CENTRAL BANK OF TRINIDAD & TOBAGO

Guideline for the Approval of

New or Significantly Amended Insurance Policies under the Insurance Act, 2018

January 2021

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1. INTRODUCTION

1.1. Financial institutions continuously seek to improve their performance and competitive position in many ways, including the introduction of new or amended insurance policies. However, such insurance policies may pose undue risk to financial institutions or the financial system.

1.2. In light of the foregoing, and in accordance with the Insurance Act, 2018 (the Act), insurance companies are required to seek the approval of the Inspector of Financial Institutions (the Inspector) before offering a **new or amended** insurance policy to the public. A policy should only be submitted under this Guideline if it is a **significantly amended policy**.

1.3. The Inspector shall approve the new or significantly amended forms of proposal or policy if they comply with the provisions of the Act and are not fraudulent, unjust, imprudent or not in the public interest.

2. PURPOSE OF THE GUIDELINE

2.1 This Guideline seeks to enhance the transparency and efficiency of the product approval process for insurance companies by:

2.1.1 Providing guidance on what constitutes a new or amended insurance policy; and

2.1.2 Detailing the information required to be submitted to the Inspector when submitting new or amended policies for review.

2.2 In addition, the Guideline outlines the Inspector's expectations regarding the management and control of risks associated with the introduction of new or amended insurance policies and aims to ensure that this responsibility resides with the board and senior management of the insurance company.

3 SCOPE AND APPLICATION

3.1 This Guideline is applicable in cases where:

3.1.1 A company is applying to establish an insurance company in Trinidad and Tobago.

In such a circumstance the applicant is required to submit details pertaining to all the insurance policies it intends to offer in Trinidad and Tobago when applying for its licence.

3.1.2 An insurance company is desirous of launching a new insurance policy.

3.1.3 An insurance company wishes to amend an existing insurance policy.

4 "NEW" AND "SIGNIFICANTLY AMENDED" POLICIES

4.1 For the purposes of this Guideline, a "**new policy**" is one which has not previously been marketed or sold by the insurance company.

4.2 A "**significantly amended policy**" is one which materially amends any of the terms and conditions of a previously approved insurance policy. Significant amendments may include changes to the premium rates, benefits and charging structure. Significant amendments do not include rebranding or repackaging an existing policy.

5 DETERMINATION OF "SIGNIFICANT AMENDMENTS"

5.1 The chief risk officer or other officer identified by the company shall be responsible for determining whether a variation to an existing policy causes it to be significantly amended for the purpose of 4.2 of this Guideline.

5.2 In determining significant amendments, an insurance company should ideally analyse the implications of the modification from its perspective as well as the customer's. The results of the analysis should be well documented and be readily available for review by the company's internal audit function and by the Central Bank.

5.3 Where the insurance company has determined that a variation to an existing policy constitutes a significant amendment, or is uncertain as to whether a change is significant, the proposal should be subjected to the same level of review as a new policy and submitted to the Central Bank in accordance with Sections 33 and 164 of the Act.

6 PRODUCT DEVELOPMENT POLICY

6.1 This section of the Guideline is specific to life insurance including annuities[1], accident and sickness insurance, industrial life insurance and disability income insurance policies.

6.2 All insurance companies should have a board approved **Product Development Policy** to guide the development and approval process for new and significantly amended insurance policies.

6.3 The **Product Development Policy** should detail the process to be followed regarding the review and approval of new or significant amendments to existing insurance policies and should address the following:

6.3.1 Nature and scope of an appropriate committee responsible for the product development process.

[1] Schedule 1 of the Act

This committee should include representatives from all the functional areas involved in implementing insurance policies: e.g. actuarial, underwriting, compliance, marketing, legal, information technology, administration and investments.

6.3.2 Conduct of market research and feasibility studies.

6.3.3 Actuarial input for the policy design, pricing/profit testing and risk assessment consistent with sound business and financial practices and board approved levels of profitability.

6.3.4 Investment department's responsibility, in cooperation with the actuarial unit, to assess the expected rate of return on assets, if any, that the insurance policy is likely to generate, the investment risks involved and asset-liability matching issues.

6.3.5 Actuarial and investment review which should realistically assess the development of reserves under the policies, the need for capital and eventual contributions to capital and surplus, under the assumptions adopted for the marketing of the insurance policy.

The review should include sensitivity testing, the use of dynamic solvency testing techniques developed for valuation purposes and risk mitigation strategies.

6.3.6 Development of computer systems specifications.

6.3.7 Systems testing of the insurance policy, rates and values, including user acceptance.

6.3.8 Drafting of the contract, marketing material, sales illustration and training materials and their review by the parties involved.

For example, training plans should be so structured as to ensure a thorough understanding of the characteristics of the insurance policy by sales staff including any guarantees and any risks transferred to the purchaser of the insurance policy.

6.3.9 Review of the insurance policy by legal counsel to ensure compliance with the applicable laws of Trinidad and Tobago.

6.3.10 Preparation of a comprehensive product development report which addresses at a minimum the following items:

6.3.10.1 Pricing;

6.3.10.2 Market research;

6.3.10.3 Financial projections; and

6.3.10.4 Legal review

6.3.11 Submission of the product development report to the senior management for approval.

Senior management is required to consider the risks that new or significantly amended insurance policies present to the company and the customer and ensure that all regulatory, compliance, accounting and taxation requirements are satisfied. Once approved, they must accept responsibility for all aspects of the policy and its launch.

6.3.12 Procedure for the filing of appropriate documentation with the Inspector (*refer to section 7 of the Guideline*);

6.3.13 Board's policy regarding reviews of the company's insurance policies, including the frequency of such reviews, and unplanned circumstances that might cause the company to review an insurance policy.

For major insurance policies, the Inspector expects the review to take place at least annually and should cover the profitability of the policy, as well as marketing plans, illustrations, staff training and any other features that the company considers significant. In addition, insurance companies should pay particular attention to the following requirements:

6.3.13.1 *Senior management is expected to keep to the timetable established for such reviews and document their results.*

6.3.13.2 *The reports of the periodic reviews must be made available to the Inspector upon request. The Inspector may examine the reviews during on-site examinations or at any other time in order to satisfy himself that:*

6.3.13.2.1 *Regular reviews are being done; and*

6.3.13.2.2 *The reviews are being carried out in accordance with the Product Development Policy.*

6.4 The Inspector expects all companies to review their existing Product Development Policy to ensure that it complies with the requirements in section 6.3 of this Guideline.

6.5 Where an insurance company either does not have a Product Development Policy or must revise its Policy to ensure compliance with this Guideline, the insurance company is required to develop or amend the Policy as the case may be and submit it to the Inspector within six months of issue of this Guideline.

7 NOTIFICATION PROCESS FOR A NEW OR SIGNIFICANTLY AMENDED PRODUCT

7.1 Once either a new insurance policy or significant amendment to an existing policy is decided upon, the insurance company must notify and file all the appropriate documents with the Inspector at least twenty business days for general insurance policies and sixty business days for long-term insurance policies, before the intended date of its launch.

7.2 The Inspector will assess the new or significantly amended insurance policy based on the documents submitted by, as well as discussions with, the insurance company. The minimum required documentation is detailed in Appendix 1 of this Guideline.

7.3 In addition to the specified documents in Appendix 1, the Inspector may request additional information as appropriate in order to determine whether, in his opinion, the insurance policy poses undue risk to the public and/or the ongoing viability of the insurance company.

7.4 Within **two working days** of the receipt of all the documents referred to in Appendix 1, or any additional information that may be requested, the Inspector shall issue a letter acknowledging receipt of the insurance company's notification.

7.5 For long-term insurance policies, the Inspector will respond to all complete submissions of documents within sixty business **days** of receipt, either giving approval or requesting further information.

7.6 In the case of general insurance policies, if the Inspector does not raise any objections by the end of **twenty business days** from the submission of all required documents, the insurance company can proceed to launch the insurance policy.

7.7 However, it should be noted that an approval granted in accordance with 7.5 of this Guideline or a "de facto" no objection given in accordance with 7.6 of this Guideline does not prevent the Inspector from requiring the insurer to discontinue marketing or sale of the insurance policy if information comes to his attention at a later date that the new or amended insurance policy poses significant consumer or market concerns that are not in the public's interest.

7.8 In the case of registered annuities, the Inspector shall give conditional approval for the annuity to be launched dependent upon documentary evidence of approval from the Board of Inland Revenue.

8 REQUIRED DISCLOSURES

8.1 The insurance company must ensure that any marketing, promotional or advertising material pertaining to the new or significantly amended insurance policy is not misleading and accurately reflects the key features of the insurance policy. The Inspector may require the insurance company to correct or withdraw an advertisement if it is found to be misleading or objectionable.

8.2 The marketing material should clearly define all the characteristics of the insurance policy including any guarantees and any risks transferred by the company to the purchaser.

8.3 The marketing, promotional or advertising material must state where additional information on the insurance policy can be sourced.

APPENDIX I - DOCUMENTS REQUIRED

A) For those policies identified in section 6.1 of this Guideline, the following documents are required:

1) The policy contract, including a sample schedule of benefits;

2) The policy application form;

3) Policy illustrations given to clients showing the rate of interest assumed in the calculations, where relevant;

4) Copy of any brochure used to advertise the policy;

5) Endorsements, where applicable;

6) Premiums rates;

7) A signed statement by an actuary[2] of the insurance company stating:

- That he/she has reviewed the policy contract and has found the premium rates to be adequate;
- That he/she has reviewed the policy illustrations (if applicable) and found that they provide full, true and plain disclosure to the consumer;
- The pricing assumptions used;
- That the profitability targets set by the board are met;
- That sensitivity testing was completed; and
- The most critical assumptions that pose the greatest risk to the company.

8) A signed statement by Legal Counsel that the new or significantly amended insurance policy complies with the appropriate laws of Trinidad and Tobago.

9) A signed statement by the Chief Executive Officer or a designated senior manager of the company that the new or significantly amended insurance policy does not contain provisions which are likely to imperil the insurer's financial position and is developed in accordance with this Guideline as well as other statutory requirements.

10) Evidence of payment of the service charge as prescribed in the Central Bank (Payment of Supervisory Fees and Charges) Regulations, 2011 as amended by the Central Bank (Payment

[2] In the case of a general insurance company, the Chief Financial Officer may be substituted for the actuary

of Supervisory Fees and Charges) (Amendment) Regulations, 2020.

B) For **general insurance products** other than those defined in section 6.1. of this Guideline, the following documents are required:

1) The standard policy wording, including a sample schedule of benefits together with the wording of any endorsements that are expected to be in common use;

2) An explanation of the reinsurance arrangements applicable to the new policy including, if a new treaty is to be arranged, the key terms of that new reinsurance arrangement.

3) A signed statement by Legal Counsel that the new or significantly amended insurance policy complies with the appropriate laws of Trinidad and Tobago.

4) A signed statement by the Chief Executive Officer or a designated senior manager of the company that the new or amended insurance policy does not contain provisions which are likely to imperil the insurer's financial position and is developed in accordance with this Guideline as well as other statutory requirements.

5) Evidence of payment of the service charge as prescribed in the Central Bank (Payment of Supervisory Fees and Charges) Regulations, 2011 as amended by the Central Bank (Payment of Supervisory Fees and Charges) (Amendment) Regulations, 2020.