

Guideline For the Approval of Insurers to Engage in Real Estate Activities (Guideline)
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No.	Section	Reference	Industry Comments	Central Bank Comments
1.	Definitions/ Abbreviations (Glossary)	<p>Business of holding, managing or otherwise dealing in real estate - means the ongoing conduct of real estate <u>activities</u> and transactions by an insurer that are necessary as part of the investment activity¹</p> <p>Permissible real estate entity - means a real estate entity that is a subsidiary or other entity controlled by an insurer or a real estate joint venture approved by the Central Bank.²</p>	<p>a. Does investing in/ buying/ acquiring one or even two real estate properties satisfy the definition/ meaning of the “Business of “?</p> <p>b. What will be the mechanism/process for the approval?</p>	<p>a. Investing in/ buying/ acquiring one or even two real estate properties would qualify as the “business of”.</p> <p>b. The Guideline must be consistent with the requirements of Section 30(7) of the Act which requires the approval of the Central Bank for the real estate activity. As such, the application process outlined in sections 3.7 to 3.10 of the Guideline requires approval comprising two (2) levels of approval, a First Level Approval and a Second Level Approval. The former relates to the requirement for approval in instances where the aggregate value of the investments in carrying on the business of holding, managing or otherwise dealing in real estate in accordance with section 30(7) of the Act, is 25% or less of the insurer’s Adjusted Assets. Such First Level Approval requires a simplified process, requiring an attestation by the Chairman of the Board of Directors of the insurer that certain conditions exist.</p> <p>c. The second Level Approval, relates to the requirement to obtain prior approval in instances where an insurer proposes to invest in real estate activity where the aggregate value of such investment will exceed twenty-five percent (25%) of the insurer’s Adjusted Assets or acquiring shares in a real estate entity to be permissible real estate entity. In making the application for Second Level Approval, an insurer should take into account, at a minimum, the matters outlined in the Guideline.</p>

¹ This definition was amended in the final Guideline.

² This definition was removed in the final Guideline.

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2.	1.3	Further, where insurers engage in these two investment activities, it must be for the sole purpose of supporting insurance obligations.	<p>Please clarify which part of the IA 2018 stipulates this restriction?</p> <p>The Insurance Act allows for real estate as an asset class. Should this activity be allocated solely to policyholder liabilities?</p>	<p>The Act seeks to ensure investments in real estate are not excessive and risky and that the core business must be the conduct of insurance business only, this is done by virtue of the following sections:</p> <ul style="list-style-type: none"> - Section 30(5) of the Act which prohibits carrying on any business other than insurance business. - Section 30(7) of the Act which requires approval of the Central Bank for carrying on the business of holding, managing or dealing in real estate. - Section 4(1) of the Act, the definition of permissible real estate entity requires that it must be approved by the Central Bank. - Section 87(1) of the Act prohibits ownership of 20% or more in any non-financial entity. <p>Given the above restrictions, the Central Bank requires that approval must be obtained. Further the conditions surrounding such investments must support, inter alia, IAIS Core Principles (ICP) 7 and 15 (included in the Final version of the Guideline).</p>

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3.	1.4	<p>Investments in real estate activity, because of their long-term nature, may be suitable assets for matching long-term obligations of insurers. The revenue stream from income-producing real estate investments or relatively constant dividend payments from real estate subsidiaries can provide regular cash flows that serve to match approximately long-term liabilities, particularly as the durations of insurance contracts, such as long-term insurance, are longer than the maturity of bonds in the market. Using the cash flows from investment in real estate activity for Asset Liability Matching (ALM) can assist with narrowing the duration gap, which can mitigate interest rate risk.</p>	<p>a. The guideline seems to be alluding that real estate investments are only suitable for ALM matching/ long term insurers. This has implications for short term insurers. What about hedging against inflation/ devaluation and if the investment is using excess equity of shareholders?</p> <p>b. Suggestion to expand this statement to include further benefits of real estate such as:</p> <ul style="list-style-type: none"> • Long Duration: Real estate investments align well with the long-term nature of life insurance liabilities, promoting stability and reducing interest rate risk • Stable Cash Flows: Consistent rental income provides a predictable source of funds for claims and expenses. • Appreciation Potential: Real estate offers the possibility of long-term value appreciation, serving as a hedge against inflation. • Presents an opportunity for portfolio diversification especially in markets such as Trinidad and Tobago, with limited investment options and concentrated risks, real estate provides valuable diversification opportunities <p>Note: There are well established real estate investment principles & guidelines prescribed by international regulators, such as NAIC, and actuarial institutes such as IOA for long-term business carriers and short-term business carriers.</p> <p>c. Suggestion to expand this statement to include further guidance or details related to the stabilization of cash flows applicable to P&C.</p>	<p>a. The following is to be noted and was included under Risk Management in paragraph 5.1 in the Guideline:</p> <p>Real estate activities by insurers must firstly be for the purpose of facilitating the ALM strategy of the insurers. Prudential investment requirements for insurers involve ensuring that investments are suitably matched to the duration of their policyholders' liabilities in order to provide adequate liquidity for the protection of policyholders' interests and to maintain financial stability. For example investments in real estate, because of their long-term nature, may be suitable assets for matching long term obligations of insurers, however concentration in this class of investment is not an appropriate strategy, particularly for a general insurer. Real estate activities expose insurers to various risks such as volatility during economic downturns, liquidity constraints and property management issues. Insurers must be well informed of all the associated risks and the impact to their business, and determine the quantum of investment and the risk management strategy employed to manage the risks.</p> <p>b. The further detail and references are appreciated. International literature on the subject was considered in the development of the Guideline.</p> <p>c. Please refer to a. above.</p>

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4.	3.1	<p>Insurers require the approval of the Central Bank to engage in real estate activity involving the:</p> <p>(a) acquisition of shares or other ownership interests in permissible real estate entities, as required in the definition of “permissible real estate entity” in section 4(1) and in section 87(4)(c) of the Act; or</p> <p>(b) carrying on of the business of holding, managing or otherwise dealing in real estate pursuant to section 30(6)(c) of the Act.</p>	<p>The need to acquire approval is by virtue of Section 4(1) under the definition of permissible real estate and by virtue of Section 30(7) whereby approval is required to conduct business under Section 30(6)(c). The approval however, is required in order to do the activities listed in 3.1.(a) and (b). It may be suggested for accuracy or clarity that the wording of the proposed clauses be reviewed to be clear on what is intended to be said here.</p>	<p>“By virtue” replaced with “involving the”.</p>
5.	3.1 (b)	<p>Carrying on of the business of holding, managing or otherwise dealing in real estate pursuant to section 30(6)(c) of the Act.</p>	<p>What is the threshold for determining that a company is in the (a) “business of” or (b) “otherwise dealing in real estate”. Does investing in 1 property satisfy a or b?</p>	<p>Any investment where the underlying asset or a portion of said asset, no matter the size, comprises real estate, will constitute the business of holding, managing or otherwise dealing in real estate. Further, please refer to the definition stated in the Guideline.</p>
6.	3.4 (a) (Refer to 3.2 and 3.3(a) in Final Guideline)	<p>This Guideline applies to all insurers registered under section 25 of the Act and must be read in conjunction with the Central Bank’s Prudent Person Approach to Investment and Lending Guideline and the Corporate Governance Guideline.</p> <p>This Guideline aims to set out the:</p> <p>(a) minimum standards for investment governance and risk management in relation to an insurer’s real estate activities</p>	<p>This needs to be specific to S30(6) (c). & S30 (7)</p> <p>This section seems specific to long-term insurers, as such, further clarity is required as it pertains to P&C (general insurers).</p>	<p>Nothing in section 3.3 of the Guideline relates specifically to long term insurers.</p> <p>The Prudent Person Approach to Investment and Lending Guideline and Corporate Governance Guideline is relevant to all insurers, the words “Investment and Lending” include both activities, and the investment aspects in the Guideline are applicable to P&C companies. Further, refer to section 5.1 of the Guideline which was amended in line with comment at no. 3 above.</p>

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7.	3.5 (Refer to 5.1 in Final Guideline)	Real estate activities by insurers must firstly be for the purpose of facilitating the ALM strategy of the insurers. Prudential investment requirements for insurers involve ensuring that investments are suitably matched to the duration of their policyholders' liabilities in order to provide adequate liquidity for the protection of policyholders' interests and to maintain financial stability.	<ul style="list-style-type: none"> a. It is suggested that this view be expanded. There are other valid reasons why an insurer can/ should be allowed to invest in Re: ALM cannot be the only reason. b. Additionally, the guideline is supposed to treat with S30(6) (c). & S30 (7) only. 	<ul style="list-style-type: none"> a. Refer to section 5.1 of the Guideline which was amended to include section 3.5 of the draft Guideline. The following paragraph was added to section 8.1(c)(iii) of the Guideline: "giving consideration to Section 5.1 of this Guideline, an explicit statement on the purpose, strategy and benefits to be achieved by the real estate activity including how the activity complements the insurance business and supports the interests of its policyholders". b. The Guideline is on the approval to engage in real estate activities, and the requirements and considerations as determined by the Central Bank in issuing its approval pursuant to Act.

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8.	3.7 – 3.10 (Final Guideline)	Application Process	<p>Bearing in mind that IA 2018 s30.5 prohibits an insurer undertaking any business other than insurance business - s30.6 & s30.7 is a "write-back" intended to facilitate real estate investment activities that contribute positively & safely to overall insurance operations & profitability</p> <p>a. Please confirm that approval is only required for existing real estate investments (acquired prior to the issuance of this Guideline) where the aggregate value of all real estate investments is more than 25% of adjusted assets.</p> <p>b. We would suggest that the use of "and/or" and "and" at the end of sections 3.5(a) and 3.5(b) respectively be reconsidered, to ensure the section clearly captures the requirements.</p> <p>We would suggest that real estate investments made prior to the proclamation of the Insurance Act 2018 (the Act) should be grandfathered.</p>	<p>a. The application process outlined in the Guideline was expanded to include two (2) levels of approval, a First Level Approval and a Second Level Approval. The former relates to the requirement for approval in instances where the aggregate value of the investments in carrying on the business of holding, managing or otherwise dealing in real estate in accordance with section 30(7) of the Act, is 25% or less of the insurer's Adjusted Assets. Such First Level Approval requires a simplified process, requiring an attestation by the Chairman of the Board of Directors of the insurer that certain conditions exist.</p> <p>The Second Level Approval, relates to the requirement to obtain prior approval in instances where an insurer proposes to invest in real estate activity where the aggregate value of such investment will exceed twenty-five percent (25%) of the insurer's Adjusted Assets. In making the application for Second Level Approval, an insurer should take into account, at a minimum, the matters outlined in the Guideline.</p> <p>b. This point was removed per the amended application process outlined above.</p> <p>c. The Act does not make provisions for grandfathering or transitional arrangements, in this instance. The requirements of section 30(8) of the Act, does not allow the Bank any discretion regarding the carrying on of business, which is not listed in section 30(6) of the Act. Therefore, pursuant to the requirements of sections 30(6)(c) and 30(7) of the Act an insurer cannot carry on the business of holding, managing or otherwise dealing in real estate without prior approval of the Central Bank, irrespective of when the investment was acquired.</p> <p>The Bank has considered investments made prior to the implementation of the Act and has allowed a one (1) year transition period for these investments as specifically stated in section 9.2 of the Guideline.</p>

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9.	3.7 (b)	Where the aggregate value of all real estate investments exceeds twenty-five percent (25%) of an insurer’s adjusted assets ³	<p>a. Additionally, what is the purpose of a Risk Based Act if the capital risk charges are not being used to determine the financial ability of an insurer to invest accordingly.</p> <p>We suggest that the percentage allowed for real estate investments be synchronized with Schedule 1 of the Capital Adequacy Regulations, which allows up to 30% of adjusted assets (as opposed to 25% noted in the draft guideline).</p> <p>Note T&T public equities are just as illiquid as RI and are more volatile.</p> <p>b. Based on our interpretation, condition (b) would not apply if the 25% is exceeded due to market value movements. Please confirm if this is the correct interpretation or provide clarity.</p>	<p>a. The Act requires that the insurer is engaged solely in the business of insurance. The conduct of the activity without approval of the Bank is prohibited by the Act.</p> <p>The Guideline is meant to address the restrictions in the Act and is separate and apart from the Insurance (Capital Adequacy) Regulations, 2020.</p> <p>The 25% threshold is not a restriction but the threshold by which insurers must come to the Central Bank for Second Level Approval to engage in further real estate activities. The purpose of the threshold is to ensure that the activity is being monitored and there are appropriate controls in place for the purposes of risk management. The capital charge is independent of the threshold stated in the Guideline. However, in assessing the application, consideration will be given to the impact on the capital adequacy of the insurer.</p> <p>b. Refer to section 3.8 of the Guideline: “An application would not be required for Second Level Approval, where subsequent to the Bank’s approval, there is an increase in the value of the insurer’s investment in real estate activity due to market fluctuation. However, the Central Bank reserves the right to require supplemental information to be submitted based on the risks posed in the individual circumstances and may require the insurer to obtain Second Level Approval as under Section 3.7(b) of this Guideline.”</p> <p>Further, Section 8.2 and Appendix 1 of the Guideline requires the insurer to submit any change in the value of the real estate activities with ten (10) business days of the insurer becoming aware of the change.</p>

³ This section was removed from the final Guideline.
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10.	3.9 (Refer to 3.4 and 3.5 of the Final Guideline)	<p>Where an insurer is part of a financial group that includes a financial entity licensed under the Financial Institutions Act, 2008 (FIA), the insurer must consider the group structure to ensure that the said financial entity complies with the requirements of the FIA, namely the prohibition of licensees under the FIA from directly or indirectly holding real estate.</p> <p>An insurer that obtains approval for any real estate activity shall, at all times, comply with the requirements of the Act, the FIA and all relevant Regulations and Guidelines and all other laws related to such activity.</p>	<p>a. There is potential for conflict as the FIA and IA both have different limits. Consideration could be given to the fact that more restrictive limits could significantly impact an Entity's ability to invest in real estate.</p> <p>b. Section 3.5.1. references the Financial Institutions Act, 2008 (FIA 2008) as one of the pieces of legislation governing real estate investments by insurers. However, it is unclear how/why the FIA 2008 is considered relevant to the insurance industry for real estate investments.</p>	<p>a. While this Guideline is applicable to insurers only the assessment of any application must take into consideration sections 45 and 41 of the Financial Institutions Act, 2008 (FIA) where the insurer is a subsidiary of a licensee/permit holder under the FIA. See section 3.4 of the Guideline.</p> <p>b. See previous response.</p>

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11.	3.10 (refer to section 3.8 of the Final Guideline)	An application would not be required for Second Level Approval, where subsequent to the Bank's approval, there is an increase in the value of the insurer's investment in real estate activity due to market fluctuation. However, the Central Bank reserves the right to require supplemental information to be submitted based on the risks posed in the individual circumstances and may require the insurer to obtain Second Level Approval as under Section 3.7(b) of this Guideline.	<p>a. The expectations of all investing is to guarantee income and capital appreciation. If this is achieved, why should it be subject to further approvals?</p> <p>b. Confirming for clarity, if there is an increase in aggregate value because of an increase in market value, is it the intention that insurers be required to seek further approval for real estate investments?</p> <p>Note: The same requirement does not apply for public Equity portfolios whereby the value has increased due to fluctuations in market prices?</p> <p>This seems to contradict 3.5 C above</p> <p>c. For clarity, once this interpretation is accurate, it should be expressly stated that this section also specifically relates to the surpassing of the 25% threshold.</p> <p>d. Should consideration be given to ignoring sharp inflationary rises in real estate values?</p> <p>e. How will this be determined; what will be the triggers; when will this be flagged/determined for reporting - annually, quarterly, monthly? There needs to be some specific timeline to guide the insurer, for example: the credit exposure guidelines which state "notification must be provided to the CBTT immediately upon having knowledge of same".</p>	<p>a. The Guideline outlines the risks and controls that must be considered in making the investments particularly in the event where the value appreciates to cause a severe concentration in real estate investment and may result in an over-reliance on the value of real estate activities to meet policyholder obligations. In this regard, insurers must have evidence that controls and assessments were carried out (refer to section 5.1 and 8.1(c) of the Guideline).</p> <p>b. Subsequent to a First Level Approval, where an insurer proposes to exceed twenty-five percent (25%) of the insurer's Adjusted Assets, the insurer must obtain prior Second Level Approval of the Central Bank. Any subsequent proposed new investment in real estate activity over and above the Second Level Approval must be approved by the Central Bank in accordance with requirements specified by the Bank on a case-by-case basis. Note however section 3.8 of the Guideline where no application is required where there is an increase in the value of the insurer's investment in real estate activity due to market fluctuation. But the Bank reserves the right to require further supplemental information and may require an insurer obtain Second Level Approval. Further, section 8.2 and Appendix 1 of the Guideline requires insurer to submit any change in the value of the real estate activities with ten (10) business days of the insurer becoming aware of the change.</p> <p>c. As explained above, the section refers to increases that are subsequent to First Level Approval, where the increase is due to market fluctuation.</p> <p>d. Please refer to section 3.8 of the Guideline and note that any Second Level Approval application due to market fluctuations will be on a case by case basis at the discretion of the Bank and all issues impacting the particular circumstances will be considered.</p> <p>e. Insurers are required per the continuous assessment criteria to provide valuations to the Bank on a 3-year basis or a shorter period as determined by the Bank. This is intended to inform the Bank on the market fluctuations. Further, section 8.2 and Appendix 1 of the Guideline requires insurers to submit any change in the value of the real estate activities within ten (10) business days of the insurer becoming aware of the change.</p>

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12.	3.11 (refer to 3.10 in the Final Guideline)	<p>No Approval Required - an application for approval to engage in real estate activity is not required where an insurer:</p> <p>(a) directly owns and occupies at least two thirds of the real estate property for the purposes of carrying on insurance business. In those circumstances, an insurer would not be considered to be carrying on the business of holding, managing or otherwise dealing in real estate; or</p> <p>(b) engages in the business of a mortgage institution as permitted by section 30(6)(b) of the Act.</p>	This section lists the conditions for which an application for approval is not required. Based on section # 3.5 (b), should this list not also include where the aggregate value of real estate investments is less than or equal to 25% of an insurer's adjusted assets?	Please see the amended application process sections 3.7 to 3.10 and the requirements for First Level Approval in instances where the aggregate value of the investments in carrying on the business of holding, managing or otherwise dealing in real estate in accordance with section 30(7) of the Act, is 25% or less of the insurer's Adjusted Assets.
13.	3.11(a) (refer to 3.10(a) in the Final Guideline)	An insurer directly owns and occupies at least two thirds of the real estate property for the purposes of carrying on insurance business. In those circumstances, an insurer would not be considered to be carrying on the business of holding, managing or otherwise dealing in real estate	<p>a. Please clarify the rationale for CBTT's use of 2/3 occupancy threshold?</p> <p>b. Is the two third requirement for each individual real estate property or the total of all real estate held by the Insurance Company?</p> <p>c. What is the specific criteria for calculating the two thirds of the real estate property? Is it based on value, square footage or some other measure?</p>	<p>a. Owner occupied at least two thirds of the property. Two thirds represents a broad level of owner occupancy and is the amount used in general practice to establish a majority. The rationale here is that if the insurer invests in a property, in which he needs less than two thirds to carry on insurance business, then the acquisition is an investment property and not a fixed asset an insurer directly owns and occupies at least two-thirds of the real estate property for the purposes of carrying on insurance business.</p> <p>b. The requirement is for each individual property.</p> <p>c. Square footage.</p>
14.	3.11(b) (refer to 3.10(b) in the Final Guideline)	An insurer engages in the business of a mortgage institution as permitted by section 30(6)(b) of the Act.	The business of issuing mortgages is an investment backed by real estate and is excluded from requiring approval. As to corporate bonds, which is also an investment type backed by real estate, please confirm if approval is required for these types of investments.	Section 3.10 of the Guideline states that mortgages are not required for approval under the Guideline. Corporate Bonds backed by real estate, if it falls under the definition of "the business of holding or dealing in real estate" in the Guideline, then an application for approval is required pursuant to the Guideline.

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15.	3.12 (Refer to section 3.6 of the Final Guideline)	Notwithstanding this Guideline, pursuant to sections 30(8) and 155 of the Act, the Central Bank or the Inspector of Financial Institutions can issue directions where deemed fit. In accordance with section 30(8) of the Act, where the Central Bank is of the opinion that the real estate activity is contrary to the interest of policyholders, the Central Bank shall direct the insurer to discontinue such activity or take such other action as it deems fit, within such period as the Central Bank may determine.	<p>S(30)(8) Where the Central Bank is of the opinion that an insurer registered under the former Act is carrying on a form of business which is not listed in subsection (6) or is contrary to the interest of policy- holders, the Central Bank shall direct the insurer to discontinue such form of business or take such other action as it deems fit, within such period as the Central Bank may determine.</p> <p>a. These sections do not grant this power for Real Estate - See what is written for S30(8)</p> <p>b. Shouldn't the percentage align with the insurance capital adequacy regulations 2020 which specifies 30%?</p>	<p>a. Approval is required by virtue of the sections in the Act, namely: section 4(1) definition of permissible real estate; sections 87(4)(c) and 30(6)(c). The Guideline is being issued to provide clarification on the approval for real estate activities as contemplated in these sections. Insurers are required to obtain approval pursuant to section 30(7) of the Act to conduct the businesses listed in section 30(6) of the Act. Failure to do so will result in action by the Inspector of Financial Institutions (Inspector) in accordance with section 30(8) of the Act including directives to discontinue such form of business. Also note section 155 of the Act grants the Inspector powers to issue compliance directions. The Bank will consult with the industry/relevant insurer prior to issuance of any compliance directions, as is standard practice.</p> <p>b. See comment above. It is not necessary to be aligned to Capital Adequacy Regulations. The Guideline is ensuring that the insurer is not in the business of real estate, as is contemplated in section 30 of the Act, whereas the Capital Adequacy Regulations is intended to capture the risks to ensure adequate capital exists.</p>
16.	3.12(a)	To all insurers, by way of notice, to amend the twenty-five percent (25%) threshold referred to in section 3.5(b) consequent to changes in the real estate investment market and their inherent risks. ⁴	Section 30(8) applies to a form of business which is not listed in sub-section (6) or is contrary to the interest of policyholders, is an action to amend the twenty-five percent (25%) threshold contemplated by this section?	<p>This section was removed from the final Guideline on account of the amended application process.</p> <p>Please refer to section 3.6 of the final Guideline. The actions taken by the Central Bank or Inspector of Financial Institutions will be relevant to the issue at the time and in the interest of policyholders.</p>

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17.	3.12(b) (Refer to section 3.6 of the Final Guideline)	Notwithstanding this Guideline, pursuant to sections 30(8) and 155 of the Act, the Central Bank or the Inspector of Financial Institutions can issue directions where deemed fit. In accordance with section 30(8) of the Act, where the Central Bank is of the opinion that the real estate activity is contrary to the interest of policyholders, the Central Bank shall direct the insurer to discontinue such activity or take such other action as it deems fit, within such period as the Central Bank may determine.	<p>There must be clear guidelines for the action of "as it deems fit" as it can be detrimental to the real estate market, local economy and insurer.</p> <p>All investment classes experience dislocations at some time as the business cycle/ economy ebb and flow and hence the use of diversification for risk management. It is therefore advisable that underlying factors are carefully considered where a section (b) direction is being considered. Any restriction or conditions imposed on specific insurers should be clearly justified and based on sound reasoning.</p> <p>It should be noted that investment in T&T public equity market which has been more volatile and illiquid than real estate are not subject to similar provisions.</p>	<p>This would be in extreme circumstances and is to a specific insurer, this will be pursuant to section 155 of the Act, compliance directions, where the Inspector will demonstrate clearly the concern/risk arising and his/her considerations for the directions.</p> <p>The due process for directions pursuant to section 155 of the Act is after the matter is explicitly raised with the entity, and there has been extensive communications on the issue and a justification is provided for the directions. There is not a predictable list of scenarios that may occur for the industry or the insurer, and some actions may include but is not limited to: selling the asset, increasing capital, transferring asset, or a combination of any of these.</p>
18.	3.13 (Refer to 7.1 of the Final Guideline)	The factors considered by the Central Bank mentioned in this Guideline are not exhaustive and additional factors may apply relative to the specific circumstances and risks.	<p>Must be based on objective and specific consistent factors as anything else maybe open to potential bias.</p> <p>It would be helpful to understand the parameters CBTT will apply for its approvals process.</p>	This is covered in the Guideline, under sections 6 and 7. The general parameters are as laid out in the Guideline, however the Bank will be prudent in applying the general parameters of the Guideline as well as consider the specific nature, size and complexity of the entity as may be applicable in the circumstance. Should there be an unusual circumstance, the Bank as part of its due process will consult with the entity on the specific concerns and provide a justification for any additional factors that may apply.

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19.	4.1	Insurers must implement sound investment management policies and frameworks as set out in the Central Bank's Prudent Person Approach to Investment and Lending Guideline. Consequently, insurers that engage in real estate activities must establish a Board-approved Real Estate Investment Policy (Policy) or amend its Policy to incorporate <i>inter alia</i> consideration of the risks outlined in Section 5 of this Guideline as well as the following requirements:	CBTT's prudent person approach applies to all investment and lending activities, not merely to real estate, which insurers investment policies take into consideration.	Agreed, it is the Bank's expectation that the Company will review the guideline and implement all applicable measures in its investment policy.
20.	4.1 (d)	Where an objective assessment of the risks is likely to be difficult and costly, investment in real estate activity must be kept at prudent levels. This is necessary as the limit for the maximum aggregate value of interest in real estate to the adjusted assets (i.e. 30% of Adjusted Assets) for the purpose of capital adequacy calculations as prescribed in Schedule 1 of the Insurance (Capital Adequacy) Regulations, 2020, may not fully and appropriately reflect the risk profile of the investment.	This rationale can be extended to all investment classes.	Point noted. Insurers are expected to apply this consideration.
21.	5.1 (Refer to 5.2 of the Final Guideline)	The insurer's investment of policyholders' funds must not create undue risk that would significantly impact the insurer's risk profile and its ongoing viability. The Board and Senior Management should have robust policies, procedures and systems in place to approve, monitor, manage, control and report on the risks associated with real estate activities. Consequently, in assessing real estate activities, an insurer's consideration of the risks must include	How does excess capital factor into this guideline so that insurers can use their equity capital for real estate investments?	As referenced in the Guideline and pursuant to section 30 of the Act, insurers should be engaged in the business of insurance only, and allocating a significant amount of capital to real estate activities signals a business model that is not aligned to the insurance business only. Excess capital has to be suitably invested as high-risk investments places the entire capital of the insurer at risk. While real estate is an asset, it is a fairly illiquid asset from a risk and ALM perspective, consideration should be given and limits imposed, to ensure continuity of the insurer's operations through viability of the insurer's investments to meet policyholder's interest and maintain stability of the market

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22.	5.1 (h) (Refer to 5.2 (h) of the Final Guideline)	Any other risk that may be determined by the Central Bank depending on the nature of the real estate investment and at the point in time.	These "any other risk" need to be identified, specific and objective, what other risk are there as it pertains to S30(6) (c). & S30 (7).	Insurers must consider all existing and emerging risks that exist within the insurer's business or in the sector. The Guideline captures the general risks that may exist, however each application is assessed on a case by case basis and risks are determined based on the particular situation. Risk management is a dynamic process and the Bank, as a prudent regulator must ensure current and potential emerging risks are addressed as a part of its risk based supervisory process, therefore, it is not practical to include an exhaustive list of risks that may only exist in particular circumstances.
23.	5.2 (Refer to 5.3 of the Final Guideline)	The Central Bank may impose conditions on the registration of the insurer to ensure that any risks arising from real estate activities are managed through	Please specify the conditions that may be imposed.	These will be on a case by case basis specific to the insurer's situation or emerging risk in the sector as may be applicable at the point in time and will be determined in the assessment of the application. The Central Bank will follow due process as it relates to the imposition of any such conditions, and discuss with the entity, risk mitigation matters prior to imposing any such conditions.
24.	6.1 (a) (refer to 7.2(b) of the Final Guideline)	The requisite specialist knowledge in the management of the particular real estate activity resides either within the insurer or within the real estate entity, as appropriate, depending on the nature of the real estate activity.	Please specify the special knowledge that must serve within the Insurer or real estate entity.	The requisite specialist knowledge depends on the nature of the real estate activity, and what is appropriate. The person managing the real estate activity must have relevant experience in the management of the type of real estate activity that they are overseeing. These are in the event of unusual real estate activities e.g. in speciality industries.

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25.	6.1 (c) (refer to 7.3 (a) of the Final Guideline)	where the real estate entity is acting as a lessor, the lease provides a regular, long-term and contractually secured income and the lessee is of a good credit standing. For example, the leasing of apartments, houses and office buildings would only be considered as profitable where rental fees have not been more than three (3) months in arrears at least once in each of the last five (5) years	<ul style="list-style-type: none"> a. How is "a good credit standing" defined/ determined? What if the rented property is leased to tenants within the low income bracket or persons/ entities without credit ratings? Are Insurers now being restricted to only renting to a certain economic class? b. How is regular and long term defined/ determined? Are insurer to be restricted from investing in vacation rentals? c. What is the basis for this metric? It should be noted that depending on the purchase price/ upkeep cost, capital cost, rental price etc., a property can be unrented for > 6 months and be very profitable. e.g. vacation rentals etc. 	<ul style="list-style-type: none"> a. Credit standing means the record of a person or company relating to the payment of debt. As such the wording in this section refers to the timely payment of rents as evidenced by the example given in the section and not the economic standing of the lessee. The absence of timely payments results in impairment of the real estate activity. b. The definition of long term is provided in the Guideline i.e. in accordance with IFRS 16: An agreement with a duration of over twelve months is considered long-term. Note that section 7.3 (a) of the Guideline refers to "where the real estate entity is acting as a lessor". As such, if this is applicable in the case of vacation rentals, it is expected that the real estate activity still provides a regular, long-term and contractually secured income. c. The point is noted. Note that section 7.3 (a) of the Guideline refers to "where the real estate entity is acting as a lessor..." The example refers to where the rent is in arrears; note that if the property is unrented the entity will not be a lessor and the rent will not be in arrears. The example given is not meant to be prescriptive and should a vacation rental be profitable despite being vacant for greater than six months, evidence of the same should be submitted together with the application to demonstrate efficient Management.
26.	6.1 (f) (refer to 6.1(c) and 7.2(e) of the Final Guideline)	The real estate activity does not lead to the insurer breaching the credit exposure limits and capital adequacy requirements in the Act and/or the Insurance (Capital Adequacy) Regulations, 2020, respectively	In our view a "real estate investment" is not considered a "credit exposure" as per the definition of credit exposure in the Act; as such we fail to see how real estate investments could impact the credit exposure limits in the Act. We note that there are specific limits in the Capital Adequacy Regulations which limit "real estate investments", separate and apart from the credit exposure limits in the Act. Further, please explain who the counterparty would be for a real estate investment. If an investment property is leased to several tenants, it is unclear to us how this should be classified in terms of credit exposure to a particular counterparty.	<p>Credit exposures may arise in specific circumstances for example the insurer extending a loan to a real estate subsidiary will meet the definition of a credit exposure and as such subject to the limits in the Act.</p> <p>Please note that the Guideline is intended to cover all types of real estate business and as such each requirement may not apply to every type of real estate activity for example real estate property on the balance sheet of an entity will not incur a credit exposure.</p> <p>Depending on the nature of the real estate activity as defined in the Guideline, there can be counterparty exposures. Please refer to the definition of real estate activity in the Guideline.</p>

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27.	6.1 (h) (refer to 7.2 (g) of the final version)	The real estate activity is not contrary to the interest of policyholders. This will be determined by assessing the level of risk exposures, including, but not limited to those detailed Section 5 of this Guideline	<p>a. Are Policyholders Funds held by NIB subject to the same/ similar Real Estate guidelines/ limits and requirements?</p> <p>b. Does the guideline intend that if an insurer wants to invests its excess shareholders capital in RI going forward it should take the excess capital out of the business i.e reduce the capital of the company which thus ultimately increases policyholders' risk?</p>	<p>a. The Central Bank pursuant to the Act does not regulate the NIB. The comment is not clear as NIB does not hold policyholder funds.</p> <p>b. The Directors and shareholders have a duty to act honestly and in good faith and shall take into account the interests of the policyholders and shall maintain adequate level of capital commensurate with the risks of the entity, the nature size and complexity of the operations. The Guideline provides guidance on the governance and risk management aspects of real estate activities and outlines the Central Bank's considerations in accordance with the requirements as it pertains to real estate.</p>
28.	6.1 (l) (refer to 7.2 (h) of the Final Guideline)	in the case where an insurer is carrying on the business of holding, managing or otherwise dealing in real estate directly, i.e. where the business is not conducted through a real estate entity and the real estate is an asset included in the insurer's Statement of Financial Position, the insurer shall maintain appropriate records for each asset to clearly identify capital invested and the returns attributable to the real estate assets inclusive of amounts payable and receivable	<p>Please help us understand the rationale for this requirement.</p> <p>We do not see the need to maintain separate books, registers, and records from our insurance business for real estate investments. A Real Estate Investment is an asset for which we keep appropriate records to facilitate our financial reporting, similar to any other asset</p> <p>It is arguable that real estate investments constitute different assets from operational assets such as equipment and FFF and should therefore be recorded in separate registers.</p>	<p>Section 7.2 (h) was amended to include:</p> <p>the insurer shall maintain appropriate records for each asset to clearly identify capital invested and the returns attributable to the real estate assets inclusive of amounts payable and receivable The following was added to the Guideline as section 7.3 (i):</p> <p>In the case of real estate entities that are subsidiaries or joint ventures, their business, books, registers and records must be separate from the insurance business and there must be no commingling. Therefore, the accounting and records of real estate entities must be kept separate from the insurance business</p>
29.	6.1 (n) (refer to 7.2 (i) of the Final Guideline)	Any other requirement as may be determined by the Central Bank depending on the nature of the real estate activity and relevant circumstances.	It would be helpful for CBTT to be more specific and define a set of objective requirements.	As stated in the Guideline, each application is considered on a case by case basis and as such in the interest of prudent risk based supervision the Bank cannot provide an exhaustive list of considerations as each application will be unique in its own regard.
30.	7 (Refer to 8 of the Final Guideline)	Information to be submitted with application to engage in real estate activities	Section 7 outlines the application process however, no timelines are specified for the Central Bank's response once all required information is submitted. Can an estimated timeline statement be included?	The timeline will not be stated in the Guideline, the Bank has performance standards that it adheres to in order to appropriately deal with the applications.

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31.	7.1 (g) (Refer to 8.1 (c)(vi) of the Final Guideline)	The Appointed Actuary's report and opinion on the nature and the suitability of the real estate activity to support policyholders' liabilities having regard to ALM;	<p>a. What if the investment purpose is to utilise excess shareholders funds and or other than for ALM?</p> <p>b. The requirement for the Appointed Actuary to issue a report and an opinion on the nature and suitability of the real estate investment to support policyholders' liabilities seems onerous. It is well accepted that real estate investments are suitable assets to support insurance liabilities (as noted under Section 1.4 of the draft Guideline).</p>	<p>a. The investment impacts the policyholders' liabilities and an actuary's opinion on the suitability of the real estate investment to support policyholders' fund is required. See previous comments above.</p> <p>b. The opinion of the Appointed Actuary is a one-time requirement and in the interest of proper risk management the opinion of the Appointed Actuary is required. While real estate activities are suitable assets each real estate activity is unique and as such to ensure prudent ALM and secure the interests of policyholders the opinion is required. The Actuary must consider the nature of the assets to meet the policyholders' liabilities.</p>
32.	7.1 (i) (Refer to 8.1 (c) (viii) of the Final Guideline)	Copies of the reports reviewed and relied on by the Board to determine that the real estate activity is aligned to this Guideline and to issue their approval of the activity, including copies of extracts of the Board Minutes in which the matter was discussed and a copy of the Board Resolution;	For cases where real estate investments were made many years ago it may be difficult to provide the documentation required under this subsection. We suggest that real estate investments made before the proclamation of the Act should be grandfathered.	<p>The requirements will remain as the documents listed in this section should be on hand in a prudently managed insurer and real estate entity.</p> <p>In the event that the documentation is not available, as part of the insurer's ongoing investment management practice, in the circumstance the Board should take appropriate action to ensure the requisite documents exists accordingly and the insurer will be required to present its case to the Central Bank. Refer to section 9 of the Guideline on transition requirements. The legislation makes no provision for grandfathering the prohibition.</p>
33.	7.1 (k) (Refer to 8.1 (c) (x) of the Final Guideline)	A detailed report on the assessment of how each factor set out in Section 7 of this Guideline have been addressed;	<p>How does one demonstrate in an application how they've satisfy section 6 when there are no specific criteria mentioned here?</p> <p>This requirement seems onerous.</p>	The Board must ensure that the factors set out in section 7 of the Guideline have been considered and report on its assessment of each factor and any other that they consider applicable. In the event that the Central Bank requires further information this will be communicated to the insurer, and they will be allowed the opportunity to make representations.
34.	7.1 (l) (Refer to 8.1(c)(xi) of the Final Guideline)	any other information requested by the Central Bank as it considers necessary.	What other information "may be necessary" which CBTT is unable to indicate/ outline within this guideline? CBTT must be able to define the information to be provided which must be, specific, defined and objective.	<p>As stated above real estate activities are dynamic and each application is treated on a case by case basis. The Guideline sets out the minimum requirements but it is not exhaustive.</p> <p>The Central Bank will follow due process as it relates to any further information that may be required.</p>

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35.	7.2 (Refer to 8.2 of the Final Guideline)	All insurers are required to comply with the continuous assessment criteria outlined in Appendix I. Where the Central Bank ascertains that there is undue risk to policyholders, the Bank may take such action as may be permitted under the Act and pursuant to the inherent powers of the Central Bank to remedy such situation, including, but not limited to, requiring an insurer to discontinue the carrying on of the business of holding, managing or otherwise dealing in real estate either directly or through a permissible real estate entity pursuant to section 30(8) of the Act.	How will this be determined?	This will be on a case by case basis, as each insurer's circumstance is unique, however where there is undue risk to policyholders, the Bank follows the due process and will communicate with the insurer, allowing the insurer the opportunity to consider the issue and make representations.

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36.	8.2 (Refer to 9.2 of the Final Guideline)	<p>Insurers that engaged in real estate activities prior to the date of issuance of this Guideline, will be allowed a transition period of up to one (1) year to:</p> <p>(a) implement and/or update all relevant policies and procedures or effect any required organisational changes as set out in this Guideline; and</p> <p>(b) submit an application to the Central Bank for approval of such real estate activities in accordance with this Guideline.</p>	<p>a. Please confirm whether approval is only required for existing real estate investments (acquired prior to the issuance of this Guideline) where the aggregate value of all real estate investments is more than 25% of adjusted assets.</p> <p>b. What is the rationale for approving real estate investments acquired prior to the guideline and /or new Act?</p> <p>Is there consideration</p> <ul style="list-style-type: none"> - For the investments acquired prior to the guidelines to be grandfathered; - To allow current investments meeting the qualifications which have been on the books existing for a certain period to not require any submissions? - For only investments meeting qualification after a relevant period to be required to apply for approvals under the guidelines? <p>Note: The IA 2018 and the insurance Capital Adequacy regulations make provision for transitional capital ratios.</p> <p>Is it unreasonable for CBTT to provide for transitional arrangements in regulations associated with the parent act?</p>	<p>a. The application process outlined in the Guideline was expanded to include two (2) levels of approval, a First Level Approval and a Second Level Approval. The former relates to the requirement for approval in instances where the aggregate value of the investments in carrying on the business of holding, managing or otherwise dealing in real estate in accordance with section 30(7) of the Act, is 25% or less of the insurer's Adjusted Assets. Such First Level Approval requires a simplified process, requiring an attestation by the Chairman of the Board of Directors of the insurer that certain conditions exist.</p> <p>The Second Level Approval, relates to the requirement to obtain prior approval in instances where an insurer proposes to invest in real estate activity where the aggregate value of such investment will exceed twenty-five percent (25%) of the insurer's Adjusted Assets. In making the application for Second Level Approval, an insurer should take into account, at a minimum, the matters outlined in the Guideline.</p> <p>b. The Act does not make provisions for grandfathering. Therefore, in accordance with the requirements of sections 30(6)(c) and 30(7) of the Act an insurer cannot carry on the business of holding, managing or otherwise dealing in real estate without prior approval of the Central Bank. As such, irrespective of when the investment was acquired approval of the Central Bank is required.</p> <ul style="list-style-type: none"> i. The Bank has considered investments made prior to the implementation of the Act and allowed a one (1) year transition period for these investments as specifically stated in section 9.2 of the Guideline. ii. Insurers must apply the Guideline as at the effective date, and consider the aggregate real estate held as at that date and not individual real estate activities. iii. Further, section 30(8) of the Act supports approving the real estate activities retroactively.

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APPENDIX I – CONTINUOUS ASSESSMENT CRITERIA				
37.	1(b)	Updated valuations of real estate assets that are directly owned by the insurer, performed by a qualified valuer at least every three (3) years or such shorter period as may be determined by the Central Bank	S 143 (b) specifies the conditions under which a shorter valuation period for real estate investments may be required. How would a volatile and significant fluctuation be measured so as to require a shorter valuation period?	<p>There is no set criteria as each real estate investment is unique however consideration will be given to the size and complexity of the real estate investment when determining whether any fluctuations in the value of real estate is significant and volatile.</p> <p>Further, insurers will be guided by the external auditors in ensuring the values of the assets are supported by independent confirmations.</p>
38.	1(c)	For all permissible real estate entities, updated strategic and operational business plans every three-years	These are supposed to be long term investments 15+ years and thus what is the rationale to relook every 3 years unless the asset is impaired as this will be covered by GAAP?	<p>The requirement is for Real estate entities and not direct real estate holdings. A real estate entity is an entity separate from the insurer that is solely engaged in the business of holding, managing or otherwise dealing in real estate. As such it is expected that prudent management of a real estate entity would entail the periodic review and update of the company's strategic and operational business plan, hence the requirement.</p> <p>The prohibition is on the business of holding managing or otherwise dealing in real estate, as such it must be demonstrated that the business strategy of the insurer and the entity has not changed, the rationale is not to determine the value of the asset on the balance sheet.</p>
39.	2	All information in respect of any changes in: (a) the nature of the real estate activity; (b) the risk of such activity; and (c) the information contained in the most recent application or update provided to the Central Bank, including information related to increase in values due to market value fluctuations.	Should consideration be given to the materiality of the change?	Any changes in the prescribed items are to be submitted to the Central Bank.

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GENERAL COMMENTS				
40.		-	<p>Generally, we are of the opinion that some of the requirements of the draft Guideline are onerous, bureaucratic and detrimental to the business of insurers/ the industry and the real estate market of T&T.</p> <p>The draft Guideline is silent on the CBTT's approval process. What is the expected timing? If prior approval from the CBTT is required, timing would be important as investment decisions may need to be made relatively quickly by an insurer otherwise potential opportunities may be lost.</p>	<p>This Guideline is intended to provide guidance for insurers on the governance and risk management aspects of their real estate activities pursuant to the requirements of the Act and to outline the Central Bank's considerations in assessing the applications for approval made in accordance with these requirements of the Act.</p> <p>Insurers intending to invest in real estate activities are expected to consider all the risks, and as such decisions of this nature will require proper analyses and risk and approvals both internally and from the regulator.</p> <p>Having been aware of the requirements, the applications must be made allowing for the requisite time. Insurers must consider at a minimum what is included in the Guideline and exercise their due diligence in arriving at the most appropriate decision.</p>
41.			<p>Consideration should be given as to whether this Guideline should be directed to long-term insurers as general entities are still required to comply with the IA2018 relative to real estate investments.</p>	<p>The Guideline was not solely directed to long-term insurers as the Act does not specify the same.</p> <p>The requirements relative to real estate activities are for all insurers.</p>

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42.			<p>While the CBTT has the authority to provide guidelines and interpretations it is crucial to ensure that these guidelines do not inadvertently contradict or alter the original intent of the Act. The ability to allocate real estate to capital and not just policyholder liabilities may be an important consideration for insurers.</p> <p>Perhaps consideration can be given to the Solvency II philosophy to investments which is less prescriptive - see article 132 of solvency ii, and applies a "prudent person principle" for an insurance company's whole investment portfolio of assets. https://www.skadden.com/insights/publications/2024/04/the-standard-formula-a-guide-to-solvency-ii-chapter-6</p> <p>Alternatively, the Swiss Finma investment guidelines or the NAIC insurers investment model can be considered</p>	<p>International best practice was considered in the development of the Guideline and adapted to fit the Trinidad and Tobago regulatory landscape and insurance industry.</p> <p>The purpose of the Guideline is not about the investment portfolio, but setting the parameters for engaging in real estate activities, which is not insurance business, pursuant to section 30 of the Act, and also as stated in section 3, the Guideline outlines the considerations for the approval required in section 30(7) of the Act.</p> <p>The Guideline is principle based and where necessary a prescriptive approach was taken.</p>