CIC SERVICES LLC
A Captive Management Company

Start Another Business To Significantly Grow Your War Chest

What could be more appealing than doubling contributions to your company's war chest every year.

When you hear the words "war chest," you probably don't think about insurance. Insurance primarily addresses uncertainties and contingencies facing the business. However, if your company goes one step further and chooses to own its own insurance company, it will be a unique position to address risks and contingencies while simultaneously expanding its war chest.

This type of insurance company – one owned by a business, its owners or related parties – is known as a captive insurance company. And a captive insurance company is also uniquely positioned to address risks, contingencies and threats facing a business, because insurance policies can be tailored, or specifically written, to do just that.

Because a captive insurance company is owned by the business or related parties, it can craft policies with few or no exclusions. Captive ownership enables business owners, CFOs and risk managers to tailor or customize unique policies for their unique business situation. Furthermore, businesses won't need to wrestle with their captive over claims.

Isn't It Risky And Difficult To Start An Insurance Company?

It certainly can be, but it doesn't have to be.

Let's address risk first. Starting an insurance company – specifically, a captive insurance company - can be a low risk endeavor because a business can choose to keep existing third party insurance coverage intact. By doing this, the businesses existing risk management profile isn't fundamentally altered or reduced. The business can then utilize the captive to cover gaps in its existing risk profile. Hence, the business now benefits from a more robust or enhanced risk management approach. And, it has done so without increasing exposure of its own assets because third party insurers are still on the hook to cover claims should an insurable event occur that was previously insured by third party insurance.

Second, let's address difficulty. By using an experienced and proven captive manager, a business does not need expertise in operating its own insurance company. The captive manager does almost all of the work.

What Is A Captive Insurance Company?

Simply put, a captive insurance company is an insurance company. It is a C corporation and is licensed and domiciled like any large insurance company. Captives also have their own reserves, policies, policyholders, and claims. Owning a captive insurance company is a sophisticated way to self-insure, and captives are generally formed to insure the risks of a business, group of businesses and related or affiliated third parties.

How Will Owning A Captive Insurance Company Benefit The Business?

First, the parent company is able to benefit from a more robust risk management approach. Even if it keeps all or most of its third party insurance coverage in place, the business can now formally insure risks that may have previously been uninsured. This could also be described as filling gaps in third party coverage.

Second, the overall (or aggregate) assets of one or more companies with a captive insurance company is almost always higher – significantly higher - than the overall assets of companies without a captive insurance company. This occurs for two primary reasons. First, the company takes an expense as it pays its insurance premium to its captive. This lowers the parent company's taxable income. And, the captive does not pay taxes on the premium it collects (up to $1.2 million annually). Second, the captive is able to earn a return on its reserve pool (or assets). And, the captives asset pool has been amassed with pre-tax dollars, enabling asset growth on a larger starting base.

How Can Owning A Captive Insurance Company Double The Company's War Chest?

A captive provides many benefits to its parent company or business owner including risk mitigation, asset protection, security from creditors and increased profits. A captive primarily insures its parent company or related companies. Hence, the parent company is able to purchase insurance from its captive. In the early years of owning a captive, a business can insure risks that third party insurers will not insure or risks where the cost to insure with a third party is prohibitive.

These are risks that many businesses regularly face and informally self-insure. Which means that if an event occurs, the business "bites the bullet," often taking a loss, laying off workers and possibly facing partial or total closure. With an 831 (b) captive in place, businesses can formally insure risks not normally insured by third party insurers.

Adverse events are going to occur whether or not a business has a captive insurance company in place. Businesses with a captive in place have a much larger pool of funds to address adverse events (typically 80% to 100% more) because captive assets are comprised of pre-tax dollars. Hence, the captive effectively enables a business to double its war chest.

Premiums are paid from the parent company to the captive with pre-tax dollars, and accumulate tax-free as reserves of the captive (up to $1.2 million annually). Captive reserves can be translated into virtually any other type of asset (some domiciles have restrictions). For this reason (tax savings and reserve accumulation), a captive insurance company can significantly grow a CFO's t war chest.

CIC Services, LLC has been helping business owners and professionals **own their own insurance company** since 2005. Please call me to discuss if a captive insurance company is the right move for your business.

Tim Welles

865-607-6107

TWelles@CICServicesLLC.com

www.CICServicesLLc.com

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