

REPUBLIC OF TRINIDAD AND TOBAGO

THE INSURANCE ACT, 201X.
REGULATIONS

Made by the Minister under section 279 of the Insurance Act and subject to negative resolution of Parliament

THE INSURANCE (CAPITAL ADEQUACY) REGULATIONS, 201X.

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| Citation | 1. These Regulations may be cited as the Insurance (Capital Adequacy) Regulations, 201X. |
| Interpretation
Act No. of 201X | 2. (1) In these Regulations –
“Act” means the Insurance Act, 201X;

“asset-backed security” has the meaning assigned to it in section 4 of the Securities Act;

“banking business” has the meaning assigned to it in section 2 of the Financial Institutions Act;

“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;

“business of a financial nature” has the meaning assigned to it in the Financial Institutions Act;

“capital adequacy returns” means returns in respect of capital adequacy required by the Inspector pursuant to section 145(1)(d) of the Act;

“credit rating” means an opinion or assessment of the creditworthiness of an entity, a credit commitment, a debt or debt-like security or an issuer of such obligations, expressed using the Standard and Poor’s ratings or equivalent ratings as specified by the Central Bank;

“credit rating agency” means an external credit rating agency that is deemed to be eligible for the determination of risk charges by the Central Bank in accordance with a Guideline issued by the Central Bank under the Act;

“derivative” has the meaning assigned to it in section 4 of the Securities Act;

“equity fund” means a fund where not less than eighty per cent of the portfolio is |

invested in equities;

“financial institution” means an institution licensed or registered by the Central Bank in accordance with the Financial Institutions Act Chap 79:09 or the Insurance Act Chap. 84:01 or a financial holding company issued a permit under those Acts;

“financial subsidiary” means a domestic or foreign subsidiary of an insurer which carries on insurance business, banking business or business of a financial nature which is subject to regulation in respect of the capital that it is required to hold by the Central Bank or an equivalent foreign regulatory body;

“fully collateralized” means, in respect of a transaction mentioned in paragraph 1 of Schedule 5, that such transaction meets the criteria in paragraphs 2 to 4 of Schedule 5;

“fund” means an investment fund and includes, without limitation, a collective investment scheme as defined in the Securities Act, an exchange traded fund or a hedge fund;

“investment linked policy” means a policy, the principal object of which by its policy terms is to provide insurance benefits based on the market value of a specific portfolio of assets maintained for the purpose of calculating such benefits, and “investment linked insurance business” shall be construed accordingly;

“money market fund” means a fund where not less than ninety per cent of the portfolio is invested in any or all of the following:

- (a) cash;
- (b) cash equivalents; or
- (c) evidences of indebtedness, other than cash equivalents that have a remaining term to maturity of not more than one year;

“net tier 1 ratio” means the Net Tier 1 Capital determined under regulation 7 divided by the regulatory capital required determined under regulation 10;

“non-financial subsidiary” means a subsidiary of an insurer that is not a financial subsidiary;

“non-permissible value” means, where applicable

- (a) the aggregate value of assets in excess of the limits prescribed in Schedule 1;
- (b) the aggregate value of assets which do not comply with the criteria set out in Schedule 2; and
- (c) 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;

“non-qualifying unrated asset-backed securities” means unrated asset-backed securities which do not meet the criteria in Schedule 4;

“public corporation” means a body incorporated by statute or under the Companies Act, in which the Government or a body controlled by the Government –

- (a) exercises or is entitled to exercise control directly or indirectly over the affairs of the body;
- (b) is entitled to appoint a majority of the directors of the Board of Directors of the body; or
- (c) holds at least fifty per cent of the ordinary share capital of the body, as the case may be;

“qualifying unrated asset-backed securities” means unrated asset-backed securities which meet the criteria in Schedule 4;

“regulatory capital available” means an amount of capital available determined under regulation 6;

“regulatory capital ratio” means the regulatory capital available determined under regulation 6, divided by the regulatory capital required, determined under regulation 10;

“regulatory capital required” means an amount of capital required determined under regulation 10;

“repurchase agreement” means the sale of a security with a commitment by the seller to buy the same or equivalent security back from the purchaser at a specified price and at a designated date in the future;

“reverse repo” means the purchase of a security with a commitment by the buyer to re-sell the security to the seller at a future date at a fixed price; and

“segregated fund policy” is an investment linked policy in respect of which by its policy terms, the portfolio of assets is held in a separate and distinct fund from the funds of the insurer, such segregated fund is established and maintained under trust and the property and income of the fund are considered to be the property and income of the trust.

(2) Under these Regulations, “real estate” includes all estates in land as defined in section 84(1) of the Interpretation Act.

- Application
3. These Regulations apply to an insurer in respect of business both in and outside of Trinidad and Tobago.

4. The risk charges on investments in and debts due from non-financial subsidiaries, controlled by the insurer and affiliates and associates of the insurer shall be determined by looking through to the underlying securities or guarantees as if they were directly held or given.
5. (1) Every insurer shall maintain adequate capital to support its risk profile and business plan and shall comply with sections 22, 82 and 83 of the Act and sub-regulation (2).
 - (2) The Inspector may direct an insurer to increase a risk charge or impose a risk charge to take account of its risk profile and business plan of the insurer to ensure that the insurer maintains adequate capital.
 - (3) The Inspector may require an insurer to vary the amounts in respect of reinsurance or other risk transfer arrangements in its capital adequacy return.
 - (4) An insurer shall maintain the minimum ratios as follows:
 - (a) its net tier 1 ratio shall not be less than one hundred and five percent; and
 - (b) its regulatory capital ratio shall not be less than one hundred and fifty per cent.

Regulatory capital available

6. Regulatory capital available shall be the sum of Net Tier 1 Capital and Tier 2 Capital, as calculated in accordance with regulations 7 and 8, minus the deductions stated in regulation 9.

Net Tier 1 Capital

7. For the purpose of these Regulations, Net Tier 1 Capital shall be the amount by which the value of Gross Tier 1 Capital exceeds the aggregate of the deductions stated in sub-regulation (3) and sub-regulation (4).

Gross Tier 1 Capital shall consist of the following:

- (a) in the case of an insurer carrying on long- term insurance business, the accumulation of its -
 - (i) ordinary shares and retained earnings;
 - (ii) preference shares that meet the criteria of Part A of Schedule 3; and
 - (iii) appropriated surplus on participating and non-participating business and other reserves included in net equity;
- (b) in the case of an insurer carrying on general insurance business, the accumulation of its –
 - (i) ordinary shares and retained earnings;
 - (ii) preference shares that meet the criteria of Part A of Schedule 3;
 - (iii) Catastrophe Reserve Fund as described in section 44 of the Act; and
 - (iv) other reserves included in net equity; and
- (c) in the case of an insurer that is carrying on both long-term and general insurance business, as prescribed in paragraphs (a) and (b).

- (3) An insurer shall deduct from Gross Tier 1 Capital the accumulation of:
 - (a) goodwill and other intangibles;
 - (b) unrealized after-tax gains on real estate and unquoted equity included in Gross Tier 1 Capital; and
 - (c) in the case of an insurer carrying on long-term insurance business –
 - (i) the cash surrender value deficiencies calculated on an aggregate basis for each group of policies separately; and
 - (ii) the negative reserves calculated on a policy-by-policy basis
- (4) In addition to the deductions in sub-regulation (3), an insurer shall deduct any non-permissible value from Gross Tier 1 Capital.

- Tier 2 Capital
8. (1) Tier 2 Capital shall be the sum of Tiers 2A, 2B and 2C and shall not exceed one hundred per cent of Net Tier 1 Capital.
 - (2) Tier 2A Capital shall consist of the following:
 - (a) preference shares that meet the criteria in Part A of Schedule 3, except that their value exceed the limit in paragraph 1(d) of Part A of Schedule 3 ;
 - (b) preference shares that meet the criteria in Part A of Schedule 3, except that the holder is entitled to cumulative dividends;
 - (c) hybrid capital instruments that meet the requirements in Part B of Schedule 3; and
 - (d) unrealized after-tax gains on real estate and unquoted equity excluded from Tier 1 Capital under sub-regulation 7(3)(b).
 - (3) Unrealized after-tax gains on real estate included under sub-regulation (2)(d) shall not exceed twenty per cent of Net Tier 1 Capital.
 - (4) Tier 2B Capital shall consist of limited life instruments that meet the criteria in Part C of Schedule 3.
 - (5) Where the remaining term of the limited life instrument referred to in sub-regulation (4) is less than five years, the amount of the instrument included in Tier 2B Capital shall be amortized in the manner prescribed in Part D of Schedule 3.
 - (6) Tier 2B Capital shall not exceed fifty per cent of Net Tier 1 Capital.
 - (7) Tier 2C Capital shall consist of the following:
 - (a) seventy-five per cent of the amount deducted under regulation 7(3)(c)(i); and
 - (b) the amount deducted under regulation 7(3)(c)(ii).

- Deductions
9. (1) The sum of Net Tier 1 Capital and Tier 2 Capital shall be reduced by the following:
 - (a) reciprocal cross holdings in capital instruments, whether arranged directly or indirectly, between financial institutions that artificially inflate the capital

- position of the insurer;
- (b) deferred tax assets;
- (c) pension plan assets net of any associated deferred tax liability, related to the insurer's own employees and beneficiaries under the pension plan;
- (d) regional and international asset-backed securities with a credit rating of CCC+ and below;
- (e) subrogation receivables aged more than one hundred and twenty business days;
- (f) outstanding premiums and agent or broker debit balances aged more than sixty business days;
- (g) residential mortgages that are overdue more than one hundred and twenty business days;
- (h) commercial mortgages that are overdue more than one hundred and twenty business days; and
- (i) investments in financial subsidiaries.

(2) The minimum value of each of the amounts required to be deducted in sub-regulation (1) shall be zero.

(3) For the purpose of these Regulations, no risk factor shall be applied to assets that are deducted pursuant to sub-regulation (1).

Regulatory
capital
required

10. (1) The regulatory capital required shall be the sum of the risk charges in paragraph (a) and, where applicable, paragraphs (b) or (c) –
- (a) the following risk charges in relation to all insurers:
 - (i) asset default risk charge;
 - (ii) investment volatility risk charge;
 - (iii) off balance sheet risk charge; and
 - (iv) foreign currency mismatch risk charge.
 - (b) the following risk charges in relation to all insurers carrying on long term insurance business:
 - (i) asset liability mismatch risk charge;
 - (ii) mortality and morbidity risk charge;
 - (iii) lapse risk charge;
 - (iv) interest margin pricing risk charge;
 - (v) liquidity and operational risk charge; and
 - (vi) risk charge for guarantees.
 - (c) the following risk charges in relation to all insurers carrying on general insurance business:
 - (i) premium adequacy risk charge;
 - (ii) outstanding claims risk charge; and
 - (iii) catastrophe risk charge.

(2) The Central Bank shall, from time to time, establish criteria and procedures to be used by an insurer for determining credit ratings to be used for these Regulations, by issuing a Guideline or through directions to an insurer.

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| Asset default risk charge | 11. The asset default risk charge shall be the sum of the value of assets held for each type of asset multiplied by the appropriate risk factor determined in accordance with Schedule 4. |
| Investment volatility risk charge | 12. The investment volatility risk charge shall be the sum of the value of assets held for each type of asset multiplied by the appropriate risk factor determined in accordance with Schedule 6. |
| Off balance sheet risk charge | <p>13. (1) For the purpose of these Regulations, off balance sheet activities include guarantees, commitments, derivatives and similar contractual arrangements whose full notional principal amount may not be reflected on the balance sheet.</p> <p>(2) The off balance sheet risk charge shall be the sum of the exposure to risk with each counterparty multiplied by the appropriate risk factor for the counterparty determined in accordance with Schedule 7.</p> <p>(3) “counterparty” for the purpose of this sub-regulation means the person guaranteed in the case of a guarantee or the party with whom the contract is made in the case of derivatives or other similar contractual arrangements.</p> <p>(4) An insurer shall not invest in a derivative contract for trading or speculative purposes.</p> |
| Foreign currency mismatch risk charge | 14. The foreign currency mismatch risk charge shall be determined in accordance with Schedule 8. |
| Asset liability mismatch risk charge | 15. The asset liability mismatch risk charge shall be determined in accordance with Schedule 9 |
| Mortality and Morbidity risk charge | <p>16. (1) The mortality risk charge for long-term insurance business shall be the sum of the exposure for each type of policy multiplied by the appropriate risk factor determined in accordance with Schedule 10.</p> <p>(2) The morbidity risk charge for long-term insurance business shall be the sum of the exposure for each type of policy multiplied by the risk factor determined in accordance with Schedule 10.</p> |
| Lapse risk charge | <p>17. (1) The lapse risk charge shall be calculated for all individual life business and includes participating and adjustable premium policies and all other product lines.</p> <p>(2) The lapse risk charge shall be determined in accordance with Schedule 11.</p> |

Interest margin pricing risk charge	<p>18. (1) The interest margin pricing risk charge shall be the sum of the policy liabilities net of reinsurance multiplied by the appropriate risk factor for the type of policy in accordance with Schedule 12.</p> <p>(2) The reasonable flexibility of the crediting features with respect to universal life policies shall be tested in pricing the policy or elsewhere, and shall demonstrate that the insurer may recoup at least half of any unexpected losses due to disintermediation risk.</p>
Liquidity and operational risk charge	<p>19. The liquidity and operational risk charge shall be value of the assets held by the insurer backing investment linked insurance business multiplied by the appropriate risk factor determined in accordance with Schedule 13.</p>
Risk charge for guarantees	<p>20. (1) An insurer shall maintain adequate reserves and capital for guarantees stated in policies including guarantees made under any off balance sheet arrangements including segregated fund policies. The appointed actuary shall certify the adequacy of reserves held for such guarantees.</p> <p>(2) Capital required to be held under sub-regulation (1) shall be no less than five per cent of the reserves held for the guarantees stated in policies and shall apply as at the insurer's first financial year end following commencement of the Regulations.</p>
Premium adequacy risk	<p>21. For each class of general insurance business, the premium adequacy risk charge shall be the net written premium in the previous twelve months, multiplied by the appropriate risk factor for the class of insurance business in accordance with Schedule 14.</p>
Outstanding claims risk charge	<p>22. For each class of general insurance business, the outstanding claims risk charge shall be the outstanding claims, net of reinsurance recoveries, multiplied by the appropriate risk factor for the class of insurance business in accordance with Schedule 15.</p>
Catastrophe risk charge	<p>23. The catastrophe risk charge shall be determined in accordance with Schedule 16.</p>
Returns, audits and declarations	<p>24. (1) An insurer shall submit to the Central Bank, audited capital adequacy returns in such form as the Inspector may from time to time specify in accordance with the provisions of section 145(1)(d) of the Act.</p> <p>(2) In addition to the capital adequacy returns, an insurer shall provide a declaration by the chief financial officer, the appointed actuary and a director of the insurer in the form prescribed in Schedule 17.</p> <p>(3) Notwithstanding sub-regulation 24(2), where an appointed actuary has not yet been appointed by an insurer carrying on general insurance business within three years immediately following the commencement of the Act, a director shall</p>

provide the declaration in the form prescribed in Schedule 17.

- Grandfathering
25. (1) Unrealised after-tax gains on real estate reported by the insurer in its financial statements prior to the commencement of these Regulations shall be treated as though they were realised as at the date of the commencement of these Regulations and shall not be subject to regulations 7(3)(b), 8(2)(d) and 8(3).
- (2) The risk factors for unrated bonds for asset default risk and quoted common shares for investment volatility risk that are acquired prior to the commencement of these Regulations shall be:
- (a) ten percent for unrated bonds or other evidence of indebtedness; and
- (b) fifteen percent for quoted common shares
- Capital adequacy returns
26. The insurer shall submit unaudited capital adequacy returns quarterly. Notwithstanding section 145(3) of the Act, the first unaudited capital adequacy return shall be submitted within three months from the commencement of these Regulations for the end of the first quarter immediately preceding the commencement of the Act.
- Transitional regulatory capital ratios
27. (1) Upon the commencement of these Regulations, where an insurer does not satisfy the requirements under regulation 5, the insurer shall-
- (a) within two months from the submission of the first capital adequacy return referred to in regulation 26, submit a plan approved by the board of directors of the insurer, for attaining the regulatory capital ratios referred to in paragraph (b); and
- (b) attain the transitional regulatory capital ratios as specified in Schedule 18.
- (2) For the avoidance of doubt, if at any time during the transitional period referred to in Schedule 18 an insurer has satisfied the requirements under regulation 5, the insurer shall continue to satisfy those requirements from that period onward.
- (3) The Minister may, by Order, upon recommendation by the Central Bank, amend the Schedules to these Regulations.

SCHEDULE 1

Non-Permissible Value: Asset Limits

1. The total value of assets held in excess of the limits shown below shall be included in the non-permissible value.

Description	Limit
Maximum aggregate value of Ordinary Shares not including ordinary shares in permissible real estate entities	40% of Adjusted Assets
Maximum aggregate value of mutual funds including unit trusts and other collective investment schemes not including money market funds	20% of Adjusted Assets
Maximum aggregate value of mortgages, charges or other titles for repayment of a loan secured by real estate not including mortgages or debts due from permissible real estate entities	50% of Adjusted Assets
Maximum aggregate value of interests in real estate	30% of Adjusted Assets
Maximum aggregate value of mortgages, charges or other titles for repayment of a loan secured by real estate not including mortgages or debts due from permissible real estate entities controlled by the insurer and the value of interests in real estate	50% of Adjusted Assets
Maximum aggregate value of securities rated below investment grade (credit rating BB and lower)	5% of Adjusted Assets

2. These requirements shall apply to an insurer on an individual basis.
3. For the purpose of this Schedule:
- (a) Adjusted Assets in respect of an insurer, at a particular time, means the amount determined by the formula A minus B, where:
 - (i) A is the total value of assets reported on the capital adequacy returns submitted; and
 - (ii) B is the total of all deductions made under regulation 7(3) and regulation 9.
4. The value of interests in real estate shall include:
- (a) the gross book value of the real estate, less any accumulated depreciation;
 - (b) the book value of ownership interests in permissible real estate entities; and
 - (c) the book value of mortgages or other debts due from permissible real estate entities; reported on a balance sheet of the insurer prepared in accordance with the Act.

SCHEDULE 2

Non-Permissible Value: Mortgages, Charges and Other Titles for Repayment of a Loan Secured by Real Estate

1. The total value of a mortgage, charge and other titles for repayment of a loan secured by real estate in which the amount of the loan exceeds eighty per cent of the value of the property at the time of the origination of the mortgage, charge or other title for repayment on real estate shall be included as a non-permissible value.

2. Notwithstanding paragraph (1), the total value of a mortgage, charge and other title for repayment of a loan secured by real estate in which the amount of the loan exceeds eighty per cent of the value of the property at the time of the origination of the mortgage, charge or other title to repayment of loan secured by real estate shall not be included as a non-permissible value where the following criteria are met:
 - (a) the total value of the mortgage, charge or other title to repayment of a loan secured by real estate is guaranteed by the Government and said guarantee is explicit, unconditional, legally enforceable and irrevocable over the life of the mortgage, charge or other title to repayment secured on real estate in question or through an agency of the Government of Trinidad and Tobago; or
 - (b) that portion of the amount of the loan which exceeds eighty per cent of the value of the property is guaranteed by an insurer registered under the Act to carry on that class of insurance business.

SCHEDULE 3

Part A –Preference Shares Which Qualify As Tier 1 Capital

1. Preference shares shall qualify as Tier 1 capital only where -
 - (a) they are fully subordinated to the interests of policyholders and unsecured creditors;
 - (b) they are of permanent and of perpetual duration;
 - (c) they are free of mandatory fixed charges;
 - (d) their value do not exceed thirty-three per cent of X, where X equals Net Tier 1 Capital, excluding the entire value of the preference shares in regulation 7 (2)(a)(ii); and
 - (e) they meet the conditions in paragraphs 2 and 3 below.

2. Preference shares :
 - (a) in respect of which there is option for redemption at the request of the holder;
 - (b) in respect of which there is obligation of the issuer to redeem the shares; and
 - (c) are callable by the issuer within five years of issuance,shall not qualify as being of permanent and perpetual duration in accordance with paragraph 1(b).

3. Preference shares in respect of which:
 - (a) cumulative dividends are payable to the holder;
 - (b) payment of dividends is influenced by the credit rating of the issuer;
 - (c) compensation other than a dividend is payable to holders; and
 - (d) the issuer is required to establish and maintain a sinking fund or purchase funds,shall not qualify as being free of mandatory fixed charges in accordance with paragraph 1(c) above.

Part B – Hybrid Capital Instruments in Tier 2A Capital

A hybrid capital instrument shall be included in Tier 2A Capital where the terms or conditions of the hybrid capital instrument provide for or meet the following criteria:

- (a) they are of perpetual duration and fully paid up;
- (b) there is no option for redemption at the request of the holder;
- (c) they are unsecured and fully subordinated to the interests of policyholders and unsecured creditors;
- (d) subject to Part E of this Schedule, they are callable by the issuer after a minimum of five years and with the prior consent of the Inspector;
- (e) payment/declaration of dividends or interest are deferred by the issuer where the profitability of the issuer would not support payment; and
- (f) they do not contain restrictive covenants or default clauses that would allow the holder to trigger acceleration of repayment in circumstances other than insolvency, bankruptcy or winding-up of the issuer.

Part C – Limited Life Instruments in Tier 2B Capital

A limited life instrument shall be included in Tier 2B Capital where the terms or conditions of the limited life instrument provide for or meet the following criteria:

- (a) the initial minimum term of the limited life instrument is greater than five years;
- (b) the limited life instrument is fully subordinated to the interests of policyholders and other creditors;
- (c) the limited life instrument is fully paid up in cash or, with the approval of the Inspector, in property; and

- (d) subject to Part E of this Schedule, the limited life instrument may be callable by the issuer after a minimum of five years and with the prior consent of the Inspector.

Part D - Amortization of Tier 2B Capital Instruments

Years to Maturity	Included in Capital
A remaining term of at least 4 years, but less than 5 years	80%
A remaining term of at least 3 years, but less than 4 years	60%
A remaining term of at least 2 years, but less than 3 years	40%
A remaining term of at least 1 year, but less than 2 years	20%
A remaining term of less than 1 year	0%

Part E – Exercising a Call Option on a Capital Instrument

The call option for capital instruments referred to in paragraph 2 (c) of Part A, paragraph (d) of Part B and paragraph (d) of Part C of this Schedule shall satisfy the following criteria:

- (a) An issuer's actions or the terms of the capital instrument must not create an expectation that the call will be exercised; and
- (b) An issuer must not exercise the call unless:
 - i) It replaces the called capital instrument with capital of the same or better quality; or
 - ii) the issuer demonstrates that its capital position is above the minimum ratios in regulation 5(4) after the call option is exercised.

SCHEDULE 4 (Regulation 11)
Asset Default Risk Charge and Factors

1. The value of assets referred to in regulation 11 used to calculate the asset default risk charge shall be -
 - (a) net of any depreciation or provision for diminution of value; and
 - (b) inclusive of any investment income due and accrued.

2. The appropriate risk factor for the asset default risk charge referred to in regulation 11 shall be determined in accordance with Table 1.

3. (1) Except for bonds and other evidence of indebtedness issued and guaranteed by the Government of Trinidad and Tobago and issued by Multilateral Agencies, the ratings for bonds and other evidence of indebtedness in Table 1 refer to the rating of the instrument.
 - (2) A risk factor of 0% shall be assigned to bonds and other evidence of indebtedness issued and guaranteed by the Government of Trinidad and Tobago and issued by Multilateral Agencies.
 - (3) For the purpose of this Schedule, “Multilateral Agencies” means organizations that are jointly owned by a group of countries for the purpose of assisting with the social and economic growth and development in member countries and shall include the following:
 - (a) African Development Bank;
 - (b) Asian Development Bank;
 - (c) Bank for International Settlements;
 - (d) Caribbean Development Bank;
 - (e) Council of Europe Development Bank;
 - (f) European Bank for Reconstruction and Development;
 - (g) European Central Bank;
 - (h) European Community;
 - (i) European Economic Community;
 - (j) European Investment Bank;
 - (k) European Investment Fund;
 - (l) Inter-American Development Bank;
 - (m) International Bank for Reconstruction and Development;
 - (n) International Finance Corporation;
 - (o) International Monetary Fund;
 - (p) Islamic Development Bank;
 - (q) Multilateral Investment Guarantee Agency;
 - (r) Nordic Investment Bank; and
 - (s) The International Finance Facility for Immunisation

4. In the event that a bond or other evidence of indebtedness is not rated, the rating of the issuer applies. If neither the issuer nor the bond or other evidence of indebtedness is rated, the risk factor shall be the appropriate unrated categories in Table 1.

Table 1

Assets	Factor
Bank certificates of deposit	0.25%
Commercial paper including bankers acceptances secured by bank deposit	0.25%
Commercial paper including bankers acceptances secured by investment grade instrument	2.00%

Assets	Factor
Other commercial paper including bankers acceptances	15.00%
Bonds and other evidence of indebtedness	
Rated "AA-" or higher	0.50%
Rated "A-" to "A+"	1.00%
Rated "BBB-" to "BBB+"	3.00%
Rated "BB-" to "BB+"	5.00%
Rated "B-" to "B+"	10.00%
Rated "CCC+" and below	15.00%
Unrated and fully collateralized	10.00%
Unrated	15.00%
Rated Asset Backed Securities	
Rated "AA-" or higher	0.50%
Rated "A-" to "A+"	2.00%
Rated "BBB-" to "BBB+"	3.00%
Rated "BB-" to "BB+"	10.00%
Rated "B-" to "B+"	15.00%
Rated "CCC+" and below	15.00%
Qualifying Unrated Asset-Backed Securities	2.00%
Non-Qualifying Unrated Asset Backed Securities	20.00%
Receivables	
Agents' debit balances aged less than 60 business days	0.00%
Outstanding premiums aged less than 60 business days	0.00%
Subrogation aged less than 120 business days	0.00%
Policy Loans	0.00%
Other receivables	0.50%
Reinsurance Recoverables from Reinsurers Rated "AA-" or higher	0.50%
Reinsurance Recoverables from Reinsurers Rated "A-" to "A+"	2.00%

Assets	Factor
Reinsurance Recoverables from Reinsurers Rated “BBB-” to “BBB+”	3.00%
Reinsurance Recoverables from Reinsurers Rated “BB-” to “BB+”	10.00%
Reinsurance Recoverables from Reinsurers Rated “B-” to “B+”	15.00%
Reinsurance Recoverables from Reinsurers Rated “CCC+” and below	15.00%
Reinsurance Recoverables from Unrated Reinsurers	20.00%
Mortgages	
First mortgage on residential units that are less than 60 business days overdue	2.00%
Commercial Mortgages that are less than 60 business days overdue	4.00%
Residential Mortgages that are overdue between 60 and 120 business days	10.00%
Commercial Mortgages that are overdue between 60 and 120 business days	20.00%
Undeveloped Land	8.00%
Mutual Funds, Units and other Collective Investment Schemes	
Money market funds	2.00%
Bond funds	8.00%
Miscellaneous Items	
Cash	0.00%
Fixed Assets (excluding Real Estate)	10.00%
All Other Assets not described in either Schedule 4 or Schedule 5 and not required to be deducted pursuant to regulation 9	20.00%

5. Notwithstanding paragraph 2 of this Schedule, in the case of unrated bonds or other evidence of indebtedness acquired prior to the commencement of these Regulations, the risk factor shall be determined in accordance with sub-regulation 25(2)(a).
6. In the case of bonds or other evidence of indebtedness guaranteed by the Government of Trinidad and Tobago referred to in Table 1 of this Schedule, such guarantees shall be explicit, unconditional, legally enforceable and irrevocable over the life of the bond or other evidence of indebtedness in question.
7. A security shall not be categorised as a qualifying unrated asset-backed security in Table 1 unless the following criteria are met:

- (a) The underlying asset(s) must be equities, bonds, debentures, stocks or other evidence of indebtedness of:
 - (i) the Government of Trinidad and Tobago; or
 - (ii) any public corporation that is fully guaranteed by the Government of Trinidad and Tobago and which said guarantee is explicit, unconditional, legally enforceable and irrevocable over the life of the equity, bond, debenture, stock or other evidence of indebtedness in question;
 - (b) Such equities, bonds, debentures, stocks or other evidence of indebtedness must be vested in a trustee on behalf of the participants under a deed of trust constituting participation;
 - (c) Such equities, bonds, debentures, stocks or other evidence of indebtedness must be transferred from the seller to the trustee by way of an executed instrument of transfer and such trustee is constituted as the registered owner of such equities, bonds, debentures, stocks or other evidence of indebtedness;
 - (d) The trustee of the equities, bonds, debentures, stocks or other evidence of indebtedness is, without being compelled to take recourse to the seller, empowered by the deed of trust constituting the participation to take enforcement action against the issuer of such asset(s);
 - (e) Participants under the deed of trust constituting the participation have a right of action against the trustee, where the trustee has acted negligently or committed a breach of trust; and
 - (f) The seller and trustee are financial institutions regulated by the Central Bank.
8. In the case of subrogation from a third party contained in Table 1, the number of business days outstanding shall be 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 business days from the date the insurer became aware of the incident that gave rise to the subrogation.
9. (1) Notwithstanding paragraph 2 of this Schedule, in the case of repurchase agreements or reverse repos –
- (a) if there is exposure to counterparty risk, the risk factor shall be the higher of the risk factor in Table 1 assigned to the securities to be repurchased or sold, or the risk factor assigned to the counterparty in accordance with Schedule 7; or
 - (b) if there is no exposure to counterparty risk, the risk factor shall be the risk factor in Table 1 assigned to the securities to be repurchased or sold.
- (2) For the purpose of this paragraph 9, “counterparty” means the party with whom the repurchase agreement or reverse repo is made.
10. Notwithstanding paragraph 2 of this Schedule, in the case of leases -
- (a) where an insurer is the lessee under-
 - (i) an operating lease, no risk charge for asset default risk shall be applied;
 - (ii) a finance lease, the risk factor for the underlying leased property in accordance with Table 1 shall apply;
 - (b) where an insurer is the lessor of a finance lease, the risk factor for the counterparty in Schedule 7 shall apply, unless the lease is in arrears when a risk factor of twenty per cent shall apply; or
 - (c) where an insurer is the lessor of an operating lease, the risk factor for the leased property in accordance with Table 1 shall apply.
 - (d) “counterparty” for the purpose of this paragraph means the lessor in the case of a finance lease.
- 11.(1) Notwithstanding paragraph 2 of this Schedule, the risk factor applicable to non-performing assets

shall be the risk factor assigned to those assets in Table 1 increased by an additional twenty per cent.

(2) For the purpose of this Schedule, “non-performing assets” mean assets for which the interest or installment of principal are overdue for more than sixty business days but does not include -

- (a) assets required to be deducted under regulation 9; or
- (b) the following assets in Table 1:
 - (i) subrogation aged less than 120 business days;
 - (ii) residential mortgages that are overdue between 60 and 120 business days; and
 - (iii) commercial mortgages that are overdue between 60 and 120 business days.

12. The asset default risk charge does not apply to the portion of the assets backing the investment linked insurance business if –

- (a) the assets are identifiable and valued at market value;
- (b) investment returns are tracked;
- (c) transfers into and out of the portfolio of assets occur at market value; and
- (d) there is full pass through of investment returns to the policies and credited returns are not based on company discretion.

SCHEDULE 5

Collateralization

1. This Schedule only applies to the following transactions:
 - (a) transactions in which the credit exposure is an unrated bond or other evidence of indebtedness; or
 - (b) transactions which are repurchase agreements, reverse repos, finance leases or off-balance sheet activities made between an insurer and an unrated counterparty.
2. Subject to paragraphs 3 and 4 of this Schedule, a transaction referred to in paragraph 1 of this Schedule shall qualify as being fully collateralized for the purpose of these Regulations where it meets the following criteria :
 - (a) The collateral –
 - (i) is posted by a counterparty or a third party on behalf of a counterparty in order to fully secure the exposure to risk in the transaction;
 - (ii) is pledged, legally assigned, conveyed or transferred to the insurer for at least the life of the exposure; and
 - (iii) meets the criteria in paragraph 4;
 - (b) the fully collateralized transaction is binding on all parties and legally enforceable in all relevant jurisdictions;
 - (c) the insurer has-
 - (i) conducted a sufficient and reasoned legal review supported by legal opinions to verify the enforceability and legal nature of the transaction;
 - (ii) undertaken such further review as necessary to ensure continuing enforceability;
 - (iii) the right to liquidate or take legal possession of the collateral in a timely manner in the event of the default, insolvency or bankruptcy of the counterparty and, where applicable, of the custodian holding the collateral;
 - (iv) taken all necessary steps to fulfil any requirements under the law applicable to the interest of the insurer in the collateral, for obtaining and maintaining an enforceable security interest or for exercising a right to net or set off in relation to title transfer collateral;
 - (v) clear and robust procedures for the timely liquidation of collateral; and

- (vi) taken steps to ensure that any legal conditions required for declaring the default of the counterparty and liquidating the collateral are observed, and that collateral can be liquidated promptly; and
 - (d) Where collateral is held by a custodian, the insurer has taken reasonable steps to ensure that the custodian segregates the collateral from its own assets.
- 3. Notwithstanding paragraph 2 of this Schedule, where the value of the collateral has a positive correlation to the credit rating of the counterparty including but not limited to transactions where the collateral posted is securities issued by the counterparty, that transaction shall not be recognized as a fully collateralized transaction.
- 4. The following collateral shall be recognized for fully collateralized transactions:
 - (a) Debt securities rated by a credit rating agency where these securities have a credit rating of:
 - (i) BB or better and have been issued or guaranteed by the Government of Trinidad and Tobago and such guarantees shall be explicit, unconditional, legally enforceable and irrevocable over the life of the debt security; or
 - (ii) BBB or better and have been issued by other entities (including banks, insurance companies, and securities firms)
 - (b) Unrated debt securities where
 - (i) the securities are issued by a company whose equity is listed on a recognized exchange;
 - (ii) the securities are classified as senior debt;
 - (iii) all rated issues of the same seniority by the issuing company must be assigned a credit rating of at least BBB.
 - (c) Equities and convertible bonds which are included in a main index;
 - (d) Gold; and
 - (e) collective investment schemes where:
 - (i) a price for the units is publicly quoted daily; and
 - (ii) the collective investment scheme is limited to investing in the instruments listed in (a) to (d) of paragraph 4 of this Schedule.

SCHEDULE 6 (Regulation 12)
Investment Volatility Risk Charge and Factors

1. The appropriate risk factor for the investment volatility risk charge referred to in regulation 12 shall be determined in accordance with Table 2 except that in the case of quoted common shares acquired prior to the commencement of these Regulations, the risk factor shall be determined in accordance with sub-regulation 25(2)(b).

Table 2

Assets	Factor
Equity Investments	
Quoted Common Shares	20%
Unquoted Common Shares	25%
Quoted Preference Shares	10%
Unquoted Preference Shares	12%
Real Estate	
Income-producing Real Estate	10%
Owner-Occupied Real Estate	5%
Oil, gas and mining properties/rights	35%
Other	15%
Funds, Mutual Funds, Units and other Collective Investment Schemes	
Equity funds	20%
Other including exchange traded funds	12%

2. (a) The risk factor for income-producing real estate shall be used only if the real estate earns an income yield of at least 4% of its carrying value.
- (b) The 4% test in sub-paragraph (2)(a) should be calculated net of encumbrances, if any, and income should be calculated net of all real-estate expenses (including interest on encumbrances) and taxes (including property and other taxes, but excluding income taxes).
- (c) The income amount used in the 4% test in sub-paragraph (2)(a) includes cash income only, and does not include amortization of the value of the property.
- (d) The risk factor for income-producing real estate shall not be used for properties currently under development and for which imputed interest is capitalized for financial reporting purposes.
3. The investment volatility risk charge does not apply to the portion of the assets backing the investment linked insurance business if—
 - (a) the assets are identifiable and valued at market value;
 - (b) investment returns are tracked;
 - (c) transfers into and out of the portfolio of assets occur at market value; and
 - (d) there is full pass through of investment returns to the policies and credited returns are not based on company's discretion.

SCHEDULE 7
Counterparty Risk Factors

1. The appropriate risk factor for counterparty risk shall be determined in accordance with Table 3 in this Schedule.

Table 3

Counterparty Rating	Factor
Rated "AA-" or higher	0.5%
Rated "A+" to "A-"	1.0%
Rated "BBB+" to "BBB-"	3.0%
Rated "BB+ " to "BB-"	5.0%
Rated "B- to B+"	10.0%
Rated "CCC+" and below	15.0%
Unrated counterparty where the transaction is fully collateralized	10.0%
Unrated	15.0%

SCHEDULE 8 (Regulation 14)

Foreign Currency Mismatch Risk Charge and Factors

1. Subject to paragraphs 3 and 4 of this Schedule, the foreign currency mismatch risk charge shall be -
 - (a) two per cent of the total of the net open positions in any currency issued by countries with a credit rating of BBB and above expressed in Trinidad and Tobago dollars; and
 - (b) eight per cent of the total of the net open positions in any currency issued by countries with a credit rating of BBB minus and below, expressed in Trinidad and Tobago dollars.
2. For the purpose of these Regulations, the net open position shall be the absolute value of the assets denominated in a currency less the liabilities denominated in that currency and such value shall be converted to Trinidad and Tobago dollars using the prevailing selling rate as determined by the Central Bank at the valuation date.
3. Where the appointed actuary demonstrates that provisions for foreign currency mismatch risk have been established within the policy liabilities, such provisions may be offset against the foreign currency mismatch risk charge.
4. The foreign currency mismatch risk charge does not apply to the portion of the assets backing and the liabilities of the investment linked insurance business if -
 - (a) the assets are identifiable and valued at market value;
 - (b) investment returns are tracked;
 - (c) transfers into and out of the portfolio of assets occur at market value; and
 - (d) there is full pass through of investment returns to the policies and credited returns are not based on company's discretion.

SCHEDULE 9 (Regulation 15)

Asset Liability Mismatch Risk Charge and Factors

1. Subject to paragraphs 2 and 3 of this Schedule, the asset liability mismatch risk charge shall be ten per cent of the absolute change in the liabilities resulting from a one per cent parallel shift in the valuation interest rate

Where the insurer has implemented an asset liability management policy in place and has the ability to stress test the assets supporting the liability segment, a one per cent parallel shift in the yield curve

shall be determined and the asset liability mismatch risk charge shall be the lesser of –

- (a) the absolute change in the liabilities minus the absolute change in the assets, when a one per cent parallel shift is applied; and
- (b) the charge calculated under paragraph 1 of this Schedule.

The asset liability mismatch risk charge does not apply to the portion of the assets backing and the liabilities of the investment linked insurance business if -

- (a) the assets are genuinely identifiable and valued at market value;
- (b) investment returns are tracked;
- (c) transfers into and out of the portfolio of assets occur at market value; and
- (d) there is full pass through of investment returns to the policies and credited returns are not based on company's discretion.

SCHEDULE 10 (Regulation 16)

Mortality and Morbidity Risk Charge and Factors

1. The appropriate risk factor for the mortality risk charge referred to in sub-regulation 16(1) shall be determined in accordance with Table 4.

Table 4

Type of policy	Measure of exposure	Factors
Individual life and Group life	Net amount at risk	.0005 (Less than 1 year guaranteed term remaining) .0010 (1-5 years guaranteed term remaining) .0020 (Over 5 years guaranteed term remaining)
Participating adjustable life & universal life where mortality costs are reasonably flexible	Net amount at risk	.0010 Where mortality costs are not reasonably flexible, use the factors for “All other policies”
Accidental death and dismemberment: Participating adjustable life and universal life	Net amount at risk	.0003
Accidental death and dismemberment: Individual life and Group life	Net amount at risk	.00015 (Less than 1 year guaranteed term remaining) .0003 (1-5 years guaranteed term remaining) .0006 (Over 5 years guaranteed term remaining)
All annuities involving life contingencies	Total policy liabilities	.01

Type of policy	Measure of exposure	Factors
All other policies	Net amount at risk	.0005 (Less than 1 year guaranteed term remaining) .0010 (1-5 years guaranteed term remaining) .0020 (Over 5 years guaranteed term remaining)

2. The appropriate risk factor for the morbidity risk charge referred to in sub-regulation 16(2) shall be determined in accordance with Table 5.

Table 5

Type of Policy	Measure of exposure	Factors																				
Disability income and premium waiver with guaranteed terms: Individual – New claims	Annual net earned premium	.12 (Less than 1 year guaranteed term remaining) .20 (1-5 years guaranteed term remaining) .30 (over 5 years guaranteed term remaining)																				
Continuing claims	Reported and open claim reserves related to prior year claims incurred	<table border="1"> <thead> <tr> <th colspan="3">Duration of disability (years)</th> <th>Benefit period remaining (years)</th> </tr> <tr> <th>2</th> <th>>2≤5</th> <th>>5</th> <th></th> </tr> </thead> <tbody> <tr> <td>.040</td> <td>.030</td> <td>.020</td> <td>≤ 1</td> </tr> <tr> <td>.060</td> <td>.045</td> <td>.030</td> <td>>1 ≤2</td> </tr> <tr> <td>.080</td> <td>.060</td> <td>.040</td> <td>> 2</td> </tr> </tbody> </table>	Duration of disability (years)			Benefit period remaining (years)	2	>2≤5	>5		.040	.030	.020	≤ 1	.060	.045	.030	>1 ≤2	.080	.060	.040	> 2
Duration of disability (years)			Benefit period remaining (years)																			
2	>2≤5	>5																				
.040	.030	.020	≤ 1																			
.060	.045	.030	>1 ≤2																			
.080	.060	.040	> 2																			
Disability Income and premium waiver with guaranteed terms: Group - New claims	Annual net earned premium	.12 (Less than 1 year guaranteed term remaining) .25 (1-5 years guaranteed term remaining) .40 (over 5 years guaranteed term remaining)																				

Type of Policy	Measure of exposure	Factors			
Continuing claims	Reported and open claim reserves related to prior year claims incurred	Duration of disability (years)		Benefit period remaining (years)	
		≤ 2	>2≤5	>5	
		.040	.030	.020	≤ 1
		.060	.045	.030	>1 ≤2
		.080	.060	.040	> 2
Other accident and sickness excluding accidental death and dismemberment – New claims	Annual net earned premium	.12			
Continuing claims	Reported and open claim reserves related to claims incurred	.10			
Health insurance Individual and Group – New claims	Annual net earned premium	.20			
Continuing claims	Unreported and reported and open claim reserves related to claims incurred	.10			

3. Where current premium rates are significantly less than the maximum guaranteed premium rates, the term of the current premium rates shall be the guaranteed term for the purpose of calculating the mortality risk charge in accordance with paragraph 1 of this Schedule and the morbidity risk charge in accordance with paragraph 2 of this Schedule.
4. Where disability income and premium waiver benefits are attached to group life policies, the factors for individual coverage shall apply to these riders for the purpose of calculating the morbidity risk charge in accordance with paragraph 2 of this Schedule.

SCHEDULE 11 (Regulation 17)

Lapse Risk Charge and Factors

1. In order to calculate the lapse risk charge, the insurer shall ensure that –
 - (a) the total net policy liabilities are determined in accordance with the Insurance (Caribbean Policy Premium Method) Regulations, 201X;
 - (b) the total net policy liabilities are recalculated using increased lapse margins for adverse deviation in accordance with the following principles:
 - (i) for participating and adjustable premium policies, the lapse rate margin assumption shall be adjusted by seven point five per cent of the underlying lapse rate assumption;
 - (ii) for other policies, the lapse rate margin assumption shall be adjusted by fifteen per cent of the underlying lapse rate assumption;
 - (iii) where at a particular duration a lower lapse rate assumption results in a higher reserve, the lapse rate assumption shall be adjusted by reducing the lapse rate, or where at a particular duration a higher lapse rate assumption results in a higher reserve, the lapse rate assumption is adjusted by increasing the lapse rate; and
2. The lapse risk charge shall be the net policy liabilities calculated in paragraph 1(b) subtracted from the net policy liabilities calculated in paragraph 1(a) of this Schedule.

SCHEDULE 12 (Regulation 18)

Interest Margin Pricing Risk Charge and Factors

Type of Policy	Factor
Deferred annuities that are renewable at new business rates; policies with no repricing risk; policy liabilities that are not discounted for interest	.000
Adjustable premiums/adjustable interest credits; universal life where the crediting rates are reasonably flexible	.005
All other policies	.010

SCHEDULE 13 (Regulation 19)

Liquidity and Operational Risk Charge and Factors

The appropriate risk factor for the liquidity and operational risk charge applicable to investment linked insurance business shall be one percent.

SCHEDULE 14 (Regulation 21)
Premium Adequacy Risk Charge and Factors

Class of Insurance Business	Factor
Property	.15
Motor Vehicle	.10
Marine, Aviation and Transport	.12
Workers Compensation	.20
Liability	.25
Pecuniary Loss	.15
Personal Accident	.18

SCHEDULE 15 (Regulation 22)
Outstanding Claims Risk Charge and Factors

Class of Insurance Business	Factor
Property	.10
Motor Vehicle	.10
Marine, Aviation and Transport	.12
Workers Compensation	.15
Liability	.15
Pecuniary Loss	.12
Personal Accident	.12

SCHEDULE 16 (Regulation 23)
Catastrophe Risk Charge and Factors

The catastrophe risk charge shall be the cost to the insurer of a catastrophe event equal to the minimum acceptable upper limit divided by 1.5.

- 1) For the purpose of this Schedule, the cost to the insurer of a catastrophe event shall be net of all other applicable reinsurance arrangements and includes the retention of the insurer and reinstatement cost under the catastrophe reinsurance programme.
- 2) For the purposes of this Schedule, the minimum acceptable upper limit is an event which is expected to occur once in every two hundred and fifty years.

SCHEDULE 18 (Regulation 27)
Transitional Regulatory Capital ratios

During a transition period no later than the insurer's fifth financial year end following commencement of the Regulations, the following transitional regulatory capital ratios shall be attained by the dates specified.

Date	Minimum Regulatory Capital ratio	Minimum Net Tier 1 Ratio
As at the insurer's first financial year end following commencement of the Regulations	110%	77%
As at the insurer's second financial year end following commencement of the Regulations	120%	84%
As at the insurer's third financial year end following commencement of the Regulations	130%	91%
As at the insurer's fourth financial year end following commencement of the Regulations	140%	98%
As at the insurer's fifth financial year end following commencement of the Regulations	150%	105%

Dated this day of , 201X.

Minister of Finance