

Chapter Six : Conclusion

Since 1997 there has been the development of PCC, a totally new captive type arrangement which has been endorsed by the insurance and reinsurance market such that major groups have actually formed PCC for the use of their clients. PCC also can be widely used such as Special-Purpose-Vehicle (SPV), Rent-a-Captive, Group Captive, and Collective Funds etc.

Because Taiwan non-life insurance companies now face an increasing array of underwriting-risks, the greater uncertainty may cause an insurance company manager highly depend on reinsurance mechanism. So, in this paper, not only we study the characteristics of PCC but also analyze and focus on whether PCC as rent-a-captive is suitable for the risk management strategy of non-life insurance company.

The author consider 4 factors, ceding terms, retrocession, operation period, and paid up capital in this paper to analyze that under which circumstance PCC will be better than commercial reinsurance. In this research, we find out that under the following situations PCC is more suitable than commercial reinsurance for the risk management strategy of domestic non-life insurance company :

1. Except catastrophe risks, peak risks, and high loss severity business, PCC as rent-a-captive are more suitable than commercial reinsurance for non-life insurance company, especially medium severity business. (low severity business is suitable for business retention)
2. Except catastrophe risks, peak risks, and high loss severity business, the more

the ceding premium, the cost of risks saved by PCC will increase.

3. Like other risk retention methods, the longer we use PCC as rent-a-captive, the more we can save its cost of risks.
4. We suggest that if PCC is a pure captive (each cell only takes parent company's business) , paid-up capital of PCC which just meet the minimum capital required by the regulatory within PCC domiciles will be optimal.
5. As mentioned above, PCC is not suitable for taking peak risk business. If business of its parent company belongs to high loss severity, using PCC as rent-a-captive instead of commercial reinsurance will increase its cost of risks. retrocession can help to resolve this problem. If PCC has arranged retrocession, it can reduce the increase of cost of risks; On the contrary, if business of its parent company belongs to medium loss severity, retrocession will reduces the benefit in decreasing its cost of risks. Besides, in the initial stage of PCC operating, retrocession can decrease the business uncertainty of its parent company.

The main contribution of this research is providing analytical method to illustrate the circumstances for using PCC as rent-a-captive in saving the cost of risks as compared with commercial reinsurance. This analytical method can be used not only for insurance industry but also for other industries which want to evaluate the feasibility of PCC as rent-a-captive. The author suggests that in the future PCC not only can be used more widely but also being a more flexible risk finance structure.