

## LIME STREET INSURANCE PCC

On a murky afternoon in October top insurance executives in London gathered to herald the launch of Lime Street Insurance Protected Cell Company Limited - the Willis-owned and newest protected cell company ("PCC") entrant in Malta.

This investment demonstrates Willis's ongoing commitment to supporting its client base by offering a comprehensive range of risk transfer and financing solutions. This commitment has been rewarded as the London presentation and simultaneous worldwide webcast has generated substantial volumes of enquiries about Lime Street PCC in its first month of operation.

### FINANCIAL ADVANTAGES

Amid recent financial instability a key issue with captive structures in the short term has been the opportunity cost of capital invested and current willingness of insurers to assume risk on their balance sheets at falling rates.

Cells in Lime Street PCC enable clients to self-insure EU risks directly without the level of capital commitment needed for a wholly owned subsidiary captive. It can be used either as a stand-alone captive vehicle or in place of commercial fronting for EU risks to enable consolidation with other global risks in a Group captive. The PCC offers clients flexible collateral options and up to 40% reductions on start up and operating costs.

A key application exists for North American corporations with EU based risks who may be seeking lower fronting costs and reduced collateral requirements as well as looking to mitigate increasing compliance requirements relating to non-admitted policies.

Whilst insurance market fronting costs may cost between 5% - 10% of the overall insurance program a PCC structure can reduce these costs for typical one-off €20k start up costs plus €60k annual costs. In addition the cell user benefits from the many business advantages of captive ownership.

An objective of Lime Street PCC is to facilitate access to captive benefits for mid-sized corporate clients with a premium spend in the region of €1m upward. In particular Lime Street PCC is an attractive option for businesses with a sound and long term commitment to risk management. It can also assist clients with problematic risks or fluctuating insurance costs, or local carrier counter party risk issues. A PCC cell can also provide an excellent platform for businesses to take a risk position in relation to their own affinity business and customer insurance products.

### PCC STRUCTURE

A PCC operates in two parts, with a core and an unlimited number of cells. Creditors of a PCC cell only have access to the cellular assets of that particular cell. Cell owners are expected to collateralise any net underwriting risk within their cell.

Lime Street PCC will not accept direct placement of statutory insurances at this time but other than this all other classes of insurance and reinsurance can be considered. Alternative structures are available for the direct writing of third party and statutory classes of insurance.

For further information on Lime Street PCC please contact Malcolm Cutts-Watson on +44 (0) 1481 735 268 or email malcolm.cutts-watson@willis.com or Michelle Gwynn on +44 (0) 20 3124 6938 or email michelle.gwynn@willis.com.

## UK CFC TAXATION CHANGES

The 2009 Finance Act in the UK introduced a dividend exemption that will affect overseas captives that are controlled foreign companies to UK based parents. The impact of this change will need to be addressed before the end of 2010.

### CFC CHANGES - DIVIDEND EXEMPTION

CFCs are effectively taxed on their overseas profits in the UK.

Previously CFC owners had the option of deferring 90% of the tax charge in relation to the CFC by up to 18 months and avoiding 10% of the tax charge entirely if it followed an Acceptable Distribution Policy (ADP) and distributed at least 90% of its profits as a dividend to its shareholders within 18 months of the financial year end.

The 2009 Finance Act introduced an exemption from tax for dividends paid to UK companies. With the introduction of the dividend exemption, there is no mechanism to defer or avoid any part of a CFC's tax by way of an ADP.

There are transitional provisions that allow for ADPs paid after 1 July 2009 in respect of profits earned before 1 July 2009 to be taxable in the UK and thus the benefits mentioned above still apply to those profits only. These dividends need to be distributed before 31 December 2010.

### IMPLICATIONS FOR CAPTIVE OWNERS

Captives will no longer be obliged to pay across up to 90% of its profits annually by way of ADP to satisfy Group tax strategy. This could allow captives to build up reserves on the balance sheet to support an increased insurance programme in the future. This benefit is offset by the loss of the tax advantages of following an ADP

## WHAT TO DO NOW

This should serve as a reminder to UK based Groups and their overseas subsidiaries to ensure that all ADP's payable on profits up to 30 June 2009 are distributed within 18 months of the end of the financial period following that date thus maximising the advantages referred to above.

For more information please contact Eddie Ballard on + 44 (0)1481 735 631 or via email at ballarde@willis.com.

## OFFSHORE CORPORATE TAX REVIEW

In response to changing international standards in tax policy Guernsey, Jersey and the Isle of Man introduced a Zero-10 Corporate Tax Regime in 2008/2009. Recent global economic developments and feedback from the EU Code of Conduct Group have brought forward the timetable for a review of the Zero-10 regime.

### COMMENT ON THE GUERNSEY REVIEW

The Chief Minister has committed to public record the five key principles which are underpinning the Government's review process. These are, that any new corporate tax regime for Guernsey:

- Must be "internationally acceptable"
- Must be "competitive"
- Must "promote a sustainable economy in Guernsey"
- Must be based on a simple, solid rationale (and not over-complicated)
- Must give rise to other benefits such as double taxation agreements

Consultation has taken place with industry representatives and tax professionals and various working parties (including the Guernsey International Insurance Association) have been set up.

A period of public consultation concluded on 27 August 2010 with a feedback document due to be published before the year end.

Identified within the consultation document are five 'technical approaches that could be used as a foundation of a revised regime'. These are:

- Territorial System
- Corporate Transparency
- Repayable Tax Credits
- Flat rate
- Abolition of Corporate Tax

A similar review process is taking place in the other Crown Dependencies.

The EU has recently completed a review of the Zero-10 regime in Jersey and the Isle of Man and a report is due to be issued before the end of this year. It is unlikely that any further comment will be made by any of the Crown Dependencies until after this report has been made public.

### RELEVANCE

At the present time all captive insurance companies located in the Crown Dependencies are zero rated for taxation purposes.

### OUR VIEW

It remains our expectation at this time that captives will continue to pay tax at a zero rate. Any new regime, if required, is unlikely to take effect until 2013 at the earliest.

### ACTIONS

At this stage we suggest keeping a watching brief. Willis will be briefing our clients and their Boards as the review progresses.

For further information on the offshore corporate tax review please contact Karlene Wright (Guernsey) on + 44 (0) 1481 735604 or via email at karlene.wright@willis.com or Avril Mcelwaine (Isle of Man) on +44 (0) 1624 696103 or via email avril.mcelwaine@willis.com.

## CLAIMS AUDITS – AN OPPORTUNITY NOT TO BE MISSED

There are few more tangible benefits of good insurance provision than the timely and efficient settlement of claims. But, from a captive's perspective, making certain that the claims process is being managed as effectively as possible and that claims reserves and payments are properly assessed is an important, yet often overlooked, task.

For a captive owner, a failure to address these issues can be a costly oversight. Improving the accuracy of claims reserving can result in a wide range of potential benefits from more accurate premium assessment to an improvement in the accuracy of reserving and profit recognition to better loss analysis and improved risk management focus. Equally importantly, demonstrating a clear understanding of appropriate claims processing and reserving standards will go a long way towards helping a captive board to meet the requirements and expectations of good corporate governance.

In our opinion, commissioning a periodical claims audit is an essential exercise for all captives reliant upon third party claims handlers, whether stand-alone or as part of a fronting arrangement. It will help to identify potential inefficiencies in existing policies, systems and procedures and will set out a series of solutions designed to address them. It may help to facilitate faster resolution and settlement and potentially also contribute to the lowering of ultimate claims incurred.

A typical claims audit will begin by examining the claims handler's current claims processes, including a detailed review of the Claims Manual or other written procedures. It will then explore the extent to which those procedures are being implemented as part of day-to-day activity. An audit will also typically examine the current levels of reserve and will provide an assessment of accuracy with, where applicable, recommendations for adjustment. The audit will also take in a file review of any major claims. The aim of the entire process is to identify opportunities to help improve efficacy of process, control costs, verify compliance and accuracy of reporting, and create efficiencies wherever possible.

In times when every captive owner is looking to drive the best value from capital investment, now may be the ideal time to look more closely at whether your claims and reserving service providers are delivering value to you.

If you feel that your captive would benefit from a Claims Audit, Willis is here to help. Simply contact David Lewis on +44 (0) 1481 735 632 or via email [david.lewis@willis.com](mailto:david.lewis@willis.com).

## THE RISING COST OF PROVIDING EMPLOYEE BENEFIT PLANS, WHAT CAN BE DONE BY THINKING OUTSIDE THE BOX?

Recently a new focus on International Employee Benefits ("IEB") has developed driven by the twin objectives of improved efficiency and the strategic imperative to

retain key staff and be able to deploy them easily and quickly anywhere in the work. CFOs are looking to improve the financial structures in support of human resources managers charged with designing and delivery the EB package that will deliver these objectives. Companies want to see cost reduction, cash-flow enhancements, improved budgeting and efficient use of capital as well as improvements in the EB packages themselves.

In many cases risk managers are bringing their general insurance expertise to bear in the review process. Their familiarity with the diagnostic tools to measure the total cost of risk, corporate risk financing structures, and international programme delivery mechanisms are valuable in bringing new ideas to the field, including the use of captive structures and other forms of self-insurance.

In a considerable number of cases IEB plans for Multinational businesses participate in International Pooling arrangements. Those that do not should give this some consideration. Willis has long experience in assisting in this. Such structures deliver better EB programmes at lower cost, and give multinationals far greater control over what most corporations regard as their most valuable assets – their people.

International Pools enable information flow country by country, facilitating accurate underwriting and can facilitate profit sharing by which business units can participate in profitable underwriting performance. At the same time it consolidates risks globally to enable efficient financing of retentions and the advantages of bulk buying in the market for excess protections. How can we take this further?

### A CAPTIVE SOLUTION

International Pools can be reinsured into an existing or new captive. The captive underwriting participation in an International Employee Benefit programme can offer further benefits to the Corporation:

- Improved cash-flow
- Better / cheaper reinsurance
- Lower cost of the employee benefit plan
- Fiscal advantages
- Management, control and governance improvements
- Better data, analysis and understanding

What do we mean when we say International Employee Benefits ("IEB")? The main employee plans that are considered captive friendly come under the following general headings;

- Medical
- Death in Service
- Life & pensions (using a life assurance captive)
- Personal Accident / Travel
- Disability
- Loss of licence

Willis International Captive Practice working with our International Employee Benefits broker team has experience in working with clients to achieve goals and objectives set to move from pooling/non pooling to captive risk participation.

For more information about EB in captives contact Nigel Goodlad on +44 (0)203 124 6441 or email [nigel.goodlad@willis.com](mailto:nigel.goodlad@willis.com) or Kathleen Waslov on +1 617 3517577 or email [kathleen.waslov@willis.com](mailto:kathleen.waslov@willis.com).

## WILLIS ONLINE

Willis Online (WOL) is a communication platform which has been developed in partnership with Microsoft to deliver to our clients and carriers a personalised website which allows for secure and efficient communication and the delivery of information from around the world directly to your PC.

Effective communication is vital for the smooth running of a global business. Willis Online can aid this process by providing Willis clients, their Willis team service members and other selected parties with a customized and secure website for collaboration and information sharing.

Based around Microsoft technology, the system integrates very well with Microsoft Office and allows data to be transferred easily between the website and your email/company network.



With the emphasis on simplicity, every client of Willis Online has their own site built around a common set of tools (e.g. A client library, a calendar, a shared documents area, a list of actions, policy summaries, and other relevant links), and we can give you access to all services or just those applicable to you.

It is our view that WOL will, (for the majority of our clients) significantly enhance

the value of the services we currently provide as well as creating some efficiencies in the way our clients communicate with us.

A project is currently underway within the Willis International Captive Practice with the aim of delivering WOL to those clients who we perceive will benefit from using this platform. If you are interested in WOL and would like to find out more, please contact your account management team who will be able to answer your questions.

## UPCOMING EVENTS

November 30 2010: Airmic Annual Dinner, London

February 21-22 2011: Captive Live UK, London, Pageant Media

February 23-24 2011: Willis Swedish Captive Seminar, Stockholm

March 23 2011: Willis Captive Seminar 2011, London

June 6-8 2011: Airmic Annual Conference, Bournemouth

## CONTACTS FOR FURTHER DETAILS

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We **communicate** with you to **understand** your business, providing the **expertise** and **creativity** to develop and **deliver** excellent captive **solutions**, and we do so with **passion**.