GUIDANCE NOTE FOR LICENSED INSURERS ON CATEGORY 6 – NON-SPECIAL PURPOSE INSURERS

November 2021

1. Introduction

The Insurance Business (Solvency) Rules 2021 introduces a system of categorisation for licensed insurers. Category 6 insurers comprise two subcategories: Special Purpose Insurers (“SPIs” - this sub-category is primarily intended for Insurance-Linked Securities business) and other Non-Special Purpose Insurers (“NSPI” - other forms of insurer where underwriting and counterparty risk may have been effectively eliminated).

These two subcategories are detailed in Section 6 (f) of The Insurance Business (Solvency) Rules 2021, which provides that licensed insurers or cells of a Protected Cell Company fall under Category 6 – Special Purpose Entities (“Category 6”) for the purposes of those rules if they are:

- Special Purpose Insurers as defined under the Insurance Business (Special Purpose Insurer) Rules 2016; or
- Entities that the Commission agrees in writing may fall into this category.

All Category 6 insurers fall outside the scope of the Commission’s risk based solvency requirement and it is therefore important that the Commission is satisfied that such insurers’ risk profile is appropriate for categorisation as a Category 6 insurer. The specific requirements for SPIs are set out in the Insurance Business Rules, 2021 while the criteria for NSPIs are set out in this guidance.

The Commission will use the criteria noted in section 2 of this guidance note in assessing the suitability of a licensed insurer or cell to fall into Category 6.

Where the insurer or cell does not meet the guidance within section 2, the Commission will not agree in writing for the insurer or cell to fall under Category 6 for the purposes of The Insurance Business (Solvency) Rules 2021.

This guidance will be applied from 31 July 2018. This guidance will not be applied to those Category 6 insurers or cells for which categorisation was agreed in writing by the Commission prior to that date.

2. Guidance

a) The Commission will carefully scrutinise applications that propose individuals as direct owners of a category 6 cell. The application should include an explanation of the rationale for the ownership structure.

b) The Commission may require up to £100,000 of paid up share capital if it considers that the fully funded structure involves a high level of basis risk linked to the structure or complexity of the insurance/reinsurance programme. Therefore, the application should address basis risk, the measures taken to mitigate such risk and include a robust contingency funding plan to facilitate the orderly wind down of the cell in the event of any issues with the fully funded status.

c) The Category 6 insurer or cell must be Fully Funded at all times. In order to meet the definition of Fully Funded, the insurer or cell must:

- At all times have assets the value of which exceed or are equal to the aggregate maximum risk exposure of the insurer or cell and be able to pay the amounts for which it is liable as they fall due; and
- Only enter into contracts or otherwise assume obligations or contingent liabilities which are solely necessary for it to give effect to the purposes set out from time to time in its agreed business plan; and
- Where there is more than one insurance contract in place, ensure that each insurance contract is structured such that the Fully Funded requirement is met for each contract individually.