

CAPTIVES ON THE WATERFRONT

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Custom House was built in 1791

DUBLIN is the 1991 European City of Culture. Given its history of artistic achievement in literature and drama, there is a solid basis on which our authorities can work. The Irish authorities are also intent in establishing Dublin as an international insurance centre. Again history provides suitable raw material. Insurance in Ireland's capital (called *Baile Atha Cliath* in Gaelic) is a tradition stretching back to the mid-eighteenth century when Edmund Burke MP was championing the American colonists. The Irish authorities are literally planning for the twenty-first century.

The lynchpin of their plan is the International Financial Services Centre (IFSC) being constructed beside the Custom House in the centre of Dublin. The building, overlooking the River Liffey, is an eighteenth-century masterpiece which has been refurbished for its bicentennial as part of this year's cultural celebrations. The centre emerging across the road from the Custom House reflects the highest standards of twentieth-century architecture. But the development of a government-owned 27-acre site by the private sector is not a guarantee of success in creating a financial services centre no matter how wonderful the buildings and their facilities. Yet by the time the development is completed at the end of 1993, it can be confidently stated that it will be fully reserved by companies intent on operating in international banking, fund management, currency trading, international lending, corporate treasury and insurance. Already there are commitments for over 150 such projects.

The centre was first conceived in 1986. The original incentives were based on generous depreciation allowances and a 10-year property tax relief. In 1987, the government approached the European Community in Brussels and successfully negotiated a concessionary 10% income-tax rate to the year 2000. Since then, this has been extended to the year 2005. Also, in 1987, responsibility for marketing the centre was given to the Industrial Development Authority of Ireland. In early 1988 the IDA had

determined the niches in the international financial market which would be suitable for the centre. Included in the list of target areas was insurance. As the marketing of the centre has progressed since 1988, issues have emerged which have led to the modification and refinement of tax law to ensure that full benefit has been given to appropriate sub-sectors in areas such as unit trusts, UCITS, asset financing and treasury. Clear guidelines have been determined to allow projects to develop in a satisfactory environment.

In the same way the specific needs of the insurance sector are being addressed by the Irish authorities as they arise.

What is the IDA's marketing plan for the insurance sector? It is best understood as being based on a chronological development of four areas of insurance. The first is captive insurance for industrials; second, reinsurance; third non-life insurance; and the fourth, life insurance. The rationale was that there is good potential for the insurance industry in the IFSC, but in order to highlight our attractions, we should concentrate initially on captive insurance which tends to be more mobile and more responsive to the type of competitive advantages that Dublin has to offer.

In January 1989, BMW became the first international captive insurance company to establish in Dublin. By the end of that year we had approved captives. By the end of 1990 this had risen to 33 captives. We are handling two to three applications per month. So, by the end of this year we expect to have 50 to 60 captives approved for the centre. We concentrated our efforts on attracting the captive insurance management companies and we now have the world's leaders. Well known names include:

- Marsh & McLennan
- American International Group
- Alexander & Alexander
- Sedgwick James
- Willis Wrightson
- SINSER
- International Risk Management Group

These managers are now promoting Dublin to potential captives and thus contributing to the development in momentum. But the attractions of Dublin for captive insurance, namely the low tax rate and the regulatory control of the EC through the Irish capital, are equally valid for the reinsurance and primary insurance sectors.

not tied into a particular member-state. We expect that as Dublin's importance as a captive insurance and corporate treasury centre grows, more and more purchasers of insurance will be located here. It will make sense for the primary insurance companies to locate their European insurance functions in Dublin to supply these purchasers.



In the reinsurance sector we felt that the volume of insurance in Ireland could provide a broad basis of support for the establishment of a reinsurance market. Companies such as Hibernian Insurance and Church & General are now bringing inward reinsurance into Dublin as part of their IFSC projects. Coyle Hamilton is involved in international reinsurance brokerage. In addition, the reinsurance sector in the IFSC will benefit substantially from the captives coming to Dublin. We are beginning to see primary insurance companies establish financial reinsurance captives in Dublin to handle substantial volumes of reinsurance. A number of the captives such as Richmond Insurance (AIG) and Irish European Re (Aachen Re) are examples. Dublin is emerging as a centre for financial reinsurance. The presence of Cologne Re is the most significant sign of this.

In the non-life sector the creation of a single market for insurance in the European Community is stimulating the development of international insurance in Dublin. The single market for industrial insurance is now a reality. This is causing many insurance companies to reorganise and restructure their operations to provide pan-European services from one location. Dublin, with its low tax rate and European regulatory control, is the ideal location for such an entity. We already have some enquiries of this nature on our books, particularly from non-European insurance companies which are

Dublin may emerge as a centre for particular insurance products such as aviation insurance. Ireland's success as an aviation financing centre could fuel such a development. This view is shared by Tony Kilbride of Beaumont & Son, the world's leading aviation lawyers based in London.

Other new insurance products such as residual value insurance may be particularly suitable to Dublin because of our background in the asset financing sector. Some of the international companies coming to Dublin are looking at new product development based on our low tax regime. This could make Ireland's capital a centre for particular insurance products that have not yet been developed.

The life assurance sector is 80% fund management and 20% underwriting. We are making good progress on the fund management side with companies such as Württembergische from Germany, Eagle Star from Britain and AIG from the United States. Outside of the IFSC Ireland is particularly attractive as a centre for claims-handling operations for insurance companies. Companies such as New York Life, Metropolitan Life, Massachusetts Mutual and Cigna have all established substantial claims handling operations in Ireland.

These have come primarily to avail of Ireland's well educated, English-speaking, computer literate workforce with our telecommunications of international standard and economic environment. Dublin's attractions for

reinsurance fall under three broad headings: the tax regime; the regulatory environment; the operating environment.

Tax regime: Dublin's low corporate tax of 10% up to the end of the year 2005 is very attractive to reinsurance companies because it allows them to build up substantial reserves by retaining funds which, elsewhere, would be paid out in tax. Companies establishing in Dublin do not have to resort to artificial catastrophe reserving in order to build up substantial reserves. Some jurisdictions allow this technique for reinsurance. But the owning company will not wish to have a loss making subsidiary. Dublin with its low tax rate encourages the establishment of profitable companies (when market conditions allow).

But other domiciles such as Bermuda, Isle of Man and Guernsey have low tax rates. So what is so special about Dublin? Ireland has double-tax agreements with 21 countries providing full tax-sparing in many cases. This allows companies to repatriate dividends without incurring substantial tax on repatriation. The low tax-rate coupled with access to a wide network of double taxation agreements is one of Dublin's most important attractions.

Dublin is not a fiscal haven. It is a legitimately lowly taxed area within the European Community. The Irish government obtained approval for the 10% tax-rate for international financial services prior to launching this programme in 1987. The approval by Brussels was based on Dublin's need to generate employment opportunities in the financial services field to offset a rising trend of emigration of highly educated graduates and financial experts. The European Community also wished to provide a stimulus for the development of a financial centre in Ireland as part of its urban renewal programme.

There is a formal process of approval for companies wishing to obtain the 10% rate to

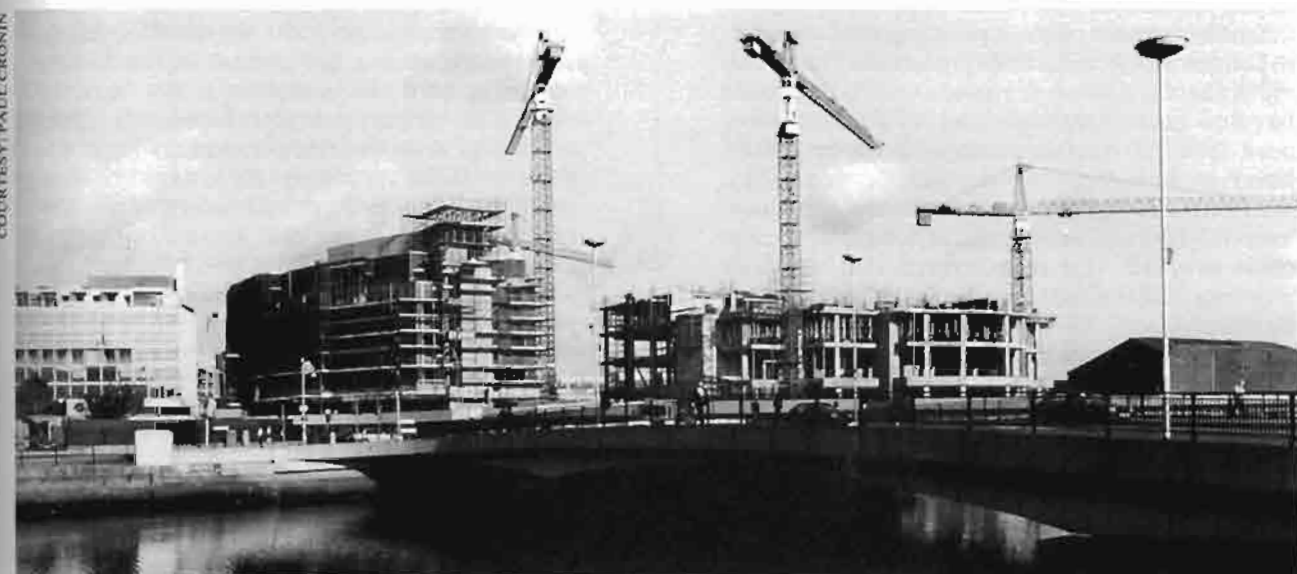
ensure that they meet our requirements. Other aspects to Dublin's tax regime are:

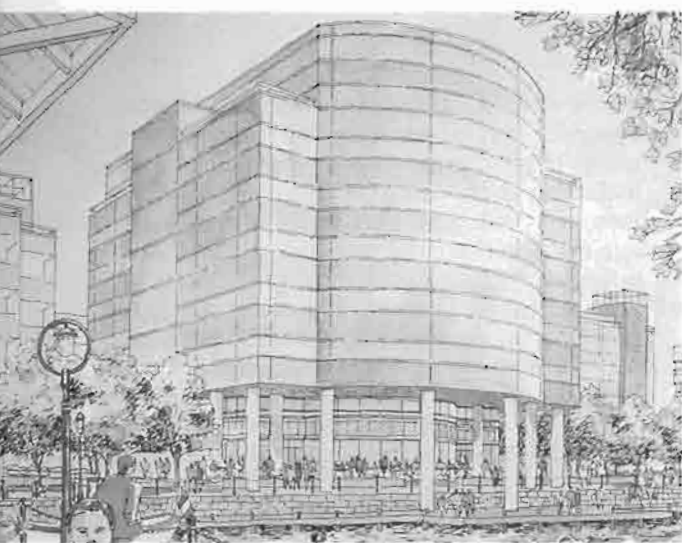
- There is a generous system of allowances against tax; insurance companies are allowed to charge their technical reserves including their estimate for IBNRs (items incurred but not reported at year-end) against their annual income for tax purposes.
- An insurance company's income for corporation tax purposes includes the premium income and the investment income arising from investing the company's reserves
- There are no withholding taxes on dividends or interest paid from the IFSC in Dublin
- No premium taxes are applied to international insurance transacted in the IFSC; premium taxes may apply in the country where the risk originates
- Stamp duty applies at a rate of £1 (*punt*) per insurance policy issued
- Capital duty is levied at 1% of issued share capital.

Regulatory Environment: Ireland's regulations are fully in line with the directives for both direct insurance and reinsurance. The European Community's approach is to regulate direct insurance but not the pure reinsurance sector. In Ireland the insurance industry is regulated and supervised by the Department of Industry & Commerce.

There are no special regulations for captives. A captive insurance company writing direct insurance must be authorised in the same way as a non-captive insurance company. The primary objective of the regulators is to protect independent third parties.

The regulations in Ireland cover direct insurance mainly. Reinsurance is not subject to regulatory control, other than the requirement





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to notify the Department of Industry & Commerce that reinsurance activity is being carried on. There is also a requirement that annual audited accounts be filed with the Registrar of Companies.

Operating Environment: In general the operating environment in Dublin offers the possibility to avail of excellent quality staff, back-up services and infrastructure at more reasonable cost than other international centres. Due to a very young population, with over half under 28, wage costs are low. The annual survey by the Union Bank of Switzerland indicates that the average annual compensation for general financial staff in other European countries exceeds Ireland by 15% to 150% with Dublin comfortably below London rates.

The quality of potential staff in Dublin is high. The Irish students in the Chartered Insurance Institute's examinations consistently achieve results higher than average. Irish students are well represented among the prize winners and distinctions in these examinations. There are approximately 10 000 people employed in the Irish insurance sector.

Another aspect of the operating environment in Dublin is the availability of first-class legal and financial advice at reasonable costs compared to other financial centres. The fact that more than 950 overseas companies have established in Ireland over the past 20 years has contributed to the development of the legal and financial advisory services in Dublin. All of the major practices are members of international networks and their standards of professionalism are very high.

One of the features of Dublin is the first-class telephone service. Over the past ten years £1400 million (*punt*) was spent in upgrading the Irish telephone system. We now have one of the most sophisticated systems in the world with both analog and digital services incorporating fibre-optical connections to the UK, mainland Europe and the United States. We

have the highest percentage (60%) of digitalised switching in Europe. The Irish service offers international direct dialing to over 90% of the world's telephone customers.

There are more than 100 international flights daily into Dublin from Britain, the Continent and the United States. The International Financial Services Centre will provide matching those abroad offices and a working environment in line with the highest international standards.

The living environment is excellent. Housing costs are approximately half of comparable costs in the London area. There is no long commuting time to work. Most people in Dublin live within 30 minutes of O'Connell Street. There is a very good selection of sporting, social and cultural activities available such as sailing, golf, tennis, horseracing, music, theatre and shopping. In fact there are 38 golf clubs in County Wicklow and a number of these are now offering corporate membership.

As for obtaining the 10% tax certificate, proposals are first submitted to the IDA (whose Irish name is *Údarás Forbatha Tionscail*). The IDA board recommends them to the Certification Advisory Committee (CAC) of the Department of Finance. This operates the CAC and issues the certificate. Other members of the CAC are:— the Department of Industry & Commerce, which is responsible for the regulatory control and supervision of insurance companies; and the Central Bank of Ireland, responsible for the regulatory control and supervision of banks and other financial services operations in the centre. The period from receipt of a satisfactory proposal to approval of 10% tax status is from four to six weeks. Regulatory approval for a direct writing captive takes approximately four months. The two applications can be processed concurrently.

In appraising any particular project we concentrate on who the principals are, the proposed activities to be carried out in the centre and a business plan for the proposed operation. In general we are looking to see that the business plan supports the level of employment proposed for the project in the financial services centre. Reinsurance is not seen as a sector that will support significant employment so the job commitments sought are quite modest. However, it is seen as a vital and necessary part of the development of a vibrant insurance sector in the centre. ■

Paul Cronin is manager adviser (financial services) at the Industrial Development Authority of Ireland. He joined the IDA on graduating from Trinity College, Dublin, where he read politics & economics. From 1977 until 1983 he served in New York and, on return to the IDA's head-office, he was responsible for managerial information systems. He transferred to his present post, specialising in insurance, in 1989.