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Why a Business Needs a Captive



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In today's volatile business landscape, companies must find innovative ways to manage risks. One such solution that is gaining popularity is the establishment of a captive insurance company. A captive is an insurance company owned by a business or a group of businesses to insure their own risks and covering a wide range of needs from property damage to specialized risks like cyber threats and employee health benefits. Here is why more businesses, big and small, are turning to captive insurance as a strategic tool.

1. Cost Control and Savings

Traditional insurance often requires premium payments to external insurers, which can fluctuate based on market conditions, the company's risk profile, and claims history. Captives offer a way to bypass the higher premiums charged by outside insurers, especially for businesses with a low claims history. By insuring their own risks, companies retain a larger portion of their premium payments, generating potential profits as claims experience improves and the captive accumulates capital. Over time, this can lead to substantial savings

compared to conventional insurance, particularly for high-risk industries with expensive premiums.

2. Tailored Coverage

Captives allow businesses to create customized insurance policies that align with their unique risks. Traditional insurance policies often provide generic coverage that may not fully address a company's specific needs, leaving gaps or being prohibitively expensive. With a captive, businesses can tailor coverage to their operational risks and adjust the policy as those risks evolve. Whether it is for product liability, environmental risks, or employee-related claims, a captive provides the flexibility to ensure comprehensive protection.

3. Improved Cash Flow and Access to Capital

Establishing a captive can improve cash flow by allowing businesses to manage their insurance premiums more predictably. Companies can reduce large, one-time premium payments typical of traditional insurance models, making budgeting easier and more accurate. Over time, captives accumulate funds that can be invested, providing businesses with returns that further strengthen their financial position. These funds can also be redirected for strategic growth initiatives or operational needs, giving businesses more control over their capital.

4. Risk Management and Loss Prevention

Captives incentivize businesses to take a more proactive approach to risk management. Since a captive is tied to the company's financial health, there is a strong motivation to invest in comprehensive risk management strategies. Captives allow businesses to closely monitor claims and loss data, providing insight into areas for improvement. As a result, companies can implement

better loss-prevention practices, such as enhanced safety training and more robust operational protocols, knowing that reducing claims will benefit the captive's overall health.

5. Flexibility and Control Over Claims

Captives offer businesses greater control over claims management, unlike traditional insurance policies, where decisions may be out of the company's hands. This direct control allows businesses to resolve claims more efficiently, ensuring they align with the company's interests. With a captive, businesses can streamline claims processes, manage disputes internally, and determine the most effective resolution methods, saving both time and resources. This transparency in the claims process ensures that decisions are made with the business's goals in mind.

6. Regulatory and Tax Benefits

In certain jurisdictions, captives provide favorable tax treatment. These companies are structured to meet the regulatory requirements of the jurisdiction in which they are domiciled, which can lead to various tax benefits. For instance, businesses may be able to deduct certain expenses like insurance premiums and operational costs from their taxable income. Furthermore, captives often face less stringent regulatory oversight compared to traditional insurers, allowing for more efficient operations. This regulatory flexibility and the ability to control investment strategies also offer tax-planning advantages.

7. Enhanced Competitiveness and Strategic Advantage

Having a captive insurance company can provide businesses with a strategic edge in a competitive marketplace. By offering increased financial security, captives help companies reduce the financial impact of unforeseen risks. This added stability can make a business more attractive to investors, partners, and customers, especially those focused on long-term sustainability. Additionally, captives can improve a company's ability to negotiate better terms with external

insurers, enhancing its competitive position in risk-sensitive industries.

Conclusion

A captive insurance company offers a range of benefits that go beyond cost savings. It provides businesses with more control over risk management, the ability to customize insurance coverage, and improved cash flow. It also promotes proactive risk management, streamlines claims processes, and can offer favorable tax benefits. In today's complex business environment, a captive insurance company is a powerful tool that can help businesses optimize their risk management strategies and position themselves for long-term success.

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