CENTRAL BANK OF
TRINIDAD & TOBAGO

GUIDELINE ON APPROVAL FOR INSURERS TO ENGAGE IN REAL ESTATE INVESTMENTS

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TABLE OF CONTENTS

DEFINITIONS / ABBREVIATIONS (GLOSSARY)

All expressions used in this Guideline (except where defined below or where the context otherwise requires) have the same meanings as defined in relevant legislation applicable to the insurer. **For the purpose of this Guideline, the following definitions are provided:**

adjusted assets	a. in respect of an insurer, at a particular time, means the amount determined by the formula A minus B, where– (i) A is the total value of assets reported on the capital adequacy returns submitted by the insurer; and (ii) B is the total of all deductions made under regulation 7(3) and regulation 9 of the Insurance (Capital Adequacy) Regulations. b. for the avoidance of doubt, 'A' in the formula for calculating Adjusted Assets in sub-paragraph a.(i) does not include assets backing liabilities of the investment linked insurance business if– (i) the assets are identifiable and valued at market value; (ii) transfers into and out of the portfolio of assets occur at market value; and (iii) there is full pass through of investment returns due on the policies and credited returns are not based on the insurer's discretion.
Appointed Actuary	means an actuary appointed by an insurer pursuant to section 78 of the Act.
business of holding, managing or otherwise dealing in real estate	means the ongoing conduct of real estate activities and transactions by an insurer that are necessary as part of the investment activity such as: a. acquiring and holding a freehold, leasehold or other legal or equitable interest in real estate;

b. managing, i.e., being in control or in charge of real estate;
c. selling, leasing or letting interests in real estate;
d. granting a license for the use of real estate for any purpose or for such purposes as are mentioned in the license;
e. selling, leasing, letting or licensing any easement, profit or right in respect of real estate; and
f. real estate property development and management services, including activities in the development of real estate to raise its value, and the provision of property management services, with a view to deriving profits; and
g. investing in financial instruments, including asset backed securities and mutual funds, of which seventy (70) percent of the aggregate of the underlying assets are:
    (i) real estate investments; or
    (ii) cash flows from a distinct pool of receivables, or participation in or receipt of profits or income, arising from real estate investments.

entity means a company, or any trust, partnership, fund or other unincorporated enterprise or organization, but does not include an individual.

insurer means a local company registered to carry on insurance business in Trinidad and Tobago and includes an association of underwriters

permissible real estate entity means a real estate entity that is a subsidiary or other entity controlled by an insurer or a real estate joint venture approved by the Central Bank.

qualified valuer means a person who is—

a. a Fellow or Professional Associate of the Royal Institution of Chartered Surveyors or a Fellow or Associate of the Incorporated Society of Valuers and Auctioneers or the Rating and Valuation Association and has knowledge and experience in the valuation of land; or
b. approved by the Central Bank.

real estate entity means an entity that is solely engaged in the business of holding, managing or otherwise dealing with real estate.

real estate investment means an investment which constitutes:

a. acquiring shares or an ownership interest in a permissible real estate entity; and
b. conducting the business of holding, managing or otherwise dealing in real estate.

real estate joint venture means a real estate entity—

a. that was formed by an insurer and one or more other persons for the purpose of holding, managing or otherwise dealing in real estate;
b. in which the insurer is permitted to invest by virtue of the exception created by section 87(4)(c) of the Act; and
c. in respect of which the persons who formed it have agreed on joint control, regardless of the distribution of their equity.

1. INTRODUCTION

1.1. The core business of insurers must be the conduct of insurance business only and not of other business and/or investment activities that are not directly related to or are not in support of the insurance business or that are prejudicial to policyholders. Further, an insurer's investment activities must be commensurate with the nature, size and complexity of the business of the insurer and take into account the risks faced.

1.2. As such, the Insurance Act, 2018 (as amended) (Act) prohibits insurers from:

(a) carrying on any business other than insurance business;[1] and

(b) directly or indirectly holding shares or ownership interests in non-financial entities where, *inter alia*, such holdings give the insurer the power to:

i. exercise twenty percent (20%) or more of the voting rights in the entity;

ii. elect twenty percent (20%) or more of the directors of the entity; or

iii. exercise significant influence over the conduct of the business and affairs of the entity[2].

1.3 However, by way of two of the exceptions to these restrictions, insurers, with the prior approval of the Central Bank of Trinidad and Tobago (Central Bank/Bank), are permitted to engage in investment activities involving the:

(a) business of holding, managing or otherwise dealing in real estate;[3] or

(b) acquiring shares or ownership interest in permissible real estate entities.[4]

[1] Section 30(5) of the Insurance Act, 2018 (as amended) (Act).
[2] Section 87(1) of the Act.
[3] Sections 30(6) (c) and (7) of the Act.
[4] Sections 4(1) (definition of "permissible real estate entity") and 87(4)(c) of the Act.

Further, where insurers engage in these two investment activities, it must be for the sole purpose of supporting insurance obligations.

1.4 Real estate investments, because of their long-term nature, may be suitable assets for matching long term obligations of insurers. The revenue stream from income-producing real estate investments or relatively constant dividend payments from real estate subsidiaries can provide regular cash flows that serve to approximately match long term liabilities, particularly as the durations of insurance contracts, such as long-term insurance, are longer than the maturity of bonds in the market. Using the cash flows from real estate investments for Asset Liability Matching (ALM) can assist with narrowing the duration gap, which can mitigate interest rate risk.

1.5 The Board of Directors (Board) and senior management of an insurer must be competent in understanding and managing the risks associated with real estate investments. As such, the Board and senior management should have sufficient information and/or access to the requisite knowledge and skills for its assessment of real estate investments, to consider the complexities, uncertainties, market forces and other changes in the real estate markets and in the insurance business. An insurer's investments in real estate must be consistent with the principles of prudent investment management to achieve a balance among risk, reward and liquidity of an insurer's investments and safeguard its financial condition.

2. AUTHORITY

2.1. This Guideline on Approval for Insurers to Engage in Real Estate Investments (Guideline) is established in accordance with sections 278(1)(a) and (b) of the Act and applies to all insurers.

3. PURPOSE, APPLICATION AND SCOPE

3.1. Insurers require the approval of the Central Bank to invest in real estate by virtue of the:

(a) acquisition of shares or other ownership interests in permissible real estate entities, as referenced in its definition in section 4(1) and in section 87(4)(c) of the Act; and

(b) conduct of the business of holding, managing or otherwise dealing in real estate, as referenced in section 30(6)(c) of the Act.

3.2. This Guideline is intended to provide guidance for insurers on the governance and risk management aspects of their real estate investments pursuant to the requirements of the IA 2018 and to outline the Central Bank's considerations in assessing the applications made in accordance with these requirements.

3.3. This Guideline applies to all insurers registered under section 25 of the Act must be read in conjunction with the Central Bank's Prudent Person Approach to Investment and Lending Guideline and the Corporate Governance Guideline, and it aims to establish the:

(a) minimum standards for an insurer's real estate investments; and

(b) minimum criteria that the Central Bank considers in granting approval for such investment activities, inclusive of the risks that are associated with the activities, and the requisite information required for the assessment process.

3.4. Real estate investments by insurers must be for the purpose of facilitating the ALM strategy of the insurers and to ensure that the investments are appropriate to the nature and duration of insurance liabilities.

3.5. An application for approval to engage in real estate investments, as set out in Section 7 of this Guideline, is required in the following instances:

(a) for all investments in real estate entities which are to be approved as permissible real estate entities; and/or

(b) where the aggregate value of all real estate investments exceeds twenty-five percent (25%) of an insurer's adjusted assets; and

(c) subsequent to the approvals under subsection (i) and (ii) above, for each new real estate investment or a further increase in the principal amount in existing real estate investment. However, subject to Section 3.6 below, where an increase is due to market fluctuation on existing investments, an application would not be required.

3.5.1. Notwithstanding an approval granted pursuant to this Guideline, all real estate investments shall, at all times be subject to the requirements of the Act, the Financial Institutions Act, 2008 and all accompanying Regulations and Guidelines. Approval of an application under this Guideline does not constitute an approval to contravene the legislative requirements.

3.6. Where an increase in the value of all real estate investments is due to fluctuations in market prices on existing investments, the Central Bank reserves the right to require an application to be submitted.

3.7. An application for approval to engage in real estate investments is not required where:

(a) an insurer directly owns and occupies at least two thirds of the real estate property for the purposes of carrying on insurance business. In those circumstances, an insurer would not be considered to be engaged in the business of holding, managing or otherwise dealing in real estate; and

(b) an insurer engages in the business of a mortgage institution as permitted by section 30(6)(b) of the Act.

3.8. Notwithstanding section 3.5 of this Guideline, pursuant to sections 30(8) and 155 of the Act, the Central Bank or the Inspector of Financial Institutions can issue directions as it deems fit as follows:

(a) To all insurers, by way of notice, to amend the twenty-five percent (25%) threshold referred to in section 3.5(ii) consequent to changes in the real estate investment market and their inherent risks; and

(b) To a specific insurer, to wind down and/or cease further real estate investments.

3.9. The requirements for approval and the factors considered by the Central Bank mentioned in this Guideline are not exhaustive and apply on a case-by-case basis relative to the specific circumstances and risks.

4. INVESTMENT GOVERNANCE

4.1. Insurers must implement sound investment management policies and frameworks as set out in the Central Bank's Prudent Person Approach to Investment and Lending Guideline. Consequently, insurers that engage in real estate investments must establish a Board approved Real Estate Investment Policy (Policy) or amend its Board approved Investment Policy which, inter alia, must incorporate the consideration of the risks outlined in Section 5 of this Guideline as well as the following requirements:

(a) a comprehensive understanding of the structure and the risk characteristics of the real estate investment and any underlying assets, to ensure proper management of the investment and the associated risks.

(b) an assessment of the probable losses and risk mitigants, including losses that may impact the insurer's ability to fulfil policyholders' obligations.

(c) the identification of whether any appropriate techniques or expert/specialist manager are needed to assess and manage the associated risks of the real estate investment.

(d) where an objective assessment of the risks is likely to be difficult and costly, the real estate investment must be kept to prudent levels, as the limit for the maximum aggregate value of interest in real estate to the adjusted assets as prescribed in Schedule 1 of the Insurance (Capital Adequacy) Regulations, 2020, generally might not be able to fully and appropriately reflect the risk profile of the investment.

5. RISKS TO BE CONSIDERED

5.1. The insurer's investment of policyholders' funds must not create undue risk that would significantly impact the insurer's risk profile and its ongoing viability. Consequently, in assessing real estate investments, an insurer's consideration of the risks must include:

(a) The impact on liquidity and solvency risks from the real estate investments which could negatively impact the availability of cash to settle policyholder claims as they fall due;

(b) the adequacy of its capital and other prudential requirements under the Act and applicable regulations to ensure that there is sufficient capital to support the risks and/or significant losses from the real estate investment and that no prejudice is likely to accrue to policyholders.

(c) investment concentration risks arising from real estate investments and the impact on asset quality;

(d) operational risks wherein the execution of the insurer's insurance functions is impacted by the business of the real estate investment;

(e) credit risks, more specifically as it relates to tenancies and their credit-worthiness;

(f) market risks as market fluctuations can impact the capital values and future cash flows of the property;

(g) legal and reputational risks of the real estate entity such as litigation matters and matters under arbitration/mediation, as well as compliance with relevant statutory requirements in relation to conducting real estate business; and

(h) any other risk that may be determined by the Central Bank depending on the nature of the real estate investment and at the point in time.

5.2. The Central Bank may impose conditions on the registration of the insurer to ensure that any risks arising through the making of real estate investments are managed through:

(a) the implementation of risk management tools;

(b) special reporting requirements; and/or

(c) conditions related to the asset quality, capital, liquidity or actuarial valuation of policy liabilities of the insurer.

6. CRITERIA FOR THE APPROVAL OF REAL ESTATE INVESTMENTS

6.1. Prior to applying to the Central Bank for approval, the real estate investment must satisfy the following criteria:

(a) the requisite specialist knowledge in the management of the particular real estate investment resides either within the insurer or within the real estate entity, as appropriate, depending on the nature of the real estate investment.

(b) the provision of a (projected) direct[5] or indirect[6] income stream from the real estate investment, whether on a periodic basis or not, or capital appreciation over time. This is inclusive of the holding of real estate for future sale or development;

(c) in the case of a real estate entity, where the entity is acting as a lessor, the lease provides a regular, long-term[7] and contractually secured income and the lessee is of a good credit standing. For example, the leasing of apartments, houses and office buildings would only be considered as profitable where rental fees have not been more than three (3) months in arrears at least once in each of the last five (5) years;

(d) in the case of a real estate entity, the entity is engaged only in the business of holding, managing or otherwise dealing in real estate;

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[5] Direct income refers to, for example, rental, mortgage or property management income.

[6] Indirect income refers to, for example, a form of securitizing rental or mortgage income from the real estate or selling the raw materials from the real estate e.g. mining, farming etc.

[7] In accordance with IFRS 16: An agreement with a duration of over twelve months is considered long-term.

(e) the underlying asset of the real estate investment can be easily valued by an independent and qualified valuer;

(f) the real estate investment does not lead to the insurer breaching the credit exposure limits and capital adequacy requirements in the Act and/or the Insurance (Capital Adequacy) Regulations, 2020, respectively;

(g) the real estate investment is not in breach of any legislation in relation to any aspect of the real estate business, and the insurer is satisfied that any statutory permits/registrations applicable in the conduct of the real estate business has been acquired or confirmation has been received from the relevant authority that no such permit/registration is applicable;

(h) the real estate investment is not contrary to the interest of policyholders. This will be determined by assessing the level of risk exposures, including, but not limited to those detailed Section 5 of this Guideline;

(i) the board of directors of the real estate entity meet the fit and proper requirements of Schedule 5 of the Act;

(j) in the case of a real estate entity, the insurer has representation on the Board which, at a minimum, is commensurate with the insurer's stake holding in the entity;

(k) in the case of a real estate entity, the following requirements are met:

i. the insurer has direct or indirect ownership and control of more than fifty percent (50%) of the shares or ownership interest in the entity, or, in the specific case of a joint venture, there is a written agreement for the joint control of the entity and/or the ownership interest is held equally by parties to the joint venture;

ii. the shareholdings or other ownership interest in any entities held by the real estate entity constitute a controlling interest. Additionally, the entities which are held by the real estate entity are considered permissible if they are also conducting the business of managing, holding or otherwise dealing in real estate;

iii. there is no conflict of interest resulting from the insurance operations and the real estate entity including any conflict of interest with the directors and management of the insurer and the real estate entity;

(l) in the case where an insurer is engaged in the business of directly holding, managing or otherwise dealing in real estate, i.e., where the business is not conducted via a real estate entity and the real estate is an asset included in the insurer's Statement of Financial Position, the insurer maintains separate books, registers and records from its insurance business; and

(m) any other requirement as may be determined by the Central Bank depending on the nature of the investments and circumstances existing at the point in time.

7. APPLICATION TO ENGAGE IN REAL ESTATE

7.1. An application must be made for the Central Bank's approval pursuant to section 30(7) or section 87(4) of the Act, as applicable, and in accordance with Sections 3.4 and 3.5 of this Guideline. Where the criteria outlined in Section 6 of this Guideline are met, insurers shall submit the following information for the Central Bank's consideration for approval:

(a) a description of the nature of the business;

(b) in the case of a subsidiary, the certified copies of the declarations of beneficial ownership, certificate of incorporation/continuance, Annual Returns filed with the Companies Registry, shareholders' agreement, by-laws and other constituent documents;

(c) in the case of a firm/partnership or trust, a certified copy of its certificate of registration, statements of change of particulars (if any), partnership agreement and/or trust deed as applicable;

(d) in all cases of (b) and (c) above, a copy of the most recent audited financial statements of the company/entity certified by a director/partner/trustee;

(e) in the case where the real estate was used as collateral by the insurer, copies of documents indicative of contractual agreements and a letter of indebtedness;

(f) the strategic and operational business plan of the insurer and of the real estate entity, which must include the insurer's rationale for pursuing this additional type of investment, i.e., how it complements its insurance business and supports the interests of its policyholders, and the assessment, monitoring and mitigation of the risks which shall include, but is not limited to, the risks identified in Section 5 of this Guideline;

(g) the Appointed Actuary's report and opinion on the nature and the suitability of the real estate investment to support policyholders' liabilities having regard to ALM;

(h) a copy of the investment strategy of the insurer and the Real Estate Investment Policy aligned to the investment strategy;

(i) copies of the reports reviewed and relied on by the Board to determine that the real estate investment is aligned to this Guideline and to issue their approval of the investment, including copies of extracts of the Board Minutes in which the matter was discussed and a copy of the Board Resolution;

(j) real estate valuations of the properties performed by a qualified valuer;

(k) a detailed report on the assessment of how each and every criterion set out in Section 6 of this Guideline have been satisfied; and

(l) any other information requested by the Central Bank as may be necessary.

7.2. All insurers are required to comply with the continuous assessment criteria outlined in Appendix I. In the event where the Central Bank ascertains that there is undue risk to policyholders, the Bank is entitled to take all actions under the Act as are necessary to remedy such situation, including, but not limited to, requiring an insurer to discontinue the real estate business pursuant to section 30(8) of the Act.

8. EFFECTIVE DATE AND TRANSITION PERIOD

8.1. This Guideline will come into effect upon its issuance.

8.2. However, insurers that acquired real estate investments prior to the date of issuance of this Guideline, will be allowed a transition period of up to one (1) year to:

(a) implement and/or update all relevant policies and procedures or effect any required organisational changes as set out in this Guideline; and

(b) submit an application to the Central Bank for approval of such real estate investments in accordance with this Guideline.

8.3. Notwithstanding the transition period in Section 8.2 above, within six (6) months of the date of issuance of the Guideline, all insurers are required to:

(a) review their real estate investments, consider the areas of non-compliance with the Guideline and establish a Board approved action plan, to address identified deficiencies. The action plan must include clear specific steps and the relevant timelines.

(b) Submit a copy of the action plan to the Inspector of Financial Institutions;

8.4. Insurers with proposed new or additional real estate investment post issuance of this Guideline are required to comply with the requirements of this Guideline and make an application to the Central Bank accordingly.

APPENDIX I – CONTINUOUS ASSESSMENT CRITERIA

1. Insurers must submit the following to the Central Bank:
   (a) annual audited financial statements in respect of permissible real estate entities;
   (b) updated valuations of real estate properties that are directly owned by the insurer, performed by a qualified valuer at least every three (3) years or such shorter period as may be determined by the Central Bank; and
   (c) updated strategic and operational business plans every three-years of all permissible real estate entities.

2. All information in respect of any changes in:
   (a) the nature of the real estate investment;
   (b) the risk of such investment; and
   (c) the information contained in the most recent application or update provided to the Central Bank

   must be submitted to the Central Bank within ten (10) business days of the insurer becoming aware of the occurrence of such change.

APPENDIX II – RELEVANT REFERENCE MATERIAL

- Guideline for the Management of Market Risk – July 2022: https://www.central-bank.org.tt/sites/default/files/page-file-uploads/guideline-management-market-risk-20220705.pdf
- Corporate Governance Guideline – March 2021: https://www.central-bank.org.tt/sites/default/files/page-file-uploads/corporate-governance-guideline-march-2021_0.pdf
- Prudent Person Approach to Investment and Lending Guideline – May 2005: https://www.central-bank.org.tt/sites/default/files/page-file-uploads/Prudent%20Person%20Approach%20to%20Investment%20and%20Lending.pdf