

Is Your Company Protected?

AN INTRODUCTION TO
CAPTIVE INSURANCE

What Is A Captive Insurance Company?

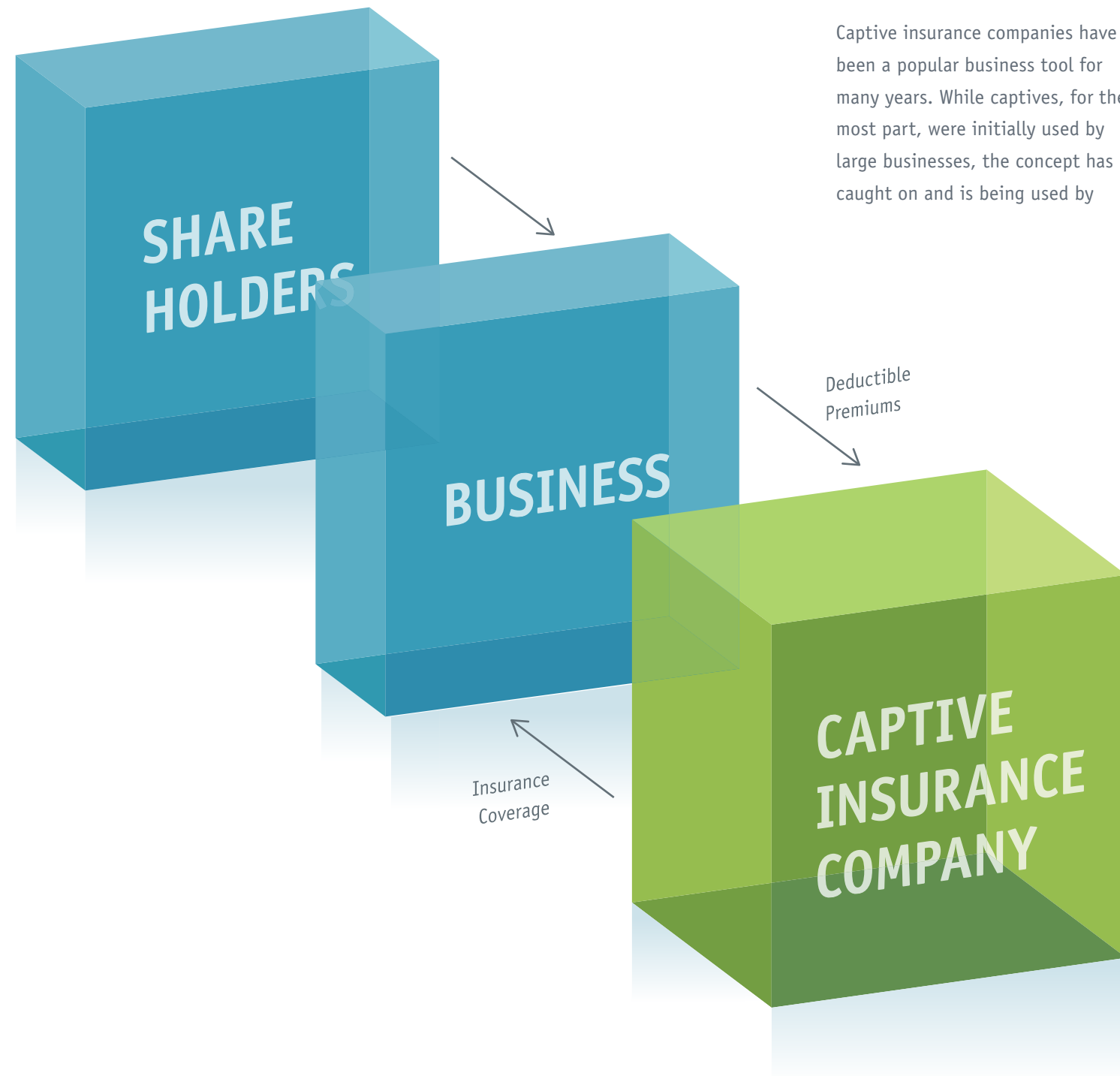
A Basic Captive Structure

Effectively managing business risk is critical in today's ever-changing world. It's important for business owners to understand their true risk exposure as well as the different vehicles available to mitigate and manage their business risk.

A captive is an insurance company established to insure the specialized risks of a business. It issues policies, collects premiums and pays claims. A captive must be formed as a C-Corp and can be domiciled in the U.S. or offshore. There are several ways to form a captive insurance company, including, but not limited to: single parent captives, group captives, risk-retention groups and reinsurance captives.

A captive can be owned by one or more business owners, and can be a very effective tool for managing risk in a tax-efficient way. Businesses typically have a number of risks that fall outside of the underwriting guidelines of traditional insurance, and these specialized risks may be insured through utilizing a captive to finance potential losses in a formal structure.

Domicile selection is an important consideration in the formation of a captive. International and domestic domiciles tend to have different capitalization requirements, investment limitations, regulatory restrictions, fees and taxes. Currently, more than 35 states have captive legislation in place. Through a feasibility study, it is easy to establish which domicile is most appropriate.



Captive insurance companies have been a popular business tool for many years. While captives, for the most part, were initially used by large businesses, the concept has caught on and is being used by

middle-market businesses across very diverse industries. Captives are no longer considered by many to be a truly "alternative" insurance market. The use of a captive is now seen as an integral part of a complete risk management program for successful businesses.

Captive Ownership

Shareholders	Family
Key Officers	Living Trust
Officers Key	Trust Living

Why Form a Captive?

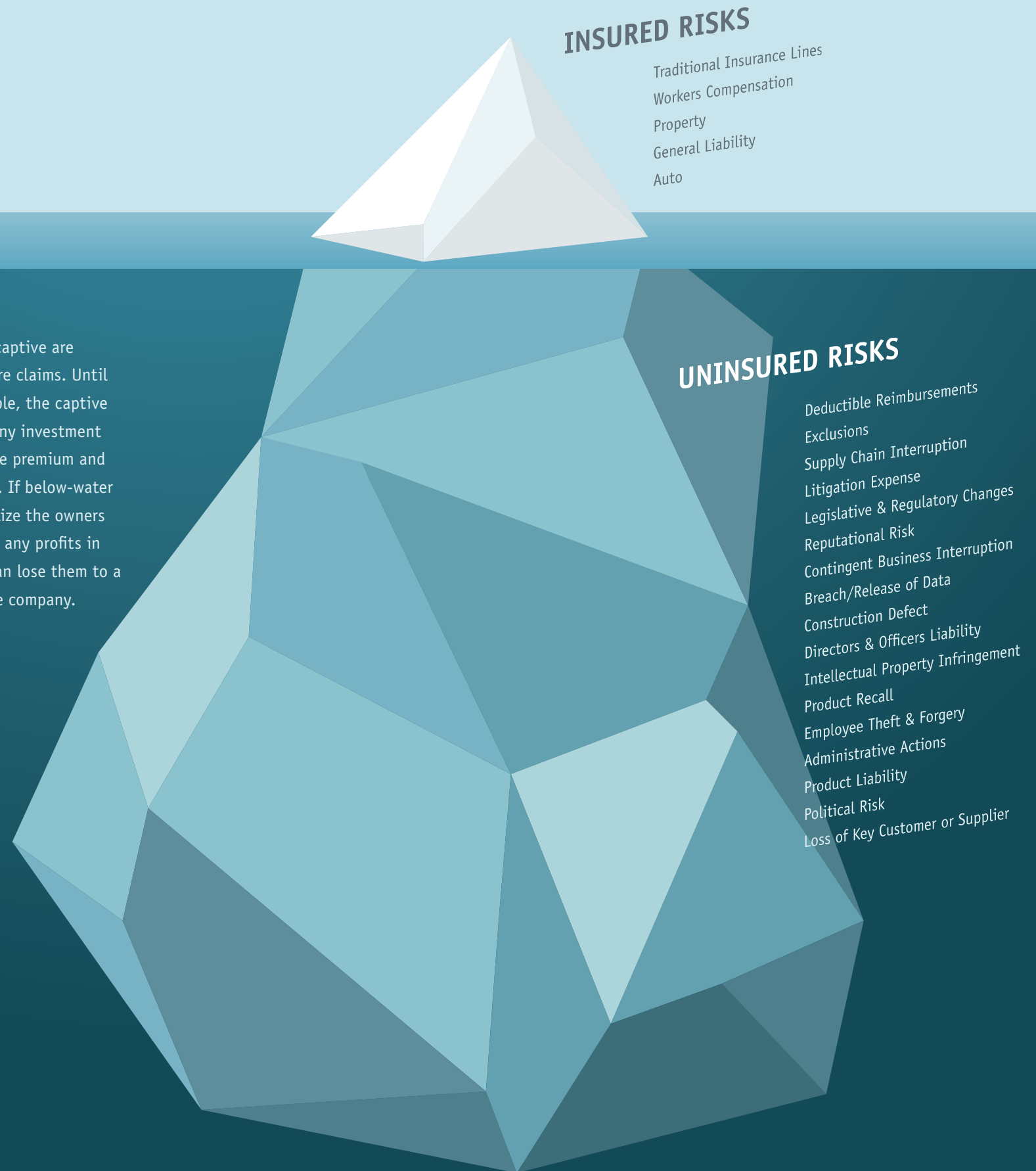
Businesses typically purchase traditional insurance through third-party carriers to cover their universal risks. These risks are covered through general liability, property, casualty and auto policies, etc. These policies are typically purchased from third-party insurance companies. At Corprotect, we view these insured risks as above water risks.

Businesses are also exposed to a number of risks that fall outside of the scope of traditional insurance. Failure to address these risks can lead to catastrophic outcomes. At Corprotect, we view these as below-water risks. Each business has its own unique below-water risks. Some

examples of these risks may include deductibles, limitations of existing insurance policies, credit default, litigation defense, construction defects, loss of key customers and suppliers, and so forth. The purpose of a captive insurance company is to create policies to insure against below-water risks.

It is critical for any business to address and effectively manage both their above-water and below-water risks in which they have exposure. A captive allows a business owner to have greater control in managing all of their business risk and can strengthen their overall risk management program.

Premiums paid to a captive are reserved to pay future claims. Until claims become payable, the captive gets the benefit of any investment income earned on the premium and any captive reserves. If below-water risks do not materialize the owners of the captive retain any profits in the group, rather than lose them to a third-party insurance company.



Is a Captive Right For You?

It's important for business owners to understand their true risk exposure as well as the different types of captives that are available to them to mitigate and manage their business risk. An appropriately tailored captive arrangement can help a business:

- ▶ Reduce third-party insurance costs
- ▶ Custom tailor policies & coverage
- ▶ Have better control over claims
- ▶ Access the reinsurance market

ENTERPRISE RISK CAPTIVES

The captive insurance industry has emerged to address insurance deficiencies and inefficiencies for midmarket U.S. based companies. The captives formed by many midmarket companies are small enough to take advantage of a beneficial election under the Internal Revenue Service. This type of captive is usually referred to as an Enterprise Risk Captive or an ERC.

WHO IS A CANDIDATE FOR AN ERC CAPTIVE ?

Good candidates for an ERC captive generally meet one or more of the following criteria:

- ▶ Substantial Self-insured/Uninsured Business Risk
- ▶ 10+ Employees
- ▶ \$10m+ Gross Revenue
- ▶ Pre-tax Profits of at Least \$1.5m

WHAT ARE SOME OF THE KEY INDUSTRIES FOR CAPTIVES?

- ▶ Real Estate Developers/Builders
- ▶ Manufacturers
- ▶ Professional Service Firms
- ▶ Franchises
- ▶ Restaurant/Hotel Chains
- ▶ Physicians/Medical Groups
- ▶ Dealerships
- ▶ Advertising & Marketing Companies
- ▶ Vocational Training Schools
- ▶ Financial Institutions
- ▶ Trucking Companies

HOW MIGHT A BUSINESS OWNER BENEFIT FROM A CAPTIVE?

- ▶ Control Business Risk
- ▶ Protect Assets
- ▶ Optimize Wealth
- ▶ Tax Considerations

Our Turnkey Approach to Captive Management

CAPTIVE FORMATION

Corprotect has a unique process in forming and licensing a new captive insurance company. It begins with a thorough examination of the client's current commercial policies. Each policy is reviewed for gaps, limitations and exclusions. Additionally, we work with each client to identify other areas of exposure that are not covered through their current commercial insurance policies. Next, we have an actuary analyze the client's profile to calculate policy rates. All of this information is presented to the client in a feasibility study that outlines the strengths and weaknesses of a captive insurance arrangement.

Once the feasibility study has been provided to the client, we then proceed towards forming and licensing the captive. Our service includes all insurance underwriting, incorporation, policy issuance, financial analysis, legal, accounting, tax, actuarial and licensing requirements.

We can form the captive in any number of jurisdictions, but prefer domestic jurisdictions for the best and most efficient licensing and ongoing regulatory overview.

CAPTIVE MANAGEMENT

When it comes to managing our client's captives it is our intent to make the process as easy on our clients as possible. Through years of experience we have streamlined our systems and management services in an effort to minimize the time commitment of the business owner in the management and ongoing maintenance of their captive. Our management services include:

Accounting

Our in-house accounting staff not only manages our client's insurance companies from issuance of premiums to monthly financial reporting, it also assures suitable tax and audit treatment.

Compliance

We monitor jurisdictional regulatory statuses as they occur and assure that our clients are taking full advantage of the opportunities available under the law.

Actuarial

We utilize experienced third party actuaries that help ensure that our clients' captive insurance companies maintain proper financial solvency.

Claims Management

We work with our clients to establish custom-tailored risk funding structures to create the highest possible level of protection to their business. We also assist our clients in processing claims as they arise.

Legal

Our firm retains highly qualified legal counsel to provide our clients with valuable advice in areas such as regulatory compliance, corporate structure, and tax accounting.

Audit

Risk structures may be subject to annual financial audits depending on the regulations of the respective domicile. Our team and affiliated partners will help provide the necessary attestation services to maintain compliance.

Taxation

Our CPAs and tax experts will assure all required tax documents are filed on a timely basis and that risk structures are compliant with IRS safe harbor rulings and other tax laws.

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