

Ewart S Williams: The importance of adequate capitalisation in the insurance industry

Remarks by Mr Ewart S Williams, Governor of the Central Bank of Trinidad and Tobago, at the signing agreement between Guardian Holdings Limited and International Finance Corporation, Port-of-Spain, 1 December 2010.

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I wish to congratulate Guardian Holdings Limited on the consummation of this very significant relationship with the IFC. This new partnership should not only strengthen GHL's balance sheet, but should redound to the benefit of the public by increasing the availability of insurance products to markets that are not currently well-served and in this list, I include, small businesses, micro-finance institutions and agribusinesses.

Over the past several months the insurance industry has been overrun by a chorus of bad news involving institutions in which the Central Bank has intervened. Unfortunately, even with its potential for contagion, the current turmoil obscures an insurance industry with tremendous strengths and resilience. The subsidiaries of the Guardian Holdings Group are an integral part of this structurally strong and resilient insurance sector.

Since its establishment in June 1996, the Guardian Holdings Group has blossomed into an integrated financial services entity, covering life, health, property and casualty insurance, pensions and asset management. GHL has spread its wings throughout the English and Dutch Caribbean and is now listed on both the Trinidad and Tobago and Jamaican Stock Exchanges.

Guardian Life, the flagship company of the Group is a major player in the life insurance sector accounting for 38 per cent of the **market's contract liabilities**. Guardian General has become the region's largest indigenous property and casualty insurance company. As the largest general insurance company in Trinidad and Tobago, Guardian General holds 26 per cent of market share and 21 per cent of total assets of the sector.

Among the many best-practices adopted by GHL is the annual review by A.M. Best to assess the financial strength of its insurance subsidiaries and to ensure that the companies are in a position to meet their obligations to policyholders.

In June 2010, A.M. Best gave a rating of A- (excellent) for the financial strength of both Guardian Life and Guardian General. According to Best, the excellent rating reflected GHL's improved balance sheet, the decline in total debt and lower intangibles following the write-off of goodwill related to its European property and casualty operations, and its adequate level of risk adjusted capitalization. In the case of GGIL, the ratings were due to the support and commitment of the parent company (GHL), its historical profitability and its **adequate capitalization**.

You would notice the words "**adequate capitalization**" featuring in both cases. These words add even greater significance to the agreement we celebrate today. If my understanding is correct, the IFC's investment of US\$75 million involves a conversion of US\$ 50 million of subordinated debt into equity, with the balance being an injection of new capital. As a result of the transaction shareholders' equity in GHL will be increased by close to \$400 million.

The IFC's decision to partner with GHL through equity participation demonstrates its tremendous confidence in the local financial services industry, despite the challenges the sector currently faces. GHL, in turn, is expected to benefit from IFC's considerable expertise and its association with a strong reputable partner, which has funds available for follow-up investments.

From our vantage point, as regulator, this agreement sends precisely the right message to the insurance industry, and that is, ***the importance of adequate capitalisation***. As you may (or may not know), with our legislation dating back to 1966, we are one of the few jurisdictions in the world that do not have robust capital requirements for the insurance industry. Without doubt, this deficiency contributed greatly to Clico's problems. Adequate risk-adjusted capital would not only have provided a buffer to absorb losses but moreover, would have acted as a dis-incentive to risk-taking since the greater the risk, the greater would have been the need to allocate scarce resources to capital.

I am pleased to say that the Bank is well advanced in the development of a new legislative framework for the Insurance industry. This new framework will include a ***robust risk-based capital regime, a standardized actuarial methodology, tighter prudential arrangements***, enhanced corporate governance and regulatory and supervisory practices, consistent with international best practices.

Fortunately some insurance companies, including Guardian Life and Guardian General should be able to adapt easily to the new regulatory structure since they have already patterned their operations in order to meet higher standards.

Ladies and Gentlemen, the Central Bank is very pleased to demonstrate its strong support for GHL's capital raising initiative. It is an added bonus that GHL's partner in this transaction is a progressive reputable global development institution with deep pockets. This partnership should bring significant benefits to the financial services industry in Trinidad and Tobago, and the Caribbean.