CENTRAL BANK OF
TRINIDAD & TOBAGO

Guideline on the Management of Liquidity Risk for Insurers

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1. INTRODUCTION

1.1 **Liquidity** is the ability of an insurer to generate sufficient cash flows from its assets to pay policyholder claims as well as all other obligations, when due. In the normal course of business, insurers typically rely on premiums, income from investment and funding activities. Nevertheless, insurers need to maintain adequate liquidity to fulfil expected and unexpected payment obligations and liquidity needs.

1.2 Liquidity risk can manifest when there is a shortfall of the insurer's liquidity sources to meet its liquidity needs. The insurer's liquidity risks may be influenced by certain factors such as insurable events, policyholder behavior, funding structure, transferability of assets and liquidity impairments on capital markets. Further, other risks such as reputational risk and contagion risk may threaten the liquidity of an insurer and external or market events such as unexpected catastrophes and pandemics can also trigger liquidity crises.

1.3 Given the myriad of liquidity risk drivers and its potentially debilitating impact, it is of critical importance that insurers effectively manage both their liquidity sources and needs. Liquidity problems can quickly escalate and jeopardize the financial soundness of an insurer even if they are well-capitalized. As such, liquidity risk management is essential to the proper operation of the insurer, the protection of policyholders and financial stability. Ineffective liquidity risk management can force insurers to take corrective actions that may amplify stress to the financial system as a whole, for example, in a fire sale when the insurer is in financial distress.

1.4 This Guideline should be read in conjunction with the Central Bank's Own Risk and Solvency Assessment (ORSA) Guideline for insurers which outlines the expectations of the Central Bank with respect to an insurer's ORSA process and the ORSA report.

2. DEFINITIONS

2.1 **"Central Bank"** means the Central Bank of Trinidad &Tobago;

2.2 **"financial holding company"** means a company required to obtain a permit in accordance with section 51 of the Act;

2.3 **"Guideline"** means the Central Bank's "Guideline on the Management of Liquidity Risk for insurers registered under the Act";

2.4 **"insurer"** for the purposes of this Guideline refers to a local insurer and/or a financial holding company as defined in the Act, unless the context otherwise requires;

2.5 **"liquidity risk"** refers to the risk that an insurer is unable to realize its investments and other assets in a timely manner in order to meet its financial obligations, including collateral needs, when they become due, without disrupting its operations or incurring material losses;

2.6 **"material"** for the purposes of this Guideline, is the concept that the omission, misrepresentation or non-disclosure of an item will likely result in significant changes to the risks of the insurer;

2.7 **"material risk"** means a liquidity-related downside risk that, based on the insurer's internal definitions, has a material impact on its overall risk profile and may affect the liquidity adequacy and appropriateness of the insurer; and

2.8 **"the Act"** means the Insurance Act, 2018 (as amended).

3. PURPOSE, APPLICATION AND SCOPE

3.1 This Guideline applies to all insurers and financial holding companies (FHCs), as defined in this Guideline.

3.2 This Guideline[1] is intended to –

a. outline the core elements and minimum requirements for the development of a robust liquidity risk management framework to assist insurers in managing their liquidity risk; and

b. establish the framework against which the Central Bank will assess the insurers liquidity adequacy and appropriateness under section 82(1)(b) of the Act.

4. LIQUIDITY RISK MANAGEMENT FRAMEWORK

4.1 An insurer must establish and maintain a robust liquidity risk management framework that ensures it maintains adequate and appropriate forms of liquidity and can withstand periods of stress. Liquidity risk management should not be considered in isolation but must form part of the insurer's comprehensive enterprise-wide risk management framework. In particular, the impact of other risks such as insurance risk,

[1] The Central Bank will review this Guideline periodically to ensure that it remains relevant and reflects changes in international best practices, occurrences in the domestic financial system and legislative amendments.

credit risk, market risk, operational risk, reinsurance risk, reputational risk and strategic risk on the insurer's liquidity should be considered.

4.2 The liquidity risk management framework should take into account, inter alia, the insurer's structure, scale of business and complexity of operations, business model and business strategies, risk profile, products, geographic coverage and currencies in which it transacts business. It should also address the insurer's group-wide operations including any legal and practical issues that may compromise its liquidity position.

4.3 The liquidity risk management framework of an insurer should include, at a minimum:

i. a Board-approved liquidity risk appetite statement and liquidity risk management strategy (see section 4.3.1);
ii. the oversight of the board of directors (Board) and senior management (see section 4.3.2);
iii. a robust system of internal controls to ensure the integrity of the liquidity risk management framework (see section 4.3.3);
iv. systems, policies and processes for on-going identification of liquidity risk drivers[2] (see section 4.3.4);
v. a strategy to ensure that the insurer maintains a portfolio of unencumbered highly liquid assets (HLAs) that are available to withstand a range of stress events (see section 4.3.5);
vi. the establishment of a coherent and robust methodology for monitoring and measuring liquidity risk (see section 4.3.6);
vii. regular stress testing to identify and quantify exposures to possible future liquidity stresses (see section 4.3.7);
viii. an appropriate and effective liquidity risk reporting process (see section 4.3.8); and
ix. a formal, documented, Board-approved liquidity contingency plan (LCP) that clearly sets out strategies for addressing liquidity shortfalls in emergency situations (see section 4.3.9).

These core elements of the liquidity risk management framework also reflect the minimum criteria to be used by the Inspector for the purpose of assessing the adequacy and appropriateness of the insurer's liquidity pursuant to section 82(1)(b) of the Act.

[2] Liquidity risk drivers are factors that contribute to liquidity risk and potentially generate liquidity needs.

4.3.1 Liquidity Risk Appetite Statement and Liquidity Risk Management Strategy

4.3.1.1 A central component of liquidity risk management is a clear articulation of the acceptable level of liquidity risk that the insurer may assume to achieve its strategic objectives which should be described in the liquidity risk appetite statement.

4.3.1.2 The liquidity risk appetite statement should inform liquidity risk controls, such as minimum holding amounts of HLAs and should at least:

a. define the duration and type of stress or stresses that an insurer aims to be capable of withstanding;
b. include quantitative targets, such as excess liquidity or liquidity ratios;
c. include qualitative objectives, such as holding liquid assets with approved banks;
d. be easily understandable by all levels of management; and
e. be consistent with, the general risk appetite statement.

4.3.1.3 An insurer should have a liquidity risk management strategy that sets out the general approach that it will adopt in managing its liquidity risk consistent with its liquidity risk appetite and any established risk limits. The liquidity risk management strategy should include both qualitative and quantitative elements such as:

a. goals and objectives underlying the strategy;
b. composition and maturity of assets and liabilities;
c. level of diversity and stability of liquidity sources targeted by the insurer;
d. methodology to determine portfolio of unencumbered HLAs;
e. impact on the reinsurance arrangements and the likely payment pattern for claims;
f. approach to managing liquidity in different currencies, across borders, and across business lines and legal entities, where applicable, taking into consideration home and host regulatory requirements in the jurisdictions in which the insurer operates;
g. approach to be adopted in the event liquidity support is withdrawn from any part of the insurer; and
h. assumptions on the liquidity and marketability of assets.

4.3.2 Oversight of Board of Directors and Senior Management

4.3.2.1 The Board of an insurer has ultimate responsibility for overseeing the prudent management of liquidity risk and should, at a minimum:

a. articulate clearly and approve the liquidity risk appetite statement of the insurer, and ensure the key elements are understood by senior management;
b. establish and approve lines of authority and responsibility for managing the insurer's liquidity risk;
c. oversee senior management's identification, measurement, monitoring and control of liquidity risk;
d. understand the nature of the liquidity risks of the insurer and the tools used by senior management to monitor and control liquidity risk;
e. approve the insurer's liquidity risk management strategy and other significant policies and processes related to liquidity risk management, including liquidity contingency planning;
f. ensure that senior management and appropriate personnel have the necessary expertise and that the insurer has adequate processes and systems to measure, monitor, and control all sources of liquidity risk;
g. approve any major changes to the insurer's liquidity stress testing process, with consideration of prevailing and prospective market conditions or changes in the insurer's business model, activities and products; and
h. receive and review periodic compliance and independent audit reports of the framework, the frequency of which should be documented.

4.3.2.2 The senior management of an insurer is responsible for the implementation of the liquidity risk management framework. To achieve this effectively they should, at a minimum**:**

a. develop, document and implement policies and procedures in accordance with the Board-approved liquidity risk appetite statement;
b. review the insurer's liquidity risk policies and procedures at least annually, or when there is any major change in operations or business activities that could impact the insurer's liquidity risk profile and revise appropriately;
c. ensure that the insurer's liquidity risk strategy is consistent with the Board's intent and is effectively communicated to, and well understood by, the insurer's staff;
d. adhere to the lines of authority and responsibility that the Board has established for managing liquidity risk;
e. keep under constant review the liquidity risk profile of the insurer and, where relevant, that of its key subsidiaries;
f. establish effective independent internal controls over the liquidity risk management process;

g. regularly review the insurer's liquidity stress test scenarios and assumptions to ensure that their nature and type remain appropriate and relevant to the insurer;
h. implement an appropriate and effective liquidity risk reporting process;
i. review all aspects of the liquidity contingency plan following testing exercises and ensure follow-up actions are completed with results documented and reported to the Board; and
j. immediately notify the Central Bank of any material developments that may have an adverse impact on the insurer's liquidity risk profile.

4.3.2.3 In addition to the items listed in section 4.3.2.2 above, senior management of FHCs should also:

a. receive clear and timely information from material legal entities on their liquidity positions and any emerging liquidity stress events; and
b. periodically report to the group's Board or relevant Board committees on the group's current liquidity risk profile.

4.3.3 Internal Controls

4.3.3.1 A robust control system should allow the insurer to monitor the effectiveness of its liquidity strategy, the degree of liquidity risk undertaken and compliance with established policies and procedures and with applicable legislation and/or guidelines governing liquidity risk.

4.3.3.2 An insurer should implement independent internal controls to ensure the integrity of its liquidity risk management framework which should be reviewed for adequacy and effectiveness by individuals not involved in the day-to-day liquidity risk management.

4.3.4 Liquidity Risk Identification

4.3.4.1 The insurer should have a sound understanding of the liquidity risk drivers to which it may be exposed. It should be able to clearly identify these risk drivers and the impacts on its risk profile and liquidity position. Some of the liquidity risk drivers that may affect an insurer include:

a. exposure to insurable events;
b. policyholder behavior;
c. foreign exchange convertibility and access to foreign exchange markets;
d. the impact of a deterioration in the insurer's financial condition or credit rating;
e. the ability to transfer liquidity across entities, countries and portfolios;

f. group specific risks;
g. the reduction in secured and unsecured wholesale funding;
h. the correlation and concentration of liquidity sources; and
i. contingent or off-balance sheet exposures.

Further details on these are provided in Appendix I.

4.3.4.2 Liquidity risk can also result from its exposure to a combination of risks (such as insurance risk, credit risk, market risk, operational risk, reinsurance risk, reputational risk and strategic risk). It is expected that the insurer's overall risk management strategy will consider the correlation between the insurer's liquidity risk and the other risks to which it is exposed.

4.3.5 Meeting Liquidity Shortfalls in Stress

4.3.5.1. As part of the liquidity risk management process the insurer must maintain a portfolio of highly liquid assets (HLAs) in appropriate locations (see section 4.3.5.10(d)). These HLAs are intended to be monetized in order to fill any shortfalls of liquidity sources relative to liquidity needs over a particular time horizon. They should therefore be available to meet liquidity shortfalls as they arise. The insurer should establish an adequate level of HLAs to hold, using the stressed cash in-flows and out-flows from its liquidity stress testing scenario(s).

Characteristics of Highly Liquid Assets (HLAs)

4.3.5.2. HLAs should be easily and immediately convertible into cash at little or no loss of value. Such assets generally have:

a. low credit risk;
b. low price volatility;
c. easy, transparent and accurate valuations;
d. low correlation with risky assets;
e. consistently active markets in terms of market breadth, depth and a diverse group of active buyers and sellers; and
f. a proven record as a reliable liquidity source during stressed market conditions

An insurer should be able to demonstrate the liquidity of any assets it considers to be highly liquid based on the criteria above.

4.3.5.3. To ensure their availability to meet the insurer's liquidity needs, HLAs should be unencumbered, meaning they are (i) free of legal, regulatory, contractual and other restrictions

on the insurer's ability to promptly sell or transfer the asset and (ii) not pledged or used to secure or provide credit enhancement to another transaction.

4.3.5.4. The insurer should impose an appropriate haircut[3] to the fair market value of its HLAs, in order to account for the increased credit risk and market volatility during a stress event. The haircuts should appropriately reflect differences in credit quality and market volatility across asset types and the amount of time that would be required to sell the asset.

4.3.5.5. Instruments issued by other financial institutions have the potential for wrong-way risk (i.e. that their liquidity is correlated with developments in the financial markets and/or broader economy) and may exacerbate stress at the insurer level. Moreover, such instruments could contribute to systemic risk by increasing the insurer's interconnections with the rest of the financial sector. As a result, it would not generally be expected that instruments issued by financial institutions or their affiliated entities would be appropriately considered as highly liquid, unless the insurer can clearly demonstrate that such instruments meet the conditions of section 4.3.5.2 above.

4.3.5.6. There are natural differences in the liquidity of these assets that would limit the insurer's ability to monetize them during a stressed situation. As a result, the insurer should group assets according to their usability in stress with sufficient granularity to adequately manage liquidity risk. To ensure their usability in stress and to minimise financial stability impacts from the monetization of financial assets, insurers generally should not rely on lower quality assets for shorter stress periods as they may be unable to monetize these assets quickly enough to meet liquidity needs.

4.3.5.7. Assets held in the HLAs portfolio should be classified as Level 1, Level 2A, or Level 2B. Level 1 assets are generally those of the highest quality and liquidity and are more likely to have willing buyers in very short horizons, even during stressed conditions. Because of this, Level 1 assets should generally comprise a majority share of the portfolio. Level 2A assets are still of high quality but will generally incur larger haircuts and/or take more time to find a buyer than Level 1 assets.

4.3.5.8. Different proportions of Level 1, Level 2A, and Level 2B assets may be appropriate depending on the horizon of the liquidity stress. For short-term stresses, insurers should rely more on

[3] A haircut is a reduction applied to the value of an asset. A haircut is intended to reflect the risk of an asset's value declining when the holder wishes to monetize it.

Level 1 assets, though they may also consider limited quantities of Level 2A or Level 2B assets. For medium-term stresses, for example, those between one month and three months, the insurer should rely on both Level 1 and Level 2A assets, but may also, in such circumstances, consider limited quantities of Level 2B assets to be appropriate. For longer-term stress periods, for example, those longer than three months, the insurer would likely be expected to sell assets more strategically to minimise losses. As such, Level 1, Level 2A and Level 2B assets could be allocated to the HLAs portfolio in appropriate quantities. Appendix II provides further details on the classification of HLAs.

4.3.5.9. As part of its liquidity risk management framework, the insurer should measure the ratio of the HLAs to stressed liquidity needs, under different time horizons, as produced by its stress test(s).

Additional Considerations

4.3.5.10. Insurers should also take the following considerations into account when including assets in the HLAs portfolio:

a. To avoid **double-counting**, assets generating future cash inflows used in the insurer's stressed cash flow projections, for example through coupon, interest payments or maturities, should not count toward the level of HLAs for the selected stress scenario as the insurer would be unable to realize these inflows if the assets were sold. This does not mean that assets used to meet cash flow needs outside of the relevant time horizon could not be counted toward this level as the insurer would likely have time to re-balance its portfolio.

b. There should be sufficient **diversification** of an insurer's HLAs to reduce the risk of large portions of the HLAs portfolio becoming illiquid all at once, when it is needed to meet cash flow shortfalls.

c. The insurer should consider **transferability** of assets in determining an adequate level of HLAs and the location where these assets are held. To protect policyholders, insurers are often restricted from transferring liquidity out of insurance legal entities in stressed conditions. As such, insurers should not assume that assets held in insurance legal entities are readily available to cover liquidity shortfalls elsewhere in the group.

d. In times of stress, **access to foreign exchange markets** may be impaired, especially those for less frequently traded currencies. When determining the appropriate location and currency of its HLAs, the insurer should be aware of the risk of non-convertibility of foreign currencies, particularly over short time horizons.

4.3.6 Liquidity Gap Analysis

4.3.6.1 The insurer should establish its own liquidity risk metrics based on a coherent and robust methodology. The metrics used should allow the insurers to clearly determine whether it is within its liquidity risk appetite and any established risk limits, as well as, to estimate both their liquidity needs and ability to meet them. The degree of sophistication in risk metrics should be reflective of the scale, type, nature and complexity of the insurer's activities.

4.3.6.2 In order to obtain a forward-looking view of liquidity risk exposures, an insurer should use metrics that project cash flows and future liquidity positions (liquidity gap/excess) over various time horizons. When performing its liquidity gap analysis, the insurer should take into consideration trends and cycles, whether they relate to insurer specific or market events. The prospective measure should identify the insurer's vulnerabilities to liquidity risk under normal and stressed conditions.

4.3.6.3 Monitoring these metrics against a number of time horizons, both short term and long term, is generally viewed as good practice, moreover, the use of metrics is expected to be applied consistently across relevant areas within an insurer, and where relevant, across the group.

4.3.6.4 The insurer should take steps to ensure that their liquidity risk assumptions are reasonable and appropriate, documented and periodically reviewed for validity, especially in the view of existing and potentially changing market conditions, including significant unexpected withdrawals and payments or changes in the external market environment. Assumptions can vary from one insurer to another, however an insurer should be able to justify the assumptions used to estimate its liquidity risk.

4.3.7 Liquidity Stress Testing

4.3.7.1. Through stress testing, the insurer develops a sound understanding of how its activities affect its liquidity risk profile both under normal and stressed conditions. Stress testing should therefore be robust, as it is a vital part of liquidity risk management.

4.3.7.2. This Guideline should be read in conjunction with the Own Risk and Solvency Assessment (ORSA) guideline, as well as the Insurance (Financial Condition Report) Regulations, 2020 (FCR Regulations). Stress testing is a key component of the ORSA process as outlined in the ORSA Guideline and is also required pursuant to the FCR Regulations. It is expected that the

stress testing of the insurer's liquidity risk should already be included as part of these requirements. Where necessary, other relevant scenarios assessing liquidity risk outside of those already tested in the ORSA process and FCR Regulations, can be included.

4.3.7.3. Stress tests should also enable an insurer to analyze the impact of stress scenarios on its consolidated group-wide liquidity position as well as on the liquidity position of individual entities and business lines in order to understand where risks could arise.

4.3.7.4. In addition to the stress testing requirements set out in the ORSA process and FCR Regulations the liquidity stress tests conducted by insurers should, at a minimum:

a. be based on severe but plausible stress scenarios and assist the insurer in their assessment of their liquidity needs;
b. consider multiple scenarios (including catastrophic events) of varying degrees of stress and time horizons using conservative and regularly reviewed assumptions;
c. be performed for all currencies in aggregate and separately for each currency in which the insurer has significant positions;
d. take into account specific risks associated with its business activities, products or liquidity sources;
e. consider the credit quality of the reinsurer and make reasonable assumptions on the availability and timeliness of reinsurance recoverables;
f. consider the results of stress tests performed for other risks (such as insurance risk, credit risk, market risk, operational risk, reinsurance risk, reputational risk and strategic risk), including possible interaction with these other risks;
g. include a variety of short-term and forward-looking types of scenarios including insurer-specific and general market stress scenarios as well as a combination of both;
h. consider stress scenarios both with and without the availability of off-balance sheet liquidity sources, where relevant; and
i. for legal entities that are part of a group and pose a material risk, include appropriate, locally developed stresses that reflect local business vulnerabilities and market conditions.

4.3.7.5. The insurer's capital management framework may be inappropriate or inapplicable to liquidity risk management. As such, stress tests that have a significant impact on capital may not have a significant impact on liquidity, and vice versa.

4.3.8 Reporting on Liquidity Risk

4.3.8.1. As part of the liquidity risk management framework the insurers should produce a liquidity risk management report. A key purpose of the report is to document and demonstrate overall liquidity adequacy and appropriateness, both under current and stressed events, whether they relate to the insurer's particular activities or to market conditions. It should be clear, easily understood and tailored to the risks to which an insurer is exposed.

4.3.8.2. The liquidity risk management report should be regularly updated, with more frequent updates when there are material changes to the nature, type, scale and complexity of the insurer's activities that lead to increased liquidity risk exposures.

4.3.8.3. At a minimum, liquidity risk management report should include the following:

a. a liquidity risk appetite statement;
b. established liquidity risk limits;
c. a discussion of the current liquidity position of the insurer in relation to its liquidity risk appetite and limits;
d. a summary of strategies, policies and processes that the insurer has in place to manage liquidity risk;
e. analysis of key drivers of the change in the liquidity position compared to the prior analysis;
f. a description of the systems and metrics used to measure and monitor liquidity risk, including the rationale behind the choice of systems and metrics;
g. a summary of policies established for monitoring intraday liquidity risk exposures[4], in particular, intraday events that can have significant adverse effects on the liquidity position of the insurer, where applicable;
h. a discussion on its relevant products in sufficient detail to provide clarity on their key liquidity-related features with a focus on product features that may encourage withdrawals or other potentially significant liquidity demands;
i. an assessment of potential vulnerabilities in the insurer's liabilities as well as the means of enhancing the liquidity position;
j. the insurer's approach to, and results of, liquidity stress testing;

[4] Intraday liquidity risk exposures or intraday events are exposures or events that occur within one day.

k. descriptions of the systems and procedures used to monitor encumbered assets[5], HLAs, unencumbered assets, and assets available to be encumbered;
l. any limitations of the liquidity risk management framework; and
m. for FHCs, if and to what extent entities within the group are self-sufficient or dependent on liquidity support from other parts of the group and whether such arrangements are both prudent and expected to be honored in a stress scenario.

4.3.8.4. The insurer should ensure consistency between its liquidity risk management report and all other required risk assessment and risk mitigation documents, such as recovery plans or ORSAs.

4.3.8.5. An insurer should implement a liquidity risk reporting process that ensures all stakeholders are kept apprised of relevant information regarding liquidity risk at the insurer. At a minimum the process should outline the following to the various stakeholders of the insurer, its Board and senior management and the Central Bank:

a. lines of responsibility for reporting on liquidity risk;
b. the scope of information to be provided; and
c. the frequency of reporting, including, inter alia, the need for increased frequency of reporting in times of stress.

4.3.9 Liquidity Contingency Plan

4.3.9.1. Contingency funding planning in response to liquidity stress events may assist the insurer in addressing stress situations where its HLAs are insufficient or unexpectedly become illiquid. As such an insurer should have in place a formal documented liquidity contingency plan (LCP) which is approved by the Board and details the insurer's strategies for addressing liquidity shortfalls in emergency situations in a timely manner and at a reasonable cost.

4.3.9.2. The LCP should:

a. be robust, sufficiently flexible and consistent with the risk profile of the insurer and overall business continuity plans of the insurer;
b. contain policies, procedures and action plans that:

[5] An encumbered asset is a security or asset that is owned by one entity but that has a legal claim on it from another entity. This may arise if the encumbered asset is used as collateral by a creditor. There are therefore constraints on the use or sale of encumbered assets.

i. prepare the insurer to deal with relevant liquidity stress events including but not limited to those assumed in the stress tests;
ii. set out specific procedures for raising cash and outline possible sources of funds an insurer expects to have available from various sources;
iii. are closely integrated with the insurer's ongoing analysis of liquidity risk;
iv. enable the management of the insurer to make timely and well-informed decisions, communicate the decisions effectively, and execute contingency measures swiftly and proficiently; and
v. outline clear escalation and prioritization of actions;

c. address liquidity issues over a range of different time horizons including intraday horizons, where relevant;
d. include clearly established and delineated lines of responsibility and escalation procedures;
e. define a set of triggering events that will activate the plan as well as the mechanisms for identification, monitoring and reporting of such events at an early stage;
f. include a comprehensive communication strategy that:
i. ensures clear, timely and consistent communication with relevant internal and external stakeholders; and
ii. helps reduce uncertainty or speculation about the insurer in the market.

4.3.9.3. The LCP should be regularly tested, reviewed and updated to:
a. identify liquidity dependencies and barriers to execution of the plan;
b. ensure the plan remains operationally robust; and
c. ensure that the plan remains viable even if there have been material changes to the nature, type, scale or complexity of the insurer's activities.

5. SUPERVISORY REVIEW

5.1 The Central Bank shall, as part of its supervisory framework, assess the sufficiency of the liquidity risk management framework instituted by insurers. The requirements of this Guideline together with any other requirement on liquidity risk imposed by the Central Bank, will be used as a baseline for the assessment, including compliance with any liquidity metrics specified by the Central Bank.

5.2 In assessing the sufficiency of the insurer's liquidity risk management framework, the Central Bank will have regard to, inter alia, the:

a. overall soundness of the insurer's liquidity risk management framework given the scale, type, nature and complexity of the insurer's activities;
b. insurer's stress test design and results, including whether the set of scenarios are appropriate and adequate for the insurer's liquidity exposures;
c. suitability of the assets that the insurer considers to be highly liquid in the context of the timing of a particular insurer's liquidity needs; and
d. adequacy of the insurer's liquidity contingency plan and the insurer's preparedness to execute the plan.

5.3 The insurer's liquidity risk management report and any other information related to the insurer's liquidity risk management must be made available to the Inspector upon request.

5.4 The Central Bank may collect additional information on the set of risks that may be relevant for a particular insurer as part of its monitoring of potential vulnerabilities arising from liquidity risk in the insurance sector.

5.5 The Central Bank will, where appropriate, consult with other supervisory authorities in assessing the liquidity risk profile of an insurer.

5.6 The Central Bank may require an insurer to undertake remedial action to address any deficiencies identified with its liquidity risk management framework.

6. EFFECTIVE DATE

6.1 This Guideline comes into effect on the date of issue.

6.2 Insurers are required to review this Guideline and institute appropriate measures to ensure compliance with its contents within one (1) year of the date of issue.

7. APPENDIX I – Liquidity Risk Drivers

a. Exposure to insurable events

Exposure to insured events can drive liquidity risk if an insurer is unable to meet its payment obligations in a timely manner. This may include considerations of the nature, frequency and severity of exposures to insurable events, including catastrophic events or material legal decisions that may occur within the relevant time horizon. The insurer should consider its dependence on reinsurance and the possibility that a material portion could be uncollectible or not funded in a timely manner, even if it is ultimately collectible. For instance, a general insurer should consider liquidity needs, relating to direct claims following insurable events.

b. Policyholder behavior

Changes in policyholder behavior may drive liquidity risk if there are reductions in regular premium payments, non-renewals of insurance contracts by policyholders, large-scale withdrawals or policy surrenders. This includes an assessment of the possible withdrawals from different product types, taking into account features such as guarantees, surrender penalties, potential tax implications, maturity dates, interest rate sensitivity, product purposes, customer type and borrowing costs (in case of policy loans).

c. Foreign exchange convertibility and access to foreign exchange markets

Where appropriate, the insurer should assess liquidity needs by individual currency to support an assessment of how shortfalls can be funded in a stressed market with impaired access to foreign exchange markets and loss of convertibility. For example, the insurer should consider the foreign currency needs to meet reinsurance payments.

d. The impact of a deterioration in the insurer's financial condition or credit rating

Deterioration in an insurer's financial condition or credit rating could lead to cash outflows and collateral requirements, which may stress the liquidity sources available to the insurer to meet its liquidity needs. This deterioration may also lead to mass lapses of life policies. Downgrade of the credit rating of an insurer's significant reinsurer is another consideration, especially in times of stress.

e. The ability to transfer liquidity across entities, countries and portfolios

Transferring liquidity across entities, countries and portfolios may also drive liquidity risk during periods of market stress. This should include considerations of existing legal, regulatory and operational limitations to transfers of liquidity and unencumbered assets between entities, business lines and countries.

f. Group specific risks

The insurer should consider how intra-group transactions affect its liquidity position. Any planned reliance by an insurer on support from other entities within its group is expected to be assessed carefully. At the parent entity level, there may be shareholder expectations and debt obligations that require funding. Servicing these obligations may rely on cash flows from subsidiaries. For example, the parent entity may rely on up-streaming of dividends or intra-group loan repayments to meet such obligations. Hence, the cash flow implications of an insurer's financial projections should be considered at the group level. Any insurer that is part of a group should assess whether there is the ability to generate sufficient cash flows in stress to cover group liabilities as they fall due.

g. The reduction in secured and unsecured wholesale funding

A reduction in secured funding[6] or unsecured funding[7] may drive liquidity risk by reducing available sources of funding to the insurer through borrowings. The sources of an insurer's wholesale funding[8] may give rise to liquidity risk during stress periods if wholesale funding providers are unable or unwilling to provide new unsecured borrowings to the insurer or to extend the maturity of any existing funding.

h. The correlation and concentration of liquidity sources

The insurer should assess the correlation and concentration of liquidity sources by considering the instrument type, markets, currency and counterparty, including groups of related counterparties. This assessment should analyze the effectiveness of diversification across the insurer's chosen liquidity sources.

i. Contingent or off-balance sheet exposures

Where applicable, the insurer should include an assessment of derivative cash flows and collateral requirements caused by market changes, maturity, exercise of options, margin or collateral calls, changes in the value of posted collateral and additional costs of rebalancing portfolios. The insurer should also consider additional collateral needs that could arise from inwards or accepted reinsurance contracts in-force and any other potentially material liquidity needs arising from off-balance sheet commitments, contracts or facilities.

[6] Secured funding - These funds derive from loans for which the borrower must provide collateral, which may be in the form of cash or other assets.

[7] Unsecured funding - Unsecured funding sources derive from loans in which the borrower does not need to provide collateral.

[8] Wholesale funding refers to funding received from financing institutions, such as banks, pension funds or non-financial corporates.

8. APPENDIX II – Classification of Highly Liquid Assets

Asset Type	Quality Determinants / Other Considerations[9]	Classification
Cash and demand deposits	Considered the most liquid category of liquidity sources and covers all holdings of cash, including cash and currency on hand, demand deposits with banks or other financial institutions, or other kinds of accounts that have the general characteristics of demand deposits. This category does not include any instruments with restricted withdrawal or usage.	Level 1
Bonds or other evidence of indebtedness issued or guaranteed by the Government of Trinidad and Tobago or Multilateral Agencies	Assigned a 0% risk factor under The Insurance (Capital Adequacy) Regulations, 2020	Level 1
Bonds or other evidence of indebtedness	Rated AA- or higher; AND Not issued by a financial institution or its affiliates[10].	Level 2A
	Rated BBB- to A+; - Not issued by a financial institution or its affiliates[10].	Level 2B
Asset Backed Securities	Rated AA – or higher	Level 2A
	Rated BBB- to A+	Level 2B
Quoted Common shares	Publicly traded on a major exchange; AND Not issued by a financial institution or its affiliates[10]	Level 2B
Other assets	Demonstrated to have low credit risk and low volatility, is liquid and readily marketable and has a proven record as a reliable source of liquidity, that classifies as Level 2A or 2B	Level 2A Or Level 2B

[9] The credit rating agency used is Standard & Poor

[10] unless the insurer can clearly demonstrate that such instruments meet the conditions of section 4.3.5.2 above

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