

BARBADOS:

COMMITMENT TO INTERNATIONAL BUSINESS IS A PRIORITY

Kyle Rudder, of Centurion Assurance, details the amenability of Barbados as a domicile for international businesses

located in Barbados, Centurion Assurance Services Ltd. provides captive insurance management services together with other related services. The nature of the ever changing environment and fast-paced global industry requires a constant search for innovative ways to meet client needs. Operating from within this jurisdiction allows us to benefit from the foundations laid by our predecessors while we further enhance the reputation of the country by ensuring that business is conducted efficiently and with the highest level of professional competence.

Why use a captive?

A captive may be defined as a special purpose insurance company established to finance risks emanating from its parent group or groups. While definitions of captives may vary, this definition encompasses most of the key elements. For decades, many large corporations across the globe have utilised captive insurance companies as a means of managing their retained risk exposures. In addition, captives often play a vital role where the specified insurance coverage on the market is unavailable or unreasonably priced. Even if an increase in captive formations may be attributable to hard insurance markets, captives are generally seen as part of longer-term risk management strategies than short-term cost saving vehicles.

While the risk management benefit is of primary concern, for international businesses to have a captive domiciled offshore in a country such as Barbados may also derive some important tax advantages. A captive which is properly structured

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and managed will accrue certain benefits which, depending on the particular circumstances, may be both tax and non-tax in nature. Some of the benefits to be derived from the creation of such a structure are as follows:

- Tax deduction for the parent company in relation to the insurance premium paid to the captive;
 - Reduction in the amount of insurance premiums which would have been paid by the operating company on the insurance market.
 - Access to the lower cost reinsurance market.
 - Opportunity to accumulate wealth in a tax-favoured vehicle.
 - Insuring entity-specific risks which would otherwise have been uninsurable.
- Improved management focus on the profitability of the insurance programme, with the potential to explore programme changes as opportunities arise to reduce external expenditure

One caveat must be noted, however, for as with any worthwhile business venture, a feasibility analysis is necessary to ensure

that the creation of the captive would be suitable for a company's needs as well as economically justifiable. It is accepted that this study will require an initial outlay of capital as well as management time, yet having a critical understanding of the business is the key to success. Every company has its unique financial, cultural and risk profile. Accordingly, the design of a company's optimum risk financing strategy will vary as it must reflect the overall profile, psychology and mission of the company.

EICs and QICs in Barbados

The underlying legislation allows for the registration of international insurance companies as Exempt Insurance Companies (EICs) or Qualifying Insurance Companies (QICs). EICs are licensed under the Exempt Insurance Act and enjoy corporate income tax exemption along with a range of other tax benefits. QICs, on the other hand, are registered and certified under the Insurance Act and are permitted to transact both international and local business. QICs are subject to the full domestic tax regime but benefit from a tax credit for business arising outside the island. This set of circumstances results in corporation tax liability of approximately 1.75% for general insurance business and 0.35% on investment income for life business. The legislation offers some flexibility as it allows an EIC to be converted to a QIC and vice versa.

Domicile of choice

Dating back to the late 1960s, there was a concerted effort by Barbados' investment promotion agencies to attract international business while simultaneously building the confidence of investors so as



to fuel expansion of the industry. Over the past 50 years, Barbados has distinguished itself as a premier international business domicile, attracting significant foreign direct investment. Initially, investment was dominated by Canadian companies and, to a lesser extent, those of the United States of America. More recently, Latin American investors have begun making use of Barbados' compelling business environment. The proximity to countries such as Cuba, Mexico, Panama and Venezuela, coupled with the tax agreements in place, have aided this development.

Reasons to choose Barbados

As a mature jurisdiction, the distinct advantage which Barbados possesses over competing jurisdictions is its experience. Barbados remains a trusted jurisdiction based on its proven track record for fostering the success of companies established on its books. This feature is evidenced by the retention of many international businesses which in turn has been enhanced by new entrants. The international insurance industry recorded pleasing growth in 2017 with an increase in the number of registered captives. As of December 2017, the total number of active EICs and QICs stood at 212 and 54 respectively.

Barbados can boast of a competitive advantage in the form of its excellent human resources. A well-educated and highly skilled workforce results in readily accessible accountants, lawyers, tax advisors, reputable international banks and corporate service providers upon which investors may comfortably rely on. It therefore offers ideal conditions for interna-

tional companies to grow in a milieu where such talent is accessible onshore – talent which would otherwise require searches for foreign professionals at what would likely be higher costs.

The widening of the pool of investors has been encouraged through the continued development of the products which have been offered. Barbados has a geographically diversified network of double taxation agreements (DTAs). During 2017, there was marked progress in the expansion of the treaty network. In September, a DTA came into force with Cyprus while in October DTAs came into force with Portugal and Italy. Additionally, the ratification process was effected for the DTA with the Slovak Republic. Barbados has also entered into a number of bilateral investment treaties (BITS) which afford protection to investors who use Barbadian entities to invest in other countries.

From inception, Barbados deliberately built its international business sector on the robust foundation of treaty-based agreements which included provisions for the exchange of information. Anchored in the tenets of compliance, transparency and consistency, Barbados remains committed to facilitating business of substance. This feature is evidenced by Barbados becoming a part of the Organisation for Economic Co-operation and Development's Inclusive Framework which commits to the consistent implementation of the Base Erosion and Profit Shifting (Beps) initiative. As a commitment to ensuring that standards are maintained, a strong regulatory framework has been established. Clear and strong legislation provides stringent guide-

lines for good governance which in turn is enforced by local regulators. Moreover, Barbadian authorities are very responsive to international obligations, making it easier to conduct international business from within this jurisdiction.

Barbados has an outstanding reputation for political stability. Since 1639, the Westminster system of parliament has been in existence and the country's freedom from corruption endears its international investors. Barbados also enjoys an enviable record of social stability relative to many of its neighbours in the western hemisphere.

Commitment as an elite international financial centre

Not resting on its laurels, Barbados remains cognizant of the continuing evolution of the captive industry. Without compromising the integrity of the systems in place, efforts are made to advocate flexibility for business development. The Companies Act had been amended in 2001 to allow for the introduction of the Segregated Cell Company. In response to the sustained demands of the industry, the legislative framework was further enhanced in 2016 with legislation relating to incorporated cell companies.

Barbados remains a cost-effective, well-regulated international financial centre, with a world-class infrastructure and excellent human capital which renders it a very business-friendly environment. It is committed to maintaining its attractiveness for international business and its responsive character in the competitive global village. ☺