

# ANNUAL REPORT 2020



CAYMAN ISLANDS  
**CINICO**  
NATIONAL INSURANCE COMPANY

**OPENING DOORS  
TO WELLNESS  
FOR OUR MEMBERS**



FISCAL YEAR ENDED  
31 DECEMBER 2020

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CAYMAN CENTER

 **CINICO**

 NO CASH

 **CINICO**  
WINE & SPIRITS

 **CINICO**

 **CINICO**



## Message from the Minister for Finance and Economic Development



CINICO achieved best ever Financial Performance in 2020.

The early decisions and actions that the Government took to mitigate the potentially deadly impact of the pandemic on the lives, health and well-being of its citizens and residents were priceless. The resilience and cooperation of businesses and citizens during the crisis was astounding. Our ability to come together and effectively rid these Islands of the COVID-19 virus, while other countries are still struggling, is something to be proud of.

Facing its own share of COVID related challenges, I commend the Board of Directors and CINICO team for implementing the necessary measures in order to ensure the seamless and successful transition of operations and avoid potential interruptions as the pandemic progressed.

Due to the lockdown, travel restrictions and low claim costs, CINICO ended the 2020 financial year in a significantly better financial position than what was originally anticipated. Preliminary results show that CINICO achieved a Net Income of \$10.5 million, which was \$7.7 million above budget and \$10.8 million above the prior year. On a line of business basis, with the exception the SHIC segment, all other segments produced an underwriting profit, resulting from favourable claims and expenses, and the risk premium. This is remarkable turn-around in the performance of CINICO. CINICO is a government-owned health insurance company that is required to meet unique challenges while operating in a regulatory environment designed for private sector insurance providers. Over the upcoming year, the Government will be reviewing and implementing measures to ensure that CINICO becomes better fit-for-purpose and operates in a sustainable way.

I am pleased to present this Annual Report which provides a wealth of information on CINICO's achievements during the unprecedented 2020 financial year.

I offer my sincere thanks and congratulations to the Board, management and staff of CINICO for their continued commitment, dedication and hard work throughout the year.

**Honourable Roy McTaggart, JP**  
*Minister for Finance & Economic Development*  
April 30, 2021

## Foreword by the Board Chairperson



I am pleased to present  
this annual report for the  
fiscal year period ended  
December 31, 2020.

To say that 2020 was a challenging year would be a gross understatement. The year was dominated by COVID-19 and its attendant challenges. In this regard, CINICO was far from unique. What started off as a year full of promise, soon turned into a year of adjustment and flexibility.

In the face of the attendant challenges, I am pleased to note that CINICO was able to quickly adapt and to substantially maintain our operations under trying circumstances. Of course, the disruption caused by the pandemic forced us to shift focus from the planned pursuit of the stated objectives in our strategic plan, to finding ways to maintain our operational functionality, whilst not losing sight of the strategic objectives.

I am delighted to be able to say that we have been able to do so and wish to commend our Management and Staff for their efforts in this regard under trying circumstances. Our Board of Directors also faced challenges and I also wish to commend and thank them for their support and guidance which have assisted CINICO efforts to continue to operate effectively.

Notwithstanding these challenges, we have ended 2020 in the strongest financial position in the history of CINICO. For 2021, we look forward to the further strengthening of our operational capabilities and improvements in our service delivery in a number of tangible ways.



**Patricia Estwick**  
*Chairperson of the Board of Directors*  
*Cayman Islands National Insurance Company*  
April 30, 2021

## Message from Chief Executive Officer



I am pleased to present this annual report for the fiscal year period ended December 31, 2020.

Well, 2020 is behind us and what a year that was! On January 28, 2020, we were shaken by an earthquake of a reported magnitude of 7.7. Little did we know that was just the start of what would eventually be a year full of shocks and aftershocks of the non-earthquake variety.

We started the year full of optimism, setting out to pursue a number of stated objectives as articulated in our strategic plan and outlined in last year's Annual Report. However, to paraphrase Scottish poet Robert Burns, "the best-laid plans of mice and men often go awry". In March, the worldwide effect of COVID-19 started to impact these Cayman Islands and like everyone else, CINICO had to pivot from original plans and to move into survival mode. We shifted to a work from home model and were able to maintain almost full functionality as regards services offered by us, subject mainly to restrictions put in place by our government.

This in itself was quite an experience but we were able to weather the storm and have emerged from it a stronger and more nimble organization. We would like to place on record, our appreciation of the leadership of our country by our Premier and his Cabinet and supporting teams, which has enabled us to be in a somewhat unique position at this time, of being able to resume some level of normalcy in our day-to-day lives, to an extent that very few other countries in the world are able to. We salute our colleagues at the Health Services Authority and all other front-line workers (both within and outside of the government) whose sacrifices enabled us to ride out the tumultuous period. We also wish to acknowledge the efforts and commitment of our Management, Staff and Board of Directors, all of whom rose to the challenges of operating in a very different and unusual environment.

It is an "ill wind that blows no good", and COVID-19 was no exception. The restrictions of movement led to a period of months during which utilization of medical services for non-essential purposes was significantly reduced. As a result, our financial position at the end of the year was significantly better than projected, and we recorded our best ever result notwithstanding a surge during the last few months of the year.

CINICO is emerging from a difficult period. We were steered through this period by a strong Board of Directors, under the Chairmanship of Ms. Patricia Estwick. As 2021 has started, Ms. Estwick has been asked to assume another Board position and as such, has relinquished her role as Chairman and Board Member of CINICO. Her strong leadership was instrumental in ensuring that CINICO was able to emerge stronger after a difficult period, and our Management and Staff would like to place on record our appreciation of her stewardship and support. As we await the appointment of a new Chairman, we look forward to working along with our new leader in 2021 and beyond.



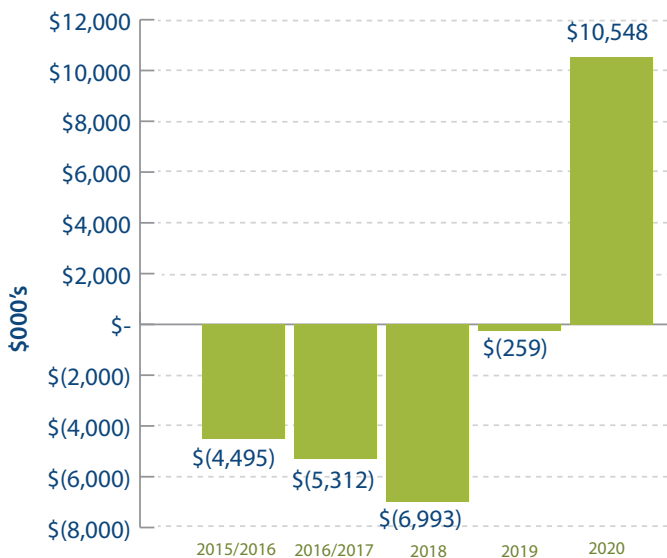
**Michael Gayle**  
*Chief Executive Officer*  
April 30, 2021



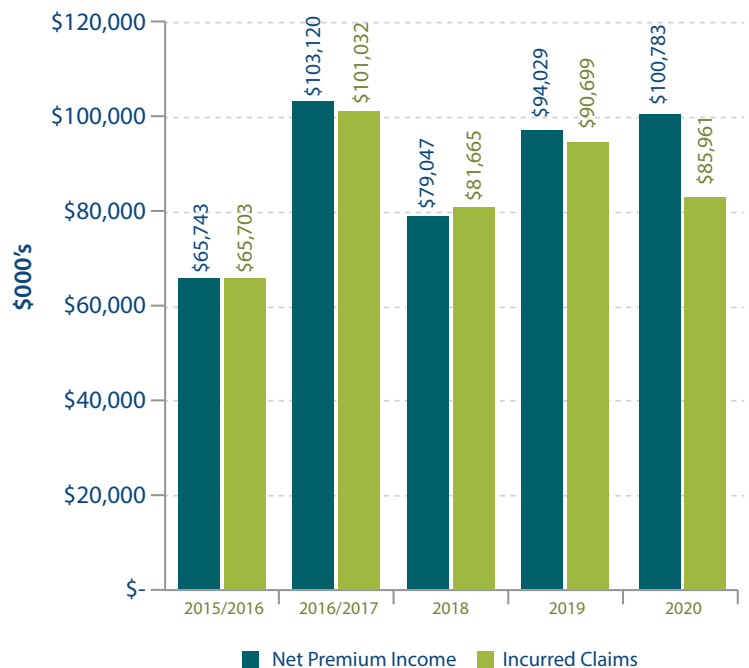
## Financial and Operational Highlights

This section of the annual report provides key financial and operational trends for the 2020 fiscal year, and the four previous reporting periods. Due to a change in CIGs financial year-end period previously ending June, altered to December, the 2016/17 is an 18-month reporting period.

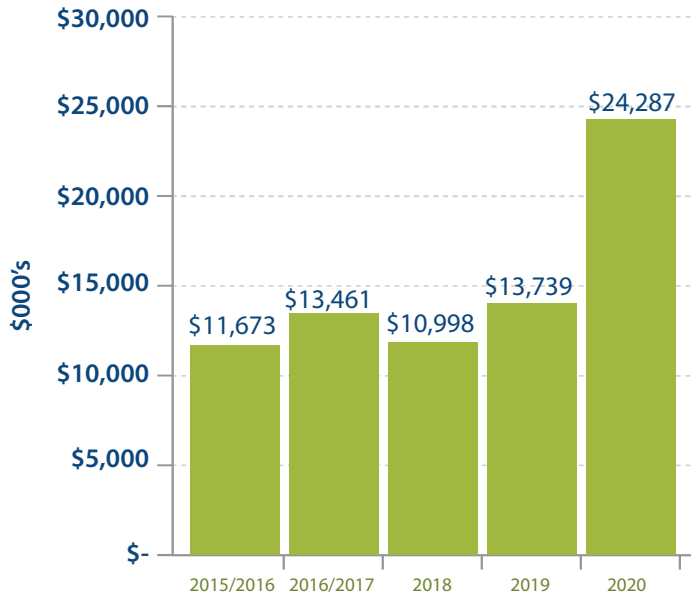
### NET INCOME/LOSS



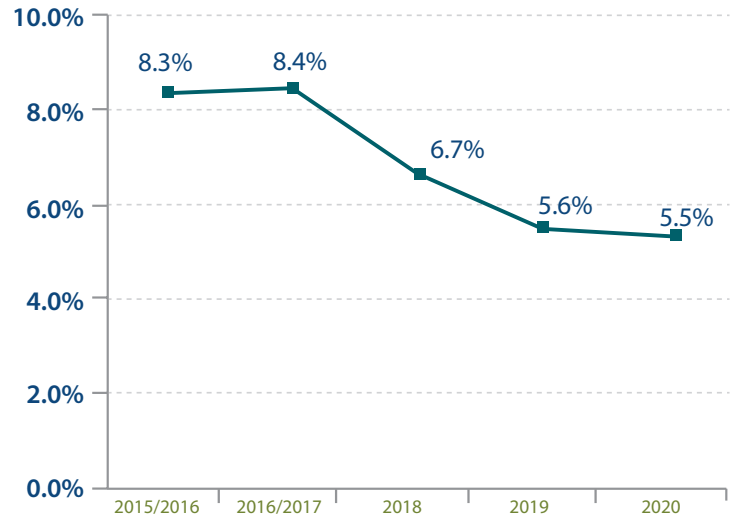
### NET PREMIUM INCOME VERSUS CLAIMS INCURRED



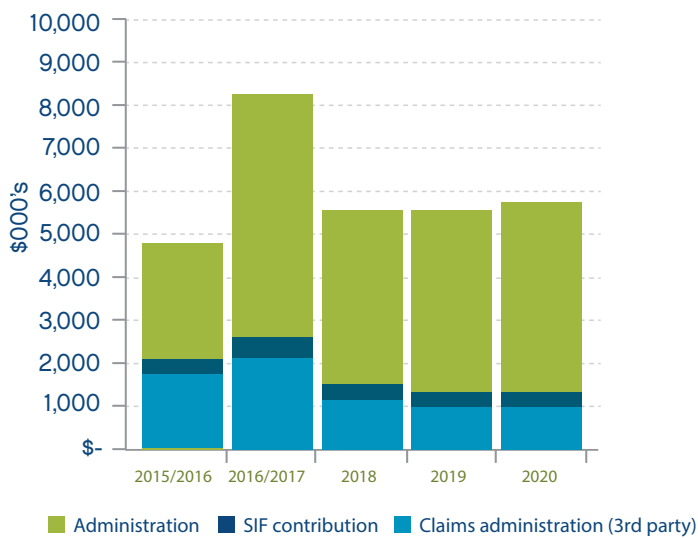
## SHAREHOLDER'S EQUITY



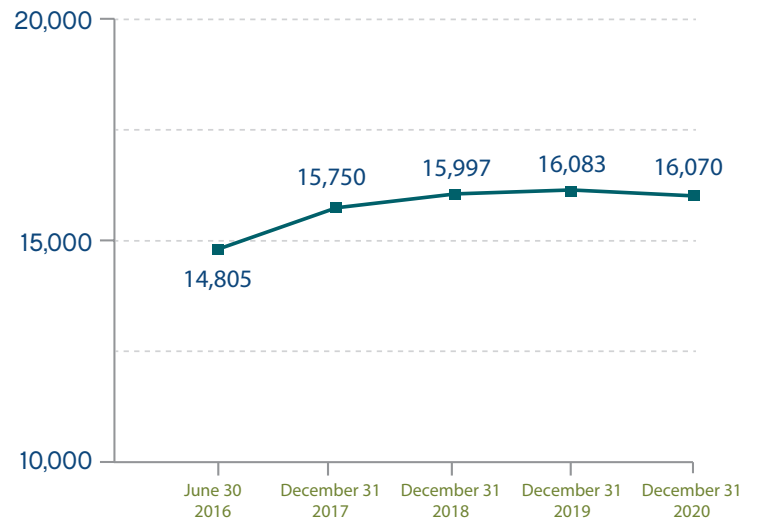
## PRODUCTIVITY RATIO (lower the better)



## TOTAL EXPENSES



## MEMBERSHIP (AVERAGE)







# Organizational Overview

## CINICO STRUCTURE AND FUNCTIONS

Cayman Islands National Insurance Company (CINICO) is a government-owned insurance company formed to provide health insurance coverage to civil servants (employees and pensioners) and other residents of the Cayman Islands.

Incorporated by the Cayman Islands Government (CIG) on December 18, 2003 and granted a Class “A” Insurance License on February 1, 2004, CINICO is a wholly owned subsidiary of the CIG.

CINICO provides the CIG with a governance framework (with its own Board of Directors and committees of the Board), management team, and service providers who are experienced in managing the risks related to health insurance plans. As a separate insurance underwriting business, the Company is regulated by the Cayman Islands Monetary Authority (“CIMA”), the Health Insurance Commission, audited by internal Government auditors, the Office of the Auditor General (OAG) and an external auditor.

As a Class “A” Insurance Company, CINICO is required by CIMA to maintain a minimum capital requirement (“MCR”) and prescribed capital requirement (“PCR”), in accordance with the “The Insurance (Capital and Solvency) Class A Insurers Regulations, 2012.

CINICO's insurance programme is structured such that the primary network provider is the Cayman Islands Health Services Authority (CIHSA or HSA). For services that cannot be provided by the CIHSA, as determined by CIHSA's medical practitioner (or dental practitioner), approval for treatment through CINICO's complimentary network is sought by the attending practitioner. Medical treatment by other local or overseas health providers is approved by the Chief Medical Officer (CMO) and, similarly, dental treatment is approved by the Chief Dental Officer (CDO). CINICO's complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries, which are accessed through CINICO's overseas care management consultant, who works closely with the overseas coordinator at CIHSA.

The largest area of CINICO programming is health insurance coverage for civil servants and pensioners, and their designated dependents. The CIG is financially responsible for 100% of the associated costs of most services and funds this coverage through monthly premium payments to CINICO.

Individuals covered by the Indigent Plan (those individuals without health insurance and who suffer catastrophic illness or injury, or whose medical coverage does not adequately cover a catastrophic illness or injury, or individuals who have been deemed financially indigent by the

Government and therefore entitled to support) receive similar health benefits to civil servants, and the Ministry of Health (MOH) provides funding for the associated costs.

Seafarers and Veterans, as well as their dependents, receive the same coverage as civil servants, except that they are required to pay 10% of the cost of all overseas medical services.

The Standard Health Insurance Contract (SHIC) is another insurance plan available to all residents of the Cayman Islands. Members on this plan pay for their coverage through monthly premiums, and the coverage is limited to benefits mandated in the Health Insurance Law.

## STAKEHOLDERS

**Our key stakeholders are diverse and include:**

- Cayman Islands Government
- Cayman Islands Seafarers Association (CISA)
- Cayman Islands Health Services Authority (CIHSA)
- Cayman Islands Civil Service Association (CICSA)
- Chief Dental Officer (CDO)
- Chief Medical Officer (CMO)
- Department of Child & Family Services (DCFS)
- Needs Assessment Unit (NAU)
- Health City Cayman Islands (HCCI)
- Ministry of Finance and Economic Development
- Ministry of Health (MOH)
- Office of the Auditor General (OAG)
- Health Insurance Commission (HIC)
- Oliver Wyman (Health Actuarial Practice)
- Portfolio of the Civil Service (PoCS)
- Public Service Pensions Board (PSPB)
- Medical Officer of Health

## GOVERNANCE AND BOARD OF DIRECTORS

### Corporate Governance

The Cayman Islands Government, as the 100% shareholder, appoints the members of the Board of Directors and its Chairperson. The Board conducts its corporate governance roles and responsibilities in accordance with the Corporate Governance Operational Policy and Procedures Manual, and in conjunction with applicable Cayman Islands Laws. The Board appoints the Chief Executive Officer and Chief Financial Officer as well as the Chairperson and directors of the various sub-committees of the Board in accordance with its corporate governance mandate.

### Board of Directors and Committees of the Board

The Board of Directors is comprised of individuals appointed by the shareholder, with relevant background and experience, and these appointments are approved by CIMA. The list of the Board of Directors in 2020 is listed on the next page.

### Committees of the Board

The Board has four main committees with specific functions delegated to them. These committees are:

- Finance & Audit Committee
- Eligibility & Appeals Committee
- Risk & Compliance Committee
- Human Resources (HR) Committee

The Board establishes sub-committees and delegates specific responsibilities that would otherwise be reserved for the Board. In establishing sub-committees, the Board outlines clear parameters and terms of reference outlining their purpose, composition, accountability, meetings, and responsibilities.

**Executive Management:**

The Board of Directors delegates the day-to-day management of the Company to its executive management team, led by the Chief Executive Officer, and empowers executive management to perform the functions of their office in a manner that will promote the business affairs of CINICO as well as advance the vision and strategic goals of the Company. The executive management team consists of:

- **Chief Executive Officer**  
Michael Gayle
- **Chief Financial Officer**  
Frank Gallippi
- **General Manager**  
Dana Brandon
- **Chief Risk and Compliance Officer**  
Debra Humphreys

**BOARD OF DIRECTORS - 2020**

**Name and Committee Roles**

Patricia Estwick <sup>(1,2)</sup>

Anne Owens <sup>(4)</sup>

Janet Sairsingh

Darlee Ebanks

Dr. George Meggs <sup>(3)</sup>

Betty Baraud

Roger Corbin <sup>(6)</sup>

Dwight Merren <sup>(5)</sup>

- (1) Chairperson
- (2) Chairperson of Finance & Audit Committee
- (3) Chairperson of Eligibility & Appeals Committee
- (4) Chief Officer (or designate) Ministry of Finance and Economic Development
- (5) Chairperson of Risk & Compliance Committee
- (6) Chairperson of HR Committee





## Our Mission, Vision and Values

Our strategic plan contains our Mission Statement and Values Statements. We have also identified our vision for the future.

The CINICO Mission Statement describes the fundamental purpose of our organization and what we provide to our members.

Our Vision Statement expresses what we aspire to accomplish in the medium to long term future.

Finally, our values reflect what is truly important to our Board, our management team and our staff in terms of our attitude, behavior and character, as well as how we would like to be seen by our clients and stakeholders.

**OUR MISSION**

“To provide affordable solutions for health-related risks through sustainable coverage.”

**OUR VISION**

“To open doors to wellness for our members through all stages of their lives.”

**OUR VALUES**

Our core values place the needs of our members first by ensuring that at all times we are:

- **Professional** - We value the contributions of our employees and ensure that they have the tools and knowledge to excel;
- **Accountable** - We take responsibility for our actions and report results in a transparent manner;
- **Compassionate** - We provide comfort and peace of mind in our dealings with others;
- **Collaborative** - We achieve common goals through successful working relationships; and

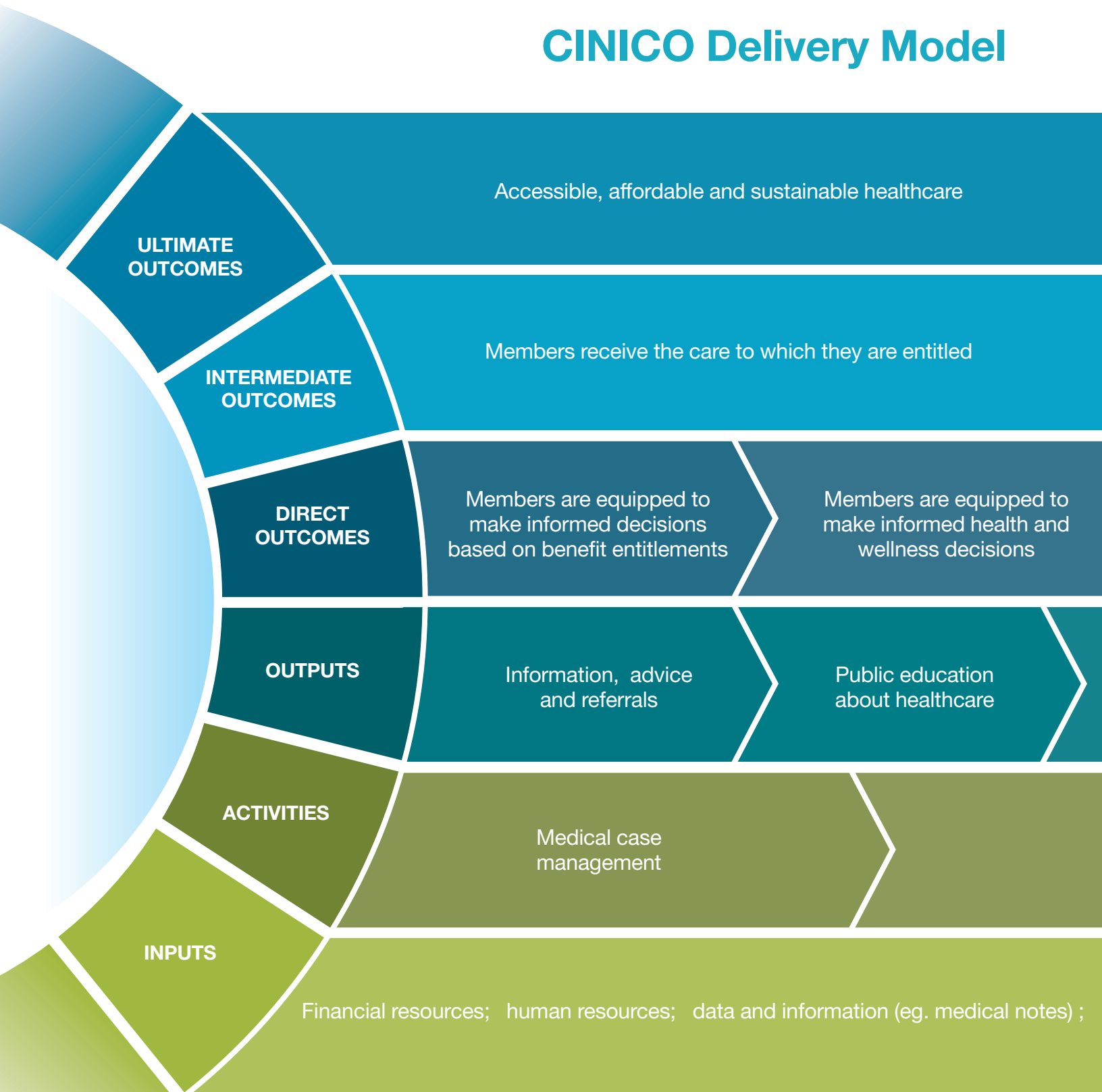
**CINICO DELIVERY MODEL**

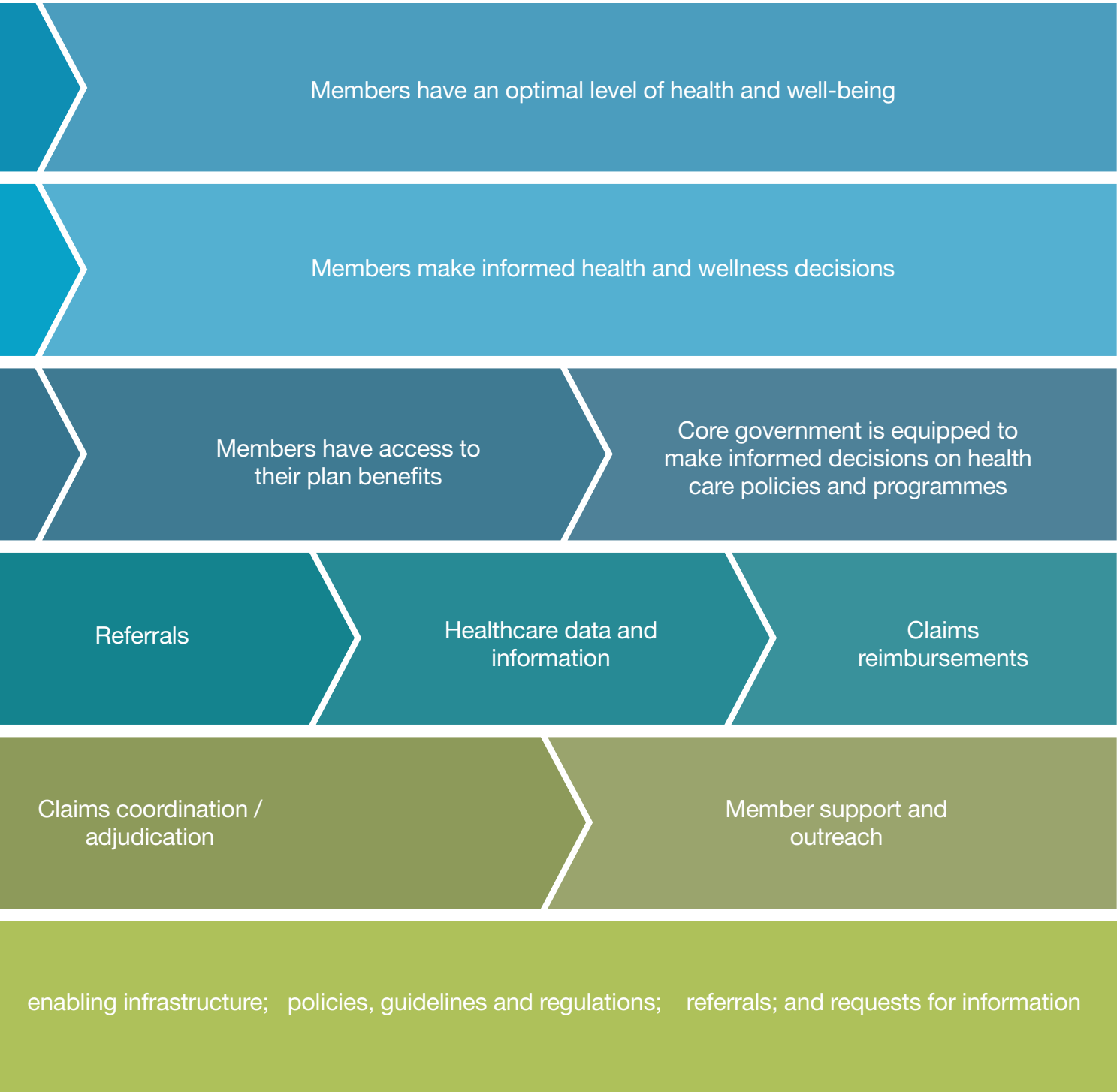
The “delivery model” presented in our strategic plan is comprised of the following elements:

- **Inputs** represent the resources and outputs from other parties that are consumed by our activities;
- **Activities** describe collections of actions and services which we deliver under our mandate;
- **Outputs** are the products generated by our activities;
- **Direct outcomes** are the first level of outcomes or impacts – those over which we have the most direct influence with our outputs;
- **Intermediate outcomes** comprise the second level of outcomes – those over which we have less influence with our outputs and where the influence may be shared with our stakeholders; and
- **Ultimate outcomes** are the highest level outcomes that can be attributed to our outputs and are subject to many influences beyond those of CINICO.



# CINICO Delivery Model







## Performance Review

### DELIVERING ON OUR CORE BUSINESS

This section of the annual report is structured according to the three performance perspectives that reflect how CINICO strives to be seen by its stakeholders and clients.

The three perspectives are: 1) Fiscally responsible, effective and sustainable; 2) Timely, efficient and collaborative; and 3) Representative, capable and competent.

#### **Fiscally responsible, effective and sustainable**

CINICO strives to be fiscally responsible, to achieve high level impacts despite resource limitations, and to successfully address challenges to our sustainability.

#### **Financial Performance:**

Because of COVID-19 which significantly reduced the demand for elective procedures during the lockdown, CINICO's financial performance showed a significant \$10.8 million improvement from the previous year.

Expenses were at the same level as the prior year and below budget (see Financial Performance Section for further details).

#### **CIMA Capital Requirements:**

As a Class "A" Insurance Company, CINICO is required to maintain capital levels compliant with "The Insurance (Capital and Solvency) Class A Insurers Regulations, 2012". The regulations set forth a Minimum Capital Requirement (MCR) and Prescribed Capital Requirement (PCR) through formula driven calculations based on assessing risk and asset factors for various balance sheet items, and maintaining prescribed margins on policy liabilities and net written premium.

With available capital of \$23.6 million, CINICO has capital levels above the MCR and the PCR by \$11.2 million and \$8.1 million, respectively. The strengthening of CINICO's capital is directly due to its 2020 financial performance.



### Timely, efficient and collaborative

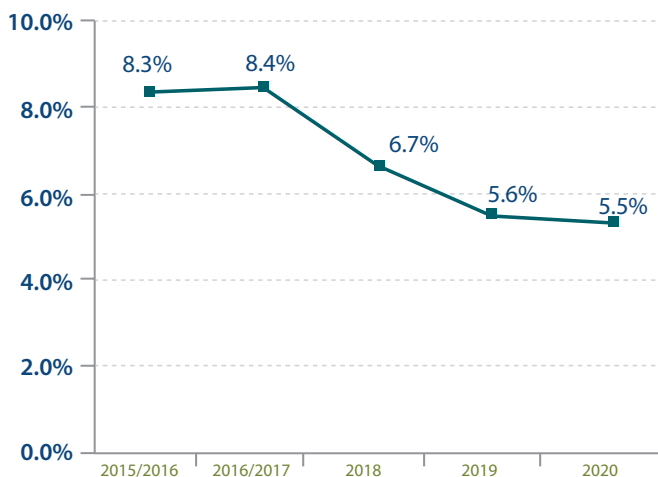
CINICO is committed to providing timely service to our members, seeking out avenues to become as efficient as possible in our service delivery, and to do so by working collaboratively with our stakeholders and delivery partners.

This section of the annual report highlights our service performance in these areas.

#### Expenses as a Percentage of Premium (Productivity or Efficiency ratio):

Expenses as a percentage of premium provides an indication of the Company's efficiency – or the number of cents per premium dollar that is expended on overhead and the administration of the insurance policies. Expenses include contribution to segregated fund fees, claims administration expenses (TPA fees) and administration expenses. The graph below displays CINICO's productivity ratio over the last five years. A lower ratio is associated with greater efficiency. The industry average for similarly sized companies in the USA is approximately 15% to 20%. CINICO's productivity ratio is well below the industry average and ranged from 5.5% to 8.4% over the last five years.

### PRODUCTIVITY RATIO

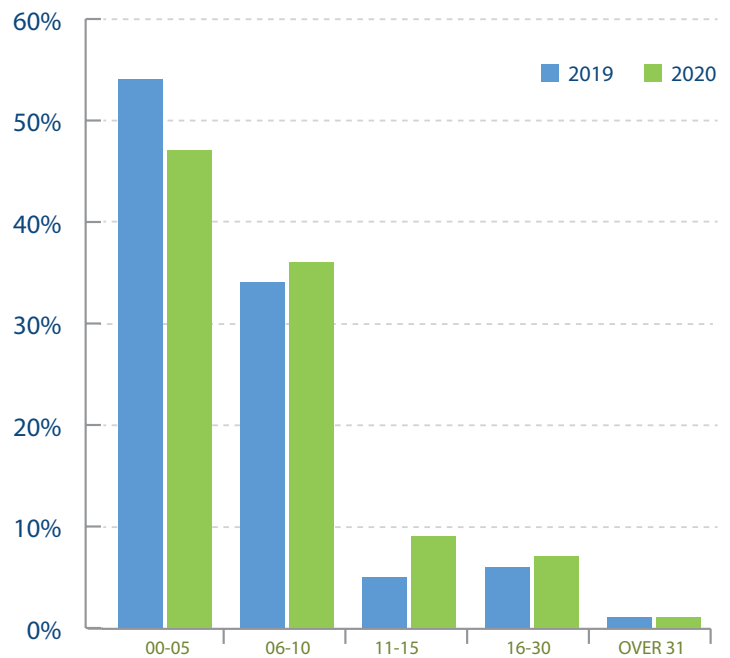


#### Claim payment turnaround:

Except for USA claims, the claims payment functions are performed locally. In previous years claims were processed overseas resulting in delays of payments.

Due to COVID-19 total claims submitted declined by 14% in 2020. However, despite the COVID-19 lockdown, CINICO's claim department continued to process claims remotely. In 2020 claims processed were 275,021 with an average claim paid turnaround of eight (8) days, compared with seven (7) in 2019. During the lockdown, arrangements were made to electronically transfer funds to members with the greatest need. The chart below illustrates that a majority of the claims are processed and paid within zero to fifteen days (92% in 2020, 93% in 2019).

### CLAIM PAID TURNAROUND:



### Representative, Capable and Caring

#### Overseas referrals and air ambulance:

CINICO takes the health of its members very seriously. In conjunction with CIHSA's referral office and the Chief Medical Officer, CINICO's Medical Case Management Unit (MCMU) ensures that in instances where care is not available on-island, the member receives the right care at the right time. In 2020, MCMU coordinated 1,433 (1,838: 2019) off-island medical services. In instances where emergency care is required off-island, CINICO's MCMU is on standby to arrange emergency air evacuation through an air ambulance service.

Table 1 provides quarterly statistics on the volume of air ambulances coordinated in 2019 and 2020. The year-over-year decrease is attributed to the lockdown period during COVID-19 which made overseas travel extremely difficult.

#### Home Health Care:

Through coverage offered under the Insurance and Indigent plans (not including SHIC), CINICO assists approximately 500 members, mostly elderly, with receiving Home Health Care benefits.

### Table 1: Air Ambulance Coordination

	Q1	Q2	Q3	Q4	TOTAL
2019	8	12	16	17	53
2020	14	2	12	9	37

## Supplementary Information

### Table 2: Risk Management

The 2020 and 2021 Ownership Agreements with the Shareholder identified the following key risks for management by CINICO:

KEY RISKS FACED BY CINICO	CHANGED IN STATUS FROM PREVIOUS YEAR	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
<b>Claim losses higher than what can be supported by revenues</b>	<p>Improved. Premium rates approved from Cabinet are actuarially based.</p> <p>Improved. Claims reporting and trend analysis.</p>	<ul style="list-style-type: none"> <li>Continued overseas discounts resulting from completed RFP in 2019.</li> <li>Utilization of CINICO in-house, Medical Case Management Unit (MCMU).</li> <li>Review of medical necessity.</li> <li>Monitoring, control and follow-up of local and overseas referrals through Apollo guidelines.</li> <li>Reinsurance arrangement in place to limit the Company's risk on large claims (30100 Group only).</li> <li>Weekly concurrent review with UHC of overseas inpatient.</li> <li>Coordination of discharge plan both locally and overseas.</li> <li>Capital preservation policy</li> <li>Monthly Risk &amp; Appeals Committee Meetings.</li> <li>Quarterly meetings with overseas network provider.</li> <li>In-house claims adjudication</li> <li>Claim analysis and review of claim trends.</li> </ul>	Not quantifiable

KEY RISKS FACED BY CINICO	CHANGED IN STATUS FROM PREVIOUS YEAR	ACTIONS TO MANAGE RISK	FINANCIAL VALUE OF RISK
<b>Potential issues with lease claims system</b>	Slightly improved	<ul style="list-style-type: none"> <li>• Offsite disaster recovery of data.</li> <li>• Robust contracting with vendor supplying system, stipulating functions, penalties, etc.</li> <li>• Vendor SOC1 Internal control report – reviewed by CINICO Risk &amp; Compliance Committee.</li> <li>• 24-hour support.</li> <li>• In-house claims department staffed with experienced claim adjudicators.</li> <li>• Use of a “ticketing” system to report faults, and weekly meetings with vendor.</li> <li>• USER ID segregation of duties and claim adjudication limits, audits, etc.</li> </ul>	Not quantifiable
<b>Risk that CINICO’s reinsurer will be unable to pay its liabilities</b>		<ul style="list-style-type: none"> <li>• Reinsurance reviewed every year. As part of the review creditworthiness is looked at. Our current reinsurer has an AM Best rating of A+.</li> </ul>	Approximately \$500k - \$1m based on historical amounts
<b>Non-compliance with regulatory bodies rules and regulations (CIMA and HIC)</b>		<ul style="list-style-type: none"> <li>• Documented Corporate Governance, policies and procedures.</li> <li>• Senior Compliance Officer.</li> </ul>	CIMA and HIC fines
<b>Risk that government would not honor its liabilities under the ASO agreement (Output NGS 55)</b>	Improved	<ul style="list-style-type: none"> <li>• Creation of an ASO Agreement between CINICO and Government awaiting signoff.</li> <li>• Frequent monitoring.</li> <li>• Provision of Emergency supplementary funds.</li> </ul>	\$4 million to \$8 million
<b>Negative operating cash flow and below CIMA’s required capital levels, resulting from shareholder’s requirement to discount premium rates below actuary rates, thus depleting capital and exposing Company to liquidity risk</b>	Improved	<ul style="list-style-type: none"> <li>• Actuarial premium in place.</li> <li>• Enforcement of Company’s credit and liquidity risk policy.</li> <li>• Aggressive collection of Government outstanding premium.</li> <li>• Government support if CIMA’s capital requirements not met.</li> <li>• Provision of Emergency supplementary funds.</li> </ul>	

In addition to the above, CINICO has developed an Enterprises Risk Management Framework which

addresses other company risks such as cyber security, data protection, and risks unique each business unit.



## Looking Forward

At the end of 2019, we articulated our objectives for 2020. These objectives, broadly stated were:

- Ensure CINICO's Long Term Sustainability
- Deliver an Exceptional Customer Service Experience by Strong Stakeholder Relations
- Strengthen Our Strategic and Operational Foundation for Delivery

Suffice it to say that along with the rest of the world, our 2020 did not turn out as planned. The result was that to a very significant degree, we were obliged to quickly pivot in order to accommodate the requirements of the COVID era and adjust to the “new normal”.

The end result was that our plans for 2020, though not abandoned, were in some respects, delayed and will be substantially carried forward into 2021. These objectives were covered in the 2019 Annual Report and we will not repeat the content of that report, but rather, provide updates.

### ENSURE CINICO'S LONG TERM SUSTAINABILITY

This remains a primary concern and objective. There have been a number of factors which in the past, have called our Financial sustainability into question. Several of these have been addressed but there still remains the issue of the often unrecognized social welfare component of CINICO's operations.

Although nominally a health insurance company, in reality CINICO is far more than that. Comparisons of CINICO's financial performance with that of private health insurance companies, tends to ignore the fact that as an integral part of Cayman's social welfare infrastructure, in any given year, CINICO pays out millions of dollars for categories of benefits which are not provided by the private insurance companies. In the absence of these social benefits, CINICO's core operations are arguably already quite profitable.

Even including these benefits, these past two years have signaled a tremendous improvement in CINICO's financial performance. In 2019, we recorded a small loss of under \$300,000 which was actually diminished by prior year adjustments made after end of year. For 2020, we recorded our largest surplus to date, aided by reduction of non-essential medical treatment during the COVID lockdown period. In the latter part of the year, we noted some increased claim activity as demand for elective procedures which was suppressed during the lockdown, found its way back into the system. We expect this to continue for the first few months of 2021.

In the face of all of this, our Government has commissioned a review of CINICO's operations by an independent firm of consultants. This review was conducted independently of but concurrently with a similar review being conducted by our Management team and Board of Directors. At the time of writing, the outcome of the consultants' review has not yet been circulated, but indications are that their recommendations appear to be consistent with the views of our Board and Management team. We are confident that when implemented, these will further enhance CINICO's long term sustainability.

## **DELIVER AN EXCEPTIONAL CUSTOMER EXPERIENCE ENABLED BY STRONG STAKEHOLDER RELATIONS**

One of the challenges presented by the COVID crisis was that of customer experience. The dislocations of the first few months of lockdown presented a number of challenges which we were able to adapt our operations to accommodate. This period also served to highlight a number of areas where improvements are needed, and we are actively pursuing these.

We had hoped to open our Savannah branch last year but that was not to be. We are happy to be able to announce that at the time of writing, work is under way and we hope to have the branch ready for occupancy in the second quarter of 2021. This will greatly enhance our accessibility to our members in the Eastern sections of the island.

One area in which we were able to make material strides is in strengthening stakeholder relations. We had a series

of engagements with several stakeholders, with the end result being not only stronger relations, but a series of initiatives which will both further strengthen those relationships as well as further enhancing our service offerings and efficiency.

## **STRENGTHEN OUR STRATEGIC AND OPERATIONAL FOUNDATION FOR DELIVERY**

The strength of our Operational Foundation was tested in 2020 and found to be quite robust. We were obliged to completely change the way that we operated starting just before the lockdown and the end result has been a permanently changed Operational model. In the face of this, our focus remains on the areas previously identified and which are being pursued.

From an Information Technology (IT) point of view, we are in the process of seeking to recruit a Chief Information Officer who will be tasked with driving the IT side of our operations, in alignment with our broader objectives. We will also recruit a data analyst who will provide us with better management information which will inform the execution of our strategic objectives.

CIMA has released new Regulations on Cybersecurity which all of their regulated entities are obliged to comply with. We have used these new Regulations as a template for the review of our already strong Cybersecurity infrastructure and are confident that we are well-prepared in that area. We will continue to maintain vigilance in this constantly evolving area.

The COVID crisis forced us to focus on these operational issues and even as we affirm the robustness of our foundation, we also recognized weaknesses which were brought to the fore. With that in mind, we are implementing a new workflow software system which we expect to dramatically improve the response time in one of our critical areas.

As we move into 2021, we have embraced the lessons learned during 2020, and are looking forward to a year when we are able to move forward with our plans designed to enable CINICO to serve our members and our country more effectively.



# Financial Performance Analysis

## Financial Performance (Net Income/ (Loss))

For the year ended December 31, 2020 CINICO recorded a record-breaking net profit of \$10.5 million compared with a budget net income of \$2.8 million, and a prior year net loss of \$0.3 million. The net profit is due to favorable claims and expenses. Claims were lower because of the COVID-19 impact which caused significant reductions in

elective procedures during the lock-down period. As the government was able to contain the spread of COVID, CINICO had insignificant COVID claims.

Table 3 illustrates the sources of income/ (loss) (or variance to the budget) compared with the premium pricing level assumptions for the year ended December 31, 2020. Table 4 provides same for year ended December 31, 2019.

**Table 3: Sources of Net Income/ (Loss) for the Year Ended December 31, 2020 (\$ Millions)**

SOURCE OF NET INCOME / (LOSS)	AMOUNT	EXPLANATION
Favorable incurred overseas (US\$) claims	\$2.6	Favorable in all lines of business (includes Health City).
Favorable incurred local claims	\$1.8	Favorable in all lines of business except SHIC.
Reserve release	\$0.2	2019 reserve release (local and overseas).
Expenses and other	\$3.0	Predominantly admin expenses, TPA fees, and higher ASO income.
Risk premium	\$2.9	Actuary risk premium for adverse claims deviation.
<b>Net income</b>	<b>\$10.5</b>	

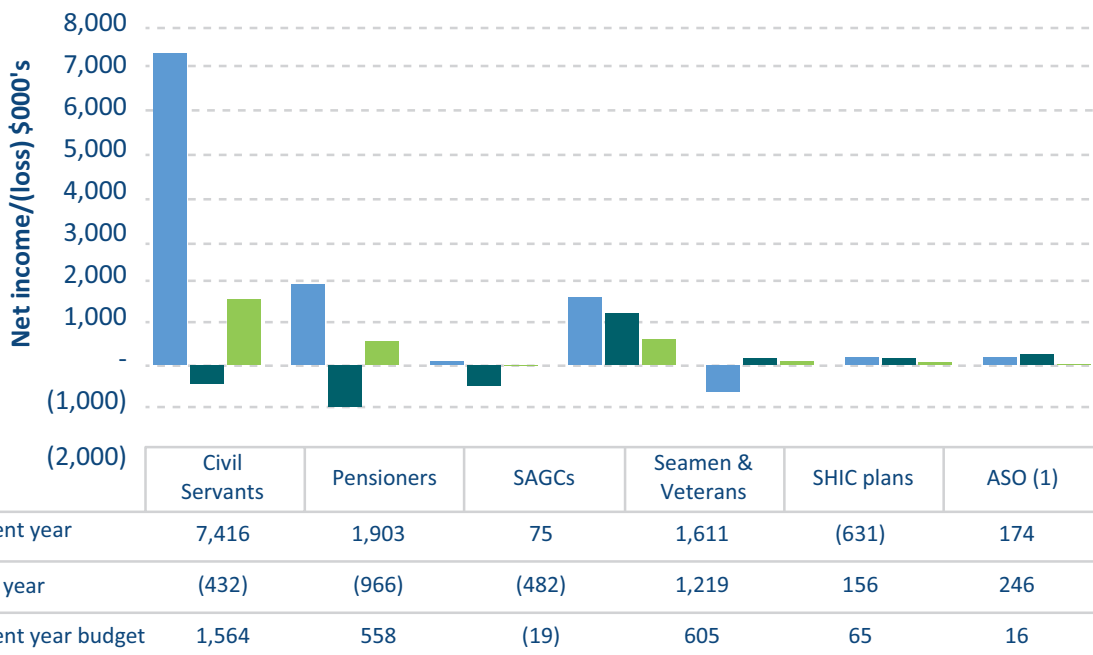
**Table 4: Sources of Net Income/ (Loss) for the Year Ended December 31, 2019 (\$ Millions)**

SOURCE OF NET INCOME/(LOSS)	AMOUNT	EXPLANATION
Unfavorable incurred overseas claims	(\$1.1)	Unfavorable in all lines of line of business (includes Health City), except Civil Servants and SHIC.
Unfavorable incurred local claims	\$(5.1)	Unfavorable in all lines of business except Seafarers and Veterans.
Reserve release	\$0.2	2018 reserve release (local and overseas).
Expenses and other	\$3.1	Predominantly admin expenses, TPA fees, higher ASO income, and a one-off settlement of \$0.5 million.
Risk premium	\$2.6	Actuary risk premium for adverse claims deviation (part of non-discounted rates).
<b>Net loss</b>	<b>\$(0.3)</b>	

Figure 1 provides the net income / (loss) by business category (insurance plan) for the current year, prior year, and budget. For reasons mentioned earlier (COVID-19), all lines of business earned a net profit in 2020 except for SHIC which had four policies reaching

the annual benefit limit of \$100,000, and an additional four policies at 79% of the annual limit. Additionally, the SHIC results include a \$100k 2019 reserve strengthening. Each business category benefited from lower than budgeted expenses.

**FIGURE 1: NET INCOME / (LOSS) BY BUSINESS CATEGORY**



(1) ASO includes Group 30102 – Indigents, and Group 30103 – Advance Patients.

Table 5 below illustrates selected financial highlights of various balance sheet and income statement items.

## TABLE 5: Financial Highlights

For financial year ending

	CURRENT YEAR	CURRENT YEAR BUDGET	PRIOR YEAR
<i>Statement of financial position</i>			
Cash and cash equivalents	\$ 25,707,447	\$ 24,653,362	\$ 13,172,966
Premiums receivable	3,525,543	5,400,000	3,993,845
ASO claims and fees receivable	6,976,827	4,200,000	4,419,973
Provision for claims incurred	12,524,063	15,272,520	7,462,139
Shareholder's equity	24,287,240	18,720,000	13,739,382
<i>Statement of financial performance</i>			
<b>TOTAL INCOME</b>			
Premium income	101,753,929	\$ 100,227,923	\$ 94,986,953
Reinsurance premium	(970,731)	(912,896)	(957,665)
ASO fees	1,151,228	1,157,903	1,008,112
Other income	122,331	94,400	699,444
<b>Total</b>	<b>\$ 102,056,757</b>	<b>\$ 100,567,330</b>	<b>\$ 95,736,844</b>
<b>TOTAL EXPENSES</b>			
Incurred claims	\$ 85,961,317	\$ 90,444,850	\$ 90,698,587
Other Expenses	5,547,581	7,332,628	5,297,195
<b>Total</b>	<b>\$ 91,508,898</b>	<b>\$ 97,777,478</b>	<b>\$ 95,995,782</b>
<b>NET INCOME/(LOSS)</b>	<b>\$ 10,547,859</b>	<b>\$ 2,789,852</b>	<b>\$ (258,938)</b>



## ASO claims and fees receivable

On behalf of the Ministry of Health, Environment, Culture and Housing (HECH), CINICO administers health benefits for Indigents (not including medical services provided at the CIHSA) and overseas health benefits for the Seamen & Veterans Plan (Group 30101). The benefits are administered under an “Administrative Services Only” (ASO) plan. Under an ASO plan, the insurance risk is fully borne by the purchaser of services, in this case the Ministry of HECH. CINICO pays the claims and immediately invoices the Ministry of HECH for the full amount plus any administration fees. The funding for these services is provided through the NGS 55 output (Tertiary Care at Various Overseas Institutions). Over the years the budget is consistently underfunded. However, to mitigate the negative impact on cashflows, CINICO and the Ministry are in continuous dialogue to ensure adequate funding and settlement of the receivables.

As of December 31, 2020, the ASO claims and fees receivable was \$7.0 million and above the prior year and budget by \$2.6 million and \$2.8 million, respectively. The increase was due to a timing issue in the approval of payments.

## Provision for claims incurred

The provision for claims incurred, also known as IBNR (Incurred but Not Reported) claims, is determined using

accepted actuarial techniques and current claim information available at the time of calculation. By their very nature, IBNRs include an element of uncertainty as assumptions must be used based on historical data, which may or may not be realized in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients’ medical condition, length of inpatient stays, etc. As assumptions are used, the ultimate (“hindsight”) reserve liability may be more than or less than the original estimates. The hindsight reserve liability can only be known with the passage of time, which is usually no greater than one year.

The current year provision for claims incurred increased by \$5.1 million from the prior year to \$12.5 million. The December 31, 2020 amount represents just over one month of incurred claims.

Note 11 of the financial statements provides the IBNR hindsight development commencing from the 2015/16 reporting year.

## Shareholder’s equity

Shareholder’s equity increased by \$10.5 million to \$24.2 million for the year ended December 31, 2020. The increase is due to the 2020 Net Income. Table 6 provides an analysis of shareholder’s equity to budget.

**TABLE 6: ANALYSIS OF SHAREHOLDER’S EQUITY (\$ millions)**

SOURCE OF NET PROFIT/(LOSS)	BUDGET	ACTUAL	VARIANCE
Opening shareholder’s equity	\$15.9	\$13.7	\$(2.2)
2020 Net income	2.8	10.5	7.7
Equity injection	-	-	-
Closing shareholder’s equity	\$18.7	\$24.2	\$5.5

## Premium income

Premium income is earned from health insurance plans under the following business categories:

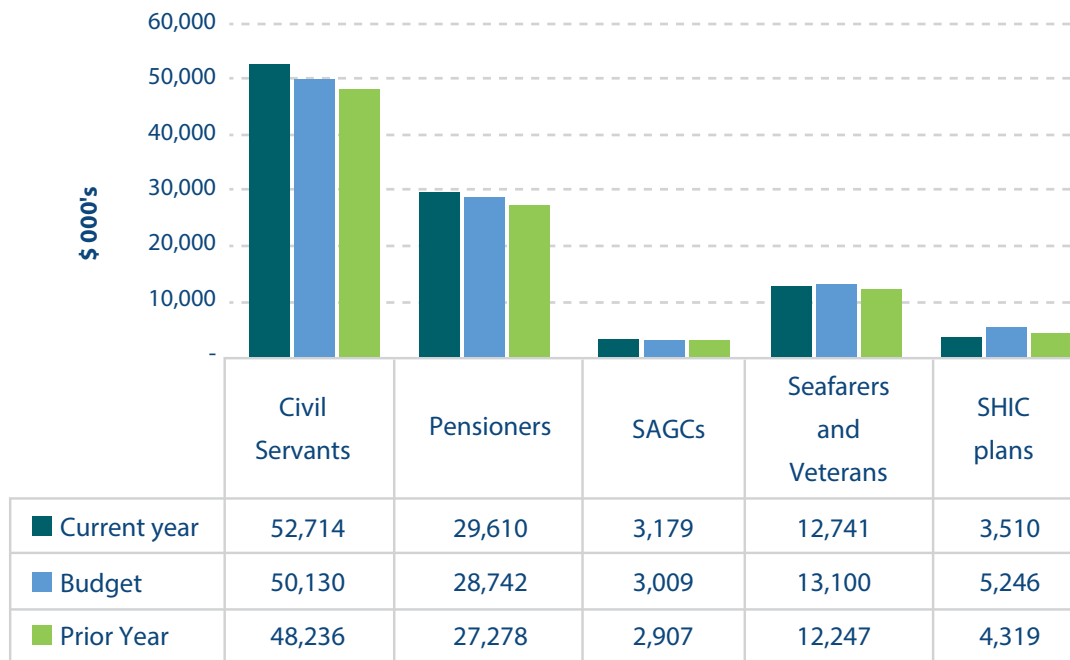
- Group 30100 – Civil Servant and Statutory Authority & Government Companies (SAGCs),
- Group 30100 – Pensioners,

- Group 30101 - Seamen and Veterans (local insurance cover only), and
- Group 31304 - SHIC (Standard Health Insurance Contracts).

The graph below illustrates the premium income by insurance plan categories.

## FIGURE 2: PREMIUM INCOME BY BUSINESS CATEGORY

### Premium: Actual, Budget, Prior Year



Premium income is driven by the number of lives covered and the premium rates charged (as an example the higher the number of members covered, the greater premium income earned). Table 7 shows the average number of covered lives throughout the comparative periods. The number of covered lives also drives the overall claims, reinsurance and claims administration fee expenses.

Compared with budget and the prior year, overall covered member lives remained the same however, there were differences by business category. Group 30100 (Civil Servants, Pensioners and SAGCs) realized increases ranging from 1% to 3% above the budget and prior year; Seafarers and Veterans decreased marginally from budget and the prior year; and Indigent membership was at the same level as budget and the prior year. SHIC membership realized a material decrease of 10% and 12% versus

budget and last year, respectively. The reduction is due to lapsed policies for non-payment, because of job losses due to COVID-19 lockdowns.

The current year premium income of \$101.7 million is \$1.5 million above the budget. The higher premium income to budget is driven from Group 30100 (\$3.6 million) which had a higher level of covered lives; offset a by \$2.1 million in lower than budgeted premium from Seafarers and Veterans, and SHIC due to lower covered lives.

The current year premium income is \$6.7 million higher than the prior year as a result of a higher level members (Table 7), and higher premium rates in Group 30100; offset by lower premium income in SHIC due to lower membership levels.

**TABLE 7: AVERAGE NUMBER OF COVERED LIVES INSURED**

	CURRENT YEAR	BUDGET	PRIOR YEAR	% CHANGE TO BUDGET	% CHANGE TO PRIOR YEAR
Civil Servants	8,488	8,278	8,305	3%	2%
Pensioners	2,278	2,245	2,232	1%	2%
SAGCs	520	508	511	2%	2%
Seafarers and Veterans	1,075	1,100	1,088	-2%	-1%
Indigent	1,776	1,789	1,773	-1%	0%
SHIC plans	1,874	2,081	2,127	-10%	-12%
<b>Total</b>	<b>16,011</b>	<b>16,001</b>	<b>16,036</b>	<b>0%</b>	<b>0%</b>

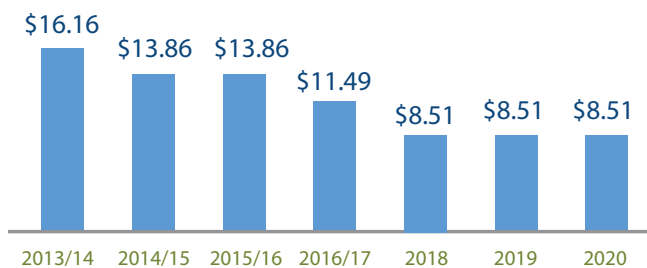
## Reinsurance premium

CINICO utilizes reinsurance coverage on Group 30100 as part of its claims risk management strategy to limit the financial exposure on large claims. The Company's current reinsurance coverage insures claims more than US\$ 550k (up to a maximum of US\$ 5 million) per year per individual (previous year \$600k).

Figure 3 shows Management's success in reducing the reinsurance premium rate year-over-year because of various business strategies leading to improved claims management. The rate reductions are indicative of the reinsurer's confidence in CINICO. Over the last few years CINICO was able to trade off a premium rate reduction for improved coverage (i.e., we decreased the retention limit from US\$ 600k to US\$ 550k). Following a successful open tender in 2020 we were able to further lower the premium rate for 2021 while improving coverage at the same time.

## FIGURE 3: HISTORICAL REINSURANCE PREMIUM RATE

### US\$ PMPM rate



## ASO Fees and Other Income

ASO fees are earned on a PMPM basis per each indigent member. Fees amounted to \$1.1 million in the current year, essentially the same level as budgeted and the prior year. Other income includes investment income and income from re-activations. Last year, other income included a release of a disputed payable amount set up in previous years.

## Incurred claims

Incurred claims represent the medical benefits payable under the various insurance plans. For the year ended December 31, 2020 incurred claims was \$85.9 million and accounts for 94% of the overall expenses of \$91.5 million. Table 8 (next page) compares the incurred claims (net of reinsurance recoveries and repricing fees) by group and location (local versus overseas) for the current year, budget, and prior year. The incurred claims are presented on a "hindsight basis". For example, the year ended December 31, 2019 original reported claims were \$90.9 million which included claims incurred and paid during the period, plus an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2019 claim reserve showed a favorable development of \$172k (net of reinsurance), so that the final 2019 claims incurred are \$90.8 million compared with the original reported figure of \$90.9 million.

Table 8 illustrates that as of December 31, 2020, \$11.3 million or 13% of the total 2020 claims incurred amount of \$85.9 million is made up of IBNR's (Incurred But not Reported). This represents approximately just over one month of incurred claims. IBNR's are essentially accruals for claims and calculated using actuarial methods and assumptions.

**TABLE 8: INCURRED CLAIM LOSSES (000's)**

	2019			2020			2020 less 2019 Calendar Year	2020 Budget	Inc/(dec) - 2020 reported less Budget
	Reported	Hindsight adjustment	Final	Incurred in 2020 & paid in 2020	IBNR	Reported			
<b>Local</b>									
Group 30100	56,053	48	56,101	47,441	4,919	52,360	(3,741)	52,837	(477)
Group 30101	10,529	(7)	10,522	9,715	811	10,526	4	11,730	(1,204)
Group 30104	2,112	73	2,185	1,920	179	2,099	(86)	2,270	(171)
	<b>68,694</b>	<b>114</b>	<b>68,808</b>	<b>59,076</b>	<b>5,909</b>	<b>64,985</b>	<b>(3,823)</b>	<b>66,837</b>	<b>(1,852)</b>
<b>Overseas *</b>									
Group 30100	20,851	(343)	20,508	14,578	5,131	19,709	(799)	21,761	(2,052)
Group 30101	-	-	-	-	-	-	-	-	-
Group 30104	1,440	57	1,497	884	306	1,190	(307)	1,820	(630)
	<b>22,291</b>	<b>(286)</b>	<b>22,005</b>	<b>15,462</b>	<b>5,437</b>	<b>20,899</b>	<b>(1,106)</b>	<b>23,581</b>	<b>(2,682)</b>
<b>Total</b>									
Group 30100	76,904	(295)	76,609	62,019	10,050	72,069	(4,540)	74,598	(2,529)
Group 30101	10,529	(7)	10,522	9,715	811	10,526	4	11,730	(1,204)
Group 30104	3,552	130	3,682	2,804	485	3,289	(393)	4,090	(801)
	<b>90,985</b>	<b>(172)</b>	<b>90,813</b>	<b>74,538</b>	<b>11,346</b>	<b>85,884</b>	<b>(4,929)</b>	<b>90,418</b>	<b>(4,534)</b>
Prior year adjustment in reserves	(179)					(172)			
ALAE reserve	(107)					249		27	
Claim losses per f/s	<u>90,699</u>					<u>85,961</u>		<u>90,445</u>	

\* Includes claims paid to Health City Cayman Islands paid in US\$

Table 8 shows a decrease of incurred claims of \$4.9 million and \$4.5 million compared to the prior year and budget, respectively (reasons discussed earlier – COVID-19). Most of the decrease originates in Group 30100.

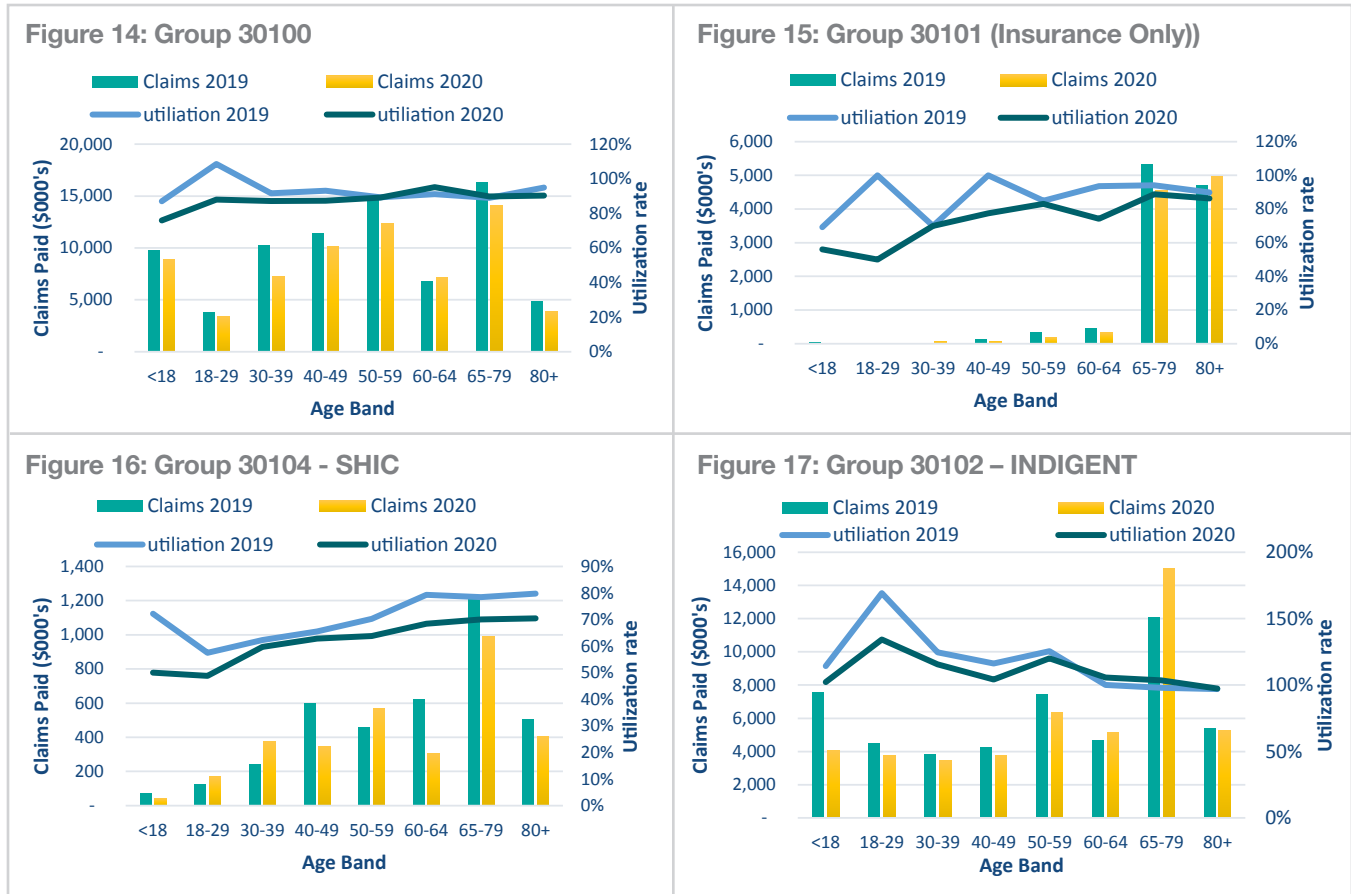
Claims costs are driven by the demographics of the individual groups. The membership is aging, and the claim costs are correlated to age. As one gets older, claim costs start rising. Figure 4 illustrates the relationship of claims

paid and utilization with age bands, for each group.

### Other expenses

Other expenses are illustrated in Table 9.

## FIGURE 4: CLAIMS PAID/UTILIZATION RATES BY AGE BAND



## TABLE 9: OTHER EXPENSES

	CURRENT YEAR	CURRENT YEAR BUDGET	PRIOR YEAR
Contributions to segregated insurance fund	242,150	277,928	274,550
Claims administration and other expenses	998,970	1,523,559	988,030
Administration expenses	4,306,461	5,531,141	4,034,615
<b>Total expenses</b>	<b>\$5,547,581</b>	<b>\$7,332,628</b>	<b>\$5,297,195</b>

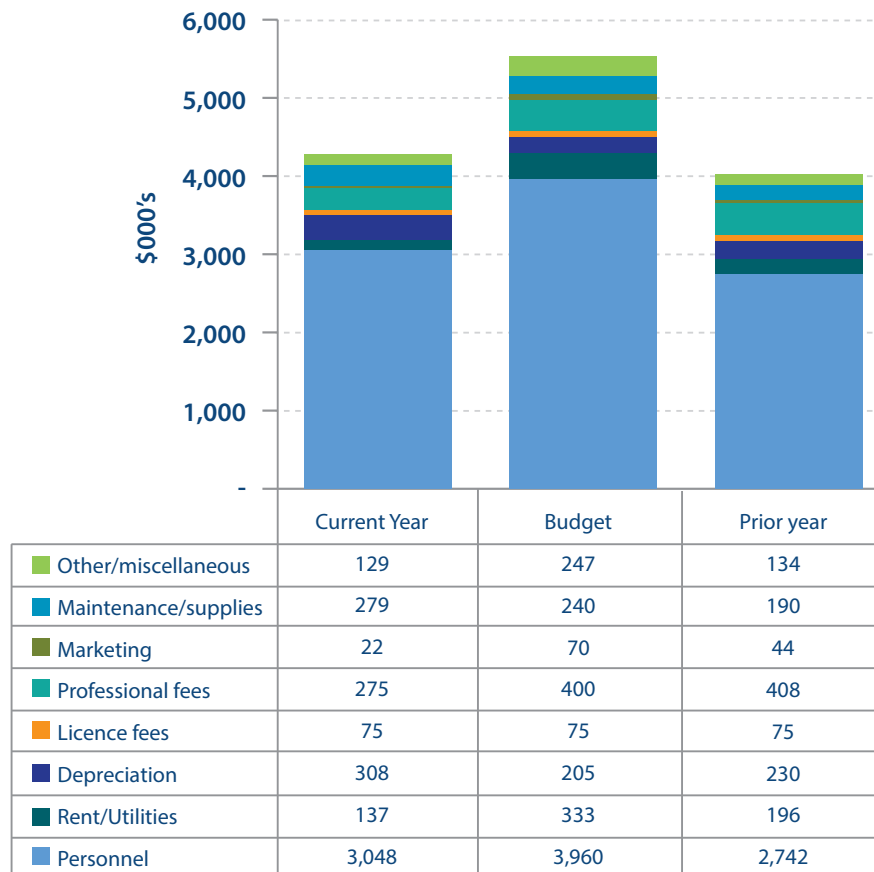
For the year ending December 31, 2020 Other Expenses amounted to \$5.5 million and below budget by \$1.8 million, and \$0.2 million higher than the prior year.

The components of Other Expenses are detailed in Table 9. Contributions to segregated insurance funds are made to the Health Insurance Commission on every active SHIC and SAGC insurance policy. The expenditure is below both budget and last year as SHIC membership was significantly lower (Table 7).

Claim administration expenses (TPA fees) are for services rendered by third party administrators (TPAs). Most of the expense incurred is for the use of the insurance administration system. The current year expenditure amounted to 1.0 million compared with a budget of \$1.5 million and the prior year amount of \$1.0 million. Actual expenditure is below budget due to various initiatives anticipated in the budget which have not materialized in the current year.

Administration expenses are those incurred in the operation of the Company's office and include personnel costs, rent, depreciation, audit fees, actuary fees, etc. Administration expenses were \$1.2 million better than budget. The favorable variance is mainly attributed to personnel costs due to unfilled positions. Other favorable variances were realized in utility expenses, marketing and consulting, training and travel. These were offset by unfavorable variances in IT costs due to additional expenses incurred to facilitate remote working and enhancing IT security. Current year expenses were approximately \$0.3 million higher than the prior year, mostly due to personnel costs resulting from a higher headcount over the prior year, and IT costs. These were offset by favorable variances in audit, consulting fees and travel. Figure 5 shows the major expense types compared with budget and prior year.

**FIGURE 5: ADMINISTRATION EXPENSES BY TYPE**



## Appendix 1: Reporting on the Ownership Agreement and Outputs Delivered to Cabinet

FINANCIAL PERFORMANCE MEASURE	2020 ACTUAL \$000'S	2020 BUDGET \$000'S	ANNUAL VARIANCE \$000'S	NOTE
REVENUE FROM CABINET	\$42,304	\$41,790	\$514	1
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	57,043	54,297	2,746	2
REVENUE FROM OTHERS PERSONS OR ORGANISATIONS	2,710	4,480	(1,770)	3
SURPLUS/DEFICIT FROM OUTPUTS	-	-	-	
OTHER EXPENSES	91,509	97,777	6,268	4
NET SURPLUS/DEFICIT	10,548	2,790	7,758	5
<b>TOTAL ASSETS</b>	38,855	35,373	3,482	
<b>TOTAL LIABILITIES</b>	14,568	16,653	2,085	
<b>NET WORTH</b>	24,287	18,720	5,567	6
CASH FLOWS FROM OPERATING ACTIVITIES	12,813	2,233	10,580	5
CASH FLOWS FROM INVESTING ACTIVITIES	(125)	(137)	12	
CASH FLOWS FROM FINANCING ACTIVITIES	(154)	-	(154)	7
CHANGE IN CASH BALANCES	12,534	2,096	10,438	



### Notes: Explanation of Variance:

1. Revenue from Cabinet: CIN 2 premium higher than budget (\$900k) due to higher membership, offset lower CIN 1 premium (\$400k) due to lower membership. See Table 7 for Membership.
2. Higher revenues due to higher than budgeted membership (Table 7 – Membership).
3. Unfavourable variance from the SHIC line with lower membership and average premium than budget. See Table 7 for Membership.
4. Overall, the variance is 6% below budget. The “other expenses” line is made up of the following items:

EXPENSE ITEM	ACTUAL \$M	BUDGET \$M	VARIANCE \$M	EXPLANATION
Claims costs	\$85.9	\$90.4	\$4.5	Driven by a drastic reduction of elective procedures due to COVID-19 lock down in the 2nd quarter of 2020.
Segfund fees	0.3	0.3	-	
TPA fees	1.0	1.5	0.5	Underutilization of claims admin support, wellness rewards and other vendor services.
Admin expenses	4.3	5.5	1.2	Predominantly due to vacant posts, travel, training utilities, etc.
<b>Total</b>	<b>\$91.5</b>	<b>\$97.7</b>	<b>\$6.2</b>	

5. See financial performance section.
- 6.

	\$ MILLIONS		
	BUDGET	ACTUAL	VARIANCE
Opening shareholder's equity	\$15.9	\$13.7	\$(2.2)
2020 Surplus / (deficit)	2.8	10.5	7.7
Closing shareholder's equity	\$18.7	\$24.2	\$5.5

7. The cash outflow of \$154k is due to the accounting treatment under IFRS16 (Leases) which requires that the present value of future lease payments be recorded as an asset.

FINANCIAL PERFORMANCE RATIO	2020 ACTUAL %	2020 BUDGET %	ANNUAL VARIANCE %
CURRENT ASSETS: CURRENT LIABILITIES	261%	211%	50%
TOTAL ASSETS: TOTAL LIABILITIES	267%	213%	54%

## Maintenance of Capability

HUMAN CAPITAL MEASURES	2020 ACTUAL	2020 BUDGET	ANNUAL VARIANCE
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	31	47	(16)
<b>STAFF TURNOVER (%)</b>			
SENIOR MANAGER	0%	0%	0%
PROFESSIONAL AND TECHNICAL STAFF	0%	0%	0%
ADMINISTRATIVE STAFF	9.4%	0%	9.4%

PHYSICAL CAPITAL MEASURES	2020 ACTUAL \$ 000'S	2020 BUDGET \$ 000'S	ANNUAL VARIANCE \$000'S
VALUE OF TOTAL ASSETS	\$38,855	\$35,373	\$3,482
ASSET REPLACEMENTS: TOTAL ASSETS	14%	0.4%	13.6%
BOOK VALUE OF ASSETS: COST OF THOSE ASSETS	27.9%	13.1%	14.8%
DEPRECIATION: CASH FLOW ON ASSET PURCHASES	247%	149%	98%
CHANGES TO ASSET MANAGEMENT POLICES	None	None	None

MAJOR CAPITAL EXPENDITURE PROJECTS	2020 ACTUAL \$ 000'S	2020 BUDGET \$ 000'S	ANNUAL VARIANCE \$ 000'S
IT equipment, security software, equipment, furniture, etc.	\$125	\$137	\$12

## Other Financial Information

TRANSACTION	2020 ACTUAL \$ 000'S	2020 BUDGET \$ 000'S	ANNUAL VARIANCE \$ 000'S
Equity Investments into CINICO	-	-	-
Capital Withdrawals from CINICO	-	-	-
Dividend or Profit Distributions to be made by CINICO	-	-	-
Government Loans to be made to CINICO	-	-	-
Government Guarantees to be issued in relation to CINICO	-	-	-
(1) Remuneration Payments made to Key Management Personnel	\$667	\$542	\$(125)
Remuneration Payments made to Senior Management	\$623	\$480	\$(143)

(1) Senior Management and Board. Actual includes one additional Senior Manager budgeted as Admin Staff.

	2020 ACTUAL	2020 BUDGET	ANNUAL VARIANCE
Number of Senior Management	4	3	1

## Statement of Outputs Delivered to Cabinet

CINICO is committed to providing timely service to our members, seeking out avenues to become as efficient as possible in our service delivery, and to do so by working collaboratively with our stakeholder and delivery partners. This section of the annual report highlights our service performance related to the two key outputs we deliver to Cabinet.

CIN 1	Health Insurance for Seaman & Veteran		
<b>DESCRIPTION</b>			
Provision of Health Insurance (premium) for Seaman & Veteran and their dependents for insurance coverage by CINICO (local coverage only, excluding Tertiary Care).			
<b>MEASURES</b>			
	<b>2020 ACTUAL</b>	<b>2020 BUDGET</b>	<b>ANNUAL VARIANCE</b>
<b>Quantity</b>			
Total (average) number of persons insured - premiums fully paid by Cabinet	1,075	1,085	(10)
Total (average) number of persons insured – premiums partially paid by Cabinet (Veterans)	10	10	-
<b>Quality</b>			
All eligible Seamen, Veterans and their dependents are insured who met the definition under the Health Insurance Law	98-100%	98-100%	-
<b>Timeliness</b>			
• Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	-
• Insurance claims (clean claims) paid within 30 days	98-100%	98-100%	-
<b>Location</b>			
Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
<b>Cost (of producing the output)</b>			
Monthly Premium Rates			
Premiums fully paid by Cabinet	\$990		
Veteran premiums partially paid by Cabinet	\$876		
<b>Price (paid by Cabinet for the output)</b>	<b>\$12,693,685</b>	<b>\$13,048,000</b>	<b>\$(354,315)</b>

### Explanation of Variances

Output is below budget as the number of members covered was lower than budget.

## CIN 2

## Health Insurance for Civil Servant Pensioners

### DESCRIPTION

Provision of Health Insurance for Civil Servant Pensioners and their dependents.

MEASURES	2020 ACTUAL	2020 BUDGET	ANNUAL VARIANCE																
<b>Quantity</b> Total average number of insured persons (Insured = Enrollees + dependents).	2,278	2,245	33																
<b>Quality</b> All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board (PSPB) and the Portfolio of the Civil Service (POCS).	98-100%	98-100%	-																
<b>Timeliness</b> <ul style="list-style-type: none"> <li>Insurance cards issued within 15 days of notification of eligibility</li> <li>Insurance claims (clean claims) paid within 30 days</li> </ul>	98-100% 98-100%	98-100% 98-100%	- -																
<b>Location</b> Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a																	
<b>Cost (of producing the output)</b>	27,277,585	\$26,999,052	\$278,533																
Monthly Premium Rates <table border="1" data-bbox="173 1249 738 1711"> <thead> <tr> <th>Age range</th> <th></th> </tr> </thead> <tbody> <tr> <td>Under 18</td> <td>\$217</td> </tr> <tr> <td>18-29 years</td> <td>\$348</td> </tr> <tr> <td>30-39 years</td> <td>\$448</td> </tr> <tr> <td>40-49 years</td> <td>\$589</td> </tr> <tr> <td>50-59 years</td> <td>\$931</td> </tr> <tr> <td>60- 64 years</td> <td>\$1,071</td> </tr> <tr> <td>65 years &amp; over</td> <td>\$1,360</td> </tr> </tbody> </table>	Age range		Under 18	\$217	18-29 years	\$348	30-39 years	\$448	40-49 years	\$589	50-59 years	\$931	60- 64 years	\$1,071	65 years & over	\$1,360			
Age range																			
Under 18	\$217																		
18-29 years	\$348																		
30-39 years	\$448																		
40-49 years	\$589																		
50-59 years	\$931																		
60- 64 years	\$1,071																		
65 years & over	\$1,360																		
<b>Price (paid by Cabinet for the output)</b>	<b>\$29,610,079</b>	<b>\$28,742,309</b>	<b>\$867,770</b>																

### Explanation of Variances

Premium (cost to Cabinet) is higher than budget as the actual average age of the group was higher than the budget assumption (premium dependent on age). Additionally, the actual number of members covered was higher than budget.

## Appendix 2: List of Acronyms and Abbreviations

Acronym	Description
ASO	Administrative Services Only
CDO	Chief Dental Officer
CI	Cayman Islands
CICSA	Cayman Islands Civil Service Association
CIG	Cayman Islands Government
CIHSA	Cayman Islands Health Services Authority
CIMA	Cayman Islands Monetary Authority
CINICO	Cayman Islands National Insurance Company (Ltd.)
CMO	Chief Medical Officer
CPA	Chartered Professional Accountant
HCCI	Health City Cayman Islands
HECH	(Ministry of) Health Environment Culture and Housing
HSA	(Cayman Islands) Health Services Authority
IBNR	Incurred But Not Reported
MCCs	Medical Case Coordinators
MCR	Minimum Capital Requirement
MOH	Ministry of Health
PCR	Prescribed Capital Requirement
PMPM	Per member per month
POCS	Portfolio of the Civil Service
PSPB	Public Service Pensions Board
RMF	Risk Management Framework
SAGCs	Statutory Authorities & Government Companies
SHIC	Standard Health Insurance Contract
SPD(s)	Summary Plan Document
TPAs	Third Party Administrators



# Audited Financial Statements

Financial Statements of

**Cayman Islands National Insurance Company Ltd.**

**December 31, 2020**



# **Cayman Islands National Insurance Company Ltd.**

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## AUDITOR GENERAL'S REPORT

**To the Board of Directors of the Cayman Islands National Insurance Company Ltd.**

### **Opinion**

I have audited the financial statements of the Cayman Islands National Insurance Company Ltd (the "Company"), which comprise the statement of financial position as at 31 December 2020 the statements of comprehensive income, changes in shareholder's equity and statement of cash flows for the year ended 31 December 2020, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information as set out on pages 8 to 21

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

### **Basis for Opinion**

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands, and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. In rendering my audit opinion on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm that performed its work in accordance with International Standards on Auditing.

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

Management is responsible for the preparation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation and fair presentation 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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

My 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 auditor's report that includes my 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.

### AUDITOR GENERAL'S REPORT (continued)

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of Section 60(1)(a) of the *Public Management and Finance Act (2020 Revision)*. I 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 I identify during my audit.



Sue Winspear  
Auditor General

28 April 2021  
Cayman Islands



## STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Act (2020 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Act (2020 Revision)*.

As Chief Executive Officer and Chief Financial Officer, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Cayman Islands National Insurance Company Ltd.

As Chief Executive Officer and the Chief Financial Officer we are responsible for the preparation of the Cayman Islands National Insurance Company Ltd. financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, statement of comprehensive income, statement of cash flows and statement of changes in shareholder's equity for the year ended December 31, 2020.

To the best of our knowledge we represent that these financial statements:

- (a) are complete and reliably reflect the financial transactions of Cayman Islands National Insurance Company Ltd. for the year ended December 31, 2020;
- (b) fairly reflect the financial position as at December 31, 2020, and performance for the year ended December 31, 2020;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

A handwritten signature in black ink, appearing to read "Mr. Gayle".

Michael Gayle  
Chief Executive Officer  
Cayman Islands National Insurance Company

Date: April 28, 2021

A handwritten signature in blue ink, appearing to read "Frank Gallipi".

Frank Gallipi  
Chief Financial Officer  
Cayman Islands National Insurance Company

Date: April 28, 2021

# Cayman Islands National Insurance Company Ltd.

## Statement of Financial Position

As at December 31, 2020

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b><u>Assets</u></b>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 25,707,447	\$ 13,172,966
Funds held in escrow		790,295	482,120
Premiums receivable	5	3,525,543	3,993,845
Advance claims, ASO claims and fees receivable		6,976,827	4,419,973
Other receivables and other assets	6	971,247	370,071
<i>Long term</i>			
Fixed assets	7	883,759	856,567
<b>Total assets</b>		<b>38,855,118</b>	<b>23,295,542</b>
<b><u>Liabilities</u></b>			
Accounts payable	8	336,347	77,398
Premiums received in advance		196,559	193,704
Accruals and other liabilities	9	812,923	1,144,336
Lease liability	10	694,176	637,809
Claims payable		3,810	40,775
Provision for claims incurred	12	12,524,063	7,462,139
<b>Total liabilities</b>		<b>14,567,878</b>	<b>9,556,161</b>
<b><u>Shareholder's equity</u></b>			
Share capital	13	1	1
Share premium	13	2,999,999	2,999,999
Additional paid-in-capital	14	37,723,251	37,723,251
Accumulated deficit		(16,436,011)	(26,983,870)
<b>Total shareholder's equity</b>	22	<b>24,287,240</b>	<b>13,739,381</b>
<b>Total liabilities and shareholder's equity</b>		<b>\$ 38,855,118</b>	<b>\$ 23,295,542</b>

MICHAEL GAYLE  
Chief Executive Officer

April 28, 2021  
Date

FRANK GALLIPPI  
Chief Financial Officer

April 28, 2021  
Date

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

## Cayman Islands National Insurance Company Ltd.

### Statements of Comprehensive Income/(Loss)

For the year ended December 31, 2020

*Amounts stated in Cayman Islands dollars*

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>Income</b>			
Premium income	15, 19	\$ 101,753,929	\$ 94,986,953
Reinsurance premium	15	(970,731)	(957,665)
ASO Fees	16, 19	1,151,228	1,008,112
<b>Total underwriting income</b>		101,934,426	95,037,400
Investment income and other income	20	122,331	699,444
<b>Total income</b>		102,056,757	95,736,844
<b>Expenses</b>			
Claims paid	11	81,582,518	93,737,608
Reinsured claims	12	(683,124)	(242,988)
Movement in provision for claims incurred	12	5,061,924	(2,796,033)
Contributions to segregated insurance fund	17, 19	242,150	274,550
Claims administration and other expenses		998,969	988,030
<b>Total underwriting expenses</b>		87,202,437	91,961,167
Administrative expenses and other expenses	18	4,306,461	4,034,616
<b>Total expenses</b>		91,508,898	95,995,783
<b>Net income/(loss) for the year</b>		10,547,859	(258,939)
<b>Total comprehensive income/(loss) for the year</b>		\$ 10,547,859	\$ (258,939)

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

## Cayman Islands National Insurance Company Ltd.

### Statements of Cash Flows

For the year ended December 31, 2020

*Amounts stated in Cayman Islands dollars*

	<u>Note</u>	<u>December 31, 2020</u>	<u>December 31 2019</u>
<b>Cash flows from operating activities</b>			
Net income/(loss) for the year		\$ 10,547,859	\$ (258,938)
Adjustments for non-cash items			
Depreciation	7	307,687	229,565
Funds held in escrow		(308,175)	(243,843)
Premiums receivable		468,302	(453,856)
Advance claims, ASO claims and fees receivable		(2,556,854)	(632,644)
Other receivables and other assets		(601,176)	70,351
Accounts payable		258,949	(347,001)
Premiums received in advance		2,855	(4,384)
Accruals and other liabilities		(331,413)	(396,484)
Claims payable		(36,965)	(62,770)
Provision for claims incurred		5,061,924	(2,796,033)
<b>Net cash flows from operating activities</b>		<b>12,812,993</b>	<b>(4,896,038)</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets	7	(124,667)	(104,978)
<b>Net cash flows from investing activities</b>		<b>(124,667)</b>	<b>(104,978)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liability		(153,845)	(62,821)
Receipt of additional paid-in-capital	14	-	3,000,000
<b>Net cash flows from financing activities</b>		<b>(153,845)</b>	<b>2,937,179</b>
<b>Net cash inflow/(outflow) for the year</b>		<b>12,534,481</b>	<b>(2,063,837)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>13,172,966</b>	<b>15,236,803</b>
<b>Cash and cash equivalents at end of the year</b>		<b>\$ 25,707,447</b>	<b>\$ 13,172,966</b>

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

## Cayman Islands National Insurance Company Ltd.

### Statements of Changes in Shareholder's Equity

*Amounts stated in Cayman Islands dollars*

	Share capital	Share premium	Additional paid- in-capital	Accumulated deficit	Total Shareholder's Equity
<b>Balance at January 1, 2019</b>	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 34,723,251</u>	<u>\$ (26,724,931)</u>	<u>\$ 10,998,320</u>
Year ended December 31, 2019					
<b>Comprehensive income:</b>					
Additional paid-in-capital received	-	-	3,000,000	-	3,000,000
Net loss for the year	-	-	-	(258,939)	(258,939)
<b>Total comprehensive income:</b>	<u>-</u>	<u>-</u>	<u>3,000,000</u>	<u>(258,939)</u>	<u>2,741,061</u>
<b>Balance, end of year</b>	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 37,723,251</u>	<u>\$ (26,983,870)</u>	<u>\$ 13,739,381</u>
Year ended December 31, 2020					
<b>Comprehensive income:</b>					
Net income for the year	-	-	-	10,547,859	10,547,859
<b>Total comprehensive income:</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,547,859</u>	<u>10,547,859</u>
<b>Balance, end of year</b>	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 37,723,251</u>	<u>\$ (16,436,011)</u>	<u>\$ 24,287,240</u>

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



# Cayman Islands National Insurance Company Ltd.

## Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 1 Reporting entity

Cayman Islands National Insurance Company Ltd. ("CINICO" or the "Company") was formed on December 18, 2003, under the Cayman Islands Companies Act and was granted a Class A Insurance Licence under the Insurance Act (2003 Revision) on February 1, 2004. The Company was established and is wholly owned by the Cayman Islands Government ("CIG"). The principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other CIG Statutory Authorities and Companies (including CINICO employees and dependants), seamen & veterans and their dependents ("Government Insureds"). The Company also serves residents of the Cayman Islands ("Private Insureds") by providing benefits under the "Standard Health Insurance Contract" ("SHIC") as defined by the Health Insurance Act of the Cayman Islands. In addition, the Company also provides Administrative Services Only ("ASO") for indigents and advance patients. ASO is also provided for Seafarer and Veteran overseas benefits which came into effect July 1, 2007.

The Company has leased an insurance administration system through Hi-Tech and performs in-house claims adjudication, eligibility maintenance and in-house case management. The Company has also contracted with United Healthcare to provide network access to USA facilities and physicians. In addition, CINICO has contracted with Munich Re, to provide specific excess loss reinsurance coverage on a per covered person basis.

The Company's registered office is at Cayman Centre, George Town, Grand Cayman. At December 31, 2020, the Company employed 31 permanent staff and 3 temporary staff (32 permanent staff and 4 temporary staff at December 31, 2019).

### 2 Accounting policies

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and have been prepared under the historical cost convention.

The financial statements were authorised for issue by the Company's board of directors on April 28, 2021.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's policies.

#### Changes in significant accounting policies

A number of new standards are effective from January 1, 2020, but they do not have a material effect on the Company's financial statements.

A number of new standards and amendments to standards and interpretations are issued but not yet effective for the financial period beginning January 1, 2020, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company except the following set out below:

IFRS 17, Insurance Contracts, is effective for annual periods beginning on or after January 1, 2023, with an early adoption being permitted. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. Management is currently assessing the impact that this standard will have on its financial statements.

#### Temporary exemption from application of IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* is effective for annual periods beginning on or after January 1, 2018. However, as permitted under IFRS 4 *Insurance Contracts*, the Company has applied the temporary exemption that permits an insurer to continue to apply IAS 39 *Financial Instruments: Recognition and Measurement* rather than IFRS 9. The Company is able to apply the temporary exemption as it has not previously applied any version of IFRS 9 and its activities at June 30, 2015, were predominantly connected with insurance. The Company's activities are determined to be predominantly connected with insurance as the carrying amount of its liabilities from insurance contracts is significant to the total carrying amount of all liabilities. At June 30, 2015, the carrying amount of the Company's liabilities from insurance contracts was equal to 96% of the total carrying amount of all liabilities.

At December 31, 2020, the Company did not have any (December 31, 2019: Nil) financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

#### Critical accounting estimates and judgements

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The item which may have the most effect on the Company's financial statements is set out below.

#### *The ultimate liability arising from claims made under insurance contracts*

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. See also Note 3.1.

The provision for claims incurred is necessarily based on estimates due to the fact that the ultimate disposition of claims incurred prior to the statement of financial position date, whether reported or not, is subject to the outcome of events that have not yet occurred. Any estimate of future events includes estimation uncertainty, and, consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term. Management engage independent actuaries to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

The principal accounting policies applied are set out below. These have been consistently applied to all years presented, unless otherwise stated.

#### Insurance and reinsurance contracts - classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk using historical claims data and conducting an actuarial analysis of various reinsurance retention limits, to determine the optimum reinsurance retention limit. Under its reinsurance contract, the Company is entitled to any claims in excess of the reinsurance limit which is held or recognized as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on policies issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 2 Accounting policies (continued)

#### Insurance/reinsurance assets and liabilities

The Company assesses its insurance/reinsurance assets for impairment on a regular basis, and if there is objective evidence that the insurance/reinsurance asset is impaired, the Company reduces the carrying amount of these assets to their recoverable amounts. The impairment loss is recognised in the statement of comprehensive income/(loss). Insurance/reinsurance liabilities are recognised when incurred/due.

#### Claims and provision for claims incurred

Claims paid are recorded based on claims reported to the Company and adjudicated by its third party administrator. The provision for claims incurred is an estimate determined by an independent actuary, using standard actuarial claims projection techniques and includes amounts for all losses reported but not settled and loss adjustment expenses, as well as reserves for losses which have been incurred but not yet reported at the statement of financial position date. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

#### Cash and cash equivalents

Cash and cash equivalents is comprised of cash and interest bearing deposits with maturities of three months or less at date of acquisition.

#### Premiums

Premiums are accounted for on a pro-rata basis over the periods covered by the insurance policy. Premiums for privately insured persons are payable monthly in advance on the first day of the month. Premiums for Government insured persons are payable monthly. Premiums received in advance are deferred and included in premiums received in advance in the statement of financial position. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for 45 days (December 31, 2019: 45 days) after the due date.

#### Leases

The Company assesses whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the asset is determined if the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use and has the right to direct use of the asset.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases. The Company recognises a right-of-use asset and the lease liability at the lease commencement date. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and discounted using the Company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term.

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term lease that have a lease term of 12 months or less and leases of low-value assets. The Company recognises the lease payments associated with these leases as an expenses on a straight-line basis over the lease term.

#### Financial instruments

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset, or to exchange financial instruments with another enterprise under conditions that are potentially favourable or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

The Company recognises financial assets and liabilities on the date it becomes a party to the contractual provisions of the instrument. Financial instruments are measured initially at cost, including transaction costs. For financial assets acquired, cost is the fair value of the consideration given, while for financial liabilities cost is the fair value of consideration received.

Financial assets are derecognised if: the Company's contractual rights to the cash flows from the financial assets expire; the Company transfers the financial asset to another party without retaining control; or the Company transfers substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire, are discharged, or are cancelled.

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts, and the transactions are intended to be settled on a net basis.

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 2 Accounting policies (continued)

#### Fixed assets & depreciation

Fixed assets are carried at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis over their expected useful lives of these assets. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

Office Equipment	5 years
System Development Costs	3 - 5 years
Computer and Telecommunications Equipment	3 years
Leasehold Improvements	over the term of the lease

See also Note 7.

The assets' depreciation methods, useful lives and residual values are reviewed at each statement of financial position date and adjusted where appropriate.

#### Income taxes

There is presently no taxation imposed on the Company by the Government of the Cayman Islands. As a result, no tax liability or expense has been recorded in the accompanying financial statements.

#### Administrative Services Only Fees

Administrative Services Only Fees ("ASO") are recognised as calculated on a per-member-per-month basis and recognised in full each month.

#### Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Cayman Islands dollars, which is the Company's presentation and functional currency.

Revenue and expense transactions denominated in currencies other than the Cayman Islands dollar have been translated using exchange rates ruling at the dates of those transactions. Assets and liabilities denominated in currencies other than the Cayman Islands dollar have been translated using year-end foreign exchange rates. Gains or losses on translation of foreign currency transactions are included in general and administrative expenses.

#### Investment income and other income

Investment income and other income are accrued as earned.

#### Liability adequacy test

Annually, a liability adequacy test is performed to ensure the adequacy of the loss reserves. In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency over the remaining term of insurance contracts is recognized immediately by establishing a provision for losses arising from liability adequacy tests. No premium deficiency reserves were required for the period ended December 31, 2020, or (December 31, 2019: none).

### 3 Management of insurance and financial risk

#### 3.1 Insurance risk

The risk under insurance contracts is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The very nature of an insurance contract involves randomness and therefore unpredictability. The principal risk that the Company faces is that the actual claim payments exceed the amount of insurance provisions. This could occur for various reasons; for example, the severity and/or frequency of claims may be higher than anticipated, or unit claim costs could be higher than estimated. Any significant delays in the reporting of claims information from service providers will also lead to increased uncertainty. Claim losses are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 3 Management of insurance and financial risk (continued)

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US\$550,000 (December 31, 2019: US\$600,000), up to US\$5,000,000 in respect of any one covered person during the policy year, with an aggregate cap of US\$10,500,000 per year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing condition exclusions, and annual limits to mitigate risk. In August 2016, the Company implemented its own department to provide case management service to patients. The Company uses United Healthcare for the provision of overseas network access. This entity has pre-negotiated contracts with many overseas providers which would allow the Company to realise significant savings. Furthermore, during the current fiscal year on a monthly basis, the Risk and Appeal Committee meet to discuss large claims and any disputed claims.

#### 3.2 Financial risk

Financial risk can be broken down into credit risk, market risk (comprising of: interest rate risk, foreign currency risk and other price risk) and liquidity risk. The Company is exposed to financial risks through its financial assets, financial liabilities, and reinsurance assets. No financial risk is associated with its insurance liabilities. The Company's assets and liabilities are generally short term in nature (less than one year), as such financial risks are minimal.

##### Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- cash at bank;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from ASO contracts.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2020: 100%; 2019: 100%). As described in Note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with an AM Best rating of A (Excellent).

The following assets of the Company are exposed to credit risk:

	December 31, 2020	<i>December 31, 2019</i>
Cash and cash equivalents	\$ 25,707,447	\$ 13,172,966
Funds held in escrow	790,295	482,120
Premiums receivable	3,525,543	3,993,845
Advance claims, ASO claims and fees receivable	6,976,827	4,419,973
Reinsurance claims recoveries	634,230	170,919
Other assets and receivables	337,017	199,152
Total financial assets	<u>\$ 37,971,359</u>	<u>\$ 22,438,975</u>
Non-financial assets	<u>\$ 883,759</u>	<u>\$ 856,567</u>
Total assets per the statement of financial position	<u>\$ 38,855,118</u>	<u>\$ 23,295,542</u>

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 3.2 Financial risk (continued)

Balances past due but not impaired and those that are impaired are analysed in the tables below:

As at December 31, 2020:	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
Cash and cash equivalents	\$ 25,707,447	\$ -	\$ -	\$ -	25,707,447
Funds held in escrow	790,295	-	-	-	790,295
Premiums receivable	-	3,525,543	29,722	(29,722)	3,525,543
Advance claims, ASO claims and fees receivable	-	6,976,827	-	-	6,976,827
Reinsurers share of insurance liabilities	634,230	-	-	-	634,230
Other assets	337,017	-	-	-	337,017
Total assets exposed to credit risks	<u>\$ 27,468,989</u>	<u>\$ 10,502,370</u>	<u>\$ 29,722</u>	<u>\$ (29,722)</u>	<u>\$ 37,971,359</u>

As at December 31, 2019:	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
Cash and cash equivalents	\$ 13,172,966	\$ -	\$ -	\$ -	13,172,966
Funds held in escrow	482,120	-	-	-	482,120
Premiums receivable	-	3,993,845	1,010,795	(1,010,795)	3,993,845
Advance claims, ASO claims and fees receivable	-	4,419,973	-	-	4,419,973
Reinsurers share of insurance liabilities	170,919	-	-	-	170,919
Other assets	199,152	-	-	-	199,152
Total assets exposed to credit risks	<u>\$ 14,025,157</u>	<u>\$ 8,413,818</u>	<u>\$ 1,010,795</u>	<u>\$ (1,010,795)</u>	<u>\$ 22,438,975</u>

The ageing analysis of financial assets that are past due but not impaired is as follows:

As at December 31, 2020:	Up to 30 days	30 to 60 days	> 60	Total
Advance claims, ASO claims and fees receivable	\$ 4,712,853	\$ 2,263,974	\$ -	6,976,827
Premiums receivable	3,336,725	188,374	444	3,525,543
	<u>\$ 8,049,578</u>	<u>\$ 2,452,348</u>	<u>\$ 444</u>	<u>\$ 10,502,370</u>

As at December 31, 2019:	Up to 30 days	30 to 60 days	> 60	Total
Advance claims, ASO claims and fees receivable	\$ 4,419,973	\$ -	\$ -	4,419,973
Premiums receivable	3,932,988	17,122	43,735	3,993,845
	<u>\$ 8,352,961</u>	<u>\$ 17,122</u>	<u>\$ 43,735</u>	<u>\$ 8,413,818</u>

Cash and cash equivalents (including funds held in escrow) above are analysed in the table below using the Standard and Poors (S&P) rating (or an equivalent rating when not available from S&P) for the financial institution that holds the cash or cash equivalent. The concentration of credit risk is substantially unchanged compared to the prior year.

	December 31, 2020	December 31, 2019
AA	\$ 23,938,082	\$ 12,213,437
A	790,295	482,120
BBB	920,120	248,857
Below BBB or not rated	849,245	710,672
Total cash and cash equivalents bearing credit risk	<u>\$ 26,497,742</u>	<u>\$ 13,655,086</u>

The majority of the amounts due from insurance contract holders are due from the Cayman Islands Government which has a Moody rating of Aa3 (December 31, 2020: \$3,501,414; December 31, 2019: \$3,956,018).

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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### 3.2 Financial risk (continued)

#### Interest rate risk

None of the Company's insurance products expose it to interest rate risk.

#### Foreign currency risk

The Company receives revenue in Cayman Islands Dollars (CIS), and pays claims in both Cayman Islands and United States dollars (US\$). Since the exchange between CIS and US\$ is fixed, the Company is not exposed to foreign currency risk.

#### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims, in conjunction with uncollected receivables. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risks, have not changed significantly from the prior year.

At December 31, 2020, the Company had cash and cash equivalents (including funds held in escrow) of \$26,497,742 (2019: \$13,655,242). These amounts are highly liquid and are a significant component of the Company's overall liquidity and capital resources. Liquidity forecasts are produced on a regular basis to ensure the liquidity is maintained.

### 3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Company's financial statements as of December 31, 2020, and December 31, 2019.

	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
<b>December 31, 2020</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	\$ 25,707,447	\$ -	\$ 25,707,447	\$ -	\$ -	\$ -	\$ -
Funds held in escrow	790,295	-	790,295	-	-	-	-
Advance claims, ASO claims and fees receivable	6,976,827	-	6,976,827	-	-	-	-
Premiums receivable	3,525,543	-	3,525,543	-	-	-	-
Reinsurance recoveries	634,230	-	634,230	-	-	-	-
Other assets	337,017	-	337,017	-	-	-	-
<b>Total</b>	<b>\$ 37,971,359</b>	<b>\$ -</b>	<b>\$ 37,971,359</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Short term insurance liabilities</b>							
Insurance contracts	\$ 12,527,873	\$ -	\$ 12,527,873	-	-	-	-
Other financial liabilities	1,149,270	-	1,149,270	-	-	-	-
<b>Total</b>	<b>\$ 13,677,143</b>	<b>\$ -</b>	<b>\$ 13,677,143</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Difference in contractual flows</b>	<b>\$ 24,294,216</b>	<b>\$ -</b>	<b>\$ 24,294,216</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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### 3.3 Management of financial risks (continued)

December 31, 2019	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
<b>Financial Assets</b>							
Cash and cash equivalents	\$ 13,172,966	\$ -	\$ 13,172,966	\$ -	\$ -	\$ -	\$ -
Funds held in escrow	482,120	-	482,120	-	-	-	-
Advance claims, ASO claims and fees receivable	4,419,973	-	4,419,973	-	-	-	-
Premiums receivable	3,993,845	-	3,993,845	-	-	-	-
Reinsurance recoveries	170,919	-	170,919	-	-	-	-
Other assets	199,152	-	199,152	-	-	-	-
<b>Total</b>	<b>\$ 22,438,975</b>	<b>\$ -</b>	<b>\$ 22,438,975</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Short term insurance liabilities</b>							
Insurance contracts	\$ 7,502,914	\$ -	\$ 7,502,914	\$ -	\$ -	\$ -	\$ -
Other financial liabilities	1,221,734	-	1,221,734	-	-	-	-
<b>Total</b>	<b>\$ 8,724,648</b>	<b>\$ -</b>	<b>\$ 8,724,648</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Difference in contractual flows</b>	<b>\$ 13,714,327</b>	<b>\$ -</b>	<b>\$ 13,714,327</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

### 3.4 Sensitivity analysis - insurance contracts

The following factors are likely to affect the sensitivity of the Company's reserves:

- changes to the loss ratios for the underlying business
- changes to the reporting pattern of losses
- changes to the severity of losses

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted, contractually non-interest bearing, and are payable less than one year from the date of the claim.

Short-term insurance liabilities are estimated using standard actuarial claims projection techniques. These methods extrapolated the claims development for each underwriting year based on the observed development of earlier years, adjusted for any current trends or developments. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims reporting patterns on which the projections are based. As such, the sensitivity of short term insurance liabilities is based on the financial impact of changes to the claims reporting patterns.

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated.

Sensitivity factor	Description of sensitivity factor applied
Expenses (1)	The impact of an increase in underwriting expenses by 10%
Loss ratios (2)	The impact of an increase in loss ratio's (before reinsurance recoveries) by 10%

1 - Related to the contributions to segregated insurance fund, claims administration and other expenses

2 - Related to the absolute percentage change in the claims paid and movement in the provision for claims incurred

## Cayman Islands National Insurance Company Ltd.

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### 3.4 Sensitivity analysis - insurance contracts (continued)

	Expenses		Loss ratios	
	+10%	-10%	+10%	-10%
Sensitivities as at December 31, 2020				
Impact on net income				
for the year	(124,112)	124,112	(8,664,444)	8,664,444
Impact on Shareholder's equity	(124,112)	124,112	(8,664,444)	8,664,444

	Expenses		Loss ratios	
	+10%	-10%	+10%	-10%
Sensitivities as at December 31, 2019				
Impact on net loss				
for the year	(126,258)	126,258	(9,094,158)	9,094,158
Impact on Shareholder's equity	(126,258)	126,258	(9,094,158)	9,094,158

### 4 Cash and cash equivalents and fixed deposits

	December 31, 2020	December 31, 2019
Demand deposits	\$ 12,002,223	\$ -
Cash at Bank	13,701,114	13,171,145
Deposit in transit	4,110	1,821
	<u>\$ 25,707,447</u>	<u>\$ 13,172,966</u>

#### 4.1 Funds held in escrow

United Healthcare (UHC) provides the Company with network access to USA facilities and physicians at discounted rates. As part of the agreement with UHC, the Company is required to maintain an appropriate level of funds in a client billing account maintained by UHC for the payment of claims.

### 5 Premiums receivable

	December 31, 2020	December 31, 2019
Premiums receivable from related parties, gross	\$ 3,519,794	\$ 4,956,260
Premiums receivable from unrelated entities, gross	35,471	48,380
Less: provisions for bad debts	(29,722)	(1,010,795)
	<u>\$ 3,525,543</u>	<u>\$ 3,993,845</u>

During the year ended December 31, 2020, bad debts of \$151,855 (December 31, 2019: \$133,313) have been written off. It is management's opinion that a provision for bad debts of \$11,342 (December 31, 2019: \$9,652) for unrelated individuals is required at December 31, 2020. All bad debts written off during the year ended December 31, 2020 were from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.



## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2020

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### 6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	December 31, 2020	December 31, 2019
Reinsurance claims recoveries	\$ 634,230	\$ 170,919
Amount on deposit with Cayman Airways	84,000	84,000
Licence fees	75,000	-
Unallocated claims expense	56,883	-
Prepaid software licences	34,334	11,933
Work permit fees	29,990	50,279
Investment income	22,200	0
Claims administration and other expenses	14,667	14,667
Prepaid rent	9,112	2,970
Marketing costs	6,539	6,437
Refund due from provider	62	1,267
Insurance expense	2,300	-
Miscellaneous	1,030	4,035
Maintenance/software costs	900	2,375
Amount on deposit with Cayman Travel	-	21,000
Advance to employees	-	189
	<u>\$ 971,247</u>	<u>\$ 370,071</u>

See Note 19 for disclosure on related party balances.

### 7 Fixed assets

	Office building	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at January 1, 2019	\$ -	\$ 996,454	\$ 180,068	\$ 499,289	\$ 351,337	\$ 2,027,148
Additions	700,630	35,100	8,284	60,532	1,062	805,608
Cost at December 31, 2019	<u>700,630</u>	<u>1,031,554</u>	<u>188,352</u>	<u>559,821</u>	<u>352,399</u>	<u>2,832,756</u>
Accumulated depreciation at January 1, 2019	-	833,997	137,533	437,478	337,616	1,746,624
Depreciation for period	70,063	74,788	15,410	58,051	11,253	229,565
Accumulated depreciation at December 31, 2019	<u>70,063</u>	<u>908,785</u>	<u>152,943</u>	<u>495,529</u>	<u>348,869</u>	<u>1,976,189</u>
Carrying value at December 31, 2019	<u>\$ 630,567</u>	<u>\$ 122,769</u>	<u>\$ 35,409</u>	<u>\$ 64,292</u>	<u>\$ 3,530</u>	<u>\$ 856,567</u>
Cost at January 1, 2020	\$ 700,630	\$ 1,031,554	\$ 188,352	\$ 559,821	\$ 352,399	\$ 2,832,756
Reclassify additions from 2019	-	-	(2,443)	2,443	-	-
Additions	210,212	6,250	16,870	79,067	22,480	334,879
Cost at December 31, 2020	<u>910,842</u>	<u>1,037,804</u>	<u>202,779</u>	<u>641,331</u>	<u>374,879</u>	<u>3,167,635</u>
Accumulated depreciation at January 1, 2020	70,063	908,785	152,943	495,529	348,869	1,976,189
Reclassify depreciation	-	-	(83)	83	-	-
Depreciation for period	168,152	74,443	15,656	47,066	2,370	307,687
Accumulated depreciation at December 31, 2020	<u>238,215</u>	<u>983,228</u>	<u>168,516</u>	<u>542,678</u>	<u>351,239</u>	<u>2,283,876</u>
Carrying value at December 31, 2020	<u>\$ 672,627</u>	<u>\$ 54,576</u>	<u>\$ 34,263</u>	<u>\$ 98,653</u>	<u>\$ 23,640</u>	<u>\$ 883,759</u>

Included in office building is the right-of use asset for the office leases with a book value at December 31, 2020 of \$672,627 (December 31, 2019: \$630,567).

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### Notes to the financial statements

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#### 8 Accounts payable

	December 31, 2020	December 31, 2019
Payable to unrelated entities	\$ 336,347	\$ 77,398
Payable to related parties	-	-
	<u>\$ 336,347</u>	<u>\$ 77,398</u>

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$336,347 (December 31, 2019: \$77,398 administrative expenses). Accounts payable in respect of related entities as at December 31, 2020 is \$Nil (December 31, 2019: \$Nil).

#### 9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	December 31, 2020	December 31, 2019
Stale dated cheques	\$ 332,648	\$ 362,278
Hi-Tech/UHC/CHN Expenses	207,900	334,152
Reinsurance premium due	83,160	-
Audit fees	81,500	232,500
Other accruals	46,479	118,529
Actuarial fees	20,580	25,095
Indigent fund	17,870	45,060
Audit Fees - Auditor General	11,000	10,000
Maintenance/Utilities & Telecommunications	8,786	6,348
Legal Fees	1,848	6,821
Marketing costs	600	2,425
Stamp duty	432	1,128
Water	120	-
	<u>\$ 812,923</u>	<u>\$ 1,144,336</u>

See note 19 for disclosure on related party balances.

#### 10 Lease liabilities

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2020 is as follows:

	within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	over 5 years	Total
Lease payment	196,494	207,323	207,323	128,782	16,748	-	756,670
Finance charges	28,592	20,137	11,050	2,616	99	-	62,494
Net present value	<u>167,902</u>	<u>187,186</u>	<u>196,273</u>	<u>126,166</u>	<u>16,649</u>	<u>-</u>	<u>694,176</u>

#### 11 Claims paid

	December 31, 2020	December 31, 2019
Net US\$ claims (denominated in C\$)	18,259,198	21,317,010
C\$ claims	63,323,320	72,420,598
Total Claims	<u>\$ 81,582,518</u>	<u>\$ 93,737,608</u>
Less repricing fees	<u>\$ (923,170)</u>	<u>\$ (742,888)</u>
Claims paid (not including repricing fees)	<u>\$ 80,659,348</u>	<u>\$ 92,994,720</u>

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

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#### 12 Provision for claims incurred

Through the use of an independent actuary, management has estimated a provision for claims which have been incurred but not yet reported ("IBNR"). While management has estimated IBNR based on all information it has available to it at the time, the ultimate liability may be in excess of, or less than, the amounts provided. Provisions for claims incurred but not reported are estimated using acceptable reserving methods and all calculations performed by the independent actuary are peer reviewed by the actuarial firm.

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while in force. The lag between the occurrence of a claim and the final payment is normally short term in nature as providers are required by the Cayman Islands Health Insurance Act to submit any claims within 180 days of date of service (USA providers are required to submit claims within one year of the date of service). Thus, any reserve estimates are normally settled within a year.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of total claims outstanding for each year before reinsurance, has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the statement of financial position.

Reporting year	2015/16	2016/17	2018	2019	2020	Total
<u>Estimate of ultimate claims costs:</u>						
At end of period	64,721,391	100,730,282	80,916,008	90,413,117	85,595,610	
One year later	64,526,948	100,563,443	80,974,231	90,419,610	n.a.	
Two years later	64,406,493	100,529,447	80,998,761	n.a.	n.a.	
Three years to four years later	64,406,493	100,398,831	n.a.	n.a.	n.a.	
Current estimate of cumulative claims	64,405,851	100,398,831	80,998,761	90,419,610	85,595,610	
Cumulative payments to date	64,405,851	100,398,327	80,992,404	90,282,328	73,757,333	
Gross liability recognized in the statement						
of financial position	0	504	6,357	137,282	11,838,277	11,982,420
Allocated loss expenses ("ALE") reserve	0	15	211	5,211	536,206	541,643
Net liability recognized in the statement						
of financial position	\$ -	\$ 519	\$ 6,568	\$ 142,493	\$ 12,374,483	\$ 12,524,063

	Year ended December 31, 2020			Year ended December 31, 2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	\$ 7,462,139	\$ (170,919)	\$ 7,291,220	\$ 10,258,172	\$ (171,496)	\$ 10,086,676
Incurred related to:						
Current year	85,595,610	(634,367)	84,961,243	\$ 90,413,117	(170,919)	90,242,198
Prior year	(123,398)	(48,757)	(172,155)	\$ (106,971)	(72,068)	(179,039)
	85,472,212	(683,124)	84,789,088	90,306,146	(242,987)	90,063,159
Paid related to:						
Current year	73,757,333	-	73,757,333	83,378,796	-	83,378,796
Prior year	6,902,015	(219,813)	6,682,202	9,615,924	(243,564)	9,372,360
	80,659,348	(219,813)	80,439,535	92,994,720	(243,564)	92,751,156
ALE Reserve movement	249,060	-	249,060	(107,459)	-	(107,459)
Balance at end of period	\$ 12,524,063	\$ (634,230)	\$ 11,889,833	\$ 7,462,139	\$ (170,919)	\$ 7,291,220
Movement in provision for claims incurred	\$ 5,061,924		\$ (2,796,033)			

For the year ended December 31, 2020, there was a hindsight reserve release of \$172,155 (December 31, 2019: \$179,039). As stated in the beginning of Note 12, IBNRs are estimated with all known information at the time.

## Cayman Islands National Insurance Company Ltd.

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#### 13 Share capital

Authorized:	December 31, 2020	December 31, 2019
1,000,000 unclassified shares of CIS\$1.00 each	\$ 1,000,000	\$ 1,000,000
Issued and fully paid:		
1 share	\$ 1	\$ 1

The unclassified shares hold all voting rights in the Company. During the year ended June 30, 2004, one share was issued to the Cayman Islands Government at a premium of CIS\$2,999,999.

#### 14 Additional paid-in-capital

Additional paid in capital received	December 31, 2020	December 31, 2019
	\$ 37,723,251	\$ 37,723,251
	<u>\$ 37,723,251</u>	<u>\$ 37,723,251</u>

Additional paid-in-capital represents additional capital contributions of the Shareholder not made in connection with the issuance of shares. These capital contributions have the same rights and characteristics as share premium and, accordingly, they can be returned/distributed to the Shareholder solely at the discretion of the Board of Directors. For the year ended December 31, 2020, the Company received \$Nil in additional paid in capital from the Shareholder (December 31, 2019: \$3,000,000).

It is the policy of the Company to operate in a manner designed to maintain capitalisation within CIMA's prescribed capital requirements.

#### 15 Premium income

Premium income earned by insured type is as follows;

	For the Year Ended December 31, 2020			
	Group 30100	Group 30101	Group 30104/31304	Total
Premium Income	\$ 85,502,323	\$ 12,741,445	\$ 3,510,161	\$ 101,753,929
Reinsurance Premium	(970,731)	-	-	(970,731)
<b>Net Premium</b>	<u>\$ 84,531,592</u>	<u>\$ 12,741,445</u>	<u>\$ 3,510,161</u>	<u>\$ 100,783,198</u>

	For the Year Ended December 31, 2019			
	Group 30100	Group 30101	Group 30104/31304	Total
Premium Income	\$ 78,420,687	\$ 12,247,259	\$ 4,319,007	\$ 94,986,953
Reinsurance Premium	(957,665)	-	-	(957,665)
<b>Net Premium</b>	<u>\$ 77,463,022</u>	<u>\$ 12,247,259</u>	<u>\$ 4,319,007</u>	<u>\$ 94,029,288</u>

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and Group 30104/31304 includes coverage for third part residents under the Standard Health Insurance Plan. With the exception of Group 30104/31304, all plans are to a related party.

Reinsurance premium is calculated at \$8.51 per person per month (December 31, 2019: \$8.51).

#### 16 Administrative Services Only Fees

The Company accrues income as earned from the Segregated Insurance Fund and from the Treasury Department in respect of Indigents and Advance Patients respectively for third party administrator fees.

#### 17 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2013 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund \$10.00 per month per single insured and \$20.00 per month per couple or family insured. For the year ended December 31, 2020, the Company accrued contributions totaling \$242,150 (December 31, 2019: \$274,550).

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

### 18 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	December 31, 2020	December 31, 2019
<b>Administrative expenses</b>		
Salaries	\$ 2,510,184	\$ 2,251,788
Employee benefits	538,174	489,738
Depreciation	307,687	229,564
Professional fees	275,053	408,427
Maintenance	246,197	168,200
Other/miscellaneous	129,034	133,808
Utilities	122,166	107,590
Licence fees	75,000	75,000
Office supplies	32,448	22,131
Marketing	22,281	44,006
Rent	15,116	88,618
	<u>4,273,340</u>	<u>4,018,870</u>
<b>Other expenses</b>		
Interest expense	33,121	15,746
	<u>\$ 4,306,461</u>	<u>\$ 4,034,616</u>

### 19 Related party transactions

Related parties comprise of the Cayman Islands Government and its various ministries/portfolios, statutory authorities, and government companies to whom the Company provides health insurance coverage to. In addition, the Company makes claim payments to other Government entities, namely the CIHSA, and Cayman Airways. Related party balances and transactions from the statements of financial position and comprehensive income are represented below.

	December 31, 2020	December 31, 2019
<b>Assets</b>		
Premiums receivable	\$ 3,519,794	\$ 4,956,260
Provision for bad debt	(18,380)	(1,000,242)
Advance claims, ASO claims receivable and fees receivable, net of bad debt	6,976,827	4,419,973
Other receivables and other assets	188,990	134,279
	<u>\$ 10,667,231</u>	<u>\$ 8,510,270</u>
<b>Liabilities</b>		
Premiums received in advance	696	1,776
Accruals and other liabilities	35,091	61,844
	<u>\$ 35,787</u>	<u>\$ 63,620</u>
<b>Income</b>		
Premium income	\$ 98,243,768	\$ 90,608,695
ASO Fees	1,151,228	1,008,112
	<u>\$ 99,394,996</u>	<u>\$ 91,616,807</u>
<b>Expenses</b>		
Claims paid	\$ 44,248,512	\$ 49,914,566
Contributions to segregated insurance fund	242,150	274,550
Claims administration & administrative expenses	529,434	479,233
	<u>\$ 45,020,096</u>	<u>\$ 50,668,349</u>

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2020

Amounts stated in Cayman Islands dollars

#### 19 Related party transactions (continued)

There are 4 members of staff (December 31, 2019: 3) that are identified as key management personnel. Key employee and director remuneration/compensation are included within administrative expenses as reported in the statement of income and accumulated deficit, and broken down as:

	December 31, 2020	December 31, 2019
Short-term employee benefits	\$ 623,161	\$ 385,557
Post-employment benefits	35,896	16,500
Director fees	44,000	48,100
	<u>\$ 703,057</u>	<u>\$ 450,157</u>

#### 20 Investment income & other income

Investment income represents interest earned from the cash held at various banks. Other income includes income collected for replacement insurance cards, and reinstatement of policies. The prior year also includes stale dated checks over six years and the release of the accrued fees after the final settlement with ABS.

#### 21 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees are continuing to contribute to the defined contribution pension scheme administered by the Public Service Pension Board. Pension expense for the year ended December 31, 2020, is \$176,679 (December 31, 2019: \$162,168).

#### 22 Net worth for regulatory purposes

	December 31, 2020	December 31, 2019
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	37,723,251	37,723,251
Accumulated deficit	(16,436,011)	(26,983,870)
	<u>\$ 24,287,240</u>	<u>\$ 13,739,381</u>

As a Class A insurance company the Company is required to maintain capital levels in accordance with the Insurance (Capital and solvency)(Class A Insurers) regulations, 2012, which is a risk based approach in assessing the adequacy of the required capital. The Company has performed the calculations under Schedule 1 to Schedule 3 of the regulation, and for regulatory purposes complies with both the Minimum Capital Requirements (MCR) and Preferred Capital Requirements (PCR), at December 31, 2020, as listed below.

	December 31, 2020	December 31, 2019
Available capital	\$ 23,791,826	\$ 13,115,998
Minimum Capital Requirements		
MCR	\$ 12,462,006	\$ 10,872,412
PCR	\$ 15,577,507	\$ 13,590,516

#### 23 Subsequent events

In preparing these financial statements management has evaluated subsequent events up to April 28, 2021, which is the date that the financial statements were available to be issued. No subsequent events were identified that require additional disclosures in these financial statements.



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