



Cayman Monetary Regulatory Authority International

At the forefront of financial regulation, the Cayman Monetary Regulatory Authority International (CMRAI) is dedicated to upholding the highest standards of financial oversight and compliance. Our mission is to safeguard the stability and integrity of the global financial system by ensuring that financial services operate within a framework of transparency, accountability, and excellence.

As a trusted partner to financial institutions worldwide, CMRAI provides rigorous supervision, innovative solutions, and strategic guidance to foster a secure and thriving financial environment. With decades of experience and a commitment to global standards, we stand as a pillar of trust and security in an ever-evolving financial landscape.

With a legacy of excellence in financial oversight, the Cayman Monetary Regulatory Authority International (CMRAI) is a beacon of trust in the international financial community. Our role extends beyond regulation; we are innovators, collaborators, and protectors of the global financial ecosystem. By fostering compliance, promoting best practices, and embracing technological advancements, CMRAI ensures that financial services remain resilient and adaptable in a dynamic global market.

Our comprehensive approach to regulation encompasses a deep understanding of financial risks and a proactive stance on emerging challenges. We are committed to empowering financial institutions with the tools and guidance necessary to navigate complex regulatory landscapes, thereby contributing to global economic stability and growth.

SECTOR CONSULTATION AND FEEDBACK STATEMENT Rules and Statement of

Guidance - Reinsurance Arrangements No. Section Comments The Authority's

Response Consequent Amendments to the Proposed Measure SECTION-SPECIFIC

COMMENTS 1. Section 2.2 The Authority recognises that reinsurance arrangements

will vary according to the manner in which the business of the insurer is structured,

organised and managed; its business objectives; its size; and the nature, scale and

complexity of its operations. The overriding principle, however, is that reinsurance

arrangements must be adequate to satisfy the requirements of the Authority and relevant

acts and regulations. Consistency of the use of size, nature, scale and complexity

throughout the document Amended as recommended. Section 2.2 amended to read; The

Authority recognises that reinsurance arrangements will vary according to the

manner in which the business of the insurer is structured, organised and managed;

its business objectives; and the size, nature, scale and complexity of its operations. The

overriding principle, however, is that reinsurance arrangements must be adequate

to satisfy the requirements of the Authority and relevant acts and regulations. 2.

Section 4.2 The Authority will consider the contents of these Rules and Statement of

Guidance in its supervisory processes including onsite inspection. The

reinsurance strategy in the licensee's CMRAI approved business plan should be

sufficient for non-complex outward reinsurance arrangements (e.g. some B(iii) license

holders) so that a separate reinsurance strategy document is not required. The Rules

and SOG is revised to require an insurer to inform the Authority of any material

changes to its reinsurance strategy. Materiality threshold should be determined in

the context of the size, nature, scale and complexity of the insurer's business and

its reinsurance programme. However, this Rules and SOG does not supersede the No

amendments required. 2 No. Section Comments The Authority's Response Consequent

Amendments to the Proposed Measure regulatory requirement to seek approval for

business plan changes. Section 7.4 requires insurers to notify only material changes

to its reinsurance strategy. 3. [5.1.] The following definitions are provided for the purpose

of the Rule and Statement of Guidance: a) Insurer refers to an entity licensed by

the Authority as an insurer under the Insurance Act that utilises any form of

outward reinsurance (for the purpose of the Rule and Statement of Guidance, insurer also

refers to the ceding insurer). b) Reinsurance refers to insurance purchased by a

ceding insurer to provide protection against certain risks. Reinsurers assume these

risks in exchange for a premium. For the Rule and Statement of Guidance,

reinsurance includes retrocession arrangements. c) Reinsurance Contract is an

agreement that transfers insurance risk. d) Reinsurer refers to a regulated insurance

company that assumes the risk of a ceding insurer in exchange of a premium. Should

retrocession agreements be defined? The following is suggested for your

consideration the reinsurance ceded by reinsurers Amended as recommended.

New Section 5.1 (f) added, and reads as follows: Retrocession refers to reinsurance purchased by a reinsurer. Rule needs to define Regulated as articulated in feedback statement Regulated defined in the measure. New Section 5.1 (b) added, and reads as follows; Regulated means authorized and/or supervised by a financial services regulator recognized by the Authority. 3 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure 4. Rule 7.6

The insurer must advise the Authority of any material problems with the reinsurance

arrangements that will adversely affect the insurer's ability to meet future obligations. The insurer must advise the Authority of plans to redress such issues. This section is equivocal. What is contemplated by CMRAI in a situation for example whereby a reinsurer issues a reservation of rights letter or denies a claim (with or without acting in bad faith)? Does CMRAI expect to be advised? If there is a known material failure e.g. financial impairment of a significant %/\$ line of reinsurance recoverables (as opposed to a (mere) problem) that is one thing but as is currently worded, this provision is unduly burdensome. CMRAI cannot expect to sit beside the claims management and negotiation function of its licensees and be apprised of every reservation of rights letter or denial of claim etc. Unfortunately, re/insurance is a promise to pay not a guarantee to pay and this results (all too often) in robust claims recoveries negotiations which may be a problem only and subject to resolution through negotiation and/or through the courts or the arbitration process. Suggest rewording to:

7.6 The insurer must advise the Authority of any material failure of the reinsurance arrangements (such as the financial impairment of an insurer-entity threatening amount of recoveries from the reinsurer) that will adversely affect the insurer's ability to meet future obligations. The Authority has noted the comment and will reword Rule 7.6 for clarity. Rule 7.6 is amended to read: The insurer must advise the Authority of any material problems that could lead to failure of the reinsurance arrangements (such as those threatening material recoveries from the reinsurer) and likely adversely affect the insurer's ability to meet future obligations and to comply with the Act and solvency requirements. The insurer must advise the Authority of steps taken to address such issues.

4 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure obligations. The insurer must advise the Authority of steps taken to address such issues.

5. Rule 7.7 The insurer must document the minimum criteria to be used for the selection of reinsurers. Unless otherwise approved by the Authority, only regulated reinsurers are permitted to be used by the insurer. Capitalize the word Regulated and make it a defined term. From the Authority's point of view, Regulated means regulated by a financial services regulator recognized by CMRAI. Section 5 amended to include the following definition: Regulated means authorized and/or supervised by a financial services regulator recognized by the Authority.

6. Rule 7.7 (...) Unless otherwise approved by the Authority, only regulated reinsurers are permitted to be used by the insurer. and Rule 7.8 (...) Unless otherwise approved by the Authority, only regulated brokers are permitted to be used by the insurer. For the avoidance of doubt, clarity should be brought to bear stating that regulated brokers and regulated reinsurers are any organization regulated anywhere in the world by a recognized regulator e.g. any member of the International Associations of Insurance Supervisors, USA State insurance regulators and/or the like and/or as determined by the Authority. Please see response above. No amendment required.

7. Rule 7.8 The insurer must document the minimum criteria to be used for the selection of the brokers to the extent brokers are used to arrange reinsurance. Unless otherwise approved by the Authority, only regulated brokers are permitted to be used by the insurer. Capitalize Regulated Brokers and make it a defined term as defined in the Insurance Act and to confirm permissibility of a broker that is regulated in another jurisdiction outside the Cayman Islands. Please see response above (i.e. comment 5) No amendment required.

5 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure Add clarity to confirm reinsurers

regulated outside the Cayman Islands are permissible. 8. Section 8 Risk Transfer

Rule 8.1 The insurer must have sufficient documentation about its reinsurance contracts to be able to demonstrate the economic impact of the risk transfer i.e. the degree of risk transfer in an economic sense. Rule 8.2 Where the insurer is not retaining any risk (merely acts as a pass-through), which is reinsured by a reinsurer, the insurer must have sufficient documentation to demonstrate the business purpose of the reinsurance arrangement. SOG 8.3 Where a reinsurance contract and/or structure of reinsurance contracts used by the insurer, has the characteristic whereby the risk transfer contemplated by the reinsurance contract(s) is cancelled, deemed ineffective or mitigated by an alternative agreement then the Authority deems there to be insufficient risk transfer to consider the contract as a reinsurance contract. Rule 8.4 Should risk transfer be defined in the context of applicable accounting standards? Risk transfer has a general meaning where insurance risk is contractually transferred from one party to another. No amendments required. 6 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure Where the insurer is aware that the reinsurer is not retaining any risk ceded to it by the insurer (is used as a pass-through), the insurer must document the rationale and purpose for the use of such a structure. The documents must specify the responsibilities and controls that will be implemented by the insurer to ensure sufficient management of the risks in the absence of retaining any of the risk by its reinsurer. 9. Rule 8.2 Where the insurer is not retaining any risk (merely acts as a pass-through), which is reinsured by a reinsurer, the insurer must have sufficient documentation to demonstrate the business purpose of the reinsurance arrangement. Use of the term merely could be viewed as pejorative/negative. Suggest its removal Note; many Cayman class Bs sub-category (i), (ii) and (iii)s licensees reinsure admitted carriers on a 100% QS basis in whole, or for a layer or on a co-ins of a layer and thus it can be viewed as being somewhat duplicitous that this would be a term used when the Cayman captive in turn cedes out on this very same basis. Very relevant for Class Cs (Cat Bonds and Side-Cars) who by their nature cede 100%. All reinsurance arrangements, either at a 100% QS basis or less, assumed into or ceded out of a Cayman captive are fully described in the CMRAI approved business plan. Reinsurance fronting (intermediary reinsurers) are traditional arrangements. If the term documentation is satisfied by the contents of the insurers CMRAI The Authority has noted that the business plan does not routinely address this matter. The term merely will be removed and the Rule amended for clarity. Rule 8.2 is amended to read: Where the insurer is not retaining any risk (is used as a pass-through), which is reinsured by a reinsurer, the insurer must have sufficient explanation in its business plan or any other record agreed with the Authority to demonstrate the business purpose of the reinsurance arrangement. 7 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure approved business plan, then this is sufficient. Suggest rewording to: 8.2 Where the insurer is not retaining any risk, which is reinsured by a reinsurer, the insurer must have sufficient explanation in its business plan to demonstrate the business purpose of the reinsurance arrangement. 10. SOG 8.3 Where a reinsurance contract and/or structure of reinsurance contracts used by the insurer, has the characteristic whereby the risk transfer contemplated by the reinsurance contract(s) is cancelled, deemed ineffective or mitigated by an alternative agreement then the Authority deems there to be insufficient risk transfer to consider the contract as a reinsurance contract. Insert

the words Insurers need to be aware that... at the beginning of this section to convey this more as a requirement than as a procedural notice of what CMRAI will do. The Authority is satisfied with the paragraph. No amendment required.

11. Rule 8.4 Where the insurer is aware that the reinsurer is not retaining any risk ceded to it by the insurer (is used as a pass-through), the insurer must document the rationale and purpose for the use of such a structure. The documents must specify the responsibilities and controls that will be implemented by the insurer to ensure sufficient management of the risks in the absence of retaining any of the risk by its reinsurer. Use of the phrase Where the insurer is aware.. is equivocal. It could be construed that the captive, if it was not aware, it should have been aware and /or it should have sufficient enquiries so as to have become aware ...which is unduly onerous and problematic. It could thus be construed that the onus is on Cayman Captives (in general) to proactively make enquiries of all their retrocessionaires as to where that The Authority notes the comment and has amended the Rule for clarity. Rule 8.4 is amended to read: Where the insurer is knowingly participating in a programme or structure whereby the reinsurer is not retaining any risk ceded to it by the insurer (is used as a pass-through), the insurer must document the rationale and purpose for the use of such a programme or structure in its business plan or any other record agreed with the Authority, and the insurer must specify the responsibilities and 8 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure entity's outwards Retrocession is placed at what %, and with whom and at what Terms and Conditions and to document this. There is no contractual relationship between the insurer/cedent (tier 1) and the retrocessionaire (tier 3) in this scenario. These placements to the tier 3 retrocessionaire may indeed be propriety and/or confidential. Therefore the ability for the insurer/cedent to impose any responsibilities and controls on any retrocessionaire that is completely independent of the insurer, is both de minimis and unrealistic. Even if related to the retrocessionaire, confidentiality and propriety requirements may impede informing CMRAI/documenting this. Suggest rewording to: 8.4 Where the insurer is knowingly participating in a programme or structure whereby the reinsurer is not retaining any risk ceded to it by the insurer (is used as a pass-through) and the insurer has consented to the reinsurer not retaining any risk, the insurer must document the rationale and purpose for the use of such a programme or structure in its Business Plan. controls that it will implement to ensure sufficient management of the risks in the absence of retention of such risks by the reinsurer. 9 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure

12. Rule 9.2 Where the insurer utilises a broker to place the reinsurance, the insurer must ensure that the broker has sufficient expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance program. The insurer must also consider the financial soundness of the broker obtaining the reinsurance coverage and any potential conflicts of interest between the broker and the reinsurer. The draft Rule/SOG states that where the insurer utilises a broker to place the reinsurance, the insurer must ensure that the broker has sufficient expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance program. The Rule should clarify or define what is deemed to be "sufficient expertise" in this scenario. Does sufficient expertise require a definition as per the PSA feedback The Authority is satisfied with the sufficiency of Rule 9.2 but will edit for clarity. Rule 9.2 is amended to read: Where the insurer utilises a broker to place the reinsurance, the insurer must

perform due diligence assessment to ensure that the broker has expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance programme. The insurer must also consider the financial soundness of the broker obtaining the reinsurance coverage and any potential conflicts of interest between the broker and the reinsurer. 13. Rule 9.2 Where the insurer utilises a broker to place the reinsurance, the insurer must ensure that the broker has sufficient expertise to assist with the design of the reinsurance programme and/or placing of the reinsurance program. The insurer must also consider the financial soundness of the broker obtaining the reinsurance coverage and any potential conflicts of interest between the broker and the reinsurer. Capitalize the word Regulated and make it a defined term. See the Authority's response to comment no. 5. No amendments required. 14. Rule 12.3 Insurer must have controls in place to assess and identify any risks arising from a mismatch in the terms and conditions between reinsurance contracts and the underlying policies. Relevant where Facultative R/I is purchased on an individual risk or where a policy of insurance is reinsured outwards in whole or part where there is a direct connection between the front-end and the back-end. Not relevant where e.g. outwards Cat protection, stop loss, aggregate excess of loss, et al, is purchased on a portfolio or a bouquet, basis. The Authority has noted the comment and will amend the Rule. Rule 12.3 is amended to read: Insurer must have controls in place to identify any material risks arising from a material mismatch, based upon a prudent understanding of the contracts, in the terms and conditions between reinsurance contracts and the underlying policy. 10 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure Also, de facto, there will always be differences between the underlying and the outwards in a situation as is laid out (Facultative R/i) , it is a matter of degree of mismatch only. Suggest rewording: 12.3 Insurer must have controls in place to identify any material risks arising from a material mismatch, based upon a prudent understanding of the contracts, in the terms and conditions between reinsurance contracts and the underlying policy. 15. SOG 12.5 All material reporting due to and from reinsurers should be timely and complete, and settlements should be made as required by the reinsurance contract. Where it has been contractually agreed that balances (example, premium and claims) may be offset, controls should be implemented to ensure that such balances are accurately recorded in the books of the insurer. Replace the words accurately recorded with appropriately recorded . The Authority is satisfied with the paragraph as laid out. No amendment required. 11 No. Section Comments The Authority's Response Consequent Amendments to the Proposed Measure 16. Rule 13.1 Where the insurer has assumed catastrophe exposed risks and is purchasing reinsurance protection to mitigate against potential losses arising from extreme catastrophe events, the insurer must ensure that it has documented the following: a) policies and procedures for catastrophe exposure management, including identifying persons responsible for the ongoing monitoring of accumulations and to measure the exposure against the insurer's risk appetite, b) the persons and/or organisation responsible for conducting catastrophe modelling; and c) its risk appetite to provide clarity as to the risks that are retained by the insurer and those that are covered by reinsurance protections (including reference to any intra- group arrangements) and ensure such risk appetite is approved by the Board of Directors. Reference to identifying a person is too specific and would possible be redundant quickly. Suggest rewording: 13.1. Where the insurer has assumed

catastrophe exposed risks and is purchasing reinsurance protection to mitigate against potential losses arising from extreme catastrophe events, the insurer must ensure that it has documented the following: a) policies and procedures for catastrophe exposure management, including identifying persons, departments or organisations responsible for the ongoing monitoring of accumulations and measurement of exposures against the insurer's risk appetite, b) the persons, departments and/or organisation responsible for conducting catastrophe modelling; and c) its risk appetite to provide clarity as to the risks that are retained by the insurer and those that are covered by reinsurance protections (including reference to any intra-group arrangements) and ensure such risk appetite is approved by the Board of Directors. The Authority has considered the comment and will amend Rule 13.1 accordingly. Rule 13.1 is amended to read: Where the insurer has assumed catastrophe exposed risks and is purchasing R reinsurance protection to mitigate against potential losses arising from extreme catastrophe events, the insurer must ensure that it has documented the following: a) policies and procedures for catastrophe exposure management, including identifying persons, departments, or organisations responsible for the ongoing monitoring of accumulations and measurement of exposures against the insurer's risk appetite, b) the persons, departments, or organisations responsible for conducting catastrophe modelling; and c) its risk appetite to provide clarity as to the risks that are retained by the insurer and those that are covered by reinsurance protections (including reference to any intra-group arrangements) and ensure such risk appetite is approved by the Board of Directors.