

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 (FINANCIAL CONDITION REPORT FOR GENERAL INSURANCE) REGULATIONS, 2015

	No.	
Citation	1.	These Regulations may be cited as the Insurance (Financial Condition Report for General Insurance) Regulations, 2015.
Interpretation Act No. 2015	2.	<p>In these Regulations:</p> <p>Act” means the Insurance Act, 2015;</p> <p>“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;</p> <p>“adverse scenario” means a scenario of adverse, but plausible, assumptions about matters to which the financial condition of an insurer is sensitive;</p> <p>“base scenario” means a realistic set of assumptions used to forecast the financial position of an insurer over a projection period;</p> <p>“effective date” means the annual balance sheet date of an insurer coinciding with the returns specified in section 145 of the Act;</p> <p>“financial condition” of an entity at a date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, members, and those to whom it owes benefits. Financial condition is sometimes called “future financial condition”;</p>

“financial position” of an entity at a date is its financial state as reflected by the amount, nature, and composition of its assets, liabilities, and equity at that date.

“standards of accepted actuarial practice” means the actuarial standards as specified by the Inspector in respect of the application of these Regulations;

“unviable financial condition scenario” means a situation where an insurer identifies scenarios and circumstances that would render its business model unviable when, at any stage during the projection period, its regulatory capital ratio is less than one hundred per cent.

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| Application | 3. | <p>(1) These Regulations apply to an insurer carrying on general insurance business.</p> <p>(2) An appointed actuary shall apply the standards of accepted actuarial practice with respect to actuarial work required under the Act and these Regulations.</p> |
| Investigation | 4. | <p>(1) As prescribed by section 214 of the Act, an investigation of the financial condition of an insurer with respect to capital adequacy and liquidity shall be undertaken by the appointed actuary or chief financial officer, as the case may be and shall-</p> <ul style="list-style-type: none">(a) review operations of recent years (normally at least three years) and the financial position, required capital and capital ratios at the end of each of those years;(b) look forward from the effective date for a period of no less than two years considering the present and the future financial positions of the insurer and the sensitivity of capital to changes in various risk factors and management policies;(c) include projections of all of the business of the insurer and anticipated new business; and(d) include projections of the financial position, required capital and capital ratios of the insurer in accordance with the Insurance (Capital Adequacy) Regulations, 2015 under a variety of scenarios. <p>(2) The projections may be performed through the use of stress or scenario testing.</p> <p>(3) The projections may be prepared as part of an insurer’s business planning process prior to the effective date using a forecast of the position at the effective date.</p> <p>(4) The scenarios shall include a base scenario and a number of adverse scenarios designed to investigate the sensitivity of the insurer to various threats and possibly identify unviable financial condition scenarios.</p> |

Criteria to be established	5.	A set of criteria for capital adequacy and liquidity appropriate to the insurer shall be established and the investigation and the report shall be based on these criteria.
Projection Period	6.	<p>(1) The projection period shall be consistent with the internal business plan of the insurer.-</p> <p>(2) The term of the projection period shall be sufficient to enable the impact of adverse trends in the assumptions for the various scenarios to be observed.</p> <p>(3) The claim liabilities at the end of the projection period shall reflect the emerging experience within the scenario.</p>
Materiality	7.	<p>(1) Materiality shall be taken into account when preparing the financial condition report.</p> <p>(2) The standard of materiality may be more rigorous in examining a base scenario where the capital adequacy is closer to the minimum regulatory capital ratios as specified in the Insurance (Capital Adequacy) Regulations, 2015.</p> <p>(3) In assessing whether a potential threat is likely to have a material impact on the financial condition of an insurer, consideration shall be given to-</p> <ul style="list-style-type: none"> a. its size; b. the risk profile of its business; and c. its financial position.
Base Scenario	8.	<p>(1) The base scenario shall be consistent with the internal business plan, whether formal or implied, and shall take into account, amongst other considerations, the marketing plans, sales objectives, investment policies, pricing philosophy and underwriting philosophy.</p> <p>(2) The base scenario shall comprise projections of the financial position, required capital and capital ratios of the insurer, based on a realistic set of assumptions applied over the projection period.</p> <p>(3) Any differences between the base scenario and the business plan shall be disclosed.</p>
Initial Testing	9.	<p>(1) The ability of the insurer to withstand adverse scenarios which would cause the minimum regulatory capital ratios as specified in the Insurance (Capital Adequacy) Regulations, 2015 to be breached, shall be analyzed.</p> <p>(2) The adverse scenarios shall be applied to the base scenario.</p> <p>(3) In the selection and testing of the adverse scenarios, consideration shall be</p>

given as to how far the associated risk factor has to be changed in order to stress the financial condition adequately so as to identify unviable financial condition scenarios.

- (4) The number of adverse scenarios shall be sufficient to provide a thorough assessment of the risk to which an insurer is exposed.
- (5) The insurer shall, in addition to scenarios determined by the insurer, test scenarios that may be specified by the Inspector from time to time and the Inspector may also specify additional criteria for tests of capital adequacy and liquidity.
- (6) Investigation of adverse scenarios may commence with consideration of possible sensitivity tests to determine the risks to which an insurer is more sensitive and these tests shall include the scenarios specified by the Inspector.
- (7) Scenarios shall be tested in a manner that is applicable to the circumstances of the insurer.
- (8) The specific rates of deterioration may be adjusted to produce a more meaningful test in instances when the scenarios would not adequately stress the financial condition.
- (9) Those scenarios that will create unviable financial condition scenarios for the insurer and cause management to consider mitigating actions shall be identified.

Further Testing 10.

- (1) Following the initial testing of adverse scenarios under regulation 9, plausible adverse scenarios shall be determined and tested. Additional single-risk scenarios, or integrated scenarios resulting from a combination of single-risk scenarios shall be investigated.
- (2) The adverse scenarios investigated under subregulation (1) shall test risks that are either more likely to occur or to which the insurer is more sensitive.
- (3) The testing shall identify plausible threats to satisfactory financial condition, actions that would lessen the likelihood of those threats, and actions that would mitigate a threat if it materialized.

Modelling techniques and documentation 11.

- (1) A model that is applicable to the circumstances of the insurer shall be chosen or developed and validated regularly to ensure reliability.
- (2) The method used to model adverse scenarios may be deterministic, stochastic or a combination of the two.
- (3) Adequate documentation of the work performed shall be kept, including documentation of-

- a. the methods, assumptions used and the numerical results of all the scenarios tested;
- b. the justification for not testing certain risks; and
- c. the business judged to be immaterial.

(4) The entire stress testing process shall be well documented, with a procedure manual including at a minimum the following:

- a. the basic principles of the stress testing approach;
- b. the quantitative and qualitative techniques employed;
- c. the design of the stress testing models;
- d. the controls and procedures integral to the stress testing process; and
- e. the criteria used to determine the scenarios to be tested.

Report

12.

(1) The appointed actuary or chief financial officer, as the case may be, shall provide a written financial condition report annually to the board of directors, or its designate, outlining the investigations performed and presenting significant findings and conclusions and a copy of the report shall be provided to the Inspector, as required under section 159 of the Act.

(2) The financial condition report shall include –

- (a) a comprehensive description of the methods and assumptions that have been used;
- (b) a comprehensive description and disclosure of the level of materiality used;
- (c) a comprehensive description of the adverse and base scenarios employed;
- (d) a comprehensive description of the criteria used in the assessment of capital adequacy and liquidity;
- (e) a comprehensive assessment of the impact of the adverse scenarios on the financial condition of the insurer;
- (f) the opinion as set out in Schedule 1; and
- (g) a comprehensive description of the verification of all data,

which shall include-

- (i) the extent to which reliance was placed on the information provided by the insurer, another actuary or any other third party and any resulting limitations; and
 - (ii) the manner in which the accuracy and suitability of the data and reports provided by the insurer was satisfied.
- (3) The format of the financial condition report shall be as prescribed in Schedule 1.
- (4) In addition to the annual requirement under subregulation (1), the appointed actuary shall identify and continue to monitor matters that may threaten the insurer's financial condition. The appointed actuary should also make an interim investigation if there is a material adverse change in the insurer's circumstances.

SCHEDULE 1

(Regulation 12)

The financial condition report shall have at least the following sections in this order:

1.	<p><u>Summary</u></p> <p>The recommendations and results of the stress testing exercise shall be summarized. The most significant capital adequacy risks and threats to the maintenance of a satisfactory financial condition shall be highlighted. The summary shall include a review of the main events that occurred since the last financial condition report was submitted.</p>
2.	<p><u>Introduction</u></p> <p>This provides a description of the purpose and basis of the financial condition report. It includes a description of the role of the appointed actuary or chief financial officer, the purpose and scope of the financial condition report and an overview of the processes and methods used in stress and scenario testing. If applicable, it shall be confirmed that the standards of accepted actuarial practice have been applied.</p>
3.	<p><u>Background</u></p> <p>This includes an overview of the insurer, a summary of the nature of the business, products and target markets. A brief discussion on the recent and current financial position shall be included. A review of the recommendations from the previous year and possible management actions shall be included so as to maintain a sense of continuity between the past and present reports.</p>
4.	<p><u>Base Scenario</u></p> <p>A clear description of the base scenario shall include –</p> <ul style="list-style-type: none">(a) a description of the main assumptions and methods used to project the

	<p>base scenario;</p> <p>(b) a discussion of consistency of the base scenario to the internal business plan; and</p> <p>(c) for each major line of business and in total, results of the financial condition for each year of the projection period together with prior three year results</p>
5.	<p><u>Adverse Scenario</u></p> <p>This section provides detailed descriptions of the scenarios.</p> <p>For each adverse scenario the following shall be included where applicable:</p> <p>(a) key assumptions of the risk being tested and whether the risk is significant to the insurer;</p> <p>(b) a comparison to scenarios used in the financial condition report from the previous year;</p> <p>(c) for each major line of business and in total, the financial results and the change from the corresponding base scenario results; and</p> <p>(d) a discussion of any possible regulatory actions and repercussions if the results cause the minimum regulatory capital ratio to be breached.</p>
6.	<p><u>Integrated Scenario (if applicable)</u></p> <p>This section provides detailed descriptions of the additional scenarios that are a combination of two or more adverse scenarios. The level of disclosure included in the report shall be similar to that of the adverse scenarios in item 5.</p>
7.	<p><u>Conclusion and Recommendations</u></p> <p>This section shall contain overall conclusions from the stress and scenario testing performed. A brief description and summary of the results of the base and adverse scenarios shall be included. The most significant risks and threats to satisfactory financial condition shall be highlighted. Recommendations, if any, as to management actions to manage or mitigate any identified risk and the effect of plausible adverse scenarios.</p>
8.	<p><u>Opinion</u></p> <p>The appointed actuary shall include a signed opinion on the financial condition of the insurer. The opinion of the appointed actuary shall have the following format:</p> <p>I have examined the future financial condition of [insurer] as at [date]. The investigation has been carried out in accordance with [the standards of accepted actuarial practice]*, the stipulations of the Insurance (Financial Condition Report for General Insurance) Regulations, 2015 and any applicable instructions of the Inspector.</p> <p>I meet the appropriate qualification standards and am familiar with the</p>

valuation and capital adequacy requirements applicable to general insurance companies in Trinidad and Tobago

Name of the Appointed
Actuary
*[Include name, title
and qualification]*

Signature of Appointed
Actuary

Date

** This phrase is deleted if no standards of accepted actuarial practice are specified.*

Where there is no appointed actuary, the Chief Financial Officer shall include a signed opinion on the financial condition of the insurer. The opinion of the Chief Financial Officer shall have the following format:

I have examined the future financial condition of *[insurer]* as at *[date]*.
In my opinion, the investigation has been carried out in accordance with the stipulations of the Insurance (Financial Condition Report for General Insurance) Regulations, 2015 and any applicable instructions of the Inspector.

Name of the Chief Financial
Officer
*[Include name, title and
Qualification]*

Signature of CFO

Date

9.

Appendices

The appendices shall include any tables, graphs or any other additional information that are considered to be pertinent to the report and/or may be specified by the Inspector.

Dated this day of , 2015.

Minister of Finance and the Economy