



STRATEGIC RISK ALTERNATIVES

CUSTOM WARRANTY PROGRAM

In today's ever changing environment, it's important for any successful business to develop a competitive advantage in the marketplace and mitigate the risks that come along with day-to-day operations. Customers are looking for added benefits when choosing a product and, with the amount of competition in the marketplace, customer retention is becoming increasingly difficult. The Custom Warranty Program (CWP) was created with these things in mind.

The CWP is a warranty program modeled after those used in other industries and applied to any specific product a business offers. There are several warranty programs currently being utilized by businesses today, however, these programs tend to be costly and time consuming for a small to mid-sized business to implement effectively. Retailers such as Best Buy allow you to purchase an additional warranty that covers damage to an electronic device excluded by the manufacturer's warranty, such as accidental damage. In the auto industry dealerships offer extended drivetrain warranties and tire companies offer warranties for every new tire purchased. The CWP allows any size business that manufactures, distributes, or sells a tangible product to build a warranty program. Not only is it a strong marketing tool, but it also allows the business to generate an additional source of revenue.

Because of the simple application requirements and a transparent claims process, customers have an increased value of the services offered, leading to greater customer retention. This gives the business a strong competitive advantage within the marketplace. Implementing the CWP also highlights the business's inefficiencies, allowing the owners to understand what products have the highest warranty claims. By understanding the warranty claims, business owners can work to reduce the claim rate and improve efficiency within the warranty program. The CWP was developed to strengthen the

business as a whole while at the same time offering powerful tax incentives to business owners.

There are some business owners that currently offer their own form of the CWP, but they miss a key mechanism, owning and operating their own insurance company. That being the case, these owners are self-insuring the risk with after-tax dollars. Our firm is of the opinion that owning a small insurance company will soon be a normal business practice. By utilizing the 831(b) tax code, business owners can effectively create a tax-advantaged fund for payment of claims arising from the program. Fortune 500 companies have been utilizing the 831(b) section of the tax code for many years. Section 831(b) of the U.S. Tax Code provides a tax incentive for businesses to own a small insurance company. In order to file under 831(b) code, the premium is limited to the first \$2.3 Million ceded to the insurance company and is non-taxable with an adjusting inflation rider. Until recently, utilizing the 831(b) tax code was a costly endeavor, but with lower barriers to entry and competition driving costs down, small to middle market companies can now utilize this concept.

Businesses have to take an active role in their brand positioning and building a successful warranty program. Any company that offers a tangible product (furniture, auto parts, sporting goods, electronics, etc.) can utilize the CWP to grow not only their business but their customer relationships as well. By owning their own insurance company, businesses are able to create a custom warranty plan and take advantage of the tax incentives that Congress provides. Because there will now be a defined warranty that must be honored, a business's insurance company becomes increasingly important. We work with our clients' other trusted advisors to make sure the decision to own an insurance company is truly in their best interest. We encourage you to do your own due diligence and set an appointment with our firm or advisors for further explanation of the process and the risks involved with owning your own insurance company.