
START A BANK IN PUERTO RICO IN 10 STEPS

I'll look at the 10 steps necessary to start a bank in Puerto Rico. Banking licenses in Puerto Rico are by far the hottest offshore banking license for 2020 and are dominating the market. If you're looking to form an international bank, look first at Puerto Rico.

When I say that the offshore bank license industry in Puerto Rico is hot, I mean that it is on fire. There are more banks opening in Puerto Rico than in all of its competitors combined. Where markets like Cayman Island are contracting (some would say crashing), and Belize has not issued a license in years, Puerto Rico has 81 banks and 45 applications pending.

Fyi... I consider direct competitors to Puerto Rico to be countries like Dominica, Belize, Cayman Islands, BVI, Bahamas, Panama, Luxembourg, Andorra, Isle of Man, etc. Not larger jurisdictions such as the United States, Mexico, Switzerland, and the UK.

In this article, I'm talking about how to start a bank in Puerto Rico in 10 steps. That is, how to start a new bank, a de novo bank, in the US territory of Puerto Rico. There is also a strong demand to purchase a bank license. The number of buyers is much higher than the number of sellers, pushing the price of a bank license to \$4 million to \$10 million depending on transactional capabilities and not including a book of business.

Here are the **10 steps to start a new bank in Puerto Rico:**

1. Apply for a Permit to Organize as an IFE in Puerto Rico,
2. Build out your office space in a building approved by regulators,
3. Hire a minimum of 4 employees, including a qualified compliance officer,
4. Purchase, implement and test your core banking system,
5. Negotiate a correspondent account and apply for your FedWire account,
6. Prepare your compliance manuals and training materials,
7. Finalize your website and marketing collateral,
8. Apply for and receive your Swift code,
9. Go through an audit and receive your Permit to Operate, and
10. Take the business live and begin onboarding clients.

PERMIT TO ORGANIZE

For 2020, the permit to organize an offshore bank in Puerto Rico is the most difficult task to complete. Regulators are slowing down the process to limit growth. The demand for an offshore banking license in Puerto Rico is greater than the government can support.

The application process for a permit to organize an international bank in Puerto Rico includes a very detailed business plan, basic compliance manuals, a third party background check on each and every person named in the plan, and audited financials of each person and each company named in the plan.

The business plan is a very detailed document that tells your story, prove your capabilities to regulators, demonstrates that you will be good stewards of the bank, and contains a detailed financial model for the operation. You can download our outline of a business plan for an offshore bank at the bottom of our [Business Planning](#)

page or read it [here](#). This is the outline we use when writing business plans for clients.

Also included in the application for a permit to organize an offshore bank in Puerto Rico is due diligence on everyone named in the business plan. This includes all investors, shareholders, officers, directors, and key persons. Anyone connected with starting an International Financial Entity must go through a background check and submit audited personal financial statements.

Once you have your reports and business plan ready, we will file your application with OCIF in Puerto Rico. Your application will go through a few rounds of questions and, if all goes to plan, you should receive your permit to organize in about 4 months.

For more on these background reports, see [Due Diligence Requirements for an International Bank in Puerto Rico](#).

A permit to organize an offshore bank in Puerto Rico is basically the government telling you that they will allow you to open a bank on the island... one that matches the business model described in your written plan.

Once you have your permit to organize, you can incorporate a company using the word “bank” in the name and open corporate accounts. Then you go about building the business by setting up your core software, hiring employees, etc.

OFFICE BUILDOUT

One of the first things you should do after receiving your permit to organize is to find quality office space from which to operate your international bank. This must be a secure space in an office building and not a coworking space. Also, because of the need for high-speed internet, you’ll want to go with a Class A building or bring in your own line.

Here is a list of the top buildings in San Juan, Puerto Rico. The first two, AIP and 270, are Paulson buildings and very popular with IFEs... but their occupancy rate is over 95%, so it can be difficult to find space.

Suggested Building 1: <https://aippuertorico.com/>

Suggested Building 2: <https://270puertorico.com/>

Suggested Building 3: www.cityviewplaza.com

Suggested Building 4: www.bancopopular.com (Popular Center)

Suggested Building 5: <http://www.lasbrisasproperty.com/> (The Caribe Building)

Suggested Building 6: <http://www.igipr.com/> (Westernbank World Plaza)

Suggested Building 7: <http://districtviewpr.com/>

When building out an office, keep in mind that 1) you must maintain security at all times on documents and systems. Thus, some customization will be required. 2) You’re on an island. It can take time to bring in furniture from the mainland if you can’t find something that fits your style in San Juan.

EMPLOYEES

Act 273, the statute that governs offshore banks in Puerto Rico, requires a minimum of 4 employees on the island. I generally recommend clients begin with 5 in case one jumps ship for another IFE... competition is fierce these days.

One of those employees must be a Chief Compliance Officer and another must be a Banking Operations Manager. Then you might have a compliance assistant and two transactional people. This assumes that your startup team has a qualified President and CFO.

All account openings, compliance work, and transactions must be handled from Puerto Rico. Basically, all banking work should be done from the territory. Employees in your home country might handle marketing, document signing, verifications, etc.

When considering where to hire employees, Puerto Rico or your home country, remember that the purpose of Act 273 is to bring quality and high paying jobs to the island. The more jobs you bring, and the better your compliance department, the more respect you'll get from regulators.

Also when considering where to hire employees, keep in mind that transfer pricing rules will apply. To oversimplify a complex topic, assume that 50% of your employees are in Puerto Rico and 50% are in the United States. In that case, about half of your offshore bank's income should be sourced to the United States and taxed at ordinary corporate rates by the IRS. The remainder would be taxed in Puerto Rico at 4%.

So, to maximize the tax benefits of Act 273, and increase your standing in the community, hire as many employees on the island as possible.

For more information on the costs of operating an international bank see [Sample Operating Expenses for an Offshore Bank in Puerto Rico](#).

CORE BANKING SOFTWARE

The largest capital asset when setting up an offshore bank will be your core banking software. This system will take up a great deal of your time while going from a permit to organize to a permit to operate.

The only requirements when purchasing a core banking software for an international bank operating in Puerto Rico are:

1. The software must be US complaint and have US or PR installs, and
2. You must hold your data on servers in Puerto Rico or the United States. You can use US-based cloud systems, such as AWS, with written permission from regulators.

We've had clients try to use foreign software without US installs and it was a complete mess. We've also had clients attempt to import hardware from China... also a disaster. If you're going to connect into the US banking system using an international banking license from Puerto Rico, you need to use US software and systems.

Note that I'm not saying the software must be from a US vendor. I'm saying it must be designed for the US market and must have installs in the United States. If your software is also in Puerto Rico, that's even better.

For example, [Bansoft](#) is a Panamanian company with Puerto Rico installs. Also, [EBANQ](#) is primarily a European company popular with our UK and EU clients.

For a detailed article on core banking software, see [Best Core Banking Software for an Offshore Bank](#).

CORRESPONDENT BANK ACCOUNT

Ask anyone experienced in offshore banking what their biggest concern is, and they will say correspondent accounts, correspondent accounts, and correspondent accounts. The US dollar correspondent account is the lifeblood of any offshore bank... if that account is lost, the bank is out of business.

An international bank in Puerto Rico will have an easier time finding a correspondent partner compared to a foreign jurisdiction such as Cayman, Belize, or Dominica. Note that I said "easier," which is very different from "easy." It's nearly impossible to negotiate a correspondent account for a small foreign bank and all IFEs in Puerto Rico eventually find a partner.

One of the most important benefits of opening an international bank in Puerto Rico compared to a foreign country is the ability to get a correspondent account from the US Federal Reserve. IFEs in Puerto Rico can apply to the Fed for a FedWire account. Once approved, the US Federal Reserve Bank will act as your corresponding bank.

As your offshore bank grows, you'll find positives and negatives with a FedWire account.

The Federal system works best with large dollar transfers. Because of the high fees, it's not great for small dollar transfers. This is especially true because smaller banks use the manual FedWire and not an automated system offered to larger banks.

A correspondent account at a multinational bank may allow you to hold some cash in the US and some in your primary country of operation. This way, you can batch process transfers and reduce your transfer costs.

The bottom line is that larger IFEs will benefit from combining a quality correspondent partner bank with the FedWire account.

MANUALS

The most important employee in an offshore bank based in Puerto Rico is the Chief Compliance Officer. The most important component of your bank license application is the quality and experience of the people behind the project.

This is because regulators put great emphasis on compliance. A solid team, with banking and compliance experience, is more likely to run a clean bank compared to an entrepreneur without such a team.

To put it another way, regulators don't want you to bring attention or shame on the industry. They want each and every bank licensed in Puerto Rico to follow all rules and regulations... to set the standard in KYC and AML for the industry.

Therefore, the compliance manuals submitted with your permit to organize are of primary importance. They demonstrate that you have thought through KYC, BSA and AML issues in general and those which are specific to your business model.

Once you have your permit to organize in hand, you will hire a Chief Compliance Officer. He or she, along with the President and Banking Manager, will develop a more detailed KYC, BSA, and AML program and a full training program. These documents are submitted to regulators when you apply for your permit to operate.

For more on this topic, see our [KYC, AML and BSA](#) page.

WEBSITE AND MARKETING

Your website and marketing materials must be approved and follow US rules. That is to say, your international bank in Puerto Rico will have limited options for marketing in the United States. In most cases, you must have a banking license in any state from which you solicit business.

Because of the rules on advertising, most banks rely on agents, referrals, conferences, positive articles in online and print publications, and other non-traditional methods to find new clients.

Also because of the advertising rules, most bank websites are very basic. If the bank is going to market online, it will create a website under a different name, publish articles on non-bank websites, and by issuing press releases.

For more on this topic, see [Offshore Bank Advertising Rules](#)

For an example of an IFE in Puerto Rico see [Standard International Bank](#)

PERMIT TO OPERATE

Once you have your employees, systems, internal processes, and procedures, manuals, and are ready to go live, you will request your permit to operate from regulators. They will review your documents and send someone out to test your systems and security.

Once you pass this audit, you will receive your permit to operate. This is your full banking license which enumerates each and every service you are allowed to provide. This will match your permit to organize and is based on the business plan you filed those many months back.

Note that an offshore bank licensed in Puerto Rico may only provide those services listed in its permit to operate. That is to say, you can only offer services listed in your license. A permit to operate is not a general license allowing you to offer any and all banking services. A permit to operate is a specific license authorizing specific services.

If you wish to offer additional services, those not listed in your license, you need to go back to regulators and get written permission. This is usually done after one or two years of clean operation. You have proven yourself over the first year and are thus allowed to offer additional services and to grow the bank.

For more information on what services you can offer, see [Allowed Services and Business Lines for an Offshore Bank in Puerto Rico](#).

For more on the capital requirements of the license, see [Capital Requirements for an International Bank in Puerto Rico](#)

SWIFT / BIC

Once you have your permit to operate, you can request a Swift code for your IFE. Your Swift or BIC is the unique code that identifies your bank when sending wires and other transfers between banks.

As a bank licensed in Puerto Rico, you will apply for Swift membership as a licensed financial institution. You can download the guide and application package from this page on the Swift website: [Join Swift](#)

For more on Swift / BIC see [Swift Code Defined for an International Bank](#)

OPEN YOUR DOORS

As stated above, your permit to organize was the government giving you permission to set up a bank in the territory. Your permit to operate is the government agreeing that you are ready to join the banking community and begin onboarding customers.

Now the hard work starts. The most challenging part will be working through the compliance procedures for foreign persons and preparing applications that will pass your Chief Compliance Officer. This person will be your key employee during the licensing process and the one responsible for approving each account and each sizable transfer.

What is going to make this process go smoothly is having completed all the hard work before applying for your permit to operate. If you have a well thought out compliance manual and procedures in place, which are specific to your clients and not boilerplate, they will be your guides when you open your doors.

Conversely, if you just turned in hundreds of pages of standardized KYC, AML and BSA documents, you are going to have a difficult time when you begin onboarding clients. Each and every case will be different and you will spend days or weeks arguing about how and when to approve accounts.

As an operating bank, I also suggest you join the [banking association](#) (website only available in Spanish). You should also attend a number of banking conferences and events each year.

See also, [Private Education Association](#) and the [Office of the Commissioner of Financial Institutions of Puerto Rico](#).

These events provide multiple benefits. First, they help your employees meet their continuing education credit requirements. Second, they give you an opportunity to talk through industry issues with other IFEs. Third, they

allow you to hear directly from regulators on what they will be looking for in future audits.

Most of our clients are based outside of Puerto Rico. I suggest that the key persons from your foreign office fly in for a few conferences each year. For example, if your bank's President and CFOs are based abroad, they should show up and press the flesh as it were.