MINISTRY PAPER No. 49 - 1977

REPORT OF THE INSURANCE EXPERT COMMITTEE

I have pleasure in laying on the Table of the Honourable House of Representatives the attached Report of the Insurance Expert Committee. The Committee were established by a Cabinet Decision of the 31st January, 1977, and were composed of the Hon. R.D. Williams, Chairman, leaders in the Insurance Industry, the Superintendent of Insurance and the Governor of the Bank of Jamaica.

2. The Report deals with various matters such as remittances relating to insurance payments abroad, localisation of the Insurance Industry, the expansion of capacity of the Industry, the expedition of local training facilities to expand job opportunities, CARICOM relationships in the insurance sector, etc. The recommendations embodied in the Report have been approved by the Government. The proposed temporary tax relief for locally controlled general insurance companies while acceptable in principle, will be subject to details to be worked out by my Ministry in respect of amendment of the Income Tax Act. It will be noted that an overall period of three years applies to effecting the localisation of the Industry. The date from which this three-year period will run will be regarded as commencing as from the date on which this Ministry Paper is laid on the Table of the House.

3. The recommendations embodied in the Report represent present Government policy in relation to the Insurance Industry in Jamaica, and the full co-operation of the Industry in regard to giving effect to these recommendations is expected. The Office of the Superintendent of Insurance will monitor the carrying out of the recommendations and any clarification required by the Industry should be referred to that Office.

DAVID COORE,
Deputy Prime Minister and
Minister of Finance and Planning
8th December, 1977

REPORT

OF

THE INSURANCE EXPERT COMMITTEE

REPORT OF
THE INSURANCE EXPERT COMMITTEE
SUMMARY CONTAINING RECOMMENDATIONS

Item (a): To Make Recommendations So As To Expedite The Localisation Of The Insurance Industry

(i) Life Insurance Companies

The Committee recommend a company should be considered as having localised when a minimum of 51% of its equity is held by Jamaicans and that an overall time frame of three years be allowed for localisation with all companies indicating their intentions within the first year. The immediate implementation of a programme of functional localisation involving training programmes and recruitment of local staff is considered essential. The Committee also recommend that foreign companies which have ceased to write new business be given a maximum period of two years to transfer their business.

The following exceptions to the 51% localisation are recommended:

(i) That existing arrangements applicable to CUNA Mutual be permitted to continue;

(ii) That CARICOM companies should not be affected by localisation.

(iii) That CARICOM status or recognition should also be accorded where a subsidiary is formed in a CARICOM territory by a foreign company (that is a Caribbean Company) when the Jamaican portfolio is treated as part of the operation (branch operation) of such a subsidiary. Additionally, the Committee recommend that steps be taken to ensure that reciprocity be given to this approach by the various CARICOM territories and that it should be given adequate publicity. It is recommended that the Minister of Finance inform his CARICOM colleagues on this at the next regional meeting of Finance Ministers. The Committee consider that a CARICOM company is one in which the equity is at least 51% owned by Nationals of the CARICOM territories.

(ii) General Insurance Companies

As in the case of Life Insurance Companies the Committee endorse the concept of localisation of the General Insurance Companies within the framework of a 51% local participation. Central to the issue of localisation of the General Insurance Companies is the timing and the Committee recommend that a period of three years should also be applicable. All foreign companies should within one year, intimate their proposals for localisation.

General Insurance Companies are subject to taxation of between 45% and 50% of profits and the Committee recommend that the need for increased capacity and capitalisation which localisation will impose be met by reducing the level of tax payable by these local companies by about 50% over a five-year period. This concession should, the Committee also recommend, be matched by a dividend restraint programme over the five-year period whereby no dividends will be paid and all profit would remain undistributed in order to expand net worth.

Item (b): To Make Recommendations On Ways And Means of Widening The Capacity Of the Local Insurance Industry To Retain Premiums Here And To Reduce Remittances For Reinsurance

To increase the capacity and retention in the Jamaican Market the Committee recommend that the following methods be used:

(i) Creation of various Jamaican reinsurance pools with the following objectives:

(a) to maximise underwriting profits by effecting a wider spread of risks among member companies;

(b) to retain in Jamaica a portion of the reinsurance premiums that usually go outside the region;

(c) to promote understanding among the companies by encouraging co-operation among insurers;

(d) to serve as a vehicle for the dissemination of knowledge on insurance theory, practice and experience;

(e) to serve as the nucleus of an insurance statistical centre for Jamaica;

(f) to establish the base for creation of a Jamaican reinsurance corporation.

(ii) Co-operation in sharing large risks facultatively.

(iii) Reinsurance treaty exchanges among Jamaican companies.

(iv) Formation of a Jamaican Reinsurance Company. This should be done as a voluntary act on behalf of all companies transacting business in Jamaica. This could be a method of involving overseas investment thereby demonstrating acknowledgement of the fact that reinsurance is really of an international character and that co-operation is needed not only among companies in Jamaica but should extend to regional markets. Indeed such a situation would allow for the direct insurers from the various developed markets to pool their technical efforts and join forces with our developing market. All insurance companies operating here could be made to pass a specific percentage of all business to the reinsurance company.

The Committee also recommend the grant of the tax concessions as already indicated as this represents the best method of rapidly increasing net worth.

In order to further facilitate the spread of risks, the Committee recommend that subject to the practicability of particular circumstances, all risks emanating in Jamaica should be placed with locally incorporated companies. A period of one year would be required to achieve this objective as it will be necessary to negotiate appropriate reinsurance arrangements and to develop skills in specialised areas of risk.

The Committee recommend that local insurers adopt a catastrophe reserve in respect of property insurance on an accumulation basis similar to those adopted in countries like Mexico which are earthquake prone. Thus the Committee recommend that 10% of net property insurance premium be placed to the reserve on an accumulation basis. The 10% of net property premium income should be on a tax free basis as such funds would not be free for any purpose but meeting catastrophe perils in the property insurance field.

The Committee recommend that local insurers establish local insurance pooled arrangements as a means of increasing local retentions. Also "large risks pools" relating to specialised classes of business should be established. The arrangements must be effected within three years. The Committee also recommend as part of the long term solution to increasing capacity that a local Reinsurance Corporation should be instituted as indicated herein.

The Committee recognise that suitable and highly liquid investment media are needed for the General Insurance Companies to assist in strengthening the companies in terms of their net worth via increased retained earnings. The Committee recommend that this could be achieved through a suitably priced short-term local registered stock, say, one or two years in term, which would be repurchased by Bank of Jamaica should the necessity for liquidation arise because of a heavy claim record.

Item (c): During The Transitional Period To Make Recommendations As To How Head Office Expenses And Other Payments Abroad By Insurance Companies Should Be Dealt With

The Committee recommend as follows:

(i) All claims due and owing on risks written outside Jamaica by insurance companies operating in Jamaica be paid promptly and on an on-going basis.

(ii) All treaty reinsurance balances due up to 30th September, 1976, all adjustments of reinsurance premiums for 1976, and all Reinsurance Deposit Premiums now due in 1977, be released over the quarter beginning 1st July, 1977, and subsequent releases to be effected thereafter on a quarterly on-going basis subject to the time lags indicated above. All facultative reinsurance to be released on a monthly basis with a time lag of six months in arrears. Reinsurance Deposit Premiums due after 1st July, 1977, to be released as and when they arise.

(iii) Premiums and balances due to overseas insurers by brokers to be paid on a six-monthly basis in arrears. The releases to be made monthly from February, 1977, in respect of September, 1976, and so on monthly on an on-going basis.

(iv) Reinsurance balances and reinsurance premiums due by life insurance companies to be released on a six-monthly basis in arrears.

(v) All applications for release of funds for insurance transactions to be processed through the Office of the Superintendent of Insurance.

The Committee recommend that release of funds for Head Office expenses must fulfil the requirements of circular letter of November, 1976, from the Superintendent of Insurance to overseas Life Offices operating in Jamaica. In the case of General Insurance Companies and Brokers the Committee also recommend that Head Office expenses be met provided actual functions and/or services rendered are identified and relate to the Jamaican entity and are acceptable to the Superintendent of Insurance. The Committee further recommend that remittances for Head Office expenses applicable to all the above categories be released one year in arrears.

Item (d): To Make Recommendations On Ways Of Dealing With Remittance Abroad By Insurance Companies In Respect Of Life Insurance Premiums Where The Policies Had Been Taken Out Legally Prior To Sterling Being Brought Under Exchange Control

In recognition of the diverse cases involved the Committee recommend as follows:

(i) Premiums due and payable on foreign denominated life assurance policies which were legally effected at the date of inception be released provided that the policy proceeds are remitted to Jamaica on the maturity of such policies or on the death of the policy holders.

(ii) The proceeds of life insurance policies taken out by residents of Turks and Caicos Islands, the Cayman Islands and other Caribbean Territories with Jamaican companies be met in their appropriate currencies provided premiums had emanated from those countries.

(iii) Work Permit holders to be allowed to remit in addition to the funds which may be credited to their external accounts, funds for the maintenance of their policies contracted outside Jamaica.

Item (e): To Make Recommendations On Any Special Cases, Such As Group Insurance Available To Professional Groups

The Committee recognise that at the present the local market does not give cover in the type of area indicated above because of lack of premium volume, lack of underwriting expertise and lack of reinsurance facilities and recommend that such cover should continue to be placed overseas for the next twelve months. Thereafter the local market should place itself in a position to accept such risks.

All pension funds that have not yet been repatriated must be transferred by December, 1978.

The Committee, however, are aware of a number of cases where locally employed persons are members of an international group life or health scheme and consider that these arrangements should terminate as from the next renewal date, and that from 1978 all such group arrangements should be negotiated with local insurance companies.

The Committee recommend the portability of pension arrangements in the case of international companies operating here.

The flexibility and academic freedom offered under the Federated Superannuation System for Universities arrangements are tangible benefits which it would be most unwise and undesirable to disturb and the Committee accordingly recommend the continuance of the present arrangements.

Item (f): To Make Recommendations On Ways And Means Of Expediting Training In the Insurance Industry So As To Expand Local Employment

The Committee recommend that an immediate survey of manpower needs and of the manpower resources available (actively employed) to the Industry be carried out so that detail planning may proceed in the educational area. Upon completion of the survey a programme to ensure adequate supply of properly trained personnel at all levels in the Industry must be designed and implemented. The programme should utilise CAST and funding should be provided by users of the scheme. Proper monitoring of the programme should be the responsibility of the Industry possibly on a shared basis between the Life and General Sectors. In determining the educational programme liaison should be established with international institutions concerned with advancement of insurance education in developing countries.

The Industry must raise its level of recruitment and make aware to persons at university and high school levels the careers open to them in the Insurance Sector with a view to attracting suitable recruits into the Industry.

Item (g): To Make Recommendations On The Most Appropriate Means of Dealing With Catastrophe Insurance And Individual Large Risks

The Committee recommend the following devices for large risks:

(i) Creation of Jamaican reinsurance pools;

(ii) Co-operation in sharing such risks facultatively;

(iii) Reinsurance Treaty exchanges among Jamaican companies.

For these devices to operate effectively such risks should be placed on the basis of Jamaican companies accepting up to the maximum of their financial capacity in the first instance with the remainder being spread internationally according to the availability of insurance or reinsurance facilities and the technical assistance necessary to assist in personnel development.

As regards catastrophe this can only be dealt with by way of reinsurance outside Jamaica and the Committee recommend freedom in the placement of reinsurance arrangements. The establishment of a tax free catastrophe reserve fund on an accumulation basis already proposed is also recommended. The Committee also recommend that the funds created by the catastrophe reserve be permitted in the main to be invested outside Jamaica thereby creating in the time of catastrophe an inward flow of foreign exchange.

Item (h): To Make Recommendations On The Above Terms Of Reference In Light Of Jamaica's CARICOM Relationships

As already indicated the Committee recommend that no steps should be taken to affect in the localisation process a regional company, that is, a company incorporated in any territory in the region with at least 51% regional shareholding (shareholding in any territory or combination of territories which amounts to at least 51% stake) or a regional subsidiary (subsidiary formed in any territory of the region) of an overseas company where the overseas company is taking this step as preparatory to regionalisation as indicated above or a regional mutual company incorporated in any territory of the Region.

The Committee also agree that it would be in the best interests of the Jamaican Industry and the regional Industry for a delegation comprised of members of the Committee and lead by the Chairman to contact appropriate Ministers and officials throughout CARICOM and seek a common approach on the regional concept in terms of operation by such companies. Such companies would, of course, have to fulfil the requirements of the Insurance Acts in the territories in which they would seek to operate.

The Committee also consider that Jamaica's localisation process will be expedited by adopting the policy that up to 10% of the shareholding of a local subsidiary formed with a view to Jamaicanisatio should be offered throughout the CARICOM in order to give real effect to the concept of regionalisation and so recommend.

The Committee recommend that where suitably qualified persons are available within the region and are willing to take up employment in Jamaica that the issue of Work Permits for such persons should be facilitiated. It is recommended that reciprocity should be sought to this approach from CARICOM countries.

The Committee recommend that as soon as practicable Jamaican insurers should study the CARICOM market with a view to establishing agencies or branches there.

In regard to CARICOM relationships the Committee also recommend that:

(i) Government issue a firm and comprehensive policy statement indicating full support for regional development of the Industry and providing that CARICOM companies will have free access to the Jamaican market provided they meet the requirements of the local Insurance Act. This statement should be made at the next Finance Ministers' meeting.

(ii) The Government support initiatives to set up reinsurance facilities on a regional basis.

(iii) The Government in respect of (ii) above permit movement of funds within the region for reinsurance purposes.

(iv) The Government initiate the formation of an Association of CARICOM Insurance Regulatory Authorities at the earliest and the Association's terms of reference include harmonisation of Insurance Legislation and the eventual establishment of training facilities for Regulatory personnel within the Region.

Item (i): To Make Recommendations On How To Deal With Policies On The Lives Of Persons Who Have Migrated

The Committee recommend that provided always that payment of premiums falling due after the date of migration be remitted to Jamaica in foreign currency and that the insurance company concerned can attest thereto--

(i) In the event of a death arising, payment of the net proceeds of the policy after deduction of all sums owing under the policy, be permitted in the relevant foreign currency at the exchange rate prevailing on the date of settlement (not the date of death).

(ii) In the event of a request for surrender or loan, that the surrender or loan proceeds of the policy, after deduction of all amounts owing under the policy including any premiums advanced by automatic premium loan, be payable partly in foreign currency and partly in Jamaican currency. The portion permitted to be paid in the relevant foreign currency at the exchange rate prevailing on the date of payment of the surrender or loan value, would bear the same proportion of the total net surrender or loan proceeds as the quantum of foreign currency premiums paid bears to the quantum of total premiums paid.

(iii) In the event of an Endowment claim arising, the same principle as surrenders in (ii) above would arise, that is, that the net maturity proceeds of the policy including any premiums advanced by automatic premium loan, be payable partly in foreign currency and partly in Jamaican currency. The portion permitted to be paid in the relevant

foreign currency at the exchange rate prevailing on the date of payment of the maturity value, would bear the same proportion to the net maturity proceeds as the quantum of foreign currency premiums paid bears to the quantum of total premium paid.

(iv) In the case of Industrial Insurance Policies surrender and loan values be permitted to be released up to $400. In the case of an endowment claim arising releases be permitted up to $600. These should be subject to the insurance company being satisfied that on migration of the policy holder premiums have been received in foreign currency and should also be subject to deduction of all amounts due under the particular policy.

The Committee recommend that for eligibility of remittance re above the policy holders overseas should be registered in Jamaica with the Superintendent of Insurance and with their companies. Migrants should be registered migrants.

Item (j): To Make Recommendations On What, If Any, Involvement Government Should Have In The Ownership Of the Insurance Industry

The Committee concluded that no real advantage was likely to accrue to Government through ownership of the Industry either in whole or part and that localisation of the Industry represented a practical and viable alternative to Government's financial involvement.

The Committee's conclusions were based on the following:

(a) There are no cash flow advantages which the proprietor of a long-term company can reap for himself and in the sharing of the surplus he receives by far the smaller share of the distributable surplus which in the main enures to the policy holders. There would thus be no basic advantage to Government from cash flow or profits position to develop an ownership involvement.

(b) The acquisition of a General Insurance Company by Government would not release substantial resources for financing other areas of the economy, because to protect the interests of policy holders it would not be advisable to invest in other than relatively circumscribed areas.

(c) The acquiring of an insurance company by Government is likely to result in the diversion of scarce resources from the Budget.

(d) No release of substantial resources is envisaged at this stage through Government ownership of any segment or component of the Insurance Industry.

(e) No ready disinvestment could take place of assets without affecting adversely the asset values and viability of the company concerned.

The Committee recommend that the role of the Government in the operation of insurance should be essentially negative. Negative that is in the sense of being disinterested rather than uninterested.

Through the mechanism of the Insurance Act, the Government has wide control and supervision over the Industry but this is not now being fully achieved, and in order to ensure the scope of the Act the Office of

the Superintendent of Insurance needs to be more adequately staffed. The Committee recommend that appropriate liaison should be maintained between the Superintendent of Insurance and other Supervisory Authorities in the CARICOM area.

The Committee recommend that long-term insurance companies should maintain a portfolio of direct Government securities (Local Registered Stock) of a minimum of 20% of their total assets and in the case of general insurance companies, the investment in Government Securities should be at a level of 15% of total assets.

REPORT

OF

THE INSURANCE EXPERT COMMITTEE

Constitution And Terms Of Reference

The Committee were constituted by Cabinet Decision of the 31st January, 1977. The Committee arose out of Economic Council Submission No. E.C. 4/77 and were established to consider ways and means of increasing the localisation of insurance companies, to deal with the question of foreign remittances by the Insurance Industry, and subject to the following terms of reference:

(a) to make recommendations so as to expedite the localisation of the Insurance Industry;

(b) to make recommendations of ways and means of widening the capacity of the local Insurance Industry to retain premiums here and to reduce remittances for reinsurance;

(c) during the transitional period to make recommendations as to how Head Office expenses and other payments abroad by insurance companies should be dealt with;

(d) to make recommendations on ways of dealing with remittances abroad by insurance companies in respect of life insurance premiums where the policies had been taken out legally prior to Sterling being brought under Exchange Control;

(e) to make recommendations on any special cases, such as group insurance available to professional groups;

(f) to make recommendations on ways and means of expediting training in the Insurance Industry so as to expand local employment.

(g) to make recommendations on the most appropriate means of dealing with catastrophe insurance involving very large risks.

2. The Committee in the course of their meetings amended and added (as indicated below) the following items to their terms of reference:

(i) Amended (g) to read as follows:

"(g) to make recommendations on the most appropriate means of dealing with catastrophe insurance and individual large risks."

(ii) Added the following as (h), (i) and (j):

"(h) to make recommendations on the above terms of reference in the light of Jamaica's CARICOM relationships;'

"(i) to make recommendations on how to deal with policies on the lives of persons who have migrated;

"(j) To make recommendations on what, if any involvement Government should have in the ownership of the Insurance Industry."

Membership of Committee

3. The membership of the Committee as approved by Cabinet of the 31st January, 1977, was as follows:

Hon. R. D. Williams, Chairman,

The Governor, Bank of Jamaica or his nominee,

The Superintendent of Insurance or his nominee,

The President of the Insurance Advisory Council - Mr. A. M. Thwaites.

The Immediate Past President (Advisory Council) - Mr. Dennis Lalor,

The President of the Insurance Brokers Association - Mr. Russell Harrison,

The President of the Life Managers Association - Mr. Roger Gonsalves.

4. The Committee initially and in the course of deliberations invited additional persons to attend its meetings. The full membership of the Committee and of persons in attendance were as follows:

Hon. R. D. Williams	-	Minister of State, Chairman,
Hon. G. A. Brown	-	Governor, Bank of Jamaica,
H. W. Milner	-	Superintendent of Insurance,
Mr. A. M. Thwaites	-	Chairman, Insurance Advisory Council,
Mr. Dennis Lalor	-	Immediate Past President, Insurance Advisory Council,
Mr. Russell Harrison	-	President, Insurance Brokers Association,
Mr. Douglas Bennett	-	President, Life Insurance Companies Association,
Mr. Roger Gonsalves	-	Immediate Past President, Life Insurance Companies Association

In attendance:

Mr. Aubrey McLeod	-	Deputy Chairman, Insurance Advisory Council in the absence of Mr. A. M. Thwaites,
Mr. Joe Bailey	-	Research Officer, National Savings Committee,
Mr. Iain Young	-	Actuary, R. Watson & Sons, Consulting Actuaries to the Superintendent of Insurance,
Mrs. Sydney Levers	-	Secretary to the Committee, Office of the Superintendent of Insurance,
Mr. Richard Fontaine	-	Member, Insurance Brokers Association, attended in the absence on leave of Mr. Russell Harrison.
Mr. Asgar Ally	-	Assistant Director, Research, Bank of Jamaica in the absence of Hon. G. A. Brown.

Mr. Joe Bailey attended meetings of the Committee from the 19th April, 1977. Mr. Iain Young attended Committee meetings from the 4th May, 1977. Mr. Asgar Ally attended the meeting of the 1st June, 1977.

Meetings of Committee

5. The Committee held six meetings on the 8th, February, 1977, 1st March, 1977, 15th March, 1977, 19th April, 1977, 4th May, 1977 and 1st June, 1977.

Modus Operandi

6. The Chairman invited Committee members and/or groups which they represented to submit papers on the various items of the terms of reference and these papers were used as the bases of discussions. The Office of the Superintendent of Insurance provided secretarial facilities. Compilation Notes summarising a number of papers were also prepared to facilitate discussions and decisions.

7. The Committee recognised that some of the items of the terms of reference dealing with remittances had to receive urgent attention and these were given priority in the course of its discussions. Certain decisions in this area were recommended to Economic Council for approval so that publicity and implementation of the decisions could be effected without delay.

8. The Committee also invited via advertisements in the Press, memoranda from professional groups and societies, financial, industrial and commercial organisations where specialised cover abroad had to be effected and the nature and extent of that cover.

9. Phone calls and individual discussions were also held with a number of persons from whom specific information was sought. Correspondence was also received from a number of persons and organisations. The Committee wish to express their thanks for all memoranda, papers and representations submitted to them.

Committee Items

10. The various items in the terms of reference of the Committee are dealt with below. They appear in the order set out at the first paragraph and paragraph 2 above:

Item (a) To Make Recommendations So As To Expedite The Localisation Of The Insurance Industry

11. This item is dealt with under the two main divisions of the Industry, namely, the Life Insurance Companies and the General Insurance Companies as these give rise to different considerations, etc.

(i) Life Insurance Companies

12. The Life Insurance Companies operating in Jamaica are divided between locally incorporated and overseas companies and between Ordinary Long-term Insurance (OLT) Companies and Industrial Insurance (IND) Companies. At present (June, 1977) of the companies operating in Jamaica there are four (4) OLT companies and two (2) IND companies locally incorporated, and seven (7) OLT and three (3) IND companies which are overseas companies. The four (4) OLT companies include two (2) which are Jamaican and two (2) which are mainly foreign owned. About 60% of the total premium income is generated by locally

incorporated companies. Aggregate premium income for 1976 for Life Insurance Companies amounted to approximately $ million as obtained from the Life Insurance Companies Association.

13. The Committee are unanimous in accepting the localisation of the Life Insurance Industry and consider that companies should indicate within one year their proposed plan of localisation. The Committee recommend that a company should be considered as having localised when a minimum of 51% of its equity is held by Jamaicans. Three ways of localising are recognised. These are the formation of local subsidiaries, the transfer of engagements and in the case of a mutual company the formation of a local mutual company by legislation.

14. The time period applicable to the achievement of localisation was considered. The Committee recommend that an overall time frame of three (3) years be allowed but all companies must indicate their intentions within the first year. A shorter time period could have disruptive effects as skilled manpower is not immediately available in the areas of underwriting, accounting and systems, investment, and management. The Committee accordingly recommend a programme of functional localisation whereby training programmes and recruitment of local staff be immediately implemented.

15. Another reason why this lead time is required is because of the systems prescribed in the Insurance Acts of Jamaica and the country of the foreign company effecting the transfer. These systems are designed to safeguard the policy holders of the companies involved and include requirements pertaining to disclosure of the nature of the transaction, the examination through an independent Actuary to ensure that fair, acceptable and workable terms and conditions would be applicable, that the transfer would not imperil the financial situation of both the transferor and transferee companies, that the transaction would be acceptable to the Supervisory Authorities of the countries of incorporation of the companies involved and that the transfer would be sanctioned by the Court or an appropriate competent authority.

16. In the case of foreign companies which have ceased to write new business, the Committee recommend that the time frame to transfer their engagements should be limited to two years.

17. The Committee recognise that localisation (whatever the method adopted) involves complicated considerations as to value of the assets and liabilities to be transferred and that some foreign exchange outflows estimated to be of the order of J$5 - $6 million could be engendered. A scheduled process of the remittance of the proceeds of the excess assets involved will have to be carefully worked out and monitored by the Office of the Superintendent of Insurance and Bank of Jamaica.

18. The Committee recognise that for the time being one of the foreign companies - CUNA Mutual - poses a special case which warrants special attention. CUNA Mutual deal with a restrictive clientele and can only insure the lives of members of co-operative societies. At the moment this is a relatively small clientele and it would not be feasible for CUNA Mutual to form a viable local entity. The Committee accordingly recommend that existing arrangements

applicable to CUNA Mutual be permitted to continue.

19. The Committee also recognise that special treatment should be accorded to CARICOM Life Insurance Companies in keeping with the spirit of regionalisation embodied in the CARICOM concept. Thus the Committee recommend that CARICOM companies should not be affected by localisation. The Committee also recommend that CARICOM status or recognition should also be accorded where a subsidiary is formed in a CARICOM Territory by a foreign company and where the Jamaican portfolio is treated as a part of the operation (branch operation) of such a subsidiary. The Committee recommend that steps be taken by Government to ensure that reciprocity be given to this approach by the various CARICOM territories and that it should be given adequate publicity. It is recommended that the Minister of Finance inform his CARICOM colleagues on this at the next regional meeting of Finance Ministers. The Committee consider that a CARICOM company is one whose equity is at least 51% owned by nationals of the CARICOM territories.

20. The Committee recognise that adequate capitalisation will be required where local subsidiaries are formed as the mechanism through which localisation is effected. This poses the difficulty of achieving a 51% local stake within a relatively short period. The long period required for returns to be paid on such shareholding will also act as a constraint which is likely to slow down the achievement of the 51% shareholding. It is anticipated that capitalisation of a local OLT company could amount to as much as $4 million of which on a straight equity basis $2,040,000 would be needed to be subscribed for locally. The indications are that one or two international OLT companies will form local subsidiaries in the localisation process. It is not anticipated that the IND companies will require capitalisation to the extent indicated above. It is anticipated that at least one IND company will form a local subsidiary in order to localise and that the 51% Jamaican stake could amount to approximately $1 million. On this basis about $3 million or $5 million will be required to facilitate the 51% local participation. There are, of course, other methods which could be adopted, for example, the use of two classes of ordinary shares one without voting rights and which would be subscribed for by the overseas entity and various layers of redeemable or irredeemable preference shares which would similarly be subscribed for by the overseas entity.

21. While a period of three years is being proposed within which to effect the 51% stake, the Committee did not consider in great detail the possible sources from which the necessary finances could be drawn. However, it was recognised that employee share participation could be one source, local institutional investors and policy holders another and additionally local participation could be facilitated through underwriting arrangements effected through Government Financial Institutions like the Jamaica Development Bank.

(ii) General Insurance Companies

The Industry structure in the General Insurance field is made up at June, 1977, of twenty-two (22) direct underwriting operational companies of which eleven (11) are locally incorporated and eleven (11) are overseas companies.

In 1975 the local companies generated 55% of the gross premium income and 60% of net premium after taking account of reinsurance cessions. Gross premium income in 1975 of all reporting companies amounted to approximately $52.3 million and net premium to about $30.4 million. The difference between gross and net premium income relates to reinsurance cessions. However, the difference does not represent reinsurance outflows since claims paid by reinsurers (reinsurance recoveries) and commissions paid by reinsurers are deducted. This deduction amounted to about $14 million in 1975 so that the net outflow for the year was about $8 million. Gross premium income for 1976 is roughly estimated at $59 million and net premium at $34 million.

23. As in the case of Life Insurance Companies the Committee endorse the concept of localisation of the General Insurance Companies within the framework of a 51% local participation.

24. The Committee recognise that for General Insurance Companies localisation may be achieved basically by the transfer of the portfolios of foreign companies to local companies, the formation of local subsidiaries and the transfer of existing portfolios to them. The companies likely to be affected by the localisation process relate to those locally incorporated but with a local stake below 51%, branch offices of foreign companies and agencies of foreign companies. It is also recognised that localisation can take place by the merger of companies with more than a 51% local stake with those with less than a 51% local stake. Also local companies with less than 51% local stake may be fully localised by disposal of their foreign stake to local persons or preferably increase in local capitalisation to a point at which the foreign stake falls to 49%

25. The Committee recognise that the method of localisation must essentially be one of individual choice. Also the need to ensure viability of the local Industry and to maintain so far as is possible retentions at levels not less than those operating prior to localisation are of vital importance to the Industry. Transfers of portfolios or mergers between local companies must also ensure that asset values are not reduced and that unemployment and dislocation of the Industry do not result.

26. Central to the issue of localisation of the General Insurance companies is the timing and the Committee consider that a period of three years should also be applicable. This period should preclude or minimise any dislocating effect and maintain stability and confidence in the local Industry. The time period proposed is also needed to avoid unnecessary financial loss to the parties involved by forced selling or purchasing, avoid unemployment and facilitate upgrading and training of staff, enable reinsurance treaties to be suitably modified and enable continuity of cover where the more complex cases are concerned. All foreign companies should within one year indicate their proposals for localisation.

27. The Committee recognise that in the present economic climate the acquisition of local capital needed might be difficult to achieve. The placement of business with local companies with more than 51% local shareholding is considered as likely to facilitate localisation. This could also be achieved by local branches or locally incorporated companies being merged with domestic

companies. However, locally incorporated companies below the 51% local stake do provide substantial capacity at the moment and the local market would benefit considerably by increased local shareholding in such entities which represent a real increase in capitalisation rather than a mere transfer of ownership since net retentions could then be increased thus reducing foreign exchange outflows via reinsurance. The Committee also consider that participation by employees, etc. and policy holders would facilitate local shareholding. The financing of paid-up capital requirements to meet the 51% local stake may also be effected through underwriting facilities at the Jamaica Development Bank and through employee and policy holder participation as well as private placement arrangements through the institutional investors. As in the case of the Life Insurance Companies the Committee recognise that for the General Insurance Companies various methods of effecting capitalisation can be effected. These include as indicated above the use of two classes of ordinary shares, one of which would be non-voting and which would be subscribed by the overseas entity. There would also be various layers of redeemable or irredeemable preference shares which would similarly be subscribed by the overseas entity.

28. The Committee consider that the pace of localisation and the expansion of the local General Insurance Companies could be expedited by the grant of some form of partial tax holiday over a five-year period. General Insurance Companies are subject to taxation of between 45% to 50% of profits, and the Committee recommend that the need for increased capacity and capitalisation which localisation will impose be met by reducing the level of tax payable by these local companies by about 50% over a five-year period. This concession should, the Committee also recommend, be matched by a dividend restraint programme over the five-year period whereby no dividends will be paid and all profit would remain undistributed in order to expand net worth.

29. Examination of the tax paid by locally incorporated General Insurance Companies indicated an amount of $1.7 million in 1975, and $1.5 million in 1974. The actual underwriting profits made by these companies in 1975 and 1974 were $1.6 million for each year. While this may give the impression of a stable profit position from an underwriting view point this is not so. Underwriting profits vary appreciably year by year on a company basis. On the basis of 1975 figures underwriting profits of $1.6 million represent 8.6% of net premium income ($18.6 million) generated by the locally incorporated companies. It is considered that any tax benefits foregone by Government will basically assist capacity rather than the ability to purchase additional shares in the company for the speed-up of the localisation process. Accordingly any tax reduction should be related to building of a general reserve which could not normally be released by the beneficiary company.

Item (b): To Make Recommendations Of Ways And Means Of Widening The Capacity Of The Local Insurance Industry To Retain Premiums Here And To Reduce Remittances For Reinsurance

30. Several factors are identified as governing capacity and the retention of higher levels of net premium income and thus the reduction of reinsurance outflows. These relate to increases in paid-up capital or net worth, the spread

of risks, the diversification of portfolios, the nature of catastrophe perils, etc. It is recognised that a number of mechanisms could be devised or used to increase capacity. In the final analysis capacity, which is the extent and degree to which the local companies can maintain the risks insured for their own account, is a function of the financial strength of the individual companies in the market.

31. Continuing financial strength depends on the degree of expertise (underwriting, technical knowledge of the structure and nature of the various commercial and industrial risks, investment, accounting managerial, financial, etc.) available to each company or to the market as a whole and the degree of maturity of the insurance market and of its individual components.

32. As indicated in paragraphs 28 and 29 it is recognised that increased capitalisation is difficult to achieve. However, increases in net worth can be achieved by accumulating undistributed profits. This has been the general line adopted in Jamaica. In 1975, the aggregates net worth of 11 locally incorporated General Insurance Companies amounted to $12.7 million as against $11 million in 1974. This amounted to an increase of 13% in 1975 over 1974. As would be expected in the Insurance Industry dividends distributed were relatively small so that these do not represent a significant movement of resources away from the development of Net Worth. Thus in 1975 aggregate Dividends paid or payable (including dividends on preference shares) amounted to $533,814, and in 1974 the figure for dividends was $689,489. Dividends distributed as a percentage of Net Worth in 1975 amounted to 4% and in 1974 to 5%.

33. The spread of risks can be achieved territorally as well as extra-territorally. Also the spread of risks can be obtained through diversifying existing portfolios. All these are desirable objectives and the Committee recommend that these objectives be vigorously pursued by:

(i) Creation of various Jamaican reinsurance pools with the following objectives:

(a) to maximise underwriting profits by effecting a wider spread of risks among member companies;

(b) to retain in Jamaica a portion of the reinsurance premiums that usually go outside the region;

(c) to promote understanding among the companies by encouraging co-operation among insurers,

(d) to serve as a vehicle for the dissemination of knowledge on insurance theory practice and experience;

(e) to serve the nucleus of an insurance statistical centre for Jamaica;

(f) to establish the base for creation of a Jamaican reinsurance corporation.

(ii) Co-operation in sharing large risks facultatively.

(iii) Reinsurance treaty exchanges among Jamaican Companies.

(iv) Formation of a Jamaican Reinsurance Company. This should be done as a voluntary act on behalf of companies transacting business in Jamaica. This could be a method of involving overseas investment thereby demonstrating acknowledgement of the fact that reinsurance is really of an international character and that co-operation is needed not only among companies in Jamaica but should extend to regional markets. Indeed such a situation would allow for the direct insurers from the various developed markets to pool their technical efforts and join forces with our developing market. All insurance companies operating here could be made to pass a specified percentage of all business to the reinsurance company.

34. In all of this it must be borne in mind that in any insurance company the degree of risk bearing is directly proportional to financial capacity. Any recommendations as to the means of widening capacity of the local market must include a programme for strengthening of domestic companies.

35. The Committee also recommend the grant of tax concessions as already indicated at paragraph 28 above as this represents the best method of rapidly increasing net worth.

36. In order to further facilitate the diversification of portfolios the Committee recommend that subject to the practicability of particular circumstances all risks emanating in Jamaica should be placed with locally incorporated companies. A period of one year would be required to achieve this objective as it will be necessary to negotiate reinsurance arrangements and to develop skills in specialised areas of risk.

37. One of the factors affecting capacity and local retention as already pointed out is the question of catastrophes. Jamaica suffers from earthquakes and hurricanes and it is therefore necessary to fund so far as is practicable to partially meet these perils. Already companies have been required by the Office of the Superintendent of Insurance to provide a Claims Equalisation Reserve and this should be continued on the approved tax free basis since it represents a contigent liability and the assets cannot be appropriated for any other use. The Committee also recommend that local insurers adopt a catastrophe reserve in respect of property insurance on an accumulation basis similar to those adopted in countries like Mexico which are earthquake prone. Thus the Committee recommend that 10% of net property insurance premium be placed to the reserve on an accumulative basis. The 10% of net property premium income should be on a tax free basis as such funds would not be free for any purpose but meeting catastrophe perils in the property insurance field. This will increase retentions and will save foreign currency over a period of time. No tax loss of any size is anticipated as the direct allocation to the reserve will be offset in time by increased income which will boost the overall income and net worth of the companies.

38. The Committee recommend that local insurers establish local reinsurance pooled arrangements as a means of increasing local retentions. Also "large risks pools" relating to specialised classes of business should be established. These arrangements must be effected within three years. This approach will gradually widen the market and make it more competitive vis-a-vis

international rates.

39. The Committee recognise that one of the factors acting as a constraint on the widening of capacity through inhibiting investment income is the lack of suitable investment media. This is particularly true for the General Insurance Companies where high liquidity coupled with good security and minimal capital depreciation would be needed. The Committee recommend that this could be achieved through a suitably priced short-term local registered stock, say, one year to two years in term and which would be repurchased by the Bank of Jamaica should the necessity for liquidation arise because of a heavy claims record. At present investment is highly centered in fixed deposits with the banking sector and deposits with Building Societies. However, investment through a suitable Government instrument would widen the financial assets available to General Insurers at present and improve investment income and net worth.

40. The Committee also recommend as part of the long-term solution to increasing capacity that a local reinsurance corporation should be instituted as indicated at paragraph 33 (iv) above. The Committee consider that this would not be competitive to any regional reinsurer but would rather complement it. The local reinsurance corporation would also be expected to develop reciprocity with international and regional reinsurers.

41. While the development of local capacity is mainly a problem related to the General Insurance Companies the Committee recognise that local life insurance companies can take effective steps to increase local retentions. The levels of local retentions will vary from company to company but by co-insuring risks it is considered that greater capacity and retention will be developed. At the moment reinsurance outflows for life insurance amount to about $800,000 per annum and it is recognised that through these arrangements and the maintenance of specialised pools by the reinsurers, persons who would otherwise be unable to obtain life insurance are now being covered. The reinsurer is also able to offer advice and technical assistance in a wide area and it is considered that advantage can be taken of this expertise to develop local life insurance pools to further widen capacity. The renegotiation of reinsurance arrangements is also seen as a possibility of increasing retentions and capacity and minimising reinsurance outflows. The training of underwriters are also essential for the development of pools.

Item (c): During The Transitional Period To Make Recommendations As To How Head Office Expenses And Other Payments Abroad By Insurance Companies Should Be Dealt With

42. In accordance with the wording above the Committee made recommendations on the above matter and these recommendations were approved by Economic Council. The payments made abroad by the Insurance Sector relate mainly to claims arising out of risks written by companies operating locally, treaty and facultative reinsurance premiums after deduction of commission and reinsurers proportion of claims, brokers balances due to overseas insurers or co-brokers or to insurers for insurance placed abroad and Head Office expenses due by branch or subsidiary insurance companies or insurance intermediaries to their Head Office.

43. In the consideration of this matter the Committee are aware that default on certain payments would have a disastrous effect on the Jamaican Insurance Industry. Thus the failure of a local insurer to meet claims would quickly affect the credibility of the Industry in the international markets. Jamaican insurers undertake some international insurance business and, of course, are becoming more active in providing marine cargo insurance on Jamaican exports to CARICOM. Also, a number of persons who have left Jamaica continue short-term personal accident insurance policies which are renewed annually. The early discharge of claims arising from all these contracts is essential to the Jamaican Industry's credibility.

44. The Committee are also concerned about the maintenance of the viability of the local Insurance Industry. The question of viability is bound up with the entire reinsurance arrangements effected by the local market. Reinsurance is essentially a mechanism for spreading risks and enable the ceding company (the direct underwriter) to absorb more risks than would otherwise be possible. In areas such as property insurance (and certain aspects of marine cargo insurance and, of course, in liability insurance, etc.) accumulation of risks takes place and without proper reinsurance arrangements only token cover could be effected. Quite apart, therefore, from cover relating to natural hazards such as earthquakes and hurricane, insurance business as a whole would not be feasible or viable without reinsurance and failure to effectively provide proper reinsurance cover can render a direct insurer insolvent where claims experience result in large liabilities and/or lesser amounts due with a high frequency level.

45. The question of credibility of the local industry is equally applicable to the placement of direct risks in the international insurance market by brokers. These brokers act on behalf of clients in obtaining the best cover for their circumstances and in many cases specialised or large industrial or other risks are involved which cannot now be placed in the local insurance market. It is therefore essential that premium payments or balances due to brokers for their clients be discharged as early as possible.

46. In the light of the above the Committee have made the following <u>recommendations</u> about payments abroad by the Insurance Industry:

(i) All claims due and owing on risks written outside Jamaica by insurance companies operating in Jamaica be paid promptly and on an on-going basis.

(ii) All treaty reinsurance balances due up to 30th September, 1976, all adjustments of reinsurance premiums for 1976, and all Reinsurance Deposit Premiums now due in 1977, be released over the quarter beginning 1st July, 1977, and subsequent releases to be effected thereafter on a quarterly on-going basis subject to the time lags indicated above. All facultative reinsurance to be released on a monthly basis with a time lag of six months in arrears. Reinsurance Deposit Premiums due after 1st July, 1977, to be released as and when they arise.

(iii) Premiums and balances due to overseas insurers by brokers to be paid on a six-monthly basis in arrears. The releases to be made monthly from February, 1977, in respect of September, 1976, and so on monthly on an on-going basis.

(iv) Reinsurance balances and reinsurance premiums due by life insurance companies to be released on a six-monthly basis in arrears.

(v) All applications for release of funds for insurance transactions to be processed through the Office of the Superintendent of Insurance.

47. The question of Head Office expenses relate more specifically to the Life Insurance area of the Industry. Broadly speaking these expenses relate to the recoupment of the overheads of a Life Office where branch operations occur throughout various territories. Apportionment of the overheads has been effected in various ways with notional charges being levied mainly on the ratio of the premium income generated in a specific territory to overall premium income. The Committee consider that the basis of charge should relate to actual functional expenditure incurred for the Jamaican branch, agency or subsidiary and that where no actual cost basis is capable of determination the basis of the proposed charge must be acceptable to the Superintendent of Insurance. The Committee accordingly recommend that release of funds for Head Office expenses must fulfil the requirements of circular letter of November, 1976, from the Superintendent of Insurance to overseas Life Offices operating in Jamaica. (See Appendix attached).

48. In the case of General Insurance Companies and Brokers the Committee also recommend that Head Office expenses be met provided actual functions and/or services rendered are identified and relate to the Jamaican entity and are acceptable to the Superintendent of Insurance.

49. The Committee further recommend that remittances for Head Office expenses applicable to all the above categories be released one year in arrears.

Item (d): To Make Recommendations On Ways Of Dealing With Remittance Abroad By Insurance Companies In Respect Of Life Insurance Premiums Where The Policies Had Been Taken Out Legally Prior To Sterling Being Brought Under Exchange Control

50. The Committee in the course of their deliberations recognised that the above Item (d) of the Terms of Reference had a wider connotation than that simply applicable to Sterling denominated Life Insurance Policies. There was recognition of the fact that a number of situations would have arisen whereby life policies would have been issued to persons who were not at the time of issue residents in Jamaica. A Jamaican who was living overseas and subsequently returned to Jamaica and who had while overseas, taken out life insurance may be instanced as a particular case. Also students may have contracted life insurance while going through university, and teachers, etc. who are now living in Jamaica but who had been domiciled in, for example, the United Kingdom or the United States of America or elsewhere, could be involved with policies of life assurance denominated in non-Jamaican currencies contracted

while they were residents outside Jamaica. In such circumstances and because of the nature of life insurance which is intended primarily to protect against the sudden death of an income earner the Committee consider that releases of funds would be justified to maintain life assurance policies in force.

51. The Committee recognise that life insurance policies may also have been issued by Life Insurance Companies in Jamaica to persons in the Caribbean when there was a common currency or when the territories of the Commonwealth Caribbean were all members of the Sterling Area. Particularly note was taken of the fact that the Turks and Caicos Islands and the Cayman Islands were at one time dependencies of Jamaica and had a common currency with Jamaica and that policies may have been issued to their residents by Life Insurance Companies operating here. It was also recognised that Work Permit holders who were temporarily resident in Jamaica would wish to continue their life insurance policies contracted outside Jamaica. Special attention was also directed to sterling denominated equity-linked policies issued to Jamaicans by Cannon Assurance Company Ltd. formerly, International Life Insurance Company (U.K.) Ltd., when Jamaica was a member of the Sterling Area. These equity-linked policies possess a term element and are related to units the value of which is linked to underlying assets of an internal fund which the company operate. These assets consist mainly of securities quoted on the London Stock Exchange. These policies are ten-year policies and were taken out in the mid to late 1960s. Most are due for redemption within 1977 and 1978, and substantial foreign exchange inflows would return to Jamaica on their maturity. A full list of policy holders was obtained from the Company by the Superintendent of Insurance and the Company agreed to co-operate so far as it was legally able to ensure the return of policy proceeds to Jamaica on the maturity of such policies.

52. On the above basis and on the recognition of the diverse cases involved the Committee recommend as follows:

(i) Premiums due and payable on foreign denominated life assurance policies which were legally effected at the date of inception be released provided that the policy proceeds are remitted to Jamaica on the maturity of such policies or on the death of the policy holders.

(ii) The proceeds of life insurance policies taken out by residents of Turks and Caicos Islands and the Cayman Islands and other Caribbean Territories with Jamaican companies be met in their appropriate currencies provided premiums had emanated from those territories.

(iii) Work Permit holders to be allowed to remit in addition to the funds which may be credited to their external accounts, funds for the maintenance of their policies contracted outside Jamaica.

Item (e): To Make Recommendations On Any Special Cases, Such as Group Insurance Available to Professional Groups

53. The Committee, as indicated at paragraph 8 above, invited through advertisements in the Press, memoranda from Professional Groups and Societies, financial, industrial and commercial organisations giving information pertaining to specialised cover abroad and the nature and extent of the cover involved.

The replies received related basically to specialised insurance involving Professional Indemnity Cover, etc. which categories such as lawyers, doctors, banks, accountants, stock brokers, engineers and insurance brokers, etc, would take out to effect protection against malpractices or other liabilities to their clients in the course of carrying out their functions. The Committee recognise that at the present the local market do not give cover in the type of area indicated above because of lack of premium volume, lack of underwriting expertise and lack of reinsurance facilities and recommend that such cover should continue to be placed overseas for the next twelve months. Thereafter the local market should place itself in a position to accept such risks.

54. The Committee in the course of considering Item (b) of the Terms of Reference have also recommended that all insurance emanating in Jamaica should be placed in the first instance with local insurance companies. The Committee acknowledge that this recommendation is the objective to be aimed at and that a period of one year will be needed to enable local companies to negotiate appropriate reinsurance arrangements or to seek out specialist markets and work out co-insurance arrangements or reinsurance as may be most suitable in the circumstances.

55. Most group insurance relate to group life and pensions schemes and group accident insurance. These are in the main dealt with locally and as from 1973, bauxite and alumina companies and other international companies or internationally affiliated companies were requested to repatriate their pension funds applicable to local staff and maintain these in Jamaica. Repatriation of these funds has been taking place since then, and in a number of cases the repatriation schedule has been completed. All pension funds that have not yet been repatriated must be transferred by December, 1978.

56. The Committee, however, are aware of a number of cases where locally employed persons are members of an international group life or health scheme and consider that these arrangements should terminate as from the next renewal date and that from 1978 all such group arrangements should be negotiated with local insurance companies.

57. The Committee were unable to identify any professional groups who enjoy group pension or group life insurance benefits because of membership of international professional associations. One or two individuals might enjoy group accident insurance cover but this appeared to have been effected initially on membership and no remittances are being sought to continue such cover.

58. The question of the portability of pension rights of staff who were internationally recruited by international companies or affiliates were considered by the Committee. This recruitment takes place outside Jamaica in the same way that other staff are recruited and such employees are always subject to transfer or promotion within the groups world-wide employment facilities. Where international staff work in Jamaica such staff would normally be required to contribute to the local pension scheme. However, on transfer outside Jamaica request for the transfer of pension contributions may or may not be made. This would also be applicable where persons recruited locally are promoted to the level of international or group staff positions. The Committee consider that portability of

pension rights could not be denied to internationally recruited persons and that Jamaican or other staff so recruited could not be denied these benefits. The Committee feel that substantial benefits in permitting portability would be derived by Jamaica in terms of increased skills and also in terms of foreign exchange inflows on the retirement of such persons and their decision to reside in Jamaica.

59. The Committee consider that Alcan Jamaica Ltd. and associates in Jamaica best illustrate the position. Thus Alcan Jamaica had responded to Government's policy in 1973, for the repatriation of the pension contributions of Jamaican employees and repatriated these funds in March, 1975. These funds now aggregate about $5.1 million and are administered locally. Staff contributions amount to about $375,000 annually and total staff and company contributions are now running at approximately J$900,000. Investments are mainly effected in deposits in Building Societies and commercial banks. Membership now amount to 793 persons of which professionals number 125. Under the previous pension arrangements which were maintained mainly in Canadian and U.S. investments transfers of staff could take place within the Alcan System but such transfers related to staff who were all members of the same pension plan. There are also pension arrangements for Alcan Jamaica's unionised employees which are carried by three Jamaican insurance companies and the repatriation of these assets had been agreed on with the unions before the Government directive of 1973. The union plan now stands at about $4 million. Total company and employee contributions amount to J$725,000 per annum. Alcan Jamaica also seek to develop nationals for technical and managerial posts not only in Jamaica but throughout the Alcan System. This technique assists in the recruitment of persons of high skill who can look forward to a satisfactory career within the groups world-wide facilities. By the end of 1977 the company anticipate that work permit holders will be reduced to 13 - 15 and the company wish to ensure the promotion or placement of its eligible Jamaican staff within its total system. If Jamaicans are relocated outside Jamaica a transfer value must be paid to the pension fund applicable to the new location. Annually transfers of staff take place within the system and the number anticipated should amount to about 3 - 5 each year. It is clear that the company's contributions are made from foreign exchange and that the development of skilled Jamaicans will assist the country. It is also anticipated that a number of these will return to Jamaica on retirement and there should be no net foreign exchange loss to Jamaica. The Committee accordingly recommend the portability of pension arrangements in the case of international companies operating here.

60. The Committee's examination of the Federated Superannuation System for Universities (FSSU) also resulted in the conclusion that portability of pension rights were of special significance in the circumstances involving the University of the West Indies. The FSSU is a scheme formulated in the United

Kingdom for United Kingdom and other Commonwealth universities. The University of the West Indies (UWI) have participated in the FSSU for a period in excess of twenty-five years. FSSU for overseas universities is operated through a panel of U.K. based companies which come under the U.K. Insurance Companies Act. In addition surveillance is exercised by the FSSU Secretariat. No West Indian Insurer is at present on the panel and it would be necessary to establish a branch operation in the U.K. to obtain panel membership. The UWI operate with Bank of Jamaica's permission certain external accounts to which deposits (such as contributions and donations) from external sources are debited. There are thus no direct foreign exchange outflows arising from the FSSU operations so long as the external accounts are in surplus. Premiums remittable for the FSSU arrangements amount to approximately $650,000 or 15% of the aggregate salaries of academic and senior administrative staff. The UWI are funded by fourteen participating Governments and 60% of resources emanate from external Government sources. Also the University earn foreign exchange for Jamaica as the Mona Campus cost more than Jamaica contributes. In addition there are also inflows from overseas agencies and institutions aggregating roughly J$10 million annually. The dismantling of the FSSU arrangements would not benefit Jamaica as it would lead to a fragmented scheme involving the territories in which campuses are maintained. The flexibility and academic freedom offered under the FSSU arrangements are tangible benefits which it would be most unwise and undesirable to disturb and the Committee accordingly recommend the continuance of the present arrangements.

Item (f): To Make Recommendations On Ways And Means Of Expediting Training In The Insurance Industry So As To Expand Local Employment

61. The need to expand the training facilities available in insurance in Jamaica is essential to the growth, efficiency and viability of the Industry. The ability to develop internationally is dependent on the existence of proper and advanced training facilities. There are two main bodies which are concerned with training within the Industry but each insurance company, broker, agent or sub-agent may undertake specific training of staff, etc. as may be considered in the best interests of the entity. The organisations in question are the Life Underwriters Association of Jamaica Ltd. and the Insurance Institute of Jamaica. The Education Committee of the former body are concerned with setting standards and devising training programmes and examinations for Life Insurance Salesmen. The Life Underwriters Association Training Course (L.U.A.T.C.) represents a Course and Examination which is devised, programmed and monitored by the Association taking over full responsibility for the syllabus, training programme and examinations set and devised under the designation of C.L.U. (Chartered Life Underwriter). Salesmen as members of the Association take at the present time the examinations of the Chartered Life Underwriters of Canada. The Association have been in discussion with their Canadian counterparts and it

is expected that within the next two years the C.L.U. examination will have been completely localised. The subjects taken at C.L.U. level are Economics, Accounting, Life Insurance Law, Fundamentals and Principles of Life Insurance, Personal Financial Planning, Psychology, Taxation, Advanced Life Underwriting, Commercial Law, Case Studies in Life Insurance, Group and Pensions and Corporation Financial Management. The C.L.U. examination covers a three-year course.

62. The Insurance Institute of Jamaica provides industry wide training so far as the General Insurance Companies operating in Jamaica are concerned. The Institute do not possess professional teachers as such but draws upon the body of professionally qualified and experienced personnel within the Industry to lecture on various topics involving insurance. The programme of the Institute is aimed and geared to the training of beginners or non-professional staff but some specialised courses are aimed at supervisory level. It also attempts to assist in providing tutoring for those persons who are studying for the examination of the Chartered Insurance Institute of London. It is recognised that the examinations of this body - the Associateship and Fellowship of the Chartered Insurance Institute, i.e., the A.C.I.I. and the F.C.I.I., respectively - represent high professional insurance qualifications and possess widespread international recognition. The A.C.I.I. or F.C.I.I. is also considered to give adequate training for administrative management for Life Insurance Companies. Management courses in the Life Insurance field are also provided by LOMA examinations.

63. At the elementary level for qualification as salesmen, examinations are set by the Office of the Superintendent of Insurance. These examinations are mainly involved with basic principles of insurance and product knowledge and individual companies offer training courses for them. The standard of training varies between companies. In the Life Insurance and Industrial Life Insurance fields examinations are set at eight-weekly frequencies. This is also true of equity-linked insurance where salesmen are required to have passed their examinations in Ordinary Long-term business and to have been selling life insurance for at least one year. Examinations for general insurance salesmen are offered at irregular intervals and examination frequency may range from quarterly to half-yearly. Syllabuses have been published in the Gazette for the information of the Industry.

64. It is clear that insurance relates to the development of skills and that it is necessary for persons operating in the Industry to be highly skilled if the indigenous Industry is to be competitive and earn the respect of its competitors in the international market. The Committee accordingly consider that the Industry must provide systematic and institutional training for its employees. The Committee recommend that an immediate survey of manpower needs and of the manpower resources available (actively employed) to the Industry must be carried out so that detailed planning may proceed in the educational area. Upon completion of the survey a programme to ensure adequate supply of properly trained men and women at all levels in the Industry must be designed and implemented. The programme should utilize the facilities at CAST and funding should be provided by users of the scheme. Proper monitoring of the

programme should be the responsibility of the Industry possibly on a shared basis between the Life and General Sectors. In determining the educational programme liaison should be established with international institutions concerned with advancement of insurance education in developing countries.

65. The Committee feel that in order for the localisation programme to succeed the educational programme outlined above must be vigorously pursued and in addition the Industry must raise its level of recruitment and make aware to persons at university and high school levels the careers open to them in the Insurance Sector with a view to attracting suitable recruits into the Industry.

66. The localisation process will create an increasing demand for Accountants, Investment Managers, Financial Analysts, Economists, Statisticians, Computer personnel, Engineers, Lawyers, Underwriters, Actuaries, etc. all of whom are essential to the development of a sophisticated Insurance Industry.

Item (g): To Make Recommendations On The Most Appropriate Means Of Dealing With Catastrophe Insurance And Individual Large Risks

67. Many factors determine the size of risks or the nature of risks. Individual large risks, special risks and catastrophe risks are determined by such factors as increasing industrialisation, technological advancement, development and diversification and geographic, topographic, climatic and geological factors. With the advent of the bauxite alumina industry in Jamaica which has resulted from international technological development and advancement the individual large risks in the Jamaican insurance market has grown in size and complexity. The advent of tourism with its expansion of hotels has resulted in an accumulation of risk which is huge in dimensions. The growth in urbanisation has also resulted in a greater number of homes, offices and the development of urban infrastructure which again has resulted in individual large risks and also in an accumulation of risk. As a country's foreign trade grows and its imports increase marine insurance needs to expand and the accumulation of risk associated with certain elements of marine cargo is likely to take place.

68. Essentially large risks can only be covered by distributing them world-wide. No country can ever hope to retain within the confines of its insurance sector the aggregation and accumulation of risk embodied in an industrial/urban complex which is a phenomenon not only of developed countries but also of developing economies. The devastation brought about by the air tragedy at Teneriffe,the earthquake in Guatemala or the cyclone in Darwin were all paid for by the international market.

69. The capacity of the Jamaican General Insurance market to retain any significant amount of net exposure for its own account is very limited. The local market, for example, will not in the foreseeable future be able to underwrite one hundred percent of even the smallest bauxite operation. These large projects are constructed in accordance with the latest technical development and very sophisticated insurance underwriting know-how is needed to assess such a risk. This is also true of fire and engineering insurance. But the above merely pin-points some of the technical problems involved. As already indicated under capacity results not only from lack of technical, engineering, insurance and other expertise but is also governed by the size of the insurance

companies operating in the market. Individual locally incorporated insurance companies are modest in size. These companies in terms of net worth range from about $195,000 odd to about $3.3 million - 1975 figures. The aggregate net worth of the locally incorporated companies in 1975 was only $12.7 million. These are small amounts compared with some individual risks and, of course, extremely small when compared with the accumulation of risk which arises in Jamaica just in the property insurance class itself. For the market as a whole it is estimated that gross catastrophe liabilities for hurricane and earthquake in particular are approaching about $30,000 million to $40,000 million. Recent studies by Drs. Shepherd and Tomlin also indicate the vulnerability of Jamaica to high intensity earthquakes and particularly the exposure of the Kingston metropolitan area. Indeed from a seismological viewpoint Kingston is situated on the worst possible geological base. Also the risk of occurrence of earthquakes in Jamaica, based on historical damage frequency, is similar to that in the higher risk areas of coastal California.

70. There must accordingly be heavy dependence on reinsurance facilities as the mechanism by which the spread of risks is distributed world-wide. This position is, of course, further exacerbated by Jamaica's geographic location and its geological structure. It is thus a country subject to natural catastrophes, such as, earthquake and hurricane, wind-storm and flooding and these events further dictate prudence in the retention of risk quite apart from the financial size and financial capability of companies to retain risks for their own account.

71. The above does not, of course, mean that steps should not or cannot be taken to expand risk taking capacity. The Committee have already pointed out earlier in this Report the steps which should be taken in this direction. Large risks pose the many sided problem of heavy financial loss, the need for technical underwriting capability to assess the risk insured, the development of the technological environment for mitigating such loss and the technical capability to effect early repairs when damage is done. Accordingly, the problems posed are not merely related to the Insurance Industry as a whole but also to the economic and technological environment in which the risk is set. Any solutions to the problem of dealing with individual large risks and catastrophe insurance must at the present and, in fact in the future, be partial solutions which enable the Insurance Industry to grow financially strong and therefore able to absorb more and more risk as time goes by. There will be several devices which will aid this development. The Committee recommend the following devices for large risks:

(i) creation of Jamaican reinsurance pools;

(ii) co-operation in sharing such risks facultatively;

(iii) reinsurance treaty exchanges among Jamaican insurers.

For these devices to operate effectively such risks should be placed on the basis of Jamaican companies accepting the maximum of their financial capacity in the first instance with the remainder being spread internationally according to the availability of insurance or reinsurance facilities and the technical

assistance necessary to assist in personnel development.

72. As regards catastrophe this can only be dealt with by way of re-insurance outside Jamaica, and the Committee recommend freedom in placement of reinsurance arrangements. Most, if not all, domestic insurers effect catastrophe reinsurance based on their individual dollar exposure. It follows that the greater the dollar value of the risk retained, the larger will be the dollar value of catastrophe protection required.

73. This reinsurance is arranged on the basis of the domestic company agreeing to bear the first portion of any loss by catastrophe peril, say $50,000 with all above that figure being reinsured. The operation of this deductible is identical to that of an excess under a policy of motor insurance. It follows therefore, that the stronger a company is financially the higher will be its deductible resulting in a commensurate lowering of reinsurance premium. Companies should therefore be allowed to create a catastrophe reserve - tax free - which could only be used for paying such claims and this could be achieved by a gradual build-up annually to a figure which would influence significantly the cost of the overlaying reinsurance cover. Accordingly, the Committee recommend as already proposed in paragraph 37 the establishment of a tax free catastrophe reserve fund on an accumulation basis. The Committee also recommend that the funds created by the catastrophe reserve indicated in paragraph 37 above be permitted in the main to be invested outside Jamaica thereby creating in the time of catastrophe an inward flow of foreign exchange. This will be needed for renewal or replacement of productive assets damaged or destroyed in a catastrophe and will ensure the replenishment of production facilities without undue foreign exchange burdens. In a catastrophe the liquidity of the banking system and other financial institutions would be severely strained and the foreign exchange inflows emanating from the catastrophe reserve would help to mitigate this problem.

Item (h): To Make Recommendations On the Above Terms of Reference In Light Of Jamaica's CARICOM Relationships

74. The Committee are aware that a number of the items in the Terms of Reference have a direct bearing not only at the local level but also on regional insurance operations. The localisation of the Insurance Sector bear directly on such operations and as already indicated the Committee recommend that no steps should be taken to affect in the localisation process a regional company, that is, a company incorporated in any territory in the region with at least 51% regional shareholding (shareholding in any territory or combination of territories which amounts to at least a 51% stake) or a regional subsidiary (subsidiary formed in any territory of the region) of an overseas company where the overseas company is taking this step as preparatory to regionalisation as indicated above or a regional mutual company incorporated in any territory of the Region.

75. The Committee also note with satisfaction the Income Tax (Amendment) Act, 1977, which has amended Section 48 of the Income Tax Act to apply the impost of ½% premium tax to all regionalised Life Insurance Companies including local companies and leaves non-regional companies subject to a 2% premium tax.

76. The Chairman of the Committee has also been in telephone contact with Mr. Mervin DeSouza, Minister of State in the Ministry of Finance of Trinidad and Tobago, and has explained the steps being proposed in relation to localisation of the Jamaican Insurance Industry. Mr. DeSouza indicated that he could not commit the Government of Trinidad and Tobago to a similar approach but would let the Chairman have the reactions of the Government of Trinidad and Tobago as soon as this has been cleared with the Prime Minister of that State. The Committee also agree that it would be in the best interests of the Jamaican Industry and the regional Industry for a delegation comprised of members of the Committee and lead by the Chairman to contact appropriate Ministers and officials throughout CARICOM and seek a common approach on the regional concept in terms of operation by such companies. Such companies would, of course, have to fulfil the requirements of the Insurance Acts in the territories in which they would seek to operate.

77. It is also considered that the proposed contact would be useful in resuscitating the Working Party of Insurance Regulatory Authorities set up in 1975 by CARICOM Ministers of Finance. While it is recognised that the Working Party had identified a number of studies to be undertaken it is considered that a small sub-committee of the Working Party of Supervisory Authorities could examine and make recommendations on the harmonisation of returns under the various Insurance Legislations of the territories and that a further step could be developed in discussing a common approach to administering the various Insurance Acts. It was recognised that the Acts and Regulations would differ from territory to territory depending on the particular circumstances operating but the Committee consider that the MDCs could assist the LDCs in the area of Insurance Legislation either through training arrangements and meetings engendering a common approach on various key issues in the regulatory process or by setting basic standards which the LDCs would follow. The Insurance Legislation of the various territories are broadly similar and have a number of identical sections,accordingly working arrangements which yielded basically similar or identical annual returns should not pose an insurmountable obstacle.

78. The Committee also recognise the need for a regional reinsurance corporation but as already pointed out do not consider that such an organisation would clash with local reinsurance entities.

79. Because of distance and differences in size of markets the capacity to undertake or foster training facilities will also differ. The Committee has already indicated the steps that the Jamaican Industry is taking and should take to developing full institutional training at internationally recognised professional levels. Co-ordination of approach at territorial or full regional level would further strengthen the educational process.

80. The Committee are also aware that co-insurance between Jamaican General Insurers and regional insurers would help to improve capacity both locally and regionally and strengthen the regional market (and the home market) vis-a-vis the international markets. In the area of marine cargo insurance settling agents can assist the various territorial insurers and a co-insurance approach could again expand capacity regionally and territorally. The retention of risks by life insurers could also be facilitated by co-insurance at

the regional level and by facultative reinsurance arrangements. The Committee recommend that technical committees made up of suitably qualified members of the Insurance Association of the Caribbean (IAC) should be requested to study these aspects and submit reports to the various Supervisory Authorities who should then after examination meet with the technical committee of IAC and work out a common approach for recommendation to Finance Ministers of CARICOM countries for adoption as a regional policy.

81. The Committee also consider that Jamaica's localisation process will be expedited by adopting the policy that up to 10% of the shareholding of a local subsidiary formed with a view to Jamaicanisation should be offered throughout the CARICOM in order to give real effect to the concept of regionalisation and so recommend.

82. The Committee recognise that the interchange of persons within the region will further strengthen the CARICOM Insurance market. They accordingly recommend that where suitably qualified persons are available within the region and are willing to take up employment in Jamaica that the issue of Work Permits for such persons should be facilitated. The Committee recommend that reciprocation should be sought from CARICOM Territories to this approach.

83. The Committee feel that it is vital to the expansion of the Jamaican Insurance Industry that penetration of the regional market should take place. The Committee accordingly recommend that as soon as practicable Jamaican insurers should study the CARICOM market with a view to establishing agencies or branches there. Such companies should be permitted to maintain the technical reserves required in the territories of the region in which they do business so as to minimise their exchange exposure. Regular reporting should be made to the Superintendent of Insurance and the Bank of Jamaica so as to enable monitoring of the arrangements applicable to such companies.

84. In regard to CARICOM relationships the Committee recommend as follows:

(i) Government issue a firm and comprehensive policy statement indicating full support for regional development of the Industry and providing that CARICOM companies will have free access to the Jamaican market provided they meet the requirements of the local Insurance Act. This statement should be made at the next CARICOM Finance Ministers' meeting.

(ii) The Government support initiatives to set up reinsurance facilities on a regional basis.

(iii) The Government in respect to (ii) above permit movement of funds within the region for reinsurance purposes.

(iv) The Government initiate the formation of an Association of CARICOM Insurance Regulatory Authorities at the earliest and the Association's Terms of Reference include harmonisation of Insurance Legislation and the eventual establishment of training facilities for Regulatory personnel within the Region.

Item (i): To Make Recommendations On How To Deal With Policies On The Lives Of Persons Who Have Migrated

85. The problem posed by the above Terms of Reference was found to be difficult because of the need to ensure equitable and fair treatment while at the same time giving full cognisance to the foreign exchange shortage facing the country. Hitherto persons who had migrated had been allowed to transfer their policy reserves so as to enable the policy to be maintained intact. This was done without diminution to the settling-in allowance permitted when a migrant declared all his or her assets. However, and just before the prohibition on permitting the remittance of settling-in allowances the Bank of Jamaica allowed policy reserves to be transferred by reducing the settling-in allowance by an amount corresponding to the transfer of the policy reserves.

86. The Committee recognise that the Life Insurance Policy is quite different from other assets. It cannot be compared with saving deposits in a commercial bank or in a Building Society. While there are similarities there are also substantial differences. A participating policy yields some return on the amount of savings effected through Life Insurance but this return is not only dependent on how the assets and yields from those assets perform. It is not a guaranteed position and in this it differs widely from a savings account at a bank or Building Society where each year or other specified period the saver is assured of a pre-determined rate of return. The long-term nature and death benefit element involved in Life Insurance creates a distinction which makes a Life Insurance Contract an asset which is quite separate and apart from other savings media. Thus after paying the first month's or first year's premium the policy holder may die and his estate or beneficiary receives the full amount assured. Also, after saving during his life time the insured's estate or his beneficiary may receive back in the case of whole life non-participating policy an amount substantially less to the premiums paid over the passage of time. The death benefit payable under a term insurance contract relates purely to the mortality risk involved and represents no rate of return whatsoever so far as the insured is concerned. While some policies combine investment with life insurance - the equity-linked and endowment insurance contracts - other life insurance policies are designed to offer protection or to cushion the family or dependents against the loss of earnings of the insured on his or her death.

87. The difference between Life Insurance Contracts and other savings media can also easily be distinguished by the price which have to be paid for such contracts in relation to the age of the insured. The age of a depositor with a Credit Union, Building Society or Savings Bank, etc. is quite immaterial. This is not so with Life Insurance where whatever the type of Life Insurance Contract being effected, the price increases with the age of the prospect. Again, the state of health of the prospect is a vital aspect so far as entering into a contract of life insurance is concerned. The individual whose health is impaired (regardless of age) will inevitably find himself or herself unable to obtain life insurance or only able to obtain it at a price (premium higher than that of the person of identical age in a normal state of health). No person is charged a higher amount to save with a bank or Building Society simply because of health or age.

88. The Life Insurance Contract is therefore unique in that it is an attempt to offer financial protection to dependents, and the purchase price or indeed ability to obtain this protection is dependent on age and state of health. In certain circumstances therefore it represents an asset which cannot be replaced and an "investment" which yields no returns. These differentiations distinguish it from other assets and determine a treatment which must be unique compared with other assets. Any treatment which inhibits the maintenance of the contract intact or frustrates the payment of policy proceeds to the insured has fundamentally removed the protection which a normally prudent person attempts to provide for members of his or her family over a life time. It is against this background that the Committee had to examine the question of the treatment of policies on the lives of persons who have migrated, and the Committee consider that in any normal set of circumstances prevailing in the Island's balance of payments situation, that migrants should be permitted to maintain their policy obligations intact through the transfer of policy reserves to their country of residence.

89. The Committee, however, consider that in the present circumstances some limitations have to be imposed but that these limitations should be as fair as possible to all concerned. The Committee recognise that a substantial number of migrants have left Jamaica many years ago, and in a number of cases, have transferred their policy reserves, and in other cases, have continued to maintain their policies in Jamaica by the inward remittance of foreign exchange. The Committee are also cognisant of the fact that some migrants have maintained their policies in Jamaica from their resources in Jamaica. It is recognised that some of these resources previously represented remittable funds. The Committee findings are as follows and the Committee recommend that companies registered to transact life insurance business in Jamaica be permitted to deal with policy contracts owned by persons who have migrated or who are migrating on the following terms and conditions. Provided always that payment of premiums falling due after the date of migration be remitted to Jamaica in foreign currency and that the insurance company concerned can attest thereto -

(i) In the event of a death claim arising, payment of the net proceeds of the policy after deduction of all sums owing under the policy, be permitted in the relevant foreign currency at the exchange rate prevailing on the date of settlement (not the date of death).

(ii) In the event of a request for surrender or loan, that the surrender or loan proceeds of the policy, after deduction of all amounts owing under the policy including any premiums advanced by automatic premium loan, be payable partly in foreign currency and partly in Jamaican currency. The portion permitted to be paid in the relevant foreign currency at the exchange rate prevailing on the date of payment of the surrender or loan value, would bear the same proportion to the total net surrender or loan proceeds as the quantum of foreign currency premiums paid bears to the quantum of total premiums paid.

(iii) In the event of an Endowment claim arising, the same principle as surrenders in (ii) above would arise, that is, that the net maturity proceeds of the policy, after deduction of all amounts owing under the policy including any premiums advanced by automatic premium loan, be payable partly in foreign currency and partly in Jamaican currency. The portion permitted to be paid in the relevant foreign currency at the exchange rate prevailing on the date of payment of the maturity value, would bear the same proportion to the net maturity proceeds as the quantum of foreign currency premiums paid bears to the quantum of total premium paid.

(iv) In the case of Industrial Insurance Policies surrender and loan values be permitted to be released up to $400. In the case of an endowment claim arising releases be permitted up to $600. These should be subject to the insurance company being satisfied that on migration of the policy holder premiums have been received in foreign currency and should also be subject to deduction of all amounts due under the particular policy.

90. The Committee also recommend that policy holders overseas should be advised by their Life Insurance Companies in Jamaica that their policies must be registered in Jamaica with the Superintendent of Insurance and with their insurance company in order that any claim submitted would have eligibility for remittance overseas as indicated above. Migrants should also be registered migrants.

Item (j): To Make Recommendations On What, If Any Involvement Government Should Have In The Ownership Of The Insurance Industry

91. As indicated earlier the above item was not originally included in the Terms of Reference of the Committee. It was, however, felt that consideration be given to the matter and that the Committee should embody the item in their Terms of Reference.

92. The Insurance Industry is essentially a service industry catering to the needs of its clientele. This clientele is really the large number of policy holders who have negotiated contracts with insurance companies in an effort to cushion themselves against financial loss arising from a host of varied circumstances. The main components of the Industry pertains to insurance companies and there are now sisteen (16) long-term companies and twenty-two (22) general or short-term companies which are operational. There are a number of non-operational companies which are servicing their portfolios through the medium of local companies and a number of small local industrial life companies which have not been registered under the Insurance Act and which are servicing their portfolios subject to supervision by the Office of the Superintendent of Insurance.

93. The long-term companies or Life Insurance Companies are divided between ordinary long-term insurance companies and industrial insurance companies. These insure the lives of the lower wage earners. Companies may be mutual or proprietary. A mutual company is basically owned by its participating policy holders and managed by a management team answerable to a board of directors who in turn are answerable to the participating policy holders. The proprietary companies are owned by shareholders and management is answerable to a board of directors appointed by shareholders. At present there are two mutual

companies operating in the ordinary long-term field - one local and one foreign. There are only proprietary companies operating in the industrial insurance field. Of the sixteen long-term companies six are local (locally incorporated) and the remainder foreign. There is only one mutual company operating among the general insurers here and of the twenty-two such companies eleven are locally incorporated and eleven foreign.

94. There are various types of life policies issued but these may be broadly divided into participating and non-participating policies. Participating policies share in the distributable surplus of the company. Distributable surplus is determined by the Actuary of the company on an annual basis or not less often than once every three years. In ascertaining distributable surplus the Actuary has to compute the value of the liabilities and determine the value of the assets of the company. The excess of assets over liabilities may in part be apportioned by the Actuary to the distribution of bonuses or dividends for policy holders. The residual excess of assets is otherwise apportioned to the reserves of the company and help to meet its contingent and prospective lialibities, or is retained in the Life Assurance Fund. Bonus or dividend distribution may take the form of cash payments or deposits or additions to the sum assured, but in every case this effectively reduces the cost of insurance to the policy holder.

95. General Insurance policies indemnify the insureds in respect of the event insured against up to specific sums or on an unlimited basis. In motor vehicle insurance, for example, the insured is indemnified in respect of liability arising out of the death or bodily injury or property damage to a third party in the event of an accident. The insured may also be indemnified in respect of damage caused to his own car. Aviation hull or marine hull insurance indemnifies the insured against damage to the hull of a plane or ship or damage done to the hull of a plane or ship belonging to a third party. Passenger liability in the case of aviation insurance will indemnify the carrier against personal injury or death to passengers being carried on an aeroplane. Third party liability is also involved. The essential feature therefore of general insurance is to ensure the recovery of loss effected by the insured (or by the third party) arising from the use of a specific item, etc.

96. The Industry is also served by salesmen and by a number of intermediaries which are divided between brokers and agents and sub-agents. The insurance broker is an independent intermediary who advises and places the insurance of individual or corporate clients. The broker is essentially the agent of the insured and is liable for negligence to his client where he misadvises or where professional negligence arises. The agent or sub-agent is directly linked through contractual arrangements with the principal insurer and serves as a sales outlet. Varying degrees of autonomy arises in respect of claims settlement, etc. for the principal. All these categories are essentially remunerated by commission arrangements.

97. Life Insurance is basically concerned with the financial protection of the family following on the death of the bread-winner. It is also concerned to some extent with long-term savings. In Life Insurance there are really no "profits" as such but really the emergence of surplus which as explained above

the Actuary considers may be paid or allocated to the policy holder and shareholder without impairing the financial strength of the company. Life insurance companies must accumulate assets since a level premium is charged for an increasing risk and thus part of the premiums paid in the early years of a policy must be set aside since in the later years the premium is inadequate to meet the risk. Furthermore, every policy (except for term policies) will eventually give rise to a claim. There must also be a matching of the terms of the assets and liabilities so far as this can be effected on a practical basis so as to enable the discharge of liabilities without undue strain on the entity. In fact a most important aspect of the modus operandi of the Life Company should be simply related to proper preparation for the payment of claims. There are no cash flow advantages which the proprietor can reap for himself and in the sharing of surplus he receives by far the smaller share of the distriburable surplus which in the main enures to the policy holders.

98. In Jamaica, although there is no legislation at present, the practice of division of surplus between policy holder and shareholder has developed around statutory requirements imposed in the country of incorporation of the overseas companies or by the practices of such companies. This practice is now solidified into specific requirements and contractual obligations consequent upon the transfer of engagements by overseas companies to local companies. Broadly the Canadian practice (90% of distributable surplus of the par fund passing to participating policy holder) has now become an obligation in the case of transferred policies and the practice of aiming at an equality of treatment of all policy holders has further reinforced the situation. In addition with the operation of mutual companies where all distributable surplus passes to participating policy holders, proprietary companies must closely match these conditions. In fact in practice local proprietary companies have been distributing surplus to policy holders without yet having distributed profits to their shareholders. There would thus be no basic advantage to Government from a cash flow or profits position to develop an ownership involvement in such companies in the short or medium term period.

99. The Committee consider that while the General Insurance field is different the net effect would result in a basically similar position. Cash flow is only available to meet short-term liabilities and day to day expenses. Reserves (which are liabilities) must be made to meet outstanding claims, unearned premiums, unexpired risks, etc. Claims must be paid promptly. Underwriting results may vary widely and reinsurance premiums reduce gross inflows. Underwriting profits must inevitably be used to strengthen reserves. Investment income helps to cushion underwriting losses but because asset values fluctuate appreciably companies must constantly maintain assets substantially in excess of minimum solvency requirements if they are not to lapse quickly into insolvency. Again, therefore, because of the nature of the liabilities taken on substantial excess funds do not accrue for distribution to shareholders. In 1974 and 1975, the aggregate dividends distributed by local companies operating here represented 5% and 4%, respectively, of aggregate net worth. The General Insurance Company is concerned with attempts to mitigate losses sustained by the community or the financial restoration pertaining to such losses. The General Insurance Company

is exposed to inflation both in terms of its internal cost situation and in relation to external factors such as the replacement of plant, equipment and parts, etc. and the escalation of Court awards. It must be remembered that in a broad number of cases no definitive sum insured is applicable and full inflationary effects must therefore be provided for in the claim settlement process. While profits are made the implications are that these must be substantially reinvested to ensure financial strength for the sheer continuance of business. This is particularly true in a market like Jamaica where relatively small local companies must build up their financial strength.

100. The Committee also concluded that the acquisition of a General Insurance Company by Government would not release substantial resources for financing other areas of the economy because to protect the interests of policy holders it would not be advisable to invest in other than relatively circumscribed areas. Nor would the Government, as the proprietor, have the advanta e of directing substantial additional resources into any area which may be considered socially desirable for the reason stated above. Here, the Committee assumed that the maintenance of the solvency of the company acquired and the security of its policy holders would always be a prime objective and that it would not be intended to finance the company's deficit from scarce budget resources. This means that direct risk taking would not be resorted to unless financially prudent because such an investment policy may jeopardise the security of the policy holders. The ability of any company (life or general) to deal with its liabilities depend on its income (rates and investment income) less expenses. Rates will normally be adjusted in terms of the risk covered and the inflationary pressures being experienced. Investment income depends on the nature of the assets in which investment has taken place and a conscious effort to divert investment to more socially desirable ends can result in lower rates of return thus lowering capacity or ability to pay claims.

101. The Committee also consider that the purchase of an insurance company by Government would mean the transfer of resources from the Government to the previous proprietors. There are complicated assessments to be made in arriving at the purchase price of a Life Insurance Company. This assessment would have to take account of the portfolio of business, the estimate of future surplus likely to be generated by such business, the size of the business itself, etc. In the case of a General Insurance Company the net worth of the company, the anticipated profit, if any, the goodwill pertaining to the portfolio, etc, are factors which would determine the purchase price. The amount to be paid and time within which payment is to be made would determine the extent of the resources to be transferred to the previous proprietors. These are, of course, matters to be negotiated but it is assumed that where purchase is proposed it would be effected on a freely negotiated basis. While in a Life Insurance Company it is possible in theory to effect the purchase out of future surpluses distributable to shareholders, it seems doubtful whether this would prove to be a practicable method of payment since a substantial period is likely to be involved in such payment arrangements. In the case of a General Insurance Company the profits would in the main be needed to maintain financial stability

and permit some expansion of capacity. These situations arise in Jamaica because of the relative immaturity of companies. The Committee therefore conclude that the acquiring of an insurance company by Government is likely to result in the diversion of scarce resources from the budget.

102. The Committee next considered whether acquisition (partially or wholly) by Government of an insurance company would bring in its wake release of substantial funds for use in areas which may be regarded as desirable. The size of funds available for investment would differ from company to company and from one section of the Industry (Life Insurance) to the next (General Insurance). In the case of a Life Insurance Company the net income after meeting all expenses and adding incrementally to the Life Fund for the security of the policy holders would amount to practically nil. This has been determined from examination of the two largest local Life Insurance Companies operating here. About 30% - 40% of income is available after meeting claims and expenses but this percentage of income is allocated to the Life Fund to give each company the ability to meet its policy liabilities. In the case of General Insurance Companies about 70% of total income meets expenses and incremental reserving. Marginal profit distribution is effected as practically all resources are needed to maintain solvency and also to provide for some growth. Also, General Insurance Companies pay tax at the rate of 45% - 50% of gross profits. This reduces available resources for growth or for distribution to shareholders. Accordingly, no release of substantial resources is envisaged at this stage through Government ownership of any segment or component of the Insurance Industry.

103. The Committee also consider that the acquisition of a stake in the Industry would not give Government any manoeuvrability in terms of manipulating assets and effecting reinvestment of the proceeds in areas deemed to be desirable. The typical assets of a General Insurance Company are fixed assets such as land, building and equipment (including furniture, fixtures and motor vehicles) for carrying on business, some mortgages (typically small in extent - about 1% of total assets) and investment (about 40% of total assets). Cash and short-term deposits, mortgages and investments may aggregate over 70% of total assets and represent in the main the assets which the company could call on in times of need to meet claims. (These are very rough averages). Of the aggregate Jamaica Government Securities and securities guaranteed by the Government of Jamaica may amount to about 30%. Quoted securities could amount to about 19% of the above aggregate. This means that an attempt to dispose of such assets could cause a fall in their market value. It would also not be practical to change the composition of these assets appreciably without destroying liquidity and also the likelihood of suffering a substantial capital loss. This would affect the viability of the company. In the case of Life Insurance Companies the main asset components would be investments such as mortgages (about 40% of total assets), loans to policy holders (about 10%), short-term deposits (about 8%), Government Securities (issued or guaranteed by Government - about 12%), other fixed interest securities (about 11%) and quoted securities (equities) (about 3%). (These percentages vary from company to company but the above represent a very rough average). From this mix it can be seen that no ready

disinvestment could take place without affecting adversely the asset values and viability of the company.

104. The Committee consider that while Government ownership of components of the Industry would not be justified or would reap little benefit, there is still the possibility of using Life and General Insurance Companies as intermediaries and obtaining resources from them. These companies must continuously invest in order to back their policy obligations with income earning assets. These assets may yeild substantial proceeds on maturity (e.g. fixed interest securities and mortgages) and some will yield reasonable investment income which in turn must be reinvested. The Committee accordingly recommend that these funds could, on a moral suasion basis, be in part invested in appropriately structured Government Securities. In the case of General Insurance Companies such securities would have to be short-term and would have to be capable of encashment as liquidity may be demanded at short notice. In the case of Life Insurance Companies the securities would have to be long-dated, say, 20-25 years with suitable investment yields. The Committee further recommend that Life Insurance Companies should maintain a portfolio of direct Government securities equivalent to a minimum of 20% of total assets, and that in the case of General Insurance Companies this should be a minimum of 15% of the total assets.

105. The Committee also consider that Government through the Insurance Act has an effective mechanism of control and supervision over the Insurance Industry. The Insurance Act effectively creates a modern framework of control over insurance companies and other facets of the Industry by the registration process which requires the licensing of insurance companies, brokers, salesmen, agents and sub-agents. The registered company may have its Certificate of Registration cancelled for failing to supply information, for breaches of the Act or Regulations, for failing to have satisfactory reinsurance arrangements, for failing to conduct business in accordance with sound insurance principles and practice, for failing to maintain proper books of account, for failing to maintain financial strength, for insolvency, etc. There is also a sophisticated system of financial reporting which requires annual prescribed returns and subjects companies to regular examination of their financial position. The ability of a company to transact business may also be restricted if there is doubt as to its solvency. Regular (triennial) actuarial surveys are required of Long-term Companies and distribution of surplus may not take place without detailed actuarial investigation. The Act also provides for judicial management or winding-up of a company which is unable to pay its debts. Power of inspection is also provided. Such powers also extend to brokers, agents and sub-agents. The Act also provide for protection of industrial insurance policy holders and forfeiture of their policies cannot be effected without statutory notice. Wide regulation making powers buttress the Act.

106. The Committee accordingly recommend that in order to ensure the effective carrying out of the scope of control and supervision given under the Insurance Act that the Office of the Superintendent of Insurance should be adequately staffed at all times. The Committee also recommend that appropriate liaison should be maintained between the Superintendent and other Supervisory

Authorities within the CARICOM area. The Committee further recommend annual meetings of CARICOM Insurance Supervisory Authorities.

107. The Committee consider in view of all the above that the steps to be taken to expedite localisation of the Insurance Industry represent a practical and viable alternative to Government equity involvement in the Industry.

14th June, 1977.

OFFICE OF THE SUPERINTENDENT OF INSURANCE
51 ST. LUCIA AVENUE,
(NEW KINGSTON)
P.O. BOX 800
KINGSTON 5,
JAMAICA

No. 914/112

28th November, 1976.

Sir,

Increasing requests have been received by this Office in regard to the remittance of Head or Home Office expenses. Consequently the recovery of such expenses can only really relate in practical terms to the fact that certain functions are performed at Head Office level so far as a company's Jamaican operations are concerned.

2. Various techniques have been applied to justify the withdrawal of funds because of these costs. The most widely applied technique for recoupment of Head Office expenses, has been the aggregation of certain expenses incurred at Head Office and a factor applied to derive the sum withdrawable from Jamaica on a ratio basis of local premium generation divided by world-wide premium generation for each financial year. In examining this approach it has been clear that while some overhead costs would appear to be of a recoverable nature others would not really apply in Jamaican circumstances. What is more such concepts would tend to connote an absolute equality in policy holder treatment across territories. In practice, however, no such equality of treatment exists and in fact in certain circumstances it might be inequitable were this to be fully applicable. Nevertheless, the aim of policy holder equality of treatment remains a desirable goal although distorted by factors such as different currency areas, differing investment climates reflecting itself in varying rates of return, per territory or even the lack of investment opportunities in some territories, etc., the uneveneness of inflationary pressures, the nature of the insurance markets in the various territories in which the company may operate, differences in the products marketed territorially, etc.

3. The method of approach also has attempted to combine tax advantages by notionally charging for tax purposes all the various aggregated Head Office elements as part of the expenses of doing business in Jamaica. This may well have resulted in hidden subsidies being derived from the Jamaican business which in theory should have enured to the world-wide policy holder group of the company but which in practice might simply have benefitted a more narrow group at the expense of the policy holders in Jamaica or the Jamaican Tax Authorities.

4. The increasing attempt to effect withdrawals of funds on the grounds of Head Office Expenses has also manifested itself in terms of billings involving recoupment of investment expenses based on Jamaican asset values dividend by world-wide asset values and this ratio applied to Jamaican investment income. While conceptually this system may and appear to be fair the financial result has been seem to be incongruous in relation to the expense loading attributed to the incremental asset acquisition in the particular financial year and thus has borne no reality to the actual investment costs in Jamaica for acquiring the assets involved.

5. The technique of basing the recoupment ratio on the number of policies issued at the Jamaican level as against the world-wide number of policies issued has also been tried on the premise that this gives a higher recoupment factor than the Jamaican premium income to world-wide premium income. Approaches have also been made that recovery of initial investment is now justified having regard to the fact that for years funds were retained in Jamaica and that the time has now come to charge and recover Head Office Expenses over all the previous operating years.

6. While it should be appreciated that the above does not necessarily apply to your company in detail I consider that it was necessary to set the whole matter in context so that an appreciation of the problem could readily be achieved. Hitherto Jamaica had not questioned some of the general approaches and indeed this had not been necessary as the demand for Head Office expenses were relatively restrained as against present experience in which the exercise appears to have taken on an almost hysterical note.

7. Accordingly, it has now been decided that recoupment from Jamaica can from the 1st January, 1977, only be based on the actual costs (or on an agreed cost basis) of specific functions performed for the Jamaican Branch or Agency business. It is envisaged that the following type of functions will be performed (wholly or partially) by each company on behalf of its Jamaican operations:

(a) Issue of New Policies:
New Business: Process applications for insurance and annuities including any Underwriting requirements.
Control and release of policies.

(b) Premiums including renewals:
Billing (premium notices)
Overdue Control (conservation)

(c) Administration of the following Policy Services:

Loans
surrenders
Dividends
Maturities
Death Claims
Titles (beneficiary charges and assignments)
General Inquiries and correspondence

(d) Agency Services
Correspondence
General Assistance

(e) Cash Accounting
Daily Cash Reports
Monthly bank reconciliation

(f) General:

Reports etc. required under the Insurance Act
Forms Control
Technical Services re actuarial, legal, investment accounting, policy drafting and computer related services and support.

8. Where no actual cost basis is capable of determination by the company it should indicate to this Office as quickly as possible (i.e. within thirty days of the date of this letter) the basis of proposed charge. A specific service agreement (in draft) can be drawn up between the Head Office and its Branch or Agency Company in Jamaica. This draft service agreement should be forwarded for examination to this Office. I should make it plain that the proposed basis of charge will have to receive the prior approval of this Office.

9. The objective of the above exercise is also to develop local in-house skills so far as is practical and to reduce dependency on Head Office services. An agreed time schedule of the Branch or Agency moving towards greater in-house capability will also need to be submitted to this Office forthwith. This time schedule will be subject to constant review to ensure that companies are in fact moving as rapidly as practicable in their circumstances to a more developed capability at the local level.

10. Your co-operation would be greatly appreciated.

Yours faithfully,

Sgd H. W. Milner
Superintendent of Insurance

HWM/bw