



REGULATORY POLICY

Licencing for Class D Insurers

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List of Acronyms

CIMA	Cayman Islands Monetary Authority
The Act	Insurance Act
ICM	Internal Capital Model
LOC	Letters of Credit
ORSA	Own Risk Solvency Assessments
PIC	Portfolio Insurance Company
UBO	Ultimate Beneficial Owner



Regulatory Policy on Licensing for Class D Insurers

1. Statement of Objectives

- 1.1. This Regulatory Policy sets out criteria for the Cayman Islands Monetary Authority (the "Authority") to grant Class D insurer licences to carry on reinsurance business pursuant to section 4 of the Insurance Act (as amended) ("IA" or the "Act").
- 1.2. The Policy should be read in conjunction with the relevant regulatory instruments issued by the Authority from time to time.

2. Scope of Application

- 2.1. The Act requires persons to obtain a Class D insurer licence "for the carrying on of reinsurance business and such other business as may be approved in respect of any individual licence by the Authority".
- 2.2. This Policy is applicable to corporate entities seeking to carry on reinsurance business as a Class D insurer in or from within the Cayman Islands.
- 2.3. This Policy is not applicable to a reinsurer effecting or carrying out a contract of reinsurance with an insurer in the Cayman Islands, unless the reinsurer's principal place of business is in the Islands.
- 2.4. This Policy should be read in conjunction with the Act, its Regulations, Rules and other regulatory measures issued by the Authority, which provide guidance on various topics applicable to Class D insurers, including but not limited to fitness and propriety, internal controls, risk management, corporate governance, outsourcing and actuarial valuation.

3. Introduction

- 3.1. Pursuant to section 4(1) of the Act, "A person desiring to carry on –
 - (a) insurance business;
 - (b) reinsurance business; or
 - (c) business as an insurance agent, insurance broker or insurance manager,

in or from within the Islands shall make an application in writing to the Authority for the grant of a licence (...), and the Authority if satisfied (...), may approve the application and business plan and grant a licence (...)."

- 3.2. Section 4(3) establishes the following:

"Subject to subsection (4), the categories of licences which may be granted by the Authority are –

- (d) Class D insurer licence, for the carrying on of reinsurance business and such other business as may be approved in respect of any

individual licence by the Authority;

- 3.3. Section 2 of the Act defines reinsurance business as “the business of accepting risks by effecting or carrying one or more contracts of reinsurance whether directly or indirectly, and includes running-off business including the settlement of claims”;
- 3.4. Forms for making an application for a licence and information to accompany such application are set out in the Insurance (Applications and Fees) Regulations.

4. Definitions

- 4.1. For the purpose of this Policy, the following definitions have been provided for clarity.
 - 4.1.1. **“Applicant”** refers to a corporate entity seeking to carry on reinsurance business as a Class D insurer in or from within the Cayman Islands
 - 4.1.2. **“Control”** means an aggregate percentage of ownership (through both voting and non-voting shares) that equals or exceeds 10% of the issued shares of the Applicant, either directly or indirectly; or a right to exercise directly or indirectly 10% or more of the of shares of the Applicant; or the ability to instruct or direct the directors of the Applicant.
 - 4.1.3. **“Independent Director”** means a person with no previous business affiliations with the Applicant including but not limited to any affiliation with the ultimate shareholders and other principals and officers of the Applicant.
 - 4.1.4. **“Reinsurance”** refers to insurance purchased by a ceding insurer to provide protection against certain risks. Reinsurers assume these risks in exchange for a premium.

5. General Considerations

- 5.1. The Authority, where satisfied with the application, may process, and issue a licence within the timeframe specified in Appendix E2 of the Regulatory Handbook. The specified timeframe commences when the Authority is in receipt of a complete application form with all the required information and supporting documentation.

6. Procedure for Licensing Class D Insurers

- 6.1. The Authority will apply provisions of the Act, its Regulations, and this Policy to assess Applicants when considering issuing Class D insurer licences.
- 6.2. Persons seeking to carry on reinsurance business as a Class D insurer shall submit a completed application form with all the information required pursuant to the Act and Regulations.

- 6.3. Applicants shall pay licence application fees as prescribed under the Insurance (Applications and Fees) Regulations when making an application.
- 6.4. Applications for licensing for Class D insurers will be presented to the Authority's Management Committee, which meets weekly, for approval.
- 6.5. The Authority, where satisfied with the application, may process and approve the application in accordance with CIMA's relevant supervisory timelines. Once the approval requirements are met by the Applicant, the licence certificate will be issued within 2-3 business days.
- 6.6. Where the approval of the application is subject to requirements, the Applicant must meet the requirements within 6 months of the date of the approval. Upon request, the Authority may consider granting additional time to meet the prescribed requirements. Failure to meet the requirements within 6 months or before the extended deadline will result in the approval of the application becoming null and void.
- 6.7. The Authority may reject an application where the Applicant does not meet the requirements prescribed in the Act, Regulations, the criteria set out in this Policy or where the Authority believes that granting a licence would not be in the best interests of the public, proposed shareholders, reinsureds, or creditors.
- 6.8. Any changes to the information provided in the application prior to granting the licence must be disclosed immediately. Such changes will have to be approved by the Management Committee.
- 6.9. The Authority may at its discretion contact an overseas regulatory authority, which supervises the Applicant or any affiliate of the Applicant or any entity involved in the reinsurance program, as part of its due diligence assessment of the licence application.
- 6.10. In case of a proposed commutation, novation, loss portfolio transfer of reinsurance business to the proposed Class D insurer, the Authority may contact the transferee's home regulator.

7. Assessment Criteria for Licensing Class D insurers

- 7.1. The Authority assesses applications with respect to, among other things, fitness and propriety of the proposed directors, managers and officers, business plan, funding and collateral arrangements, track record, transparency, risk management, internal controls, and systems for combating money laundering and terrorist financing (where applicable), proliferation financing and sanctions monitoring.
- 7.2. Applicants shall demonstrate that they meet the definition of the Class D insurer licence category pursuant to the Act. For this purpose, Applicants shall provide details of the intended transaction and features of the proposed entity.

- 7.3. The Authority will consider each application on its own merits and will consider all relevant factors, including the criteria below.
- 7.4. Applicants that are segregated portfolio companies shall satisfy the below criteria separately for each proposed segregated portfolio or portfolio insurance company ("PIC").
- 7.5. ***Fit and Proper Criteria***
- 7.5.1. According to the Act, the Authority shall not grant a licence unless it is satisfied that the business of the Applicant will be carried on by persons who are fit and proper persons to be directors, managers or officers. The Authority must be satisfied that persons holding control of a licensee are fit and proper.
- 7.5.2. The Authority will apply the criteria and procedure set out in the Authority's Regulatory Policy and Regulatory Procedure on Fitness and Propriety¹ in determining whether persons holding control, directors and persons responsible for controlled functions of the Applicant are fit and proper.
- 7.5.3. In determining whether a person is fit and proper, the Authority considers that person's:
- (a) honesty, integrity and reputation;
 - (b) competence and capability; and
 - (c) financial soundness.
- 7.6. Fit and proper assessments will be conducted on persons responsible for controlled functions where Applicants will have staff to discharge controlled functions in the jurisdiction.
- 7.7. Additionally, where controlled functions are to be outsourced to third parties, the Authority expects them to be fit and proper as well.
- 7.8. ***Control (including Ownership)***
- 7.8.1. The Authority requires persons holding control of a licensee to be fit and proper to have such control or ownership. The Authority will reject the entire Class D insurer application if a person proposed to hold control is not found to be fit and proper.
- 7.8.2. The application must contain a complete ownership structure chart showing the link between the proposed Class D insurer and its ultimate beneficial owners ("UBO") with 10% or more control. The ownership structure chart should show all the intermediary holding and operating entities between the Class D insurer and its UBOs with 10% or more control.

¹ Refer the Authority's Regulatory Policy and Regulatory Procedure on Assessing Fitness and Propriety for detailed information.

- 7.8.3. For each of the immediate shareholders, ultimate shareholders, and intermediary holding and operating entities with 10% or more control, the following information must be provided:
- (a) Full legal/business name, trade name, the place or country in which the entity is registered or has been incorporated;
 - (b) Nature of business; and
 - (c) Whether regulated by a financial services regulator, if so, name of regulating body.
- 7.8.4. Where the Applicant is part of an insurance group, the ownership structure chart should provide details of all the affiliated entities, including non-financial services entities.
- 7.8.5. Each of the UBO with 10% or more control must submit a Personal Questionnaire together with the documentation listed in the Regulatory Procedure on Assessing Fitness and Propriety. For clarity, this requirement applies to UBOs of both voting- and non-voting- shares.
- 7.8.6. Where a trust is part of the ownership structure or the proposed UBO of the proposed Class D insurer or the proposed Cayman Islands company is a trust, the Applicant must provide details of the trust arrangement, beneficiaries, the trustee, protector (if any), the settlor or person(s) and any relationship of settlors to beneficiaries. Whether or not the trustee (if an entity) is regulated and if so, details of the regulatory body.
- 7.8.7. Where the proposed Class D insurer is ultimately owned by a fund (e.g., hedge fund or a private equity fund), the Authority expects to receive details of all the General Partners and any significant Limited Partners/investors including their names, nationalities and country of residence. The Authority will consider the informational requirement in line with its regulatory policy on criteria for approving changes in ownership and control.
- 7.8.8. Where the proposed Class D insurer is ultimately owned by a publicly traded company, the Authority expects to receive details of shareholders with 10% or more listed shares.
- 7.8.9. Where there is only one or two UBOs, the Authority may require a succession plan² developed to minimize the disruption of the Applicant's operations in the event one of the UBOs dies or becomes incapacitated.

7.9. **Corporate Governance³**

- 7.9.1. The Applicant must provide a draft corporate governance framework it intends to establish to provide sound and prudent management and oversight of its reinsurance business and to adequately recognize and

² Refer the Authority's Statement of Guidance on Succession Planning for minimum expectations in relation to succession planning.

³ Refer the Authority's Rule on Corporate Governance for Insurers for requirements in relation to corporate governance.

protect the interests of ceding companies.

7.9.2. The Applicant must clearly list the names of all proposed directors, and state whether they are parent company/group representatives, or Independent Directors. If there are no Independent Directors have been proposed, state the reason.

7.9.3. The Applicant must state, from their viewpoint, whether there is an appropriate number and mix of individuals as directors to ensure that there is an overall adequate level of competence at the Board level.

7.10. **Business Plan**

7.10.1. The application shall be accompanied by a sufficiently detailed business plan with all the information as outlined in the Insurance (Applications and Fees) Regulations and explained in the subsection 7.10.2.

7.10.2. The business plan should align with the size and complexity of the applicant and should where applicable contain the following information:

Reinsurance Business to be Written (Except where otherwise stated, reinsurance shall mean “assumed reinsurance” and shall include co-reinsurance)

- (a) The rationale for establishing the proposed reinsurance business, reason for selecting the Cayman Islands, business opportunities, business strategy, including the short and long-term objectives for the company and how these will be achieved.
- (b) Geographical spread of the business and target market, potential reinsurance business and details of transaction flows identifying all the components and business purpose.
- (c) Reinsurance programme, including list of all the lines of business or risks to be written by the Applicant, policy periods, levels of assumed exposure both financial and by time, cessions/limits and aggregates limits by line of business.
- (d) For each type of product offered, details on the type of reinsurance contract, counterparties involved in the reinsurance transaction, including cedent, trustee, custodian and investment manager. Details of the manner by which exposure and claims attach to the cedant’s underlying book and the definitions of tranches of underlying exposure which attach to the proposed licensee. Attach drafts of the proposed reinsurance contract(s) and reinsurance trust agreements for each type of product offered.
- (e) Details of rates-on-line to be paid by the cedant for non-proportional reinsurance and all related commission terms, including profit commissions.
- (f) Details of any reinstatement terms and conditions on cover and the basis on which related payments are to be paid by the cedant for the reinstatement.

- (g) Details of commission terms to be paid to the cedant for proportional reinsurance, including profit commissions.
- (h) Confirmation that there are no legal impediments to the proposed reinsurance transactions.
- (i) Are any portfolio transfers proposed? If so, an actuarial evaluation of the transfer must be provided by an independent actuary.
- (j) Details of the proposed fronting/ceding arrangement including financial strength ratings of the fronting insurers. Provide a diagram depicting flow of premiums and flow of claims in relation to the proposed reinsurance business.
- (k) Details of the proposed retrocession arrangements, including ratings of retrocessionaires by a recognized rating agency (if not rated, or rated below BBB or equivalent, last two years' financial statements of the retrocessionaire). Provide a schematic and summary showing the retrocession arrangements sought by the Applicant, that is, the flow of insurance business from the ceding insurer to the applicant and to the retrocessionaire.
- (l) If the Applicant to be used as a passthrough, what are the business reason and benefits to the company?
- (m) In case of a proposed commutation, novation or loss portfolio transfer to the proposed Class D insurer, provide a copy of the draft agreement. As a minimum this must include the extent of the exposure to be accepted and the rates-on-line and commission terms to compensate for those liabilities.
- (n) The nature of assets that will support the reinsurance liabilities and explanation of the manner in which the investment guidelines meet the relevant regulatory requirements.
- (o) Details of security requirements, including trusts, letters of credit or funds withheld and how such assets will be held and invested including details of relevant parties, any non-arms length and non-investment grade assets to be used etc.
- (p) Claims management programme, whether Applicant will utilise inhouse resources or third-party administrator/expertise.
- (q) Applicant's intended approach for recording related reserves. If actuarially determined, what are the names and contact details of the Actuaries involved?
- (r) Details of all intermediaries involved such as reinsurance brokers and managing general agents, if they are regulated or not (provide name of regulating body).
- (s) Where the Applicant assumes longevity risks of its affiliate insurer(s), confirmation if the cedent's insurance supervisor requires the cedent to submit capital projections based on a gross reserve basis. Provide details.
- (t) Where the Applicant assumes risks of its affiliate insurer(s), confirmation if the cedent's insurance supervisor requires the cedent to submit capital projections after removing certain assets within the funds withheld. Provide details.

Funding and Collateral Arrangements

- (u) Applicants shall demonstrate that they will be sufficiently capitalized to satisfy the capital requirements per the Insurance (Capital and Solvency) (Classes B, C, and D insurers) Regulations.

- (v) Where the Applicant intends to use its own internal capital model (“ICM”), provide details and explain how, in its opinion, ICM is going to be appropriate to the nature, scale and complexity of the proposed business and the risks to which the proposed Class D insurer will be exposed to.
- (w) Applicants should provide details as to the origins of source of funds to support the intended operations. Applicants should also provide detailed information on its proposed method for capitalisation, whether by way of share capital, letter(s) of credit, subordinated loans or otherwise.
- (x) Where Applicants are funded through letters of credit (“LOCs”) or other financial or debt mechanisms, they should demonstrate that the issuer of such funding mechanism(s): is a financial institution regulated by the Authority or any other regulatory authority acceptable to the Authority; LOCs should be clean, irrevocable and unconditional and should name the Applicant as the beneficiary; and the financial rating with respect to financial strength and issuer credit rating by a recognized rating agency.
- (y) Confirmation that the Applicant has made a full disclosure to all relevant parties with respect to the intended use of LOCs or other debt mechanisms as collateral.

Investment Management⁴

- (z) Applicant should include a statement summarising their investment philosophy and general strategy.
- (aa) Applicant should include the targeted asset allocation for the entire asset base including, limits on collateralized loan obligation (CLO) tranches, limits on Asset-Backed Security (ABS), limits on affiliated/related party investments etc.
- (bb) Applicant should include details of how they intend to manage liquidity including any asset-liability matching activities.
- (cc) Where an investment manager is appointed that is not licensed by the Authority, the Applicant must indicate the regulatory authority of the investment manager and provide a brief overview of the investment manager’s operations.
- (dd) Are loans to related parties intended?
- (ee) Is the issuing of redeemable preference shares or debt instruments to supplement capital, during the following financial period, under consideration?

7.11. Risk Management and Internal Controls⁵

- 7.11.1. Applicant must provide details pertaining to its risk management framework consists of structures, processes and people within the company that identify, assess, mitigate and monitor all internal and external sources of risk that could have a material impact on the business and operations.

⁴ Refer the Authority’s Rule and Statement of Guidance on Investment Activities of Insurers for requirements and minimum expectations (respectively) in relation to investment activities.

⁵ Refer the Authority’s Rule on Risk Management for Insurers for requirements in relation to risk management

- 7.11.2. Applicant should rate the following inherent risks (actual/perceived) using a scale of “Low”, “Medium-Low”, “Medium-High” and “High”: strategic risk; credit risk; market risk; liquidity risk; insurance risk; operational risk; legal and regulatory risk; and political risk.
- 7.11.3. Has the Applicant or its affiliates undertaken any major projects or business ventures that could expose the Applicant to major risks if these projects or businesses fail.
- 7.11.4. Does the Applicant intend to conduct quantitative and qualitative stress tests and scenario analysis having regard to the size and complexity of its business and the nature of its risk exposures? If not, then a clear explanation as to the reasoning must be provided.

7.12. **Compliance Obligations**

- 7.12.1. Applicant must demonstrate how it will comply with applicable Acts, regulations and regulatory measures in the Cayman Islands. This may be covered in the corporate governance framework of the applicant and could include formation and/or outsourcing of compliance related function e.g. onboarding of a Compliance Officer, formation of internal audit unit, etc.
- 7.12.2. Applicants are responsible for ensuring that any notes, bonds or other securities issued by it are distributed in the capital markets or by way of private placement in conformity with the securities laws of the jurisdiction(s) where the target shareholders reside.
- 7.12.3. Whether the Applicant is expected to comply with any industry standards, where such standards exist. This will assist in ensuring that business is carried out in conformance with the professional standards normally expected of a reinsurer in that particular sector.
- 7.12.4. The Applicant’s proposed policies, procedures and systems should be appropriate for the size, nature, and complexity of its operations and in compliance with all legislative and regulatory requirements.
- 7.12.5. Does the Applicant have an independent Internal Audit function or similar outsourced function? If ‘yes’ provide details, and if ‘no’, state the reason.
- 7.12.6. How often the Applicant intends to conduct internal control audits?

7.13 **Operation**

- 7.13.1. Class D insurers are required by the Act to have a place of business in the Cayman Islands with resources, including staff and facilities, books and records as the Authority may consider appropriate, having regard to the nature and scale of the business. Demonstrate how the Applicant intends to meet the place of business requirement.

- 7.13.2. Where an Applicant chooses to outsource some aspects of its accepted reinsurance business to an external party or an affiliate of the Applicant, the Authority requires that the service provider is adequately qualified, resourced, and fit and proper to carry on that outsourced function⁶. Demonstrate how the Applicant intends to have proper oversight on the proposed outsourced functions.
- 7.13.3. Applicant should provide details on how and where its books and records, including management information will be stored securely and could be accessed at all reasonable times. Books and records shall include licensing documentation, details of key personnel (if applicable), funding mechanism, reinsurance agreements, reinsurance trust agreements, claims handling and outsourcing agreements and various policies and manuals.
- 7.13.4. Provide details of the Applicant's business continuity plan or arrangements that will be in place to ensure that specified operations can be maintained or recovered in a timely fashion in the event of a disruption⁷.

8. Conversion for an Existing Class B Insurer to a Class D Insurer

- 8.1. Where a Class B insurer licensee has made a strategic decision to convert to a Class D insurer, the Authority may require the following documentation to allow for a greater ease of transition to the Class D licensing category if the information is not already filed with the Authority.
- 8.2. The Applicant will be required to submit the following documentation to the Authority:
 - 8.2.1. a completed Class D insurer licence application;
 - 8.2.2. an updated business plan, highlighting the major changes from the current model (refer section 7.10.2);
 - 8.2.3. the required documentation for any new directors and officers, or updated documentation, if outstanding, for existing directors and officers, as per the Regulatory Procedure – Assessing Fitness and Propriety;
 - 8.2.4. Provide additional information under sections 7.11, 7.12 and 7.13.
 - 8.2.5. the original Class B insurer licence certificate issued by the Authority;
 - 8.2.6. any additional supporting documents that the Authority may request, where applicable.

⁶ Refer the Authority's Statement of Guidance on Outsourcing Regulated Entities for guidance on the establishment of outsourcing arrangements and the outsourcing of material functions or activities.

⁷ Refer the Authority's Statement of Guidance on Business Continuity Management for guidance on business continuity plans.

- 8.3. Applicants must remit to the Authority the applicable licence fee as required by the Authority.
- 8.4. Upon receipt of a completed application, the Authority will proceed with the approval procedures outlined in Section 6 of this policy.
- 8.5. Upon approval, the Authority will simultaneously cancel the current licence and issue a Class D licence. The Authority will not charge a licence surrender or cancellation fee for this reclassification of the licence.

9. Existing Reinsurers Redomiciling to the Cayman Islands

- 9.1. Where the Applicant is an existing reinsurer intending to redomicile to the Cayman Islands, the following additional information should be submitted (where applicable):
 - 9.1.1. Whether the re-domiciliation has been approved by the relevant authorities in the home jurisdiction (supporting evidence to be provided) ?
 - 9.1.2. Whether there has been any material change in the system of governance in the last 12 months?
 - 9.1.3. Has any change been made during the year under review to the Memorandum and Articles of Association or equivalent document by which the Applicant is constituted?
 - 9.1.4. Has the Applicant merged or consolidated with any other company within the last five years?
 - 9.1.5. Has the Applicant changed its name within the last five years?
 - 9.1.6. Has the Applicant undergone a change of management or control in the last 12 months?
 - 9.1.7. Is the Applicant a plaintiff or defendant in any legal action other than one arising from policy claims? If “yes” provide a summary of each case and an estimate of the Applicant’s probable liability
 - 9.1.8. Has the Applicant, within 12 months last preceding the date of this application made a loan to an entity owned or controlled directly or through a holding corporation?
 - 9.1.9. Did the Applicant’s issued share-capital change during the last 12 months?
 - 9.1.10. Did the Applicant issue preference shares, debentures or mortgages or other debt instruments during the last 12 months?
 - 9.1.11. Has anything come to the attention of the directors to indicate that any material malfunction in the functioning of the risk management and

internal controls, procedures and systems has occurred during the last 12 months?

- 9.1.12. Does the Internal Audit function have an appropriate mandate to cover all high-risk areas and has this mandate been approved by the Board of Directors?
- 9.1.13. Were any material weaknesses report in the last internal audit?
- 9.1.14. Were any significant problems experienced with regard to the information/accounting/administrative systems during the last 12 months?
- 9.1.15. When was the last time the business continuance plan was tested?
- 9.1.16. Up to five (5) years of audited statements to the Authority for evaluation with their application.
- 9.1.17. Actuarial reserving annual reports relating, or ad hoc actuarial reports, in the latest 3 years prior to application.
- 9.1.18. If an Own Risk Solvency Assessments ("ORSA") have been prepared, either relating to the Applicant, or a senior company to the Applicant, they should be provided for the latest 3 years prior to the application.

10. Additional Requirements

- 10.1. In addition to the above, the Authority may require any other information or documentation that is necessary for processing an application and granting a licence.



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