

Chairman's Report

2009 Statistics

As of December 31, 2009 the Cayman Islands had 780 captive insurance companies. During the year there were 40 new captive insurance licences issued, which represented an increase of 25% from 2008 when only 32 new captive insurance licences were issued. In fact, this is the first increase in the number of new formations since 2002, as there was a steady decline in new formations since then. There were however 37 insurance licences cancelled in 2009, so the net gain for the year was only three. Note that the cancellations do not represent just cancellations in 2009. The primary reasons for cancellations are the expiration of programs, mergers with other captives in Cayman and the soft insurance market in the United States.

In terms of the 40 new captive insurance licences, 4 of these represented redomicilations from other domiciles. In terms of the 37 cancellations, 4 of these represented redomicilations to other domiciles. The onshore/offshore split is as follows:

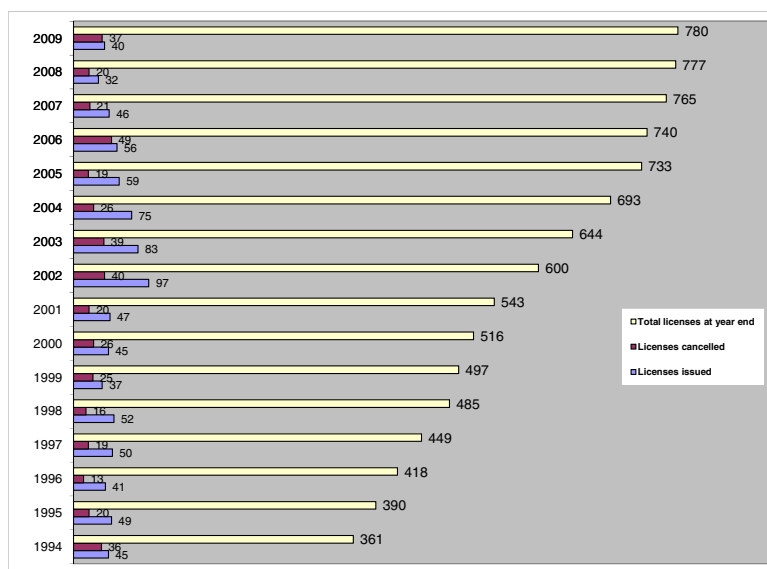
	Onshore	Offshore
To Cayman	3	1
From Cayman	-3	-1

The following chart indicates how in the past 16 years, the Cayman Islands captive insurance market has shown consistent growth from year to year.

CAYMAN ISLANDS MONETARY AUTHORITY

Captive Insurance Company Statistics - Licensing Activity Report

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
OPENING BALANCE:	352	361	390	418	449	485	497	516	543	600	644	693	733	740	765	777
LICENCES ISSUED:	45	49	41	50	52	37	45	47	97	83	75	59	56	46	32	40
LICENCES CANCELLED:	36	20	13	19	16	25	26	20	40	39	26	19	49	21	20	37
TOTAL LICENCES:	361	390	418	449	485	497	516	543	600	644	693	733	740	765	777	780



Cayman Captive Forum 2009

The most significant event each year for the IMAC, occurs in the last quarter of the fiscal year, which is the Cayman Captive Forum. The Forum Committee works year round planning this event and their efforts were well rewarded in 2009, with another splendid event, and excellent attendance with approximately 840 attendees. See the Forum Committee report later in this issue of IQ for additional details.

New this year is a post forum brochure published by our Key Sponsor – KPMG. A copy of this publication will be available on the IMAC website soon. See details to the right.

Coming Soon! Captive Insurance: Stability in a world of uncertainty

KPMG in association with IMAC has produced a publication summarizing the key sessions of the 2009 Cayman Captive Forum. The publication will be released during February 2010 and will be made available to all IMAC members, Cayman captive participants and related service providers.

The publication entitled **Captive Insurance: Stability in a world of uncertainty** highlights three key themes of the conference:

- Impact of the global economic climate on the captive industry
- Changes in risk and regulation
- Legislation and hot topics for the healthcare captives

For further information on this publication please contact:

Dara Keogh
Director
+1 345 949 4800
dara.keogh@kpmg.ky

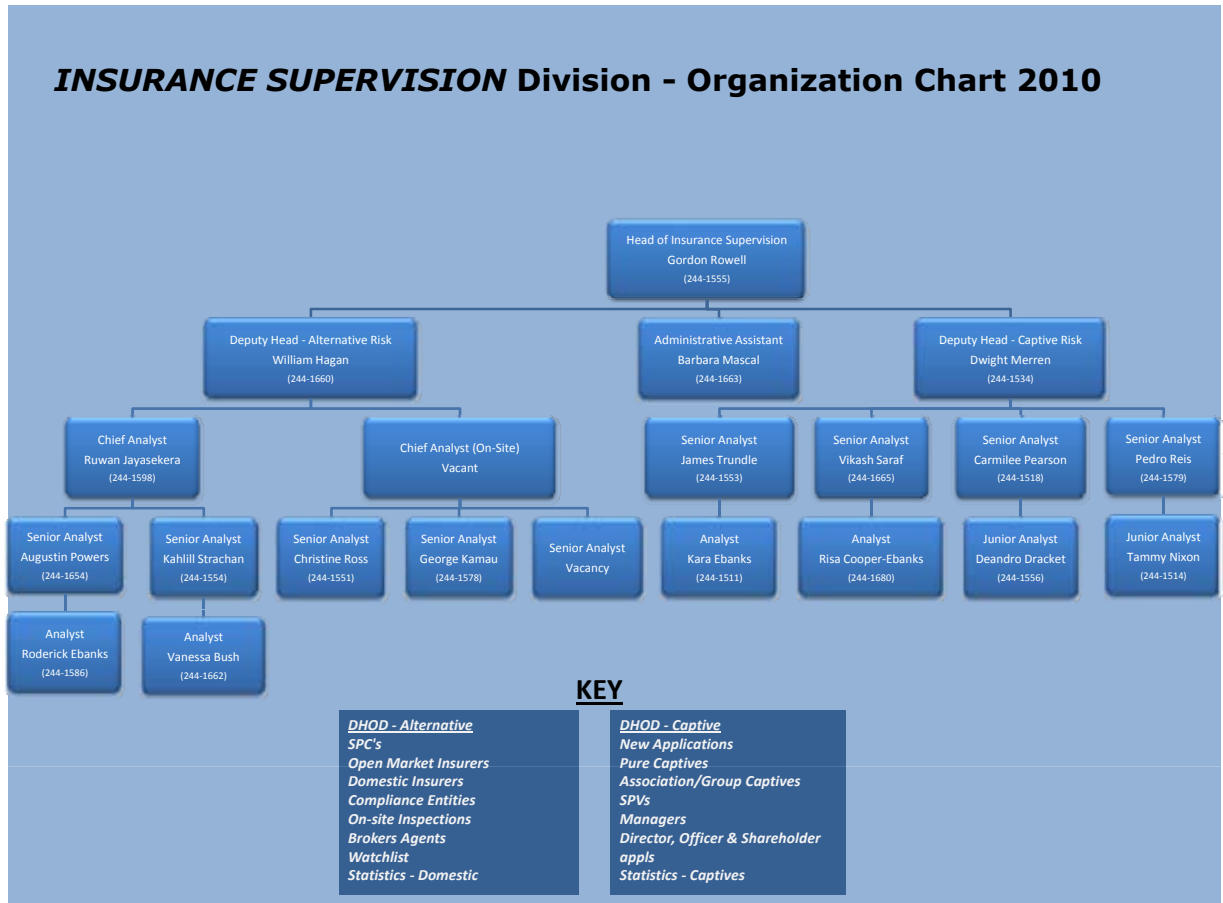
Jennifer O'Leary
Marketing Manager
+1 345 949 4800
jennifer.oleary@kpmg.ky

kpmg.ky

Chairman's Report continued

CIMA Insurance Department Has a New Structure

The various activities of the Legislative and Regulatory Committee are listed below in this issue of IQ, including the appointment of Mr. Bill Hagen as the second Deputy Head of Insurance Supervision of the Cayman Islands Monetary Authority ("CIMA"). Congratulations Bill. Since announcing the appointment of the second Deputy Head of Insurance Supervision, Mr. Gordon Rowell has announced a new structure for the Insurance Department. The department is now split into two areas – captives and alternative risk structures. The structure of the department is depicted in the chart above.



copy of this 31 page report is available from the IMF by contacting them at publications@imf.org.

however the details of the time and locations are still being finalized.

RIMS Annual Conference and Exhibit

The Marketing Committee has been active with various initiatives as indicated in their report in this issue of IQ. Not included in their report is their work regarding the upcoming RIMS Annual Conference and Exhibit at the Boston Convention and Exhibition Hall from April 25 – 29, 2010. The Cayman Islands Government is an exhibitor for this conference, at which a large delegation of IMAC full and local members attend to provide support to man the booth. The Cayman Islands Government booth is number 1313, so if you are in attendance at this conference, please ensure you stop by and visit. In addition, plans are underway for the Cayman Islands cocktail reception;

Caribbean Catastrophe Risk Insurance Facility

We in the Cayman Islands feel deep sorrow for our fellow Caribbean country Haiti. We are however pleased to report that the efforts of The Caribbean Catastrophe Risk Insurance Facility, which is located in the Cayman Islands, has been able to provide some relief. See the separate report on the CCRIF later in this newsletter.

2010 - Looking Forward

IMAC is looking forward to another year of continued growth in our industry, and meeting the challenges that we may be faced with during the year. We also look forward to continued support from our IMAC full, local and overseas membership throughout 2010 and onward.) .

Overseas Review Reports Issued

During the quarter, two anticipated reports were issued: In October 2009, the UK Independent Review of British Offshore Financial Centres report on their review which occurred in March 2009 was issued. The report does not appear to be controversial. A copy of this 93 page report is available at: www.hm-treasury.gov.uk the International Monetary Fund ("IMF") report on their review which also occurred in March 2009 was issued. Again no surprises appear in this report. A

Forum Committee Report

The 17th Annual Cayman Captive Forum was held December 1 – 3, 2009 at the Ritz-Carlton. Original concerns about the financial crisis and the economy in the US affecting the Forum proved completely unfounded. Attendance was almost at the all-time high reached in 2007 of 861. Exhibitor space and the discounted hotel rooms were sold out.

And with good reason. The agenda boasted many diverse sessions and events, both education and entertaining. Our Keynote Speaker, sponsored by Wells Fargo, was Mr. Ken Schmidt, an avid motorcyclist and former director of communications for Harley-Davidson Motor Company. His motivational and humorous speech discussed the struggles at Harley Davidson, and the importance of customer relationships to corporate success.

Other main forum sessions included:

Mr. Craig Wright, the Chief Economist for the Royal Bank of Canada, a Forum sponsor, also presented an insightful analysis of the global economy's impact on the market.

A panel session moderated by Ms. Ruth Kilduff of Integro Insurance Brokers, which included Mr. Gordon Rowell (Head of Insurance Supervision at the Cayman Islands Monetary Authority), discussed the new Cayman Islands Rule for Risk Management.

Cayman Finance representative Mr. Richard McMillian provided a State of Offshore Business presentation.

Stephen Cross from Aon Global Risk Consulting presented the results of a biennial analysis based on 551 organizations from 40 countries and a broad range of industries, on the top 10 global risks.

An investment panel moderated by Mr. John Pitcairn of Artex Risk Solutions, Inc which included 9 different investment professionals involved in the Cayman Islands captive industry.

All the Forum's educational sessions and content were again very well received by attendees, who are always impressed at the quality of the speakers at the Forum. We are looking for new session and agenda ideas to keep the Forum interesting, even for long-time attendees, so the Committee already has a couple of new items in the works for 2010.

The agenda also included three extraordinary networking evenings at the Ritz Carlton North Sound Pool, the Ballroom Terrace and of course the signature event, the barbeque and fireworks on Seven Mile Beach. This year, the Committee was able to successfully address concerns about attendance at the Beach event through implementation of a wrist band system. The system worked well with no disruption to anyone's enjoyment of the evening.

The Committee would like to thank KMPG as the Key Sponsor of the event, as well as the numerous other event sponsors, supporting sponsors and exhibitors. KMPG and many other sponsors have been committed to the Forum for many years and much of its success is due to their participation and generosity. We would also like to thank the many volunteers to put a great deal of time and effort into the conference and without whom it would not be possible.

The call for 2010 speakers, exhibitors and sponsors will commence shortly. Anyone interested may contact william.forsythe@caymancaptive.ky at any time.



Pictured above on the far left is Ron Sulisz – IMAC Chairman with the keynote speaker Ken Schmidt in the middle. The other three pictured from left to right are employees of Wells Fargo Trust Services – Robert Quinn, Todd Winchel and Mike Ramsey.

Marketing Committee Report

Each member of the IMAC Marketing Committee has been given a specific role and certain targets to achieve throughout the year.

In our first three months, I'm pleased to report that we are ahead of plan and have initiated some exciting projects. An update of these 1st quarter projects follows.

1. Conferences

From 22nd to 25th October we had the ASHRM conference in a very chilly Denver, Colorado. The Cayman Islands Government Ministry of Finance kindly sponsored a booth and an excellent networking cocktail event on the Friday evening at the Pinnacle Club, Grand Hyatt. This was attended by many industry leaders including Bill McCullough, ex-insurance regulator of Cayman and BVI. Despite the weather, the conference was a success with the hard working staff of CIMA rushing around trying to meet as many captive owners as possible.

In December we had the Cayman Captive Forum, which a description of which is contained in the Forum Committee section. Congratulations to the Forum Committee for another splendid job.

Over the next few weeks, a survey to members asking for their opinions on the worth of overseas conferences in general, and suggestions as to which overseas conferences IMAC should

support in particular, will be sent out. Please look out for this and share any ideas you have about conferences such as CICA, RIMS, ASHRM, VCIA and World Captive Forum.

2. Media & Press

We have already surpassed our 1st quarter "Rolling Thunder" objective of having something published at least once a month. To the end of December, articles from IMAC appeared in the Cayman Financial Review, the Cayman Captive Magazine, the Captive Art & Review Cayman supplement 2010, and Captive.com as well as the last quarterly newsletter. We now look forward to new articles from the Scholarship Committee and the Education Committee being published.

3. Website

While all this was going on the Marketing Committee was busy updating the IMAC website. This is an on-going task, but if you go to the site you'll see just some of the many changes that have been made. As the website is for you, the members, please feel free to contact William Forsythe (or Alissa Matthews at Marsh) with any helpful suggestions you may have.

4. Membership

The next project is our membership drive. You will recall that in October,

each insurance management company was asked to encourage more of their clients to become members of IMAC. The goal was to have at least of 50% of each manager's captives join up. To help the managers with this task the Marketing Committee created and circulated a document which was to be sent to each client explaining the advantages of membership.

Although we have all been busy since October, Willie tells me that several new members have already been signed up. The Marketing Committee will be contacting all the managers again soon with friendly reminders.

5. Social - Quarterly

We always like to keep the best for last, and that comes in the shape of social activities. On Tuesday, December 15, 2009, over 100 members and friends came to Home Restaurant for a Christmas gathering. The evening was most enjoyable and gave members the opportunity to discuss the recent Cayman Captive Forum and other industry initiatives.

IMAC's next social event is likely to be the BDO annual quiz, when the reigning champions CIMA will be strutting their stuff again. The details of this will be circulated once our friends at BDO determine a mutually convenient date.

Industry Notes

We congratulate Paul Arbo (BDO) on his success in obtaining the ACI designation through ICCIE during 2009.

We also congratulate John Pitcairn, Managing Director of Artex Risk Solutions (Cayman) Ltd who has recently been appointed a Member of the National Pensions Board. The duties of the Board include the supervision of the administration of the Pensions Law, the improvement of pension plans throughout the islands, and the making of recommendations of changes to the Pensions Law, to the appropriate Government Minister.

Education Committee Report

The focus of the Education Committee has been on reaching out to the membership to assess their educational needs. In addition, the committee has held productive discussions with representatives of International Center for Captive Insurance Education ("ICCIE"). These initiatives have provided the Committee with good information with which to design a program of educational initiatives for 2010, which will include securing sup-

port at the appropriate level within the membership for meeting the needs of the industry's employees, customizing educational sessions to the different needs of industry starters and industry maturateds, and teaming with the University College of the Cayman Islands ("UCCI"), ICCIE and industry experts to harness as much professional support for the program as possible. Details will be forthcoming after the Committee's next meeting.

2009 Scholarship Recipient College Life

Camille Bodden was one of the two full scholarship recipients from the IMAC Educational Scholarship Fund for 2009. Camille is studying Ecology and Evolutionary Biology at the University of Colorado. The Chairman of the IMAC Educational Scholarship Fund asked Camille to provide a couple of paragraphs about her college life. The following is from Camille:

"The University of Colorado is a long way from home. I was scared I'd miss my family and friends. I didn't know if I'd fit in or be able to adjust to the weather. I knew it would be hard but I would push through. My first week, I fell deeply into "freshman fever". I went on a rampage, buying university gear: the jacket, the key chains, the t-shirt, the little cardboard cutout of our school mascot: Ralphie the buffalo and all! My fingers twitched a little more when I saw my dorm. It was blank, like a canvas waiting to be painted on. In a spray of tacks and tape I fixed it; blasting the walls with pictures of Cayman, old postcards and family photos. Whenever I looked at the wall it made me feel less lonely; smiles caught in the waxy flash of a camera. The paper spectrum made of familiar scenes and faces remained a declaration of who I was and what I was capable of.

One of my favorite photos was a plate

full of food: steak, baked macaroni, potato salad, rice: other heart-clogging delights. One morning I went to breakfast in the university's cafeteria and saw "Jamaican Style Beef". I was very interested. Curious, I ate it. It wasn't so bad, I was afraid though that perhaps Ralphie had been sacrificed for this meal. It didn't taste the same, it was different... actually a lot of things were different, besides food. I was used to palm trees, ocean breeze and the creamy colour of sand dunes parched by the inescapable heat of the beach. Now, to watch the languid violets, delicate orange-pink of the sunlight wash the rugged creases of the Rockies; to see the snow fall like sheets of cotton onto the cold earth and to look at the strange crystalline bodies of icicles melting from the roof of the bus stop; is lovely in a different way. I think that attending my university has already taught me a lot. It's showed me how to embrace what I am afraid of and to find beauty in change.

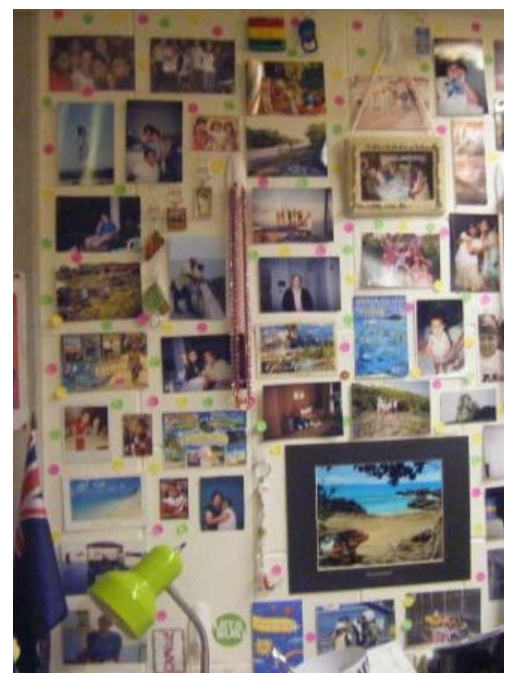
I am grateful not only to have the opportunity to pursue my education but also to improve myself as a person and to learn what can not be articulated in words or written in textbooks. IMAC has given me the chance to succeed, excel in my field of study and has afforded me with exposure to different ideas, cultures, academics and people. Thank you."

IMAC Educational Scholarship Fund Donation

RBC Wealth Management has been a great supporter of the IMAC Educational Scholarship Fund (the "Fund") over the years. During the 2009/10 fiscal year of the Fund they once again showed their generosity with a US\$10,000 donation to the Fund.



Pictured below is Mr. Saad Hafiz from RBC Wealth Management, along with the Chairman of the Fund Mr. John Pitcairn (who was obviously in the festive spirit).



Camille's Dorm room wall

Legislative & Regulatory Affairs Committee Report

The fourth quarter of 2009 has brought to a conclusion the expectations for the Rule of Risk Management for Insurers. After the Cayman Islands Monetary Authority (CIMA) adopted the Rule of Risk Management for Insurers early in 2009, CIMA has agreed with IMAC that a phase in period shall take place during 2010 with all companies to be in compliance by December 31, 2010.

Since the IMAC Forum in December 2009 there have been several queries regarding the Risk Management for Insurers Rule. The following is intended to provide an overview of the expectations:

There are no filing requirement. The RMF is to be available on request.

Rule 5.1.1 notes that “an insurer must establish, implement, and maintain a risk management framework” (“RMF”) and rule 5.1.2 states that the RMF “must be appropriate having regards to “size and complexity of the insurer”. As guidance, CIMA issued a letter on November 10, 2009 stating that since CIMA reviews risk management as part of the approval process for Business Plans, that this will suffice for compliance with the rule. This means that for those captive’s whose business plan has established a full RMF that is appropriate to its size and complexity within its business plan, this is all that is required.

Captives whose RMF is insufficiently detailed in their Business Plan should have their Board adopt a separate document (or alternatively file a new Business Plan) allowing for the size and complexity of their captive, as determined by the Directors themselves. The following is a list of material risks that must be addressed as indicated in rule 5.1.4,

- Credit risk
- Insurance underwriting and reinsurance risks
- Investment risk (including use of derivatives)
- Market risk (including liquidity risk)
- Strategic and tactical risks arising from the Business Plan
- Concentration risk
- Compliance risk
- Operational risk (including outsourcing and business continuity management)

For every item on the list the RMF will allow for the appropriate level of risk (say, high/medium/low) and for the resulting level it will record the practices/considerations necessary for the Board to determine whether the risk is properly evaluated and acceptable.

In summary, the need for a Risk Management Framework document should be assessed based on the size and complexity of the company, the RMF does not need to be filed with CIMA but available should they request it, and as a guideline to “size and complexity” the amount of third party business could be used as a reasonable gauge. If you would like a copy of the Risk Management for Insurers Rule, it is available on the Cayman Islands Monetary Authority website at: www.cimoney.com.ky/regulatory_framework/reg_frame_r_a.aspx?id=1744&ekmense1=e2f22c9a169217444

The Insurance Law:

The Insurance Law mentioned in prior newsletters remains in the draft stage and is likely to be presented to Cabinet in the first quarter of 2010. The major changes anticipated will affect captives writing open market risks however at this stage a Draft has not been officially released so we will look forward to addressing any other changes that may impact Class B insurers in the next news letter.

Other Regulatory Matters:

The Legislative & Regulatory Committee as of December has on its agenda the European Union draft Solvency II regulations for EU members states with a view to implementation in October 2012. Although it is not anticipated to have a direct impact on the Cayman Islands captive market the Legislative & Regulatory Committee believes it is diligent to review and to submit comment to CIMA. There are approximately 70 EU insurers licensed in Cayman that may be directly affected through increased solvency, disclosure and risk management practices.

To provide a brief overview, the EU institutes legislation through a framework called the Lamfalussy Process which is essentially a four stage process of design, consultation and implementation. The EU body for consultation, called the Committee of European Insurance and Occupational Pensions Supervisors

(“CEIOPS”) has published multiple consultation papers which directly or indirectly affect offshore and onshore insurers. Further information on CEIOPS can be found at www.ceiops.org

Effective October 2009, CEIOPS issued a consultation paper #79 which basically outlined how Solvency II would be implemented for European Captives. Guernsey, Isle of Man and Jersey critically responded to the suggestions from CEIOPS by the deadline of December 12, 2009. CIMA decided to also respond. Other respondents included Guernsey Financial Services, Isle of Man Financial Services, ACA, AGERE, AON, MARSH, DIMA, ECIROA (European Captive Insurance & Reinsurance Owners’ Association), FERMA and MIMA. These are all Guernsey, UK, European or Isle of Man based organizations or brokers which also included the Insurance Managers Associations of both Guernsey and Isle of Man.

Similarly, effective December 2009, CEIOPS issued consultation paper #78, titled “Draft CEIOPS advice for Level 2 Implementing Measures on Solvency II”. Essentially, this paper defines which countries can deal with European Member States by setting the standards for equivalent regulations “Equivalency”. This affects all insurers, including reinsurers, fronting carriers, etc. Again, this doesn’t directly affect the Cayman Islands however CIMA and the industry seek to be proactive and to respond prior to implementation. The CEIOPS consultation process is open to any interested parties, regardless of whether European Member States or otherwise.

Cayman Fees:

The annual License fee for a Class B insurer has increased to \$8,500 and for companies licensed as a Segregated Portfolio Company there is an additional \$250 in respect for each segregated portfolio. Amounts above are in Cayman Islands dollars. There have also been some minor filing fee increases as well as some new filing fees implemented.

Update of CIMA’s Web Site:

CIMA’s website has been overhauled with a recently upgraded and modernized site that is user friendly for both managers and captive owners. Please visit at the same web address: www.ci

Legislative & Regulatory Affairs Committee continued

money.com.ky for a first hand review.

Promotion:

And closing our update for the quarterly newsletter, the Legislative & Regulatory Committee is pleased to advise of CIMA's announcement that Mr. William Hagen has been promoted to the post of Deputy Head of Insurance Supervision with effect from December 1st, 2009.

Bill joined the Insurance Division at the Cayman Islands Monetary Authority in August of 2006 and that he has over twenty years experience in the insurance industry encompassing both property & casualty and life.

Bill spent most of his career in Canada with a major commercial life insurer. He began as a premium auditor and subsequently moved on to such areas as claims forensic accounting, finan-

cial reporting, taxation and regulatory affairs. In 1998 he became Director of Financial Services for the personal markets operation and was part of the leadership team responsible for re-visioning, strategic planning and operational improvement initiatives.

More recently, Bill has worked as the Vice President of Finance for a global aerospace company, which is part of the world's largest aviation insurance underwriting manager, and as a tax manager for one of the "big four" audit firms financial institutions tax practice.

He is a graduate of the University of Toronto and is a member of the Institute of Certified Management Accountants.

Please join us in congratulating Bill in his appointment.



CCRIF Update and Assistance with Haiti Earthquake Disaster

- The Facility signed a Memorandum of Understanding with CDEMA (Caribbean Disaster Emergency Management Agency) on August 19, 2009 to develop strategies mitigating the physical and socio-economic impacts of natural disasters on countries in the Region, via the use of catastrophic risk modeling tools, to introduce new products and initiatives to assist Caribbean governments in better understanding and financing their catastrophic risk exposures and to share information on real-time hazard and impact information.

- The Facility has commissioned Caribbean Institute of Meteorology and Hydrology and Kinetic Analysis Corporation to develop and test a parametric Excess Rainfall Product for catastrophic flood coverage in the region, assimilating rainfall data for the past 60 years for the loss model. It is intended to have the product available for policyholder countries sometime during 2010.

- The Facility has faced its most public scrutiny to date in the aftermath of the Haiti Earthquake whose epicentre was 15 miles South West of Port au Prince, and measured 7.0 on the Richter Scale, and was also felt strongly in Cuba, the Dominican Republic and Jamaica. Haiti is one of the 16 policyholders with the Facility who joined from the beginning. According to preliminary calculations based on USGA Weather Data it expected that Haiti will receive its full policy limit of approximately \$8 million, to be paid in 14 days once the calculations are verified. The Facility has received coverage in the insurance press in this regard, and indeed praise from Bermuda, whose Finance Minister Hon. Paula Cox expressed pride in Bermuda being a policyholder.

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Technical Update

For the benefit of IMAC members and associate members, KPMG presents a quarterly summary of the key industry and technical accounting issues that are impacting captives and their boards of directors this year.

Perceived Advantages and Disadvantages of §953(d) Election.

Advantages:

- 1 Eliminates the requirement for the shareholders of the Company to annually file Form 5471.
- 2 The shareholders of the Company are not subject to the subpart F rules and the income tax on the net taxable earnings of the Company are paid at the Company level.
- 3 Eliminates the Federal Excise Tax levied on insurance premiums paid to non-U.S. insurance companies for coverage of U.S. based risks. FET is levied at a rate of 1 percent for reinsurance premiums and at a rate of 4 percent for directly written premiums.
- 4 Eliminates U.S. trade or business issues. However, representatives of the Company should remain vigilant in ensuring that activities do not occur within a particular State as such activities could expose the Company to State income tax and regulation.
- 5 If the Company's activities are properly managed in a way where there is no nexus with any State, there should be no State income tax due on the net taxable earnings of the Company.

Disadvantages:

- 1 The Company must either place a letter of credit in favour of the Internal Revenue Service equal to 10 percent of its gross income or have an office in the U.S. and hold unencumbered assets located in the U.S. equal to 10 percent of its gross income.
- 2 The Company is subject to taxation on its worldwide income.
- 3 The net taxable income of the Company will be subject to two levels of taxation. However, this negative impact is somewhat mitigated by the dividends received deduction for corporations and the maximum tax rate of 15 percent on dividends for individuals.
- 4 Possible exposure to the alternative minimum tax or the accumulated earnings tax.
- 5 The Company must adopt a calendar tax year unless it files a consolidated U.S. Federal income tax with its parent and its parent has a tax year end other than 31 December.
- 6 The election is irrevocable without the consent of the Internal Revenue Service.

For more information please contact:

Doug Harrell
Partner
+ 1 345 949 4800
dougharrell@kpmg.ky

Dara Keogh
Director
+ 1 345 949 4800
darakeogh@kpmg.ky

kpmg.ky

