



RULES AND STATEMENT OF GUIDANCE

Reinsurance Arrangements

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List of Acronyms

CIMA	Cayman Islands Monetary Authority
IA	Insurance Act
MAA	Monetary Authority Act
PIC	Portfolio Insurance Company
SOG	Statement of Guidance



Rules and Statement of Guidance on Reinsurance Arrangements

1. Introduction

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Rules and Statement of Guidance on Reinsurance Arrangements. These Rules and Statement of Guidance should be read in conjunction with all laws and regulatory measures addressing insurance business and any other relevant laws and regulatory instruments issued by the Authority from time to time.
- 1.2. In this document, references to any Act or Regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced from time to time.
- 1.3. To highlight the Authority's Rules within the compendium, a Rule is written in light blue and designated with the letter "R" in the right margin.

2. Statement of Objectives

- 2.1. Details of the insurer's reinsurance arrangements form part of the requirement for an application and ongoing capital and risk management of the insurer in accordance with section 8(2)(b) of the Insurance Act, 2010.
- 2.2. The Authority recognises that reinsurance arrangements will vary according to the manner in which the business of the insurer is structured, organised and managed; its business objectives; its size; and the nature, scale and complexity of its operations. The overriding principle, however, is that reinsurance arrangements must be adequate to satisfy the requirements of the Authority and relevant acts and regulations.

3. Statutory Authority

- 3.1. The measure is consistent with the Authority's statutory objectives as prescribed in the Monetary Authority Act, including Section 34 of the Monetary Authority Act which provides that the Authority may issue rules, statements of principles or guidance:

"(1) After private sector consultation and consultation with the Minister charged with responsibility for Financial Services, the Authority may—

- (a) issue or amend rules or statements of principle or guidance concerning the conduct of licensees and their officers and employees and any other persons to whom and to the extent that the regulatory [acts] may apply;"*

4. Scope of Application

- 4.1. These Rules and Statement of Guidance apply to all insurers and registered PICs supervised by the Authority in accordance with the Insurance Act, (as amended) that use outward reinsurance. These Rules and Statement of

Guidance do not apply to insurers and PICs that do not utilise any form of outward reinsurance.

- 4.2. The Authority will consider the contents of these Rules and Statement of Guidance in its supervisory processes including onsite inspection.

5. Definitions

- 5.1. The following definitions are provided for the purpose of these Rules and Statement of Guidance:

- a) **“Insurer”** refers to an entity licensed by the Authority as an insurer under the Insurance Act that utilises any form of outward reinsurance and includes PICs for the purpose of these Rules and Statement of Guidance.
- b) **“Reinsurance”** refers to insurance purchased by an insurer to provide protection against certain risks. Reinsurers assume these risks in exchange for a premium. For these Rules and Statement of Guidance, “reinsurance” includes retrocession arrangements.
- c) **“Reinsurance Contract”** is an agreement that transfers insurance risk.
- d) **“Reinsurer”** refers to an insurance company that assumes the risk of an insurer in exchange of a premium.
- e) **“Retrocession”** refers to reinsurance purchased by a reinsurer.
- f) **“Regulated”** means authorized and/or supervised by a financial services regulator recognized by the Authority.

6. General

- 6.1. Insurers must have a reinsurance programme that is appropriate to the size; nature, scale, and complexity of their business. The reinsurance programme must include the detailed implementation of the reinsurance strategy in terms of coverage, limits, retentions, layers, signed lines and markets used etc. It should reflect the insurer’s risk appetite, comparative costs of capital and liquidity positions determined in the reinsurance strategy. R
- 6.2. The reinsurance programme must be regularly reviewed by the insurer to ensure it meets its strategic objectives. R
- 6.3. Insurers must ensure that records related to reinsurance arrangements are available upon request by the Authority. R

7. Reinsurance Strategy and Programme

- 7.1. The Board of Directors of an insurer must approve the reinsurance strategy, which must be appropriate having regards to the nature, scale and complexity of the insurer, and its risk appetite. This strategy must clearly identify the business objectives that are being pursued by using reinsurance. R
- 7.2. The approved reinsurance strategy must represent a key element of the insurer's business and form part of its overall objectives, capital and risk management strategies. R
- 7.3. Insurers must be able to provide their board approved reinsurance strategy to the Authority upon request. The reinsurance strategy may form part of the business plan. R
- 7.4. The insurer must inform the Authority of any material changes to its reinsurance strategy. R
- 7.5. A material change can include but is not limited to the following:
- a) the decision to use reinsurance for a portfolio of risks that was not previously covered by reinsurance
 - b) the decision to no longer use reinsurance for a portfolio of risks of that was previously covered by reinsurance;
 - c) a notable change in the overall targeted structuring of the reinsurance programme (use of Proportional vs Non-Proportional reinsurance cover)
 - d) any change to the strategy that notably impacts the risk retained by the insurer which incorporates an increase or decrease in overall retention.
- 7.6. The insurer must advise the Authority of any material problems that could lead to failure of the reinsurance arrangements (such as those threatening material recoveries from the reinsurer) and likely adversely affect the insurer's ability to meet future obligations and to comply with the Act and solvency requirements. The insurer must advise the Authority of steps taken to address such issues. R
- 7.7. The insurer must document the minimum criteria to be used for the selection of reinsurers. Unless otherwise approved by the Authority, only Regulated Reinsurers are permitted to be used by the insurer. R
- 7.8. The insurer must document the minimum criteria to be used for the selection of the brokers to the extent brokers are used to arrange reinsurance. Unless otherwise approved by the Authority, only Regulated Brokers are permitted to be used by the insurer. R
- 7.9. Where there's higher aggregate exposure to any one reinsurer or to a group of related reinsurers, the reinsurance programme must have procedures for monitoring this aggregate exposure. R
- 7.10. The insurer must consider the impact of its reinsurance programme in its liquidity management and take appropriate measures to manage its liquidity R

risk arising from its reinsurance programme.

- 7.11. The reinsurance strategy must require that reinsurance contracts (with a duration greater than 12 months or with an automatic renewal) are reviewed both annually and when there have been changes to: R
- a) the insurer's circumstances, including a significant change in the overall exposures;
 - b) its underwriting strategy; or
 - c) the financial health of its reinsurers.
- 7.12. The reinsurance programme should contain details on but not be limited to:
- a) the structure of the programme including the use of proportional and non-proportional reinsurance cover;
 - b) what collateral, if any, is required from the reinsurer;
 - c) the net risk to be retained;
 - d) levels of exposure to a single reinsurer or different reinsurers of the same group;
 - e) expected resilience of the reinsurance programme in stressed claims situations, including stress related to the occurrence of multiple and/or catastrophic events;
 - f) loans, guarantees or other financial arrangements that are linked to or inure to the benefit of the reinsurance contracts of the insurer; and
 - g) how the reinsurance programme will be maintained i.e. the reporting and internal control systems, to include appropriate oversight of the reinsurance by the Board of Directors and/or senior officers of the insurer.
- 7.13. Insurers should seek to select reinsurers that have a proven track record of being willing and able to meet their obligations as they fall due or where utilizing a reinsurer that is recently established, to demonstrate adequate controls and protections are implemented to monitor the financial strength of the reinsurer.
- 7.14. The insurers' internal control systems should be established and maintained to report claims timeously to the appropriate reinsurer and to promptly collect reinsurance claims payments.

8. Risk Transfer

- 8.1. The insurer must have sufficient documentation about its reinsurance contracts to be able to demonstrate the economic impact of the risk transfer i.e. the degree of risk transfer in an economic sense. R
- 8.2. Where the insurer is not retaining any risk (is used as a pass-through), which is reinsured by a reinsurer, the insurer must have sufficient explanation in its business plan or any other record agreed with the Authority to demonstrate the business purpose of the reinsurance arrangement. R
- 8.3. Where a reinsurance contract and/or structure of reinsurance contracts used by the insurer, has the characteristic whereby the risk transfer contemplated by the reinsurance contract(s) is cancelled, deemed ineffective or mitigated by an alternative agreement then the Authority deems there to be insufficient risk

transfer to consider the contract as a reinsurance contract.

- 8.4. Where the insurer is knowingly participating in a programme or structure whereby the reinsurer is not retaining any risk ceded to it by the insurer (is used as a pass-through), the insurer must document the rationale and purpose for the use of such a programme or structure in its business plan or any other record agreed with the Authority, and the insurer must specify the responsibilities and controls that it will implement to ensure sufficient management of the risks in the absence of retention of such risks by the reinsurer. R

9. Counterparty/Credit Risk

- 9.1. When setting the minimum criteria to be met by eligible reinsurers to reinsure its risks, the insurer must consider the following amongst other things: R
- a) financial strength rating of the reinsurer;
 - b) jurisdiction of the reinsurer; and
 - c) expertise of the reinsurer.
- 9.2. Where the insurer utilises a broker to place the reinsurance, the insurer must perform due diligence assessment to ensure that the broker has expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance programme. The insurer must also consider the financial soundness of the broker obtaining the reinsurance coverage and any potential conflicts of interest between the broker and the reinsurer. R

10. Documentation of reinsurance contracts

- 10.1. The insurer must have in place processes and adequate controls to document the principal economic and coverage terms and conditions of reinsurance contracts clearly. R
- 10.2. The insurer must document how its reinsurance contracts will operate in the event of an insolvency of itself or its reinsurer if an insolvency clause is not included within the reinsurance contract. R
- 10.3. The insurer should ensure that the formal reinsurance contract is finalised without undue delay, ideally prior to the inception date of the reinsurance contract.

11. Group-wide reinsurance programmes

- 11.1. Where the insurer belongs to a wider financial services group and the risk of the insurer has been consolidated as part of a group-wide reinsurance programme, the insurer must be able to identify its exposures that are covered by the group reinsurance programme and be able to demonstrate the cover afforded to the insurer. R

12. Internal Controls

- 12.1. The insurer purchasing the reinsurance protection must be able to demonstrate that appropriate systems of risk management and internal controls have been put in place and are reviewed by the Board of Directors annually at minimum in order to implement the reinsurance strategy. R
- 12.2. The Board of Directors is responsible for approving the strategy and ensuring there is appropriate oversight of the reinsurance programme. R
- 12.3. Insurer must have controls in place to identify any material risks arising from a material mismatch, based upon a prudent understanding of the contracts, in the terms and conditions between reinsurance contracts and the underlying policy. R
- 12.4. Controls should be implemented and monitored to ensure that the provisions of the reinsurance contracts are upheld amongst the parties.
- 12.5. All material reporting due to and from reinsurers should be timely and complete, and settlements should be made as required by the reinsurance contract. Where it has been contractually agreed that balances (example, premium and claims) may be offset, controls should be implemented to ensure that such balances are accurately recorded in the books of the insurer.

13. Catastrophe Reinsurance

- 13.1. Where the insurer has assumed catastrophe exposed risks and is purchasing reinsurance protection to mitigate against potential losses arising from extreme catastrophe events, the insurer must ensure that it has documented the following: R
- a) policies and procedures for catastrophe exposure management, including identifying persons, departments, or organisations responsible for the ongoing monitoring of accumulations and measurement of exposures against the insurer's risk appetite,
 - b) the persons, departments, or organisations responsible for conducting catastrophe modelling; and
 - c) its risk appetite to provide clarity as to the risks that are retained by the insurer and those that are covered by reinsurance protections (including reference to any intra-group arrangements) and ensure such risk appetite is approved by the Board of Directors.

14. Enforcement

- 14.1. Whenever there has been a breach of these Rules and Statement of Guidance, the Authority's policies and procedures as contained in the Enforcement Manual will apply, in addition to any other powers provided in the regulatory acts and the Monetary Authority Act.



15. Effective Date

- 15.1. These Rules and Statement of Guidance will come into effect twelve (12) months following the date in which the measure is published in the Gazette.



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