

Alternative Risk Transfer



Alternative Risk Transfer (ART) means using techniques other than traditional insurance and reinsurance to provide your business with coverage. Alternative risk transfer is typically available to companies with low risk profiles and a dedication to maintaining safe operations; in ART the insured party assumes a portion of its own risk in exchange for lower premiums or a reduction in net cost of insurance. In many cases, ART gives capital market investors a more direct role in providing protection. Characteristics unique to ART often include the following:

- Multi-year, multi-line coverage
- Coverage tailored to a special need of an insured
- Coverage not generally available in the marketplace
- The insured party retains some risk
- Loss-sensitive insurance plans, in which your premiums are based on your losses
- Risk-purchasing groups of individuals purchasing liability insurance
- Self-insured retention plans
- Protected cell captives, which allow you to rent a captive while ensuring complete separation of assets, capital and surplus between you and other participants.
- Self-insured groups and pools
- Captives, which are owned and controlled by their insured parties
- Group captives, which are owned and controlled by multiple insureds. Often firms of a similar size pool risks in an industry captive with customized insurance plans.
- Agency captives, which are typically structured like rent-a-captives
- Risk Retention Groups, which are insurance companies domiciled and regulated by a single state

What does ART Look Like?

Risk-financing vehicles used in ART can take on several different forms, with varying degrees of risk. As a strategic enterprise risk management process, ART can blend traditional insurance and reinsurance with forms of self-funding. Logically, the plans with the least risk, complexity and expense generally provide the least coverage. The more risk retained, the greater the benefits. Complexity and administrative expenses can grow as well. Common ART strategies include the following:

Benefits of ART

Alternative risk transfer has gained popularity in part

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because of the following benefits:

- Does not subsidize others whose premiums are inadequate to pay their claims
- Gains access to profits generated from current insurance premiums
- Has more control of who shares your risk
- Is not subject to market swings, and provides stability and predictability in premiums

The Right Fit

When you are making the decision to self-insure, it is important to address specific areas to ensure it is a viable proposition. Important considerations when weighing alternative risk transfer include the following:

- The portfolio should be sufficiently large to warrant costs.
- There should be predictable loss patterns and long-tail business.
- Pricing of specific and aggregate coverage should be feasible.
- Self-insured retention and maximum potential loss should not expose the company to unacceptable financial risk.
- The company should be committed to improving the loss and safety record through proper monitoring and action.

If you are considering alternative risk transfer to provide your business with coverage, first contact your Lambert Risk Management representative to discuss your options.