

PRESENTATION

FULFILLING THE POTENTIAL OF PROTECTED CELL COMPANIES IN ASIA



BY

ALASTAIR NICOLL

REGIONAL DIRECTOR,
AON INSURANCE MANAGERS (SINGAPORE)
PTE LTD

GEORGE ONG

GENERAL MANAGER,
AON INSURANCE MANAGERS (SINGAPORE)
PTE LTD



Agenda

1. PCC Overview
2. PCC Solutions/Examples
3. Potential in Asia
4. Q & A

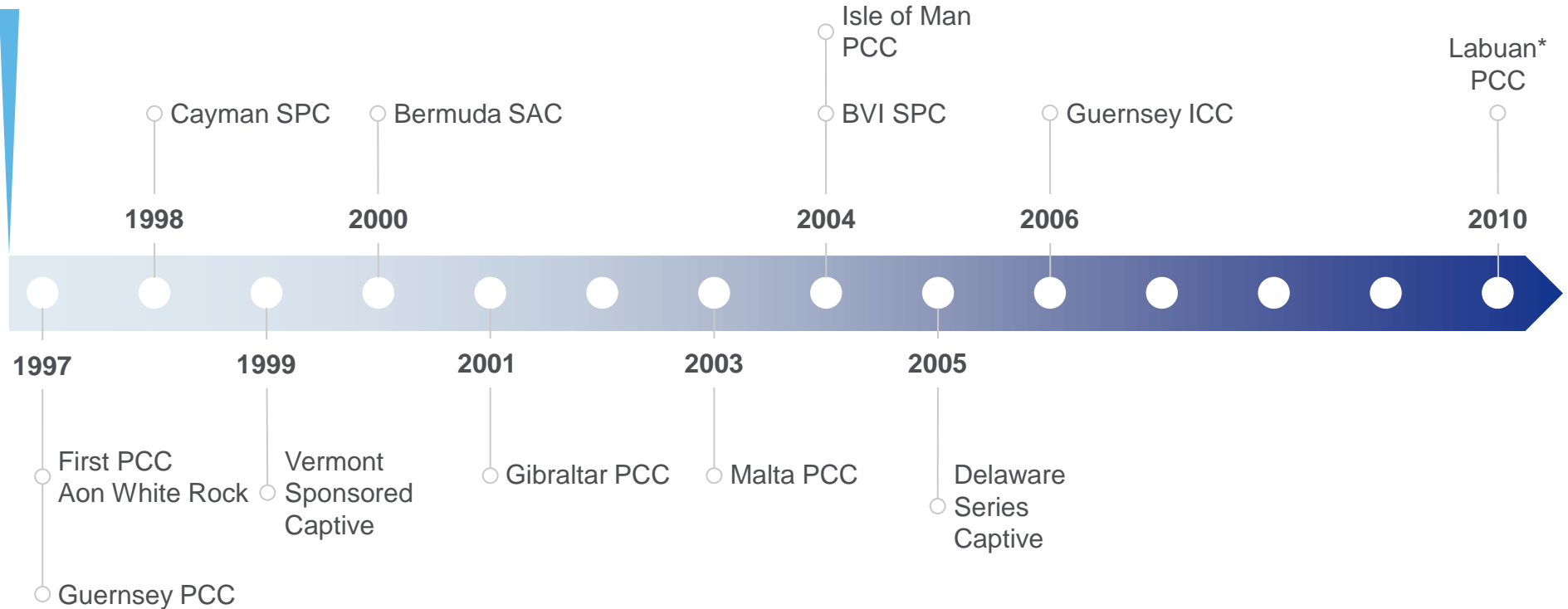


Protected Cell Companies Overview

History of PCC

45+ domiciles have similar legislations

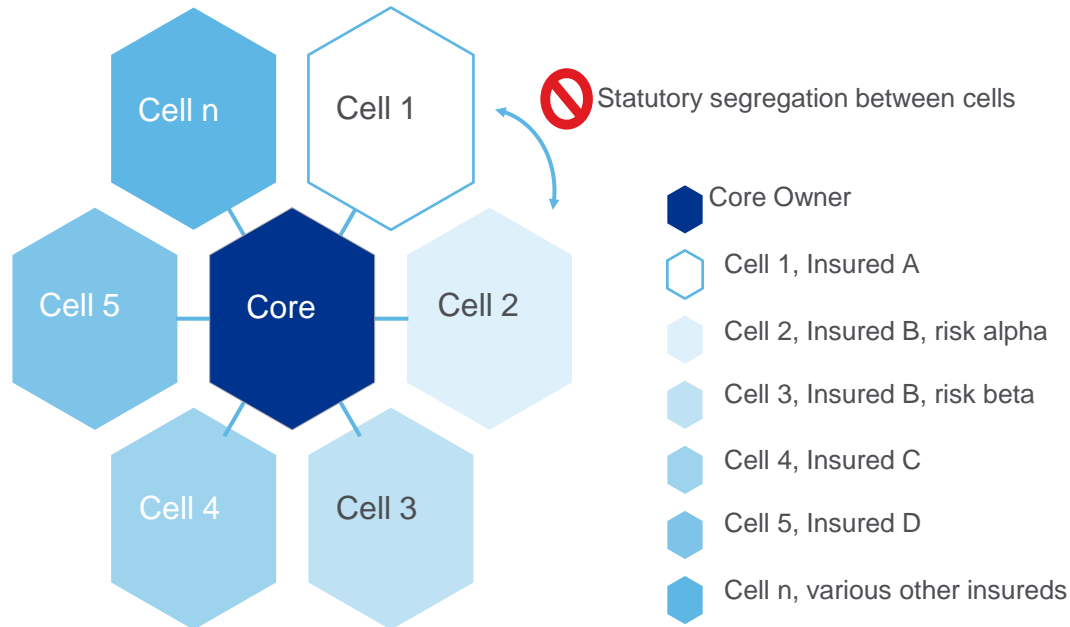
Rent a
Captive



Source: Captive Review 2017 Cell Company Guide
*Labuan IBFC

Cell Captives: An Overview

Legislation initially focused on a concept known as a Protected Cell Captive (PCC).



- ▶ Creditors of one cell do not have recourse to the assets of another cell or to the assets of the core
- ▶ Unlimited number of Cells
- ▶ Cells may not transact with each other

Today there are many forms of this initial concept, each varying in name

Global Forms of “Cell” Legislation, known by many names:

- Cell Captive Company
- Cell Captive Insurance Company
- Incorporated Cell Company
- Multiple Corporate Captive
- Protected Cell Company
- Protected Cell Captive Insurer
- Segregated Account Company
- Sponsored Captive
- Sponsored Captive Insurance Company
- Segregated Portfolio Company
- Special Purpose (Series LLC)

PCC vs Traditional Captive

Advantages

- ▶ Suitable for various sized companies
- ▶ Efficient use of management time and resources: do not require ownership in an 'equity' sense; no requirement for parent company executives to attend board meetings.
- ▶ Speed in entry and exit: quicker and cheaper to set up and less expensive to exit than a captive insurance company
- ▶ Lower operating costs: fixed costs of a cell company, e.g. audit fees, directors' remuneration etc., are spread across the cells and, therefore, become diluted.

Considerations

- ▶ **Funding of risk gap:**
Cell owner will usually be required by the PCC owner to fully fund its cell's risk gap
- ▶ **Control:**
Some loss of control as all business decisions are subject to the approval of the PCC board, while the PCC has one auditor and all cells have the same financial year-end.



PCC Solutions/ Case Studies

Cell Solutions – Examples

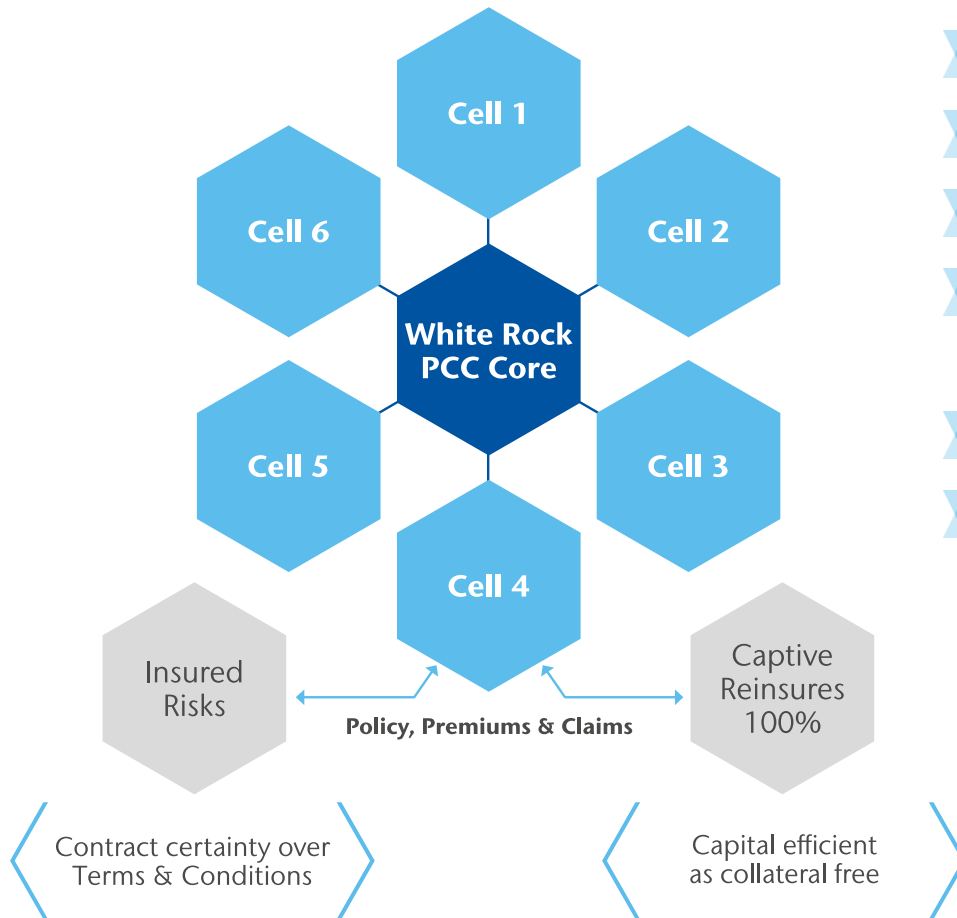


- ▶ White Rock
- ▶ Key locations
 - Bermuda
 - Gibraltar
 - Guernsey
 - Isle of Man
 - Malta
 - Vermont
- ▶ Experience with almost 300 cells since 1997; close to 150 cells under current management

Solution
1

Fronting for captives

Statutory segregation between cells



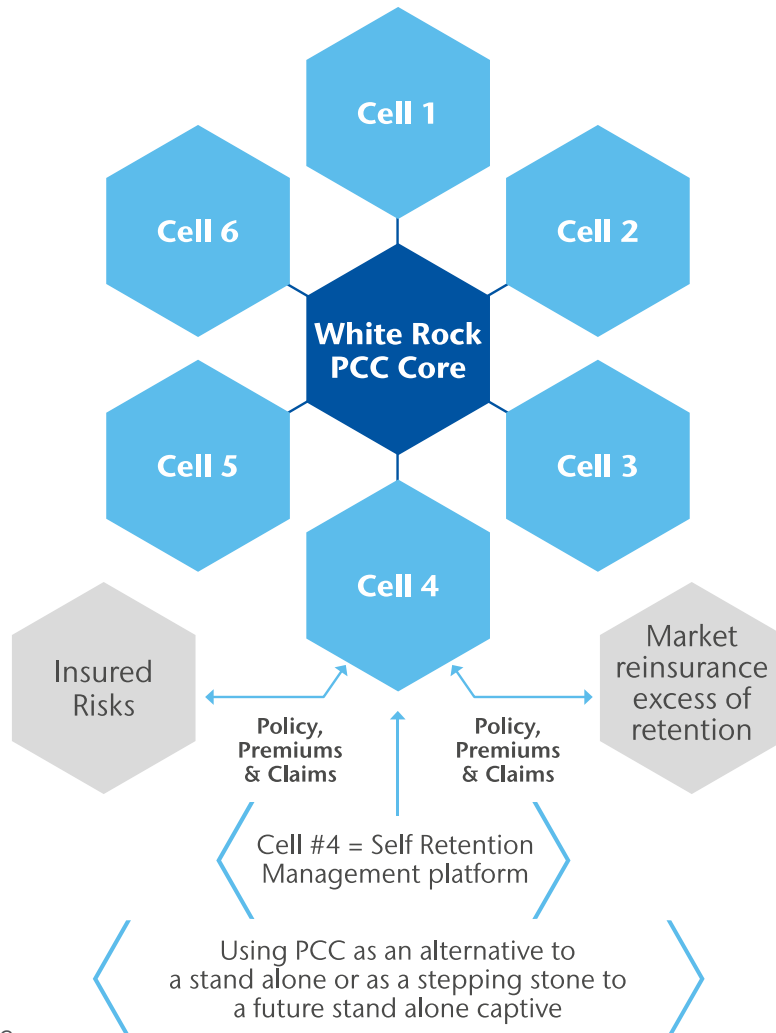
Descriptive

- ▶ Efficient fronting arrangements
- ▶ Fast movement of funds
- ▶ Saving on collateral requirements
- ▶ Contract certainty for terms and conditions
- ▶ Capital efficient
- ▶ Program design alignment

Solution
2

Retention

Statutory segregation between cells



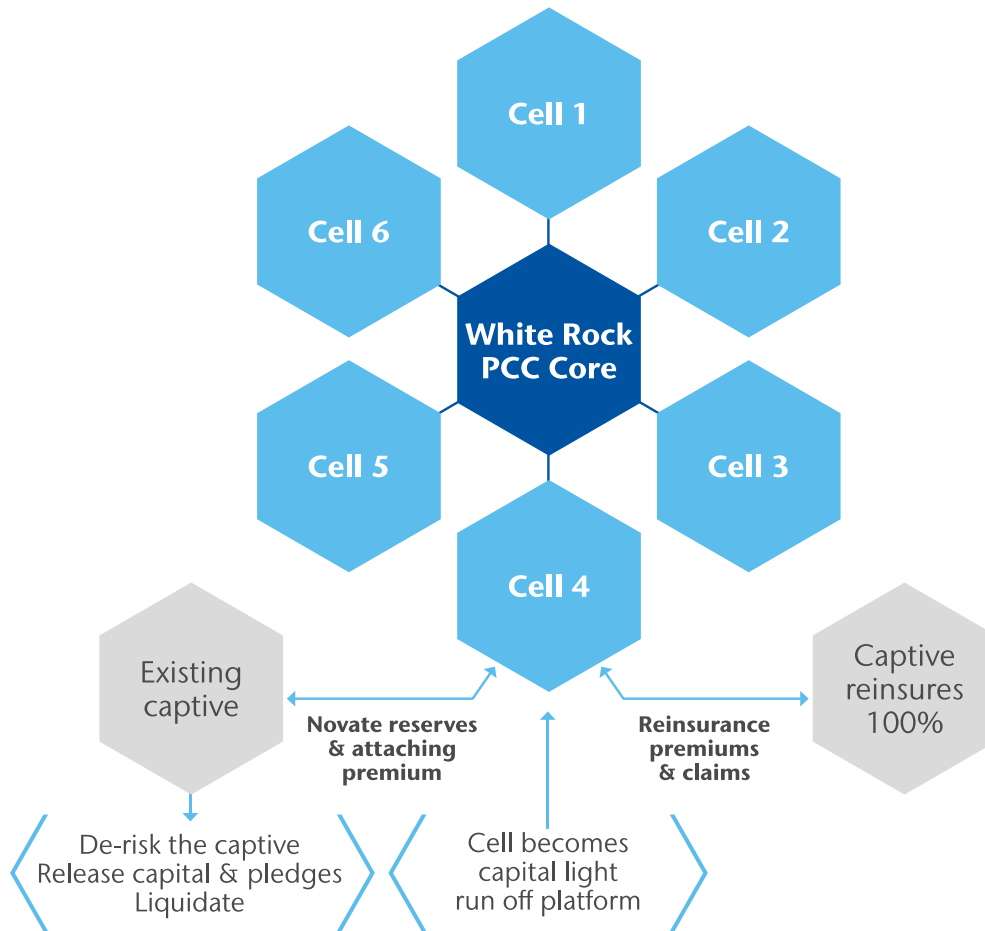
Descriptive

- ▶ Risk retention platform without capital nor management time required of captive subsidiaries
- ▶ Set up and closure faster than captive subsidiaries
- ▶ Ideal for those companies unsure about forming a captive subsidiary as a way to get first experience of self retention
- ▶ Incubate new risk until performance has been measured
- ▶ Those having an existing captive looking to avoid capital & complexity of SII.

Solution
3

Warehousing for efficient end of captive life

Statutory segregation between cells



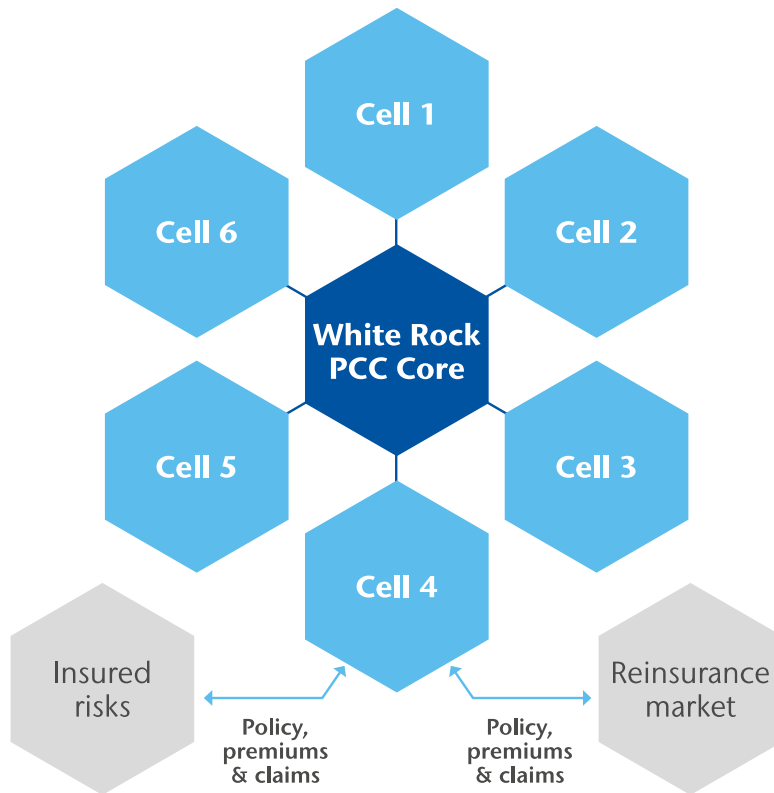
Descriptive

- ▶ De-risk captive subsidiary
- ▶ Facilities close down insurance subsidiary
- ▶ Free up capital
- ▶ Reduce management time
- ▶ Maintain contact with reserves running off professionally
- ▶ Release subsidiary pledges and guarantees

Solution
4

Access to reinsurance market

Statutory segregation between cells



Descriptive

- ▶ Access capacity in the reinsurance market
- ▶ Supports alignment of risk management program
- ▶ Provides additional (re)insurance capacity
- ▶ Allows for risk diversification
- ▶ Strengthens balance sheet support

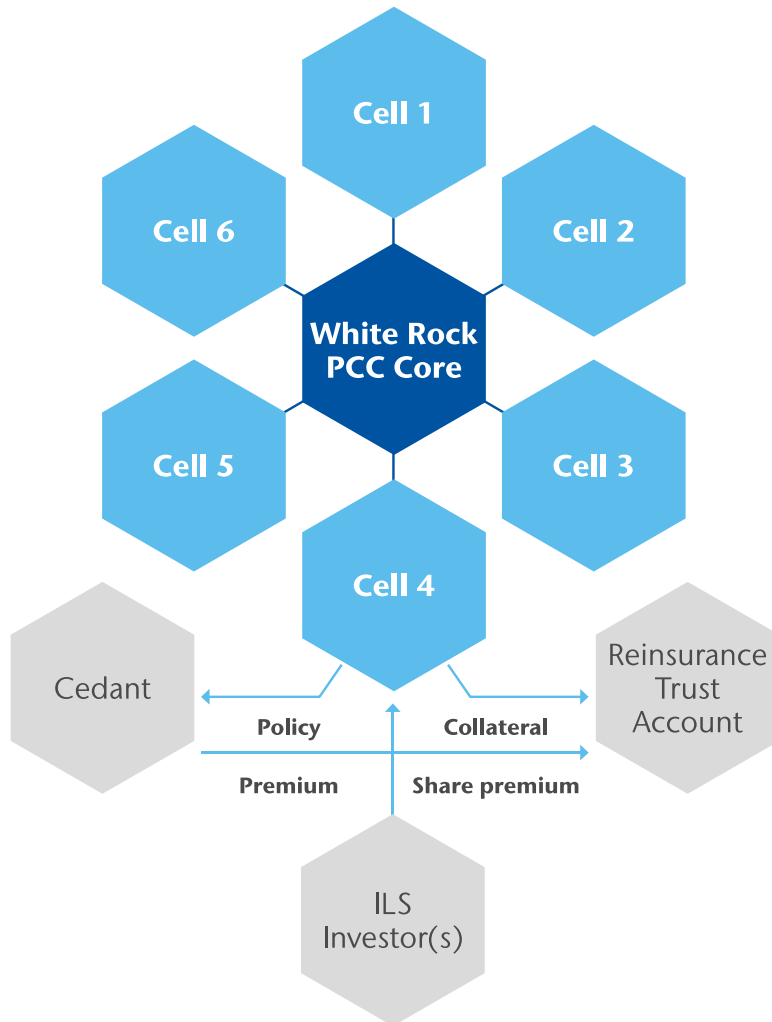
When compared to pure market fronts

- ▶ Segregation of risks
- ▶ Speed & flexibility
- ▶ Pricing
- ▶ Aon disciplined

Solution
5

Insurance-Linked Securities / Collateralised reinsurance

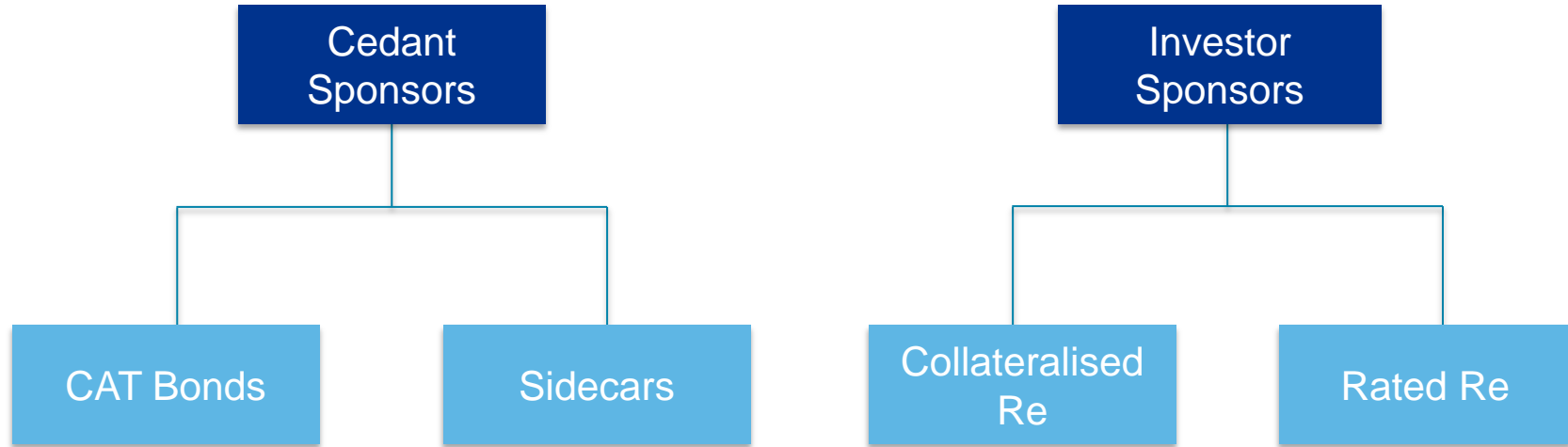
Statutory segregation between cells



Descriptive

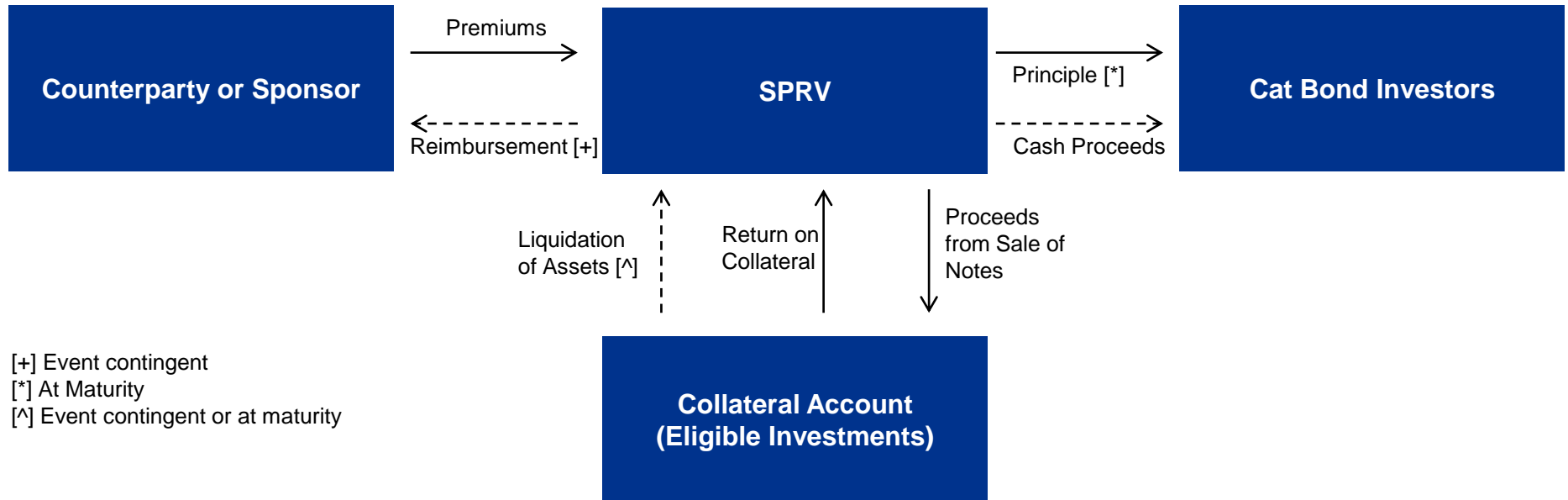
- ▶ Provides capital market investors with flexible and innovative transformer facilities to directly access the reinsurance market
- ▶ Offers efficient turn-key solution to investors looking for ease and speed of set up and flexible ownership options, with minimal operational costs
- ▶ Extensive experience with establishing new protected and incorporated segregated account cells, as well as stand-alone vehicles, and provides all management services and oversight to the vehicles

ILS Products



- ▶ Insurance-linked securities (“ILS”) - financial instruments which are sold to investors whose value is affected by an insured loss event

Catastrophe Bond Structure



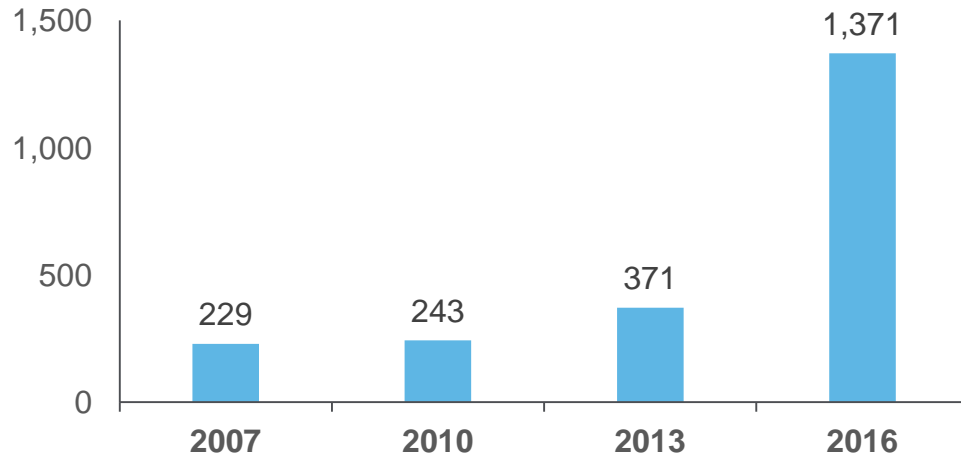
Key Roles

- ▶ **Sponsors** (Cedants; eg insurers, reinsurers, governments, cat-exposed corporations)
- ▶ **Arrangers** (Brokers; eg investment banks)
- ▶ **Investors** (Reinsurers; eg dedicated ILS funds, institutional investors—hedge funds, money managers, pensions)

Asia Potential

Growth of PCC market

Global Growth of Cell Structures



Source: Business Insurance

2017 Captive Statistics

Domicile	No. of Companies	No. of Cells
Bermuda	Undisclosed	
Cayman	147	605
Guernsey	79	516
Delaware	41	670
Tennessee	29	379
Vermont	28	70
North Carolina	23	364

Source: Captive Review 2017 Cell Company Guide

**Bermuda does not disclose details

Fulfilling the Potential of Protected Cell Companies in Asia

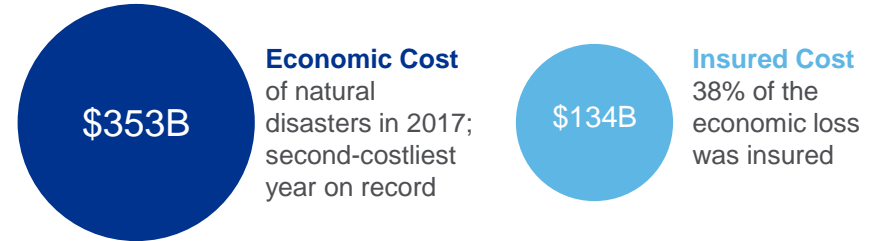
Where has been the growth?

- ▶ Smaller captives using 831(b) tax election in the US
- ▶ Insurance Linked Securities ('ILS')

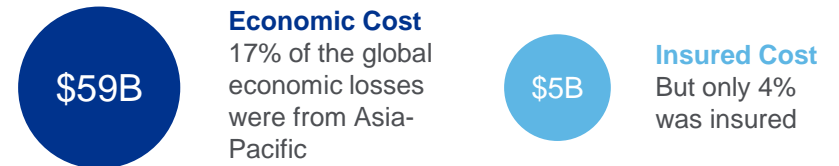
Challenges?

- ▶ Maturity of market
- ▶ Awareness
- ▶ Soft market
- ▶ Cost differentiation against traditional captive subsidiaries
- ▶ Local expertise and knowledge

Protection Gap Globally



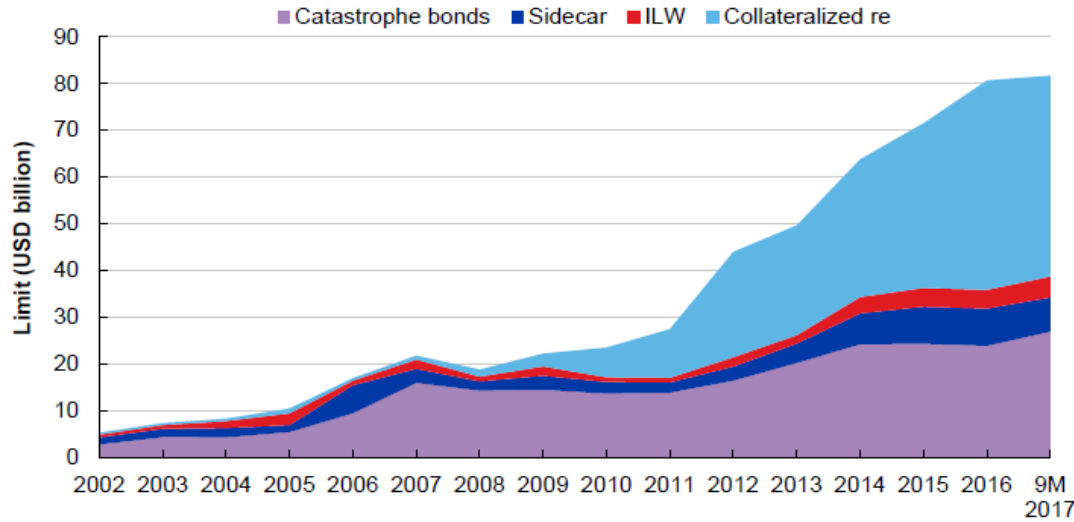
Protection Gap in Asia



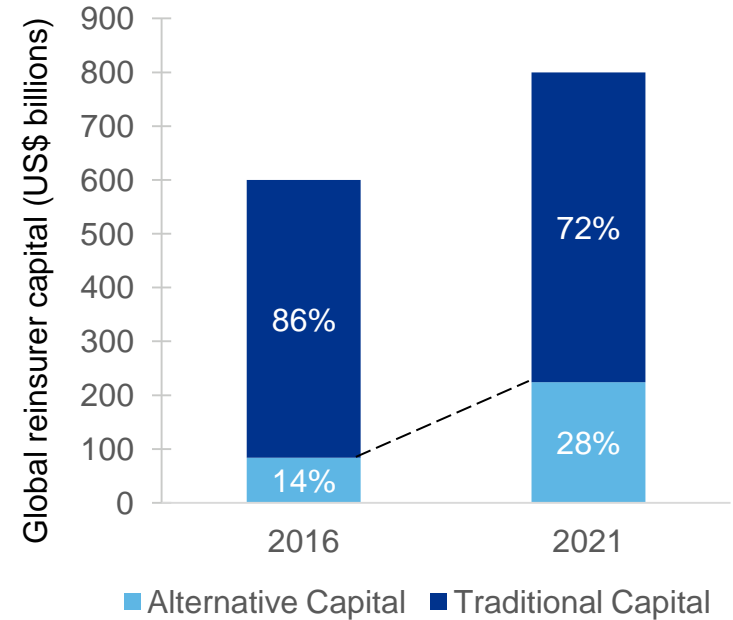
Source: UNESCAP, Impact Forecasting

Alternative Capital Inflows to Reinsurance Market

Total alternative capital had increased to USD89 billion prior to the impact of the 2017 hurricanes, up from less than USD10 billion in 2005.



Source: Aon Securities Inc.



Projected development of (re)insurance capital structure by 2021 (conservative scenario) – Source: EY analysis, Aon Benfield Analytics data



Labuan Protected Cell Company (PCC)

Incorporated as a Labuan company or converted from an existing Labuan company.

A limited liability company with a legal entity that can form “cells”

- Cells of a Labuan PCC may comprise:

- a core for holding non-cell assets or general assets
- any number of cells with the intention of segregating and protecting the assets of each respective cell

A PCC shall only conduct:

- Labuan captive insurance business
- Labuan captive takaful business
- Business as a mutual fund
- Business as an Islamic mutual fund



Labuan Overview

- There are a total of four PCCs in Labuan, originated mainly from Malaysia with total premiums of USD13.8 million (as at December 2017)
- There are 18 cells (with owners mainly from the Asian region such as China, Indonesia, Singapore and Malaysia) formed under these four PCCs

**Labuan IBFC is the only jurisdiction in Asia that offers
PCC**

THANK YOU

ALASTAIR NICOLL
REGIONAL DIRECTOR,
AON INSURANCE MANAGERS (SINGAPORE)
PTE LTD
ALASTAIR.NICOLL@AON.COM

GEORGE ONG
GENERAL MANAGER,
AON INSURANCE MANAGERS (SINGAPORE) PTE
LTD
GEORGE.ONG@AON.COM



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