

## Building Value With Your Captive

### Options for Investing Captive Assets

A captive insurer makes profit in two ways: (1) through underwriting activities (premiums minus claims) and (2) investment activities.



A captive insurer must comply with the investment requirements prescribed by the insurance regulator of the licensing domicile. Typically, the regulator restricts investments that impair the solvency or liquidity of the insurer.

There are wide differences in allowable assets, required minimum capitalization, reserve calculations and investment and dividend restrictions among domiciles.

#### Traditional Investments of a Captive.

Regarding investment of the insurer's assets, many of our clients choose to leave the monies within the captive and earn a return on, for example, U.S. Treasury investments, agency bonds, high quality corporate bonds or other forms of debt instruments. Some jurisdictions also allow an investment in a diversified pool of publicly traded equities. Often this basket is limited. Other "approved investments" may also include certain types of life insurance.

#### Corporate Loans.

Large property and casualty insurance companies, such as Hartford, AIG, Chubb, CNA, or Travelers, have long included corporate loans as part of their diverse investing activities. Depending upon the regulations governing the captive and the nature of the insurer's other investments, a captive insurance company may have the option to make corporate loans. Solvency regulations, in all cases, differ from jurisdiction to jurisdiction and the admissibility of corporate lending differs accordingly.

Loans should be made on an arm's length, secured basis and under commercially reasonable terms with appropriate loan documentation. Over time, successful captives can become an important source of liquidity for our clients' operating business.

#### Professional Management Is Critical.

Because the captive's operational issues are critical to the planning's success, our clients have Capstone, together with our affiliated law firm, The Feldman Law Firm LLP, administer the insurer on a turnkey basis, all of course under the direction of the owner-officers of the captive. The client separately manages the cash and other investments of the captive, usually through their preferred bank or investment house, which also acts as funds' custodian.

Capstone's responsibility in regards to investments is to provide ongoing guidance on the regulatory acceptability of the various categories of investments and the various limitations for stocks, bonds, equities, life insurance and corporate lending.

In all instances, the captive should not be looked upon as an extension of your personal checkbook. Rather, it is an operating insurance company whose premium revenue significantly comes from companies that you own. As with all insurance companies, investments of premium revenue are an extension of the captive's insurance operations.

Very truly yours,

Stewart A. Feldman, CEO  
Capstone Associated Services, Ltd.

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## Captive Insurance In The News

There has been an increase in articles on alternative risk/captive planning as the concept has become more widely known. Articles have been published by The Wall Street Journal, American Bar Association, The Houston Business Journal, and The CPA Journal. We have previously passed these articles along to you.

FINANCIAL  
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DAILY

News and views for  
the independent advisor

In "Captivating Captives," from the November 2009 issue of Financial Planning magazine, (published since 1970 for independent financial planners), the benefits of alternative risk planning were outlined. Here are a few excerpts (click here for full article):

"Forming captives may be one of the best risk management and wealth planning tools available to business owners."

"Captives are one of the best--if not the very best--asset protection tools available to business owners."

"But for the right owners, establishing a captive can be one of the best financial decisions they make."

"But for the right owners, establishing a captive can be one of the best financial decisions they make. For instance, a business owner paying \$1 million in premiums to a captive will receive a business deduction for the insurance payment, but the captive won't pay tax on the payment, nor will the shareholders of the business or the captive pick up additional current taxable income. This may result in a \$400,00 or greater income tax savings each year of premium payments."



**CAPSTONE ASSOCIATED**

**CAPTIVE INSURANCE PLANNING  
FOR THE MIDDLE MARKET**

Capstone is the largest and most integrated outsourced provider of captive insurance services for the middle market. We provide turnkey services for owners of captive insurance companies, enabling our closely-held clients to participate in alternative risk planning.

Our turnkey services include all aspects of designing, forming, and administering captive insurers, through to their wind down and liquidation. Capstone enables its clients to focus on their underlying businesses, while engaging us to lead an outsourced team to manage the regulatory, financial and tax aspects of alternative risk planning.

Today, captives are the premier risk management and risk-financing tool for middle market companies. To learn more about captive insurance and protecting your business, please contact Capstone at **713.850.0550**.