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Skin in the Game

The use of Risk Retention Vehicles to participate in the underwriting profit of your MGA

4 February 2019

Agenda

We have structured the presentation to ensure we meet the learning objectives

	Learning objectives	Speaker
1 What is a risk retention vehicle?	• Introducing the concept of Risk Retention vehicles and their use	Laura
2 Is it right for you?	• What factors a firm should consider when selecting between different types of vehicle and jurisdictions	Laura
3 Vehicle types & operation	• The establishment and maintenance requirements of the different vehicle types	Richard
4 Advisor roles	• The roles of the establishment advisor and Insurance Manager	Richard

What is a risk retention vehicle?

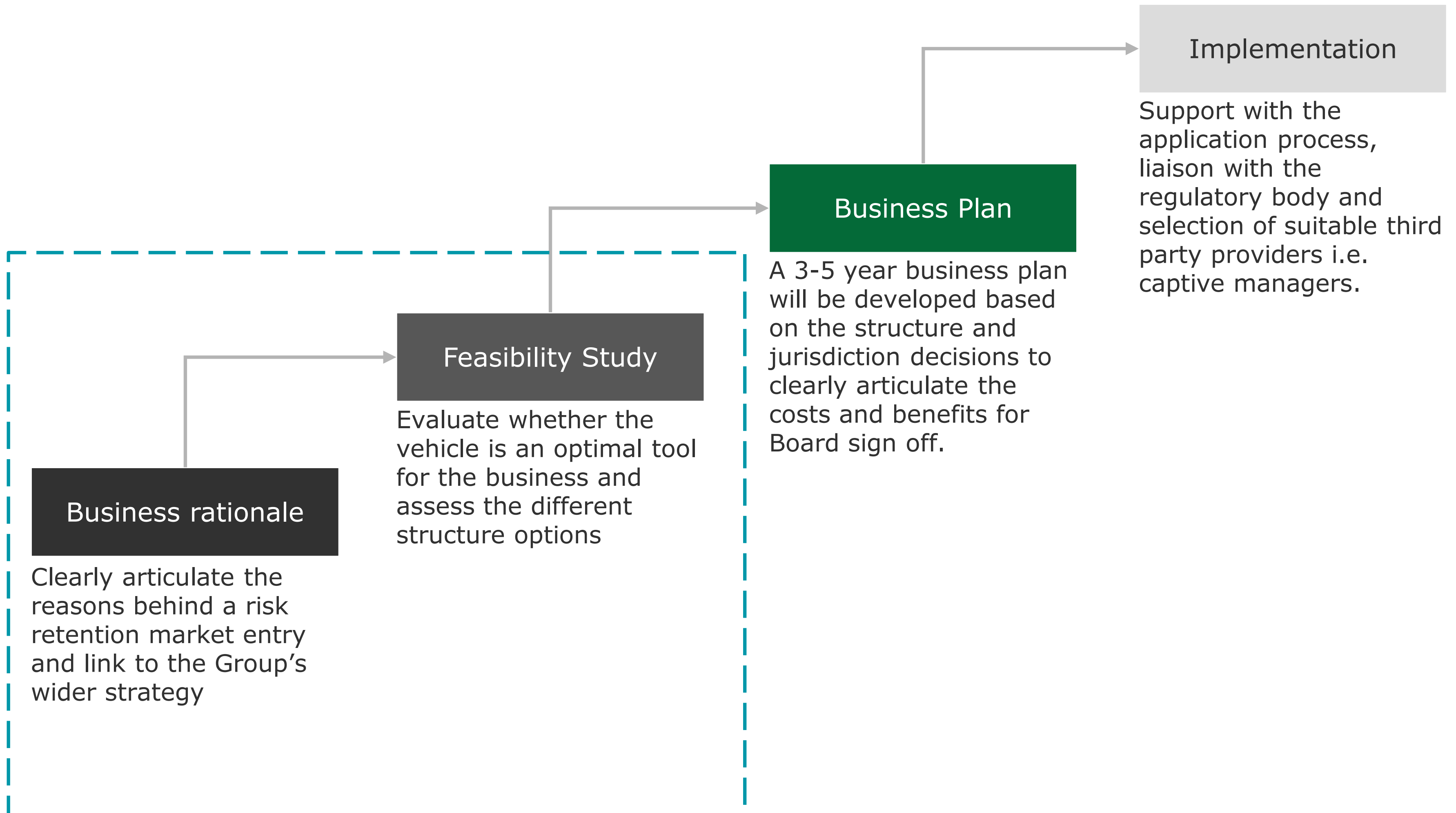
Risk retention vehicle: a special purpose insurance or reinsurance company established primarily to share in risks written by the MGA which can also enhance control, stability and enable access to a share of the underwriting profitability of their business

Is a vehicle suitable for you?

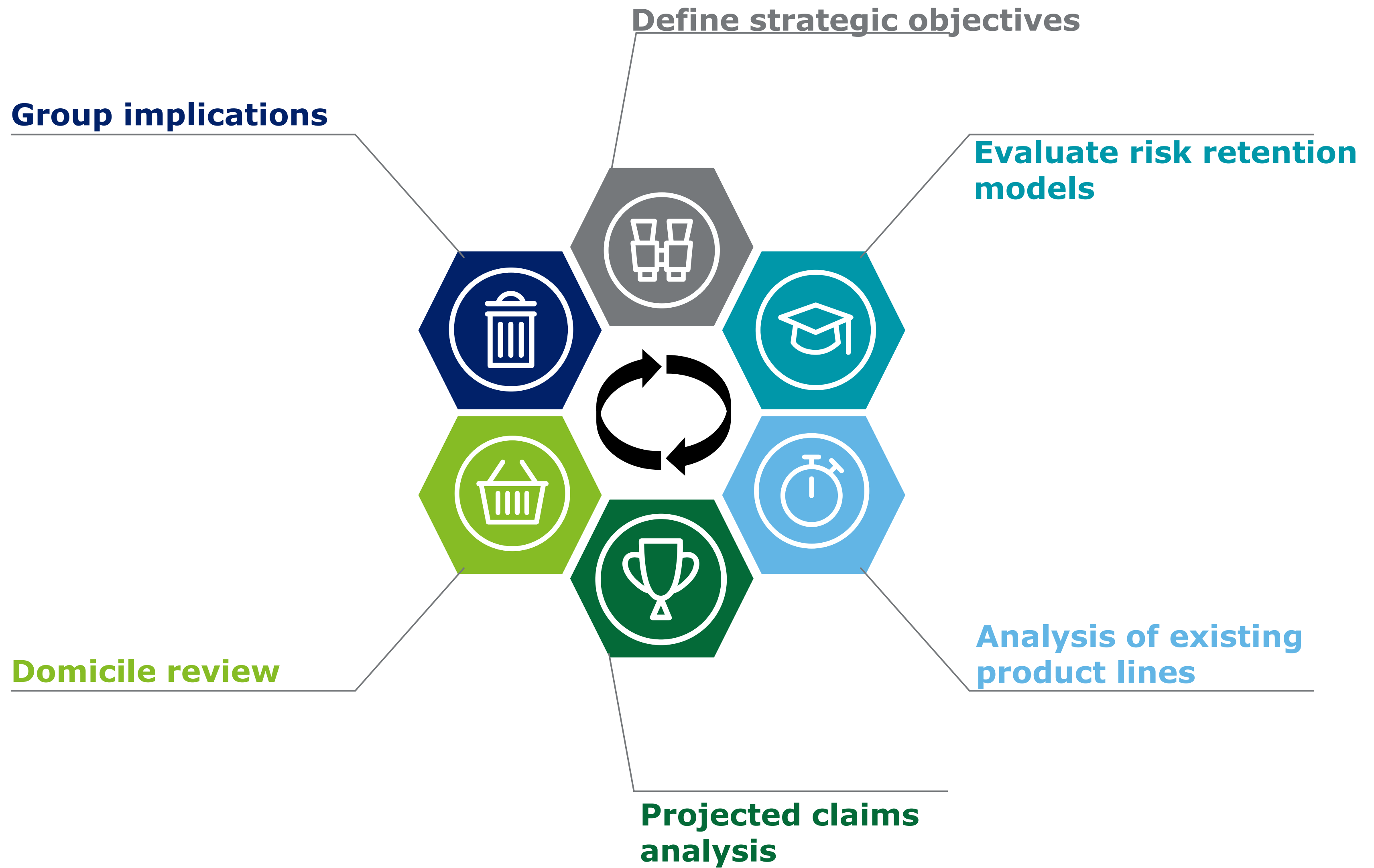
Based on our experience, MGAs meeting the following criteria should consider the use of a vehicle:

- A clear risk appetite
- A historical track record of underwriting performance
- High retention rates
- Shorter tail business
- Diversified lines of business
- Sufficient scale
- Access to a strong balance sheet

Key steps in the Evaluation process



The Feasibility Study



Funding Considerations

Balance sheet strength

Modelling the downside

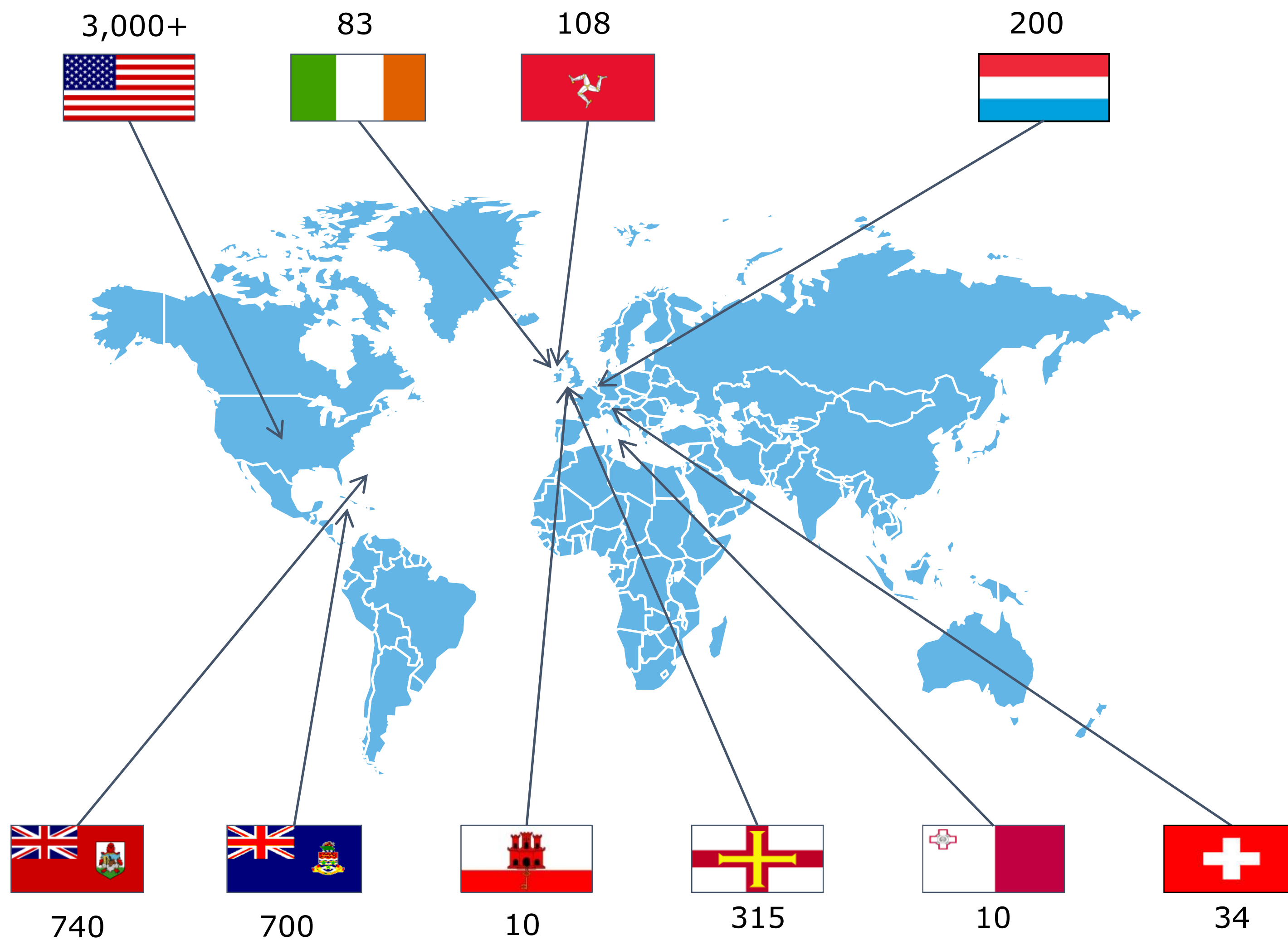
Getting cash out

Sustainable Plan to access capital

Jurisdiction reviews

Key global captive jurisdictions

Number of captives
2017



Source: Strategic Risk Solutions

Jurisdiction assessment criteria.

To select the optimal location you need to review a number of factors, these will vary by business

1 Tax

- Local tax rate and risk
- Taxation of parent company - UK DPT
- Withholding tax (WHT)/Controlled Foreign Company (CFC)
- Premium and transactional taxes

2 Capital and solvency requirements

- Capital requirements
- Regulatory solvency margin
- Admissible assets
- Ability to extract capital

3 Regulatory environment

- Approach and reputation of regulator
- Experience of type of firm/class of business
- Substance requirements
- Authorisation process – speed and cost

4 Market status and reputation

- Size and maturity of the insurance market
- Reputation
- Existing presence
- Accessibility from Head Office location

5 Labour pool and service providers

- Availability of leading insurance managers
- Availability of appropriate skilled labour
- Supporting insurance infrastructure

6 Costs

- Speed and cost of implementation
- Set up costs
- Ongoing cost to operate the structure
- Local accounting standards

Reinsurance Solutions for MGAs

Helping You Enhance Profit Potential

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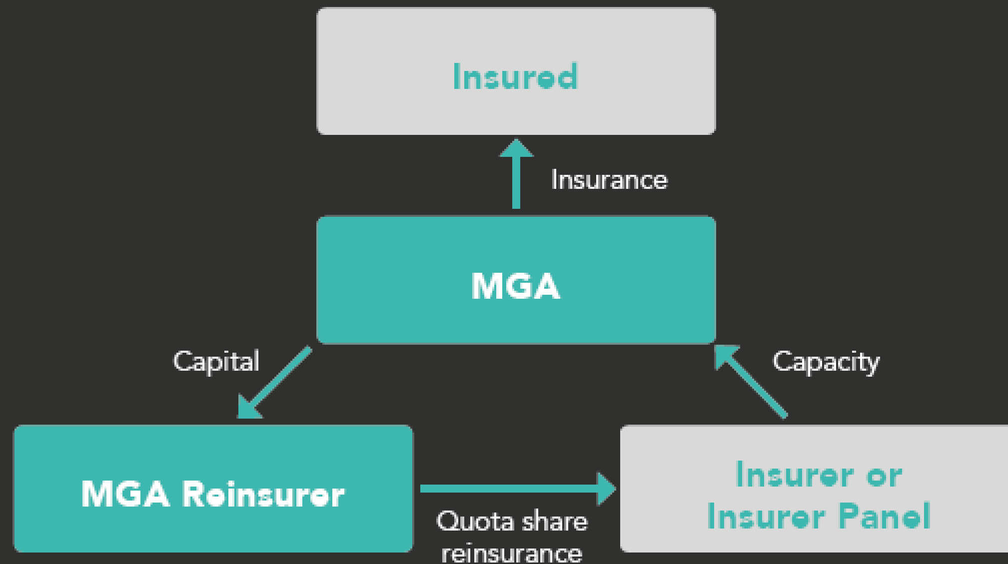
Simple Participation

The most common ways for MGAs to participate is providing reinsurance capacity to their existing or new 3rd party insurer panel.

This is achieved by establishing a reinsurance vehicle which typically agrees a quota-share reinsurance treaty with the capacity provider. Via this mechanism, the capacity provider(s) agree to cede a fixed proportion of the premium to the reinsurance vehicle, which in turn agrees to fund the same proportion in claims.



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Company

Standalone Reinsurance Company

A private limited company, which is a straightforward and familiar concept, established and licensed in the appropriate domicile, to match the business you introduce.

Protected Cell Company (PCC)

For MGAs wishing to segregate portfolios of business or provide a reinsurance facility to different third parties, a PCC is one legal entity divided into the 'Core' and an unlimited number of 'Cells'.

Incorporated Cell Company (ICC)

An ICC is similar to a PCC but comprises incorporated and licensed Cells which are separate legal entities. This allows individual Cells to contract with one another.

Cells

Cell in an existing third-party Protected Cell Company (PCC)

A new Cell within an existing 3rd party PCC provides reinsurance capacity in a low cost, capital-efficient way. The Core of the PCC will already have an insurance licence and meet the statutory minimum capital requirement.

Cell in an existing third-party Incorporated Cell Company (ICC)

A new Cell in an existing ICC offers a similar solution to a standalone company, providing greater flexibility with related counterparties albeit at a greater cost than a PCC.

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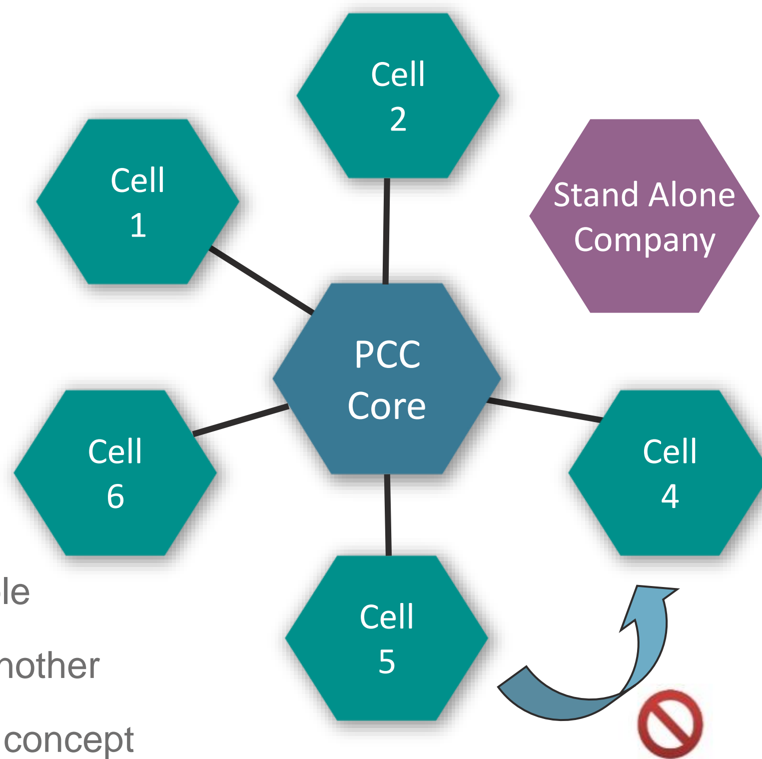
Features of a PCC



- One legal entity divided into the core and individual cells which can be unlimited
- Legal Segregation of Cells – each with a specific cell reference
- 2 classes of share – Core (normally voting) and Cellular (normally non voting)
- Flexible allocation of Capital across the PCC as a whole
- Cells within the same PCC cannot transact with one another
- World-wide acceptance of legislation – an established concept
- Cell Provides similar benefits as wholly owned captive but more cost efficient
- Guernsey legislation allows:
  - a PCC as a whole or an individual cell within a PCC to convert to a standalone non-cellular company
  - a PCC to convert to an ICC

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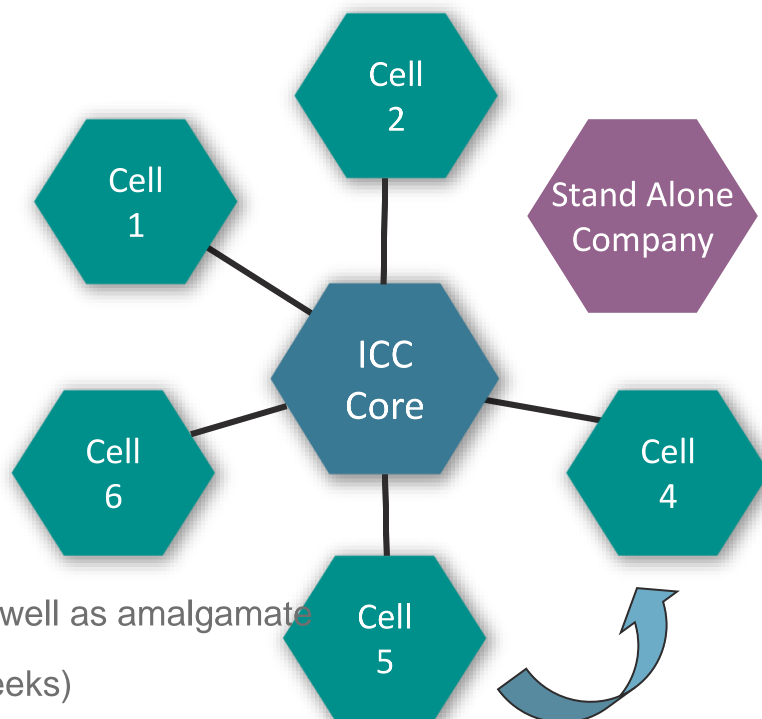
Features of an ICC



- An ICC is made up of the ICC itself and an unlimited number of incorporated cells (IC)
- Each IC is a legal entity in its own right with it's own board of directors (albeit the board composition must be the same as the ICC*)
- As the ICs are separate legal entities they are able to contract with each other
- ICCs provide greater flexibility to convert and migrate as well as amalgamate
- Relatively quick set up time for a new cell (around 4-6 weeks)
- As separate legal entities ICCs could be viewed as having stronger segregation than PCCs
- Treated more like a traditional captive when determining capital and solvency requirements
- Guernsey legislation allows:
  - An IC to convert to a standalone non-cellular company
  - ICs to be subsumed into their ICC and subsequently converted to a non-cellular company
  - An IC to transfer from one ICC to another

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* *There is currently a legal consultation which includes a proposal to allow each IC to have different Board Members*

Key Differences between PCCs and ICCs

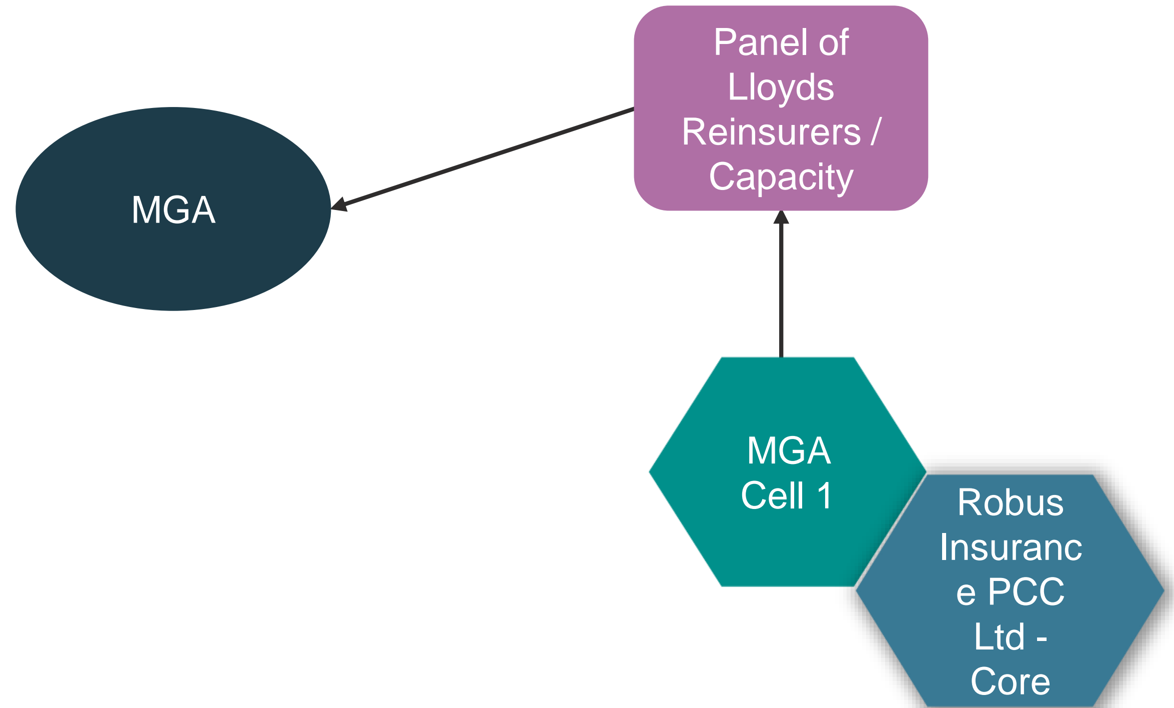
PCC

- A single legal entity with one board and one set of financial accounts
- Cell owners are issued with cellular shares which are redeemable non-voting shares
- Being one legal entity cells cannot contract with one another or the core
- Cells can have recourse to the assets of the core (or another cell) through specific recourse agreements. This can provide capital efficiencies for the PCC as a whole.
- New cells require only a board resolution and consent from the Guernsey Financial Services Commission ('GFSC')
- Protected cells can be closed quickly as they do not require formal liquidation. It does requires all insurance liabilities to be extinguished and GFSC approval.
- There is an option to apply for a derogation from the GFSC for non-disclosure of paragraphs 4.4 to 4.9 of FRS 103 under s35(6) of the Insurance Law. This would require financial statements to be on a 'properly prepared basis' rather than on a 'true and fair' basis.

ICC

- The ICC and each Incorporated Cell ('IC') are separate legal entities, each with their own board, share capital, M&As, financial accounts and Corporate Governance requirements. This creates additional administration and therefore ICCs have slightly higher running costs.
- IC owners are issued with ordinary shares which have full voting rights
- As separate legal entities ICs can contract with each other
- ICs cannot enter into recourse agreements and therefore have to be capitalised in their own right
- A special resolution of the shareholders of the ICC is required to set-up a new IC along with consent from the GFSC and registration with the Guernsey Registry
- ICs need to be formally liquidated to close down
- Guernsey has migration and amalgamation legislation whereby ICs could become registered in other jurisdictions or amalgamate with other entities in Guernsey or abroad

Basic Structure of Operation



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MGA Structure Options

1. **New Cell (PCC/ICC) Company**
   Establish a new Cell Company for own business
2. **3rd Party Fronted Reinsurance via Cell**
   Provide Cell reinsurance to an existing licenced 3rd party (re)insurer
3. **New Solvency 2 Cell**
   Establish a Cell within existing Malta or Gibraltar PCC
4. **New ‘Non-admitted’ (Cell) Insurer**
   Establish a Cell Insurer to write non-admitted business from Guernsey
5. **Quota Share Reinsurance Provision**
   QS Reinsurance via ICC on a collateralised basis
6. **Captive Insurance Company in Guernsey**
   Captive insurer for single class or client specific with £400K+ Premium

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How We Help Our Clients

Robus can manage the entire process, from Cell or company set-up and licensing through to ongoing management. Our teams in Guernsey, Gibraltar and Malta have considerable experience in the formation and management of insurance companies, Cells or other suitable vehicles.

For those considering bearing insurance risk for the first time, we recommend a feasibility study to ascertain whether this would be strategically and financially beneficial and to provide analysis of the different structures and domiciles available. For certain portfolios, establishing an insurance or reinsurance vehicle is simply not viable – we will be honest in our assessments, outlining your options along with the various costs and benefits in an unbiased way.

Robus Solutions

+ Access insurance capacity through Robus Group managed European Insurers.

+ Consider establishing your own insurance vehicle either in Guernsey or in the Solvency II jurisdictions of Malta (European access) or Gibraltar (UK Access).

+ We can help with options around establishing a captive insurer for your larger corporate clients, where you can continue to provide insurance capacity with greater control.

+ The Robus Group has both a PCC and an ICC from which we can host your Cell.

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Learning Objectives

Today we have covered:

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Contact us

If you would like further information on anything you have heard today please feel free to contact us

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GUERNSEY I GIBRALTAR I MALTA

Laura Scarpa
Director
Insurance Regulation and Strategy
lscarpa@deloitte.co.uk
Tel: +44 20 7007 9919
Mob: +44 7824 498584

Will Wilson
Senior Manager
Insurance Regulation and Strategy
wjwilson@deloitte.co.uk
Tel: +44 20 7007 7088
Mob: +44 7500 225 320

Richard Le Tocq
Chief Executive Officer
E: richard.letocq@robusgroup.com
T: 01481 742551
M: 07781 167177

Jamie Polson
General Manager
E: jamie.polson@robusgroup.com
T: 01481 742556
M: 07781 136543

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