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Summary of IRS Review of Series Captive Member and Oxford's Structure

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The random audit was conducted by the Large Business & International (LBI) Division of the IRS. The audits in this division are conducted by senior IRS auditors, usually with more than 10 years of audit experience. The LBI Agent worked in collaboration with the Group Manager on the captive insurance review. The Group Manager had captive insurance experience and was instrumental in directing the questions for the Information Document Requests (IDRs).

The key questions submitted via the IDRs were:

- Explain the organizational structure of the captive insurance company.
- Who is the owner of the client Series?
- Is 2012 the first year the client acquired insurance from the insurance company? Prior to creation of the captive, what company provided the client similar coverage? Was the cost of the coverage similar?
- Why did the client decide to use a captive? Why was it a better alternative? Was a feasibility/actuarial study obtained?
- What type of coverage is provided under the policy?
- Provide a copy of the premium invoices and the insurance policy
- How were the risks insured by the captive insured in the past?
- If no policy existed for the risks in the past, why? Why is the client now interested in insuring against these risks?
- What due diligence did the client do to determine those risks should be insured and what might the insurance coverage cost in the marketplace?
- What information was provided to the captive insurer; i.e., was a history of losses provided?
- Who introduced the captive insurance solution to the client? What marketing materials were provided to the client to sell them on the idea of a captive insurance company?
- How are claims calculated and risk distributed? What claims were filed in the risk pool?

Oxford provided written responses to the above questions in addition to providing the following documents for review:

1. Series Agreement
2. Subscription Agreement
3. Application for Admission to Delaware
4. Certificate of Authority
5. 2012 Form 1120-PC



6. Insurance Policy
7. Reinsurance Agreement
8. Premium Invoice
9. Tax Opinion
10. Actuarial Feasibility Study
11. Business Plan
12. A reference to the Oxford Risk Management Website

The audit responses were coordinated through the client's CPA Firm, which is a large regional firm based in the Mid-Atlantic and Southeast. The CPA Firm confirmed with Oxford that the LBI Agent has accepted the captive insurance premium as a deduction pursuant to IRC Code Section 162 and closed the captive insurance review audit as a no-change.

The Oxford Risk Management Group team of professionals is dedicated to providing the highest caliber of service possible in the industry. We maintain detailed records of each and every document utilized in the formation and management of your captive insurance company. In the event you should ever need copies of anything to do with your captive, we have it all organized and up to date. Having confidence in the professional administration of their captive is one of the reasons our clients continue to renew their coverage year after year. This advantage allows our clients to easily deal with changes in professional advisory firms, regulatory audits and IRS audits should they occur.

Oxford Risk Management Group captives are a proven complement to risk management. They offer many benefits to our clients seeking to reduce costs, protect themselves financially, take control over how their businesses are insured, and experience a more predictable and consistent cash flow. We work with our actuarial partners to obtain and establish appropriate, independent pricing for the risks which have been identified. They will complete a study which will address overall cost, optimum retention levels, and capital and surplus requirements.

It is crucial that the insurance policies issued by, or reinsured by, your captive insurance company provide bona fide coverage at reasonable prices. The policies issued by your captive company must pass the smell test to be respected as insurance in the traditional sense. With that in mind, we engage industry-leading, respected and credentialed actuarial firms to develop realistic premium rates for the coverage you select. Our lead actuarial partners work with clients nationwide to support the establishment, implementation and management of successful risk management programs to fit their individual needs. They are credentialed and have many years of combined experience in providing actuarial services to individual companies, governmental entities and insurance Department regulators. They also provide analysis and advice to state insurance Department regulators, assist in market conduct examinations and provide expert witness testimony for litigation and arbitration cases.