

MANAGER DGM FORMS ALBERTA COMPANY

DGM forms the new company both to protect against losing captive clients that redomicile to Alberta and to win new Canadian clients setting up an Alberta captive

Barbados-based captive manager DGM has established a new Alberta company. Wayne Fields, president of DGM Financial Group, told *Captive Review* that DGM Captive Managers (Alberta) Ltd had been formed for two main reasons: as a defensive move against any Canadian-parented captive clients in Barbados that may decide to move their captive to Alberta, and as a way to win new future business among Canadian firms that decide to set up an Alberta captive.

Alberta passed new laws in July 2022 enabling captives to be formed in the Canadian province. Only one formed in 2022, but as of 2 August 2023 there were seven captives domiciled in Alberta. Barbados ended 2022 with 184 Class 1 captives and, as of 31 July after approving another five in the year, had 182 Class 1 captives.

Having formed the Canadian company in July, DGM is already talking with two prospective Canadian clients about setting up an Alberta captive. Over half of Barbados' Bds\$4.2 billion of captive premium is written by Canadian-parented captives, and of DGM's 16 captive clients, 11 of them are Canadian companies.

With Barbados' long history of housing captives for Canadian firms and with Alberta still being new on the scene as a domicile, Fields said it's too early to deter-



Written by
Mark Richardson

mine how much of a threat this new competition will be to Barbados. *Captive Review* knows that of Alberta's seven captives, one was an existing captive that redomiciled from Barbados.

DGM has currently had no clients request to redomicile to Alberta, but in the longer term he wants to protect against losing any that might eventually make this decision. "Let's see what happens. Alberta has only had its legislation for a year. British Columbia has captive legislation and they've only had a small number of captives set up (19 at year-end 2022)," he said.

"While I think Alberta may have a better success record than British Columbia, it's still too early to sense whether it's going to be a real draw for Canadian clients writing Canadian risks."

International risks

Fields specifies that for Canadian companies writing international risks it will still make more sense to set up a Barbados captive as any income is considered for Canadian tax purposes to be exempt surplus,

and dividends paid (out of exempt surplus) from the Barbados captive to its Canadian parent is non taxable into that parent. If the captive was in Canada, then its earnings would be taxable.

Indeed, Fields is speaking with prospective clients about setting them up both a Barbados-based captive for their international risks and an Alberta-based captive for their Canadian risks. With Barbados' well-established infrastructure in place to support Canadian captives, he says Barbados is the superior option if the captive is writing international risks, even if it does mean extra travel expense for the annual captive board meeting.

"One of the things I'm putting in our proposals to prospective Alberta captive clients is that we're going to support a lot of the back-office work from Barbados in the beginning because, while it's growing, they don't currently have a lot of skilled captive insurance managers there," he adds.

Comparing domiciles

DGM is currently speaking to around six to eight prospective clients about forming a Barbados captive and Fields reveals that half of these are Canadian companies. These numbers, he says, are about standard for any given year. He adds that even for Canadian firms writing Canadian risks the tax advantages are minimal and the attraction of having a captive in their home country may be more about convenience for many companies.

Legislative differences are also minimal. Captives are required to have a minimum of C\$250,000 (\$187,000) of capital to operate in Alberta, compared to \$125,000 in Barbados. In the end, he thinks the success of Alberta, and the subsequent effect on Barbados as a domicile, will come down to how the regulator, the Alberta Insurance Council, manages incorporating and supervising its captives.

"I can get a captive formed in four to six weeks in Barbados. So, when a renewal is coming up and a company needs to get a captive done quickly, if all of a sudden it takes a longer time in Alberta, people may say 'the tax issue is no different, so let's do it in Barbados'," he says.

"I think as the regulatory approach becomes apparent, from the licensing process to how it supervises captives on an ongoing basis, then you will start to see a reaction, and that reaction will determine what its success rate will be." 🍀