

# CAYMAN ISLANDS MONETARY AUTHORITY

## MESSAGE FROM MANAGING DIRECTOR

### 2020 YEAR IN REVIEW, LOOKING AHEAD



The COVID-19 pandemic impacted many regulated entities, with most having to adapt to new ways of working. Needless to say, 2020 was a busy year for the Cayman Islands' financial services industry and the Cayman Islands Monetary Authority (CIMA) alike. Much of our efforts were geared towards meeting economic substance and CFATF requirements.

Significant to these changes were:

- The implementation of an enhanced supervisory regime for Registered Persons, formerly Excluded Persons, under the Securities Investments Business Act.
- The enforcement of the Private Funds Act, which resulted in 12,695 new private funds registrations.
- The Mutual Funds (Amendment) Act which now requires funds, with fifteen investors or less, to be regulated by CIMA. Prior to the commencement of this Act in February 2020, these funds were exempt from licensing and registration.
- The Mutual Funds (Annual Returns) (Amendment) Regulations 2020 outlines additional information required by regulated mutual funds, which will assist CIMA in attaining the requisite information for macro-prudential supervision.
- Effective October 2020, the Virtual Asset Service Providers Act requires entities wishing to provide such services to be registered with CIMA. This regulatory framework will be implemented in two phases. The first phase was the registration and notification process, which ended on 31 January 2021 and focused on AML, CFT and CPF compliance, among other key areas of risk. Phase two will include a licensing and approval process that will begin once the appropriate aspects of the Act come into effect.

Legislative amendments were also made to the Monetary Authority Act, and the Administrative Fines Regulations including those relevant to other regulated sectors.

#### **Industry Activity**

Despite the challenges faced in 2020, the industry stood strong.

According to the latest statistics, there were 24,591 regulated funds as of December 2020, compared to 10,857 the previous year. This significant increase is largely due to the required filing for private funds and limited investor funds, as previously mentioned.

According to the 2019 Investments Statistical Digest, Total Gross Assets and Total Net Assets increased by 10% and 8%, respectively.

Reported Net Income was US\$451 billion compared to the loss of US\$30 billion the previous year, reflecting a gain in global stock prices and a strong rebound in financial markets. These activities represent a steady growth in overall assets managed by Cayman-based funds, confirming Cayman's position as the leading jurisdiction for establishing offshore investment funds.

As of December 2020, there were 1,650 Registered Persons compared to the previously existing 2,198 Excluded Persons. This decrease was attributable to the legislative changes designed to meet the economic substance requirements under the EU Amendment Bill, as well as amendments to the Securities Investments Business Act, which brought Registered Persons under the full scope of the Authority's supervision, as indicated earlier. The number of securities licensees remained consistent with the previous year.

At the end of 2020, there were 110 licensed banks compared to 123 in 2019. Although there has been a decline in licensed banks due to optimisation efforts, activities showed heightened interest in Category A and B licenses.

For fiduciary services, there were 286 trusts and company management licensed entities, compared to 284 in 2019, resulting in a 1% increase. Since 2019, there was a 6% increase in trust registrants, from 178 to 189, mainly due to a net increase in the registration of private trust companies.

With 771 insurance licensees, the Cayman Islands' insurance industry also maintained an upward trend and remains the world's leading domicile for healthcare captives and the second largest for captives. In 2020, 36 new international insurance companies were added to the market, compared to 33 in 2019. New insurer formations included 30 captives, 4 insurance-linked securities and 2 Class 'D' reinsurers.

#### **2021 Initiatives**

Looking ahead, and in line with our organisational objectives, 2021 will be a year with significant infrastructure and human capital investment. Reforming operational structures and supervisory approaches, while identifying and managing risks, will be paramount to our success. Through these efforts, the Authority will continue its work around strengthening AML/CFT compliance and awareness through active engagement with the industry.

Similar activities will focus on the second National AML/CFT Risk Assessment, where CIMA will work with other government and regulatory agencies, and relevant industry participants, to assess money laundering, terrorist financing and proliferation financing risks.

Other areas of focus will include continued work on the framework for domestic systemically important deposit taking institutions and the continued implementation of the Basel III framework for banks.

The development of a virtual asset framework that captures coin issuances, trading platforms, exchanges and sandboxes will also be a top priority. Definitions on how this new framework fits into the existing regulatory regime will be determined, along with implementing the necessary support infrastructure. Notwithstanding, the Authority will publish, in the short term, high level principles for the conduct of virtual asset business and amendments to the Guidance Notes on the Prevention and Detection of Money Laundering, Terrorist Financing and Proliferation Financing specifically related to virtual asset business. Consultation on other significant supervisory measures will take place later in the year.

Other planned enhancements to the regulatory framework in the coming months include the publication of regulatory policies and rules related to:

- licensing Class B insurers to assist applicants with understanding the Authority's expectations and licensing requirements;
- establishing the requirements for professional qualifications of relevant persons at insurance companies, brokers, agents and agencies; and
- cancellation of private funds.

Further to the completion of the Private Funds (Annual Returns) Regulations, the Authority will finalise the accompanying Fund Annual Return and Completion Guide for regulated private funds.

The Authority also plans to conduct industry consultations on other rules and statements of guidance for physical presence and retention of records by trust and corporate service providers in the short term.

Comprehensive self-assessments against core principles in the insurance, banking and securities sectors will also be conducted. The outcome of this exercise will be the driving force for enhancements to supervisory framework for these sectors over the next two to three years.

To that end, CIMA remains committed to its continued robust and balanced regulation of financial services in the Cayman Islands, and in promoting the jurisdiction as a leading international financial centre.

