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March 5, 2024

**Circular Letter to**
*Insurance Companies Registered Under the Insurance Act, 2018*

**REF: CB-OIFI-663/2024**

**Integrating IFRS 17**
**into the Capital Framework and Financial Condition assessment**

As previously communicated, the Central Bank of Trinidad and Tobago (Central Bank/Bank) has adopted a policy framework where insurers are required to align the financial reporting standards used for their regulatory returns with those used for the audited financial statements presented to shareholders. In keeping with this policy, consequent upon the coming into effect of International Financial Reporting Standard 17 – Insurance Contracts (IFRS 17), revised annual regulatory returns (IFRS 17 annual returns) were issued to the industry by way of circular letter dated January 31, 2024.

The Bank has considered the representations received to date from the industry on its earlier public consultations of various modifications to its reporting, regulatory capital and related regulations required to integrate IFRS 17 and is now releasing the following to the industry:

a. Instructions for the Appointed Actuary (AA) herein issued pursuant to powers of the Inspector of Financial Institutions (Inspector) under section 11(1)(f) of the Insurance Act, 2018 (the Act);
b. Instructions for completing the existing Capital Adequacy Returns based on the requirements of IFRS 17 and the current Insurance (Capital Adequacy) Regulations, 2020;
c. Draft amendments to the Insurance (Capital Adequacy) Regulations, 2020, which are issued for the second round[1] of consultation; and
d. Additional Parallel Run Capital Adequacy Returns herein issued pursuant to the powers of the Inspector under sections 145(1) and 145(3) of the Act.

## 1. Instructions for Appointed Actuaries (AAR Instructions) Issued

The Central Bank's review of an Appointed Actuary's report (AAR) is a key component of its assessment of an insurer's financial position, condition and risk profile and is vital to its ability to benchmark insurers and for its macro-prudential work. The representations received from the industry stakeholders on the draft guidelines for appointed actuaries were considered, and are summarized in APPENDIX 1. These considerations are now incorporated into the AAR Instructions and relevant Schedules that are issued (Attachments 1 – 4). The AAR Instructions, is applicable for AARs related to annual reporting periods beginning on or after January 1, 2023, and sets out:

- The purpose of the AA's valuation and report in the context of IFRS;
- The required format and minimum contents of the AAR and requirements for the actuarial certificate; and
- The standards of actuarial practice specified by the Inspector applicable to the AA's valuation and the AAR.

[1] The first round of the consultation was launched via letter dated July 14, 2022

For the first submission of the AAR required under the AAR Instructions, the AA should comply with the instructions on a best-efforts basis while bearing in mind the objectives of the AA's valuation set out in Section 2.1.1 of the AAR Instructions. The AA is however **required at a minimum**, to comply with standards of accepted actuarial practice and conform to the form of certification set out in the finalized Appendices to the AAR Instructions.

## 2. Instructions for Existing Capital Adequacy Returns Issued

IFRS 17 is compatible for use for regulatory capital assessment using the total balance sheet approach promoted by the International Association of Insurance Supervisors (IAIS). In this regard, no changes were made to the existing Capital Adequacy forms in the IFRS 17 annual returns issued on January 31, 2024. However, the Bank has issued instructions for completing the Capital Adequacy forms, based on the IFRS 17 balance sheet and current Insurance (Capital Adequacy) Regulations, 2020, which are set out in APPENDIX 2 and with which insurers are required to comply.

## 3. Draft Amendments to Insurance (Capital Adequacy) Regulations and Additional Parallel Run Capital Adequacy Returns Issued

The Central Bank continues to assess how additional use of prudential filters, re-calibration of the risk factors and minimum regulatory capital ratio and net tier 1 ratio targets might further advance the goals of the regulatory capital framework. Accordingly, the draft amendments to the Insurance (Capital Adequacy) Regulations have been updated and are herein being released for further consultation with the industry (Attachments 5 & 6). These changes in the draft amendments, including preliminary test changes to the risk factors, have been incorporated into the additional Parallel Run Capital Adequacy Returns issued herein (Attachment 7).

## 4. Submissions for the Parallel Run & data collection

Pursuant to section 145(1) of the Act, the additional Parallel Run Capital Adequacy Returns are required to be completed and submitted along with the annual returns for annual reporting periods ending on or after December 31, 2023.

Pursuant to section 145(3) of the Act, the un-audited quarterly Parallel Run Capital Adequacy Returns and recalculated credit exposure CB105i forms, should be completed and submitted as follows:

1. As at the insurer's IFRS 17 transition date – by April 30, 2024;
2. For the quarter ended December 31, 2023 – by April 30, 2024;
3. For the quarter ending March 31, 2024 – by May 31, 2024; and
4. For quarterly reporting periods ending on or after June 30, 2024 – within twenty (20) business days following the end of the quarterly reporting period.

All insurers, regardless of their year-end, should comply with this quarterly reporting requirement. The results of the parallel run and data collection exercise will assist the Central Bank to:

- complete the re-calibration of the factors and target ratios;
- assess the level of consistency in the discount rates being used;
- compare the level of required capital with risk margins being held;
- assess the variability across the industry of insurers' required compensation for risk as measured by the risk margins; and
- evaluate the need and scope for new transition arrangements.

The Central Bank reiterates that the revised risk factors are preliminary and are for test purposes only.

## 5. Consultation on draft amendments to the Insurance (Capital Adequacy) Regulations and Parallel Run Capital Adequacy Returns

The Bank encourages the industry to provide feedback on the draft amendments to the Insurance (Capital Adequacy) Regulations and on the associated Parallel Run Capital Adequacy Returns as part of the consultation process. Insurers are required to provide their feedback on or before April 30, 2024 using the template outlined in APPENDIX 3.

## 6. Financial Condition assessment by the Appointed Actuary

The Central Bank reminds insurers of the requirement under section 82(1) of the Act whereby insurers must hold adequate capital, and adequate and appropriate forms of liquidity. The regulatory capital prescribed by regulations are **minimum** amounts (tier 1 and total capital) and are not sufficient criteria to be used in assessing the adequacy of capital and compliance with sections 82 and 84 of the Act.

The AA's financial condition assessment involves testing the level of capital under various stresses/risks to determine whether or not the insurer's capital adequacy and liquidity criteria are met. Pursuant to regulation 4(4) [2], the insurer must set the criteria for capital adequacy and liquidity to be used for the stress testing and in doing so should incorporate the following considerations:

a. in keeping with section 82(1) of the Act, the criteria must deal with more than just the minimum regulatory thresholds[3];
b. The criteria should be established in the context of economic principles and inter alia the insurer's risk tolerance and its business strategy and objectives; and
c. The projections should be based on the insurer's IFRS accounting policies and the impact of the insurer's dividend payment policy and practice should be assessed.

## 7. Dividend Payments (Section 84 of the Act)

An insurer must have systems and processes in place, and the board of directors and management should have expert advice to ensure the adequacy of capital given its risk profile, business plans and the external environment. The Central Bank considers that the AA's continuous financial condition assessment and report are vital aspects of an insurer's risk and capital management process. Section 11 of the FCR Regulation was drafted with this in mind and gives the AA a continuous role in monitoring and advising the insurer. This is consistent with the AA's obligation under section 159(4) of the Act. Insurers should remind the AA of the obligation to continuously monitor and to report any matters that could have material adverse effects on its financial condition and may require urgent corrective action.

In light of the above, prior to proposing a dividend, insurers must assess whether or not a proposed dividend to shareholders and the associated reduction of capital will meet the criteria of section 84 of the Act, or threatens the insurer's financial condition. As such, insurers are recommended at a minimum to fulfil the following and ensure supporting documentation are maintained:

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[2] Regulation 4(4) of the Insurance (Financial Condition Report) Regulations, 2020 (FCR Regulation) states that "An insurer shall establish criteria for capital adequacy and liquidity appropriate to its insurance business in accordance with the Act and Regulations made thereunder and the investigation made under regulation 4 and the financial condition report shall be based on these criteria."

[3] This is particularly important in the current circumstances where the required capital framework has not yet been fully modernized and is factor based and thus may not appropriately reflect the risk profile of an individual insurer. Furthermore, the regulatory thresholds are calibrated as triggers for stronger regulatory action and not intended to represent a measure of adequate capital to fund strategic and other risks not covered by the regulatory formula.

- establish internal criteria for satisfactory financial condition/capital adequacy based on the advice of their AA;
- seek the advice of their AA as to whether or not implementation of the proposal could threaten the insurer's financial condition/capital adequacy based on the criteria;
- obtain supporting documentation for the AA's advice in the form of an update to their most recent financial condition assessment and report; and
- ensure that the AA meets with the board of directors in person to discuss findings and recommendations.

Where the regulatory capital ratio falls below the minimum calculated on the existing Capital Adequacy Returns, but would be above the minimum based on the Parallel Run Capital Adequacy Returns, and a proposal to pay a dividend is being made:

- The insurer must bring any such proposal to the attention of the Central Bank at least 20 business days before declaration;
- The insurer must demonstrate that the reduced regulatory capital ratio on the existing Capital Adequacy Returns are due to the change to IFRS 17 accounting; and
- The relevant documents referred to in the paragraph above and meeting minutes to support the decision must be submitted to the Central Bank.

## 8. Quarterly Returns

Insurers are required to continue submitting Quarterly Returns, until amended Forms for the Quarterly Returns are issued by the Bank.

## 9. Submission of Documents

In addition to the submissions required by this letter, further to the circular letter dated January 31, 2024, the Bank expects that all insurers would seek to ensure that the AAR (required under sections 158 and 215 of the Act) and FCR (required under sections 159 and 214 of the Act), for the financial year ended December 31, 2023 are submitted no later than June 30, 2024. For ease of reference, all of the submissions required by this letter are detailed in APPENDIX 4.

All documents must be submitted in both hardcopy and electronic form as follows:

i. The hardcopies (1 copy of each document) are to be forwarded to:
The Inspector of Financial Institutions
Financial Institutions Supervision Department
Central Bank of Trinidad and Tobago

ii. The electronic copies must be forwarded by e-mail to:
insurance_reports@central-bank.org.tt

Any queries may be forwarded electronically to: IFRS17@central-bank.org.tt

## 10. Next Steps

The Central Bank will review the following submissions from insurers:

1. Feedback from the consultation on the Draft Amendment to the Capital Adequacy Regulations;
2. the unaudited quarterly Parallel Run Capital Adequacy Returns;
3. the audited annual returns; and
4. Financial Condition Reports.

Following this, the Insurance (Policy Liabilities) Regulations, Insurance (Financial Condition Report) (Amendment) Regulations and the Insurance (Capital Adequacy) (Amendment) Regulations would be finalized by the Central Bank and submitted to the Minister.

**11. Attachments**

The following documents, referred to above, are attached to this letter:

1. Instructions for Appointed Actuaries - Requirements for the Valuation, Reporting and Certification of Policy Liabilities and Other Actuarial Liabilities for Insurers writing Long-Term Insurance Business (section 1 of this letter);
2. Schedules to the Appointed Actuary's Report for Long-Term Insurance Business (section 1 of this letter);
3. Instructions for Appointed Actuaries - Requirements for the Valuation, Reporting and Certification of Policy Liabilities and Other Actuarial Liabilities for Insurers writing General Insurance Business (section 1 of this letter);
4. Schedules to the Appointed Actuary's Report for General Insurance Business (section 1 of this letter);
5. Draft amendments to the Insurance (Capital Adequacy) Regulations, 2020 (marked-up version) (section 3 of this letter);
6. Draft amendments to the Insurance (Capital Adequacy) Regulations, 2020 (clean version) (section 3 of this letter); and
7. Revised Capital Adequacy workbook with amendments for IFRS 17 (section 3 of this letter).

These documents will also be posted on the Bank's public website at https://www.central-bank.org.tt/core-functions/supervision/insurance-sector

Please ensure that relevant personnel in your institutions are advised of the contents of this letter. We anticipate your continued co-operation and look forward to your feedback.

Yours sincerely,

Patrick Solomon
**INSPECTOR OF FINANCIAL INSTITUTIONS**

**cc** Appointed Actuaries
Association of Trinidad and Tobago Insurance Companies (ATTIC)
Institute of Chartered Accountants of Trinidad and Tobago (ICATT)
Caribbean Actuarial Association (CAA)

**APPENDIX 1**

**Responses to Industry Comments on the Draft Guidelines for Appointed Actuaries - Requirements for the Valuation of Policy Liabilities and Other Actuarial Liabilities for Long-Term Insurance and General Insurance Business**

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
|---|---|---|---|
| **Guideline for Appointed Actuaries for Valuation of General Insurance Business:** | | | |
| 1 | 1 - Definitions | "*Standards of accepted actuarial practice*" – what about APS 4 and APS5? | These standards will also apply. The intention was to stipulate the more general actuarial standards and any others that are specific to the type of business or other non-general aspect, would fall under the catch all of (iii) for the standards of accepted actuarial practice as specified by the Inspector in Section 2.4. Application of Professional Standards to the Appointed Actuary's Valuation. |
| 2 | 2.2 - Application and Scope | It states, "The AAR should form a key part of the valuation control process and should, therefore, provide a record of the justifications underlying key decisions made in the process in sufficient detail to enable an informed audience (such as a reviewing actuary) to assess whether the documented process, data, assumptions and outcomes are reasonable." contradicts a later sentence "The AAR is not solely a report from the insurer's AA to the IOFI. It is also intended for the insurer's management team and will be read by employees of the Central Bank who may not be actuaries but who are knowledgeable about insurance."<br><br>A reviewing actuary would be far more technical in expertise, while a report for Management will be at a much higher level and simpler to understand. It is therefore impractical to fulfil both requirements. | Management is responsible for the valuation under IFRS. Therefore, the Appointed Actuary's Report (AAR) should not be unduly technical. Management is expected to understand the fundamentals of the valuation and be in a position to discuss and decide on whether or not to accept the advice of the actuary.<br><br>The sentence highlighted was therefore amended to read: "The AAR should form a key part of the valuation control process and should, therefore, provide a record of the justifications underlying key decisions made in the process in sufficient detail to enable an informed audience (such as the insurer's management and regulator) to assess whether the documented process, data, assumptions and outcomes are reasonable."<br><br>In light of the above amendment, the sentence "The AAR is not solely a report from the insurer's AA to the IOFI. It is also intended for the insurer's management team and will be read by employees of the Central Bank who may not be actuaries but who are knowledgeable about insurance" was deleted. |
| 3 | 2.2 - Application and Scope | Most appointed actuaries (AA) would be external to the company and would rely on the company for verifications or reconciliations. We believe that these Guidelines should be flexible for the actuaries to disclose where they relied on others. | This is addressed in Section 2.4. which deals with the application of standards of accepted actuarial practice, and in particular, where the AA must meet a standard of care with respect to the data used in valuations. The AA is required to take reasonable steps to review the consistency, completeness and accuracy of the data used. |

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
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| 4 | 2.2.1 - Reconciliation to the Corresponding Annual Return Liabilites | What if the Company decides to hold higher policy liabilities than estimated by the AA? | The AA is not estimating the liabilities, the AA's role is to opine on whether or not the insurer's numbers are appropriate. The numbers are to be considered to be appropriate if they comply with IFRS, applicable legislation and directives or instructions of the IOFI. Amendments were made to this section for further clarity. |
| 5 | 2.4 - Application of Professional Standards to the Appointed Actuary's Valuation | "Where an AA uses another person's work regarding the accuracy of the data used in the valuation, the AA, in addition to fulfilling the requirements of standards of accepted actuarial practice, shall obtain a signed statement from the other party(ies) in the following format and include the signed statement(s) below in Section 5.7 of the AAR." We believe that this requirement for a formal statement from the Company is onerous. There may be no single person at a Company who can certify this.<br><br>We believe that this statement should be a requirement / submission by the External Auditors as this is part of their audit review engagement and is independent of any person within the Company anyway. This aligns with the Canadian standards where Appointed Actuaries and External Auditors have an agreement between each other that is well-defined. | We acknowledge there are instances where several persons may be involved in the verification of data, however, it is expected that an authorized individual would have oversight of this exercise and of the data.<br><br>Having considered the issues being raised and that the objective should be on reliabilty of data and fit for use, the requirements for a formal statement of accuracy for policy records was deleted.<br><br>Regarding the recommendation to require the External Auditors to review and align with Canadian standards, the company and ATTIC should make this recommendation to the Auditors and Actuaries' associations. |
| 6 | 2.4 - Application of Professional Standards to the Appointed Actuary's Valuation | The following comment is with regards to the signed statement required from other party(ies), when the AA uses another person's work for the accuracy of data used in the valuation:<br>The auditors have not been willing to provide a Statement of accuracy of policy records. This matter should be raised with the Institute of Chartered Accountants of Trinidad & Tobago (ICATT). | See comments above. |
| 7 | 3 - Central Bank's Review Process | "Further, where the IOFI determines that the appropriateness of particular assumptions or methods is not sufficiently demonstrated, the IOFI shall require the AA to adopt other acceptable assumptions or methods, and to re-compute the policy liabilities and other actuarial liabilities." We trust that as part of the collaboration efforts between the Central Bank and insurers that the Bank would allow for sufficient discussion between the AA and the Bank before arriving at the need for an updated report to be provided. This section does not speak to the opportunity to discuss the rationale for the AAR selections if the IOFI is in disagreement with the choices made. | It is customary that before any final supervisory action is taken, in this case mandating a revised report, there will be opportunity for discussion between the insurer and the Central Bank. |

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
|---|---|---|---|
| 8 | 5.1 - Report Outline | We believe that these sections are exhaustive and the following are more reasonable at minimum:<br><br>o Introduction<br>o Expression of Opinion<br>o Executive Summary<br>o Description of Insurer<br>o Materiality Standard<br>o Data<br>o Expenses<br>o Classification of Contract<br>o Discount Rate<br>o Risk Adjustment<br>o Exhibits | Though the sections listed, at a minimum, are considered necessary dislcosures for understanding the valuation approach, the requirements regarding the UCLR reporting were removed.<br><br>For the first year's submission, the actuaries are expected to prepare the AAR in accordance with the Inspector's instructions on a best efforts basis. |
| 9 | 6.2 - Expression of Opinion | We do not believe it is practical for insurers to supply an original signature for the physical report to be submitted to the Central Bank due to the locations of external actuaries. We trust that an electronic signature can be provided in lieu of this in order to achieve the submission deadline. | An electronic signature is acceptable. The signature for the opinion was amended to read:<br>"The opinion must contain the AA's signature, name (in block letters) and, the date of signing." |
| 10 | 6.2 - Expression of Opinion | The opinion must contain an original signature of the Appointed Actuary (AA), the AA's name (in block letters), the date and location of signing.<br><br>We would ask the CBTT to consider removing this requirement. As we move to a digital age, we believe that requiring a physical signature and a hard copy report is outdated, especially given the fact that our actuaries are not based locally. | See comments above. |
| 11 | 6.2 - Expression of Opinion | The Guidelines stipulate that the Actuarial Opinion must contain an original signature of the Appointed Actuary (AA). Given that many AAs are not local, the AAR is generally sent via an electronic copy in PDF format. Central Bank should clarify exactly what is meant by an “original signature”, as in the past the AAR was often submitted electronically or as a printed version of the PDF file. | See comments above. |

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
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| 12 | 6.5 - Description of Insurer | These are all too detailed to be compiled by the AA and do not all have any impact on the IFRS17 figures nor can this be quantifiable. For instance, if a Claims Manager has changed, the AA will be unable to quantify the impact of this change in the IFRS17 numbers. We suggest that these sections be re-worded to something like: "We recommend that these are areas that must be reviewed by the AA in discussions with Management. The AAR should note any changes in these factors that have an impact on the IFRS17 numbers." | These are considered valuable inputs into the AAR, therefore no change is required. Notably, for the first year's submission, the actuaries are expected to prepare the AAR in accordance with the Inspector's instructions on a best efforts basis. |
| 13 | 6.6 - Materiality Standards | The AA has a different level of materiality than the External Auditor. We believe the AA materiality should be disclosed here in the AAR. | Paragraph was amended by deleting the following sentence: ~~In preparing the insurer's annual returns, the management of the insurance company and the external auditor routinely agree on a level of materiality.~~ |
| 14 | 6.8 - Expenses | We believe it is challenging for the AA to disclose this information on expenses at this level of detail as none of these are Actuarial decisions but are Company/business decisions. For a section such as there where there is not an actuarial approach that is taken, we do not think it is suitable for the AA to submit this level of information. It may be more appropriate for the AA to disclose that the details of the allocation of expenses have been discussed between the AA and Management and the opinion of the AA as to whether this is reasonable or not. The AA is also not involved in any of these processes:<br><br>o The directly attributable expenses allocation among acquisition, policy administration and maintenance costs and other split between insurance contracts issued and reinsurance contracts held<br>o The allocations of all directly attributable acquisition costs in a portfolio to groups in that portfolio, and of any acquisition costs directly attributable to any future renewals of contracts to future groups<br>o The type of investment expenses considered directly attributable<br>o The treatment of the acquisition costs for the coverage period that is one year or less<br>o The details of the recoverability tests as this should be done by the Company | It is not just about documenting the allocation process. The AA must have a substantial understanding of the allocation process because the results impact the valuation and the AA's role is to opine on whether or not the valuation conforms with the requirements of IFRS. Therefore, no change was required. |

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
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| 15 | 6.8 - Expenses | The AA must disclose how directly attributable expenses are determined and how total insurer expenses are allocated among acquisition, policy administration and maintenance costs, and other (refer to the examples noted per paragraphs IFRS 17.B65(f), B65(l), etc.).<br><br>Expense allocations are not a decision of the AA. Management determines the expense allocations, and these are audited/tested by the company's auditors not the AA. This matter should be raised with ICATT. | The expense allocations may not be a decision of the actuary but the actuary must assess whether the allocation (method and result) is appropriate given IFRS. Therefore, no change was required. |
| 16 | 6.12 - Discount Curve | This assumes that the AA was involved in the development of the curve, but not all AA are involved in this. We believe this section should allow more flexibility for the AA to disclose the extent of their involvement with the development of the discount curve, and their rationale for relying on the curve that is used. | The AA is free to disclose such information when another party was involved. Therefore, no change was required. |
| 17 | 6.13 - Risk Adjustment | The confidence interval is at the Company's choice and is not derived from any specific technique. | The expected techniques for the Confidence Interval (CI) are the Value at Risk (VaR) or the Conditional Tail Expectation (CTE), which are applied for the Cost of Capital and Quantile Technique approaches. Amendments were made to stipulate VaR or CTE for clarification. |
| 18 | 6.15.1 - Measurement Approach | This section is very onerous for the AA to complete. It is not possible for the AA to supply this level of detail in the AAR. We suggest that the AA disclose at a high level the approach taken and the rationale. | The level of informaton required is not considered unreasonable but necessary for understanding the valuation approach.<br><br>For the first year's submission, the actuaries are expected to prepare the AAR in accordance with the Instructions on a best efforts basis and submit further comments to the Central Bank as necessary. |
| 19 | 6.15.2 - Estimates of Future Cash Flows | This section is very onerous for the AA to complete. It is not possible for the AA to supply this level of detail in the AAR. We suggest that the AA disclose at a high level the approach taken and the rationale. | See comments above. |
| 20 | 6.17 - Liability Roll Forward | These table numbers do not match with the table numbers in the schedules. Nevertheless, these figures are not available. | These figures are also required for the Annual Returns so the information would be available. No issues were raised with providing this information during the consultation of the Annual Returns. Incorrect references were addressed. |
| 21 | 7 - Unpaid Claims and LR Analysis Exhibit | This exhibit is very detailed and it is unlikely that this can be provided. | The UCLR exhibits and requirements were deleted. |

| No. | Section/ Reference | Industry Comments | Central Bank of Trinidad and Tobago (Central Bank)'s Response |
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| 22 | 9.1 - Liabilities Different from those Calculated by the Actuary | This assumes the Company holds a lower amount of liabilities, but it could be more. | Yes, and the opinion in Appendix I still applies in that instance. The word "different" was deliberately used. Also, the certification is no longer about "adequacy". It is now a certification of "appropriateness". Fair presentation of the financial position, performance and cash flows, and IFRS do not accommodate undue conservatism. Hence, company liabilities higher could be just as problematic as too low. Valuations are estimates and "different" given the purpose of the certificate. Certification of appropriateness means appropriate for use in IFRS compliant financial statements. |
| **Guideline for Appointed Actuaries for Valuation of Long-Term Insurance Business:** | | | |
| 1 | 3.4.2.1 - Product Data | There is also some disconnect with the draft Guidelines and the Schedules. While we recognize that these are based on the Supplementary Tables to The Appointed Actuary (Memorandum) as published by Canada's Office of the Superintendent of Financial Institutions (OSFI), there was some change made in the schedules as proposed by Central Bank, but these changes were not subsequently reflected in Central Bank's Guideline. For example, Section 2.4.2.1 Product Data refers to the reporting between rows (19) and (57) which is consistent with what is stated in OSFI's Guidelines and the supporting Supplementary Tables, however the corresponding rows in Central Bank's schedules appears to be rows (14) to (39).<br><br>In addition, there was lack of clarity as to what the "Product Type" in the Schedules referred to, and whether this was based on the Product Types under Schedule 1 of the Insurance Act, or whether this required further drill down at the cohort level (consistent with the grouping structure under IFRS 17) which would produce a level of granularity that would be somewhat excessive.<br><br>We understand that there are drop-down selections in the Supplementary Tables to The Appointed Actuary (Memorandum) which suggest that the grouping would not be required at the cohort level and only at the product level. However, the schedules should be amended to ensure that this is clarified and it is recommended that the use of a similar drop-down list be provided for consistency in reporting amongst insurers. | The incorrect references were addressed. The drop down boxes for product types were inserted consistent with previous AAR - Schedule 1 list. If the type of product is related to the reinsurance aspects, select the 'Other' option and specify the type. |

## APPENDIX 2

### Instructions on completing the existing Capital Adequacy Returns given IFRS 17 requirements

As mentioned in the circular letter, no changes were made to the Insurance (Capital Adequacy) Regulations, 2020 (Capital Adequacy Regulations) and the existing Capital Adequacy Returns for IFRS 17. The Annual Audited Capital Adequacy Returns continue to be incorporated in the Annual Returns package and must be audited, and opined on by the Appointed Actuary. Insurers are also required to continue submitting unaudited Capital Adequacy Returns per Regulation 26 of the Capital Adequacy Regulations.

The Central Bank recognises that guidance is required for some of the terminology used in the existing Capital Adequacy Regulations given IFRS 17.

Insurers are advised that:

**A. In determining the regulatory capital required for long-term insurance business:**

1. "Net policy liabilities" should be interpreted as:
    - insurance contract liabilities/assets net of insurance contract held assets/liabilities for policy liabilities valued using IFRS 17
    - Policy liabilities for policy liabilities valued using IFRS 9 or IFRS 15

2. For each long term insurance business liability risk charge, insurers are required to disclose the risk adjustment and contractual service margin included in the net policy liabilities in the NOTES.

3. "Reserves" used in calculating the Morbidity Risk charge should be interpreted as the liability for incurred claims (reported and unreported).

4. "Net earned premium" used in calculating the Morbidity Risk charge shall be interpreted as net premiums received.

**B. In determining the regulatory capital required for general insurance business:**

1. "Net written premiums" used in calculating the Premium Adequacy Risk Charge shall be interpreted as net premiums received over the last twelve months.

2. "Outstanding Claims net of reinsurance" used in calculating the Outstanding Claims Risk Charge shall be interpreted as the liability for incurred claims, less any associated asset due to reinsurance contracts held.

## APPENDIX 3

The Central Bank is particularly interested in feedback about:

- Areas of ambiguity in how aspects of the exhibits should be populated;
- Aspects of the exhibits which may not be consistent with the draft regulation;
- Errors detected in the links;
- Ambiguity of the column headings or row descriptions; and
- Possibility of defining product categories for the ALM risk sheet

### COMMENTS TEMPLATE – SECTION A

### DRAFT INSURANCE (CAPITAL ADEQUACY) REGULATIONS 202X

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| **Insurer or organization:** |
| **Contact name:** |
| **Contact number / email:** |
| **Date :** |

| No. | Capital Adequacy Regulations Section or Subsection | Comment |
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**COMMENTS TEMPLATE - SECTION B**

**IFRS 17 Capital Adequacy Excel Workbook**

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| **Insurer or organization:** | |
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| **Contact number / email:** | |
| **Date :** | |

| **No.** | **Workbook Tab/ Number e.g. Tab "Instructions" or "40.011"** | **Comment** |
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## APPENDIX 4

The following table summarizes the timelines for submissions for the items referred to in this letter.

| Reports | Frequency | Timeframe for submission |
|---|---|---|
| Parallel Run Capital Adequacy Returns, and recalculated Credit Exposure CB105i forms, are required: | | |
| • As at the insurer's IFRS 17 transition date | One-off | To be submitted by April 30, 2024. |
| • For the quarter ended December 31, 2023 | One-off | To be submitted by April 30, 2024. |
| • For the quarter ending March 31, 2024 | One-off | To be submitted by May 31, 2024. |
| • For quarterly reporting periods ending on or after June 30, 2024 | Quarterly | To be submitted within twenty (20) business days following the end of the quarterly reporting period. |
| • Along with the annual Returns | Annually | For insurers with a financial year-end of December 31, 2023:<br>To be submitted no later than June 30, 2024.<br><br>For insurers with financial year-ends subsequent to December 31, 2023:<br>To be submitted within sixty (60) business days after the end of its financial year. |
| | | |
| Feedback on the draft amendments to the Capital Adequacy Regulations and Capital Adequacy Returns | One-off | To be submitted by April 30, 2024. |
| | | |
| Audited Annual Returns (issued by circular letter dated January 31, 2024),<br>Audited financial statements,<br>Appointed Actuary's Report,<br>Financial Condition Report | Annually | For insurers with a financial year-end of December 31, 2023:<br>To be submitted no later than June 30, 2024.<br><br>For insurers with financial year-ends subsequent to December 31, 2023:<br>To be submitted within sixty (60) business days after the end of its financial year. |