PRIVATE SECTOR CONSULTATION

Rule and Statement of Guidance – Actuarial Valuations

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A. <u>Introduction</u>

1. The Cayman Islands Monetary Authority ("CIMA" or "the Authority") seeks consultation and comment from private sector associations concerning the Rule and Statement of Guidance – Actuarial Valuations (attached as **Appendix 1**).

2. Requirements specific to the private sector consultation are outlined in section 4(1) of the Monetary Authority Acts (2020 Revision) ("MAA") which states:

> *"(b) before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations, and shall give a written response, which shall be copied to all the private sector associations."*

3. Section 34(1)(a) of the MAA states that:

> *"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 laws may apply;"*

B. <u>Background</u>

4. In December 2019, the Authority issued the Rules and Statement of Guidance on Actuarial Valuations ("2019 RSOG"), establishing minimum standards for the preparation and submission of actuarial valuation reports by certain licensed insurers. The 2019 RSOG aimed to promote transparency, consistency, and financial soundness in the valuation of insurer's policyholder liabilities.

5. The 2019 RSOG also marked the Authority's initial step toward strengthening actuarial oversight and improving the quality of valuation practices across the insurance sector.

6. Since its issuance, the Authority has monitored developments in international supervisory practices and evolving market expectations. In response, the Authority has undertaken a review of the 2019 RSOG to identify areas for improvement in alignment with international standards and best practice.

7. The revised RSOG on Actuarial Valuations ("proposed measure") introduces targeted enhancements to improve regulatory clarity, consistency, and effectiveness. These updates are proportionate to the range of insurance structures operating in the jurisdiction and support Cayman's established insurance sector.

C. <u>International Standards and Professional Alignment</u>

8. The proposed measure reflects the Authority's ongoing efforts to align its regulatory framework with international standards for actuarial valuation practices, including the principles set out in Insurance Core Principle 14 ("ICP 14") issued by the

International Association of Insurance Supervisors ("IAIS"). These standards emphasize transparency, consistency, and risk sensitivity in the valuation of policyholder liabilities and are widely recognized as foundational to effective solvency oversight.

9. In addition to regulatory expectations, practicing actuaries are subject to professional standards issued by actuarial associations in their respective jurisdictions. These standards govern qualification, conduct, and technical practice, and play a critical role in ensuring the integrity and comparability of actuarial work worldwide.

10. The proposed measure is broadly aligned with international standards and best practices for actuarial valuation, including those reflected in professional actuarial guidance. By embedding widely accepted valuation principles into the regulatory framework, the Authority aims to enhance the quality and comparability of actuarial reporting.

D. Purpose of Proposed Measure and Consistency with the Authority's Functions

11. The proposed measure aims to strengthen the regulatory framework for actuarial valuations by introducing clearer, more consistent, and internationally aligned expectations for the preparation and submission of actuarial valuation reports. These enhancements are intended to support effective solvency oversight, promote sound risk management, and improve the quality and comparability of actuarial reporting across the insurance sector.

12. The proposed measure is consistent with the Authority's statutory objectives under the Monetary Authority Act ("MAA"), including:

    (i) Section 6(2) (a) and (b), which provides that, among others:

    "In performing its functions and managing its affairs, the Authority shall—

    (a) act in the best economic interests of the Islands; and
    (b) promote and maintain a sound financial system in the Islands".

    (ii) Furthermore, Section 6(3) of the MAA provides that in performing its regulatory functions and its co-operative functions, the Authority shall, *inter alia*:
    (a) "endeavour to promote and enhance market confidence, consumer protection and the reputation of the Islands as a financial centre;
    (b) endeavour to reduce the possibility of financial services business or relevant financial business being used for the purpose of money laundering or other crime;"

E. Jurisdictional Comparison

13. Regulatory expectations for actuarial valuations continue to evolve globally, with jurisdictions adopting more structured and risk-sensitive approaches to solvency oversight. These frameworks aim to improve the valuation's decision usefulness and comparability, enhance policyholder protection, and support financial system stability. To inform the development of the proposed measure, the Authority conducted a comparative assessment of actuarial valuation standards across five jurisdictions: Bermuda, the United States, Canada, Ireland, and the United Kingdom. These jurisdictions were selected based on their relevance to Cayman's insurance market and their alignment with international regulatory benchmarks. Notably, Bermuda, Ireland, and the United Kingdom currently hold NAIC Qualified Jurisdiction status.

Bermuda

14. Bermuda applies a Solvency II-style regime through its Economic Balance Sheet (EBS) framework, overseen by the Bermuda Monetary Authority (BMA). The framework mandates market-consistent valuation for long term business and applies a total balance sheet approach to solvency assessment. It includes explicit uncertainty margins, stress testing, and governance expectations. While general business is subject to less prescriptive valuation methods, the EBS framework incorporates features broadly consistent with international regulatory approaches.

United States

15. The United States (U.S.) applies a risk-based capital (RBC) framework developed by the National Association of Insurance Commissioners (NAIC). Actuarial valuation requirements are embedded in the NAIC's Valuation Manual and related model laws. While the framework is widely adopted, consistency may vary by state and line of business. Long term business benefits from more developed standards, including implicit margins and behaviour modelling, whereas general business relies on statutory methods with limited discounting and less explicit guidance on uncertainty margins or contract boundaries. Given Cayman's substantial exposure to insurance risks originating from the U.S., the U.S. supervisory framework remains an important point of reference for the jurisdiction's supervisory approach.

Canada

16. Canada enforces strong actuarial valuation standards through the Office of the Superintendent of Financial Institutions (OSFI). The Life Insurance Capital Adequacy Test (LICAT) applies to long term business and incorporates market-consistent valuation, conditional tail expectation (CTE) risk margins, and comprehensive stress testing. General business is governed by the Minimum Capital Test (MCT), which is less prescriptive. Governance, peer review, and behaviour modelling are embedded in the framework. Canada's approach is principle-based and reflects practices that are generally consistent with international expectations, particularly for long term business.

Ireland

17. Ireland applies the Solvency II framework in full, under the supervision of the Central Bank of Ireland (CBI). The regime mandates market-consistent valuation, risk margins, contract boundaries, and robust governance controls across all lines of business. Stress testing and policyholder behaviour are required, and insurers must prepare a separate regulatory balance sheet for solvency purposes. The Solvency II framework is generally consistent with ICP 14 and was considered appropriate for the Authority's comparative assessment.

United Kingdom

18. The United Kingdom (UK) continues to apply a Solvency II-equivalent regime post-Brexit, administered by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA). The framework is similar to Ireland's in its comprehensiveness, requiring consistent valuation standards, risk margins, stress testing, and governance across all insurance types. It also mandates a separate regulatory balance sheet and emphasizes supervisory oversight. The UK regime retains many features consistent with international standards and was considered appropriate for the Authority's comparative assessment.

Conclusion

19. Proportionality is a core principle of the IAIS that guides insurance supervisors in applying regulatory requirements in a manner appropriate to the nature, scale, and complexity of a jurisdiction's licensed insurers and their risks. This principle enables supervisors to tailor their oversight—ensuring effective supervision without imposing unnecessary burden—while still achieving the fundamental objectives of policyholder protection and financial stability. Proportionality remains central to the Authority's approach in the proposed measure.

20. By adopting a balanced approach—preserving elements such as flexibility and reliance on actuarial professional judgment, while introducing key ICP 14 standards such as uncertainty margins, contract boundaries, stress testing, and governance controls—the proposed measure will enhance the decision usefulness of actuarial valuations and solvency assessments. These enhancements will ensure Cayman remains closely aligned with global best practices, bolstering trust in the jurisdiction's regulatory framework.

F. Cost and Benefit Analysis

21. The proposed measure introduces enhancements to the actuarial valuation framework that will have administrative and operational implications for the Authority, the jurisdiction, and licensees. **Table 1** below provides a summary of the estimated costs and benefits associated with the implementation of the proposed measure.

Table 1 – Estimated Costs and Benefits of the Proposed Measure

Stakeholder	Costs	Benefits
CIMA	1. Research and development costs to update the measure, including one-time administrative expenses related to drafting, internal review, public consultation, and Gazettement. 2. Costs related to updating internal supervisory procedures and documentation to reflect revised standards. 3. Staff training for reviewing actuarial valuation report submissions under the updated framework.	1. Improved insight into insurer risks and financial positions through more detailed and standardised actuarial submissions. 2. Enhanced ability to assess solvency and intervene early when needed. 3. More consistent and comparable actuarial reports, supporting better analysis across insurers and over time.
Cayman Islands	1. Potential for some entities to exit the jurisdiction rather than comply with enhanced requirements, though this is expected to be minimal.	1. Strengthened financial stability through improved solvency assessments and risk management. 2. Reinforced international reputation through alignment with global regulatory and actuarial standards. 3. Greater attractiveness to high-quality market participants seeking a well-regulated jurisdiction with a strong global reputation.
Insurers	1. Potential costs associated with improving actuarial review processes, including data quality, model refinement, and valuation methodology updates. 2. Costs related to internal policy and procedure amendments to internal policies and procedures to reflect revised expectations. 3. Additional time and cost for actuarial services, particularly during the initial transition period.	1. More reliable information on assets, liabilities, and solvency positions, supporting better decision-making and risk management. 2. Potential for earlier detection of financial gaps or emerging risks, enabling timely corrective action. 3. Improved clarity and consistency in valuation reporting, reducing ambiguity and streamlining internal processes over time.

22. Based on the above analysis, the Authority concludes that the benefits of updating the 2019 RSOG clearly outweigh the associated costs. The proposed measure is expected to enhance supervisory effectiveness, strengthen the jurisdiction's international credibility, and support insurers in improving financial resilience and risk management. While transitional costs may arise, particularly during the initial implementation period, these are anticipated to be manageable and proportionate, especially given the proposed measure's alignment with international best practices.

G. Consultation Feedback and Comments

23. Before proceeding with the proposed measure, the Authority shall have regard to any representations made by the private sector associations only. Feedback submitted by individuals, entities, or other bodies, unless acting on behalf of private sector associations, will not be accepted by the Authority. Representations from private sector associations must be submitted as a consolidated document, and a listing of the entities which provided feedback should be included. Private sector associations should ensure that conflicting positions are resolved before submission to the Authority. Where positions conflict within or across associations, the Authority will consider all available information in making a decision, which will be at its sole discretion.

24. To ensure that all responses are given due consideration, it is important that private sector associations clearly reference the sections of the measure being commented on and that responses are unambiguous, clearly articulated, and based on fact. The consultation process is not designed to address complaints or grievances. Feedback of this nature should be submitted through the established complaints process.

25. In cases where the feedback proposes to change the Authority's policy position or substantially amend any requirement of the draft measure, information to support the association's position must be provided. The table below provides an example of the Authority's expectation regarding feedback for the proposed measure.

Reference	Example of a Helpful Comment	Examples of Comments needing more Support
Rule 4.2[1]	In Rule 4.2 the current text omits the fair value measurement of liabilities. Also, as defined it is not asymmetrical with the Market Price definition and thus scenarios exist that fall into neither category. **<u>Suggested wording:</u>** *Hard-to-Value Securities means an asset <u>or liability</u> for which <u>there is no Market Price which is required to be measured at fair value pursuant to 5.2</u>*	× This is not what is done in other jurisdictions. × I don't think we should do this. × CIMA is not considering the position of the experts.

26. All feedback submitted by private sector associations will be given due consideration, nevertheless, the decision to adopt any feedback provided into a proposed measure will be at the sole discretion of the Authority.

27. **Notice of Representations**

28. The Authority seeks consultation through written comments and representations from the private sector associations concerning the:

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[1] This example is not reflective of the content of the proposed measure.

29. The Authority must receive representations by 1700hrs on **3 October 2025**. Representations received after this deadline may not be considered and will not form part of the collated written response provided to private sector associations.

30. Comments and representations must be addressed to[2]:

The Chief Executive Officer
Cayman Islands Monetary Authority
P.O. Box 10052
Pavilion East, Cricket Square
Grand Cayman KY1-1001
Cayman Islands
Tel: 345-949-7089
Fax: 345-946-5611
Email:
consultation@cima.ky
and copied to danielmcfadden@cima.ky

31. The Authority shall have due regard to any representation made by the private sector associations and industry stakeholders. The Authority shall provide a written response collating the feedback received and the Authority's position on this feedback. This response shall be copied to all relevant private sector associations only.

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[2] Where the private sector association or industry stakeholder has no comments or representations on the proposed measure, it is recommended that the Authority be informed of this fact.

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PO Box 10052
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