**SECTOR SPECIFIC RISK ASSESSMENT - INSURANCE INDUSTRY**

**1. EXECUTIVE SUMMARY**

* The Cayman Islands insurance sector has two distinct parts - the domestic insurance sector and the international insurance sector. As at 31 December 2019, the domestic insurance sector was made up of 26 insurers and 68 intermediaries, and the international sector was made up of 646 insurers and 24 intermediaries. All 764 companies were licensed by the Cayman Islands Monetary Authority (the “Authority”).
* It is an offence under the laws in the Cayman Islands to carry on insurance business either as an insurer or insurance intermediary without a valid licence issued for that purpose by the Authority.
* The FATF Recommendations recognizes life and other investment-related insurance business to have a higher ML/TF exposure than other insurance products. FATF’s Guidance for Risk-Based Approach for the Life Insurance Sector (October 2018 version) states: *“Generally the ML/TF risks associated to the life insurance sector is lower than that associated with other financial products (e.g., loans, payment services) or other sectors (e.g., banking, gambling, precious stones and metal dealers). Indeed, many life insurance products are not sufficiently flexible to be the first vehicle of choice for money launderers. However, as with other financial services products, there is a risk that the funds used to purchase life insurance may be the proceeds of crime. There is also a risk, even limited, that funds withdrawn from life insurance contracts could be used to fund terrorism”.*
* Out of the 672 Cayman-based insurance companies, only 36 (5%) carried on life and other investment-related insurance business as direct insurers. The 36 direct life insurers accounted for 4.3% of the total premium of US$18.9 billion written by all 672 insurers in 2019.
* The Cayman Islands’ National Risk Assessment (“NRA”) concluded in 2015 attached a “Medium” level vulnerability to the Cayman’s insurance sector. The NRA highlighted the following:
	+ International insurers engaged in long-term life insurance business had a higher ML exposure compared to other Cayman-based insurers.
	+ Increased interest by hedge funds and private equity funds to set up and/or sponsor (re)insurance companies. Complex ownership structures of some of the funds and the multitude of unknown individual investors exposed their (re)insurance affiliates to higher ML risks, especially when such funds were unregulated in their home country.
	+ The domestic insurance sector’s vulnerability was small scale crime and use of cash for premium payments. Domestic insurers offering products such as single premium endowment with high cash values upon surrender and investment-linked products had a higher ML risk.
* In June 2017, the Authority performed a sector specific risks assessment to identify the financial services sector’s inherent ML/TF risk. Each sector, including insurance sector was rated against the five inherent risk areas recommended in the FATF 40 Recommendations. The Authority’s sector specific risks assessments attached a “Medium-Low” rating to the Insurance sector’s inherent risk.
* The rating scale used to determine inherent risks for the purpose of this exercise is as follows:

|  |  |
| --- | --- |
| Low | 0 - 10% |
| Medium-low | 11 - 30% |
| Medium-high | 31 - 60% |
| High | 61% or more |

* Inherent risks in the Cayman Islands insurance industry and factors decreasing this risk:

|  |  |
| --- | --- |
| **Inherent Risk** | **Factors decreasing the Inherent Risk** |
| High-level of cross-border activities due to the Cayman Islands’ large international insurance sector. | * All (re)insurers are licensed by the Authority and subject to risk-based offsite and onsite supervision.
* 71% of the international insurers operate as captive insurance companies providing property and casualty coverage to their parent companies and affiliates.
* 91% of the risks (re)insured by the Cayman based international insurers originates from the United States of America, a country with robust AML/CFT controls.
 |
| International insurers with no physical presence in the Cayman Islands. | * All international insurers with no physical presence are required by law to appoint an Insurance Manager to manage the business and maintain their books and records in the Cayman Islands.
* Insurance Managers are licensed by the Authority and are required by AMLRs to implement the most appropriate AML/CFT controls and mitigation measures.
 |
| International insurers operating as commercial insurance companies engaged in life insurance business with no business relationships established on a face-to-face basis. | * Only 4% of the international insurers are engaged in life and other investment-related insurance business.
* Only 4% of the total premium of US$18 billion were written by the insurers engaged in life and other investment-related insurance business.
 |
| Institutional fund (Mutual funds, Hedge funds and Private Equity funds) investments in (re)insurance | * Investments by regulated funds or funds managed by regulated Investment Managers.
* Cayman’s expertise and experience in the fund industry.
 |

* Inherent risks in the Cayman Islands insurance industry and the steps the Authority has taken to reduce the inherent risk:

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| --- | --- |
| **Inherent Risk** | **Specific steps the Authority has taken to reduce the inherent risk** |
| High-level of cross-border activities due to the Cayman Islands’ large international insurance sector. | * Regulator-to-regulator checks on the overseas regulated entities.
* Participation on Supervisory Colleges for Group affiliated regulated entities.
* Approval of every material business transaction.
* Review of the insurers’ annual audited financial statements and management letter.
* Whistle-blower obligations placed on Auditors.
* Risk rating of all insurers and risk-based offsite and onsite supervision.
 |
| International insurers with no physical presence in the Cayman Islands. | * Maintaining the Cayman’s supervisory framework in line with the International Association of Insurance Supervisors’ (“IAIS”)’ international standards pertaining to insurers with no physical presence in the jurisdiction.
* Board of directors are approved by the Authority and held responsible and accountable for the regulated entities business activities.
* Whistle-blower obligations placed on Insurance Managers.
 |
| International insurers operating as commercial insurance companies engaged in life insurance business with no business relationships established on a face-to-face basis. | * A separate ML/TF risk rating and a risk-based AML/CFT supervisory framework.
* Requirement to engage only regulated intermediaries.
 |
| Institutional fund (Mutual funds, Hedge funds and Private Equity funds) investments in (re)insurance | * Approval of the immediate and ultimate shareholders and UBOs of insurance and intermediaries.
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* A survey was conducted in December 2019 to reassess the ML/TF exposure of the insurance sector in the Cayman Islands, excluding Insurance Agents, as representatives of the Domestic insurance sector – predominately Class A insurer’s, this information was gathered directly from the Domestic insurance sector. Over 90% of the targeted licensees responded to the survey with their data for the period 1 October 2018 and 30 September 2019. The survey results reconfirmed the insurance sector’s already known ML/TF inherent risks.

**2. INTRODUCTION**

**2.1 Description of the Insurance Sector Licensees**

The Cayman Islands insurance sector has two distinct parts – domestic insurance sector and international insurance. The domestic insurance sector comprises of 26 insurance companies offering life, general and health insurance to Cayman residents and businesses (categorized as class A insurers). This sector is supported by 23 licensed Insurance Brokers, ranging from brokers offering products to retail customers to those offering risk management and insurance solutions to large and sophisticated clients. In addition, 44 licensed Insurance Agents solicit insurance products in the domestic market. Out of the 26 insurers, 21 companies actively engaged in insurance business and 5 companies running off their liabilities with no new business written. 9 of the 26 insurers were incorporated in the Cayman Islands while 17 were registered as branches of foreign insurers regulated by their home supervisor.

The international sector consists of 646 insurance companies and 24 licensed Insurance Managers. Insurance companies in this sector is made-up of approx. 475 captive insurers (categorized as class B(i) and B(ii) insurers) providing coverage to its shareholders’ and affiliates’ risks, approx. 143 insurers (categorized as class B(iii) insurers) providing coverage to non-affiliated insureds, 23 reinsurers engaged in insurance linked securities (ILS) business, largely catastrophe bonds (categorized as class C insurers), and 5 reinsurers engaged in open-market reinsurance business with a class D insurer licence. Insurance management companies are those incorporated and physically based in the Cayman Islands providing management services to international insurers with no physical presence. Over 95% of the international sector insurers are managed by an Insurance Manager. Management services include providing administrative support and advice on areas such as financial reporting, risk management, compliance etc. together with being the front facing representative between the insurance company and the Authority.

It is an offence under the laws in the Cayman Islands to carry on insurance business either as an insurer or insurance intermediary without a valid licence issued for that purpose by the Authority.

All domestic insurer licensees not physically located in the Cayman Islands must appoint an Insurance Broker or an agency to represent them and maintain their books and records in the Cayman Islands. Similarly, all international insurers with no physical presence on Island must appoint an Insurance Manager to manage them and maintain their books and records. Insurance Brokers, Insurance Agencies and Insurance Managers are domiciled and physically located in the Cayman Islands. They are also licensed and are required to be in compliant with the Insurance Law and other relevant laws and regulations, including the Anti-Money Laundering Regulations.

**Table 1: Total Number of Insurance Related Licensees (at 31 December 2019)**

|  |  |  |
| --- | --- | --- |
| **Licence Category** | **Description** | **Number** |
| Class ‘A’ insurer | Insurer Cayman residents and businesses | 26 |
| Class B(i) insurer | Captive insurers with over 95% related business insured | 457 |
| Class B(ii) insurer | Captive insurers with over 50% related business insured and some unrelated business | 18 |
| Class B(iii) insurer | (Re)insurers offering insurance and reinsurance to unrelated parties | 143 |
| Class C insurer | Reinsurers offering fully collateralized insurance linked securities products | 23 |
| Class D insurer | Open-market reinsurers with physical presence in the Cayman Islands | 5 |
| Insurance Broker | Offer insurance products of class ‘A’ insures in the Cayman Islands. Have physical presence in the Cayman Islands | 23 |
| Insurance Agent | Individual agents or corporate agencies offering insurance products of class ‘A’ insurer | 45 |
| Insurance Manager | Manage Class B and C insurers. Have physical presence in the Cayman Islands | 24 |

**2.2 Description of the Insurance Products**

The chart below depicts the classes of insurance business the 26 domestic insurance companies are licensed to carry on.

**Char 1: Primary Business Class of the Cayman Islands’ International Insurers**

Life Insurance business

6

6

Health Insurance business

3

2

General Insurance business

9

The Cayman Islands’ domestic insurance market reported total direct premium income of approx. US$900 million as at 31 December 2018. In addition, one class A insurer engaged in reinsurance business reported reinsurance assumed premium of approx. US$220 million. Insurers selling general insurance products dominated the Cayman’s domestic sector followed by health insurers with a combined market share of approx. 96% of the total premium income in 2018. This was largely due to health and motor insurance being mandatory insurance requirements and property insurance density due to hurricane and wind exposures. General and health insurance products offered in the Cayman Islands are standard and less sophisticated in nature and are considered ‘low’ for money laundering and terrorist financing exposures. Life insurance premium accounted for 4% of the total premium and this segment remained stagnant in the last few years. Life insurance products included mortgage protection, credit life and life insurance policies with investment features. Life insurance products with investment features are considered ‘high’ for money laundering and terrorist financing exposures, but most products had high initial sales commissions and expenses loadings and low surrender/cash value as a result in the early years making them less attractive for money launderers.

**Chart 2: Primary Business Class of the Cayman Islands’ Domestic Insurers**

Cayman Island’s international insurance sector is known for its captive insurance sector, mainly healthcare captives, group captives and the jurisdictions growing reinsurance sector. Insurance products offered by the Cayman’s 646 international insurers to residents and businesses outside the Cayman Islands are as follows (based on their primary line of business as at 31 December 2019):

**Table 2: Primary Business Class of the Cayman Islands’ International Insurers**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Business Class** | **No. of insurers** | **No. of insurers as a percent** | **Total Premium (US$ Mn)** | **Premium as a percent** |
| Medical Malpractice Liability | 210 | 32% | 5,817 | 32% |
| Workers Compensation | 137 | 21% | 4,281 | 25% |
| Liability lines including General, Product, Auto, Professional | 173 | 27% | 3,655 | 20% |
| Life – Reinsurance | 17 | 3% | 1,846 | 10% |
| Property coverage | 64 | 10% | 1,396 | 8% |
| Life – direct | 24 | 4% | 782 | 4% |
| Accident & Health | 13 | 2% | 150 | 0.8% |
| Marine & Aviation | 8 | 1% | 36 | 0.2% |
| **Total** | **646** | **100%** | **17,963** | **100%** |

Due to the nature of the class of business and insurance products, only 5% of the 646 insurers (Life – direct and Marine & Aviation insurers) are considered ‘high’ for money laundering and terrorist financing exposures. In terms of total premium, this segment accounts for 4.2% of the total premium of US$17,963 million.

Approx. 91% of the risks (re)insured by Cayman based insurers originated from the United States of America (“United States”) and the balance 9% of the risks originated from the Caribbean and Latin America (3%), Europe (1%) and rest of the world (5%). Due to state insurance laws in the United States of America, most United States risks were fronted or ceded to Cayman based insurers through regulated cedant companies based in the United States.



**90% North American Risks**

**3.0 MONEY LAUNDERING (ML)/TERRORIST FINANCING (TF) EXPOSURE OF THE CAYMAN ISLANDS’ INSURANCE SECTOR**

**3.1 Money Laundering (ML)/Terrorist Financing (TF) – Inherent Risk**

The ability to use the insurance sector for ML/TF is generally regarded as lower than that of other financial sectors such as banking, and securities, which present better opportunities for criminals to quickly deposit and withdraw funds. Regardless, there is some ML/TF risk within the international insurance sector.

As an international financial centre, the Cayman Islands face greater external, rather than internal, Money Laundering (ML)/Terrorist Financing (TF) inherent risks in the insurance sector. This is largely due to the Cayman’s sizable international sector compared to a small domestic insurance sector.

The Cayman Islands undertook a National Risk Assessment (NRA) in 2014-2015 to understand the jurisdiction’s ML/TF risks and vulnerabilities. NRA rated the Insurance industry’s vulnerability level as “Medium” at that time.

In June 2017, the Authority performed a sector specific risks assessment to identify the financial services sector’s inherent ML/TF risk. Each sector, including insurance sector was rated on a scale of Low, Medium Low, Medium High and High against the five inherent risk areas recommended in the FATF 40 Recommendations, namely:

* Nature, size and complexity of business
* Products and Services
* Delivery Channels for products and services
* Customer types
* Geographic risks

The Authority’s sector specific risks assessments attached a “**Medium-Low**” rating to the Insurance sector’s **inherent risk**.

|  |
| --- |
| The ML/TF inherent risk of the insurance sector has been rated as “**Medium-Low**” mainly as a result of the following reasons:* High-level of cross-border activities due to the Cayman Islands’ large international insurance sector.
* International insurers operating as commercial insurance companies engaged in life insurance business with no business relationships established on a face-to-face basis.
* International insurers with no physical presence in the Cayman Islands.
* Institutional fund (Mutual funds, Hedge funds and Private Equity funds) investments in (re)insurance.
 |

Each of the five inherent risk area was rated as follows:

**Table 3: Factors increasing and decreasing the Inherent Risk Areas of the Cayman’s Insurance sector**

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| --- | --- | --- |
| **Inherent Risk Area** | **Factors increasing risk** | **Factors decreasing risk** |
| Nature, size and complexity of business- “**Low**” | * **[I]** Overreliance on outsourced functions performed by third parties
* **[I]** Complex ownership structures involving mutual/hedge/private equity funds and the multitude of unknown individual investors
* **[D]** Stiff competition amongst insurers and intermediaries
 | * **[D]** Domestic customer base
* **[D]** Unsophisticated insurance products
* **[I]** Third-party service providers are licensed or approved
* **[I]** Relatively small life insurance sector with a large majority providing liability or property coverage
 |
| Products and services- “**Medium Low**” | * **[D/I]** Life products with investment component and single premium policies with high cash/surrender value
* **[D]** Premium payments made in cash
* [I] Misuse of pure captives by manipulating funding and reserves
 | * **[D/I]** Large single premium payments accepted only from funds in the financial system
* **[I]** Vast majority of international insurers offering liability insurance coverage
* **[I]** International corporation, exchange of information between Cayman and overseas regulators
 |
| Delivery channels for products and services- “**Medium-High**” | * **[I]** Non face-to-face business, eligible introducers, unlicensed intermediaries, online platforms, independent distributors
* **[I]** Underlying policies issued by unrelated fronting carriers or brokers
 | * **[D]** face to face business, business via licensed brokers/agents
* **[I]** involvement of licensed insurance managers
* **[I]** Requirement to use licensed/regulated intermediaries
 |
| Customer types- “**Medium Low**” | * **[I]** Politically Exposed Persons (PEP), cash intensive, charitable trusts as beneficiaries, high risk industries
* **[I]** Customers breaching international sanctions
 | * **[I]** Largely dealing with institutional clients (pure captives and Catastrophe Bonds) or own group (group captives)
 |
| Geographical risk- “**Low**” | * **[I]** Many or high $ volume customers in high risk jurisdictions
* **[I]** Shareholders, subsidiaries, beneficial owners, trust beneficiaries and settlors in high risk jurisdictions
 | * **[I]** Largely dealing with ‘low’ risk jurisdictions
* **[D]** Largely a domestic customer base
 |

[D] – Mostly applicable to the Domestic insurance sector

[I] Mostly applicable to the International insurance sector

**3.2 Money Laundering (ML)/Terrorist Financing (TF) – Risk-Based Mitigation Measures**

The Authority has taken several steps to mitigate the ML/TF exposures of its insurance licensees. Some of these steps include:

* Enhanced risk-based supervisory framework including risk assessment of licensees for their ML/TF exposure
* Enhanced international corporation with overseas regulators
* More AML/CFT focused onsite inspections
* Issuing Insurance sector specific Guidance Notes
* AML/CFT Training and outreach programs

**3.2.1 Enhanced risk-based supervisory framework including risk assessment of licensees for their ML/TF exposure**

Risk-based approaches to supervision have been the international standard for financial services regulation and the dominant approach globally for the last decade. The Authority has taken a risk-based approach in supervising its insurance licensees from the time an entity becomes a licensee until the licence is surrendered. In addition, the Authority has adopted a comprehensive risk-based, structured methodology designed to facilitate proactive and dynamic assessment of its insurance licensees. The framework provides a structured approach for a) the materiality of the harm that a regulatory risk problem of an insurance licensee would cause with respect to the regulatory objectives of the Authority, if realised in an entity and b) understanding and assessing the key risks, including AML/CFT risks inherent in an insurance entity’s activities.

An insurance licensee’s impact score is a combination of (1) total assets, (2) total liabilities, (3) total gross written premium, (4) total reinsurance premium assumed and (5) the licence category. A licensee’s probability of failure is then assessed using the nature and scale of business risks to which the insurance entity is exposed to (inherent risk) and assessing the extent to which the entity controls these risks. These business risks include, (1) strategic risk, (2) operational risk, (3) credit risk, (4) market risk, (5) liquidity risk, (6) insurance risk, (7) capital risk, (8) fiduciary risk, (9) AML/CFT risk and (10) conduct risk. Using the risk assessment methodology, each insurance licensee is assessed and given (1) an impact rating, (2) an AML/CFT risk rating, (3) an overall risk rating and (4) an outlook.

As mentioned above, each insurance licensee is separately assessed for its ML/TF inherent exposure and controls in place to decrease this exposure.

**Table 4: Key factors considered in measuring the Inherent AML/CFT risk of Insurance Licensees**

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| --- | --- | --- |
| **Inherent Risks** | **Factors to consider** | **Risk Decreasing factors** |
| **Nature, size and complexity of business** | * Engaged in life insurance with products such as single premium life products or investment-linked insurance products with higher surrender value by insurers and intermediaries
* Appearance of ownership structure of a new licensee applicant/customer being unusual or excessively complex given the nature of the applicant/customer’s business
* Ultimate ownership by a fund (mutual fund, hedge fund or private equity fund)
* Legitimate and meaningful business reason to own a Cayman-based insurance entity
* Company’s operation in the Cayman Islands self-managed or outsourced (fully or partially)
* Level of business dealings with regulated/non-regulated service providers
 | * Ability to explain the business reason for complex ownership structures
* The ultimate shareholders and UBOs with more than 10% ownership/control are recorded and up to date
* Real insurance/risk transfer activities taking place
* Independence and competence of the board of directors
* Overseas regulatory checks on regulated shareholders and affiliates
* Checks on outsourced service providers
* Using regulated/reputable external service providers
 |
| **Geographical reach** | * Location of immediate, ultimate and UBOs of licensees
* Location of the policyholders
* Level of business transactions with countries with weak AML/CFT framework
* Level of business transactions with countries subject to sanctions
 | * Licensee located in countries with robust AML/CFT framework
* Policyholders reside/located in countries with robust AML/CFT framework
* Overseas regulatory checks on regulated shareholders and affiliates
 |
| **Products and Services** | * Insurance Manager or Insurance Broker
* Long-term insurance contracts products underwritten and sold as defined in the Anti-Money Laundering Regulations
* Life insurance product that offer high surrender value immediately or in the first couple of years
* Use of actuarial reports, or any third-party expert advice in setting its premium funding and loss reserves
* Dividend policy and investment policy in line with the insurance program
* Use of digital assets and/or crypto currency used at any stage of the insurance product/service
 | * Adequate due diligence is carried out prior to issuing insurance policies
* Verifying the identity of the beneficiary(ies) at least at the time of the payout.
* Controls are in place to deter fraudulent insurance claims
* Designated knowledgeable individuals perform MLRO, DMLOR and AMLCO functions
* Staff are continuously trained on AML/CFT controls
* Internal audits and AML/CFT audits (by life insurers) are conducted
* Reliance on Actuaries to determine premium funding and loss reserve calculations
 |
| **Types of Customers** | * Individual vs corporate clients
* High net worth individuals
* PEPs
* Charitable organizations
* Customers residing in countries with weak AML/CFT regimes
* Customers living in countries subject to sanctions
 | * Adequate due diligence on customers prior to onboarding
* Enhanced due diligence on high risk customers prior to onboarding and at regular intervals
* Senior management involvement in monitoring high risk clients
* Determining whether the beneficiary or beneficial owner of a beneficiary is a PEP, and if so, undertake additional due diligence
* Checks on source of wealth and source of funds, where necessary
 |
| **Distribution Channels** | * Insurance products sold through independent agents/intermediaries/financial advisors with no face-to-face business relationships or transactions.
* High sales commission to intermediaries
 | * Using regulated/licensed insurance intermediaries
* Continuous product and AML/CFT training offered to intermediaries
* Performance of intermediaries are closely monitored
 |
| **Methods of Payment** | * Premium payments are received from unknown or un-associated third parties.
* Single premium vs regular premium
* Ability to deposit additional premium or top up premium
* Cash payments vs non-cash payments
 | * Cash payments have a maximum allowable limit
* Premium payments (especially top-ups) are monitors for unusual patterns
 |

**3.2.2 International Standards and Corporation**

Cayman Islands has been an active member of the IAIS, which is the international standard-setting body responsible for developing and assisting in the implementation of principles, standards and other supporting material for the supervision of the insurance sector. The IAIS is an organization of insurance supervisors and regulators from more than 200 jurisdictions, constituting 97% of the world's insurance premiums. The IAIS has issued the Insurance Core Principles (ICPs), which are comprised of Principle Statements, Standards and Guidance, as a globally accepted framework for insurance supervision. As a leading international insurance center, the Cayman Islands closely follow the ICPs and various Application Papers the IAIS issued in supervising its insurance sector.

In 2018, the Authority entered into a Memorandum of Understanding with the National Association of Insurance Commissioners (NAIC) to facilitate the sharing of insurance information and knowledge between the two organization. In addition, the Authority is an active member of the Group of International Insurance Centre Supervisors (Deputy Chair) and the Caribbean Association of Insurance Regulators (President).

**3.3 Survey Overview**

In December 2019, a self-assessment survey questionnaire was sent to all class ‘A’, ‘B’, ‘C’ and ‘D’ insurers, Insurance Brokers and Insurance Managers by the Authority to gather information to gauge their exposure to specific ML/TF risks. Response rates for the survey were as follows:

**Table 5: Response rate to the survey**

|  |  |  |
| --- | --- | --- |
| **Licence Category** | **Number of licensees at 31 December 2019** | **Survey submissions (%)** |
| Class ‘A’ insurer | 26 | 14 (54%) |
| Class B insurer | 618 | 577 (93%) |
| Class C insurer | 23 | 21 (91%) |
| Class D insurer | 5 | 2 (40%) |
| Insurance Broker | 23 | 16 (70%) |
| Insurance Manager | 24 | 19 (79%) |
| **Total** | **719** | **649 (90%)** |

For the purpose of the completion of the survey, insurance licensees were requested to consider their data between 1 October 2018 and 30 September 2019.

The Results of the survey are summarized as follows:

**Table 6: Survey results per each Insurance industry specific inherent risk**

|  |  |
| --- | --- |
| **Inherent Risks** | **State of the Sector** |
| **Nature, size and complexity of business** | * 11% of the sector provides Life products with investment components and single premium policies with high cash/surrender value. This included both direct writers and reinsurers.
* 71% of the international insurers operate as captive insurance companies providing property and casualty coverage to their parent companies and affiliates.
* Over 95% of the international sector insurers are managed by an Insurance Manager. All domestic sector insurers have either a physical presence or engage an Insurance Broker to provide a physical presence.
* Of the international commercial insurance sector, direct insurers and reinsurers, 73% of the licensees utilized regulated entities or entities supervised by one or more other regulators.
 |
| **Geographical reach** | * 29% of the Domestic Sector’s immediate and UBO’s are located in the Cayman Islands, 16% in the Bahamas, 16% in the United States, 16% in Bermuda and the remaining 23% located in other Caribbean territories and the United Kingdom. 81% of the International sector’s immediate and ultimate UBO’s are located in the United States, 11% are located in the Cayman Islands and the remaining 8% were located globally.
* Less than 3% of Licensees have engaged in business transactions with countries subject to sanctions.
 |
| **Products and Services** | * 5% of insurance sector engaged in life and other investment-related insurance business as direct insurers.
* 11% of the sector provides life products with investment components and single premium policies with high cash/surrender value. This included both direct writers and reinsurers.
* No use of virtual assets to date.
 |
| **Types of Customers** | * 86% of the domestic sector provides insurance coverage or services to natural and or legal persons.
* 23% of the domestic sector provides insurance coverage or services to PEPs and/or high net worth individuals
* 18% of the domestic sector provides insurance coverage of services to Trusts or similar types of legal arrangements.
* 86% of the international insurers offer (re)insurance coverage to their corporate shareholders and affiliates (pure captives).
* 13% of the international sector provides insurance coverage or services to PEPs and/or high net worth individuals (including UBO’s and affiliated persons).
* 1% of the international sector provides insurance coverage of services to Trusts or similar types of legal arrangements.
* Less than 3% of Licensees have engaged in business transactions with countries subject to sanctions.
 |
| **Distribution Channels** | * Only 7% of the domestic sector has sales channels that are not face-to-face.
* 23% of the domestic sector utilizes an online platform for soliciting business and marketing.
* Only 2% of the international sector has sales channels that are not face-to-face, including through an intermediary or online platform.
 |
| **Methods of Payment** | * Less than 1% of the international sector have written policies which have an additional top-up feature.
* Only 8% of the domestic sector have written policies which have an additional top-up feature.
* 40% of the domestic and international sectors have accepted premium payments by cash. The remaining 60% have accepted premium payments by other means including wire transfer, cheque and direct debit transactions.
 |

When breaking down the Insurance sectoral risk allocation into nature, size and complexity of business, geographical reach, products and services, types of customers, distribution channels and methods of payments, the following inherent risk ratings are assigned:

|  |  |
| --- | --- |
| Nature, Size and Complexity | Low |
| Product/Service Risks  | Medium-Low |
| Delivery Channel Risks | Medium-high |
| Customer Types | Medium-low |
| Geographical risk | Low |
| **Overall** | **Medium-low** |

**Overall summary and conclusion**

CIMA has undergone a data analysis for the insurance sector to conclude on the country’s risk exposure to ML/TF and concludes that there is a medium-low risk of the insurance sector being misused for ML/TF purposes. While the risks emanating from the nature, scale and complexity, products and services and types of customers are determined to be low and medium-low respectively, delivery channels have been determined as medium-high. The weighting of these risk factors resulted in a composite ML/TF risk rating of medium-low for the sector.