EFFICIENT AND LOW COST CAPTIVE – MANGROVE PROTECTED CELL COMPANY

Mangrove Insurance Solutions PCC Limited (Mangrove) is a Marsh owned and managed protected cell company resident and licensed in the Isle of Man. It offers cell owners similar benefits to a group or single-parent captive from a cost effective perspective.

A Mangrove cell may offer a number of benefits over other loss funding options, including:

- Access to a greater number of potential insurers via reinsurance market and generate more competition, better pricing and capture commissions.
- Ability to provide proof of insurance in UK (non-admitted) and avoid fronting fees and collateral costs on non-compulsory insurance classes.
- Ability to accumulate assets and capital in a regulated entity to fund higher deductibles and uninsured risks.
- Reduce cashflow volatility and improve ability to meet future unexpected claims as they occur.
- Reduced accounting (profit and/or loss) volatility on long-tail risks through provision of incurred but not reported (IBNR) reserves.
- Optimisation of risk transfer and risk retention while managing the group risk appetite.
- Providing cover for uninsurable or “difficult to place” risks.
- Reduced start-up and ongoing costs compared to a traditional captive. Annual operating costs start from £26,000pa.
- Low capital requirement compared to a traditional owned captive subsidiary.
- Minimal time commitment compared to a traditional captive.
- Ability to self insure contractual obligations and provide evidence of insurance.
- Possible tax efficiency from changes in UK Controlled Foreign Companies legislation.

As of 1 January 2013, changes to UK Controlled Foreign Company (CFC) regulations came into effect. The changes increase the de minimis profit threshold from £50,000 to £500,000 and provide greater relief for foreign subsidiaries of UK companies by exempting the UK CFC charge on profits earned on non-UK risks. The new rules include various gateway provisions to capture and tax profits that would have otherwise been taxed in the UK.

The below table illustrates the comparison between Mangrove cell with other loss funding options.

	CONVENTIONAL INSURANCE	NO INSURANCE NO CAPTIVE	SELF INSURANCE TRUST	MANGROVE PROTECTED CELL	TRADITIONAL CAPTIVE	TRADITIONAL CAPTIVE
DOMICILE			Guernsey	Isle of Man	Isle of Man (non-EU)	Malta (EU)
DESCRIPTION	Risk is transferred to commerical market for a premium	Claims paid out of operating cashflows/ budget as they arise. No formal loss funding.	A trust fund established to reimburse losses as defined in a trust deed. Contributions in lieu of premiums are paid to the trust fund.	A licensed and regulated insurance vehicle in the Isle of Man. Assets and liabilities of the protected cell are segregated and ring fenced from other protected cells and the core.	A licensed and regulated insurance company in an offshore domicile.	A licensed and regulated insurance company in an EU domicile.
	£	£	£	£	£	£
PREMIUM PAID TO CAPTIVE	500,000	0	500,000	500,000	500,000	500,000
CAPTIVE CAPITAL REQUIRED	**0**	**0**	**0**	**50,000**	**100,000**	**2,000,000/ 3,000,000**
COSTS:						
COMMERICAL MARKET PREMIUM	(500,000)					
TAX DEDUCTION ON PREMIUM @ 23%	121,900	0	0	121,900	121,900	121,900
INSURANCE PREMIUM TAX	(30,000)	0	0	(30,000)	(30,000)	(30,000)
LOSSES	125,000	(125,000)	(125,000)	(125,000)	(125,000)	(125,000)
TAX DEDUCTION ON LOSSES @ 23%	(28,750)	28,750	28,750	0	0	0
OPERATING COSTS		0	(45,000)	(26,000)	(70,000)	(70,000)
CORPORATION TAX CHARGE		0	0	0	0	(15,250)
TOTAL NET COST	**(311,850)**	**(96,250)**	**(141,250)**	**(59,100)**	**(103,100)**	**(118,350)**

As captive profits are below £500,000 there is no UK Controlled Foreign Corporation tax charge on UK parent.

MANGROVE CELL FEASIBILITY STUDY

Companies that are considering a Mangrove cell should engage Marsh Captive Advisory to perform a Mangrove cell feasibility study. The feasibility study establishes whether there are financial, strategic, and/or tactical benefit(s) in establishing a Mangrove protected cell.

The feasibility study will include the following:

- Calculate the insured's ability and appetite to retain risk.
- Review current insurance programme and model loss experience.
- Identify appropriate risks to insure in a Mangrove cell.
- Calculate the corporation and insurance premium tax consequences of owning a Mangrove cell.
- Determine whether there is a net financial benefit or cost of owning and operating a Mangrove cell.

For more information on Mangrove cell, please contact your local client executive or:

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CASE STUDY

OUR CLIENT

Our client is a UK manufacturer. The client was concerned that deteriorating loss experience would impact future renewals. Having learned about changes to the UK Controlled Foreign Corporation tax law that came into effect 1 January 2013, the client wanted to explore captive options to grow reserves to accommodate possible future increases in deductibles and currently uninsured risks (such as environmental and contractual liabilities). The client's total commercial premium spend was £1.2m, with various market deductibles.

THE SOLUTION

The client engaged Marsh to perform a Mangrove Protected Cell Feasibility Study to assess the financial, strategic and operational benefits of establishing a captive cell in Marsh's Mangrove Protected Cell Company in the Isle of Man.

THE RESULTS

Marsh provided the client with a report and presentation outlining the following financial, strategic and operational benefits of a Mangrove Protected Cell:

- Insuring the current deductibles in a captive cell could save £297,000 over five years.
- Accumulated cell funds were expected to reach £1.9m over five years.
- The Cell could be used to insure contractual obligations that may otherwise have been insured in the commercial market, which was viewed as an unnecessary expense.

The client has decided to establish a Mangrove Protected Cell to insure the current programme, deductibles, subject to completion of tax and legal review.

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