Captive Insurance

Captive Insurance Policies

Construction, at its core, is a high risk industry. Each Individual project presents individual challenges and outcomes. Risk can appear in any form and at any state of the construction process. Successful contractors look for risk mitigation and profit insulation techniques in all areas of opportunity. One effective solution is a Captive Insurance program. What is a captive insurance program and how can it insulate company profit while insuring risks that aren't covered by standard commercial insurance policies?

Secondary Insurance Benefits:

A captive insurance company (Captive) is a property and casualty company established by ownership to provide expanded insurance coverage to the parent company; in this case, the construction entity. The construction entity or its shareholders establish a captive that is wholly owned by the parent and/or principals. A captive's purpose is to insure the unique exposures faced by companies that 3rd party commercial insurance will not cover or may be too expensive to cover. Examples include: business interruption, liquidated damage exposure, subcontractor default, and supply chain interruption.

Many of these losses are better managed through coverage from a parent owned captive rather than a commercial insurance company. The policy issued by the captive will be tailored to the contractor's specific business risks. The captive does not replace existing commercial insurance. As these risks are generally uninsured, the ownership of the captive and parent companies are not assuming greater risk. They are simply transferring that risk to the captive. This insulates construction operational results with added advantages. To learn more, click here or call me to discuss the benefits of a captive for your company.

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Insurance (Cont.)

Income Tax Benefits:

There are a number of different captive agreements in the marketplace. Most privately held construction firms elect to have their captive taxed according to IRS Section 831(b). This code states that captives are taxed only on their investment income, and do not pay taxes on the premiums they collect, provided the premiums paid into the captive do not exceed $2.3 million annually. Functionally, the construction company line items captive insurance premiums paid to the captive for selected coverage in its G&A expense – lowering net income of the construction company while building captive company profits. As the captive generates profit, those dollars (assets) belong to the captive and its owners, not a third party insurance company. The captive profits may be invested in a reasonable manner at the discretion of the captive owner. Should profits be withdrawn via a qualifying dividend , the owner of the captive, based on IRS Section 831(b) is only required to pay taxes on the long term capital gains of said profit – a significant benefit to the owners of the captive and construction company.

Who's a Good Fit for a Captive:

Captive Insurance policies are good fit for construction firms with gross revenues of $4 million or more and net income of $1 million or more (including owner bonuses/draws).

Captive Insurance Companies are not new and can offer a successful contractor the opportunity to offset risks and insulate profit. Constructors Bonding has successfully assisted a number of clients with establishing captive insurance companies.

Please call me personally for more information on captives or on any bond issue you may be facing.

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