



# International Insurance in the Cayman Islands

A guide to starting a Captive

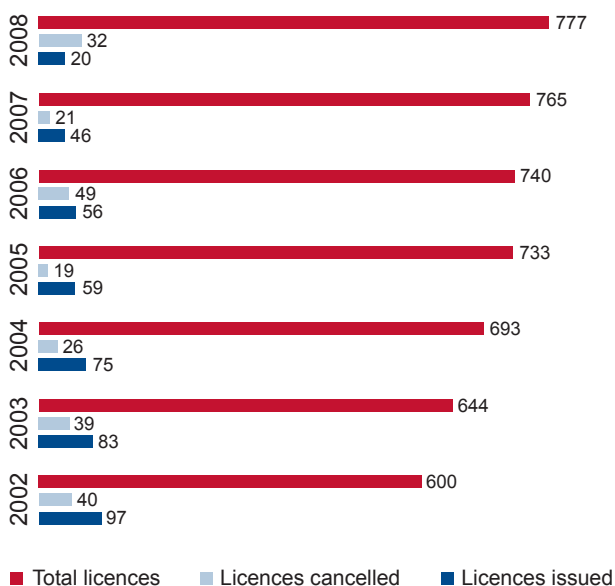


## What is a Captive?

Captives are insurance companies that only insure the risks or part of the risks of its parents, or are wholly-owned insurance subsidiaries of organisations not in the insurance business. They are generally owned through a common interest which is not primarily in the business of insurance. This interest may be a single-parent shareholder or a group of shareholders. A significant proportion of the risk written is 'captive', related in some way to the risks of shareholders, or third party risks which the shareholders control. In this respect, a captive is 'an insurer that writes risks whose origins are restricted, or those risks to which it has unique access'.

## Cayman Captive Insurance Companies

Licensing activity by year



## The benefits of a Cayman Captive

**Insuring the uninsurable** - Providing coverage not readily available in the commercial market or for which market rates or conditions are prohibitive

**Cost reductions** - Such as administration claims settlement, loss control expenses, brokerage commissions, and other acquisition and consulting fees

**Risk retention, risk management and loss control** - When a company has a better loss history than its industry average, retaining its own risk can result in a lower premium

**Cash flow benefits** - Through investment income and flexible premium payment plans

**Tax minimisation or deferral** - Premium payments to properly structured, adequately capitalised captive insurance arrangements are tax deductible under US federal income tax

**Access to the reinsurance market** - Direct access resulting in reinsurance that is less expensive than conventional direct excess and umbrella coverage. The additional opportunity to reduce costs by combining two or more lines of risk

**Diversification into a profit centre** - In open market insurance, captives can also generate profits from third party unrelated business

**'Unbundling' of services** - When a company is not satisfied with technical services provided by its conventional insurer and wishes to 'unbundle' risk control and claim handling services from the actual purchase of insurance cover

**Reduction of government regulations and restrictions** - Including a professional, yet flexible, regulatory environment, widening investment opportunities and the facilitation of legitimate international movement of funds.

## How to form a Captive

- Determine what insurance programme will be placed with the proposed captive
- Contract with an Insurance Manager in the Cayman Islands
- Negotiate fronting and reinsurance arrangements (as necessary)
- Prepare the Licence Application with assistance from the Insurance Manager
- Meet the insurance division of the Cayman Islands Monetary Authority to discuss the proposed captive
- Submit the completed application to the insurance division

## Application requirements

- 1 Completed Licence Application Form**
- 2 Business Plan** which should include: rationale for formation; ownership and management structure; details of fronting and reinsurance arrangements; claims administration; description of loss reserving methodology; description of investment and dividend policy and due diligence procedures
- 3 Financial projections** for a three year period
- 4 Letter of Undertaking** as to a minimum capital (usually from Shareholder)
- 5 Letter of Acceptance** from Auditor
- 6 Personal questionnaire, reference and police clearance certificates** or equivalent for Managers, Shareholders, Directors and Officers.

## A Global Financial Services Leader

In the space of 40 years the Cayman Islands has established itself as a mature, sophisticated international financial services centre, providing institutionally focused, specialised expertise to a global client base.

Cayman's main sectors include banking, investment funds, companies and partnerships, trusts, structured finance, vessel and aircraft registration, the Cayman Islands Stock Exchange and captive insurance.



## Captive Insurance: a history of success in the Cayman Islands

During the 1970s, there was a major crisis in the professional liability market in the USA. Out of this crisis, a prominent US medical college developed the first Cayman Islands captive insurance company to provide coverage for its medical malpractice risks for physicians. Others followed and in 1979 a regulatory framework was developed and the Insurance Law introduced.

Today, the Cayman Islands is the second largest offshore captive insurance domicile, and the leading domicile for health care captives in the world. Business is spread amongst a diverse range of companies, from small private shareholders to large public corporations.

## Contact Us

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