



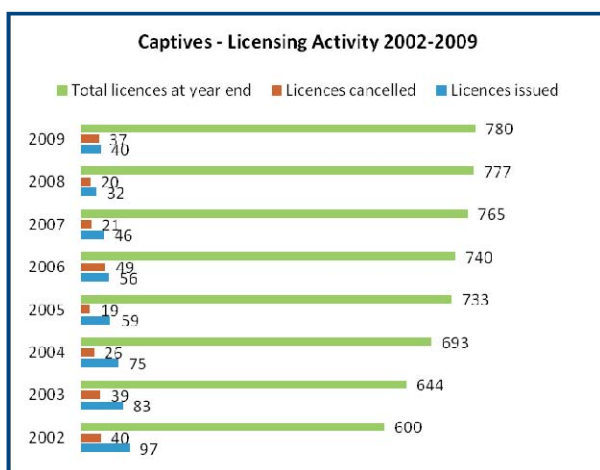
The Navigator

JANUARY 2010

Strong Outlook for Captives and Funds

The turmoil in the global financial marketplace in the recent past has had varying effects on the insurance and funds sectors. CIMA authorisation numbers and other figures for the end of the 2009 calendar year give an indication of the health of these sectors going into 2010 and the heads of the divisions responsible for insurance and funds supervision provide some insight on what to expect this year.

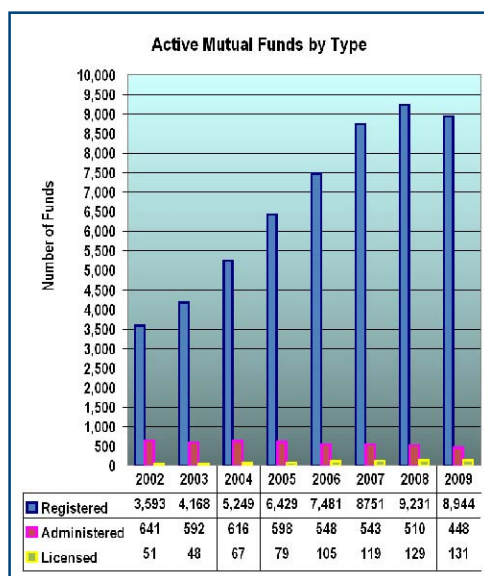
Captives buck trend



The most positive movements for 2009 were in the captive insurance sector, where, for the first time since 2002, there was an increase in the number of licences issued for captive insurance companies. The 40 new captive formations were in a range of industries, including transport, financial services, manufacturing and healthcare. The new licences represent a 25 percent increase over the 32 licenses issued in 2008.

“This reversal from the downward trending of the previous eight years is significant,” said Mr. Gordon Rowell, Head of Insurance Supervision. “The contraction of credit globally reduced the ability to fund both capital and premiums of captives, while the worldwide recession reduced the demand for, and the supply of, insurance. The fact that, despite this, the Cayman Islands had a marked increase in captive formations underscores the desirability of this jurisdiction in the captive markets. This is based on the expertise of our service providers, Cayman’s legal and regulatory framework for captives, and the accessibility and professionalism of CIMA as regulator, among other factors.”

A total of 37 licences were cancelled during the year, a number of them as a result of a periodic review and



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Licence Statistics

as at 31 Dec. 2009
(With increase(+)/decrease(-)
from 30 Sept. 2009)

Banking and Trust

- Banks 266 (-4)
 - Class A 17(-1)
 - Class B 248(-3)
 - Class B Restricted 1(0)
- Nominee Trusts 58(-3)
- Money Services Providers 7(0)

Fiduciary Services

- Trust Companies 146(-14)
 - Unrestricted Trusts 49(-4)
 - Restricted Trusts 76(-9)
 - Nominee Trusts 21(-1)
- Registered Private Trust Companies 23(+6)
- Registered Controlled Subsidiaries of Trust Companies 14(+1)
- Companies Management 77(-4)
- Corporate Services 7(0)

Insurance

- Insurance Companies 808(+2)
 - Class A 28(+1)
 - Class B 780(+1)
- Insurance Managers 26(+1)
- Insurance Brokers 32(+2)
- Insurance Agents 96(+14)

Investments & Securities

- Mutual Funds 9,523(-315)
 - Registered 8,944(-274)
 - Administered 448(-39)
 - Licensed 131(-2)
- Mutual Fund Administrators 141(-3)
 - Full 97(-3)
 - Restricted 42(0)
 - Exempted 2(0)
- Securities and Investment Business Law (SIBL) Licensees 28(0)
- Excluded Persons Under SIBL 2,377(+13)

Currency in Circulation

as at 31 Dec. 2009
(With increase(+)/decrease(-)
from 30 Sept. 2009)

- Total Currency CI\$87.5 million (+\$8.2 million)
 - Notes CI\$78.5(+\$8.1m)
 - Coins CI\$9.0(+\$0.1m)

Note: CI\$1.00 = US\$1.20

cleaning out of licences that had surrendered in prior years but not removed from the system. This resulted in 780 active captive licences at 31 December, a net increase of three over the 2008 total.

The 780 captives had total assets of US\$44.7 billion. Total premiums amounted to \$7.5 billion. Medical malpractice liability was the most popular category of business, with 269 licensees, representing roughly 35 percent of all captives. This was followed by workers compensation (162 licensees; 21 percent) and property (115 licensees; 15 percent).

Mr. Rowell anticipates that in 2010 there will be renewed interest in captives as an alternative risk management mechanism as the signs are that the commercial insurance market will contract.

He explained: "Poor investment returns combined with the squeeze between low rates and limited available surplus is placing pressure on mid-sized and smaller insurers, particularly in the U.S. commercial market. This will cause the currently soft market -- artificially low market premiums -- to harden in the third quarter -- increase rates. The only factor presently preventing a severe increase in U.S. insurance rates is that unemployment and insolvencies are high, and insurers are competing to maintain their market share over a smaller pool of risks. However, in order to compete, insurers are using up surplus reserves and absorbing ever increasing losses. Some of them will not be able to survive. We expect that the market will contract and that will increase the demand for captives. Cayman is in a good position to take advantage of that interest."

Funds fell but set for rebound

As expected in the funds sector, the magnitude of the global crisis, particularly during late 2008 and the early part of 2009, resulted in an overall slowing of fund formations and an increase in closures in 2009. The 1,162 new funds processed during calendar year 2009, were approximately 30 percent below the 1,650 for calendar year 2008. Terminations increased by seven percent to 1,165. At 31 December 2009, the total number of funds (including registered, administered and licensed) was 9,523.

However, Mrs. Yolanda McCoy, Head of Investments and Securities, notes that by the end of 2009 funds worldwide were beginning to recover from the record financial losses of 2008, with 2009 marking the best annual fund performance in a decade according sources such as Credit Suisse/Tremont Hedge Index and Hedge Fund Research.

Mrs. McCoy points out that, with well over 9,000 funds, Cayman remains the top fund domicile and she believes the signs point to a resumption of growth in 2010. "Global markets are slowly rebounding, paving the way for an increase in fund formations and decrease in terminations this year. For January 2010 we saw 147 new fund authorisations and 58 terminations, compared to 106 authorisations and 39 terminations for January 2008. We are cautiously optimistic that 2010 will bring a steady growth in new fund authorisations and a slowing of fund terminations."

Basel II Pillar 1 Industry Consultations Complete

The final round of industry consultations for the implementation of Pillar 1 of the Basel II Capital Adequacy Framework in the Cayman Islands was concluded on 11 December 2009.

The consultation process began in January 2009 when CIMA and the Cayman Islands Bankers Association (CIBA) established the CIBA/CIMA Basel II Working Committee. The primary objective of the committee was to encourage consultation and feedback on Basel II policy, guidance and related issues between CIMA and industry. Participation on the committee was focused on locally incorporated banks or Basel II impacted banks. Although representative banks were chosen to participate on the committee, participation was open to any locally incorporated bank through CIBA.

Since January 2009 consultation has been completed on policies, guidance and submission forms for the following components: Credit Risk, Market Risk, Operational Risk, Assets Securitization, Constituents of Capital. The concluding consultation involved reviewing the Constituents of Capital, which includes regulatory capital calculation and regulatory capital floor requirements. It should be noted that banks must maintain a total capital ratio of at least 10 percent and a minimum Tier 1 ratio of 6 percent.

In 2011 CIMA will conduct further consultations with CIBA for the implementation of Pillars 2 and 3. A compilation of all final Pillar 1 Basel II policies, rules guidance and forms issued by CIMA and reviewed through the consultation process will be posted to the CIMA website on the Basel II page.

