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Addressing the Commercial Insurance Financial Crisis

SELF-INSURE

COMMERCIAL
INSURANCE

CAPTIVE INSURANCE

By Joseph W Tucciarone, CEO National Network of Accountants

The commercial insurance market in America faces a significant crisis, one that demands attention and action from businesses across the nation. Commercial insurance is now the third largest expense for most companies, and its rising costs are directly impacting the financial health of every business. While the issues of energy prices, labor costs, and supply chain disruptions receive much public attention, the commercial insurance crisis remains under-addressed.

The Escalating Cost of Commercial Insurance

In recent years, insurance premiums have been steadily increasing. For many business owners, especially those in high-risk areas like Southern California, commercial property insurance rates have doubled, tripled, or even risen by 400% in extreme cases. This skyrocketing expense is largely due to inefficiencies within the insurance system designed to prioritize profitability for major insurers.

The insurance industry, once relatively stable, now faces mounting pressure from complex claims, high commissions, and costly operational expenses. Despite businesses' best efforts to manage risk, the interconnected nature of the system means that even the most risk-conscious companies are subject to rising premiums, exacerbated by factors beyond their control. Simply put, controlling insurance costs has become one of the most daunting challenges for business owners today.

Why Traditional Insurance Isn't Enough

In a system where "all ships rise when the sea rises," insurance costs are often determined by the collective claims of all participating businesses, not individual efforts. This can feel unfair, as businesses with strong risk management practices may see little benefit in premium reductions if the industry, as a whole, experiences increased claims.

The financial strain is becoming unbearable for many companies. As a result, some businesses are turning to self-insurance, but this strategy is not without its risks. Solely relying on self-insurance limits tax benefits, reduces access to bank financing for real estate and other projects, and exposes companies to considerable financial risk. Fortunately, there is an alternative.

The Road to Change is Very Clear!

Federal and State governments have paved the way for a more effective solution, one that combines traditional commercial insurance with Captive insurance and self-insurance—a balanced,

three-pronged strategy that's transforming risk management.

Captive insurance companies, introduced in 1957 and regulated by most state insurance departments, now control over 50% of insurance spending in the U.S. Captive insurance offers businesses the ability to manage risk more effectively while retaining tax advantages and building financial stability. In fact, 90% of Fortune 500 companies have adopted Captive insurance as part of their risk management strategy, alongside traditional commercial policies.

Unlike traditional insurers, a Captive insurance company is owned by you, the business owner, providing control over premiums, risk management practices, and claims. Here's how it works:

Steps to Establish a Captive Insurance Company

1. **Establish the Corporation:** Form a corporation that will function as your Captive insurance company.
2. **Secure Licensing:** License the corporation with your state government to operate as an insurer. This process includes engaging an actuary and filing audited financial statements overseen by a registered agent.
3. **Manage Premiums and Reserves:** Develop an investment policy, regulated by the State Insurance Department, to manage premium reserves. Tax laws protect these reserves, ensuring your corporation's financial security.

With this approach, companies can secure a sustainable path forward, addressing the commercial insurance crisis head-on and achieving greater control over their financial future.

A Clear Path Forward

In today's volatile insurance market, Captive insurance represents a logical, viable solution for well-managed businesses seeking to stabilize costs, mitigate risk, and optimize financial performance.

The National Network of Accountants has recently been awarded the prestigious **Captive Innovation Award** at the 2024 *Captive Review* US Awards Dinner. This recognition highlights our commitment to excellence and innovation in the field of captive insurance.

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