



Thematic Review of Reinsurance Companies

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Introduction

Recognising the importance of robust oversight of reinsurance companies licensed and regulated by the Cayman Islands Monetary Authority (the "Authority"), the Authority conducted a thematic review of regulated reinsurance entities within the Class B(iii) and Class D licence categories. The review examined key observations and findings identified across selected regulated reinsurance entities, with a particular focus on stress testing, cash flow testing frameworks, capital and collateral adequacy management, and corporate governance practices. The objective was to assess compliance with the Insurance Act and other applicable legislation, regulations, rules, and statements of guidance issued by the Authority, while also evaluating alignment with recognised industry standards and sound practices.

The review was conducted in accordance with the Authority's supervisory mandate under the Monetary Authority Act, with fieldwork taking place between mid-2025 and the first quarter of 2026.

The report also highlighted examples of effective practices, areas requiring enhancement, and recommendations for improvement. The Authority expects regulated entities to continue strengthening their governance and risk management frameworks to promote long-term financial resilience and ensure their ability to meet reinsurance obligations. Where deficiencies were identified, the Authority engaged directly with the relevant entities and provided recommendations to support timely remediation.

Summary of Overall Best Practices

Best practices were observed in the following areas for certain selected entities:

- Clear allocation of oversight and management responsibilities for capital, liquidity, and collateral management, with roles and accountabilities comprehensively documented within capital management policies.
- Established policies and procedures for identifying and managing conflicts of interest arising from reinsurance transactions.
- Implementation of well-defined oversight, monitoring, and reporting structures to ensure efficient and effective management of capital, liquidity positions, collateral requirements, and counterparty risks.
- Regular assessment and reporting on financial performance including on capital adequacy and cash flow positions.
- Periodical performance of stress-testing and scenario analysis with reporting to the Board.
- Application of defined risk appetite framework for review of reinsurance treaties.
- Integration of cash flow monitoring systems into asset–liability management framework.
- Comprehensive investment management strategies aligned to the liability profile.

Summary of Overall Areas for Improvement

Weaknesses were observed in the following areas for certain selected entities:

- Lack of clearly defined Board-committee mandates and documented responsibilities for directors.
- Irregular and undocumented Board meetings.
- Lack of periodical self-assessment of Board performance.
- Failure to conduct independent assessments or internal audits on key risk areas including those on cash flow and capital management.
- Poor documentation and lack of oversight on material outsourced functions.
- Failure to integrate stress testing into the risk management framework.
- Lack of Board review and oversight of critical risk reports including those on stress testing.
- Lack of documentation of asset-liability management plans including those on cashflow management.

Key Findings: Review of Reinsurance Companies

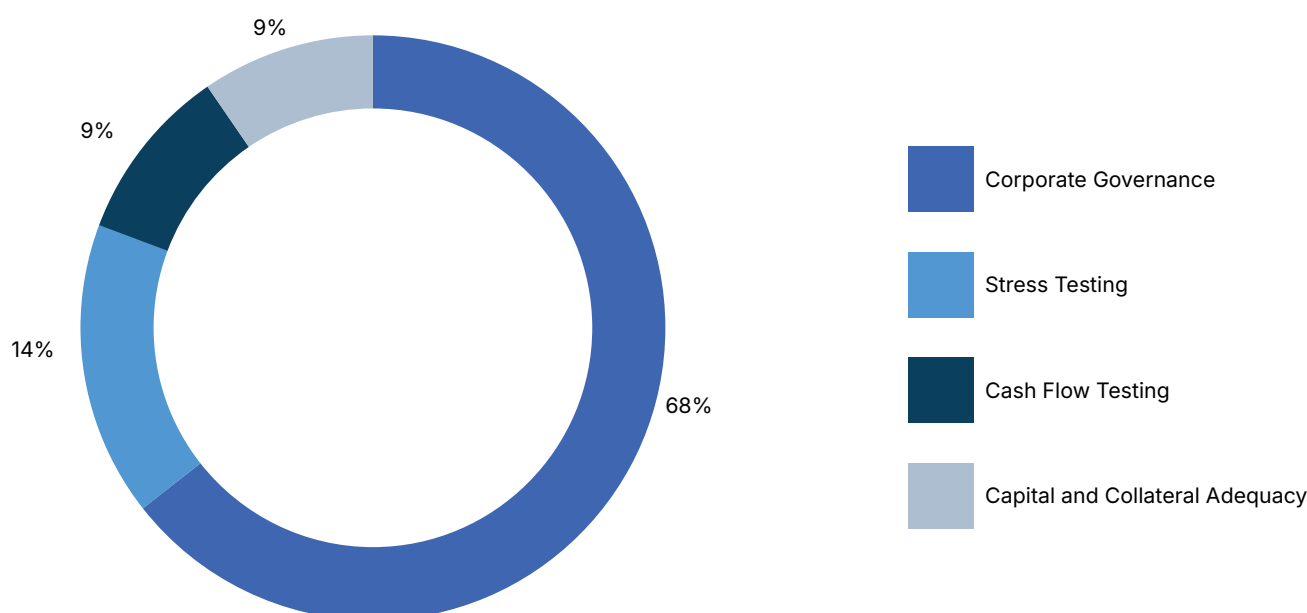
Following the conclusion of the thematic review of reinsurance companies conducted on the selected entities, good practices as well as weaknesses were identified in the following thematic areas:

To achieve the stated objectives, the review focused specifically on the assessment of:

- Corporate Governance
- Stress Testing
- Cash Flow Testing
- Capital and Collateral Adequacy Management

The chart below illustrates the distribution of the weaknesses identified during review of the above-mentioned thematic areas:

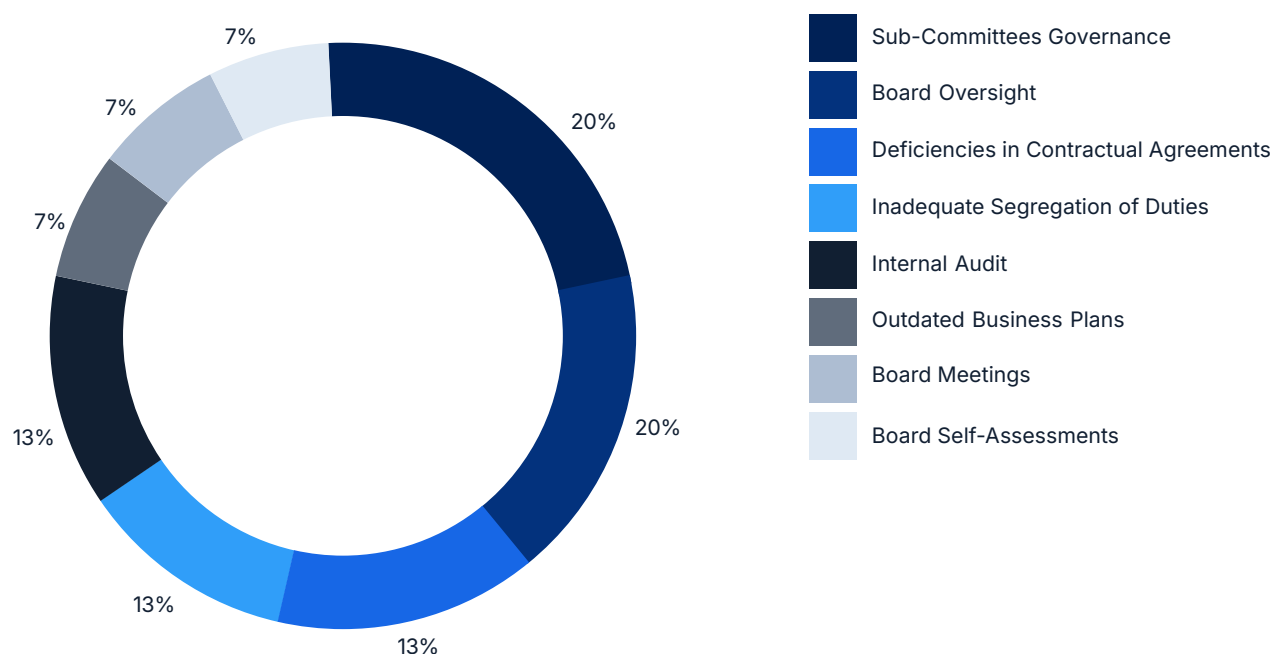
Distribution of Weaknesses - Reinsurance Companies Review



Gaps in corporate governance framework accounted for the majority of the weaknesses identified, representing sixty-eight percent (68%) of all findings. Gaps in stress testing accounted for fourteen percent (14%) of the identified weaknesses. The remaining eighteen percent (18%) was comprised of weaknesses in cash flow testing and capital and collateral adequacy management, with each representing nine percent (9%) of the findings.

Notwithstanding the identified weaknesses, the Authority noted that good practices were also observed by some of the selected entities and these have been summarised in this report.

Areas of Weakness in Corporate Governance



Twenty percent (20%) of the identified corporate governance weaknesses pertained to the governance of sub-committees. The Authority noted that several selected entities did not demonstrate the conduct of sub-committee meetings while in other cases appropriate documentation for such meetings was not maintained. Additionally, there were cases of Audit Committees not effectively fulfilling their duties in accordance with Audit Committee Charters and relevant regulatory requirements. In other instances, some committees operated without charters.

Another twenty percent (20%) of the identified weaknesses related to Board oversight with several selected entities not clearly defining or documenting the roles and responsibilities assigned to Directors. Additionally, there was insufficient evidence from Board meeting agenda and minutes to confirm receipt and review of risk reports by the Board.

Thirteen percent (13%) of the identified corporate governance weaknesses related to the absence of contractual agreements between some selected entities and their service providers. This gap hindered the establishment of a formal framework for oversight, accountability, and enforceability of responsibilities for material outsourced functions.

A further thirteen percent (13%) of the identified weaknesses was in relation to inadequate segregation of duties. Multiple roles held by one individual without appropriate mechanisms for segregation of duties was observed, including in pricing and approval of reinsurance treaties.

Another thirteen percent (13%) of the identified weaknesses involved the lack of implementation of an effective, comprehensive internal audit function, needed to ensure ongoing monitoring of internal control systems.

Seven percent (7%) of the identified weaknesses was attributed to business plans not being appropriately updated to reflect the current operations.

Another seven percent (7%) of the identified weaknesses related to some of the selected entities not convening formal Board meetings.

The remaining seven percent (7%) of the identified weaknesses involved Boards of Directors not conducting periodical self-assessment of their performance.

These findings highlight opportunities to enhance governance structures and to strengthen internal controls to ensure a robust risk management framework is implemented and maintained.

Summary of Good Practices Observed

- Establishment and implementation of comprehensive risk management framework covering key risk areas including on underwriting, investment (credit, market, liquidity), and operational risks.
- Documentation and implementation of risk appetite framework to guide review of reinsurance treaties with clearly defined capital, return, and solvency thresholds.
- Periodical reporting to Board on financial performance, capital adequacy, and key risk indicators.
- Compliance with regulatory requirements for approval of material changes to business plans and reinsurance strategies.

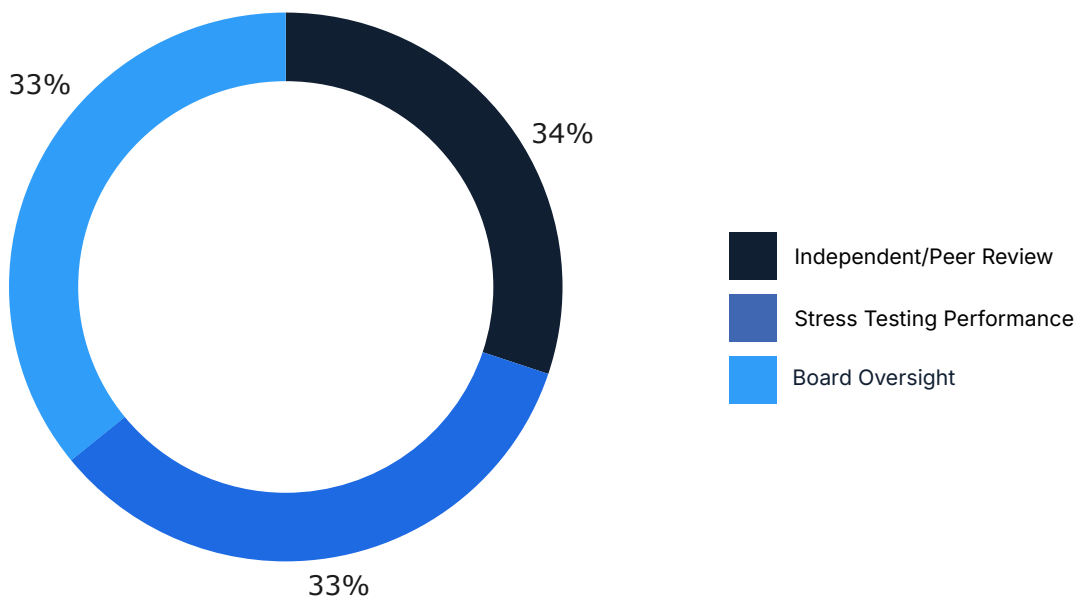
Summary of Areas for Improvement

Regulated Entities should:

- Ensure documentation and consistent application of Board committees mandates.
- Establish well defined roles and responsibilities of Board members to ensure accountability of directors including through periodical self-assessments.
- Ensure Board meetings are held regularly and formally documented.
- Establish and maintain independent review mechanisms for internal control systems including periodical internal audits.
- Establish mechanisms to ensure complete documentation of key records including execution and periodical assessment of material outsourced functions.

Stress Testing

Areas of Weakness in Stress Testing



The review of the selected entities identified several weaknesses in stress testing practices. Thirty-four percent (34%) of the weaknesses were in relation to lack of independent review and/or peer review of the stress-testing framework and the outputs generated by the stress-testing exercise.

Thirty-three percent (33%) was related to lack of evidence to demonstrate that stress testing exercise had been performed.

The rest of the weaknesses, thirty-three percent (33%), related to insufficient documentation to confirm adequate Board oversight of stress testing activities including lack of discussion of stress testing reports at Board level.

Nevertheless, the Authority noted that several of the selected entities had an established and well documented stress testing framework and were able to evidence performance of annual stress testing and scenario analysis.

Summary of Good Practices Observed

- Annual stress tests under multiple scenarios are undertaken to evaluate financial and operational resilience.
- Comprehensive and forward-looking stress testing frameworks that are proportionate to the size, structure, and complexity of the business are maintained and implemented at group and regulated entity's level.
- Consideration is given to numerous stress scenarios, spanning multiple pay-back periods, enabling informed Board oversight and timely decision-making.
- Clear risk appetite frameworks are established and implemented which define minimum return thresholds and solvency ratio expectations to guide capital allocation for reinsurance transactions.

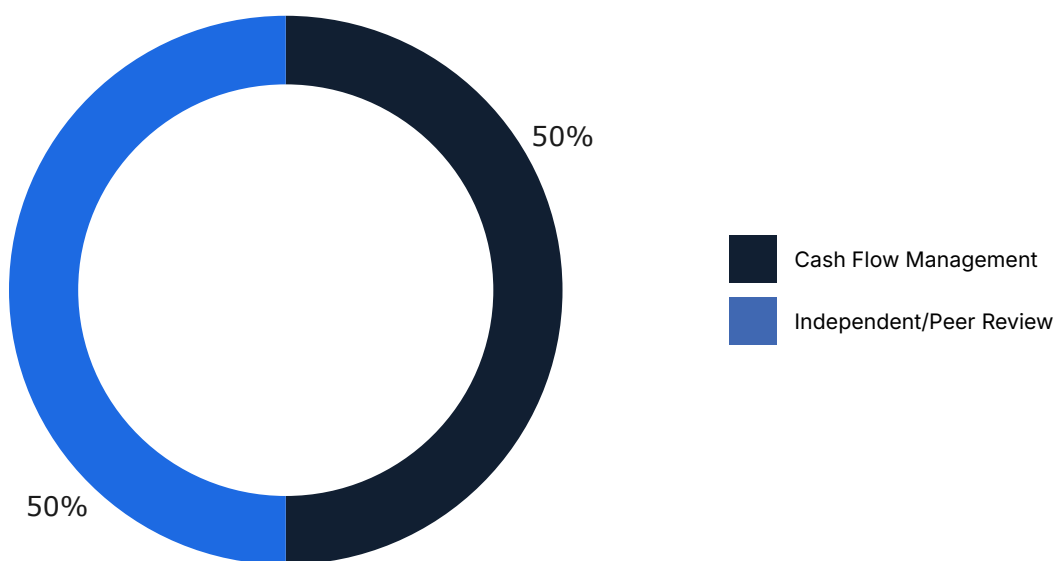
Summary of Areas for Improvement

Regulated entities should:

- Establish and implement a comprehensive stress testing and scenario analysis framework that incorporates independent peer review to validate assumptions and results.
- Ensure that sufficient Board oversight mechanisms on stress testing are established and implemented, including discussion of stress-test reports at Board level and subsequent follow up to ensure management execution of remedial plans.
- Ensure periodical stress testing and scenario analysis are conducted and results formally documented.
- Integrate stress testing into the overall risk management framework.

Cash Flow Testing

Areas of Weakness in Cash Flow Testing



As shown in the chart above, fifty percent (50%) of the weaknesses arose mainly due to several of the selected entities not performing independent/peer review of their cashflow testing framework and the outputs generated by the cash flow testing exercise. Additionally, the Authority noted cases where some of the selected entities did not adequately document their asset-liability management plans, particularly regarding cash flow management to align cash outflows with cash inflows. This accounted for the remaining fifty percent (50%) of the weaknesses identified with cash flow testing.

The above observations highlight the importance of maintaining robust cash flow monitoring and liquidity management processes to ensure that Regulated Entities meet their reinsurance obligations as they fall due without adversely impacting their financial position and performance. Regulated Entities should therefore continue to strengthen mechanisms for cash flow forecasting and liquidity monitoring as part of their asset-liability management practices.

Summary of Good Practices Observed

- Conduct of regular cash flow projections to assess expected inflows and outflows arising from underwriting activities, investment performance, and liability pay-outs.
- Integration of cash flow monitoring into asset liability management frameworks.
- Maintenance of cash margins to mitigate liquidity pressures under adverse asset-liability scenarios.

Summary of Areas for Improvement

Regulated entities should:

- Conduct independent reviews of their cashflow testing framework to validate assumptions and the outputs generated from the exercise.
- Strengthen documentation of asset-liability management plans to align cash outflows with inflows.

Capital and Collateral Adequacy Management

Weaknesses in capital and collateral adequacy management made up nine percent (9%) of the findings identified during the thematic review of the reinsurance companies and were mainly linked to weak internal controls pertaining to collateral management. The weaknesses had been highlighted in internal audit reports of the subject entities but remained unresolved. In other cases, some of the selected entities did not scope collateral and capital adequacy reviews as part of their internal audits.

Nevertheless, the Authority noted that good practices were observed by majority of the selected entities with implementation of structured capital and collateral adequacy monitoring processes that included Board oversight.

Summary of Good Practices

- Capital adequacy is monitored against internal capital models and prudential solvency requirements, with defined escalation triggers when capital levels approach internal thresholds.
- Reinsurance transactions are assessed against predefined capital efficiency metrics, with transactions requiring additional capital support being subjected to enhanced scrutiny and Board approval.
- Robust collateral management and monitoring processes have been put in place to ensure compliance with domiciliary requirements of cedants. In certain cases, trust arrangements designed to safeguard assets supporting reinsurance obligations are put in place and supported by independent trustees and custodians.
- Highly visible Board oversight and regular reporting on capital and collateral adequacy.

Summary of Areas for Improvement

Regulated entities should:

- Ensure that capital and collateral adequacy management is scoped into periodical internal audit plans.
- Ensure that internal audit recommendations are implemented within the prescribed timelines.

Concluding Remarks

The Authority continues to remind regulated entities of their regulatory obligations to fully comply with the Authority's regulatory framework including the applicable Acts, Rules, and Statements of Guidance. Regulated Entities are expected to maintain policies, procedures, systems, and controls that are appropriate, effective, and proportionate to the nature, scale, and complexity of their business, and to ensure that these frameworks are kept under regular review in line with evolving risks and changing business and regulatory environment.



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