

## The Insurance Broker PCC Model and its implications to the Insurance Brokerage Industry

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The Maltese insurance industry has recently witnessed the establishment of the first insurance broker protected cell company (PCC). This was a first both in the local and European market and presents developments and possibilities to the manner in which traditional insurance brokerage companies carry out their business. It also provides an easier entry into the insurance brokerage market to entities which did not have either the capacity or resource to do so.

### *What is a PCC?*

Briefly a PCC is a regular trading company which is constituted as what is known as a 'cell company' and has the capability to create one or more 'cells' within itself. The company and the cells are together considered a single legal person. Malta is currently the only full EU jurisdiction with PCC legislation which in turn is currently only applicable to licenced insurers, insurance managers and insurance brokers. The new broker PCC was a conversion of a previously regulated insurance broker company. This follows the establishment of eight other PCCs which include insurer PCCs and an insurance manager PCC.

The law recognises that each cell may have its own separate assets and liabilities. A distinction is made between the assets of the cells (cellular assets) and the assets of the company, referred to as the core (non-cellular assets). The main purpose of a cell is in fact to segregate and protect cellular assets.

It is within the responsibilities of the directors of a cell company to keep cellular assets separate and identifiable from non-cellular assets and from cellular assets attributable to other cells. Generally it is the PCC board of directors that is also responsible for the management of each of the cells as they retain overall supervision and control.

### *The application of the PCC structure to the Insurance Broker*

The insurance broker PCC model provides the opportunity to offer cells to potential cell owners allowing them to benefit from the broker licence. This would allow the cell to obtain the capability of passing on policies and avoid the capital requirements or the full application procedure which would normally apply to a broker company. The cell owner would avoid having to incur the normal regulatory, operational and compliance costs in view of ongoing regulatory and legal obligations required for a fully fledged insurance broker licence. This would afford SMEs including captive and third party brokers, lower management and running costs.

The insurance broker PCC model may be used in several ways. On the one hand you may have a broker cell company whereby each 'broker' cell offers a specialized or focused insurance offering. This creates an insurance broker PCC with different specialised strands. On the other you may have a collection of 'broker' cells each offering and competing on the basis of a combination of products offered. Both provide a one stop shop concept where one single broker is able to provide a multitude of products.

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An international broker who may not want to set up a full blown broker may consider the use of a cell. This would enable it to provide products which may not have been previously available to the customer. Alternatively existing entities not in the insurance business may use a cell to promote certain specific products

In the situation of a group of companies the PCC broker may also provide the opportunity to existing entities to open a broker cell which would then possibly service its group of companies on specific products .

The board of directors of the PCC would be responsible for the risk management strategy of the company as a whole. This common approach to corporate governance would allow efficiencies to be created whereby new cells would be able to tap into a common pool of knowledge, expertise and specialist administration by simply establishing a cell without needing to incur costs of training staff or hiring experienced individuals.

This pool of knowledge and expertise would then be available to each of the cell owners depending on their individual needs.

### *Concluding remarks*

Insurance brokers may continue running their business in a PCC by establishing a new cell, after authorisation from the regulator is obtained. The opportunities for cells and PCCs are available to both EU and non-EU based cell owners, in the latter case this provides a potential doorway to the European market in a cost effective manner.