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April 28, 2022

Circular Letter to:
Insurance Companies Registered under Insurance Act, 2018
The Institute of Chartered Accountants of Trinidad and Tobago
Association of Trinidad & Tobago Insurance Companies Secretariat
Caribbean Actuarial Association

REF: CB-OIFI-795/2022

REPORTING OF EXCESS CREDIT EXPOSURES IN THE CAPITAL ADEQUACY RETURNS

The Central Bank of Trinidad and Tobago ("Central Bank") refers to the Circular Letters issued dated December 22, 2020 and December 28, 2021 regarding the submission of, *inter alia*, Capital Adequacy Returns (“Capital Adequacy Returns”) and Credit Exposure CB105i Returns under the Insurance Act, 2018 (“IA 2018”) and the Insurance (Capital Adequacy) Regulations, 2020 (“Regulations”).

The Central Bank advises that credit exposures in excess of the limits under section 89 and 90 are to be treated in the following manner:

a) **Credit exposures under section 89 of the IA 2018:**
Pursuant to section 89(5) the credit exposures in excess of the stipulated limits that existed **prior** to proclamation of the IA 2018 (reported excess) are allowed a transitional period, during which the reported excess will not be included in non-permissible values. Insurers are reminded that they were required to notify the Inspector of Financial Institutions (Inspector) on measures they shall take during the transition period as follows:

1. reduce within a period of three years the excess credit exposures granted so that they are within the limits in sections 89 (1) and (2); and/or
2. provide within a period of two years, additional capital.

Insurers are advised that during the transition period, if there is any subsequent increase to the reported excess, it must be treated as an excess credit exposure arising **after** commencement of the IA 2018 and must be included in the non-permissible values.

b) **Credit exposures under section 90 of the IA 2018:**
Excess Credit Exposures under section 90 that existed **prior** to the commencement of the IA 2018 are not to be included in the non-permissible value. However, pursuant to sec 90(10) the Inspector may require an insurer to reduce such excess, and the insurer will be consulted on the disposal period during which the excess shall

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be reduced. Any excess that continues past the disposal period shall be included in the non-permissible value.

For all insurers, any credit exposure in excess of the limits under Sections 89 and 90 of the IA 2018, which arise **after** the commencement of the IA 2018, is to be included in the non-permissible value and the treatment of such must be accounted for in the Capital Adequacy Return using the reporting procedure below:

1. **STEP 1:** Determine the Regulatory Capital Available to be used as the capital base in the CB105i - Credit Exposure Returns calculation before adjusting for excess credit exposures. This requires preparation of an initial Capital Adequacy calculation, deducting any other non-permissible values that are **not due** to excess credit exposures.

2. **STEP 2:** Determine the Credit Exposure
Prepare the CB105i - Credit Exposure Returns using the Regulatory Capital Available calculated in STEP 1 as the capital base to calculate any excess credit exposures. *The CB105i return does not currently differentiate between exposures originating pre and post proclamation of the IA 2018, however any increase in excess credit exposure over that reported in the Credit Exposure Return CB105i Form B, is a current breach of the IA 2018 credit exposure limits and is immediately non-permissible. As such, a manual calculation is required to determine the non-permissible amount to be reported in the Capital Adequacy calculation.* There are to be no subsequent calculations/adjustments to the capital base used in the CB 105i - Credit Exposure Returns.

3. **STEP 3:** A Final Capital Adequacy calculation is required in which all excesses over the prescribed limits arising in STEP 2, in respect of excess credit exposures arising **after** commencement of the IA 2018, are reported as non-permissible values and must be treated as such in the final Capital Adequacy calculation. In this regard, the following steps are required:

    a. The non-permissible value arising from the total of all excess credit exposures reported in the CB105i - Credit Exposure Returns from STEP 2, in respect of excess credit exposures arising **after** commencement of the IA 2018, must be reported in the Non-Permissible Values Tab 40.060 in the Capital Adequacy Returns.

    b. In the updated Capital Adequacy Returns, the Asset Default Risk Tab 40.020 and/or Investment Volatility Risk Tab 40.021 must reflect the adjusted asset balance, where applicable, net of the excess credit exposure for the non-permissible value.

4. **STEP 4:** Where the Regulatory Capital Available (as reported in the Capital Adequacy Returns) generated by STEP 3 is different from the Regulatory Capital Available (as reported on the CB 105i - Credit Exposure Returns) in STEP 1, there should be a reconciliation that accounts for the difference arising from the non-permissible value due to the excess credit exposures. Therefore, a reconciliation between the Regulatory Capital Available before and after the deduction above must be documented in the Notes page of both the Credit Exposure and the Capital Adequacy Returns.

The Capital Adequacy Returns required to be submitted will be the Final Capital Adequacy Returns as per STEP 3 above, i.e. after all non-permissible values have been deducted.

Insurers are reminded that the latest version of all forms specified by the Inspector of Financial Institutions for all of the regulatory reports and returns required under the IA 2018 can always be accessed at https://www.central-bank.org.tt/publications/regulatory-returns/insurance-sector-regulatory-return.

Please be guided accordingly.

Yours sincerely

Patrick Solomon
INSPECTOR OF FINANCIAL INSTITUTIONS

Appendix I
Circular Letter Procedure

Step 1: Calculate regulatory capital ratio, without treating excess credit exposures as non-permissible.

Outstanding premiums aged more than 20 business days (for general insurance business)	
Excess Credit Exposure	
Total Non-permissible Assets	-

Notes:
[1] List all non-permissible assets as defined in Regulation 2 of the Insurance (Capital Adequacy) Regulations, 2020
[2] Excluding investment linked insurance business
[3] List and state the aggregate value of assets, credit exposures and reduction in liabilities prohibited by the Act or Regulations made thereunder, not including amounts in excess of the limits prescribed under section 85 of the Act

Regulatory Capital without any excess credit exposures.

Total Regulatory Capital Required	sum of 1 to 14	A	18,879,284
Total Regulatory Capital Available	40.011	B	45,555,325
Regulatory Capital Ratio:	B/A * 100		**241%**
Net Tier 1	40.011	C	35,337,827
Net Tier 1 Ratio:	C/A * 100		**187%**

Capital Adequacy Returns

Step 2: Same capital base used from step 1, prior to adjusting for excess credit exposures.

CENTRAL BANK OF TRINIDAD & TOBAGO

CREDIT EXPOSURES AMOUNTING TO 10% OR MORE OF CAPITAL BASE (SECTION 148(4), IA 2018)
VERSION 2.0

NAME OF INSTITUTION:	Please select your institution's name
REPORTING DATE AS AT QUARTER ENDED:	31-Mar-22
CAPITAL BASE (TT$ '000)	45,555

TOTAL CAPITAL BASE (TT$ '000)	$45,555

Determine the excess credit exposures.

Please select your institution's name
31-Mar-22
45,555

NAME OF COUNTERPARTY	COUNTERPARTY SECTOR	EXPOSURE TYPE	CREDIT RATING	CURRENCY	[illegible]	EXPOSURE (TT$'000)	EXPOSURE AS % OF CAPITAL	NAME OF GROUP	TOTAL EXPOSURE TO GROUP	TOTAL EXPOSURE AS % OF CAPITAL
[illegible] USD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]	Corporation of Saturn	[illegible]	[illegible]
JUPITER TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]	Corporation of Jupiter	[illegible]	[illegible]
JUPITER TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
JUPITER TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
JUPITER TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
JUPITER USD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
JUPITER USD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
PLUTO TTD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
SATURN TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SATURN TTD [illegible] July [illegible]	[illegible]	Loans	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
SATURN TTD [illegible] Sept [illegible]	[illegible]	Loans	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
NEPTUNE TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
NEPTUNE TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
NEPTUNE TTD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
[illegible] TTD [illegible]	[illegible]	Loans	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
VENUS TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
MARS USD [illegible]	[illegible]	Bonds	Not Applicable	USD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CERES TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
CERES TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
CERES TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
CERES TTD [illegible]	[illegible]	Loans	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
MERCURY TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
MERCURY TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
MERCURY TTD [illegible]	[illegible]	Bonds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
PTC 1ST SCHEME	[illegible]	Mutual Funds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PTC 2ND SCHEME	[illegible]	Mutual Funds	Not Applicable	TTD	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]

Step 3 a: Report excess credit exposures in Form 40.060 on the Capital Adequacy Return.

Outstanding premiums aged more than 20 business days (for general insurance business)	
Excess Credit Exposures	104,173
Total Non-permissible Assets	**104,173**

Notes:

[1] List all non-permissible assets as defined in Regulation 2 of the Insurance (Capital Adequacy) Regulations, 2020

[2] Excluding investment linked insurance business

[3] List and state the aggregate value of assets, credit exposures and reduction in liabilities prohibited by the Act or Regulations made thereunder, not including amounts in excess of the limits prescribed under section 65 of the Act

Capital Adequacy Returns
Next page is NOTES

40.051 40.052 40.060 NOTES

Step 3: This is the final regulatory capital ratio

Total Regulatory Capital Available	40.011	B	45,451,153
Regulatory Capital Ratio:	B/A * 100		**241%**
Net Tier 1	40.011	C	35,233,654
Net Tier 1 Ratio:	C/A * 100		**187%**

Capital Adequacy Returns
Next page is 40.011

Step 4: Reconciliations to be provided on the notes page of both Returns

1. Reconciliation for the Excess Credit Exposure:

25% of the Capital Base (25% * $455,555)	**$11,389**
1. Corporation of Jupiter over 25% of the Capital Base ($55,971-$11,389)	$44,582
2. Pluto Bookings over 25% of the Capital Base ($43,452-$11,389)	$32,063
3. The Ultimate Mars over 25% of the Capital Base ($38,916-$11,389)	$27,527
Non-Permissible for Capital Adequacy	**$104,173**

2. Reconciliation Between Initial Capital & Updated Capital

Initial Capital	$45,555,325
Less: Non-permissible Asset-Excess Credit Exposures	$104,173
Updated Capital	$45,451,153