

PANAMA'S INCOME TAXATION AND CAPTIVE INSURANCE COMPANY LAW - WHY FOREIGNERS ARE DOING BUSINESS FROM PANAMA

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INTRODUCTION

Panama has been an important international financial center for over sixty years. Panama's economy is primarily service-oriented. More than 70% of its Gross National Product (GDP) and 50% of the nation's employment results from the service sector.

Early after its independence from Colombia in 1903, Panama adopted a convenient and attractive fiscal legislation which, since then, has exempted from income tax the earnings or income generated, earned or produced abroad. This is the basis for our tax system, known as the "territorial concept of the income tax".

Panama's tax legislation sets out that a taxpayer is any person or legal entity, national or foreign, receiving any income that is produced from any source within the territory of Panama, regardless of where it is received. Panamanian-sourced income is subject to income tax unless specifically exempted, without regard to the nationality, domicile or residence of the taxpayer or the place where a contract is executed or where the payment is made. As long as the income is not earned or produced in Panama, it will not be subject to income tax in this country.

According to our fiscal legislation, there is no tax on any corporate or personal profits or dividends earned from foreign source income. Our Fiscal Code and regulatory provisions thereto expressly exempt from tax, among others, the income listed below as it is considered to be earned from offshore transactions:

1. The income earned from invoicing from an office established in Panama to a third party, the sale of goods and products from a price higher than that for which those goods and products were billed to the office established in Panama by the supplier, provided the goods and products are not delivered to Panama.

2. The income earned by an office established in Panama for business or commercial transactions that are executed, consummated or that take effect overseas.
3. The dividends paid to partners and shareholders by a Panamanian company from whose income is earned from offshore transactions.
4. The dividends that a Panamanian corporation not conducting any business in the country distributes among its stockholders.
5. The wages paid by a Panamanian corporation to an employee for labor done or services rendered abroad.
6. The interest, commissions and any other income of similar nature earned by an individual or corporation notwithstanding where they are domiciled or the country where the corporation has been organized, earned or collected from loans, lines of credit or any other financial transaction entered into with a borrower domiciled abroad, provided that the use of the funds takes effect outside Panama even though the payment of capital and interest of such financial transactions is made in Panama.
7. The interest, commissions and any other income of similar nature earned from loans, lines of credit or any other financial transactions granted to corporations notwithstanding their domicile or their country of organizations, provided these corporations earned their income from sources, activities or transactions that are executed or take effect outside the Republic of Panama.
8. The income or interest earned by trusts organized in Panama according to the trust law of Panama from assets located abroad and given in trust, saving accounts or time deposits of individuals or corporations whose income is not produced in Panama, as well as from shares or securities of any nature, even

though those deposits, shares or assets are kept in the Republic of Panama.

9. The premiums earned by insurance or reinsurance companies for the coverage of foreign risks, that is to say for insuring individuals, corporations or assets located abroad.
10. The income earned from the sale, assignment or conveyance of shares and participation in a Panamanian corporation whose assets and operations are located.
11. The income earned from the sale, assignment or conveyance of shares and participation in a Panamanian corporation that owns a vessel registered under the Panamanian flag in the Panamanian Merchant Marine.
12. The income earned by vessels registered under the Panamanian flag in the Panamanian Merchant Marine from international maritime commerce.
13. The income earned from the sale, assignment or conveyance of vessels and airlines registered under the Panamanian flag dedicated to international commerce.
14. The income earned from the exploitation of a vessel registered under the flag of a foreign country provided the said country, as reciprocity, exempts from taxation the income earned in that country by a vessel registered under the Panamanian flag.
15. The income earned by any foreign individual or corporation, either with residence in Panama or abroad, from the exploitation of a vessel registered under the flag of any country, provided the country of origin of said individual or corporation grants the same exemption to Panamanians or corporations organized under Panamanian law or to those who have their domicile in Panama.

16. The interest paid by local and foreign banks located in Panama to savings accounts or time deposits kept in this country.
17. The interest paid by local and foreign banks located in Panama to international banks and financial institutions for loans, lines of credit, banking acceptances and any other instruments, even though those funds are used by the local and foreign borrowing banks to grant credits in Panama.

Further to this tax advantages, there are some other considerations that complement our tax provisions and that make of Panama a leading international offshore center, such as the fact that the U.S. Dollar has been since 1904 currency of legal tender in Panama; that there is no central bank that imposes monetary restrictions or currency controls; there are no taxes or restrictions on transfer of funds; that there is no mechanism to control the repatriation of capital or retained earnings and that secrecy is completely protected with respect to other jurisdictions in tax related matters.

Due to the advantages provided by our country, the international business community suggested that Panama adopted a legislation on captive insurance companies to complement the variety of services provided by our financial center for the execution of offshore transactions. In response to this request, in 1996 Law No. 60 of July 31 was approved, setting out the legislation on captive insurance companies.

This law was drafted after having studied the most important legislations on captive insurance companies from Europe and the Caribbean, such as Liechtenstein, Bahamas, Bermuda and the Cayman Islands, among others, to make sure that this new law would satisfy the needs of the international business community.

CONCEPT

A captive insurance company is defined by Mr. Alwin M Tamosius in his article "Insurance, The enigma of offshore captives" as a corporate entity created and controlled by either a parent company, professional association or a group of business whose sole purpose is to provide insurance for that parent, association or group as an

alternative to purchasing insurance from the conventional market (The OFC Report 1996/1997, page 65). It is a closely-held insurance company whose insurance business is primarily supplied and controlled by its owners as they have direct participation over the captives major operations, including investments, underwriting and claims management policy, and in which the insurers are the principal beneficiaries. This type of company is known as "offshore insurance companies".

The decision to use a captive insurance company to provide self-insurance is based on the need to reduce costs and to achieve better risk management. This reduction of costs is obtained mainly from the tax benefits that are given by our legislation to offshore insurance or reinsurance. Companies have concluded that the conventional insurance markets do not satisfy their financial requirements with respect to quality of service, costs and coverage of certain risks and that this can be better achieved by owning and operating their own insurance company, organized and managed in jurisdictions that grant tax benefits to offshore transactions, such as Panama.

According to our legislation, captive insurance companies are companies, either Panamanian or foreign, authorized by the Superintendence of Insurance and Reinsurance of the Ministry of Commerce and Industry of Panama and devoted to insure or reinsure foreign risks, that is to say, risks located abroad, from an office located in Panama.

The authorization by the Superintendence of Insurance and Reinsurance to captive insurance companies is granted to insure either a) long term risks, which include individual, collective or group lives for hospitalization, pensions or permanent rent, or b) general risks, to insure or reinsure any other risks not considered as long term risks.

Captive insurance companies can only insure or reinsure the risks approved by the Superintendence of Insurance and Reinsurance. They are not allowed to insure or reinsure local risks pertaining to individuals or companies resident in Panama; real estate and personal property located in this country; vehicles, planes and vessels

registered in Panama excluding those dedicated to international commerce; civil liabilities derived from damages and losses produced in Panama and the transportation of goods which destination is Panama. All other risks not mentioned herein are considered by the law as foreign or offshore risks.

PURPOSE AND BENEFITS FOR THE CREATION OF A CAPTIVE INSURANCE COMPANY IN PANAMA.

It is obvious that not everyone needs a captive insurance company. However, for large companies or economic groups which have to hire an important number of insurance policies it may be convenient to organize a captive insurance company

The law in Panama has been designed and structured to allow a number of benefits from the use of a captive insurance company, to wit:

1. Low costs. Since the company belongs to the same economic group, the expenses and overhead can be controlled and the same group sets the premiums.
2. The premiums paid by the insured are an income for the same economic group since they are earned by the corporate organization. The premiums paid by the insured are received by the captive which is part of the same group of companies, therefore the organization maintains the premiums.
3. The management of a captive insurance company by the same economic group allows a better risk administration and gives flexibility to prepare policies and coverage tailored to the needs of the group, which also contributes to the reduction of costs. The insurance market sets its prices for insurance companies without discriminating the performance of individual clients, therefore the losses experienced by certain clients affect the prices for those clients who have not had losses or have had less than the others. By having insured the risks of companies that belong to the same group, the captive insurance company has the potential capacity to obtain better premiums from the industry.

4. In some jurisdictions, the premiums paid are considered as expenses that can be deducted by the insured from his income tax declaration. There are countries where premiums paid by companies to ensure the risks of the business are considered an expense needed for the production of income since insurances are required for the operation of the business and, therefore, allowed to be deducted from the income tax declaration.
5. The premiums earned by a captive insurance company are not subject to income tax in Panama since they are an income earned abroad. According to the legislation on captive insurance companies, in as much as that they are only allowed to insure and reinsure foreign risks, the premiums and income earned from their activities are not subject to income tax.
6. The dividends paid by a captive insurance company to its shareholders are tax exempted in Panama since they are considered to be foreign source income.
7. The terms and conditions for the insurance policies are custom made for the needs of insured. Since the captive insurance company belongs to the same economic group, it can prepare special insurance policies according to the particular needs of the insured.

REQUIREMENT FOR THE ORGANIZATION AND OPERATION OF A CAPTIVE INSURANCE COMPANY

Captive insurance companies are not like “shelf” or “paper” companies that are already made for sale and that can be managed by the Resident Agent, even though once organized they enjoy the same benefits and advantages provided by the Panamanian law on corporations.

The organization of a captive insurance company is subject to a previous due diligence process by the Superintendence of Insurance and Reinsurance, which is the

regulatory body of the Government on insurance and reinsurance matters. Additionally, captive insurance companies can not operate without first obtaining a license from the Superintendence.

The organization of a captive insurance company is composed of three stages or steps, to with:

- 1) Filing of a preliminary application and due diligence process;
- 2) adoption of the articles of incorporation or incorporation process and registration of the corporation with the Public Registry and
- 3) granting of the license.

1. Filing of the Preliminary Application and Due Diligence Process

Before a captive insurance company can be incorporated, it is first necessary to request to the Superintendence of Insurance and Reinsurance authorization to either adopt the articles of incorporation to organize the company as Panamanian, or to register a foreign company in Panama to act as captive insurance company, as the case may be. To obtain this authorization, the corresponding request must be submitted with the following documents and information for their approval:

- a. The draft of its articles of incorporation as they want to be adopted, in case that the captive to be used will be Panamanian. In case that a foreign company will be used as a captive insurance company operating from Panama, the following documents must be submitted with the request:
 - i) a certified copy of its articles of incorporation, partnership agreement or any other incorporation documents as well as all the amendments which they might have gone through;
 - ii) a certificate of existence issued by the corresponding government authority with indication of the names of the Directors and Officers of the company;
 - iii) a resolution issued by the Board of Directors of the company authorizing it to operate from Panama, appointing a resident manager as attorney-in-

- fact or the management company, the Resident Agent and the amount of paid-up capital to carry out the captive insurance or reinsurance business according to the requirements of the Panamanian legislation, and
- iv) its balance sheet, and a statement of the part of the capital stock which is used or which it intends to use in business in the Republic of Panama. The registration tax is computed on the basis of the amount thus stated. The auditor of the corporation must certify that it is the latest balance sheet.

These documents must be legalized by the Panamanian Consul or Apostille.

- b. Banking and personal letters of reference for all shareholders and directors as well as a curriculum vitae of all of them as to education and academic degrees; working experience and current business activities.

This is the most important documentation of all because it is the primary source of information for the Superintendence of Insurance and Reinsurance to conduct the due diligence. The Superintendence will carry out an investigation on the background of all shareholders and directors in order to confirm that they are not involved in criminal or fraudulent activities and that they have the knowledge and capacity to operate and manage a company of this nature.

- c. The address where the company will have its offices and the name of the resident manager or attorney-in fact.

The law does not require that a captive insurance company has its own office, staff and personnel. It is allowed that a captive insurance company be operated by an attorney-in-fact or by a management company duly authorized by the Superintendence of Insurance and Reinsurance to act as a managing company. In fact, this is the way most captive insurance companies operate. They enter into a management agreement whereby a company in Panama duly authorize to manage captive insurance companies will carry out the activities and operations of the captive insurance company; its records; claims; relations with re-insurers, etc. This is less expensive than opening the office in

Panama and hiring employees and executives.

- d. A technical report, which must include a business plan and the objectives of the company; the type of risks to be insured or reinsured and insurances or reinsurances to be undertaken, with financial projections. This is the feasibility study that will evince the convenience to organize the company.
- e. A certified check for U\$1,000.00 to the order of the Superintendence of Insurance and Reinsurance to cover administrative and due diligence expenses. This is a non-refundable fee.

All documents in foreign language must be filed translated into Spanish and legalized by the Panamanian Consul or Apostille.

Every captive insurance company carrying out general insurance business shall maintain at all times a paid-up capital free of any encumbrances of not less than US\$150,000.00. Captive insurance companies dedicated to the areas of long term risks or both areas must have a paid-up capital of US\$250,000.00

Once those documents have been filed, the Superintendence of Insurance and Reinsurance will conduct a due diligence on all shareholders and directors to confirm that they are not involved in illicit activities; that the captive insurance company will not be used to carry out unlawful activities according to Panamanian law. Additionally, the business plan will be reviewed to verify its consistency according to the objectives of the company.

Once the request for incorporation has been processed and approved, the Superintendence will issue a resolution granting authorization to adopt the articles of incorporation as per the draft previously submitted for approval and its subsequent registration with the Public Registry, in case that the company will be organized according to the Panamanian law on corporations. In case the corporation to be used as a captive insurance company has been organized according to the laws of other

jurisdiction, then the above referred resolution will allow the notarization and registration of the articles of incorporation with the Public Registry.

2. Adoption of the Articles of Incorporation and Registration of the Corporation with the Public Registry

The draft of the articles of incorporation sealed by the Superintendence as they were filed with and approved by the Superintendence of Insurance and Reinsurance to organize the company, must be adopted and notarized before a Notary Public. Then, the corresponding public deed must be recorded with the Public Registry. For all legal purposes, the corporation will exist and become into life after its registration.

In the case of a foreign company, the certified copy of the articles of incorporation approved by the Superintendence and all other related documents that we mentioned before must be notarized before a Notary Public and recorded with the Public Registry. After registration, the foreign company is legally recognized as a legal entity in Panama.

3. Granting of License

After the corporation has become into existence, a license to operate as a captive insurance company must be requested. The corresponding application must be filed with the Superintendence of Insurance and Reinsurance together with the following documents:

- a. A certified copy of the articles of incorporation of the company as they were registered. The Superintendence will review this document to confirm that it correspond to the text of the draft thereof as it was originally filed with the request to organize the corporation.
- b. A certificate of existence issued by the Public Registry certifying the registration of the company and the names of the members of the Board of Directors. In

Panama, the Public Registry keeps record of the history of all companies organized in Panama or foreign doing business here, including the amendments to the articles of incorporation and changes in the board of directors.

- c. Copies of the share certificates issued to the shareholders reported as investors to the Superintendence of Insurance and Reinsurance, with an affidavit issued by a certified public accountant evidencing the payment of the stated capital. Bearer shares are not allowed since all the shareholders must be known. In case of holding companies, the Superintendence will require the disclosure of the individual shareholders thereof.
- d. An affidavit issued by a bank in Panama certifying that the captive insurance company, once organized and incorporated, has opened a bank account and that the shareholders have made the payment of their share participation.
- e. Financial statements audited by certified public accountants. In case of new companies that are not yet operating, an initial balance sheet audited by certified public accountants must be filed.
- f. If the captive insurance company will operate through a managing company authorized to operate in Panama, full disclosure of this company must be provided and a copy of the management agreement must be submitted.

After these documents have been reviewed and approved, the Superintendence will issue the corresponding operating license to the corporation as a captive insurance company, which will allow it to start operations.

PANAMANIAN CORPORATIONS AS CAPTIVE INSURANCE COMPANIES

The law on captive insurance companies does not regulate the incorporation of corporations. It just deals with specific requirements for the organization and operation of companies that will engage in this activity. In fact, as to the incorporation is

concerned, it just imposes two basic conditions, to wit, that the articles of incorporation can not be adopted prior to the approval thereof by the Superintendence and the minimum amount of capital requirement according to the type of risk to be insured, as we set out before. Other than that, the corporation can have any structure as the incorporators may desire.

Panama has been known worldwide for having a versatile legislation on corporations which makes the organization and operation of corporations very easy and is an agile and stable way for the management of business, both local as well as foreign. That is why, based on the foregoing specific requirements, this is the legal instrument used by investors to organize a captive insurance company.

The provisions on corporations were adopted in 1927 by means of Law No. 27, dated February 26 and since then it has remained the same, without any modifications thereto. Among the many advantages which the Panamanian corporations offer, it may be mentioned the following, having in mind however, that for the specific use of a captive insurance companies, a corporation must comply with the required minimum authorized capital, which must be paid up, that the shares must be registered since no bearer shares are allowed for this activity and that the articles of incorporation can not be adopted until they have been approved by the Superintendence:

- a. The laws in Panama, its jurisprudence and the mercantile practice have devoted a rigorous respect to the legal identity of the corporations, with a clear distinction and separation from its stockholders. Panamanian law distinguishes between the legal personality of the shareholders and directors from that of the corporation for liability purposes. In this regard, Panamanian courts have been consistent and have traditionally recognized this separation, in particular with respect to taxation and the separation of assets and moneys of the corporation from those of the shareholders and directors.
- b. The non-existence of nationality and residence requirements to the subscribers of the Articles of Incorporation, stockholders, directors or officers;

- c. Bearer stock are allowed;
- d. The domicile and the accounting books and record may be kept in any part of the world when the corporation does not make business in Panama;
- e. Absence of paid capitalization requirements;
- f. Those corporations not conducting any business within the country are not under obligation of paying neither income nor dividend taxes and they do not have to declare nor to furnish any information.
- g. It is not a requirement to hold annual stockholders' meetings nor Board of Directors;
- h. A corporation may hold stock or may have interest in other corporations (holding companies)

The incorporation process is very simple. There are no authorization or approval requirements from government agencies to organize a corporation. Two persons, either Panamanians or foreigners, of legal age, who do not need to be domiciled in Panama, are required to subscribe the articles of incorporation, which will be notarized and recorded with the Public Registry. Once recorded, the corporation obtains full legal identity and existence and therefore, broad powers as to carry out any kind of legal acts.

The articles of incorporation must contain, at least, the following information:

- a. Name and domicile of the subscribers of the articles of incorporation.
- b. Name of the corporation, which can be in any language.
- c. Main purpose or objective of the corporation. The law does not require that a

specific objective be stated. It is enough to indicate that the corporation will carry out any lawful activity allowed by the laws of the Republic of Panama and, particularly, those approved by the board of directors.

- d. Amount of authorized capital and the number of shares into which the capital is divided. Since the law on captive insurance companies required a minimum and specific authorized capital, the article of incorporation of a captive must comply with it according to the type of risk to be insured.

Notwithstanding the foregoing capital requirement because of the nature of the operations of the corporation in the insurance business, it is worthwhile mentioning that our legislation on corporations does not required a minimum stated capital, nor does it require that the capital be paid in full to organize the corporation or for the corporation to operate and the capital stock may be represented in terms of an amount of money in the currency of any country. Additionally, our legislation on corporation allows that the corporation have no par value shares, as well as bearer shares. The consideration for the issue of shares may be cash, labor, services or property of any kind. Bearer shares are transfer just by delivery. Shares may be of different classes, either ordinary or preferred, with different voting, dividend or other special rights. A single shareholder, of any nationality is permitted. The registered capital may be increased or reduced by decision of the stock-holders' meeting.

- e. The domicile of the corporation and the name and domicile of the Resident Agent. In case of a corporation used as a captive insurance company, the domicile must be Panama.

The Resident Agent of the company must be a lawyer or a law firm. It is important to mention that the Resident Agent can not be confused with the managing company required by the law on captive insurance company in case it does not have an office and personnel of its own in Panama, as we explained before. The Resident Agent is a non-binding contact person for the corporation before third parties and pays the annual tax to the tax authorities in order to keep the corporation in good standing.

- f. Duration of the corporation, which can be set out for an indefinite period of time.
- g. Name and address of the Directors of the corporation. The law requires a minimum of three natural persons or corporations to form The Board of Directors and it corresponds the administration and full management of the businesses of the corporation. These Directors do not need to be Panamanians and they do not have to be domiciled in Panama. The meetings of the Board of Directors may be held at any moment and it is not necessary to hold them in a periodic or regular schedule. Likewise, they may be held in any part. Directors may be represented in said meetings through a proxy and they are freely appointed and removed by the stockholders' meeting. The Directors are not personally responsible for the acts of the corporation, except in case of fraud, and they may in their personal capacities enter into contract with the corporation.
- h. Name and address of the Officers of the corporation. The law requires at least a President, a Secretary and a Treasurer. The officers may be of any nationality or domicile and they need not to be either directors or stockholders. Same individual may serve more than one office.

OPERATIONAL REQUIREMENTS

Captive insurance companies dedicated to insure long term risks must keep during operation a solvency margin of 6% on their mathematical reserves. Captive insurance companies dedicated to insure any other risk must keep a 5% ratio between their retained net premiums and their net patrimony at the closing of the corresponding fiscal year. At least 35% of those reserves must be invested in Panama in the following ways:

- a. The purchase of bonds, obligations or any other securities issued by the Government or any of its agencies.

- b. The purchase of securities registered with the National Exchange Commission.
- c. The purchase of real state either for rent or for the own use of the company, which must be insured against fire risk for an amount equal to its replacement value.
- d. The granting of loans secured with a mortgage, for an amount no higher than 80% of the value of the real state given as collateral.
- e. The opening of time and Saving deposits with local banks.
- f. The granting of loans secured with pledge on bonds, securities or shares of Panamanian companies registered with the National Exchange Commission or negotiable instruments issued by the Government, for an amount no higher than 70% of the value of the instrument at the moment of the granting of the loan.

Due to the nature of captive insurance companies they can not insure local or domestic risks. These are:

- 1) those related to the existence or physical integrity of individuals who reside in Panama regardless of their nationality;
- 2) those related to assets of any kind located in Panama;
- 3) those related to vehicles of any nature, either automobiles, airplanes or vessels registered in Panama, excluding those vessels dedicated to the international maritime services under Panamanian flag;
- 4) those related to civil liability for damages or losses produced in Panama and
- 5) the transportation or carrying of goods which destination is the Republic of Panama.

Captive insurance companies are only allowed to insure those foreign risks previously approved by the Superintendence of Insurance and Reinsurance.

TAX BENEFITS AND ADVANTAGES

Considering that captive insurance companies only can insure or reinsure foreign risks, our legislation expressly states that the premiums received by the company located in Panama as a result of said insurance and reinsurance are not subject to income tax. Consequently, the income earned by captive insurance companies for offshore insurances and reinsurances is tax- exempt.

Likewise, dividends paid by captive insurance companies to their shareholders are not subject to income or dividend withholding tax because those dividends are earned from offshore activities.

Another important aspect to consider, even though it is not of fiscal nature per se, is the fact that Panama is not a party to any tax treaties with other countries, nor does has it entered into agreements to provide information on tax matters of citizens of other jurisdictions. Fiscal related matters in other jurisdictions are not considered crimes in Panama.

COST OF ORGANIZATION

The cost for the incorporation of a Panamanian captive and the processing of the operating license are composed by the legal expenses charged for preparing all the paperwork and the administrative expenses charged by the local underwriter (usually the same company to be hired as managing company) that needs to be hired to work on and prepare the business plan, plus government fees charged for the due diligence process and the granting of the license. Additionally, annual maintenance cost shall be considered. Studies made by insurance brokers in Panama conclude that they are less expensive than other recognized jurisdictions.

ORGANIZATIONAL EXPENSES

1. The cost for the preliminary filing with the Superintendence of Insurance and

Reinsurance and further due diligence process is US\$5,000.00 plus expenses, such as translation fees (US\$20.00 per page), legalizations (US\$10.00 per document) , faxes and photocopies, among others.

The Superintendence of Insurance and Reinsurance charges a one time non-refundable fee of U\$1,000.00 to cover its due diligence and administrative expenses.

The cost for the preparation of the business plan has to be agreed directly with the underwriter.

2. The cost for the organization and incorporation of the Panamanian company to be used as a captive is US\$2,500.00 including expenses and fees. This cost does not include translation of documents.

3. The cost for the application of the license is US\$2,500.00 including expenses and fees.

MAINTENANCE COSTS

Captive insurance companies, either Panamanians or foreign registered in Panama, must cover and pay the following Government annual expenses to keep the company in good standing:

- a. Annual Tax of U\$150.00 to the Public Registry to keep the corporation in good standing.
- b. Annual Resident Agent Fee of U\$500.00 for its services.
- c. Annual Fee of U\$2,000.00 to the Superintendence of Insurance and Reinsurance to maintain the license in good standing.

- d. Annual management fee to the managing company, as mutually by the parties, based on the volume of premiums.

MANAGING COMPANIES

As previously indicated, a captive insurance company that does not want to have its own offices and staff in Panama can hire a managing company to take care of the carrying out of the business. These are companies authorized by the Superintendence of Insurance and Reinsurance to manage captive insurance companies. There are no restrictions or limitations to organize and operate a managing company or with respect to the individuals who can undertake this business.

The services provided by the managing companies include, among others, the preparation of the feasibility study and the business plan, after a careful analysis of the needs of the economic group; the technical support required to obtain the license for the captive insurance company; the advise on the handling of the risks and claims; book and record keeping and the negotiation of the reinsurance; the investment of the returns.

Since Panama has been in the insurance business for many decades, local companies dedicated to the management of captive insurance companies have the knowledge and expertise to maximize the needs of the economic groups forming a captive and the resources thereof. The hiring of an existing managing company to manage the captive insurance company will avoid the expenses of having to open an office in Panama and hire the personnel to manage the insurance company.

The fees charged by managing companies are calculated based on the premiums collected by the captive insurance company.

As a matter of reference, according to the law on captive insurance company, in order to organize a managing company, the following requirements must be complied with:

- a. Draft of the articles of incorporation of the managing company. The same concepts and ideas previously expressed for the captive insurance company applies for managing companies.
- b. Banking and personal references of all shareholders, directors and officers.
- c. Curriculum vitae and professional references of all executives, managers, Attorneys-in-Fact who will operate, manage or have under their control the operations and management the managing company in order to evidence their experience and expertise in the insurance and/or reinsurance field.
- d. Subscribe a fidelity bond for the amount of US\$100,000.00 to respond for any damages or losses as a result of negligence.
- e. Pay an annual tax of US\$500.00

Once the Superintendence of Insurance and Reinsurance approves the draft of the articles of incorporation, stages or phases 2 and 3 previously specified for captive insurance companies must be followed.

CONCLUSION

The foregoing outlines takes us to the conclusion that Panama is a suitable and convenient place to incorporate and operate a captive insurance company. The flexibility and simplicity of our legislation, complemented with our legal provisions on taxation grant the captive insurance companies a versatility on its operations and the proper benefits to maximize its profits.