



# **The Success of London Bridge 2 Shows the Potential for the London ILS Market**

**Artex**

In the battle between perception and reality, all too often perception wins.

While the process of modernising the UK's regulatory framework began a decade ago, outdated perceptions about London's capabilities continue to linger across the insurance-linked securities (ILS) market.

This is now changing.

Launched in July 2022, London Bridge 2 PCC Limited (London Bridge 2) is a multi-arrangement special purpose vehicle (SPV), often referred to as a 'transformer' vehicle. The platform has regulatory preapproval for each transaction, including to create a segregated, protected cell and issue either debt or equity preference shares to capital providers.

London Bridge 2 has demonstrated the potential for a thriving ILS issuance market in London. Through 30 September 2024, this SPV has brought \$760 million of capital into Lloyd's of London businesses, and looking ahead, there is a good potential pipeline that could add another \$1 billion in the not-too-distant future.

That's no surprise given that London Bridge 2 is the dedicated risk transformer platform that provides investors with access to Lloyd's' reinvigorated insurance and reinsurance market.

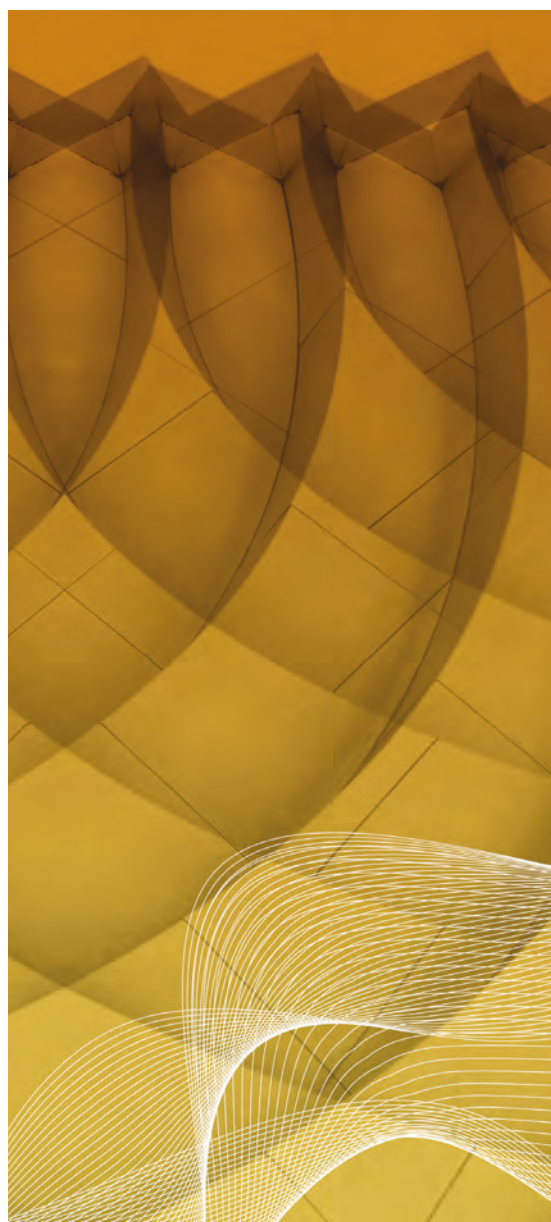
"London Bridge 2 allows investors to benefit from the incredible efficiency of the capital structure at Lloyd's," stated Angus Jordan, a Lloyd's executive who serves as the chairman of London Bridge 2.

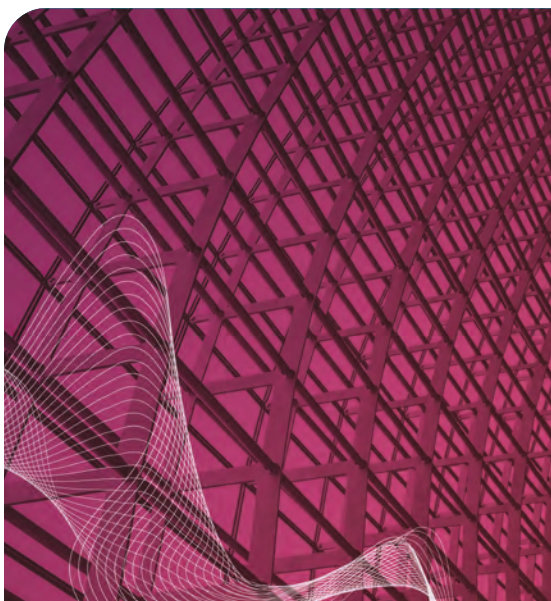
"Through this platform, they can gain access to a quality set of underwriting risks not available outside the London market."

## THE ROAD TO LONDON BRIDGE

The ILS market brings together two of London's greatest strengths as a business centre: insurance and capital markets. So being an ILS market leader should always have been a natural fit. London's answer to hosting an ILS market came with the Risk Transformation Regulations 2017, which led to a series of transactions, although it did not receive the traction that had perhaps been desired.

An important component of a successful ILS market is the perceived ease and time to market. "Speed and transaction ease have always been primary considerations in the ILS market," noted Ed Saul, client partner at Artex Capital Solutions, which provides insurance management services to London Bridge. "One of the first questions we almost always get from a sponsor is 'How long is it going to take?'"





Given the importance of growing an ILS market in London, Lloyd's led the charge to develop a platform that brings the UK more in line with other jurisdictions in terms of the ease and timeliness of bringing an ILS vehicle to market.

Their goal wasn't to compete with other hubs of ILS issuance but rather to offer cedants and investors the option of a thriving G7 ILS market.

"Given the choice, some cedants and investors would prefer to keep their activity onshore," Saul noted.

In addition to supporting the growth of a UK-domiciled ILS market, Lloyd's was focused on making it easier and more efficient for institutional investors to access its markets through streamlined deal-oriented functions to support onboarding and improved transparency of its capital structure and business planning process.

## ENTER LONDON BRIDGE

The London Bridge platform is a true example of the insurance innovation that the London market is known for.

The Prudential Regulation Authority's (PRA) approval of London Bridge 2's Scope of Permissions was a game changer for the domestic ILS market. It enables extensive (and flexible) permissions that allow it to undertake a range of risk transfer transactions without seeking any further regulatory approval, providing it conforms with the Risk Transformation Regulations 2017 and includes the mandatory conditions in the appropriate transaction documentation. Those mandatory conditions not only ensure compliance with the key aspects of the regulations but are consistent with global ILS market expectations.

"The freedom to transact a wide range of transactions without going back to the regulator distinguishes London Bridge," Jordan noted.

"That really helps the efficiency and speed-to-market of this risk transformation vehicle and creates a globally competitive platform for ILS issuance."

## MARKET DIVERSIFICATION FOR GROWTH

Ask someone what's the first thing that comes to mind when you say 'ILS', and the answer is often 'cat bonds'. There's no question that catastrophe bonds have been the mainstay of the market's growth and continue to do so with record-breaking performance in 2024.<sup>1</sup> However, with the broader ILS market predicted by some to grow significantly, including analysts at one investment bank, who suggest the total market could double by 2032,<sup>2</sup> it must expand its offerings to achieve its potential.



London Bridge 2's broad set of permissions allows it to issue the usual market transactions, including:

- Member reinsurance — whole account QS or excess of loss
- Syndicate reinsurance — quota share (e.g., sidecar)
- Syndicate reinsurance — excess of loss (e.g., cat bond)

Cedants can be reinsured at either the corporate member — Member Funds at Lloyd's (FAL) or Lloyd's syndicate level. As a capital provider, investors can notably access specialty risks with the benefit of prudential oversight by Lloyd's.

To date, most London Bridge 2 issuances have been whole account quota shares using the FAL reinsurance approach.

London Bridge 2 provides the cells with the flexibility to structure the securities it issues according to the investor's risk appetite. This includes tranches that range from junior debt to full equity.

While Jordan anticipates that London Bridge issuance will expand over time to include more cat bonds, sidecars, and collateralised reinsurance, he notes that the breakdown of London Bridge's issuance demonstrates an important point about the ILS market.

"Lloyd's and London Bridge 2 provide an opportunity for institutional investors to diversify their risk in a cat-bond-dominated market," said Jordan. "We're proof that today both cedants and investors are looking for more than 'traditional' ILS."

Saul offers an investor perspective.

"London Bridge offers a range of options that cater to the appetite of different investors," he explained. "For example, the risk appetite of those investing in cat bonds materially differs from those investing in FAL transactions backing one or more syndicates. London Bridge permissions allow access to both types of investment opportunity for risks underwritten at Lloyd's."

There's no debate that both Lloyd's and London Bridge are part of the growth story. Saul added that a key part of this growth would likely come from expansion into new risk classes, such as specialty, which Lloyd's is renowned for.

"The London Bridge platform broke fresh ground with the ILS market while improving institutional investors' access to Lloyd's," Jordan concluded.

"Now that the market knows that this can be successfully done in London, it's time for fast followers to join us in building out this market."

## A FIRST FOR AN INSURER. A FIRST FOR LONDON BRIDGE.

London-based specialty insurer Beazley plc was the first to use London Bridge 2 for a 144A natural catastrophe bond issuance of \$100 million.

The notes were sold to institutional investors, and the proceeds were used to collateralise a reinsurance agreement between London Bridge 2 cell and Beazley.

The PRA approved Scope of Permissions meant that the cell could be created, and transaction entered into, with no regulatory follow up approval required.

"Beazley is delighted to be sponsoring the first 144A property catastrophe bond utilising the London Bridge platform," Adrian Cox, Beazley's CEO, stated in a Reinsurance News article.\* "We were impressed with the smooth and efficient way that an ILS transaction can be issued out of the UK market."

<sup>1</sup> Aon Securities. "ILS Annual Report," September 2024.

<sup>2</sup> Evans, Steve. "ILS Market Has 'Meaningful Growth Opportunity' to \$200bn by 2032: Jeffries," Artemis, 1 Oct. 2024.

<sup>3</sup> Gallin, Luke. "Beazley 'Delighted' to Sponsor First 144A Cat Bond via the Lloyd's London Bridge Platform," Reinsurance News, 8 Jan. 2024.



## THE ART OF RISK

At Artex, we believe there is more to alternative risk management. As a trusted leader and provider of diverse (re)insurance and ILS solutions, our global team operates at the intersection of art and science — where creative thinking meets expertise and superior outcomes are made. That's how we're able to fully understand our clients' needs and deliver the most comprehensive solutions available.

Established in more than 35 domiciles internationally, we're here to help you make empowered decisions with confidence, reduce your total cost of risk and improve your return on capital. At Artex, we believe in finding you a better way.

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Lloyd's is the world's leading marketplace for insurance and reinsurance. Through the collective intelligence and expertise of the market's underwriters and brokers, we're sharing risk to create a braver world.

The Lloyd's market offers the resources, capability, and insight to develop new and innovative products for customers in any industry, on any scale, in more than 200 territories.

We're made up of more than 50 leading insurance companies, over 380 registered Lloyd's brokers, and a global network of over 4,000 local coverholders. Behind the Lloyd's market is the Corporation: an independent organisation and regulator working to maintain the market's successful reputation and operation.

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