

# Alternative Risk Transfer

## Alternative Risk Solutions

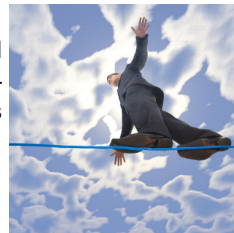
### Self Insurance increasingly popular

The popularity of self insurance or Alternative Risk Transfer (ART) is increasing amongst businessmen and companies on a world wide scale, because of the unique benefits it provides to clients. In our opinion ART will continue to gain ground in comparison to conventional insurance, because ART provides unique cost-, affectivity-, planning- and tax benefits.

4 May 2009

With an ART contract, risks can be insured that are usually not insurable by conventional insurance; e.g. Losses from economic downturns, changes in weather patterns, bad debtors, loss of income and many other risks.

Funds that are paid into an ART-account are used for the specific insured only and no third party risk has any influence on the account. A self insurance fund is thus built up and used exclusively for the financing of risks that are particular to the contract owner.



The beauty of ART lies in the simplicity of the concept.

In brief, it works as follows:

- ⇒ A short term insurance company issues an ART-contract to the insured.
- ⇒ An account is opened for the client into which all premiums are paid and from where all claims are settled.
- ⇒ This experience account earns interest.
- ⇒ Claims are limited to funds in the experience account plus additional insurance amounts that was arranged with the insurance company.

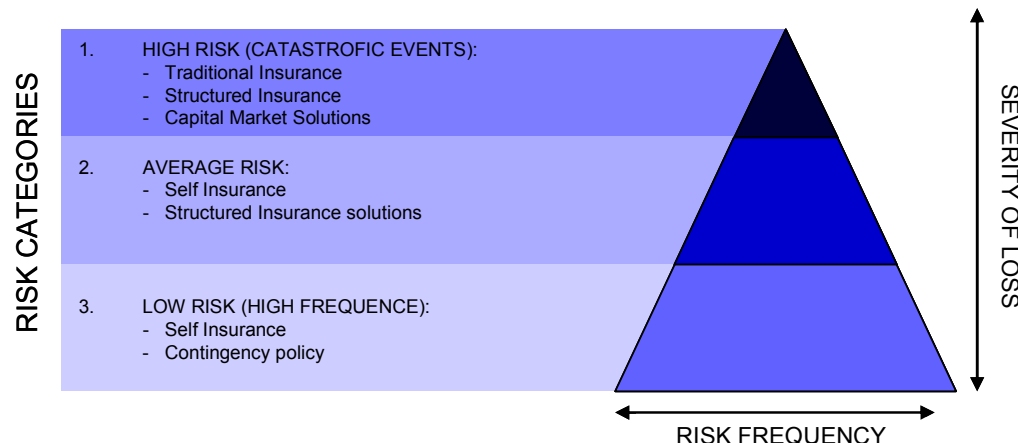
When the ART contract expires, the balance of the experience account and accumulated interest is paid back to the insured.

ART suits entities that have well managed risk controls in place and have the wish to end the cycle of subsidising other company's risks.

#### OF SPECIAL IMPORTANCE:

- Create own risk fund.
- Manage own risks.
- Tax deductible.
- Control over funds.
- Protect own business.

### Practically ART will be implimented as follows:



*"At the end of the day, using an ART facility is a long-term commitment and there is no doubt that ART users who are used to enjoying the benefits of their own risk financing facilities will not be keen to return to the very market that forced them in ART structures in the first place."*

(Cover Magazine Feb 2008)

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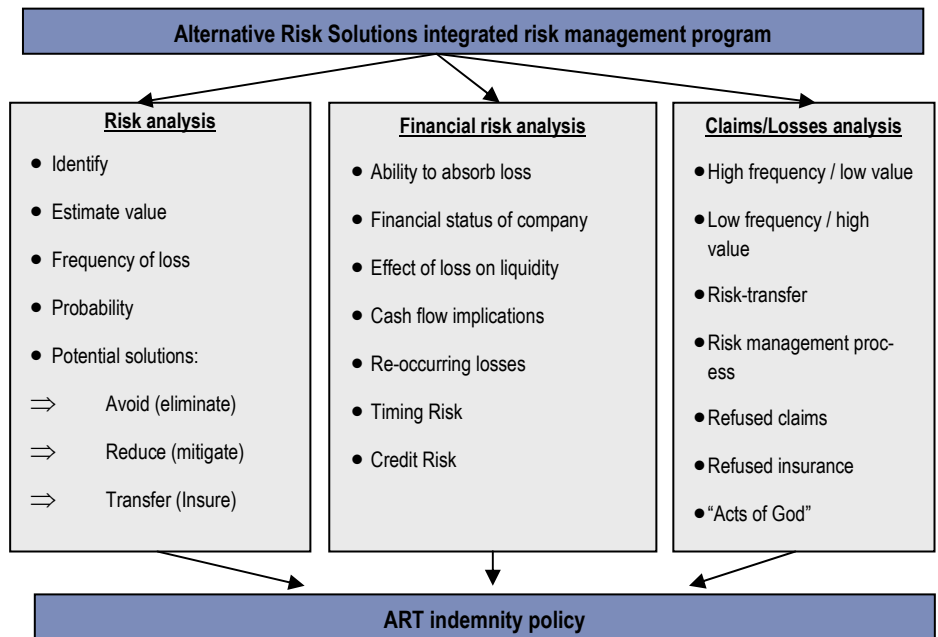
**André Ferreira from Alternative Risk Solutions can be contacted at: 021 915 6666 or e-mail: andref@exceed.co.za**

Alternative Risk Solutions has developed an integrated management program to assist our clients to identify risks that are intrinsic to their business. We use this management tool to advise our clients on the most effective risk management program.

The diagram summarises the most important principles.

When you consider the implementation of an ART program, it is very important to consider the total risk program of a company to ensure that all risks are covered.

ART must be integrated with existing short term insurance to find the most cost effective solution. Normally the transition of risk in a company to alternative insurance is a process that takes about 5 years, but the rewards in the end are well worth it.



## Access to funds in the experience account

An insured has a few methods of accessing the funds in the experience account of the ART policy:

1. By a *bona fide* insurance claim. When a loss is experienced by the insured the lost assets are claimed
2. The contract can be cancelled at any time and the balance in the account will be paid to the owner within a predetermined time.
3. The contract is simply not renewed after 12 months. The bal-

ance in the account will be paid to the owner within a predetermined time.

4. The contract can be presented as surety to a financial institution with the aim of securing a capital loan.

Regular statements that reflect the status and balance of the experience account are sent to the insured. The funds in the experience account are thus managed in a transparent manner enabling management to make timely deci-

*“Contributions are regarded as an expense of the company and is fully tax deductible.”*

sions. Apart from the previous, the funds invested in the insurance account adhere to stringent regulatory requirements while bonuses credited to the account are guaranteed by the insurance company.

## Tax issues

Self insurance that is applied correctly, enables the insured to protect himself in a tax efficient manner against events that might have otherwise lead to the downfall of the company. It encourages the use of proper risk management



methods to further reduce risk. Similar to conventional insurance, the premium that is

paid to the insurance company is a tax deductible expense for the insured.

The attraction of ART lies in the fact that all the funds that are paid into the policy is reserved exclusively to finance the risks of the policy holder and no third party risk has any bearing on the policy or the value thereof. The experience account that is established for the insured will be paid back to the policy holder when the contract is cancelled or not renewed.

Upon repayment of the finds, it forms part of the gross income of the company.

Claims paid to the insured are, as in the case of conventional insurance, taxable income to the insured.

Interest that accrues to the experience account is not taxable to the contract owner, but only taxable for the insured when it is paid to the insured i.e. when the contract is cancelled or not renewed.

When considering an ART risk management model, professional advice is required to design and implement a program that takes all tax-, cash flow-, and risk implications into consideration.