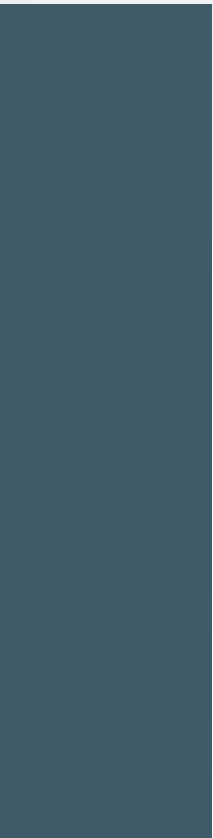


2018 ANNUAL REPORT



THE INSURANCE COMMISSION
OF THE BAHAMAS



THE INSURANCE COMMISSION
OF THE BAHAMAS



THE INSURANCE COMMISSION
OF THE BAHAMAS

June 30, 2019

The Hon. K. Peter Turnquest
Deputy Prime Minister and Minister of Finance
Ministry of Finance
Cecil V. Wallace-Whitfield Center
Cable Beach
Nassau, N.P.
Bahamas

Dear Minister:

In accordance with Section 18(1) of the Insurance Act, 2005, and on behalf of the Members of the Insurance Commission of The Bahamas, I am pleased to submit the Annual Report for the year ended December 31, 2018. Included with this report are the Audited Financial Statements for that same period.

Yours sincerely,

Michele C. E. Fields
Superintendent of Insurance

MISSION STATEMENT

To protect the interest of the insuring public through the prudential supervision of the insurance industry operating in and from The Bahamas.

The Insurance Commission of The Bahamas was established on July 2, 2009, under The Insurance Act, 2005, replacing its predecessor, the Registrar of Insurance Companies.

Through the enactment of the Insurance Act, powers of the Commission were expanded to strengthen intervention, enforcement and the protection given to policyholders. This legislation, together with the External Insurance Act, 2009 enables the Commission to act as the prudential and market conduct regulator, responsible for ensuring a robust and secure insurance marketplace.

As a body corporate, the Commission has been mandated to:

- Administer the Insurance Act, 2005 and the External Insurance Act, 2009
- Oversee the insurance market
- Promote and encourage sound and prudent insurance management and business practices
- Advise the Minister responsible for the insurance industry
- Ensure compliance with the anti-money laundering and counter-financing of terrorism and proliferation financing legislation

The Commission continues to develop and implement an effective supervisory and regulatory regime, consistent with international best practices. As a member of the International Association of Insurance Supervisors, the Commission adopts international practices in a manner appropriate to the domestic insurance environment.

With a strong focus on policyholder protection and education, the Commission continues to promote a stable, informed, safe and efficient insurance marketplace.

TABLE OF CONTENTS

Superintendent's Message.....	5
Corporate Governance.....	8
Members of the Board of Commissioners	9
Organizational Chart.....	12
Insurance Company Supervision	13
Intermediaries and Market Conduct.....	19
Policies and Practices	21
Legal Unit	22
Administration	24
Regulatory Co-operation.....	25
Audited Financial Statements	29



SUPERINTENDENT'S MESSAGE



The insurance sector continues to be a strong contributor to the economy of The Bahamas, generating more than \$819.8 million in insurance premiums within the domestic insurance sector, up by 5.5 % over 2017. This accounts for approximately 6.4% of the country's gross domestic product, and reflects the insurance sector penetration rate. The growth in premiums is congruent with the country's overall economic activity, measured by the nominal GDP, which increased by 2.2% in 2018.

At the end of 2018, registrants of the Commission comprised the following:

- 11 Long-term Insurers
- 17 General Insurers
- 32 External Insurers and Intermediaries
- 57 Agents and Brokers
- 21 Sub-agents
- 11 Adjusters and Firms
- 683 Salespersons

The number of registered insurance companies remains relatively static. Global developments related to tax reform and international initiatives continue to challenge growth in the international insurance market. The Commission approved 10 segregated accounts for segregated account companies, licensed under the External Insurance Act, which continues to be the focus of the jurisdiction's marketing initiatives in the international arena.

2018 was a year of continued growth and development for the Commission. The regulatory framework continued to evolve with the introduction of the Risk-Based Capital framework, which was fully implemented for long-term insurance companies at the end 2018,

following a three-year consultative period. This framework was introduced to the general insurance sector during the first half of the year, and quantitative impact assessments will be reviewed over the next two years.

In line with the Commission's function to facilitate dispute resolution, Arbitral Tribunal Rules were developed and shared with industry stakeholders. During 2018, the Tribunal reviewed two matters which were resolved in a timely fashion. The use of alternative dispute resolution mechanisms provides cost-effective and efficient options for addressing policyholder disputes.

Operational and financial results for the year ending December 31, 2018 indicate prudent stewardship of resources. The Commission derives the majority of its revenue from the retention of 25 percent of premium tax collected from licensed insurers on behalf of The Bahamas Government. In 2018, the total amount collected was \$23.25 million, of which \$5.81 million was retained. Expenses were contained in line with budget, resulting in an overall total comprehensive income of \$2.7 million.

International Financial Reporting Standards 17 – Insurance Contracts, which replaces IFRS 4, is on the horizon with implementation scheduled for 2022. The Commission will continue to engage insurers to assess the impact that this new standard will have on their operations and ensure that staff receives the appropriate training.

The National Risk Assessment, conducted by the Caribbean Financial Action Task Force, was shared in early 2018 through an industry briefing. The Commission worked closely with the Office of the Attorney General, and other regulatory bodies in national legislative drafting initiatives to amend a compendium of anti-money laundering and proceeds of crime legislation, which passed in Parliament in May 2018. The new legislation raised issues and concerns for the insurance

industry regarding the applicability of anti-money laundering legislation to general insurance companies. As a result, the Commission continued dialogue the insurance industry and the Office of the Attorney-General to address their concerns. This exercise is expected to continue into 2019.

Following the blacklisting of The Bahamas by the European Union, the Commercial Entities (Substance Requirements) Act was enacted in December 2018. This Act requires international companies to demonstrate economic substance related to their core income-generating activities. In addition, The Bahamas is addressing the issue of harmful tax practices by harmonizing the tax structures of domestic and international business companies. This reform will redefine the current fee structure by which the Government collects fees from regulated financial services entities. In 2019, The Commission will dedicate resources to drafting legislative amendments and developing guidelines arising from these initiatives.

The first phase of the National Health Insurance (NHI) program was rolled out in 2017. This phase has not involved the use of long-term insurers, and has had minimal impact on the sector to date. The Commission continued to monitor and consult with The Government of The Bahamas as the NHI plan and strategy evolves. The Superintendent of Insurance is an ex-officio director on the National Health Insurance Authority's Board.

The Commission continues to place great importance on interacting with its regional and international supervisory counterparts, which contributes to building an effective and efficient insurance supervisory system in The Bahamas. The Commission held the presidency of the Caribbean Association of Insurance Regulators for four years, during which time the finalization of the Multilateral Memorandum of Understanding for pre-defined co-operation and exchange of information was achieved. In September 2018, the Commission's term as President came to an end, with the jurisdiction being elected as Secretary to the Executive Council. As Superintendent I have represented the region on the Executive Committee of the International Association of Insurance Supervisors since 2015. The Commission is

also a member of the Group of International Insurance Centre Supervisors and remains an active participant in various colleges of supervisors for both local conglomerates and regional groups.

Since the inception of the Commission, the development of human capital and capacity has been a focused objective. Targeted in-house training, structured online courses, regional and international training seminars and conferences continue to be offered as a method of exposing and training staff in emerging issues, keeping them abreast of related developments and regulatory practices. The Commission encourages members of staff to pursue various industry-related designations, and to date achievements include the following qualifications: Associateship of the Chartered Insurance Institute-ACII, Associate in Captive Insurance-ACI, Associate, Life Management Institute-ALMI, Certificate in Insurance-Cert. CII, Fellow, Life Management Institute-FLMI, Member Chartered Institute of Arbitrators-MCIArb, and Market Conduct Management-MCM.

The Group of International Insurance Centre Supervisors (GIICS), through its international outreach program, sponsors a secondment opportunity for its member jurisdictions to nominate a staff member to be posted with a participating Supervisory Authority. The purpose of the secondment program is to provide an opportunity for staff members to exchange ideas and broaden the supervisory scope and methodologies currently in use amongst GIICS member states. In 2018 the Commission nominated Ms. Sinéad Bethel to participate in this program where she was seconded to the Gibraltar Financial Services Commission (GFSC). During the four week programme, Ms. Bethel rotated through several sub-units within the GFSC's regulatory operations and actively participated in a range of supervisory activities from which she was able to recommend enhancements to the Commission's regulatory regime.

I wish to commend the members of the Board who have provided oversight and leadership to the Commission since their appointment in July 2017. I also thank the dedicated staff of the Commission, whose enthusiasm and commitment have enabled the numerous accomplishments over the past year. As

we look forward to 2019, we will continue to enhance the regulation and supervision of the insurance sector, working cooperatively with industry stakeholders and other regulatory authorities. The Commission remains

committed to its mandate to provide robust oversight of the insurance sector and to protect the interest of policyholders.



CORPORATE GOVERNANCE

Structure of the Commission

The Insurance Commission of The Bahamas is governed by the Insurance Act, 2005. Members of the Commission are appointed by the Governor General, upon advice from the responsible Minister, and is comprised of professionals from diverse fields including insurance, finance and commerce, law and administration. The Board is responsible for the overall governance of the Commission.

The Superintendent serves as an ex-officio member and sits as the Chairman of the Board. The Superintendent also acts as the Chief Executive Officer with responsibility for day-to-day management.

MEMBERS OF THE BOARD OF COMMISSIONERS



Mrs. Michele Fields

was educated in The Bahamas and the United Kingdom, earning a B.A. with Honours in Accounting at the University of Exeter, before qualifying as a Chartered Accountant with KPMG in London, England. She returned to Nassau in 1982 to continue her career in the accounting field, and has extensive experience in the insurance industry, having worked in senior management at a major life insurance company for over 14 years. Mrs. Fields served as a Commissioner on the Board of the Insurance Commission of The Bahamas from its inception, and in January 2012 was appointed Superintendent of Insurance. She serves as an ex-officio member of the Board of the Securities Commission of The Bahamas and the National Health Insurance Authority. She is a Charter Member of The Nassau Chapter of The Links, Inc., Vice-President of The Bahamas Girl Guides Association and has served as Vice-President of The Bahamas Red Cross Society. Mrs. Fields served as President of CAIR for two consecutive two-year terms from 2014 to 2018, and in 2018 was elected as Secretary to the Executive Council. She continues to represent the Caribbean and offshore region as a member of the Executive Committee of the International Association of Insurance Supervisors, a post to which she was elected in 2015.



Mrs. Janet L. R. Bostwick-Dean

is an attorney with more than 20 years of experience. She is a member of the Honourable Society of Gray's Inn, and was called to the external bar of England and Wales and The Bahamas Bar in 1996. She is a graduate of McGill University and Buckingham University.

Mrs. Bostwick-Dean is the managing partner of the family's law firm Bostwick and Bostwick and is also the firm's Money Laundering and Reporting Officer. Mrs. Bostwick-Dean is a commercial lawyer specializing in civil litigation. She was a member of the Board of the Bahamas Development Bank from 2007 to 2012.



Mr. Algernon Cargill

holds an MBA degree with a specialization in International Business (Distinction) from the University of Miami, Florida. He has extensive experience in the Banking and Finance Industry, having served as the General Manager, Branch Banking of CIBC Bahamas Ltd and CIBC First Caribbean Ltd. Additionally, he held senior roles as Country Chair and Legal Representative for Chevron Puerto Rico LLC, as well as Director and CEO of the National Insurance Board. He has served as a director on the Boards of Cable Bahamas Ltd, Commonwealth Brewery Ltd, and The Bank of The Bahamas Ltd. Mr. Cargill currently serves as an Adjunct Faculty member in the Banking, Economics and Finance department of the School of Business, Hospitality and Tourism studies at the University of The Bahamas, as well as the Bahamas Institute of Financial Services, and previously at the University of the West Indies campuses in Trinidad, Barbados and Jamaica, and the Sir Arthur Lewis Community College in St. Lucia. Mr. Cargill is currently the President of The Bahamas Aquatics Federation and was recently elected as one of 22 persons globally on the FINA Bureau for Aquatic Sports for a 4-year term. He previously served as a Vice-President of the Bahamas Olympic Committee. Mr. Cargill currently serves as Director of Aviation within the Ministry of Tourism and Aviation.



Ms. Trevania Clarke

was educated in The Bahamas and United States, earning a B.A in Finance and Human Resources at Temple University, Philadelphia, Pennsylvania. She has served as accounting officer at McKinney, Bancroft & Hughes and AML Foods Limited for 10 years. Since 2015 she has operated a local restaurant and provides administrative assistance to small businesses.

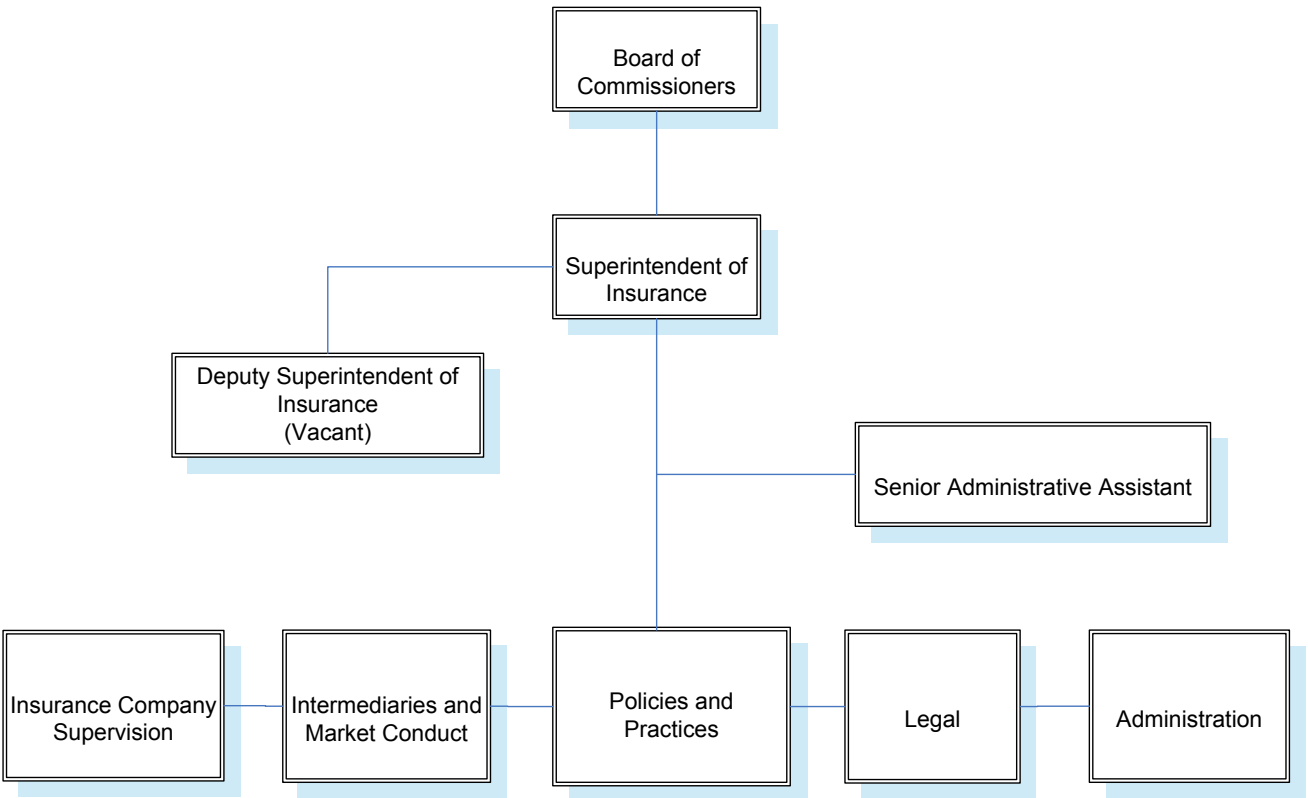


Mr. Elijah A. Knowles

was educated in The Bahamas and the United States of America, earning a B.A. Cum Laude in Accounting and Computers in Business at St. Leo University, Florida before qualifying as a Certified Public Accountant with Price Waterhouse in Nassau. He began his accounting career in 1987 and has extensive experience in the insurance industry, having worked in senior management positions at a major life insurance company for over 10 years. He also worked for 5 years as the Financial Controller of the Nassau Guardian. Mr. Knowles has been in private practice for the past 14 years, serving mainly small businesses. He is an active member of St. George's Church and has served on the Board of St. Anne's School. Mr. Knowles is a member of the Bahamas Institute of Chartered Accountants



ORGANIZATIONAL CHART OF THE INSURANCE COMMISSION OF THE BAHAMAS



INSURANCE COMPANY SUPERVISION

Overview

The Supervision Unit is responsible for supervising and regulating all insurance companies operating in or from within The Bahamas, as well as external intermediaries (insurance managers and brokers). The Unit's supervisory activities seek to ensure that licensees comply with insurance legislation, guidelines and policies issued by the Commission, through a program of off-site monitoring and on-site examinations. Staff of the Unit engage in internal and external training and development which increases insurance knowledge and enhances supervisory skills. Staff of the Unit engage in internal and external training and development which increase insurance knowledge and enhance supervisory skills. This exposure allows staff to stay abreast of trends and changes that impact the sector.

The Commission has developed its Risk-Based Supervision framework which promotes the implementation of best practices for governance and risk management that are appropriate for the size, nature and complexity of the institution. The framework assesses how licensees manage and mitigate risk which allows the Commission to deploy its resources to the areas of highest risk. Along with macroprudential supervision, the framework also aids the Commission in identifying potential risks to the entire industry with the aim of achieving its supervisory objective to ensure a sound and stable insurance sector.

Offsite supervision and onsite examinations are essential elements of the Commission's supervisory tool kit. Offsite supervision entails, but is not limited to analyzing monthly, quarterly and annual financial statements, actuarial reports, reinsurance treaties and AML/CFT/CPF examinations. It allows the Commission to regularly monitor material changes in the financial status and operations of registered insurance companies. It also facilitates the identification and assessment of industry trends that may require supervisory or regulatory action to remedy any adverse findings. During onsite examinations, the supervisory team visits licensees to assess their policies, procedures and practices around various operational activities including underwriting, claims management, compliance, internal audit, governance, complaints handling, AML/CFT/CPF and other risk management activities. Additionally, the Commission conducts horizontal reviews on emerging issues as required.

The Commission utilizes group-wide supervision for the insurance groups operating in the jurisdiction. There were two supervisory colleges held during the year and one multi-jurisdictional onsite examination organized by a regional regulator. The purpose of such colleges is to facilitate oversight of regionally and internationally active insurance groups. Supervisory colleges enhance cooperation and coordination across jurisdictions and consist of meetings with various regulators and company officials.

The Supervision Unit is responsible for reviewing new applications for prospective local and external insurance companies and external intermediaries.

General Insurance Sector

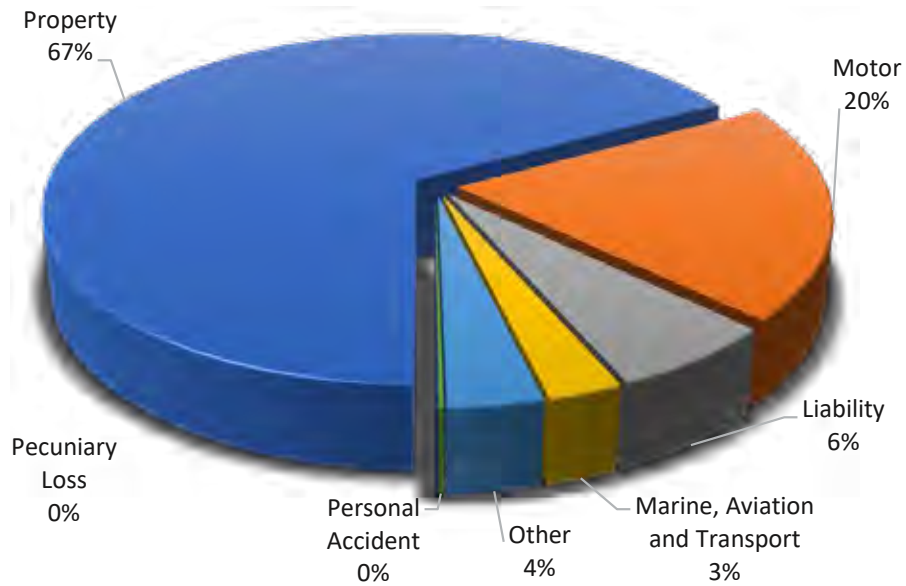
There were 17 property and casualty insurers in the local market at the end of 2018 of which 7 were locally incorporated (including two subsidiaries of foreign companies) and 10 were branches of foreign insurance companies.

General insurers underwrote gross premiums of \$362 million and net premiums of \$111 million, a modest increase of 4% and 3% respectively, compared to 2017. 67% of the gross premium was derived from Property line of business, followed by 20% from Motor.

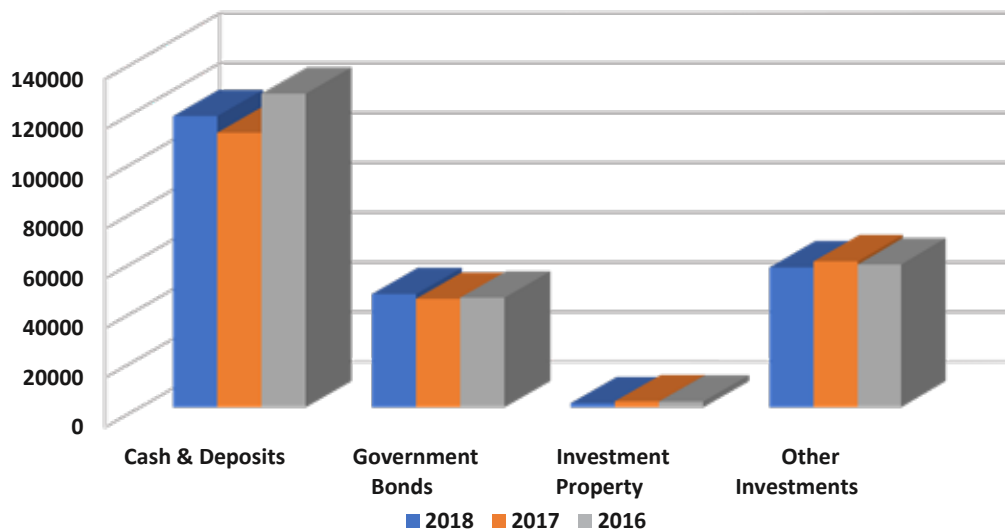
For the past two years, there were no hurricanes or other catastrophic events that materially impacted The Bahamas or general insurance industry claims. Gross and net loss ratios for the year stood at 16% and 24% respectively, and a combined loss ratio of 96%.

General insurers collectively earned a net income of \$14.5 million compared to \$17.8 million experienced in 2017. The decline in net income was primarily due to the 71% reduction in investment income and the 31% increase in administrative expenses. The Sector's total investment portfolio decreased marginally by 2%. Further, general insurers reduced their investment in private securities and increased investments in Bahamas Government Registered Stock by 6% resulting in an overall investment yield of approximately 1%. The sector continues to be very liquid, holding most of its investments in cash and bank deposits (53%), followed

GROSS PREMIUMS BY LINE OF BUSINESS GENERAL INSURANCE



INVESTMENT ASSETS-GENERAL INSURANCE



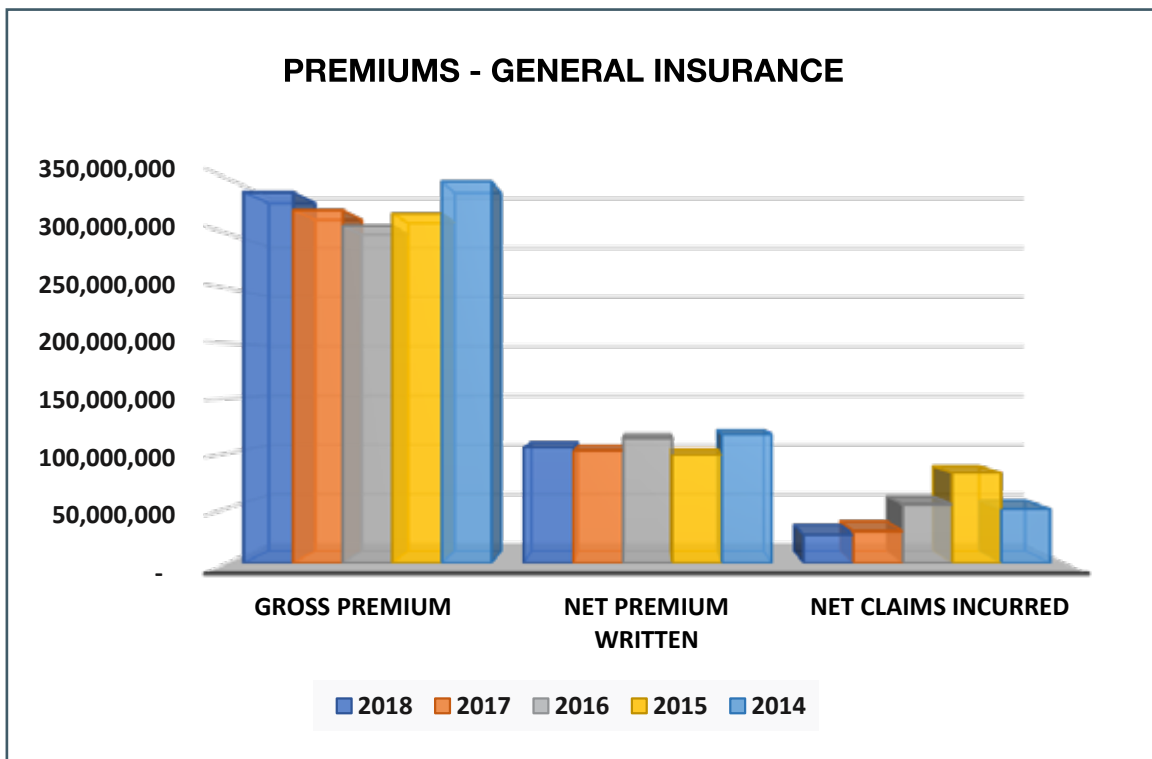
by Bahamas Government Guaranteed Bonds (21%) and listed equity securities (12%).

The Risk-Based Capital framework for general insurers was introduced to the industry for consultation during the first half of the year. Risk-Based Capital is a method of measuring the minimum amount of capital appropriate for an insurer to support the overall business operations in consideration of its size and risk profile. The Commission is currently analyzing the impact assessments based on the results submitted for the 2017/2018 period. Minor modifications are anticipated to the framework and a second iteration will be circulated for consultation during 2019.

Long-term Insurance Sector

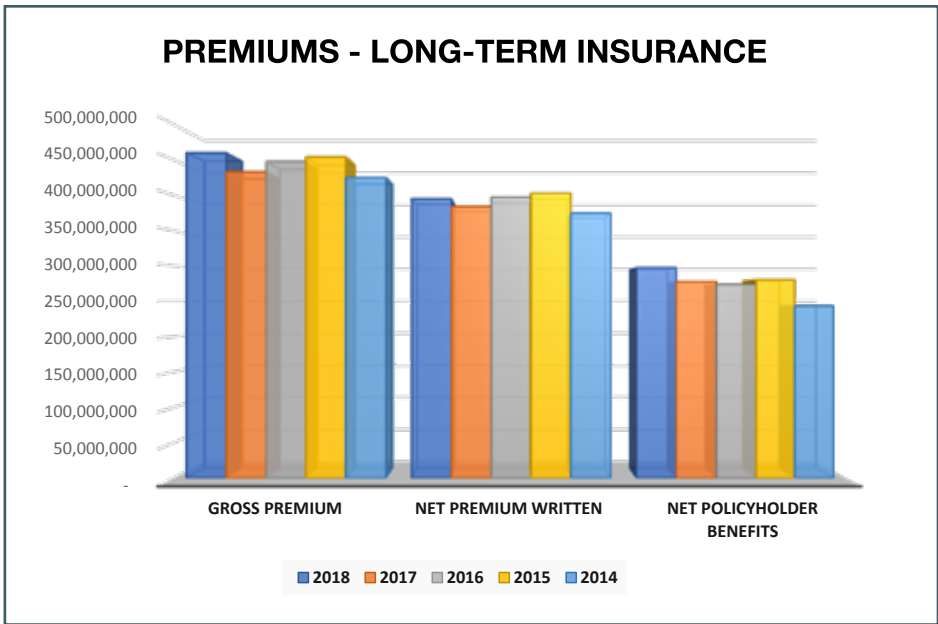
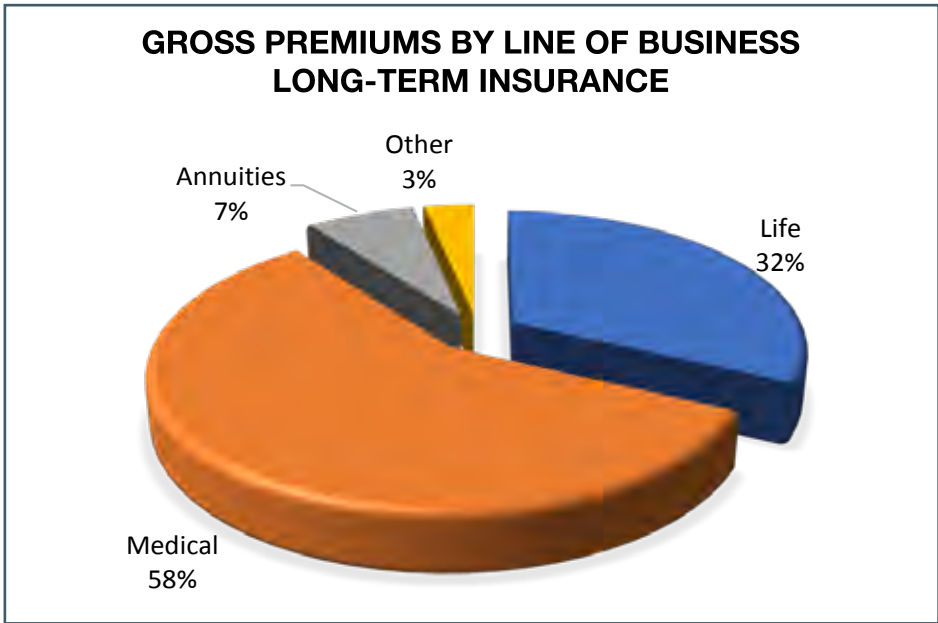
At the end of 2018 there were 11 long-term insurers operating in the local market. Four of these companies are Bahamian-owned and locally incorporated, while two are subsidiaries of foreign insurers and the remaining five are branches of regional and international insurers. The long-term insurance sector experienced a moderate year-on-year increase in gross premiums written, which stood at \$457 million in 2018, up 6% from 2017. The sector, based on gross premiums, is comprised of individual and group health – 58%; individual and group life - 32%; and annuities - 7%.

The sector experienced a combined ratio of approximately 106%, resulting in a net income of \$32 million, a decline of 19% from 2017.



Investments and total assets in this sector remain steady at \$1.2 billion and \$1.4 billion, respectively. Government Registered Securities accounted for approximately 40% of insurers' assets, while cash deposits held in banks accounted for 12% and mortgage loans accounted for 10% of total assets. The long-term sector earned a yield of 5% from its investment portfolio during the year.

Long-term insurers completed three years of quantitative impact studies utilizing the Risk-Based Capital Framework. Implementing this framework required an amendment to the Insurance Regulations, which transpired during 2018. The framework was fully implemented commencing December 31, 2018.



External Insurance Sector

The External Insurance sector insures risk located outside of The Bahamas. The Commission licensed one standalone captive and one long-term insurer in the external sector during 2018, bringing the total number of external insurers to 22. While there were 10 new cell captives formed as segregated accounts (cells) of segregated account companies, there were also fifteen cell captives that were discontinued during the year. Cell captives are more attractive to small and medium businesses as they provide a more cost-efficient option for managing and mitigating the insurable risks of their parents, as opposed to stand-alone captives

While 2018 financial statements were not collated at the time of this report, 2017 financials provided some insight into the trends being demonstrated in this sector. Gross premiums increased by 23% to \$138 million, while assets increased by 8% to \$1.36 billion. Net income declined by half during 2017, ending the year at \$78 million.

External Licensees					
Type of License	2018	2017	2016	2015	2014
<u>Captive Insurers</u>					
Stand-alone Insurance Companies	11	10	9	14	14
Segregated Accounts Companies (SACs)	6	6	7	6	4
Captive Cells (Segregated Accounts)	155	149	157	128	101
Total Captive Insurers	172	165	173	148	119
Other External Insurers (Non-Captive)					
	5	4	5	3	3
<u>External Intermediaries</u>					
Insurance Managers	10	8	8	8	9
Brokers	1	1	1	1	1
Total External Intermediaries	11	9	9	9	10

One of the ways the Commission continues to stay abreast of developments in this sector is by attending conferences that focus on alternative risk management solutions. These include World Captive Forum, Captive Insurance Companies Association (CICA) and the Risk Management Society (RIMS). Each conference

covers a broad array of risk management solutions including captives and alternative risk management arrangements. The Bahamas Financial Services Board (BFSB) accompanies the Commission to these conferences to promote the financial services industry of the jurisdiction.



*Back Row L-R: Kencil McPhee (Deputy Manager), Darrin Rodgers, Kathrina Munroe, Nathan Mackey
Front Row L-R: Sinead Bethel, Jamell Bodie (Manager), Phelice Jones (Deputy Manager),
Gerard Lightfoot and Anishka Russell*

Changes in Accounting Standards Affecting the Sector

Changes to International Financial Reporting Standards (IFRS) 9 and 17 are anticipated to significantly affect insurers over the next few years. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items.

The implementation of IFRS 17 regarding contract accounting has been deferred one-year. The new

effective date for the implementation of the standard is 2022. IFRS 17 represents the most significant change to insurance accounting requirements in over 20 years. It will demand a complete overhaul of insurers' financial statements and will affect the way insurers determine the valuation of insurance contracts.

The Commission will continue to engage with insurers to determine the impact these accounting changes will have on the insurer's operations.

Domestic Licensees					
Type of License	2018	2017	2016	2015	2014
<u>Domestic Insurers</u>					
General	17	18	17	16	16
Long-term	11	11	11	12	12
Association of Underwriters	1	1	1	1	1
Total Domestic Insurers	29	30	29	29	29
<u>Domestic Intermediaries</u>					
Agents & Brokers	57	55	57	57	57
Sub-agents	21	20	21	26	26
Adjusting Firms/Individual Adjusters	11	10	5	4	0
Total Intermediaries	89	85	83	87	83

INTERMEDIARIES AND MARKET CONDUCT

The Intermediaries and Market Conduct Unit is responsible for the oversight and monitoring of insurance intermediaries. The Insurance Act, 2005 prohibits direct selling to prospective policyholders of insurance products by insurance companies, thus requiring the use of Intermediaries which include Brokers, Agents, Sub-Agents, Salespersons and Adjusters. This Unit continues to focus its efforts on ensuring that Intermediaries hold the prescribed qualifications to safeguard the interest of policyholders. Additionally, the Unit ensures that Intermediaries maintain proper books and records, trust accounts, prescribed capital and submit renewal documentation as required.

There were five licenses approved in 2018 which comprised of two Agents and Brokers, two Adjusters and one Sub-agent. Two brokering firms voluntarily requested their registration to be cancelled.

Salespersons

The primary responsibility of a Salesperson is to sell insurance products and to solicit applications on behalf of registered insurers or corporate intermediaries. In 2018, the Commission licensed 107 new Insurance Salespersons and cancelled 93 Salespersons registrations. Persons who wish to become a licensed

TYPE	2018				2017			
	PASS	FAIL	PASS	FAIL	PASS	FAIL	PASS	FAIL
Life	86	59%	60	41%	72	61%	46	39%
General	10	62%	60	38%	18	46%	21	54%

salesperson must fulfill all registration requirements and successfully pass a comprehensive examination. The examinations are held monthly in New Providence and Grand Bahama.

During 2018, 162 candidates attempted the Life and General Insurance examinations of which 59% of the Life candidates and 62% of the General candidates passed.

Market Conduct

The Intermediaries and Market Conduct Unit has the responsibility to ensure registrants are conducting business with the highest degree of integrity in the marketplace and in the best interest of all policyholders.

The Unit is also responsible for the handling of complaints, which are reviewed by an internal committee. The Commission analyzes the nature of



Marcian Mortimer, Dequizza Demeritte, Tamika Dean (Manager), Tiffany Moss, Rodney D. Bain and Lakisca Lightbourne

each complaint to ensure that all parties adhere to the terms of the contractual obligations. Each case is thoroughly investigated, with a view to bringing resolution in a timely manner.

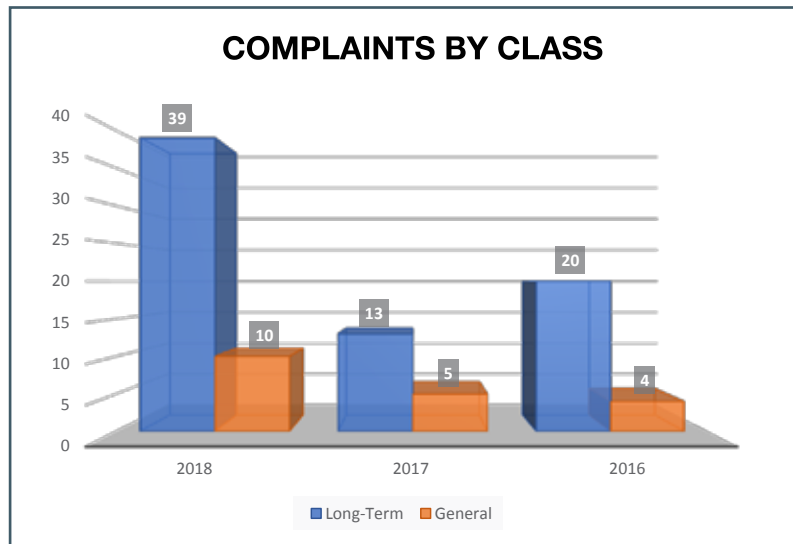
In 2018, the committee investigated 49 complaints. Of the 49 complaints, 32 were satisfactorily settled, 2 of which were completed using the arbitration process; 17 complaints remain under review. The majority of complaints submitted related to misrepresentation on the proposal form, policy lapses, death benefits and disputes regarding claim settlements. Data collected from complaints informs consumer awareness initiatives each year, and acts as a barometer for the Commission’s consumer education campaign, which remains an on-going priority.

Consumer Awareness

The Commission seeks to educate and inform the general public about insurance products and services. During 2018, the Commission continued its consumer awareness initiatives by airing several public messages on all major television and radio stations. Topics included:

- Know Your Policy
- Know Your Rights
- Misrepresentation
- Fair Treatment

In 2019, the Commission will enhance its public awareness campaign through social media forums in order to reach a wider audience. The Unit will also seek to strengthen its oversight and regulation of Intermediaries by performing on-site examinations, analyzing intermediaries using macro indicators, and enhancing data collection.



POLICIES AND PRACTICES

The Policies and Practices Unit is responsible for the development of supervisory and non-supervisory guidelines, policies and operating procedures for the Commission. The Unit ensures that all regulatory and supervisory initiatives conform with legislative requirements and international best practices.

During 2018, the Policies and Practices Unit spearheaded several significant projects affecting both its internal and external stakeholders, including:

- Revised Guidelines for Anti-Money Laundering, Combatting of Terrorism Financing and Proliferation Financing
- Guidance Notes on the Sound Management of Risk Related to Financial Crime in The Bahamas issued in conjunction with the Group of Financial Services Regulators

- Guidelines for Assessing General Fitness and Propriety
- Standard Operating Procedures for Handling Overseas Regulatory Requests
- Development of online fillable forms

As part of its mandate to conduct internal workshops and seminars, the Unit facilitated specific training for staff on the Insurance Core Principles and understanding External Insurance.

At the end of 2018 legislative changes impacting the financial services sector were enacted. The Commission will remain attentive to these reforms along with the impending changes in accounting standards and monitor their impact on the insurance sector to ensure that the appropriate guidance can be developed.



Norman Haven, Dominique Shepherd and Carl Culmer Jr. (Manager)

LEGAL UNIT

The Legal Unit is responsible for the development and enforcement of insurance legislation, the provision of legal advice to the Superintendent of Insurance and the co-ordination of matters related to the Board. During 2018, staff completed training in administration, alternative dispute resolution, anti-money laundering, commercial law and insurance supervision, thereby strengthening the capabilities of the Legal Unit.

Development of Legislation

In carrying out its mandate of prudential supervision and regulation, the Commission reviews legislation to determine whether amendments are necessary in light of emerging issues affecting the insurance industry.

Following the Mutual Evaluation by the Caribbean Financial Action Task Force, there was a need to amend the legislation to require insurance companies to seek approval for any proposed changes in senior management. The amendment has been drafted and is expected to be laid before Parliament during 2019.

During 2018, all registered insurers and intermediaries were impacted by two Acts - the Financial Transactions Reporting Act, 2018 and the Proceeds of Crime Act, 2018, which came into force on May 25, 2018. Several new requirements arising from the Financial Transactions Reporting Act included changes to requirements related to Customer Due Diligence, Ongoing Due Diligence and Risk Assessment practices. By law, long-term insurers have always been defined as “financial institutions” and now have additional requirements such as a mandatory Compliance Officer on staff. As it relates to intermediaries, they are required to ensure that they comply with the Acts noted above, in concert with their sponsoring insurer. The general insurers were not defined as “financial institutions” however they are now required to report suspicious transactions in writing to the Financial Intelligence Unit. Under the Proceeds of Crime Act, general insurers must report predicate crimes to AML/CTF such as fraud and other related incidences. As a result of these significant and serious changes, the Commission consulted with the wider industry last year, subsequently circulating adjusted supervisory guidance and practices.



Yolande Rolle (Deputy Legal Counsel), Desdemona Gibbs, Kean Smith and Lorna Longley-Rolle (Legal Counsel and Secretary to the Board)

There are a number of further amendments to both domestic and external insurance legislation, which will be drafted by the Commission upon consultation with the insurance industry, in particular as it relates to the strengthening of the framework for the regulation of money laundering and terrorist financing.

Enforcement and Resolution

Pursuant to the Insurance Act, the Commission may act as arbitrator of any dispute or difference arising between a policyholder and an insurer in relation to an insurance policy. The Commission conducted its first arbitrations during 2018 on the basis of its Arbitral Rules. A panel of independent arbitrators were engaged for each Arbitration, with the Commission acting as the Secretariat. During 2019, the Legal Unit will review recommendations made by the Arbitrators to determine any necessary amendments to the Arbitral Rules.

During 2018, an insurance salesperson initiated an appeal against the decision of the Commission to cancel their registration; the appeal is ongoing. Additionally, the Commission cancelled the registration of several insurance intermediaries, and revoked the licenses of several external insurance licensees.

The Insurance Commission continued to monitor several court proceedings including the judicial management of British American Insurance Company Limited and the liquidation of CLICO (Bahamas) Limited and CLICO Enterprises Limited during 2018. The Insurance Commission continues to work with the Liquidator and the Government of The Bahamas to identify a solution for policyholder liabilities.

ADMINISTRATION

The Administration Unit is responsible for the management of the administrative, financial, communication and information technology functions within the Commission. During 2018, the Unit coordinated all training and development for the Commission's staff, which included local and international seminars, workshops and conferences. Several projects were advanced in 2018, including the Commission's new website and licensee management system.

The planning and coordinating of the Commission's relocation from Charlotte House, Shirley and Charlotte Streets, to its new premises at Poinciana House, 31 East Bay Street was conducted by this Unit. This location houses other financial services regulators which will lend to improved operational synergies and efficiency.



Arthur Barnett (Manager), Dorothy Davis, Andy Moxey, Raven Storr, Rodney Bain, Sheila McPhee and Steine Campbell

REGULATORY CO-OPERATION

The Insurance Commission continues to forge strong relationships with local, regional and international bodies as a means to enhance its regulatory and supervisory regime, and to stay abreast of international best practices and other related developments.

Insurance Advisory Committee (IAC)

The Insurance Commission meets regularly with the Insurance Advisory Committee to discuss various industry matters, including amended and emerging legislation. The IAC is a statutory body consisting of industry leaders; it is responsible for advising the Insurance Commission on matters relating to the carrying on of insurance business in and from within The Bahamas.

Caribbean Association of Insurance Regulators (CAIR)

CAIR was formed over twenty-five years ago to promote co-operation and co-ordination of insurance regulatory work in the Caribbean. The Commission served as President of CAIR for two consecutive two-year terms from 2014 to 2018, and in 2018 was elected as Secretary to the Executive Council. The Association hosts annual conferences and regulatory colleges to assist in the exchange of information and discussion of supervisory best-practices.

International Association of Insurance Supervisors (IAIS)

The IAIS is a voluntary membership organization of insurance supervisors and regulators from more than 200 jurisdictions in nearly 140 countries. Established in 1994, the IAIS is the international standard-setting body, responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS also provides a forum for Members to share their experiences and understanding of insurance supervision and insurance markets.

The mission of the IAIS is to promote effective and globally consistent supervision of the insurance industry in order to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders, and to contribute to global financial stability. The Superintendent of Insurance is serving a second two-year term on the Executive Committee as one of two representatives of the offshore region.

Caribbean Financial Action Task Force (CFATF)

The Bahamas is a member of the Steering Group of the CFATF. The Steering Group makes recommendations for improvements in the operation and administration of this regional body, which is designed to meet the needs of a wide range of member countries on AML/CFT.

The Commission was represented by members of the Legal and Supervision Units at the Caribbean Financial Action Task Force (CFATF) Plenary meetings held during 2018 in Trinidad and Tobago and Barbados. Additionally, the Commission participated in a joint meeting with the Financial Action Task Force in September 2018.

The Commission continues to participate in addressing matters that arose from the recent National Risk Assessment summary, which was concluded in 2017. The findings were shared with industry and other stakeholders in early 2018.

Group of International Insurance Centre Supervisors (GIICS)

GIICS represents jurisdictions engaged in international insurance business. It promotes a robust supervision of all offshore entities in accordance with IAIS principles. Membership in GIICS offers a unique forum where offshore jurisdictions can exchange information and work towards attaining the highest standard of insurance regulation in their jurisdiction.

Supervisory Colleges

For insurance companies operating in The Bahamas which are a part of foreign-based groups, meetings are held with regional regulators to discuss group operations and risks-mitigating measures. During 2018, the Commission participated in several colleges, where regulators reviewed group activities and discussed supervisory plans.

The Commission will continue to establish Memoranda of Understanding (MOUs) with relevant jurisdictions in order to achieve effective group-wide supervision.

DOMESTIC INSURERS-FINANCIAL ANALYSIS

(B\$ thousands)	2018			2017		
	Long-term Insurers	General Insurers	Total	Long-term Insurers	General Insurers	Total
Cash and Deposits	179,169	117,201	296,370	235,009	119,679	354,688
Investments			-			
Government Securities	583,302	45,728	629,030	499,918	43,857	543,775
Corporate Securities	39,031	10,405	49,436	42,154	9,511	51,665
Preference Shares	26,910	8,255	35,165	30,111	8,548	38,659
Corp. Equity Listed	27,361	27,511	54,872	29,506	29,299	58,805
Corp. Equity Non-Listed	22,734	2,503	25,237	22,930	4,430	27,360
Mutual Funds	18,262	2,320	20,582	22,307	2,324	24,631
Investment Property	85,623	1,637	87,260	81,063	2,442	83,505
Other Investments	15,252	5,463	20,715	15,788	4,804	20,592
Mortgage loans	144,036	-	144,036	138,955	-	138,955
Policy Loans	102,061	-	102,061	101,608	-	101,608
Receivables	80,539	219,233	299,772	74,628	224,342	298,970
Reinsurance Recoveries	33,434	140,882	174,316	30,629	290,669	321,298
Intangibles	8,212	283	8,495	8,141	2,941	11,082
Fixed Assets	57,106	27,707	84,813	58,688	27,756	86,444
Other Asset	22,095	1,412	23,507	20,874	2,422	23,296
TOTAL ASSETS	1,445,127	610,540	2,055,667	1,412,309	773,024	2,185,333
Technical Reserves	886,665	320,748	1,207,413	862,592	475,997	1,338,589
Other Liabilities	123,063	65,587	188,650	126,120	80,374	206,494
TOTAL LIABILITIES	1,009,728	386,335	1,396,063	988,712	556,371	1,545,083
Share Capital	102,831	70,940	173,771	98,732	70,940	169,672
Retained Earnings	241,076	103,897	344,973	233,701	97,997	331,698
Other Reserves	91,492	49,368	140,860	91,164	47,716	138,880
TOTAL EQUITY	435,399	224,205	659,604	423,597	216,653	640,250
Gross Premiums	457,455	362,424	819,879	429,908	348,473	778,381
Reinsurance Expense	(63,361)	(248,431)	(311,792)	(53,974)	(241,162)	(295,136)
Change in Unearned Prem. Resrvs.	-	(2,934)	(2,934)	-	62	62
Net Premiums	394,094	111,059	505,153	375,934	107,373	483,307
Invest Income	55,524	1,669	57,193	51,492	9,850	61,342
Other Income	-	8,364	8,364	-	7,678	7,678
Total Income	449,618	121,092	570,710	427,426	124,901	552,327
Net Claims	298,063	25,867	323,930	280,888	35,734	316,622
Commissions	38,947	14,111	53,058	34,549	14,363	48,912
Expenses	80,582	66,608	147,190	72,614	56,975	129,589
Total Expenses	417,592	106,586	524,178	388,051	107,072	495,123
NET INCOME	32,026	14,506	46,532	39,375	17,829	57,204

LLOYDS of LONDON - STATISTICAL RETURNS			
	2018	2017	2016
Gross Premium	20,206	20,837	20,917
Claims Paid	30,419	54,659	25,399

EXTERNAL INSURERS-FINANCIAL ANALYSIS

(B\$ Thousands)	2017			2016 Restated		
	Captive Insurer	Non-Captive Insurer	Total	Captive Insurer	Non-Captive Insurer	Total
Cash and Deposits	108,944	14,253	123,197	111,283	10,302	121,585
Investments						
Gov't./Corporate Bonds	28,996	14,579	43,575	31,888	-	31,888
Equity Listed	55,320	62,380	117,700	48,670	-	48,670
Equity NonListed	953	-	953	-	-	-
Mutual Funds	66,795	-	66,795	35,486	-	35,486
Segregated Accts. Investments	13,230	790,125	803,355	57,725	894,656	952,381
Other Investments	33,233	1,900	35,133	14,262	6,095	20,357
Receivables	119,679	1,853	121,532	95,906	2,264	98,170
Reinsurance Recoveries	46,137	-	46,137	32,874	-	32,874
Fixed Assets	1	-	1	1	-	1
Other Asset	4,952	-	4,952	6,072	116	6,188
TOTAL ASSETS	478,240	885,090	1,363,330	434,167	913,433	1,347,600
Prov. for Future Policy Benefits	2,234	36	2,270	2,231	436,770	439,001
Technical Reserves	173,786	-	173,786	149,377	-	149,377
Other Liabilities	47,912	879,320	927,232	92,783	538,445	631,228
TOTAL LIABILITIES	223,932	879,356	1,103,288	244,391	975,215	1,219,606
Share Capital	40,958	1,430	42,388	38,656	1,371	40,027
Retained Earnings	211,560	4,266	215,826	148,165	2,811	150,976
Other Reserves	1,790	38	1,828	952	35	987
TOTAL EQUITY	254,308	5,734	260,042	187,773	4,217	191,990
TOTAL EQUITY & LIABILITIES	478,240	885,090	1,363,330	432,164	979,432	1,411,596
Income						
Gross Premiums	133,090	-	133,090	112,736	-	112,736
Reinsurance Expense	(46,654)	-	(46,654)	(40,781)	-	(40,781)
Net Premiums	86,436	-	86,436	71,955	-	71,955
Invest Income	14,378	57,569	71,947	4,414	100,987	105,401
Other Income	295	6,520	6,815	264	6,075	6,339
Total Income	101,109	64,089	165,198	76,633	107,062	183,695
Net Claims	8,987	-	8,987	6,202	-	6,202
Expenses	17,921	61,026	78,947	15,539	104,568	120,107
Total Expenses	26,908	61,026	87,934	21,741	104,568	126,309
NET INCOME	74,201	3,063	77,264	54,892	2,495	57,387



Financial Statements For The
Year End December 31, 2018
And Independent Auditors' Report



THE INSURANCE COMMISSION
OF THE BAHAMAS



INDEPENDENT AUDITORS' REPORT

To the Members of
The Insurance Commission of The Bahamas:

Opinion

We have audited the financial statements of The Insurance Commission of The Bahamas (the "Commission"), which comprise the statement of financial position as at December 31, 2018, and the statements of profit or loss and other comprehensive income, changes in net assets and cash flows for the year then ended, and 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 December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditors' 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 Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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.

We communicate with those charged with governance 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.



June 17, 2019

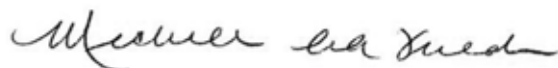
The Insurance Commission of The Bahamas

Statement of Financial Position As of December 31, 2018 (Expressed in Bahamian dollars)

	2018	2017
	\$	\$
ASSETS		
Cash on hand and at banks (Note 11)	865,417	2,479,208
Accounts receivable (Notes 4, 11 and 13)	1,636,874	1,682,124
Prepaid expenses and other assets	3,284	44,742
Pension contribution receivable (Notes 10 and 11)	366,262	376,359
Investments (Notes 5 and 11)	11,712,367	11,133,137
Plant and equipment (Note 6)	26,080	45,879
Total assets	14,610,284	15,761,449
LIABILITIES		
Accounts payable and accrued expenses (Notes 7 and 11)	364,617	243,546
Premium taxes payable to The Bahamas Government (Note 11)	5,161	10,075
Funds held on behalf of Licensees (Note 8)	113,553	1,098,386
Deferred income (Note 9)	162,158	152,738
Staff pension fund (Note 10)	1,022,506	1,020,115
Total liabilities	1,667,995	2,524,860
NET ASSETS	12,942,289	13,236,589
Represented by: SURPLUS	12,942,289	13,236,589

The accompanying notes form an integral part of these Financial Statements.

These financial statements were approved and authorized for issue by the Members of the Commission on May 30, 2019 and signed on their behalf by:


Superintendent


Commissioner

The Insurance Commission of The Bahamas

Statement of Profit or Loss and Other Comprehensive Income or Loss For the Year Ended December 31, 2018 (Expressed in Bahamian dollars)

	2018	2017
	\$	\$
INCOME		
Fee Income:		
Premium taxes	5,813,679	5,626,522
License and registration fees	373,392	332,482
Total fee income	6,187,071	5,959,004
Interest income (Note 11)	371,992	374,172
Total income	6,559,063	6,333,176
EXPENSES		
Salaries, wages and employee benefits (Notes 10 and 11)	2,046,565	2,090,600
Professional fees	552,256	293,915
Rent	311,687	265,052
Training and conferences	266,129	170,380
Provision for doubtful debt (Note 4)	159,852	-
Public & community relations	136,023	160,939
Office	134,877	120,722
Utilities and property charges (Note 11)	114,049	111,343
Membership fees and subscriptions	52,601	51,199
Commissioners' honoraria and expenses (Note 11)	28,597	36,082
Depreciation (Note 6)	27,393	95,818
Bank charges (Note 11)	11,019	8,964
Repairs and maintenance	5,453	7,221
Vehicle expense	5,335	3,495
Miscellaneous	897	944
Total expense	3,852,733	3,416,674
Profit for the year	2,706,330	2,916,502
OTHER COMPREHENSIVE LOSS/INCOME		
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss/gain on defined benefit plan (Note 10)	(630)	13,498
TOTAL COMPREHENSIVE INCOME	2,705,700	2,930,000

The accompanying notes form an integral part of these Financial Statements.

The Insurance Commission of The Bahamas

Statement of Changes in Net Assets For the Year Ended December 31, 2018 (Expressed in Bahamian dollars)

SURPLUS	\$
Balance as of January 1, 2017	10,306,589
Profit for the year	2,916,502
Other comprehensive income	13,498
Balance as of December 31, 2017	13,236,589
Profit for the year	2,706,330
Funds remitted to the Bahamas Government	(3,000,000)
Other comprehensive loss	(630)
Balance as of December 31, 2018	12,942,289

The accompanying notes form an integral part of these Financial Statements.

The Insurance Commission of The Bahamas

Statement of Cash Flows

For the Year Ended December 31, 2018

(Expressed in Bahamian dollars)

	2018	2017
	\$	\$
Cash flows from operating activities:		
Profit for the year	2,706,330	2,916,502
Adjustment for non-cash items:		
Depreciation (Note 6)	27,393	95,818
Provision for doubtful debt (Note 4)	159,852	-
Interest income (Note 11)	(371,992)	(374,172)
Movement in working capital:		
Increase in accounts receivables	(123,269)	(158,418)
Decrease/ (increase) in prepaid expenses and other assets	41,458	(24,969)
Increase in pension contribution receivable	(19,570)	(18,693)
Increase in accounts payable and accrued expenses	121,071	11,998
(Decrease)/ increase in premium taxes payable to The Bahamas Government	(4,914)	10,075
Increase / (decrease) in deferred income	9,420	(991)
Increase in staff pension fund liability	31,428	81,738
(Decrease)/increase in funds held on behalf of Licensees	(984,833)	998,386
Net cash from operating activities	<u>1,592,374</u>	<u>3,537,274</u>
Cash flows from investing activities		
Net movement in term deposits (Note 5)	(1,579,230)	(2,068,511)
Purchase of plant and equipment (Note 6)	(7,594)	(29,821)
Acquisition of Bahamas Government Registered Stock	1,000,000	-
Interest received	380,659	366,524
Net cash used in investing activities	<u>(206,165)</u>	<u>(1,731,808)</u>
Cash flows from financing activities		
Funds remitted to The Bahamas Government	(3,000,000)	-
Net cash used in financing activities	<u>(3,000,000)</u>	<u>-</u>
(Decrease)/ increase in cash and cash equivalents	(1,613,791)	1,805,466
Cash and cash equivalents as of beginning of period	2,479,208	673,742
Cash and cash equivalents as of end of period	<u>865,417</u>	<u>2,479,208</u>

The accompanying notes form an integral part of these Financial Statements.

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

1. General Information

The Insurance Commission of The Bahamas (the Commission) is established as a body corporate, under the Insurance Act, 2005 (the Act) of the Commonwealth of The Bahamas (The Bahamas). The Commission commenced operations on July 2, 2009, the date on which the Act came into effect. The functions of the Commission include the monitoring and regulation of the insurance market in The Bahamas, the participants of which include insurance companies, underwriters, medical health service organizations, brokers, agents, sub-agents, adjusters, risk managers, consultants and salespersons. The Commission regulates the industry in accordance with the Act and the External Insurance Act, 2009 and the related rules and regulations. The Act provided for the repeal of the Insurance Act, 1969, which vested certain powers of regulation of the insurance industry in the Office of the Registrar of Insurance Companies (ORIC). The office of the Commission is located at Charlotte House, Shirley and Charlotte Streets, Nassau, Bahamas.

2. Adoption of New and Amended International Financial Reporting Standards and International Accounting Standards

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB effective for annual reporting periods beginning on or after January 1, 2018. The adoption of these Standards and Interpretations has not led to any changes in the Commission’s accounting policies.

Relevant Standards and Interpretations effective but not affecting the reported results or financial position

IAS 1 Presentation of Financial Statements

IAS 7 Statement of Cash Flows

IAS 16 Property Plant & Equipment

IAS 19 Employee Benefits

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

In the current year, the Commission has applied IFRS 9 Financial Instruments (as revised in July 2014) and IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) and the related consequential amendments to other IFRS standards that are effective for an annual period that begins on or after January 1, 2018.

In relation to IFRS 9, the financial instruments of the Commission comprise cash and cash equivalents, investments, accounts and other receivable, accounts payable and other liabilities. There were no financial assets or financial liabilities of the Commission that were subject to reclassification or which the Commission has elected to reclassify upon application of IFRS 9. The Commission recognises a loss allowance for expected credit losses on its financial instruments. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. Further, the application of IFRS 9 has had no material impact on the cash flows of the Commission.

In relation to IFRS 15, the Commission concludes that it is an agent of the Government of The Bahamas with respect to premium taxes. Its performance obligation is to collect premium tax on behalf of the Government of The Bahamas and remit to the Government 75% of collected tax as is prescribed by the Insurance Act. When the Commission satisfies its promise to collect these taxes and remits to the Government its share, the Commission completes its obligation and recognises revenue for its share of collected taxes.

Notes to the Financial Statements
For the Year Ended December 31, 2018

2. Adoption of New and Amended International Financial Reporting Standards and International Accounting Standards (continued)

The application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Commission. Further, the application of IFRS 15 has had no impact on the cash flows of the Commission.

The other standards have not led to changes in the financial position of the Commission during the current year.

Relevant Standards and Interpretations in issue but not yet effective

IAS 16 Property Plant and Equipment

IAS 19 Employee Benefits

IFRS 16 Leases

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the financial statements of the Commission.

3. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in accordance with IFRS requires management to exercise its judgment in the process of applying its accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 3(e), 3(i), 3(j) and 10.

(b) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

(c) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Commission's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at period end exchange rates are recognised in the statement of profit and loss and other comprehensive income or loss.

(d) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, demand deposits with banks, and term deposits with banks with original contractual maturities of three months or less.

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

3. Summary of Significant Accounting Policies (continued)

(e) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established by conducting an expected credit loss assessment at each reporting date. Accounts receivable are considered past due when outstanding for over sixty days.

(f) Investments

Investments are measured at amortised cost net of any write down for impairment.

(g) Plant and equipment

Plant and equipment are stated at historical cost, less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Commission and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the statement of profit or loss and other comprehensive income or loss during the financial period in which they are incurred.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which are estimated as follows:

Computer equipment	3 years
Furniture and fittings	5 years
Motor Vehicles	5 years
Imaging system	3 years
Telephone system	3 years
Leasehold improvements	5 years

A full year's depreciation charge is made in the year of purchase.

Assets' useful lives are reviewed, and adjusted if appropriate, at the date of the statement of financial position or when an event has occurred that indicates a need to re-evaluate useful lives. Assets subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are included in the statement of profit or loss and other comprehensive income.

**Notes to the Financial Statements
For the Year Ended December 31, 2018**

3. Summary of Significant Accounting Policies (continued)

(i) Income and expense recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the Commission. Revenue from licensing activities is recognised over the period of the applicable license, with amounts collected in relation to future periods being deferred in the statement of financial position.

The Act, as amended, provides for the Commission to receive twenty five percent (25%) of premium taxes collected from registered insurers. Only the Commission's share of the premium taxes due from licensees as at the date of these financial statements is recognised as revenue and included in accounts receivable.

Interest income and finance costs are recognised using the effective interest method. All other income and expenses are recognised on the accrual basis of accounting.

(j) Employee benefits

Employees of ORIC were entitled to a defined benefit pension under the Pensions Act, Chapter 43; the Commission has continued equivalent pension benefits for employees transferred from ORIC. The Commission has been designated as an approved authority within the meaning of the Pension Act.

A defined benefit pension plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually as a function of one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position is the present value of the defined benefit obligation as of the statement of financial position date minus the fair value of plan assets, together with adjustments for actuarial gains or losses and past service costs. The part of the pension liability that relates to the period before each employee was transferred to the Commission from ORIC is shown as a receivable from Government in the statement of financial position.

As of the date of the statement of financial position, the plan had no investments. The defined benefit obligation is calculated by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Bahamas Government securities that have terms to maturity approximating the terms of the related liability.

In 2012, the Commission implemented a defined contribution pension plan for its other employees (who were not previous employees of ORIC). Under the plan, the Commission and the employee make contributions based on fixed percentages of gross salaries to a privately administered fund. The Commission has no legal or constructive obligations to pay further contributions once payment of approved contributions has been made. Employees transferred from ORIC are entitled to join the plan; however, the Commission makes no contribution to the plan on their behalf.

Salaries, wages and other employee benefits are recognised on the accrual basis of accounting. The value of accrued benefits, or past service costs, has been recognised immediately in the current period's statement of profit or loss or other comprehensive income or loss.

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

3. Summary of Significant Accounting Policies (continued)

(k) 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 the operating lease are charged to the statement of profit and loss and other comprehensive income or loss on a straight-line basis over the period of the lease.

(l) Taxation

The Commission is established under the laws of The Bahamas and, therefore, is not subject to income or capital gains taxes.

4. Accounts Receivable

	2018	2017
	\$	\$
Premium taxes	1,409,208	1,391,478
Accrued interest income	98,986	107,653
VAT recoverable	250,002	165,643
Fees	7,900	5,300
Other	30,630	12,050
	<u>1,796,726</u>	<u>1,682,124</u>
Provision for doubtful debt	(159,852)	-
Total	<u>1,636,874</u>	<u>1,682,124</u>

The Provision for doubtful debts of \$159,852 (2017: \$nil) relates to the net amount receivable from the Department of Inland Revenue for VAT. While the Commission expects to collect this balance, which has been determined in accordance with the VAT legislation, the provision has been made for the maximum expected credit loss due to the delay in payment. For all other categories of Accounts Receivable the Commission has determined that the expected credit loss is zero.

5. Investments

	2018	2017
	\$	\$
Term deposits	5,798,567	4,219,337
Bahamas Government Registered Stock	5,913,800	6,913,800
Total	<u>11,712,367</u>	<u>11,133,137</u>

During the period covered by these financial statements, the weighted average interest rate earned on certificates of deposit was 1.95% (2017: 1.95%). All certificates of deposit mature within twelve months of the date of the statement of financial position

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

5. Investments (continued)

Investments in Bahamas Government Registered Stock have interest rates tied to Bahamian dollar prime rate (Prime). The interest rates ranged from 3.5% to Prime plus 5/48%. As of the date of the statement of financial position, Prime was 4.25% (2017: 4.25%).

6. Plant and Equipment

	Computer Equipment	Furniture Fitting	Imaging System	Telephone System	Leasehold Improvement	Motor Vehicle	Total
	\$	\$	\$	\$	\$		\$
Cost							
January 1, 2018	482,863	278,366	38,860	17,662	34,898	30,693	883,342
Additions	7,594	-	-	-	-	-	7,594
December 31, 2018	490,457	278,366	38,860	17,662	34,898	30,693	890,936
Accumulated Depreciation							
January 1, 2018	462,203	271,563	38,860	17,662	34,898	12,277	837,463
Depreciation expense	14,451	6,803	-	-	-	6,139	27,393
December 31, 2018	476,654	278,366	38,860	17,662	34,898	18,416	864,856
Net Book Value							
December 31, 2018	13,803	-	-	-	-	12,277	26,080
December 31, 2017	20,660	6,803	-	-	-	18,416	45,879

7. Accounts Payable and Accrued Expenses

	2018	2017
	\$	\$
VAT payable to the Government	90,150	59,245
Accrued expenses	274,467	184,301
Total accounts payable and accrued expenses	364,617	243,546

8. Funds Held on Behalf of Licensee

Funds held on behalf of a licensee of \$113,553 (2017: \$1,098,386) relates to a deposit prescribed under section 43(1) of the Insurance Act. Section 43 requires any company that wishes to be registered and carry on any class of insurance to deposit, with the Commission or with an approved financial institution on behalf of the Commission, the prescribed deposit. These funds are held at cost.

9. Deferred Income

Deferred income of \$162,158 (2017: \$152,738) relates to fee income received during the year in respect of future financial periods.

The Insurance Commission of The Bahamas

**Notes to the Financial Statements
For the Year Ended December 31, 2018**

10. Staff Pension Fund

The amount recognised in the statement of financial position, relating to the defined benefit pension entitlements, were determined as follows:

	2018	2017
	\$	\$
Present value of benefit obligation	1,022,506	1,020,115
Fair value of assets	-	-
Liability recognised in the statement of financial position	<u>1,022,506</u>	<u>1,020,115</u>
Assets recognised in the statement of financial position		
Present value of the amount due from The Government	366,262	376,359
Present value of benefit obligation	<u>656,243</u>	<u>643,756</u>

Movement in the net liability recognised in the statement of financial position are as follows:

	2018	2017
	\$	\$
Net liability at start of period	643,756	594,209
Net expense recognised in the income statement	71,445	69,279
Amount recognised in other comprehensive income	630	(13,498)
Contributions employer	(59,588)	(6,234)
Net liability at end of period	<u>656,243</u>	<u>643,756</u>

The movement in the present value of the Staff Pension Fund benefit obligation are as follows:

	2018	2017
	\$	\$
Opening present value obligation	1,020,115	968,047
Interest cost	53,450	50,138
Current service cost	37,566	37,833
Benefits paid	(59,588)	(6,234)
Actuarial gain/(loss) on obligation due to experience	6,502	(5,727)
Actuarial loss on obligation due to financial assumption change	(35,539)	(23,943)
Closing present value obligation	<u>1,022,506</u>	<u>1,020,115</u>

The Insurance Commission of The Bahamas

**Notes to the Financial Statements
For the Year Ended December 31, 2018**

10. Staff Pension Fund (continued)

The movement in the pension contribution due from the Government is as follows:

	2018	2017
	\$	\$
Opening present value of amount due from government	376,358	373,838
Interest cost	19,571	18,693
Actuarial (loss) on obligation	(29,667)	(16,172)
Closing present value obligation	366,262	376,359

The movement in the fair value of the plan assets are as follows:

	2018	2017
	\$	\$
Opening present value of plan assets	-	-
Expected return on plan assets	-	-
Contribution - employer	59,588	6,234
Benefits paid	(59,588)	(6,234)
Actuarial gain/(loss) on obligation	-	-
Closing fair value of plan assets	-	-

The amount recognised in the statement of profit or loss and other comprehensive income comprises:

	2018	2017
	\$	\$
Current service cost (net employees' contribution)	37,566	37,833
Interest Cost	33,879	31,446
Expense recognised in Statement of Profit or Loss And Other Comprehensive Income or Loss	71,445	69,279

Actuarial (gain)/loss recognised in Other Comprehensive Income 630 (13,498)

Principal actuarial assumptions used were:

	2018	2017
	\$	\$
Discount rate at end of year	5.50%	5.20%
Future salary increases	3.00%	3.00%

The following table illustrates the changes to the net liability as at December 31, 2018 for a 1% change in these respective assumptions while holding all other assumptions constant.

	1% increase	1% decrease
	\$	\$
Discount rate	(104,468)	127,377
Future salary increases	46,023	(42,328)

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

11. Balances and Transactions with Related Parties

Related parties comprise Government ministries and departments, Government corporations and agencies, entities controlled by the Government, entities in which the Government has a significant ownership interest and key management personnel. Balances and transactions with related parties include the following:

	2018	2017
	\$	\$
<i>Assets</i>		
Cash at banks	864,817	2,478,608
Accounts receivable	348,988	273,296
Pension contribution receivable	366,262	376,359
Investments	11,712,367	11,133,137
<i>Liabilities</i>		
Accounts payable and accrued expenses	104,531	74,147
Premium taxes payable to The Bahamas Government	5,161	10,075
<i>Income</i>		
Interest income	371,992	374,172
<i>Expenses</i>		
Utilities and property charges	77,384	75,814
Commissioners' honoraria and expenses	28,597	36,082
Bank charges	11,019	8,964

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Commission directly or indirectly, including the members of the Commission. Compensation of key management personnel for the year is as follows:

	2018	2017
	\$	\$
Short term employee benefits	556,500	541,575
Post-employment benefits	36,300	34,807
	<u>592,800</u>	<u>576,382</u>

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

12. Commitments and Contingencies

Commitments

The Commission has entered into leases relating to office space which expired on December 31, 2018. The Commission has not entered into any extended lease agreement. However, the Commission is expected to enter into an agreement with Poinciana SPV with an expected annual rental payment of \$336,595 with effect from January 1, 2019.

The Commission has a service agreement with The Securities Commission of The Bahamas for certain accounting, human resources and information technology services at a cost of \$6,500 per month. The service agreement is renewable annually.

Contingencies

During 2009, the Commission entered into an indemnity agreement with a Judicial Manager, appointed by The Bahamas' Supreme Court (the Court), to manage the affairs of one of the licensees of the Commission. The indemnity guaranteed the payment of the Judicial Manager's fees and expenses in the event of insufficiency of payment by the Estate. All fees approved for payment by the Court to date have been paid by the Estate and no provision has been made in these financial statements for any of the Judicial Manager's fees or expenses.

13. Financial Risk Management

The Commission engages in transactions that expose it to credit risk, liquidity risk and interest rate risk in the normal course of business. The Commission's financial performance is affected by its capacity to understand and effectively manage these risks.

(a) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Commission's exposure to credit risk is concentrated in its cash at bank, investments and accounts receivable.

The Commission mitigates the risk associated with cash at banks by placing its deposits with domestic financial institutions in good standing with the Central Bank of The Bahamas.

The risk associated with investments is mitigated by placing term deposits in domestic financial institutions in good standing with the Central Bank of The Bahamas and investing in Bahamas Government Registered Stock which is guaranteed by the Government.

The risk associated with accounts receivable is mitigated by the monitoring of payment history of licensees before deciding whether to renew annual licenses.

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

Credit risk (continued)

The Commission, in its effort to minimise credit risk exposure, monitors the accounts receivable balances ensuring that all efforts are expended in order to reduce accounts with long overdue balances. A large proportion of accounts receivable related to premium taxes which are due within four weeks of the end of each quarter. In 2018, they were normally collected within 60 days after the period to which they apply. Most of the remaining accounts receivable is concentrated in a small group of insurers. The aged analysis of accounts receivable as of December 31, 2018 is set out below:

	2018	2017
Days outstanding:	\$	\$
0 to 60 days	1,420,195	1,377,435
61 to 120 days	105,316	94,076
More than 120 days	217,215	210,613
Total	<u>1,796,726</u>	<u>1,682,124</u>

Fees are payable annually on the anniversary of the license issue date. Premium taxes are payable quarterly and within thirty days of the end of the quarter to which they relate.

(b) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Commission's financial commitments as they become due. The Commission maintains a level of liquid assets that mature in the short term or could be redeemed immediately to meet cash requirements for normal operating purposes.

As of December 31, 2018, all of the Commission's payables and accrued expenses are due within one year.

(c) Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Commission's exposure to cash flow interest rate risk is concentrated in cash at banks and investments; The Commission does not hedge this risk as it is not considered significant. The Commission does not have any significant fair value interest rate risk.

14. Fair Value of Financial Instruments

Financial instruments utilised by the Commission include the recorded financial assets and liabilities, and their estimated fair values approximate their carrying values.

The Insurance Commission of The Bahamas

Notes to the Financial Statements For the Year Ended December 31, 2018

15. Capital Management

The Commission regards the balance of its Surplus account and any reserve fund as capital. The Commission's objectives when managing capital are to safeguard its ability to continue as a going concern and to maintain a capital base sufficient to support its regulatory powers and associated operations.

Effective July 1, 2013, surplus funds in excess of amounts authorized by the Minister of Finance to be reserved are payable to the Consolidated Fund.

16. Unclaimed Funds

At December 31, 2018, \$2,003,574 (2017: \$1,526,088), inclusive of interest, in unclaimed funds were being held on a special account at the Central Bank of The Bahamas, for the benefit of the policyholders' and beneficiaries, in accordance with Section 183 of the Act.

These funds represent statements of all unclaimed moneys outstanding for at least one year, which were submitted by the Commission's licensees, as outlined in Section 182 of the Act. The unclaimed funds are held in trust and are not included on the statement of financial position.

17. Subsequent Events

On January 1, 2019 the Commission took possession of office space in Poinciana house pending the formal signing of a lease agreement with Poinciana SPV limited.



ICB donates to The Bahamas National Feeding Network



Superintendent receives Executive of the Year Award from The Bahamas Financial Services Board (BFSB)



Phelice Jones and Sinead Bethel join BFSB at Captive Insurance Companies Association conference in Arizona



Prime Minister stops by Commission's Christmas celebrations



Caribbean Association of Insurance Regulators conference in St. Kitts



Marcian Mortimer attends training seminar



Yolande Rolle presents at industry briefing



THE INSURANCE COMMISSION
OF THE BAHAMAS



ADDRESS:

Poinciana House, 31A East Bay Street
P. O. Box N-4844
Nassau,
N.P., The Bahamas

Tel: (242) 328-1068 / (242) 397-4183

Fax: (242) 328-1070

Email: info@icb.gov.bs

Website: www.icb.gov.bs

CONSUMER COMPLAINTS:

Email: info@icb.gov.bs