



10 IMPORTANT QUESTIONS

Ten Questions to Ask Any Captive Insurance Company Provider

- 1. Are you a Registered Captive Manager (RCM) that has been approved by a State Department of Insurance in the United States?**

It is important that you only work with captive managers who have been vetted and approved by the State. Many providers claim that they can form a captive anywhere, but in fact have no legal relationship with most State Departments of Insurance.

- 2. Do you have in house underwriting, risk management, reinsurance, accounting, legal and tax, experience?**

If the risks placed in the captive have not been properly priced and diversified and if the reinsurance is not properly structured, then you may not receive the expected benefits of owning a captive insurance company. Most providers have either tax/legal experience or risk management experience. Pick a provider that has both skill sets.

- 3. Do you provide written copies of the State and IRS regulations for owning and operating a captive?**

Do not rely solely on the statements of the provider; be sure that you receive all of the actual rules and regulations so you and your advisors can verify the accuracy of the captive formation and management process. A good feasibility study includes a complete copy of all relevant rules and regulations.

- 4. Do you provide information about the risk distribution mechanism including participants, types of risk, limits of coverage, economic loss scenario implications?**

Nearly every captive must assume some third party risk (risk distribution) to qualify as an insurance company under the IRS rules. The mechanism for adding such risk is, therefore, very important and may affect the ultimate economics of your captive. Your provider should be able to demonstrate how the risk distribution mechanism works and that it is compliant with both the IRS rules and IRS audit tests. You should also know the types and amounts of risk that your captive is assuming and should know exactly your maximum economic risk from any risk distribution structure.



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- 5. Do you have your own captive which participates in the risk distribution mechanism? Are you putting your money at risk beside ours as a business partner?**

Most providers talk about how a captive should operate yet they do not personally assume any risk. We at Intuitive have created our own 831 (b) captive that assumes risk from each captive we form, putting our capital at risk along side of yours.

- 6. Do you provide annual risk reviews and adjustments to the risks assumed within the captive?**

Your company's risk changes as your business grows. Your insurance coverage including that in your captive should also change to reflect your business needs. Intuitive will conduct a review of your insurance annually to be certain that your captive fits perfectly with your third party insurance program and provides a prudent level of protection that you need.

- 7. Are the captives you form reinsuring another insurance company? If so, how do we know what types of risk the insurance company is assuming and that the fronting insurance company is solvent?**

Some providers require you to purchase a policy from an insurance company (a "fronting" company) who then transfers the risk to your captive via a reinsurance contract. This structure increases the risk of loss of funds due to a failure of the fronting company and often obscures the actual types of risks being assumed by your captive.

- 8. Who controls the money/investments in my captive?**

Some providers' ultimate goal is to manage, invest or control the money in your captive insurance company. We recommend that the money be managed by a specialist who is a Registered Investment Advisor and who has a proven track record of success and sustainability.

- 9. Where do you prefer to form captives?**

Many providers still form captives offshore which can raise concerns with the IRS and can be more expensive to operate. Forming a captive in the United States is transparent, and you receive the benefit of better oversight than that available to captives domiciled in offshore jurisdictions.

- 10. Do you specialize in section 831(b) captives or do you also handle other types of captives?**

There are many different types of captive insurance companies. The skill sets required to properly form and manage these types of captives also differ.