Insurance (Capital Adequacy) Regulations, 2015
Guidance Document
January 2016

This guidance document has been prepared to assist insurers in complying with the Insurance (Capital Adequacy) Regulations, 2015.

Application of scope

For insurance companies registered in Trinidad and Tobago, the regulatory capital ratio will be determined based on the company's total business and calculated using the formula:

$$\frac{\text{Total regulatory capital available}}{\text{Total regulatory capital required}}$$

Foreign insurance companies with a branch registered to write insurance business in Trinidad and Tobago are required to determine the regulatory capital ratio on their business in Trinidad and Tobago only.

IFRS

An insurance company will be using IASB's IFRS methodology for its published accounts. This is the basis to be adopted in completing the risk based capital calculations.

Reporting forms

All figures must be reported in **'thousands'**. There are separate forms applicable to companies that write long term insurance business only, general insurance business only and both. The following are expected to be completed by the respective companies:

Life Insurance Companies	**General Insurance Companies**	**Composite Companies**
Summary	Summary	Summary
Capital Available (Local insurer/Branch)	Capital Available (Local insurer/Branch)	Capital Available (Local insurer/Branch)
Default risk	Default risk	Default risk
Volatility risk	Volatility risk	Volatility risk
Off Balance sheet risk	Off Balance sheet risk	Off Balance sheet risk
Foreign currency mismatch risk	Foreign currency mismatch risk	Foreign currency mismatch risk
Asset liability mismatch risk	Premium adequacy risk	Asset liability mismatch risk
Mortality risk	Outstanding claims risk	Mortality risk
Morbidity risk	Catastrophe risk	Morbidity risk
Lapse risk		Lapse risk
Interest margin risk		Interest margin risk

Life Insurance Companies	General Insurance Companies	Composite Companies
Liquidity and Operational risk		Liquidity and Operational risk
Guarantee risk		Guarantee risk
		Premium adequacy risk
		Outstanding claims risk
		Catastrophe risk

Grandfathering provisions

Separate forms to report the details of those assets that fall under the grandfathering provisions have been included in the Capital Adequacy Returns.

Question: What date should be used to determine the value of the unrealized gains on equities, unrated bonds and quoted common shares that fall under the grandfathering provisions?

Approach: For this QIS, the applicable date is December 31, 2015. When the Bill and Regulations have been legislated, the applicable date will be the date of enactment.

Question: What assets can be grandfathered?

Approach: Unrealized gains on real estate, unrated bonds and quoted common shares, prior to the date stipulated in the question above. The details of these assets and their corresponding values are to be reported separately.

Question: Would the Central Bank require verification of the unrealized gains on real estate that fall under the grandfathering provision?

Approach: Yes. A proper valuation within one year of the applicable date of the grandfathering provision is required. Evidence of this must be provided to the Central Bank.

Regulatory Capital Available

Question: Unrealized gains are included in an insurer’s retained earnings. Some unrealized gains on real estate are grandfathered and some are not. How should these unrealized gains be distinguished and reported in the capital available form so that they are reported accurately and not double counted?

Approach: Unrealized gains on real estate that fall under the grandfather provisions are counted as Tier 1 capital and are reported as a separate line item on the capital available form. All other unrealized gains on assets that are included in retained earnings will be deducted from gross tier 1 capital and counted as tier 2 capital.

Regulatory Capital Requirement

Question: How should investments in subsidiaries, affiliates and associates be treated?

Approach: Investments in financial subsidiaries are to be deducted from the total capital available.

The risk charges on investments in and debts due from non-financial subsidiaries, other non-financial entities controlled by the insurer and affiliates and associates of the insurer shall be determined using a look through approach whereby underlying assets, including assets held as security for debts due, liabilities, contingent liabilities and guarantees, are treated as directly held or made.

Reporting should be done in the default risk form if the underlying asset is a debt obligation and/or the volatility risk form if the underlying asset is equity or real estate. Differences should be explained in the reconciliation sheet.

Question: In order to apply the appropriate risk factor to subrogation receivables, how is the number of days outstanding to be determined?

Approach: The number of days outstanding is measured from the date that the request for payment, with supporting evidence, was first sent by the insurer to the third party, but in any event not later than sixty days from the date the insurer became aware of the incident that gave rise to the subrogation.

Question: What risk factor should be applied to mutual fund investments if the insurer does not know the composition of the fund?

Approach: Mutual funds can be classified as money market funds, bond funds, equity funds and balanced or other funds and take the meaning as defined in the Collective Investment Scheme Guideline by the Security Exchange Commission. Specific risk factors have now been assigned to each type of fund; money market fund – 2%, bond fund - 8%, equity fund – 20% and other including exchange traded funds – 12%.

“Money market fund” means a fund where ninety per cent of the portfolio is invested in any or all of cash, cash equivalents and evidences of indebtedness, other than cash equivalents that have a remaining term to maturity of not more than one year.

"Bond fund" means a fund where not less than seventy per cent of the portfolio is invested in bonds, debentures, notes or similar instruments representing indebtedness, whether secured or unsecured, that have an original tenor of more than one year.

"Equity fund" means a fund where not less than eighty per cent of the portfolio is invested in equities.

Question: Group health business can be classified as long term insurance or general insurance as specified in the First Schedule in the Insurance Act Chap 84:01. Where should group health policies be reported for a composite company?

Approach: For group health business classified as long term insurance, the policy liabilities should be reported on the Morbidity risk form. For group health business classified as general insurance, the policy liabilities should be reported on the Premium adequacy risk and Outstanding claims risk forms.

Question: Can a company use the rating assigned by its internal model?

Approach: Only those ratings from agencies that are recognized by the Central Bank will be accepted; S&P, Moody, AM Best, AM Best Insurers, Fitch, DBRS, DBRS Insurers and Caricris. This is consistent with the approach used for banks. See Schedule 3 in the Regulations for the equivalence ratings.

Question: Is it the credit rating of the instrument or of the issuer that determines the risk factor to apply?

Approach: The appropriate risk factor will be based on the ratings of the instrument. In the event that the security is not rated, the rating of the Issuer applies.

Question: It is not clear what should be included in "other receivables" and "other assets" category.

Approach: Other receivables include such assets as disclosed in the IFRS statements and which are otherwise not distinguished in the Capital Adequacy Regulations.

Question: Which year of a general insurer's catastrophe reinsurance programme should be used in determining the capital requirements for catastrophe risk?

Approach: The catastrophe reinsurance programme that is in place for the forthcoming year should be used.

Question: Can I take credit for having a Reinstatement Premium Protection (RPP) reinsurance agreement related to my catastrophe reinsurance programme?

Approach: Yes. The RPP treaty is expected to cover the cost of an insurer's reinstatement in the event of a catastrophe. Therefore, once this RPP treaty is in place for the forthcoming year, the reinstatement cost used in the determination of the catastrophe risk requirement will be zero.

Question: If a general insurer writes business in other territories outside of Trinidad and Tobago, would its catastrophe risk requirement be based on the aggregate exposure in all territories?

Approach: No. The insurer should use the maximum exposure in any one territory when determining the capital requirements for catastrophe risk.