



The Importance of a Comprehensive Risk Management Analysis

In recent audits and IDR requests, the IRS is expanding interest in the risk management activities utilized by the client as part of the decision to proceed with a captive insurance arrangement. It now seems that the focus of examinations is on the nature of the taxpayer's decision to implement a captive insurance company from a risk management point of view. For example, several questions on a recent IDR include:

1. Describe and provide all documents related to taxpayer's risk management program during the period from the date taxpayer began to participate in the captive to the present;
2. Identify each employee, contractor and advisor who was involved in taxpayer's risk management program or activity during the period from date taxpayer began to participate in the captive to present;
3. Describe all steps taken by the taxpayer to determine whether to enter the captive insurance program, including but not limited to research, feasibility or other studies, cost-benefit analysis, cost comparisons, meetings, consultation and/or hiring of actuaries, brokers, and other specialists and experts, data gathering and loss projections;
4. Provide all documents reflecting or related to the steps taken by taxpayer to determine whether to enter the captive insurance program.

Below is an overview of Oxford's risk management philosophy and the process we stress for prospective and current clients:

At the heart of every captive insurance implementation should be risk management. Yet, for many clients, their senior management team may be unaware of the total cost of risk (TCOR) and the operating company should view management of risk as a process significantly more involved than merely purchasing traditional insurance policies.

The risk management process generally begins with the identification and quantification of all exposures, perils and hazards existing in the organization. A captive insurance company may provide coverage for insurance risks unavailable in the commercial marketplace, and thus the captive can be an integral part of the organization's total risk management strategy.



The decision to transfer or retain risk is a financial one. The risk manager must be knowledgeable about all aspects of the organization's operations, plus the business and regulatory environment within which they work. The risk manager and insurance broker play an important role in the identification of perils and causes of loss in the organization. If a captive insurance company is selected during the risk management process, as the preferred way of financing the risk, much of the information gathered in the risk identification process will be utilized in the preparation of the captive's feasibility study and business plan. Feasibility studies are prepared by independent actuarial consulting companies and are submitted to the department of insurance for each implementation.

Oxford Risk Management Group provides risk management services to all clients as part of our turn-key pricing platform. Complex client fact patterns may call for specialized risk management services. Should this be the case, Oxford's Best-In-Class advisor network brings World-Class risk management services to our clients on an optional basis. Our independent risk management partners rank among the preeminent risk management firms in the country, and offer their services to clients of Oxford Risk Management Group under our world class pricing platform at extremely compelling, discounted cost. They do not replace the role of the property and casualty broker or the commercial carriers; rather, they are a highly skilled, independent firm to work with senior management executives to evaluate the risk management operation and effect positive change.

It is not unusual for Oxford clients to elect to shift their risk management responsibilities to our World-Class services partners, enjoying the benefits of their own in-house risk management department on an outsourced basis. Our lead risk management services firm is an independent risk management services group working with Fortune 500 companies and small to mid-market enterprises with complex risk profiles. It has over 100 risk management professionals on staff and provides turn-key services for an entire risk management department or any part of it.

Oxford Risk Management Group captives are a proven complement to a total risk management strategy, offering many benefits to our clients seeking to reduce costs, protect themselves financially, take control over how the business is insured and experience a more predictable and consistent cash flow.