

Energy Insurance Services, Inc.



Our Team



Megan Ogden
VP – Chief Operation Officer



Tobias Burke
Chief Accounting Officer



Kimberly Jenkins
Accounting Manager



Tameeka Heyward
Senior Accountant



Monique Branagan
Senior Accountant



Legare Gresham
Actuarial and Analytics Leader

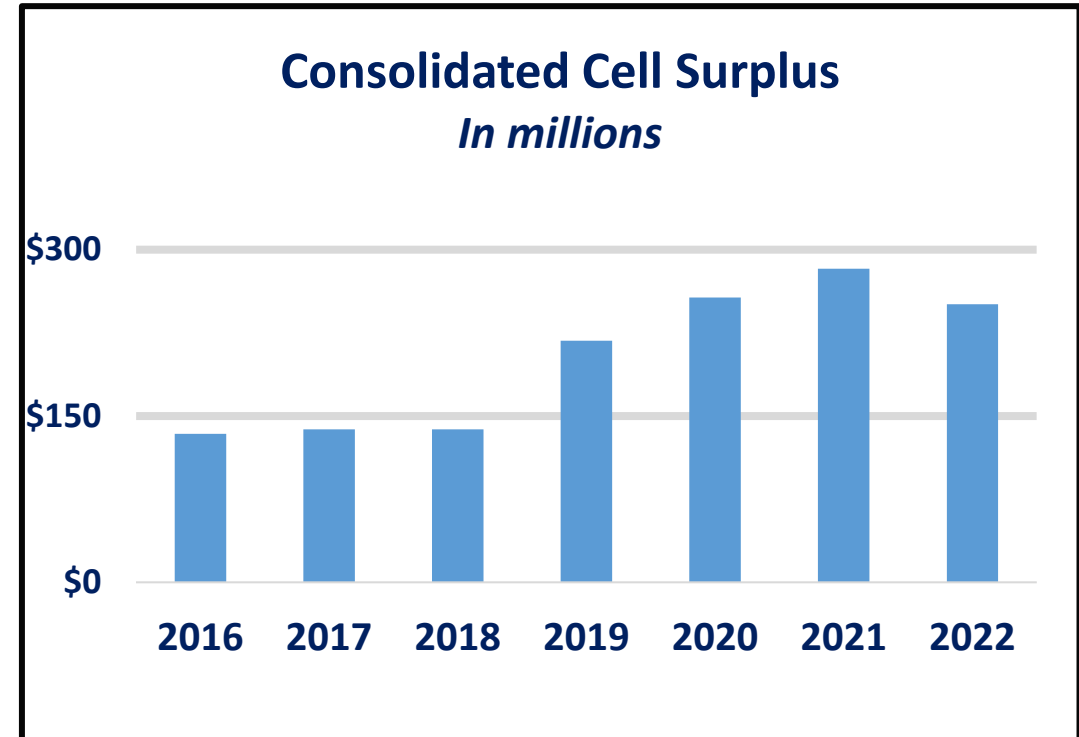
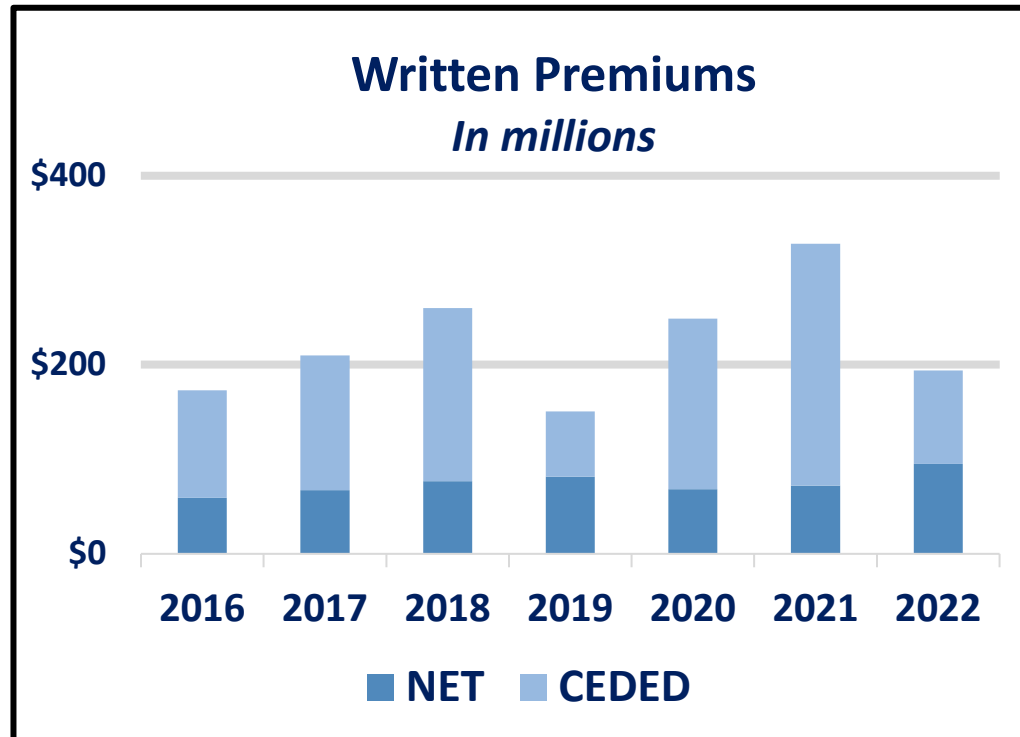


2023 Highlights

- Annual Net Premium Written increased by \$23M (24%)
 - MBPs prudently taking on more underwriting risk
 - MBPs retaining more risk
- Formed two new MBPs
- Continued Management Fee credits
- Update on ECM Staff
- Introducing in-house actuarial support and analytics



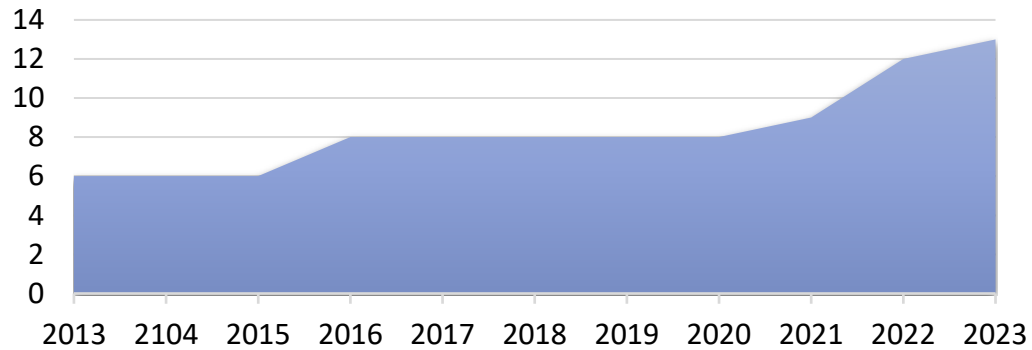
MBP Key Financials



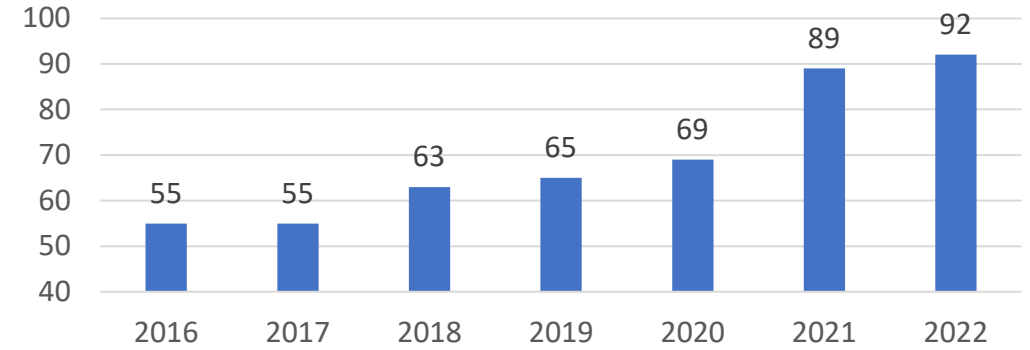
EIS Growth

- Growth in past three years due to hard market
- Cells retaining risk has doubled in 10 years
- Premium growth is organic, not a result of pricing increases

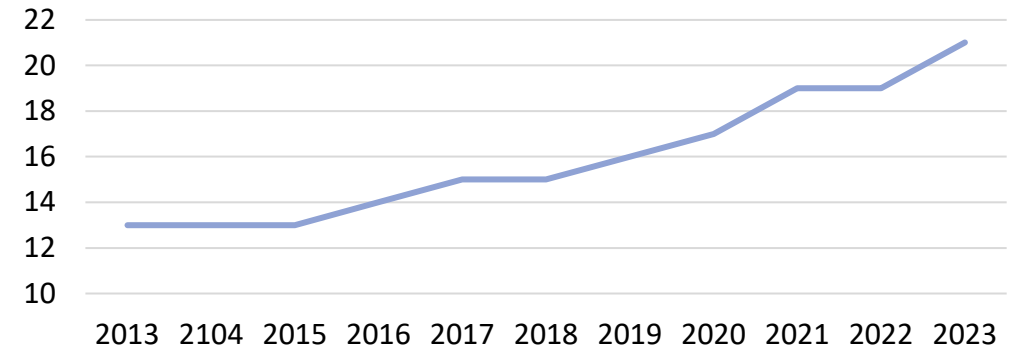
Cells Retaining Risk



Policies in Force



Active Cells



Trends



- ESG
- Builder's Risk
- Wildfire
- Parametric
- Property
 - Capacity
 - Reinsurance market access
- TRIPRA
- ILS / Cat Bonds
- Quota-share
- Asset Retirement Obligations
- Employee Benefits
 - Medical Stop Loss
 - Voluntary Benefits



MBP 15 – Retiree Benefits in VEBA Trust

The EIS Solution

- Energy Insurance Services has a dedicated protected cell that writes reimbursement policies for retiree medical plans
- Benefits covered are pre-65 and post-65 medical and Rx benefits
- The policies are called Non-cancellable Accident & Health policies, and are treated as life insurance for tax purposes and work like long term stop loss
- The policies reimburse individual members' VEBAs for a portion of incurred retiree medical claims



MBP 15 – Retiree Benefits in VEBA Trust

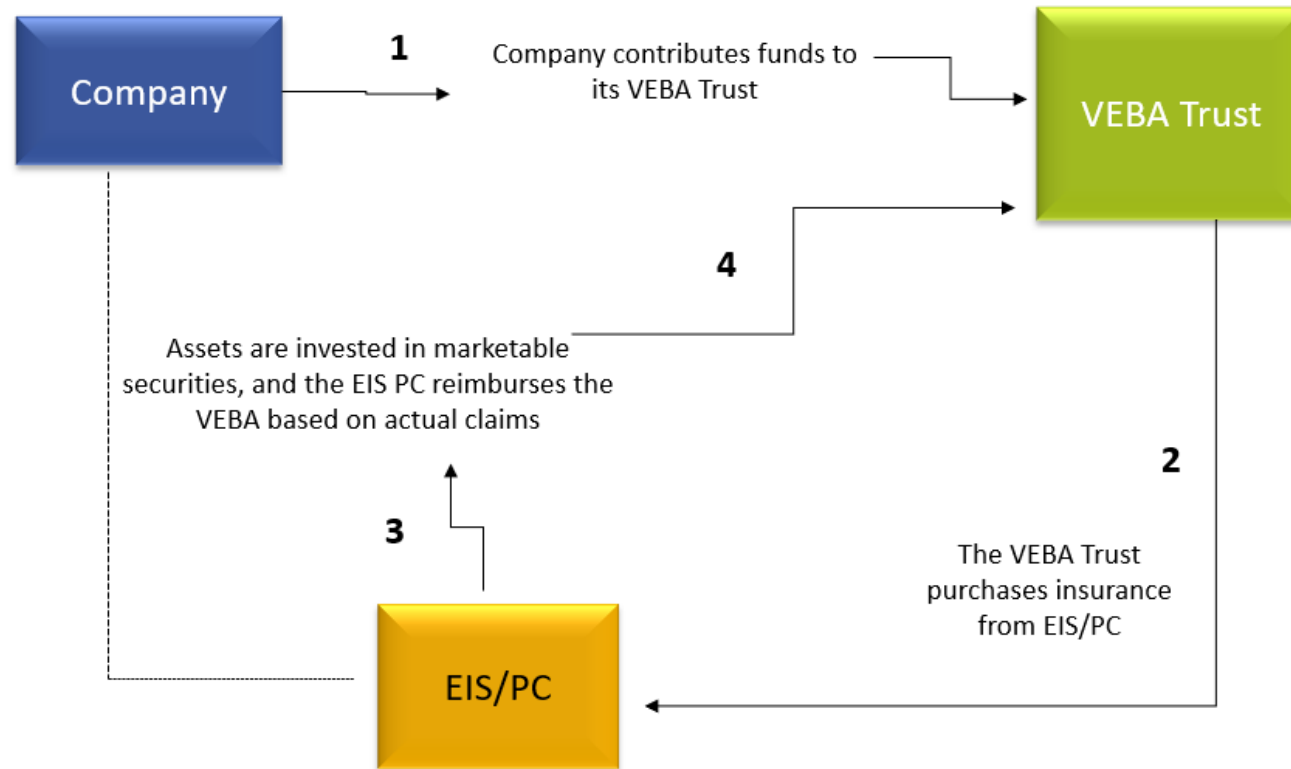
The Transaction

- A participating VEBA will purchase a Non-cancellable Accident & Health policy from EIS domiciled in South Carolina
- The VEBA is the policyholder, owner and the beneficiary. The insureds are the employees. The VEBA holds the insurance policy as an asset.
- VEBAs are separate taxable entities that are established for the benefit of employees. By its design, the assets of the trust cannot revert to the employer but must be used for the benefit of employees.



MBP 15 – Retiree Benefits in VEBA Trust

How The Retiree Medical Programs Work



Utilities have saved millions!



MBP 15 – Retiree Benefits in VEBA Trust

Benefits of the Program

- VEBAs offer a tax favored employee benefits pre-funding mechanism
 - Earnings of a VEBA for funding retiree medical and dental may be subject to Unrelated Business Income Tax (UBIT) if the assets are attributable to non-union retirees
 - If the VEBA purchases Long Term Stop Loss (a Non-cancellable Accident & Health policy is treated a life policy), the earnings are tax sheltered if held until the liabilities are fulfilled
 - It provides a “ribbon of coverage” to each participant’s VEBA



Operational Updates

- Policy level detail visibility (in progress)
- Wells Fargo Treasury Exchange online with real-time updating fully implemented
 - Direct API connection from bank to general ledger
 - Small reduction in Clearwater fee
 - Wells Fargo money market accounts transitioning to commercial checking

- EPIC is still poised for management of any EIM member single parent captive
- Full implementation for claim payments / Partial implementation for reserve tracking
- AML Vendor tracking



Audit Planning

- Johnson Lambert is returning to perform our financial audit, tax consulting, and SOC 1, type II audit
- MBP 3, 5, and 8 will be contacted over the next few weeks to update control processes
- Fieldwork is scheduled to begin the last week of February/first week of March
- No site visits planned

Financial Audit

- It's about the money
- Financial Audit Areas of Emphasis: Investments, Underwriting Claims, Taxes, Reinsurance & Financial Statement presentation
- Additional Claims focus high excess reserving in 2023

SOC 1, Type II Audit

- It's about *your* money
 - Test of the suitability of design and operating effectiveness of controls
- Audit Areas of Emphasis: Insurance Services, Cash Management, Financial Reporting & Information Technology
- Stewardship of member assets and purchases



Funding Analysis - Premium

Premium = Expected Losses + Risk Margin + Expenses

- How to estimate expected losses?
 - Loss History
 - Commercial Premium Quotes
 - Industry Information
 - Data Request –
 - Historical claims, exposure, structure, and premium paid
 - 10+ years – more is better!
 - Prospective premium quotes and exposure
- Risk Margin
 - Depends on structure, coverage, and capital
- Paid annually



Funding Analysis - Capitalization

Capitalization – For adverse events

- Based on minimum requirements, policy profile/limits, and loss history
 - For high limit coverage, general expectation is to fully fund a full limit loss within 5-10 years between capital and expected premium contributions
 - There is some consideration between size of risk margin and capital contribution
- Paid once at startup
- Additional capital infusion may be needed if adverse event occurs or coverage within cell changes



Reserving

All business ceded, net reserves = \$0

Retaining risk = reserves

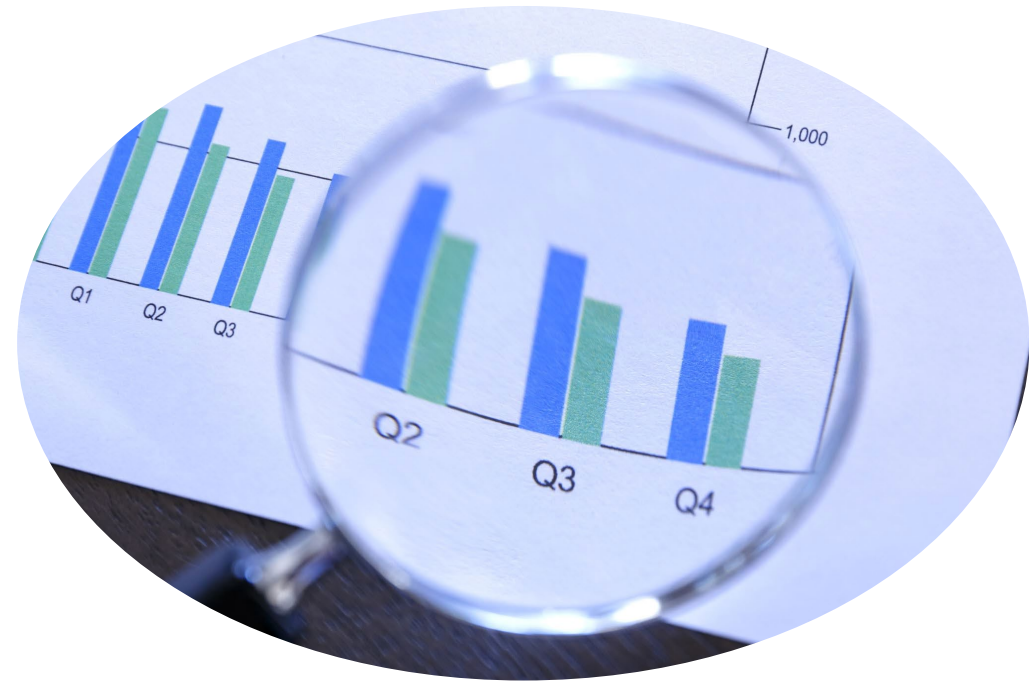
- Known Claim Estimates = Case Reserves
- Unknown = IBNR

I don't know of any (more) claims, why do I need to carry IBNR?

- Short tail coverage, you might not
- Long tail coverage, lags

Data Needs

- Loss, exposure, and initial funding expectations by policy/report year and line of coverage
- Description of applicable reinsurance
- Evaluated as of the financial report date – can be rolled forward and trued-up if needed sooner





SAVE THE DATE

EIS PAC Annual Conference
November 4-7, 2024

The Mills House Hotel
Charleston, SC

All EIM members are welcome



Q&A






SC CAPTIVE
INSURANCE

Why SC?

- Stability
- Excellence
- Autonomy
- Relationship Driven
- Experience & Maturity
- Simplicity



SC CAPTIVE INSURANCE

**WORLD CLASS
CAPTIVE
KNOWLEDGE**

South Carolina remains one of the nation's premier captive domiciles. Partnering with the global captive community, our autonomous Captive Division continues to set the standard for excellence among captive domiciles, distinguishing itself for many reasons. What are these reasons?

COME AND SEE.

CAPTIVES.SC.GOV

**TOGETHER, LET'S PURSUE
CAPTIVE EXCELLENCE**

STATE OF SOUTH CAROLINA | DEPARTMENT OF INSURANCE | CAPTIVE DIVISION
CAPITOL CENTER | 1201 MAIN STREET, SUITE 1000 | COLUMBIA, SOUTH CAROLINA 29201



OUR MISSION IS TO BE THE
DOMICILE OF CHOICE
FOR HIGH-QUALITY
CAPTIVES AND INDUSTRY
PARTNERS

421
Captives
Licensed
Overall

11
New
Captives
as of
Sept '23

213
Licensed
Captives
Actively

Over 50
Cells &
Separate
Accounts

\$3.7 billion
Total
Capital & Surplus

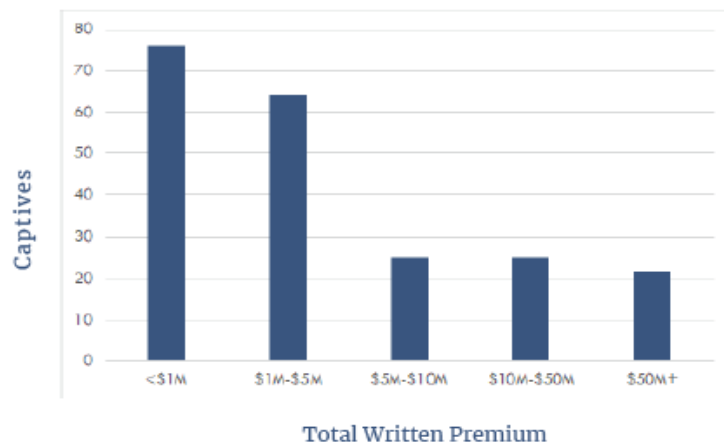
\$3.2 billion
Total
Written Premium

BREAKDOWN OF CAPTIVES STRUCTURE

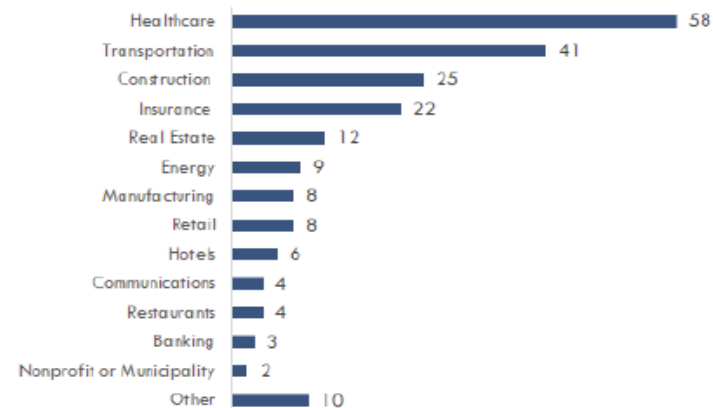


Pure	72	34.0%
Special Purpose	70	33.0%
RRG	50	23.6%
Sponsored	13	6.1%
Special Purpose Financial	5	2.4%
Association	1	0.5%
Branch	1	0.5%

NUMBER OF CAPTIVES BY TOTAL WRITTEN PREMIUM



NUMBER OF CAPTIVES BY INDUSTRY



SCDOI Captive Organization Chart



SC: The Premiere On Shore Captive Domicile





2023 Program Advisory Committee Meetings Investment Session



Introduction

► Speaker: Ralph Evans, Senior VP, Merrill Lynch



Ralph Evans is a Senior Vice President, Wealth Management Advisor and Global Institutional Consultant at Merrill Lynch Wealth Management in Tulsa, Oklahoma. He joined Merrill in 2002 and has over forty years of experience in the industry.

As a seasoned professional, Ralph understands that institutions face complex investment decisions with respect to the assets under their care. He is passionate about helping organizations track disciplined, long-range financial strategies, help ensure that their investments are on target to support their missions, and help them manage their fiduciary responsibilities. Additionally, he serves the sophisticated needs of private wealth clients. Treating them as “instaviduals,” Ralph manages his clients’ individual portfolios with the same rigor, discipline, and process he does with his institutional investors.

Ralph also recognizes the complexities captive insurance companies face when making financial decisions. With four decades of investment experience, he appreciates that every captive has different goals and liabilities and can advise its board on a clear process and strategy. Ralph also works seamlessly with a captive’s other service providers, including its custodians, actuaries, and domiciles.

When Oceans Collide

October 2023
Q3 2023

The seasonal downdraft in Equities continued in September as worries over a potential government shutdown, higher yields, and strikes overhung the market. Overall, there remains many crosscurrents across the market and economic landscape. Given both tailwinds and headwinds, we call this market environment “overcast”—not raining and not sunny.

We see the potential for additional tailwinds, including investment flows coming back into the market as inflation gauges continue to move lower. In addition, we expect corporate earnings for Q3 to come in with a small beat again. Dollar cost averaging may be an effective approach to invest excess cash into Equities over the last quarter of the year.



Breaking Down the “Overcast” Backdrop

We call this market environment “overcast” - not raining and not sunny. Given both tailwinds and headwinds, we continue to maintain a balanced tactical portfolio strategy view. Choppy market activity with a subtle drift up is our view for just about the rest of the year.

TAILWINDS

- Resiliency in the economy
- A consistent move lower in inflation
- Still-healthy jobs market
- Solid consumer spending
- Better-than-expected corporate earnings
- Generative Artificial Intelligence (AI) catalysts

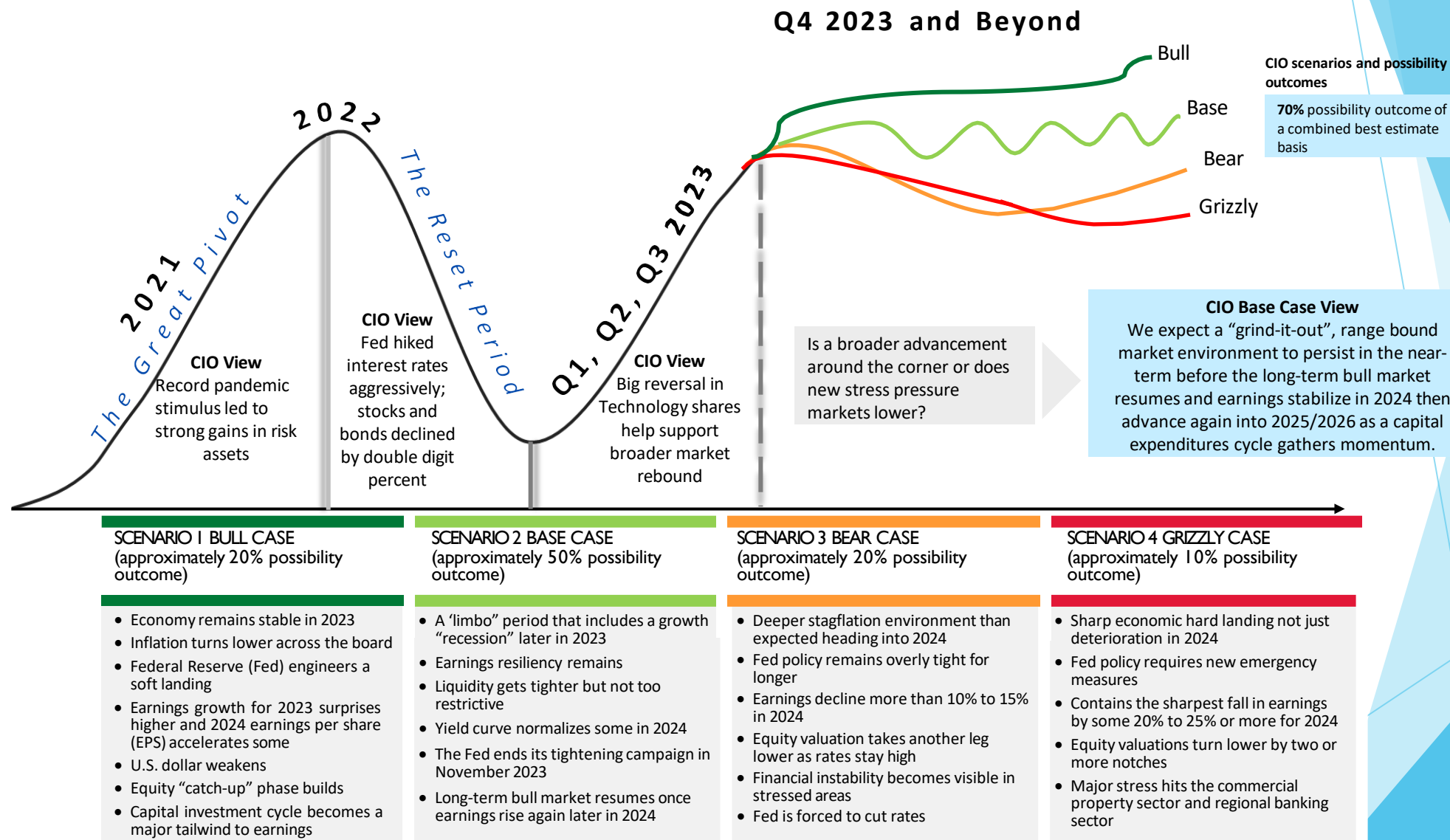
HEADWINDS

- Slower growth path for China and Europe
- The medium-term effect of the deeply inverted yield curve
- The negative signals from leading economic indicators
- Early signs of “normalization” in the jobs market
- The potential for credit spreads widening
- Heightened geopolitical risk

Dollar cost averaging may be an effective approach to invest excess cash into Equities over the last quarter of the year. We continue to emphasize higher-quality U.S. Large capitalization exposure in both Value and Growth areas.

Source: Chief Investment Office as of September 29, 2023. The Chief Investment Office (CIO) views and opinions expressed are for informational purposes only, are made as of the date of this material, and are subject to change without notice. **FOR INFORMATIONAL PURPOSES ONLY.**

What Is The Next Move?



— Black line represents the lifecycle of the CIO economic process and is not meant to represent any specific investment, index or performance of any kind. Source: CIO. Data as of September 29, 2023. CIO views are subject to change. **FOR INFORMATIONAL PURPOSES ONLY.** Economic or financial forecasts are inherently limited and should not be relied on as indicators of future investment performance. **Please refer to appendix for important disclosures.**

Global Equities Summary & Charts

CIO Equities Asset Class View

Asset Class	Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Global Equities	•	•	●	•	•
U.S. Large-cap Growth	•	•	●	•	•
U.S. Large-cap Value	•	•	•	●	•
U.S. Small-cap Growth	•	•	●	•	•
U.S. Small-cap Value	•	•	●	•	•
International Developed	•	●	•	•	•
Emerging Markets	•	•	●	•	•

Source: GWIM Investment Strategy Committee (GWIM ISC) as of October 3, 2023. Please refer to the October 2023 Viewpoint for more detail weightings information. The Chief Investment Office (CIO) views and opinions expressed are for informational purposes only, are made as of the date of this material, and are subject to change without notice. **FOR INFORMATIONAL PURPOSES ONLY. Please refer to appendix for class proxies and index definitions.**

Fixed Income Summary & Charts

CIO Fixed Income Asset Class View

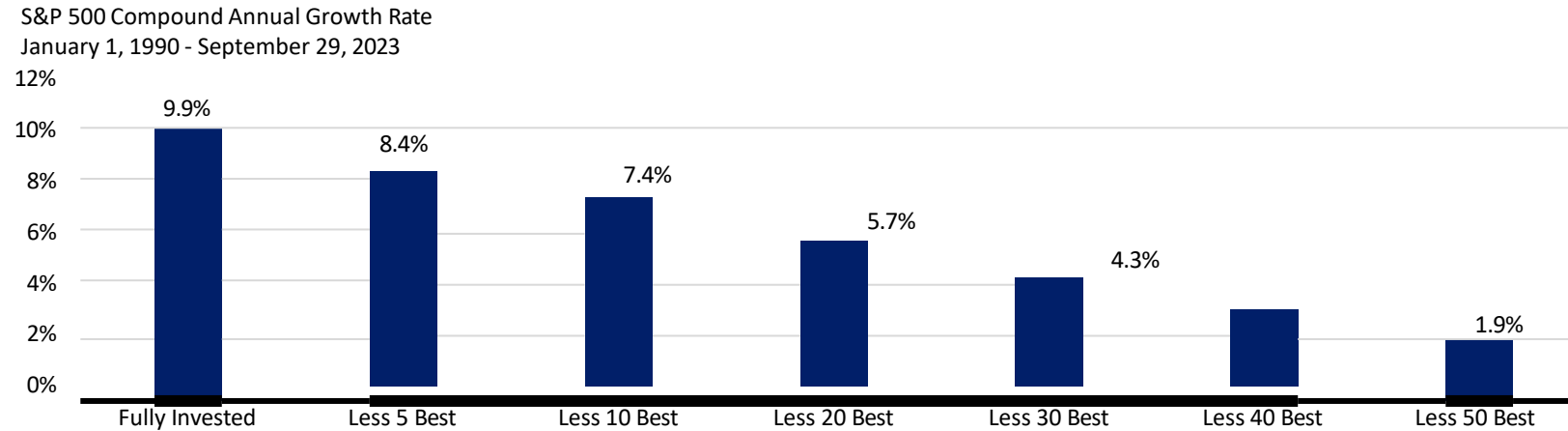
Asset Class	Underweight	Slightly Underweight	Neutral	Slightly Overweight	Overweight
Global Fixed Income	•	•	●	•	•
U.S. Governments	•	•	•	●	•
U.S. Mortgages	•	•	▶	●	•
U.S. Corporate	•	●	◀	•	•
High Yield	•	●	•	•	•
U.S. Investment-grade Tax Exempt	•	▶	●	•	•
U.S. High Yield Tax Exempt	•	●	•	•	•
International Fixed Income	•	•	●	•	•

Source: GWIM Investment Strategy Committee (GWIM ISC) as of October 3, 2023. Please refer to the October 2023 Viewpoint for more detail weightings information. The Chief Investment Office (CIO) views and opinions expressed are for informational purposes only, are made as of the date of this material, and are subject to change without notice. **FOR INFORMATIONAL PURPOSES ONLY. Please refer to appendix for asset class proxies and index definitions.**

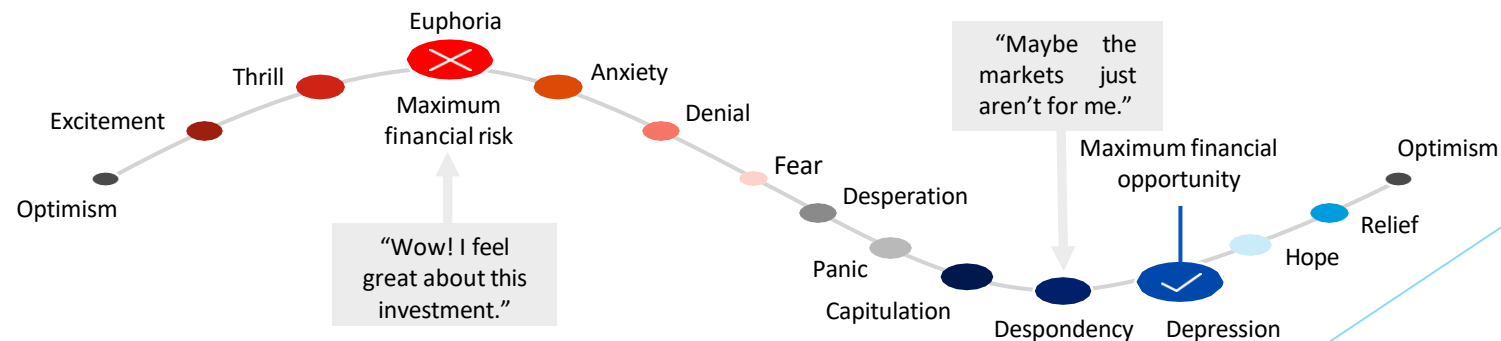
Time in the Market Matters

Time in the market is a necessary ingredient for a successful investment strategy, opposed to *timing the market*. In an attempt to invest at the “perfect time,” investors are likely to impair their returns. By our estimates, a longer investment horizon can be associated with an increased probability of generating positive returns.

Stay the course. Excluding the best days of performance for the S&P 500 drastically cuts down returns.



Planning can help avoid making emotional investing decisions.



Sources: (Upper) Bloomberg, Chief Investment Office. Data as of September 29, 2023. Data reflects S&P 500 Total Return Index performance going back to 1990 incrementally omitting top performing days. (Lower) WestcoreFunds/Denver Investment Advisors LLC. 1998. September 29, 2023. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index. Past performance is no guarantee of future results. Please refer to appendix for asset class proxies and index definitions.

Economic Forecasts & Asset Class Performance

9/29/2023	2022A	Q1 2023A	Q2 2023A	Q3 2023E	Q4 2023E	2023E
Real global GDP (% y/y annualized)	3.6	-	-	-	-	3.0
Real U.S. GDP (% q/q annualized)	1.9	2.2	2.1	2.0	1.5	2.1
CPI inflation (% y/y)	8.0	5.8	4.0	3.5	3.4	4.2
Core CPI inflation (% y/y)	6.1	5.6	5.2	4.4	3.9	4.8
Unemployment rate (%)	3.6	3.5	3.5	3.6	3.8	3.6
Fed funds rate, end period (%)	4.33	4.83	5.08	5.33	5.63	5.63

The forecasts in the table above are the base line view from BofA Global Research team. The Global Wealth & Investment Management (GWIM) Investment Strategy Committee (ISC) may make adjustments to this view over the course of the year and can express upside/downside to these forecasts.

A=Actual. E/=Estimate.

Sources: BofA Global Research; GWIM ISC as of October 3, 2023. **FOR INFORMATIONAL PURPOSES ONLY.** BofA Global Research is research produced by BofA Securities, Inc. ("BofAS") and/or one or more of its affiliates. BofAS is a registered broker-dealer, Member SIPC, and wholly owned subsidiary of Bank of America Corporation. There can be no assurance that the forecasts will be achieved. There is no guarantee that this trend will continue. **Please refer to appendix for glossary and important disclosures.**

Introduction

► Speaker: Carl Terzer, Principal, CapVisor Associates



Carl E. Terzer is Founder and Principal of CapVisor Associates, LLC, an SEC-registered investment advisor, that specializes in providing investment advisory services exclusively to insurance companies. Utilizing his more than 35 years of insurance asset management experience, including 26 years at prominent Wall Street asset managers, he and his team function as an outsource chief investment officer. With expertise in US and non-US bonds, equities, and alternatives, CapVisor helps insurers optimize their investment programs and portfolios to maximize risk-adjusted returns.

Mr. Terzer serves on several insurance company and association boards and committees. He is an investment instructor for NAMIC's Directors Boot Camp and also at ICCIE. He is a frequent speaker at industry events, conferences and for AM Best TV. Mr. Terzer is also an occasional editorial contributor to several insurance industry publications. He has a BA in Business Administration, with a focus in Economics, from Rutgers College and is FINRA series 66 licensed (series 6 and 7 dormant)

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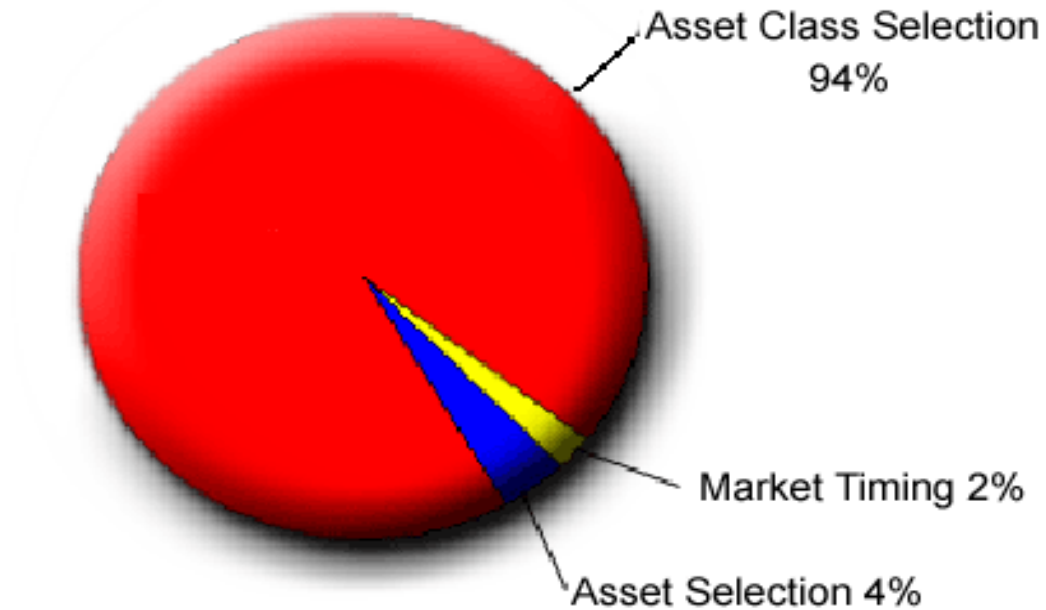
Your Cell's Investment Portfolio

Reserve and Surplus Portfolio Optimizations



Strategic Asset Allocation

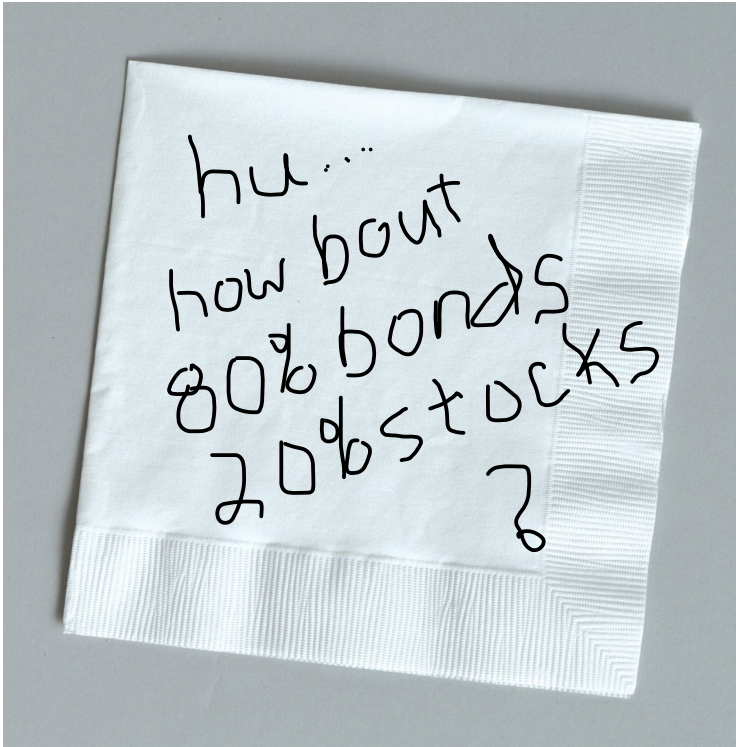
The Captive Board's (PAC) most important investment decision



Sources: Ibbotson and Kaplan entitled "Does Asset Allocation Policy Explain 40%, 90% or 100% of Performance?" (2000).

Designing your asset allocation

Step 1



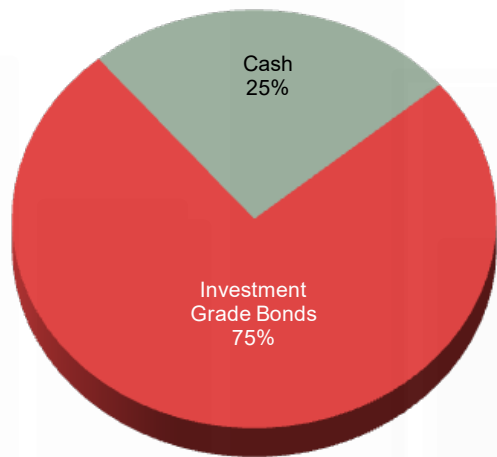
Step 2



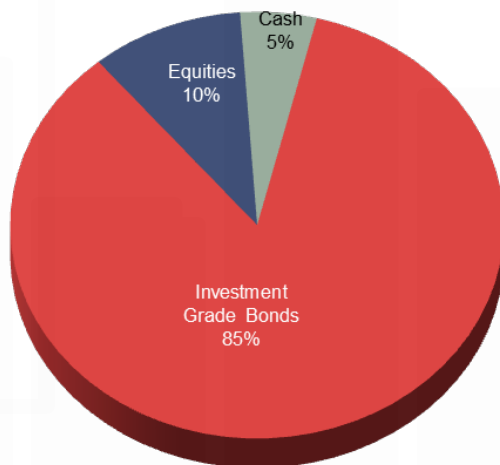
A Captive should use a rigorous analytic approach based upon ERM and ALM concepts that correlates your investments to your underwriting activities

13

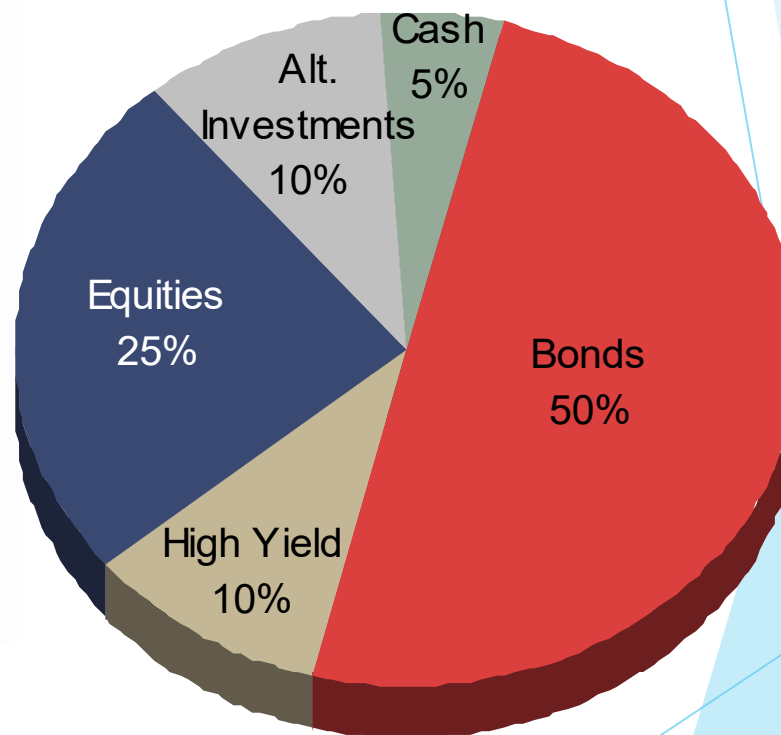
Lifecycle Investing



New/Small Captive



Advanced Captive



Mature Captive

Case Study



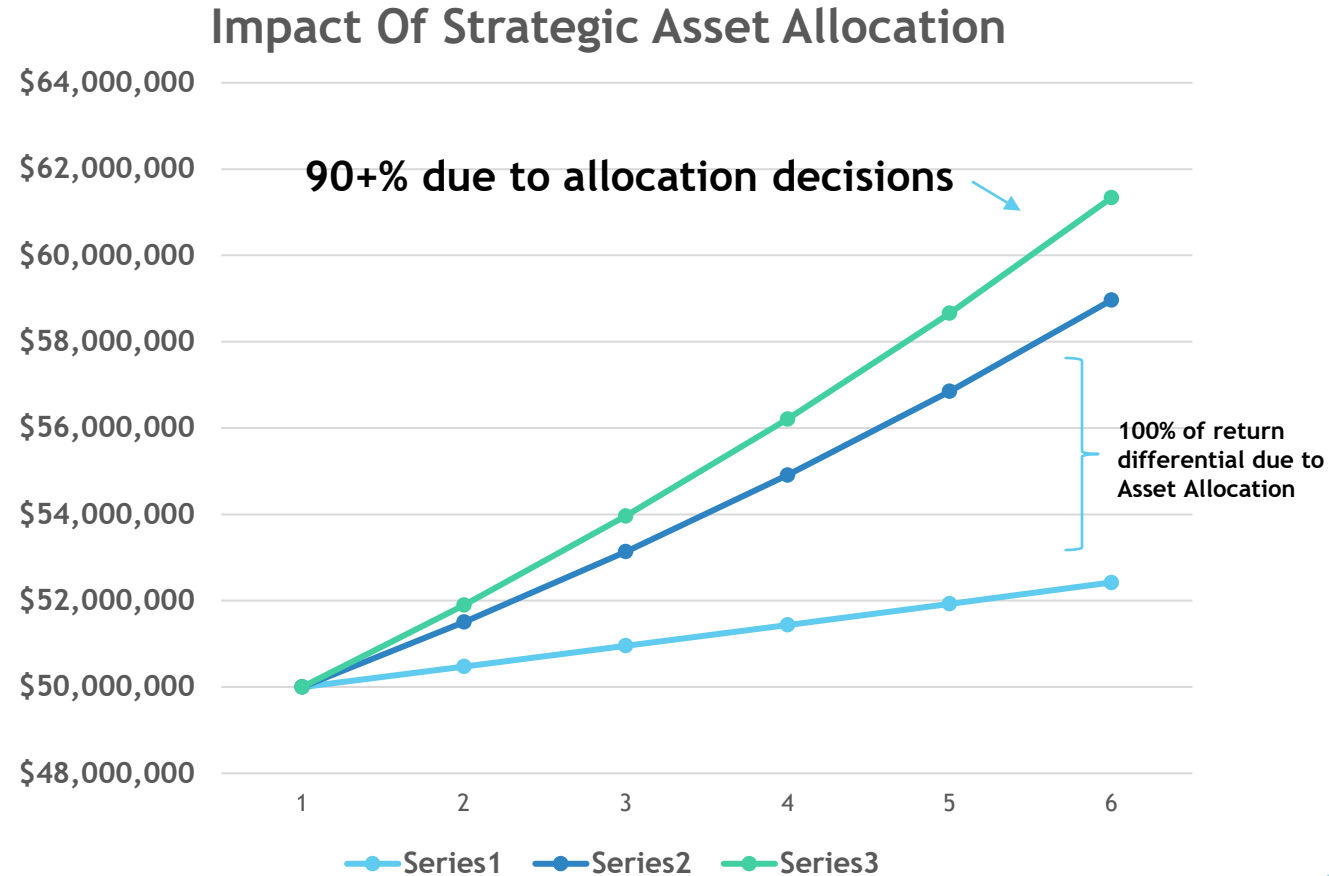
- A \$50 MM Captive example
- Using 2022 Long Term Capital Markets Assumptions (LTCMA) from JP Morgan
- Effects of Strategic Asset Allocation (SAA) Optimization

Asset Allocation = 90+ % of Return? Really?

Series 1 Allocation 100%
investment Grade bonds

Series 2 Allocation 100%
investment Grade bonds
20% US Large Cap Stocks

Series 3 Allocation
65% Investment Grade Bonds
22% US Large Cap Stocks
3% High Yield Bonds
7% REITS
3% Convertible Bonds



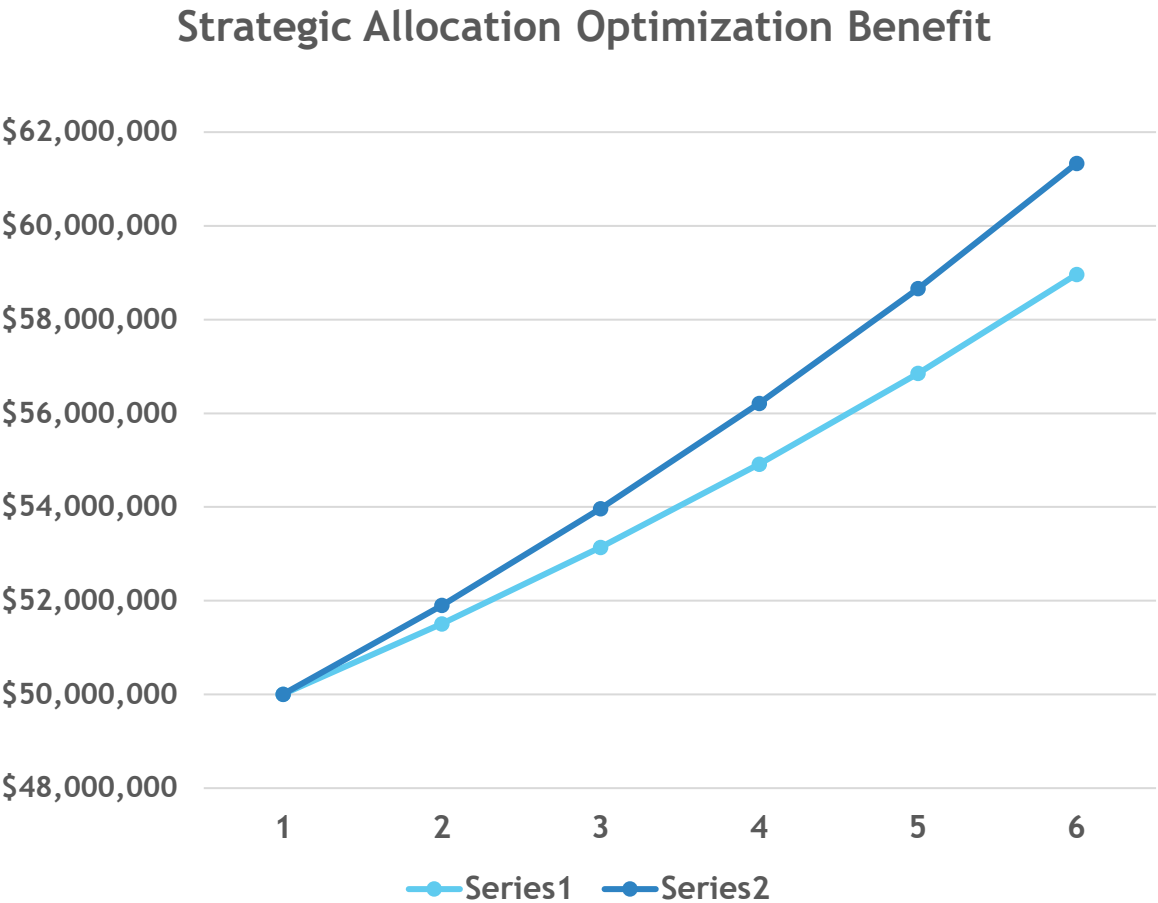
Data sources: JP Morgan LTCMA and CapVisor analysis. Allocation performance utilizes passive ETFs

Asset Allocation Optimization Matters

- Series 1 Allocation**

 - 80% investment Grade bonds
 - 20% US Large Cap Stocks
- Series 2 Allocation**

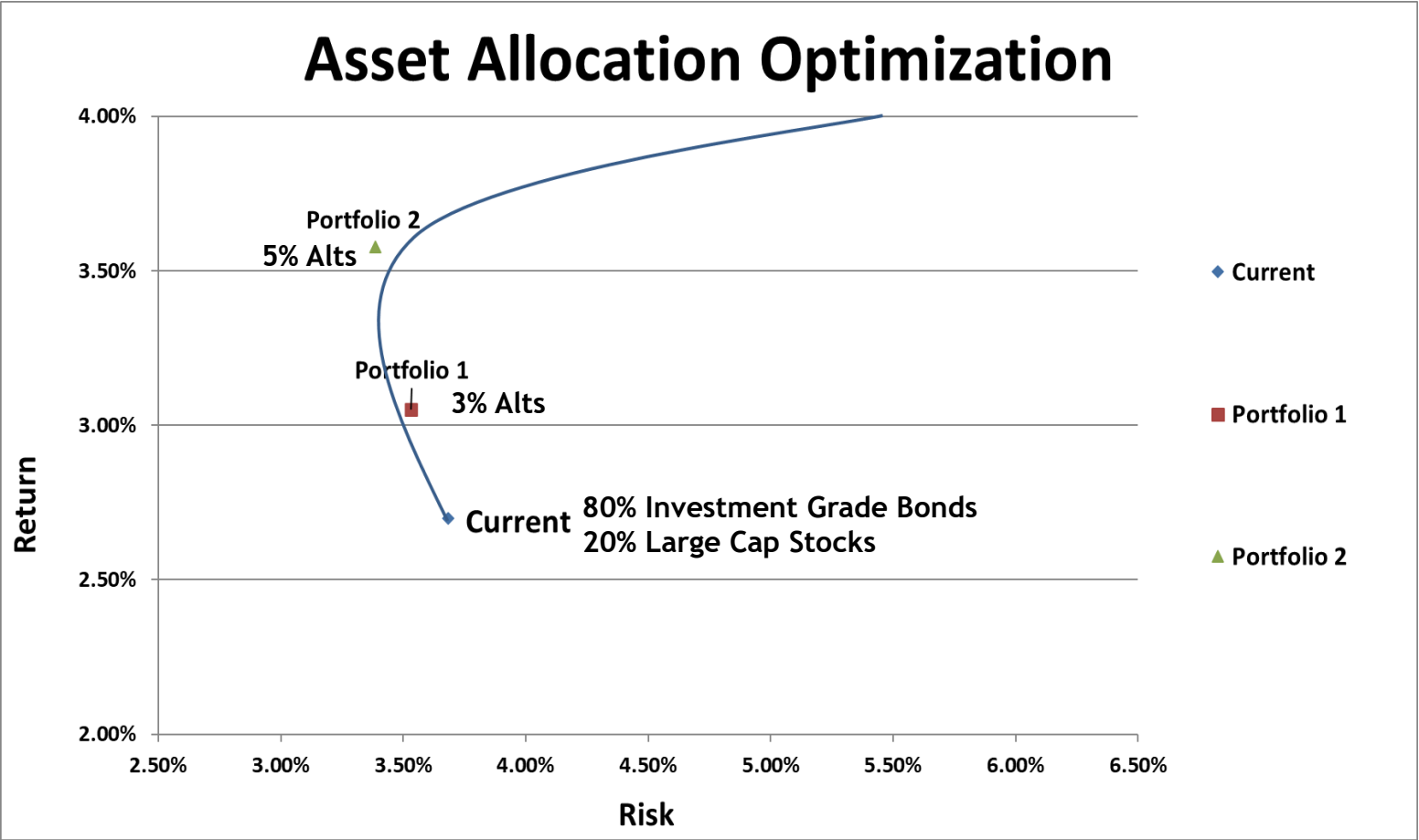
 - 65% Investment Grade Bonds
 - 22%US Large Cap Stocks
 - 3% High Yield Bonds
 - 7% REITS
 - 3% Convertible Bonds



Data sources: JP Morgan LTCMA and CapVisor analysis. Allocation performance utilizes passive ETFs



Alternatives: Low/Inverse Correlations



Data sources: Informa PSN Database and CapVisor analysis using actual manager-reported 5-year annualized performance

Introduction

► Speaker: Jeff Spicer, Director, Wells Fargo



Jeff Spicer is Director / Lead Relationship Manager Commercial Banking at Wells Fargo.

Mr. Spicer has over 30 years experience in the financial services industry covering multiple lines of business to include commercial, retail, private banking and commercial real estate.

About Wells Fargo

- Approximately \$1.9 trillion in assets
- Provides a diversified set of banking, investment and mortgage products and services, as well as consumer and commercial finance, through four reportable operating segments
- Globally Systematic Important Bank (G-SIB)
- Ranked #18 largest public company in the world on Forbes 2022 Global 2000
- Global footprint with 41 physical locations across 20 countries

Top 5 security trends

For the next 10 years

1

Zero trust security



Emerging as a more secure model for companies to control remote access

“Never trust, always verify”

Reducing reliance on passwords for authentication¹

2

Vendor security

44% of companies experienced a significant data breach through a third-party vendor

On average, a median size company contracts with approximately 5,000 third-party vendors²

3

Cyber skills gap



Cybersecurity workforce needs to grow 65% to be effective in defending critical assets as there are 400,000 open cybersecurity positions in the U.S.³

4

Cyber attacks



In 2021, cybercrime caused \$6 trillion in damages^a (about \$18,000 per person in the U.S.) and is projected to grow 15% annually to \$10.5 trillion by 2025^b

Attacks increased 600% during the pandemic^c

5

AI-driven threats



AI technology (i.e., ChatGPT) being used to automate individual interactions and other cyber fraud attacks at a cheap and scalable rate, which could increase the size, scale and speed of cyber threats

1. [7 Facts About the Zero Trust Security Model \(redriver.com\)](#)
2. [Third-Party Cyber Risk: 6 Facts Every CISO Should Know \(panorays.com\)](#)
3. [Can closing the cybersecurity skills gap change the world? | World Economic Forum \(weforum.org\)](#)

4. Cyber attacks:
a) [119 Impressive Cybersecurity Statistics: 2021/2022 Data & Market Analysis - Financesonline.com](#)
b) [Cybercrime To Cost The World \\$10.5 Trillion Annually By 2025 \(cybersecurityventures.com\)](#)
c) <https://www.businessinsider.com/top-un-official-warned-of-cybercrime-spike-during-pandemic-2020-5>

EIS Fraud controls and processes in place



Checks

- **Positive pay** systematically compares checks presented for payment to your issued-check files to detect serial numbers and dollar amounts that don't match.
- For extra security against payee alteration fraud, **Payee Validation**
- **Maximum check limit** automatically returns checks exceeding a set dollar limit and prevents such checks from being cashed by a teller.



ACH transactions

- **ACH Fraud Filter** automatically stops all ACH debits — except those you preauthorize
- Unauthorized transactions can be presented to you for pay or return decisions.
- **ACH Block** stops all ACH debits from posting to certain accounts



Online transactions

- Reconcile bank accounts daily (**BAI** and **API** reporting) pay close attention to account activity
- Monitor and approve account and login credentials for Wells Fargo portal users



Internal controls Dual custody

- Serves as a second chance to identify potential fraud
- Verbally verify and confirm the request
- Watch for red flags, especially if a request seems out of the ordinary
- Only use the contact information you have in your system of record

Nine steps to help protect your business

1

Beware of unexpected token prompts or on-screen messaging

2

Protect your credentials

3

Implement dual custody

4

Require multi-factor authentication

5

Never click on links from unknown senders

6

Monitor accounts

7

Sign up for alerts services

8

Update antivirus software

9

Initiate transactions from stand-alone PCs that restrict email and web browsing

Cybersecurity resources

- CIS Critical Security Controls
<https://www.cisecurity.org/controls/v8>
- CIS Control Self-Assessment Tool (Registration Required)
<https://csat.cisecurity.org/accounts/login/?next=/>
- NIST CSF
<https://www.nist.gov/cyberframework>
- Capability Maturity Model Certification
<https://www.acq.osd.mil/cmmc/>
- FBI Internet Crime Complaint Center
<https://www.ic3.gov/>
- Cybersecurity & Infrastructure Security Agency (CISA)
<https://www.cisa.gov/>
- CISA Cyber Incident Response Best Practices
<https://www.cisa.gov/cyber-incident-response>

Note: to use the links, highlight the link, right click and select “Open Hyperlink” – if reading hard copy, enter the https address on your browser.

Letters Of Credit

- ▶ Application Process
- ▶ Structure - Typically 1 year auto renewing
- ▶ Collateral - Cash in account with Wells Fargo
- ▶ Fees - 1.5% to 2.5% per year depending on size

The background features abstract, overlapping geometric shapes in various shades of blue, ranging from light sky blue to deep navy blue. These shapes are primarily located on the right side of the frame, creating a modern, layered effect. The rest of the background is a solid, very light blue.

Questions ?