CENTRAL BANK OF TRINIDAD & TOBAGO

Parallel Run on the Valuation of Long Term Insurance Business, Risk Based Capital Requirements for Insurers and Non-Life Outstanding Claims Reserves.

Report on the findings

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Executive Summary

Based on the level of participation in the Parallel Run conducted in 2010 on the Valuation of Long Term Insurance Business, Risk Based Capital Requirements for Insurers and Non-Life Outstanding Claims Reserves, and taking into account the results of the previous two studies on the same, the following conclusions are noted:

a) The life insurance industry is 80% to 90% ready to implement the new Caribbean Policy Premium Valuation Method;

b) Both the life and general insurance industries are capable of implementing a risk based capital framework; and

c) The relevant claims data to determine appropriate outstanding reserves is present, in some form, at most of the general insurance companies who participated in the study. However there are still a number of significant concerns with respect to readiness for the new legislation:
   i. Only 2 companies are deemed to be fully ready;
   ii. 4 companies have not participated in any of the studies; and
   iii. With respect to the remaining companies, proper systems are not fully in place, there is limited claims reserving expertise, data is not readily available and the Central Bank's requirements are not fully understood.

   More handholding is required before the Central Bank can rely on the claims data being submitted.

Organisation and Participation

In March 2010, the insurance industry was asked to participate in a Parallel Run of the Valuation of Long Term Insurance Business, Risk Based Capital Requirements for insurers and Non-Life Outstanding Claims Reserves. The objective of this Parallel Run was to conduct further testing of the aforementioned frameworks based on 2009 year end data and to give companies the opportunity to prepare for the requirements of the new legislation.

As was customary with Quantitative Impact Studies (QIS) 1 and 2, individual company meetings were held with all participants to gain a better understanding of the submissions, discuss the problems that companies encountered in completing the Parallel Run (PR) and obtain further comments on the proposals.

The following table shows the level of participation in the QIS1, QIS2 and the PR:

Table 1. Comparison of the number of participants in the studies

Company	QIS1	QIS2	PR
General Insurance	11	13	10[1]
Life Insurance	10	11	10[2]

Note: Composite companies were classified according to the dominant line of business written

[1] 10 general insurance companies participated in the PR but one general insurance company's data was not included in this report as further work was required before its figures could be finalised.

[2] 10 life insurance companies participated in the PR but one life insurance company's data was not included in this report as further work was required before its figures could be finalised.

The 10 out of 14 life insurance companies that participated in the PR, represented approximately 33% of total life industry liabilities and 47% of total life industry assets as at 2009 year end. The 10 out of the 18 general insurance companies that participated represented approximately 73% of total general industry assets and 83% of total general industry gross premiums as at 2009 year end.

INDUSTRY COMMENTS

This section provides the general feedback received from the insurance companies at the individual meetings held with the Central Bank and other comments that were received thereafter.

Risk Based Capital Requirements – The requirements were better understood for those companies that have participated in the studies thus far. Companies have been putting systems in place to generate the reports within the required time frame. There were still some areas that required further clarification and which have been addressed through amendments to the Regulations and an additional guidance document. The main concerns raised were with regards to specific risk factors for foreign currency mismatch on the US$ currency, mortgages and unrated bonds.

Caribbean Policy Premium Method (CPPM) – Generally, the appointed actuaries responsible for applying the CPPM understood the requirements. The valuation systems are in place but a few companies are not satisfied that all the criteria as stipulated in the regulations are being met and they require additional time to ensure that proper testing is completed.

Non-Life Outstanding Claims Reserves – Many companies did not understand the requirements and therefore were unable to complete the forms accurately. Data retrieval was still an issue for some companies as there was a lack of appropriate systems in place together with resource and timing constraints. In many cases, 5 years of historical data was unobtainable due to new systems being tested and implemented more recently than 5 years ago. More handholding is required from the Central Bank.

FINDINGS

Based on the studies conducted thus far, the Central Bank has confidence that the industry is capable of performing the CPPM and the risk based capital calculations. The capture of the non-life claims data still poses a concern. The Central Bank is especially concerned for those companies that have never participated in the studies or have had very little exposure to any of the proposed requirements. Participation in these studies is not mandatory and the Central Bank is cognisant of the cost and resource constraints involved but these requirements will become law. The reporting times have been shortened with more legislative requirements imposed and the Central Bank is seeking to assist companies with transitioning to the new requirements as easily and effectively as possible through these studies.

The following summarises the main findings of the Parallel Run on the determination of the Regulatory Required Capital Ratios (RRCR), the Valuation of Long Term Insurance Business under the CPPM, and the reporting of non-life claims information on the Form B4 Schedules.

RISK BASED CAPITAL REQUIREMENTS

1. A comparison of the range of the RRCR's for QIS2 and the PR is shown in Table 2. There were some improvements in these ratios for the companies that participated in both studies. However, there are

likely to be a few companies that will fall within the transition provisions unless they are able to meet the required RRCR of 150% upon enactment of the new legislation.

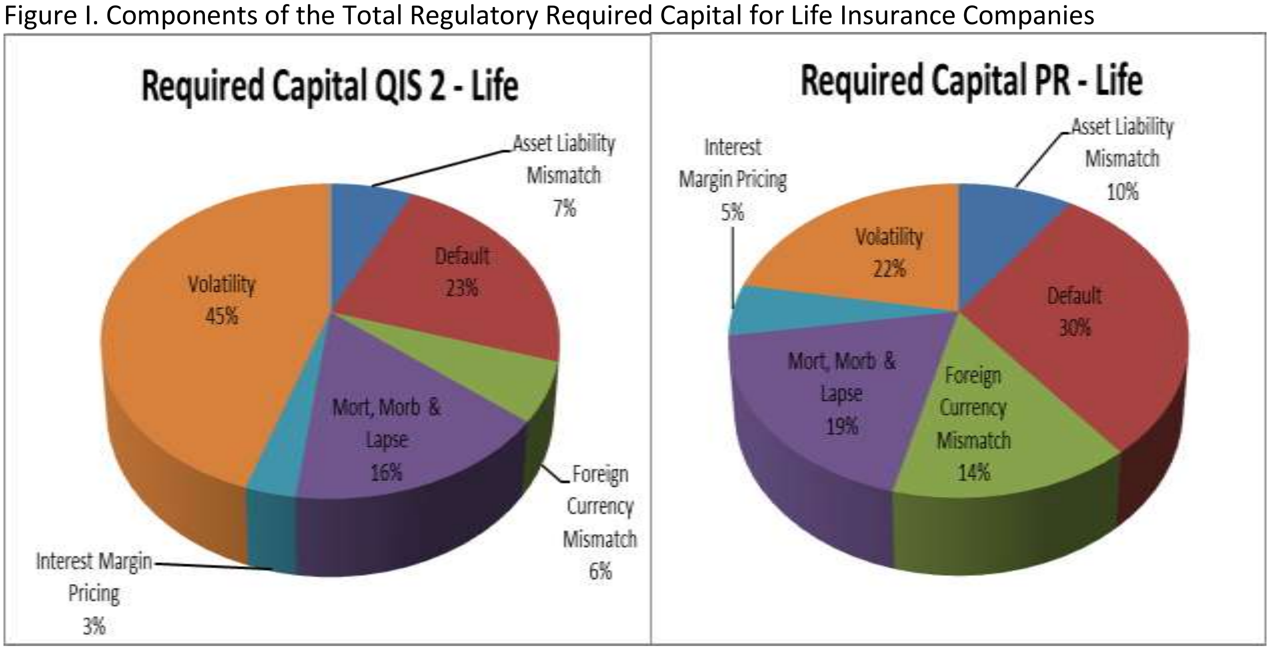
Table 2. Regulatory Required Capital Ratios for QIS2 and the PR.

Regulatory Required Capital Ratio	Life		Non-Life	
	QIS 2	PR	QIS 2	PR
Below 50%	3	0	1	0
50% - 100%	0	0	1	2
100% - 150%	1	1	2	2
150% - 200%	0	0	4	1
Above 200%	7	8	5	4
Total	**11**	**9**	**13**	**9**
Average Ratio (excl. –ve ratios)	**289%**	**289%**	**179%**	**167%**

Note: In QIS2, there were some companies that reported negative capital available and hence the Regulatory Required Capital ratios were negative. The average ratio calculated did not include those companies' negative ratios.

2. Distribution of required capital
   The charts below show the changes in assets from QIS2 and the PR based on the capital required. The significant reduction observed in the requirements for volatility risk was on account of the different companies that participated in the two studies.

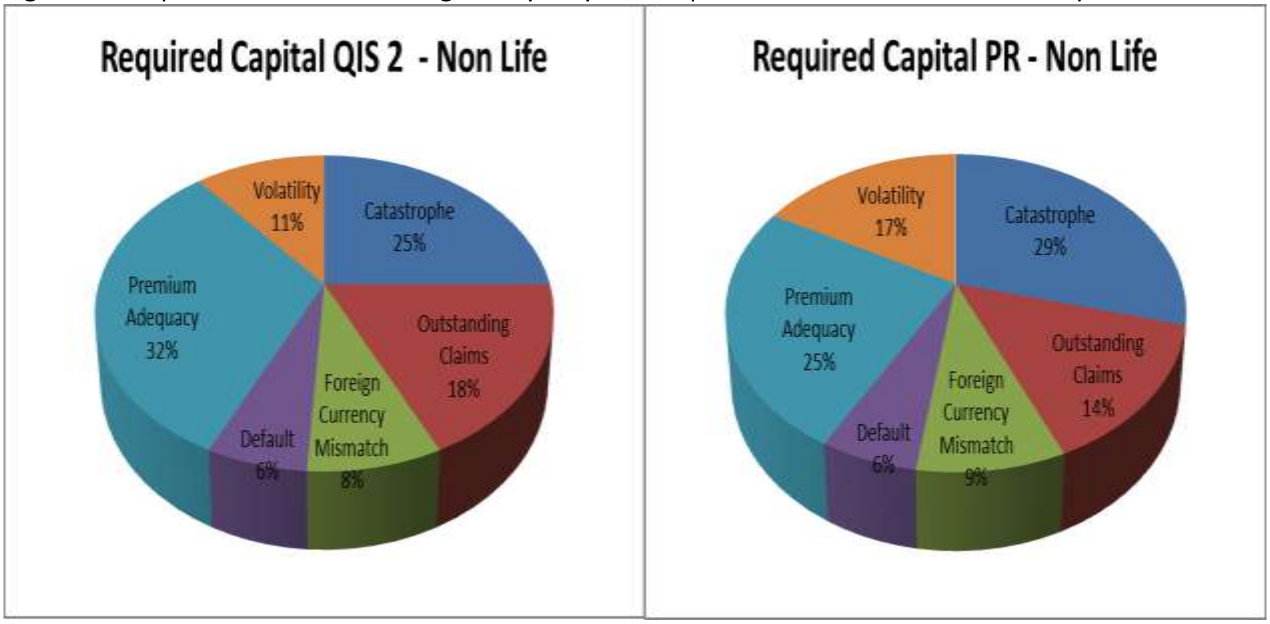
Figure I. Components of the Total Regulatory Required Capital for Life Insurance Companies



Note:
The above charts do not include the capital requirements for premium adequacy risk and outstanding claims risk for those life companies that write some form of general insurance business.

A comparison of the proportions of the components of the total Regulatory Capital Requirement between QIS2 and the PR for the Non Life industry are relatively similar. The majority of the capital requirements have been allocated to the Catastrophe and Premium Risks. Further details of the proportions are illustrated in Figure II.

Figure II Components of the Total Regulatory Required Capital for Non-Life Insurance Companies



3. Regulatory Capital Available

The Total Regulatory Capital Available for the eighteen (18) companies that participated in the PR represented 27% of the industry's total assets as at 2009 year end.

As the 3rd row of the table below shows, 25% of the life insurance companies' assets were not considered as Tier 1 capital but instead included as Tier 2 Capital. Similarly, 17% of the general insurance companies' assets were removed from Tier 1 capital and counted as Tier 2 capital. Details of other capital ratios are also shown in Table 3.

Table 3. Ratios for the PR

Ratio	**Life %**	**Non-Life %**	**Total %**
Regulatory Capital Available / Gross Assets	27%	26%	27%
Gross Tier 1 Capital / Gross Assets	34%	32%	34%
Deductions in Tier 1 Capital/Gross Tier 1	25%	17%	23%

4. Investment risk

The average required capital for default and volatility risk as a percentage of net assets has not changed significantly between QIS2 and PR for both life and non-life companies. There were however some increases observed in the amount of capital required for life companies under the PR. Further details can be seen in Table 4 below.

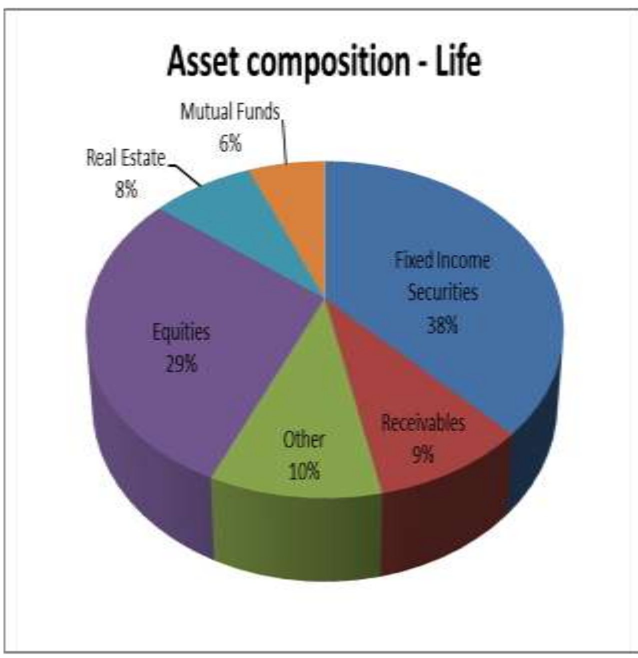
Table 4. Comparison of Required Capital for Default and Volatility Risk for Life and Non-Life Companies as a % of Net Assets

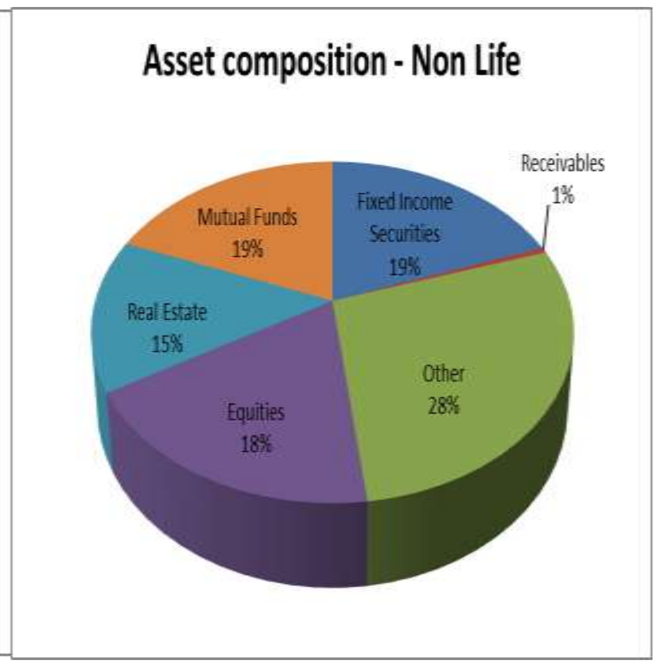
Required Capital for Default and Volatility Risk as a % of Net Assets	**Number of Life Companies**		**Number of Non-Life Companies**	
	QIS 2	**PR**	**QIS 2**	**PR**
0.0% - 2.0%	1	1	4	3
2.1% - 4.0%	4	2	6	3
4.1% - 6.0%	3	1	2	1
6.1% - 8.0%	2	3	1	1
Above 8.0%	1	2	0	1
Average	**5.10%**	**5.62%**	**3.00%**	**3.61%**

5. Industry Investment Distribution

The following charts provide the distribution of assets for the PR for the life and non-life companies based on the capital required for asset default risk and volatility risk.

Figure III. Composition of Assets Invested in by the life and non-life companies for the PR





Note:
'Other' assets comprise short term securities, cash, fixed assets and investments in non-financial subsidiaries.

6. Interest Rate Risk

This risk component applies to life insurance business only. There have been some significant movements in the liability volatility for the life insurance companies from QIS2 to the PR particularly for groups 3 and 6. These reductions were on account of increases in the supporting asset values by some life insurers in group 3, fluctuations to both the liabilities and the supporting asset values in group 5, and an overall increase of $858m in the liabilities in group 6.

Table 5. Comparison of Volatility of the CPPM Liabilities to a 1% Parallel Shift

Line of Business	Capital Required Component of Interest/Net CPPM Liab	
	QIS2	**PR**
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	12.0%	12.0%
Group 3 - Individual Ins without participation in profits	46.6%	23.4%
Group 4 - Other (such as endowments)	4.9%	4.3%
Group 5 - Annuities	7.8%	13.5%
Group 6 - Other Long Term business (such as group, personal accident, investment contracts)	6.9%	0.2%
TOTAL	**10.6%**	**13.2%**

7. Foreign Currency Exchange Mismatch Risk
In both the QIS2 and the PR, all of the companies that participated had net open positions i.e. foreign currency assets in excess of the foreign currency liabilities. The majority of the foreign currency assets were denominated in US$. See Tables 6 and 7 below for further details.

Table6. Comparison of the companies' net open position as a % of Total Assets for life and non-life companies

Net Open Position as a % of Total Assets	Number of Companies	
	QIS 2	**PR**
Less than 5%	4	4
Between 5% - 10%	1	2
Between 11% - 15%	6	3
Above 16%	6	7
TOTAL	**17**	**16**

Table7. Net open positions by currency for the life and non-life companies

Currency	Life		Non-Life	
	$'000	**%**	**$'000**	**%**
United States Dollars	889,283	64%	1,222,126	93%
Pounds Sterling	102,010	7%	-	0%
Jamaican Dollars	236,420	17%	942	0%
Canadian Dollars	-	0%	-	0%
Euros	11,388	1%	43,068	3%
Barbados Dollars	64,446	5%	43,957	3%
Other	79,929	6%	7,461	1%
Total	**1,383,476**	**100%**	**1,317,554**	**100%**

8. Mortality & Morbidity Risk, Lapse Risk and Interest Margin Pricing Risk
This risk component applies to life insurance business only. A comparison of the ratios of mortality & morbidity risk, lapse risk and interest margin pricing risk to net CPPM liabilities for QIS2 and the PR showed there was a significant increase, particularly for the mortality & morbidity capital requirements. This was largely on account of the different companies that participated in the two studies. Some companies also refined their CPPM valuation models for the PR.

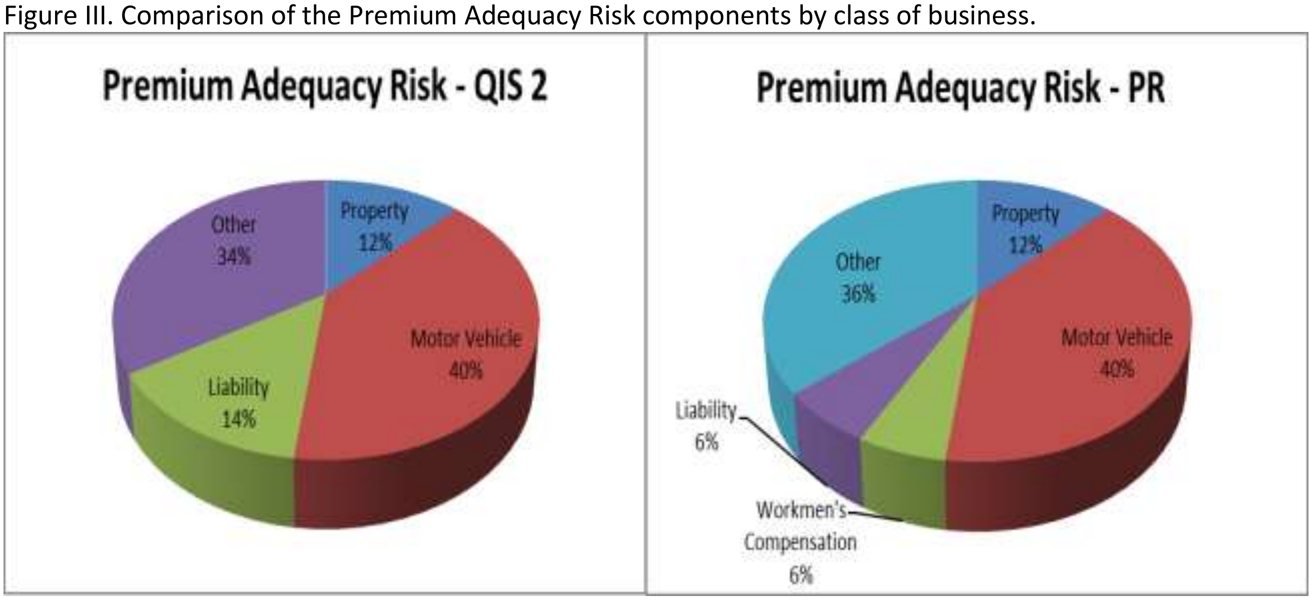
Table8. Comparison of Capital Required Component as a % of Net Liability

Capital Required Component as a % of Net Liability	**QIS 2**	**PR**
Mortality/Morbidity	0.70%	2.26%
Lapse	0.71%	0.64%
Interest Margin Pricing	0.30%	0.83%

Note: If the companies that participated in QIS2 but not in the PR were excluded from the QIS2 data, the ratios would have been 2.20%, 0.74% and 0.84% for mortality/morbidity, lapse and interest margin pricing, respectively.

9. Premium Adequacy Risk
This risk component applies to non-life insurance business only. In QIS2 there were only 4 broad categories of business to which the risk factors were applied. In the PR, the categories were expanded to be consistent with those in the Insurance Act Accounts. There were also some amendments to the risk factors for Property, Marine and Sickness and Accident business. There were no significant changes to these results.

Figure III. Comparison of the Premium Adequacy Risk components by class of business.

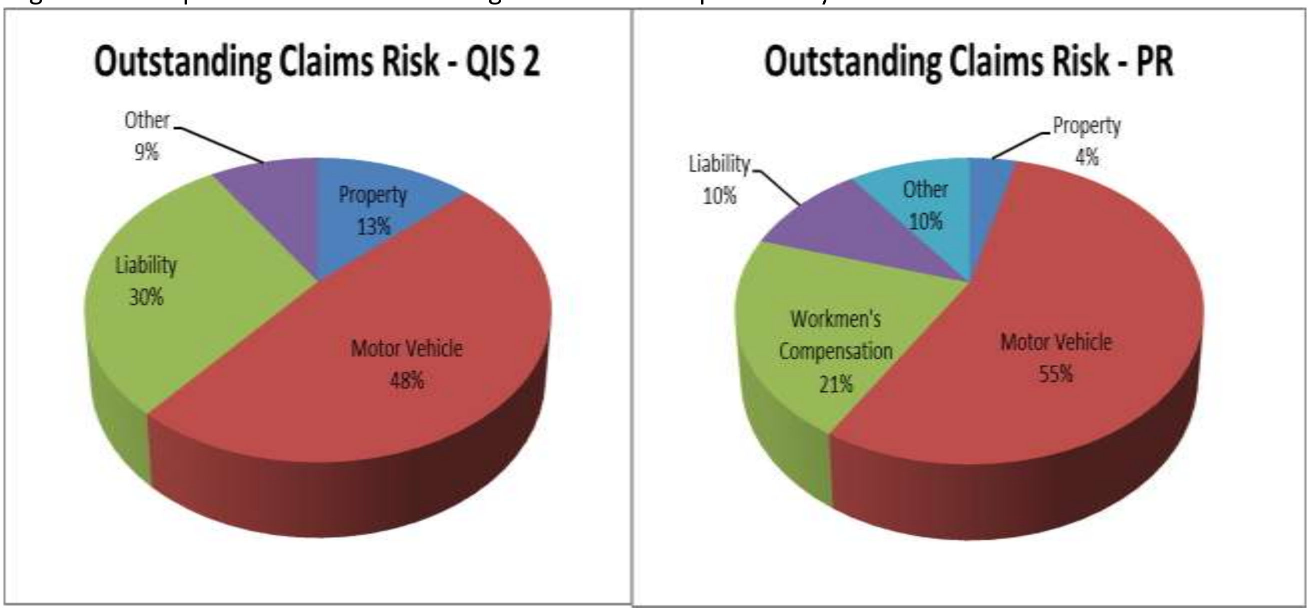


Notes:
a) In QIS 2, ‘Liability’ included Workmen’s Compensation.
b) ‘Other’ category comprises Marine, Pecuniary and Sickness and Accident business.

10. Outstanding Claims Risk

This risk is applicable to non-life insurance business only. The same changes to the categories of business relevant to the premium adequacy risk above also apply for the outstanding claims risk.

Figure IV. Comparison of the Outstanding Claims Risk components by class of business



Notes:
a) In QIS 2, 'Liability' included Workmen's Compensation.
b) 'Other' category comprises Marine, Pecuniary and Sickness and Accident business.

11. Catastrophe Risk

This risk is applicable to non-life insurance business only. The calculations for this risk component were amended from QIS2 to the PR. In QIS2, policyholder liabilities and adjusted capital resources were used to determine the required capital. The formula was then simplified for the PR to equal the company's retention under the catastrophe programme plus the reinstatement cost plus any shortfall between the net Probable Maximum Loss (PML) and the upper limit on the catastrophe treaty.

Table 9. Comparison of Capital Required Component as a % of Gross Premium

Capital Required as a % of Gross Premium	No. of Non-Life Companies	
	QIS2	**PR**
0% - 5%	9	4
6% - 10%	3	1
Above 10%	1	4
Total	**13**	**9**

Only two companies experienced a shortfall between the net PML and the upper limit on their catastrophe programmes. The total shortfall was approximately $18M or 11% of total capital required for catastrophe risk.

CARIBBEAN POLICY PREMIUM METHOD

In the Parallel Run, the overall effect of applying the CPPM based on companies' 2009 financial year end data was a reduction in the liabilities from those filed in the statutory returns by approximately 6%. Initially when CPPM was introduced in QIS1, there was an increase in the liabilities of approximately 3%. This was on account of companies moving from a retrospective method in their statutory returns to a prospective method in QIS1 which required the recognition of some embedded guarantees, particularly with respect to some annuity and universal life products. In addition, some actuaries tended to be more conservative in their selection of the assumptions under the CPPM. In QIS2, the liabilities still showed an increase but by a much smaller margin.

Generally the actuary's reports for the PR were completed as requested but there were still some inadequacies observed in the application of the CPPM and disclosures in the report. The main observations were as follows:

- The assets were not segmented as required;
- There was lack of support regarding the determination of the assumptions;
- The 3.5% requirement for the cost of guarantees and options in the absence of any modelling was not applied;
- A PAD was not applied on each contingency as required and no justification was provided by the actuary;
- Unexplained CSV deficiencies were reported as zero; and
- Negative reserves were not calculated correctly.

1. Comparison of the liabilities determined under the CPPM to those filed for the 2009 statutory returns. This shows the movement in the liabilities over the three studies carried out (QIS1, QIS2 and the PR).

Table 1. Comparison of Net CPPM Liabilities to Act Liabilities by Line of Business

Line of Business	**Net CPPM/Act Liab - QIS1**	**Net CPPM/Act Liab - QIS2**	**Net CPPM/Act Liab - PR**
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	96.0%	107.9%	122.0%
Group 3 - Individual Ins without participation in profits	85.2%	82.8%	75.9%
Group 4 - Other (such as endowments	96.8%	117.4%	106.5%
Group 5 - Annuities	104.6%	102.4%	98.4%
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	97.9%	78.7%	98.8%
TOTAL	**102.7%**	**100.5%**	**94.0%**

Notes:

a. There was a change in the classification for Group 5 and Group 6, between QIS2 and PR. In QIS2, Deposit Administration Contracts were reported in Group 5. In the PR, these contracts were required to be reported in Group 6.
b. Some companies that participated in QIS1 and QIS2 did not participate in the PR.

Table 2. Overall Comparison of Net CPPM Liabilities to Act Liabilities

Range	No. of Companies		
	QIS1	QIS2	PR
85% - 89%		2	2
90% - 95%	3	2	0
96% - 100%	2	2	4
101% - 105%	2	1	3
106% and above	2	4	

2. Information on PAD's by line of business and the distribution of PADs by type.

Table 3. Comparison of Total PADs as a % of Net CPPM Liabilities by line of business

Line of Business	PAD/Net Liab QIS1	PAD/Net Liab QIS2	PAD/Net Liab PR
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	6.8%	10.1%	12.1%
Group 3 - Individual Ins without participation in profits	36.1%	23.0%	27.7%
Group 4 - Other (such as endowments)	3.8%	5.8%	10.6%
Group 5 - Annuities	6.8%	5.2%	7.2%
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	1.0%	7.9%	0.6%
TOTAL	**9.1%**	**6.4%**	**10.5%**

Table 4. Distribution of the PADs shown as a % of Net CPPM Liability

	Interest	Mortality/ Morbidity	Lapse	Expense	TOTAL
QIS1	7.5%	0.8%	0.4%	0.4%	9.1%
QIS2	4.7%	0.6%	0.6%	0.5%	6.4%
PR	6.2%	1.6%	1.2%	1.5%	10.5%

The following two tables provide a breakdown of the PADs by line of business showing the movement between QIS2 and the PR.

Table 5. Comparison of PADs by Line of Business as a % of Net CPPM Liability for PR only

Line of Business	Interest	Mortality/ Morbidity	Lapse	Expense	TOTAL
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	57.6%	3.6%	17.9%	20.9%	
Group 3 - Individual Ins without participation in profits	46.5%	20.6%	15.2%	15.9%	
Group 4 - Other (such as endowments	36.5%	3.4%	31.2%	28.9%	
Group 5 - Annuities	52.4%	1.0%	15.7%	30.8%	
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	-1.8%	90.1%	-3.0%	14.7%	
TOTAL as a % of Net CPPM Liab	**6.2%**	**1.6%**	**1.2%**	**1.5%**	**10.5%**

Table 6. Comparison of PADs by Line of Business as a % of Net CPPM Liability for QIS2

Line of Business	Interest	Mortality/ Morbidity	Lapse	Expense	TOTAL
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	70.0%	6.4%	10.4%	13.3%	
Group 3 - Individual Ins without participation in profits	48.0%	20.3%	17.0%	14.8%	
Group 4 - Other (such as endowments	59.1%	6.4%	9.0%	25.6%	
Group 5 - Annuities	82.4%	6.1%	7.0%	4.6%	
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	50.0%	12.0%	16.0%	22.2%	
TOTAL	**73.0%**	**9.7%**	**9.7%**	**7.8%**	
TOTAL as a % of Net CPPM Liab	**4.7%**	**0.6%**	**0.6%**	**0.5%**	**6.4%**

3. Comparison of the interest PAD and capital adequacy asset liability results by line of business.
   There was a significant reduction observed in the Group 6 ratio for Interest PAD to Net CPPM Liabilities from QIS2 to the PR. This was on account of one company's data being reported in QIS2 but excluded from

the PR as further work is required before the data is accepted. If this company had been excluded from QIS2, the results for that Group 6 ratio would have been 0.2%.

The large reduction in the ratio of the capital component of interest to net CPPM liabilities for Group 3, was due to one company increasing their supporting asset value by $115m. If this company was excluded from QIS2, the results for this ratio in Group 3 would be 26.7%.

Table 7. Volatility of the CPPM Liabilities to a 1% Parallel Shift

Line of Business	**Capital Component of Interest/Net CPPM Liab**		**Valn Interest PAD/Net CPPM Liab**	
	QIS2	**PR**	**QIS2**	**PR**
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	12.0%	12.0%	7.1%	6.8%
Group 3 - Individual Ins without participation in profits	46.6%	23.4%	11.0%	12.8%
Group 4 - Other (such as endowments	4.9%	4.3%	3.4%	3.6%
Group 5 - Annuities	7.8%	13.5%	4.3%	5.5%
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	6.9%	0.2%	3.9%	0.3%
TOTAL	**10.6%**	**13.2%**	**4.8%**	**6.2%**

Table 8. Interest PAD as a % of Net CPPM Liabilities

Range	**No. of Companies**	
	QIS2	**PR**
< 1%	-	1
1% - 2%	1	1
2% - 3%	2	1
3% - 4%	2	2
4% - 5%	3	1
5% - 6%	1	0
> 6%	2	3

4. Comparisons of the expense and lapse PADs by company for Group 3 - Individual Insurance without participation in profits.

Table 9. Expense PAD as a % of Group 3 Net CPPM Liabilities

Range	**No. of Companies**	
	QIS2	**PR**
< 1%	1	1
1% - 2%	4	2
2% - 3%	1	-
3% - 4%	1	-
> 4%	4	6

Table 10. Valuation Expenses documented in the AA's report

	QIS2		**PR**	
	Individual Life	**Annuities**	**Individual Life**	**Annuities**
Below $200	1	2	1	2
$201 - $300	4	1	1	1
Above $300	2	-	5	-

Table 11. Lapse PAD as a % of Group 3 Net CPPM Liabilities

Range	**No. of Companies**	
	QIS2	**PR**
< 1%	1	1
1% - 2%	-	-
2% - 3%	1	2
3% - 4%	5	2
4% - 5%	1	2
> 5%	3	2

5. Comparison of the mortality/morbidity PAD and capital adequacy asset liability results by company for Group 3 - Individual Insurance without participation in profits.

Table 12. Mortality/Morbidity PAD as a % of Group 3 Net CPPM Liabilities

Range	**No. of Companies**	
	QIS2	**PR**
< 0.5%	7	-
0.5% - 1%	3	3
> 1%	1	6

Table 13. Mortality/Morbidity PAD as a % of Group 3 Net CPPM Liabilities - Excluding Annuities

Range	No. of Companies	
	QIS2	PR
< 1%	2	3
1% - 2%	5	-
2% - 3%	2	3
> 3%	2	3

Table14. Capital required for mortality/morbidity, lapse and interest margin pricing as a % of Net CPPM Liabilities

	Capital Req'd Component as % of Net CPPM Liabilities		
Capital Component	**QIS1**	**QIS2**	**PR**
Mortality/Morbidity	0.73%	0.70%	2.26%
Lapse	0.28%	0.71%	0.64%
Interest Margin Pricing	0.29%	0.30%	0.83%

Note: There were companies that participated in both the QIS1 and QIS2 but not in the PR. If these companies had been excluded from QIS2, the ratios would have been 2.20%, 0.74% and 0.84% for mortality/morbidity, lapse and interest margin pricing, respectively.

Table 15. Valuation interest rates - Individual life

Initial Rate	No. of Companies		Ultimate Rate	No. of Companies	
	QIS2	PR		QIS2	PR
< 8%	2	7	< 5%	2	1
8% - 9%	6	1	5% - 6%	7	7
> 9%	1	-	> 6%	-	

Note: One company did not submit the details of its valuation yield curve for the PR.

NON LIFE OUTSTANDING CLAIMS RESERVES

This aspect of the proposed requirements continues to be an area that requires further assistance from the Central Bank. Greater guidance is necessary to ensure that companies understand the requirements and are able to accurately complete the forms. Once the Central Bank is satisfied with the credibility of the data reported, this information will be used to assess the adequacy of a company's outstanding reserves.

Of the nine companies that submitted the required Form B4 Schedules, only two were able to complete these forms as required with the data reported appearing reasonable. The forms submitted by the seven other companies were not accurately completed and when the Central Bank met with these companies, the staff admitted to not understanding the requirements. Once the issues had been further discussed and clarified, the companies agreed to amend and resubmit the forms for a final review by the Central Bank.

AMENDMENTS

DRAFT INSURANCE (CARIBBEAN POLICY PREMIUM METHOD) REGULATIONS

There were no significant amendments required with regards to these Regulations and the forms. Minor updates have been made to reference the correct version of the Insurance Bill.

DRAFT INSURANCE (CAPITAL ADEQUACY) REGULATIONS

Based on concerns raised regarding various risk factors, the grandfathering and transition provisions and the wording of some of the provisions, the following amendments have been made:

a) Short Term Securities – T-Bills
   The risk factors for T-Bills issued by other sovereigns have been included.
b) Foreign Currency Mismatch Risk
   The risk factors for US currency, Pound Sterling, Euro, EC, Barbados and other currencies issued by countries rated BBB and above have been reduced from 8% to 2%.
c) Mortgages for Undeveloped Land
   The risk factor has been reduced from 10% to 8%.
d) Off Balance Sheet Liability Risk – Guarantees not in respect of insurance business.
   The wording has been expanded to provide more clarity. It now reads: "Guarantees provided by the insurer that are not in respect of insurance business and that may be provided for the debt of connected parties. These include guarantees provided for performance bonds, warranties, indemnities and other commitments undertaken by the insurer for which the insurer is liable as a secondary obligor. The risk factor for the counterparty based on a credit conversion of 50% shall apply."
e) Catastrophe Risk
   The wording has been expanded to provide more clarity. It now reads: "The Catastrophe Risk Charge is the cost to the insurer of a catastrophe event equal to the minimum acceptable upper limit. This cost is net of all other applicable reinsurance arrangements and includes the insurer's retention and reinstatement cost under the insurer's catastrophe reinsurance programme."
f) Grandfathering provision
   The effective date will be the date of enactment of the Insurance Bill. For Parallel Run 2 purposes, the effective date will December 31, 2010.
g) Transitioning provision
   The intent has been clarified by the new wording "Within three months of the enactment of these Regulations, Capital Adequacy Returns under Section 168 of the Act must be submitted based on the statutory returns from the insurer's financial year end immediately prior to enactment of the Act".
h) Minor updates have been effected such as references to the most recent version of the Insurance Bill i.e. revised Aug 2010 and 'Officer' has been changed to 'Director' in the Declaration form.

CAPITAL ADEQUACY RETURNS

a) There are now separate Returns for Life Insurance Companies, General Insurance Companies and Composite Companies.
b) The respective forms have been updated based on the amendments to the draft Regulations as specified in the section above and where applicable.
c) The Branch Capital Available form now includes the Catastrophe Reserve Fund.
d) A new form titled "Property Valuation Form" has been included to capture the unrealised after-tax gains on real estate that fall under the transition provision.
e) A new form titled "Unrated Bonds Valuation Form" has been included to allow for details on the unrated bonds that fall under the transition provision.

f) A reconciliation sheet has been included to assist companies with reconciling the data before submitting to the Central Bank to ensure accuracy of the figures.

NON-LIFE OUTSTANDING CLAIMS RESERVES

The Form B4 Schedules have been amended to include a reconciliation sheet between the data reported in these Schedules and that reported in the insurer's IFRS statements. A "Cumulative Claim payments from accident date to end of year" column and an "IBNR reserve at end of year" column have now been included.

GUIDANCE DOCUMENTS

To achieve consistency and accuracy in the determination of an insurer's Regulatory Capital Requirement Ratio, the completion of the actuarial valuation under the CPPM and the population of the Form B4 Schedules, guidance documents have been prepared to assist insurers and appointed actuaries in complying with the draft Regulations and requirements for the Parallel Run 2.

PARALLEL RUN 2 PACKAGE

All relevant information for the Parallel Run 2 is located at the Central Bank's website:
http://www.central-bank.org.tt/content/statutory-valuation-working-committee