

Puerto Rico's Business Proposal and Invitation to [Provider]

OFFICE OF THE COMMISSIONER
OF INSURANCE

COMMONWEALTH OF
PUERTO RICO

2013

- Ángela Weyne Roig, Commissioner of Insurance
- Alberto Bacó, Secretary of Economic Development & Commerce
- Under special appointment by
- Governor Hon. Alejandro García Padilla



COMMONWEALTH OF
PUERTO RICO
Economic Development

Topics

- Puerto Rico International Insurance Center Legislation
- Puerto Rico Exportation of Services Incentives (Law 20)
- Puerto Rico International Insurance Center, Law 20 Incentives and Status
- Proposal
- Invitation



Executive Summary

- Due to growth potential in United States Admitted and Non Admitted, Latin America and Alternative markets [Provider] customers in the Insurance sector will be in need of new proposals
- Puerto Rico International Insurance Center Platform provides accessibility to all named markets, at unmatched conditions
- Puerto Rico Law 20 provides competitive platform for the exportation of services
- Puerto Rico Underwriting and Administrative Cost are considerably lower than other Insurance hubs in America
- Puerto Rico Government proposes to [Provider] to partner in the development of a new Puerto Rico Economic model



Puerto Rico International Insurance Legislation

Approved Legislation:

- Law 399: Known as the International Insurers and Reinsurers Act of Puerto Rico establishes the legal basis for the International Insurance Center of Puerto Rico through which insurers and reinsurers, or business entities organized as such, can export and import insurance and services related to the insurance industry
- Law 400: Sets forth tax treatment and regulations for International Insurers authorized through the International Insurance Center of Puerto Rico
- Law 98: Secures Long term tax status with decree system. Improves tax treatment to Non Residents beneficiaries of Life & Health Products

Applicable Regulation:

- Rule 80: Sets forth the rules governing the establishment, authorization, operation, and supervision of International Insurers
- Rule 81: Sets forth the rules governing the authorization, operation, and supervision of Protected Cell companies
- Rule 82 : Sets forth the rules governing the creation, authorization, operation, and supervision of International Insurer's Holding Companies



International Insurance Center

Permissible Business Enterprises & Operational Structures

International Insurer:

- Entity organized to conduct insurance business outside of Puerto Rico.
- Include reinsurers, captive and associated captives company structures.

Benefits:

- Preferred tax treatment in Puerto Rico, 4% on Net Income with \$1.2m exclusion. (No Premium taxes. No municipal license tax. No real and personal property tax. Not required to file income tax return.)
- No withholding tax on dividends distributed by the International Insurer.



International Insurance Center

Permissible Business Enterprises & Operational Structures

The International Insurer Holding Company:

- A holding company that must hold interests (shares or other securities) in an international insurer or international insurer holding company organized under Chapter 61 of the Insurance Code of Puerto Rico
- It may control International Insurers or other International Insurer Holdings Companies, or businesses that are incidental and provides services exclusively to International Insurers with which they maintain a relationship as subsidiaries or affiliates
- Maintains its cash or equivalent and, investments in a proportion of no more of 1:1 with the other assets, including its shares in the insurance companies

Benefits:

- No income tax in Puerto Rico.
- Dividends distributed by Puerto Rico Holding will not be subject to taxation in Puerto Rico
- It may control a domestic insurer (i.e., non-International Insurer) in Puerto Rico, subject to the approval of Commissioner of Insurance and Secretary of Treasury of Puerto Rico



International Insurance Center

Permissible Business Enterprises & Operational Structures

Branch: A branch of an insurer organized under the laws of another jurisdiction

Requirements:

- Required to maintain office in Puerto Rico. (terms are negotiable with the Office of the Commissioner of Insurance).
- Required to segregate assets under a trust organized under Puerto Rico laws. Trust not considered a separate taxpayer.

Benefits:

- Preferred tax treatment in Puerto Rico, 4% on Net Income with \$1.2m exclusion. No Premium taxes. No municipal license tax. No real and personal property tax. Trust not considered a separate taxpayer.
- No Branch Profit Tax.
- US domiciled insurers may use the branch to service offshore business.
- Offshore insurers/reinsurers may use PR branch as a Port –of-Entry to service United States Business



International Insurance Center

Permissible Business Enterprises & Operational Structures

Protected Cell Company:

- Segregates identified assets and liabilities from insurer's general account or other separate accounts
- Accounting and insolvency separation
- Cells may have separate ownership and/or management
- Assets of protected cell will be available only for payment of obligations specifically identified in the plan
- "Rent-a-Captive": Captive owned and operated by an unrelated company. Insures similar risks of multiple insureds
- The International Insurer has to submit the operational plan of the protected cell for approval

Benefits:

- Protected Cells do not have legal separate entity
- Captives: cells may serve as separate captive entities
- Securitizations: Cells may issue insurance linked financial instruments
- No difference in Puerto Rico tax treatment for International Insurer with protected cells



Puerto Rico International Insurance Center-Summary

- No United States taxation for Non-United States Sources (Latin America, Asia, etc.)
- 4% of Tax over \$1.2m of Net Income. Total Exemption from other taxes including Property tax. Guaranteed Tax treatment
- Lower underwriting and administration cost
- National Association of Insurance Commissioners accredited status, admittance to states negotiable
- Association of Insurance Supervisors of Latin America (ASSAL) membership and recognition



Tax Incentives for Export Services

A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

A proven, effective way to take advantage of higher profits and competitive advantage

Objective:

- To provide the appropriate environment and opportunities to make Puerto Rico a center of international services, focusing on:
 - encouraging local service providers to expand their business by offering their services to clients who are located outside of Puerto Rico, and
 - convincing foreign service providers to move their businesses to Puerto Rico
- Act 20 is a part of a much broader effort to support businesses operating in Puerto Rico and transform the island into international services hub



Tax Incentives for Export Services

- Puerto Rican businesses providing services for exportation will enjoy a 4% flat income tax rate on income related to such services
- This rate may be reduced to 3% when more than 90% of the eligible business's gross income is derived from export services and such services are considered "strategic services" as set forth under the Act

**4% CORPORATE
TAX RATE**

- Distributions from earnings and profits derived from the export services income of eligible businesses are 100% tax exempt for Puerto Rico residents

**100%
TAX-EXEMPT DIVIDENDS**

Municipalities in Puerto Rico may levy a gross receipts tax of up to 0.5% (1.5% for financial services)

- Eligible businesses will enjoy a 60% exemption on such municipal taxes

**60% EXEMPTION
ON MUNICIPAL TAXES**

Note: Export services business in the categories of corporate headquarters, call centers and shared services centers will also enjoy a 90-100% exemption from property taxes.



Tax Incentives for Export Services

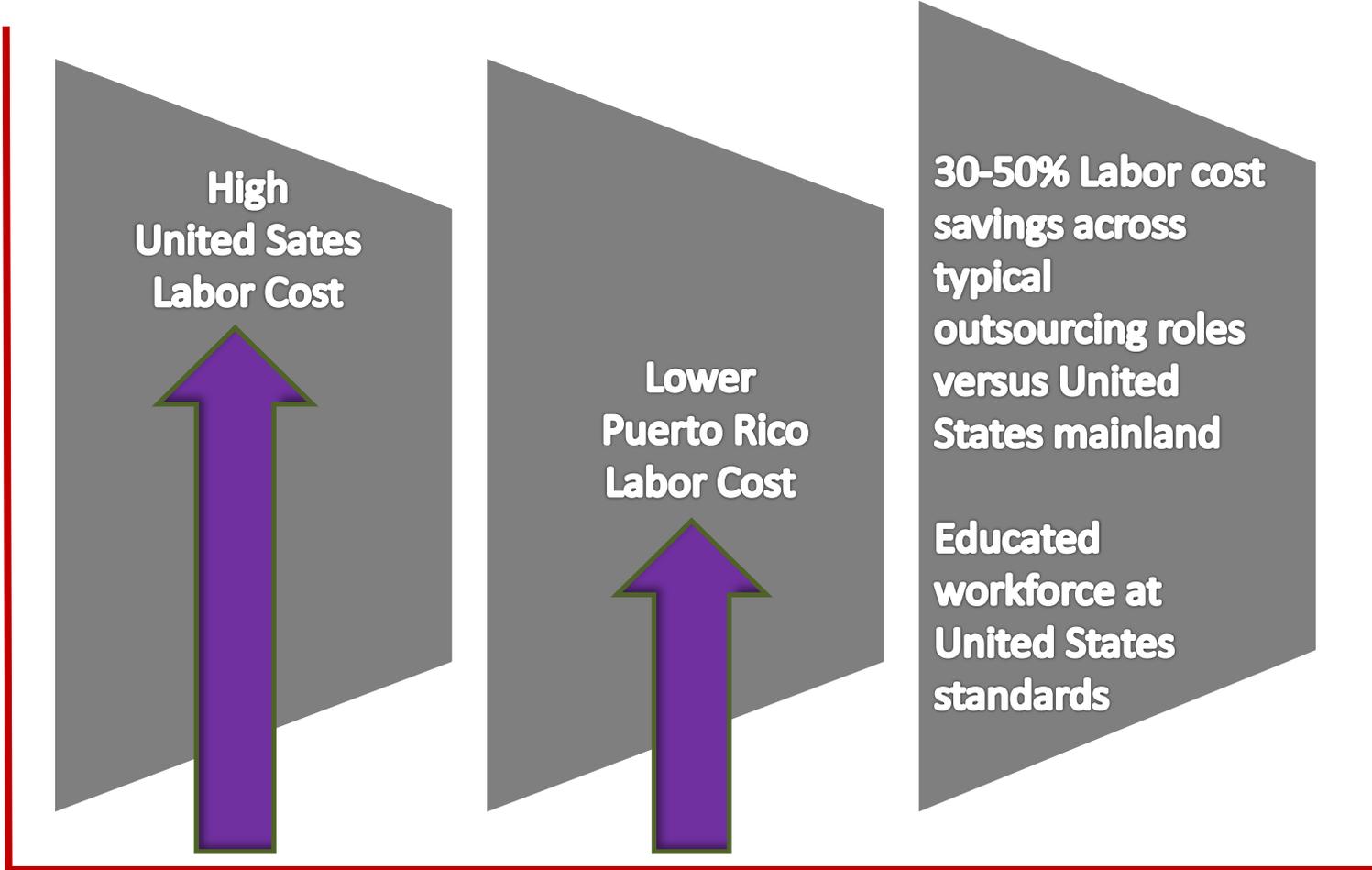
A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

Export Services Incentives apply to a wide range of services

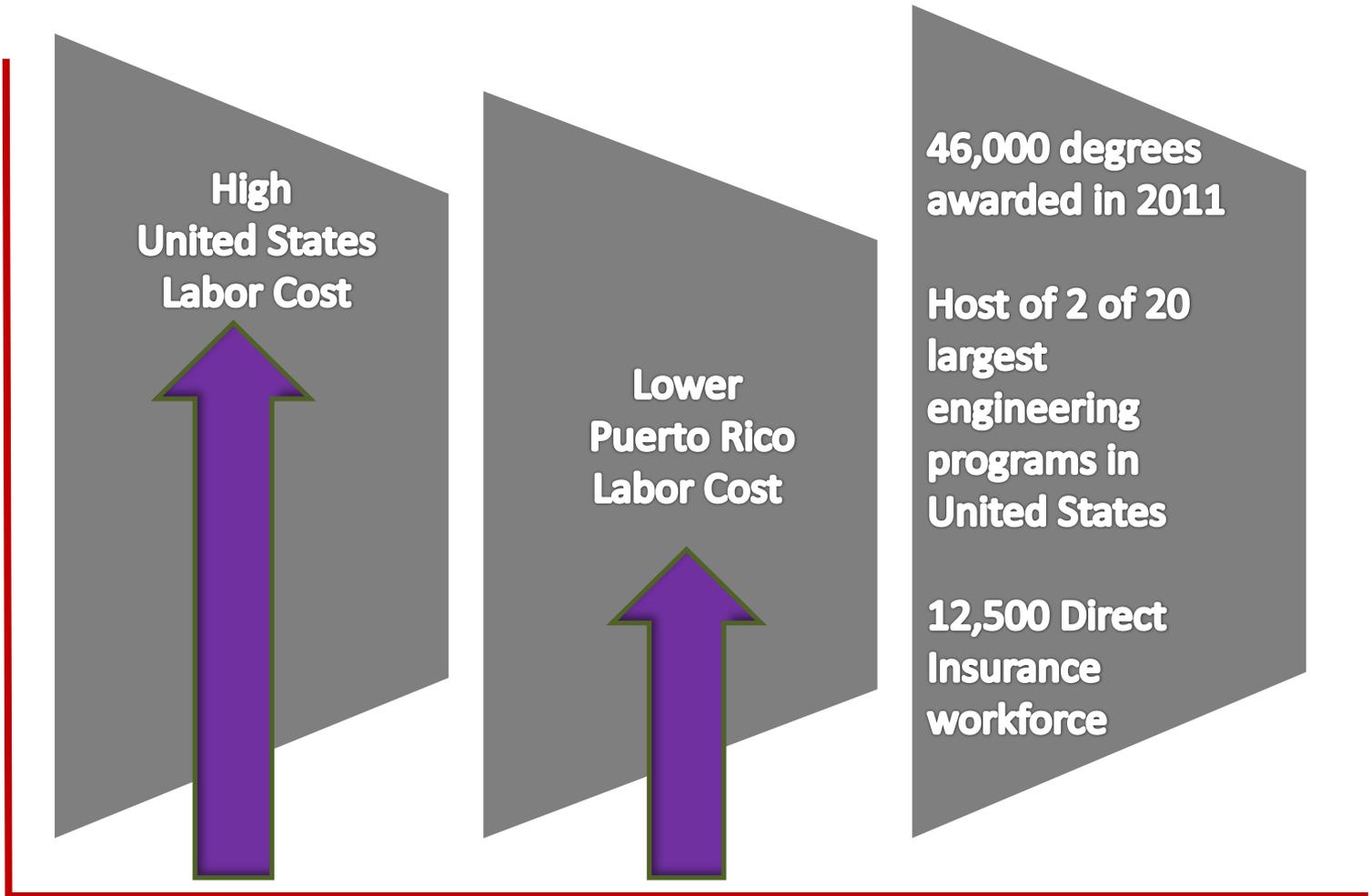
- Research and development
- Advertising and public relations
- **Consulting**
- Advise on matters relating to any trade or business
- Commercial arts and graphic services
- Production of construction drawings, architectural and engineering services and project management
- **Professional services, such as legal, tax and accounting**
- **Centralized management services**
- Centers for electronic data processing
- Development of computer programs
- Telecommunications voice and data between persons located outside of Puerto Rico
- Call centers
- **Shared services centers**
- Storage and distribution centers
- Educational and training services
- Hospitals and laboratories
- **Investment banking and other financial services**
- Any other service that is later decided to be treated as an eligible service because it is in the best interest of Puerto Rico



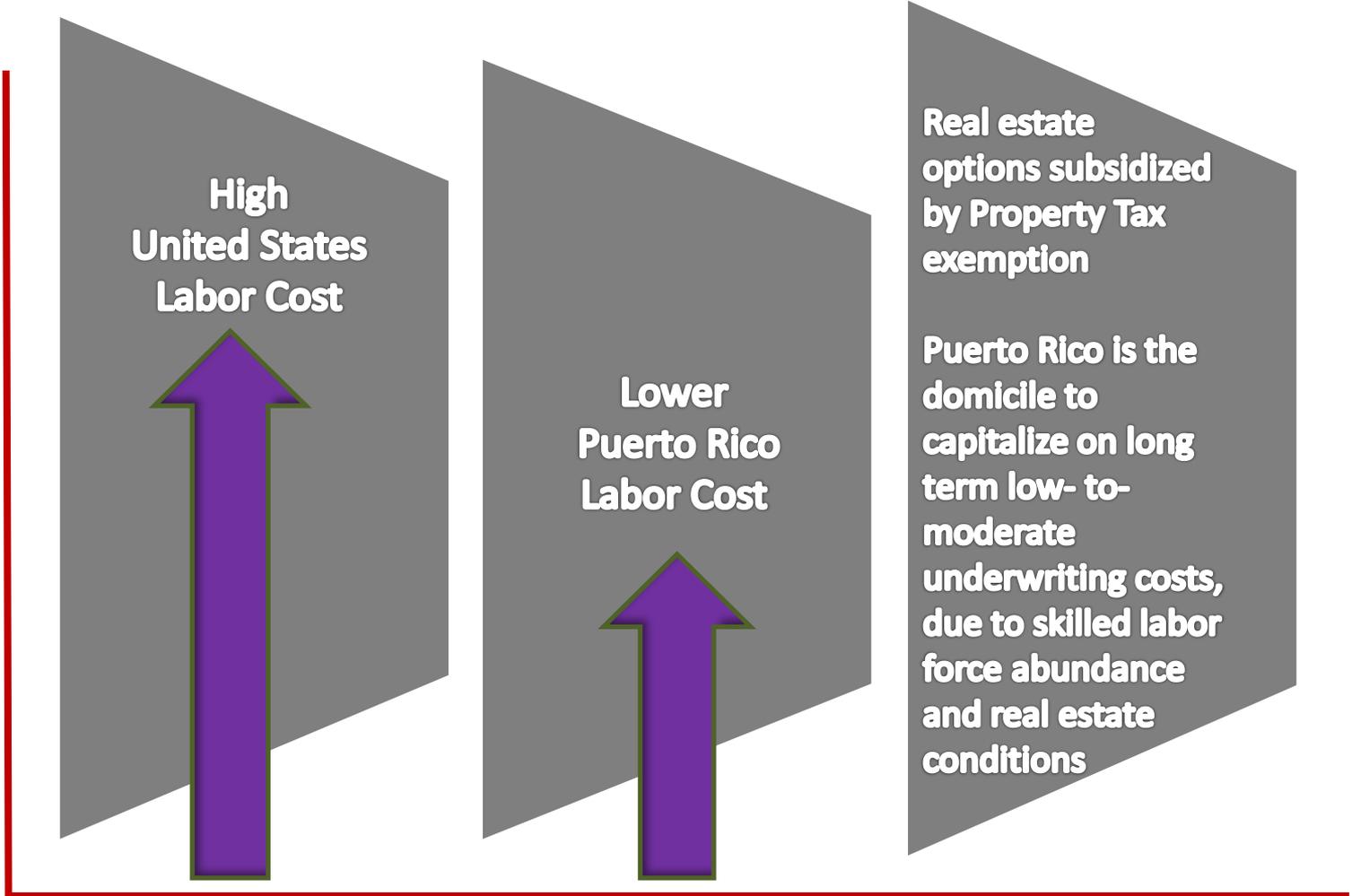
Underwriting Costs in Puerto Rico



Underwriting Costs in Puerto Rico



Underwriting Costs in PR

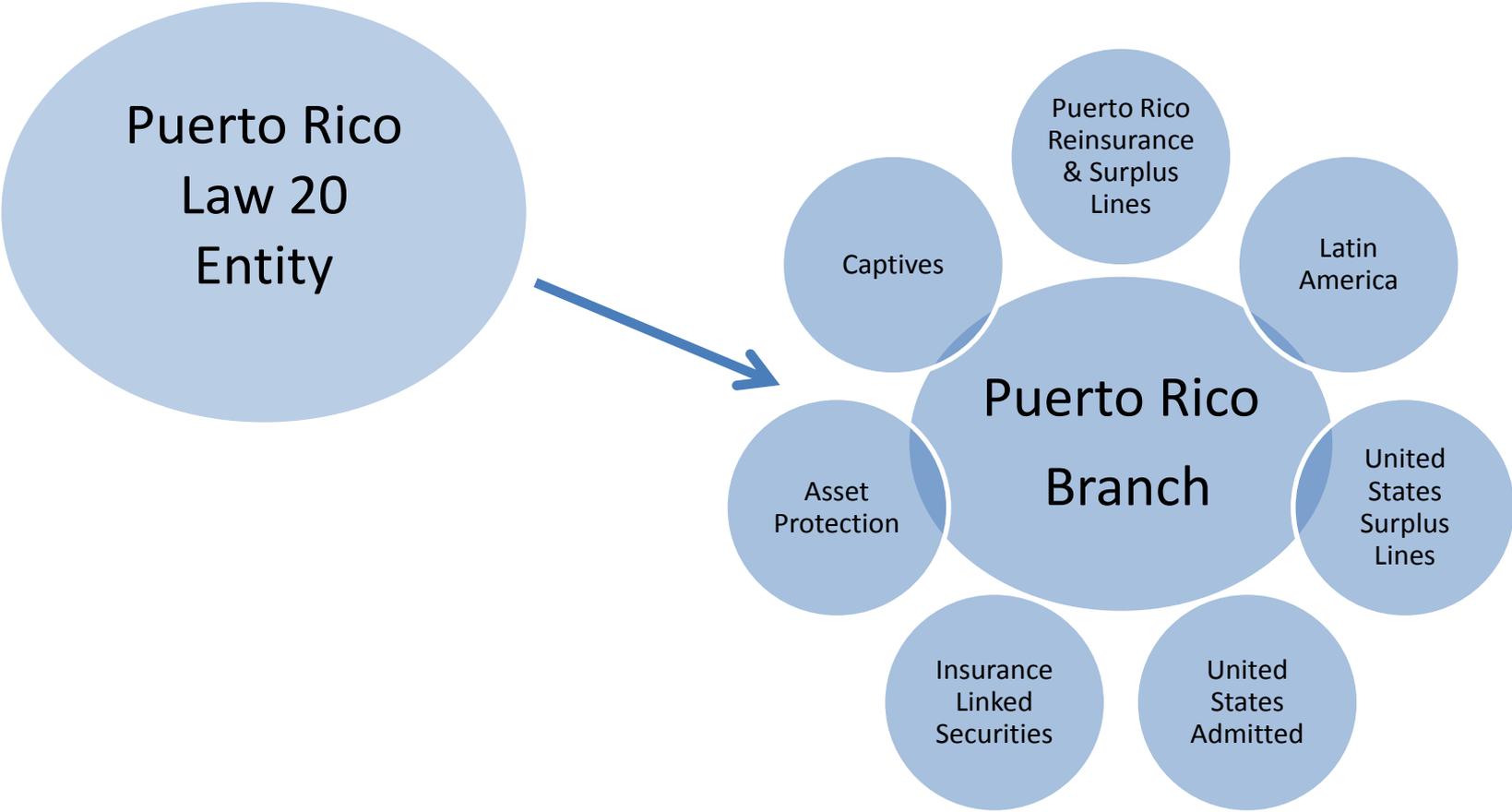


Puerto Rico International Insurance Center Status

- 10 International Insurers Authorized, 3 Holding companies
- Over 100 Segregated Asset Plans Property & Casualty captives and High Net Worth Individuals platforms included
- 17 projects in the pipeline with special interest in High Net Worth Individuals platforms
- Promotional Effort coordinated by Department of Economic Development and Commerce



Multiple Market Access Facility: Puerto Rico Law 20 Entity



Business Proposal

- [Provider] benefits from unique Puerto Rico incentives by establishing Law 20 entity
- Through the Law 20 entity and/or International Insurance Center [Provider] will be able to facilitate multiple insurance solutions to customers
- Both [Provider] and [Provider's] customers will operate under similar Tax Regime



Invitation



The Government of Puerto Rico extends
an invitation for further discussions in
Puerto Rico, when convenient will be to
[Provider] Directorship



Thank You

Rubén N. Gely Rodríguez
Deputy Commissioner of Supervision and Compliance

