NOTES FROM KING STREET

Quarterly Newsletter from Energy Insurance Services, Inc., Volume 2, Issue 3

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View from the Corner

We are looking forward to seeing everyone at our Annual PAC Conference in October. We have a great line up of topics and speakers for the general sessions. More information is on our website.

A few weeks ago, EIS broke new ground by issuing its first insurance policy backed by an insurance linked security(ILS) or catastrophe bond. It was exciting to be part of this transaction with our participant. The participant gained some efficiencies by accepting their policy coverage from EIS, in lieu of a foreign based insurer/reinsurer. The transaction was effectively no different than other 100% pass through reinsurance programs. However, the process working to issue this policy was quite new to us. This transaction is somewhat unique to the ILS sector by having an indemnity trigger vs. a typical parametric trigger. It is also the first ILS to support third party wildfire risk.

Focus on Benefit Financing

Do you remember the EIS initiative with the Department of Labor? This initative is seeking an Advisory Opinion Letter to provide certainty under ERISA regulations that insuring benefit coverage in a dedicated protected cell will not be construed as a "prohibited transaction" and the assets of the cell will not be treated as "plan assets".

We are very pleased to advise that our inquiry has finally arrived on the desk of the decision maker at the Undersecretary level of the DOL and supported by a positive recommendation by DOL staff. If the Undersecretary agrees and acts on our inquiry, our participants will be able to write benefit insurance coverage in EIS with certainty that they will not need to file for an exemption under ERISA's prohibited transaction rule.

Captive Optima

When considering a captive, knowing the sensitvity of risk to your organization and having modeled risk data for guidance will help build a case to put your company's own capital at risk

via a captive insurer. So, what is the best way to start insuring risk in a captive? That's a tough question and the answer is likely as unique as the company that is considering a captive or any alternative risk financing solution.

Over the course of this year, we have been approached by a few of our program participants inquiring about deductible/retention buydown coverage for a variety of lines of insurance including cyber, D&O, crime along with other 'standard' lines such as workers compensation, general liability and property. During these conversations, an idea sprang forth to create a single policy that will insure muliple lines of coverage. EIS has developed a very flexible insurance product based on suggestions generated from these creative thinking sessions. We call it the Multi-line Aggregate Retention Stop-loss Program (MARS). It is designed to insure the aggregation of losses that exceed expected retained losses at some level. This program may insure any risks that an EIS participant wants to include. Below is a case study that looks at three lines of risk that are retained within a fictional energy company.

Case Study

Risk manager of Energy Company is wrestling with

- Total cost of risk
- Efficiency of the deductibles or retentions on lines of insurance in the portfolio
- The level of risk appetite towards total retained risk

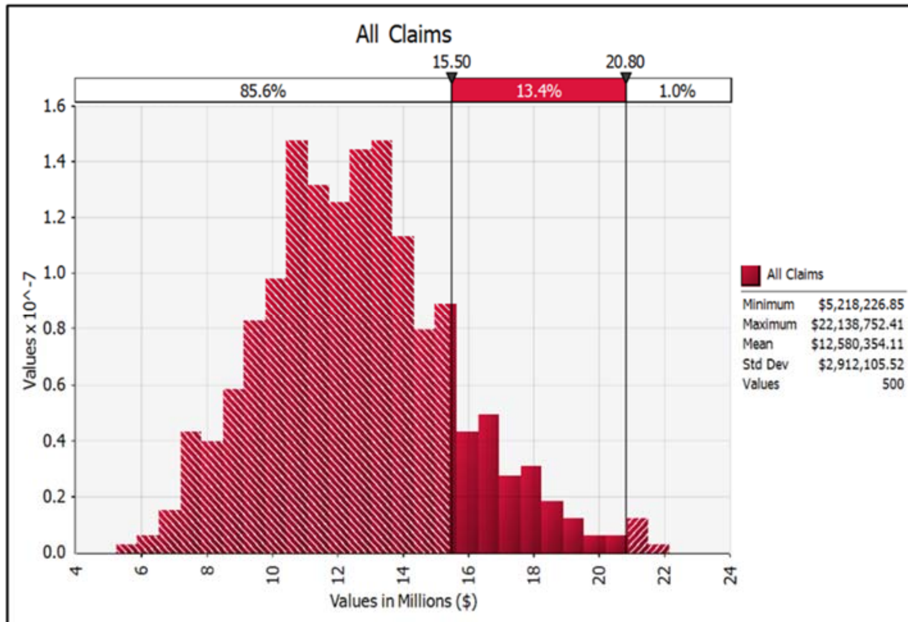
Energy Company Profile

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

Targeted Risks Retained

- General liability: $2 million retention each occurrence with $4.5 million expected annual ultimate net losses retained and budgeted on Energy Company books
- Auto liability: $2 million retention each accident with $3.6 million expected annual ultimate net losses retained and budgeted on Energy Company books
- Workers' Compensation: $1 million retention each occurrence with $4.4 million expected annual ultimate net loss retained and budgeted on Energy Company books
- Sum of these three lines of expected and budgeted retained loss is $12.5 million

After some study by the risk manager with input from other financial managers it is determined, based on the potential effect of earnings per share and the probability of claims above the budgeted level, that the risk appetite to retain risk is lost at $15.5 million. This amounts to $3 million of unbudged loss or 3.3 cents per share.



The loss of appetite sets an aggregate attachment point for the MARS policy at $15.5 million. The aggregate limit of protection in this case is decided to be $5.3 million. The decision is based on the modeled probability of ultimate net loss from $15.5 million to the 99th percentile or $20.8 million.

The risk modeling suggests the policy premium will be around $550,000.

Remember, this program is highly flexible to any combination of risks, the aggregate retention and limit of insurance. It can be fitted to any set of circumstances and preferences. EIS sees the MARS policy as a promising means to deal with your total cost of risk, add protection to your company and move from the silo thinking of risk by line of insurance to a more holistic view. Tying analysis, recommendations and decisions to earnings per share can change the dynamics of a conversation from buying insurance to truly financing risk in a very efficient manner.

Operational Considerations

ECM is now holds a Georgia captive manager license to manage captive insurance companies domiciled in that state. The filing was made to the Georgia Department of Insurance in June. This is ECM's first move to prepare for potential business from EIM Members that have wholly owned captive insurers. Georgia, being a neighbor of South Carolina, seemed like a logical first step. ECM is reviewing market and regulatory conditions in other states with an eye to become licensed in additional captive jurisdictions. Please note, ECM is not actively marketing itself as an independent captive manager. However, this has always been a potential direction for ECM. Now with the reality of management and operational efficiencies gained over the past three years, ECM is now poised to take on captive management work outside of EIS.

EIS Financials

Energy Insurance Services, Inc.
General Account
Key Financial Data - As of June 30, 2018

	First 2 Quarters		2018 YE		2017
(In thousands)	2018	2017	Forecast	Budget	Actual
Revenue	$1,222	$1,181	$2,388	$2,329	$2,391
Expenses	$855	$853	$1,783	$1,835	$1,768
Surplus	$3,224	$2,761	$3,412	$3,324	$2,934

Register today!

EIS ANNUAL PAC CONFERENCE | OCTOBER 22 – 25, 2018

REGISTRATION CLOSES SEPTEMBER 20TH

Helpful Links:

General Captive Information | **South Carolina Captive Information**

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Energy Insurance Services, Inc.
409 King Street, Suite 201
Charleston, SC 29403
www.eimltd.com/EIS

EIS Mission Statement – "To provide a facility to meet EIM Members' dynamic and specific business requirements for the placement and management of alternative risk solutions."

Contact Us:

Randy Martin rmartin@eimltd.com
Taniyka Ragland tragland@eimltd.com

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