

FINAL WORD

David Liptz, partner at HKG LLP



What are the biggest concerns you hear from captive owners regarding tax and auditing?

Auditing is such a foreign concept for most owners of smaller captives; usually it is a task left to their chief financial officers, as many captive owners are not concerned with the auditing process. I believe the industry needs more education around captive tax and auditing, to ensure that captive owners understand what it really means to own a captive, and moreover the ins and outs of running an insurance company.

One thing that I often hear captive owners saying is that they do not value the audit process as a valuable piece of management material, which I think comes down to a lot of business owners not viewing their accounting department as a revenue centre. The auditing process forces captive owners to scrutinise their bookkeeping, internal controls, risk management and underwriting processes. The process ultimately relies on a risk manager to really understand the ins and outs of how their captive is run.

Captive owners realise very soon after forming a captive that lousy bookkeeping and lack of understanding results in higher auditing fees as it takes an auditor a lot of time to clean up data that is not in order.

What is the impact of the Dodd-Frank Act to U.S. onshore domiciled captives?

We have not yet witnessed much of an impact

on the captive industry. When Dodd-Frank first came into law, there was discussion around whether it would impact captives or not. Since then many industry leaders and captive regulators have determined that it does not appear the intent was to affect captives. It is hard to say how it will play out going forward as it is a huge, complex piece

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of legislation. Personally I don't think it will affect captives; however everything can be interpreted differently.

Will the influx of new onshore domiciles in the U.S. pose any challenges to the captive industry?

I think part of the challenge is going to be that there are a finite number of insurance experts willing to go into governmental-type roles; as

more states pass captive legislation, it runs the risk of eroding the remaining talent level. On the other hand it is great that individual states are realising the benefits and the full potential of captive insurance.

The U.S. economy is built on small to medium sized businesses and entrepreneurs, so for them to be able to form a captive in their home state is, from both a risk management and tax perspective, extremely beneficial and really helps promote and grow the industry. New captive insurance business and domicile growth and expansion are positive changes for both the individual business owner and for the economy as a whole.

What do you see the next 12 months holding for the captive industry?

I think we are going to see a growth of captive insurance companies globally. As domiciles proliferate, and businesses are educated on the many benefits of captive insurance, more risk managers will form captives, not just as a risk management tool, but also as a way to better control their business's finances. In the current volatile economic environment, businesses are becoming more wary about not being able to fully control their finance and risk. As more information becomes available regarding captive insurance, there is going to be an increase of captive interest in the U.S. especially from the mid-market. 