Legal Notice No. 375

REPUBLIC OF TRINIDAD AND TOBAGO

The Insurance Act, 2018

REGULATIONS

Made by the Minister under section 279 of the Insurance Act and subject to negative resolution of Parliament

THE INSURANCE (CARIBBEAN POLICY PREMIUM METHOD) REGULATIONS, 2020

1. These Regulations may be cited as the Insurance (Caribbean Policy Premium Method) Regulations, 2020. Citation

2. (1) In these Regulations— Interpretation

"Act" means the Insurance Act, 2018; Act No. 4 of 2018

"actuarial report" means the report required under section 158 of the Act;

"actuarial work" means the work of an actuary within the field of actuarial practice and includes acquisition of knowledge of the circumstances of the case, obtaining sufficient and reliable data, selection of assumptions and methods, calculations and examination of the reasonableness of their result, use of other persons' work, formulation of opinion and advice, reporting, and documentation;

"Caribbean Policy Premium Method" means a method of computing policy benefit liabilities, which uses—

(a) the full amount of the policy premiums stipulated in the related insurance policies; and

(b) the policy payments, without arbitrary limitation on expenses,

such that the net present value of these aforesaid elements, after providing for adverse deviations, is the value of the policy benefit liability;

"claim liabilities" are the portion of insurance contract liabilities in respect of claims incurred on or before the valuation date;

"guaranteed benefits" means the following benefits which are guaranteed under the terms of a policy:

(a) death, endowment, annuity, disability and health care expense benefits;

(b) cash surrender and other non-forfeiture benefits;

(c) conversion, renewal and option to purchase insurance rights;

(d) settlement options which are not fully self-supporting; and

(e) benefits of any other kind;

"insurance contract liabilities" means the liabilities at the valuation date arising by virtue of the insurer's contracts of insurance, including commitments, which are in force at that date or which were in force prior to that date;

"policyholder dividends" means all distributions to non-participating and participating policyholders including, but not limited to, experience refunds, excess interest credits or dividends according to the insurer's current dividend scale or another dividend scale if that other dividend scale in the opinion of the appointed actuary better reflects the dividend or bonus policy of the insurer and the projected operating environment;

"policy payments" means payments of—

(a) guaranteed benefits;

(b) policyholder dividends;

(c) non-guaranteed benefits;

(d) benefits which have become established concessions;

(e) issue, administrative and investment expenses;

(f) renewal commissions;

(g) taxes, where applicable; and

(h) all cash flows resulting from any reinsurance agreement in effect for the policy;

"premium liabilities" means the portions of insurance contract liabilities that are not claim liabilities;

"premiums" include income equivalent to premiums, such as management fees and cost of insurance charges;

"reinsurance recoverables" are the assets at the valuation date arising by virtue of reinsurance treaties, including commitments, which are in force at that date or which were in force prior to that date;

"standards of accepted actuarial practice" means the standards of the Caribbean Actuarial Association and any other actuarial standards, as specified by the Inspector in respect of the application of these Regulations; and "valuation date" means the date at the end of the financial period in respect of which the actuarial report has been prepared.

(2) These Regulations apply to valuations of policy liabilities and other actuarial liabilities for returns filed pursuant to the Act by insurers carrying on long-term insurance business.

3. The appointed actuary of an insurer shall apply the standards of accepted actuarial practice with respect to actuarial work required under the Act and these Regulations. Application of standards

4. (1) The appointed actuary shall— Verification of data

(a) ensure that he is familiar with the procedures for the administration and accounting of the business of the insurer; and

(b) establish suitable control procedures to verify—

(i) that the valuation data for both assets and liabilities are consistent with the terms of the insurer's contracts of insurance and contracts for commission;

(ii) the validity of the deeds, contracts and documents of title that support the insurer's investments and other source data; and

(iii) the insurer's compliance with applicable accounting practices,

and make any appropriate adjustments.

(2) The appointed actuary may consider the work of the auditor for the accuracy of the data used in the valuation and if the appointed actuary has any doubts regarding the accuracy of the data, he shall disclose any reservations in the actuarial report.

(3) The appointed actuary shall take such steps, as are necessary, to ensure—

(a) the reasonableness of the result of any calculation; and

(b) that any inconsistencies and errors in the valuation system are reported to the insurer and recommend appropriate measures to correct such inconsistencies and errors.

(4) The appointed actuary shall verify the consistency of the current valuation data and results with the previous valuation data and results, the financial statements and the reconciliation of the valuation data.

Appointed actuary's valuation

5. (1) The appointed actuary shall value the insurer's policy liabilities and other actuarial liabilities for returns filed pursuant to the Act by an insurer carrying on long-term insurance business.

(2) The appointed actuary shall—

(a) ensure consistency with the financial reporting standards and the insurer's accounting policy, including classification;

(b) ensure that the policy liabilities and other actuarial liabilities, reinsurance recoverables and other items in the returns are consistent; and

(c) avoid omission and double counting.

(3) Where the term of a contract of insurance, is more than one year, the appointed actuary shall value the policy benefit liabilities using the Caribbean Policy Premium Method.

(4) The appointed actuary shall value liabilities, other than those valued in accordance with subregulation (3), in accordance with the financial reporting standards, the standards of accepted actuarial practice and this Regulation.

(5) The appointed actuary shall ensure fair presentation of the results of the valuation of policy liabilities and other actuarial liabilities and that the amount reported for reinsurance recoverables is appropriate taking all the circumstances into account.

Determination of assumptions

6. (1) The appointed actuary shall select assumptions which are appropriate to the circumstances of the insurer as assessed by the appointed actuary at the valuation date, considering the expected experience, policies in force, the method of valuing assets, statutory constraints on the valuation of policy benefit liabilities and the release of surplus over the policy duration.

(2) The responsibility of the appointed actuary to select assumptions appropriate for the portfolio being valued shall not be affected by the capital and surplus requirements.

(3) The appointed actuary shall make an appropriate assumption about each contingency which materially affects the net income for the policies in force over their lifetime.

(4) The appointed actuary shall not make the same assumption for two policies unless it is expected that their experience for that assumption will be similar.

(5) The appointed actuary shall give more careful study to those assumptions to which liabilities are more sensitive.

(6) In selecting assumptions for the insurer's exercise of discretion in areas, including, but not limited to, the determination of policy dividends, retrospective commission adjustments, or the right to adjust premiums, the appointed actuary shall take policyholder reasonable expectations into account.

Change in assumptions

7. (1) Assumptions shall be determined prospectively at each valuation date in the context of the current experience.

(2) In determining assumptions, the appointed actuary shall reflect improvements or deterioration in experience, if such changes are statistically significant and material.

(3) Except as provided in subregulations (4) and (5), the effect of a change in assumption shall not be spread over more than one valuation period.

(4) Where a change in the environment or a change in emerging experience is occurring in an uncertain manner, the appointed actuary may conclude that, based on currently available data—

(a) only part of the observed change shall be reflected in the current valuation assumption; and

(b) the balance of the change shall be reflected in a future valuation to the extent that further data develops to confirm the observed change in experience or environment.

(5) The deferral of part of the change in a valuation assumption under subregulation (4) shall be appropriate only where the deferral does not result in lower liabilities for the current financial year.

Expected experience

8. (1) The appointed actuary shall discuss with the responsible officers of the insurer, the current and projected strategy of the insurer for investments, underwriting, claims, marketing, pricing, policyholder dividends and administration.

(2) The appointed actuary shall, for each assumption, study the available recent experience of the in force business of the insurer and the most comparable recent published industry experience.

(3) If credible local industry experience data is not available, the appointed actuary shall take into account comparable experience data from another suitable jurisdiction, where available.

(4) The appointed actuary shall not assume that expected experience is more favourable than industry experience except to the extent that it is supported by statistical evidence.

Anti-selection

9. (1) Where a policy allows a policyholder to create, prolong or stop a policy benefit, the appointed actuary shall assume that policyholders who benefit from doing so will tend to act to the detriment of the insurer.

(2) Where the reinsurance arrangements between two companies allow insurance business to be recaptured by a ceding company, the appointed actuary shall assume that the ceding company which benefits from doing so will tend to act to the detriment of the accepting insurer.

(3) The appointed actuary shall determine the term of a policy's liability by taking into account any renewal of the policy or any adjustment equivalent to renewal of the policy, after the valuation date when—

(a) the discretion of the insurer at the renewal of the policy or adjustment equivalent to renewal of the policy is constrained or limited by the terms and conditions of the policy; and

(b) the policy's liability is larger as a result of taking account of the renewal of the policy or adjustment equivalent to renewal of the policy.

(4) If an element of a policy, which is a condition precedent to a pay-out or other action, operates independently of the other elements of that policy, then it should be treated as a separate policy with its own term of liability.

Provision for adverse deviations

10. (1) For the purposes of providing for adverse deviations, the appointed actuary shall have regard to the fact that—

(a) it is not possible to determine expected experience with complete confidence; and

(b) actual experience may be better or worse than expected experience,

and accordingly, the appointed actuary shall define a margin for adverse deviation for each assumption in order to add a provision to the policy benefit liabilities.

(2) The appointed actuary shall ensure that the provision made under sub-regulation (1) is appropriate for income statement purposes and appropriate to the circumstances of the insurer.

(3) For each assumption used, the margin referred to in subregulation (1) shall—

(a) be for the mis-estimation of the mean and for the possible deterioration thereof; and

(b) not cover statistical fluctuation or catastrophic or similar major unexpected events.

(4) For the purposes of determining the provision for adverse deviation, the appointed actuary shall take into account the following:

(a) the margin for adverse deviations shall increase the policy benefit liabilities;

(b) the margin shall be greater when there is—

(i) less confidence in the realisation of the expected experience; or

(ii) a stronger possibility of deterioration of the mean;

(c) the internal practices of the insurer such as underwriting, matching, immunization and the characteristics of the policies;

(d) subject to paragraphs *(a)* to *(c)*, the margin shall be consistent among generations of policies and consistent among such policies; and

(e) the provision for adverse deviations for a participating policy may be less than the provision for a comparable non-participating policy by an amount which depends on—

(i) the size of the policyholder dividends; and

(ii) how readily the insurer will adapt its dividend scale to changing conditions.

(5) The appointed actuary shall select a margin for adverse deviations between a low margin and a high margin, specified for each best estimate assumption as stated in subregulation (9) and of five per cent and twenty per cent (or minus five per cent and minus twenty per cent) respectively, of each other best estimate assumption.

(6) In circumstances where a margin for adverse deviations cannot be defined as a percentage of the best estimate assumption, the appointed actuary shall calculate the related provision for adverse deviations as the increase in policy benefit liabilities which results from the substitution of a conservative assumption for the best estimate assumption.

(7) The appointed actuary shall take into account other significant considerations, indicative of a potential deterioration of the best estimate assumption, when selecting a margin for adverse deviations, including—

(a) a significant concentration of risks or lack of diversification;

(b) operational risks which adversely impact the likelihood of continuing to obtain best estimate assumption; or

(c) past experience which may not be representative of future experience and where the experience may deteriorate.

(8) Where the margin for adverse deviations is expressed as a percentage and the best estimate assumption is unusually low, the appointed actuary may make a selection above the high margin for unusually high uncertainty or where the resulting provision for adverse deviations is very low.

(9) The low and high margins referred to in subregulation (5), which apply for the specified best estimate assumptions are as follows:

(a) the low and high margins for adverse deviations for the insurance mortality rate per one thousand are respectively an addition of three point seventy-five and fifteen, each divided by the best estimate curtate expectation of life at the projected attained age of the life insured;

(b) the low and high margins for adverse deviations for the annuity mortality rate are respectively a subtraction of five per cent and fifteen per cent of the best estimate mortality rate;

(c) the low and high margins for adverse deviations for morbidity are respectively an addition of five per cent and twenty per cent of the best estimate of morbidity incidence rates, and a subtraction of five per cent and twenty per cent of the best estimate of morbidity termination rates reflecting any expected correlation between incidence and termination rates;

(d) the low and high margins for adverse deviations for withdrawal and partial withdrawal are respectively an addition or subtraction, as appropriate, of five per cent and twenty per cent of the best estimate withdrawal rates and in order to ensure that the margin for adverse deviation increases liabilities, the choice between addition and subtraction may need to vary by interest

scenario, age, policy duration, and other parameters; and

(e) the expense assumption shall provide for future inflation consistent with that in the interest rate scenario, and the low and high margins for adverse deviations are respectively two point five per cent and ten per cent of best estimate expense, including inflation.

11. (1) The appointed actuary shall base the investment rate of return on the— Investment return

(a) method of reporting investment return and valuing assets; and

(b) assets supporting the policy benefit liabilities at the valuation date.

(2) The investment rate of return of a group of policies shall be determined by—

(a) the projected rate of return on assets supporting the liabilities of those policies at the valuation date;

(b) the expected new money rate of return on the assets of the insurer projected to be acquired after the valuation date, where cash flow is expected to be positive;

(c) the expected capital gains or losses on the assets of the insurer projected to be disposed of after the valuation date, where cash flow is expected to be negative;

(d) the expected investment tax rates of the assets supporting the liabilities of those policies;

(e) the expected investment expense rates of the assets supporting the liabilities of those policies;

(f) the expected losses from default of the assets supporting the liabilities of those policies; and

(g) provisions for adverse deviations.

(3) The appointed actuary shall ensure that the expected return from income producing real estate, including capital growth and maturity proceeds, for a consistent term includes an appropriate margin for adverse deviation.

(4) The appointed actuary shall ensure that the expected return on equities from the combination of dividend, capital growth and sales for a consistent term includes an appropriate margin for adverse deviation.

(5) For new money investment rates, the appointed actuary shall make a provision for adverse deviations which reflects the fact that no

person is able with any confidence predict new money investment rates beyond a short time following the valuation date.

(6) In developing the valuation interest rate assumption, the appointed actuary shall ensure that the initial new money investment rate reflects a current yield curve with a straight line projection between the initial and ultimate new money investment rates taking into consideration the currency of the cash flows to be discounted.

(7) The appointed actuary shall ensure that the ultimate new money investment rate established represents an ultimate long term risk free reinvestment rate.

(8) The appointed actuary shall ensure that provision for adverse deviations reflects the ability and willingness of the insurer to compensate for an adverse deviation by a reduction in policyholder dividends.

(9) The appointed actuary shall assume that borrowers and policyholders who would benefit from exercising their contractual options to the detriment of the insurer will do so.

(10) Where the projection of cash flow requires new investments, the appointed actuary shall not, without an explicit reason, assume a change in its recent composition or rate of growth or reinvestment strategy or practice which reduces the liabilities.

Expenses

12. (1) The appointed actuary shall make assumptions for the following:

(a) investment expense, which is the expense allocable to the investment and safekeeping of assets;

(b) issue expense, which is the expense incurred for the production of new insurance business, being the sum of—

(i) the expense payable at and after issue as a direct result of the issue of policies; and

(ii) the expense payable before issue, which directly results in the issue of policies; and

(c) administrative expense, which is the expense allocable to the maintenance and servicing of policies, including claims handling expenses, premium taxes and charges for licences and government supervision, but excluding investment expense and issue expense.

(2) Only investment and administrative expenses which shall be incurred after the valuation date shall be recognized in the actuarial report.

(3) Renewal commissions shall include volume-based commissions such as financing costs, overrides and bonuses incurred after the valuation date.

(4) Issue expenses shall not be overstated to the extent that future administrative expenses shall thereby be understated.

(5) In making the investment and administrative expense assumptions, the appointed actuary shall assume—

(a) that an insurer which is open to new business continues as such; and

(b) that an insurer which is closed to new business continues as such in a run-off position until such time as it is desirable and practical to reinsure the policies in force, or to amalgamate the insurer into another insurer.

Mortality and morbidity assumptions

13. (1) The appointed actuary shall make assumptions on mortality and morbidity where appropriate.

(2) For life and health insurance, the appointed actuary shall support mortality or morbidity rates lower than the base table before margins for adverse deviations with statistically valid company or inter-company experience studies.

(3) For annuity products, the appointed actuary shall support mortality rates higher than the base table before margins for adverse deviations with statistically valid company or inter-company experience.

(4) The appointed actuary shall take into account any expected effects of anti-selection on mortality or morbidity before the application of a margin for adverse deviation.

(5) The appointed actuary shall not use mortality rates which reflect an assumption of improvement trends for life insurance products, but he may use annuitant mortality rates which reflect long-term mortality improvements, where appropriate.

Lapse and partial withdrawals

14. (1) The appointed actuary shall make assumptions on lapse rates or partial withdrawals or both, where the insurer is exposed to risk from the fact that the policyholder has the option to withdraw or persist, or to select the timing or amount of withdrawal.

(2) The appointed actuary shall base the assumptions on—

(a) recent experience studies of the in force business;

(b) product features which are likely to affect the lapse; and

(c) external factors such as conditions of the insurance industry and the economy.

(3) For newer products where reliable experience data may not be available, the appointed actuary shall adopt a more conservative approach in selecting the expected assumptions.

Inflation and investment return rate

15. For policies where the liabilities appear to be more sensitive to the inflation rate assumption than to the investment return rate assumption, the appointed actuary shall not assume that the new money investment rate is correlated with the inflation rate but he shall assume that inflation continues indefinitely.

Guarantees

16. The appointed actuary shall make adequate provision for policy and other contract guarantees, including guarantees, made under any off balance sheet arrangements, including segregated fund policies.

Reinsurance recoverables

17. (1) Policy liabilities and other actuarial liabilities reported in the insurer's return shall not be net of the value of recoveries that are expected from reinsurance ceded.

(2) An insurer shall record the value of the reinsurance recoverables in the returns.

(3) The appointed actuary shall ensure that there is a fair presentation of the policy liabilities and other actuarial liabilities reported in the insurer's return and that the amount of the reinsurance recoverables is appropriate.

(4) The recovery on account of reinsurance ceded shall take account of—

(a) the reinsurer's share of claims;

(b) reinsurance commissions;

(c) allowances;

(d) retrospective premium adjustments; and

(e) the financial condition of the reinsurer.

Actuarial report and Actuarial Certificate

18. The actuarial report and the actuarial certificate required under section 145(2) of the Act shall be in such format as specified by the Inspector from time to time.

Commencement

19. These Regulations shall come into operation on 1st January, 2021.

Dated this 6th day of November, 2020.

C. IMBERT
Minister of Finance

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