

CAYMAN ISLANDS



Supplement No. 4 published with Gazette No. 05
dated 10 March, 2014.

**REGULATORY PROCEDURE
APPROVAL AND NOTIFICATION OF CHANGES-CLASS B, C
AND D INSURERS AND PORTFOLIO INSURANCE COMPANIES**



January 2014

Regulatory Procedure

Approval and Notification of Changes–Class B, C and D Insurers and Portfolio Insurance Companies

1 Statement of Objectives

- 1.1 This procedure sets out which changes to an insurer’s business plan and information supplied in the initial application for a licence require the Authority’s prior approval and those that require prior notification to the Authority. The procedure also specifies the documents that insurers must submit to the Authority when seeking an approval or effecting a notification.
- 1.2 This procedure applies to Class B, C and D insurers and to Portfolio Insurance Companies, as defined in the Insurance Law, 2010, as amended (an “insurer”).

2 Introduction

- 1.1 Section 8(1)(a) of the Insurance Law, 2010 (as amended) (the “Insurance Law”) states:
“A licensee shall carry on insurance business only in accordance with the information given in its approved licence application and business plan and shall seek the prior written approval of the Authority for any change to the approved business plan or in the information supplied in the application.”
- 1.2 Section 28D(c) of the Insurance (Amendment) Law, 2013 states:
“A portfolio insurance company (...) shall carry on insurance business only in accordance with the information given in its business plan and shall seek the prior written approval of the Authority for any change to the approved business plan.”
- 1.3 This Procedure aims to provide clarity on what changes constitute a material business plan change that requires the Authority’s prior written approval and those that require prior notification only. For ease of reference, this procedure also lists the changes that may not be business plan changes but that require the Authority’s prior approval pursuant to the Insurance Law.



January 2014

1.4 This Procedure lists the documents that insurers must at a minimum provide to the Authority when seeking approval or effecting a notification. The list of documents may not be exhaustive and the Authority reserves the right to request any additional information, records or documentation in order to issue an approval or consider a notification.

3 Business Plan Changes Requiring Prior Approval

The Authority considers the following changes to be material changes to an insurer's business plan that require the Authority's prior approval. In addition to the documents listed below, the applicable fee for business plan changes under the Monetary Authority Law (2013 Revision) must be paid when applying for an approval.

3.3 Changes related to Insurance Program

3.1.1. Adding New Lines of Business/New Class of Risk to the Insurance Program

- a) Rationale for writing the new line of business or new class of risk
- b) Line(s) of business/risks to be written including levels of retention, cessions/limits and aggregates by line of business
- c) Details of the proposed fronting/ceding arrangement and security requirements, including the rating of the fronting insurer by a recognised rating agency
- d) Details of the proposed reinsurance arrangements, including ratings of reinsurers by a recognized rating agency
- e) Actuarial reports on premium funding and reserving, including confidence level, discount rate, and/or rating methodology
- f) Additional capital required including, full explanation of the rationale for the chosen level of support proposed and the proposed method of capitalisation
- g) Details of claims management (handled in-house or using a third party administrator ("TPA"))
- h) For insurance business written on a direct basis, confirm that no regulation exists in the home jurisdiction to the subject business/risk that would prevent the said insurance business being written on a direct basis
- i) Pro-forma financial projections

3.1.2. New (Re)Insurance Transactions Falling Outside the Scope of the Last Approved



January 2014

Business Plan

- a) Rationale for undertaking particular transaction(s)
- b) Feasibility studies or reports on underwriting reviews conducted to check the adequacy of the premium/cost of insurance
- c) Aggregate exposure limits (both gross and net)
- d) Actuarial reports on premium funding and reserving, including confidence level, discount rate, and/or rating methodology. If no actuarial study is carried out, rationale for the chosen level of funding and reserving
- e) Details of the proposed fronting/ceding arrangement and security requirements, including the rating of the fronting insurer by a recognised rating agency
- f) Details of the proposed reinsurance/retrocessionaire arrangements, including ratings of reinsurers by a recognized rating agency
- g) Additional capital required including, full explanation of the rationale for the chosen level of support proposed including details of any internal models used and the proposed method of capitalisation
- h) Details of security requirements, including trusts, letters of credit or funds withheld
- i) Details/evidence of any regulatory approval required and obtained. Confirmation that no regulation exists in the jurisdiction home to the subject business that would prevent the said (re)insurance transaction from being undertaken
- j) Copy of the (re)insurance agreement
- k) Last two years' financial statements of the ceding insurer

3.1.3. Assignment, Commutation, Novation, Loss Portfolio Transfer (Outward Transfers)

- a) Reasons for transfer
- b) Details of transferee
- c) Determination of transfer pricing including actuarial analysis and/or underwriting review
- d) Description/verification of funding (such as assets to be transferred, trust arrangements etc.)
- e) Latest management accounts of the licensee (less than six months old)
- f) Regulatory approval from transferee's home jurisdiction
- g) Policyholder(s) approval (for novations)
- h) Copy of the draft assignment/commutation/novation/loss portfolio transfer agreement



January 2014

3.1.4. Assignment, Commutation, Novation, Loss Portfolio Transfer (Incoming Transfers)

Refer to 3.1.1 or 3.1.2 as appropriate

3.1.5. Retention/Limits/Aggregates

Insurers must seek the Authority's prior written approval if during a 12 month period, there is a change in retention/limits/aggregates that exceeds 20% of the current retention/limits/aggregates, if these are US\$300,000 or lower; and more than 10% of the current retention/limits/aggregates in excess of US\$300,000.

- a) Rationale for proposed retention/limits/aggregates
- b) Levels of retention, cessions/limits and aggregates by line of business
- c) Details of any actuarial studies carried out in support of premium funding, including confidence level, discount rate, and/or rating methodology
- d) Details of the proposed fronting/ceding arrangement and security requirements, including the rating of the fronting/ceding insurer by a recognised rating agency
- e) Details of the proposed reinsurance scheme and companies, including ratings by a recognized rating agency
- f) Additional capital required including full explanation of the rationale for the chosen level of support proposed, including details of any internal models used and the proposed method of capitalisation
- g) Actuarial reports on premium funding and reserving, including confidence level, discount rate, and/or rating methodology. If no actuarial study carried out, rationale for the chosen level of funding and reserving
- h) Details of claims management (handled in-house or using TPA)

3.1.6. Changing Fronting/Ceding Carrier

Insurers must seek the Authority's approval prior to changing a fronting or ceding carrier if the carrier is rated below A- by AM Best or A- by Fitch or equivalent by a recognized rating agency acceptable to the Authority.

- a) Name of the new fronting/ceding carrier and its rating
- b) Reason for the change

3.1.7. Changing Reinsurer/Retrocessionaire

Insurers must seek the Authority's approval prior to changing a reinsurer or retrocessionaire if the reinsurer or retrocessionaire is rated below A- by AM Best or A- by Fitch or equivalent by a recognized rating agency acceptable to the Authority.

- a) Name of the new reinsurer/retrocessionaire and its rating



January 2014

- b) Reason for the change with a full explanation of the rationale for its selection, with particular attention to the financial security of the reinsurer/retrocessionaire

3.1.8. Changing in Funding and/or Loss Reserving Policy

- a) Details and reason for the change
- b) Explanation of the effect of the change in the reserving policy on the balance-sheet
- c) Latest management accounts

3.1.9. Use of/Changes to Internal Capital Model

The Authority requires insurers to seek written approval prior to adopting a new internal capital model or changing an existing internal capital model.

- a) Reason for using an internal capital model as opposed to prescribed capital requirements
- b) Details of the underlying methodology, assumptions, quantitative and financial bases and the modelling criteria used to assess the level of capital needed. This should also include details of the risks assessed by the model, including how these are identified and measured.
- c) Explanation of how the model is embedded into the insurer's governance procedures, overall business strategy, operational procedures and risk processes
- d) Demonstration that the data used in the internal model remains appropriate, complete and accurate for this purpose
- e) Comparison between the results of the internal model and those derived from the standardised approach/prescribed capital requirements
- f) Where there is reliance on an external vendor/supplier, details of these vendors/suppliers
- g) A description of the experience and technical ability of staff involved in the operation of the internal model
- h) Testing of model assumptions, parameters and inputs
- i) Evidence that the changes have been ratified by the insurer's board of directors

3.4 Changes Affecting the Financial Position of the Licensee

3.4.1 Changes in Investment Process/Policy



January 2014

The Authority requires insurers to seek prior approval of changes to their investment process or policy where such change affects assets in classes 5 to 8, as defined in the Insurance (Capital and Solvency) (Classes B, C, and D Insurers) Regulations, 2012.

- a) Details and reason for the change
- b) Copy of new investment policy highlighting changes
- c) Breakdown of the proposed investments by asset class expressed as a percentage of funds available for investment
- d) Latest management accounts

3.4.2 Changes in Dividend Policy

- a) Reason for the change
- b) Funding and the loss reserving policy
- c) Latest management accounts

3.4.3 Loan Requests

- a) Reason for the loan payment and details of the borrower
- b) Amount and terms of the loan payment, including period, interest rate and whether repayable on demand, collaterals
- c) Draft copy of the loan agreement
- d) Latest management accounts

3.5 Changes to Services Providers

3.5.1 Change in Actuary

This applies to insurers that require an actuarial valuation under the Insurance Law or where otherwise indicated by the Authority.

- a) Reason for the change
- b) Confirmation that the proposed actuary meets the qualification criteria in the Insurance Law and Regulatory Policy on the Recognition and Approval of an Actuary

4 Changes Requiring Prior Notification Only

Prior notification must be provided to the Authority for the following changes to the business plan or the information contained in the application form. While fees are not charged by the Authority to review these changes, the Authority can use its discretion at any time to determine



January 2014

whether such changes are considered material and therefore whether the insurer must seek the Authority's approval prior to effecting the change.

4.1 Changes related to Insurance Program

4.1.1 Claims Management Procedures/Changes to TPA

- a) Reasons for arrangement or change
- b) Names of the parties to the new arrangement
- c) Details of services to be provided

4.1.2 Changing Fronting/Ceding Carrier

Section 4.1.2 applies only if the fronting or ceding carrier is rated above A- by AM Best or A- by Fitch or equivalent by a recognized rating agency acceptable to the Authority. Otherwise, the insurer must seek the Authority's prior approval under section 3.1.6 of this procedure.

- a) Name of the new fronting/ceding carrier and its rating
- b) Reason for the change

4.1.3 Changing Reinsurer/Retrocessionaire

Section 4.1.3 applies only if the reinsurer or retrocessionaire is rated above A- by AM Best or A- by Fitch or equivalent by a recognized rating agency acceptable to the Authority. Otherwise, the insurer must seek the Authority's prior approval under section 3.1.7 of this procedure.

- a) Name of the new reinsurer/retrocessionaire and its rating
- b) Reason for the change with a full explanation of the rationale for its selection, with particular attention to the financial security of the reinsurer/retrocessionaire

4.2 Changes Affecting the Financial Position of the Licensee

4.2.1 Dividend Payment

Section 4.2.1 applies only if the proposed dividend payment complies with the insurer's dividend policy, as approved by the Authority, and if there were no changes in the reserve methodology for the prior three years unless the changes have resulted in strengthening the reserves.

- a) Amount to be declared
- b) Latest management accounts



January 2014

4.3 Changes to Service Providers

4.3.1 Change in Investment Manager/Custodian

- a) Reason for the change
- b) Brief details about the new investment manager/custodian, including its website

4.4 Changes Affecting the Operation of the Licensee

4.4.1 Placing the Operation into Run-Off

- a) Explanation for the run-off and time-frame involved
- b) Latest management accounts
- c) Latest actuarial valuation

4.4.2 Change of the Financial Year-End

- a) Background and reason for the proposal
- b) Latest management accounts

5 Changes mandated by the Insurance Law

The Insurance Law requires insurers to obtain written approval from the Authority prior to effecting the changes listed below. In addition to providing the documents listed below, insurers must remit the fee applicable to approvals specified in the Monetary Authority Law.

5.1 Changes related to Insurance Program

5.1.1 Addition of a new Segregated Portfolio ("SP") or Portfolio Insurance Companies to a Segregated Portfolio Company

- a) The documents listed in 3.1.1 or 3.1.2 of this procedure, as if each SP as a new class of business
- b) Details of program participants of the SP
- c) The investment policy for the segregated portfolio, where separate from the SPC's investment policy

5.2 Changes to Service Providers

5.2.1 Change of Auditor



January 2014

- a) Reason for the change
- b) Letter of acceptance of the new auditor
- c) Clearance letter from the outgoing auditor

5.2.2 Change of Insurance Manager

- a) Reason for the change
- b) Letter from new insurance manager confirming acceptance
- c) Letter from the outgoing insurance manager confirming resignation

5.3 Changes to Corporate Governance

5.3.1 Change in Memorandum and Articles of Association

- a) Reason and details of change, with a copy of the resolution to amend
- b) Updated copy of memorandum and articles of association once obtained from the Registrar of Companies

5.3.2 Change of Name

- a) Background and reason for the proposal
- b) Original insurance licence issued by the Authority
- c) Certificate of incorporation on change of name from the Registrar of Companies

5.3.3 Change in Ownership

For share changes totalling more than 10% of the issued share capital of the licensee:

- a) Reason for the change
- b) Name and details of the new owner
- c) Financial statements covering the last two years of operations if the proposed owner is a company or a notarised net worth statement if the proposed owner is a natural person
- d) All documentation required pursuant to the Regulatory Procedure for Assessing Fitness and Propriety issued by the Authority
- e) Copy of the trust deed if the proposed owner is a trust, as well as all documentation required pursuant to the Regulatory Procedure for Assessing Fitness and Propriety in relation to the settlor

For share changes totalling up to and including 10% of the issued share capital of the licensee:



January 2014

- f) Name and address of the new owner

5.3.4 Appointment of Directors/Officers/Managers

- a) Personal Questionnaire
- b) Financial reference from a recognized financial institution
- c) Two independent character references
- d) Affidavit or Police Clearance certificate. An affidavit is not acceptable for local appointees unless the applicant has been present in the Cayman Islands for less than 9 months.

5.4 Changes Affecting the Operation of the Licensee

5.4.1 Audit Waiver Request

- a) Reason for request
- b) Management accounts for the respective financial year end

5.4.2 Licence Surrender and Cancellation

- a) Reason for the surrender
- b) Directors' resolution confirming the decision to surrender
- c) Original Insurance licence
- d) Confirmation from the licensee's directors or insurance manager that there are no outstanding insurance liabilities
- e) Latest financial statements
- f) Once the company has been dissolved, the certificate of dissolution