaknesses were identified in our current operations, prompting us to correct those elements and where necessary, re-design the methodology so that our overall processes are enhanced.

## ***Moving Ahead***

The year has been full of new and emerging demands and as far as we can see, it is expected to increase in intensity. Notwithstanding, we embrace every new challenge and put our best efforts forward to ensure high-quality output is sustained. I must express gratitude to the outgoing Board of Commissioners, led by Sir Frank Alleyne. This team stewarded FSC with excellence over the years and laid the foundation upon which we now advance with greater confidence.

As the new Board of Commissioners, led by Professor Avinash Persaud, takes up the mantle, we have already seen an equally high level of insight, guidance, and accountability to ensure the good governance, high quality output and corporate development of FSC. The new Commissioners, the management and staff of FSC, have shown a commitment to achieving the ultimate objective of promoting financial stability in Barbados, and have been resolute in doing all that is necessary to build on our development as a regulator.

Our staff in particular, must be commended for their support, understanding and hard work despite the challenges faced. I certainly look to the future with excitement, as FSC continues to pursue its mandate of ensuring that stability in the non-bank financial sector is maintained.

## Corporate Governance

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 – a chairman and six others – 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.

## FSC Management Team

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

## Regulatory Developments

### *Legislative Developments and Policy Initiatives*

During the 2017/2018 financial year, FSC continued to build on its work to enhance the regulatory framework for the sectors under its supervision, through a number of different activities that included the following:

- *Regulatory treatment of foreign broker-dealers and investment advisers*

Since the last financial report, FSC received positive feedback from members of the industry on the proposal to establish a regime to exempt foreign broker-dealers and investment advisers who provide services to certain classes of persons in Barbados. The Policy and Legislative Committee (PLC) and the Board approved the recommendation to establish this regime. It permits foreign broker-dealers and investment advisers to engage with their clients within given parameters without the need for registration and compliance with the full range of regulatory requirements. On receipt of an Order of the Minister of Finance and Economic Affairs authorising the regime, a circular will be released to the industry outlining the details.

- *Consultation – Repurchase agreements Industry guideline*

The PLC also approved a recommendation for FSC to issue repurchase agreement guidelines for industry consultation. They outline the standards for the conduct of repurchase agreement business by financial institutions, with the objective of ensuring that a financial institution which engages in the repurchase agreement business (i) undertakes proper business practices and (ii) adopts and applies appropriate minimum financial standards. Subsequent to the dissemination of the draft repurchase agreement guidelines (draft guidelines), the industry responded with constructive and generally positive feedback, in addition to making its recommendations. The draft guidelines were revised following the consultation, and further internal review that included more recent research on regional and international guidance and best practices. A recommendation will be sent for the PLC's consideration to issue the revised draft guidelines to the industry.

- *Consultation – Proposal for new securities legislation and revisions to the mutual funds legislation*

Since the last financial report where FSC engaged in a preliminary consultation with an industry focus group regarding a proposal for amendments to the Mutual Funds Act and a full revision to

the Securities Act, focus was placed on recommendations for legislative amendments and full revision to the funds and securities legislation, respectively, to be submitted to the Ministry of Finance and Economic Affairs for its consideration. This included FSC meeting with the Chief Parliamentary Counsel regarding clarification on key areas pertaining to revisions to the Securities and Mutual Funds legislation, including (i) instructions pertaining to interim changes to the Mutual Funds legislation, (ii) the impact that the International Organization Of Securities Commissions Multilateral Memorandum Of Understanding will have on the revised Securities legislation and (iii) discussion on the logistics of a full revision of the Securities legislation. Subsequent to the meeting, policy papers continue to be drafted and updated for submission to the PLC in order to advance this matter.

### *Participation in International, Regional and Domestic Meetings*

FSC continued to be engaged regionally and internationally on securities issues particularly through participation in the annual conference of the international standard setting body, the International Organization of Securities Commissions (IOSCO), which for the first time was held in the Caribbean region. FSC continued its engagement in meetings of IOSCO sub-group, the Inter-American Regional Committee, and participated in a technical assistance working group. FSC also liaised with regional regulators and industry experts at the 13<sup>th</sup> Annual Meeting and Conference of the Caribbean Group of Securities Regulators (CGSR) discussing common regulatory issues, concerns and solutions. This resulted in FSC being nominated as a member of the CGSR Financial Technology Committee. Additionally at the regional level, FSC participated in the CARICOM's Secretariat technical working group on the draft model Securities Market Law. The draft Securities Market Law seeks to promote the growth and development of an integrated capital market within CARICOM and harmonisation of securities legislation among member states.

FSC remained an active member of the Caribbean Association of Credit Union Supervisors (CACS), a regional grouping of prudential regulators that was established in 2014. It was pleased to host CACS Annual Conference and Workshop in September 2017, during which it made a presentation detailing the regulatory framework for local credit unions. FSC remains on the CACS advisory committee and was also selected to a steering committee charged with formulating and documenting the governing framework for CACS.

Representatives from FSC also attended the annual Caribbean Association of Pensions Supervisors (CAPS) conference, workshop and AGM held in Jamaica. The theme was “Advancing the Regulatory Agenda to Achieve Sustainable Pensions and Financial Stability” and it covered several key topics including:

- Investment of pension assets in the Caribbean
- The challenges of converting pension plans from DB to DC
- Financial Stability
- Trustees’ fiduciary duties
- Update on Pension Supervision in the Caribbean Region

During the AGM, Barbados was elected to the post of vice president in the executive committee of CAPS.

FSC also participated in the annual 2017 Caribbean Association of Insurance Regulator’s (CAIR) Conference and AGM which was held in Jamaica. CAIR is actively working on developing a Multilateral Memorandum of Understanding and a College of Regulators Framework to be adopted by its members. Barbados currently sits as vice president on the executive committee. The Group of International Insurance Centre Supervisors (GIICS), an organisation that consists of a group of regulators representing domiciles engaged in international insurance business, also held its AGM, at which FSC was represented.

FSC continued to work closely with Invest Barbados during the year under review, and joined its contingent to the RIMS (Risk and Insurance Management Society, Inc.) and CRIMS (Canadian Risk and Insurance Management Society, Inc.) conferences in the USA and Canada, respectively. FSC also participated in three supervisory colleges held to discuss regulatory oversight of two domestic and one international insurance company.



## Supervision and Licensing

**Table 1: Number of entities registered by FSC**

Activity	Total No. of Registered Entities 2017/2018	Total No. of Registered Entities 2016/2017
<b>Insurance Division</b>		
• Exempt Insurance Companies	208	200
• Qualifying Insurance Companies	54	46
• Insurance Management Companies	26	25
• Insurance Brokers	25	25
• Agents/Sub Agents/Salespersons	586	554
• Insurance Underwriter	1	1
• Domestic Insurance Companies	24	24
• Holding Companies	11	11
• Insurance Adjusters/Surveyors	14	14
<b>Securities Division</b>		
• Brokers	26	29
• Dealers	10	11
• Investment Advisers	49	52
• Reporting Issuers	42	43
• Securities Companies	17	17
• Self-Regulated Organisations	2	2
• Traders	12	14
• Underwriters	6	6
• Mutual Fund Administrators	9	10
• Mutual Funds (including sub-funds)	23	25
<b>Credit Unions</b>		
	33	33
<b>Occupational Pension Plans</b>		
• Defined Benefit (DB)	81	66
• Defined Contribution (DC)	159	139
• DB+DC	15	10
• Multi-Unit	12	7
• Multi-Employer DC	1	1

## Enforcement

One international insurance company was referred for enforcement during the period under review. The company was subsequently brought into compliance.

## Supporting Effective Regulation

### Research and Policy

FSC's research and policy department analyses current and emerging issues and developments related to the financial sector to help ensure timely and appropriate regulatory responses to changes in the regional and international environment. It produces quarterly statistical bulletins that provide highlights, key performance indicators and other statistics, for the four sectors of the financial system which fall under its purview. In addition, it facilitates requests for information and statistical data from FSC's external stakeholders, such as the Central Bank of Barbados; the Barbados Statistical Service; the Barbados Financial Intelligence Unit; Invest Barbados; the Ministry of Finance and Economic Affairs; and other Government Ministries, regulated entities, and some regional and international organisations.

For the period under review, the department continued collaboration with the Central Bank of Barbados to produce the annual Financial Stability Report, which looked at the soundness of the overall financial system in Barbados. This report was presented at the annual Domestic Financial Institutions Conference hosted jointly by the Central Bank of Barbados and FSC. Another collaborative effort was undertaken with the Division of Economic Affairs in the Ministry of Finance and Economic Affairs to produce the Barbados Economic and Social Report. FSC staff were also asked to participate in various working groups with other regulators and stakeholders that held discussions on the OECD Base Erosion and Profit Shifting project, and the OECD Global Forum on Transparency and Exchange of Information on Request.

### Legal Services

- *Legislative Developments*

The *Securities (Amendment) Regulations, 2018*, was passed by parliament on the 13<sup>th</sup> February 2018. The Regulations amend the Securities Regulations 2002 by changing the fee structure for Stock Exchanges registered with FSC.

FSC remained directly involved in discussions with various stakeholders for the advancement of its legislative proposals pertaining to (a) the Financial Services Commission (Amendment) Bill, 2018; (b) interim amendments to the Mutual Funds legislation; and (c) new Securities legislation and its impact on international obligations as it relates specifically to disclosure and information sharing. Meetings were also held with stakeholders with a view to advancing legislation pertaining to deposit insurance for credit unions. This initiative aims *inter alia* to specifically provide for the imposition of a monetary limit on insured deposits for credit unions, of which an important initial step would be conducting a statistical analysis.

- *Industry Developments*

FSC worked closely with external stakeholders to develop fitness and propriety standards for key persons related to financial institutions. During the period, FSC issued an all-inclusive Fitness & Propriety Questionnaire. In response to industry requests for additional information on the questionnaire, a Fitness and Propriety Circular was also issued, which outlined requirements and procedures for enhancing the fit and proper assessment of key persons.

- *Complaints Handling*

For the second year, FSC's complaints handling programme was progressed to ensure the efficient and appropriate processing of all tasks relating to regulatory complaints, from record inception to record closure. To implement a fully functional complaints process, FSC developed a Rules of Practice and Procedures for Hearings Manual. The manual seeks to provide guidance to staff, regulated entities and members of the public on standard procedures for hearing complaints. This information may be found on FSC's website.

- *Litigation*

The two litigious matters involving insurance companies placed under judicial management continued to engage FSC's attention and that of the local courts. The solutions reached under the judicial management of both companies are at an advanced stage and the courts have approved the transfer of the insurance companies' portfolios.

## **Human Resources/Communications**

During the period under review, the Human Resources Department undertook a number of activities in relation to FSC's strategic corporate objectives. Below is a snapshot of the activities undertaken, as well as relevant human resources data.

- *Training and Development*

Several employees benefitted from training during the financial year:

Supervisory Training

- Risk Based Supervision – Examinations, Inspections and Compliance Teams Conference, Dominican Republic
- Caribbean Group of Securities Regulators (CGSR) Members’ Meeting, Annual Conference and Workshop, Bahamas
- Group of International Insurance Centre Supervisors (GIICS) – Annual General Meeting London, UK
- CARTAC/CAIR 2017 Annual Conference and Workshop Annual General Meeting and College of Regulators’ Meeting, Kingston Jamaica
- CARTAC/CAPS Conference, Workshop and AGM, Kingston, Jamaica

Corporate Support Training

- Protocol – There is only one way; the right way
- Developing Managerial Effectiveness
- Importance of Ethics in Accounting and Auditing
- Triple S – Sexual Harassment, Sexual Orientation, Social Media

As the organisation moves forward with technology to assist in monitoring employee leave, attendance and personal data, it has implemented a Human Resources Information System. Plans are also in train to supplement the system with a time clock.

- *Performance Management*

FSC implemented a Senior Management Appraisal system. In addition, the current appraisal for staff was revised to ensure a better fit for the organisation.

- *Staff Welfare*

To foster camaraderie among staff, promote teamwork, and encourage personal development, FSC undertook a number of staff activities that included:

- The FSC “Wellness & Talent Expo”, held in April 2017. Employees were given the opportunity to showcase their talents in baking, sewing, knitting, jewelry making and

plant growing, among others. There were presentations on various health topics and sampling of local health products.

- A staff fun day, held in November, which saw employees being grouped and competing in a national quiz contest. This was well supported by employees and allowed them to get to know each other outside the office environment.
- The Annual Staff Appreciation and Awards luncheon, held in December. Eleven employees were presented with “Perfect Attendance” certificates. In addition three team member received “Peer Recognition Awards” for demonstrating *Integration*, *Support* and *Professionalism* to their colleagues.

The rollout of a revamped Non-Cash Awards incentive programme is anticipated for 2019.

- *Corporate Citizenship*

FSC’s charitable fundraising initiative, “Fitness for Charity” took on the cause of the Barbados Alzheimers Association this year. Staff were back at the partner gym, Flawless Performance Centre at Sky Mall, Haggatt Hall for the fitness portion of the drive with increased participation by staff, family and friends. The fundraising element was expanded to include a four-hour public outreach in the mall, where staff joined with members of the Association to solicit donations from shoppers, as well as provide information on Alzhiemers.

The activity not only brought a heightened level of awareness to the growing epidemic in Barbados, but it was a great demonstration of the staff’s commitment to the organisation’s corporate social outreach. Part of the promotion for the fundraising drive was an appearance with president of the Alzheimers’ Association on CBC TV’s Morning Barbados programme, and a live radio interview on VOB 92.9 FM. A cheque for \$7,000, all proceeds from the fundraising, was presented to the Barbados Alzheimers Association in a brief media ceremony at the FSC office.

### Information Technology

FSC’s IT focus was mainly on the continuation of work on the Electronic Filing/Document Management Project (EFDM). The completion timeframe of the project, initially set for December 2015, has been further extended to September 2018. The hardware setup and technical and user testing aspects have been completed and everything is in place to complete system testing with entities for final implementation and rollout.

## 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\$6,482,586. FSC also received BDS\$1,105,000 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, the main item of which remains staff costs (FSC's average number of employees is 56), is appropriately managed against an annual budget agreed to by the Board of Commissioners. Prudent cash management and cash flow forecasting enabled FSC to invest a portion of its cash in Government of Barbados Treasury Bills – investments in 2017-2018 yielded BDS\$67,879 in interest.

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

*(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\$354,613 in unclaimed/undistributed monies and refunded BDS\$481,581.

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 total held in escrow at the Central Bank of Barbados as at March 31, 2018 was BDS\$11,174,446. Details of the financial position for the year ending March 31, 2018 are contained in the annexed Audited Financial Statements.

## Statistics

### Insurance

#### International Insurance

Barbados remained ranked in the top 10 domiciles for captive insurance companies and in 2017 FSC licensed an additional 20 captives and one management company. This added to a steady increase in the number of captives in Barbados since 2013, as illustrated in the table below.

**Table 2: Summary of International Insurance Companies**

	2013	2014	2015	2016	2017
<b>Exempt Insurance Companies</b>	179	189	192	200	208
<b>Qualifying Insurance Companies</b>	45	42	44	46	54
<b>Holding Companies</b>	12	11	11	11	11
<b>Management Companies</b>	22	22	24	25	26
<b>Totals</b>	<b>258</b>	<b>264</b>	<b>271</b>	<b>282</b>	<b>299</b>

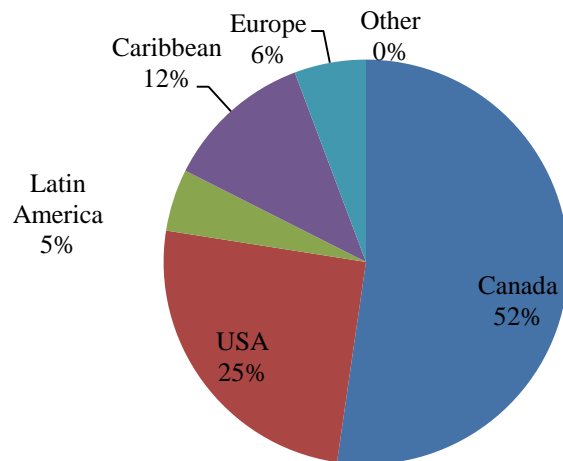
Total assets for the international insurance sector was BDS\$72,038 million, with liabilities of BDS\$55,663 million. International insurers' gross premium written was BDS\$26,341 million as at December 31, 2016.

**Table 3: Select Financial Information – International Insurers**

	2013	2014	2015	2016
	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)
<b>Total Assets</b>	126,023	104,116	132,816	72,038
<b>Total Liabilities</b>	89,944	70,249	99,165	55,663
<b>Share Capital</b>	10,831	10,631	9,405	5,780
<b>Gross Premium</b>	39,036	40,224	49,672	26,341
<b>Net Earned Premium</b>	42,421	34,225	44,117	23,552
<b>Claims Paid</b>	12,082	19,911	19,308	7,175
<b>Investment Income</b>	6,664	3,998	1,937	2,395
<b>Net Income</b>	6,803	9,138	6,824	3,464

In the international insurance sector, Canada was the most significant source of business, followed by the United States of America, Europe and Latin America.

**Figure 1: Country of Origin – International Insurers**



### ***Domestic Insurance Sector***

As at December 31, 2017 there were 24 domestic companies actively writing insurance business in Barbados. All other categories of registrants remained constant with the exception of registrations for agents, sub-agents and salespersons, which increased by 6% over the previous year.

**Table 4: Insurance Entity Registration 2013 -2017**

	2013	2014	2015	2016	2017
<b>General Insurance Companies</b>	15	16	14	15	15
<b>Life Insurance Companies</b>	7	9	7	8	8
<b>Combined Life and General Insurers</b>	1	1	1	1	1
<b>Brokers</b>	22	22	23	25	25
<b>Agents, Sub-agents, Salespersons</b>	534	516	547	554	586
<b>Loss Adjusters/Surveyors</b>	14	7	14	14	14
<b>Totals</b>	<b>593</b>	<b>571</b>	<b>606</b>	<b>617</b>	<b>649</b>



The sector recorded aggregated total assets of BDS\$3,831 million<sup>1</sup> and liabilities of BDS\$2,364 million for 2017, which represents a 5% and 4% increase respectively, over 2016. Aggregate gross written premium for the domestic insurance sector was BDS\$773 million in 2017. BDS\$259 million was ceded to reinsurers with net premiums of BDS\$525 million being reported for 2017. Incurred claims increased to BDS\$525 million in 2017 which represents a 17% increase over the BDS\$447 million reported for 2016.

**Table 5: Select Industry Information 2013 -2017**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>% Change</b>
	<b>(BDS\$ Millions)</b>	<b>(BDS\$ Millions)</b>	<b>(BDS\$ Millions)</b>	<b>(BDS\$ Millions)</b>	<b>(BDS\$ Millions)</b>	<b>2016-2017</b>
<b>Gross premium written</b>	668	724	916	704	773	10%
<b>Reinsurance ceded</b>	283	298	280	263	259	-1%
<b>Net premiums written</b>	396	433	643	447	525	17%
<b>Incurred claims</b>	155	175	176	173	186	7%
<b>Commission paid</b>	55	56	70	53	54	2%
<b>Total assets</b>	3,010	3,024	3,243	3,635	3,831	5%
<b>Total liabilities</b>	2,159	2,102	2,289	2,262	2,364	4%
<b>Net income</b>	87	123	109	158	141	-1%

Over the period 2013-2017, the assets of the domestic insurance sector have been gradually increasing. Companies writing long-term insurance business held assets of BDS\$2,808 million reflecting growth of 8% as at December 31, 2017. The assets of these companies were concentrated in government securities and related party investments. Liabilities, on the other hand, increased by 5% from BDS\$1,526 million to BDS\$1,610 million.

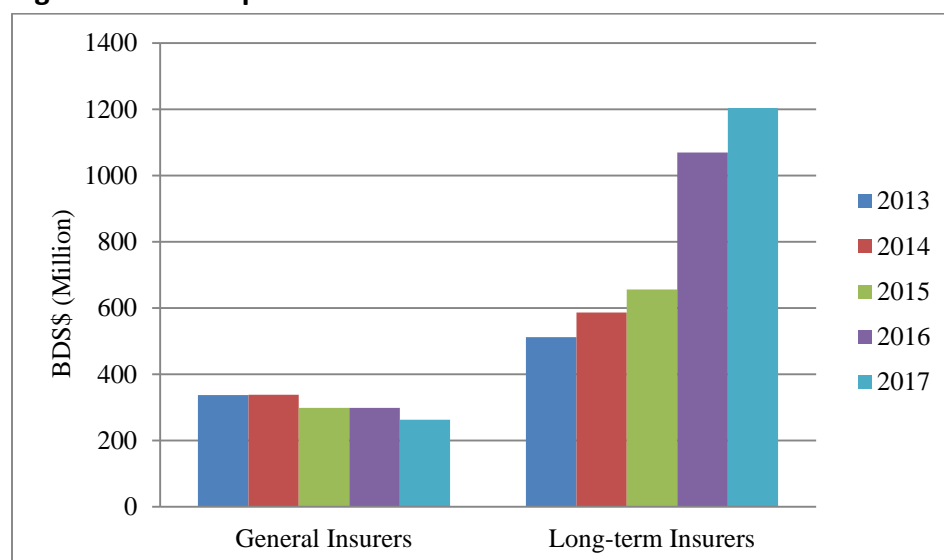
In 2017, companies writing general insurance business held assets of BDS\$1,023 million, which is a 1% decrease from the preceding year's figure. These assets mainly comprised of cash and deposits, government securities and reinsurance. Total general insurance liabilities increased by 3% over 2016.

Total capital and reserves for general insurers was BDS\$263 million in 2017, a 12% decrease from the 2016 figure. The decrease in the capital and reserves was due mainly to a decline in retained earnings from BDS\$227 million in 2016 to BDS\$207 million in 2017.

<sup>1</sup> Financial information presented is based on annual statutory returns received as at December 31, 2017.

Capital and reserves for long-term insurers increased by 12% from BDS\$1,069 million to BDS\$1,203 million. This increase was due to an increase in the retained earnings by 16% over the previous year from BDS\$616,312 million to BDS\$716,279 million in 2017.

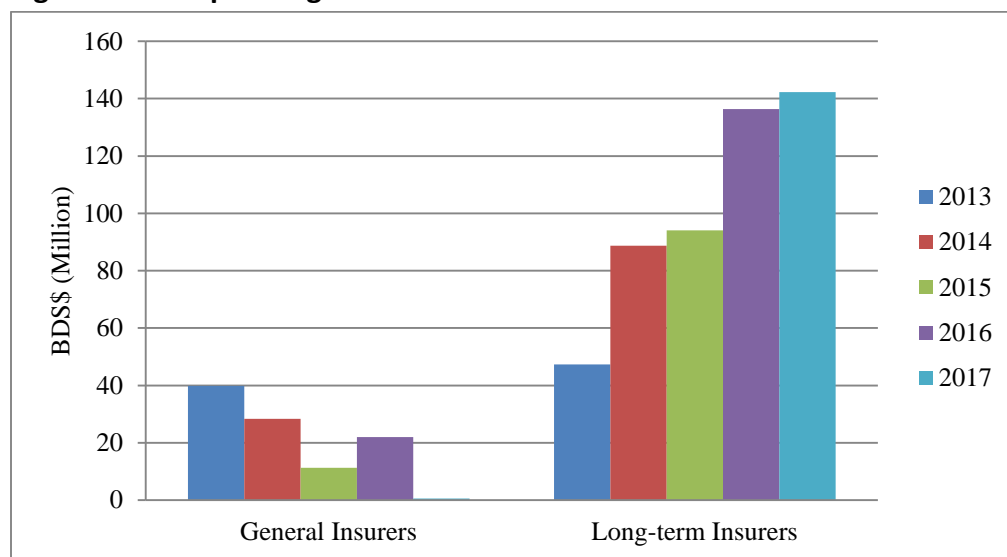
**Figure 2: Total Capital and Reserves 2013-2017**



Premiums attributed to general insurance business, accounted for 56% of the total premium written in 2017 (BDS\$433 million). Most companies writing general insurance business recorded decreases in the amount of premium written for 2017 when compared with the same period in 2016. Overall, there was a 3% decrease in general insurance gross premium written, relative to the sum recorded for 2016. A total of BDS\$224 million was ceded to reinsurers, which was 3% lower than the amount ceded in the preceding year. Incurred claims related to general insurance business was BDS\$142 million, an increase of 7% over the previous year. Companies undertaking general insurance business had a combined underwriting loss of BDS\$27 million. Investment income increased by 36%, from BDS\$22 million in 2016 to BDS\$30 million in 2017. Net operating income from general insurance activities was BDS\$617 thousand in 2017, which is a significant decline over the prior year's figure of BDS\$22 million driven mainly by the increased underwriting losses.

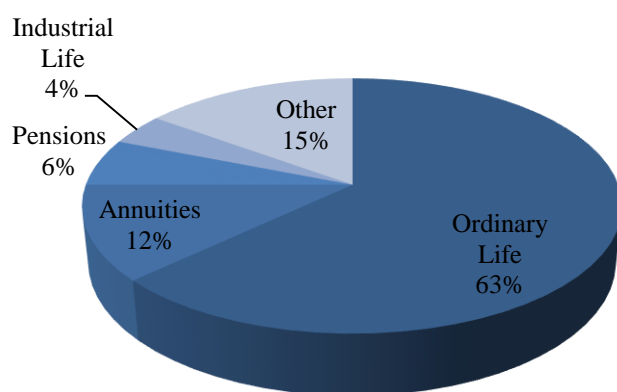
Gross written premium for long term insurance was BDS\$340 million. Companies writing long term insurance recorded a 29% decrease in investment income from BDS\$104 million in 2016 to BDS\$74 million in 2017. Net operating income for life operations was BDS\$142 million in 2017, a 4% increase over the prior year.

**Figure 3: Net Operating Income 2013-2017**



Premiums related to long-term insurance comprised largely of ordinary life insurance, which represented 63% of long-term insurance business. Annuities accounted for 12% of the premiums written for long-term insurance business; while industrial life, pensions and other classes (personal accident, creditor life and health) accounted for the remainder of premiums written in the long-term insurance market.

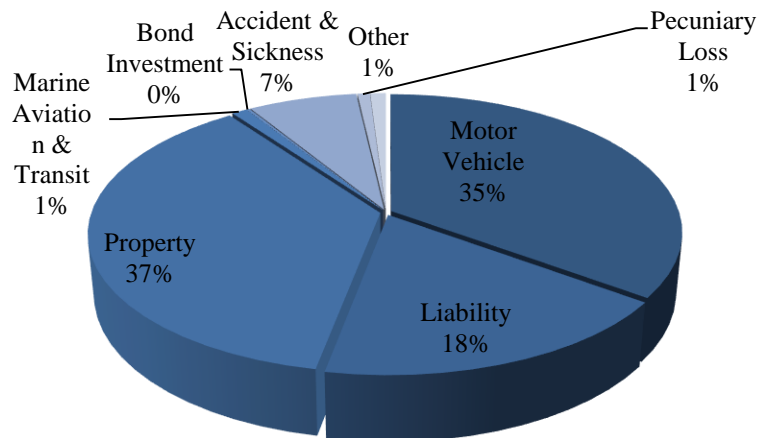
**Figure 4: GPW by Policy Type-Long Term**



Motor and property insurance remain the key segments of the general insurance market; accounting for 35% and 37% of the premiums written respectively. Liability insurance

accounted for 18% of the premiums written by general insurers. Marine aviation and transit, accident and sickness, pecuniary loss, bond investment and other classes represented the remainder of gross premiums written.

**Figure 5: GPW by Policy Type- General**



### ***Credit Unions***

Credit unions are integral to the financial sector, mobilising significant savings and generating notable lending activity. During the year, FSC reviewed and updated its monitoring system and Early Warning Indicators to enhance the efficacy of its oversight of this sector. Work continued on the refinement and application of the top-down stress testing framework which allows FSC to identify likely vulnerabilities and ensure that appropriate mitigating actions are taken. At the end of the review period there were 33 active credit unions, which taken together, recorded robust growth in assets and membership. This growth path is expected to continue over the short to medium term.

**Table 6 – Credit Union Sector Profile at a Glance**

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Number of credit unions</b>	35	35	34	33	33
<b>Total Assets (billions)</b>	\$1.71	\$1.79	\$1.94	\$2.09	\$2.28
<b>Total Savings (billions)</b>	\$1.42	\$1.50	\$1.64	\$1.79	\$1.96
<b>Net Loans (billions)</b>	\$1.24	\$1.32	\$1.42	\$1.53	\$1.62
<b>Capital Ratio<sup>2</sup></b>	11.76%	11.86%	11.77%	11.90%	11.83%
<b>Profitability (Return on Average Assets)</b>	1.06%	0.64%	1.07%	1.09%	1.13%

**Assets**

Sector assets were reported at BDS\$2.28 billion as at March 31 2018, an increase of 9.0% over the previous year, surpassing the prior year growth rate of 7.8%. FSC considers a five-year compound annual growth rate of at least 5% as an effective benchmark of a credit union's viability. Over the five-year period 2014 to 2018, the industry reported a robust compound annual growth of 5.8% up from 5.2% for the previous year. This result is indicative of the continued sustainability and resilience of the sector and augurs well for its future. The sector continued to be characterised by its heterogeneous nature as assets ranged from BDS\$97,889 to BDS\$1.22 billion. The balance sheets were dominated by loans, with net loans reported at BDS\$1.62 billion or 71.2% of total assets in 2018. While there was absolute growth in loans, loans as a percentage of total assets declined largely due to growth in investment assets, driven by increased members' savings. Investments grew by 43.0% over the year ending March 2018.

**Profitability**

Profitability remained relatively stable despite increase in the Non-Performing Loans (NPLs). Expansion in the loan portfolio, as well as increase in investment income, supported a sustained return on assets of 1.1% over the reporting period.

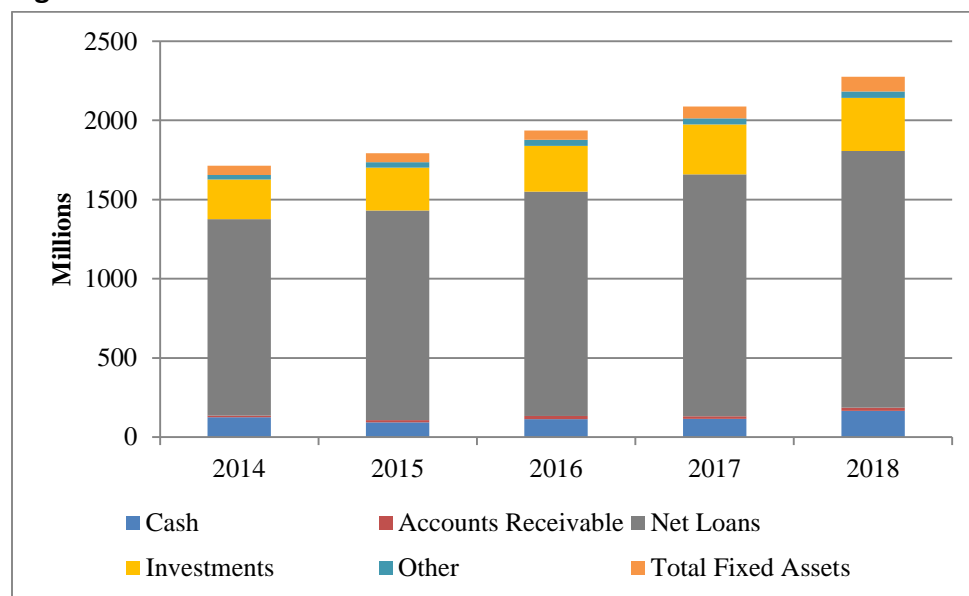
**Capital**

A non-risk weighted capital ratio of over 7% is considered an adequate buffer to insulate the credit union against shocks. The domestic sector was characterised by an upward trend in capital levels which ranged from 11.8% to 11.9% over the period 2014 to 2018. Capital comprised primarily of reserves and retained earnings which constitutes tier I capital under the Basel standards.

---

<sup>2</sup> Capital ratio inclusive of qualifying shares and non-risk weighted

**Figure 6: Breakdown of Credit Union Sector Assets**



The two largest credit unions held approximately BDS\$1.54 billion which represents 74.6% of the assets of the sector. This is consistent with the previous five years under review. New loans across the sector increased marginally by BDS\$4.10 million or 3.3% relative to 2017 as illustrated in Table 7. Lending remained concentrated in Consumer and Real Estate loans.

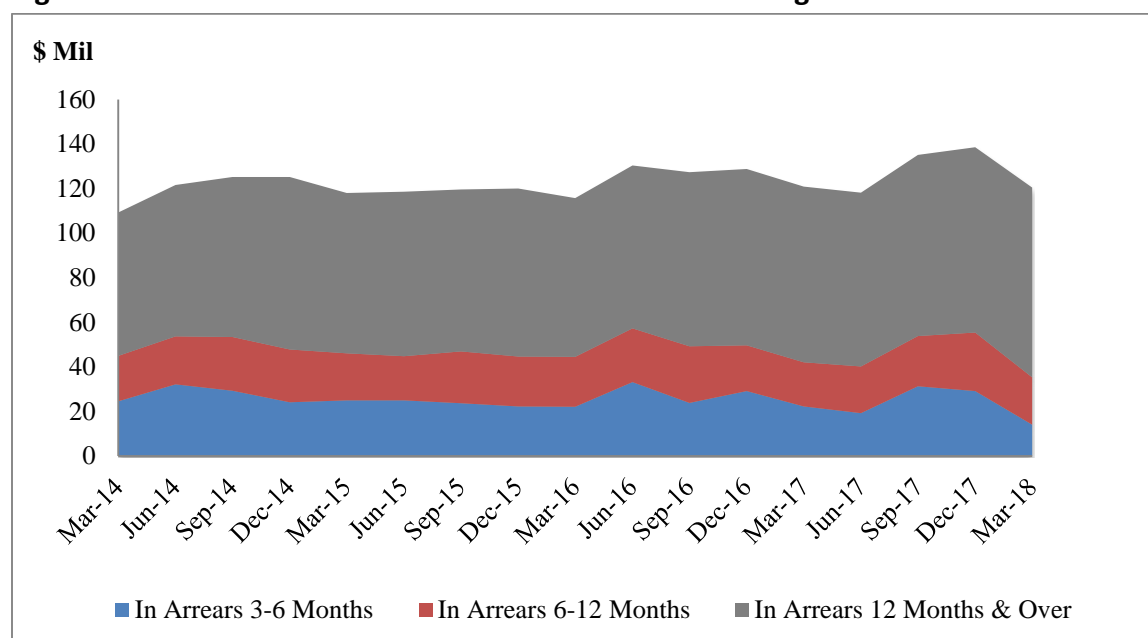
**Table 7: Annual Loan Disbursements (In thousands)**

	2014	2015	2016	2017	2018
<b>Consumer</b>	45,109.8	63,378	64,635.7	57,048.2	63,412.0
<b>Real Estate</b>	35,989.2	57,052	60,999.1	44,730.5	40,020.1
<b>Private Transport</b>	11,341.2	16,413	20,915.1	19,999.8	22,220.2
<b>Commercial Transport</b>	188.8	1,056	388.0	159.2	30.9
<b>Agriculture</b>	4.0	9	741.5	419.6	591.1
<b>Other Business</b>	380.4	1,021	2,508.5	1,680.8	1,864.5
<b>Total</b>	93,013.4	138,930	150,187.8	124,038.1	128,138.7

Prevailing economic conditions contributed to a deterioration in the sector's loan portfolio as NPLs increased from 7.1% to 7.7% between March 31, 2017 and March 31, 2018.

Concomitantly, loan loss provisions for the sector were reported at BDS\$40.24 million or 31.5% of NPLs, which represents an increase of 5% in provisioning levels relative to the previous year.

**Figure 7: Breakdown of Credit Union Sector Non-Performing Loans**



### ***Members' Savings***

At March 31, 2018, members' investments in savings and shares totalled BDS\$1,959 million, up from BDS\$1,791 million at March 31, 2017. The sector continues to be an attractive investment opportunity to market participants as term deposits and other deposits increased by 42.2% compared to March 31, 2017. Over the period March 31, 2014 to March 31, 2018 members' savings grew from BDS\$1,423 million to BDS \$1,959 million reflective of growth of 37.7% over the period. This inflow created potential liquidity challenges in the medium-to-long term.

FSC continues to enhance its ability to proactively assess potential risks in the credit union sector through the refinement of its stress testing framework.

### ***Securities***

A statistical presentation and comparison of the number of registrants and/or licencees is outlined in Tables 8 and 9 below. A statistical representation of the market is outlined in Table 11.

**Table 8: Regulated Entities**

	Number of Regulated Entities				
Category	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Market Actors (companies) <sup>3</sup>	21	28	35	35	37
Market Actors (individuals) <sup>4</sup>	29	37	55	54	55
Self-regulatory organisations	2	2	2	2	2
Mutual funds ( <i>including sub-funds</i> )	26	25	21	23	23
Mutual fund administrators (general)	10	10	10	9	9
Mutual fund administrators (restricted)	1	0	0	0	0
Issuers <sup>5</sup>	48	49	47	41	42

**Table 9: Market Intermediaries**

	Breakdown of Market Intermediaries				
Category	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017	March 31, 2018
Securities company	10	13	18	17	17
Investment adviser	7	15	21	19	21
Dealer	3	3	6	5	5
Underwriter	5	6	7	6	6
Mutual Fund Administrator (General)	11	10	10	9	9

<sup>3</sup> 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.

<sup>4</sup> Brokers, Dealers, Traders, Investment Advisers

<sup>5</sup> Issuers refers to reporting issuers plus two entities that have registered securities but are not required to register as reporting issuers



**Table 10: Mutual Funds data (as at date shown)**

<b>Funds under management BDS\$ (in millions)</b>			
	<b>Domestic (offered in Barbados)</b>	<b>Foreign (not offered in Barbados)</b>	<b>Total</b>
March 31, 2014	1,834.7	3,322.3	<b>5,157.5</b>
March 31, 2015 <sup>4</sup>	1,871.7	4,777.5	<b>6,649.2</b>
March 31, 2016 <sup>6</sup>	1,902.8	727.2	<b>2,630.1</b>
March 31, 2017	2,072.7	471.7	<b>2,554.5</b>
March 31, 2018	2,227.1	471.8	<b>2,698.9</b>

**Table 11: Stock exchange activity**

	<b>Market data<sup>7</sup> (as at date shown)</b>				
	<b>March 31, 2014</b>	<b>March 31, 2015</b>	<b>March 31, 2016</b>	<b>March 31, 2017</b>	<b>March 31, 2018</b>
Listed companies	20	20	20	17	17
Listed securities	26	25	24	19	18
Local market index	2,568.58	2,194.13	2,478.82	2,866.91	3,236.81
Cross-listed market index	1,539.55	1,726.65	1,738.11	1,029.34	1,458.49
Composite market index	668.90	624.23	678.19	687.56	796.14
Local market capitalisation	6,395,315,382	5,499,741,673	6,272,039,643	6,226,553,949	7,029,939,065
Cross-listed market capitalisation	2,569,376,511	2,895,433,099	2,862,760,630	694,849,524	984,541,405
Composite market capitalisation	8,964,691,893	8,395,174,722	9,134,800,272	6,921,403,473	8,014,480,470
No. of major transactions <sup>8</sup>	0	0	2	2	1

<sup>6</sup> Previously reported AUM figures updated<sup>7</sup> Source: The Barbados Stock Exchange Inc.<sup>8</sup> Takeovers, mergers, rights issues etc.

### ***Registration and/or licensed entities***

For the period under review, the number of companies registered and/or licensed as market actors increased marginally. The increase in the number of individuals registered was mainly attributable to an increase in the number of persons registered in the category of investment advisers. There were minor fluctuations in the numbers throughout the year as a result of licensing new entities and the de-registration of other entities who had ceased to carry on business in regulated activities during the year. In terms of the reporting issuers, FSC recorded a slight increase, with one new registrant registered as at March 31, 2018. There was no change in the number of mutual funds licensed for the period under review.

### ***Funds***

The size of the domestic funds market experienced growth over the last year with an increase in assets under management of 7.5% or BDS\$154.4 million up from BDS\$2.07 million. As at March 2018, 76% of the domestic mutual fund industry's asset allocation was to mutual funds, equities and fixed income securities, with the remaining 24% allocated to cash and cash equivalents, mortgages, real estate, repurchase agreements and term deposits. Approximately 80% of the industry's jurisdictional exposure was to Barbados and North America. Occupational and individual pension plans remain the significant investors in the domestic mutual fund industry with over BDS\$1.3 billion in assets, which represents approximately 60% of assets under management. Mutual funds classified as Balanced Funds averaged year-to-date (YTD) returns of -0.20%, while mutual funds classified as growth, income and property averaged YTD returns of -0.54%, -0.27% and 0.09% respectively.

### ***Private placement regime***

During the 2017/2018 fiscal year, BDS\$21.4 Million of capital was raised through Private Placements compared to BDS\$24.9 Million over the corresponding period representing a 14.4% decrease in capital raised through this mechanism. For the period 2017/2018 investors participating in the private issuance included Occupational Pension Plans, Mutual Funds, Banks and Trust Companies, as well as Security Companies.

### ***Barbados Stock Exchange (BSE)/Capital Market Development***

For the period under review, BSE reported improved recording increases for the market index and market capitalisation when compared with the prior financial year. These relatively positive results were as a result of several locally listed securities experiencing share price appreciation of approximately 16% when compared to the prior financial year.

The number of securities listed decreased from 19 to 18 as a result of voluntary de-listing at the end of the fiscal year.<sup>9</sup> BSE conducted one inspection of its Trading Participants in 2017 to ensure compliance with its domestic rules. It is anticipated that BSE will conduct further inspections within the 2018 period.

### ***International Securities Market (ISM)***

During the 2017/2018 fiscal year, BSE registered three additional Listing Sponsors for the International Securities Market (ISM). As Listing Sponsors, the entities are authorised to engage International Business Companies domiciled locally and internationally, which may be seeking a primary or secondary listing of securities. One Issuer was duly registered after having successfully met the ISM's Issuer Requirements with two securities being listed. There was no trading on the ISM as at March 31, 2018 and market capitalisation was reported at US\$87,766.298.

### ***Pensions***

Over the period 2014 to 2018, there was a steady increase in the number of occupational pension plans registered. As at March 31, 2018 there were 274 pension plans registered under the OPBA. By the end of the review period, 28 active plans remained unregistered; these consists of 20 pension plans with a defined contribution benefit, seven pension plans with a defined benefit, and one plan with a combination benefit. FSC has continued to work with the administrator of unregistered pension plans to complete their registration process under the OPBA.

**Table 12: Number of Pension Plans Registered by Plan Types as at March 31**

Type of Benefit	2014	2015	2016	2017	2018
Defined Benefit (DB)	36	60	66	81	83
Defined Contribution (DC)	107	131	139	159	162
DB+DC (combination)	2	9	10	15	15
Multi-Unit	0	3	7	12	13
Multi-Employer DC	0	1	1	1	1
<b>Total</b>	<b>145</b>	<b>204</b>	<b>223</b>	<b>268</b>	<b>274</b>

<sup>9</sup> Additional information on the activities of BSE is included under the statistical section of this report.

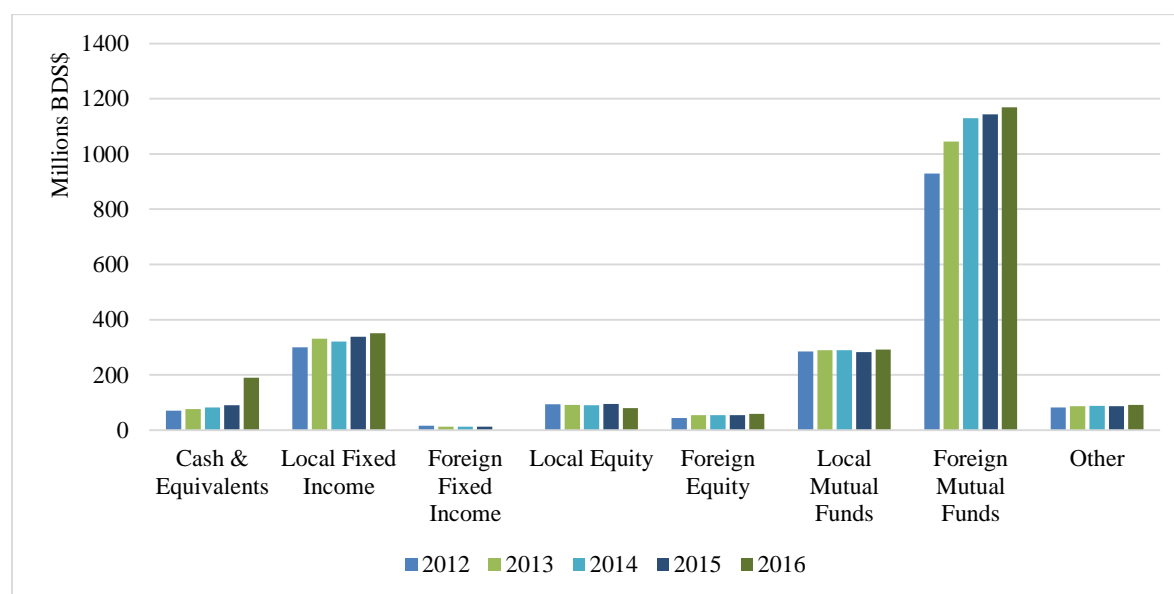
## Supervision Process

The pensions sector continues to be a substantial contributor to the financial system in Barbados with considerable assets under management. This is why supervision of the sector and utilising the risk based supervisory framework is crucial. The statutory filings must be submitted by the administrators of pension plans within the stipulated timeframes and in accordance with the OPBA. The data extracted from these statutory filings are used within a quantitative risk assessment tool. This tool assesses the risk of each pension plan based on a substantive assessment model which would highlight areas of weaknesses and allow for corrective action. These corrective actions, once followed by administrators, should limit the risk that pension plans will fail to satisfactorily meet their explicit and implicit obligations to members and beneficiaries. The tool also includes benchmarks, which not only check that funding and investment restrictions are met, but also provides the foundation for the assessment of other risks e.g. credit, market and solvency risks. The results of the assessment tool play an important role in the overall assessment of risk for pension plans.

## Assets under Management

The pensions industry, as at December 31, 2017, had approximately \$2.3 billion in total assets which was a 24% increase over the previous period. Figure 8 shows the asset distribution for the pension industry for the period 2012 to 2016, which indicates that the pension funds were invested in mainly local fixed income and foreign mutual funds.

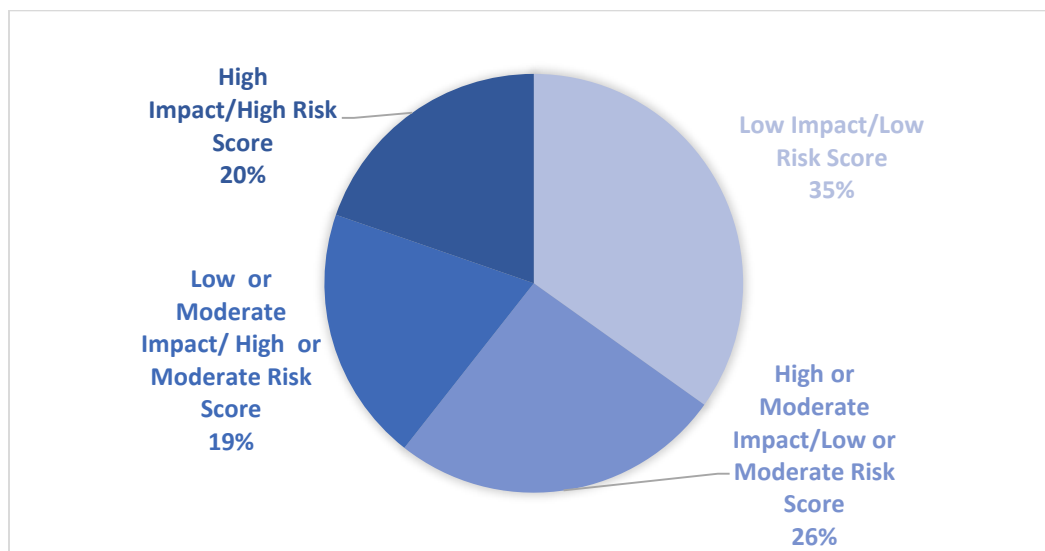
**Figure 8: Pension Industry Assets as at December 31**



## ***Risk Assessments***

FSC continues to place significant emphasis on the completion of risk assessments for the registered active pension plans. A total of 150 risk assessments on 66 pension plans were completed. 20% of the pension plans are rated as High Impact/High Risk, which has been due to the pension plan being in a deficit position, a qualified opinion by the auditor or the administrator funding the pension plan below the recommended funding rate by the Actuary. Figure 9 shows the risk assessments completed by risk ratings.

**Figure 9: Risk Assessments completed by Risk Ratings for Pension Plans as at March 31**



## ***Wind-up Process***

The number of pension plans whose administrators have applied and received approval to wind-up their pension plans has remained minimal at just two during the period ending March 31, 2018. Administrators have stated the reasons for winding-up as seeking alternative financial long-term benefits to employees, closure of plant and burdensome cost of the plan to the company.

## 2018/2019 Strategic Focus

During the upcoming 2018/2019 period, FSC will concentrate on improving early warning indicators by completing risk assessments for the registered pension plans under its regulatory supervision to determine the high risk pension plans. Additionally, focus will continue to be placed on the risk profiles for high risk plans, the regulatory action as per FSC's supervisory ladder, and the updating of the excel spreadsheet listing pension plans with their regulatory issues and the actions taken to date. FSC will also continue to convert all pension plans financial statements submitted, to excel and update the financial indicator spreadsheet on a monthly basis as this will assist with the monitoring of trends that would affect the financial soundness of the pension plans. The completion of the legislative amendments to the OPBA and the registration of the remaining unregistered pension plans would also be a priority for FSC in the upcoming period.

With regards to the Securities Division, FSC will continue its work on the update of the securities and mutual funds legislation, with a view to submitting recommendations to the Ministry of Finance regarding legislative changes that are needed to foster the development of the capital market and give FSC the capability to provide a robust and facilitative regulatory framework.

During the 2017/2018 year, FSC will be seeking to engage domestic insurance companies by having annual prudential meetings. The implementation of consolidated supervision will be the focus for the home regulated domestic insurance companies.



## Financial Statements – Year Ended March 31, 2018



# **Financial Services Commission**

## **Financial Statements**

Year ended 31 March 2018  
(Expressed in Barbados Dollars)

## **FINANCIAL SERVICES COMMISSION**

Index to the Financial Statements  
Year ended 31 March 2018

---

	Page
Independent Auditor's Report	1 - 3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes in General Fund	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 17

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION**

#### **Report on the Audit of the Financial Statements**

##### **Opinion**

We have audited the financial statements of the Financial Services Commission ("the Commission"), which comprise the statement of financial position as at 31 March 2018, and the statement of comprehensive income, statement of changes in general fund and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 31 March 2018 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium Sized Entities ("IFRS for SMEs").

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Responsibilities of Management and the Board of Commissioners for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

The Board of Commissioners is responsible for overseeing the Commission's financial reporting process.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION (CONT'D)**

#### **Report on the Audit of the Financial Statements (Cont'd)**

##### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## **INDEPENDENT AUDITOR'S REPORT**

### **TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION (CONT'D)**

#### **Report on the Audit of the Financial Statements (Cont'd)**

##### **Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)**

We communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Barbados  
19 September 2018

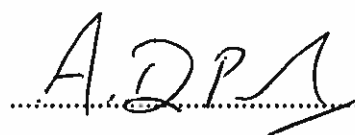
# FINANCIAL SERVICES COMMISSION

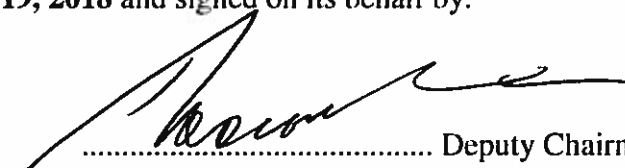
## Statement of Financial Position As at 31 March 2018

	Notes	2018 \$	2017 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	7,007,378	6,126,824
Deposits with Central Bank	4	11,174,446	10,341,398
Accounts receivable	5	160,615	84,581
Due from related parties	7	25,546	25,408
Prepayments		33,274	79,828
Lease deposits		<u>28,763</u>	<u>28,763</u>
		18,430,022	16,686,802
<b>Property and equipment</b>	6	<u>470,903</u>	<u>475,001</u>
		<u>18,900,925</u>	<u>17,161,803</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable		207,857	190,812
Due to related parties	7	514,297	532,796
Deferred income		4,516,941	4,347,770
Escrow deposits		11,174,446	10,341,398
Contingent consideration payable	12	<u>130,734</u>	<u>-</u>
		<u>16,544,275</u>	<u>15,412,776</u>
<b>Represented by:</b>			
Capital contribution	8	699,198	699,198
Accumulated surplus		<u>1,657,452</u>	<u>1,049,829</u>
		<u>2,356,650</u>	<u>1,749,027</u>
<b>Total Liabilities and General Fund</b>		<u>18,900,925</u>	<u>17,161,803</u>

The accompanying notes form part of the financial statements.

Approved by the Commission on **September 19, 2018** and signed on its behalf by:

 Chairman

 Deputy Chairman

## FINANCIAL SERVICES COMMISSION

### Statement of Comprehensive Income Year ended 31 March 2018

	Notes	2018 \$	2017 \$
<b>Income</b>			
Fees		6,482,586	6,077,800
Government grants	9	1,105,000	1,170,000
Interest income		67,879	49,569
Other income		<u>105</u>	<u>48,618</u>
		<u>7,655,570</u>	<u>7,345,987</u>
<b>Expenses</b>			
Salaries and benefits		5,083,124	5,122,850
Lease	11	366,600	366,600
Utilities		289,433	268,652
Professional fees		281,187	271,535
Depreciation	6	200,747	188,195
Membership and registration fees		133,263	110,072
Contingent consideration expense	12	130,734	-
Conferences and meeting expenses		117,798	127,898
Commissioner fees and allowances		93,600	91,600
Maintenance		63,478	69,559
Corporate expenses		45,261	60,917
Security		37,859	37,859
Training		32,302	42,286
Stationery		31,686	32,773
Uniforms		28,339	17,934
Subscription		27,655	19,529
Vehicle expenses		25,757	21,783
Office supplies		21,783	20,829
Tribunal expenses		21,779	20,424
Insurance		18,958	16,519
Computer expenses		11,917	21,975
Advertising		5,610	17,788
Refreshments		5,446	4,473
Bank charges		4,030	3,260
Miscellaneous		313	803
Foreign exchange loss		7	-
Discount received		(719)	(1,070)
Bad debts		(30,000)	(50,000)
Travel expense		-	360
Gain on disposal		<u>-</u>	<u>(15,000)</u>
		<u>7,047,947</u>	<u>6,890,403</u>
<b>Surplus for the year</b>		<u>607,623</u>	<u>455,584</u>

## FINANCIAL SERVICES COMMISSION

Statement of Changes in General Fund  
Year ended 31 March 2018

---

	<b>Capital Contribution</b> \$	<b>Accumulated Surplus</b> \$	<b>Total</b> \$
<b>Balance as at 31 March 2016</b>	699,198	594,245	1,293,443
Surplus for the year	<u>-</u>	<u>455,584</u>	<u>455,584</u>
<b>Balance as at 31 March 2017</b>	699,198	1,049,829	1,749,027
Surplus for the year	<u>-</u>	<u>607,623</u>	<u>607,623</u>
<b>Balance as at 31 March 2018</b>	<u>699,198</u>	<u>1,657,452</u>	<u>2,356,650</u>

The accompanying notes form part of the financial statements.



## FINANCIAL SERVICES COMMISSION

### Statement of Cash Flows Year ended 31 March 2018

	<b>2018</b> \$	<b>2017</b> \$
<b>Cash flows from operating activities</b>		
Surplus for the year	607,623	455,584
Adjustments for:		
Depreciation	<u>200,747</u>	<u>188,195</u>
	808,370	643,779
Operating surplus before working capital changes:		
Increase in deposits with Central Bank	(833,048)	(2,290,617)
(Increase)/decrease in accounts receivable	(76,034)	11,441
(Increase)/decrease in due from related parties	(138)	36,000
Decrease/(increase) in prepayments	46,554	(44,572)
Increase/(decrease) in accounts payable	17,045	(573,312)
Decrease in due to related parties	(18,499)	-
Increase in deferred income	169,171	148,746
Increase in escrow deposits	833,048	2,290,617
Increase in contingent consideration payable	<u>130,734</u>	<u>-</u>
Net cash from operating activities	<u>1,077,203</u>	<u>222,082</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	<u>(196,649)</u>	<u>(75,828)</u>
Net cash used in investing activities	(196,649)	(75,828)
<b>Increase in cash for the year</b>	880,554	146,254
<b>Cash – beginning of year</b>	<u>6,126,824</u>	<u>5,980,570</u>
<b>Cash – end of year</b>	<u>7,007,378</u>	<u>6,126,824</u>
<b>Represented by:</b>		
Cash at bank	7,006,978	6,126,418
Cash in hand	<u>400</u>	<u>406</u>
	<u>7,007,378</u>	<u>6,126,824</u>

The accompanying notes form part of the financial statements.

# FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

## 1. Establishment, principal activity and registered office

The Financial Services Commission (“the Commission”) is a regulatory entity, established in Barbados on 1 April 2011 under the Financial Services Commission Act, 2010-21. The principal function of the Commission is to supervise and regulate the non-bank financial services sector in Barbados.

The Commission’s principal place of business is situated at Suites 301 and 302, Building 4, Harbour Industrial Park, Bridgetown, Barbados.

## 2. Significant accounting policies

### Basis of preparation

The financial statements are expressed in Barbados dollars on a historical cost basis and are in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities (“IFRS for SMEs”) promulgated by the International Accounting Standards Board.

### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Commission’s accounting policies, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and liabilities are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Other than in the establishment of routine provisions against accounts receivables, there are no key estimates or judgements which are required in applying policies which may have a material impact on the Commission’s reported assets, liabilities, revenues and expenses.

### a) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 2. Significant accounting policies (cont'd)

#### b) Cash and cash equivalent

Cash and cash equivalents includes cash on hand, cash at bank and treasury bills with original maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in values.

#### c) Property and equipment

Property and equipment is stated at cost less depreciation and provision for impairment. Cost includes expenditure that is directly attributable to the expenditure of the items. The charge for depreciation is computed on the straight line basis calculated to write off the cost of the property and equipment over their expected useful lives. The estimated useful lives of the assets are as follows:

Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years
Computer equipment	3 years
Library books	3 years
Leasehold improvements	5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

#### d) Revenue recognition

##### *Fees and deferred income*

Application fees are recognized as revenue upon receipt. Annual registration and license fees are due in January of each year and are recognized in income on a calendar year basis. Deferred income represents fees which will be earned in the next financial year.

##### *Government grants*

Government grants represent funds received from the Ministry of Finance and Economic Affairs during the financial year in the form of cash and goods or services to assist with operating expenses.

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 2. Significant accounting policies (cont'd)

#### d) *Government grants (cont'd)*

Government grants are not recognized until there is reasonable assurance that the Commission will comply with the conditions attaching to them and that grants will be received. Government grants that are receivable as compensation for expenses already incurred or for the purpose of giving immediate financial support to the Commission with no future related costs are recognized in the statement of comprehensive income in the period in which they become receivable.

#### e) **Accounts receivable**

Accounts receivable are recognized initially at the fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payment are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income.

#### f) **Foreign currency translation**

##### i) *Functional and presentation currency*

Items included in the financial statements are measured using the currency of the primary economic environment in which the Commission operates ('the functional currency'). The financial statements are presented in Barbados dollars, which is the Commission's functional and presentation currency.

##### ii) *Transaction and balances*

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchanges gains and losses resulting from the settlement of such transactions and the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

#### g) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 3. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2018 \$	2017 \$
Cash at bank	5,024,978	3,150,418
Treasury bills	1,982,000	2,976,000
Cash in hand	<u>400</u>	<u>406</u>
	<u>7,007,378</u>	<u>6,126,824</u>

Cash equivalents comprise of 91 day Government of Barbados Treasury Bills, with 0.90% coupon rate and maturing 3 May 2018.

### 4. Deposits with Central Bank

The Commission has an escrow account in the amount of \$11,174,446 (2017: \$10,341,398). The funds are deposited at the Central Bank of Barbados. The account comprises:

- a) A statutory deposit of \$6,552,371 (2017: \$5,592,356) representing amounts paid by insurance companies to satisfy their requirement under the Insurance Act CAP 310.
- b) Unclaimed moneys totaling \$4,409,125 (2017: \$4,536,092) which are unclaimed monies paid to the Commission by insurance companies, in accordance with the Insurance Act CAP 310 Section 138. These amounts are held in escrow until such time as they are claimed.
- c) Residual funds from a liquidated credit union totaling \$212,950 (2017: \$212,950) representing funds held with the Commission in accordance with the Co-operative Societies Act CAP378A Section 159(2).

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 5. Accounts receivable

Accounts receivable consist of the following:

	2018 \$	2017 \$
Trade receivable	37,217	22,128
Registration fees receivable	<u>387,783</u>	<u>376,838</u>
	425,000	398,966
Less: Provision for doubtful debts	<u>(264,385)</u>	<u>(314,385)</u>
	<u>160,615</u>	<u>84,581</u>

No interest is charged on outstanding receivables. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements

Year ended 31 March 2018

### 6. Property and equipment

	Leasehold	Office Equipment	Computer Equipment	Motor Vehicles	Furniture and Fittings	Library Books	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance – beginning of year	315,179	52,329	540,250	154,306	449,971	24,532	1,536,567
Additions	34,131	-	142,520	-	19,998	-	196,649
Write-off	-	(27,692)	(80,932)	-	-	-	(108,624)
Balance – end of year	349,310	24,637	601,838	154,306	469,969	24,532	1,624,592
<b>Accumulated depreciation</b>							
Balance – beginning of year	145,631	48,505	519,758	114,081	209,059	24,532	1,061,566
Depreciation	64,112	2,317	32,810	9,654	91,854	-	200,747
Write-off	-	(27,692)	(80,932)	-	-	-	(108,624)
Balance – end of year	209,743	23,130	471,636	123,735	300,913	24,532	1,153,689
<b>Net book value</b>							
Beginning of year	169,548	3,824	20,492	40,225	240,912	-	475,001
End of year	139,567	1,507	130,202	30,571	169,056	-	470,903

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

### 6. Property and equipment (cont'd)

	Leasehold	Office Equipment	Computer Equipment	Motor Vehicles	Furniture and Fittings	Library Books	Total
	\$	\$	\$	\$	\$	\$	\$
<b>Cost</b>							
Balance – beginning of year	315,179	52,329	515,243	106,037	447,419	24,532	1,460,739
Additions	-	-	25,007	48,269	2,552	-	75,828
Balance – end of year	315,179	52,329	540,250	154,306	449,971	24,532	1,536,567
<b>Accumulated depreciation</b>							
Balance – beginning of year	82,595	45,824	506,415	95,432	119,363	23,742	873,371
Depreciation	63,036	2,681	13,343	18,649	89,696	790	188,195
Balance – end of year	145,631	48,505	519,758	114,081	209,059	24,532	1,061,566
<b>Net book value</b>							
Beginning of year	232,584	6,505	8,828	10,605	328,056	790	587,368
End of year	169,548	3,824	20,492	40,225	240,912	-	475,001



## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 7. Related party transactions

The amount due from related parties is \$25,547 (2017: \$25,408). This represents the refund of duties on office furniture from the Customs & Excise Department and the reimbursement of training cost from the Caribbean Regional Technical Assistance Centre.

The amount due to related parties is \$514,297 (2017: \$532,796). This represents \$440,000 (2017: \$440,000) collected from the exempt insurance companies for taxes due to the Barbados Revenue Authority in accordance with Section 29(2) of the Exempt Insurance Act Cap. 308A and \$74,297 (2017: \$92,796) due to the Government Printery for the printing of regulatory guidelines.

### Key management compensation

The remuneration of members of key management personnel during the year was as follows:

	2018	2017
	\$	\$
Salaries and other short-term benefits	<u>1,542,258</u>	<u>1,736,345</u>

### 8. Capital contribution

In accordance with Section 56 of the Financial Services Commission Act, 2010-21

- All assets and liabilities of the Securities Commission are deemed to be transferred to the Commission
- Any right, privilege, duty or obligation conferred on or imposed upon the Securities Commission and existing immediately before the date referred to, shall be deemed to be conferred on or imposed upon the Commission; and
- Any contract entered into by or on behalf of the Securities Commission before the date referred to have been entered into by or on behalf of the Commission.

In accordance with the above the following assets and liabilities were transferred to the Commission as of 1 April 2011:

	\$
<b>Assets</b>	
<b>Current assets</b>	
Cash	838,355
Lease deposits	20,547
Property and equipment	<u>41,841</u>
<b>Total assets</b>	<u>900,743</u>

## FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
Year ended 31 March 2018

---

### 8. Capital contribution (cont'd)

	\$
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	24,090
Deferred income	<u>388,684</u>
	<u>412,774</u>
<b>Capital contribution</b>	<u>487,969</u>

A further amount of \$211,229 was contributed to the Commission in September 2011 which has been added to contributed capital.

### 9. Government grants

Government grants represent funds totaling \$1,105,000 (2017: \$1,170,000) which were received from the Ministry of Finance and Economic Affairs during the financial year in the form of cash and goods and services to assist with operating expenses.

### 10. Taxation

In accordance with Section 46 of the Financial Services Commission Act, 2010-21, the Commission is exempt from the payment of corporation tax, stamp duty and land tax.

### 11. Operating lease commitments

The future minimum lease payments under the operating lease are as follows:

	<b>2018</b>	<b>2017</b>
	\$	\$
Not later than 1 year	366,600	366,600
Later than 1 year and not longer than 5 years	<u>733,200</u>	<u>1,099,800</u>
	<u>1,099,800</u>	<u>1,466,400</u>

During the year, operating lease payments of \$366,600 (2017: \$366,600) were recognized as an expense.

## **FINANCIAL SERVICES COMMISSION**

Notes to the Financial Statements  
Year ended 31 March 2018

---

### **12. Contingent liabilities**

Through its activities as a regulatory body, the Commission is subject to various legal proceedings.

Upon establishment in 1 April 2011, the Commission, as successor to the Supervisor of Insurance, was named as defendant in the legal proceedings brought by the Barbados Investors and Policyholders Alliance Inc. with respect to the failure of CLICO and BAICO. It is impracticable to estimate the outcome of these proceedings and their financial effect as they do not include a quantified claim against the Commission.

During the year ended 31 March 2018, a wrongful dismissal suit was brought against the Commission. The plaintiff claimed damages for unfair dismissal and/or wrongful dismissal. As it is probable that this obligation will require future settlement and as the settlement amount can be reliably estimated, a provision has been established. The Commission believes the recorded reserves in the financial statements of \$130,734 is adequate in light of the probable and estimable liability.

### **13 Pension plan**

The Commission's defined contribution pension plan commenced on 1 July 2016. Contributions to the plan are determined by an independent qualified actuary. The Commission contribute to the plan at the rate 2.0% per annum of total pensionable salary up to the NIS maximum plus 5% of any salary in excess of this maximum to the pension plan.

The assets of this plan are held separately from those of the Commission and are invested and managed by its Trustees.

During the year, the total amount of \$128,285 (2017: \$215,078) was contributed to the plan by the Commission and this amount is included in salaries and benefits in the statement of comprehensive income.