

BRIGHT FUTURE AHEAD



With ILS legislation on the horizon, Gaynor Brough, chairman of the Isle of Man Captive Association, looks at the positives taking place in the jurisdiction

Summer may be over – and the long dark nights of autumn ahead – but managers in the Isle of Man’s insurance market are anticipating a bright and sunny end to the year thanks to the pending introduction of insurance special purpose vehicle legislation (ISVP) in the domicile.

Developed after in-depth industry consultation with resident insurance managers, commercial reinsurers and brokers and the island’s risk trade association (the Isle of Man Captive Association), ISVPs will add another weapon to the Isle of Man’s already impressive armoury for attracting insurance business.

Currently this comprises protected cell company captives, incorporated cell company captives, single parent captives, group captives, association captives, rent-

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a-captives and limited liability partnership captives.

The new ISVP legislation will facilitate development of insurance linked securi-

ties (ILS) business, allowing transactions in catastrophe bonds, mortality bonds, sidecars and industry loss warranties, as well as other collateralised (re)insurance structures.

This opens up new business streams for the Isle of Man and provides welcome competition for those seeking to access the ILS market, which has traditionally been a stronghold of Bermuda and the Cayman Islands.

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We were approached by a number of commercial reinsurers who were looking for a reputable insurance jurisdiction with a tailored ILS regulatory framework this side of the Atlantic, and this led us to develop the ILS framework.

Through close consultation with the industry and the Isle of Man Government’s commitment to robust and rigorous – but appropriate and proportionate – regulation, the framework for Isle of Man ISPVs will offer some excellent features for clients. This includes an enviable short licensing process, with just a five-day turnaround on receipt of fully prepared applications, simplified regulatory returns and a competitive fee structure that may be pre-determined for the lifespan of the ISPV.

The Isle of Man’s position as a highly respected international financial centre, with strong links and geographical proximity to the UK and the EU, but politically part of neither, bodes particularly well for gathering European business.

Many of Europe’s largest insurers already have a significant presence on the island and it has already proven successful in attracting major corporates to its shores, and has recently been selected as the domicile of choice for one of the largest captives to be formed in Europe and offshore during recent years.

The Isle of Man was selected due to its complete capital and solvency requirements, its ability to allow loanback to parent companies which are 100% admissible for solvency purposes (subject to a qualifying criteria), and the accessibility and expertise of the IPA.

Captives

Also on the increase in the captive market is re-domiciliation business from Europe, a trend which is likely to continue given the forthcoming hike in capital commitments required under Solvency II, due to be introduced in January 2016.

It is interesting that during the last

couple of years, the IOM has set up a number of “lifeboat” companies, whereby the parent company with a captive domiciled elsewhere has created a shelf company in the IOM and pre-agreed an insurance licence business plan with the IPA.

As an offshore captive domicile outside of the EU, the Isle of Man is not required to adopt Solvency II and is not seeking equivalence for its captive sector as it does not allow for proportionality or reflect the inherent low risk of the majority of the island’s captive business.

strong, tried-and-tested infrastructure in place including a well-skilled workforce and local professional expertise to provide supporting services.

In particular, the stability of the workforce has aided the development of highly experienced personnel who can offer exceptional and uninterrupted client service. A flexible work permit system and no restrictive residency controls also allow new talent to move to the island where there is a high quality of life to enjoy and room to expand.

The Isle of Man Government is committed to supporting all the major contributors to the Manx economy and, through its Department of Economic Development, provides a great deal of practical help in bringing captive and other insurance business to the island, as well as promoting the jurisdiction overseas.

Similarly, the local regulator, the Insurance & Pensions Authority, significantly

 ISLE OF MAN STATISTICS

Established: 1980

Number of captives: 225

AUM: £5bn

Annual premium: £1bn

Significant markets: UK, Europe, US and South Africa

Regulatory environment: The Isle of Man is a self-governing Crown Dependency and is neither part of the UK, nor the EU. It has its own regulatory bodies and a policy of introducing appropriate and proportionate legislation for the types of business it supports to ensure competitiveness and compliance at a global level

Tax: There is a zero standard rate of corporate tax (10% for regulated banks and retailers earning more than £500k profit). It has signed more than 40 Tax Information Exchange agreements.

The Isle of Man regulatory framework will continue to be enhanced to reflect the insurance core principles laid down by the International Association of Insurance Supervisors.

With easy accessibility via air and sea routes, and no time zone difference to London, the Isle of Man is a convenient place to do business both from Europe and beyond.

Although the island has long since been the domicile of choice for UK corporates, with 50% of its captive book emanating from the UK, it has attracted companies from Australia, Asia and Africa too.

Its long history as a hub for world-class life insurers and captives means there is a

contributes to the Isle of Man value proposition. The regulatory team is very accessible and works proactively, continually looking for solutions rather than obstacles.

It is a surprise to many who have worked in other jurisdictions that the Isle of Man regulators, while maintaining a strong supervisory presence, operate a very welcoming open door policy and are keen to meet prospective clients.

All these factors have helped to contribute to a 6% growth in existing captive formations in 2013, with a similar increase expected in 2014. The launch of ISPVs is likely to give the market a further boost, as already evidenced by a number of enquiries in the pipeline. 