



# **RULE** Investment Activities of Insurers

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FOR CONSULTATION



## List of Acronyms

**[PIC]** [Portfolio Insurance Companies]

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# Rule on Investment Activities of Insurers

## 1. Introduction

1.1. This document establishes the Cayman Islands Monetary Authority's (the "Authority" or "CIMA") Rule on Investment Activities of Insurers ("the Rule"). The Rule should be read in conjunction with the following:

- a) Statement of Guidance on Investment Activities of Insurers
- b) Insurance Act, (as amended)
- c) Insurance (Capital and Solvency) (Class A Insurers) Regulations, 2012
- d) Insurance (Capital and Solvency) (Class B, C and D Insurers) Regulations (2018 Revision)
- e) Rule on Risk Management for Insurers
- f) Statement of Guidance: Outsourcing Regulated Entities
- g) all relevant insurance regulations; and
- h) any other relevant laws and regulatory instruments issued by the Authority from time to time.

## 2. Statement of Objectives

2.1. To set out regulatory investment requirements, for Insurers that take into account solvency and all relevant risks.

## 3. Statutory Authority

3.1. The measure is consistent with the Authority's statutory objectives as prescribed in the Monetary Authority Act (2020 Revision) (as amended) ("MAA") at Section 34(1)(a) which 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."*

## 4. Scope of Application

4.1. This Rule applies to all Insurers and registered Portfolio Insurance Companies supervised by the Authority in accordance with the Insurance Act, (as amended)

## 5. Definitions

5.1. The following definitions are provided for the purpose of this Rule:

5.1.1. **"Insurer"** has the meaning assigned in section 2 of the Insurance Act and includes PICs for the purpose of these Rules.

5.1.2. **"Investment Policy"** means documented criteria, processes, and procedures for implementing an Insurer's investment strategy.

- 5.1.3. **“Portfolio Insurance Companies” (PICs)** has the meaning assigned under Part 4A of the Insurance Act.
- 5.1.4. **“Related Business”** has the meaning assigned in section 2 of the Insurance Act.
- 5.1.5. **“Risk Management Framework”** refers to the totality of the systems, structures, policies and people that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the Insurer.

## 6. Rules

### **General Principles**

- 6.1. An Insurer must invest its assets in accordance with the following requirements:
  - 6.1.1 Only invest in assets and instruments, the risks of which it can properly identify, measure, monitor, manage, control and report (including risks relevant to market, credit, liquidity, concentration and strategic risks as well as operational risk) and appropriately take into account in the assessment of its overall solvency needs.
  - 6.1.2 Assets must be sufficiently secure. The security of an investment is related to the protection of its value and to the preservation of its economic substance both individually and for the entire portfolio.
  - 6.1.3 Ensure that assets remain available for payments to policyholders as they fall due, along with other obligations of the Insurer.
  - 6.1.4 Ensure that assets are held in a location which does not contravene the sanction orders observed in the Cayman Islands.
  - 6.1.5 Unless otherwise required by legislation or regulations, ensure that assets are sufficiently diversified (within and between risk categories taking into account the nature of liabilities) subject to the nature, scale and complexity of the business and that all asset and counterparty exposures are kept to prudent levels.

### **Nature of Liabilities**

- 6.2. An Insurer is required to invest in a manner that is appropriate to the nature and duration of its liabilities. In doing so, the Insurer must:
  - 6.2.1. Have regard to the extent to which the cash flows from investments match the liability cash flows in terms of timing, amount and currency, and how these change in varying conditions.
  - 6.2.2. Review and ensure that the investment guarantees, and embedded options contained in its policies are suitable.
  - 6.2.3. Ensure that assets held to cover its technical provisions and/or capital to cover mismatching risks are invested in a manner appropriate to the nature and duration of the Insurer’s insurance and reinsurance

liabilities and in the best interests of all policyholders, taking into account any disclosed policy objectives.

- 6.2.4. Manage conflicts of interests (e.g. between the Insurer's corporate objectives and disclosed insurance policy objectives) to ensure assets are invested appropriately.
- 6.2.5. Ensure the close matching of assets and liabilities for unit-linked or universal life policies where there is a direct link between policyholders benefits and investment funds or indices.
- 6.2.6. If part of an insurance group, hold investments tailored to the characteristics of the liabilities and needs of the insurance legal entity and not be subject to undue influence from the wider objectives of the group.

### **Management of Investment Risks**

- 6.3. An Insurer shall only invest in assets that can be properly assessed and managed by the Insurer. The Insurer must:
  - 6.3.1. Establish and maintain a risk management framework that is appropriate to the nature, scale and complexity of the business and its proposed investment activities.
  - 6.3.2. Establish segregation policies relevant to each type of business it is licensed to carry out.
  - 6.3.3. Ensure its investments, including those in collective investment funds, are sufficiently transparent and limit its investments to those where the associated risks of the asset can be properly managed by the Insurer.
  - 6.3.4. Have access to, and utilise, the requisite knowledge and skills to assess and manage the risks of its investments. Where an external investment advisor or investment manager is used, the Insurer must retain adequate in-house expertise (including at the Board of Directors level) as it is ultimately responsible for all investments.
  - 6.3.5. Understand all the risks involved sufficiently well (including determining how material the risk from a proposed investment is) before any investments are undertaken. Assessments of risks must consider the maximum possible loss.
  - 6.3.6. Look through the structure of the investments to the underlying assets, consider the risk characteristics of the underlying assets and how this affects the risk characteristics of the investments itself.
  - 6.3.7. If part of an insurance group, must ensure appropriate assessment and management of investments and risks involved with due regard to the needs of individual entities in addition to the group. There must be provision for sufficient liquidity, transferability of assets and fungibility of capital within the group.

### **Investment Policy**

- 6.4. An Insurer must establish an Investment Policy that is appropriate to the nature, scale and complexity of the business, which must be submitted to the Authority for approval. Unless otherwise approved by the Authority, the Investment Policy must include the following information:
  - 6.4.1. Specify the nature, role and extent of its investment activities;

- 6.4.2. Specify how it complies with rules 6.1- 6.3;
- 6.4.3. Set out appropriate standards (including process and procedures) for the evaluation of all investment assets.
- 6.4.4. Identify the Insurer's risk appetite and tolerance levels and types and characteristics of the investments.
- 6.4.5. Describe the Insurer's investment selection criteria, standards and other parameters including the asset allocation mix across investment categories.
- 6.4.6. Identify/prescribe minimum and maximum limits on asset allocation by geographical areas, markets, sectors, counterparties, currency and credit quality.
- 6.4.7. Address monitoring and control of investments, accountability for all investment transactions and investment authorization criteria and limits.
- 6.4.8. Where the Authority has agreed to the use of financial derivatives and other structured products, the Insurer's strategy must be limited to the scope the Authority has agreed to.
- 6.4.9. Identify processes relating to intra-group management of investment activities.
- 6.4.10. Save for B(i) and B(ii) insurers, identify the in-house individuals, or outsourced investment managers, who are tasked with managing the investments.
- 6.4.11. Where an external investment advisor or investment manager is used, provide profile of the said manager criteria used for selection and engagement.
- 6.4.12. Save for Class B(i) and B(ii) insurers underwriting and/or assuming significant related business, establish an Investment Committee to be responsible for:
  - 6.4.12.1. maintaining the investment policy,
  - 6.4.12.2. assessing on an annual basis (or other frequency as determined by the Authority) the suitability of the investment policy having regard to, among other things, changes in the market,
  - 6.4.12.3. overseeing the investment activities of the Insurer, ensuring that the risk management functions continue to be appropriate.

In doing so, the committee must ensure good governance, transparency, and prevention of conflicts of interest concerning the Insurer's investment transactions and that the Insurer's operation systems, personnel and information supporting the Insurer's investments is adequate.

## Loans

- 6.5. Insurers are required to seek the approval of the Authority to provide loans to an entity/person. This requirement does not apply to Insurers carrying on direct long-term business where loans are offered to policyholders under the terms and conditions of the life insurance policy.
- 6.6. A request for approval to the Authority must include results of the conduct of a credit review in respect of the proposed debtor including the collateral to be used for the loan.

## Internal Controls & Audit

- 6.7. An Insurer must have in place adequate systems of internal controls to ensure:
- 6.7.1. the conduct of investments activities is appropriately supervised having regard to the Insurer's size, complexity, and the nature of its investment activities; and
  - 6.7.2. that assets are managed in accordance with the overall Investment Policy.
- 6.8. Save for Class B(i) and B(ii) Insurers that underwrite and/or assume significant related business, an Insurer shall conduct an audit of its investment activities which ensures timely identification of internal control weaknesses and deficiencies in the management information systems.
- 6.9. The effectiveness of internal control will be assessed based on whether the Insurer has ensured:
- 6.9.1. Adherence to its Investment Policy,
  - 6.9.2. Adequacy of internal and external audit functions relative to the investment activities of the Insurer.
  - 6.9.3. Adequate documentation of all investments including the use of pricing and valuation methodologies as well as timely reports on investment activities.

## Restrictions/Prohibitions

- 6.10. Unless otherwise approved by the Authority, an Insurer is prohibited from the following activities:
- 6.10.1. Pledging assets for collateral for any purpose other than securing insurance obligations.
  - 6.10.2. Utilizing uncollateralised promissory notes.
  - 6.10.3. Entering into uncollateralized derivatives transactions.

## Permitted Derivative Activities

- 6.11. An Insurer will only be permitted to invest in derivatives for hedging and/or efficient portfolio risk management purposes and not for speculation purposes.
- 6.12. An Insurer must satisfy the Authority that it has the capacity to recognise, measure and prudently manage the risks associated with derivative use.
- 6.13. An Insurer must set out clear objectives and rationale, in its Investment Policy, for the use of derivatives and must also be able to demonstrate to the Authority the intended hedging characteristics and the ongoing effectiveness of the derivative transactions or combinations of transactions through cash flow testing or other appropriate analyses.
- 6.14. Investments in derivatives shall only be conducted having regard to the Insurer's overall asset-liability management strategy.

## **7. Disclosure**

- 7.1. An Insurer must 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.

## **8. Discretion of Authority**

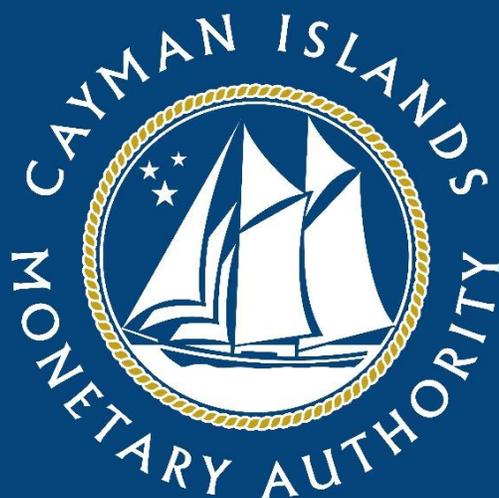
- 8.1. The Authority in assessing compliance with these Rules, may from time to time, use its discretion to waive the application of a Rule/s to an Insurer, including the duration for which such a waiver would apply; subject to the Authority being satisfied that the waiver:
- 8.1.1. is in the public interest,
  - 8.1.2. does not prejudice the interests of policyholders and
  - 8.1.3. is necessary having regard to all the circumstances.

## **9. Enforcement**

- 9.1. Where there is a breach of these Rules, the Authority's policies and procedures as contained in its Enforcement Manual will apply, in addition to any other powers provided in the Insurance Act and the Monetary Authority Act and Regulations and any other applicable legislation as amended.

## **10. Effective Date**

- 10.1. This Rule will come into effect within twelve months from the date that it 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](http://www.cima.ky)