# The Premium

Volume 2 – 2018


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# Welcome

# ATTIC's Remarks

*Written by*
**Paul Traboulay**
President — ATTIC

In our 2016/17 edition of the Premium Insurance Industry Report, we highlighted a number of pertinent matters which continue to be of relevance as we present the most current review of our industry.

## Industry Performance

In 2017, the T&T economy contracted with a real Gross Domestic Product (GDP) decrease of (2.3%), this is the second consecutive year that the economy experienced negative growth (i.e. 6%, 2016). However, in the latest National Budget Statement, presented by the Honourable Minister of Finance, the GDP is forecasted to grow by 1.9% in 2018.

This trend in economic performance is not unique to Trinidad and Tobago, but is mirrored throughout the Caribbean market in which many of ATTIC's members operate.

Against the background of the overall economic performance our industry has remained relatively resilient when compared with the previous year. We are pleased to provide you with our comprehensive report of the Insurance industry for the 2017 period, graciously facilitated through our partnership with Ernst & Young.

> *"Our society urgently needs to re-evaluate and develop viable plans and mitigants, otherwise we may be faced in the near future with challenges in flood underwriting within T&T."*

## Legislation

***Insurance Act 2018***

The long-awaited Insurance Act was finally passed by both houses of Parliament in early 2018. ATTIC now eagerly awaits its proclamation which we had hoped would have coincided with the beginning of the 2019 calendar year. This would enable the government to more easily address the regime under which Life Companies are taxed, whilst also facilitating a smoother transition of members' administrative accounting and operational processes to meet the requirements of the Act and any changes to the basis for calculating corporation tax.

## Global Taxation Forum (GTF)

Whilst the industry is currently gearing up to meet the Common Reporting Standards (CRS) under the GTF, we are concerned that the necessary legislative amendments that will ensure the country's compliance with the Forum still have not been implemented. This could result in dire consequences for the financial sector, which we are a part of, as well as our already fragile local economy. We therefore encourage our parliamentarians to act with urgency in the national interest of all in supporting and passing appropriate legislation. ATTIC stands ready with other members of the financial services sector to lend our support in meeting this objective.

## Changing Risk Exposures – The Impact of Natural Disasters

The well documented exposure of the Caribbean region to the impact of global warming is evident by the three (3) major hurricanes (Harvey, Irma and Maria or "HIM") which wreaked havoc within our region in 2017. Although Trinidad and Tobago was not directly affected, a number of our P&C (Property and Casualty) member companies have operations within territories affected by HIM.

Trinidad and Tobago is certainly not immune to natural disasters, as widespread flooding in diverse locations is now an annual occurrence. We anticipated that the value of "insured" losses from recent flooding in October 2018, may be in excess of TT$75.0 million. Losses during our rainy season (property, contents, motor vehicles, food crops, and infrastructural damage) have resulted in millions annually and are further compounded by the displacements of families from their home, whether temporarily or permanently, as a result of these floods. Our society urgently needs to re-evaluate and develop viable plans and mitigants, while the insurance industry urgently needs to examine its approaches to the provision of appropriate coverages, which would increase its penetration nationally while acting as partner in the amelioration of risks.

Our country also sits on an earthquake zone and experiences dozens of earthquakes annually. As recent as August 21st, 2018, we experienced an earthquake with a 6.9 magnitude. Thankfully, reports of significant property damages and other losses as a result of this event were minimal. The University of the West Indies (UWI) Seismology Department continues to warn of the 'big one' for which the country must be prepared.

In ATTIC's view the country must give urgent consideration to disaster planning and recovery which will involve:

- The implementation of recommendations made by various multi-disciplinary committees, over the years, to mitigate and limit the potential negative impacts of flooding in the most susceptible areas of the country
- Strict enforcement of town and country planning rules as well as the continuous upgrading of building codes and standards which must then be strictly enforced
- Development and implementation of a cohesive national infrastructural plan to manage and control and potentially alleviate the consequences of flooding. One financing option may be special insurance bonds i.e. "special long-term investment vehicles funded by the insurance sector which offer attractive rates of interest to participants and longer investment horizons in keeping with our industry's unique investment appetite. This will also certainly assist in further deepening our Capital Market.

## Insurance Fraud

The industry continues to grapple with the scourge of fraudulent claims and fraudulent certificates. While we embarked on a digital ClaimsBank initiative to address fraudulent claims we also continue to press for close collaborative efforts between the Association, the Ministry of Transport and the Trinidad and Tobago Police Service, as well as amendments to the Motor Vehicle (Third Party Risk) Act. These are essential to enable us to adequately treat fraudulent certificates.

## ATTIC's Building

The Board of Directors is pleased to announce that ATTIC acquired a permanent home for its members. The new building will serve as our headquarters and the premier insurance training centre for the industry. The facility is currently being remodelled and we expect it will be opened within the first quarter of 2019.

***About Paul Traboulay***

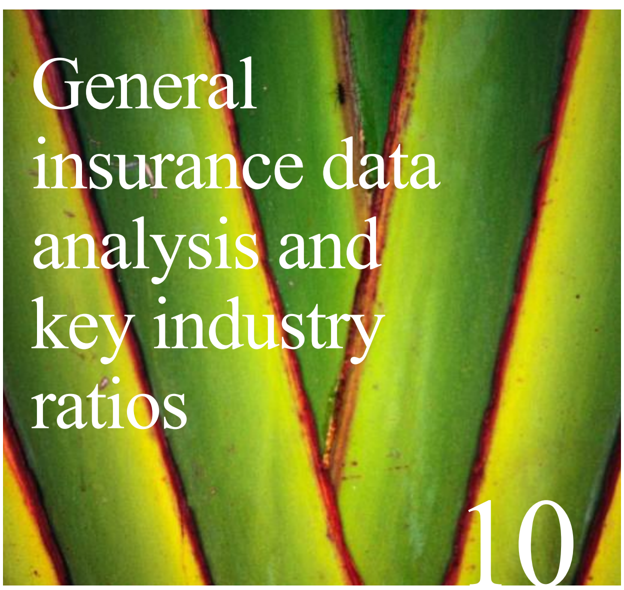
*Mr. Traboulay is the Group Chief Risk Officer at the Guardian Group. Prior to this appointment, he served as the Group Chief Operating Officer at Guardian Group as well as a number of other positions including the Chief Operating Officer at Guardian General Insurance Limited and Group Strategic Programme Director.*

*Mr Traboulay has over 26 years of experience in the local and regional insurance industry having served at an executive Board level in the broking, life, health and pensions and general insurance industry.*

*He is a former General Manager of Risk Management Services Limited and former Managing Director of Trinidad and Tobago Insurance and Tatil Life Assurance Company Limited. He has served on the board of ATTIC for the past 14 years.*

# In this issue...







# The Premium

Volume 2 – 2018



The intended purpose of this publication is to provide an analysis and overview of the Trinidad and Tobago insurance industry for a five year period 2013 to 2017 using information from the annual statutory returns "Insurance Act Accounts (Act Accounts)" submitted by each company for each year. It should be noted that information pertaining solely to Trinidad & Tobago business was presented in the magazine.

The publication profiles 15 companies in the General insurance sector and 9 companies in the Life insurance sector (see Appendix for company listing).

We (EY) wish to emphasize that the data used in calculating the various ratios and other market statistics is based solely on the information provided in each company's Act Accounts. EY submitted questions to confirm certain discrepancies and/or gaps in the data but may not have received clarification or responses for all enquiries.

We have not independently verified the accuracy or completeness of the data provided and do not express an opinion or offer any form of assurance regarding its accuracy or completeness.

We recommend that the data in this publication be used as a general guide and not as an absolute measure of operating performance.

# ATTIC
## Board Members

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**Jason Clarke**
Vice President – General

**Robert Soverall**
Vice President – Life

**James Camacho**
Director

**Balliram Sawh**
Director

**Sean Jack**
Director

**Anand Pascal**
Director

**Ronald Milford**
Director

**Keston Howell**
Director

**Maxim Marquez**
Director

# IFRS 17 Implementation

## What EY can do for you

### Use compliance as a catalyst for change

Our skilled team understands both the business and technical issues around IFRS 17 and can work with you to achieve compliance that's aligned with your finance transformation programs.

**We help insurers:**

- Master the technical details of compliance
- Recognise the strategic opportunities for the business
- Design and assist in executing the right plan, based on existing operations, product portfolios and technology environments – as well as business objectives and the organisational appetite for change

**Steps toward IFRS 17 implementation**

- Map the impacts, especially relative to data sources and entity or product structures
- Identify the value-creation operations
- Align and harmonise finance, risk and actuarial groups
- Prepare the orgnaisation for managing earning, balance sheets and reinsurance strategies in new ways, based on better data and in line with this new accounting regime

**Why EY**

- Broad and deep understanding of IFRS 17 implications for insurers
- Diverse mix of skills and experience required for achieving compliance
- Solution accelerators that drive time-to-value and reduce implementation risk

**Compliance is a must. The time to act is now.**

## EY Benchmarking Tool

EY Benchmark is fact-based decision making tool we utilized in this issue of the Premium to derive the comparative ratios between Trinidad and the USA.

EY Benchmark is an application that enables EY practitioners to use a variety of interactive tools and enablers designed to  develop insights. Data is available across various industries as well as specific to customer service, finance, HR, IT, sales and marketing, supply chain, and other functions.

# EY Globally

260,000 people in 150+ countries

12,700+ financial services professionals

Works with 100% of Forbes Global 2000 top 10 financial institutions

# EY Global Insurance Sector

Insurers must increasingly address more complex and converging regulatory issues that challenge their risk management approaches, operations and financial reporting practices. EY's Global Insurance Sector brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transaction and advisory services. The Sector team works to anticipate market trends, identify their implications and develop points of view on relevant sector issues. Ultimately, this team enables us to help you meet your goals and compete more effectively.

# EY in the Caribbean

8 countries

600+ professionals

30 regional transaction advisors

Assurance, Tax, Advisory and Transaction Advisory Services

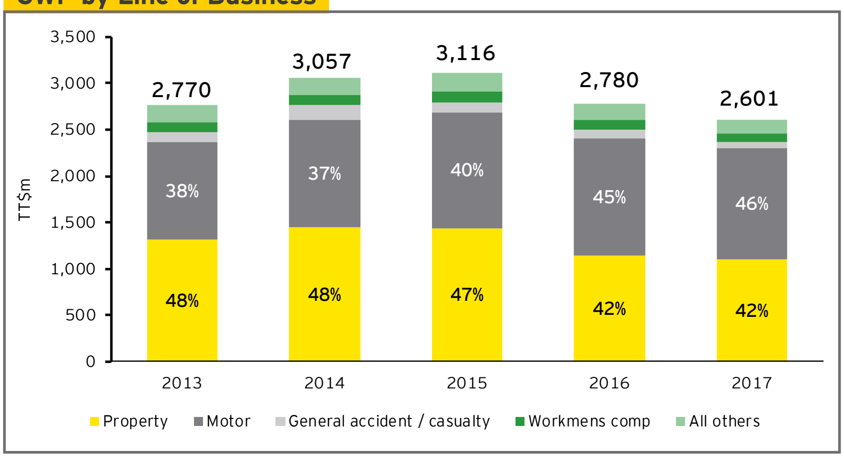
# General Insurance

## Trinidad & Tobago Insurance Industry

## Industry Overview

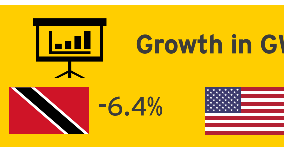
The General insurance industry appears to be shrinking (in terms of GWP) after it peaked in 2015. This could be due to a combination of reduced government projects, decline in rates and reduction in property prices as well as increased competition in the market resulting in pressure to reduce premium pricing.

### GWP by Line of Business




Whilst growth in new and used vehicles has declined, there is still a significant number of new vehicles. New properties are on the decline and property prices have decreased resulting in Motor now taking a larger share of GWP. Property continues to reduce its contribution to GWP, which could be due to a slump in construction of new Government buildings.

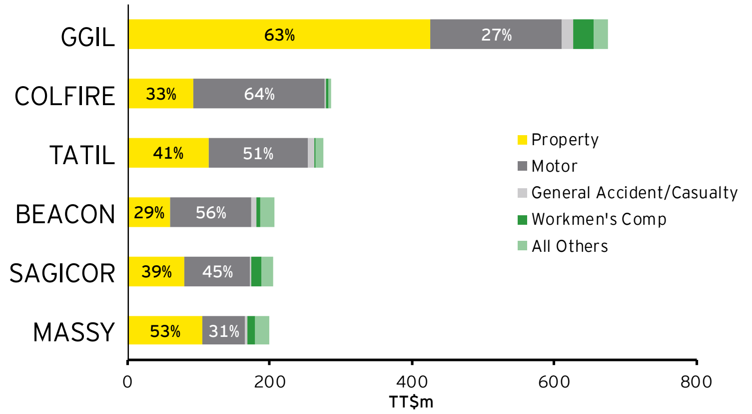
**Growth in GWP**



-6.4%　6.9%

The General Industry comprises 15 General insurance companies over the review period 2013-2017.

### Top 6 Insurers (by 2017 GWP)



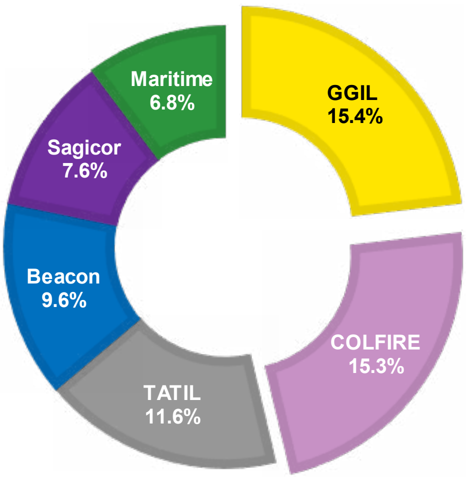

The remaining 9 insurers have a combined market share of **29%** with **$754m** in GWP.

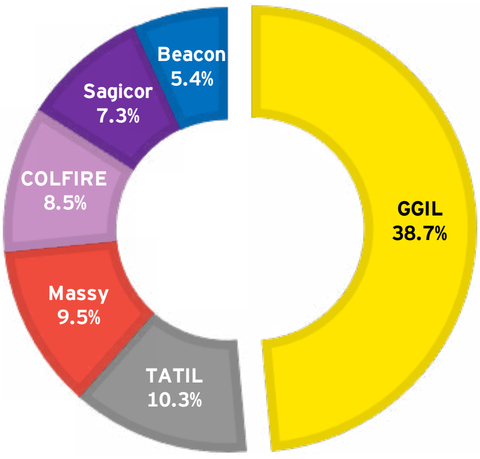
| | | 2017 | % Change from 2016 |
|---|---|---|---|
| 1 | GGIL | 26.0% | -0.9% |
| 2 | COLFIRE | 11.0% | +1.0% |
| 3 | TATIL | 10.6% | +0.6% |
| 4 | Beacon | 7.9% | -0.2% |
| 5 | Sagicor | 7.9% | -0.3% |
| 6 | Massy | 7.7% | +0.5% |

Four of these companies retained their market positions. Beacon and Sagicor were 5th and 4th position respectively, in 2016.

## Motor (2017)

## Property (2017)

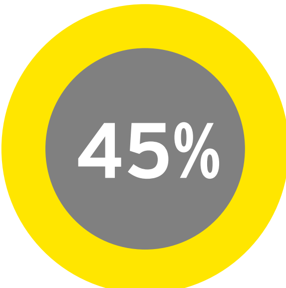



**COLFIRE and GGIL** are currently **dominating** the motor insurance market with only a 0.1% difference in market share between the two companies.

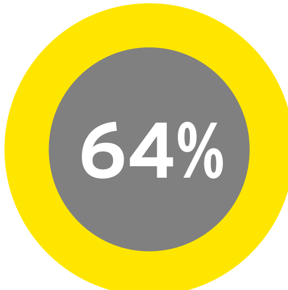
GGIL continues to dominate the Property insurance market; however, it should be noted that its market share **reduced by 2.7%** from 2016 to 2017. The other top 5 companies maintained their average market share percentage.


## Key Industry Ratios



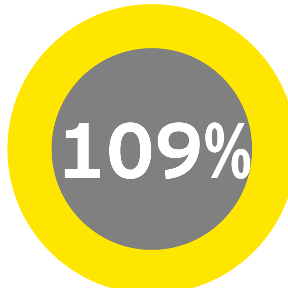

### 2017 Industry Loss Ratio*

**This ratio was normazized to reflect the industry without GGIL's property LOB, as a result of the impact of hurricanes Irma and Maria.*




### 2017 Industry Expense Ratio*

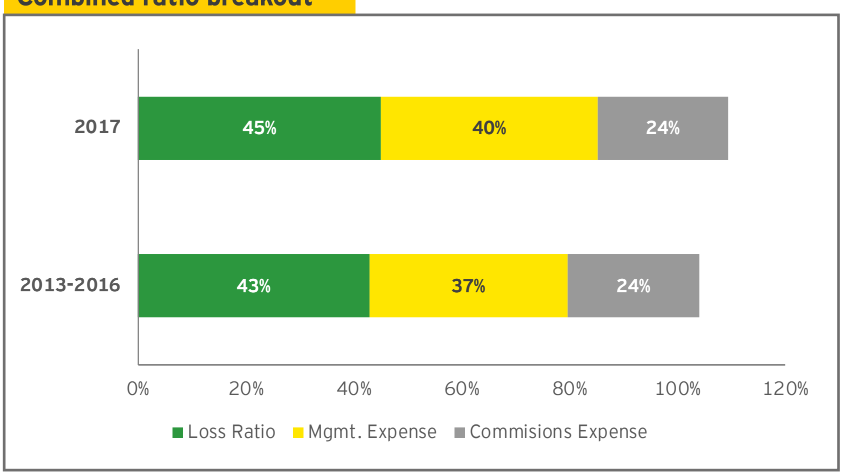
**Management Expenses and Commission Expenses*




### 2017 Industry Combined Ratio*

**Loss Ratio (adjusted) plus Expense Ratio*

**Combined ratio breakout**



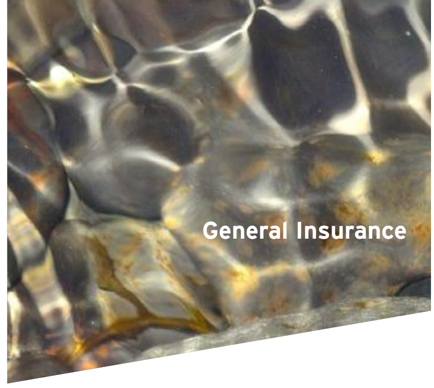

| | 2017 | 2013-2016 avg. |
|---|---|---|
| Safety Ratio | 59% | 53% |
| Solvency Ratio | 109% | 107% |

**Combined Ratio**


109%


99%

The Industry safety ratio excluded GGIL's claims for the property line of business due to the effect of the hurricanes in 2017. The Industry Safety Ratio for 2017 would be **81%** if GGIL's property claims were included.



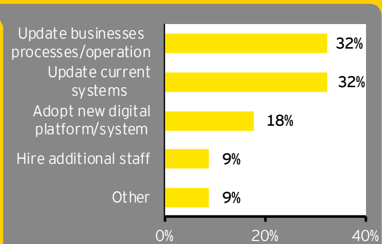

## Key Industry Ratios

| 2017 Rank – Combined Ratio | | | | |
|---|---|---|---|---|
| | Company | 2017 | | 2016 |
| 1 | Furness | 83% | - | 72.9% (1st) |
| 2 | New India | 84.3% | - | 90.2% (2nd) |
| 3 | Gulf | 91.6% | ▲ | 91.9% (5th) |
| 4 | Presidential | 95.3% | ▲ | 95.0% (6th) |
| 5 | TATIL | 98.4% | ▼ | 96.4% (3rd) |
| 6 | Maritime | 99.7% | ▼ | 96.6% (4th) |

## THE SURVEY RESULTS ARE IN!

The Premium — IFRS 17

Over 90% of survey participants stated that they were aware of the requirements of IFRS 17. It appears the specific details of IFRS 17 are not yet fully understood by the industry. Nevertheless, the industry plans to meet and adopt the requirements of IFRS 17 by 2020 using the methods in the chart below:




The Premium — Capital Adequacy

75% of General Insurance companies stated that they currently either meet or exceed the capital adequacy requirements of the new Insurance Bill (2018).

Of the 25% who indicated that they currently are unable to meet the requirement, they intend to do so as follows:

- 33% – Merger and Acquisitions
- 33% – Raising Capital
- 16% – Restructuring
- 16% – Other methods

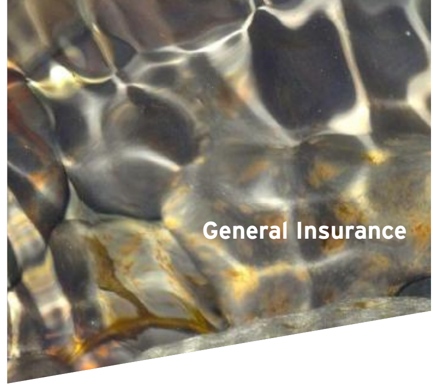

## Key ratios – lines of business

Despite a 6% decline in GWP, Management Expenses continued to grow in 2017 compared to the 2013-2016 period. As margins narrow, operating efficiencies are going to be key.

| | Motor | | General Accident | |
|---|---|---|---|---|
| | Average 2013-2016 | 2017 | Average 2013-2016 | 2017 |
| Loss Ratio | 46% | 48% | 34% | 32% |
| Management Expenses | 26% | 28% | 31% | 37% |
| Commission Expenses | 17% | 17% | 22% | 22% |
| Expense Ratio | 42% | 45% | 54% | 60% |
| Combined Ratio | 89% | 94% | 88% | 92% |

| | Workmen's Comp | | All Others | |
|---|---|---|---|---|
| | Average 2013-2016 | 2017 | Average 2013-2016 | 2017 |
| Loss Ratio | 46% | 39% | 16% | 6% |
| Management Expenses | 22% | 25% | 42% | 42% |
| Commission Expenses | 17% | 15% | 24% | 24% |
| Expense Ratio | 40% | 40% | 66% | 66% |
| Combined Ratio | 86% | 79% | 82% | 72% |

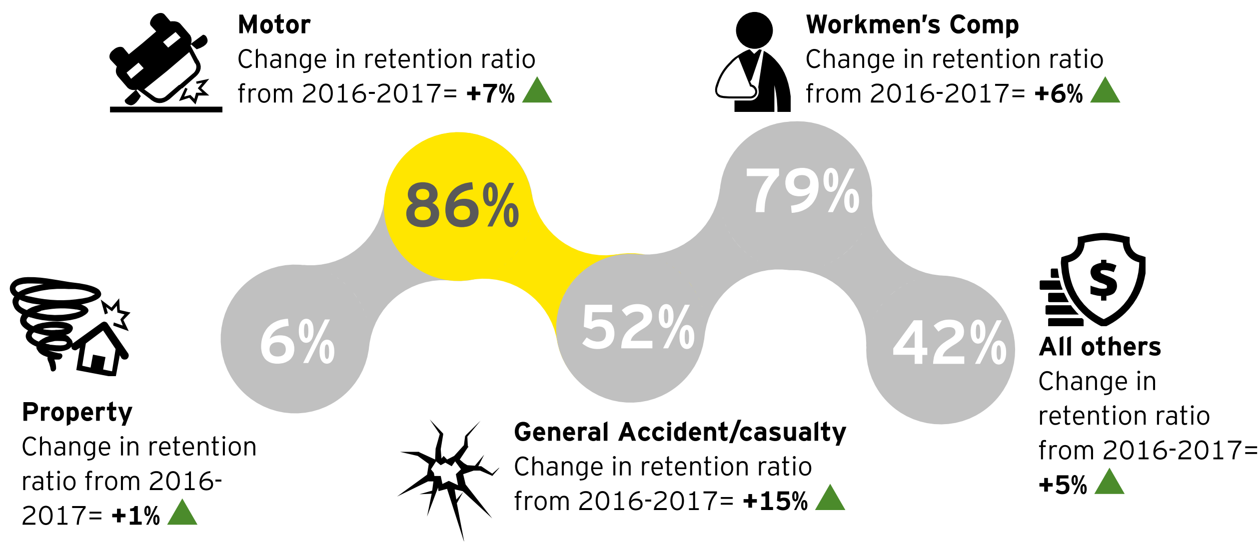
- Expense and combined ratios have not been reflected for the Property line of business since it is calculated on a net premium basis and due to the low property retention ratio, extraordinary ratios would have resulted.
- Insurance Companies are required by the Insurance Act to report their expenses by line of business. Most insurance companies use varying allocation methods to assign the expenses at their discretion. As such, the allocated expense by each line of business may not be a true reflection of the actual cost incurred specifically to that line of business.




## Retention ratios – lines of business

**The General Industry's total retention ratio has increased by 4% from 2016 to 2017. Retention ratios have increased for all lines of business. Is this due to the difficulties in foreign exchange access, increased reinsurance rates or is the industry becoming more tolerant to risk?**

Given the increase in natural disasters in 2018, it will be interesting to see in next year's Premium how the property segment will be affected.




### THE SURVEY RESULTS ARE IN!

The Premium — Reinsurance

With the foreign currency shortage in the country, General Insurance companies indicated the following:

- 50% were late on reinsurance payments by over 3 months
- 42% always paid reinsurers on time
- 8% were only late by 1 month

Given the changing global climate and recent natural disasters in the region, almost 92% believe that their reinsurance premiums will increase.

66% of all companies have already experienced increases in premiums

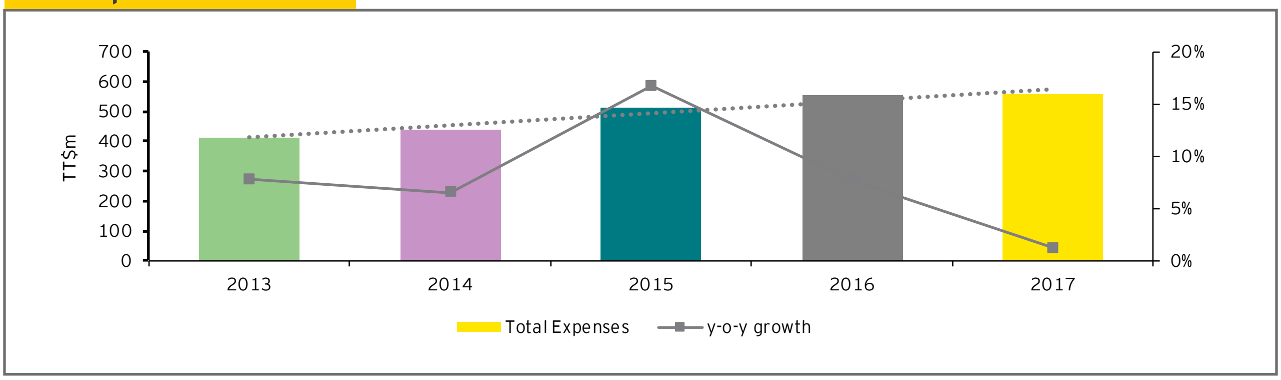
Fortunately, 83% stated that their claims are always covered in a timely manner.


## Spotlight on Expenses

The Industry's Total Expenses grew by a CAGR of 8% over the period to $559m. Y-o-Y growth from 2016 to 2017 was a marginal 1%.

Similar to 2016, some of the smaller insurance companies (in terms of GWP) tend to be more cost efficient. Larger companies should embrace the digital solutions and tools to help reduce their operational and overhead expenses.

**Total expenses 2013-2017**




| Total Expenses/NWP | | |
|---|---|---|
| 2017 Rank | Company | 2017 |
| 1 | ICWI | 11% |
| 2 | Sagicor | 22% |
| 3 | New India | 28% |
| 4 | Maritime | 32% |
| 5 | TATIL | 33% |
| 6 | GULF | 35% |

| General & Admin/NWP | | |
|---|---|---|
| 2017 Rank | Company | 2017 |
| 1 | Sagicor | 8% |
| 2 | ICWI | 10.6% |
| 3 | TATIL | 13.2% |
| 4 | Furness | 15.2% |
| 5 | COLFIRE | 16.1% |
| 6 | New India | 16.7% |

| Salaries & Wages/NWP | | |
|---|---|---|
| 2017 Rank | Company | 2017 |
| 1 | ICWI | 0.5% |
| 2 | Sagicor | 9.6% |
| 3 | New India | 10.6% |
| 4 | GGIL | 11.1% |
| 5 | Maritime | 11.2% |
| 6 | TATIL | 13.7% |

It should be noted that ICWI operates an agency model in Trinidad where mainly commissions are paid and other operational expenses are shared/allocated from their head office.

48%

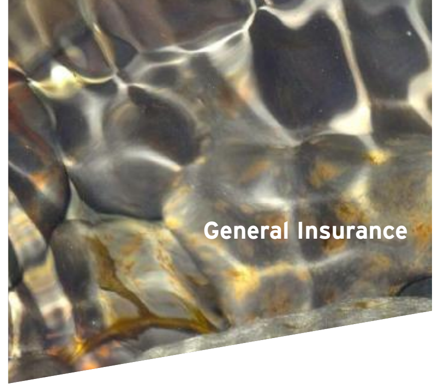
**Total Expense/Total Industry NWP**
4 of 15 companies were above the industry average

22.5%

**General & Admin/Total Industry NWP**
5 of 15 companies were above the industry average

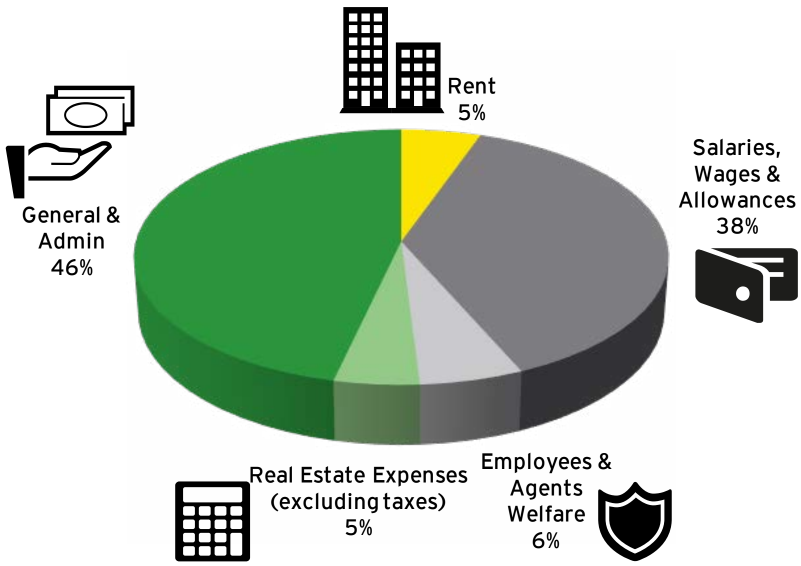
19.7%

**Salaries and Wages/Total Industry NWP**
6 of 15 companies were above the industry average




## Expenses breakdown

**Total expenses 2017**




- Rent experienced the largest increase of 20% from 2016 to 2017
- All expenses increased from 2016 to 2017 by an average of 1% except for Real Estate expenses, which decreased by 21%.

**General and Admin Expenses = $267m**
**(Misc. 70%; Prof & Service Fees 30%)**

**Salaries, Wages and Allowances = $219m**
**Y-o-Y growth = 3%**

Total Expenses increased in 2017 by only 1% to $559m compared to 2016. General and Admin continued to contribute the largest portion of expenses.

**Real Estate Expenses**

TT$20.75 per $1000 of NWP

TT$22.17 per $1000 of Net Annual Premium

**Salaries, Wages & Allowances**

TT$171.44 per $1000 of NWP

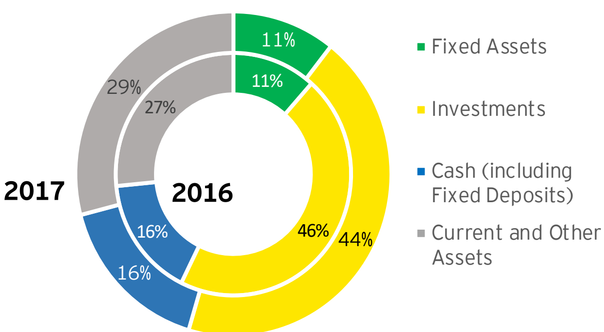
TT$450.11 per $1000 of Net Annual Premium

Real estate expenses for the local General insurance industry are only 7% cheaper than the US. The US has embraced the digital era, via the presence of fully online insurance companies e.g. esurance® which has significantly reduced the need and costs associated with a "brick and mortar" business model.

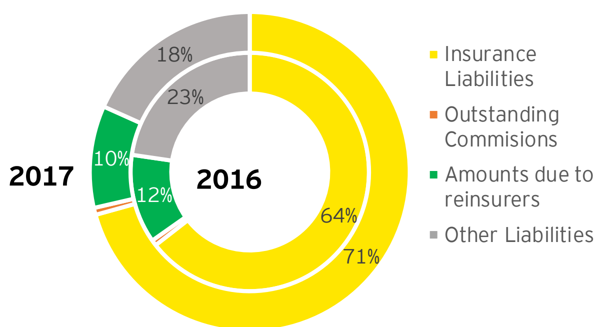

## Assets and Liabilities

Net Assets for the General industry have remained relatively constant over the last year with minimal changes to the composition of assets and liabilities.

**2017 Asset composition**




**2017 Liabilities composition**




Total Assets 2017 = **$4.01bn** ($3.7bn 2016)

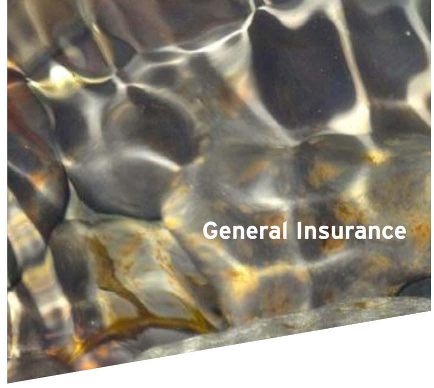
Total Liabilities 2017 = **$2.6bn** ($2.3bn 2016)

**6%**

Total Assets increased at a CAGR of 6% over the period 2013 to 2017

**6%**

Total Liabilities increased at a CAGR of 6% over the period 2013 to 2017




## Assets and Liabilities

| 2017 Net Assets Rank | | | | |
|---|---|---|---|---|
| **2017 RANK** | **Company** | **TT$mn** | **% of total industry** | **Change in market share** |
| 1 | GGIL | 346 | 25% | -3% |
| 2 | TATIL | 281 | 20% | -4% |
| 3 | Maritime | 212 | 15% | +1% |
| 4 | COLFIRE | 103 | 8% | +1% |
| 5 | New India | 96 | 75 | +1% |
| 6 | Sagicor | 64 | 5% | -1% |
| | Rest of the Market | 283 | 20% | +6% |
| **Total** | | **1,385** | **100%** | |

While the top 6 players maintained their 2016 ranking positions, it is interesting to note that the rest of the insurers in the market collectively increased their market share by 6%.

**1.53**

2017 Total Assets to Total Liabilities (1.59; 2016)

**33%**

2017 Admissible Assets/Total Assets (34%; 2016)

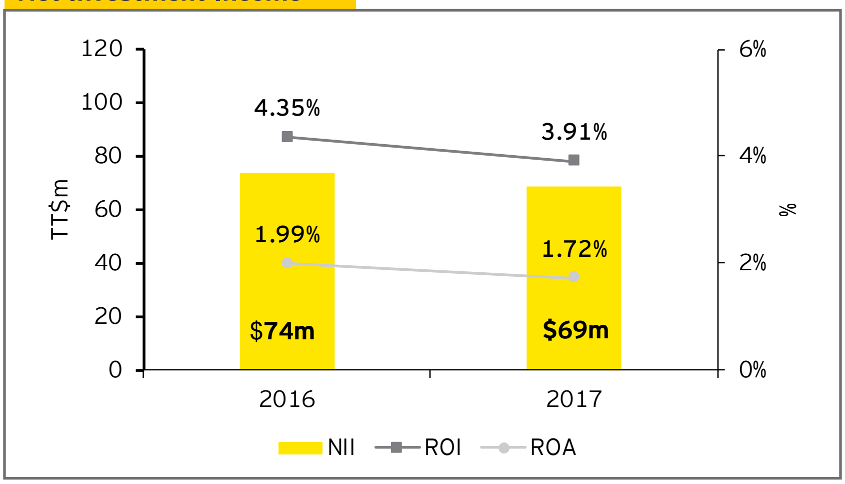
The total assets to total liabilities ratio illustrates the enhanced coverage of assets to liabilities and the safety level in the event of decreased asset values.

It was observed that 40% of the companies in the industry have increased their admissible assets over the last year, most likely in response to the new Insurance Bill (2018) requirements.


## Net Investment Income

Downward trends in NII, ROI and ROA over the last 5 years have been observed. The industry is greatly affected by limited investment choices and large cash and receivables.

**Net Investment Income**




**-13%**

NII decrease at a CAGR of 13% over a 5 year period (2013-2017)

| Top Insurers by ROI | | | |
|---|---|---|---|
| | Company | ROI | ROA |
| 1 | Furness | 15% | 3.4% |
| 2 | Bankers | 8.8% | 0.3% |
| 3 | TATIL | 8.6% | 4.6% |
| 4 | Presidential | 7.9% | 3.0% |
| 5 | Maritime | 5.4% | 3.8% |

**-6.8%**

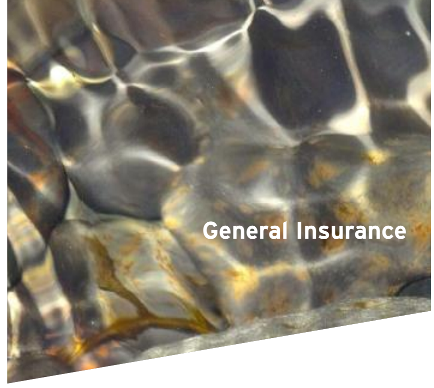
Decrease in NI from 2016 to 2017

**4%**

2017 Industry ROI

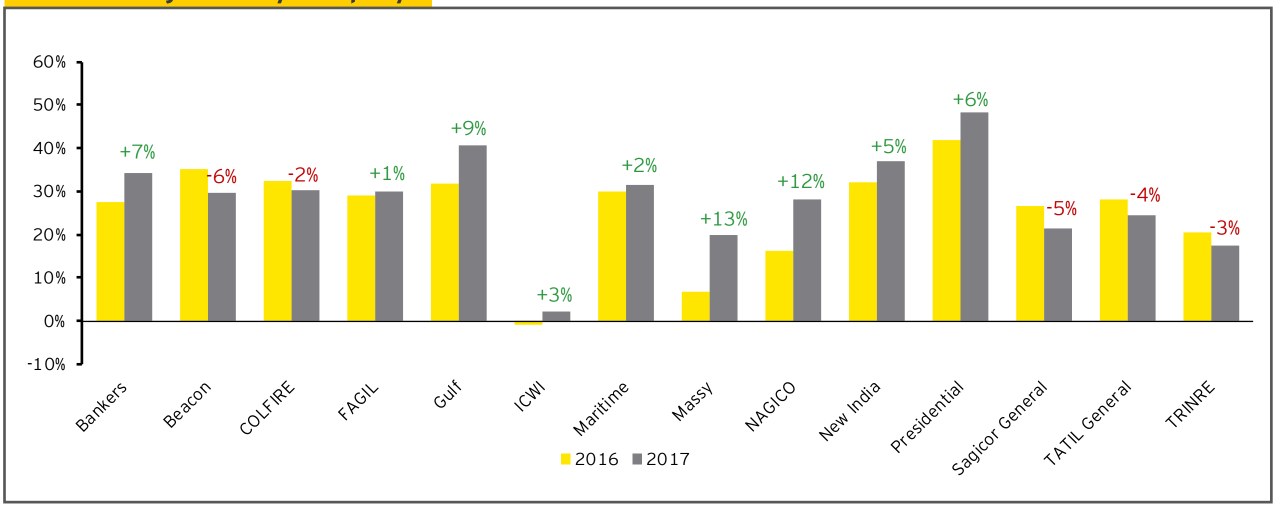
**1.7%**

2017 Industry ROA




## Underwriting Profit

**Underwriting Profit by Company**




**27%**

2017 Industry Average Underwriting Profit Margin*

**normalised i.e. excludes GGIL, as a result of the impact of hurricanes Irma and Maria.*

**24%**

2016 Industry Average Underwriting Profit Margin

- 10 of the 15 companies increased their underwriting profit margin from 2016 to 2017.
- ICWI only entered the market in 2015 operating under an agency business model. They were able to grow by 3%, going from an underwriting loss in 2016 to an underwriting profit in 2017.
- GGIL was excluded as a result of the impact of hurricanes Irma and Maria.

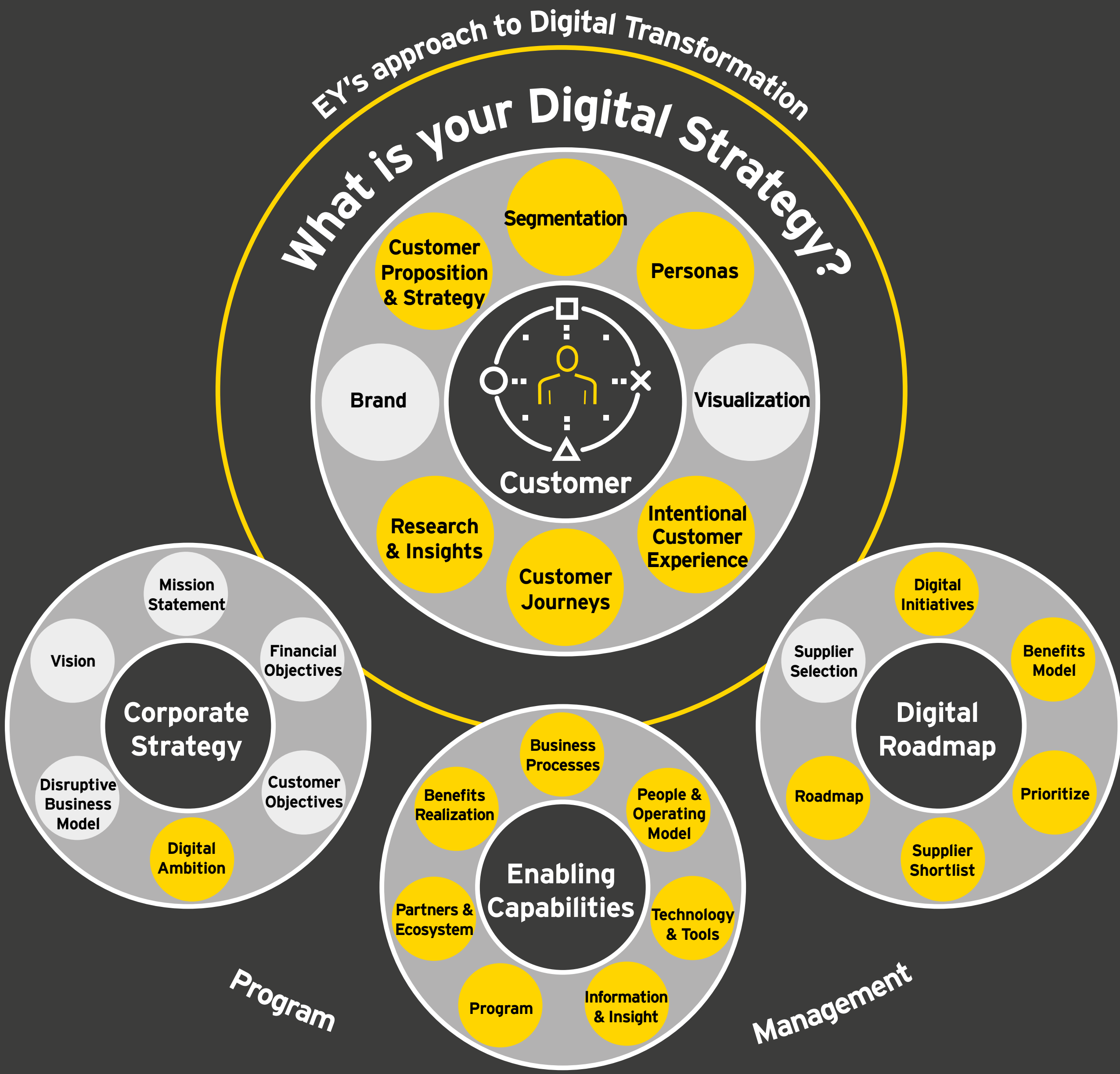

## THE SURVEY RESULTS ARE IN!

The Premium Digital Awareness

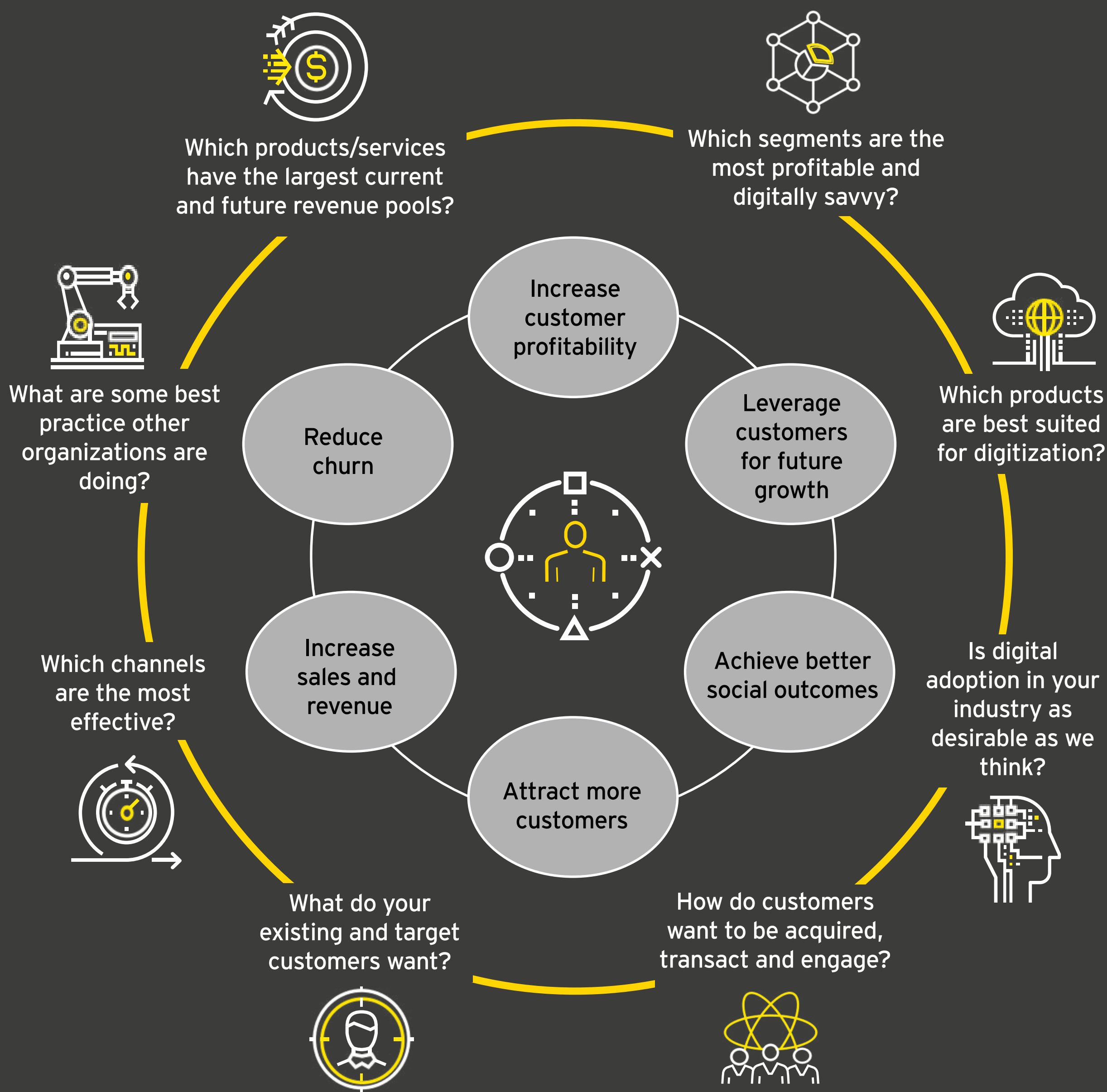
Almost 90% of participants agreed that the implementation of digital technologies would create a major shift in the client-insurer relationship. More than 70% also agreed that both investment in customer relations or support and claims management would be positively affected. 100% agreed that digital technologies would have an affect on the business in one way or another.

Over 50% ranked online applications as the most important digital-enabling technology to their business. Online payment and online claims management ranked as the 2nd and 3rd most important, respectively.

**THE NOTION OF DIGITAL TRANSFORMATION** as a "project" makes little sense in today's dynamic environment, ***as organizations need to shift their focus away from 'doing digital'*** towards 'being digital'.



In this competitive environment, companies ***must place customers at the centre*** in executing growth strategy. ***Digital transformation is the key enabler*** for successful and efficient execution.




Are you ready for transformation and customer centricity beyond NPS? Contact us.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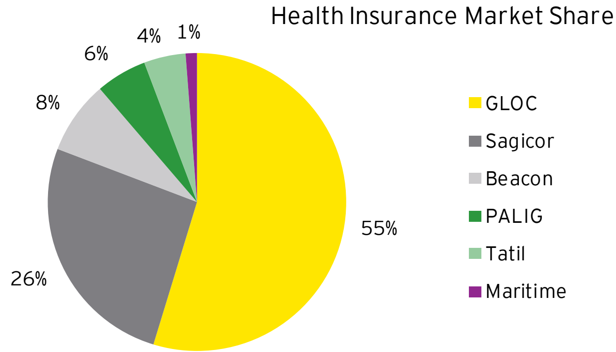
# Health Insurance

## Trinidad & Tobago Insurance Industry

### The Market

**GLOC and Sagicor have remained the market leaders in 2017 with a combined market share of 81%.**




**Market Share Y-o-Y Trends**

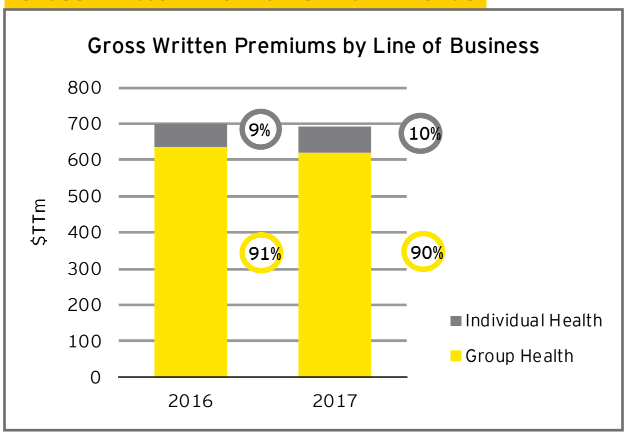
| | 2017 | | 2016 |
|---|---|---|---|
| GLOC | 55% | ▼ | 56% |
| Sagicor | 26% | - | 26% |
| Beacon | 8% | - | 8% |
| PALIG | 6% | - | 6% |
| TATIL | 4% | ▲ | 3% |
| Maritime | 1% | - | 1% |

### Gross Written Premiums

Total Health GWP has remained relatively constant with GWP at $693m in 2017 ($700m in 2016). Group Health Premiums continue to dominate the health insurance industry with an average of 90% of Total Health GWP.

While there are 7 registered Health insurance companies the analysis only includes 6 companies as data was not provided for Clico. Based on Clico's 2017 financial statements, they would be the 3rd largest Health insurer in terms of GWP ($73m).

**Gross Written Premiums Y-o-Y Trends**



## Expenses

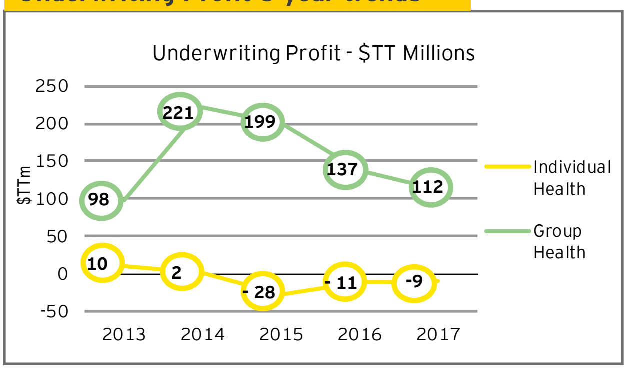
| Group Health Y-o-Y Ratios | 2017 | 2016 |
|---|---|---|
| Loss Ratio | 67% | 64% |
| Management Exp. | 12% | 12% |
| Commissions | 12% | 14% |
| Expense Ratio | 24% | 26% |
| Combined Ratio | 91% | 90% |

| Individual Health Y-o-Y Ratios | 2017 | 2016 |
|---|---|---|
| Loss Ratio | 94% | 98% |
| Management Exp. | 9% | 8% |
| Commissions | 22% | 24% |
| Expense Ratio | 31% | 32% |
| Combined Ratio | 125% | 130% |

Group Health accounted for 89% of Expenses (i.e. management exp. and commissions) over the past 2 years which is in line with the level of GWP that Group Health generates.

## Underwriting Profit

**Underwriting Profit 5 year trends**




**94%** 2017 Total Health retention ratio (2017)

**-18%** Decrease in Total Health Underwriting Profit in 2017

**25%** Total Health Underwriting profit margin has stabilized over the last three years settling at 25% (2017)

# Abundance is bringing new challenges to old business models... how are ***you*** going to change?

*Written by*
**Maria Daniel**
Partner
Transaction Advisory Services
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We react to the term disruption like it's a new concept. **Every day, every month, since the invention of the first tools from bones and stone, disruption has been taking place.** Whilst disruption is by no means new, the pace of disruption is unprecedented. The drive to remain relevant is not a matter of choice but a matter of survival.

But what exactly is disruption? We seem to have adopted this as a technology term but disruption is any innovation that makes a change that displaces the players or products in a market.

What drives disruption is the need to improve the customer experience. The term customer experience again seems to be "new" but how can it be? There is only one major source from which revenue is derived and that is the customer. Insurance has two sources of income – premiums and investment income. Both can only be earned by convincing the customer that downside risk must be protected and paid for. New concept? Clearly not. So why do we act like the customer is now the center of our universe. Let's explore this new focus on the customer and why it has now become this "revelation" when in fact the only key to success is to have a product or service that a CUSTOMER buys.

**Revelation number 1:** *Cost to launch new products and services* – A decade ago, we were in the age of slow product development and innovation. It was expensive to design, test and launch new products, so we were in an environment of limited supply. Now, thanks to technology, not only is the cost to design and create less, but time to market through social media is significantly reduced. The world is accessible with the click of a button. The cost and time to fail has dropped significantly therefore making research and development cheaper and the ability to try more conducive. The more tries, the more successes, the more innovation.

**Revelation number 2:** *The fundamental concept of demand and supply* – The challenge to Keynes theory of equilibrium is not only a demand and supply issue but the factors that are increasing supply.

When the innovation life cycle was significantly longer, the power was in the hands of the supplier as we were in a time of limited suppliers and demand was constricted to what was available from a few. Choices were limited to your domestic, local suppliers, barriers to entry were high in every industry and cost to start a business was expensive. We were in an era of scarcity.

> *"The drive to remain relevant is not a matter of choice but a matter of survival."*

So let's talk about the insurance industry. It took years to build size in order to be profitable, customer acquisition was expensive and cost of expansion was dependent on the large sales/agent army. This high cost of business where collection of funds is based on the expectation of coverage in times of needs resulted in a regulated industry and the need for capital retention. Players are still limited. Supply is protected by a regulator. That was then.

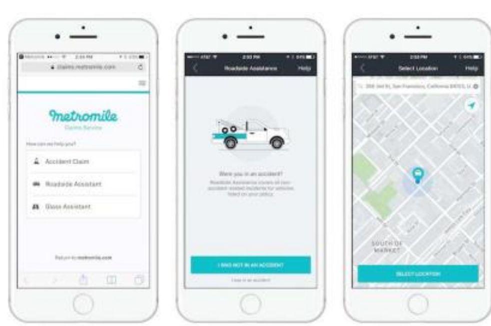
**Revelation number 3:** *The era of abundance* – Let's roll forward to modern day. Let's start with the supply side. With the internet and Amazon, Pay Pal and modern day technology the supply is no longer domestic, it is the world. The one barrier is the movement of funds and the access to foreign exchange and we know where that is going. The question then is how to operate a business when supply becomes limitless; when the barriers to entry are lowering every day. To be relevant requires agility and quick response to the customer. Insurers may convince themselves that being regulated may protect them but everything is for a time and now those time frames shorten by the day.

Abundance is a term we need to understand so that we can assess the effects of it on all areas of the business. Abundance has moved the power from the supplier to the customer hence the focus now is on customers' experience.

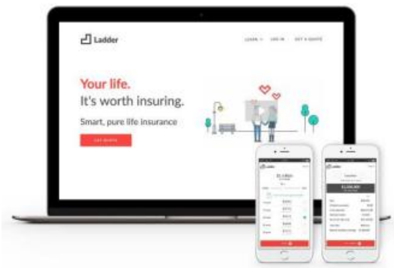
So let us start with one of the biggest changes that the internet has made abundant – knowledge. Why does this affect a business? Well, that old saying 'knowledge is power' is more relevant that ever, consumers are more aware than ever of options, the mechanics of a service, what is the purpose and what is the value they should be getting. A consumer is well aware that insurance is about protecting downside risk and therefore the consumer understands that this risk is different for every individual. Disruptors are understanding that more than ever. The traditional business model cannot do customisation profitably especially in small markets like ours. Disruptors may displace certain players in the market but at the same time create new ones. Insurtech providers are introducing ideas in response to the consumers demands for customisation and providing underinsured areas that traditionally did not exist.

Here are some of the solutions that have been introduced over the years that are infiltrating various sectors of the market. These solutions are using technology to not only create insurance products in previously unserved markets but to differentiate and respond to customer changing demands


*Slice* is a company that provides insurance for flexible timeframes (hours a day, a few days, weeks, etc.) and provides insurance for homesharing and ridesharing (e.g. AirBnB doesn't offer insurance for hosts – Slice fills that gap.)




***Metromile*** charges insurance by the mile and requires a sensor in the car and feeds maintenance back to the app.




*Ladder's* life term life insurance:

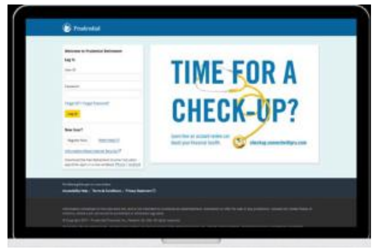
- Instant quote and coverage
- Operates solely via online platform
- Calculator determines personalized insurance needs

Differentiation is a must when there is abundance of supply. A client buys insurance to pay upfront for the probability of an event of downside risk occurring. When the event takes place the insured wants their claim processed as quickly as possible. Insurance is simple – "I give you money based on your calculation of my risk and you invest it and when an event takes place, you pay me". The customer migrates to the company that can do this fastest at the cheapest cost.

Doing this at a cheap cost was difficult given the complex nature of insurance. So how can technology assist in meeting the changing customer demands and expectations?

Complexity arises on the quantum and nature of the risk and the probability that this will happen and the loss that can result. Probabilities and risk assessments are based on historical experience; **the probabilities get less predictable when the future starts to deviate from the past.** For example, we are now experiencing a global phenomenon with rising flooding, fires and earthquakes.

Maximising the premium dollar now becomes more important because reserves have to cater for the unexpected; the actuarial miscalculation! Maximisation comes from efficiency of every dollar of premium income that is spent by administrative expenses. Technology is enhancing the client acquisition, risk assessment and claims processes. Here is just a snap shot of solutions:




*Prudential* term life available for purchase through a creative online portal

- Built as a digital-native option
- Medical exam not required for qualified applicants


*The Climate Corporation's* data-driven approach to claim validation

- Drones used to drastically simplify claims process


*USAA's* biometrics system

- Biometrics logon for mobile app using voice, face, and fingerprint
- Improves customer experience
- Reduces fraud risk

There is convergence taking place across the world as technology makes products more available to anyone, anywhere and the digital currencies are going to make that a reality. Blockchain technology enables the middle man to be less important and therefore eventually ***many of the business models that exist today will not survive tomorrow***. The chain reaction will affect how we work and where we work. As more employees can work from home the need for real estate will decline and prices will decline which is a big investment vehicle for many insurance companies. The gig work force will be working for many employers, reducing the salary cost but also making knowledge and experience available to others.

The moral of the story is that solutions are constantly being innovated to improve, enhance and reduce the cost to the customer. All of this reduces barriers to entry, increases competition and, back to that concept of demand and supply, the price points will continue to reduce. Review of the data in the Premium volume 2 is that GWP is declining and operating costs are increasing. This is not a sustainable model. As compliance cost increases (just IFRS 9 and 17 alone) insurance companies must find ways to automate to reduce these overheads that add no value to the customer experience.

Therefore barriers to entry will continue to collapse at a faster rate and customer choices will increase. So how are you going to manage your business in this era of Abundance?

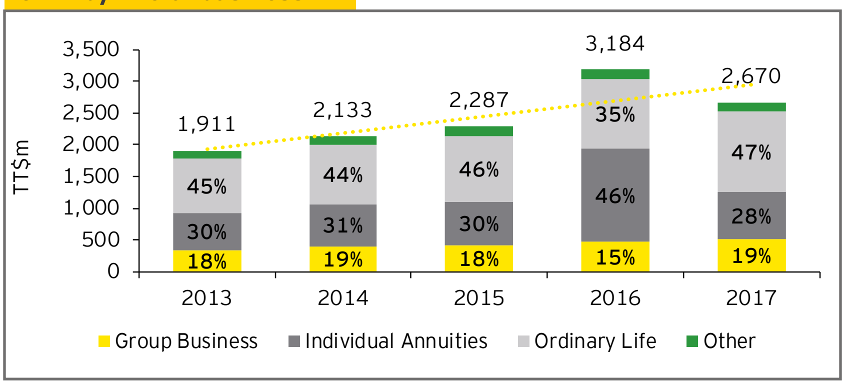
# Life Insurance

## Trinidad & Tobago Insurance Industry

### Industry Overview

2017 GWP has returned to its normal level with a CAGR of 9% over the last 5 years.

**GWP by line of business**



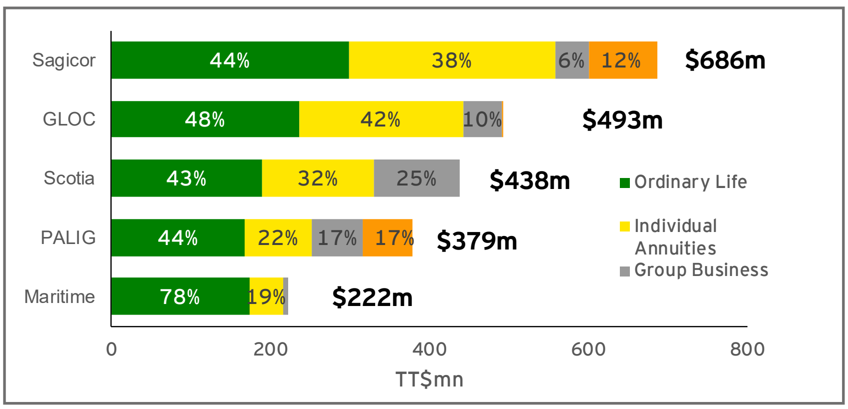

GWP fell from **$3.2bn** in 2016. This is more in line with the GWP of previous years. The abnormally high GWP of 2016 was driven by a one off event that caused an increase in the annuities line of business.

2017 Industry **GWP = $2.7bn**

2017 Industry **NWP = $2.4bn**

* Top 4 insurers by NWP is the same as the Top 4 by GWP. Maritime replaced Tatil Life at 5th position.

**Top insurers (by 2017 GWP)**




The remaining 4 insurers have a combined market share of **16.9%** with GWP totaling **$451m**.

These 5 companies remain the top market players (based on GWP) in the life insurance industry in 2017.

The following shows how their positions have changed compared to 2016:

| | 2017 | | 2016 |
|---|---|---|---|
| Sagicor | 1st | ▲ | 2nd |
| GLOC | 2nd | ▼ | 1st |
| Scotia | 3rd | ▲ | 4th |
| PALIG | 4th | ▲ | 5th |
| Maritime | 5th | ▼ | 3rd |

## Key Industry Ratios

While the Industry ratios for Annuities 2017 appear to have increased significantly from 2016, the 2017 ratios are actually more in line with the years prior to 2016, due to the one off event in 2016.

**78%**

### 2017 Industry Claims Ratio

*2013 to 2016 average was 65%. The 2017 ratio is **13% higher** due to one off annuity claims related to the ArcelorMittal immediate annuities which were established in 2016 and surrendered in early 2017.

**50%**

### 2017 Industry Expense Ratio

**Management Expenses and Commission Expenses*

**105%**

### 2017 Industry Solvency Ratio

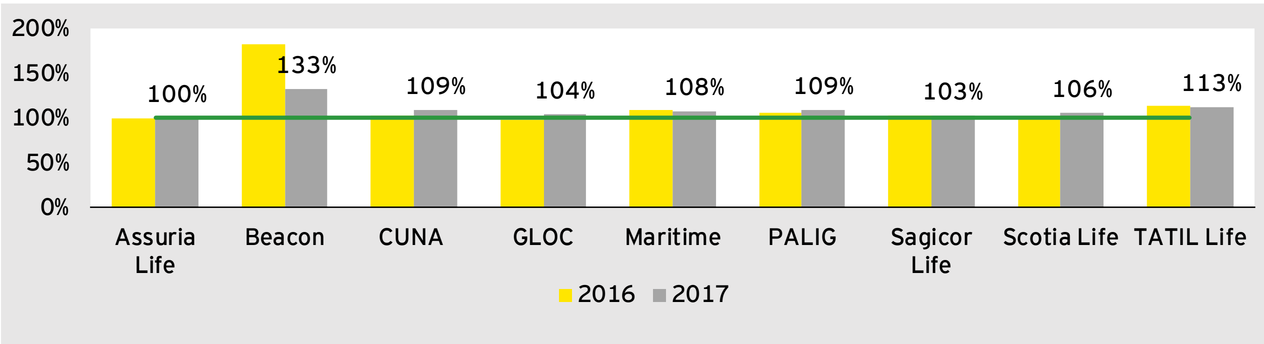
**Admissible Assets as a % of Statutory Fund Requirement*

**Key industry ratios by line of business**

| | Ordinary Life | | Annuities | | Group Business | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Claims ratio | 45% | 40% | 72% | 34% | 39% | 45% |
| Management expenses/GWP | 19% | 22% | 42% | 18% | 19% | 20% |
| Commissions expense/GWP | 17% | 19% | 11% | 5% | 4% | 5% |
| Expenses ratio | 36% | 41% | 53% | 23% | 23% | 25% |

- The expense ratios for Ordinary and Group Business seem to be trending downward, which is a reflection of the current economic downturn in the country.
- It should be noted that most insurance companies use varying allocation methods to assign the expenses to the respective lines of business on the Act Accounts. As such, the allocated expense by each line of business may not be a true reflection of the actual cost incurred specifically to that line of business.


## Solvency Ratio




The solvency ratio is the ability of the company to meet its statutory fund requirement with its admissable assets pledged to the fund. Under the new Insurance Bill (2018), the solvency requirement is to be increased to 150% from 100% based on a risk weighting of its asset portfolio.

## THE SURVEY RESULTS ARE IN!

The Premium **Capital Adequacy**

**Over 80%** of Life Insurance companies stated that they currently either meet or exceed the capital adequacy requirements of **the newly enacted Insurance Bill (2018).**

Of the companies that indicated they **do not** currently meet the requirements, the most popular course of action to meet the new requirements was **raising capital.**

The Premium **Insurtech**

Insurtech refers to the use of technology innovations designed to improve savings and efficiency such as in-car monitoring devices, wearable activity trackers and customer-facing apps.

Over 80% agreed that Insurtech would enhance the company's value chain by offering cost saving solutions via automation machine learning and artificial intelligence.

Over 50% of participants indicated that the main driving force for adopting Insurtech monitoring technologies is to personalize premiums.


## Expenses Overview

Industry Expenses growth was driven by increased Miscellaneous Expenses (a subset of General and Admin expenses) and reduced investment expenses. General and Admin continue to increase despite challenges to the GWP. The industry is not benefitting from scale, which opens the door for disruption.

**$739m**

2017 Total Industry Expenses

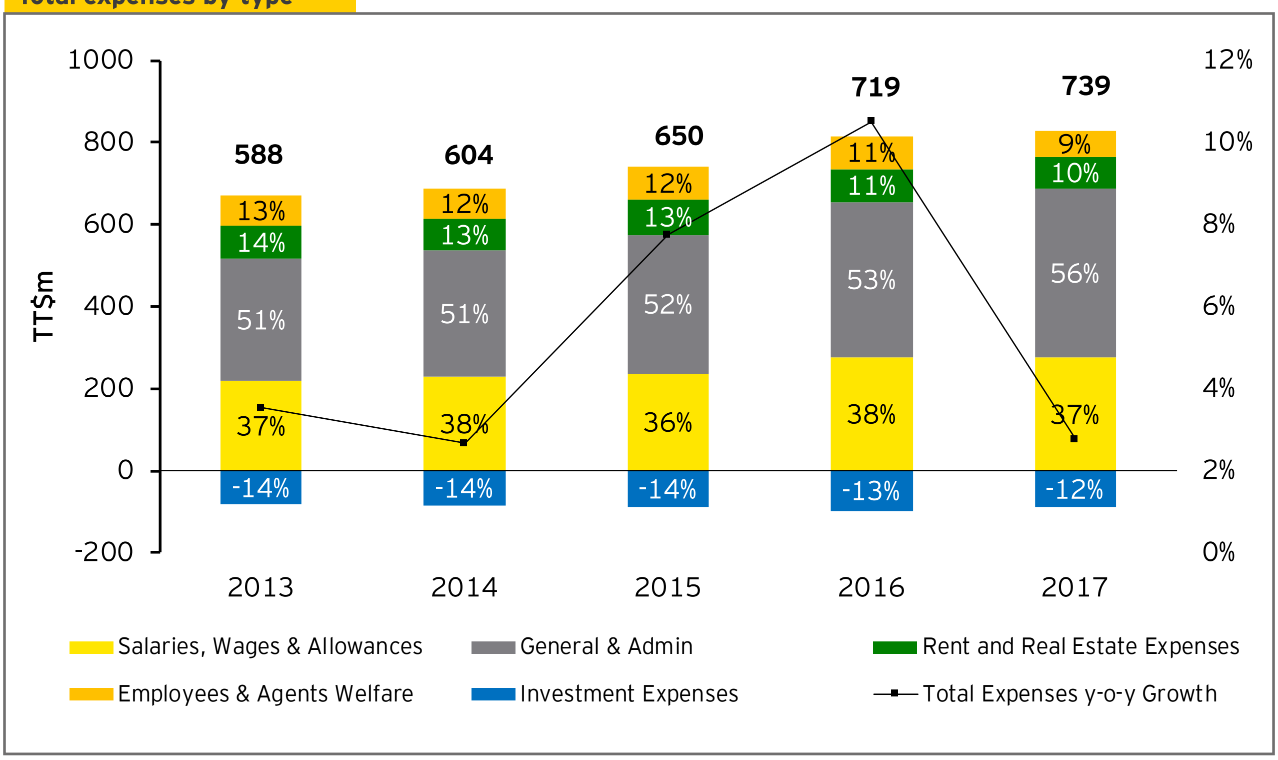
**6%**

Expenses increased at a CAGR of 5% over the period 2013 to 2017

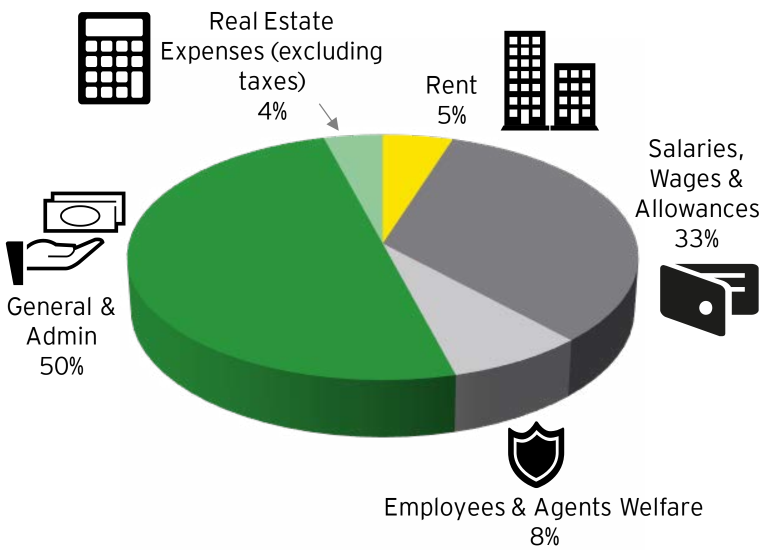
**3%**

2016 - 2017 Expenses Year on Year Growth

**Total expenses by type**




## Expenses Breakdown




Miscellaneous Expenses increased by 24% from 2016 to 2017 with one company contributing 52% of the increase. This may be due to increase in cost due to implementations of new standards, e.g. IFRS 9 and IFRS 17.

**Salaries, Wages & Allowances**

TT$113.63 per $1000 of NWP

TT$451.56 per $1000 of Net Annual Premium

**Salaries, Wages & Allowances = $245m**
**Y-o-Y decline = 1%**

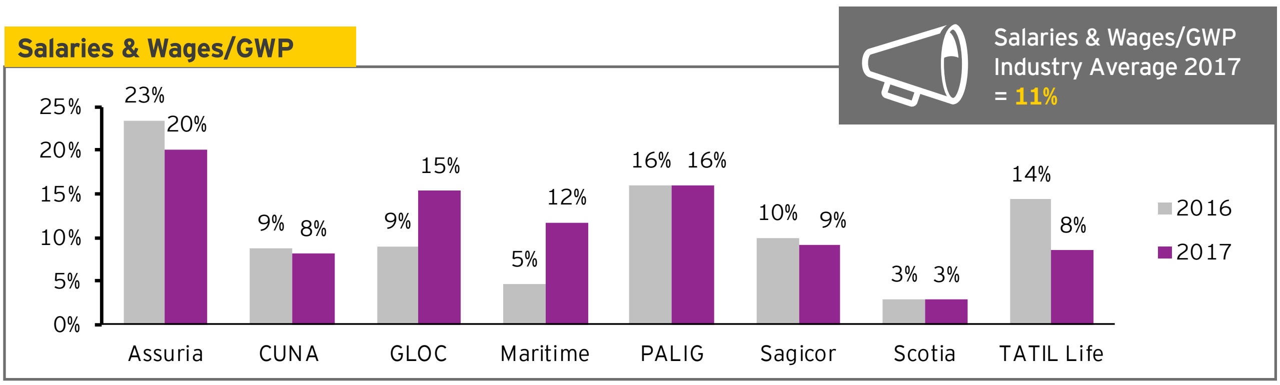
**General and Admin Expenses = $414m**
**(Misc. 88%; Prof & Service Fees 12%)**

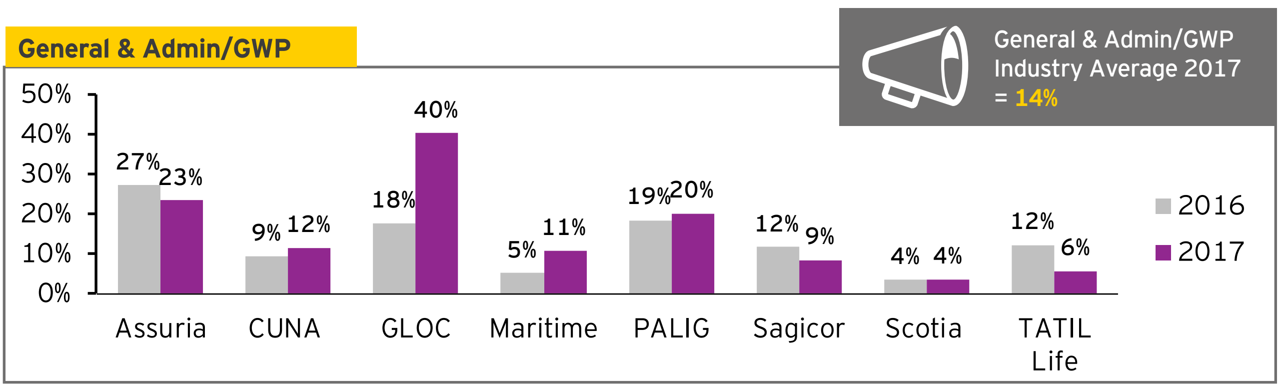
Professional & Service Fees & Expenses, which include Legal fees, auditors' fees, management fees, etc. experienced the largest decrease of all categories (-41%) from 2016.

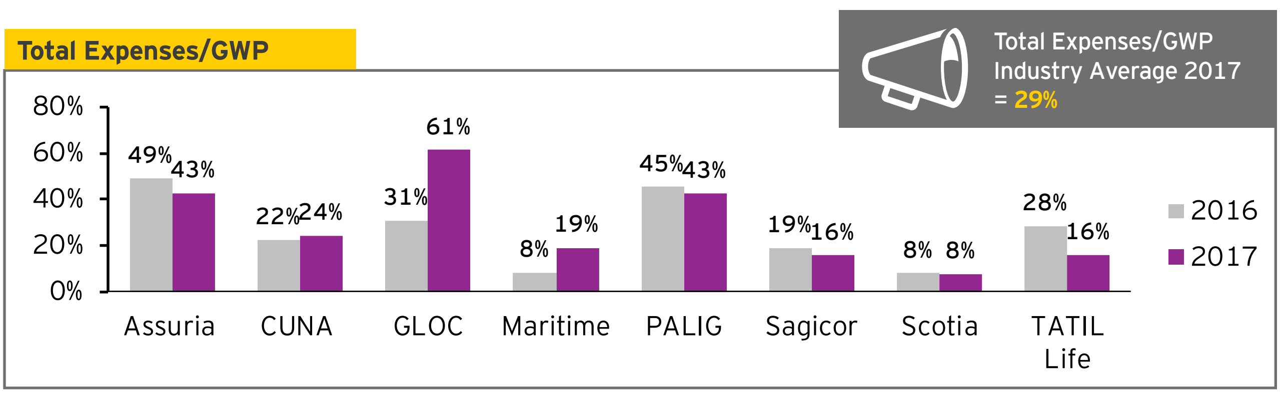
Management and Directors Fees accounted for **37%** of Professional & Service Fees & Expenses and the industry average was **33%** (4 companies were above the average and 4 below).


## Expenses as a Percentage of GWP

GLOC and Maritime both experienced large increases due to significant decreases in GWP (-45% and -60% respectively). This relates specifically to the one off event in 2016, which affected these two companies.



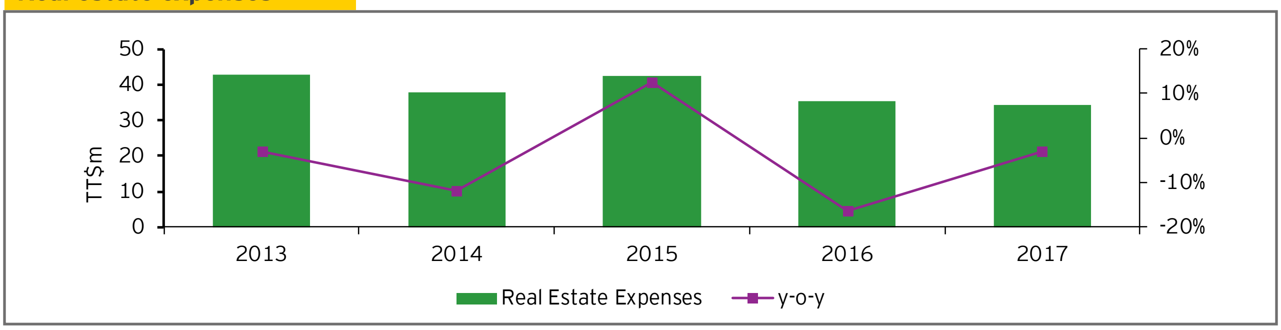




CUNA Insurance operates similar to an agency model in Trinidad and receives the majority of its business from CUNA's credit union line of business. ScotiaLife operates under the Scotiabank umbrella, where staff are paid a salary rather than commissions and some expenses are shared with the Scotiabank via a shared service agreement. Both of these companies provide mostly group policies rather than individual policies, therefore their acquisition and maintenance costs are expected to be lower than their competitors.


## Real Estate Expenses

Over the past 6 years, the distribution of the expense sub-categories as a percentage of total expenses remained fairly constant. The most significant change was a noticeable decrease in Real Estate expenses from 7.3% of total expenses in 2013 to 4.7% in 2017.

**Real estate expenses**




**Real Estate Expenses**


TT$14.24 per $1000 of NWP


TT$26.90 per $1000 of Net Annual Premium

**Rent Expenses**


TT$16.94 per $1000 of NWP


TT$32.71 per $1000 of Net Annual Premium

As expected, maintaining real estate is less expensive than renting property. However, it's interesting to note that real estate and rent in Trinidad is over 90% cheaper than the US.

### THE SURVEY RESULTS ARE IN!


## Policies in Force and Sums Assured

Total sums assured increased over the period despite decreasing GWP over the same 5-year period.

| New policies in force | | | | |
|---|---|---|---|---|
| 2013 | 2014 | 2015 | 2016 | 2017 |
| 66k | 60k | 65k | 61k | 57k |

| Sums assured – TT$bn | | |
|---|---|---|
| Line of business | 2017 | 2016 |
| Ordinary Life | $85.4 | $77.2 |
| Group Business | $53.6 | $47.0 |
| Annuities | $1.6 | $1.7 |
| TOTAL | $140.6 | $125.9 |

2017 Industry Policy Retention Ratio = 90%

**$253.5k**

Average Sums Assured to Total Policies for Ordinary & Term Life LOB ($237.7k - 2016)

**12%**

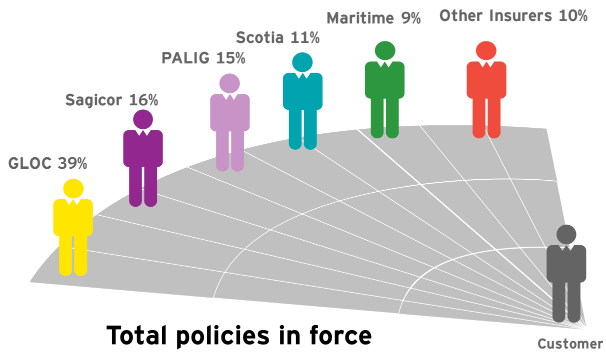
2017 Y-o-Y Growth for Sum Assured

**$3.3k**

GWP to Total Policies for Annuities LOB ($3k average historically)

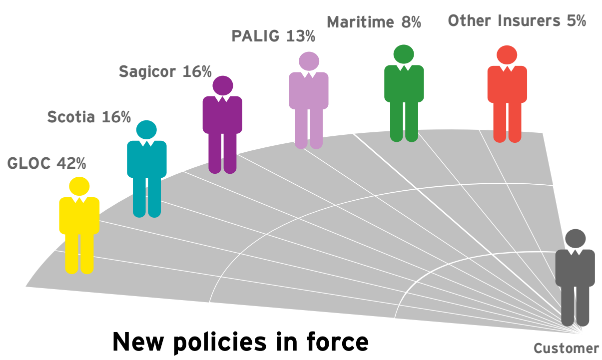

## Policies in Force and Sums Assured

### Top 5 Insurers (2017 Total Policies In Force)




**Total policies in force**
**2017: 565k**
**2016: 555k**

### Top 5 Insurers (2017 New Policies In Force)




**New policies in force**
**2017: 57k**
**2016: 61k**

No movement in top 5 rankings in 2017

## THE SURVEY RESULTS ARE IN!

The Premium **Reinsurance**

Despite the foreign currency shortage, **over 80% of Life Insurance companies** indicated that their reinsurance payments were always on time, with the rest indicating that theirs were no later than 3 months.

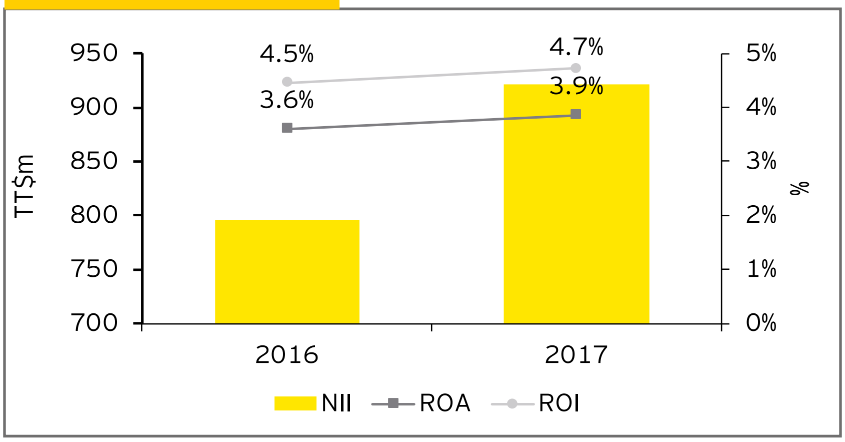
Given the changing global climate and recent natural disasters in the region, 100% believe that their **reinsurance premiums will increase.** However, two thirds have not yet seen any changes while the rest are already experiencing increases in premiums due to risk assessments.

Fortunately, **83%** stated that their claims are **always** covered in a timely manner with the rest saying that their claims are **usually** covered in a timely manner.


## Net Investment Income

Growth in NII was driven mainly by one company (GLOC) which accounts for 50% of this increase.

**Net Investment Income**




**$922m**

2017 Industry Net Investment Income

**9%**

NII increased at a CAGR of 9% over a 5 year period (2013-2017)

**16%**

2016 to 2017 NII Year on Year Growth

**Top Insurers By Net Investment Income**

| | Company | NII % of GWP | ROI | ROA |
|---|---|---|---|---|
| 1 | GLOC | 73% | 4.6% | 3.8% |
| 2 | TATIL Life | 48% | 5.8% | 5.0% |
| 3 | Assuria | 31% | 5.2% | 3.1% |
| 4 | Sagicor | 31% | 5.3% | 4.6% |
| 5 | Maritime | 28% | 4.2% | 2.9% |


## Net Investment Income

**5%** 2017 Industry ROI

**4%** 2017 Industry ROA

The current Insurance Act limits foreign investments to 20%, i.e. the majority of investment is local. The yield on a **20 year fixed bond was 5.48% in 2017** and the average **return on equities was 4.7%** in 2017. Since at least 80% of investments are local, this could account for the average 5% industry ROI in 2017.

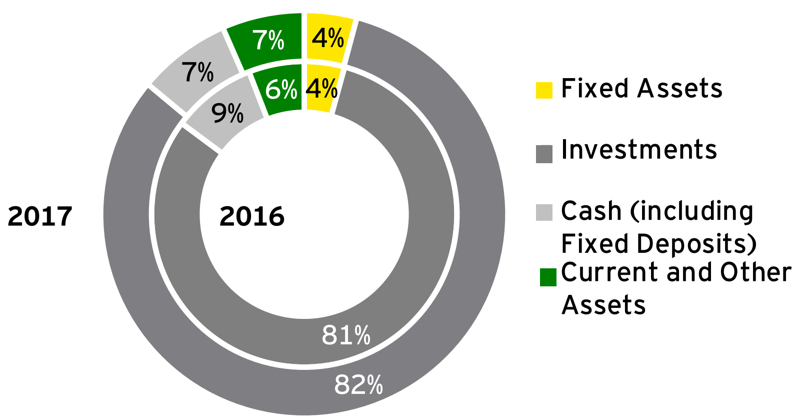
For comparison, the yield on a similar United States Treasury Fixed Income 20 year bond in 2017 was 2.58%. While local investments may be limited, the returns are higher than investing in foreign bonds.

Under the new Insurance Bill, the limit of local investments would be reduced to 75%. Therefore, we may see a shift in the industry's investment composition and returns in the future.


## Assets and Liabilities

Total Assets and Liabilities both increased by 8% from the previous year, while the compositions of both have remained fairly constant year on year.

**2017 Assets Composition**




Total Assets 2017 = **$23.9bn**

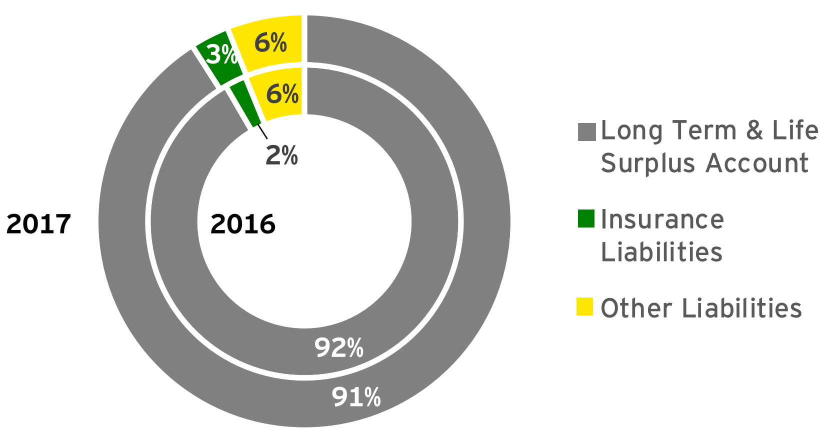
$22.1bn

2016 Total Assets

7%

Total Assets increased at a CAGR of 7% over a 5 year period (2013-2017)

**2017 Liabilities Composition**




Total Liabilities 2017 = **$20.5bn**

$19bn

2016 Total Liabilities

6%

Total Liabilities increased at a CAGR of 6% over a 5 year period (2013-2017)


## Assets and Liabilities

| 2017 Net Assets Rank | | | | | |
|---|---|---|---|---|---|
| **2017 Rank** | **Company** | **2016 Rank** | **Movement** | **TT$mn** | **% Of Total Industry** |
| 1st | GLOC | 1st | - | 737 | 21.6% |
| 2nd | Sagicor | 3rd | ▲ | 719 | 21.1% |
| 3rd | TATIL Life | 2nd | ▼ | 700 | 20.5% |
| 4th | Maritime | 4th | - | 426 | 12.5% |
| 5th | Scotia | 6th | ▲ | 364 | 10.7% |
| | Rest of the Market | | | 465 | 13.6% |
| **Total** | | | | **3,412** | **100%** |

Total Net Assets in the industry increased from **$3.1bn** in 2016 to **$3.4bn** in 2017. Four of the top 5 players increased their net assets from 2016, including TATIL Life despite moving out of the 2nd place position. The above top 5 players account for more than **86%** of Total Net Assets in the industry for 2017 – a marginal decline of 1% from the previous year.

**1.2 : 1**

2017 Total Assets to Total Liabilities

**85%**

2017 Admissible Assets/Total Assets

The total assets to total liabilities ratio illustrates the enhanced coverage of assets to liabilities and the safety level in the event of decreased asset values.

The continued improvement in the admissible assets/ total assets over the past few years - from 78% with Admissible Assets of $14.1bn to 85% with Admissible Assets of $20.2bn over the last 5 years - is indicative of the industry preparing to meet the requirements under the new Insurance Bill (2018).

# Ratios and Metrics

| General/Life | Ratio | Calculation |
|---|---|---|
| General | Retention Ratio | Net Written Premiums (NWP)/Gross Written Premiums (GWP) |
| General | Loss Ratio | Net Claims (plus change in claims reserves)/Net Earned Premiums (NEP) |
| General | Expense Ratio | Management Expenses plus Commission Expenses/NEP |
| General | Combined Ratio | Loss Ratio plus Expense Ratio |
| General | Safety Ratio | Claims Outstanding/Total Capital & Reserves |
| General | Solvency Ratio | Net Assets/NWP |
| Life | Solvency Ratio | Admissible Assets/Statutory Fund Requirement |
| Life | Claims Ratio | Net Claims (plus change in claims reserves)/GWP |
| Life | Expense Ratio | Management Expenses plus Commission Expenses/GWP |
| Life | Policy Retention % | Policies retained (previous year's total policies less terminated policies)/current year total policies |

| Other Metrics | |
|---|---|
| General/Life | Net Investment Income as % of Investment Assets |
| General/Life | Net Investment Income as % of Total Assets |
| General/Life | Admissible Assets as a % of Total Assets |
| General/Life | Total Assets to Total Liabilities |
| General | Underwriting Profit — As per ATTIC Statistics/Calculation — Underwriting Profit is calculated as Underwriting income (Net Earned Premium + Reinsurance Commissions) minus Underwriting Expenses (Net Claims + change in claims reserves adjustment in the P&L + Commissions Paid) |
| General | Underwriting Profit Margin – underwriting profit as a % of NWP |
| General | Salaries & Wages as % of NEP |
| General | General & Admin. Expense as a % of NEP |
| Life | Salaries & Wages as a % of GWP |
| Life | General & Admin. Expenses as a % of GWP |
| General/Life | Rent Expenses per $1000 of Net Written Premium (used to benchmark against US metrics) |
| General/Life | Real Estate Expenses per $1000 of Net Written Premium (used to benchmark against US metrics) |
| General/Life | Salaries, Wages & Allowances per $1000 of Net Written Premium (used to benchmark against US metrics) |

# Limitations

While every effort was made to ensure consistency among the companies, certain variations do exist which directly impact the comparability of the data from company to company. The following are some key areas where variations and/or gaps may exist and thus should be carefully considered before drawing any conclusions.

### Accounting policies

While in most cases, International Accounting Standards (IFRS) are used for statutory financial reporting purposes, the companies may adopt different accounting policies which will not always be consistent with each other.

Companies have adopted different accounting policies with respect to the valuation of investments and the recognition of investment gains and losses in their financial statements.

The Act accounting policy is in compliance with the Insurance Act (1980) and will not be comparable to IFRS accounting policy. Therefore results from individual companies' annual reports and ratios may be different from that illustrated in this magazine.

### Allocation methods

Insurance companies are required by the Insurance Act to report their expenses by line of business. Most insurance companies use varying allocation methods to assign the expenses at their discretion. As such, the allocated expense reported by each line of business may not be a true reflection of the actual cost incurred specifically to that line of business.

### Policies in Force & Sums Assured

There was a major gap in the Policies in Force and Sums Assured information where a key General insurance market player's data was not provided for the 5 years. As such, observations on the overall trend in the industry were illustrated; however, detailed trend analysis could not be performed.

### Valuation of liabilities

The Life insurance companies employ different actuarial methods for the valuation of insurance liabilities and there are also differences in the degree of conservatism and prudence used in the valuation assumptions. The same would apply to General insurers with respect to the establishment of reserves, where varying levels of conservatism result in significantly different results.

### Use of estimates

The preparation of financial statements, used to produce the Insurance Act's accounts, in conformity with International Accounting Standards requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.


## Acknowledgements

We take this opportunity to thank those who have displayed dedication and commitment to the production of this year's edition of the Premium magazine.

The quality of this report reflects the hard work of the team and to all of you, we express our sincerest thanks. Special mention must be made to the efforts of Charissa Rahaman, Luzanne Fadahunsi, Christopher Chung, Noah Furlonge-Walker, Christian Matouk, Janine Navarro and Kristy Joseph.

# Appendix

| General Insurance Company Listing | |
|---|---|
| Bankers | Bankers Insurance Company of Trinidad and Tobago Limited |
| Beacon | Beacon Insurance Company Limited |
| COLFIRE | Colonial Fire & General Insurance Co. Ltd. |
| Furness | Furness Anchorage General Insurance Ltd. |
| GGIL | Guardian General Insurance Ltd. |
| Gulf | Gulf Insurance Company Ltd. |
| ICWI | Insurance Company of the West Indies |
| Massy | Massy United Insurance Ltd. |
| Nagico | Nagico Insurance Company (Trinidad) Ltd. |
| Presidential | Presidential Insurance Company Ltd. |
| Sagicor | Sagicor General Inc. |
| Maritime | The Maritime Financial Group |
| New India | The New India Assurance Co. (T&T) Ltd. |
| TATIL | Trinidad and Tobago Insurance Ltd. |
| TRINRE | TRINRE Insurance Company Limited |

| Life Insurance Company Listing | |
|---|---|
| Assuria | Assuria Life T&T Limited |
| Beacon | Beacon Insurance Company Limited |
| CUNA | Caribbean Insurance Society |
| GLOC | Guardian Life of the Caribbean Limited |
| Maritime | The Maritime Financial Group |
| PALIG | Pan American Life Insurance Group Limited |
| Sagicor | Sagicor Life Inc. |
| Scotia | Scotia Life (T&T) Limited |
| TATIL | TATIL Life Assurance Limited |

- Beacon was not included in the Expenses Analysis for Life Insurance (expenses not separated for Life and General)
- U.S. benchmarks are for comparison purposes. U.S. data represent a similar sized life insurance industry by Net Annual Premium/Net Written Premium in the United States of America. Dollar values are taken per $1000 of Net Annual Premium. U.S. data is sourced from an international EY Benchmarking tool, from which the most current data available is for 2016.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