

The Full Handbook

- ✚ Glossary
- ✚ High Level Standards
- ✚ Prudential Standards
  - ✚ PRU Integrated Prudential sourcebook (31/12/2006 is the last day this material is in force)
  - ✚ GENPRU General Prudential sourcebook
  - ✚ BIPRU Prudential sourcebook for Banks, Building Societies and Investment Firms
  - ✚ INSPRU Prudential sourcebook for Insurers
    - ✚ INSPRU 1 Capital resources requirements and technical provisions for insurance business
      - INSPRU 1.1 Application
      - INSPRU 1.2 Mathematical reserves
      - INSPRU 1.3 With-profits insurance capital component
      - INSPRU 1.4 Equalisation provisions
      - INSPRU 1.5 Internal-contagion risk
      - INSPRU 1.6 Insurance Special Purpose Vehicles
      - INSPRU 1 Annex 1 INSPRU 1.2 (Mathematical reserves) and INSPRU 1.3 (With-profits insurance capital component)
    - ✚ INSPRU 2 Credit risk in insurance
    - ✚ INSPRU 3 Market risk
    - ✚ INSPRU 4 Liquidity risk management
    - ✚ INSPRU 5 Operational Risk Management
    - ✚ INSPRU 6 Group Risk: Insurance Groups
    - ✚ INSPRU 7 Individual Capital Assessment
    - ✚ INSPRU 8 General provisions applying INSPRU and GENPRU to Lloyd's
    - ✚ INSPRU 9 Actions for damages
    - ✚ Transitional Provisions and Schedules
  - ✚ MIPRU Prudential sourcebook for


Full Handbook / INSPRU / 1 / 6


## INSPRU 1.6 Insurance Special Purpose Vehicles

### INSPRU 1.6.1 Application and Purpose

(1) [INSPRU 1.6.5 R](#) to [INSPRU 1.6.12 R](#) apply to a *UK ISPV*.

(2) [INSPRU 1.6.13 G](#) to [INSPRU 1.6.18 G](#) apply to an *insurer* which has a contract of *reinsurance* with an *ISPV*.

**INSPRU 1.6.2 ** An *ISPV* is a special purpose vehicle which assumes risks from *insurance undertakings* or *reinsurance undertakings* and which fully funds its exposure to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the *reinsurance* obligations of that vehicle. The special feature of an *ISPV*, when compared to other *reinsurers*, is that it is fully funded to meet its *reinsurance* liabilities. It is, therefore, not subject to insurance risk to the same extent as other *reinsurers*. The *Reinsurance Directive* permits *ISPVs* to be subject to different rules to those applying to other *reinsurers*.

**INSPRU 1.6.3 ** To satisfy the definition of an *ISPV* under the *Reinsurance Directive* the *ISPV* must be fully funded. The *FSA* considers that to be fully funded an *ISPV* must have actually received

**Mortgage and Home Finance Firms,  
and Insurance Intermediaries**

- ✚ UPRU Prudential sourcebook for UCITS Firm
- ✚ IPRU-BANK Interim Prudential sourcebook for Banks
- ✚ IPRU-BSOC Interim Prudential sourcebook for Building Societies
- ✚ IPRU-FSOC Interim Prudential sourcebook for Friendly Societies
- ✚ IPRU-INS Interim Prudential sourcebook for Insurers
- ✚ IPRU-INV Interim Prudential sourcebook for Investment Businesses
- ✚ Business Standards
- ✚ Regulatory Processes
- ✚ Redress
- ✚ Specialist sourcebooks
- ✚ Listing, Prospectus and Disclosure
- ✚ Handbook Guides
- ✚ Regulatory Guides

the proceeds of the debt issuance or other mechanism by which it is financed. The *FSA* would not, therefore, grant a *Part IV permission* to an *ISPV* where part of the financing for its *reinsurance* liabilities was on a contingent basis, for example, a standby facility or letter of credit.

**INSPRU 1.6.4** **G** The purpose of **INSPRU 1.6** is:

(1) to set out the *rules* applying to *UK ISPVs* in respect of:

(a) their assets and liabilities; and

(b) their contractual arrangements; and

(2) to set out the conditions that must be met in order for an *insurer* to claim credit for *reinsurance* with an *ISPV*.

**INSPRU 1.6.5** **R** **Assets and liabilities**

---

A *UK ISPV* must ensure that at all times its assets are equal to or greater than its liabilities.

**INSPRU 1.6.6** **G** In addition to liability under its contracts of *reinsurance*, an *ISPV* will incur liability for other expenses, for example, staff and accommodation costs, *claims* handling arrangements and professional advisers' fees. **INSPRU 1.6.5 R** requires a *UK ISPV* to ensure that it always has sufficient assets to meet its liabilities.

**INSPRU 1.6.7** **R** A *UK ISPV* must invest its assets in accordance with the requirements set out in **INSPRU 3.1.61AR**.

**INSPRU 1.6.8** **R** A *UK ISPV's* assets must be held by, or on behalf of:

(1) the *UK ISPV*; or

(2) the *insurance undertaking* or *reinsurance undertaking* which cedes to the *UK ISPV*

the risks in respect of which the relevant assets are held.

#### INSPRU 1.6.9 **R** Contractual arrangements

A *UK ISPV* must include in each of its contracts of *reinsurance* terms which secure that its aggregate maximum liability at any time under those contracts of *reinsurance* does not exceed the amount of its assets at that time.

**INSPRU 1.6.10**  
**G** **INSPRU 1.6.9 R** requires that a *UK ISPV*'s contracts of *reinsurance* should include terms that secure that its maximum *reinsurance* liability is capped at a level that is no greater than the *ISPV*'s assets. In the *FSA*'s view, this is a necessary condition of the *ISPV* being fully funded, as it means that the *ISPV* should not find that its assets are insufficient to meet its *reinsurance* liabilities.

**INSPRU 1.6.11**  
**R** A *UK ISPV* must ensure that under the terms of any debt issuance or other financing arrangement used to fund its *reinsurance* liabilities the rights of the providers of that debt or other financing are fully subordinated to the claims of creditors under its contracts of *reinsurance*.

**INSPRU 1.6.12**  
**R** A *UK ISPV* must only enter into contracts or otherwise assume obligations which are necessary for it to give effect to the *reinsurance* arrangements which represent the special purpose for which it has been established.

#### **INSPRU 1.6.13** **G** Reinsurance with an ISPV

As a result of GENPRU 1.3.55R, GENPRU 2 Ann 7R, **INSPRU 1.1.92A R** and **INSPRU 1.2.28 R** an *insurer* may not:

(1) treat amounts recoverable from an *ISPV* as:

(a) an *admissible asset*, or

(b) *reinsurance* for the purposes of calculating its *mathematical reserves*, or

(c) *reinsurance* reducing its *MCR*, or

(2) otherwise ascribe a value to such amounts,

unless it first obtains a *waiver* from the *FSA*. [INSPRU 1.6.14 G](#) to [INSPRU 1.6.18 G](#) set out the information which the *FSA* will expect to receive as part of the application for the *waiver*. Those paragraphs also set out the factors, in addition to the statutory tests under section 148 of the *Act*, to which the *FSA* will have regard in deciding:

(i) whether to grant such a *waiver* (assuming the section 148 conditions are met); and

(ii) the amount recoverable from the *ISPV* which it will allow the *insurer* to bring into account for these purposes.

#### **INSPRU 1.6.14**



Where the *ISPV* is a *UK ISPV*, the *FSA* will wish to be satisfied that the *UK ISPV* complies with [INSPRU 1.6.5 R](#) to [INSPRU 1.6.12 R](#). The *FSA* may rely on information supplied in connection with its application for *authorisation*. However, if the application for a *waiver* is made some time after *authorisation* was granted, the *FSA* may request confirmation that there has been no material change to the information originally supplied.

#### **INSPRU 1.6.15**



Where the *ISPV* is not a *UK ISPV*, the *FSA* will expect to receive confirmation that the *ISPV* has received an official authorisation in accordance with article 46 of the *Reinsurance Directive* in the *EEA State* in which it has been established. In addition, it will need details of the debt issuance or other financing mechanism by which the *ISPV's reinsurance* liabilities are funded. The *FSA* will also expect to receive information about the *ISPV's* key management and control functions, including details of the *ISPV's* auditors and arrangements for *claims* handling, and any material *outsourcing* agreements. The *FSA* will also need information about the structure of any *group* of which the

*ISPV* is a member.

**INSPRU 1.6.16**



No credit may be taken for a contract of *reinsurance* with an *ISPV* unless the contract meets the risk transfer principle set out in [INSPRU 1.1.19A R](#). The *FSA* will require evidence that the contract of *reinsurance* and the extent of the credit that the *firm* proposes to take for it satisfy the risk transfer principle.

**INSPRU 1.6.17**



The *FSA* will require information about the impact of the *ISPV* arrangement on the ceding *firm's* individual capital assessment carried out in accordance with [INSPRU 7.1](#). This should include evidence that all residual risks associated with the arrangement (including credit, market, liquidity and operational risks) are reflected in that assessment.

**INSPRU 1.6.18**



The *FSA* will also expect to receive an analysis of the potential for risk to revert to the *firm* or any of its *associates* under realistic adverse scenarios or for liabilities to arise in respect of the risks transferred for which no provision has been made.