



# Cayman Islands Monetary Authority



## State of the Cayman Insurance Industry

*Gordon Rowell, Head of Insurance Supervision*

*November 29, 2012*



# THE PAST





# General Economy

- Interest Rates
- Quantification
- Unemployment
- Debt
- Government Spending
- Austerity
- Cost Push Inflation
- Fiscal Policy
- Taxation
- Stagflation
- European Union
- Currency Reserves
- Oil Reserves
- Impulsive Regulation



# Other Developments

## **Solvency II**

- European Union Initiative
- Supplants Solvency I
- 3-pillar risk-sensitive approach.
- Target date of 2013?

## **S.I.F.I.**

- G20/F.S.B. Initiative

## **I.F.R.S. Reform**

- Joint FASB/IASB Project
- Purpose: improve comparability through a single, converged standard
- Greater focus on actuarial
- Implementation in 2013?

## **Dodd/Frank Act**

- July 21, 2010
- Financial Stability Oversight Council
- Abolishes the O.T.S.
- Increased oversight on **NON** banks
- Establishes Federal Insurance Office
- Regulates Credit Rating Agencies

## **Patient Protection and Affordable Care Act (PPACA)**

- March 30, 2010
- Incentives for Business to provide Health Care Benefits
- Prohibits denial based on Pre-Existing Conditions
- Accountable Care Organizations (ACO's)



# Soft Market

- Prior Year Reserve Redundancies
- Perpetually High Capacity
- Adequate Profitability
- Improved Economic Conditions
- Low Catastrophe Hits
- Equity Market Stability



# Captive Challenges

Captive Owners face concerns arising from the soft market, regulation and general economics:

## Asset Risk:

- Prolonged Low Interest Rates;
- Limited Investment Options;

## Liability Risk:

- Utilization
- Fronting Availability
- Cash Flow Constraints
- Tort Inflation



# THE PRESENT





# Insurance Law, 2010

Affects all Licensed Entities including Captives, Domestic Insurers, Reinsurers, Insurance Linked Securities, Brokers and Agents.

- Responsive
- Strengthened
- Creative
- Clarity





# Insurance Law, 2010

## Insurance Law

- Sub-Division of Licensees;
- New Definition of Related Party Business;
- New Minimum Capital Requirement ("MCR");
- Change of Control Provisions now 10%;
- Increased Duties of Insurance Managers/Auditors
- Enhance Powers For CIMA;
- Effective Risk Mgmt & Governance System;

## Further Developments

- Creation of Portfolio Insurance Co's ("PIC's");



# Portfolio Insurance Co's

## HOW?

- Elect any time to Incorporate a PIC;
- CIMA approval to form a PIC under an SP;
- SP no longer carries on Insurance Business;
- PIC is the Insurance Entity;
- Separate Certificate of Incorporation;
- Automatic Novation from SP to PIC;

## BENEFITS?

- Clear Separate Identity;
- PIC can appoint a Board of Directors;
- PIC's can contract with each other; e.g. reinsurance;
- Facilitates Wind-Up



# Captive Statistics

As at 31 October 2012:

- **737** Captive Insurance Companies
- **1** Reinsurance Company
- **26** Insurance Managers
- **780** Segregated Portfolios
- **55** New Applications
- **1243** Business Plan Amendments
- **367** Prudential Meetings
- **US\$88.1** Billion in Assets
- **US\$11.8** Billion in Premiums



# Category of Business

<b>Insurance Category</b>	<b>Total Licensees</b>	<b>Written Premiums (Billions)</b>	<b>Total Assets (Billions)</b>
<b>Pure Captive</b>	<b>411</b>	<b>\$8.36</b>	<b>\$44.50</b>
<b>Segregated Portfolio Company</b>	<b>130</b>	<b>\$0.73</b>	<b>\$4.40</b>
<b>Group Captive</b>	<b>122</b>	<b>\$1.44</b>	<b>\$5.50</b>
<b>Commercial Insurer</b>	<b>36</b>	<b>\$0.80</b>	<b>\$27.80</b>
<b>Special Purpose Vehicle</b>	<b>39</b>	<b>\$0.49</b>	<b>\$5.90</b>
<b>Grand Total</b>	<b>738</b>	<b>\$11.8</b>	<b>\$88.1</b>

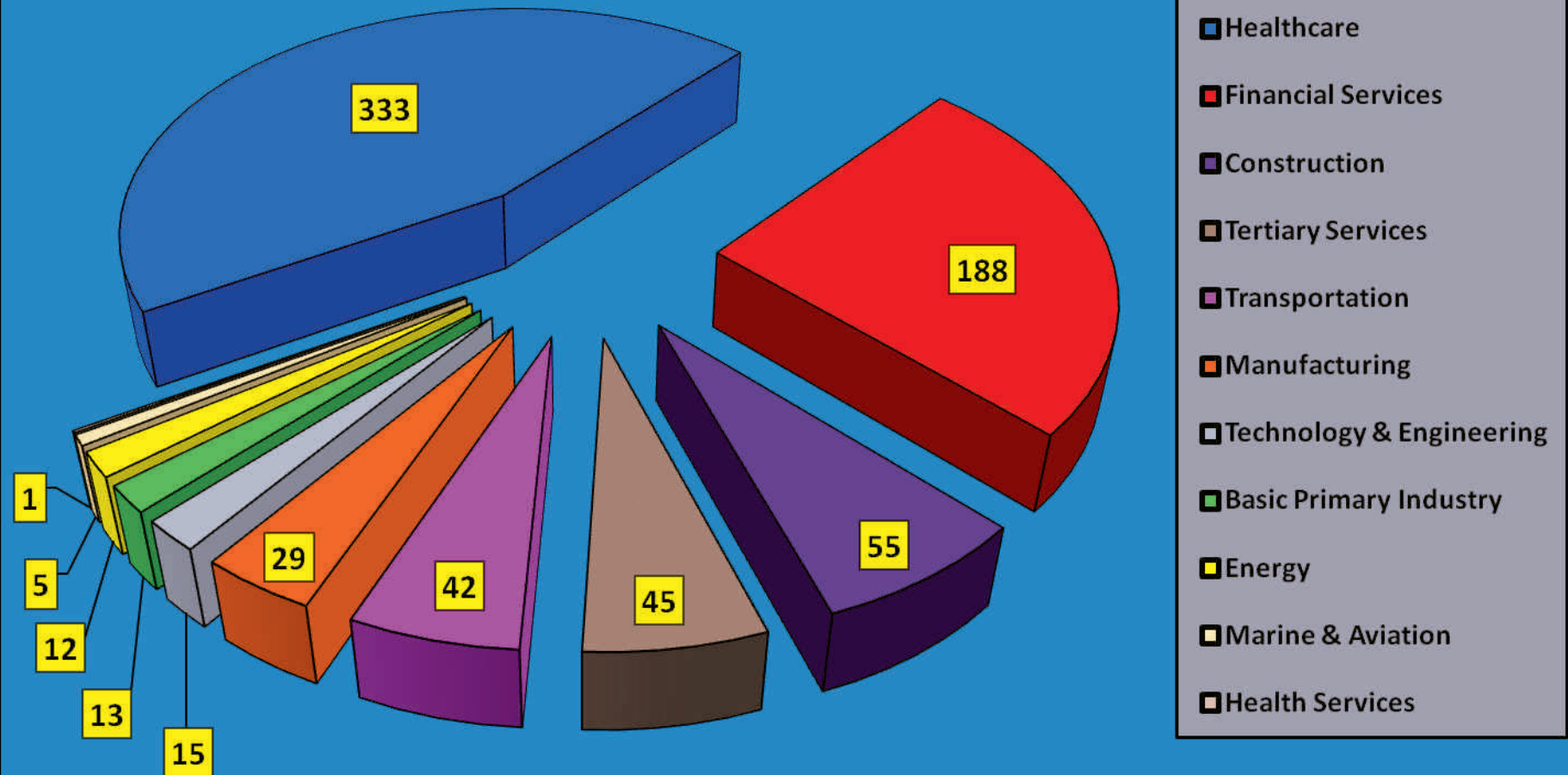


# Class of Business

Primary Class of Business	Total Licensees	Written Premiums (Billions)	Total Assets (Billions)
Hospital & Medical Malpractice Liability	254	\$3.07	\$12.8
Workers' Compensation	158	\$2.13	\$7.4
Professional & General Liability	151	\$0.89	\$5.3
Property	93	\$1.14	\$9.8
Life & Annuity	45	\$4.34	\$51.5
Automobile P.D. & Liability	16	\$0.15	\$0.4
Accident & Health	11	\$0.10	\$0.5
Marine and Aviation	10	\$0.02	\$0.4
<b>Grand Total</b>	<b>738</b>	<b>\$11.8</b>	<b>\$88.1</b>



# Business Sectors





# Key Observations

- Despite a soft market, new formations are 48% higher;
- Healthcare comprise 45% of all licensees;
- Premium growth remains stable;
- Expense ratios are 9.6%;
- Dividends declared have declined in 2012;
- 780 Segregated Portfolio's is the highest total ever;
- Equity Investments have increased from 13% of Invested Assets to 19%;



# New Appointments



**ALAN MORRIS**  
Chief Actuary



**PEDRO REIS**  
Deputy Head



**CHRISTINE ROSS**  
Chief Analyst





# THE FUTURE





# Hard Market?

## **Necessary Criteria:**

- Significant decline in Capital & Surplus;
- Sustained Period of Underwriting Losses;
- Rigorous Pricing Discipline;
- Catastrophic Events;

## **Commercial Market Results (2012)**

- Surplus remains around \$560 Billion;
- Combined Ratio's improved to 102% from 110% in 2011;
- Net Income jumped to \$16.4 Billion;



# Captive Prognosis

- Economy Negative
- Soft Market; Negative
- Investment Strategies; Positive
- Captive Trends Neutral
- Fronting & Reinsurance Neutral
- Corporate Governance; Positive
- Regulatory Reform; Negative



# Cayman Islands Prognosis

**55** Licenses Received in 2012. Why?

Certainty

Familiarity

Ease

Legitimacy

Competence

**The Three C's:**

**Consultation, Co-operation, Consistency**



# Conclusion

