



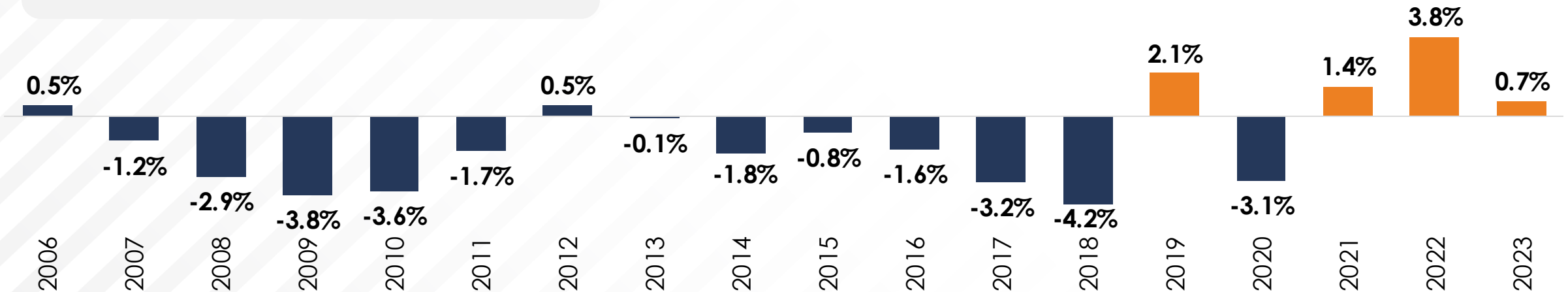
# **ASSESSMENT OF THE ECONOMIC IMPACT OF ACT 399-204 & ACT 273-2012**

PUERTO RICO  
FINANCIAL SERVICES  
FORUM

# PUERTO RICO'S PROTRACTED SLUMP HAS RECEDED, DRIVEN BY COVID-19 RELIEF AND RECOVERY FUNDS

## REAL GNP Growth in Puerto Rico Fiscal Years 2006-2023

In 2020, PR's economy was **19%** smaller than in 2006. It recovered an average **4.6%** of the activity between fiscal years 2021 and 2023



# THERE IS A COMPLEX ECONOMIC ENVIRONMENT

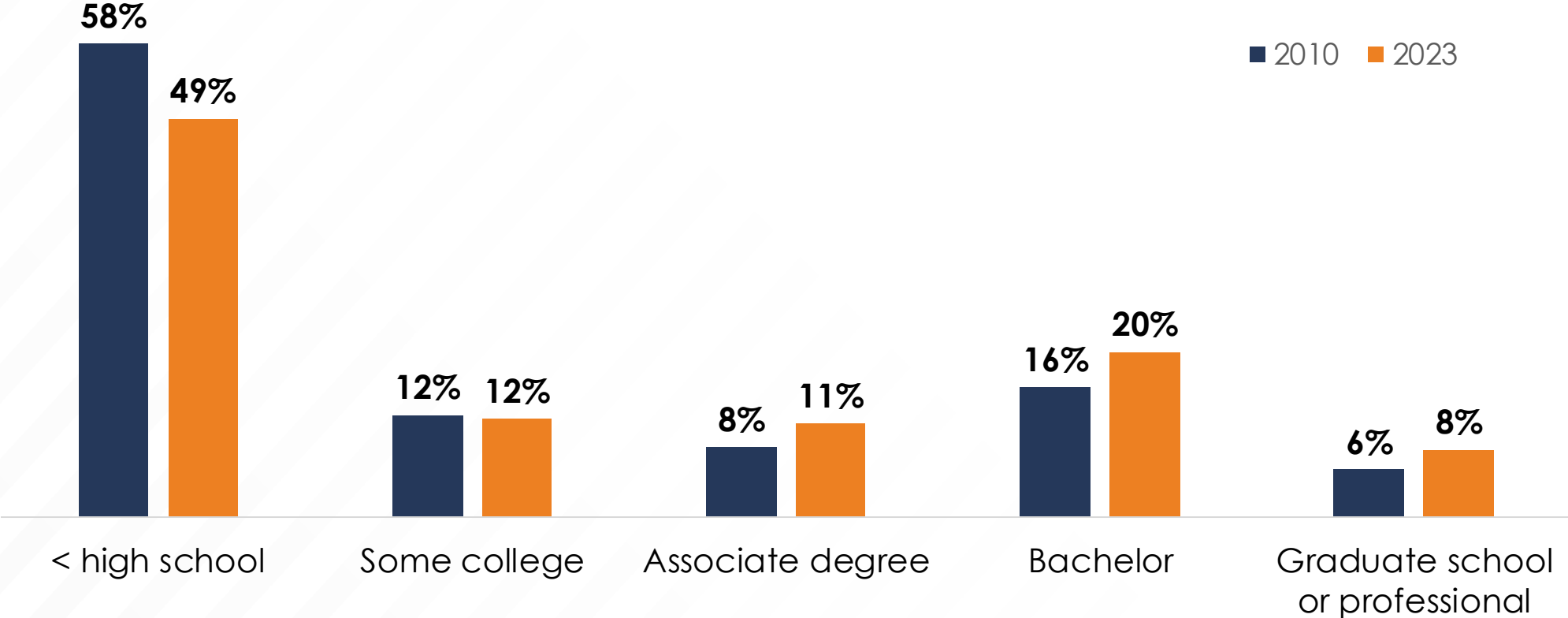
		2019	2023	2024	Δ YoY	Period
<b>Labor Market</b>	Private Employment (# jobs created)	18,100	19,300	18,700	↓	Jan-Aug
	Unemployment Rate (%)	8.2%	6.0%	5.8%	↓	Jan-Aug
<b>Commerce</b>	Real Retail Sales (% YoY growth)	-4.3%	-2.0%	1.6%	↑	Jan-Apr
	Commercial Bankruptcies (#)	2,018	918	1,240	↑	Jan-Aug
<b>Construction</b>	Cement Sales (# of bags)	7,996	8,783	8,577	↓	Jan-Jul
	Construction Material Costs (% YoY growth)	3.0%	-4.1%	0.7%	↑	Jan-May
<b>Consumer</b>	Avg. Weekly Earnings (% YoY growth)	4.4%	-0.3%	8.1%	↑	Jan-Jul
	Personal Bankruptcies (#)	3,043	1,852	2,470	↑	Jan-Aug
<b>Other</b>	BDE Index of Economic Activity (% YoY growth)	0.7%	1.9%	-0.2%	↓	Jan-Jul
	Consumer Price Index (% YoY growth)	0.1%	3.9%	2.2%	↓	Jan-Aug



Source: Economic Development Bank for Puerto Rico, Puerto Rico Department of Labor, Boletín de Puerto Rico, and Puerto Rico Department of Economic Development and Commerce.

# LIMITED EDUCATIONAL ATTAINMENT IS A CHALLENGE

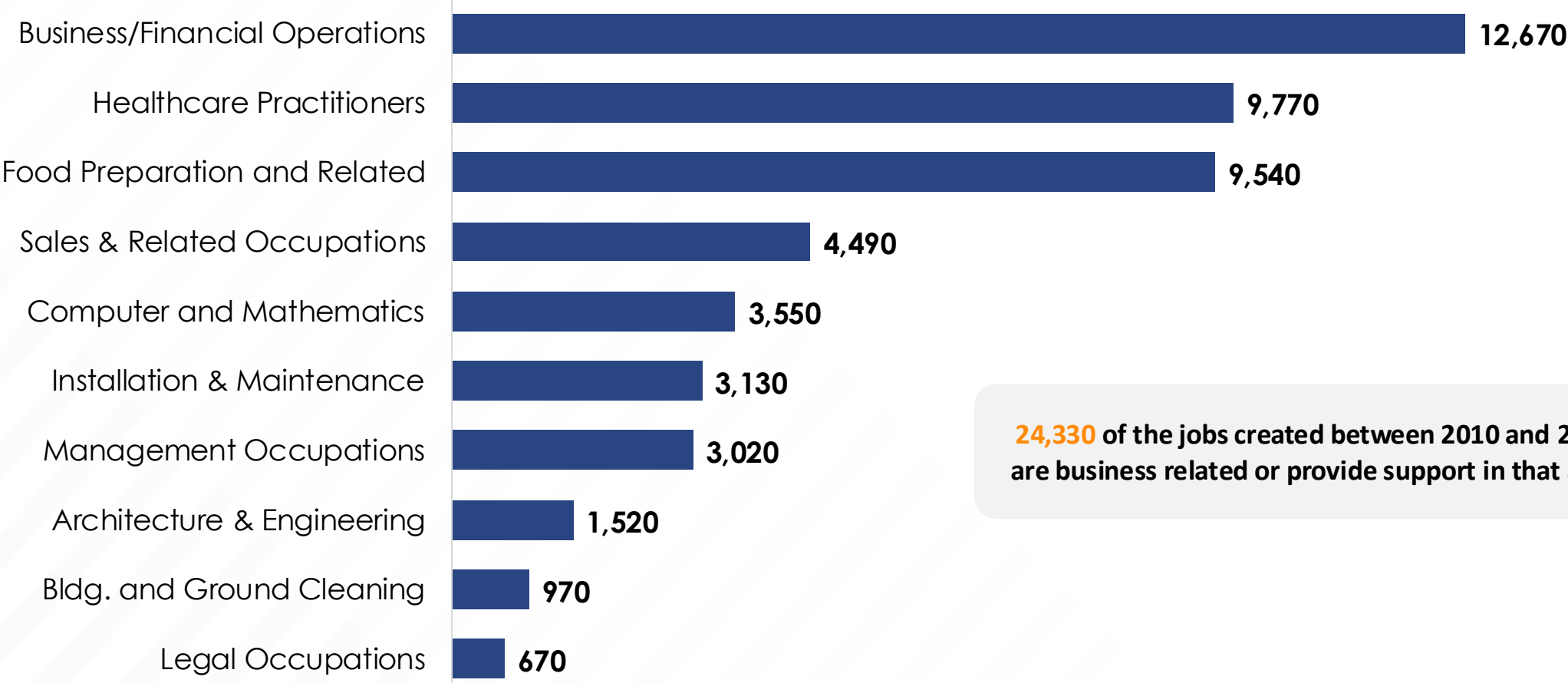
## Educational Attainment of Population > 25 yrs. of age (#)



Source: U.S. Census Bureau (2024). ACS 5-years estimate.

# NEW JOBS REQUIRE MODERATE TO HIGH SKILL LEVELS

## Employment by Occupation for Selected Groups (# new jobs, 2023 vs. 2010)



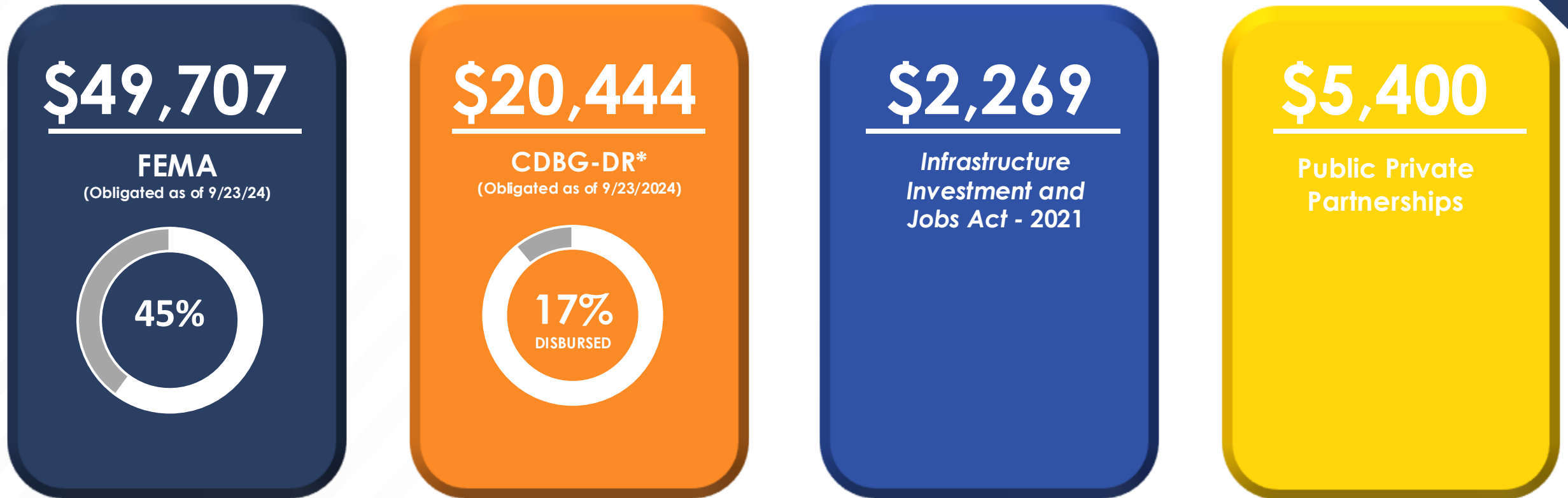
**24,330** of the jobs created between 2010 and 2023 are business related or provide support in that area



Source: U.S. Census Bureau (2024). ACS 5-years estimate.

# THE INVESTMENT OF ~\$5B ANNUALLY IN INFRASTRUCTURE WILL SUPPORT SHORT-TERM ECONOMIC GROWTH

Funding for Infrastructure Projects (\$ millions)

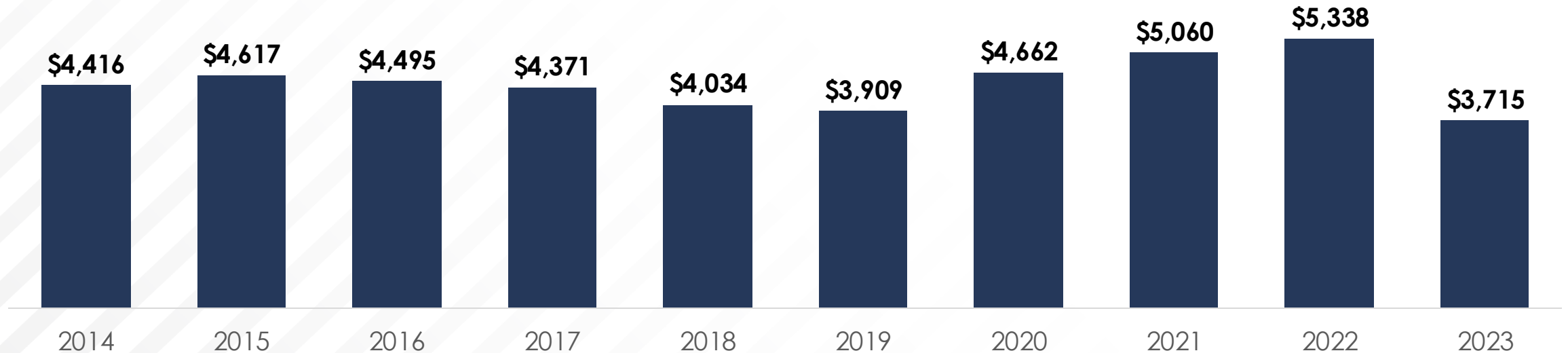


Source: COR3



# THE FINANCE AND INSURANCE SECTOR'S GDP DECLINED BY \$700 MILLION TO \$3.7 BILLION BETWEEN 2014 & 2023...

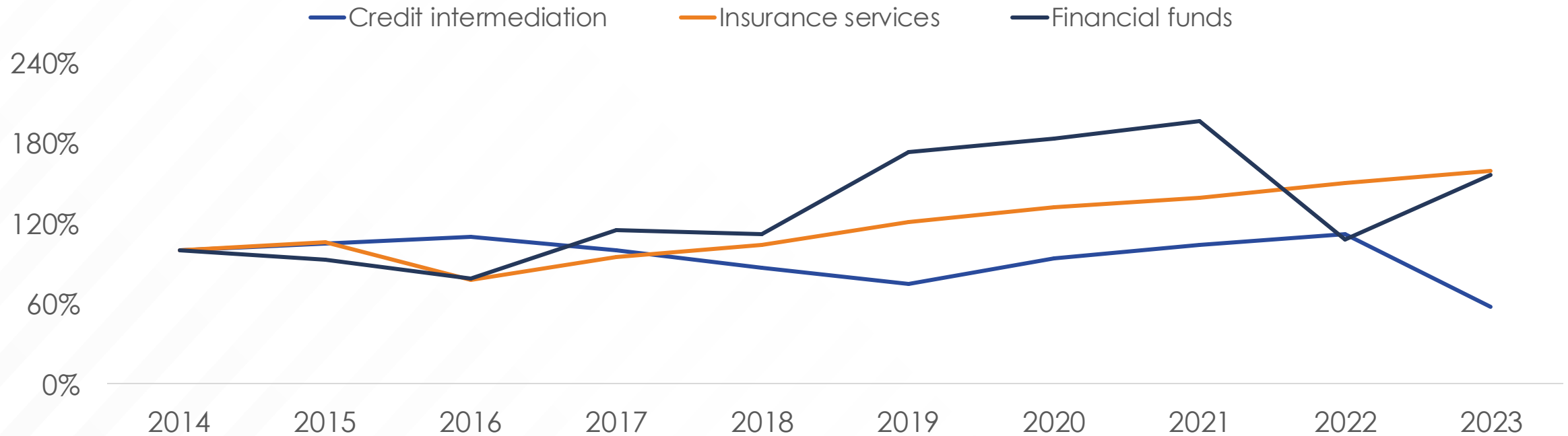
**GDP in the Finance and Insurance Sector (\$ millions)**  
**Fiscal Years 2010-2023**



Source: *Ingreso y Producto 2023*. Puerto Rico Planning Board.

# ... INFLUENCED BY COMMERCIAL BANKS' CONSOLIDATION

## GDP Growth in the Finance and Insurance Subsectors (2014 = 100) Fiscal Years 2014-2023



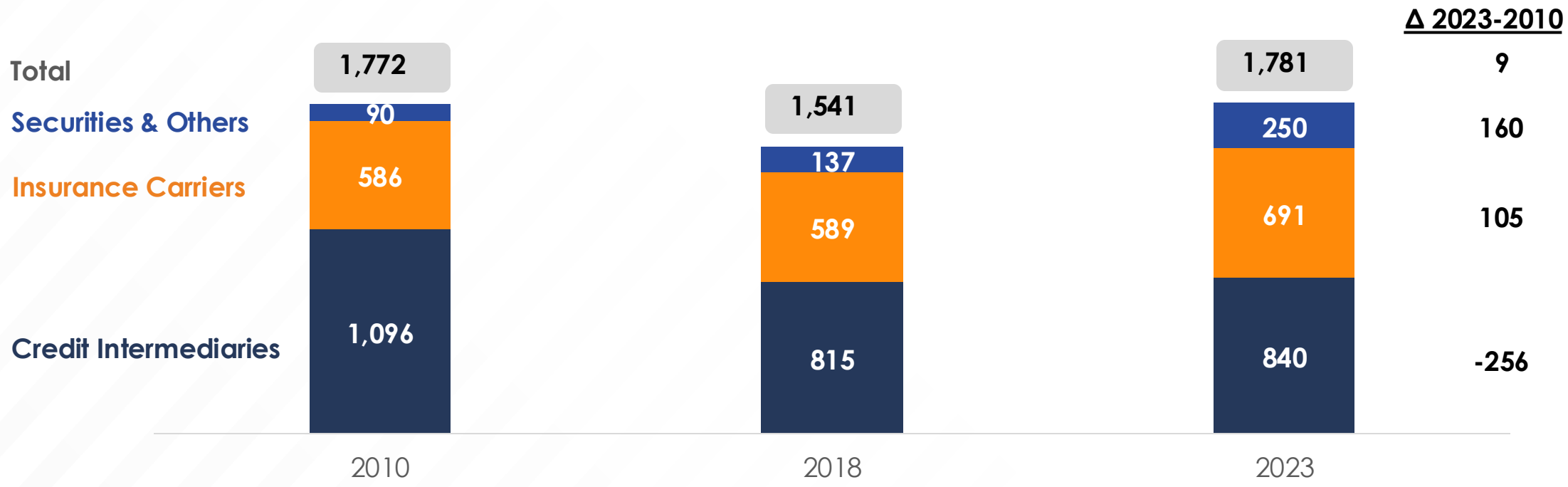
Source: *Ingreso y Producto 2023*. Puerto Rico Planning Board.





# MORE THAN TWO-HUNDRED ESTABLISHMENTS WERE LOST IN CREDIT INTERMEDIATION BETWEEN 2010-2018...

Establishments in Finance and Insurance Sector, 2010-2023 (#)

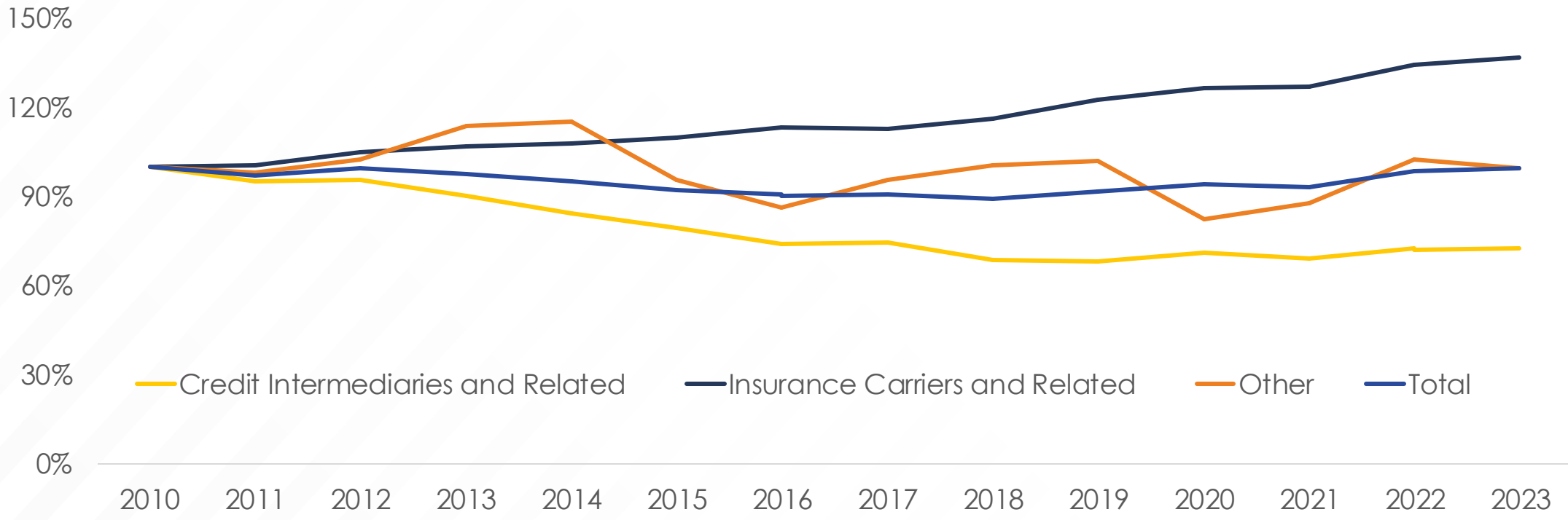


Source: US Census. Quarterly Census of Employees and Wages.



# ... BUT EMPLOYMENT LOSSES IN CREDIT INTERMEDIATION WERE PARTIALLY OFFSET BY NEW JOBS IN INSURANCE

## Employment in the Finance and Insurance Sector, 2010-2023 (2010 = 100)

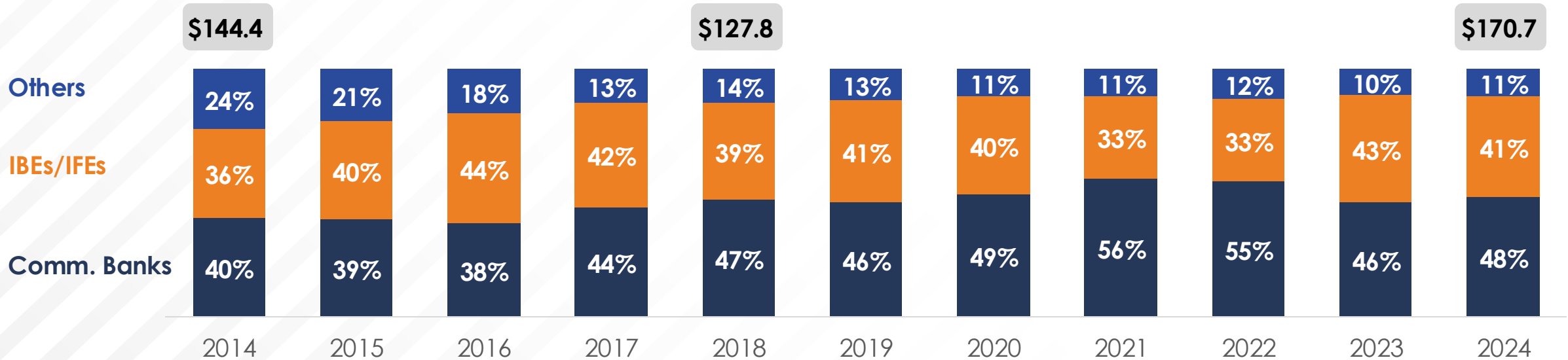


Source: US Census. Quarterly Census of Employees and Wages.



# PR'S IBEs AND IFEs REPRESENTED 41% OF THE FINANCIAL INDUSTRY'S ASSETS\* AND 94% OF THE GNP IN 2023

## Total Assets in PR's Financial Industry, 2014-2024 (\$ billions)



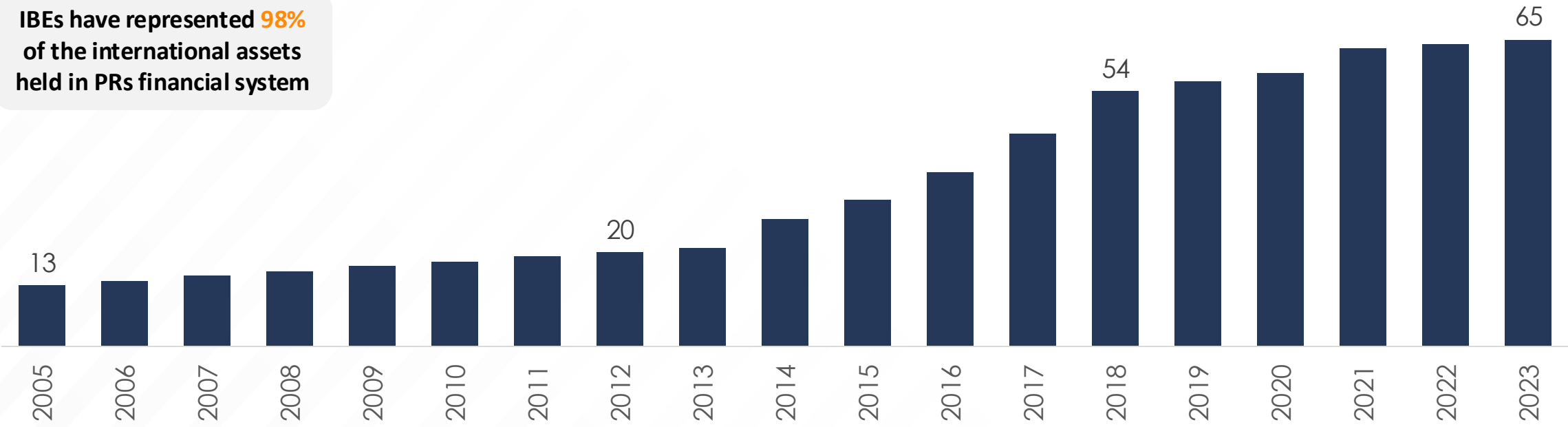
Source: Puerto Rico Planning Board

\*Figure as of first quarter of 2024. Excludes insurance, reinsurance, and international insurers and reinsurers.

# THE INTERNATIONAL FINANCIAL CENTER (IFC) IN PR IS COMPRISED OF 22 IBEs AND 42 IFEs

## IBEs/IFEs in Puerto Rico, 2005-2023 (#)

IBEs have represented **98%** of the international assets held in PRs financial system



Source: US Census. Quarterly Census of Employees and Wages.



# ALTHOUGH IBES EMPLOY 35% OF THE SECTOR'S WORKERS, THEY ARE RESPONSIBLE FOR 96% OF ITS LOANS

## Facts about IBEs and IFEs in Puerto Rico

Indicator as of 1Q24	IBEs	IFEs	Total
Entities (#)	23	42	65
Employment (#)	92	168	260
Assets (\$ millions)	\$67,956	\$1,414	\$69,370
Loans (\$ millions)	\$5,331	\$264	\$5,529
Deposits (\$ millions)	\$3,275	\$945	\$4,220

Source: Office of the Commissioner of Financial Institutions and PRIIA.

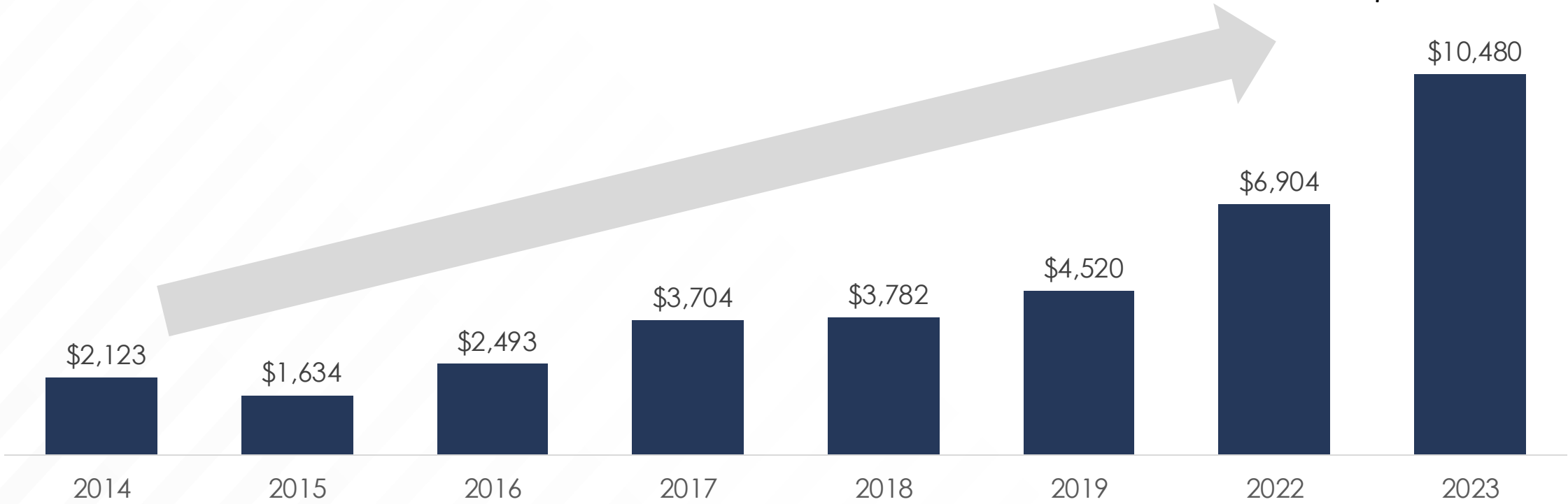


# INTERNATIONAL INSURERS & REINSURERS (IIRs) ARE ALSO IMPORTANT PLAYERS IN PUERTO RICO'S IFC

- Total assets rose by \$3.6 billion YoY in 2023 due to the relocation of an insurance company from Bermuda and an entity transferring its portfolio to an international insurer

### International Insurers and Reinsurers' Assets (\$ millions)

19% CAGR or +\$8.4 billion



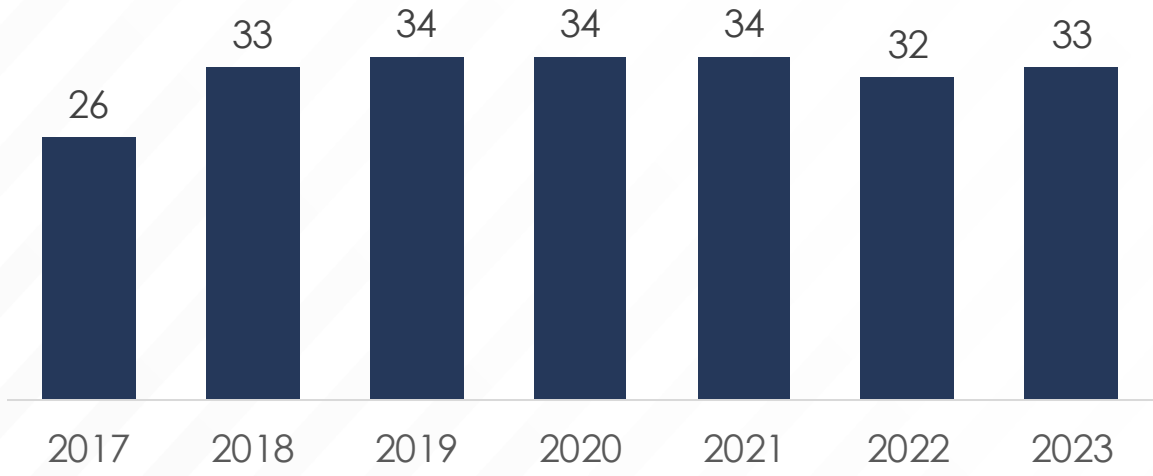
Source: Office of the Commissioner of Insurance



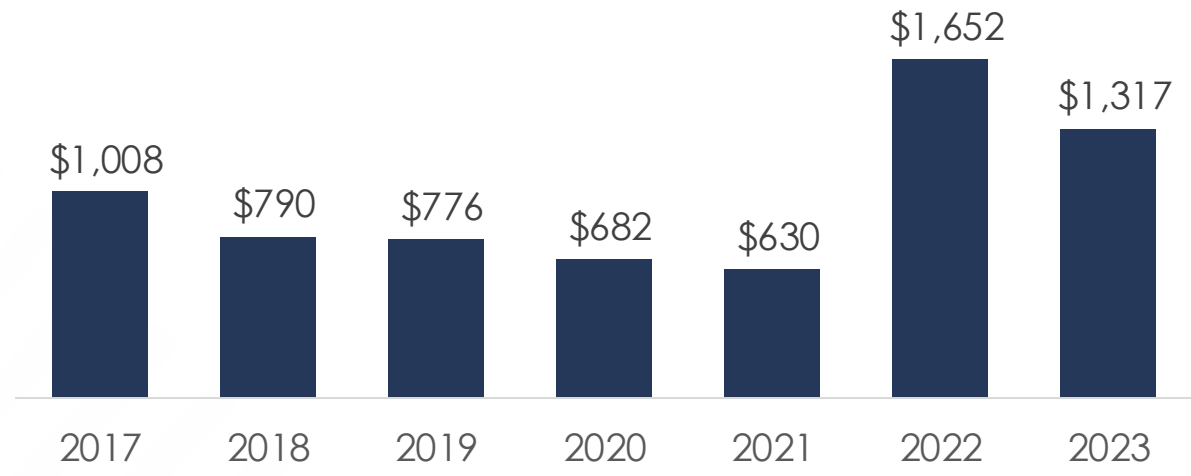
# INTERNATIONAL INSURERS & REINSURERS (IIRs) ARE ALSO IMPORTANT PLAYERS IN PUERTO RICO'S IFC

- Despite challenges like hurricanes and the pandemic, IIRs doubled their underwritten premiums in 2022 with the same number of companies operating in the market

IIRs Operating in Puerto Rico (#)

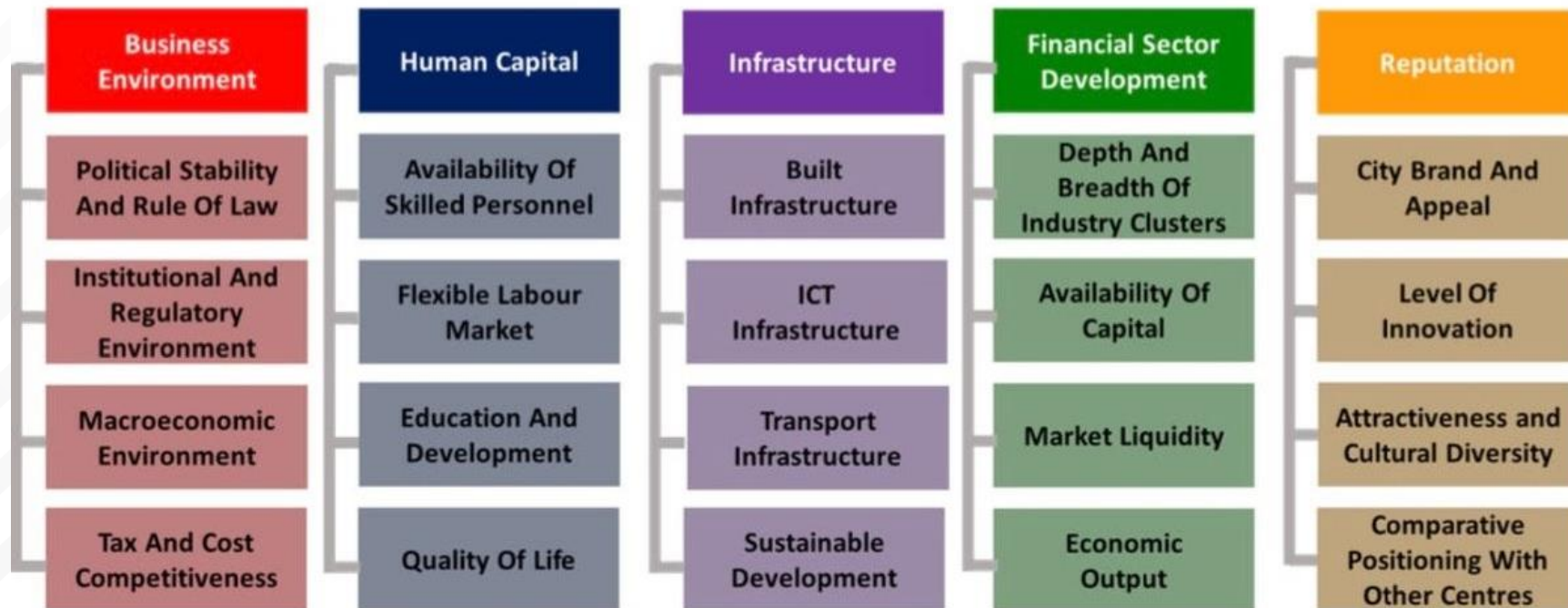


IIRs' Premiums Underwritten (\$ millions)  
Property & Contingency / Life & Disability



# PR HAS SOME ATTRIBUTES THAT ARE POSITIVE FOR ITS COMPETITIVENESS AS AN IFC

## Global Financial Competitiveness Index Areas of Competitiveness

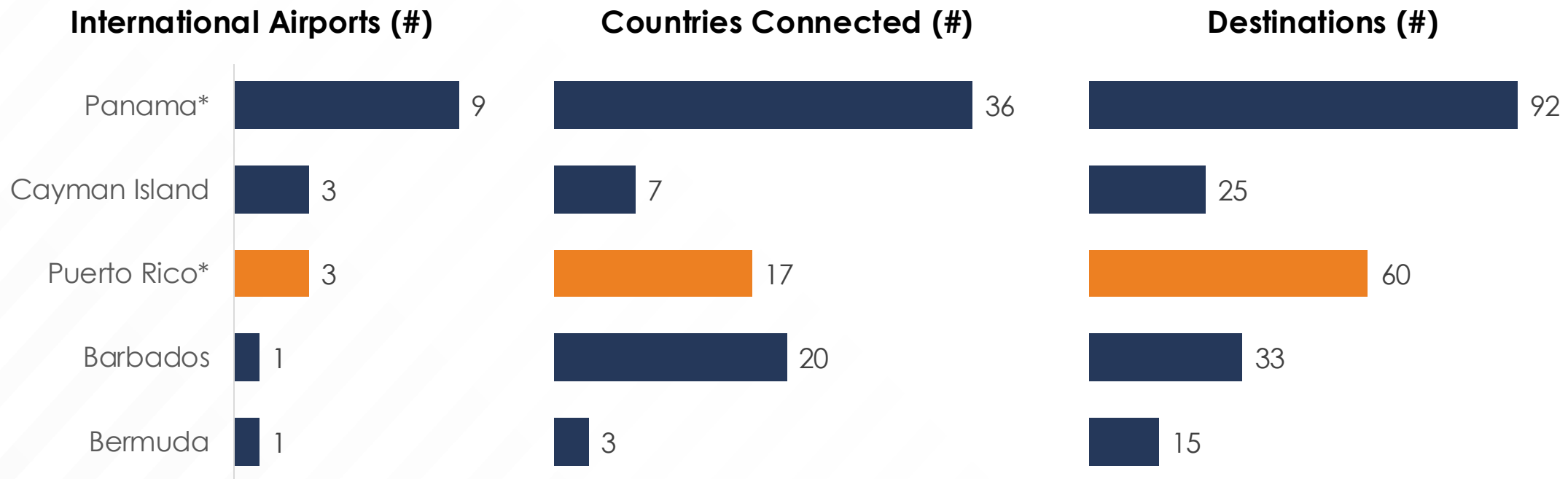


Source: Z/Yen and China Development Institute (2024). The Global Financial Centre Index 35.



# PR IS CLOSE TO MARKETS IN NORTH AMERICA, LATAM, AND THE CARIBBEAN...

## Airport Connectivity to Countries and Destinations



Source: Flight Connections  
\* Reflects connections and destinations through LMM International Airport and Tocumen International Airport.

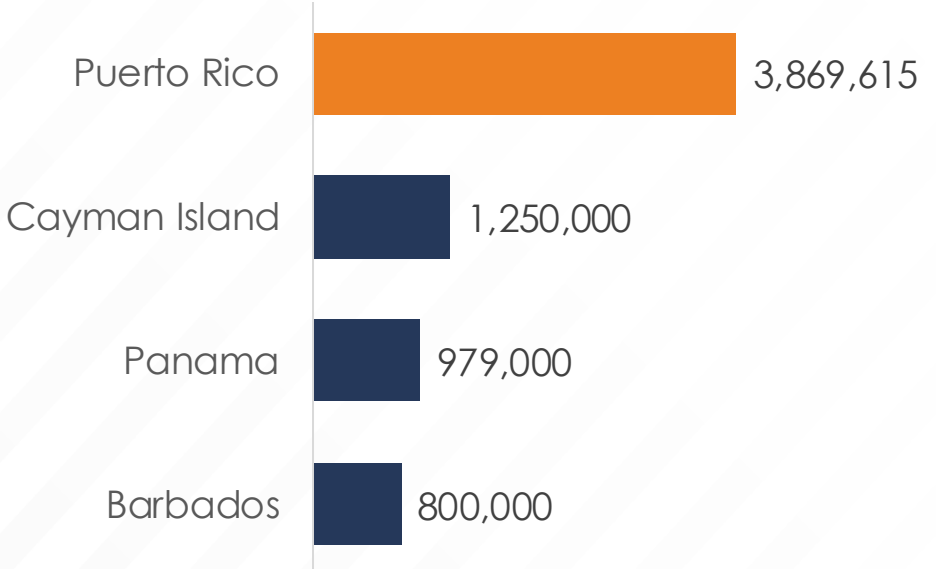


# THERE ARE 3.9 MILLION SQUARE FEET OF CLASS A COMMERCIAL BUILDINGS IN THE METRO AREA

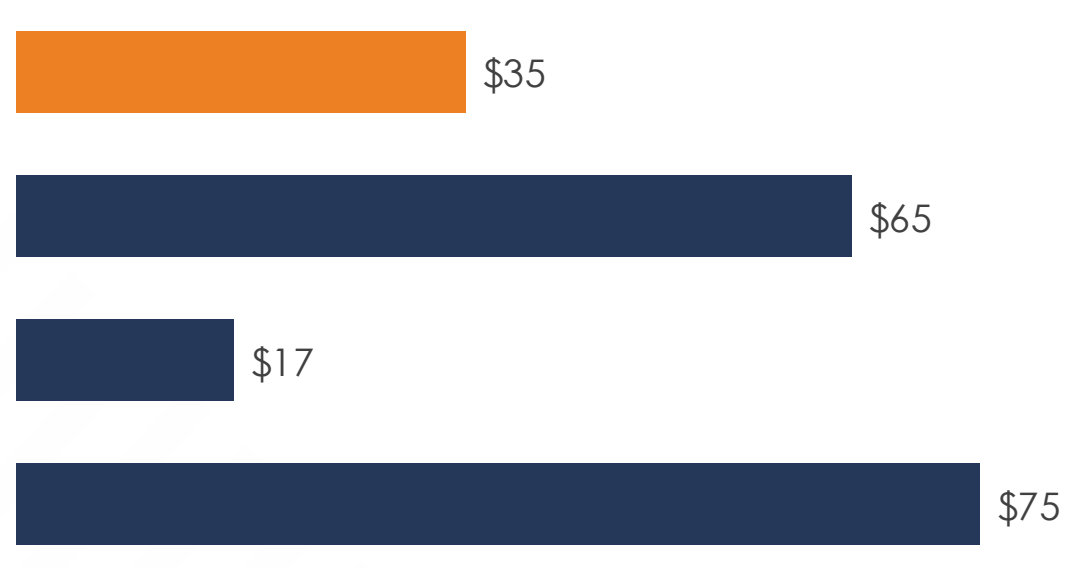
- Broadband access, proximity to the Intl. Airport, K-12 learning institutions and universities, upscale residential projects, and lower rental costs for commercial buildings relative to regional competitors are also positive attributes in the island

## Rental Space for Commercial Class A Office Buildings

Commercial Class A (# of square feet)



Rental Cost Class A (\$ per square foot)



Source: Landmark Real Estate LLC



# OVER 42,000 WORKERS HAVE HIGH-PAYING JOBS IN FIELDS VITAL TO IBEs, IFEs, and IIRs

## Workers in Areas Essential for the International Financial Centers (#)



Source: US Census. Quarterly Census of Employees and Wages.



# THE RANGE AND COMPLEXITY OF SERVICES OFFERED BY IBEs/IFEs REQUIRES SPECIALIZED SUPPORT SERVICES

Wire Transfer

Securities Custody

Savings & Term Accounts

Cash Management

Escrow Accounts

Correspondal Services

Escrow Accounts

Direct Deposits

Wealth Management

FOREX

Intl. Wire Transfer

Fiduciary Deposits

Source: PRIBA



# PR HAS A CLUSTER OF FIRMS SUPPLYING SPECIALIZED SERVICES IN AREAS ESSENTIAL FOR THESE ENTITIES

- The cluster includes sixty-one firms (top ranked in their sectors) employing 2,704 workers providing accounting, consulting, IT, and legal services. They include the biggest international accounting firms.

## Ecosystem of Firms Essential for International Financial Centers



### Highlights

- 26 top firms
- 1,561 professionals

### Example

- PwC, LLP
- Kevane Grant Thornton
- RSM P.R.
- Driven PSC
- Deloitte
- Ernest & Young P.R. LLC

- 17 top firms
- 608 professionals

- Truenorth Corp.
- Wovenware, Inc.
- MultiSystems, Inc.
- Cortelco Systems P.R.
- Infomedica Inc.
- Technology Partners Inc.

- 18 top firms
- 535 professionals

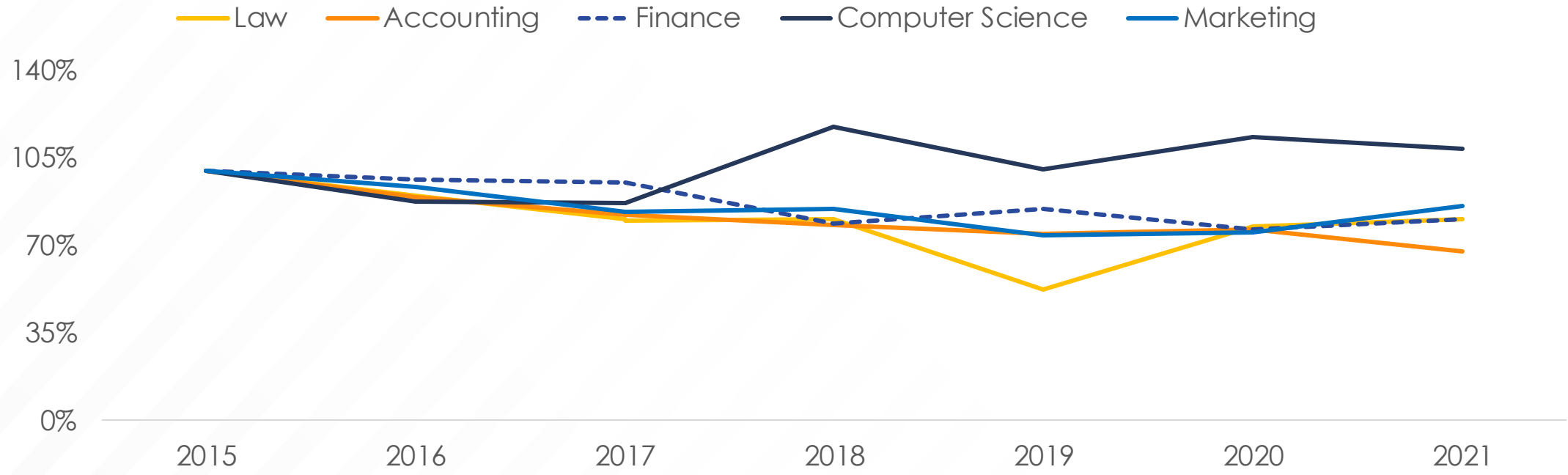
- McConnell Valdez LLC
- O'Neill & Borges LLC
- Ferraiuoli LLC
- Cancio, Nadal & Rivera LLC
- Toro, Colón, Mullet PSC
- Adsuar Muñiz Goyco Seeda & Pérez-Ochoa, PSC



# POTENTIAL GROWTH REQUIRES BROADENING THE TALENT POOL IN ESSENTIAL OCCUPATIONS

- Degrees granted in specialized fields needed to support IBEs, IFEs, and IIRs operations has been declining. More needs to be done in terms of human capital development strategies to support the sector's growth.

### Academic Degrees Granted by Universities, 2015-2021 (2015=100%)



Source: Integrated Postsecondary Education Data System



# ECONOMIC IMPACTS ASSESSMENT



## EMPLOYMENT

- 2012 Input-Output Matrix
- QCEW figures for NAICS 5241 (Insurance Carriers), NAICS 5223 (Credit Intermediation) and NAICS 5222 (Non-depository credit intermediation)



## WAGES

- Wages and employment multipliers from the 2012 Input-Output matrix
- Direct employment provided by PRABIA & PRIIA



## TAXES

- Individual income tax based on Puerto Rico Treasury data and consumption taxes estimated using a tax base of 52.3% personal consumption expenditures

# INTERNATIONAL BANKING ENTITIES

## Economic Impacts



**Employment**



**Wages**



**Taxes**

<b>Total</b>	<b>591</b>	<b>\$19.6M</b>	<b>\$1.9M</b>
<b>Direct</b>	92	\$4.8M	\$0.6M
<b>Indirect</b>	250	\$8.4M	\$0.8M
<b>Induced</b>	248	\$6.4M	\$0.5M

Source: Estudios Técnicos, Inc.





# INTERNATIONAL FINANCIAL ENTITIES

## Economic Impacts



**Employment**



**Wages**



**Taxes**

<b>Total</b>	<b>1,295</b>	<b>\$45.4M</b>	<b>\$4.5M</b>
<b>Direct</b>	168	\$10.0M	\$1.3M
<b>Indirect</b>	810	\$27.3M	\$2.5M
<b>Induced</b>	318	\$8.1M	\$0.7M

Source: Estudios Técnicos, Inc.



# INTERNATIONAL INSURERS AND REINSURERS

## Economic Impacts



**Employment**



**Wages**



**Taxes**

<b>Total</b>	<b>2,170</b>	<b>\$72.6M</b>	<b>\$9.0M</b>
<b>Direct</b>	189	\$10.1M	\$3.4M
<b>Indirect</b>	1,463	\$49.3M	\$4.6M
<b>Induced</b>	517	\$13.3M	\$1.1M

Source: Estudios Técnicos, Inc.



# FINAL REMARKS

PR's positive attributes in key areas essential for the International Financial Center's competitiveness needs to be highlighted by the government and private sector in the efforts to attract new businesses and investment.

Act 60 has been important expanding the island's business ecosystem. Having access to offshore clients through direct interaction with these businesses and their customers could expand the sector's growth potential.

International reinsurers play an important role in assuming some of the risk ceded by domestic insurance companies. By ceding risks, local insurance companies increase their capacity and could invest in business growth.

The financial industry provides high wage, skilled jobs but there is a limited pool of talent relative to demand. Therefore, a close collaboration between universities and financial institutions in the development of specialized curricula is essential.

# FINAL REMARKS

The IBEs, IFEs, and IIRs are supported by a robust regulatory framework that provides certainty and transparency to businesses and investors. Recent amendments by Act 49-2024 and OCIF's interventions are key steps in the right direction.

The government must prioritize on investing in the reliability of the electric grid and telecommunications infrastructure to support smooth business operations and financial transactions. Not doing so would affect the IFC's competitiveness.

Repealing the Federal Excise Tax (Section 4371 of the US Internal revenue Code) would level off the playing field between IIRs on the island and US/regional competitors. This could create between 2,449-6,123 jobs and \$7.7-\$19.3 million in taxes.

Expanding the island's financial ecosystem (depth and breadth) can improve the island's competitiveness as a business and investment destination that can support IBEs', IFEs', and IIRs' growth potential.