



CIC SERVICES

Turning Risk Into Wealth

Fortune Favors The Insured

Developed by: Sean G. King, JD, CPA, Macc

Presented by: Randy Sadler

Important – For Virtual Attendees

IMPORTANT: Participation Validation

Three times per 50 minutes of instruction, you will see this page.

Record / write down the key word.

Example: The 1st key word is **“Risk”**

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.

Question

Have you ever had a client with a successful business later go bankrupt?

What Happened?

Question

What are common forces that weaken and / or even destroy businesses suddenly or over time?

Question

Did you have any business owner clients who were severely hurt or went bankrupt due to COVID?

What happened?

Did they file an insurance claim?

Consider



COVID-19 Claims: Captives vs the Commercial Industry

Authors Sean King and Jayna Patel

The contrasting fortunes of companies that took out business interruption policies in the commercial market or through a captive is a stark reminder of the advantages of captive insurance, say Sean King and Jayna Patel of CIC Services.

"Captive insureds were often able to get claims approved and paid far more quickly."

Sean King, CIC Services



Consider

For 2020, COVID-19 related claims paid out by CIC Services-managed captives have amounted to nearly \$14 million, with an extra few million currently pending. These range from just under \$1,000 for some companies to more than a million for others. In many cases these claims were essential to the survival of the business. We interviewed four of our clients who had their COVID-related claims paid. Here are their stories.

Case Studies

In one case, a small technology company with a dozen employees was, thanks in part to captive insurance, able to keep everyone employed while its uninsured competitors were forced to downsize. Being fully staffed as the pandemic has eased placed this business in a much stronger competitive position versus their competitors that are now struggling to rehire.

Fortune Favored The Insured



<https://newtonmedia.foleon.com/captive-international/us-focus-2021/covid-19-claims-captives-vs-the-commercial-industry/>

IMPORTANT: Participation Validation

Record / write down the 1st key word.

The 1st key word is “Covid”

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About CIC Services, LLC

- CIC Services, LLC is a **Risk Management** consulting firm, specializing in the utilization of **Captive Insurance Companies (Captives)** to help organizations achieve their overall **Enterprise Risk Management** goals. We have been helping business owners manage risk through **Captive ownership** since 2005 by providing superior expertise, and **full-service, turn-key** captive management services. Our principals have **over two centuries** of combined experience in the insurance industry.
- We understand the unique **needs, goals, and fears** of business owners. We have built our business by serving these entrepreneurs through the innovative use of captive insurance companies tailored to meet their individual needs and to help them **achieve their goals and dreams**.



About CIC Services, LLC

We Also Stand Up For Our Clients And Our Industry



The Supreme Court ruled in CIC Services' favor by a margin of 9-0 in its lawsuit against the IRS and its unlawful Notice 2016-66.

<https://www.captivatingthinking.com/supreme-court-backs-cic-services/>



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In September 2021 a U.S. District Court granted CIC Services an injunction against the IRS' unlawful Notice 2016-66.

<https://www.captivatingthinking.com/cic-services-sees-another-win-in-district-court/>



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In May 2022 a U.S. District Court vacated IRS Notice 2016-66.



[Court invalidates IRS notice 2016-66 on Micro-Captive Transactions \(captivatingthinking.com\)](http://captivatingthinking.com)

Course Developer: Sean G. King, JD, CPA, Macc

Principal – CIC Services, LLC



With a background in accounting, law, taxation, insurance, and investments, Sean is uniquely qualified to work in the financial services industry. Sean received his Bachelor of Science in Business Administration degree, Cum Laude, after majoring in Accounting and Business Law at the University of Tennessee (UT). In 1993, Sean earned his Master's degree in Accounting with a concentration in Taxation from UT, and in 1996 Sean received his Doctor of Jurisprudence (law) Degree, Cum Laude, also from UT.

Today, Sean holds active licenses as a CPA and attorney and serves as a Principal of CIC Services, LLC, which manages captive insurance companies.

Sean's specialty is creatively structuring and managing captive insurance companies to assist clients in achieving important risk management and asset protection objectives. He lives in San Juan, Puerto Rico with his wife, Cindy, identical twin sons, Shelton and Logan, and daughter, Clara.

Randy Sadler

Principal – CIC Services, LLC



Randy has been a Principal with CIC Services since 2012. He has been a Sales and Marketing professional since 2007, when he joined Procter & Gamble's Brand Management Group. His career transitions have taken him from P&G to Pfizer Pharmaceuticals to the Ellison Group to Jewelry Television. He now leads Client Education & Business Development for CIC Services, LLC.

Randy has an entrepreneurial bent and is active in investment real estate. He is an Owner and Principal in Woodlands Management, LLC. His partnerships manage over 400 residential properties. Randy received his Bachelor of Science degree from the United States Military Academy in 1992. He served as a Tank Commander in the U.S. Army from 1992 to 1997.

Randy resides in Knoxville, TN with his lovely bride of 30 years, Shannon. They have five children. Randy and Shannon helped found Paideia Academy, a Classical Christian School in Knoxville that is entering its 20th year with over 200 students. Randy still serves as School Board President.

About CIC Services, LLC

We Help Businesses Own Their Own Insurance Company

- Establish Asset Protected Loss Reserves
- Increase Profit / Wealth (Generally By Millions Of Dollars)
- Lower / Control Insurance Costs
- Insure Uninsured / Under-Insured Risks (Like COVID-19)
- Benefit From Insurance Company Tax Treatment



Agenda – Part 1

- What is a Captive Insurance Company (Captive)?
- Where Do Captives Fit?
 - Replacing Commercial Insurance
 - Critical / Emerging Risks
 - Healthcare
- What is ERM for Small & Mid-Size Companies?
- Taxation of Captive Insurance Companies
- Captive Insurance Company Profits

Agenda – Part 2

- Captive Insurance Essentials
- Ancillary Benefits of Captive Ownership
- Clients that Might Benefit from Captive Ownership
- Case Studies
- Q&A



What Is A Captive Insurance Company?

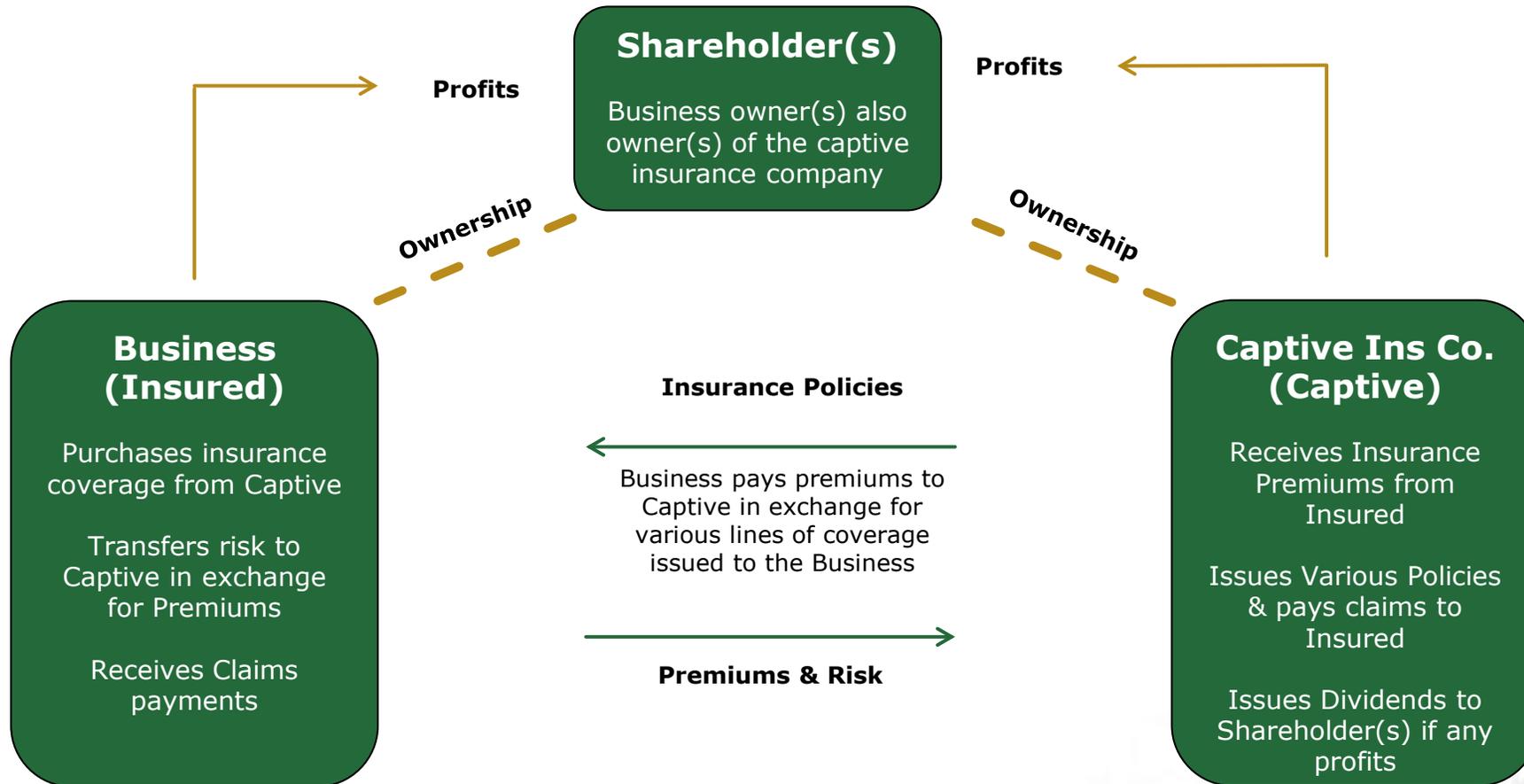
What Is A Captive Insurance Company?

- **Captive Insurance Company (Captive):** a real insurance company (with policies, policyholders, claims, reserves and surplus), licensed in an appropriate jurisdiction, formed to insure the risks of its owners and sometimes third parties.
- **Captives** are generally owned by the same economic interest as the primary company(ies) they insure, resulting in the capture of all underwriting profits by the business owner(s).
- **Captives** have been around since the 1950s, and insure businesses in virtually every industry and sector of the market.

What Do Captive Insurance Companies Do?

- **Replace Commercial Insurance**
- **Insure Enterprise Risks (Often Un-Insured Or Under-Insured)**
- **Insure Warranties**
- **Insure Bonds**
- **Insure Employee Benefits / Healthcare**
- **Any Combination of the Above**

Captive Example Structure



Types of Captives

- **Single Parent Captives** - formed primarily to insure the risks of its parents or affiliates.
- **Association Captives** - formed by a trade, industry or service organization to insure its members.
- **Group Captives** - formed to insure the risks of multiple companies, related or unrelated.
- **Agency Captives** - formed by insurance companies to reinsure a portion of their clients' risks.
- **Rent-a-Captive** - formed to allow companies access to captive “benefits” who otherwise wouldn't have access.
- **Protected Cell (AKA Segregated Cell or Series) Captives** - allow for the segregation of assets and liabilities among different cells and their parent. Each Cell must, individually, meet the definition of an insurance company.

IMPORTANT: Participation Validation

Record / write down the 2nd key word.

The 2nd key word is “Captive”

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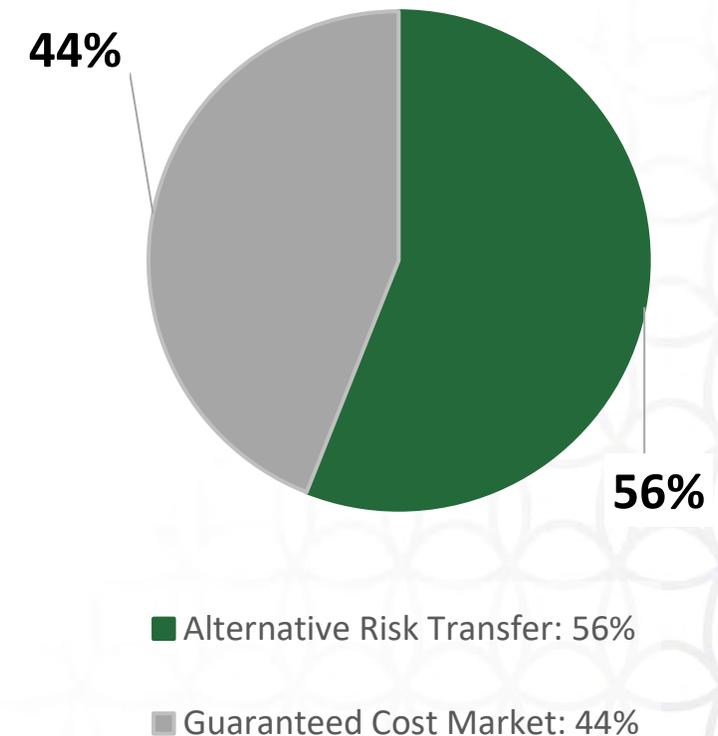


Where Do Captives Fit?

Alternative Risk Transfer

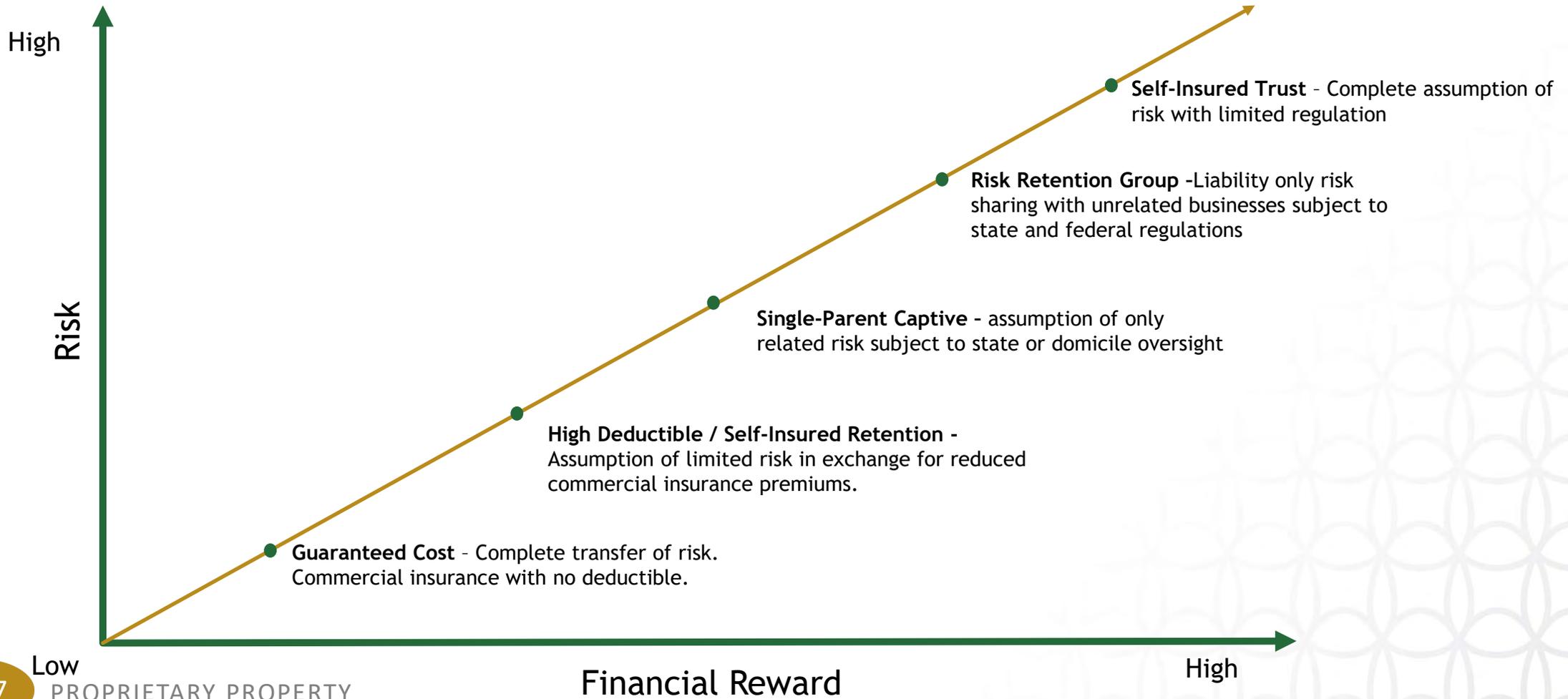
- **Alternative Risk Transfer:** The marketplace in which nontraditional risk transfer approaches (as compared to commercial insurance) can be arranged. Some of the types of entities and approaches included in this marketplace are Captive insurance companies, pools, and risk retention groups (RRGs).
- AM Best indicates that Alternative Risk Transfer market is the largest premium segment of the insurance industry (over 56% of every insurance dollar is placed in an ART market).
- Forbes indicates that over 90% of Fortune 500 companies utilize Alternative Risk Transfer through the use of Captive insurance programs.

Alternatives Exceed 50% Of The Market



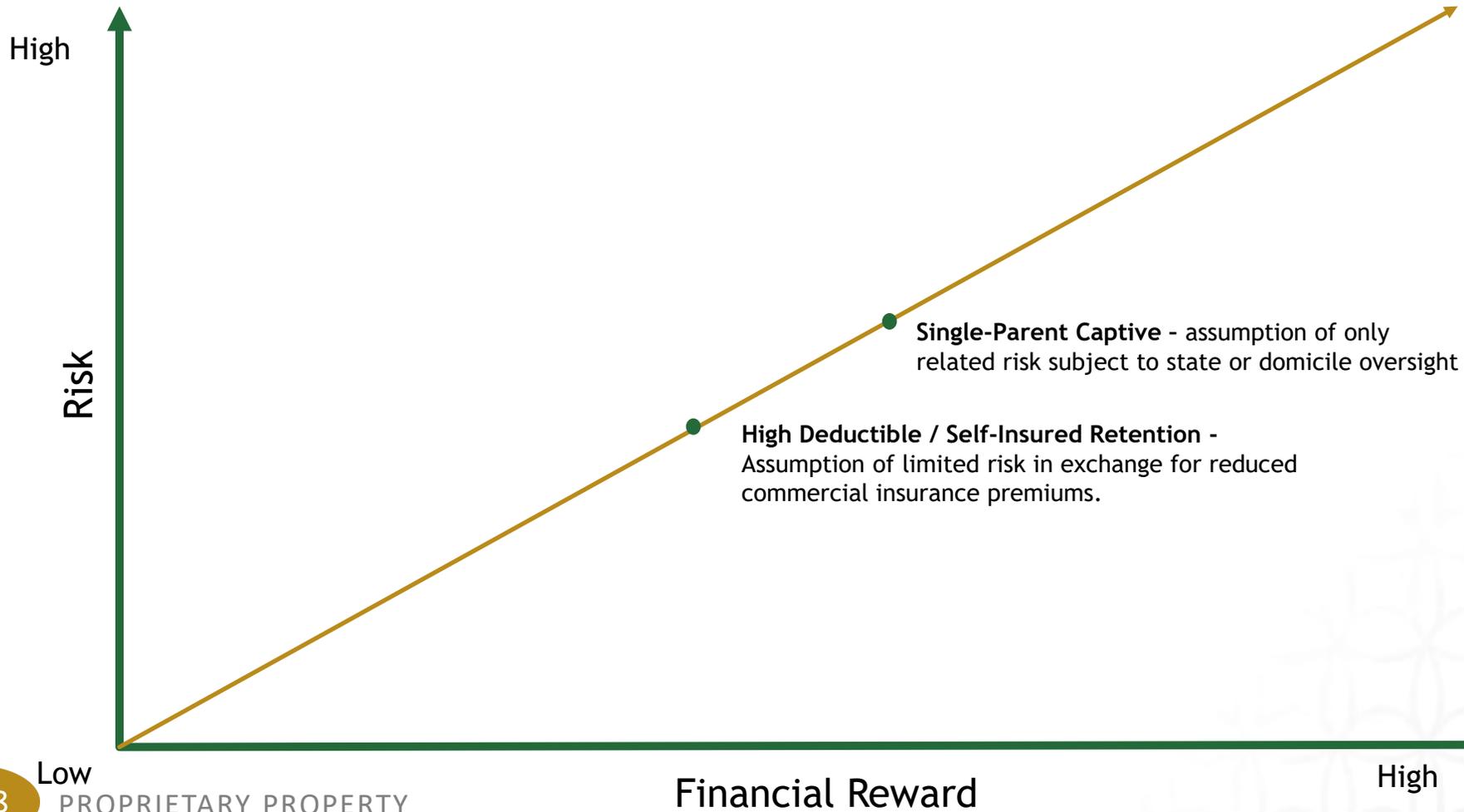
Alternative Risk Transfer

Sophistication of Risk



Alternative Risk Transfer

Captive Position



Captive Insurance Companies

Operating a Captive

- Captive Insurance Companies are subject to regulatory oversight very similar to large commercial carriers and must adhere to the corporate and regulatory compliance standards set by the respective domicile.
- Premiums paid into a Captive and not paid out in claims and expenses are able to be retained and can accumulate significant earnings.

IMPORTANT: Participation Validation

Record / write down the 3rd key word.

The 3rd key word is **“ART”**

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

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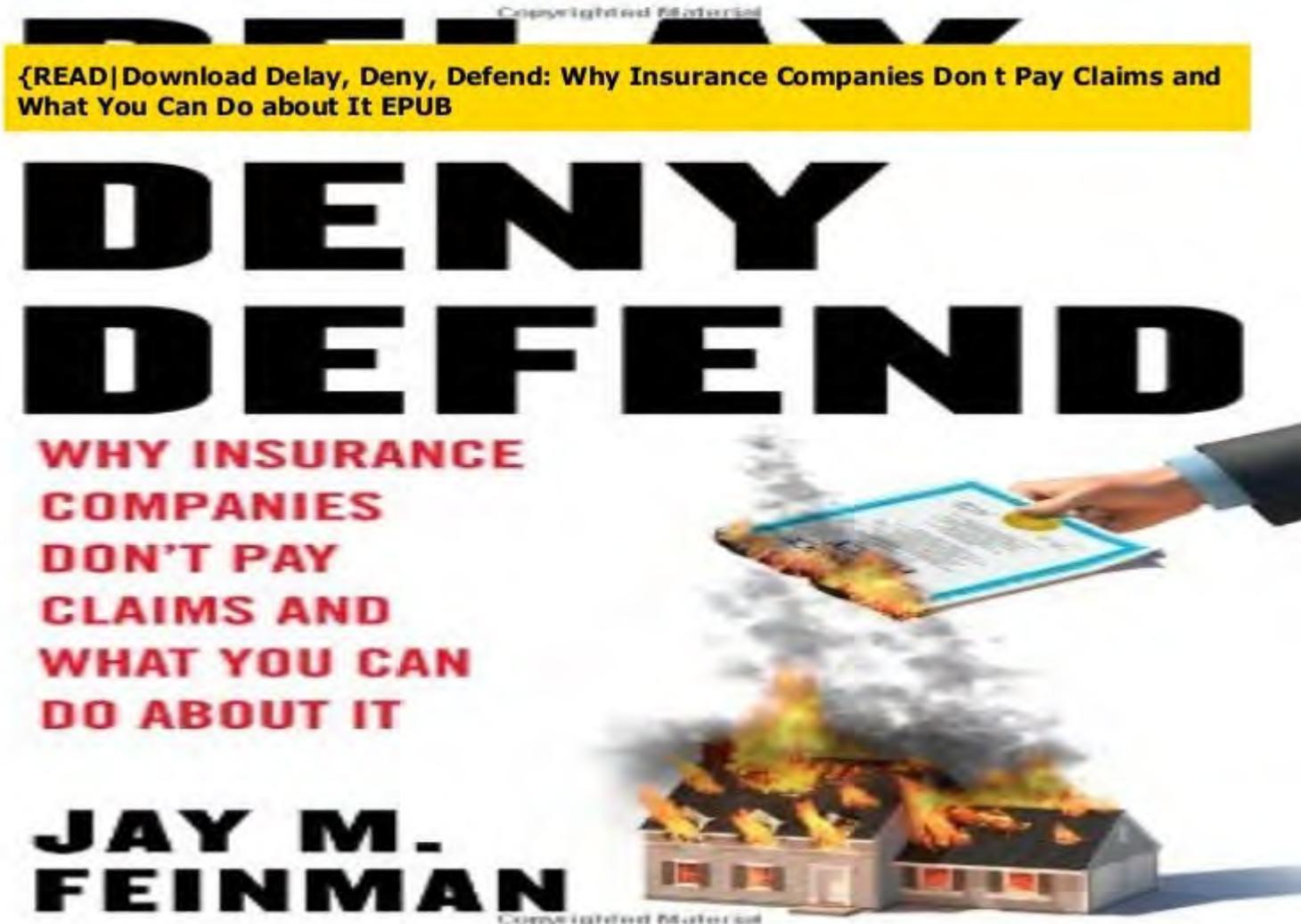


Commercial Insurance And The Three D's

If you were a consultant at McKinsey, getting paid a lot of money by commercial insurers to help them with their business model...

What would you advise them to do?

Commercial Insurance And The Three D's



Captive Insurance Companies

Operating a Captive – Captive Manager Oversight



Regulatory Liaison



Legal Counsel



Actuary



Claims Operations



Tax Services



Audit Services



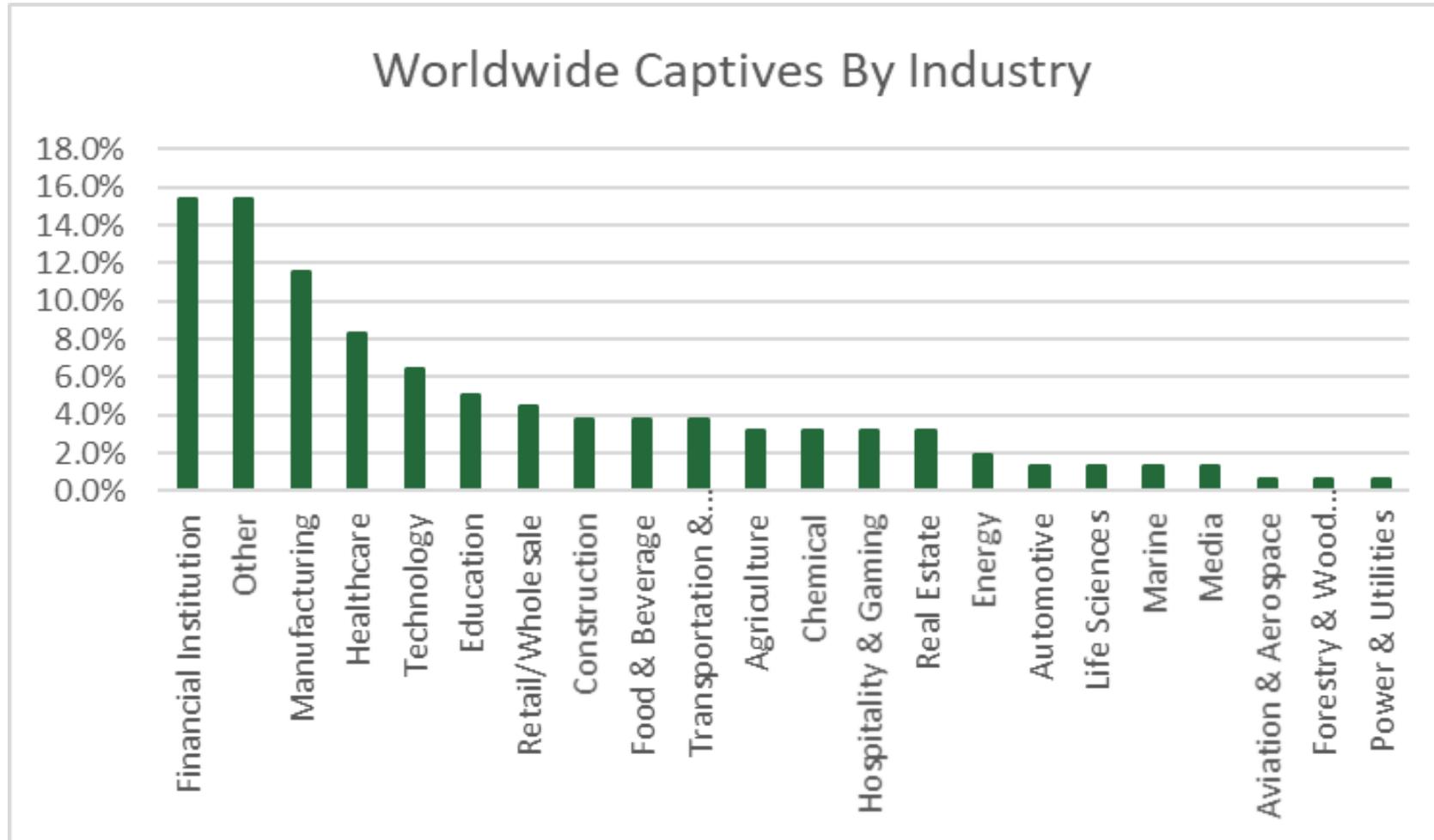
Asset Management



Underwriting

Captive Insurance Companies

Captives by Industry





Commercial Insurance Replacement



Commercial Insurance Replacement

Professional Liability Insurance

This covers losses resulting from errors and omissions by the Insured in rendering Professional Services.



Commercial Insurance Replacement

Directors and Officers Insurance

This covers losses resulting from claims made against employees, managers, directors and officers of the Insured for their wrongful acts (i.e. omission, error, misstatement, neglect) along with certain claims made against the Insured for its wrongful acts.



Commercial Insurance Replacement

Computer Operations and Data Insurance

This covers losses (i.e., expenses incurred and lost income) resulting from attacks, breakdowns, malfunctions and security breaches of the Insured's computers, computer programs and servers (and related peripheral equipment) including, but not limited to, the cost to replace or restore data and computer programs, the cost of data entry, the cost of reprogramming and computer consultation services, public relations expenses incurred to protect or restore your reputation, monetary payments, fees, fines and penalties imposed against the Insured by credit card associations and expenses related to extortion threats that caused an interruption of the Insured's operations.



Commercial Insurance Replacement

Employment Practices Liability Insurance

This covers losses resulting from claims made by employees, former employees, or potential employees of the Insured for wrongful termination of employment, sexual harassment, and other employment-related allegations and certain claims made by third parties for wrongful discrimination.



Employee Benefits & Health Insurance



IMPORTANT: Participation Validation

Record / write down the 4th key word.

The 4th key word is **“Replacement”**

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

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Critical / Emerging Risks





Natural Disasters

Natural Disasters

California Wildfires



Texas Deep Freeze



COVID-19





Human Disasters

Human Disasters (Cont.)

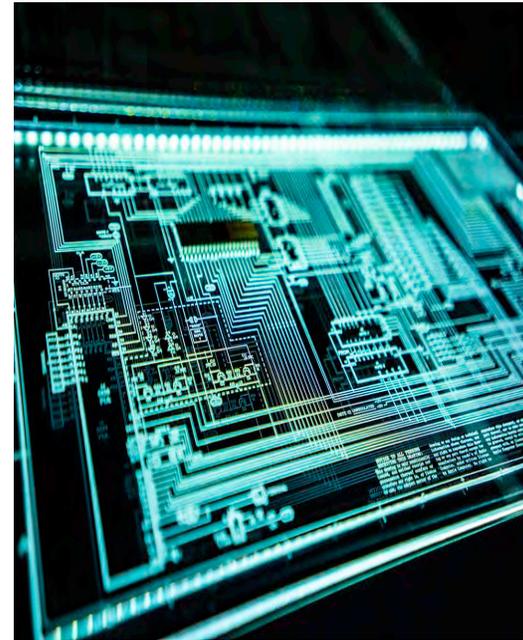
Supply Chain



Credit Risk



Cyber Security



Inflation





Drifting Toward Being Uninsurable

CALIFORNIA WILDFIRES (AS AN EXAMPLE)

California Wildfires



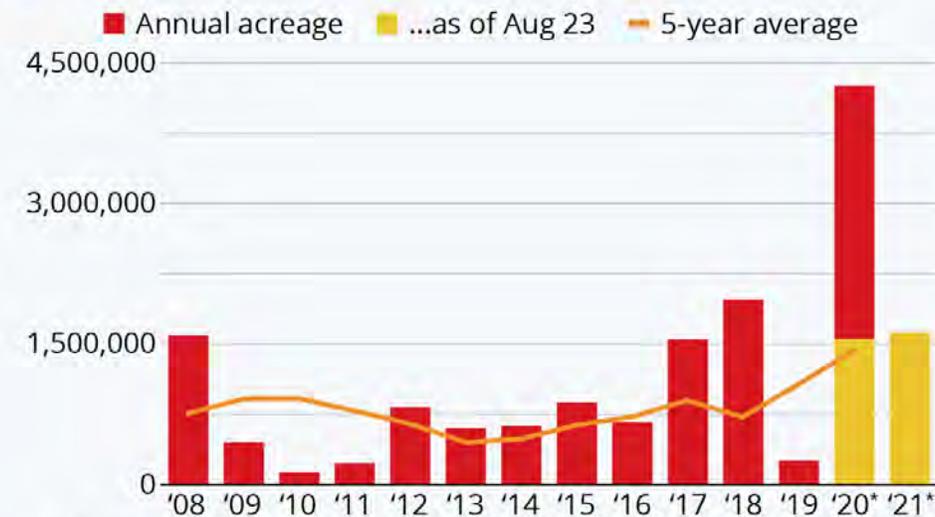
Vacaville, CA - 2020

Noah Berger - AP

California Wildfires (Cont.)

The Growing Danger of Californian Wildfires

Number of acres burned by wildfires in California 2008-2021



* preliminary
Source: Cal Fire



statista

California Wildfires (Cont.)

2021:

- **2.5M** acres burned
- **3,524** buildings destroyed



\$70-90B Cost



Unprepared

TEXAS DEEP FREEZE

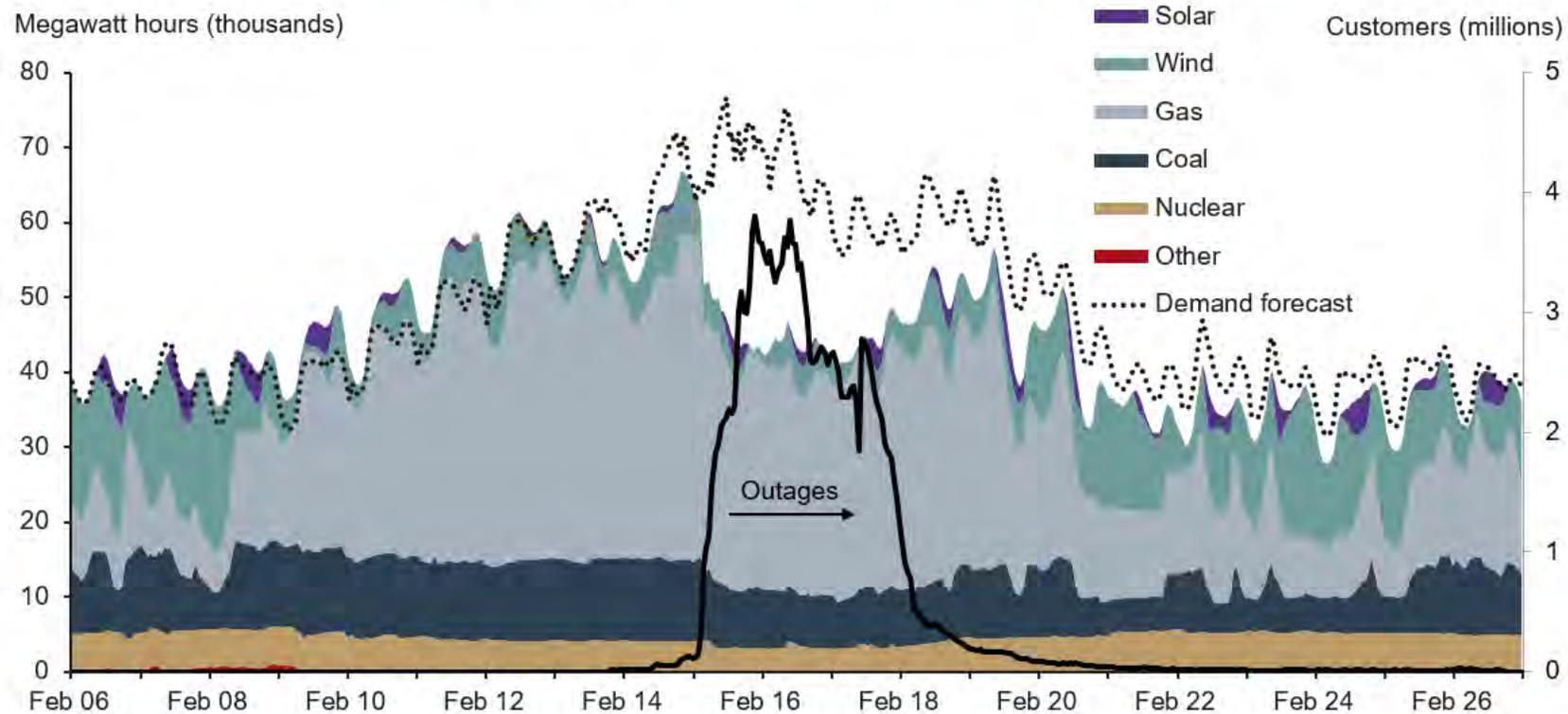
Texas Deep Freeze



San Marcos, TX - 2021
Jordan Vonderhaar - The Texas Tribune

Texas Deep Freeze (Cont.)

Chart 1
ERCOT Electricity Generation by Source, Demand and Outages During Texas Deep Freeze

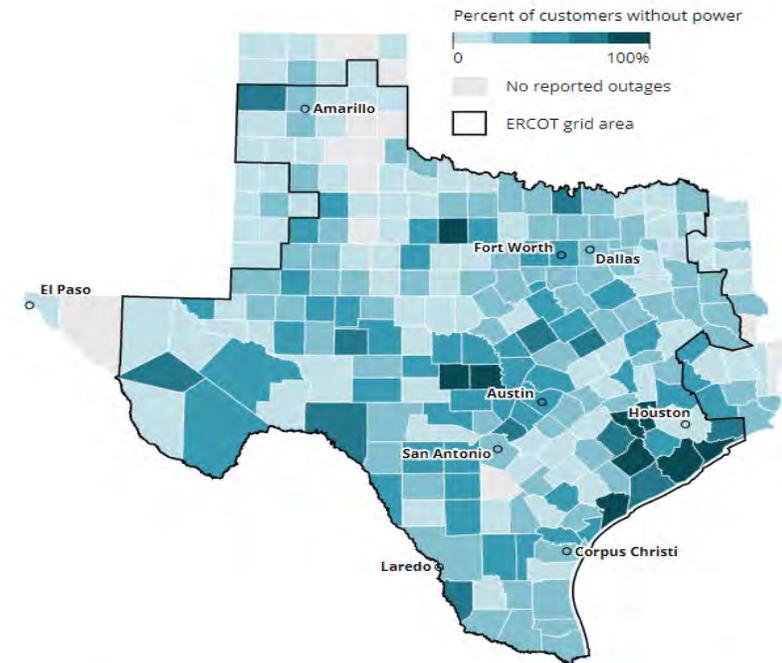


NOTES: "Demand forecast" is what is anticipated in the Electric Reliability Council of Texas day-ahead market. "Other" includes hydroelectric power and grid interchange.

SOURCES: Energy Information Administration; Poweroutage.us; Federal Reserve Bank of Dallas.

Texas Deep Freeze (Cont.)

- Also known as the 2021 “Power Crisis”
- **>4.5mm** people left w/o power for 17 days
- **>290** casualties
- **>\$196.5B** in damages
- Hospitals treating COVID-19 patients were underpowered as generators couldn’t handle the demand

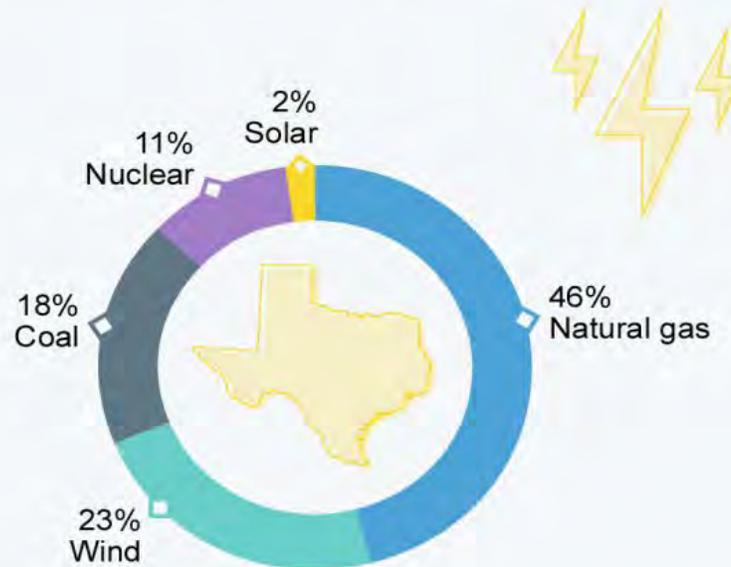


Note: PowerOutage.us gathers data from companies covering about 99% of utility customers in Texas. Data in some areas is incomplete, including the number of customers served.
Source: PowerOutage.us and the Electric Reliability Council of Texas
Credit: Chris Essig, The Texas Tribune, and Ren Larson, The Texas Tribune/ProPublica

Texas Deep Freeze (Cont.)

How Texas Generates Its Electricity

Share of energy (MWh) generated by fuel type in Texas in 2020



Source: ERCOT via Joshua D. Rhodes



Newsweek **statista**



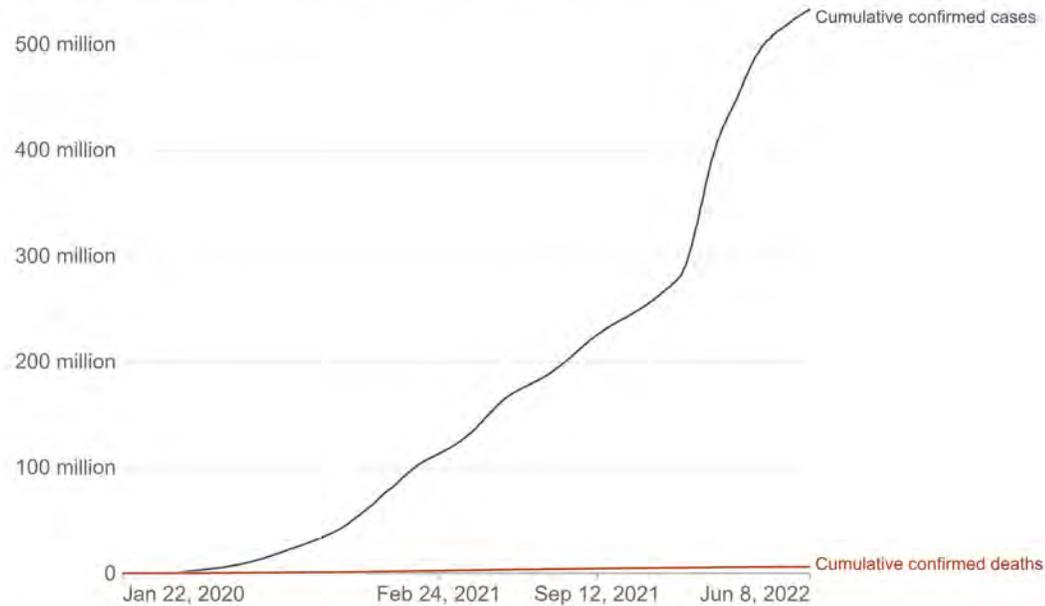
Pandemic – Natural? Man made?

COVID-19

COVID-19 – Cases & Deaths

Cumulative confirmed COVID-19 cases and deaths, World

Limited testing and challenges in the attribution of cause of death mean the confirmed case and death counts may not reflect the true counts.

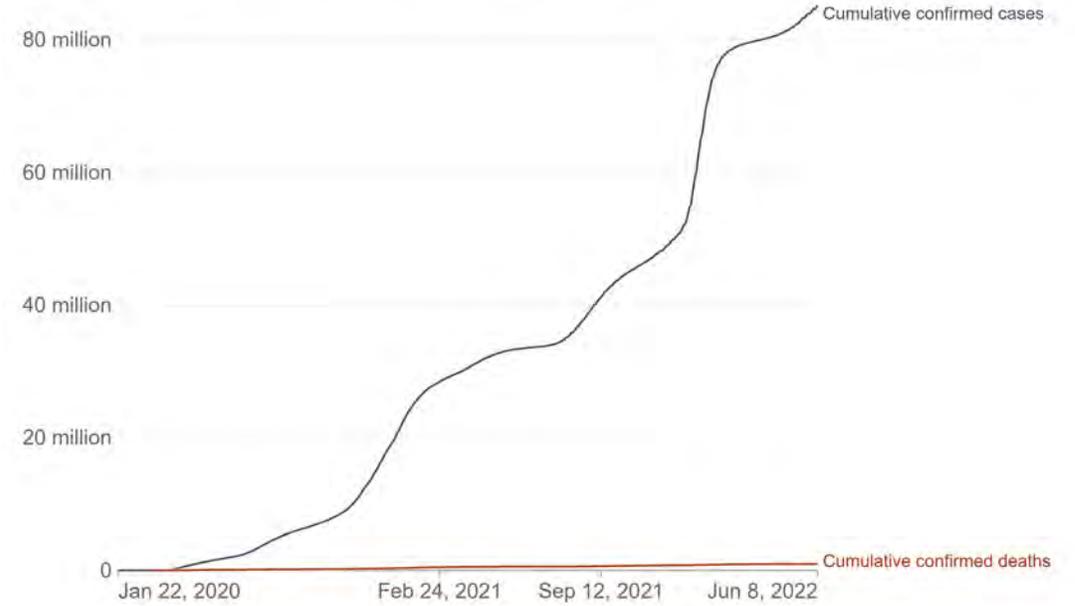


Source: Johns Hopkins University CSSE COVID-19 Data

OurWorldInData.org/coronavirus • CC BY

Cumulative confirmed COVID-19 cases and deaths, United States

Limited testing and challenges in the attribution of cause of death mean the confirmed case and death counts may not reflect the true counts.



Source: Johns Hopkins University CSSE COVID-19 Data

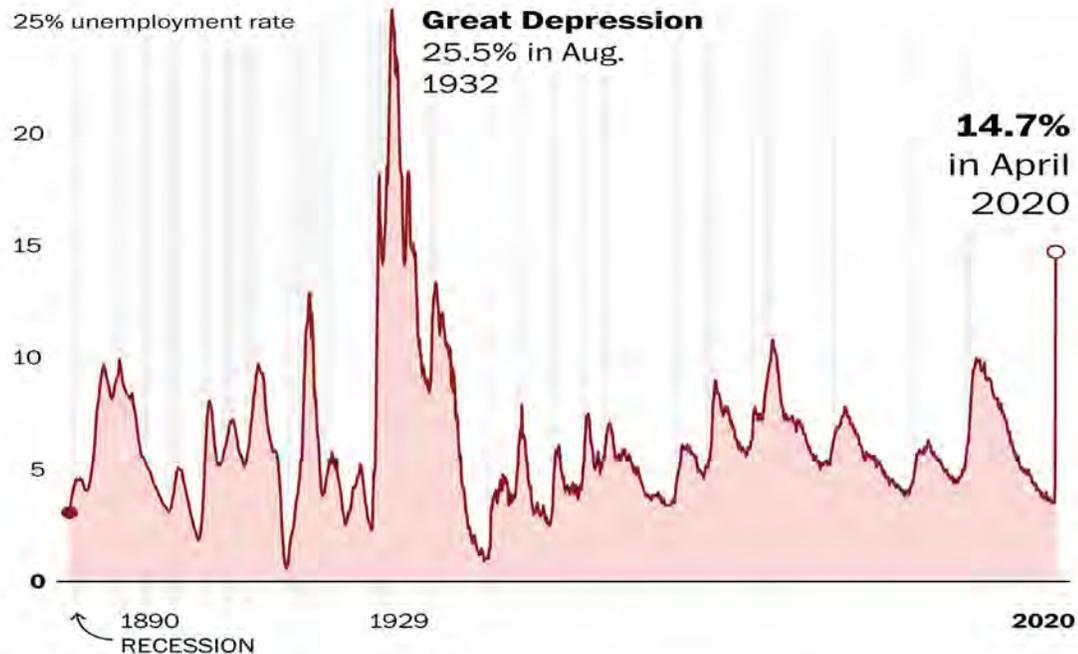
OurWorldInData.org/coronavirus • CC BY

- 534M cases & 6M deaths (Global)
- 85M cases & 1M deaths (US)

COVID-19 – Supply Chain

130 years of unemployment rates in the United States

In a forthcoming paper, economists analyzed historical sources to estimate the monthly unemployment rate back to 1890 – about 70 years before the beginning of monthly observations from the Labor Department.

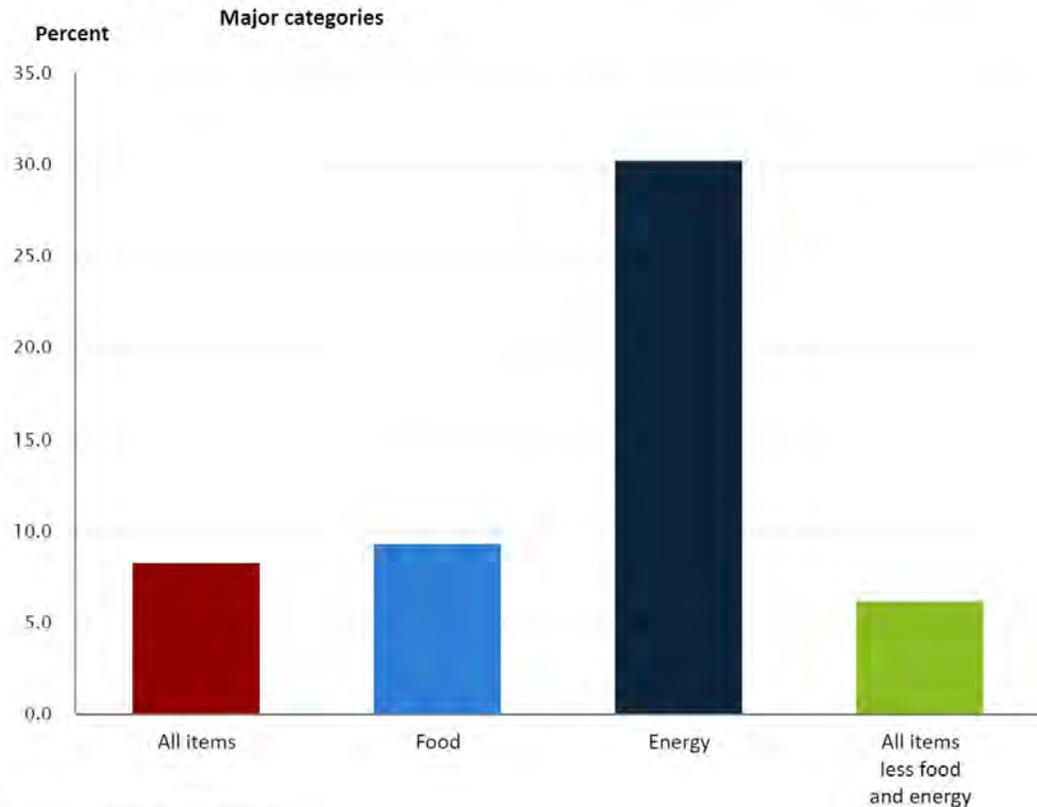


Note: Seasonally adjusted; figures from before 1948 are estimates
Sources: Labor Department (1948-present); Annual estimates from David Weir (University of Michigan) in *Research in Economic History* disaggregated to monthly data by Nicolas Petrosky-Nadeau (San Francisco Fed) and Lu Zhang (Ohio State University) in *Journal of Monetary Economics*
THE WASHINGTON POST

- Peak Recession:
 - April 2020 – **14.7% Unemployment**
- Supply Chain Disruption:
 - Limited inventory
 - Inability to hire
 - Natural resources shortage

COVID-19 – Inflation

12-month percentage change, Consumer Price Index, selected categories, April 2022, not seasonally adjusted

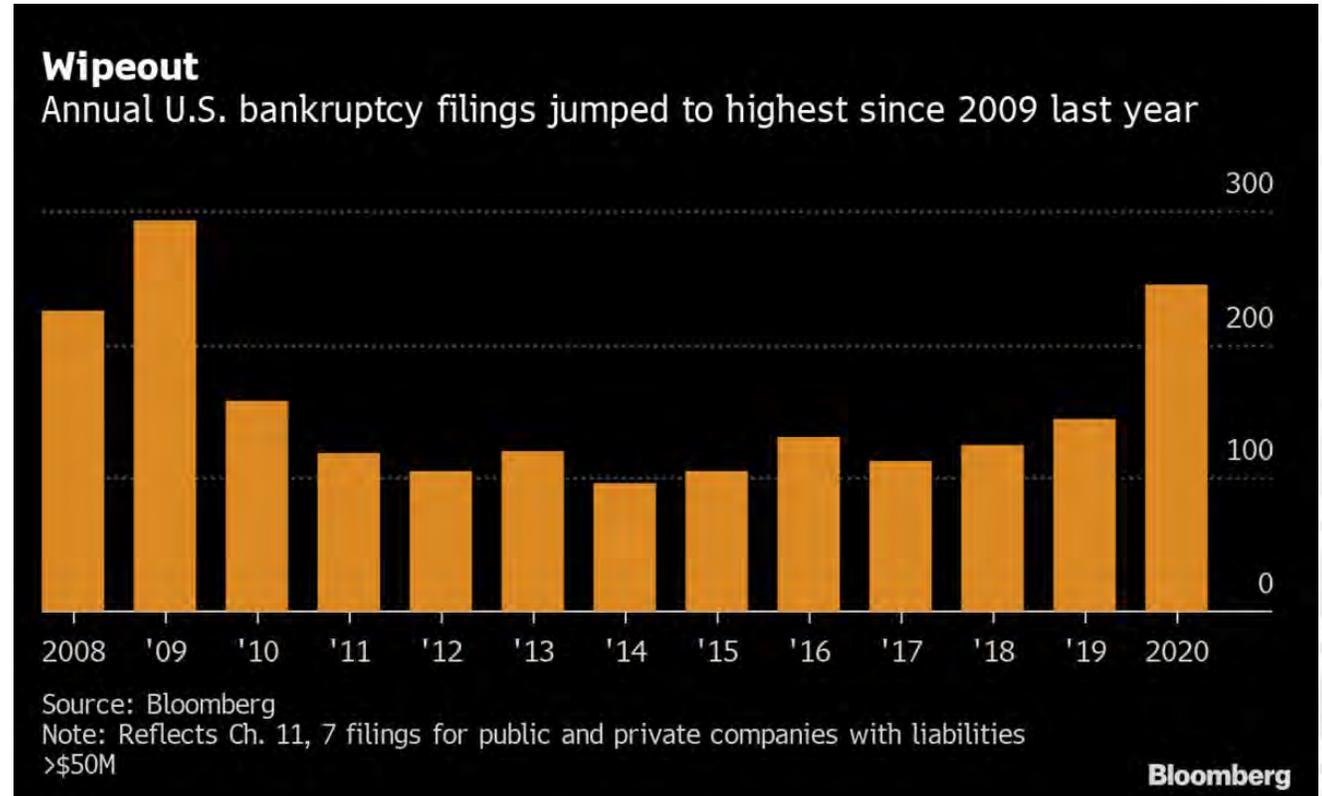


Source: U.S. Bureau of Labor Statistics.

- **Inflation (CPI):**
 - All items – 8.3%
 - Food – 9.4%
 - Energy – 30.3%
 - All items less food and energy – 6.2%

COVID-19 - Lockdowns

- Wipeouts
 - According to Yelp, ~60% of businesses are permanently closed
- 100% Secure
 - **All** businesses with captive insurance **survived** the pandemic





Geopolitical Tensions Rise

INTERNATIONAL CONFLICT

International Conflict – Russia v. Ukraine



Kyiv, UKR - 2022

Bloomberg

International Conflict – Russia v. Ukraine (Cont.)

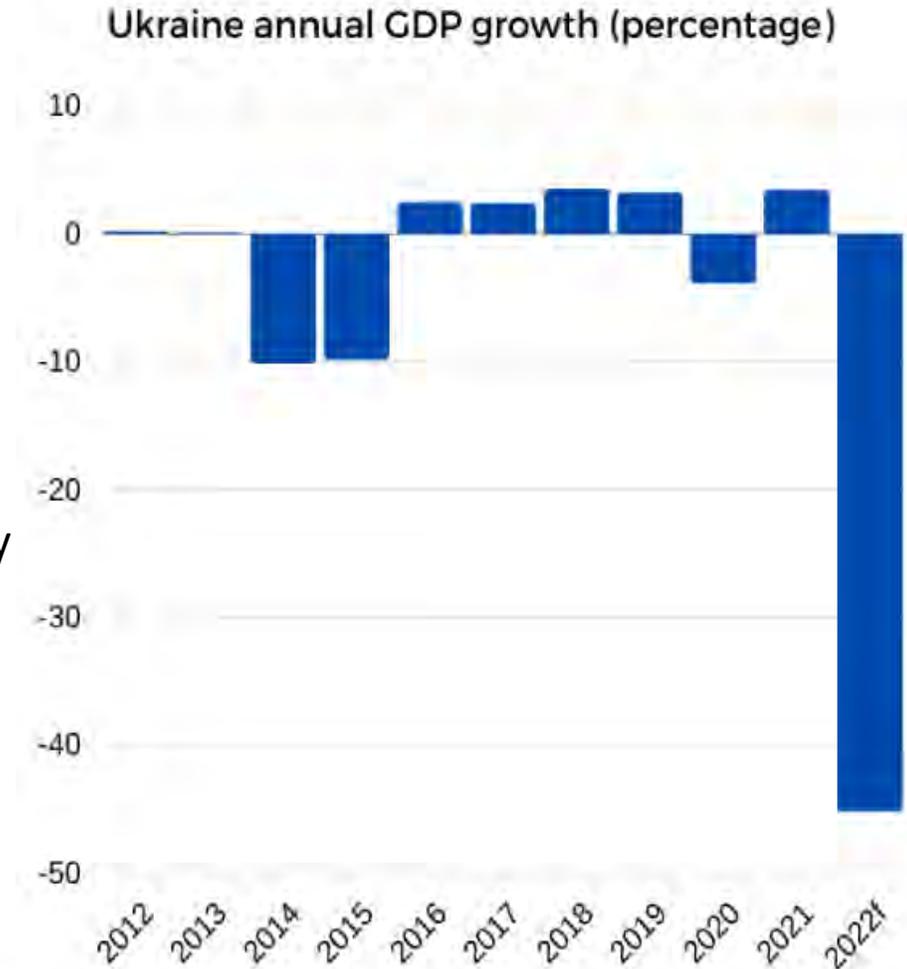
Infrastructure facilities	Number of items	Total damages, \$ mln
Roads, km	8265	\$27 546
Housing *	4431	\$13 542
Civilian airports **	8	\$6 816
Industrial enterprises, factories	92	\$2 921
Healthcare institutions	138	\$2 466
Nuclear power plants (NPP)	1	\$2 416
Railway stations and rolling stock**	n/a	\$2 205
Bridges and bridge crossings	260	\$1 452
Ports and port infrastructure	2	\$622
Institutions of secondary and higher education	378	\$601
Administration buildings	35	\$574
Military airfields	10	\$390
An-225 Mriya aircraft	1	\$300
Shopping malls	11	\$188
Religious buildings	44	\$150
Cultural facilities	42	\$144
Kindergartens	165	\$133
Thermal and hydroelectric power plants	7	\$101
Other		\$412
TOTAL		\$62 889

March 24, 2022
Kyiv School of Economics

International Conflict – Russia v. Ukraine (Cont.)

- **Damage to Infrastructure**

- Ukraine's GDP to fall **35%** this year
 - Direct infrastructure damage exceeds **\$60B**
- **Global** economic losses range from **\$543B to \$600B**
- Russia projected to decline **≥8%**, due to sanctions
- **Effect**: Reduced labor supply as manpower transitions to military

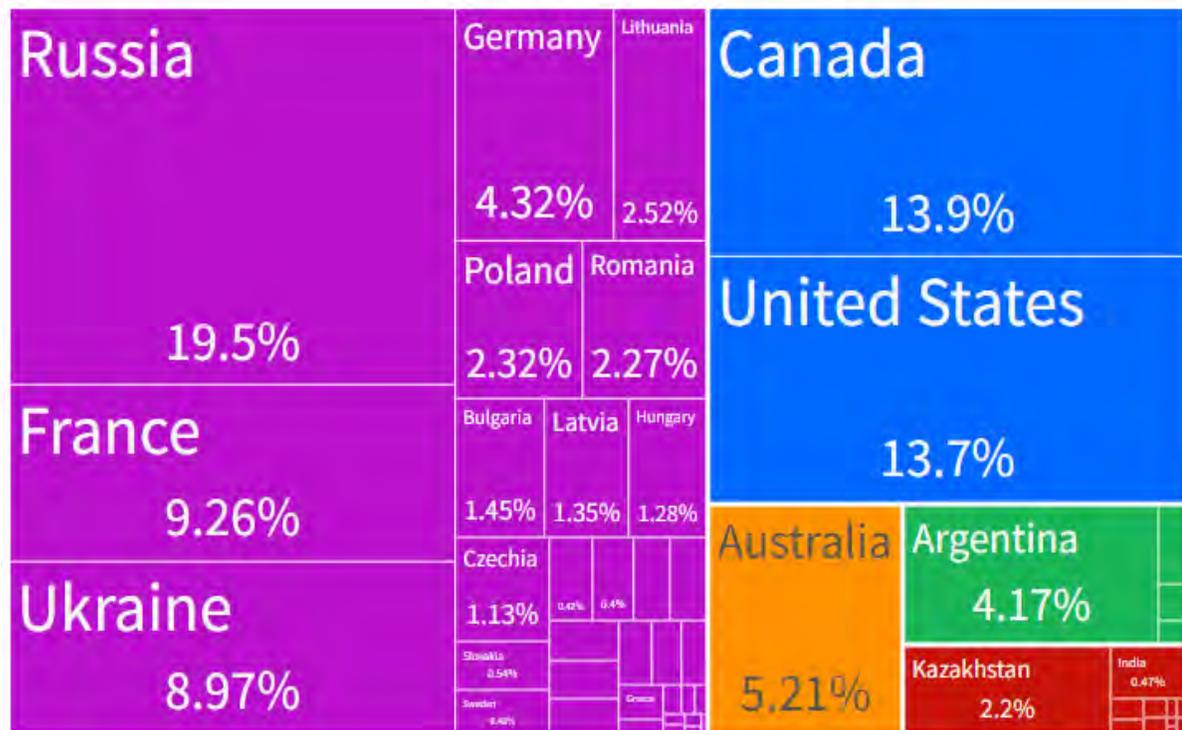


International Conflict – Russia v. Ukraine (Cont.)

Exporters of Wheat (2020)

[Click to Select a Country]

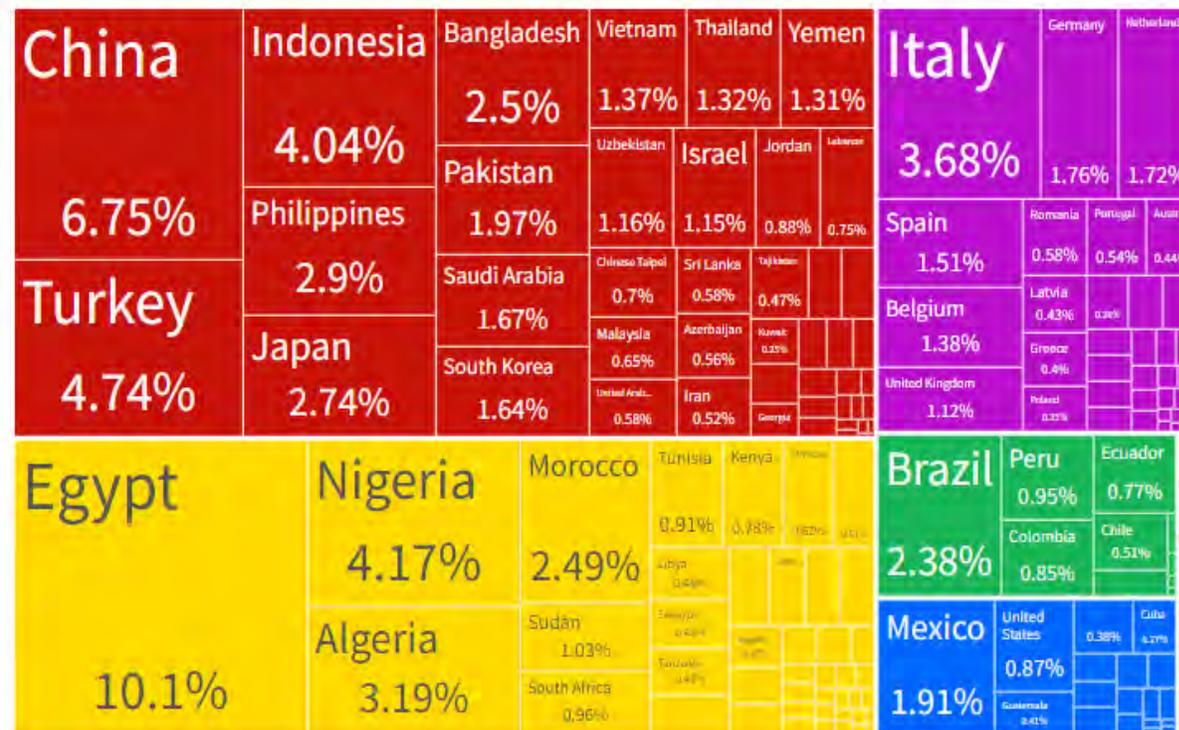
Total: \$51.4B



Importers of Wheat (2020)

[Click to Select a Country]

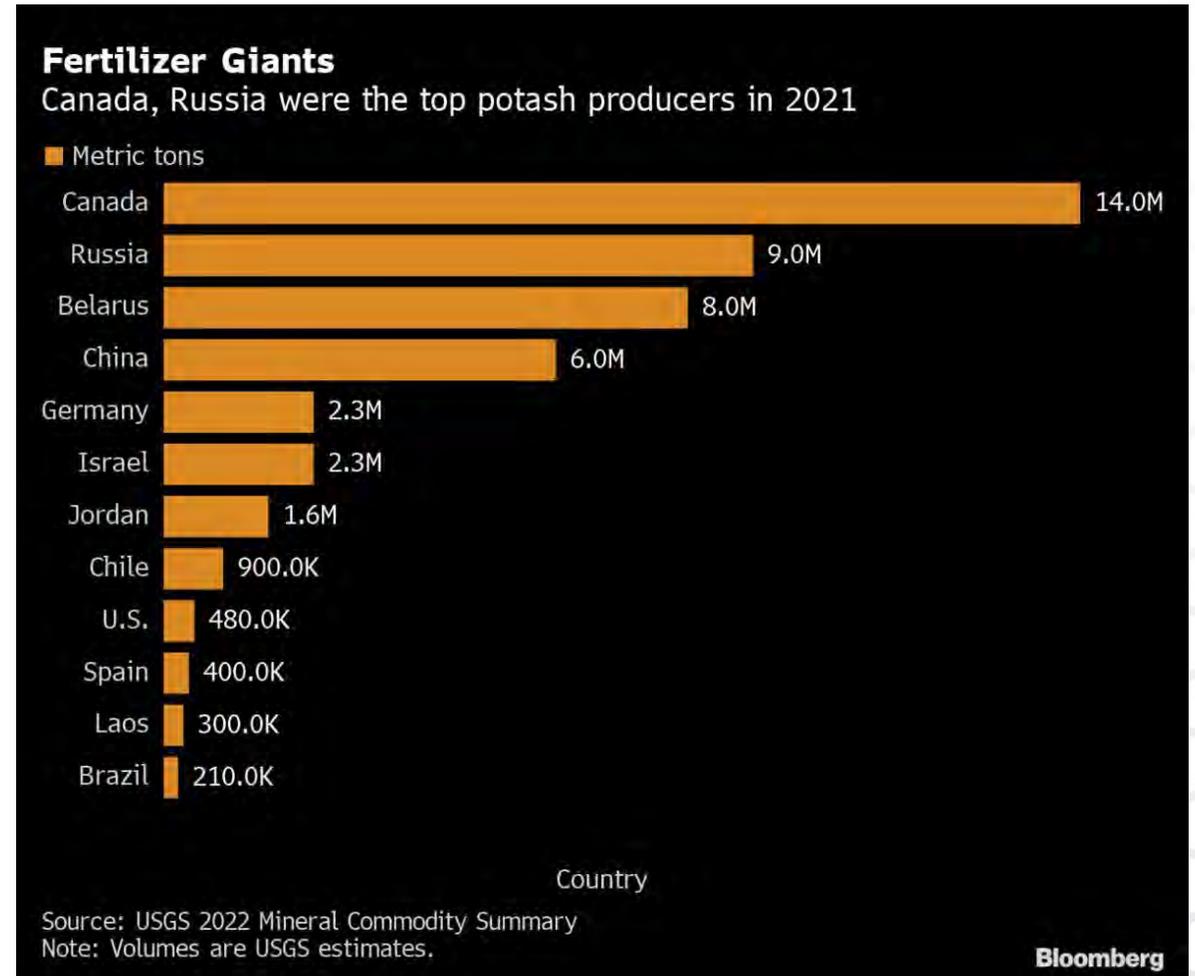
Total: \$51.4B



Observatory of Economic Complexity (OEC)

International Conflict – Russia v. Ukraine (Cont.)

- **Global Food Crisis**
 - Russia and Ukraine are major producers of wheat
- **Fertilizer Production**
 - Russia is the 2nd largest producer of potash
 - Potash is used in 95% of all fertilizers
 - **Effect:** Aggravate food insecurity, **increasing** the **risk** of civil unrest



International Conflict – Russia v. Ukraine (Cont.)

ENERGY

Which countries produce the most oil?

Ten countries in the world **produce 72 percent of the world's oil.**

The **US is the world's largest oil producer** followed by Saudi Arabia and Russia.

	Million barrels per day	Share of world total
 UNITED STATES	18.61	20%
 SAUDI ARABIA	10.81	12%
 RUSSIA	10.50	11%
 CANADA	5.23	6%
 CHINA	4.86	5%
 IRAQ	4.16	4%
 UAE	3.78	4%
 BRAZIL	3.77	4%
 IRAN	3.01	3%
 KUWAIT	2.75	3%



1 barrel = 159 litres / 42 US gallons

Source: International Energy Agency, 2021 | March 9, 2022

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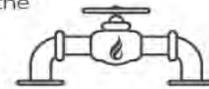


International Conflict – Russia v. Ukraine (Cont.)

ENERGY

Which countries export the most natural gas?

According to the Organization of the Petroleum Exporting Countries (OPEC) the **top ten countries** that export gas are **at least 80% of all global exports** and the **top three exporters make up at least 40% of all global exports.**



WORLD NATURAL GAS EXPORTS BY COUNTRY (M STANDARD CU M)

	Russia	199,928
	United States	149,538
	Qatar	143,700
	Norway	112,951
	Australia	102,562
	Canada	70,932
	Germany	50,092
	Netherlands	39,976
	Algeria	39,459
	Nigeria	35,586



Source: OPEC Annual Statistical Bulletin 2020, International Energy Agency | March 10, 2022



International Conflict – Russia v. Ukraine (Cont.)

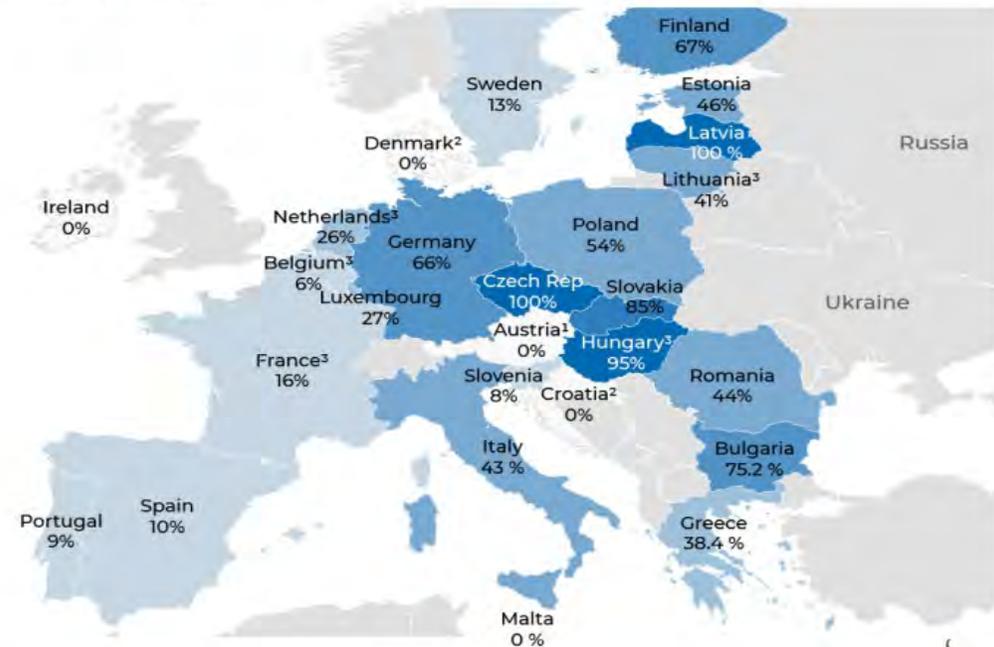
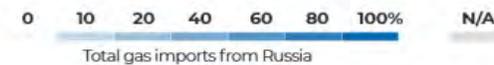
- **Global Energy Crisis**

- RUS is the largest producer of natural gas and 3rd of crude oil
- **Effect:** EU's economic health is severely impaired following their reliance on RUS for oil.

ENERGY

Russian gas imports into the EU

Russia is the largest supplier of gas to Europe which it uses to heat homes and generate electricity. In 2020, the EU received some 40 percent of its gas from Russia.



¹ Natural gas trade data are confidential. ² No Russian gas imports reported. ³ Includes significant quantity of natural gas transit. No data available for Cyprus.
Source: Eurostat 2021



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Politics in Society

CIVIL UNREST

Civil Unrest – Minnesota Riots



Minneapolis, MN - 2021

Kerem Yucel / AFP via Getty Images

Civil Unrest – Minnesota Riots

Twin Cities unrest may be the second-costliest civil disturbance in U.S. history

Gov. Tim Walz estimated that looting and arson after Floyd's death resulted in \$500 million in damage across the metro.

Date	Location	Disturbance	Loss, in 2020 dollars
Apr. 29-May 4, 1992	Los Angeles	Riots after police were acquitted in the beating of Rodney King	\$1.4 billion
May 26-31, 2020	Minnesota	Unrest following the police killing of George Floyd	Estimated \$500 million
Aug. 11-17, 1965	Los Angeles	Watts Rebellion after the violent arrest of a Black family	\$361 million
Jul. 23, 1967	Detroit	Uprising of 1967, following a police raid on an unlicensed bar holding a party for war veterans	\$326 million
May 17-19, 1980	Miami	McDuffie Riots after police were acquitted in the death of a Black resident	\$206 million
Apr. 4-9, 1968	Washington, DC	Riots following the assassination of Rev. Martin Luther King Jr. in Memphis	\$181 million
Jul. 13-14, 1977	New York City	Widespread looting when the city lost power for 25 hours	\$119 million
Jul. 12, 1967	Newark	Riots after police arrested and beat a Black cab driver	\$116 million
Apr. 6-9, 1968	Baltimore	Riots following King's assassination	\$105 million
Apr. 4-11, 1968	Chicago	Riots following King's assassination	\$98 million

Source: [Insurance Information Institute](#) • Table: Rilyn Eischens, Minnesota Reformer

Insurance Information Institute

Civil Unrest – Minnesota Riots

- **Damage to Infrastructure**

- **>1,300** buildings damaged
 - Minneapolis & St. Paul



\$180M Cost

- 2nd Costliest Civil Disturbance in US History
- **Many** business owners were not insured for riots and vandalism



\$500M Cost

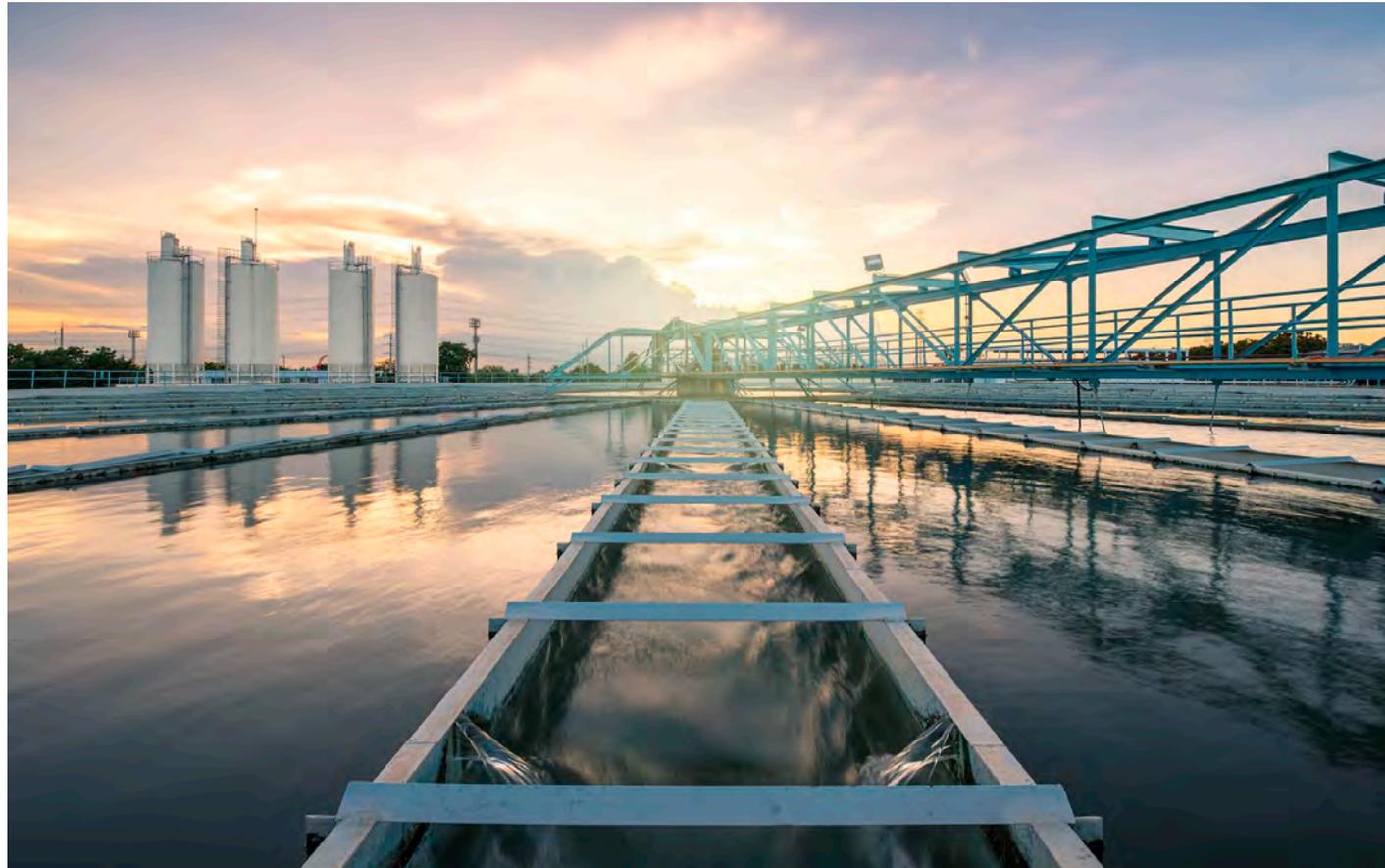
(including business inventory losses)



The Reliance on Cloud Computing

CYBER SECURITY

Cyber Security – Florida Water System Hack



2021

CyberScoop via Getty Images

Cyber Security – Florida Water System Hack (Cont.)

- **Breached Infrastructure**
 - Outdated operating system caused formerly patched vulnerabilities resurface
 - Leaked login credentials in exploited database
- **Overreliance of Software**
 - Dependency of Teamviewer for remote monitoring unlocks confidential data to malicious parties

Cyber Security – Data Breach Costs

\$4.24m

Average total cost of a data breach in 2021 study

↑10%

Year-over-year growth in average total cost

Cost of a Data Breach Report 2021

 IBM Security

Cyber Security – Social Media

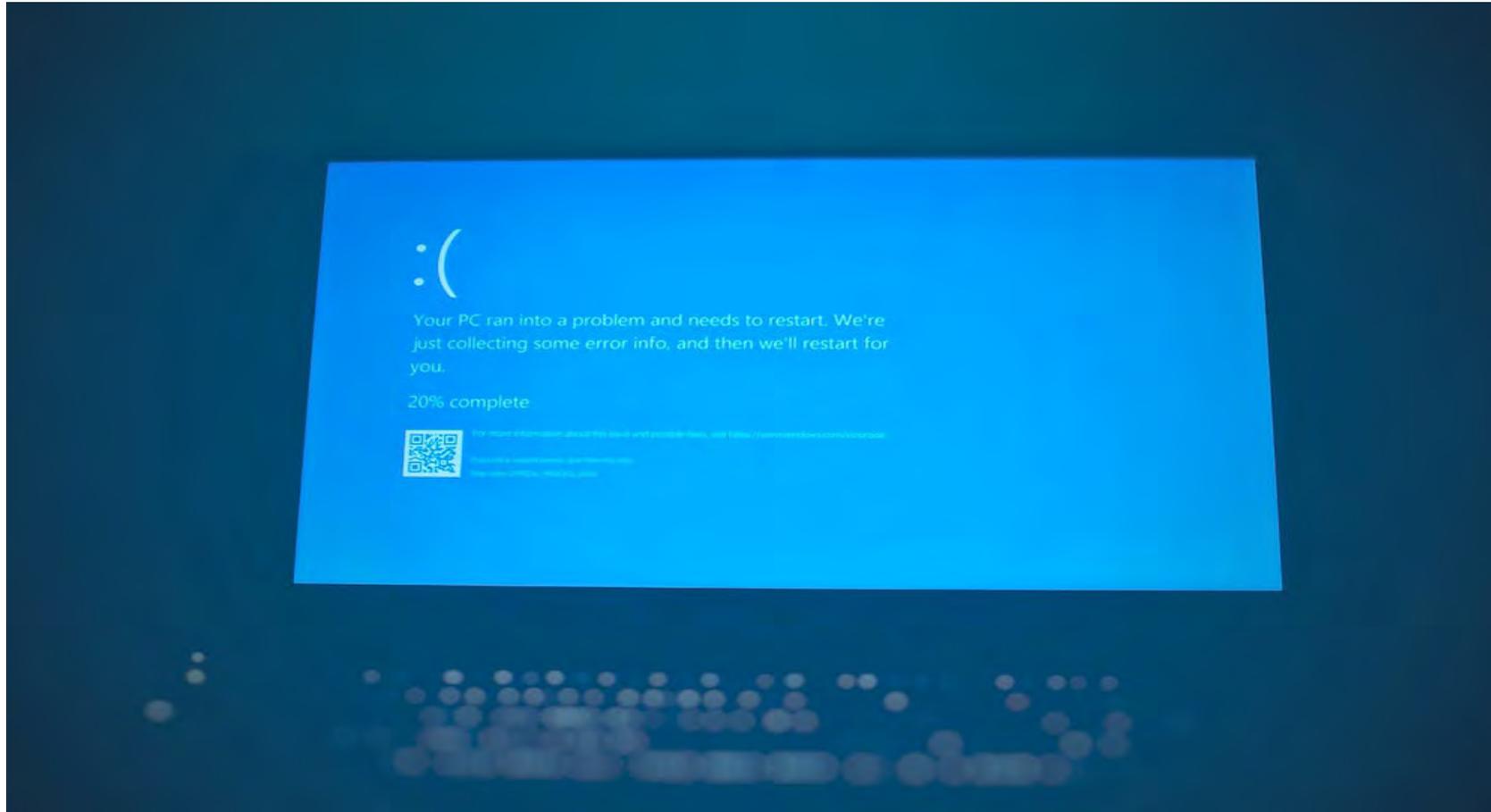


Cyber Security – Social Media Reputation (Cont.)

- **Reputational Damage**
 - Companies without a positive, reassuring reputation will not attract as many clients
 - Decreased customer and employee retention
- **Brand Relationship**
 - More positive relationships are typically perceived as contributing more value, raising the likelihood of paying the premium

“55% of consumers learn about brands or companies on social media” - Sprout Social

Cyber Security – Tech Failure

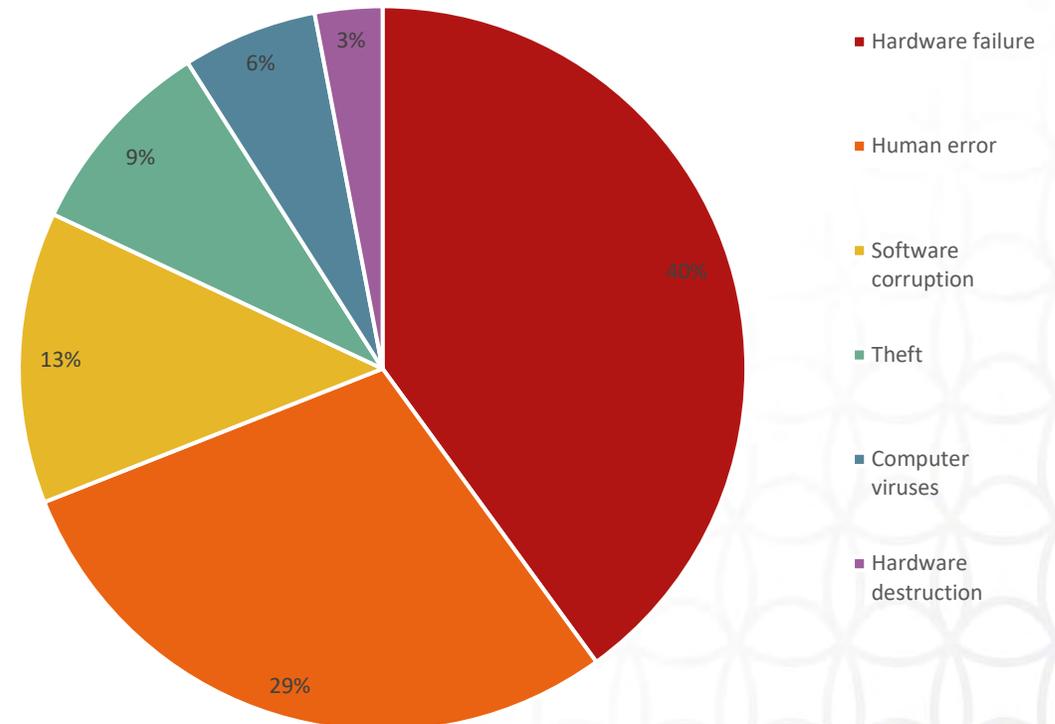


Cyber Security – Tech Failure (Cont.)

- **Costs of Software Failures**

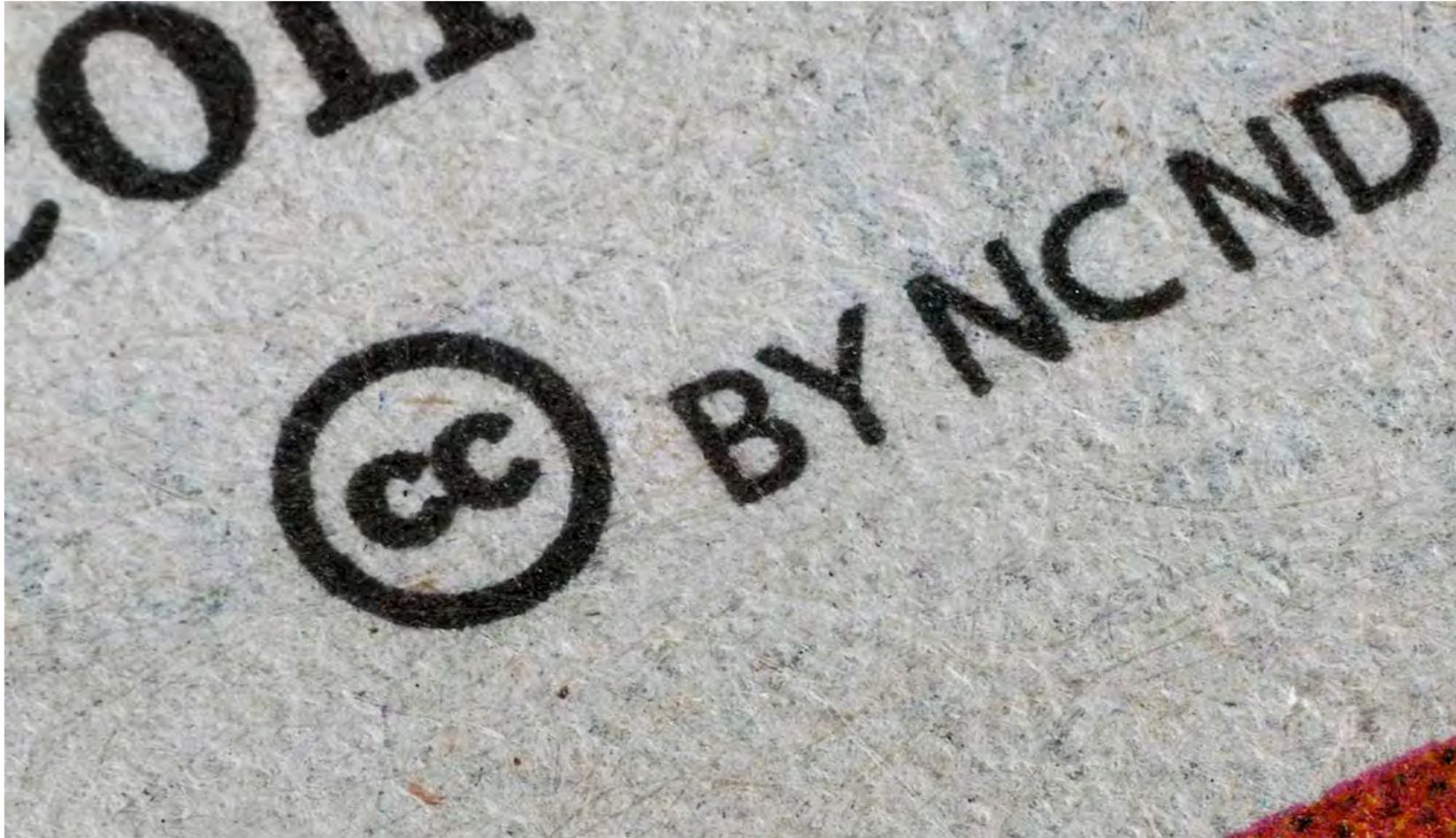
- \$61B of salaries spent to resolve
- 620M hours of troubleshooting
- \$1.2T company value lost annually

Causes of Data Loss



Source: David M. Smith, Ph.D., Pepperdine University

Cyber Security – Intellectual Property



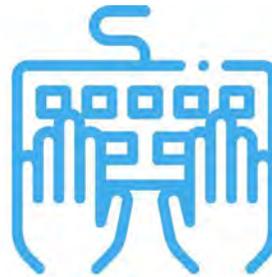
Cyber Security – Intellectual Property (Cont.)

- **Types of Intellectual Property**

- Trade Secret
- Trademark
- Copyright
- Patent

- **Methods of Theft**

- Privilege Abuse
- Hacking/Malware



24%

Data breaches
caused by
human errors



**USD3.5
million**

Average total
cost to
remediate a
breach caused
by human
errors



USD133

Average per-
record cost of
a breach
caused by
human errors



**242
days**

Average time
to identify
and resolve a
data breach

Source: 2019 Cost of Data Breach Report, Ponemon Institute



The Detriment to Growth

SUPPLY CHAIN

Supply Chain – Suez Canal Obstruction

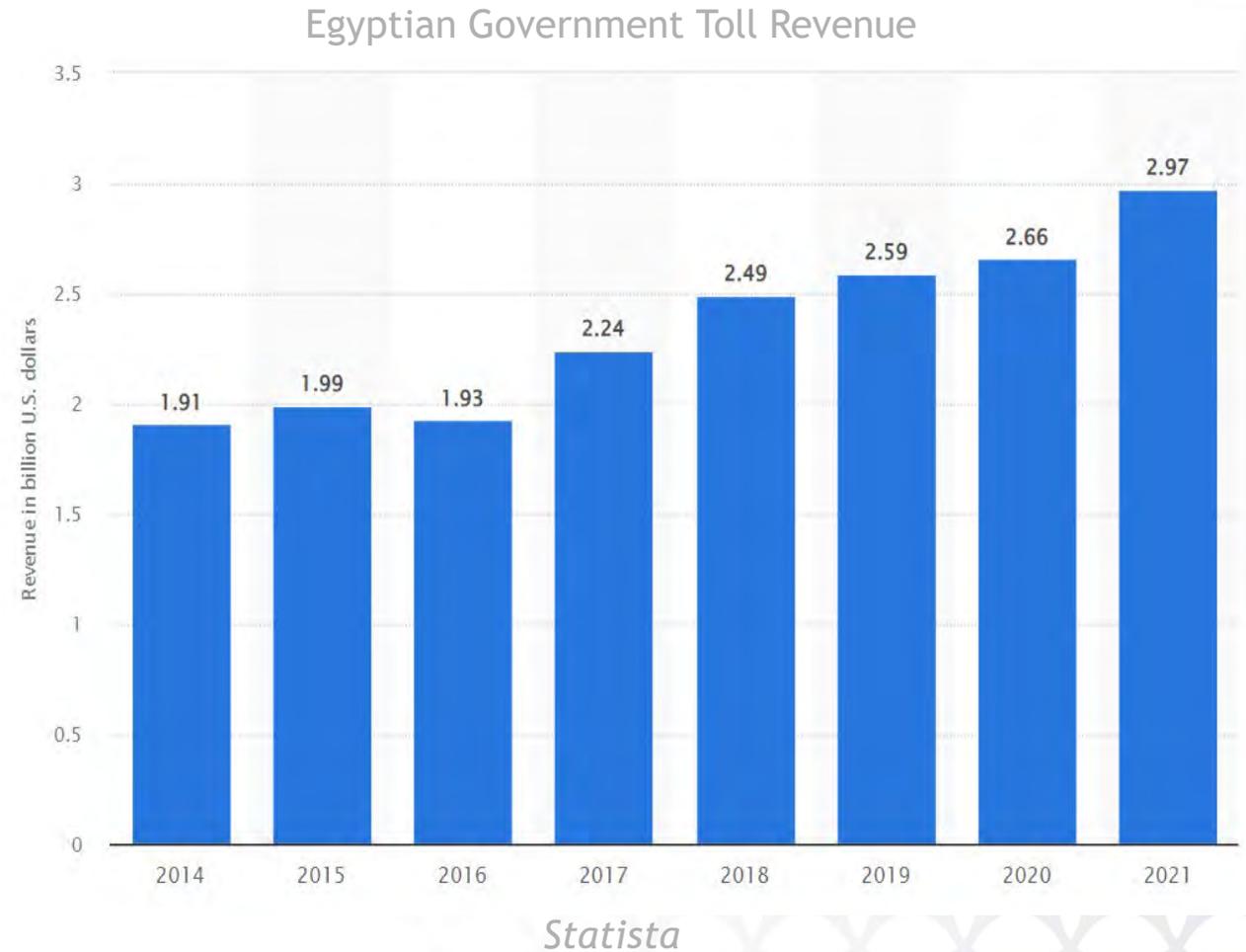


May 27, 2021

Maxar Technologies - AP

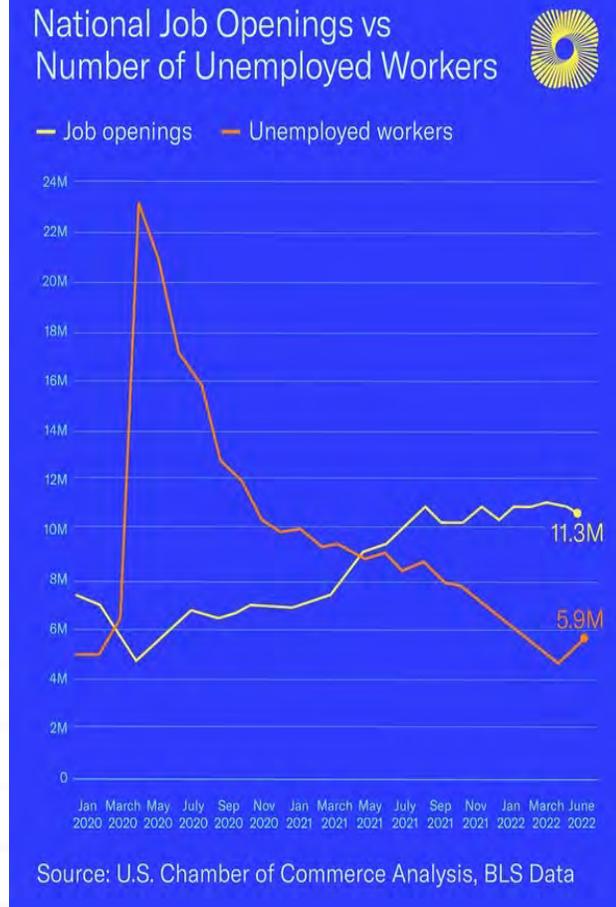
Supply Chain – Suez Canal Obstruction (Cont.)

- **Time is Money**
 - Stalled up to \$10B of freight contents per day of the 6 total days
 - Egyptian government lost \$90M in tolls
 - 3% of 2021 toll revenues



Supply Chain – Labor Shortages

- **“The Great Resignation”**
 - Resignations begin when the economy expands
 - Workers aren’t quitting employment, but switching jobs/industries for a better work-life balance and wage
 - Annual wage increase of the typical job-hopper was 7.1%



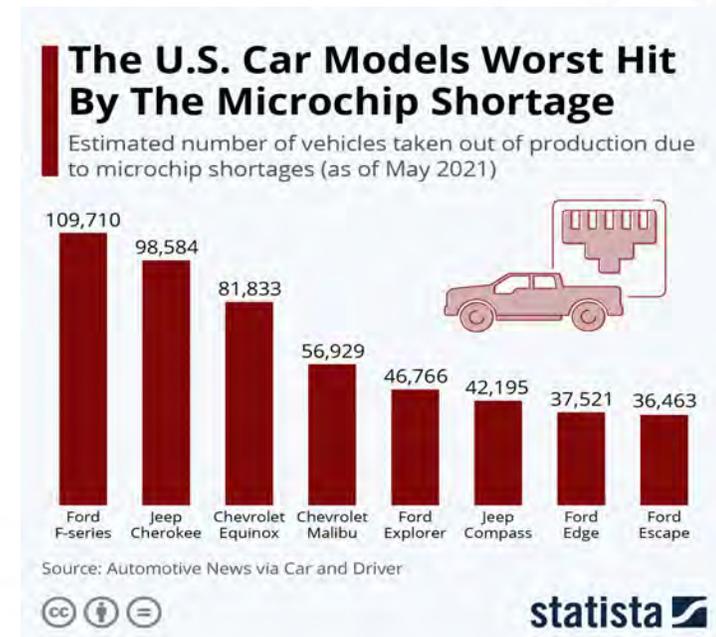
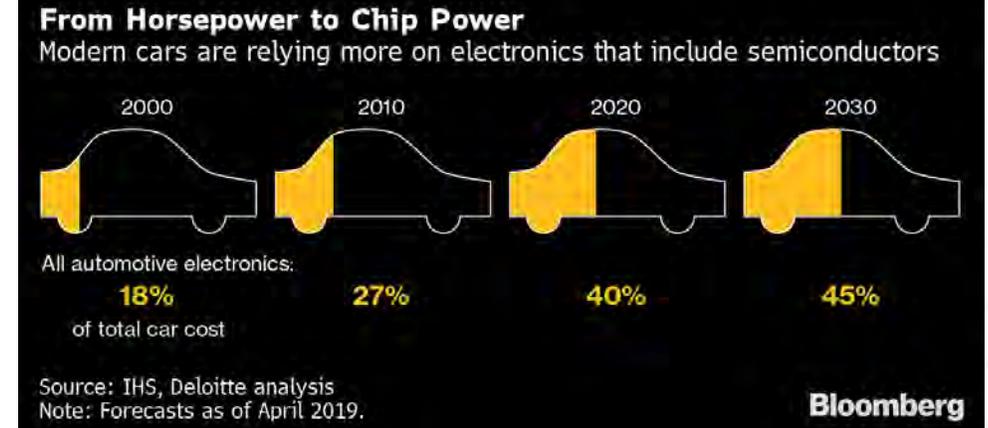
Supply Chain – Inventory & Material Shortages

- **Inventory Shortages**

- Consumer demands exceed current supply—keeping prices high

- **Material Shortages**

- Rampant inventory shortages fueled by the rising discrepancy between consumers and producers
- Over purchasing of other technological goods
- Rising political tension between the East and West aid in the TSMC chip shortage
 - Result: -\$210B, -7.7MM vehicles (2021, Reuters)

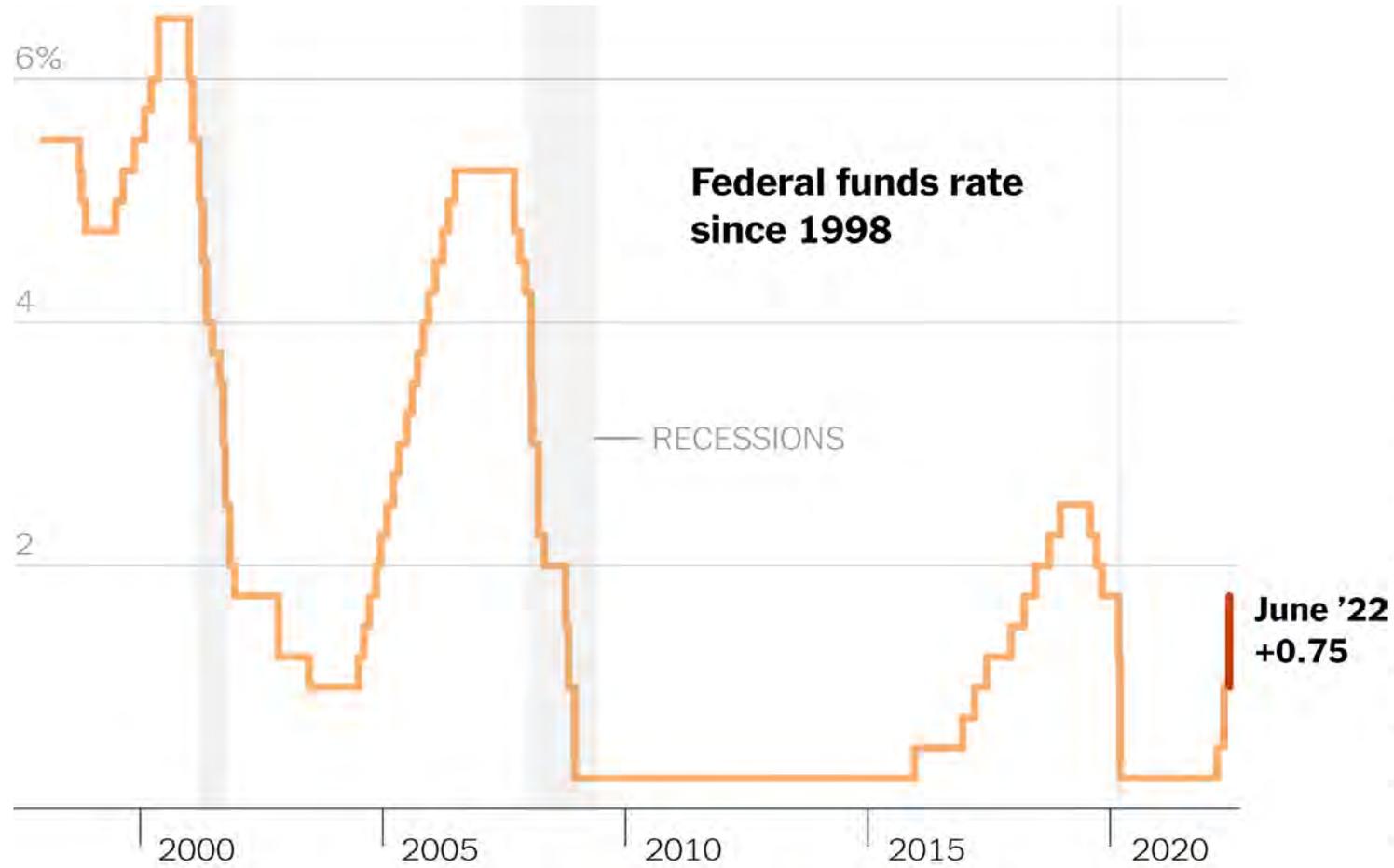




Loan Pullbacks

CREDIT RISK

Credit Risk – Debt



Credit Risk – Debt (Cont.)

- **Winding Down on Funding**
 - Longer-term govt. yields with risk-free rates increase the discount rate of other long-term assets
 - Fiscal support to income provided consumer disposable income even as the GDP declined
 - Extraordinarily low interest rates lead to record debt in comparison to many economies
- **Raising Interest Rates**
 - To combat soaring inflation, decrease consumer borrowing



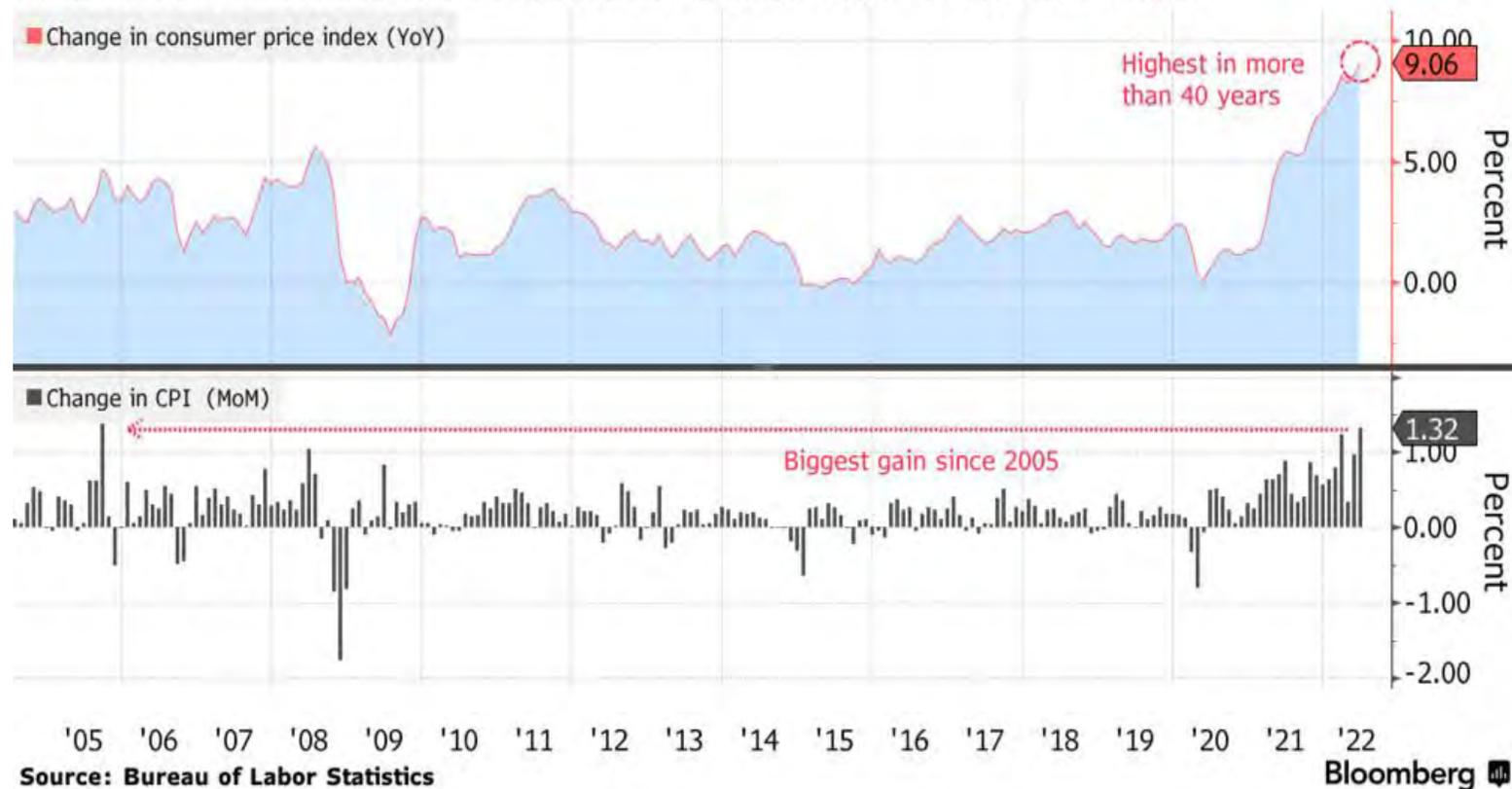
Recession (and Inflation and Rising Interest Rates)

INFLATION

Inflation – Costs Climbing

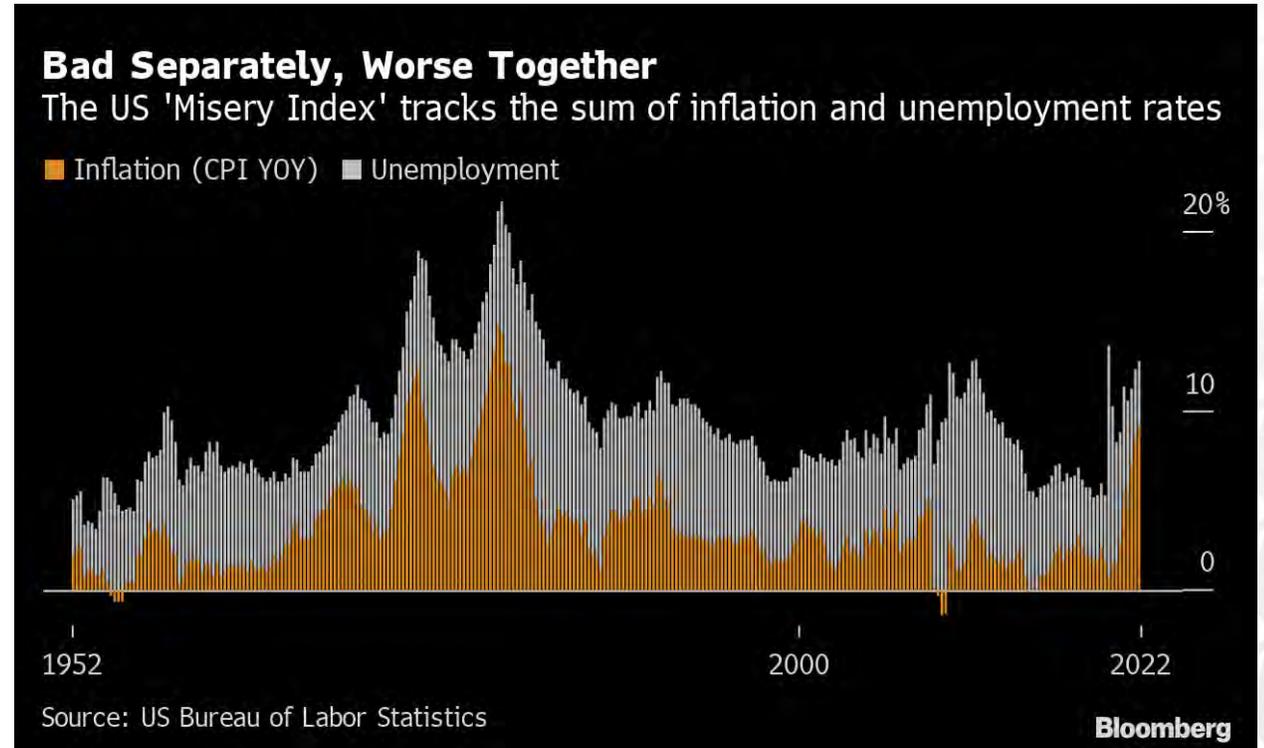
Relentless

Inflation in US hotter than forecast as prices climb in broad fashion



Inflation – Costs Climbing (Cont.)

- **Stagflation Potential**
 - Russia-Ukraine war send food, materials, and energy prices higher
 - Aggressive rate hikes slow economic growth by reducing spending
- **June +75 BP Rate Hike**
 - Abrupt .75 interest rate surge may halt economic growth, as opposed to slowing inflation



IMPORTANT: Participation Validation

Record / write down the 5th key word.

The 5th key word is **“Risk”**

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.





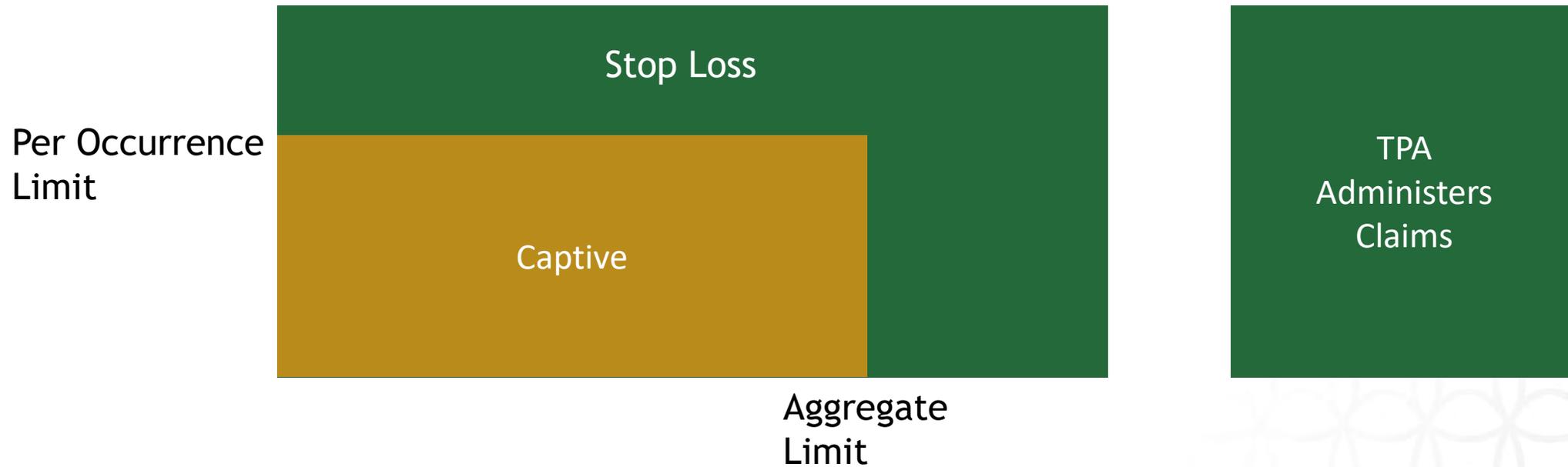
Employee Benefits / Health Insurance



Employee Benefits & Health Insurance

Captives can often save 10% to 20% on benefits and healthcare insurance costs.

COMMON HEALTHCARE CAPTIVE STRUCTURE:

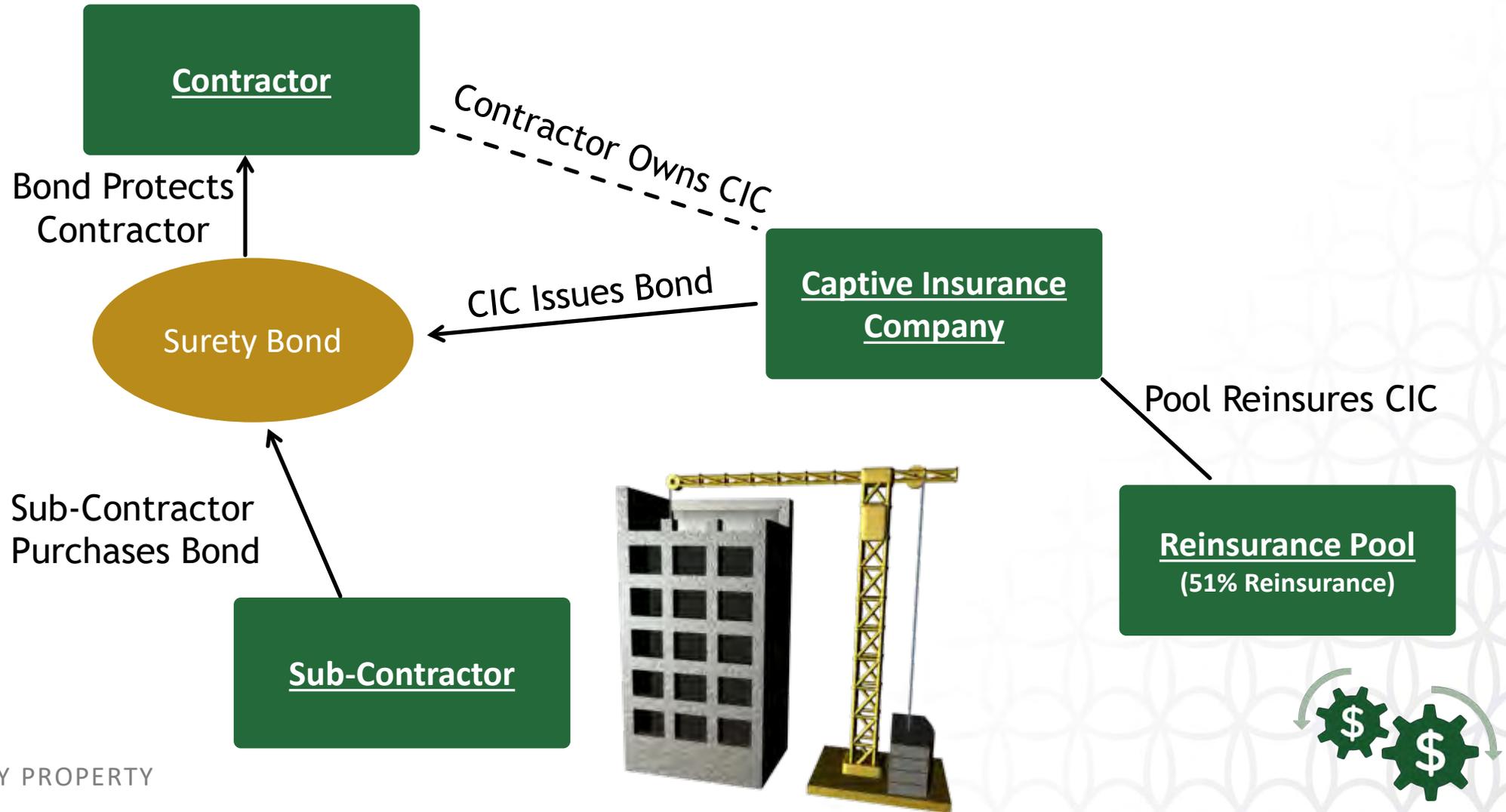




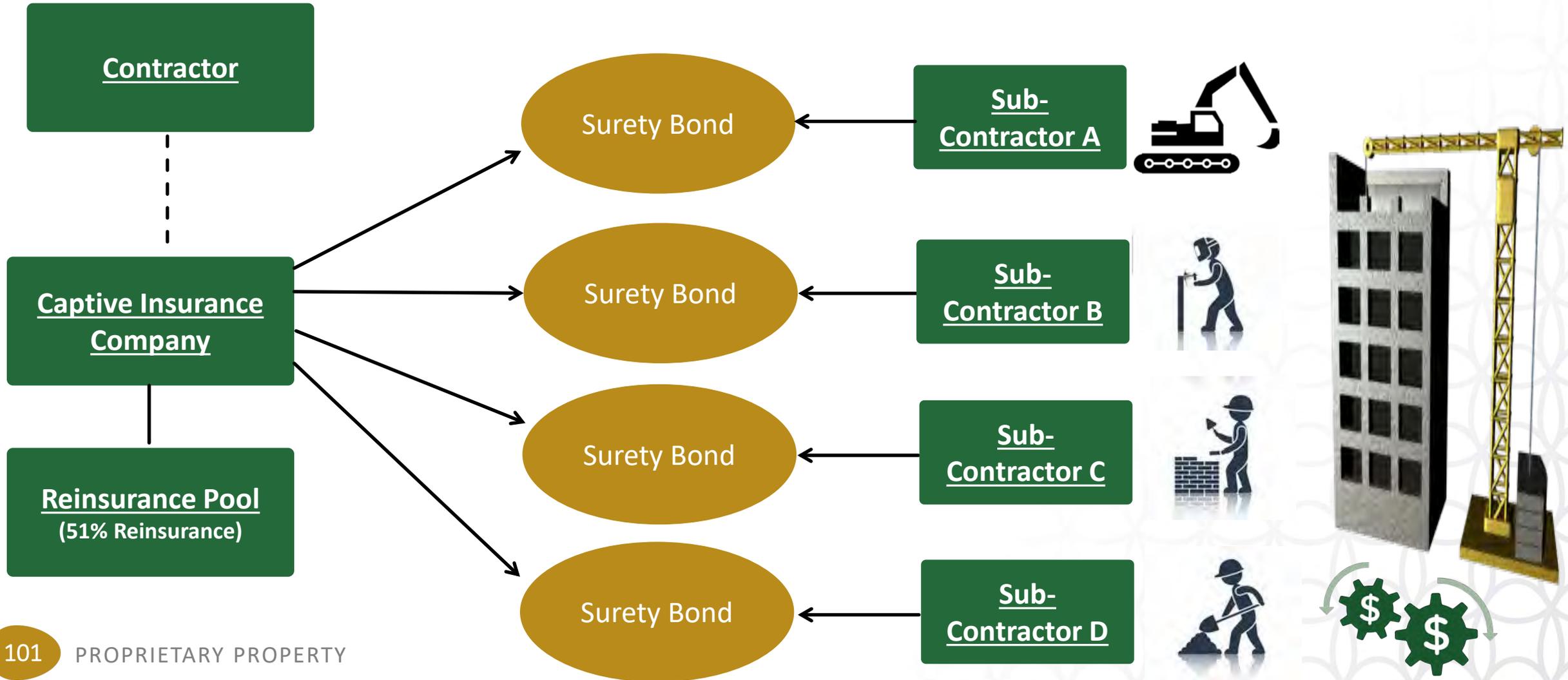
Surety Bonding Subcontractors With A Captive Insurance Company



Surety Bonding Subcontractors



Surety Bonding Subcontractors



Surety Bonding Subcontractors - Intro

Key Concepts:

- **Surety Bonds:** Three party contracts protecting Project Owners and General Contractors from:
 - Non-performance by a Subcontractor; and/or
 - Non-payment of a Subcontractor to its Employees or Subs
- **Indemnification:** Surety Bonds give the Surety (bonding company) the right to be indemnified against losses by the Subcontractor and its owner(s)
- **Form:** Surety Bonds are regulated by State Insurance Agencies, and are issued on industry-standard forms
- **Premiums:** Actuaries and Underwriters determine the premium charged on each Surety Bond on a project specific basis. Premiums may be paid by the Owner, GC or Subcontractor



Benefits of Bonding with a Captive

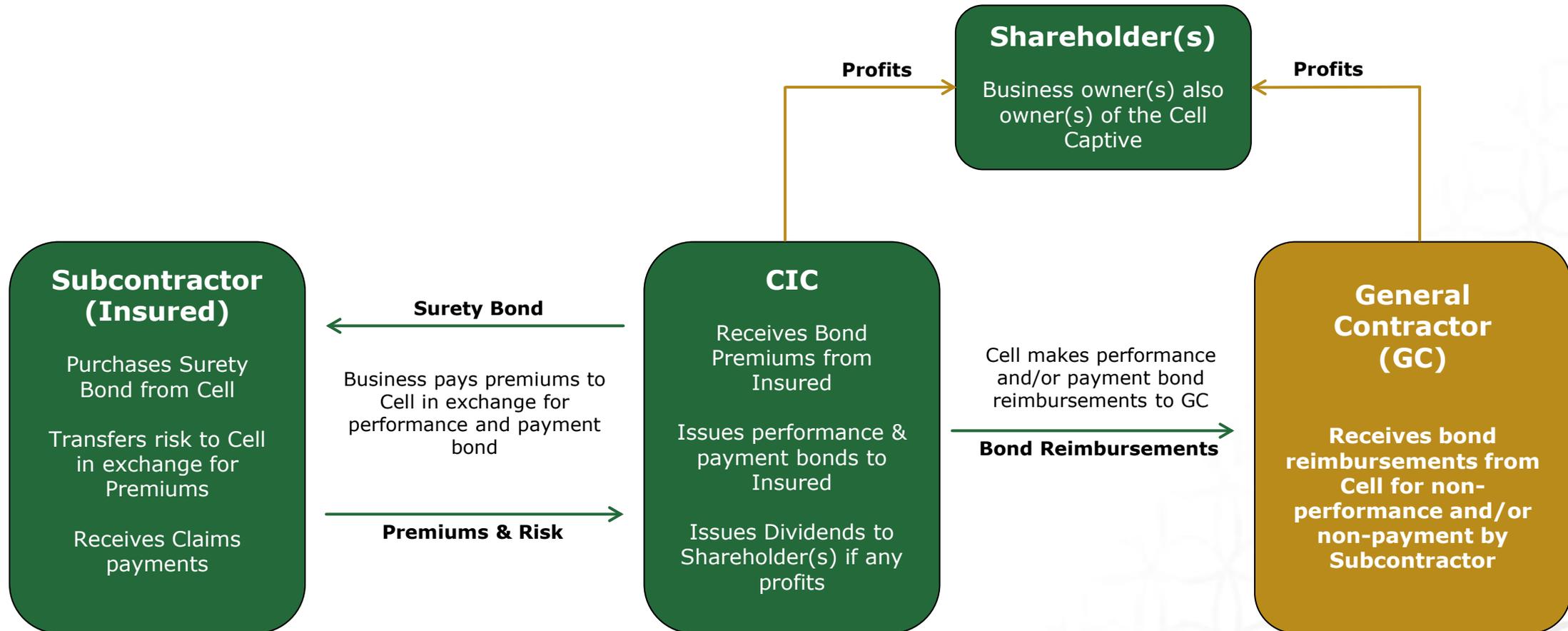
Successful General Contractors already have strong operational practices around qualifying and managing their subs, preventing potential sub-related losses, and ensuring quality control to their clients.

Surety Bonding through a CIC rewards GCs for their efforts by allowing them to become the surety, providing:

- Increased Profitability by adding a new Profit Center
- Increased Risk Management through enhanced underwriting
- Additional Loss Prevention motivation
- Overall Stronger Business Model of the GC
- Potential to insure additional risks of the GC



Surety Bonding & CIC: Structure



Additional Contractor/Construction Risks

In addition to payment and performance bonds, the CIC can issue other contractor-related coverages, such as:

- SDI/Sub-contractor Default Insurance
- Warranty
- Construction Defect
 - Patent Defect
 - Latent Defect



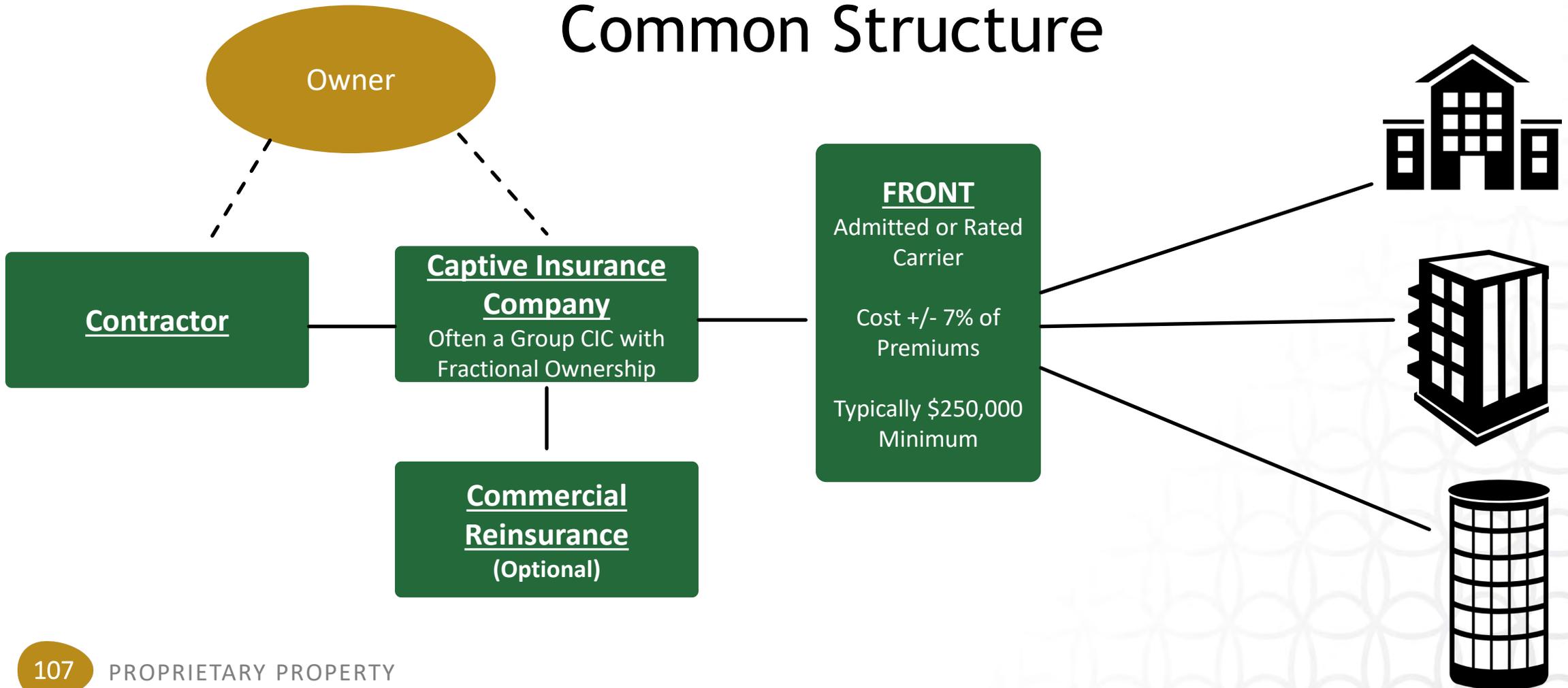


Insuring Warranty Risk With A Captive Insurance Company

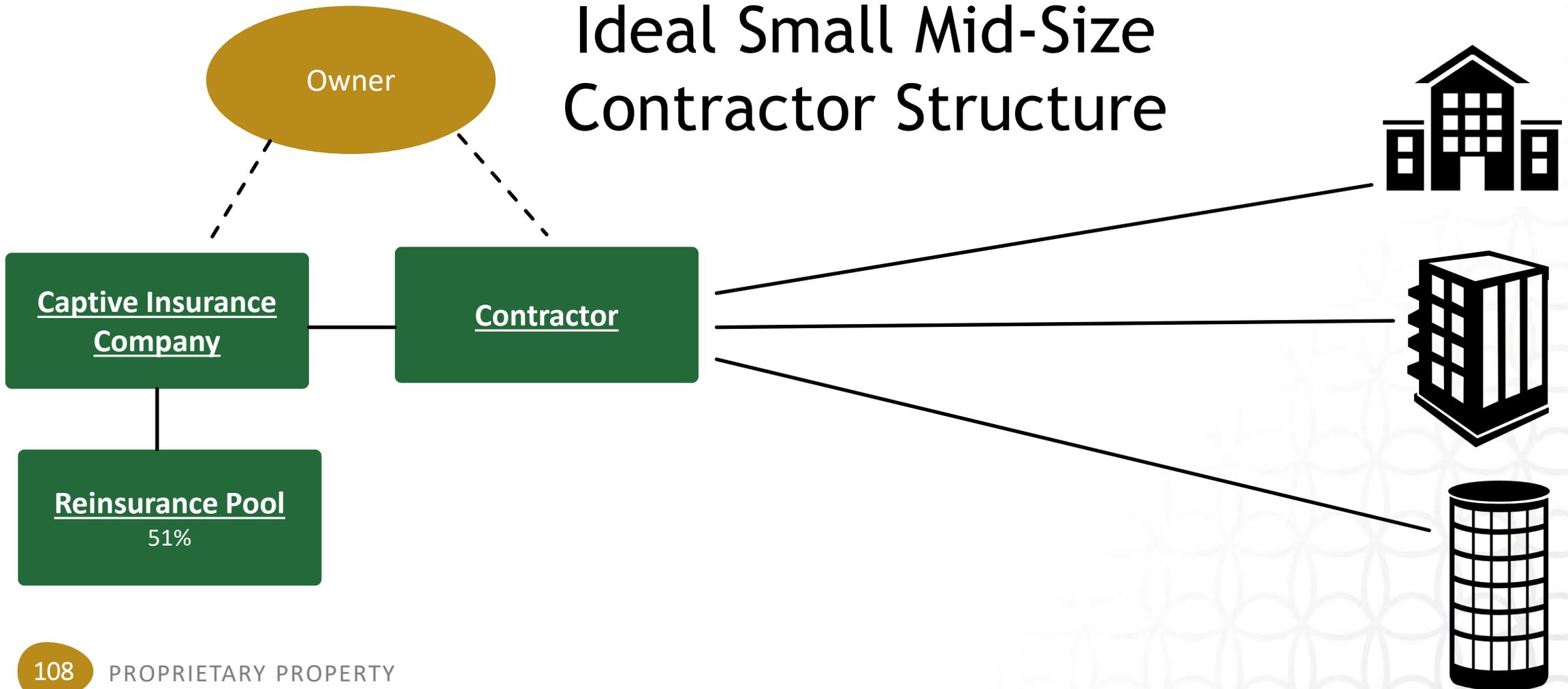


Insuring Warranty Risk with a Captive

Common Structure



Insuring Warranty Risk with a Captive



Example Warranty Captive Program

CIC P&L

Premiums Received	\$500,000
Claims (\$200,000 w/ half paid by pool)*	\$100,000
CIC Costs	\$50,000
Underwriting Profit	\$350,000
Tax Rate - 831(b) Election	0%
Tax Savings - Assumes 50% State & Federal	\$175,000

*Every dollar reduction in claims paid increases program savings

**CICs require initial capital (per domicile requirements) & set-up costs





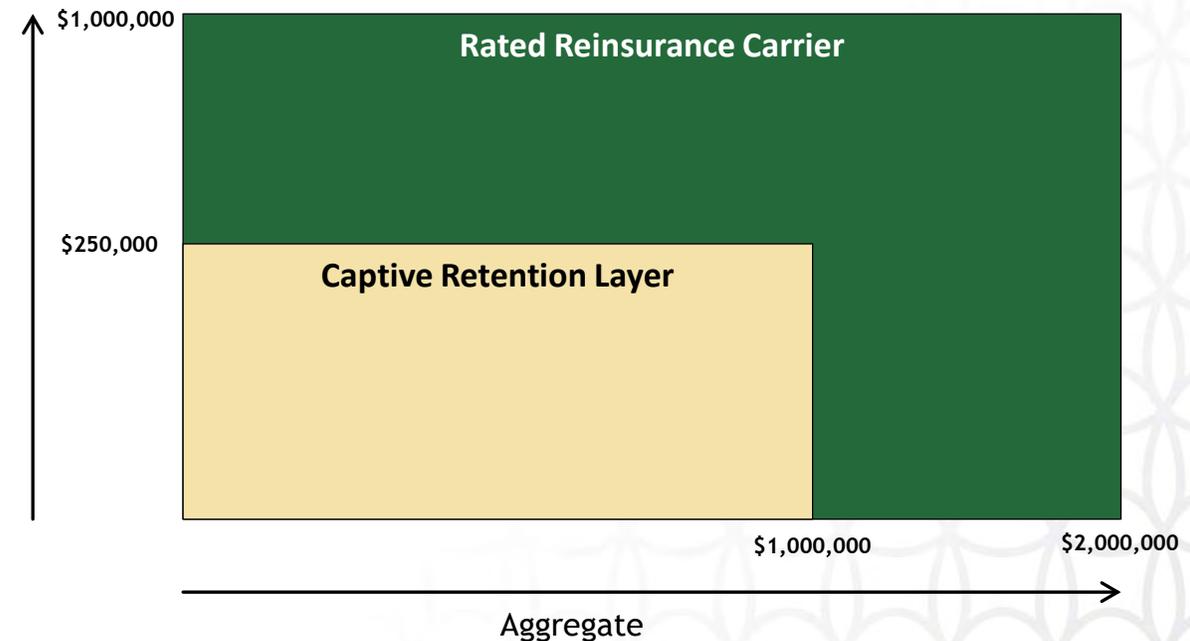
Captive Insurance Program Design & Structure

Captive Program

Risk Layering

1. Fronting Carrier issues first-dollar policies - allowing the Insured Business to benefit from an A+ rated insurance policy, in a traditional way.
2. Reinsurance Carrier transfers the first portion of each and every claim to the Captive; Reinsurer retains everything above up to the policy limit. Protects the Captive from individual catastrophic losses.
3. Reinsurer also transfers a maximum amount of aggregate exposure to the Captive; all other losses are retained by the Reinsurer. Protects the Captive from frequency of losses.
4. Captive only assumes risk which is best able to be controlled by the Insured Business, providing the best opportunity for profit to be realized by the Captive.

Captive Program Risk Layers¹



1 - Single Combined Retention Layer for All Applicable Lines of Coverage
Attachment point may vary based upon selected risk retention amount

IMPORTANT: Participation Validation

Record / write down the 6th key word.

The 6th key word is “Layering”

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.





Captive Program Operations

Captive Insurance Companies

Typical Business Plan





Traditional (Fronted / Reinsured) Captive Insurance Company



Captive Insurance Company

Fronting and Reinsurance

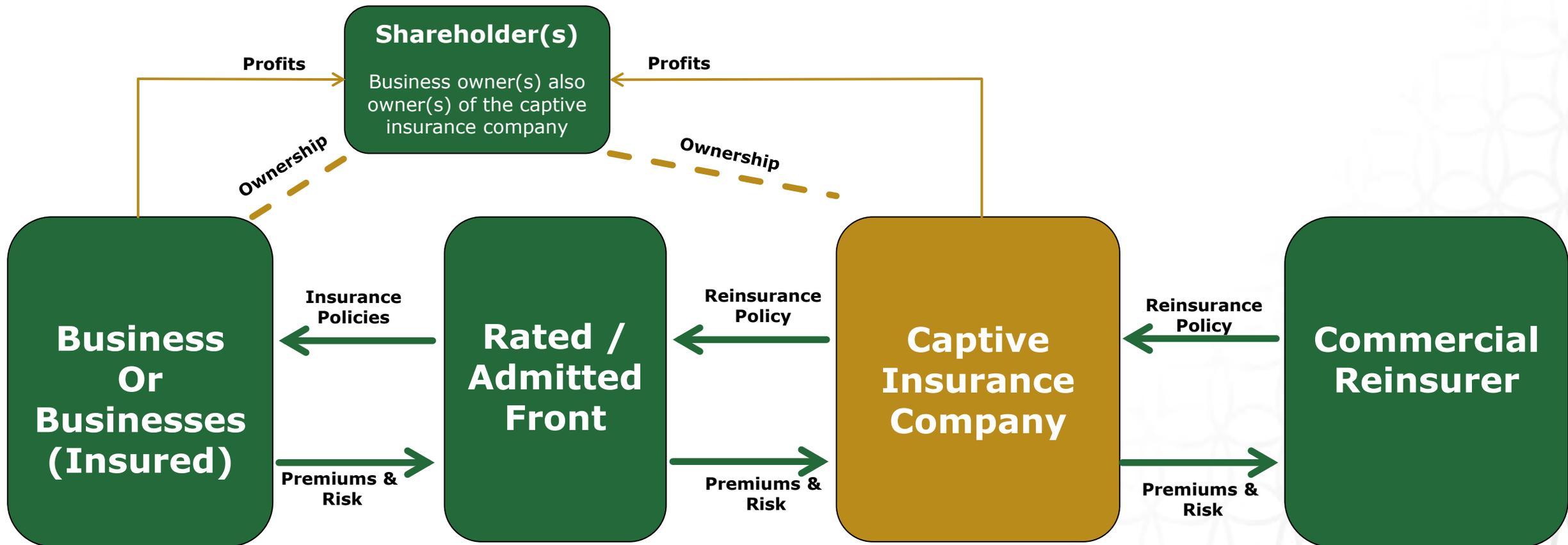
Fronting Carriers

Certain types of coverages may be required to be issued by carriers that have a minimum AM Best rating by statute or contractual requirements. In these instances a Captive partners with a carrier that has this rating (a “Fronting Carrier” or “Front”) to meet this requirement. In exchange for a fee the Front will issue the policy on their forms and then cede the risk to the Captive. This structure allows the policy to be written and the Captive to participate in underwriting profit without having to go through the expense and obtain the capital required of the rating service. As the Front is ultimately responsible for claims payment they often require collateral in addition to premium in order to offset their credit risk in the transaction.

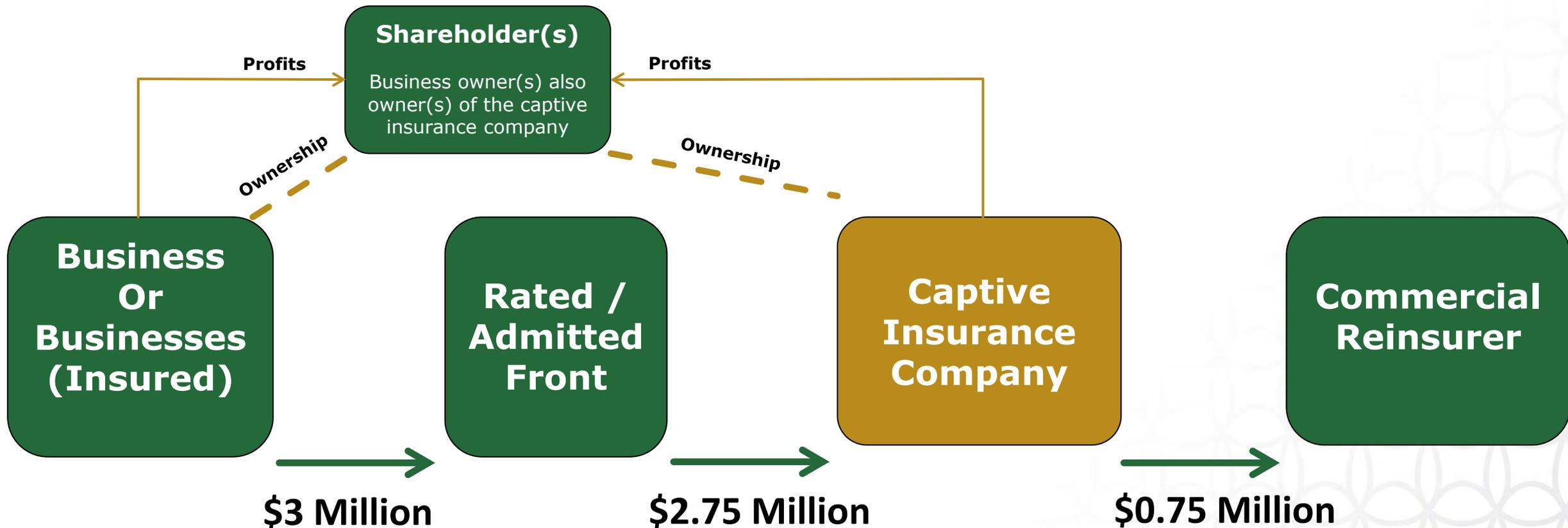
Reinsurance Carriers

Depending on risk tolerance of the Captive and related fronting companies there may be a desire or requirement to have integrate a reinsurance carrier into the transaction. In exchange for a fee these reinsurance carriers take the undesired liabilities from the Captive/Fronting company to meet statutory requirements and/or provide comfort to the Fronting company and regulators of the ultimate ability to pay claims.

Traditional (Fronted / Reinsured) Captive Structure



Example: Fronted / Reinsured Captive Program



Example: Fronted/Reinsured Captive Program

Annual P&L

Premiums Paid	\$3,000,000
Fronting	\$250,000
Reinsurance	\$750,000
Captive Management / Administration	\$150,000
Claims Impacting Captive	\$1,000,000
Underwriting Profit In Captive	\$850,000



IMPORTANT: Participation Validation

Record / write down the 7th key word.

The 7th key word is “Fronting”

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.

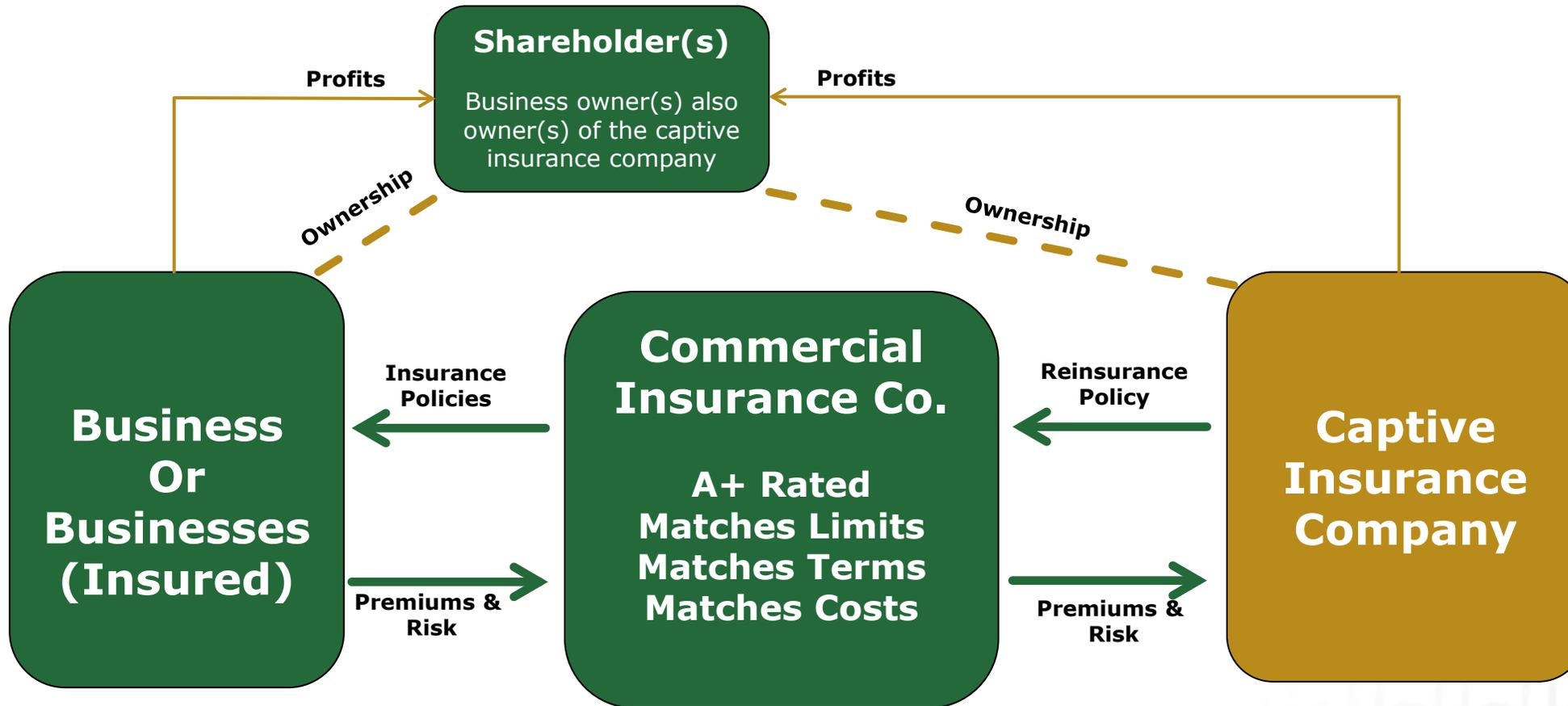




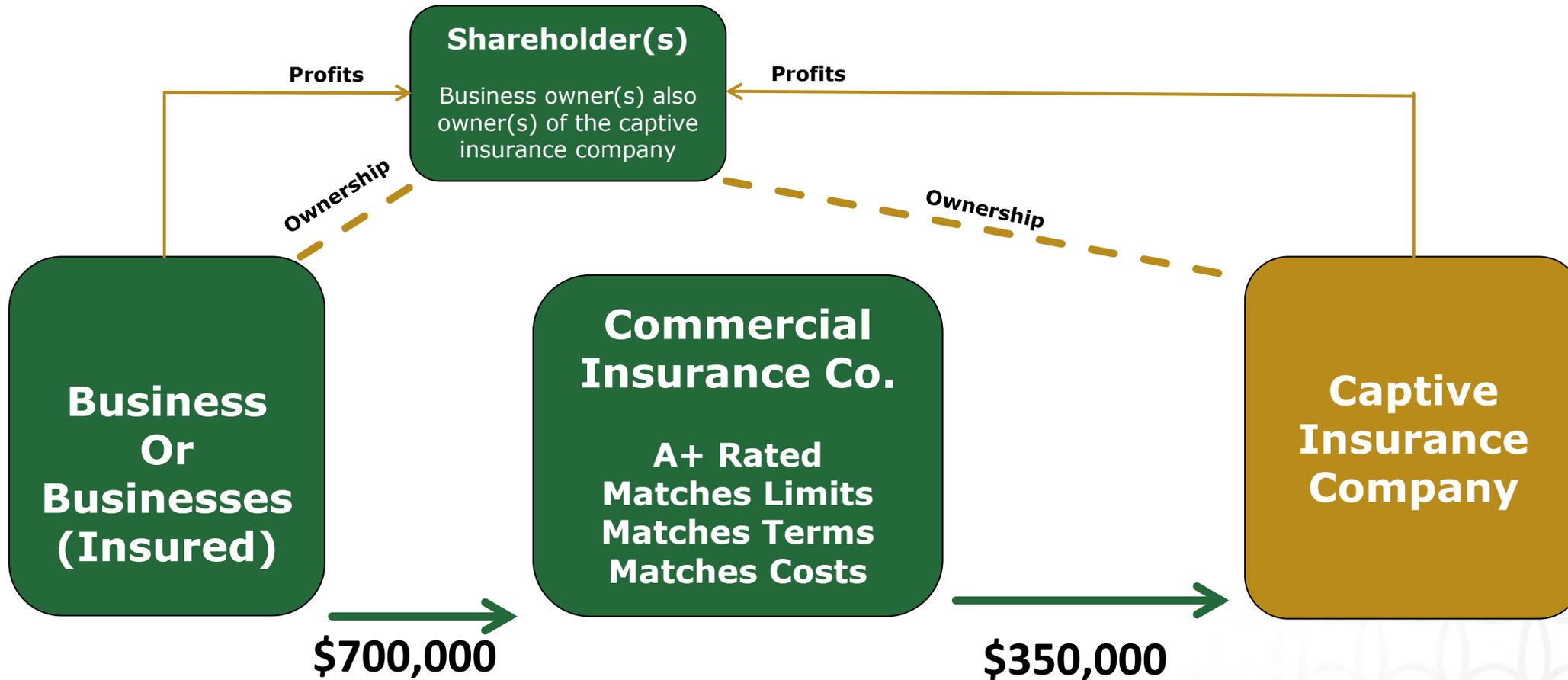
Reinsurance Captive Insurance Company



CIC Services' Reinsurance Captive Structure



Example: CIC Services' Reinsurance Captive Structure



Example: CIC Services' Reinsurance Captive Program

Annual P&L

Premiums Paid	\$700,000
Premiums Reinsured To Captive	\$350,000
Claims Paid By Captive	\$100,000
Captive Management / Administration	\$40,000
Underwriting Profit In Captive	\$210,000



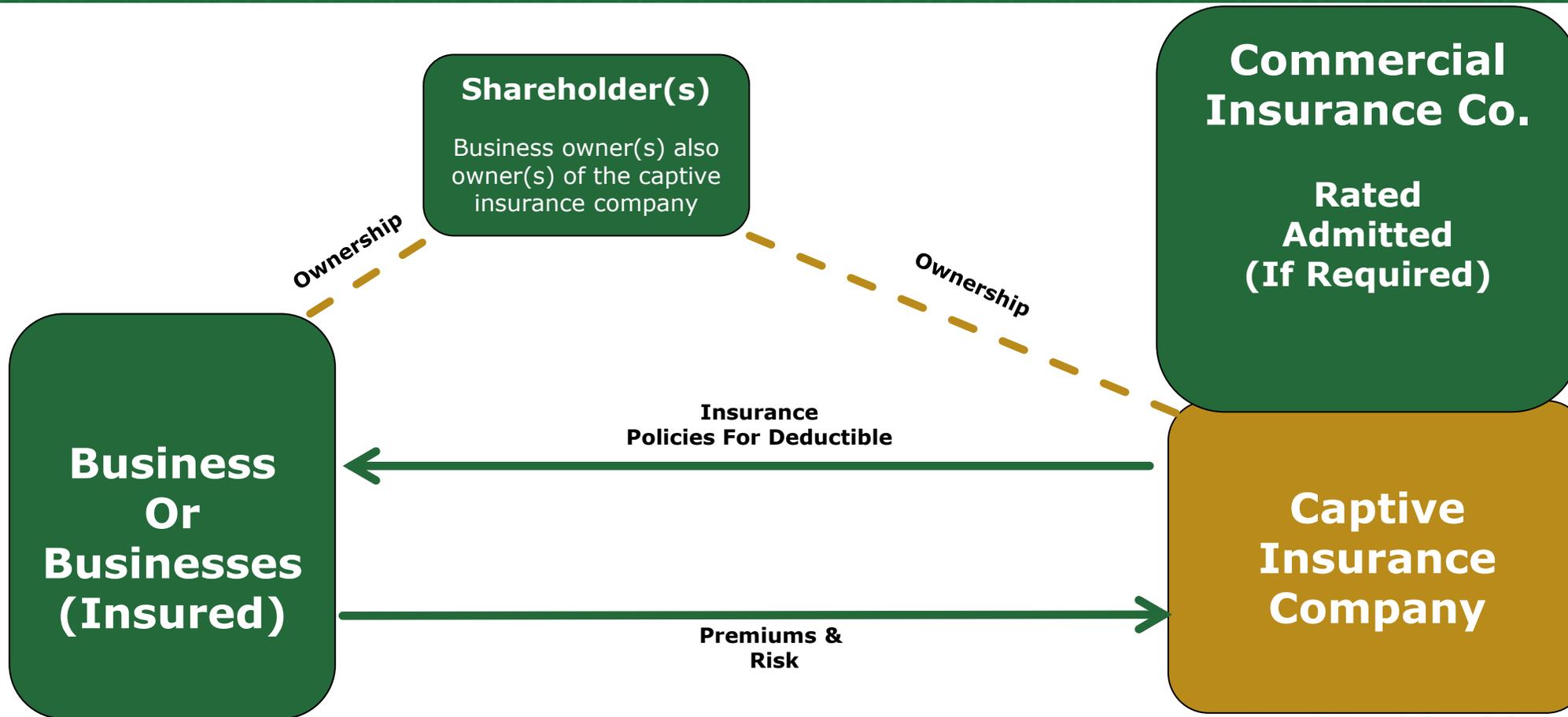


ART

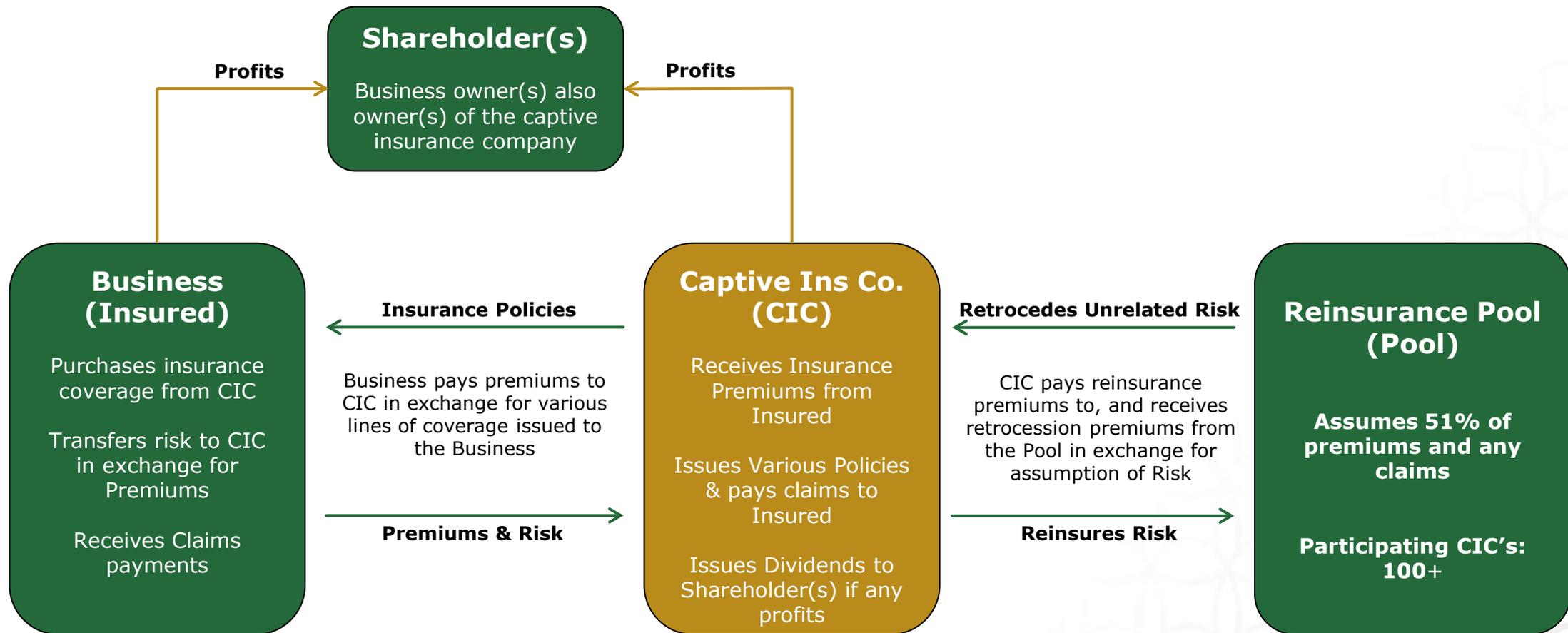
Deductible Reimbursement Utilizing A Captive Insurance Company



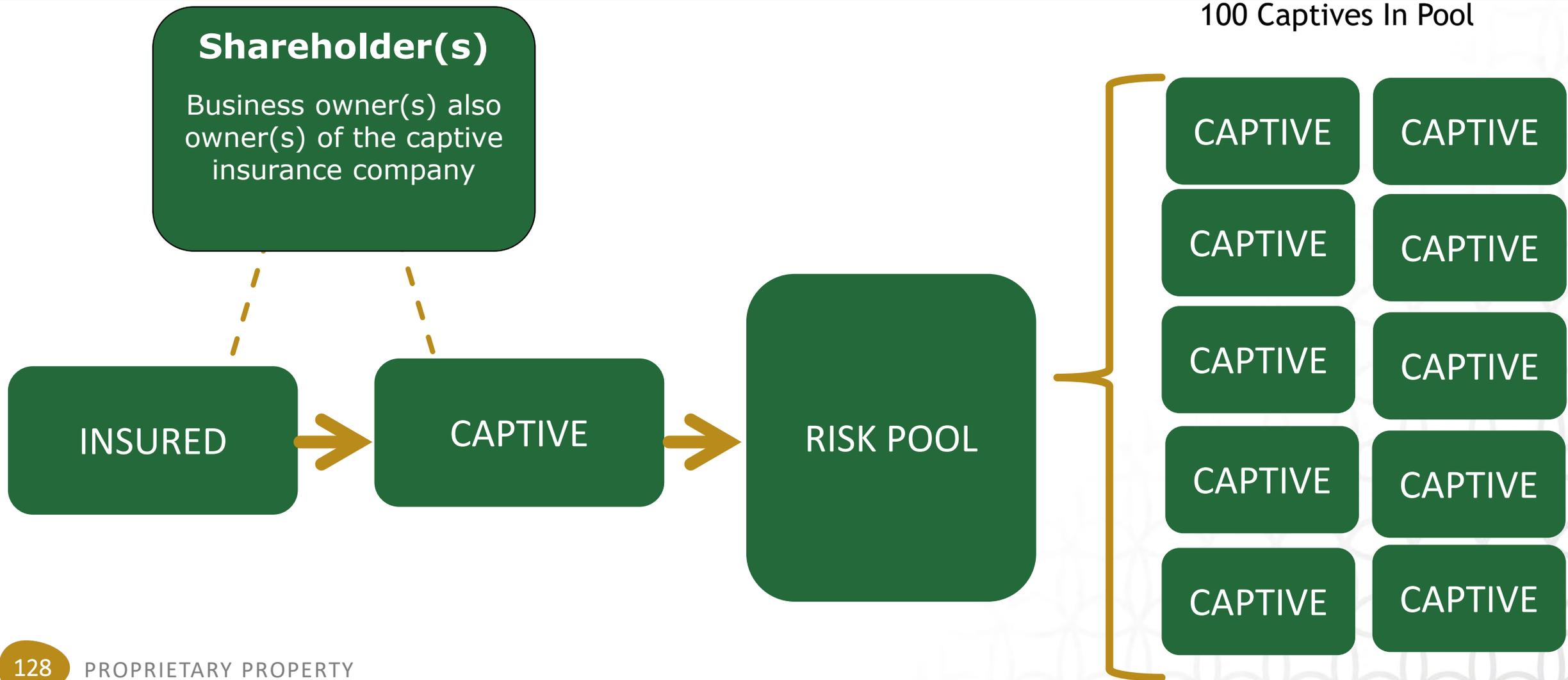
Deductible Reimbursement Via A Captive



Captive Example Structure – Pooled Reinsurance



Pooled (Reinsurance) Structure

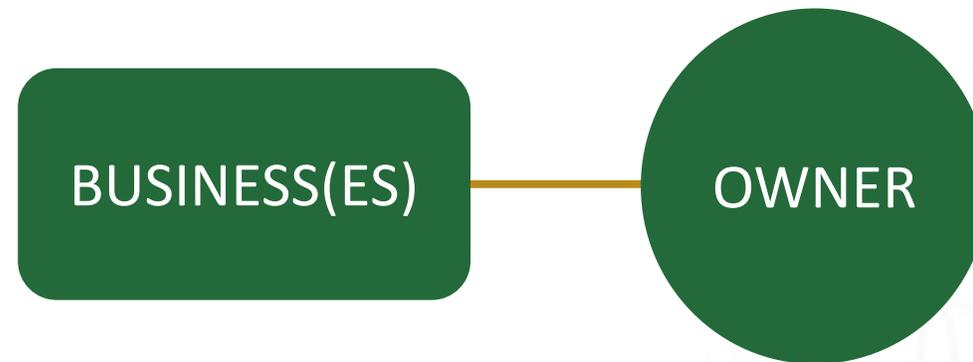


Pooled Structure - Example Uninsured Loss

Business
has a loss that is not
commercially insured



The loss is paid for out of operations,
retained earnings or the owner's savings

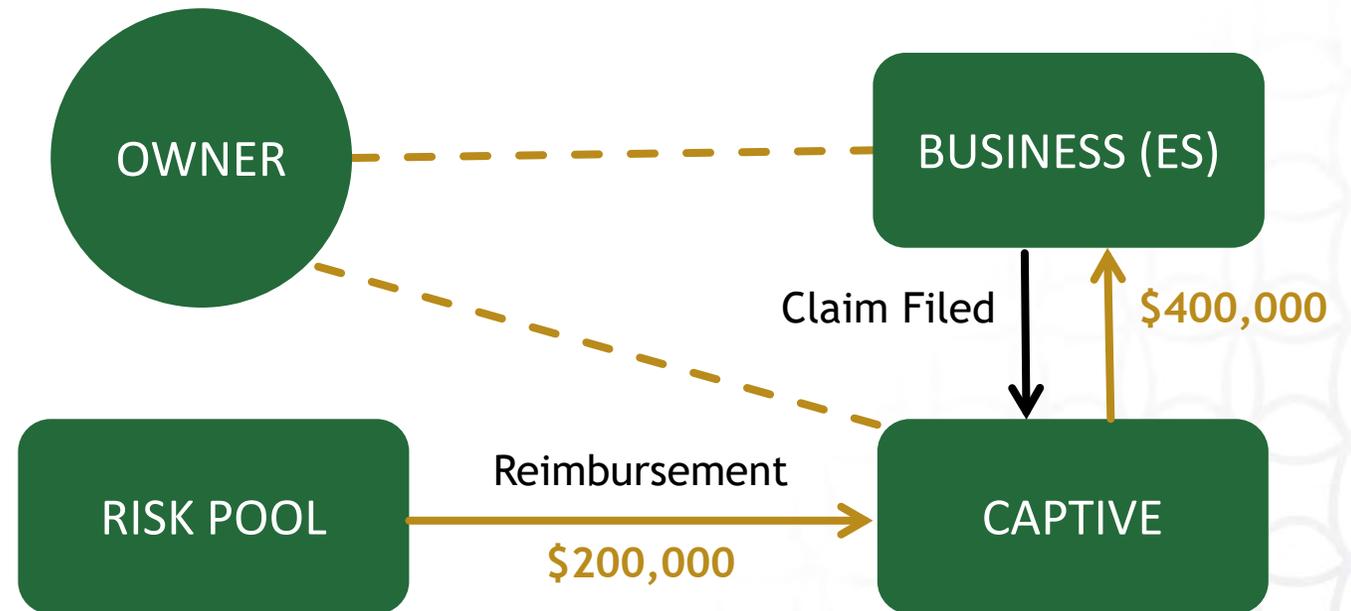
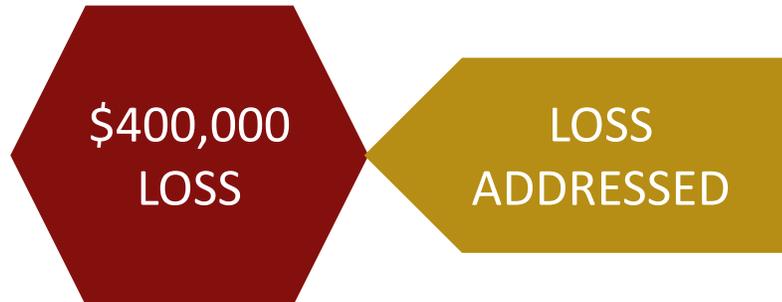


Wealth Is Destroyed
Employees Are Laid-Off



Pooled Structure – Example Insured Loss

Business has a loss that is insured by your Captive



NOTE:

- Loss must be insured by the Captive
- Captive pays \$200,000 of the claim (50%)
- Risk Pool pays \$200,000 (50%)



Why is ART smART?

- Retain Portion Of Profits Carriers Normally Earn
- Be Rewarded For Good Management & Loss Controls
- Control Insurance Costs
- Exercise More Control Over Claims
- Acquire A Negotiating Tool
- Build A Financial “War Chest”



IMPORTANT: Participation Validation

Record / write down the 8th key word.

The 8th key word is “Pool”

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.





What Is Enterprise Risk Management (ERM)?

Enterprise Risk Insurance

Administrative Actions Insurance

This covers losses (i.e., legal expenses, fines and assessments) from investigations, audits and proceedings brought against the Insured by governmental bodies. Tax related administrative actions are excluded.



Enterprise Risk Insurance

Business Interruption (Reputational Damage) and Extra Expense Insurance

This covers loss of profits and extra expenses resulting from negative publicity that cause damage to the Insured's reputation in the marketplace.



Enterprise Risk Insurance

Business Interruption (Regulatory and Legislative Changes) and Extra Expense Insurance

This covers loss of profits and extra expenses resulting from legislative, regulatory, administrative and governmental changes adversely affecting the Insured's operations.



Enterprise Risk Insurance

Business Interruption (Broad Form Property Damage) and Extra Expense Insurance

This covers loss of profits and extra expenses resulting from the interruption of the Insured's operations due to (i) damage or breakdown of the Insured's property (including tangible and intangible personal property and real property), (ii) utility service interruptions including, but not limited to, interruptions of the Insured's telecommunications systems and (iii) loss of access to the Insured's premises by the Insured, its employees, suppliers or customers.



Enterprise Risk Insurance

Business Risk Indemnity Insurance

This covers losses resulting from payments made to third parties for claims that fall outside certain specified commercial liability policies of the Insured or for claims that are in excess of the limits of such existing liability policies. This Policy also covers the deductible(s) on such liability policies.



Enterprise Risk Insurance

Business Interruption (Disability of Key Employee) and Extra Expense Insurance

This covers the loss of income and extra expenses resulting from any mental or physical illness of a key employee of the Insured that prevents him or her from performing his or her occupation and duties.



Enterprise Risk Insurance

Business Interruption (Loss of Key Employee) and Extra Expense Insurance

This covers loss of income and extra expenses resulting from the retirement, voluntary departure or involuntary termination with cause of a key employee of the Insured.



Enterprise Risk Insurance

Litigation Defense Expense Insurance

This covers litigation expenses incurred by the Insured for defending claims that fall outside certain specified commercial liability policies of the Insured or for defending claims that are in excess of the limits of such existing liability policies. This Policy also covers the deductible(s) on such liability policies. This insurance policy only applies to such litigation expenses after the limits of the Legal Expense Insurance Policy have been exhausted.



Enterprise Risk Insurance

Commercial Crime Insurance

This covers losses resulting from or related to theft or dishonesty committed by employees of the Insured or by third parties including, but not limited to, investigative expenses incurred by the Insured.



Enterprise Risk Insurance

Accounts Receivable Insurance

This covers losses resulting from the Insured's inability to collect accounts receivables from a customer of the Insured.



Why Enterprise Risk Management?

Small and mid-market businesses are fragile.
Unlike their Fortune 1,000 brethren, they:

- Lack access to credit and capital markets
- Are geographically concentrated
- Have concentrated revenue streams



How many Fortune 1000 companies did Hurricane Katrina force into bankruptcy?
How many small and mid-market businesses were?

Why Enterprise Risk Management?

40% of small businesses affected by natural or human caused disaster never reopen their doors.*

This is one reason why only 30% of family-owned businesses survive into the second generation.**

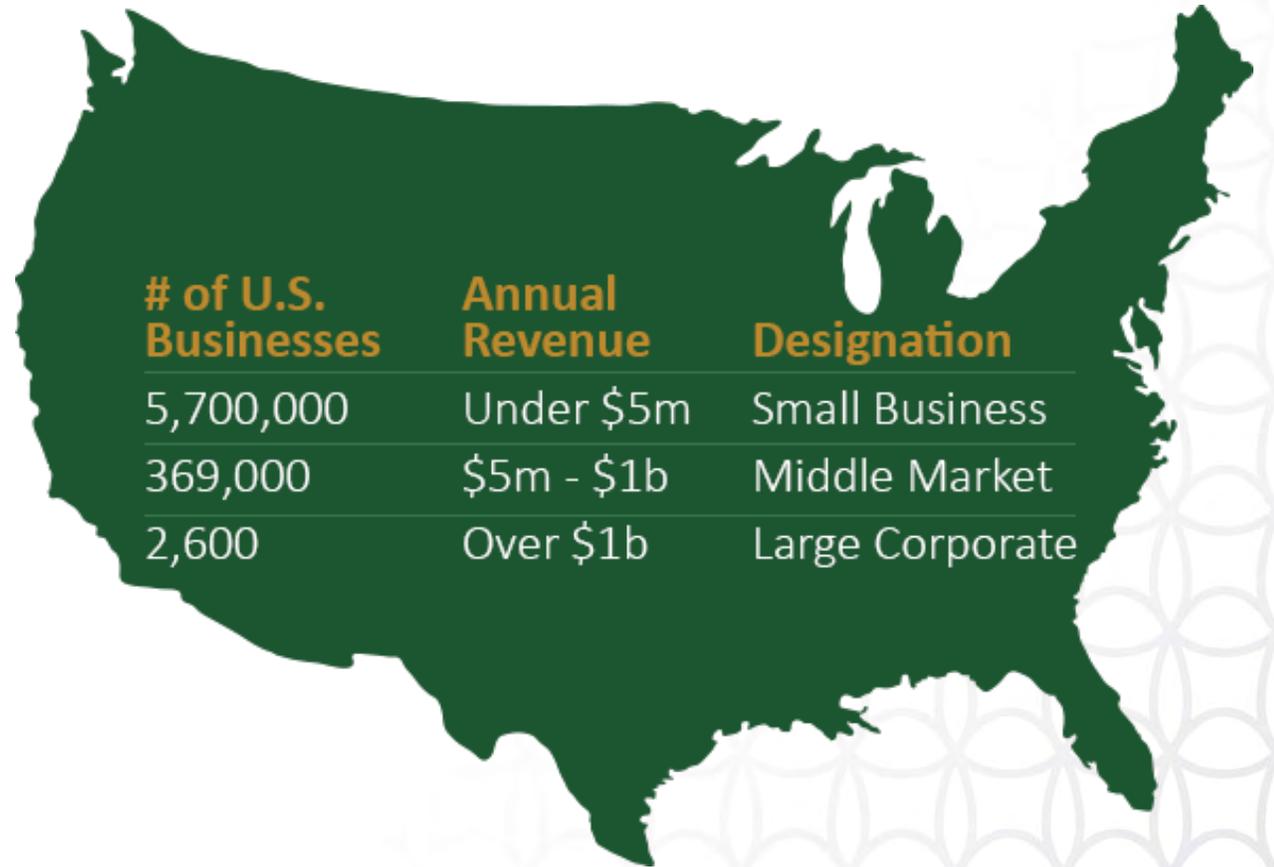
*Source: Small Business Administration

**Source: <http://www.familybusinessinstitute.com/index.php/Succession-Planning/>

Why Enterprise Risk Management?

And Yet...

Small and Mid-Size Businesses Are Vital to the U.S. Economy and American Way of Life.



Why Enterprise Risk Management?

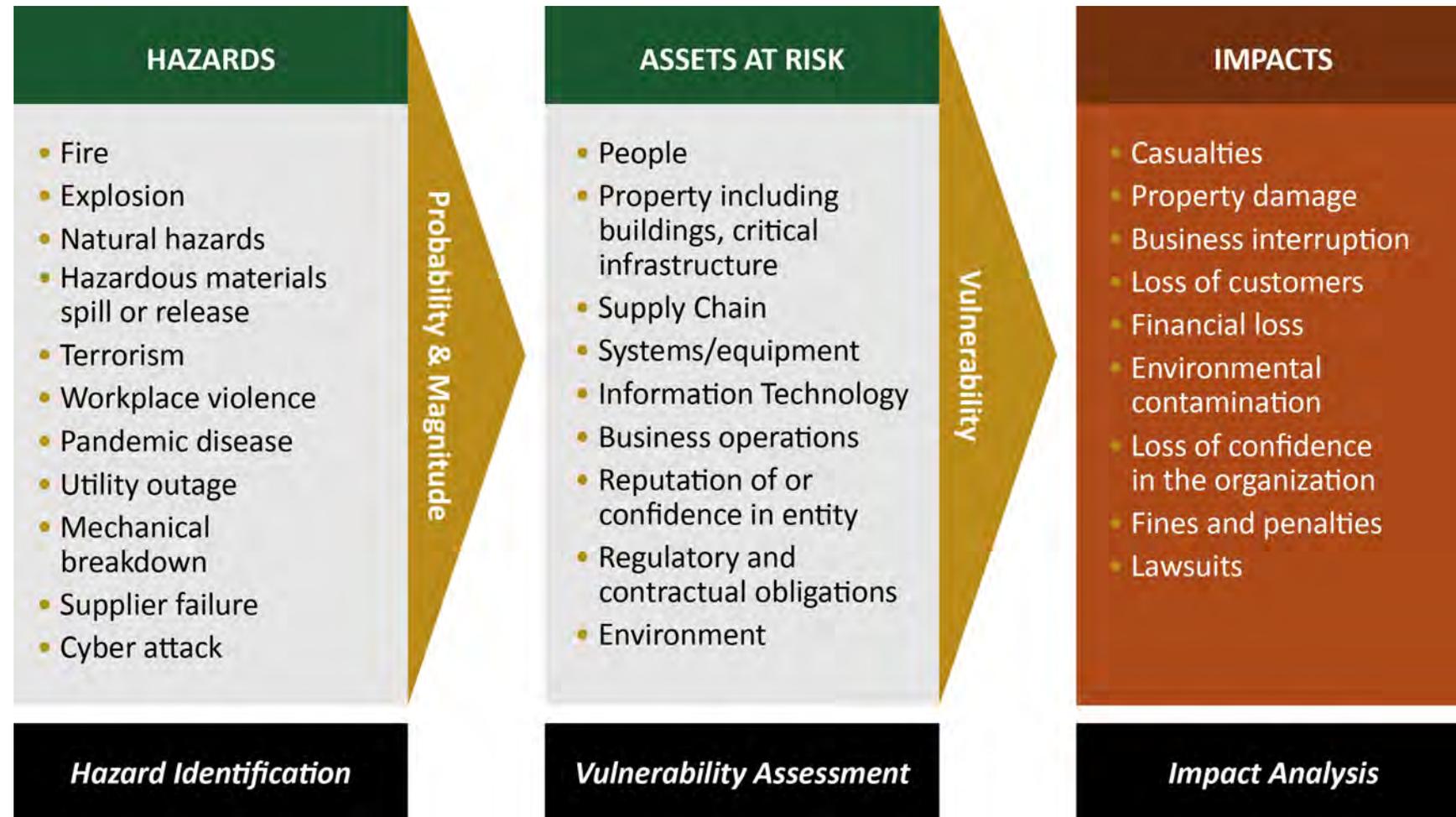
According to Small Business Administration (SBA) statistics cited on Ready.gov as of March 2015, small businesses:

- Represent 99.7% of all employers
- Employ nearly half of all private sector workers
- Generated 65% of all net new jobs over the last 17 years
- Made up 97.5% of all identified exporters

Why Enterprise Risk Management?

Even the U.S. Government encourages small and mid-size businesses to prepare for a wide range of threats.

(Chart from [Ready.Gov](#) landing page for businesses as of March 2015).



ERM Enhances Long Term Viability

Which Business is better suited to survive the uncertainties of today's business environment?

BUSINESS 1	BUSINESS 2
Assets: \$5.9 Million	Assets \$10.7 Million
Insurance Policies:	Insurance Policies:
<ul style="list-style-type: none"> • Property & GL • Employee Benefits Liability • Umbrella Coverage • Auto Coverage • Worker's Compensation 	<ul style="list-style-type: none"> • Property & GL • Employee Benefits Liability • Umbrella Coverage • Auto Coverage & Deductible • Worker's Compensation • Administrative Actions • Directors & Officers • Employment Practices • Litigation Defense Expense • Cyber Risk • Accounts Receivable • Excess Commercial Crime • Loss of Key Customer • Loss of Key Supplier • Special Catastrophic Risk

Claims Paying Ability/Loss Reserves

Program Years 1 through 10

Summary			Informal Self-Insurance				Formal Self-Insurance (Captive)			
Prepared For:		Joe Sample	Int. & Div. Allocation & RoR:		80.00% / 6.00%		Int. & Div. Allocation & RoR:		80.00% / 6.00%	
Effective Tax Rate:		40.50%	LT Cap.Gain Allocation & RoR:		20.00% / 6.00%		LT Cap.Gain Allocation & RoR:		20.00% / 6.00%	
Plan Year	Age	Earnings Before Tax	After-Tax Earnings ¹	Cumulative After-Tax Retained Earnings	Assumed Claims Paid	Accumulated After-Tax Earnings To Pay Add'l Claims	Captive & Investment Earnings After-Tax ¹	Cumulative After-Tax Retained Earnings	Assumed Claims Paid	Accumulated After-Tax Earnings To Pay Add'l Claims
1	45	\$1,000,000	\$558,250	\$558,250	(\$50,000)	\$508,250	\$939,000	\$939,000	(\$50,000)	\$889,000
2	46	\$1,000,000	\$575,583	\$1,133,833	(\$50,000)	\$1,033,833	\$984,005	\$1,923,005	(\$50,000)	\$1,823,005
3	47	\$1,000,000	\$593,508	\$1,727,341	(\$50,000)	\$1,577,341	\$1,022,472	\$2,945,477	(\$50,000)	\$2,795,477
4	48	\$1,000,000	\$612,044	\$2,339,385	(\$50,000)	\$2,139,385	\$1,058,064	\$4,003,541	(\$50,000)	\$3,803,541
5	49	\$1,000,000	\$631,212	\$2,970,596	(\$50,000)	\$2,720,596	\$1,094,960	\$5,098,501	(\$50,000)	\$4,848,501
6	50	\$1,000,000	\$651,033	\$3,621,630	(\$50,000)	\$3,321,630	\$1,133,205	\$6,231,706	(\$50,000)	\$5,931,706
7	51	\$1,000,000	\$671,531	\$4,293,161	(\$50,000)	\$3,943,161	\$1,173,896	\$7,405,602	(\$50,000)	\$7,055,602
8	52	\$1,000,000	\$692,728	\$4,985,888	(\$50,000)	\$4,585,888	\$1,218,402	\$8,624,004	(\$50,000)	\$8,224,004
9	53	\$1,000,000	\$714,647	\$5,700,535	(\$50,000)	\$5,250,535	\$1,264,671	\$9,888,674	(\$50,000)	\$9,438,674
10	54	\$1,000,000	\$737,314	\$6,437,849	(\$50,000)	\$5,937,849	\$1,312,771	\$11,201,446	(\$50,000)	\$10,701,446



\$5.9 Million
Accumulated
Loss Reserves



\$10.7 Million
Accumulated
Loss Reserves

Why Enterprise Risk Management?

SURVIVAL



Stronger Business Model



Asset Protection



Improved Risk Management



Wealth Accumulation



Improved Cost Control



Advantageous Tax Treatment



Insurance Profits



Estate Transfer Opportunities



Enterprise Risk Management Process



Enterprise Risk Management

Key Concepts:

- **Risk:** The potential for future **losses or shortfalls** due to the deviation of actual results from expected results.
- **Enterprise Risk Management (ERM):** The discipline by which an organization in any industry assesses, controls, exploits, finances and monitors risks **from all sources** for the purpose of increasing the organization's short and long-term value to its stakeholders. Successful ERM programs manage risk across two dimensions; **Time & Space:**
- **Time:** Properly developed ERM programs shift your Risk Management focus from short-term (once-a-year when traditional insurance policies renew) to a long-term program designed with the organization's overall goals in mind.
- **Space:** ERM programs increase the **Depth of Coverage** of an organization, allowing for formal insurance across the three distinct areas of risk; **Core, Operational** and **Strategic**.

ERM Areas of Risk

Core Risk	Operational Risk	Strategic Risk
<ul style="list-style-type: none">• Risks currently being insured by 3rd party insurers• Potential for exclusions, deductibles or policy limits to diminish the value of coverage being purchased	<ul style="list-style-type: none">• Risks within the business that are uninsured or underinsured (e.g., too expensive or unavailable)• Have potentially measurable & economically feasible damages	<ul style="list-style-type: none">• Risks in the outside world or economy that impact the business• Have potentially measurable & economically feasible damages

Commonly Un-Insured / Under-Insured Risks

Strategic Risk *(examples of available coverage)*

- Business Interruption
- Key Contract Termination
- Entrance by Competitors
- Loss of Key Customer
- Subcontractor Default
- Loss of Key Employee
- Kidnap, Ransom & Extortion
- Loss of Franchise
- Business Risk Indemnity

Operational Risk *(examples of available coverage)*

- Administrative Actions
- Employment Practices
- Litigation Defense Expense
- Cyber Risk
- Reputational Damages
- Product Liability
- Legal Expenses
- Commercial Crime
- Excess General Liability
- Excess Prof. Liability
- Existing Deductibles
- Terrorism
- Supply Chain Interruption
- Regulatory & Legislative Changes
- Difference in Conditions

Core Risk *(typical coverage)*

- General Liability
- Directors & Officers
- Professional Liability
- Auto
- Property
- E & O

Third Party Insurance

Informally Self-Insured (or Uninsured)



Taxation of Captive Insurance Companies



Taxation of Captive Insurance Companies

- Internal Revenue Code defines an “insurance company” as a company which derives over half of its business from issuing insurance or annuity contracts or reinsuring risks underwritten by insurance companies (I.R.C. §§ 816(a), 831(c)).
- For U.S. Income Tax purposes, an insurance company must be taxed as a C corporation (I.R.C. § 7701), although it can be formed as any entity type.
- Captives can be formed internationally or domestically, and must adhere to the laws and rules of the government or state of domicile.
- Foreign domiciled Captives may elect to be taxed as a domestic C corporation under I.R.C. §953(d).



Taxation of Captive Insurance Companies

Taxation of Captive Insurance Companies:

- **Traditional Captive Insurance Companies:** Premium income is offset by reserves for losses (claims); the resulting Underwriting Profits (along with any investment earnings of the captive) are taxed at ordinary tax rates.
- **“Small” Captive Insurance Companies:** Congress adopted **section 831(b)** of the Internal Revenue Code in 1986 to strengthen US small & mid-sized business. CIC’s electing to be taxed under section 831(b) are taxed at a **0% rate** on underwriting profits, if premiums received are \$2.65 million or less on an annual basis. In 2017, the premium limit to make an 831(b) election increased from \$1.2 million to \$2.2 million annually (adjusted for inflation) thereafter. Most investment earnings are also taxed at ordinary rates.



Taxation of Captive Insurance Companies

- 831(b) elections will continue until revoked by the IRS, or until annual premiums exceed \$2.4 million.
- 831(b) elections also allow Captives to accumulate surpluses from Underwriting Profits without incurring Taxes on their Retained Earnings.
- Captive owners (“Large” or “Small”) do pay taxes on any Dividends paid to them by their Captive.
- Taxes on investment earnings within the Captive may result in double taxation when Dividends are paid to the owner.



Taxation of Captive Insurance Companies

Why Congress provides for Section 831(b) Small Insurance Companies

- I. Congress intended to level the playing field between those businesses who may choose to self-insure certain risks, and those who choose to use third-party insurance. Historically, third-party insurance could be obtained by paying tax-deductible premiums to a third-party, while self-insurance had to be provided with after-tax dollars.

- II. Congress intended to incentivize small businesses that currently do not purchase insurance from third-parties (due to cost and other considerations), and who otherwise fail to properly reserve for the many risks they face. In-so-doing, small businesses stand a much greater chance of surviving adverse conditions.



Additional 831(b) Eligibility Requirements

Business owner's lineal descendants cannot own a greater share of the captive insurance company than they own of the parent company / insured company (+/- 2%)

< or >

The captive insurance company receives no more than 20% of its gross written premiums from any one policy holder. Attribution rules apply.

These "Diversification Requirements" were created by the PATH Act passed on December 18, 2015.



Taxation of Captive Insurance Companies

Why doesn't every business own a CIC just for the tax savings alone?

No transaction should ever be completed simply or even primarily to achieve tax savings. The IRS has authority to deny the deductions for transactions that are motivated primarily for tax reasons. CIC's should only be implemented by those business owners who are primarily motivated by risk management and asset protection concerns, and the non-tax reasons for the CIC should be documented.



IMPORTANT: Participation Validation

Record / write down the 9th key word.

The 9th key word is **“Taxation”**

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.





Captive Insurance Company Profits



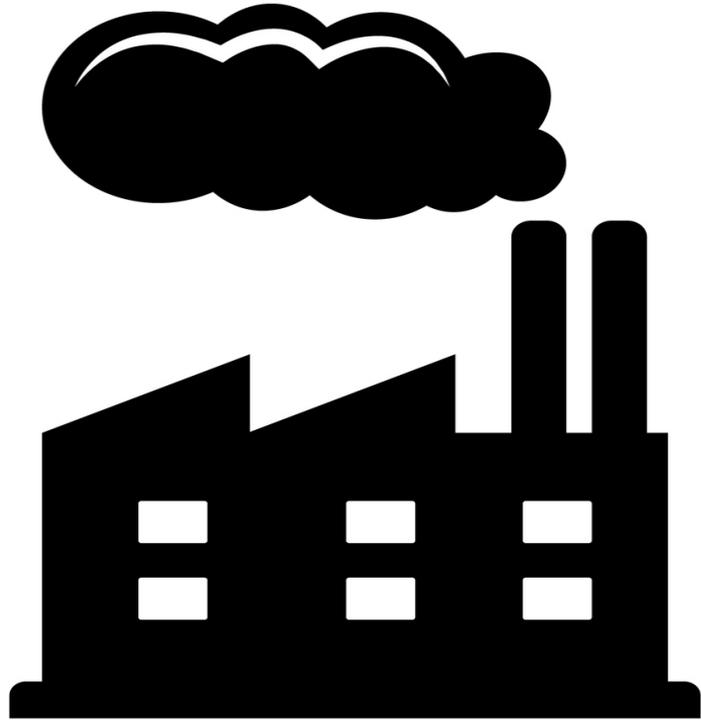


A Time Proven Equation 99% Of The Time*:

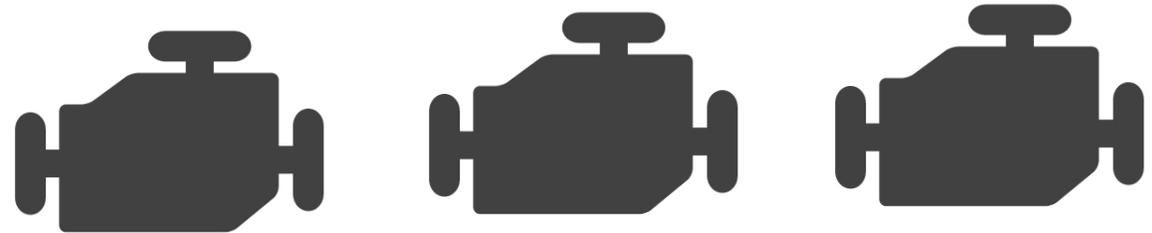
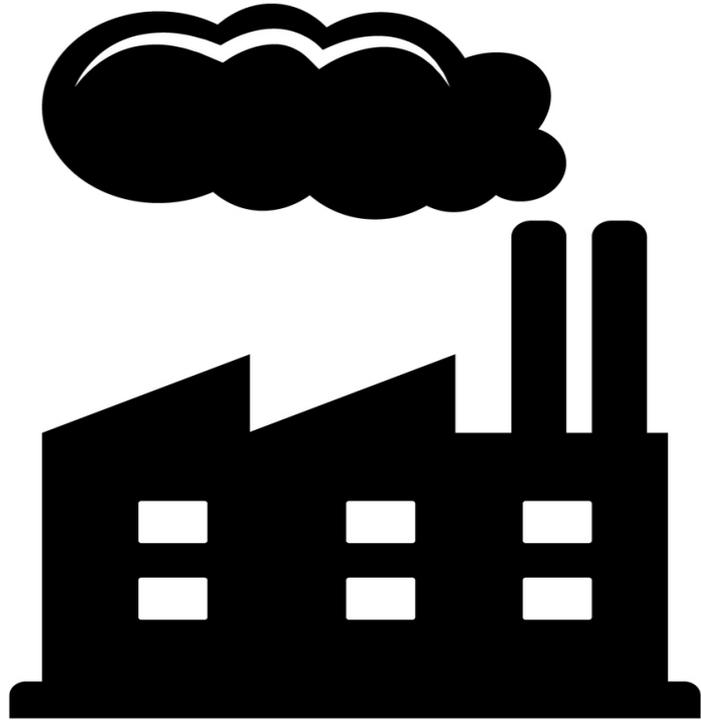
$$\begin{array}{c} \text{C I S} \\ + \\ \text{P C P R} \\ + \\ \text{T T} \end{array} > \begin{array}{c} \text{P C P} \\ + \\ \text{C I C E} \end{array}$$

* Historical results for CIC Services' clients since 2005

Own A Factory



Buy Or Start A Factory



Vertical Integration



Vertical Integration

Benefits

- Control
- Risk Management
- Profit
- Tax Efficiency





A Time Proven Equation 99% Of The Time*:

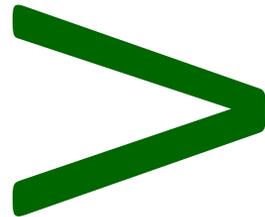
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* Historical results for CIC Services' clients since 2005



A Time Proven Equation 99% Of The Time*:

Commercial Insurance Savings
+
Pool Claim Payments Received
+
Tax Treatment



Pool Claims Paid
+
Captive Insurance Company Expenses

* Historical results for CIC Services' clients since 2005

Captive Profits

FACTS:

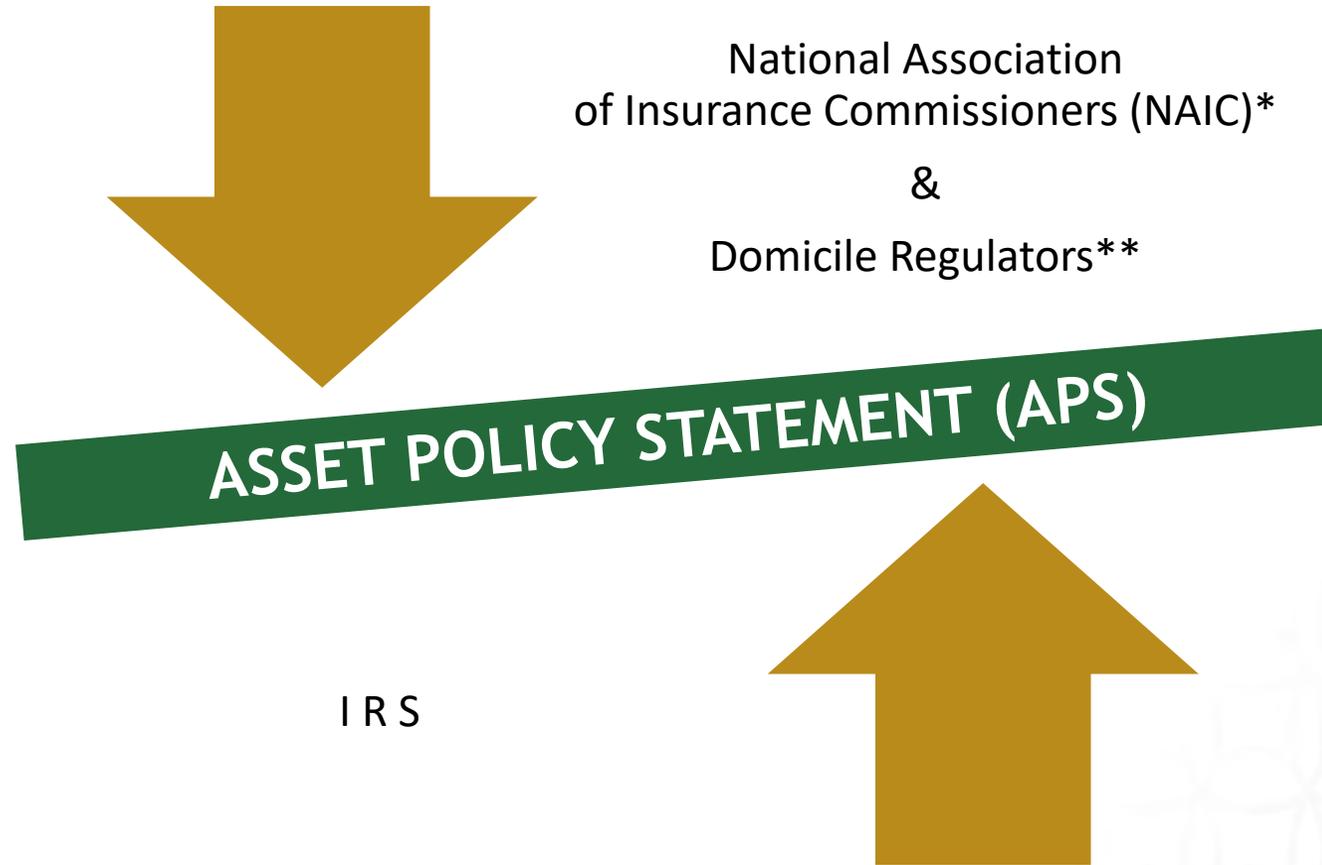
- All commercial insurance companies exist to earn a profit.
- All commercial insurance companies dedicate extensive focus to asset management.

CORRELARY:

- Middle market captives exist to earn a profit.
- Deploying assets is an important part of operating a captive.



How Should Profits / Assets Be Deployed?



*NAIC Investments of Insurers Model Acts provide general guidelines.

**U.S. Tax Courts have repeatedly deferred to Domicile Regulators in cases decided in recent years.



How Should Assets Be Managed?

THE GUIDELINES EMPHASIZE:

- **Liquidity** – Accessible to Pay Claims that are Uncertain in Timing and Amount
- **Volatility** – Managing Downside Risk and Variability of Returns to Protect Claims Paying Ability of the Company and Prevent Large Losses
- **Yield** – Improving Company's Financial Strength by Earning a Reasonable Return
- **Tax Efficiency** – Minimizing the Adverse Impact of Taxation

An APS Should
Do The Same

Agenda – Part 2

- Captive Insurance Essentials
- Ancillary Benefits of Captive Ownership
- Clients that Might Benefit from Captive Ownership
- Case Studies
- Q&A



Captive Insurance Essentials



Legitimate Business Purpose

- All Captives must be formed for legitimate business purposes to avoid being considered a “Sham” by the IRS.
- Taxpayers are “free to arrange [their] financial affairs to minimize [their] tax liability”, according to US Tax Courts (*Estate of Stranahan v. C.I.R.*).
- The establishment of a tax deduction, in and of itself, is not a legitimate business purpose for the formation of a Captive.
- Premium payments to Captives deemed to be “Shams” do not constitute bona fide business expenses, and will be disallowed by the IRS.



Examples of Legitimate Business Purpose

1. Insuring risks presently insured via third-party arrangements
2. Insuring risks presently self-insured via after-tax reserves
3. Insuring risks presently uninsured or underinsured
4. Insuring risks with unavailable coverage through commercial markets
5. Reducing premium costs vs. third-party insurance costs
6. Access to reinsurance markets
7. Increasing loss control measures
8. Balancing coverage



Qualifying As Insurance

The Internal Revenue Code **does not** provide a specific definition for the term “Insurance”, however the following items have been identified as requirements of all insurance companies:

- **Real Insurance Risk** – Captives may only insure risks that have potentially measurable and economically feasible damages associated with them; typically determined by a third party Actuary.
- **Risk Shifting** – occurs when the risk of loss is transferred from the insured to the Captive, i.e. when the Captive issues policies to the insured.
- **Risk Distribution** – occurs when the Captive transfers a portion of the risk it underwrites to an unrelated party or an adequate number of related parties.

Qualifying As Insurance

Achieving Risk Distribution via IRS Safe Harbors

Related Party Risk Distribution (Rev. Ruling 2002-90)

- 12 related entities all purchasing insurance from the same Captive
 - Each insured - 5% minimum; 15% maximum of total risk insured
 - Cannot be a disregarded entity

Unrelated Party Risk Distribution (Rev. Ruling 2002-89)

- Minimum 50% of premiums received by a Captive from unrelated entities
 - Typically achieved through Risk Distribution Pools (“Pools”)
 - Transfers risk from each individual Captive to the Pool through a quota share reinsurance agreement, allocating risk on a pro rata basis
 - Access to Pools typically provided by Captive Managers or Attorneys

Domiciling A Captive

A myriad of Onshore and Offshore options are currently available.

- **Onshore Jurisdictions:** 30+ states have enacted legislation to allow for the formation of Captives. Most popular options include:
 - Vermont
 - Delaware
 - North Carolina
 - Hawaii
 - Utah
 - Montana
 - Tennessee
 - Kentucky
 - Nevada
- **Offshore Jurisdictions:** originally the preferred choice for most Captive owners; historically low capitalization requirements, relaxed regulatory environments & desirable locations (Caribbean). Most popular options include:
 - Bermuda
 - Cayman Islands
 - Barbados
 - St. Kitts
 - Anguilla
 - British Virgin Islands

Do Offshore Captives Provide Tax Benefits?

- Foreign Captives may elect to be taxed as US Corporations under I.R.C. §953(d).
- Foreign Captives electing to be taxed as US Corporations may also elect to be taxed as “Small” Insurance Companies under §831(b).
- Foreign Captives electing §953(d) status eliminate reporting requirements under Controlled Foreign Corporation guidelines, are not taxed on their accumulated earnings, and do not pay foreign excise taxes.
- Election to be taxed as US Corporations under §953(d) are made on or before the 1st tax return is due, and continue on indefinitely unless revoked by IRS, or terminated by the Captive.

Steps For Proper Captive Formation

1. Determine legitimate business purpose (or purposes) for forming a Captive Insurance Company.
2. Hire a Captive Management Company who will provide access to Actuaries, Attorneys, Risk Distribution Pools and Tax Professionals.
3. Engage a Captive Attorney to help determine the appropriate jurisdiction, type and ownership structure of the Captive being contemplated.
4. Feasibility Study to be performed by an independent Actuary to determine the types of coverage and premiums to be charged.
5. Make a decision whether to proceed based on the Feasibility Study.

Steps For Proper Captive Formation

6. Have the Captive Attorney form the Captive in the jurisdiction chosen, and obtain the proper Insurance License.
7. Capitalize the Captive as required by the jurisdiction.
8. Utilize the Actuary to develop, underwrite and issue the policies; pay the requisite premiums to the Captive.
9. Arrange for risk distribution requirements to be met through the Pool (or related entities).
10. Consider options for the investment of any Captive profits.

Captive Insurance Timeline

- **1956:** First Captive formed by Youngstown Steel in Ohio
- **1977:** “Economic Family Doctrine” created by IRS to limit Captive benefits
- **1986:** Tax Reform Act of 1986 passed, encouraging the formation of “Small” insurance companies under U.S.C. Section 831(b)
- **1989:** Brother-Sister captive structure allowed via ruling of Sixth Circuit court (*Humana, Inc. v. Commissioner*)
- **1992:** Parent-Subsidiary structure allowed via ruling of Ninth Circuit court (*Harper Group v. Commissioner*) – established 30% minimum for unrelated third party insurance insured by a captive (risk distribution)
- **2001:** IRS Revenue Ruling 2001-31 eliminates “Economic Family Doctrine”
- **2002:** IRS Revenue Ruling 2002-89 establishes “Safe Harbor” standard of 50% unrelated third party insurance insured by a captive (risk distribution)
- **2002:** IRS Revenue Ruling 2002-90 expands risk distribution “Safe Harbor” to include 12 subsidiaries or related entities

Captive Insurance Timeline

- **2015:** PATH Act increases 831(b) limit to \$2.2 million and indexes it to inflation in future years while placing some limits on estate transfer
- **2016:** IRS issues Notice 2016-66 requiring virtually all CICs making an 831(b) election to fill out form 8886 and submit additional paperwork as a “Transaction of Interest.”
- **2017:** Partial risk distribution and “exorbitant” policy pricing not insurance in the ordinary accepted sense (*Avrahami, Inc. v. Commissioner*)
- **2018:** Layered risk distribution without actuarial justification not insurance in the ordinary accepted sense (*Reserve Mechanical, Inc. v. Commissioner*)
- **2021:** U.S. Supreme Court rules CIC Services lawsuit against Notice 2016-66 is not barred by the Anti-Injunction Act (AIA) in a 9-0 ruling (*CIC Services, LLC v. I.R.S.*); Notice 2016-66 is vacated by a U.S. District Court.
- **2025:** IRS issues new rules for captives making the 831(b) election; Ryan, LLC files suit within 24 hours.

Latest Rules From The IRS

- January 10, 2025: IRS issues new rules for captives making the 831(b) election:
 - Loss rate lower than 60% - Transaction of Interest
 - Loan / Financing Transaction to Owners and Loss rate lower than 30% in 10 year period – Listed Transaction
- January 10, 2025: Ryan, LLC files suit against new rules.
- [Tax Consulting Firm Challenges Microcaptive Insurance Rule | Tax Notes](#)
- Other lawsuits expected



Ancillary Benefits Of Captives



Captive Ownership Options

- **Business Owner**
- **Family Member(s) of Business Owner**
- **Key Employees of the Business**
- **ESOP**

Ancillary Benefits Of Captive Ownership

- **Captive Profits:** If claims paid are less than premiums received
 - Business Owners capture insurance profits instead of the 3rd party providers
 - As with any business, excess profits of the CIC can be used in numerous ways. For example, they can be:
 - Reinvested to grow the business
 - Distributed to the CIC's owners as dividends, often at a favorable tax rate.
 - A key component of establishing a CIC is developing appropriate investment and exit strategies that maximize the economic benefits of the CIC arrangement.

Ancillary Benefits Of Captive Ownership

- **Stronger Business Model:** Businesses who utilize Captives to plan for unforeseen risks stand a better chance of surviving, and passing to the next generation.
- **Asset Protection:** Assets of a properly organized and managed Captive enjoy a very high degree of protection from both the business's and the business owner's creditors.
- **Wealth Accumulation:** Captive profits accumulate over time to significant sums which can be utilized for retirement, or other life cycle needs.

Ancillary Benefits Of Captive Ownership

- **Alternative to Non-Qualified Deferred Comp. Plans:** Key employees can be made co-owners of the Captive, allowing them access to some of the benefits of Captive ownership.
- **Extracting Earnings from a C Corporation:** Captive premiums do not have to be paid from current year profits; instead, existing profits being held in a C corporation can be accessed.
- **Facilitating Buyout or Buy-Sell Agreements:** Selling party can own the Captive and provide insurance coverage to the business owned by the purchaser.

Ancillary Benefits Of Captive Ownership

Asset Protection / Creditor Protection

CIC's can provide numerous layers of protection from **future** creditors:

- First, future creditors of the business or its owners will have a very hard time establishing a cause of action against a legitimate CIC as the CIC does not engage in activities that will likely expose it to lawsuits.
- Second, under the laws of some jurisdictions, assets of insurance companies enjoy varying degrees of statutory protection, the general idea being that these assets should be preserved for the benefit of policyholder claimants.
- Third, if your CIC is incorporated in certain international jurisdictions, the laws of the international jurisdiction may make it extremely difficult, if not practically impossible, for any non-policyholder future creditor, especially one in the US, to get to the assets of the company.
- Fourth, the CIC can invest its assets in such a way that, even if a creditor were successful in obtaining a judgment against the CIC, it still could not obtain much of value by doing so (limited to Charging Order).



Accessing Profits In A Captive

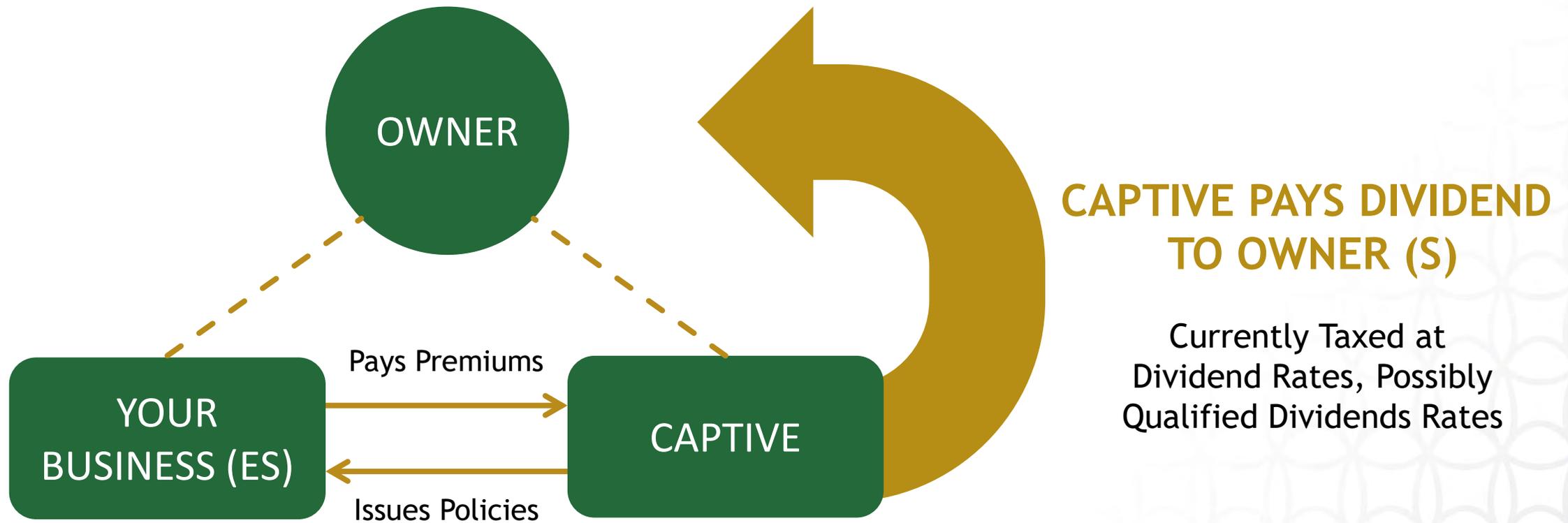


ACCESSING PROFITS IN A CAPTIVE

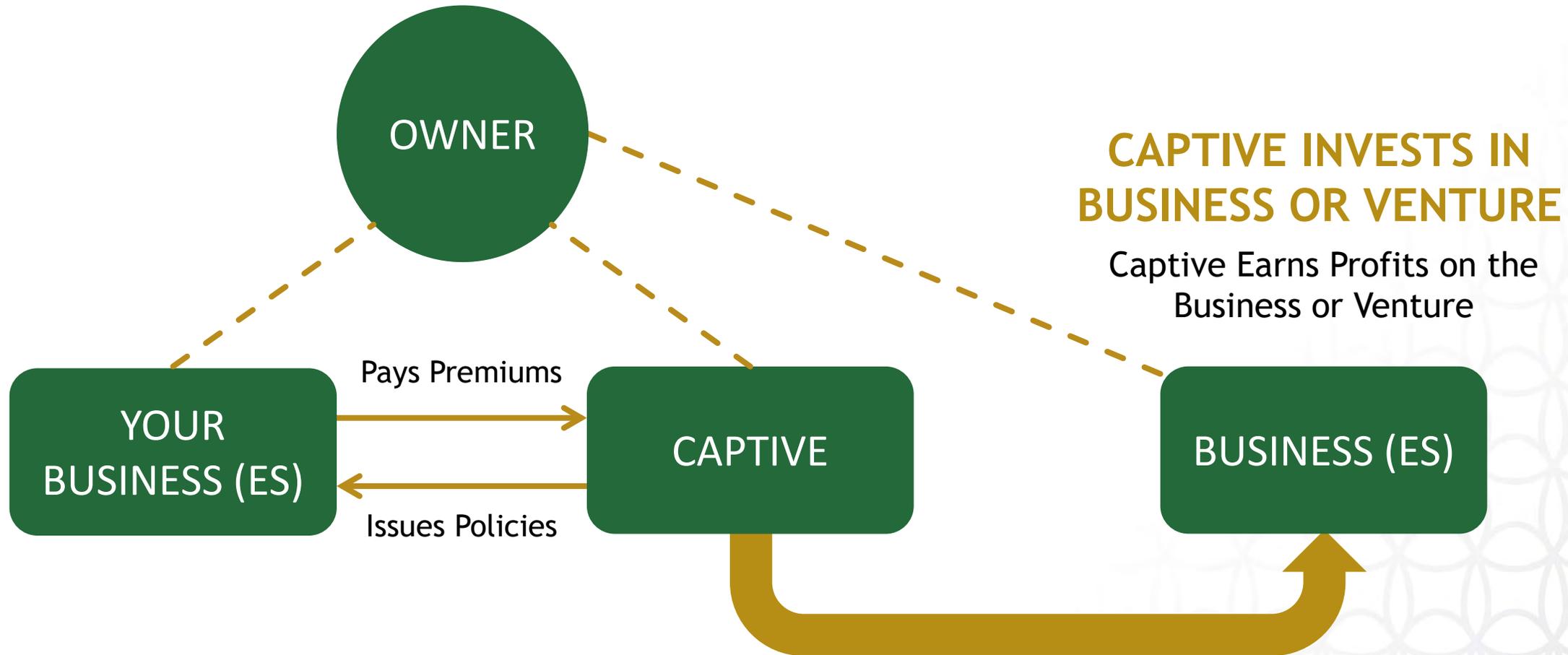
During Its Existence



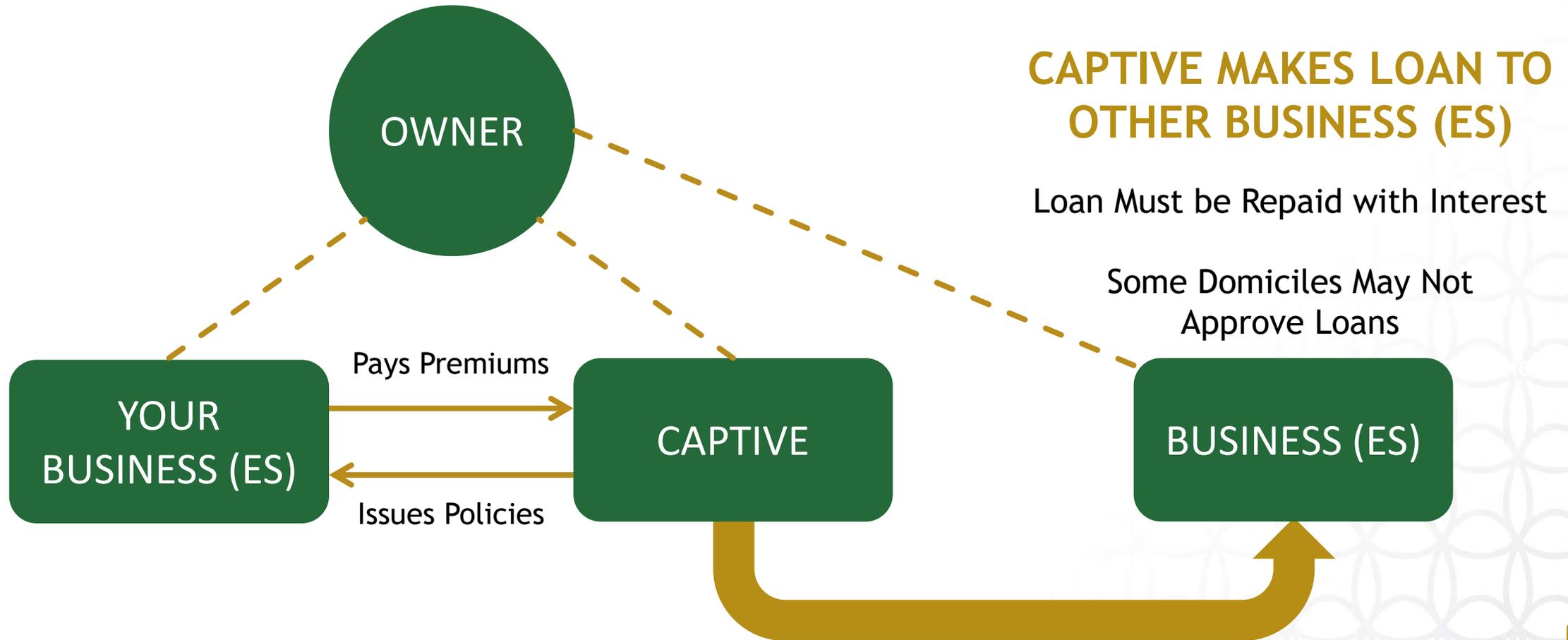
Accessing Profits – Dividend



Accessing Profits – Investment Partner



Accessing Profits – Loan

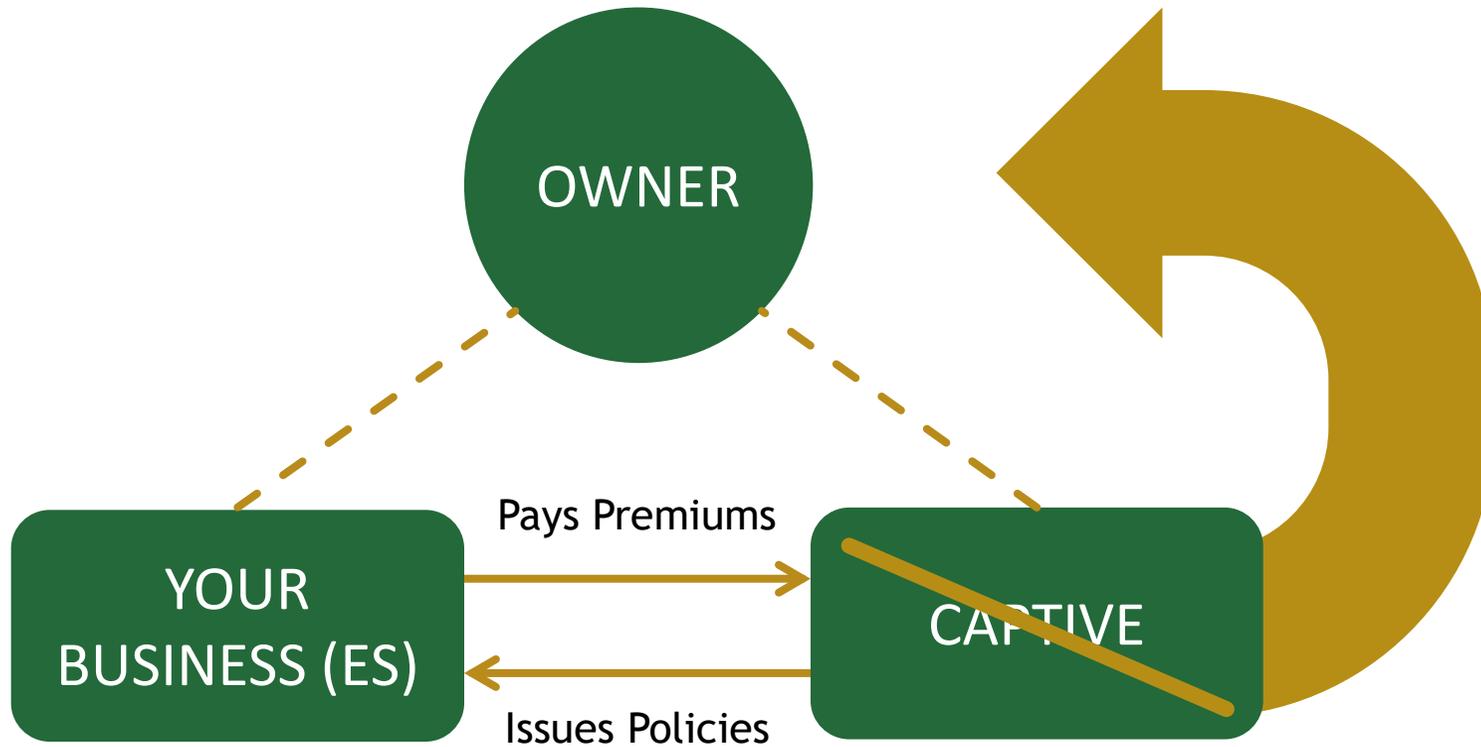


ACCESSING PROFITS IN A CAPTIVE

Upon Exit



Accessing Profits – Liquidate Captive



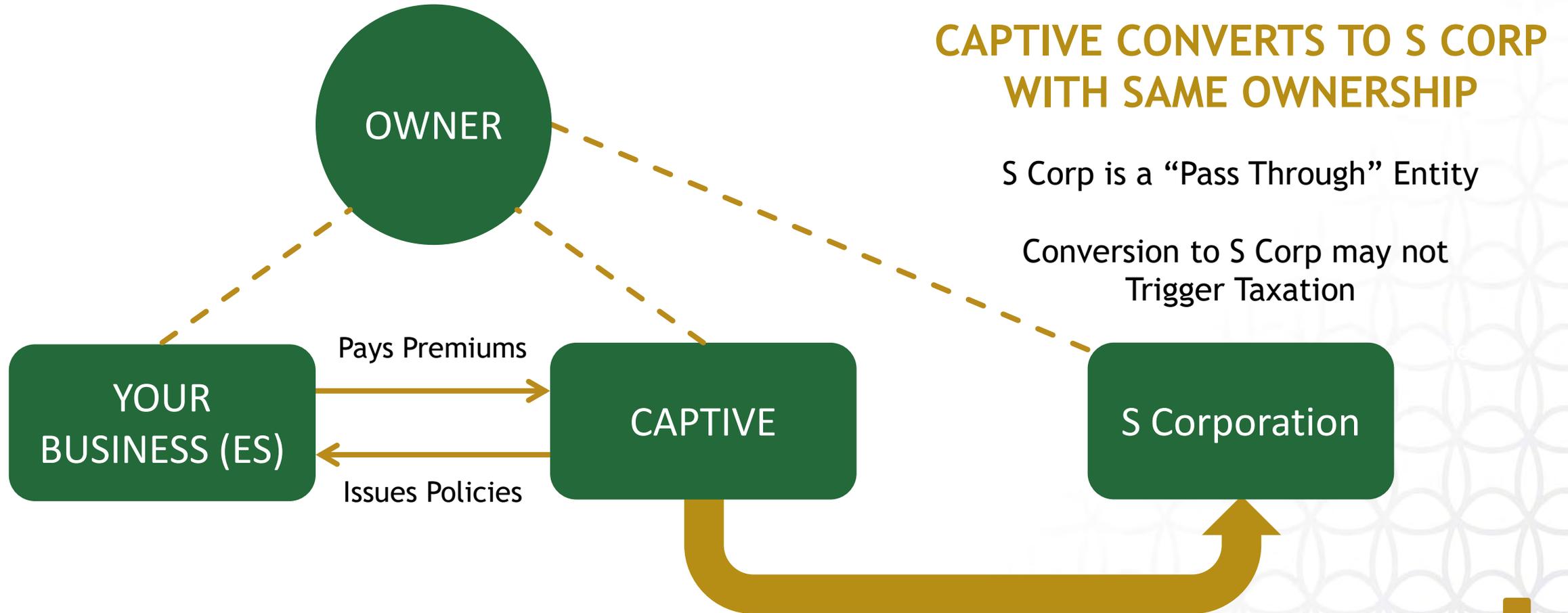
OWNER LIQUIDATES CAPTIVE

**OWNER PAYS CAPITAL GAINS
AND RECEIVES ALL FUNDS**

May be Taxed at Long Term
Capital Gain Rates



Accessing Profits – Convert Captive to S Corp



IMPORTANT: Participation Validation

Record / write down the 10th key word.

The 10th key word is “Exit”

At the end of the training, you will be required to e-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.





Clients That Might Benefit From Owning A Captive



Potential CIC Owners

Business Characteristics:

- ☑ Family or Closely Held Company
- ☑ Uninsured or Underinsured Risks
- ☑ Profitable, Gross Revenues over \$5 million

Business Owner Characteristics:

- ☑ Desire to increase Risk Management practices
- ☑ Desire to pass Business/Wealth on to “Jr.” generation
- ☑ Ability to properly capitalize a new Captive
- ☑ Excess Profits from Business over \$250K





Captive Insurance Company Case Studies



Property Manager in Louisiana

- \$6 million rental income
- RE Value: \$50 million
- 8% Cap Rate
- \$750,000 P&C Premiums
- \$2.5 million net profit



Risk Management Focus with CIC

- P & C Deductible Reinsurance (increased deductible to \$200,000)
- Administrative Actions
- Cyber
- Contract / Lease Cancellation
- Excess Liability
- Kept flood insurance in place with FEMA

Property Manager in Louisiana

- CIC Ownership: 2 Years
- \$500,000 annual premiums
- \$350,000 reduction in P&C premiums

Lifetime Savings

P & C Premiums	\$680,000
Taxes	\$500,000



LARGEST CLAIM

\$20,000

Apartment Fire

Electronics Distributor in US

- \$900 million revenue
- 300 locations
- Over 300 leases
- Operation in 35 states
- Complex performance based contracts



Risk Management Focus with CIC

- Loss of Key Account
- Contract Cancellation
- Employment Practices
- Administrative Actions

Electronics Distributor in US

- CIC Ownership: 8 Years
- \$1,200,000 annual premiums

Lifetime Savings

Taxes \$4,800,000



LARGEST CLAIM

\$70,000

Legal Costs in Administrative
Action

Pipe Manufacturer in Ohio

- \$40 million revenue
- Complex manufacturing
- Supply key accounts across Midwest



Risk Management Focus with CIC

- Loss of Key Account
- Excess General Liability
- Product Liability
- Catastrophic Loss
- Employment Practices
- Administrative Actions

Pipe Manufacturer in Ohio

- CIC Ownership: 1 Year
- \$1,000,000 annual premiums

Lifetime Savings

Taxes \$500,000



LARGEST CLAIM

None

Construction Company in Kentucky

- \$70 million revenue
- Commercial construction including contracts with states and municipalities



Risk Management Focus with CIC

- Sub-Contractor Default
- Catastrophic Loss
- Commercial Crime
- Receivables
- Administrative Actions
- Reputational Risk

Construction Company in Kentucky

- CIC Ownership: 3 Years
- \$800,000 annual premiums

Lifetime Savings

Taxes \$1,200,000



LARGEST CLAIM

\$75,000

Sub-Contractor Default

Orthopedic Group in Tennessee

- \$30 million revenue
- Malpractice insurance costs high at \$1 million annually
- Low claims rate



Risk Management Focus with CIC

- Medical Malpractice
- Cyber
- Administrative Actions
- Accounts Receivable

Orthopedic Group in Tennessee

- CIC Ownership: 6 Years
- \$1,000,000 annual premiums

Lifetime Savings

Med-Mal Premiums	\$5,000,000
Taxes	\$2,500,000



LARGEST CLAIM

\$1,000,000

Operation on Wrong Knee

Home Healthcare Service in New York

- \$50 million revenue
- Provide nurses and healthcare workers for in-home care for disabled and elderly



Risk Management Focus with CIC

- Professional Liability
- Cyber
- Administrative Actions
- Accounts Receivable

Home Healthcare Service in New York

- CIC Ownership: 4 Years
- \$900,000 annual premiums

Lifetime Savings

Taxes \$1,800,000



LARGEST CLAIM

None

P & C Insurance Agency in South Carolina

- \$30 million revenue
- Provide wide range of insurance services for both individuals and businesses



Risk Management Focus with CIC

- Loss of Key Account
- Cyber
- Administrative Actions
- Disability

P & C Insurance Agency in South Carolina

- CIC Ownership: 5 Years
- \$500,000 annual premiums

Lifetime Savings

Taxes \$1,000,000



LARGEST CLAIM

\$500,000

Loss of a Key Account

Pain Management Clinic in Georgia

- \$15 million revenue
- Treat patients with chronic pain in rural area



Risk Management Focus with CIC

- Reputational Risk
- Employment Actions
- Cyber
- Administrative Actions
- Disability

Pain Management Clinic in Georgia

- CIC Ownership: 6 Years
- \$800,000 annual premiums

Lifetime Savings

Taxes \$2,200,000



LARGEST CLAIM

\$400,000

Reputational Damages
Caused by an Unscrupulous
Employee

Software Developer in North Carolina

- \$20 million revenue
- Develop innovative software solutions for Fortune 1,000 clients



Risk Management Focus with CIC

- Loss of Key Account
- Product Liability
- Patent Infringement
- Employment Actions
- Cyber
- Commercial Crime

Software Developer in North Carolina

- CIC Ownership: 2 Years
- \$850,000 annual premiums

Lifetime Savings

Taxes \$660,000



LARGEST CLAIM

\$375,000

Loss of a Key Account

IMPORTANT: Participation Validation

E-mail your participant information (name, company, address, e-mail and phone number) along with all recorded key words (in order) to randy@cicservicesllc.com within 15 minutes of course completion.

Should you not have access to e-mail, key words can be texted to 865-599-6104.



The End

Questions?

Contact a CIC Services Representative Directly:

www.cicservicesllc.com

865-248-3044



CIC SERVICES
Turning Risk Into Wealth

Disclosures

- CIC Services, LLC hereby expressly authorizes each person to whom these materials are given by CIC Services, LLC or its affiliates or authorized agents (and each employee, representative or other agent of such person) to disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transaction described herein, or effected hereby, and all materials of any kind (including all opinions or other tax analyses) that are provided to such person related to such tax treatment and tax structure. In the case of a document which is a contract or agreement, the persons authorized to make such disclosure include all parties thereto.
- Neither CIC Services, LLC nor any person who provided this material to you render legal, insurance regulatory or tax advice. Your advisors should be consulted for their interpretations of legal, insurance regulatory or tax considerations. Any projections provided reflect current conditions and will likely change in the future. Any illustrations provided are an illustration of values and benefits only and is not to be construed as a contract. To the extent that insurance products are illustrated, this proposal is invalid without the illustration of contract values and the accompanying supplemental footnote pages. To the extent that investment products are illustrated a current prospectus must accompany this proposal.
- All information, numbers and calculations in the following slides are for conceptual and illustrative purposes only and are not intended to reflect the potential results for any particular client and should not be used for this purpose.

Disclosures

- No transaction should ever be completed simply or even primarily to achieve tax savings. The IRS may deny deductions for transactions that are motivated primarily by tax considerations and may conclude that a CIC formed primarily for tax purposes is illegitimate. CIC's should only be implemented by those business owners who are primarily motivated by risk management and asset protection concerns, and the non-tax reasons for the CIC should be sufficiently documented.
- In 2016 via IRS Notice 2016-66 the IRS designated certain types of captive insurance transactions as “transactions of interest” necessitating the affirmative disclosure to the IRS by taxpayers of certain information regarding such transactions. Consult your independent tax advisor to determine the applicability and significance of Notice 2016-66 to any captive insurance transaction in which you have engaged or may ultimately engage.