

NOTES FROM KING STREET

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

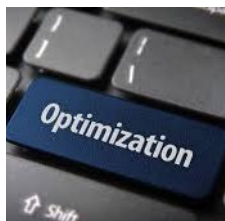
September 15, 2019



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View from the Corner



By now, I hope you have registered for our annual PAC conference in November. If you have not received an email with our invitation to register, please contact Tanyka Ragland by phone at (813) 490-1613 or email tragland@eimltd.com. Our venue, The Sanctuary at Kiawah Island is one of the top coastal resorts in South Carolina. Our individual PAC meetings have been scheduled across several days. A great lineup of topics and speakers have been planned for the General Session on Wednesday morning, followed by a variety of activities in the afternoon. As always, between our planned receptions and dinners, we hope that you will take advantage of the networking opportunities this conference provides.

In July, EIS added Mutual Business Program 34. This new protected cell brings the active cell count to 16. As with so many other EIS cells, MBP 34 was initiated to address a very specific and unique risk issue.

EIS, also, recently filed and received approval from the South Carolina Department of Insurance – Captive Division to write another new line of business. Coverage has been bound to insure physical damage loss to drones. This is a brilliant example of the Participant's use of their protected cell to price and insure an emerging risk in a very efficient manner.

EIS/ECM has been working with the Executive Team of EIM on the 2020-2022 strategic plan. We are energized by the outcome of a special planning session held in Tampa in July and looking forward to follow-up sessions in the near future. We will share some insight into this plan at the PAC Conference.

Captive Optima



As we become more digital and as more information becomes available, powerful analytics will enable risk managers to observe new and more complex patterns of behavior or indications from data. For us in the insurance and risk management space, we tend to focus on claims and loss data, exposure data and just about anything else one can image and/or is somewhat available and easily accessible.

Data provides information and information through analysis creates knowledge. The old adage, KNOWLEDGE IS POWER, is certainly valid and knowledge is growing with more readily available data. More so than when, Sir Francis Bacon coined that phrase centuries ago.

Speaking of Sir Francis, he also conceived the scientific method, which is somewhat similar to the risk management process as you may observe below.

The 6 Steps of the Scientific Method

1. Make an observation
2. Ask a question
3. Form a hypothesis
4. Make a prediction
5. Test the prediction
6. Use results to make a new hypothesis or prediction

The 6 Steps of the Risk Management Process

1. Identify loss exposures
2. Prioritize exposures
3. Explore risk mgmt. techniques
4. Choose a technique
5. Apply the technique
6. Review and revise, as needed

Bacon was all about observation of natural occurrences. Identifying loss exposures is making an observation of experiences. You can go down the lists and draw the similarities.

As the Internet of Things and other digital sourcing allows incredible volumes of data to be gathered into systems with algorithms that help collate and correlate the data, images, etc. many businesses are becoming empowered with the ability to create machine learning and artificial intelligent systems to attract customers, manage reputation, manage risk, create safe work environments, along with producing products and delivering services.

What information do you have available? How do you analyze it? Gathering, managing and reacting to data helps determine tactical processes and decisions to contribute to the overall corporate strategy.

So, if you have read this far, you are likely thinking what does all of this have to do with me and captives. Right? Here is my answer.....

As risk data becomes more readily available and instantly shared with business partners like insurers, risk differentiation in the underwriting process will move into a new era. Machine learning and artificial intelligence will enable prioritization and pricing of what risks will be accepted and which ones will be declined.

My prediction is that the “traditional” lines of insurance will become blurred, if not eliminated, into a culmination of perhaps a single risk transfer product or hedge for an entire business attaching at some agreed upon aggregation of retained losses. Laws and regulation will most likely need to change along with a market of commercial insurers and reinsurers.

The role and work of a risk manager will change with this new focus and market. Modeling aggregation risk will become the forefront of the risk manager’s responsibility.

Captives will have a significant role for those corporations that will not want to absorb all losses as they occur or are paid. Captives will provide, as they do today, a formalized risk financing solution and act as the tool to allocate corporate capital towards the aggregation of retained risk.

As I see it, the technology curve is nearly vertical. EIS is already observing the beginnings of transformation. Once insurers and corporations get their data with machine learning and artificial intelligence figured out – things will change very quickly.

The changes we are seeing today may or may not turn out like my hypothesis. Time will tell. My hope and wish for you is that you are preparing for change in your role and in the market, either personally or by helping the next generation of risk managers to be ready for change.

EIS Financials



Energy Insurance Services, Inc. General Account - Key Financial Data

	As of June 30			Full Year		
	2019 Actual	2019 Budget	2018 Actual	2019 Forecast	2019 Budget	2018 Actual
<i>(In thousands)</i>						
Revenue	\$1,265	\$1,220	\$1,222	\$2,498	\$2,431	\$2,477
Expenses	\$777	\$782	\$855	\$1,632	\$1,630	\$1,742
Surplus	\$3,882	\$3,837	\$3,224	\$4,176	\$4,122	\$3,496



Conference dates | November 4 – 7, 2019

Disclaimer – This publication is for informational purposes only. It is not a solicitation of insurance or management services.

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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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