

# London Bridge 2 PCC Limited (“LB2”)

**Provides a broadened range of capabilities for the Lloyd’s market and enhanced accessibility for investors.**

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# In the news

Announcement of authorisation for LB2 has generated positive press coverage

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## FINANCIAL TIMES

Lloyd's hunts for billions in fresh capital in expansion of 'London Bridge' programme

Centuries-old insurance marketplace expands drive to bring in money from outside investors

## THE TIMES

Lloyd's of London opens up to outside investors

## ARTEMIS

[www.artemis.bm](http://www.artemis.bm)

Lloyd's new LB2 ILS structure brings flexibility the market wants

3RD AUGUST 2022

## Reinsurance News

Lloyd's announces new and improved London Bridge PCC vehicle

⚡ 3rd August 2022 - Author: Luke Gallin

# What is London Bridge 2 PCC Limited (“LB2”)?

An independent insurance risk transformation company, regulated by the PRA & FCA



## Reinsurance Risk Transformation Company

- LB2 is a protected cell company incorporated in England under the Risk Transformation Regulations 2017.
- Authorised and supervised by the PRA and FCA (“UK Regulators”) as a multi-arrangement insurance special purpose vehicle.
- LB2 is licensed to reinsure Lloyd’s business and issue securities (debt or equity) to raise the capital to fully fund those transactions.



## Protected Cell Structure

- Each transaction will be entered into through a segregated cell of LB2 and each cell will also issue the applicable securities. The liabilities of each cell are ringfenced for insolvency purposes.
- Transactions entered into by each cell will be:
  - on a limited recourse basis with liability limited to the value of the cell’s funded assets, and
  - subject to priority of payments with investors’ rights subordinated to the reinsured.

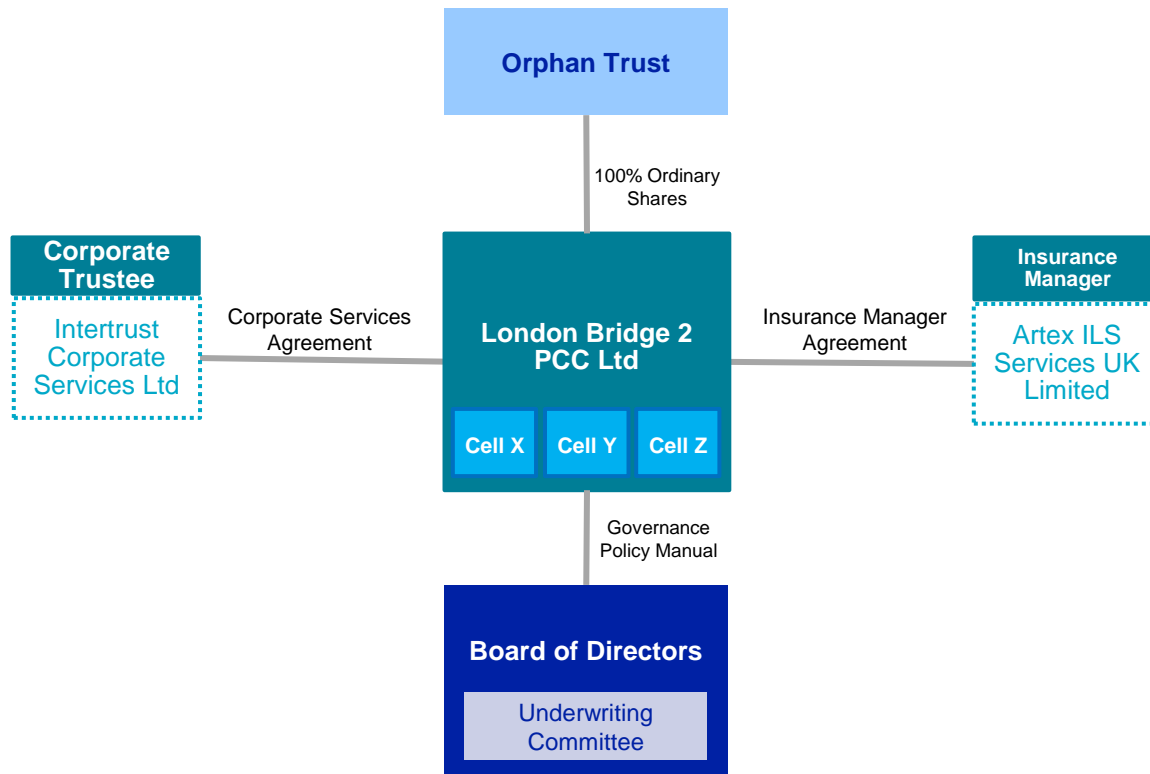


## Enhanced Regulatory Permissions

- The Scope of Permissions (“SoP”) for LB2 enables it to offer a broader range of risk transfer options to both Corporate Members and Syndicates.
- The Board of LB2 has the authority to enter into these transactions without further regulatory approval (subject to compliance with the SoP)
- The transaction documents can accommodate a broad range of commercial structures but must include certain Mandatory Terms and comply with the Risk Transformation Regulations 2017.

# How is LB2 Governed?

An independent board, with management services outsourced to an ILS market leader



- London Bridge 2 PCC is independently owned by an orphan trust company, administered by Intertrust.
- LB2 has an independent Board of Directors.
- The Board of Directors have appointed:
  - Artex Capital Solutions to provide insurance management services
  - Intertrust to provide corporate secretarial services.
- The Board has delegated authority for underwriting decisions to an Underwriting Committee
  - The committee will approve transactions and Cell creation on an ongoing basis, with Board ratification on a quarterly basis.
- The Board will operate within a set of governance and policy standards, approved by the UK Regulators and consistent with the risk transformation nature of the company.

# Why has Lloyd's Sponsored LB2?

Supporting the transformation and growth of the Lloyd's market

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## Future at Lloyd's Strategy

- One of the key deliverable is to enhance the accessibility of Lloyd's for new investors.
- London Bridge Risk PCC ("LB1") has demonstrated the appetite from institutional investors.
- LB2 will provide greater flexibility and risk transfer options, to enable the vehicle to become a more meaningful source of capital for the Lloyd's market.



## Qualifying Institutional Investors

- LB2 provides a broader and more accessible route for investors.
- Allows the issuance of both preference shares and debt securities to fund the reinsurance obligation of each cell.
- Debt securities are probably more appropriate for Excess of Loss structures.
- Multiple tranches of security are permissible per cell.

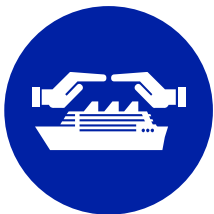


## Lloyd's Participants

- Provides enhanced options for market participants to:
  - Raise corporate member capital to support syndicate underwriting plans, and/or
  - Include collateralized reinsurance in the Syndicates outwards reinsurance programs.

# Why is Lloyd's Attractive to Institutional Investors?

Offers investors access to diversified, capital efficient underwriting exposure with robust oversight



## Access to Specialty Insurance

- Most ILS allocations are long U.S. property cat – which has had a “challenging” few years.
- Appetite to explore short/medium tail non-property cat investments.
- Lloyd's is a market leader in many specialty insurance classes.



## Reinsurance-to-Close Framework

- The established RITC framework provides a liquidity option that is difficult to replicate outside Lloyd's.
- Independent oversight of RITC premium calculation will provide comfort to investors.
- 3<sup>rd</sup> Party RITC options also exist in Lloyd's.



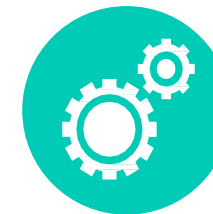
## Capital Efficiency

- Lloyd's is one of the most capital efficient places to underwrite specialty insurance risk.
- Inter-availability of capital across multiple years of account, is difficult to replicate in a traditional sidecar.



## Managing Agency Oversight

- Investors, and their advisors/consultants, will take comfort from the oversight of Lloyd's with syndicate business planning and performance monitoring.
- The role of a Managing Agent has strong similarities to that of an Alternative Investments Fund Manager.

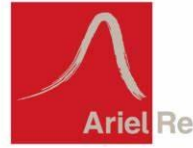


## Improved Operating Performance

- The turnaround in underwriting performance at Lloyd's is being noticed by investors.
- The performance of Quartile 1 and Quartile 2 syndicates is comparable with any global (re)insurer.

# Standards Board of Alternative Investments (“SBAI”)

SBAI announces acceptance of Lloyd’s Managing Agent as Signatory



## Who are the SBAI?

- Alliance of asset managers and allocators dedicated to advancing responsible practice, partnership and knowledge.
- Aims to improve industry outcomes through Alternative Investment Standards.
- Over 150 asset management signatories with cUS\$ 2tn in AUM and over 90 institutional investors with cUS\$ 5tn in assets support the work of the SBAI.

## Managing Agent resemblance to asset managers

- Fiduciary responsibility towards investor (member).
- Adequate regulatory framework, with active oversight from Lloyd’s Corporation.
- Structured ecosystem with robust business planning and reporting requirements.
- Ariel Re becomes first signatory.

## In-depth review of the Lloyd’s framework

- **Risk Disclosure**, including annual business plan and quarterly reporting.
- **Valuation**, including reserving separation from underwriting.
- **Operational Risk**, including risk committee, net risk tolerances and liquidity planning & stress testing.
- **Governance**, including role of NED’s, functional committees and regulatory oversight.



# What are the Regulatory Permissions for LB2?

Broadened range of coverage for LB2 cells

## Corporate Member

Scope of Activities	
Types of FaL related Reinsurance	<ul style="list-style-type: none"> <li>• Whole account quota share (up to 100%)</li> <li>• Excess of Loss</li> <li>• No line of business restriction</li> </ul>
*Types of Security to be issued	<ul style="list-style-type: none"> <li>• Preference Shares</li> <li>• Debt</li> </ul>
Duration of Arrangements	<ul style="list-style-type: none"> <li>• Single Year of Account</li> <li>• Multiple Years of Account (subject to annual endorsement)</li> </ul>
Investment Policy	<ul style="list-style-type: none"> <li>• Eligible assets under Lloyd's standard strategic asset allocation (does not include LoCs)</li> </ul>

## Syndicate

Scope of Activities	
Types of Collateralised Reinsurance	<ul style="list-style-type: none"> <li>• Whole account or variable quota share</li> <li>• Excess of Loss (inc. cat bonds)</li> <li>• No line of business restriction</li> <li>• Single shot coverage most likely</li> </ul>
*Types of Security to be issued	<ul style="list-style-type: none"> <li>• Preference Shares</li> <li>• Debt</li> </ul>
Duration of Arrangements	<ul style="list-style-type: none"> <li>• Defined risk period, most likely in accordance with existing annual reinsurance arrangements</li> </ul>
Investment Policy	<ul style="list-style-type: none"> <li>• Core eligible assets under Lloyd's standard strategic asset allocation (mainly cash or high quality, short dated government securities)</li> </ul>

\* A single cell may be funded by multiple tranches of security to collateralise a single reinsurance agreement

# What are the Mandatory Terms?

Provides greater commercial flexibility whilst maintaining regulatory compliance

* Example Mandatory Terms	Reinsurance Agreement	Securities Agreement	Custody/Trust Agreement
Aggregate Limit Definition	✓		
Covered Business Definition	✓		
Conditions Precedent	✓	✓	
Claims/Loss Payment	✓		
Commutation & Collateral Release	✓		
Segregation of Assets & Liabilities	✓		
Dispute Resolution	✓		
Limited Recourse	✓	✓	✓
Non-Petition	✓	✓	✓
Priority of Payments		✓	✓

- The terms of the transaction documents are not fixed and will reflect the transaction structure but must always include certain Mandatory Terms and comply with the Risk Transformation Regulations 2017.
- The use of **Mandatory Terms** delivers flexibility to the market and **can be provided to prospective users of the platform, on request.**
- The Scope of Permissions allows LB2 to approve its own transactions without further regulatory involvement prior to execution provided that the Mandatory Terms are met, thus enabling speed to market.
- Artex Capital Solutions will guide prospective users through the transaction process

\* The full range of mandatory terms are available from Artex Capital Solutions

# What is the role of the LB2 Insurance Manager?

Artex Capital Solutions has unrivalled experience in managing large ILS platforms

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## Principal point of access for LB2

- Promote LB2 capabilities to market participants, via various media and initiatives.
- Acting as the 'go-to' subject matter expert for all transaction enquiries.
- Advise potential users on the capabilities of LB2 to achieve their desired risk transfer objectives.



## Management of individual Cells

- Deliver Cell level management, including entering into reinsurance transactions.
- Liaison with Members and Syndicates, Investors and other service providers, on potential transaction structures.
- Provides regular reporting and valuation services (as required) to investors.



## Management of the Core LB2 company

- Undertakes day-to-day administration of the PCC's operations, including accounting and regulatory reporting.
- Provides regular reports to LB2 board.

# What is the Transaction process?

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## Initial liaison with Artex Capital Solutions

Discuss appropriate structure and SoP requirements, establish working group and required services

## Commence KYC process

Co-ordinate with all interested parties, to avoid duplication, including Lloyd's and Custodian Banks

## Transaction preparation

Work with appointed legal teams to draft transaction documentation

## Underwriting Committee review and Board approval

Assess structure and documentation against SoP, recommend to Board, creation of cell, execute documentation

## Regulatory reporting

Notify cell creation and within 5 days prior to trade date share outline term sheet  
Within 5 days post risk assumption date notify PRA and share executed documentation

# Questions?

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