



SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT
Statement of Guidance – Insurers Investment Activities

No.	Section	Comments from the Private Sector	Authority's Response	Consequent Amendments to the Proposed Measure
GENERAL COMMENTS				
1.		<p>An insurers investment strategy may differ significantly based on the nature of the business being written amongst many other factors. To ensure the Authority has a degree of flexibility in interpreting and applying the Rule to a licensee's unique business model we propose the inclusion of a new section 6.1 as follows:</p> <p>General</p> <p><i>"6.1 The Rule and this Statement of Guidance should be interpreted and applied with due regard to the nature, size and complexity of each licensee and the investment policy which it employs to support the business conducted."</i></p> <p>Generally there is a concern that certain provisions of the Rule and SOG, such as those in relation to the approval of the reinsurance strategy by the Authority, go further than necessary to comply with the Insurance Core Principles and result in unnecessary regulatory oversight and involvement in a licensee's daily business activities. It is suggested that, wherever possible, compliance requirements and regulatory oversight be limited only to what is necessary to comply with applicable international standards so as to allow both the Authority and the licensee to focus their energy and resources only on necessary and important regulatory and compliance issues rather than adding unnecessary</p>	<p>The Authority agrees that an Insurer's investment strategy should be tailored to the uniqueness of the Insurer, however, it does not consider the content of the proposed section 6.1 necessary as the SOG provides sufficient flexibility.</p>	<p>No changes are required.</p>

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		<p>compliance costs and making it more difficult to do business in this jurisdiction.</p> <p>Aligning with international standards may not be sufficient justification for rule changes. For example, there are outdated international standards or international standards that are well intentioned but impractical in certain markets. International standards should be given due consideration, however it is the expertise of the regulator to set appropriate and fitting rules for the Cayman market. The Cayman Islands regulation is one based on knowledgeable regulators setting specific requirements based on the nature, purpose and approved business plan of regulated entities – not a one size fits all approach.</p>		
2.		<p>The following should be highlighted at the outset of the SOG:</p> <p><i>"This Statement of Guidance should be interpreted and applied with due regard to the nature, size and complexity of each licensee and the investment policy which it employs to support the business conducted."</i></p>	Please see comment directly above.	No changes are required.
SECTION-SPECIFIC COMMENTS				
3.	<p>[5.1.3]</p> <p>"Investment Committee" means a committee established by the Insurer for the purpose of maintaining the Insurer's Investment Policy and overseeing its investment activities consistent with the Rules and Statement of Guidance on Investments Activities of Insurers.</p>	<p>Industry commented:</p> <p>Please clarify whether the Investment Committee should be composed of directors, or management, or a combination of both.</p>	<p>Yes, the Investment Committee shall comprise of at least one member of the Board with expertise on 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.</p> <p>The above was inserted as section 8.1 in the SOG as additional guidance on the composition of the Investment Committee.</p>	<p>No changes are required to be made to section 5.1.3.</p> <p>The Authority inserted a new provision which is reflected as section 8.1 which serves as additional guidance on the composition of the Investment Committee.</p> <p>Section 8.1 states as follows:</p> <p>The Investment Committee shall be composed of at least one member of the Board with expertise on</p>

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				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.
4.	<p>[6.2]</p> <p>The security of an investment is related to the protection of its value and can be affected by credit and market risks. It may also be affected by safekeeping, custodianship, or trusteeship. Assets must be held in an appropriate location, so they are available to meet policyholder claims where policyholder payments are made. Assets held out of the islands must under the secure control through direct means or through the terms and conditions of trust deeds, treaties or other contractual agreements by agreements by an Insurer and/or its appointed insurance manager, where applicable.</p>	<p>Industry commented:</p> <p>Address typos in red</p> <p>"The security of an investment is related to the protection of its value and can be affected by credit and market risks. It may also be affected by safekeeping, custodianship, or trusteeship. Assets must be held in an appropriate location, so they are available to meet policyholder claims where policyholder payments are made. Assets held out of the Islands must be kept under the secure control through direct means or through the terms and conditions of trust deeds, treaties or other contractual agreements by an Insurer and/or its appointed insurance manager, where applicable."</p>	<p>The Authority agrees to the proposed amendment.</p>	<p>Section 6.2 will read:</p> <p>"The security of an investment is related to the protection of its value and can be affected by credit and market risks. It may also be affected by safekeeping, custodianship, or trusteeship. Assets must be held in an appropriate location, so they are available to meet policyholder claims where policyholder payments are made. Assets held out of the Cayman Islands must be under the secure control through direct means or through the terms and conditions of trust deeds, treaties or other contractual agreements by an Insurer and/or its appointed insurance manager, where applicable."</p>

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5.	<p>[6.3]</p> <p>Further, where assets are held by related parties on behalf of an Insurer, the Insurer should identify appropriate systems that have been implemented to avoid conflict of interest</p>	<p>Industry commented:</p> <p>With the trend toward asset manager owned insurers, conflicts can occur but are generally addressed by the investment committee or other corporate governance procedures established by the Board to address such issues. Accordingly, we suggest the following alternative wording:</p> <p>"Further, where assets are held by related parties on behalf of an Insurer or if conflicts of interest occur, the Insurer should identify appropriate systems that have been implemented or have suitable contractual agreements to address potential conflicts of interest."</p>	<p>For clarity the Authority has agreed to reword section 6.3 as follows:</p> <p>"Further, where assets are held <u>and/or managed</u> by related parties on behalf of an Insurer, the Insurer's should identify appropriate systems that have been implemented to avoid conflict of interest put in place the appropriate controls to manage all conflicts of interest."</p> <p>Additionally, the Insurers are encouraged to comply with the conflict-of-interest measures outlined in the Statement of Guidance on Outsourcing issued by the Authority.</p>	<p>Section 6.3 will read:</p> <p>"Further, where assets are held and/or managed by related parties on behalf of an Insurer, the Insurer's should put in place the appropriate controls to manage all conflicts of interest".</p>
6.	<p>[6.4]</p> <p>An Insurer should ensure that its assets generate sufficient cash flows to pay policyholder claims when due as well as all other obligations. The cash generated from investments includes</p>	<p>Industry commented:</p> <p>Cashflows may also be generated by principal drawdown features – consider inclusion of this also.</p>	<p>For clarification, the Authority has agreed to amend section 6.4 as follows:</p> <p>An Insurer should ensure that its assets generate sufficient cash flows to pay policyholder claims when due as well as all other obligations. The cash generated from investments includes</p>	<p>Section 6.4 will read:</p> <p>"An Insurer should ensure that its assets generate sufficient cash flows to pay policyholder claims when due as well as all other obligations."</p>

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	disposal, maturity and coupon or dividend payments.		disposal, maturity and coupon or dividend payments.	
7.	<p>[6.5.4] An Insurer's ability to maintain liquidity must include considerations such as:</p> <p>"Derivative obligations etc,"</p>	<p>Industry commented:</p> <p>"etc" – can this be made more specific?</p>	<p>For clarification, the Authority will amend section 6.5.4 as follows:</p> <p>An Insurer's ability to maintain liquidity must include considerations such as:</p> <p>"Derivative obligations etc, obligations relating to derivatives positions and what arrangements will be put in place to mitigate such occurrences"</p>	<p>Section 6.5.4 will read: An Insurer's ability to maintain liquidity must include considerations such as:</p> <p>"obligations relating to derivatives positions and what arrangements will be put in place to mitigate such occurrences."</p>
8.	<p>[6.9.3] An adequate mix of investment categories should contemplate:</p> <p>"The correlation of the asset classes, and"</p>	<p>Industry commented:</p> <p>Move the word "and" to the end of 6.9.4 instead.</p>	Typographical error duly noted.	<p>Section 6.9.3 will read: "The correlation of the asset classes"</p>
9.	<p>[6.6.] Investing in a wide range of assets enables the Insurer to mitigate the risk of adverse financial events.</p>	<p>Industry commented:</p> <p>As per prior comments, mandatory diversification may be more risky in certain situations. Section 6.6-6.10 should be reworked to cover the following:</p> <ul style="list-style-type: none"> • Measurement and monitoring of concentration of risks in such a way that avoids or limits undue concentration to an asset 	<p>The Insurance Core Principle 15 guidance provides that:</p> <p>"Diversification and pooling of risks are central to the functioning of insurance business. To mitigate the risk of adverse financial events, it is important that the insurer's overall investment portfolio is adequately diversified and that its asset and counterparty exposures are kept to prudent levels."</p>	No changes are required.

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		<p>class, or to independent counterparties.</p> <ul style="list-style-type: none"> • Concentration risk can be limited with appropriate capital guidelines. • Adequate investment mix should take into account all of the points in 6.9, as well as the nature of the liabilities that the assets are assigned towards. <p>Concentration risk should be folded into Risk Management.</p>	<p>The general requirement for diversification is therefore key. The Authority is not requiring the diversification of specific assets, just that there ought to be diversification. We must ensure our Rule/SOG is consistent with international standards, as far as possible.</p> <p>Section 6.7 has a caveat of "where applicable" and the expectation is that diversification fits the risk profile of the Insurer and its business activities. 6.8 also requires diversification to be in context of the nature of liabilities.</p>	
10.	<p>[6.7]</p> <p>It is important that the Insurer's overall investment portfolio is adequately diversified (where applicable) and that its assets and counterparty exposures are kept to prudent levels. The Authority expects that the diversification of assets in an Insurer's portfolio will fit the risk profile having regard to the type of business undertaken by the Insurer and the relevant Prescribed Capital Requirements in the Capital and Solvency Regulations.</p>	<p>Comment same as directly above.</p>	<p>Please see the response provided above for section 6.6 by the Authority.</p>	<p>No changes are required.</p>

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11.	[6.8] An Insurer's investment portfolio should be diversified within and between risk categories considering the nature of the liabilities.	Comment same as directly above.	Please see the response provided above for section 6.6 by the Authority.	No changes are required.
12.	[6.9] An adequate mix of investment categories should contemplate: 6.9.1. The risk profile /default risks/impairment of investments, 6.9.2. The investment horizon (i.e. duration of the investment), 6.9.3. The correlation of the asset classes, and 6.9.4. Liquidity of assets 6.9.5. The Authority's statutory solvency requirements.	Comment same as directly above.	Please see the response provided above for section 6.6 by the Authority.	No changes are required.
13.	[6.10] Unless otherwise required by the Regulatory Acts, to generally ensure that its investment portfolio is adequately diversified, an Insurer should avoid overreliance on any specific asset type, issuer, counterparty, group or market and any excessive concentration or accumulation of risk in the portfolio as a whole.	Comment same as directly above. "Regulatory Acts" needs to be defined	Please see the response provided above for section 6.6 by the Authority. "Regulatory Acts" refer to Regulatory Laws as defined under section 2 of the Monetary Authority Act (as amended). For clarification, the Authority has provided a definition of Regulatory Laws under section 5 of the SOG as follows: Regulatory Laws refer to Acts delineated in section 2 of the Monetary Act (as amended).	No changes are required. Section 6:10 was amended to read follows: "Unless otherwise required by the Regulatory Laws, to generally ensure that its investment portfolio is adequately diversified, an Insurer should avoid overreliance on any specific asset type, issuer, counterparty, group or market and any excessive concentration or accumulation of risk in the portfolio.

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14.	<p>[6.11] An Insurer should consider various internal and external factors that are likely to affect the investment risks it is exposed to, its risk tolerance levels, its objectives, the general economic climate, interest rates, legal and regulatory requirements.</p>	<p>Industry commented: Confusing. Suggest wording be clarified as follows: An Insurer should consider various internal and external factors that are likely to affect the investment risks it is exposed to, including, its risk tolerance levels, its objectives, the general economic climate, interest rates, legal and regulatory requirements.</p>	<p>The Authority Agrees with this amendment.</p>	<p>Section 6.11 will read: An Insurer should consider various internal and external factors that are likely to affect the investment risks it is exposed to, including, its risk tolerance levels, its objectives, the general economic climate, interest rates, legal and regulatory requirements.</p>
15.	<p>[8.1] The requirement for the establishment of an Investment Committee does not apply to Class B(i) insurers underwriting or assuming significant related business.</p>	<p>Industry commented: This should be consistent with the Rule and also note that it doesn't apply to Class B (ii). Notwithstanding same, investment 'measurement' parameters should be included in order for the appropriate intended B (iii)'s to fall within scope.</p>	<p>For consistency, The Authority agrees that section 8.1 should be amended as follows: The requirement for the establishment of an Investment Committee does not apply to Class B(i) and B(ii) Insurer.</p>	<p>Section 8.1 will read: The requirement for the establishment of an Investment Committee does not apply to Class B(i) and B(ii) Insurers.</p>
16.	<p>[8.2] The duties of the Investment Committee, as approved by the Board, are to include at a minimum the implementation and oversight of adequate risk management systems and</p>	<p>Industry commented: For all licence holders (except B(i)'s) that require the establishment of an investment committee, will CIMA accept the role of</p>	<p>Please see the response provided by the Authority for section 5.1.3 above where the composition of the Investment Committee has been expounded.</p>	<p>No changes are required.</p>

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	controls in respect of the investments of the Insurer including ensuring that:	<p>investment committee to be that of the board of directors? Smaller boards may suggest the investment review to be an agenda item at their periodic board of directors meeting?</p> <p>For all licence holders (except B(i)'s) that require the establishment of an investment committee, will CIMA accept the role of investment committee to be outsourced with periodic reporting to the board of directors?</p>	Outsourcing of certain investment management functions is permissible, however, it would not be acceptable for an Insurer's Investment Committee to be comprised exclusively of third parties.	
17.	<p>[8.2.4.] The duties of the Investment Committee, as approved by the Board, are to include at a minimum the implementation and oversight of adequate risk management systems and controls in respect of the investments of the Insurer including ensuring that:</p> <p>"there are continuous risk monitoring procedures"</p>	<p>Industry commented:</p> <p>The term 'Continuous' is too vague and will lead to uncertainty in its application. There is also the concern that we are setting the bar higher than current sophisticated investment committees of captive Parent's resulting in captives moving to other domiciles.</p>	<p>The Authority believes the frequency of monitoring should be taken in context of the size of the licensee, complexity of its investment activities, frequency of transactions.</p> <p>However, for clarity section 8.2.4 will be amended as follows</p> <p>... "there are continuous risk monitoring procedures commensurate with the nature, size, and complexity of the Insurer's investment activities".</p>	<p>Section 8.2.4 will read as follows: The duties of the Investment Committee, as approved by the Board, are to include at a minimum the implementation and oversight of adequate risk management systems and controls in respect of the investments of the Insurer including ensuring that:</p> <p>"there are continuous risk monitoring procedures commensurate with the nature, size, and complexity of the Insurer's investment activities".</p>

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18.	<p>[8.2.5.] The duties of the Investment Committee, as approved by the Board, are to include at a minimum the implementation and oversight of adequate risk management systems and controls in respect of the investments of the Insurer including ensuring that:</p> <p>"there is timely management reporting"</p>	<p>Industry commented:</p> <p>The term 'timely' is too vague and will lead to uncertainty in its application.</p> <p>There is also the concern that we are setting the bar higher than current sophisticated investment committees of captive Parent's resulting in captives moving to other domiciles.</p>	<p>The Authority has not prescribed the frequency of reporting and this should again be taken in context of the size of the licensee, complexity of its investment activities, frequency of transactions.</p>	<p>No changes are required.</p>
19.	<p>[8.2.7] The duties of the Investment Committee, as approved by the Board, are to include at a minimum the implementation and oversight of adequate risk management systems and controls in respect of the investments of the Insurer including ensuring that:</p> <p>"there are sound audit procedures to ensure compliance with the Insurer's policies and procedures and statutory requirements."</p>	<p>Industry commented:</p> <p>The term "audit procedures" - is this internal or external? See comment in Rule 6.9.2 above.</p>	<p>This section applies to internal audits.</p> <p>Section 8.2.7 will be reworded as follows:</p> <p>"there are sound internal audit procedures to ensure compliance with the Insurer's policies and procedures and statutory requirements, the internal audit procedures may be conducted through independent and competent internal arrangements such as internal audit and/or compliance functions, or through equivalent independent and competent third parties."</p>	<p>Section 8.2.7 will read as follows: "there are sound internal audit procedures to ensure compliance with the Insurer's policies and procedures and statutory requirements, the internal audit procedures may be conducted through independent and competent internal arrangements such as internal audit and/or compliance functions, or through equivalent independent and competent third parties."</p>

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		<p>"audit procedures" - is this internal or external audit. We cannot expect an Investment Committee to determine adequacy of external audit procedures related to compliance with policies and statutory requirements. This is the responsibility of those charged with governance.</p>	<p>Please refer to the above suggested changes.</p>	<p>No additional changes required. Please see response directly above.</p>
		<p>"audit procedures" - further clarity should be provided regarding same including entities that fall outside of the scope of same.</p>	<p>The Authority considers this to be a commonly used term and sees no justification for further clarification.</p>	<p>No changes are required.</p>
<p>20.</p>	<p>[8.3.] The Investment Committee must also assess the suitability of the investment policy on an annual basis (or at a frequency determined by the Authority) and prepare a report to the Board on the results of this assessment. This Report should be made available to the Authority upon request.</p>	<p>Industry commented: Prepare a report....." appears to be adding more layers of processes and procedures to an investment policy already approved by CIMA. Evidence by the Board, through meeting minutes, review of investment policy etc, should be sufficient evidence as to the suitability of the investment policy. Therefore, the request for the Report should be removed from the SOG and Rule.</p>	<p>This is part of a continuous assessment of suitability of the investment policy. If the assessment yields no changes to the policy, it's expected that the report will be short and straight forward. If the assessment calls for material changes to the investment policy, then the report should be well detailed and formally communicated to the Board. This is a common practice of good corporate governance surrounding investment activities of an Insurer.</p>	<p>No changes are required.</p>

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21.	<p>[9.1] An Insurer's investment policy should be commensurate with the nature, size and complexity of its insurance business activities. The policy should, where possible, identify the due diligence processes that will be utilised for each investment, identify the manner by which appropriate credit ratings for each investment (together with an independent credit analysis) will be conducted including details of the investment process from start to finish.</p>	<p>Industry commented: In situations where a temporary breach in the CIMA approved parameters occur as stated in the investment policy, proposed clarification on 1) the time period the insurers has to rectify the temporary breach and 2) what reporting, if any, to CIMA is required in this situation.</p>	<p>The Authority recommends that the Insurer notifies the Authority as soon as they are aware that a breach has occurred.</p> <p>Additionally, Rule 7.1 requires the Insurer to deal with the Authority in an open and co-operative way and must disclose to the Authority appropriately, anything relating to the investments by the Insurer of which the Authority would reasonably expect notice.</p>	<p>No changes are required.</p>

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22.	<p>[11.1] Where applicable, an Insurer's reliance on credit ratings should be accompanied by the conduct of a credit analysis independent of the external credit rating to ensure adequate assessment in respect of the security of the investment.</p>	<p>Industry commented: It is not clear what CIMA expects here. Credit agencies are a lot more sophisticated in conducting the credit analysis in order to issue a credit rating. Requiring an insurer to also conduct a credit analysis is extremely onerous and not likely to add any additional value.</p> <p>The credit risk has already been assessed and thus a credit rating is set according to a grouping by an external credit agency. If there is a sufficient number of assets that do not have outsized concentrations, then the default probability should follow a distribution for each rating class with limited parametric volatility. Thus, an independent analysis on each individual asset should not be required, as the distribution is measurable by the group of assets and not individually re-underwritten. However, Independent credit analysis should be performed</p>	<p>The Authority urges caution with respect to over reliance on credit ratings, however, it agrees that a requirement to conduct an independent credit analysis is not feasible in all cases. Therefore, the Authority will amend section 11.1 as follows:</p> <p>"In the absence of credit ratings from recognised rating agencies, an Insurer should conduct independent credit analysis to ensure adequate assessment in respect of the security of the investment". The insurer should establish documented criteria for assessing the appropriateness and reliability of the credit rating agencies it chooses to rely on.</p>	<p>Section 11.1 will read: In the absence of credit ratings from recognised rating agencies, an Insurer should conduct independent credit analysis to ensure adequate assessment in respect of the security of the investment".</p>

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		<p>if there's outsized concentrations of positions with certain assets. For sizeable insurers/reinsurers, investment grade securities in the portfolio may number many 1000s and it is not practical for an independent assessment of each security. Furthermore, most asset managers apply a "loss given default" charge against expected returns in assessment of overall yield. Also appropriate creditworthiness analysis and documentation should be performed when the assets are unrated by external agencies. It is recommended this clause be removed or amended to state that the risk management practices shall include independent analysis subject to size, concentration or other appropriate factors.</p>		

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		<p>This appears an extreme overreach and will not be well received, especially by Class B (i) insurers. Most entities are not going to have the means to conduct an independent credit analysis on rated investments.</p> <p>The statement "Where applicable" is too vague; it should be clarified under what circumstances the Authority would deem this applicable. This will add more cost to doing business in the Cayman Islands.</p>		
23.	<p>[12.1]</p> <p>In submitting a request to the Authority to grant a loan (other than the loans offered to policyholders as per the terms of the policy issued by an Insurer carrying on direct long-term business), results of the conduct of a credit review should be included. The review should include information as to the debtor's credit standing (creditworthiness and borrowing power) as well as on the relevant</p>	<p>Industry commented:</p> <p>There should be a dollar threshold for seeking loan approvals. Small loans to employees or other business partners that, in aggregate, have no material impact on an insurer, should be exempted from this requirement. Materiality could be set as a percentage of the insurer's surplus (e.g. 5% of surplus).</p>	<p>The Authority is of the view that, Loans, whether to related/unrelated parties, may impact solvency and liquidity of the licensees and therefore it is imperative for the Authority to understand the context in which the loans are provided and potential impact on the licensee.</p>	<p>No changes are required.</p>

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	collateral for the loan. The credit standing and feasibility of the loan are to be proven and documented	<p>The term "loans" should be defined as to whether it includes convertible debt, promissory notes, and other types of hybrid instruments.</p> <p>credit review at loan inception, but credit reviews should be carried out prospectively – suggest adding appropriate guidance.</p>	<p>The term "Loan" as used in the SOG refers to:</p> <p>"direct loans issued by the licensee as the lender to another entity/person as the borrower."</p>	<p>Section 12.1 has been amended to reflect a footnote to clarify that the term "Loan" as follows:</p> <p>"Loan as used in the SOG refers to direct loans issued by the licensee as the lender to another entity/person as the borrower."</p>
		<p>The requirement for collateralization should be eliminated for all related party loans. This would involve additional banking fees, legal fees whilst also eroding some of the advantages of doing business in the Cayman Islands (competitive cost and ease doing related party business).</p> <p>It doesn't make commercial sense to have a Class B (i) or B (ii) insurer to perform a credit review of the Parent or asking the Parent to do a credit review of itself. Requesting same to a third-party consultant will add more cost to the Class B (i) &</p>	<p>The Authority has agreed to amend section as follows:</p> <p>In submitting a request to the Authority to grant a loan (other than the loans offered to policyholders as per the terms of the policy issued by an Insurer carrying on direct long-term business), results of the conduct of a credit review should be included. The review should include information as to the debtor's credit standing (creditworthiness and borrowing power) as well as on the relevant collateral for the loan. The credit standing and feasibility of the loan are to be proven and documented <u>an Insurer must submit material details regarding the loan, including, the purpose, terms and conditions of the loan. Depending on the nature of the loan and the parties involved, the</u></p>	<p>Section 12.1 will read:</p> <p>In submitting a request to the Authority to grant a loan (other than the loans offered to policyholders as per the terms of the policy issued by an Insurer carrying on direct long-term business), an Insurer must submit material details regarding the loan, including, the purpose, terms and conditions of the loan. Depending on the nature of the loan and the parties involved, the Authority may require a draft loan agreement to be provided. The request should provide an explanation of the risk assessment conducted by the Insurer on the borrower and details as to whether collateral is required to support the loan".</p>

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		B (ii) Insured and ultimately complexity in doing business in the Cayman Islands	<u>Authority may require a draft loan agreement to be provided. The request should provide an explanation of the risk assessment conducted by the Insurer on the borrower and details as to whether collateral is required to support the loan".</u>	