



CENTRAL BANK OF TRINIDAD & TOBAGO

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November 25, 2010

**CIRCULAR LETTER TO CFO'S OF GENERAL INSURANCE COMPANIES (WITH COPY TO CEO'S),
STATUTORY VALUATION WORKING GROUP, FCR WORKING GROUP – GENERAL INSURERS, ATTIC
SECRETARIAT AND ICATT.**

REF: CB-OIFI-2468/2010

Financial Condition Reports for General Insurance

Following the rollout of the Financial Condition Report (FCR) on September 22, 2010 the first meeting of the FCR Working Group – General Insurers was held on November 8, 2010 with the Central Bank of Trinidad and Tobago (Central Bank). For your information, we are taking this opportunity to highlight some of the issues that were raised at the working group meeting.

For the Central Bank, the working group is led by Mr. Anthony Roberts, Chief Actuary. The industry representatives are Mr. Kyle Rudden (ICATT), Mr. Steve Khanpradie (ATTIC) and Mr. Derek Mitchell (ATTIC).

1. FCR and Corporate Governance

One of the key issues discussed at the working group meeting was the benefits of the FCR in relation to corporate governance. The FCR utilises stress tests to test the sensitivity of an insurer to certain key risks. The FCR can be considered to be stress testing of an insurer's business plan. As a result it is recommended that the FCR be completed and presented to your board of directors before the business plan is signed off.

2. Preparation and submission of FCR

Each insurer is required to prepare the FCR annually for the board of directors and senior management. A copy of the report must be submitted to the Central Bank. The first report must be completed with respect to the business plan produced at the end of the second financial year following enactment of the Insurance Bill.

3. Retention of actuarial expertise

The Draft FCR Regulations do not require an insurer to retain any form of actuarial expertise to assist in the preparation of the FCR. It is worthy to note however that both the Insurance Act Chap 84:01 and the Draft Insurance Bill do not prohibit the retention of such skills by general insurers. In fact a few general insurers have already taken the progressive step of retaining the use of some form of actuarial expertise to assist in some aspects of their business. As a result the Draft FCR Regulations will be amended accordingly to facilitate these insurers.

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4. Specified Scenarios

Several suggestions were made regarding the proposed specified scenarios, in particular with regards to the catastrophe scenario. As a result, the scenarios will be reviewed and discussed with the working group in due course.

5. Timing of Report

The Draft Insurance Bill requires the FCR to be submitted to the Central Bank at the same time as the annual financial statements and returns. The working group discussed the practical difficulties of this timing both for those preparing the report and for the Directors to properly consider it. Possible concessions with regards to the submission of the FCR were discussed. The Central Bank will make a final decision on this matter closer to when the Draft Insurance Bill is enacted.

6. Parallel Run

Given the novelty of the FCR the Central Bank proposes to conduct a parallel run of the FCR in the future. This will give you an opportunity to become more familiar with the requirements and to assess the processes and models that you have put in place. It is anticipated that the proposed FCR Parallel Run for general insurers will be held in 2012.

Please be advised that further comments on the Draft FCR Regulations, which is available at http://www.central-bank.org.tt/financial_stability/index.php?pid=3055, can be emailed to Ruth Popplewell at rpopplewell@central-bank.org.tt. The deadline for any further comments is December 31, 2010. The working group will meet again next year to continue its discussions.

Yours sincerely



Carl Hiralal

Inspector of Financial Institutions