THE PREFERRED PROVIDER TO THE MOST TRUSTED ADVISOR

Volume 4, Issue 2
February 2023

National Network of Accountants, 6900 Jericho Turnpike, Syosset, NY 11791
www.nnaplan.com E-mail address: rroth@nnaplan.com
Offices located in Connecticut, Florida, New York, and Israel

PRIVATE INSURANCE

By William York, VP of Marketing

A private insurance (**PI**) company refers to an insurance company established by a business that integrates with traditional commercial business insurance. In other words, in place of a business purchasing insurance exclusively from a commercial insurance company, the business establishes an insurance company, which is owned by the business, to cover supplemental risk … **not catastrophic risk. The business can then purchase commercial insurance from the company it owns.**

These supplemental insurance companies come in many forms ranging from **Risk Retention Groups** to **Captive Insurance Companies**. They have been used in **the United States** since the late 1950's and serve many businesses that are attempting to control rising commercial insurance costs as well as difficult to obtain coverage while managing overall cash flow. In addition to controlling commercial insurance premiums, the secondary function of a (**PI**) is to develop reserves or assets for the owners of these insurance companies. They create an accumulation strategy by managing claims effectively.

STATE CONTROL

Similar to all public insurance companies, private insurance **(PI)** companies are established and controlled by individual state governments **and not the Federal Government.** They are governed by individual State Insurance Departments where the private insurance **(PI)** company is formed and registered. The **(PI)** must be operated as a **valid** insurance company with basic insurance policies, professional actuarial and underwriting support, market-based premiums, independent claims adjudication and processing, unrelated risk sharing with a reinsurance pool structure and possible excess reinsurance.

BENEFITS OF A PRIVATE (PI) INSURANCE COMPANY

A private insurance **(PI)** company provides a logical solution to gain flexibility and control of the ever-increasing cost of commercial insurance. For the last 20 (twenty) quarters, commercial insurance costs have increased. Increased premiums along with multiple catastrophic climate losses and rising re-insurance costs, are forcing many commercial insurance carriers to raise rates. A properly structured private insurance company allows access to customized coverages that enable your company to reinsure risk at rates that are often lower than retail insurers, thus ensuring your business is fully and affordably covered while filling the gaps left by most commercial insurance policies.

A private insurance company also allows a company to fund accepted and specialized exposures with before tax dollars making the decision to fund these risks a lot easier.

A private insurance (**PI)** company is also unique because specific operating expenses paid by traditional commercial insurance premiums are eliminated. These expenses often approach 40% in the traditional insurance area: sales commissions, insurance/officer expenses, advertising, and other related overhead.

Business owners, consciously or not, make decisions about whether to self-insure on a regular basis. Self-insuring provides its own risk, effects corporate reserves and does not create tax offsets. Some risks such as Workers' Compensation or General Liability might require commercial insurance by law. Other risks may go uninsured simply because they are seen by the business owner as unlikely to occur or too expensive to insure.

SELF-INSURING

The lack of available coverage or the choice to not purchase insurance for low probability, but high-risk events is called self-insurance. Most businesses self-insure a great part of their risks from daily business activities whether willfully or by default. Since this is a risky choice, we recommend that companies with uninsured or underinsured risks are prime candidates for a private insurance (**PI**) company as they can provide otherwise or difficult-to-procure insurance.

The larger issue is how many business owners have truly effective risk management strategies that quantify, manage and fund their severe risk.

Most businesses self-insure potential catastrophic, but perhaps unlikely risks. Often these businesses have not made a deliberate attempt to quantify these risks but the business, or shareholders would certainly have to find the money to put the business back together should they suffer loss.

Covid 19 would definitely qualify as catastrophic and certainly caught many businesses unprepared. Covid, monkey pox, global warming, supply change instability, business failing, inflation, political risk, crypto currency and a multitude of other factors have worked to destabilize business and render traditional business insurance unable to meet the demands of many businesses.

RISK MANAGEMENT / PROFIT CENTER

Catastrophic risk, such as Covid 19, might not occur again in this century. However, a business needs to be prepared. A **PI** company can create a profit center from a business expense --.the cost of insurance. Fortune 500 companies and other large companies have used private insurance companies for many years as part of their risk management programs to improve cash flow, gain certain tax advantages and to create significant equity. For smaller business owners, the **PI** company is a paradigm shift from simply "**buying**" insurance. A **PI** company can also be utilized for a variety of purposes including business re-investment, incentives for employees and wealth planning.

Private insurance companies offer the business owner the unique opportunity to share in the profitability of their successful risk management programs and can deliver substantial **ROI** if it is managed effectively and correctly.

Today, successful, compliant **PI** companies serve a wide range of businesses ranging from large professional practices to manufacturing, service and distribution businesses. An integrated approach of commercial and captive insurance can and does, limit exposure for a business while creating an asset to ensure business growth.

"Allow 2023 to be the year of self-examination, reflection and change." **-- Joe T.**

NNA
THE NATIONAL NETWORK OF ACCOUNTANTS, INC.

Ronald M. Roth
Phone: 516-629-9063
E-mail: rroth@nnaplan.com
National Network of Accountants
6900 Jericho Turnpike
Syosset, NY 11791
www.nnaplan.com