



The Saint Vincent & the Grenadines National Insurance Services

ANNUAL REPORT 2020

“Protecting you in
uncertain times”



Mission

To provide sustainable social security and to promote social and economic development in St. Vincent and the Grenadines through prudent financial and people-centered management.

Vision

To be an institution that recognizes, assesses and responds to changing environmental trends and provides sustainable Social Security that adequately reflects our value system and satisfies our customers' needs.



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SERVING BECAUSE WE CARE



Minister's Review

HON. CAMILLO M, GONSALVES

Minister with responsibility for National Insurance

- **Introduction**
- **The NIS' response to Covid-19**
- **Recommended Actions**

Introduction

2020 was indeed a challenging year for St. Vincent as the Grenadines, just as it was for the world still suffering from the health, economic, social, and psychological consequences that COVID-19 caused. Its impacts are still deepening day by day. The harsh reality is that the number of infections and deaths keeps increasing, the economy of St. Vincent and the Grenadines (SVG) has shrunk, unemployment rose in some sectors, particularly in the tourism and hotel sectors, and thus caused the vulnerable workers in those sectors to be displaced, and to suffer income loss, albeit temporarily. For instance, the pandemic posed enormous challenges for the NIS and it also imposed on its multiple roles regarding the NIS' mandate "to provide sustainable social security and to promote social and economic development in St. Vincent and the Grenadines through prudent financial and people-centred management." In this context, I, as the Minister with

responsibility for Social Security (National Insurance Services - NIS), wish to craft my review for the 2020 fiscal year. This pandemic has created exceptional duties for the Government and critical institutions such as NIS, CWSA, VINLEC, financial institutions, and other institutions that ensure social and economic stability.

NIS' Response

So, what has the NIS done to contribute to mitigating the effects of the pandemic? Were the measures effective, and which groups did they include, and did they include all those who should have been helped? Have these measures affected the finances of the NIS, and does the NIS need to create new funds to confront such pandemics that may emerge, and more than that, what can the NIS do to meet future catastrophes and to ensure that all persons within the stipulated thresholds are covered for social security, in St. Vincent and the Grenadines? The report will address questions 1 and 2 at this juncture. The

recommendations will address the others as the NIS seeks to create a sustainable future in St. Vincent and the Grenadines.

maximum of 13 weeks in the first instance. This was indeed a commendable initiative when one considers that the temporarily displaced workers were afforded similar status to the NIS minimum pensioners who are bona fide recipients under the NIS Act Cap 296 in the revised Laws of St. Vincent and the Grenadines. The total amount paid out in unemployment benefit was approximately \$2.3m to 1,354 recipients.

In addition to the unemployment benefit, the NIS also administered the Government Displacement Income Supplementary Program. This program touched and protected over 1,761 families in the hospitality sector and 1,194 seafarers. The seafarers were defined as the missing middle that had neither social insurance nor social assistance coverages from the pandemic.

Besides those economic/financial adjustments, The NIS worked with the Government of St. Vincent and the Grenadines to fulfil its social mandate by injecting ECD

The NIS injected ECD\$750,000.00 into the construction of a new Covid-19 isolation facility at Argyle.

\$750,000.00 to assist with the construction of a new isolation facility at Argyle. This facility, among other things, afforded an expanded quarantine facility for persons gravely affected by COVID-19 who needed to be quarantined away from their homes. This gesture by the NIS attests to their commitment to the health and well-being of Vincentians and its desire to minimize the impact of COVID-19 in our context. Significantly also, the NIS readily adhered to the protocols instituted by the Ministry of Health and the Environment for the safety of their employees and the general public by practising social distancing, installing temperature checkpoints, installing dispensers and other equipment for handwashing. They also required that anyone entering the building should be fully masked.

1. What has the NIS done to help mitigate the pandemic's effects?

2. Were mitigating measures effective, who did they target and were the most vulnerable groups assisted?

In response to questions 1 and 2, I am pleased to submit that the NIS was the first respondent to the plight of the displaced workers who suffered economic and financial fallout in this pandemic. As soon as the NIS became aware of what was happening to the vulnerable workers in the affected sectors, the NIS worked collaboratively with the Government of St. Vincent and the Grenadines to develop

and implement a rapid and dynamic response to the COVID-19 pandemic. Specifically, the NIS Board directly contributed to the Government's efforts to combat the disease. Additionally, the NIS adapted to provide expanded access to income support payments by amending its legislative framework to provide an important unemployment emergency benefit to the people who were directly displaced as a result of the pandemic. For ease of reference, I wish to share the stipulated eligibility criteria that were put in place to facilitate the payment of this benefit:

The unemployment benefit applicants had to demonstrate that:

- They were currently insured under the NIS. They had not yet reached pensionable age.
- They were laid off or terminated not earlier than 1 March 2020.
- Their stoppage of earnings was related to the COVID-19 pandemic.

Persons meeting the stipulated eligibility criteria received \$ 75.00 per week for a

I am pleased to state that although these initiatives incurred an additional unforeseen cost to the NIS, they were well needed to support the vulnerable population. The NIS is a well-managed financial institution poised to handle contingencies of this nature. However, the Government would continue to provide the enabling environment, including legislative support for pension reform, to ensure the financial viability of this noble institution.

Recommendations

Social security (National Insurance in the Vincentian context) suggests and encourages self-reliance and support for people who cannot fully support themselves by providing sustainable social security payments and assistance to contributory and non-contributory individuals as stipulated in its Principal Act and subsidiary legislation. Notwithstanding, there are some persons who are not included in the safety net either by choice, employers' non-compliance, and some because of the age stipulations. Although the NIS is cognizant of these challenges and omissions from the system as it currently stands, the NIS is working assiduously to contribute to stronger and more resilient individuals, families, and communities by providing targeted services and initiatives. Following this pandemic, the NIS will adopt even stricter measures to expand the safety net as a part of its future orientation. As Minister with responsibility for Social Security, with the full understanding that the independent Actuary, Board and Management would advise the Government on the sustainable pathways of the social security system, I will share the following ideas for considerations:

- Updating the legislation and enforcing compliance for employers who are still circumventing their fiduciary responsibility to their employees. Part of the adjustment to the legislation should include reforming the social protection systems to make it mandatory for all workers in the informal sector, craftsmen,

agricultural, and fisherfolks to be covered (Self-employed legislation must be enacted).

- The Benefits legislation should include an unemployment component not exceeding six months.
- Support for people with disability irrespective of whether they are currently on the NIS' Invalidity pension plan. This should be extended to persons with special needs and who are differently-abled.
- The existence of an integrated, efficient, and effective social protection system, operating under one umbrella, with clear policies that do not exclude anyone. To make this integration a reality, Government, through the NIS, must engage civil society organizations (such as Soroptimists International Club (local chapter), Rotary Club, Lion's Club, religious organizations who are currently involved in humanitarian activities) and the private sector; to break out of the traditional role of providing services and in-kind assistance to a more significant role in monitoring, developing, and influencing policies in various sectors, such as health and service. In that way, it becomes more fair, qualitative, and comprehensive on a human rights basis that is both fair and transparent.
- The Government should partner with the NIS to establish a special emergency fund (granted that the NIS is a fiduciary to the persons whose funds they hold in trust), to deal with pandemics and disasters of all kinds. This emergency fund will create new funds to confront such pandemics that may emerge in the future.

Conclusion

In closing, I wish to commend the NIS for its continued commitment to social, economic, and sustainable development in St. Vincent and the Grenadines. As the largest mobilizer of funds in St. Vincent and the Grenadines, the NIS has consistently demonstrated its understanding of what effective partnership entails. I can state categorically that the Government of St. Vincent and the Grenadines has never made any unreasonable demands

on the coffers of the National Insurance Services. The Government understands quite well that all investments of the NIS must be undertaken prudently and with the requisite due diligence. To this end, the Government has always been cautious in making demands on the NIS. However, in crisis situations such as the COVID-19 pandemic, which has created unforeseen challenges, it is reasonable for all statutory bodies, the private sector, and NGOs to collaborate and accept exceptional responsibilities to alleviate the economic hardships to the poor, the marginalized, and employees who fall on the edge. In this regard, the Government is pleased to acknowledge the sterling contribution that the NIS has made by providing cash and in-kind assistance through its temporary unemployment benefits provision and its contribution to the quarantine facility.

I take this opportunity to thank the Board of Directors and staff of the National Insurance for their herculean efforts and support in national development, and I look forward to their continued support as we forge ahead to make social protection a priority for all citizens in St. Vincent and the Grenadines. Thank you.



Hon. Camillo M. Gonsalves
Minister with responsibility for
National Insurance

Protecting You in Uncertain Times



Chairman's Message

MR. LENNOX A. BOWMAN

Chairman, NIB

- **Introduction & Operating Environment**
- **Investment Governance & Management**
- **Corporate Governance**

1.0 Introduction and Operating Environment

I am pleased to present to you the Chairman's review for the financial year ended December 31, 2020. The year started fragile and uncertain. The world, of which St. Vincent and the Grenadines (SVG) is an integral nation, continued to grapple with the health, economic, and social emergencies caused by the COVID-19 pandemic. The adverse impact of the pandemic on the national economic and social activities in SVG had implications on the performance of our institution, the National Insurance Services (NIS). We incurred unforeseen cost escalations as we adapted our system to cope with the pandemic. Specifically, the NIS introduced a temporary unemployment benefit to its offerings to accommodate displaced workers in all sectors except the tourism and hospitality sectors. The Government protected these sectors by expanding its safety net programs.

In this report, I wish to apprise stakeholders of two important strategic priorities of the Board that are essential to improve the dynamism and sustainability of our social security system. The priorities of prudent investment management and strong corporate governance are worthy of elaboration within these times of tremendous uncertainties and unmatched vulnerabilities.

2.0 Investment Governance and Management

Notwithstanding the challenges of COVID-19, the Board, through its Investment Committee, was cognizant of its role to prudently manage current investments of the NIS' funds. We continually monitor existing investments to realize meaningful and sustainable returns, while at the same time maintaining the real value of the assets and providing the liquidity needed to meet the NIS' current and future obligations. Given the critical nature of the Investment

Fund to the sustainability of the NIS, the Investment Committee reviews its investment policy periodically to keep up to date with economic developments, seize investment opportunities, and maintain international best practices in the Management of the NIS pension funds. These reviews focus on investing the NIS' funds in ways that are still realizing the returns needed to meet future obligations towards our members under the safety net within acceptable risk levels, while simultaneously contributing to economically feasible investments that realize meaningful returns and enhance economic growth nationally. To assist the Board in maximizing its returns on the fund and fulfilling its future obligations, the Board invests responsibly, works professionally, and adopts best international practices and performance indicators.

It is important to appraise our stakeholders of the Pillars of the investment policy:

1. Liquidity

The NIS manages investments within specific liquidity bands to ensure appropriate asset/liability matching and maximizing returns.

2. Yield

The income on the investment portfolio over time, typically expressed as a percentage.

3. Safety

Ensuring that the investment is not risky, but that it protects the NIS' capital and preserves its ability to earn and to buy more investments.

4. Social Utility

This is a part of the NIS' corporate social responsibility, where it invests in projects that will improve the social, economic, and environmental wellbeing of the larger Vincentian society.

It is also instructive to apprise our stakeholders that the duties of the Investment Committee

"It is also instructive to apprise our stakeholders that the duties of the Investment Committee are enshrined in the NIS' statutory rules and orders."

are enshrined in the NIS' statutory rules and orders. Among other things, the Investment Committee is charged with the responsibility of:

- Developing the general investment policy and submitting it to the National Insurance Board for approval.
- Drawing the overall investment plan of NIS funds and submitting it to the National Insurance Board of Directors for ratification.
- Overseeing the implementation of the NIS' investment policy, drawing the plans and programmes needed for this, and follow-up on the implementation of the policy. Make the investment decisions necessary for implementing the NIS' investment policy and

overall investment plan in accordance with the provisions of the National Insurance Legislation and regulations issued pursuant thereto. Accordingly, the NIS Investment Committee continues to ensure that the NIS assets are invested in various investment instruments that include money market instruments, bonds, stocks (public and private), loans, real estate to reduce the correlation between the portfolio's assets, which mitigates investment risks. Attention is also paid to geographical diversity, so the foreign investment is also undertaken.

3.0 Corporate Governance

The National Insurance Board realizes that the NIS operates in a complex environment, which demands robust governance arrangements. This consciousness propels the Board to

maintain sound organizational and business practices as an integral part of promoting accountability and efficiency in the operations. The principles which serve as the foundation for the NIS' robust governance structure are openness and transparency, effectiveness and efficacy, integrity and accountability, solid and ethical decision making, strategic thinking, and working with agility. Consequently, the Board continues to implement a number of initiatives towards maintaining the highest standards of governance in the Management of the social security system. To strengthen the governance framework, the following initiatives and programmes were given pride of place on the Board's agenda amidst the threat and deepening of the COVID-19 pandemic.

External Audit

The external Audit was conducted in accordance with the standards and requirements established in the legislative framework. The report detailing the audit findings and action plans to respond to such results were submitted to the Audit Committee and the Department's top Management. They took the necessary corrective actions to address identified deficiencies. The Audit report was also presented to the Minister of Social Security and Cabinet to be laid in Parliament as stipulated in the legislation.

Training and Development of Board members

The NIS has a diverse Board representing the composition as mandated by CAP 296 of the Laws of SVG. Notwithstanding that Members of the Board have a range of skills and experience, and each brings an independent judgment and considerable knowledge to the Board's discussions, the Management of the NIS, always seeks opportunities to expose the board members to training and development opportunities in pertinent areas such as risk management, health and safety, Human resource management, auditing, information technology among other things. This initiative is hinged on the fact that the

Board's roles include, among other things, approving and adopting strategic plans and annual budgets, setting objectives, reviewing key risks and performance areas, determining overall policies and processes to ensure the integrity of the NIS' management of risk and internal contracts; and review Management's performance against approved budget.

Regular meetings of the National Insurance Board and sub-committees of the Board

The full Board meets at least once per month. The Board members are given appropriate and timely information to maintain full and effective control over strategic, financial, operational and compliance issues. The Board Committees, comprising Audit, Risk, Human Resources, Procurement and ICT Governance Committee meet at least once per quarter. The Board and its Committees fulfilled that mandate in 2020.

Strengthening the internal risk management function at the NIS

The NIS adopts a three-line of defence risk model in its risk management function. In the review period, the Board buttressed its internal risk management function by providing strategic guidance and resources for Management to recruit suitable candidates for the Internal Audit department, the Investment Unit, and the Risk Management Unit. These departments have specific responsibilities for overseeing the process for managing enterprise risks, providing support and advice in applying the risk management framework across all departments, and providing objective advice that enhances NIS' organizational risk management and assurance capabilities.

Internal Control

In addition to the foregoing, a Procurement Committee is in place to ensure that proper accountability measures are in place to support any major procurement undertaken by the NIS. Due process must be followed before any transaction is undertaken.

Fashioning appropriate policies to ensure operational efficiency

Management Information: The current IT system is limited in the amount of management information to support operational activities. To mitigate this risk, the NIB will oversee the implementation of a new IT System. The NIS needs a sophisticated, integrated and scalable Management Information System that enhances the NIS' agility and resilience in providing social security services. There is still too much of a manual system for collating information and dealing with simple financial transactions. This has the effect of reducing the effectiveness of some of the controls in place. The Board is working assiduously to correct this by undertaking further system development. The time has come for the NIS to launch a Business Intelligence Reporting Tool and to monitor its operations with top-of-the-line technological business intelligence systems strategically. Steps will be taken to upgrade all other policies to ensure they are current and in keeping with best international practices.

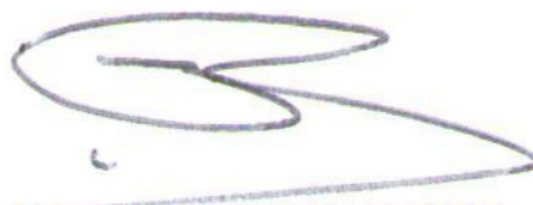
Compliance framework

The NIS promotes a strong compliance culture which enables it to deliver outcomes effectively and achieve high levels of performance. The NIB will continue to promote a strong compliance culture, which will allow the institution to deliver outcomes effectively and achieve high levels of performance in a manner consistent with relevant legal and policy obligations. This will form a part of a broader, coordinated approach to promote

good governance underpinned by principles such as accountability, transparency, integrity, efficiency, and leadership. This framework will complement other key governance frameworks, including those addressing security, risk, and fraud.

4.0 Conclusion

Despite the challenging operating environment, I am heartened to report that opportunities were created for the NIS to enhance its viability and ensure that the institution has a sustainable future in SVG. I wish to express my sincere appreciation and profound gratitude to my Board colleagues, the staff of the NIS and all committees for their continuous support, relentless dedication, and hard work. It has certainly been a challenging year, but we have maneuvered well. I wish to assure all Vincentians that the NIS will continue its relentless and sincere effort to be the paramount fiduciary and guardian, and custodian of your pension fund. We all promise to continue fulfilling our patriotic and national duties and contribute our best to this great national institution, which was etched on the landscape of SVG on January 5, 1987. I thank you.



Lennox A. Bowman
Chairman, NIB





*Protecting You in
Uncertain Times*



Director's Report

Stewart K. Haynes

Director

- **A year like no other**
- **The NIS' response to Covid-19**
- **NIS & Core Mandates**
- **The NIS' Actuarial, Financial & Operational Outcomes**
- **The Way forward to a SAFER NIS**

1.0 2020 A year Like No Other

The Executive Director of the National Insurance Services (NIS) coined 2020 as *“A Year Like No Other in the 33-year history of the National Insurance Services”*. A year of mass destructions, disruptions and dislocations of lives and livelihoods occasioned by the COVID-19 Pandemic (the Pandemic). A full-blown humanitarian challenge as the health crisis morphed into a many-sided crisis with economic, social, and political dimensions. The Pandemic created economic and social shock waves across the globe, with significant casualties being lives, incomes and jobs. The contextual business environment for Social Security institutions, including the economy, social sector, labour markets, financial markets and the technological landscape, was destabilized at an unprecedented scale and scope. For instance, at the time of writing this report, the IMF in its World Economic Forecast projected severe economic collapse in

2020 with the global economy, advanced economies and emerging economies declining by -3.5%, -4.9% and -2.4%, respectively. Not surprisingly, the ILO, in its COVID-19 monitor, opined that labour markets around the world were disrupted in 2020 on a historically unprecedented scale. In 2020, 8.8% of global working hours were lost relative to the fourth quarter of 2019. This represented four times the job losses in the global financial crisis in 2019. The effects of 2020 was also reflected in the stock market as the CBOE Volatility Index (VIX) (a measure of stock market volatility), indicated that market volatility reached an all-time high in 2020. The world witnessed a glimpse of the future where technological adoptions were at unmatched levels across the globe.

In Saint Vincent and the Grenadines (SVG), the NIS operates in a small, open, resource-challenged, and vulnerable

economy with pre-existing socio-economic disparities such as high debts, limited fiscal space, above-average unemployment and concerning poverty levels. Consequently, the Pandemic had a disproportionate effect on the Vincentian economy and its social sector. The inextricable link between social security and the economy means that the crisis hit social security finances hard.

Notwithstanding its acute economic challenges, including its narrow fiscal space, the Government of SVG boldly and proactively responded to safeguard life, living and production within the local context. The Government fashioned a Recovery & Stimulus package to mitigate the effects of COVID-19 on Vincentians. The principal objectives of the Government pivoted around minimizing the loss of life, mitigating the economic impact on vulnerable Vincentians, and keeping the economy afloat. This response mirrored the responses of other Governments that rolled-out stimulus packages at unprecedented levels. According to a study from McKenzie, Government economic responses within the first two months of the crisis stood at 410 trillion, which was three times more than their responses to the 2008-2009 crisis.

Globally, social security systems demonstrated their fundamental importance to socio-economic stability as they responded to the crisis with unparalleled social protection measures. Global social security systems' responses included emergency unemployment schemes, expansion of sickness benefits, increase in social assistance benefits, increase in social security benefits and temporary suspension of social security contributions without penalties. The Pandemic revealed the critical importance of social security systems in stabilizing economies and providing safety nets for vulnerable populations.

2.0 The NIS' response to COVID-19 Pandemic

With its already fragile financial and actuarial conditions caused by the local demographic

shifts (population ageing), generous pension design (low contribution rate relative to the comprehensive benefits package) and maturing nature of the plan (pensioners growing at a faster rate than contributors), the Pandemic accelerated the sustainability challenges of the NIS.



However, as a plural organization with dual mandates of enhancing financial sustainability of the Fund and contributing to social and economic development to alleviate poverty and income inequality, the NIS was in challenging times to strike a delicate balance between the extent to which it provided support to our affected members and the public and its actions to minimize the impact of the crisis on NIS' finances (contribution income, benefit expenses and administrative expenses), our somewhat conflicting mandates.

Accordingly, the NIS implemented a prudent and responsible framework to determine the degree to which it provided protection to its vulnerable members from the severe impact of COVID-19. The NIS adopted the Pause, Assess, Anticipate, Act, and Monitor model. The details of each stage of the model are presented below:

2.1 The Pause

The crisis prompted the NIS to pause, reflect and study the dynamics and contagions of the COVID-19 Pandemic. The reflection and contemplation focused on:

- Identifying the problem
- Recognizing the contagions/knock-on effects of the Pandemic
- Engaging multiple stakeholders- (Government, Businesses, and Employees)

- Embarking on intense environmental scanning and researching the science, facts and impacts on lives and livelihoods. Also, the impact on financial markets, labour markets and the real economy (multiple sectors-tourism, wholesale and retail, manufacturing, and other sectors).
- Networking with strategic partners such as ILO, ISSA, ECCB and other social security institutions involved in knowledge, resource, and information sharing.

2.2 Assess

The NIS assessed the likely impact of the crisis on the Fund to determine our ability to provide a cushion for workers and other stakeholders who were affected by the Pandemic. Accordingly, the NIS evaluated the following:

- Actuarial and Financial health to determine our ability and affordability to respond. The key metrics used were the expenditure rate (total expenses over total insurable wages), contribution rate, liquidity health, and the ratio of reserves to total expenses.
- The likely impact of the crisis on social security financial parameters:

1. Contributions - job losses, compliance

issues

2. Benefits - sickness benefits, survivors.
3. Investment Income - defaults, restructures, dividend suspension, impairments
4. Investment assets – depressed prices, debt restructures and defaults

- Stress tested our financials under various scenarios and performed budgetary revision.

- The adequacy of benefit coverage in meeting the needs of stakeholders

2.3 Anticipate

The process of anticipation was critical to develop targeted and timely responses to the impact of COVID-19 on the lives and livelihoods of our members and their dependents. Accordingly, we prioritized the following:

- The degree of control over the spread of the virus and its pathways
- The effectiveness of public-health response
- The degree of the knock-on effect on the economy
- The effectiveness of monetary and fiscal responses
- The economic trajectory. What would be the economic trajectory? Will it be U, V, W,

EMPLOYEES

PROTECTING LIVES

- Education of public health measures.
- Full sanitization process of the office.
- Provision of protective gears.
- Open communication on safety and health.
- Flexible HR policies to facilitate vacation, family care, frequent breaks for hand washing, work from home arrangements and shift systems.

SAFEGUARDING LIVELIHOODS

- Salary advances where necessary.
- Preservation of jobs and income.

CUSTOMERS

PROTECTING LIVES

- Education on public health measures using in-office posters and social media platforms.
- Hand-washing facility
- Observance of physical distancing protocol.
- Access to our nursing services.
- Paid sick leave to help control disease spreading as an incentive to self-quarantine.
- Offered digital channels to businesses. Shifting transactions from over the counter to online.

SAFEGUARDING LIVELIHOODS

- Being administratively flexible for sickness benefit- Late claims, proof of illness, undergoing medical examination, coverage for insured persons who were infected and quarantined, and those needing to care for family members that were diagnosed.
- Advanced/Early payment of pensions over two months to our most vulnerable group, our pensioners.
- Introduction of Temporary Unemployment benefit. As of 31st December 2020, we paid approximately \$2.3 million to 1,354 affected members. Members that were on the breadline due to COVID-19.

PUBLIC

PROTECTING LIVES

- Education on public health measures using social media platforms.
- Provided hand-washing facility
- Promoted physical distancing protocol.
- Offered access to nursing services for temperature checks
- Contributed \$750,000.00 to build an isolation facility.

SAFEGUARDING LIVELIHOODS

- Administered the Government Displacement Supplementary Income Support Program. As of 31st December 2020, the NIS administered 1,761 claims from hospitality workers at the cost of \$4.2M and 1,194 seafarers at \$1.9M.

SERVICE PROVIDERS

PROTECTING LIVES

- Pooled resources through knowledge and information sharing.
- Maintained strong communications to ensure continuity of services.

SAFEGUARDING LIVELIHOODS

- Negotiated contractual and payment arrangements of mutual benefits.

SERVICE PROVIDERS

PROTECTING LIVES

- The development of the Business continuity plan for NIS' operations.
- Particular focus on the protection of data and systems.

SAFEGUARDING LIVELIHOODS

- Provided continuing social security services and created value to all stakeholders.

√ or L shaped recovery?

2.4 Act

The NIS, led by prudence and empathy with due regard to its philosophy of solidarity, social cohesion, and poverty alleviation, responded to cushion the effect of the crisis on lives and livelihoods. The multi-stakeholder model responses are presented in the matrix above.

The measures to protect lives and livelihoods complement the Government's stimulus package and support from financial institutions, CWSA, and VINLEC.

2.5 Monitor

The NIS consistently monitored the developments of the fluid and evolving crisis. As such, we were laser-focused on:

1. The duration, pace, and impact of COVID-19.
2. The public health responses to contain the virus
3. The contagion impact on NIS' finances and sustainability
4. The impact on lives and livelihoods

3.0 NIS' Focus on its Core Mandate

Whilst we provided the well needed humanitarian support to our members severely impacted by the crisis, the NIS was laser-focused on providing adequate and affordable income protection to our constituents. In this regard, we fortified critical strategic enablers to realize our strategic goal of building a Sustainable, Agile, Focused,

Efficacious and Resilient social security system. The NIS allocated resources to human capital strengthening, building adaptive leaders, streamlining business processes, improving technology, forging strategic partnerships and bolstering corporate governance with the view of effectively peering through a volatile, uncertain, complex and ambiguous business environment. The interventions made under these six strategic enablers are presented below:

3.1 Human Capital Strengthening

The Pandemic not only exposed the financing and coverage gaps of our social security system, but the crisis also revealed the capabilities, resilience, and depth of the competence of our human capital. The NIS' agility and responsiveness to the needs of our constituents were only possible because of the competence, commitment, compassion, and resilience of our human resources. The NIS team adapted quickly to working flexible hours, teleworking, cross-functional working, and serving our customers amid the Pandemic. The sustained investment in building the skillsets and mindsets of our employees paid an exceptional dividend in 2020.

Lifted by the words of Alvin Toffler, who posited that:

"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn"

, our employees embraced all learning and training opportunities offered in 2020 relating to customer service, communication, risk management, investments and digital transformation. The training and learning activities were rolled-out via various modalities such as in-person, virtual, internal, and external training. Succession planning was an essential intervention in achieving our strategic objectives in building a high-performing and collaborative team. The NIS provided tailored training to the pool of high potential employees, potential successors for critical positions at the NIS. For instance, Assistant Managers were provided opportunities to act as managers and shadow their managers for high-level managerial functions. Also, Managers were consistently trained to harness their leadership skills to be ready for executive leadership positions.

3.2 Building Adaptive Leaders

The uncertain, volatile, and ambiguous operating environment propelled the need for the NIS to build adaptive leaders. That is, leaders who are critical thinkers, proactive and not reactive, embrace uncertainty, welcome diversity in viewpoints, are compassionate and take decisive actions. To this end, tailored leadership training was provided to Executive Managers and Managers to build their leadership competencies. As such, the astute leadership demonstrated by the NIS' team assisted with its progress in 2020.

3.3 Streamlining Business Processes

The NIS re-engineered some critical business processes to improve the service quality and delivery of our social security services and benefits. The business processes relating to registration, submission of contribution records, submission of life certificates, payments of benefits and contributions were comprehensively assessed. Where necessary, improvements were made to enhance efficiency. For instance, some repetitive and non-value-added activities were eliminated

in the benefit and contribution records processes. Further, the NIS developed and documented "As-Is" business processes and "To-Be", which would be critical components in its journey towards digital transformation.

3.4 Improving Technology

The COVID-19 Pandemic accelerated how the NIS advanced its digital transformation journey. In 2020, the NIS successfully adapted the following digital business solutions:

1. The software development allowed self-employed persons, including seafarers, to apply for the Temporary Unemployment Benefits.
2. The partnership with the Bank of St. Vincent and the Grenadines (BOSVG) allowed employers with BOSVG's accounts to pay contributions online via the Automatic Clearing House system.
3. The bug fixes to our existing e-submit software allowed more employers to submit their contribution records electronically.
4. The digitization of the life certificate process allowed pensioners to submit life certificates via WhatsApp.
5. The adaption of the cloud platform to store NIS' data to strengthen business continuity.

3.5 Bolstering Corporate Governance

We recognized that corporate governance is central to preserving the sustainability of the NIS. Accordingly, the NIS strengthened its risk management framework by reviewing and updating its Risk Management Policy and integrating the results of the risk register into day-to-day operations. In addition, the NIS updated its business continuity plan. Also, the NIS enhanced its ICT risk posture by implementing its ICT risk treatment plan. The Directors received training in digital transformation, good corporate governance

and investments. Additionally, the Directors' attendance records for Board and committee meetings were commendable.

The Board performed exceptionally in its critical functions of policy setting, strategy formulation, organizing governance, overseeing Management and being accountable to stakeholders. In this regard, the Board submitted its quarterly reports to the Minister, submitted the audited financial statements to Cabinet through the Minister of Finance, commissioned the 11th Actuarial valuation of the National Insurance Fund, held regular Board meetings, and evaluated Management's performance.

3.6 Forging strategic partnerships

The NIS leveraged its relationship with the International Social Security Association (ISSA) to access information and practical knowledge on responses made by global social security systems to mitigate the impact of the COVID-19 crisis. In addition, the NIS was able to network with other social security organizations for sharing of best practices and experiences. Also, staff members participated in various webinars and workshops around practical topics and the real challenges faced by our social security systems.

Secondly, the NIS engaged the World Bank through its Reserve Advisory & Management Partnership (RAMP) to strengthen institutional capabilities within the NIS relating to investments, risk management, finance, actuarial, and governance matters. In this regard, a team from the World Bank Treasury performed a comprehensive assessment of the investment management function at the NIS to provide technical assistance for strengthening the funding and investment management frameworks of the NIS. The team opined that the existing governance and investment management frameworks at the NIS are adequate and require slight improvements to align the NIS' governance arrangements, investment policy, asset allocation and operational framework.

Thirdly, the NIS collaborated with the

International Labour Organization (ILO) through its Decent Work Team and Office for the Caribbean to build technical capabilities within the regional social security systems. One of the flagship initiatives from this collaboration is the webinar on Unemployment Protection Schemes facilitated by Ariel Pino, Social Protection and OSH Specialist. This topic was timely as several regional social security systems, including SVG, contemplate the feasibility assessment to implement permanent unemployment protection schemes.

The longstanding relationships with ECCB, OECS and other regional social security systems were critical in assisting the NIS through the tumultuous 2020 fiscal year. In addition, the collaboration with local stakeholders, including Government, Government Agencies, Non-Government Organizations, financial institutions, and civil society, allowed us to provide social security services and benefits to our members efficiently.

4.0 The NIS' Actuarial, Financial and Operational outcomes in 2020

The outputs of the NIS are also important performance information in reporting our stewardship of the National Insurance Fund. In this regard, this section of the report outlines the NIS' actuarial, financial, and operational outcomes.

4.1 Actuarial Performance

The defined-benefit nature of our system coupled with the scale-premium method of financing means that our actuarial performance is expected to worsen as the Fund matures and there are no changes in the benefits and contribution provisions. The following table shows the movement of the critical actuarial performance indicator over the period 2018-2020.

The actuarial outcomes revealed the continued financial imbalance of the Fund. Actuarially, this imbalance would continue once the legal contribution rate of 10% lags

ACTUARIAL INDICATORS	2017 (%)	2018 (%)	2019 (%)	2020 (%)	COMMENTS
Contribution Rate	10	10	10	10	There were no changes in contribution rate over the last four years. The 2021 actuarial report is expected to opine on a rate change.
Total Expenditure Rate	11.28	11.43	10.75	12.3	The year-on-year increase was anticipated as pension payments increased as the plan matured. The sharper growth in 2020 reflected an old-age pension increase and the introduction of the temporary unemployment benefits program.
Administrative efficiency ratio (Administrative expenses/ Contribution Income)	17.1	16.6	17.2	12.3	Typically, flat showing deliberate actions by Management in cost rationalization.
General Average Premium (GAP) as per last actuarial review	18 - 22	18 - 22	18 - 22	18 - 22	This value is greater than the contribution rate, representing a funding imbalance indicating that reform measures are necessary.
Fund Ratio - (Reserves / Expenditure)	6.77	6.05	6.03	5.6	Due to funding pressures caused by rapid growth in benefits relative to contribution income, it is expected to decline.
Dependency Ratio- (# contributors per pensioner)	5.7	5.4	5.4	5.2	The increase reflected the higher cost of social security to fund the program as the plan matures and with no parametric changes.
Financial Ratio - Average pensions as % of Average wages	5.7	5.4	5.4	5.2	This ratio increased due to average pension growth outstripping the growth of average wages.

significantly behind the GAP rate (average cost of Fund over the 60 years). Further, the financial pressure continued as the total expenditure rate exceeded the contribution rate because there were no changes in benefit and contribution provisions. If this situation continues in the medium term, the Fund would be under severe financial pressure. As such, the NIS must consider further parametric reform within the next three years to avoid further financial deterioration of the Fund. However, the specific parametric measures would be emanated from the upcoming actuarial valuation of the National Insurance

Fund, which is due before the end of 2021. In the year under review, Management continued to exercise diligence, due care, prudence, and intelligence in the administration of the Fund.

4.2 Financial performance

The financial performance of the NIS for the fiscal year 2020 is summarized in the matrix below with comparatives to fiscal years 2018 and 2019.

FINANCIAL PERFORMANCE INDICATORS	2018 XCD MILLION	2019 XCD MILLION	2020 XCD MILLION	COMMENTS
Contribution Income	67	67.8	67	The decrease in contribution income was attributed to an increase in unemployment and underemployment in the review period owing to the effects on the labour market by the COVID-19 Pandemic
Benefit Expenses	65.5	68	75.6	The growth was attributed to the rise in old age pension payments and the temporary unemployment benefits.
National Provident Fund	2.2	2.0	1.5	NPF payments are typically flat, but a marked decline in 2020 as fewer claims were received.
Administrative Expenses	11.1	11.7	12	Slight increase in 2020 because of a rise in investment management expenses and higher donations.
Investment Income	12.1	23.6	16.7	The material decline was attributed to more than a \$3m fall in loan income and gain on disposal of investments, respectively.
Net Income	4.4	6.5	3.7	The decline is reflective of higher benefits, lower contributions, and investment incomes relative to the previous year.

FINANCIAL PERFORMANCE INDICATORS	2018 XCD MILLION	2019 XCD MILLION	2020 XCD MILLION	COMMENTS
Comprehensive Income	2.8	11.7	8.7	Largely due to modest growth in international bonds and equities prices relative to the previous year.
Asset Base	482.6	494.3	503.3	The 1.8% growth was predicated on the higher comprehensive income.
Reserves	476.7	488.5 (492.4)	497.2	The advancement was driven by positive comprehensive income due to positive unrealized gains on equities and bonds sub-portfolios.

The COVID-19 Pandemic adversely impacted the financial performance of the NIS in the fiscal year 2020. During the first quarter of 2020 (prior to the onset of COVID-19 in SVG), the NIS recorded strong financial performance relative to the previous year first quarter's performance. However, the impact of COVID-19 on the NIS' finances in the remaining three quarters of 2020 overpowered the first-quarter performance. As such, the financial performance in 2020 deteriorated relative to the previous period.

The significant financing gap between contribution income and benefit expenditure widened from $-\$0.15M$ to $-\$8.6M$. This financing deficit was attributed to the faster growth in benefit relative to the decline in contribution income. Total benefit payouts grew by 11% because of the increase in old-age benefits from $\$54.9M$ in 2019 to $\$58.2M$ in 2020. Also, the introduction of the Temporary Unemployment Benefits Program drove the short-term benefits from $\$3.4M$ in 2019 to $\$6.2M$ in 2020. The NIS paid out $\$2.3M$ under the Temporary Unemployment Insurance to protect our members who lost their jobs because of COVID-19.

On the other hand, the increase in unemployment and business closures in 2020 adversely impacted the contribution income. In 2020, the NIS data suggested that

547 employers (approximately 23% of our employers' population) laid off at least one employee. Total temporary and permanent lay-offs in the fiscal period amounted to about 3,237 employees (or 7.5% of the employee population)

Another important financial metric is the gap between total income (contribution income and investment income) and total expenditure (NIS benefits, NPF benefits and administrative expenses). In 2020, this metric stood at negative $\$5.4M$ compared to positive $\$9.7M$ in 2019. The rapid rise in long term benefits, moving from $\$69.09M$ in 2019 to $\$63.99M$ in 2020, and the growth in short term benefits from $\$3.4M$ in 2019 to $\$6.2M$ in 2020 accounted for the material benefit growth. On the other hand, investment income and contributions income declined by $\$6.9M$ and $\$0.8M$, respectively. The administrative expenses remained relatively stable in the review period.

However, the gains from the prudent management of the investment portfolio coupled with the impairment recovery contributed to the positive comprehensive income in 2020. The investment portfolio is well diversified across geographies, asset classes and issuers. This astute management of the investment portfolio accounted for strong investment performance in favourable unrealized gains on the international equity

and bond sub-investment portfolios. Also, the NIS was very cautious in the previous year on its investment provisioning and over provided for impairment losses due to the recent adoption of the IFRS 9 framework. However, the prudent management of the portfolio against credit and market risks, among other things, caused the NIS to recover approximately \$8.5M from impairment.

5.0 The forward pathways to a Sustainable, Agile, Focused, Efficacious and Resilient (SAFER) NIS.

The NIS anticipates that COVID-19 would continue to cause monumental upheavals to economies, labour markets, financial markets, health systems and social sectors. Also, other headwinds may include challenges from climate change, geopolitical tension, and cyber security threats. Consequently, we foresee 2021 as another year of extreme volatility, uncertainty, and ambiguity.

With these expectations and the learnings from 2020, the NIS would aim to bridge the financing, coverage, and operational gaps exposed in 2020 by the Pandemic. To this end, the NIS would be laser-focused on the following strategic priorities:

5.1 Developing a dynamic funding policy

a. The basis of the formulation and development of a Funding Policy including parametric reforms, premises on the results of the 11th Actuarial Valuations of the National Insurance Fund. The Pandemic caused the Board to tactically delay the finalization of the 11th Actuarial Valuation from July 2020 (early days of COVID-19) to February 2021 to improve the actuarial estimates related to the likely impact of COVID-19 on the financial parameters of the NIS. The Actuary was also tasked to formulate a basis for the Funding Policy for the NIS. The Funding Policy would set the funding parameters surrounding the actuarial valuation and give tools to maintain the financial sustainability of the plan whilst ensuring adequate benefits are paid to beneficiaries. Future parametric reform

would be based on the Funding Policy, an explicit written document that establishes a clear road map about the scheme's funding. This initiative would also improve corporate governance by increasing transparency and predictability. Moreover, the policy must be well-thought-out and shaped by extensive consultations with stakeholders.



b. Considering the success of the temporary unemployment benefits program in providing cushion to those who lost jobs during the Pandemic, there is a renewed consensus on converting temporary unemployment measures into permanent ones through the implementation of unemployment insurance. Accordingly, the NIS would be engaging ILO and ISSA to conduct a feasibility assessment of implementing a funded unemployment insurance program. Global statistics show that this is the least developed branch in the social security program. For instance, only Barbados and the Bahamas have a permanent unemployment benefits program in the Caribbean as part of their social security packages.

5.2 Strengthening Investment Management structure and functions

a. The NIS, in collaboration with the Eastern Caribbean Central Bank, engaged an independent team of investment experts from the Treasury Department of the World Bank to conduct a peer review of the NIS' Investment Management structure and functions. Following this diagnostic assessment, the team adjudged the NIS's investment governance and functions as adequate, requiring improvement in some

operational areas. The NIS would join the World Bank Reserve Advisory and Management Partnership (RAMP) to enhance investment management framework and operations on a sustainable basis and share knowledge with other fellow participants of RAMP. Some of the potential benefits from this partnership include but are not limited to capacity-building in investment management, revision of the NIS' investment policy, development of the NIS' Funding Policy, basic peer review of the NIS' 11th Actuarial Report, and assistance with the digitization of the NIS' business processes.

b. The NIS would also prudently manage its further investments in real estate development to assist with the conversion of non-income generating properties to income-generating properties. As such, the NIS would continue to fund the civil works to develop the Peter's Hope lands, which have an estimated development cost of approximately \$12.6 million. In 2021, the NIS was estimated to spend an additional \$1.96 million. Additionally, the NIS is in discussion with a prospective tenant for office space at the so-called "Ju-C property". The NIS budgeted to spend \$1.2 million for the development of the so-called "Ju-C property" into a three-storey commercial property with suitable office spaces for lease.

c. With the view of deepening its contribution to socio-economic development in SVG, the NIS intends to invest up to \$15 million in job-creation projects that would improve SVG's economic and social competitiveness.

5.3 Improving administrative efficiency through prudence and digitization

COVID-19 exposed some vulnerabilities in the national social protection system, including low coverage of flexible workers, no automatic income protection triggers for unemployment and inflexible and manual service delivery channels. To this end, the NIS would scale up shifting transactions and services from over the counter to online.

The NIS intends to establish service portals for members, launch NIS App for members' services, enhance and replace our existing National Insurance Management Systems, develop online applications for benefits, checkless disbursement systems (increasing the financial inclusion rate of pensioners) and online/mobile payments of contributions. The NIS also strengthens its human capacity and capabilities to create a more agile staff fit-for-purpose in a digital world.

6.0 Conclusion and Appreciation

a. The NIS intends to peer through the fog of uncertainty with great hope and optimism to build a SAFER NIS. We are committed to improving the quality of lives and livelihoods of Vincentians. We recognized the tumultuous operating environment and our already fragile financial and actuarial positions. However, with our collective strength, agility, resilience, and practical strategic program, we would emerge successfully in 2022.

Our Board, Management and Staff showed unstinting support in providing social security services and benefits to the people of SVG. I wish to sincerely thank them for their sustained commitment to building a SAFER NIS. Accordingly, I would partner with the team to navigate the anticipated challenges in 2022 and strengthen SVG's principal social safety net.

We applaud the support from the Government and people of SVG in 2020, and we look forward to your renewed commitment to ensure our social security system remains viable and transform the lives of our vulnerable members.



Stewart K. Haynes
Executive Director

Meet the Board of Directors

The St. Vincent and the Grenadines National Insurance Board

provides the fundamental principles of the institution and is responsible for nurturing our occupational culture, corporate management and overseeing policies. The board of directors is a selected assembly of individuals that represents our stakeholders.



Mr. Lennox Bowman
Chairman



Mr. Elroy John
Deputy Chairman



Ms. Joy Matthews
Employee's Representative



Mr. Lloyd Small
Employee's Representative



Mr. Liley Cato
Government Representative



Ms. Ann Jones
Government Representative



Mr. Gideon Browne
Employer's Representative



Mr. Garvin Jackson
Employer's Representative

Meet the Management Team

As the administrators of social security, the principal task of fulfilling the institution's mission and vision is shared among divisions. Each division plays a vital role in meeting the NIS' mandate of providing sustainable social security through prudent financial and people-centered management. For the effective execution of tasks, a manager oversees the daily operations of each division.



Stewart Haynes
Executive Director



Lennox Timm
Financial Comptroller



Jeremy Jackson
Accountant



Richard Lewis
Compliance Manager



Nicole Byron
Benefits Manager



Sharon Ashton
Customer Service Manager



Colleen Thomas
Data Processing Manager

Meet the Management Team

Continued



Lucille Browne
HR Manager



Marika Drakes
Internal Auditor



Asri Soleyn
IT Manager



Dornelle Fitzpatrick
Investment Manager



Danine Jones
Senior Legal Officer



Valina Browne-Henry
Statistics Manager and
Chief Risk Officer



Dawn Small
Manager, Union Island Office



The Isolation Facility

The COVID-19 pandemic significantly altered lives and brought radical changes to the world. There was also potential for our healthcare system to be increasingly burdened with the care of those who fell ill, whether through COVID-19 or otherwise. To manage, several recommendations were implemented, including the construction of an isolation facility at Argyle. The facility would be used to isolate those persons who contracted the virus, to minimize the spread of the highly contagious disease. The National Insurance Services recognized the need for such a facility to strengthen the healthcare system in Saint Vincent and the Grenadines and donated \$750,000.00 to its development.

This decision strongly reflected our vision statement to recognize, assess and respond to changing environmental trends. It also reflected our mandate of “Protecting you in uncertain times”.

In May 2020, shortly after COVID-19 was declared a pandemic, the isolation facility was opened. The facility, which is equipped with ventilators and other equipment, can accommodate twenty-two patients. Although it facilitates the care of patients diagnosed with COVID-19 requiring urgent care, other patients diagnosed with infectious conditions have received healthcare at the facility.



The Temporary Unemployment Benefit (TUB)

On March 11, 2020, the World Health Organisation declared COVID-19, a pandemic. Worldwide, there was an instant impact on the socioeconomic and health sectors. In Saint Vincent and the Grenadines, we developed measures to mitigate the impact. As the sole institution mandated to provide social security to insured persons, we responded by broadening our social safety net by introducing a Temporary Unemployment Benefit for insured persons with complete loss of income. Simultaneously, the Government introduced a fiscal stimulus programme to protect workers in the hospitality and tourism sectors, who became unemployed or underemployed. This Government's Displacement Supplementary Income Support Programme (DSIP) was administered by the NIS. The applicants of the Temporary Unemployment Benefit were required to meet the following qualifying conditions:

- Must have paid at least 26 weekly contributions, of which 8 weekly

contributions must be within the 13 weeks immediately preceding the unemployment date.

- Must have been laid-off no earlier than March 1, 2020 due to the effects of the COVID-19 pandemic.

Successful applicants were paid a fortnightly direct deposit of \$150.00. The payment period was originally scheduled for three months, ending July 17, 2020. This period, however, was extended several times because of the worsening of the multi-pronged crisis and its debilitating impact on lives and livelihoods.

A total of 1354 persons benefited between April 2020 – December 2020 to the sum of \$2,358,750.00 whilst 2955 persons benefited within the same period to the sum of \$6,041,700.00 from the Government's fiscal stimulus programme.

Recipient Highlights



Mr. Ernesto Brudy & Mrs. Donnette Johnson-Brudy

Operators
(Saint Martin's Secondary
School Tuck Shop)

“When the pandemic hit and schools closed, any sort of savings that we had gone into taking care of our children and bills, so we ran low on cash. The temporary unemployment benefit was a real lifesaver for us, it helped in keeping us afloat by providing for our children and helping with bills.

Even before this, as self-employed contributors, we recognized the benefits from the NIS, from receiving maternity and sickness benefits.”



Vanessa Johnson- Craig

Preschool Teacher
(YWCA)

“I work at a preschool and for me, this benefit was a huge deal because I have children to take care of, rent and other bills. With schools closed, I found myself juggling weekly to determine what would be taken care of, but the benefit helped in making it work. That is why I encourage everyone, whether you are self-employed or employed otherwise; to ensure that your NIS is being paid. You never know what will happen. In my case, if it was not for the NIS, I really do not know what would have happened during this time.”



Annetta Antoine

Office Manager
(James Archibald Design)

“As a result of an 8 week close down that was instituted in Mustique, our employees were unable to return to work. During this period of involuntary lay-off, there were concerns about how our employees would make it. We then found out about the temporary unemployment benefit for persons affected by the pandemic and so we encouraged our employees to apply. As a company, we also decided to match what the NIS was paying and we also advanced a portion of our bonus loyalty scheme to assist. As an employer, we are grateful to the NIS for the initiative taken and the benefit paid out to our employees during this time to which they are eternally grateful, as it could have been nothing. To other employers, we encourage you to pay your employees’ contributions so whenever they are met in situations like this, they can be assisted.”



Doris Hope

Proprietor
(Rainbow Unique Nursery
and Preschool)

Leading up to our closure on March 27, 2020, we noted several schools were already closed. A few weeks after, I found out about the temporary unemployment benefit, which my employees received during the closure of the school. The feedback I received from them was that although it was not a lot they were grateful because there was no other source of income for them. They were able to use it to help with bills and cover other expenses. My encouragement to other employers across Saint Vincent and the Grenadines is that when persons start employment with you, find out their NIS number and if they don't have one, get them registered and pay their contributions so that they can benefit from the benefits the NIS offers.”

Internal Measures

As the COVID-19 pandemic worsened and more information relating to how persons can safeguard themselves against contracting the virus emerged, the institution implemented several measures to help mitigate against potential cases amongst staff and stakeholders who visited the office.

- A hand wash station was placed outside the NIS building. By doing so, we promoted better hygiene practices to help decrease the spread of COVID-19.
- A nurse was employed to perform temperature checks to staff and customers to observe early warning signs of a person who may display symptoms of COVID-19.

- A limit was placed on the number of customers conducting business in the office and distance markers were placed inside and outside of the building where customers assembled.
- A shift system was put in place for employees, which created bubbles to mitigate exposure in the office should any employee contract the virus.
- Posters displaying best practice guidelines were placed around the office.

Advance Pension Payment

One of the groups susceptible to developing severe sickness from contracting COVID-19, was identified as elderly persons. This group represented our pensioner population aged 60 and above. As such, we knew it was important to do all that we can to protect them.

Within our control was the administration of fortnightly pension payments. Every two weeks, pensioners would either visit our office, their post office or financial institution to collect their pension. Based on the recommendations on physical distancing and limited interactions, the decision was

made to make two advanced pension payments. On April 3, pensioners received their first advanced payment, covering the two fortnightly payments for that month. The total amount paid out was \$4,741,283.00. Similarly, a second advanced payment was made on April 30, for May, in the sum of \$ 5,089,691.00. These advanced payments helped in reducing their exposure to contracting the virus by reducing the number of public interactions. It also meant that pensioners were able to purchase necessities such as food and medicine ahead of time if any lockdown measure ensued.

NATIONAL INSURANCE SERVICES

Financial statements

For the year ended December 31, 2020



NATIONAL INSURANCE SERVICES

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NATIONAL INSURANCE SERVICES

REGISTERED OFFICE

Bay Street, Kingstown
St. Vincent

DIRECTORS

Mr. Lennox Bowman - Chairman
Mr. Elroy John - Deputy Chairman
Mr. Gideon Browne
Mr. Garvin Jackson
Ms. Joy Matthews
Mr. Lloyd Small
Mr. Liley Cato
Ms. Ann Jones

DIRECTOR

Mr. Stewart Haynes

SECRETARY

Mr. Stewart Haynes

BANKS AND NON-BANK FINANCIAL INSTITUTIONS

Bank of St. Vincent and the Grenadines Ltd.
Republic Bank EC Ltd.
RBTT Bank Caribbean Limited
First Citizens Investment Services Ltd
St. Vincent Co-operative Bank Limited
St. Vincent Union of Teachers Co-operative Credit Union
RBC (Royal Bank) Trinidad and Tobago Ltd
National Bank of the British Virgin Islands

SOLICITORS

Baptiste and Company Law Firm Inc.
Duane Daniel Chambers
Saunders and Huggins

AUDITORS

KPMG Barbados and the Eastern Caribbean



KPMG

First Floor
National Insurance Services Headquarters
Upper Bay Street
P.O. Box 587, Kingstown
St. Vincent and the Grenadines

Telephone: (784) 451-1300
Fax: (784) 451-2329
Email: kpmg@kpmg.vc

INDEPENDENT AUDITORS' REPORT

To the Honourable Minister of Finance
National Insurance Services
St. Vincent and the Grenadines

Opinion

We have audited the financial statements of the National Insurance Services ("the NIS"), which comprise the statement of financial position as at December 31, 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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 NIS in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (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 other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services
St. Vincent and the Grenadines

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the NIS' 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 NIS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the NIS' 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 the 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 judgment 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.



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Honourable Minister of Finance
National Insurance Services
St. Vincent and the Grenadines

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- 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 purpose of expressing an opinion on the effectiveness of the NIS' 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 NIS' ability to continue as a going concern. If we conclude that a material uncertainty exists, 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 NIS 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.

A handwritten signature in black ink that reads 'KPMG'.

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
December 30, 2021

NATIONAL INSURANCE SERVICES

Statement of Financial Position

As at December 31, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 \$	2019 \$
ASSETS			
Cash and cash equivalents	5	52,597,241	42,700,479
Loans and advances	6	41,163,447	85,255,958
Interest receivable on loans and investment securities		4,837,325	13,799,930
Investment securities and deposits	7	273,590,208	259,304,938
Investment in associate	8	26,755,718	25,074,619
Investment properties	9	22,179,000	22,919,137
Inventories	10	7,700,000	9,318,713
Property and equipment	11	25,768,180	26,621,211
Intangible assets	12	246,240	221,211
Contributions receivable	13	4,943,379	5,144,850
Other assets	14	43,523,634	3,957,402
TOTAL ASSETS		503,304,372	494,318,448
LIABILITIES			
Liabilities			
Benefits payable		4,759,935	3,999,344
Accounts payable and accrued liabilities	15	1,328,013	1,817,360
Regulatory Reserves			
Short-term benefit	16(a)	30,969,632	30,903,667
Long-term benefit	16(a)	347,868,883	350,647,800
Employment injury benefit	16(a)	82,685,488	74,965,670
National provident fund	16(b)	34,595,785	35,891,264
Other liabilities			
Deferred income		14,830	24,040
Total liabilities		502,222,566	498,249,145
EQUITY			
Foreign exchange reserve	16(c)	50,657	(78,182)
Fair value reserve	16(d)	1,031,149	(3,852,515)
Total equity/(deficit)		1,081,806	(3,930,697)
TOTAL LIABILITIES AND EQUITY		503,304,372	494,318,448

See accompanying notes to the financial statements.

APPROVED FOR ISSUE BY THE BOARD AND SIGNED ON ITS BEHALF BY:



Lennox Bowman – Chairman



Stewart Haynes – Secretary



Elroy John – Director

NATIONAL INSURANCE SERVICES

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 \$	2019 \$
INCOME			
Contributions			
Employers' contributions		35,968,741	36,453,851
Employees' contributions		29,458,383	29,832,527
Self-employed persons' contributions		1,161,399	1,170,909
Voluntary contributions		425,904	374,062
		<u>67,014,427</u>	<u>67,831,349</u>
Benefits paid	19(a)	<u>(75,577,393)</u>	<u>(67,982,246)</u>
DEFICIT		<u>(8,562,966)</u>	<u>(150,897)</u>
Net finance income	17	16,713,065	23,623,616
Other income, net	18	2,127,654	1,812,109
Revaluation of inventories	10	(1,674,154)	-
Revaluation of investment properties	9	<u>(740,137)</u>	<u>-</u>
Surplus before National Provident Fund (NPF) benefits and impairment losses		<u>7,863,462</u>	<u>25,284,828</u>
NPF benefits paid	19(b)	(1,544,129)	(2,013,406)
Impairment loss – contributions receivable	25(b)(ii)	(142,636)	(402,460)
Impairment recovery/(loss) – rent receivables	25(b)(ii)	252,710	(172,764)
Impairment recovery/(loss) – investment securities and loans	25(b)(ii)	8,539,400	(7,252,599)
General and administrative expenses	20	<u>(11,981,780)</u>	<u>(11,723,731)</u>
		<u>(4,876,435)</u>	<u>(21,564,960)</u>
Share of profit of associate	8	<u>724,360</u>	<u>2,818,696</u>
NET SURPLUS FOR THE YEAR		<u>3,711,387</u>	<u>6,538,564</u>
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Net change in fair value - FVOCI equity instruments		2,357,677	4,974,476
Foreign exchange gain/(loss) - FVOCI equity instruments		128,839	(129,011)
		<u>2,486,516</u>	<u>4,845,465</u>
Items that are or may be reclassified subsequently to profit or loss:			
Net change in fair value - FVOCI debt instruments		159,248	337,404
Share of OCI - associate	8	2,366,739	10,785
		<u>2,525,987</u>	<u>348,189</u>
Other comprehensive income		<u>5,012,503</u>	<u>5,193,654</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>8,723,890</u>	<u>11,732,218</u>

See accompanying notes to the financial statements.

NATIONAL INSURANCE SERVICES

Statement of Changes in Equity

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

	Foreign exchange reserve \$	Fair value reserve \$	Total \$
Balance as of January 1, 2019	50,829	(9,175,180)	9,124,351
Net change in fair value - FVOCI equity instruments	-	4,974,476	4,974,476
Foreign exchange loss - FVOCI equity instruments	(129,011)	-	(129,011)
Net change in fair value - FVOCI debt instruments	-	337,404	337,404
Share of OCI - associate	-	10,785	10,785
Balance as of December 31, 2019	(78,182)	(3,852,515)	(3,930,697)
Net change in fair value - FVOCI equity instruments	-	2,357,677	2,357,677
Foreign exchange gain - FVOCI equity instruments	128,839	-	128,839
Net change in fair value - FVOCI debt instruments	-	159,248	159,248
Share of OCI - associate	-	2,366,739	2,366,739
Balance as of December 31, 2020	50,657	1,031,149	1,081,806

See accompanying notes to the financial statements.

NATIONAL INSURANCE SERVICES

Statement of Cash Flows

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Net surplus for the year		3,711,387	6,538,564
Adjustments for:			
Depreciation expense	11, 20	1,174,973	1,176,806
Amortisation expense	12, 20	55,342	40,034
Gain on disposal of property and equipment		(11,166)	-
Impairment (recovery)/loss - contributions and rent receivables		(110,074)	575,223
Impairment (recovery)/loss - investment securities		(8,540,613)	7,252,599
Share of profit of associate	8	(724,360)	(2,818,696)
Revaluation of investment property	9	740,137	-
Revaluation of inventories	10	1,674,154	-
Finance income	17	(16,713,065)	(23,623,616)
		(18,743,285)	(10,859,086)
Change in other assets		(39,313,522)	(221,771)
Change in contributions receivable		58,835	(582,278)
Change in benefits payable		760,591	69,871
Change in deferred income		(9,210)	(9,210)
Change in accounts payable and accrued liabilities		(489,347)	(63,767)
Change in inventories		(55,441)	(254,808)
Net cash used in operating activities		<u>(57,791,379)</u>	<u>(11,921,049)</u>
Cash flows from investing activities			
Dividends received from associate	8	1,410,000	1,290,000
Change in investment properties	9	-	(202,650)
Change in investment securities and deposits		(3,067,385)	(11,196,055)
Change in loans and advances		48,121,923	3,711,926
Acquisition of property and equipment	11	(322,776)	(208,253)
Proceeds from disposal of property and equipment		12,000	-
Acquisition of intangible assets	12	(80,371)	(156,356)
Interest received		19,579,954	11,264,457
Dividend received		2,034,796	2,002,088
Net cash from investing activities		<u>67,688,141</u>	<u>6,505,157</u>
Net change in cash and cash equivalents		9,896,762	(5,415,892)
Cash and cash equivalents at January 1		42,700,479	48,116,371
Cash and cash equivalents at December 31		<u>52,597,241</u>	<u>42,700,479</u>

See accompanying notes to the financial statements.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

1. Reporting entity

The National Insurance Scheme (“the NIS”) was established in 1986, and the name was changed to the National Insurance Services (“the NIS”) in March 2004. It was established by the National Insurance Act # 33 of 1986 and assumed the assets and obligations of the former National Provident Fund. The principal activity of the National Insurance Services is the provision of social security services in the state of St. Vincent and the Grenadines. The registered office is at Bay Street, Kingstown, St. Vincent.

2. Basis of preparation

(a) Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements were approved by the Board of Directors on December 30, 2021.

(b) Basis of measurement

The financial statements were prepared on the historical cost basis except for the following material items:

Items	Measurement Basis
Financial instruments at FVTPL	Fair value
Financial instruments at FVOCI	Fair value
Investment properties	Fair value
Inventory	Lower of cost or net realisable value

(c) Functional and presentation currency

The financial statements are presented in Eastern Caribbean dollars, which is the NIS’s functional currency. All financial information presented in Eastern Caribbean dollars has been rounded to the nearest dollar.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make estimates, based on assumptions and judgments. Management also makes judgments, other than those involving estimations, in the process of applying the accounting policies. The estimates and judgments affect (1) the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended, and (2) the carrying amounts of assets and liabilities in the next financial year.

The estimates and the underlying assumptions, as well as the judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

2. Basis of preparation (cont'd)

(d) Use of estimates and judgements (cont'd)

The COVID-19 pandemic has significantly affected estimation uncertainty. The most significant estimate affected is expected credit losses. The probability of default has a relatively higher degree of estimation uncertainty, as compared with prior periods due to unpredictable duration of the adverse impact of the novel virus. The probability of significant variances between actual and anticipated results may be material.

The NIS' accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, and the NIS exercises judgment in carrying out such designation; this judgment relates to whether the instruments meet the criteria for the particular classification. Judgments that have a significant effect on the amounts recognised in the financial statements and estimates can cause a significant adjustment to the carrying amounts of assets and liabilities in the next financial year.

Significant valuation issues noted are reported to the NIS' Audit Committee.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 9 - Investment properties
- Note 25 - Financial risk review
- Note 26 - Fair value of financial instruments

Residual values and useful lives of property and equipment

As noted in note 3(f), the residual values and useful life of each asset are reviewed at least at each reporting date and if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The assumptions regarding residual values give rise to estimation uncertainty.

3. Significant accounting policies

Except for the changes below, the NIS has consistently applied the following accounting policies to all periods presented in these financial statements.

(a) New and amended standards and interpretations

There were new standards and amendments which were applied during the current year, which are required for annual periods beginning on or after January 1, 2020. These standards and amendments did not materially impact the financial statements of the NIS. The impact of the standards and amendments is explained below:

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(a) New and amended standards and interpretations (cont'd)

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective January 1, 2020)

The definition of material was changed, the new definition is as follows:

“Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The previous definition focused on omitting and misstating, however the new definition focuses on obscuring. The view of the IASB is that obscuring material information with information that can be omitted has a similar effect as omitting and misstating. The term ‘reasonably’ was included to reduce the scope of information that is required to be disclosed and the term ‘primary users’ was also included to narrow the scope of information.

This amendment did not have a significant impact on the NIS’ financial statements.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into Eastern Caribbean dollars at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising on the translation of the equity instruments classified as FVOCI are recognised in OCI.

(c) Investment in associate

Associates are those entities in which the NIS has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the financial statements include the NIS’s share of the profit or loss and OCI of the associate, until the date on which significant influence ceases.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(d) Financial assets and liabilities

(i) Recognition and initial measurement

The NIS initially recognises loans and advances, deposits, debt and equity securities issued and liabilities on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

On initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value through other comprehensive income (FVOCI); or
- fair value through profit or loss (FVTPL).

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds. Classification and subsequent measurement of debt instruments depend on:

- The business model for managing the asset; and
- The cash flow characteristics of the asset.

Based on the factors the debt instruments will be classified into the three following categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortised cost.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI).
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(ii) Classification (cont'd)

Business model assessment

The NIS makes an assessment of the objectives of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and guidelines for the investment portfolio;
- how the performance of the portfolio is evaluated and reported to the NIS's management; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs.

In assessing whether the contractual cash flows are SPPI, the NIS considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the NIS considers contingent events that would change the amount and timing of cash flows.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the NIS changes its business model for managing financial assets.

Financial liabilities

The NIS classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(iii) Derecognition

Financial assets

The NIS derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the NIS neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the NIS is recognised as a separate asset or liability.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

Financial liabilities

The NIS derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(iv) Offsetting

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the NIS's trading activity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(v) Fair value measurement

Fair value is the price that would be received to sell 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 NIS has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the NIS 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.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(d) Financial assets and liabilities (cont'd)

(v) Fair value measurement (cont'd)

If there is no quoted price in an active market, then the NIS uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the NIS determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(vi) Impairment

The NIS assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The NIS recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 25 provides more detail of how the expected credit loss allowance is measured.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the NIS determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the NIS's procedures for recovery of amounts due.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(e) Investment properties

Investment properties are initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property and equipment is sold, any related amount included in the revaluation reserve is transferred to reserves.

(f) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Any gain or loss on disposal of an item of property and equipment is recognised in profit or loss.

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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

(ii) Reclassification to investment property

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified accordingly. Any gain arising on this re-measurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in OCI and presented in the revaluation reserve. Any loss is recognised in profit or loss.

(iii) Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the NIS and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv) Depreciation

Depreciation is recognised in profit or loss on the straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(f) Property and equipment (cont'd)

(iv) Depreciation (cont'd)

The annual rates for the current and comparative periods are as follows:

Freehold buildings	4%
Furniture and fixtures	15%
Office equipment	15-20%
Building related equipment	10%
Computer equipment	20-33%
Motor vehicles	20%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(g) Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

(i) Recognition and measurement

Intangible assets are measured at cost less accumulated amortisation charge and impairment losses.

(ii) Amortisation

Intangible assets are amortised using the straight line method. Amortisation commences when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by Management. Amortisation expense is recognised in profit or loss.

(iii) Derecognition

Gains or losses arising from the disposal of an intangible asset are determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and are recognised in profit or loss when the asset is disposed.

(iv) Internally generated intangible assets

To assess whether an internally generated intangible asset meets the criteria for recognition, an entity classifies the generation of the asset into:

- (i) Research phase
Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.
- (ii) Development phase
An intangible asset arising from development (or from the development phase of an internal project) is capitalised only if an entity can demonstrate all of the following:
 - the technical feasibility of completing the intangible asset so that it will be available for use or sale.
 - its intention to complete the intangible asset and use or sell it.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(g) Intangible assets (cont'd)

(iv) Internally generated intangible assets (cont'd)

- (ii) Development phase (cont'd)
 - its ability to use or sell the intangible asset.
 - how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
 - the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
 - its ability to measure reliably the expenditure attributable to the intangible asset during its development.

(h) Impairment

(i) Financial assets

IFRS requires the estimation of expected credit losses which are derived from unbiased and probability weighted estimates. The following assets and disclosures that are applicable to the NIS are within the scope of IFRS 9:

- Financial assets measured at amortised cost
- Financial assets measured at FVOCI
- Loan commitments (except those measured at FVTPL)
- Lease receivables under IFRS 16

There are two impairment approaches required: the general approach and the simplified approach. The general approach is a three-stage expected credit loss approach as follows:

Stage 1 – There was no significant increase in credit risk since initial recognition and the instrument was not credit impaired upon purchase. The expected credit losses to be incurred within 12 months of the assessment date is recognized.

Stage 2 – There was a significant increase in credit risk since initial recognition but the instrument is not credit impaired. The expected credit losses to be incurred during the lifetime of the instrument is recognized.

Stage 3 – The instrument is credit impaired. The expected credit losses to be incurred during the lifetime of the instrument is recognized.

The inputs used to estimate the balances are the probability of default, the exposure at default and the loss given default. The expected credit loss is discounted by the effective interest rate. Information about future events and economic conditions are incorporated in the model.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(h) Impairment (cont'd)

(i) Financial assets (cont'd)

The simplified approach is based on the historic default rate. The average historical rate of return is used as a proxy for the effective interest rate.

(ii) Non-financial assets

At each reporting date, the NIS reviews the carrying amounts of its non-financial assets (other than investment properties and inventories), to determine whether there is any indication of impairment. If any such indication exists for any asset, then that asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Contributions receivable

Contributions receivable on active accounts are estimated based on the most recent remittance by contributors. No estimate is made for dormant or ceased accounts as it is not probable that any economic benefits will flow to the NIS.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and sale.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

3. Significant accounting policies (cont'd)

(k) Contributions

Revenue from contributions is recognised in profit or loss on the accrual basis at the requisite statutory rates utilizing employer monthly contribution statements which are settled in arrears.

(l) Finance income and expense

Finance income comprises interest income, dividend income, gains on the disposal of financial assets and foreign currency gains on investments. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the NIS's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expense comprises foreign currency losses on investments.

(m) Loan commitments

Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

The NIS has not issued any loan commitments that are measured at FVTPL.

For other loan commitments the NIS recognises a loss allowance.

Liabilities arising from loan commitments are included within provisions.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank and other short-term highly liquid instruments with original maturities of three months or less.

4. New and amended standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2020 and earlier application is permitted; however, these standards are not expected to have a significant impact on the NIS' financial statements.

5. Cash and cash equivalents

	2020 \$	2019 \$
Bank balances	52,596,138	42,698,959
Cash on hand	1,103	1,520
	<u>52,597,241</u>	<u>42,700,479</u>

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Notes to the Financial Statements

For the year ended December 31, 2020

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6. Loans and advances

	2020 \$	2019 \$
Loans guaranteed by the Government of St. Vincent and the Grenadines	40,700,983	44,485,500
Loans secured by mortgage	11,495,948	55,904,053
Unsecured staff loans	397,330	326,631
	52,594,261	100,716,184
Provision for impairment losses	(11,430,814)	(15,460,226)
	<u>41,163,447</u>	<u>85,255,958</u>

The movement in the allowance for impairment losses in respect of loans and advances during the year was as follows:

	2020 \$	2019 \$
Balance at January 1	15,460,226	10,648,307
Movements during the year	(4,029,412)	4,811,919
Balance at December 31	<u>11,430,814</u>	<u>15,460,226</u>

7. Investment securities and deposits

	2020 \$	2019 \$
Investment securities at FVTPL		
Equities	37,334,797	31,793,440
Investment securities at amortised cost		
Debt securities	196,124,781	195,089,863
Expected credit losses	(19,571,553)	(24,052,609)
	<u>176,553,228</u>	<u>171,037,254</u>
Investment securities at FVOCI		
Debt securities	5,824,477	5,665,227
Expected credit losses	(884)	(29,815)
	<u>5,823,593</u>	<u>5,635,412</u>
Equities designated as at FVOCI	53,878,590	50,838,832
	<u>59,702,183</u>	<u>56,474,244</u>
	<u>273,590,208</u>	<u>259,304,938</u>

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7. Investment securities and deposits (cont'd)

The movement in the allowance for impairment in respect of investment securities and deposits during the year was as follows:

	2020 \$	2019 \$
Balance at January 1	24,082,424	23,402,234
Change for the year	-	4,874,895
Reversal of impairment losses	(4,509,987)	(4,194,705)
Balance at December 31 (note 25 (b) (ii))	<u>19,572,437</u>	<u>24,082,424</u>

In January 2009, the Central Bank of Trinidad and Tobago affirmed the financial problems, and announced that it had intervened into the operations of CL Financial Limited, Colonial Life (Trinidad) Ltd., CLICO Investment Bank, British American Insurance Company (Trinidad) Limited and Caribbean Money Market Brokers, all members of the CL Financial Group (the Group).

Later during 2009, British American Insurance Company Limited, a Bahamian registered subsidiary of CL Financial Limited, which owned and operated branches in the Organisation of Eastern Caribbean States (OECS) was deemed to be insolvent. Consequently, the company and its branches throughout the OECS were placed under Judicial Management.

In April 2013, the Supreme Court of Barbados placed CLICO International Life Insurance Limited, also a CL Financial Limited subsidiary, under Judicial Management. Effective with the appointment, the Judicial Manager assumed immediate control of the affairs of the company and is responsible for assessing its financial position and reporting to the Court.

The Government and Central Bank of Trinidad and Tobago, where CL Financial Limited is incorporated, the Government of Barbados, where CLICO International Life Insurance Limited is incorporated, and the OECS Governments, including the Government of St. Vincent and the Grenadines, have undertaken by way of various actions and initiatives, to protect the interests of the Group's respective policy holders, depositors, and other creditors. The outcome of these undertakings cannot be guaranteed.

The NIS has investments in fixed deposits in CL Financial Group as at December 31 as follows:

	2020 \$	2019 \$
Fixed deposits	19,612,467	19,886,683
Payment received	-	(274,216)
Gross carrying value at December 31	19,612,467	19,612,467
Provision for impairment	(18,474,511)	(18,474,511)
Fixed deposits, net	<u>1,137,956</u>	<u>1,137,956</u>

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8. Investment in associate

The NIS has a twenty percent (20%) ownership of the Bank of St. Vincent and the Grenadines. The Bank's principal place of business is located at Reigate Building, Granby Street, Kingstown, St. Vincent. The principal activities of the Bank are the provision of retail, corporate banking and investment services. The NIS is represented by two (2) persons on the Board of Directors.

The following table summarises the financial information of the Bank of St. Vincent and the Grenadines as indicated in its own financial statements:

	2020 \$	2019 \$
Percentage ownership interest	20%	20%
Total assets	1,214,583,302	1,126,608,002
Total liabilities	(1,080,804,714)	(1,001,234,906)
Net assets (100%)	133,778,588	125,373,096
NIS' share of net assets, being carrying amount of interest in associate	26,755,718	25,074,619
Revenue	53,771,347	55,495,008
Profit from continuing operations (100%)	3,621,634	14,093,481
Other comprehensive income (100%)	11,833,694	53,925
Total comprehensive income (100%)	15,455,328	14,147,406
Balance as at January 1	25,074,619	23,535,138
Share of profit	724,360	2,818,696
Share of OCI	2,366,739	10,785
Dividend received	(1,410,000)	(1,290,000)
Balance as at December 31	26,755,718	25,074,619

9. Investment properties

	2020 \$	2019 \$
Balance at January 1	22,919,137	22,716,487
Additions	-	202,650
Net change in fair value of investment property	(740,137)	-
Balance at December 31	22,179,000	22,919,137

Investment properties comprise parcels of land and buildings located at Beachmont, Kingstown; Halifax Street; Kingstown and Union Island. The properties were revalued by an independent valuer within the last three (3) years.

Rental income from investment properties of \$1,426,399 (2019: \$1,447,929) has been recognised in other income.

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9. Investment properties (cont'd)

Measurement of fair values

(i) Fair value hierarchy

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provide the fair value of the NIS' investment property portfolio every three years.

The fair value measurement for all of the investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see note 26(a)).

(ii) Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used.

Val. Technique	Sig. Unobs. Inputs	Relationship
Building: The market and income approach was used:		
Market approach - Comparable properties were assessed and the most comparable property was chosen as a basis for the valuation. The values were then adjusted based on the condition of the building.	1.) Judgments about the physical condition of the building; and 2.) The determination and value of comparable properties.	The estimated fair value would increase (decrease) if: 1. The value per square foot were higher (lower); and 2. The assessment of the condition of the building was not reasonable.
Income Approach - The assessed rental value is derived from assessing comparable rental rates, then adjusting it downward for insurance, repairs and property management. A discount rate deemed to be appropriate for prime rental property was chosen to determine perpetuity then the value was derived based on the years to perpetuity and the assessed rental value.	1. An appropriate discount rate; 2. The determination of comparable properties; and 3. The size and price per square foot of comparable properties.	1. An appropriate discount rate was not used; and 2. The assessed rent was not reasonable.
Land:		
Market approach - Comparable properties were assessed and the most comparable property was chosen as a basis for the valuation.	1.) Judgments about the characteristics of the land; and 2.) The determination and value of comparable properties.	The estimated fair value would increase (decrease) if: 1. The value per square foot were higher (lower); and 2. The assessment of the condition of the land was not reasonable.

10. Inventories

	2020 \$	2019 \$
Balance at January 1	9,318,713	9,063,908
Acquisitions/Additions	55,441	254,805
Net change in fair value of inventories	(1,674,154)	-
Balance at December 31	<u>7,700,000</u>	<u>9,318,713</u>

Inventories comprise land at Peter's Hope held for real estate development.

The General Employees Cooperative Credit Union Limited (GECCU) owns property adjoining the lands owned by the NIS. Both parties, the NIS and GECCU, entered into a Memorandum of Understanding (MOU) that establishes a working relationship for the joint planning and physical infrastructural development of the properties owned by the parties ("the Project"). The MOU establishes and defines the Project activities and provides for, among other things, a framework for project administration and cost allocation. The total size of the proposed development is 57.2 acres. GECCU is the owner of 31.2 acres and the NIS owns 26 acres. The parties plan to develop the lands for residential and commercial purposes with the intention of sale in the ordinary course of business.

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11. Property and equipment

	Freehold buildings	Furniture and fixtures	Office equipment	Building related equipment	Computer equipment	Motor vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance at January 1, 2019	35,212,569	2,103,102	531,245	1,803,896	1,701,735	481,727	41,834,274
Additions	-	43,357	20,730	43,254	100,912	-	208,253
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2019	35,212,569	2,146,459	551,975	1,847,150	1,802,647	481,727	42,042,527
Balance at January 1, 2020	35,212,569	2,146,459	551,975	1,847,150	1,802,647	481,727	42,042,527
Additions	-	30,517	-	11,611	213,023	67,625	322,776
Disposals	-	-	(394)	-	(142,443)	(95,385)	(238,222)
Balance at December 31, 2020	35,212,569	2,176,976	551,581	1,858,761	1,873,227	453,967	42,127,081
Accumulated depreciation							
Balance at January 1, 2019	8,984,245	2,077,545	513,982	986,559	1,448,485	233,694	14,244,510
Depreciation for the year	861,659	10,098	8,806	117,830	103,693	74,720	1,176,806
Disposals	-	-	-	-	-	-	-
Balance at December 31, 2019	9,845,904	2,087,643	522,788	1,104,389	1,552,178	308,414	15,421,316
Balance at January 1, 2020	9,845,904	2,087,643	522,788	1,104,389	1,552,178	308,414	15,421,316
Depreciation for the year	861,659	13,475	8,935	118,259	101,032	71,613	1,174,973
Disposals	-	-	(302)	-	(141,700)	(95,386)	(237,388)
Balance at December 31, 2020	10,707,563	2,101,118	531,421	1,222,648	1,511,510	284,641	16,358,901
Carrying amounts							
At December 31, 2019	25,366,665	58,816	29,187	742,761	250,469	173,313	26,621,211
At December 31, 2020	24,505,006	75,858	20,160	636,113	361,717	169,326	25,768,180

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Notes to the Financial Statements

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12. Intangible assets

	Computer software
	\$
Cost	
Balance at January 1, 2019	2,075,744
Additions	156,356
Balance at December 31, 2019	2,232,100
Balance at January 1, 2020	2,232,100
Additions	80,371
Balance at December 31, 2020	2,312,471
Accumulated amortisation	
Balance at January 1, 2019	1,970,855
Amortisation for the year	40,034
Balance at December 31, 2019	2,010,889
Balance at January 1, 2020	2,010,889
Amortisation for the year	55,342
Balance at December 31, 2020	2,066,231
Carrying amounts	
At December 31, 2019	221,211
At December 31, 2020	246,240

13. Contributions receivable

	2020	2019
	\$	\$
Contributions receivable	15,318,362	15,377,197
Provision for impairment losses	(10,374,983)	(10,232,347)
	4,943,379	5,144,850

The movement in the provision for impairment losses in respect of contributions receivable during the year was as follows:

	2020	2019
	\$	\$
Balance at January 1	10,232,347	9,829,887
Change in provision for impairment losses	142,636	402,460
Balance at December 31	10,374,983	10,232,347

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14. Other assets

	2020 \$	2019 \$
Prepayments	381,492	210,611
Staff receivables	107,274	190,293
Rent receivables	754,660	1,118,952
Other receivables	43,616,998	4,027,046
	44,860,424	5,546,902
Provision for impairment losses	(1,336,790)	(1,589,500)
	<u>43,523,634</u>	<u>3,957,402</u>

On October 20, 2020, a resolution was made by cabinet to take over the liability of \$42.77 million from the National Properties Limited. As at year end the receivable balance was \$35.02 million. The outstanding balance will be settled with land as well as cash. The receivable was classified as 'other receivable' pending the transfer of title for the identified parcels of land and the exchange of cash.

15. Accounts payable and accrued liabilities

	2020 \$	2019 \$
Due to BVI Social Security	319,808	166,054
Contributions refundable	40,956	77,411
Accounts payable and accruals	951,049	1,538,775
Other payables	16,200	35,120
	<u>1,328,013</u>	<u>1,817,360</u>

16. Reserves

(a) Benefit reserves

Section 20 of the National Insurance Services (Financial and Accounting) Regulations, 1996 stipulates that at the end of each year, the excess of income over expenses for each branch be transferred to a separate reserve fund to finance the approved benefits. Presently, the NIS is meeting all of its current obligations. The benefit reserves does not represent the NIS's liability to beneficiaries but instead reflects the allocation of accumulated reserves based on application of certain ratios as stipulated by the NIS's regulations.

Apportionment of contribution income

Section 18 of the National Insurance Services (Financial and Accounting) Regulations, 1996 stipulates that contribution income be apportioned to the benefit branches in accordance with the approved recommendations of the actuary.

Contribution income is allocated as follows:

	2020 %	2019 %
Long-term benefit	85.45	85.45
Short-term benefit	8.25	8.25
Employment injury benefit	6.30	6.30
	<u>100.00</u>	<u>100.00</u>

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Notes to the Financial Statements

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16. Reserves (cont'd)

(a) Benefit reserves (cont'd)

Section 17 of the National Insurance Act, requires an actuarial review every third year and each such review, shall make a report on the financial condition of the NIS, and the adequacy or otherwise of contributions to support benefits. Accordingly, the 11th actuarial review was conducted by covering a 3-year period 2017 to 2019. The review report dated August 31, 2021, was issued by LifeWorks, the appointed actuaries. While the COVID-19 impact on the NIS' finances in 2020 and 2021 are not covered in this report, the effects of the pandemic have been considered in the outlook for the NIS. The review report states that the NIS is not financially sustainable over the medium and long-terms at current benefit provisions and contributions rate. By design, the NIS is partially funded and the current contribution rate and accumulated reserves are expected to be adequate to meet all obligations for approximately 15 to 20 more years. Key assumptions in arriving at these projections are:

- Average contribution rate – 9.87%
- Long-term yield on reserves – 4.0%
- Other income – 2.0%

Principal demographic & economic assumptions made by the actuary include:

- Long-term inflation – 2.0%
- Real increase in wages – 0.6%
- Real GDP Growth Rates – 1.5% decreasing to 1.25% in 2025. 1.25% until 2039 and 0.5% thereafter.

The actuarial recommendations ensuring the NIS's solvency are being examined by management in consultation with the Ministry of Finance.

(b) National Provident Fund

The National Provident Fund (NPF) includes legacy contributors under the NIS.

(c) Foreign exchange reserve

Foreign exchange reserve comprises all foreign currency differences arising on translation of debt and equity securities classified as FVOCI.

(d) Fair value reserve

The fair value reserve comprises:

- (i) the cumulative net change in the fair value of equity securities designated at FVOCI;
- (ii) the cumulative net change in the fair value of debt securities at FVOCI until the assets are derecognized or reclassified. This amount is reduced by the amount of loss allowance; and
- (iii) revaluation reserves relating to revaluation of investment properties.

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17. Net finance income

	2020 \$	2019 \$
Interest on loans	2,592,513	5,634,961
Interest income on unimpaired investments	8,024,837	8,644,038
Dividend income on financial assets	2,034,796	2,002,088
Finance income	12,652,146	16,281,087
Net foreign exchange gain/(loss) on investments	22,675	(142,592)
Gain on disposal of investments	4,038,244	7,485,121
Other gains	4,060,919	7,342,529
Net finance income recognised in profit or loss	16,713,065	23,623,616

18. Other income, net

	2020 \$	2019 \$
Rental income	1,426,399	1,447,929
Gain on disposal of property, plant and equipment	11,165	-
Surcharges and other fees	690,090	364,180
	2,127,654	1,812,109

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19. Classification of benefits

- a. Benefits are classified to benefit branches in accordance with Section 3 of the National Insurance Services (Financial and Accounting) Regulations, 1996.

	Short-term benefit		Long-term benefit		Employment injury benefit		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$
Sickness benefit	2,282,354	1,912,587	-	-	-	-	2,282,354	1,912,587
Maternity benefit	1,245,516	1,155,337	-	-	-	-	1,245,516	1,155,337
Maternity grant	330,660	310,850	-	-	-	-	330,660	310,850
Funeral grant	-	-	2,088,685	1,886,246	-	-	2,088,685	1,886,246
Invalidity benefit	-	-	1,055,826	978,385	-	-	1,055,826	978,385
Survivor's benefit	-	-	5,426,060	4,498,417	-	-	5,426,060	4,498,417
Age benefit	-	-	58,210,050	54,925,020	-	-	58,210,050	54,925,020
Age grant	-	-	1,356,251	615,685	-	-	1,356,251	615,685
NIS employment injury medical	-	-	-	-	9,963	305,061	9,963	305,061
NIS employment injury	-	-	-	-	139,663	137,543	139,663	137,543
NIS employment disablement	-	-	-	-	93,049	91,429	93,049	91,429
NIS employment death	-	-	-	-	60,093	77,086	60,093	77,086
Non-contributory assistance age pension	-	-	635,584	749,930	-	-	635,584	749,930
Elderly assistance benefit	-	-	286,014	338,670	-	-	286,014	338,670
Temporary unemployment Benefit	2,357,625	-	-	-	-	-	-	-
Total expenditure	6,216,155	3,378,774	69,058,470	63,992,353	302,768	611,119	75,577,393	67,982,246

- b. Schedule of benefits paid from National Provident Fund as at December 31.

	2020	2019
	\$	\$
Age benefit	1,490,713	1,952,331
Survivor's benefit	44,527	45,032
Invalidity benefit	8,889	16,043
	1,544,129	2,013,406

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20. General and administrative expenses

	2020 \$	2019 \$
Accommodation and travel expenses	58,612	307,831
Advertising and promotion	52,566	113,154
Amortisation expense	55,342	40,034
Annual awards dinner and anniversary celebrations	48,499	17,100
Audit fees	107,926	70,350
Bank charges	125,612	112,398
Cleaning expense	129,300	110,400
Depreciation expense	1,174,973	1,176,806
Directors' fees and expenses	150,428	173,565
Donations, community and education projects	1,399,339	591,489
Insurance	210,358	206,918
Legal fees	873	443
Management fees	1,027,677	738,048
Miscellaneous expenses	6,553	15,515
Office expenses	42,928	36,512
Postage and stationery	104,466	154,580
Post office charges	48,000	48,000
Professional fees	148,039	196,899
Repairs and maintenance	160,222	345,803
Staff costs (Note 21)	5,970,907	6,352,402
Subscriptions	218,793	180,654
Security	198,891	142,505
Utilities	541,476	592,135
Administrative research and filing services - legal	-	190
	<u>11,981,780</u>	<u>11,723,731</u>

21. Staff costs

	2020 \$	2019 \$
Salaries and wages	5,297,118	5,484,433
National Insurance contributions	195,901	197,783
Retirement benefit plan contributions (note 23)	249,260	238,328
Staff training	62,402	136,157
Uniforms and medical insurance	166,226	295,701
	<u>5,970,907</u>	<u>6,352,402</u>
Number of employees at December 31	<u>95</u>	<u>94</u>

22. Income tax

The National Insurance Services is exempt from the payment of income tax under the Income Tax Act, 1979.

NATIONAL INSURANCE SERVICES

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23. Retirement benefit plan

The National Insurance Services provides retirement benefits under a defined contribution plan administered by Colonial Life Insurance Company (Trinidad) Limited (CLICO) for all of its employees on the permanent establishment. Under the provisions of the plan, the National Insurance Services and its employees are required to contribute 6% and 3%, respectively, of the employees' basic monthly salary towards the plan. During the year, National Insurance Services' contribution to the pension plan amounted to \$249,260 (2019: \$238,328). This amount was charged to profit or loss. The NIS suspended payment directly to CLICO because of the financial instability of the institution effective October 2010. However, the contributions are thereafter paid into a deposit account at the Bank of St. Vincent and the Grenadines Ltd. for the benefit of staff.

24. Classification of financial assets and financial liabilities

The table below provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

IFRS 9 classification

December 31, 2020	Amortised cost	Fair value through other comprehensive income	Financial asset at fair value through profit/loss	Total
Assets				
Cash and cash equivalents	52,597,241	-	-	52,597,241
Loans and advances	41,163,447	-	-	41,163,447
Interest receivable on loans and investment securities	4,695,724	141,601	-	4,837,325
Investment securities and deposits	176,553,228	59,702,183	37,334,797	273,590,208
Contributions receivable	4,943,379	-	-	4,943,379
Other assets	43,523,634	-	-	43,523,634
Total financial assets	323,476,653	59,843,784	37,334,797	420,655,234
Liabilities				
Benefits payable	4,759,935	-	-	4,759,935
Accounts payable and accrued liabilities	1,328,013	-	-	1,328,013
Regulatory reserves				
Short-term benefit	30,969,632	-	-	30,969,632
Long-term benefit	347,868,883	-	-	347,868,883
Employment injury benefit	82,685,488	-	-	82,685,488
National provident fund	34,595,785	-	-	34,595,785
Other liabilities				
Deferred income	14,830	-	-	14,830
Total financial liabilities	502,222,566	-	-	502,222,566

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24. Classification of financial assets and financial liabilities (cont'd)

December 31, 2019	Amortised cost	Fair value through other comprehensive income	Financial asset at fair value through profit/loss	Total
Assets				
Cash and cash equivalents	42,700,479	-	-	42,700,479
Loans and advances	85,255,958	-	-	85,255,958
Interest receivable on loans and investment securities	13,673,102	126,828	-	13,799,930
Investment securities and deposits	171,037,254	56,474,244	31,793,440	259,304,938
Contributions receivable	5,144,850	-	-	5,144,850
Other assets	3,957,402	-	-	3,957,402
Total financial assets	<u>321,769,045</u>	<u>56,601,072</u>	<u>31,793,440</u>	<u>410,163,557</u>
Liabilities				
Benefits payable	3,999,344	-	-	3,999,344
Accounts payable and accrued liabilities	1,817,360	-	-	1,817,360
Regulatory reserves				
Short-term benefit	30,903,667	-	-	30,903,667
Long-term benefit	350,647,800	-	-	350,647,800
Employment injury benefit	74,965,670	-	-	74,965,670
National provident fund	35,891,264	-	-	35,891,264
Other liabilities				
Deferred income	24,040	-	-	24,040
Total financial liabilities	<u>498,249,545</u>	<u>-</u>	<u>-</u>	<u>498,249,545</u>

25. Financial risk review

(a) Introduction and overview

The NIS has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the NIS's exposure to each of the above risks, the NIS's objectives, policies and processes for measuring and managing risk, and the NIS's management of reserves.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the NIS's risk management framework.

The NIS's risk management policies are established to identify, assess, manage, monitor and report the risks faced by the NIS. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and services offered. The NIS, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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25. Financial risk review (cont'd)

(a) Introduction and overview (cont'd)

The NIS's Audit and Risk Committees are responsible for monitoring compliance with the NIS's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the NIS. The Audit Committee and the Risk Management Committee are assisted in these functions by Internal Audit Department and Internal Risk Management Unit. Both internal units perform both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and Risk Management Committee.

(b) Credit risk

Credit risk is the risk of financial loss to the NIS if a contributor or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from contributions receivable, loans and investment securities and deposits.

Exposure to credit risk

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

Management of credit risk

The Board of Directors has responsibility for the management of credit risk and this includes:

- *Formulating credit policies* covering collateral requirements, credit assessment, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval of investments and loans.
- *Reviewing and assessing credit risk* including assessing all credit exposures in excess of designated limits, prior to funds being committed to new investments. Loans are subject to the same review process.

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Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

Management of credit risk (cont'd)

Impaired loans and securities are loans and securities for which the NIS determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / security agreements.

(i) Credit quality analysis IFRS 9

	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
December 31, 2020				
Debt securities measured at amortised cost				
Investment grade	40,924,707	9,504,814	-	50,429,521
Non-investment grade	111,549,375	14,533,418	-	126,082,793
Credit impaired	-	-	19,612,467	19,612,467
Gross carrying amount	152,474,082	24,038,232	19,612,467	196,124,781
Less: loss allowance	(565,453)	(2,370,957)	(16,635,143)	(19,571,553)
Carrying amount	151,908,629	21,667,275	2,977,324	176,553,228
Debt securities measured at FVOCI				
Investment grade	5,210,720	-	-	5,210,720
Non-investment grade	-	268,820	-	268,820
Credit impaired	-	-	-	-
Gross carrying amount	5,210,720	268,820	-	5,479,540
Loss allowance	(866)	(18)	-	(884)
Carrying amount – fair value	5,554,770	268,823	-	5,823,593

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(i) Credit quality analysis IFRS 9 (cont'd)

	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
December 31, 2020				
Loans to corporations and public sector measured at amortised cost				
Investment grade	-	-	-	-
Non-investment grade	26,082,290	-	-	26,082,290
Credit impaired	-	-	20,955,860	20,955,860
Gross amount	26,082,290	-	20,955,860	47,038,150
Less: loss allowance	(75,654)	-	(11,112,748)	(11,188,402)
Carrying amount	26,006,636	-	9,843,112	35,849,748
Loans to employees measured at amortised cost				
Performing	5,037,417	-	-	5,037,417
Past due but not credit impaired	-	-	-	-
Credit impaired	-	-	518,694	518,694
Gross carrying amount	5,037,417	-	518,694	5,556,111
Less: loss allowance	(61,718)	-	(180,694)	(242,412)
Carrying amount	4,975,699	-	338,000	5,313,699
	30,982,335	-	10,181,112	41,163,447
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
December 31, 2019				
Debt securities measured at amortised cost				
Investment grade	48,504,562	-	-	48,504,562
Non-investment grade	112,291,671	14,681,163	-	126,972,834
Credit impaired	-	-	19,612,467	19,612,467
Gross carrying amount	160,796,233	14,681,163	19,612,467	195,089,863
Less: loss allowance	(6,201,396)	(1,112,065)	(16,739,148)	(24,052,609)
Carrying amount	154,594,837	13,569,098	2,873,319	171,037,254
Debt securities measured at FVOCI				
Investment grade	5,042,180	-	-	5,042,180
Non-investment grade	-	268,820	-	268,820
Credit impaired	-	-	-	-
Gross carrying amount	5,042,180	268,820	-	5,311,000
Loss allowance	(10,255)	(19,560)	-	(29,815)
Carrying amount – fair value	5,358,259	277,153	-	5,635,412

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(i) Credit quality analysis IFRS 9 (cont'd)

	Stage 1	Stage 2	Stage 3	2019
	\$	\$	\$	\$
December 31, 2019				
Loans to corporations and public sector measured at amortised cost				
Investment grade	-	-	-	-
Non-investment grade	31,646,114	-	-	31,646,114
Credit impaired	-	-	63,725,494	63,725,494
Gross amount	31,646,114	-	63,725,494	95,371,608
Less: loss allowance	(1,076,506)	-	(14,133,419)	(15,209,925)
Carrying amount	30,569,608	-	49,592,075	80,161,683
Loans to employees measured at amortised cost				
Performing	4,940,663	-	-	4,940,663
Past due but not credit impaired	-	-	-	-
Credit impaired	-	-	403,912	403,912
Gross carrying amount	4,940,663	-	403,912	5,344,575
Less: loss allowance	(64,690)	-	(185,610)	(250,300)
Carrying amount	4,875,973	-	218,302	5,094,275
	35,445,581	-	49,810,377	85,255,958

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(i) Credit quality analysis IFRS 9 (cont'd)

Contributions receivable measured at amortised cost	2020	2019
	\$	\$
Current	2,461,929	2,633,065
Past due 0 - 30	33,353	47,493
Past due 31 - 60	14,230	53,328
Past due 61 – 90	47,725	44,543
Non-performing	<u>12,761,125</u>	<u>12,598,768</u>
Gross carrying amount	15,318,362	15,377,197
Less: loss allowance	<u>(10,374,983)</u>	<u>(10,232,347)</u>
Carrying amount	<u>4,943,379</u>	<u>5,144,850</u>

Rent receivables measured at amortised cost	2020	2019
	\$	\$
Current	(1,296)	5,151
Past due 0 - 30	-	1,300
Past due 31 - 60	(100)	82,378
Past due 61 – 90	-	(200)
Non-performing	<u>763,356</u>	<u>1,038,043</u>
Gross carrying amount	761,960	1,126,672
Less: loss allowance	<u>(575,617)</u>	<u>(828,327)</u>
Carrying amount	<u>186,343</u>	<u>298,345</u>

(ii) Expected credit loss measurement

The NIS recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- contributions receivable;
- rent receivables; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Expected credit losses are the probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive);
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the NIS if the commitment is drawn down and the cash flows that the NIS expects to receive;
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

General approach

Loss allowances under IFRS 9 for investment securities and the staff loan portfolio are estimated under the requirements of the general approach. The following outlines the requirements of IFRS 9 general approach for impairment provisions, which is based on changes in credit quality since initial recognition:

Stage 1

A debt instrument is categorised in stage 1 if there is no significant increase in credit risk. Expected credit losses are estimated based on default events that are possible in the next 12 months.

Stage 2

If the debt instrument is not credit impaired but there is a significant increase in credit risk (see below), the debt instrument is transferred to stage 2. Expected credit losses at stage 2 are estimated based on all possible events over the life of an asset. Interest revenue is recorded on the carrying amount; gross of expected credit losses.

Stage 3

If a debt instrument is credit impaired it is categorised as Stage 3. Like stage 2 instruments, lifetime expected losses are estimated. Interest revenue is recorded on the carrying amount, net of expected credit losses.

Simplified approach

The NIS estimates expected credit losses for contributions receivable and rent receivables by applying the simplified approach. Under this approach, expected credit losses are recognised on a lifetime basis, utilising a provision matrix or ageing analysis to calculate default rates.

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Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Significant increase in credit risk

For debt securities, the NIS assesses significant increase in credit risk based on credit risk migration or back stop criteria. Credit risk migration criteria is reliant on the IFRS 9 low credit risk exemption, which assumes no significant increase in credit risk for investment grade instruments. On the other hand, the backstop criteria is utilised when there is insufficient information to determine credit risk rating.

As far as available and practical, public external ratings is the source of credit ratings. In instances where securities are unrated, the ratings are determined internally by applying Moody's Methodology for the sector to which the investment security is assigned. As a matter of policy, if there is insufficient information available to conduct an internal rating, then significant increase in credit risk may be determined by qualitative and quantitative credit risk factors. In these situations, the NIS must exercise clear and sound judgement in credit risk rating. Credit risk factors include inter alia:

- Significant adverse changes in business, financial or economic risk associated with the borrower
- Expected forbearance or restructuring
- Indications of significant adverse operating results
- Significant reduction in collateral value for secured obligations
- Early signs of liquidity problems

Default and credit impaired

The NIS defines a financial instrument as 'in default' or credit impaired based on the following:

- Quantitative criteria:
 - More than 90 days past due on its contractual payments
- Qualitative criteria:
 - The issuer is in long-term forbearance
 - The issuer is insolvent
 - The issuer is in breach of financial covenants
 - The issuer is expected to enter into bankruptcy

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Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Credit risk curing

Debt instruments classified as stage 3 and stage 2 are reclassified if the following conditions are satisfied:

- Stage 3 debt instruments are reclassified to stage 2 or 1 if the instrument is no longer deemed to be credit impaired. The quantitative and qualitative criteria for both stages 2 and 1 will determine the stage to which the instrument is categorised.
- An instrument classified as stage 2 will be classified as stage 1 when the credit risk is deemed to be low based on the quantitative and qualitative factors.

Expected credit loss model

The components of the expected credit loss model are the probability of default (PD), the exposure at default (EAD), the loss given default (LGD) and the effective interest rate.

Debt securities

The expected credit loss for debt securities is the product of the Probability of Default, Loss Given Default and Exposure at Default, discounted to the report date using the effective interest rate.

Contribution and rent receivables

The expected credit loss for contribution and rent receivable is the product of the Default rate and the carrying value discounted to the report date using the NIS actuarial hurdle rate.

Probability of default

The probability of default (PD) represents the likelihood of default over the next 12 months or over the remaining lifetime of the financial asset.

For debt securities exclusive of staff loans, cumulative PDs published in Moody's rating agency Default Study are integrated into the expected credit loss model on the basis of credit rating or credit quality.

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25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Probability of default (cont'd)

Due to insufficient historical data and supportable information, staff loan default rate is approximated by a variable with a universal scope. In this regard, the NIS incorporates non-performing loan (NPL) ratios for the banking sector of St. Vincent and the Grenadines, published by the Eastern Caribbean Central Bank. To convert the observed NPL ratios into cumulative or lifetime default rates, the NIS uses an exponential transformation function.

Default rates for contribution and rent receivables comprise the following:

- Calculation of marginal default rates or roll rates from historical ageing analysis; and
- Exponential transformation of average roll rate to establish a default rate term structure of cumulative or lifetime measures

Exposure at default

Exposure at default (EAD) include amounts the NIS estimates to be outstanding at the time of default, over the next 12 months or over the remaining lifetime. Estimates take account of contractual cash flows of financial instruments to establish a point in time measure of the EAD.

Loss given default

Loss given default provides an estimate of the expectation of the extent of loss on a defaulted exposure. The LGD takes the form of the percentage loss per unit of exposure, which is residual of any recoverable value. Therefore, the LGD model is applied as one minus the recovery rate of the security (1-r) with the recoverable amount calculated based on the following considerations:

- The value of collateral for secured financial assets;
- Risk neutral credit spreads;
- Cashflows from debt exchange/workout;
- Moody's recovery rates as per priority ranking;
- The prospect of regulatory or home authority support for regulated financial institutions; and
- The application of adequate management overlay where estimates of the recoverable value are irrelevant.

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For the year ended December 31, 2020

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25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Loss given default (cont'd)

The table below shows techniques for estimating the LGD:

Approach	Description	Scope
Asset pricing model LGD	This approach assumes that the spread above risk free rate reflects the recovery rate once the PD is known.	Sovereign Bonds Treasury Bills
Work-out LGD	Present value of estimated cash flows resulting from work-out or recovery process	Loans Fixed Deposits
Market-based LGD	Estimates of LGD are derived from recovery rates published by external rating agency	Corporate Bonds

Forward-looking information

To incorporate forward-looking information into the estimate of the ECL, the NIS:

- Considers macroeconomic forecasts for indicators such as unemployment rate, GDP, inflation, debt to GDP, interest rates and credit spreads from reputable sources to form expectations for input into forecasting model;
- Selects an appropriate stochastic process to produce forecasts of macroeconomic variables over a five-year period; and
- Incorporates multiple scenarios by:
 - Examining historical experience;
 - Applying an appropriate simulation technique to generate a large number of alternative economic scenarios;
 - Selecting economic scenarios that correspond to a 10.0 per cent downside (10th percentile), a base case (50th percentile), and 10.0 per cent upside (90th percentile), respectively;
 - Calculating the likelihood or probability weight of each selected scenario based on the statistical properties from the distribution of the scenarios;
 - Transforming through the cycle PDs into point in time or conditional PDs with an appropriate credit risk model; and
 - Applying judgmental overlay or through the cycle PDs when economic forecasts are unreliable or there is an absence of reasonable or supportable input data.

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Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Amounts arising from ECLs

	2020			Total \$
	Stage 1 \$	Stage 2 \$	Stage 3 \$	
Debt securities measured at amortised cost				
Balance at January 1	6,157,999	1,155,462	16,739,148	24,052,609
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(43,397)	43,397	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(4,273,418)	1,215,495	(104,005)	(3,161,928)
New assets originated or purchased	155,498	-	-	155,498
Assets derecognised or repaid	(1,474,626)	-	-	(1,474,626)
Write-offs	-	-	-	-
Balance at December 31	522,056	2,414,354	16,635,143	19,571,553
Debt securities measured at FVOCI				
Balance at January 1	10,255	19,560	-	29,815
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(9,389)	(19,542)	-	(28,931)
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	-	-	-	-
Write-offs	-	-	-	-
Balance at December 31	866	18	-	884
	522,922	2,414,372	16,635,143	19,572,437

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Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Amounts arising from ECLs (cont'd)

	2020			
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Loans to corporations and public sector measured at amortised cost				
Balance at January 1	1,076,506	-	14,133,419	15,209,925
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(1,000,852)	-	(2,804,480)	(3,805,332)
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	-	-	(216,191)	(216,191)
Write-offs	-	-	-	-
Balance at December 31	75,654	-	11,112,748	11,188,402
Loans to employees measured at amortised cost				
Balance at January 1	64,691	-	185,610	250,301
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	(12,903)	-	(6,923)	(19,826)
New assets originated or purchased	11,391	-	2,008	13,399
Assets derecognised or repaid	(1,462)	-	-	(1,462)
Write-offs	-	-	-	-
Balance at December 31	61,717	-	180,695	242,412

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Amounts arising from ECLs (cont'd)

	2020					Total \$
	Current \$	0 – 30 \$	31 – 60 \$	61 – 90 \$	Over 90 \$	
Contributions receivable						
Balance at January 1	1,192,096	32,741	37,172	31,250	8,939,088	10,232,347
Net remeasurement of loss allowance	(78,446)	(9,520)	(27,083)	2,699	254,986	142,636
Balance at December 31	1,113,650	23,221	10,089	33,950	9,194,074	10,374,983
Rent receivables						
Balance at January 1	3,546	932	51,311	-	772,538	828,327
Net remeasurement of loss allowance	(3,546)	(932)	(51,311)	-	(196,921)	(252,710)
Balance at December 31	-	-	-	-	575,617	575,617

	2019			
	Stage 1 \$	Stage 2 \$	Stage 3 \$	Total \$
Debt securities measured at amortised cost				
Balance at January 1	1,127,721	1,112,619	21,151,737	23,392,077
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	3,525,916	(554)	(2,085,133)	1,440,229
New assets originated or purchased	1,675,973	-	-	1,675,973
Assets derecognised or repaid	(128,214)	-	(2,327,456)	(2,455,670)
Write-offs	-	-	-	-
Balance at December 31	6,201,396	1,112,065	16,739,148	24,052,609
Debt securities measured at FVOCI				
Balance at January 1	9,004	1,154	-	10,158
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	5,894	18,406	-	24,300
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	(4,643)	-	-	(4,643)
Write-offs	-	-	-	-
Balance at December 31	10,255	19,560	-	29,815
	6,211,651	1,131,625	16,739,148	24,082,424

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For the year ended December 31, 2020

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25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Amounts arising from ECLs (cont'd)

	2019			
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Loans to corporations and public sector measured at amortised cost				
Balance at January 1	345,448	-	10,151,977	10,497,425
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Net remeasurement of loss allowance	731,058	-	3,981,442	4,712,500
New assets originated or purchased	-	-	-	-
Assets derecognised or repaid	-	-	-	-
Write-offs	-	-	-	-
Balance at December 31	1,076,506	-	14,133,419	15,209,925

	2019			
	Stage 1	Stage 2	Stage 3	Total
	\$	\$	\$	\$
Loans to employees measured at amortised cost				
Balance at January 1	40,546	-	110,337	150,883
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(1,587)	-	1,587	-
Net remeasurement of loss allowance	1,838	-	73,686	75,524
New assets originated or purchased	26,184	-	-	26,184
Assets derecognised or repaid	(2,291)	-	-	(2,291)
Write-offs	-	-	-	-
Balance at December 31	64,694	-	185,610	250,300

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(ii) Expected credit loss measurement (cont'd)

Amounts arising from ECLs (cont'd)

	2019					Total \$
	Current \$	0 – 30 \$	31 – 60 \$	61 – 90 \$	Over 90 \$	
Contributions receivable						
Balance at January 1	212,865	54,089	31,266	35,604	9,496,063	9,829,887
Net remeasurement of loss allowance	979,231	(21,348)	5,906	(4,354)	(556,975)	402,460
Balance at December 31	1,192,096	32,741	37,172	31,250	8,939,088	10,232,347
Rent receivables						
Balance at January 1	64,655	21,235	17,657	20,962	531,054	655,563
Net remeasurement of loss allowance	(61,109)	(20,303)	33,654	(20,962)	241,484	172,764
Balance at December 31	3,546	932	51,311	-	772,538	828,327

(iii) Collateral held and other credit enhancements

The NIS holds collateral against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure:

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
	2020 %	2019 %	
Loans and advances			
Loans to the Government of St. Vincent and the Grenadines	100	100	Property and Government guarantees
Loans to other statutory bodies	100	100	Property and Government guarantees
Staff loans	99	99	Property and bills of sale
Other	100	100	Property and Government guarantees
Investment debt securities			
Government bonds	-	-	None
Corporate bonds	-	-	None
Contributions receivable	-	-	None

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25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of credit risk

The maximum exposure to credit risk by geographic region was:

	Contributions receivable	Other Assets	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2020						
Domestic	4,943,379	43,523,634	3,402,105	41,163,447	106,626,077	199,658,642
OECS	-	-	78,326	-	19,783,871	19,862,197
Other Caribbean	-	-	1,138,601	-	81,971,502	83,110,103
Other	-	-	218,293	-	65,208,758	65,427,051
Carrying amount	4,943,379	43,523,634	4,837,325	41,163,447	273,590,208	368,057,993

	Contributions receivable	Other Assets	Interest receivable	Loans and advances	Investment securities and deposits	Total
December 31, 2019						
Domestic	5,144,850	3,957,402	12,527,482	85,255,958	97,836,812	204,722,504
OECS	-	-	164,388	-	22,977,554	23,141,942
Other Caribbean	-	-	914,150	-	81,739,034	82,653,184
Other	-	-	193,910	-	56,751,538	56,945,448
Carrying amount	5,144,850	3,957,402	13,799,930	85,255,958	259,304,938	367,463,078

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For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(b) Credit risk (cont'd)

(iv) Concentration of credit risk (cont'd)

The maximum exposure to credit risk by sector was:

	Other Assets	Interest receivable	Loans and advances	Investment and securities and deposits	Total
December 31, 2020					
Local government and other related entities	43,523,634	2,789,920	24,481,437	59,686,435	130,481,426
Other governments	-	945,217	-	39,156,494	40,101,711
Corporate	-	1,072,865	11,368,311	174,747,279	187,188,455
Employees	-	29,323	5,313,699	-	5,343,022
Carrying amount	43,523,634	4,837,325	41,163,447	273,590,208	363,114,614
December 31, 2019					
Local government and other related entities	3,957,402	11,768,654	65,533,387	46,563,523	127,822,966
Other governments	-	923,082	-	47,544,135	48,467,217
Corporate	-	1,082,641	14,628,296	165,197,280	180,908,217
Employees	-	25,553	5,094,275	-	5,119,828
Carrying amount	3,957,402	13,799,930	85,255,958	259,304,938	362,318,228

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(c) Liquidity risk

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

The following were the contractual maturities of financial liabilities at the reporting date:

	Carrying amount \$	Contractual cash flows \$	Under 1 year \$	1-5 years \$	6-10 years \$	Over 10 years \$
December 31, 2020						
Non-derivative financial assets						
Cash and cash equivalents	52,597,241	52,597,241	52,597,241	-	-	-
Loans and advances	41,163,447	81,932,993	-	18,613,727	36,309,172	27,010,094
Interest receivable on loans and investment securities	4,837,325	14,301,100	14,301,100	-	-	-
Investment securities and deposits	273,590,208	309,395,908	73,356,851	40,395,265	75,750,140	119,893,652
Contributions receivable	4,943,379	4,943,379	4,943,379	-	-	-
Other assets	43,523,634	44,284,806	44,284,806	-	-	-
	<u>420,655,234</u>	<u>507,445,427</u>	<u>189,483,377</u>	<u>59,008,992</u>	<u>112,059,312</u>	<u>146,903,746</u>
Non-derivative financial liabilities						
Benefits payable	(4,759,935)	(4,759,935)	(4,759,935)	-	-	-
Accounts payable and accrued liabilities	(1,328,013)	(1,328,013)	(1,328,013)	-	-	-
Deferred income	(14,830)	(14,830)	(9,210)	(5,620)	-	-
	<u>(6,102,778)</u>	<u>(6,102,778)</u>	<u>(6,097,158)</u>	<u>(5,620)</u>	<u>-</u>	<u>-</u>
Net liquidity gap	<u>414,552,456</u>	<u>501,352,649</u>	<u>183,386,219</u>	<u>59,003,372</u>	<u>112,059,312</u>	<u>146,903,746</u>

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(c) Liquidity risk (cont'd)

	Carrying amount \$	Contractual cash flows \$	Under 1 year \$	1-5 years \$	6-10 years \$	Over 10 years \$
December 31, 2019						
Non-derivative financial assets						
Cash and cash equivalents	42,700,479	42,700,479	42,700,479	-	-	-
Loans and advances	85,255,958	114,832,633	-	14,614,356	22,304,306	77,913,971
Interest receivable on loans and investment securities	13,799,930	15,277,701	15,277,701	-	-	-
Investment securities and deposits	259,304,938	307,170,129	105,540,091	52,946,831	71,266,088	77,417,119
Contributions receivable	5,144,850	15,377,197	-	-	15,377,197	-
Other assets	3,957,402	5,546,902	5,546,902	-	-	-
	<u>410,163,557</u>	<u>500,905,041</u>	<u>169,065,173</u>	<u>67,561,187</u>	<u>108,947,591</u>	<u>155,331,090</u>
Non-derivative financial liabilities						
Benefits payable	(3,999,344)	(3,999,344)	(3,999,344)	-	-	-
Accounts payable and accrued liabilities	(1,817,360)	(1,817,360)	(1,817,360)	-	-	-
Deferred income	(24,040)	(24,040)	(9,210)	(14,830)	-	-
	<u>(5,840,744)</u>	<u>(5,840,744)</u>	<u>(5,825,914)</u>	<u>(14,830)</u>	<u>-</u>	<u>-</u>
Net liquidity gap	<u>404,322,813</u>	<u>495,064,297</u>	<u>163,239,259</u>	<u>67,546,357</u>	<u>108,947,591</u>	<u>155,331,090</u>

Exposure to liquidity risk

The key metric used by the NIS for measuring liquidity requirement is the ratio of budgeted contributions income to benefits payable.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(d) Market risk

Market risk is the risk that changes in the value market, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the NIS's income or the 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 optimising the return.

The table below sets out the allocation of financial assets and financial liabilities subject to market risk between trading and non-trading portfolios.

	Market risk measure		
	Carrying amount	Trading portfolios	Non-trading portfolios
	\$	\$	\$
December 31, 2020			
Assets subject to market risk			
Cash and cash equivalents	52,597,241	-	52,597,241
Loans and advances	41,163,447	-	41,163,447
Investment securities and deposits	273,590,208	37,334,797	236,255,411
Total	367,350,896	37,334,797	330,016,099

	Market risk measure		
	Carrying amount	Trading portfolios	Non-trading portfolios
	\$	\$	\$
December 31, 2019			
Assets subject to market risk			
Cash and cash equivalents	42,700,479	-	42,700,479
Loans and advances	85,255,958	-	85,255,958
Investment securities and deposits	259,304,938	31,793,440	227,511,498
Total	387,261,375	31,793,440	355,467,935

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(d) Market risk (cont'd)

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The NIS is exposed to foreign currency risk on transactions that are denominated in a currency other than the functional currency, the EC Dollar. There is no exposure to foreign currency risk in respect of the United States Dollar because the EC Dollar is pegged at EC\$2.70 for US\$1. However, there is exposure to foreign currency risk affecting the NIS's statement of profit or loss resulting from the fluctuations of other currencies like the Canadian Dollar (CAD) and the Republic of Trinidad and Tobago Dollar (TTD). The NIS also has foreign currency exposure affecting its equity.

The NIS's exposure to currency risk was as follows, based on notional amounts:

	December 31, 2020		
	CAD	TTD	Other
Interest receivable	4,954	81,130	9,564
Investment securities and deposits	2,440,828	5,141,075	1,438,332
Total exposure	2,445,782	5,222,205	1,447,896

	December 31, 2019		
	CAD	TTD	Other
Interest receivable	5,041	256,930	9,369
Investment securities and deposits	2,673,740	5,256,238	1,714,367
Total exposure	2,678,781	5,513,168	1,723,736

The following significant exchange rates have been applied during the year:

	2020 EC\$	2019 EC\$
1 TTD:	0.3826	0.3819
1 CAD:	2.1113	2.1473

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

25. Financial risk review (cont'd)

(d) Market risk (cont'd)

Currency risk (cont'd)

A reasonably possible strengthening (weakening) of the Eastern Caribbean dollar against all other relevant currencies at December 31 would have affected the measurement of financial instruments denominated in a foreign currency and affected reserves and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

	2020 EC\$		2019 EC\$	
	Strengthening	Weakening	Strengthening	Weakening
TTD (10% movement)	522,221	(522,221)	551,317	(551,317)
CAD (10% movement)	244,578	(244,578)	267,878	(267,878)

Interest rate risk

The NIS adopts a policy of ensuring that 55% of its exposure to changes in interest rates is on a fixed-rate basis, taking into account assets with exposure to changes in interest rates. The NIS does not enter into any interest rate swaps as hedges of the variability in cash flows attributable to interest rate risks.

At the reporting date the interest rate profile of the NIS's interest bearing financial instruments was:

Fixed rate instruments

	Carrying amount	
	2020 \$	2019 \$
Interest-earning financial assets	223,656,129	264,775,524

Fair value sensitivity analysis for fixed rate instruments

The NIS does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

26. Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the NIS determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

When measuring the fair value of an asset or a liability, the NIS uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

If the inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The NIS recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The NIS measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

26. Fair value of financial instruments (cont'd)

(a) Financial assets measured at fair value

	Level 1	Level 2	Level 3	Total
December 31, 2020	\$	\$	\$	\$
Investment securities				
Debt securities	5,823,593	-	-	5,823,593
Equities	50,951,663	38,190,553	2,071,172	91,213,388
	<u>56,775,256</u>	<u>38,190,553</u>	<u>2,071,172</u>	<u>97,036,981</u>
December 31, 2019	\$	\$	\$	\$
Investment securities				
Debt securities	-	5,635,412	-	5,635,412
Equities	43,171,355	37,753,312	1,707,605	82,632,272
	<u>43,171,355</u>	<u>43,388,724</u>	<u>1,707,605</u>	<u>88,267,684</u>

Unobservable inputs used in measuring Level 3 fair values:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Asset based approach with discounts applied where prudent, with subsequent consideration of the NIS's shareholding	Net assets Shareholding percentage	The estimated fair value would increase/(decrease) if: Net assets were higher/(lower) Shareholding increases/(decreases)

There are no movements between level 2 and level 3 investment securities.

(b) Financial assets not measured at fair value

For other financial instruments which include cash and cash equivalents, loans and advances, investment securities at amortised cost, interest receivable on loans and investment securities, contributions receivable and benefits payable, the carrying amount is a reasonable approximation of the fair value.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

27. Regulatory reserves

The National Insurance (Financial and Accounting) Regulations 1996 sets the capital requirements for the NIS as a whole.

In implementing current reserve requirements, the regulation requires that the NIS transfer the excess of income over expenses for each branch to a separate reserve at the end of the year.

The NIS's regulatory reserves are analysed into three categories:

- short-term benefit reserve;
- long-term benefit reserve; and
- employment injury benefit reserve.

The NIS's policy is to maintain a strong reserve base so as to sustain future development of the NIS and finance approved benefits. The NIS recognises the need to maintain a balance between the higher benefit payments that might be possible and the advantages and security afforded by a sound reserve position.

There was no material change in the NIS's management of reserves during the period.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

28. Related parties

(a) Identification of related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (in this Standard referred to as the 'reporting entity').

(i) A person or a close member of that person's family is related to a reporting entity if that person:

- has control or joint control of the reporting entity;
- has significant influence over the reporting entity; or
- is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(ii) An entity is related to a reporting entity if any of the following conditions applies:

- The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.
- The entity is controlled or jointly controlled by a person identified in (a).
- 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).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- that person's children and spouse or domestic partner;
- children of that person's spouse or domestic partner; and
- dependents of that person or that person's spouse or domestic partner.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

28. Related parties (cont'd)

(b) Related party transactions and balances

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

(c) Transactions with key management personnel

- short-term employee benefits, such as wages, salaries and social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services) for current employees;
- post-employment benefits such as pensions, other retirement benefits, post-employment life insurance and post-employment medical care;
- other long-term employee benefits, including long-service leave or sabbatical leave, jubilee or other long-service benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit-sharing, bonuses and deferred compensation;
- termination benefits.

The NIS is controlled by the Government of St. Vincent and the Grenadines.

Government refers to government, government agencies and similar bodies whether local, national or international.

A government-related entity is an entity that is controlled, jointly controlled or significantly influenced by a government.

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

28. Related parties (cont'd)

Significant transactions with related parties during the year were as follows:

	Net transaction values for the year ended December 31		Balance as at December 31	
	2020 \$	2019 \$	2020 \$	2019 \$
Loans and advances				
National Lotteries Authority	(618,715)	(580,080)	3,769,389	4,388,104
Bank of St. Vincent and the Grenadines	(3,294,762)	(2,253,304)	11,385,018	14,679,780
Government of St. Vincent and the Grenadines	3,313,440	(919,134)	10,927,884	7,614,444
National Student Loan Company	-	-	20,955,860	20,955,860
National Properties Limited	(42,769,635)	-	-	42,769,635
Staff	211,535	457,237	5,556,111	5,344,576
Investments				
Government of St. Vincent and the Grenadines	(4,238,806)	9,352,249	60,020,360	64,259,166
Campden Park Container Port	-	-	27,000	27,000
Rent				
Government of St. Vincent and the Grenadines	(166,288)	7,062	122,233	288,521
Receivable				
COLS – Government of St. Vincent and the Grenadines	279,450	289,625	3,825,158	3,545,708
TUB – Government of St. Vincent and the Grenadines	4,509,600	-	4,509,600	-
NPL Loan Resolution due from Government of St. Vincent and the Grenadines	35,016,073	-	35,016,073	-
Contribution income				
Government of St. Vincent and the Grenadines	2,069,036	2,535,922	26,257,083	24,188,047
Interest receivable				
National Lotteries Authority	(995)	(779)	11,682	12,677
Bank of St. Vincent and the Grenadines	1,279	(6,436)	21,018	19,739
Government of St. Vincent and the Grenadines	(53,696)	(16,949)	51,770	105,466
National Student Loan Company	984,051	991,939	4,009,730	3,025,679
National Properties Limited	(9,146,438)	2,927,550	-	9,146,438
Staff	3,770	6,297	32,417	25,553
Investment in associate				
Bank of St. Vincent and the Grenadines	1,681,099	1,539,481	26,755,718	25,074,619

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

28. Related parties (cont'd)

Key management personnel compensation

Key management personnel compensation comprised the following:

	2020 \$	2019 \$
Short-term employee benefits	490,542	499,431
Post-employment benefits	28,600	11,987
Directors	111,322	140,714
	<u>630,464</u>	<u>652,132</u>

29. Commitments

As of the reporting date, the Board of Directors approved capital expenditure amounting to:

	2020 \$	2019 \$
Capital expenditure	-	50,715

In the normal course of business, various credit commitments are outstanding which are not reflected in the statement of financial position.

These financial instruments are subject to normal credit standards, financial controls and monitoring procedures.

	2020 \$	2019 \$
Total off-balance sheet credit commitments	<u>25,000</u>	<u>189,959</u>

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

30. Corona Virus Pandemic (Covid-19)

In March 2020, the World Health Organization declared the COVID-19 a world-wide pandemic. To control the spread of the virus, Governments throughout the world implemented emergency measures which included restrictions on events and gatherings, travel bans, quarantine terms, physical distancing and the wearing of face coverings in public places. These measures significantly disrupted businesses globally, resulting in a worldwide economic slowdown.

Government implemented fiscal and monetary relief programmes to mitigate the effects of layoffs and furloughs.

During the reporting period (January 01 to December 31, 2020) the impact of the Virus on the National Insurance Services' operations mainly affected the following areas:

1. Payments amounting to \$2,357,625 under the Temporary Unemployment Benefit programme. This benefit type is not a part of the NIS normal ongoing programme. The proceeds from its implementation assisted many employees who lost their jobs or were otherwise unable to earn an income as a result of restrictive measures which the Government implemented to curb the spread of the virus.
2. Increased expenditure to sanitize the work environment.
3. The loss of contributions from businesses directly affected by the pandemic.
4. The volatility of stock prices in the global equity market, impacted net financing income in the profit and loss statement.

With the exception of the Temporary Unemployment Benefit which cost can be computed accurately, other items being revenue or cost may pose a challenge to be reliably quantified.

Management's outlook regarding the potential future impact of Covid-19 on the financial operation of the NIS is embedded in various calculations for provisions, expected credit losses and the going concern assumption. These calculations use a blend of historic and forward looking information, on a scenario basis. Forward looking information involves known and unknown risks and uncertainties, general or specific. The resulting expectations, forecast, predictions, projections or conclusions therefrom, may not prove to be accurate and could cause actual results to differ materially from current expectations of estimated or anticipated events or results.

Mitigation factors include but are not limited to:

- Deferral of capital expenditure
- Reduction of discretionary expenses
- Restriction of new hires

NATIONAL INSURANCE SERVICES

Notes to the Financial Statements

For the year ended December 31, 2020

(Expressed in Eastern Caribbean Dollars)

31. Subsequent events

Based on the holistic effects of the Covid-19 pandemic; outlined in Note 30, if the financial performance of the NIS is impacted for an extended period, the NIS's results may be materially adversely affected.

The University of the West Indies Seismic Volcano Observatory provides advice to the Government of St. Vincent and the Grenadines on volcanic activities. It also reports on the risks associated with eruptions.

The UWI Seismic Research Centre in its update on May 14, 2021, reported that seismic activity at the La Soufriere in St Vincent remained low since the tremor associated with the explosion and ash venting on April 22, 2021.

The volcano continues to be in a state of unrest and escalation in activity can still take place with little or no warning and that the volcano is at the alert level orange.

This advisory together with the COVID-19 Pandemic, is expected to impact the economy of St. Vincent and the Grenadines negatively in the short-term. Over 20,000 persons living in the northern part of the island were dislocated. Preliminary impact assessment shows, that this part of the island has been severely affected. Agricultural crops and livestock were destroyed along with significant damage done to homes and infrastructure.

The impact of this event on the NIS' operations is difficult to quantify. It is anticipated to occur only in the short-term and the financial loss is expected to be minimal. However, notwithstanding the aforementioned, it is probable that there can be a knock-on effect from the delay of a planned parametric reform of the fund, coupled with delays in key tourism related projects, and that the impact from these activities in the subsequent reporting periods may be material.

NATIONAL INSURANCE SERVICES

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

KPMG

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KPMG

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ADDITIONAL COMMENTS OF INDEPENDENT AUDITORS

To: The Honourable Minister of Finance
Administrative Building
Kingstown

The accompanying Schedule of Branch Operations is presented as supplementary information only. In this respect, it does not form part of the financial statements of the National Insurance Services for the year ended December 31, 2020 and hence is excluded from the opinion expressed in our report dated December 30, 2021 to the Honourable Minister of Finance on such financial statements.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
December 30, 2021

NATIONAL INSURANCE SERVICES

Schedule of Branch Operations

December 31, 2020

(Expressed in Eastern Caribbean Dollars)

	Short-term Benefit		Long-term Benefit		Employment Injury Benefit		National Provident Fund		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Income										
Contributions	5,528,690	5,596,086	57,263,828	57,961,889	4,221,909	4,273,374	-	-	67,014,427	67,831,349
Net financing income	1,133,078	1,479,818	12,808,553	18,479,365	2,771,434	3,664,433	-	-	16,713,065	23,623,616
Interest on National Provident Fund	(16,857)	(19,074)	(190,561)	(238,188)	(41,232)	(47,232)	248,650	304,494	-	-
Other	36,012	382,041	372,998	3,957,023	27,500	291,741	-	-	436,510	4,630,805
Total income	6,680,923	7,438,871	70,254,818	80,160,089	6,979,611	8,182,316	248,650	304,494	84,164,002	96,085,770
Expenditure										
Benefits	6,216,155	3,378,774	69,058,470	63,992,353	302,768	611,119	1,544,129	2,013,406	77,121,522	69,995,652
Impairment loss - contributions and rent receivables	(9,081)	47,457	(94,058)	491,529	(6,935)	36,238	-	-	(110,074)	575,224
Impairment loss – investment securities	(579,018)	454,313	(6,545,353)	5,673,281	(1,416,242)	1,125,005	-	-	(8,540,613)	7,252,599
Administrative expenses	986,902	774,729	10,614,676	10,527,362	380,202	421,640	-	-	11,981,780	11,723,731
Total expenditure	6,614,958	4,655,273	73,033,735	80,684,525	(740,207)	2,194,002	1,544,129	2,013,406	80,452,615	89,547,206
Net surplus for the year	65,965	2,783,598	(2,778,917)	(524,436)	7,719,818	5,988,314	(1,295,479)	(1,708,912)	3,711,387	6,538,564



The Saint Vincent & the Grenadines **National Insurance Services**

ANNUAL REPORT 2020

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