



FINANCIAL INSTITUTIONS SUPERVISION DEPARTMENT  
 COMMENTS ON THE REINSURANCE RISK GOVERNANCE GUIDELINE FOR INSURERS  
 AUGUST 2021

#	Reference	Comment/Question	CBTT's Response
1.	Section 1.5 - Introduction	Within 20 business days of the expiry can be misunderstood to mean either 20 days prior or 20 days after. The clause refers to expiry of prior reinsurance arrangements which seems to clarify the time to 20 days following the expiry. The following change is suggested '...within twenty days following the expiry of...'	Amended for clarity. The deadline of twenty business days runs from the day following the expiration of the reinsurance arrangements. The original wording was simply reproduction of s154(3) of the Insurance Act 2018 (IA 2018).
2.	Section 2.2. - Definitions	a. What are <u>catastrophe losses</u> ? It should include natural and or man-made disasters that are severe. The Cat reserve fund section in the IA sets the parameter of a \$2M loss or 7.50% of capital for access to cat reserve fund. A similar criterion would help clarify. This change would result in floods not from a named storm or if losses from Covid-19 were covered then these losses and other events.	The definition of catastrophe losses was amended to include losses from any other natural or man-made disasters that are described in the catastrophe reinsurance treaty of the insurer. This underpins how each insurer should examine and understand its own catastrophe exposure. Further, the RRMP should address how each insurer manages its own catastrophe risk.
		b. <u>Fronting Arrangements</u> do not always have 100% of the risk placed overseas. A proportion may be placed on the local market and the rest on the overseas market with the overseas placement being fronted.  This definition of “fronting arrangement” may not apply for the placement of collective property policies. For instance, there may be instances where multiple insurers agree to share coverage, and some insurers may front for either all or a majority portion of their part of the risk, and other insurers may not use fronting at all for their portion of the same placement.	As per the definition, only when 100% of the risk is ceded would the arrangement be deemed to be fronting, regardless of where it is placed (locally or abroad).



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		<p>c. The definition of “<u>Credit Rating</u>” refers to the Guideline on the use of Credit Ratings and the Equivalency Mapping table; however, that guideline does not include the Equivalency Mapping and we have not been able to locate it on the CBTT’s website. Please provide us with same.</p>	<p>The Guideline is on the Central Bank’s website at:  <a href="https://www.centralbank.org.tt/publications/legislations-and-guidelines/insurance-sectorlegislation-and-guidelines">https://www.centralbank.org.tt/publications/legislations-and-guidelines/insurance-sectorlegislation-and-guidelines</a>            A list of the recognised CRAs together with the equivalency mapping of their respective ratings is available on the Central Bank’s website at:  <a href="https://www.central-bank.org.tt/publications/regulatory-returns/insurancesector-regulatory-return">https://www.central-bank.org.tt/publications/regulatory-returns/insurancesector-regulatory-return</a></p>
		<p>d. There is no definition for “<u>Reinsurance Agreement</u>” and we believe that it should be included under the Definitions Section. We are also seeking clarification as to whether “Reinsurance Contract” and “Reinsurance Agreement” refer to the same thing but this can be clarified once the term is properly defined.</p>	<p>Reinsurance Agreement and Contract are synonymous and defined in accordance with the definitions of “reinsurance” and “contracts of insurance” under the IA 2018.</p> <p>Arrangements refer to any or all of the reinsurance contracts/agreements.</p>
		<p>e. <u>Facultative Reinsurance</u> definition should be added.</p>	<p>Definition added: “facultative reinsurance” means a reinsurance arrangement which involves the placement of a specific risk(s) with one or a group of reinsurers who reinsure the risk(s) on an agreed basis.</p>
3.	Section 4.3. b) – Role of the Board	Reference should be made to “minimum” foreseeable amount and not “maximum” foreseeable amount.	Amended to now correctly state “minimum”.
4.	Section 5.4. e) – RRMP Content	Facultative reinsurance can be used on a stand-alone basis or it can be used in conjunction with treaty reinsurance. Therefore, we suggest re-wording this section to state “and monitoring and confirming the placement of each risk that has used facultative reinsurance.”	Agreed, wording amended to reflect this.



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5.	Section 5.5.3. – Fronting arrangements	a) The guideline refers to risks being placed due to lack of capacity and expertise to write large and complex risks. However the business placed overseas and fronted by a local insurer includes business for which the local market has the capacity and expertise to write. Risks may also be placed partially on the local market and the remainder overseas. The overseas proportion will usually be fronted by a local insurer.	The definition for fronting in Section 2.2 means 100% of the risk is ceded, but does not restrict whether it is placed locally or abroad. Further paragraph 5.5.3 has been reworded to make it clear that these are just the main examples of when fronting arrangements will be used.
		b) iii. The section requires information on insurers or reinsurers receiving the business and their financial condition. Similar to the requirement for the treaty reinsurer's rating will the AM Best or Standard and Poor's rating fulfil the requirement?	Yes, this will be used as a guide to their financial condition.
6.	Section 5.5.4. – Use of Captive Insurers	The domicile of the captive should be one of the items disclosed as the location and its legislation impacts the security quality.	Agreed, this has been added to the list.
		Please explain the rationale for treating with “Captive Insurers” (Section 5.5.4) as distinct from “Reinsurance with connected parties or related groups” (Section 5.57).	Section 5.5.4 deals exclusively with the requirement of Insurers to inform the Inspector of the use of any captives. Since a captive insurer is generally a connected party, then the broader minimum standards for connected parties in 5.5.7. will also have to be satisfied.
7.	Section 5.5.6. – Retention Levels	What is deemed reasonable e.g. 7.50% of capital and surplus? It would be useful to provide a measure as a guide or upper limit.	Section 5.5.6 offers guidance on the setting of reinsurance levels, and it is up to the insurer to determine this based on the considerations outlined.
		This should clearly state it will apply to all covers required e.g. catastrophe covers etc or other portfolio type covers and it should consider aggregate net exposures from various lines of business.	This section applies to the insurer's entire portfolio and also each line of business and any other defined categories within each line. This also aligns with the role of the Board of Directors and Senior Management outlined in Section 4.3. b) and the considerations for the overall development of the RRMP in Section 5.2. b).



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		To include the retentions limits for categories of risks within each class of business is too granular for the Reinsurance Risk Management Policy (RRMP), these limits are more Underwriting risk limits. Mention can be made to the retentions of such categories as noted within the treaty renewal packages. To avoid any ambiguity, it may also be useful to define what exactly is meant by "retention limits".	The retention limit is simply the maximum retention the Insurer is targeting to retain. Often times this goes hand in hand with the setting of internal underwriting risk limits. This type of planning is a component of a robust risk management process, and the objective of the RRMP.
8.	Section 5.5.7. – Reinsurance with connected parties	<p>a. iv. We would suggest that where the reinsurer itself is not rated, a guarantee from the parent company that has the prescribed rating of at least B+ or equivalent be considered acceptable.</p> <p>a. v. Section 5.5.7 (a) (v) is very vague and does not provide sufficient information to be included as a "Guideline". A Guideline should provide clear guidance on the requirements of Insurers.</p> <p>b. Can you provide clarification on what 'specific form' means here?</p> <p>Do the requirements of this section also apply to captives?</p>	<p>In cases where there are no ratings or below B+, then section 5.5.7. b) applies.</p> <p>The conditions in i. to iv. are the minimum standards for the reinsurance with connected parties to be recognised. Where the circumstances so warrant, the Inspector may specify more criteria for the arrangements to be recognized.</p> <p>The specification will be made by the Inspector based on the circumstances.</p> <p>Yes, if the captive is a connected party.</p>
9.	Section 5.5.8. – Contract certainty	<p>a. Legal certainty is only available to the extent of knowledge at that point in time. As circumstances change and new information arise the legal uncertainty arises. Examples of this were seen in the World Trade Centre claim and the present issues surrounding Covid-19 losses.</p> <p>b. Please clarify if the requirement is the main terms of the cover is finalised prior to inception date but the full contract wordings will be completed after. Contract certainty prior to contract effective date is not in most cases attainable</p>	<p>There should be legal certainty in the contract from the time it is placed, and the wording should be unambiguous. If unforeseen circumstances arise, then clarification on coverage should be sought. The expectations of insurers in such circumstances are outlined in section 5.5.8 c) of the Guidelines.</p> <p>This should be ideally attained prior to the effective date of the contract. However, for instances where this cannot be achieved, then section 5.5.8. d) outlines the ways the insurer must mitigate the risk of not having this during the</p>



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		<p>due to the number of reinsurers on some contracts and time zones of reinsurers. "Work from home" (WFH) which has recently become our new normal can further delay contract certainty and more so on facultative placements.</p>	<p>coverage period.</p>
		<p>d. We seek guidance as to what would be considered "an exceptional circumstance" for the purposes of the Draft Guideline. In most cases contract certainty is achieved after the inception date and therefore should not be considered to be an "exceptional circumstance". It is our recommendation that the level of documentation required for a comprehensive reinsurance contract in non-exceptional circumstances should also be included in the Draft Guideline. We also recommend that this Paragraph should be more appropriately moved to a standard section on contract certainty that sets out the documentations required in both non-exceptional and exceptional circumstances.</p>	<p>The phrase "in an exceptional circumstance" has been removed and this section will now address any circumstance where the contract is executed after the effective date.</p>
		<p>d. Also note under 5.5.8 (d) (i) – that signed documents will not be received by all parties before the effective date of new contract, again due to the number of reinsurers to sign. Our suggestion is that an overall confirmation of contract placement document or e-mails from reinsurance brokers be an acceptable option for this section.</p>	<p>The requirement for "signed documents" has been replaced by "confirmations". This can be provided by either the reinsurers themselves or the reinsurance broker.</p>
		<p>d. Under 5.5.8 (d) (iii) – for clarity we would suggest the insertion of the word "treaty" to read "comprehensive reinsurance treaty contracts" as this does not apply to facultative arrangements. For facultative reinsurance, emails from reinsurance brokers are exchanged as confirmation of coverage acceptance.</p>	<p>The wording in 5.5.8. d) iii. has been modified to only be applicable to treaty contracts.</p>



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		d. Under 5.5.8 (d) (iii) - It is our respectful view that the requirement is vague. We therefore recommend that a specific timeframe be inserted or defined. We propose a timeframe of thirty (30) days (or twenty (20) business days) for final documentation for contract certainty in accordance with the practice of the London Market Group. This is to allow adequate time for execution of the final documentation by the full reinsurance panel.	This suggestion is accepted, and the timeframe was added to the wording.
10.	Section 5.5.9. – Facultative arrangements	Due to market conditions facultative cover is not always completed prior to the effective date.	Sound policies and procedures in i., and the pre-determined process in ii. come into play to mitigate any risks when this is not achieved.
11.	Section 5.5.10 – Selection of reinsurers	Would suggest that point a) and d) be merged for clarity.	The items in this section have been reordered as suggested.
12.	Section 5.5.11. – Catastrophe Reinsurance	The regulator has a requirement of a 1 in 250 year event cover for a catastrophe. Will this be maintained as the minimum cover for property cat cover and insurers options only apply to the purchase of increased cover?	Section 5.2. h) states that in developing the RRMP, the insurer must consider its regulatory capital required and relevant risk factors under the Insurance (Capital Adequacy) Regulations, 2020 during the design and negotiation of the insurer's reinsurance arrangements. Schedule 16 of those Regulations state that for the purposes of calculating the required capital for Catastrophe Risk, the minimum acceptable upper limit is an event which is expected to occur once in every two hundred and fifty years.
13.	Section 5.5.12. – Insolvency Provisions	Treaties usually carry a standard offset wording in their insolvency provision. If this is to be excluded it may be an impediment to having coverage completed.  "the insurer should pay special attention to" is in our view vague. We would	The IAIS ICP 13.2 requires ceding insurers to establish effective internal controls over the implementation of their reinsurance programme. In particular, ICP 13.2.15 states that the ceding insurer should consider how its reinsurance contracts will operate in the event of an insolvency of itself or its reinsurer.



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		<p>appreciate a specific position on the items.            Note "cut Through" as described is not available in the current market.</p> <p>Most standard reinsurance contracts contain Special cancellation clauses where the contract is terminated for example in the case of insolvency of the insurer or reduction in net worth or change of ownership. The Guideline now requires that reinsurers should not leave policyholders unprotected by cancellation in particular with insolvency. Accordingly, we would seek to have this specific clause varied or modified to comply with the Guideline and would look forward to feedback from reinsurers.</p>	<p>The intention in section 5.5.12. e) of the guideline is to highlight these clauses so that insurers are aware of their purpose. This does not introduce any restrictions or requirements on the use of these clauses.</p>
14.	Section 5.5.13. – Jurisdiction	<p>In addition to the laws of T&amp;T being applied it may be useful that the Court of Arbitration should be in Trinidad.</p>	<p>While this may be useful, we are of the opinion that wherever the seat of arbitration is, the laws of Trinidad and Tobago would be applied in the arbitration process.</p>
		<p>Please confirm that the term "insurer" refers to the Ceding Company. With respect to our P&amp;C business – this clause does not consider multi-territory writers. For these insurers the jurisdiction and arbitration of the treaty reinsurance contracts are based on the territory in which the head office is domiciled.</p>	<p>The definition of "insurer" used in the guideline follows from the definition in the IA2018. For the avoidance of doubt, Section 3.3. outlines who this guideline is applicable to.</p>
15.	Section 5.6 – Reliance and selection of third party advisors	<p>The Guideline has rightly stated that the ultimate responsibility for the reinsurance arrangements resides with the Board although the Insurer relies on the advice from its reinsurance broker for the formulation of its program and placement. However, the draft Guideline recommends a documented policy on the selection of its advisor/ reinsurance broker and lays down a formalized approach for reporting and evaluation.</p>	<p>The guideline aims to set out minimum standards in this regard, and not to be prescriptive. Each insurer will need to set out its own selection process in section 5.6.3. a).</p> <p>For example, your recommendations for selection criteria, and that some weight in decision making be placed on maintenance of relationships, can form part of your own selection process and monitoring programme.</p>



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		<p>While elements of the Guideline are appropriate, it seems to us as too prescriptive since in our market we place great value on long term relationships, loyalty and close working among personnel from both parties. It is usually when there is a change of ownership or senior personnel or if service levels drop that consideration is given to seeking alternative reinsurance broker. Most insurers have established relationships that go back many years.</p> <p>It is also to be noted that international reinsurance brokers visit insurers in our market routinely in the hope that sometime in the future they might win the business if and when a change of reinsurance broker is under consideration.</p> <p>While reporting and continuous evaluation of the quality of service of the incumbent reinsurance broker are acceptable it is unlikely that change will take place unless there is new ownership or senior personnel or a deterioration in the service provided by the reinsurance broker.</p> <p>We are more inclined to establish reporting and evaluation of service at Board level on an annual basis and a review of the relationship say every 5 years rather than trying to set out selection criteria up front.</p>	
16.	Appendix 1 – Reporting Requirements	<p>We seek clarification on this paragraph as it suggests that there will be a duplication of reporting on reinsurance arrangements with full particulars. It is also our recommendation that the second sentence should be amended to be consistent with the language used in Section 154(3). The sentence should state “Further, in accordance with Section 154(3) of the Act, particulars of arrangements must be submitted to the Central Bank within twenty days of the expiry of prior reinsurance arrangements or any other change to reinsurance arrangements.”</p>	<p>To satisfy section 154(3) of the Act, whenever there is a change to the arrangements or expiry of prior arrangements, insurers must notify the CBTT of the particulars of such changes within 20 business days.</p> <p>Further, Insurers must provide details on all arrangements and provide confirmation letters as requested annually along with the Insurance Act Annual Returns. This may entail duplication of some information, but it is an important</p>



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		Finally, we also respectfully recommend, for the avoidance of doubt, that all references to "annual returns" be clearly expressed as Insurance Act Annual Returns.	part of the process for the accompanying requested confirmations to be made.
17.	Appendix I – Reporting Requirements	Requires confirmation that premiums are paid however insurers are having major challenges in getting forex for settlement of amounts due to reinsurers. CBTT needs to ensure a forex allocation is available to reinsurers to settle amounts due on a timely basis. This can be achieved by instructing forex dealers that reinsurance bills are included in the category of trade or as a separate category for settlement.	We do understand your dilemma, given the current imbalance in the foreign exchange market. Many other sectors, apart from insurance, are faced with the same difficulty regarding immediate access to foreign currency. We urge you to continue to work with your bankers in this area.
18.	Appendix II – Declaration by officers	<p>We have observed that the IA Annual Returns contain a Reinsurance Arrangement Declaration, to be signed by a director and the Chief Risk Officer/Chief Executive/Designated Senior Manager. This declaration includes statements/declarations that the insurer's reinsurance arrangements are, inter alia, in compliance with the Act and applicable regulations and guidelines, and the company's policies and procedures and are adequate in terms of criteria set out in any applicable Guidelines.</p> <p>However, the draft Reinsurance Risk Governance Guideline gives insurers one year from the effective date of the Guideline to implement the requirements and standards set out therein, which would take us to 2022 regardless of when in 2021 the Guideline is finalized. In light of this, will insurers be required in 2021 to complete the Reinsurance Arrangements Declaration in the IA Annual Return given that they will not yet be required to be fully compliant with the Guideline, which includes a requirement for a Reinsurance Risk Management Policy? Also, what if the Guideline is not yet in effect before an insurer's year end comes to a close? Furthermore, does this statement apply to the closing year's arrangements or the</p>	<p>Insurers are required to implement the requirements and standards set out in this Guideline within one year from the effective date of the Guideline. In this instance where the declaration is to be made for a year end that falls within the insurer's one year implementation period, then this simply means that the guideline is not applicable to that insurer yet. The declaration attests compliance with applicable guidelines.</p> <p>The declaration is to be made based on the upcoming year's arrangements, or those in effect as at the first day of the next financial year.</p>



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		upcoming year's arrangements? If it is the former, then for many companies, the Guideline will not be applicable for first reporting period. It is important to obtain CBTT's position on this so that insurers know how to treat with this issue when completing the IA Annual Returns, at least for 2021.	