TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION
Asset Management & Investment Strategy for Domestic Insurance Companies

1. INTRODUCTION

This Guideline applies specifically to all domestic insurers[1] licensed to transact insurance business in the Turks and Caicos Islands ("TCI"). It is issued by the Financial Services Commission ("the Commission") pursuant to Section 43 of the Financial Services Commission Ordinance to establish guidelines regarding sound and prudent management and operational practices for insurers. The Commission recognizes that policyholders' interests are best protected when insurers apply sound investment management practices to their operations.

2. OBJECTIVES

The purpose of this guideline is to ensure that the assets of each domestic insurer are managed in a manner that is consistent with the risk profile of the company and its liquidity needs. It sets out the expectations of the Commission regarding investment management which are consistent with international best practices and Insurance Core Principles issued by the International Association of Insurance Supervisors.

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[1]Domestic Insurer: An insurer, licensed under section 4 (1) (a) of the Insurance Ordinance ,whose principal objective is to insure risks in relation to:

(a) a person who, at the time of effecting the contract, is ordinarily resident in the Islands; or
(b) property that, at the time of effecting the contract, is in the Islands or, in the case of a vehicle, vessel or aircraft, or other movable property is ordinarily based in the Islands.

This guideline is not intended be exhaustive but will seek to highlight guiding principles which the Commission believes are critical to the insurer in establishing sound and prudent investment management practices.

3. RESPONSIBILITIES OF THE BOARD OF DIRECTORS

Directors and managers involved in the investment process must refrain from personal business activities that could conflict or appear to conflict with proper execution of the investment programme, or which could impair their ability to make objective investment decisions.

All domestic insurance companies are required to have an investment strategy and investment policies that are appropriate for the size, complexity, structure, and diversity of the company's business including its risk appetite. The Board of Directors must review and approve the investment strategy and investment policies at least annually.

4. ASSET LIABILITY MANAGEMENT

Insurance companies must hold sufficient assets to support their liabilities including technical provision and capital requirements[2]. Asset Liability Management ("ALM") is the practice of managing a business so that decisions and actions taken with respect to assets and liabilities are coordinated. The ALM policy should be appropriate to the nature, scale and complexity of an insurer's operation. Insurers should have in place effective procedures for monitoring and managing their asset/liability positions to ensure that their investment activities and asset positions are appropriate to settle their liabilities when they become due. An effective ALM strategy does not necessarily require the use complex techniques, simple, low risk or short term business may require the use of less complex ALM techniques. Additionally, ALM does not imply that assets should be matched as closely as possible to liabilities, but rather that mismatches are effectively managed.

[2] The capital requirements are covered in the Capital Adequacy and Solvency Guidelines.

5. INVESTMENT STRATEGY AND POLICIES

Every insurer must have a detailed, precise investment strategy in place and appropriate control mechanisms for monitoring its effectiveness. The strategy should consider the capital and solvency requirements of the insurer and include investment policies commensurate with the size, complexity, structure, and diversity of the company's business including its risk appetite. The investment strategy should consider the following issues:

a. Details of the insurer's investment selection criteria, standards and other parameters including the asset allocation mix across investment categories;

b. Details of limits regarding the allocation of assets either by security type and grade, currency, markets, sector, geographical boundary and counterparties;

c. Conditions which allow for the pledging or lending of the insurer's assets and guidance for such arrangements;

d. Details of any restrictions or prohibitions on the acquisition of certain investments deemed to involve greater risks or subject to high volatility;

e. The extent to which the insurer's investments can be diversified including alternate risk mitigating strategies to curtail the effects of deteriorating market conditions or other adverse conditions;

f. Indication of the company's policy on the use of financial derivatives and other structured products;

g. Clear accountability for all investment transactions and associated risks, and

h. Investment authorization limits.

6. CONCENTRATION LIMITS

In considering the diversification needs of a prudent portfolio policy, the Commission will pay regard to the concentration of investments in:

i. a particular investment category,
ii. any one entity or a group and
iii. credit exposures.

The following table shows the maximum percentages allowed for each investment category:

Investment Category	**Maximum % of total assets**
Cash and Bank Deposits	100%
Government Bonds, Bonds Guaranteed by the Government	100%
Any other Bonds with investment grade status which are approved by the Commission	100%
Policy Loans up to maximum of the Cash Surrender Value	100%
Bonds issued by CARICOM member without investment grade status which are approved by the Commission	50%
Mortgage Loans	50%
Preferred Shares approved by the Commission	40%
Ordinary Shares listed on a recognized Stock Exchange	40%
Collective Investment Scheme or Unit Trusts approved by the Commission	10%
Mortgage Loans	50%

The maximum limit for exposures to a single counterparty is based on the classification of the domestic insurer. A domestic insurer is classified as either a:

1. **TCI Insurer –** refers to an insurance company formed and registered in the TCI; or
2. **Foreign Branch –** refers to the branch office of a foreign insurance company that is registered in the TCI.

TCI Insurer

A TCI insurer should not hold shares in any entity, not including a financial entity, of a value equal to 25% or more of its capital, subject to such holding not giving the insurer the power to exercise 20% or more of the voting rights at any general meeting of the entity. With respect to a financial entity, an insurer must obtain the prior consent of the Commission before purchasing 10% or more of any class of shares.

A TCI insurer should not incur a credit exposure to any one entity in an aggregate amount that exceeds 25% of its capital without prior approval from the Commission. Furthermore, if the credit exposure is to a connected party, any one such exposure must not exceed 10% of the capital of the insurer, unless written prior approval was received from the Commission and the aggregate of all such credit exposures must not exceed 25% of the capital of the insurer.

Foreign Branches

The aggregate investments of a foreign branch in any entity shall not exceed the limit established by the regulator in the foreign branch's home jurisdiction, provided that the following criteria are met:

a) The home office of the foreign branch has established appropriate exposure limits and approval procedures for the branch;

b) The home office is adequately supervised with regards to accounting standards, capital adequacy requirements and actuarial practices; and

c) The home office is, in the opinion of the Commission, a continuing source of financial strength for the foreign branch; and

d) There are no legal, regulatory, statutory or fiscal restrictions placed on the branch to obtain funds from the home office in the event of losses.

Where these criteria are not met, the aggregate exposure of a foreign branch to any entity should not exceed 5% of net asset available, without prior approval from the Commission.

7. MONITORING AND CONTROL

As part of a dynamic and evolving management approach, an insurer must implement mechanisms that allow it to monitor and control its investments and related activities, individually and on a portfolio basis, in a proactive and forward-looking manner. The sophistication of the process should correlate the size, complexity, structure, and diversity of the company's business including its risk appetite.

The Financial Services Commission
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