FINANCIAL SERVICES
AUTHORITY SVG

# ANNUAL REPORT
## 2020

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FINANCIAL SERVICES AUTHORITY SVG

## OUR MISSION

"To regulate and supervise the financial sector in accordance with best practices so as to promote the safety, soundness and integrity of the sector, thereby enhancing the reputation of St. Vincent and the Grenadines as a secure and competitive financial centre."

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# BOARD OF DIRECTORS

*Left to Right Standing:* Hubert DaSilva - Director
Stewart Haynes - Director
Leon Snagg - Chairman
Edmond Jackson - Director

*Left to Right Seated:* Alma Betty Dougan - Deputy Chair
Carla James - Executive Director
Elritha Miguel - Director

*Absent:* Karen Duncan - Director

# BOARD OF DIRECTORS

**LEON SNAGG**, was appointed as Chairman of the Financial Services Authority ('FSA') in November 2012 at the commencement of its operations. Mr. Snagg brings a wealth of experience to the Board having served in various capacities in the public service for over thirty years. His early work experience spans service in the Magistrate's Court, the National Insurance and the Audit offices.

Over the period 2004-2010, Mr. Snagg held the position of Permanent Secretary in the Ministry of Transport, Works and Housing and more recently as the Director of Audit, with responsibility for the audit of the public accounts of the Government of St. Vincent and the Grenadines. He has successfully completed the Association of Accounting Technician (AAT) membership examination in 1998.

As its inaugural Chairman, Mr. Snagg leads the Financial Services Authority at an important time of development of the jurisdiction's regulatory framework for its international and domestic financial services sectors.

**ALMA BETTY DOUGAN,** is the Deputy Chair of the FSA. Mrs. Dougan holds valuable experience in the public service having been employed in the Inland Revenue Department of the Government of St. Vincent and the Grenadines in various capacities including as Comptroller of Inland Revenue and Consultant Manager for the Value Added Tax (VAT) and Property Tax projects. She currently serves as Chairperson of the Customs Appeal Tribunal; and is Chairperson of the Audit Committee and a member of the Human Resources Committee of the FSA.

In the year 2000, Mrs. Dougan was awarded the Queen's Honour for her distinguished public service.

Mrs. Dougan holds a degree in Economics and Accounting and is a certified accountant with the FCCA designation. She has also served as President of the Caribbean Organization of Tax Administrators (COTA). Her continued active involvement in community affairs involves volunteer service as a member of the St. Paul's Anglican Church Council and as alternate representative on the Island Church Council.

**HUBERT DA SILVA,** is a native Vincentian with a diverse background in the public service, banking and accounting. Mr. Da Silva was instrumental in the establishment of the St. Vincent National Commercial Bank in 1976 and served as the institution's Accountant/ Assistant Manager. Prior to that period, he held a senior management position with the Royal Bank of Canada in St. Vincent and also acted Manager of the St. Vincent Marketing Corporation.

Mr. Da Silva is a Director of the Guadalupe Home for Girls and a member of the Roman Catholic Diocesan Finance Committee. He currently owns and operates a small business.

**STEWART HAYNES,** is a Chartered Financial Analyst (CFA) and a Fellow of the Faculty and Institute of Actuaries (FIA). Mr. Haynes holds a Master's Degree in Actuarial Management from the Cass Business School-City University, London and a BSC in Actuarial Science from the London School of Economics and Political Science. He has served on the Board of Directors of the International Financial Services Authority prior to the establishment of its successor, the Financial Services Authority, for several years.

Mr. Haynes currently holds the post of Executive Director of the National Insurance Services. He is a current Director on the Board of Directors of Eastern Caribbean Financial Holdings, St. Lucia.

**ELRITHA MIGUEL,** has been employed with the Eastern Caribbean Central Bank, ECCB, for the past 28 years. She is currently the Resident Representative of the ECCB in St. Vincent and the Grenadines.

Prior to joining the ECCB, Mrs. Miguel worked with the Government of St. Vincent and the Grenadines and also worked as Office Manager for the Law Firm of Colamarino & Sons, New York, New York, USA.

Mrs. Miguel holds a Bachelor of Business Administrative Degree from the Lubin School of Business, Pace University, New York, USA and certificates from the University of the West Indies and State University of New York (SUNY) Farmingdale in Business Administration. Mrs. Miguel has also completed the Kellogg's Foundation Fellowship in International Development and a course of study in Secretarial Studies from the London Chamber of Industry and Commerce.

She is a Past President of the Lions Club of Kingstown SVG and Past President of Partners of the Americas.

**EDMOND A. JACKSON** holds a BSc in Economics and Management from the University of the West Indies and a MSc. in Financial Economics from the University of London. He currently holds the post of Director General in the Ministry of Finance and Planning.

Mr. Jackson's professional experience spans both the public and private sectors having served in several capacities within the Credit Union sector and within the banking industry. He has wide-ranging experience and training in the areas of financial sector regulation, policy development and public finance. He has been at the forefront of civil service reform with a career extending over twenty-five years within the public service.

**DEIDRE ADAMS,** serves as Secretary to the Board of Directors of the FSA. Since 2010, Ms. Adams has held the position of Budget Officer II in the Financial Management Unit of the Ministry of Finance. Prior to this period she held several other positions within the public service including Budget Officer in the Treasury Division.

Ms. Adams holds a BSc Degree in Accounting and is also actively involved as a Youth Leader and mentor to young persons in her church community.

**KAREN DUNCAN,** is the Solicitor General in the Attorney General's Chambers, Ministry of Legal Affairs. She holds a BSc. in Management Studies from the University of the West Indies (U.W.I), Mona; a LLB from U.W.I, Cave Hill; a MSc. in Global Affairs from New York University; and a LLM in Legislative Drafting from U.W.I., Cave Hill.

Ms. Duncan was an Attorney in the Litigation Department at DunnCox, Attorneys-at-Law in Jamaica; Legal Officer at the Jamaica Fair Trading Commission focusing on competition/anti-trust law; and Case Manager at Scholars at Risk, an international network of institutions protecting academic freedom, based at New York University.

# EXECUTIVE MANAGEMENT

**CARLA JAMES** joined the FSA, St. Vincent and the Grenadines as Executive Director in September 2018. Ms. James is a barrister at law and solicitor and holds a LLB from U.W.I Cave Hill and a L.E.C from Hugh Wooding Law School.

As Executive Director, she also holds the posts of Registrar of IBCs, International Trusts, Mutual Funds and Credit Unions and Commissioner of International Insurance. She is also a statutory member of the National Anti-Money Laundering Committee.

Ms. James has worked in the field of financial services since 2003, specifically the detection and combating of financial crimes, firstly as the Legal officer of the Financial Intelligence Unit, known as one of the leading FIUs in the Caribbean region, and then as its Director from 2016-2018. She has also served as Magistrate at the Kingstown Magistrates' Court for a period of one and a half years where she adjudicated on all aspects of the law.

**MR. DEREK ST. ROSE,** was appointed as Deputy Director in May of 2019. He has over 25 years of experience in financial services regulation and prior to his appointment he held several key positions in various countries, including: Superintendent of International and Domestic Insurance at the Financial Services Regulatory Commission (FSRC) in Antigua and Barbuda, Head of Insurance at the Financial Services Commission in Turks & Caicos Islands, Deputy Director of the Financial Services Commission in Anguilla. He also held numerous positions at the Ministry of Finance in St. Lucia and has been involved in international financial services regulation and supervision, and financial services development and policy formulation over his career.

Mr. St. Rose holds an MBA (Finance) degree from Charles Sturt University, Australia, a Post Graduate Diploma in Management and E-Commerce from the London School of Commerce and a BSc. Degree in Management Studies (Honours) from the University of the West Indies (Mona, Jamaica).

# MANAGEMENT AND LEGAL TEAM

**KEISHA BYNOE** serves as the Manager, Finance & Administration of the Financial Services Authority, effective July 1, 2019. Prior to this she acted in the position for approximately a year and a half. She holds a BSc. in Accounting from the University of the West Indies, Cavehill, Barbados and is ACCA qualified.

Mrs. Bynoe has gained experience in auditing and accounting from working with the auditing firm of KPMG (Eastern Caribbean) for over seven (7) years. Prior to that period, she worked with the Inland Revenue department of the Government of St. Vincent as a Junior Tax Officer.

**KAREN JACKSON**, Manager of International Financial Services, continues with the FSA having been an integral part of the former International Financial Services Authority. Prior to joining IFSA, Ms Jackson worked in the fields of accounting, auditing and bank supervision with the SVG Port Authority, the audit firm of Coopers and Lybrand and the Eastern Caribbean Central Bank

Ms. Jackson is a Fellow of the Chartered Certified Accountants (FCCA) of the UK. She holds an MS Degree in Finance graduating from Rochester Institute of Technology, NY under the Fullbright Scholars Program and a BSc honors degree in Accounting from the University of the West Indies, Jamaica.

**MINTRUE ROSE-PROVIDENCE** worked with the Ministry of Finance & Economic Planning for ten years prior to being appointed to the position of Manager, Insurance and Pensions with the FSA. During her tenure in the public service, she served as an officer of the Economic Research and Policy Unit and Director of the Supervisory and Regulatory Division with responsibility for domestic non-bank financial institutions.

Mrs. Rose-Providence has wide range of experience and training in the areas of financial sector supervision and regulation, financial programming and policies, monetary and financial statistics. She also received training from the Small Countries Financial Management Centre in the Isle of Man and training in Negotiations at the Said International School of Business, Oxford University. Over the period 2010-2014 Mrs. Rose-Providence has served as Secretary of the Caribbean Association of Insurance Regulators (CAIR).

Mrs. Rose-Providence holds an MSc in Economics, Finance and Management from the University of Bristol, United Kingdom, a BSc in Economics from University of the West Indies, Cave Hill, Barbados and a Diploma in Trade Policy from the World Trade Organisation.

# MANAGEMENT AND LEGAL TEAM

**NYASHA BROWNE** joined the Financial Services Authority in August 2015. She serves as the Manager, Credit Unions, Building Societies, Friendly Societies and Money Services Business. Her expertise in this area is founded on her previous managerial experiences and her forte in the field of Accounting-she is ACCA qualified and holds a BSc in Accounting from Oxford Brookes University U.K. Additionally, Mrs. Browne is a certified FATF $4^{th}$ round assessor.

At present, her skills are being further honed through the pursuit of ACAMS certification.

**GESHELL PETERS,** serves as the Legal Officer and Deputy Registrar of International Business Companies. Prior to joining the FSA, Ms. Peters worked in various departments of the public service.

Ms. Peters holds a Bachelor of Laws (LLB) (Hons) Degree from the University of the West Indies, Cave Hill campus, Barbados, a Legal Education Certificate with Merit (LEC) from the Hugh Wooding Law School,Trinidad and Tobago and an ACAMS accreditation in AML/CFT. In 2013, Ms. Peters was one of St Vincent's representatives at the Small Countries Financial Management Programme, University of Oxford, IOM Business School.

Ms. Peters duties include legal research, advice and legal representation of the Authority, supervision of the Registry department and assisting the Registrar of IBCs in the exercise of her powers, duties and functions under the International Business Companies Act.

**Our Staff**

*Standing left to right – Daphne Scott, Debon Moses, Nyasha Browne, Karen Jackson, Vasilca Cato-Morgan, Shanika Layne, Nerissa Burton-Hunte, Carla James, Mintrue Rose-Providence, Leslie Joseph, Farique Daniel, Ival Jack, Suzette Lewis, Roxanne Durham, Neva Cordice, Keisha Bynoe.*
*Seated from left to right – Derek St. Rose, Courtney Lewis, Yolande Balcombe, Shaquille Williams, Jimmy Black*
*Absent: Geshell Peters*

# The FSA-Who we are and what we do

The Financial Services Authority (the "FSA"/ "Authority") was established on November 12, 2012 under the Financial Services Authority Act, No. 33 of 2011 and is responsible for the regulation and supervision of the non-bank and international financial services sector in St. Vincent and the Grenadines.
The FSA is responsible for registering/regulating/supervising the following entities:

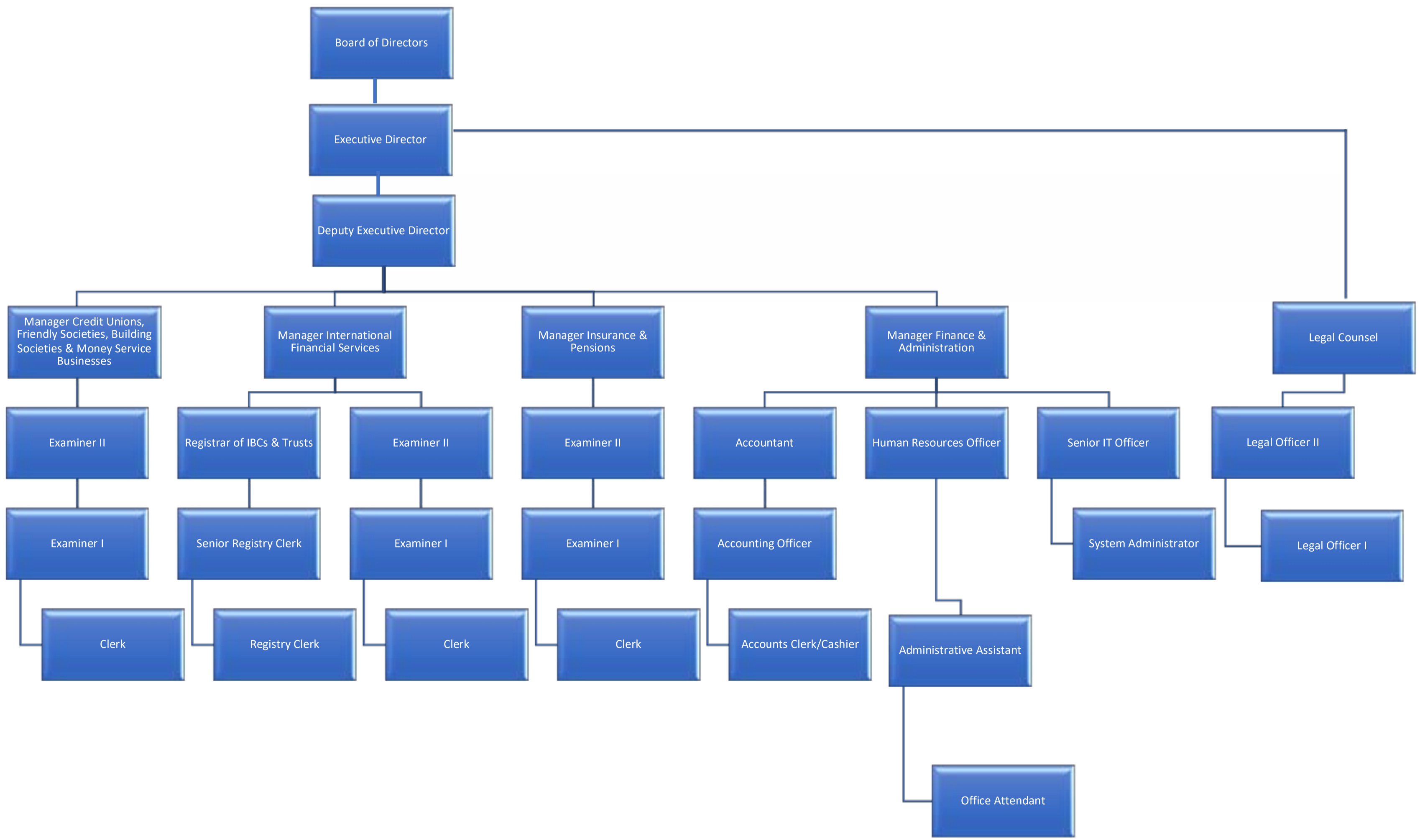
- International Business Companies (IBCs);
- Limited Liability Companies (LLCs)
- Mutual Funds;
- International Banks;
- International Trusts;
- International Insurance Companies;
- Domestic Insurance Companies
- Insurance Intermediaries;
- Pension Fund Plans;
- Credit Unions;
- Building Societies;
- Friendly Societies; and
- Money Service Businesses.

In addition, the FSA monitors compliance of all registered and financial entities with the Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) Legislation.

The main functions of the FSA include, but are not limited to, the following:

- **Reduction of Risk** - the FSA seeks to reduce the risk of financial loss to the public due to dishonesty, incompetence or malpractice by or through the imprudence of persons providing financial services in or from within St. Vincent and the Grenadines;
- **Risk Based Supervision** - the FSA directs greater supervisory effort to entities that are classified as high risk and place more emphasis on dealing with regulatory issues that may significantly affect the entire financial system;
- **Protection and enhancement of the Reputation and Integrity** of St. Vincent and the Grenadines in financial matters;
- **Counter Financial Crimes** in St. Vincent and the Grenadines and elsewhere;
- **Financial stability and security** of the financial services sector;
- **Transparency, equity and cost efficiencies in decisions, processes and actions** – the FSA carries out its functions in accordance with existing legislation and best practices;
- **Collaboration** - the FSA works together closely with financial entities as well as other financial services regulators regionally and internationally to ensure the stability of the financial sector of St.Vincent and the Grenadines;
- **Professionalism** - the FSA exhibits a positive, courteous, conscientious and businesslike approach in its interactions; and
- **International competitiveness and innovativeness in the financial services sector** – the FSA ensures that its products and services can compete on the international market by continuous focus on updating and improving relevant legislation and keeping apprised of all international developments and best practices.

# FINANCIAL SERVICES AUTHORITY
# ORGANISATIONAL CHART



# CHAIRMAN'S MESSAGE 2020

On behalf of the Board of Directors, I am pleased to report on the activities and financial performance of the Financial Services Authority ("FSA"/ "Authority") for the year-ending December 31, 2020.

The year 2020 was not without its challenges as the world experienced unprecedented pressures as a result of the outbreak of the coronavirus, COVID-19. As the world continues to fight against the pandemic, the financial services sector continues to contend with its own unique challenges. The COVID-19 pandemic severely disrupted operations, prompting an overnight shift to working from home as necessary and virtual customer engagement while exposing gaps in digital capabilities and raising cybersecurity concerns.

While the immediate effects of the pandemic are already obvious, the knock-on effects are yet to be fully established. However, I am confident that the sector will weather this storm, as it has many others. As the economic impact of the pandemic continues to evolve, the FSA continues its strategic trajectory toward institutional strengthening of the regulated entities it supervises. We continue to deepen our understanding of markets and those served by them, by swiftly identifying and mitigating risks caused by systemically important financial institutions ("SIFIs") while focusing on policies aimed at strengthening the resilience of the overall financial system.

## Non-Performing Loans ("NPLs")

From an early stage, the pandemic was expected to have a negative impact on asset quality. The crisis has severely impacted economic activity resulting in layoffs, particularly in the hospitality/tourism sector. Consequently, rising borrower distress inevitably translated into fresh pressures on asset quality in the non-bank financial sector.

However, swift and coordinated introduction of loan moratoria led by the Eastern Caribbean Central Bank ("ECCB") in conjunction with the Government's fiscal response measures to the pandemic, have helped smooth the immediate impact of the pandemic on asset quality.

These measures have helped borrowers with temporary liquidity problems and prevented a surge in NPLs.

## Credit Reporting Act and the Operationalising of a Credit Bureau

It is widely recognized that the use of collateral is an important element in the lending process in St. Vincent and the Grenadines and by extension the Eastern Caribbean Currency Union ("ECCU"). This process however, is characterized by an absence of formal information on borrowers, which can lead to problems in monitoring and enforcing loan contracts. Transparent credit information is therefore a prerequisite for sound risk management and financial stability. Credit reporting institutions, such as credit bureaus, support financial stability and credit market efficiency. Non-bank financial institutions (NBFIs) such as credit unions draw on credit reporting systems to screen borrowers and monitor the risk profile of existing loan portfolios.

There is ongoing work led by the ECCB to support the region in improving credit infrastructure, including the establishment of a credit bureau. This undertaking will assist regulators such as the FSA in understanding the interconnected credit risks faced by systemically important borrowers and financial institutions and to conduct essential oversight functions. Such efforts will reduce default risk and improve the efficiency of financial intermediation. In a competitive credit market, these efforts ultimately benefit consumers through lower interest rates.

## Emerging Risks

The financial services industry is complex and ever evolving. The pace of change is faster than most industries as services become more complex, driven by technology, globalisation and innovation. In recent years, financial institutions have introduced a wide array of financial technology ("Fintech") services that consist of innovative products and state-of-the-art technologies to accomplish modern customer needs and convenience. As such, Fintech is delivering significant benefits to consumers and investors, to financial services firms and financial market infrastructure, and to financial inclusion.

However, with the emergence of fintech operations spanning mobile payments, crypto-assets and peer-to-peer ("P2P") applications, we are witnessing an evolution in technology portending dramatic change for financial services itself and introducing new risks. Therefore, implementing sound supervisory and regulatory measures is vital to safeguard both service providers and consumers and ultimately financial systems stability within St. Vincent and the Grenadines.

Fintech is moving rapidly from 'under the regulatory radar' and is attracting growing regulatory responses and supervisory scrutiny. To this end, the FSA continues to work with the ECCB to develop an appropriate architecture for the regulation and supervision of such activities. Accordingly, I am happy to report that progress has been made with respect to this initiative and that the Virtual Asset Business Bill which will be the governing legislation for such activities, is currently under review by the office of the Attorney General in St. Vincent and the Grenadines.

## Stabilization Fund and Deposit Insurance

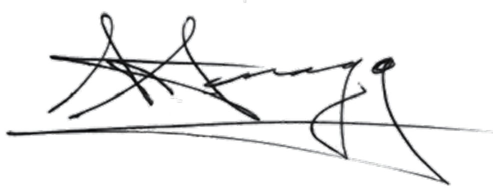
During 2020, the FSA in its capacity as the regulator for the non-bank financial services sector continued to advance essential reforms geared towards addressing financial system vulnerabilities. One such initiative was that of the drafting of guidelines for the establishment of a Stabilization Fund for credit unions operating in St. Vincent and the Grenadines. This initiative is at an advanced stage and when completed will help to mitigate instability in the credit union sector and enhance financial stability overall.

On the regional front, work continues in the ECCU on the development of a deposit insurance system ("DIS"), inclusive of a Deposit Insurance Corporation ("DIC"), Deposit Insurance Legislation and Deposit Insurance Fund ("DIF"). A DIS is critical component of a comprehensive safety net and crisis resolution regime. Once operational, the DIS will significantly enhance financial stability in the region.

## Conclusion

The year 2020 proved to be an historic year, as we grappled with the health and economic challenges brought on by the COVID-19 pandemic. We have been confronted with creating and adapting to new ways of learning and working that we have never experienced before. However, while the year 2020 immediately conjures words like "challenge," "hardship" and "crisis," there are lessons to be gleaned that offer important perspectives as we approach 2021. Agile and strategic action plans which emphasize business continuity and technology, backed by implementation will continue to be the need of the hour. Currently, we are on the verge of a seismic shift in the regulatory sphere, however, I am optimistic that working together, we will continue to steer the course to maintain economic and operational resilience of the financial system.

In closing, I take this opportunity to express my deepest gratitude to my fellow Board members whose continued insight and guidance have been invaluable. I further wish to commend management and staff for their hard work and commitment as we traversed the past year.



Leon Snagg
Chairman

# Executive Director's Report 2020

It is my pleasure to report on the work and activities of the Financial Services Authority ('the FSA') over the period January 01- December 31, 2020.

The year 2020 has been an unprecedented and challenging one, in large part due to the emergence and far-reaching impact of the globally declared pandemic, COVID-19. St. Vincent and the Grenadines was not spared the effects as there was resulting negative impact on lives and livelihoods and a spill-off effect on the financial sector and wider economy. As the sole regulatory authority responsible for ensuring that non-bank financial entities are properly managed and remain financially sound, 2020 proved to be a challenging year for the FSA in achieving its Work Plan as we were forced to adapt to the operational constraints and heightened risks resulting from the pandemic.

## Response to the COVID-19 Pandemic

Having reviewed our own business continuity measures, and having requested the regulated sector to do the same, the FSA moved to a system of partial remote work from March 2020. Having made provision to access systems and networks, the FSA opened up new communication avenues for collaboration with the regulated sector and our counterparts locally, regionally and internationally. This allowed us to stay connected during the following months, adapt and implement new working practices to maintain as much of a sense of 'normalcy' as possible during those challenging circumstances.

Throughout the pandemic, we continued to deliver on our regulatory mandate. Being mindful of the various operational constraints affecting financial entities however, the FSA adopted flexibility and extended forbearance measures in relation to deadlines for regulatory submissions and requirements. The FSA also issued advisories and guidance to the sector on the payments of dividends, extension of moratoria arrangements to customers, and the resulting application of the International Financial Reporting Standard 9 (IFRS 9).

## Regulatory Approach

Supervisory oversight in 2020 was more heavily focused on heightened comprehensive off-site analytical activities across all regulated sectors as onsite inspections had to be curtailed having regard to safety protocols established due to the pandemic. More stringent high frequency reporting requirements were also implemented, as we continued to sharpen our supervisory focus on risk identification and the requisite allocation of resources.

The FSA remained fully cognizant that its main contribution to building financial stability is to ensure that institutions are well-supervised, operating in a safe and sound environment and that emerging threats and risks are identified and acted upon in a timely and effective manner. Further, we are also mindful that a stable financial system is key to achieving other statutory objectives of maintaining market confidence, protecting consumers and reducing financial crime.

Shifting patterns of risks have emerged in 2020, with potentially prolonged impact and shocks to the financial system, which will require deeper understanding by the FSA and adjustment in its own approach to supervision. The use of financial soundness indicators and stress testing is now more than ever of greater significance.

## Risk-Based Supervision

As a follow on from the review conducted by the Caribbean Regional Technical Assistance Centre (CARTAC), in 2018, of the application of the Risk Based Supervision (RBS) framework among regional regulators and its findings of inconsistent application, in November 2019, the FSA benefited from further technical assistance from CARTAC to enhance its understanding and provide guidance on the correct implementation of the Framework. The FSA is thus well on its way to amending its framework and will continue to apply same to ultimately depart from the practice of conducting annual full-scope onsite inspections and to use its limited resources wisely in directing efforts where the greater risks lie and conducting more focused visits, as necessary.

The desired outcome of RBS is to operate at an optimum level. The key benefits include systemic, forward looking assessments within a formalized framework, allowance for early identification and intervention leading to a reduction in resolution costs, encouraging strong risk management practices and devotion of supervisory attention on a proportionate basis, in line with the risk profiles of the institutions and their systemic importance.

## Regulatory Capacity

Capacity building continues to be a top priority of the FSA in order to engender high performance standards. In 2020, relevant staff of the FSA participated in regional regulatory workshops and conferences held annually by CARTAC, International Credit Union Regulators' Network (ICURN) the World Bank and the Eastern Caribbean Central Bank (ECCB), which provided excellent opportunities for training and awareness raising on current topics and issues impacting the regulator, the regulated sector and its customers. The FSA also participated in Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) supervisory training hosted by the Caribbean Financial Action Task Force (CFATF).

Due to restrictions on travel as a result of the COVID-19 pandemic, workshops and conferences were hosted on various virtual platforms and afforded the FSA the opportunity for wider participation in regional and international meetings and workshops, in addition to the typical annual sector-specific workshops on Insurance, Pensions and Credit Unions attended by FSA Managers and Examiners. The FSA's participation in global fora also allowed for the cross sharing of adaptive practices, experiences and guidance with and among peers. It also allowed for the sharing of ideas and guidance by international standard setters on matters which require regulatory focus during a pandemic.

## Established Standards for Institutional Strengthening

The FSA continues to issue Industry Guidelines to bolster the regulatory framework and promote compliance with legal requirements and best practice.

In 2020, Guidelines for the Insurance Sector on Reinsurance Arrangements were issued pursuant to section 10 of the FSA's governing legislation. The purpose of these Guidelines is to assist insurers in the preparation of their reinsurance programmes to ensure prudence and professionalism and to strengthen the insurers' governance framework and bolster their risk management function.

In addition, the FSA has commenced drafting share capital Guidelines for the Credit Union sector, with the intent to address the equity structure of credit unions and clarify areas of ambiguity within the substantive legislative framework relating to shares, thereby unifying the application across the sector. The FSA has also drafted Guidelines for the establishment of a Stabilization Fund for the Credit Union sector, having regard to the need for contingency systems and financial safety nets for the non-bank financial sector and given the systemic importance of these entities to the regional financial system.

The COVID-19 pandemic has emphasized the critical importance of financial resilience measures such as deposit insurance and stabilization funds to create reliable safeguards for the non-bank financial sector in times of crisis.

## Enhanced Legislative Framework

The FSA periodically reviews and updates its legislative framework to ensure that it is fit for purpose, meets international standards, is appropriately flexible and supports ethical business practices. Changes to primary legislation are often needed to clarify and enhance the regulatory framework, helping the jurisdiction to continue to meet international standards and safeguard its reputation as a well-regulated financial services jurisdiction.

Consequently, in 2020 the FSA engaged in a review of its enabling legislation, the *Financial Services Authority Act*, No. 33 of 2011, and was the recipient of technical assistance by the International Monetary Fund (IMF) in so doing. The amendments to the legislation are intended to strengthen the FSA's enforcement powers and enhance its crisis management preparedness and recovery and resolution framework.

In 2020, modernized legislation to govern the Friendly Societies Sector was tabled in Parliament and reviewed by a Select Committee of the House of Assembly. The Bill is aimed at modernizing the way business is done by Friendly Societies, strengthening the regulatory powers of the FSA and taking into consideration requirements of international standard setting bodies[1] and international best practice. As such, the draft Bill is intended to make significant changes to the existing *Friendly Societies Act 1843*, expanding on the Guidelines issued by the FSA in 2015, and outlines inter alia, requirements for registration and reporting requirements of Friendly Societies and enforcement and investigative powers of the FSA.

Work was also advanced in reviewing a draft modern legislative framework for Building Societies and Harmonized Cooperative Societies Regulations.

## Anti-Money Laundering/Counter Financing of Terrorism (AML/CFT)/National Risk Assessment

The FSA continues to be involved in policy making and oversight of the country's AML/CFT regime as a statutory member of the National Anti-Money Laundering Committee (NAMLC), via the Chairman, Executive Director and Legal Counsel.

The FSA also actively participated in the National Risk Assessment (NRA) of the AML/CFT Regime using the World Bank Methodology, and contributed significantly to the conduct of the exercise, with key members of staff engaging in various Working Groups as well as the Coordinating Committee.

The NRA was conducted over a period of approximately two (2) years and its stated objective was successfully met. As part of the NRA process, a National AML/CFT Action Plan was developed to address and mitigate the risks identified from the assessment. Implementation of this Action Plan has already commenced, with the aim of further enhancing SVG's national AML/CFT ability at the institutional, sectoral and national levels. The FSA intends to do its part to advance the objectives identified therein to address gaps in the AML/CFT legislative framework, ensure more effective AML/CFT supervision, enhance effectiveness of SAR monitoring, reporting and analysis, and enhance effectiveness of compliance systems and functions.

It is anticipated that the constructive utilization of the NRA would in turn lead to a successful AML/CFT evaluation in 2022/2023. A positive evaluation would augur well for the integrity and stability of SVG's financial sector and bolster its reputation.

## St Vincent and the Grenadines' International Tax Status

St. Vincent and the Grenadines (SVG) retains its status as a cooperative tax jurisdiction internationally, as a result of the work carried out over the years. Despite significant international challenges, the country has managed to preserve its international financial services sector (IFS), while safeguarding the jurisdiction's integrity as well as the reputation of the entire financial services sector, in the important matters of tax cooperation, transparency and accountability at the global level.

In an effort to further preserve its IFS' sector, in December 2020, the *Income Tax (Amendment) Act 2020* was passed in Parliament, thereby introducing a system of territorial taxation in SVG, through which specified companies, namely, companies incorporated or registered under the *Companies Act* or registered under the *Business Companies (Amendment and Consolidation) Act* and trusts registered under the *Trusts Act* would benefit from tax exemptions or zero-rated taxation on global income. Taxation on worldwide income for all other tax payers, including individuals and non-residents, has been retained.

*The International Tax Cooperation (Economic Substance) Act* (the Act) was also simultaneously enacted to introduce the necessary economic substance requirements on geographically mobile activities, referred to as 'relevant activities,' to ensure compliance with international tax criteria. Companies carrying out nine (9) categories of relevant activities[2] , will be obliged to fulfil economic substance requirements, unless excluded under the provisions of the Act.

Further Guidance and Regulations will be issued to provide clarity on the implementation of these laws in SVG and the FSA will continue to engage stakeholders prior to such implementation.

The passage of these laws signified the accomplishment of a policy goal of the Government to introduce a territorial-based system of taxation in the jurisdiction. It is anticipated that these legislative changes, together with the results of the Caribbean Development Bank (CDB) funded consultancy to implement marketing strategies with coordination of Invest SVG, may lead to the stabilization, survival and possible growth of SVG's IFS sector, the economic international climate permitting.

Anticipating the likely emergence of practical issues as a result of the existence of dual corporate regimes, the next logical step for the jurisdiction will be the merger of its domestic and international corporate regimes.

## Changing Regulatory Landscape

The field of financial services is not static and the role of financial services globally is expanding rapidly, therefore the FSA must be prepared to develop a new generation of regulatory tools in its arsenal. The COVID-19 pandemic has accelerated the drive for innovative solutions, thus the FSA's regime needs to support innovation in financial

1 Financial Action Task Force (FATF) and the Organization for Economic Cooperation and Development (OECD)

2. banking business, insurance business, fund management business, finance and leasing business, holding entity business, distribution and service centre business, headquarters business, intellectual property holding business, and shipping business

## 2019-2021 STRATEGIC PLAN MILESTONES

**On-going Institutional Capacity Building and Operational Efficiency**

*Specialized training activities for Staff

*Risk-based training activities for Board and Staff

*Collaboration with regional Regulators

*Participation in joint supervisory programmes and meetings (CARTAC, CAIR.CAPS,ECCB (ROC))

*Efficient use of Resources

**Establishing Standards for Institutional Strengthening for the Management of risk in the Financial Services Sector for the Protection of Stakeholders**

*Updated Risk-based Supervisory Framework

*Publication of Guidelines

*Identification of new products and services (micro-financing and MPSPs) and adjusting supervisory strategies

* Draft Stabilization Fund Guidelines

services whilst maintaining appropriate standards and customer protection. The key challenge is keeping up with these innovations and understanding the risks which they present. In particular, we must ensure that businesses delivering these new tech products and services, and the customers using them, also understand the risks and can mitigate them effectively.

To this end, the FSA has drafted amendments to the Money Services Business Act to provide for the regulation of micro-financing entities. Research has also commenced with a view to the likely inclusion in this Act of a licensing and regulatory regime for mobile payment service providers.

In addition, the FSA has reviewed and provided input on the Draft Virtual Assets Bill which was prepared by the ECCB and reviewed by Eastern Caribbean Currency Union (ECCU) member states in 2020. The purpose of this Virtual Asset Bill is to provide for the regulation of virtual asset business in the ECCU. The Bill proposes to introduce a registration regime that will be overseen by the national regulators in the eight (8) member countries of the ECCU.

Further, the FSA will participate in the ECCB's ongoing project to broaden the scope of the Payment Systems Act to incorporate the technology-driven payment systems that are being developed.

### Conclusion

The FSA celebrated its eighth anniversary in 2020 and will soon be preparing and adopting its fourth Strategic Plan for the years 2022-2024. Our outlook for the future must be one of embracing technology, organizational and staff development, legislative relevance and enhancement and innovation of products and services. We must also continue to monitor the regulatory perimeter for new activities that need to be regulated and supervised.

I express sincerest gratitude to our stakeholders and the regulated sector, without whose support and cooperation our mandate and strategies could not be achieved. I thank in particular the Honourable Prime Minister, Honourable Minister of Finance and the Honourable Attorney General for their invaluable cooperation and support.

Profound gratitude is extended to the Board of Directors for its continued sound stewardship and guidance. Without the hard work, commitment and dedication of the Management team and staff, the work and mandate of the FSA could not have been accomplished. They are lauded for their service to the organization.

Carla James

Executive Director

# Credit Union, Building Societies and Money Service Business Sector Report

## 1.0 Credit Unions

Credit Unions are member-owned financial entities that provide financial services to their members. The operations of credit unions in St. Vincent and the Grenadines (SVG) are primarily governed by the Cooperative Societies Act (CSA) No. 12 of 2012. Oversight of credit unions is tri-fold; internal oversight activities are conducted by volunteers (Board of Directors and various committees) voted from amongst its membership, an apex body, SVG Co-operative League Limited (CUL), and the Financial Services Authority (FSA). Collectively, they work to maintain the safety and soundness of internal control systems and effective financial structure.

The four (4) credit unions along with the Apex Body operating in St. Vincent and the Grenadines as at December 31, 2020 are:

- General Co-operative Credit Union Limited (GECCU);
- Kingstown Co-operative Credit Union Limited (KCCU);
- SVG Police Co-operative Credit Union Limited (PCCU);
- SVG Teachers Co-operative Credit Union Limited (TCCU); and
- SVG Co-operative League Limited (CUL) – the Apex Body

The liquidation of SVG Small Business and Microfinance Co-operatives Ltd. (COMFI) is still incomplete. Resolution proceedings, and other outstanding matters are yet to be resolved. It is anticipated that the liquidation should be completed in the third quarter of 2021.

A synopsis of the financial position of the credit union sector as at December 31, 2020 is illustrated in Table 1 below, with key financial indicators and comparative data from prior years.

**Table 1 - Synopsis of Total Assets, Net Loans, Deposits and Regulatory Capital**

| Categories | *December 2020 (Unaudited) | December 2019 (Audited) | December 2018 (Audited) |
|---|---|---|---|
| Total Assets | EC$754,516,259 | EC$710,403,134 | EC$ 658,963,047 |
| Net Loans | EC$467,542,420 | EC$453,207,979 | EC$ 428,664,343 |
| Total Deposits | EC$602,163,580 | EC$558,665,399 | EC$ 517,271,862 |
| Regulatory Capital | 15.3% | 15.2% | 14.6% |
| Total Membership | 75,896 | 72,748 | 70,820 |
| Total Staff | 176 | 170 | 157 |

**Figures reported for the year ended December 2020 are unaudited and are expected to change.*

The sector reported growth in all prudent areas when compared to the year ended December 31, 2019, as noted below:

- Total assets increased by EC$ 44.1M or 6.2%;
- Loan portfolio increased by EC$14.3M or 3.2%, which can be attributed to enhanced products and marketing strategies within the sector;
- Loan portfolio represents 62.0% of total assets in 2020;
- Members' deposits increased by 7.8% or EC$43.5M;
- Regulatory capital was above the prudential benchmark of 10%, at 15.3%; capital adequacy remains on par with the prior year; and
- Credit unions' membership further improved by 3,148 and the number of employees also grew by six (6).

### Loan Moratoria:

During the 2020 financial year, all financial institutions in St. Vincent and the Grenadines including the credit union sector provided loan payment deferral opportunities to borrowers as the COVID-19 pandemic halted economic activities in the hospitality and other fringe sectors of the wider economy.

These moratoria arrangements have negatively impacted the financial performance in the review period for all the credit unions. Income deferred for the year ended December 31, 2020, valued EC$995.8K which represents 3.5% of total Loan Interest Income for the previous year. The asset quality is also expected to be compromised since all moratoria loans may not return to performing status. As shown in Table 2, EC$0.9M was deferred. The authority implemented high frequency reporting requirements from the sector with obligatory targeted reports daily and weekly.

Table 2 below shows the number and value of approved moratoria loans within the credit union and Building Societies Sectors. One thousand one hundred and seventy-four (1174) members, with loans valuing approximately EC$84.2M, are currently beneficiaries of this initiative.

**Table 2: Moratoria values December 31, 2021**

| Approved Applications | Value of Loans | Deferred Income |
|---|---|---|
| 1174 | EC$84,155,613 | EC$995,819 |

## 1.1 Regulation and Supervision

The FSA continued to ensure that appropriate and enhanced legislative framework and guidelines are in place to regulate the sector. As such, the FSA has undertaken a review of both the Draft Cooperative Societies Regulations and the Cooperative Societies Act to ensure that laws governing the sector are modernized and in keeping with international and regional best practices and standards. Further, Guidelines on Share Capital and the establishment of a Stabilization Fund for the sector were drafted and remain in preliminary review stages.

Due to the COVID-19 pandemic, onsite examinations were halted and more focused off-site desk reviews were conducted. As part of its overall guiding principle of ensuring stability and security of the financial services sector, the FSA continued to provide guidance and make recommendations where deficiencies were noted in the sector.

The department participated in several online capacity building exercises that were coordinated and sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC), and the International Credit Union Regulators' Network (ICURN).

## 2.0 Building Societies

The St. Vincent Building and Loan Association (SVBLA) is the sole registered building society in St. Vincent and the Grenadines. As at December 2020 the Association's total assets stood at EC$147.9M, deposits EC$102.9M and loans EC$106.2M. Its register of fully paid-up members was 9,895 while associated members amounted to 9,288. During the financial year 2020 the Association paid out matured fixed deposits amounting to EC$3.8M. SVBLA remained under enhanced supervision during 2020.

## 3.0 Money Service Business

The two Money Services Businesses, Grace Kennedy Money Services (GKMS) trading as Western Union and Caribbean Travel World Services MoneyGram continued operations in SVG in 2020. Inbound remittances continued its upward trajectory in the year ended December 31, 2020. Funds remitted to SVG during the year were approximately EC$23.9M or 17.5% more when compared to 2019. Increases were seen in all four quarters. However, the most significant variance occurred in the third quarter, when transaction value increased by EC$11.8M. Conversely, outbound transactions continued to decline year-on-year, a pattern similar to trends previously established.

Remittance activities over the years 2018-2020, trended positively. The volume and value of inbound transactions increased steadily. Outbound activities declined in both volume and value at year-end 2020 and the value of outbound activities declined by EC$1.6M or 7.2%. Table 3 shows the total transactions and values for the years ended December 31, 2020, 2019 and 2018 respectively.

### Table 3: In flow and Outflow Statistics 2018 - 2020

| Inbound Trends | | | | Outbound Trends | | | |
|---|---|---|---|---|---|---|---|
| **Year** | **Dec. 2020** | **Dec. 2019** | **Dec. 2018** | **Year** | **Dec. 2020** | **Dec. 2019** | **Dec. 2018** |
| **Value EC$ M** | 160.3 | 136.4 | 131.8 | **Value EC$ M** | 21.4 | 23.0 | 25.5 |
| **# of Trans.** | 234,739 | 206,458 | 203,275 | # of Trans. | 23,402 | 26,470 | 29,521 |

*Chart 1 below illustrates local remittance trends for the five-year period 2016 - 2020.*

### Chart 1 Remittance Trends 2016 - 2020

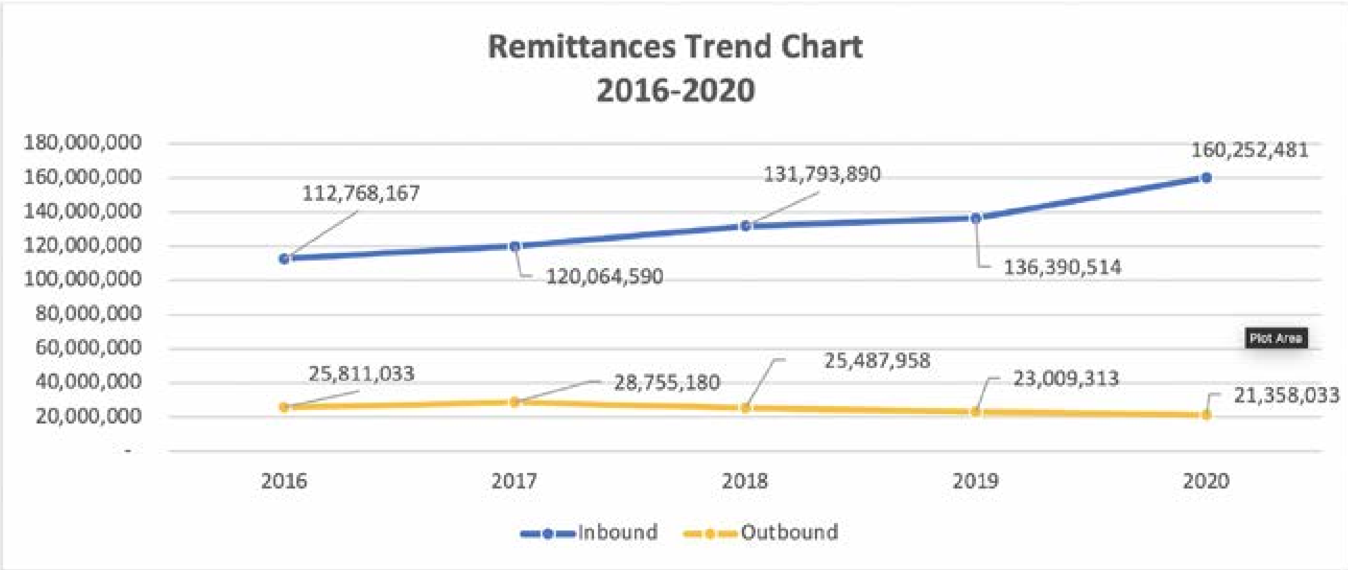



*Chart 1 figures are expressed in EC$M*

## 3.1 Regulation and Supervision

The FSA's monitoring activities were restricted to off-site assessments during the year due to the protocols adopted to curb the spread of the COVID-19 virus. The Authority applied more stringent reporting measures during the period to improve vigilance and effectiveness of the supervisory system. The sector remained largely compliant with the governing legislation and regulations.

## 4.0 Friendly Societies

There were eighteen (18) registered friendly societies at December 31,2020 with combined assets of EC$13.5M. The assets consisted primarily of property and cash and cash equivalents. The new legislation to govern the friendly societies has been tabled in Parliament and reviewed by a select committee. The legislation is awaiting final reading and passage through the House of Assembly.

During 2020 desk reviews of financial information and policies were conducted. The FSA continues its efforts to strengthen corporate governance and modernize operations of these entities.

# INSURANCE SECTOR REPORT

The insurance industry in St. Vincent and the Grenadines has two distinct segments; the domestic insurance segment, which provides insurance of local risks, and the international insurance segment, which provides insurance of foreign risk by insurers from within St. Vincent and the Grenadines. The FSA through its Insurance and Pensions Unit, regulates and supervises all insurance entities operating in and from within St. Vincent and the Grenadines.

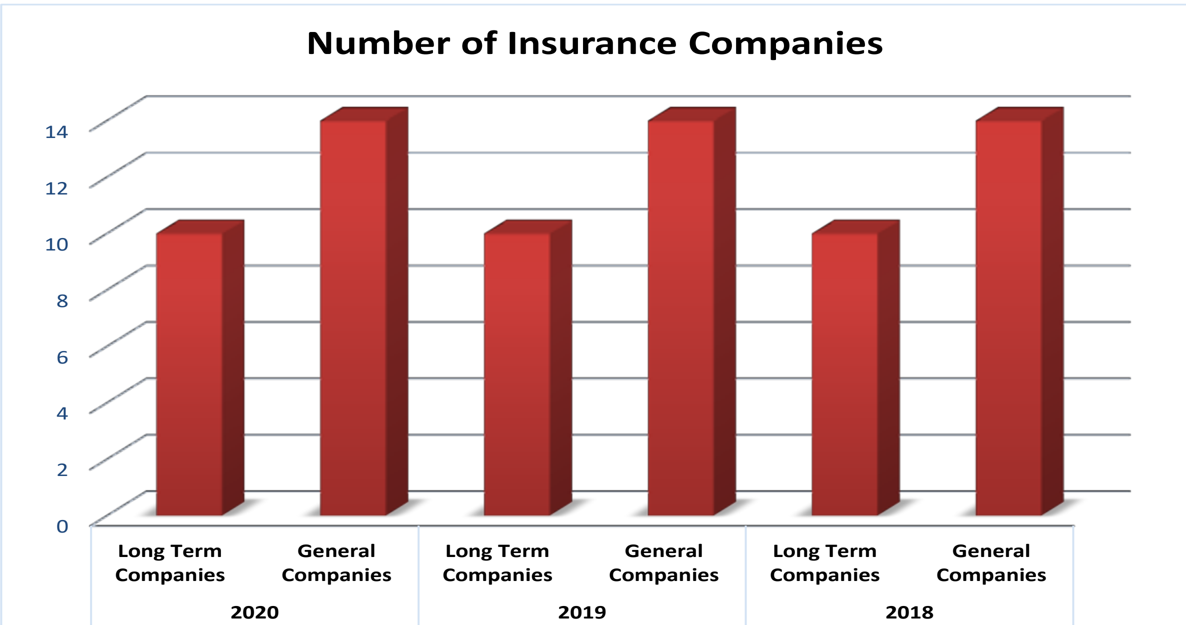
## Domestic Insurance Sector

Based on the number of active entities, the domestic insurance industry is the largest component of the non-bank financial services sector in St. Vincent and the Grenadines, comprising insurance companies and intermediaries and pension fund plans. Companies conducting business are either indigenous or domestically incorporated companies or incorporated in CARICOM countries and operating through local agencies or branches. Insurance business is written directly with those companies or through the use of brokers and agents.

For the reporting period, January to December 2020, it was noted that the composition of the domestic insurance sector remained constant when compared with 2019. As at December 31, 2020, there were twenty-four (24) companies registered under Section 8 of the Insurance Act, Cap 306 of the Laws of St. Vincent & the Grenadines, Revised Edition 2009 ("the Insurance Act"), to conduct domestic insurance business in St. Vincent. Fourteen (14) companies were registered to conduct short-term (also referred to as property and casualty) insurance business, while ten (10) companies were registered to undertake long-term insurance business.

The sector plays an essential role in the local economy and contributed roughly $5.2M in insurance premium taxes to the government in 2020 (2019 - $6.4M) and generated $0.2m in registration and licence fees (2019 - $0.2M).

**Figure 1. Number of Insurance Companies 2018 - 2020**




*Source: FSA Records*

## Intermediaries

As at December 31, 2020, there were one hundred and sixteen (116) Insurance Sales Representatives, eight (8) Insurance Brokers, fifteen (15) Insurance Agents, one (1) Adjuster and one (1) Association of Underwriters.

Table 1 below summarizes the composition of the domestic insurance and pension sector.

### Table 1. Number of Registrants in the Insurance & Pensions Industry for the period 2018 - 2020

| **As at December 31** | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|
| Insurance companies | 24 | 24 | 24 | 23 |
| Brokers | 8 | 8 | 8 | 8 |
| Agents | 15 | 16 | 16 | 17 |
| Sales Representatives | 116 | 127 | 127 | 119 |
| Association of Underwriters | 1 | 1 | 1 | 1 |
| Insurance adjusters | 1 | 2 | 2 | 1 |
| **Total Insurance Licences** | **165** | **178** | **178** | **169** |
| Pension Fund Plans | 28 | 28 | 28 | 25 |

## Statutory Deposit and Insurance Fund

It is a statutory obligation that all general insurance companies that conduct motor insurance business are required to maintain/establish a deposit with the Authority of the greater of $500,000 or 30% of gross premium income. In respect of other general insurance business, the deposit required is the greater of $200,000 or 30% of gross premium income. In the case of life insurance, the deposit is fixed at $500,000. Additionally, companies conducting motor and long-term insurance business must establish an insurance fund equal to their liabilities and contingency reserves, less amounts held as statutory deposit. This fund must be held in trust to the order of the FSA for the protection of policyholders.

As at December 31, 2020, all companies were in compliance with the Statutory Deposit and Insurance Fund obligations. By the end of 2020, total liabilities and contingency reserves of all insurance companies (excluding those under judicial management) amounted to approximately EC$115.6M. Total assets pledged or identified by those companies for inclusion in their Insurance Fund as at December 31, 2020 was approximately $126.8M or 109.7% of insurance liabilities. The Insurance Fund provides access to assets in the event of a company's demise and is used as regulatory capital to provide a buffer for insurance liabilities and to support the overall quality of assets on the insurers' balance sheet. These funds are monitored on a regular basis and where shortfalls exist, companies are required to satisfy the deficiency within the shortest possible time.

## Capital Adequacy & Solvency

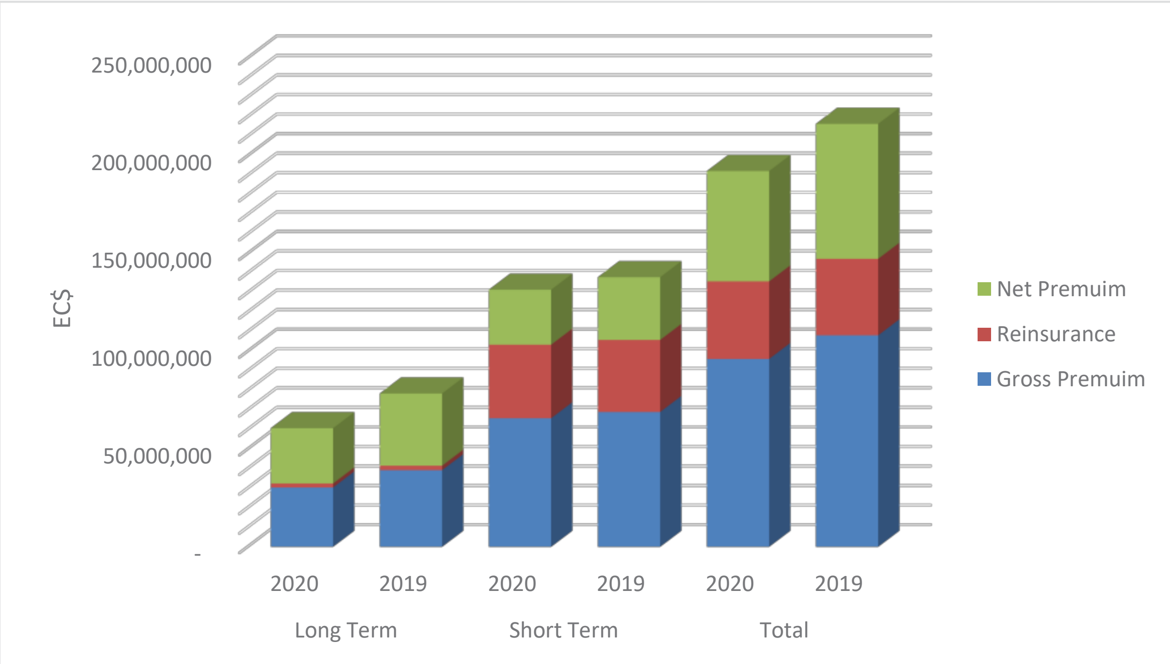
Solvency, both as an economic requirement in the market and as a regulatory and supervisory tool, is critical to the insurance sector and underpins the prospect for insurers to contribute effectively to financial sector development. One of the principal aims of insurance supervision is the protection of the interest of the policyholders through a properly managed and financially sound insurance sector. Consequently, it is necessary that insurance companies have appropriate capital adequacy and solvency regimes in place so that the benefits of the claimants and policyholders are secured.

The FSA monitors the solvency position of each company quarterly and annually based on the returns for the same periods. As at December 31, 2020, all companies satisfied the solvency standards. The capital of each company was adequate as most companies' capital tend to be permanent and include share capital.

## Gross Premium Analysis

In 2020, Gross Premium income in the insurance industry totaled $96.1M[1] . This represented approximately 4.4% of Gross Domestic Product[2] at market prices and a decrease of 11.2% when compared with gross premium income of $108.2M reported in 2019. More specifically, the gross premiums written for the long-term insurance sector decreased by 22.6% to $30.3M (2019 - $39.2M). The leading long-term insurer held approximately 63.6% of total premiums written. Similarly, gross premiums written for the general insurance classes of business exhibited a decline of 4.8% and amounted to $65.7M (2019 - $69.0M).

### Figure 2. Gross Premium Income for 2019 - 2020



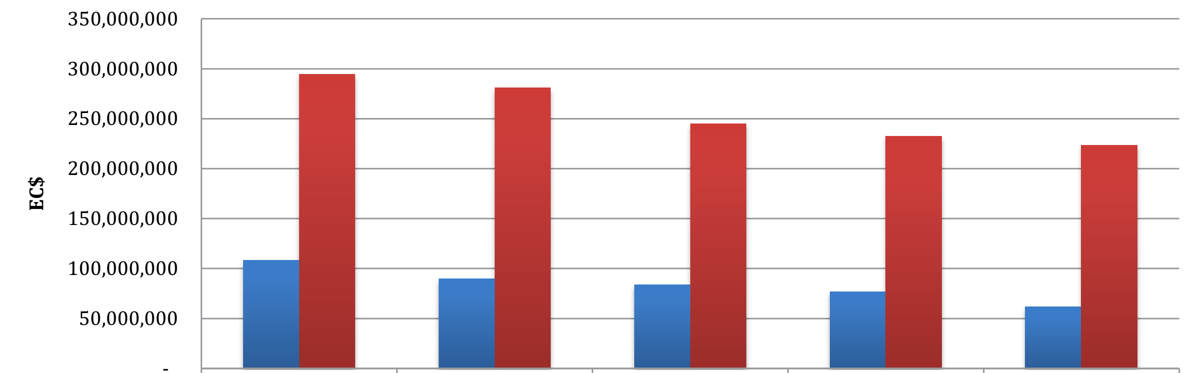

*Source: FSA Records*

## Analysis of Financial Position

Total assets for the domestic insurance sector stood at $294.5M as at December 31, 2020, an increase of 4.8% when compared with $281.0M for the previous year. For the industry as a whole, government securities and cash and deposits continue to be the largest components of assets and accounted for 33.5% (2019 - 34.4%) and 25.1% (2019 - 20.5%) of total assets respectively.

1. All figures for 2020 are preliminary, while 2019 figures have been restated based on the annual returns.
2. GDP at market price for St.Vincent and the Grenadines for 2020 was forecasted at EC$2.2b. *Source: Ministry of Finance and Economic Planning*

**Figure 3. Total Premiums & Assets of Insurance Companies 2016-2020**

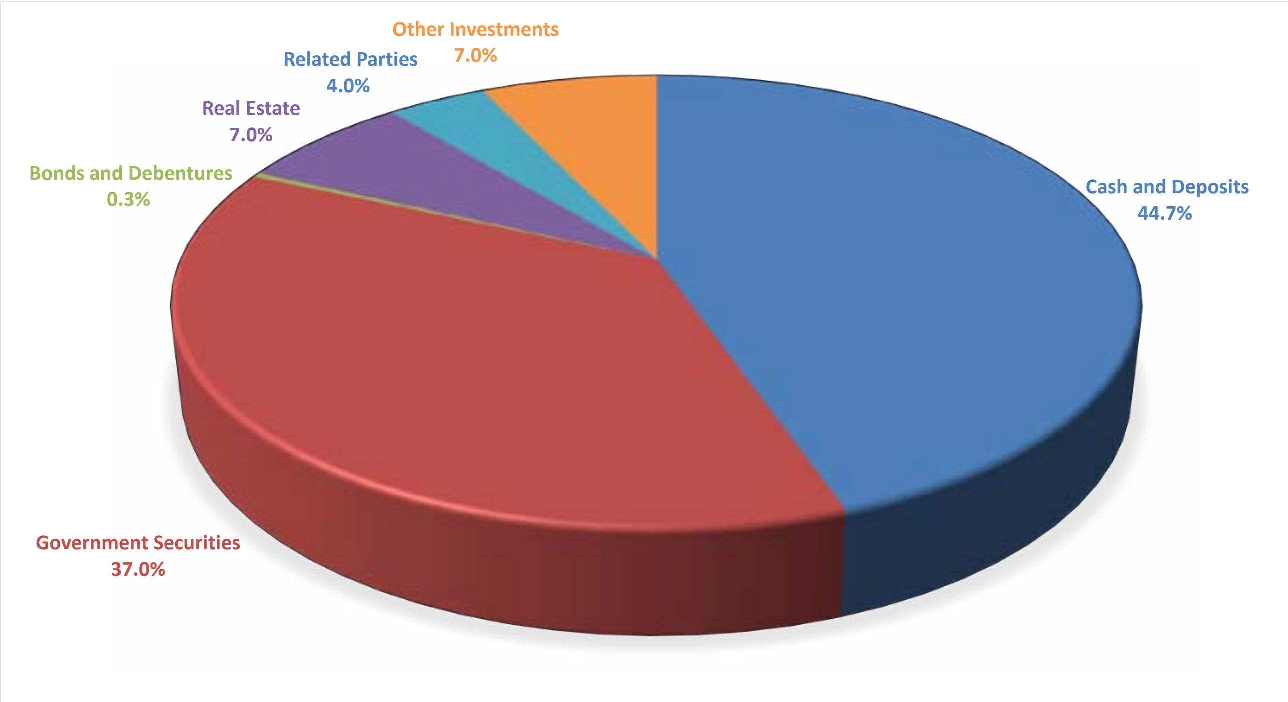



| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Total Premuims | 108,163,395 | 89,696,974 | 83,620,826 | 76,858,825 | 61,982,488 |
| Total Assets | 294,537,184 | 280,959,838 | 244,917,789 | 232,131,094 | 223,705,036 |

***Source: FSA Records***

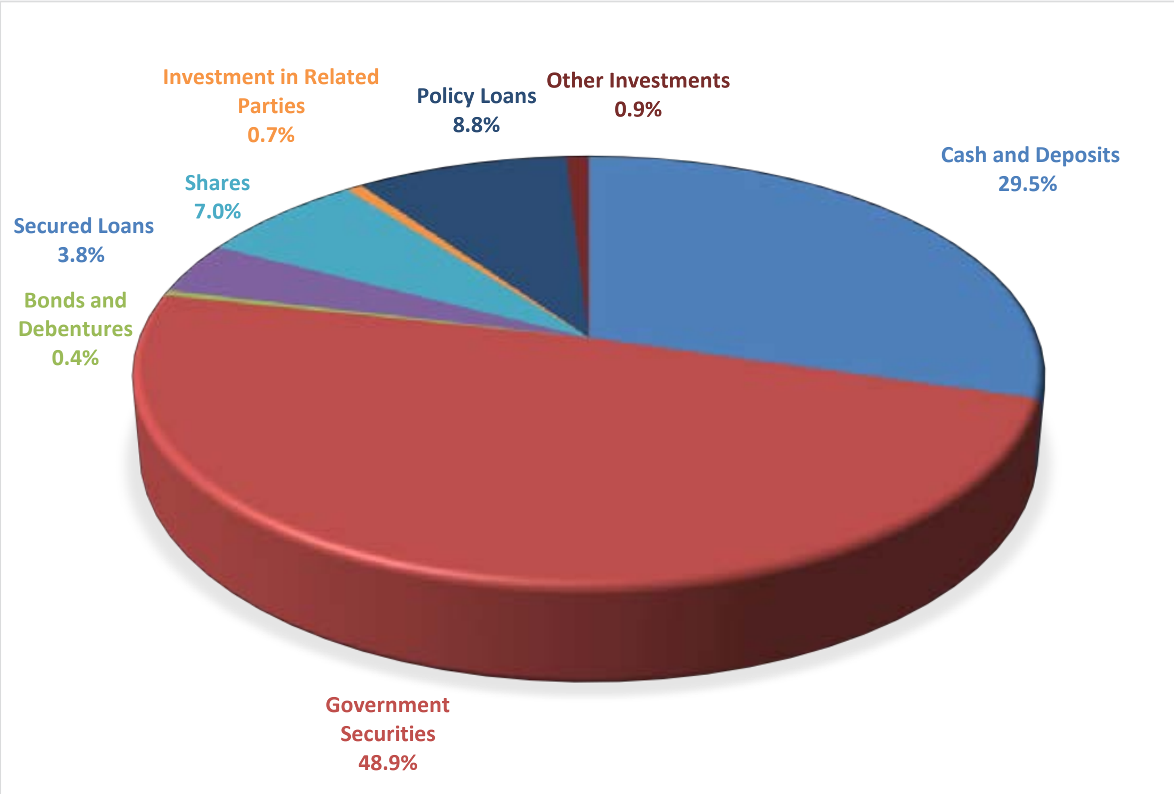
For the short-term segment of the industry, total assets amounted to $110.0M. Investment assets represented 58.8% of total assets. As depicted in Figure 4, cash and deposits (44.7%) and government securities (37.0%) accounted for the majority of investment assets.

**Figure 4. General Insurance Investment Assets Composition 2020**




Total assets including statutory deposits for companies registered to conduct long term insurance business stood at $184.5M, an increase of 9.7%, when compared with the previous year's figure of $168.2M. As depicted in in Figure 5 below, Government securities accounted for 48.9% of total cash and investments, while cash and deposits accounted for 29.5%.

**Figure 5. Life Insurance Investment Assets Composition**




## Underwriting Performance

The timely detection of weak or troubled insurance companies is of utmost importance for the effective and stable functioning of the insurance sector. Monitoring the financial performance and position of insurance companies through the use of early warning tests is fundamental in this regard. Accordingly, the Authority pays particular attention to the underwriting performance of insurers. For the general/short-term insurers, more so from a profitability standpoint and, for life/long-term insurers, from a viability standpoint. The analysis of underwriting ratios assists in identifying companies which fall outside the prudential limits, thereby enabling early intervention and corrective action.

The key underwriting ratios used to assess underwriting performance are the loss ratio, the operating expense ratio and the combined ratio. These are calculated below.

- Loss/Claims Ratio

The first significant influence on profit performance is the underlying claims that arise from the business the insurer has written. The loss ratio represents, as a percentage, the proportion of annual claims paid by an insurer in comparison to the premiums received and is calculated as net claims incurred/net earned premiums. While there is no set standard of acceptable range, lower loss ratios indicate better underwriting performance.

**Table 2: Short-term Insurers Loss Ratio (2016-2020)**

| December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Net Claims Incurred | 15,859,170 | 18,028,671 | 16,474,926 | 15,611,940 | 12,060,005 |
| Net Premiums Earned | 28,791,040 | 32,063,490 | 30,262,116 | 28,118,499 | 25,840,992 |
| **Loss Ratio (%)** | **55.1** | **56.2** | **54.4** | **55.5** | **46.7** |

Claims have historically been the largest component of insurance expenditure particularly for general insurers. Consequently, loss ratios are typically higher in the short-term segment of the market. Nonetheless, the claims ratio is a very reliable indicator of underwriting performance for general insurers.

As can be seen from the table above, the loss ratio for the general insurance sector ranged from 46.7% to 56.2% during the period 2016-2019. As at December 31, 2020, several companies reported loss ratios above the sector average of

55.1%, however, these companies are heavily involved in the motor vehicle class of business which tends to be more volatile and has a higher volume of claims in the normal course of business.

### Table 3: Long-term Insurers Loss Ratio (2016 - 2020)

| December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Claims | 7,963,000 | 4,327,000 | 3,520,000 | 3,631,000 | 1,110,000 |
| Gross Premiums | 30,343,000 | 39,213,000 | 24,227,000 | 23,965,000 | 20,468,000 |
| **Loss Ratio (%)** | **26.2** | **11.0** | **14.5** | **15.2** | **5.4** |

The same factors are relevant to the interpretation of this segment of the market as for the short-term segment. However, because this indicator ignores the effects of reinsurance ceded through the use of gross premiums, it helps in assessing the underlying profitability of the business written directly by the insurer. Reinsurance is not a significant risk transfer strategy for long-term insurers, given the nature of the business written. In addition, the incidence of claims in this segment is not as prevalent as in the short-term segment of the market hence the loss ratio is lower.

- Operating Expense Ratio

The second significant source of profit performance is the expense associated with the administration of the business. The expense ratio measures the percentage of premiums used to pay the costs of acquiring, writing and servicing insurance contracts. It is calculated as Net Commission Expenses plus Management Expense/Net Premium Earned. As with the loss ratio, lower expense ratios are desirable. Higher ratios indicate that the business is cost-intensive or that the insurer is less efficient.

### Table 4: Short- term Insurers – Expense Ratio (2016-2020)

| December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Operating Expenses | 12,257,843 | 8,327,852 | 7,472,557 | 8,270,681 | 8,132,165 |
| Net Premiums Earned | 28,791,040 | 32,063,490 | 30,262,116 | 28,118,499 | 25,840,992 |
| **Expense Ratio (%)** | **42.6** | **26.0** | **24.7** | **29.4** | **31.5** |

As at December 31, 2020, the operating expense ratio for the short-term companies stood at 42.6% compared with 26.0% the previous year. This was as a result of a decline in Net Premiums Earned (-10.2%) compared with an increase in Operating Expenses, thus adversely affecting the efficiency of the sector.

### Table 5: Long-term Insurers - Expense Ratio (2016-2020)

| December 31 | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Operating Expenses | 13,194,000 | 13,106,000 | 11,407,000 | 11,604,000 | 9,911,000 |
| Net Premiums Written | 28,290,000 | 36,920,000 | 21,943,000 | 21,659,000 | 18,475,000 |
| **Expense Ratio (%)** | **46.6** | **35.5** | **52.0** | **53.6** | **53.6** |

As can be seen from the table above, the expense ratio for the long-term insurers was generally higher than that of the general insurers and averaged 48.3% over the period 2016-2020. While both the management and commission expenses of the long-term insurers were lower than that of the short-term insurers, these companies tend to be larger insurers and as such may have benefitted from economies of scale and the influence of fixed costs.

Overall, the industry remained profitable, producing before tax profits in each segment in each of the respective years.

- Combined Ratio

The combined ratio is the summation of the loss and the operating expense ratios and measures the underwriting performance of the insurer (Combined Ratio = Loss Ratio + Operating Expense Ratio). A ratio below 100% indicates that the company is making underwriting profits while a ratio above 100% indicates that the company's underwriting expenses exceed the premiums collected. The table below illustrates the combined ratio for both segments of the market.

### Table 6: Combined Ratio- Industry (2016-2020)

| Combined Ratio (%) | Prudential Limits | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Short-Term Insurers | < 100% | 97.7 | 82.2 | 79.1 | 84.9 | 78.1 |
| Long-Term Insurers | < 100% | 72.9 | 46.5 | 66.5 | 68.7 | 59.1 |

As illustrated in the table above, while the combined ratio for both the short-term and long-term segments of the market has increased, it remained below the 100% benchmark in each of the review years.

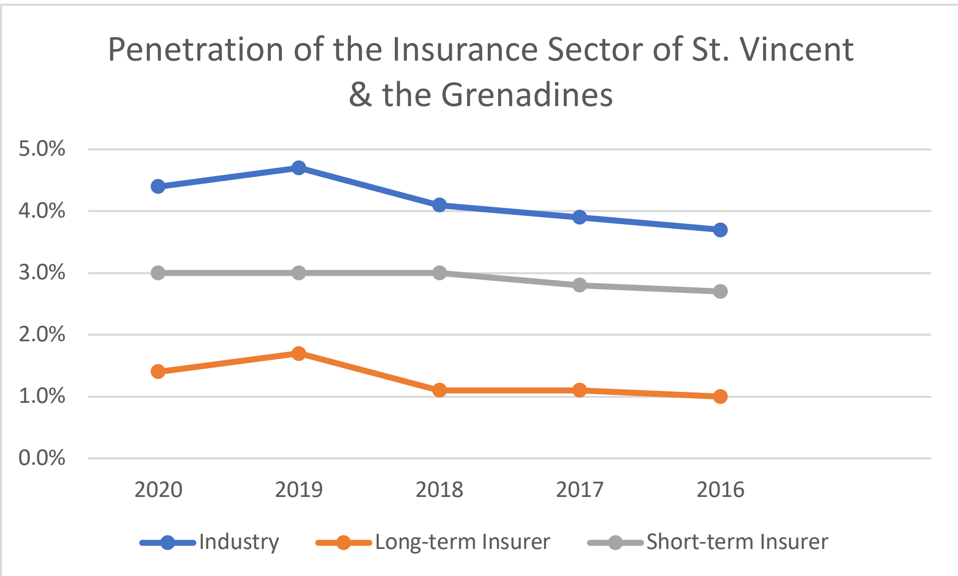
## Insurance Penetration

Insurance penetration is an indicator of the level of development and reach of the insurance sector in a country. It measures the level of insurance market development relative to the size of the economy. As at December 31, 2020, the average penetration of insurance as a percentage of GDP for the industry as a whole was 4.4%, 0.3 percentage point lower that that of 2019.

Dissecting the ratio into long-term and short-term shows an average penetration ratio of 1.4% and 3.0% respectively. The table below indicates that there was a contraction in the long-term sector while the short-term sector remained constant. The result however, suggests that there is the potential for growth in both segments of the market.

Lower insurance penetration ratios are characteristic of lower levels of economic development, which may have resulted in a lower demand for insurance cover.

### Figure 6: Penetration of the Insurance Sector (2016-2020)



## International Insurance Sector

The number of participants in the international insurance sector has remained relatively stable since 2007. As at December 31, 2020, there were two (2) international insurance companies, one (1) insurance manager and one (1) insurance broker registered under the International Insurance Act, Chapter 307 of the Revised Laws of St. Vincent and the Grenadines. One insurance company did not renew its licence in 2020. Accordingly, the insurance companies consisted of two Class II insurers that were registered to conduct life and capital assurance business.

As at December 31, 2020, all entities were in compliance with all applicable requirements. However, the FSA continues to monitor this sector to ensure effective supervision and compliance with applicable legislation and guidelines.

## Pension Fund Plans

The legislative authority governing the regulation and supervision of pension funds in St. Vincent and the Grenadines is Part VIII of the Insurance Act. These provisions provide for a registration process of private pensions and regulatory submissions of annual accounts and triennial actuarial valuations.

As at December 31 2020, registered there were, twenty-six (26) DC Plans, one (1) hybrid of Defined Contribution and Defined Benefit (DB) and one (1) Multi-employer plan. Additionally, three (3) of the pension plans are operated by insurance companies that are currently under judicial management and one plan was wound-up and de-registered pursuant to section 176 (2) of the Insurance Act.

The majority of the plans are relatively small in terms of the number of participants as well as asset size. Plan membership ranges from small plans with only four (4) members to as large as four hundred and seventy-nine (479) members, while assets range from $95K to $7.8M. The larger pension plans include statutory bodies, a commercial bank and a well-established private entity.

Proper monitoring of this sector remains a challenge for the FSA due to the small size of many of the pension plans which affects their ability to prepare and submit the required returns and actuarial reports. Accordingly, the FSA continues to implore upon the Trustees of these plans, the importance of the timely submission of the audited financial statements in order to enhance the supervisory methodology for the registered plans.

## COVID-19 Implications for the Insurance Sector

At this stage, it is difficult to quantify the full impact of the COVID-19 pandemic on the insurance industry. It is anticipated that the financial impact will be more clearly reflected and assessed in the 2020 annual returns which are statutorily due by June 30, 2021 for companies with a December 31 year-end. However, it is envisioned that the pandemic has the ability to impact the insurance sector mainly through insurers' investments, as well as to a lesser extent, claims. Additionally, the pandemic may also result in the deceleration of premium growth and even contraction due to the economic impact of same.

During 2020, as a result of persons being laid off from work, (particularly in the tourism/hospitality sector), some insurers reported delinquency in premium payments resulting in a slight increase (averaging 2%) in lapse rate for some companies, particularly with over-the-counter mode of payment. In addition, there have been requests from customers for payment plans.

Accordingly, in order to cushion the impact of the COVID-19 pandemic on customers, some companies implemented measures such as:

- Extension of the grace period before a policy can be considered lapsed;
- Withdrawals by policyholders with investment benefit policies; and
- Extension of soft loans to certain categories of policyholders with affordable and flexible repayments.

# INTERNATIONAL FINANCIAL SERVICES SECTOR REPORT

## Introduction

In 2020, the International Financial Services (IFS) sector maintained its composition of six (6) financial products[1] , namely, **international banks, mutual funds and mutual fund entities, international trusts/trusts, international business companies (IBCs)/Business Companies, Limited Liability companies (LLCs) and also international insurance**[2] entities. These IFS product offerings are similar to those available at the major international financial centres.

There are different governing legislation for administering and overseeing the registration and licensing of each of the aforementioned products.

All IFS entities are required to engage the services of Registered Agents (or Service Providers) who are required to be registered, licensed and supervised by the FSA. Therefore, Registered Agents are key to ensuring that sound business is brought to the Jurisdiction and that there is compliance with the laws and regulations. Registered Agents are, in essence, the "gatekeepers" of the IFS industry and provide registered agent, trustee and fiduciary services.

## New Developments

(i) Impact of New Tax Regime

As a result of the amendments to the IBC and International Trusts legislation in December 2018, resulting in, inter alia, the removal of tax exemptions for these entities, new entrants to the market from January 1st, 2019 were liable to pay 30.0% corporate taxes. The increase in the tax rate appeared to have had a negative effect on the IBC/BC sector, as the decline which was previously observed in IBC new registrations also continued with BCs. Notwithstanding, on the positive side in 2019-2020 there was an increased level of business activity in LLCs, which notably are exempt from all taxes.

In December 2020, St Vincent and the Grenadines ('SVG') achieved its policy goal regarding the introduction of a territorial-based system of corporate income tax. One resulting benefit to the IFS sector is that BCs and trusts would only be subject to SVG corporate taxes on income earned directly or indirectly from sources in the jurisdiction and therefore would benefit from tax exemptions or zero-rated taxation on global income. The changes in the legislation which allowed for the aforementioned are intended to lead to the stabilization, survival and possible growth of SVG's IFS sector, the economic international climate permitting.

(ii) Enhanced Marketing Efforts

In 2020, a Marketing Consultant was contracted pursuant to an ongoing Grant Agreement with the Caribbean Development Bank and INVEST SVG to develop a marketing plan for promotion of the IFS industry, the objective being to attract more business to the Jurisdiction. As a part of the planned web marketing strategy, a webpage was designed and launched in early 2021, and highlights key features of the IFS sector, promotional videos and an e-guide to IFS products

(iii) Impact of COVID-19

In early 2020 the World Health Organization declared the spread of the Coronavirus disease (COVID-19) a pandemic. COVID-19 has had significant negative effects on global markets, businesses and communities and had its greatest impact in developed economies with strong health systems. Subsequently, the epicenter of the pandemic shifted to low and middle-income economies. Research on the economic impact of COVID-19 on the main SVG IFS regions – the USA, Asia Pacific region, Europe in particular, has revealed that most of the countries are in recession and the global economy shrunk in 2020; China was the only major economy to grow in the reporting period[3]. While it is difficult to quantify the full impact of the pandemic on the SVG IFS sector, the global impact is likely to have a resulting adverse effect.

1.The removal of tax exemption on income from International Business Companies and International Trusts in 2019 resulted in new products Business Companies and Trusts to replace the aforementioned respectively.
2. A report on International Insurance activity is included with the "Insurance Sector."
3. Source:www.bbc.com/news/business

## IFS Entities: 2015 -2020

The total number of active entities for all IFS products has generally trended downwards since 2012. Ref: TABLE I below provides information on the number of active IFS entities licensed/registered from 2012 up to December, 2019. Also, of note is that cancellations in all sectors have generally been increasing.

### Table I:

### International Financial Sector number of active entities years 2015 – 2020

| Type of International Financial Services Product | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| International Business Companies/Business Companies | 6,674 | 6,258 | 5,946 | 5,548 | 5,368 | 4,245 |
| Limited Liability Companies | 43 | 53 | 55 | 47 | 163 | 653 |
| International Trusts/Trusts | 118 | 121 | 91 | 82 | 82 | 74 |
| International Banks | 5 | 5 | 5 | 4 | 3 | 3 |
| Mutual Funds | 109 | 102 | 89 | 90 | 79 | 76 |
| Registered Agents | 16 | 16 | 16 | 13 | 14 | 14 |

As mentioned previously, in 2020, there was a notable improvement in business activity resulting from use of the LLC product, whereas IBC/BC business activity continued to decline. The trend in renewals and new registrations of IBC/BC products continued downwards. When combined with income generated from new LLC formations however, the total performance of these two products improved in 2020 as compared to 2019. Also, in 2020, total new formations/registrations of LLCs and BCs were at their highest since 2013. This was positive and it may be that the potential previously observed for LLCs is being realized. Also, the tax-exempt feature of LLCs may deem it a more attractive product when compared to BCs. Of note is that business generated for all other IFS sector products generally decreased. Overall, there has been a general decline in total income generated from IFS products over the period, albeit at a slower rate over the 2019/2020 period.

Despite the challenges of the international environment, the efforts placed to maintain the IFS sector yielded positive results, as it remained relatively competitive and the marketing efforts of a few Registered Agents continued to impact positively on the industry. It is intended that these marketing efforts combined with the online marketing initiatives of INVEST SVG for the IFS sector and the changes in the tax regime could continue to make SVG an attractive IFS center. The IFS sector will continue to be closely monitored to assess the impact given the aforementioned factors.

(i) International Banks

This sector is licensed and regulated by the Authority under a regime set out by the International Banks Act, Chapter 99 of the Revised laws of St Vincent and the Grenadines, 2009 (the International Banks Act) and its Regulations, the FSA Act, 2011, the Proceeds of Crime Act, 2013 and the Anti-Money Laundering and Terrorist Financing Regulations, 2014. In 2020 three (3) licensed international banks continued to operate in SVG, *Reference: TABLE II* below.

**Table II:**

**International Financial Sector name and class[4] of international banks year 2020**

| NAME OF BANK | CLASS[4] |
|---|---|
| Exness formerly *Investex Bank Ltd, B2B Bank Limited* | A |
| RBC Royal Bank Holdings (EC) Limited | B |
| MPB Bank Limited | B |

The three (3) licensed International Banks have generally maintained adequate capital and met the minimum paid up capital requirement of 8% and US$3.0M respectively. One of the licensed Banks made a capital injection to its subsidiary investment to maintain capital reserve requirements. In addition, the said bank also had to provide for the investment's impairment following its annual impairment test under IFRS9. These transactions reflected an overall net increase in its investment balance.

(ii) Mutual Funds, Mutual Fund Managers and Mutual Fund Administrators (Mutual Fund entities)

International Mutual Fund entities registered/licensed in SVG are professionally managed investment schemes made up of a pool of funds owned by various investors for the purpose of a return from the various types of investment instruments.

The Mutual Funds Act and its Regulations Chapter 154 of the revised laws of St Vincent and the Grenadines, 2009 are the governing legislation for this sector. At 31st December 2020 there were seventy-six (76) (2019: 79) active entities registered /licensed pursuant to the Mutual Funds legislation. The various mutual fund entities which can be licensed/registered/recognized pursuant to the Mutual Fund legislation are:

- Public Mutual Funds
- Private/Accredited Mutual Funds
- Mutual Fund Managers
- Recognized Mutual Fund Managers
- Mutual Fund Administrators; and
- Mutual Fund Managers/Administrators.

Several Public and Private mutual funds structures have utilized the segregated cell company (SCC) construct which was introduced under the IBC Act and which is an attractive initiative to the investor.

Ongoing Matters – governing legislation proposed for Mutual Funds and Mutual Fund Entities: The newly redrafted Securities Bill, and a new Eastern Caribbean Currency Union Investment Funds Bill[5] , were approved by the Monetary Council in October 2019 but have not been enacted in SVG. Antigua and Barbuda is the only jurisdiction that has passed the Bill according to reports from the Eastern Caribbean Securities Regulatory Commission, the proposed single authority approved by the Monetary Council to regulate Mutual Fund/Mutual Fund entities.

(iii) International Trusts/Trusts

At 31st December 2020 there were seventy-four (74) active international trusts/trusts (2019: 82). There were fifteen (15) new trusts registrations in total during the reporting period.

(iv) International Business Companies/Business Companies

IBCs/BCs continued to dominate the IFS sector products with respect to the number of active entities and renewals. IBC/BC new registrations have fluctuated but the trend has generally been declining and a marked decline was

4. The FSA issues two categories of international banking licenses, namely Class A or B, the differences are (i) in the nature of international banking business that can be conducted, general or restricted respectively, reference section 9 of the International Banks Act Chapter 99 of the Revised Laws of St. Vincent and the Grenadines, 2009 ('the International Banks Act') ; and (ii) their capital requirements, reference section 10 of the said International Banks Act.
5. The Investment Funds Bill will apply to the mutual funds sector and other investment products.

recorded in 2019 and continued into 2020. This was not positive for the dominant income earner in the IFS industry, however annual license and other fee income generated from this product remained the highest over the period. As mentioned, activity in the LLC sector improved and new formations exceeded the number of BC new registrations in the reporting period.

(v) Limited Liability Companies

There was a significant increase of 490 (greater than 200.0%) in active LLCs in year 2019; the largest such recording since the enactment of the LLC legislation in 2008. Also, the number of new formations amounting to 538 (2019:136) during the reporting period exceeded the number of new BCs registrations (400) were noteworthy. There were also increases in renewals and new formations observed in LLCs in the 2012-2020 period which was positive.

(vi) Registered Agents

The sixth round of onsite examinations of the FSA's registered agents which commenced in 2019 continued into 2020. At reporting date, there were fourteen (14) licensed registered agents in the jurisdiction.

Active offsite supervision of all IFS licensed entities continued throughout the year.

# Financial Performance For the Year Ended December 31, 2020

## Overview

The Financial Services Authority ("The FSA/ The Authority") realized a profit of EC$473K; a marginal reduction of 1.4% (2019: EC$480K) for the reasons highlighted below in the discussion of revenue and expenses.

Revenue earned is remitted to the Consolidated Fund[1] . As a result, the FSA's operations are funded by the Government of St. Vincent and the Grenadines through subvention.

The Fee Income remitted to the Consolidated Fund for 2020 was EC$2.9M compared to EC$2.8M for 2019, an increase of EC$0.1K or 3.6%.

## Revenue

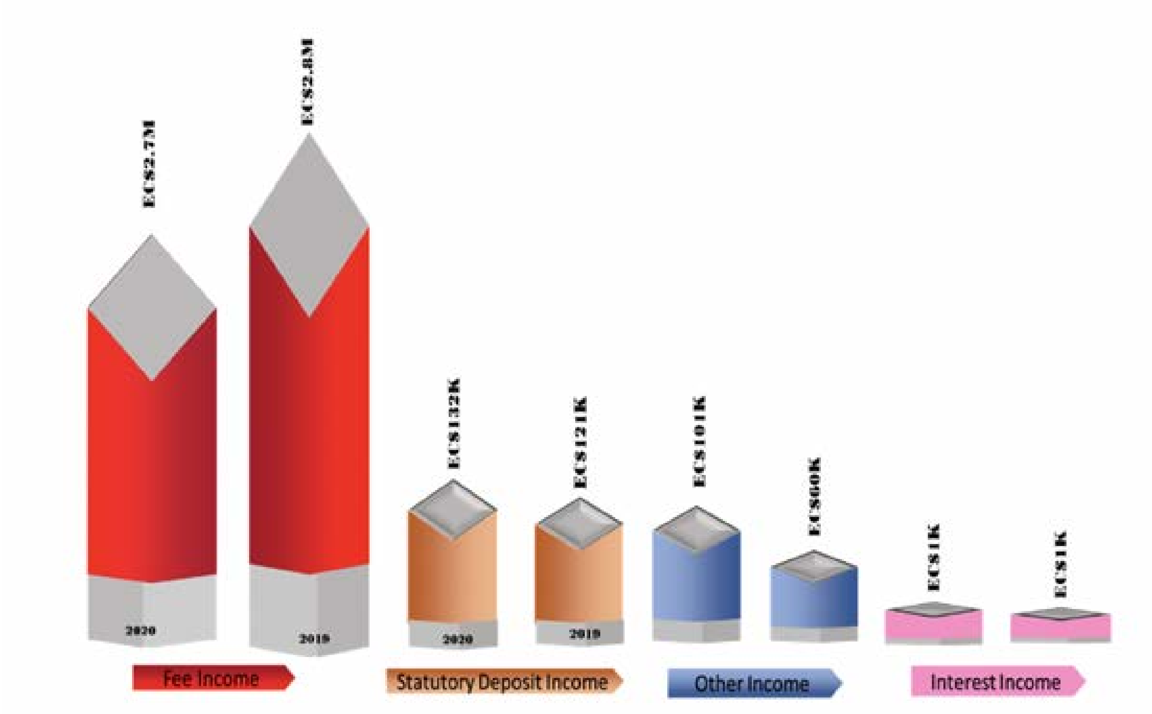
In 2020, the Authority recorded total revenue of EC$3.0M, an increase of 3.4% when compared to prior year 2019. The major contributor to the increase was a grant received from the Caribbean Development Bank (CDB) for marketing of the IFS products; which was recognized as other income. Despite the overall increase in total revenue the Authority's main income generator, fee income, reflected a decline of 1.3%. This reduction is consistent with prior years' performance, as fee income realized from FSA's products has been contracting generally, with the exception of income generated from Limited Liability Companies' (LLCs') activity. The reduction in 2020 was largely the result of the IBC/BC and Trust legislative amendments that has caused these products to be unattractive to investors given that they will be subject to 30% corporate taxes on their income. This legislative change has led to a 1.7% decline in the number of registered entities for the year.

Of note, is the significant reduction of 65% in international banks' fees, as a result of one (1) bank going into liquidation and payment of significant late fees in 2019. Notwithstanding these reductions noted above, LLCs continued to expand at a remarkable rate, with LLC revenue increasing by 384.7% for the 2020 period, due to an increase in the number of formations for the period, moving from 163 in prior year to 653 in the current period.

Other income increased primarily as a result of a receipt of a marketing grant from CDB, as mentioned previously.

1. The Consolidated Fund is the account into which the Government of St. Vincent and the Grenadines' ('GOSVG') taxes and revenues are deposited. Thus, all funds collected on behalf of the GOSVG by the FSA are deposited into this account.

### Chart 1: Comparative Revenue Analysis for the Years 2020 and 2019




*(Source: Audited financial statements for 2020)*

The IFS sector continued to be the dominant revenue generator for 2020, contributing EC$2.5M or 91.7% to fee income, while the other sectors represented EC$226K or 8.3% as shown in Chart 2.

The Authority's BCs/IBCs contributed 71.8% to fee income while the other non-IBC sector products accounted for 28.2%.

### Chart 2: FSA's Products as a Percentage of Fee Income

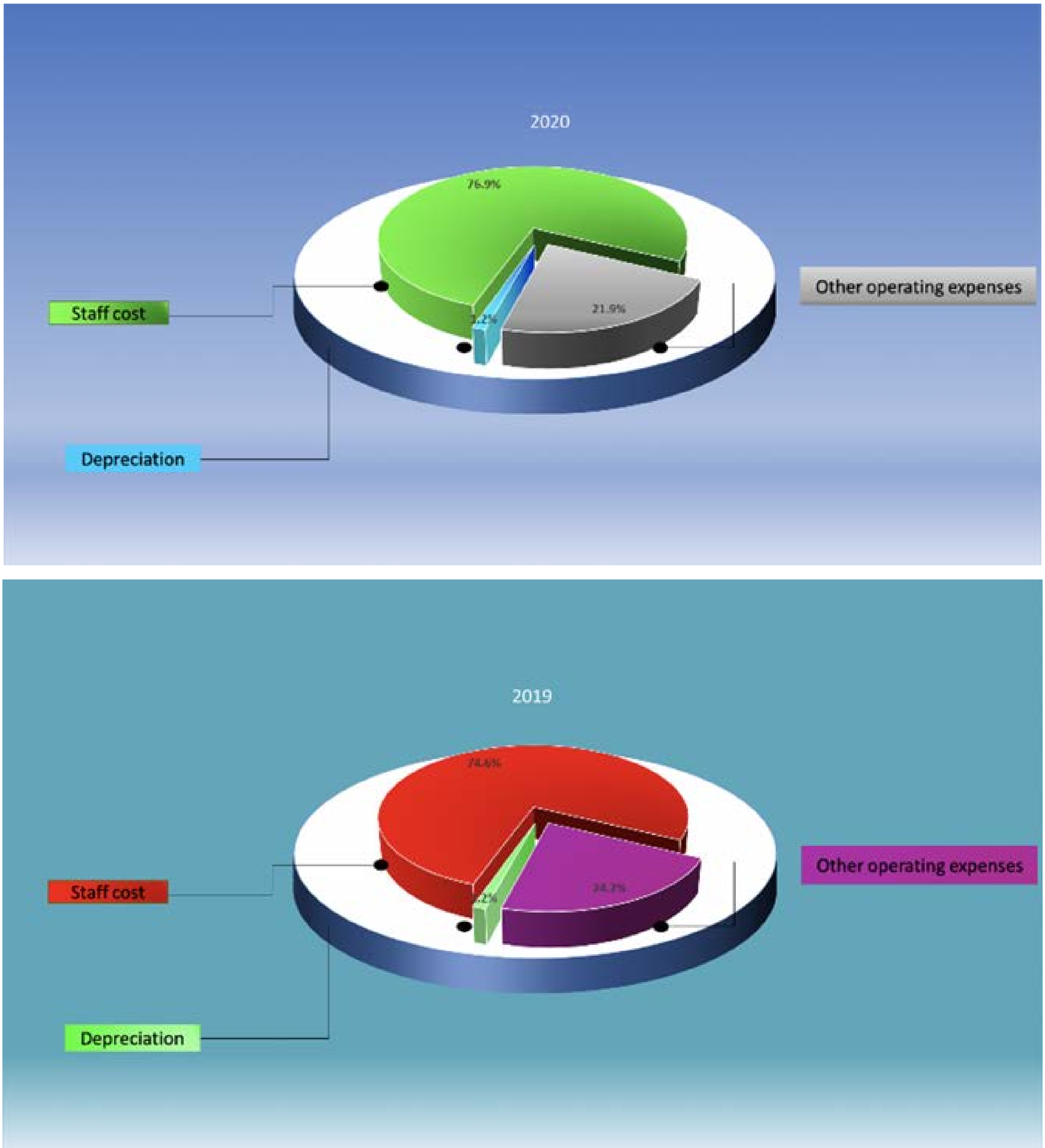

*(Source: 2020 Audited financial statements)*

## Expenditure

Total expenditure for the review period was EC$2.5M, an increase of 1.0% over the prior period. This increase was driven largely by a 4.1% or EC$75K increase in staff costs that was due to a full-year effect of the vacant positions that were filled in part of 2019.

Staff costs represented approximately 76.9% (2019:74.6%) of the Authority's total expenses for the reporting period.

### Chart 3: Expenditure Analysis for the Years 2020 and 2019




*(Source: Audited financial statements for 2020)*

Depreciation expense also increased slightly by EC$0.07K or 2.6%. This increase relates to new fixed assets acquired during the year.

Other operating expenses on the contrary showed a favorable movement of 8.8%. This reduction was predominantly due to the COVID-19 pandemic mitigation measure that was established, where a system of partial remote work was implemented resulting in a limited number of staff members working in office. This resulted in a favorable impact on the Authority's operating expenses.

## Assets and Liabilities

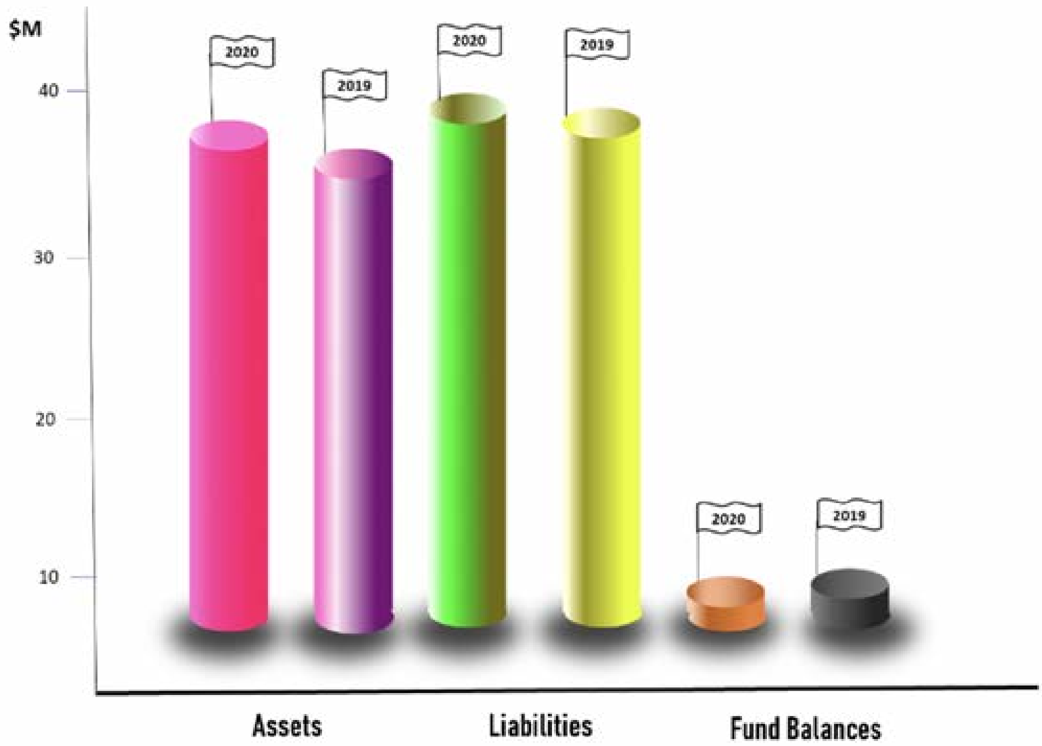
### Assets

Total assets increased by EC$1.2M or 3.3% for 2020 when compared to the 2019 financial year. This was as a result of an upward movement in cash and cash equivalents of 14.9% and plant and equipment of 4.7% over the prior year, offset by reductions in trade and other receivables of 30%, prepayments by 28.5% and due from Government of St. Vincent and the Grenadines by 3.1%.

FSA's net cash and cash equivalents' position was EC$15.4M. This was as a result of a favorable working capital movement of EC$2.5M, offset by cash consumption for investing activities of (EC$40K), which relates to asset acquisition and cash consumption for financing activities of (EC$324K). This resulted in a net movement of EC$2.1M, which when combined with the opening cash position of EC$13.3M, resulted in an ending cash position of EC$15.4M for the period.

Plant and equipment increased as a result of additions during the year, while, due from Government of St. Vincent and the Grenadines reduced by EC$723K as a result of repayment of a cash statutory deposit to an insurance entity.

**Chart 4: Comparative Analysis of Total Assets, Total Liabilities and Fund Balance for the Years 2020 and 2019**




*(Source: Audited financial statements for 2020)*

### Liabilities

Total liabilities increased by EC$1.1M or 2.8% in comparison to 2019. The major contributor to this change is the increase in due to statutory depositors' balances, as a result of the receipt of EC$1.9M cash statutory deposits from insurance entities assigned to the Authority during the year, and was partially reduced by the disbursement of a cash statutory deposit of EC$800K. Trade and other payables grew by 1% and this was primarily driven by the increase in accrued pension.

# FSA DEPARTMENTS AND MANAGEMENT TEAM

Executive Management & Managers

Credit Union et al Department

International Financial Services Department

Registry Department

Insurance and Pensions Department

Finance and Administration Department

# Financial Services Authority

Financial Statements
**Year Ended December 31, 2020**
(in Eastern Caribbean dollars)

# Contents

# Corporate Information

**REGISTERED OFFICE**

Reigate Building
Granby Street
Kingstown
St. Vincent and the Grenadines

**NON-EXECUTIVE DIRECTORS**

**Present**
Mr. Leon Snagg – Chairman
Mrs. Alma Dougan – Deputy Chair
Mr. Stewart Haynes – Director
Mr. Hubert Da Silva – Director
Ms. Elritha Miguel – Director
Ms. Karen Duncan – Director
Mr. Edmond Jackson – Director

**EXECUTIVE DIRECTOR**

Ms. Carla A. James

**SECRETARY TO THE BOARD**

Ms. Deirdre Adams

**BANKERS**

Bank of St. Vincent and the Grenadines Ltd.

**AUDITORS**

Grant Thornton
Chartered Accountants
Sergeant-Jack Drive
Arnos Vale
St. Vincent

Grant Thornton

# INDEPENDENT AUDITORS' REPORT

**Grant Thornton**
Sergeant-Jack Drive, Arnos Vale
P.O. Box 35
Kingstown, St. Vincent
West Indies
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F +1 784 456 2184

www.grantthornton.lc

To the Shareholders of
Financial Services Authority

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of **Financial Services Authority**, which comprise the statement of financial position as at December 31, 2020, and the statement of fund balance, statement of profit or loss, and statement of cash flows for the year then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Financial Services Authority** as at December 31, 2020, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium-Sized Entities (IFRS for SMEs).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean, and we have fulfilled our ethical responsibilities in accordance with these requirements and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Matter

The financial statements of the Financial Services Authority for the year ended December 31, 2019, were audited by another auditor who expressed an unqualified opinion on those statements on June 30, 2020.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

The Engagement Partner on the audit resulting in this independent auditors' report is Mr. Floyd A. Patterson.

Grant Thornton

June 24, 2021

# Financial Services Authority

Statement of Financial Position

**As of December 31, 2020**

(in Eastern Caribbean dollars)

| | Notes | 2020 $ | 2019 $ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 4 | **15,352,558** | 13,366,855 |
| Trade and other receivables | 5 | **117,160** | 167,150 |
| Prepaid expenses | | **7,376** | 10,312 |
| Due from Government of St. Vincent and the Grenadines | 6 | **22,222,466** | 22,945,157 |
| Plant and Equipment | 7 | **220,759** | 210,872 |
| | | **37,920,319** | 36,700,346 |
| **LIABILITIES AND FUND BALANCE** | | | |
| **Current Liabilities** | | | |
| Borrowings | 8 | **0** | 112,119 |
| Trade and other payables | 9 | **1,703,222** | 1,802,755 |
| Deferred revenue | 10 | **537,717** | 412,774 |
| Due to Government of St. Vincent and the Grenadines | 11 | **123,794** | 123,148 |
| Due to statutory depositors | 12 | **37,056,259** | 35,898,722 |
| **Total Liabilities** | | **39,420,992** | 38,349,518 |
| **Fund Balance** | | **(1,500,673)** | (1,649,172) |
| **Total Liabilities and Fund Balance** | | **37,920,319** | 36,700,346 |

**APPROVED BY THE BOARD OF DIRECTORS ON JUNE 24, 2021.**

Leon Snagg
Chairman

The accompanying notes form an integral part of these financial statements.

# Financial Services Authority

Statement of Changes in Fund Balance

**For the Year Ended December 31, 2020**

(in Eastern Caribbean dollars)

| | General Fund $ | Total $ |
|---|---|---|
| **Balance as of December 31, 2018** | (1,695,341) | (1,695,341) |
| Profit for the year | 479,814 | 479,814 |
| Net distribution to the Government's consolidated fund | (433,645) | (433,645) |
| **Balance as of December 31, 2019** | (1,649,172) | (1,649,172) |
| Profit for the year | 472,896 | 472,896 |
| Net distribution to the Government's consolidated fund | (324,397) | (324,397) |
| **Balance as of December 31, 2020** | **(1,500,673)** | **(1,500,673)** |

The accompanying notes form an integral part of these financial statements.

# Financial Services Authority

Statement of Profit or Loss

**For the Year Ended December 31, 2020**

(in Eastern Caribbean dollars)

| | Notes | **2020** **$** | 2019 $ |
|---|---|---|---|
| **Income** | | | |
| Fee income | 13 | **2,718,999** | 2,754,037 |
| Statutory deposit income | | **132,086** | 121,331 |
| Interest income | | **1,672** | 1,072 |
| Other income | | **101,084** | 60,731 |
| | | **2,953,841** | 2,937,171 |
| **Operating Expenses** | | | |
| Depreciation | 7 | **30,019** | 29,247 |
| Staff costs | 14 | **1,907,681** | 1,832,670 |
| Other operating expenses | 15 | **543,245** | 595,440 |
| **Total Expenses** | | **2,480,945** | 2,457,357 |
| **Profit for the Year** | | **472,896** | 479,814 |

The accompanying notes form an integral part of these financial statements.

| | Note | 2020 $ | 2019 $ |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Profit before income tax | | **472,896** | 479,814 |
| **Adjustments for** | | | |
| Depreciation | | **30,019** | 29,247 |
| Interest earned | | **(1,672)** | (1,072) |
| **Profit before Working Capital Changes** | | **501,243** | 507,989 |
| Change in trade and other receivables | | **49,990** | 13,651 |
| Change in prepayments | | **2,936** | (1,471) |
| Change in due to Government of St. Vincent and the Grenadines | | **646** | (17,320) |
| Change in due from Government of St. Vincent and the Grenadines | | **722,691** | 0 |
| Change in trade and other payables | | **(99,533)** | 18,311 |
| Change in deferred revenue | | **124,943** | (415) |
| Increase in due to statutory depositors | | **1,157,537** | 308,094 |
| **Cash Generated from Operations** | | **2,460,453** | 828,839 |
| Interest received | | **1,672** | 1,072 |
| **Net Cash Generated from Operating Activities** | | **2,462,125** | 829,911 |
| **Cash Flows from Investing Activities** | | | |
| Additions to property, plant and equipment | | **(39,906)** | (43,224) |
| **Net Cash Used in Investing Activities** | | **(39,906)** | (43,224) |
| **Cash Flows from Financing Activities** | | | |
| Transfers to fund | | **0** | 0 |
| Net distribution to the Government's consolidated fund | | **(324,397)** | (433,645) |
| **Net Cash Used in Financing Activities** | | **(324,397)** | (433,645) |
| **Net Movement in Cash and Cash Equivalents** | | **2,097,822** | 353,042 |
| **Net Cash and Cash Equivalents** – Beginning of year | | **13,254,736** | 12,901,694 |
| **Net Cash and Cash Equivalents** – End of year | 4 | **15,352,558** | 13,254,736 |

# Financial Services Authority

## Index to Notes to the Financial Statements

(in Eastern Caribbean dollars)

## 1. Incorporation and Principal Activity

The Authority is a statutory body of the Government of St. Vincent and the Grenadines (the Government). It was established by the Financial Services Authority Act, No. 33 of 2011.

The Authority has responsibility for regulating, supervising and developing the international financial services and non-bank financial services sectors in St. Vincent and the Grenadines.

## 2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

### a. Basis of Preparation

The financial statements of the Authority have been prepared in accordance with the 'International Financial Reporting Standard for Small and Medium-sized Entities' (IFRS for SMEs). They have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the IFRS for SMEs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying theAuthority's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimations are significant to the financial statements are disclosed in **Note 3**.

### b. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and demand deposits as well as highly liquid investments with insignificant interest rate risk and original maturities of ninety days or less at the date of purchase. Bank overdrafts, where applicable, are shown within borrowings on the statement of financial position.

### c. Trade Receivables

Trade receivables are recognized initially at the transaction price. They are subsequently measured at amortized cost using the effective rate method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Authority will not be able to collect all amounts due according to the original terms of the receivable.

### d. Plant and Equipment

*(i) Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in the statement of comprehensive income.

(in Eastern Caribbean dollars)

**2. Summary of Significant Accounting Policies ……*Cont'd***

**d. Plant and Equipment ……*Cont'd***

*(ii) Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Authority and its cost can be measured reliably. Ongoing repairs and maintenance are expensed as incurred.

*(iii) Depreciation*

Depreciation has been provided on all assets on a straight line basis at the following annual rates: -

| | | |
|---|---|---|
| Computer hardware and software | - | 20% |
| Furniture and fittings | - | 15% |
| Motor vehicle | - | 25% |
| Furniture and equipment | - | 20% |
| Books | - | 20% |

**e. Borrowings**

Borrowings are recognized initially at the transaction price (that is, the present value of the cash payable to the lenders, including transaction cost). Borrowings are subsequently stated at amortized cost. Interest expense is recognized on the basis of the effective interest method and is included in finance cost.

**f. Foreign Currencies**

These financial statements are expressed in Eastern Caribbean dollars, which is the entity's functional currency. Transactions involving currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items are converted to the functional currency at the spot rate at the reporting date. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end of monetary assets and liabilities are recognized in the statement of comprehensive income. Non-monetary items, which are measured at their historical cost in a foreign currency, are converted at their historical exchange rate at year-end. Non-monetary items which are measured at fair value in a foreign currency are converted at the exchange rate at the date when the fair value is determined. Exchange gains or losses on non-monetary items, which are measured at fair value, are recognized in the statement of comprehensive income.

**g. Revenue Recognition**

*(i) Annual fees*

Annual fees relating to services provided in the current financial year are recorded as revenue in that financial year. If the service provided during the year is in respect of non-licensed entities and received up to three months in the subsequent financial year, the annual fee income is recorded in the current financial year. Fees received in advance of the period to which the service is rendered is recognized as revenue in the year to which the service relates.

*(ii) Registration and application fees*

Registration and application fees are recognized in revenue in the year in which the transaction is approved by the Authority.

*(iii) Late fees*

Late fees are recognized in revenue in the year received.

(in Eastern Caribbean dollars)

**2. Summary of Significant Accounting Policies ……*Cont'd***

**g. Revenue Recognition ……*Cont'd***

*(iv) Grants*

Government grants are recognized at fair value. A grant that imposes specified future performance conditions is recognized in income when those conditions are met. Grant receipts in advance of satisfying performance conditions are treated as deferred revenue in the statement of financial position.

Government grants that affect revenue consist of two types:

*(a) Capital grants*

Capital grants are presented as deferred revenue on the statement of financial position. The assets purchased from these grants are capitalized as property, plant and equipment. Each year, an amount equal to the depreciation charge for the assets, is transferred from deferred revenue to the statement of comprehensive income as income.

*(b) Income grants*

Income grants are taken to income in the year in which the performance conditions are met.

*(v) Statutory deposit income*

The Authority receives as income a component of the interest generated on statutory deposits that are placed as certificates of deposit at its bank. Income from statutory deposits is recognized on an accrual's basis.

**h. Deferred Revenue**

Receipts relating to annual fees for future periods are shown within accounts payable and taken to revenue in the period to which they relate. Receipts relating to grants of a capital nature are shown within deferred revenue in the statement of financial position.

**i. Impairment of Non-Financial Assets**

Assets that are subject to depreciation or amortization are assessed at each reporting date to determine whether there is any indication that the assets are impaired. When there is any indication that an asset may be impaired, the carrying value of the asset is tested for impairment. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

If any impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive income.

**j. Financial Assets**

The Authority classifies its financial assets into one of the categories shown below, depending on the purpose for which the asset was acquired. The Authority has not classified any of its financial assets as available-for-sale.

*(i) Fair value through profit or loss*

This category comprises investments held long-term and financial contracts in an asset. When used they are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of comprehensive income within "Net changes in fair value on financial assets at fair value through comprehensive income".

(in Eastern Caribbean dollars)

**2. Summary of Significant Accounting Policies ……*Cont'd***

**j. Financial Assets ……*Cont'd***

(ii) *Receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment allowance provisions are recognized when there is objective evidence that the Authority will be unable to collect all of the amounts due under the terms receivable, the amount of such an allowance being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Authority's receivables comprise cash and cash equivalents, trade and other receivables and due from Government. Cash and cash equivalents are a defined in **Note 4 (b).**

(iii) *Investments at amortized cost*

Investments at amortized are non-derivative financial assets with fixed or determinable payments and fixed maturities where the Authority has the intention and the ability to hold in the long-term or until maturity. After initial measurement, investments are measured at amortized cost using the effective interest method.

**k. Financial Liabilities**

Financial liabilities include bank borrowings, trade and other payables, due to Government and due to statutory depositors.

Financial liabilities are recognized when the Authority becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in the statement of comprehensive income.

Trade and other payables and other short-term monetary liabilities are recognized initially at their fair values and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in the statement of comprehensive income.

**l. Fair Value Measurement**

Fair value is the price that would be received on sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Authority has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Authority measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Authority measures instruments quoted in an active market at a mid-price. If there is no quoted price in an active market, then the Authority uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The choses valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(in Eastern Caribbean dollars)

## 3. Critical Accounting Estimates and Judgments

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Authority makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### a. Estimated Impairment of Assets

The Authority tests annually whether assets have suffered any impairment in accordance with the accounting policy stated in **Note 4** "Significant Accounting Policies". The recoverable amounts of some assets have been determined based on value-in-use calculations. The calculations require the use of estimates.

### b. Trade and Other Receivables

The Authority determines its trade and other receivable balances at each year-end by conducting a review of receipts in the three months after year-end which are applicable to fee income for previous years. Changing the assumption selected by management, in particular the period after year-end for which the review is undertaken, could significantly affect the Authority's evaluation of its income and trade accounts and other receivables and hence it's reported assets and profit or losses.

## 4. Cash and Cash Equivalents

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Cash on hand and at bank | **130,335** | 88,695 |
| Interest bearing deposits | **15,222,223** | 13,278,160 |
| | **15,352,558** | 13,366,855 |

As of reporting date, cash and cash equivalent include cash is held in trust, in accordance with statutory prudential provisions, for certain regulated entities amounted to $15,217,996 (2019: $13,273,980).

Cash and cash equivalents include the following for the purpose of the statement of cash flows: -

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Cash on hand and at bank | **130,335** | 88,695 |
| Interest bearing deposits | **15,222,223** | 13,278,160 |
| Borrowings **(Note 9)** | **0** | (112,119) |
| | **15,352,558** | 13,254,736 |

Cash and cash equivalents are denominated in Eastern Caribbean currency.

## 5. Trade and Other Receivables

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Annual fees - International Business Companies | **12,366** | 11,559 |
| Other receivables | **104,794** | 155,591 |
| **Total Trade and Other Receivables** | **117,160** | 167,150 |

(in Eastern Caribbean dollars)

**5. Trade and Other Receivables …..*Cont'd***

As at year end date, the Authority had no impaired trade receivables.

The aging of trade receivable is as follows: -

| | 2020 $ | 2019 $ |
|---|---|---|
| 0 - 60 days | **12,366** | 11,559 |

Trade and other receivables are denominated as follows:

| | 2020 $ | 2019 $ |
|---|---|---|
| United States dollars | **12,366** | 11,559 |
| Eastern Caribbean dollars | **104,794** | 155,591 |
| | **117,160** | 167,150 |

**6. Due from Government of St. Vincent and the Grenadines**

The amount of $22,222,466 (2019: $22,945,157) represents statutory deposits of regulated entities held in the Government's consolidated fund on behalf of the Authority.

The amount due from Government is denominated in Eastern Caribbean currency.

**7. Plant and Equipment**

| | Furniture & Equipment $ | Motor Vehicles $ | Computer Hardware & Software $ | Office Equipment $ | Books $ | Total $ |
|---|---|---|---|---|---|---|
| **At January 1, 2019** | | | | | | |
| Cost of valuation | 165,752 | 76,975 | 157,717 | 47,537 | 7,629 | 455,610 |
| Accumulated depreciation | (91,325) | (76,974) | (45,046) | (37,742) | (7,628) | (258,715) |
| Net book Amount | 74,427 | 1 | 112,671 | 9,795 | 1 | 196,895 |
| **Year Ended December 31, 2019** | | | | | | |
| Opening net book amount | 74,427 | 1 | 112,671 | 9,795 | 1 | 196,895 |
| Additions | 538 | 0 | 42,686 | 0 | 0 | 43,224 |
| Depreciation charge | (18,760) | 0 | (6,150) | (4,337) | 0 | (29,247) |
| Closing net book amount | 56,205 | 1 | 149,207 | 5,458 | 1 | 210,872 |
| **At December 31, 2019** | | | | | | |
| Cost of valuation | 166,290 | 76,975 | 200,403 | 47,537 | 7,629 | 498,834 |
| Accumulated depreciation | (110,085) | (76,974) | (51,196) | (42,079) | (7,628) | (287,962) |
| Net book Amount | 56,205 | 1 | 149,207 | 5,458 | 1 | 210,872 |
| **Year Ended December 31, 2020** | | | | | | |
| Opening net book amount | **56,205** | **1** | **149,207** | **5,458** | **1** | **210,872** |
| Additions | **4,038** | **0** | **26,075** | **9,793** | **0** | **39,906** |
| Depreciation charge | **(17,598)** | **0** | **(5,079)** | **(7,342)** | **0** | **(30,019)** |
| Closing net book amount | **42,645** | **1** | **170,203** | **7,909** | **1** | **220,759** |
| **At December 31, 2020** | | | | | | |
| Cost of valuation | **170,113** | **76,975** | **229,651** | **24,847** | **7,629** | **509,215** |
| Accumulated depreciation | **(127,468)** | **(76,974)** | **(59,448)** | **(16,938)** | **(7,628)** | **(288,456)** |
| Net book Amount | **42,645** | **1** | **170,203** | **7,909** | **1** | **220,759** |

Depreciation expense amounting to $30,019 (2019: $29,247) is included in the operating expenses.

(in Eastern Caribbean dollars)

**8. Borrowings**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Bank Overdraft** | | |
| Bank of St. Vincent and the Grenadines overdraft **(Note 5)** | **0** | 112,119 |

The bank overdraft is unsecured.

The effective interest rate on borrowings at the reporting date was Nil (2019: 11%) per annum.

Borrowings are denominated in the Eastern Caribbean currency.

**9. Trade and Other Payables**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Trade and other payables | **760,588** | 928,409 |
| Payroll related liabilities | **9,783** | 8,575 |
| Pension contributions payable to the consolidated fund | **805,931** | 697,118 |
| Other payables | **126,920** | 168,653 |
| | **1,703,222** | 1,802,755 |

Trade and other payables are denominated as follows: -

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Pound sterling | **2,721** | 2,880 |
| United States dollars | **13,989** | 14,806 |
| Eastern Caribbean dollars | **1,686,512** | 1,785,069 |
| | **1,703,222** | 1,802,755 |

**10. Deferred Revenue**

**Fees in Advance**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Annual fees | **444,132** | 300,337 |
| Due diligence fees | **30,833** | 35,734 |
| | **474,965** | 336,071 |
| **Grant Income** | | |
| Beginning of the year | **76,703** | 111,930 |
| Transfer to income for the year | **(13,951)** | (35,227) |
| | **62,752** | 76,703 |
| | **537,717** | 412,774 |

Deferred revenue is denominated as follows: -

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| United States dollars | **437,797** | 336,071 |
| Eastern Caribbean dollars | **99,920** | 76,703 |
| | **537,717** | 412,774 |

(in Eastern Caribbean dollars)

**11. Due to Government of St. Vincent and the Grenadines**

The amount due to Government is unsecured, non-interest bearing, and has no fixed terms of repayment.

The amount due to Government is denominated in Eastern Caribbean currency.

**12. Due to Statutory Depositors**

The amount due to statutory depositors is held as follows:

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| Deposits with - the Authority | **14,833,793** | 12,953,565 |
| - the Government of St. Vincent | **22,222,466** | 22,945,157 |
| | **37,056,259** | 35,898,722 |

Deposits with the Authority includes accrued interest amounting to $1,398,909 ($1,537,682).

Statutory deposits are denominated as follows: -

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| United States dollars | **9,234,362** | 8,897,527 |
| Eastern Caribbean dollars | **27,921,897** | 27,001,195 |
| | **37,056,259** | 35,898,722 |

**13. Fee Income**

**Registration and Application Fees**

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| International Business Companies | **193,865** | 240,484 |
| Banks | **6,721** | 0 |
| Trusts | **12,097** | 5,645 |
| Mutual Funds | **2,688** | 2,688 |
| Limited Liability Companies | **236,877** | 51,636 |
| Registered Agents | **1,344** | 1,344 |
| Insurance – International | **0** | 1,344 |
| Local | **1,600** | 5,900 |
| | **455,192** | 309,041 |

**Annual License Fees**

| | 2020 | 2019 |
|---|---|---|
| International Business Companies | **1,086,741** | 1,125,282 |
| Trusts | **25,471** | 27,420 |
| Mutual Funds | **81,990** | 103,361 |
| Limited Liability Companies | **29,516** | 4,301 |
| Banks | **53,764** | 82,888 |
| Registered Agents | **41,936** | 41,936 |
| Insurance Companies - International | **19,355** | 20,162 |
| -Local | **201,663** | 208,988 |
| Money Service Businesses | **20,000** | 20,000 |
| Credit Unions | **1,350** | 1,775 |
| | **1,561,786** | 1,636,113 |

(in Eastern Caribbean dollars)

**13. Fee Income ......*Cont'd***

**Other Fee Income**

| | 2020 $ | 2019 $ |
|---|---|---|
| **Filing, Certification and Late Fees** | | |
| - International Business Companies | **671,562** | 678,262 |
| - Trusts | **2,957** | 4,312 |
| - Mutual Funds | **13,575** | 20,411 |
| - Limited Liability Companies | **7,097** | 484 |
| - Banks | **2,554** | 97,044 |
| - Registered Agents | **2,419** | 6,989 |
| - Insurance Companies - Local | **0** | 575 |
| - Money Service Businesses | **100** | 0 |
| - Due Diligence | **1,757** | 806 |
| | **702,021** | 808,883 |
| | **2,718,999** | 2,754,037 |

**14. Staff Costs**

| | 2020 $ | 2019 $ |
|---|---|---|
| National Insurance Services contributions | **56,652** | 55,522 |
| Pension contributions | **108,813** | 108,786 |
| Salaries, allowances and bonuses | **1,734,502** | 1,659,386 |
| Training | **3,185** | 3,206 |
| Staff appreciation | **4,529** | 5,770 |
| | **1,907,681** | 1,832,670 |
| Number of employees at reporting date | **22** | 22 |

(in Eastern Caribbean dollars)

**15. Other Operating Expenses**

| | 2020 | 2019 |
|---|---|---|
| | $ | $ |
| Advertising and promotion | **3,703** | 7,819 |
| Audit fees | **17,400** | 15,370 |
| Bank charges | **5,188** | 3,467 |
| Board meeting expenses | **7,598** | 8,990 |
| Cash shortage | **0** | 37 |
| Consultancy fees | **64,586** | 32,744 |
| Customs and brokerage | **2,907** | 908 |
| Directors' fees | **84,000** | 84,000 |
| Donations | **666** | 6,362 |
| Due diligence | **0** | 6,112 |
| Electricity | **54,750** | 77,218 |
| Foreign exchange loss | **391** | 115 |
| Insurance | **9,196** | 9,543 |
| Miscellaneous | **1,582** | 2,444 |
| Office supplies | **5,846** | 7,052 |
| On-site inspection | **0** | 2,609 |
| Overdraft interest | **3,916** | 5,875 |
| Postage and delivery | **631** | 529 |
| Rent | **146,280** | 149,280 |
| Repairs and maintenance - equipment | **23,758** | 24,046 |
| - plant | **396** | 432 |
| - vehicle | **9,343** | 9,959 |
| - other | **3,870** | 11,688 |
| Seminars and conferences | **67** | 5,904 |
| Stationery and printing | **46,921** | 51,545 |
| Subscription and dues | **9,177** | 13,940 |
| Technical support | **27,600** | 46,264 |
| Telephone and fax | **13,473** | 11,188 |
| | **543,245** | 595,440 |

(in Eastern Caribbean dollars)

**16. Related Party Transactions**

**(a) Definition of Related Party**

A related party is a person or entity that is related to the Authority.

A person or a close member of that person's family is related to the Authority if that person: -

(i) has control or joint control over the Authority;

(ii) has significant influence over the Authority; or

(iii) is a member of the key management personnel of the Authority.

An entity is related to the Authority if any of the following conditions applies: -

(i) The entity and the Authority are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the Authority (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third party and the other entity is an associate of the third party.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Authority or an entity related to the Authority entity. If the Authority is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part provides key management personnel services to the Authority or to the parent of the Authority.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

**(b) Identity of Related Parties**

The Authority has related party relationships with the directors, secretary to the Board, key management personnel and Government.

**(c) Related Party Transactions and Balances**

The following transactions were carried out with related parties: -

**(i) Key Management Compensation**

Key management includes the Board of Directors (executive and non-executive), all members of the management team and the Authority's secretary. The compensation of key management for employee services as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Chairman and non-executive directors' emoluments | **84,000** | 84,000 |
| Key management salaries and allowances | **377,640** | 326,229 |
| | **461,640** | 410,229 |

(in Eastern Caribbean dollars)

**16. Related Party Transactions ……*Cont'd***

**(c) Related Party Transactions and Balances ……*Cont'd***

**(ii) Net Distribution to Government**

Key management includes the Board of Directors (executive and non-executive), all members of the management team and the Authority's secretary. The compensation of key management for employee services as follows:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Distribution to consolidated fund | **2,861,730** | 2,763,645 |
| Subvention from Government | **(2,537,333)** | (2,330,000) |
| Net distribution to consolidated fund | **324,397** | 433,645 |

**17. Taxation**

In accordance with the Financial Services Authority Act, No. 33 of 2011, the Authority is exempt from stamp duties, import duties and all other taxes or other charges, on its income or profits or on assets which it acquires for its own use in carrying out is functions.

The Authority's income is also exempt in accordance with section 25 (r) of the Income Tax Act, Chapter 435 of the Revised Laws of St. Vincent and the Grenadines, as it is a statutory authority of the Government.

**18. Pension Obligations**

The Authority has an obligation to make pension contributions to the consolidated fund on behalf of pensionable public servants who have been seconded to the Authority from the Government's Public Service. The contribution rate is 25% of employees' basic salaries. Pension contributions of $108,813 (2019: $108,786) have been charged against profit for the year.

**19. Contingent Assets**

As of reporting date, the Authority, as regulator, holds charges over securities and cash balances, which vest in certain regulated entities and held by an independent depository as statutory deposits, having a nominal or face value of $21,597,461 (2019: $20,615,531).

**20. Financial Risk Management**

**Financial Risk Factors**

The Authority's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Authority's overall risk management programme seeks to minimize potential adverse effects on the Authority's financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies, evaluates and hedges financial risks in accordance with those policies.

Financial assets of the Authority include cash and cash equivalents, trade and other receivables, held-to-maturity securities and due from Government. Financial liabilities include borrowings, trade and other payables, deferred revenue, due to the Government and statutory deposits of licenced entities.

(in Eastern Caribbean dollars)

**20. Financial Risk Management ……*Cont'd***

**a. Market Risk ……*Cont'd***

b. Market risk is the risk that changes in market prices – such as from foreign exchange rates, interest rates and equity prices – will affect the Authority's income or value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Market risk arises from the Authority's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors (other price risk).

*(i) Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument or revenue will fluctuate due to changes in foreign exchange rates. In the normal course of business, the Authority enters into transactions denominated in foreign currencies. As a result, the Authority is subject to transaction and translation exposure from fluctuations in foreign exchange rates.

The Authority is exposed to foreign currency risk arising from the denomination of financial instruments, statutory deposit liabilities and certain trade payables in foreign currencies.

The Authority has statutory deposits denominated in United States dollars, which are pegged to the Eastern Caribbean dollar, and are payable in United States dollars.

The Authority denominates all its offshore revenues in United States dollars. Furthermore, the Authority customarily receives revenues for subsequent financial years in its current financial year and treats these as deferred revenues, as a component of liabilities in its statement of financial position.

*(ii) Interest rate risk*

Interest rate risk is the risk that the value of future cash flows of a financial instrument or financial liabilities will fluctuate due to changes in market interest rates. Floating rate instruments expose the Authority to cash flow interest rate risk whereas fixed rate instruments expose the Authority to fair value interest rate risk.

The Authority has bank deposits with fluctuating interest rates. These deposits originate from statutory deposits made by regulated entities on which the Authority pays interest. The Authority changes the interest rate that it pays to depositors when the interest rate is receives on these deposits is changed, however the interest rate spread is not fixed.

The Authority's bank borrowings is negotiated with a fixed interest rate.

**Fair Value Interest Rate Risk**

The Authority is exposed to fair value interest rate risk on its held-to-maturity investments, which are either regional, public and private sector securities, however these financial instruments are traditionally held to term. These investments bear fixed yields, and their value is inversely affected by movements in market interest rates. The Authority does not hedge itself against fair value interest rate risk, however, as these financial assets are held to term and for the benefit, and sometimes in the name of the regulated depositors, any losses are borne by the depositor.

(in Eastern Caribbean dollars)

**c. Credit Risk**

Credit risk is the risk of financial loss to the Authority if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Authority's cash and cash equivalents, trade receivables, due from Government, and held-to-maturity securities.

Cash and cash equivalents are held with reputable financial institutions. Trade receivables and the related revenue are recorded only when the debtor is assured of paying the amount due and the Authority evidences payment a reasonable period after year-end. Held-to-maturity securities are Government bonds with investment grade and are held in the name of regulated entities.

The carrying amount of the financial assets represents the maximum credit exposure.

**20. Financial Risk Management ……*Cont'd***

**d. Liquidity Risk**

Liquidity risk is the risk that the Authority will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Authority's approach to managing liquidity is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Authority is exposed to liquidity risk from its financial liabilities which include bank borrowings, trade and other payables, deferred revenue, and statutory deposits payable to licensed entities.

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet current operating requirements. The Authority is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations. Furthermore, its most significant liabilities are statutory deposits payable to depositors. These deposits were placed with the Authority by regulated entities as either held-to-maturity securities or deposits with the Government of St. Vincent and the Grenadines. In instances where statutory deposits originally placed as held-to-maturity securities are redeemed the original security is returned to the depositor.

The Authority also has significant liabilities to Government's statutory bodies, as a component of trade and other liabilities that are available for underwriting by the Government.

The table overleaf breaks down the Authority's financial liabilities into relevant maturity groupings based on the remaining period at the date of the financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The Authority's aging of its contractual repayment period of its financial assets and liabilities as of December 31, 2020, is as follows: -

| | Within 12 Months $ | 1 – 5 Years $ | Over 5 Years $ | Total $ |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 15,352,558 | 0 | 0 | 15,352,558 |
| Trade and other receivables | 117,160 | 0 | 0 | 117,160 |
| Due from Government | 0 | 0 | 22,222,466 | 22,222,466 |
| **Total** | 15,469,718 | 0 | 22,222,466 | 37,692,184 |
| **Liabilities** | | | | |
| Trade and other payables | 1,696,701 | 0 | 0 | 1,696,701 |
| Due to Government | 123,794 | 0 | 0 | 123,794 |
| Due to statutory depositors | 0 | 0 | 37,056,259 | 37,056,259 |
| **Total** | 1,820,495 | 0 | 37,056,259 | 38,876,754 |
| **Net** | 13,649,223 | 0 | (14,833,793) | (1,184,570) |

(in Eastern Caribbean dollars)

**20. Financial Risk Management ......*Cont'd***

**e. Liquidity Risk ......*Cont'd***

The Authority's aging of its contractual repayment period of its financial assets and liabilities as of December 31, 2019, is as follows: -

| | Within 12 Months | 1 – 5 Years | Over 5 Years | Total |
|---|---|---|---|---|
| **Assets** | $ | $ | $ | $ |
| Cash and cash equivalents | 13,366,855 | 0 | 0 | 13,366,855 |
| Trade and other receivables | 167,150 | 0 | 0 | 167,150 |
| Due from Government | 0 | 0 | 22,945,157 | 22,945,157 |
| **Total** | 13,534,005 | 0 | 22,945,157 | 36,479,162 |
| | | | | |
| **Liabilities** | | | | |
| Borrowings | 112,119 | 0 | 0 | 112,119 |
| Trade and other payables | 1,802,755 | 0 | 0 | 1,802,755 |
| Due to Government | 0 | 0 | 123,148 | 123,148 |
| Due to statutory depositors | 0 | 0 | 37,056,259 | 37,056,259 |
| **Total** | 1,914,874 | 0 | 37,179,407 | 39,094,281 |
| **Net** | 11,619,131 | 0 | (14,234,250) | (2,615,119) |

**21. Excess of Subvention over Expenses**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **Income** | | |
| Government's subvention | **2,537,333** | 2,330,000 |
| Statutory deposit income | **132,086** | 121,331 |
| Interest income | **1,672** | 1,072 |
| Other income | **101,084** | 60,731 |
| **Total Income** | **2,772,175** | 2,513,134 |
| | | |
| **Operating Expenses** | | |
| Staff costs | **1,907,681** | 1,832,670 |
| Other operating expenses | **544,146** | 595,440 |
| **Total Expenses** | **2,451,827** | 2,428,110 |
| **Excess of Subvention over Expenses** | **320,348** | 85,024 |

(in Eastern Caribbean dollars)

**22. Comparative Figures**

During the year, management reassessed its financial reporting and concluded that certain amounts which were previously reported as assets and liabilities were neither property nor obligations of the Authority. Accordingly, the comparative figures were restated to accord with management's reassessment mentioned above.

The following summarize the restatements to the comparative figures:

**(a) Held-to-Maturity Securities**

| | $ |
|---|---|
| As previously reported | 22,945,157 |
| Reduction | (22,945,157) |
| As restated | 0 |

**(b) Due to Statutory Depositors**

| | $ |
|---|---|
| As previously reported | 56,514,253 |
| Reduction | (22,945,157) |
| As restated | 33,569,096 |

(c) Restatement in the Statement of Cash Flows for the year ended December 31, 2019, were as follows:

| | As previously Reported $ | Reduction $ | As Restated $ |
|---|---|---|---|
| Change in held-to-maturity securities | (3,776,728) | 3,776,728 | 0 |
| Change in due to statutory depositors | 4,084,822 | (3,776,728) | 308,094 |

NOTES

FINANCIAL SERVICES
AUTHORITY SVG

## OUR LOGO

### Our logo symbolizes and connotes the following:

• Its pyramid is symbolic of ancient civilization, the beginning of time and the ingenuity which went into establishing such a strong and perfect structure.

• The pyramid's triangular shape is symbolic of power and stability and is associated with the mountainous terrain of St. Vincent and the Grenadines.

• The arch represents a welcoming symbol, welcoming persons into the local financial industry.

• The arch within the pyramid is symbolic of Kingstown, which is also known as the City of Arches.

• The circle is symbolic of the sun, a symbol of infinite stability and continuity.

• The wave behind is congruent with the changing nature of water (and the financial environment) and its dynamism.

• The wave is also reflective of the fact that we are an island surrounded by water.

• The Gold symbolizes the potential for success of the industry.