NOTES FROM KING STREET

Quarterly Newsletter from Energy Insurance Services, Inc., Volume 2, Issue 4

November 15, 2018

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View from the Corner

We were pleased to host eleven of our fifteen active Mutual Business Programs at our annual Program Advisory Committee conference. This year our venue was across the harbor at Patriots Point. From initial feedback, nearly all attendees enjoyed the Harbor Resort accommodations and meeting spaces. The specific PAC meetings, as always, were very informative. These meetings generate new ideas, provide EIS/ECM with updates of our participants' companies, identify process efficiency improvements and the tactical and strategic direction our participants are moving towards in their Mutual Business Programs.

Our general sessions addressed a variety of operational topics from regulatory processes, audit and tax update, new products, and captive insurance strategy case studies. Speakers included Jay Branum, Director – Captive Division of the South Carolina Department of Insurance; Ann Conway and Jim Swanke of Willis Towers Watson; Evan Busman and John Kelly of Hanover Stone with Steve DiCenso of Milliman. Correlation of risk was a central theme and was capped with Karin Landry's presentation how mixing employee benefits exposure with p/c business demonstrated the highest degrees of risk predictability and risk financing efficiency.

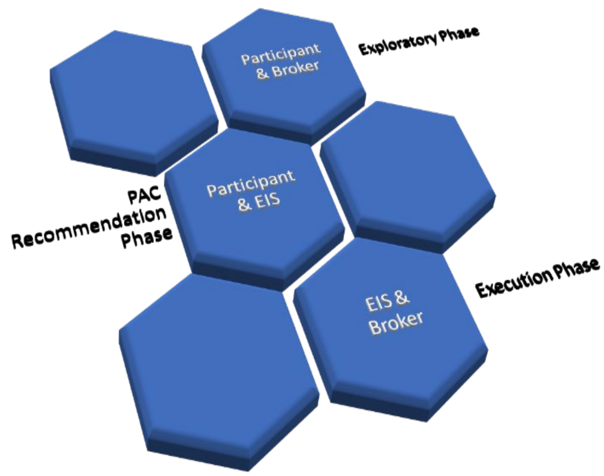
As with every year, several dinners and activities were hosted by EIS. These events allow our participants and other attendees to network and discuss the business of being a captive user.

All presentations have been posted to the EIM website. Next year we have our venue and dates set. Please get ready to join us at The Sanctuary at Kiawah Island, November 4 – 7, 2019!

Captive Optima

In the June newsletter, this section focused on why and how captives use reinsurance. Much emphasis was placed on the financial efficiency of these arrangements. Today, we are going to discuss process efficiency via 'a best practices' approach for an EIS participant. EIS sees this as a multi-phased process. We will assume the participant will BYOB (bring their own broker) to their protected cell reinsurance engagement.

<u>Exploratory Phase</u>



The beginning of any insurance or reinsurance program involves understanding the issues. Whatever the reason to seek reinsurance, the participant needs to know what is possible in the market. An efficient means, in many instances, is to engage a trusted broker to help quantify the risk and estimate the market appetite. At EIS, we consider the exploratory stage from this beginning up to and including approaching markets for coverage and pricing indications.

<u>PAC Recommendation Phase</u>

Once the participant becomes satisfied a viable opportunity to utilize reinsurance in their protected cell exists, a couple recommendations need to be provided by the PAC to EIS.

- First, a PAC recommendation to EIS to engage the broker for placement of a reinsurance program. This may entail EIS entering into a brokerage agreement or engagement letter as outlined in the PAC recommendation. Other reinsurance brokerage compliance documentation is sometimes required by the broker.
- Second, a PAC recommendation to bind reinsurance by EIS is needed. This usually follows when firm terms and conditions with pricing is acceptable to the PAC.

<u>EIS Execution Phase</u>

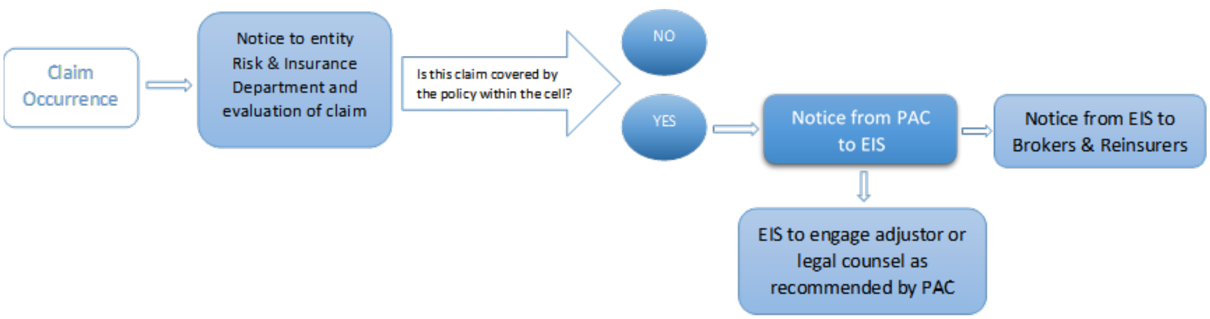
At this point, all is ready to go. With a PAC recommendation in hand, EIS directs the broker to bind coverage for EIS on behalf and for the benefit of the specific MBP. If this is a 100% pass-through placement for a single policy issued by EIS, then EIS will invoice for their issued policy to the insured (participant) and then pay the reinsurers and the placing broker any commission or fees as recommended by the PAC.

Operational Considerations

In a perfect world, there would be no claims filed against your policies and the premiums paid into your cell would simply build surplus for advanced risk leverage. However, we know the world is not perfect, and we know that claims occur. Therefore, as 2018 comes to a close, now is a great time to review the claims handling procedures within your cell for the new year.

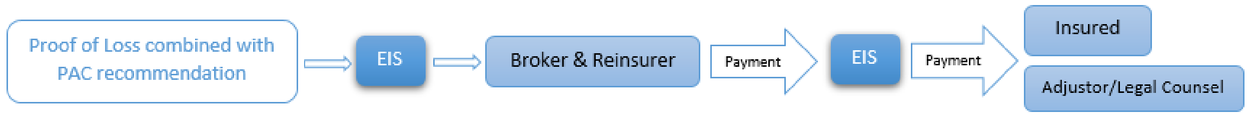
When you have received notice that an event has occurred which may impact your entity, you should perform an analysis to determine if the claim might be covered by the policy placed in your cell. If it is determined that this claim is covered by your EIS policy, you must notify EIS. EIS will then provide notice to any participating brokers and reinsurers on risk for this claim.

There are other considerations at issue. Your EIS policy may include claim notice provisions that will govern when and to whom notice should be given. Many EIS policies include claim notice provisions that conform to requirements of coverages that are underlying or excess of your EIS policy. In addition, the PAC must keep in mind notice provisions to reinsurers of EIS.



Once the notice has been formally sent, and an adjustor has been engaged to investigate the claim, EIS will await a conclusion from the adjustor and/or any legal counsel that has been engaged to assist in arriving at a settlement on the claim. EIS will also ensure that the appropriate reserve recognition has been recorded based on a PAC recommendation. Once the claim has been settled, a proof of loss (or other appropriate documentation, as needed) must be sent to EIS with a PAC recommendation to process and pay the claim.

Next, EIS will review the documentation and recommendation from the PAC and determine if payment is justified. This proof of loss will then be presented to the participating broker and reinsurer from EIS. Once, EIS receives payment from the reinsurer, EIS will make the claim payment to your entity, net of subrogation. EIS can also pay the adjustor/legal counsel utilized in this process in whole or in part according to the requirements of the policies and (re)insurers responding to the claim. This example includes involvement by brokers, reinsurers, adjustors, and legal counsel, but if your particular situation does not involve some or all of those participants, then their role can simply be omitted.



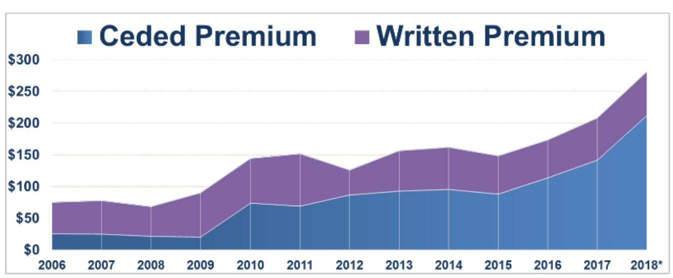
Our goal at EIS and ECM is to perform streamlined adherence to these points and any procedural instruction that a PAC puts into place so that you receive the most effective relief from the pressure that dealing with claims can cause. A single electronic notice to EIS that includes simultaneous notice to reinsurers and brokers is one means of simplifying the process. If there is any interest in creating a more formal claims handling procedure within your cell or if you simply want to gain clarity on the topic, please contact us. We will be happy to improve your claims handling in any way that we can.

EIS Financials

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

	First 3 Quarters		2018 YE		2017
(In thousands)	2018	2017	Forecast	Budget	Actual
Revenue	$1,836	$1,789	$2,444	$2,329	$2,391
Expenses	$1,266	$1,275	$1,757	$1,835	$1,768
Surplus	$3,373	$2,873	$3,474	$3,324	$2,934

Premium Growth



Gross Written Premium @ $282M
Up $73M in Last Year
*estimated

Save the Date!

EIS ANNUAL PAC CONFERENCE | NOVEMBER 4 – 7, 2019

THE SANCTUARY | KIAWAH ISLAND, SC

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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."

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