

Alert

CIMA Publishes Regulatory Policy on Licensing Requirements for Class C Insurance Companies

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The Cayman Islands Monetary Authority (“CIMA”) published a new Regulatory Policy (“Regulatory Policy”) in May 2019 detailing the regulatory criteria applicable to applications for the granting of Class C insurance company licenses. The Regulatory Policy will be applied by CIMA in addition to the relevant provisions of the *Insurance Law, 2010* (the “Law”) and existing regulations applicable to Class C applicants for the granting of Class C licenses.

Class C Licenses

Under Section 4(1) of the Law a Class C insurance licensee is required to ensure that its reinsurance arrangements where the insurance obligations of the insurer are limited in recourse to, and collateralised by, the insurer’s funding sources, or the proceeds of such funding sources including the issuance of bonds or other instruments, contracts for differences and other funding mechanisms approved by CIMA.

The Regulatory Policy accordingly applies to entities providing reinsurance through the issuance of insurance linked securities (“ILSs”) such as catastrophe bonds (“Cat Bonds”), sidecars, collateralised reinsurance, life insurance securitisation, longevity or similar instruments.

Application Process

Applicants for Class C licenses must initially provide CIMA with:

- (a) a completed Application Form including details of the intended transaction and features of the proposed vehicle;
- (b) non-refundable application fee payable to CIMA (currently CI\$5,000/US\$6,097.56);
- (c) CIMA’s Class C licensing checklist (which gathers information specific to the applicant’s proposed transaction, funding mechanisms and operational matters); and
- (d) an audit waiver application if an exemption to file audited financial statements is desired (see further below).

CIMA's License Process

Class C license applications are processed as follows:

<i>Nature of Class C License Application</i>	<i>Processed for approval and license issued by</i>	<i>Timeframes</i>
Non-complex Cat Bond vehicles and Cat Bonds that are repeated programmes.	Insurance Division (via delegated authority).	<ul style="list-style-type: none"> • Non-complex Cat Bonds may be processed within 5-10 business days; and • Repeated/analogous Cat Bond Vehicles may be processed within 5-7 business days.
Non-Cat Bond ILS vehicles, complex Cat Bond vehicles and Cat Bonds that are not repeated programmes.	CIMA's Management Committee.	6-8 weeks.

Non-Complex Cat Bonds

A Cat Bond application will be considered as “*non-complex*” by CIMA where:

- all the investors are sophisticated;
- the reinsurance contract is with a single cedent (and may include its group entities);
- the covered event is a natural catastrophe event; and
- the reinsurance contract covers losses to property only.

CIMA's Assessment Criteria

CIMA will assess Class C license applications on their own merits with respect to the following:

- fitness and propriety;
- funding and collateral arrangements;
- business plan (not required for single transaction cat bonds);
- track record;
- disclosures (including contents of the offering circular);
- risk management;
- internal controls; and
- systems for combatting money laundering and terrorist financing.

Audited Financial Statements

Licensees are required to submit audited financial statements within 6 months of the financial year end unless exempted by CIMA from so doing. Applicants who wish to seek an exemption from filing audited financial statements may submit an audit waiver application together with its license application to CIMA.

Additional Requirements

Closing documents are required to be submitted to CIMA within 30 days of the execution of the reinsurance agreement including:

- (a) Offering circular or similar document making disclosures and setting contractual obligations;
- (b) Reinsurance trust agreement;
- (c) Indenture agreement; and
- (d) Declaration of trust.

If the applicant's funding structure does not require an indenture trust, the application is required to instead provide a copy of the funding/collateral instrument and relevant documents, e.g. if funded by a contingent asset, such as a letter of credit ("LOC"), the applicant must provide a copy of the LOC and other relevant documents.

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