Institute and Faculty of Actuaries

14 February 2025

PRA Consultation CP15/24: ISPV Framework

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 34,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers. Actuaries are big-picture thinkers who use mathematical and risk analysis, behavioural insight and business acumen to draw insight from complexity. Our rigorous approach and expertise help the organisations, communities and governments we work with to make better-informed decisions. In an increasingly uncertain world, it allows them to act in a way that makes sense of the present and plans for the future.

Key points

The success of Lloyd's of London, the so-called London Market 'company' and the sophisticated and mature broader retail-orientated insurance market in the UK is something of which the UK can be rightly proud. As a nation it is a genuine and defendable 'point-of-differentiation' that arguably no other nation has replicated, or indeed could replicate. Doing everything possible to enhance and defend that leading position is, in our view, critical.

A challenge with such success is that there is a significant concentration of risk, and over time there have been sophisticated and functional methods developed by which that risk is shed and/ or shared, principally via reinsurance and/or retrocession. However, risks continue to grow.

The challenge is that the (re)insurance sector has finite capacity to absorb such shock losses. Sensibly, the UK insurance sector has identified the broader financial eco-system with its myriad sophisticated investors who are willing to offer insurers protection against such risks, and there has already been modest efforts to attract that 'outside capital'.

To attract that capital, though, the UK ISPV regulatory framework must be reasonable and comparable to other jurisdictions. The earlier iteration of the PRA's regulation of UK ISPVs failed that test in our view. However, the current PRA proposals go a significant way to remedying that impediment.

We strongly believe that the PRA's proposals within CP15/24 will jump-start the UK ISPV regime, with quite positive and far-reaching impacts probable for all manner of insurance risk transformation, most-importantly: underpinning the UK insurance sector in its quest for consistent above-average growth.

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PRA Consultation CP15/24 ISPV Regulatory Framework: IFoA Response

Introduction

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the PRA's Consultation Paper (CP) 15/24 - *Proposed changes to the UK Insurance Special Purpose Vehicles (UK ISPV) regulatory framework*. Members of our General Insurance Standards & Consultations Committee reviewed the PRA's proposals within the CP. Members of the committee work for a range of insurers or insurance consultancy firms.

2. We are grateful to the PRA for inviting the IFoA to its associated Round Table event on CP15/24 in January 2025; we have reflected on that discussion within our response below.

3. We welcome the PRA's proposed changes to the UK Insurance Special Purpose Vehicles (UK ISPV) regulatory framework, which underpins Insurance Linked Securities.

4. It is important to note that, as for any IFoA response, we have considered the PRA's proposals from an independent, public interest perspective.

PRA Consultation Proposals

General Points

5. The success of Lloyd's of London, the so-called London Market 'company' insurers (broadly in the same London-based insurance infrastructure as Lloyd's), and the sophisticated and mature broader retail-orientated insurance market in the UK is something of which the UK can be rightly proud. As a nation it is a genuine and defendable 'point-of-differentiation' that arguably no other nation has replicated, or indeed could replicate. Doing everything possible to enhance and defend that leading position is, in our view, critical.

6. A challenge with such success is that there is a significant concentration of risk, and over time there have been sophisticated and functional methods developed by which that risk is shed and/ or shared, principally via reinsurance and/or retrocession. However, risks continue to grow: a large-scale cyber-attack, a significant terrorist attack, a regional war, widespread European flooding, an Asian typhoon, or a Californian earthquake. These are all perils which are currently faced by insurers, and many continue to grow.

7. The challenge is that the (re)insurance sector has finite capacity to absorb such shock losses. Sensibly, the UK insurance sector has identified the broader financial eco-system with its myriad sophisticated investors who are willing to offer insurers protection against such risks, and there has already been modest efforts to attract that 'outside capital'.

8. To attract that capital, though, the UK ISPV regulatory framework must be reasonable and comparable to other jurisdictions. The earlier (2017) iteration of the PRA's regulation of UK ISPVs failed that test in our view. However, the current PRA proposals (CP15/24) go a significant way to remedying that impediment.

9. We strongly believe that the PRA’s proposals within CP15/24 will jump-start the UK ISPV regime, with quite positive and far-reaching impacts probable for all manner of insurance risk transformation, most-importantly: underpinning the UK insurance sector in its quest for consistent above-average growth.

Proposal 1: Clarification that UK ISPVs can count realised investment returns that are retained by the vehicle to cover the Aggregate Maximum Risk Exposure (AMRE), and that the AMRE may increase over time commensurate with the realisation of investment returns that are retained in the vehicle

10. This is a welcome proposal, demonstrating the PRA’s willingness to identify practical and important ‘tweaks’ that enhance the attractiveness of UK ISPVs.

Proposal 2: Amend PRA rules to disapply the requirement that UK Multi-arrangement Insurance Special Purpose Vehicle (MISPVs) must be formed as Protected Cell Companies (PCCs) in cases where they assume risks under more than one separate risk transformation transaction that constitute a single contractual arrangement

11. Again this is a welcome proposal, and an important tweak, allowing multi-use for consecutive years (renewals) and tranching of risks. This should reduce costs, reduce approval time, and afford cedants considerably more flexibility.

Proposal 3: Grace periods

12. We support the change here, demonstrating the PRA’s willingness to place regulation in a global context. The proposal seems proportionate and sensitive to the practicalities of rolling over risk transfer arrangements without over-collateralising.

Proposal 4: Clarification of the use of Limited Recourse Clauses by a UK ISPV

13. This is another welcome proposal, clarifying the PRA’s expectations without being unduly prescriptive.

Proposal 5: Create an accelerated pathway for certain UK ISPVs

Proposal 6: Simplify the authorisation process for other standard UK ISPVs

14. We also support these proposals, demonstrating the PRA’s willingness to place regulation in a global context. They support the positioning of the UK as an attractive place to form an ISPV.

Proposal 7: Introduce general expectations for UK (re)insurers using SPVs as risk mitigation

15. We are neutral on this proposal. On the one hand any clarification by a regulator of their expectations is welcome. However, some care is needed not to impose undue extra-territorial handicaps on UK entities that wish to utilise non-UK SPVs.

16. There will be normal and valid reasons a UK entity will choose not to utilise the new enhanced UK ISPV regime instead preferring a non-UK SPV and, to the greatest extent possible, regulatory prescriptiveness in such circumstances should be minimised.

Proposal 8: Restriction on the transfer of annuities and similar risks to SPVs

17. This proposal brings welcome clarity around the PRA’s expectations in this area. Reinsurance counterparty concentrations is an area that industry continues to manage, and we would encourage the PRA to consider how it can support UK international competitiveness in this area.

Proposal 9: Changing the Senior Management Function (SMF) requirements for UK ISPVs

18. Again, this is a welcome proposal, demonstrating the PRA’s willingness to identify practical and important ‘tweaks’ that enhance the attractiveness of UK ISPVs.

Proposal 10: Adding clarifications for UK MISPVs

Proposal 11: Other clarifications and consequential changes

19. These are proportionate proposals, which we support.

Should you want to discuss any of the points raised please contact me, Technical Policy Manager (steven.graham@actuaries.org.uk) in the first instance.

Yours Sincerely,

Steven Graham
On behalf of Institute and Faculty of Actuaries