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WRITTEN BY JAMES TRAVERS

# GUERNSEY ISSUES SPECIAL PURPOSE INSURER RULES

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The Guernsey Financial Services Commission (the Commission), working in collaboration with the island's insurance industry, has produced a set of rules which clarify the regulatory treatment of collateralised reinsurance in the island, including insurance-linked securities (ILS).

Now, this is typically the part of the piece where I write all the good things about Guernsey's new rules in sequence. Instead, considering the UK is proposing its own regulatory and tax framework for ILS, I'll compare Guernsey's new rules with those proposed in the UK under a shallow sporting metaphor… let's get ready to rumble!

## The weigh-in

London is the largest global hub for commercial and speciality insurance and reinsurance risks and offers a cluster of insurance and capital market expertise unmatched anywhere else on earth.

Guernsey is Europe's largest captive domicile known for its speed and technical skills. The island's insurance industry is experiencing further success in collateralised reinsurance including ILS.

## Structure

In Guernsey, the Insurance Business (Special Purpose Insurer) Rules 2016 define a new class of insurer – the Special Purpose Insurer (SPI) – and clarifies the way in which these types of entities are treated by the island's regulator.

Meanwhile, HM Treasury is proposing creating a protected cell company regime for multi-arrangement insurance SPVs (mISPVs). This will save time and administrative expense as a new ISPV will not need to be established for each transaction.

## Solvency

The Commission has also amended the Insurance Business (Solvency) Rules 2015 to expressly include the new class of insurer. Under the amended rules, an SPI would not be required to maintain the minimum or prescribed capital requirements, nor to conduct own risk or solvency assessments, reducing the administrative costs of such entities.

In the UK, the proposed mISPV regime is permitted under Solvency II but the core requirements of the Solvency II regime will apply in respect of each individual contractual arrangement.

## Regulatory timescales

An applicant for the licensing of a new entity, which meets the definition of a SPI, shall notify the Commission of its status as an SPI and provide such information as is necessary to demonstrate compliance within the Rules. Under application by a protected cell company, the Commission may grant a single consent for the formation of further cells without further application.

The streamlined application process allows new insurers and new cells alike to be established within a business day.

Meanwhile, in the UK, the Prudential Regulatory Authority has put out details of its proposed approval process. Once it has approved the company that issues the securities, the PRA wants 10 days to approve each new vehicle.

## Tax

Guernsey's 'zero-ten' regime means most companies, including collateralised reinsurance vehicles, pay no corporation tax. The island's tax neutrality is an important factor in its continued success which provides excellent tax certainty.

HM Treasury is proposing to introduce a bespoke taxation regime for ILS, under which the vehicle is exempt from corporation tax and investors are taxed 'as if they had invested in assets directly'. This is line with HM Treasury's move towards a territorial tax system but is brought to you by the same people who recently doubled Insurance Premium Tax.

## Foreman vs. Ali

To return to our sporting metaphor, when George Foreman fought Muhammad Ali for the world heavyweight title in 1974, Foreman was the overwhelming favourite due to his greater size and power.

But Ali, like Guernsey, held advantages over his opponent in other areas - including speed and technical ability - but none were more important than the guile amassed during years in the ring.



PO Box 655, St Peter Port,
Guernsey, GY1 3PN
+44 (0)1481 720071
INFO@WEAREGUERNSEY.COM

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