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CELL IT TO ME: PCCS THE VEHICLE OF CHOICE FOR SECURITISATIONS

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Becky Butcher of Captive Insurance Times speaks with Stuart McLaughlin (SM) of Aon about why protected cells continue to be the vehicle of choice for securitisations and how flexibility has been a key factor in their success.

It was the 20th anniversary of the protected cell company this year. Has the structure changed much in that time?

(SM): There has been little change to the legislation over the last 20 years, which is testament to Steve Butterworth, director of insurance at the Guernsey Financial Services Commission from 1988 to 2003, who was widely credited for developing Guernsey's protected cell company (PCC) concept, as well as Nick Van Leuven, who wrote the legislation.

Since it was first enacted, Guernsey's legislation has been used as the benchmark for the PCC concept by more than 40 jurisdictions globally. In my opinion, other jurisdictions have used the Guernsey legislation as a blueprint and have made only minor changes, most notably to the terminology, in an attempt to differentiate their offering.

While it is called a segregated accounts company in Bermuda or a segregated portfolio company in Cayman, the legislation, in my view, is based on the original Guernsey PCC.

Guernsey has also introduced the incorporated cell company (ICC), taking the PCC concept one step further by having cells that are individual legal entities in their own right.

What does an ICC offer over a PCC?

(SM): We have seen increasing use of ICCs, especially for longevity transactions where pension funds are accessing the reinsurance market through their own captive facility.

This is a more appealing structure for the pension trustee who is seeking assurance on robust ring fencing, given the size and duration of these transactions. The transactions are in the billions and the estimated duration can be as much as 40 years.

Who is using PCCs in Guernsey?

(SM): The rent-a-captive concept was around before PCCs were invented, where clients separated their business activities by contract. Rent-a-captives were most often used by small and medium-sized enterprises (SMEs), which could not devote the management time or didn't find it cost effective enough to establish their own captive insurance company.

PCCs were essentially established to strengthen the rent-a-captive arrangement and bring it on to the statute books.

This is still the case today with the modern PCC, but the insurance industry has continued to find new and innovative uses for PCCs. The insurance-linked security or collateralised reinsurance industry continues to grow, for example.

It is difficult to generalise about the use of PCCs. There are many cells that are sizable enough to be standalone captives but, for various reasons, the PCC is the preferred vehicle. Protected cells also continue to be the vehicle of choice for securitisations. Ultimately, their flexibility of use has been a key factor in their success.

With four new PCCs created in Guernsey last year, do you expect to see continued growth in the sector?

(SM): Yes, but it's not exponential. The traditional captive market is flat, according to the statistics. Some 90 percent of the Fortune 500, for example, already have a captive. One would expect that the remaining 10 percent have decided against it. There is always scope for growth and perhaps with emerging risks such as cyber we will see increasing demand and the captive industry will continue to innovate.

So far this year we have seen one insurance-linked securities manager coming to market, which is fantastic news for White Rock PCC and Aon as a whole. This is a unique business, so new managers are rare. With the continued convergence of insurance and capital markets we are hoping that we can place insurance risk on the agenda for a wider group of investors.

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