Legal Notice No.

REPUBLIC OF TRINIDAD AND TOBAGO

THE INSURANCE ACT, 2015

REGULATIONS

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

THE INSURANCE (CARIBBEAN POLICY PREMIUM METHOD) REGULATIONS, 2015

No.

Citation

1. (1) These Regulations may be cited as the Insurance (Caribbean Policy Premium Method) Regulations, 2015.

(2) These Regulations apply to valuations of policy liabilities and other actuarial liabilities for returns filed pursuant to the Act by insurers carrying on long-term insurance business.

Interpretation Act No. 2015

2. In these Regulations –

"Act" means the Insurance Act, 2015;

"actuarial report" means the report required under section 158 of the Act;

"actuarial work" means the actuary's work within the domain of actuarial practice and includes acquisition of knowledge of the circumstances of the case, obtaining sufficient and reliable data, selection of assumptions and methods, calculations and examination of the reasonableness of their result, use of other persons' work, formulation of opinion and advice, reporting, and documentation;

"Caribbean policy premium method" means a method of computing actuarial liabilities, which uses the full amount of the policy premiums stipulated in the related insurance policies, and the policy payments, without arbitrary limitation on expenses, such that the net present value of these elements, after providing for adverse deviations, is the value of the actuarial liability;

"claim liabilities" are the portion of insurance contract liabilities in respect of claims incurred on or before the valuation date;

"guaranteed benefits" means guaranteed -

(a) death, endowment, annuity, disability and health care expense benefits;

(b) cash surrender and other non-forfeiture benefits;

(c) conversion, renewal and option to purchase insurance rights;

(d) settlement options which are not fully self-supporting; and

(e) benefits of any other kind under the terms of the policy;

"insurance contract liabilities" are the liabilities at the valuation date on account of the insurer's insurance contracts, including commitments, which are in force at that date or which were in force before that date;

"policyholder dividends" means all distributions to non-participating and participating policyholders such as experience refunds, excess interest credits or dividends according to the insurer's current scale or another scale if that scale better reflects the dividend or bonus policy of the insurer and the projected operating environment;

"policy payments" means payments of –

(a) guaranteed benefits;

(b) policyholder dividends;

(c) non-guaranteed benefits;

(d) benefits which have become established concessions;

(e) issue, administrative and investment expenses;

(f) renewal commissions;

(g) certain taxes; and

(h) all cash flows resulting from any reinsurance agreement in effect for the policy;

"premium liabilities**"** are the portions of insurance contract liabilities that are not claim liabilities;

"premiums" include income equivalent to premiums, such as management fees, and cost of insurance charges;

"reinsurance recoverables" are the assets at the valuation date on account of reinsurance treaties, including commitments, which are in force at that date or which were in force before that date; and

"standards of accepted actuarial practice" means the actuarial standards as specified by the Inspector in respect of the application of these Regulations.

Application of standards

3. An appointed actuary shall apply the standards of accepted actuarial practice with respect to actuarial work required under the Act and these Regulations.

Verification of data

4. (1) The appointed actuary shall –

(a) ensure that he is familiar with the procedures for the administration and accounting of the business; and

(b) establish suitable control procedures –

(i) to verify that the valuation data for both assets and liabilities are consistent with the terms of the contracts of insurance and commission contracts; and

(ii) in relation to the deeds, contracts and documents of title that support its investments, other source data, the record keeping system and the accounting practices,

and make any appropriate adjustments.

(2) The appointed actuary may consider the work of the auditor for the accuracy of the data used in the valuation and if the appointed actuary has any doubts regarding the accuracy of the data, he shall disclose any reservations in the actuarial report.

(3) The appointed actuary shall take such steps as are necessary to -

(a) ensure the reasonableness of a calculation's result ; and

(b) ensure that any inconsistencies and errors in the valuation system are reported to the insurer and recommend appropriate measures to correct such inconsistencies and errors.

(4) The appointed actuary shall verify the consistency of the current valuation data and results with the previous valuation data and results, the financial statements and the records of policy movements.

Appointed actuary's valuation

5. (1) The appointed actuary shall value the insurer's policy liabilities and other actuarial liabilities for returns filed pursuant to the Act by an insurer carrying out long-term insurance business.

(2) The appointed actuary shall ensure consistency with the financial reporting standards and insurer's accounting policy including classification and that the policy liabilities and other actuarial liabilities, reinsurance recoverables and other items in the returns are consistent, and avoid omission and double counting.

(3) The valuation date shall be the end of the financial period in respect of which the return has been prepared.

(4) Where the contract term of an insurance contract is more than one year, the appointed actuary shall value the premium liability using the Caribbean Policy Premium Method.

(5) The appointed actuary shall value policy liabilities and other actuarial liabilities other than those valued in accordance with sub-regulation (4), in accordance with the financial reporting standards, the standards of accepted actuarial practice and this Regulation.

(6) The appointed actuary shall ensure fair presentation of the results of the valuation and that the amount reported for reinsurance recoverables is appropriate.

(7) Regulations 6 to 16 apply to the Caribbean Policy Premium Method.

Determination of assumptions

6. (1) The assumptions selected shall be appropriate to the circumstances of the insurer as assessed by the appointed actuary at the valuation date, considering expected experience, policies in force, the method of valuing assets, statutory constraints on the valuation of liabilities, and the release of surplus over the policy duration.

(2) The responsibility of the appointed actuary to select assumptions appropriate for the portfolio being valued shall not be affected by the capital and surplus requirements.

(3) The appointed actuary shall make an appropriate assumption about each contingency which materially affects the net income for the policies in force over their lifetime.

(4) The appointed actuary shall not make the same assumption for two policies unless it is expected that their experience for that assumption will be similar.

(5) The appointed actuary shall give more careful study to those assumptions to which liabilities are more sensitive.

(6) In selecting assumptions for the insurer's exercise of discretion in areas such as the determination of policy dividends, experience-rating refunds, retrospective commission adjustments, or the right to adjust premiums, the actuary should take policyholder reasonable expectations into account.

Change in assumptions

7. (1) Assumptions shall be determined prospectively at each valuation date in the context of the current experience.

(2) In determining assumptions, the appointed actuary shall reflect improvements or deterioration in experience, if such changes are statistically significant and material.

(3) Except as provided in subregulations (4) and (5), the effect of a change in assumption shall not be spread over more than one valuation period.

(4) Where a change in the environment or in emerging experience is occurring in an uncertain manner, the appointed actuary may conclude that, based on currently available data, only part of the observed change shall be reflected in the current valuation assumption, and that the balance shall be reflected in a future valuation to the extent that further data develops to confirm the observed change in experience or environment.

(5) The deferral of part of the change in a valuation assumption is only appropriate where the deferral does not result in lower liabilities.

Expected experience

8. (1) The appointed actuary shall discuss the current and projected strategy with officers responsible for investments, underwriting, claims, marketing, pricing, policyholder dividends and administration.

(2) Where it is indicative, the appointed actuary shall, for each assumption, study the available recent experience of the business in force and the most comparable recent published industry experience.

(3) If credible local industry experience data is not available, the appointed actuary may take into account comparable experience data from another jurisdiction.

(4) The appointed actuary shall not assume that expected experience is more favourable than industry experience except to the extent of statistical evidence.

Anti-selection 9. (1) Where a policy allows a policyholder to create, prolong, or stop a policy benefit, the appointed actuary shall assume that policyholders who benefit from doing so will tend to act to the detriment of the insurer

(2) Where the reinsurance arrangements between two companies allow business to be recaptured by a ceding company, the appointed actuary shall assume that the ceding company who benefits from doing so will tend to act to the detriment of the accepting insurer.

(3) The appointed actuary shall determine the term of the liabilities by taking into account any renewal, or any adjustment equivalent to renewal, after the valuation date when -

(a) the discretion of the insurer at that renewal or adjustment is contractually constrained; and

(b) liabilities are larger as a result of taking account of that renewal or adjustment.

(2) If an element of a policy operates independently of the other elements, then it should be treated as a separate policy with its own term of liabilities.

Provision for adverse deviations 10. (1) For the purpose of providing for adverse deviations, the appointed actuary shall have regard to the fact that –

(a) it is not possible to determine expected experience with complete confidence; and

(b) actual experience may be better or worse than expected experience,

and accordingly, shall define a margin for adverse deviation for each assumption in order to add a provision to the liabilities.

(2) The provision added under subregulation (1) shall be appropriate for income statement purposes and to the circumstances of the insurer.

(3) For each assumption, the margin shall –

(a) be for the mis-estimation of the mean and for the possible deterioration thereof; and

(b) not cover statistical fluctuation or catastrophic or similar major unexpected events.

(4) For the purpose of determining the provision for adverse deviation, the appointed actuary shall take into account the following:

(a) the margin for adverse deviations shall increase the liabilities;

(b) the margin shall be greater when there is -

(i) less confidence in the realization of the expected experience; or

(ii) a stronger possibility of deterioration of the mean;

(c) the internal practices of the insurer such as underwriting, matching, immunization and the characteristics of the policies, shall be taken into consideration;

(d) subject to paragraphs (a) to (c), the margin shall be consistent among generations of policies and consistent among product lines; and

(e) the provision for adverse deviations for a participating policy may be less than the provision for a comparable non-participating policy by an amount which depends on -

(i) the size of the policyholder dividends; and

(ii) how readily the insurer will adapt its dividend scale to changing conditions.

(5) The appointed actuary shall select a margin for adverse deviations between a low margin and a high margin, specified for each best estimate assumption as stated in subregulation (9) and of five per cent and twenty per cent (or minus five per cent and minus twenty per cent) respectively, of each other best estimate assumption.

(6) If a margin for adverse deviations cannot be defined as a percentage of the best estimate assumption, then the related provision for adverse deviations shall be taken as the increase in liabilities which results from substitution of a conservative assumption for the best estimate assumption.

(7) Other significant considerations indicative of a potential deterioration of the best estimate assumption include –

(a) a significant concentration of risks or lack of diversification;

(b) operational risks which adversely impact the likelihood of continuing to obtain best estimate assumption; or

(c) past experience which may not be representative of future experience and where the experience may deteriorate.

(8) Where the margin is expressed as a percentage and the best estimate is unusually low, a selection above the high margin is appropriate for unusually high uncertainty or where the resulting provision for adverse deviations is very low.

(9) The low and high margins which apply for the specified best estimate assumptions are as follows:

(a) the low and high margins for adverse deviations for the insurance mortality rate per one thousand are respectively an addition of three point seventy-five and fifteen, each divided by the best estimate curtate expectation of life at the projected attained age of the life insured;

(b) the low and high margins for adverse deviations for the annuity mortality rate are respectively a subtraction of five per cent and fifteen per cent of the best estimate;

(c) the low and high margins for adverse deviations for morbidity are respectively an addition of five per cent and twenty per cent of the best estimate of morbidity incidence rates, and a subtraction of five per cent and twenty per cent of the best estimate morbidity termination rates reflecting any expected correlation between incidence and termination rates;

(d) the low and high margins for adverse deviations for withdrawal and partial withdrawal are respectively an addition or subtraction, as appropriate, of five per cent and twenty per cent of the best estimate withdrawal rates and in order to ensure that the margin for adverse deviation increases liabilities, the choice between addition and subtraction may need to vary by interest scenario, age, policy duration, and other parameters; and

(e) the expense assumption shall provide for future inflation consistent with that in the interest rate scenario, and the low and high margins for adverse deviations are respectively two point five per cent and ten per cent of best estimate expense including inflation.

Investment return 11. (1) The appointed actuary shall base the investment rate of return on the –

(a) method of reporting investment return and valuing assets; and

(b) assets allocated to each product line at the valuation date.

(2) The investment rate of return of a product line depends on –

(a) the projected rate of return on allocated assets at the valuation date;

(b) the expected new money rate of return on its assets projected to be acquired after the valuation date, where cash flow is expected to be positive;

(c) the expected capital gains or losses on its assets projected to be disposed of after the valuation date, where cash flow is expected to be negative;

(d) its expected investment tax rates;

(e) its expected investment expense rates;

(f) its expected losses from default; and

(g) provisions for adverse deviations.

(3) The expected return from income producing real estate, including capital growth and maturity proceeds, for a consistent term shall include an appropriate margin for adverse deviation.

(4) The expected return on equities from the combination of dividend, capital growth and sales for a consistent term shall include an appropriate margin for adverse deviation.

(5) For new money investment rates, the appointed actuary shall make a provision for adverse deviations which reflects the fact that no one can with any confidence predict new money investment rates beyond a short time following the valuation date.

(6) In developing the valuation interest rate assumption, the initial new money investment rate shall reflect a current yield curve with a straight line projection between the initial and ultimate new money investment rates taking into consideration the currency of the cash flows to be discounted.

(7) The ultimate new money investment rate established shall represent an ultimate long term risk free reinvestment rate.

(8) Provision for adverse deviations shall reflect the ability and willingness of the insurer to compensate for an adverse deviation by a reduction in policyholder dividends.

(9) The appointed actuary shall assume that borrowers and policyholders who would benefit from exercising their contractual options to the detriment of the insurer, will do so.

(10) Where the projection of cash flow requires new investments, the appointed actuary shall not, without an explicit reason, assume a change in its recent composition or rate of growth or reinvestment strategy or practice which reduces the liabilities.

Expenses

12. (1) The appointed actuary shall make assumptions for the following:

(a) investment expense, which is the expense allocable to the investment and safekeeping of assets;

(b) issue expense, which is the expense incurred for the production of new business, being the sum of -

(i) the expense payable at and after issue as a direct result of the issue of policies; and

(ii) the expense payable before issue which directly results in the issue of policies; and

(c) administrative expense, which is the expense allocable to the maintenance and servicing of policies, including claims handling expenses, premium taxes and charges for licences and government supervision, but excluding investment expense and issue expense.

(2) Only investment and administrative expenses which shall be incurred after the valuation date shall be recognized in the valuation.

(3) Renewal commissions shall include volume-based commissions such as financing costs, overrides, bonuses incurred after the valuation date

(4) Issue expenses shall not be overstated to the extent that future administrative expenses shall thereby be understated.

(5) In making the investment and administrative expense assumptions, the appointed actuary shall assume -

(a) that an insurer which is open to new business, continues as such; and

(b) that an insurer which is closed to new business and continues as such in a run-off position until such time as it is desirable and practical to reinsure the policies in force, or to amalgamate the insurer into another insurer.

Mortality and morbidity

13. (1) The appointed actuary shall make assumptions on mortality and morbidity where appropriate.

assumptions

(2) For life and health insurance, mortality or morbidity rates lower than the base table before margins for adverse deviations shall be supported by statistically valid company or inter-company experience studies.

(3) For annuity products, mortality rates higher than the base table before margins for adverse deviations shall be supported by statistically valid company or inter-company experience.

(4) Any expected effects of anti-selection on mortality or morbidity shall be taken into account before the application of a margin for adverse deviation.

(5) Mortality rates for life insurance products shall not reflect an assumption of improvement trends beyond the valuation date but annuitant mortality may reflect long-term mortality improvements if indicated.

Lapse and partial withdrawals

14. (1) The appointed actuary shall make assumptions on lapse rates or partial withdrawals or both, where the insurer is exposed to risk from the fact that the policyholder has the option to withdraw or persist, or to select the timing or amount of withdrawal.

(2) The appointed actuary shall base the assumptions on –

(a) recent experience studies of the in-force business;

(b) product features which are likely to affect the lapse; and

(c) external factors such as industry conditions and the economy.

(3) For newer products where reliable experience data may not be available, the appointed actuary shall adopt a more conservative approach in selecting the expected assumptions.

Inflation and investment return rate

15. For policies where the liabilities appear to be more sensitive to the inflation rate assumption than to the investment return rate assumption, the appointed actuary shall not assume that the new money investment rate is correlated with the inflation rate but he shall assume that inflation continues indefinitely.

Guarantees

16. The appointed actuary shall make adequate provision for policy and other contract guarantees including guarantees made under any off balance sheet arrangements including segregated fund policies.

Reinsurance recoverables

17. Liabilities reported in the insurer's return may not be net of the value of recoveries that are expected from reinsurance ceded. The value of the reinsurance recoverables may be recorded as an asset. Fair presentation of the reported policy liabilities and other actuarial liabilities requires the amount of that asset to be appropriate. The

recovery on account of reinsurance ceded would take account of not only the reinsurer's share of claims but also reinsurance commissions, allowances, retrospective premium adjustments, and the financial condition of the reinsurer.

Actuarial report

18. (1) The actuarial report shall include -

(a) a description of the valuation and presentation of policy liabilities and other actuarial liabilities and reinsurance recoverables for the insurer's return;
(b) disclosure of any material change in methods from the prior valuation;
(c) disclosure of any matters for which the appointed actuary was unable to obtain information or for which he was not satisfied with the information provided;
(d) a description of the appointed actuary's role in the preparation of the insurer's return
(e) a copy of the actuarial certificate prepared in accordance with the Act and regulation 20.

(2) The content and format of the actuarial report shall be as prescribed pursuant to section 145 (1) (d) of the Act;

Actuarial Certificate

19. The actuarial certificate required under section 145(2) of the Act shall be prepared in the format outlined in Schedule 1 for an unqualified opinion and appropriately modified for a qualified opinion.

SCHEDULE 1

[Regulation 19 (1) (c)]

FORMAT OF CERTIFICATE OF APPOINTED ACTUARY

I have examined the financial position and valued the policy liabilities and other actuarial liabilities and reinsurance recoverables of *[insurer]* for its statement of financial position as at *[date]* and the corresponding changes in the statement of income for the year then ended. I meet the appropriate qualification standards and am familiar with the valuation and capital adequacy requirements applicable to insurers carrying on long-term insurance business in Trinidad and Tobago and have complied with the requirements of the Insurance Act, 2015 and applicable Regulations made thereunder.

In my opinion-

(a) the methods and procedures used in the verification of the valuation data are sufficient and reliable and fulfil acceptable standards of care;

(b) the methods and assumptions used to calculate the policy liabilities and other actuarial liabilities are appropriate to the circumstances of the insurer and of the underlying policies and claims;

the policy liabilities and other actuarial liabilities represented in the statement of financial position of *[insurer]* amounting to *[$TT]* which are net of reinsurance recoverables of [$TT] make proper provision for all policy obligations and the return fairly presents the results of the valuation.

____________________________	____________________	_________
Name of the appointed actuary (Include name, title and qualification)	Signature of appointed actuary	Date

NOTE: Where the appointed actuary is unable to comply with the above opinion, he shall issue a qualified opinion and inform the Inspector.

Dated this day of , 2015.

Minister of Finance and the Economy