Multi-line Aggregate Retention Stop-loss Program (MARS)

A New Product Concept for EIM Members

The Concept

- **Problem Statement**
  - Aggregation risk is not being addressed across retained losses in the insurance portfolio
  - How to measure the appropriate appetite for aggregation risk?

- **Issues**
  - Silo vs. holistic thinking - retention / deductible selection of coverages
    - Insurance buyer driven to
      - simply reduce premium spend
      - promote a loss control culture on the operations
      - finance expected loss within operational budgets
    - And/or the Insurer drives decisions

- **EIS Solution MARS**
    - Addresses aggregation risk
    - Highly flexible to cover any number of insured or uninsured risks
    - Insured limit and aggregate attachment established by risk portfolio modeling and Member's risk appetite
    - Annual or multi-year term
    - Offers a pathway to start insuring risk in a captive

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The Scenario

- Mid-sized investor owned utility
- Annual Net Income = $325 million
- Earnings per Share = $3.60
- Recent Market Cap = $6.2 Billion

Targeted Risks	Retentions	Avg. Ann. Loss
General Liability	$2 Million	$4.5 Million
Auto Liability	$2 Million	$3.6 Million
Work Comp	$1 Million	$4.4 Million
TOTAL		$12.5 Million

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Risk Appetite

- Member budgets the expected average loss of $12.5 million
- Earnings per share moves 1.1 cent per $1 million of after tax earnings
- Retained loss of $3 million above budget or 3.3 cents of earnings per share is tolerable – But NOT Beyond
- Loss of appetite is at $15.5 million ($12.5 million plus $3 million)

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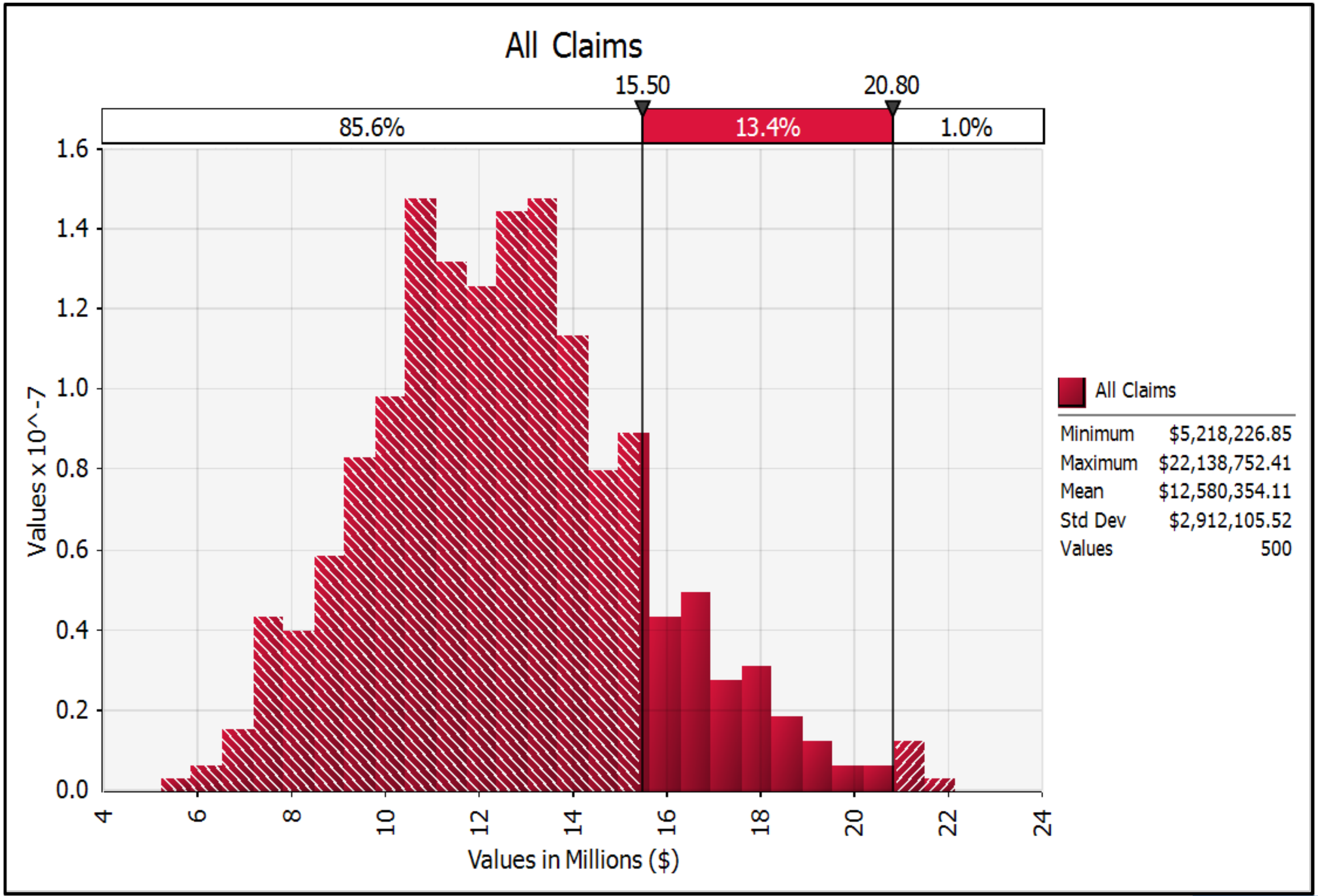
The Portfolio Probability



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A Simple Solution

- Match attachment point to point of loss of appetite ($15.5 million)
- Pick a insured limit to match an acceptable probability of loss ($5.3 million)
- Estimated Capitalization: $500k to $750k
- Estimated Annual Premium and Expenses:
  - Risk Charge = $550,000
  - EIS Management Fee = $85,000
  - Outside Actuarial Fee = $15,000

The beginning of building value!

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