

Cayman Islands Monetary Authority

SUMMARY OF PRIVATE SECTOR CONSULTATION AND FEEDBACK STATEMENT



**GENERAL COMMENTS
Internal Capital Models**

Section	Industry Comments	CIMA responses	Consequent amendments to the draft SOG
GENERAL COMMENTS			
	<p>Once these procedures are introduced, one or more pilots should work with a consultant other than the third party consultant engaged by CIMA to assist in developing this ICM framework. This is how other jurisdictions have rolled such frameworks out. As such, we suggest consideration and relevant inclusion as to initial functioning be disclosed in some form.</p>	<p>As per the guidance, the decision to undergo an ICM review is at the option of the licensee. The Authority therefore cannot take a decision on pilot reviews that are required by the Authority. When a licensee does opt to undergo an ICM review, the Authority will ensure transparent and frequent communication at all steps throughout the process.</p>	None
	<p>Should we expect a further consultation on moving our capital requirements under a standard formula to a more risk sensitive standard formula?</p>	<p>The Authority continually reviews and evaluates current legislation, regulation, rules and guidance. Capital requirements are therefore under review however there are no proposed amendments to the legislation and regulation for capital requirements in the short term.</p>	None

	<p>Can CIMA confirm that the Authority will still use its discretion to authorize variations of the Prescribed Capital Requirement for a Class D/B(iii)/B(iv) licensee as allowed under Section 9(1) of the Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations, 2012, and will not deem a request from a licensee for such a variation to be a request to use its own Internal Capital Model.</p>	<p>There is no proposed amendment to Section 9 (1) of the Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations, 2012. Furthermore, a request from a licensee that is made pursuant to Section 9(1) will not be deemed to be a request to use an ICM.</p>	<p>None</p>
	<p>We understand that some jurisdictions allow licensees to use ICM's for only certain portions of their risk portfolios. This does not appear to be contemplated in the RP.</p>	<p>The Authority does not envisage considering applications for the use of a partial ICM at this time.</p>	<p>The reference to partial ICM in Section 3.2 of the Regulatory Procedure has been removed.</p>
	<p>We note the comparisons in the Paper to Australia and Bermuda, both of which have Solvency II equivalence, and would ask whether CIMA looked at NAIC or other requirements as well as Solvency II requirements in determining the appropriate framework for Cayman. As the RP and SOG are reflective of Solvency II requirements, has CIMA considered whether this might be interpreted as Cayman leaning towards Solvency II in general? It would seem appropriate to take into consideration other jurisdictions such as Guernsey, Gibraltar, Luxembourg and Malta.</p>	<p>Comparisons in the Paper were made to Australia, Bermuda, Switzerland, and Singapore. Multiple other jurisdictions were reviewed but not specifically referenced in the paper including Guernsey, Canada, USA, and China. We disagree with the viewpoint that the RP and SOG are reflective of Solvency II requirements. The framework is reflective of minimum requirements from the IAIS Insurance Core Principles which have been appropriately tailored for Cayman.</p>	<p>None</p>

	<p>Is two years a fair approximation of the process? Has CIMA considered the possibility that this will be interpreted as a two year gestation period for setting up a reinsurer in Cayman (even though that would only be true for a reinsurer wanting to use an ICM from inception).</p>	<p>The Authority has not determined a fixed timeline as the review is highly dependent on the quality and availability of information presented by the licensee. Two years is a fair approximation of the process based on international experience and the Authority's insight to the practical requirements of the process. This does not preclude the review from taking less than 2 years or more than 2 years. Please also refer to Section 4.1 of the Regulatory Procedure. The timing will not have any impact on the licensing process as it is a completely separate process from the process whereby a licensee seeks approval to use an ICM to calculate the PCR.</p>	<p>None</p>
	<p>We anticipate there may be circumstances where a Cayman reinsurer that is part of a corporate group will want to adopt an ICM used elsewhere within their group that already meets the ICM requirements of jurisdictions recognized by CIMA. In such circumstances, an Initial Review Process may not be valuable. Will CIMA have the ability to waive this phase?</p>	<p>The Authority does not prescribe recognized jurisdictions for the purpose of ICM requirements however will always consider other regulatory approvals.</p> <p>Notwithstanding this, the Authority reserves the right to waive the Initial Review Process in exceptional circumstances. Please also refer to Section 3.9 of the Regulatory Procedure.</p>	<p>None</p>
	<p>Similarly, could the process be made more efficient by CIMA accepting some form of standard independent actuarial/audit opinion on an ICM rather than conducting its own review?</p>	<p>No. There are multiple areas to be assessed within an ICM review that cannot be adequately covered by an independent actuarial or audit opinion. Furthermore, it is the Authority's role to undertake the review to determine whether the Authority will permit the use of an ICM to determine the PCR.</p>	<p>None</p>

	<p>It is unclear from the cost comparison whether the Australian and Bermudan fee structures exclude fees payable to third party service providers to assist the Authority in reviewing the ICM. The Paper states that this is the case for the Cayman fee structure. This leaves the cost expectation somewhat open-ended. In addition, the disparity between the Initial Review fee and Formal Application fee, as compared to the other jurisdictions, is not explained, and it is not clear what constitutes a change that would warrant a Change Fee.</p>	<p>The Australian fee is all-inclusive as the Australian Prudential Regulatory Authority does not engage third party service providers. The fees listed for Bermuda exclude the third party service fees. The Authority's fee structure differs to the others, where a smaller fee is charged in the first phase and a larger fee in the second phase. This is because reporting and regulatory requirements in those jurisdictions including but not limited to internal controls and risk management, are more prescriptive than the current requirements in the Cayman Islands. As a result, much of the work for the Authority in the Initial Application stage will relate to detailed reviews of certain aspects of a Licensee's business that are already routinely undertaken in other jurisdictions. A major change as agreed in line with Section 6.3 of the Regulatory Procedure would warrant a Change Fee.</p>	None
TABLE 1			
	<p>The TVaR calibration metric is typically more appropriate for catastrophe and long tail risk, hence its use by the Swiss and Bermudan jurisdictions. In the rest of Europe, for example, risk profiles are somewhat different, and VaR is more reasonable. This would seem to suggest that Cayman's intended reinsurance market risk profile is somewhat different to that of catastrophe and long tail. If that intent is not the case, we would</p>	<p>VaR was chosen based on a large number of factors and consideration was given to a range of calibration metrics. The reasons VaR was chosen is as follows:</p> <ul style="list-style-type: none"> a. It is easier to calculate in comparison to alternative measures such as the TVaR. b. It is widely accepted 	None

	<p>question use of VaR in the Cayman calibration analysis.</p>	<p>internationally. For example, a recent survey conducted on the US market revealed that the majority of insurers using ICM's in the US use VaR.</p> <ul style="list-style-type: none"> c. It provides a single measure that is easily understood by senior management. d. It has broad applicability as it can be used for a range of assets and liabilities. e. It relies on risk probability curves thus capturing volatility. f. The one year time horizon is consistent with the period required for annual returns. 	
TABLE 2			
	<p>The fees appear relatively in line with other jurisdictions. We question the larger fees charged for initial review, fearing they may make ICM selection even more prohibitive – it is a large initial review expense to meet if there is any doubt that the ICM and its sponsor might fail the initial review. It might also be appropriate to provide background on the fuller process, namely that a prospective ICM</p>	<p>The rationale for a larger fee charged for the initial review is to prevent submissions from failing to meet the standards and yet still being subject to the expense. Only licensees that have sophisticated ICM's which are embedded and in use throughout the licensed entity, should be applying for a review.</p>	<p>None</p>

	<p>modeler typically engages two professional service advisors, one to develop the model, and the second to provide independent model validation. Following regulatory approval, the regulators typically engage their own consultants (a limited list of approved providers are supplied to the applicant to choose from), and these fees are passed on to the applicant. As such, there can be three sets of fees additional to CIMA fees. The CIMA paper does caution that costs to the licensee are significant, but we wonder if further background to the critical stages, and each stage's expense, is provided within the Guidance.</p>		
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