Roundtable Session

EIS Program Advisory Committees

Tuesday, October 24, 2017

Presentations

Reputation Assurance – Steel City Re

Medical Stop Loss Coverage – BAC Solutions

Investment Environment Update – MD Sass

Cyber Survey Results – Spring Consulting

Captive Cyber Solution - AON

Reputation Assurance

Steel City Re

Nir Kossovsky – CEO

Peter Gerken - SVP

REPUTATION ASSURANCE

Prepared for EIS for the benefit of EIM members

STEEL CITY RE

Forging Reputation Resilience

Take Home Messages

- The rules have changed. Its personal.
- Liability insurance worthless in Court of Public Opinion
- Activists & regulators exploit vulnerabilities
- **Manage the risk**
  - **Mitigate** the emotional charges of disappointed stakeholders
  - **Indemnify** going-forward losses.
  - **Mind the expectation gap!**


JNJ Weekly
5/31/85
SP500
+70%
+60%
+50%
+40%
+30%
+20%
+10%
+0%
-10%
-20%
-30%
12 Months
Johnson & Johnson (NYSE:JNJ), stock price June 1982 - June 1985.
Volume
300
200
100
0
Millions
J J A S O N D 83 F M A M J J A S O N D 84 F M A M J J A S O N D 85 F M A M

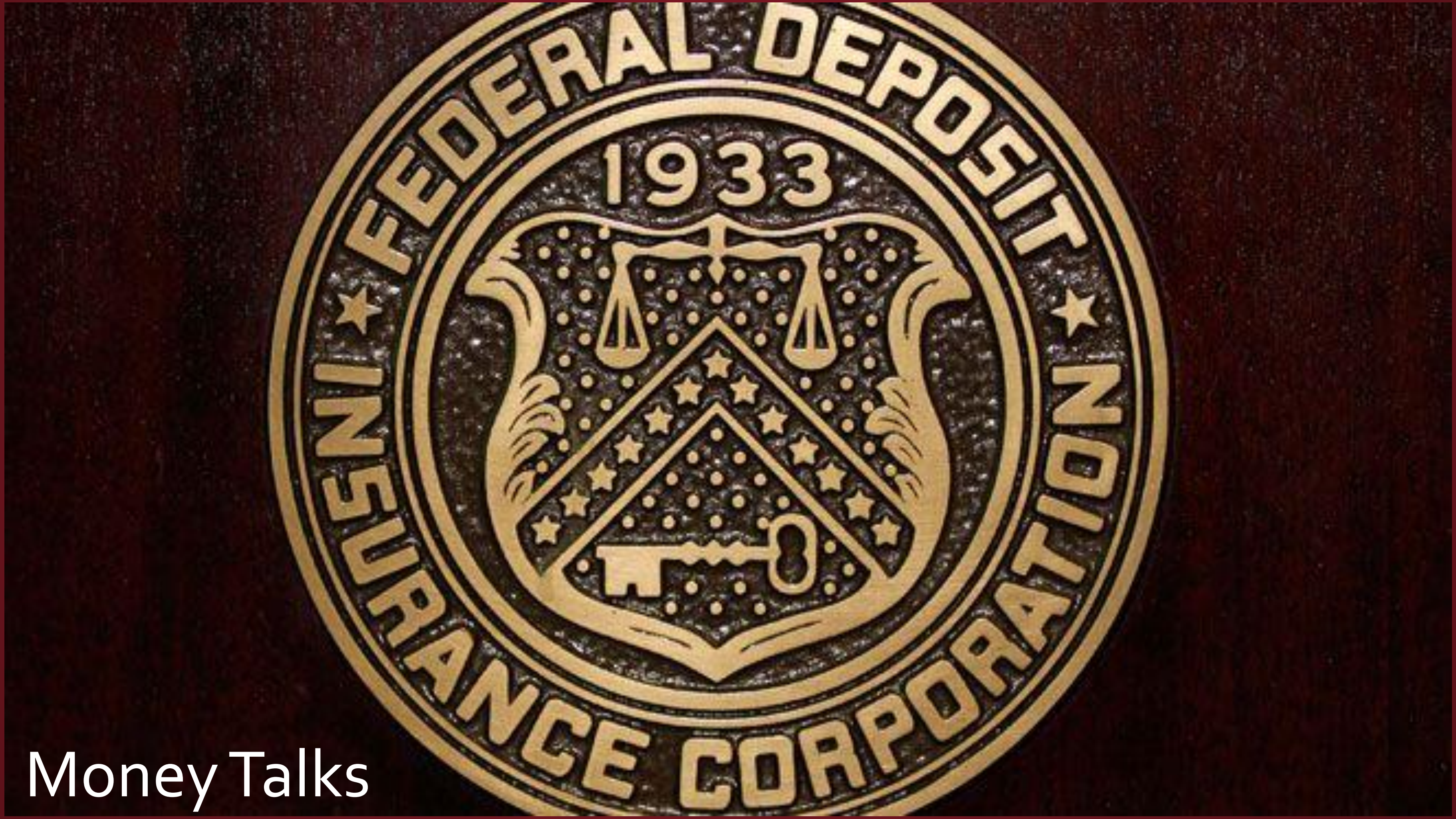

JNJ Weekly
6/03/88
SP500
+135%
+120%
+105%
+90%
+75%
+60%
+45%
+30%
+15%
+0%
-15%
12 Months
Johnson & Johnson (NYSE:JNJ), stock price, June 1985 - June 1988.
©BigCharts.com
Volume
200
150
100
50
0
Millions
J J A S O N D 86 F M A M J J A S O N D 87 F M A M J J A S O N D 88 F M A M

1. Four Elements

- 1.1. Mitigate Risk and Create Value
  - Tell a story
  - Exculpate company and its leadership
- 1.2. Finance Risk and Absorb Losses
  - Trigger indemnities by loss of reputational health
- 1.3. Transfer Risk
  - Reinsure the multi-cell captive on a pooled basis
- 1.4. Measure and Manage
  - Track “reputational health” metrics for signals of looming risk

TELL A STORY

Insurance can tell a story



Simple to understand, completely credible

Kubrick (1964: Dr. Strangelove or: How I Learned to Stop Worrying and Love the Bomb

QUANTIFYING REPUTATIONAL HEALTH

Measures of Reputational Health

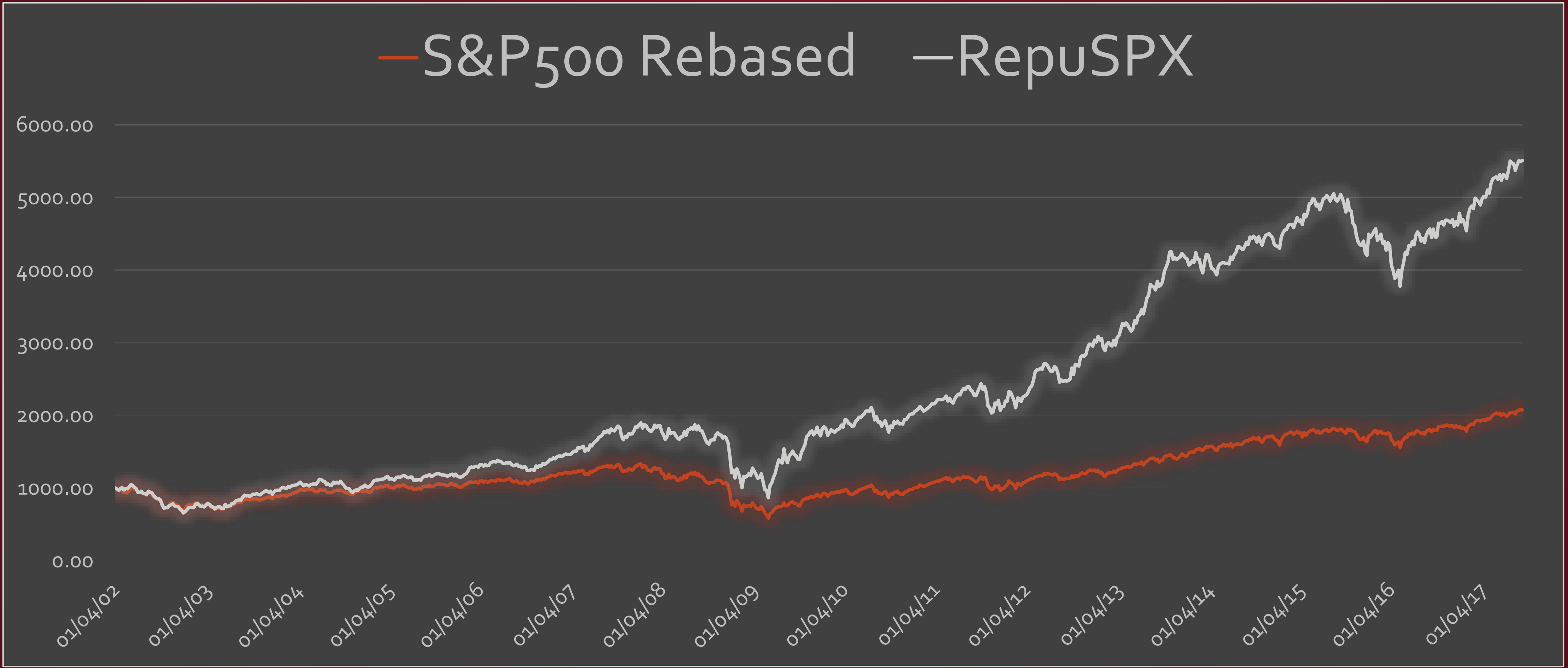
Indexing measureable effects:

- sales volume, cycle time, pricing
- employee retention
- supplier terms
- cost of credit, credit protection

Emotional

Providing Signals of Opportunity and Risk

350% >> REPUSPX versus S&P500



FINANCE RISK AND ABSORB LOSSES

Proposed Structure

- Uses current EIS cell structure with a
  - 1st party primary policy limit of $25 million, and an
  - Excess layer of reinsurance provided by Steel City Re's facility led by the Lloyd's Syndicate Tokio Marine Kiln with a layer of $25 million.
- Flexible Structuring and attachment of the combined parametric solution, as well as participation by owned Captives.

BENEFITS

Telling Stakeholders a Story

Discriminate = story of quality; Actuarially sound =story of integrity

CRAIN'S CHICAGO BUSINESS.

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Exelon hunts more state nuke subsidies following Illinois win

March 03, 2017

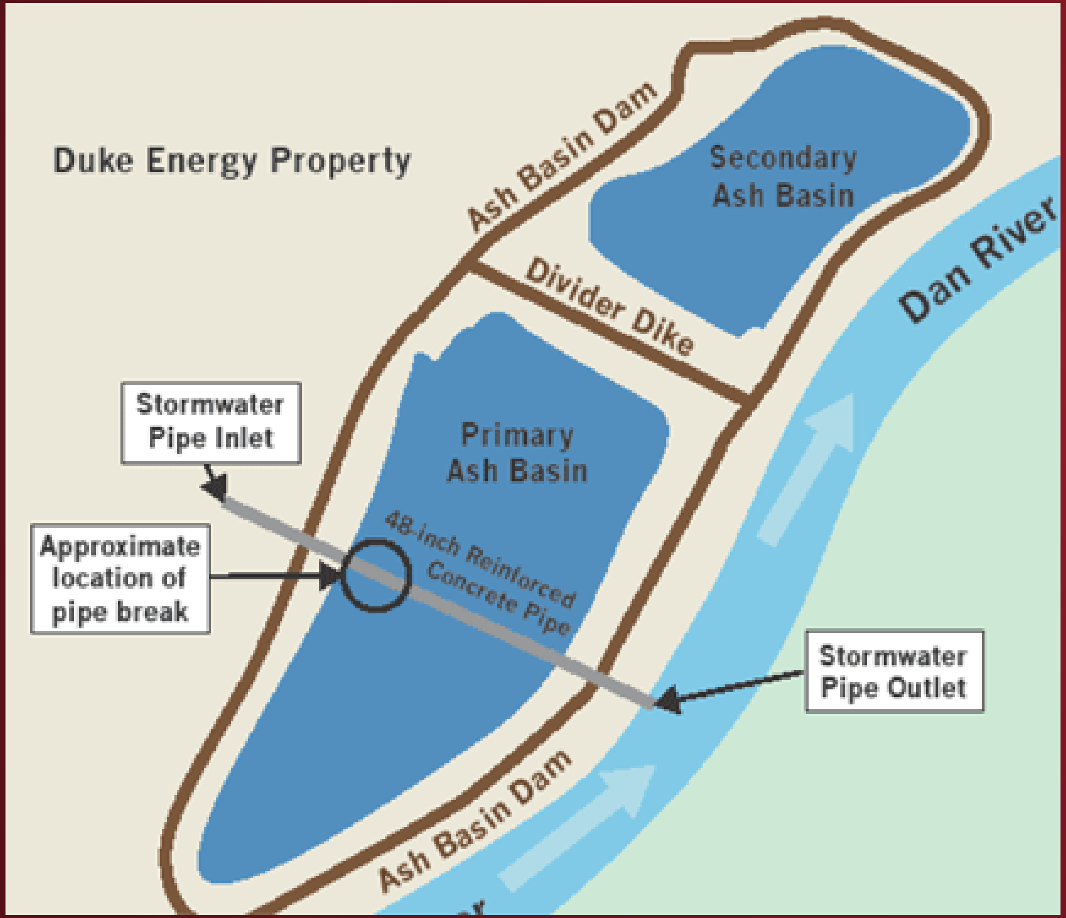
Cat raid raises key question: Will Team Trump be tough on tax shelters?

By CLAIRE BUSHEY

AMERICAN BANKER

Trump's DOJ takes same hard line as Obama's in Wells probe

Limits of a "Risk Disclosure-Only" Story



- *Operational accidents…such as the San Bruno, CA…pipeline failure…could raise environmental or public health concerns…(and) have a material adverse impact on the* ***reputation*** *and financial condition of Duke Energy*

Duke Energy 10K Mar 2016

Simple Credible Story

Effective Reputation Risk Infrastructure and Management

- "Warranty on Governance"
- Parametric with rigorous pricing and underwriting support
  - Triggers can include revenue loss
- Integrates with captives for maximum value
- Measures of reputational health support risk management processes

- *"[Reputation Assurance] …communicates the quality of governance…absolving board members …."*

NACD Directorship,
Jan/Feb 2016

Take Home Messages

- The rules have changed.   Its personal.
- Liability insurance worthless in Court of Public Opinion
- Activists & regulators exploit vulnerabilities
- **<u>Manage the risk</u>**
  - **<u>Mitigate</u>** with a credible story
  - **<u>Indemnify</u>** going-forward losses
  - **<u>Mind the gap!</u>** Keep the story authentic

Medical Stop Loss Cover

BAC Solutions

Rick Raup – CEO

Medical Stop Loss

the **Good**, the **Bad**, the **Beautiful!**

bac|solutions

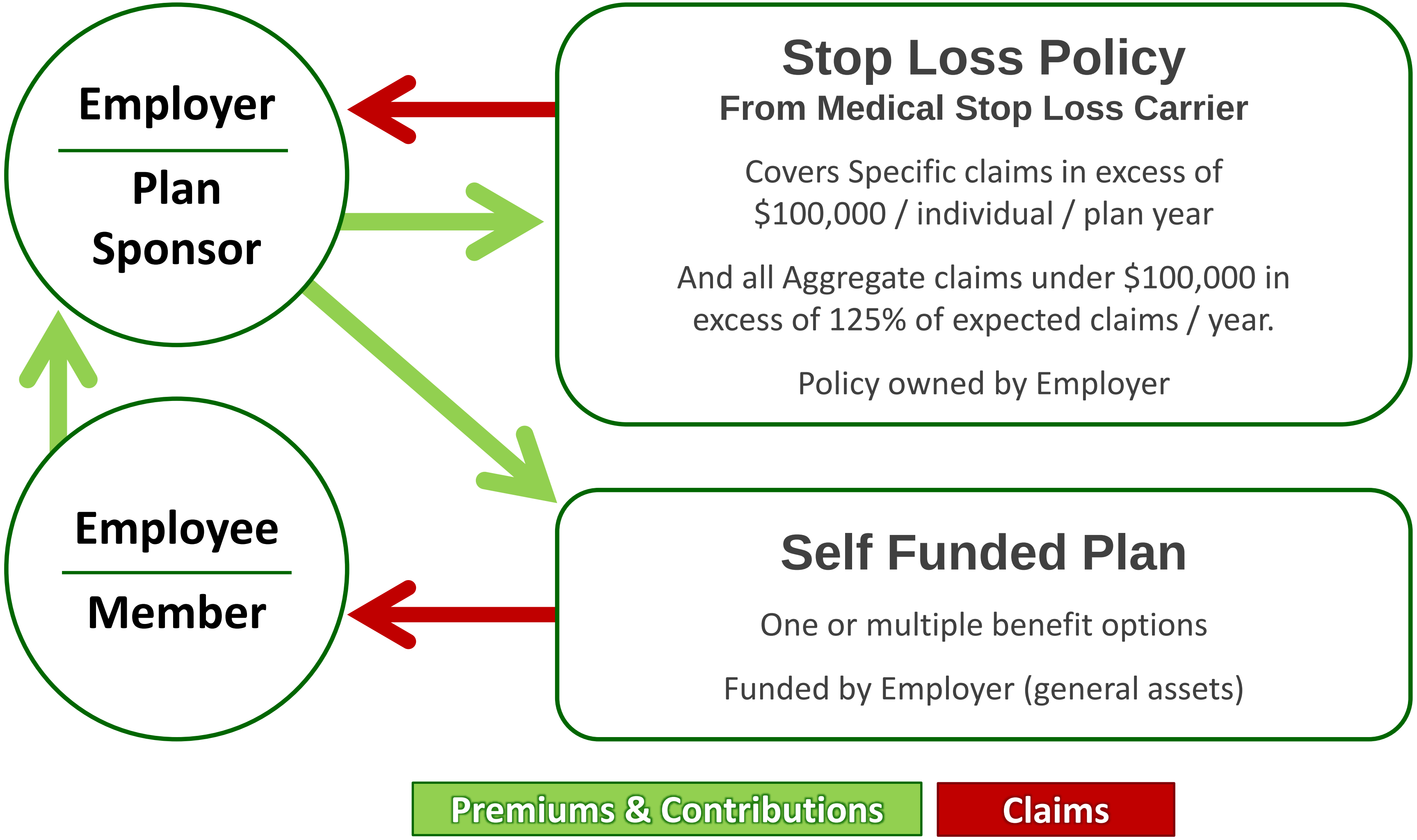
Rick Raup - President, *BAC/Solutions*

Why Medical Stop Loss Captives?

- Jumbo catastrophic claims are increasing in both size and frequency.
- Create a Stop Loss Policy that covers more of the Plan's risks than a commercial Stop Loss Policy:

  1. Incurred claims
  2. No lasers and guaranteed renewals
  3. Create reserves for future catastrophic claims

Traditional Self Funded:



Self Funded Plans are subject to

ERISA

Employee **R**etirement **I**ncome **S**ecurity **A**ct

Covers all health and welfare plans

Exception for church and government plans

Does ERISA cover Medical Stop Loss

and therefore Stop Loss carriers,

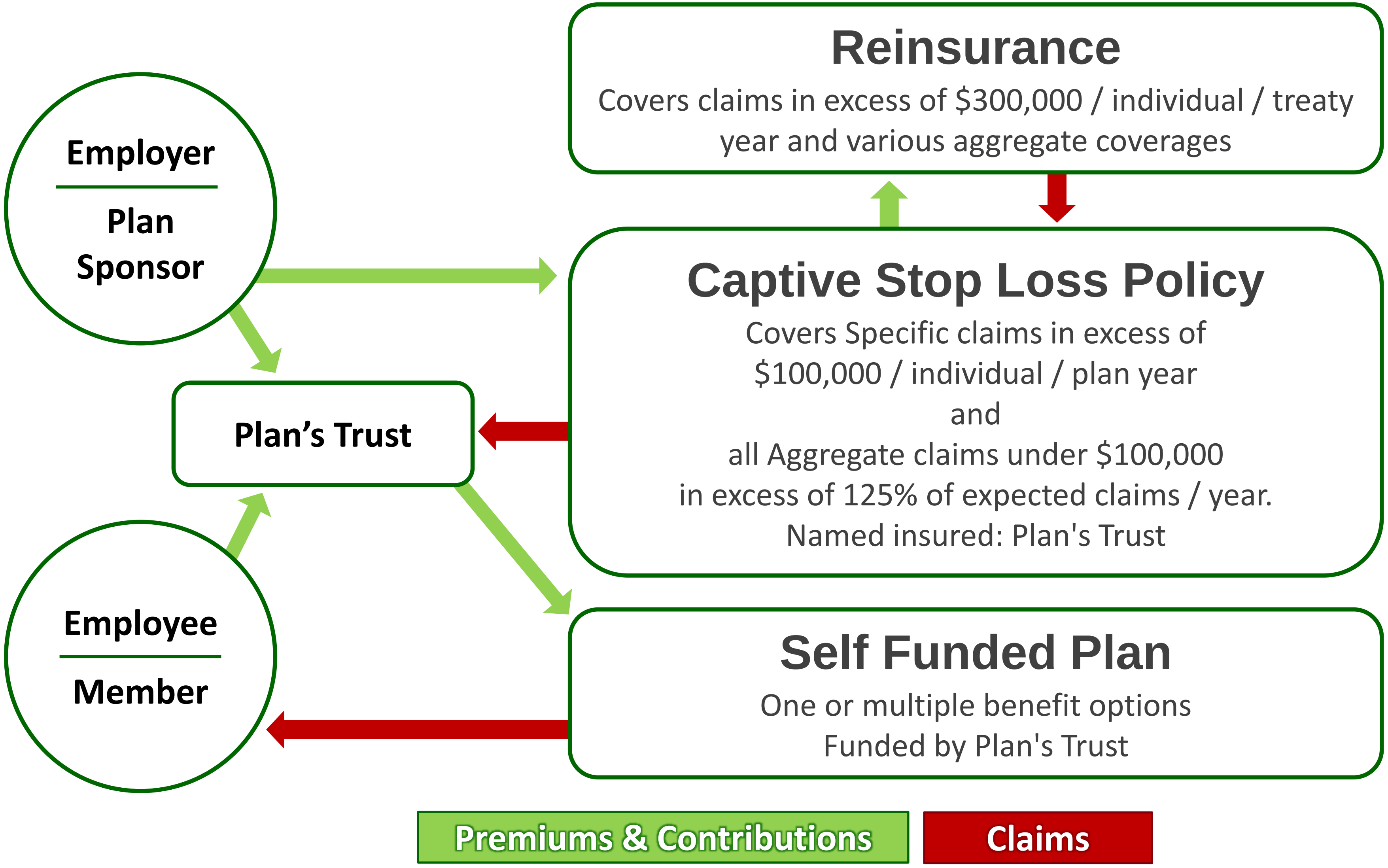
Reinsurers, and **Captives?**

Depends?

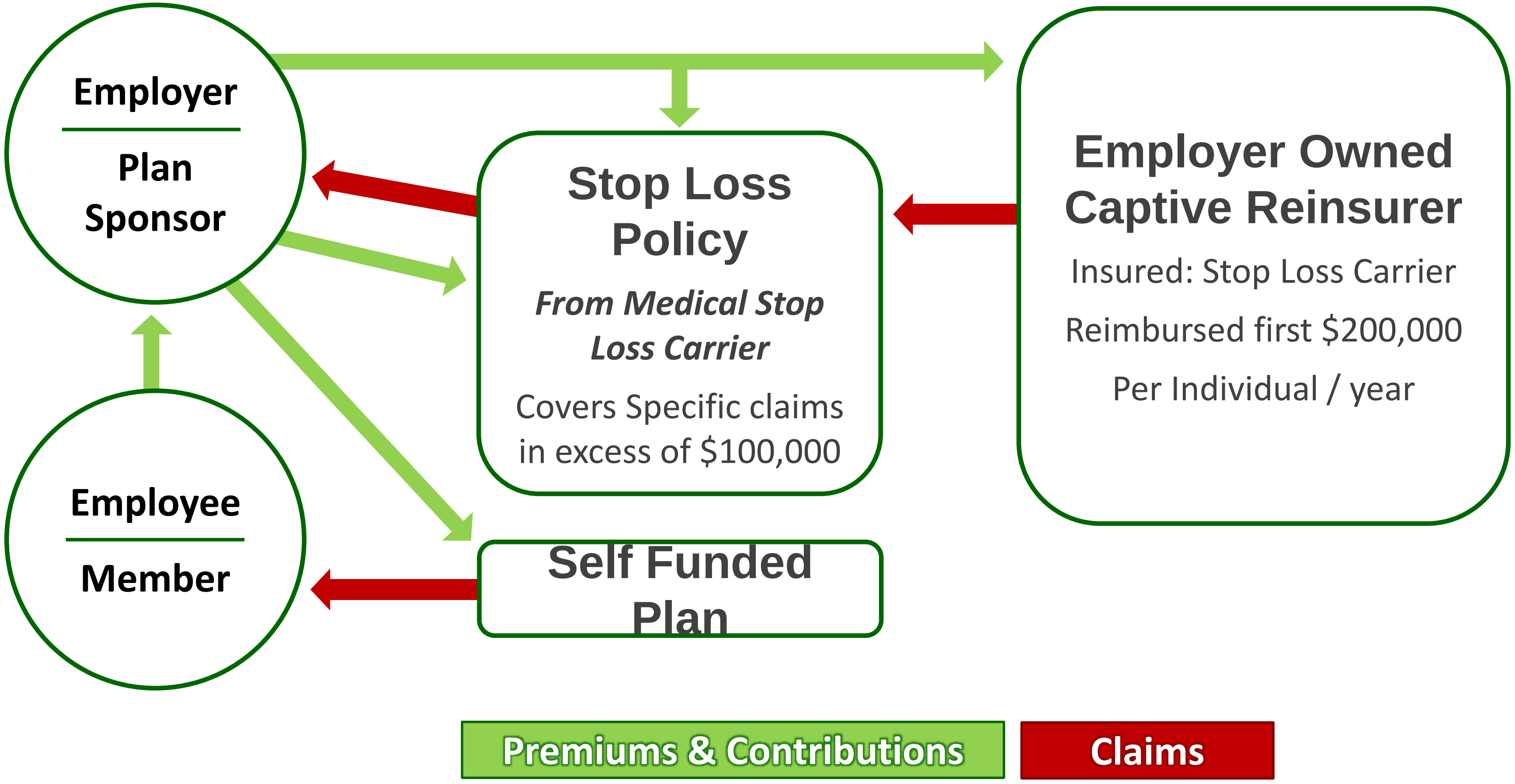
- Fiduciary?
- Party in Interest?
- Plan Assets?
- Prohibited Transactions!

All transactions involving Parties in Interest and Plan Assets are Prohibited unless specifically exempted.

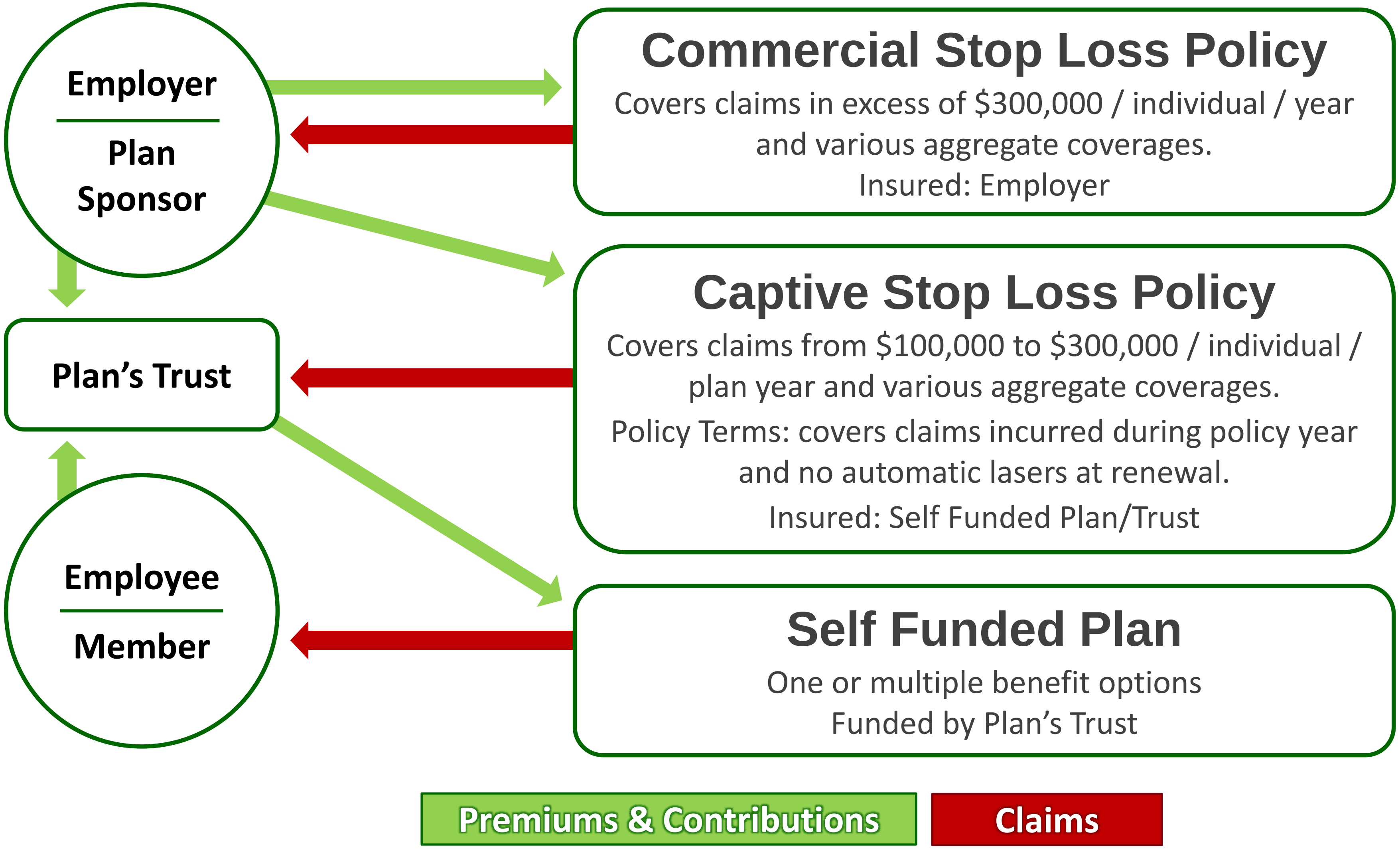
Captive with Reinsurance



Captive Reinsurer



Corridor Captive Stop Loss



3 Contracts with 3 different Claim Payers…

Which contract controls?

- Contracts say what's covered and what's NOT!
- The larger the claim, the more people will look for reasons not to pay all the claim.
- You know there's a problem when your claim representative says your claim is being reviewed by legal.

The Goal is to be 100% Synced with both the Pages & the People

- It’s not enough to have the wording in Plan Documents, Stop Loss Policies, and Reinsurance agreements be the same!
- The claims examiners and auditors need to agree to interpret that wording in similar fashion.

Medical Stop Loss Captive

- Rewards you in the good years,
- Creates reserves for bad years taking the sting out of catastrophic claims,
- A stronger Stop Loss contract provides additional strength and stability to your self funded plan, which
- Ultimately gives you more flexibility in designing and administering your self funded benefit plan!

Questions?

Investment Environment Update

MD Sass

Dominic Bruno

M.D. SASS: The Outlook & Impact
Dominic Bruno, SVP Senior Portfolio Manager

- An overview of (government) rates - [the implication for sector valuations]

	2 Year	5 Year	10 Year
US	1.40%	1.83%	2.25%
UK	0.41%	0.74%	1.33%
Japan	-0.13%	-0.11%	0.04%
Germany	-0.69%	-0.27%	0.45%

- The decent pace of domestic/ global growth, occurring in synchronized and self-sustaining fashion

- The continued modest pace of inflation

- FED monetary Policy:
  - The effort to normalize rates,
    - The gradual/incremental/ transparent agenda,
      - The Fed’s Balance sheet

MD SASS

M.D. SASS: The Outlook & Impact
Dominic Bruno, SVP Senior Portfolio Manager

- Fiscal Policy uncertainties:
  - Tax Reform
  - Infrastructure
  - Deregulation measures

- The spectrum of risks:
  - Political
  - Geo-Political
  - A policy mistake

- Conclusion: the outlook for rates, the slow upward trajectory

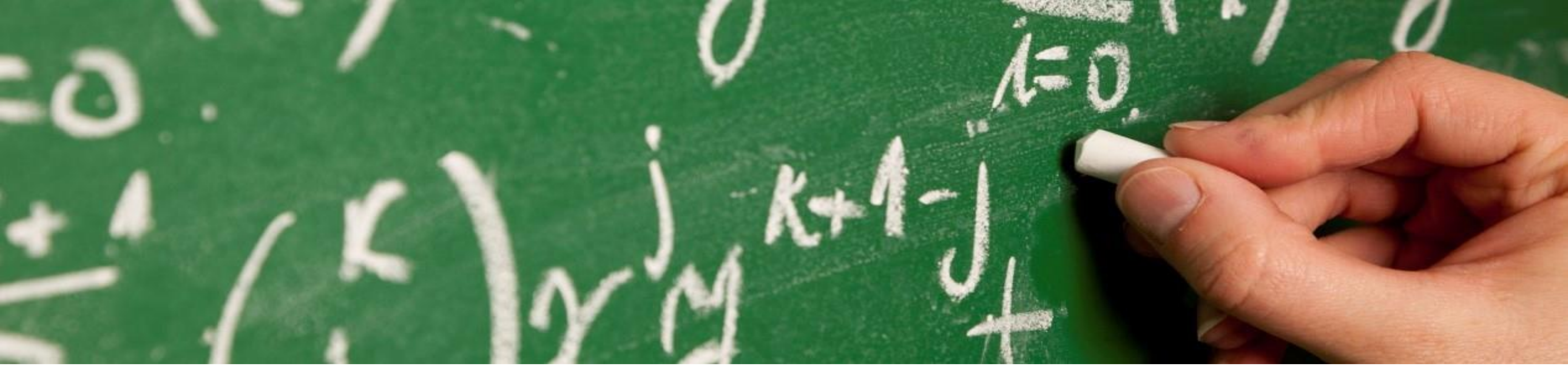
- The M.D. Sass (Specialized) Short Duration Bond Strategy:
    - Defensive duration profile
    - Superior Credit Quality
    - Stable bonds
    - Attractive income
    - Liquidity

MD SASS

Cyber Survey

Spring Consulting Group

Karin Landry - Partner

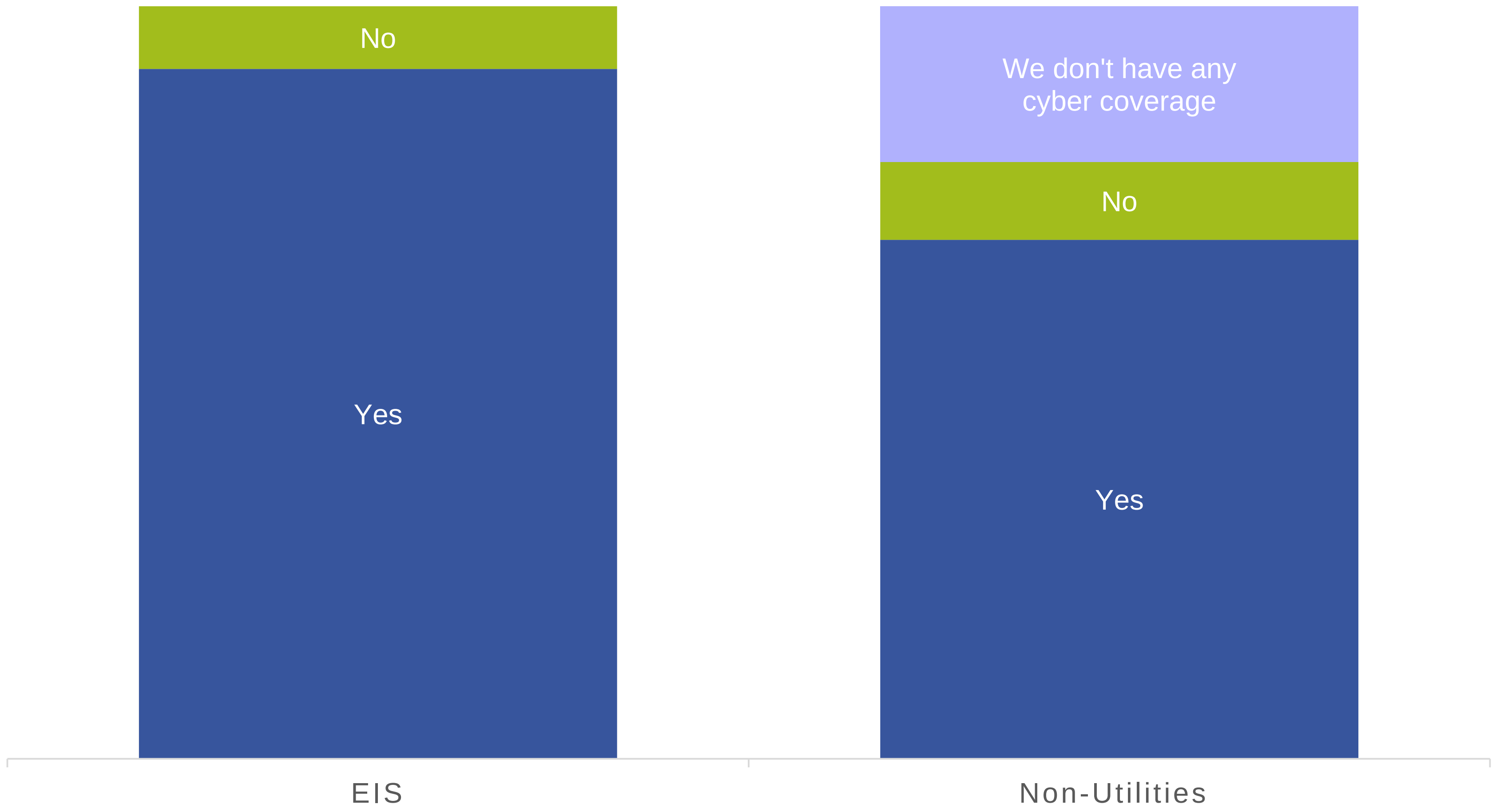


EIS Cyber Survey Results

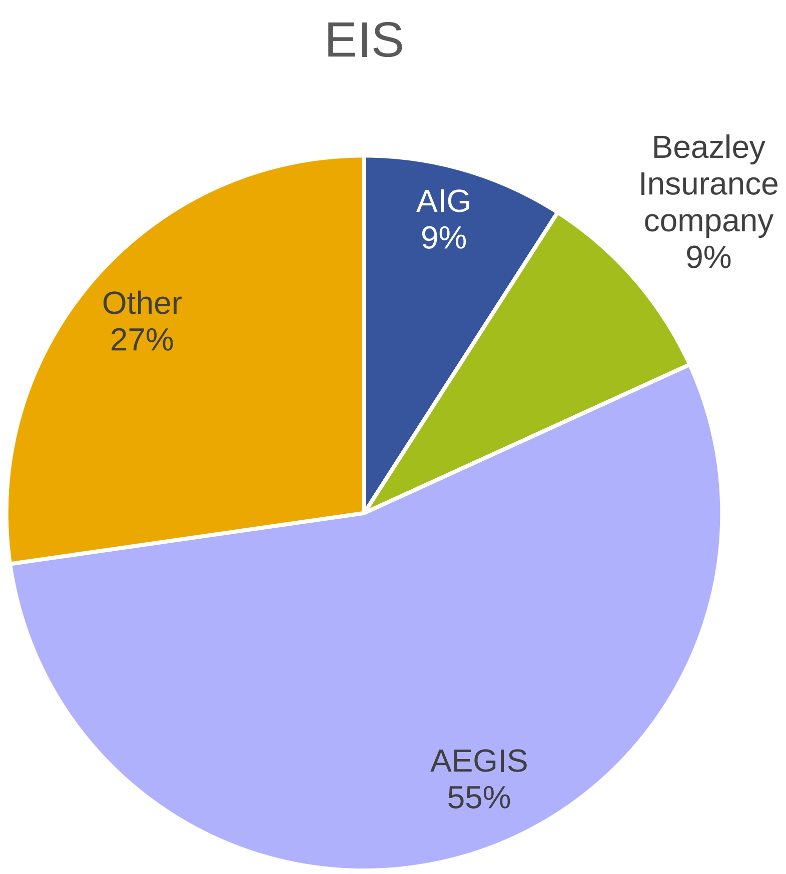
August 2017

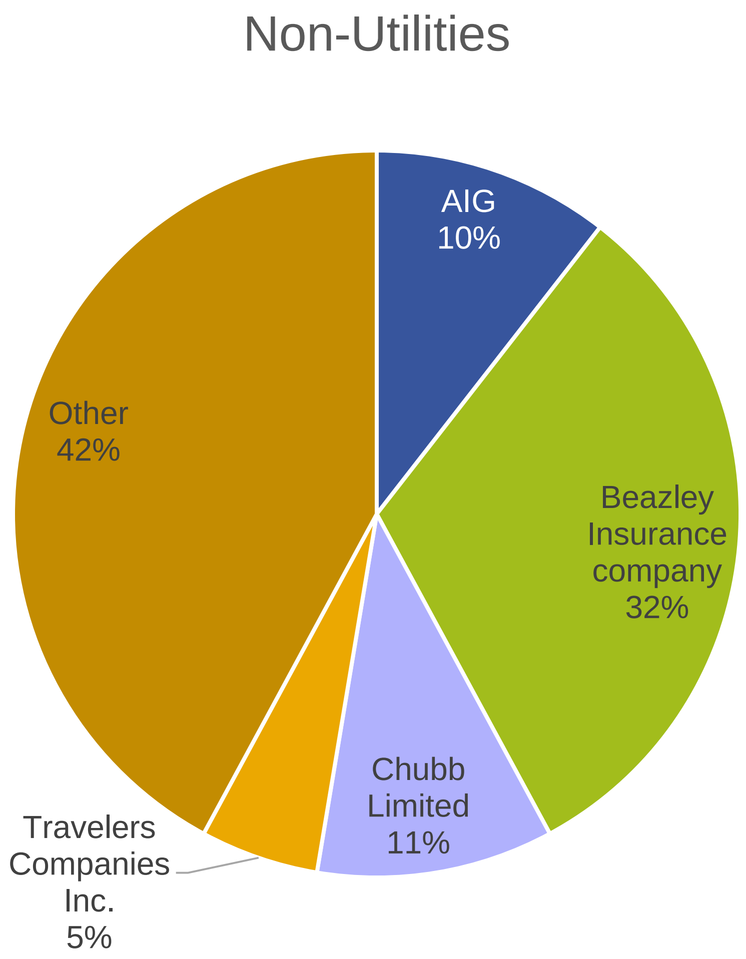
Spring[SM]

Do you currently have insurance for cyber coverage placed with commercial or mutual markets?

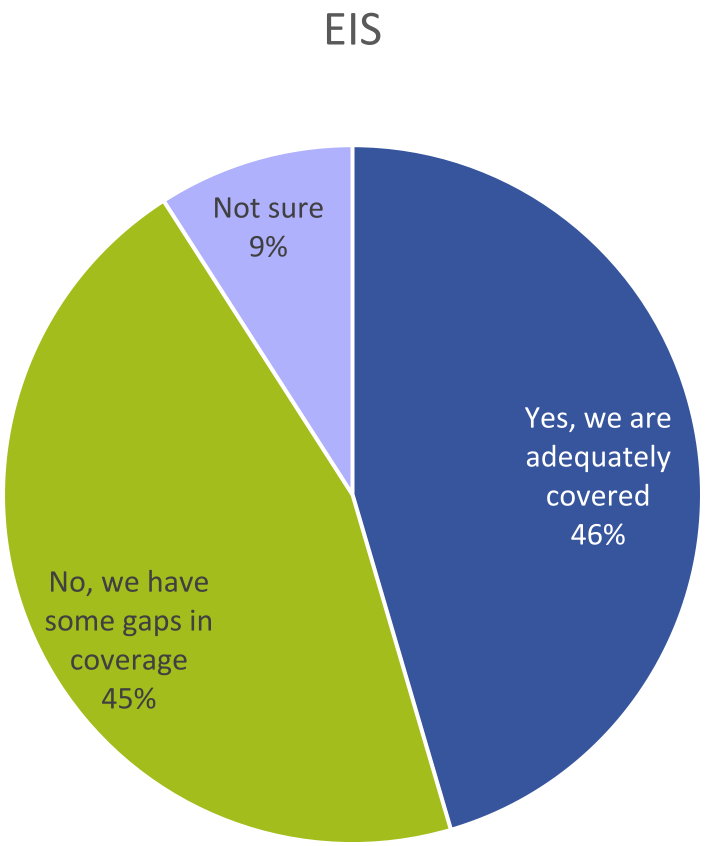


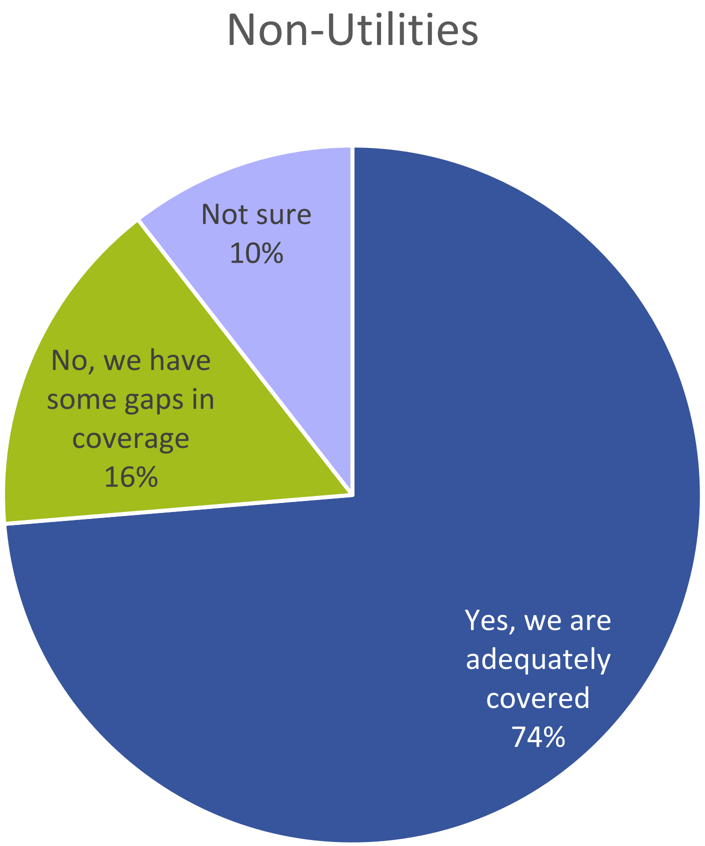
Who are your current cyber coverage providers?





Do you believe you have adequate cyber insurance?





What are the most important coverage areas associated with cyber breach for your organization?

	Very Important & Somewhat Important		Somewhat Unimportant		Not Important	
	EIS	Non-Utilities	EIS	Non-Utilities	EIS	Non-Utilities
Crime Extortion and Computer Fraud	83.4%	95.9%	16.7%	4.2%	0.0%	0.0%
Employee Privacy Liability	100.0%	95.8%	0.0%	0.0%	0.0%	4.2%
Fines and Penalties	75%	91.7%	25.0%	4.2%	0.0%	4.2%
First Party Property Damage	58.3%	83.3%	33.3%	4.2%	8.3%	12.5%
Media Publishing Liability	41.7%	62.5%	41.7%	20.8%	16.7%	16.7%
Public Relation Expense	66.6%	75.0%	25.0%	16.7%	8.3%	8.3%
Ransomware	75.0%	83.3%	25.0%	16.7%	0.0%	0.0%
Replacement of electronic data	75.0%	91.7%	25.0%	8.3%	0.0%	0.0%
Reputational Risk	91.7%	95.6%	8.3%	4.3%	0.0%	0.0%

Takeaways

- Over 90% of EIS members currently have cyber coverage placed with commercial or mutual markets, compared to about 68% of Non-Utility participants
- More than 50% EIS members utilize AEGIS as a cyber coverage provider, whereas Non-Utility participants use Beazley 32% of the time
- About 45% of EIS members believes they have gaps in cyber coverage, compared to only 16% of Non-Utility participants

Takeaways

- For EIS members, the primary concerns about adding cyber coverage to a captive were:
  - Possibility of inaccurate quantification of cyber exposure; and
  - Lack of risk appetite of their senior leadership
- Non-Utility participants mostly indicated that they lacked the risk appetite
- EIS members indicated interested in retaining cyber risks at retention levels exceeding 75% in their captive, whereas the Non-Utilities were interested in lower levels of risk

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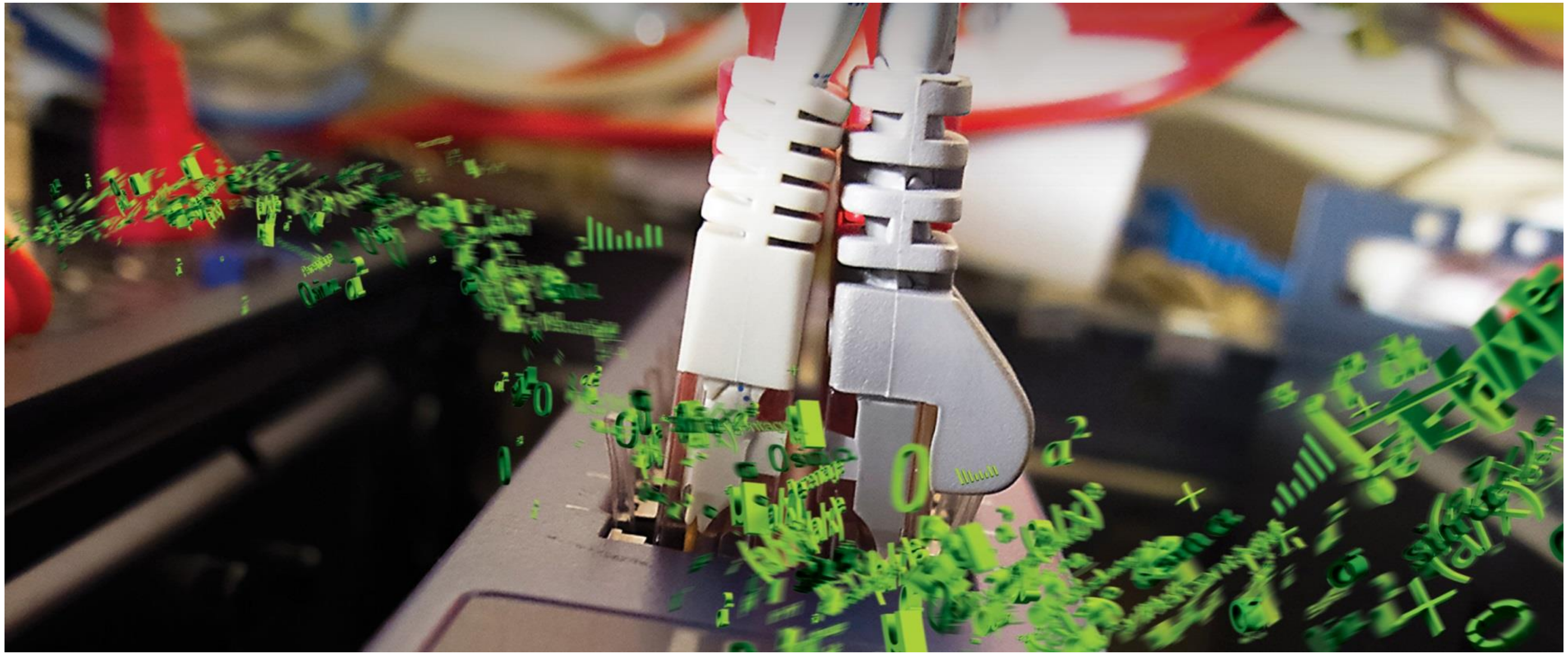
Captive Cyber Risk Solution

AON

Gary Gresham



EIS PAC Conference 2017

Aon Cyber Captive Program

Empower Results®

Background

- Driven by widespread use of mobile technologies, cloud computing, corporate bring your own device policies, big data analytics, and the internet of things, cyber is one of the fastest growing risks for governments and companies across the globe.
- Cyber risk is present wherever organizations use technology to touch people, suppliers, customers and governments.
- The cyber risk transfer market is growing but is characterized by a challenging underwriting process where risks are difficult to identify and quantify; where building a large tower of limits can be hampered by differing policy terms and conditions; there is some dislocation of rates at different layers and claims adjustment experience is limited.
- For the majority of organizations where cyber risks are emerging and resulting in physical impacts such as property damage and business interruption, a more comprehensive approach is needed.
- Captive insurers have for many years realized the benefits of risk financing through a captive mechanism, especially for emerging risks. This allows them to finance the risk in a formal mechanism, centralize the collection of risk data, access additional risk transfer capacity, encourage better risk management behaviors, manage their risk appetite in a strong governance environment, and exert control over claims.

Aon Cyber Captive Program

Identified Cyber Challenges	Aon Cyber Captive Program
Limited professional analysis of exposure	Comprehensive Risk Assessment based on international best practices
Insurance not aligned with evolving risk	Aon Cyber Enterprise Solution Form – addresses emerging areas of cyber risk and related regulation
Fragmented approach/dislocation in the market with limited capacity for certain risks	Consistent comprehensive coverage with significant capacity potentially up to USD 400 mm per policy
Limited analysis of the total cost of risk v retention options	Evaluation of different risk retention options via captive or other risk retention mechanism
Limited understanding of claims process and extent of coverage	Pre-agreed panel of knowledgeable loss adjusters with a well defined claims process
Limited sharing of knowledge amongst peers	Participation in the Aon Cyber Risk Forum

Aon Cyber Enterprise Solution™ Policy Form

Business Interuption

Property damage

Internet of Things liability

Supply Chain exposure

Vendors, including Cloud

Regulatory

The Aon Cyber Enterprise Solution™ Policy form addresses emerging areas of cyber risk and related regulation including:

- Property damage arising out of a network security breach
- Products liability coverage to address Internet of Things exposures
- Business interruption and extra expense coverage arising out of a systems failure
- Contingent network business interruption for IT vendors and the supply chain
- Cyber terrorism coverage
- European Union General Data Protection Regulation (effective May 25, 2018) fines and penalties, where insurable and arising out of a covered event
- Privacy/security liability and event expense coverage
- Media liability and technology errors and omissions by endorsement

Aon Cyber Captive Solution

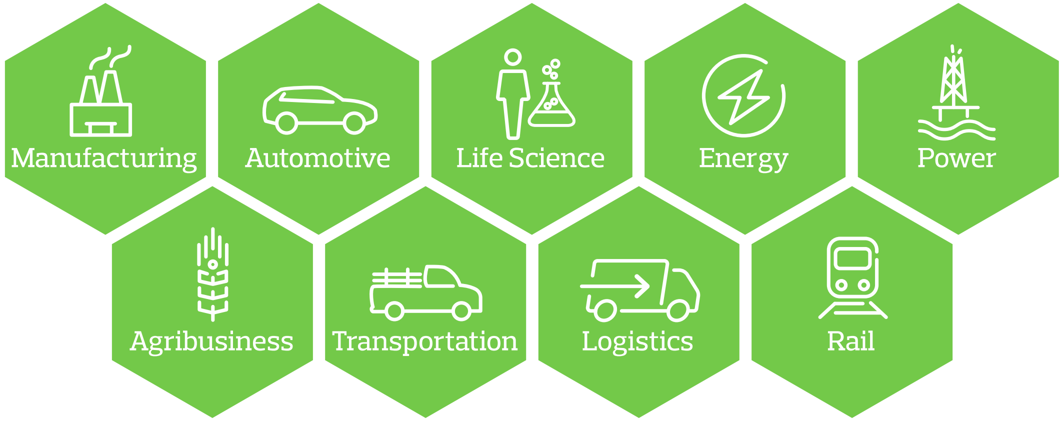
The Aon Approach:

- Proprietary Aon Cyber Resilience Review ($25k fee) [1]
- Proprietary Aon Cyber Enterprise Solution Form
- Captive participation to manage risk retention
- Capacity of potentially up to USD 400 mm per policy available, plus excess USD 25 mm captive retention
- Participation in the Aon Cyber Risk Forum
- Pre-agreed panel of knowledgeable loss adjusters with well-defined claims process
- Access to cybersecurity governance and advisory services platform*

Coverage Details:

- Business Interruption Proof of Loss calculation included
- Prior acts coverage subject to a No Claims Declaration
- Product liability coverage arising out of a network security breach
- Coverage not intended to include product recall or product liability batch claims

Target Industries:



[1] The review will take approximately 4 to 6 weeks and the client is required to pay an upfront cost of USD 25k.
includes penetration testing, incident response, digital forensics, eDiscovery and due diligence capabilities.