Barbados

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Captive insurance is used by over 50% of Fortune 500 companies, with 45% of the market located in Caribbean offshore locations. A captive insurance company is a company established within an organisation for the purpose of insuring the risks of that organisation. Captive insurance structures can offer investors significant rewards in terms of improved cash flow, investment income and tax efficiency.

Captive insurance

The global captive insurance market has continued to grow in the past few years, both in terms of new captive formations and new captive domiciles. New captive insurers are formed to provide a variety of coverage for a host of different industries. Globally, the number of licensed captives increased to over 6,000 at the end of 2012 from approximately 5,800 a year earlier, according to the annual Business Insurance survey of captive domiciles.

For many years, large corporations have enjoyed many benefits from operating their own captive insurance companies. Most were established to provide coverage where insurance was unavailable or unreasonably priced. These insurance subsidiaries or affiliates were often domiciled offshore, especially in Bermuda or the Cayman Islands - and now increasingly in Barbados. The risk management benefits of these captives were of primary importance, but their tax advantages were also important.

The predominance of captive intercompany investments in the parent entity or in corporate affiliates stems mainly from companies' desire for a lower cost of capital and wish to boost liquidity. But structuring a captive involves a balancing of factors that include more than just taxation. Besides gaining favourable tax treatment for financing corporate risks, corporations have traditionally formed captives to supply coverage that conventional insurers will not provide. Captives also offer cost efficient prices and give the parent company better control of its insurance costs.

In recent years, smaller, closely held businesses have also learned that the captive insurance entities can provide them with significant benefits. These include the attractive risk management elements long appreciated by the larger companies, as well as some attractive tax planning opportunities. A properly structured and managed captive insurance company could provide the following benefits:

- tax deduction for the parent company for the insurance premium paid to the captive;
- various other tax savings opportunities, including gift and estate tax savings for the shareholders and income tax savings for both the captive and the parent;
- opportunity to accumulate wealth in a tax-efficient vehicle;

- distributions to captive owners at favourable income tax rates;
- asset protection from the claims of business and personal creditors;
- reduction in the amount of insurance premiums presently paid by the operating company;
- access to the lower-cost reinsurance market;
- insuring risks that would otherwise be uninsurable;
- risk retention, customising the insurance coverage; and
- enhanced cash flow.

Variety of uses for companies

- Establish a captive insurance programme renting a cell and operating under the SCC umbrella.
- Use pre-existing captive insurance structures within Amicorp Insurance Company (AIC) SCC umbrella as a vehicle for specific projects.
- Set-up long-term structures for financial optimisation.
- Use AIC for fronting, insurance or reinsurance purposes, to optimise your insurance programme.
- Hire AIC to design and manage your entire insurance programme.

The use of a captive should be considered for entities that meet the following criteria:

- Profitable business entities seeking substantial annual adjustable tax deductions.
- Businesses with multiple entities or those that can create multiple operating subsidiaries or affiliates.
- Businesses with Bds$500,000 or more in sustainable operating profits.
- Businesses with requisite risk currently uninsured or underinsured.
- Business owner(s) interested in personal wealth accumulation and/or family wealth transfer strategies.
- Businesses where owner(s) are looking for asset protection.

The Segregated Cell Company (SCC)

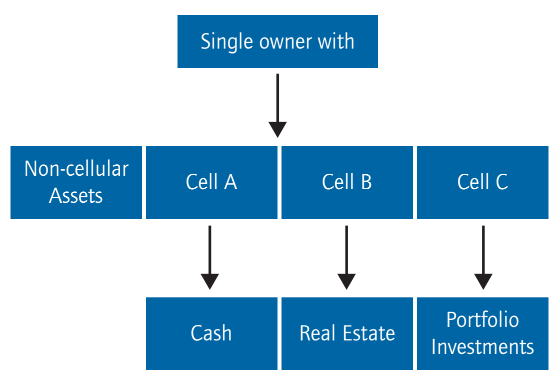
A Segregated Cell Company is also popularly known in some jurisdictions as a protected cell company. A cell company is widely used for captive insurance purposes based on the concept of 'rent-a-captive' where an insurance company is organised by an independent entity to insure the risks of several unrelated shareholders.

A cell company may also be used for the purposes of banking, mutual fund activity and any activity of a non-financial nature. In addition, by joining with other renters in rent-a-captive structures will bring benefits to you of captive insurance without the relatively high capital requirements and with no pooling of risks.

The concept of the Segregated Cell Company is that the corporate law allows the creation of a sponsoring core cell together with a number of other cells. Nevertheless, the cell company is a single legal entity. Therefore, the existence of different cells within a cell company does not create a separate legal entity with respect to each individual cell. It is easier and more affordable to add a cell to an existing cell company than to incorporate a new company.

The other cells would be typically owned by entities unrelated to the core cell sponsor and act as an insurer or reinsurer of the risk of the cells' owners. The law protects any cell, except the core, from adverse experience of any other cell. The non-core cells pay a fee to the core which covers all of the general and administrative expenses. This allows small and medium sized enterprises to operate a captive insurance entity at lower costs and using much smaller levels of risk and premiums compared to establishing and maintaining a standalone insurance company.

Figure 1: Typical segregated cell company



Uses and benefits of a Segregated Cell Company:

- companies take control over their insurance programme with pooling of group risk coverage;
- shared administration reduces costs of managing and maintenance resulting in reasonable premium values;

Barbados

- used when insurers will not cover risks with a high level of complexity with access to previously non-existing or unaffordable policies;
- only the sponsor has to meet minimum legislation requirements;
- one cell does not affect the business of another: assets are protected from each other. The cell company records the income, expenses, assets and liabilities attributable to each cell separately; liability of a cell company is attached and attributable only to the cellular assets of the particular cell;
- unlimited number of cells may be provided, with each cell having its own name or designation;
- offers access for small and mid-sized companies. Rent-a-captive where the owners of the SCC offer capital financing to clients who, because of their own size, would find it impractical to set up their own individual captive insurance arrangements;
- incorporation may be continued or converted from an existing company;
- life insurance companies can legally separate the assets of life, pension and individual policyholders;
- advantageous for holding companies wishing to establish particular insurance exposures based on geographical location, corporate division or type of risk of exposure;
- insurance and reinsurance cells for different client needs;
- companies can operate their captive insurance, treasury and other functions globally in a single entity using the same core capital;
- collective investment schemes with various classes of shares, umbrella or multi-class funds, enabling each individual share class the same limited liability that would be obtained if separate corporate structures were used for each different category of investor;
- whilst each cell must keep separate accounts with respect to the reserves, assets and liabilities of each cell, auditory filing requirements apply to the company as a whole and not on a cell-by-cell basis;
- IBCs may be used as cell companies and, if so used, the IBC is taxed at the same rate as a regular IBC;
- in addition to incorporating a new cell company, an existing incorporated company can convert into a cell company. An external cell company may also be registered or continued as a cell company in Barbados;
- a formal procedure is provided for the liquidation, receivership or administration order for any individual cell;
- minimal bureaucracy and reduction in resolution time; and
- tax optimisation and the use of offshore tax-efficient structures.

Why Barbados?

Barbados established itself as a strong domicile in which to conduct international insurance business. It is now ranked among the seven-leading captive domiciles in the world. Indeed, Barbados is growing in popularity, whilst other traditional offshore captive centres have seen a downturn in the number of captives, for instance the BVI.

Other key features and benefits with Barbados are:

- familiarity with location;
- accessibility;
- communications;
- stability in the realm of politics and the regulatory, tax and legal environment;
- political, social and economic stability;
- expanding network of double taxation treaties;
- speed of incorporation and licensing;
- low minimum capital for incorporation;
- no restrictions on insurance business written;
- no requirement for a CIC to hold board meetings or have a local director in the jurisdiction; and
- tax incentives and tax exemptions.

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