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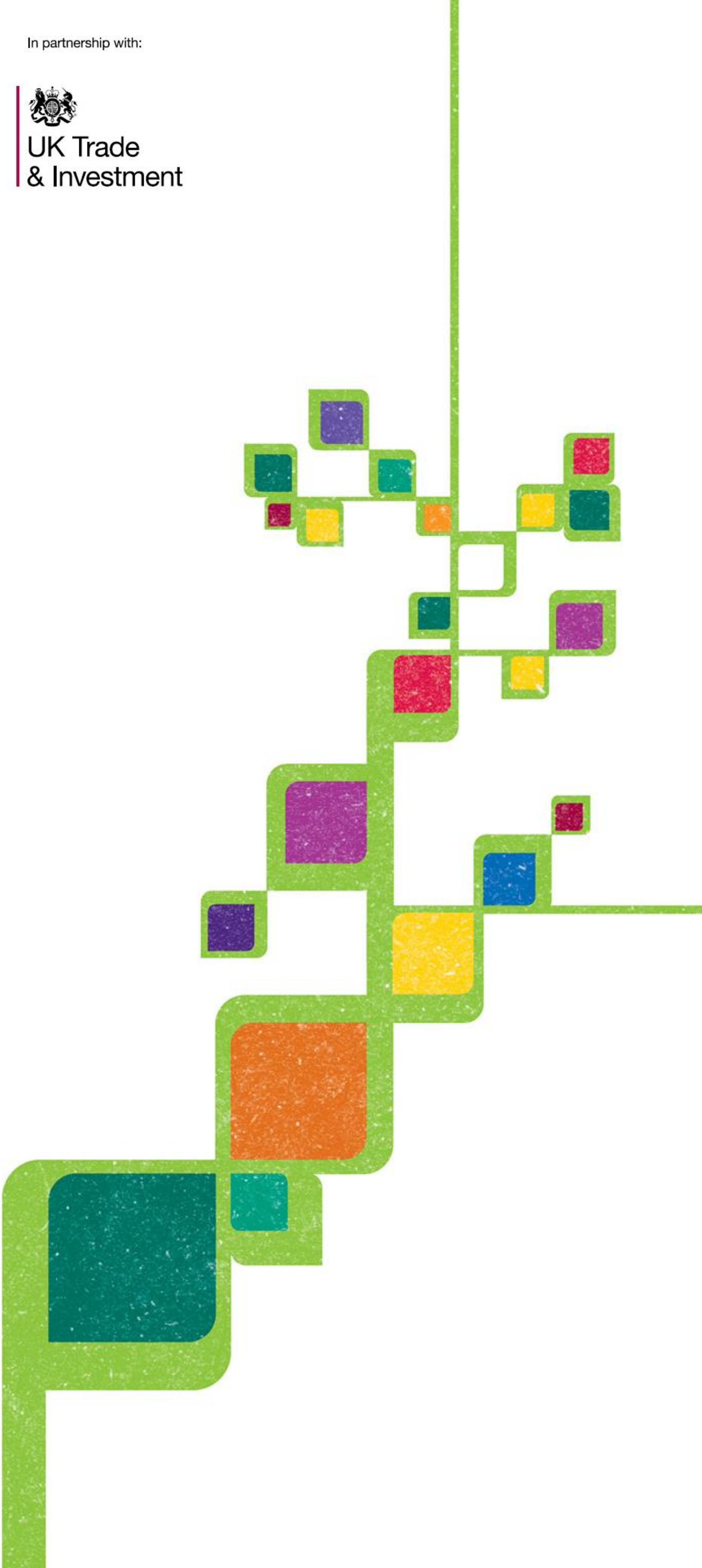

Insurance Hubs Report

October 2015

Foreword

Here in the UK we have long been rightly proud of the strength of our financial services industry and the position of London as a leading global insurance hub. However, in today's changing world the emergence of new, rapidly-growing markets with ambitions to establish themselves as financial centres in their own right presents a challenge to the established order.

Against this backdrop, we have produced this report in conjunction with UK Trade & Investment to examine the preferred locations for insurance businesses around the world, and the drivers behind those choices. We are delighted to have partnered with them on this very topical subject, but the opinions contained within this report are very firmly ours alone. Despite some well-publicised challenges, it appears that London has an enduring attractiveness for re/insurers looking to set up and maintain operations. Based on discussions with company leaders across the sector, the findings suggest that London's pre-eminence as an insurance centre has rarely been stronger, with new syndicates entering the Lloyd's market and international re/insurers looking to acquire businesses with strong London operations.

Its geographical location means that the UK is ideally positioned to access both the mature markets of Europe and North America as well as developing economies further afield, a key factor for companies in selecting a domicile. London's long history of developing innovative insurance products to respond to emerging risks means that it continues to attract the industry's most knowledgeable and experienced talent. While the culture of regulation in the UK may be called into question, there is still no doubt that the regime is respected and capital adequacy requirements are sensible. So, overall the appeal of maintaining operations in the city is clear, as well as the ecosystem of financial and professional services to support the industry has never been stronger.

Looking ahead, the outlook for those looking to do business in the UK remains bright. Tax levels for corporations head-quartered in the country have come down and look certain to drop further. Meanwhile, in order to better maximise the opportunities provided by the influx of alternative capital into the market, the government has stated its commitment to work with the industry and regulators to develop a new competitive corporate and tax structure for allowing Insurance Linked Securities to be domiciled in the UK. There is also continuing government and industry engagement stemming from the UK government's Insurance Growth Action Plan, resulting in a closer dialogue between industry and government than ever before.

Wherever you reside and whether or not you are considering a change in domicile, this report will provide you with useful insight on what remains a key issue for the industry.

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Introduction

Five years ago, we undertook initial research to investigate what was driving the domicile debate – who was moving, where were they moving to and why. The results made for interesting reading:

- Jurisdictional choice for an international P&C re/insurer was high on the corporate agenda. 80% of respondents said that they discussed the issue at board level on a regular basis.
- Between 2005 and 2010, 11 companies re-located their headquarters.
- The key criteria for the choice of domicile was not an attractive tax regime, but rather easy access to markets, closely followed by realistic capital adequacy requirements.

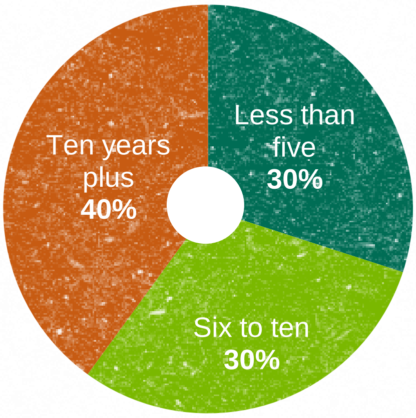
Since then the market has undergone significant change in a number of key areas; market conditions have become increasingly competitive with an overhang of excess capital, a prolonged soft pricing cycle and an ongoing low interest rate environment. In addition, new capital adequacy regimes such as Solvency II are taking, or about to take, effect.

As a result, re/insurers are looking at all aspects of their strategy and operations to maximise their chances of success. Given this, we felt that it would be interesting to re-visit the domicile debate to see what, if anything, had changed since 2010. We undertook a straw poll of C-Suite executives in 20 institutions to take their temperature on the topic.

Off the radar?

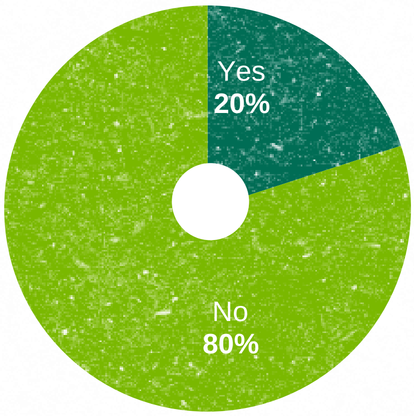
The first and most obvious conclusion from our research – which is supported by external sources – is that much of the heat has gone out of the debate.

How long have you been domiciled in your current location?



40% of our respondents had been domiciled in their current location for more than ten years, and 80% of them are not considering reviewing that situation, and have not discussed it at board level in the last several years.

Is your board reviewing the location of your domicile?



This lack of appetite is also reflected in the numbers. In the last five years only five re/insurers have re-domiciled (see table below), while another two (Canopius and Sagicor) announced their intention to do so at the beginning of 2015, but have not yet said where they will go.

Company	Year	From	To
Allied World	2010	Bermuda	Switzerland
Lancashire Holdings	2011	Bermuda	UK
Tokio Millenium Re	2013	Bermuda	Switzerland
Randall & Quilter	2013	UK	Bermuda
Brit	2014	Netherlands	UK

In August 2014, Novae – a listed Lloyd's re/insurer, was quick to play down talk about whether it was considering moving its domicile away from the UK once its deferred tax assets are exhausted.

Which begs the question why might this be? The first possible answer may be that there was always more talk than action. Even when in absolute terms 36% of the largest P&C re/insurers moved between 2005 and 2010, this only represented 12% of the total gross written premium. The second is that this debate was always of more interest to the communities in the jurisdictions that has seen an exit of business – mainly Bermuda and the UK, than it was for the rest of the re/insurance world.

Ultimately however, we believe that when trading circumstances are as tough as they are today, the question of domicile becomes of marginal importance. What will effectively determine the level of success for any organisation is the quality of its leadership, the underwriting talent and the overall financial strength of the company. John Berger, Chief Executive of Reinsurance at Alterra commented in 2011, "It is what you are doing around the world and what market you are in. Just being in a place does not mean anything…"[1]. So, ultimately changing the domicile creates work and complexity for relatively little return.

Crystal ball gazing is always a high risk pastime but our view, on the basis of this research, would be that there will be very few redomiciles /repatriations, or even for that matter restructurings in the near future. It is more likely that any developments will be isolated, ad hoc examples rather than indicators of an ongoing trend.

[1] Insurance Times, 4 January 2011

Where in the world

We asked our respondents which locations they felt were the preferred choices for businesses that were considering a new domicile. The answers – in order of preference – were: Bermuda, Switzerland and Ireland, although the evidence of the last five years does little to support the popularity of Ireland since no business has moved there.

When asked to consider which attributes were quite or very attractive in choosing a domicile, 95% of the respondents to our survey selected easy access to markets and simple, clear regulation.

Which factors do you consider important in choosing a domicile?

	Very	Quite	Neutral	Not very	Not at all	Responses
Low corporate tax rate	**8** 40.0%	**9** 45.0%	**3** 15.0%	**0** 0.0%	**0** 0.0%	20
Realistic capital adequacy requirements	**11** 57.9%	**7** 36.8%	**1** 5.3%	**0** 0.0%	**0** 0.0%	19
Simple, clear regulation	**14** 70.0%	**5** 25.0%	**1** 5.0%	**0** 0.0%	**0** 0.0%	20
A plentiful pool of talent	**5** 25.0%	**10** 50.0%	**3** 15.0%	**2** 10.0%	**0** 0.0%	20
Attractive living and working conditions	**2** 10.5%	**8** 42.1%	**7** 36.8%	**2** 10.5%	**0** 0.0%	19
A respected, credible regulator	**9** 45.0%	**8** 40.0%	**2** 10.0%	**0** 0.0%	**1** 5.0%	20
English as the language of business	**11** 55.0%	**7** 35.0%	**3** 10.0%	**0** 0.0%	**0** 0.0%	20
Easy access to markets	**10** 50.0%	**9** 45.0%	**1** 5.0%	**0** 0.0%	**0** 0.0%	20

Ease of access

Switzerland has probably been the biggest winners in recent years, with Zurich attracting both company headquarters and their day to day operations in recent years. Zurich has all the hallmarks of a successful hub: a well-developed infrastructure and transportation, an existing market with brokers and service providers, access to talent, a sophisticated regulatory regime and favourable tax conditions.

The same drivers are as important today as they were five years ago – with ease of access to markets and simple, clear regulation remaining the most important attribute in looking at any particular domicile. This access is a strength for Zurich since a large proportion of Continental European business does not find its way to London or international markets. A company based in Bermuda is unlikely to get much of a look in, but a business with its holding company in Zurich will undoubtedly have a better chance.

This move towards building a more global presence was explicitly stated by both Allied World and Tokio Millenium Re in their rationale for re-domiciling to Switzerland. Scott Carmilani, President and Chief Executive Officer of Allied World said "We believe the time has come to increase our focus on global distribution as well as global product capabilities. This redomestication will allow us to better manage our position in local markets around the world."[2] This was a message reinforced by Tatsuhiko Hoshina, Chief Executive of Tokio Millenium Re, who said that their decision was "an essential step in achieving TMR Group's long term business plan for further expansion, growth and diversity…"[3]

The credibility of the regulator and the clarity of regulation are also key aspects in the decision on domiciles – as are attractive living and working conditions. Switzerland scores well on all of these criteria. In June 2015 the European Commission published its first Solvency II third-country equivalence decisions. It was no surprise that it decided that Switzerland is Solvency II equivalent on all three bases – i.e. for group capital calculation purposes, group supervisory purposes, and reinsurance purposes. These decisions will now be considered by the European Parliament and Council. And, if the Parliament and Council are content – which seems likely – the Swiss equivalence decisions will be made, published in the Official Journal of the European Union, and final.

[2] Business Insurance, 1 October 2010
[3] Intelligent Insurer, 15 October 2013

Credible regulation

For Bermuda, the speed of the regulatory response (particularly for the set-up of a new business) has long been one of the location's unique selling points. Five years ago however, only 40% of the respondents to our survey who were domiciled in Bermuda said the Bermuda Monetary Authority (BMA) had the credibility to be categorised as a genuine USP for the island. Its emphasis had been firmly on authorisation rather than ongoing supervision, a stance which was increasingly out of step with the mood of the period.

In 2010, the BMA started to make changes to its insurance legislation so that regulation reflects the activities of the insurer, with higher risk business subject to more stringent supervision. A new code of conduct came into force on 1 July 2010, establishing duties, requirements and standards with which registered insurers must comply in areas of corporate governance, risk management, outsourcing, market discipline and disclosure. In addition, the BMA significantly increased its human and operational resources by boosting its workforce to 150 employees and raising its budget to $38 million to ensure that its supervisory regime is deemed to be equivalent to that of the EU.

Despite these changes, it is not the 'go to' choice that perhaps it once was, and only one company has re-domiciled there in the last five years – Randall & Quilter, while 66 percent of companies that re-domiciled in the previous period chose Bermuda. Randall & Quilter was quick to highlight the regulatory benefits however, with Chief Financial Officer, Tom Booth, saying "The BMA understands the business very well. While that's not to say the [UK authorities] don't, it's difficult to get the attention we want. We can't ignore the fact we're going to be more and more regulated and [our decision] goes back to regulatory access and open dialogue. We think it's going to be easier to achieve with the BMA."[4]

As well as criticisms around the regulatory regime, there were also protests that the island was crowded and suffered from issues around immigration, work permit problems and shortages of labour, offices and housing. These have abated and rents are lower and skilled labour easier to find. All of these improvements may be why new start-up Fidelis chose Bermuda as the home for its new hybrid model – following a "total return strategy" that tactically shifts capital and risk between insurance and investments to maximise returns.

The government had made, and is continuing to make, major investments in the competitiveness and future of the re/insurance industry, and has demonstrated considerable success in attracting new business – especially in the Insurance Linked Securities (ILS). However, it has still been the loser in the last wave of domicile decisions, and is also bearing the brunt of the spate of consolidation and expense reduction that has hit the reinsurance industry. This M&A activity has highlighted some further concerns around the takeover code on the island – with market commentators citing the Omega Insurance saga, last year's Aspen poison pill and the latest ongoing battle between Partner Re and Axis as examples of a lack of clarity. As home to some of the biggest public companies in re/insurance market, and increased M&A activity, this is seen as an area for future focus.

[4] Insurance Day, 25 April 2013

Centre of the action

Despite the fact that no respondent to our survey suggested that the UK would be on their pick list as a location to which they would re-domicile, two underwriting companies have done so – Lancashire Holdings and Brit, the latter reversing a move it made to the Netherlands in 2009. In addition, broking giant Aon took the decision to re-locate its headquarters to London in 2012.

In the case of the underwriters, it was changes made by the government to improve the UK landscape that persuaded them. Lancashire Group's Chief Financial Officer, Elaine Whelan, said that the changes to the Controlled Foreign Companies (CFC) regime played a part in the company's decision to relocate. A Brit spokesman said "The group's focus on the Lloyd's market, together with the UK's positive approach to the insurance sector, in part articulated in the Treasury's UK Insurance Growth Plan which was published on 4 December 2013, have been key factors in the board's decision to move the group's headquarters to London."[5]

The UK's then Conservative-led coalition government cut corporation tax to 23 percent from 28 percent, with further reductions to 20 percent planned by the end of 2015 and 18 percent by 2020.

Under the UK Insurance Growth Plan, it has also pledged to support the industry by introducing streamlined authorisation procedures for carriers wishing to set up shop in the UK, as well as helping the sector gain access to fast-growing overseas markets.

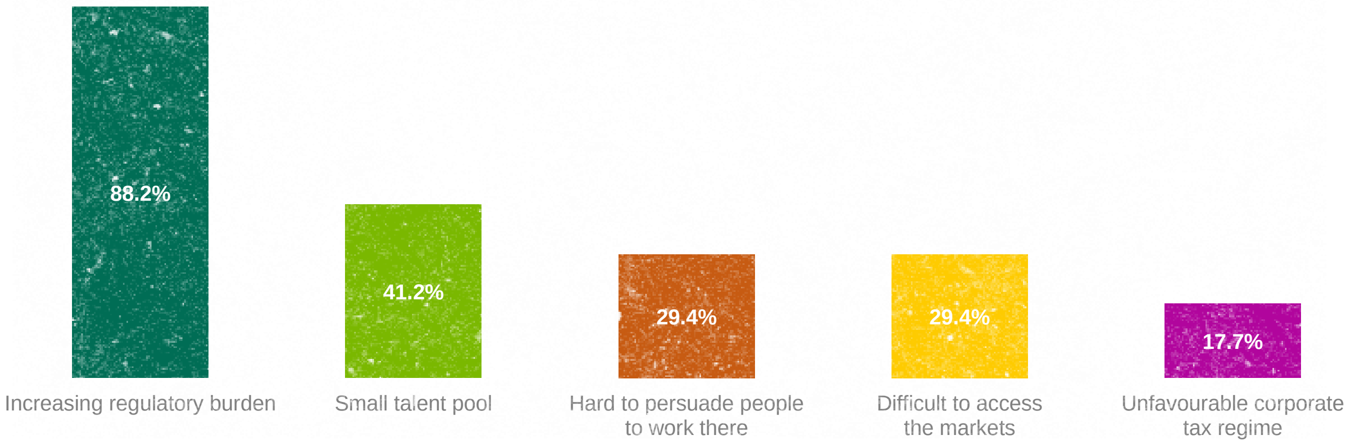
Respondents to this year's questionnaire ranked the following criteria are the most attractive factors in their current domicile:

- English as the language of business
- A plentiful pool of talent
- Easy access to markets

There is no doubt that all of these are key reasons that the UK remains a key jurisdiction: the London market has the size and scale to be able to offer an international P&C company everything it needs in terms of staff, infrastructure and an effective means of distribution.

Despite these positive attributes, there is however one significant black mark against the UK as a domicile according to our respondents – and that is the regulatory environment. When asked which jurisdiction they felt was most under threat, 50% of respondents cited the UK, and 88% said that it was because of the increasing regulatory burden. This is an increase from five years ago when 60% of UK-based insurers said that the UK was at risk as a viable jurisdiction because of excessive regulation.

Why is the UK under threat as a domicile?



[5] *City A.M.*, 1 April 2014

Centre of the action

Since our last report, the then regulator – the Financial Services Authority – has been abolished and replaced by the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA), looking after stability and conduct respectively. Frequent criticisms made by our respondents included a tendency to lump banking and insurance together and to 'gold plate' rules to reflect the "UK-knows-best" approach. Comments from our respondents included:

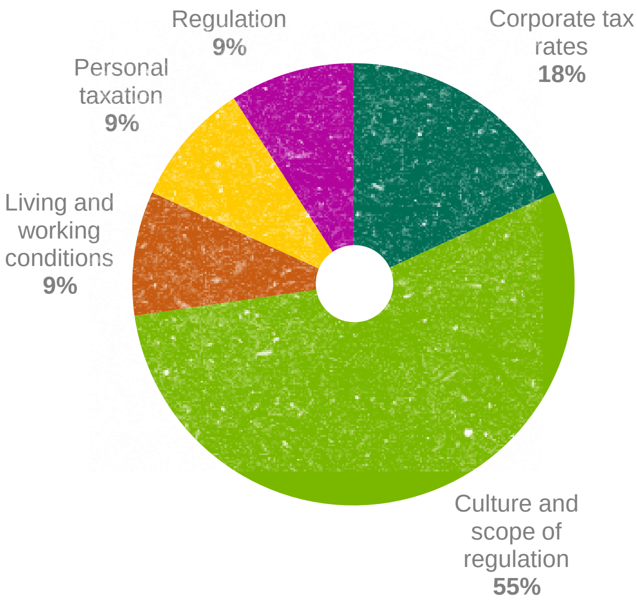
- "Ensure regulators encourage innovation and do not stifle business with inappropriate regulation"
- "Consider insurance as a major contributor to the economy rather than a danger", and
- "Formally recognise that insurance regulation is different from banking"

Paul Fisher, the PRA's Deputy Head and Executive Director of Insurance Supervision, stated in a speech on 22 January 2015, *that the PRA recognises and respects "that Solvency II is a maximum-harmonising Directive with a key objective of promoting supervisory co-operation. The PRA is committed to upholding this valued objective and will implement the Directive as intended. The PRA can't and won't gold plate.*"[6]

While this may be true in many areas, where in fact the PRA is simply implementing the regulations absolutely in the way that EIOPA intends, there are some instances where the actions of the PRA somewhat undermine its words. For example, the EC's desire for harmonisation is illustrated by the fact that the Level 2 implementing measures have been made by way of regulation which, under European law, have direct effect in individual member states without the need for implementation into individual rulebooks. Despite this, the PRA used (in its own words) an "*intelligent copy out approach*" to transpose the directive itself into its SOLPRU handbook, rather than simply passing a rule giving the directive direct effect.

An example of where the regulatory boundaries between banking and insurance appeared blurred is the PRA's consultation paper last year setting out its proposals for a revised regulatory regime for senior insurance managers. Although purportedly aimed at implementing Solvency II requirements, the PRA has also taken the opportunity to apply aspects of the regime it is proposing for banks, with the strong emphasis contained in those rules on individual accountability.

What would have to change for you to consider the UK as a domicile?



[6] Paul Fisher, "Speech: Regulation and the future of the insurance industry," *Bank of England*, 22 January 2015, accessed 28 July 2015, http://www.bankofengland.co.uk/publications/Documents/speeches/2015/speech790.pdf.

Centre of the action

All of which helps to explain the changes seen above that our respondents felt were necessary to make the UK a serious contender as a domicile, and perhaps their scepticism about the likelihood of change. When asked if they felt the culture and scope of regulation was likely to change in the near-to medium future, nearly three quarters thought it unlikely.

How likely is that changes will be made in the UK?

	Highly likely	Likely	Unlikely	Don't know	Responses
Corporate tax rates	**0** 0.0%	**8** 42.1%	**10** 52.6%	**1** 5.3%	20
Culture and scope of regulation	**1** 5.3%	**2** 10.5%	**14** 73.7%	**2** 10.5%	19
Talent pool	**0** 0.0%	**3** 15.8%	**15** 78.9%	**1** 5.3%	20
Living and working conditions	**0** 0.0%	**3** 15.8%	**15** 78.9%	**1** 5.3%	19
Access to markets	**0** 0.0%	**3** 15.8%	**14** 73.7%	**2** 10.5%	20
Personal Taxation	**4** 21.1%	**6** 31.6%	**6** 31.6%	**3** 15.8%	20

Nevertheless, there are signs that the government understands these concerns and is making moves to address the issues. The Chancellor has referred to the need for "strong, competitive financial services" and many believe that the departure of the CEO of the FCA announced in July is another step towards changing the tone and style of regulation in the UK.

Other voices in the insurance industry have called for UK regulators to have competitiveness as one of their key objectives, helping the UK to develop its global ambitions. It is felt that one way the government could help the industry would be to ensure the regulators specifically addressed competition, in order to allow London to compete effectively with other global specialty centres. Both Singapore and Bermuda have specific language within their objectives which is about the competitiveness of their marketplace. Although there is a strong recognition that the regulator should have a primary interest in creating a secure environment, it is felt that more could be done to help the London market to compete with other jurisdictions.

A taxing issue

When asked what might drive a review of their current domicile, three quarters of respondents to our questionnaire this year cited corporation tax, alongside access to markets.

Corporate taxation	75.0%	
Capital adequacy requirements	50.0%	
Culture and scope of regulation	50.0%	
Pool of talent	25.0%	
Living and working conditions	0.0%	
Credibility of regulator	50.0%	
Access to markets	75.0%	
Personal taxation	0.0%	
Other	25.0%	

In highly competitive markets, there is no doubt that tax – and its impact on the bottom line – has an important role to play in triggering a decision to relocate. When BRIT re-domiciled to the Netherlands they explicitly mentioned the tax as an issue.

"Some of our UK peer group had moved their tax domicile to Bermuda, where you pay zero tax on insurance booked to there, and it was difficult for us to compete from a return on equity point of view if we did nothing." [7]

However, no re/insurance business – wherever they are located – can be complacent about their tax situation. One significant shift in the last five years has been the reputational damage associated with the topic of tax avoidance, or an aggressive use of advantageous tax choices. Google, for example, took a considerable reputational hit over its own tax position. Top executives at HSBC admitted that its reputation was damaged after it was revealed the company helped clients hide their wealth using its own private Swiss bank. "We are suffering horrible reputational damage" said HSBC Chairman Douglas Flint.[8]

The importance of governmental probity and reputation is seen as vital, which might account for the strength of Bermuda's reaction to its inclusion on a tax haven list drawn up by Brussels in June 2015, attacking it as "unjustified and baseless". Bob Richards, Finance Minister of Bermuda said "Bermuda prides itself in being a highly co-operative business centre and has gone the extra mile to be ahead of the curve in this respect." [9]

The tax landscape is also extremely fluid. While the UK has improved its attractiveness with a steady reduction in levels of corporation tax over the last few years, others jurisdictions are facing challenges. In the second half of 2014, for example, there was considerable debate around deals that could see US insurers move offshore, possibly by merging with smaller foreign firms and inverting their ownership structures so that the foreign parent was placed at the top. This would ensure that overseas earnings are not subject to US tax. However, on 22 September, 2014 the US Treasury introduced, with immediate effect, stricter measures to make it less economically appealing for firms to take part in inversions. Both Montpelier Re and Platinum Underwriters each said, in recent regulatory filings, that potential suitors backed away last year because of these tax changes.

Another example is the Neal Bill in the US, which was introduced four times, and suggested denying certain tax deductions on reinsurance cessions. Although it never really gathered widespread support, it does highlight the appetite by governments to deal with budget deficits by looking to offshore insurance domiciles as a potential source of revenue.

A move to Switzerland helps companies to preserve the tax benefits they had in Bermuda and the Cayman Islands. While Bermuda does not impose corporate-income tax and Switzerland does, the latter does not levy it on profits earned by subsidiaries overseas, and Switzerland's tax treaty with the U.S. can be used as a shield against possible adverse US legislation.

The results of this survey suggest that treasury departments and finance ministries around the world can drive more incorporation to their shores through their management of corporation tax levels. However, businesses are looking for long term certainty and tax needs to be considered in the round alongside the more important factors of market access and credible regulation.

[7] Brit Insurance press release – 10th March 2009
[8] *CBC News*, 25 February 2015
[9] *Financial Times*, 22 June 2015.

Chasing the ILS dream

Since the publication of the London Matters report towards the end of 2014, the debate around creating a domicile for the Insurance Linked Securities (ILS) market in the UK has gathered considerable momentum – culminating in a commitment in the UK Government's Budget Statement in March 2015 to "encourage new business like global reinsurance". The UK Treasury went even further saying that it would "work with the industry and regulators to develop a new competitive corporate and tax structure for allowing Insurance Linked Securities to be domiciled in the UK."[10]

Achieving this aim will however require considerable effort, and the debate about how best to achieve it centres on three key themes; the size of the opportunity, the complexity of the required changes and the likelihood of success.

The size of the prize

The market for ILS has grown steadily in the last decade, and it is now considered to be a significant part of the global reinsurance market. According to Swiss Re, the influx of first time sponsors in 2014, combined with the return of seasoned issuers, pushed the size of the ILS market to record highs. As of December 31 2014 the overall outstanding ILS market had grown to $24.1 billion, approximately 20% larger than the market size at year end 2013.

Even more growth is expected according to a study undertaken by the University of St. Gallen in Switzerland. Their report stated that the ILS market can be expected to double in size over the coming five years, with demand being driven by its low correlation to other financial products and the relatively high yields.

The complexity of the changes

Few people involved in this debate would disagree that there are some considerable hurdles to be overcome in order to establish an ILS domicile in the UK, hurdles that broadly fall into the categories of company law, the tax rulebook and regulation. These are the key issues that drive the choice of an ILS domicile according to our survey, where everybody said that the approval process and regulation were quite or very important.

Under current legislation, special purpose vehicles (SPVs) or protected cell companies (PCCs) are not feasible – two structures that are key components to an ILS marketplace. So, primary legislation would be required to facilitate such a marketplace.

The tax environment is also seen by many as being too hostile for those looking to establish an ILS onshore in the UK. Although corporate tax rates have fallen – and will continue to do so according to the most recent UK Budget, the tax framework has a reputation for being one of the most complex in the world. Some of the steps that will need to be considered will include ensuring that the proposed corporate vehicle tax is neutral, and that each cell of a PCC vehicle would be a separate taxable entity. Issues such as taxation on profits, deductions of expense and withholding tax on interest payments will also need deliberation. Other options which are being discussed include:

- Timing of tax payment – this might well be at the wind-up of the vehicle and not on an annual basis, thus helping cashflow.
- Taxing the investor not the vehicle – if both the investor and the risk is overseas, then in theory there would be no tax to pay in the UK.
- Rollover relief – a possible postponement of capital gain tax if all the funds are being reinvested into another vehicle.

For the ILS market there is one key aspect to regulation that is crucial – the speed of response. The UK is competing with well-established domiciles, notably Bermuda, where the regulators are able to turn applications around in days, as well as being able to provide listings capabilities for the vehicles.

Speed to market is a vital component of ILS, and the UK regime is used to taking months, and in some cases a year, to authorise vehicles. It will therefore be necessary to design a regulatory process which can set up a new insurance vehicle in a time scale that makes the UK competitive with other domiciles – without compromising the regulatory objectives of the PRA and FCA.

[10] Budget 2015, HM Treasury, 18 March 2015, accessed 29 July 2015, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf.

Chasing the ILS dream

The likelihood of success

The UK and London already have some of the key building blocks in place to establish a potential ILS domicile. For example, the key market participants – insurers, reinsurers, brokers and hedge funds – all have a strong London presence and deals are already being designed and structured there. It also has the critical mass and intellectual capital to take the ILS market forward as it grows and evolves. It is also clear that the London market is determined to effect the changes required to establish London as a centre for ILS. Considerable energy is being committed across the market in the creation of a taskforce to move the initiative forward.

A recent change in the regulatory environment also suggests that positive steps are being taken towards building a more competitive marketplace. Domiciles such as Bermuda and Guernsey have this a key part of their remit and are active advocates for their own markets. The London market would like the UK regulators to be more supportive.

George Osborne, Chancellor of the Exchequer, indicated in his speech at the Mansion House in April 2015 that the UK government is altering its tone on regulation in the City, focussing its efforts on making it more attractive for business. The dismissal of Martin Wheatley as CEO of the FCA appears to be another step in this direction with the Chancellor saying "different leadership is required to …take the organisation to the next stage of its development." [11]

In July 2015, the government published its UK productivity plan centred around encouraging long-term investment and promoting a dynamic economy stating "It is vital that regulation remains proportionate and regulators support effective competition. The government intends to issue remit letters to the PRA and the FCA in order to highlight those aspects of government economic policy that are most relevant to the regulators' duties. Both regulators have a duty to have regard to the desirability of sustainable economic growth in the medium or long term."

The competition is however not inconsiderable. For example, in 2014 85% of the world's cat bonds were domiciled in Bermuda, and the respondents to our survey (who had issued ILS) had done so in Bermuda, the Cayman Islands and Ireland. In the last year the Isle of Man, Malta and Gibraltar have also targeted this sector – and in 2015 Gibraltar issued its first ILS, albeit for a lottery product. So establishing differentiation will be crucial and one that is recognised by the leaders of the London initiative, Malcolm Newman, chair of the ILS taskforce said "The key thing for us is we have to define where we are going with this." [12]

Others believe that the market is looking in the wrong direction, and that the location of investors, fund managers and buyers is much more important than where the structures are domiciled. London has all of these already – five of the top ten ILS fund managers have a physical presence in the UK, and the British government (by its own admission) stands to earn very little tax revenue from the ILS themselves.

There is also the question of cost. Dominic Wheatley, Guernsey Finance's Chief Executive, said: "I do not see why people would choose to do it [in London] rather than Guernsey as it's more expensive in London," said Wheatley. "There is not really any actual benefit to being in London," he added. [13]

Ross Webber, Chief Executive of the Bermuda Business Development Agency, captured the challenge faced by London very succinctly when he said "Bermuda's model works, it's proven. To make the decision not to invest in ILS here, the alternative would have to be very compelling." [14] So, challenging the status quo will not be easy – or given the complexity of the framework required – quick.

[11] *FT Adviser*, 17 July 2015
[12] *Insurance Day*, 25 June 2015
[13] *Reactions*, 19 May 2015
[14] *Insurance Day*, 25 June 2015