



**ISLE OF MAN**  
**FINANCIAL SERVICES AUTHORITY**

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**Consultation Response**  
**Minimum Capital Requirements for Non Long-**  
**term Business PCCs and ICCs**

**CR20-05/T04**

**Issue Date: 30 June 2020**

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## Glossary

<b>Authorised insurer</b>	An insurer authorised under section 8 of the Insurance Act 2008 to carry on insurance business
<b>Authority</b>	Isle of Man Financial Services Authority
<b>Cell</b>	Cellular part of a PCC
<b>Core</b>	Non-cellular part of a PCC
<b>IC</b>	Incorporated Cell of an ICC
<b>ICC</b>	Incorporated Cell Company
<b>IAIS</b>	International Association of Insurance Supervisors
<b>ICPs</b>	Insurance Core Principles (of the IAIS)
<b>MCR</b>	Minimum Capital Requirement
<b>PCC</b>	Protected Cell Company
<b>QIS</b>	Quantitative Impact Study
<b>SCR</b>	Solvency Capital Requirement

## 1. Background

This Feedback Statement is issued by the Isle of Man Financial Services Authority following Consultation Paper CP20-01/T04<sup>1</sup>.

As part of the development of the capital framework for non long-term business, consideration has been given to developing an approach for PCC and ICC business.

Late in 2019, an initial approach for the valuation and solvency framework for PCC's was consulted on in CP19-04/T04 Insurance (Non Long-Term Valuation and Solvency) Regulations 2020. The results of that consultation have been considered and the proposed approach for the minimum capital requirement revised. The proposed changes were summarised in the consultation paper CP20-01/T04.

The purpose of the consultation was to obtain stakeholders' views on the Authority's revised proposals and to move nearer to implementation of an enhanced regulatory framework for insurance business.

## 2. Summary of Responses

We received one response which found the proposed approach to overall be reasonable, although concerns were voiced that the MCR floors for cells may be seen to be high compared to other jurisdictions. The Authority has considered the matters raised and a summary of the responses to the consultation feedback can be found in the appendix.

## 3. Changes to the Proposals

Following the consultation the proposed minimum capital requirements for ICCs and PCCs are to be progressed on the basis as consulted upon.

## 4. Next Steps

The Authority will progress to make the Insurance (Non Long-Term Business Valuation and Solvency) Regulations 2020.

In case of any query, please contact the undersigned —

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<sup>1</sup> <https://consult.gov.im/financial-services-authority/minimum-capital-requirements-for-non-long-term-bus/>

## Appendix – Table of responses

General Feedback	Comment received	Our response
1	Cells are usually smaller, lower cost captive vehicles than single parent (standalone) captives and annual costs tend to be much lower.	Thank you for your comment.
2	The operating expenses of a PCC are incurred by the Core and not individual cells. Therefore there is justification for not holding any capital for future expenses in individual cells.	<p>Noted. However, cell management agreements can exist which enable a PCC's operating expenses to be recharged as expenses attributable to a cell.</p> <p>The MCR floor at cell level is the minimum amount of capital the Authority is comfortable with an insurer holding in order to carry out its insurance business. This is £500k for classes 3 to 9 and zero for class 12.</p> <p>The zero amount is consistent with existing cell requirements and it has been accepted by the Authority to continue with this approach due to the lower risk associated with that class, the requirements applicable in comparable jurisdictions and because capital adequacy requirements under the corporate governance code apply at all times at a cellular level.</p>
	In other domiciles such as Bermuda, Cayman and Guernsey, MCRs apply to the core only with solvency capital being held by the cells.	<p>Ordinarily cell capital is not available to meet core obligations and expenses so it is appropriate for the core to have its own MCR/SCR to ensure it can meet its costs.</p> <p>The Authority considers £100k to be an appropriate MCR floor for a non-trading core.</p>

3	The GFSC do not impose MCR on cells. The requirement is held by the Core.	Thank you for your comment.
4	The consultation refers to fraud, reputational and mis-management risk - these are primarily concerns for directors and the PCC as a whole, not individual cells.	<p>Risk and risk management is a matter for a PCC as a whole and its segregated parts. The core and each cell of a PCC have separately attributable capital, assets and liabilities (subject to secondary liability, where applicable). Risk management is very much a concern for the PCC as a whole and every part of a PCC (its core and each of its individual cells) given the scope for each of those parts to have different risk profiles and different risk management needs.</p> <p>The consultation said that: “Where a core is not authorised to carry on a class of insurance business, the Authority’s view is that it is appropriate for the core to hold sufficient capital to meet its expense risk as well as reputational, fraud and mis-management risk. The minimum MCR floor proposed is £100k.” Which is consistent with our comments above.</p> <p>Expense and reputational risk, in this context, refer to the directors of a PCC failing to maintain adequate resources in respect of the core. This is relevant to the core having a MCR floor.</p> <p>It should also be noted that, under PCC legislation, the likes of fraud and mis-management of risk can lead to liabilities intended for a cell falling against the core. (Notably, in relation to mis-management, a failure to inform a creditor that it is dealing with a particular cell of a PCC can lead to directors incurring liability which can be indemnified by the core – and</p>

		therefore fall against the core.) This is also potentially relevant to the core having a MCR floor.
5	With regard to non-Class 12, if a PCC has both Class 3-9 and 12 licenses how will the MCRs apply to the Core? Will the MCR be sum of both the Class 12 and non-Class 12 amounts? If a Core is “not authorised to carry on insurance business” does the £100,000 MCR apply irrespective of whether the PCC has Class 12 and non-Class 12 cells?	<p>The core of a PCC that is an insurer, must be authorised in respect of insurance business.</p> <p>A PCC core carrying on insurance business in respect of the PCC’s non cellular part must be authorised for the corresponding class(es) of business. The core’s MCR floor shall be the MCR floor applicable to the class(es) it is specifically authorised for (so £100k for class 12 and £500k for classes 3 to 9).</p> <p>A non-trading PCC core (with class 12 cells, class 3 to 9 cells or any combination thereof) is subject to an MCR floor of £100k.</p> <p>This will be further clarified in the draft Insurance Regulations 2020 anticipated to be issued for consultation in August.</p>