Proposed Insurance Act Amendments
Life Insurance

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Life Insurance

- Additional Capital Requirements
- Risk Based Capital Requirements
- Requirements for Directors
- Change in Control
- Debt Offerings
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- Other

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- Minimum paid-up share capital increased

Class of Business	Current Requirement	Proposed Requirement
Long-term business	$3,000,000	$5,000,000
Long-term and general insurance business	$5,000,000	$7,000,000
Industrial life business	$1,000,000	$3,000,000

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- Minimum deposit with the Supervisor

Class of Business	Current Requirement	Proposed Requirement
Long-term business	$1,000,000	$5,000,000
Closed to new business	$200,000	$1,000,000

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- Minimum Continuing Capital and Surplus Requirement (MCCSR) for Barbadian companies
  - Based on consolidated worldwide operations
- Test of Adequacy of Assets and Margin Requirements (TAAM) for branches of foreign companies
  - Based on Barbados operations

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- MCCSR measures Available Capital against Required Capital, expressed as a ratio
- Minimum Ratio: 120%
  - The additional 20% is to cover risks not explicitly covered in the Required Capital calculation.
- Minimum Supervisory Target: 150%
  - Additional capacity to absorb unexpected losses

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- MCCSR Available Capital comprises two tiers
- Tier 1 (Core) Capital
  - Permanent
  - Free of mandatory fixed charges
  - Subordinated to rights of policyholders and other creditors
  - For example, common shares, contributed surplus, retained earnings
- Deductions from Core Capital
  - Goodwill and intangibles assets
  - Negative reserves
  - Cash surrender value deficiencies
  - Some proportion may be included in Tier 2 (Supplementary) Capital

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- MCCSR Available Capital comprises two tiers
- Tier 2 (Supplementary) Capital comprises:
  - Tier 2A Capital (Hybrid Debt/Equity Instruments) which is essentially permanent in nature, eg, cumulative non-redeemable preferred shares
  - Tier 2B Capital (Limited Life Instruments) which are not permanent, eg, redeemable preferred shares, subordinated debt.
    - Tier 2B is limited to 50% of Net (ie after deductions) Tier 1
  - Tier 2C Capital (Other capital items) which includes 75% of negative reserves and cash surrender value deficiencies
- Tier 2 Capital may not exceed Tier 1 Capital

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- Deductions from total Available Capital
  - Substantial investments in non-life financial corporations controlled by the company
  - Facilities treated as capital by unconsolidated subsidiaries in which the company has a substantial interest
  - Other non-life financial corporations

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- Required Capital for the following risks
  - Asset Default (C-1)
  - Mortality and Morbidity
  - Lapse/Surrender
  - Interest Margin Pricing (C-2)
  - Changes in Interest Rate Environment (C-3)
  - Foreign Exchange
  - Off-Balance Sheet Exposures

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- Required Capital: Asset Default (C-1) Risk

- Risk of loss resulting from asset default and loss of market value of equities
- Factors are applied to the value of the assets which vary by type and quality of the asset
- Factors range from 0% for government bonds to 15% for equities to 35% for impaired loans
- Factors applied to equities and real estate are applied to the market value of the asset as opposed to the book value for other asset classes
- No asset default factor is applied to items deducted from capital

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- Required Capital: Mortality and Morbidity Risk

- Risk that assumptions about mortality and morbidity will be wrong
- Factors applied to net amounts at risk (ie amounts of insurance less reserves), reserves or premiums depending on type of product
- Deductions for ceded reinsurance
- Adjustment for statistical fluctuation which depends on company size

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- Required Capital: Lapse and Surrender Risk
- Risk that assumptions about lapses and surrenders will be wrong
- Required for individual life business
- Required capital is calculated as the increase in reserves resulting from adverse lapse/surrender assumptions

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- Required Capital: Interest Margin Pricing (C-2) Risk
- Risk of loss resulting from investment and pricing decisions on in force business other than asset default and changes in interest rate environment. For example, communication problems between investment and pricing personnel
- To calculate required capital a factor, which varies depending on whether premiums or interest credits are adjustable, is applied to policy liabilities net of reinsurance

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- Required Capital: Changes in Interest Rate Environment (C-3) Risk

- The risk associated with asset depreciation arising from interest rate shifts. For example, interest rates increase, policy holders surrender to take advantage and the insurer is forced to liquidate bonds at depressed prices
- To calculate required capital a factor, which varies with the type of product and its guarantees, is applied to policy liabilities net of reinsurance

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- Required Capital: Foreign Exchange Risk

- The risk associated with asset depreciation or liability appreciation arising from changes in foreign exchange rates
- A factor, which varies by currency, is applied to the absolute value of net assets (ie assets less liabilities)
- Only assets supporting liabilities are included.
- 1% factor for US$ and 5% factor for all other currencies

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- Required Capital: Off Balance Sheet Exposures

- The risk associated with counterparty default to the transaction. For example, a letter of credit guarantee.
- A credit conversion factor is applied to the face amount of the instrument to determine the credit equivalent exposure.
- A factor is then applied to the credit equivalent exposure to determine the required capital.

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- The intention is to make directors more responsible for the operations of the company and personally responsible for the actions of the CEO
- At least five directors, at least two of which must be independent and none of which may be a licensed agent or broker
- The Chairman of the Board shall not also be the CEO
- Establish an Audit committee of at least two directors, at least one of whom shall be an independent director

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- Insurance business transfers, acquisitions or amalgamations require the sanction of the Supervisor in writing
- The current section does not apply to a change in control where the share capital of one company is acquired or amalgamated with another.
- The amendment requires Supervisor sanction where share capital or control of an insurance company is acquired by, amalgamated with, or transferred to another company

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- The Act does not cover this area of operations of insurance companies
- The amendment requires the prior approval of the Supervisor before an insurance company can raise funds in the form of bonds, debentures or other forms of indebtedness

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- Permissible Statutory Fund investments to include bonds, debentures, or other forms of indebtedness issued by the Barbados Water Authority

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- Brokers are required to pay over to insurers monies received for contracts within 15 days of receipt.
- Many are very tardy in paying over these funds resulting in sizeable funds amounts due to insurers
- Therefore, it is proposed that every agent, sub-agent or broker establish a separate premium account into which all monies received from insureds shall be paid and from which all monies shall be paid to the insurer within the specified time.

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- Amendments to cover areas requiring tightening
- Fees and fines for late filings
- Appointment of an Actuary for general insurance
- Supervisor may at any time intervene in the affairs of an insurer where he is satisfied that
  - It is essential to protect policyholders' interests
  - The company has furnished misleading or inaccurate information to the Supervisor
  - Adequate reinsurance arrangements have not been made
  - An application for registration would be refused if such an application were made at the time of intervention
  - There has been unreasonable delays in the settlement of claims

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- In exercising intervention the Supervisor may require any or all of the following:
  - Refrain from writing new business
  - Limit the amount of premiums written
  - Refrain from making investments in a specified asset class
  - Realize a specified portion of investments of a specified class
  - Prepare and submit documents with greater frequency
  - Have an actuary investigate the financial position of the company
  - Take any action necessary for the purpose of protecting policyholders

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