

# Regulation of the Insurance Industry in the Caribbean – Trinidad and Tobago

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# Supervision and Regulation




# **Responsibility**

- the Financial Institutions Supervision Department (FISD) of the Central Bank is responsible for supervision and regulation
- responsibility transferred to the Central Bank May 25, 2004 by the Insurance (Amendment) Act, 2004.
- the supervisory process has evolved from compliance based and transaction-testing examinations to risk based examinations.



# Who They Regulate



# Institutions / Entities under the Insurance Act, 1980

- Insurance companies
- Insurance intermediaries
- Pension plans
- Active Life Insurers (9)
- Active General Insurers (20)
- Active Composite Insurers (5)
- Inactive Insurers (5 Life, 4 General, 2 Composite)



# How They Regulate



# **Current Regulatory Framework**

***Use of a combination of internationally accepted supervisory techniques:***

- Continuous assessment of the quality of operations and financial condition
- Guidelines and standards to Boards and management to ensure awareness of inherent risks and prudential management of these risks
- Emphasis on strong corporate governance



# Legislation and Guidelines

- Insurance Act 1980
- Insurance (Amendments) Act 2004 – transfers supervisory power to Central Bank
- Corporate Governance
- Fit and Proper
- Mutual Funds – legislation to govern mutual funds and other collective investment schemes still to enacted.



# **Current Provisions relating to Actuarial Investigations into Long Term Insurance**

- Part IV Sections 112 to 116 governs
- Every Company must appoint an actuary – member of staff or consulting actuary
- Actuary must be fit and proper and possess necessary qualifications to carry out functions
- Actuary to make an investigation into its financial condition, including a valuation of its liabilities (required every 3 years)
- Valuation basis to place a proper value on liabilities
- Valuation basis to consider average rate of interest, commissions
- No policy shall be treated as an asset



# **Current Provisions relating to Actuarial Investigations into Long Term Insurance**

- Reserves on Valuation basis should not be less than those calculated on Minimum Basis
- Actuary to certify this
- No Minimum Basis was ever prescribed



# Draft Policy Proposal for Amending the Insurance Act, 1980



# **Insurance Act Policy Proposal**

A draft Policy Proposal document for amending the Insurance Act 1980 was circulated in January 2006 to members of the insurance fraternity for their review and comment.

Based on the Insurance Core Principles (ICP) of the International Association of Insurer Supervisors.



# Insurance Act Policy Proposal

## Definition of Actuary

- Use Jamaica Insurance Act definition
- Avoid foreign actuary with no experience in Trinidad or actuary lacking recognized professional designation
- Best practice considered
- Empowers Central Bank to oppose or revoke appointment if 'not fit and proper' or not appropriately qualified or experienced
- This is in keeping with CAA code of conduct No.4
- Criteria and guidelines to be set by Central Bank
- The CEO cannot be the chief actuary and vice versa



# **Duties of Actuary as they relate to Corporate Governance**

- Comparable to what is required of auditors
- Report if unable to obtain information or dissatisfaction with such information
- Report in writing to CEO and Board, matters having material adverse effects on the financial condition of the company and that require rectification (actuary's opinion)
- If suitable action not being taken (actuary's opinion) actuary shall send copy of report to Central Bank and advise CEO and Board
- An actuary's failure to fulfill these responsibilities would constitute an offence
- Actuary protected under the law



# **On-going Supervision – Requirements**

- International Financial Reporting Standards (IFRS) required for financial statements
- Returns at least annually
- Filings within three months of the financial year end
- Submission of financials on a consolidated basis – holding companies, subsidiaries, foreign branches
- Power to inspect and verify financials of the insurer i.e. financial holding company, subsidiaries, significant shareholdings
- Power to request information on transactions and relationships with group companies and other connected parties
- Access to the books and records of financial holding companies



# Prudential Requirements

## Current Approach and Its Objectives

- Statutory Fund approach
- Sufficient assets to meet obligations to policyholders (asset sufficiency)
- Invest in assets whose values are likely to be realizable when needed to meet obligations to policyholders (asset quality)
- Prevents insurer from diverting assets to other purposes (asset control);
- On wind up policyholder is first priority



# **Shortcomings of the Current Approach**

- The assessment of adequacy is neither continuous nor prospective –made at one point in time
- No requirement that assets be adequate on an ongoing basis
- Time lag in reviewing mean both assets and liabilities will have changed in value
- Contingency reserve not risk based
- Existing protection does not extend to all policyholders, only long-term and motor vehicle classes
- Deficient in meeting the asset quality objective



# **Shortcomings of the Current Approach**

- It does not assign overall responsibility for prudent investment policy and practices to the board of directors
- No risk management guidelines and controls
- Existing provisions for assets quality and diversification are out of date and inadequate
- May inappropriately restrict the ability to make prudent investments, or result in the repackaging of investments simply to meet statutory requirements
- Requirements inadequate to address risks inherent in current investment vehicles



# **Shortcomings of the Current Approach**

- No requirement that statutory fund assets be appropriate to the nature of its liabilities
- May promote a narrow, mechanistic approach to investment, rather than a strategic, prudent approach
- Compliance assessed retrospectively and there is a risk that assets might be moved out of the trust between reporting dates without the prior knowledge or approval of the Central Bank



# Proposed Approach

- Risk Based Capital approach
- FIA amended to allow CB to amend regulations to this effect
- Statutory Fund remains until RBC framework could be fully implemented
- The statutory fund maintained as a means of protecting policyholders while capital adequacy requirements used as a solvency gauge
- Requiring a margin of capital – to be determined with reference to an insurer's risks and maintained at all times, which will better ensure the adequacy of assets;
- Establishing adequate risk management as a condition of registration



# Proposed Approach

- Prohibition against declaring shareholder dividends when insurer is in a weak financial position
- Priority on wind up of policyholders above secured and unsecured creditors
- Requiring that each class of business is supported by a separate statutory fund
- Imposing reporting and other requirements on trustees



# New Products

- Central Bank currently requires detailed risk analysis reports for new product approvals



# Liabilities

- ICP 20 states that supervisors must require insurers to comply with standards for establishing adequate technical provisions
- The supervisor must also have both the authority and the ability to assess the adequacy of the technical provisions and to require that they be increased, if necessary.



# Valuation of Liabilities

- Current requirement is to place a proper value upon the liabilities
- ‘Proper’ not specified; no Minimum basis prescribed
- Various valuation methods used
- Proposed that both long-term and general insurance liabilities be valued in accordance with a basis prescribed by or acceptable to the Central Bank
- Proposed that insurers account separately for participating business



# Adequacy of Liabilities

- Annual actuarial reports
- General insurers to have appointed actuaries
- No general insurance actuaries in Trinidad and Tobago
- Central Bank may require an independent actuary to review the work of an insurer's actuary or to make an investigation into the insurer's financial condition
- This power is particularly useful where the supervisor lacks significant actuarial resources.



# Assets

- Stricter limitation on Assets proposed
- 3 year transition period to comply; 18 months for large exposures
- Proposed investment limitations largely consistent with those in Jamaica
- Assets of insurers be valued in accordance with International Financial Reporting Standards
- Central Bank would retain the right to require the revaluation of assets whose reported values appear to be incorrect or inappropriate



# Capital Adequacy

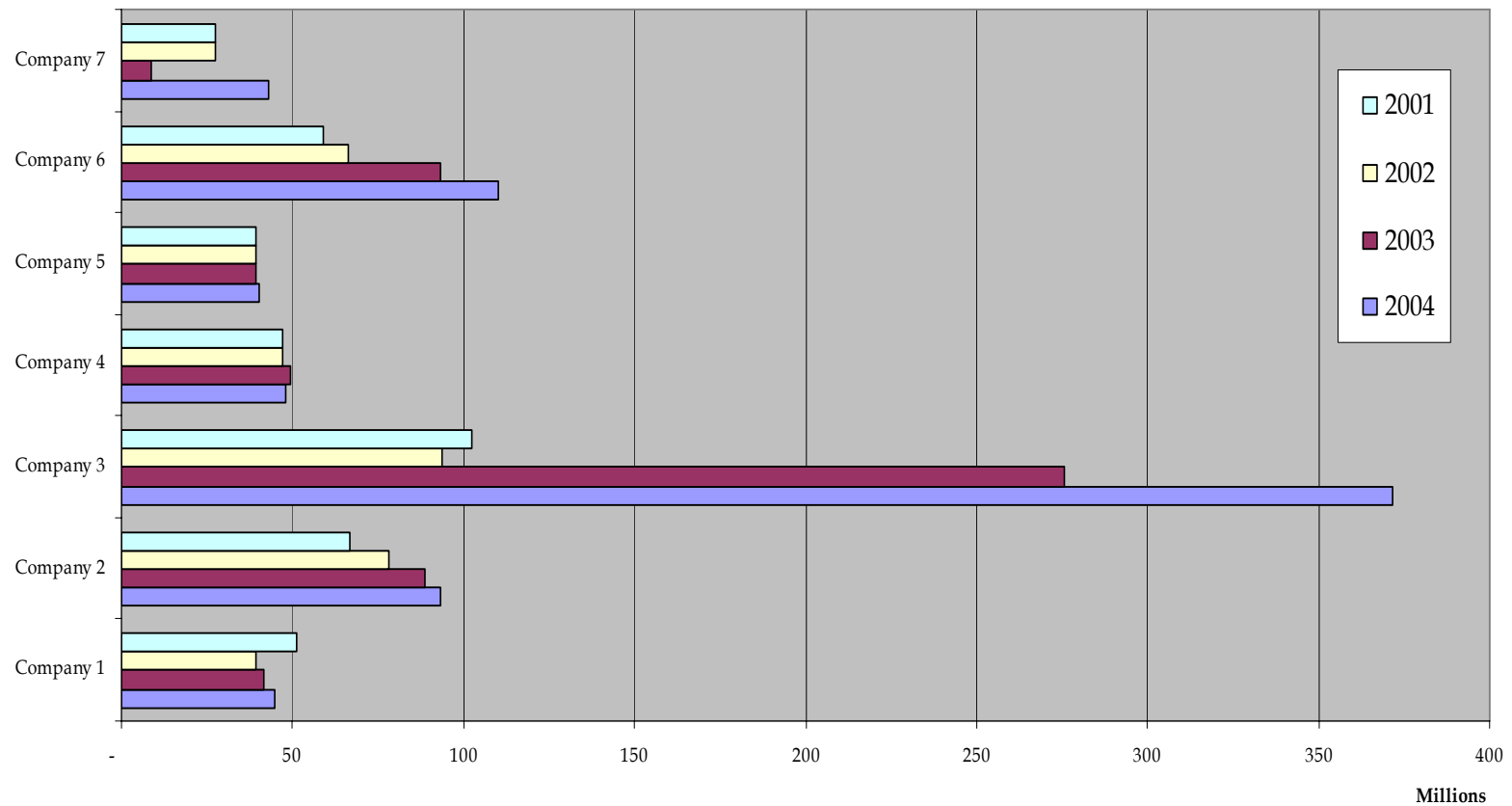
- A risk based approach is recommended
- Jamaica to be used as a point of reference
- Consistent with advanced criterion (k) of ICP 23, which encourages supervisors to assess the structure of their solvency regime against structures of a peer group of jurisdictions and to work towards achieving consistency.
- Three year phase in period
- Suitable forms of capital to be defined



# TT Insurance Profile

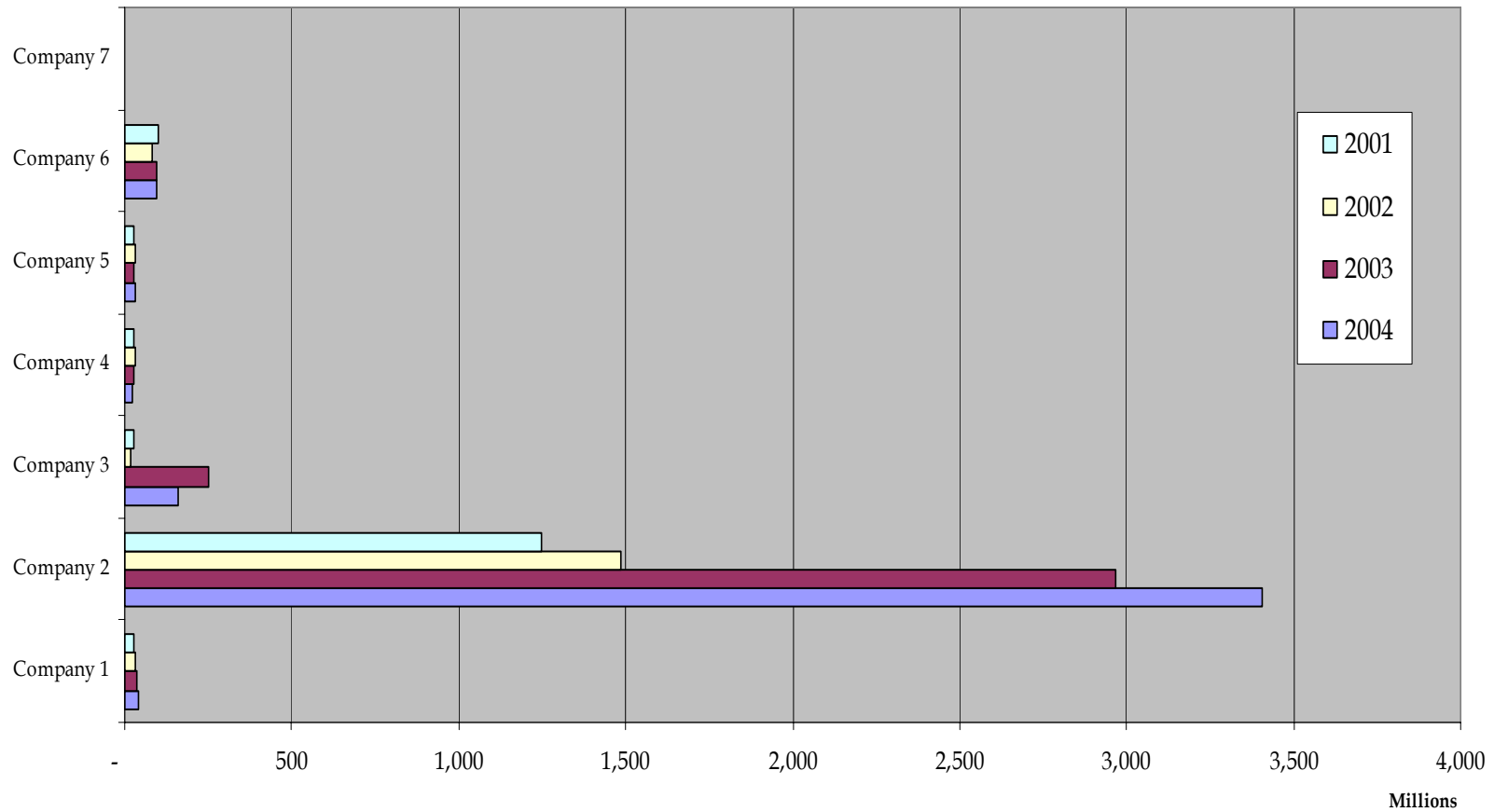
# TT Insurance profile

2001 to 2004 Ordinary Life Gross Premiums



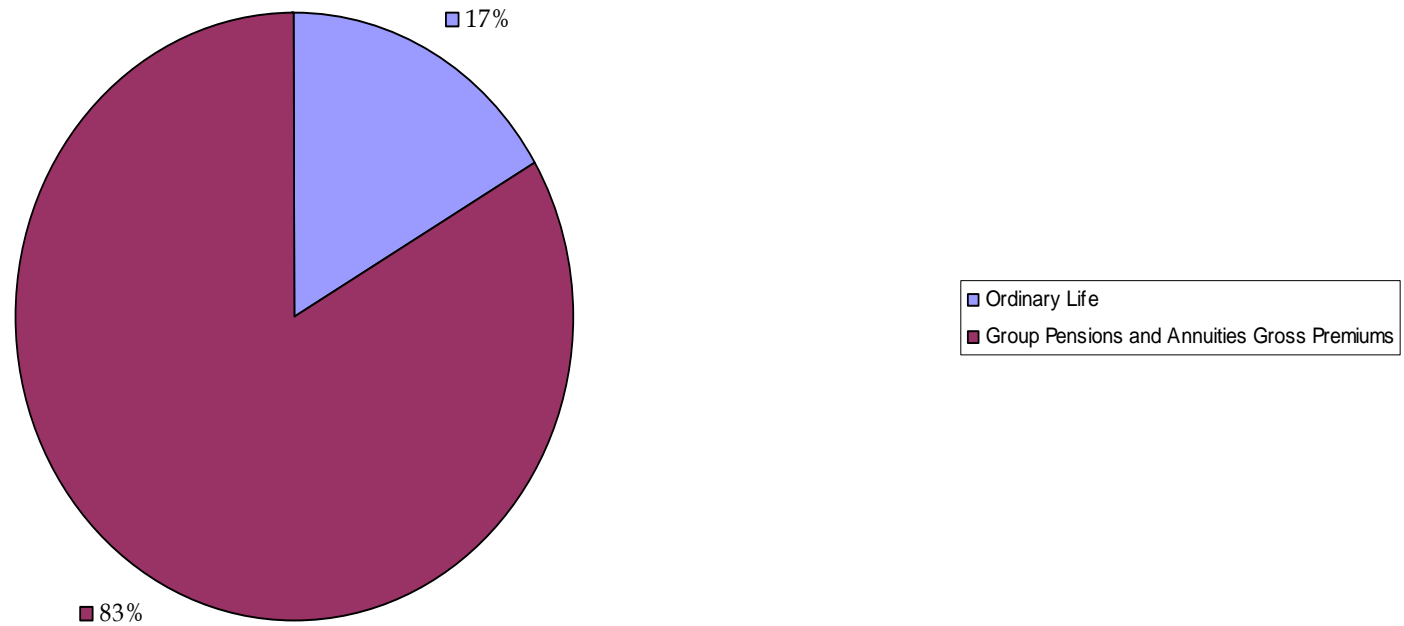
# TT Insurance profile

2001 to 2004 Group Pensions and Annuities Gross Premiums



# TT Insurance profile

2004 Total Life Insurance & Annuity Business





# CAA Discussions



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- Initially separate committees set up to develop Valuation Standards and Capital Adequacy requirements
- Some initial feed back from CAA on valuation methodology
- Researched methods of several jurisdictions
- CB will develop standard and CAA / actuaries to comment
- CAA committee set up to liaise with Capital Adequacy committee



# CAA Discussions

## Valuation Methodology

- Standardized valuation methodology required if Minimum Capital requirement imposed
- Some companies use different methods for external and internal reporting

## Model Implementation

- Phased implementation approach – build rapport, easy to implement but useful
- Implementation by year end 2007 – voluntary in the first year
- Model will be a combination of rules and principles based
- Evolutionary framework
- Model and parameter testing of companies



# CAA Discussions

## Considerations

- Product profile, risk profile
- May be different from other Caribbean countries
- Products becoming complicated with embedded derivatives – not currently modeled
- Regulatory Arbitrage
- Un-level playing field as other financial institutions competing for the same money
- Different regulations apply – could have significant effect on the industry



# Conclusion



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- CB has started to implement some of the proposals e.g. site visits
- After several attempts to have legislation changed, CB determined to get it done this time around
- Need for actuarial experience and expertise to effectively regulate
- Uniformity of standards among Caribbean countries may be a challenge
- There is a definite role for the Caribbean actuary to help shape the future of the industry