



Financial Stability Report 2024 - 2025

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Foreword

This Financial Stability Report presents CIMA's assessment of the key risks and vulnerabilities relevant to the resilience of the Cayman Islands' financial system. The global macro-financial environment has become increasingly complex, shaped by tighter financial conditions, geopolitical uncertainty, market volatility, rapid technological change, climate-related risks and the continued growth of non-bank financial intermediation. For the Cayman Islands, these developments are particularly important given the jurisdiction's role as a highly connected international financial centre.

Despite this challenging external environment, the Cayman Islands financial system remained resilient. Sound prudential oversight, strong capital and liquidity positions across key regulated sectors, and a stable domestic economic environment continued to underpin confidence in the jurisdiction's financial system and reinforced the Cayman Islands' continued attractiveness as a trusted international financial centre. At the same time, the evolving nature of financial stability risks reinforces the need for continued vigilance, particularly in relation to cross-border interconnectedness, cyber and operational resilience, climate-related exposures and emerging risks in global financial markets.

CIMA remains committed to maintaining a robust regulatory and supervisory framework, advancing macroprudential surveillance, and further enhancing the quality and use of financial stability data. These efforts support the early identification of vulnerabilities, timely supervisory engagement, and the continued resilience of the Cayman Islands' financial system.



Cindy Scotland, OBE
Chief Executive Officer
Cayman Islands Monetary Authority

Preface

Financial stability refers to a condition in which the financial system is able to perform its core functions effectively, including the provision of credit, payments, insurance, risk transfer and financial intermediation, while absorbing shocks rather than amplifying them. A stable financial system supports confidence, economic activity and the smooth functioning of financial markets, even during periods of stress.

For the Cayman Islands, financial stability has both domestic and international dimensions. Domestically, the financial system supports households, businesses and the wider economy through banking, insurance, payments and other financial services. Internationally, the Cayman Islands operates as a major financial centre with deep cross-border linkages through investment funds, banking, insurance, securities investment business, trust and corporate services, and virtual asset services. This international role supports the jurisdiction's economic position, but also means that external shocks can be transmitted through global financial markets, funding conditions, investor behaviour, insurance and reinsurance markets, group structures, operational dependencies and service-provider networks.

This Financial Stability Report provides CIMA's assessment of the main risks and vulnerabilities relevant to the Cayman Islands' financial system. The report focuses on system-wide risks rather than the condition of individual institutions. Its purpose is not to predict specific events, but to identify vulnerabilities, assess resilience, support early risk detection and inform supervisory priorities.

The reference periods for data presented in this report vary according to sector and data availability. Unless otherwise stated, financial sector data generally extend through 2025, based on annual returns or quarterly data, as applicable. Where quarterly data are used, the relevant reporting period, including Q4 2025, is stated accordingly. Investment funds data extend through 2024, the latest available reporting period. Domestic macroeconomic indicators include estimates for 2025 and projections for 2026 and 2027. Specific reference periods and data sources are identified in the relevant text, figures and tables, where applicable. Data presented in this report may be subject to subsequent revisions.

The report forms part of CIMA's ongoing work to strengthen macroprudential surveillance and support confidence in the Cayman Islands as a resilient, well-regulated and internationally connected financial centre.

Executive Summary

The Cayman Islands' financial system remained resilient in 2025, supported by a strong domestic economy, sound prudential oversight and well-capitalised financial institutions. Household and corporate balance sheets remained broadly healthy, regulated sectors continued to demonstrate resilience, and no evidence of broad-based domestic financial imbalances emerged. While the financial system remains fundamentally sound, the external environment has become increasingly complex, requiring continued vigilance as global financial conditions, geopolitical risks, market volatility and structural changes in financial intermediation continue to evolve.

The Cayman Islands' position as an international financial centre is central to both its strength and its vulnerability. Deep integration with global financial markets supports investment, innovation and economic growth, and reinforces the jurisdiction's role as a trusted and well-regulated global financial centre. At the same time, this openness means that developments beyond the jurisdiction increasingly shape domestic financial stability through funding conditions, asset valuations, investor sentiment, cross-border exposures, insurance and reinsurance markets, and operational dependencies. Higher global interest rates, geopolitical uncertainty, market volatility, climate-related events, rapid technological change, and the continued expansion of non-bank financial intermediation have all reinforced the importance of monitoring external transmission channels alongside domestic conditions.

Macroprudential surveillance indicates that systemic risks remain contained, although their nature continues to evolve. Household credit risk remains low, with moderate leverage, strong repayment performance, and limited signs of financial stress despite continued growth in mortgage and consumer lending. However, the gradual increase in household borrowing and continued strength in the property market warrant ongoing monitoring to ensure vulnerabilities do not accumulate over time. Interconnectedness remains the most significant structural source of financial stability risk, reflecting the Cayman Islands' extensive cross-border financial linkages and the growing importance of market-based finance. Climate-related and cyber and AI-related operational risks have also become increasingly important, given their potential to disrupt institutions, markets and critical infrastructure through multiple transmission channels that extend well beyond the domestic economy.

The broader macroeconomic and financial environment continued to support stability, although downside risks have become more pronounced. Domestically, economic activity remained resilient and continued to underpin favourable financial conditions, supporting household income, business activity, credit quality and financial sector performance. Globally, however, tighter financial conditions, elevated geopolitical tensions, changing investor sentiment, and vulnerabilities within non-bank financial intermediation continue to add to uncertainty. As a jurisdiction whose financial sector is closely integrated with international markets, the Cayman Islands remains sensitive to external developments transmitted through global financial markets, cross-border capital flows, funding conditions, and international service-provider networks.

The regulated financial sector remained resilient across all major sectors, while sector-specific risk profiles continued to evolve. The investment funds sector continued to reinforce the Cayman Islands' position as a leading global financial centre, while the banking sector remained well capitalised, liquid and profitable. The insurance sector demonstrated continued resilience despite rising climate-related claims and evolving reinsurance market conditions. Trust and Corporate Service Providers, Securities Investment Business entities, and Virtual Asset Service Providers also continued to adapt to changing international regulatory expectations, technological innovation, and evolving business models, contributing to the overall strength and competitiveness of the jurisdiction's financial services industry. These developments also reinforce the importance of a robust regulatory framework, strong governance, operational resilience, data quality and effective supervisory engagement across regulated sectors.

In 2026 and beyond, maintaining financial stability will require continued attention to emerging risks. Supervisory priorities will focus on strengthening the resilience of the financial system by enhancing macroprudential surveillance, monitoring cross-border interconnectedness and non-bank financial intermediation, improving climate risk assessment and stress testing, reinforcing cyber and operational resilience, and expanding the availability and quality of financial stability data. These efforts will further strengthen the resilience of the Cayman Islands' financial system, support timely identification of vulnerabilities, and preserve confidence in the jurisdiction's role as a trusted, well-regulated and internationally connected financial centre.

Acronyms

AFSI	Aggregate Financial Stability Index
AI	Artificial Intelligence
AML	Anti-Money Laundering
BIS	Bank for International Settlements
BSI	Banking Stability Index
CAR	Capital Adequacy Ratio
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CFATF	Caribbean Financial Action Task Force
CFT	Countering the Financing of Terrorism
CIMA	Cayman Islands Monetary Authority
CSX	Cayman Islands Stock Exchange
ESG	Environmental, Social and Governance
FAR	Fund Annual Returns
FDI	Financial Development Index
FHSI	Financial Health and Soundness Indicators
FSI	Financial Soundness Indicators
FSB	Financial Stability Board
FVI	Financial Vulnerability Index
GDP	Gross Domestic Product
GIFCS	Group of International Financial Centre Supervisors
GWP	Gross Written Premiums
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
LCR	Liquidity Coverage Ratio
MFA	Mutual Fund Administrators
MFSC	Ministry of Financial Services and Commerce
NAV	Net Asset Value
NBFI	Non-bank Financial Intermediation
NPL	Non-performing Loans
NSFR	Net Stable Funding Ratio
PFAR	Private Fund Annual Returns
RBS	Risk-Based Supervision
RegTech	Regulatory Technology
ROA	Return on Assets
ROE	Return on Equity
RP	Registered Persons
RPPI	Residential Property Price Index
SIB	Securities Investment Business
SIBA	Securities Investments Business Act
SupTech	Supervisory Technology
TCSP	Trust and Corporate Service Providers
VASP	Virtual Asset Service Providers
WECI	World Economic Climate Index

Chapter 1: Macroprudential Surveillance and Key Financial Stability Risks

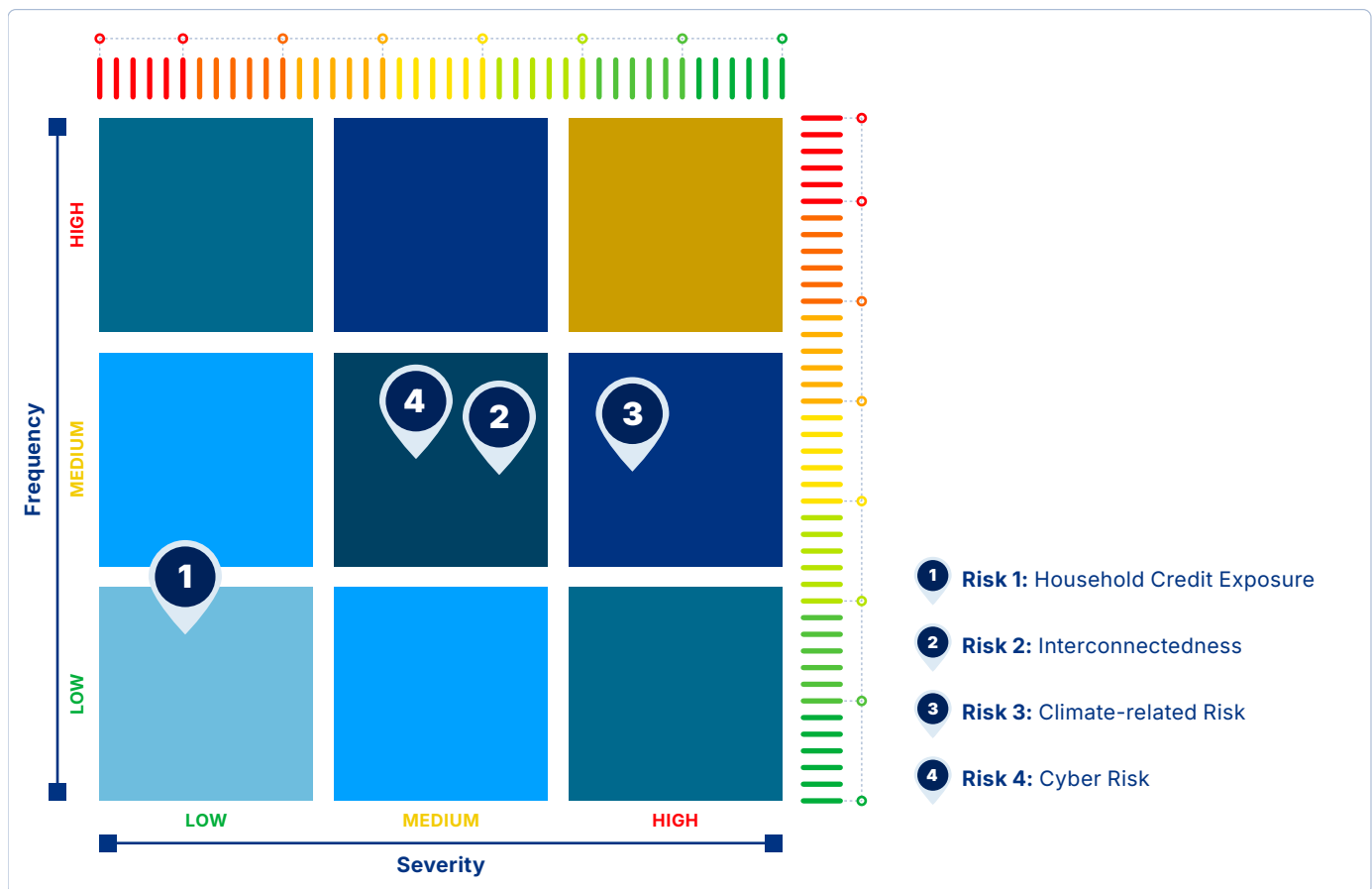
1.1. Key Financial Stability Risks and Messages

Financial stability risks remained broadly contained in 2025, although the external risk environment became more complex.

Domestic credit conditions remained stable, prudential indicators across key regulated sectors were sound, and no broad-based domestic imbalance was identified. However, the Cayman Islands' role as a highly open international financial centre means that risks continue to be shaped by global financial conditions, cross-border exposures, climate-related vulnerabilities, and reliance on shared digital and third-party infrastructure.

The main financial stability risks identified in this report are household credit exposure, interconnectedness, climate-related risk, and cyber and operational resilience risk (Figure 1.1). Household credit risk remains primarily domestic and low, while interconnectedness, climate risk, and cyber risk are more structural and are closely linked to the Cayman Islands' international financial centre role and exposure to external transmission channels.

Figure 1.1: Key Financial Stability Risks



Source: CIMA

The risk matrix provides a high-level summary of CIMA's assessment of key financial stability risks. The positioning of risks reflects their relative frequency and potential severity, while the overall risk rating also considers available mitigants, financial sector resilience, supervisory controls, and the likelihood of transmission to domestic financial stability (Table 1.1).

Table 1.1: Key Risks and Ratings

Risk	Rating	Key message
Household Credit Exposure	Low	Household leverage remains contained and repayment stress indicators remain stable, but non-mortgage credit, mortgage growth, property prices, and debt servicing capacity require continued monitoring.
Interconnectedness	Medium	Cayman's deep integration with global financial markets creates exposure to external shocks through funding conditions, asset valuations, investor sentiment, NBFI activity, and bank-non-bank linkages.
Climate-related Risk	Medium	Physical risks remain structurally important domestically, while external transmission may occur through insurance, reinsurance, investment portfolios, fund valuations, and global investor behaviour.
Cyber and Operational Resilience Risk	Medium	Reliance on shared digital infrastructure, outsourcing, cloud services, administrators, custodians, AI-enabled systems and other third-party providers creates potential channels for operational disruption to spread across institutions.

CIMA's monitoring priorities remain focused on both domestic resilience and external transmission channels. Key areas include household credit and property market developments; cross-border exposures and bank-non-bank linkages; private credit and fund liquidity risks; insurance and reinsurance affordability; climate-related stress testing and data quality; cyber resilience; outsourcing concentration; and strengthened sectoral prudential reporting.

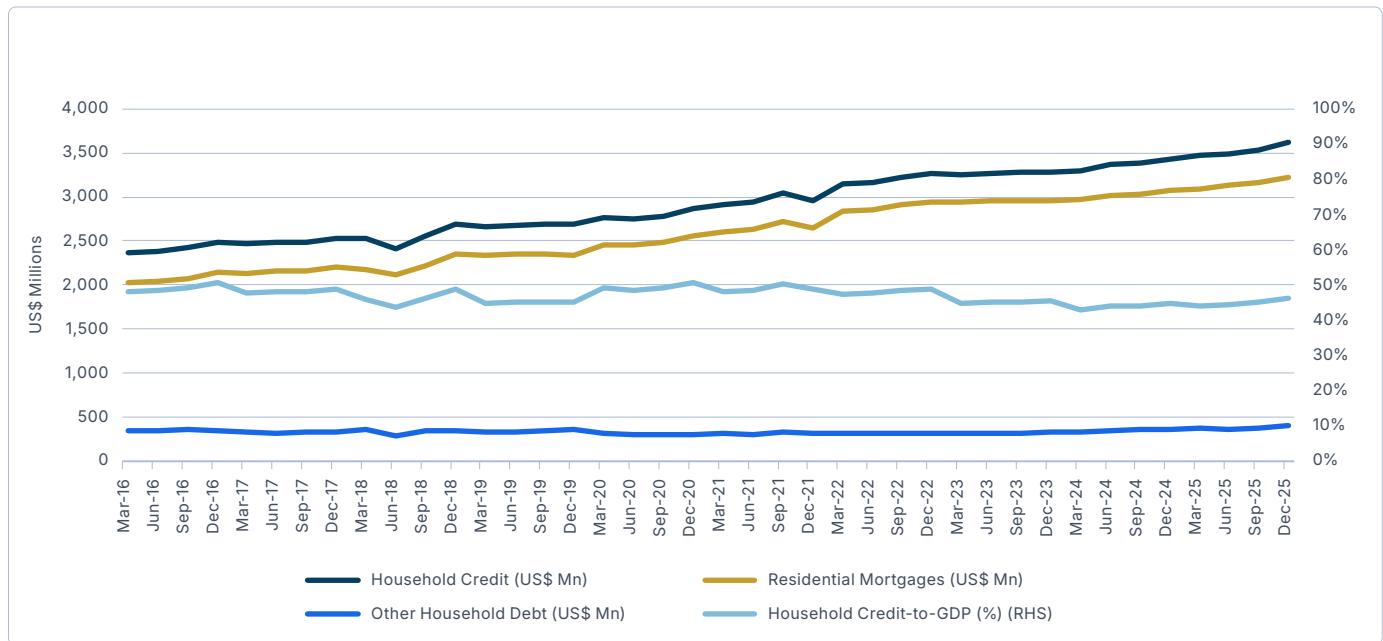
1.2. Household Credit Exposure

Household credit remained a low financial stability risk in 2025, although developments in non-mortgage borrowing and the upward movement in the household credit-to-GDP gap warrant continued monitoring. Household credit is important for domestic financial stability because a sustained build-up in leverage can weaken debt servicing capacity, increase credit losses for domestic lenders, and amplify shocks to household consumption and the property market. In the Cayman Islands, this risk is closely linked to residential mortgage lending and domestic economic conditions.

Aggregate household leverage remained contained in 2025, despite continued growth in household credit and residential mortgages. The household credit-to-GDP¹ ratio remained broadly contained, with only a modest uptick from recent lows and still below its earlier peak, indicating limited re-leveraging at the aggregate level. Household credit and residential mortgages reached new highs, but their growth remained broadly in line with economic activity (Figure 1.2). This suggests that the increase in household credit has not yet translated into a broad-based build-up of systemic vulnerability. At the same time, non-mortgage borrowing increased after a period of relative stability, driven by motor vehicle loans and other loans and overdrafts. While still a smaller share of total exposure, these forms of credit are typically more sensitive to changes in interest rates and household income. A continued increase in these segments could therefore make household balance sheets more vulnerable to income shocks, higher debt servicing costs, or weaker labour market conditions. However, the foreclosure rate remained below 1% in 2025, broadly unchanged from 2024, suggesting that repayment stress has remained contained.

¹ 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, which covers all banks (Categories A and B). GDP for 2025 is based on internal estimates.

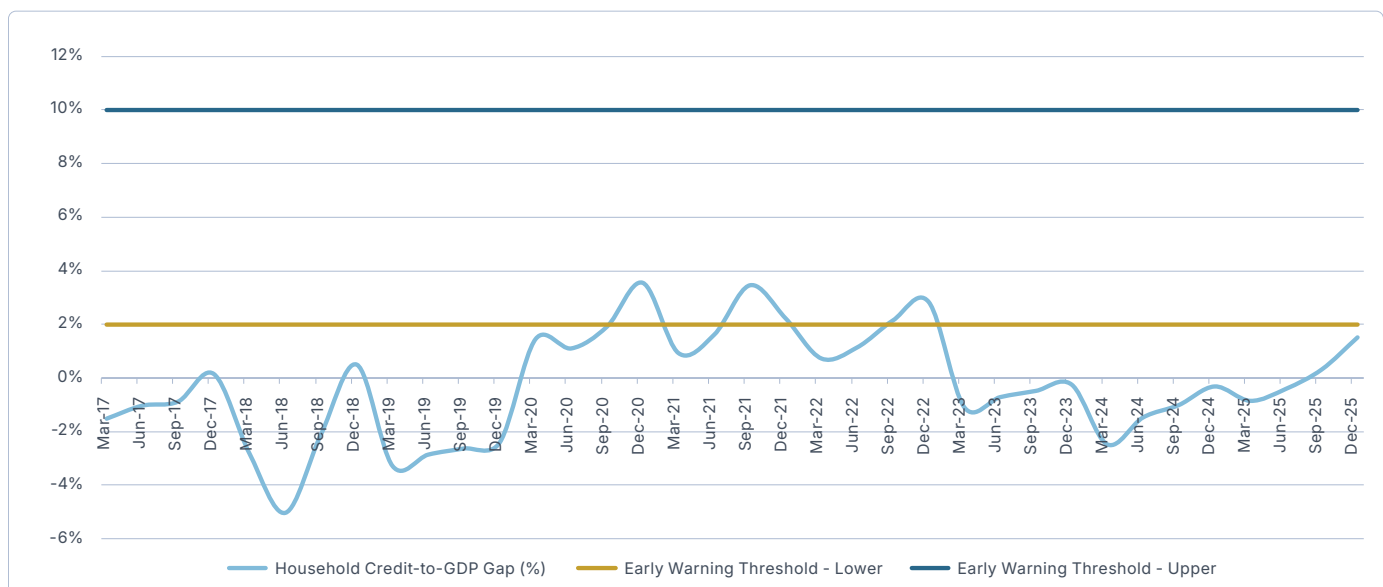
Figure 1.2: Household Credit, Residential Mortgages and Credit-to-GDP



Source: CIMA

The household credit-to-GDP gap widened during 2025 but remained below the lower early warning threshold, suggesting that cyclical household credit vulnerabilities stayed contained. The gap turned positive over the course of the year and reached about 1.5% in December 2025 (Figure 1.3), indicating some strengthening in credit relative to its long-term trend. Nevertheless, as it remained below the 2% threshold, there is no clear signal of excessive cyclical build-up. From a financial stability perspective, monitoring should focus on whether the increase in the gap persists over several quarters and whether it is accompanied by faster growth in non-mortgage credit, a higher foreclosure rate, or broader lending-rate pressures that may affect household debt servicing capacity.

Figure 1.3: Household Credit-to-GDP Gap



Source: CIMA

Overall, risks related to household credit exposure remained low in 2025. Household debt increased and the composition of borrowing became slightly more sensitive to income and interest-rate shocks, but aggregate leverage remained moderate and below previous peaks. From a forward-looking perspective, risks are expected to remain low, provided that employment conditions remain supportive, repayment performance remains stable, and credit growth continues to move broadly in line with economic activity. If the upward movement in the credit-to-GDP gap persists, this could signal a gradual build-up of cyclical vulnerabilities and warrant continued monitoring.

Box 1: Cayman's Residential Property Price Index²

The Residential Property Price Index (RPPI) is designed to measure changes in the prices paid for residential properties in the Cayman Islands³, providing a consistent benchmark for tracking housing market developments over time. The index answers a simple but important question: how much would it cost, on average, to purchase a comparable set of dwellings today relative to a fixed reference period. In the Cayman Islands case, this reference year is 2015, which marks the end of a relatively flat period in the market and provides a useful baseline for assessing subsequent price dynamics.

The introduction of the RPPI addresses a critical data gap for policymakers. Reliable indicators of property prices are essential for understanding macroeconomic conditions and assessing risks to financial stability. Strong and persistent price increases may signal overheating or the build-up of imbalances, while sharp corrections can have adverse effects on household balance sheets, credit quality, and economic activity. The RPPI therefore serves as a key input into monitoring of the real estate sector and macroprudential surveillance.

The index is constructed using administrative data from stamp duty returns, which provide detailed information on individual property transactions, including prices, dates, and property characteristics. To ensure that the index reflects underlying price movements rather than changes in the composition of properties sold, a hedonic modelling approach is used. This method controls for factors such as location, size, and property attributes, allowing the index to capture constant quality-price changes. This approach is necessary in a market where properties are heterogeneous and only a small share of the housing stock is transacted in any given period.

At present, the RPPI focuses on condominium transactions, which provide a sufficiently large and consistent dataset for reliable estimation. Other types of transactions, including houses, undeveloped land, and non-market transfers, are excluded. The market is segmented into four analytical districts: Seven Mile Beach, George Town, West Bay, and the remaining islands grouped together. This structure reflects differences in market characteristics and demand drivers. In particular, Seven Mile Beach is treated separately as it serves as a proxy for foreign investment, while George Town is considered a key indicator of the domestic market. The index is compiled annually for all regions, with a quarterly series available for George Town, where transaction volumes support higher frequency estimation.

The RPPI shows that residential property prices have increased noticeably over the past decade⁴. Following a period of relatively limited movement prior to 2015, price growth accelerated across all regions, particularly from the late 2010s onwards (Figure 1.4). By 2025, index levels are higher than in earlier periods, indicating a sustained upward trend in property valuations. While the overall pattern is one of broad-based growth, there are notable differences across regions. Seven Mile Beach has recorded higher price levels and stronger cumulative increases, reflecting its role as a high value and externally driven segment of the market. George Town and West Bay have also experienced strong growth, while the remaining districts have seen increases from a lower base.

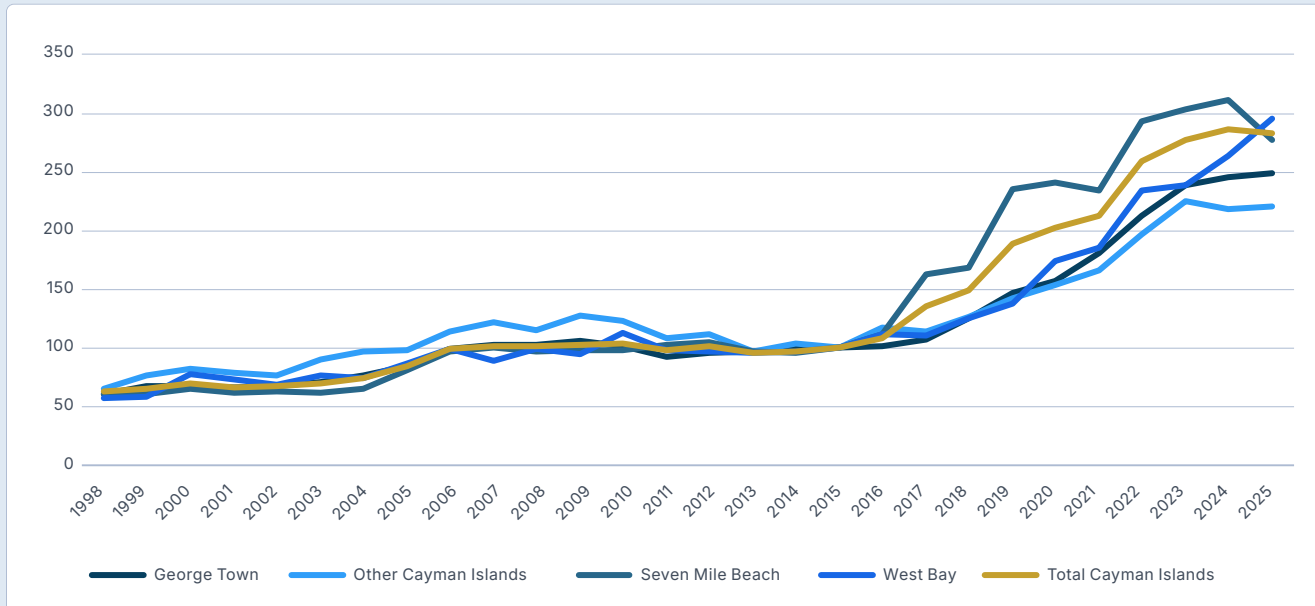
2 [https://www.caymanlandinfo.ky/docs/default-source/residential-property-price-index/cartac-final-ta-report-on-rppi-mission-\(november-12-22-2024\).pdf?sfvrsn=2f4f442e_3](https://www.caymanlandinfo.ky/docs/default-source/residential-property-price-index/cartac-final-ta-report-on-rppi-mission-(november-12-22-2024).pdf?sfvrsn=2f4f442e_3)

3 https://www.caymanlandinfo.ky/docs/default-source/residential-property-price-index/methodological-note.pdf?sfvrsn=ba0489aa_3

4 [https://www.caymanlandinfo.ky/services/valuation/residential-property-price-index-\(rppi\)](https://www.caymanlandinfo.ky/services/valuation/residential-property-price-index-(rppi))

Box 1: Cayman's Residential Property Price Index (continued)

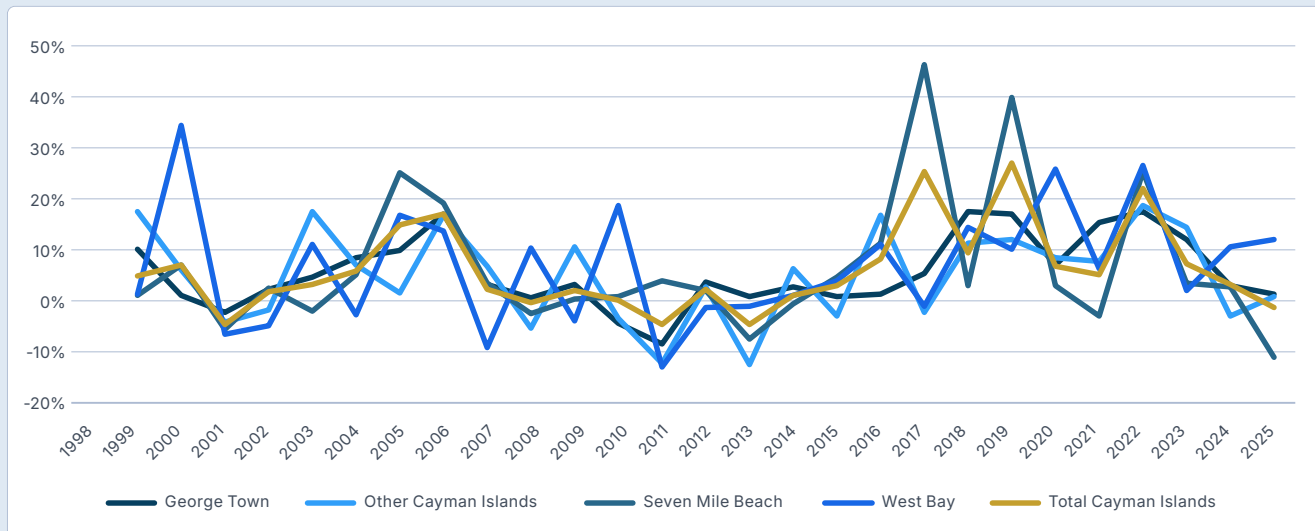
Figure 1.4: RPPI Index (Level)



Source: Cayman Islands Dept. of Land and Survey

Year-on-year growth rates have been volatile, reflecting both the relatively small number of transactions and the influence of high value sales (Figure 1.5). Nevertheless, the underlying trend remains upward. The use of statistical smoothing for the quarterly George Town index helps to reduce short-term noise and provides a clearer signal of underlying price developments.

Figure 1.5: RPPI Index (Growth)



Source: Cayman Islands Dept. of Land and Survey

Box 1: Cayman's Residential Property Price Index (continued)

From a financial stability perspective, these developments have important implications. Rising property prices support household wealth and strengthen the collateral base of the financial system. At the same time, sustained price increases may point to the emergence of vulnerabilities, particularly if they are driven by speculative demand or become misaligned with underlying economic fundamentals. The segmentation of the market is therefore important for risk assessment. Price developments in Seven Mile Beach, which is dominated by foreign or cash financed transactions, may have more limited direct implications for domestic financial stability. In contrast, trends in George Town are more closely linked to domestic credit conditions and are therefore more relevant for assessing potential risks to the banking system.

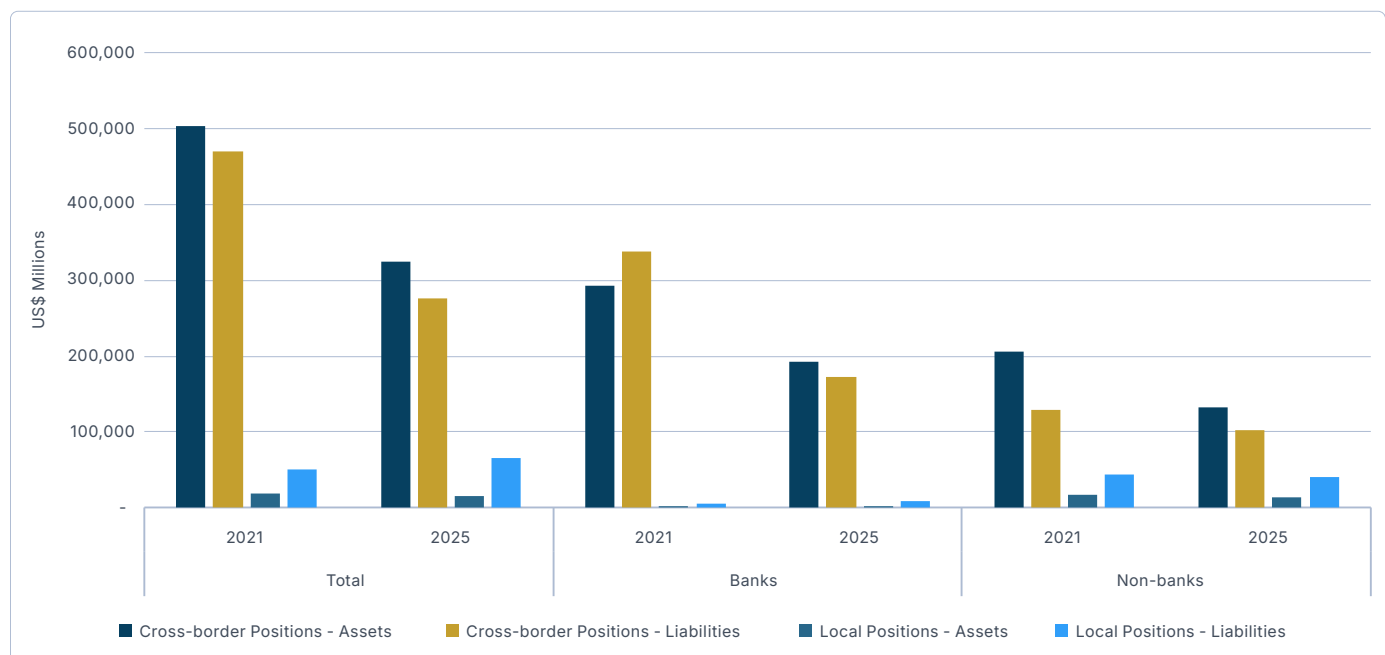
Overall, the RPPI represents a significant improvement in the measurement of housing market developments in the Cayman Islands. By providing a consistent, quality-adjusted indicator of property price movements, it strengthens the analytical framework for monitoring risks and supports more informed analysis and surveillance in the area of financial stability.

1.3. Interconnectedness

Interconnectedness remained a medium financial stability risk in 2025, reflecting the Cayman Islands' deep integration into global financial markets and the potential for external shocks to be transmitted through funding, liquidity, valuation, and confidence channels. The jurisdiction facilitates extensive cross-border financial activity through banking operations, investment funds, and other intermediaries, linking international markets and enabling capital flows. While this integration supports market efficiency and reinforces the Cayman Islands' position in global finance, the scale of cross-border activity relative to the domestic economy means that global developments can have a meaningful influence on domestic financial conditions.

Cross-border balance sheet exposures continued to dominate the financial system, reinforcing the jurisdiction's sensitivity to external financial conditions. Total external assets declined from approximately US\$503 billion in 2021 to US\$325 billion in 2025, with a similar reduction observed in liabilities, driven primarily by a decrease in banking sector positions (Figure 1.6). Despite this decline, the financial system remains highly exposed to changes in global interest rates, liquidity conditions, and risk sentiment, which may affect funding availability, asset valuations, and market confidence.

Figure 1.6: Cayman Locational Banking Statistics – Assets and Liabilities (US\$ Millions)

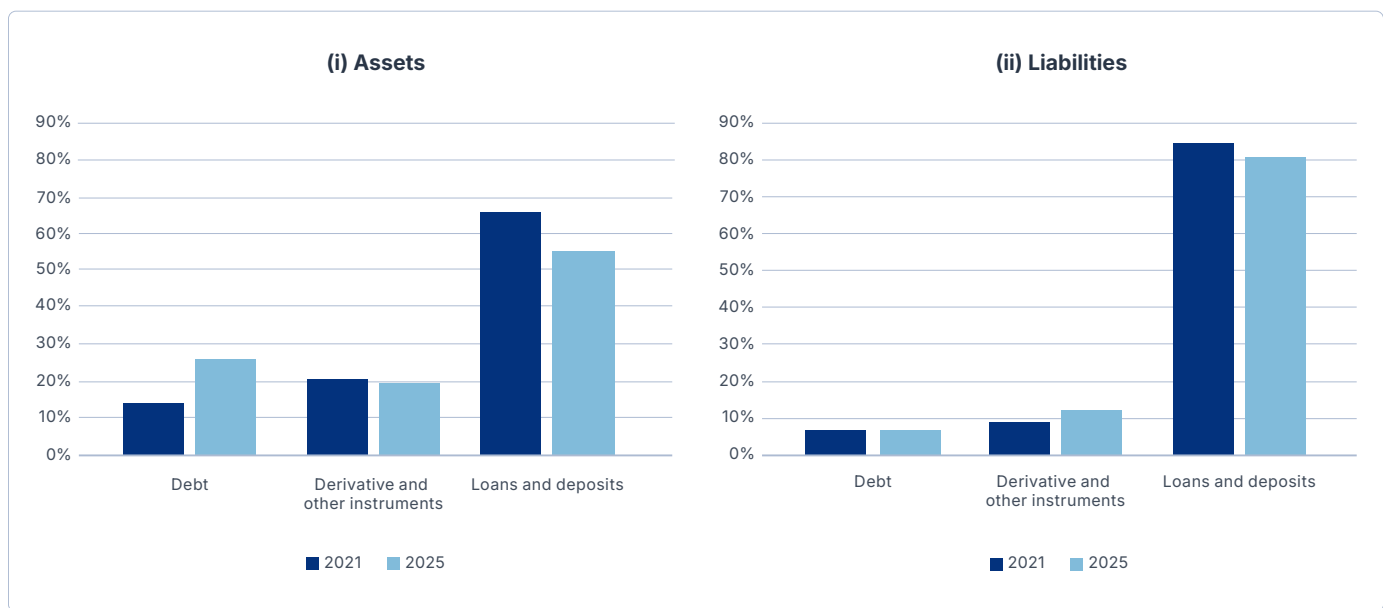


Source: CIMA

The structure of cross-border activity has remained broadly stable, suggesting that the recent contraction reflects balance sheet adjustment rather than a structural change in the Cayman Islands' financial intermediation role. The stability in the composition of assets and liabilities indicates that the Cayman Islands continues to function as a conduit for global financial flows. As a result, the key financial stability issue is not only the size of cross-border positions, but also the channels through which external shocks could be transmitted to domestic financial conditions.

The composition of cross-border exposures points to increasing market-based transmission channels. Loans and deposits remain the largest component of cross-border positions (54% and 81% for assets and liabilities, respectively); however, their relative share has declined as debt instruments (for assets) and derivatives and other financial products (for liabilities) have increased in importance (Figure 1.7). While this shift supports diversification, it also introduces additional market-based channels through which financial conditions may adjust, particularly through mark-to-market valuation effects and margining practices. These mechanisms may contribute to more pronounced cyclical dynamics during periods of market stress.

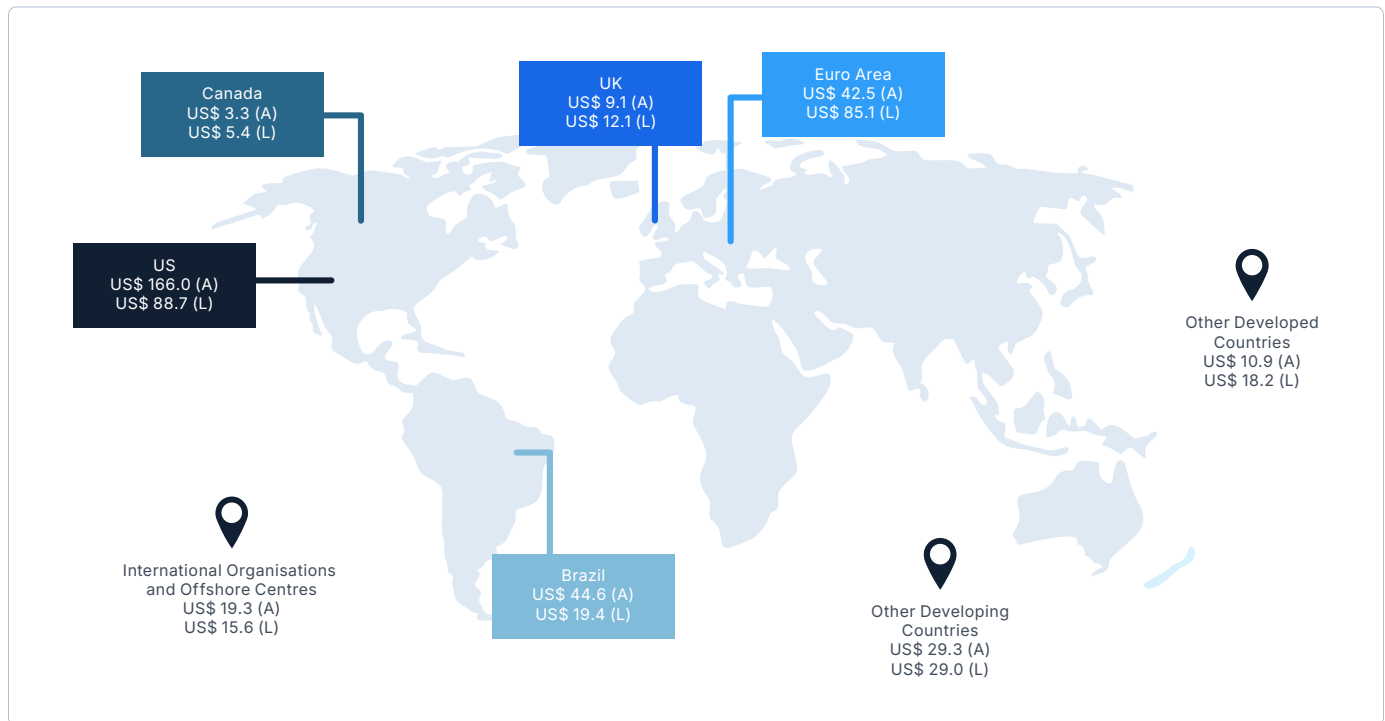
Figure 1.7: Composition of Cross-border Positions



Source: CIMA

Geographic concentration of exposures creates important spillover channels from key partner jurisdictions. Developed economies account for the majority of both assets and liabilities, with the United States representing the largest single exposure (Figure 1.8). Although these exposures are concentrated in stable and highly regulated markets, adverse developments in these jurisdictions, such as tighter monetary policy or financial market stress, could be transmitted through valuation effects, funding conditions, and capital flow reversals. This reinforces the importance of monitoring macro-financial developments in the main jurisdictions to which Cayman Islands financial institutions are connected.

Figure 1.8: Cross-border Interconnectedness by Country, 2025 (US\$ Billions)



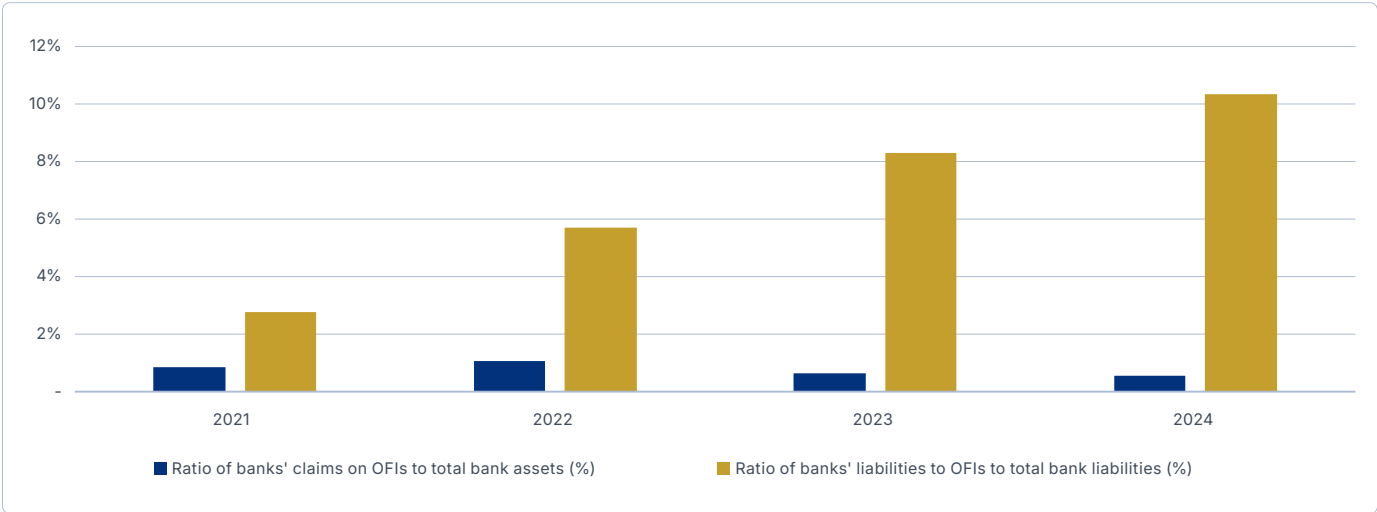
Source: CIMA

Non-bank financial intermediation (NBFI) remains an important driver of interconnectedness and a potential amplifier of market-based stress. While banking sector activity has moderated, other financial intermediaries, including hedge funds, investment funds, and structured finance vehicles, have expanded significantly, reflecting both global trends and the jurisdiction's attractiveness as a financial hub. As these entities are largely market-based, their activity tends to be closely aligned with global financial conditions, reinforcing existing transmission channels.

The growing role of non-bank financial intermediaries increases the importance of monitoring market-based channels of systemic risk. Some of these entities may use leverage, liquidity transformation, or short-term funding structures, which can amplify financial stress during periods of market volatility. In stressed conditions, deleveraging pressures or investor redemptions may trigger asset sales and liquidity strains, with potential spillovers to counterparties and funding markets. These dynamics can transmit stress across institutions and jurisdictions, particularly when market liquidity deteriorates.

Evolving linkages between banks and non-bank financial intermediaries have important implications for funding stability. Banks have reduced their direct lending to these entities but have increased their reliance on funding from non-bank financial intermediaries, as reflected in rising liabilities to these counterparties (Figure 1.9). This shift reflects a gradual change in the composition of funding sources, which may increase vulnerability to funding shocks under stressed conditions. In particular, a withdrawal of funding from non-bank entities could tighten liquidity conditions for banks and amplify system-wide liquidity pressures.

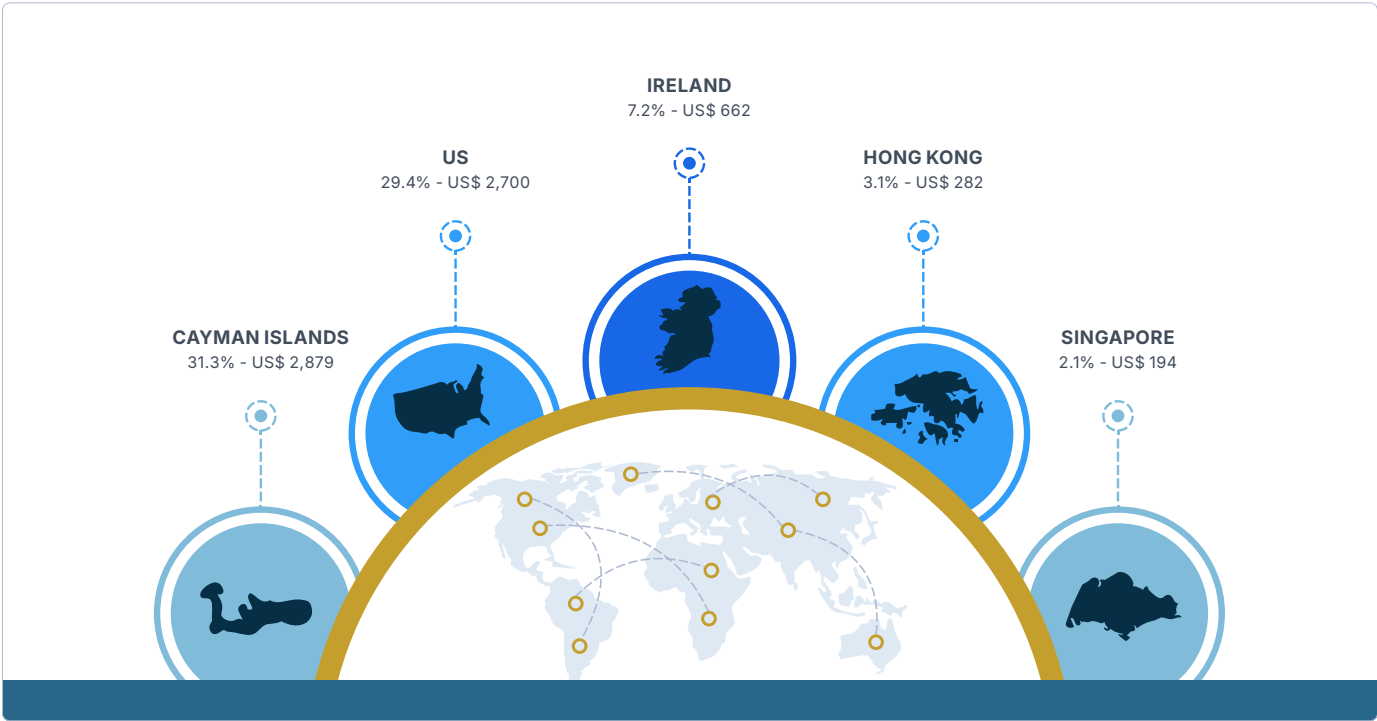
Figure 1.9: Banks' Interconnectedness with Other Financial Intermediaries



Source: CIMA

Investment fund activity reinforces the Cayman Islands' exposure to external market developments. Investment fund assets remain concentrated in key financial centres, including the Cayman Islands and the United States, with additional exposures across developed and emerging markets. While these linkages support efficient capital allocation, they also mean that shifts in global investor sentiment may be reflected in cross-border investment patterns (Figure 1.10).

Figure 1.10: Investment Funds – Geographic Distribution, 2025 (US\$ Billions)



Source: CIMA

Interconnectedness exposes the financial system to several potentially reinforcing transmission channels, including direct balance sheet exposures, market-based transmission through asset prices and capital flows, and institutional linkages between banks and non-bank financial intermediaries. Key risk scenarios include tighter global financial conditions, elevated market volatility affecting leveraged institutions, and disruptions in international funding markets.

Overall, interconnectedness remained a medium financial stability risk in 2025. A robust regulatory framework and strong institutional structures support financial system resilience; however, the Cayman Islands' high degree of integration with global markets means that external shocks remain a key source of vulnerability. Its role as a booking centre and domicile for international financial activity may limit some direct domestic credit spillovers, as many cross-border positions are intermediated rather than domestically originated. However, this structure does not eliminate liquidity, operational, reputational, and market confidence risks, particularly during periods of global financial stress. Continued monitoring should therefore focus on cross-border exposures, funding structures, bank and non-bank financial intermediary linkages, and broader global macro-financial developments.

1.4. Climate Risk

Climate risk remained a medium financial stability risk in 2025, reflecting both the Cayman Islands' direct exposure to physical hazards and its indirect exposure to global insurance, market, operational, and transition-risk channels. Climate risk is relevant for financial stability because physical shocks can weaken borrowers' repayment capacity, damage and reduce collateral values, disrupt operations of financial institutions, increase insurance costs, and adversely affect the resilience of financial institutions and their clients. For the Cayman Islands, the risk is not limited to domestic weather events; it also arises through tourism, reinsurance markets, captive insurance, investment funds, cross-border financial activity, and global investor behaviour.

Global Developments

Physical climate risk continued to affect financial conditions through higher insured losses, insurance repricing, and persistent protection gaps. Severe weather events, including hurricanes, continued to drive higher insured losses worldwide, while large protection gaps remained in many developing economies. Insurance and reinsurance markets responded by increasing premiums, tightening underwriting standards, and reassessing exposure to high-risk regions. Strong investor appetite for catastrophe bonds and insurance-linked securities subsequently brought record capacity into the market, contributing to the softening in global reinsurance pricing at the January 2026 renewals, although affordability challenges persisted for households, businesses, and vulnerable jurisdictions.

Transition risk remained relevant, with financial stability transmission mainly operating through asset repricing, disclosure expectations, litigation, and changes in investor risk appetite. Climate policies, disclosure requirements, and market expectations continued to evolve across jurisdictions. Financial markets increasingly differentiated between firms and countries based on their exposure to climate-related risks. Carbon-intensive industries faced rising concerns over stranded assets, while equity and credit markets experienced greater volatility as investors shifted capital toward low-carbon and climate-resilient investments in some jurisdictions. Climate-related policy announcements, litigation, and controversies within environmental markets also contributed to episodic market volatility and liquidity pressures.

In the Caribbean, climate risk remained a material macro-financial concern because physical hazards can create fiscal, insurance, and recovery-financing pressures. The region remains highly exposed to hurricanes, coastal flooding, and sea-level rise. Governments, regulators, and regional institutions continued to strengthen climate resilience and disaster risk financing initiatives, with increased emphasis on disaster preparedness, adaptation, and rapid recovery mechanisms. In this context, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) remained a key regional instrument, providing critical parametric insurance coverage that enabled member countries to access immediate liquidity following climate-related disasters. During the 2024/25 policy year, CCRIF made 14 payouts exceeding US\$122 million to affected member countries (CCRIF SPC Annual Report 2024/25). In addition, Caribbean countries increased investment in renewable energy and climate adaptation projects; however, rising insurance costs, limited fiscal capacity, and significant protection gaps continued to create affordability and resilience challenges across the region.

Domestic Developments

The Cayman Islands' exposure to physical hazards makes climate risk a structural consideration for domestic financial resilience, rather than a remote external risk. Regulated entities are exposed to both the physical impacts of climate change and the financial implications of the transition to a lower-carbon economy. This exposure is shaped by three key characteristics: the Islands' low-lying

topography, the concentration of economic activity and critical infrastructure along the coastline, and their location within the Atlantic hurricane basin and a tectonically active region. As a result, hurricanes, storm surge, extreme rainfall, inland and coastal flooding, and sea level rise represent the most material climate-related hazards for financial stability. Earthquakes and tsunamis, while not climate-related, remain important natural hazards for operational resilience and business continuity planning. Collectively, these hazards increase the risk of operational disruption, damage to critical infrastructure and property, insurance losses, and financial stress for households and businesses, with potential spillover effects on the resilience of regulated entities and the broader financial system.

The most important domestic transmission channels are property damage, business interruption, collateral impairment, insurance affordability, and operational disruption. Hurricanes can combine strong winds, heavy rainfall, coastal inundation, and wave action in a single event, creating island-wide impacts because of the Cayman Islands' small land mass and limited natural barriers. Storm surge is a defining physical risk, as large portions of Grand Cayman, including major residential, tourism, and commercial areas, sit only a few meters above mean sea level. Extreme rainfall can overwhelm drainage capacity and accumulate in low-lying areas, while sea level rise can increase long-term exposure by raising the baseline from which storm surge operates and reducing drainage effectiveness. These hazards can affect the financial sector by weakening household and corporate balance sheets, reducing collateral values, increasing claims and insurance costs, and disrupting payment channels, communications infrastructure, and critical data systems.

Climate risk also reaches the Cayman Islands indirectly through tourism, supply chains, reinsurance pricing, and global financial conditions. While the Cayman Islands faces direct exposure to climate-related risk that could affect infrastructure, property, and households, the jurisdiction is also vulnerable indirectly through macroeconomic spillovers. Global physical climate events can disrupt supply chains, depress tourism demand in key source markets, or increase the cost of reinsurance for insurers operating in or through the Cayman Islands, all of which can weaken domestic economic activity and place stress on the financial sector. Persistent upward pressure on insurance premiums would feed through to household and corporate balance sheets and could have knock-on effects on asset quality and the demand for financial services in the Cayman Islands.

The Cayman Islands' significant captive insurance sector creates a specific channel through which global insurance market adjustments may affect the domestic financial services ecosystem. Higher reinsurance pricing and tightened underwriting standards can constrain capacity or shift retention strategies among captives and commercial insurers, affecting premium volumes, service revenue, and the broader insurance ecosystem in the jurisdiction. Concurrently, firms and service providers operating in the jurisdiction face heightened operational and legal pressures as litigation and disclosure expectations increase internationally. Fiduciary, legal, and administrative service providers may confront greater compliance costs and reputational risks if clients are subject to enforcement actions or litigation abroad.

Cayman-domiciled investment funds transmit climate risk mainly through valuation, liquidity, and redemption channels rather than through direct domestic credit exposures. The jurisdiction's role as a domicile for investment funds, in particular hedge funds and private equity funds, as well as captive and commercial insurers, creates exposure to both physical and transition risks that manifest in cross-border ways. Funds domiciled in the Cayman Islands, though legally separate from onshore assets, frequently hold portfolios with concentrated investments that may be exposed to transition risk. Rapid asset repricing abroad therefore has direct relevance to fund valuations and redemption dynamics in Cayman-domiciled vehicles. Illiquid asset classes, including private equity, infrastructure, and certain structured credit products, are particularly vulnerable because valuation uncertainty under volatile transition scenarios can create mismatches between net asset values (NAVs) and investor liquidity demands, amplifying redemption risk and creating possible contagion to administrators, custodians, and other service providers.

Concentrations in financial services and service-provider networks can amplify climate-related shocks through operational, liquidity, and reputational channels. Liquidity and redemption risks in funds with illiquid or stranded assets pose a clear threat to the operational networks of administrators, custodians, and other service providers. Operational resilience concerns are heightened because climate-driven physical hazards, both abroad and domestically, can disrupt business continuity, affecting payment channels, communications infrastructure, and critical data systems. These channels mean that climate risk can become a financial stability issue even when the underlying physical asset or transition exposure is located outside the Cayman Islands.

Data and modelling limitations remain a key constraint on climate risk surveillance and scenario analysis. Consistent, high-quality climate exposure data are often unavailable for key dimensions such as the precise geolocation of underlying assets, long-run historical loss records for non-traditional perils, and forward-looking transition metrics for private assets. These constraints limit robust scenario analysis and complicate supervisors' ability to assess concentration risk and tail exposures. They also make it important to distinguish clearly between quantified risk estimates and qualitative risk indicators when communicating climate-related vulnerabilities.

CIMA's supervisory focus is to strengthen climate risk identification, scenario analysis, disclosure, and supervisory integration using local hazard data where available. In response, CIMA's supervisory priorities have emphasized improved risk identification, climate-related stress testing, enhanced disclosure expectations, capacity building, and local and international coordination. Regulated

entities should continue to strengthen their capacity to map material climate exposures by risk type and legal entity, adopt forward-looking scenario analysis with transparent disclosure of methodological limitations, and strengthen governance frameworks around climate risk management. Climate stress testing of concentrated financial sectors, including funds with sizeable illiquid holdings, can provide insight into potential capital and liquidity shortfalls and help calibrate supervisory guidance. To support the development of future climate stress testing and scenario analysis, CIMA has initiated contact with Hazard Management Cayman Islands to explore the availability of local hazard and catastrophe data. This preliminary dialogue is intended to assess how environmental risk factors can best be connected to financial stability metrics. Integrating these considerations into routine supervisory work over time will assist the Authority in proactively identifying emerging sector vulnerabilities.

Overall, climate risk remained a medium financial stability risk in 2025, with physical risks posing the more immediate domestic concern, while transition risks are primarily transmitted through cross-border investment portfolios, insurance markets, and global financial conditions. The Cayman Islands' exposure is shaped by its low-lying coastal geography, reliance on critical infrastructure, role as an international financial centre, and significant captive insurance and investment fund sectors. While existing supervisory and institutional arrangements support financial system resilience, continued monitoring is needed because climate shocks can affect the financial system through multiple reinforcing channels. Looking ahead, CIMA will continue to strengthen its monitoring and analytical capabilities by focusing on hazard-informed stress testing, insurance and reinsurance affordability, operational resilience, investment fund valuation and redemption risks, and the quality of climate-related data and disclosures.

1.5. Cybersecurity and Operational Resilience

Cybersecurity and Artificial Intelligence (AI)-related operational dependencies remained a medium financial stability risk in 2025, reflecting continued reliance on shared digital infrastructure, third-party service providers, cloud services, AI-enabled systems and cross-border operational dependencies. Reported cyber and cyber-related incidents in the Cayman Islands moderated in 2025 after five consecutive years of increases, while financial crime also declined (RCIPS, 2025⁵). However, this moderation should not be interpreted as a reduction in underlying systemic cyber vulnerability. Globally, cyber incidents remain elevated, with around 10 percent affecting the financial sector, primarily concentrated in banking, securities, and insurance (IMF, 2026⁶).

From a financial stability perspective, the key risk is not only the occurrence of individual cyber incidents, but whether a disruption can propagate through shared and concentrated digital infrastructure. While firm-level incidents and consumer-level risks remain important, the financial stability focus is on whether reliance on shared digital infrastructure and service providers could create systemic vulnerabilities. As financial institutions increasingly depend on cloud services, outsourced information technology, AI-driven systems, and crypto-related infrastructure, the impact of a cyber event is increasingly shaped by concentration and interconnectedness. The central financial stability question is therefore whether a cyber or operational disruption can be contained before it affects multiple institutions, critical services, or market confidence.

Concentration in critical digital services creates common points of failure and enables cyber shocks to propagate across institutions. Financial institutions often rely on a small number of providers for cloud computing, data storage, and core operational systems, creating shared vulnerabilities. A cyber disruption affecting a single provider can therefore impair multiple institutions simultaneously, with potential spillovers to payments, liquidity conditions, and market confidence. This concentration risk is particularly important in a small, internationally connected financial centre where multiple entities may depend on similar technology providers, administrators, custodians, payment systems, or messaging services.

Cyber resilience has system-wide benefits, which means individual firms may underinvest relative to the level needed for financial stability. Recent research highlights that cyber resilience has public-good characteristics, as stronger cybersecurity at one institution reduces the likelihood that it becomes an entry point for disruption across the wider financial system. As institutions capture only part of these broader system-wide benefits, there may be incentives to underinvest in cyber resilience relative to the socially optimal level. Evidence suggests that supervisory scrutiny can help mitigate this underinvestment by encouraging greater investment in cybersecurity and operational resilience (BIS, 2026)⁷.

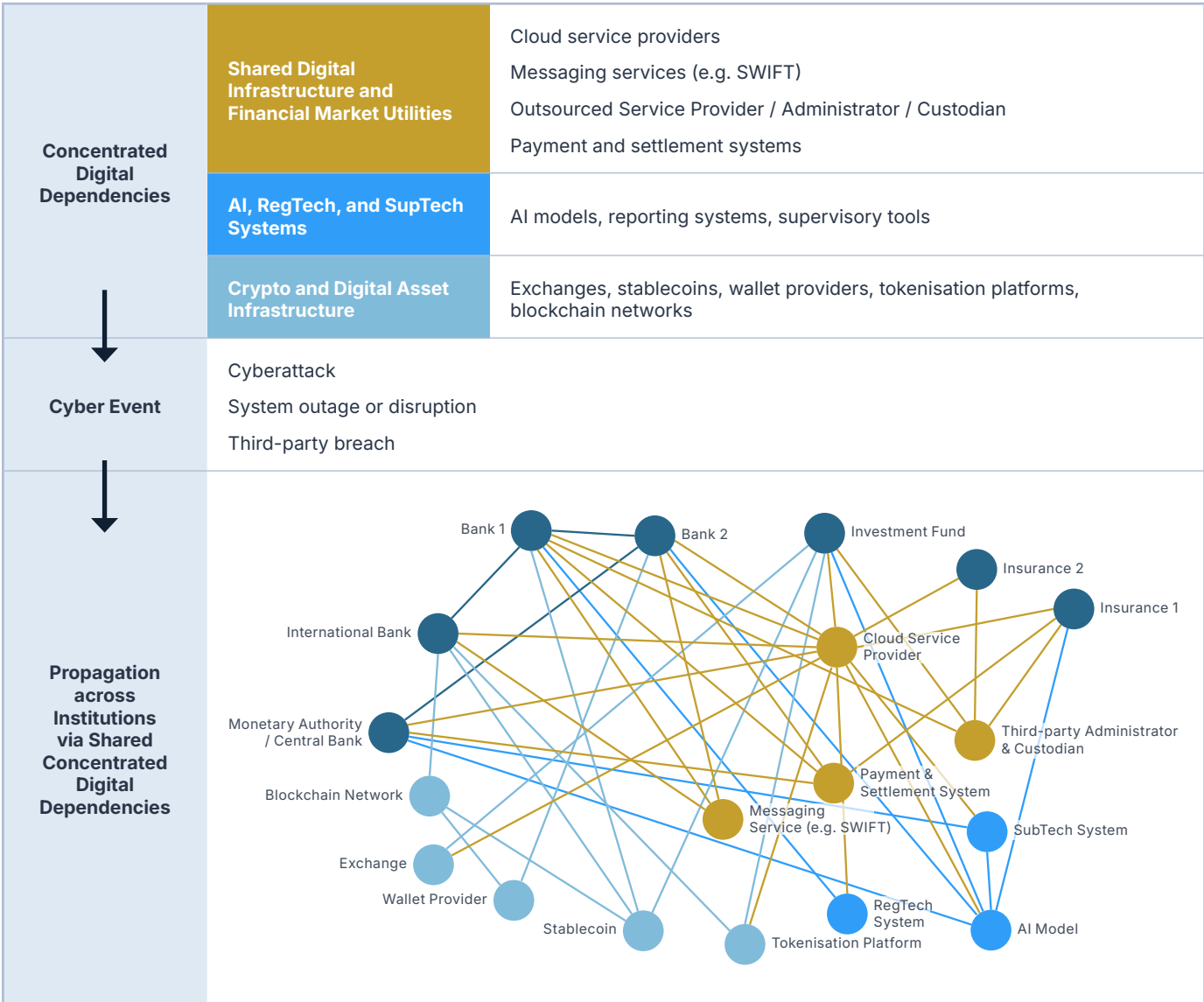
The cyber transmission framework highlights how shared infrastructure can turn an operational incident into a broader financial stability concern. Building on the previous Financial Stability Report cyber transmission framework, Figure 1.11 illustrates how concentration in shared infrastructure may enable cyber incidents to spread across the financial system, including through AI, regulatory technology (RegTech), supervisory technology (SupTech), and crypto-related dependencies.

⁵ [2025 Annual Crime and Traffic Statistical Report](#)

⁶ [The Rise of Cyber Events and Digital Fraud in the Financial Sector in: IMF Working Papers Volume 2026 Issue 062 \(2026\)](#)

⁷ [Disciplining digital risk: evidence from cyber stress tests](#)

Figure 1.11: Mapping Third-party Interconnectedness and Concentration in Financial and Digital Dependencies



Note: The figure is a conceptual illustration and does not represent actual institutional relationships within the Cayman Islands financial system. It extends the previous Financial Stability Report cyber transmission framework by illustrating how concentration in shared digital infrastructure creates interconnected pathways through which cyber incidents can propagate across financial institutions. It builds on the IMF cyber network mapping⁸ approach to financial and information and communications technology interconnectedness and extends it by incorporating additional layers covering artificial intelligence (AI), RegTech and SupTech platforms, and crypto-related infrastructure. The purpose is to show how concentration in shared digital infrastructure may amplify cyber incidents into broader operational and financial stability risks.

AI can amplify cyber risk by increasing both the sophistication of cyber threats and reliance on specialised digital infrastructure. Generative AI may enhance the capabilities of cyber threat actors, increasing the frequency and potential impact of attacks, while intensive data usage and new modes of interaction with AI systems expand the range of possible attack vectors (FSB, 2024)⁹. At the same time, AI development relies heavily on specialised cloud services, pretrained models, and complex supply chains, creating additional third-party dependencies and operational vulnerabilities. As AI adoption across financial services increases, these factors may strengthen common dependencies and increase vulnerability to operational disruptions.

⁸ [Cybersecurity Risk Supervision; IMF Departmental paper No. DP/19/15; September 2019](#)

⁹ [The Financial Stability Implications of Artificial Intelligence](#)

RegTech and SupTech can improve monitoring and reporting, but they also create additional digital dependencies. While these tools enhance reporting, monitoring, and risk detection, they also increase reliance on interconnected digital systems, including cloud infrastructure, data platforms, and application programming interfaces.¹⁰ These systems rely on integrated data environments and external service providers, potentially introducing additional cyber and operational vulnerabilities. Disruptions affecting these systems may therefore affect both financial institutions and supervisory processes simultaneously.

Crypto-related infrastructure introduces an additional layer of cyber and operational risk where it becomes embedded in broader financial functions. Infrastructure such as exchanges, custodians, wallet providers, stablecoins, tokenisation platforms, and blockchain networks increasingly supports financial activities but remains vulnerable to cyber incidents and operational disruptions (IMF, 2023¹¹; IMF, 2024¹²). Cyber-related incidents within crypto markets continue to rise, including hacks and infrastructure exploits, while cryptocurrency-related complaints and losses have also increased (Chainalysis, 2026¹³; FBI, 2025¹⁴). As these systems are often interconnected and concentrated, disruptions may propagate beyond the digital-asset ecosystem.

These global trends are particularly relevant for the Cayman Islands because the financial system relies extensively on cross-border service providers and digital infrastructure. Given the Cayman Islands' role as an international financial centre, disruptions originating in external systems may directly affect locally regulated entities, even where the initial event occurs outside the jurisdiction. Financial stability is therefore closely tied to the resilience of global digital networks, supervisory cooperation, and coordinated incident response.

CIMA's supervisory work continues to focus on cyber governance, outsourcing oversight, operational resilience, and alignment with evolving international standards. In recent years, this work has increasingly focused on the governance and oversight of outsourced and third-party arrangements, recognising the growing reliance of regulated entities on shared digital infrastructure and external service providers. This focus is reflected in supervisory inspection findings during 2025, where operational risk accounted for the largest share of observations identified across regulated entities.

Supervisory findings indicate that operational resilience remains a cross-sector priority, particularly in relation to outsourcing, information technology governance, and cybersecurity controls. Many of the operational risk findings identified during 2025 related directly to outsourcing arrangements, information technology governance, and cybersecurity controls, highlighting the continued importance of operational resilience within the financial sector. Through thematic assessments and regulatory guidance, CIMA has reinforced expectations around cybersecurity governance, operational resilience, and oversight of critical service providers, including intra-group arrangements. This approach supports broader financial stability objectives by promoting stronger risk management practices across the financial sector and reducing vulnerabilities associated with concentration and interconnected digital dependencies.

Overall, cybersecurity and AI-related operational dependencies remained a medium financial stability risk in 2025. Although reported cyber and cyber-related incidents moderated domestically, systemic vulnerability remains elevated because a disruption at a common service provider or critical technology dependency or AI-enabled system could affect multiple institutions simultaneously. Continued monitoring should therefore focus on third-party concentration, outsourcing governance, incident response capabilities, cyber resilience testing, cross-border coordination, and emerging dependencies related to AI, RegTech and SupTech, and crypto-related infrastructure.

¹⁰ [State of SupTech Report 2023 - CCAF publications - Cambridge Judge Business School](#)

¹¹ [Assessing Macrofinancial Risks from Crypto Assets](#)

¹² [Global Financial Stability Report, April 2024, Chapter 3: "Cyber Risk: A Growing Concern for Macrofinancial Stability," April 9, 2024](#)

¹³ [The 2026 Crypto Crime Report - Chainalysis](#)

¹⁴ [2025_IC3Report.pdf](#)

Box 2: Evolution of Supervisory Measures Supporting Cyber and Operational Resilience

2023 Rule and Statement of Guidance on Cybersecurity for Regulated Entities¹⁵

Established baseline regulatory expectations for cybersecurity governance, risk management, incident response, and operational resilience across regulated entities.

2023 Thematic Cybersecurity Review Report¹⁶

Assessed cybersecurity practices and governance arrangements across regulated entities, including oversight of outsourced and group-managed functions.

2025 Thematic Outsourcing Review Report¹⁷

Highlighted growing reliance on third-party service providers and reinforced expectations that regulated entities maintain equivalent oversight and accountability over outsourced functions.

2025 Supervisory Inspection Findings and Emerging Trends

Supervisory inspection findings during 2025 continued to highlight operational risk as a key area of focus across regulated entities, accounting for approximately 60 percent of all observations identified during inspections. Within operational risk findings, approximately 46 percent related to outsourcing arrangements, while around 13 percent were associated with information technology and cybersecurity matters. Cybersecurity-related findings were identified across the investments, fiduciary, banking, insurance, and securities sectors, illustrating that cyber and operational resilience considerations remain relevant across the broader financial system despite differing sectoral exposures and risk profiles.

1.6. Other Macroprudential Indicators

Selected macroprudential indicators provide a useful cross-check of the risk-based assessment presented in this chapter. The preceding sections assess the main financial stability risks through a risk-based and forward-looking lens, focusing on household credit exposure, interconnectedness, climate-related risk, and cyber and operational resilience. This section complements that assessment by presenting selected macroprudential indicators that provide a broader view of banking sector resilience, sector-level financial soundness across key regulated sectors, and aggregate financial stability conditions. These indicators should not be interpreted mechanically or as standalone early-warning tools; rather, they support the overall judgement on whether vulnerabilities are building across the financial system¹⁸.

Summary macroprudential indicators remained broadly supportive of financial stability in 2025. The Banking Stability Index (BSI) indicated that the banking sector maintained adequate capacity to absorb potential shocks and support financial system resilience (Figure 1.12). Although the capital adequacy component moderated relative to historical norms, banks maintained capital ratios well above regulatory minimum requirements, underscoring the continued availability of buffers to absorb unexpected losses. Stable asset quality conditions suggest that credit risk remained contained, while profitability continued to support internal capital generation. In addition, liquidity conditions remained adequate, indicating that banks retained sufficient capacity to meet funding obligations and withstand periods of stress.

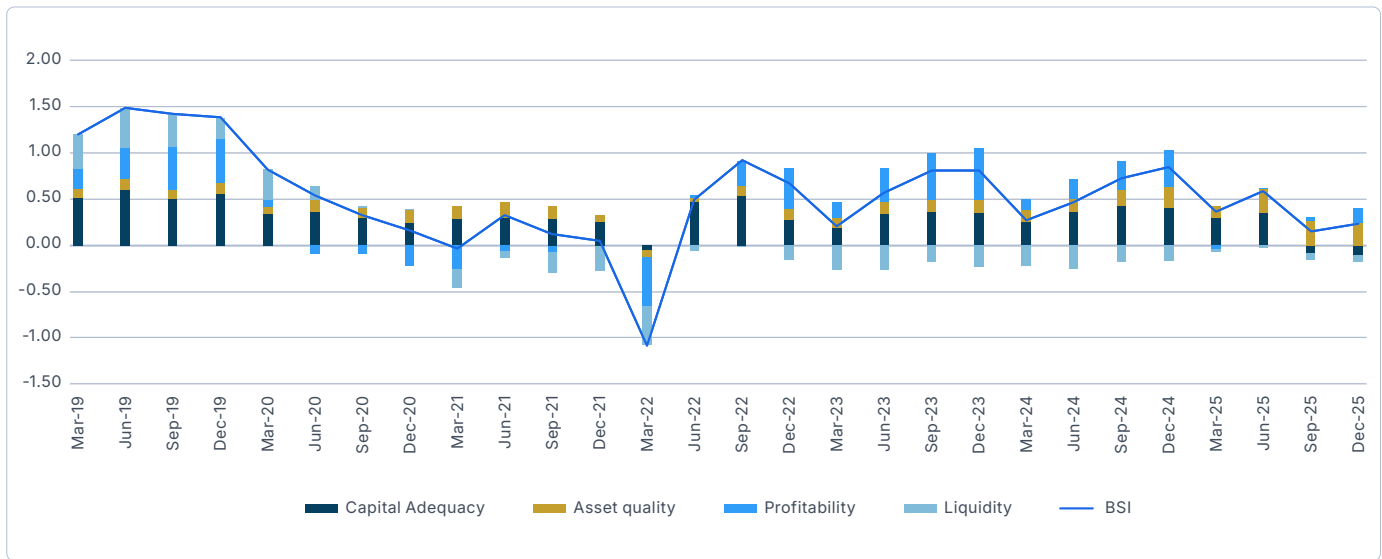
¹⁵ https://www.cima.ky/upimages/regulatorymeasures/Rule-CybersecurityforRegulatedEntities_1686262802.pdf

¹⁶ https://www.cima.ky/upimages/publicationdoc/ThematicCybersecuri_1687807889.pdf

¹⁷ https://www.cima.ky/upimages/publicationdoc/ThematicReviewonO_1769809111.pdf

¹⁸ The AFSI and BSI are normalised composite indices intended to capture changes in financial conditions and banking sector soundness over time (see the full methodology in Financial Stability Report 2022-2023). Accordingly, the indices do not have predefined supervisory thresholds and should be interpreted in conjunction with their underlying indicators. The slight decline in the BSI between December 2024 and December 2025 primarily reflected reduced risk contributions from the liquidity component, while the modest decline in the AFSI was driven by positive movements in both the liquidity and capital adequacy components. Despite these changes in the normalised indices, the underlying prudential indicators remained broadly consistent with a resilient banking sector, with capital and liquidity ratios continuing to exceed all applicable regulatory requirements. The Authority will continue to monitor developments in these indicators as part of its ongoing financial stability surveillance.

Figure 1.12: The Banking Stability Index

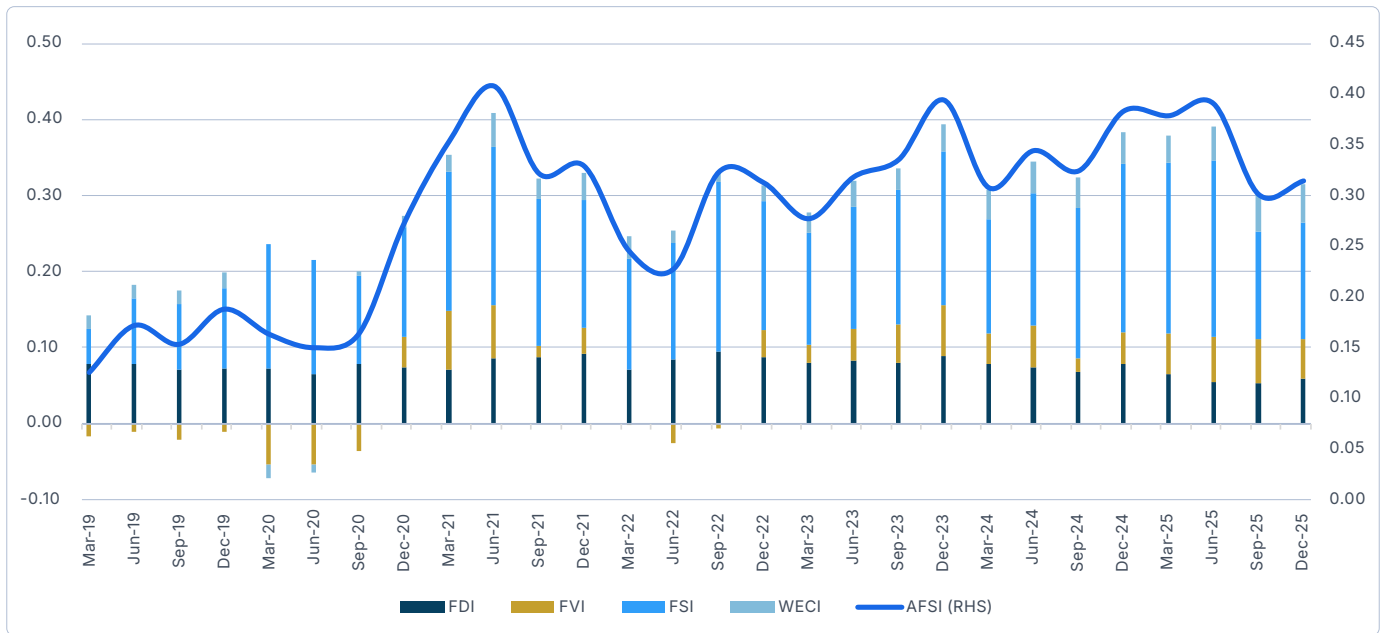


Source: CIMA

Sector-level banking indicators provide additional support for the BSI assessment. As shown in Appendix B, regulatory capital ratios remained well above minimum requirements in 2025, with the capital adequacy ratio (CAR) standing at 30.9 percent for Category A Retail Banks and 36.6 percent for all banks. Asset quality indicators also remained sound, with non-performing loans (NPLs) to total gross loans at 1.5 percent for Category A Retail Banks and 0.5 percent for all banks. Liquidity indicators remained adequate, with liquid assets to short-term liabilities at 40.0 percent for Category A Retail Banks and 41.8 percent for all banks. These indicators support the assessment that the banking sector remained resilient, although continued monitoring is warranted given the jurisdiction's exposure to external financial conditions and cross-border funding channels.

The Aggregate Financial Stability Index (AFSI) suggests that broader financial system conditions remained supportive of stability during 2025. The AFSI showed no evidence of a material build-up of systemic vulnerabilities during the year (Figure 1.13). This assessment was underpinned by developments across its constituent components, namely the Financial Development Index (FDI), Financial Vulnerability Index (FVI), Financial Soundness Index (FSI), and World Economic Climate Index (WECI). Positive and broadly stable readings indicate that domestic financial conditions remained sound, vulnerabilities within the financial system were contained, and external conditions did not materially undermine financial stability during the year.

Figure 1.13: The Aggregate Financial Stability Index



Source: CIMA

The BSI and AFSI support the assessment that the Cayman Islands entered 2026 from a position of financial system resilience, but they should be interpreted alongside the forward-looking risk analysis. Aggregate indicators may not fully capture structural and emerging risks arising from cross-border interconnectedness, climate-related vulnerabilities, cyber and operational dependencies, or evolving risks in NBFIs. For example, risks associated with common third-party service providers, fund liquidity, cross-border market stress, or climate-related transmission channels may build even when traditional banking and aggregate stability indicators remain supportive. This reinforces the importance of combining quantitative indicators with judgement-based macroprudential surveillance.

Talent availability and critical skills capacity can become relevant to financial stability where shortages weaken firms' ability to manage emerging risks, maintain operational resilience and meet evolving regulatory expectations. Such shortages may affect governance, risk management, compliance, cybersecurity, actuarial analysis, technology implementation or operational resilience across regulated entities and key service providers. CIMA does not currently assess talent and critical skills shortages as a standalone financial stability risk indicator, but this area may warrant further consideration as part of the future development of macroprudential surveillance, particularly where capacity constraints could affect firms' ability to manage emerging risks, respond to operational disruptions, or implement evolving regulatory and supervisory expectations.

Further development of sector-level indicators will strengthen CIMA's financial stability surveillance framework. Additional supporting indicators are provided in Appendices A-D, including investment fund financial health and soundness indicators (FHSI) and banking financial soundness indicators (FSIs), insurance FSIs, and insurance stress-testing indicators. The investment fund indicators provide useful context on the size, growth, substitutability and conduct profile of a sector that is central to the Cayman Islands' international financial centre role and broader NBFIs linkages. The banking indicators complement the BSI by offering further detail on capital adequacy, asset quality, profitability and liquidity conditions. The insurance indicators provide additional context on capital, profitability, risk retention and stress resilience, including the sensitivity of domestic insurers to severe but plausible economic and catastrophe-related shocks. Together, these indicators help place the aggregate macroprudential assessment in a broader analytical context. Over time, improvements in sectoral data, indicator coverage and cross-sector comparability will support earlier identification of vulnerabilities and strengthen the evidence base for macroprudential monitoring.

Chapter 2: The Macroeconomic and Financial Environment

2.1. Key Messages for the Cayman Islands

The Cayman Islands entered 2026 from a position of domestic economic resilience, but with a more uncertain external environment. Domestic growth has normalised following the strong post-pandemic recovery, inflation has eased, and labour market conditions remain strong. At the same time, the Cayman Islands' high openness, reliance on tourism, and role as an international financial centre mean that global developments remain highly relevant for financial stability.

The main macro-financial risk is not a domestic imbalance, but the transmission of external shocks through financial flows, investor behaviour, global financial market conditions, asset valuations, inflation, and tourism demand. Slower global growth, persistent inflation risks, geopolitical tensions, tighter financial conditions, and the growing systemic importance of NBFI could all affect the Cayman Islands through different channels.

Overall, the macro-financial environment remains manageable, but risks are increasingly concentrated in the external environment. This underscores the importance of continued monitoring of global macro-financial developments, cross-border financial linkages, NBFI, and the resilience of domestic economic conditions.

2.2. The Domestic Macroeconomic Environment

The Cayman Islands economy has transitioned from a strong post-pandemic recovery into a phase of more stable and sustainable growth. Table 2.1 presents key indicators from 2022 to 2027, highlighting recent outcomes and forward-looking projections for growth, inflation, and labour market conditions.

Table 2.1: Key Macroeconomic Indicators¹⁹ (%)

	2022	2023	2024	2025 ^e	2026 ^f	2027 ^f
Real GDP Growth	5.8	5.8	3.1	2.6	2.2	2.5
Inflation	9.5	3.8	2.6	1.3	5.3	4.1
Unemployment Rate	2.1	3.3	2.4	2.8	2.9	2.7

Source: Economics and Statistics Office, e – estimate, f – forecast.

Growth in 2025 reflected a normalisation of economic activity following the earlier rebound. Real gross domestic product (GDP) growth moderated from 3.1 percent in 2024 to 2.6 percent in 2025 as the boost from tourism recovery and reopening effects faded. However, activity remained supported by underlying domestic demand, indicating that the economy continued to expand at a more sustainable pace.

Inflation declined significantly in 2025, supported by easing external price pressures. Inflation fell from 2.6 percent in 2024 to 1.3 percent, reflecting lower global price pressures in energy, transport, and imported goods. Given the Cayman Islands' import dependence, domestic price dynamics remain closely linked to external cost conditions, including global energy prices, shipping costs, exchange rate movements, and supply chain developments.

¹⁹ https://www.eso.ky/storage/page_docs/uploadFilePdf/937/The%20Cayman%20Islands'%20Semi-Annual%20Economic%20Report%202025.pdf
https://www.eso.ky/storage/page_docs/uploadFilePdf/941/The%20Cayman%20Islands'%20Consumer%20Price%20Index%20Report%20Q4%202025%20Final.pdf

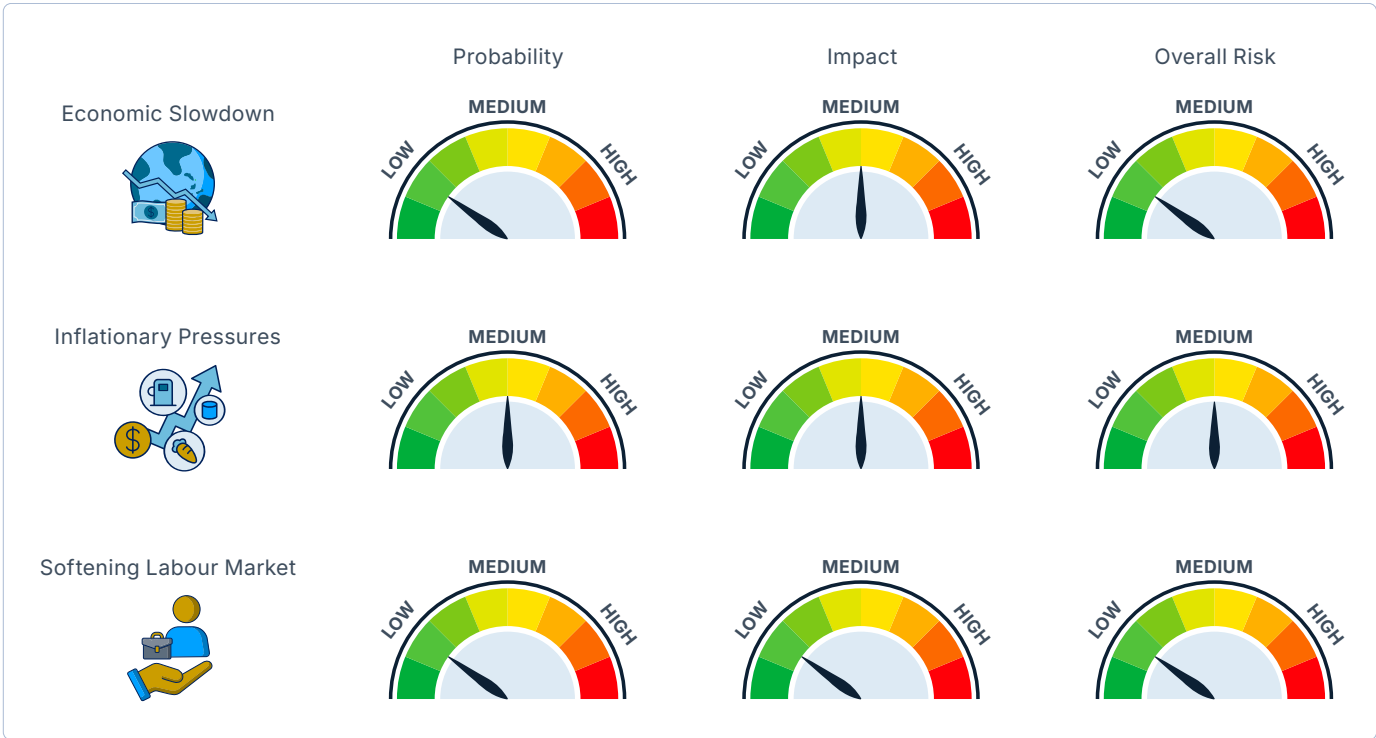
Labour market conditions remained strong despite a modest increase in unemployment. The unemployment rate rose from 2.4 percent in 2024 to 2.8 percent in 2025, but remained low by historical and international standards. This modest increase is consistent with a cooling in the pace of economic expansion rather than a deterioration in underlying labour market conditions.

The medium-term outlook points to steady but moderate growth. Real GDP is projected to ease to 2.2 percent in 2026 before rising to 2.5 percent in 2027. This outlook reflects a global environment characterised by slower growth, persistent geopolitical uncertainty, elevated inflation risks, and the potential for renewed tightening in global financial conditions. Given the Cayman Islands' reliance on international financial services and tourism, developments in major economies, particularly the United States, will continue to influence domestic performance through financial flows, investment activity, and travel demand.

Post-year-end information points to renewed upside risks to the inflation outlook relative to earlier projections. Inflation is now projected to increase to 5.3 percent in 2026 before easing to 4.1 percent in 2027, according to updated ESO projections reported by the Government in May 2026. This represents a less benign inflation outlook than earlier projections and reflects higher crude oil prices and persistent food-price pressures. At the same time, the Q1 2026 CPI release showed year-on-year inflation of 2.8 percent in the first quarter of 2026. As a small, import-dependent economy, the Cayman Islands remains vulnerable to global energy price fluctuations, supply chain disruptions and shifts in international trade conditions. These developments do not change the overall assessment that domestic macroeconomic conditions remain resilient, but they reinforce the need to monitor cost-of-living pressures, household debt-servicing capacity and potential implications for credit quality.

Against this backdrop, the balance of domestic risks remains manageable. Domestic economic conditions continue to support stable growth and strong labour market outcomes. However, risks are increasingly concentrated in the external environment, particularly in relation to global price pressures, financial market volatility, geopolitical developments, and changes in investor sentiment. Figure 2.1 summarises the main macroeconomic risks facing the Cayman Islands.

Figure 2.1: Macroeconomic Risk Assessment and Outlook



2.3. The Global Macroeconomic Environment

The global macroeconomic environment has become more uncertain as geopolitical tensions, trade disruptions, and structural shifts test the resilience built in recent years. The global economy continued to expand in 2025 despite repeated shocks, but recent developments, particularly the escalation of conflict in the Middle East, have introduced new risks to growth, inflation, and financial conditions.

Global growth remains positive but is moderating. Following an estimated expansion of 3.4 percent in 2025, global output growth is projected to slow to 3.1 percent in 2026 before stabilising at 3.2 percent in 2027 (Table 2.2). While this points to continued expansion, the underlying momentum has weakened. The slowdown reflects the combined effects of geopolitical tensions, trade disruptions, and tighter financial conditions in an environment of elevated uncertainty.

This moderation in growth is uneven across major economies. Activity in the United States has remained relatively robust, supported by consumption and investment, although slower employment growth suggests some moderation in labour market dynamics. In China, economic performance has been driven more by exports than by domestic demand, highlighting ongoing structural imbalances. Growth in Europe and Japan has been more moderate, supported in part by policy measures and recovering consumption.

Table 2.2: Selected Global Macroeconomic Statistics (%)

	2025 ^e	2026 ^p	2027 ^p
World Output	3.4	3.1	3.2
Advanced Economies	1.9	1.8	1.7
United States	2.1	2.3	2.1
Euro Area	1.4	1.1	1.2
United Kingdom	1.3	0.8	1.3
Canada	1.7	1.5	1.9
China	5.0	4.4	4.0
India	7.6	6.5	6.5
Latin America and the Caribbean	2.4	2.3	2.7
World Consumer Prices	4.1	4.4	3.7
Advanced Economies	2.5	2.8	2.2
Emerging Market & Dev. Economies	5.2	5.5	4.6

Source: IMF WEO (April 2026), e – estimate, p – projections.

Inflation remains a central concern, with progress toward price stability proving uneven across economies. Although inflation has declined from the elevated levels seen in recent years, it remains above target in several major economies. In the United States, core inflation remains elevated, while in other economies inflation has eased more rapidly, reflecting differences in domestic conditions and policy responses.

Recent geopolitical developments have reintroduced upward pressure on inflation, particularly through higher energy prices. Under the reference forecast, energy prices are expected to rise materially in 2026, with potential spillovers to transportation and production costs globally. These pressures could have knock-on effects on food prices and overall inflation, increasing the risk that inflation remains elevated for longer than previously anticipated.

Labour market conditions remain broadly resilient but show early signs of softening in several advanced economies. Employment growth has slowed even as output continues to expand, suggesting a shift in underlying dynamics. If global growth weakens further, labour market softening could affect income growth, consumer confidence, and demand.

Financial conditions are tightening as markets respond to heightened uncertainty and shifting inflation expectations. Geopolitical tensions have contributed to greater risk aversion, reflected in asset price adjustments, rising sovereign bond yields, and a stronger United States dollar. These developments signal a reassessment of risk and a repricing of financial assets.

Global financial markets have so far remained broadly orderly, but this should not be interpreted as an absence of vulnerability. Market resilience has been supported by stronger balance sheets and structural improvements since previous crises. However, underlying vulnerabilities remain, particularly in riskier market segments, leveraged investment strategies, and parts of the NBFIs sector.

Overall, the global environment is defined by slowing growth, persistent inflation risks, tighter financial conditions, and elevated uncertainty. For the Cayman Islands, these developments matter because they can affect fund flows, asset valuations, financial services activity, confidence, inflation, and tourism demand. The combination of geopolitical uncertainty, inflationary pressures, and tighter financial conditions increases the likelihood that future shocks could have more pronounced effects on the domestic financial stability outlook.

2.4. Global Risk Environment and Implications for the Cayman Islands

The global risk environment has shifted from episodic shocks toward a more structurally fragmented and competitive international order. The change in the short-term risk outlook between 2025 and 2026 indicates that global risks are increasingly expected to propagate through systemic transmission channels rather than through discrete events alone.

Public information available in mid-2026 indicates that the external risk environment remains elevated. Renewed geopolitical tensions, persistent inflation pressures, potential financial market repricing, and vulnerabilities in NBFIs continue to shape the global financial stability outlook.

Short-term global risks are increasingly viewed through the lens of strategic competition and geoeconomic fragmentation. In the earlier outlook, the highest-ranked short-term risks were dominated by immediate shocks, including conflict, extreme weather, and information-related threats. By contrast, the 2026 profile places greater emphasis on geoeconomic confrontation. This suggests that risks are increasingly embedded within the global economic system, with potential transmission through financial linkages, investment flows, supply chains, and trade (Figure 2.2).

Figure 2.2: Change in two-year risk outlook between 2025 and 2026



Source: The Global Risk Report (2025,2026)

The growing prominence of societal risks points to concerns around institutional resilience and governance capacity. The positioning of societal polarisation alongside persistent misinformation and disinformation indicates a risk environment in which social dynamics may interact more directly with economic and political outcomes. Such risks can affect policy effectiveness, reform capacity, and the predictability of the operating environment.

The ten-year outlook remains anchored by structural risks, particularly environmental pressures. Extreme weather events, biodiversity loss, and broader environmental change continue to dominate the long-term risk landscape (Figure 2.3). Their persistence indicates that these risks are increasingly viewed as structural constraints on long-term growth and resilience rather than as contingent or event-driven outcomes.

Figure 2.3: Change in ten-year risk outlook between 2025 and 2026



Source: The Global Risk Report (2025,2026)

The longer-term horizon also shows a broadening of the risk landscape to include interactions between environmental, technological, and societal factors. The increasing prominence of risks related to AI and cyber vulnerabilities suggests that technological developments are becoming more closely integrated into the overall risk framework. At the same time, inequality and societal polarisation remain relevant as transmission channels that can intensify the impact of other risks.

For the Cayman Islands, these global risks matter primarily through external economic and financial channels. As a highly open and internationally integrated financial centre, the jurisdiction is closely linked to global capital markets, cross-border investment vehicles, and international banking networks. Financial market volatility, abrupt regulatory changes, heightened geopolitical competition, or trade fragmentation could be transmitted rapidly through cross-border financial flows.

Climate, cyber, and technology-related risks are especially relevant because they interact directly with Cayman's domestic vulnerabilities and international financial centre role. Climate-related risks remain a structural vulnerability for small island jurisdictions, both through direct exposure to extreme weather events and through their implications for global insurance and reinsurance markets. Cyber and AI related risks also matter for the Cayman Islands given the financial sector's reliance on digital infrastructure, third-party service providers, and cross-border operational networks.

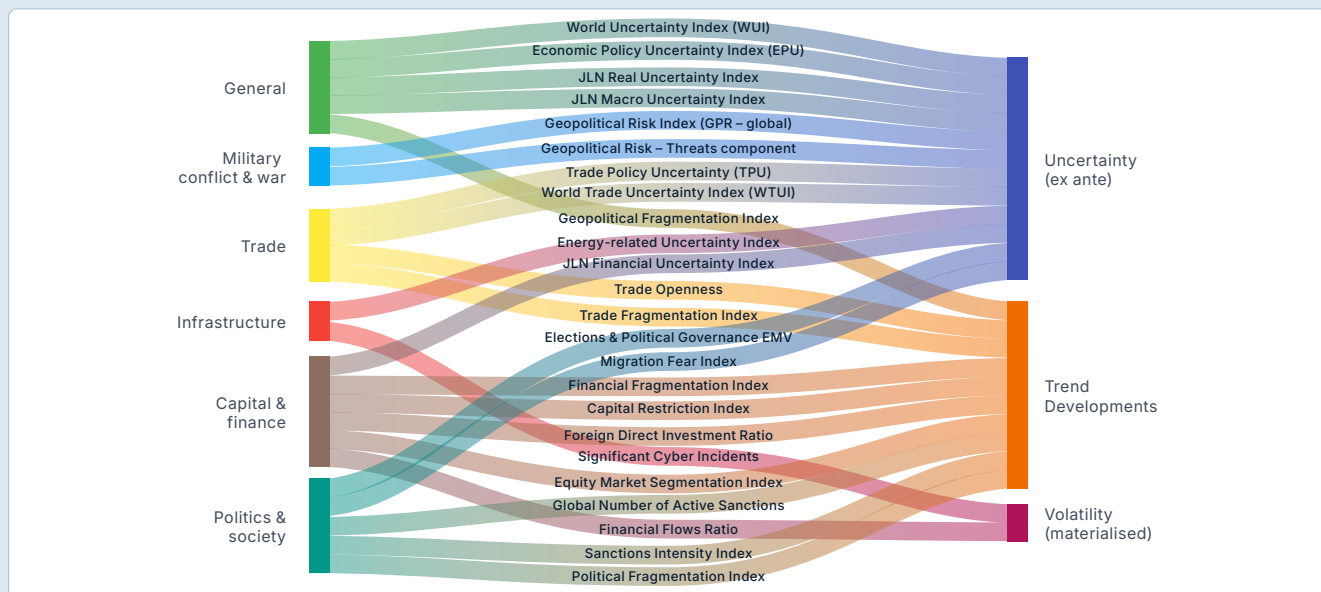
Overall, the global risk environment points to a more interconnected and complex external backdrop. For the Cayman Islands, maintaining financial stability requires continued monitoring of global risk dynamics, cross-border financial linkages, operational dependencies, and the resilience of domestic financial institutions and service providers.

Box 3: Geopolitical Risk, Financial Stability, and Implications for the Cayman Islands

Geopolitical risk has become a persistent feature of the global economic environment. Recent years have been characterised by overlapping conflicts, trade tensions, sanctions, policy divergence, and increasing geoeconomic fragmentation (Figure 2.4). These developments have strengthened the link between political and economic dynamics and have become increasingly relevant for financial stability.

Measures of uncertainty and fragmentation point to a more selective and less predictable pattern of global integration. Measures of uncertainty, including the World Uncertainty Index and the Economic Policy Uncertainty Index, rose again into 2025, while geopolitical risk indicators remained elevated. At the same time, indicators of trade and financial fragmentation suggest that cross-border integration is weakening and becoming more selective, consistent with a broader process of geoeconomic fragmentation²⁰.

Figure 2.4: Geopolitical Risk, Fragmentation, and Financial Stability Channels



20 https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202601_financialstabilityrisks_annex.en.pdf

Box 3: Geopolitical Risk, Financial Stability, and Implications for the Cayman Islands (continued)

The nature of geopolitical risk is evolving as much as its level. A key distinction is between uncertainty, which affects expectations, confidence, and risk premia, and realised volatility, which captures observed movements in financial variables. Recent developments point to renewed increases in policy and geopolitical uncertainty, while realised financial market volatility has remained relatively contained. This suggests that underlying pressures may be building even if they have not yet resulted in sustained market disruption.

Fragmentation reflects a policy-driven reconfiguration of trade and financial linkages rather than a purely cyclical adjustment. As a result, the global system is becoming more segmented, with implications for capital allocation, diversification, and shock transmission. Evidence suggests that fragmentation can reduce financial integration and increase the sensitivity of economies and markets to external disturbances²¹.

The transmission of geopolitical risk to financial stability operates primarily through financial channels. Increases in uncertainty tend to affect expectations and investor behaviour first, before being reflected in capital flows, asset prices, risk premia, and liquidity conditions. Where fragmentation is already elevated, these adjustments may be more pronounced, as reduced integration limits diversification and increases exposure to shocks.

Recent global experience shows that contained market volatility should not be interpreted as an absence of risk. Financial markets have generally remained orderly despite heightened geopolitical tensions, with volatility often contained or short-lived. However, market pricing may not fully reflect more adverse scenarios, and underlying vulnerabilities remain significant. In particular, leverage, liquidity mismatches, and the growing role of NBFIs can amplify shifts in global risk sentiment²².

For the Cayman Islands, geopolitical risks are transmitted primarily through financial channels. As a highly open international financial centre, Cayman's economic activity is closely linked to global capital markets, cross-border investment structures, and international financial services. Periods of elevated uncertainty may be associated with reduced cross-border risk-taking, portfolio reallocation toward core or domestic markets, and increased sensitivity of fund flows to global financial conditions.

A subset of geopolitical, uncertainty, and fragmentation indicators suggests that external risks remain elevated by recent historical standards. Drawing on the European Systemic Risk Board framework, a subset of indicators was selected based on data availability and relevance to the Cayman Islands context and normalised to allow comparison over time. The results point to a broadly consistent pattern (Table 2.3). By the end of 2025, several measures of uncertainty, fragmentation, and geopolitical risk were at or close to their highest levels over the previous six years.

Table 2.3: Selected Geopolitical Risk, Uncertainty, and Fragmentation Indicators

Indicator	2020 Q4	2021 Q4	2022 Q4	2023 Q4	2024 Q4	2025 Q4
World Uncertainty Index (WUI)	0.11	0.08	0.15	0.05	0.15	0.87
Economic Policy Uncertainty Index (EPU)	0.50	0.15	0.30	0.10	0.30	0.64
JLN Macro Uncertainty Index	0.45	0.30	0.33	0.11	0.02	0.05
Geopolitical Risk Index (GPR – global)	0.00	0.16	0.18	0.31	0.31	0.25
Geopolitical Risk Index (GPR – Blackrock)	0.31	0.16	0.33	0.50	1.00	0.67
Energy-related Uncertainty Index (GDP weighted)	0.34	0.00	0.32	0.30	0.30	0.30
Trade Policy Uncertainty (TPU)	0.04	0.00	0.00	0.00	0.26	0.42
Trade Fragmentation Index	0.38	0.07	0.22	0.93	1.00	1.00
Geopolitical Fragmentation Index (GEOPOL) - Financial	0.27	0.02	0.50	1.00	0.97	0.97

21 https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202601_financialstabilityrisks.en.pdf

22 <https://www.imf.org/en/publications/gfsr/issues/2026/04/14/global-financial-stability-report-april-2026>

Box 3: Geopolitical Risk, Financial Stability, and Implications for the Cayman Islands (continued)

The persistence of fragmentation trends raises structural considerations for the Cayman Islands. A more segmented global financial system may alter both the scale and pattern of cross-border investment, with implications for demand for offshore financial intermediation. Evidence from recent geopolitical episodes indicates a tendency for investors to rebalance toward domestic markets during periods of stress, suggesting that fragmentation may increasingly shape medium-term financial flows and reduce diversification benefits.

Episodes of market volatility remain an important transmission channel. Abrupt shifts in global financial conditions can affect valuations, liquidity, and funding dynamics, with effects transmitted rapidly across jurisdictions. Although the Cayman Islands' direct exposure to global trade is limited, the jurisdiction remains sensitive to weaker global growth, tourism demand, and changes in financial flows. Operational risks, including cyber threats and regulatory divergence, also form part of the evolving geopolitical risk environment.

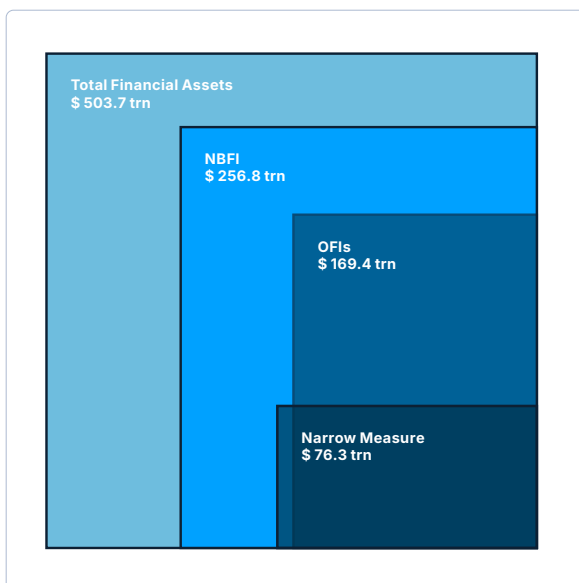
Overall, the coexistence of elevated uncertainty and persistent fragmentation points to a more complex and structurally changing external environment. For the Cayman Islands, financial stability risks are increasingly shaped not only by cyclical changes in global risk sentiment, but also by longer-term shifts in cross-border financial integration. This has implications for capital flows, market functioning, and demand for international financial intermediation.

2.5. Global Non-Bank Financial Intermediation

The global non-bank financial intermediation (NBFI) sector continued to expand and remains a central component of global financial intermediation. In 2024, NBFI assets grew by 9.4 percent, double the pace of banking sector growth of 4.7 percent, and accounted for 51.0 percent, or US\$256.8 trillion, of total global financial assets. This expansion reflects the continued shift toward market-based finance and the increasing systemic relevance of activities that are sensitive to market conditions, liquidity dynamics, and investor behaviour.

The narrow measure of NBFI also increased, highlighting the growing scale of bank-like vulnerabilities outside the banking sector. The Financial Stability Board's (FSBs) narrow measure, which captures entities engaged in credit intermediation with potential bank-like vulnerabilities, increased by 12.7 percent to US\$76.3 trillion. Its share of total global financial assets rose to 15.4 percent (Figure 2.5). This reinforces the importance of monitoring liquidity transformation, leverage, and funding vulnerabilities outside the banking system.

Figure 2.5: Global Financial Assets (US\$ trillions)



Source: FSB Global Monitoring Report (2025).

Investment funds remain the primary driver of NBFi growth and a key source of potential vulnerabilities. Collective investment vehicles accounted for 76.1 percent of the narrow measure and grew by 15.1 percent over the year, with fixed income funds and money market funds particularly prominent. Money market fund assets rose to US\$12.1 trillion, reflecting sustained demand for short-term instruments in a higher interest rate environment.

The structure of some investment vehicles continues to expose the sector to liquidity and redemption risks. Open-ended funds that offer liquidity to investors while holding less liquid assets may face pressure during periods of stress. Large-scale redemptions could lead to procyclical asset sales, valuation pressures, and broader market volatility.

Credit intermediation outside the banking system remains material and increasingly diversified across channels and jurisdictions. Loan provision dependent on short-term funding reached US\$6.1 trillion, while market-based intermediation reliant on short-term funding amounted to US\$4.9 trillion. Securitisation-based credit intermediation increased to US\$5.3 trillion, with activity concentrated in a small number of jurisdictions, including the United States, the Cayman Islands, Ireland, and Luxembourg.

These developments highlight the role of international financial centres in facilitating structured finance, fund domiciliation, and market-based intermediation. They also underscore the importance of cross-border linkages in transmitting risks. For the Cayman Islands, global NBFi trends are directly relevant because investment funds and structured finance vehicles form a significant part of the financial system.

Vulnerabilities in the NBFi sector remain broadly unchanged in nature but elevated in scale. Key vulnerabilities relate to liquidity transformation, leverage, and reliance on wholesale funding. Borrowings by broker-dealers and hedge fund-like entities remained significant at approximately US\$6.6 trillion and US\$6.2 trillion, respectively. Continued reliance on repurchase agreements and other short-term funding instruments creates channels through which funding stress can propagate rapidly, especially during periods of market dislocation.

Interconnectedness between NBFi and the banking sector remains a key transmission channel for systemic risk. Banks provide essential services to non-bank entities, including financing, derivatives intermediation, custody, and settlement services. Stress originating in the NBFi sector, particularly through large-scale redemptions, margin calls, or funding disruptions, could therefore affect bank balance sheets and broader financial conditions.

The outlook for the NBFi sector remains closely tied to global financial conditions and investor behaviour. Higher interest rates may support inflows into certain fund segments, but they may also expose vulnerabilities related to leverage, refinancing, and asset valuation adjustments. For the Cayman Islands, external shocks may be transmitted through valuation effects, investor flows, service-provider linkages, and structured finance activity. This reinforces the need for continued monitoring of global NBFi trends and their implications for financial stability.

Chapter 3: The Financial Sector

This chapter assesses how sector-specific conditions, business models and supervisory developments shape the resilience and risk profile of the Cayman Islands' financial system. As a leading international financial centre, the jurisdiction hosts a diverse range of financial institutions and market participants spanning banking, investment funds, insurance, trust and corporate services, securities investment business (SIB), and virtual asset services. The scale and international orientation of these sectors continue to support economic activity, employment, and government revenue, while reinforcing the jurisdiction's role in facilitating global capital flows. At the same time, the financial system's extensive cross-border linkages expose it to developments in the global macro-financial environment, including changes in monetary policy, geopolitical risks, financial market volatility, and evolving regulatory standards.

The composition of the financial sector means that different sectors contribute to financial stability through different channels.

Investment funds account for the largest share of financial system assets and are the main channel through which the jurisdiction is linked to global capital markets and NBFIs. Banking and domestic insurance have more direct relevance for domestic financial stability through credit provision, liquidity, payment services, household and business balance sheets, and risk transfer. SIB, trust and corporate services and virtual asset services are smaller in direct balance-sheet terms, but remain important through their roles in investment activity, corporate administration, governance, compliance, operational resilience, market confidence and the wider financial services ecosystem. Key definitions for the main regulated sector categories and licence types discussed in this chapter are provided in Appendix E.

3.1. Investment Funds Sector

i. Overview

The investment funds sector is a central pillar of the Cayman Islands' financial system and reflects the jurisdiction's deep integration with global capital markets. The sector is also highly significant for domestic financial stability, as it constitutes the majority of the financial system assets and is a noteworthy contributor to government revenue through registration and ongoing fee payments, as well as through direct and indirect employment in financial, legal, and other fund-related services. As of 31 December 2025, more than 30,000 regulated investment funds were domiciled in the jurisdiction, including 12,876 mutual funds and 17,722 private funds (Table 3.1). In 2024, mutual funds reported total assets of approximately US\$12.2 trillion and net assets of US\$6.3 trillion, while private funds recorded total assets of US\$3.9 trillion and net assets of US\$3.7 trillion (Figure 3.1). This scale underscores the Cayman Islands' role as a leading international financial centre and one of the central hubs for global investment activity. However, the sector's size and cross-jurisdictional linkages also expose it to the effects of developments in global financial markets, which can affect fund performance, asset valuations and capital flows in and out of the jurisdiction.

Table 3.1: Number of Investment Funds and Mutual Fund Administrators

	2021	2022	2023	2024	2025
Mutual Funds	12,719	12,995	12,802	12,858	12,876
Registered	8,499	8,795	8,681	8,785	8,840
Master	3,198	3,224	3,175	3,154	3,164
Administered	295	290	269	257	247
Licensed	55	51	50	46	42
Limited Investor	672	635	627	616	583
Private Funds	14,679	15,854	16,551	17,292	17,722
Total Investment Funds	27,398	28,849	29,353	30,150	30,598
Mutual Fund Administrators	75	74	74	69	67

Source: CIMA

Figure 3.1: Net and Total Assets (US\$ Billion)



Source: CIMA

ii. Assessment of Vulnerabilities

The sector's position within the broader global expansion of NBFIs also shapes its exposure to international financial developments.

Investment funds play an increasingly prominent role in financial intermediation outside the traditional banking system and are closely interconnected with global capital markets. As a major domicile for investment funds, the Cayman Islands may be affected by shocks originating in global capital markets or within the broader NBFIs sector. Periods of financial market stress can therefore affect funds through asset price volatility, portfolio reallocation, liquidity stress, asset liability duration mismatches, or changes in investor sentiment.

Operational complexity reflects the sector's global integration and reliance on multiple service providers, with mutual fund administrators ("MFAs") forming a central part of this network. Cayman-domiciled funds typically rely on MFAs, auditors, accountants, legal advisers and investment managers who may be located across different jurisdictions. While this model provides access to specialised expertise, it also creates operational dependencies and potential points of disruption. MFAs are responsible for core functions such as NAV calculation, investor recordkeeping and transaction processing. As a result, operational disruptions at a significant MFA could affect operations of multiple funds simultaneously. The decline in the number of licensed MFAs in recent years is the result of gradual industry consolidation, which may generate efficiencies but also increases reliance on a smaller group of MFAs. Concentration risk may become more pronounced during periods of market stress, when delays in valuation or transaction processing could affect investor servicing and contribute to uncertainty. Given their central role in supporting regulatory and compliance processes, weaknesses in MFA control frameworks could also create reputational risks for the jurisdiction, potentially affecting investor confidence and, indirectly, broader financial stability.

Global orientation supports access to international capital and investment expertise but also exposes the investment funds sector to external financial and economic developments. Shifts in global monetary policy, tighter financial conditions, geopolitical uncertainty and periods of elevated market volatility can influence the investment funds sector. A key area of vulnerability relates to global private credit exposures, which are present in approximately 60 percent of private funds. In this environment, vulnerabilities associated with higher leverage, refinancing pressures, liquidity mismatches and valuation uncertainty could become more pronounced during periods of market stress²³. These features can amplify losses and contribute to procyclical dynamics if asset valuations adjust rapidly or funding conditions tighten.

Private credit exposures represent an important channel through which global market stress could affect the Cayman Islands' investment fund sector. Given the substantial interconnectedness of the Cayman Islands' investment funds sector with global financial markets, particularly those of the United States and the United Kingdom, vulnerabilities within private credit markets could amplify spillover risks across the broader financial system. Adverse developments, including a deterioration in credit quality, rising default rates, or reduced market liquidity, could weaken investor confidence, disrupt capital flows, and contribute to wider market stress. Based on 2024 Fund Annual Returns (FAR) and Private Fund Annual Returns (PFAR) submissions, just under 1,000 regulated funds identified private credit as either a primary investment strategy or within their strategy details. However, private credit exposures are expected to be higher as they may also be embedded within broader strategy classifications such as "Multi-Strategy," "Other," or similar categories, which are not specifically disclosed. Additionally, the exposure to private credit arising from capital contributions to the funds is unknown. Consequently, enhanced data collection and supervisory monitoring is being explored to improve transparency and support ongoing management of potential financial stability risks.

Investment strategies employed by funds influence how the sector responds to financial market volatility. Many Cayman-domiciled funds utilise derivatives and leverage as part of their investment strategies, particularly within hedge fund structures. Based on (FAR) reporting for 2024, mutual funds recorded an average leverage ratio of approximately 1.09. Furthermore, the average leverage ratio of Master funds was 1.5 while private funds reported an average leverage ratio of around 1.02. These levels remain broadly consistent with historical trends and largely reflect differences in investment strategies across fund types. Nevertheless, leverage can amplify losses during periods of market stress and may trigger margin calls or asset sales that could increase market volatility.

Liquidity risk remains a key vulnerability for the sector, particularly during periods of market stress when redemption activity may increase rapidly and place pressure on sector liquidity. In 2024, mutual funds reported an average liquidity index of approximately 0.69, indicating moderate levels of liquidity relative to redemption obligations across the sector. While liquidity conditions remained broadly stable under normal market conditions, periods of heightened market volatility may increase redemption activity and place greater demands on liquidity management frameworks. Liquidity risks are partially mitigated by mechanisms designed to support financial stability during periods of stress. For example, in 2024, approximately 4.1 percent of mutual funds (526 funds) implemented redemption gates, while 4.5 percent (585 funds) temporarily suspended equity interests, illustrating the range of liquidity management tools available to address redemption pressures when necessary, limiting any potential financial instability.

²³ <https://www.fsb.org/2026/05/fsb-warns-on-private-credit-vulnerabilities/>

Box 4: Stress Testing of Mutual Funds

The Authority conducted its first-ever stress testing exercise on regulated mutual funds using data obtained from the 2024 FARs. The initiative represents an important enhancement to the Authority's supervisory toolkit and complements the existing Risk-Based Supervision ("RBS") framework by introducing a more forward-looking assessment of liquidity resilience under stressed market conditions.

Stress testing is a widely used supervisory tool that evaluates how financial entities may perform under adverse but plausible scenarios. In the context of mutual funds, stress testing is particularly important because open-ended funds may face elevated investor redemption requests during periods of market volatility or economic uncertainty. Such pressures can test whether funds have sufficient liquidity to meet redemption obligations in an orderly manner.

The Authority's exercise focused primarily on liquidity stress. Using information reported through the 2024 FAR submissions, the Authority assessed whether regulated mutual funds possessed sufficient:

- Cash balances;
- Liquid assets; or
- Combined liquidity resources

to withstand varying redemption scenarios.

The analysis covered approximately 14,087 regulated mutual funds/ sub-funds and incorporated several stress scenarios, including:

- Historical redemption activity;
- Net redemption pressures;
- Net asset movements; and
- Hypothetical redemption shocks equivalent to 5%, 10%, and 20% of opening assets.

The exercise was limited to mutual funds because the current reporting framework for private funds does not yet capture sufficiently granular liquidity-related information necessary for meaningful stress testing and the private funds are primarily closed-ended. The exercise therefore represents an initial supervisory assessment intended to support the continued development of the Authority's liquidity risk monitoring framework.

Key Findings

The results indicate that the regulated mutual funds sector generally demonstrates strong liquidity resilience under the modeled stress scenarios, particularly where broader liquid asset holdings are taken into consideration.

The analysis showed that while cash balances alone may be insufficient for many funds under severe redemption assumptions, resilience improves substantially when broader liquid asset holdings are considered.

Key observations included:

- Approximately 80% of funds possessed sufficient liquid assets to meet gross redemption activity;
- More than 90% of funds were able to withstand hypothetical 5% to 20% redemption shocks when liquid assets were considered;
- Combined cash and liquid asset resources produced the strongest resilience outcomes, with more than 92% of funds remaining resilient even under the most severe modeled redemption scenario; and
- A smaller subset of funds demonstrated comparatively lower resilience under more severe stress conditions, supporting the importance of continued supervisory monitoring.

Box 4: Stress Testing of Mutual Funds (continued)

The findings are broadly reassuring from a financial stability perspective and suggest that the regulated mutual funds sector maintains generally adequate liquidity buffers under the scenarios tested. The results also underscore the importance of continued prudent liquidity management practices and orderly market functioning during periods of market stress.

Strengthening the Supervisory Framework

The introduction of stress testing marks a significant step forward in the Authority's supervisory and macroprudential capabilities. The addition of stress testing strengthens the RBS framework by enabling the Authority to assess not only current risk conditions, but also potential future vulnerabilities under stressed market environments.

The exercise also aligns with evolving international regulatory standards promoted by organizations such as the International Organization of Securities Commissions ("IOSCO"), which has emphasized the importance of liquidity risk management and stress testing for open-ended funds.

The Authority will also continue assessing opportunities to strengthen liquidity-related reporting, particularly for private funds, in order to support broader market-wide resilience analysis.

Overall, the exercise demonstrates the Authority's continued commitment to proactive, data-driven supervision and the ongoing strengthening of the jurisdiction's financial stability framework.

iii. Outlook

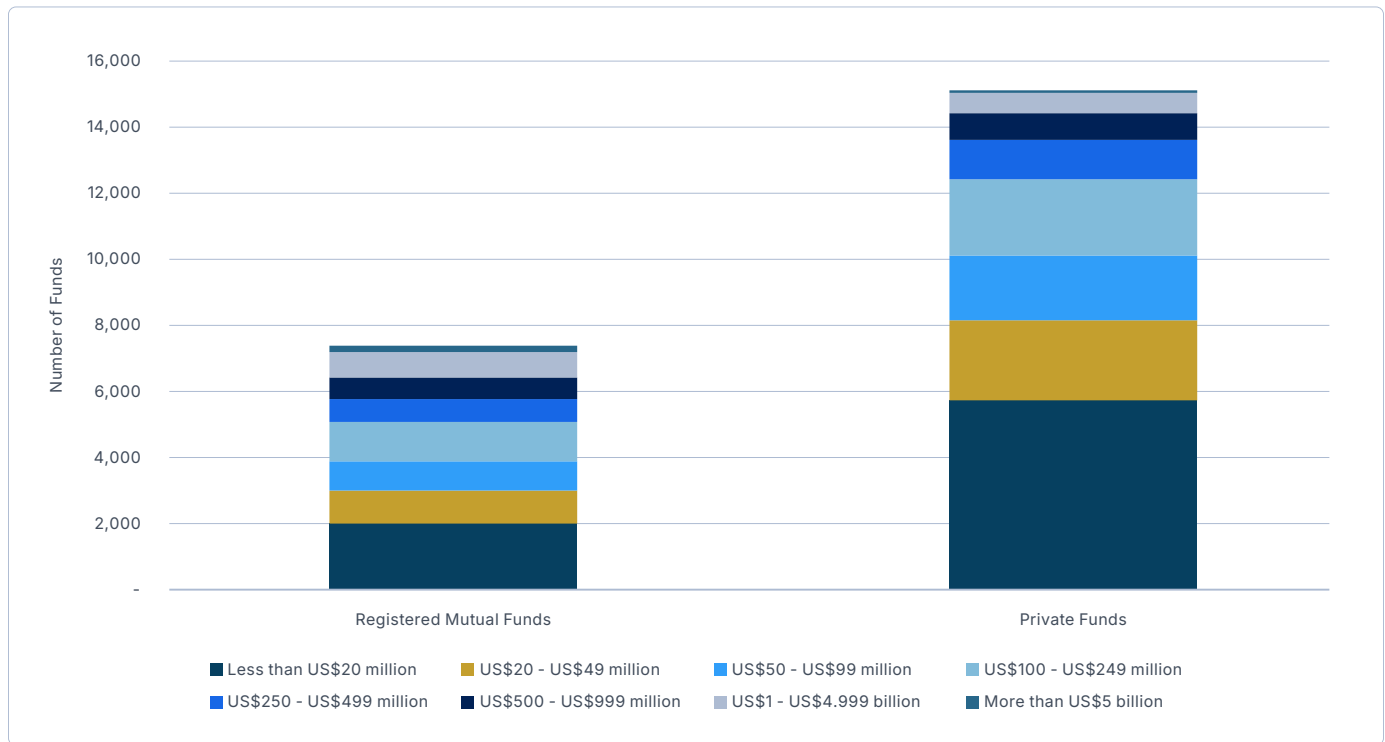
The outlook for the investment funds sector remains positive, supported by sustained investor participation and a well-established regulatory environment. The Cayman Islands continues to attract a diverse range of investment vehicles, reflecting its stable legal framework, sophisticated professional services ecosystem and reputation as a leading domicile for international funds. These structural strengths are expected to continue to support the sector to remain a central component of global investment activity.

Continued growth in both the number of funds and their asset under management highlights the sector's sustained expansion.

The number of funds reached 31,145 by Q2 2026, 547 higher than at year-end and already surpassing the growth recorded during the previous year. This expansion reflects continued trust of the investment funds sector in the Cayman Islands' robust regulatory regime and financial stability expectations.

The sector's diffused structure contributes to its overall resilience. Assets are spread across thousands of individual funds rather than concentrated within a small number of entities. The average NAV per fund is approximately US\$305 million (Figure 3.2). While the average fund size provides a useful indication of the scale of the sector, concentration risk is more appropriately assessed by examining the distribution of assets across funds. The sector comprises a large and diverse population of funds, suggesting that assets are distributed across a broad range of entities. As a result, vulnerabilities affecting an individual fund are less likely to generate material spillovers to the broader sector or pose systemic concerns, although concentration among larger funds should continue to be monitored.

Figure 3.2: Structure of Funds Sector by Asset Size (2024)²⁴



Source: CIMA

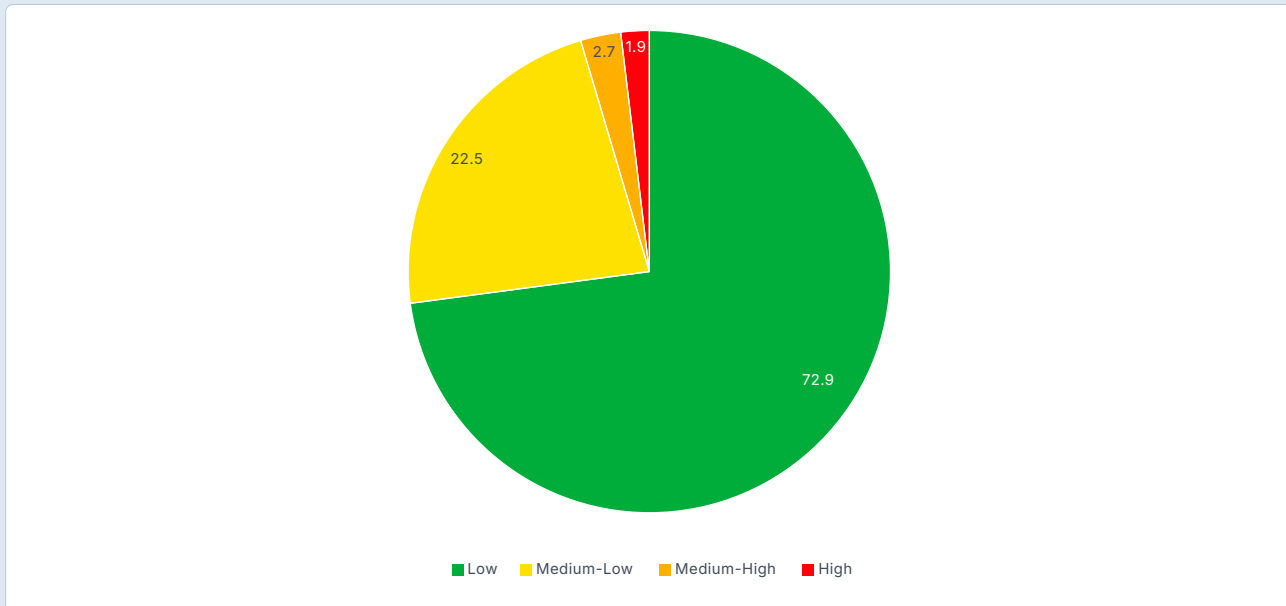
Strong regulatory oversight and financial integrity frameworks continue to support the stability and credibility of the investment funds sector. The Cayman Islands has strengthened its supervisory framework in recent years, including enhancements to its anti-money laundering and counter-terrorism financing regime. Using CIMA's Risk-Based Monitoring Framework (the "framework"), investment funds continue to be assessed based on their risk profile, compliance history, financial position, and operational effectiveness. The framework represents a significant boost to CIMA's supervisory capabilities by providing a more structured, consistent, and data-driven basis for risk identification, assessment and profiling. By enabling more targeted and proportionate supervision, the framework supports timely regulatory intervention, more effective allocation of supervisory resources, and the timely remediation of identified deficiencies, thereby reinforcing CIMA's quest to ensure the resilience and integrity of the investment funds sector.

²⁴ The chart reflects only those registered mutual funds and private funds for which 2024 annual return data were available. Consequently, the totals shown are lower than the total number of registered and private funds reported elsewhere in this report.

Box 5: Risk Assessment of Investment Funds

The most recent risk assessment cycle resulted in the classification of regulated funds across the following risk categories:

Figure 3.3: Investment Funds Risk Profile (2024)



Source: CIMA

The risk-based supervisory programme directs enhanced oversight towards funds presenting the highest levels of risk. Funds assessed as High and Medium-High risk – representing approximately 5% of the active fund population – are subject to increased supervision, targeted reviews, and supervisory engagement to ensure emerging risks and regulatory concerns are identified and addressed in a timely manner. The programme also provides for funds to be escalated for enhanced supervision where supervisory activities, regulatory filings, or other intelligence indicate an elevated risk profile. By focusing oversight on higher-risk entities, CIMA continues to enhance its ability to identify vulnerabilities at an early stage, drive timely remediation, and mitigate potential risks to investors and market integrity, thereby supporting the continued financial stability and reputation of the Cayman Islands' investment funds sector.

The enhanced supervision includes, *inter alia*, targeted engagements with fund operators, registered offices, and service providers through supervisory correspondences requiring explanations, supporting documentation and/or remediation plans to address identified deficiencies and strengthen regulatory compliance. Particular emphasis has also been placed on improving compliance behavior and data quality through targeted follow-ups, recognising that accurate and timely reporting is fundamental to supervision. These supervisory interventions with remediation objectives have yielded positive outcomes over the last year. A number of funds successfully remediated identified deficiencies, while some others that no longer met regulatory expectations exited the regulated population through deregistration, cancellation, or other regulatory measures.

FHSIs, presented in Appendix A, provide further support to this assessment by capturing key structural and risk-related features of the sector, including its scale, the dispersion of assets across a large number of funds, and the persistence of strong compliance outcomes. These indicators point to a sector where risks remain broadly contained at the aggregate level, while its significant global footprint continues to warrant close monitoring. Maintaining robust regulatory standards and alignment with global expectations remains important for preserving investor confidence and safeguarding the jurisdiction's reputation.

Investment strategies continued to evolve in 2024 as funds adapt to changing economic and market conditions. Multi-strategy funds account for the largest share of assets, with net asset allocations of approximately US\$2.04 trillion. Long-short equity strategies

increased significantly by US\$450 billion to US\$2.03 trillion. This trend was also observed globally, with the strategy benefiting from strong performance and renewed investor inflows across the hedge fund sector. Other investment strategies such as fixed income, private equity and real estate experienced marginal growth that were broadly in line with previous years. The increasing diversity of investment strategies supports portfolio flexibility and enables funds to pursue risk-adjusted returns across multiple asset classes and market environments. However, the continued innovation and increasing complexity of investment strategies may also heighten operational, valuation and liquidity management challenges, and these evolving risk considerations should be balanced against the benefits of greater portfolio diversification and investment flexibility.

Changes in investor preferences are also influencing the evolution of fund strategies. Environmental, Social and Governance (ESG) investment approaches have experienced fluctuations in recent years, reflecting evolving perspectives within global capital markets. ESG-related strategies recorded their second consecutive year of net outflows, with approximately US\$3 billion in 2024 (vs US\$8 billion in 2023). These developments illustrate the dynamic nature of investor demand and the importance of adaptability within the sector. This trend is broadly consistent with developments in other jurisdictions, including the United States and Japan, where ESG-focused funds also experienced investor outflows in 2024, likely reflecting changing investor sentiment, increased scrutiny around ESG investing, and broader asset allocation shifts.

Regulatory developments and financial innovation are expected to shape the sector's future trajectory. The supervisory framework has been strengthened through enhanced risk-based monitoring, supporting the early identification of emerging risks and allowing supervisory attention to remain proportionate and targeted. In parallel, developments such as tokenised mutual and private funds are influencing the evolution of fund structures by enabling the digital representation of fund interests. As these changes take place, MFAs will continue to play an important role in supporting the operation of funds, with ongoing consolidation improving efficiency while increasing reliance on a smaller number of providers. At the same time, advances in technology are enhancing processing and reporting capabilities, although greater dependence on digital systems may increase exposure to cyber and operational risks.

Box 6: Tokenized Funds: Legislative Amendments and Way forward

Tokenized 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.

Towards the objective of maintaining the Cayman Islands as a well-regulated and innovative international financial center, the Ministry of Financial Services has carried out legislative amendments using the Mutual Funds (Amendment) Act, 2026 and Private Funds (Amendment) Act, 2026 establishing a dedicated framework for Tokenized Mutual Funds, Tokenized Private Funds and MFAs providing services to such funds. These amendments, which became effective on 24 March 2026, enable the orderly domiciliation of tokenized fund structures into the jurisdiction without attracting the provisions of the Virtual Asset (Service Providers) Act and at the same time ensuring that robust disclosures and regulatory oversight remain uncompromised.

The Authority continues to work on putting in place the subsidiary regulatory instruments such as Rules, Statement of Guidance, Frequently Asked Questions, etc. to complement the aforesaid legislative amendments. In the meantime, the Authority continues to register eligible tokenized funds on a case-to-case basis to facilitate interested applicants. So far, a total of 10 tokenized funds have been registered between January 2025 to May 2026.

Post-year-end registration data indicate that the investment funds sector continued to expand in the first half of 2026. CIMA statistics show that fund registrations continued to increase during the first half of 2026, reinforcing the sector's continued importance to the Cayman Islands' international financial centre role and the need for ongoing monitoring of fund liquidity, private credit exposures, valuation practices and operational dependencies.

Beyond 2026, the Cayman Islands is expected to remain a leading global centre for investment funds. Continued growth in global capital markets, combined with the jurisdiction's regulatory stability and professional infrastructure, is expected to support sustained activity in the sector. At the same time, the sector's global interconnectedness underscores the importance of ongoing supervision, sound regulations and strong governance practices to ensure that expansion continues to be consistent with financial stability objectives and aligned with international standards.

3.2. Securities Investment Business Sector

i. Overview

The SIB sector forms an important part of the Cayman Islands' financial system, supporting the jurisdiction's role in facilitating international investment activity. The sector comprises of CIMA-regulated market intermediaries, including SIB licensees, registered persons (RPs), securities issuers, and the Cayman Islands Stock Exchange (CSX). Under the Securities Investment Business Act (SIBA), the Authority has regulatory and supervisory responsibility over those entities that engage in activities such as broker dealing, securities arranging, securities advising, market making, and securities management, all of which require licensing or registration with CIMA. Further, CIMA does not oversee the CSX or other securities market infrastructure providers. RPs are authorized to provide services solely to institutional, high-net-worth, and sophisticated clients, with many maintaining close links to CIMA-registered mutual and private funds as securities managers and advisors.

The sector is internationally-oriented and closely linked to global investment activity, with domestic financial stability relevance arising mainly through market confidence, governance and linkages with investment funds. As at end-2025, the SIB sector consisted of 1,347 RPs and 44 licensed entities operating across various categories of SIB (Table 3.2). Activity remains concentrated in securities management and advisory services, reflecting the Cayman Islands' position as a jurisdiction that supports global investment structures and portfolio management activities. Given the sector's outward-facing nature, activity is influenced more by developments in international financial markets than by domestic economic conditions. Consequently, shifts in global market sentiment, interest rates, and investment flows may affect activity levels within the sector and, through its linkages with the wider investment funds industry, have implications for market confidence and broader financial stability within the jurisdiction. Notably, the number of RPs has declined over the last five years, particularly due to broader regulatory developments, corporate structure consolidation, and increased compliance expectations.

Table 3.2: SIB Registered Persons and Licensees

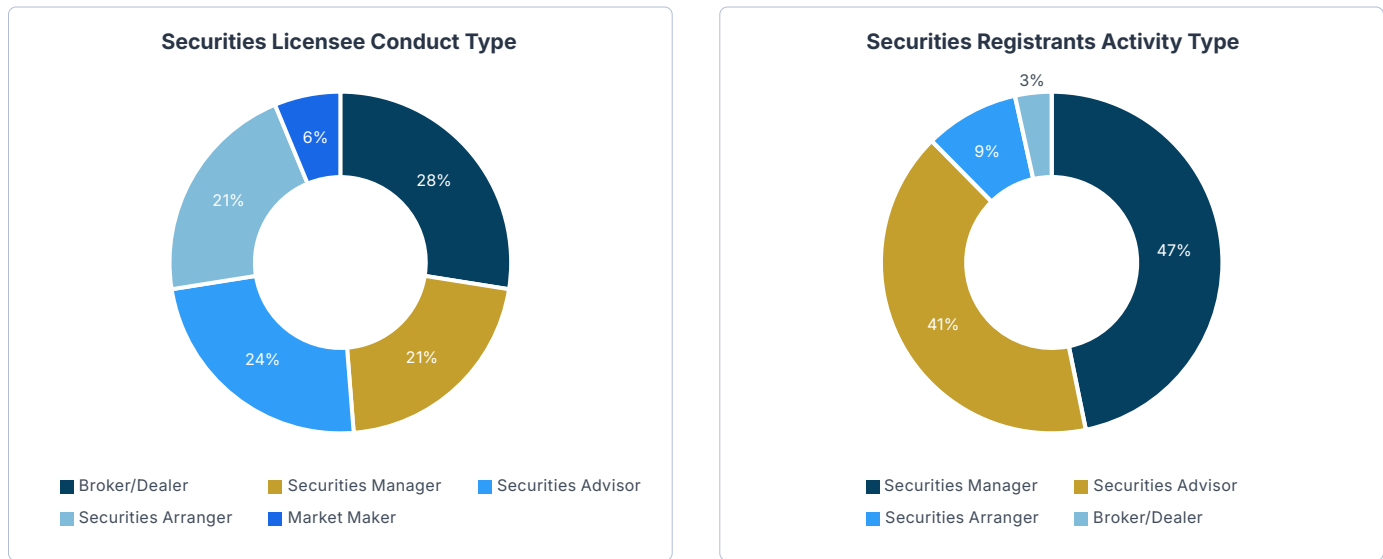
	2021	2022	2023	2024	2025
Registered Persons	1,632	1,571	1,527	1,411	1,347
Licensees	46	46	45	42	44

Source: CIMA

ii. Assessment of Vulnerabilities

The sector's vulnerabilities are primarily assessed from its concentration in investment management activities and its strong integration with global financial markets. Of the 44 SIB licensees, 31 are authorised to conduct one or more of the five regulated categories of SIB activities. In Figure 3.4, for SIB licensees, the broker/dealer function continues to demonstrate importance in supporting cross-border trade and capital flows. This is closely followed by securities advising, managing, and arranging. For RPs, the most common activities are securities management and securities advisory services. Specifically, the dominance of securities management and advisory services links activity closely to portfolio decisions and investor behaviour, thereby increasing sensitivity to changes in international market conditions, an exposure that is further reinforced by the sector's predominantly non-resident client base. As a result, shifts in external financial conditions may influence activity levels irrespective of domestic economic developments.

Figure 3.4: Securities Licensees and Registrants by Type (2025)



Source: CIMA

Operational and compliance weaknesses remain an important source of vulnerability within the securities investment sector, particularly given its cross-border nature and reliance on effective governance and risk management frameworks. Findings from CIMA's onsite inspections²⁵ of RPs identified deficiencies in AML/CFT policies and procedures, customer due diligence and ongoing monitoring processes, governance arrangements, employee training, and record keeping practices. The inspections also highlighted weaknesses in the application of risk-based approaches, oversight of outsourced compliance functions, and the implementation of independent AML/CFT audit processes. In several cases, these deficiencies were associated with inadequate documentation of risk assessments and limited evidence of effective ongoing monitoring activities. Weaknesses in internal compliance arrangements and governance oversight may reduce firms' ability to identify, assess, and mitigate operational and financial crime risks in a timely and consistent manner, particularly during periods of heightened market volatility or evolving regulatory expectations.

These vulnerabilities may have broader implications for financial stability given the sector's close interconnectedness with the investment funds industry and international financial markets. The predominance of non-resident clients and cross-border business relationships increases the sector's exposure to external developments, including shifts in global market sentiment, tightening financial conditions, and evolving sanctions and compliance risks. In this context, weaknesses in governance, internal controls, and enterprise-wide risk management frameworks may heighten operational and reputational risks and reduce the sector's resilience to external shocks. Persistent deficiencies across market participants could also undermine confidence in firms' operational soundness and risk management capabilities, particularly in periods of elevated global uncertainty. As a result, vulnerabilities within the securities investment sector may transmit more broadly through its linkages with investment structures and other internationally connected financial activities within the jurisdiction.

iii. Outlook

Enhanced prudential reporting and supervisory visibility are expected to play an increasingly important role in improving transparency and strengthening resilience within the securities investment sector. In this regard, the introduction of CIMA's Prudential Information Survey²⁶ in December 2025, represents an important development in strengthening supervisory insight into firms' activities, exposures, governance arrangements, outsourcing practices, operational resilience, and AML/CFT/CPF control frameworks. The survey is intended to support the collection of more granular prudential and operational information relating to firms' financial resources, client structures, geographic exposures, service offerings, compliance arrangements, and risk management practices. Improved availability of sector-wide data may strengthen the identification of concentration risks, operational dependencies, and interconnected

²⁵ <https://www.cima.ky/key-findings-of-registered-persons-from-on-site-inspections-1>

²⁶ <https://www.cima.ky/launch-of-prudential-information-survey-for-registered-persons>

exposures arising from cross-border activities and linkages with the wider investment funds industry. Enhanced supervisory visibility into governance and operational arrangements may also support a more forward-looking assessment of firms' resilience to external market disruptions, evolving compliance risks, and operational vulnerabilities. Over time, broader access to prudential and operational information may contribute to a more robust assessment of systemic vulnerabilities and potential implications for financial stability within the jurisdiction.

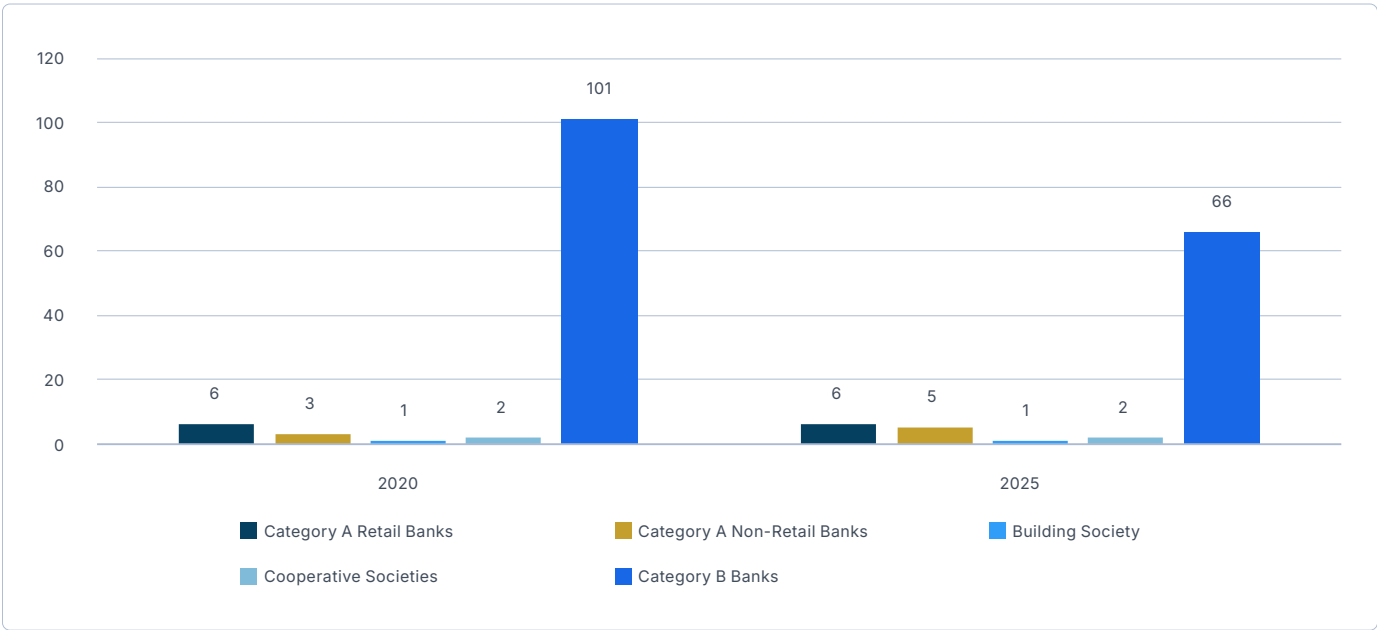
Proposed legislative amendments are expected to strengthen supervisory visibility over (RPs) and enhance the resilience of the SIB sector. In May 2026, the Ministry of Financial Services and Commerce (MFSC) issued the consultation on the draft SIB (Amendment) Bill, 2026, following an earlier consultation in September 2025. The proposed amendments relating to RPs include requirements covering capital adequacy, liquidity management, business conduct, internal controls and the safeguarding of client assets. These reforms are expected to improve the Authority's ability to identify emerging vulnerabilities, monitor risk concentrations, strengthen supervisory oversight and assess potential financial stability implications within the securities investment sector.

3.3. Deposit-Taking Sector

i. Overview

The banking sector remains sizeable and internationally integrated, ranking 20th globally in cross-border assets and 23rd in cross-border liabilities at end-2025. The sector comprised 80²⁷ supervised deposit-taking institutions as at the end of 2025, with total assets of approximately US\$340 billion. The continued decline in Category B Banks reflects ongoing consolidation and structural shifts within the industry. While domestic activity is primarily driven by Category A Retail Banks, the sector remains highly interconnected with international banking groups and cross-border counterparties (Figure 3.5). Against a backdrop of heightened global uncertainty and geopolitical risks, the banking sector remained profitable, resilient, and stable, as reflected in key indicators of liquidity, profitability, and capital adequacy presented in the subsequent analysis.

Figure 3.5: Banking Registration and Licensing Statistics



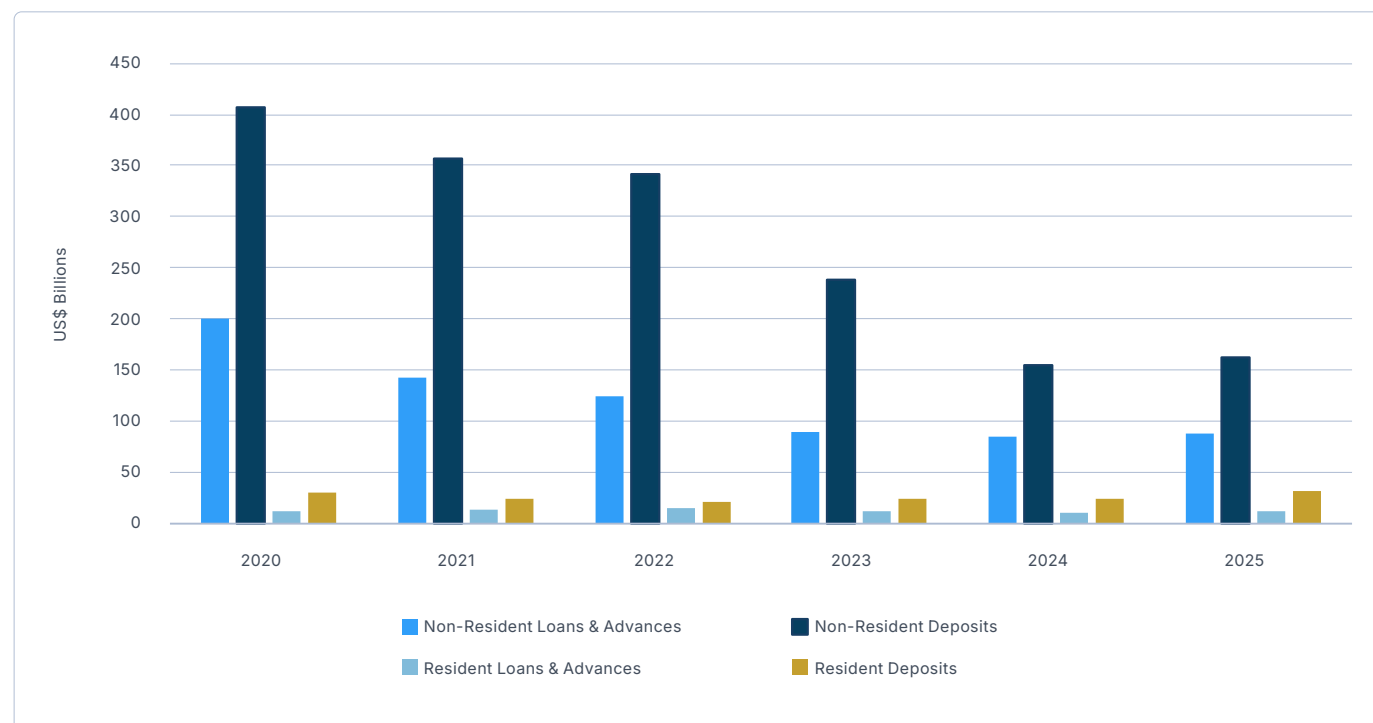
Source: CIMA

²⁷ This excludes the Cayman Islands Development Bank which is supervised by the Authority.

ii. Assessment of Vulnerabilities²⁸

Banking sector balance-sheet activity remained broadly stable in 2025, with deposits continuing to exceed lending and intra-group exposures the main source of lending concentration. Non-resident deposits remained broadly stable in 2025, while resident deposits increased (Figure 3.6). At a more granular level, approximately 58.7 percent of total loans and advances were extended to group-related banking and non-banking entities, with this distribution remaining broadly consistent in recent years (Figure 3.6). This reflects the business model of many Category B Banks, which primarily serve affiliated or parent entities. As a result, lending exposures remain relatively concentrated and may increase sensitivity to stress within international banking groups. Although these exposures are largely intra-group in nature, financial stress at parent or affiliated institutions could transmit to Cayman-licensed entities and, in turn, pose potential risks to financial stability.

Figure 3.6: Loans and Advances & Deposits – All Banks (US\$ Billions)

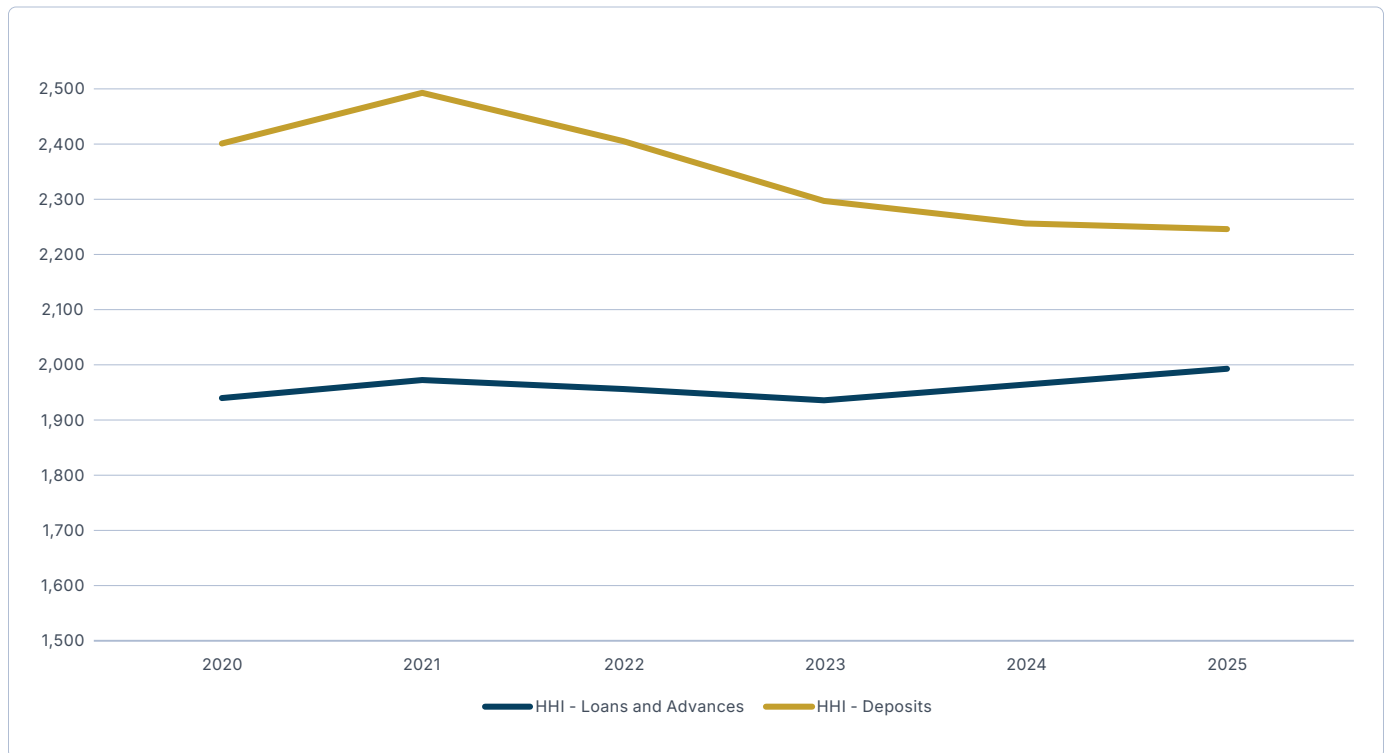


Source: CIMA

Given the importance of Category A Retail Banks to domestic financial stability, developments in their loan portfolios remain a key area of focus. These portfolios are more domestically oriented but remain concentrated, with residential mortgages and lending to non-financial corporations accounting for approximately 44 percent and 23 percent of total loans and advances, respectively. Domestic property lending alone represents approximately 86 percent of total household lending. At the institutional level, concentration in loans and deposits across Category A Retail Banks remains meaningful, reflecting the relatively small number of institutions in the sector. However, concentration has not increased over the review period and deposit concentration continues to be slightly higher than loans & advances concentration: deposit concentration has declined and stabilized over the past three (3) years compared to higher levels in 2020/2022, while concentration in loans and advances has remained broadly stable, as measured by the Herfindahl-Hirschman Index (HHI) (Figure 3.7).

²⁸ This assessment is based on preliminary data for 2025, available and compiled as at July 2026. There may be small differences relative to the 2026 Banking Statistical Digest due to rounding and data quality adjustments and resubmissions.

Figure 3.7 : Concentration of Resident Loans and Advances & Deposits across Category A Retail Banks (HHI)

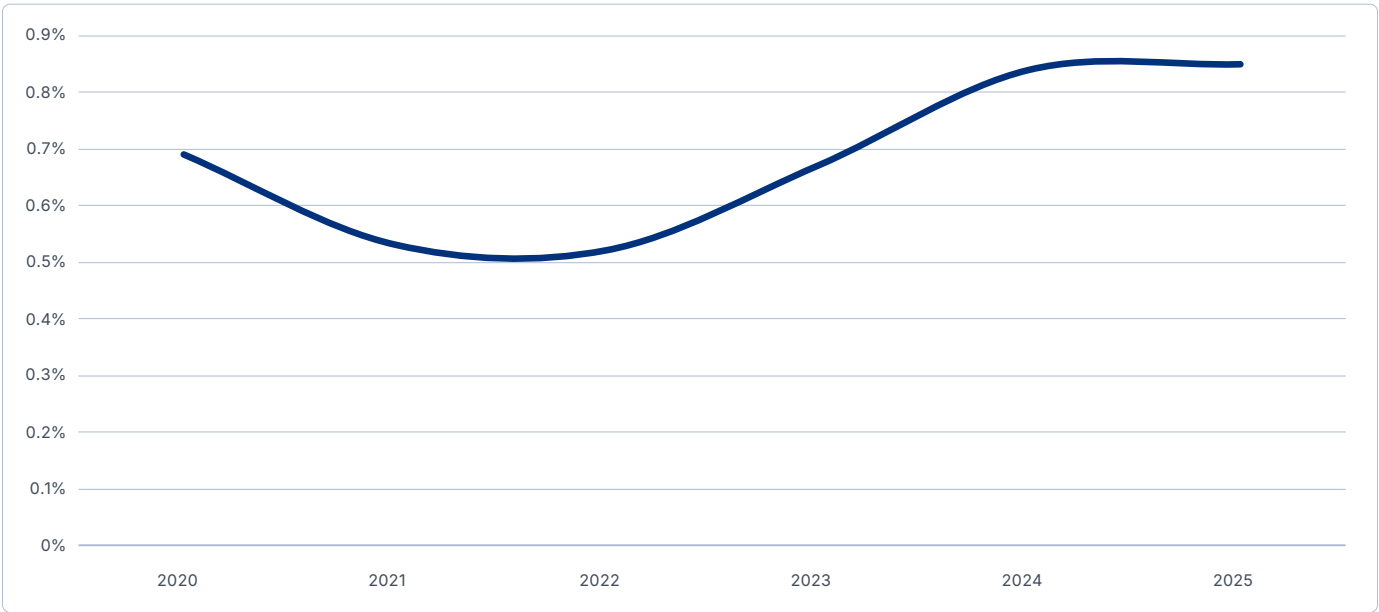


Source: CIMA

Note: The Herfindahl-Hirschman Index (HHI) measures market concentration and is calculated as the sum of the squared market shares of individual banks, ranging from 0 to 10,000, with higher values indicating greater concentration. The calculation is based on resident loans and advances and deposits of Category A retail banks.

Overall asset quality within the domestic banking sector remained strong during the review period, with improvements in loan performance contributing to a decline in both specific and general provisioning requirements. In particular, lower provisioning for impaired loans reflects the continued resilience of borrowers and suggests that near-term credit risks have moderated. Nevertheless, the loan portfolio remains highly concentrated in residential mortgages. Although foreclosure rates continue to remain below 1 percent (Figure 3.8), a significant deterioration in property values or weakening household repayment capacity, particularly in an environment of tighter global financial conditions, could place pressure on credit quality and increase provisioning requirements over time, with potential implications for domestic financial stability.

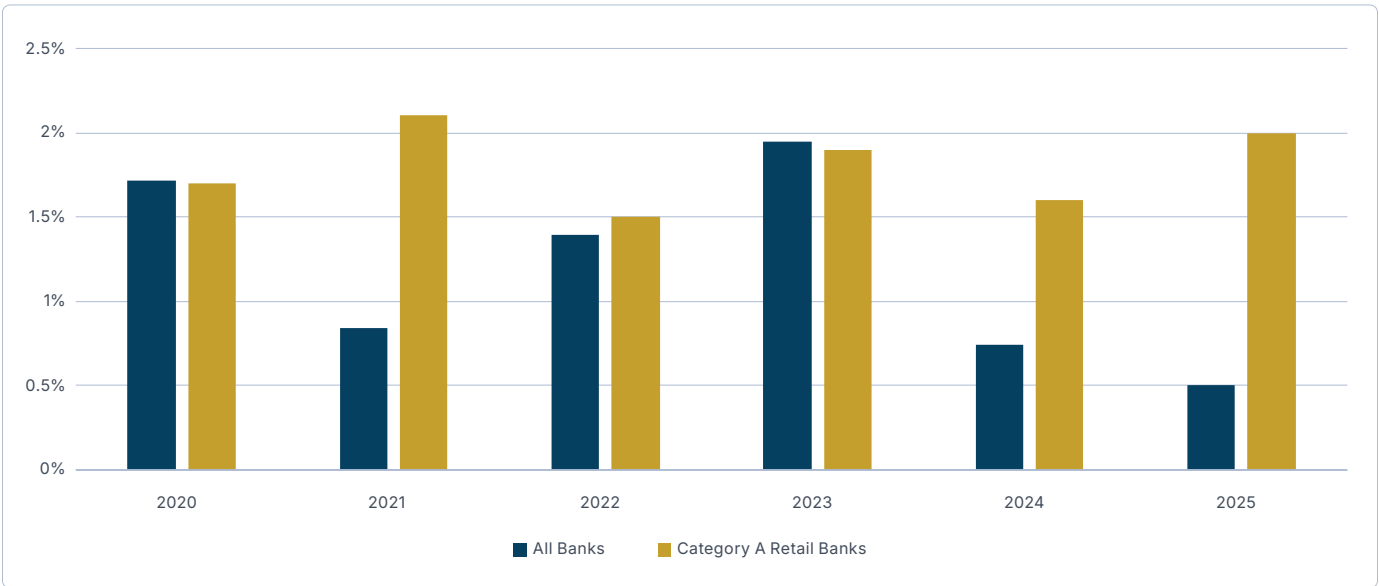
Figure 3.8: Foreclosure Rates²⁹ (%)



Source: CIMA

NPL levels remain low and broadly consistent with recent historical norms. Nevertheless, they continue to be proactively managed, as adverse macro-financial developments and jurisdiction-specific shocks could lead to a deterioration in credit quality (Figure 3.9). Ongoing monitoring remains important to identify and address emerging risks in a timely manner.

Figure 3.9: NPL Ratios (%)



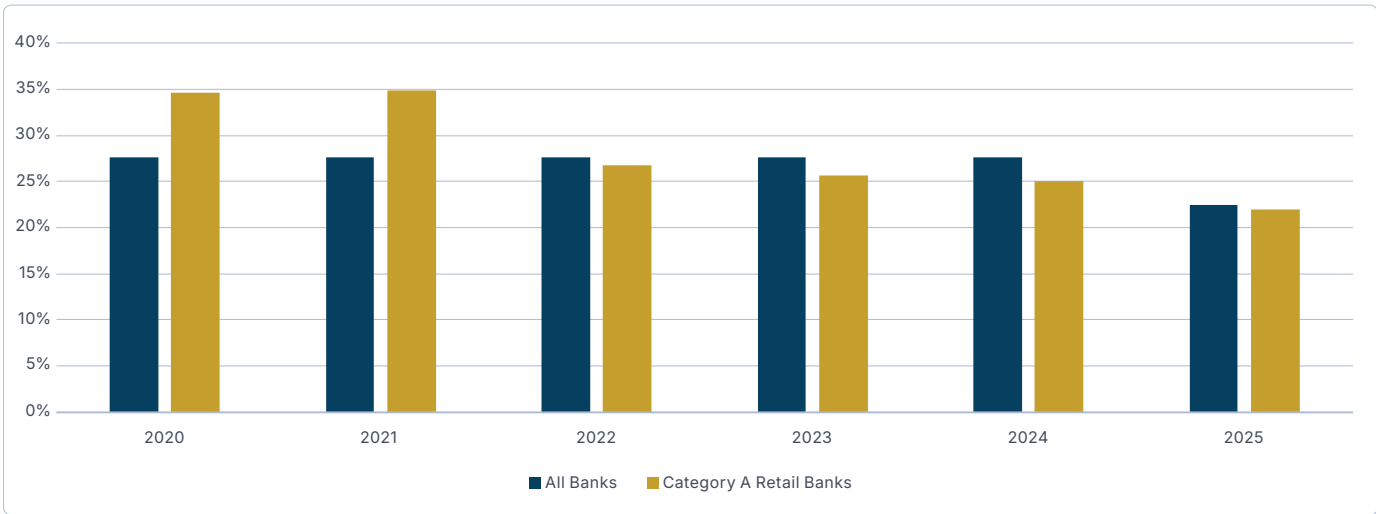
Source: CIMA

²⁹ Foreclosure figures include foreclosures from the development bank, the building society and the credit union

Investment portfolios remain generally conservatively allocated, although concentration risks continue to be evident across counterparties and jurisdictions. The banking sector's investment portfolio – which primarily consists of financial assets – accounts for approximately 37 percent of total assets, of which around 95 percent are held by Category B Banks. Debt securities issued by entities in the United States and Brazil represent a significant share of holdings with limited exposures to Mexico and Luxembourg, exposing portfolios to macroeconomic and financial market developments in these jurisdictions. Approximately 80 percent of securities held by the banking sector were investment grade (rated BBB+ to BBB-/Baa1 to Baa3) in 2025, up from 79 percent in 2024. This indicates that the overall credit quality of securities holdings remained broadly stable during the year. Lower-rated exposures continued to account for a relatively small share of total holdings, although ongoing monitoring remains important given the concentration of exposures across a limited number of jurisdictions. Notwithstanding this, the concentration of exposures across a limited number of issuer jurisdictions increases the banking sector's sensitivity to changes in sovereign credit conditions and broader macroeconomic and financial market developments.

The banking sector's liquidity and funding conditions remained sound in 2025, reflecting continued resilience in balance sheet fundamentals and a stable, predominantly deposit-based funding structure. While the liquid assets ratio recorded a slight decline, liquidity buffers remained adequate overall, supported by prudent liquidity management and stable funding practices across the sector (Figure 3.10). Funding sources remained well diversified, although still anchored by customer deposits, which continued to play a central stabilising role. Deposits accounted for approximately 63 percent of total sector funding, followed by long-term funding and debt at approximately 31 percent. For Category A Retail Banks, the funding profile was even more concentrated in deposits, which represented approximately 96 percent of total funding, underpinned by a stable deposit base of around US\$12 billion. Notably, these deposits emanate mainly from non-financial corporations, other financial corporations and households. The ratio of loans and advances to deposits remained broadly stable at approximately 50 percent for the sector and the Category A Retail Banks, indicating a continued and sufficient liquidity cushion. Overall, these conditions point to a resilient funding structure that supports the banking sector's ability to absorb liquidity pressures.

Figure 3.10: Liquid Asset Ratio (%)



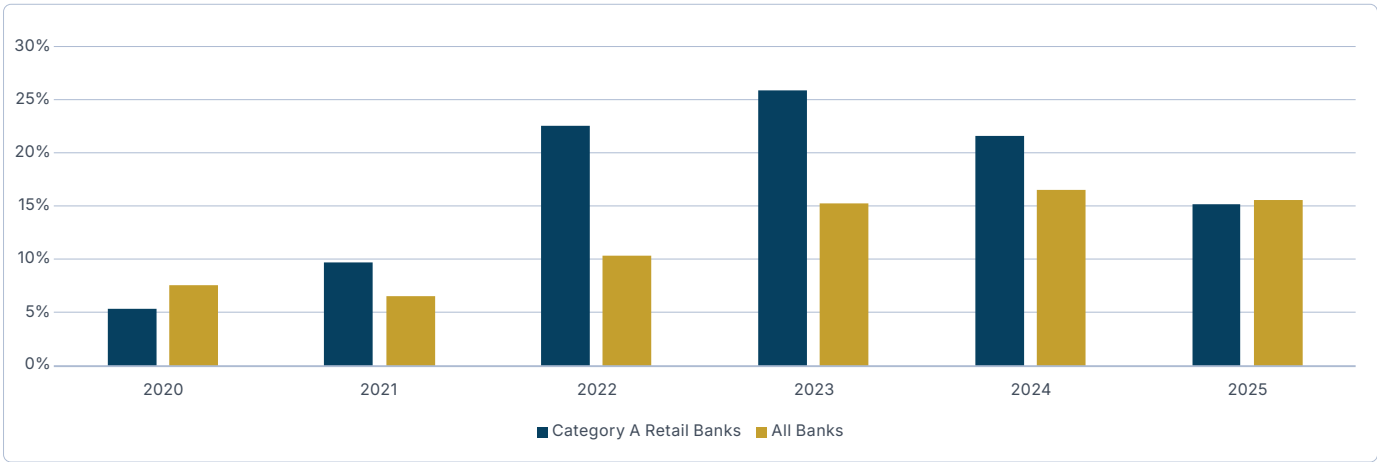
Source: CIMA

In addition, regulatory liquidity metrics continued to indicate strong liquidity conditions across the Category A Retail banking sector, with all institutions remaining comfortably above the Basel III minimum requirement of 100 percent throughout the period. The average liquidity coverage ratio (LCR) stood at 186.3 percent, while the average net stable funding ratio (NSFR) was 212.5 percent, reflecting effective liquidity management practices and stable funding profiles across institutions. Additionally, Category A Non-Retail and Category B Banks (excluding branches) remained comfortably above their minimum liquidity requirement of 15 percent.

The banking sector demonstrated improved profitability in 2025, reflecting increased earnings performance and continued resilience in core banking operations despite the impact of isolated loss events and softer retail banking income. The sector reported net income of approximately US\$3.3 billion, supported largely by net income of approximately US\$2.9 billion generated by Category B Banks. Profitability and the overall sector performance would have been higher if the significant losses attributable to two

(2) outlier banks, due to the specific nature of their banking business models for their respective financial groups, were excluded. The performance of Category A Retail Banks was comparatively more moderate, with net income of approximately US\$369 million, below the average of approximately US\$500 million recorded over the preceding two years. This decline does not raise immediate prudential concerns, as it was primarily attributable to a reduction in net interest income and one-off losses rather than a broad-based weakening in retail banking profitability. Nevertheless, profitability indicators remained sound across the sector, with return on equity (ROE) at approximately 15.2 percent for Category A Retail Banks and 15.6 percent for the banking sector overall (Figure 3.11). A similar trend was observed for return on assets (ROAs), reflecting continued earnings resilience and stable operational performance across the sector.

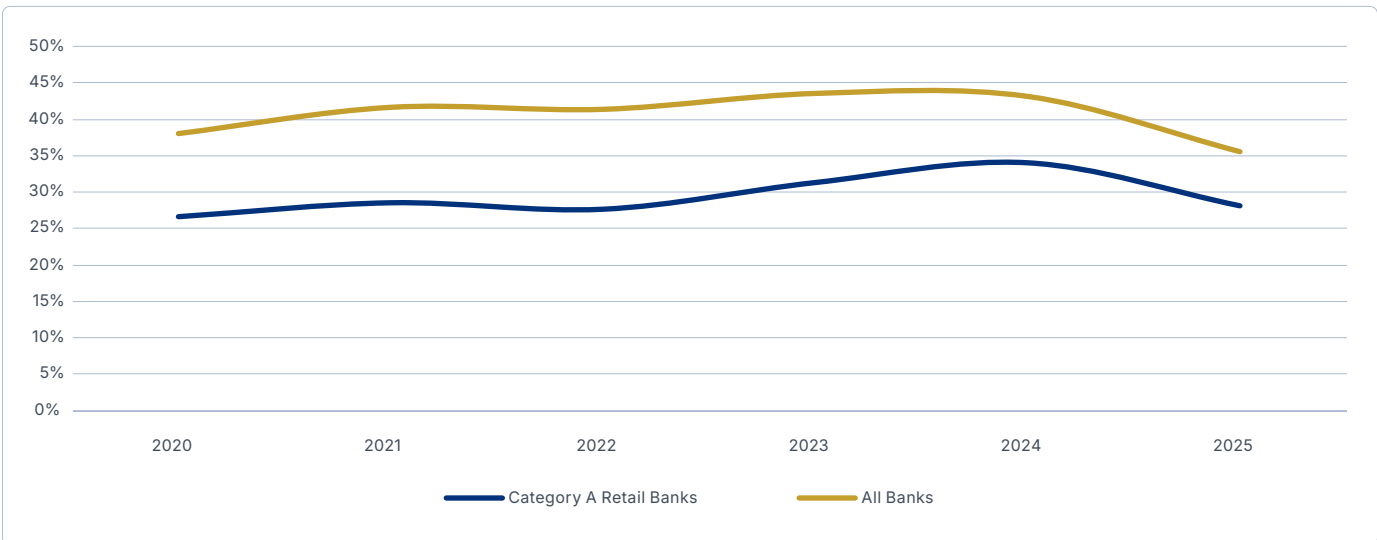
Figure 3.11: Return on Equity (%)



Source: CIMA

Capital adequacy for the banking sector remained sound in 2025, despite a modest decline relative to 2024. At the end of 2025, the CAR stood at 35.5 percent, well above the regulatory minimum of 10 to 15 percent, while regulatory Tier 1 capital followed a similar trend (Figure 3.12). This suggests that banks continue to maintain strong loss-absorbing capacity and remain well positioned to withstand potential adverse shocks. Category A Retail Banks' capital position also saw a marginal decline in 2025, with the CAR standing at approximately 28.1 percent; however, this remains broadly in line with historical norms and continues to reflect a resilient capital base across the sector. The system's cross-border exposures and concentration patterns mean that capital would continue to serve as the primary shock absorber in the event of external stress, however capital buffers remain substantial thereby supporting overall financial stability.

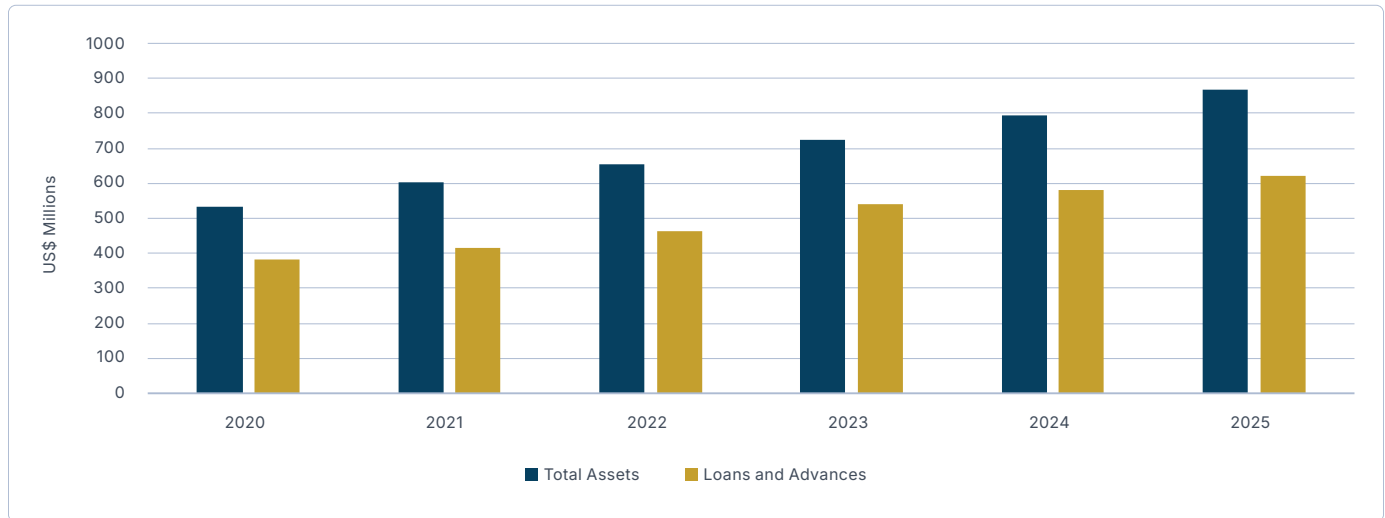
Figure 3.12: Capital Adequacy Ratio (%)



Source: CIMA

Societies (Building Societies and Cooperative Societies) play an important role in the Cayman Islands' financial ecosystem by supporting financial intermediation and serving the needs of their members. As such, developments within the sector have implications for the resilience and stability of the broader financial system. The societies sector recorded further growth in 2025, with total assets increasing by approximately 9.1 percent and loans and advances rising by approximately 7.4 percent (Figure 3.13). These growth rates were broadly consistent with those recorded in 2024, reflecting sustained balance sheet growth within the sector.

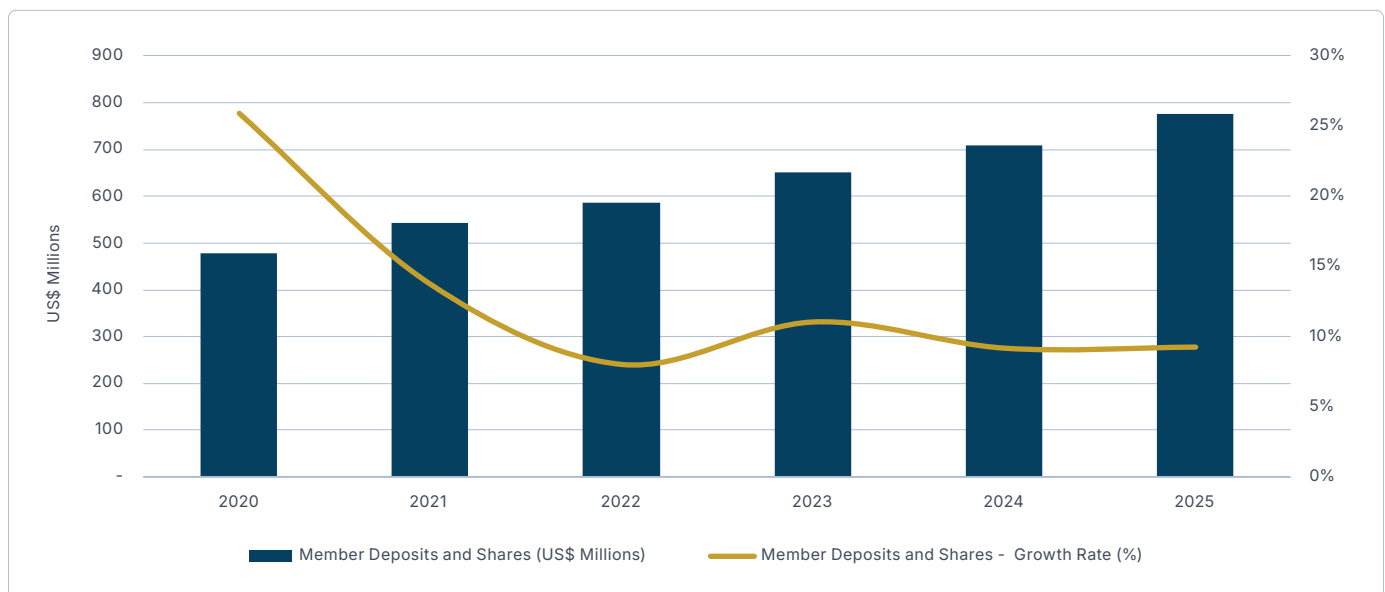
Figure 3.13: Societies' Total Assets and Total Loans and Advances (US\$ Millions)



Source: CIMA

Member Deposits and Shares increased by approximately 8 percent in 2025, continuing the steady growth observed in recent years. Although the rate of growth remained below the higher increases recorded in 2021 and 2023, it was broadly in line with recent trends, albeit slightly lower than in 2024, indicating continued but moderating momentum in deposit accumulation (Figure 3.14). The increase in member deposits reflects sustained confidence in societies and strengthens their funding base, supporting continued growth in lending and other balance sheet activities.

Figure 3.14: Societies' Deposits and Shares (US\$ Millions)



Source: CIMA

iii. Outlook

The domestic banking sector outlook remains stable, supported by strong capital buffers, sound liquidity conditions, and resilient balance sheet fundamentals. CARs remain well above regulatory requirements, while liquidity indicators remain above the minimum regulatory requirement and continue to reflect prudent funding structures and adequate liquidity buffers across institutions. Asset quality also remained favourable in 2025, with low NPL and foreclosure rates and lower provisioning requirements indicating continued strength in loan performance. Overall, these conditions continue to support the banking sector's capacity to absorb moderate shocks associated with credit, market and cross-border exposures and risks.

Global economic and financial conditions are expected to remain principal drivers of risks to banking sector stability over the short-term period. Changes in global interest rates, sovereign credit conditions, and investor sentiment may continue to influence funding conditions, profitability, and the valuation of investment portfolios, particularly given the sector's internationally integrated nature and concentration in foreign-issued securities. In addition, ongoing geopolitical tensions, re-emerging inflationary risks, trade fragmentation risks, and heightened global uncertainty could contribute to periods of increased market volatility and tighter global financial conditions. While these developments may affect earnings performance and market valuations, the sector's strong liquidity buffers, stable funding base, and substantial capital levels continue to provide an important cushion against moderate external stress events.

Cross-border exposures remain a key structural vulnerability within the banking sector and an important channel for the transmission of external shocks. Category B Banks continue to account for the majority of sector assets and earnings, while lending exposures to group-related entities and investment holdings in foreign sovereign and banking sector instruments remain concentrated. As a result, adverse macrofinancial developments affecting key jurisdictions, particularly the United States, Brazil, Luxembourg and Mexico, could influence investment valuations, funding conditions, and broader sector performance. The concentration of NPLs within a small number of jurisdictions also suggests sensitivity to country-specific credit events and external economic stress. Nevertheless, the predominance of investment-grade securities, together with strong prudential indicators and substantial capital buffers, continues to mitigate broader financial stability concerns arising from these exposures.

Domestic credit risks remain broadly contained, although concentration in mortgage lending continues to warrant ongoing monitoring from a financial stability perspective. Residential mortgages remain the largest component of household lending among Category A Retail Banks, leaving banks exposed to potential adverse developments in property market conditions, household repayment capacity, or domestic economic activity. A sustained weakening in employment conditions, tourism activity, or disposable income could place pressure on household balance sheets and gradually affect credit quality. However, current indicators continue to point to resilient domestic credit conditions, supported by low foreclosure rates, low NPL ratios, stable lending activity, and continued strength in loan performance across the retail banking sector.

Liquidity and funding conditions are expected to remain supportive of banking sector resilience over the near term. Customer deposits continue to represent the primary source of funding across the sector, particularly for Category A Retail Banks, while regulatory liquidity ratios remain comfortably above Basel III minimum requirements. Stable deposit funding and prudent liquidity management practices continue to strengthen the sector's ability to manage periods of market stress, funding volatility, or temporary liquidity pressures. In addition, the relatively low loan-to-deposit ratio across the sector continues to indicate the presence of adequate liquidity cushions to support ongoing banking activity.

Post-year-end consolidation developments also warrant continued monitoring from a domestic financial stability perspective. Recent publicly announced consolidation developments involving regional banking groups could, if completed, affect concentration within the domestic retail banking sector, including the distribution of deposits, loans and payment-service relationships across Category A Retail Banks. While the domestic banking sector remains well capitalised and liquid, any material increase in concentration could affect the transmission of liquidity, credit, operational or confidence shocks. CIMA will therefore continue to monitor the implications of sector consolidation for domestic financial stability.

Furthermore, the societies sector remained resilient in 2025. This was supported by sustained growth in assets, lending activity, and member funding. While the sector remains exposed to lending-related risks, current trends do not suggest any material concerns, although ongoing monitoring remains warranted as the sector continues to expand.

Overall, the banking sector is expected to remain resilient through 2026, supported by robust prudential indicators, stable funding conditions, and continued earnings capacity. While concentration risks, cross-border interconnectedness, and external macrofinancial developments remain important areas for ongoing monitoring, existing capital and liquidity buffers continue to position the sector to withstand moderate shocks and support domestic financial stability.

iv. Policy actions and initiatives undertaken to enhance financial stability

Ongoing policy and supervisory initiatives are intended to strengthen banking sector resilience and promote alignment with evolving international prudential standards. Key actions and initiatives include recovery and resolution planning and the implementation of Basel III.

Recovery and Resolution Planning. The Rule and Statement of Guidance on Recovery Planning was issued for public consultation on 21 November 2025 and ended on 30 January 2026. Responses received during the consultation period are being reviewed and assessed to inform the finalisation of the measure. Subsequently, the Authority will continue with other initiatives to implement a crisis management framework for the Cayman Islands guided by the findings and recommendations from the March 2025 technical assistance from the IMF on the development of a Recovery and Resolution regime for deposit-taking institutions in the Cayman Islands.

Basel III Implementation. The Authority completed a reassessment of its adoption of Basel III, and an updated implementation roadmap has been approved with the initiatives for the implementation scheduled to commence within the next twelve (12) months.

3.4. Insurance Sector

i. Overview

The Cayman Islands' insurance sector remained resilient in 2025, although its risk profile continued to be shaped by reinsurance dependence, climate-related exposures and external cost pressures. Globally, the insurance sector in 2025 operated against a backdrop of heightened geopolitical tensions, trade fragmentation, increased climate-related events, and rising cyber risks. These developments contributed to financial market volatility, rising claims costs, and continued pressure on underwriting conditions, particularly within non-life lines (GIMAR, 2025)³⁰.

At the regional level, climate risk remains a key driver. The 2025 hurricane season, including the Category 5 Hurricane Melissa in the Caribbean, resulted in significant economic losses, while insured losses remained far smaller due to the region's low insurance penetration. This disparity highlights how significant and persistent the insurance protection gap remains across the Caribbean region and why it continues to be a concern.³¹

Post-year-end public communications by CIMA also underscore the continuing relevance of insurance preparedness and protection-gap monitoring. CIMA's June 2026 insurance preparedness communication noted that approximately 70 percent of residential and commercial properties in the Cayman Islands are insured, implying a protection gap of around 30 percent. This reinforces the importance of adequate insurance coverage, preparedness for catastrophe events, and continued monitoring of the protection gap.

In the Cayman Islands, the insurance sector remains a core component of the financial system, characterised by a large international market alongside a smaller but systemically relevant domestic segment (Class A Insurers) which is of primary relevance for financial stability given its direct linkages to households, businesses, and the domestic economy.

The international sector (Class B, C, and D Insurers) continued to expand, with 42 new licences issued in 2025, consistent with the strong pace of growth observed in the previous year, while total assets reached US\$176.2 billion at end-2025. At the same time, the domestic sector remained resilient, with FSIs pointing to adequate capitalisation and profitability. However, pressures from rising costs and external risk factors persist, particularly given the sector's structural reliance on reinsurance for catastrophe exposed risks and its exposure to external pricing dynamics.

³⁰ Global Insurance Market Report 2025. Available at: [Global-Insurance-Market-Report-2025.pdf](#)

³¹ Catastrophe modellers estimated private insured losses from Hurricane Melissa at around US\$3 billion to US\$5 billion (Moody's RMS Event Response, November 2025), well below estimated total economic losses. Household and small business insurance penetration in the affected areas is estimated at only 5 to 20 per cent. The Cayman Islands based Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) made its largest single payout to date, US\$70.8 million, to the Government of Jamaica. Sources: Moody's RMS Event Response (November 2025); CCRIF SPC (October 2025).

ii. Assessment of Vulnerabilities

Vulnerabilities in the domestic insurance sector are primarily driven by reliance on reinsurance, exposure to external cost and catastrophe related shocks, and concentration in non-life business. At the same time, these structural features are occurring within a context of continued market expansion. The domestic insurance market continues to demonstrate steady activity across core lines such as property, health, motor, and liability insurance, with gross written premiums (GWPs) trending upward in recent years (Table 3.3). This growth has been supported by population increases, rising asset values, and premium adjustments.

Table 3.3: Gross Written Premiums and Reinsurance Ceded (US\$ Millions)³²

Line of Business	2021	2022	2023	2024	Q4 2025 ³³	Q4 2025 (% of total premiums)	% of Reinsurance Ceded
Total Gross Written Premiums	890	991	1,107	1,195	1,301		38%
<i>Of which:</i>							
Property	153	181	197	212	250	19%	94%
Motor	49	52	56	61	60	5%	43%
Health	366	419	430	531	575	44%	17%
Liability	68	76	86	73	84	6%	10%
Marine & Aviation	35	46	49	51	67	5%	4%
Other	42	45	43	41	65	5%	2%
Life	34	35	37	33	37	3%	5%
International Business³⁴	143	137	209	193	163	13%	75%

Source: CIMA

Concentration in non-life business increases exposure to catastrophe and cost related risks, as a substantial share of premiums are concentrated in property and healthcare related lines of business, which have also been the primary contributors to overall premium growth. Property lines expose insurers to climate-related and catastrophe risks, while health insurance remains sensitive to medical cost inflation and demographic pressures. As a result, adverse developments such as major hurricanes or sustained increases in healthcare costs could materially affect underwriting performance and claims ratios.

Reliance on reinsurance exposes the sector to external pricing cycles, counterparty risks, and potential concentration effects. Risk cession remains significant across certain business lines, particularly catastrophe exposed segments such as property, making the sector sensitive to developments in global reinsurance markets. After several years of rising reinsurance costs, rates have begun cooling off as reflected by notable decreases noted in some lines of business during recent renewals. There has been a notable increase in capacity and new capital flowing into the market. Reinsurers have nonetheless kept their terms strict, leaving insurers to retain more risk on their balance sheets. For domestic insurers this should ease the cost pressure that built up over recent years, although the Caribbean may see smaller or slower reductions given the region's recent hurricane losses. The sector's reliance on reinsurance protection remains a structural vulnerability in both hard and soft markets³⁵, and could in some instances introduce potential timing mismatches between claims payments and recoveries, which may give rise to short term liquidity pressures following large loss events.

³² Historical figures presented in this table may differ from those previously published, reflecting the separate identification of international business across the historical series, which was not applied in earlier published classifications.

³³ Unaudited Statistics as at Q4 2025

³⁴ International business consists of international premiums written by Class A Insurers.

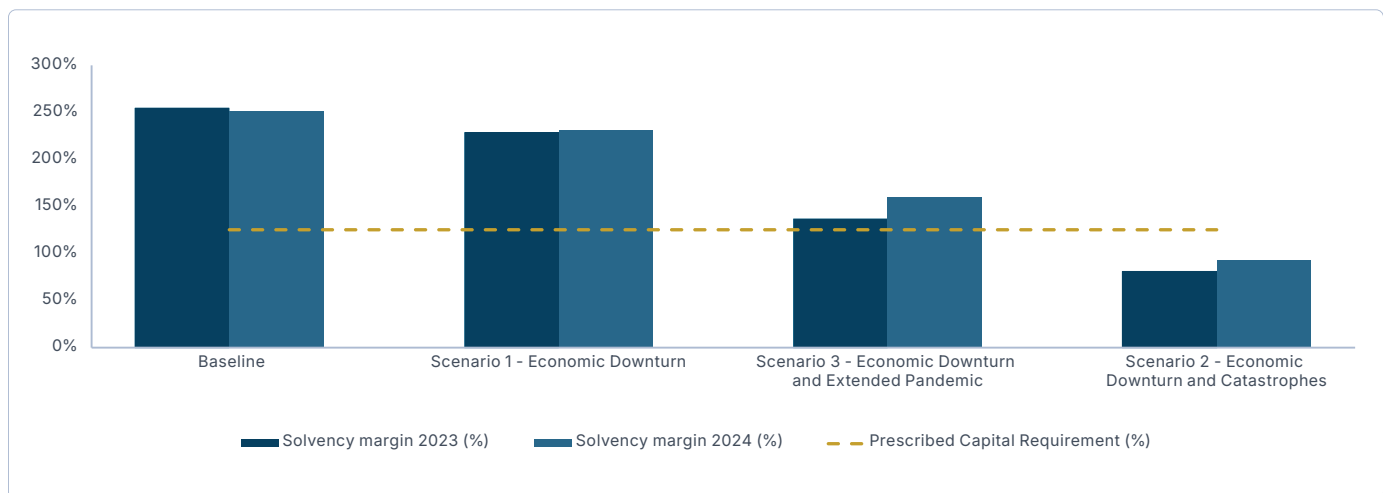
³⁵ Reinsurance broker indices recorded reductions of roughly 12 to 15 per cent in global property catastrophe rates at the 1 January 2026 renewals, supported by strong reinsurer capital and record issuance of catastrophe bonds and other insurance linked securities. Sources: Guy Carpenter and Howden Re January 2026 renewal reports; IAIS Global Insurance Market Report 2025.

Regarding the financial soundness indicators (FSIs)³⁶, rising cost pressures are beginning to weigh on profitability despite recent improvements in returns. ROAs in the non-life sector stood at approximately 2% in 2025, indicating a normalisation from earlier elevated levels but remaining consistent with strong underlying profitability. In the life sector, ROAs stood at 1.5% in 2025, recovering modestly from the previous year but remaining below its post pandemic average. These developments suggest that while profitability remains positive, underlying cost dynamics may be placing pressure on margins, particularly where insurers face constraints in fully passing on higher costs to policyholders. This is particularly relevant within the property insurance segment, where elevated reinsurance costs, inflation driven increases in value of insured risks and growing climate-related risk exposures have contributed to increasing insurance costs. Sustained increases in premiums may over time widen the insurance protection gap if coverage becomes less affordable for households and businesses, particularly amid rising climate-related risks. This may become more pronounced if claims inflation and reinsurance costs remain elevated.

Strong capital buffers continue to underpin sector resilience, although reliance on reinsurance remains elevated. Capital to total assets ratios remain robust across both life and non-life insurers. For Class A non-life insurers, the ratio increased to 43% at end 2025, above the five-year average of 36%, while life insurers recorded a recovery in capitalisation to 20% following a decline in 2023. At the same time, risk retention remains relatively low, with non-life insurers retaining 48% of underwritten, underscoring dependence on external reinsurance markets, while life insurers retain over 90%. While capital buffers appear adequate under baseline conditions, stress testing suggests that resilience may become more constrained under severe but plausible shock scenarios.

Stress testing indicates that the sector remains resilient under baseline and moderate stress conditions but continues to face vulnerabilities under severe combined shock scenarios³⁷. Under an economic downturn scenario, solvency margins decline but remain comfortably above the prescribed capital requirement of 125%, with the solvency margin standing at 230.5% in the latest exercise (Figure 3.15). Under the combined economic downturn and extended pandemic scenario, the solvency margin declined to 160.3%, remaining above the prescribed threshold but indicating a notable erosion in capital buffers alongside weaker liquidity positions. In contrast, the combined economic downturn and catastrophe scenario continued to place the greatest pressure on the sector, with the solvency margin falling to 92.8%, below the prescribed capital requirement, highlighting the sector's sensitivity to severe but plausible tail events, particularly those linked to climate-related losses.

Figure 3.15: Class A (Local) Non-life Insurers – Cover of Solvency Margin



Source: CIMA³⁸

Note: The solvency margin compares insurers' actual capital holdings with the minimum capital required to remain solvent. The 2023 and 2024 solvency margins reflect the results of stress-testing exercises conducted using 2023 and 2024 data, respectively.

³⁶ Selected insurance financial soundness indicator (FSI) charts are presented in Appendix C.

³⁷ The prescribed capital requirement is calculated as a ratio of available capital to required capital.

³⁸ Figure 32 presents the cover of solvency margin results only. Results for the remaining Financial Soundness Health Indicators (FSHIs) are provided in Appendix D.

Stress-testing results point to improved resilience under some severe shock conditions, but capital and liquidity buffers remain sensitive to combined catastrophe and economic stress. Compared with the previous exercise, stress scenario results indicate a modest improvement in resilience under severe shock conditions, despite some moderation in baseline indicators. This suggests that while profitability and liquidity conditions faced some pressure during the year, insurers may have strengthened aspects of their shock absorption capacity, including through reinsurance arrangements and broader balance sheet positioning.

Overall, the domestic insurance sector remains broadly resilient, but shock absorption capacity becomes more constrained under severe multi-factor stress scenarios. This underscores the importance of effective reinsurance arrangements, capital planning, and liquidity management.

Growth in the international insurance sector (Class B, C, & D) remains concentrated in captive and reinsurance structures, reinforcing strong external linkages. The number of licensed insurers increased to 720 at end 2025, with the majority classified as Class B entities, reflecting the jurisdiction's continued specialisation in captive insurance models, supported by its scale, regulatory framework, and established professional services environment. While most Class B insurers continue to derive most of their business from related-party risks, recent growth has been driven primarily by Class B(iii) entities, reflecting increasing activity in structures with greater exposure to third-party business.

The international insurance sector reinforces the Cayman Islands' global insurance role, while also creating exposure to external insurance, reinsurance and catastrophe-risk developments. International insurers primarily underwrite risks located outside of the Cayman Islands, including captive arrangements for parent companies as well as commercial insurance and reinsurance business. Underwriting exposures remain highly concentrated in North America, accounting for 89% of licences, which increases sensitivity to external economic, legal, and catastrophe related developments. Total assets in the international segment reached approximately US\$176 billion, with total premiums of US\$51 billion. Although reinsurance companies account for a relatively small share of international insurance entities, they account for close to 60% of total premiums and assets, highlighting the disproportionate role that reinsurance activity plays in shaping the sector's overall financial profile.

While life reinsurers represent a small share of licences, they account for a significant proportion of total assets, reflecting the presence of long duration liabilities. The sector also remains highly interconnected with global financial and reinsurance markets, creating potential channels for external shock transmission.

iii. Outlook

The near-term outlook for the Cayman Islands domestic insurance sector remains stable, supported by strong capitalisation, continued premium growth, and a well-established regulatory framework. However, the risk environment is increasingly shaped by external factors, particularly developments in global reinsurance markets and climate-related risks.

Ongoing geopolitical developments continue to influence global risk conditions and insurance pricing dynamics. In this context, reinsurance conditions are expected to remain a key determinant of sector performance. Sustained increases in insurance costs may present affordability challenges for some policyholders, particularly within property insurance, potentially widening the insurance protection gap by limiting access to adequate insurance coverage.

Fundamental demand drivers such as population growth, construction activity, and rising asset values are expected to support further expansion in GWPs.

From a financial stability perspective, risks remain primarily structural, arising from concentration in key lines of business, reliance on external reinsurance, and exposure to climate-related and broader external shocks, including potential short term liquidity pressures following large claims events. While current FSIs point to resilience, stress testing results suggest that vulnerabilities could materialise under severe but plausible scenarios.

The sector is expected to remain resilient in the near term, but continued monitoring of reinsurance market developments, affordability pressures and climate-related risks will remain important. Supervisory work is expected to focus on enhancing the effectiveness and timeliness of regulatory oversight, advancing more risk sensitive supervisory approaches, strengthening data quality and reporting standards, and supporting crisis preparedness and recovery planning arrangements.

3.5. Trust and Corporate Service Providers (TCSPs)

i. Overview

The TCSP sector remained stable in 2025 and continued to support the Cayman Islands' role as an international financial centre through fiduciary, corporate administration and wealth-structuring services. In 2025, the number of licensees remained broadly stable, with only a slight increase in corporate service providers (Table 3.4). Broader indicators of jurisdictional competitiveness, including the Cayman Islands' improved position in the Global Financial Centres index, provide supportive context for the sector's continued role in the financial services ecosystem. Continued growth in company registrations also points to sustained demand for Cayman Islands structures, reinforcing the sector's importance to the jurisdiction's broader financial services industry.

Table 3.4: Regulated Trust Companies and Corporate Service Providers

	2021	2022	2023	2024	2025
Total Trust Companies	139	138	133	134	135
<i>Of which:</i>					
Unrestricted Trust	56	58	56	54	58
Restricted Trust	58	56	56	56	54
Nominee Trust	25	24	21	24	23
Total Corporate Service Providers	143	142	140	137	141
<i>Of which:</i>					
Company Managers	120	119	116	116	118
Corporate Services Providers	23	23	24	21	23

Source: CIMA

ii. Assessment of Vulnerabilities

The main vulnerabilities in the TCSP sector related to operational resilience, compliance demands, external client activity and possible concentration arising from sector consolidation. As providers of fiduciary, corporate administration and wealth-structuring services, TCSPs operate within an increasingly complex international regulatory environment. Evolving AML/CFT requirements, sanctions-related risks, international tax developments, and changing supervisory expectations continue to shape compliance demands across the sector. Ongoing consolidation and restructuring activity may support stronger governance and operational efficiency over time, but could also increase concentration within some market segments and heighten reliance on a smaller number of large service providers.

External economic, geopolitical and regulatory developments may affect client activity, transaction volumes and demand for corporate and fiduciary services. Changes in global financial conditions, international tax policies, regulatory standards and investor sentiment may influence the attractiveness of certain structures and services administered in the Cayman Islands. Continued uncertainty in the global operating environment may therefore contribute to shifts in business models, restructuring activity and competitive pressures across the sector.

Operational resilience remains an important area of focus given the sector's reliance on information systems, outsourced services and third-party providers. TCSPs administer complex corporate and fiduciary structures, maintain sensitive client information and rely on outsourced administrative arrangements and third-party service providers to support business operations. Increased dependence on digital systems and external service providers may heighten cybersecurity, outsourcing and business continuity risks, particularly where operational disruptions could affect service delivery or client confidence.

FSIs suggest that the TCSP sector remained sound in 2025, supported by strong liquidity positions despite some moderation relative to the previous year. Although liquidity indicators declined across all categories of licensees in 2025, liquidity levels continued to remain elevated, underscoring the sector's strong capacity to meet near-term obligations (Table 3.5). Profitability indicators softened during the year, with ROA declining across all categories and ROE decreasing for all categories except corporate service providers, which reported a notable increase in shareholder returns. Overall, the sector's FSIs point to continued resilience, with ample liquidity buffers helping to offset the moderation in profitability.

Table 3.5: Key FSIs for TCSPs

	Liquid assets ratio (%)		ROA (%)		Liquid assets to short-term liabilities		ROE (%)	
	2024	2025	2024	2025	2024	2025	2024	2025
TCSPs	86.4	82.0	5.3	3.5	2.6	1.86	7.9	2.8
Unrestricted Trusts	90.6	88.9	1.9	0.1	3.1	2.16	2.7	0.4
Company Managers	76.4	67.9	18.4	16.2	1.8	1.44	32.6	32.2
Corporate Service Provider	28.1	19.3	6.9	5.7	0.4	0.23	21.7	35.4

Source: CIMA

Overall, notwithstanding these vulnerabilities, the TCSP sector continued to demonstrate resilience and stability in 2025, supported by established regulatory oversight, strong governance practices and the sector's continued ability to adapt to evolving international standards and market conditions.

iii. Outlook

The Cayman Islands' strengthened position as a leading international financial centre is expected to continue supporting demand for TCSP services. The jurisdiction's rise of 18 places in the latest Global Financial Centres Index reflects continued international recognition of its financial services industry and broader competitiveness. In 2025, exempt company registrations increased to 11,801 from 11,261 in 2024, while limited liability company registrations rose to 3,889 from 3,735 over the same period, supporting continued demand for corporate administration and fiduciary services. Continued growth in these structures is expected to support sustained activity within the Cayman Islands' corporate services ecosystem, including legal, fiduciary and administrative service providers.

Continued engagement with international supervisory and standard-setting initiatives is expected to further support the resilience and credibility of the Cayman Islands' TCSP sector. In 2025, the Cayman Islands hosted the annual meeting of the Group of International Finance Centre Supervisors (GIFCS), where members discussed developments in the regulation of trust and company service providers, supervisory cooperation and human resource development across international financial centres. These discussions coincided with the updated GIFCS Standard on the Regulation of TCSPs, which places increased emphasis on governance, operational resilience, risk management and supervisory effectiveness. The Cayman Islands' continued active engagement in these international initiatives reflects its commitment to maintaining regulatory standards consistent with evolving global expectations, which is expected to support confidence in the jurisdiction's financial services framework and contribute positively to broader financial stability.

Overall, the TCSP sector is expected to remain resilient, stable and competitive, supported by continued demand for Cayman structures and alignment with evolving international standards. Continued supervisory attention to governance, AML/CFT compliance, operational resilience, outsourcing arrangements, data quality and sector concentration will remain important as the sector adapts to changing global regulatory expectations and client needs. These priorities will help to preserve confidence in the sector and support its continued contribution to the Cayman Islands' role as an international financial centre.

3.6. Virtual Asset Service Providers

i. Overview

The Virtual Asset Service Provider (VASP) sector remains small relative to the broader financial system and has limited direct domestic linkage, but its financial stability relevance may increase as virtual assets become more integrated within traditional finance and shared digital infrastructure. Globally, 2025 saw significant developments in the virtual assets and stablecoin space, marked by increasing integration with broader financial conditions, particularly during periods of stress or market volatility driven by policy uncertainties and geopolitical tensions. This expansion is reshaping the risk profile of the sector, increasing its exposure to liquidity, leverage, and counterparty risks, and strengthening potential transmission channels to the broader financial system.

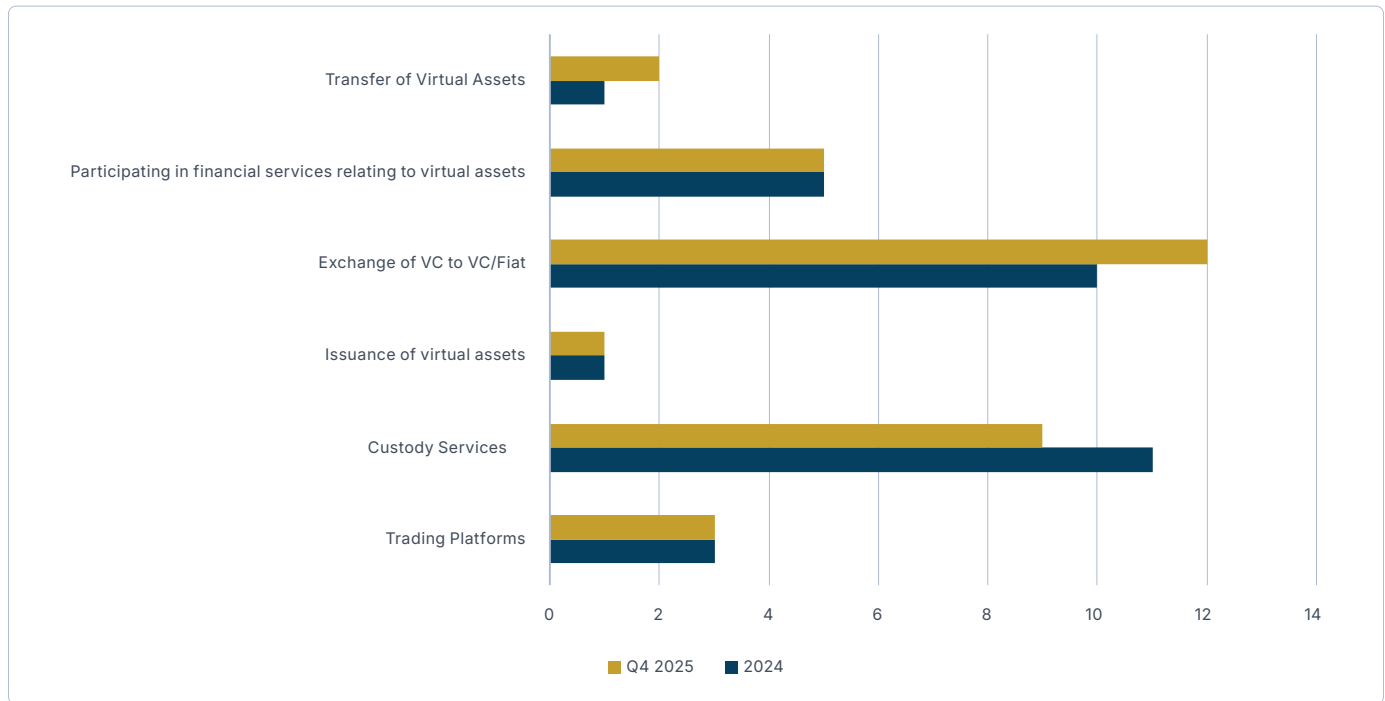
The Cayman Islands has established a regulatory framework for VASPs under the Virtual Assets (Service Providers) Act (VASP Act), which came into effect in 2020 and has been implemented through a phased approach. Phase One focused on registration and oversight of key risk areas, namely anti-money laundering and countering the financing of terrorism (CFT), cybersecurity, and operational risk. Phase Two, which came into effect in April 2025, introduced a transition to a full licensing regime and enhanced supervisory oversight. Under Phase Two, all VASPs providing virtual asset custody or operating virtual asset trading platforms in or from within the Cayman Islands are now required to obtain a licence. The licensing regime includes capital requirements to reduce the impact of liquidity events or market downturn in order to reduce solvency concerns and enhance consumer protection. Other amendments to the VASP Act also took effect, including updated definitions, enhanced prudential requirements, requirement for at least three directors, non-refundable fees, and for incidental and connected purposes. Regulatory measures continue to be enhanced and developed in order to reduce market manipulation and build cyber resilience in response to the increased use of smart contracts and other emerging technologies. An example of a recent regulatory measure is the Rule and Statement of Guidance on Market conduct for VASPs which was published for industry consultation in 2025.

The sector remains small relative to the broader financial system and is largely internationally oriented, with activity of regulated VASPs focused primarily on retail customers in addition to corporate and institutional clients and cross border services rather than domestic financial intermediation. As of December 2025, the sector comprised 18 registered VASPs. This number includes existing VASPs transitioning from registration to licensing but excludes multiple new applications currently under review which indicates ongoing interest in the jurisdiction. Of the regulated VASPs, only a small subset holds one or more additional CIMA-issued licenses or registrations in other financial sectors. The most common cross-regulatory pairing is a VASP registration or license with a Securities Investment Business Act registration or license, reflecting overlap between virtual assets and securities trading models. Additionally, the VASP Act includes a waiver provision for supervised entities (i.e. entities already regulated by CIMA) to apply for a waiver from regulation under the VASP Act where their virtual asset service business meets the relevant waiver requirements. With the growth in tokenized fund models, the VASP Act definition of issuance of virtual assets or virtual asset issuance was amended to exclude tokenized mutual fund and tokenized private fund as reflected in the Virtual Asset (Service Providers) (Amendment) Act, 2026. This interconnectedness with securities, mutual and private funds signals a growing intersection of virtual assets and the broader financial ecosystem.

Activity within the sector remains concentrated in custody and exchange related services. Other activities such as virtual asset trading platforms, issuance of virtual assets, and participation in financial services related to a virtual asset issuance or the sale of a virtual asset remained less prevalent and showed only limited change over the period (Figure 3.16). Shifts in the distribution of services over time primarily reflect a combination of deregistrations, the transition of entities from registration to licensing under the evolving regulatory framework, and adjustments in business models, including changes in service offerings and consolidation across activities. It should be noted that entities may provide multiple virtual asset services, which can influence the distribution of activity across categories.

Direct linkages to the domestic economy remain limited, with activity primarily focused on asset servicing and transaction facilitation. The jurisdiction continues to position itself as a well-regulated and compliance-focused environment, with steady growth expected to be driven by demand for regulatory clarity and supervisory credibility.

Figure 3.16: Number of Virtual Assets Services Offered (by Type)



Source: CIMA

Note: Entities may provide multiple virtual asset services; therefore, counts do not represent the total number of entities.

*In April 2025, Virtual Asset Custody Services and Trading Platforms became subject to licensing requirements under Phase Two of the VASP framework.

ii. Assessment of Vulnerabilities

From a financial stability perspective, risks arising from the VASP sector remain limited at present and are largely structural in nature. A key consideration, however, is the increasing nexus between virtual asset activities and the traditional financial sector, including banking, insurance services, and investment funds, particularly as developments such as tokenisation continue to expand. While direct linkages to the domestic real economy remain limited, these cross-sector connections may represent potential channels for indirect spillovers. Given the sector's international orientation, including a concentration of entities with links to the United States, cross border exposures further reinforce these transmission channels. Developments in major jurisdictions, including regulatory changes, market stress, or shifts in investor sentiment, may therefore have indirect implications for VASPs operating in or from the Cayman Islands. At present, however, there is no material evidence of spillovers to the domestic economy.

Traditional balance sheet risks currently appear limited, reflecting the sector's institutional focus and the relatively low level of issuance activity within the jurisdiction. This further reduces exposure to risks associated with large scale token creation or redemption dynamics, which can amplify liquidity pressures in other markets.

Operational and cyber risks remain the most material from a financial stability perspective. The concentration of activity in custody and exchange services increases reliance on digital infrastructure, including private key management, transaction processing systems and third-party technology providers. Disruptions arising from cyber incidents, operational failures, or weaknesses in outsourced arrangements could impair the safeguarding and/or transfer of client assets. While global incidents highlight the scale of such risks, their direct relevance to the Cayman Islands is mitigated by the scope, size and structure of the domestic VASP sector.

Supervisory risks have primarily been concentrated in AML/CFT compliance, governance, and internal control frameworks.

Supervisory engagement in 2024, including desk-based reviews, resulted in improvements in governance structures, internal controls, and risk management practices across the sector. This has been supported by continued engagement with industry participants, including the 2025 VASP Regulatory Forum³⁹, which formed part of the Authority's broader efforts to strengthen the supervisory framework as the sector transitioned to a full licensing regime. These engagements have helped to clarify expectations around governance, operational readiness, and prudential standards, and have contributed to more robust compliance and risk management practices across the sector.

iii. Outlook

The outlook for the Cayman Islands VASP sector is one of steady, quality-driven growth under enhanced licencing and supervisory oversight. The current pipeline of applications suggests continued interest in establishing virtual asset related business in the jurisdiction, although the pace at which these translate into active entities will largely reflect applicants' operational readiness, business models, governance arrangements and prevailing market conditions. Continued supervisory focus on licensing standards, AML/CFT controls, cybersecurity, outsourcing arrangements, governance and operational resilience will remain important as the sector develops and as virtual assets activity become more closely connected with traditional finance and shared digital infrastructure.

From a financial stability perspective, risks are expected to remain limited in the near term. However, over time, closer integration with other parts of the financial system, particularly investment funds, and continued reliance on shared digital infrastructure may increase the sector's relevance from a stability perspective. Therefore, as the sector continues to evolve and innovate, the Authority remains committed to strengthening its supervisory framework through the issuance of any additional regulatory guidance as needed, onsite inspections, desk-based reviews, and ongoing engagement with industry stakeholders. Collectively, these measures are expected to enhance prudential oversight, improve supervisory visibility, and promote greater clarity and consistency across the industry.

Looking ahead, the virtual assets sector is expected to remain an area of heightened regulatory and supervisory focus as the Authority advances preparation for the 2027 Caribbean Financial Action Task Force (CFATF) Mutual Evaluation. Emphasis will likely be placed on demonstrating the effectiveness of the jurisdiction's AML/CFT frameworks through enhanced supervisory oversight, improved regulatory visibility, transparent reporting and data collection, and robust monitoring of VASPs. These ongoing efforts to strengthen governance, risk management, and compliance practices, coupled with efforts to continue alignment with evolving international standards, will further support investor confidence, reinforce the integrity and resilience of the VASP ecosystem, and uphold the reputation of the jurisdiction as a well-regulated international financial centre.

3.7. Closing Observations

The sector chapters reinforce the report's overall financial stability assessment rather than introducing a separate risk message.

Across the major regulated sectors, current conditions remained broadly sound, but sector profiles continue to evolve in response to global financial conditions, technological innovation, climate-related pressures, cross-border activity, and changing regulatory expectations. This sectoral read-across supports the broader assessment that the Cayman Islands' financial system remains resilient, while also highlighting the importance of monitoring how risks may emerge through different institutional and market channels.

The sectoral assessment underscores the importance of maintaining a resilient, well-regulated and forward-looking financial system. Continued improvements in sectoral data quality, FHSIs, analytical capabilities, and early-warning monitoring will therefore remain important for strengthening CIMA's macroprudential surveillance framework. These efforts will support earlier identification of emerging vulnerabilities, preserve confidence in the jurisdiction, and reinforce the Cayman Islands' role as a trusted international financial centre.

³⁹ [CGBS Conference 2025 Registration Pack & Programme](#)

Appendix

Appendix A: Key FHSIs for Investment Funds

Financial Health & Soundness Indicator Category	Indicator	2022	2023	2024
Size	Number of funds (#)	28,849	29,353	30,150
	NAV (\$US trillions)	7.949	8.267	9.194
	Average NAV per fund (US\$ millions)	275.54	281.64	304.94
	Number of annual fund registrations to total funds (%)	9.56	6.91	8.63
	Number of annual fund deregistrations to total funds (%)	6.42	5.95	5.84
	Net new funds to total funds (%)	3.14	0.96	2.79
Substitutability	Number of KY funds to total global funds (%)	20.90	21.00	21.00
Conduct	Funds under regulatory investigation ⁴⁰ to total funds (%)	0.4	0.5	0.4

⁴⁰ Regulatory investigation means any investigation undertaken by any regulatory authority (not limited only to CIMA)

Appendix B: Key FSIs for Banks

Core Financial Soundness Indicators (%)	Category A Retail Banks					All Banks				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
Capital Adequacy										
Regulatory capital to risk-weighted assets	28.5	27.6	31.3	34.0	28.1	41.6	41.3	43.5	43.1	35.5
Regulatory Tier 1 capital to risk-weighted assets	25.2	23.9	28.0	30.9	26.5	39.1	37.7	39.5	38.0	31.6
Regulatory Tier 2 capital to risk-weighted assets	3.3	3.7	3.3	3.1	1.6	2.6	3.6	4.1	5.1	3.9
(Tier 1 and Tier 2) Capital to Assets	15.1	12.4	14.2	16.1	14.7	16.2	15.4	15.2	15.0	12.4
Nonperforming loans net of provisions to capital (equity)	3.5	3.1	3.7	2.9	3.0	0.7	0.8	1.0	1.0	0.6
(Tier 1 and Tier 2) Capital to assets	15.1	12.4	14.2	16.1	14.7	1.5	1.6	2.3	2.8	2.6
Asset Quality										
Nonperforming loans to total gross loans	2.1	1.5	1.9	1.6	1.5	0.8	1.4	1.9	0.7	0.5
Specific provisions to impaired loans	44.3	40.7	32.2	30.3	30.1	53.2	27.4	26.6	48.4	52.0
Earnings and Profitability										
Return on equity (net income before extraordinary Items and Taxes to Average capital (equity))	9.7	22.6	25.9	21.6	15.2	6.6	10.3	15.2	16.5	15.6
Return on assets (net income to average total assets)	1.4	3.1	3.4	3.2	2.4	0.3	(1.2)	(0.7)	(0.4)	1.0
Interest margin (net interest income) to gross income	68.7	69.4	75.9	74.6	74.4	27.1	(15.3)	(50.2)	(109.1)	23.5
Noninterest expenses to gross income	60.2	45.6	38.4	41.0	46.7	36.4	(53.5)	255.1	346.4	22.3
Liquid Assets										
Liquid assets to total assets (liquid asset ratio)	34.9	26.7	25.7	25.0	22.0	32.4	36.4	30.2	19.9	22.5
Liquid assets to short-term liabilities	46.8	37.2	37.1	38.0	40.0	72.1	82.7	60.1	35.2	41.8

Appendix C: Key FSIs for Class A Insurers

Core Financial Soundness Indicators	Class A Non-life Insurers					Class A Life Insurers				
	2021	2022	2023	2024	Q4 2025	2021	2022	2023	2024	Q4 2025
Capital To Total Assets (%)	33.70	35.09	37.58	35.25	42.91	23.18	24.68	16.43	17.46	20.20
Risk Retention Ratio (%)	48.38	50.11	48.68	43.22	47.41	93.71	91.63	91.10	92.10	91.80
Expense Ratio (%)⁴¹	17.76	16.76	18.10	19.92		16.69	16.92	18.38	19.38	
Return on Assets (%)	1.85	2.14	3.71	3.52	1.80	4.00	4.84	4.82	-0.44	1.54

⁴¹ The expense ratio is shown through 2024, as quarterly data for Q4 2025 are not directly comparable with the annual observations presented for earlier years.

Appendix D: Key Stress Testing FSHIs for Class A (Local) Non-life Insurers (2024)

Financial Soundness Health Indicators (FSHIs)	Baseline Scenario	Scenario 1 - Economic Downturn	Scenario 3 - Economic Downturn and Extended Pandemic	Scenario 2 - Economic Downturn and Catastrophes
Capital / technical provisions	68.7%	61.3%	47.6%	34.3%
Capital / total assets	29.1%	26.8%	22.4%	17.2%
Cover of solvency margin (available solvency / required solvency)	251.2%	230.5%	160.3%	92.8%
Liquid assets / total liabilities	18.4%	19.0%	13.7%	8.2%

Appendix E: Key Definitions

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 of funds 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 (MFAs), 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 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 authorized to provide these services.

Category A Non-Retail Banks: Category A Non-Retail Banks 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 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 collateralized 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 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 offers the provision of corporate services for profit or reward in or from within the Cayman Islands, similar to the Companies Management licence. However, the Corporate Services licensees are limited to the following services: company formation agent; registered office provider; establishing and maintaining beneficial ownership registers for companies incorporated and domiciled in the Cayman Islands; provision of accommodation, correspondence or administrative address for a company or for any other person; filing statutory forms, resolutions, returns and notices; and acting as or fulfilling the function of or arranging for another person to act as or fulfil the function of such person.

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 — (a) the sale of virtual service tokens; or (b) the issuance of — (i) a digital equity token by a tokenised mutual fund in accordance with the Mutual Funds Act (2025 Revision); or (ii) a digital investment token by a tokenised private fund in accordance with the Private Funds Act (2025 Revision).

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 digital platform;

- a. which provides a virtual asset service and 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.



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