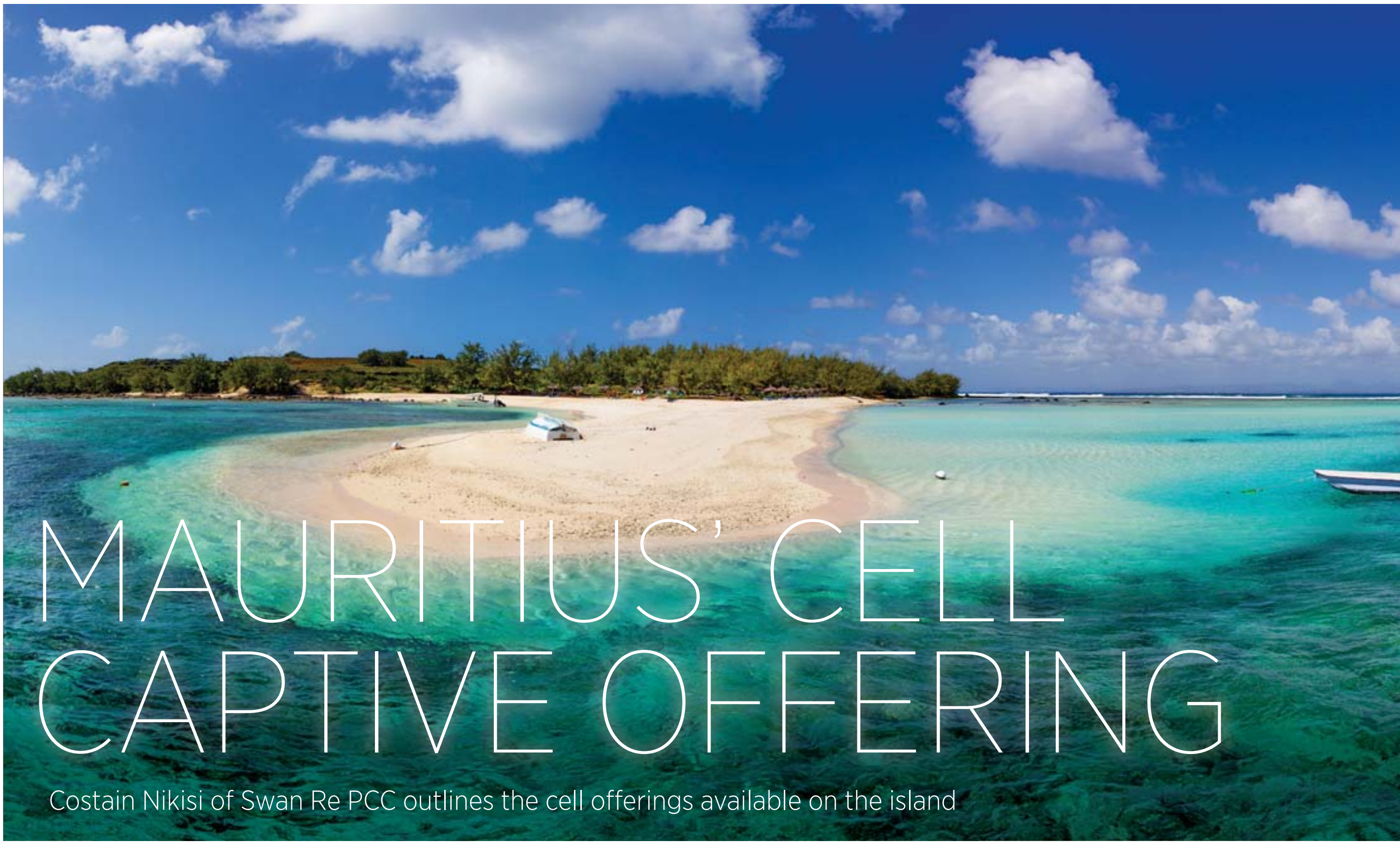

MAURITIUS' CELL CAPTIVE OFFERING

Costain Nikisi of Swan Re PCC outlines the cell offerings available on the island

Mauritius has been offering cell captive facilities since the turn of the millennium under the enabling legislation, the Protected Cell Companies Act 1999. The Act is almost as old as the cell captive concept itself, which began in 1997. This is testament to Mauritius' proactive and foresighted approach to developments in international finance. Thanks to the snowball effect, the jurisdiction is now an important domicile for providing captive solutions to clients primarily in the Indian Ocean islands and mainland Africa.

The PCC Act buttresses the universal principle in cell captives, namely the segregation of assets, liabilities, capital, revenue and expenses between cells. Over and above the protection of shareholder interests from the creditors of other cells that a typical subscription agreement provides, the PCC Act brings an added layer of comfort for investors.

The creation of a cell captive does not create a separate legal entity in respect of that cell, but the whole structure of the core and the cells is considered a single legal entity. As such, all cells transact under the name of the company, although the company is required to identify the particular cell for which a transaction is entered into.

Costain Nikisi

Costain Nikisi is a fellow of the Chartered Insurance Institute (FCII) and a certified actuarial analyst with the Institute & Faculty of Actuaries. As captive manager for Swan Reinsurance PCC, he is responsible for the company's operational strategy formulation and execution. He has over a decade of experience spanning insurance, reinsurance and captive management.

For a company to create a new cell, the protected cell company needs to submit an application before the regulator, the Financial Services Commission (FSC). The application should be accompanied by a business plan describing the salient aspects of the proposal, the shareholding structure, key stakeholders and financial projections. The application pack will also include an actuarial report. The report certifies, among other aspects, that the cell will transact a true insurance product and has an appropriate reinsurance programme. The actuarial report should also interrogate the suitability and adequacy of the pricing of the products and the overall reasonableness of the assumptions underpinning the financial projections. To ensure that the cell's activities are beyond reproach, the regulator requires a thorough KYC to be done.

Cell captives in Mauritius can be used to underwrite both life and non-life business. However, since different solvency regimes apply for each category, a client will need to put life and non-life business in separate cells. The solvency of each cell is assessed separately from the core cell and the other cells. Reference is had to the particular cell's own risk profile.

Under the Insurance (General Insurance Business Solvency) Rules 2007, a cell that underwrites non-life business will need to meet a capital requirement ratio of at least 150%. This is the ratio of net capital available (after taking out inadmissible assets) to the minimum capital required for the cell's risks. The risks that the solvency regime

seek to cover relate to policy liabilities (UPR and loss reserves), credit risk in respect of reinsurance ceded, catastrophe risk, liquidity risk inherent in the balance sheet assets and investment concentration risk.

No absolute minimum is prescribed for the cells, provided the core cell meets the prescribed absolute minimum of around $625,000 under the Insurance Act 2005. This means that a cell promoter who has an excellent risk profile, coupled with a profitable portfolio, can kickstart operations with a fairly low capital commitment.

On the other hand, the Insurance (Long-Term Insurance Business Solvency) Rules 2007 requires a life cell to hold a capital that reflects its stress test requirement as determined by its actuary as per the regulator's guidelines. A cell inherits the same licence as that of the company under which it is created, which can be an insurance or reinsurance licence for specified classes of first party and/or third-party business. In Mauritius, cells are used primarily for non-life business.

Covid-19

The onset of the pandemic in our catchment area, which happened in early 2020, brought a mixed bag of effects.

Cells that focus on health and motor insurances benefitted from very low claims activity. Somewhat counterintuitively, as people were kept indoors through lockdowns – a situation that can be considered physically and mentally unhealthy – there was much less claims activity on health insurance, too. It is understandable, though, that as people remained indoors, exposure to transmittable diseases as well as injuries from travel and at workplaces were kept very low, hence the good underwriting results for medical insurance cells. Motor insurance, rather obviously, registered excellent results as most cars were off the roads. Whether these patterns are going to be sustained remains to be seen.

As captive managers, we now have more work to do to counter pockets of inertia when dealing with prospects. The uncertainty from the pandemic created operating pressures for almost every business. Some prospects have had to postpone cell captive projects so as to prioritise issues that are required for buoyancy during these trying times.

Therefore some very promising files have had to be kept in abeyance, at least for now. It is not clear when these files would be resuscitated, as the pandemic continues to sink its fangs deeper in some of our focus markets.

There are some products that are spurred by the uncertainty abounding in a pandemic. Enquiries around credit insurance, for example, have increased lately. Lenders have good reason to anticipate worsening debtors ageing and some defaults because of the Covid-19 induced slowdown. We are also seeing increased enquiries, especially from brokers and underwriting portfolio managers, perhaps a sign of the difficulties and higher price they are faced with in securing cover.

Where a broker has confidence in their portfolios' underwriting outturn, exploring cell captive structures is a worthy consideration in the face of an ever-so-hardening market.

Why Mauritius

Mauritius offers several benefits in the contexts of cell captives, such as:

- A well-developed regulatory framework
- A modern international financial centre that is continuously exploring ways to keep pace with the leading jurisdictions
- Rich support services such as actuaries, lawyers, accountants and investment advisors
- A geographic location that is a few hours flight from the target markets with a convenient time zone (GMT+4)
- A wide network of Double Taxation Avoidance Agreements (DTAA) and Investment Promotion and Protection Agreements (IPPA)
- No capital gains and inheritance tax
- No withholding tax on distributions made to any country
- Free repatriation of profits and capital
- Constantly revamped systems for data protection
- Strong measures for anti-money laundering and combating the financing of terrorism activities (AML/CFT).

ABOUT SWAN REINSURANCE PCC

Swan Reinsurance PCC (Swan Re) is a specialist, wholly owned subsidiary of Swan General Ltd, the largest insurance group in Mauritius. Swan General Ltd has an A+ credit rating, on the back of a balance sheet of about $1.3bn.

Swan Re is a protected cell company holding a multiline reinsurance licence issued by the Financial Services Commission (FSC). It focuses on the provision of cell captive insurance solutions primarily for risks outside of Mauritius.

The company offers reinsurance capabilities through cell captives for clients who wish to ringfence and retain the underwriting results of their insurance portfolios, whether they are first-party or third-party risks.

The company boasts of an excellent track record in providing win-win cell captive solutions for African risks, thanks to its skills depth in the fields of insurance, reinsurance, actuarial work, law, risk management, accounting and finance, as well as durable relationships with key service providers.