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Draft Rule and Statement of Guidance: Reinsurance Arrangements

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The Cayman Islands Monetary Authority (“the Authority”) recently published a Private Sector Consultation Paper with a draft Rule and Statement of Guidance on Reinsurance Arrangements (the “draft Rule & SOG”). The draft Rule & SOG are intended to replace the current Statement of Guidance on Reinsurance Arrangements – Class A Insurers and better align our regulatory framework with international standards, including Insurance Core Principle 13 issued by the International Association of Insurance Supervisors, of which the Authority is an active member. Notably, this includes updating the regulatory measures in part to a Rule (which is binding) in order to ensure enforceability where appropriate.

The draft Rule & SOG apply to all categories of Cayman Islands insurance licensees, but only if they utilise an outward reinsurance strategy.

The Rule & SOG set out the requirements and associated guidance on (outward) Reinsurance Arrangements, including::

- General requirements of the reinsurance program appropriate to the nature, size, and complexity of the business;
- The requirement for a documented reinsurance strategy which must be appropriate having regards to the nature, scale and complexity of the ceding insurer, and the nature of its risk exposures. This strategy must clearly identify the objectives that are being pursued by using reinsurance. Class A Insurers, Class B(iii) Insurers, and Class D Insurers must submit the reinsurance strategy to CIMA at a minimum on a biennial basis. In the interim, all material changes to the reinsurance strategy must be submitted to CIMA for prior approval. All other Insurers must be able to provide their reinsurance strategy to CIMA upon request.
- Assessments of impact of risk transfer.
- Assessments of counterparty and credit risk.
- Documentation of reinsurance arrangements.
- Internal controls.
- Application of enforcement procedures under CIMA’s Enforcement manual.

The deadline for submitting comments on the draft Rule and SOG has now passed with submissions having been made by the Insurance Managers Association of Cayman (“IMAC”) and the Cayman Islands Reinsurance Companies Association (“CIRCA”), amongst others industry bodies. It’s important to remember that this draft regulatory measure is only at consultation phase and changes may be made to the final version, with or without further consultation, when released by the Authority in due course. Further updates will follow when available.

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