

# KEY BENEFITS OF CAPTIVE INSURANCE

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A captive insurance company is an insurance company that insures the business operations of its owners and/or participants. A captive insurance company is licensed under special purpose insurer laws and operated under a different regulatory system than commercial insurers.

Business owners and organizations establish captives because they recognize a traditional insurance guaranteed cost program may not provide the flexibility in pricing or coverage options needed for individualized circumstances.

Typically, a combination of the following reasons makes forming a captive insurance company a reasonable option for a business owner:

### » Coverage is unavailable

The specific insurance coverage needed is unavailable or unaffordable. A captive can provide customized coverage to meet the needs of the business owner.

### » Lower insurance costs

The business owner can retain the profit which would go to a commercial insurer under a guaranteed-cost insurance program when there are no losses. Also, a captive may reduce overall insurance costs by charging a premium that reflects the business operations with good loss experience.

### » Cash flow

Premium is available for investment until needed for claims payments. A captive allows its owner to retain premiums and investment income.

### » Access to the commercial excess insurance/reinsurance market

As a licensed, regulated entity, a captive is recognized by excess insurers and reinsurers as a basis for providing additional limits capacity to the business owner's insurance coverage.

### » Tax minimization and deferral

Premiums and loss reserves may be deductible from taxable income, depending on the domicile of the owner and the structure of the captive insurance company.

Establishing a captive insurance company allows owners to set up an insurance company tailored to fit the coverage needs and financing capabilities of their business operations.