

# ANNUAL REPORT 2019



CAYMAN ISLANDS  
**CINICO**  
NATIONAL INSURANCE COMPANY

OPENING DOORS  
TO WELLNESS FOR  
OUR MEMBERS



FISCAL YEAR ENDED  
31 DECEMBER 2019

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CAYMAN CENTER

 **CINICO**

  
NO CASH

  
**CINICO**  
BUSINESS HOURS

  
**CINICO**

  
**CINICO**



## Message from the Minister for Finance and Economic Development



CINICO continues to strive towards achieving its status of being a dynamic and financially responsible, effective and sustainable insurance company that delivers quality and caring insurance services.

With the Government's commitment to eliminating premium discounting and the ongoing exploration of the range of options of diversifying its portfolio of products and services, CINICO continues to strive towards achieving its status of being a dynamic and financially responsible, effective and sustainable insurance company that delivers quality and caring insurance services.

During the 2019 fiscal year, in strengthening its corporate governance goals and responsibilities and ensuring that CINICO remains compliant with statutory requirements and industry rules and regulations, the Board of Directors placed greater emphasis on due diligence and establishing controls especially around fraud prevention and fraud deterrence. Significant progress was made on establishing a number of policies to address the personal use of company assets and resources, data protection, records management, enterprise risk management, cyber risk management, clean desk, anti-money laundering, anti-fraud and whistleblower protection.

I welcome the new CEO, Mr. Michael Gayle, to CINICO and I am certain that with his wealth of insurance knowledge and expertise that he will be able to take CINICO to the next level of providing the residents of the Cayman Islands with accessible, affordable and sustainable insurance solutions and achieving the company's long-term goals and vision "to open doors to wellness for our members through all stages of their lives".

I am pleased to present this annual report which highlights CINICO's performance and achievements during the 2019 fiscal year and I commend the Board and management and staff of CINICO for their commitment and hard work throughout the years.

**Roy McTaggart, JP**  
*Minister for Finance & Economic Development*  
*Cayman Islands National Insurance Company*  
April 30, 2020

## Foreword by the Board Chairperson



I am pleased to present this annual report for the fiscal year period ended December 31, 2019.

2019 was a challenging year for us. We started the year without a full-time Chief Executive Officer, the role being carried out by our CFO and GM who shared the responsibilities. After a recruitment period which lasted several months, we welcomed our new CEO at the end of August.

2019 was also a very busy and productive year. We strengthened our corporate governance protocols, and as part of this, approved several policy and procedures. We worked with Deloitte in producing an overall risk assessment of the Company, including a cyber-security assessment. We hired a Senior Compliance officer to ensure we meet the ever increasing regulatory standards and requirements. And we worked with a consulting firm to develop policies and procedures to ensure we comply with the new data protection law.

We commissioned the production of a new Strategic Plan in 2018 and this was approved by the Board in June of 2019. Though approved by the Board, the roll –out of this new plan was slightly delayed pending the arrival and settling-in of our new CEO. I am happy to be able to say that for 2020, we are proceeding with the implementation of the plan. This report outlines our financial performance during this challenging year, a year in which our financial performance was creditable, there being no repeat of the losses which we have experienced in the past few years. This is due in large part to the performance of our Management and Staff, but also due to the support of our owners, the Cayman Islands Government.

We head into 2020 filled with optimism and embarking on a journey with the goal of ensuring CINICO's sustainability.

**Patricia Estwick**  
*Chairperson of the Board of Directors*  
*Cayman Islands National Insurance Company*  
April 30, 2020

## Message from Chief Executive Officer



I am pleased to present this annual report for the fiscal year period ended December 31, 2019.

CINICO functioned for two-thirds of the year without a full-time Chief Executive Officer. During that period, the duties of the Chief Executive Officer were shared between our General Manager and our Chief Financial Officer, who both shouldered the task admirably in the face of a number of daunting challenges.

I assumed the role of Chief Executive Officer at the end of August 2019, and was pleased to find in place, knowledgeable staff, a strong and supportive Board of Directors and a Minister of Finance who grasps the nature of the challenges that we face, and who also is very supportive of our efforts to address these challenges. This combination makes my job of leading this team that much easier in the face of these numerous challenges. I also found that CINICO was very much misunderstood and we have assigned a high level of importance to the task of changing the narrative regarding CINICO's roles and responsibilities.

I have used the last four months of the year to evaluate our operations in order to assess our current situation, and along with our Board of Directors, management and staff, to chart the way forward. I have been able to formulate my own views and opinions on the way forward which are outlined later in this Annual Report. I am pleased to have found that my observations and views synchronize very nicely with the Strategic Plan for the period 2019-2024 which was approved before my arrival, and I am thankful for and look forward to the opportunity to lead CINICO on this journey.

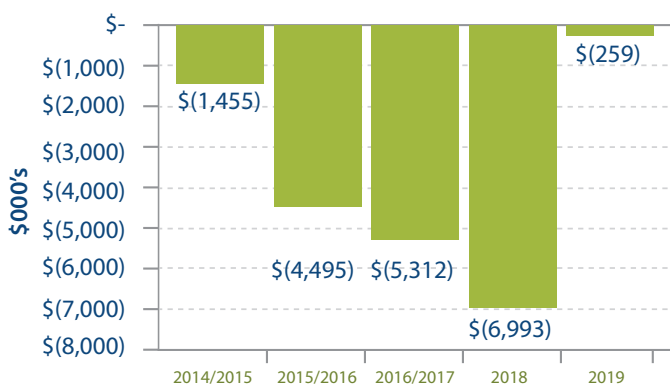
**Michael Gayle**  
*Chief Executive Officer*  
April 30, 2020



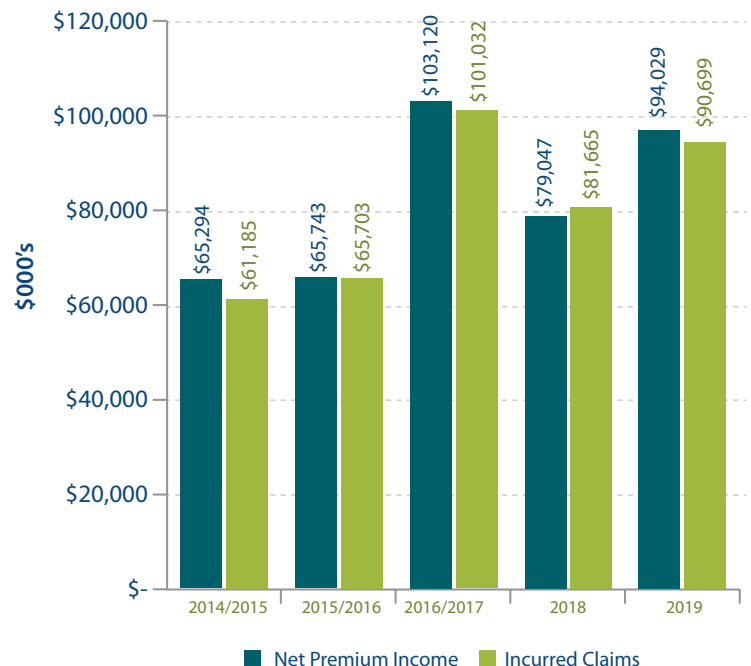
## Financial and Operational Highlights

This section of the annual report provides key financial and operational trends for the 2019 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.

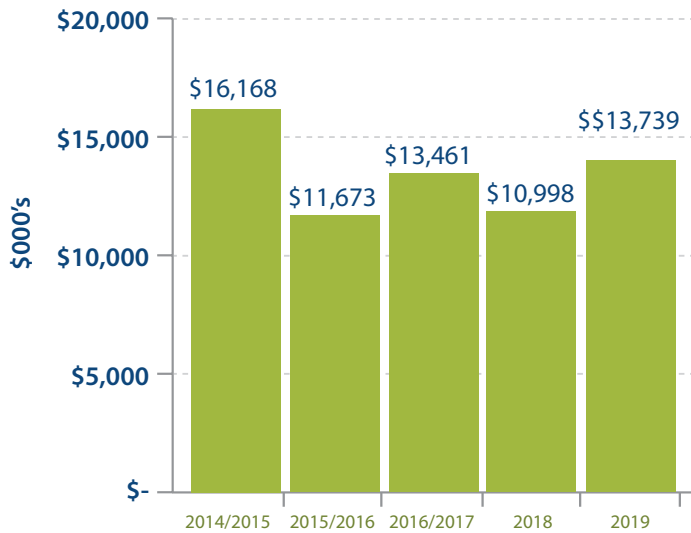
### NET INCOME/LOSS



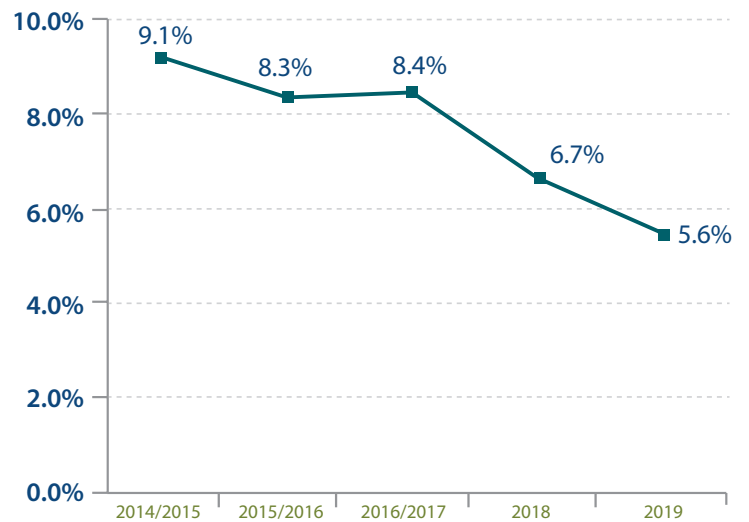
### NET PREMIUM INCOME VERSUS CLAIMS INCURRED



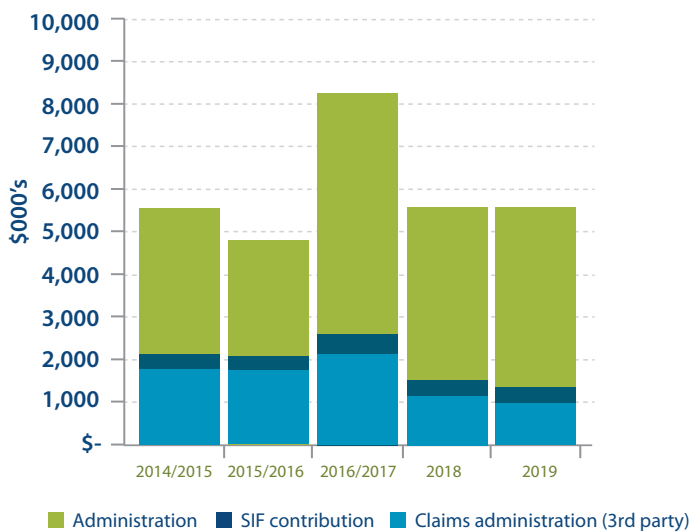
## SHAREHOLDER'S EQUITY



## 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 (CI).

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). If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage), the member goes to CIHSA for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at the CIHSA, then approval for treatment by the CINICO 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). The CINICO 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 (CIGSA)
- Chief Dental Officer (CDO)
- Chief Medical Officer (CMO)
- Department of Child & Family Services (DCFS)
- Health City Cayman Islands (HCCI)
- Ministry of Finance and Economic Development
- Ministry of Health (MOH)
- Office of the Auditor General (OAG)
- Oliver Wyman (Health Actuarial Practice)
- Portfolio of the Civil Service (PoCS)
- Public Service Pensions Board (PSPB)

## GOVERNANCE AND BOARD OF DIRECTORS

### Corporate Governance

CINICO is 100% owned by the Cayman Islands Government and, as the 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 current Board of Directors is indicated below.

### 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 (effective August 2019)
- **Chief Financial Officer**  
Frank Gallippi
- **General Manager**  
Dana Brandon
- **Compliance Officer**  
Debra Humphreys (effective April 2019)

**CURRENT BOARD OF DIRECTORS**

**Name and Committee Roles**

Patricia Estwick <sup>(1,3)</sup>

Anne Owens <sup>(5)</sup>

Janet Sairsingh

Darlee Ebanks

Dr. George Meggs <sup>(4)</sup>

Betty Baraud

Roger Corbin <sup>(2,7)</sup>

Dwight Merren <sup>(6)</sup>

- (1) Chairperson
- (2) Deputy Chairperson
- (3) Chairperson of Finance & Audit Committee
- (4) Chairperson of Eligibility & Appeals Committee
- (5) Chief Officer (or designate) Ministry of Finance and Economic Development
- (6) Chairperson of Risk & Compliance Committee
- (7) 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

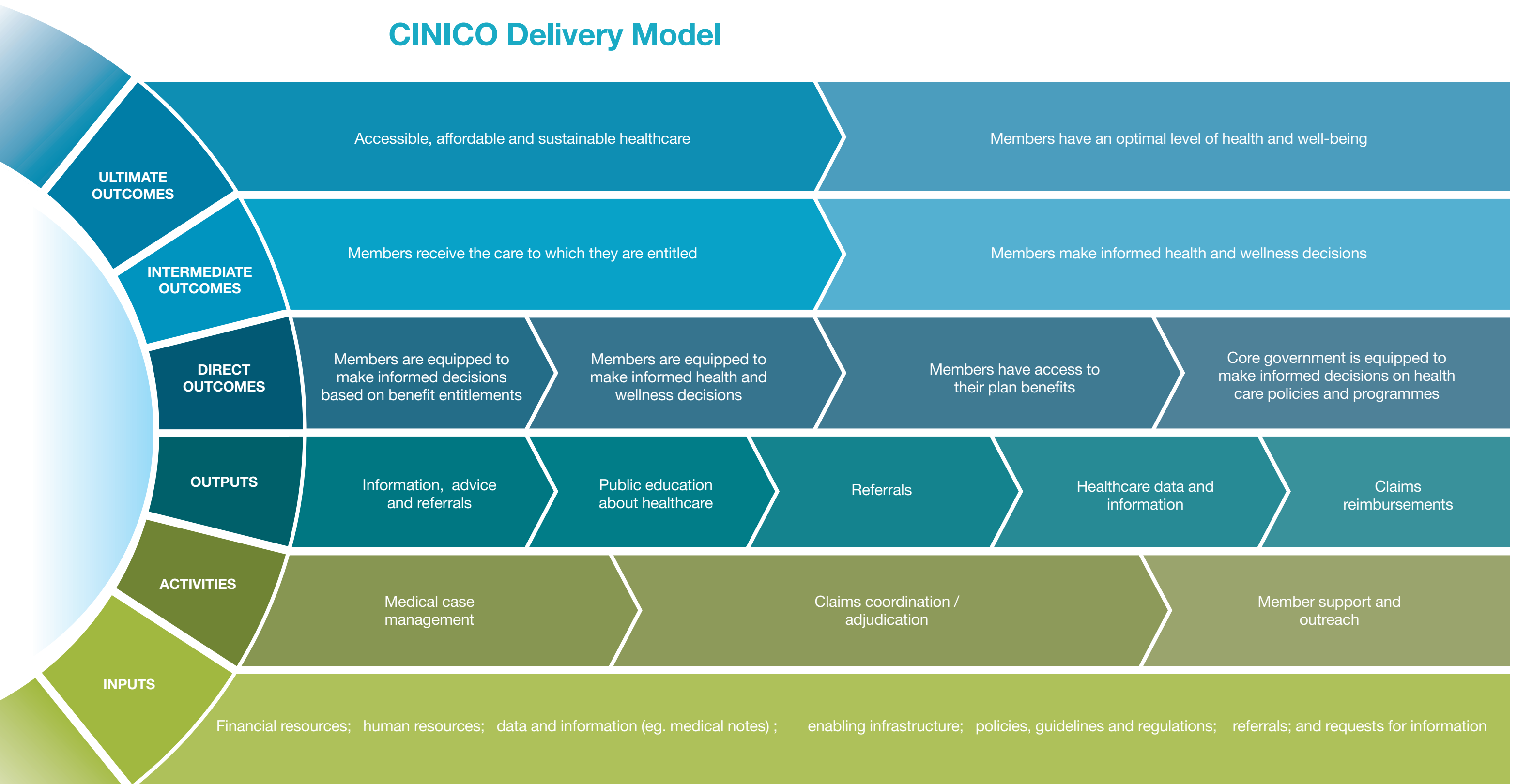
**CINICO DELIVERY MODEL**

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:**

CINICO's financial performance showed a significant \$6.6 million improvement from the prior year loss of \$6.9 million. The 2019 small \$0.3 million net loss position, was impacted by unfavorable claim experience offset by favorable expenses (see Financial Performance Section for further details). The loss position of the prior year was

impacted by premium rate discounts, however in 2019 premium discounting was eliminated.

#### **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 \$13.0 million, CINICO is compliant with the MCR of \$10.9 million, however CINICO has fallen by \$554k below the PCR. If considering the performance of the business alone, CINICO would have been compliant with PCR, however a change in an accounting standard (IFRS 16 – Accounting for Leases) has imposed an additional capital burden of \$0.8 million resulting in a non-compliant position. We are currently reviewing

the implications of this accounting treatment with CIMA and the Government, and would ensure that either way, CINICO is compliant with the capital requirements.

**Timely, efficient and collaborative**

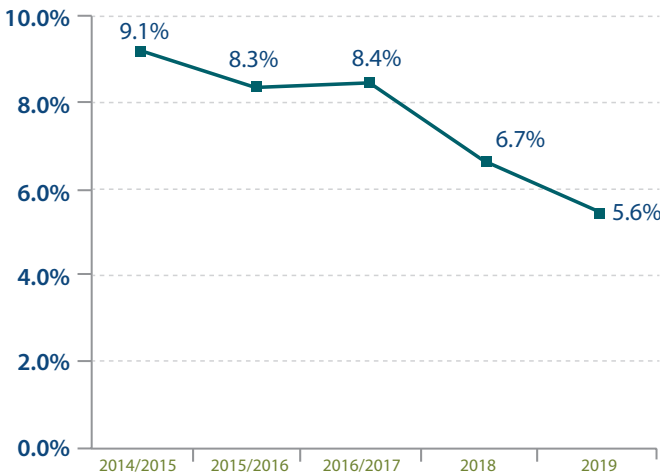
CINICO is committed to providing timely service to our members, seeking out avenues to become as efficient as possible in our service delivery, and to do so by working collaboratively with our stakeholders and delivery partners.

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 amount 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. Premium is net of reinsurance. The graph below displays CINICO’s productivity ratio for the past five years. The lower the ratio the more efficient a company is. The industry average for similarly sized companies in the USA is approximately 15% to 20%. CINICO’s productivity ratio was well below the industry average and ranged from 9.1% in 2014/15 declining to 5.6% in 2019. Most of the decline in 2019 is due to a higher premium income base, while maintaining the same level of expenses.

**PRODUCTIVITY RATIO**

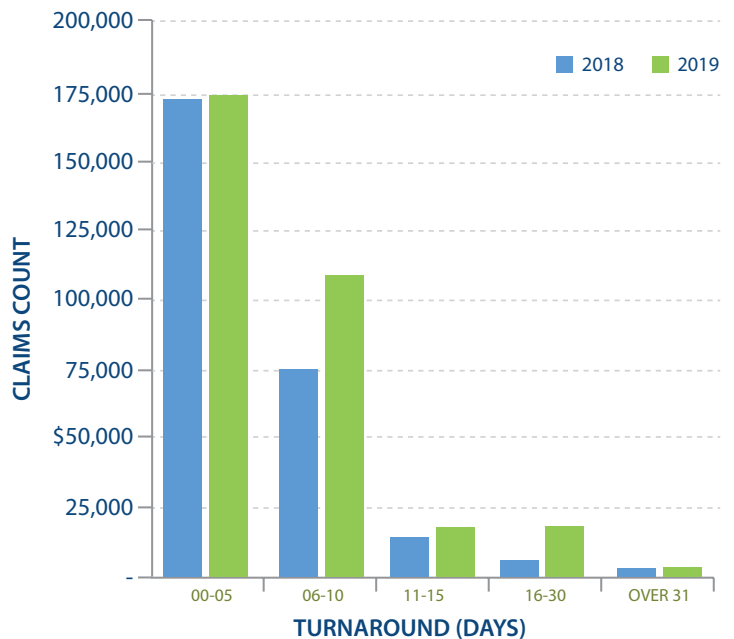


**Claim payment turnaround):**

With the exception of USA claims, the claims payment functions are performed locally resulting in a dramatic improvement of claim paid turnaround times to the benefit of our members and providers.

Total claims submitted increased by 19% in 2019. The chart below illustrates that a majority of the claims are processed and paid within zero – ten days (88%, 92% in 2018). Of the total 2019 claims count of 323,395 (271,724 in 2018), the overall average turnaround time was seven (7) days, compared with six (6) days in 2018.

**CLAIM PAID TURNAROUND:**



**Representative, Capable and Caring**

**Overseas referrals and air ambulance:**

CINICO takes the health of its members very seriously. Through its Medical Case Management Unit (MCMU), CIHSA’s referral office and the Chief Medical Officer, CINICO ensures that in instances where care is not available on-island, the member receives the right care at the right time. In 2019, MCMU coordinated 1,838 (1,594:



2018) overseas referrals, with a majority of these to the USA. In some cases the medical condition of the patient is severe such that travel overseas is only possible through an air ambulance. Table 1 provides statistics on the volume of air ambulances coordinated in 2019, by quarter.

CINICO also supports several community initiatives annually, including but not limited to the DG5K, the Healthcare Conference, the Brain Tumor Foundation 5K Walk/Run, the PACCE Walk/Run/Ride, Special Olympics and the Intertrust Marathon. Not only does CINICO provide financial sponsorship, but we also proudly boast a volunteerism rate of approximately 50 percent.

**Table 1: Air Ambulance Coordination**

	Q1	Q2	Q3	Q4	TOTAL
<b>Air Ambulance Transfers</b>	8	12	16	17	53

## Supplementary Information

**Table 2: Risk Management**

The 2018 and 2019 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>Completion of RFP for overseas network access.</p> <p>New Chief Medical Officer approving medical care outside of the CIHSA.</p> <p>Hired Medical Case Manager.</p> <p>Continued development of case management software.</p> <p>Improved claims report providing trend analysis.</p> <p>Actuarial premium rates as opposed to discount rates in prior years.</p>	<ul style="list-style-type: none"> <li>Continued overseas discounts as a result of completion of an 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>	none	<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 required to take an annual internal controls audit</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+ XV stable.</li> </ul>	Approximately \$500k - \$1m based on historical amounts
<b>Non-compliance with regulatory bodies rules and regulations (CIMA and HIC)</b>	Employment of Compliance officer Review of compliance at the Board level	<ul style="list-style-type: none"> <li>• Documented Corporate Governance, policies and procedures</li> <li>• Compliance calendar.</li> </ul>	CIMA and HIC fines
<b>Risk that government would not honor its liabilities under the ASO agreement (Output NGS 55)</b>		<ul style="list-style-type: none"> <li>• Creation of an ASO Agreement between CINICO and Government</li> <li>• Frequent monitoring</li> <li>• Suspension of services to Government, when it becomes apparent that the NGS-55 budget would be exhausted and no guarantee of funds is made</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>	Actuarial premium rates in place for 2019	<ul style="list-style-type: none"> <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>• Immediate suspension of NGS-55 output once budget is exhausted</li> </ul>	

In addition to the above, as the case with other entities, CINICO faces increasing cybersecurity risks. We have recognized the increased risk in today’s environment and have been employing various tactics to counteract these threats, including plans to hire an IT Manager. However we do recognize that these risk are constantly changing and adapting and along with our IT third party vendor and

other IT solutions, we are committed to IT security. We are also subject to various new legislation such as the Data Protection Law and have put in place the appropriate protocols and controls to mitigate risks and comply. With the ever-increasing environment of compliance, and in delivering our key objectives under the strategic plan, we have identified the need for additional resources.



## Looking Forward

In the first half of 2019, the Board of Directors approved our strategic plan for the period 2019-2024. The plan outlined three strategic objectives and key initiatives in support of these objectives. These objectives are as follows:

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

Given that the plan was not completed and approved until near to the middle of the year, and our new CEO did not join us until the end of August, pursuit of these objectives in 2019 was somewhat delayed. Now that the CEO has settled into the position, our team will actively be focusing on these objectives from 2020 onwards.

### ENSURE CINICO'S LONG TERM SUSTAINABILITY

It is with good reason that this objective is listed first in this report. The future of CINICO has been a matter of great concern to all interested parties, both inside and outside of the Government. In order to ensure long-term sustainability, it is essential that there is clarity regarding what we are seeking to sustain. Upon review, it has become apparent that there is a distinct lack of clarity regarding CINICO's role and function within the Cayman Islands' health and social welfare landscape, and it is this lack of clarity which has fueled the doubts concerning the company's long-term future.

There are elements of the core insurance component of CINICO's operations which need to be addressed.

Above and beyond these, however, a major concern is the blurring of the lines between CINICO's role, and those of the Cayman Islands Health Service Authority (CIHSA), the Needs Assessment Unit (NAU), the Department of Children & Family Services (DCFS) and other Government organizations. In this regard, CINICO functions as the administrative arm of the Government to a very significant degree in the execution of its' Health Care objectives, and challenges faced by these organizations are sometimes mistaken as challenges with CINICO and consequently attributed to CINICO. This is compounded by the fact that there is not full appreciation of the extent to which elements of the Government's social welfare programmes are administered by CINICO on their behalf, and the costs of which are unrecognized as a result of being unintentionally obscured within CINICO's operational numbers.

Consequently, the first step in ensuring CINICO's long term sustainability will be to clarify CINICO's mandate, and to change the prevailing narrative concerning CINICO's operations to one which accurately reflects CINICO's role, functions and responsibilities within the Government's health and social welfare landscape. This will facilitate proper planning, cost allocation and efficiencies in funding.

Concurrent with the steps noted above, CINICO will continue its review of its operations. This review will focus on both internal and external aspects of the company's operations.

Our internal review has revealed inter alia the extent to which CINICO's coverage is far wider in many areas, than that offered by the private insurance carriers. It is noted that it is in these areas that CINICO is incurring claims costs which do not exist to the same extent, if at all, in private insurance companies. A primary focus for 2020 will be to isolate and analyze these areas, and to formulate plans to address them. This situation is compounded by the fact that there are systemic abuses which result in further inflation of these costs.

We are aware of these issues and are taking steps to address them. This will involve consultation with our owners, the Cayman Islands Government (CIG), as the necessary steps may have implications beyond CINICO's own operations. Whereas our remit is to address the challenges of CINICO, we recognize that we are merely a part of the wider CIG Health Care and Social Welfare delivery system. As such, we will engage our owners in this process and continue to be guided by them in this regard whilst providing them with our input and information which will help to inform the decision process.

Our external review has highlighted a number of areas where claim costs have been increasing at a rate which is higher than the actuarially projected rates. These are being reviewed and we will be taking steps to address these. There are a number of components of this increase and we will be looking at all of them. CINICO is a member of the Cayman Islands Insurance Association (CIIA) whose Health Insurance Standing Committee (HISC) is doing a study of gaps in the country's health care delivery system which have facilitated increasing health care costs. The output of this study is being circulated to the CIG and other interested stakeholders, and it is hoped that this will assist in the process of curtailing these increasing costs.



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

This particular objective is one which most service organizations espouse in some way or another. As a part of our self-examination, we have implemented an ongoing process of procedural review with the stated objective of doing what is in our customers' best interests in a given circumstance. We recognize that there are instances where this will involve making minor changes to existing procedures. There may be instances where major changes are required.

Past ways of doing things are only relevant in that they help to inform decisions made for the future. Management have been encouraged to continuously examine every procedure to determine:

1. Is this procedure the best way to complete this task?
2. Is the outcome of this procedure morally right?
3. Does this course of action enhance or diminish the customer experience?

There have been a number of recent instances where procedures have been amended in order to produce a result which enhances the customer experience, and this approach is intended to be a part of CINICO's culture going forward.

We have also recognized that our existing location is not convenient for our members who reside in areas to the east of George Town. In that regard, we are planning to open a branch office in Savannah to facilitate easier access. This branch will also be open outside of conventional office hours, further enhancing the customer experience.

We recognize that communication with our stakeholders has not been as consistent as we would like it to be. As a consequence, we plan to be more deliberate in our communication in the coming years. This will include:

- Updating our website
- Utilizing social media
- Meeting with our stakeholders
- Provision of informative literature

When we have implemented all of these, we will repeat the member satisfaction survey which will give an indication of our progress.

## STRENGTHEN OUR STRATEGIC AND OPERATIONAL FOUNDATION FOR DELIVERY

In order to be able to achieve the above mentioned objectives, it is essential that we have a strong foundation upon and from which we can operate. We currently have such a foundation, but recognize the need for further strengthening. In this regard, we have identified two areas on which we will focus in the short to medium term.

The first is Information Technology (IT). In this day and age, it is essential that efficient, cutting edge Information Technology be utilized. We have evaluated our own IT platform and have identified a number of areas where this functionality can be enhanced, and have started the process of moving in that direction.

An integral part of this exercise involves employing data analytics as a tool to inform management strategy and decision making. We have volumes of data at our disposal and have already seen the benefits of using this data for analytical purposes. We have started the process of enhancing this capability and plan to accelerate this process during this current year.

The second area is staffing. As the company has grown, we have increased staff complement, but have found that the requirements of operating a modern business impose additional human resource requirements. We have already mentioned enhancing our IT functionality. It will be necessary to enhance staffing in this area in order to achieve this functionality. Increasing corporate governance and regulatory requirements have also created the need for additional staffing and recruitments in these areas are included amongst the areas in which we are will be reinforcing the staff complement.

In general terms, we are conscious of the requests from our members for us to expand our product offerings. This is very much on the cards, but we believe that before we embark on such a path, we should focus on strengthening our foundation and this will be our main focus for 2020.



## Financial Performance Analysis

The budget figures used in the following section represent the revised budget position, resulting from the April 2019 Cabinet approval of the 2019 actuarial premium rates. The previous budget assumed premium discounts and a resulting \$8.1 million loss.

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

For the year ended December 31, 2019 CINICO recorded a net loss of \$0.3 million compared with a budget net income of \$2.7 million, and a prior year net loss of \$6.9 million. The small net loss position is primarily due to unfavorable claims; offset by favorable expenses. In

developing premium rates, assumptions are made on claim cost levels, expenses, reinsurance, etc. Table 3 illustrates the sources of profit/ (loss) (or variance to the budget) compared with the premium pricing level assumptions for the year ended December 31, 2019. Table 4 provides same for year ended December 31, 2018.

**Table 3: Sources of Net Income/ (Loss) for the Year Ended December 31, 2019 (\$ Millions)**

SOURCE OF NET PROFIT/(LOSS)	AMOUNT	EXPLANATION
Unfavorable incurred overseas claims	(\$1.1)	Unfavorable in all lines 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 fees, and 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>	

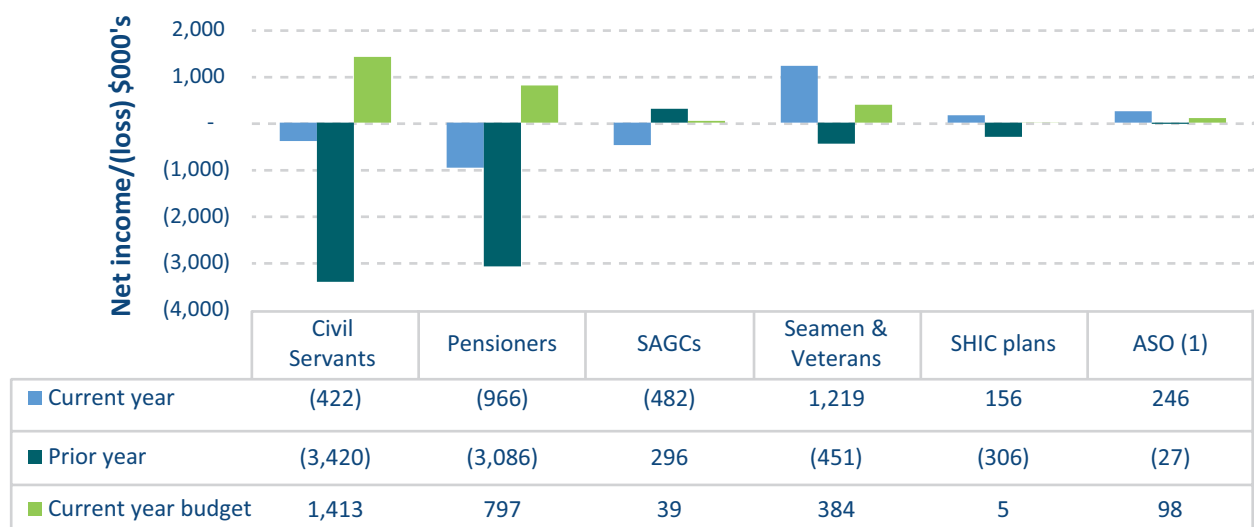
**Table 4: Sources of Net Income/ (Loss) for the Year Ended December 31, 2018 (\$ Millions)**

SOURCE OF NET PROFIT/(LOSS)	AMOUNT	EXPLANATION
Unfavorable incurred overseas claims	(\$4.5)	Unfavorable in all lines of business (includes Health City), offset with lower local utilization.
Favorable incurred local claims	\$0.7	Favorable in all lines of business, offset with higher overseas utilization.
Reserve release	\$0.3	2016/17 reserve release (local)
Reinsurance premium	\$0.2	Lower rates
Expenses and other	\$1.9	Predominantly admin expenses, TPA fees and, higher ASO fees
Risk premium	\$2.4	Actuary risk premium for adverse claims deviation (part of non-discounted rates)
<b>Net income (before premium discount and risk premium)</b>	<b>\$1.0</b>	
Government premium discount	(\$7.9)	Civil Servants \$3.8 million, Pensioners \$1.8 million, S&V \$2.3 million. (Rates increased, however below actuarial requirement).
<b>Net loss</b>	<b>(\$6.9)</b>	

Figure 1 provides the net income / loss by business category (insurance plan) for the current year, prior year and budget. The overall net loss position of \$0.3 million is as a

result of losses in the Civil Servant, Pensioners and SAGC plans offset by surpluses in SHIC, Seaman & Veterans, and ASO plans.

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



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

The performance in all core government groups (Civil Servants, Pensioners, and Seamen & Veterans) has improved considerably over last year primarily due to the fact that the full actuarial premium rates were applied in 2019, compared to a discounted rate in the prior year. This has resulted in a \$6.8 million performance improvement. The SHIC plan's performance improved by \$462k from the prior year due to better claim experience, whereas the SAGCs' performance deteriorated by \$778k due to unfavorable claims experience.

The core government groups lagged \$2.8 million below budget. This was due to unfavorable claims experience in the Civil Servants and Pensioner plans, offset against favorable performance in the Seamen & Veterans plans. The SHIC plans performed \$151k better than budget, while the performance in the SAGC plans fell \$0.5 million below budget.

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	\$ 13,172,966	\$ 17,015,801	\$ 15,236,803
Premiums receivable	3,993,845	3,125,375	3,539,989
ASO claims and fees receivable	4,419,973	4,200,000	3,787,329
Provision for claims incurred	7,462,139	10,937,672	10,258,172
Shareholder's equity	13,739,381	13,747,356	10,998,320
<i>Statement of financial performance</i>			
<b>TOTAL INCOME</b>			
Premium income	\$ 94,986,953	\$ 94,789,167	\$ 79,970,430
Reinsurance premium	(957,665)	(932,104)	(923,585)
ASO fees	1,008,112	721,025	764,370
Other income	699,444	89,400	177,691
<b>Total</b>	<b>\$ 95,736,844</b>	<b>\$ 94,667,488</b>	<b>\$ 79,988,906</b>
<b>TOTAL EXPENSES</b>			
Incurring claims *	\$ 90,698,587	\$ 85,493,777	\$ 81,665,418
Other Expenses	5,297,196	6,437,116	5,316,478
<b>Total</b>	<b>\$ 95,995,783</b>	<b>\$ 91,930,893</b>	<b>\$ 86,981,896</b>
<b>NET INCOME/(LOSS)</b>	<b>\$ (258,939)</b>	<b>\$ 2,736,595</b>	<b>\$ (6,992,990)</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 under-funded, thus leaving CINICO with large receivable balances until a supplementary budget is executed. CINICO and the Ministry have been working together to ensure that debts are paid timely and to prevent unfunded receivables. However, the reality is that unfunded receivables remain unpaid for months leading to severe cash flow issues. As such, CINICO is working towards executing an “ASO” agreement with the Ministry, which would limit CINICO’s credit and liquidity exposure, and clearly define the Ministry’s payment obligations ahead of time. CIMA has requested that this be put in place as part of their latest inspection of CINICO.

As depicted in Table 7, the number of members covered under this output has seen a drastic increase of 8% from last year, which also grew 11% from 2017 to 2018. The increase in membership is directly correlated with the increases in overall expenditure (NGS 55 output).

As at December 31, 2019, the ASO claims and fees receivable was \$4.4 million or \$0.6 million and \$0.2 million above the prior year and budget, respectively. The increase was due to a timing issue in payment approval.

## 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 in excess of 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 decreased by \$2.8 million from the prior year to \$7.5 million. The decrease is as a result of a concentrated effort to process the claims backlog by year-end. The December 31, 2019 amount represents just over one month of incurred claims.

Note 11 of the financial statements provide the IBNR hindsight development commencing from the 2004/5 reporting year.

## Shareholder’s equity

Shareholder’s equity increased by \$2.7 million to \$13.7 million for the year ended December 31, 2019. The increase is due to a \$3.0 million equity injection for the prior year’s compliance with CIMA capital requirements, offset by the current year’s \$0.3 million loss. 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	\$11.0	\$11.0	\$-
2019 Net income / (loss)	2.7	(0.3)	(3.0)
2019 equity injection	-	3.0	3.0
Closing shareholder's equity	\$13.7	\$13.7	\$-

### Premium income

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

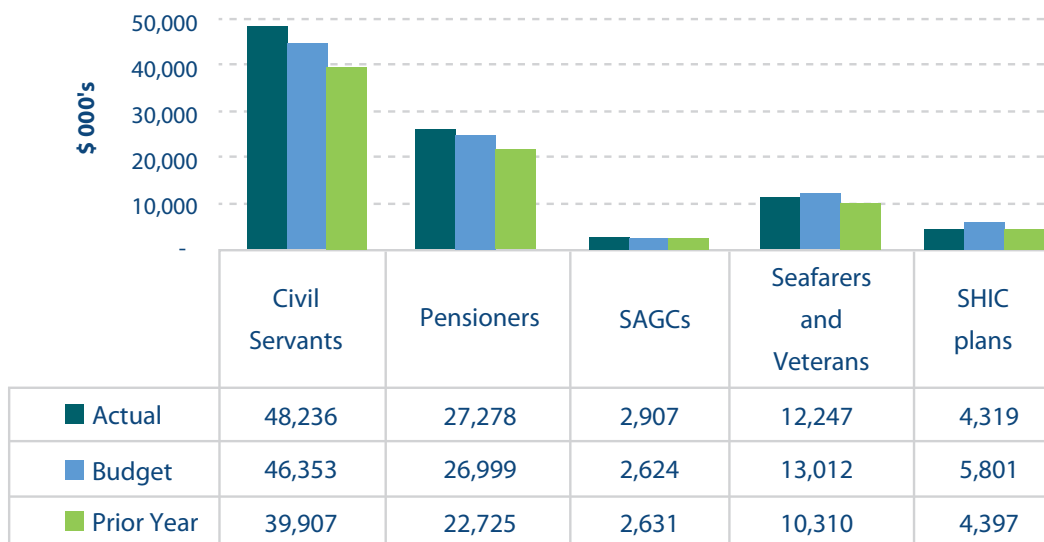
- Group 30100 – Civil Servant and Statutory Authority & Government Companies (SAGS),
- Group 30100 – Pensioners,

- 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



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

	CURRENT YEAR	BUDGET	PRIOR YEAR	% CHANGE TO BUDGET	% CHANGE TO PRIOR YEAR
Civil Servants	8,305	8,148	8,077	2%	3%
Pensioners	2,232	2,258	2,233	-1%	0%
SAGCs	511	460	492	11%	4%
Seafarers and Veterans	1,088	1,160	1,098	-6%	-1%
Indigent	1,773	1,585	1,642	12%	8%
SHIC plans	2,127	2,330	2,123	-9%	0%
<b>Total</b>	<b>16,036</b>	<b>15,941</b>	<b>15,665</b>	<b>1%</b>	<b>2%</b>

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. Besides influencing the overall premium income, the number of covered lives also drives the overall claims and claims administration fee expenses.

The above illustration shows a slight increase in insured lives of 1% over the budget. The increase was led by double digit membership increases within the Indigent and SAGCs plans offset by decreases within the Seafarer and Veterans and SHIC plans. Compared with the prior year, average covered lives increased by 2%, led by increases in the membership of the Indigents, SAGCS and Civil Servant plans. The covered lives in the Seafarer and Veteran plans retracted, whereas the covered lives in the Pensioners and SHIC plans realized no growth.

As mentioned previously, in 2019, Cabinet approved full actuarial premium rates for government plans (Civil Servants, Pensioners and Seafarers and Veterans). The approval was

made after the original 2018 and 2019 two-year budget was approved. For the year ended 2018, CINICO provided \$7.9 million in premium discounts to government plans.

The current year premium income of \$95.0 million is approximately \$0.2 million above the revised premium income budget of \$94.8 million. The increase in premium income compared with budget is essentially due to the higher Civil Servant and SAGC premium income offset by lower premium income in the SHIC and Seafarer & Veterans plans. The higher than budget Civil Servant and SAGC premium income was due to higher membership. Pensioner premium income is also better than budget due to an older age demographic thus earning a higher premium. The SHIC premium was lower than budget as the budget assumed higher premium rates, higher number of members covered, and an older age demographic, which commands higher premium rates. The Seafarers and Veterans premium was lower than budget due to a reduction in the number of covered lives versus budget. The current year premium income is \$15.0 million than the prior year as a result of higher members (Table 7) and adopting the actuarial premium rates for the government plans.

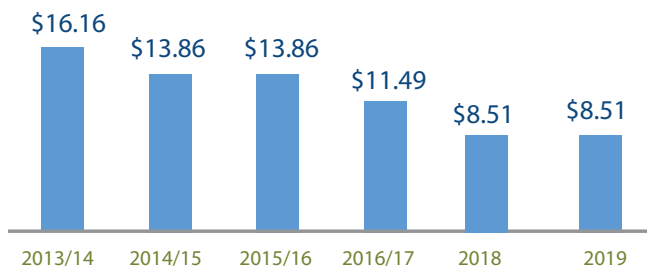
## Reinsurance premium

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 in excess of US\$ 600k (up to a maximum of US\$ 5 million) per year per individual.

Figure 3 shows Management's success in reducing the reinsurance premium rate year over year, as a result of various business strategies leading to improved claims management. The rate reductions are also an indication of the reinsurer's confidence in CINICO.

### 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 \$1.0 million in the current year and surpassed both the budget and the prior year by \$0.3 million and \$0.2 million, respectively, due to higher covered lives as illustrated in Table 7.

Other income amounting to \$0.7 million, was \$0.6 million and \$0.5 million better than budget and the prior year respectively. The current year amount, includes a release of a disputed payable amount to a TPA vendor which has been settled.

## Incurred claims

Incurred claims are essentially the health benefits paid under the insurance plans CINICO administers. For the year ended December 31, 2019 incurred claims was \$90.7 million and accounts for 94% of the overall expenses of \$96 million. Table 8 on the next page, compares the incurred claims by group and location (local versus overseas) for the current year, budget and prior year. The figures reported are net of reinsurance recoveries and repricing fees. Additionally, the incurred claims are presented on a "hindsight basis". For example, for the year ended December 31, 2018, the original reported claims were \$82.0 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 2018 claim reserve showed a favorable development of \$179k (net of reinsurance), so that the final 2018 claims incurred are \$81.8 million compared with the reported figure of \$82.0 million.

As discussed in the "provision for claims incurred" section, the ultimate ("hindsight") claims incurred amount would only be known once all claims have been submitted by medical providers and settled, which is likely to take no longer than one year. Therefore, the 2019 total claims incurred estimate is made up of claims incurred in 2019 which were paid in the same year, plus an estimate for any claims outstanding. The estimate for claims outstanding, also known as IBNRs (Incurred but Not Reported) is based on actuarial methods and assumptions (see section entitled "provision for claims incurred"). Table 8, illustrates that as at December 31, 2019, \$7 million or 7.7% of the total 2019 claims incurred amount of \$91 million is made up of IBNR's. This represents approximately one month of incurred claims.

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

	2018			2019			2019 less 2018 Calendar Year	2019 Budget	Inc/(dec) - 2019 reported less Budget
	Reported	Hindsight adjustment*	Final	Incurring in 2019 & paid in 2019	IBNR	Reported			
<b>Local</b>									
Group 30100	48,014	22	48,036	53,361	2,692	56,053	8,017	49,920	6,133
Group 30101	10,371	-	10,371	10,037	492	10,529	158	12,196	(1,667)
Group 30104	2,198	(98)	2,100	2,002	110	2,112	12	2,655	(543)
	<b>60,583</b>	<b>(76)</b>	<b>60,507</b>	<b>65,400</b>	<b>3,294</b>	<b>68,694</b>	<b>8,187</b>	<b>64,771</b>	<b>3,923</b>
<b>Overseas *</b>									
Group 30100	19,669	(119)	19,550	17,340	3,511	20,851	1,301	18,710	2,141
Group 30101	-	-	-	-	-	-	-	-	-
Group 30104	1,755	16	1,771	1,247	193	1,440	(357)	2,059	(619)
	<b>21,424</b>	<b>(103)</b>	<b>21,321</b>	<b>18,587</b>	<b>3,704</b>	<b>22,291</b>	<b>944</b>	<b>20,769</b>	<b>1,522</b>
<b>Total</b>									
Group 30100	67,683	(97)	67,586	70,701	6,203	76,904	9,318	68,630	8,274
Group 30101	10,371	-	10,371	10,037	492	10,529	158	12,196	(1,667)
Group 30104	3,953	(82)	3,871	3,249	303	3,552	(319)	4,714	(1,162)
	<b>82,007</b>	<b>(179)</b>	<b>81,828</b>	<b>83,987</b>	<b>6,998</b>	<b>90,985</b>	<b>9,157</b>	<b>85,540</b>	<b>5,445</b>
Prior year adjustment in reserves	(258)					(179)		(46)	
ALAE reserve	(84)					(107)			
Claim losses per f/s	<u>81,665</u>					<u>90,699</u>		<u>85,494</u>	

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

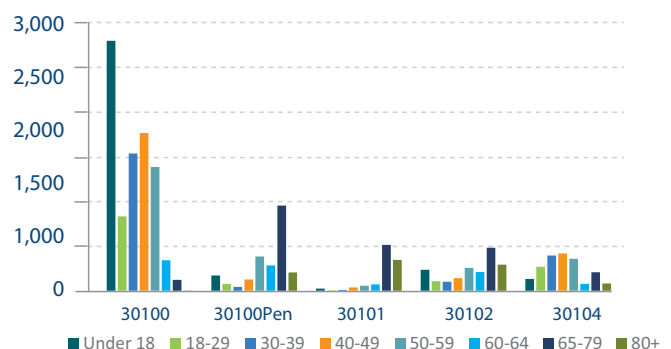
Table 8 shows an increase of Incurred claims of \$9.2 million compared to the prior year, and an increase of \$5.4 million compared to budget. A majority of the increase in claim costs is related to Group 30100.

The increase in claims is due to many causes, first of which is the increase in membership as illustrated in Table 7. The membership increase for Group 30100 accounts for approximately \$1.8 million of the increase from the prior year and \$0.8 million of the increase to budget.

Claims costs are also 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 typically start rising exponentially. Figure 4 illustrates the age demographics for each group.

## FIGURE 4: AGE DISTRIBUTION BY GROUP

### Age Distribution by Group



Using the age of 50+ as a comparison between groups, 21% of Group 30100's members are over 50 years of age; 81% of the Pensioners (Group 30100Pen) are over 50 years of age; 93% of Group 30101's members are over 50 in age (81% of the members are over 65 years of age); 68% of Group 30102's members are over 50 years of age (43% of the members are over 65 years of age); and 37% of Group 30104's members are over 50 years of age (15% of the members are over 65 years of age). As at December 2019, the average age of the members (including dependents) by group are as follows; Group 30100 – 33; Group 30100Pen – 61; Group 30101 – 73; Group 30102 – 56; and Group 30104 – 45.

Thirty-two percent (32%) of Group 30100's membership is eighteen years of age or under. A rising trend, in this age category is the increased utilization of mental health care and therapy services. Mental health care services include care and treatment by a psychiatrist, psychologist

or counselor and treatment for substance abuse. Therapy services include treatment of autism, speech and occupational therapy. The increased utilization of these services is driven by the availability of services on-island, increased awareness and diagnosis, and the generous benefits under the benefit plan.

In addition to the factors mentioned above, other factors leading to claim cost increases are; new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; general health of the population and chronic disease which is prevalent in our society; higher cancer rates and over-utilization, as a result of a plan design which is not cost prohibitive to the members and is free.

### Other expenses

Other expenses are broken down as follows in Table 9:

**TABLE 9: OTHER EXPENSES**

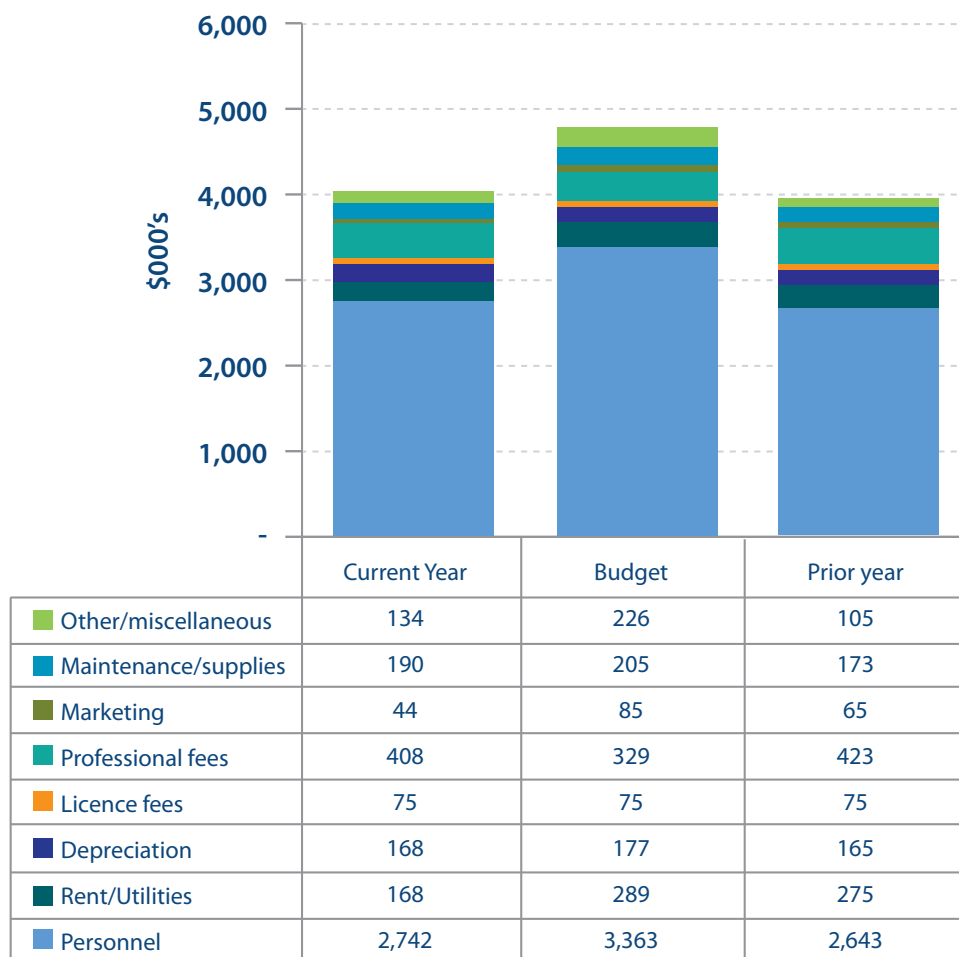
	CURRENT YEAR	CURRENT YEAR BUDGET	PRIOR YEAR
Contributions to segregated insurance fund	274,550	306,980	307,040
Claims administration and other expenses	988,030	1,381,245	1,083,546
Administration expenses	4,034,615	4,748,891	3,925,892
<b>Total expenses</b>	<b>\$5,297,195</b>	<b>\$ 6,437,116</b>	<b>\$ 5,316,478</b>

Claim administration expenses (TPA fees) are for services rendered by third party administrators (TPAs). A majority 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 \$1.4 million and the prior year amount of \$1.1 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 which includes personnel

costs, rent, depreciation, audit fees, actuary fees, etc. Administration expenses were \$0.7 million better than budget, mainly attributed to personnel costs due to unfilled vacant positions. Other favorable variances were realized in training, travel, office supplies, IT maintenance and currency exchange gains. These were offset by unfavorable variances in security fees (not budgeted), consulting (Data protection law, strategic plan) audit fees, director fees. Current year expenses were approximately \$0.1 million higher than the prior year. Figure 5 illustrates the major expense types compared with budget and prior year.

**FIGURE 5: ADMINISTRATION EXPENSES BY TYPE**



## Appendix 1: Reporting on the Outputs Delivered to Cabinet

The original two-year budget (2018 and 2019) provided for premium discounts below the actuarial calculated premium for government insurance plans. In April 2019, Cabinet retroactively approved the actuary premium rates to January 1, 2019. The figures below include the original budget and revised budget.

FINANCIAL PERFORMANCE MEASURE	2019 ACTUAL \$000'S	2019 ORIGINAL BUDGET \$000'S	2019 FINAL BUDGET \$000'S	ANNUAL VARIANCE \$000'S	NOTE
REVENUE FROM CABINET	\$39,475	\$33,535	\$39,950	(\$475)	1
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	52,151	44,290	49,698	2,453	2
REVENUE FROM OTHERS PERSONS OR ORGANISATIONS	4,111	4,806	5,020	(909)	3
SURPLUS/DEFICIT FROM OUTPUTS					4
OTHER EXPENSES	95,996	90,746	91,931	(4,065)	5
NET SURPLUS DEFICIT	(259)	(8,115)	2,737	(2,996)	
<b>TOTAL ASSETS</b>	23,296	12,856	26,073	(2,777)	
<b>TOTAL LIABILITIES</b>	9,556	12,559	12,326	2,770	
<b>NET WORTH</b>	13,739	297	13,747	(8)	6
CASH FLOWS FROM OPERATING ACTIVITIES	(4,896)	(10,432)	1,503	(6,399)	5
CASH FLOWS FROM INVESTING ACTIVITIES	(105)	(32)	(32)	(73)	
CASH FLOWS FROM FINANCING ACTIVITIES	2,937	0	0	2,937	
CHANGE IN CASH BALANCES	(2,064)	(10,464)	1,471	(3,535)	

The annual variance is calculated from the 2019 Final Budget.



### Notes: Explanation of Variance:

1. Revenue from Cabinet: CIN 1 lower than budget due to lower membership, offset by higher than budget CIN2 premium due to higher average age,
2. Higher revenues due to higher than budgeted membership.
3. Unfavourable variance namely from the SHIC line with lower membership and average premium than budget, offset by favourable other income.
4. Overall the variance is 4% of budget. The “other expenses” line is made up of the following items:

EXPENSE ITEM	ACTUAL \$M	BUDGET \$M	VARIANCE \$M	EXPLANATION
Claims costs	\$90.7	\$85.5	\$(5.2)	Driven by higher membership, and higher utilization versus budget, including lower than expected reinsurance recoveries (\$0.7M)
Segfund fees	0.3	0.3	-	
TPA fees	1.0	1.4	0.4	Underutilization of claims admin support, wellness rewards and other vendor services
Admin expenses	4.0	4.7	0.7	Predominantly due to vacant post.
<b>Total</b>	<b>\$96.0</b>	<b>\$91.9</b>	<b>\$(4.1)</b>	

5. See financial performance section.
6. The equity injection of \$3.0 million, was required to meet CIMA's, Minimum Capital Requirements (MCR) and Prescribed Capital Requirements (PCR) for the prior year.

	\$ MILLIONS		
	BUDGET	ACTUAL	VARIANCE
Opening shareholder's equity*	\$11.0	\$11.0	\$0.0
2019 Surplus / (deficit)	2.7	(0.3)	(3.0)
2019 equity injection	-	3.0	3.0
Closing shareholder's equity	\$13.7	\$13.8	\$0.0

FINANCIAL PERFORMANCE RATIO	2019 ACTUAL %	2019 FINAL BUDGET %	ANNUAL VARIANCE %
CURRENT ASSETS: CURRENT LIABILITIES	235%	210%	25%
TOTAL ASSETS: TOTAL LIABILITIES	244%	212%	32%

## Maintenance of Capability

HUMAN CAPITAL MEASURES	2019 ACTUAL	2019 FINAL BUDGET	ANNUAL VARIANCE
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	32	40	(8)
<b>STAFF TURNOVER (%)</b>			
SENIOR MANAGER	0%	0%	0%
PROFESSIONAL AND TECHNICAL STAFF	0%	0%	0%
ADMINISTRATIVE STAFF	13.7%	0%	13.7%

PHYSICAL CAPITAL MEASURES	2019 ACTUAL \$ 000'S	2019 ORIGINAL BUDGET \$ 000'S	2019 FINAL BUDGET \$ 000'S	ANNUAL VARIANCE \$000'S
VALUE OF TOTAL ASSETS	\$23,296	\$12,856	\$26,073	\$(2,777)
ASSET REPLACEMENTS: TOTAL ASSETS	11%	0.2%	0.2%	10.8%
BOOK VALUE OF ASSETS: COST OF THOSE ASSETS	32.0%	10.5%	10.5%	21.5%
DEPRECIATION: CASH FLOW ON ASSET PURCHASES	624%	554%	611%	13%
CHANGES TO ASSET MANAGEMENT POLICES	None	None	None	None

MAJOR CAPITAL EXPENDITURE PROJECTS	2019 ACTUAL \$ 000'S	2019 FINAL BUDGET \$ 000'S	ANNUAL VARIANCE \$ 000'S
IT Server Upgrade	\$50	\$25	\$(25)

### Explanation of Variances

Actual includes higher computing capacity, labor and numerous software security updates.

## Other Financial Information

TRANSACTION	2019 ACTUAL \$ 000'S	2019 BUDGET \$	ANNUAL VARIANCE \$
(1) Equity Investments into CINICO	\$3,000	-	\$(3,000)
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	-	-	-
(2) Remuneration Payments made to Key Management Personnel	\$434	\$495	\$61
Remuneration Payments made to Senior Management	\$386	\$449	\$63

- (1) Equity required to meet CIMA's minimum and prescribed capital requirements (MCR and PCR). Shortfall in capital resulting from 2018 premium discounting of Government plans, below actuarial calculated premium rates.
- (2) Senior Management and Board. Favorable variance due to lower than budget senior management remuneration (CEO vacancy for 8 months).

	2019 ACTUAL	2018 BUDGET	ANNUAL VARIANCE
Number of Senior Management	3	3	-

## 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

#### DESCRIPTION

Provision of Health Insurance (premium) for Seaman & Veteran and their dependents for insurance coverage by CINICO (local coverage only, excluding Tertiary Care).

MEASURES	2019 ACTUAL	2019 ORIGINAL BUDGET	2019 FINAL BUDGET	ANNUAL VARIANCE
<b>Quantity</b>				
Total (average) number of persons insured - premiums fully paid by Cabinet	1,074	1,160	1,160	(86)
Total number of persons insured – premiums partially paid by Cabinet (Veterans)	12	12	12	(0)
<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%	98-100%	0
<b>Timeliness</b>				
Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	98-100%	0
<b>Location</b>				
Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	n/a	
<b>Cost (of producing the output)</b>				
Monthly Premium Rates				
	<b>Original Budget</b>	<b>Final Budget</b>		
Premiums fully paid by Cabinet	\$799	\$935		
Veteran premiums partially paid by Cabinet	\$685	\$821		
<b>Price (paid by Cabinet for the output)</b>	<b>\$12,197,447</b>	<b>\$11,064,478</b>	<b>\$12,950,921</b>	<b>\$(753,474)</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 dependants.

MEASURES	2019 ACTUAL	2019 ORIGINAL BUDGET	2019 FINAL BUDGET	ANNUAL VARIANCE
<b>Quantity</b> Total average number of insured persons (Insured = Enrollees + dependents).	2,232	2,258	2,258	(26)
<b>Quality</b> All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board and the Portfolio of the Civil Service (POCS).	98-100%	98-100%	98-100%	0
<b>Timeliness</b> Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	98-100%	0
<b>Location</b> Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	n/a	
<b>Price</b>	27,277,585	\$22,468,281	\$26,999,052	\$278,533
Monthly Premium Rates				
	<b>Age range</b>	<b>Original Budget</b>	<b>Final Budget</b>	
	Under 18	\$180	\$205	
	18-29 years	\$287	\$329	
	30-39 years	\$369	\$424	
	40-49 years	\$486	\$528	
	50-59 years	\$768	\$882	
	60- 64 years	\$1,059	\$1,015	
	65 years & over	\$1,059	\$1,288	

### 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).

## 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, 2019**



# **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 Cayman Islands National Insurance Company Ltd. (the "Company"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

I have conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with 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.

### Emphasis of Matter

I draw attention to Note 22 of the financial statements which describes that, at December 31, 2019, the Company was not in compliance with the prescribed capital requirement of the Insurance (capital and Solvency)(Class A Insurers) Regulations, 2012. My opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

### Auditors' 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 auditors' 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

## AUDITOR GENERAL'S REPORT (continued)

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.

### Auditors' Responsibilities for the Audit of the Financial Statements (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 auditors' 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 our auditors' 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 the 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 Law (2018 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, CPFA  
Auditor General

30 April 2020  
Cayman Islands



Good Health Should Be Insured.

## 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 Law (2018 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 Law (2018 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 loss, statement of cash flows and statement of changes in shareholder's equity for the year ended December 31, 2019.

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, 2019;
- (b) fairly reflect the financial position as at December 31, 2019 and performance for the year ended December 31, 2019;
- (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.

Michael Gayle  
Chief Executive Officer  
Cayman Islands National Insurance Company

Date: April 30, 2020

Frank Gallipi  
Chief Financial Officer  
Cayman Islands National Insurance Company

Date: APRIL 30, 2020

## Cayman Islands National Insurance Company Ltd.

### Statement of Financial Position

As at December 31, 2019

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b><u>Assets</u></b>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 13,172,966	\$ 15,236,803
Funds held in escrow		482,120	238,277
Premiums receivable	5	3,993,845	3,539,989
Advance claims, ASO claims and fees receivable		4,419,973	3,787,329
Other receivables and other assets	6	370,071	440,422
<i>Long-term</i>			
Fixed assets	7	856,567	280,524
<b>Total assets</b>		<b>23,295,542</b>	<b>23,523,344</b>
<b><u>Liabilities</u></b>			
Accounts payable	8	77,398	424,399
Premiums received in advance		193,704	198,088
Accruals and other liabilities	9	1,144,336	1,540,820
Lease liability	10	637,809	-
Claims payable		40,775	103,545
Provision for claims incurred	12	7,462,139	10,258,172
<b>Total liabilities</b>		<b>9,556,161</b>	<b>12,525,024</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	34,723,251
Accumulated deficit		(26,983,870)	(26,724,931)
<b>Total shareholder's equity</b>	22	<b>13,739,381</b>	<b>10,998,320</b>
<b>Total liabilities and shareholder's equity</b>		<b>\$ 23,295,542</b>	<b>\$ 23,523,344</b>

\_\_\_\_\_  
MICHAEL GAYLE  
Chief Executive Officer

\_\_\_\_\_  
APRIL 30, 2020

\_\_\_\_\_  
FRANK GALLIPPI  
Chief Financial Officer

\_\_\_\_\_  
APRIL 30, 2020

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

## Cayman Islands National Insurance Company Ltd.

### Statement of Comprehensive Loss

For the year ended December 31, 2019

*Amounts stated in Cayman Islands dollars*

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<b>Income</b>			
Premium income	15, 19	\$ 94,986,953	\$ 79,970,430
Reinsurance premium	15	(957,665)	(923,585)
ASO Fees	16, 19	1,008,112	764,370
<b>Total underwriting income</b>		95,037,400	79,811,215
Investment income and other income	20	699,444	177,691
<b>Total income</b>		95,736,844	79,988,906
<b>Expenses</b>			
Claims paid	11	93,737,608	81,826,788
Reinsured claims	12	(242,988)	(176,221)
Movement in provision for claims incurred	12	(2,796,033)	14,851
Contributions to segregated insurance fund	17, 19	274,550	307,040
Claims administration and other expenses		988,030	1,083,546
<b>Total underwriting expenses</b>		91,961,167	83,056,004
Administrative expenses and other expenses	18	4,034,616	3,925,892
<b>Total expenses</b>		95,995,783	86,981,896
<b>Net loss for the year</b>		(258,939)	(6,992,990)
<b>Total comprehensive loss for the year</b>		\$ (258,939)	\$ (6,992,990)

*The accompanying notes for an integral part of these financial statements*

## Cayman Islands National Insurance Company Ltd.

### Statement of Cash Flows

For the year ended December 31, 2019

*Amounts stated in Cayman Islands dollars*

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31 2018</u>
<b>Cash flows from operating activities</b>			
Net loss for the year		\$ (258,939)	\$ (6,992,990)
Adjustments for non-cash items			
Depreciation	7	229,565	165,148
Funds held in escrow		(243,843)	1,443,425
Premiums receivable		(453,856)	4,314,306
Advance claims, ASO claims and fees receivable		(632,644)	1,480,373
Other receivables and other assets		70,351	1,843,916
Accounts payable		(347,001)	19,562
Premiums received in advance		(4,384)	14,074
Accruals and other liabilities		(396,484)	(7,652)
Claims payable		(62,770)	(47,655)
Provision for claims incurred		(2,796,033)	14,851
<b>Net cash flows from operating activities</b>		<b>(4,896,038)</b>	<b>2,247,358</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets	7	(104,978)	(26,454)
<b>Net cash flows from investing activities</b>		<b>(104,978)</b>	<b>(26,454)</b>
<b>Cash flows from financing activities</b>			
Payment of lease liability		(62,821)	-
Receipt of additional paid-in-capital	14	3,000,000	4,530,000
<b>Net cash flows from financing activities</b>		<b>2,937,179</b>	<b>4,530,000</b>
<b>Net cash (outflow)/inflow for the year</b>		<b>(2,063,837)</b>	<b>6,750,904</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>15,236,803</b>	<b>8,485,899</b>
<b>Cash and cash equivalents at end of the year</b>		<b>\$ 13,172,966</b>	<b>\$ 15,236,803</b>

*The accompanying notes for an integral part of these financial statements*

## Cayman Islands National Insurance Company Ltd.

**Statement 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, 2018</b>	\$ 1	\$ 2,999,999	\$ 30,193,251	\$ (19,731,941)	\$ 13,461,310
Year ended December 31, 2018					
<b>Comprehensive loss:</b>					
Additional paid-in-capital received	-	-	4,530,000	-	4,530,000
Net loss for the year	-	-	-	(6,992,990)	(6,992,990)
<b>Total comprehensive loss:</b>	-	-	4,530,000	(6,992,990)	(2,462,990)
<b>Balance, end of year</b>	\$ 1	\$ 2,999,999	\$ 34,723,251	\$ (26,724,931)	\$ 10,998,320
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>	-	-	3,000,000	(258,939)	2,741,061
<b>Balance, end of year</b>	\$ 1	\$ 2,999,999	\$ 37,723,251	\$ (26,983,870)	\$ 13,739,381

*The accompanying notes for an integral part of these financial statements*



# Cayman Islands National Insurance Company Ltd.

## Notes to the financial statements

December 31, 2019

Amounts stated in Cayman Islands dollars

1 Cayman Islands National Insurance Company Ltd. ("CINICO" or the "Company") was formed on December 18, 2003 under the Cayman Islands Companies Law and was granted a Class A Insurance Licence under the Insurance Law (2003 Revision) on February 1, 2004. The Company was established and is wholly owned by the Cayman Islands Government ("CIG") and 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 Law 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, 2019, the Company employed 32 permanent staff and 4 temporary staff (31 permanent staff and 3 temporary staff at December 31, 2018).

## 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 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.

### Change in accounting policies

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

### 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, 2019**

*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 loss. Insurance/reinsurance liabilities are recognised when incurred/duo.

##### 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, 2018: 45 days) after the due date.

##### Leases

For contracts entered into before January 1, 2019, identified leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Payments made under operating leases were charged to the statement of comprehensive loss on a straight-line basis over of the period of the lease. For contracts entered into after January 1, 2019, 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 right-of-use asset 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, plus any indirect costs incurred and any estimated amounts to restore 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 lease liability is initially measured at the present value of the lease payment that are not paid at the commencement date discounted using the Company's incremental borrowing rate. The lease liability is measured at amortised cost using the effective interest method.

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.

In the comparative period, as a lessee, the Company classified the leases as operating leases and they were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in the statement of comprehensive loss on a straight-line basis over the term of the lease.

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2019

Amounts stated in Cayman Islands dollars

#### 2 Accounting policies (continued)

##### Disclosures about fair value of financial instruments

The carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

##### 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' useful lives 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 recognized as earned on a pro-rata basis over the period for which the services are provided.

##### 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.

##### Premium deficiency reserve

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 year ended December 31, 2019 (December 31, 2018: none).

#### 2.1 Changes in IFRS

In the current year there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2019.

IFRS 9, Financial Instruments became effective for annual periods beginning on or after January 1, 2018. The IASB issued a temporary exemption for the effective date of implementation of IFRS 9 for insurance companies which meet certain qualifying criteria. This exemption allows the application of IFRS 9 to be deferred until January 1, 2023. At December 31, 2019, the Company meets these qualifying criteria and has therefore deferred implementation of IFRS 9.

A number of new standards and amendments to standards and interpretations are issued but not effective for the financial period beginning January 1, 2019, 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 amendment will have on its financial statements.

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2019

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### 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.

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\$600,000, up to US\$5,000,000 (December 31, 2018: 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 of 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 realize significant savings. Furthermore, during the current fiscal year on a monthly basis, the Risk and Appeals Committee met 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 (2019: 100%; 2018: 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, 2019	December 31, 2018
Cash and cash equivalents	\$ 13,172,966	\$ 15,236,803
Funds held in escrow	482,120	238,277
Premiums receivable	3,993,845	3,539,989
Advance claims, ASO claims and fees receivable	4,419,973	3,787,329
Reinsurance claims recoveries	170,919	171,496
Other assets and receivables	199,152	268,926
Total financial assets	<u>\$ 22,438,975</u>	<u>\$ 23,242,820</u>
Non-financial assets	\$ 856,567	\$ 280,524
Total assets per the statement of financial position	<u>\$ 23,295,542</u>	<u>\$ 23,523,344</u>

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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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:

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
<b>As at December 31, 2019:</b>					
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>

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
<b>As at December 31, 2018:</b>					
Cash and cash equivalents	\$ 15,236,803	\$ -	\$ -	\$ -	15,236,803
Funds held in escrow	238,277	-	-	-	238,277
Premiums receivable	-	3,539,989	1,023,251	(1,023,251)	3,539,989
Advance claims, ASO claims and fees receivable	-	3,787,329	-	-	3,787,329
Reinsurers share of insurance liabilities	171,496	-	-	-	171,496
Other assets	268,926	-	-	-	268,926
Total assets exposed to credit risks	<u>\$ 15,915,502</u>	<u>\$ 7,327,318</u>	<u>\$ 1,023,251</u>	<u>\$ (1,023,251)</u>	<u>\$ 23,242,820</u>

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

	Up to 30 days	30 to 60 days	> 60	Total
<b>As at December 31, 2019:</b>				
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>

	Up to 30 days	30 to 60 days	> 60	Total
<b>As at December 31, 2018:</b>				
Advance claims, ASO claims and fees receivable	\$ 3,787,329	\$ -	\$ -	\$ 3,787,329
Premiums receivable	3,507,951	-	32,038	\$ 3,539,989
	<u>\$ 7,295,280</u>	<u>\$ -</u>	<u>\$ 32,038</u>	<u>\$ 7,327,318</u>

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

	December 31, 2019	December 31, 2018
AA	\$ 12,213,437	\$ 13,230,940
A	482,120	238,277
BBB	248,857	503,836
Below BBB or not rated	710,672	1,502,027
Total cash and cash equivalents bearing credit risk	<u>\$ 13,655,086</u>	<u>\$ 15,475,080</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.

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

December 31, 2019

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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, 2019, the Company had cash and cash equivalents of \$13,172,966 (2018: \$15,236,803). 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, 2019 and December 31, 2018.

	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, 2019</b>							
<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>

## Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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### 3.3 Management of financial risks (continued)

December 31, 2018	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	\$ 15,236,803	\$ -	\$ 15,236,803	\$ -	\$ -	\$ -	\$ -
Funds held in escrow	238,277	-	238,277	-	-	-	-
Advance claims, ASO claims and fees receivable	3,787,329	-	3,787,329	-	-	-	-
Premiums receivable	3,539,989	-	3,539,989	-	-	-	-
Less reinsurance recoveries	171,496	-	171,496	-	-	-	-
Other assets	268,926	-	268,926	-	-	-	-
<b>Total</b>	<b>\$ 23,242,820</b>	<b>\$ -</b>	<b>\$ 23,242,820</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Short term insurance liabilities</b>							
Insurance contracts	\$ 10,361,717	\$ -	\$ 10,361,717	\$ -	\$ -	\$ -	\$ -
Other financial liabilities	1,965,219	-	1,965,219	-	-	-	-
<b>Total</b>	<b>\$ 12,326,936</b>	<b>\$ -</b>	<b>\$ 12,326,936</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Difference in contractual flows</b>	<b>\$ 10,915,884</b>	<b>\$ -</b>	<b>\$ 10,915,884</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
Interest rate and investment return	The impact of an absolute change in market interest rates by approximately 1%
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)

	Interest rates		Expenses		Loss ratios	
	+1%	-1%	+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

	Interest rates		Expenses		Loss ratios	
	+1%	-1%	+10%	-10%	+10%	-10%
Sensitivities as at December 31, 2018						
Impact on net loss						
for the year	-	-	(139,059)	139,059	(7,997,044)	7,997,044
Impact on Shareholder's equity	-	-	(139,059)	139,059	(7,997,044)	7,997,044

### 4 Cash and cash equivalents

	December 31, 2019	December 31, 2018
Cash at Bank	\$ 13,171,145	\$ 15,236,172
Deposit in transit	1,821	631
	<u>\$ 13,172,966</u>	<u>\$ 15,236,803</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, 2019	December 31, 2018
<i>Current</i>		
Premiums receivable from related parties, gross	\$ 4,956,260	\$ 4,500,025
Premiums receivable from unrelated entities, gross	48,380	63,215
Less: provisions for bad debts	(1,010,795)	(1,023,251)
	<u>\$ 3,993,845</u>	<u>\$ 3,539,989</u>

During the period ended December 31, 2019, bad debts of \$133,313 (December 31, 2018: \$156,563) have been written off. It is management's opinion that a provision for bad debts of \$9,652 (December 31, 2018: \$21,015) for unrelated individuals is required at December 31, 2019. All bad debts written off are 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

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#### 6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	December 31, 2019	December 31, 2018
<i>Current</i>		
Reinsurance claims recoveries	\$ 170,919	\$ 171,496
Amount on deposit with Cayman Airways	84,000	84,000
Work permit fees	50,279	23,042
Amount on deposit with Cayman Travels	21,000	21,000
Claims administration and other expenses	14,667	14,962
Prepaid software licences	11,933	10,100
Marketing costs	6,437	7,340
Miscellaneous	4,035	12,268
Prepaid rent	2,970	-
Maintenance/software costs	2,375	5,425
Refund due from provider	1,267	71,846
Advance to employees	189	1,045
Unallocated claims expense	-	17,898
	<u>\$ 370,071</u>	<u>\$ 440,422</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, 2018	\$ -	\$ 990,454	\$ 174,988	\$ 486,597	\$ 348,654	\$ 2,000,693
Additions	-	6,000	5,080	12,691	2,683	26,454
Cost at December 31, 2018	<u>-</u>	<u>996,454</u>	<u>180,068</u>	<u>499,288</u>	<u>351,337</u>	<u>2,027,147</u>
Accumulated depreciation at January 1, 2018	-	776,686	116,344	374,968	313,477	1,581,475
Depreciation for period	-	57,310	21,188	62,510	24,140	165,148
Accumulated depreciation at December 31, 2018	<u>-</u>	<u>833,996</u>	<u>137,532</u>	<u>437,478</u>	<u>337,617</u>	<u>1,746,623</u>
Carrying value at December 31, 2018	<u>\$ -</u>	<u>\$ 162,458</u>	<u>\$ 42,536</u>	<u>\$ 61,810</u>	<u>\$ 13,720</u>	<u>\$ 280,524</u>
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	939,061
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	242,910
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>

Included in office buildings is the right-of use asset for the office lease with a book value at December 31, 2019 of \$630,567 (December 31, 2018: \$Nil).

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

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#### 8 Accounts payable

	December 31, 2019	December 31, 2018
Payable to unrelated entities	\$ 77,398	\$ 418,929
Payable to related parties	-	5,470
	<u>\$ 77,398</u>	<u>\$ 424,399</u>

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$77,398 (December 31, 2018: \$418,929 administrative expenses). Accounts payable in respect of related entities as at December 31, 2019 is \$Nil (December 31, 2018: \$5,470 related to pension withholdings).

#### 9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	December 31, 2019	December 31, 2018
Stale dated cheques	\$ 362,278	538,908
Hi-Tech expenses	334,152	530,071
Audit fees	232,500	259,746
Other accruals	118,529	110,208
Indigent fund	45,060	\$ (3,870)
Actuarial fees	25,095	37,496
Audit Fees - Auditor General	10,000	21,726
Legal Fees	6,821	28,602
Maintenance/Utilities & Telecommunications	6,348	10,483
Marketing costs	2,425	6,626
Stamp duty	1,128	624
Water	-	200
	<u>\$ 1,144,336</u>	<u>\$ 1,540,820</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, 2019, is as follows:

	0-1 yr	1-2 yrs	2-3 yrs	>3 yrs	Total
Lease payment	157,080	157,080	157,080	235,620	706,860
Finance charges	(26,863)	(20,541)	(13,914)	(7,733)	(69,051)
Net present value	<u>130,217</u>	<u>136,539</u>	<u>143,166</u>	<u>227,887</u>	<u>637,809</u>

#### 11 Claims paid

	December 31, 2019	December 31, 2018
Net US\$ claims (denominated in CUS)	21,317,010	22,136,614
CIS claims	72,420,598	59,690,174
Total Claims	<u>\$ 93,737,608</u>	<u>\$ 81,826,788</u>
Less repricing fees	(742,888)	(1,241,909)
Claims paid (not including repricing fees)	<u>\$ 92,994,720</u>	<u>\$ 80,584,879</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, all calculations performed by the independent actuary is 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 Law 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, with the exception noted in the following paragraph.

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	2014/15	2015/16	2016/17	2018	2019	Total
<u>Estimate of ultimate claims costs:</u>						
At end of period	60,330,760	64,721,391	100,730,282	80,916,008	90,413,117	
One year later	60,330,760	64,526,948	100,563,443	80,974,231	n.a.	
Two years later	60,456,800	64,406,493	100,529,447	n.a.	n.a.	
Three years to four years later	65,398,580	64,406,493	100,529,447	n.a.	n.a.	
Current estimate of cumulative claims	65,398,580	64,406,493	100,529,447	80,974,231	90,413,117	
Cumulative payments to date	65,398,580	64,405,851	100,487,879	80,881,205	83,378,796	
Gross liability recognized in the statement of financial position	-	642	41,568	93,026	7,034,320	7,169,556
Allocated loss expenses ("ALE") reserve	-	32	2,023	4,477	286,051	292,583
Net liability recognized in the statement of financial position	\$ -	\$ 674	\$ 43,591	\$ 97,503	\$ 7,320,371	\$ 7,462,139

The table below shows the movements in the provisions for claims incurred during the current year and the prior financial year.

	Year ended December 31, 2019			Year ended December 31, 2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	\$ 10,258,172	\$ (171,496)	\$ 10,086,676	\$ 10,243,321	\$ (703,011)	\$ 9,540,310
Incurred related to:						
Current year	90,413,117	(170,919)	90,242,199	80,916,008	(150,821)	80,765,187
Prior year	(106,971)	(72,068)	(179,040)	(232,261)	(25,400)	(257,661)
	90,306,146	(242,987)	90,063,159	80,683,747	(176,221)	80,507,526
Paid related to:						
Current year	83,378,796	-	83,378,796	71,229,045	-	71,229,045
Prior year	9,615,924	(243,564)	9,372,360	9,355,834	(707,736)	8,648,098
	92,994,720	(243,564)	92,751,156	80,584,879	(707,736)	79,877,143
Reinsurance provision	-	-	-	-	-	-
ALE Reserve movement	(107,459)	-	(107,459)	(84,017)	-	(84,017)
Balance at end of period	\$ 7,462,139	\$ (170,919)	\$ 7,291,220	\$ 10,258,172	\$ (171,496)	\$ 10,086,676
Change in provision from claims incurred	\$ (2,796,033)			\$ 14,851		

For the year ended December 31, 2019 there was a hindsight reserve release of \$179,040 (December 31, 2018: \$232,261). As stated in the beginning of Note 12, IBNR's are estimated with all known information at the time.

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2019

Amounts stated in Cayman Islands dollars

#### 13 Share capital

Authorized:	December 31, 2019	December 31, 2018
1,000,000 unclassified shares of C\$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 C\$2,999,999.

#### 14 Additional paid-in-capital

Additional paid in capital received	December 31, 2019	December 31, 2018
	\$ 37,723,251	\$ 34,723,251
	<u>\$ 37,723,251</u>	<u>\$ 34,723,251</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. In the year ended December 31, 2019, the Company received \$3,000,000 in additional paid in capital from the shareholder (December 31, 2018: \$4,530,000).

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, 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)
Net Premium	<u>\$ 77,463,022</u>	<u>\$ 12,247,259</u>	<u>\$ 4,319,007</u>	<u>\$ 95,029,288</u>
	For the year ended December 31, 2018			
	Group 30100	Group 30101	Group 30104/31304	Total
Premium Income	\$ 65,106,814	\$ 10,309,946	\$ 4,553,670	\$ 79,970,430
Reinsurance Premium	(923,585)	-	-	(923,585)
Net Premium	<u>\$ 64,183,229</u>	<u>\$ 10,309,946</u>	<u>\$ 4,553,670</u>	<u>\$ 79,046,845</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, 2018: \$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, 2019, the Company accrued contributions totaling \$274,550 (December 31, 2018: \$307,040).

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2019

Amounts stated in Cayman Islands dollars

#### 18 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	December 31, 2019	December 31, 2018
<b>Administrative expenses</b>		
Salaries	\$ 2,251,788	\$ 2,188,719
Employee benefits	489,738	453,900
Professional fees	408,427	424,518
Depreciation	229,565	165,148
Maintenance	168,200	140,890
Other/miscellaneous	133,808	105,453
Utilities	107,590	111,598
Rent	88,618	163,756
Licence fees	75,000	75,000
Marketing	44,006	64,647
Office supplies	22,131	32,263
	<u>4,018,870</u>	<u>3,925,892</u>
<b>Other expenses</b>		
Interest on lease liabilities	15,746	-
	<u>\$ 4,034,616</u>	<u>\$ 3,925,892</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 loss are represented below.

	December 31, 2019	December 31, 2018
<b>Assets</b>		
<i>Current</i>		
Premiums receivable	\$ 4,956,260	\$ 4,500,025
Provision for bad debt	(1,000,242)	(1,002,235)
Advance claims, ASO claims receivable and fees receivable, net of bad debt	4,419,973	3,787,329
Other receivables and other assets	134,279	107,042
	<u>\$ 8,510,270</u>	<u>\$ 7,392,161</u>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 5,470
Premiums received in advance	1,776	8,249
Accruals and other liabilities	61,844	24,336
	<u>\$ 63,620</u>	<u>\$ 38,055</u>
<b>Income</b>		
Premium income	\$ 90,608,695	\$ 75,525,605
ASO Fees	1,008,112	764,370
	<u>\$ 91,616,807</u>	<u>\$ 76,289,975</u>
<b>Expenses</b>		
Claims paid	\$ 49,914,566	\$ 43,840,364
Contributions to segregated insurance fund	274,550	307,040
Claims administration & administrative expenses	479,233	436,782
	<u>\$ 51,373,646</u>	<u>\$ 44,584,186</u>

## Cayman Islands National Insurance Company Ltd.

### Notes to the financial statements

December 31, 2019

Amounts stated in Cayman Islands dollars

#### 19 Related party transactions (continued)

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, 2019	December 31, 2018
Short-term employee benefits	\$ 385,557	\$ 412,522
Post-employment benefits	16,500	19,381
Director fees	48,100	58,800
	<u>\$ 450,157</u>	<u>\$ 490,703</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, confirmation of insurance letters, and reinstatement of policies. Also included in other income are 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, 2019, is \$162,168 (December 31, 2018: \$161,363).

#### 22 Net worth for regulatory purposes

	December 31, 2019	December 31, 2018
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	37,723,251	34,723,251
Accumulated deficit	(26,983,870)	(26,724,931)
	<u>\$ 13,739,381</u>	<u>\$ 10,998,320</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 the Minimum Capital Requirements (MCR). As shown below, at December 31, 2019, the Company was not in compliance with the Prescribed Capital Requirements (PCR). The Company's objectives when managing its working capital is to safeguard the Company's ability to continue as a going concern, through ongoing support from the Government.

	December 31, 2019	December 31, 2018
Available capital for regulatory purposes	\$ 13,115,998	\$ 10,699,065
Minimum Capital Requirements		
MCR	\$ 10,872,412	\$ 9,945,533
PCR	\$ 13,590,516	\$ 12,431,916

#### 23 Subsequent events

In preparing these financial statements management has evaluated subsequent events up to April 30, 2020, which is the date that the financial statements were available to be issued.

Since the start of January 2020, the outbreak of COVID-19, which is a rapidly evolving situation, has adversely impacted global commercial activities. The rapid development and fluidity of this situation precludes any prediction as its ultimate impact, which may have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The Directors do not believe there is any financial impact to the financial statements as at December 31, 2019, as a result of this subsequent event. Management is monitoring developments relating to COVID-19 and is coordinating its operational response based on existing business continuity plans and on guidance from Government, global health organisations and general pandemic response best practices.

No other subsequent events were identified that require additional disclosures in these financial statements.



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