



## *Formal* or Informal?

When does dressing up, suit and tie, polished shoes and a matching belt make a difference? The answer is, typically for the interviewee applying for one of the key jobs in your company, a wedding, or a funeral. For business owners, there is another opportunity to dress up....

Business owners insure many risks of their business. Those required by law are insured **formally** through a third party carrier for workman's comp, health insurance, errors and omissions, or auto coverage, and more. Additionally, business owners often **informally** insure many additional risks by setting aside assets "in case", or they purchase extra inventory "in case", or they truly self-insure by hoping, and praying an "event" won't occur. If it does, the owner will pay for that loss from the business. This insurance is a form of self-insurance, **informal** insurance where the risk falls on the business owner and his or her operating company to make up for a loss.

Recently, a vice-president of a company said, "The regulators have been warning me about this particular risk for 25 years." This company has been informally insuring this risk. Today, many of these risks are the highest priority for business, regulatory and administrative changes, as well as additional less frequent, yet high severity risks like data breach, reputational risk, fraud, accounts receivable and other exposures which may cause a loss of income. These risks are called business enterprise risks.

Any profitable business may **formally** insure these risks. These loss of income risks are insured through Captive Insurance. Captive Insurance companies or CIC's have been insuring these risks for nearly 100 years. As of January, 2018 the premiums allowed each year, for each Captive Insurance company may be up to \$2.3 million. This relatively unknown ability to **formally** insure

these risks allows business owners to no longer be at a disadvantage. CIC's are owned by the business owner, and as a consequence, the business owner reduces his or her risk of the operating company and retains the profits of their insurance company.



When a loss occurs, the owner makes a claim and is made whole from his insurance company, the same way he makes a claim to his third party carrier when his car is in an accident. If there is not a claim in that year, the business owner's insurance company retains the unclaimed assets of his or her insurance company.

Captive Insurance **formally** insures business risk. Over time, the insurance company itself, including the retained surplus, is re-insurance for the business owner.

Owners with Captive Insurance companies are no longer at a disadvantage. **Formally** insuring risk now becomes a significant advantage to that owner.

I would rather wear a good pair of gym shoes than a pair of oxfords any day. When it comes to insurance, I recommend formally insuring your risks EVERY day. By doing so you create.....

## Your Link to Security!

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