

THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

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COVID-19 HAS AFFECTED EVERY SECTOR OF OUR ECONOMY....

By William York, VP of Marketing



COVID-19 has affected every sector of our economy in different ways and without doubt, the hospitality industry was among the hardest hit.

Many hospitality companies were refused coverage by the commercial insurance industry as a result of executive orders issued by government agencies as the general public was denied dining, travel, group events, and many other related matters. Commercial insurance failed the hospitality industry and those companies without a Captive Insurance Company to supplement their commercial insurance suffered. **As a result, many hospitality businesses failed.**

At this point it is believed that the hospitality segment of business will most likely not return to full operation for years to come as consumers struggle and the hospitality industry seeks to ensure safety in the delivery of their products.

This industry has been devastated in the NY area and much of the Northeast section of the USA. This condition is so severe that it is estimated that more than 50 percent of the hospitality industry in NYC has or will be forced to close, consisting of restaurants, event spaces and hotels.

This Newsletter is about a particular client who stood out during this crisis and it highlights the opportunity that a Captive Insurance Company can deliver to a beleaguered business group.

First, we need to understand the classical reasons for forming a Captive Insurance Company in the hospitality industry sector. They normally include the following:

1. **Pandemic Protection.** Captives can design customized insurance that is not available in the commercial marketplace.
2. **Supply Chain Interruption.** A Captive can write first party coverages that provide valuable funds to its owners in the event one of its suppliers cannot fulfill its obligations.
3. **Cash Flow/Access to Capital.** A Captive can provide relief through pre-loss funds as well as access to alternative capital.....Surplus capital!

At ICA, we believe in INNOVATION and looking at every problem as a learning experience to create a better option for our clients. We believe Captive Insurance Companies and other creative programs used by businesses are ...BUSINESS TOOLS!

Thinking in this manner creates a unique paradigm which allows business owners and their CPAs, controllers, HR Departments and IT people and other support groups to visualize alternatives never imagined before.

We call this process KAN-BAN.

This term was developed by Toyota and represents a unique workflow process that maintains focus and develops results. It is now used in the computer/internet world.

Prior to the pandemic our client in the hospitality group was booking over 3,000 events a year. They maintained over 18 locations. Their Captive was being used to supplement their commercial coverage in multiple areas ranging from liability insurance to corporate employee (medical insurance) benefits. This represents the standard uses of most Captive Insurance Companies.

This hospitality group in conjunction with our team took a step back and asked, “how can we position ourselves to be in a better place after this crisis is over?”

We went back to our KAN-BAN workflow process.

First thought.....why not sell “event cancellation insurance” and do it through our Captive?

After performing a feasibility analysis during the last quarter of 2020, we instituted an “event cancellation” program operated through the current Captive. The state regulators understood the purpose, the domicile regulations permitted us the opportunity and we modified all existing contracts to prepare for the announcement by the state that we could reopen. Because of the pent-up demand and the current environment this process was embraced by the consumers.

We are now using it on all current bookings and our preliminary analysis suggests we should generate an additional \$1,500,000 of income to the current Captive in 2021. This is not only generating additional income today but the perception to our clients has improved.

The second thing we noticed about the hospitality industry was that because of the concentrated area where we operated and the large number of closings taking place in our local area there was an abundance of great talent available. This we perceived as an opportunity and innovated a program to recruit talent so that we could attract and deliver a superior product to our clients in the future. But how?

Second thought.....how could we bring and maintain that abundance of talent into our business that currently existed in the marketplace? How could we use the tools we already had.....both our reputation and our INNOVATIVE business tool (our Captive Insurance Company) to do something different in the hospitality business area. Moreover, because of our familiarity with the industry, how could we ensure that if we could acquire the talent, we could also retain this talent in the future?

These are two questions that many businesses struggle with and not only the hospitality industry.

Using a unique approach, we created a leverage cost recovery deferred compensation program built on the chassis of the Captive Insurance Company. We modeled a well know program used by many municipalities around the U.S.

Using our Captive Insurance Company, we designed a program that guarantees a percentage of retirement income in the future.

We designed a program which guaranteed 50% of compensation after 20 years of service.

The result and response were amazing.

Very few people in the hospitality industry have a program to compete against this future stream of income. In fact, most companies in general can't produce this benefit, but because of the Captive Insurance Company we were able to generate a program which will utilize bank leverage and our Kan-Ban approach to create a cost recovery program which will allow the company to recover their portion of the program.

This incredible benefit will ensure that as we begin to return to full operation, we will have the best chefs, the best managers and the best operating staff available.

Out of chaos we have created increased income through our event cancellation insurance program, and we have hired the best of the best personnel to move this hospitality company to the forefront of their industry.

“We want you all to understand that we can't control all things that happen, but we can control how we respond to what happens”.....JWT



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