



The rarest door-opener in town

Colombik uses little-known, complex captive insurance to differentiate himself with business owners.

BY MATT PAIS

It will not surprise you that insurance companies — like all businesses, really — do not prefer to take on 100 percent of risk if there is an effective way to lessen their exposure.

It may surprise you, however, to learn that organizations can simultaneously lower their risk and increase their profits by owning their own insurance company through a process called captive insurance.

Wait. That sounds kind of confusing, and it can be. Ten years ago, when Jeremy Colombik began explaining the concept, the nine-year MDRT member from Raleigh, North Carolina, received plenty of glassy-eyed stares. Now, he has a time-tested PowerPoint presentation, a two-minute video on his website (themsicorp.com) and a concise elevator explanation ready to go:

“This is just an insurance company solution,” he said. “I’ve found a way for a business owner to get a lot of benefits from owning their own insurance company, and these are the five benefits.”

Learning his trade

Before we get to those benefits, some background: Colombik entered the financial services profession straight out of college and first got to work reaching out to business owners, who he found were hearing the same pitch over and over from countless advisors.

When his dad, a tax attorney who had learned about captive insurance several years before at a tax seminar, shared the information with his son, Colombik recognized he could open doors with business owners by discussing this relatively obscure concept rather than leading with talk of life insurance and other more common vehicles. That led to life insurance opportunities with business owners like one client who started working with him because of captive insurance solutions. Less than a year later, that client purchased a policy that provided \$600,000 in premiums.

“I never would have had that opportunity if I was not involved in captive insurance,” said Colombik, who started his own practice in 2007 and now has 15 people as part of the MSI team, with offices in Chicago, North Carolina and Puerto Rico. Working with celebrities, media moguls and multi-millionaires while partnering with CPAs, laws firms and

advisors who pass along their clients and earn a referral fee, the company's trademarked slogan is, "Risk management made profitable."

The basics

Some starting points for captive insurance:

n To a degree, you can think about it like mutual funds — an opportunity to diversify a portfolio, with the presence of more companies lowering the responsibility of each individual performance. There are many different types of captive insurance, but the goal is always the same in terms of risk and reward. Captive insurance is commonly used to protect against incidents such as the loss of key talent or cybersecurity issues that are hard to obtain or not available in the traditional marketplace.

n Not all states have passed a law allowing captives to be domiciled there; if you live in one that hasn't, you can still participate in a captive domiciled in one that has.

n Depending on the captive program, the benefits generally exceed the cost only if you are a business owner grossing \$1 million per year or more. It is not a short-term solution; the payoff usually has a three-year minimum.

n When you own a captive insurance company, half of your risk is in the risk pool with other unrelated entities, and the other half is reinsured in the insurance company that you own. In other words, only half of your money is subject to risk with the risk pool, and the other half is subject to risk if you file a claim.

The benefits

Those are the basics. So what are the five benefits that Colombik communicates to clients?

1. **Profit center.** When a business owner buys insurance from a commercial carrier, they pay a premium and the carrier keeps the profit. By contributing to your own insurance company, you still pay a premium but keep the profits.

2. **Reduce commercial insurance premiums.** With captive insurance, you can potentially increase your deductible with your commercial

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Example: Your client is an owner of a very successful business:

- Yearly Gross sales of 10MM
- Business Income of 1MM

Risk Insured with Commercial Insurance Policies:
Trade Credit, Directors and Officers Liability, Employee Dishonesty

Self-Insured Risks:
Employee Practices, Cyber Risk, Loss of Key Talent, and Business Interruption

Business Income 1MM	
Taxes	(420,000)
After Tax Income	580,000
Total Profit	580,000

Colombik offers creative insurance solutions to businesses.

carriers' policies, which would reduce the premiums you pay to the carrier and push that risk into a captive insurance company you own.

3. **Better management of risk.** Because you are part of a group of businesses, it is less likely that all of them will experience a high number of incidents than it is that one of them will. You also can use captive insurance to cover certain exclusions or gaps that might exist with more conventional policies (for example, a restaurant whose coverage doesn't include employees filing wrongful termination suits).

4. **Increased risk awareness.** Colombik gives the example of the many hurricanes that impacted U.S. cities in 2017. When those occurred, many business owners discovered they did not have certain coverages they thought they had. He works to educate clients, thoroughly going over policies and helping them understand what holes need to be filled, potentially with captive insurance. "Policies can be 50 pages," Colombik said. "In general, no one reads their policy details unless something happens and they're trying to file a claim."

5. **Tax benefits.** If sufficient risk is present, small captive insurance companies who have filed a U.S. Internal Revenue Code section 831(b) election can receive up to \$2.3 million of premium income per year and not pay federal income taxes on those dollars received.

"Clients are like, 'This is a win-win,'" Colombik says. "I've got better coverage and more money." **KT**

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