

WHY CAYMAN IS BECOMING A HUB FOR FINANCIAL REINSURANCE

Having identified the FinRe opportunity some time ago, the innovative jurisdiction is now embracing change on the ground



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The Cayman Islands has experienced a great deal of growth in the financial reinsurance (FinRe) sector, with a number of carriers licensed and a significant number of start-ups in the pipeline. Having identified the opportunity in this sector some time ago, the jurisdiction is now embracing change on the ground.

FinRe transactions are underwritten with financial management rather than risk transfer as the primary driver. Traditionally, primary insurers have entered into such transactions to either improve solvency ratios, strengthen their rating or boost return on capital.

Recent global regulatory changes have caused a capital strain on many international pension, life and annuity insurance companies. FinRe is now a popular way to access capital relief for these strains and this has stimulated growth in the formation of FinRe companies both globally and locally in the Cayman Islands.

Solvency and capital frameworks

To achieve appropriate capital levels and sustain credibility it is critical that the reinsurer should reside in a jurisdiction where there is a quality, but sensible regulatory regime.

For example, the EU Solvency II framework requires higher risk weights for longer duration assets and therefore can be punitive, even if the reinsurance company has well-matched liability to asset durations. The National Association of Insurance Commissioners (NAIC) model is more favourable.

There is little appetite in Cayman to pursue Solvency II equivalency. The jurisdiction is predominantly US-facing in its financial services sector; indeed, 90 per cent of all risks covered by the Cayman international insurance industry are North America-based. Solvency II would simply not be a match. It is no surprise that the Cayman Islands Monetary Authority has shown a willingness to facilitate a more NAIC-focused model which, for potential start-ups with prospective US cedants, has been a significant factor in determining that Cayman is the most appropriate jurisdiction for their new platform.

Business environment

Cayman is one of the world's most efficient international financial centres and, given the breadth of its financial services sector and wide net of stakeholders, it is a familiar, trusted and respected domicile. Its infrastructure supports high-calibre international transactions, a commitment to stability, integrity and professionalism, and talented professionals.

For the executives of FinRe carriers a number of additional benefits are offered by the jurisdiction. These include: (i) the ability to secure a 25-year work permit which means immediate security of tenure in Cayman; (ii) the ability to acquire or build a home without restriction; (iii) the ability to own a number of vehicles; (iv) lower operating costs compared with competitor jurisdictions; and (v) no income or payroll taxes.

Regulation and the legal framework

Cayman operates a business-friendly, well-regulated financial system reinforced by the philosophy of integrity and transparency, and a belief that appropriate regulation and international co-operation drive commercial success. Further, it is a strong proponent of proportionate, risk-based regulation.

The jurisdiction has a sophisticated legal regime based on English Common Law, with the final court of appeal being the Privy Council in London. In addition, an efficient and respected court system upholds its framework of legislation. Cayman law maintains the right to privacy, but its confidentiality statute provides a gateway for tax transparency and there are no inhibitors to its many international co-operation agreements.

Cayman also has a client base of major international companies, financial institutions and governments due to the insurance managers, lawyers, auditors, actuaries and investment service providers who choose to work here because of the high-quality work and lifestyle on offer.

Continued growth

The aforementioned factors, plus the government's support for and commitment to expand the reinsurance sector, have established Cayman as an attractive domicile for FinRe carriers. Given the global drivers, this upward trajectory is anticipated to continue.



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