

Legal Notice No.

REPUBLIC OF TRINIDAD AND TOBAGO

THE INSURANCE ACT, 2018

**REGULATIONS**

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

**THE INSURANCE (FINANCIAL CONDITION REPORT) REGULATIONS, 201X**

	No.	
Citation	1.	These Regulations may be cited as the Insurance (Financial Condition Report) Regulations, 201X.
Interpretation	2.	In these Regulations:
Act No. 201X		“Act” means the Insurance Act, 2018;
		“actuarial work” means the work of an actuary within the field 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;
		“adverse scenario” means a scenario of adverse, but plausible, assumptions about matters to which the financial condition of an insurer is sensitive;
		“base scenario” means a realistic set of assumptions used to forecast the financial position of an insurer over a projection period;
		“effective date” means the date of the annual balance sheet of an insurer submitted to the Inspector pursuant to section 145(1) of the Act, and any other date specified by the Inspector;
		“financial condition” means the prospective ability of an insurer at a particular date to meet its future obligations to policyholders and those to whom it owes benefits ;
		“financial position” means the financial state of an insurer as reflected by the amount, nature, and composition of its assets, liabilities, and equity at a particular date.

“net tier 1 ratio” has the meaning assigned to it in the Insurance (Capital Adequacy) Regulations 201X;

“projection period” means:

- a) in the case of an insurer carrying on general insurance business, a period of no less than two years into the future from the effective date;
- b) in the case of an insurer carrying on long-term insurance business, a period of no less than four years into the future from the effective date.

“regulatory capital ratio” has the meaning assigned to it in the Insurance (Capital Adequacy) Regulations 201X;

“regulatory capital required” has the meaning assigned to it in the Insurance (Capital Adequacy) Regulations 201X;

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

“unviable financial condition scenario” means scenarios and circumstances when, at any stage during the projection period, its regulatory capital ratio is less than one hundred percent or its net tier 1 ratio is less than seventy percent.

- |                      |    |  |
|----------------------|----|--|
| Application          | 3. | (1) Except where specifically provided otherwise, these Regulations apply to all insurers.   |
|                      |    | (2) The appointed actuary of an insurer shall apply the standards of accepted actuarial practice with respect to actuarial work required under the Act and these Regulations.  |
|                      |    | (3) For a period of three years immediately after the commencement of the Act where an actuary has not yet been appointed, by an insurer carrying on general insurance business, the requirements of these Regulations for the investigation and submission of a report of the financial condition shall apply to the Chief Financial Officer of that insurer for that period. |
| Annual Investigation | 4. | (1) The annual investigation of the financial condition of an insurer with respect to capital adequacy and liquidity by the appointed actuary shall- <ul style="list-style-type: none"><li>(a) include a review the operations and the financial position, of the insurer for at least the three years immediately preceding the effective date</li></ul>                      |

including the regulatory capital required, regulatory capital ratio and net tier 1 ratio at the end of each of those years;

(b) for the projection period, include projections for the financial position of the insurer and the sensitivity of regulatory capital required, regulatory capital ratio and net tier 1 ratio to changes in various assumptions and management policies, such projections to consider in particular the financial position of the insurer as at the effective date;

(c) include projections of all of the insurance business of the insurer including anticipated new insurance business; and

(d) identify –

(i) a base scenario;

(ii) plausible threats to the insurer in the opinion of the appointed actuary;

(iii) a number of adverse scenarios designed to investigate the sensitivity of the insurer to threats identified under subparagraph (ii);

(iv) actions by the insurer which shall mitigate those threats; and

(v) any unviable financial condition scenario.

(2) The projections referred to in this regulation 4 may be performed through the use of stress or scenario testing.

(3) The appointed actuary may prepare projections as part of an insurer's business planning process prior to the effective date using a forecast of the position at the effective date.

(4) An insurer shall establish criteria for capital adequacy and liquidity appropriate to its insurance business in accordance with the Act and Regulations made thereunder and the investigation made under regulation 4 and the financial condition report shall be based on these criteria.

(5) In the case of an insurer carrying on long term insurance business, the appointed actuary shall determine valuation assumptions in accordance with the Insurance (Caribbean Policy Premium Method) Regulations, 201X and shall be consistent with the most recent valuation and the adverse scenarios being tested for the insurer.

Projection  
Period

5. (1) An insurer shall prepare a business plan and in respect of the projection period.

(2) The term of the projection period shall be sufficient to enable the impact of

adverse trends in assumptions in the various scenarios to be observed.

- (3) In the case of an insurer carrying on long term insurance business, the appointed actuary shall ensure that the valuation assumptions at the end of the projection period reflect the emerging experience within the scenario and changes in valuation bases may be reflected at the end of the projection period or throughout the projection period as would best reflect the circumstances of the insurer in such scenario.
- (4) In the case of an insurer carrying on general insurance business, the appointed actuary shall ensure that the claim liabilities at the end of the projection period reflect the emerging experience within the scenario.

- Materiality            6.
- (1) The appointed actuary shall take materiality into account when preparing the financial condition report.
  - (2) In determining the standard of materiality to be applied, the factors at the effective date that the appointed actuary shall consider shall include, but are not limited to: -
    - (a) the size of the insurer;
    - (b) the risk profile of the insurance business of the insurer;
    - (c) the financial position of the insurer; and
    - (d) the regulatory capital ratio and net tier 1 ratio of the insurer.

- Base Scenario        7.
- (1) The base scenario at the effective date in the financial condition report shall be consistent with the business plan and the appointed actuary shall include the marketing plans, sales objectives, investment policies, pricing philosophy and underwriting philosophy in determining the base scenario for the insurer.
  - (2) The appointed actuary shall disclose in the financial condition report any differences between the base scenario and the business plan of the insurer.

- Initial Testing       8.
- (1) The appointed actuary shall analyse the ability of the insurer to withstand adverse scenarios which would cause the insurer's capital ratios to fall below the minimum regulatory capital ratio and the net tier 1 ratio specified in the Insurance (Capital Adequacy) Regulations, 201X and, in conducting such analysis, the appointed actuary shall :
    - (a) apply the adverse scenarios to the base scenario;
    - (b) consider, in selecting and testing the adverse scenarios, how far the associated assumption has to be changed in order to stress the financial condition adequately so as to identify unviable financial condition scenarios; and

- (c) consider whether the number of adverse scenarios is sufficient to provide a thorough assessment of the risks to which an insurer is exposed.
- (2) The appointed actuary shall, in addition to adverse scenarios referred to in regulation 4(1)(d), test adverse scenarios that may be specified by the Inspector to the insurer from time to time and the Inspector may also specify to the insurer additional criteria for tests of capital adequacy and liquidity.
- (3) The appointed actuary shall consider sensitivity tests to determine the risks to which an insurer is most sensitive when investigating adverse scenarios and these sensitivity tests shall include the scenarios specified by the Inspector.
- (4) The appointed actuary shall test adverse scenarios in a manner that is applicable to the circumstances of the insurer.
- (5) The appointed actuary shall adjust specific rates of deterioration to produce a more meaningful test in instances when the adverse scenarios would not adequately stress the financial condition of the insurer.
- (6) Where the appointed actuary is of the opinion that certain adverse scenarios will create an unviable financial condition scenario for the insurer and cause management to consider mitigating actions, he shall identify those adverse scenarios in the financial condition report.

Further Testing 9.

- (1) Following the initial testing of adverse scenarios under regulation 8, the appointed actuary shall test other plausible adverse scenarios and shall investigate additional single-risk adverse scenarios, or integrated adverse scenarios resulting from a combination of single-risk adverse scenarios.
- (2) When investigating the adverse scenarios under subregulation (1), the appointed actuary shall test risks that are either more likely to occur or to which the insurer is more sensitive.
- (3) The appointed actuary shall identify plausible threats to the financial condition, actions that would lessen the likelihood of those threats, and actions that would mitigate threats, if they materialized, in testing other adverse scenarios under this regulation 9.

Modelling techniques and documentation

- 10.
- (1) The appointed actuary shall –
    - (a) choose or develop a model for testing adverse scenarios that is applicable to the circumstances of the insurer; and
    - (b) validate the model annually, or at such other time as the circumstances may require, to ensure reliability.
  - (2) The appointed actuary may use the deterministic method, the stochastic method or a combination of deterministic and stochastic methods to model adverse scenarios.
  - (3) The appointed actuary shall keep adequate documentation of the work performed, including documentation of-
    - (a) the methods and assumptions used as well as the numerical results of all the adverse scenarios tested;
    - (b) the justification for not testing certain risks; and
    - (c) the insurance business of the insurer judged to be immaterial and omitted from testing,for a period of no less than seven years from the date such documentation was created.
  - (4) The appointed actuary shall create a procedure manual that properly documents the entire stress testing process which shall include the following minimum requirements:
    - (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.

Financial Condition Report

- 11.
- (1) For the purposes of sections 159 and 214 of the Act, the appointed actuary shall provide annually to the board of directors of the insurer, a written financial condition report, as at the effective date, outlining the investigations performed under regulation 4 and presenting significant findings and conclusions.
  - (2) The Financial Condition Report shall be in such format and shall include the signed opinion of the appointed actuary as specified by the Inspector from time to time.
  - (3) In addition to the annual requirement under subregulation (1), the appointed actuary shall continually identify and monitor matters that may threaten the insurer's financial condition.

- (4) If there is a material adverse change in the insurer's circumstances, the appointed actuary shall immediately make an investigation and submit a report on the findings of such investigation to the Inspector, the Chief Executive Officer and the board of directors of the insurer.