



Institute
and Faculty
of Actuaries

Authorisation and supervision of insurance special purpose vehicles – CP42/16

IFoA response to Prudential Regulation Authority
and Financial Conduct Authority

23 February 2017

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



Insurance Special Purpose Vehicles
Authorisation Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

23 February 2017

Dear Sirs

IFoA response to PRA 42/16 and FCA 16-34 Consultation: Authorisation and supervision of insurance special purpose vehicles (ISPVs)

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to this joint consultation and the associated documentation. Members of the IFoA who work in general insurance have prepared this response. We have limited our response to those areas where our members have specific knowledge and expertise.
2. As we encouraged HM Treasury in our response to the draft regulations, we would also encourage the PRA and FCA to consider the impact of the UK leaving the EU on the regulation of this market. If there is uncertainty regarding future regulation, the market may not progress beyond the embryonic stage.

General comments

3. The IFoA generally supports the approach set out in the PRA and FCA draft Statement. There are a number of specific areas where, in our view, there could be improvements to the process set out in the PRA Statement. In particular, there should be flexibility within the regulation that will permit the development of the market.

The PRA's Draft Statement

4. We fully support the PRA's willingness to engage in discussion prior to the formal application process. As noted in 2.6 of the draft Statement, such open discussion should help applicants understand how the PRA will approach the application and approval process. At the same time, we would expect such discussions to assist the PRA understand how the market may develop, or whether the regulatory approach could act as a barrier to future market development.
5. An additional benefit of the pre-application discussion could be a reduction in, or elimination of, speculative applications. Such applications are likely to hinder the development of the market and would act as a distraction to more meaningful discussions elsewhere.
6. The IFoA believes the application of the SIMR to ISPVs is proportionate and provides a clear understanding to applicants of what will be expected in terms of management of ISPVs.

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7. One aspect of concern for the IFoA is the maximum period for review of the application. The PRA has noted that timely submission and approval of documentation will aid the development of ISPVs. If the overall regulatory approach does encourage purposeful pre-application discussions, the PRA's requirements should be clear. These discussions would act as an incentive to provide better documentation on application; thus avoiding the need for a lengthy review process. If the maximum period of review is six months, there is a risk that firms may miss potential opportunities due to delays in the review process.
8. In respect of Multi ISPVs (MISPVs), we are not certain of the benefit of confirming in the initial application the maximum number of cells. As the PRA would expect to authorise each cell as it is required, there appears to be little benefit in asking firms for that information at the time of initial application.
9. In a similar way, we would question whether a vehicle should have to provide initial information about its potential aggregate risk exposure. Again, as the development of the market may result in the creation of new cells, we consider that vehicles should update this information as part of any new applications. It is possible the requirement of section 3.7 may not be possible until a larger market develops.
10. At a reasonably early stage following the introduction of the regulations, we would welcome a broad discussion with the PRA and the FCA in respect of how the regulatory approach has developed in practice.

Should you wish to discuss any of the points raised in further detail please contact Philip Doggart, Technical Policy Manager (Philip.doggart@actuaries.org.uk / 0131 240 1319) in the first instance.

Yours faithfully



Colin Wilson
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