

Editorial

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So Talk To Me About Claims...

No matter if it's VCIA, CICA, or any other captive industry meeting – there never seem to be any presentations on how to organize, establish, or maintain a sound claims management program once a captive is established. So what's the matter...not enough sex appeal?

Taxes Are Sexy

Instead of talking about claims – we hear endless presentations about how to create effective structures to allow a tax deduction for premiums paid to a captive, or worse, we're treated to yet another treatise on how nifty it is to run employee benefit programs (read, "group life"only) through captives. Who cares? In the late 70's I heard Felix Klorman speak in Bermuda. I will never forget one line he spoke. "If you form a captive for tax reasons", he said, "you've formed it for the wrong reasons". As to employee benefits in captives – it works, maybe sometimes, for a few Fortune 1000 companies, but I want to have someone show me good working examples which incorporate more than just a group life insurance program, consistently, as part of a captive structure and can become a model easily transferable to the rest of the industry. Also, I want to see examples of when this was done to create a better employee benefit program structure...not to achieve potential premium deductibility...in other words, go back and read Felix's comment again.

It's All About Claims

A commercial insurer that doesn't pay claims and whose purpose is anything other than the payment of claims is not much of an insurer. The same holds true for captives. Yet, we seem, in our industry, incapable of speaking, except in hushed whispers, about the nasty business of adjusting a loss. Why is this? Is it because claims adjustment is just too down, deep, and dirty? Is it that certain law firms, big brokers, and other service providers are more prominent at industry meetings and can shell out more sponsorship money than TPA's can to sponsor that week's golf tournament?

The careful management, reserving, and adjustment of losses is at the heart of any captive effort and this subject should be regularly discussed and debated at captive industry meetings. How you handle some \$50,000 general liability claim – how counsel is chosen, when counsel is assigned, what your loss run looks like, how reinsurers are placed on notice of a potential loss – is the most important function of a captive. This function is far more important than talk about premium deductions for tax purposes or hearing, yet again, about the non-existent differences between domiciles.



What's the sense of having a website if you can't write your own editorial?

What the Captive Industry Can Do

We need to hear more in our industry about how a commercial property and casualty portfolio can be deconstructed carefully – and then, just as carefully reconstructed using a captive. Part of this process is all about the liberating and beneficial experience of learning how to adjust your own claims through the mechanism of a captive insurance company. It's all about how you go to RFP for a TPA. What claims payment procedures you put in place to avoid acting in bad faith. What you pay counsel, whether claims adjustment pricing is “cradle to grave” or not...and the list goes on and on. Good, meaningful, basic, dull stuff...but all of it vitally important to the captive industry.

This is all about encouraging more talk in our industry about the effective management of the day-to-day activities of a captive and less talk about issues that apply only to a handful of captives – or issues that never seem to be resolved to anyone's satisfaction and get discussed and re-discussed every year by the same people.

When the cycle gets soft – as it's getting now – and the train of captive formation slows down, it's not about access to reinsurance markets or the deductibility of premiums that keep people from putting their captives on the shelf. What keeps these captives operational and thriving is that their owners learn from, take advantage of, and save money in the process of adjusting their own claims – and once you get use to doing that, you never go back...despite market cycles.

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