Central Bank of Trinidad and Tobago
Eric Williams Plaza, Independence Square, Port-of-Spain, Trinidad, Trinidad and Tobago
Postal Address: P.O. Box 1250
Telephone: (868) 621-CBTT (2288), 235-CBTT (2288); Fax: (868) 612-6396
E-Mail Address: info@central-bank.org.tt
Website: www.central-bank.org.tt

December 22, 2020

Circular Letter to:
Insurance Companies Registered under Insurance Act 1980 as at December 31, 2020
The Institute of Chartered Accountants of Trinidad and Tobago
Association of Trinidad & Tobago Insurance Companies Secretariat
Caribbean Actuarial Association

REF: CB-OIFI: 2603/2020

INSURANCE (CAPITAL ADEQUACY) REGULATIONS, 2020

The Insurance (Capital Adequacy) Regulations, 2020 ("Regulations") are some of the several new regulations made under the Insurance Act, 2018 (as amended) ("Act") by the Minister of Finance with effect from January 1, 2021. Therefore, the Central Bank of Trinidad and Tobago ("Central Bank") wishes to remind all insurers of the following requirements pursuant to the Act and these Regulations:

1. **Adequate Capital**
   Every insurer is required to maintain **adequate capital to support its risk profile and business plan** and **comply with sections 22, 82 and 83** of the Act.

2. **Minimum Capital Ratios to be maintained**
   a. The minimum Regulatory Capital Ratio **shall not be less than 150%.**
   b. The minimum Net Tier 1 Ratio **shall not be less than 105%.**

3. **Transitional Capital Ratios**
   a. Where an insurer's first unaudited capital adequacy return demonstrates that the minimum Capital Ratios referred to in point 2 above are not met, a **Board approved capital plan** for attaining the transitional Capital Ratios in the table below, must be submitted within **two months** from the submission of its first unaudited capital adequacy return:

Date	Minimum Regulatory Capital Ratio	Minimum Net Tier 1 Ratio
As at the insurer's first financial year-end following January 1, 2021	110%	77%
As at the insurer's second financial year-end following January 1, 2021	120%	84%
As at the insurer's third financial year-end following January 1, 2021	130%	91%
As at the insurer's fourth financial year-end following January 1, 2021	140%	98%
As at the insurer's fifth financial year-end following January 1, 2021	150%	105%

b. The first unaudited capital adequacy return is required to be submitted **within three months** following January 1, 2021 for the quarter ending December 31, 2020. Subsequent quarterly unaudited capital adequacy returns are required to be submitted **within twenty business days** after the end of each calendar quarter.
c. If at any time within the five-year transition period, an insurer exceeds any of the transitional capital ratios above, the insurer **shall not reduce its capital ratios below that excess**.

4. Annual Audited Capital Adequacy Returns

a. These Returns are incorporated in the new Annual Fiscal package outlined in the Central Bank's circular letter ref: CB-OIFI:2563/2020.
b. Following the last industry consultation on the draft Insurance (Capital Adequacy) Regulations in December 2018, amendments were made to the Regulations as outlined in the Appendix.
c. The **first** audited capital adequacy return under the Act is due as at the insurer's first financial year-end following January 1, 2021 and must be submitted within **four months** after that financial year-end. The table below provides the timelines for the first audited submission:

First financial year-end after January 1, 2021	Submissions due by
March 31, 2021	August 2, 2021
June 30, 2021	November 1, 2021
October 31, 2021	February 28, 2022
December 31, 2021	May 2, 2022

d. Subsequent audited capital adequacy returns must be submitted within **sixty business days** following the insurer's financial year-end and at such other times as the Inspector of Financial Institutions may require.
e. The annual audited capital adequacy returns must be certified by an insurer's chief financial officer, a director and the appointed actuary. Where an appointed actuary has not yet been appointed by an insurer carrying on general insurance business, a director shall certify these returns.
f. An insurer carrying on general insurance business must appoint an actuary **no later than January 1, 2024.**

5. Guidelines for the Use of Credit Ratings by Regulated Entities ("Guideline")

In December 2018, the Central Bank completed consultation with the industry on the Guideline which:

a. Sets out the criteria for the recognition of credit rating agencies ("CRAs") that seek to have their ratings recognized for regulatory purposes.
b. Establishes rules for the use of credit ratings by regulated entities.

We advise that this Guideline, which was finalized in May 2020, will apply to insurers with effect from January 1, 2021. The Guideline is an important ancillary document for the implementation of the Regulations and is available on the Central Bank's website at *https://www.central-bank.org.tt/publications/legislations-and-guidelines/insurance-sector-legislation-and-guidelines*.

A list of the recognised CRAs together with the equivalency mapping of their respective ratings is available on the Central Bank's website at *https://www.central-bank.org.tt/publications/regulatory-returns/insurance-sector-regulatory-return*. The listing of recognized CRAs and their ratings will be reviewed and updated from time to time and the industry will be advised accordingly.

Insurers are advised that the capital adequacy returns can be accessed at *https://www.central-bank.org.tt/publications/regulatory-returns/insurance-sector-regulatory-return*. Further, in accordance with Schedule 6 of the Act, the non-submission of these returns within the statutory timeframes may attract an administrative fine.

Kindly acknowledge receipt electronically.

Yours sincerely

Patrick Solomon

Patrick Solomon
Inspector of Financial Institutions

Appendix

Amendments to the Regulations following Industry Consultation

	Reference	Comment
1.	Regulation 2 - Definitions	Definition for "financial institution" amended to reflect the new Insurance Act
2.	Regulation 7 - Net Tier 1 capital	Numbering of subsections (1) and (2) included as these were previously missing
3.	Regulation 7.3(a) - Deduction from gross tier 1 capital	Expanded to clarify that 'goodwill and other intangibles are net of any deferred tax liabilities that would be extinguished if either were to become impaired or unrecognized'
4.	Regulation 8.2.(d) and (e) - Tier 2 capital	An adjustment was made to make it clear that the limit applies only to unrealised gains on real estate and there is no limit on unquoted equity in Tier 2A Capital.
5.	Regulation 9.1. - Deductions from net Tier 1 capital and Tier 2 capital	Deduction of regional and international asset backed securities with a credit rating of CCC+ and below was removed as it was inconsistent with the treatment of non-qualifying unrated asset backed securities in Schedule 4.
6.	Regulation 9.2. - Deductions from net Tier 1 capital and Tier 2 capital	New sub-regulation included to make it clear that that outstanding premiums aged more than sixty business days for insurers carrying on long-term insurance business are deducted from net Tier and Tier 2 capital.
7.	Regulation 13 - Off-balance sheet risk charge	New sub-regulation (5) included to make it clear that capital for guarantees on insurance policies are determined in accordance with regulation 20.
8.	Regulation 22 - Outstanding claims risk charge	To avoid any ambiguities, new sub-regulation (2) was included to stipulate that the 'provision for outstanding claims' has the meaning in section 212(4) of the Insurance Act, 2018.
9.	Regulation 27 - Transitional capital ratios	• Sub-regulation (2) was deleted and placed in the substantive legislation in Schedule 8 • Sub-regulation (3) was deleted as it was deemed unnecessary given section 279 of the Insurance Act, 2018.
10.	Schedule 1- Non-permissible value: Asset limits	• A new line item for unrated securities was introduced to make clear that these were not included in the securities rated CCC+ and below bucket. A 30% limit on the aggregate value of unrated securities, including unrated asset backed securities, was therefore specified. • A new sub-paragraph 3(b) was included to make it clear that the limits do not apply to the assets backing investment linked business.

Appendix

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11.	Schedule 4 - Asset default risk charge and factors	Paragraph 3 was amended to make it clear that a 0% risk factor is applied to securities issued by the Government of Trinidad and Tobago or guaranteed by the Government of Trinidad and Tobago. • Table 1 - the risk factor for asset backed securities rated CCC+ and below was increased from 15% to 20%, on account of the change made in point 5 above and that asset backed securities are deemed riskier than the underlying asset. • Table 1 - An amendment was made to the outstanding premiums to distinguish between 'outstanding premiums aged less than sixty business days' for insurers carrying on long-term insurance business and 'outstanding premiums aged less than twenty business days' for insurers carrying on general insurance business for consistency with the Insurance Act, 2018. • Paragraph 8 was amended in line with accounting standards on recognition of receivables, to refer to the starting point of aging as the date of confirmation and acknowledgment of subrogation receivables. • New paragraph 10.1(a) included for consistency with IFRS on leases. • Paragraph 10.1(b) was amended to include a reference to real estate in relation to finance leases, where the insurer is the lessor, to reflect the restrictions on the type of businesses conducted by insurers in section 30(6)(c) of the Insurance Act, 2018. • The word "property" was changed to the word "asset" in paragraphs 10.1(b) and (c).
12.	Schedule 6 - Investment volatility risk charge and factors	A new sub-paragraph 3(e) was included to clarify the applicable risk factor if the criteria for income-producing real estate is not satisfied.