



Financial Stability Report 2023 - 2024

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Acronyms

AI	Artificial Intelligence
AFSI	Aggregate Financial Stability Index
AML	Anti-Money Laundering
AMLR	Anti-Money Laundering Regulations
ALM	Asset and Liability Management
AUA	Asset Under Management
BCBS	Basel Committee of Bank Supervision
BIS	Bank of International Settlements
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CARTAC	Caribbean Regional Technical Assistance Centers
CFT	Countering the Financing of Terrorism
CIMA	Cayman Islands Monetary Authority
CISO	Chief Information Security Officer
COVID-19	Coronavirus Disease 2019
CPF	Countering Proliferation of Weapons of Mass Destruction
CPI	Consumer Price Index
CPIS	Coordinated Portfolio Investments Survey
CRFR	Climate-Related Financial Risks
CRR	Climate-Related Risks
CSP	Corporate Service Providers
CSX	Cayman Islands Stock Exchange
DRLA	Directors Registration and Licensing
ESG	Environmental, Social and Governance
ESO	Economics and Statistics Office
EU	European Union
FAR	Fund Annual Report
FATF	Financial Action Task Force
FDI	Financial Development Index
FHSI	Financial Health Soundness Indicator
FINTECH	Financial Technology
FSI	Financial Soundness Indicator
FSP	Financial Service Provider
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
GFCI	Global Financial Centers Index

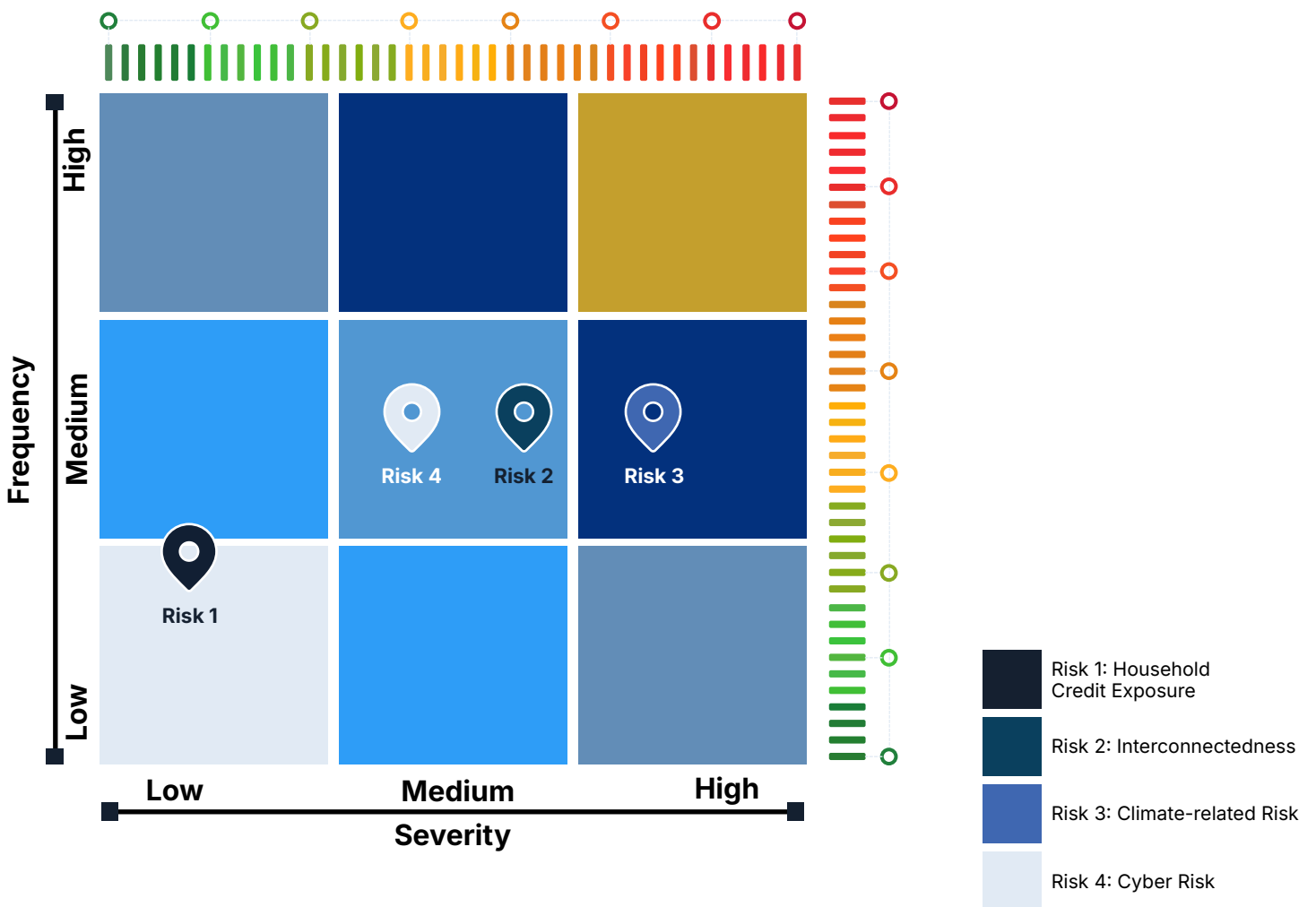
GWP	Gross Written Premiums
IAIS	International Association of Insurance Supervisors
ICP	Insurance Core Principles
IFRS	International Financial Reporting Standards
IMF	International Monetary Funds
IOSCO	International Organization of Securities Commissions
ISSB	International Sustainability Standards Board
MFA	Mutual Funds Act
MFSC	Ministry of Financial Services and Commerce
NAIC	National Association of Insurance Commissioners
NAV	Net Asset Value
NBFI	Nonbank Financial Intermediary
NPL	Non-Performing Loan
OECD	Organization for Economic Co-operation and Development
OFI	Other Financial Intermediary
PFA	Private Funds Act
PFAR	Private Funds Annual Returns
ROA	Return on Assets
ROE	Return on Equity
ROC	Registrar of Companies
RP	Registered Person
RTA	Registrar and Transfer Agency
SIB	Securities Investment Business
SIBA	Securities Investment Business Act
SPC	Segregated Portfolio Companies
TCFD	Task Force on Climate-related Financial Disclosures
TCSP	Trust and Corporate Service Providers
VASP	Virtual Assets Service Provider
VC	Virtual Currencies
WECI	World Economic Climate Index
WEF	World Economic Forum

Executive Summary

Overall, despite the heightened global economic uncertainty, the Cayman Islands financial sector remains stable and robust. Supported by a strong regulatory framework, well-capitalised institutions, and sustained economic growth, the sector continues to demonstrate resilience. This is especially important given that financial services account for about half of GDP and represent the most critical pillar of the jurisdiction’s economy. Preserving financial stability is therefore not only an economic priority but also a matter of strategic importance for maintaining the Cayman Islands’ standing as a trusted international financial centre.

Maintaining this position, however, requires recognising and managing potential sources of vulnerability. These are not unique to the Cayman Islands but mirror broader trends monitored across other jurisdictions. In line with global conditions, and reflecting the Cayman Islands’ jurisdictional characteristics, this third edition of the Financial Stability Report highlights several key vulnerabilities that have emerged within the domestic economic landscape. The main areas of focus are household credit exposure, interconnectedness across institutions, climate-related challenges, and cyber threats, each differing in both likelihood and potential impact.

Figure 1: Key Risks in the Cayman Islands



Source: CIMA

Global risks continue to shape the operating environment for Cayman's financial system, underscoring the need for vigilance despite current stability. In 2024–2025, interest rates in major economies remained elevated, moderating global credit expansion and contributing to a more cautious market tone. This environment, combined with rising trade barriers, geopolitical conflict, and a more fragmented international system, has eroded business sentiment and heightened volatility in global markets. At the same time, the rapid expansion of nonbank financial intermediation globally has increased the scale of interconnected risks. These dynamics highlight that small, open economies such as the Cayman Islands are susceptible to external shocks, even when domestic conditions are sound.

Domestically, the economy continues to grow at a steady pace, providing a supportive foundation for financial stability. Inflation has eased to more historically aligned levels, while unemployment has stabilised below 3 percent. This macroeconomic stability provides important buffers that reinforce confidence in the financial system.

Household credit conditions remain stable, with borrowing levels broadly aligned with GDP growth, and foreclosure rates are well below one percent. The household credit-to-GDP gap has consistently stayed within safe thresholds, indicating that debt levels are sustainable. These patterns suggest that the risk of household credit exposures remain low, however, CIMA continues to monitor for any early signs of imbalance.

Key sectors within the financial system remain sound, supported by strong financial soundness indicators. Domestic banks are well capitalised, liquid, and profitable, while insurers also report healthy solvency and reserve positions. Collectively, these institutions provide stability to the domestic economy and confidence to international counter parties. The investment funds sector, which now exceeds 30,000 registered funds, continues to expand in scale and global importance. This growth reinforces the jurisdiction's central role in global capital markets, although it also highlights the need for vigilant oversight given the size and complexity of these institutions.

Interconnectedness with global financial markets presents a medium-level risk, as fluctuations in international economic conditions could have direct implications for domestic financial stability. As a leading hub for international banking, investment funds, and other financial intermediaries, the Cayman Islands play a central role in facilitating global capital. This integration underpins the jurisdiction's importance in international finance but also exposes it to external shocks. Recent years have seen a contraction in cross-border banking assets, offset by expansion in nonbank financial intermediation, particularly hedge funds. While this evolution reflects global market dynamics, it also underscores the importance of vigilance, given the potential for volatility in these sectors to be transmitted across borders.

Climate-related risks are an increasingly important consideration for financial stability, and CIMA is taking a forward-looking approach through initiatives such as the 2024 Climate and Environmental Risk Survey and by stress testing domestic non-life insurers for natural disaster shocks. The Cayman Islands is particularly vulnerable to physical risks such as hurricanes and rising sea levels, while transition risks are growing as global regulatory and investor expectations on climate disclosure intensify. Although these risks are currently assessed as medium, their potential long-term impact is significant. Encouragingly, many financial institutions are beginning to integrate climate considerations into their strategies, and CIMA through stakeholder engagement has encouraged enhanced disclosures and proactive monitoring. These steps will be critical in safeguarding stability in the face of mounting environmental pressures.

Cybersecurity risks remain a key focus, and CIMA is being vigilant through measures such as its Rule and Guidance on Cybersecurity for Regulated Entities and thematic reviews of sector resilience. The frequency and sophistication of cyber incidents have risen globally since the pandemic, with financial institutions often the primary targets. The Cayman Islands, given its international profile and reliance on cross-border digital infrastructure, is not immune to these threats. Despite the current threat level is assessed as medium, the jurisdiction's role as a globally connected financial centre may amplify these fragilities. While regulated entities have strengthened their governance and risk frameworks, the evolving nature of cyber risk means that continuous investment, international cooperation, and regulatory vigilance are essential to maintaining confidence in the financial system.

These dynamics highlight that resilience cannot be taken for granted, even in a stable system. The Cayman Islands' financial sector is well positioned and stable, as suggested by movements in the Banking Stability Index and the Aggregate Financial Stability Index. Yet the combination of global economic uncertainty, financial interconnectedness, climate change, and cyber risk underscores the need for ongoing vigilance. This Financial Stability Report 2023-24 provides an assessment of these risks and reflects CIMA's continued commitment to safeguarding financial stability through rigorous oversight, international cooperation, and proactive engagement with market participants.

Chapter 1: The Economic and Financial Environment

The Global Economic and Financial Environment

The cost of uncertainty...

The global economy entered 2025 under renewed strain as the cumulative effects of rising trade barriers and heightened policy uncertainty have increasingly weighed on activity. Despite this, growth projections remain steady, with global GDP now expected to expand by 3.2 percent this year, slightly below the pre-pandemic average of 3.7 percent recorded between 2000 and 2019. A surge in tariff measures, led by the United States, along with a broader erosion of trade predictability, has unsettled business sentiment and curtailed investment, amplifying downside risks. Although inflation continues to moderate, the pace of disinflation has slowed. Global headline inflation is projected at 4.2 percent in 2025 and 3.7 percent in 2026, with underlying price pressures remaining persistent in many advanced economies. Central banks have maintained relatively high policy rates amid these conditions, reflecting a cautious approach to balancing price stability and growth risks. These developments are unfolding against a backdrop of limited fiscal and monetary space, combined with mounting structural challenges such as ageing populations, weak productivity growth, and growing economic fragmentation. As uncertainty deepens and policy trade-offs become more acute, the global outlook has grown increasingly fragile. Navigating this environment will require a renewed focus on transparency, credible long-term strategies, and multilateral cooperation to reinforce stability and lay the groundwork for more resilient and inclusive growth.

Table 1: Overview of the World Economic Outlook Projections

	Projections (percent)		
	2024	2025	2026
World Output	3.3	3.2	3.1
Advanced Economies	1.8	1.6	1.6
United States	2.8	2.0	2.1
United Kingdom	2.8	2.0	2.1
Canada	1.1	1.3	1.3
Euro Area	1.5	1.2	1.5
Emerging Markets	4.3	4.2	4.0
India	6.5	6.6	6.2
China	5.3	4.8	4.2
Latin America and the Caribbean	2.4	2.4	2.3
World Inflation	5.8	4.2	3.7
Advanced Economies	2.6	2.5	2.2
Emerging Markets	7.9	5.3	4.7

Source: IMF World Economic Outlook, October 2025.

Uncertainty causes fragility in the financial markets...

In early 2025, the global financial environment experienced a marked deterioration as rising policy uncertainty, particularly from a series of unexpected tariff announcements by major economies, began to ripple through markets. Investor confidence, already fragile, eroded further, leading to sharp corrections in equity prices and widening corporate bond spreads. Valuations that had previously defied economic fundamentals began to unwind, while market volatility surged to levels not seen in recent years. These shifts have exposed deeper vulnerabilities in the global system, where prolonged periods of low volatility and elevated asset prices have masked underlying structural risks. According to the IMF's Growth-at-Risk framework, the likelihood of a significant global growth downturn has increased meaningfully, underscoring the heightened sensitivity of financial markets to adverse shocks. In this uncertain environment, domestic markets face a growing risk of contagion through capital outflows, trade disruptions, and a deterioration in investor sentiment.

At the same time, the architecture of the global financial system has continued to evolve in ways that increase its fragility. The IMF has drawn particular attention to the rapid growth of nonbank financial intermediaries and their expanding ties to the traditional banking sector. Hedge funds, private credit funds, and other nonbank entities have become more prominent players in global finance, often operating with high leverage and limited transparency. These institutions are especially vulnerable to abrupt changes in market conditions, and when pressured by margin calls or redemption demands, they may be forced to liquidate assets in ways that amplify broader market stress.

As banks deepen their exposures to these nonbank entities, the risk of financial instability spreading across institutional boundaries has grown. Maintaining resilience in this environment requires ongoing efforts to strengthen supervision, close data gaps, and develop a more integrated view of system-wide risks that includes both banks and the broader nonbank ecosystem.

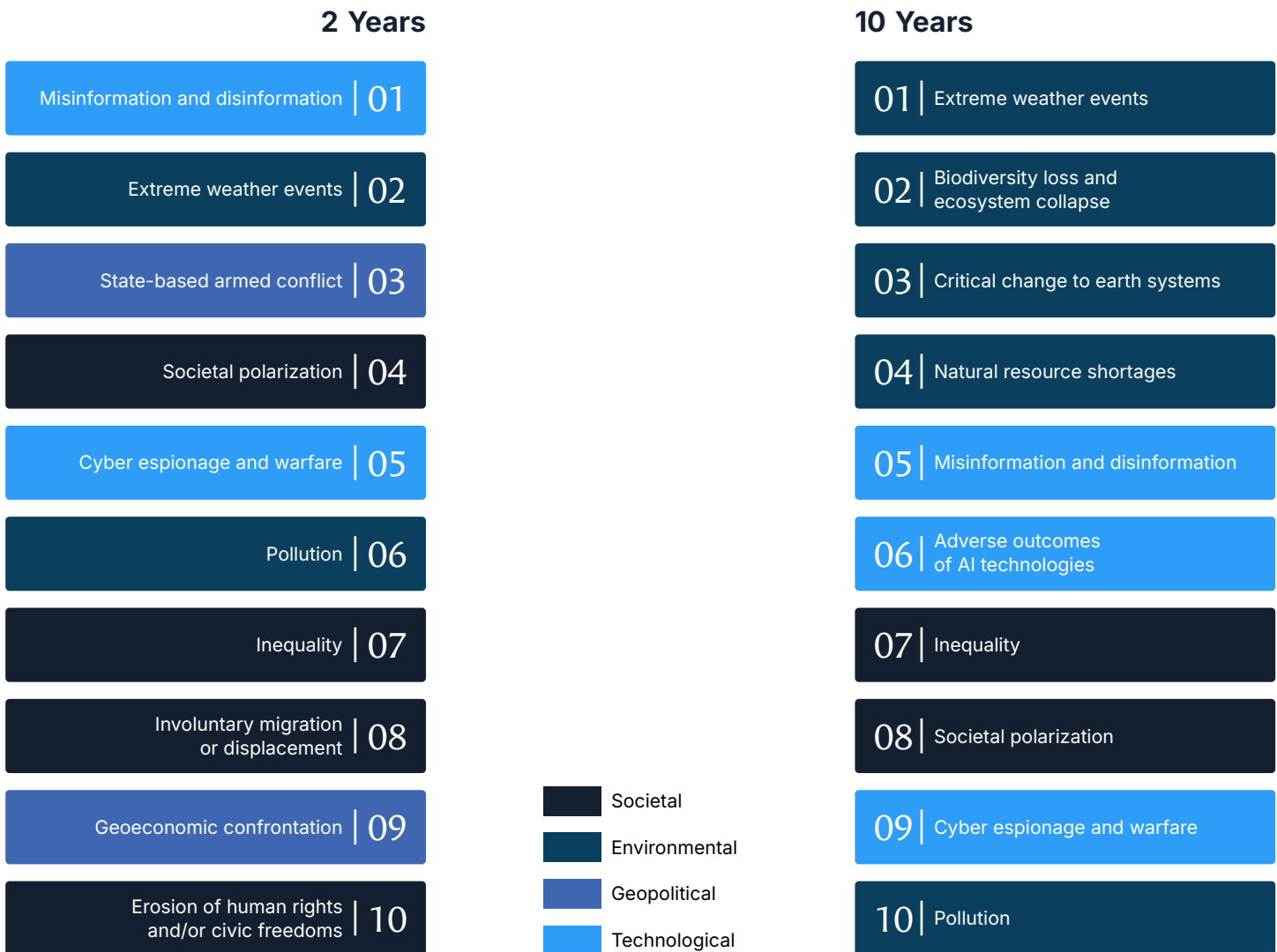
Not to mention declining optimism...

The Global Risk Perception Survey 2024–2025 highlights a world that is becoming increasingly fractured, driven by escalating conflicts, extreme weather events, and the disruptive impact of technological advancement. The current level of division has not been seen since the Cold War, reflecting a significant shift in the global risk landscape.

In the near term, the outlook is marked by growing turbulence and instability. The widespread dissemination of false and misleading content, increasingly amplified by generative artificial intelligence, has become the most critical concern. In a year characterised by major elections and deepening societal polarization, misinformation is undermining institutional trust, eroding civic cohesion, and weakening democratic processes. At the same time, climate-related challenges such as extreme weather events are shifting from distant warnings to immediate threats, placing additional strain on communities already grappling with social divides.

Geopolitical conflict also looms large. The resurgence of state-based armed conflict in regions such as Ukraine, the Middle East, and Sudan is dominating perceptions of risk and threatening to destabilize the international order. These confrontations intersect with rising cyber espionage and warfare, as states and non-state actors increasingly target critical infrastructure and information systems.

Figure 2: Key Risks Over the Short-term and Medium-term



Source: Global Risk Report, 2024.

Looking further ahead, environmental and technological risks are expected to intensify as they account for six of the top ten risks within the next decade. Extreme weather events are projected to become more severe and more frequent, while biodiversity loss and critical changes to Earth systems threaten to accelerate beyond control. Technological disruption, particularly through the misuse of advanced artificial intelligence, raises the prospect of consequences that may prove irreversible. From unregulated applications to the erosion of human agency over powerful tools, these developments carry profound implications for societies worldwide. Even as these challenges mount, the persistent spread of misinformation will remain a corrosive force, deepening polarization and weakening collective action at precisely the moment when collaboration is most needed.

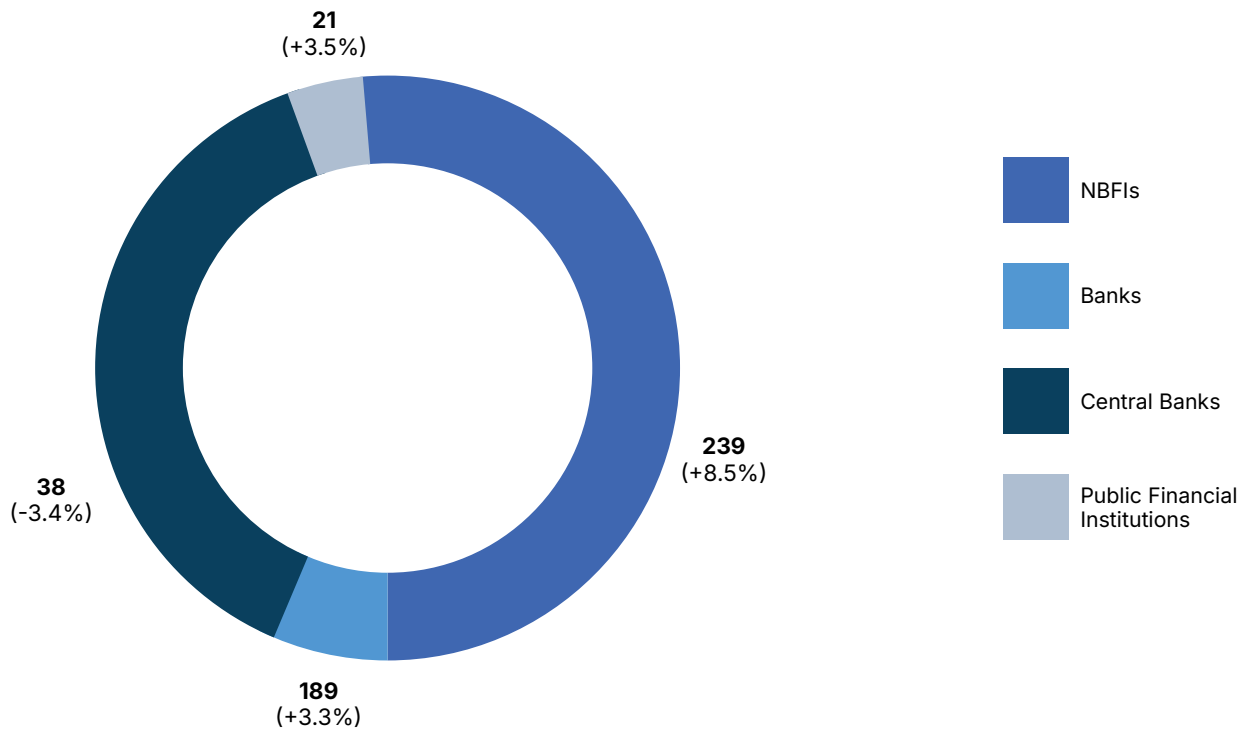
Addressing these complex and interconnected challenges requires a coordinated global response. Strengthening the foundations of international cooperation and restoring confidence in multilateral institutions are critical steps in preventing further geopolitical fragmentation. Effective oversight of emerging technologies, especially artificial intelligence and biotechnology, is essential to safeguard societies from misuse and unintended consequences. Tackling the challenges posed by misinformation and polarization will demand sustained investment in civic resilience, including education, media integrity, and inclusive policies aimed at bridging divides. In parallel, urgent action on climate change must be accelerated

to mitigate worsening environmental threats. Humanitarian systems also require reinforcement to support vulnerable populations amid rising displacement and competition for resources. Through collective action, the global community can work toward a more secure, cohesive, and sustainable future.

Expanding opportunities, emerging complexities...

The nonbank financial intermediary¹ (NBFi) sector expanded markedly in 2023, growing by 8.5 percent to reach US\$ 238.8 trillion, equivalent to 49.1 percent of global financial assets. This outpaced the 3.3 percent growth seen in the banking sector. The increase was driven by a rebound in asset valuations, particularly for mark-to-market instruments, as well as renewed investor inflows following the volatility observed in 2022.

Figure 3: Breakdown of Global Financial Assets (US\$ trillions, growth rate between 2022-2023)



Source: FSB Global Monitoring Report, 2024.

Other financial intermediaries (OFIs) made up the largest component of the sector, with broad-based asset growth across investment funds, hedge funds, money market funds, finance companies, and structured finance vehicles. Investment funds were the primary contributors, led by equity and mixed funds. Money market funds experienced a 17.9 percent increase in assets, supported by higher yields relative to bank deposits and increased demand following episodes of stress in the banking sector. Within the nonbank space, the narrow measure, which isolates entities involved in credit intermediation activities that carry systemic risk due to leverage or liquidity and maturity mismatches, rose by 9.8 percent

¹ The NBFi sector refers to the wide range of financial institutions that operate outside the traditional banking system, excluding central banks, banks, and public financial institutions. Examples include (but not limited to) insurance companies, pension funds and investment funds.

to a record US\$ 70.2 trillion. This narrow measure now represents 14.6 percent of total global financial assets and 29.5 percent of all NBFi assets.

Over 70 percent of the narrow measure consists of collective investment vehicles that are susceptible to investor runs, including fixed income funds and money market funds. Other important segments include finance companies dependent on short-term funding and broker-dealers facilitating market intermediation. Broker-dealers saw the fastest growth in 2023 expanding by 16.2 percent amid greater trading volumes and arbitrage activity in short-term markets.

Interlinkages between NBFIs and the banking sector have become more pronounced. In the United States, bank exposures to NBFIs are estimated to be around 120 percent of regulatory capital. Many hedge funds and private credit platforms rely on bank-provided credit lines, often backed by revolving or asset-based facilities. At the same time, banks also rely on funding from NBFIs, especially from money market funds. Around 20 percent of OFI assets are funded through short-term wholesale and repo instruments. Structured finance vehicles and broker-dealers remain the most reliant on these channels, with wholesale funding accounting for 47.2 percent and 40.3 percent of their assets, respectively. Cross-border exposures are substantial. More than 30 percent of OFI assets in jurisdictions such as Luxembourg, Belgium, and the Netherlands are linked to foreign counterparties.

Private credit markets are also increasingly global, with capital often raised in one country and deployed in another. This international footprint adds complexity to risk assessments and increases the potential for spillovers during periods of market stress. Supervisory concerns persist regarding data limitations and uneven regulatory frameworks. Although some reforms have improved liquidity risk management and margining practices, authorities continue to face challenges in tracking the full scope of activities and vulnerabilities in the NBFi sector. Calls have been made for enhanced reporting, stronger liquidity and leverage oversight, and improved international coordination to better manage systemic risk associated with nonbank intermediation.

Cayman's Economic and Financial Environment

Cayman's economic activity remains robust...

In 2024, the Cayman Islands' economy experienced a real GDP growth of 3.1 percent, reflecting a deceleration from the 5.8 percent growth in both 2022 and 2023². The expansion was broad, with growth evident across all major sectors. Financial services and construction were the leading contributors, underpinned by steady domestic demand in related industries.

The time series data for real GDP indicates a consistent growth trajectory for the Cayman Islands. In 2023, the economy expanded by an estimated 5.8 percent, maintaining a similar growth recorded in 2022. This sustained growth underscores the resilience and adaptability of the Caymanian economy, particularly in its key sectors such as tourism, utilities, and financial services. The moderation in the growth rate from in 2024 suggests a stabilisation phase, potentially influenced by external economic factors and internal market dynamics.

Nonetheless, the consistent positive growth highlights the effectiveness of the Cayman Islands' economic strategies and its capacity to maintain economic stability amidst global uncertainties. Looking ahead, real GDP growth for 2025 and 2026 is projected at 2.6 percent and 2.1 percent, respectively. This reflects a continued but more measured pace of economic expansion that is closer to pre-pandemic levels.

Table 2: Real GDP Growth in the Cayman Islands

Real GDP Growth	2021	2022	2023	2024 ^e	2025 ^p	2026 ^p
(2015 = 100)	4.9	5.8	5.8	3.1	2.6	2.1

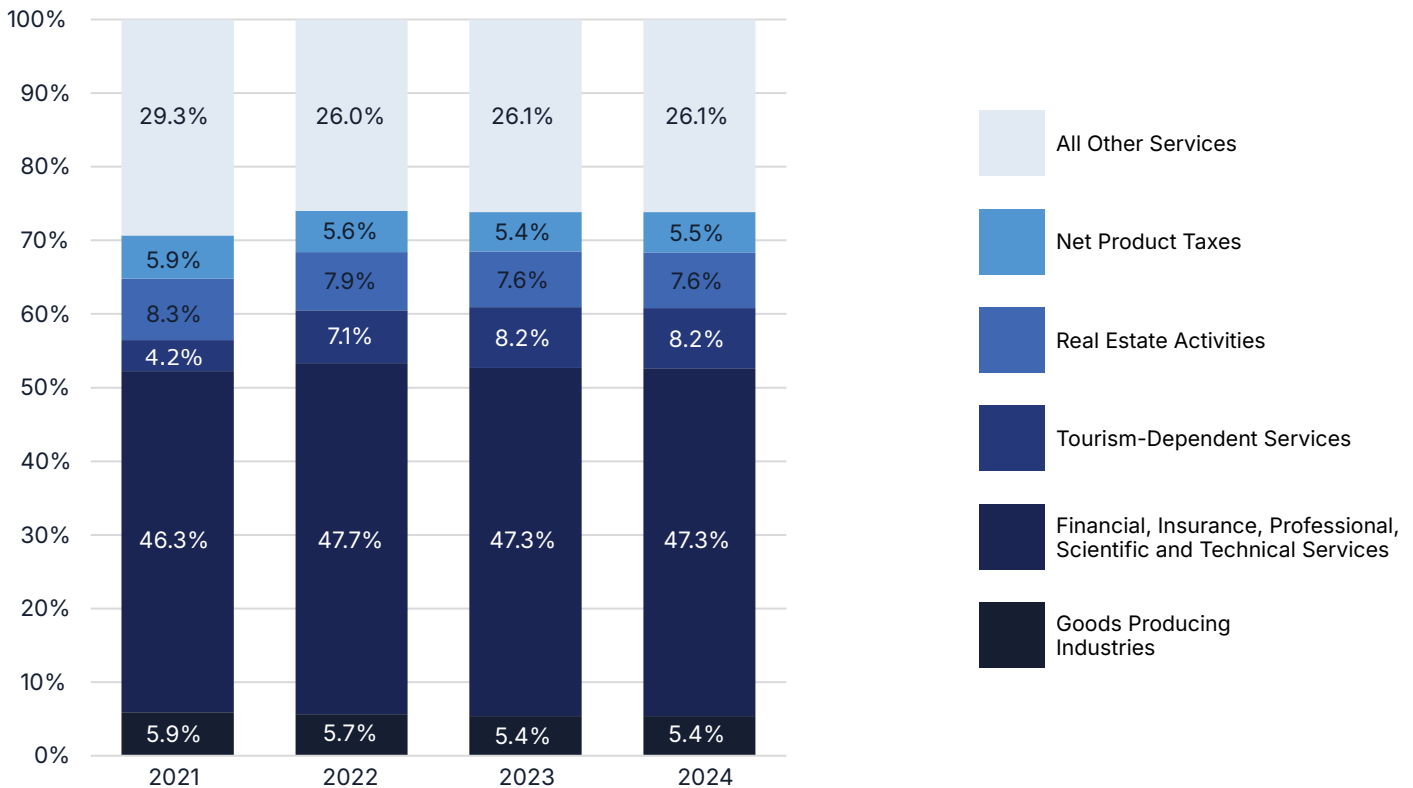
Source: Economics and Statistics Office (e – estimate, p – projected)

² The full report from the Economics and Statistics Office is accessible here: https://www.eso.ky/storage/page_docs/uploadFilePdf/930/The%20Cayman%20Islands%20Annual%20Economic%20Report%202024%20Final.pdf

Financial services persist as the most significant contributor...

In 2024, the Cayman Islands' economy remained firmly rooted in services, with Financial, Insurance Professional, Scientific and Technical Services accounting for 47.3 percent of real GDP. This grouping continued to be the largest contributor to economic activity, supported by consistent performance in financial services and a rise in professional activities such as legal and accounting. Real Estate Activities comprised 7.6 percent of GDP, slightly lower than previous years. However, it continues to rebound towards pre-pandemic levels as both freehold and leasehold transfer values increase. Tourism-Dependent Services, which include hotels, restaurants, and transport, strengthened their presence to 8.2 percent of GDP, showing a continued recovery from the pandemic as stay-over visitors and related spending increased. Goods Producing Industries, made up mainly of construction, agriculture, and manufacturing, contributed 5.4 percent of GDP, maintaining their historical level but highlighting their limited influence on the overall economic structure. Net Product Taxes, which represent taxes less subsidies on goods and services, also accounted for 5.5 percent of GDP, reflecting a stable fiscal environment and All Other Services made up 26.1 percent, reflecting the breadth of service-oriented industries outside the core financial and professional sectors. The 2024 composition of GDP aligns closely with historical trends, reaffirming the Cayman Islands as a service-driven economy anchored by finance and professional services. With tourism regaining momentum and goods production maintaining a limited role, the year reflects a consistent economic structure shaped by global connectivity and a strong focus on high-value service sectors and this trend is expected to remain in 2025 and 2026.

Figure 4: Sectoral Contributions to GDP

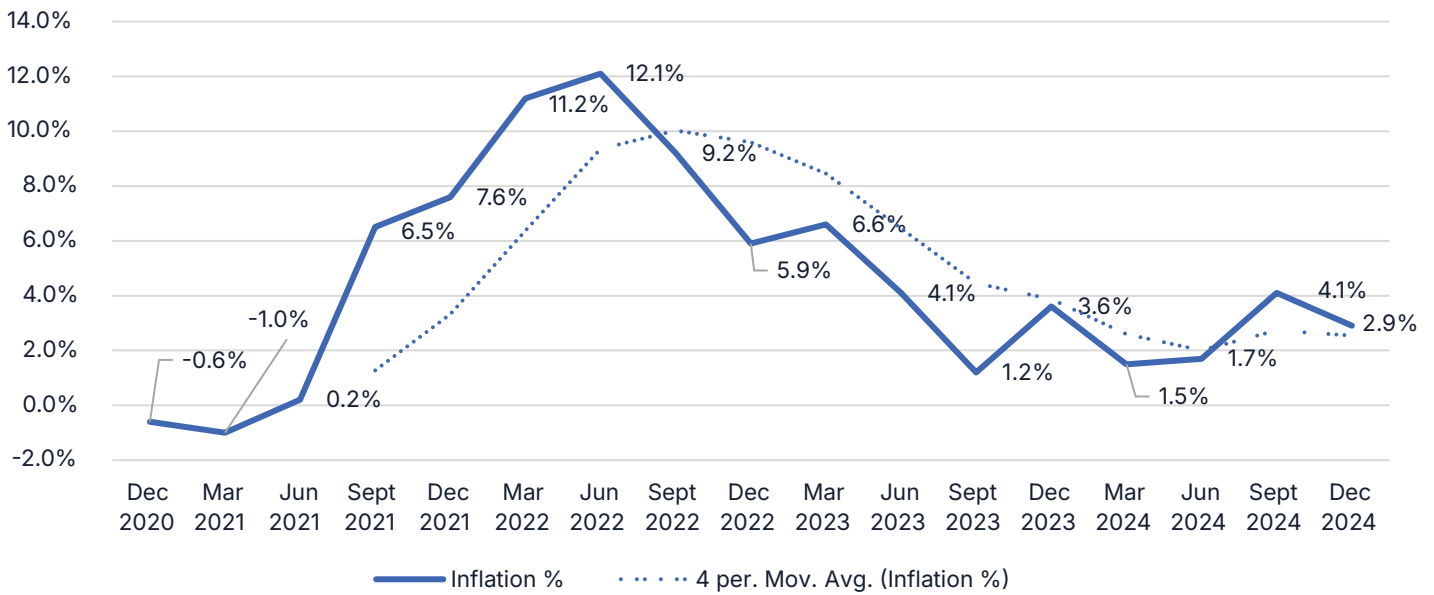


Source: Economics and Statistics Office.

A return to (somewhat) normalcy...

Between 2023 and 2024, headline inflation in the Cayman Islands cooled to more historically aligned levels, signalling a return to relative price stability after recent years of volatility. The average inflation rate for 2024 stood at 2.6 percent, down from 3.8 percent in 2023 and a peak of 9.5 percent in 2022. This easing trend reflects a broad normalisation across global supply chains and energy markets. Shipping bottlenecks, material shortages, and elevated fuel prices that had driven up costs in previous years has begun to subside, reducing imported inflation and easing pressure on domestic prices. The year-on-year inflation for December 2024 was 2.9 percent, consistent with longer-term trends observed prior to the pandemic, such as in 2018 (3.0 percent) and 2017 (2.0 percent). In 2025, inflation in the Cayman Islands is projected to decelerate to 2.6 percent, though there is a moderate probability of an increase given the economy's high reliance on imports, shifts in global trade conditions and geopolitical uncertainty that could still influence domestic prices.

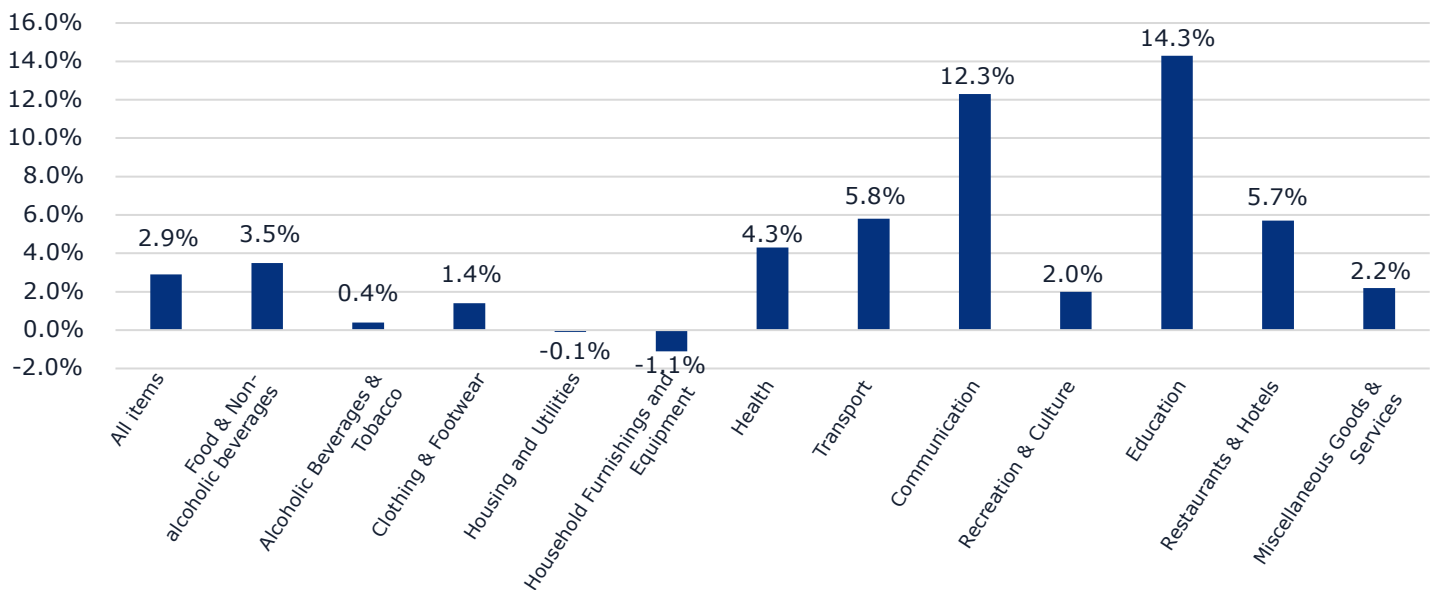
Figure 5: Headline Inflation in the Cayman Islands (Year-on-year percent change)



Source: Economics and Statistics Office.

In December 2024, the year-on-year inflation was shaped by increases in specific categories, revealing the uneven nature of price changes across the economy. Education recorded the largest increase at 14.3 percent, driven by steep rises in tuition at the primary and secondary levels. Communication followed with a 12.3 percent increase, largely due to higher telecommunications service costs. Transport rose by 5.8 percent, reflecting higher prices for motor vehicles and airfares, while restaurant and hotel prices increased by 5.7 percent amid robust demand. Marginally offsetting these pressures, housing and utilities declined by 0.1 percent as lower electricity and maintenance costs balanced out rental increases. Furnishings and household equipment fell by 1.1 percent, reflecting reduced prices for major appliances and textiles. Overall, these trends point to a more concentrated form of inflation in 2024 that is quite different from previous years, and this is consistent with the annual averages as well.

Figure 6: Inflation by Category (Year-on-year percent change)

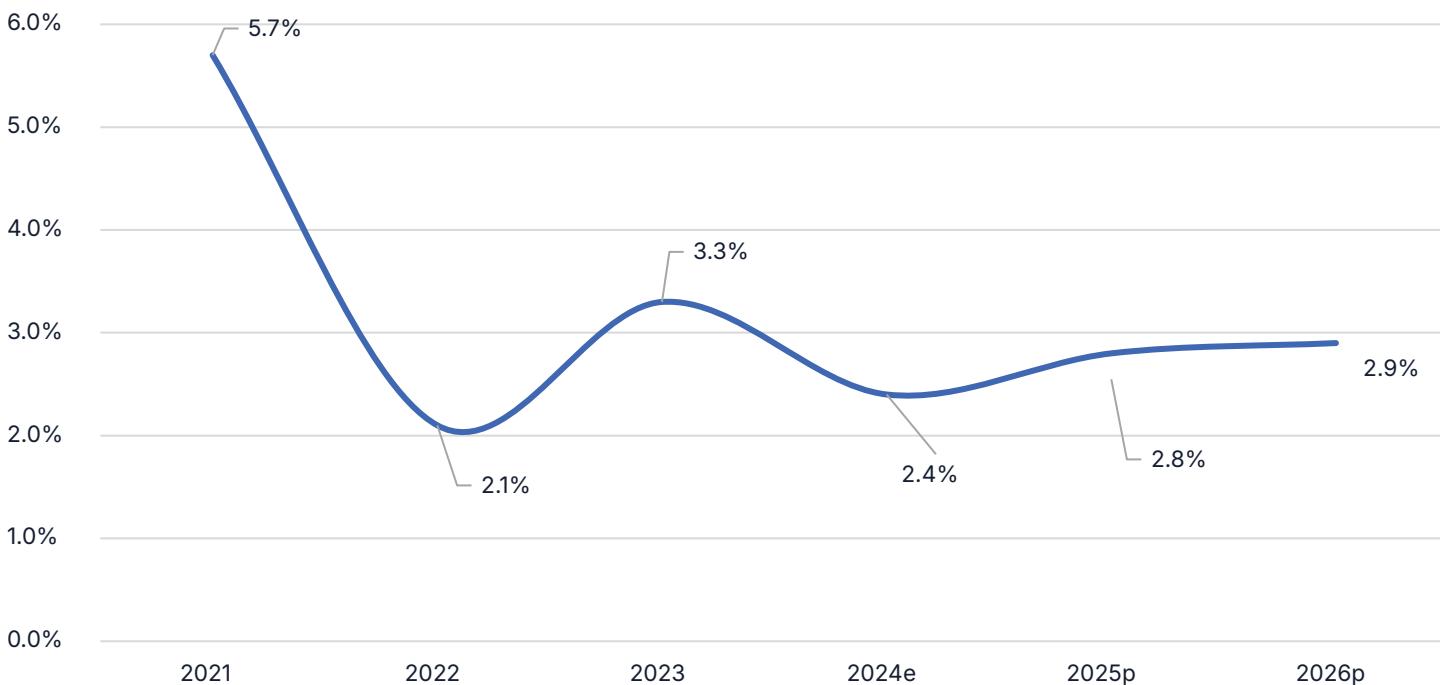


Source: Economics and Statistics Office

Sustained strength in Cayman's labour market...

Unemployment has followed a dynamic trajectory in recent years, peaking at 5.7 percent in 2021 due to global disruptions such as the COVID-19 pandemic. This was followed by a strong recovery, with unemployment falling to 2.1 percent in 2022 before edging up slightly to 3.3 percent in 2023. The rate held steady at 2.4 percent in 2024 and is expected to stay below 3.0 percent through 2025 and 2026, consistent with projections of sustained economic growth.

Figure 7: Unemployment in the Cayman Islands



Source: Economics and Statistics Office (e – estimate, p – projected).

This is supported by resilience in service-related sectors including professional, scientific and technical activities, as well as financial and insurance services, which are expected to continue absorbing labour market slack. In addition, key industries like construction and wholesale and retail trade contribute to a diversified and balanced employment base, strengthening the labour market's capacity to weather potential shocks.

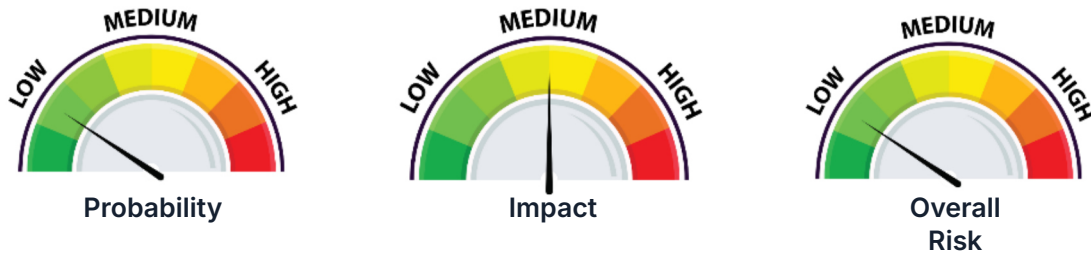
Overall, the labour market outlook for 2025-26 remains positive, with broad-based sectoral strength expected to sustain low unemployment and support economic stability.

Cayman's macroeconomic risks assessment and outlook for 2025-26...

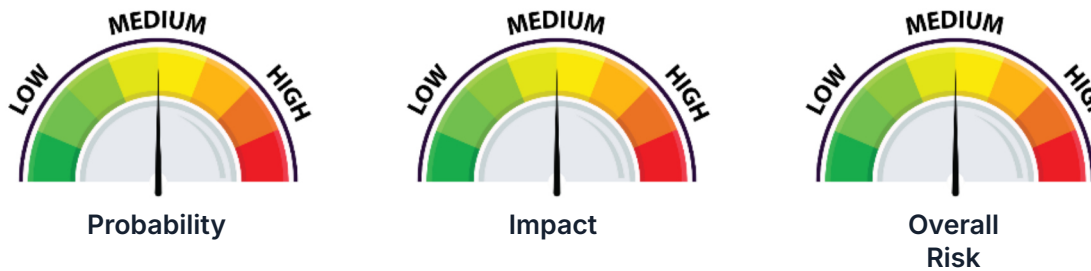
As the Cayman Islands continues through 2025, the overall economic environment remains stable, supported by sustained growth in core sectors and a steady labour market. However, the pace of expansion is expected to moderate as global uncertainties persist, and some local drivers begin to level off. Against this backdrop, key macroeconomic risks have been assessed to gauge their likelihood and potential impact on the economy.

Figure 8: Cayman's Macroeconomic Risk Assessment

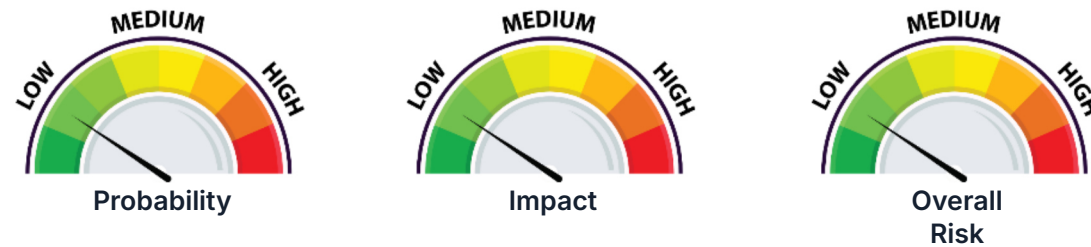
Economic Slowdown



Inflationary Pressures



Softening Labour Market



Source: CIMA

The Cayman Islands is expected to maintain a positive but more measured pace of economic growth in 2025-26 following a period of strong post pandemic recovery. Real GDP is projected to continue expanding, though at a slower rate as key sectors such as tourism, utilities and financial services stabilize. While economic fundamentals remain sound, a slight loss of momentum particularly in hospitality and construction suggests the possibility of an economic slowdown. This risk is assessed as having low probability but a medium potential impact if external conditions weaken.

Inflationary pressures have eased from earlier highs and headline inflation is projected to remain within a stable range in 2025-26. However, due to the economy's high reliance on imports, shifts in global trade and commodity prices could lead to a moderate rise in imported inflation. Categories such as education, communication and transport have already seen noticeable price increases, indicating that while overall inflation is stable, specific areas may continue to show volatility.

The labour market is expected to remain strong with unemployment projected to stay low, supported by service sector resilience and activity in construction and retail. However, with growth slowing, there is a low probability of labour market softening if hiring slows or demand levels off. The expected impact is limited due to the economy's diverse employment base.

Overall, the Cayman Islands heads into 2026 with a stable macroeconomic outlook. Risks are present but remain manageable given the country's broad sectoral strength and consistent performance across key industries.

Chapter 2: The Financial Sector

The Banking Sector

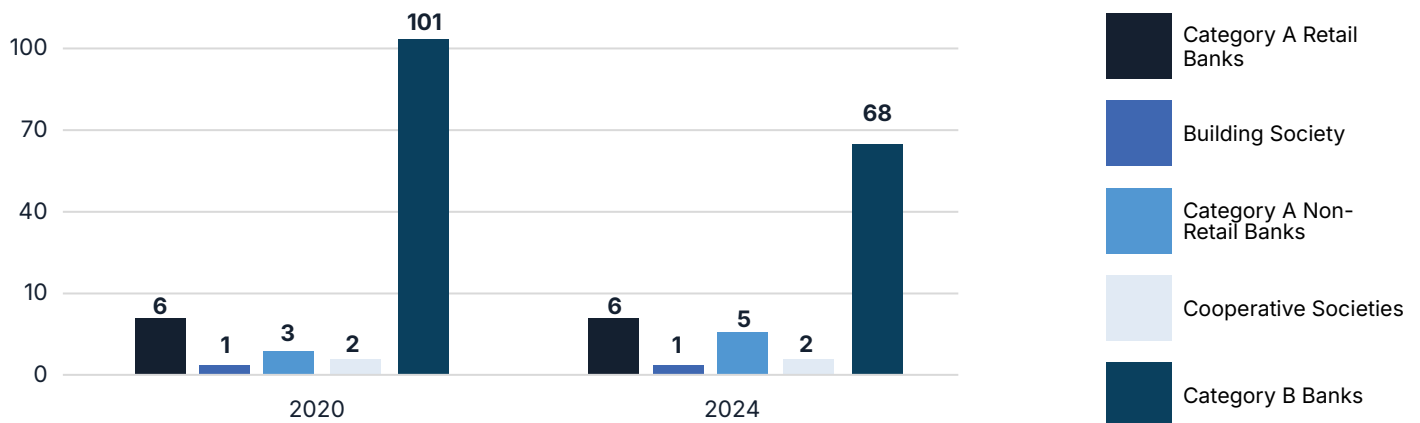
The Cayman Islands Banking Sector – Key definitions

- **Category A Retail Banks:** Category A Retail banks offer retail and commercial banking services to retail and non-retail residents. Category A Retail banks can also provide services to international clients. They can also provide trust, principal offices or registered office services if authorised to provide these services.
- **Category A Non-Retail banks:** Category A Non-Retail are restricted from providing banking services to resident clients except to other licensees, employees and to exempt or ordinary non-resident companies not carrying on business in the Cayman Islands.
- **Category B Banks:** Category B banks are generally restricted from engaging in the banking business with residents and thus cater primarily to customers outside the Cayman Islands. However, Category B banks can provide specified services to limited categories of resident customers, including another regulated entity, their employees and exempt or ordinary non-resident companies not carrying on business in the Cayman Islands.

The banking industry continues to be a key pillar of the Cayman Islands' economy. Even amid ongoing global pressures such as sustained inflation, geopolitical uncertainty, and the lingering aftereffects of the COVID-19 pandemic, the sector has maintained solid performance through 2023 and 2024. By the end of December 2024, the Cayman Islands ranked 20th worldwide in cross-border assets, totaling US\$ 306 billion, and 23rd in cross-border liabilities, at US\$ 266 billion, among 48 international financial centres³.

As of 31 December 2024, there were 82 licensed deposit-taking institutions operating within the jurisdiction. These comprised Category A and Category B banks, a Building Society, and Cooperative Societies (together referred to as the Societies). Over the past five years, there has been a steady decline in the number of Category B Banks, moving from 101 in 2020 to 68 in 2024 (Figure 9). This trend reflects digital banking models taking precedence for new operations and more traditional/existing banking models using consolidation/restructuring to leverage economies and remain competitive. Despite the reduction in Category B Banks, there remains interest in obtaining banking licenses, evidenced by the issuance of three (3) new Category B Bank licenses between 2023 and 2024. Meanwhile, the number of Category A Banks and Societies has remained relatively stable, with one (1) license issued over the five-year period.

Figure 9: Number of Deposit-Taking Institutions



As of 2024, the regulated banks operating in the Cayman Islands originate from more than 27 countries across six regions (Figure 10). The majority operate as branches of international banking groups, while the remainder are subsidiaries or affiliates of major financial institutions. Branch structures are utilised exclusively by Category B Banks. In contrast, Category A Retail Banks are structured as subsidiaries of large international institutions with parent companies based primarily in Canada and the Caribbean region (Figure 11). These institutional structures have remained largely consistent over the 2020–2024 period.

Figure 10: Percentage of Banks by Region⁴

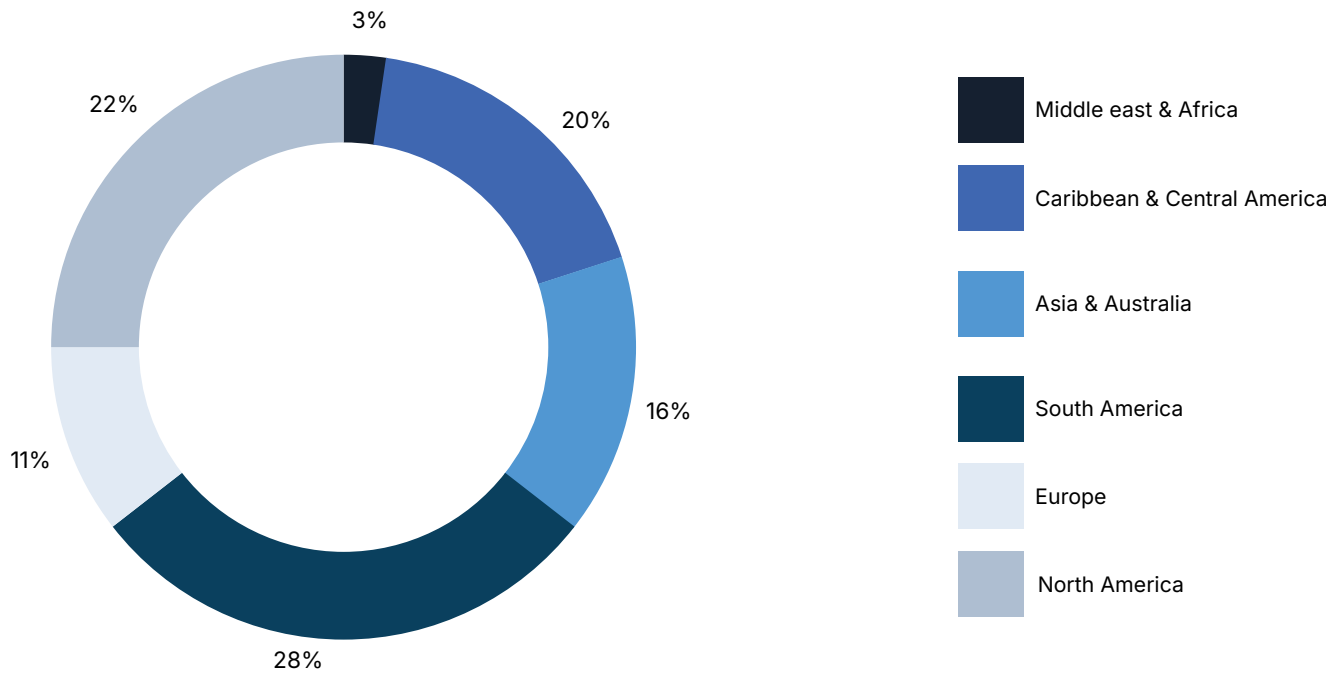
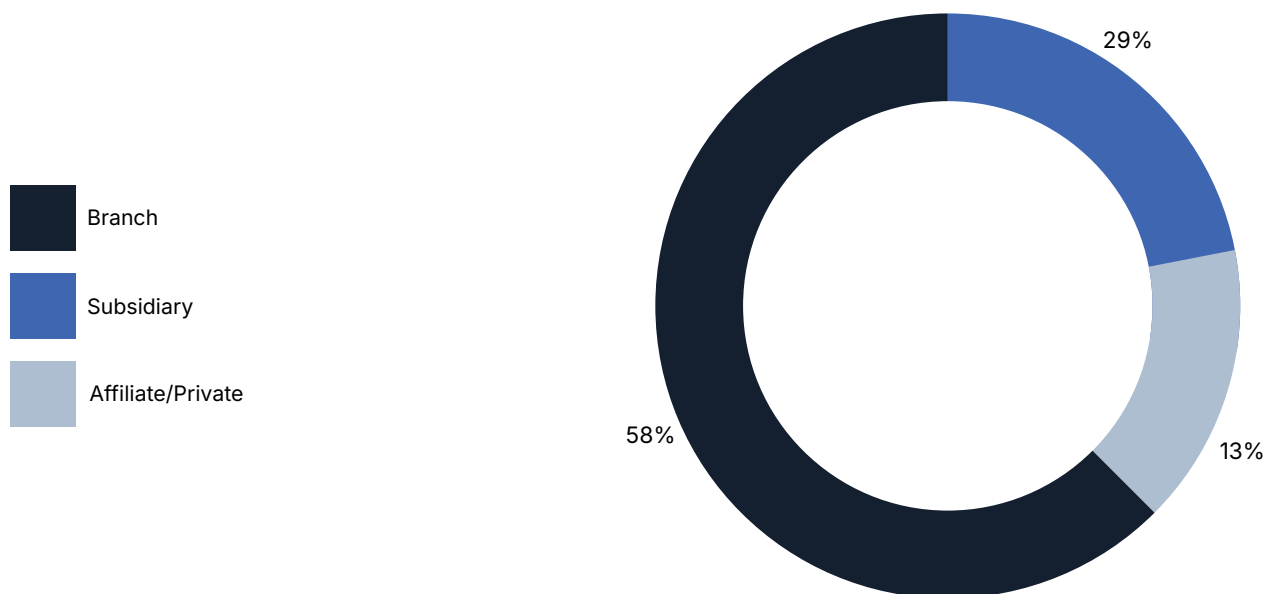


Figure 11: Percentage of Banks by Structure Type



⁴ Using BIS statistical parent location.

Domestic banking activity in the Cayman Islands is predominantly conducted by Category A Retail Banks, which play a central role in supporting the local economy. As such, the assessment places particular emphasis on evaluating the financial soundness of these institutions, while also providing an overview of the overall stability of the banking sector.

Overall, key Financial Soundness Indicators (FSIs) remained strong and well above the established regulatory minimums, underscoring the sector’s continued resilience and prudent risk management (Table 3). A more detailed examination of these indicators is presented later in this chapter.

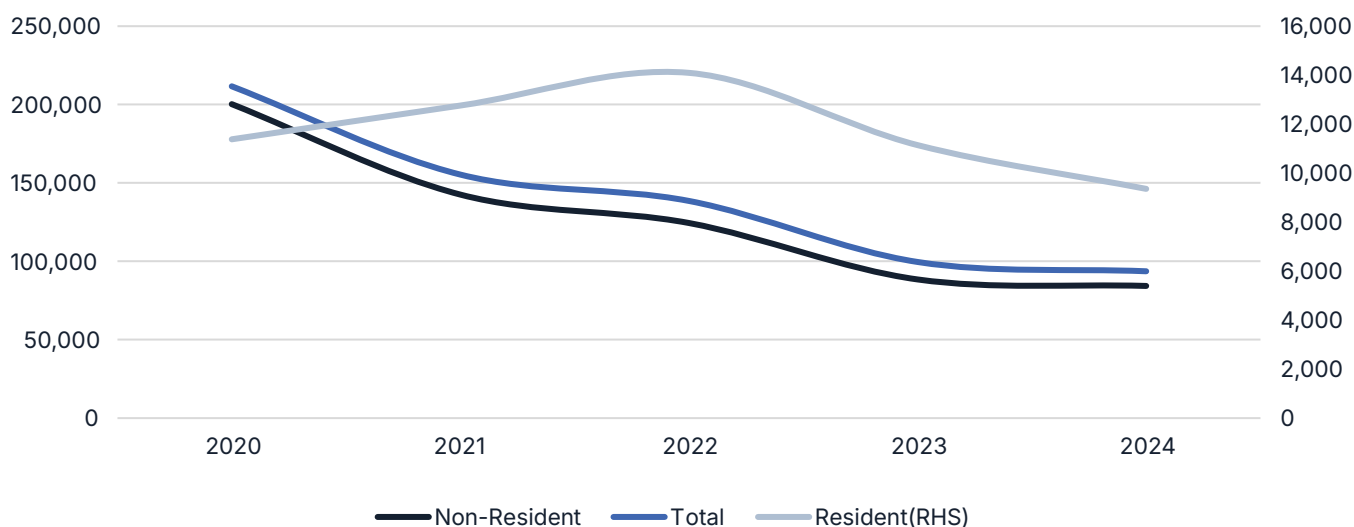
Table 3: Selected Financial Soundness Indicators⁵

Key FSIs (%)	All Banks		Category A Retail Banks	
	2024	2023	2024	2023
Total CAR	43.1	43.5	34.0	31.3
NPLs to Total Gross Loans	0.7	1.9	1.6	1.9
Liquid Assets Ratio ⁶	19.9	30.2	25.0	25.7
ROA	(0.4)	(0.7)	3.2	3.4

The Banking Sector – Loans and Advances

In comparison to 2023, both resident and non-resident loans and advances within the banking sector declined by 16 percent and 4.7 percent, respectively, leading to an overall 6 percent reduction in total banking sector loans and advances (Figure 12). This downward trend was mainly driven by a decrease in loans and advances from Category B Banks.

Figure 12: Loans and Advances - All Banks (US\$ Millions)



In 2024, resident loans and advances represented 10 percent of total sector lending, down from 11.2 percent in 2023 (Figure 13). Although interest rates remained elevated, lending to residents by Category A Retail Banks still grew by 1.4 percent year on year, highlighting ongoing stability in domestic credit conditions and the broader economy. Further discussion of resident credit dynamics is provided in the Household and Corporate Sector section. For Category A Retail Banks, total loans and advances increased by 2.1 percent in 2024, with resident lending comprising 84.7 percent of the portfolio (Figure 14).

⁵ The Financial Soundness Indicators are calculated on a consolidated basis.

⁶ Liquid assets to total assets

The expansion in resident credit was led by growth in residential and commercial mortgage lending, as well as in retail credit facilities. This performance aligns with continued momentum in the construction and real estate markets. Non-resident lending also rose modestly, reflecting a gradual rebound in cross-border demand after several years of subdued activity following 2020.

Figure 13: Resident Loans and Advances (US\$ Millions)

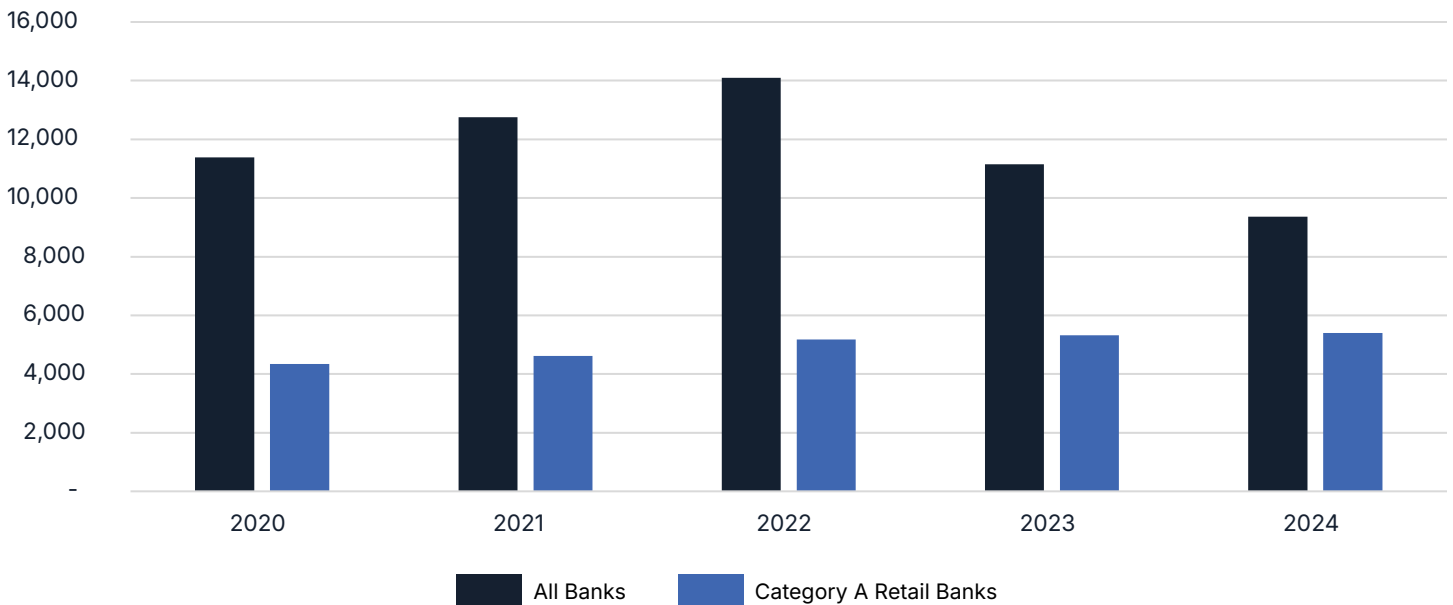
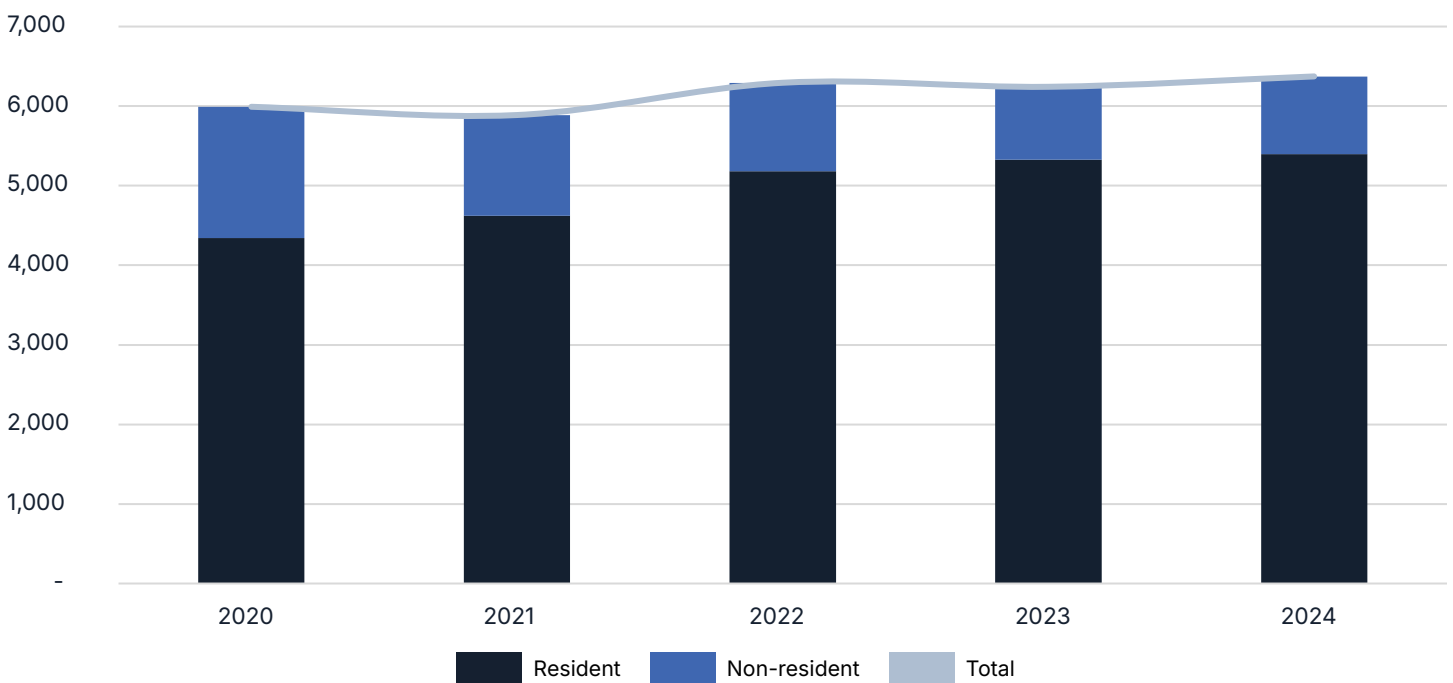


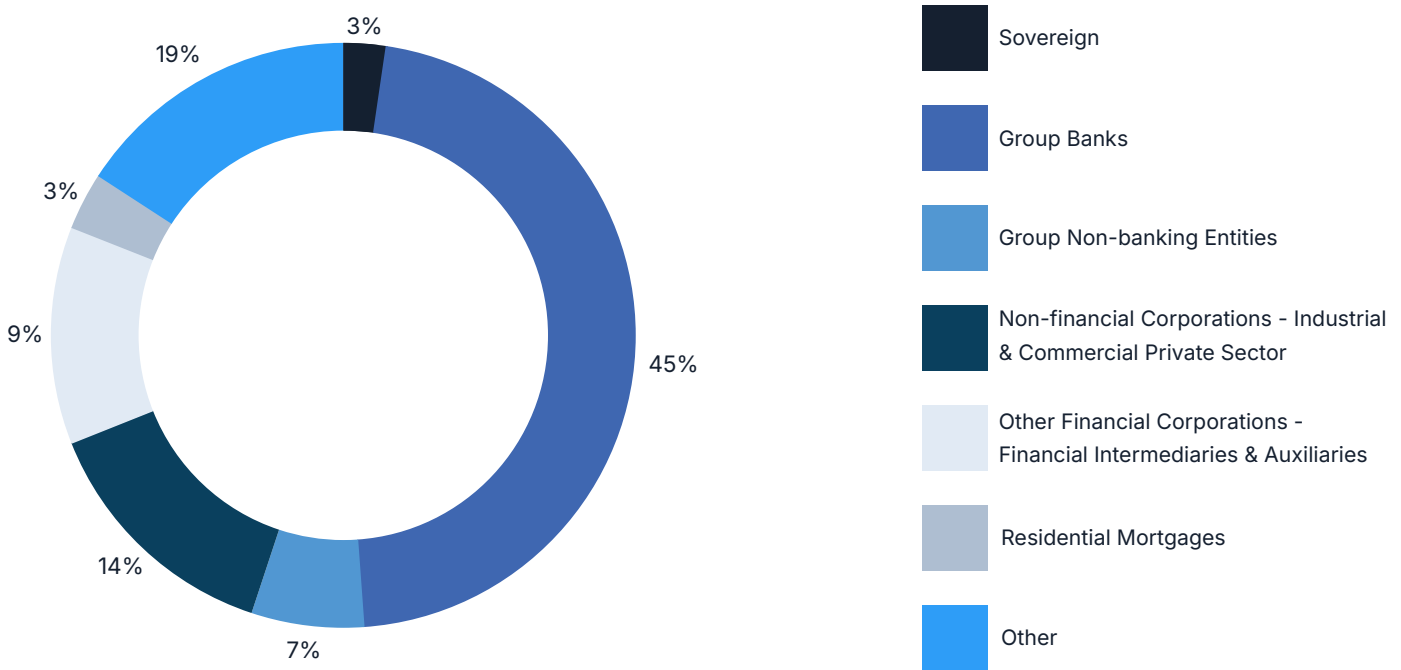
Figure 14: Loans and Advances - Category A Retail Banks (US\$ Millions)



Loans and advances by counterparty type

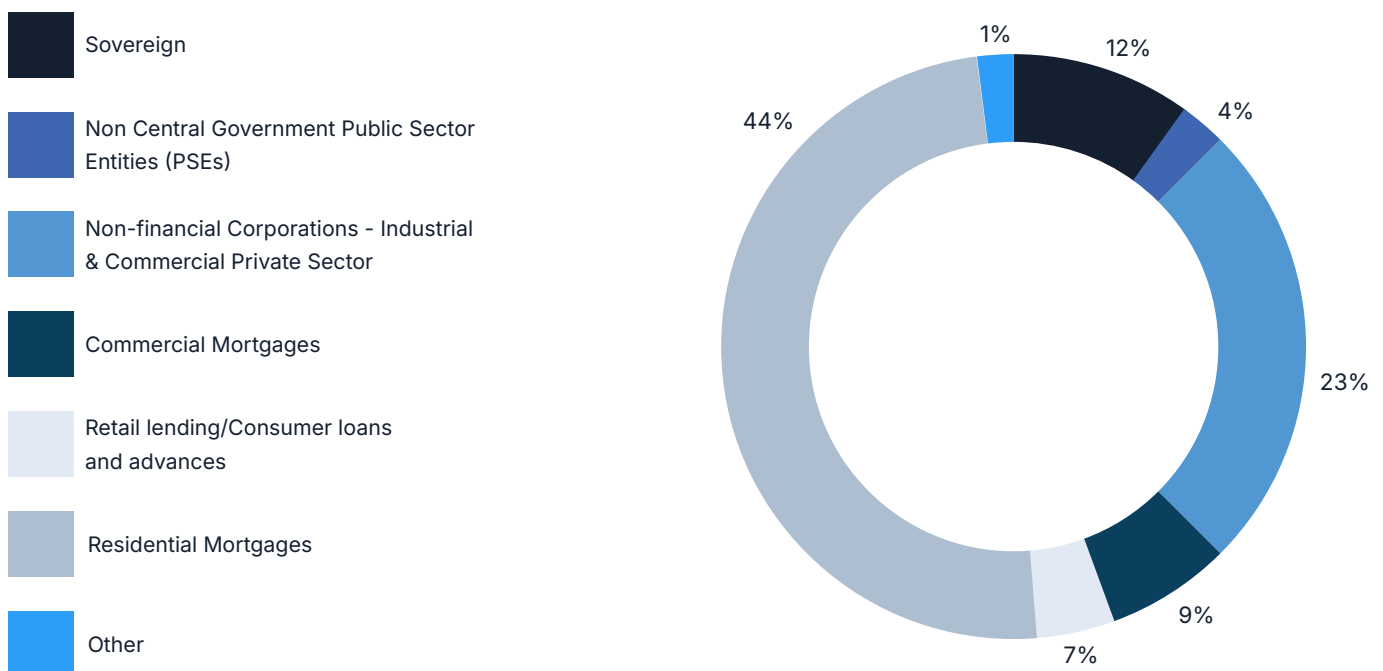
Across the entire banking sector, loans and advances to group-related banking and non-banking entities accounted for 52 percent of total lending (Figure 15). This significant concentration reflects the business models of many Category B Banks, several of which are structured primarily to provide financial services to their affiliated or parent entities within international banking groups.

Figure 15: Loans and Advances by Counterparty Type – All Banks



For Category A Retail Banks, residential mortgages and lending to non-financial corporations in the industrial and commercial sectors together represent 67 percent of the total loans and advances portfolio. Exposure to related entities remains minimal, accounting for less than 1 percent of total loans and advances (Figure 16).

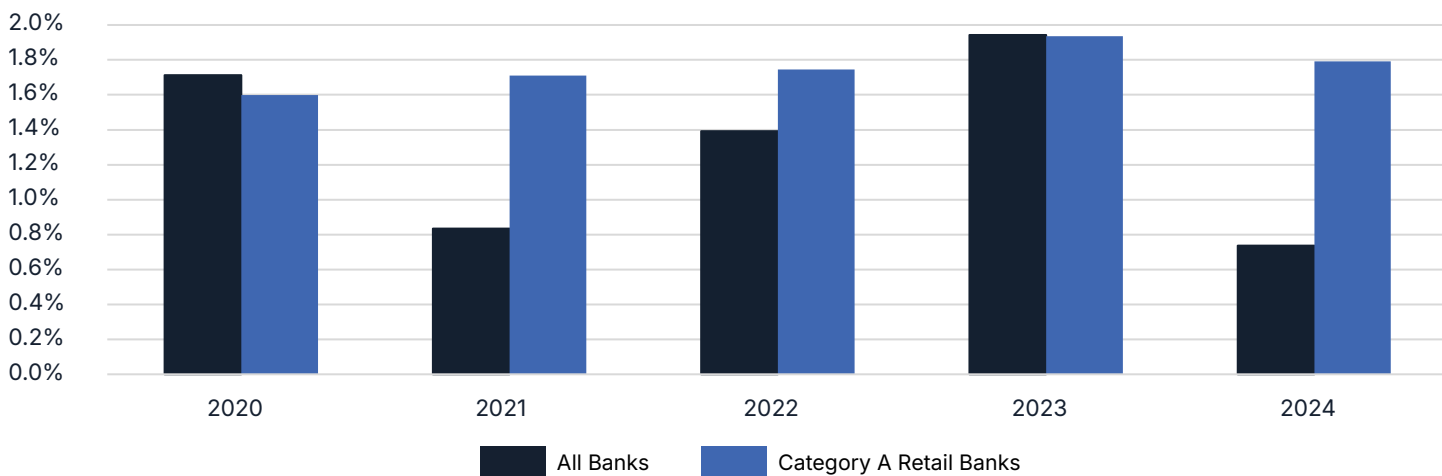
Figure 16: Loans and Advances by Counterparty Type – Category A Retail Banks



The Banking Sector – Asset Quality

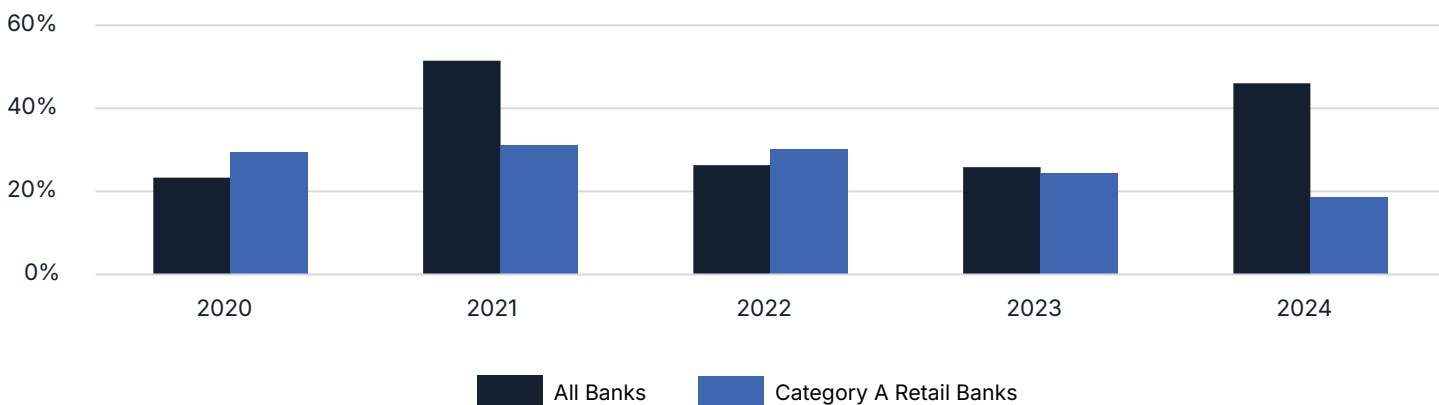
Despite the continued economic headwinds of elevated interest rates and moderate inflation, non-performing loans (NPLs) remained low and continued to decline⁷. The overall banking sector's NPL-to-total-loans ratio decreased from 1.9 percent in 2023 to 0.7 percent in 2024, while Category A Retail Banks recorded a slight decline from 1.9 percent to 1.8 percent over the same period (Figure 17). The reduction in sector-wide NPLs was largely supported by stable credit performance, prudent lending standards, and sustained repayment capacity across key borrower segments. Improvements in loan recoveries and portfolio quality management also contributed to the overall decline, offsetting isolated increases in NPLs among some Category B Banks.

Figure 17: NPLs to Total Gross Loans



The specific loan loss provision to NPLs ratio for the overall banking sector increased from 25.9 percent in 2023 to 46 percent in 2024, primarily reflecting a decline in NPLs rather than a rise in provisioning (Figure 18). This shift indicates stronger coverage relative to the reduced level of impaired assets. For Category A Retail Banks, the ratio showed a slight downward movement between 2023 and 2024, driven by simultaneous decreases in both NPLs and specific provisions.

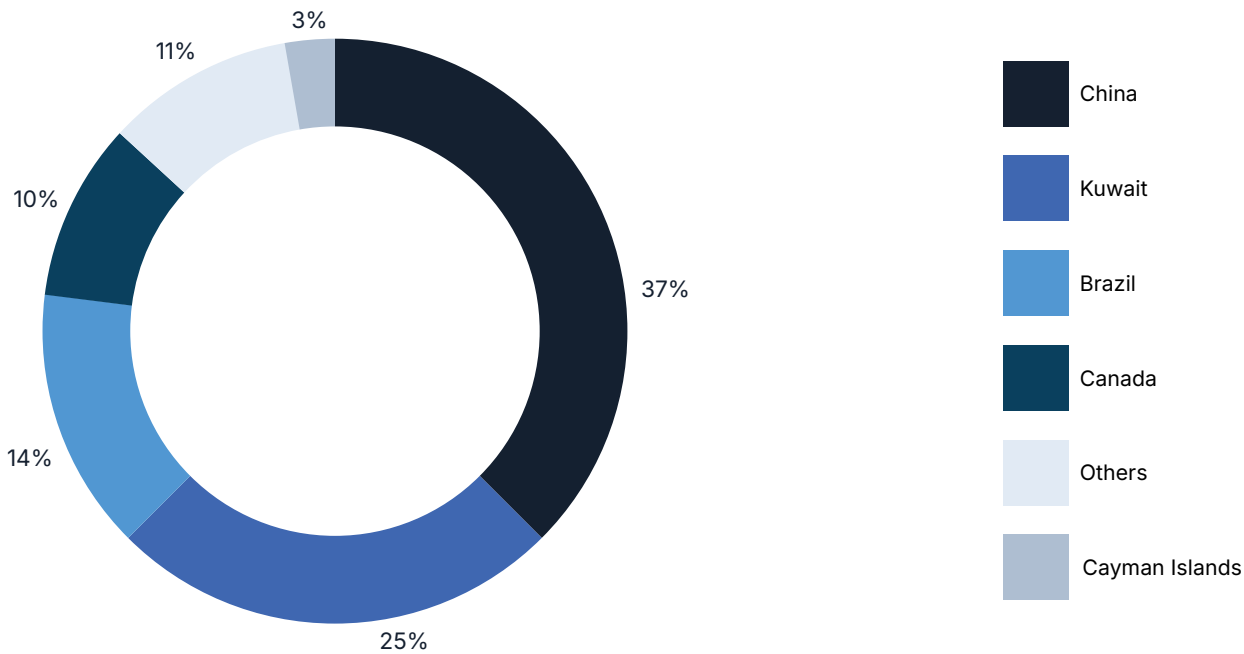
Figure 18: Specific Provisions to Total NPLs



⁷ The Asset Quality Indicators are presented on a solo basis and will differ from the FSIs on Table 3: Selected Financial Soundness Indicators*

By the end of 2024, banks with parent institutions in China, Kuwait, Brazil, and Canada accounted for 86 percent of the sector's total non-performing loans (NPLs) (Figure 19). Relative to 2023, total NPLs across the banking sector fell by 65 percent, largely reflecting notable improvements in asset quality among banks with parents based in Switzerland, India, Kuwait, and Canada. These gains were partly offset by moderate increases in NPLs reported by banks with parents in China and Brazil.

Figure 19: Non-performing Loans by Jurisdiction - All Banks



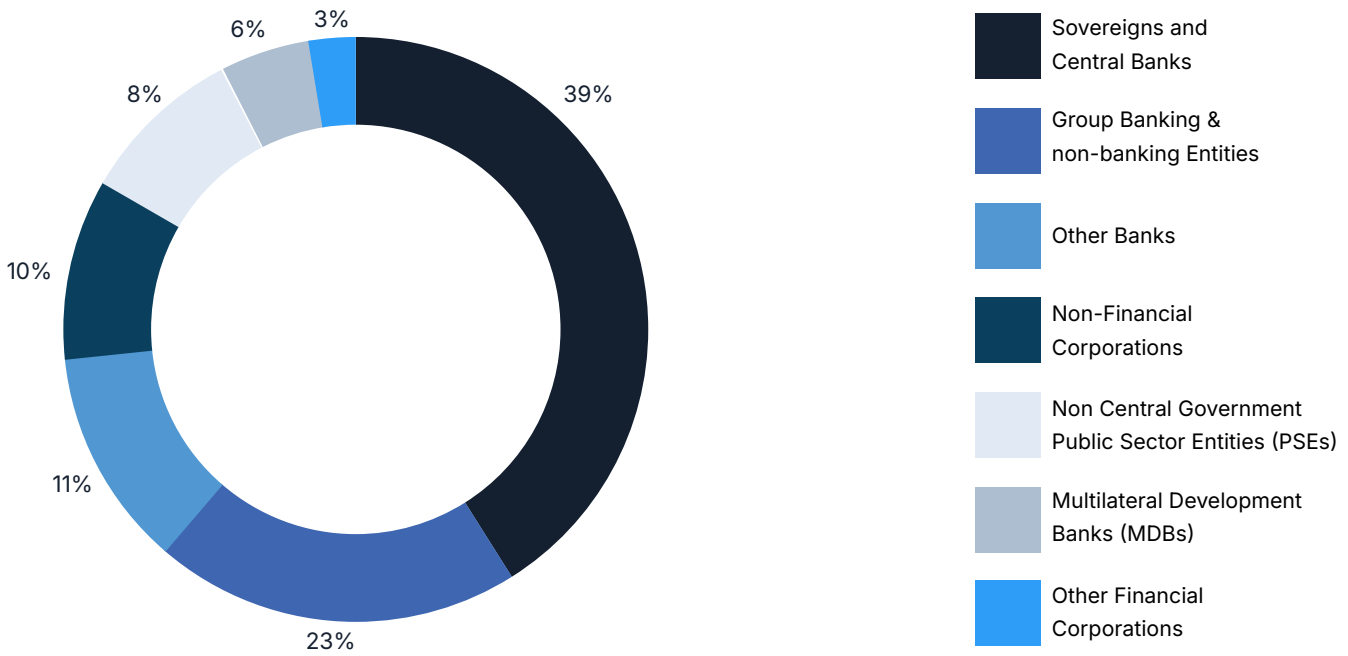
Investment Portfolio

At the end of 2024, the banking sector's investment portfolio totalled US\$ 90 billion⁸, representing 29 percent of total assets. The portfolio expanded by around 7 percent during the year, reflecting continued preference for high-quality, liquid instruments. Debt securities accounted for the vast majority of holdings at 98 percent, while funds and equities made up the remaining 2 percent. All investment positions were recorded in the banking book, as none of the regulated institutions maintained a trading book.

Within the investment portfolio, securities issued by sovereigns and central banks comprised the largest share at 39 percent, followed by exposures to group banking and non-banking entities at 23 percent, and to other banks at 11 percent. The balance consisted of investments in instruments issued by non-central government public sector entities, multilateral development banks, and other financial institutions and corporations (Figure 20).

⁸ The investment portfolio comprises of investments measured at fair value and amortised cost. The debt securities by credit rating and issuer are based on the fair value of the investment portfolio.

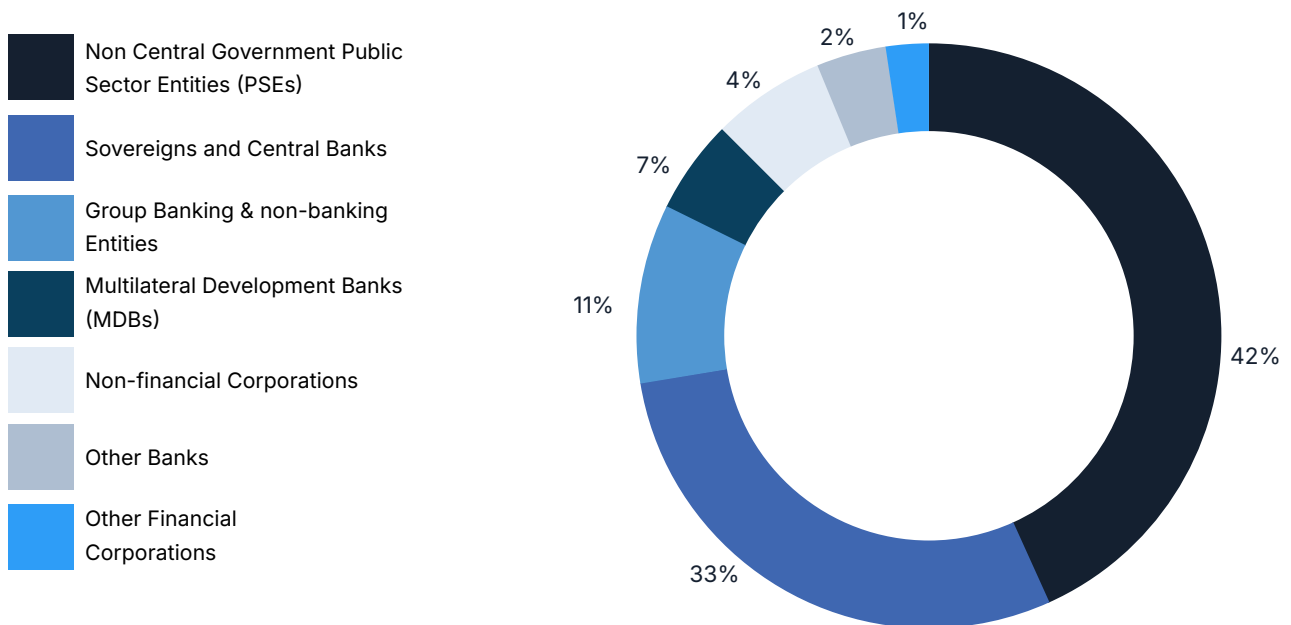
Figure 20: Investments by Issuer Type – All Banks



For Category A Retail Banks, the investment portfolio amounted to US\$ 5 billion, representing 32 percent of total assets at the end of 2024. The portfolio recorded a marginal decline of 0.6 percent during the year, reflecting a stable liquidity position and limited rebalancing activity. The portfolio remained highly conservative, with 99.9 percent invested in debt securities primarily held for liquidity management purposes, and only immaterial exposures to equities.

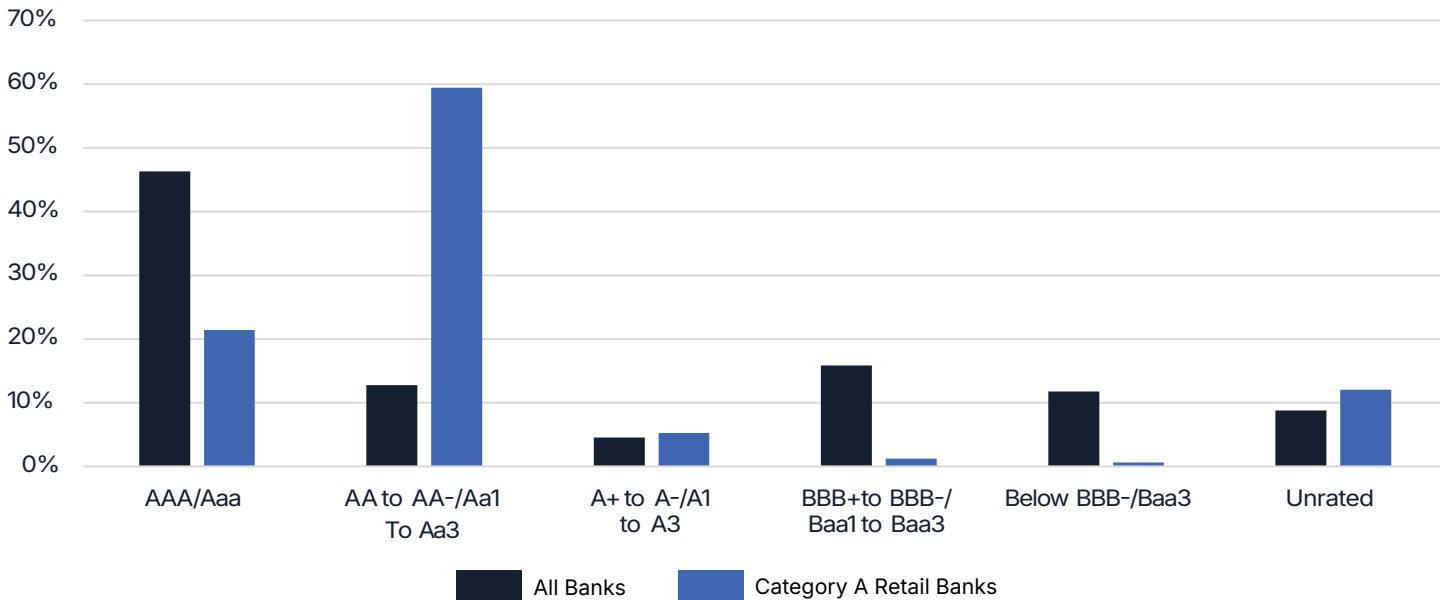
None of the Category A Retail Banks maintained a trading book, as all investments were held within the banking book. Within the investment mix, securities issued by non-central government public sector entities accounted for the largest share at 42 percent, followed by sovereigns and central banks at 33 percent, and group banking and non-banking entities at 11 percent (Figure 21).

Figure 21: Investments by Issuer Type – Category A Retail Banks



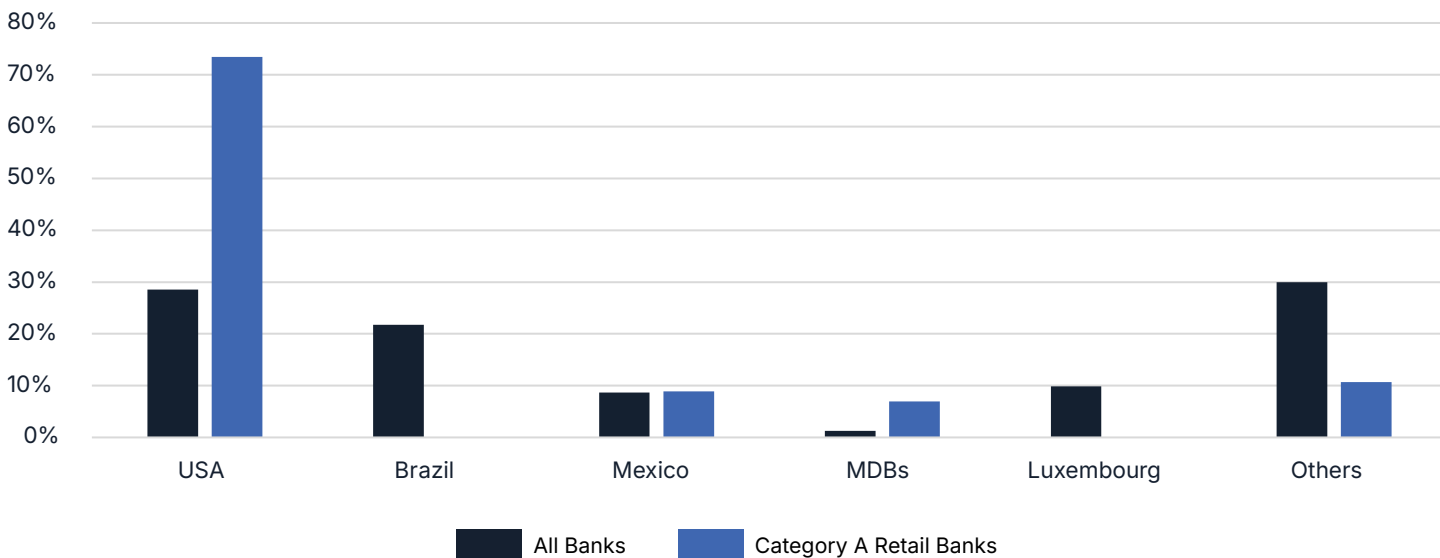
Investment grade debt securities, rated from AAA or Aaa to BBB minus or Baa3, accounted for 79 percent of the total debt securities held by the banking sector (Figure 22). For Category A Retail Banks, investment grade instruments represented 87 percent of total debt holdings. The high concentration of investment grade securities reflects the sector's ongoing focus on liquidity preservation, prudent risk management, and maintaining a conservative investment profile.

Figure 22: Debt Securities by Credit Rating



Counterparties based in the United States and Brazil accounted for 29 percent and 22 percent, respectively, of the banking sector's total investments in debt securities (Figure 23). In comparison, Category A Retail Banks showed a more concentrated exposure, with 74 percent of their debt holdings issued by US entities and 9 percent by Mexican issuers.

Figure 23: Debt Securities by Issuer Country (US\$ Millions)



The concentration of investment securities issued by entities in the United States, Brazil, and Mexico indicates that significant macroeconomic developments in these markets could meaningfully influence the value and performance of the banking sector's investment portfolio.

In terms of equity investments, approximately 75 percent are issued by companies based in the United States and the United Kingdom, primarily comprising highly rated, investment grade entities. Although equity instruments typically carry greater price volatility, the strong financial standing of these issuers and their presence in advanced markets help mitigate overall risk exposure. Notably, Category A Retail Banks hold only negligible positions in equities.

Funding and Liquidity

Funding continued to rely mainly on deposits, even as the sector's overall deposit base has steadily contracted since 2020 due to the exit of Category B banks (Figure 24). Deposits made up just over 61 percent (US\$ 178 billion) of total funding, marking a 14 percent decline compared with the four-year average. Among Category A Retail Banks, deposits remained the dominant funding source, comprising 96 percent (US\$ 13 billion) of total funding. From 2023 to 2024, these banks saw a modest fall in deposits, reflecting the reallocation of Group Bank balances toward Group Treasury Centres (Figure 25).

Figure 24: Sources of Funding – All Banks (US\$ Millions)

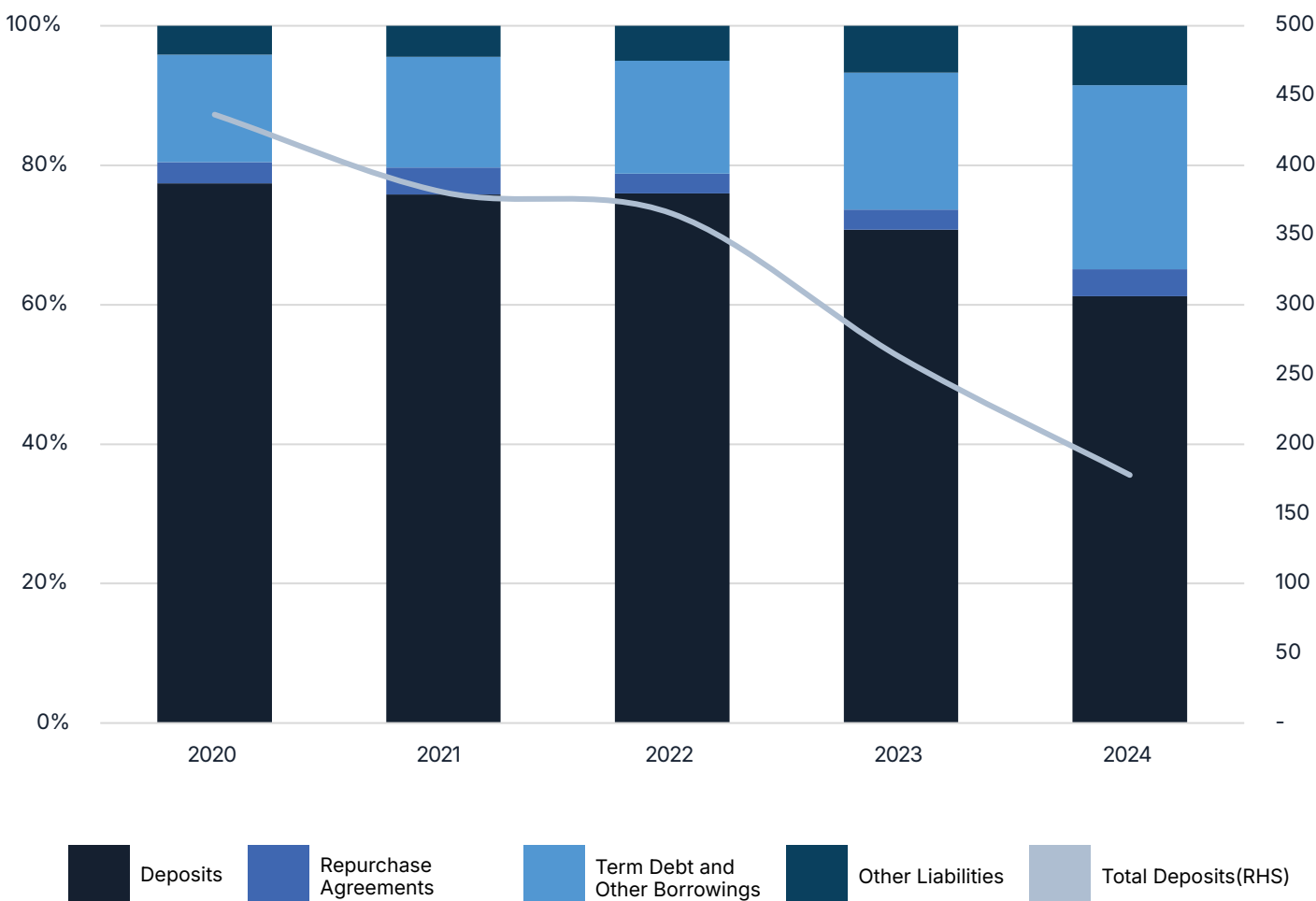
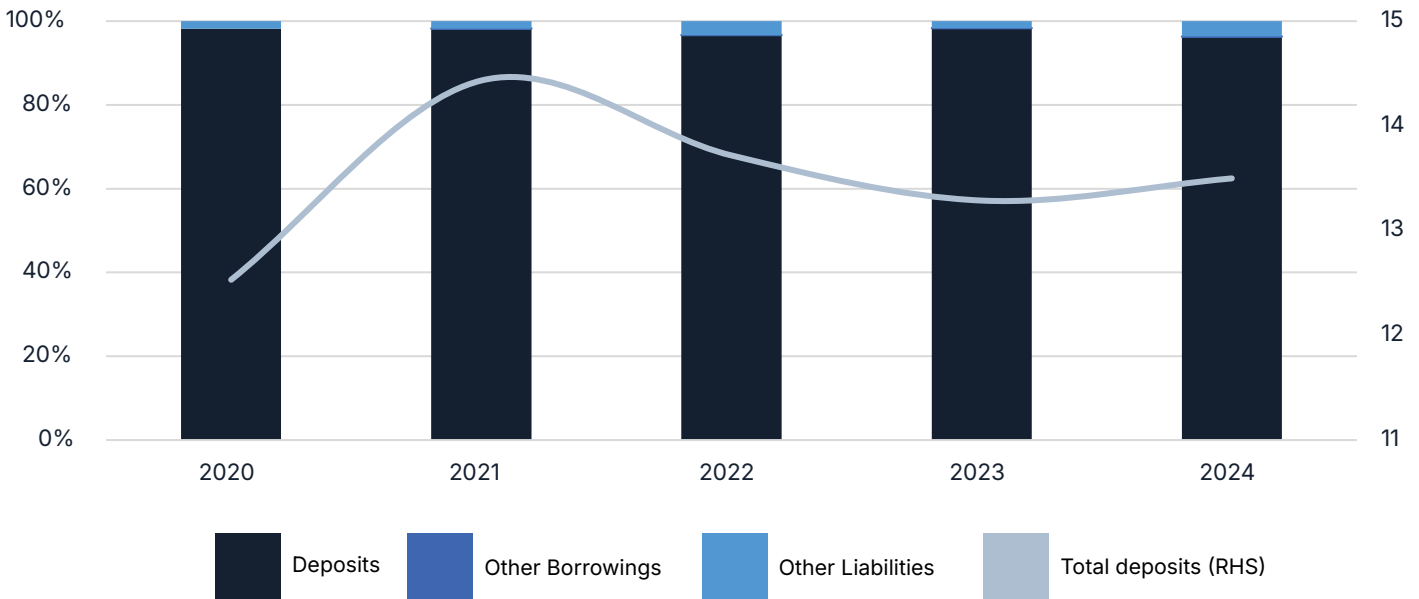


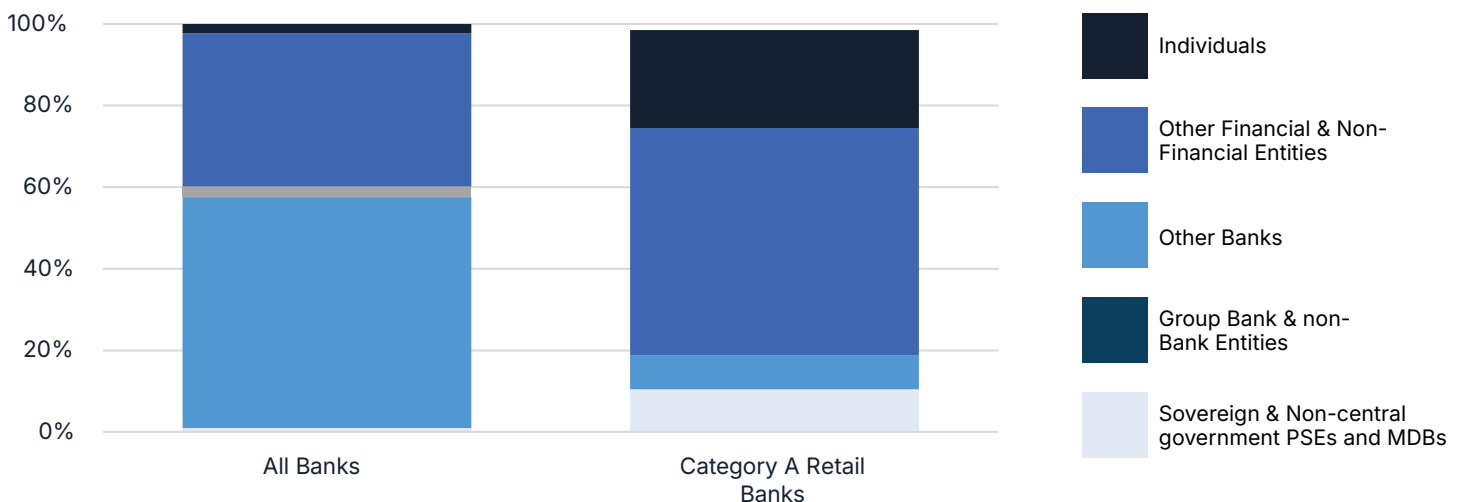
Figure 25: Sources of Funding (Deposits) – Category A Retail Banks (US\$ Millions)



Deposits from group-related entities and from other financial and non-financial institutions together made up the bulk of sector deposits, accounting for over 57 percent and 37 percent, respectively. The elevated share of deposits from group-related entities primarily reflected the structure of Category B Banks, many of which were established to serve their parent or affiliated entities. For Category A Retail Banks, deposits from other financial and non-financial institutions and individuals represented 56 percent and 24 percent of total deposits, respectively (Figure 26). Further discussion of these trends is provided in the Household and Corporate Sector section.

The sector’s loan-to-deposit ratio rose to 53 percent in 2024, up from 38 percent in 2023, driven by a sharper contraction in deposits relative to loan growth. Among Category A Retail Banks, the ratio edged higher to 50 percent from 46 percent in the previous year. Despite this increase, the figures continue to suggest that Category A Retail Banks maintain ample lending capacity.

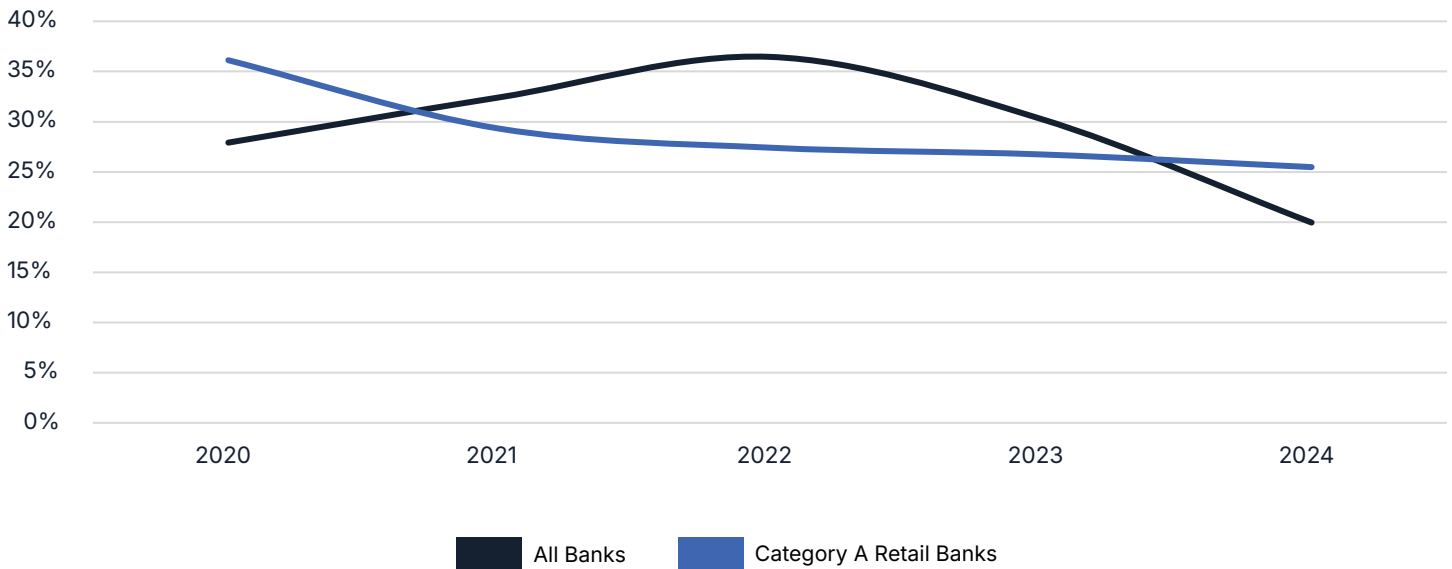
Figure 26: Sources of Customer Deposits



The liquid assets ratio, calculated as cash and cash equivalents relative to total assets, declined to 20 percent in 2024 from 30 percent in 2023 (Figure 27). The surrender of a Category B Bank license continued to affect the sector, contributing to a reduction in total assets. Despite this, overall liquidity remained strong, supported mainly by Category B Banks, which perform treasury management and sweep functions and therefore hold a large proportion of cash and cash equivalents.

For Category A Retail Banks⁹, the liquid assets ratio decreased slightly from 26.7 percent in 2023 to 25.5 percent in 2024. Their investment portfolios provide an additional source of liquidity, as discussed in the investment section. Together, the solid liquid asset position and the strength of investment portfolios support a resilient liquidity profile, even with a higher reliance on customer deposits for funding.

Figure 27: Liquid Assets Ratio



Capital Adequacy

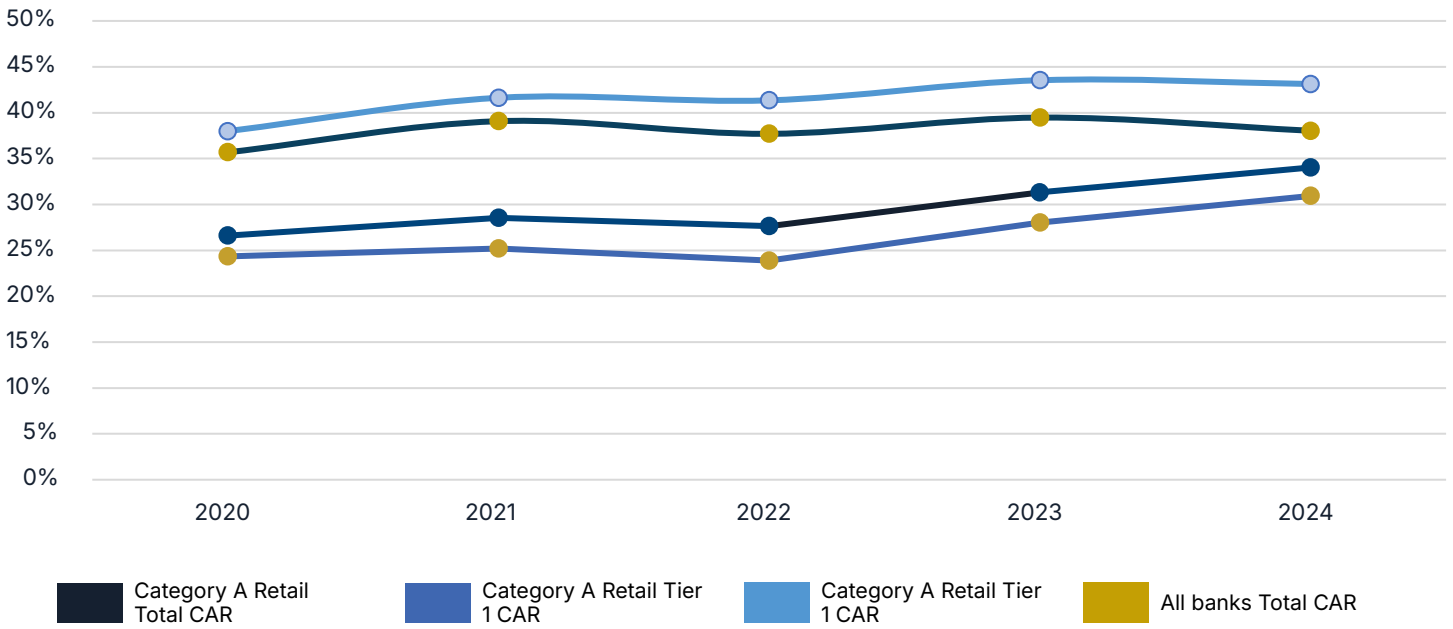
The banking sector’s capital adequacy ratio, which reflects the level of capital banks are required to maintain under regulatory standards, declined slightly to 43.1 percent in 2024 from 43.5 percent in 2023. Despite this marginal decrease, the sector remained well above the minimum requirement of 12 percent to 15 percent, as most institutions continued to hold sizeable capital buffers (Figure 28). The Tier 1 capital adequacy ratio also declined, moving from 39.5 percent in 2023 to 38 percent in 2024.

In contrast, the capital position of Category A Retail Banks strengthened, with the total capital adequacy ratio rising to 34 percent in 2024 from 31.3 percent in 2023. This improvement was mainly supported by higher regulatory capital levels resulting from stronger profitability relative to risk-weighted assets. The Tier 1 ratio increased to 30.9 percent, compared with 28 percent in the previous year.

Tier 1 capital, which represents the most stable component of a bank’s capital base, accounted for 88 percent of the sector’s total capital adequacy ratio and 91 percent for Category A Retail Banks.

⁹ The Liquid Asset Ratio is presented on a solo basis and will differ from the FSIs on Table 3: Selected Financial Soundness Indicators.

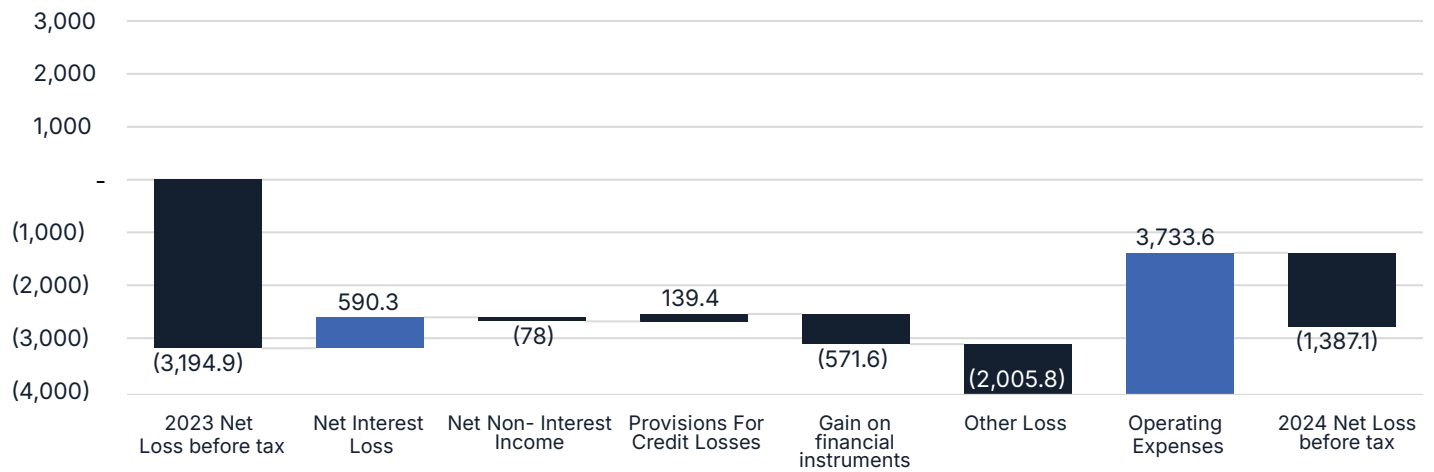
Figure 28: Capital Adequacy Ratio¹⁰



Earnings and Profitability

In 2024, the banking sector substantially reduced its net loss before tax, improving from US\$ 3,194.9 million in 2023 to US\$ 1,387.1 million, a 56.6 percent improvement in overall performance. The improvement was mainly driven by lower net interest losses of US\$ 590.3 million, reduced provisions for credit losses of US\$ 139.4 million, and a significant decrease in operating expenses of US\$ 3,733.6 million. These gains were partly offset by an increase in other losses of US\$ 2,005.8 million, along with declines in gains on financial instruments and net non-interest income of US\$ 571.6 million and US\$ 78 million, respectively.

Figure 29: Drivers of Profitability – All Banks (US\$ Millions)

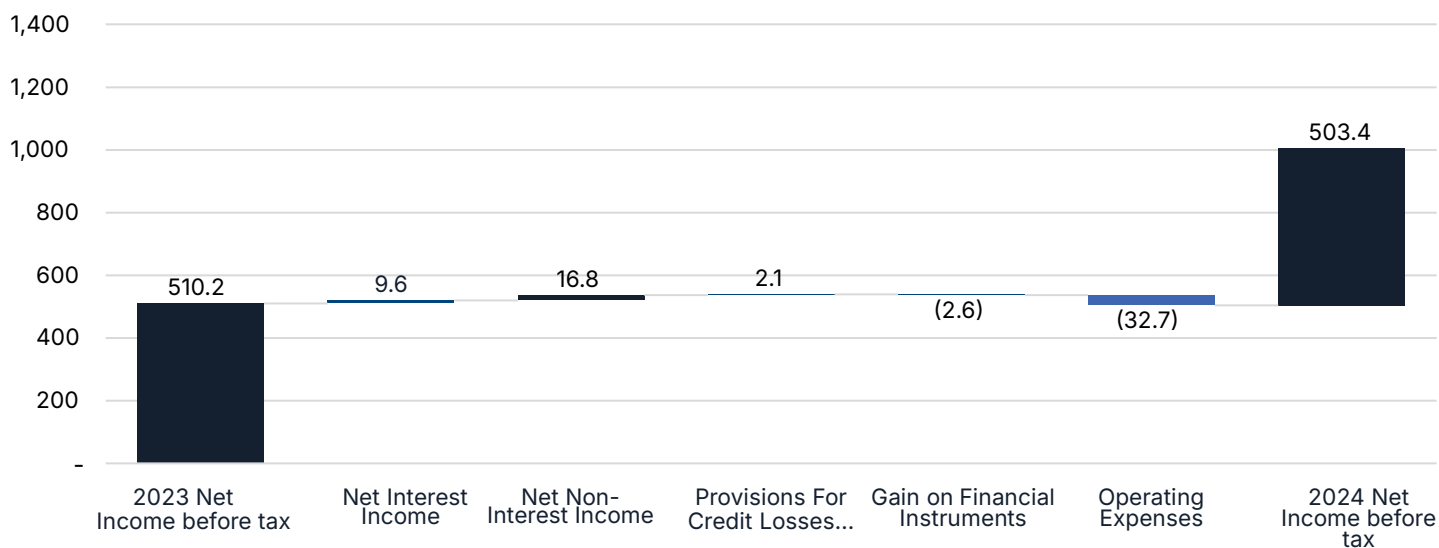


¹⁰ CAR for all banks does not include branches as they are not subject to the Authority's Capital Requirements.

The banking sector's net interest loss and overall net loss in 2024 were largely influenced by two outlier Category B Banks that recorded substantial losses. These were linked to the unique characteristics of their business models and a one-off transaction that generated significant losses due to adverse results from associated companies. Excluding these institutions, the sector would have reported a net interest income of US\$ 2 billion in 2024 (2023: US\$ 2.6 billion) and a net income of US\$ 3.3 billion (2023: US\$ 3 billion).

For Category A Retail Banks, both net interest income and net non-interest income rose by US\$ 9.6 million and US\$ 16.8 million, respectively, while provisions for credit losses fell by US\$ 2.1 million. These improvements were partly offset by a US\$ 2.6 million decline in gains from financial instruments and a US\$ 32.7 million increase in other operating expenses. Overall, income before tax declined slightly by US\$ 6.8 million, from US\$ 510.2 million in 2023 to US\$ 503.4 million in 2024. This marginal reduction reflected normal business activity rather than any specific event (Figure 30).

Figure 30: Drivers of Profitability – Category A Retail Banks (US\$ Millions)



Relative to 2023, the banking sector reported a slight increase in Return on Equity (ROE) from 15.2 percent to 16.5 percent (Figure 31). Return on Assets (ROA) also improved from negative 0.7 percent in 2023 to negative 0.4 percent in 2024 (Figure 32). The ROE excludes the branches because they are not separate legal entities and do not necessarily have standalone equity, while the ROA includes branches performance. The net loss for branches was US\$ 2.9 billion (2023: US\$ 4.6 billion). The slight change in the ROA is due to the decrease in net loss and the average assets as a result of the proportional change in both variables. The ROE for Category A Retail Banks declined from 25.9 percent to 21.6 percent, primarily due to higher equity levels, while ROA decreased from 3.4 percent to 3.2 percent as a result of lower profitability relative to total assets.

Figure 31: Return on Equity

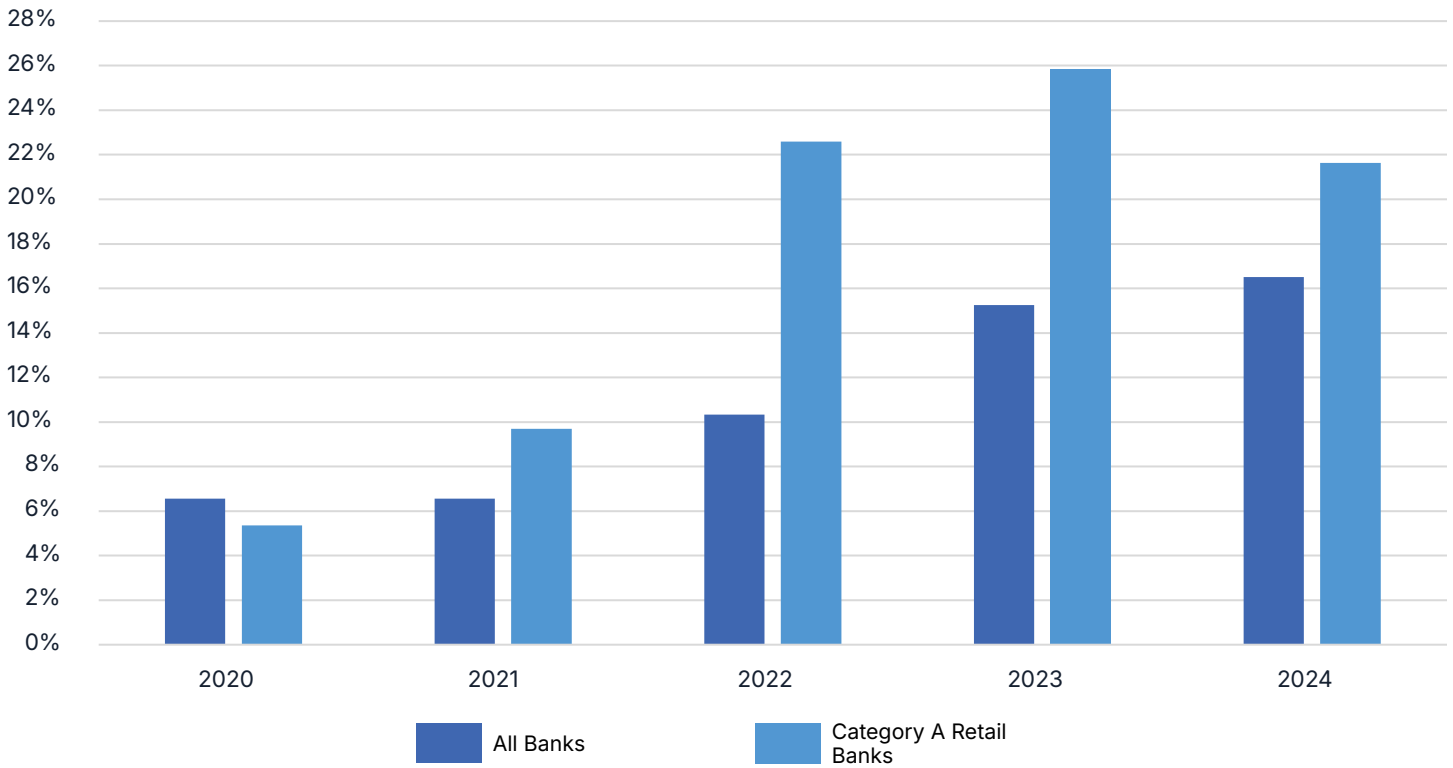
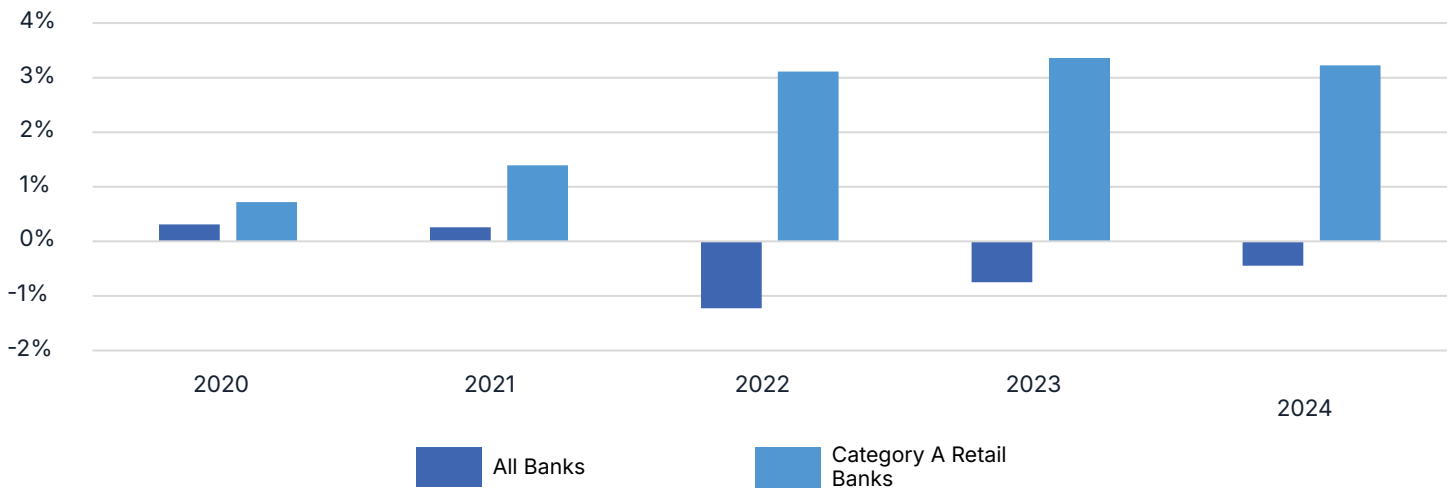


Figure 32: Return on Assets



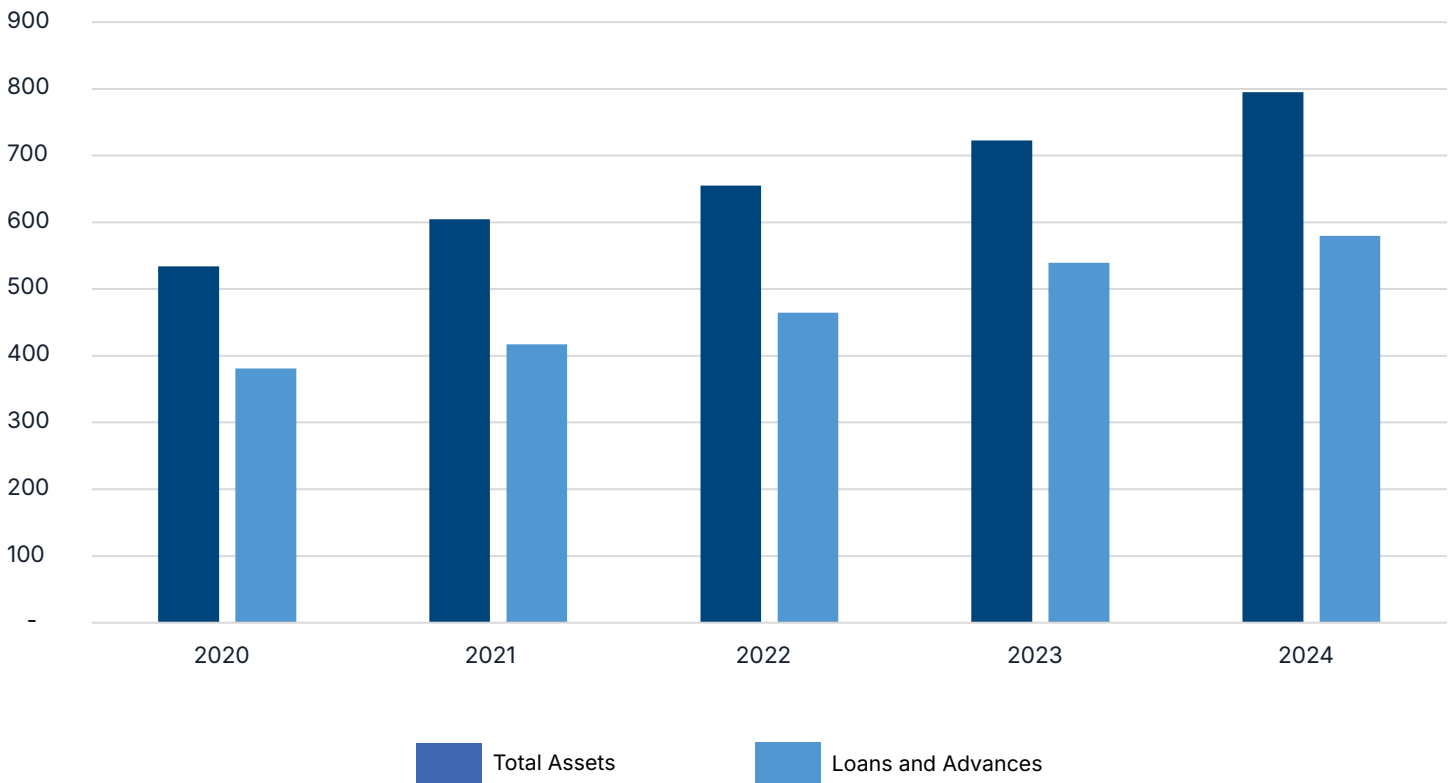
Societies

By the end of 2024, the total assets of the Societies represented about 12.6 percent of the total resident assets held by Category A institutions. The Societies' asset base grew by 10 percent to reach US\$ 795.1 million, up from US\$ 722.8 million in 2023 (Figure 33).

Loans and Advances

Loans and advances continued to expand, increasing by 7.5 percent to US\$ 579.7 million. The Societies' lending activity remains concentrated among domestic household members. At the close of the fiscal period, total loans and advances accounted for 10 percent of Category A Retail Banks' total resident loans and 17.6 percent of their total resident household loans.

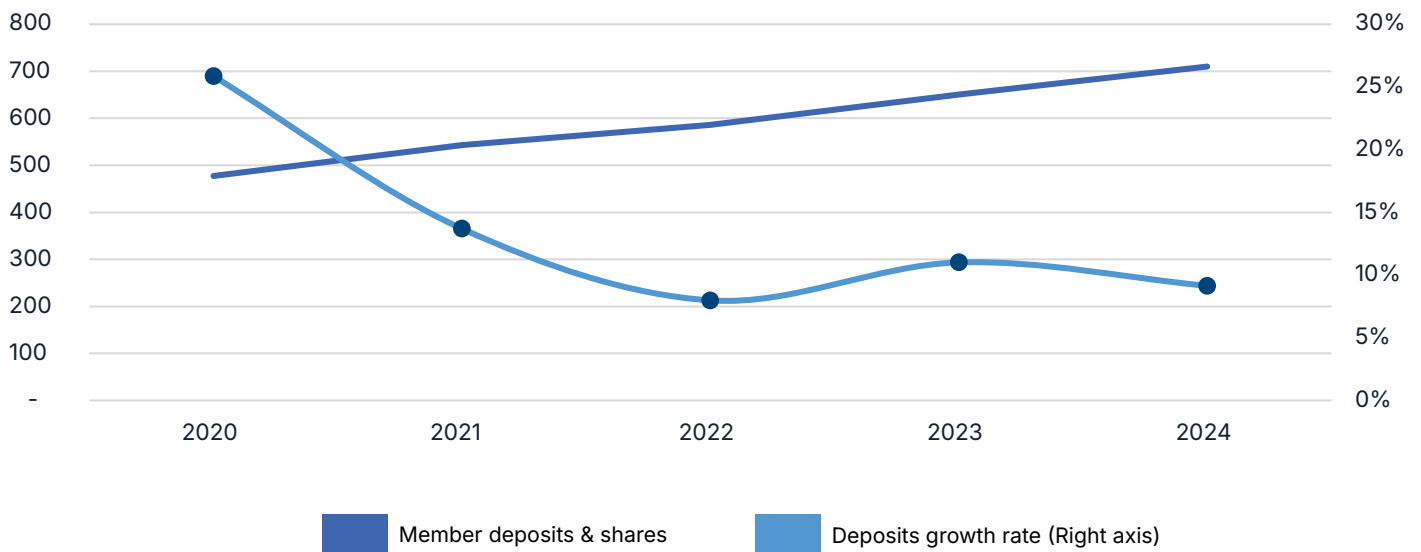
Figure 33: Societies' Total Assets and Total Loans and Advances (US\$ Millions)



Funding

Member deposits remained the primary funding source for the Societies. Over the year, total member deposits rose by 9.1 percent to US\$ 710 million, supported by the attractive returns offered on deposits. However, the pace of deposit growth slowed compared with the previous year, easing to 9.1 percent from 11.0 percent in 2023 (Figure 34). Growth in deposits continued to reflect changes in membership levels and members' savings behaviour.

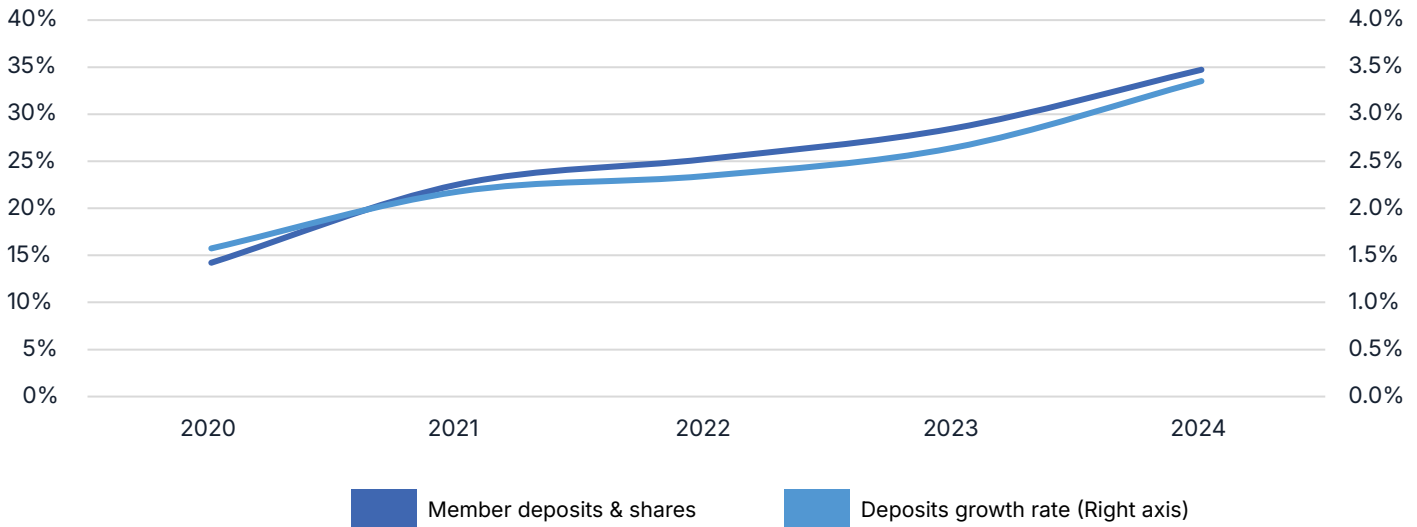
Figure 34: Societies' Member Deposits (US\$ Millions)



Profitability

ROA increased by 0.7 percentage points to 3.3 percent in 2024, up from 2.6 percent in 2023, while ROE rose to 34.7 percent from 28.5 percent over the same period. The improvement in both ROA and ROE was largely driven by a 39.6 percent increase in net income (Figure 35).

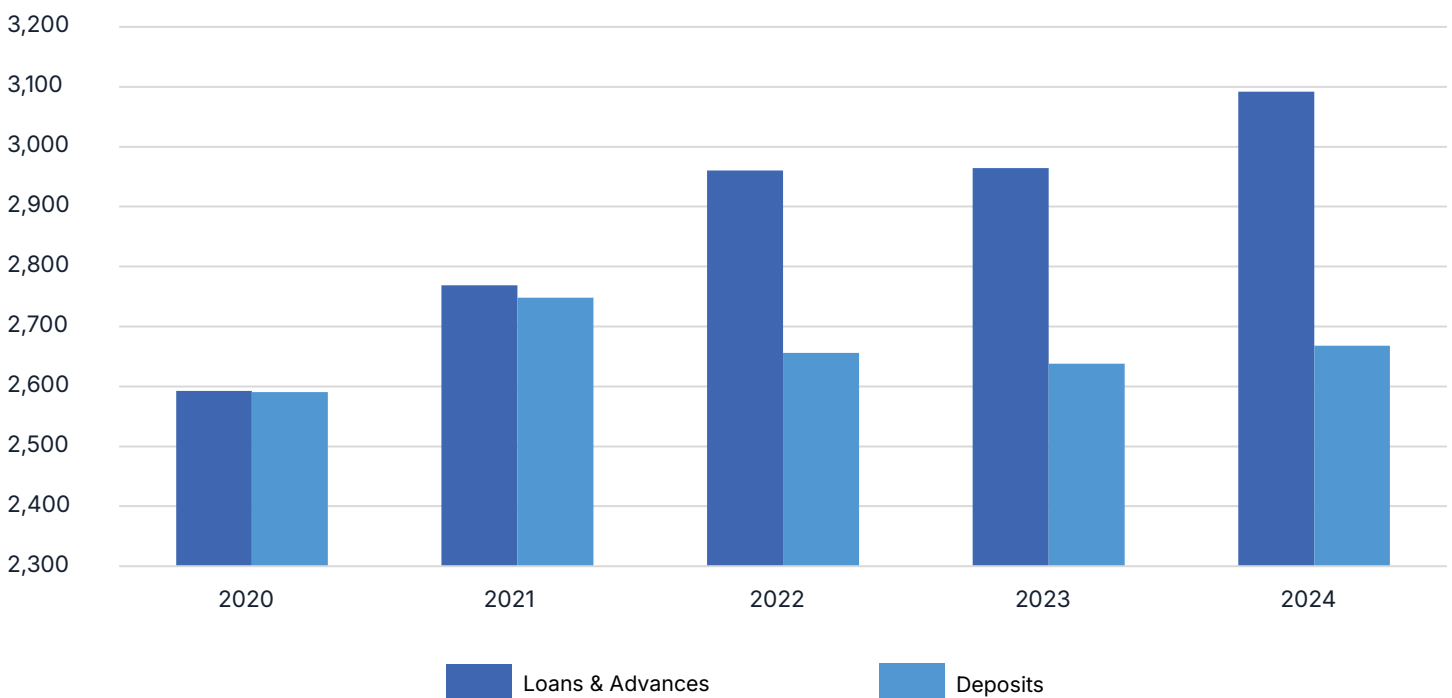
Figure 35: Societies' ROA and ROE



Domestic Household and Corporate Sector Review

Household credit grew by 4.3 percent to US\$ 3.1 billion in 2024, up from US\$ 2.9 billion in 2023. Household deposits also edged higher, rising by 1.1 percent to US\$ 2.67 billion compared with US\$ 2.64 billion a year earlier. In contrast, credit to the corporate sector recorded a slight decline of 0.1 percent to US\$ 1.6 billion, while corporate deposits expanded by 9.7 percent to reach US\$ 3.2 billion (Figure 36).

Figure 36: Resident Household Credit and Deposits – All Banks (US\$ Millions)

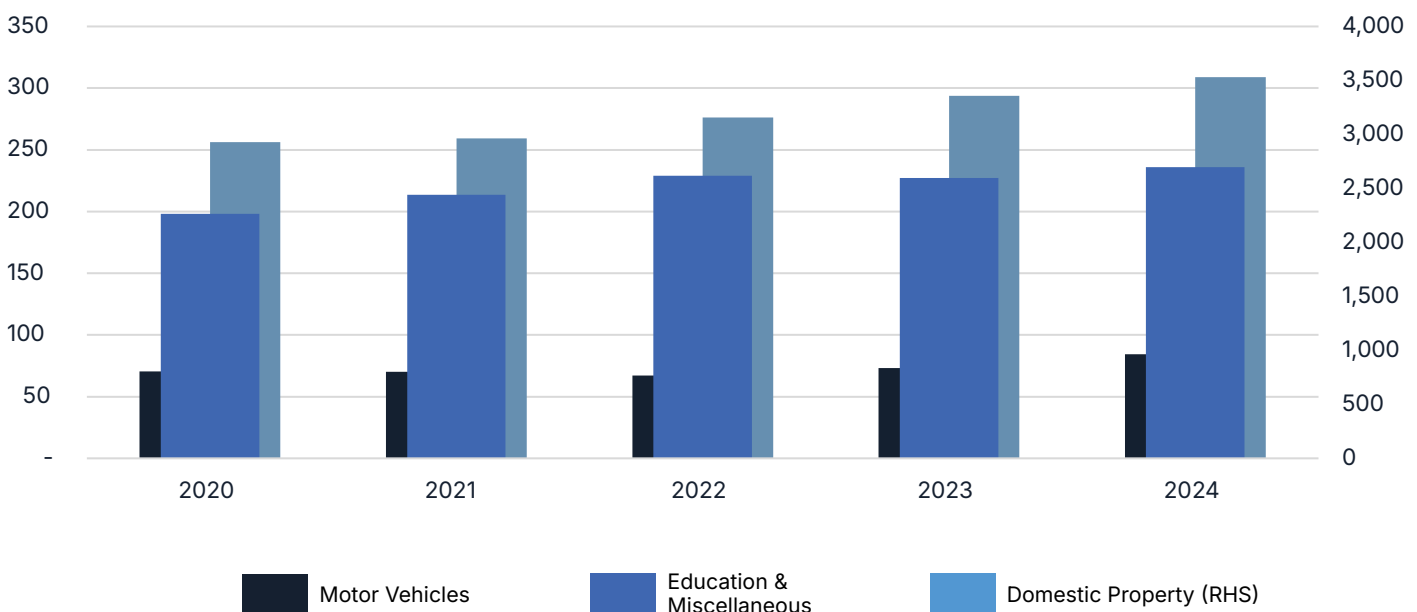


Household Sector

As noted, household credit¹¹ rose to US\$ 3.1 billion in 2024, representing 42.3 percent of the Cayman Islands' nominal GDP. The household credit-to-GDP ratio¹² remained below that of advanced economies (67 percent), G20 countries (54.4 percent), and emerging markets (45.9 percent)¹³.

Household deposits continued to provide a stable funding base for banks. In 2024, household deposits as a share of loans declined slightly from 89 percent to 86.3 percent, reflecting normal consumer spending patterns. Of total household deposits, 81.5 percent comprised savings and fixed deposits, while 18.5 percent were held in demand deposits. Domestic property lending remained the dominant component of household credit, amounting to US\$ 2.7 billion or 87.3 percent of the total. Other credit categories included motor vehicles, education, and miscellaneous loans (Figure 37). Year-on-year growth was recorded across all segments, with motor vehicle credit up 15.4 percent, education loans rising 5.2 percent, and domestic property credit increasing 3.9 percent. These movements were broadly in line with the overall increase in household credit demand.

Figure 37: Household Loans and Advances by Type – All Banks (US\$ Millions)



Foreclosures

Foreclosure refers to the legal process by which banks recover outstanding debts when borrowers fail to meet their repayment obligations. It is generally viewed as a lagging indicator of asset quality, as proceedings typically begin only after a borrower defaults.

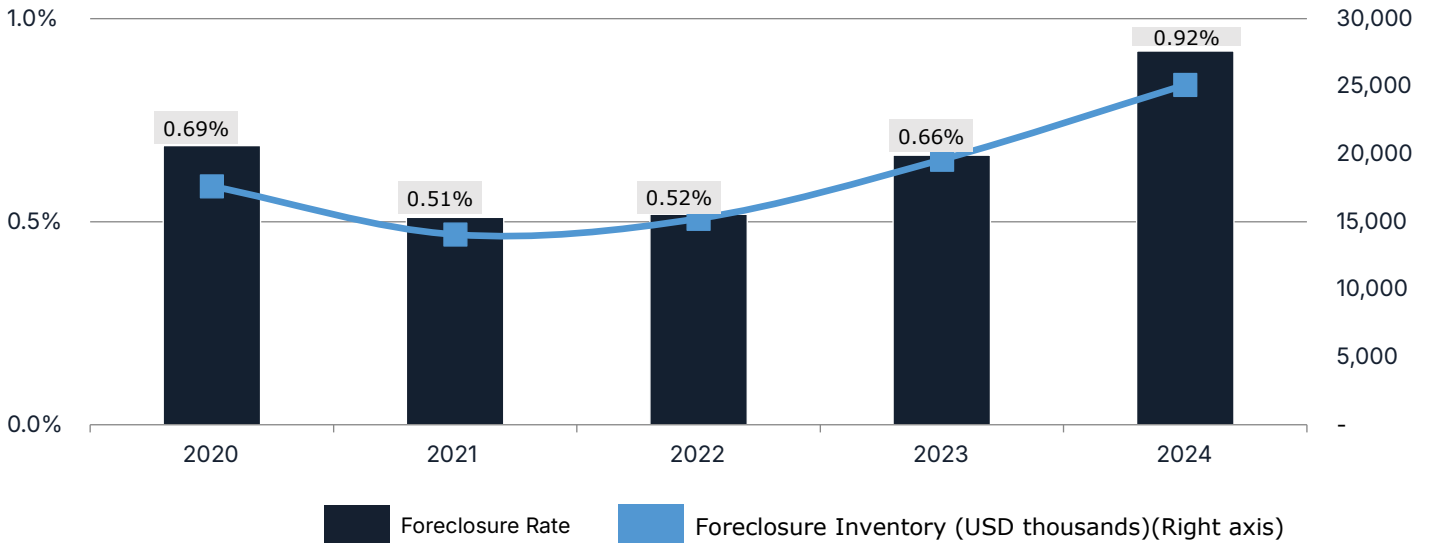
Despite steady growth in total residential mortgages since 2020, the foreclosure rate has remained below 1 percent for the past five years. Between 2023 and 2024, the rate rose marginally to 0.92 percent, continuing to indicate a resilient lending environment and sound credit quality.

¹¹ Includes immaterial credit and deposits for NPIs.

¹² 2024 GDP at current purchaser figures based on ESO estimates.

¹³ Based on BIS statistics for Q4 2024 at PPP exchange rates.

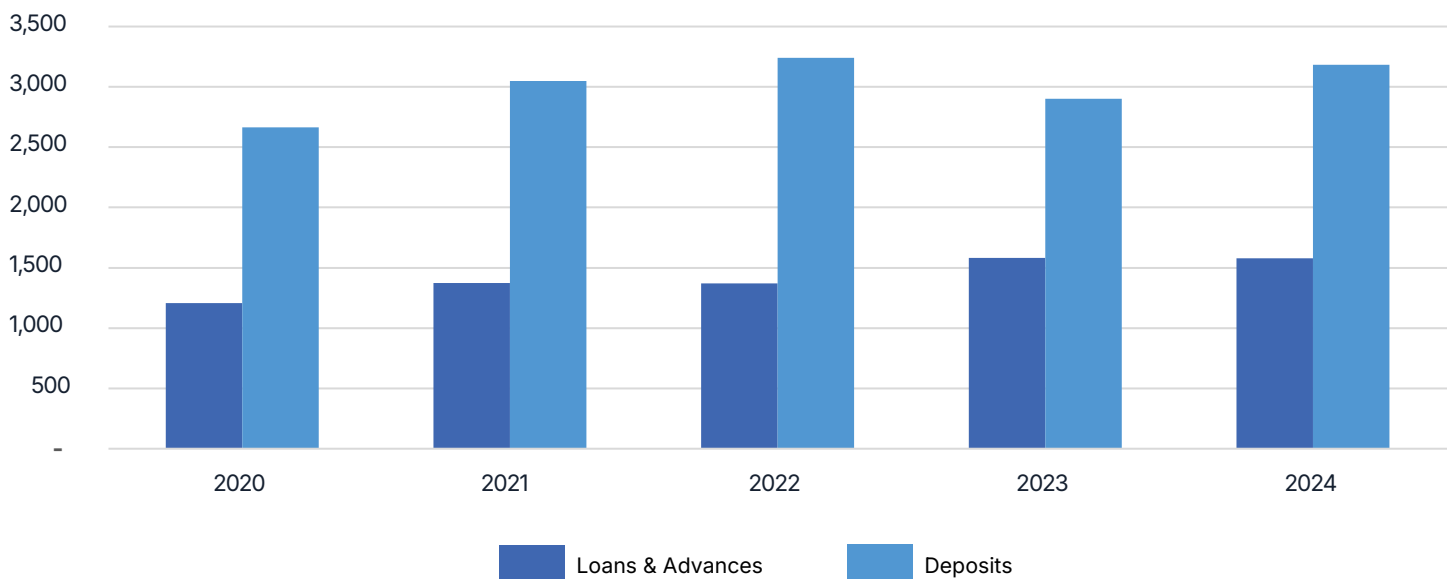
Figure 38: Foreclosure Rate



Corporate Sector

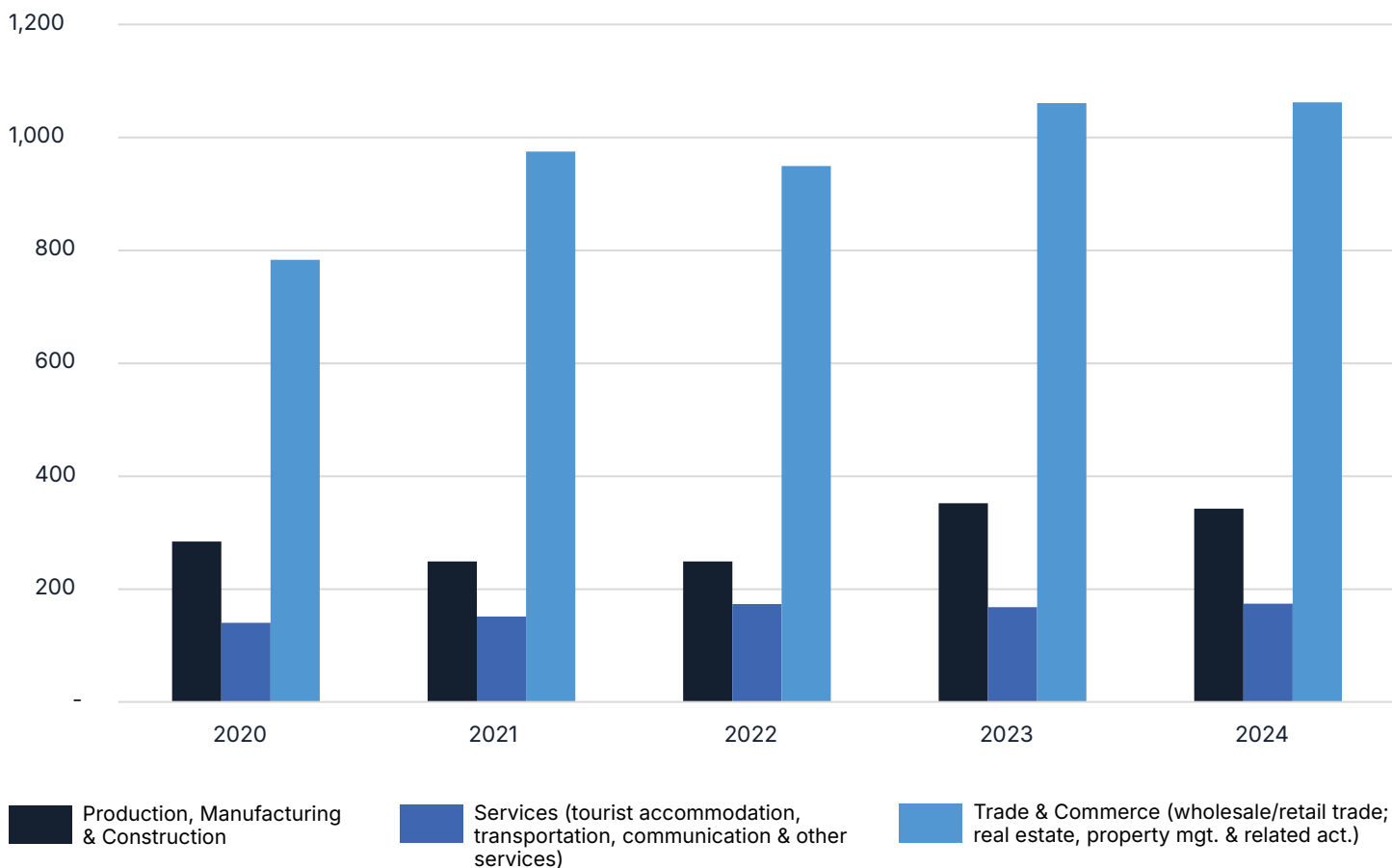
Corporate sector loans declined slightly by 0.1 percent in 2024, while deposits grew by 9.7 percent. Credit extended to the corporate sector was 51.1 percent lower than that to households, whereas corporate deposits surpassed household deposits by 19.3 percent (Figure 39). The relatively lower level of corporate borrowing reflects the sector’s continued solid financial standing. Corporate sector credit represented 21.6 percent of the Cayman Islands’ nominal GDP. These debt levels do not point to over-indebtedness, as the corporate credit-to-GDP ratio remains well below those of other economies. By comparison, the ratios for G20, advanced, and emerging economies stood at 88.7 percent, 86.6 percent, and 94 percent, respectively.

Figure 39: Corporate Credit and Deposits – All Banks (US\$ Millions)



In 2024, corporate sector credit was concentrated mainly in Trade and Commerce, which accounted for 67.3 percent (US\$ 1.06 billion). Production, Manufacturing and Construction made up 21.7 percent (US\$ 342 million), while the Services industry represented 11 percent. (US\$ 174 million) (Figure 40). Compared with the previous year, credit to the Services industry increased by 3.7 percent, and Trade and Commerce recorded a marginal rise of 0.1 percent. Meanwhile, credit to Production, Manufacturing and Construction declined by 2.8 percent. The increase in credit to the Services industry reflected the sector’s continued expansion, supported by steady growth in stayover visitor arrivals and the sustained demand for tourism-related services.

Figure 40: Corporate Credit by Industry– All Banks (US\$ Millions)



Interest Rates

Monetary conditions eased as the weighted average lending¹⁴ and deposit rates declined, reflecting the U.S. Federal Reserve’s shift in policy direction. After raising rates through 2022 and 2023 to contain inflationary pressures, the Federal Reserve began cutting rates in the second half of 2024. Reductions of 50 basis points on 18 September, 25 basis points on 7 November, and a further 25 basis points on 18 December brought the prime rate to 7.5 percent by year-end.

The weighted average KYD lending rate fell to 9.28 percent, while the USD lending rate rose slightly to 8.36 percent (Figure 41). The KYD deposit rate increased by 6 basis points, with minimal movement in USD deposit rates. Deposits generally reprice faster than loans and advances due to their shorter maturities. Consistent with historical trends, KYD lending deposit rates remained higher than their USD counterparts (Figure 42). USD-denominated assets and liabilities accounted for 76 percent and 69 percent of total assets and liabilities, respectively.

¹⁴ The weighted average lending rates are derived from the average midpoint rates of both secured and unsecured loans.

Figure 41: Weighted Average Lending Rates – Category A Retail Banks

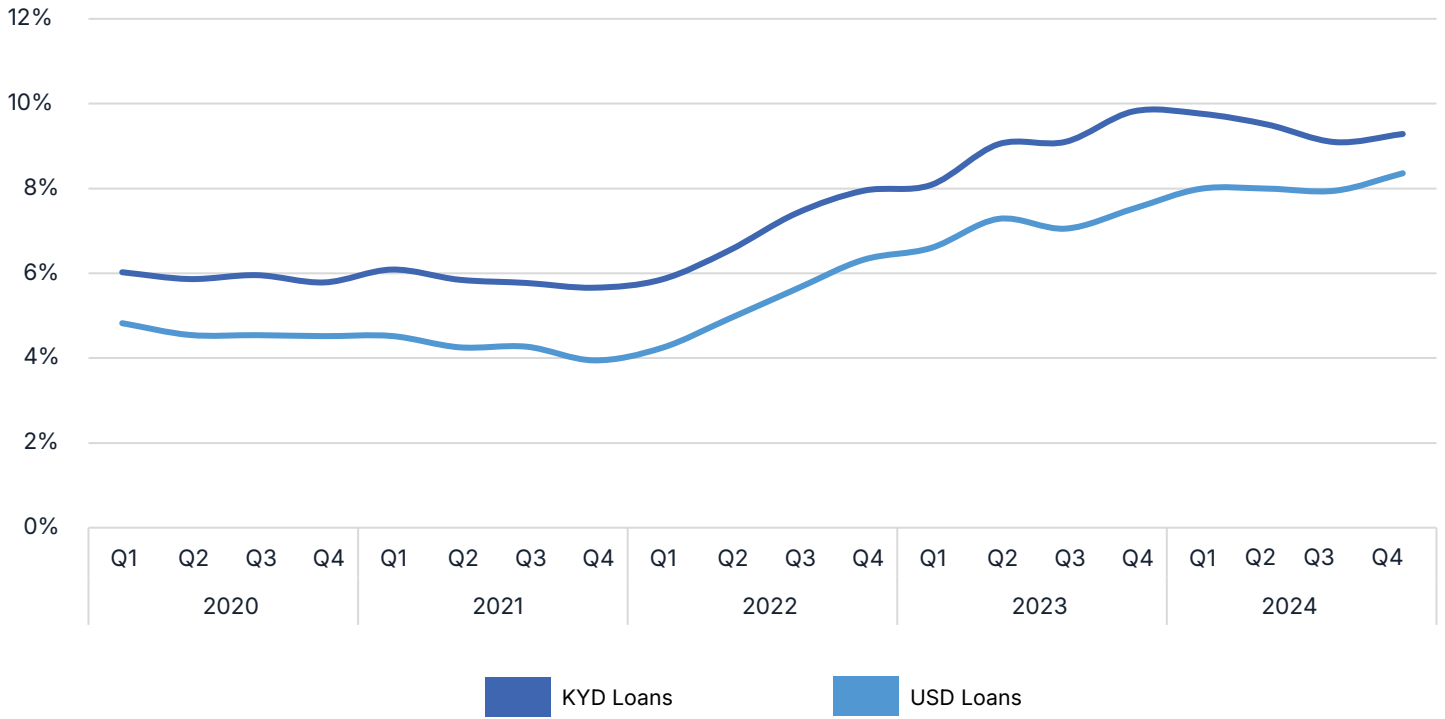
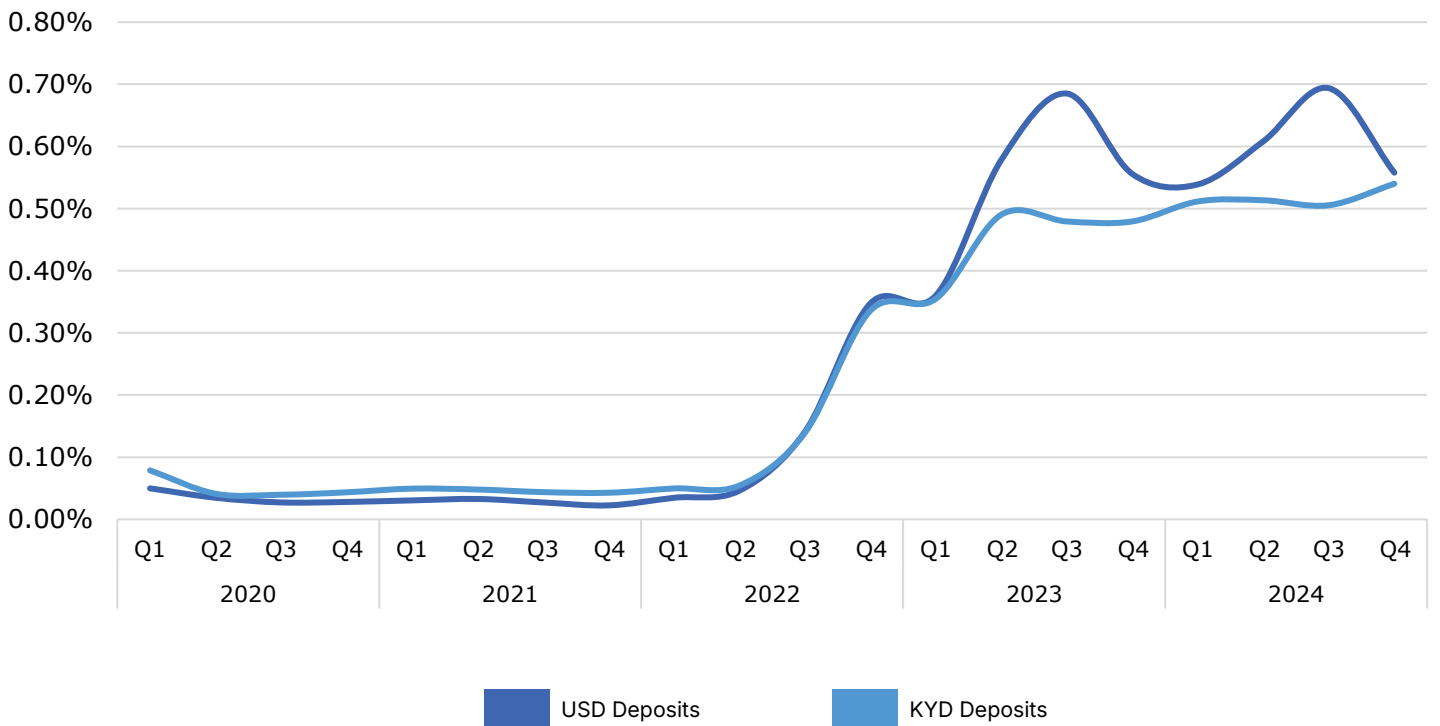


Figure 42: Weighted Average Deposit Rates – Category A Retail Banks



Recovery and Resolution Planning

The Authority is committed to safeguarding the stability and resilience of the financial system of the Cayman Islands due to the increasing complexity and interconnectedness of global financial markets. The Recovery and Resolution plans will further enhance and strengthen the financial stability. The Rule and Statement of Guidance on Recovery and Resolution Planning, which highlights requirements and considerations for recovery and resolution planning by regulated entities, as applicable, were issued for consultation in January 2025. An updated Rule on Recovery Planning will be issued for consultation in 2025.

Further, as part of CIMA's commitment to the coordinated implementation of a comprehensive crisis management framework, CIMA engaged with the IMF in March 2025 as part of a Technical Mission, focused on considerations when establishing a bank resolution regime, the role of the resolution regime in the financial safety net, inter-agency cooperation and coordination, and cross-border coordination and cooperation. CIMA will, in the near to medium term, focus on systematically implementing the recommendations from the Technical Mission through a phased and coordinated approach.

Beyond 2024

The Cayman Islands banking sector remained resilient in 2024, supported by strong capital and liquidity positions and sustained low delinquency levels. Regulated entities continued to demonstrate sound risk management and operational discipline, even amid a moderating global economy and shifting interest rate environment. Although inflation eased and supply chain pressures receded, the sector remained attentive to emerging risks, including climate-related vulnerabilities and evolving global financial conditions. The Authority continued to collaborate with domestic and international

The Investment Funds Sector

The Cayman Islands Investment Funds Sector – Key definitions

Mutual Fund means a company, unit trust or partnership that issues equity interests, the purpose or effect of which is the pooling of investor funds with the aim of spreading investment risks and enabling investors in the mutual fund to receive profits or gains from the acquisition, holding, management or disposal of investments.

The following are main categories of mutual funds:

Registered Fund: must have either a minimum aggregate equity interest of CI\$ 80,000 (US\$ 100,000) purchasable by a prospective investor or the equity interests must be listed on a stock exchange approved by CIMA.

Master Fund: must have either a minimum aggregate equity interest of CI\$ 80,000 (US\$ 100,000) purchasable by a prospective investor in the master fund or the equity interests of the master fund must be listed on a stock exchange approved by CIMA.

Administered Fund: must have a CIMA-licensed mutual fund administrator providing its principal office. The regulatory responsibility for the administered fund, which has more than 15 investors and which is not a licensed or registered mutual fund, is placed largely in the hands of a licensed Mutual Fund Administrator.

Licensed Fund: must be registered with the Authority in the prescribed manner and a licensed mutual fund administrator is providing its principal office in the Islands, and, unless an exemption from this requirement has been granted by CIMA.

Limited Investor Fund: the equity interests are held by not more than 15 investors, the majority of whom are capable of appointing or removing the operator of the fund and unless an exemption from this requirement has been granted by CIMA.

Apart from the Mutual Funds, another key category is:

Private Fund means a company, unit trust or partnership that offers or issues or has issued investment interests, the purpose or effect of which is the pooling of investor funds with the aim of enabling investors to receive profits or gains from such entity's acquisition, holding, management or disposal of investments.

Mutual Fund Administration: in respect of a mutual fund, means to manage (including to control all or substantially all the assets of the mutual fund) or to administer the mutual fund, to provide the principal office of the mutual fund in the Islands or to provide an operator to the mutual fund entities that are licensed to provide mutual fund administration services (Mutual Fund Administrators), fall into 2 distinct categories:

Full - provides administration services to an unlimited number of regulated mutual funds (pursuant to Section 10(2) of the Mutual Funds Act (as revised) (MFA)).

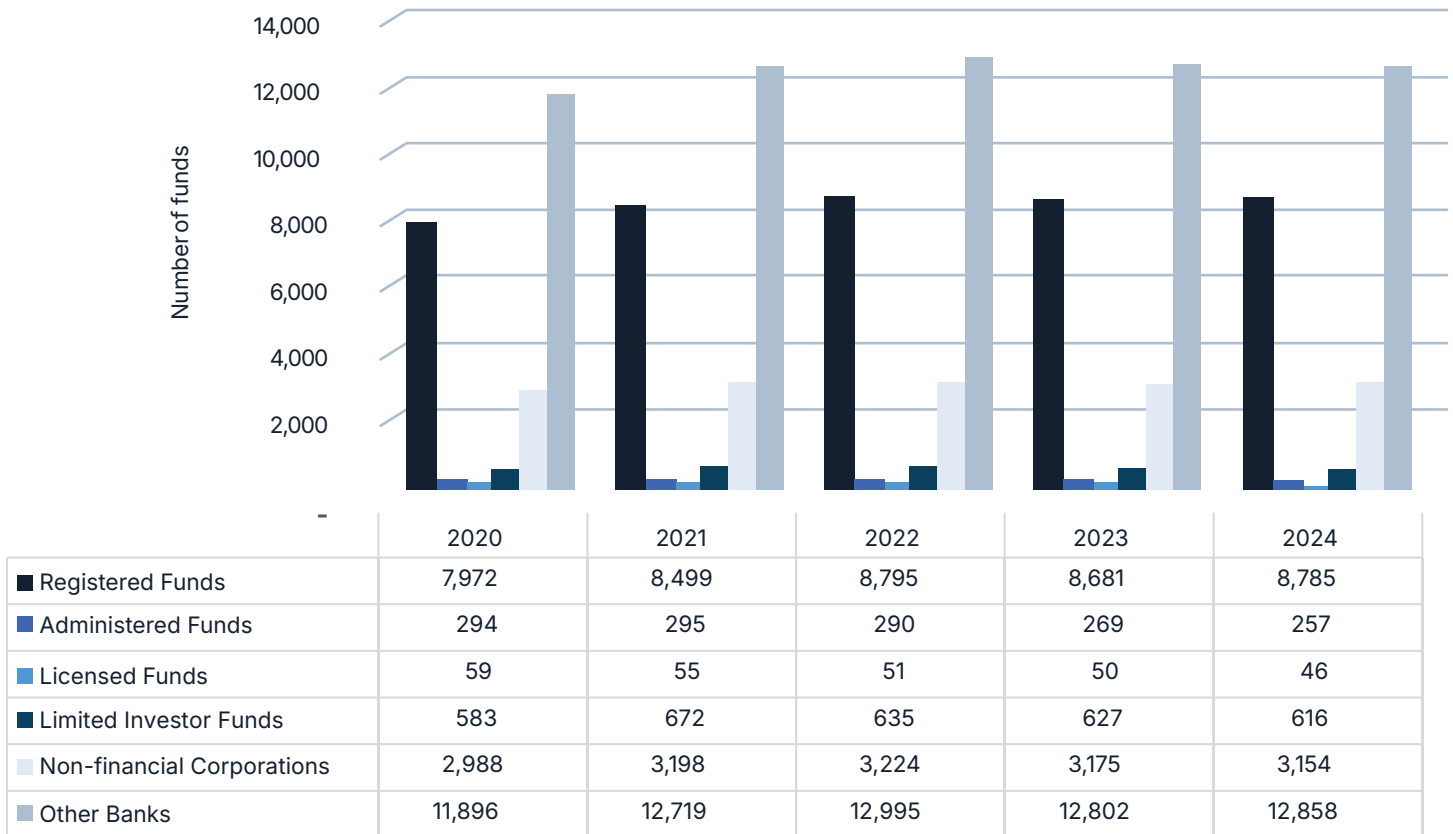
Restricted - provides administration services to regulated mutual funds specified from time to time in the license (pursuant to Section 10(3) of the MFA).

The Cayman Islands continues to hold its position as a leading jurisdiction for investment fund domiciliation, with the total number of funds reaching 30,150 as of 31 December 2024. The jurisdiction's professional infrastructure, stability, regulatory regime, English common law framework, and tax neutrality support the sector's continued growth. The regulation of investment funds in the Cayman Islands consists of mutual fund and private fund regimes.

Mutual Funds

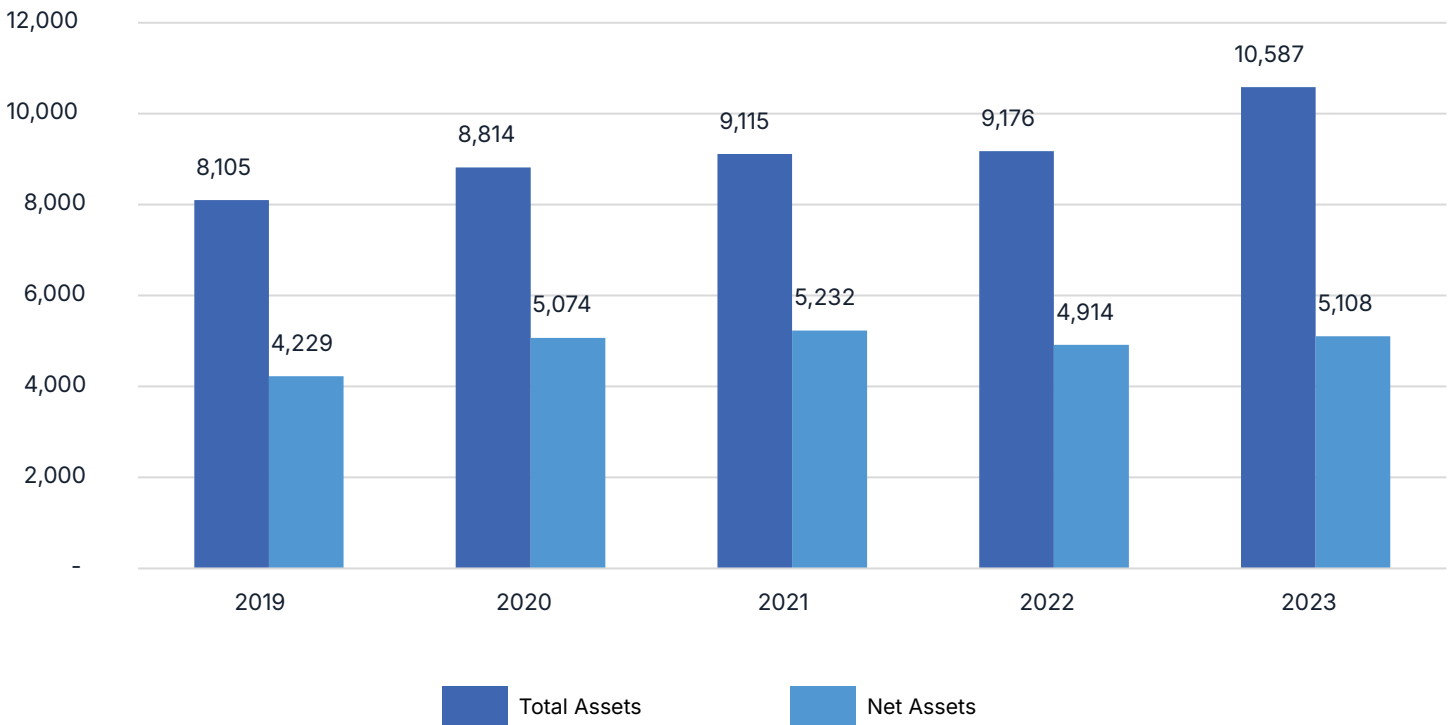
Regulated mutual funds are approved under the MFA. As of 31 December 2024, a total of 12,858 mutual funds – comprising 8,785 registered funds, 3,154 master funds, 257 administered funds, 46 licensed funds, and 616 limited investor funds – were approved under the MFA. This reflects a marginal increase of 0.4 percent compared to 2023, aligning with the trend observed over the past five years.

Figure 43: Active Mutual Funds (by Type)



Based on the most recent Funds Annual Return (FAR) filings for 2023, mutual funds reported a total asset value of US\$ 10.6 trillion, reflecting a 15.2 percent increase from US\$ 9.2 trillion in 2022. Additionally, total net asset value (NAV) rose by 4.1 percent, reaching US\$ 5.1 trillion compared to US\$ 4.9 trillion in 2022. Both total assets and net assets have shown steady growth over the past five years.

Figure 44: Total Assets and Net Assets of Mutual Funds (US\$ billions)



The consistent increase in the total number of funds, alongside the growth in both total and net assets under management, reflects the jurisdiction's robust regulatory framework. This upward trend highlights its ability to attract and retain investment funds, demonstrating investor confidence in the jurisdiction's stability and governance. Based on the FAR filings submitted for mutual funds in 2023, approximately 98 percent of audit reports contained unqualified audit opinions. This indicates that the audited financial statements fairly present all material aspects, with minimal concerns over the quality of financial reporting.

All funds are required to appoint a local auditor, approved by CIMA, to sign off on their audited financial statements. For the 2023 reporting period, auditors for 99 percent of regulated mutual funds that submitted a FAR reported no resignations and expressed their intention to continue conducting audits for the 2024 financial year. The strong rate of audit engagement renewals, combined with the consistently high percentage of unqualified audit reports, underscores the strength and reliability of the Cayman Islands' financial reporting framework. Most funds engage multiple third-party service providers, including investment managers, auditors, administrators, and custodians. These providers offer independent oversight of a fund's activities and affairs while ensuring effective risk management.

In 2023, although there is no regulatory requirement for regulated mutual funds to appoint independent third-party service providers – such as investment managers, NAV service providers, or Registrar and Transfer Agents (RTAs) – approximately 88 percent of regulated mutual funds voluntarily did so. This figure excludes licensed and administered funds, which are subject to specific requirements. The widespread adoption of independent service providers reflects a proactive approach to enhancing operational efficiency, transparency, and investor confidence.

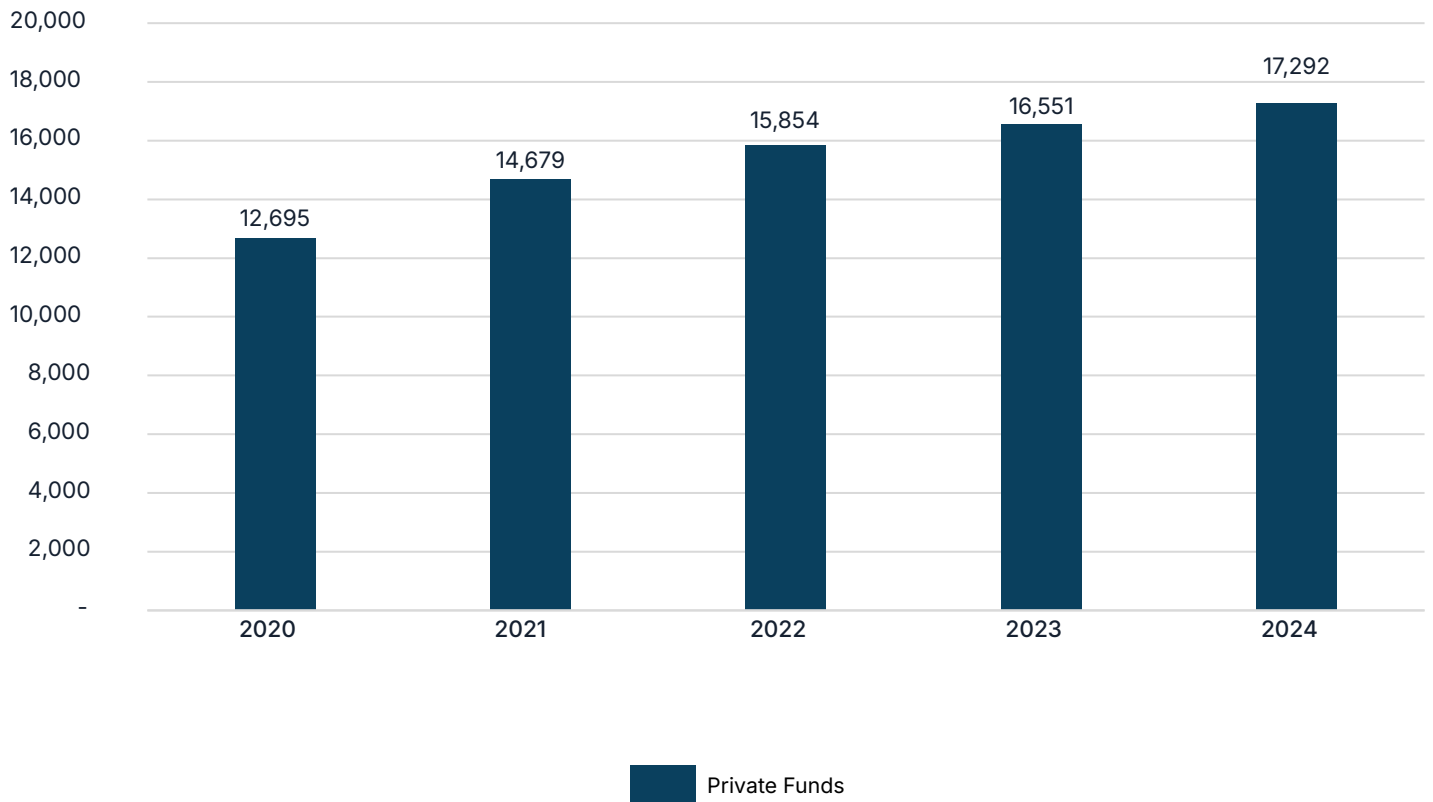
Furthermore, the Directors Registration and Licensing Act (as revised) (DRLA) mandates that all mutual fund directors be registered with CIMA. This requirement ensures a minimum level of oversight and accountability, further reinforcing the jurisdiction's governance standards. The combination of voluntary adoption of high-quality third-party services and mandatory director registration underscores the Cayman Islands' strong corporate governance culture. These practices contribute significantly to the jurisdiction's reputation for maintaining a stable and well-regulated investment sector, fostering trust among investors and stakeholders.

Mutual funds may have minimum initial investment requirements ranging from less than US\$ 50,000 to US\$ 10,000,000 or more. However, the majority of mutual funds cater to institutional investors and high-net-worth individuals, with around 95 percent requiring a minimum initial investment of US\$ 100,000 or more.

Private Funds

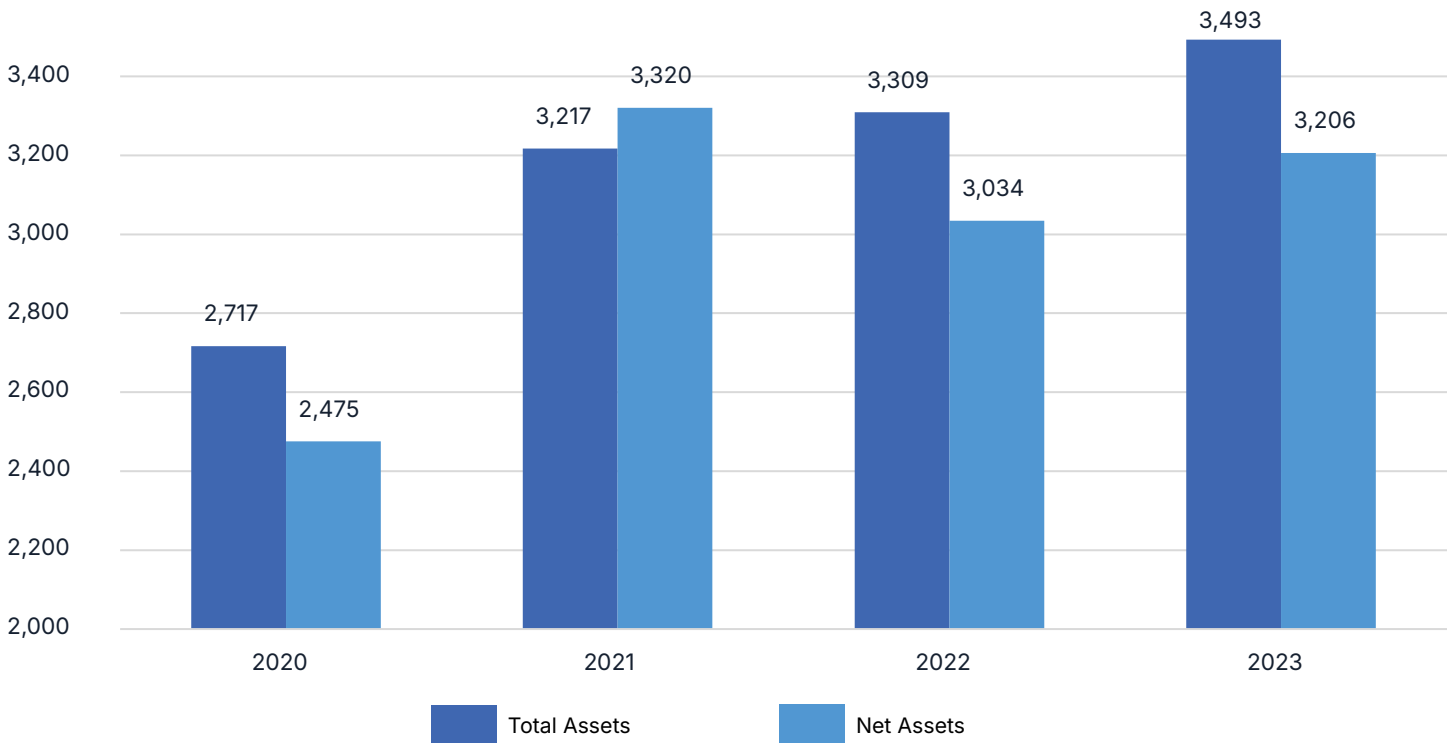
As of 31 December 2024, a total of 17,292 private funds were approved under the Private Funds Act (as revised) (PFA), reflecting a 4.5 percent increase from the 16,551 active private funds recorded at the end of 2023. The total number of private funds has steadily increased over the past three years since the enactment of the PFA in 2020.

Figure 45: Active Private Funds



Based on the FAR filings for 2023, private funds reported a total asset value of US\$ 3.5 trillion, reflecting a 6.1 percent increase from US\$ 3.3 trillion in 2022. Similarly, total net asset value rose to US\$ 3.2 trillion in 2023, marking a 6.6 percent increase from US\$ 3.0 trillion in 2022. The growth in both the number of funds and asset values (total and net) underscores the jurisdiction's popularity, driven by its strong regulatory framework.

Figure 46: Total Assets and Net Assets of Private Funds (US\$ billions)



Similarly to mutual funds, in 2023, while there was no regulatory requirement for regulated private funds to appoint an independent third-party service provider such as an investment manager, NAV service provider, or RTA – more than 50 percent voluntarily engaged such providers. This widespread adoption reflects a strong corporate governance culture and a commitment to operational oversight and transparency.

Based on Private Funds FAR (PFAR) filings submitted for the financial year 2023, 98 percent of audit reports contained unqualified audit opinions, signifying that the audited financial statements fairly presented all material aspects. Additionally, approximately 99 percent of regulated private funds that submitted their PFAR reported that their auditors had not resigned and intended to continue performing audits for the 2024 financial year. The consistency of these results year after year reinforces investor confidence in the Cayman Islands as a stable and well-regulated jurisdiction.

Investment funds form the cornerstone of the Cayman Islands' status as a leading international financial centre. These funds maintain direct economic linkages to the local economy by engaging domestic service providers, including company managers, corporate service firms, legal professionals, auditors, and mutual fund administrators. Beyond their role in the global investment landscape, investment funds make significant contributions to the real economy by generating government revenue and supporting employment across the financial and professional services sectors. The continued demand for specialised expertise in fund administration, regulatory compliance, and fiduciary services sustains job creation and economic activity within the jurisdiction.

By design, the Cayman Islands' funds sector regulatory framework provides flexibility for investment funds to be managed by investment managers domiciled both locally and overseas. A significant proportion of investment funds domiciled in the Cayman Islands are managed by international financial hubs. Based on FAR filings for both mutual funds and private funds submitted for 2023, the United States remains the dominant jurisdiction for overseas investment managers, accounting for nearly 57 percent of Cayman-domiciled investment funds under management, while the United Kingdom represents approximately 7 percent. Other key players include jurisdictions in the Asia-Pacific region, with Hong Kong SAR leading at 3 percent, followed by Singapore at approximately 2 percent of the total number of funds. The majority of overseas investment managers operate from well-established financial centres, bringing diverse investment strategies, specialised expertise, and access to global markets, enhancing the overall performance and stability of the funds they manage.

In 2023, global investment strategies, including those within the Cayman Islands, were shaped by both regional market dynamics and broader economic trends. While global investment strategies were influenced by macroeconomic factors such as interest rate fluctuations, technological advancements, and geopolitical tensions, the Cayman Islands' investment fund sector remained focused on long-established investment approaches. According to 2023 FAR reporting, Cayman Islands' funds predominantly allocated assets across key strategies, including multi-strategy investments, with a net asset allocation of US\$ 1.4 trillion, long/short equity strategies at US\$ 967 billion, and fixed income investments totalling US\$ 508 billion.

These key investment trends indicate that Cayman Islands' funds prioritised risk-adjusted returns, often employing hedging techniques and structured investments to navigate global market volatility. As financial markets grow increasingly complex, the ability to adapt investment strategies in response to shifting economic conditions will remain a crucial factor in fund performance both globally and within the Cayman Islands throughout 2024 and beyond.

Notably, the prominence of Environmental, Social, and Governance (ESG) considerations, which gained significant traction during 2021-2022, has experienced notable fluctuations between 2022 and 2024. In 2023, ESG faced significant challenges, particularly in the United States, where the political climate contributed to a decline in support for ESG initiatives. Investor behaviour in the Cayman Islands mirrored this trend, with a net inflow of US\$ 2 billion in 2022, compared to a net outflow of US\$ 8 billion in 2023 for the 'ESG and Activism' investment strategy.

While ESG initiatives encountered considerable challenges throughout 2023 and 2024, leading to continued reductions in investor support and corporate engagement on a global scale, the Cayman Islands remained committed to sustainability and responsible investing, largely driven by regulatory developments. In 2024, CIMA launched a survey across all its regulated entities to gather insights into the strategies, practices, and challenges associated with climate change and environmental risks and their management within the financial services industry. The findings from this survey will allow CIMA to better assess the current landscape, identify key areas of concern, and develop informed policies and strategies to mitigate these risks effectively.

Investment funds submitting a FAR are required to report leverage and liquidity ratios, which are key indicators used to assess systemic risks. These metrics provide valuable insights into the overall risk profile of the investment funds sector. Based on 2023 FAR data, the average leverage ratio for the mutual funds sector was 1.270, while private funds reported an average leverage ratio of 0.983. These figures suggest that hedge funds generally assume higher leverage levels compared to private funds, reflecting differences in investment strategies, risk appetites, and liquidity management practices.

Hedge funds, which frequently utilise derivatives and leverage-driven trading strategies, maintain a moderate leverage profile that remains within historically acceptable ranges, yet still necessitate continuous monitoring. In contrast, private funds, which typically adopt long-term investment strategies with a lower reliance on leverage, exhibit a more conservative leverage profile, reducing their exposure to margin pressures and forced deleveraging during market stress periods. While the leverage ratio for mutual funds remains within historically acceptable limits, ongoing monitoring remains essential, particularly in light of evolving macroeconomic conditions, central bank policy shifts, and potential liquidity constraints in global financial markets.

Similarly, the average¹⁵ liquidity index for Mutual Funds stood at 0.676, indicating that funds maintain moderate levels of liquidity relative to redemption obligations. While this suggests that the sector generally retains sufficient liquid assets, it also highlights potential liquidity mismatches, particularly during periods of heightened investor withdrawals or financial market stress. Despite these concerns, statistics on liquidity management measures indicate that most funds continue to maintain adequate liquidity levels and are able to meet redemption obligations without significant disruptions.

This finding is further supported by the fact that only 5 percent of mutual funds that filed a FAR in 2023 reported having implemented redemption gates, while another 5 percent suspended equity interests during the year. These figures demonstrate that most regulated mutual funds were able to manage liquidity effectively. However, the presence of redemption or gating mechanisms, even at relatively low levels, underscores the importance of ongoing liquidity risk management and supervisory oversight to prevent potential spillover effects during periods of financial stress.

¹⁵ The average leverage ratio and liquidity index presented in this report exclude statistical outliers to ensure a more representative and fair assessment of the broader population of entities that have submitted a FAR for 2023.

Corporate governance remains a fundamental pillar of financial stability within the jurisdiction. All regulated funds are required to establish, implement, and maintain a robust corporate governance framework, tailored to the fund’s size, complexity, structure, nature of business, and risk profile. Key considerations include, but are not limited to, assets under management, the number and profile of investors, and the nature of the investment strategy. Operators—including directors, trustees, managing members, or general partners—are responsible for ensuring regulatory compliance, sound management, and operational transparency.

Recent regulatory developments, including the Rule and Statement of Guidance on Corporate Governance – Mutual Funds and Private Funds and the Rule and Statement of Guidance on Internal Controls, have further strengthened corporate governance standards within the jurisdiction. The effectiveness of the established governance framework is reflected in historically low levels of regulatory intervention, with less than 1 percent of regulated funds subject to formal regulatory investigations in 2023. These outcomes highlight the strength and reliability of governance practices, which continue to enhance market confidence and investor protection.

A well-structured corporate governance framework also serves as a critical risk mitigation mechanism, particularly given that many investment managers operate from jurisdictions outside the Cayman Islands. The presence of strong oversight reduces the risk of misconduct, operational failures, or regulatory breaches. Effective governance practices not only enhance regulatory compliance but also strengthen overall financial stability by ensuring accountability and risk management. CIMA has reinforced its regulatory oversight through the completion of a comprehensive reconciliation exercise between CIMA and the Registrar of Companies (ROC). This initiative enables more effective monitoring and ensures the alignment of regulatory records with ROC data. To maintain regulatory integrity and identify potential compliance risks, CIMA conducts periodic reconciliations with the ROC and actively engages with regulated funds to resolve any discrepancies.

A critical focus of CIMA's enforcement efforts in 2024 has been the remediation of non-compliant funds. At the beginning of the year, 3,796 mutual funds and 3,004 private funds were identified as non-compliant, primarily due to delinquent regulatory filings and unpaid fees over a period of two years or more. Following targeted regulatory interventions, 79 percent of mutual funds and 84 percent of private funds were restored to compliance by year-end. This demonstrates CIMA's proactive approach to risk-based supervision and enforcement, with a strong emphasis on timely interventions and enhanced compliance standards.

To further strengthen financial stability and regulatory effectiveness, CIMA has developed and fully implemented a Risk Assessment Methodology for investment funds, incorporating both quantitative and qualitative risk assessment techniques. This framework, which became fully operational in Q3 2024, provides a structured, data-driven approach to assessing investment funds based on their inherent risks, compliance history, financial stability, and operational soundness. The methodology supports ongoing risk surveillance and enables the early detection of potential regulatory concerns, allowing for more targeted supervisory actions. Following the latest cycle of risk assessments, regulated funds have been classified under the following risk categories:

Table 4: Risk Rated Funds

Category	Risk Rated Funds to Total Funds
High	1.8%
Medium High	16.3%
Medium Low	24.3%
Low	57.6%

As part of this framework, CIMA has also implemented a risk-based supervision programme specifically focused on investment funds. To begin with, funds rated as High and Medium-High risk are subject to additional monitoring, ensuring that potential vulnerabilities are identified and addressed promptly. Some of these funds may also be subjected to enhanced monitoring if preliminary assessments indicate any serious concerns.

This initiative aligns with CIMA's broader mandate to promote financial stability, protect investors, and uphold market integrity within the Cayman Islands' investment sector.

Tokenised Funds

Tokenised funds are a digital representation of traditional fund structures. In such structures, instead of issuing conventional shares or units, the fund issues 'digital tokens' that reflect an investor's equity interest. These tokens are usually recorded on a distributed ledger or a blockchain and entitles holders to rights like those of traditional fund investors such as profit participation, voting rights, or redemption of investments.

As a well-regulated and innovative international financial centre, the CIMA, in consultation with the Ministry of Financial Services, is evaluating a set of proposed legislative amendments aimed at establishing a dedicated framework for Tokenised Mutual Funds, Tokenised Private Funds and Mutual Fund Administrators providing services to such funds.

These amendments, presently under the active consideration of the Ministry of Financial Services, seek to enable the risk-efficient and orderly domiciliation of tokenised fund structures into the jurisdiction, while ensuring that robust disclosures and regulatory oversight remain uncompromised.

Key provisions under consideration include:

- **Formal Definition and Scope:** Tokenised mutual funds and Tokenised Private Funds would be explicitly defined within the primary legislations, ensuring clarity in their regulatory treatment and alignment with international best practices. All the current requirements of a mutual fund or a private fund would continue to apply to the tokenised funds. Additionally, specific requirements related to risks and complexities due to tokenization will be introduced for tokenised funds.
- **Governance and Oversight Requirements:** Operators of tokenised funds would be subject to the enhanced prudential, governance, and operational requirements compared to those of traditional funds. This includes ensuring adequate personnel, systems, cybersecurity controls, and capital relative to the size and complexity of the fund.
- **Token Life-Cycle Controls:** The issuance, transfer, and redemption of digital tokens would be governed by terms disclosed in the fund's offering documents. The amendments emphasize recordkeeping, auditability, periodic disclosures and prompt regulatory access to relevant digital records.
- **Disclosure and Audit:** Prospective investors would receive clear risk disclosures, particularly regarding cybersecurity, liquidity, and operational risk. The draft amendments also envisage annual independent audits token-related processes, including verification of the backing of digital tokens by underlying assets.
- **Supervisory and Enforcement Powers:** To ensure effective oversight, the Authority would retain the power to conduct inspections, and to take proportionate enforcement actions in case of non-compliance.

While these proposals are still under review, they reflect the jurisdiction's balanced approach: embracing innovation that enhances efficiency and transparency in the investment fund sector, while maintaining the highest standards of market conduct and investor protection.

Mutual Fund Administrators

Mutual fund administrators (fund administrators) licensed by CIMA are regarded as key service providers in the regulatory oversight of regulated investment funds within the Cayman Islands. Fund administration businesses primarily offer NAV calculation and RTA services, both of which are essential to the efficient administration of investment funds.

Data from the 2023 FAR highlights the geographic distribution of fund administration services for Cayman Islands-domiciled investment funds. Local fund administrators provided NAV calculation services for approximately 34 percent of investment funds filing a FAR, followed by the United States (28 percent), Ireland (7 percent), and Hong Kong SAR (4 percent). Similarly, RTA services were provided by local fund administrators for 39 percent of funds, with the United States (21 percent), Ireland (8 percent), and Hong Kong SAR (3 percent) also playing key roles. These figures indicate that the majority of fund administrators servicing Cayman Islands-domiciled investment funds are based in large international financial centres with strong regulatory frameworks, contributing to the efficiency and stability of the jurisdiction's investment fund sector.

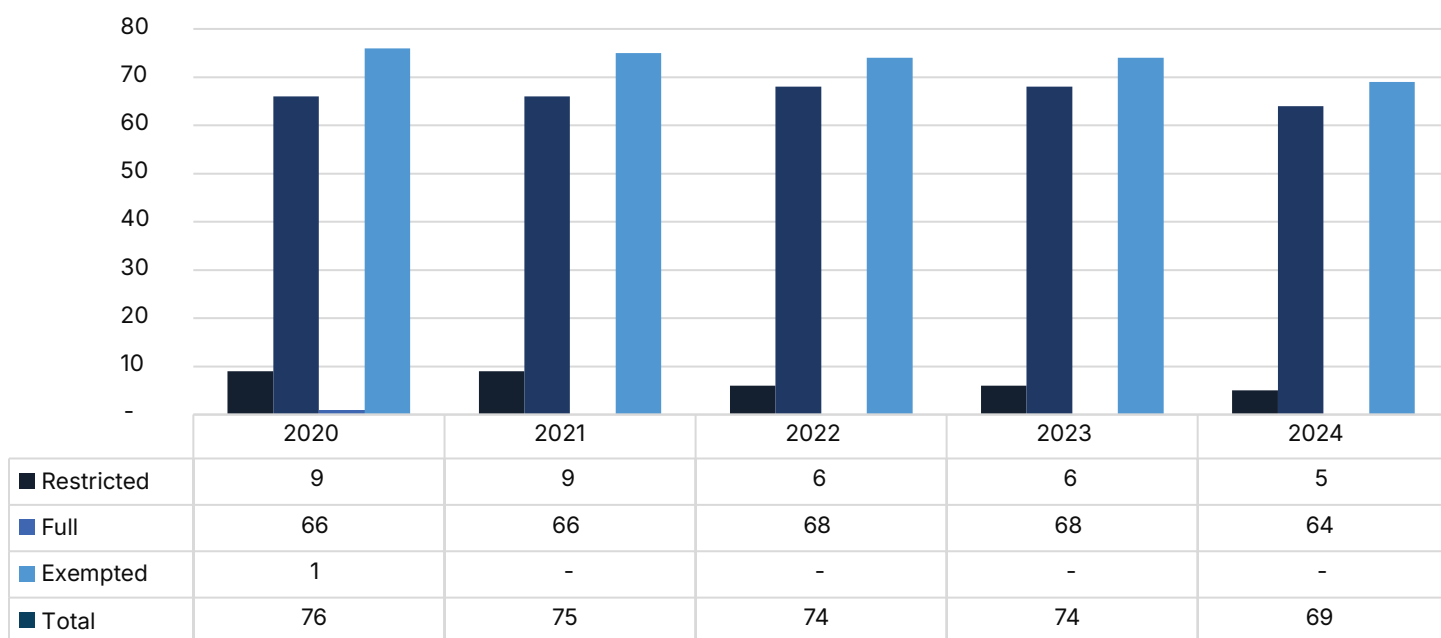
An AML/CFT survey conducted by CIMA on the fund administration sector reported that total Assets Under Administration (AUA) stood at US\$ 2.4 trillion in 2023, underscoring the significant scale and global reach of the industry. With high volumes of cross-jurisdictional transactions and a global investor base, fund administrators play a critical role in ensuring regulatory compliance, operational integrity, and transparency. Given the complexity and cross-border nature of investment flows, it is imperative that fund administrators implement robust policies, procedures, and monitoring systems aligned with their size, risk profile, and business complexity. To maintain regulatory integrity, CIMA subjects licensed fund administrators to oversight under the MFA and other relevant regulations, rules, policies, and guidance issued by the Authority.

As part of CIMA's regulatory oversight, fund administrators are subject to onsite inspections to ensure that processes and systems are not only in place but are also effectively implemented, monitored, and documented in alignment with their risk appetite. The frequency of these inspections is determined by the fund administrator's risk rating, applying a risk-based approach. These assessments are conducted periodically to ensure ongoing compliance and risk mitigation.

Additionally, internal audit letters are sent annually to fund administrators, requiring them to submit their annual internal audit schedule at the beginning of the year and to provide internal audit reports within three months of finalisation. This process encourages licensed fund administrators to conduct regular internal audits of their controls and infrastructure, ensuring that governance frameworks, risk management protocols, and operational controls remain robust and aligned with their business scale and activities. The internal audit process serves as a key safeguard, reinforcing sound governance practices and operational resilience within the Cayman Islands' fund administration sector. The strong regulatory framework in place aims to uphold industry integrity and stability, protect investors, and maintain confidence in the Cayman Islands' financial sector.

Over the past year, CIMA has observed a year-on-year decline in the number of fund administrator licences issued. However, this trend does not necessarily indicate a sector contraction but rather reflects ongoing corporate restructuring, including mergers and business consolidations. These developments align with global trends, where fund administration firms continue to optimise operational efficiencies through strategic consolidations.

Figure 47: Active Fund Administrators (by Type)



In early 2023, global financial stability was tested by the unexpected failures of Silicon Valley Bank and Signature Bank (the impacted banks) in the United States, alongside a loss of market confidence in Credit Suisse, a global systemically important bank in Europe. From an investment sector perspective, an assessment of regulated funds under administration in the Cayman Islands found that exposure to the impacted banks – whether through direct holdings, counterparty relationships, or underlying investments – was immaterial to the jurisdiction's financial stability. This resilience is largely attributed to the Cayman Islands' well-regulated investment framework and diversified fund structures.

Since its removal from the Financial Action Task Force (FATF) grey list in October 2023, the Cayman Islands has continued to strengthen its anti-money laundering and counter-terrorism financing (AML/CFT) framework. This commitment is evidenced by ongoing amendments to the Anti-Money Laundering Regulations (AMLRs), which have increased reporting and oversight requirements, thereby improving transparency for regulated entities. In parallel, regulatory scrutiny on beneficial ownership and economic substance requirements remains high, driven by recent enhancements to the beneficial ownership regime. These measures have further reinforced transparency and oversight within the investment fund sector, aligning with global standards and demonstrating the jurisdiction's commitment to financial integrity.

The AML/CFT risk profile of fund administrators remains a key focus of CIMA's risk-based supervision. The latest annual survey for fund administrators classified them into four distinct AML/CFT risk categories: 10.4 percent were rated High Risk, 23.9 percent as Medium-High Risk, 22.4 percent as Medium-Low Risk, and 43.3 percent as Low Risk. Notably, more than 60 percent of fund administrators were rated below the 'Medium-High' threshold, which is the national AML/CFT risk rating inherent to the mutual fund administration sector. This underscores the strong adherence of fund administrators to AML/CFT compliance within the jurisdiction.

CIMA maintains regular engagement with industry participants, including legal professionals and service providers, through industry association meetings to gather insights on emerging trends and regulatory needs. This consultative approach ensures that regulatory frameworks remain relevant and responsive to market changes. Additionally, CIMA conducts outreach events to raise awareness of common regulatory challenges, identify gaps, and share key observations. These events also serve as an educational platform, providing industry participants with clarity on CIMA's regulatory expectations for investment funds.

Through ongoing initiatives, strengthened regulatory measures, effective risk-based monitoring, and proactive enforcement strategies, CIMA remains committed to enhancing the resilience and stability of the Cayman Islands' investment fund industry. By adapting the regulatory framework to address emerging risks, global investor expectations, and the evolving nature of the fund industry, CIMA ensures that the Cayman Islands maintains its position as a leading international financial centre.

Investment Funds – Financial Health and Soundness Indicators

Similar to other regulated sectors such as banking and insurance, CIMA monitors the investments sector using financial health and soundness indicators (FHSIs). This exercise stems from a CARTAC mission in 2019, reflecting the importance of investment funds as one of the jurisdiction's flagship offerings.

Between 2020 and 2023, the size of the investment sector (across all categories of investment funds) increased, as fund registrations continued to outpace fund terminations. Similarly, net asset value (NAV) expanded alongside the growth in the number of funds. However, the average NAV per fund remains modest, at less than US\$ 300 million, signalling lower concentration risks at the individual fund level. This diversification across a large number of funds enhances the resilience of the sector to idiosyncratic shocks.

Over the same period, approximately 1 in every 5 investment funds globally were domiciled in the Cayman Islands. This underscores a low level of substitutability and highlights the importance of Cayman as a core hub for global funds. This strong market share demonstrates sustained investor confidence in the Cayman regulatory and operational framework. Finally, the conduct of Cayman-domiciled funds has exhibited a high level of compliance. Non-compliant funds accounted for just 1.2 percent of total funds in 2023, consistent with recent historical trends. This consistently low incidence of non-compliance reinforces the sector's reputation for robust governance and oversight.

Overall, these FHSI point to the continued strength and stability of Cayman's investment funds sector. The combination of steady growth, low concentration risk, strong global positioning, and high compliance underscores the sector's contribution to financial stability and its resilience to external shocks. Ongoing monitoring and prudent supervision will remain essential to sustaining this positive trajectory.

Table 5: Financial Health Soundness Indicators (Funds)

FHSI Category	Indicator	2020	2021	2022	2023
Size	Number of funds (#)	24,591	27,398	28,849	29,353
	NAV (\$US trillions)	7.549	8.552	7.949	8.267
	Average NAV per fund (US\$ millions)	306.98	312.14	275.54	281.64
	Number of fund registration to total funds (%)	60.9%	13.2%	10.8%	13.0%
	Number of fund terminations to total funds (%)	3.5%	5.0%	5.7%	6.7%
	Net new funds to total funds (%)	57.4%	8.2%	5.1%	6.3%
Substitutability	Number of KY funds to total global funds (%)	19.6%	20.8%	20.9%	21.0%
Conduct	Non-compliant funds to total funds (%)	1.0%	1.2%	1.0%	1.2%

The Insurance Sector

The Cayman Islands Insurance Sector – Key definitions

- **Insurance Manager:** any company that provides insurance expertise to or for Class B or Class C insurers.
- **Insurance Agent:** a person (who is not an insurer) who solicit domestic business on behalf of not more than one general insurer and one long term insurer.
- **Insurance Broker:** a person who can arrange or procure, directly or through representatives, insurance or reinsurance contracts or the continuance of such contracts on behalf of existing or prospective policyholders.
- **Class A Insurers:** Domestic or external insurers that carries on business generally in or from within the Cayman Islands, providing insurance business to the domestic insurance market or to carry out limited reinsurance business.
- **Class B Insurers:** Such insurers are exempted to carry on insurance and/or reinsurance business other than domestic business from within the Cayman Islands.
- **Class C Insurers:** Such insurers are exempted to carry on insurance business involving the provision of reinsurance arrangements. Class C license applies to fully collateralised international insurers e.g., Insurance Linked Securities and catastrophe bonds.
- **Class D Insurers:** Such insurers carry on reinsurance business and such other business as may be approved in respect of any individual licence by the Authority. Class D licence is usually for large open-market reinsurers.

The Cayman Islands insurance sector plays a vital role in the financial system by offering risk mitigation solutions and a broad range of products to both domestic and international markets. Its size and interconnectedness with other sectors underscore its significance for overall economic resilience. The insurance industry consists of two distinct segments: (i) the domestic market and (ii) the international market. The domestic insurers (referred to as Class A insurers) are those providing insurance coverage to Cayman Islands residents and businesses. This segment is further subdivided into Class A (local) insurers and Class A (external) insurers. In contrast, the international insurance market comprises of insurers incorporated in the Cayman Islands that provide coverage for foreign risks. For the purposes of this section of the Financial Stability Report, the focus is on the domestic segment, given its direct implications for the jurisdiction's financial stability.

Domestic Insurance Market

The domestic market licensees under the supervision of CIMA include Class A insurers, insurance brokers, and insurance agents. Between 2020 and 2024, the number of Class A insurers remained relatively stable, totaling 24 in 2024. This comprised 11 Class A (local) insurers and 13 Class A (external) insurers. The number of insurance brokers also remained constant over the same period, with 23 brokers. However, the number of insurance agents declined from 46 in 2020 to 38 in 2024.

Table 6: Domestic Market Licenses

Licence Category	2020	2021	2022	2023	2024
Class A Insurer	27	25	25	25	24
Of which:					
Class A (local)	9	9	9	11	11
Class A (external)	18	16	16	14	13
Insurance Broker	23	23	23	23	23
Insurance Agent	46	36	37	37	38

Domestic market licensees conduct various lines of business including property, health, marine and aviation and life, to name a few. Annual audited statistics from 2020 to 2023 show an upward trend in gross written premiums (GWP), from US\$ 792 million to US\$ 1,120 over the period. The COVID-19 pandemic negatively impacted GWP in 2020, leading to a slight decline. However, the market rebounded swiftly in 2021. By 2023, GWP had surpassed the US\$ 1 billion mark, underscoring the domestic insurance sector's resilience and sustained recovery from the pandemic's effects, despite persistent challenges stemming from climate-related risks, geopolitical tensions and broader global economic pressures. This upward trend was maintained in 2024, with GWP at Q4 2024 increasing to US\$ 1,182.

Table 7: GWP by Class of Business (US\$ Millions)

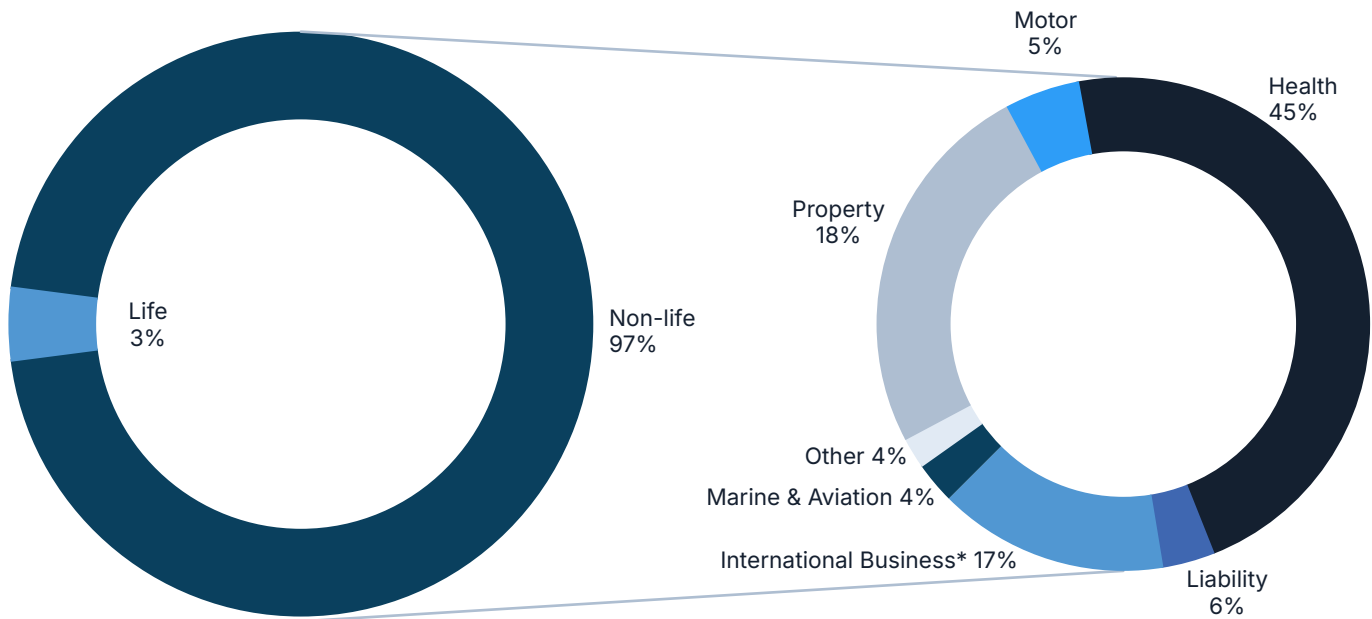
Class of Business	2020	2021	2022	2023	2024¹⁶
Life	33	34	35	37	35
Non-life	759	856	956	1,083	1,147
Of which:					
Property	135	153	181	197	212
Motor	43	49	52	56	60
Health	341	366	419	430	513
Liability	57	68	76	86	74
International Business¹⁷	118	143	137	209	193
Marine & Aviation	29	35	46	49	51
Other	35	42	45	43	43
Total	792	890	991	1,120	1,182

A common way to classify lines of business in the domestic insurance market is to differentiate between the life and non-life segments. In 2024, non-life GWP continued to account for the vast majority of total GWP, reaching US\$ 1,147 million, or 97 percent of the total. In comparison, the life business line recorded GWP of US\$ 35 million. Within the non-life segment, health insurance remained the largest contributor, generating US\$ 513 million, or approximately 45 percent of non-life GWP. This reflects a sharp increase of about 19 percent compared to the same period in 2023, primarily driven by Cayman's growing population, rising premium rates, and the mandatory nature of health insurance in the jurisdiction. The combination of these factors has significantly boosted GWP for this class of business.

¹⁶ Unaudited statistics as at Q4 2024.

¹⁷ International business consists of international premiums written by Class A Insurers.

Figure 48: GWP by Class of Business (Percent, 2024)



Motor insurance premiums continued its upward steady growth between 2023 and 2024 and this is supported by the rising number of vehicles on the roads as well as higher premiums, especially for comprehensive cover. Over the same period, the life and aviation and marine classes of business showed minimal growth, despite some changes in the operating environment.

Property insurance premiums continued its consistent upward trajectory, rising from US\$ 197 million to US\$ 212 million between 2023 and 2024. This growth was attributed to several factors affecting the class of business, such as expansion in the construction sector, increase in value of insured properties, and increase in premium rates. The increase in premium rate was largely driven by the rising costs of catastrophic reinsurance coverage and capacity constraints, as some reinsurers scaled back their aggregate Caribbean exposures, withdrew from certain market segments, and raised the cost of capital. This overall reduction in reinsurance capacity for Caribbean risks contributed significantly to higher premiums.

In fact, the Cayman Islands was among some of the Caribbean territories that recorded the highest premium rate increases from reinsurers, driven by losses in some territories and high property exposures. Less exposed markets, such as the Eastern Caribbean, also experienced rate increases, though with more moderate adjustments.. Globally, the reinsurance market was also hardening due to prevailing geopolitical risks, tempered somewhat by the cooling effect of lower interest rates.

The domestic insurance market relies heavily on reinsurance, ceding a substantial portion of premiums, particularly in property insurance. The combination of a hardening insurance market and reinsurance capacity constraints in the Caribbean continues to present significant challenges for domestic insurers in the Cayman Islands. Despite these challenges, the market's strong regulatory framework and strong reinsurance protection enhances the market's resilience and position it well to navigate these pressures over the long term.

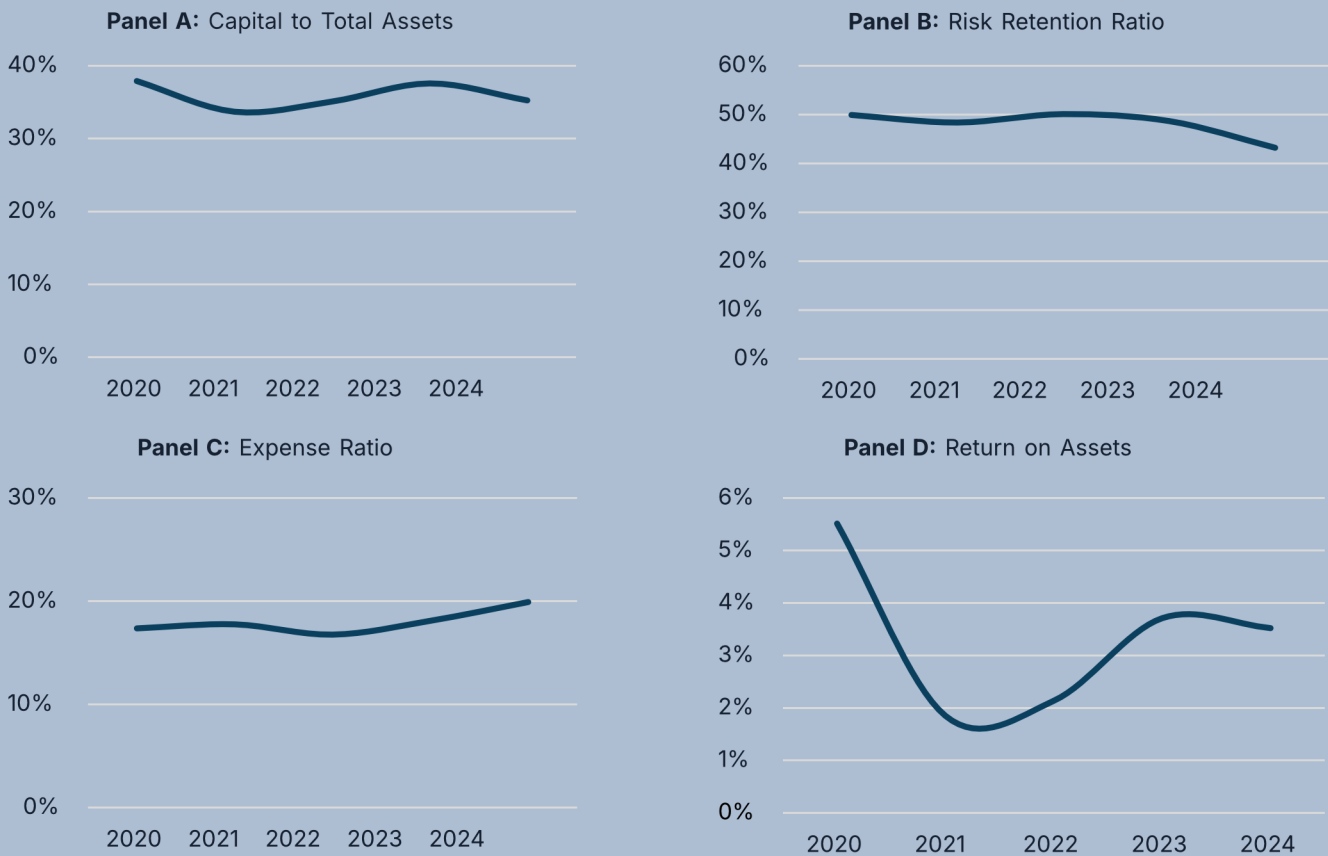
Financial Soundness Indicators (FSIs) for Class A (Local) Insurers in the Cayman Islands

Non-life Insurers

Notwithstanding the decline since 2023, the capital to total assets ratio stood at 35 percent at the end of 2024 and remained at higher levels since its recovery in 2021. The continued increase in the ratio for non-life insurers was primarily due to property insurance carriers expanding in capital positions in 2024 as assets grew at a faster pace. In addition, as highlighted by the retention ratio, approximately 43 percent of the risk underwritten by non-life insurance companies were retained in 2024. This is demonstrated by the large reliance on reinsurance and the Caribbean region's persistently high concentration risk of catastrophic occurrences.

The expense ratio – which compares costs with premiums collected – increased during the five-year period. However, with a ratio of 20 percent, the performance since 2024 demonstrated an increase in the sector's costs relative to premiums collected. The increase was primarily due to increasing expenses and inflationary effects. Moreover, the non-life business lines saw a notable boost in profitability since the year 2022. In more recent years, the return on assets ratio stood at 4 percent because of higher premium income, indicating that profits continue to increase faster than asset growth.

Figure 49: FSIs for Non-life Insurers

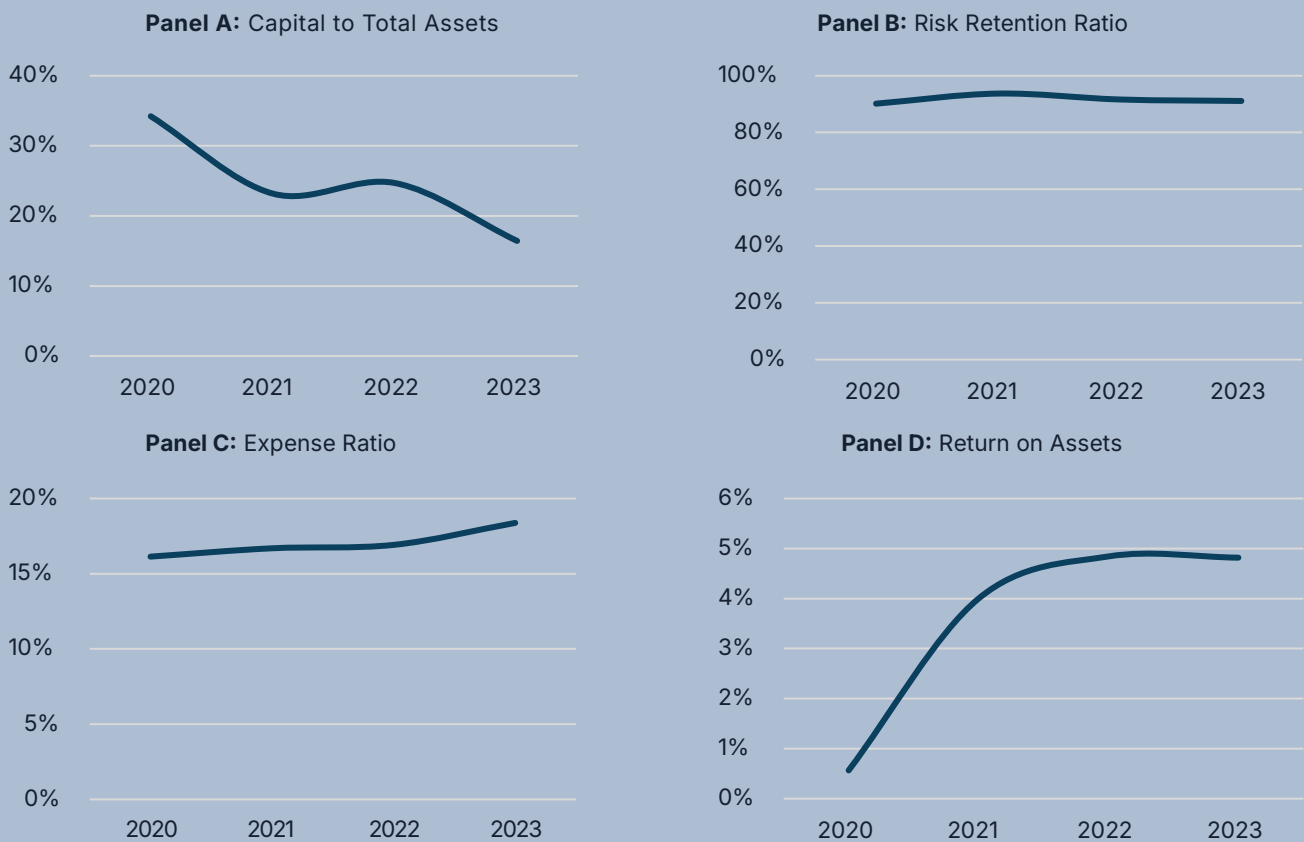


Life Insurers¹

In the context of ongoing market volatility, life insurers experienced a continued decline in the ratio of capital to total assets, which fell to 16 percent. This development may be linked to shifts in actuarial assumptions on key variables, including interest rates, inflation, and mortality rates. The retention ratio for life insurers remained broadly stable over the four years to 2023, in line with the relatively unchanged risk retention ratio observed among non-life insurers. Over the review period, this ratio averaged approximately 90 percent, reflecting the local life sector's comparatively lower use of reinsurance relative to the non-life segment.

Over the four-year period to 2023, the average expense ratio for life insurers stood at 18 percent, having risen gradually since the COVID-19 pandemic. This increase was driven primarily by faster growth in expenses relative to net earned premiums, reflecting higher operating costs and the impact of inflation. Similar to the non-life segment, expense pressures have remained a key determinant of this ratio. Since the pandemic, the life insurance industry has rebounded to pre-pandemic activity levels. In line with this recovery, the return on assets ratio also increased, supported by a faster pace of growth in net income, and averaged 3.6 percent over the review period.

Figure 50: FSIs for Life Insurers



1. Ratios compiled based on available data.

International Insurance Market

Cayman's international insurance market, comprising Class B, Class C, and Class D insurers, consisted of 697 licensees at the end of 2024. These entities conduct insurance business in which the insured risk is located outside of the Cayman Islands. They include captive insurance companies that provide self-insurance coverage to their overseas parents and affiliates, as well as commercial insurance and reinsurance companies offering coverage to consumers internationally.

Table 8: International Market Licenses

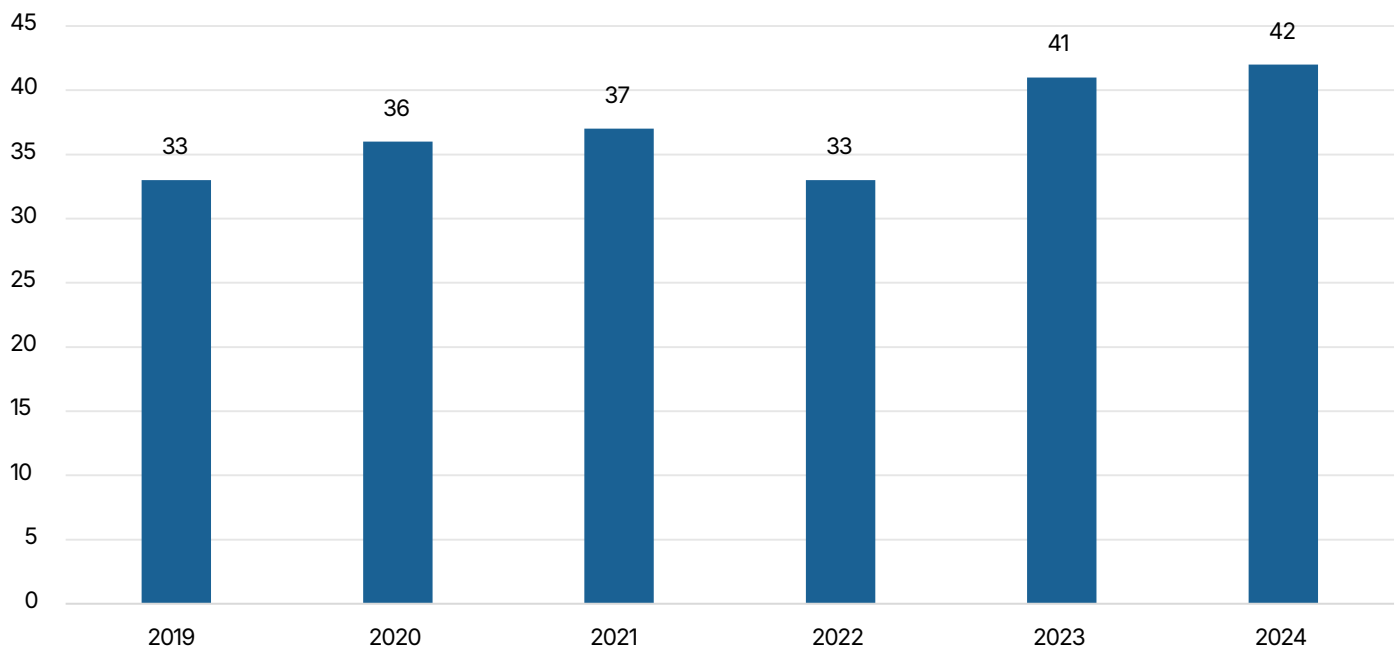
Licence Category	2019	2020	2021	2022	2023	2024
Class B Insurer	618	624	634	642	658	670
Class C Insurer	23	23	21	21	18	18
Class D Insurer	5	5	6	7	8	9
Total International Insurers	646	652	661	670	683	697

The international insurance market is discussed in greater detail in Chapter 4.

Licensing Activity

The Cayman Islands continue to be a jurisdiction of choice for insurance solutions. In 2024, the Authority licensed a total of 42 new entities, a significant increase compared to 33 in 2019. There has been notable activity in new formations, particularly within the international insurance market over the past few years. The jurisdiction also recorded significant growth in segregated portfolios (cells) and group captives (discussed further in Chapter 4).

Figure 51: International Licences Issued



This growth signifies increasing awareness and utilisation of alternative risk solutions, as opposed to traditional methods of managing risk. The hardening of the global insurance market has also contributed to the expansion of Cayman's international market. Capacity continues to be reported as a challenge in certain lines of business. However, indications are that challenges related to capacity and rate increases are forecasted to slow down. The market has seen new capital entering, with companies assuming more risk as a strategy to manage reinsurance costs. Meanwhile, the captive market has seen the introduction of new domiciles, and more jurisdictions are expected to adopt captive-friendly legislation to attract business.

Furthermore, there was a notable increase in the formation of reinsurance companies in the Cayman Islands, particularly in the life and annuity reinsurance sector. These entities primarily reinsure U.S.-based cedents and are significant in size. The market also recorded an uptick in property and casualty reinsurance company formations targeting the catastrophe reinsurance segment, especially covering the U.S. market. This trend is projected to continue, and the Authority is enhancing its regulatory framework in response to evolving licensing activity and in alignment with changes in international standards set by the International Association of Insurance Supervisors (IAIS). As a founding member of the IAIS and a signatory to the IAIS Multilateral Memorandum of Understanding (MMoU), the Authority remains committed to upholding regulatory best practices.

IFRS 17 Reporting Update

The new accounting standard, IFRS 17 Insurance Contracts (IFRS 17) was effective for annual reporting periods beginning on or after 1 January 2023. Consequently, approximately 10 percent of insurance licensees that prepare their financial statements in accordance with IFRS, are now required to adopt IFRS 17.

Since then, the Authority has reviewed the prudential returns of entities filing under IFRS 17 and found no significant issues following the adoption of the new standard. As IFRS 17 compliance remains an active project for many insurers, the Authority will continue to monitor their performance, but no major solvency concerns are anticipated. Additionally, the Authority has not undertaken any legislative amendments to its existing capital and solvency framework as a result of the changes to the accounting standard, and as such, impacted licensees are required to submit comparable financial statements under IFRS 4 as well.

Stress Testing the Resilience of Class A (Local) Non-Life Insurers in the Cayman Islands

Objective and Overview

The Authority undertook a top-down stress testing exercise to assess the financial resilience of Class A (local) non-life insurers operating within the domestic market. This exercise aimed to identify sector-wide vulnerabilities, assess insurers' capacity to withstand macro-financial shocks, and reinforce the preparedness of the sector. Given that these insurers underwrite risks most directly connected to the Cayman Islands economy, their ability to remain solvent and maintain liquidity under adverse conditions is critical to financial and economic stability.

The Authority's stress testing initiative is rooted in its broader mandate to safeguard both individual insurer soundness and systemic stability. The exercise aligns with its 2024–2026 strategic plan and encourages industry-wide enhancements in risk awareness, internal stress testing practices, and forward-looking risk mitigation.

Stress Testing Framework and Methodology

The stress testing covered all Class A (local) non-life insurers using data from their 2023 annual regulatory returns. The analysis adopted a scenario-based approach, incorporating multiple risk factors to simulate three extreme but plausible macro-financial conditions. Each scenario was developed based on earlier IMF/CARTAC technical assistance and local regulatory experience.

The three stress scenarios included: an economic downturn, a downturn combined with a natural catastrophe (such as a major hurricane), and a downturn compounded by an extended pandemic.

These scenarios applied severe shocks across interest rate, market, underwriting, credit, and operational risk categories. The combined impact of these shocks was evaluated against key financial soundness indicators, including capital adequacy, solvency margin, and liquidity ratios.

Summary of Results

The results demonstrated that while the insurance sector is resilient under baseline conditions, vulnerabilities emerge under more severe stress events. The table below summarises the key financial soundness indicators (FSHIs) under each scenario.

Table 9: Key FSHIs for Class A Local Insurers

	Baseline	Scenario 1 - Economic Downturn	Scenario 2 - Economic Downturn and Catastrophes	Scenario 3 - Economic Downturn and Extended Pandemic
Capital/technical provisions	70.3%	61.0%	31.4%	42.6%
Capital/total assets	30.9%	28.0%	16.9%	21.6%
Cover of solvency margin	254.5%	228.1%	80.8%	136.2%
Liquid assets/total liabilities	28.7%	28.7%	8.4%	16.0%

Source: CIMA

Under the economic downturn scenario, Class A (local) non-life insurers experienced a decline in key capital ratios. The solvency margin dropped from 254.5 percent to 228.1 percent, remaining above the prescribed capital requirement of 125 percent, indicating some resilience despite revenue pressures and increased claims. Liquidity remained unchanged in the short-term, though prolonged economic contraction could impair cash flow over time.

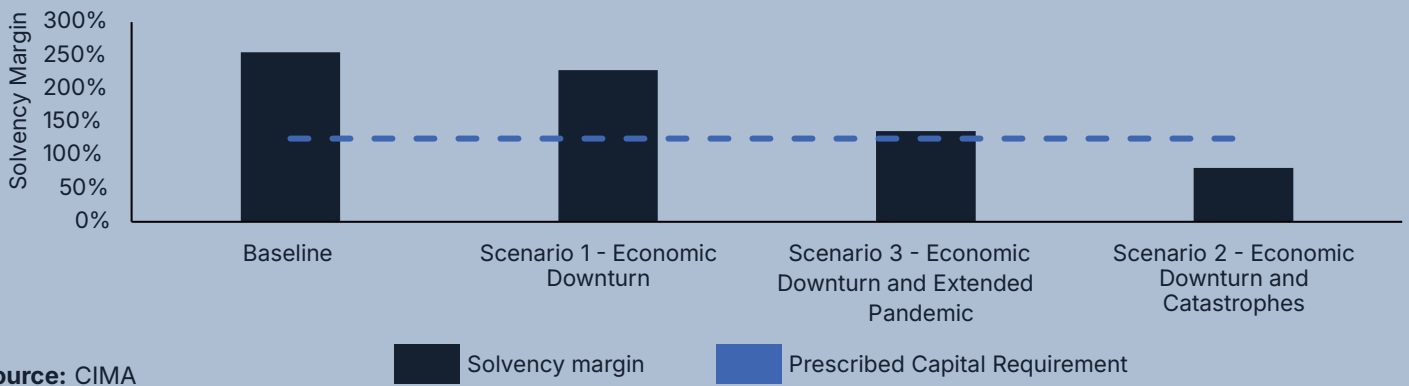
The second scenario, combining a downturn with a natural catastrophe, revealed weaker results. Capital buffers were severely diminished, with the capital-to-technical-provisions ratio declining to 31.4 percent. The solvency margin fell well below the prescribed capital requirement to 80.8 percent, and liquidity dropped sharply to 8.4 percent of total liabilities. These outcomes highlight the sector's exposure to climate-related risks and the critical importance of strong reinsurance arrangements and catastrophe preparedness.

In the extended pandemic scenario, insurers faced sustained operational and underwriting pressures. The solvency margin remained marginally above the prescribed capital requirement at 136.2 percent, but liquidity again weakened, falling to 16.0 percent. These results reflected prolonged stress on income, increased claims in health and life lines, and rising operating costs.

Cover of Solvency Margin

The solvency margin cover, a key indicator for Class A (local) non-life insurers, measures how much capital they hold relative to the prescribed capital requirement, with a higher margin indicating stronger financial resilience. In scenario 2 (e.g., hurricanes), the margin dips slightly below the 125 percent prescribed capital requirement, suggesting some vulnerability under severe conditions. In scenarios 1 and 3, coverage remains above the prescribed capital requirement, though scenario 3 is only slightly above, indicating that continued monitoring may be prudent.

Figure 52: Class A (Local) Non-life Insurers – Cover of Solvency Margin



Source: CIMA

Implications for Policy and Supervision

The stress testing results underscore the need for insurers to enhance risk management and capital planning, especially under extreme conditions. The Authority has already introduced updates to its Rule and Statement of Guidance on Reinsurance Arrangements to strengthen reinsurance coverage and governance. Additionally, annual reviews of insurers' reinsurance structures and business continuity plans are being used to ensure institutions are adequately prepared for adverse events.

Insurers are expected to increase their internal capacity to identify, monitor, and mitigate emerging risks. This includes diversifying investment portfolios, improving catastrophe modelling, conducting internal stress tests, and reinforcing liquidity buffers. Effective governance and active board oversight remain critical to translating risk insights into resilient business strategies.

Ultimately, the stress testing exercise affirms the relevance of proactive, data-driven supervision in supporting a sound and resilient insurance sector. It also reinforces the Authority's strategic objective of ensuring effective, forward-looking regulations that promote financial stability and protects the interests of policyholders in the Cayman Islands.

The Trust and Corporate Services Providers Sector

The Cayman Islands TCSP sector – Key definitions

Trusts: The Trust licence holder is authorised to offer trust business within and outside of the Cayman Islands, where licensees can provide trustee, executor, or administrator services. They can also provide company management services in connection with their business.

Restricted Trusts: The Restricted Trust licence offers trust business with the restriction that licensees shall not undertake trust business for persons other than those listed in the undertaking accompanying the application for the licence.

Nominee Trusts: The Nominee (Trust) licence offers trust business under a Trust licence to a licensee who is a wholly owned subsidiary of another licensee and where the sole purpose of that subsidiary is to act as its nominee.

Private Trust Companies: The Private Trust Company Registration allows companies incorporated in the Cayman Islands to offer connected trust business. This includes trust business in respect of trusts where there is one or more than one contributor to the funds, and all the contributors are connected persons.

Registered Controlled Subsidiaries: The Controlled Subsidiary Registration allows registrants to engage in the issuance of debt instruments or undertake other trust business activities associated with the licensee that owns the controlled subsidiary.

Company Manager: The Companies Management licence offers the provision of corporate services for profit or reward in or from within the Cayman Islands.

Corporate Service Provider (CSP): The Corporate Services licence permits the provision of corporate services for profit or reward in or from within the Cayman Islands, similar to the Companies Management licence. However, it is limited to specific activities, including acting as a company formation agent; providing registered office services; establishing and maintaining beneficial ownership registers for Cayman-incorporated companies; providing accommodation, correspondence or administrative addresses; filing statutory forms, resolutions, returns and notices; and acting as, fulfilling, or arranging for another person to fulfil prescribed corporate service functions.

The regulated TCSP sector comprises entities that are either licensed trust companies or licensed corporate service providers (CSPs). Trust companies may be authorised under one of three categories of trust licence: Trust, Restricted Trust, and Nominee (Trust). In addition to these, there are two other categories of trust registrations: Registered Controlled Subsidiaries and Registered Private Trust Companies. Corporate service providers, on the other hand, may be licensed under one of two categories: Companies Management or Corporate Services. These licences govern the scope of services CSPs are permitted to offer and ensure compliance with the relevant regulatory framework.

Between 2020 and 2024, the total number of trust licences has decreased marginally. This trend reflects ongoing consolidation and restructuring efforts undertaken by trust licensees, aimed at achieving more efficient cost structures, strengthening risk management frameworks, and enhancing overall governance practices. There was no material change in the total number of trust licences between 2023 and 2024. The number of active licences increased by just one, rising from 133 in 2023 to 134 in 2024, while the number of trust registrations declined by an equivalent amount, decreasing from 198 in 2023 to 197 in 2024. These registrations continue to be primarily driven by sustained demand from high-net-worth individuals who utilise trust structures for wealth management, intergenerational asset transfer, and estate planning purposes.

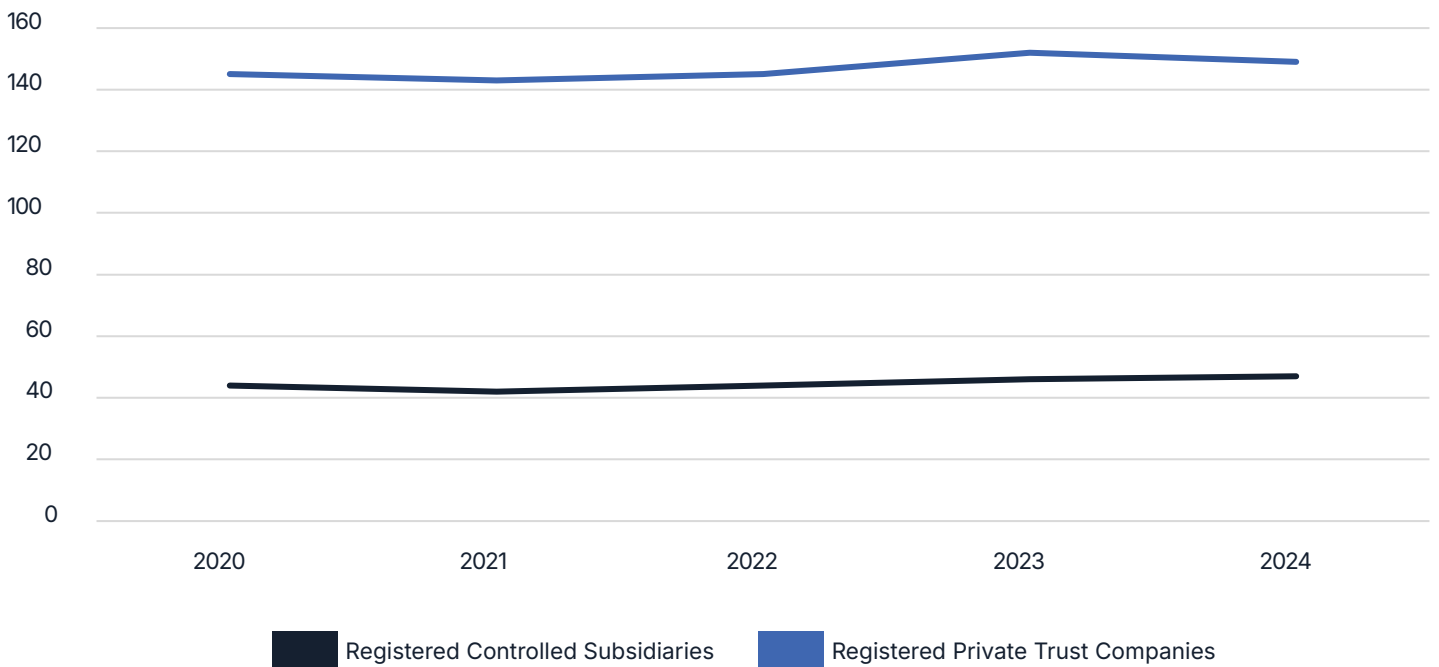
The total number of CSPs (company managers and corporate service providers) followed a similar trend, declining slightly from 144 in 2020 to 137 in 2024. The surrender of licences during the period was largely attributable to acquisition followed by mergers, as well as broader restructuring and consolidation activities involving licensees operating under a common group. Importantly, the nature and context of these licence terminations did not give rise to any supervisory or jurisdictional concerns. The Cayman Islands remains a leading jurisdiction for the establishment of business entities, supported by a strong and stable legal system, modern and adaptable corporate structures.

Table 10: Regulated Trusts and CSPs

	2020	2021	2022	2023	2024
Total Trust Licences	142	139	138	133	134
Of which:					
Trust Licences	57	56	58	56	54
Restricted Trust Licences	60	58	56	56	56
Nominee (Trust) Licences	25	25	24	21	24
Total CSPs	144	143	142	140	137
Of which:					
Companies Management Licences	120	120	19	116	116
Corporate Services Licences	24	23	23	24	21

Registered controlled subsidiaries and registered private trust companies continued their upward trajectory, rising from 145 to 149 and from 44 to 47, respectively, between 2020 and 2024. The increase in registered private trust companies was driven primarily by heightened demand from high-net-worth individuals, who are increasingly utilizing such structures as part of sophisticated wealth management and succession planning strategies.

Figure 53: Registered Controlled Subsidiaries and Registered Private Trust Companies



As at the end of 2024, according to the Global Financial Centres Index (GFCI), the Cayman Islands held the 86th position globally and ranked 2nd within the Latin America and Caribbean region. The jurisdiction's continued strength and international standing as a reputable financial centre was further evidenced by a notable increase in company formations. New company registrations reached a total of 11,819 in 2024 - an increase of 2,009 compared to the 9,810 registered in 2023. This growth brought the total number of active companies domiciled in the Cayman Islands to 121,449 as of 31 December 2024, up from 118,443 at the end of the previous year.

Financial Soundness Indicators

The FSIs for TCSPs remain solid, supported by continued profitability and sustained growth across the sector. This performance is underpinned by the diverse and expanding range of services offered by TCSPs, which continue to adapt to strong global demand for international structuring. Contributing factors include the rise in household wealth, increased regulatory requirements such as beneficial ownership registration and economic substance legislation (International Tax Co-operation (Economic Substance) Act (2021 Revision)), as well as the growing trend of fund managers outsourcing administrative functions.

The sector as a whole demonstrated robust performance, with return on assets exceeding 5.0 percent and return on equity surpassing 7.0 percent in both 2023 and 2024, reflecting sustained operational efficiency. Company managers, in particular, posted exceptional gains: return on assets jumped from 9.9 percent in 2023 to 18.4 percent in 2024, while return on equity climbed from 14.5 percent to 32.6 percent over the same period, driven primarily by improved asset utilization and enhanced profitability. The liquidity ratios remain broadly stable, suggesting adequate liquid assets to support ongoing operations and other short-term obligations.

Table 11: Key Financial Soundness Indicators (Percent)

Key FSI	Liquid assets ratio		ROA		Liquid assets to short-term liabilities		ROE	
	2024	2023	2024	2023	2024	2023	2024	2023
TCSPs	86.4	94.5	5.3	5.4	2.6	4.0	7.9	7.1
Unrestricted Trusts	90.6	89.8	1.9	4.1	3.1	4.3	2.7	5.2
Company Managers	76.4	72.0	18.4	9.9	1.8	3.7	32.6	14.5
Corporate Service Provider	28.1	51.0	6.9	7.1	0.4	1.0	21.7	14.8

The Securities Investment Sector

Cayman Islands Securities Sector Overview

The Cayman Islands securities sector includes a range of market intermediaries, such as Securities Investment Business (SIB) licensees (licensees), registered persons (RPs), securities issuers, and the Cayman Islands Stock Exchange (CSX). Importantly, the CIMA exercises regulatory and supervisory authority only over SIB market intermediaries and does not oversee the CSX or other securities market infrastructure providers.

The Securities Investment Business Act (2020 Revision) (SIBA) governs the regulation of individuals and entities conducting these activities in or from the Cayman Islands. Covered activities include the functions of market makers, broker dealers, securities arrangers, securities advisors, and securities managers, all of whom must be either licensed or registered with CIMA.

Entities registered as SIB RPs are permitted to carry out securities investment business exclusively for institutional investors, high net worth individuals, or other sophisticated clients. Many SIB RPs, particularly those operating as securities managers and advisors, maintain close linkages to mutual funds and private funds registered with CIMA. These client funds constitute a significant component of the jurisdiction's financial sector.

Securities investment business (SIB) in the Cayman Islands encompasses a range of regulated activities, including dealing in, arranging, managing, and advising on securities. It primarily serves institutional and sophisticated investors through structures such as investment managers, advisors, and market participants.

The securities sector remains the second-largest segment of the Cayman Islands financial system when measured by assets under administration. Regulated SIB entities, comprising both SIB licensees and RPs, oversee assets totalling at least US\$ 1.28 trillion. Of this amount, RPs are responsible for approximately US\$ 1.26 trillion, representing about 99 percent of the total. These assets are predominantly related to private funds and mutual funds. Consistent with the jurisdiction's role as an international financial centre, the sector's activities are primarily conducted on behalf of non-resident clients.

SIB Licensees

At the end of 2024, there were 42 SIB licensees, comprising 41 full licensees and 1 restricted licensee. This reflects a modest decline compared to 2020, when 46 licensees were recorded. Similarly, the number of RPs fell from 1,665 in 2020 to 1,411 in 2024. This decrease primarily resulted from amendments to the SIBA, which were gazetted on 16 January 2020. These legislative reforms were implemented to satisfy economic substance obligations under the Economic Substance Amendment Act, requiring securities (fund) managers to establish a physical presence within the jurisdiction. In addition, the SIBA Amendment Act enhanced the Authority's supervisory powers over RPs to ensure their oversight is consistent with the AML/CFT standards applied to SIB licensees.

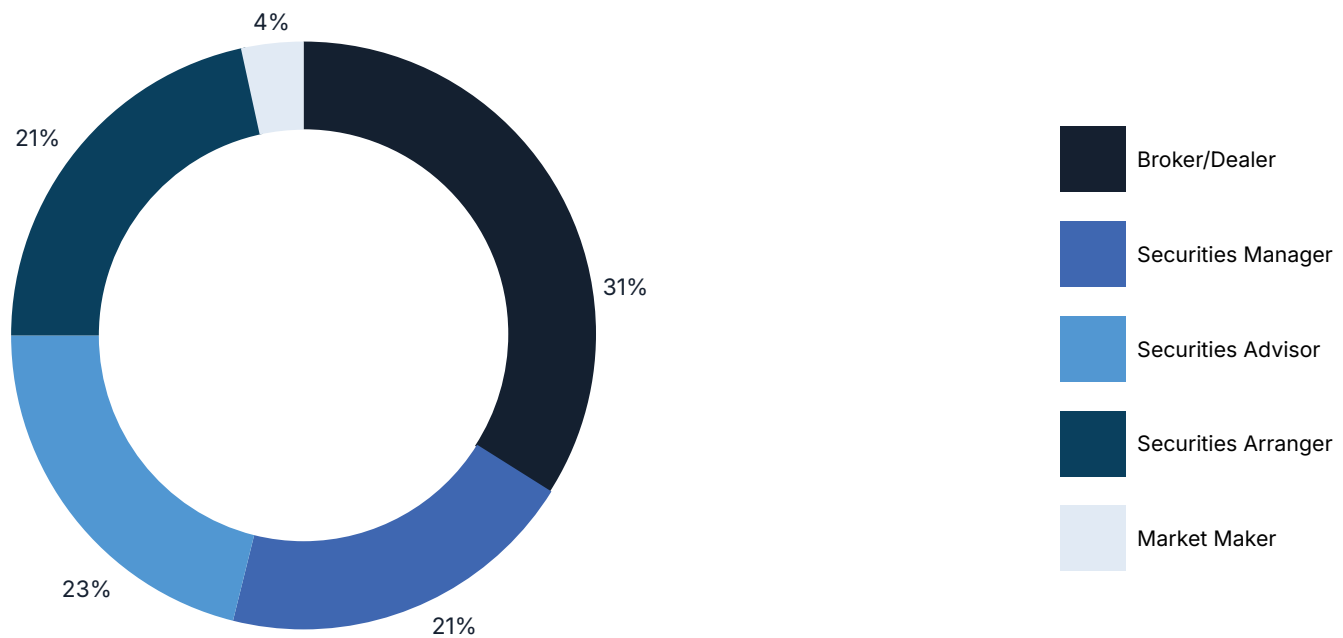
Table 12: Active SIB Licences

Licence/ Registration Type	2020	2021	2022	2023	2024
Securities (Registered Persons)	1,665	1,632	1,571	1,527	1,411
Securities - Restricted (Licence)	0	1	1	1	1
Securities - Full	46	45	45	44	41

Securities Licensees Activity

There are several categories of SIB licensees, each authorised to conduct one or more regulated activities. Of the total licensees, 27 are engaged in more than one of the five regulated categories of SIB activities. The broker/dealer function is the most prevalent given the jurisdiction’s role as an international hub for fund and securities transactions, where broker/dealer services are essential to support cross-border trading and capital flows. In contrast, market making is the least represented. Single-family offices that carry out securities investment business are required to be licensed or registered with CIMA; however, no such entities have applied for a licence under SIBA to date.

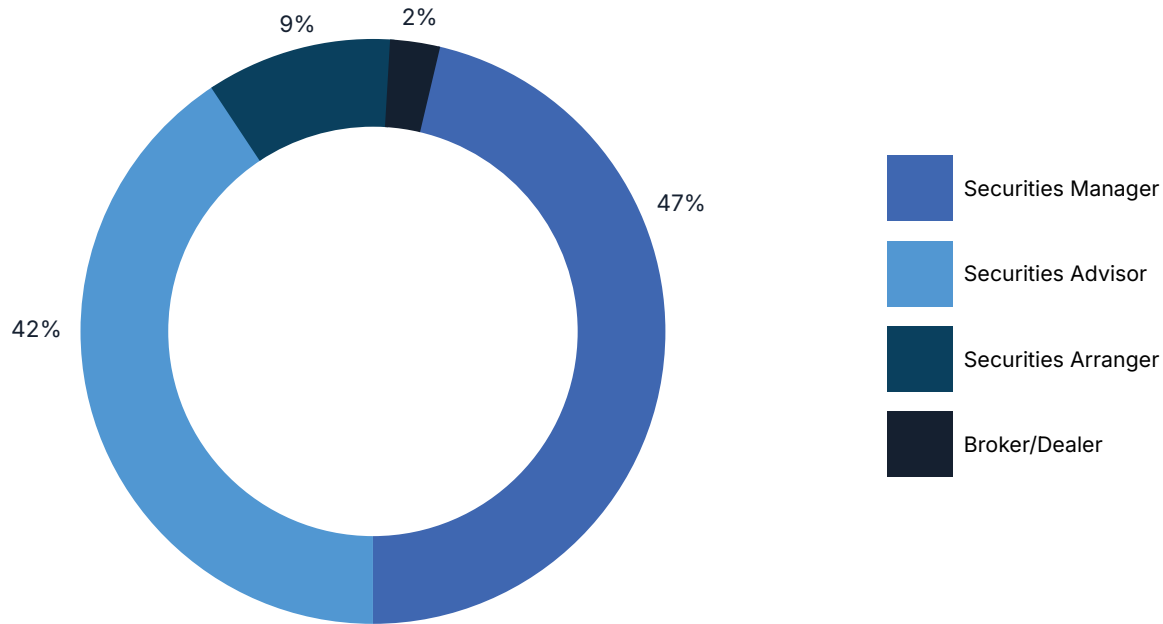
Figure 54: Securities Licensees Activity (by Type)



Registered Persons Activity

RPs conduct securities investment business, with 426 engaged in more than one regulated activity. The most common activities among RPs are securities management and securities advisory services, accounting for 47 percent and 42 percent of RPs, respectively. This reflects the jurisdiction's concentration of investment structures that require specialised portfolio management and advisory services for institutional and sophisticated clients. Accordingly, Rps are authorised to provide services exclusively to sophisticated or high-net-worth clients, including institutional investors and entities owned by such persons.

Figure 55: Registered Persons Activity (by Type)



Emerging Risks

A significant share of activity in the securities sector is carried out by securities managers, who account for 21 percent of business conducted by licensees and 47 percent of business conducted by RPs. While the Authority continues to adopt a proactive approach to assessing the risks associated with this segment, emerging concerns have been identified regarding the management of tokenised funds.

In response, the industry is expected to strengthen:

- the competence of investment managers and advisors in relation to the tokenization of fund equity and underlying assets.
- risk frameworks that address IT and cybersecurity exposures.
- measures to mitigate AML/CFT risks associated with tokens and blockchain technologies.

Recent challenges have included the interpretation of Schedule 2A, paragraph 2(c) of the SIBA regarding non-registrable persons. General partners conducting securities investment business without receiving separate remuneration beyond what is necessary or incidental to their core functions have typically been treated as falling within this category. However, it has been observed that some managers are adopting alternative titles, such as participating partner or similar designations, in an effort to avoid classification as engaging in regulated SIB activities under Schedule 2, paragraph 3.

The Authority has also noted deregistration requests that appear to be based on this interpretive gap, with the apparent aim of circumventing registration requirements. In addition, the Authority currently has limited supervisory powers and oversight in relation to market makers and liquidity providers. Within the evolving financial landscape, some liquidity providers have been observed conducting SIB involving securitised assets, including tokenised bonds and equities.

Changes to the Legislative Provisions

In light of the aforementioned challenges and emerging risks, the Authority, subject to the Ministry's alignment and timeline, recommended significant enhancements to its regulatory approach to strengthen supervisory effectiveness and respond to emerging challenges. To date, several key areas have been identified for improvement in the supervision of RPs. The Ministry is currently reviewing and considering the following legislative changes recommended by CIMA:

- extension of Section 13 of SIBA to RPs.
- extension of the SIB (Conduct of Business) Regulations to RPs.
- extension of Section 8 of FRS Regulation to RPs based on AUM threshold that will be determined.
- submission of unaudited financial summary by RPs.

The securities sector's scale and increasing complexity, including tokenisation, create potential vulnerabilities to market integrity and reputational risk. To address these challenges, the Authority is finalising enhancements to extend conduct of business rules, reporting obligations, and prudential standards to RPs. These measures will be essential to strengthen oversight and support financial stability in a rapidly evolving environment.

Virtual Asset Service Providers

The Cayman Islands Virtual Asset Service Providers – Key definitions

Virtual Assets: means a digital representation of value that can be digitally traded or transferred and can be used for payment or investment purposes but does not include a digital representation of fiat currencies.

Virtual Asset Custodians: means a licensee who provides virtual asset custody services in or from within the Islands.

Virtual Asset Issuance: means the sale of newly created virtual assets to the public in or from within the Islands in exchange for fiat currency, other virtual assets or other consideration but does not include the sale of virtual service tokens.

Virtual Asset Service Provider: any entity that provides virtual asset service as a business or in the course of business in or from within the Islands and is registered or licensed in accordance with this section 3 of the Virtual Assets (Service Providers) Act (2024 Revision) (VASP Act) Act.

Virtual Asset Trading Platforms: means a centralised or decentralised digital platform;

- a. (which facilitates the exchange of virtual assets for fiat currency or other virtual assets on behalf of third parties for a fee, commission, spread or other benefit; and
- b. which –
 - i. holds custody of or controls virtual assets on behalf of its clients to facilitate an exchange; or
 - ii. purchases virtual assets from a seller when transactions or bids and offers are matched in order to sell them to a buyer.

The Cayman Islands was among the first jurisdictions to establish a comprehensive regulatory framework for Virtual Asset Service Providers (VASPs) which is regulated under the Virtual Assets (Service Providers) Act (2024 Revision) (VASP Act). The VASP Act originally came into effect in October 2020, and the jurisdiction took a phased approach in implementing the VASP regulatory regime. As of December 2024, Phase 1 was still in effect with the primary focus being on the oversight of Anti-Money Laundering/Combating the Financing of Terrorism/Combating Proliferation Financing/Targeted Financial Sanctions (AML/CFT/CPF/Sanctions), cybersecurity and other key risk areas¹⁸. Phase 2 of the VASP Act intends to introduce the licensing regime for virtual asset trading platforms and virtual asset custodians as well as implementation of a more robust supervisory framework including a greater prudential oversight of the VASP sector.

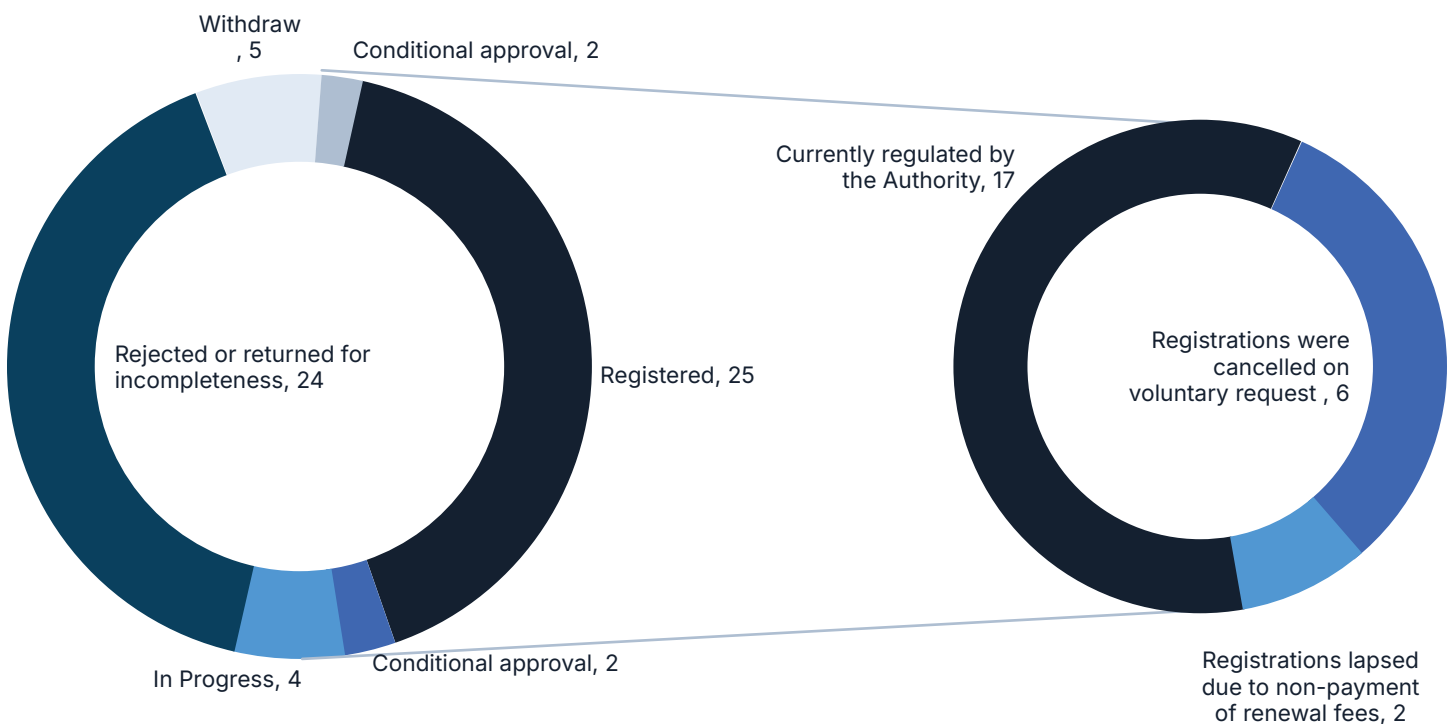
To further enhance regulation and address industry clarity, the Authority has issued multiple regulatory measures relating to VASPs. In May 2024, the Authority issued a Regulatory Policy for the registration or licensing of VASPs¹⁹ which provides guidance on the process and criteria to approve the registration or license of a VASP. Additionally, updates were made to the VASP application form to increase efficiencies and better enhance the application process. Rules and Statement of Guidance were also issued regarding the obligations for Virtual Asset Custodians and Trading Platforms; these were published in December 2024.

The VASP ecosystem continues to evolve and innovate as noted by an increased global trend towards tokenization of real-world assets. The Cayman Islands continues to monitor and responds to these innovations, enhancing regulatory measures as required. For example, the Ministry of Financial Services and Commerce (MFSC) issued a draft VASP (Amendment) Bill for consultation, which proposes to amend the definition of issuance of a virtual asset or virtual asset issuance. In particular, it proposes a limited exemption of the issuance of an equity interest (as defined under the Mutual Funds Act) or an investment interest (as defined under the Private Funds Act) from the current Act regime²⁰.

VASPs in the Cayman Islands

Between 2020 and 2024, the Authority has received 62 VASP applications for registration under the VASP Act, of which 25 were registered, 8 of which were deregistered over time. Therefore, as at 31 December 2024 there were 17 active VASPs regulated by CIMA. Of the 17 registrants, 2 has been rated as high-risk, 10 as medium-high, 3 as medium-low, and 2 as low-risk.

Figure 56: VASPs Applications for Registration



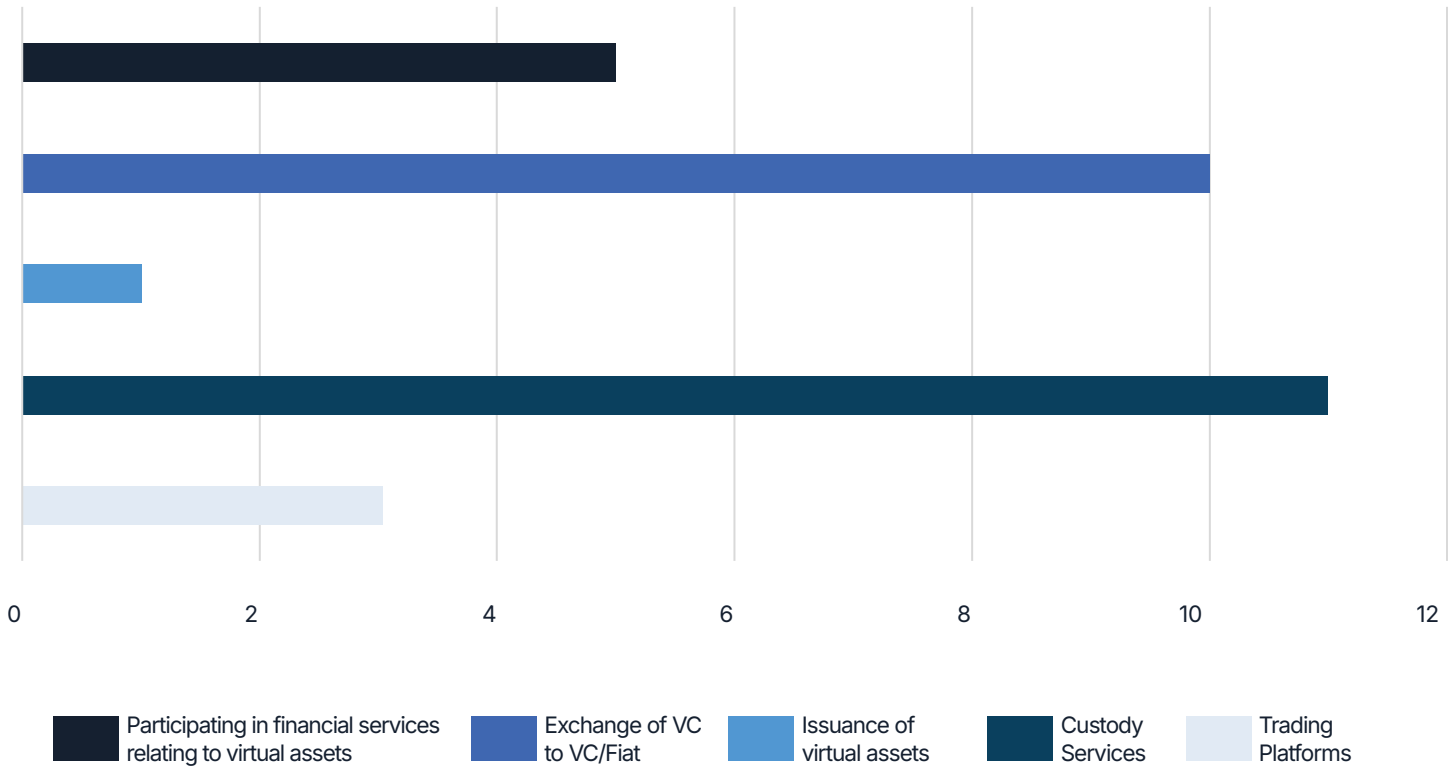
¹⁸ Phase 2 commenced on 1 April 2025 with the implementation of the licensing regime.

¹⁹ This has been updated as at May 2025.

²⁰ The Virtual Asset (Service Providers) (amendment) Bill, 2025 was published with Legislative Gazette No. 25 dated 28th May

Custody services are the most prevalent, with 11 instances recorded, followed closely by the exchange of virtual currencies (VC) to other VCs or fiat currencies, which appears 10 times. Participation in financial services relating to virtual assets is moderately represented with 5 occurrences, while trading platforms are less common, noted only 3 times. The issuance of virtual assets is the least reported service, with just 1 instance. This distribution suggests that the VASP sector is currently more concentrated in custodial and exchange-related functions, with comparatively limited activity in asset issuance and trading platforms. There are also instances where some VASPs offer more than one virtual asset service.

Figure 57: Types of Virtual Assets Services



Supervisory Regime

As part of its supervisory oversight mandate, the Authority is required, pursuant to section 6(1)(b) of the Monetary Authority Act (2020 Revision) (the MAA) and section 24(1)(c) of the VASP Act, to examine the affairs of Registrants and has the power to supervise, monitor and ensure compliance by VASPs with requirements to combat ML/TF. CIMA takes a risk-based approach in supervising VASP entities and conducts on-site inspections and off-site monitoring.

CIMA issued onsite inspection reports in July 2024 for the inspections of 4 VASP registrants that were conducted in 2023 as well as conducted an on-site inspection of another VASP registrant for which final prudential and AML/CFT inspection reports were issued to the registrant in November 2024. During 2024, CIMA continued its ongoing monitoring by conducting limited scope desk-based reviews on 11 VASPs. As part of this process, questionnaires were sent to the registrants to gather information on areas such as corporate governance, internal controls, AML/CFT, cybersecurity, financial position, and, where applicable, custody of assets. A summary of the findings and recommendations will be produced for communication to industry in 2025.

As a dynamic, multifaceted and still-emerging sector, the VASP ecosystem is characterised by rapid innovation coupled with various challenges and opportunities and while various areas of growth are being noted, there are areas of continued improvement.

Table 13: Registration processes and on-going supervision of VASPs

Knowledge gaps	The lack of knowledge and experience among some industry players of both best business practices and applicable acts and regulations was evident in certain instances and therefore the industry required more guidance and assistance.
Incomplete applications	Submission of applications for registration which were lacking critical information and supporting documentation hampered the ability of the Authority to efficiently process these applications in a timely manner. This included business plans that clearly articulated the virtual asset service to be provided, ownership structures and documents required for Fitness and Proprietary assessments.
Corporate Governance gaps	Gaps in Board of Directors (Board) composition including inadequate number of directors or the absence of independent directors; absence of / inadequate formalised conflict of interest policies and procedures or formal Succession plans etc. The commencement of Phase 2 of the VASP Act will bring into force additional provisions to assist with enhancing and further clarifying corporate governance requirements.
Non-compliant Policies and procedures	Policies and procedures that did not comply or meet the requirements of the Cayman Islands legislative framework. Examples include gaps in AML/CFT and sanctions policies and procedures; segregation of duties; outsourcing, cybersecurity, data protection, business continuity etc. The commencement of Phase 2 of the VASP Act will bring into force additional provisions relating to prudential requirements.

In supervising the VASPs, the Authority continues to coordinate and cooperate with domestic and foreign competent authorities as necessary and shares relevant information as appropriate.

Policing the Perimeter

Section 24 of the VASP Act requires the Authority to take reasonable measures to identify natural or legal persons that are carrying out VASP activities without the required license, registration, or waiver. As part of the supervisory regime, CIMA proactively monitors the VASP industry to ensure all persons conducting virtual asset services within the Cayman Islands are operating in accordance with the VASP Act. The Authority collaborates with domestic authorities such as Cayman Islands Bureau of Financial Investigations and Financial Reporting Authority as part of the policing the perimeter initiative to share information as well as formal reporting. Multiple entities have been issued with direction letters to provide information, seek registration, and/or to cease and desist activity since the commencement of the VASP Act. CIMA uses information and intelligence received through various sources, conducts its own research and investigation in order to efficiently police the perimeter.

Travel Rule

To assist with the mitigation of money laundering and terrorist financing risks, the Authority adopted the FATF Travel Rule, via Part 10A of the AML Regulations. The Travel Rule requires, at a minimum, that the names and account numbers of the originator and beneficiary of a transaction accompany the transfer of virtual assets. VASP registrants are required to submit Travel Rule data on a quarterly basis and based on data submitted as at Q4 2024, the top 10 countries that registrants conducted virtual asset transfers with are Singapore, Australia, Cayman Islands, Switzerland, Japan, Turkey, Thailand, Germany, Netherlands, and Poland.

Industry Engagement

To complement the regulatory measures and onsite inspection reports, the Authority also held various meetings with industry representatives and participated in conferences to further assist in providing regulatory clarity. Additionally, CIMA continues to issue public advisories on the need for adequate due diligence prior to investing in virtual assets. These initiatives continue to demonstrate the Authority's on-going commitment to enhancing its supervisory activities and uphold its robust regulatory framework.

Chapter 3: Macroprudential Surveillance & Emerging Risk

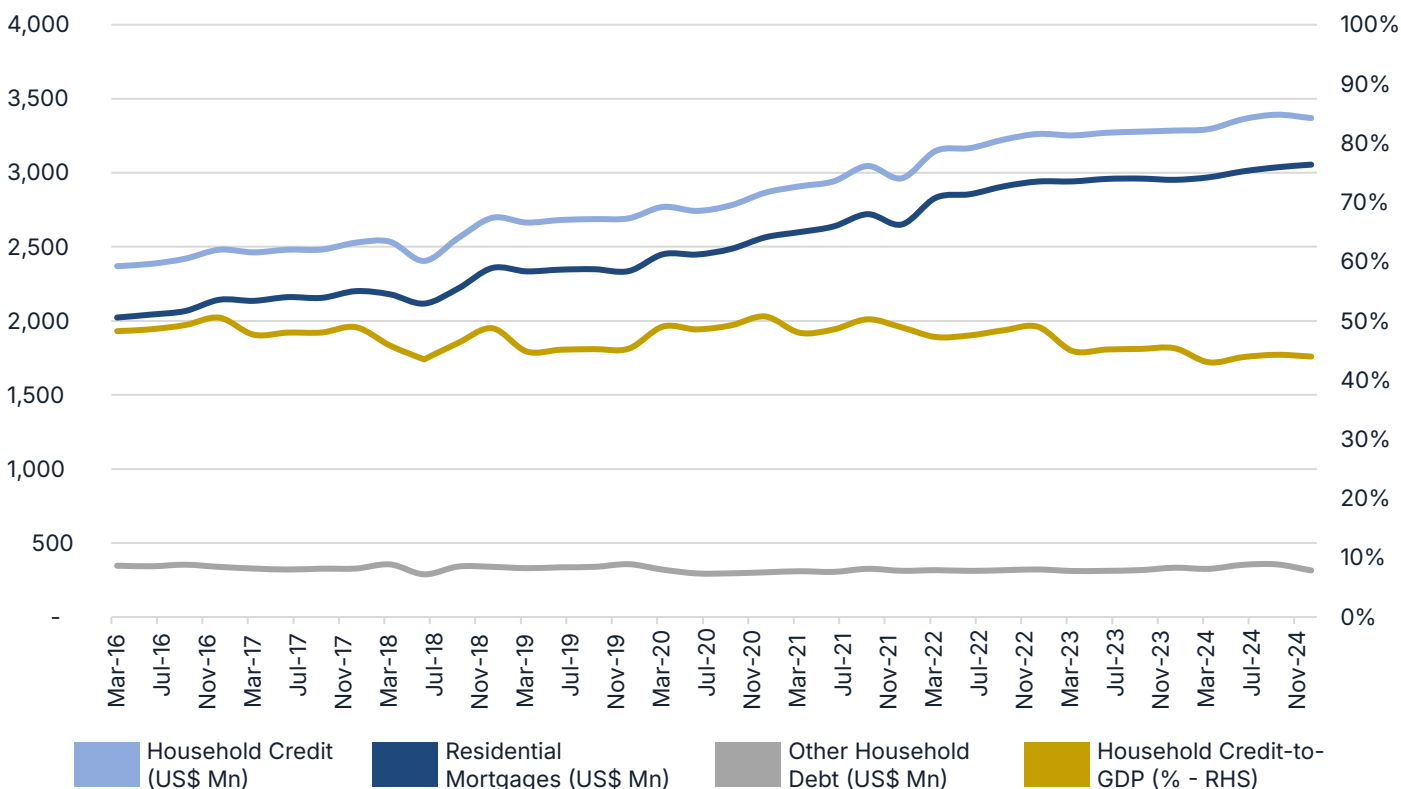
This chapter assesses the key risks and vulnerabilities affecting the stability of Cayman's financial system, focusing on four principal areas: i) household credit exposure, ii) the degree of interconnectedness, iii) climate-related risks, and iv) cybersecurity threats. Monitoring these factors is essential to prevent amplified shocks and maintain confidence in the domestic sector. To track systemic resilience, the chapter incorporates macroprudential tools alongside this risk analysis. Specifically, it presents the Banking Stability Index and the Aggregate Financial Stability Index, which offer quantitative measures of robustness to complement the qualitative assessment of emerging risks. In terms of specific findings, household credit exposure remains low, with credit levels near historical norms and the household credit-to-GDP gap within a safe range. However, interconnectedness risk is assessed as medium, reflecting the Cayman Islands' role as an international financial centre with complex linkages and cross-border exposures. Climate-related risk is also medium, due to the jurisdiction's susceptibility to acute physical hazards like hurricanes and rising sea levels. Furthermore, cyber risk is medium, reflecting growing global threats to the confidentiality, integrity, and availability of financial services. These areas remain a focus of continuous oversight to ensure emerging vulnerabilities are addressed proactively.

Risk 1: Household Credit Exposure

(Risk Rating – Low)

Household credit in the Cayman Islands, which includes residential mortgages and other advances like motor vehicle loans²¹, stood at approximately US\$ 3.4 billion in December 2024, a slight increase from US\$ 3.3 billion in December 2023. Residential mortgages dominated the portfolio, accounting for an annual average of approximately 88 percent of total credit, consistent with patterns in other economies. Mortgage foreclosure rates based on monetary value remained quite low, closing 2024 at 0.98 percent and consistently staying below one percent over the last five years. These indicators suggest that household credit exposure remains contained and does not currently pose a significant risk to financial stability.

Figure 58: Household Credit and Credit-to-GDP



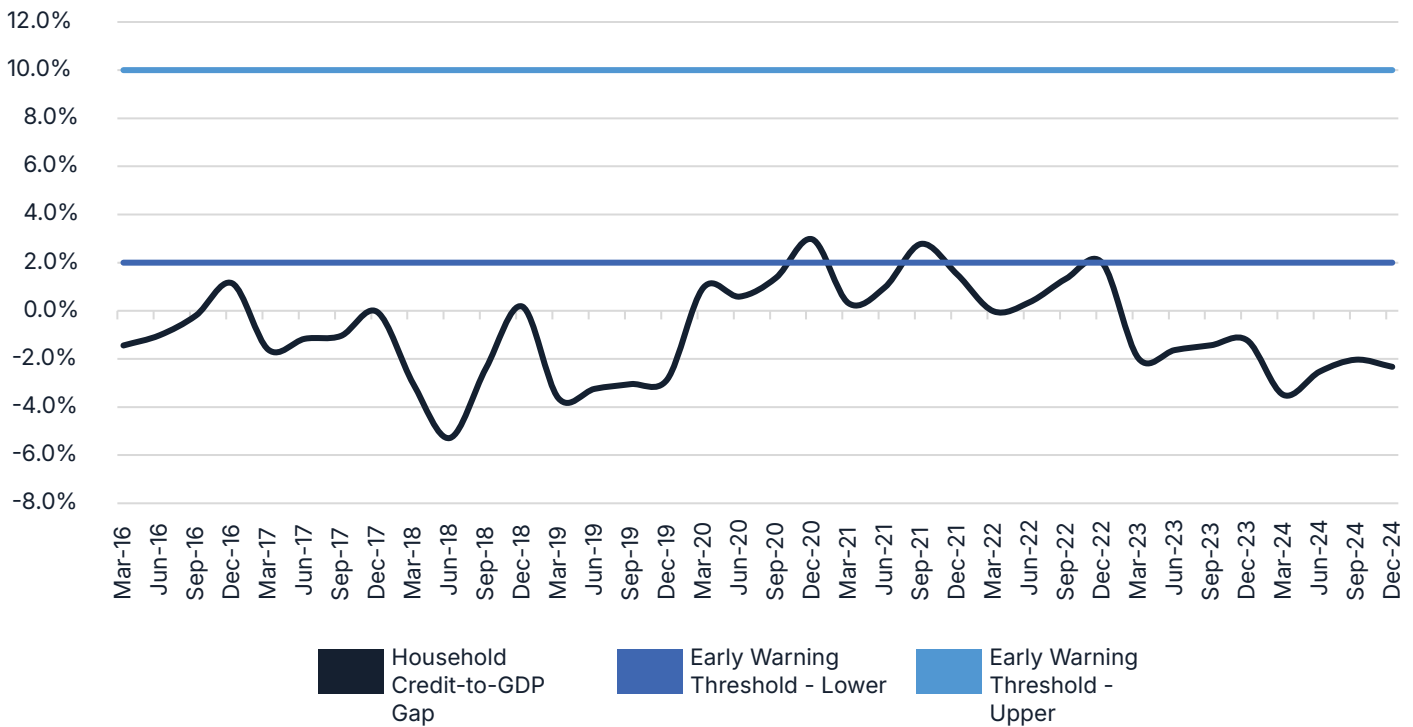
²¹ For financial stability analysis, this measure of household credit reflects credit extended to residents only and includes overdrafts. The values differ slightly from those in the financial sector chapter (section 2.1.4), which covers all banks (Categories A and B).

Household credit-to-GDP in the Cayman Islands has remained at moderate levels, experiencing minimal growth between 2016 and 2024, with an average of 47 percent over the period. The total value of household credit rose from approximately US\$ 2.5 billion in March 2016 to around US\$ 3.4 billion in December 2024, closely aligning with steady GDP growth. When household credit expands in step with GDP, it typically reflects balanced economic growth, where borrowing supports development without leading to excessive debt burdens. This indicates that household credit is being utilised effectively – whether for home purchases, education, or other household investments – fuelling economic progress rather than heightening financial risks.

Maintaining a prudent approach to household credit is essential for long-term financial stability, ensuring borrowing remains sustainable. With ongoing oversight, the Cayman Islands can foster resilient economic growth while mitigating financial risks.

Another important macroprudential indicator is the household credit-to-GDP gap, which assesses excessive credit in the system by comparing the actual credit-to-GDP ratio to its trend (computed using the HP filter). A short-term deviation where the actual ratio exceeds the trend and breaches the lower bound early warning trigger of 2 percent serves as an early warning signal for potential banking crises or severe financial distress. The risk is further heightened if this breach is persistent and prolonged, or if the upper threshold of 10 percent is breached at any point. This indicator is crucial because excessive credit growth often precedes financial instability, making it a key early warning tool for policymakers. When the actual credit-to-GDP ratio significantly deviates from its long-term trend, it suggests that credit expansion may be unsustainable, increasing the likelihood of financial distress as borrowers and financial institutions become more vulnerable to economic shocks. Persistent breaches, particularly beyond the 10 percent upper threshold, indicate a heightened risk of systemic crises, signalling the need for macroprudential interventions such as tighter lending regulations or countercyclical capital buffers to mitigate potential financial instability.

Figure 59: Credit-to-GDP Gap



Between 2016 and 2024, the credit-to-GDP gap consistently remained below the lower early warning threshold of 2 percent, except for brief, isolated breaches in select quarters between 2020 and 2023. These temporary deviations were primarily driven by GDP contractions due to the COVID-19 pandemic, which momentarily pushed the ratio above the threshold.

However, as economic conditions stabilised and GDP regained its momentum, the gap swiftly returned to its normal range, mitigating any prolonged concerns. The overall stability of this gap suggests a low risk of financial imbalances and excessive credit growth, reducing the likelihood of systemic financial stress. It indicates that credit expansion has remained aligned with economic growth, supporting financial stability and minimising the need for immediate policy intervention.

Risk 2: Interconnectedness

(Risk Rating – Medium)

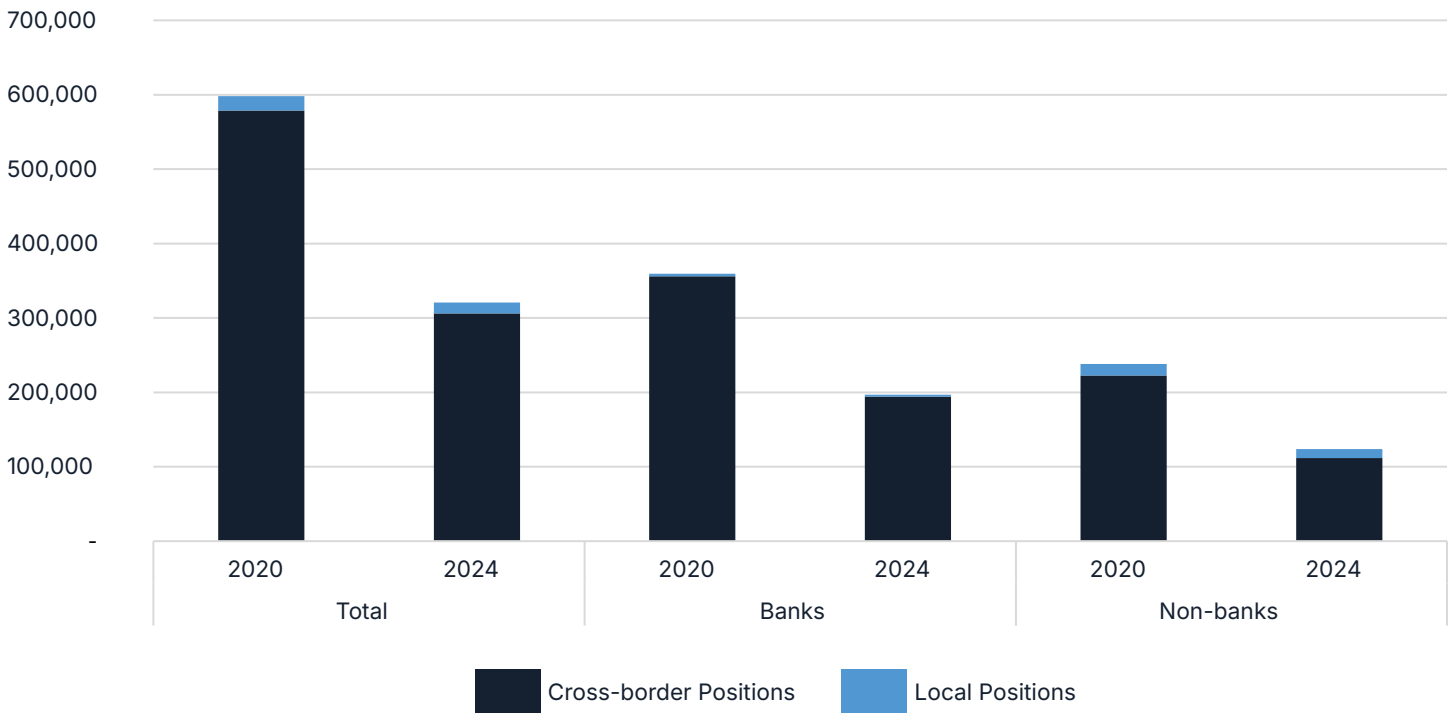
Cross-border financial flows and interconnectedness play a crucial role in shaping global financial stability, with significant implications for jurisdictions like the Cayman Islands. As an international financial hub, the Cayman Islands facilitates substantial cross-border banking activity, linking global markets through its role in intermediation and investment flows. Locational Banking Statistics (LBS) help track these flows by capturing cross-border claims and liabilities, providing valuable insights into financial linkages and risk exposures. These insights are crucial, as greater interconnectedness enhances liquidity and financial integration but also increases vulnerability to external shocks.

The LBS for the Cayman Islands indicate a significant decline in assets across total positions, banks, and non-banks between 2020 and 2024. Total assets fell sharply from approximately US\$ 598 billion in 2020 to around US\$ 321 billion in 2024, reflecting a major contraction in cross-border financial activity. This decline was primarily driven by a sharp reduction in banks' assets, which dropped from roughly US\$ 360 billion in 2020 to about US\$ 197 billion in 2024. Similarly, non-bank positions saw a substantial decrease, falling from US\$ 238 billion in 2020 to nearly US\$ 124 billion in 2024. Despite this broad contraction, the overall distribution of assets has remained relatively stable, with cross-border positions consistently accounting for an average of 96 percent of total positions throughout the period. This suggests that while the absolute size of assets has diminished, the composition of cross-border financial flows has remained largely unchanged.

Liabilities followed a similar trend across total positions, banks, and non-banks between 2020 and 2024, mirroring the decline in assets. Total liabilities fell sharply from approximately US\$ 598 billion in 2020 to around US\$ 321 billion in 2024, highlighting a substantial reduction in financial obligations within the jurisdiction. This decline was primarily driven by a reduction in banks' liabilities, which dropped from approximately US\$ 388 billion in 2020 to about US\$ 175 billion in 2024. Similarly, non-bank liabilities decreased from around US\$ 208 billion in 2020 to just over US\$ 145 billion in 2024. Despite this broad decline, the structural composition of liabilities has remained largely unchanged. Cross-border positions continue to dominate, accounting for 87 percent of total liabilities throughout the period, while local positions have remained relatively minor. The decline in liabilities aligns with the contraction observed in assets, suggesting a broader cutback in cross-border financial activity.

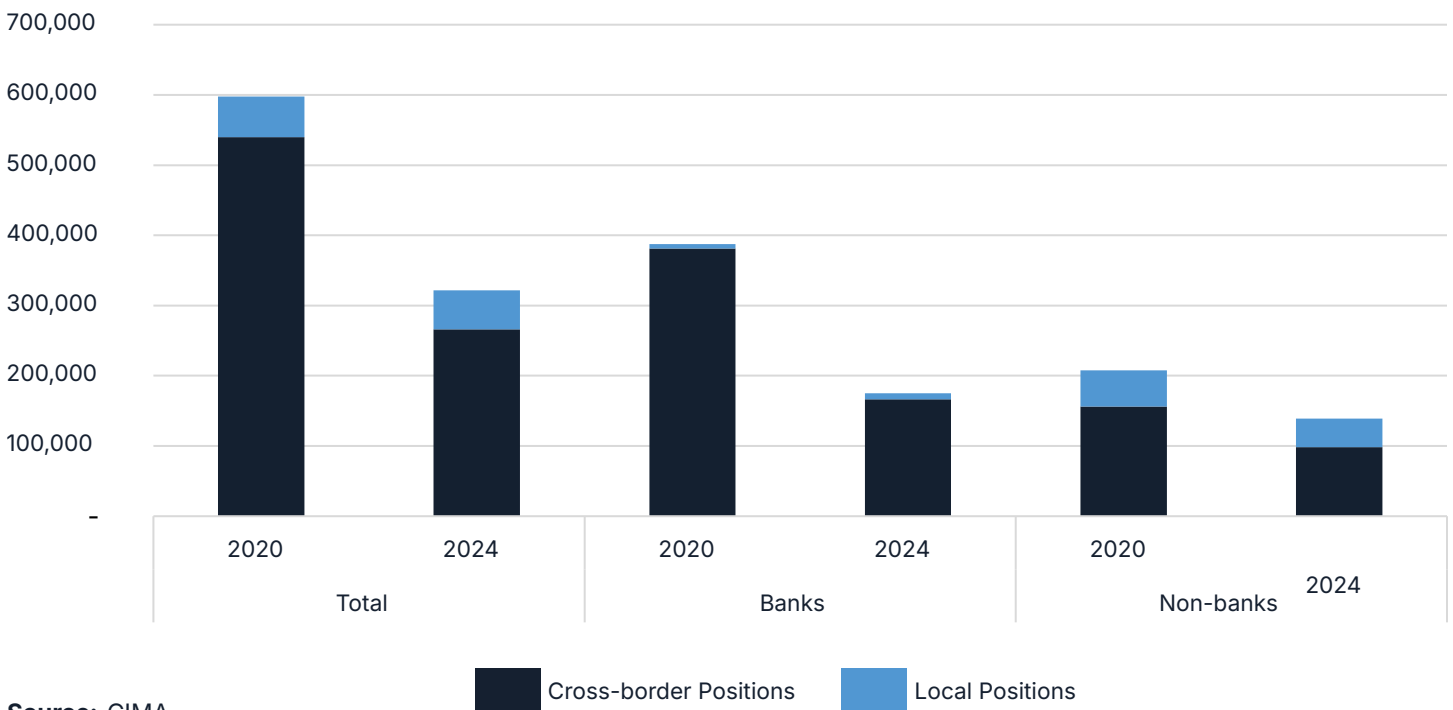
The decline in both assets and liabilities over the period 2020-24 reflects a measured contraction in cross-border financial activity, aligning with global trends. Despite the reduction in absolute asset size, the overall structure of financial flows has remained stable, with cross-border positions continuing to dominate. This stability suggests that the jurisdiction maintains its strong role in international finance, with a consistent composition of assets and liabilities. The adjustment in financial positions reflects evolving market conditions and strategic and streamlined shifts in business models by institutions, rather than any fundamental weakness. The jurisdiction continues to remain a well-established financial hub with a robust legislative framework supporting cross-border financial services.

Figure 60: Cayman Locational Banking Statistics – Total Assets (US\$ Millions)



Source: CIMA

Figure 61: Cayman Location Banking Statistics – Total Liabilities (US\$ Millions)

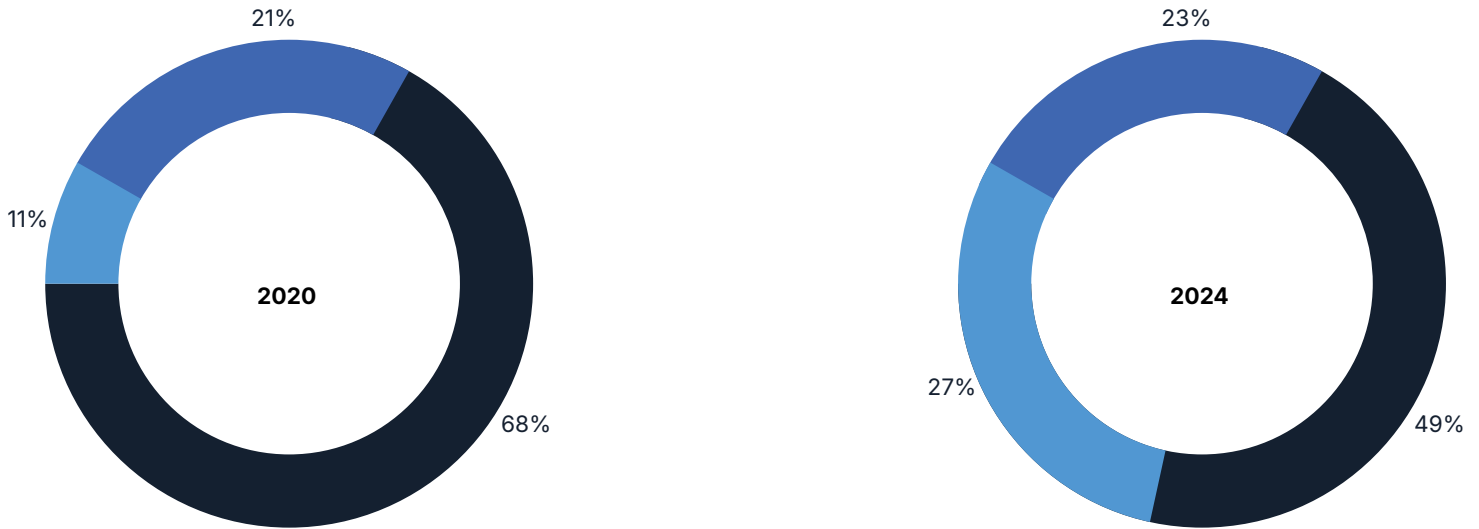


Source: CIMA

In 2024, loans and deposits continue to represent the largest share of cross-border assets, making up 50 percent of the total. However, this marks a 18 percent decline in their share since 2020, as other asset categories, such as debt, have gained prominence. This diversification suggests a less concentrated distribution of cross-border assets compared to 2020, despite loans and deposits remaining the dominant category.

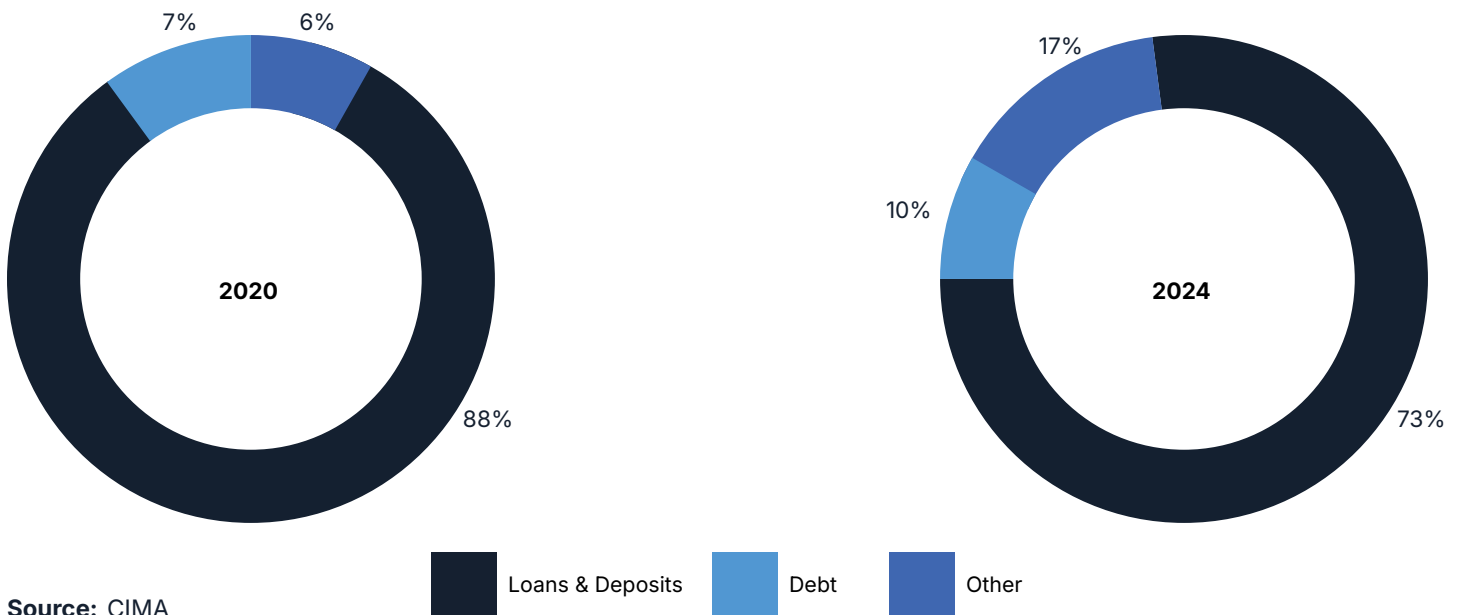
A similar trend is observed in cross-border liabilities, where loans and deposits accounted for 75 percent in 2024, down from 88 percent in 2020. Meanwhile, debt, derivatives, and other financial instruments collectively comprised 25 percent of liabilities. The growing reliance on derivatives and other complex instruments in cross-border assets introduces a slight increase in financial stability risks due to their intricate structures and potential to heighten market volatility. The Authority remains proactive in tracking market developments and regularly reviewing its regulatory frameworks to address potential risks arising from the increased use of these instruments.

Figure 62: Cayman Islands Banks – Cross-border Assets by Category²²



Source: CIMA

Figure 63: Cayman Islands Banks – Cross-border Liabilities by Category



Source: CIMA

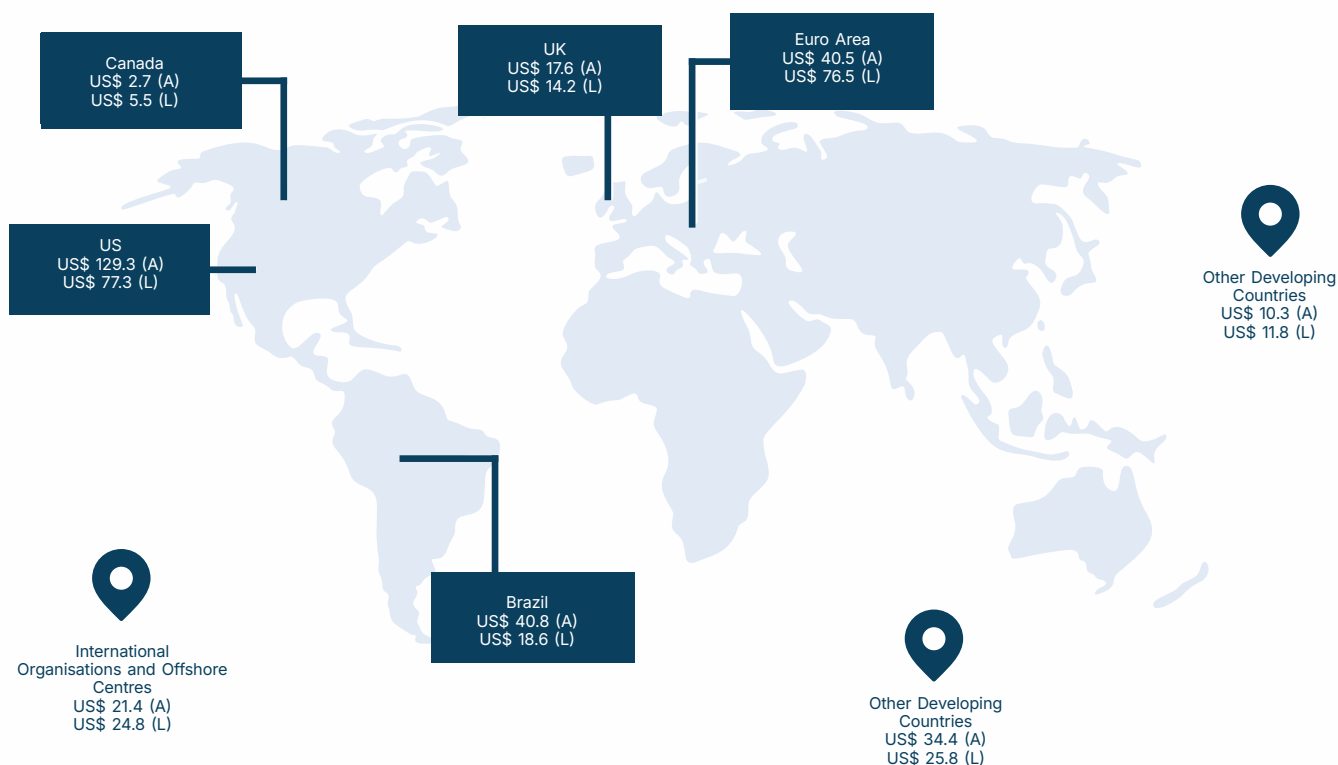
While overall banking assets and cross-border assets have declined, they remain heavily concentrated in developed economies, which account for approximately 68 percent of all cross-border assets. Within this, the United States holds the largest share at 43 percent in 2024, while the remaining 25 percent is distributed among other advanced economies.

²² The 'Other' category includes derivatives.

Developing economies collectively represent 25 percent of cross-border assets, with Brazil alone making up 14 percent. In terms of interconnectedness, banks in the Cayman Islands continue to have significant cross-border asset exposure to the United States, though their investments span multiple jurisdictions.

Cross-border liabilities also exhibit a strong concentration in developed economies, reaching 71 percent in 2024. However, their distribution is more balanced across developed nations compared to cross-border assets. For instance, the United States accounts for 30 percent of cross-border liabilities, while the United Kingdom and the Euro Area hold 5 percent and 29 percent, respectively. When a large portion of cross-border flows are concentrated in just a few countries, there is a potential risk of financial instability if something goes wrong in those economies. A major economic downturn, regulatory change, or financial crisis in one of these key countries could create ripple effects across global markets. However, while this concentration could pose risks, the current situation is not a major concern. The distribution follows typical international financial patterns, where investments are primarily centred in stable developed economies, with strong institutional and legal protections that help mitigate potential instability.

Figure 64: Cayman Islands Banks – Cross-border Assets (A) and Liabilities (L) Interconnectedness by Country (US\$ Billions)



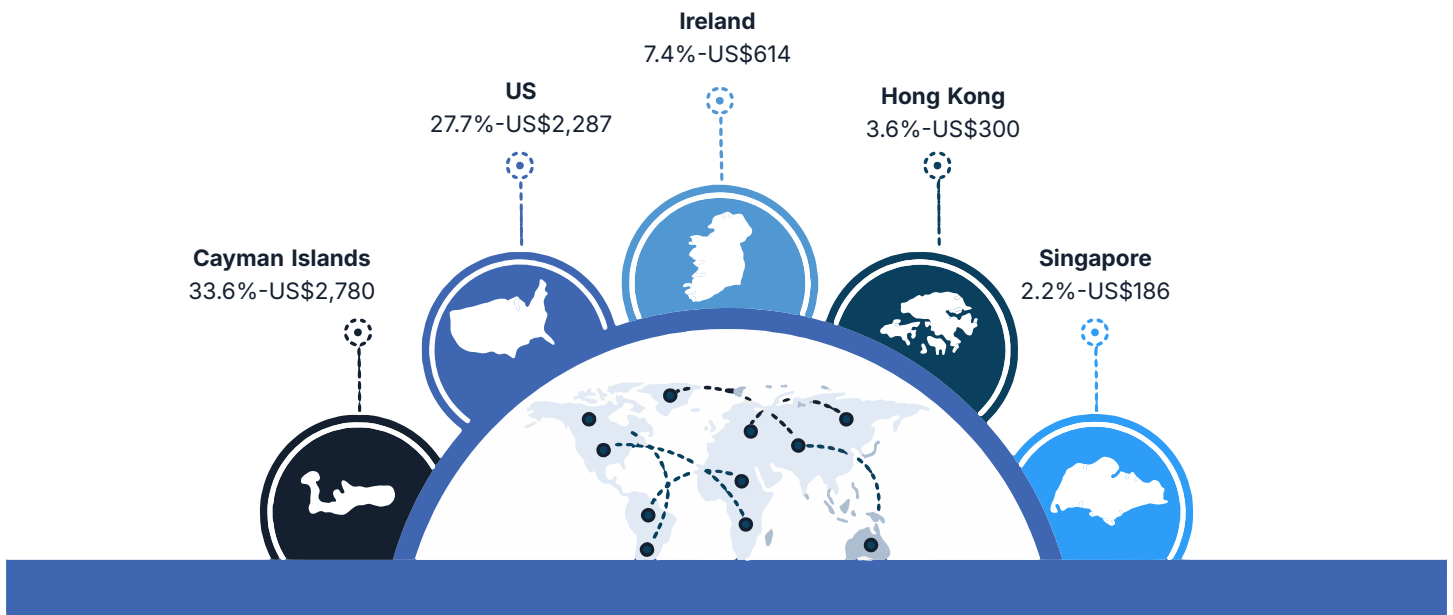
As the Cayman Islands' banking sector has contracted, non-bank financial intermediation (NBFi) has seen notable expansion, particularly in other financial intermediaries (OFIs) such as hedge funds, a variety of investment funds, and structured finance vehicles, which continue to grow in prominence. The total assets of OFIs have continued to rise, increasing from US\$ 13.3 trillion in 2022 to US\$ 14.96 trillion in 2023, making this the largest sector within the Cayman Islands' financial system.

This growth has been driven primarily by the expansion of hedge funds, whose total assets rose from US\$ 5.2 trillion to US\$ 6.7 trillion over the same period. Money market funds also experienced substantial growth, increasing from US\$ 3.8 trillion to US\$ 4.9 trillion. Meanwhile, the net asset value (NAV) of all investment funds grew from US\$ 7.9 trillion in 2022 to US\$ 8.3 trillion in 2023.

Several factors have contributed to this expansion, with one of the most significant being the Cayman Islands' favourable regulatory environment. These advantages have made the jurisdiction an attractive destination for a wide range of investment funds and financial intermediaries. Additionally, amid tighter global banking regulations and growing demand for alternative investments, capital is increasingly being redirected into non-bank financial sectors. As a major hub for international investment flows, the Cayman Islands play a crucial role in global finance, reinforcing the interconnectedness of its OFIs with both developed and emerging markets.

The NAV of investment funds is predominantly concentrated in the Cayman Islands (33.6 percent) and the United States (27.7 percent), with the remaining 38.7 percent distributed across both developed and developing countries. This distribution underscores the interdependence of Cayman Islands OFIs within the wider financial system.

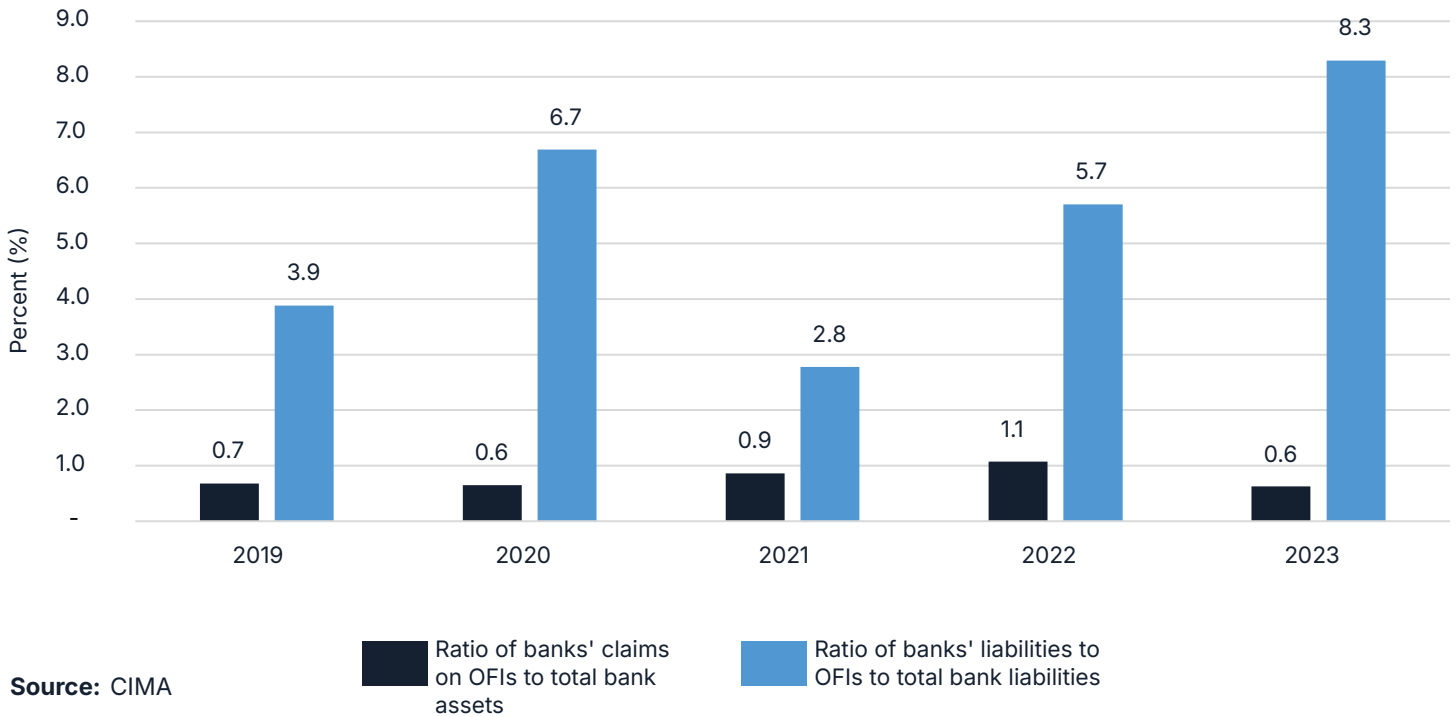
Figure 65: Cayman Islands Investment Funds – Geographic Distribution (NAV – US\$ billions)



The Cayman Islands' financial system is highly interconnected with global markets, enabling financial flows to move seamlessly across borders. While this integration enhances efficiency, it also increases vulnerabilities, as financial shocks – such as market downturns or crises – can quickly ripple through the system. NBFIs and their various subcategories play a particularly influential role within this network. Their reliance on leverage and liquidity transformation heightens the risk of financial stress, which, if triggered, could spread across the broader financial system. As such, CIMA collaborates closely with international regulatory bodies and other jurisdiction's regulatory bodies to monitor and mitigate these risks, ensuring the stability of the financial sector.

In recent years, there have been notable shifts in the relationship between Cayman Islands banks and OFIs. Between 2019 and 2023, banks significantly reduced their exposure to OFIs, with claims falling from \$ 4.5 billion to \$ 2.4 billion. However, during the same period, banks' liabilities to OFIs increased from \$ 25.7 billion to \$ 31.8 billion, rising from 3.9 percent to 8.3 percent of total liabilities. This suggests that while banks have reduced lending to OFIs, they have become increasingly reliant on deposits and funding from these institutions. Such trends highlight the evolving risks within the Cayman Islands' financial ecosystem, reinforcing the need for proactive regulatory oversight to maintain stability.

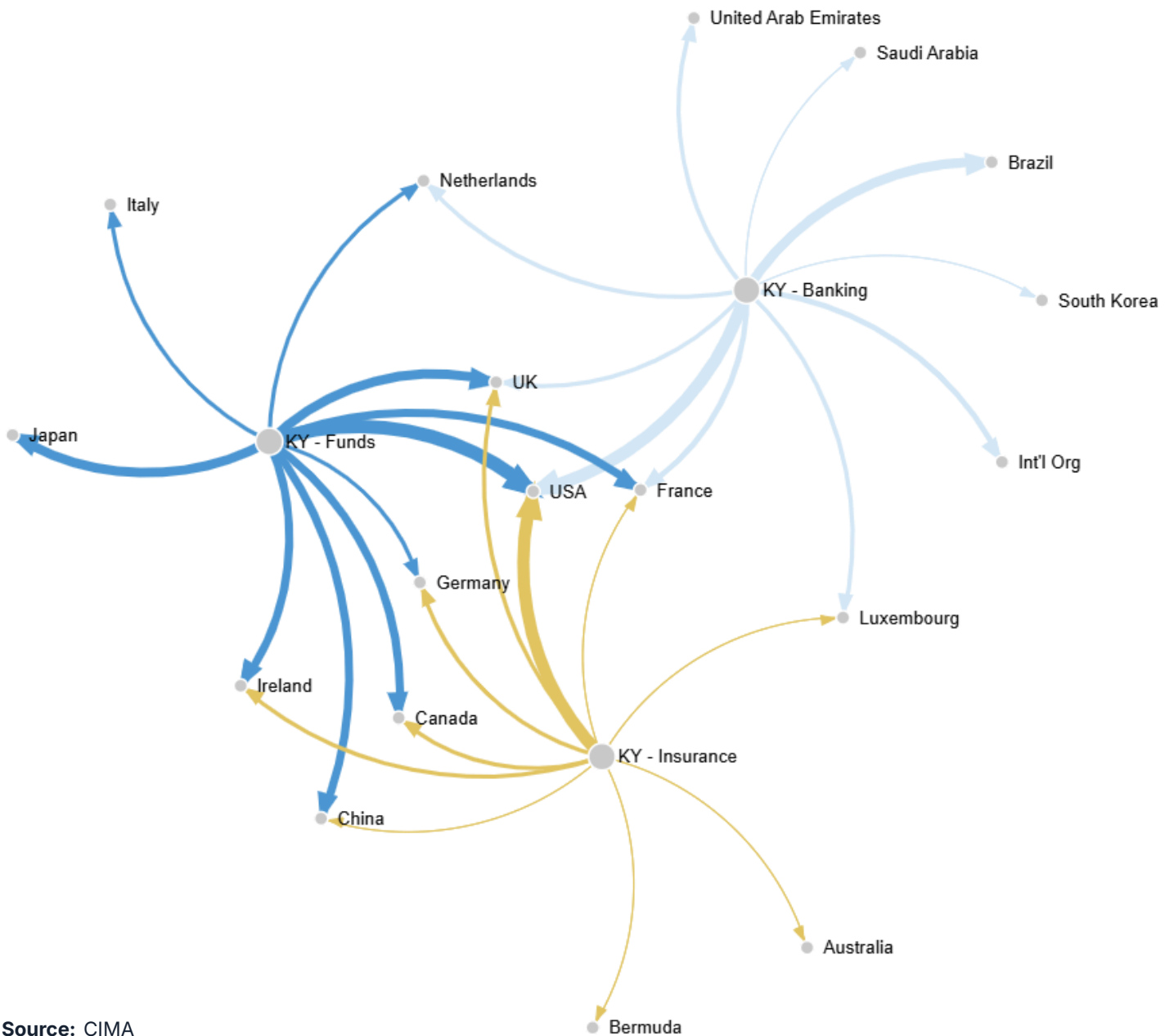
Figure 66: Banks' Interconnectedness with OFIs



Cross-border holdings of equity and debt securities are captured by the Coordinated Portfolio Investment Survey (CPIS), which is submitted to the IMF on a semi-annual basis. It provides valuable insights into foreign asset ownership, international investment flows, and the overall structure of global financial markets. For the Cayman Islands, the CPIS plays a crucial role in supporting financial transparency, strengthening regulatory oversight, and contributing to global market stability. As a major financial hub, the Cayman Islands benefits from the CPIS by aligning with international compliance standards, reducing the risks of financial misconduct, and reinforcing its reputation as a trusted investment destination.

Consistent with previous years, the United States remains the top destination for portfolio investment across the three regulated sectors – banking, insurance, and investment funds. Other systemically important jurisdictions for the Cayman Islands include China, Japan, Brazil, France, and the United Kingdom, reflecting the jurisdiction's deep integration into global financial markets.

Figure 67: Cross-border Holdings of Equity and Debt Securities (Banks, Insurance, and Investment Funds)



Source: CIMA

In conclusion, the Cayman Islands' financial system remains deeply interconnected with global markets, reflecting both the benefits and risks of cross-border financial activity. The contraction in banking sector assets and liabilities between 2020 and 2024 signals an adjustment in market dynamics rather than a fundamental weakness, as the jurisdiction continues to play a central role in global finance. While banks have reduced their exposure, the non-bank financial intermediation sector has expanded significantly, particularly in hedge funds and investment vehicles, reinforcing the jurisdiction's importance as a hub for alternative investments. This shift underscores the need for continued regulatory vigilance, as the increasing reliance on derivatives and complex financial instruments could amplify market volatility. The concentration of financial flows in a few key economies, particularly the United States, highlights both the stability and potential vulnerabilities inherent in this interconnected system. As financial markets evolve, ongoing regulatory cooperation and proactive oversight will be essential in ensuring that the Cayman Islands maintains its reputation as a resilient and transparent financial center, capable of adapting to global economic shifts while safeguarding financial stability.

Risk 3: Climate-Related Risks

(Risk Rating – Medium)

Globally, climate-related risks (CRR) are among the most pressing threats to financial stability. According to the World Economic Forum's Global Risks Report, extreme weather events rank as the second highest risk over the next two years, while climate and environmental risks occupy the top four positions over a ten-year horizon (See Chapter 1). CRR, arising from both physical hazards and transition challenges, translate into climate-related financial risks (CRFR), which can threaten the safety and soundness of financial institutions and the broader economy. Physical risks may impair asset values, increase insurance claims, or disrupt operations, while transition risks, such as policy shifts, technological changes, or evolving market sentiment, can lead to credit, market, and reputational losses. For regulatory authorities, these risks present a dual challenge: understanding how they propagate through financial institutions, and ensuring the system remains resilient. As such, CRFRs are becoming a core element of prudential supervision, stress testing, and macroprudential monitoring frameworks, requiring regulators to adapt their tools, data strategies, and oversight approaches. As international standards evolve and global climate policy intensifies, financial institutions face heightened expectations to assess, disclose, and manage their exposures.

Key Developments from Standard Setting Bodies

With financial institutions and regulatory bodies realising the urgent need to integrate climate-related factors into their overall risk management frameworks, the global conversation on climate risk accelerated to unprecedented levels in 2024. The push for climate resilience continued during this period, with international standard-setting bodies such as the Basel Committee on Banking Supervision (BCBS), the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS) advancing additional climate-related initiatives.

The BCBS, which in 2024 underlined the significance of addressing climate-related risk as a fundamental aspect of financial stability, has been a major force behind this trend. Guidelines issued by the BCBS call on banks to assess their exposure to CRR and emphasise the need to integrate these factors into existing risk management processes, governance frameworks, and strategies. (Table 14).

Table 14: Main Amendments to BCPs for CRFR

CP	Name	Summary Description
CP8	Supervisory Approach	Introduce a definition of CRFR, require supervisors to take into consideration CRFR in their supervisory methodologies and processes and to have the power to require banks to submit information that allows for the assessment of the materiality of such risks.
CP10	Supervisory Reporting	
CP15	Risk Management Process	Require banks to have comprehensive risk management policies and processes for all material risks (including CRFR), recognise that these risks could materialise over varying time horizons and implement appropriate measures to manage these risks where they are assessed as material.
CP26	Internal Control and Audit	Require banks to consider CRFR as part of their internal control framework. Banks and supervisors may consider CRFR in a flexible manner, given the degree of heterogeneity and evolving practices in this area.

Source: BIS

Similarly, in November 2024, the World Bank and IOSCO collaborated to support countries seeking to establish and enhance their carbon markets by issuing a policy note. The policy note, entitled Considerations for Financial Market Integrity of Carbon Credit Markets (IOSCO, 2024), covers several key aspects:

- I. it describes the current carbon credit market ecosystem;
- II. explains the main vulnerabilities of carbon markets; and
- III. summarises the key elements of financial market integrity relevant to carbon credit markets.

Moreover, to address gaps in the global framework for insurance supervision and promote global consistency, IAIS held a series of public consultations on proposed changes to various Insurance Core Principles regarding CRR which focuses on proposed supporting material addressing issues relating to market conduct and scenario analysis, through the publication of the following application paper:

Application Paper on the Supervision of CRR in the Insurance Sector²³ (April 2025):

This paper highlights that climate change and CRR are financial risks that can impact the resilience of insurers and financial stability. It guides insurance supervisors on integrating CRR into existing frameworks under the Insurance Core Principles (ICPs), emphasizing effective governance, risk management, valuation, investment practices, and disclosure for physical and transition risks. To monitor exposures, the paper encourages adopting tools such as scenario analysis, enhanced reporting, and public disclosure. It also offers practical recommendations on board oversight, control functions, data collection, and actuarial involvement to embed climate considerations across operations. While it does not establish new standards, the paper builds on earlier work and supports capacity-building through training. Table 15 provides an overview of selected ICPs and summarizes key expectations for managing climate-related risks.

Table 15: Selected ICPs Relating to CRR

CP	Name	Summary Description
ICP 7	Corporate Governance	Boards and senior management must continuously adapt their roles and responsibilities as climate risk evolves, ensuring clear information flows, sufficient resources, and appropriate skill sets. There should be meaningful board-level engagement with climate-related risks, which must be incorporated into annual financial planning and strategic objectives. The board is also expected to embed climate considerations into the organisation's risk appetite, strategies, and business plans.
ICP 8	Risk Management and Internal Controls	Insurers are expected to integrate climate-related risks into their governance structures, risk management practices, and internal controls. Control functions should have the expertise and resources necessary to assess how these risks affect existing risk categories. Organisations should develop robust tools to collect and analyse both quantitative and qualitative data to support effective identification, monitoring, and mitigation.
ICP 9	Supervisory Review and Reporting	Supervisors should ensure that climate risks are incorporated into supervisory reporting wherever material, and establish clear processes to monitor and discuss these risks over time. They should also consider carefully which information is appropriate for public disclosure to market participants and policyholders, and which is necessary solely for supervisory purposes.
ICP 19	Conduct of Business – NatCat	Insurers must ensure that all communications relating to natural catastrophe cover are clear, comprehensive, and accessible to consumers. Supervisors should confirm that pricing is fair, transparent, and based on robust risk models that reflect the increasing frequency and severity of such events. Insurers are also expected to review their claims operations and consider structural adjustments to ensure timely and adequate claims handling following major catastrophes.
ICP 25	Supervisory Cooperation and Coordination	Supervisory colleges are encouraged to include climate-related risks in their agendas and supervisory plans, considering their impact on group-wide governance frameworks, ERM, main risk exposures, and regulatory capital adequacy. When insurers operate across multiple jurisdictions, supervisors should coordinate data collection and analysis with other authorities and relevant international standard setters.
ICP 24	Macroprudential Supervision	Supervisors should establish systematic processes to collect climate-related information from insurers, making use of existing public and academic data wherever feasible to balance costs and benefits. They should also aggregate and analyse this information to monitor vulnerabilities and potential systemic risks, maintaining flexibility to adjust supervisory approaches as exposures and market conditions evolve.

Source: IAIS

²³ <https://www.iais.org/uploads/2025/04/Application-Paper-on-the-supervision-of-climate-related-risks-in-the-insurance-sector.pdf>

This paper is complemented by the Draft Application Paper on Climate Risk Scenario Analysis in the Insurance Sector²⁴, published by the IAIS in November 2023. The draft provides detailed guidance for supervisors and insurers on designing and implementing scenario analysis to better understand CRR. It aligns with Insurance Core Principles 16 and 24, outlining objectives, methodologies, and supervisory expectations for integrating scenario analysis into risk management and macroprudential oversight. The paper also discusses practical considerations such as data challenges, governance, and communication of results. Although a public consultation closed in February 2024 and feedback was reviewed in 2025, the paper remains in draft form as of July 2025, with no final version yet released.

Together, these standards have contributed to climate initiatives by promoting greater transparency and comparability in reporting, enabling investors and stakeholders to make informed decisions based on a clearer understanding of how businesses are addressing climate challenges and transitioning towards sustainable practices.

Although there have been important advances, questions have emerged about the future of global climate agreements and their role in international climate action following the United States' withdrawal from various climate initiatives in early 2025. The US has exited the Paris Agreement and repealed several environmental regulations, while on the other hand, many other jurisdictions and organisations continue to participate actively and maintain a strong focus on climate action. This shift may lead to a more gradual and collaborative global approach, as some countries reassess the pace and ambition of their commitments.

As CRR continue to intensify and pose material threats to financial stability and long-term value creation, the need for consistent, transparent, and comparable sustainability disclosures has become critical. In response, the International Financial Reporting Standards (IFRS) Foundation introduced IFRS S1 and S2, establishing a global baseline for sustainability and climate-related financial disclosures. These standards aim to improve the quality of information available to investors by integrating climate risk into corporate reporting, enabling better-informed capital allocation decisions (See Box 5).

International Financial Reporting Standards (IFRS S1 and S2)

Several global developments demonstrate the growing recognition that financial markets and institutions face systemic risks as a result of climate change. Specifically, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD) to develop uniform climate-related financial risk disclosures for businesses, banks, and investors to inform stakeholders. The TCFD was dissolved in July 2024 and replaced by the International Sustainability Standards Board (ISSB) Sustainability Disclosure Standards (see Figure 68), which became effective for annual reporting periods beginning on or after January 1, 2024.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

To help users of general-purpose financial reports make decisions about allocating resources to the entity, IFRS S1 requires entities to disclose information about their sustainability-related risks and opportunities. According to IFRS S1, an organisation must report all sustainability-related risks and opportunities that might have an immediate, medium- or long-term impact on the organization's cash flows, financing availability, or cost of capital. The preparation and reporting of an entity's sustainability-related financial disclosures are governed by IFRS S1. It lays out broad guidelines for the disclosures' presentation and content to ensure that users can use the information to help them decide whether to provide resources to the entity.

These guidelines include:

- a. the governance processes, controls and procedures the entity uses to monitor, manage and oversee sustainability-related risks and opportunities.
- b. the entity's strategy for managing sustainability-related risks and opportunities.
- c. the processes the entity uses to identify, assess, prioritise and monitor sustainability-related risks and opportunities; and
- d. the entity's performance in relation to sustainability-related risks and opportunities, including progress towards any targets the entity has set or is required to meet by law or regulation.

24 <https://www.iais.org/uploads/2023/11/Draft-Application-Paper-on-climate-risk-scenario-analysis-in-the-insurance-sector.pdf>

IFRS S2 Specific Requirements for Disclosure of Climate-related Financial Information

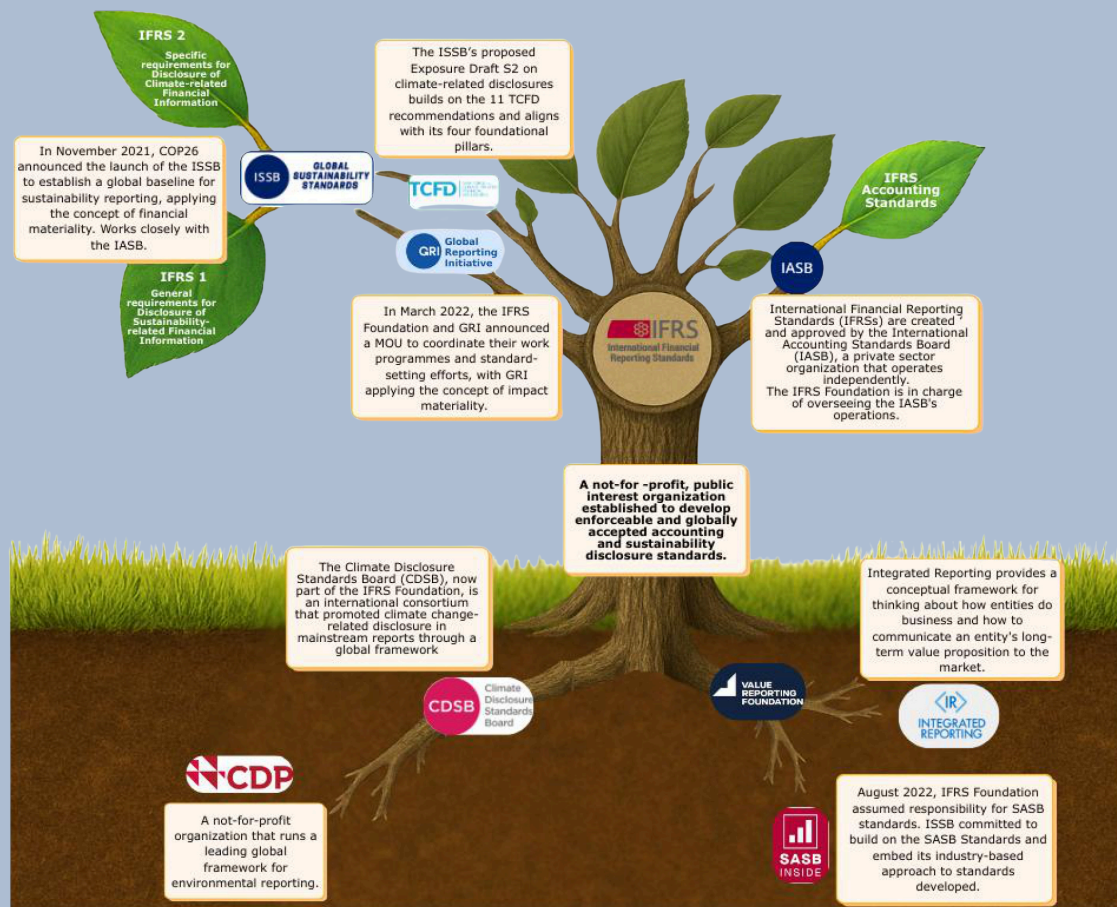
In order to help users of general-purpose financial reports make decisions about allocating resources to the entity, IFRS S2 requires entities to disclose information about their climate-related risks and opportunities. According to IFRS S2, an organization must report climate-related risks and opportunities that could be expected to have an impact on its cash flows, cost of capital, or access to financing in the short, medium, or long term. These are collectively referred to as climate-related risks and opportunities that could reasonably be expected to affect the establishment's prospects.

IFRS S2 applies to climate-related risks to which the entity is exposed, which are climate-related physical risks, climate-related transition risks; and climate-related opportunities available to the entity.

The requirements for revealing information about an entity's climate-related risks and opportunities are outlined in IFRS S2. These disclosures include:

1. monitoring, managing, and supervising climate-related risks and opportunities through the use of governance processes, controls, and procedures.
2. the entity's strategy for managing climate-related risks and opportunities.
3. the methods the organization employs to recognize, evaluate, rank, and track climate-related risks and opportunities, as well as whether and how those methods are incorporated into and contribute to the organization's overall risk management procedure; and
4. performance of the entity with respect to its climate-related risks and opportunities, including its progress toward any goals it has set and any that it is obligated to meet under law or regulation.

Figure 68: Climate & Financial Stability Ecosystem



Domestic Developments

The Authority made continuous strides through various initiatives to strengthen the local financial sector's resilience against CRR, especially given the jurisdiction's susceptibility to climate-related effects such as rising sea levels and extreme weather events. For instance, the Authority builds capacity internally through seminars, workshops, and training to equip staff with the necessary skills and knowledge to understand and navigate the complexities of CRR effectively.

Another noteworthy initiative by the Authority was the launch of its Climate and Environmental-related Risk Survey in 2024 targeting all regulated entities. The aim of the survey was to evaluate and understand regulated entities' exposure to CRR.. Notably, given the particular importance especially of the banking and insurance sectors to domestic financial stability and their susceptibility to CRR, especially acute CRR, the survey yielded significant value. The insights obtained from the survey will help inform supervisory strategies, enhance sectoral resilience, and support the development of appropriate risk management frameworks.

Furthermore, in response to the evolving international landscape and enhanced reporting standards on climate-related financial risks (CRFR) by global standard-setting bodies, the Authority intends to strengthen its reporting requirements concerning climate risk exposures. By ensuring that institutions are not only aware of their climate risk exposures but are actively managing them, this proposed initiative aims to enhance transparency and accountability within the financial sector. In view of growing climate vulnerabilities, this proactive approach will not only strengthen the financial industry resilience to CRR, but also help establish the Cayman Islands as a leader in responsible and sustainable financial regulation.

Key Survey Results

The survey revealed promising outcomes among banking and insurance institutions regarding their understanding of CRR and their strategic planning to address these challenges. Of the banks that responded, 73 percent reported a clear comprehension of climate risks and stated that they are actively embedding these considerations within their strategic frameworks. Similarly, among the insurance companies that responded to the survey, 81 percent acknowledged their understanding of climate-related risks, and 65 percent plan to incorporate these insights into their strategic initiatives. These findings suggest a growing awareness within these sectors of the importance of addressing climate change as a critical component of their long-term strategies.

While these positive results are encouraging, the survey also identified areas where further progress would be beneficial, particularly in risk management, disclosure, and communication practices. Both sectors reported that their use of risk metrics remained below 50 percent. Additionally, while 57 percent of responding banks reported having climate disclosures related to CRR in place, only 47 percent of responding insurance companies indicated similar disclosures. This indicates opportunities for continued enhancement, as effective risk management and transparent communication are essential for building resilience against climate impacts and maintaining market discipline.

Overall, the findings underscore the importance of ongoing efforts to strengthen risk management frameworks and disclosure practices to ensure both sectors are well-positioned to respond to the evolving challenges posed by climate change.

Climate change is increasingly recognised as a major source of risk for financial systems worldwide. International standards now call for stronger governance, disclosure, and management of climate-related exposures. While these risks are growing, their impacts often materialise over the medium- to long-term. For the Cayman Islands, climate-related risks (CRR) are currently assessed as medium. This reflects the jurisdiction's significant exposure to extreme weather events and sea level rise, which pose potentially high-impact threats. However, this rating also takes into account the growing implementation of mitigation measures — including enhanced awareness, emerging risk management frameworks, and early-stage strategic planning within financial institutions. While progress is encouraging, further improvements in climate risk measurement and disclosure will be critical to strengthening financial stability and long-term resilience.

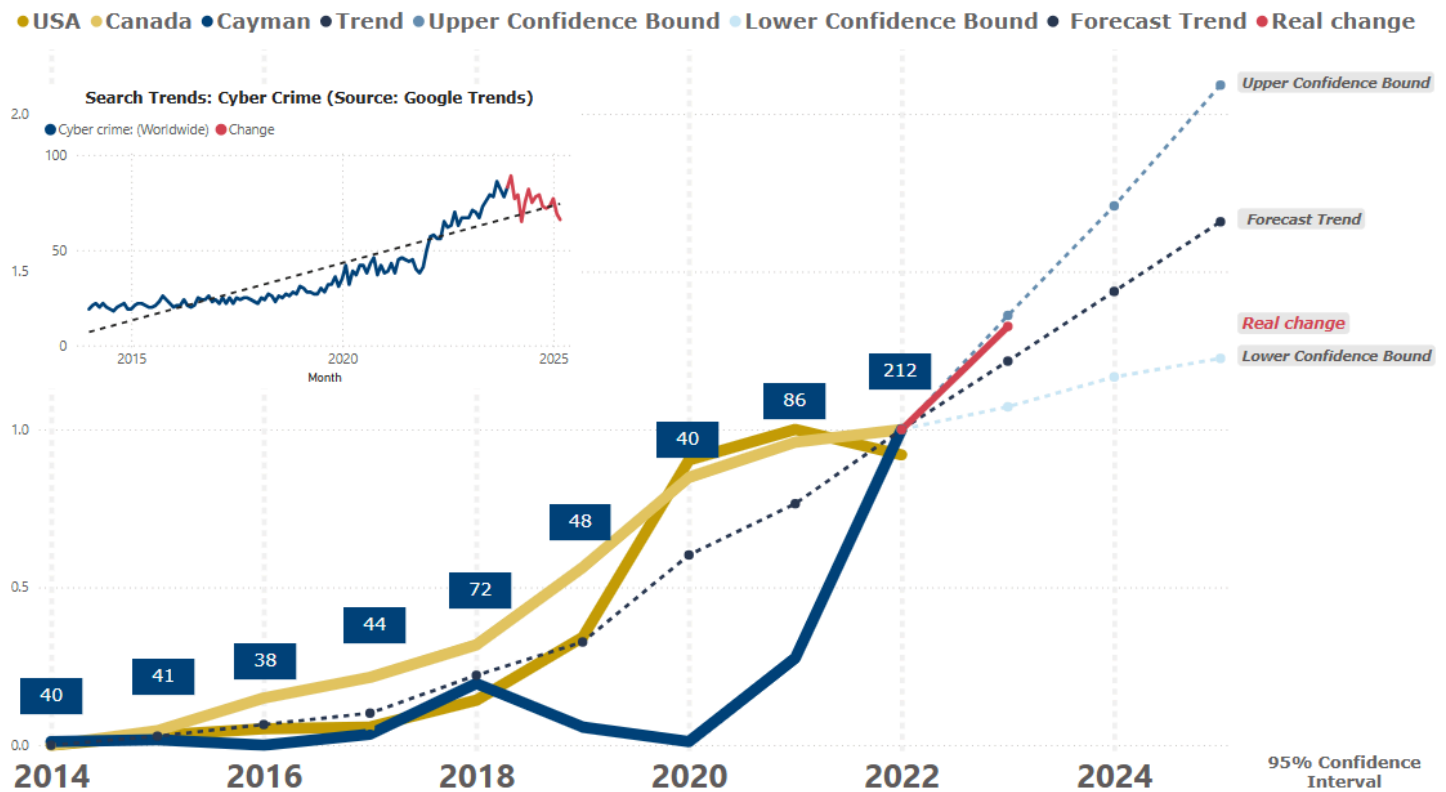
Risk 4: Cybersecurity

(Risk Rating – Medium)

The 2022 – 2023 CIMA Financial Stability Report highlighted the increasing significance of cybersecurity risks within the financial sector (CIMA, 2024). As financial services continue to digitise and integrate innovative technologies, the exposure of financial institutions to cyber threats has intensified. Cyber incidents, defined broadly as events that jeopardise the cybersecurity of an information system through either malicious or non-malicious activity, were noted as having increased substantially since the onset of the COVID-19 pandemic. Data cited from the April 2024 Global Financial Stability Report indicated that the number of reported cyberattacks has almost doubled compared to pre-pandemic levels, with the financial sector accounting for nearly one-fifth of these incidents globally. Banks were identified as the most frequent targets, followed by insurance companies and asset managers (IMF, 2024).

For the Cayman Islands, a similar trend was observed. Although there had been a slight decline in cyber incidents prior to the pandemic period, incident rates surged significantly during 2021 and 2022. According to data reported by the Royal Cayman Islands Police Service, the number of incidents increased by a factor of five relative to 2020 and by 2.5 times compared to 2021. These developments align with broader international patterns, reflecting the increasing risks in reliance on digital platforms and the expansion of financial services ecosystems. Figure 69, which plots data on a logarithmic scale to better reflect the rate of change, compares the projected trajectory of cyber incidents from the previously published Financial Stability Report with the newly observed data. The updated figures show that the actual rise in incidents has outpaced the initial linear projection and is now tracking closer to the previously modelled upper bound, which assumed exponential growth across the combined jurisdictions of Canada, the United States, and the Cayman Islands. This shift away from the earlier, more moderate linear path, suggests that cyber risks in the Cayman Islands may be escalating more rapidly than initially expected.

Figure 69: Updated Trends in Cyber incidents



Source: Statistics Canada, Internet Crime Compliant Centre (IC3), Royal Cayman Islands Police Service Statistics

The increase in heightened cyber threats has been driven by rapid global digitalization adoption which has expanded the attack surface for malicious actors.

Rise in Digitalisation – Is it Uneven?

The pace of global digitalisation has accelerated markedly over the past decade, reshaping the structure and dynamics of economic activity across advanced and emerging market economies. As of 2022, internet connectivity reached approximately 90 percent of the population in high-income countries, compared to just 26 percent in low-income economies, underscoring the persistence of global digital divides (World Bank, 2025). Investment in digital solutions by large firms (100+ employees) also expanded significantly, with the global share rising from 20 percent in 2020 to 60 percent in 2022. East Asia recorded the most rapid growth, where this proportion increased fourfold. At the sectoral level, the global IT services industry has outperformed the broader economy, both in terms of output growth and employment generation, although gains have remained concentrated in a small group of economies, namely the United States, China, India, Japan, Germany, and the United Kingdom (ibid).

Digital infrastructure also remains disproportionately concentrated, with around 60 percent of global data centres and internet exchange points located in high-income countries. Digital payment systems are near-universal in advanced markets, but penetration remains at just 37 percent in low-income economies (World Bank, 2025). These stark disparities highlight significant digital inclusion challenges. For instance, low-income jurisdictions with limited digital uptake often lack the capacity or resource allocation to develop or enforce robust cyber standards, both within and across borders, reinforcing regulatory fragmentation. This, in turn, undermines international coordination efforts aimed at establishing harmonised minimum digital regulatory standards (World Bank, 2023).

The Transmission of Cybersecurity Concerns into the Financial System

The digitalisation of financial services has significantly improved efficiency (OECD, 2024) but introduced new transmission channels for shocks with implications for financial stability. Behavioural channels, such as retail trading platforms and social media illustrated by meme stocks (ECB, 2023) can amplify volatility, while the dominance of online banking accelerates risks of liquidity stress and deposit outflows. These developments amplify the speed and scope of shock transmission, particularly regarding cybersecurity vulnerabilities.

Figure 70 illustrates how these risks propagate. Emerging technologies like AI, cloud computing, the Internet of Things, big data analytics, and distributed ledger technologies introduce evolving vulnerabilities. These are compounded by drivers such as global cyber talent shortages, geopolitical tensions, and fragmented regulations. Financial system features like deep interconnectivity, market concentration, and asymmetric information accelerate incident transmission, while reputational damage can amplify contagion. Disruption channels range from operational outages to interbank contagion, often exacerbated by reliance on few providers. Threat actors, including state-sponsored groups, cybercriminals, and hacktivists, employ tactics like phishing, malware, DDoS attacks, and data breaches. Banks may face deposit runs, capital markets trading halts, insurance firms claim surges, and FinTech platforms crypto theft. Macroeconomically, incidents can cause credit contraction, payment disruption, and GDP declines, with cross-border spillovers posing broader threats to financial stability.

Figure 70: The Transmission of Cyber Risks



25 WEF (2025), CEPR (2025), IBM (2024), IMF (2024), eSecurity Institute (2023), FED (2022, 2021), & OFR (2017).

The Cost Implications of Cyber-Insecurity

Globally, over 20,000 cyberattacks have been recorded over the past two decades, with financial institutions accounting for more than 20 percent of incidents and nearly \$ 12 billion in losses (IMF, 2024). Attacks have nearly doubled since the COVID-19 pandemic, with large-loss events exceeding \$ 2.5 billion becoming part of the tail-risk landscape (ibid). The likelihood of systemic incidents is rising, where a severe disruption at a major institution could undermine confidence and trigger market dislocations. Cybersecurity Ventures (2024) estimates the global cost of cybercrime at \$9.5 trillion in 2024, which would rank as the third largest economy behind the United States and China. Projected costs are expected to rise to \$ 10.5 trillion in 2025 (ibid). Capital markets are increasingly attuned to these risks. Firms with high exposure tend to underperform peers by 0.42 percent monthly, equivalent to an \$ 87 million loss for a median Fortune 500 firm (Makridis et al, 2024). Additionally, the global average cost of a data breach has reached a record \$ 4.9 million (IBM, 2024). These signals reflect growing investor sensitivity to vulnerabilities, which are compounded by structural challenges like labour shortages and underinvestment in resilience..

Regulatory and Supervisory Responses to Cyber Risk

Cybersecurity has become a central concern for financial stability, consistently appearing among top-cited risks in global and national surveys (FED, 2022, BoE, 2024, & ESRB, 2020). As economies become more digitally interconnected, the number of vulnerabilities multiplies, raising the risk of systemic disruptions. Greater reliance on shared digital infrastructures across commerce, finance, and government sectors creates conditions ripe for cascading failures.

Policymakers have responded to rising cyber risks with a growing body of national, regional, and international frameworks (Table 16). At the global level, standard setters have issued guidance to align supervisory practices and improve cross-border incident response. These efforts signal growing momentum toward a more harmonised international approach to cyber risk in the financial system. Regionally, coordination has intensified. The European Union has advanced a suite of initiatives, from financial sector resilience to product-level cyber standards. Other blocs, such as ASEAN have previously launched strategies to enhance cooperation and regulatory and legal consistency. Jurisdictional responses increasingly integrate cybersecurity within broader operational resilience and supervisory regimes, with many countries having updated standards and legislation to reflect evolving threats.

Table 16: Selected Cybersecurity Frameworks, Policies, and Regulatory Initiatives

Jurisdiction / Body	Framework / Regulation & Year	Key Features / Objective
Selected International Standards		
IMF	Strengthening Cybersecurity: Lessons from the Cybersecurity Survey (2025)	Advice to central banks, supervisory authorities and policy makers seeking to strengthen cybersecurity of their financial sectors.
FSB	Format for Incident Reporting Exchange (FIRE) (2025)	Cyber reporting recommendations to reduce fragmentation in the reporting of cyber and other operational incidents and enhance cross-border cooperation.
OECD	OECD Policy Framework on Digital Security (2022)	Equips policymakers to use OECD digital security Recommendations in developing better policies.
Selected Regional Standards		
EU	DORA - Digital Operational Resilience Act (2025)	Unified rules for ICT risk management and third-party oversight
	NIS2 Directive (2023) CyberResilience Act (2024-27)	Broadened scope, mandatory cyber risk management and reporting Product-level cybersecurity standards for tech placed on EU market
ASEAN	Cybersecurity Cooperation Strategy (2021-2025)	Focusing on capacity-building and coordinated CERT activities
Selected Single Jurisdictions		
UK	Cyber Security and Resilience Bill (draft)	Expands NIS scope to MSSPs, strengthens regulatory powers and incident reporting
Hong Kong	Protection of Critical Infrastructures (Computer Systems) Bill (2025)	A regulatory framework to enhance cybersecurity and resilience against cyber threats by protecting computer systems.

Jurisdiction / Body	Framework / Regulation & Year	Key Features / Objective
Selected Single Jurisdictions		
USA	The NIST Cybersecurity Framework (CSF) 2.0 (2024).	Provides guidance to industry, government agencies, and other organizations to manage cybersecurity risks
Australia	Cyber Security Act (2024)	Provides a clearer legislative framework to address contemporary, whole-of-economy, cybersecurity issues.
Chile	Cybersecurity Framework Law (2024)	Creates the National Cybersecurity Agency (ANCI), with the power to Formulate and enforce cybersecurity regulations for both the private and public sectors.

Yet, gaps remain. A recent IMF survey of 51 jurisdictions found that 56 percent of central banks and supervisors do not have a dedicated cyber strategy, while 48 percent lack cybercrime-specific regulations (IMF, 2024). This absence is especially concerning given the rising exposure of central banks themselves to cyber threats, owing to their central role in payment systems and monetary policy implementation. A recent BIS study warns that cyberattacks targeting central banks could undermine financial stability and compromise core macroeconomic functions (BIS, 2023). Calls for better international coordination have grown louder. A group of Chief Information Security Officers (CISOs) submitted recommendations to the G7 and OECD, highlighting the need for greater alignment of cybersecurity regulations across jurisdictions to reduce fragmentation that could undermine global cyber resilience. This concern is echoed in the WEF Global Cybersecurity Outlook 2025, which reports that 76 percent of CISOs believe regulatory fragmentation introduces substantial compliance challenges, particularly for institutions operating in multiple financial centres. These inconsistencies create compliance gaps and operational inefficiencies, and complicate incident response efforts across borders. The WEF report also stresses the need for deeper collaboration between public and private sector actors to secure the benefits of digitalisation, noting that geopolitical tensions, supply chain interdependencies, and emerging technologies have made coordinated global action more critical than ever.

To address these challenges, supervisory authorities must continue to strengthen oversight frameworks. Effective supervision requires addressing both institution-level vulnerabilities and broader systemic risks. Core supervisory tools include continuous risk monitoring, clearly defined resilience requirements, incident reporting mandates, cross-border coordination protocols, and contingency planning. Authorities must also be prepared to coordinate responses to cyber incidents across jurisdictions, manage communication with the market, and ensure the orderly resolution of impacted institutions. Regulators are increasingly expected to align national frameworks with global standards, such as those developed by the Basel Committee and the FSB, to foster consistent, credible supervisory regimes across jurisdictions. Building resilience at both sectoral and system-wide levels is now imperative, forming a critical pillar of financial stability in an increasingly digital environment (see Figure 70 for overview).

The Cayman Islands Context

For internationally connected financial centres like the Cayman Islands, the cross-border nature of cyber risk poses a distinct and complex set of challenges. The jurisdiction's position within the global financial system, its heavy reliance on cross-border digital infrastructure, its exposure to specialised financial services, and its concentrated linkages with third-party technology providers collectively heighten the risk of imported cyber incidents and elevates systemic sensitivity to external cyber threats.

Recognising the evolving threat, CIMA had implemented regulatory measures aimed at strengthening cyber resilience. In 2020, CIMA issued a Rule and related Statement of Guidance on Cybersecurity for Regulated Entities, setting minimum standards for managing cyber risks across all regulated sectors. Furthermore, a thematic cybersecurity review conducted by CIMA in 2022 highlighted both best practices and significant vulnerabilities within regulated firms. The review underscored the importance of senior management oversight, governance structures, and proactive investment in cybersecurity frameworks to mitigate financial and operational risks. Given the continued rise in severity and scale of incidents globally, combined with the interconnectedness of financial markets and institutions, there is need for ongoing vigilance to understand the transmission channels and sectoral vulnerabilities. Alongside regulatory evolution, there is also need for further investment in cybersecurity capabilities to safeguard the resilience of the financial system, which remains paramount (Figure 70).

Regulated entities in the Cayman Islands are expected to face heightened supervisory expectations and increasing compliance demands, necessitating ongoing investment in cyber infrastructure, risk governance, and contingency preparedness.

The Future Outlook and the use of AI: The Double-Edged Sword

AI is rapidly reshaping the cybersecurity and financial stability landscape. Global investment in AI is expected to rise from \$ 190 billion in 2023 to \$ 4.8 trillion by 2033. Financial institutions invested an estimated \$ 35 billion into AI technologies in 2023, with projected expenditures across banking, insurance, capital markets, and payments expected to reach \$ 97 billion by 2027 (WEF, 2025). Around 70 percent of financial services executives expect AI to directly support revenue growth, with early adopters in banking expected to see productivity gains between 22 percent to 30 percent and revenue uplifts of up to 600 basis points (Accenture, 2024). Despite this rapid growth, governance remains uneven, with over 100 countries yet to adopt any binding AI oversight framework (UNCTAD, 2023). This regulatory lag creates significant uncertainty over how AI-driven risks, particularly those related to cybersecurity, will be managed at scale. In the financial sector, AI is increasingly used to enhance fraud detection, enable real-time threat monitoring, and improve predictive cyber risk analytics. Financial supervisors are likewise exploring AI-based tools for systemic risk surveillance and cyber incident modelling.

However, these same technologies are now being harnessed by malicious actors. According to the WEF Global Cybersecurity Outlook 2025, AI is contributing to a rise in the sophistication of cyberattacks, ranging from deepfake-enabled fraud to automated phishing and large-scale malware generation. Despite these risks, only one-third of surveyed firms currently evaluate the cybersecurity implications of AI tools prior to deployment (WEF, 2025). Looking ahead, the challenge is twofold: to harness AI's potential for strengthening cyber resilience, while also mitigating its capacity to exacerbate systemic risks. This will require coordinated international standards, deeper supervisory engagement, and targeted investment in the secure deployment of frontier technologies across the financial system.

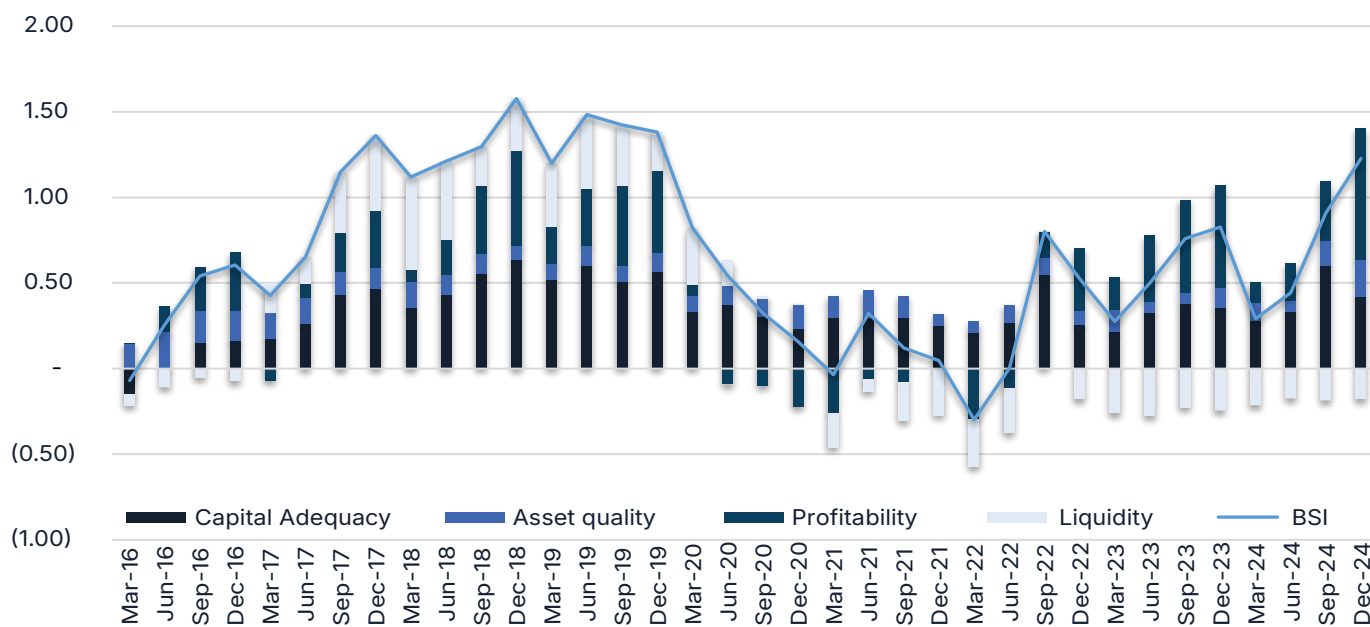
Other Macroprudential Indicators

Macroprudential indicators such as the Banking Stability Index and the Aggregate Financial Stability Index play a vital role in assessing systemic risks across the financial sector. By combining data on banking sector resilience, market dynamics, and macroeconomic conditions, these indicators help detect vulnerabilities early and support timely policy interventions to safeguard financial stability.

The Banking Stability Index

The Banking Stability Index (BSI) is a vital macroprudential indicator that evaluates the overall resilience and financial health of domestic retail banks. It serves as a key measure of banking sector stability by capturing a broad spectrum of risks that could impact the financial system. The BSI is calculated by equally considering four essential financial soundness indicators: Liquidity, Profitability, Asset Quality, and Capital Adequacy. By integrating these factors, the BSI provides a well-rounded perspective on systemic vulnerabilities, including credit risk, liquidity risk, market risk, and capital adequacy, among others, enabling regulators and policymakers to detect emerging risks and implement timely interventions. A decreasing BSI indicates rising financial sector risks and potential instability, whereas an increasing index suggests improved resilience and lower systemic threats. Given its comprehensive nature, the BSI plays a crucial role in assessing macroprudential risks and guiding actions to strengthen the stability of the banking sector.

Figure 71: The Banking Stability Index



From March 2019 to December 2024, the BSI experienced an overall stable trend despite periods of volatility. In 2019, the BSI was robust, reflecting a strong banking sector driven by improvements in capital adequacy, profitability, and liquidity. However, this stability was disrupted by a sharp decline in early 2020, coinciding with the COVID-19 pandemic, which led to increased credit risks and liquidity pressures. A recovery trend began in mid-2022 as the base effect of the pandemic was recovered and since then, while fluctuations persisted, the BSI showed resilience and gradual improvement through 2024, suggesting that the banking sector had regained stability, and the BSI closed at 1.23 in December 2024.

Given the recent recovery and the historical trend of higher BSI values, the short- to medium- term outlook suggests a less volatile but gradually improving banking sector. The index has shown resilience after the sharp decline in 2020-2021, and its recent trajectory aligns with past periods of stability when the BSI was at elevated levels. This suggests that, while fluctuations may persist, they are likely to be more contained compared to the extreme swings seen during the pandemic-induced downturn.

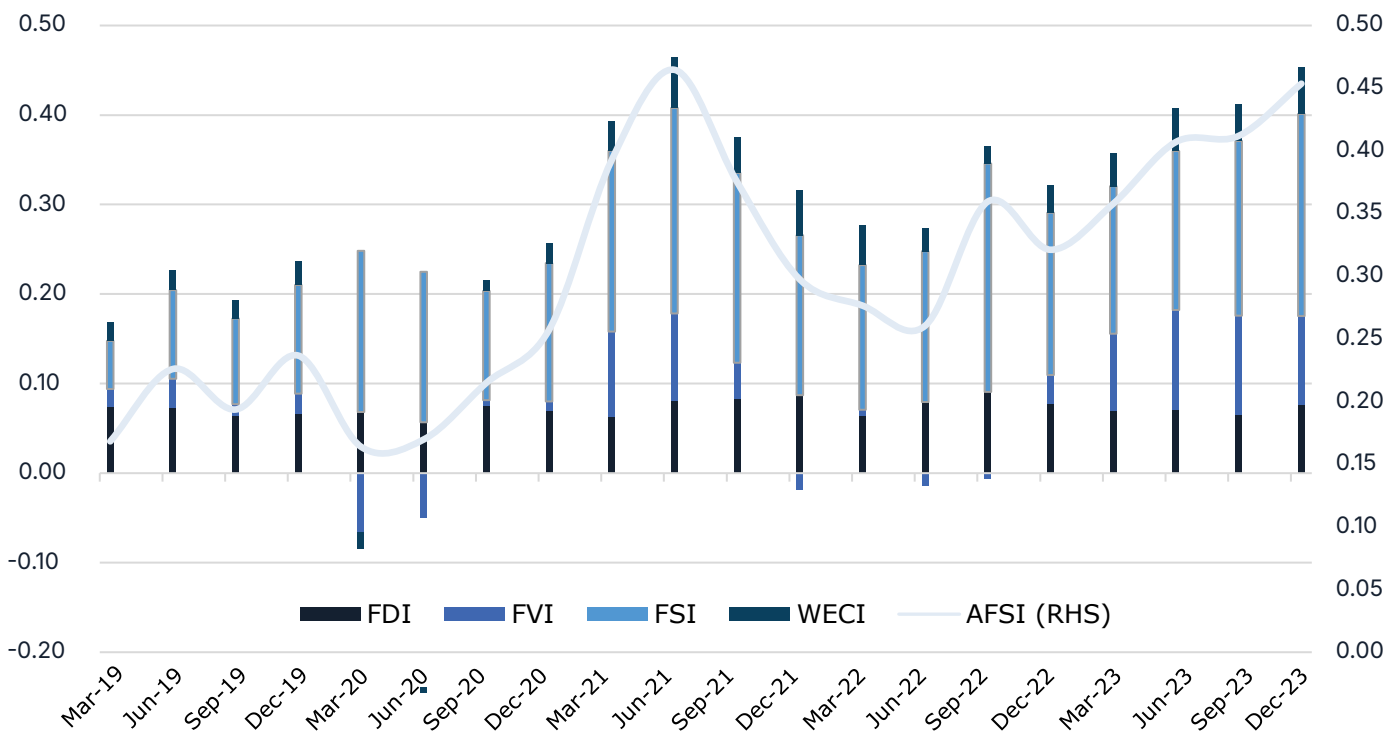
In the short term (next few quarters), the BSI is expected to maintain its recovery path, supported by stronger capital adequacy and profitability, which have been key drivers of stability in previous cycles. Liquidity concerns and asset quality issues may still pose some risks, but these factors appear to be following a manageable trend, similar to past periods of stability.

The Aggregate Financial Stability Index

The Aggregate Financial Stability Index (AFSI) was introduced in FSR 2022-23, and it is constructed to capture a single measure of financial (in)stability by examining the domestic and international economy using four (4) sub-indexes, namely the Financial Development Index (FDI), Financial Soundness Index (FSI), Financial Vulnerability Index (FVI) and the World Economic Climate Index (WECI).

Using the historical trend, we classify index values above 0.30 as signalling financial system soundness and stability while four or more consecutive periods below 0.30 as exhibiting heightened vulnerabilities.

Figure 72: The Aggregated Financial Stability Index



From 2022 to 2023, the AFSI demonstrated a clear upward trend, signalling a strengthening financial environment. This improvement was primarily driven by a significant reduction in financial vulnerability, as reflected in a notable increase in the FVI. A higher FVI suggests that financial markets experienced reduced volatility and risk exposure, fostering greater stability and bolstering investor confidence. Additionally, the WECl recorded a modest increase, indicating gradual improvements in global economic conditions, which may have further supported financial stability.

Conversely, the FDI experienced a slight decline, indicating that while financial sector growth and investment played a more moderate role in the overall improvement, stability was still maintained. Meanwhile, the FSI remained largely unchanged, reflecting the continued resilience of domestic financial institutions, even if they were not the primary drivers of the increase in AFSI. The broader trend from 2022 to 2023 suggests that the key factor behind rising stability was the reduction in financial vulnerability, rather than significant shifts in financial sector expansion or institutional soundness. This highlights the importance of external conditions in shaping financial stability during this period. Given the Cayman Islands' position as a global financial hub, factors such as global market trends, regulatory developments, and investment flows will continue to influence financial stability. With 2023 ending on a solid footing, the focus for 2024 and beyond will be on sustaining resilience while creating opportunities for further financial development and investment growth.

Special Feature: Evolving Dynamics in the Cayman Islands' International Insurance Landscape

According to the Global Insurance Market Report (GIMAR) (2024), the global insurance market has demonstrated strong resilience, navigating a complex landscape marked by persistent inflation, tighter monetary conditions, and geopolitical uncertainty. Total global gross premiums grew by 7.5 percent, reaching approximately US\$ 7.2 trillion (Figure 73). This was the fastest rate of expansion since the global financial crisis. Life insurance recorded a notable rebound, particularly in advanced economies where investment-linked products benefited from higher interest rates. Non-life insurance maintained steady growth as demand remained strong in key areas such as health, motor, and property. Emerging markets also contributed significantly, with premium volumes in several regions of Asia and Latin America rising to double-digit rates.

Figure 73: Key Global Market Trends



Source: Adapted from GIMAR (2024) and CIMA.

At the same time, the macro-financial environment introduced a more complex set of vulnerabilities. Insurers benefited from higher investment income, but many faced valuation losses on existing bond portfolios. Some shifted toward alternative and less liquid assets, including private credit and real estate, in search of yield. This raised concerns about liquidity risk and asset-liability mismatches, especially under stress scenarios. While the insurance sector remains structurally less exposed to systemic risk than banking, the aggregate systemic risk score for large insurers increased by 5.3 percent in 2023. This rise was linked to greater market sensitivity, increased cross-sectoral linkages, and growing exposure to complex investment strategies.

Furthermore climate-related risks continued to intensify. Global insured losses from natural catastrophes exceeded US\$ 100 billion for the third consecutive year, driven by severe flooding in Europe, wildfires in North America, and tropical cyclones in Asia. These events are becoming more frequent and more costly. Insurers are adjusting by raising premiums, tightening underwriting standards, or withdrawing from high-risk areas entirely.

Around 58 percent of major insurers now formally integrate climate risk into their governance and risk management frameworks. Supervisory authorities are increasingly relying on scenario-based analysis to assess resilience to both physical and transition risks. The IAIS, in collaboration with scientific partners, is developing cross-jurisdictional tools to strengthen oversight of these exposures.

Against this background, the global reinsurance sector, which is still seen as a cornerstone of market stability, continues to adjust to a more volatile environment. Rising claims costs, inflation, and tighter capital availability have led to increased pricing and a more selective approach to coverage. While traditional capacity has come under pressure, the growth of alternative capital through catastrophe bonds and insurance-linked securities has helped maintain overall market balance. These instruments have attracted renewed investor interest amid higher yields, although they remain sensitive to both loss experience and interest rate movements. As reinsurers raise attachment points and offer less risk coverage, primary insurers are taking on greater retention, shifting more risk onto their own balance sheets.

At the same time, the rise of InsurTech is transforming traditional insurance practices. The IAIS has identified technological innovation as a key strategic priority, emphasizing the importance of developments such as artificial intelligence, big data analytics, and distributed ledger technologies. Insurers are increasingly using these tools to enhance underwriting, streamline claims processing, and improve customer engagement. While these advancements offer significant efficiency gains, they also introduce new challenges related to conduct, data privacy, and operational resilience. Supervisory authorities are responding by developing proportionate regulatory approaches and fostering cross-border cooperation to ensure that innovation supports policyholder protection and financial stability.

The global insurance industry entered 2025 from a position of financial strength, supported by solid capital buffers, stable solvency, and improving profitability. However, the outlook is shaped by an evolving risk landscape that includes financial market volatility, increasing climate hazards, and structural changes in how risk is transferred and managed. Continued vigilance by supervisors, combined with adaptive risk management by insurers, will be essential to preserving financial stability across the global system.

Cayman's Growing International Insurance Market

Against this dynamic global backdrop, the Cayman Islands insurance market has continued to evolve as a resilient and innovative centre within the international insurance landscape. The market is broadly divided into two segments: the domestic market, which serves the local population, and the international market, which primarily insures foreign risks through licensed insurance and reinsurance entities. These entities also provide intermediary services to overseas clients through locally incorporated insurance managers and brokers. As mentioned within Chapter 2.3, the international segment has three classes of insurers: Class B, Class C, and Class D.

- **Class B Insurers:** Such insurers are exempted to carry on insurance and/or reinsurance business other than domestic business from within the Cayman Islands.
- **Class C Insurers:** Such insurers are exempted to carry on insurance business involving the provision of reinsurance arrangements. Class C license applies to fully collateralised international insurers e.g., insurance linked securities and catastrophe bonds.
- **Class D Insurers:** Class D Insurers: Such insurers carry on reinsurance business and such other business as may be approved in respect of any individual licence by the Authority. Class D licence are usually for large open-market reinsurers.

The Cayman Islands international insurance market also supports a variety of regulatory and structural models tailored to different risk and business needs. Common arrangements within the three Classes in the international segment are captives, reinsurance companies and Special Purpose Vehicles.

- **Captives** are insurance companies formed to insure the risks of its shareholders or its related entities. Therefore, it is considered an alternative risk transfer mechanism used to finance risk. Captives are usually considered Class B insurers. The Cayman Islands is recognised as the second largest jurisdiction domicile for captive insurance and leading domicile for healthcare captives.
- **Reinsurers** are insurance entities that accepts risk from another insurer (the ceding company) in exchange for a premium.

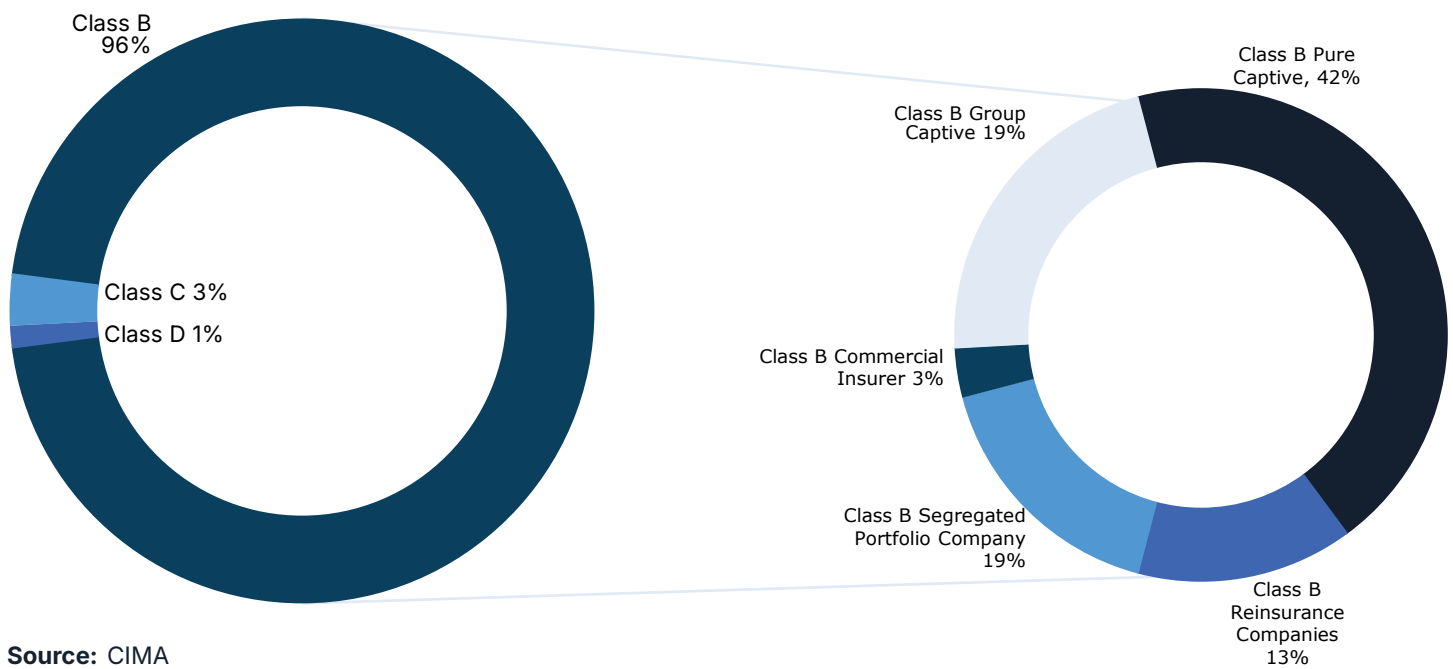
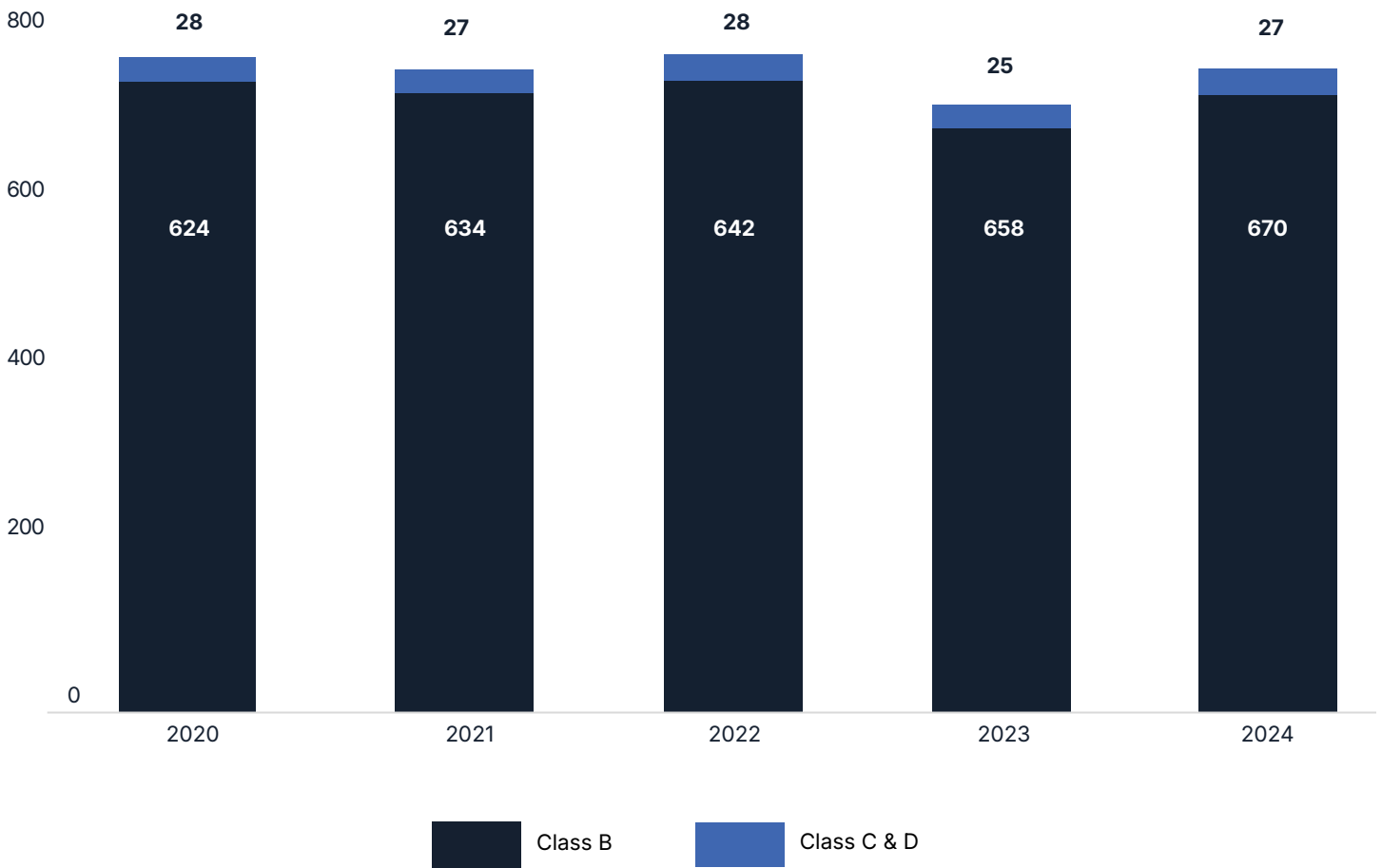
- **SPVs** are separate legal entities created for a specific, narrow purpose for example to hold assets, finance a project or isolate financial risk or obligations from the main business or organisation.

The international insurance market was established in response to the medical malpractice insurance crisis in the US during the mid-1970s. At that time, healthcare organisations facing limited access to commercial coverage began forming captive insurance companies to meet their self-insurance and risk management needs. This activity was subsequently formalised through the introduction of the Insurance Law in 1979, which laid the legislative foundation for the development of the sector. The jurisdiction has also seen an increase in the licensing of commercial insurers and reinsurers, particularly within the Class B and Class D categories. This trend reflects the jurisdiction's evolution into a diversified international insurance centre with a mature regulatory framework and a growing presence of global market participants.

The international segment has experienced steady growth in recent years. The number of licensees increased from 652 in 2020 to 697 in 2024, driven primarily by growth in Class B insurers, which rose from 624 to 670 over the same period (Figure 74). This expansion reflects the jurisdiction's appeal to international insurers and reinsurers, supported by a proportionate risk-based regulatory environment. The Authority regulates the insurance sector in accordance with the Insurance Act and its supporting regulations, as well as the rules, guidance, and regulatory measures issued by CIMA itself. The supervisory framework also aligns with the Core Principles of Insurance Supervision developed by IAIS. This foundation ensures a proportionate, risk-based approach underpinned by a well-established legal system based on English common law. Regulatory clarity, high standards of governance, and efficient licensing processes enhance the jurisdiction's appeal to insurance structures seeking operational flexibility and legal certainty. Continued engagement with international regulatory bodies underscores the Authority's commitment to transparency and effective supervision, amid growing cross-border insurance activity.

Within Class B licence category, pure captives accounted for the largest share of licensees as at December 2024, representing 42 percent or 293 entities. This highlights the jurisdiction's continued appeal to organisations seeking to establish and operate captives in an efficient and cost-effective manner. A pure captive, or single-parent captive, is an insurer that writes at least 95 percent of its net premiums from the risks of its parent company or related entities. SPCs also remain a significant component of the market, comprising 20 percent of the international insurance companies or a total of 139 licensees. Their continued popularity reflects the structural advantages they offer, including the ability to establish multiple segregated portfolios and PICs within a single legal entity while maintaining legal separation of each portfolio's assets and liabilities. This facilitates operational efficiency and provides cost-effective access to customised insurance solutions. Other arrangements include group captives at 19 percent (131 licensees), Class B reinsurers at 13 percent (88 licensees), and commercial insurers at 3 percent (19 licensees). The number of Class C and Class D licensees remained relatively steady, with 18 and 9 entities respectively.

Figure 74: International Insurance Segment in the Cayman Islands



Source: CIMA

Parallel to the increase in the number of licensees, the total asset size of the international segment of Cayman's insurance sector has also grown significantly. Total assets for 2024 indicate that the segment increased by approximately 14 percent between 2023 and 2024, with total assets rising from US\$ 149 billion to US\$ 170 billion. This growth was primarily driven by Class B insurers, which accounted for 84 percent of the international insurance segment's total assets in 2024. Notably, the asset size of Class B insurers increased from US\$ 118 billion in 2023 to US\$ 143 billion in 2024.

The 2025 global captive and reinsurance market looks promising...

The international insurance market is projected to maintain its trajectory of strategic transformation in 2025, with both reinsurers and captive insurers responding to persistent capital pressures, market volatility, and evolving risk landscapes.

The reinsurance sector continues to shift toward structural and capital diversification, with asset-intensive reinsurance solutions gaining traction, particularly in the life and annuity space, where reinsurers assume long-duration liabilities. Simultaneously, alternative capital, such as insurance-linked securities and collateralised reinsurance vehicles, continues to grow, offering additional capacity and enhancing market resilience in the face of constrained traditional capital. Reinsurers are adopting more disciplined underwriting strategies, shaped by recent catastrophe losses and macroeconomic uncertainty. This has supported sustained pricing strength across key lines, despite a more stable competitive environment.

Meanwhile, the captive insurance market is expanding as more firms seek strategic risk retention mechanisms. Beyond 2025, captives are expected to cover a broader range of exposures, including cyber risk, climate-related perils, and employee benefits. There is a discernible trend toward multi-line and enterprise-wide risk financing structures, reflecting greater maturity in captive use. Advances in actuarial modelling, data analytics, and regulatory flexibility are supporting this evolution, enabling captives to play a more central role in corporate risk strategies.

Formation activity remains robust, particularly in jurisdictions that offer innovative frameworks such as group captives and cell structures. Captives are increasingly seen as stabilising forces in the wider market, internalising risk amid capacity constraints and reinforcing capital efficiency.

...so does Cayman's captive and reinsurance market outlook...

The Cayman Islands continue to strengthen their position as a leading international insurance domicile, with steady growth in both reinsurance and captive activity. On the reinsurance front, the Cayman Islands continues to attract business linked to the US market. Its risk-based regulatory regime, backed by a stable legal system and alignment with international standards, plays a critical role in fostering sustained market development.

In the captive insurance sector, Cayman remains a global leader, particularly in healthcare and group programme business. Licensing activity is stable, with continued growth in portfolio-based structures and diversified coverage classes. Cayman's mature regulatory framework balances innovation with sound regulatory measures and governance practices, supporting its attractiveness for long-term captive strategies. The jurisdiction's responsiveness to global regulatory trends and its experience with complex captive structures further reinforce its competitive standing.

Overall, the Cayman Islands is expected to play an increasingly important role in the international insurance architecture in 2025, providing a well-regulated, adaptive platform for both reinsurance and captive solutions.

Appendix

Regulatory Developments

When Issued	Type of Standard	Title	Description
November 2023	Regulatory Policy	Consolidated Supervision	This measure clarifies the Authority's approach to Consolidated Supervision and incorporates developments in international standards of group-wide supervision by Standard setters.
February 2024	Guidance Notes	Guidance Notes on the Prevention and Detection of ML, TF and PF in the Cayman Islands	This measure establishes the minimum requirements in addition to providing general guidance to FSPs, and replaces the Guidance Notes on the Prevention and Detection of ML, TF and PF issued on 5 June 2020 (the GNs of 5 June 2020) and related amendments.
May 2024	Rule and Statement of Guidance	Market Conduct for Trust and Corporate Services Providers and Company Managers	This measure establishes the rules and requirements applicable to TCSPs and Company Managers and aims to ensure fair client treatment and asset protection within the trust and company management sectors.
October 2024	Rule and Statement of Guidance	Recruitment and Selection Standards for Trust and Corporate Service Providers and Company Managers	This measure sets out the Authority's minimum expectations of TCSPs and Company Managers relating to the recruitment, selection, competence, continuing professional development, and training processes of Regulated Persons
October 2024	Regulatory Policy	Recognition and Approval of an Actuary	This measure outlines the criteria for recognising and approving actuaries, especially for (re)insurers, to ensure that actuaries are competent, ethical and independent in their work.
December 2024	Rule	Obligations for the provision of virtual asset services - Virtual Asset Custodians and Virtual Asset Trading Platforms	This measure establishes and sets out the Authority's rules for virtual asset custodians and virtual asset trading platforms regulated under the Virtual Asset (Service Providers) Act (as amended), with a view to regulating and supervising financial services business carried on in or from the Cayman Islands in accordance with the MAA and to promote and maintain a sound financial system in the Cayman Islands.
December 2024	Statement of Guidance	Guidance for the provision of virtual asset services-Virtual Asset Custodians and Virtual Asset Trading Platforms	This measure sets out the Authority's minimum expectations in relation to the management of risks and operations by virtual asset custodians and virtual asset trading platforms regulated under the Virtual Asset (Service Providers) Act (as amended), pursuant to the MAA.



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