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**Portfolio Insurance Companies -
the latest developments for SPC's**

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Education Session**

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To Cover:

- **Background**
- **Legislative provisions**
- **Features of a portfolio insurance company (PIC)**
- **Likely uses for a PIC**

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Background:

- PIC developed to address certain perceived weaknesses with SPC's
- Cell is not a separate legal entity
- intra-cell contracting not possible
- uncertain tax status of unincorporated cells

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- no corporate governance structure at the cell level
- enter the PIC!



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Legislative Provisions:

- **Insurance (Amendment) Law passed on 25 March 2013 and brought into force on 16 January 2015**
- **Insurance (Portfolio Insurance Companies) Regulations, 2015 approved by Cabinet on 16 January 2015**
- **Insurance specific – part of the Insurance Law**

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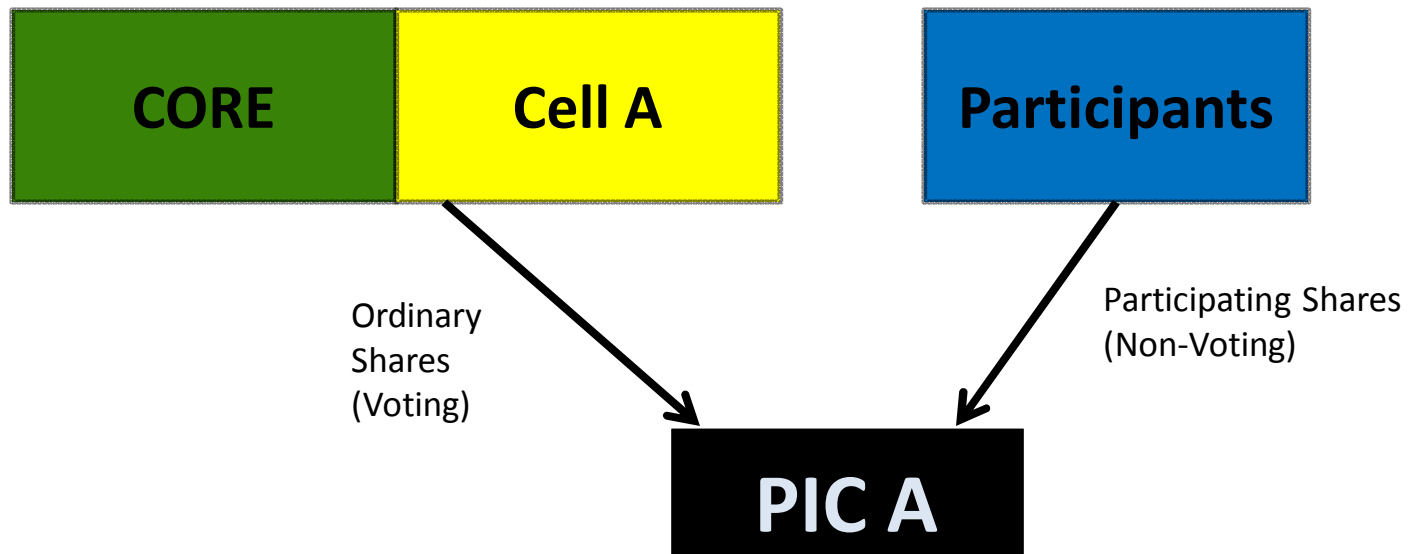
Features of a Portfolio Insurance Company (PIC):

- An SPC can incorporate one or more of its cells by establishing a PIC
- PIC is an exempted company beneath a cell and, generally, “replaces” the cell. The cell itself is not incorporated but owns and controls the PIC.



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SPC with single cell and single PIC



Features of a Portfolio Insurance Company (PIC) cont'd:

- PIC does not require insurance licence but registers with CIMA and is regulated
- Straightforward registration process:
 - Schedule 1 form 1 in the Regulations
 - Business Plan



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- **Written consent of controlling relevant insurer (i.e. the SPC on behalf of the relevant cell)**
- **Usual approval process for PIC directors (unless already CIMA approved)**



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- **Non-refundable application fee (CI\$1,000) (NB: annual fee = CI\$250)**
- **Application approved by Insurance Division or Management Committee?**
- **Certificate of Registration issued**

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- **Must meet MCR and PCR – basically, MCR and PCR is the same as if the PIC were a stand-alone licensee with related business test determined by reference to the PIC rather than to the SPC or any of its cells (Schedule 2 Form 2 in the Regulations)**



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- **However, CIMA has discretion to modify (increase or decrease) MCR and PCR in any given circumstances (Regulation 6(4))**
- **Minimum margin of solvency = PCR**
- **PCR can be replaced by own internal capital model**
- **Annual capital determination as per Schedule 2 Form 3 in the Regulations**

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- **Continuing obligations are similar to a licensee and include –**
 - **Must always be controlled by the SPC on behalf of cell i.e. voting shares**
 - **“Portfolio Insurance Company”, “PIC” or “P.I.C.” in its name**
 - **Must operate within parameters of business plan**

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- Risk management rule
- Annual declaration and audited financial statements



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- No more than one PIC per cell
- Separate PIC board with minimum of two directors – need not be the same people as SPC board
- Non-voting shares permissible
- Captive manager and registered office must be the same as for the SPC

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- **SPC, all its cells and all its PICs must have same financial year end**
- **No issue or transfer of any voting shares without CIMA approval and no issue or transfer of more than 10% of non-voting shares without CIMA approval**
- **Express power for PIC to contract with core, any cell and any other PIC**

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- **Broadly, CIMA has same regulatory and enforcement powers as for a licensee**
- **PIC can be established by a brand new cell or an existing cell**
- **For an existing cell, unless opting out, there is a process for automatic novation of existing program to PIC:**



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- **declaration of two directors of the SPC**
- **creditor consents**



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Likely uses for a PIC:

- Achieve risk pooling – not possible between cells of an SPC
- Where certainty of IRS treatment is particularly important
- Where not all cells wish to make a 953(d)/831(b) election – flexibility
- Where counterparties may not understand a cell structure

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- Where representation at “cell level” is needed
- Where cell may wish to transition to a stand-alone captive or merge
- Where there is unease about the untested nature of an SPC

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QUESTIONS?

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