

FINANCIAL SERVICES COMMISSION

Panel Discussion Presentation: "Strengthening the Financial System"

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"Crossing the Boundaries of Tradition"
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SALUTATIONS:

INTRODUCTION

On behalf of the Financial Services Commission ("FSC"), permit me to start by expressing my heartfelt congratulations to you on your outstanding achievement of becoming a full member of the International Actuarial Association ("IAA"). We recognize and appreciate the tremendous labour, effort and dedication that are required to qualify as a full member. We believe you are to be commended on your leadership and commitment to encourage and support the development of actuarial science in the Caribbean and to maintain the high standards and image of the actuarial profession.

THE IMPORTANT AND CRITICAL CONTRIBUTIONS OF INTERNATIONAL STANDARDS SETTING BODIES TO FINANCIAL STRENGTH AND STABILITY

Through-out the existence of the FSC, we have worked with local, regional and international standard-setting and professional organisations to develop and apply best practices to the FSC-regulated sectors. These working relationships serve as one of the many means by which the FSC has strengthened Jamaica's financial system.

The Managing Director of the International Monetary Fund ("IMF") has recognised the strengthening effect that the application of international standards can have on a country's regulatory framework. He attested to this when he wrote:

"The development and implementation of internationally accepted standards and codes in areas relevant to the effective functioning of countries' economic and financial systems has been seen as a critical element of efforts to strengthen the global economic and financial system in the wake of the recent crises. While the adoption of standards is voluntary, they can help national authorities in strengthening domestic systems by providing guideposts for implementing structural reforms and capacity building, and by contributing to the identification of weaknesses in the policy and regulatory environment." ¹

The development of these internationally accepted standards involves many international setting bodies and multilateral organisations. It was therefore not surprising that the world looked to these organisations in formulating a response to the current global financial crisis. For example in April 2009, the G20 Finance Ministers mandated the Financial Stability Board ("FSB") ² to coordinate the activities of these international standards setting bodies and

¹ IMF See http://www.imf.org/external/np/omd/2000/02/report.htm#II_B

² At the request of the G20 group the Financial Stability Forum was renamed to the Financial Stability Board.

multilateral agencies in formulating the recommendations to overhaul the global regulatory framework. The FSB was also charged with the task of identifying and addressing emerging vulnerabilities in the financial system. Some of these participating organisations in the FSB are the IMF, World Bank, Organisation for Economic Co-operation and Development (“OECD”), International Accounting Standards Board (“IASB”), and the International Association of Insurance Supervisors (“IAIS”).^{3 4} The IAIS, and the IASB are institutional members of the IAA while the OECD is an observer member.⁵

RAISED EXPECTATIONS AND URGENT NEEDS

As a full member of the IAA, the CAA can appoint representatives to various IAA committees which prepare briefs and public statements for regulatory bodies such as the IAIS and the IASB, as well as for the OECD. Additionally the CAA has a direct link to an enormous volume of actuarial research and knowledge which is accessible to support the various needs of Caribbean actuaries. According to the IAA, it is willing to (i) assist in the development of member associations such as the CAA, (ii) contribute to regulatory matters and (iii) to assist in the development of standards and guidance for actuaries, if

³ Adapted from Governor Daniel K. Tarullo, September 30, 2009, *International Cooperation to Modernize Financial Regulation, See <http://www.federalreserve.gov/newsevents/testimony/tarullo20090930a.htm>*.

⁴ The full list of members include the Basel Committee, the Committee on the Global Financial System, the Committee on Payment and Settlement Systems, the International Association of Insurance Supervisors, the International Accounting Standards Board, the International Organization of Securities Commissions, Bank for International Settlements, the European Central Bank, the European Commission, the IMF, the Organization for Economic Co-operation and Development, and The World Bank.

⁵ See http://www.actuaries.org/ABOUT/Documents/Introduction_to_the_IAA_EN.pdf#search=%22Overview%22

invited by its members.⁶ With your designation as a full member, the resources available from the IAA, and the knowledge of the local environment, it is a natural choice for the CAA to be the Caribbean actuarial standard setting body. As it is frequently said “to whom much is given, much is also expected,” without doubt the FSC and possible other Caribbean regulators have high expectations of the CAA.

Furthermore as one considers (i) the pending changes to the global regulatory framework including the implementation of IFRS 4 phase II and (ii) the ongoing and pending regional transformations, there is an urgent need for the CAA to increase its efforts and contribution to the formulation and application of actuarial standards and guidelines. Some of these transformations pose significant challenges to the regional regulators and include

- The on-going pension reforms in Jamaica and development of the pensions industry in Jamaica and the wider Caribbean
- The possible harmonization or synchronization of financial regulation with the establishment of the CARICOM Single Market Economy (“CSME”) and the pending CARICOM Financial Services Act (“CFSA”)
- The increasing number of cross-borders financial conglomerates and the number of insurers conducting business in more than one islands.

Presently, the urgent need is also real. In the Caribbean, we are faced with considerable volatility of reported results and an incomparability of insurers’ performance as a result of the differences in valuation methods acceptable. The IASB also sees the importance of a common valuation method and is

⁶ See IAA Strategic Plan at http://www.actuaries.org/ABOUT/Documents/Strategic_Plan_EN.pdf and http://www.actuaries.org/ABOUT/Documents/Introduction_to_the_IAA_EN.pdf#search=%22Overview%22

currently conducting extensive work to introduce a new accounting standard that would move from the multiplicity of valuation methods to a single approach internationally. It is expected that a single prospective valuation methodology will take effect in 2013. Given the developing international and standardized environment, a common valuation approach for the Caribbean, which has its unique features, is even more desirable. Consequently greater reliance will be placed on the work of the actuary in such an environment.

The other present need, whilst somewhat depended on the first, is to improve the quality of actuarial assumptions. It is to this end that many individuals have yearned for various experience studies, standards and guidelines which are more relevant and reflective of our local and regional environment. For example, a welcomed guideline would be one addressing assumption-setting of mortality and interest rates.

To satisfy these needs, the FSC and I would believe other Caribbean regulators would want to rely on the CAA as the standard-setting body for the Caribbean. The FSC would also look to CAA for guidance to be issued to your members on other critical subject areas such as enterprise risk management (“ERM”), asset liability management (“ALM”) and stress testing - three very useful tools in maintaining financial stability. In the Caribbean, poor or lack of application of ALM techniques has contributed to the collapse of Jamaican insurers in the 1990’s and more recently CLICO. Since the present global crisis, major rating agencies began to incorporate an assessment of the insurers’ ERM into their ratings of insurance companies,⁷ while the UK Financial Services Authority

⁷ Deloitte, 2008, *Global Insurance Industry Outlook Issues on the horizon Mid-year update: 2008* [online] available at

("FSA") has placed a greater importance on stress testing.⁸ According to IAA's strategic plans, one of its priorities is to promote the development of actuarial practice in ERM.⁹ Currently, in Jamaica, there are two ongoing initiatives which aim to improve ALM practices and to have actuaries when conducting stress testing to critically analyse the impact of severe adverse scenarios rather than to simply look at events that really do not pose a significant challenge to the insurer.

With the CAA issuing standards and guidance on a whole range of actuarial matters, the possibility will then exist for the FSC to move away from the current practice of having the valuation method and other actuarial practices prescribed in Regulations. Similar to other jurisdictions, the FSC could then adopt the standard as determined by the recognised body. This would introduce flexibility to quickly adapt to changing environment and thereby reduce the need to apply resources to amend the regulations.

CLOSING REMARKS

At the FSC we recognise that if the CAA were to meet the FSC's expectations of developing guidance for actuarial practices, this would be an enormous task for the CAA and its members.

[http://www.deloitte.com/assets/Dcom-CzechRepublic/Local%20Assets/Documents/cz\(en\)_fsi_insurance_outlook_080808.pdf](http://www.deloitte.com/assets/Dcom-CzechRepublic/Local%20Assets/Documents/cz(en)_fsi_insurance_outlook_080808.pdf) [Date accessed: Nov.3, 2009]

⁸ See FSA Annual Report 2008/09, Section One.

⁹ See http://www.actuaries.org/ABOUT/Documents/Strategic_Plan_EN.pdf

The FSC remains willing to not only engage in dialogue with the CAA, but also to work and cooperate in appropriate ways to strengthen the Jamaican financial markets and as well as the wider Caribbean financial landscape.

We look forward to your valuable contribution.

Thank You.