



CENTRAL BANK OF TRINIDAD & TOBAGO

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Feature Address

at

A Breakfast Meeting with Registered Insurance Brokers and Adjusters

by

*Ewart S. Williams
Governor, Central Bank of Trinidad and Tobago*

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I welcome all of you today and thank you for responding favourably to our request for this session as evidenced by your large turnout this morning.

Our meeting today is part of our communication strategy to adequately inform all stakeholders in the industry of the role of the Central Bank of Trinidad and Tobago as the new Regulator of Insurance Companies and private Registered Pension Plans.

We began our process of dialogue and consultation with a similar breakfast meeting with ATTIC members in late May, on the same day on which the legislation received assent. Meetings with other industry stakeholders are also being planned.

This morning, in addition to briefing you on the new role of the Central Bank, I would like to get your views as to how you see your role and to get your suggestions as to how we could work together to make a strong, vibrant industry, based on sound prudential and ethical practices. To this end, I look forward to a lively discussion period after these initial remarks.

I would like to emphasise this morning that I really see the relationship between the Central Bank (as regulator) and *all* the stakeholders in the insurance industry as one of close collaboration, working towards the common goal of increasing public confidence in the financial sector, in general, and in the insurance industry, in particular.

Ladies and gentlemen, Trinidad and Tobago has become the predominant financial centre in the Caribbean. The influence is seen throughout the region, particularly in banking and in insurance, and we have become the centre of the region's bond market. But it is also true that our prudential and regulatory systems, particularly in the insurance industry, are lagging behind those of several Caribbean jurisdictions. (Jamaica has the most updated insurance banking legislation, but this has come as a result of an acute crisis. We would like to have the upgrade without the crisis).

The Central Bank, as the regulator, is now charged with taking supervision of insurance business to a level that ensures the industry is on a sound footing, both financially as well as from an ethical standard. **But it is not only the Central Bank's responsibility.** It's in the interest of all stakeholders that confidence in the insurance industry is strengthened, and that is certainly the strongest argument for dialogue.

As you know, the recent amendment to the Insurance Act essentially did three things:

- (i) it transferred responsibility from the Supervisor of Insurance in the Ministry of Finance to the Central Bank;
- (ii) it amended the appeal provision of Section 205 of the Insurance Act whereby any regulatory action by the Central Bank will now continue to have effect, unless the appellant is granted an injunction by the Court; and
- (iii) it re-defined arrangements whereby regulations under the Act continue to be made by the Minister, but now on recommendations from the Central Bank.

There are also a number of other very important changes.

For example, the Office of the Supervisor of Insurance no longer exists, and the direct supervisory responsibility now rests with the Central Bank through the Office of the Inspector of Financial Institutions (who functions at the level of Deputy Governor).

Secondly, with the regulatory responsibility resting in the Central Bank, we have allocated more resources to the task of insurance supervision.

Thirdly, we can bring our experience in risk-based supervision which we now employ in the case of the commercial banks, to bear on the supervision of insurance companies, many of which have products similar to that of banks or are involved in corporate relationships with banks.

In order to execute our new mandate, we have restructured our operations to create an Insurance Supervision Division, and we have

established a unit to deal specifically with the registration and regulation of all insurance intermediaries, including brokers and adjusters. This unit will also be responsible for addressing all market conduct issues.

In terms of administrative arrangements, the payment of fees and other monies by brokers required under the Insurance Act can now be made at the Treasury and District Revenue offices, as previously, as well as at the cashiers on the first floor at Central Bank.

Ladies and Gentlemen, while substantive amendments have not yet been made to the Insurance Act, we are committed to lifting the level of supervision of the industry by a more effective and rigorous administration of the existing legal provisions. And we will be working to ensure full compliance with all the provisions of the Act by **all sectors of the Industry** i.e. by the insurers as well as by the intermediaries.

The business carried on by you, the Brokers and Adjusters in the insurance industry, is integral to the dynamism of the insurance market in Trinidad and Tobago, particularly in the area of non-life insurance. You are the primary interface between the insurance companies and the policyholders, and therefore you have onerous responsibilities.

Your first obligation is to be fully aware of the provisions of the Insurance Act and the subsidiary regulations, particularly as they pertain to the responsibilities of brokers to their clients. As you know, these regulations specify, inter alia, that:

- brokers need to be properly registered to be able to conduct business;
- both the firm and the C.E.O. need to be registered;

- brokers need to have the requisite level of professional indemnity insurance (of not less than \$5 million);
- within six months of the close of each financial year, a broker must submit audited accounts to the supervisor (in this case, the Central Bank);
- brokers have an obligation to do what they reasonably can to help their clients receive prompt and fair settlement;
- brokers are only permitted to do business with companies duly registered in Trinidad and Tobago to carry out insurance business (I understand that there seems to be some ambiguity as to whether the current practice whereby brokers can market products for companies not registered in Trinidad and Tobago is legal);
- the Act requires that intermediaries remit premiums received from clients within 30 days; (as you know better than I do, this section is continually violated and both parties blame each other); and
- finally, brokers are supposed to act on behalf of policyholders (their clients) rather than for the insurance companies. This is tantamount to a sacred trust but many **policyholders would argue that this basic principle** is not always recognised in the industry.

As you know, up until now, the supervision of the insurance companies has not been very rigorous. Not unexpectedly, the supervision of the intermediaries, including brokers and adjusters, has been virtually

non-existent. For the most part, supervision of brokers consists largely of ensuring proper registration and filing of returns.

The Central Bank is now required **to introduce at least the minimum level of supervision envisaged in the law**, and clearly this is likely to be a departure from what you, the Brokers and Adjusters, are accustomed to. And that is why this opportunity for us to dialogue and for us, in the Bank, to understand your viewpoint is so timely and so important.

As you know, in collaboration with the industry, we will soon start working on substantive amendments to the 1980 Insurance Act. In relation to the insurance companies, these amendments are expected to cover, inter alia:

- increased minimum capital requirements
- modern standards of corporate governance
- new standards of market conduct
- enhanced powers for the Supervisor
- reformed investment guidelines

We also envisage updated regulations for **you, the intermediaries**.

As regards the brokers, for instance, we will also be reviewing capital adequacy requirements and professional indemnity arrangements. The \$100,000 capital requirement and the \$5 million indemnity requirement were **established more than twenty years ago and are clearly not adequate** for today's environment and the level of business conducted. Given the role and functions of brokers and the implications for policyholders' interests, brokers must have the wherewithal to meet all professional and other liabilities that go along with their responsibilities.

We clearly need to introduce stricter fit and proper requirements to ensure that brokers, adjusters and other intermediaries adhere to sound standards of integrity and have the required technical background and experience to competently discharge their functions.

While all of you here are very experienced and know your business, we have to consider new entrants. The Bank plans to work very closely with the Trinidad and Tobago Insurance Institute to ensure that training programmes for new intermediaries are in keeping with today's market realities and the **evolution** of more sophisticated financial products.

While brokers have a duty to ensure their clients are fairly treated in claims settlement, **adjusters also have a direct role in the fairness and promptness of claims settlement.** A key issue here is the independence of the adjuster. Adjusters are either employees of insurance companies or contracted by them. Should this relationship impact on the fairness of an assessment? Whose interests should be paramount? As a regulator, we would hope that the adjuster is entirely objective and that the assessment is fair to all parties.

We would like to work with the industry to establish guidelines to ensure the independence of adjusters.

We know that as brokers you have legitimate issues that you would like to see addressed. **We know that you also have concerns about the market conduct of certain insurers.** We have received comments, for instance, about a practice whereby different brokers receive different quotes for the same piece of business from the same company. In addition, we have been told that at times a company may favour one broker over another. All such practices, where they exist, constitute poor market conduct.

Brokers have also advised us that some companies have poor systems for invoicing and recording premium payments. Cumbersome, ambiguous and usually inaccurate statements have also been blamed for some of the problems of premium remittance. Our onsite inspection will review these matters and where discovered, such deficiencies will have to be rectified.

Vibrant industry associations are assets to the supervisory process. I therefore throw out a challenge to you to continue the development of your Broker's Association and to encourage those who are now outside the Association to become members. To Adjusters, I ask that among yourselves, you chart a way forward in having an association that harnesses and represents your interest. This will fit well with our proposals to have adjusters operate as independent professionals.

It is much easier for the regulator to get your views, understand your common issues and interface on the numerous matters that we both have to address. Additionally some measure of self-regulation will be promoted, since as a body you are able to build consensus and set standards of ethical conduct

The Bank wants to be on top of these issues since we would like to be a proactive rather than a reactive regulator.

Ladies and gentlemen let me reiterate that the Central Bank wants to work with all stakeholders in order to strengthen the insurance industry so that it could meet the high prudential and ethical standards that your clients and the financial sector deserve.

I look forward to a frank discussion of the issues raised.

Thank you.