Breaking News – Artex Under IRS Investigation

As reported on Captive.com today, David McManus, President of Artex Risk Solutions, has confirmed that Artex is the Subject of an IRS investigation on 831(b) captives.

Industry discussion and advisor intelligence

While the IRS action was generally known by the captive community at large, this is the first time that an announcement has been made by Artex confirming it. Risk Distribution can be achieved in many ways and there is no single way to satisfy the risk distribution requirement. However, the Artex model at times utilizes a large deductible which must be met before the client faces any real financial obligation for claims by unrelated parties. Additionally, a larger problem may exist in the form of written correspondence from the captive firm assuring clients that their losses would never exceed a certain percentage (rumored to be not greater that 11%) of their paid premium. If these items are confirmed, they may have contributed to the IRS interest.

The Oxford risk distribution model provides direct risk exposure equal to 49% of claims filed, plus indirect quota-share risk exposure equal to 51% of losses from unrelated parties. Financial obligation for claims is effective on a first dollar basis, without the use of a deductible (floor) or a limit on exposure (ceiling).

We will provide additional information as it becomes available to us.

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