



## **Alternative Risk Management**

### **Captive Insurance for the Real Estate Industry**

Active Captive Management provides independent advice and consulting services to clients interested in utilizing captive insurance programs and alternative market programs. We assist clients in all phases of strategy assessment, development, implementation and ongoing management.

We often operate in a supporting role to your clients existing risk management department or firm in the design, implementation and ongoing management of insured and self-insured programs. Working closely with the client, broker, insurance companies, reinsurance companies to identify appropriate fronting and reinsurance, where needed.

### **Captive Insurance**

An alternative risk solution that has been used for decades by Fortune 500 companies has now been approved by the IRS, who announced certain safe harbor designs for smaller and medium size companies. By the use of a captive that your client and client's family members own, their companies can deduct premiums paid to their own insurance company and thereby reduce the taxable income of their companies.

Having their own captive allows you to help them defend against real risks for which they are not now buying insurance. A captive can cover most liability and property exposures. A home builder who buys a wrap policy with a \$1,000,000 self insured retention can insure that SIR in its own captive and include insurance against environmental pollution, mold remediation and other such "emerging issue" risks for which it has had no coverage. Instead of allowing luck to dictate the consequences of unfortunate events that become "self insured" they can now fund ahead for them and profit by doing so from the generous tax benefits that insurance companies enjoy.

More exciting news is that several States have enacted captive laws that are as good as or better than those of the offshore domiciles. Active Captive can provide their business interests with domicile options that meet their comfort level.

Owning a captive insurance company does not require them to give up buying the commercial insurance they presently enjoy. Rather, it provides the means to manage the cost of that insurance, while extending its range and breadth with coverage tailored to their particular needs. Captive formation allows your client to cover risks that are not presently covered by commercial insurance.

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A Captive Insurer serves developers, builders, and larger contractors especially well as a vehicle for dealing more efficiently with General Liability claims such as warranty issues and such Product Liability claims as mold remediation, design errors, inappropriate or defective materials, construction errors or defects, and geophysical problems such as earth slippage, and subsidence. Should your client desire to cover a large deductible in an earthquake or flood insurance policy, they can do that by setting aside premiums year by year.

**Active Captive's experience has been that a Captive Insurer may suit a company if:**

- They are convinced that their track record, their loss experience, their safety programs and/or their management style are better than those of their competitors, whose track records influence their insurance premiums.
- Prices are too high or the insurance you need is unavailable in the commercial insurance markets
- Their operations are diversified
- They are currently assuming large deductibles or self-insured retentions
- They feel the market is not recognizing their loss control efforts, as well as the large deductibles and self insured retentions they have assumed.
- They recognize that they may benefit from tax advantages created by transferring risk from commercial insurers into their own captives.
- They see that Captive insurers create commercial, economic and tax advantages by:
  - Reducing costs;
  - Simplifying insurance risk management;
  - Covering risks that are uninsurable elsewhere;
  - Providing direct access to reinsurers;
  - Enabling flexible cash flows.

**If you and your client decide to form a Captive:**

- In a **soft** market, their captive can use low commercial insurance rates to reinsure a large portion of their risks. Providing the opportunity to build reserves.
- In a **hard** market, their captive retains more risks, and they can profit from premium savings.
- Their captive insurer can cut through the tedious expense and frustrating red tape of claims handling as practiced by commercial insurers.
- They can bypass commercial insurers' profit margin and overhead expenses. (Their responsibility is to their own shareholders)
- They keep the profit that results from better than average loss records.
- **They can enjoy tremendous tax advantages**

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