

Using Alternate Risk Transfer (ART) to Help Improve the Bottom Line



Introduction

The 2023 macroeconomic landscape, marked by industry losses, inflation and an insurance supply and demand imbalance, posed significant challenges to the property marketplace. However, by Q4, signs of stabilization emerged, specifically benefiting strong-performing, high-quality insureds. This phase saw increased capacity for profitable accounts, rate stability and the return of competition, yielding better outcomes for quality insureds. These factors created a unique opportunity for insureds to structure their insurance programs to be more cost-effective and customized, including the use of Alternate Risk Transfer (ART) arrangements.

ART is an alternative to traditional insurance solutions offering risk financing options outside the standard insurance market. Unlike conventional insurance, which relies on transferring risk to insurers in exchange for premiums, ART employs a variety of structures that can be tailored to meet the needs of each entity. ART is particularly attractive to companies that are searching for a way to manage their risks in a more customized and cost-effective way.

Key Features of Alternate Risk Transfer

In a market requiring adaptability, ART has recently emerged as a strategy to help manage risks that are either too large, specific or costly to insure. ART intends to allow companies to finance their exposures more effectively and better align their risk management goals and strategies.

ART is a multi-year property insurance program that leverages aggregated data to stabilize risk, thus defraying costs for the insured. ART products may be contracts, structures and solutions provided by insurers and reinsurers. These products can be deployed as self-insurance, through a captive or a risk retention group.

By utilizing a highly specialized insurance arrangement geared toward the specific needs and risks of an insured's property, ART can effectively help stabilize the insured's bottom line over a pre-determined time period.

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With an average to poor loss history during the term, insureds may benefit from the locked rate being below market (if limits have not been exhausted) for the most expensive portion of their program.



Benefits of ART

ART can strengthen a business's overall viability by providing financial stability and predictability over a period of three years. Additionally, ART solutions can help companies tailor their risk management strategies to their specific needs, potentially reducing or smoothing costs or offering coverage flexibility.

With a good loss history during the term, insureds can expect to receive a return premium, a lowered three-year cost and stable rates. With an average to poor loss history during the term, insureds may benefit from the locked rate being below market (if limits have not been exhausted) for the most expensive portion of their program.

Potential Drawbacks of ART

However, ART is not without potential drawbacks. With a good loss history during the term in a soft market cycle, insureds may find that the return premium does not effectively counterbalance the softening rates over the past three years. In some instances, ART could potentially damage relationships with key markets. The strategy can be deployed, and the insured may benefit from using its own captive instead of a third-party insurer. Lastly, changes in exposure clauses could limit the growth of the schedule in natural catastrophe areas.

With a poor loss history during the term, insureds may exhaust annual aggregate limits, requiring a mid-term limit purchase. Additional premium creates a potential downside of costs owed after the three-year term. There are also costs involved with various hedging methods (such as master program drop, sideways protection and balance sheet exposure).

Conclusion

ART is a broad range of risk transfer, risk financing and retention solutions that supplement conventional insurance methods and offer innovative ways to handle risk.

After the volatility that plagued businesses throughout 2023, the market appears to be trending positively thus far in 2024. With a focus on micro factors, insureds have seen more market capacity and rate reduction available. There is renewed competition to drive more favorable results for quality insureds, especially using strategies such as ART.

Contact us to learn how we can help your team develop a robust risk management strategy, including ART.



How Brown & Brown Can Help

Connect with our Brown & Brown team to learn about our knowledge in your industry, how we build our risk mitigation strategies and how we can aid your business in building a cost-saving program.



Find Your Solution at [BBrown.com](https://www.brownandbrown.com)

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