

## Protected Cell Companies

### The concept and basic structure

The first PCC legislation was enacted in Guernsey in 1997 with the sole intention of providing a secure vehicle for umbrella investment funds (an investment fund with a variety of sub-fund options). Before the creation of PCCs umbrella investment funds would normally provide for separate classes of shares within their articles. That action, however, simply created divisions designed for separate accounting for each sub-fund: it did not create legally distinct sub-funds. This meant that if a particular sub-fund was insolvent, the creditors could pursue a claim against the assets held in other sub-funds, which placed umbrella funds in a disadvantageous position compared to umbrella unit trusts. They had the advantage of the ability to create a separate trust for each 'sub-trust' which provided a legal firewall from the other sub-trusts in the event of a sub-trust insolvency. The purpose of a PCC was to provide a similar structure for umbrella investment funds. Effectively, each cell has a separate legal identity. The assets of each cell are not liable for the debts of any other cell. In practice, there is also a core cell, designed to hold the identity of the parent but usually very little in the way of assets.

### Other uses for PCCs

Once the vehicle's status became recognised as effective for this purpose it began to attract interest from other similarly segmented service enterprises. These days PCCs are used for a growing list of enterprises not limited to the insurance and funds sectors. ILS is an innovator in the use of PCCs in the wider financial world, including banking. More traditionally, PCCs are used for:

- Life assurance. Useful for separating the assets of different areas of the business e.g. life, pensions.
- Hybrid insurers use PCCs to separate life and non-life assets.
- Insurers and reinsurers are able to segregate the requirements of different clients.

- Conglomerates are able to separate the insurance exposure of the parent by geographical location, type of risk, corporate division or other criteria.
- Reinsurers use PCCs to separate agreements and securitisation contracts.
- Captive insurers favour the use of PCCs to separate groups of assets.
- Rent-a-captive enterprises use PCCs to offer capital financing to companies which are too small to economically establish their own captive insurer.
- Hedge fund managers establish PCCs to separate classes of funds, an essential safeguard in high risk areas such as fund of funds.
- Multi-national companies are able to operate their captive insurance, treasury and other functions offshore in a single entity using the same core capital.

### PCC Jurisdictions

As the uses for PCCs multiplied, several jurisdictions followed Guernsey in enacting PCC legislation – Cayman Islands, Bermuda, Jersey, Mauritius, Gibraltar, St Vincent & The Grenadines and the Isle of Man. Some of these jurisdictions have clearly defined the purposes for which a PCC may be used: others have added clauses to their legislation which allow PCCs to be used for 'carrying on finance business'. That fairly loose definition is the key to providing future opportunities for creative enterprises to use PCCs for hitherto unexplored purposes.

### What ILS can provide

- Guidance on new uses for PCCs
- Structuring and establishment of the Protected Cell Company
- Establishment of bank accounts
- Preparation of contracts
- Administration
- Accounting
- Officers of the company, subject to restrictions

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