



PRA GIVES GREEN LIGHT TO STREAMLINED ILS APPLICATIONS.

The PRA is creating a "green channel" to fast-track certain insurance-linked securities insurance special purpose vehicles ("ILS ISPV") applications, responding to calls from the industry to increase flexibility and speed of the regulatory application process and improve the competitiveness of the UK ILS Market.

The UK's ILS regime was created in 2017 to establish the UK as a viable and competitive ILS market, with the framework reflective of the growing importance of ILS as a mechanism to diversify capital and improve risk profile. In addition to a bespoke tax regime, the UK ILS framework introduced a novel type of legal entity: protected cell companies. These enable multipurpose ILS vehicles to be established, with segregated cells to assume risks and issue securities, thereby acting as a platform and reducing costs. However, despite the significant legal and regulatory infrastructure in place within the UK for an ILS marketplace and the success of existing ILS transactions in the UK to date, there has been slow uptake amongst participants, at odds with the market's recognised potential.

Whilst there has been substantial focus in the industry on the PRA's role in the slow growth of the UK ILS market, particularly with regards to speed and flexibility of applications (as discussed further below), the PRA's approach to applications could be seen as indicative of the UK's "comprehensive" approach to regulation, and ongoing compliance with Solvency II requirements. This reinforces the fact that the UK ILS regime complies with Solvency II requirements for risk transfer to SPVs and is therefore "equivalent" for Solvency II cedants for these purposes.

Reflecting on the five years following the establishment of the UK ILS regime, the PRA has recognised the current challenges faced by firms involving the time taken, uncertainty of outcome and cost and resource involved in processing ILS ISPV applications. Speaking recently at the Westminster Business Forum, the PRA are cognisant of the perception that UK regulators are slow and inflexible within an overly demanding regulatory regime and that, whilst there had been a "gentle volume" of ILS transactions since 2017, it had overall been "disappointing" and "not as high as some other relatively new centres have achieved".

The PRA had also previously acknowledged that the current speed to market for ILS is a key limitation to the success of the UK ILS regime, and one which required improvement to ensure that the process and time for such

applications are proportionate to the risks and regulatory objectives. The current UK ILS application process is slower than some other established and new ILS marketplaces, where the authorisation process can be completed in a matter of days or weeks versus months in the UK. The drive towards a competitive UK regulatory framework has also been emphasised by a recent [letter](#) from the House of Lords Industry and Regulators Committee, which concluded that there exists an "inflexible" culture amongst UK regulators that acts as barrier to the ambitions of the UK market to develop new and innovative forms of insurance and reinsurance.

To address these concerns, the PRA has [announced](#) that it will establish a "green channel", which would function as a fast-track ILS ISPV application process focussed specifically on standard, short-tail, general insurance structures. The PRA's review of applications received through the "green channel" will be centred on "the key transaction documents and clauses needed to demonstrate that mandatory authorisation conditions are met", ensuring that a more proportionate view is taken of the risks posed by the relevant ILS structures and incorporated into the application process. The "green channel" will also aim to provide applicants with "more certainty over the outcome earlier in the process, and a faster decision", with suggestions for a two week pre-application stage and with a target of four (at a maximum six) week period for the PRA to then conclude its application decision. Alongside this, the PRA also announced plans to consult later this year on changes to [SS8/17](#) 'Authorisation and supervision of insurance special purpose vehicles' to clarify and strengthen its approach to reforming the application process.

Having worked on most of the UK ILS transactions to date, our hope is that the consultation will allow for a proportionate approach to ILS applications, one which, given the nature of ILS transactions (and in particular the varying risk profiles) focusses primarily on the key issues of importance and takes into account the regulator's secondary competitiveness objective, whilst also ensuring that the key regulatory objectives are met - in particular that all UK ILS transactions are fully funded transfers, relevant investments are of sufficient quality, cedants are paid valid claims and investors subordinated.

Ideally, we consider that the consultation should cover the following areas: (i) governance frameworks for ILS vehicles, particularly given the role of an ILS Manager and whether a more proportionate approach can be taken in relation to SMCR functions; (ii) a streamlined authorisation process, based on a review of key transaction documents by the PRA rather than a full review of all application documents; (iii) a more flexible approach to the scope of permission for PCCs, which focuses on key operative terms of transaction documents; and (iv) allowing for multiple cedants to place risk into a single cell where there is aggregate cover (which would be particularly useful in group structures and in the Lloyd's market).

The UK has the requisite infrastructure, both from a legal and a regulatory framework perspective to facilitate and capitalise on changes to the ILS regime leading out of the consultation. Any changes will also occur within the context of the PRA going back to its key regulatory objectives, as well as focussing on the key elements of a transaction as part of its secondary competitiveness objective, with the expectation that this proportionate approach should allow for less limitations on "green channel" transactions. Importantly, a streamlined approach to less complex ILS structures would also facilitate the ability of the UK to be used by participants to develop and

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C L I F F O R D
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establish innovative uses of the PCC and ILS regime and in doing so, take full advantage of the UK's unique position in the global market.

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