

# PUERTO RICO: A UNIQUE DOMICILE FOR CAPTIVE INSURANCE COMPANIES

Ruben Gely-Ortiz and Leslie Boughner of Advantage Insurance discuss how Puerto Rico presents an unmatched opportunity for those in the captive industry

**P**uerto Rico is rapidly emerging as the leading international hub for both USA captive insurance companies and international insurers. Its advantages stem from a unique Commonwealth status with the United States and a bicultural, highly educated workforce. With a reported growth of 51% in gross written premium (GWP) in 2015, Puerto Rico's International Insurance Center (IIC) continues to demonstrate steady momentum to attract captive insurance companies to the island.

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 system. Puerto Ricans are citizens of the United States, carry US passports, yet have a strong connection with Latin America. In terms of logistics, Puerto Rico benefits from direct international air service with nonstop flights to major US and Latin America cities, as well as European hubs.

## Unique beyond measure

No other domicile can offer the tax and regulatory benefits of domiciles such as Bermuda and the Cayman Islands while remaining within a jurisdiction of US law. Insurance companies choosing Puerto Rico as their domicile are rigorously regulated by The Office of the Commissioner of Insurance (OCI), which is an active member of the National Association of Insurance Commissioners (Naic) and features highly experienced, bilingual staff. The legal and regulatory setup in Puerto Rico is complemented by the over 9,000 attorneys, 4,700 accountants and 24 actuaries resident on the island.



**Ruben Gely-Ortiz**

**Ruben Gely-Ortiz** is captive manager for Advantage Insurance, Latin America focused business developer and advocate for Puerto Rico's International Insurance Center. He specialises in offshore 'protected cell' risk transfer vehicles and reinsurance arrangements.



**Leslie Boughner**

**Leslie Boughner** is the chairman of Advantage Insurance Management (USA) LLC. Les has nearly 40 years of experience in the insurance industry, and as chairman, is responsible for developing Advantage's captive insurance and related businesses globally, including its direct underwriting activity at Lloyd's reinsured by Advantage Property & Casualty Company SPC.

Puerto Rico's insurance industry is composed of 395 domestic insurance companies, 19 international insurers and 378 'protected cells'. The island is considered the leading jurisdiction in Latin America when measured by penetration index (written premium/GDP). With over \$12.2bn in combined written premium, Puerto Rico is definitely a well-matured and experienced insurance market.

The OCI is one of the few government agencies that historically operates under a fiscal surplus due to their tight adherence with agency bud-

gets. Close to one hundred employees handle a \$12.2bn market, 11,000 insurance intermediaries and 12,000 insurance-related employees. The Puerto Rico International Insurance Center represents the most recent OCI achievement. At the current rate of formations, another billion in international insurance company premiums is expected to be added to the local insurance industry within the next two years.

The most recent annual report of the OCI states that in 2015, written premium grew at a rate of 22.6%, compared to a decrease of 0.4% experienced during 2014. Data reported by insurers' shows that the insurance industry has sustained a stable financial situation over these years despite the different challenges they face as a result of the island's fiscal situation. This stability, among other factors, has been the result of effective regulation, focusing on solvency, and competent participants that have collaborated in developing an industry with increasing financial capacity and solvency.

## Predicted growth

While the domestic insurance sector remains stable, Puerto Rico officials believe the International Insurance Center will eventually become a driving economic force in Puerto Rico.

The population of international insurers is comprised of 19 authorised insurers and 378 active protected cells plans in the property and casualty (P&C) sector. With an estimate volume of \$332m in written premium, the segment has reached a critical mass and is becoming a principal factor in the developments of the insurance industry.

Captive insurer's formation and compliance is monitored by OCI, a government unit with



nearly a century of experience regulating the insurance industry. The OCI is both an accredited member of the Naic and Asociación de Supervisores de Seguros de Latinoamérica (Assal). The captive population consists of over 350 domestic and US domiciled insurers. As an Naic-accredited jurisdiction, the OCI staff is familiar with the high standards of multistate insurers monitoring.

The current status of Puerto Rico's International Insurance Center is the result of an evolution over 10 years of continuous improvements and enhancements to its enabling captive insurance laws and regulations with a decided attention to international trends.

Puerto Rico is attracting a considerable amount of captive activity. It currently hosts over 380 risk transfer vehicles, including standalone captives, single-parent and protected cells.

#### What makes Puerto Rico so attractive?

Certainly Puerto Rico's location and culture, as well as its bilingual populace, makes it an attractive domicile for both the US and Latin America. As a US Commonwealth, it shares the US legal system, which is an important consideration. The tax structure initiated in Puerto Rico under Law 399 and Act 98 compares favourably with other domiciles. In addition, Puerto Rico is recognised by both the Naic and its South American counterpart Assal. All this provides considerable confidence to companies looking to form their captives in Puerto Rico.

While the Puerto Rican tax rate is an important factor, captive owners in Puerto Rico also benefit from a well-developed banking and investment industry. Being in a US jurisdiction, Puerto Rico allows the captive owner to make investments through registered representatives who have access to both domestic and interna-

tional securities available on Wall Street. There is considerable local expertise with US and international investment laws and regulations.

Another key contributor to the success of Puerto Rico as a captive domicile is the jurisdiction's ability to offer applicants a protected cell company operating option. It is estimated that 73% of total premium growth is due to protected cells.

Puerto Rico is uniquely positioned to capitalise on the development of Latin American captives. The jurisdiction maintains close historical and cultural ties with Latin America making it a truly bicultural jurisdiction. While its population shares a language and a Spanish culture with South and Central America, we operate in a US jurisdiction where both English and Spanish are official languages and which is closely aligned with the United States. This factor greatly contributes to Puerto Rico's ability to attract international business.

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 programmes to include insurance services, such as policy administration, claims management and other TPA functions. Insurance industry executives who relocate to Puerto Rico are also eligible for low personal income tax rates under Act 22.

Puerto Rico is confident that it will overcome its current fiscal challenges through the contributions being made to our economic development by new economic sectors such as that represented by our vibrant, growing international insurance industry.

#### What we do

Advantage Insurance was one of the early adopters of Puerto Rico's international

insurance legislation and has continued an aggressive expansion plan. In 2010, Advantage formed Advantage Life Puerto Rico A.I. (ALPR), (formerly known as Ashley Cooper Life International Insurer) in Puerto Rico as a Class 5 international insurer principally providing private placement life insurance policies to United States persons. In 2015, a second life insurer, Advantage Life Assurance International Insurer (ALAI), was licensed as a Class 5 Segregated Asset Plan Company under the provisions of Chapter 61 of the Insurance Code of Puerto Rico. ALAI offers private placement insurance to an international clientele outside of the United States.

In 2016 it formed a bank, Advantage International Bank Corp (ABIC) and Class 3 Property and Casualty Company, Advantage Business Insurance Company I.I. (ABIC).

Anticipating further success in Puerto Rico, Advantage licensed Advantage Insurance Services LLC in 2015, an Act 20 Export of Services company with a local office in San Juan, which currently is staffed with nine professional employees and has plans to increase that number in 2017. Advantage currently is the international insurer with the most local employees in Puerto Rico.

Advantage's new protected cell sponsor facility, Advantage Business Insurance Company, I.I., will provide a legal framework for captives to conduct insurance business on a protected cell basis without having to go through the standalone application process. This new entity is the latest contributor to Advantage's presence in Puerto Rico allowing us to provide both life insurance products and captive insurance structures under the same servicing group. 🍀