



**Parallel Run 2 on the Valuation of Long Term Insurance Business,
Risk Based Capital Requirements for Insurers and
General Insurance – B4 Schedules**

Report on the findings

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BACKGROUND

In June 2004, the Minister of Finance issued a White Paper on the Reform of the Financial System of Trinidad and Tobago in which weaknesses in the system were identified and recommendations outlined. The Central Bank of Trinidad and Tobago (Central Bank) undertook several of these recommendations and initiated other changes following the recommendations of a financial sector assessment by the IMF and World Bank in 2005. One of the initiatives undertaken was the reform of the legal framework under which the insurance sector currently operates. The current legislation is outdated and does not facilitate regulation and supervision of the sector in accordance with internationally accepted standards.

In 2008, the Central Bank with assistance from the IMF worked with representatives of the Association of Trinidad and Tobago Insurance Companies (ATTIC), the Caribbean Actuarial Association (CAA) and the Institute of Chartered Accountants of Trinidad and Tobago (ICATT) to develop a risk based capital framework for all insurance companies in Trinidad and Tobago. A standard valuation method for long term insurance business was developed and a minimum basis for calculating loss reserves for general insurance business was discussed. Common methods for valuing an insurer's liabilities are necessary for an effective risk based capital framework.

Quantitative impact studies (QIS's) were then conducted to assess the impact of the above proposals, test the industry's capabilities of implementing the new requirements and ensure applicability to the Trinidad and Tobago market. Since 2008, four QIS's have been completed based on an insurer's information for its financial year ends for 2007, 2008, 2009 and 2010 and are referred to as QIS 1, QIS 2, Parallel Run 1 and Parallel Run 2, respectively.

The efforts of these collaborations and the findings of the impact studies resulted in the development of the Insurance (Capital Adequacy) Regulations, the Insurance (Caribbean Policy Premium Method) Regulations¹ and the Form B4 Schedules².

The new Insurance Bill, 2011 was laid in parliament in November 2011. The Central Bank anticipates that the Bill and accompanying regulations including those mentioned above will be enacted in 2012.

EXECUTIVE SUMMARY

In December 2010, the insurance industry was asked to participate in a Parallel Run 2 (PR 2) of the Valuation of Long Term Insurance Business, Risk Based Capital Requirements for insurers and completion of B4 Schedules. The objective of the PR 2 was to conduct further testing based on 2010 financial year end data and to give companies the opportunity to further refine their systems before enactment of the new legislation. This report focuses on the results of this PR 2 based on data submitted by eleven (11) long term insurance companies and twelve (12) general insurance companies.

¹ These Regulations prescribe the valuation methodology for computing policy benefit liabilities of long term insurance companies.

² The B4 Schedules capture basic historic claims information by accident year for general insurance business. The results of the first impact study revealed that analysis of claims by accident year and calendar loss triangles were not a common practice among general insurers, so building and extracting such data on which to apply a prescribed loss reserving method would take time. Therefore the Central Bank instead focused on developing the Form B4 Schedules and has established a standardized method for analysing the adequacy of the outstanding claims reserves using these Schedules.

Based on the level of participation in the PR 2 and taking into account the results of the previous studies, the following broad conclusions apply:

- a) The long term insurance industry is ready to implement the new Caribbean Policy Premium Valuation Method (CPPM);
- b) Both the long term 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. However there are still concerns with respect to the readiness of a number of general insurance companies as:
 - 4 companies have not participated in any of the studies;
 - proper systems are not fully in place in some companies with consequent difficulty in obtaining reliable data;
 - there is limited claims reserving expertise; and
 - the requirements of the Central Bank are not always fully understood.

The Central Bank is committed to working with those general insurance companies which do not fully understand the requirements, as the data must be reliable before the outstanding claims reserves can be assessed.

ORGANISATION AND PARTICIPATION

Individual company meetings with the Central Bank on their submissions have proven to be very beneficial in finalising the regulations, reporting forms and guidance required for the risk based capital framework, CPPM and B4 Schedules. The Central Bank met with each company that participated in the PR 2 to fully understand each submission, discuss the problems encountered and obtain further comments on the proposals.

The levels of participation for all four studies conducted; QIS1, QIS2, Parallel Run 1 (PR 1) and PR 2 are shown in the following table:

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

Company	QIS1	QIS2	PR 1	PR 2
General Insurance	11	13	10 ³	12
Long Term Insurance	10	11	10 ⁴	11

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

There was a slight improvement in the number of participants for the PR 2 as this was expected to be each company's last opportunity to test the new requirements before they become law. As illustrated above, 11 out of 14 long term insurance companies and 12 out of 18 general insurance companies participated in the exercise.

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

⁴ 10 life insurance companies participated in the PR 1 but one life insurance company's data was not included in the PR 1 report as further work was required before its figures could be finalized.

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

Companies that consistently participated in the impact studies were more familiar with the requirements as their levels of understanding continue to improve. Other companies expressed difficulty with completing the forms as they either had not participated in previous studies or had resource constraints on account of turnover or rotation of staff. Implementation and enhancement of systems to facilitate timely reporting is ongoing. Concerns were raised regarding the application of the look through method, use of internal rating models, risk factors for mutual funds, consistency with the new Insurance Bill, classification of assets and classes of business, complexity of the catastrophe risk requirements and the grandfathering provisions. These have been addressed through amendments to the Regulations, where appropriate, and revisions to the guidance document.

CARIBBEAN POLICY PREMIUM METHOD

The requirements were generally understood by those actuaries who performed the CPPM valuation. Some of the provisions required clarification such as the Inspector's directions on the ultimate rate of return and the cash flows to be included. These have been addressed through revised wording in the directions and the guidance document. Companies continue to make enhancements to the valuation systems in place to improve the integrity of the data, additional experience studies have been introduced and further testing has been conducted on asset liability matching frameworks. The actuaries are cognisant of the need to distribute participating surplus on an equitable basis and the Central Bank is committed to issue guidelines on this topic.

GENERAL INSURANCE – COMPLETION OF B4 SCHEDULES

The level of understanding has improved for those companies that have participated in all the studies and these companies have enhanced their systems to facilitate timely and accurate reporting. There were still some timing constraints due to turnover and rotation of staff. Some companies still expressed difficulty with completing the forms as the requirements were not fully understood. Systems have also not yet been fully implemented that will facilitate the easy retrieval of data in the required format. Continued assistance from the Central Bank was requested.

FINDINGS

Following the results of the PR 2 and the increased effort by companies to participate in this study prior to enactment of the new legislation, the Central Bank maintains that the insurance industry is capable and ready to implement both the CPPM and the risk based capital framework. Some companies have sought to implement new systems and to enhance their existing systems to ensure compliance with the new requirements when these become law. The Central Bank continues however to have concerns regarding the capture of claims data for general insurance business as this information will be used to assess the adequacy of a general insurer's outstanding claims reserves. It is therefore anticipated that the Central Bank will continue to work closely with companies in this regard as well as with those companies that have never participated in the studies or have had very little exposure to any of the proposed requirements.

The following summarises the main findings of the risk based capital framework, the CPPM liabilities and the information reported in the Form B4 Schedules for the PR 2:

RISK BASED CAPITAL REQUIREMENTS

1. Regulatory Capital Requirement Ratio (RCRR)

The RCRR is determined by dividing the regulatory capital available by the regulatory capital required. Every insurer is required to establish and maintain an RCRR of at least 150%. Many of the companies that participated in the PR 2 are adequately capitalised with an RCRR greater than 150%. Seven companies with an RCRR less than 150% would fall under the transitions provisions as stipulated in the draft Insurance (Capital Adequacy) Regulations. Further details of the breakdown of the ratios are shown in Table 2.

Table 2. RCRR's for long term and general insurance companies

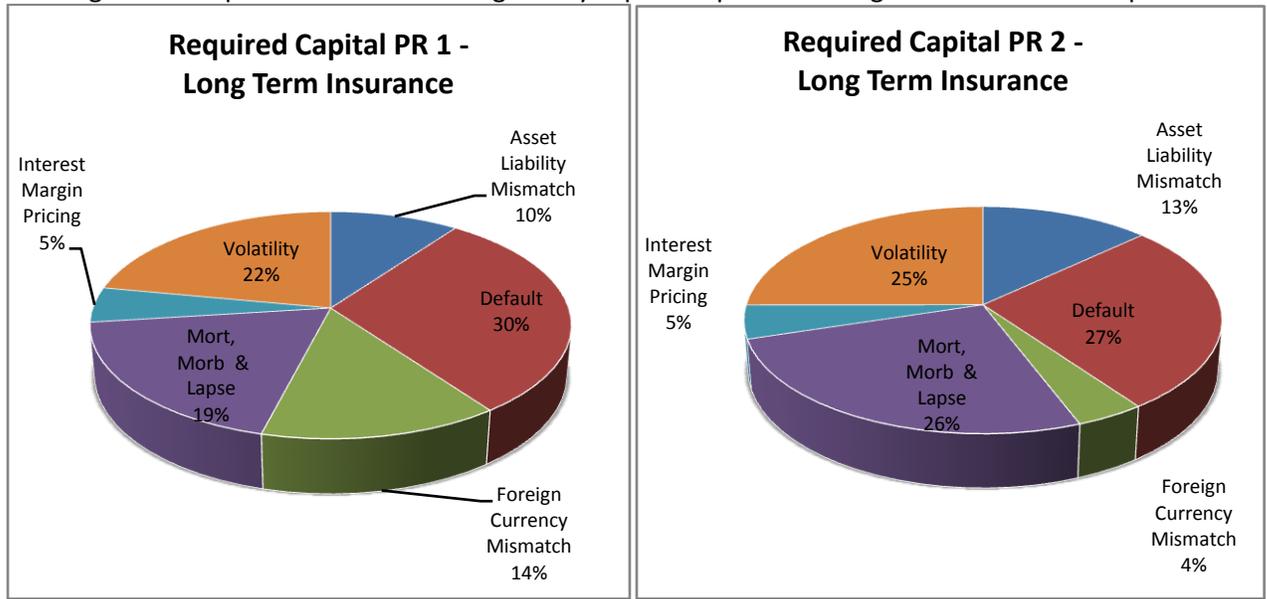
Regulatory Capital Requirement Ratio	PR 1		PR 2	
	Long Term	General	Long Term	General
Below 50%	-	-	1	1
50% - 100%	-	2	-	-
100% - 150%	1	2	1	4
150% - 200%	-	1	1	1
Above 200%	8	4	8	6
Total	9	9	11	12
Average Ratio (excl negative ratios)	289.0%	167.0%	245.1%	196.4%

2. Regulatory Capital Required

Capital is required to cover the various risks to which the insurer is exposed. These risks comprise asset default risk, investment volatility risk, off-balance sheet risks, mortality risk, morbidity risk, lapse risk, interest margin pricing risk, premium adequacy risk, outstanding claim risk, catastrophe risk, foreign currency mismatch risk and asset liability mismatch risk. The amount of capital required is calculated by first quantifying the insurer's exposure to each risk in turn and then multiplying the exposure by some appropriate risk weights. The risk weights are reflective of the riskiness of invested assets and types of insurance products underwritten. The charts below show the breakdown of the components of the regulatory capital required based on the risks relevant to the type of insurer – long term or general insurance.

Figure I provides a breakdown for the long term insurance companies. The default and volatility risks which ensure that capital is set aside to cover the risk that amounts due from counterparties will not be received and to cover the volatility of the assets respectively, continue to represent at least fifty per cent of the capital required. There was a significant reduction in the capital required for foreign currency mismatch in the PR 2 when compared with the PR 1, on account of a reduction in the risk factors from eight per cent (8%) to two per cent (2%) for currencies issued by countries rated BBB and above.

Figure I. Components of the total regulatory capital required for long term insurance companies

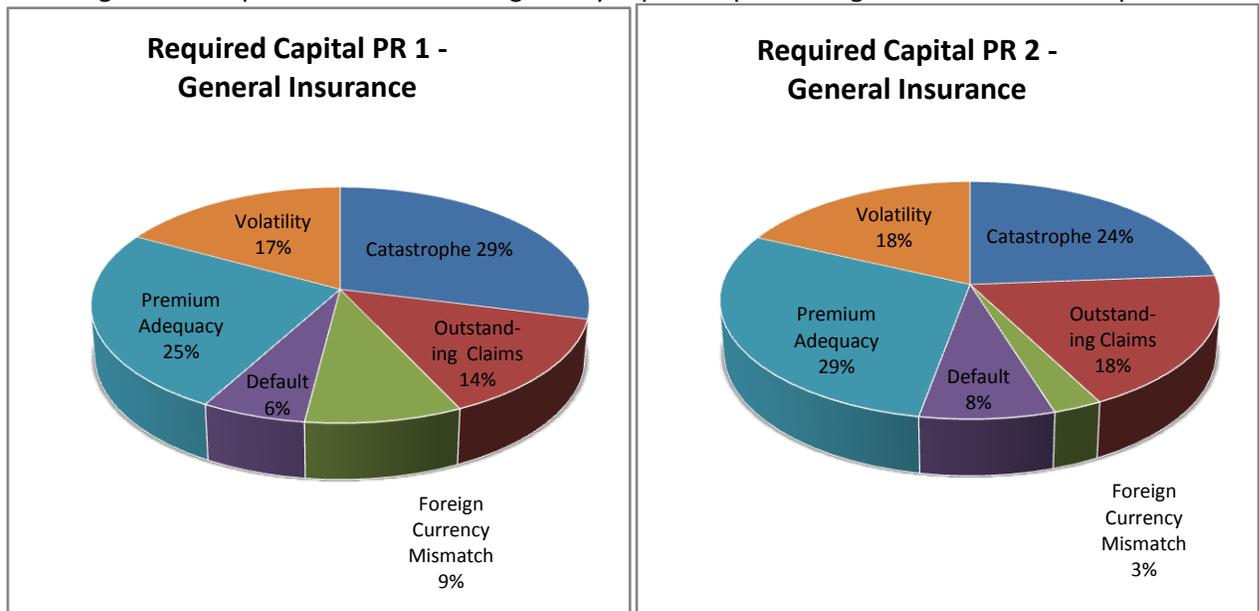


Note:

- a) There were no 'Off balance sheet' items reported in the PR 2 for either the long term or the general insurance companies.

A similar breakdown of the required capital for general insurance companies indicates that the catastrophe and premium adequacy risks continue to have the largest capital requirement exceeding fifty per cent of the total capital required. Further details of the proportions are illustrated in Figure II.

Figure II. Components of the total regulatory capital required for general insurance companies



Regulatory Capital Available

Capital that is available from a number of sources owned by the insurer and to which certain eligibility criteria apply, is deemed to be capital available. The eligibility criteria include, inter alia, permanence, non-restriction from fixed charges against earnings and a ranking below the claims of policyholders and other creditors in the event of winding up.

Tier 1 capital is the core capital of the company which represents capital of the highest quality; for example ordinary shares, retained earnings and surplus. Certain items are then deducted from Tier 1 capital as either they do not qualify as capital or they are considered as Tier 2 capital. Deductions from Tier 1 capital include items such as goodwill and cash value deficiencies and negative reserves, for long term insurance companies. Tier 2 capital is supplementary capital and includes such elements as subordinated debt and revaluation reserves. Table 3 below shows two key ratios. It is comforting to note that a significant majority of the net capital available for general insurance companies is Tier 1 capital. The level is not as high for long term insurance companies but as the companies become more familiar with the regulatory requirements and work towards minimizing the deductions from capital, the levels of core capital are expected to increase. Variances between the two studies were mainly on account of the different composition of companies which participated.

Table 3. Comparable ratios for the PR 1 and PR 2

Ratio	PR 1			PR 2		
	Long Term Insurance %	General Insurance %	Total %	Long Term Insurance %	General Insurance %	Total %
Total Capital Available / Net Assets	25%	28%	25%	21%	27%	22%
Net Tier 1 capital/ Total Capital Available	67%	72%	68%	65%	82%	69%

3. Investment risk

The average capital required for default and volatility risks as a percentage of net assets gives an indication of the types and riskiness of the assets invested in by companies. Comparison of the assets between long term and general insurance companies indicates that they differ, as expected, based on the nature of the business, with long term insurance companies tending to invest in assets which are longer term than those of the general insurance companies.

Table 4. Comparison of required capital for default and volatility risk for long term and general insurance companies as a % of net assets

Required Capital for Default and Volatility Risk as a % of Net Assets	Number of Long Term Insurance Companies	Number of General Insurance Companies
0.0% - 2.0%	2	3
2.1% - 4.0%	3	3
4.1% - 6.0%	3	3
6.1% - 8.0%	2	2
Above 8.0%	1	1
Average	4.33%	4.10%

A comparison of the breakdown of the assets under the PR 1 and PR 2 indicates that there has been no major change in the composition of the assets for general insurance companies. There has been some shift in the asset profile for long term insurance companies when compared to PR 1, as real estate investments and equities have increased. This however, is due mainly to different companies participating in the two studies and may not be representative of the long term insurance industry as a whole. Capital required for fixed income securities decreased significantly for long term insurance companies on account of a change in the treatment of unrated bonds. Details of the capital required for the assets held by the long term and general insurance companies expressed as percentages of the aggregate capital required for asset default risk and volatility risk can be seen in Figure III and Figure IV respectively.

Figure III. Composition of assets invested in by the long term insurance companies

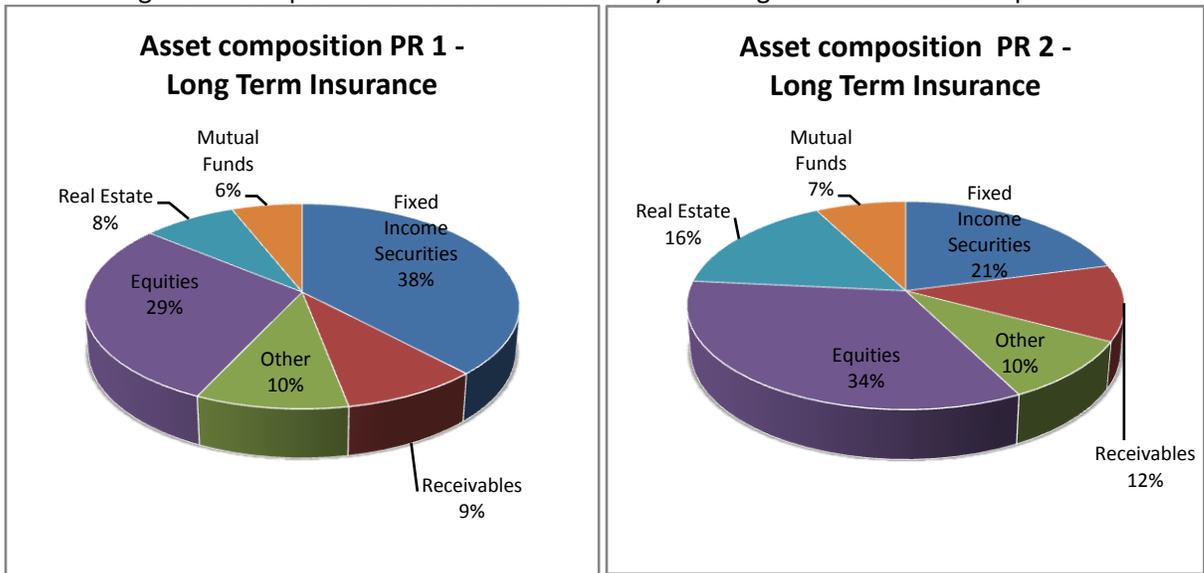
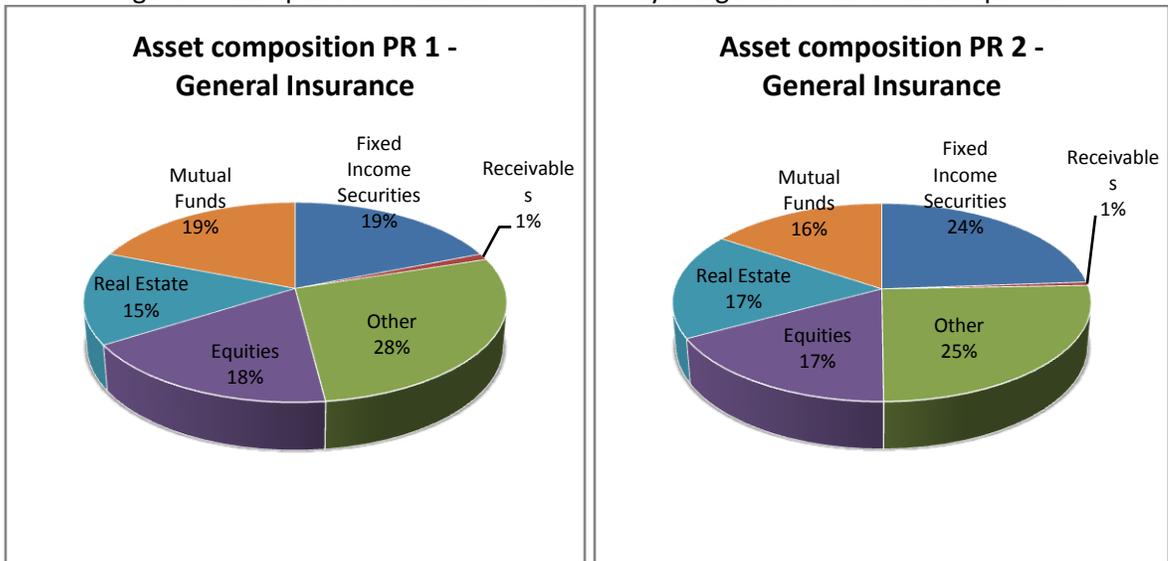


Figure IV. Composition of assets invested in by the general insurance companies



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

4. Asset Liability Mismatch Risk

This risk applies to long term insurance business only and the capital required is based on the impact of a 1% parallel shift in valuation interest rates of the liabilities. Most companies stated that only notional asset segmentation is performed and therefore only the liabilities were tested. However, in cases where companies applied the same parallel shift to the assets, there was still a significant mismatch observed. Table 5 below shows the sensitivity of the net CPPM liabilities to a 1% shift in the valuation interest rates. The impact is most significant for group 3 policies as these are the most sensitive to interest rate fluctuations and either companies were not able to segment the assets and test accordingly or the supporting assets were not well matched to the liabilities. As companies implement a formal asset liability management approach or further refine their existing strategy, the exposure to this risk will be reduced resulting in a reduction in the capital required.

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

Line of Business	Capital component as a % of net liability by line of business	
	PR 1	PR 2
Group 1 & 2 – Individual Insurance with immediate & deferred participation in profits	12.0%	14.3%
Group 3 – Individual Insurance without participation in profits	23.4%	26.7%
Group 4 – Endowments	4.3%	4.4%
Group 5 – Annuities	13.5%	9.6%
Group 6 – Other Long Term business (such as group, personal accident, inv contracts)	0.2%	1.4%
TOTAL	13.2%	11.9%

5. Foreign Currency Mismatch Risk

Six participating companies had no exposure to foreign currency mismatch as they held no assets or had no liabilities in a foreign currency. The most dominant form of foreign currency was the US dollar for both long term and general insurance companies, followed by the Barbados dollar but mainly for general insurance companies. The capital required for this risk is determined by multiplying the net open position i.e. foreign currency assets in excess of the foreign currency liabilities, by the appropriate risk factor. See tables 6 and 7 below for further details.

Table 6. Comparison of the companies' net open positions as a % of total assets for long term and general insurance companies

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

Table 7. Net open positions by currency for the long term and general insurance companies

Currency	Long Term Insurance	General Insurance
	%	%
United States Dollars	91.0%	56.0%
Pounds Sterling	4.0%	-
Euros	0.6%	-
Barbados Dollars	3.0%	18.0%
EC Dollars	1.0%	12.0%
Other	0.4%	14.0%
Total	100.0%	100.0%

6. Mortality & Morbidity Risk, Lapse Risk and Interest Margin Pricing Risk

These risk components apply to long term insurance business only. A comparison of the capital required for long term insurance liabilities to the net liability indicates that the mortality and morbidity risks continue to have the largest requirements. A breakdown of the comparison of the capital required component as a percentage of net liability can be seen in table 8.

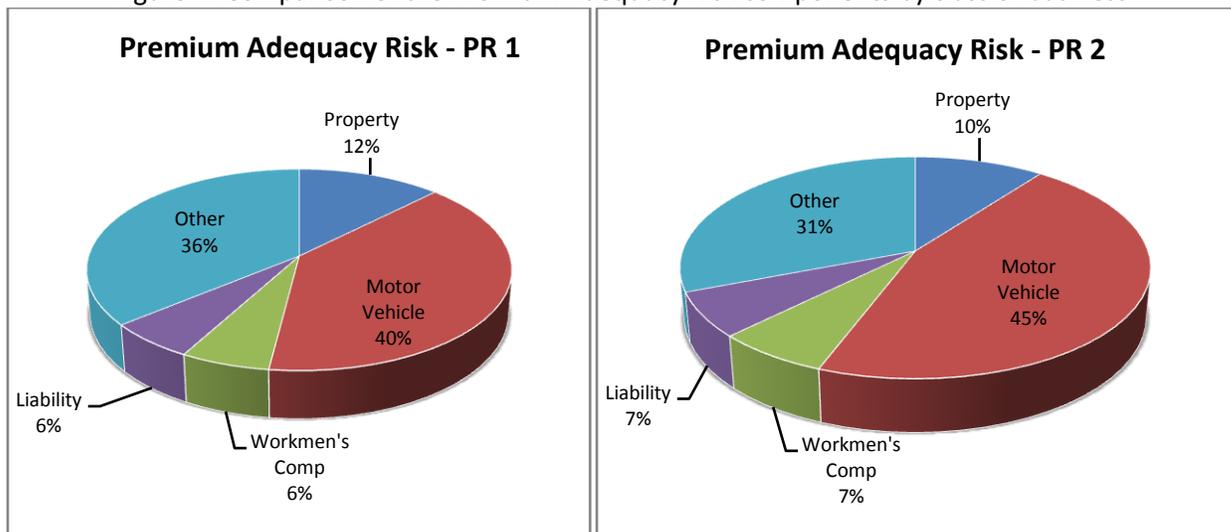
Table 8. Comparison of capital required component as a % of net Liability

Capital Required Component as a % of Net Liability	PR 1	PR 2
Mortality/Morbidity	2.26%	1.92%
Lapse	0.64%	0.63%
Interest Margin Pricing	0.83%	0.54%

7. Premium Adequacy Risk

This risk component applies to general insurance business only and reflects the risk profile by class of insurance business. The majority of the premium earned in the general insurance sector is for the motor vehicle class of business.

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



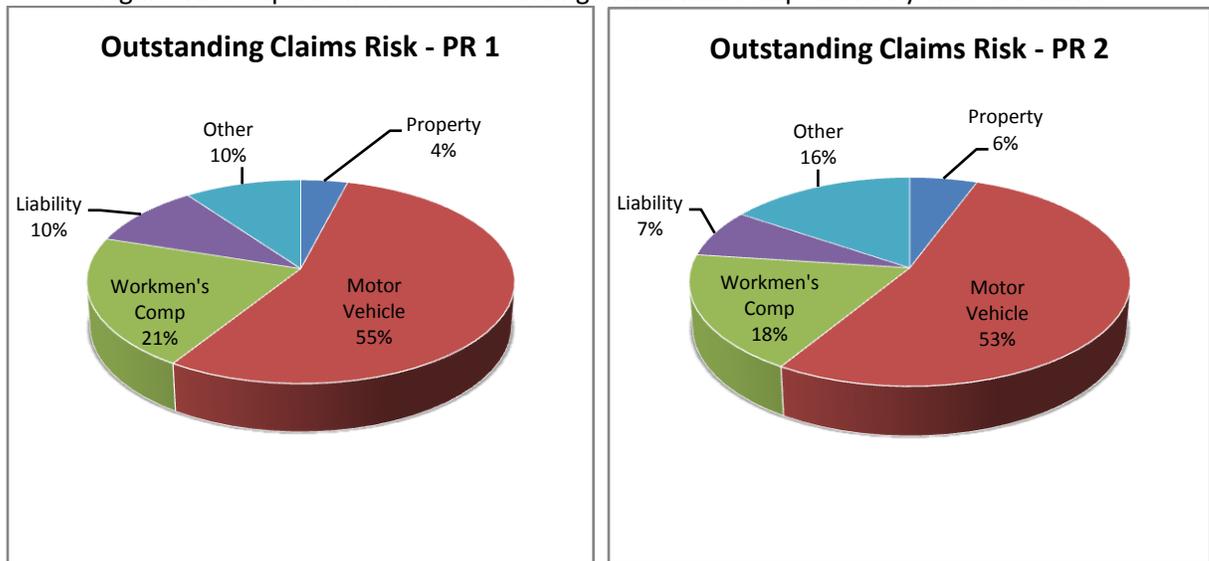
Note: Other category, which comprises marine, pecuniary and sickness and accident business.

8. Outstanding Claims Risk

This risk is applicable to general insurance business only and it reflects the level of unpaid claims and reserves being maintained in the general insurance sector. The Central Bank has been working closely with some general insurance companies to improve their claim reserves with mostly successful results thus far.

The motor insurance sector holds the largest proportion of outstanding claims and therefore retains higher capital to provide for this risk, relative to the other classes of business. This is illustrated below in figure VI.

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



9. Catastrophe Risk

This risk is applicable to general insurance business only. A company's catastrophe risk is measured as the company's retention under the catastrophe programme plus the reinstatement cost and any shortfall between the net Probable Maximum Loss and the upper limit on the catastrophe treaty. One company did not have any exposure to this risk.

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

Capital Required as a % of Gross Premium	No. of General Insurance Companies
0% - 5%	6
6% - 10%	4
Above 10%	1
Total	11

CARIBBEAN POLICY PREMIUM METHOD (CPPM)

A comparison of the liabilities calculated under the PR 2 using CPPM, with the liabilities submitted in the statutory returns as at December 31, 2010, referred to as the Act liabilities, indicates there was an overall 6% decrease in the liabilities when determined under the CPPM. The reasons for the change in liabilities were

attributed to changes in the assumptions, particularly in the valuation interest rates and the switch from a retrospective method in their statutory returns to a prospective method.

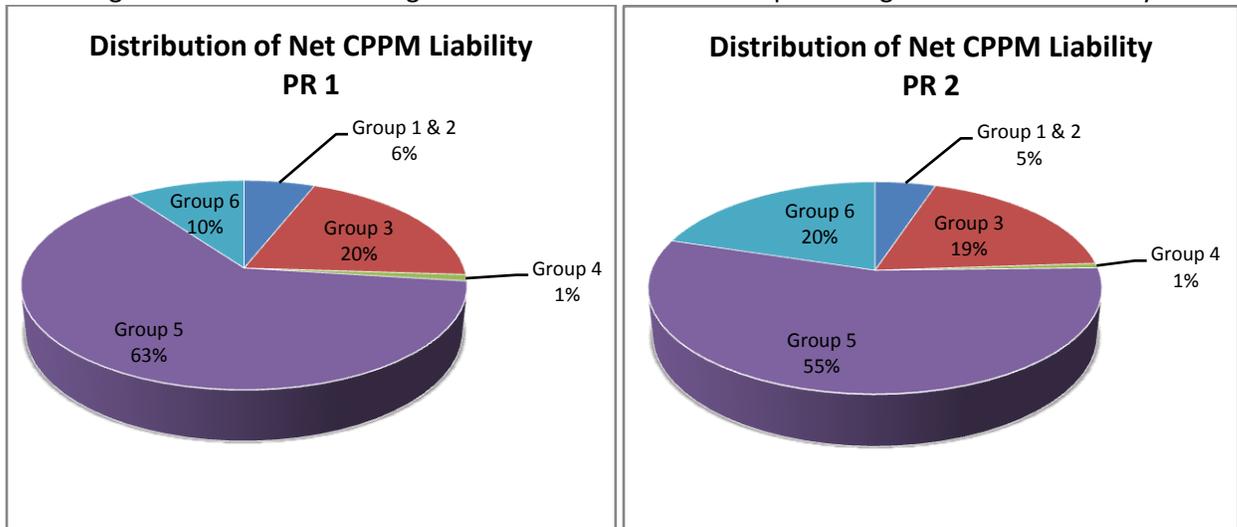
Differences between some of the PR 2 and PR 1 figures were also due to a change in the composition of companies that participated in the respective studies.

Generally the actuary's reports for the PR 2 were completed as requested. However, there were some deficiencies as all the requirements of the CPPM were not applied in some instances and additional disclosures and reconciliation of information were necessary. The main observations were as follows:

- In general, the assets were not segmented as required;
- In some instances, there was lack of evidence to support the determination of the assumptions;
- In some instances, the 3.5% requirement for the cost of guarantees and options in the absence of any modelling was not applied;
- In some instances, a PAD was not applied on each contingency as required and no justification was provided by the actuary;
- Some cash surrender value deficiencies were not developed correctly in all instances; and
- Negative reserves were not always calculated correctly.

1. Distribution of the net CPPM liability by line of business is illustrated in figure I below. Group 5 which represents annuities and group 6 which represents other long term investments are the main lines of business in the life insurance industry. For the PR 2, the significant increase in group 6 and decrease in group 5 were on account of a re-classification of the Deposit Administration Contracts between these two groups from the PR 1.

Figure I. Distribution of long term insurance business as a percentage of net CPPM liability



2. Tables 1 and 2 below illustrate how the current valuation methods used by companies for statutory reporting compare to the CPPM method. The main variances occurred in groups 1 & 2 and 3 primarily due to the change in method from net premium to gross premium. Under the statutory basis, the Act liabilities for group 1 & 2 generally made no allowance for future bonuses and the implicit assumptions for future expenses for group 3 were relatively conservative. There was also some reduction in the ratios on account of the removal of the zero floor in the net CPPM liabilities. The movement between PR 1 and PR 2 were also due to the different companies participating in these studies.

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

Line of Business	Net CPPM/Act Liability	
	PR 1	PR 2
Groups 1 & 2 – Individual insurance with immediate participation in profits	122.0%	114.4%
Group 3 – Individual insurance without participation in profits	75.9%	70.5%
Group 4 – Endowments	106.5%	103.1%
Group 5 – Annuities	98.4%	102.0%
Group 6 – Group business	98.8%	103.8%
TOTAL	94.0%	94.2%

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

Range	No. of Companies	
	PR1	PR2
<85%	-	1
85% - 89%	2	2
90% - 95%	-	-
96% - 100%	4	3
101% - 105%	3	5

3. Tables 3 and 4 present information on PAD's by line of business and the distribution of PAD's by type, respectively.

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

Line of Business	PR 1 PAD/Net CPPM Liabilities	PR 2 PAD/Net CPPM Liabilities
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	12.1%	12.9%
Group 3 - Individual Ins without participation in profits	27.7%	34.4%
Group 4 - Other (such as endowments)	10.6%	7.0%
Group 5 – Annuities	7.2%	7.4%
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	0.6%	0.9%
TOTAL	10.5%	11.4%

The table above shows that slightly more conservative PADs were applied for PR 2. As the industry becomes more familiar with the CPPM it is expected that the level of PADs being applied will decrease, unless proven otherwise. Some of the differences between the two studies were also due to the composition of companies that participated in each parallel run.

Table 4 below shows that the highest levels of PADs were in respect of interest for each line of business except for group 6 where the mortality/morbidity PAD was more heavily weighted. Some companies tended to be more conservative with regards to the interest margins given the characteristics of their policies and the lack of proper asset segmentation in place to support the valuation. In addition, a small number of companies chose to apply margins that were towards the higher end of the stipulated range until they gain more confidence in the application of the CPPM.

Table 4. Distribution of PADs by line of business and PADs as a % of net CPPM liabilities

Line of Business	Interest	Mortality/ Morbidity	Lapse	Expense and Other	TOTAL
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	66.2%	5.3%	12.7%	15.8%	
Group 3 - Individual Ins without participation in profits	52.2%	16.6%	16.4%	14.8%	
Group 4 - Other (such as endowments)	53.9%	3.1%	19.5%	23.5%	
Group 5 – Annuities	81.6%	5.1%	4.1%	9.1%	
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	27.2%	56.2%	2.8%	13.8%	
TOTAL as a % of net CPPM Liabilities	7.2%	1.4%	1.3%	2.4%	11.4%

- Both the capital component for asset liability mismatch (ALM) risk and the valuation interest PAD were compared to the net CPPM liabilities to illustrate the sensitivity of these liabilities to changes in interest rates. In both these tests, group 3 was identified as the most interest sensitive line of business. As insurers adopt more formal asset liability management methods the capital requirements for ALM risk and the valuation interest PADs are expected to decrease.

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

Line of Business	Capital component of ALM risk/net CPPM liabilities		Valuation interest PAD/net CPPM liabilities	
	PR 1	PR 2	PR 1	PR 2
Group 1 & 2 - Individual Ins with immediate & deferred participation in profits	12.0%	14.3%	6.8%	8.6%
Group 3 - Individual Ins without participation in profits	23.4%	26.7%	12.8%	17.9%
Group 4 - Other (such as endowments)	4.3%	4.4%	3.6%	3.8%
Group 5 - Annuities	13.5%	9.6%	5.5%	6.0%
Group 6 - Other Long Term business (such as group, personal accident, inv contracts)	0.2%	1.4%	0.3%	0.3%
TOTAL	13.2%	11.9%	6.2%	7.2%

Table 6. Interest PAD as a % of net CPPM Liabilities

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

GENERAL INSURANCE – COMPLETION OF B4 SCHEDULES

The Central Bank has made considerable progress since it first introduced the Form B4 Schedules used for capturing information that can facilitate the assessment of a general insurer’s outstanding reserves. The level of participation in the submission of these Schedules increased from nine in the first study to eleven in the PR 2. The companies have also shown improvements in their understanding and completion of the forms. Despite these developments, this area still poses a concern to the Central Bank since the forms submitted are not totally satisfactory. Continued guidance is necessary to ensure that the reporting requirements are well understood and that the information provided is accurate and reliable.

AMENDMENTS

DRAFT INSURANCE (CARIBBEAN POLICY PREMIUM METHOD) REGULATIONS

There were very minor amendments made to these Regulations for consistency with the most recent version of the Insurance Bill. The previously titled Form II – Valuation Balance Sheet Reconciliation was deleted from Appendix A of the Report of the Actuary as it was deemed unnecessary.

DRAFT INSURANCE (CAPITAL ADEQUACY) REGULATIONS

There were several amendments made to these Regulations after consideration of the concerns raised, for consistency with the Insurance Bill and to ensure further clarity. The most significant amendments were as follows:

- a) The days referred to in the Regulations mean working days, which is consistent with the Insurance Bill. Therefore the numbers of days have been amended to reflect this definition.
- b) The look through method is no longer applied to mutual funds for determining the appropriate risk factor. The specific types of mutual funds and the applicable risk factors are as follows:
 - i) Money market funds – 2%
 - ii) Bond funds – 8%. These are funds of which not less than 70% 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.
 - iii) Equity funds – 15%. These are funds of which not less than 80% of the portfolio is invested in equities.
 - iv) Other mutual funds not specified above – 12%. These include balanced funds.
- c) The separate requirements for foreign insurers were removed. The same capital rules apply to both local and foreign insurers.
- d) The equivalence ratings for Caricris have now been included as it is a recognised credit rating agency by the Central Bank.
- e) The provision for off-balance sheet liabilities risk charge was simplified.

- f) Within three months following commencement of the Regulations, unaudited capital adequacy returns are required, prepared:
 - i) for insurers carrying on general insurance business (including composites), as at the end of the quarter, and;
 - ii) for insurers carrying on long term insurance business, as at the end of the financial year of the insurer; immediately preceding enactment of the Insurance Bill.
- g) If the unaudited capital adequacy returns show an RCRR less than 150%, a capital plan is required within six months from the submission of the unaudited capital adequacy returns.

CAPITAL ADEQUACY RETURNS

- a) The relevant risk factors for the various types of mutual funds as described above have been included in the Default risk and Volatility risk forms.
- b) The separate branch capital available form has been deleted.
- c) The catastrophe risk form has been amended to reflect industry practice and jargon, requiring the gross and net aggregates for Trinidad and Tobago, the probable maximum loss (PML) if a catastrophe model is used, the PML as a percentage of the net aggregate if the rule of thumb applies and the renewal date of the catastrophe programme.

GENERAL INSURANCE – B4 SCHEDULES

There were minimal changes to the Form B4 Schedules with regards to the formatting.

GUIDANCE DOCUMENTS

The guidance documents associated with the relevant forms, returns and Schedules are being updated to reflect both the amendments outlined above and queries raised through discussions with the companies that participated in the PR 2.