Inside Protected Cell Captives

Captive insurance alternatives are attractive and viable solutions for many companies, large and small. Additionally, there are different types of captives – from single parent captives to association captives and rent-a-captives and protected cell captives (PCCs). Here we will discuss how protective cell captive insurance solutions work.

A PCC is a single legal entity divided into cells. The net income and loss, assets and liabilities, rights and obligations of each cell are kept separate from all other cells. Each cell issues its own separate cell shares, allowing shareholders to maintain sole ownership of an entire cell while owning a small partition of the PCC as a whole. A PCC is formed by a sponsoring entity, which manages the captive through a board of directors and provides minimum regulatory and operating capital.

Additionally, in most jurisdictions there aren't any restrictions as to the type of business that can be undertaken by a cell. A PCC may be ideal for an organization that is too small to create its own single captive or those that don't want to establish an association or group captive (where you join with others in the same industry, for example); companies that want to establish joint ventures and a strategic alliance; or those that want access to specialist reinsurance markets; among others. Potential uses and types of business for a protective cell captive include funding increased deductibles for a company's insurance policies, such as property, automobile, employers liability, and product liability; and writing niche insurance products where standard coverage is expensive or unavailable.

A protective cell captive is similar to a traditional captive in that both are licensed insurance or reinsurance companies and subject to all applicable insurance laws, rules, and regulations. Additionally both offer similar benefits, such as reducing overall insurance costs, enhancing risk management, providing flexibility in program design, and gaining greater control over one's insurance. There are differences, however. For example, the risks within each PCC cell will be legally segregated from other cells. The cost of a PCC cell to a shareholder is typically less than the administration costs associated with owning a captive. Furthermore, the interests of the owner/sponsor of the PCC don’t have to be in sync with all areas of those of the shareholders of each PCC cell. In addition, a PCC typically requires less of a time commitment from the shareholder than a traditional captive.

Caitlin Morgan specializes in setting up captive insurance solutions. We can go over the various options with you to discuss what would best suit your client.

Interested in learning more about protected cell captives or if you are a captive candidate?

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