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Reinsurance plan offers dealers tax advantages

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A large insurer in Puerto Rico is offering a reinsurance program with new tax advantages for U.S. auto dealers.

Reinsurance programs let dealers share in the underwriting profit and investment income on the extended service contracts and other insurance products they sell.

Oceanus Reinsurance A.I. is the first international reinsurance company to operate in Puerto Rico, said its CEO, Scott Allan. The regulatory environment in Puerto Rico offers tax advantages because it is a U.S. territory, he said.

The Oceanus reinsurance program targets dealerships and dealership groups that sell at least 350 new and used vehicles a month, Allan told *Automotive News*.

The program enables dealers to buy shares in Oceanus.

Each dealer's earnings are kept in a "protected cell." His or her income is isolated from the money of other participants.

One dealer's earnings are unaffected if another suffers high losses, Allan said.

Oceanus offers the program to dealerships through two U.S. partners: Zurich/Universal Underwriters Group, of Overland Park, Kan., and Southwest Dealer Services, of Irvine, Calif.

Southwest provides the reinsurance under the Century Automotive brand.

Under the U.S. tax code, Allan said, dividends from a Puerto Rican reinsurance company that are paid to a U.S. shareholder can qualify for a 15 percent tax rate, which is the rate for a long-term capital gain.

Jurisdictions such as the Cayman Islands or Bermuda would tax those dividends as ordinary income, typically at rates of 35 to 40 percent, he said.

Vernon Leake, president of Southwest Dealer Services, said the Oceanus program offers "cutting-edge advantages over our current

reinsurance programs." Southwest sells insurance products to more than 750 U.S. dealerships.

Steve Hall was one of the first dealers to sign up for the Oceanus program through Zurich/Universal. Hall is president of driversselect, a Texas group of six used-vehicle dealerships.



Oceanus Reinsurance CEO Scott Allan: Puerto Rican dividends can qualify for a 15 percent tax rate.

He said the program gives him quicker access to earned premiums than other reinsurance programs do.

"Zurich was willing to work with me to customize a plan that met my objectives," Hall said.

Dave Robertson, executive director of the Association of Finance and Insurance Professionals, said adequate volume is key to reinsurance programs such as the one offered by Oceanus.

Said Robertson: "If they put enough money into the program and manage it properly, the end result will be positive." **AN**

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