



BANK OF ENGLAND

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PRA publishes framework for authorisation and supervision of Insurance Special Purpose Vehicles

Today the PRA publishes its final approach and expectations in relation to the authorisation and supervision of Insurance Special Purpose Vehicles (ISPVs). The PRA has confirmed the approach it set out in July and provided additional guidance, largely to add clarity, in some other areas.

ISPVs will issue insurance-linked securities (ILS), which are risk transfer instruments whose value is affected by an insured loss event, such as catastrophe bonds and collateralised reinsurance arrangements. In November 2016, HM Treasury (HMT) published a consultation on a new regulatory and tax framework for ILS in the United Kingdom. In that month, the regulators also consulted on their proposed approach to the authorisation and supervision of ISPVs. The framework will apply equally to multi-arrangement ISPVs (MISPVs) which take on multiple ILS contracts from one or more parties.

In light of public consultation, the PRA worked together with HMT to design a new safeguard which removes the need for a MISPV to notify supervisors of a proposal to assume new risks before it takes effect. In July 2017, the PRA announced that it will authorise each MISPV's Scope of Permission (SOP), including the parameters within which future cells may be established. The firm's SOP would be limited on this basis.

This new safeguard is consistent with the PRA's objectives and is confirmed in the final Supervisory Statement alongside additional guidance in some other areas. These include: the fully funded requirement; the Senior Insurance Managers Regime; the fit and proper assessment of shareholders with a qualifying holding; and circumstances in which ISPVs may be authorised prior to receiving funding. The PRA's feedback on the responses to consultation is set out in the accompanying Policy Statement.

The rules will be made and supervisory statement formally adopted once HMT's regulations, laid before Parliament last month, come into force.

ENDS

Notes to Editors

1. Consultation Paper 42/16: "Authorisation and supervision of insurance special purpose vehicles".
<http://www.bankofengland.co.uk/prd/Documents/publications/cp/2016/cp4216.pdf>
2. Policy Statement: PS26/17: "Authorisation and supervision of insurance special purpose vehicles".
<http://www.bankofengland.co.uk/prd/Pages/publications/ps/2017/ps2617.aspx>
3. Supervisory Statement: SS8/17: "Authorisation and supervision of insurance special purpose vehicles".
<http://www.bankofengland.co.uk/prd/Pages/publications/ss/2017/ss817.aspx>
4. HM Treasury: "Regulations implementing a new regulatory and tax framework for Insurance Linked Securities: response to the consultation".
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/630912/Insurance_Linked_Securities_consultation_response_document.pdf
5. "Update on insurance special purpose vehicles, following HM Treasury's release of its updated Risk Transformation Regulations 2017".
<http://www.bankofengland.co.uk/prd/Documents/publications/reports/ispv200717.pdf>