

## A new ILS hub to ponder

*London's ambitions to become a hub for ILS deals will not change the market overnight but could attract some innovative structures, says Craig A. Smith, head of EMEA sales, Corporate Trust, Deutsche Bank.*

London is unlikely to gain market share from the outset versus the more established domiciles when new regulations come into force that allow insurance-linked securities (ILS) to be issued from the market—but over time it could either become a hub for new entrants wanting to work from a familiar domicile or create its own niche given the depth of expertise and infrastructure available.

That is the view of Craig A. Smith, head of EMEA sales, Corporate Trust, Deutsche Bank, who welcomes the ambitions of London to enter the ILS space. But he stresses that he does not anticipate seasoned issuers moving their existing deals and structures in the short term.

The regulations, which the UK government has said will introduce a competitive regulatory and tax regime for ILS, were to be laid before parliament after the summer recess and should

*“I do see it working in the long term alongside the existing jurisdictional hubs.”*

come into force shortly afterwards.

They set out how to establish special vehicles to issue ILS, the legal framework for ILS, and the associated tax treatment. The regulations also provide for a tailored and proportionate approach to authorisation and supervision.

The UK government said it wants to give the insurance and reinsurance industry greater certainty over how the new regime will work—enabling it to be on the front foot in preparing for the new rules when they come into force in the autumn.

Smith notes that some uncertainties remain around how the regulations will work in practice. In particular, he says, responsive, fast and flexible jurisdictions such as Bermuda and Guernsey lead the way in ILS and innovation thereof, and the UK regulators will need to adopt similar characteristics to be considered a viable option. But he still believes that London can find its place in the ILS world, potentially



Craig A. Smith

as a specialist domicile for certain types of structures.

“My sense is that it is not the intention of London to take business away from other jurisdictions but rather to offer an alternative, particularly to those with an existing UK presence,” he says. “Over time, they will find the areas of expertise where they can have leverage.”

“Guernsey, for instance, is well known for its innovation around the protected cell company (PCC) and incorporated cell company (ICC) structures. I imagine London will find a similar unique selling point in certain types of risks or structures.”

### One city for everything

Another consideration when looking at London as an ILS hub is whether the ILS vehicle could potentially be in same city as the assets and collateral underpinning such deals.

“Most collateral is held in New York—the hub of Deutsche Bank’s operations in this

field,” Smith says, “but London may suit some issuers to bring everything together in one city.”

“The ability to hold the collateral in London will be an area to be explored,” he adds. “London meets the criteria for this given its experience in the traditional capital markets and there could be a consistency and advantages to doing everything in the same place. Some participants might require that.”

“If that were possible, it would represent a big shift in the way players like ourselves operate but also the business model of many other players in the industry. It depends on what is feasible and the legal implications of changing the governing law of the trust accounts.”

“It is an area that has not been explored fully but one Deutsche Bank is staying close to its clients on should there be a move away from the standard approach.”

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Smith believes, however, that given the uncertainties it could be a relatively slow start for the London ILS market as participants find their feet and get used to the new legislation.

“London is not a tried and tested ILS platform so it will take some initial deals to go through the system for others to see how things work and decide whether it works for them. I do see it working in the long term alongside the existing jurisdictional hubs,” he says.

Deutsche Bank’s role in ILS deals is as a trust services provider and it is well placed to meet the needs of its clients regardless of their jurisdiction of choice. As with any new or evolving market, Smith says, the bank would like to continue to engage with ILS managers in this space to discuss their ambitions around ILS in London and see how they could help. ■

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