

COMMITTED & COMPLIANT

Les Boughner and Ruben Gely Jr. of Advantage Insurance outline the strengths of Puerto Rico as a captive domicile and the services Advantage offers there

Captive Review (CR): What are the unique advantages to operating an international insurance business in Puerto Rico?

Les Boughner (LB): Puerto Rico is truly unique in that it offers the tax and regulatory benefits of domiciles such as Bermuda and the Cayman Islands, within the jurisdiction of US law.

Puerto Rico has been a territory of the United States since the beginning of the 20th century, and is fully integrated into the infrastructure of the US financial and legal systems. Puerto Ricans are citizens of the United States, carry US passports, yet have a strong connection with Latin America. The island has a well-educated bilingual and bicultural workforce that can do business in any country in North or South America. There is excellent international air service with nonstop flights to major US and Latin American cities, and European hubs.

Looking at the insurance industry, Puerto Rico has an excellent legal and regulatory system to support captive insurance companies. Protected cell companies, standalone captives and risk retention groups are all possible to locate in Puerto Rico. Companies choosing Puerto Rico as their domicile are well regulated by the Comisionada de Seguros, which is an active member of the NAIC and features highly experienced, bilingual staff. Commissioner Angela Weyne is a former insurance industry

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Les Boughner took the helm as chairman of Advantage Insurance Management (USA) in July 2015. He previously held the position of deputy CEO at Willis Global Captive Practice where he was responsible for 11 captive management offices and the global consulting strategy.

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executive and understands the need for responsive, diligent regulatory oversight. The legal and regulatory setup in Puerto Rico is also helped by the 15,000 attorneys, 4,800 accountants and 30 actuaries resident on the island.

Last but not least, the policy of Puerto Rico's government is to encourage insurance businesses to set up shop on the island. The International Insurance Center initiative that was

started in 2004 offers attractive tax incentives for insurance companies serving the international market, such as a 4% corporate income tax rate over the first \$1.2m of net income, which is tax exempt.

CR: What is Puerto Rico's background in international financial services?

LB: Puerto Rico's role as a regional financial centre predates the US annexation of Puerto Rico as a territory in 1898. The largest bank on the island, Banco Popular, was founded in 1893.

Today it has a market capitalisation of over \$3bn and serves over one million customers in Puerto Rico and on the mainland. On a combined basis, the local banking industry measures in at about \$55bn of total assets. The local insurance industry serving Puerto Rican clients writes about \$10bn of annual premium. So there is a strong base of local banking and insurance business that creates the local expertise required to support international business.

International financial services business, or business that is done in Puerto Rico for non-Puerto Rico clients, got its official government blessing in the early 1980s with tax and regulatory incentives for international banks and bank branches locating operations in Puerto Rico. Insurance came along with the International Insurance Center in 2004. Puerto Rico has continually updated the laws and regulations applicable to international financial services companies based there to stay current with today's rapidly changing financial services landscape.

CR: Where does Puerto Rico stand today with captives and international insurance?

Ruben Gely Jr. (RG): Puerto Rico has succeeded in attracting a considerable amount of captive activity. It currently hosts over 200 risk transfer vehicles, including standalone captives, sin-

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Away from the captive sector, Puerto Rico also has 13 stand-alone companies licensed in the International Insurance Centre. These range from life insurance companies to reinsurers to international affiliates of large insurance companies.

In insurance services, Puerto Rico continues to innovate and update its supportive financial legislation. In 2012, Puerto Rico passed Act 20 to expand its tax incentive programs to include insurance services, such as policy administration, claims management and other TPA functions. Puerto Rico is an ideal location for bilingual customer support call centres, and is competitive with many other locations for back office services. Insurance industry executives who relocate to Puerto Rico are also eligible for low personal income tax rates under the Act 22 program.

Puerto Rico's Department of Economic Development has been aggressive in the promotion of its incentive platform, targeting international markets through investment summits, conference showcases, and strategic visits to Lloyds of London and roadshows to Latin America. Our company, Advantage Insurance, is using a combination of four separate incentive programs to help its Puerto Rico-based business.

CR: What captive insurance structures does Puerto Rico support today and are there plans to expand in the future?

LB: Puerto Rico legislation authorises stand-alone captives, association captives and protected cell captives.

The rent-a-captive protected cell companies known as Class 3 international insurers have been most popular, as they offer very good flexibility to insure a broad range of insurance risks. For example, a Class 3 international insurer can have one protected cell writing life reinsurance while another cell is a traditional healthcare benefits captive.

The Puerto Rico insurance regulator is willing to look at innovative business plans, provided the operations are conducted with high levels of professionalism and transparency to the regulator and other constituents.

CR: What are Puerto Rico's unique advantages for Latin American companies?

LB: Puerto Rico is a bilingual location that shares the same Hispanic background with all Latin America countries. It is the only US jurisdiction with a natural cultural and language affinity with Latin America.

As well as attracting captives sponsored by

US parent companies, Puerto Rico is uniquely positioned as a domicile for Latin American companies, particularly those with extensive operations in the United States. Typically they would form separate captives in two geographically separate domiciles, a US-based captive to insure their assets in the United States and a foreign captive for their multinational assets. Puerto Rico because of its unique United States territorial status allows the formation of both in a single cost effective domicile.

When compared to other Latin American countries, Puerto Rico has a mature and well developed insurance market.

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In the regulatory arena Puerto Rico is an active member of both Latin America's ASSAL (Association de Superintendentes de Seguros) and the NAIC (National Association of Insurance Commissioners). This positions Puerto Rico as a natural insurance regulatory gateway to Latin America. As an NAIC accredited jurisdiction, insurance platforms domiciled in Puerto Rico have direct access to the US market. As an ASSAL member, Latin American insurance regulators are in direct communication with Puerto Rico's regulators. This greatly facilitates Puerto Rico's role as a hub for Latin American reinsurance, for example.

CR: Which markets within Latin America is Puerto Rico targeting to expand its market share?

RG: Puerto Rico is a great domicile for insurance business from Central and South America, Mexico and the Caribbean. There is a natural cultural and language affinity between Puerto Rico and these locales. Also, Puerto Rico's offerings are supported by a large base of highly qualified service providers that is not matched by other, smaller domiciles. However, there are barriers to entry and operating restrictions within many of these markets that limit opportunities for all foreign providers. Puerto Rico as a domicile is working to open up some of these markets and reduce barriers to entry.

CR: Can you outline Advantage Insurance's commitment to Puerto Rico?

LB: Advantage Insurance made an early commitment to Puerto Rico, where it has operated a Class 5 Life & Health International Insurer license since 2010. In 2015, Advantage began an expansion plan in Puerto Rico that includes a new international life insurer, a protected cell P&C company and local insurance management services company. We have opened an office in San Juan and recruited full-time local staff as well as relocating executives to island from the mainland. This has positioned us to deepen our relationships with domestic companies and created opportunities to invest in other international insurance projects. We expect that when it is fully built out, Advantage will be the first insurance business in Puerto Rico to have a truly full service platform consisting of Property & Casualty, Life & Health and captive management services.

CR: Are international life and annuity platforms an area of opportunity for Puerto Rico?

LB: We are surprised that more life insurance companies have not set up operations in Puerto Rico. It offers many advantages over other domiciles, including zero premium tax, zero tax on insurance benefits, and full access to US dollar investments.

In addition, the Class 5 life insurance companies in Puerto Rico operate as protected cell companies, avoiding the risk of commingling life insurance assets in a general account. For wealthy Central and South American families who are looking for asset security and a degree of privacy, Puerto Rico is a great place to buy life insurance. Depending on the tax election of the issuing company, international buyers of Puerto Rico life insurance can avoid tax withholding on the policy's investments in US securities. We don't know of any other place where this is possible.

CR: How confident are you that Puerto Rico can compete against the numerous established offshore domiciles offering similar services in the region?

RG: We would put Puerto Rico up as a top domicile choice against any other domicile in the world - for certain clients. Due to Puerto Rico's US territorial status it can compete directly with both onshore and offshore domiciles. Puerto Rico is the natural gateway to Latin America and there are not any other domiciles, offshore or onshore, that can provide the depth of fluent bilingual professional support to Latin American companies. 