

THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

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Independent Captive Associates, LLC, 300 South Oyster Bay Road, 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

Good Press for Captives

By William York, VP of Marketing



When we read about Captives in the news, generally speaking it's related to a negative issue or centered on the tax benefits for business owners. Most people are unaware that a captive can be more it can be used for social benefit helping people to monetarily solve problems that otherwise seem to be insurmountable.

One such captive was formed in Connecticut with the purpose of improving the lives of thousands of homeowners. This captive is just one of the many ways a captive can be formed strictly for the benefit of the populace.

Background

Approximately 35,000 homes in Connecticut are facing a calamitous issue regarding faltering foundations that contain a potentially devastating mineral called pyrrhotite

originating from a quarry in Willington. This mineral has the possibility, when exposed to oxygen and water, of causing the slow deterioration of the concrete foundations of homes and structures and is currently affecting homes in a 50 mile radius in approximately 41 towns according to Connecticut's Department of Housing. The cracking of the concrete foundation starts small and doesn't appear for about 10 years. The structures will eventually become unsound and unsafe with cracking and separation of the concrete which has already started appearing on some homes.

The only solution to the problem is to replace the foundation with a cost that can run between \$150,000 and \$250,000 per structure. Commercial insurance has largely declined to cover those homeowners, already in need, with the claim that it does not fall into what is known as "the peril of collapse." This has left homeowners either with homes that have become worthless or have pending potential structural damage. Residents then turned to the state government for help.

A Captive can be the Solution

The state of Connecticut turned to Michael Maglaras, President of Michael Maglaras & Company for help with a solution to aid a client when the existing commercial market does not cover the claim. It was then that it was suggested by Maglaras that a captive be utilized.

In June, 2017, the Connecticut state government passed SB 1502 (Connecticut state budget) and legislation which authorized the formation of a non-profit captive, Connecticut Foundation Solutions Indemnity Company, LLC (CFSIC).

Eight months later the Connecticut State Bond Commission approved \$350,000 in funding to form the captive and after careful selection appointed Michael Magalaras & Company as superintendent of CFSIC.

Michael Maglaras is an industry veteran with more than 30 years of experience in captive underwriting and administration and is based in Connecticut. The main direction of CFSIC is to help homeowners who are experiencing “crumbling” foundation issues with the allocated fund of \$100 million of state bonded funding over the next five years, in annual tranches of \$20 million.

Maglaras was also quoted as saying: “There are people in Connecticut who are being forced from their homes because they are collapsing. We are going to make that right, and we take an enormous amount of pride that we were selected. We see this as a chance to give back, and we are delighted to do it.”

Help is on the way. The formation process has started and homeowners in Connecticut will be provided with much needed action to solve an overwhelming problem. The State of Connecticut has also added a \$12.00 surcharge to all homeowner insurance policies in the state and the plan is for 85 percent of the money raised to go into the captive to cover the initial tests which identify the “crumbling” issue.

Captives have many purposes:

As a private insurance company it provides a logical solution to gain flexibility and at the same time it helps to control the cost of insurance. When properly structured it allows a business to customize coverages and also fill the gaps often left by commercial insurance companies.

A captive such as CFSIC serves a higher purpose. It has been created for the greater good and to help solve a tremendous problem for the residents of Connecticut.

Captives serve many functions and Independent Captive Associates can help to create a captive that is tailor-made to the situation at hand.

Let’s give captives the “good press” they deserve!

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



The CPA Journal

*A Common Sense Approach to Improved Risk Management
By Joseph W. Tucciarone and Louis Biscotti, CPA, CITP*

<https://www.cpajournal.com/2018/12/19/captive-insurance-companies/>