



Members Report June 2020

*A Conversation
With EIM's
President & CEO,
Tommy Bolton*



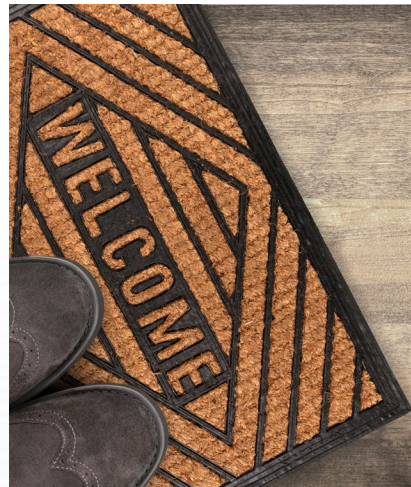
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Familiar Faces, New Roles



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An "A" Rating

*"We'll Be Back" -
Planning Our Return*





Tommy Bolton
President and Chief
Executive Officer

At the May 2020 EIM Board meeting, Tommy Bolton was appointed President & CEO of EIM, the third individual to hold this position in EIM's 34-year history. Tommy is a familiar face to anyone who has done business with the company over the last 11 years, having served as Controller, Vice President – Chief Financial Officer, and President & COO during his tenure with EIM. We thought it would be an opportune time to get Tommy's views on EIM and his vision for the future. The following is an edited version of our conversation with Tommy.

First, congratulations on the new position at EIM.

Thanks. I'm extremely grateful to the EIM Board for having the confidence in me to assume this position and honored to have the opportunity to serve EIM members. It is slightly intimidating to take on the new role, but having worked at EIM for over ten years, I'm confident that the transition will be smooth.

You take on the President & CEO role at a time of significant upheaval created by the COVID-19 pandemic. How are you approaching this challenge?

Well there's little doubt that this is a very unique situation, one that is a first, certainly in my lifetime. There is no playbook for the pandemic, so we will take it one step at time. First and foremost is the safety of the EIM staff and those we interact with on a daily basis. Second is meeting Member Company risk management needs regardless of the outside factors impacting EIM's financial, underwriting and operating platforms. And third is getting back to business as usual as soon as it is prudently possible.

While there is no playbook for COVID-19, EIM has a strong business continuity plan that we rehearsed regularly before putting it into effect in March 2020. I've been pleased with the way the company has met the challenges of working remotely while also renewing and bringing on new business, regularly assessing our investment portfolio performance and the accompanying guidelines that dictate how we manage Member Company assets, and administering claims in a timely fashion.

We have focused on communication, both internally and externally, with weekly staff meetings via videoconferencing, daily interactions with members, brokers and business partners, and regular calls with Board members. Timely communication and interaction have helped us stay focused and aligned with activities underway at EIM, EIS and ECM.

Does COVID-19 make your transition more difficult?

While it would not have been at the top of my list of issues to confront in my first days as President & CEO, I am fortunate to have more than 17-years experience with EIM, both as an outside auditor at Johnson Lambert LLP on the EIM account through 2008, and then joining EIM in 2009. This means I have not had to spend a great deal of time "getting up to speed" on EIM and instead am able to fully focus on navigating EIM through the pandemic as healthy and as strong as possible.

How is EIM doing in the face of this pandemic?

The company is doing extremely well under the circumstances. I remember joining EIM just after the 2008 financial crisis when surplus had declined by more than 30%, the investment portfolio had lost almost 30% of its value, and the loss ratio approached 150%. By comparison, even though the U.S. stock market dropped more than 20% in the first quarter of 2020, tracked closely by a similar downturn in international equities, EIM saw its overall investment portfolio decline by only 6%. First quarter surplus stood at just under \$1.1 billion, aided in part by our 93% net loss ratio. The lessons learned in 2008 have clearly helped us minimize the effects of the 2020 pandemic. While there is still tremendous volatility in the investment markets, we have

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seen an April rebound that added \$40 million to surplus, paring the investment portfolio decline almost in half. We have a long way yet to go this year, but I am confident that we will continue to exhibit financial strength which gives us the ability to remain consistent on the underwriting front in terms of products, limits, and coverage terms, as well as focused on timely claim payments.

What is your game plan for EIM, both short and long-term?

From a short-term perspective, getting back to or as close to business as normal is the number one priority right now. How long that takes will be dictated in large part by how the virus develops. We know that there will be less face-to-face meetings in the near term, that travel will be curtailed and that it is going to take some time to regain the confidence to interact in large groups. But, I can say in the almost three months that we have been working remotely, things have been fairly smooth with little or no interruption in day-to-day business operations. Our investment portfolio has reversed somewhat since March 2020 and underwriting remains strong with many new business opportunities under consideration. We continue to administer claims with an eye toward timely and efficient resolution.

Longer term, we expect to remain steady on the underwriting front and strong financially. Our three-year strategic plan lays out the defining principles of our business proposition which is very consistent with what EIM has been focused on since it was founded. In particular, we remain committed to member companies, but will also take into account adoption of new technologies, a commitment to more aggressively mining data to better assess risk management decision-making, and promoting a diverse and inclusive work environment.

What will be different about EIM under your leadership?

You will not see revolutionary changes at EIM in the short term, but EIM will evolve with its membership and embrace change in a thoughtful, reasoned way. Some may say that EIM has not changed much over the last ten years, but if you take a moment to reflect back, there have been subtle but meaningful changes within the organization, all designed to respond to Member Company risk management needs. I would expect a similar transformation over the next ten years. We are fortunate to have an exceptional group of professionals at EIM who understand and embrace the mutual concept along with a Board and Insurance Advisory Committee that are engaged and keep us focused on the end game.

Any closing thoughts?

Once again I would like to say how honored and excited I am to assume my new role at EIM. I want members to know that I am committed to sustaining EIM's history of excellence, collaboration, and communication, working hand-in-hand with members and business partners to deliver the best risk management solutions possible. I am looking forward to that time when we can again meet face-to-face, but until then I'll see you via videoconference!





Even though EIM has been working remotely since March 16, underwriting functions have not been interrupted or slowed by the “shelter-at-home” new normal. In fact, activity has increased as EIM has seen a record number of new submissions, both for existing and prospective members.

NEW/RENEWAL BUSINESS

After adding three new members in the first quarter, EIM’s membership count now stands at 156. New submissions for General Liability, Directors and Officers, and Property totaled 35, with EIM binding about 20% of these requests for coverage. This first quarter activity has already outstripped the new submissions EIM saw for the entire 2019 calendar year. Equally noteworthy is EIM’s 100% member-retention rate for the first quarter of 2020.

Underwriting activities have also included continued expansion of General Liability capacity beyond EIM’s historical \$100 million limits with more than 25 members now purchasing varying levels of GL coverage above \$100 million. Mutual partner NEIL has been instrumental in this effort, supporting additional limits with their individual capacity which is deployed in tandem with EIM’s extended limits.

As we noted at the February 2020 Risk Managers Information Meeting, California wildfire will be addressed on a policy-by-policy basis with EIM not offering wildfire coverage to new California members. Inception to date EIM California wildfire losses have totaled more than \$430 million, dramatically impacting not only EIM but the insurance market as a whole. We have communicated with those existing members having California wildfire exposure about pricing, limits and coverage terms and are working with them to ensure that coverage and price reflect the ongoing wildfire risk within the State.

Overall, underwriting revenue is ahead of budget by about 5%, driven by new business, rate increases, and additional capacity provided in connection with General Liability limits.

PANDEMIC IMPACT

In response to COVID-19, there has been significant discussion about adding pandemic exclusions to various lines of business. To date, we have seen a number of exclusions presented on Property renewals and, as a following market, EIM is incorporating these limitations. However, none have yet been adopted as part of excess GL and D&O coverages. The most significant push from a claims perspective has been on the Property front where we have already read about coverage disputes arising in connection with interpretation of “physical damage,” a required coverage trigger. Some are arguing that the COVID-19 virus on surfaces constitutes physical damage. It will remain to be seen how impactful this argument will be.

Working remotely, coordinating with members on renewals via Skype, Teams, Webex, and Zoom, and assessing the regular stream of new business opportunities have kept the underwriting staff busy over the last few months. Despite the dislocation occasioned by COVID-19, EIM underwriters have stepped up to provide much needed excess insurance to members. We understand the importance of delivering on our promises and are committed to working with you as the year unfolds.

Probably the best example of an EIM underwriter keeping his promise is Bryan Oliff who underwrites GL, Cyber and D&O risks. Bryan and his fiancé had planned a wedding for April 18, 2020. With the venue unable to accommodate his wedding and reception, Bryan devised a backup plan. Undeterred, and a man who always keeps a promise, Bryan revisited the guest list, enlisted an officiant, and with the help of Zoom, married his wonderful wife, Jenn, as planned on April 18! ***Congratulations Bryan and Jenn!***



Jill Dominguez
Vice President, Chief Underwriting Officer





Recognizing that claims are perhaps the most important function undertaken at EIM, the transition to working remotely placed the spotlight squarely on EIM's ability to continue to administer and resolve claims in a timely fashion. After almost three months of "sheltering-at-home" we are pleased with the company's ability to not only stay on top of new and existing claims, but to advance claims toward resolution.

THE IMPACT OF COVID-19

In terms of the operational impact that COVID-19 has had on EIM, it is minimal. The claims department continues to meet regularly, process and administer claims, and make both claim and loss adjustment expense payments without interruption. While more heavily relying on video platforms and teleconferencing, EIM's claims professionals are functioning in much the same fashion as they were pre-COVID-19.

The most pronounced pandemic impact has been on external activities revolving around the state and federal court systems. Most courts were closed in March 2020 with online or telephone access undertaken in only the most pressing scenarios, primarily focused on criminal proceedings. Some courts have recently opened partially but are conducting hearings remotely via teleconference or video platforms. We expect to see little or no court-held settlement conference or trial activity for the better part of 2020, particularly jury trials requiring large pools of potential jurors.

Mediations and arbitrations are hampered by limitations on group gatherings, social distancing mandates, and travel restrictions. Most alternative dispute resolution firms are adjusting by the use of videoconferencing. EIM has participated in remote mediations and negotiations and expects an increase in the use of these forums for the immediate future. Even with the closure of many courts, EIM has been able to resolve several significant claims in the first five months of 2020.

CLAIM ACTIVITY

EIM continues to receive notices of new claims via electronic mail, as was the norm prior to COVID-19 restrictions. There has been no effect on the volume of new matters reported to EIM when compared to the same period in 2019. Overall, liability reserving activity in 2020 has related almost exclusively to prior underwriting year claims.

In terms of COVID-19 specific claims, we have received a handful of general notices of occurrences citing the pandemic as the potential cause of loss under both General Liability and Property policies and a few specific notices indicating the potential for claims due to known COVID-19 employee infections. To date, we have not received notice of any third-party claims alleging illness as a result of Member Company actions. We anticipate increased activity on business interruption claims under property policies but will need to assess the "physical damage" threshold included in EIM's policies before determining if coverage exists. Coverage litigation has already begun in other industries regarding this first party property issue, so we do expect to see case law development specific to COVID-19 in several states over the next year.

WHERE ARE WE HEADED?

With the unique situation we find ourselves in, EIM is committed to taking any unusual steps necessary to continue business as usual. Our members should see no drop off in responsiveness, attention to detail, or efforts to efficiently resolve claims. Payments, whether relating directly to a claim or associated with loss adjustment expense, will continue to be made in a timely fashion. We regularly communicate with the Board's Claims Committee to take all necessary actions to reserve for, evaluate and resolve open claims. While we are doing business from a distance on a day-to-day basis, we are staying close to Member Company claims.

Ann Joslin
Vice President – Claims





When EIM began working remotely in March 2020, it was an unsettling time. While technical capabilities for remote work were always in place, we had never experimented or experienced a situation where everyone was now going to work remotely. We were not only going to test the resiliency of our infrastructure, application services, and communications capabilities, but we needed to do it seamlessly without missing a beat.

Fortunately, EIM has a Business Continuity Plan in place that addresses many of the issues raised when you decide to wholesale work from home. Not only was a plan in place, but we reviewed it annually and tested it with a mock continuity effort biennially. So, the practice had given us some sense of what to expect, but reality seldom mirrors the drill.

HOW DID IT GO?

When all was said and done, the transition went very smoothly. Between EIM's BYOD (Bring Your Own Device) model and available spare systems, we were well-positioned to immediately transition to a remote work model. A few new peripheral devices were procured in a week (monitors, headsets, etc.) to create a comfortable work from home environment for our staff.

EIM's Enterprise Architecture was designed using strong guiding principles and best practices to address many 'illities' such as reliability, availability, security, capacity, etc., that were quickly achieved thanks to our transition to the Cloud in 2017. The foundation laid in 2017 helped ensure uninterrupted access to 100% of EIM's underwriting, claims, and finance functions.

We committed IT staff to enhanced remote assistance as users came across questions or complications relating to IT functions. Enhancement of IT's support model not only included round the clock availability, but also "hands-on" assistance with IT staff remotely taking control of user computer functions to accelerate and facilitate fixes. After an initial "breaking in" period, daily functions throughout the company became close to business as usual.

One important aspect of the transition to working remotely was regular communication. Frequent IT updates with commonly asked questions and technology tips and hints helped users to "self-service" common IT issues and work more efficiently. Part of this process was also ensuring that EIM staff could effectively communicate and collaborate with internal and external users on various remote meeting platforms.

SECURITY CONSIDERATIONS

With increased traffic from social engineering over the last two months, EIM continues to be vigilant with monitoring its infrastructure and services from adversaries. The company's security posture across various facets of EIM's IT disciplines stays strong. With a current score of 97 by Security Scorecard, EIM performs better than its industry peer group with an 'A' rating.

Additionally, EIM regularly assesses vulnerabilities within its system, whether they arise from third-party software, network, Cloud setup, or proprietary applications. EIM continually monitors these vulnerabilities-by-severity which are categorized on a scale of 1 (least severe) to 5 (most severe). Our most recent report reflects that the vulnerability footprint is modest and within the risk appetite of the EIM. Moreover, EIM continues to eliminate most vulnerabilities by the monthly patches received from third-party software providers.

EIM has experienced no breaches since it began working remotely in March; we have had no downtime; we have flattened the curve of support incidents in the first two weeks; we are remaining vigilant to minimize vulnerabilities; and we are striving to achieve the highest levels of service to our membership.

Simply stated, working remotely is working.



Sridhar Kocharlakota
Director, Information Technology





On March 16, 2020 EIM employees began working from home as recommended by state and local governments in Florida and South Carolina. The transition has gone very smoothly with the help of tele- and videoconferencing, weekly staff meetings, and many, many updates with EIM’s business partners. While the initial return-to-work date was set for April 15, 2020, we have since extended that to a tentative

return date of August 3, with the possibility of an even later return. While our remote operation has proceeded successfully, the health and safety of EIM employees and those in our respective communities, as well as that of our members and business partners, will guide our decision on when to return.

WHAT’S THE PLAN?

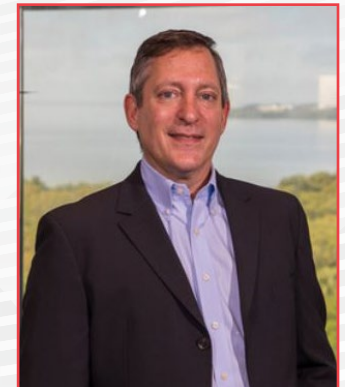
While the exact date of our return to the offices may be unclear at present, we expect and want to get back to our normal work schedule as soon as it is safe to do so. We have created a task force to evaluate a return-to-work plan and consider the implications of a post-COVID-19 workplace. Not only will we take into consideration federal, state and local mandates and guidelines, we will also consider the best interests of EIM employees and our members. We expect that aggressive disinfecting and cleaning measures, social distancing, use of personal protection devices, and employee screening will all be addressed in the return-to-work plan. With return to work comes the need for training to ensure universal understanding and compliance with COVID-19 mitigation efforts. In addition, business considerations such as travel, group meetings, and industry conferences will need to be addressed as part of ongoing operations.

STAYING SAFE

We recognized very quickly as we considered our return to work that it is not as simple as opening the doors. Interactions that take place from the parking lot, to the building lobby, to the elevators and other common areas all need to be considered as safety measures get put into place. These interactions involve not just EIM, but all of the buildings’ tenants, guests and, in the case of EIM in Tampa, an adjacent hotel that accommodates guests from around the world. Couple that with employees’ many contacts outside the office post working hours and the considerations become exponentially more complex. We need to consider even the simplest things such as, “Is a handshake now obsolete”?

There are a number of considerations that we are focusing on. First, we will be returning to our offices as soon a prudently possible. While our work from home efforts have been very successful, working from a common space helps communication, teamwork, and morale. Second, we will have a well-vetted plan before we return to work that will ensure ongoing health and safety. Finally, we will assess the impact of interactions with those with whom we do business on a regular basis to minimize risk while maximizing effectiveness.

The business world may look dramatically different for the foreseeable future. EIM is well-prepared to continue working with and successfully meeting the challenges of the COVID-19 world.



Kevin Wolff

Vice President, General Counsel & Secretary





**BUCKEYE
PARTNERS, L.P.**

Buckeye Partners, L.P. owns and operates a diversified global network of integrated assets providing midstream logistic solutions, primarily consisting of the transportation, storage, processing and marketing of liquid petroleum products. Buckeye is one of the largest independent liquid petroleum products pipeline operators in the United States in terms of volumes delivered, with approximately 6,000 miles of pipeline. Buckeye also uses its service expertise to operate and/or maintain third-party pipelines and perform certain engineering and construction services for its customers. Buckeye's global terminal network comprises more than 115 liquid petroleum products terminals with aggregate tank capacity of over 118 million barrels across its portfolio of pipelines, inland terminals and marine terminals located primarily in the East Coast, Midwest and Gulf Coast regions of the United States as well as in the Caribbean. Buckeye's global network of marine terminals enables it to facilitate global flows of crude oil and refined petroleum products, offering its customers connectivity between supply areas and market centers through some of the world's most important bulk liquid storage and blending hubs.



AMERICAN WATER

With a history dating back to 1886, **American Water** is the largest and most geographically diverse U.S. publicly traded water and wastewater utility company. The company employs more than 7,100 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to more than 14 million people in 46 states.

3456, Inc.

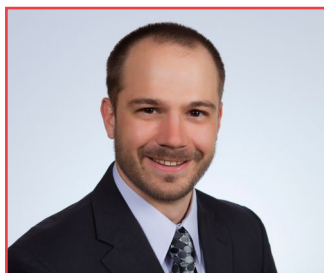
3456, Inc. focuses on the efficient, safe and reliable delivery of electricity to customers in northern and eastern Maine, where the company installs, operates and maintains transmission and distribution infrastructure such as poles and wires, substations, and meters. The parent company is wholly owned by ENMAX Corp., an energy company based in Calgary, Alberta.





EIM is pleased to announce new roles for two individuals who have longstanding relationships with the company.

Jeff Tkacz, ECM's former Controller, has been appointed Vice President – Chief Financial Officer of EIM, and Jennifer Gray, formerly with the Johnson Lambert LLP audit team that conducted EIM's annual audits, has joined EIM as Controller.



JEFF TKACZ

Jeff Tkacz joined ECM in January 2015 as the Controller for Energy Captive Management, LLC, in Charleston, SC after seven years with Johnson Lambert LLP, where he worked on the EIM annual audits. A Connecticut native and die-hard Boston Bruins fan, Jeff is excited to become a Tampa resident where he can root for the Bruins when they come to town to play the Tampa Bay Lightning.

Jeff's more than ten years' experience with EIM through his time with Johnson Lambert LLP and ECM provides an invaluable foundation upon which to assume the CFO reins in Tampa. In addition to looking forward to Bruins games, Jeff and his family are looking forward to all that the Tampa Bay area has to offer.



JENNIFER GRAY

Jennifer Gray joined EIM in February 2020 as Controller. She is another familiar face in a new role at EIM. Jenny was most recently a senior manager at BDO USA LLP in Jacksonville, Florida, but many at EIM remember her during her time as a senior audit manager with Johnson Lambert LLP where she was part of the EIM audit team. When we approached Jenny about possible interest in the Controller position with EIM, she told us that she was very happy at BDO but had always told herself that EIM was the one company she would love to work with. We're happy she felt that way and are pleased to have her join the EIM family.

Jenny is a CPA who graduated from the University of North Florida with a B.A. in Accounting. She and her family have ties to the Tampa Bay area and are looking forward to relocating from Jacksonville to Tampa.





Q1 2020 Financials

Balance Sheets

(Expressed in Thousands of U.S. Dollars)

	3/31/2020	12/31/2019
Assets		
Investments	\$ 1,544,094	\$ 1,659,784
Cash and cash equivalents	10,475	19,774
Reinsurance recoverables on losses	428,198	437,571
Prepaid reinsurance premiums	36,499	37,388
Premiums receivable	7,531	15,113
Income taxes recoverable	20,421	21,120
Other assets	9,705	10,238
Total assets	\$ 2,056,923	\$ 2,200,988
Liabilities and policyholders' surplus		
Reserves for losses and loss adjustment expenses	\$ 827,364	\$ 757,436
Unearned premiums	110,189	160,581
Reinsurance premiums payable and funds held	4,050	13,586
Net deferred tax liability	31,093	53,675
Policyholder distributions payable	-	50,000
Accounts payable and accrued expenses	10,961	12,740
Total liabilities	983,657	1,048,018
Members' account balance	1,073,266	1,152,970
Total policyholders' surplus	1,073,266	1,152,970
Total liabilities and policyholders' surplus	\$ 2,056,923	\$ 2,200,988

Statements of Income and Comprehensive Income

(Expressed in Thousands of U.S. Dollars)

	3/31/2020	3/31/2019
Underwriting revenue		
Net premiums earned	\$ 50,455	\$ 35,494
Other underwriting income	756	559
Total underwriting revenue	51,211	36,053
Underwriting expenses		
Net losses and loss adjustment expenses	47,062	42,018
Policy acquisition costs	906	800
Administrative expenses	4,249	4,456
Total underwriting expenses	52,217	47,274
Loss from underwriting	(1,006)	(11,221)
Investment (loss) income	(100,581)	83,843
(Loss) income before income taxes	(101,587)	72,622
Income tax (benefit) expense	(21,883)	14,591
Net (loss) income	\$ (79,704)	\$ 58,031





Q1 2020 Financials *(continued)*

Statements of Changes in Policyholders' Surplus *(Expressed in Thousands of U.S. Dollars)*

	Accumulated Other Comprehensive Income	Members' Account Balance	Total Policyholders' Surplus
Balance at January 1, 2019	\$ 186,892	\$ 948,278	\$ 1,135,170
Impact of adoption of ASU 2016-01	(180,702)	180,702	-
Trading portfolio election	(6,190)	6,190	-
Net income	-	17,800	17,800
Balance at December 31, 2019	-	1,152,970	1,152,970
Net loss	-	(79,704)	(79,704)
Balance at March 31, 2020	\$ -	\$ 1,073,266	\$ 1,073,266

AM BEST AFFIRMS EIM'S "A" RATINGS



On June 1, 2020, A.M. Best affirmed EIM's Financial Strength Rating (FSR) and Issuer Credit Rating (ICR) of "A" (Stable) and "a" (Positive), respectively. In affirming both ratings, A.M. Best noted that EIM's balance sheet is "underpinned by the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) model, a sound reinsurance program and generally favorable reserve development." Further supporting EIM's ratings, A.M. Best observed that, "The company's capitalization is solid relative to its current business and investment risks and has been enhanced by increasing levels of surplus."

Regarding EIM's operating performance, A.M. Best concluded, "EIM has produced excellent pre-dividend operating results for each of the most recent five-year period through year-end December 31, 2019, as evidence by the company's operating ratio, although earnings have varied from year to year." A.M. Best continued to view EIM's enterprise risk management process positively, stating, "EIM's ERM process is designed to identify and monitor the various risks attendant to the company's business activities as risk tolerance is an essential part of its key strategic decisions and long-term goals." EIM is pleased to offer capacity that has been rated "Excellent" by A.M. Best continuously since 1993 and remains committed to maintaining a long-term, stable underwriting, financial and operational foundation upon which to meet member company risk management needs.

EIM's Members Report is electronically published four times per year. Comments, questions, and suggested subjects from Members are sincerely welcomed.

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