

The Cayman Islands: Emerging as a premier global hub for offshore reinsurance and insurance

April 2025

Introduction

In recent years, the Cayman Islands has garnered significant attention as a burgeoning hub for offshore reinsurance and insurance ("re/insurance"). The Cayman Islands has long been recognised for its robust financial services sector, primarily focused on investment funds, but also including banking and insurance. Historically, Bermuda has been the dominant player in the offshore re/insurance market, but recent trends indicate a noticeable shift. While Bermuda remains the unquestioned leader, the Cayman Islands is increasingly being seen as a viable and attractive destination for re/insurance companies.

Statistical data and growth indicators

According to the Cayman Islands Monetary Authority ("CIMA"), the number of licensed re/insurance entities in the Cayman Islands has shown consistent growth. As of December 2024, there were 721 licensed insurance companies, up from 708 in December 2023.

Over the past decade, the Cayman Islands has experienced remarkable growth in their re/insurance sector. The total assets of insurance companies in the Cayman Islands increased significantly, reaching approximately \$154 billion by the end of 2024. This represents a substantial rise from previous years, showcasing the sector's robust expansion. Specifically, this marks a 19% increase from the \$129.7 billion reported in 2014, with total premiums also increasing to \$41 billion by the end of 2024. This upward trajectory underscores the Cayman Islands' emergence as a competitive and attractive domicile for re/insurance activities. In contrast, Bermuda has seen negligible growth in its re/insurance sector. The Bermuda Monetary Authority's ("BMA") annual report for 2023 indicates that the number of registered insurance entities has remained relatively stable, with slight fluctuations.

While no one would question Bermuda's current leadership status in the re/insurance space, the Cayman Islands' growth trajectory suggests a potential shift in dominance on the horizon.

Regulatory competitiveness

The regulatory framework in the Cayman Islands is designed to foster growth while ensuring compliance and stability. CIMA has implemented a series of measures to enhance the regulatory oversight of insurance entities, including firm and consistent reporting requirements and regular audits. These measures have contributed to the confidence of investors and companies in the jurisdiction.

Bermuda has traditionally been known for its rigorous regulatory environment. However, recent changes have introduced increased regulatory supervision and tighter investment and group supervision rules. The BMA has released consultation papers aimed at improving regulation of investments and oversight of insurance groups. The effect on re/insurers as a result has been wide-ranging. As

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an example, the BMA made it clear that life re/insurers backed by private equity investment will be subject to particularly close scrutiny going forward, and in general Bermuda has introduced stricter capital requirements on life and annuity re/insurers.

The regulatory enhancements have been a consequence of Bermuda's efforts to bring the jurisdiction into closer alignment with the financial and solvency standards of the EU's Solvency II Regime. This approach makes sense for Bermuda due to its large volume of European reinsurers. Approximately 90% of business conducted in the Cayman Islands originates from the United States, encompassing various industry sectors beyond just insurance and reinsurance. Conversely, only about 2% of the risks underwritten by the Cayman insurance industry come from Europe. Given the minimal business ties with Europe, there is no incentive for the Cayman Islands to pursue Solvency II equivalency. This situation benefits companies without UK or European connections, as they face fewer uncertainties related to regulatory changes.

The increased regulatory supervision in Bermuda, including the implementation of the 'Prudent Person Principle', as described in the BMA's consultation paper published in December 2024, requires insurers to demonstrate effective asset liability matching strategies and the appropriateness of investment leveraging activities. While these measures are designed to mitigate risks, they also impose additional compliance costs on insurers and limit the scope of leveraging activities that can be undertaken.

The recent regulatory changes in Bermuda, while intended to enhance stability, have had the unfortunate result of increasing the regulatory burden on many re/insurance companies operating in Bermuda, and have caused some industry stakeholders to consider the Cayman Islands as an alternative jurisdiction. The Cayman Islands offers a less rigid regulatory environment that balances oversight with flexibility. This approach is particularly appealing to companies seeking to optimise their operations without the added burden of extensive regulatory requirements.

Tax neutrality

One of the key advantages of the Cayman Islands is its tax-neutral status. Unlike many jurisdictions, the Cayman Islands does not impose direct taxes on companies, including corporate income tax, capital gains tax, or withholding tax. Bermuda boasted the same tax neutrality, until recently. In January 2025, Bermuda introduced the Corporate Income Tax Act, which imposes a 15% corporate income tax on businesses that are part of multinational enterprise groups with annual revenue of €750 million or more (subject to certain carve-outs). This significant policy shift is anticipated to have profound implications for Bermuda's re/insurance industry.

The introduction of the Corporate Income Tax Act in Bermuda is perceived as a move to align with global tax standards, particularly the OECD's Pillar Two Global Anti-Base Erosion (GloBE) Rules. This introduces a new financial burden on large multinational companies operating in Bermuda, potentially rendering the jurisdiction less competitive.

The real impact of this tax will likely be multifaceted. On one hand, it may deter new multinational insurance and reinsurance companies from setting up operations in Bermuda due to the increased tax liability. On the other hand, existing companies may reconsider their presence in Bermuda, weighing the benefits of staying against the new tax obligations. The absence of direct taxes in the Cayman Islands allows companies to retain more of their earnings, enhancing their profitability and operational efficiency.

Flexible accounting regime

One of the key attractions for companies to the Cayman Islands is the flexibility in accounting treatment. Re/insurers have the option to use internationally recognised accounting standards, such as US statutory or US GAAP. They can also propose modifications, like adjusted STAT or modified GAAP, to CIMA, or even opt for hybrid arrangements. CIMA is open to accepting these modified or hybrid

accounting methods, provided the entity's external auditor can verify and confirm that the approach remains internationally recognized despite the modifications. Utilising modified coinsurance (ModCo) or funds withheld (FWH) reinsurance in Cayman allows insurers to benefit from lower reserves, increased capital, and improved solvency ratios, while ensuring that all ceded reserves are fully or even over-collateralised.

Conclusion

There is an argument to be made that the Cayman Islands is poised to become the next premier global hub for offshore reinsurance and insurance. The combination of robust growth, a more flexible regulatory environment, and tax neutrality juxtaposed against an increasingly rigid regulatory regime paired with corporate income tax, positions the Cayman Islands as a competitive alternative to Bermuda.

As the global insurance landscape evolves, the Cayman Islands' ability to adapt and innovate will be crucial in maintaining its competitive edge. Companies looking to optimise their operations and capitalise on growth opportunities should consider the Cayman Islands as a viable and attractive destination for their reinsurance and insurance activities.

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