

Contact**Houston**

1200 Smith Street, Suite 1400
Houston, Texas 77002-4310
Tel: 713.658.1818
Fax: 713.658.2553

Atlanta

191 Peachtree Street, N.E.,
Forty-Sixth Floor
Atlanta, Georgia 30303
Tel: 404.659.1410
Fax: 404.659.1852

Philadelphia

300 Conshohocken State Road
Suite 570
West Conshohocken, PA 19428
Tel: 610.772.2300
Fax: 610.772.2305

San Antonio

112 East Pecan Street, Suite
1450
San Antonio, Texas 78205
Tel: 210.253.8383
Fax: 210.253.8384

Captive Insurance Companies

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What is a Captive Insurance Company?

A captive insurance company ("Captive") is an insurance company formed by a business owner to insure the risks of related or affiliated businesses. A Captive permits a business to manage its risks while potentially providing substantial benefits to that related business and its owners. The premiums received by the Captive are invested and thus not "lost" as they would be if paid to an unrelated insurer (to the extent not used to pay claims). The premiums accumulate over time and are available to pay for business risk losses which are self-insured and thereby avoiding a negative impact to the business's bottom line. This one benefit drives the use of Captives for the family business more than any other.

What Does a Captive Do?

Captives may issue property or casualty insurance coverage against a wide variety of possible risks. In addition, Captives provide an opportunity to insure against risks that are generally self-insured, uninsurable or hard to insure due to the lack of coverage available in the commercial market or the excessive cost of such coverage. Critically important, a client must realize that the Captive is a licensed insurance company, and therefore, claims must be expected. Thus, commercial insurance must be maintained for certain risks the Captive should not insure because the possibility of catastrophic loss is too high, or the number and types of claims present a significant risk.

Why Use a Captive Now?

With the prospect of very significant tax increases on the horizon, the captive insurance company is also being touted as one of the best solutions for business owners to cope with the impending avalanche of taxes Washington may unleash. In addition to the income tax benefits, Captives may provide significant estate planning, wealth transfer, and asset protection opportunities.

What are the Benefits of Using a Captive?

Business owners' profits are reduced by the cost of commercial insurance and further threatened with uninsured/self-insured risks. Through the implementation of a Captive, a business owner can reduce and contain his or her commercial insurance deductible costs, and provide insurance for those previously uninsured/self-insured risks.

Other Reasons for Using Captives

Captive Insurance Companies, *Continued*

- Cash flow.
- Risk retention.
- Risk management.
- Access to the reinsurance market.
- Tax minimization and deferral.
- Asset protection benefits
- Estate planning benefits

