



RULE AND STATEMENT OF GUIDANCE

Reinsurance Arrangements

APPENDIX 1

XX 202X



Table of Contents

List of Acronyms	4
1. Introduction	5
2. Statement of Objectives	5
3. Statutory Authority	6
4. Scope of Application	6
5. Definitions	6
6. General	7
7. Reinsurance Strategy	7
8. Risk Transfer	9
9. Counterparty/Credit Risk	10
10. Documentation of reinsurance contracts	11
11. Group-wide reinsurance programmes	11
12. Internal Controls	11
13. Catastrophe Reinsurance	12
14. Enforcement	12
15. Effective Date	12



List of Acronyms

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

For Consultation



Rule and Statement of Guidance on Reinsurance Arrangements

1. Introduction

- 1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Rule and Statement of Guidance on Reinsurance Arrangements ("Rule and Guidance"). The Rule and Statement of Guidance should be read in conjunction with the following:
 - a) Monetary Authority Act;
 - b) The Insurance Act;
 - c) The Insurance (Capital and Solvency) (Class A Insurers) Regulations;
 - d) The Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations;
 - e) The Insurance (Applications and Fees) Regulations;
 - f) The Insurance (Portfolio Insurance Companies) Regulations;
 - g) The Insurance (Reporting) Regulations;
 - h) The Rule of Risk Management for Insurers; and
 - i) any other relevant laws and regulatory instruments issued by the Authority from time to time.
- 1.2. Where applicable, Acts of Parliament referred to in this document include related regulations as may be amended 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. The Rule and Statement of Guidance set out the Authority's minimum requirements and minimum expectations (respectively) for insurers and the strategy they employ to mitigate and diversify risks by the purpose of reinsurance cover. The rules herein establish the minimum requirements whereas the Guidance, not intended to be prescriptive or exhaustive, sets out the Authority's minimum expectations.
- 2.2. Details of the insurer's reinsurance arrangements form part of the requirement for a licence application and ongoing capital and risk management of the insurer in accordance with section 8(2)(b) of the Insurance Act, 2010.
- 2.3. 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 size; and the nature, scale and complexity of its transactions and commitments. 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. The Authority will apply this Rule and Statement of Guidance and the requirements of the Insurance Act in assessing the adequacy of reinsurance arrangements of all insurers who are mitigating and/or diversifying risks by the purchase of reinsurance cover.
- 4.2. The Rule and Statement of Guidance apply to all insurers defined in the Insurance Act, 2010. Insurers and reinsurers that do not utilise any form of outward reinsurance and instead retain all risk, are not required to have a documented reinsurance strategy.
- 4.3. The Rule and Statement of Guidance do not codify or amend any existing act. Where the Rule and Guidance are incompatible with an existing act, the act takes precedence and prevails.
- 4.4. The Authority will consider the contents of this Rule and Statement of Guidance in its supervisory processes including onsite inspection.

5. Definitions

5.1. The following definitions are provided for the purpose of the Rule 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 (for the purpose of the Rule and Statement of Guidance, insurer also refers to the “ceding insurer”).
- b) **“Reinsurance”** refers to insurance purchased by a ceding insurer to provide protection against certain risks. Reinsurers assume these risks in exchange for a premium. For the Rule and Statement of Guidance, “reinsurance” includes retrocession arrangements.
- c) **“Reinsurance Contract”** is an agreement that transfers insurance risk.

- d) **“Reinsurer”** refers to a regulated insurance company that assumes the risk of a ceding insurer in exchange of a premium.

6. General

- 6.1. Ceding insurers must have a reinsurance programme that is appropriate to the nature, size, and complexity of their business. The reinsurance programme must comprise the detailed implementation of the reinsurance related elements of the capital and risk management strategies in terms of coverage, limits, deductibles, layers, signed lines and markets used. It should reflect the ceding insurer’s risk appetite, comparative costs of capital and liquidity positions determined in the reinsurance strategy. R
- 6.2. The reinsurance programme should be regularly reviewed by the ceding insurer to ensure it meets its strategic objectives.
- 6.3. Ceding insurers must ensure that records related to reinsurance arrangements are available without delay upon request by the Authority. R

7. Reinsurance Strategy

- 7.1. The Board of Directors of a ceding insurer must approve 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. R
- 7.2. Class A Insurers, Class B(iii) Insurers, and Class D Insurers must submit the reinsurance strategy to the Authority at a minimum on a biennial basis. In the interim, all material changes to the reinsurance strategy must be submitted to the Authority for prior approval. A material change can include but is not limited to the following: R
- a) a change in reinsurance broker or reinsurer (unless the counterparty represents a minor segment of a wider panel/split in use of reinsurance brokers);
 - b) the decision to use reinsurance for a portfolio of risks that was not previously covered by reinsurance;
 - c) the decision to no longer use reinsurance for a portfolio of risks that was previously covered by reinsurance;
 - d) a notable change in the overall targeted structuring of the reinsurance program (use of Proportional vs Non-Proportional reinsurance cover)
 - e) any change to the strategy that notably impacts the risk retained by the Insurer which incorporates an increase or decrease in overall retention.

All other Insurers must be able to provide their reinsurance strategy to the Authority upon request.

- 7.3. The Insurer must advise the Authority of any material reinsurance arrangements problems, identified or existing, that will adversely affect the capacity to meet future obligations. The insurer must advise the Authority of plans to redress such issues. R
- 7.4. The approved reinsurance strategy must represent a key element of the ceding insurer's capital and risk management framework incorporating controls sufficient to address the overall management of their exposures. R
- 7.5. The reinsurance strategy must incorporate considerations for managing concentration risk and be appropriately diversified and with due consideration to the underlying risk assumed by the ceding insurer. R
- 7.6. The reinsurance strategy must consider whether risk transfer to the capital markets forms part of the strategy and if so, pursuant to what criteria and under which method of risk transfer.¹ R
- 7.7. The ceding insurer must establish and document minimum criteria to be used for the selection of reinsurance brokers. The Authority requires that only regulated brokers are permitted to be used by the ceding insurer. R
- 7.8. The ceding insurer must establish and document the minimum criteria to be used for the selection of the reinsurers. The Authority requires that only regulated reinsurers are permitted to be used by the ceding insurer. R
- 7.9. The ceding insurer must be able to demonstrate the impact of reinsurance on the ceding insurer's liquidity management. R
- 7.10. The reinsurance strategy must incorporate that reinsurance contracts (with a duration greater than 12 months or with an automatic renewal) would be reviewed both annually and when there have been changes to: R
- a) the ceding insurer's circumstances, including a significant growth in the overall exposures;
 - b) its underwriting strategy; or
 - c) the financial health of its reinsurers.
- 7.11. The reinsurance strategy must contain and provide details on: R
- a) how reinsurers will be selected, including how to assess the security;
 - b) what collateral, if any, is required at any given time;
 - c) the net risk to be retained;
 - d) the maximum feasible amount of reinsurance protection to be obtained from the reinsurers, which should be determined according to event limits within the treaties and the probable maximum loss limits adopted by the insurer;
 - e) how the reinsurance programme will be maintained i.e. the reporting and internal control systems, to include appropriate oversight of the

¹ For the avoidance of doubt, "net written premium" as defined in the Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012 and the Insurance (Capital and Solvency) (Classes B, C and D Insurers) Regulations (2018 Revision) only considers gross premium written by the ceding insurer, less reinsurance premium ceded to a reinsurer.

- reinsurance by the Board of Directors and/or senior officers of the ceding insure, and
- f) a full list of the reinsurers, their rating and the extent of their commitment.
- 7.12. The policies and procedures for the implementation of the reinsurance strategy must include: R
- a) underwriting guidelines that specify the types of insurance to be underwritten, the reinsurance policy terms and conditions, and aggregate exposure by type of business;
 - b) risk and cession limits on the amount and type of insurance that will be automatically covered by treaty reinsurance;
 - c) the criteria for acquiring facultative reinsurance cover and monitoring such cover on a frequent basis; and
 - d) the strategy for the use of purchase of reinstatements.
- 7.13. Limits on the net risk to be retained must be set per line of business and/or for the whole account. Limits may be set per risk or per event or a combination thereof. Limits must be based on an evaluation of the risk profile and the cost of the reinsurance. The ceding insurer must have adequate capital to support the risk retained. R
- 7.14. Ceding 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.
- 7.15. The ceding insurers' internal control systems should be established and maintained to report claims timeously to the appropriate reinsurer and to promptly collect reinsurance claims payments. The strategy should include reference to any use of collateral, loans, guarantees or other financial arrangements that are linked to or inure to the benefit of the reinsurance contracts of the ceding insurer.

8. Risk Transfer

- 8.1. The ceding 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 ceding insurer is not retaining any risk (merely acts as a pass-through), which is reinsured to a reinsurer, the ceding insurer must have sufficient documentation to demonstrate the business purpose of the reinsurance arrangement. R
- 8.3. Where a reinsurance contract has the characteristic that the ceding insurer has the unconditional obligation to indemnify the reinsurer for any negative balances that may arise out of the contractual relationship, the Authority deems

there to be insufficient risk transfer to consider the contract as a reinsurance contract.

- 8.4. Where a reinsurance contract and/or structure of reinsurance contracts used by the ceding 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.
- 8.5. Where a reinsurer of the ceding insurer is not retaining any risk (is used as a pass-through), the ceding insurer must document the rationale and purpose for the use of such a structure. The documents must specify the responsibilities and controls that will be implemented by the ceding insurer to ensure sufficient management of the risks in the absence of retaining any of the risk by its reinsurer. The documentation must clearly articulate details about the reinsurer that assumes and fully/partially retains the risk including but not limited to a credit risk assessment. R

9. Counterparty/Credit Risk

- 9.1. The ceding insurer must establish and document the minimum criteria to be met for eligible reinsurers to reinsure their risks. This must include the following considerations amongst other things: R
- a) the reputation of the reinsurer;
 - b) minimum levels of capital;
 - c) financial strength rating of the reinsurer;
 - d) jurisdiction of the reinsurer;
 - e) expertise of the reinsurer;
 - f) levels of retrocession (by the reinsurer);
 - g) reinsurance brokers' security criteria; and
 - h) duration and quality of the relationship.
- 9.2. Where the ceding insurer utilises a broker to place the reinsurance, the ceding insurer must ensure that the broker is a regulated entity, as acceptable to the Authority, and has sufficient expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance program. The ceding insurer must also consider and assess the financial soundness of the broker obtaining the reinsurance coverage. R
- 9.3. The ceding insurer should conduct an initial and regular assessment of the reinsurer accepting the risk to consider, amongst other things, the financial soundness of the counterparty both from a solvency and liquidity perspective.
- 9.4. The ceding insurer should identify and document as part of its reinsurance strategy, its risk appetite for the maximum aggregate exposure to any one reinsurer or group of related reinsurers.

10. Documentation of reinsurance contracts

- 10.1. The ceding insurer and the reinsurer 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 ceding insurer must document how its reinsurance contracts will operate in the event of an insolvency of itself or its reinsurer. R
- 10.3. The ceding 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 ceding insurer belongs to a wider financial services group and the risk of the ceding insurer has been consolidated as part of a group-wide reinsurance programme, the ceding 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 ceding insurer. R

12. Internal Controls

- 12.1. The ceding reinsurer 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. The ceding insurer must have controls in place to assess and identify any risks arising from a mismatch in the terms and conditions between reinsurance contracts and the underlying policies. 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 may be offset, controls should be implemented to ensure that such balances are accurately recorded in the books of the ceding insurer.

13. Catastrophe Reinsurance

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

14. Enforcement

- 14.1. Whenever there has been a breach of the Rule 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. The Rule and Statement of Guidance will come into effect twelve (12) months following the date in which the measure is published in the Gazette.



SIX, Cricket Square
PO Box 10052
Grand Cayman KY1 - 1001
CAYMAN ISLANDS

General Office: 345-949-7089

www.cima.ky