

INTERNATIONAL INSURERS CENTER

Since 2005, the International Insurers and Reinsurers Division of the Office of the Commissioner of Insurance of Puerto Rico, or the International Insurance Center (the Center) propels Puerto Rico as an important member of the international insurance arena. Due to the many advantages of this jurisdiction, Puerto Rico is a logical portal for insurers and reinsurers wishing to enter into the Latin American insurance and financial industries, with direct access to the United States and other international markets.

The Government of Puerto Rico adopted this new initiative and incorporated it as part of economic agenda for the 21st Century. The International Insurers and Reinsurers Division is under the Supervision of the Office of the Commissioner of Insurance of Puerto Rico. The Department of Economic Development and Commerce oversee the promotion of this facility and the extension of tax decrees, herein explained.

The experience offered by other jurisdictions close to Puerto Rico, has demonstrated that the development of international business centers, such as offshore venues, have provided viable opportunities for efficient and effective economic growth for countries and economies in search of these goals.

WHY PUERTO RICO?

Puerto Rico enjoys a privileged geographical location, offering easy access to the United States and Latin America. The advantages poised by a fully bilingual corporate culture have helped the Government of Puerto Rico in attracting and retaining high technology, capital intensive manufacturers for specialized industries.

Puerto Rico has dedicated billions of dollars to its local infrastructure, featuring state of the art communication and technological systems, as well as modernizing its transportation and shipping structures. It is to be expected then, that Puerto Rico's services sector has become one of its largest growing industries, amounting for 26.5% of Puerto Rico's total workforce.

As a United States Commonwealth, Puerto Rico's free market economy is subject to both federal and state regulations designed to protect free market-competition; specifically, but not limited to, the insurance and banking industries. Along with the use of US currency, the dollar, and general allowance of free flow of funds abroad, this regulatory structure guarantees sound credit and investment practices. Legal protection is provided under both federal and state constitutions, with legal redress venues in federal or commonwealth courts should individual requirements be met.

Puerto Rico economy also enjoys both fiscal and tax autonomy with respect of United States Tax Code, with special distinctions made in several regards.

INSURANCE ARENA

The Office of the Commissioner of Insurance's (OCI) long history of regulatory expertise are further enticements for Puerto Rico to be considered a viable alternative to transact insurance business. It is also important to note that the OCI regulates 52 domestic insurers and 333 foreign insurers with a volume subscription of \$11 billion for 2011. Puerto Rico constitutes the third largest insurance market in Latin America.

Puerto Rico is an accredited member of the National Association of Insurance Commissioners ("NAIC"). The regulatory basis of the Center, in fact, calls for prudent but more expedient based regulation. In addition, the OCI is also participating member of the Association of Insurance Superintendents of Latin America ("ASSAL").

LEGAL BACKGROUND

Laws No. 399 and 400 of September 22, 2004, adopted Chapter 61 of the Puerto Rico Insurance Code. Jointly with Rules 80, 81 and 82 of the Rules of the Code, constitutes the legal framework of the International Insurance Center of Puerto Rico. This legislation provides a competitive environment within which insurance companies and reinsurers could cover risks outside of Puerto Rico, under a secure and flexible regulatory scheme, which includes attractive tax benefits.

Law 98 of June 20, 2011 provides a decree system to guaranty the contributory treatment of international insurers and reinsurers.

PROVISIONS AND STRUCTURE OF THE LAW

The International Insurance Center Law permits the entities of International Insurers an International Insurers Holding Companies. An international Insurer is organized in Puerto Rico to offer direct insurance or reinsurance outside of Puerto Rico. International Reinsurers may assume risks in Puerto Rico upon compliance of the requirements thereof. An International Insurers Holding Company is a Puerto Rico corporation that holds interest in an International Insurer or another International Insurer holding company. A foreign insurer may establish a branch as an International Insurer.

International Insurers or Branches may do business under the following licenses, or combinations of licenses:

| TYPE OF LICENSE | DESCRIPTION | MINIMUM AND CAPITAL SURPLUS(USD) | APPLICATION FEES(USD) |
|--|--|----------------------------------|-----------------------|
| CLASS 1 PURE CAPTIVE | A company that may not insure any risk other than those of its parent, affiliated companies and/or controlled unaffiliated businesses. | 500,000.00 | 1,100.00 |
| CLASS 2 ASSOCIATION CAPTIVE | A company that can insure the risks of the parent and/or affiliated companies or its members, as well as those arising from its business transactions, and any other risk in a proportion of no more than 20% of total Net Premiums Written. | 750,000.00 | 1,350.00 |
| CLASS 3 PROPERTY- CASUALTY | A company that can transact business for traditional insurance or reinsurance foreign risks in property & casualty, except life and disability; also, high limit casualty and property catastrophe reinsurance. | 1,500,000.00 | 2,850.00 |
| CLASS 4 UNRESTRICTED PROPERTY- CASUALTY | A company that can transact business for traditional insurance and reinsurance foreign risks in property & casualty, including high limit property and casualty reinsurance. Cannot transact life and disability reinsurance. | 100,000,000.00 | 25,350.00 |

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|---|--|------------|----------|
| CLASS 5 UNRESTRICTED LIFE-DISABILITY | A company that can transact business for traditional insurance and reinsurance foreign risks in life and disability. | 750,000.00 | 1,100.00 |
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International Insurers are also subject to an Annual contribution based on premium level.

| <i>Annual Premium (no greater than)</i> | <i>Annual Contribution</i> |
|---|----------------------------|
| 25,000,000 | \$5,000 |
| 50,000,000 | 10,000 |
| 75,000,000 | 20,000 |
| 100,000,000 | 35,000 |
| 150,000,000 | 50,000 |
| 250,000,000 | 65,000 |
| > 250,000,000 | 75,000 |

An International Insurer with Authority Class 2, 3, 4 or 5 may operate a Segregated Assets Plan of Operations with the prior approval from the Commissioner of Insurance.

TAX TREATMENT

The tax incentives conferred to International Insurers/Reinsurers and Holding Companies include:

- Exemption from Premium Taxes.
- Exemption on dividends and other profit distributions made by the International Insurer and International Insurer Holding Company,
- Exemption on municipal franchise and real and personal property taxes.
- Exemption from withholding taxes on payments of dividends and other profit distributions made to third parties, and from filing tax returns with the Puerto Rico Internal Revenue Service.
- Exemption from state and donation taxation for the death benefits and annuity payments made to non residents.
- Isolation of the proceeds and benefits paid by international insurers because of liquidation procedures from income taxes.
- \$1.2 million tax exemption on Net Income. Exemption applicable at the individual cell level for Protected Cell Company arrangements and at the company level. Preferred 4 % tax rate on Net Income (not applicable to Holding Company), guaranteed by a decree effective over a period of 15 years, renewable for two additional periods.

The International Insurance Center is a platform for the following business opportunities, among others:

- Alternative Risk Management strategies as Captive or Associated captives insurers.
- Insurers or Reinsurers vehicle to enter Latin America or US Markets.
- Special Purpose Vehicles.
- Vehicle for Integrated Insurance Plans.
- Corporate reorganization using International Insurers Holding Companies.
- Segregated Assets Plans to serve High Net Worth Individual market.
- Securitization Programs

Contact Information

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