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Welcome to the 2013 Edition

A special welcome to the fifth anniversary edition of Barbados International Finance & Business (BIF&B). Since its genesis in 2009, BIF&B has become an important part of marketing Barbados as a domicile for international companies and investors seeking to make their businesses more internationally competitive.

The selection of articles in the 2013 edition – covering international trade, business and investment – plus case studies outlining the continuing successes achieved by some of those already domiciled here, together highlight the particular strengths of Barbados as a domicile, and clearly demonstrate why Barbados must be at the top of any list of jurisdictions for companies looking to take their operations overseas.

Last year, the Barbados Government introduced amendments to the International Business Companies Act, the Societies with Restricted Liability Act, and the International Financial Services Act, which cover changes in the corporate tax rate for entities licensed under those respective pieces of legislation. In addition, the Private Trust Companies Bill and the Trustee (Amendment) Bill were introduced. The Foundations Bill will be introduced this year. All further enhancing Barbados’ ability to offer a selection of legal entities, right-size regulation and a network of Double Tax Treaties allowing tax efficient structures.

Barbados is unique! We offer innovative solutions for international business expansion. Why not consider Barbados as your international domicile of choice?

We invite you to send any comments and suggestions to bifb@investbarbados.org.

James Gardiner

MESSAGE FROM SENATOR THE HON. DARCY BOYCE MINISTER IN THE PRIME MINISTERS OFFICE

It is my pleasure to introduce the fifth edition of Barbados International Finance & Business magazine!

Since the 2008 crisis, even though countries and companies have been especially focused on achieving sustainable growth and zealous about improving competitive advantage, the persistent uncertain climate has triggered cautious investment decisions worldwide.

According to recent International Monetary Fund (IMF) forecasts, the world economy is expected to grow at 3.6% in 2013, with growth in Barbados’ traditional markets, namely Canada, the United Kingdom and the United States, projected to be moderate at 2.0%, 1.1% and 2.1% respectively. The IMF outlook for emerging markets and developing countries is average growth of 5.6% in 2013.

The past five years, though challenging, have been characterised by steady consolidation for Barbados, and the international business sector has continued to be characterised by steady consolidation for Barbados, and the international business sector has continued to be

In line with this, Government has been implementing policies and programmes designed to enhance Barbados’ attractiveness as a location for foreign direct investment from the emerging markets and developing countries, and generally to inspire confidence. In this regard, preparations are well advanced for the Phase 2 Review by the Global Forum, scheduled for the first half of 2013, as well as for the IMF’s Financial Sector Assessment Programme, scheduled for the latter half of the year. Both of these reviews will assess Barbados’ observance and implementation of agreed international best practices. Barbados will also enter an intergovernmental agreement with the USA in 2013, relating to the Foreign Account Tax Compliance Act.

Efforts to expand our treaty network are continuing to gather momentum. Currently, treaties with five countries are awaiting signature (namely Belgium, Italy, Singapore, Slovak Republic and Vietnam) and three (BahRAIN, Qatar and San Marino) have very recently been signed. Accession to these agreements, as well as the successful completion of our Phase 2 Review and Financial Sector Assessment Programme, will provide increased certainty for current and prospective investors, while reinforcing the credibility of our commitment to being a transparent, responsive and well regulated jurisdiction.

In addition, Barbados is also updating and expanding the range of solutions offered to international businesses. New products coming on stream during the year include provisions for Private Trust Companies, Foundations, High Net Worth Individuals, Limited Partnerships and Incorporated Cell Companies. Efforts to broaden the sources of inflows are also increasing, with newer market opportunities in Brazil, Colombia, Panama, Mexico and Venezuela being explored.

These initiatives, together with our exceptional record of social, political and economic stability, an available and intelligent workforce, excellent service providers and professional services, world class infrastructure, direct accessibility from advanced world economies, idyllic climate, and enviable quality of life, combine to make Barbados a compelling choice for international investors.

Our continued success as a jurisdiction demands consistency, creativity, innovation, responsiveness, flexibility and excellent client service. The Government of Barbados is committed to providing a globally competitive and transparent business environment.

If you are exploring legitimate ways of achieving sustainable growth while maximising your global competitive advantage, I invite you to experience the Barbados business brand in 2013 and beyond!

Senator the Hon. Darcy Boyce
Minister in the Prime Minister’s Office

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2013 BARBADOS INTERNATIONAL FINANCE & BUSINESS 5
International Business: a Key Driver for Future Growth

In behalf of the board and staff of Invest Barbados (IB), I am especially pleased to welcome our current and potential investors, as well as our clients and stakeholders to the 2013 edition of Barbados International Finance & Business magazine.

As a key economic development agency of the Government, the team at IB is focused on the development of Barbados as the international financial and wealth management centre of choice in the Western Hemisphere.

Essentially, our mandate requires us to secure and facilitate foreign direct investment and international business that result in increased jobs, technology and skills transfer, foreign exchange and tax revenues for Barbados.

Given Barbados’ development agenda, as well as the constantly increasing competition for global investment flows, IB has made as its priority the enhancement of the Barbados value proposition. Barbados is committed to the Organisation for Economic Co-operation and Development’s information exchange requirements within an expanding treaty network environment, governed by high quality and right-sized regulation. It also offers the unique mix of a strong services-based economy, well educated and knowledgeable human resources, excellent business and professional infrastructure, competitive costs, and an enviable quality of life - all in a low tax, transparent, safe and stable environment. We have been working, and will continue to collaborate with our stakeholders to facilitate excellent customer experiences, each and every day. Our aim to achieve excellence in customer service delivery is central to our brand and our business culture. This is pivotal to our continued success.

Advances in telecommunications have redefined and revolutionised the global landscape of business, introducing hitherto unparalleled ways and speeds for staying connected. Broadband connectivity is non-negotiable for international investors, and the provision of world class telecommunications services has become a strategic imperative for the sustenance of a vibrant international business sector.

Recently, Barbados attracted new entrants to its telecoms market. We are fully confident that the expanded and improved service offerings, coupled with more competitively priced products, will further enhance Barbados’ appeal as the domicile of choice for savvy investors. According to the 2012 World Economic Forum Global Information Technology Report, Barbados currently ranks 35th in the world and first in the Caribbean and Latin America for Networked Readiness. Notably too, Barbados’ steady progress toward providing free Wi-Fi access across the island adds to its capability to keep investors constantly connected, wherever situated on the island.

In the face of tough external economic conditions, Barbados continues to reign as a regime growth in registrations of new captive insurance businesses and international business companies. Ongoing success in winning new business, as well as in facilitating the expansion of existing clients, fuels our efforts to expand market share in Canada, as well as in select industry verticals in the United States and the United Kingdom. We are also encouraged by the response to our marketing initiatives in China and in select Latin American countries. The addition of new products and international business solutions, together with the entry into force of additional double taxation and investment protection treaties, can be expected to fuel further growth in 2013 and beyond.

... our mandate requires us to secure and facilitate foreign direct investment and international business that result in increased jobs, technology and skills transfer, foreign exchange and tax revenues for Barbados.

IB will continue to encourage investors engaged in businesses of substance to take advantage of the opportunities our island affords, and is committed to developing an innovative business environment to encourage the further development and expansion of Barbados’ international business sector.

We envision a prosperous future for Barbados, with the international business sector being one of its main drivers.

We invite you to make Barbados a part of your future success by utilising the many asset maximisation solutions that Barbados provides.

Contact us today, and let’s discuss how Barbados can work to your advantage.

Emeline Taitt
Chief Executive Officer (Ag)
Invest Barbados
Barbados’ new Non-Dom Programme for High Net Worth Individuals

BY WAYNE KIRTON

Barbados has long been a much sought after destination for High Net Worth Individuals (HNWI) looking for a place with a high quality lifestyle in which to retire, but in the latter half of 2012, the Barbados Cabinet approved the final elements of a ‘Non-Domiciled’ programme that will make Barbados an even more attractive prospect for HNWI, whether retired or not.

The combination of the enviable lifestyle ... (and now a tax efficient retirement planning option) will present an attractive choice for the many Non-Doms looking to relocate

A Non-Dom programme essentially allows the taxpayer to elect to be considered resident for tax purposes in the country, but not domiciled. Any good Non-Dom programme needs three principal elements in evidence – an attractive tax rate, freedom from exchange controls, and certainty of immigration status. Barbados changed its tax laws in 2011 to provide for an attractive tax rate (more later), and exemption from foreign exchange controls has been possible in certain cases for many years, so that Cabinet’s approval of the changes to the immigration rules completed the trinity.

Taxation – how the programme works

HNWI seeking to become resident for tax purposes, but not domiciled in Barbados, should apply in writing to the Commissioner of Inland Revenue to be regarded as tax residents of Barbados. Barbados has a simplified tax residency test, designed with HNWI in mind, which seeks to establish that the individual intends to make Barbados their residence for at least two consecutive income tax years, and accepts, as evidence of that intention, property ownership, or at least a two-year lease on a local property, once that property is not a vacation home. HNWI who are resident, but not domiciled in Barbados, are taxed at a maximum tax rate of 35% on any income originating in Barbados, as well as any foreign income remitted to Barbados. Since Barbados values foreign exchange earnings highly, Barbados residents are granted a tax credit in respect of their foreign currency earnings, which can reduce the effective tax rate on these remitted earnings down to 2.45%.

Freedom from exchange control

Barbadian residents are currently subject to exchange controls. However, the dispensation in respect of the ability to hold foreign currency accounts that is available to International Business Companies has been extended to HNWI applying under the Non-Dom programme, so that exchange controls might only arise if the individual converts foreign currency to Barbados dollars, and then seeks to reconvert to a foreign currency – but that is hardly likely or necessary.

Immigration

HNWI under the Non-Dom programme are accommodated through a special entry permit (SEP), which is issued for the number of years needed to reach 60 years of age, and thereafter (on renewal) on an indefinite basis, allowing SEP holders to come and go as they please. To be eligible for the programme, applicants must provide:

• A certificate of good character (if the home country of the applicant has a national fingerprints database, like Canada or the US, a certificate based on a fingerprints database search would be required);

• A certified statement from the applicant’s bank, attorney or accountant showing net global assets in excess of US$5MM (which status must be maintained, and evidence thereof may be requested from time to time);

• Evidence of health insurance in excess of US$500K.

• The applicant may be asked to provide copies of annual tax returns to the Chief Immigration Officer.

SEP fees are between US$3K-US$5K, and from January 2013 will apply to each adult covered under the application, while minor dependents will only have to pay a small processing fee. Applications are already being processed, and SEPs will also be available to expatriate property owners, regardless of whether or not they intend to apply under the Non-Dom scheme.

An attractive choice

The combination of the enviable lifestyle – low crime, wonderful weather, good infrastructure, friendly and educated population, great dining choices and lots of things to do (and now a tax efficient retirement planning option) – will present an attractive choice for the many Non-Doms looking to relocate as a result of adverse changes to the tax regime applicable to such individuals in the United Kingdom, and increased taxation in other European countries.

Investment Strategies for a Low Yield Environment

BY GORDON ANDERSON & RYLE WEEKES

The credit and liquidity crises of 2008/2009 and the continuing sovereign debt problems of peripheral Europe, have presented investors with a challenging environment in which to generate returns. The absolute yield from short term money market rates to long term government bonds has fallen dramatically, and the credit quality of many developed market sovereigns has been lowered in recent years.

It is also important for investors to think about making use of other asset classes that have a similar volatility or risk profile to bonds, but are impacted by things other than the direction of interest rates

For conservative, fixed income-oriented investors, this environment is conducive to an active management approach. As money market rates sit near zero in the U.S., and around 1% in Canada, simply parking capital in cash to generate returns no longer results in sufficient yield for the majority of investors. An active approach to fixed income management will allow investors to allocate to undervalued sectors and/or securities and add incremental yield to the portfolio. The potential of adding another 50 to 100 basis points in return in this environment is a valuable proposition.

It is also important for investors to think about making use of other asset classes that have a similar volatility or risk profile to bonds, but are impacted by things other than the direction of interest rates. Utilising low volatility, alternative investment strategies can lower risk and increase returns.

A similar case can be made for equity investors. With global growth slowing down, particularly with the ongoing need for ‘austerity measures’ being forced upon developed countries, our expectation is a moderating in corporate profits over the next several years and, consequently, a more muted environment for equity returns. In this type of environment, a focus on higher quality companies, with strong fundamentals, strong balance sheets and stable dividends is expected to outperform.

While we believe in active management in the fixed income space, in equity markets there is value in both active and passive management. In the passive space, we favour fundamental indexing as the best way to gain broad exposure to equity market performance in a liquid, diversified manner. At the same time, the fundamental index approach (developed by Research Affiliates out of California) has historically delivered excess returns of approximately 2% per annum over traditional, market cap weighted benchmarks. If equity markets deliver mid-single-digit returns, then the addition of another 200 basis points, which is the average long-term added value of the fundamental indexing approach, is another meaningful addition to returns.

We also believe in allocating to active managers in the equity space. One key attribute they must possess, however, is to actually be true active managers. The most active form of equity management is ‘long/short’ equity management. Long/short managers have the most flexibility and can vary their overall exposure to markets. They can hold high levels of cash, they can earn profits both from owning or being ‘long’ on companies they believe are underpriced and will go up in value, as well as sell or be ‘short’ on companies they believe are overvalued and will decline in value.

The best thing investors can do for themselves is to expand their toolkit. This is an approach large institutional investors have been exploiting for years, while most individual investors have focused on the more traditional equity/bond portfolio mix. In an environment that’s hostile towards bonds, investors have the ability to shift money to low volatility alternative strategies. While in a volatile, negative equity environment, investors can benefit from the better capital protection afforded by long/short equity strategies. Utilising all these strategies together allows investors to take advantage of the market’s one free lunch – diversification – and provides a higher likelihood of sticking to one’s long term investment plan and achieving one’s investment goals.
Barbados-Luxembourg finance structure
When appropriately leveraged, the treaty allows MNEs to utilise several tax efficient strategies. For example, a regular Barbados company (RBC) may incorporate a Luxembourg limited company (Lux-Co), to which it may transfer the shares of its foreign subsidiaries in exchange for common stock. The RBC may then, in exchange for mandatorily redeemable preference shares (MRPS), transfer an intercompany interest bearing loan to Lux-Co. The RBC may then seek to obtain an IBC license, making it a Barbados IBC (IBC-Co).

In Barbados, the redemption of shares is deemed to be a capital transaction and is not subject to income tax. Therefore, no Barbados income tax implications should arise on redemption of the MRPS held in Lux-Co by IBC-Co. For income year 2012, any taxable income received by IBC-Co should be subject to graduated corporation tax rates from 2.5% down to 0.5%, depending on its level of income; and from 2013, to graduated corporation tax rates from 2.5% down to 0.25%. However, dividends received from Lux-Co should not be taxable in Barbados due to the 10% participation exemption provided by the Barbados Income Tax Act. Where IBC-Co distributes a dividend to a non-resident shareholder, those dividends would be exempt from Barbados WHT as they are paid out of income derived from foreign sources.

MRPS are considered to be debt instruments from a tax perspective whose coupon is fully deductible. Additionally, according to the treaty, dividends paid by Lux-Co to IBC-Co should not be subject to Luxembourg WHT as long as IBC-Co has held at least 10% of Lux-Co for at least 12 months.

Barbados-Luxembourg holding structure
The treaty can also be used to implement an effective holding structure. For example, a RBC may incorporate Lux-Co and transfer its subsidiaries to Lux-Co. The RBC may then register as a Barbados IBC. As explained above, where dividends are paid by Lux-Co to the IBC, those dividends would be exempt from Luxembourg WHT. Additionally, those dividends would be exempt from tax on receipt in Barbados. A distribution of dividends by the IBC to a non-resident shareholder would be exempt from Barbados WHT. Moreover, on the sale of the shares of Lux-Co, no capital gains tax implications would arise in Barbados.

Conclusion
The structures outlined above are two of many possible scenarios which may be implemented to utilise the benefits under the Barbados/Luxembourg treaty. Undoubtedly, this treaty positions Barbados acutely as an investment springboard for MNEs pursuing rapid growth.
Global Trends in Wealth Management: the New Paradigm

BY PAUL JENKINS

O ur International Advisory team is often asked, “What exactly are investors looking for in today’s financial markets?" When this query arises, I tend to offer a consistent answer: “Peace of mind”.

This reply is not meant to be coy or elusive. Rather, it is honest and sincere. We, in Barbados, are proud to offer local expertise with global insight, capabilities and resources.

A state of comfort, as it pertains to a portfolio of securities, can be achieved by intelligent risk management analysis. In today’s environment, Portfolio Management is Risk Management.

The new investor has a global perspective for his or her portfolio. He or she is concerned with systemic or market risk, and wants intelligent strategies that pertain to today’s uncertainties. The new investor sees beyond traditional investment products and basics and seeks a new, dynamic way of managing financial products and risk.

Specifically, income planning looks at future liabilities and advises how a ladder bond portfolio can create an income stream that produces yearly cash flows via bonds with different maturities. This strategy is effective, as it mitigates a portfolio being locked in at one overall yield. The use of many bonds or fixed income securities in the ladder allows flexibility with income streams and the ability to invest in more attractive yields should rates increase over the duration of investments.

Wealth Management is taking many forms, and the diversification of investments away from real estate through leveraging real assets in building global investment portfolios, is a trend that our region is adopting away from real estate through leveraging real assets in building global investment portfolios.

Global investors in Barbados and the Eastern Caribbean view their wealth in total terms, not just in local, regional, or US dollars. This new investor reaches beyond common currencies and seeks protection and growth in currencies of economies with a robust economic outlook and stable governance. Examples of these would be Canadian and/or Australian treasuries that still enjoy a triple ‘A’ rating on their sovereign debt. Further to this point, we are noticing a growing interest in achieving exposure to the Chinese Yuan/Renminbi and Brazilian Real. These unique foreign currency exposures exist only for certain clients with expanded risk profiles.

Savvy portfolio managers are becoming more attracted to blending futures and commodities to reduce the overall risk of the portfolio, and/or protect gains they have achieved.

Investment committees, boards of directors, and institutional clients are increasingly paying attention to global developments and the related risks that can pertain to respective portfolios. Quantitative Easing 3 (QE3) in the United States, geopolitical tensions in the Middle East, Euro zone and US debt crisis, and the Chinese GDP soft landing, are some of the factors that influence fiscal considerations and challenges of respective governments.

As a result, Wealth Management is being shaped by risk management’s strategies in addressing global events and developments.

The new global client has risk management as a main objective, along with multidimensional needs that require progressive, thoughtful and multidimensional solutions and/or strategies. Access to new markets and products, strategic use of liabilities, domicile and insurance are all ingredients that the new client expects.

It is a progressive, intelligent and global approach to risk management that differentiates the art of Wealth Management in Barbados.

Along with the Organisation for Economic Co-operation and Development’s white list approval, the network of Double Taxation Agreements evidences and validates Barbados’ candidacy as a reputable global financial jurisdiction of choice. The industry is supported by excellent wealth advisors that understand this new client and can offer risk and portfolio management strategies that will ensure the elusive “Peace of mind”.

These unique foreign currency exposures exist only for certain clients with expanded risk profiles.
The Role of the Bank and the Investment Manager

BY MARK ST. HILL & MARCIA CYRUS

In the aftermath of the major economic meltdown in 2008, banks across the globe have been blamed for contributing to the crisis. Not only have they been cited for structuring investment instruments that unraveled as the crisis escalated, they have also had to absorb the impact of those fallen investments which threatened their very survival. Four years later, with much of the scourge submerged, banks are cautiously returning to their former strength, the kind of strength that has always been a feature of the banks located within the Barbados jurisdiction, even at the height of the crisis.

Local banks, many of which are subsidiaries of large Canadian banks, have been beacons of stability in a very unstable global economic climate. They have supported the local economy by following prudent lending practices and investing conservatively, and grown with the international business sector through the introduction of technologies and skills previously only demonstrated in more developed markets. This has seen the emergence of the Investment Manager (IM), who has been instrumental in guiding various international businesses in managing their surplus cash. Nowhere has this been more evident than in the Captive insurance industry, where, as Captives mature, surplus accumulated can be invested in equities, alternative investments, structured notes and other instruments, effectively diversifying away from the capital preserving fixed income securities.

A skilled IM is able to filter the myriad of financial information circulating and analyse it to determine which aspects should be used in building his/her approach to the markets. The challenge is always to balance the extent of the due diligence exercise with the quality of reliable information ascertainable on a timely basis, taking into account potential risk exposure across industry sectors and segments, enterprise size and geographical location. The ultimate security selection is based on many factors and reflects the style of the IM, who positions the portfolio not only to generate high performance but also to manage the risk associated with the assets in the portfolio. The role of the bank and the IM fits neatly like a hand in a glove. Both have a duty of care to protect the assets of clients, while at the same time earning a decent return to encourage clients to keep bringing their money to them. The legal ramifications of failing to conduct proper due diligence have been heavily reported in the press, even where strong oversight is present. Local banks and IMs have been relatively unscathed from such tragedies and remain committed to the fundamentals and to preserving the integrity of client funds.

Several studies have argued that setting the correct strategic allocation to asset classes contributes more to performance than using a tactical approach to make adjustments in the economic forecast.

Several studies have argued that setting the correct strategic allocation to asset classes contributes more to performance than using a tactical approach to make adjustments in the economic forecast.

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Why Barbados is the Place for You and Your International Business

By Wayne Lovell

A
ter 2007, Canada expanded the definition of Designated Treaty Country (DTC) to include countries which have signed Tax Information Exchange Agreements (TIEAs) with Canada. For Canadian purposes, DTC status was important, because active business income earned in a DTC was included in exempt surplus and not taxable in the hands of the Canadian corporate shareholder.

On July 1, 2011, the TIEA between Canada and Bermuda came into force, and many experts suggested that Barbados had lost its competitive advantage over Bermuda in the Canadian market and that its Canadian business was under threat. Yet, while Barbados has lost some business to Bermuda and Luxembourg, investors still continue to see Barbados as the place for their international business - why?

DTAs vs TIEAs

In recent years, there has been a rush by many international financial centres in the Caribbean and elsewhere to conclude TIEAs in order to meet the Organisation for Economic Co-operation and Development standard on exchange of information. Although pressed to do similarly, and despite having signed DTAs with a few countries, Barbados has not abandoned its stated policy of expanding its network of Double Taxation Agreements (DTAs) as its main strategy for growing its international business sector. A closer examination of the differences between DTAs and TIEAs provides definitive support for the policy Barbados has adopted.

The primary objectives of a DTA include promoting cross border trade, the avoidance of double taxation, and the prevention of fiscal evasion, which is why they have been so successful at encouraging cross border trade and investments in the last century. To the investor, some of the benefits DTAs offer are:

- Non-discrimination regarding the tax treatment of income from the investment;
- A process for the elimination of any incidence of double taxation of income accruing on investments by the use of foreign tax credits; and
- The means to effectively manage the tax costs associated with foreign investment and trading activities.

DTAs ensure that the taxing rights in respect of income derived by a resident of one State, from sources in the other State, are allocated fairly between the two States. They also ensure that a mechanism exists (and is respected) for the settlement of disputes between taxpayers and taxing authorities and also between the tax authorities themselves, and that they are able to obtain tax information to discourage tax evasion and tax avoidance.

TIEAs, on the other hand, seek only to promote international co-operation in tax matters through exchange of information. They offer investors no protection from double taxation and, therefore, make little or no contribution to the encouragement and facilitation of international trade, commerce and investment. TIEAs offer small international financial centres (IFCs) very little benefit but are likely to present small countries with significant challenges, because of limited resources available to fulfill information requests.

The Barbados DTA Advantage

It should therefore be noted that the existence of a wide treaty network of DTAs, providing the opportunity for investors to effectively manage, from one location, the tax costs, as well as the tax risks, associated with trading and investment activities in multiple jurisdictions, is of significant importance to an investor’s choice of a suitable IFC location. Indeed, Barbados, with its ability to offer investors the benefits of low taxation, together with an expanding network of DTAs, offers distinct advantages over countries that offer no taxation and a network of TIEAs. •
Why Barbados as a Domicile: a Latin American Perspective

BY IKINS CLARKE

Few would argue that Barbados is one of the most enticing places on earth to reside. With year-round tropical weather, an exceptional quality of life and first class sophistication, convincing individuals to relocate here is hardly a problem. Small wonder, then, that Barbados’ mix of unique attributes has helped the island emerge as one of the most popular international business and financial centres in the Caribbean. However, while the location has primarily been a jurisdiction of choice for North American and European investors, the Latin American market remains largely untapped. With language barriers becoming less of a deterrent, Barbados is an ideal jurisdiction from within which Latin American businesses can grow regionally and internationally.

Apart from the several incentives available, Barbados’ extensive double tax treaty network presents a gateway for Latin American businesses seeking to expand internationally. Already there are treaties in force with four of the 20 Latin American countries (namely Cuba, Mexico, Panama and Venezuela), and additional agreements with Brazil, Chile and Colombia are in the pipeline. Therefore, with a treaty network which spans Asia, Africa, Europe, North and South America, and the Caribbean Community (CARICOM), Barbados’ treaty network provides good leverage for multinational companies engaged in the international financial sector. In addition, the regulatory authorities have gradually liberalised exchange control restrictions, allowing businesses to use a Barbados entity in their tax planning and obtain a reduction in their tax payable of up to 93%, resulting in a net tax rate of 1.75%.

Latin American investors should also find that Barbados provides a diverse range of corporate vehicles suitable for international business purposes, including domestic companies, International Business Companies, International Societies with Restricted Liabilities, International Financial Services Companies, and Exempt Insurance Companies. Its corporate regulations allow for easy incorporation or inward migrations for Latin American companies seeking to relocate to Barbados. Barbados also provides a robust regulatory system for those entities engaged in the international financial sector. In addition, the regulatory authorities have gradually liberalised exchange control restrictions making the country a more attractive jurisdiction for international banking. Indeed, the recent establishment of the Financial Services Commission has enhanced the regulation of non-banking financial services and improved the overall integrity of this sector.

Barbados’ history is replete with examples of success stories of multinational corporations that have chosen the jurisdiction due to the factors outlined above. Therefore, with such an unrivalled reputation and an abundance of benefits, Latin American investors may not need to ponder Why Barbados? … rather, When?

The LatAm Domicile of Choice

BY JEROME DWIGHT

Exceptional political stability, a strong economy, a reputation as a mature financial jurisdiction and extraordinary natural beauty – all compelling reasons why Barbados is a popular destination for international business corporations, captive insurance companies and trusts

In recent times, Barbados has also seen significant growth from emerging LatAm multinationals expanding globally and leveraging its extensive Double Taxation Agreements (DTAs) and bilateral investment treaties (BITs) available for international activities. In the latter category, 11 BTBs have been concluded, nine of which are currently in force. These include two with LatAm countries, namely Cuba and Venezuela. As LatAm cross-border investments have been on a steep rise, the appeal of Barbados as an international hub remains strong. With worldwide uncertainty and financial sector upheaval, Barbados’ reputation for financial stability and its emphasis on transparency and investor protection inherent in its international treaty arrangements continues to prove highly attractive.

Treaties, flexibility and innovation

In an era of increasing regulation and compliance, Barbados continues to benefit from being identified as a jurisdiction based on the principles of co-operation and compliance instead of secrecy. As South and Central America continue to expand at high levels of wealth creation, Barbados’ reputation as a stable financial centre, at close proximity to LatAm, has resulted in significant inflows of assets from these regions.

Multiple purposes, multiple benefits

In recent times, Barbados has also seen significant growth from emerging LatAm multinationals expanding globally and leveraging its extensive Double Taxation Agreements (DTAs) and bilateral investment treaties (BITs) available for international activities. In the latter category, 11 BTBs have been concluded, nine of which are currently in force. These include two with LatAm countries, namely Cuba and Venezuela. As LatAm cross-border investments have been on a steep rise, the appeal of Barbados as an international hub remains strong. With worldwide uncertainty and financial sector upheaval, Barbados’ reputation for financial stability and its emphasis on transparency and investor protection inherent in its international treaty arrangements continues to prove highly attractive.

On the estate planning landscape, Barbados has evolved as an attractive choice for LatAmHNW individuals seeking to structure their affairs in a stable and compliant jurisdiction. It is significant that Barbados has concluded DTAs with several LatAm countries in which there is no practice of utilising trust structures under civil law regimes. Further, Barbados is in the process of enacting Private Trust Companies and Foundations legislation, which are particularly attractive to HNW LatAm families, who culturally place a high value on the necessity for greater control over trust assets.

As Barbados continues to consolidate its ties with the region and expand its suite of tailor-made solutions, the outlook remains bright for providing significant opportunities for certain LatAm multinationals with global expansion plans and, similarly, for foreign corporations investing in attractive LatAm assets.

With increased size and complexity, LatAm businesses are also looking to establish bespoke captive insurance companies, tapping into Barbados’ highly effective insurance legislation and extensive network of world class captive insurance managers. As a long preferred domicile for Canadian captives in the mining and oil and gas sectors, Barbados now has the requisite experience to service LatAm companies steeped in natural resources, energy and exports. Additionally, as LatAm companies continue on the path of globalisation, they are looking, increasingly, to consolidate their foreign treasury and cash management functions in Barbados by taking advantage of the wealth of investment managers located on island. Treasury needs such as foreign exchange, global investments, cash management and structured credit are being consolidated on a single, integrated platform in Barbados.

Combined with the benefits of Barbados’ extensive Double Taxation Agreements (DTAs), organising a captive insurance company or treasury operation in Barbados continues to prove highly attractive.
The Latin American Connection … using Barbados’ Treaty Network to become more Globally Competitive

BY BEN ARRINDELL

Barbados currently has double taxation agreements (DTAs) with 32 countries and bilateral investment protection treaties (BITs) with nine countries. Of the DTAs that are currently in force, four are with countries in Latin America, namely Cuba, Mexico, Panama and Venezuela, and the Barbados government is in various stages of DTA discussions with the governments of Brazil, Chile, Colombia and Costa Rica. In addition, Barbados has longstanding BITs with Cuba and Venezuela.

As a result of the existence of DTAs, Barbados has been removed from the tax haven lists of Venezuela and Mexico and it is expected that, on ratification of the soon to be concluded DTA with Chile, Barbados will also be removed from the Chilean tax haven list.

The above-mentioned DTAs provide for, inter alia, reduced withholding taxes (WHTs) on dividends, interest and royalties paid to qualifying entities that are tax resident in Barbados. These treaty benefits, taken together with the low tax incentives that are available under Barbados' domestic law, make Barbados an attractive location for the establishment by multinational corporations (MNCs) of holding and finance companies for their operations in a number of countries in Latin America.

For example, assume that a MNC has operations in Chile. Costa Rica, Guatemala, Mexico, Panama, Peru and Venezuela, which it wishes to finance through a tax efficient vehicle located in a suitable jurisdiction.

Barbados’ DTAs with Mexico, Panama and Venezuela provide for a reduced rate of WHT on interest paid to Barbadian resident lenders. In addition, a common feature of the domestic legislation of five of the above-mentioned jurisdictions is that interest paid by one of their residents to a foreign bank or financial entity, as appropriate, is subject to a substantially reduced rate of WHT (“concessionary rate”). The conditions to be satisfied in order for a foreign lender to qualify for the concessionary rate are broadly similar in the various countries, except that in the case of Chile, a Barbadian international business company can qualify for the benefit of the reduction, whereas in others, such as Mexico and Venezuela, the lender must be licensed as a bank in Barbados.

Where the Barbadian lender qualifies for a reduction in the WHT under both a DTA and the domestic law, the lower rate will prevail. Assume that in this example, the MNC decides to establish an entity in Barbados which is then licensed as a bank (“international bank”) under the International Financial Services Act. The rates of WHT that would apply in respect of interest paid to the international bank under the DTA and/or domestic law, as appropriate, are set out in the table below:

<table>
<thead>
<tr>
<th>Country</th>
<th>DWHT* Rate</th>
<th>Concessionary Rate</th>
<th>DTA WHT Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chile</td>
<td>35%</td>
<td>4%</td>
<td>NA</td>
</tr>
<tr>
<td>Guatemala</td>
<td>10%</td>
<td>0%</td>
<td>NA</td>
</tr>
<tr>
<td>Panama</td>
<td>5%</td>
<td>NA</td>
<td>7.5%</td>
</tr>
<tr>
<td>Peru</td>
<td>30%</td>
<td>4.99%</td>
<td>NA</td>
</tr>
<tr>
<td>Mexico</td>
<td>21%</td>
<td>4.9%</td>
<td>10%</td>
</tr>
<tr>
<td>Venezuela</td>
<td>30%</td>
<td>4.95%</td>
<td>15/5%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>15%</td>
<td>0%</td>
<td>NA</td>
</tr>
</tbody>
</table>

*DWHT – domestic withholding tax

The International bank will not qualify for the WHT reduction under the Interest Article of the Barbadense/Mexico DTA.

As can be seen from the above table, an international bank can qualify for WHT reductions in all of the countries concerned, either under the country’s domestic law (as in the case of Chile, Costa Rica, Guatemala, Mexico and Peru) or under both the domestic law and the DTA (as in the case of Venezuela).

From a Barbados perspective, the international bank will be taxable on the interest income received at rates ranging from 2.5% - 0.5% (2012) and from 2.5% - 0.25% (2013 and onwards). However, subject to certain limitations, it will be able to obtain a credit for the WHT paid on the interest in the source country.

In summary, the use of an international bank for financing into certain countries in Latin America can provide significant benefits to MNCs seeking to leverage their operations in that region. However, the tax rules in each country, as well as the provisions of the DTA, as appropriate, must be carefully examined in each case to determine the precise conditions that must be satisfied in order to obtain the required WHT benefits.

Uses, Benefits and Competitive Advantages of Barbados as a Jurisdiction for Canadian Investors

BY GLORIA EDUARDO AND ALEXANDER JOHNSTONE

Barbados is often used as the domicile of choice for Canadian companies wishing to establish international operations in a stable jurisdiction that allows its profits to be repatriated to Canada in a tax-efficient manner. Such entities are created for a variety of reasons, including the following:

• inter-company financing;
• holding of investments;
• holding of intellectual property;
• mining operations;
• trading of all manner of items;
• captive insurance; and
• international banking.

Despite the emergence of other jurisdictions which have signed Tax Information Exchange Agreements (TIEAs) with Canada being able to enjoy similar benefits, Barbados continues to strive to be the jurisdiction of choice for international investors. Barbados actively pursues enhancing its reputation as a financial services centre and has recently entered phase two of the Organisation for Economic Co-operation and Development’s Global Forum on Transparency and Exchange of Information for Tax Purposes. Barbados is also a member of the reputable global intellectual property and trade organisations, the World Intellectual Property Organisation and the World Trade Organisation.

A key advantage that Barbados retains is its extensive and ever growing double taxation treaty network, which provides opportunities for international structures and the numerous tax and tax administration benefits that these treaties provide. Recently, the treaty negotiation team was expanded, which will facilitate the further development of the treaty network - a priority for Barbados.
Barbados also has a network of bilateral investment treaties, known as BITs, that provide important non-tax benefits. These benefits are of particular significance to investors, providing them with comfort against discrimination and guaranteeing internationally arbitrated compensation in the event of expropriation of assets. For example, Canadian investors may choose to invest in China through Barbados in order to benefit from the Barbados-China BIT, as Canada does not yet have a treaty in force with China. The level of corporate tax is not the only reason why a company would choose a particular domicile in which to locate international operations. Other financial factors include: taxes of all kinds, e.g. VAT and other indirect taxes; Government fees of all kinds, license fees in particular; people costs, including local directors and availability of skilled local people, office accommodation costs, and legal and audit costs.

Then, there are the so-called “qualitative issues” which make the island attractive, such as the low crime rate, an educated work force, quality of life, the professional and business infrastructure, air lift to major cities, the time zone, and ease of doing business. Barbados scores high marks in many of these areas:

- Its company law is closely modelled on Canadian (Ontario) law, making it easy for Canadian lawyers to understand and apply.
- Its International Business Companies (IBC) Act permits an IBC to keep its books and records in most foreign currencies.
- Provided another jurisdiction permits corporate migration, Barbados allows for corporate migration into and out of Barbados with minimal transaction costs and tax consequences.
- There is a significant presence of large, internationally recognised financial institutions in Barbados, including most of the large Canadian financial institutions, thus allowing for efficient repatriation to Canada.
- Anecdotal evidence shows that people and service provider costs are higher in Caribbean competitors, and especially so in some European jurisdictions, than in Barbados.
- Barbados enjoys an excellent climate year-round.

Furthermore, as revenue authorities become more sophisticated, companies located in the international financial centres around the world are likely to be increasingly targeted, especially where they are unable to demonstrate any local substance. Barbados, due to its larger educated population and relative size, is in a better position than its neighbours to provide a level of local board and employee substance.

### CASE STUDY – LENSTEC INC.

**Why Lenstec Chose Barbados**

Lenstec Inc., a manufacturer of medical devices for ophthalmic surgery, has offices in Florida and the United Kingdom, as well as a 30,000 square foot manufacturing facility in Barbados. Manufacturing in Barbados allowed Lenstec to develop and manufacture high quality products closer to their target markets, where standards could be more closely monitored and shipping done more efficiently.

The company currently distributes its products in more than 50 countries and, to date, has three U.S. Food and Drug Administration (FDA) approved lenses being sold in the United States. “When selling to certain territories, the distinction of being located in Barbados proved advantageous and a business distinguisher for international markets trying to discern the quality and calibre of our product. Especially when selling to European markets, and now to the U.S., the value of our product can be seen as higher when compared to similarly manufactured products sourced internationally.” (Ian Hickling – President of Manufacturing, Lenstec Corporation)

Lenstec credits the business climate in Barbados with much of its success. The company cites this, as well as the island’s ideal suitability for high value, light weight, low volume shipments, a competitive cost structure, a business friendly government and an excellent quality of life, among the key reasons why Barbados continues to be its location of choice.

Even more noteworthy, is the country’s intelligent workforce. As unorthodox as this type of business may be within the Caribbean context, the company was yet able to source trained Barbadian personnel in technical and scientific fields such as microbiology, research and development, as well as engineering, IT programming and quality assurance.

This drives home the importance of a country’s reputation within the international community with regard to its political and economic stability, international business policies and the education of its people. These are key factors that new, emerging businesses are in search of when considering a host country in which to set up.

### The Financial Services Commission

The Financial Services Commission (FSC) was established in 2011 to supervise and regulate Barbados’ non-banking financial services sector. As an integrated regulatory body, it has taken over the responsibilities and functions previously discharged by the former Securities Commission, the Supervisor of Insurance and Pensions and the Co-operatives Department in so far as it relates to credit unions.

For additional information on Barbados’ domestic and international insurance sectors, its securities industry, credit unions or pension plans, please contact:

**The Financial Services Commission**

34 Warrens Industrial Park
Warrens
St. Michael

Tel: (246) 421-2442
Fax: (246) 421-2446
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Website: www.fsc.gov.bb

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Barbados enjoys an excellent climate year-round.

**Why Lenstec Chose Barbados**

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How is a rating derived?

While the rating process requires a commitment of time and resources, information is usually readily available to company management. Audited financial statements, financial history, business plans, reinsurance information, actuarial reports, etc. are prepared for internal needs as well.

Ratings are based on quantitative measures and qualitative information. The quantitative analysis includes balance sheet strength, parent company financial support and operating performance. Qualitative analysis includes enterprise risk management, business profile and management. The rating process is interactive – an open dialogue between the company and analyst. In addition, the rating process is customised – one size does not fit all. We know that Captives are diverse and not like traditional insurance companies.

Once an initial rating is developed, it is shared with Captive management. They can accept the rating and go into an annual rating cycle, decline the rating (no information is published) or appeal the rating by producing new information relative to the review.

A.M. Best is the only global rating agency that focuses strictly on insurance. It has been rating Captives since the 1970s, with over 200 rated. A.M. Best also rates start-ups/new company formations and has done so since 2001, developing separate methodologies. There is no waiting period or minimum company size to enter the rating process. All you need is a good business plan, capitalisation, organisational chart and management team.

Uses of a rating

Based on feedback received by A.M. Best, the most common uses of a rating include independent third-party oversight – a second pair of eyes; validation of financial strength, greater transparency; assistance in negotiating terms, conditions, pricing and fronting costs with reinsurers; benchmarking/peer analysis – the rating process includes a comparative analysis of how your company compares to similarly rated companies; ongoing monitoring – you have access to your analyst; and corporate governance, which is becoming a major driver.

Another area where a rating adds value is where a Captive writes third-party business. Since the parties are usually unrelated, it is important to make sure the premiums they pay to purchase the insurance are to carriers that will be there when the claim arises.

There may be requirements for a rating by states and government bodies to transact certain types of business within their domicile.

The value lies in knowing how to shape a vision.

Structure is the foundation for building and preserving wealth.
Known in Barbados as Segregated Account Companies, and by different names in different domiciles, these companies offer some of the most exciting and versatile risk-financing mechanisms in the market today. Segregated Account Companies, Protected Cell Companies, Segregated Portfolio Companies, Series Companies, whatever their name, all share some similar characteristics.

Each of these companies is a licensed insurance entity that is allowed to offer partitioned insurance programmes under its authority. The segregated portfolio structures include legal walls built around the assets and liabilities of each cell, such that what happens in one cell has no impact on any of the other cells under the insurance company.

The capital/collateral dynamics in a segregated account company are particularly important to consider. The segregated account company owner is not typically interested in taking any risk in the individual cells, including underwriting risk and credit risk. As a result, the owner will require that the cell participant fully funds the cell so that it has the ability to cover any claims contingency with some combination of cash, letters of credit and reinsurance.

Having to provide collateral in this fashion is not usually an additional burden for a first year cell participant, since most front companies require collateral to the aggregate stop limit of the policy. However, in subsequent years, as the front company releases collateral requirements, the segregated account company owner would have to agree to the reductions for the cell participant to benefit from them.

The documents that govern these types of arrangements include a Reinsurance Treaty between the Fronting Carrier and the Segregated Account Company in respect of a particular cell, and a Participation Agreement between the particular cell and the cell’s risk participant. As an alternative to a Participation Agreement, some segregated account companies use a Preferred Shareholding as a means to indicate ownership of the cell’s assets and liabilities. Here is a diagram showing the process flow:

**Segregated Cell Insurance Companies – a Barbados Perspective**

BY MARTIN HOLE

**Captives in Barbados ... Step by Step**

BY KIRK CYRUS

Domiciles like Barbados that enable segregated portfolio entities include specific laws that isolate the assets and liabilities of each cell. The strength of the wording of these laws, as well as their enforcement when challenged in court, is critical to their success. Segregated Accounts law is a great example of all these elements at work, although it is certainly not unique among domiciliary laws and regulations. Segregated Accounts law spells out very clearly that the assets and liabilities of each cell under the Segregated Account Company are separate and distinct from all the other cells. The law also requires specialised language to be included in all reinsurance, retrocession and cell participation agreements, that specifies that contract counterparties acknowledge their understanding of the unique nature of segregated account limitations and their inability to recover against other cells.

Additional uses for a segregated account company include a group of affiliated enterprises that share a common insurance need. These might include franchise operations, diocese or other subsets of religious organisations, or association insurance programmes that would like to allow further differentiation of insurance risk taking.

In all these settings, the overarching segregated account company is established by the parent organisation, and then cells are rented to the participants in a way that the costs of maintaining the segregated account company are covered and that the participants can take advantage of a safe and efficient mechanism to retain risk. Often, the sponsoring organisation gains the benefit of a more dedicated membership because of the unique insurance offering.

Captive Managers and other professionals in Barbados can assist in assessing the feasibility, licensing and management of these types of programmes. This will involve performing the feasibility analysis, business plan and licensing process and management services.

**Charting a path**

From its genesis as an International Financial Centre (IFC), Barbados has made a deliberate choice to be a low tax jurisdiction with tax efficient structures and a network of Double Taxation Agreements (DTAs) and Bilateral Investment Treaties – factors which strongly influence an investor when choosing a domicile.

Another major consideration in choosing a domicile is its reputation internationally. Apart from being white-listed by the Organisation for Economic Co-operation and Development, agencies such as the World Economic Forum and Transparency International have provided credence to the notion that Barbados is as reputable a jurisdiction within the Americas and without peer within the Caribbean.

There are two types of Barbados international insurance entities:

- Exempt Insurance Companies (EICs), licensed under the Exempt Insurance Act and exempt from taxation; and
- Quality Insurance Companies (QICs), licensed under the domestic Insurance Act and paying corporate taxes at an effective rate of 1.75%.

These entities are subject to the regulatory authority of the Financial Services Commission, whose stated objective is to provide high quality and risk-based regulation.

The beneficial ownership structure has seen Barbados Captives owned by Corporations, Groups, Associations, Individuals, and Trusts. Recent trend analysis reveals that the majority of Captives are single-parent owned, although there is an upward trend for Rent-a-Captives that allows smaller companies to use these structures as a way of lowering operating costs and capital requirements. The segregation of assets and liabilities in Barbados was introduced with the Companies (Amendment) Act 2001-30.

**The state of play**

According to Business Insurance Magazine, there were nearly 5,800 Captives operating in 61 domiciles globally by the end of 2011. Approximately 70% were located in the Americas, with 270 licensed in Barbados.

There is a widely held view that domicile choice has become more complicated with a wider scope in the type of structure.

<table>
<thead>
<tr>
<th>Captive Numbers by Domicile</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bermuda</td>
<td>862</td>
</tr>
<tr>
<td>2</td>
<td>Cayman Islands</td>
<td>707</td>
</tr>
<tr>
<td>3</td>
<td>Vermont</td>
<td>590</td>
</tr>
<tr>
<td>4</td>
<td>Guernsey</td>
<td>343</td>
</tr>
<tr>
<td>5</td>
<td>Barbados</td>
<td>270</td>
</tr>
<tr>
<td>6</td>
<td>Anguilla</td>
<td>268</td>
</tr>
<tr>
<td>7</td>
<td>Luxembourg</td>
<td>242</td>
</tr>
<tr>
<td>8</td>
<td>Utah</td>
<td>239</td>
</tr>
<tr>
<td>9</td>
<td>British Virgin Islands</td>
<td>174</td>
</tr>
<tr>
<td>10</td>
<td>Hawaii</td>
<td>172</td>
</tr>
</tbody>
</table>

Source: Business Insurance Magazine
Risk Financing Solutions using Barbados as a Domicile

BY ROBERT LANDOLT & TREVOR MAPPLEBECK

Today, corporations recognise that their risk financing strategy can no longer be limited to merely purchasing insurance to cover their operational and hazard risks. Rather, they understand that the most effective approach is finding the appropriate balance between self-insurance and traditional insurance.

Determining the appropriate balance between Insurance and Self-Insurance

For most corporations, insurance purchasing decisions are somewhat dictated by laws, regulations, bank covenants, and other stakeholder requirements. Many also choose to purchase insurance to cover potential catastrophic losses from natural catastrophes and material litigation and liabilities, because it is a sound business decision.

Such risk financing decisions, however, cannot be made without an objective evaluation of options. Decisions about whether to transfer or retain risk on the corporate balance sheet should be made with the goal of reducing financial volatility by protecting the company’s earnings and/or cash flow.

One viable, longstanding self-financing vehicle is forming a Captive insurance company.

Why form a Captive?

Captive insurance companies offer a number of financial, insurance and risk management advantages:

• Financially, Captives help reduce insurance costs, improve cash flow, match revenue and expense (especially for longer tail liabilities), generate tax efficiencies, and can also provide a source of additional revenue.
• Insurance advantages include securing coverage for risks typically not insurable, reducing the need for commercial insurance, improving a company’s negotiating position with insurers, creating flexibility in insurance programme design and coverage, and access to reinsurance markets.
• Captives also facilitate risk management benefits through the design of cost allocation systems, the accumulation of loss data, the design of more effective claims handling and loss control programmes, and the development of uniform expectations and standards for risk management across divisions or subsidiaries.

For these reasons, Captives have long been a vehicle of choice for corporations around the world to finance risks, both at home and abroad. Today there are almost 6,000 Captive insurance companies in existence.

Access to Reinsurance

A key objective for many Captives is the ability to access international reinsurance markets. These markets may provide greater access to capacity, better pricing, and broader terms and conditions than might be available in the domestic insurance market. Captives are also able to earn ceding commissions from reinsurers, which can act as an income source.

Barbados as a Captive domicile

Barbados is the fifth largest Captive domicile in the world, and is internationally recognised as a key player in the Captive arena. Of particular note, however, is Barbados’ overwhelming dominance as the domicile of choice for Captives owned by Canadian parents.

There are numerous reasons why Barbados is the domicile of choice for Canadian companies, including:

• the longstanding tax treaty in place between Barbados and Canada;
• excellent expertise in Captive management, accounting, tax and other professional services;
• the similarity in legal environment, governance and business practices; and
• the high comfort level borne from several decades of successful operations of Canadian-owned Captives in Barbados.

Corporations now recognise that Captives can be employed to insure far more than traditional property and casualty exposures. There are few limitations in terms of the risks that a Captive can finance, provided the risks are evaluated, priced and capitalised properly. Captives are now insuring environmental liability, product recall, weather risk, intellectual property infringement risks, volumetric risks, cost overruns and other business risks. Beyond insurance, Captives also can serve as viable alternatives to other financial instruments, including letters of credit or other guarantees.

Barbados has much to offer for companies seeking to set up a Captive. An excellent education system produces a skilled professional work force, complemented by a robust regulatory landscape in place, strong infrastructure, and a longstanding history of working with Canadian owned Captives and other structures. It is expected that the number of Captives operating in Barbados will continue to grow as more corporations seek to take more direct control of their risk financing strategy.

There are few limitations in terms of the risks that a Captive can finance, provided the risks are evaluated, priced and capitalised properly. Captives are now insuring:

1. environmental liability;
2. product recall;
3. volumetric risks;
4. intellectual property infringement risks;
5. weather risk;
6. cost overrun and other business risks.
Barbados is Captivating!

BY DR. TREVOR A. CARMICHAEL, Q.C.

A striking feature of Barbados as an international business jurisdiction is its all encompassing attribute as a well integrated society. It blends present day financial and cultural life with a past of robust commercialism combined with a heritage of substantial significance. The recent World Heritage inscription of its capital city Bridgetown and its Garrison was a deit recognition by the United Nations Educational, Scientific and Cultural Organisation (UNESCO) of the importance of these linkages. For it underscored the jurisdiction’s past and present commitment to the developmental journey of train and telegraph as well as coach and computer.

Bridgetown was, in the 18th and 19th centuries, the West Indian port physically most directly attenuated towards Europe, in a Barbados which was well guarded from the vortex of the European warfare within the Caribbean. Bridgetown was a guard in warfare, but, equally, it provided a trading advantage which translated to an international business advantage of sugar success. The mystique of small size readily became the mastery of multiple enterprises, the generator of substantial private wealth, plantation fortunes and national income.

In a poignant way, these past centuries were truly the origins of Barbados' first foray into private wealth management, as well as the protection and promotion of internationally mobile capital. The double tax treaty did not exist, since the Barbadian economy was integrated to the mother country. However, the planning and execution which go with such treaties was a sine qua non as planners readily became the mastery of multiple enterprises, the generator of business advantage of sugar success. The mystique of small size, which itself has set the example with the acquisition and restoration of its other neighbour - the old Masonic Building.

Barbados therefore remains today ready to benefit from the necessary financial and intellectual investment in its capital city. The revitalisation of the Empire Cinema, the Walled Garden Theatre of the Barbados Museum, and the restoration work associated with a National Gallery are all identifiable projects. So, too, are the opportunities to create value in less obvious enterprises, such as the restoration of the time honoured city blacksmith shop, formerly juxtaposed to the nation’s lender of last resort - the Central Bank, which itself has set the example with the acquisition and restoration of its other neighbour - the old Masonic Building.

Barbados is truly captivating; and its international business community is now poised with an opportunity to collectively contribute through a structured body and programme which may assist in the commercialising of Bridgetown’s UNESCO inscription.

Present day Barbados emerged from this multifaceted protection accorded to capital city, island home, as well as to the divided - albeit unequally - estate wealth and fortune. This dualism of a protective need for financial as well as cultural capital has been highlighted with the new World Heritage inscription. For the unique qualities expressed in the old town and its Garrison through preserved 17th, 18th and 19th century architecture, will only garner future retention and recognition with a sensitive commercialising of this new status. The beautifully mixed architectural styles, ranging from Georgian to Caribbean Georgian and post vernacular, will not stand on their own unattended and unexploited. Their need for protective commercialisation is, however, two fold - restoring, rebuilding and maintaining but also adopting, whenever possible, productive purposes such that the particular assets may be monetised.

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BDO Barbados was admitted to the international BDO network on 1 April 2012. Founded by the firm’s two current managing partners, Joseph Ward and Hanif Patel, BDO employs two senior managers and 14 other professional and administrative staff. It provides audit, consulting and tax services.

Being part of BDO allows the firm to develop for the benefit of its clients and to meet increasing technical and regulatory requirements. This includes improving its systems, enhancing its access to technical resources and providing structured training and development for its staff in-house.

With its favourable tax regime and extensive double taxation treaty network, Barbados is a recognised international business jurisdiction. Strategically, therefore, the establishment of a strong presence here provides BDO with a platform to better service international clients for whom Barbados is the domicile of choice.

Martin van Roetel, CEO of BDO, said “Our new firm in Barbados gives a vibrant BDO region with an already significant international client base and a reputation for strong local market knowledge, broad industry expertise and excellent technical skills. This appointment will ensure that our clients right across the region and internationally will find in BDO the service capabilities to fulfill their complex needs.”

Founded in 1963, BDO is a worldwide network of public accounting firms, with nearly 65,000 partners and staff and over 1,200 offices in 158 countries, in of them in the Caribbean. The BDO brand stands for exceptional client service, delivered by exceptional people and the network has a track record in supporting the international expansion of its clients.
Barbados: Forging New Middle Eastern Connections

BY FRANCOISE HENDY

It is well known in international circles that Barbados’ “diplomatic footprint” is several times a multiple of its 166 square mile size. In fact, since independence, when the new Prime Minister declared the country - then largely a mono crop economy - to be “friends of all, and satellites of none”, successive governments have set about formalising relations with countries across the globe. In tandem with (and as a natural corollary to) this foreign policy mandate, Barbados has been consistent in its aggressive and purposeful pursuit of bilateral treaties. These are principally designed to:

• encourage cross-border trade and investment by mitigating double taxation;
• prevent fiscal evasion with respect to taxes on income; and
• institutionalise treaty-based mechanisms for the exchange of taxpayer information in accordance with international best practices.

To this end, long before many larger economies with significant activities in international business and financial services could boast of diplomatic links and tax treaty relations with countries like China, Cuba, Venezuela and the United States, Barbados was already counted as a treaty partner, with tax relations continuing almost thirty years since these agreements were first signed.

Confirmation, then, that Barbados has forged new diplomatic links with the States of Qatar and Saudi Arabia should equally not be surprising, as this merely continues the staple of Barbados’ foreign policy. In a similar vein, Barbados has also taken deliberate steps to conclude tax treaty relations with its new partners and others in the Middle East with whom it intends to establish diplomatic relationships.

Barbados has signed new tax agreements with Bahrain and the State of Qatar, has secured negotiating dates with the United Arab Emirates during the second week of February 2013, and is in the process of determining dates for tax treaty talks with Saudi Arabia.

This activity also coincides with increasing interest from countries of the Gulf region who, like Barbados, are also members of the Organisation for Economic Co-operation and Development’s (OECD) Global Forum on Transparency and Tax Information Exchange, and as such are keen to demonstrate their compatibility with post-financial crisis norms, while more effectively interposing themselves into global financial flows.

Barbados’ tradition of tax treaty negotiation and its non-reliance on zero taxes to attract investment – both of the human and capital variety – to its international business and financial services sector has meant that, while others are now referring to tax treaties as the “DNA” of the offshore industry, the country has steadfastly continued on the path adopted decades ago by a progressive, forward looking people.

Moreover, that its model tax treaty is largely reflective of the provisions of the OECD Model Agreement, with a few aspects taken from the United Nations Model, is further proof of the country’s unique position as an international financial centre which not only attracts significant activities in international business and financial services could boast of diplomatic links and tax treaty relations with countries like China, Cuba, Venezuela and the United States, Barbados was already counted as a treaty partner, with tax relations continuing almost thirty years since these agreements were first signed.

Importantly too for treaty partners in the Gulf region, who have long remained outside the international discourse on offshore/onshore financial services, Barbados is a key ally with whom these countries find their own thinking on these matters squarely aligned. As such, these new treaty partners are counted among the number of Barbados’ non-traditional allies, reliant not so much on historical relations but modern day imperatives.

To date, Barbados has 32 comprehensive tax treaties ‘in force’ with countries, including Austria, Canada, Iceland, Luxembourg, Malta, Mexico, Panama, the Seychelles, Spain and Switzerland. New accords with Belgium, Italy, Singapore, the Slovak Republic and Vietnam are awaiting signature. Agreements with Bahrain, Ghana, Portugal, Qatar and San Marino are currently awaiting ratification and are expected to enter into force shortly.

The Agreement was signed by Senator the Hon. Maxine McClean, Minister of Foreign Affairs and Foreign Trade, and H.E. Sheikh Ahmed bin Mohammed Al Khalifa, Minister of Finance, the Kingdom of Bahrain.

Tax Residency

BY LIZA HARRIDYAL-SODHA

Efficient tax planning should be the central focus for corporations, individuals and any recognised legal entity such as partnerships or trusts. In recent times, case law has specifically demonstrated the adverse tax consequences which can occur when relevant tax experts are not consulted prior to the decision to “go global”. This can happen, as tax liability is generally based on factors such as residency, domicile and/or nationality, and the complexity of the laws differ from jurisdiction to jurisdiction.

The determinant for residency of any legal entity or individual varies from one jurisdiction to the next. In the case of corporations, for example, some jurisdictions, such as the United States of America, focus on the organisation or the organisation of the corporation in their jurisdiction to determine whether the corporation is resident for tax purposes in that jurisdiction. In other jurisdictions, like Barbados and, to some extent, Canada (which uses a combination approach), the test for residency is determined by the situs of the central management and control of the corporation. The latter position is the accepted common law position, and in the recent Canadian case of C. Michael Trust Corp. v. The Queen (The Garmar case), the central management and control test, therefore, is also applicable to trusts.

Tax advisors sometimes differ in their advice on the steps to be taken to satisfy the central management and control test, however the following are some of the primary determinants:

• the majority of the directors and principal officers of the corporation or trustee should be resident in the desired jurisdiction of residence;
• key decisions are to be made in the jurisdiction where the entity desires to be resident;
• a head office with contact information should be established in the desired jurisdiction of residence. The corporation should have employees, or engage a management company, to conduct its day-to-day operations;
• anyone with signing (including on bank accounts), contracting and decision making authority should be resident in the desired jurisdiction of residence;
• the legal entity should comply with all statutory requirements of the desired jurisdiction of residence, including incorporating, licensing, tax filing and other regulatory requirements;
• material contracts for the business should be negotiated, drafted, and executed preferably at the entity’s head office, in the registered name of the corporation. The contracts should also be subject to the laws of the desired jurisdiction of residence, with no condition for overriding approval from foreign residents;
• all suppliers, creditors and customers of the entity should be aware that they are dealing with the entity in the desired jurisdiction of residence;
• local management of the entity should make all decisions on the day-to-day running of the business without any direction from non-residents. and/or
• all communication between the entity and non-resident shareholders and/or affiliates should be kept to a minimum confined to the exchange of information, as opposed to the giving of instructions or directions.

The above list is not exhaustive and revenue authorities will determine residency on a case by case basis. As it relates to individuals, citizenship, residency and/or domicile are the determinants for tax liability. In Barbados, for example, individuals are deemed resident for tax purposes where they have been present in the island for more than 182 days. However, domicile is also an important determinant for the level of tax liability in Barbados as:

• Resident and domiciled individuals are taxed on worldwide income, whether or not remitted to Barbados;
• Resident, but not domiciled, individuals are taxed on income derived from within Barbados and worldwide income remitted to Barbados;
• Non-residents are taxed on income derived from within Barbados.

Another matter for consideration is Double Taxation Treaties, wherein residency is usually defined and which will, in most instances, override the domestic tax laws of the parties to the treaties. Understanding the complexities and intricacies of tax residency and the corresponding implications is essential when conducting business globally.
Entertainment:
- Cinemas
- Local & International Theatre
- Concerts & Live Music Venues

Activities:
- Fitness Centres & Spas
- Marathon Runs
- Horse Riding
- Ecological Hikes

Places to Visit:
- Historic Buildings & Sites
- Museums
- Rum Distilleries
- Plantation Homes

1. Fabulous Golf Courses
2. International Sailing Destination
3. World Class Conference Facilities
4. Holistic Waterside Experiences
5. Theatre & Entertainment
6. Spectacular Beaches
7. Times Past
8. Living at its Best
9. The Captivating Outdoors

... and so much MORE
Barbados as a Trust Jurisdiction  
by Lynn Garner

The laws relating to trusts in Barbados have their foundation in British common law and rules of equity. Inter vivos Trusts (those created during the lifetime of the Settlor) are governed by two pieces of legislation in Barbados - the Trustee Act, 1985, and the International Trust Act (ITA), 1995. The International Financial Services Act (IFSA) is the legislation under which banks and trust companies offering such international financial services in Barbados are regulated.

Traditionally, trusts are established by a Settlor who conveys title of assets to the Trustees, who have the fiduciary duty to maintain and grow those assets for the benefit of the beneficiaries. A Trust can own quite a variety of assets, including, but not limited to, private companies, real estate, collections, traded securities, insurance policies and boats. Barbados’ legislation presently applies, however all other benefits and requirements noted above are for International Trusts are applicable.

In October 2012, both houses of Parliament in Barbados passed two pieces of legislation to allow:

1. Settlers of Domestic and International Trusts to reserve some powers to deal with assets owned by the Trust, which are normally only granted to the Trustees (referred to as Reserved Powers Trusts or RPTs). This control is granted by the legislation, which states that such powers reserved shall not cause the Trust to be invalid; and
2. For the establishment of Private Trust Companies (PTCs).

PTCs are formed to act as trustee for a specific trust or group of trusts but cannot offer trustee services to the general public. These PTCs are often owned by Purpose Trusts which are established by wealthy families or corporations and have their own Board. Wealthy families may wish to utilise these structures in cases where either family members or assets reside in various jurisdictions. PTCs are an attractive solution for families who wish to have more control over the trust assets than would be allowed using a traditional trust. The family members and/or their trusted advisors will often sit on the Board or Board Committees which will allow them significant input as to the management and distribution of the trust assets. The Board of the PTC will likely appoint a licensed and experienced trust company to administer the PTC structure and act as advisor to, or be a member of, the Board. Furthermore, the professionally licensed trust company may act as Trustee of the Purpose Trust.

In Barbados, the PTC legislation has taken an even-hand approach as to flexibility for the clients versus the legitimacy of the PTC operation. Some of the requirements for establishing and operating a PTC are:

1. The application must be approved by the Minister of International Business (Minister). The application contains 12 straightforward questions and the fee is US$1,500.
2. Each PTC must have a Registered Agent who maintains the records and submits annually a Declaration of Compliance to the Minister; and
3. Each PTC must have a “Special Director” as a member of its Board. This Special Director must be a resident of Barbados and have at least five years of experience in a discipline related to the administration of trusts.

If the PTC is established by and is for the benefit of persons outside of Barbados, and if other requirements are met as to its administration, the PTC and the trusts for which it acts as trustee would be exempt from income and capital gains taxes in Barbados. These structures do often go hand-in-hand with Family Office Services.

For those of us who have experience in dealing with Private Trusts in other jurisdictions, the addition of the PTC legislation in Barbados is certainly welcome. Legislation to facilitate the use of Foundations is expected in 2013.
What’s New and What’s Next in International Business in Barbados?

BY MELANIE JONES

During 2012, the Barbados Government listened intently to feedback on taxation, derived locally and overseas, from key influencers in the private sector who responded to consultation undertaken by the Barbados International Business Association and Invest Barbados. The result is new legislation implementing important enhancements to Barbados’ tax regime. These make Barbados even more attractive for smart investors seeking business-forward incentives, substance, transparency, and an unparalleled quality of life for those fortunate enough to headquarter here or visit regularly on business.

The good news starts with the mitigation of the tax rate applicable to the top income band for international societies and business companies, as well as international banks.

For income year 2012, the marginal rate of tax on profits above US$15,000,000 was cut from 1% to 0.5%. This rate will be further shaved to 0.25% for income year 2013. The low rates for lower profit levels hold steady at 2.5% for profits up to US$5,000,000; at 2% for profits between US$5,000,001 and US$10,000,000; and at 1% for profits between US$10,000,001 and US$15,000,000. Meanwhile, international entities continue to enjoy a foreign tax credit on income earned from foreign sources, and the restriction on the use of these credits has also been reduced.

Another welcome development is the amendment of the Income Tax Act, so that the foreign currency earnings credit (FCEC) now warmly embraces a wider group of services, including exploration, extraction and mining, oil and gas activities, licensing and sub-licensing of intellectual property, and shipping services.

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The FCEC provides a credit against Barbados tax that would otherwise be payable at 25%. The rate of credit operates on a sliding scale according to the proportion of total taxable profits earned in foreign currency, and at the highest threshold of foreign currency earnings (81% and above) the rate is reduced to 1.75%.

The FCEC affords rich savings to domestic companies, whether deployed from within the local market or into international structures, and the use of a domestic company allows unrestricted access to Barbados’ network of treaties in force with some 32 countries, and to its nine investment protection treaties.

Happily, positive changes on the taxation landscape coincide with another major legislative addition, the Private Trust Company Act (PTCA). The PTCA now makes Barbados’ trust infrastructure highly competitive, with this important addition to facilitate family office structures and augment the pre-existing framework built around the Trust Act, the International Trusts Act and the common law.

So What’s Next?
The passage of the Foundations Act is eagerly awaited as an invaluable tool for investors from civil law jurisdictions where foundations are commonplace. Further, the evolution of limited liability partnership legislation is a work in progress, expected to benefit all types of professional services partnerships, as well as collective investment structures. Discussion has also begun around incorporated cell company legislation, aimed at providing even more robust investor protection than the existing segregated cell legislation and offering major utility in insurance, fund and capital markets transactions. Further, a revamping of Barbados Mutual Funds legislation is well under way.

With our latest additions and future enhancements looming large in the international business arena, Barbados looks forward to ushering investors towards brighter, broader horizons of opportunity.

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With our latest additions and future enhancements looming large in the international business arena, Barbados looks forward to ushering investors towards brighter, broader horizons of opportunity.
Join the discerning group already enjoying significant benefits in a stable environment.

For decades, Barbados and Barbadians have been making the kind of decisions that have produced an island worthy of investments like yours.

Competitive Advantages:
- Extensive Double Tax Treaty Network
- Bilateral Investment Protection Treaties
- Commitment to Substance
- Well Educated Workforce
- Prudent Regulatory Framework
- High International Rankings
- Quality Professional Services
- Low Corporate Tax Regime

Financial Products:
- International Business Companies
- Societies with Restricted Liability
- International Insurance
- International Banks & Trusts
- Segregated Cell Companies
- Mutual Funds
- Ships’ Registration