

THE TEAM WITH THE BEST PLAYERS

WINS..... Jack Welch

Newsletter September 1st, 2019
Volume 7, Issue 9

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A Critical Decision

By William York, VP of Marketing



The most important decision a captive owner must make is to decide who will advise and integrate their Captive Insurance Company with their business goals. Many captive owners rely on their Captive Management firm to provide this function and in time realize that a Captive Management firm should have a very different function.

The role of a Captive Management firm is to ensure that the captive remains compliant. Captive Management firms service a very important role. **Their function is critical.**

Since, a Captive is such a dynamic strategy and in order for a business to maximize its usage, **a different kind of advisor is required.**

Your Captive Manager ensures compliance and they must maintain resources to provide regulatory related services. Services would include ensuring the captive is compliant with governing insurance code in a domicile, overseeing the preparation and filing of regulatory reports like the captive annual statement, maintaining captive records as per regulatory requirements, and helping the captive to respond to regulatory examinations and inquiries.

Every successful captive needs more than just a manager.

To maximize the integration of a captive into a business requires a unique set of skills. It requires a **“Captive Architect and Engineer (CAE).”**

A **“CAE”** will build a strong and successful relationship between the goals of a business and the needs of the Captive ownership.

Unfortunately, there are very few groups serving in this role and many businesses are not utilizing a **CAE** to maximize the advantages a captive provides to a business.

This is the role of “Independent Captive Associates”.

Independent Captive Associates was formed by a rocket scientist & engineer, a national accounting association, a general agent of a major insurance company and an independent planning company. Four unique skills that are required in utilizing this advanced planning strategy.

We maximize the usefulness of every captive/business relationship.

- ✓ **A “CAE”** knows whether a stand-a-lone, cell, micro or group captive should be used.
- ✓ **A “CAE”** will recommend multiple captives when needed.
- ✓ **A “CAE”** will design unique one of a kind arrangements.
- ✓ **A “CAE”** is not tied to a single captive manager.
- ✓ **A “CAE”** has only one client ... the business owner.

For skeptics, for captive managers, for accounting firms, for insurance service professionals, for attorneys and planners it is time to understand this unique difference!

Case Example Number One:

A Captive owner was informed that their Captive Management firm was under a **promoter** audit. The question is what should the business do? Should they look for a new manager or should they stay put? Who is there to advise them of their options? An attorney plays a role but nevertheless it is primarily a business decision. Does a new manager want to take on these obligations while the existing manager is under examination? Should the Captive be terminated? How does a business with a Captive know what managers are being reviewed? This has happened to clients whom we have assisted when everyone else was throwing their hands in the air!

Case Example Number Two:

A current Captive owner, represented by ICA, referred us to another Captive owner whom we did not currently represent. Upon meeting, they posed the following question: **As we have been paying premiums to our Captive for five years – is that all there is?** After spending time with the referred business owners, we proposed an option that would enhance their shareholder agreements. They called their current Captive Manager and were told by them that it was indeed a good idea. They were also told by their current Captive Manager that it was not the job of the Captive Manager to give business advice and that they should speak to their attorney or accountant, of which neither one had extensive captive experience.

Case Example Number Three:

A current business owner was involved with a segregated cell. He had recently lost a key person which was covered by his segregated cell insurance and had submitted a claim. Initially the Captive Manager made him an offer to settle this claim at an amount our Captive owner considered a low offer. We assisted the owner in re-documenting the claim and a new offer was made by the Captive Manager. **This was also too low.** Finally, we resorted to filing legal papers. A new offer was made and the business owner was properly compensated.

Case Example Number Four:

A medical business was informed by their existing Captive Management firm that they were making a business change and would no longer be servicing captives with premium payments of less than \$1 million annually. This was done in November. The medical group had to scramble and replace the captive manager before year end. Moreover, claims issues, novation of funds, capital issues and other issues needed to be considered. Could this happen to you? Where would you turn? Would you be able to obtain the specialized knowledge and reconstitute the captive before year end?

A Captive Insurance Company is a stand-a-lone business. It maintains its own profit and loss. **All commercial insurance companies are established for profit!**

A Captive Insurance Company, like a Commercial Insurance Company, must be operated in a similar manner. This should be established to make a profit. Most Commercial Insurance Companies generate a 20% profit. In addition, Commercial Insurance Companies maintain 20 to 30% in commissions and expenses.

A Captive Insurance Company is also designed to show a maximum profit by reducing the normal commercial commissions and expenses to 4 to 5%. Properly operated, a Captive will generate profits of 37-1/2 to 56%. **Captive Insurance is a guaranteed program to benefit businesses and to create a strong financial base for most middle-market businesses.**

Call Independent Captive Associates, LLC to learn how to get started.

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