Captive insurance

How a new Missouri law provides incentives to self-insure with captives

INTERVIEWED BY ROGER VOZAR

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Missouri Senate Bill 287, which becomes effective Aug. 28, puts the state on equal footing with others that have been popular domiciles for captive insurance companies.

"It changes certain capital requirements for pre-existing types of captives, as well as provides additional flexibility by allowing segregated cells, also known as shared captives or rent-a-captives," says Alan J. Fine, CPA, JD, member in charge, Captive Insurance Advisory Services practice at Brown Smith Wallace.

Smart Business spoke with Fine and William M. Goddard, CPCU, principal, Captive Insurance Advisory Services practice at Brown Smith Wallace, about the new law and why companies should consider captive programs to address insurance needs.

Is a captive program the same as self-insurance?

It's a formalized program for self-insurance. Captives generally provide incentive to the insured — the captive owner — to pay more attention to safety and other matters that improve the results.

Captives can be used with health insurance as well as property and casualty. Companies should consider captives if their risk profile is such that they're a better risk than others in their industry. When you're in the commercial marketplace, companies with good risk profiles are used to fund risks of those that are not so good. There's also a built-in profit for the insurance company, so self-insuring through a captive allows you to keep those profits.

What are the benefits of captives?

In addition to savings, which can be $200,000 to $400,000 annually for most midsize captives, you may be able to get types of coverage that are not available in the commercial marketplace. If structured properly, there also are potential tax benefits.

What does the new law change?

It allows for new types of captives. Prior law allowed companies to start a captive for their own company, known as a single-parent captive. You put up the capital, you are responsible for the audit and you reap all of the benefits.

The new law adds the option of going with the concept known as shared captive, rent-a-captive or sponsored captive. Generally speaking, someone else puts the captive together and you own a piece. There are certain efficiencies created with sponsored captives. For example, you have regulatory filings due quarterly and annually. With 10 standalone captives, they would each file separately with the Department of Insurance and be audited independently. The sponsored captive concept allows those 10 to band together for efficiency, while still providing the same asset protection of having your own captive.

The bill's passage also affirms Missouri's continued commitment to the captive industry.

Will more companies form captives?

There are more than 6,000 captives worldwide, so those companies have figured out that this can be a good alternative to the traditional insurance market. You can save money on insurance, obtain coverage that's not available elsewhere and formalize your self-insurance program.

Health care had not been a big subject for captives; however, companies looking to save money on health insurance are now throwing captives into the mix of things they are considering. Companies have been insuring workers' compensation in captives for years, but with medical insurance it takes some innovative thinking to figure the best advantage to you in forming a captive. You need someone that understands health care, as well as a tax expert to understand regulations from the tax perspective because health care reform is really a tax law.

When it comes to captives, it's not always readily apparent how they can be utilized. Answers are not easy to determine, and no two situations are alike. You have to examine your individual case and analyze how a captive could benefit you. Fortune 500 companies have studied captives; companies that fall below that — middle market to small companies — have few advisers out there spending time to educate them about potential benefits.

If you have a good risk profile, are profitable and have good cash flow, it is worth exploring the available options. ●