CENTRAL BANK OF
TRINIDAD & TOBAGO

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FORMAT OF THE APPOINTED ACTUARY'S REPORT
FOR
LONG-TERM INSURANCE BUSINESS

November 2021

Format of the Appointed Actuary's Report for Long-Term Insurance Business

Pursuant to sections 145(1)(d) and (2) and 158(1)(a) of the Insurance Act, 2018 (Act) and regulation 18 of the Insurance (Caribbean Policy Premium Method) Regulations, 2020, (Regulations) the Central Bank of Trinidad and Tobago (Central Bank) outlines the minimum requirements for an appointed actuary's report for long-term insurance business (AAR).

Further, in accordance with section 23(5) of the Act, the requirements outlined above also apply to general insurers registered under the Act to carry on the accident and sickness class of insurance business. For the purposes of this report and in light of section 23(4) of the Act, the appointed actuary of the general insurer should therefore amend the applicable references to long-term insurance business to reflect only the accident and sickness class of insurance business required to be valued.

The appointed actuary is expected to apply judgment in ensuring that the objective of each section of the AAR is properly captured and include any additional information that is deemed pertinent to the valuation. The AAR should also be written in a manner generally understandable to both the insurer's management and the regulator. All values are to be reported in absolute numbers and in Trinidad and Tobago currency and the exchange rates used must be disclosed.

The format and order of presentation specified in this report must be followed to ensure consistency in reporting and to allow reasonable comparisons between insurers. A table of contents must be included at the beginning of the report showing the required sections and page numbers.

The required sections for the AAR are detailed below:

1. OVERVIEW

1.1. Overview of the Insurance Company

Provide a brief description of the insurer's structure, operations and any changes during the last financial period that are material. This can include, but is not limited to, any acquisitions, new product lines, events that affect the policy liabilities and other actuarial liabilities and any changes in the philosophy towards the valuation process.

1.2. Professional Qualifications

Professional qualifications of the appointed actuary should be disclosed including membership in any professional actuarial bodies and compliance status and the term of appointment as the insurer's actuary. The appointed actuary should also indicate if he/she is a sole practitioner, or a partner, employee or the owner of a company together with a brief description of the company.

1.3. Reliance, Internal Controls, Limitations, Materiality and Applicable Standards

This section requires the appointed actuary to disclose the following:

- Persons that were directly involved in the valuation and their role in the work;
- Any peer reviews done;
- Use of work provided by the insurer or another party;
- Communications with the auditor on topics such as data quality, systems, risks, assets, controls, materiality standard etc.;
- The methods used to verify and validate policy information and liabilities. In particular, a description of the type of data provided, the review and verification procedures applied and the procedures and steps undertaken to ensure that the valuation data is sufficient, reliable and accurate; and any adjustments made, for example, with respect to missing data;
- Valuation system(s) applied;

- A description of any matters for which information was unable to be obtained or for which information provided was not satisfactory[1], any other limitations or significant approximations used in the valuation and the rationale;
- Materiality standard;
- Consistency with financial reporting and accounting standards; and
- Actuarial standards applied to the valuation of the policy liabilities and other actuarial liabilities.

1.4. Opinion

Pursuant to section 145(2) of the Act, a certificate signed by its appointed actuary must be prepared.

For unqualified opinions, pursuant to regulation 18 of the Regulations the required actuarial certificate should be prepared in the format outlined in Appendix 1.

If, however, the appointed actuary is unable to issue an unqualified opinion, the opinion in Appendix 1 must explicitly state that it is a qualified opinion and should be adjusted to reflect the necessary qualification. A more detailed description of the reasons for the qualification should be provided in this section.

2. TOTAL INSURANCE COMPANY DATA

The required summary information described in the sections below, should be reported in tabular form as specified in the excel file titled "Schedules to the AAR-LT", which must be submitted to the Central Bank along with the full AAR. These tables must be completed in the specified format and should not be altered in any way. If the required data is not applicable based on the class of insurance business, the cells in the tables should be left blank.

The tables shown provide an overview of the insurer and its lines of business for the current year and the two years' prior. Insurers are required to complete information only for prior financial years which have ended after commencement of the Act. For example:

i. For an AAR as at December 31, 2021, the appointed actuary will not be required to provide information for the financial year ended 2019 and 2020, but will be required to provide information for the financial year ended 2021.

ii. For an AAR as at December 31, 2022, the appointed actuary will not be required to provide information for the financial year ended 2020, but will be required to provide information for the financial years ended 2021 and 2022.

Information in relation to participating and non-participating business should also be shown separately. If the company carries on insurance business in other territories/jurisdictions, the data should be recorded appropriately for 'Business in Trinidad and Tobago[2]' and 'Business outside of Trinidad and Tobago[3]'.

2.1. Summary of Policy Liabilities for Insurance and Investment contracts

Table 2.1 provides the gross/net policy liabilities for the various product lines. The gross/net policy liabilities and other relevant information reported in the AAR should reconcile to those amounts reported in the Insurance Act Annual Returns.

2.2. Summary of Other Actuarial Liabilities

Table 2.2 provides the other actuarial liabilities, other than those reported in the table above. Note

[1] Pursuant to section 158(2) of the Insurance Act 2018
[2] Trinidad and Tobago policies, as defined by the Act
[3] Foreign policies, as defined in the Act

that if the 'other' category is significant, additional disclosure should be provided. These liabilities can include, but are not limited to:

- Outstanding payments under settlement annuities;
- Premiums paid in advance;
- Policyholder dividends due and unpaid;
- Policyholders' amounts on deposit;
- Accrued interest on policies; and
- Any other actuarial liability that should be specified.

2.3. Summary of Provisions for Adverse Deviation

The provisions for adverse deviations (PfADs) are required to be reported by type in Tables 2.3.a and 2.3.b, respectively.

2.4. Summary of Changes in Methods and Assumptions

This is a historical record related to changes in methods and assumptions during the valuation year. A brief description of each change in assumption or method must be included. The impact on the policy liabilities (net of reinsurance) for insurance and investment contracts and on other actuarial liabilities should be shown separately in Tables 2.4a and 2.4b, respectively. The appointed actuary should determine the breakdown of the product lines to be reported under each product group.

2.5. Summary of Movement in Policy Liabilities and Other Actuarial Liabilities

A reconciliation of the change in policy liabilities and other actuarial liabilities during the valuation year by the various product groups is required as shown in Table 2.5. Any changes due to "OFFS" such as deaths, surrenders etc. should be reported as negative numbers.

2.6. Reconciliation of AAR and Insurance Act Annual Returns

The amounts reported in the AAR must reconcile with those reported in the Insurance Act Annual Returns. The template for the reconciliation is provided in Table 2.6.

3. DETAILS BY ASSET SEGMENT AND PRODUCT LINES

This section documents the details of the asset segments and product lines of the actuarial valuation.

3.1. Asset Segment Reporting

This section should document the asset segmentation used to support policy liabilities for insurance and investment contracts and other actuarial liabilities. The combination of asset segments and product lines documented here should match those in Table 3.2. The composition of each asset segment should be provided separately in the report as structured in Table 3.1 so as to show the nature and the value in the returns. The major asset and liability categories should be shown and the method of measurement identified, where applicable.

The way in which the assets are segmented to support the liabilities should be disclosed. If the investment policy has changed, the effect on the liabilities should be discussed. The total assets reported should reconcile to the total assets on the balance sheet in the Insurance Act Annual Returns.

3.2. Product Line Reporting

Policy Liabilities – Table 3.2 requires detailed information such as the number of policies, annualized premium, gross sum insured, liabilities, account values etc. The product groups and generic product lines are hard coded in the Table, with an additional column to enter the various policies associated with the product lines reported. Unlocked entry rows within each group are also included to allow the appointed actuary to further breakdown or identify specific products by name or other product line to reflect the same level of granularity as analyzed and reported to management. A policy must be reported in the most appropriate grouping based on either its definition, where applicable, or the generally accepted term. A policy must not be reported in multiple groupings.

For the purposes of the AAR and the associated Schedules to the AAR-LT the following definitions apply:

An ***"investment linked policy"*** is 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,

(i) the assets are identifiable and valued at market value;
(ii) transfers into and out of the portfolio of assets occur at market value; and,
(iii) there is full pass through of investment returns due on the policies and credited returns are not based on the insurer's discretion.

A ***"universal life policy"*** is a policy, the principle object of which by its policy terms is to provide flexible premium payment options, flexible life insurance benefits, and separately identified charges for mortality and expenses. However, there may not be a full pass through of the investment returns due on the policies and the credited returns are at the insurer's discretion.

An ***"interest sensitive deferred annuity"*** is a deferred annuity, the principal object of which by its policy terms is to provide flexible annuity benefits. However, there may not be a full pass through of the investment returns due on the policies and the credited returns are at the insurer's discretion.

Any policy that meets the definition of an investment linked policy, as defined above, should be reported as such in Table 3.2, Group 4.

3.2.1. Product Descriptions - A description of the product and key features must be disclosed and should include the guarantees, options, benefits, contract durations and other pertinent information. The level of detail in this description should be sufficient to justify the methodology and the assumptions used. The appointed actuary should also indicate for each product, whether they are open, closed or open for new deposits and the key risks in each of the products should be provided.

With regards to investment linked policies (insurance and annuities), in addition to the above and if not already stated elsewhere in the report, the appointed actuary should provide the following information:

- Crediting mechanism;
- If the assets are identifiable and whether the assets are held by the insurer in the general fund, segregated fund or other fund (specify); and
- Risk of tracking errors or mismatches.

Note that if there is not a direct link between the asset yields and the return credited to the policyholder, the details of the investment strategy and allocation method used should be provided.

3.2.2. New Products - Details on the amount of new business should be provided in the AAR. Where the product is novel or experimental, and relevant experience is not available, the AAR should describe the work performed to measure the risk associated with these new contingencies. The level of detail in this description should be sufficient to justify the methodology and assumptions used.

3.2.3. Reinsurance - A description of the reinsurance structure with respect to the risks and allowances should be included in cases where the impact of reinsurance is material. Any new reinsurance arrangement, assumed or ceded, should be disclosed which includes information such as, but not limited to:

- Effective date;
- Expected termination dates;
- Type of reinsurance;
- Recapture provisions; and
- Any significant reserve and capital impact.

The appointed actuary should also disclose how reinsurance was taken into account in determining the policy liabilities, any material financial reinsurance arrangements where there is no significant transfer of risk to the reinsurer and any related party reinsurance arrangements.

3.2.4. Expected Experience Assumptions - The appointed actuary should document all expected experience assumptions used in the valuation along with the corresponding rationale, justification and validation. The list of expected experience assumptions include, but is not limited to:

- Mortality (inclusive of any improvements);
- Morbidity;
- Interest rate;
- Asset defaults;
- Lapses;
- Expenses;
- Foreign exchange;
- Inflation;
- Renewal/Conversion;
- Disability/Recovery;
- Income taxes; and
- Any other contingencies that are applicable.

Further to the foreign exchange assumption, the appointed actuary should give additional details on how foreign exchange risk has been addressed in the valuation including the rate of exchange used for the various portions of the business, provisions established within the policy liabilities and details concerning the assets and liabilities attached to the foreign currency.

For any significant assumptions which are based on the experience of the insurer, the appointed actuary should disclose both the method of validating the choice used as the assumption and the period upon which the last validation exercise was conducted.

The level and development of key future interest rates and reinvestment assumptions should be disclosed including additional liabilities that were established in accordance with the standards of accepted actuarial practice and the Regulations. The method used to develop the allocation of expenses for each product line should also be provided.

3.2.5. Key risks and Sensitivity Testing - Discussions of the most significant risks and the results of sensitivity testing in accordance with the relevant standards of accepted actuarial practice should be disclosed.

3.2.6. Provisions for Adverse Deviations – For each assumption, the appointed actuary should disclose and justify the level of margin for adverse deviation used, bearing in mind the applicable range prescribed in the Regulations.

The appointed actuary should also disclose the order in which the PfADs were calculated including the rationale for any order variations from year to year

3.2.7. Method and Assumption Changes – The valuation method applied to every product line (inclusive of any business outside of Trinidad and Tobago) should be stated, including any change to the method and assumptions. The appointed actuary should also disclose where the Caribbean Policy Premium Method was not applied in determining the liabilities for any particular product line.

A comparison of the actual experience compared to expected experience assumptions should be shown separately for each product line.

Further, any change in assumption should be described including the effective date of the change and the rationale with supporting evidence for this change. The appointed actuary should use judgment in deciding on the amount of detail to be included in the AAR with respect to the assumption setting process.

3.2.8. Policy Guarantees - Interest rate and other guarantees should be disclosed. The appointed actuary should disclose how these are provided for in the policy liabilities. The amounts should also be separately identified in Table 3.2 and should reconcile to the amounts reported in the Capital Adequacy Returns tab 40.036.

3.2.9. Other – Any use of implicit assumptions or approximations should be disclosed and supported in the AAR for any product line including any closed blocks of business. For participating and flow through products, the appointed actuary should describe how the policyholder dividends and non-guaranteed elements are reflected in the calculation of the policy liabilities and other actuarial liabilities.

4. ADDITIONAL LIABILITY DISCLOSURES

The appointed actuary should disclose relevant information pertaining to, but not limited to, any product-related guarantees that are not part of the policy contract. This disclosure is required whether or not the appointed actuary holds any liabilities for such guarantees.

5. ASSET LIABILITY MANAGEMENT (ALM)

An overview of the insurer's ALM practice should be included. The appointed actuary should describe how this was used in determining the policy liabilities and other actuarial liabilities.

6. PARTICIPATING POLICIES (OPEN AND CLOSED BLOCKS)

A brief description of the nature of the business in each account maintained in respect of participating policies should be disclosed in the AAR. The amount of participating surplus that arose and was deducted during the inter-valuation period and what remains outstanding as at the valuation date should also be disclosed in the report in Table 6 and the allocation method must be consistent with the dividend and bonus policy of the insurer.

7. PRODUCT MAPPING

Table 7 requires identification, by name, of all the products included in the valuation. These are mapped to the various classes of insurance business from Schedule 1 of the Act, the relevant product group and product line using the drop down boxes provided.

8. OTHER DISCLOSURE REQUIREMENTS

The nature of compensation for the work conducted by the appointed actuary should be disclosed as well as confirmation that the appointed actuary has complied with the standards of accepted actuarial practice and the Regulations.

The appointed actuary should also disclose any special or supplementary reports made to the insurer over the last twelve months that may serve pertinent to any findings from the AAR.

If the appointed actuary was appointed during the last year, the AAR should disclose the following:

- Date of appointment;
- Date of cessation and reason for change of previous appointed actuary;
- Date of notification of appointment to the Central Bank;
- Brief description of the communication with the previous appointed actuary in accordance with section 79(5) of the Act.

APPENDIX 1 - 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 XXXX.

I certify that:

(a) I am currently in good standing with my governing actuarial accreditation body;

(b) I meet the appropriate qualification standards;

(c) I am familiar with the actuarial valuation and capital adequacy requirements applicable to insurers carrying on long-term insurance business[4] in Trinidad and Tobago; and

(d) I have complied with the requirements of the Insurance Act, 2018 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; and

(c) The policy liabilities and other actuarial liabilities represented in the statement of financial position of *[insurer]* amounting to *[$TT]* and the reinsurance recoverables of [$TT] make proper provision for all policy obligations and the insurance returns fairly presents the results of the valuation.

____________________	____________________	________
Name of the appointed actuary (Include name, title, qualification)	Signature of appointed actuary	Date

[4] Or, where applicable, general insurers registered to carry on accident and sickness business