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New Rule and SOG on Investment Activities for Insurers: Five Items to Consider Now

Author: Pip Gilkes, Associate

In February 2022, the Cayman Islands Monetary Authority introduced a new Rule and Statement of Guidance on Investment Activities for Insurers (“Rule” and “SOG”) to bring our regulatory framework relating to investments for insurers (which term includes reinsurers) up to date with Insurance Core Principle 15 developed by the International Association of Insurance Supervisors, of which the Authority is an active member. The Rule and SOG come into effect at the end of February 2023 and will apply to all insurers, with more onerous requirements for Class B(iii) and Class D insurers. We have distilled the requirements down to the five key elements insurers will need to action as soon as practicable to ensure compliance.

1. **Review and Update Policy** – The Authority requires all insurers to implement an investment policy commensurate with the nature, size and complexity of its insurance business activities. The Rule details the items the policy must address which are comprehensive and will therefore, in our view, require an overhaul of the investment policies of most insurers which will need to be highly customised to the business and investment activities of each insurer.
2. **Committee Establishment** – Class B(iii) and Class D insurers are required to establish an Investment Committee, with the minimum duties to include overseeing the investment activities of the insurer, maintaining the investment policy and assessing the suitability of such on an ongoing basis. The Committee must be comprised of at least one member of the Board with expertise in investment/financial matters in addition to other competent representatives appointed by the Board who may include related persons holding senior management roles, or equivalent third parties. Suitably experienced persons will need to be identified and appointed by the Board to hold office on the Committee.
3. **Conduct Internal Audit** – Save for Class B(i) and B(ii) insurers, the Rule requires insurers to conduct an internal audit of their investment activities which ensures timely identification of internal control weaknesses and deficiencies in the management information systems with a focus on remediating the same.
4. **Get Familiar** – Through the Rule and the SOG, the Authority has introduced greater guidance on the security, liquidity and diversity requirements for an insurer’s investment portfolio, as well as more prescriptive requirements for insurers proposing to extend credit to third or related parties, or invest in derivatives. Insurance Managers and Directors/Officers of insurers should ensure they are familiar with the content of the Rule and SOG and in particular ensure its principles are considered when applications for approval for certain investments are proposed to the Board and/or submitted to the Authority.
5. **Timing** – Don’t delay! Insurers are required to have implemented the above items to comply with the Rule and SOG by February 2023. Whilst six months appears to be ample time, we would strongly recommend that this item be addressed at the next Board Meeting of the insurer. We would also recommend this be included as a standing Agenda item for subsequent meetings.

Author:

Philippa Gilkes

Associate

philippa.gilkes@conyers.com

+ 1 345 814 7751

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For further information please contact: media@conyers.com