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Alternative Sources of Capital: ISPV

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Agenda

- ISPVs
- L&G Structure
- Financing Arrangements
- Issues – Internal vs External ISPVs

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ISPVs – Key Features

- Introduced via implementation of Reinsurance Directive
- Authorised and regulated by FSA
- Not subject to (most of) INSPRU and GENPRU
- Liabilities limited to assets – fully funded test
- Typically funded by debt - subordinate to policyholder liabilities
- Treatment in cedant via FSA waiver

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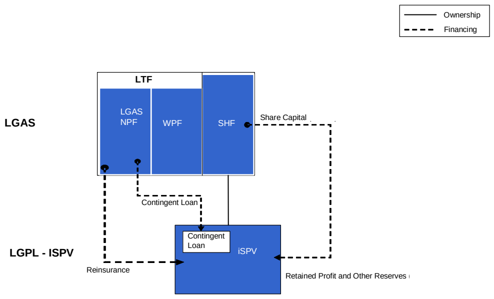
L&G Pensions Ltd - Structure



Reassurance Treaties

- 100% original terms, (almost) all risks
- In-force
  - Initial Premium < 100% Peak 1 reserves
- Future in-force and new business premiums defined as total net cash flow
- Reassurance commission equal to ceding office expenses plus allowance for mis-selling

Contingent Loan

- Initial loan amount equal to:

  Peak 1 reserves – reassurance premium
- Further drawdown to support NB strain
- LTV ratio consistent with deals in the market
- Repaid out of “Form 58” surplus

Internal vs External ISPV – Issues

	Internal	External
Regulatory	Risk transfer principles Waivers Pillar 2 treatment - diversification	
Capitalisation	Full Pillar 1 credit Counterparty exposure New business mechanism	
Tax	Arms length	
Ownership	Subsidiary	Trust ?
	Governance	

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