

Alternative Risk Transfer:

A more strategic approach to financing risk

For many organisations, transferring risk to an insurer remains an effective way to protect the business. As risks become more complex, insurer appetite changes and premiums fluctuate, some organisations are looking more closely at how they retain, transfer and finance risk.

Alternative Risk Transfer (ART) provides another set of options, which can complement traditional insurance by giving qualifying organisations greater control over which risks they retain, transfer and fund.

What is Alternative Risk Transfer?

ART is an umbrella term for solutions that allow organisations to finance risk beyond a conventional annual insurance arrangement. These can include:

- Captives, where an organisation establishes its own insurance company to fund some or all of its risks.
- Protective Cell Companies (PCCs), which provide access to captive-style arrangements through legally segregated cells within a shared structure.
- Structured or multi-year arrangements, designed around an organisation's risk profile, loss experience or financing needs.
- Parametric solutions, where payment is triggered by an agreed measurable event or threshold.

The principle is straightforward: creating a risk-financing strategy aligned with an organisation's exposures, financial capacity and long-term objectives.

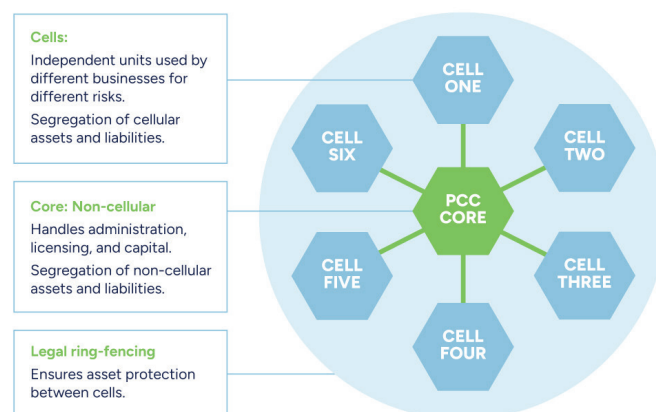
Why organisations are exploring alternatives

Some organisations are seeking greater certainty after experiencing premium increases, reduced market capacity or changes in insurer appetite. Others may have large deductibles, predictable claims activity or exposures for which conventional insurance provides limited capacity or restrictive terms.

For organisations with sufficient scale, financial capacity and reliable risk data, retaining and financing a portion of their own risk may provide greater flexibility than transferring every exposure on the same basis.

It can also encourage a longer-term view of risk financing, rather than treating insurance as a purchase reconsidered only at renewal.

Understanding captives and PCCs



Above: How a PCC separates the assets and liabilities of individual cells

A captive is an insurance company established by an organisation to insure some or all of the risks of its business or related entities. It can provide greater control over programme design, claims and risk funding, and access to additional capacity.

However, a standalone captive also involves capital, governance, regulatory and administrative requirements and is generally a long-term commitment.

A PCC offers another way to access many captive-style benefits without establishing a standalone insurance company. Each participating organisation operates through its own cell, with the assets and liabilities attributable to that cell legally segregated from those of other cells, subject to the applicable legal and regulatory framework.

The central core provides governance, administration and regulatory infrastructure. Sharing this infrastructure may reduce cost and complexity, making a PCC more accessible to organisations with the scale and maturity to retain part of their risk.



Taking a more strategic view of risk

A strategic approach starts with understanding how risks behave. Some losses may be regular and predictable, while others are infrequent but potentially severe.

This helps an organisation decide what it can absorb, what it may retain through a dedicated structure and where insurance provides the greatest value.

Rothbury's Head of Enterprise Risk and Insurance Solutions, Conrad Shanly, says organisations are increasingly considering a broader range of options.

"Businesses are increasingly looking beyond traditional insurance solutions and exploring new ways to finance and manage risk."

Rothbury has recently put that thinking into practice through the establishment of a Protective Cell Company for a major property client, expanding the range of risk-financing options available to qualifying organisations.

Is ART right for every organisation?

ART is not appropriate for every organisation.

Suitability depends on factors including:

- The scale and predictability of losses
- The quality of available risk data
- Financial capacity to retain risk
- The ability to support the necessary governance and risk-management processes

These structures also require organisations to take an active role in understanding and managing retained risk. They require a long-term commitment and should form part of a broader risk and capital strategy, not simply a response to a difficult renewal.

Looking ahead

The conversation is shifting from simply purchasing insurance to deciding how risk should be retained, transferred and financed over time.

The objective is not necessarily to minimise insurance spending. It is to achieve the right balance between retained and transferred risk, improve budgeting certainty, access capacity where appropriate and use risk capital more effectively.

For organisations with the scale, financial capacity and governance maturity to consider ART, these solutions can provide another way to build a risk-financing programme that is responsive, resilient and aligned with long-term business objectives.

How Rothbury can help



The starting point is understanding the risks your organisation retains, the risks it transfers and whether that balance remains appropriate. Rothbury's Head of Enterprise Risk and Insurance Solutions, Conrad Shanly, brings specialist expertise in Alternative Risk Transfer and can work alongside your Rothbury broker to assess your current approach and explore whether alternative risk-financing structures could support your broader risk and capital strategy.

If you'd like to explore what Alternative Risk Transfer could mean for your organisation, talk to your Rothbury broker.