The Insurance Law, 2010
Class "A" Insurer
Frequently Asked Questions (FAQ)

1. **What is the Insurance Law, 2010:**
The Cayman Islands Insurance Law, 2010 (the Law) came into force on 1 November 2012. The Law, derived from significant public and private sector consultation, represents a comprehensive modernization of the prior Insurance Law in alignment with international standards. Principally, the Law strengthens the regulatory powers of the Cayman Islands Monetary Authority (CIMA), enhances protection for policyholders in Cayman's domestic market and facilitates Cayman's further development of reinsurance and insurance linked securities (ILS) business. The practical impact of the new Law on the captive insurance industry will not be significant because many of the new provisions simply introduce into law existing practice of CIMA that was not previously enshrined in legislation.

2. **What do the Insurance Regulations include?:**
The Insurance Regulations are divided into four areas as follows:
   a. Application Forms;
   b. Reporting Forms;
   c. Capital and Solvency for Class A licensees;
   d. Capital and Solvency for Class B, C and D licensees;

3. **Where can I find the reporting forms?**
The Insurance Law, 2010 and the new Insurance Regulations can be found on the Cayman Islands Monetary Website at www.cimoney.com.ky.

4. **What areas are covered by the Law?**
Any organization that was, or plans to be, licensed under the Insurance Law. This includes:
   a. Locally Incorporated Domestic Insurance Companies;
   b. External Domestic Insurance Companies;
   c. Captives;
   d. Commercial Insurers;
   e. Insurance Linked-Securities;
   f. Reinsurance Companies;
   g. Insurance Brokers;
   h. Insurance Agents;
   i. Insurance Managers;

5. **Is there a transition period?**
Yes, there will be a period of 18 months from November 1st, 2012 which will allow existing licensees to come into compliance with provisions of the new Law and supporting Regulations. Therefore, full compliance with The Insurance Law, 2010 is required no later than April 30th, 2014. Upon approval by the Cayman Island Monetary Authority, the Class A insurer will be deemed validly relicensed.

6. **What happens if I do not transition within the 18 month period?**
If an insurer fails to make an application during this 18 month period, its old licence will expire, it will cease to be licensed and it will no longer be able to conduct insurance business.

7. **What are the most significant provisions affecting Class A insurers?**
There are a number of changes that effect a Class A insurer, the most significant of which are in the areas of capital and solvency, reporting and public disclosure, change of control and penalties for non-compliance. Overall, it is incumbent upon a Class A insurer, whether locally incorporated or external, to obtain a copy of the Insurance Law, 2010 and the supporting regulations and review the new requirements.

8. Are there new Minimum Capital Requirements ("MCR")?

Yes, depending on the whether the license is an External Class A or a Locally Incorporated Class A, the minimum capital for insurance business will be the greater of:

		General and Long-Term
i.	**Local Class A**	Greater of an initial capital of US$300,000 or the sum of the several risk assessments including assets, liabilities, subsidiaries, catastrophe exposure and foreign exchange;
ii.	**External Class A**	Greater of an initial capital of US$1 million or the sum of Technical Provisions;

9. Is there a Prescribed Capital Requirement ("PCR")?

Yes, depending on the whether the license is an External Class A or a Locally Incorporated Class A, the Prescribed Capital Requirement for insurance business will be:

		General and Long-Term
i.	**Local Class A**	125% of MCR;
ii.	**External Class A**	150% of MCR;

10. How is the MCR calculated on an on-going basis?

The solvency regulations are, in the main, simple factor based requirements assessed against assets, liabilities, subsidiaries and foreign exchange risk. Catastrophe risk is assessed against a different system and will be monitored on a quarterly basis alongside the filing of quarterly accounts.

11. How does the Catastrophe Component of the MCR work?

Essentially, there are two choices with respect to the catastrophe component: 1. Default method; 2. Internal Model Method.

12. What is the Catastrophe "Default" Risk Method?

In essence, this is a per event risk retention method which imposes a flat 30% factor to the gross aggregate exposure (net of sums reinsured); Additionally, this requires an assessment of the probable maximum loss and must include at least one reinstatement.

13. What is the Catastrophe "Catastrophe Model" Risk Method?

This method allows the insurer to use the model of a recognized catastrophe modelling agency e.g. RMS, Eqecat, etc. However, the minimum standard for a model is that it must contain windstorm and earthquake risk, provide for a 1/100 year return period and must reflect both the Gross and Net probable maximum loss.

14. What are CIMA requirements during the transition phase?

During the transition phase, CIMA will require all Class A insurers to calculate their MCR and PCR on both the default and internal model method in the first instance. This process will allow the domestic insurance industry to present data that will allow for calibration of the underlying factors and therefore, a more effective correlation between risk and capital.

15. Are there any other provisions to which I should be aware?

Yes, there are many provisions in the new Law which will affect Class A insurers and it is important that you address these matters during the transition phase. A summary of these include, where applicable:

- Comprehensive New Reporting Requirements;
- Requirement for Public Disclosure of Financial Statements;
- Threshold for a change of control has been raised to 10%;
- Mandate to gain CIMA approval for any business plan changes;
- Requirement to have effective governance risk management systems appropriate to the size, nature and scale of your business; this includes the requirement for local Class A's to have a minimum of two directors;
- Penalties for late filing of annual fees;
- Increases in fines and penalties for non-compliance;
- New Monetary Authority Sundry Fee schedule;

16. Where can I find more information on the Insurance Law and Regulations?

The Law and supporting regulations can be found on the Cayman Islands Monetary Authority website at www.cimoney.com.ky. Information can also be provided by your insurance manager and finally, the Authority would be more than happy to schedule a meeting to discuss any matters relating to the Law.