

A PRIMER ON THE ST. VINCENT AND THE GRENADINES INTERNATIONAL INSURANCE SECTOR

By Grenville A. John, Commissioner of International Insurance¹

INTRODUCTION

The St. Vincent and the Grenadines Offshore Finance Authority (the Authority) has identified the International Insurance sector as an excellent growth area. The Authority has received, and continues to receive on a daily basis, numerous enquiries on its insurance product. If a medium to high single digit percentage of those enquiries are turned into successful applications then the growth in this sector would be huge.

THE LEGAL FRAMEWORK

At the OFA we are pleased to be able to say that the present insurance regime offers a great deal of flexibility to insurers wishing to conduct international insurance business. The sector is regulated by the International Insurance (Amendment and Consolidation) Act 1998 which came into effect on December 15, 1998 and, the International Insurance Regulations gazetted on June 22, 1999. These legislations are augmented, particularly by the International Business Companies Act 1996, as amended, and the Mutual Funds (Amendment) Act 1998 and generally by the other legislations which govern the operations of the international finance sector. Together these legislations set the legal framework for the high quality of regulatory and administrative processes necessary to foster and maintain market participation, transparency and confidence.

The Act makes provision for the appointment of a Commissioner of International Insurance, a Deputy Commissioner and other support staff. As administrator, the commissioner has general supervision of the insurance business. He ensures that the laws and regulations are enforced. The commissioner issues licences and certificates of authority to successful insurers, companies, international insurance manager, insurance broker and/or insurance agent seeking admittance into the market.

Under the new regime insurers have a choice of five classes of international insurance companies. This flexibility is designed to accommodate both the largest and the smallest insurance enterprises and allows for a diverse range of activity. Importantly the model can easily accommodate insurers wishing to conduct unrestricted, general, associated, group or single insurance business. There are individual capital requirements for each class, higher requirements for higher risk firms. At the application stage, the firms themselves are allowed to state a class of business and to make their own specific

¹ Grenville A John recently completed a Masters of Law (LL.M) in Banking and Finance Law at the Queen Mary, University of London. He is a graduate of the University of London, LL.B (Hons). and BPP Law School. He practiced law in St. Vincent and the Grenadines for two years before joining the Offshore Finance Authority where he is the Commissioner of International Insurance as well as a Bank Supervisor. Mr John also holds a Certified Diploma in Accounting and Finance (C.Dip.A.F) from the ACCA.

assessment of the overall level of financial resources they would need to meet their liability.

Every single form which needs to be filed with the commissioner at the application stage and during the life of the licensee is exhibited in the Regulations along with all the relevant fees. This clearly allows for the simplification of the application process and further enhances the administrative process during the life of the licensed entity.

INFORMED INTERNATIONAL TRENDS

In keeping with the ethos of the International Association of Insurance Supervisors (IAIS), and with important developments taking place at the international level including international accounting standards and at the Basel Committee, there exist clear guidance on the calculation of the net worth and the minimum margin of solvency of each of the five optional classes.

The visible trend in the international financial services sector has been towards an integrated market. Over the past few decades or so there has been a blurring of the lines between the banking, securities and insurance sectors. This author is of the view that the insurance sector is least affected by this phenomenon. The insurance sector continues to develop as a separate grouping. This is partly because we are in an environment where the international capital regimes for banks and insurance companies have evolved in different ways. Also, it must be recognized that cultural, historical and legal differences between countries are still reflective in the retail financial markets. The result is that the insurance sector is not exposed nor is it prone to the same types of risks which may affect the other two sectors.

The objectives of regulation and supervision in the insurance sector are thus slightly different to that which pertains to the other sectors. The underlying objective of regulation and supervision is to ensure the safety and soundness of the sector through good prudential controls. Regulators have to monitor and audit companies to ensure that these entities remain solvent. Banks may be exposed to systemic risks which can lead to runs on the banks. This could result in a solvent bank becoming insolvent overnight. The securities sector may be affected in a slightly different way, however, as seen from the Asian crisis the effect could be devastating.

In the insurance sector the focus is different. This difference in focus is mainly because of the nature of the insurance business. Regulators in this sector are concern more with the ability of the entity to maintain a long period of sustained growth. The ability of the insurer to honour claims ten to fifteen years down the road or even for much longer periods. The insurer must be able to meet its obligations to policyholders when they fall due. The regulator is also concerned with the way the insurer sells his business; here the regulator is seeking to eliminate misrepresentation of the costs and benefits of the product, and to identify companies whose business practices may be questionable.

Assessments have to be made of the suitability of owners, directors and management in accordance with the fit and proper criteria, and with the financial strength of the enterprise as demonstrated inter alia, by the insurer's business plan.

CONCLUSION

Cognizant of the rapidly changing economic conditions and international concerns facing the financial services sector, the Authority is confident that the present legal framework is adequate to cope with the present volatile market environment. At the Authority, we strive to be efficient, prompt and consistent in implementing the laws and regulations.

We continue to regulate in a way which is proportionate to the risk in each business, in a way that minimizes the impact on competition and innovation and which takes account of the competitive position of St. Vincent and the Grenadines in the international insurance sector.

As regulators, practitioners and users of insurance we all have an interest in ensuring that the insurance industry in St. Vincent and the Grenadines has a reputation internationally as a well regulated yet flexible and competitive business. We welcome your queries and suggestions, and assure you that our staff will provide immediate assistance whenever possible. We hope that we can count on your co-operation, and we look forward to continue serving you.

Signed:

Grenville A. John
Commissioner of International Insurance.