The Insurance Act, 2015

The Insurance Act, 2015 provides:

158. (1) Every insurer carrying on long-term insurance business shall-

(a) as at the end of each financial year cause its appointed actuary to-

(i) make a valuation of its policy liabilities and other actuarial liabilities; and

(ii) prepare an actuarial report,

in accordance with the Regulations; and

(b) submit the actuarial report referred to in paragraph (a) to the Inspector within sixty business days after the end of each financial year.

(2) The actuarial report required under subsection (1) shall include a description of any matters for which the appointed actuary was unable to obtain information or for which he was not satisfied with the information provided.

(3) Where an insurer causes its appointed actuary to make an investigation and the results of the investigation are made public, the insurer shall cause a copy of the actuarial report to be submitted to the Inspector within five business days of making the results of such report public.

(4) For the purposes of this section, “policy liabilities and other actuarial liabilities” includes-

(a) policy benefit liabilities;

(b) premium liabilities;

(c) claims liabilities; and

(d) liabilities in respect of guarantees or other commitments-

(i) to policyholders and other consumers under contracts of insurance;

(ii) to persons to whom the insurer owes benefits; and

(iii) associated with the business carried on by an insurer pursuant to section 30(7),

net of reinsurance recoverables or other relevant deductions.

Caribbean Policy Premium Method

This guidance document has been prepared to assist the appointed actuary and aims to foster consistency of practice in the completion of the actuarial valuation in accordance with the Insurance (Caribbean Policy Premium Method) Regulations, 2015.

Expected Assumptions

CPPM valuation requires the selection of best estimate assumptions together with a margin for adverse deviation.

Interest assumption

To determine the Valuation Interest assumptions, the annual return on assets allocated to support the valuation segment is projected into the future taking into account expected maturities, the currency of the cash flows and the investment policy for the segment. This involves:

1. projection of the of return on the assets allocated to the segment. This would include an expected return less a deduction for investment expenses and expected costs of default (assessed by asset class),
2. selection of a new money rate or reinvestment yield curve for assets acquired after the valuation date including an ultimate reinvestment rate,

The method also requires the appointed actuary to determine the ultimate rate having regard to the long term view of inflation and the real return in the economy.

Question: With the environment in Trinidad and Tobago, what allowance should be used for expected losses related to default and how should equities and real estate be handled in the projections?

Approach: Debt instruments

If the company has historic records to prove actual default experience, this can be used. If not, the differential in yield between government debt and actual yield for similar term to maturity should be used.

Equities

The expected return from the combination of dividend, capital growth and sales proceeds for a consistent term should not exceed return on debt instruments plus 1%.

Real Estate

The expected return from income producing real estate including capital growth and sales proceeds for a consistent term should not exceed the return on debt instruments plus 1%.

Question: What approach should be taken with respect to the investment tax in Trinidad and Tobago?

Approach: Where investment tax applies to the investment income related to the product, this should be provided for explicitly as an expense in the valuation. This could be done as an adjustment to the valuation interest rate.

Question: How should I calculate the provision for interest rate risk?

Approach: The appointed actuary should determine a provision for adverse deviation from the base interest scenario. Scenario testing is an acceptable method for establishing this margin for adverse deviation.

Question: How do I handle cash flows from flexible premium or dividend plans?

Approach: In forecasting the cash flows from the policy liabilities, policyholder dividends must be included and reasonable policyholder expectations must be taken into account.

Question: Should there be a margin applied to each assumption?

Approach: A margin should be added for each assumption but the margins in aggregate should not be excessive. The following quotation from the current CIA Standards 2320 is relevant:

The policy liabilities need not make provision for adverse deviations to the extent that the insurer can offset its effect by adjustments to policyholder dividends, *premium rates, and benefits. The insurer's contractual right of such offset may be constrained by policyholder reasonable expectations, competition, regulation, administrative delays, and the fear of adverse publicity or anti-selection.*

Term of the Liability[1]

Question: What is the term of liabilities to be applied?

Approach: The term of the liabilities should take account of any renewal, or any adjustment equivalent to renewal, after the balance sheet date if:

i) the insurer's discretion at that renewal or adjustment is contractually constrained, and

ii) policy liabilities are larger as a result of taking account of that renewal or adjustment.

The term of a policy's liabilities is not necessarily the same as the contractual term of the policy.

The term of a policy's liabilities takes account of all renewals and adjustments before the balance sheet date. Depending on the circumstances, that term may also take account of one or more renewals or adjustments after the balance sheet date.

If the term of the liabilities is not evident, and if selection of a longer term would reduce policy liabilities, then the actuary would be cautious in making such a selection. On the other hand, if selection of a longer term would increase those liabilities, then the actuary would usually select the longer term.

The term of the liabilities of:

i) a policy which has been cancelled by the insurer ends at the effective date of cancellation

[1] Taken from CIA Standards 2320.

ii) a policy which has not been cancelled, but which is cancellable by the insurer at or before the date to which its premiums have been paid, ends at that date.

iii) an individual annual premium life or accident and sickness insurance policy ends at the last day to which the policyholder may prolong its coverage without the consent of the insurer.

iv) a certificate of group insurance if the group policy is in effect a collection of individual policies is the same as if it were an individual policy, unless contributions or experience rating of the group negate anti-selection by certificate holders.

The term of the liabilities of any other policy ends at the earlier of:

i) the first renewal or adjustment date at or after the balance sheet date at which there is no constraint, and

ii) the renewal or adjustment date after the balance sheet date which maximises the policy liabilities.

Question: How should an insurance contract funding an annuity, where the premiums are invested in accounts that pass through the investment performance to the policyholder, be treated from the perspective of the term of the liability?

Approach: The term of the liability for such products needs to be carefully determined. The actuary needs to provide support for policyholder behaviour assumptions, especially where reliable experience data is not available to support these assumptions in similar economic circumstances. Where policyholders have the right to surrender the product with limited penalties then the assumption needs to reflect that the policyholder will act in their own economic interest which may be adverse to the company's interest. Where there is no penalty then the assumption is that the term of the liability is zero.

Other Issues

Question: Given the requirement to separate provisions for adverse deviation from the best estimate assumptions and the interrelationship between them, is there any requirement as to how they should be separated?

Approach: As the test for the lapse margin requires the direction of the margin to increase the provision at all durations, this is usually completed as a last step in the calculation of the liability. As such it could be expected to be the first to be removed. As the requirement is to add a provision for adverse deviation, the order in which they are separated may need to follow the order they are calculated in the software selected. The appointed actuary may be using new software for their liability calculations and we are prepared to accept the approach used by your software, but will be looking for the actuary to disclose the approach they have taken to the subdivision.

Question: If an asset segment supporting liabilities in Trinidad and Tobago currency is supported by assets of a different currency how should this be addressed?

Approach: In projecting future cash flows, a provision and margin for adverse deviation in the exchange rates should be established.

Question: Should there be a differential in the credit provision for a Government of Trinidad & Tobago bond issued in T&T currency and one issued in US currency?

Approach: We would not expect there to be a difference in the credit provision. However if it was supporting a liability in a different currency then we would expect the provision mentioned above to be included.

Valuation of Flow Through Business

CPPM should be applied in the determination of the liabilities for flow through products and for the assessment of participating surplus. Explicit reserves should be established for guarantees and options.