



CARIBBEAN ACTUARIAL ASSOCIATION



Accredited as a Full Member  
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# "Crossing the Boundaries of Tradition"

19<sup>th</sup> Annual CAA Conference

Rose Hall Resort and Spa, a Hilton  
Resort in Montego Bay, Jamaica.

December 3-4, 2009



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# Strengthening the financial system

## A Trinidad and Tobago perspective

David Congram

Thursday December 3, 2009 – 11pm

# Agenda

- **Regulatory direction**
- **Legislative initiatives**
- **Insurance framework**
- **Implications**
- **Conclusions**



# Government - White Paper “Reform of the Financial System of Trinidad and Tobago”

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## Objectives

- **Achievement of developed-country status by the year 2020 as the principal developmental goal of the country.**
- **Development of a stable and well-regulated financial services sector that can respond adequately to changes in the international environment.**

# Legislative initiatives

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# Financial sector legislative initiatives

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- **Updated Financial Institutions Bill – 2008**

**Enacted December 19, 2008**

- **Insurance Bill**

**Published for public comment November 4 2009**

- **Policy proposal for – The Credit Union Bill**
- **Policy proposal for – Pensions**

# Financial Institutions Bill

- **Maintain confidence in soundness and stability of the financial system**
- **Supervision to determine the sound financial condition of the institutions**
- **Maintenance of appropriate levels of protection for depositors**
- **Sharing of information with financial regulators in other jurisdictions**
- **Strengthening fit and proper criteria**

# Pensions

- **Protection of the rights of pension plan members with respect to benefits earned.**
- **Strengthen communication between the parties.**
- **Governance**
  - i. **Facilitate the adoption of guidelines**
  - ii. **Statutory roles accountabilities**
  - iii. **Conflicts of interest**
  - iv. **Oversight**
- **Prudential requirements**

# Credit Unions

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- **Supervision**
  - i. Define a regulatory framework**
  - ii. Sharing of information with financial regulators in other jurisdictions**
  - iii. Safety and soundness**
- **Registration and operation**
- **Prudential criteria**
- **Sound business governance**

# Insurance framework

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# Government - White Paper

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## Implications for the Insurance Sector:

- **Revise the insurance legislation and regulations in conjunction with the industry in line with the Core Insurance Principles of the International Association of Insurance Supervisors.**
- **To take into account the nature of the economic structure in Trinidad and Tobago**

# IAIS supports G20 St Andrews Declaration

- **Enhancing group and cross sectoral supervision**
- **Incorporating lessons learned from the crisis**
  - i. **Solvency and investment,**
  - ii. **risk management,**
  - iii. **corporate governance and**
  - iv. **compensation**
- **Facilitating supervisory cooperation**
- **Assisting the implementation of standards**



# Trinidad and Tobago Insurance Bill

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- **Maintain confidence in soundness and stability of the insurance sector**
- **Supervision to determine the sound financial condition of the institutions**
- **Maintenance of appropriate levels of protection for policyholders**
- **Sharing of information with financial regulators in other jurisdictions**
- **Strengthening fit and proper criteria**

# Momentum

- **2007 project put in place**
  - i. **New Insurance Bill**
  - ii. **Capital Adequacy**
  - iii. **Consistent valuation method**
- **May 16 2008 CAA ATTIC and ICATT  
Selection of Caribbean PPM**
- **October 2008 QIS 1**
  - i. **Caribbean PPM and**
  - ii. **Capital Adequacy**
- **June 2009 QIS 2**
- **November 2009 Insurance Bill  
Published for comment**



# Caribbean PPM

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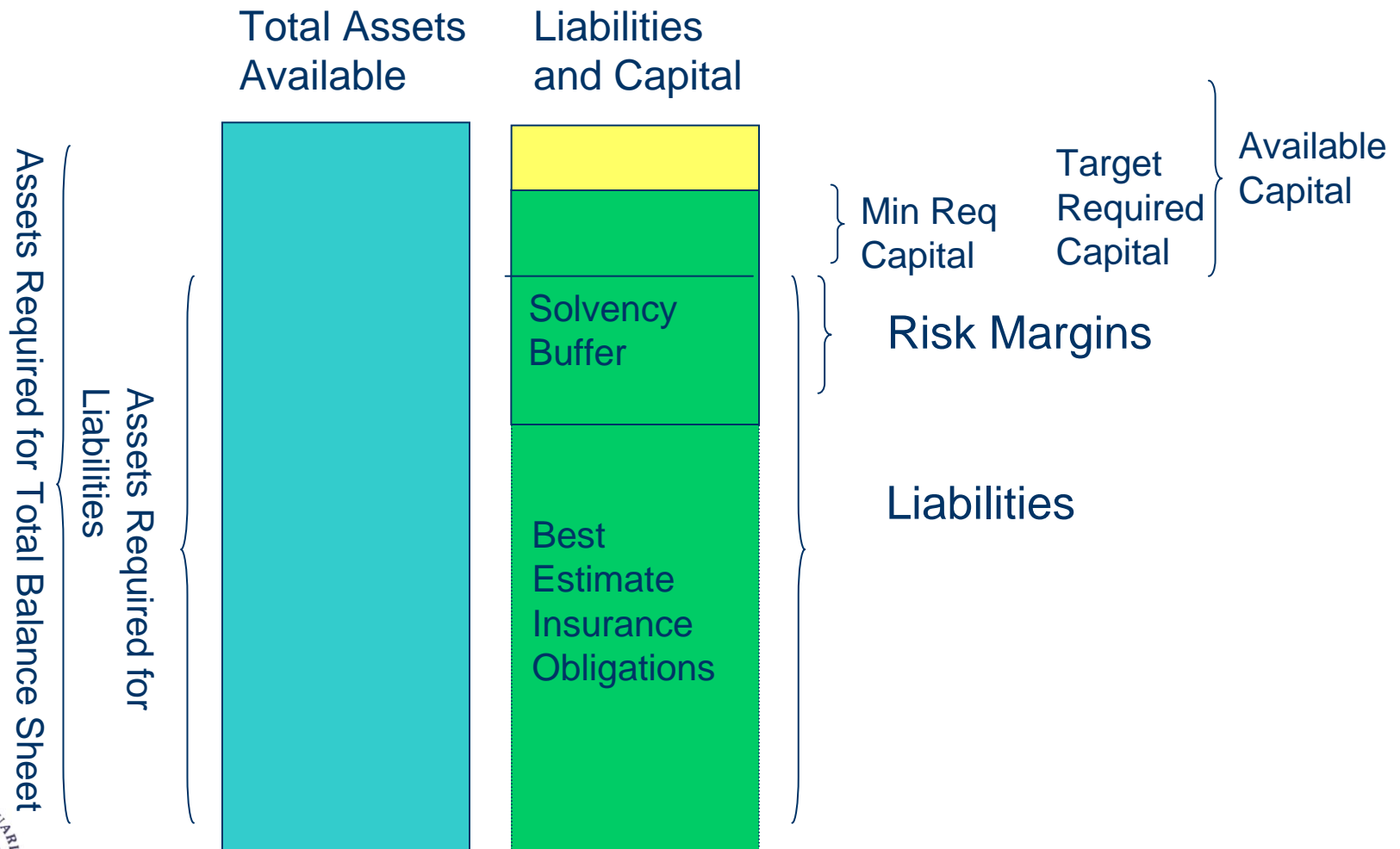
- **Stepping stone to International Accounting Phase II**
  - ✓ **Cannot avoid a two step process and a prospective approach is currently favoured by IASB**
  - ✓ **Provides early experience using a prospective valuation method**
  - ✓ **Help the T&T industry prepare for international competition.**

# Non Life

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- **Capture of claims data by accident year**
- **Building up the quality of the case reserves**
- **Putting in place the building blocks for a claim liability methodology.**
- **Position as a stepping stone to International Accounting Phase II**

# Capital & Liability Framework



# From QIS 2

- **14 companies out of 24 participants have investment concentrations in excess of 10% of adjusted assets.**
- **17 companies out of 24 participants have open currency risk exposures**
  - i. **6 companies have in excess of 16% of total assets.**
  - ii. **47% of all exposures are in US dollar denominations**
- **Unrealized gains are significant. Real estate assets have unrealized gains of nearly 40% of that asset class**
- **The calibration of default and volatility factors are expected to be a continuous challenge.**
- **The benchmark set for Catastrophe risk was based on a gross maximum probable loss equal to an event that might be expected to occur once in every two hundred and fifty years.**

# Implications

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# Impact on the Appointed Actuary

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- **Raised expectations**
- **Expanded Role**
  - i. **Solvency declaration**
  - ii. **Stress Testing**
- **Standards**
  - i. **Protection**
  - ii. **Referrals**

# Stress Testing

## Financial Condition Reports

- **The appointed actuary shall carry out an annual investigation of the insurer regarding its current and expected future conditions so as to identify plausible threats and actions which will mitigate those threats.**
- **....where the appointed actuary of an insurer discovers any matters or conditions that, in the opinion of the actuary, have material adverse effects on the financial condition of the insurer and that require corrective action, the actuary shall immediately report such findings....**



# Declaration Requirement

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- **The CFO will have to sign a declaration on the calculation of the Regulatory Capital Requirement ratios.**

## **In addition:**

- **For long term insurance - The Actuary will also have to sign a declaration on the calculation of the Regulatory Capital Requirement ratios.**
- **For short term business - An Officer of the company will also have to sign a declaration on the calculation of the Regulatory Capital Requirement ratios for short-term business**

# Protection of the Actuary - Section 108

## *Extract*

- (1) Where an ... actuary or former actuary of an insurer communicates information or gives an opinion to the Central Bank or the Inspector in good faith and –**
- a) he is required to give such information or opinion to the Central Bank ....; or**
  - b) where he reasonably believes that the insurer or financial holding company is in contravention of any written law,**

**such communication shall not be considered as a violation of any contract for services between the ...., actuary or former actuary and the insurer .....**



# Referring matters to the professional associations - Section 109

## *Extract*

- (1) Where the Inspector or Central Bank has reasonable grounds .... that the actuary of an insurer .....
- a) has failed to perform his duties or to comply with the relevant provisions of the Act;
  - b) has been a party to the preparation of or has approved a financial statement that does not fairly present the financial position of the insurer
  - c) is incompetent or is guilty of professional misconduct,
- ..... shall deliver a written report as appropriate to the insurer or the Caribbean Actuarial Association.



# Market Impacts

- **Concentration limitations in the Bill will require companies**
  - i. **to diversify their portfolios .**
  - ii. **obtain other assets.**
- **On the acquisition of new investments consideration can be expected to be given to their risk and related capital adequacy requirements.**
- **It may be a challenge for all companies to meet the requirements.**
- **In the long term policyholder protection should be strengthened and the industry more attractive to consumers and investors**
- **With the strengthening of the sector it can assume its appropriate role in the economic development of Trinidad and Tobago**

# Conclusions

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- **Strengthened financial system**
- **Financial stability is key to the successful development of the Caribbean**