

National Network of Accountants

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This past Tuesday Tom Brady announced his retirement...



By William York, VP of Marketing
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Brady was truly one of the best at his craft and as I was thinking about what he had accomplished, I then was thinking about what was occurring in the insurance industry today. Any business that strictly relies on commercial insurance, or the old way of playing, and does not understand that things are changing, will not achieve their end goals -- greater risk management in a financially responsible manner.

Before I discuss the value of this method of thinking and compare it with an actual case, it's important that we all recognize the value of REIMAGINING BUSINESS INSURANCE. This should be the 2022 message for all knowledgeable business owners.

Case Study

The owner of a successful hospitality company had grown to sixteen major locations that provided high end catering events across three states. His primary

concerns were as follows:

- The cost of his commercial insurance had increased significantly. Year after year he was paying rising premiums and, over a 10-year period of time, he had collected very little back in claims. He calculated that 91% of his premiums paid over that period of time had been retained by the commercial insurance companies, yet his rates were still rising.
- The COVID-19 pandemic caused hiring and retention of quality employees to become a significant challenge. He needed a plan to attract and maintain a high level of talent in his organization.
- Hospitality is about reputation building and delivering quality. The owner wanted to maintain his market position and be known as a leader in his industry.

RECOMMENDATIONS

We suggested that this client engage us to do a feasibility study and utilize our "IPS" (Innovative Planning Service) team to create a total collaborative recommendation. The team's recommendations involved implementing a private insurance initiative balanced with adjustments in both his current commercial insurance and the risk he retained. The outcome was outstanding. It not only showed an insurance solution, but also a financial alternative.

1. By shifting a portion of the company's low frequency/low severity risks from the

commercial carrier to the captive, the client could lower their commercial insurance premiums and potentially *recapture* underwriting profits into the captive. These profits would have otherwise been enjoyed by the commercial carrier. The premiums to the captive would be paid with tax deductible funds as the captive would provide the necessary insurance coverage to the underlying organization. Over time, these profits should increase creating a “*war chest*” in the captive that could be used for a variety of important business planning purposes.

2. One of the uses of captive assets can be to create a plan that rewards key employees who remain with the company over chosen periods of time. Such a plan could be structured to meet the individual needs of each selected employee and arranged without the limitations of *ERISA* based benefits plans. This would separate them from their competition as robust benefits programs are rare in the hospitality industry.
3. The captive could provide insurance to the underlying organization in order for them to offer *Event Cancellation Insurance* to their customers, as an option in their event contracts. An actuarial study was completed as to the proper premiums to charge based upon the levels of coverage the customers would enjoy should they elect the option in their event contract. The revenue collected by the organization would be over and above their normal event rates and the transaction would be very efficient for the customer and profitable to the captive.

OUTCOME

The client created a private captive insurance company. In addition, in order to create significant

underwriting profits in the first year, the client currently enjoys an 80% acceptance rate on their Event Cancellation Insurance option. With almost 3,000 events already scheduled for 2022, this should be a very profitable line of business for the captive.

Finally, they are in the process of structuring the supplemental benefits program for the initial group of key employees. The concept alone has helped them recruit some very talented individuals and they look forward to expanding the program over the next few years.

The possibilities are endless.

There isn't a business that should *not* be REIMAGINING THEIR BUSINESS insurance with a thorough review of commercial insurance, self-insurance and private captive insurance.

The second point to consider is that without an Innovative Planning (IPS) approach, a comprehensive business approach will not maximize the **RI** (reimagine) approach.

This client has the potential of adding \$1.8 million to his bottom line in addition to building surplus in his private insurance company. He will also have the tools to retain his employees and maintain his position within his industry.

Good luck to all the great players in this year's SUPER BOWL.



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