THE TEAM WITH THE BEST PLAYERS WINS……. Jack Welch

Newsletter April 1st, 2018
Volume 6, Issue 4

Independent Captive Associates, LLC, 6900 Jericho Turnpike, Suite 300 Syosset, NY 11791
www.independentcaptiveassociates E-mail address promano@independentcaptiveassociates.com
Offices located in Boca Raton, Florida; Richmond, North Carolina; Simsbury, Connecticut; Syosset, New York

CAPTIVE GROWTH IS ON THE RISE

By William York, VP of Marketing

There has been a steady rise of new Captive Insurance Company formations in 2017, in spite of the IRS continued attacks, the infamous Avrahami case and a soft commercial market.

"FAKE NEWS" no "REAL NEWS" based on reported FACTS!

Real news consisting of indisputable facts:

- The Vermont Captive Insurance Division licensed 24 new Captive Insurance companies in 2017.
- The District of Columbia welcomed 8 new Captives.
- Utah welcomed 60 new Captive Insurance Companies.
- Captive insurance premiums exceeded $1 billion in written premium in Tennessee for the first time, while 52 new risk bearing entities were licensed.
- In Arizona, 11 new Captives were licensed in 2017.
- Alabama welcomed 9 new Captives.
- South Carolina licensed 15 new Captive Insurance Companies.
- Hawaii issued 30 new licenses in 2017.

While many domiciles are continuing to report data, this only supports the idea that Captives are a great strategy for mid-market companies.

Heck, why wouldn't a mid-market company use the same successful strategy employed by 90% of the Fortune 500 Companies?

All mid-market companies yearn for the day when they will be financially secure. Financial security implies a freedom from many threats surrounding a business.

Financial security creates an emotional paradigm which is paramount in the approach of a successful business. It empowers and validates a mid-market business.

Financial security means your business has adequate reserves to take prudent business risk.

Fear is reduced, confidence is enhanced and determination is strengthened.

Financial strength increases perceived and real business opportunity. It develops a clearer thought process which leads to a positive forward thinking approach to business. It builds confidence and the mental dexterity to operate in the complexities surrounding business development.

Large Fortune 500 companies understand this dynamic.

Mid-market businesses also understand this dynamic but are constrained by size and change. Dealing with change is a component of business that Fortune 500 companies are more adaptable to than mid-market businesses. They are constantly creating strategies to manage change more effectively than mid-market businesses. They utilize their intellectual prowess to strengthen their positions, employing a bench of in-house professionals in legal, accounting and Human Resources to give them the advances over competitors; advantages over mid-market businesses. One area where this is apparent is in the private insurance sector. For over 60 years the Fortune 500 businesses have been involved in Captive Insurance Companies....Exxon, Apple, Target....all industries. There is a lesson to be learned.

If 90% of Fortune 500 businesses that produce a product or a service are using Captive Insurance Companies then why aren't the majority of mid-market companies also using Captive Insurance Companies?

Captives can:

- Replace a portion of your commercial insurance
- Insure uninsured risk.
- Insure warranties
- Issue performance bonds
- Reduce taxes
- Build reserves
- Provide asset protection

A captive insurance company and the reserves it holds have many strategic financial advantages when compared to corporate retained earnings alone (or taxable ordinary income or corporate profits passed through to business owners). There are six obvious reasons why Captive Insurance is more powerful than retained earnings.

First, a captive insurance company significantly improves the risk management posture of the business. The captive can provide a broad range of insurance coverages to the parent company, including property, casualty, worker's comp and healthcare.

Second, a captive insurance company can formally insure risks not currently covered by third party insurance. There are many risks that businesses face which are too expensive or too difficult to insure. A Captive can provide a broad umbrella of insurance coverage with far less exclusions than commercial insurance policies.

Third, by owning its own insurance company, a business benefits from insurance taxation. In the case of mid-market businesses, many Captives can make an 831(b) tax election. The 831(b) election applies to insurance companies with annual premiums below $2.2 million. With the 831(b) election, Captive underwriting profits are taxed at a rate of zero percent (0%). And, retained earnings pre-tax (as insurance reserves in the captive) result in a bigger base of assets that can grow through investments.

Fourth, reserves in the captive can lower future insurance costs. A company's captive can insure its deductibles for third party insurance coverage. And, as reserves accumulate, a CFO may consider reducing third party insurance costs by increasing the deductible. The increased deductible can be insured by the reserves in the captive. Over time, the company's captive insurance company will build up reserves that give the CFO greater flexibility to make strategic financial choices, including replacing some or all commercial insurance.

Fifth, the reserves of a captive insurance company can be taken as dividends to the owners of the captive insurance company at a future date. Often in business, timing is everything. A captive that builds strong reserves gives CFOs and business owners flexibility to take dividends at opportune times.

Sixth, when properly structured, the assets of the insurance company are secured from creditors.

A captive insurance company should be viewed and managed as part of a company's overall financial strategy. With so many benefits to the CFO and business owner, it is easy to see why over 90% of Fortune 500 companies own captive insurance companies.

Mid-market businesses, CFOs and owners need adequate reserves as much as Fortune 500 CFOs. **Independent Captive Associates** has been helping mid-market businesses own their own insurance company and access strategies that empower them.

For more information, please contact:

Contact: Pamela Romano
Ph: 516-629-9045
Email: promano@independentcaptiveassociates.com

Independent Captive Associates, LLC
6900 Jericho Turnpike, Suite 300 Syosset, NY 11791
www.independentcaptiveassociates.com

Independent Captive Associates, LLC