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Micro Captives

Redefining Risk—Building Wealth

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What Is A Captive?

Your Risk, Your Rules

A captive is a licensed insurance company created to insure the risks of its parent organization. Unlike traditional insurers, captives offer greater control, transparency, and potential cost savings by turning a cost center into a profit opportunity.

Goal Of A Micro Captive

Tax-Efficient Risk Funding

- Micro-captives allow businesses to fund future risks using tax-deductible premiums.
- This reduces taxable income while building reserves for potential exposures.

Strategic Risk Control

- Businesses gain full control over claims, policy terms, and reserve allocations.
- Captives offer greater flexibility than traditional insurance carriers.

Retained Underwriting Profits

- Companies keep the profits that would typically go to commercial insurers.
- These retained funds enhance internal capital and financial efficiency.

Investment-Driven Growth

- Captive reserves can be invested to generate long-term returns.
- This transforms insurance from a pure expense into a strategic asset.

Who's Built for the Captive Advantage?

RISK	STABILITY	CONTROL	CULTURE
Traditional insurance may exclude key operational threats.	Captives require upfront capital and ongoing financial strength.	Captives offer direct oversight of claims, coverage, and reserves.	A strong safety culture reduces claims and enhances captive viability.
Premiums can be high and coverage limited or fragmented.	Predictable income supports long-term captive sustainability.	Policies are crafted to meet company-specific needs.	Captives reward disciplined risk management with retained profits.
Captives enable tailored policies aligned with specific exposures.	Strong balance sheets enable greater risk retention.	Owners participate in governance and underwriting decisions.	Cultural buy-in improves compliance with prevention protocols.
Self-insurance drives better risk awareness and prevention.	Profits can be redirected to internal growth, not insurers.	Full visibility into how premiums are priced and used.	Forward-thinking teams adapt more effectively to captive dynamics.

Ideal Candidates For A Captive

Businesses with unique risks, solid finances, a hands-on approach to insurance, and proactive risk management are ideal for micro captives.

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01 **Wealth Preservation**
Captives help retain profits and grow capital within the business, rather than paying premiums to third-party insurers.

02 **Cost Efficiency**
Lower overall insurance costs by eliminating insurer margins and taile coverage to actual risk.

03 **Market Independence**
Gain pricing stability and control, avoiding the volatility of commercial insurance markets.

04 **Estate Planning**
Captives can support wealth transfe and asset protection through integr with trusts or holding entities.

05 **Tax Advantages**
Eligible captives may benefit from tax deferral or exemption on premium income under §831(b).*

Control, Capital, and Confidence

**Tax benefits under IRC §831(b) depend on proper captive formation, compliance with IRS guidelines, and ongoing regulatory adherence. This is not tax advice—consult a qualified tax advisor.*

Benefits Of Micro Captives

Micro captives offer far more than alternative insurance—they serve as a strategic vehicle for financial growth, tax efficiency, and operational independence.

By housing risk within the business ecosystem, owners gain control over both costs and capital.

Captives also enable succession planning and wealth transfer through estate-aligned structures.

When designed and maintained correctly, they create an integrated framework for risk and financial optimization.

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Captive Structure

Shareholders
own, govern, and benefit from the captive.

Parent Company
funds the captive by paying premiums.

Paid Premiums

Trust

Trust

Holding Co.

Tax-efficient wealth transfer and estate planning benefits.

Shareholders
own, govern, and benefit from the captive.

Captive Company
is a licensed entity that holds and invests these premiums.

Investments

A captive structure channels premiums from a parent company to a licensed insurer, with ownership held by trusts or holding entities—enabling control, risk funding, and tax-efficient wealth transfer.

IRS Safe Harbor Rules

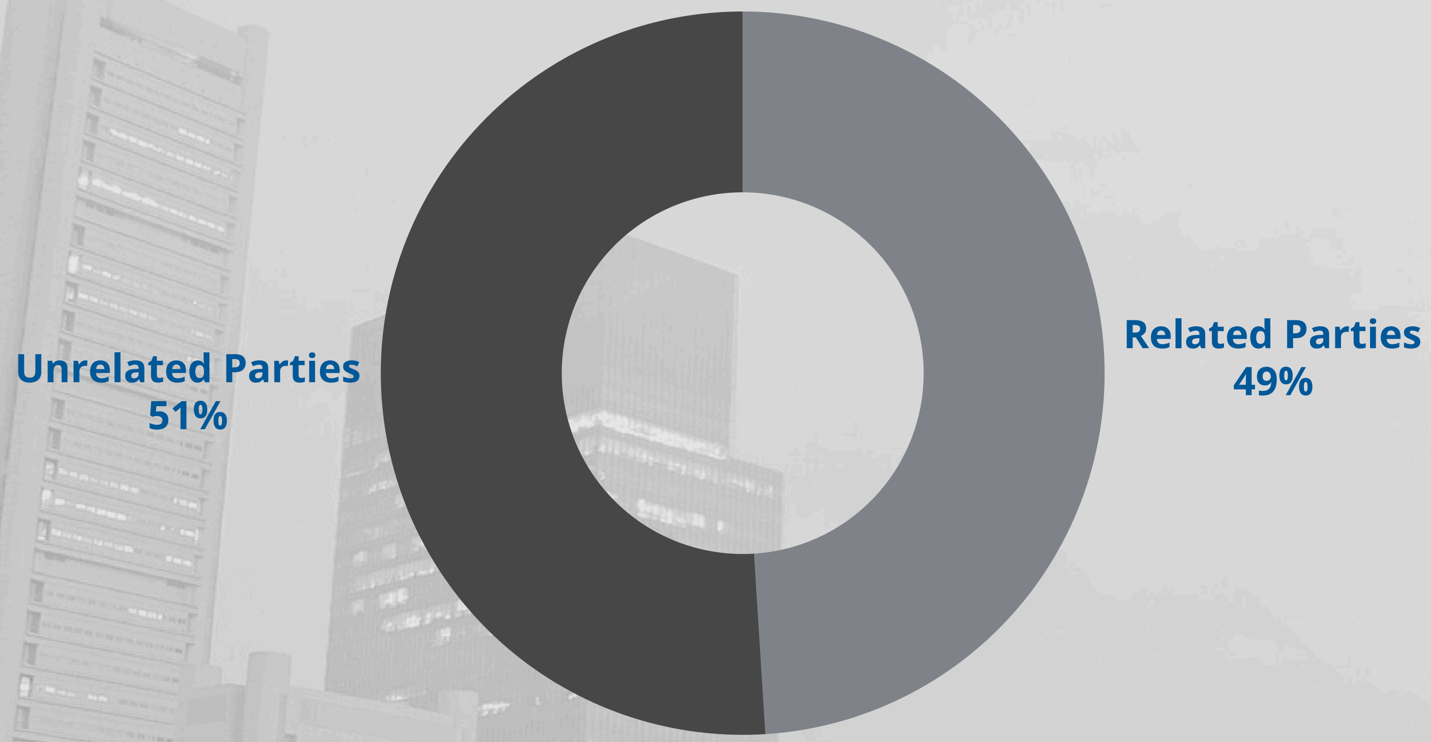
Compliance Matters

Revenue Ruling 2002-89

Requires at least 50% of the risk to come from unrelated third parties.

This ensures the captive is not just covering the parent company’s own risk, meeting the IRS definition of insurance.

51% – Unrelated third-party risk (per 2002-89)



Revenue Ruling 2002-90

Applies when risk is spread across 12 or more related sibling entities.

Each entity must contribute no less than 5% and no more than 15% of the total risk pool.

This ensures proper risk distribution among insureds.

49% – Related parties (distributed across 12 sibling entities, 5–15% each per 2002-90)

Captive-Eligible Risks

Conventional Risks

- Property
- Liability
- Auto
- Workers' Compensation

Hard-to-Insure Risks

- Cyber Liability
- Loss of Key Contracts
- Data Loss

Emerging & Strategic Risks

- Reputational Harm
- Business Interruption

Financial and Regulatory Considerations

CAPITALIZATION	**Solvency Focus** Be well-capitalized and have solvency-tested reserves.
COMPLIANCE	**Tax & Legal** File taxes and comply with IRS/state rules.
RESTRICTIONS	**Investment Limits** Avoid related-party loans or circular investments.
DOCUMENTATION	**Asset Quality** Maintain qualified asset classes and documentation.

Keeping It Clean, Compliant, and Capitalized

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Captive Roadmap

Feasibility

Assess viability and risk exposure before formation.

Formation

Handle entity setup, licensing, and structural design.

Modeling

Support premium planning with actuarial and financial forecasts.

Compliance

Ensure ongoing adherence to tax, legal, and regulatory standards.

End-to-End Captive Consulting

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Luc Lapointe
(480) 586-6075
luc@procedant.com

Thank You!