

Selecting the Appropriate Domicile to Establish an Insurance Linked Securities (ILS) Vehicle

Rodney Davies and Chris Wilson

Selecting the right type of Insurance Linked Securities (ILS) structure, its optimum location and the service providers needed to achieve success are key strategic decisions that a sponsor needs to make when establishing their ILS vehicle. Of these, the appropriate domicile plays a crucial role.

There is a growing list of potential domiciles to consider; from well-known offshore jurisdictions where the majority of structures have been established to date, such as Bermuda, Guernsey, and the Cayman Islands, to more recent entrants that have or are introducing and expanding their ILS market frameworks, such as the United Kingdom, Malta, Singapore and Hong Kong.

BRIEF OVERVIEW OF THE DOMICILES IDENTIFIED ABOVE:

JURISDICTION	REGULATOR	PRIMARY TARGET (RE)INSURANCE MARKETS	MINIMUM CAPITAL REQUIREMENT	CAT BONDS	ILS	EXPEDITED APPROVAL AVAILABLE	INCENTIVES AVAILABLE	MATURE	LISTING
Bermuda	Bermuda Monetary Authority	North America and United Kingdom	Minimum capital for Bermuda starts at USD 1.0 for SPIs and goes to USD 1 million as floor for commercial carriers	✓	✓	✓		✓	✓ BSX
Guernsey	Guernsey Financial Services Commission	United Kingdom and European Union	GBP 100,000		✓	✓	✓	✓	✓ TISE
Cayman	Cayman Islands Monetary Authority	North America and United Kingdom	USD 100,000~USD 200,000 based on license	✓	✓	✓		✓	✓ CSX and BSX
London	Bank of England: The Prudential Regulation Authority, Financial Conduct Authority must provide consent	United Kingdom and European Union	No minimum PCC core capital requirement	✓	✓				✓ Euronext
Malta	Malta Financial Services Authority	European Union	EUR 3.25 million (Captive PCC)		✓				
Gibraltar	Gibraltar Finance Services Commission	European Union	EUR 2.5 million~EUR 3.7 million based on class of business	✓	✓	✓			
Singapore	Monetary Authority of Singapore	Asia	—	✓			✓		✓ SGX and BSX
Hong Kong	Hong Kong Insurance Authority	Asia	—	✓	✓		✓		✓ HKEX and BSX

Note: ILS refers to structures such as PCCs, SACs and collateralized (re)insurers.

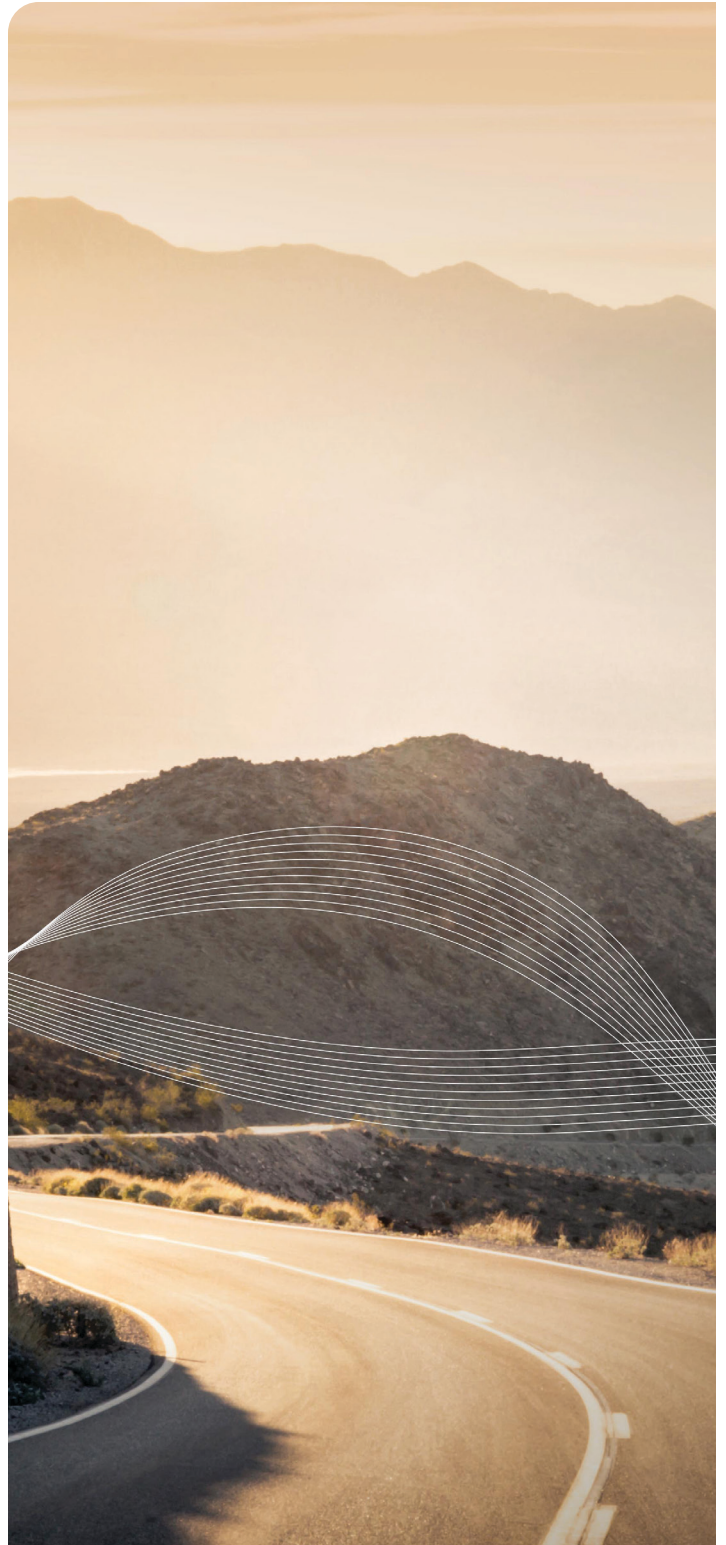
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Minimum economic capital requirements (i.e., the amount of initial funding needed to set up and run the vehicle), and both the quantum and type of permitted collateral needed to support the entity are key considerations, as these influence the type of structure and proposed domicile. For a cellular platform, the extent to which reinsurance can be used in place of or in conjunction with cash collateral may also vary. Furthermore, the choice of domicile may be influenced by any target financial strength rating intended for the vehicle or stock exchange listing options, and the type of investment that the sponsor may wish to attract.

Some new sponsors prefer domiciles with a proven track record irrespective of proximity to their main operating base, while others may select a jurisdiction that is close to their home location and/or target market. If, for example, physical attendance at regular board meetings is required, keeping travel time and costs under control will undoubtedly be important.

To attract ILS business, some regulators are keen to offer competitive advantages such as streamlined application processes, pre-authorization for certain business activities or types of risk identified in the business plan, flexibility around collateral rollover and financial incentives for the first transaction(s).

The jurisdictional framework is also very important. Sponsors evaluate the maturity and stability of the legal and political framework that exists in a jurisdiction, with many preferring legal systems similar to those of their own domicile and in a stable political environment. It follows that if the sponsor already conducts (re)insurance business in a particular country or region, this familiarity and comfort may steer them towards using the same domicile to establish a new ILS vehicle.



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In addition to regulatory and structural considerations, establishing a new ILS vehicle requires access to a range of legal and auxiliary advisors, and service providers. The service providers need to be reliable long-term partners that support the venture from establishment through the lifecycle of the project, to eventual run-off and closure, or take-down. The more established domiciles have dedicated law firms, tax advisors, structurers, insurance managers and brokers in situ, which smoothens and expedites the setup process. The involvement of reputable partners gives the vehicle credibility and provides economic substance to the transaction (i.e., a physical presence as opposed to “brass plating”). Local advisors can also help navigate language challenges and business customs.

Artex Capital Solutions has experienced, knowledgeable teams located in various domiciles to support the successful launch of a new ILS venture.

AUTHORS

Rodney Davies, (CA) SA, CISA
CTO

Rodney_Davies@artextrisk.com

Chris Wilson, ACII

Client Partner and Head of ILS Underwriting
Chris_Wilson@artextrisk.com

CONTACT US

Jasmine DeSilva

SVP, ILS Strategic Initiatives and Business Development
Artex Capital Solutions

Jasmine_DeSilva@artextrisk.com

THE ART OF RISK

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Artex

artexinfo@artextrisk.com

+1 630.694.5050

artextrisk.com