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Q & A with Nate Gemmiti Chairperson of CIRCA

The Cayman International Reinsurance Companies Association (CIRCA) was founded earlier this year to promote the interests of commercial reinsurers in the Cayman Islands and to work collaboratively with all stakeholders in the expanding segment of the Cayman Islands financial industry. Conyers Coverage sat down with Nate Gemmiti, the Chief Operating Officer and General Counsel of Knighthead Annuity & Life Insurance Company and Chairman of CIRCA, for a wide-ranging interview on the state of the reinsurance industry in the Cayman Islands.

Conyers Coverage – Tell us a bit about yourself and how you ended up working with Knighthead Annuity.

Nate Gemmiti – I'm a US lawyer by training and admitted to multiple state courts, federal courts and even the US Supreme court. I started out in private practice at a relatively large US law firm in the Northeast US and represented predominantly insurance clients in formal insurance disputes on the litigation side and you could see if you had only done this or that or designed the policy a specific way or you had treated your client differently you wouldn't be embroiled in a lawsuit.

After that foundation, I went to work for a reinsurance company called Scottish Re. At Scottish Re we had global reinsurance operations including the Cayman Islands which was run by Gary Dombowsky who is now CEO of Knighthead.

Following my stint at Scottish Re, Gary and I kept in touch and put together a business plan for Knighthead Annuity & Life Insurance Company, and raised \$230 million dollars from thirty individual shareholders.

Conyers Coverage – Can you tell us a bit more about Knighthead Annuity?

The company started in 2014 and we have two lines of business: issuing fixed annuities, which are essentially savings and retirement type products, to non-US individuals and reinsuring fixed annuities from US insurance companies.

We sell our annuities locally in Cayman, but the vast majority of our business is to non-US people around the world and the majority of our business comes from Asia and Latin America.

We sell through regulated banks and broker dealers that have existing non-US clients who desire to purchase offshore annuities as the guaranteed return portion of their overall portfolio. In addition to being a safe product with guaranteed returns, offshore annuities are valuable because if a non-US person bought a US-based annuity they would be exposed to US tax and tax in their home jurisdiction. If they buy a Cayman Islands issued annuity, which is a tax neutral jurisdiction, they avoid the potential double taxation. Of course the client is required to pay tax in their home jurisdiction and we report about the policy under the Common Reporting Standards.

In the first four years our business grew from \$0 to \$1 billion dollars and then in the 5th year we grew \$1.3 billion dollars alone. As of the end of 2020 we've grown to \$3 billion dollars in assets and we've hired 14 employees occupying a beautiful space in Camana Bay. It is our only office and it's a full-service one so all of our business activity takes place here. We've found some fantastic talent on island. We've hired people from CIMA and other banks, and we've also relocated some folks from the US.

Conyers Coverage – Are there any benefits on the regulatory side that make the Cayman Islands attractive to reinsurers?

Nate Gemmiti – On the regulatory side the reinsurance sector has been a focus of the Cayman Islands government and CIMA's for a long time, but there's been a renewed emphasis in recent years with the regulator hiring additional staff and supplementing their existing staff with global talent. When you're dealing with a regulator you want them to be knowledgeable so you can have an in-depth conversation about your business and CIMA is well-staffed with experts in reinsurance so they can certainly do that. They are able to thoroughly analyse all aspects of an applicant's business plan and give you critique, feedback or support on different aspects of your

business so that the business model works for the regulator, the overall jurisdiction and the licensee. I would say informed flexibility is one of the benefits that Cayman has to offer.

In the US there is a very strict capital model which is structured State by State, but outlined according to the National Association of Insurance Commissioners (NAIC) who put out a model act and the States tweak it to fit their state models.

Bermuda has Solvency II requirements which are the European requirements, and I think that standardisation certainly has some benefits, but if you are not doing EU-facing business or you are working in long-tail lines of business where certain aspects of that capital model don't make sense for the underlying business, there may be a better way to do that business for the licensee, the regulator, and counterparties. As mentioned there is some flexibility under the law in Cayman, so not every business plan needs to fit into a one-size fits all regime. It's definitely not light-touch regulation, but it can be customised for the particular licensee and due to their expertise CIMA has the ability to evaluate that and do what's best for all stakeholders.

Bermuda, the US, Luxembourg or any other jurisdiction will always be appropriate and perhaps more appropriate for certain business so it's not just a matter of choosing between Cayman or elsewhere. I think there's plenty of business for all jurisdictions to be successful and for other great jurisdictions like Bermuda to have plenty of good business. But one of the fundamental things that CIRCA wants people to know is that the Cayman Islands is here, it's an excellent business environment and they should give the jurisdiction a look for some or all of their business.

Conyers Coverage – When a company is choosing to move to a jurisdiction employees are a big concern. Can you tell us a bit about the ability to hire employees in Cayman?

Nate Gemmiti – Cayman is great for a number of reasons: 1) there is a great pool of local talent; 2) it's a great place to live; 3) Senior Executives in a regulated financial service entity can be granted work permits up to 25 years and if you're trying to attract talent this stability of tenure is particularly important, especially when you are moving a family; 4) There are a number of wonderful schools and education options for family; 5) The lack of restriction on home and vehicle ownership is also a plus.

Conyers Coverage – What changes have you seen in the reinsurance industry in Cayman over the past five years?

Nate Gemmiti – There's been a long history of reinsurance in the Cayman Islands with the first reinsurance company, United Insurance, started in 1975. There are some new reinsurers and others have moved from other jurisdictions like Bermuda, Barbados and Panama. Cayman has always been a sophisticated jurisdiction for reinsurance, but that rolling ball is picking up speed.

We also have a lot more players with brick and mortar presences here now and they are getting the word out about what Cayman has to offer. Typically when a given party wants to start or buy a reinsurance company they go to their advisors and the advisors will most likely recommend a jurisdiction that they are familiar with. I think 5 years ago you may have heard someone, 'Why Cayman?' This question is being asked less and less as there are more licensees here and the ones that are here continue to grow and have success.

All of the reinsurers on island are dealing with different counterparties and regulators, primarily in the US, and deals are getting reviewed and approved by a wider audience. This wears the path to Cayman deeper and deeper and makes it easier for more companies to come.

As a result of the increase in brick and mortar presence we've also had an increase in the complexity of the deals here. 15 or 20 years ago when US entities had Cayman or Bermuda companies they would primarily engage Cayman or Bermuda law firms as a formality to sign-off at the end of the deal and they weren't doing any work with real substance. Now there are more reinsurance companies with a real presence here and the deals are changing. Derek Stenson and the insurance team at Conyers have been one of the real leaders getting involved with the substance of this type of work. One of the missions of CIRCA is to get the word out about the work that is going on in Cayman and the benefits of setting up in Cayman.

Conyers Coverage – That's a good segue into CIRCA. How did the idea of CIRCA come about?

Nate Gemmiti – It's been a time of active regulatory change with AML rules, Certifying Actuary rules, Economic Substance rules and many others. The industry members here were coming together on an informal basis to discuss some of the proposed legislations during the consultation period to decide if we wanted to comment and what the regulations meant for the broader industry. As a result, we did a couple of joint submissions to government and realised that there were benefits to formalizing this activity so we came together to start an industry group. There are other industry groups that many of us have been active in and will continue to be active in like Cayman International Insurance (formerly known as IMAC) and Cayman Finance for example. These groups are great, but will inevitably have their narrow or broad set of constituents and pure play reinsurers are just one of many. By forming CIRCA we thought we'd like to have a direct and undiluted voice. There are times when that voice would be different than other industry groups on the island, but even if it's not different we at least wanted to be heard ourselves.

CIRCA's founding members include Knighthead Life & Annuity, Nassau Re (Cayman) Ltd., Aureum Re, Greenlight Re, CIBC Cayman Reinsurance, Ltd., Barents Re and United Insurance Company.

Conyers Coverage – How was CIRCA set up?

Nate Gemmiti – Conyers acted for us on a pro-bono basis to set up CIRCA and we are really happy with the work that was done. Through their wonderful legal advice we realised that there were many advantages to being a foundation over a corporate entity. For one a foundation doesn't have any shareholders so given that we are an industry group, no member really wanted to own shares and take on potential liability that comes with being a shareholder. So the foundation just seemed like a better option based on good legal advice which we were thankful for.

Conyers Coverage – Who is eligible to be a member of CIRCA?

Nate Gemmiti – We have two classes of membership. Full members are eligible to serve on the board and vote if they have a brick and mortar presence on the Island. We have a number of member reinsurance companies in addition to the founders that have already sent in applications and a few that are in the process of getting approvals to do so. Associate members are non-voting members who are not eligible to be on the board and that covers a wide range of companies because we'd like to have as many people involved in the organization as possible. We think that getting broad feedback from audit firms, law firms, captive managers, brokers, InsurTech and the like allows us to think about how we can advocate internally and externally for the broader Cayman reinsurance industry.

Conyers Coverage – Can you tell us a bit about CIRCA's plans in the short term and long term?

Nate Gemmiti – We see it being very similar to the range of things done by other large industry groups. We are in the process of setting up regular dialogue with CIMA and the Ministry of Finance. Both have been very cooperative with us and they're thrilled that CIRCA has been formed. We're holding monthly board meetings as we get going and as things progress. We're working on marketing materials – both print and electronic, and the web page. We're looking at sponsorship opportunities for conferences this year should they happen and really just trying to get the word out about the organisation. We also circulate draft legislation amongst the members to see if we should be commenting and what the nature of those comments should be. In the short term we'll be doing a survey of members to see what their issues are, what things are working well, things that could be improved and matters of import so that we can really form the direction that we want to spend the time energy and resources of CIRCA on.

Conyers Coverage – What trends or challenges do you see in the reinsurance market globally?

Nate Gemmiti – Generally, there are more and bigger deals getting done in the reinsurance market so I think it's an excellent time to be in reinsurance. The market is very active with new formations, mergers and acquisitions. With all insurance companies you make money on the underwriting side, but you also need to make money on the investment side. In this very active reinsurance climate and low interest rate environment you are seeing more asset managers getting involved in reinsurance both on the Property & Casualty side and on the Life & Annuity side so that's creating additional market entrants and additional ways to generate income.

Conyers Coverage – Is there anything else that the Cayman Islands can do to capitalize on these trends and opportunities or make the jurisdiction more attractive to investment?

Nate Gemmiti – I think there's already so much good here from the regulatory environment, to the business infrastructure to the personal infrastructure. I think what we all can do is let people know about it. Because so many people that we talk to are not aware of all the great things that Cayman and the Cayman insurance sector has to offer, the onus is on us to tell them. Once they learn about it they are generally blown away. I think there's less to change and more to advertise all the great things that the jurisdiction and market participants are already doing.

To learn more about CIRCA email info@CIRCA.ky and to learn more about Conyers' insurance and reinsurance offerings visit <https://www.conyers.com/legal-services/insurance-reinsurance/> or reach out to the contact listed below.

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