View on The Creek

August 25, 2020

Quarterly Newsletter from Energy Insurance Services, Inc., Volume 4, Issue 3

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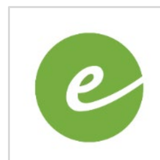

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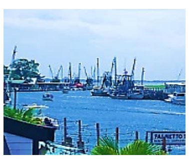


We are excited to share what has been going on since our last newsletter. We lead off with the following:

- **EIM hires actuary, Legare Gresham**
- **EIS fronts third wildfire cat bond**
- **Working remotely, fully engaged**

Legare Gresham

We are very pleased to welcome Legare, a Fellow of the Casualty Actuarial Society, to EIM and the Mt. Pleasant, SC office. Her work has largely focused on mutual insurance companies, risk retention groups and a variety of captive insurers including single parent and protected cells.

EIS is excited to be able to engage her help, as the need arises, with our current and prospective participants for feasibility and other special projects that will support credible analysis and decision making.

EIS fronts third cat bond

As we continue in our unique position to support an EIM Member's effort to build capacity in the alternative risk marketplace, EIS has now participated in its third transaction that is substantially supported by reinsurance obtained from the issuance of debt securities. For highlights of the security issuance and deal structure, please navigate to the ARTEMIS (a Bermuda media service) web page using the following link: https://www.artemis.bm/news/first-pure-wildfire-cat-bond-in-two-years-upsized-priced-within-guidance/

Working remotely, fully engaged

As we all are learning, only hindsight can truly be 2020. And I for one, am looking forward to seeing the year 2020 through my rear-view mirror.

Our vision presented at the Risk Managers Information Meeting did not foresee the issues created from working remotely. The good news – business continuity planning and practice from hurricane disruptions over the past five years helped prepare us. It also helps being a small organization because it allows us to be nimble and flexible, particularly in responding to our participants and other EIM Members in this difficult insurance market. The staff of ECM has been outstanding in my estimation. I hope you agree!

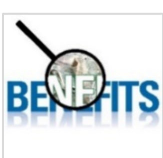
Captive Optima

Developing the appropriate premium or rate for the risks insured within your captive will likely mirror the same attributes a mutual or commercial insurer desire. The five commonly held rate or premium attributes, according to the Insurance Institute, appear in the box to the left. These attributes are also often found as overall goals and objectives of a captive option in a risk financing strategy. However, the meaning and characteristics of these attributes may differ when determining a rate or premium in a captive environment instead of a commercial market. Looking through the lens of a captive insurer, these attributes serve the captive owner or participant in the following ways.

- ***Stability*** means minimal rate or premium changes year over year for the relative risk insured through the captive facility. A captive will insulate its owner or participant from the overall insurance market's volatility, particularly when your company has a better than average loss record.
- ***Responsiveness*** indicates the premium of a captive will be derived from the best possible estimate of losses and expenses. Captives have great flexibility to meet budget and other pressures faced by the owner or participant. A mature, financially secure captive can reap the value it has created over time and be incredibly responsive in a time of need.
- ***Provides for contingencies*** factors in profit and unexpected variations in loss and expense to a premium. Many traditional insurers are factoring up to 30% for this. A captive seeking to maximum premium efficiency may choose to not include profit and contingency elements. So, how can a captive manage through a shortfall in net assets to pay those unexpected claims? Some employ retrospective premium endorsements, premium calls, capital calls or a combination of these to provide the appropriate solvency to respond to unexpected losses. Others may have a policy provision to reduce the response to claims paid if net assets are inadequate. EIS policies have a mandatory endorsement called the aggregate asset endorsement that addresses this situation.
- ***Promotes risk control*** allows for the recognition of an insured (perhaps one subsidiary or business segment), location or operating asset that applies superior loss control systems. The rate applied to this risk or premium allocated should hopefully recognize the effort to control losses.
- ***Differentiates risk exposure*** allows the rate or premium assigned an insured or operating asset to recognize differences in the inherent risk among a variety of subsidiaries or operating assets. This can be predicated upon one or several hazards confronting the object insured such as location, construction, operations, size, etc.

Whether you are a seasoned captive owner/participant or exploring the possibility of a captive, we hope that thinking about these attributes will help you focus on your objectives and expected outcomes.

Focus on Benefits – Using a Captive to Fund Retiree Medical Obligations



U.S. GAAP (Generally Accepted Accounting Principles) requires all employers to accrue on their balance sheets the estimated amount of total retiree medical and other benefits payable to current employees throughout their lifetimes. This requirement only forces employers to recognize these obligations, not to fund them. Recognition, of course, creates a liability without an offsetting asset, and always raises the question, "how are we going to pay for these benefits?"

Employers that offer retiree medical benefits often respond to the above question by restricting eligibility requirements, closing the plan to employees who retire after a certain date, increasing the retirees' portion of the premiums, increasing co-insurance payments and deductibles, transitioning to a Defined Contribution arrangement, and modifying or reducing plan benefits.

Employers that choose to fund a portion (or all) of their retiree medical obligations can offset the liability, but traditional funding options can be problematic. One of the most common funding options, a VEBA (Voluntary Employee Beneficial Association) trust, is subject to Unrelated Business Income Tax (UBIT) on investment earnings on funds supporting non-collectively bargained benefits.

An alternative is to have the VEBA purchase an insurance policy, such as Trust Owned Life Insurance (TOLI), or Trust Owned Health Insurance (TOHI), which is then reinsured by the employer's captive. This arrangement creates a degree of flexibility, well-matched payments for the cash flow requirements of the trust, as well as potential tax efficiencies.

Operational Considerations – A few housekeeping items

ENERGY CAPTIVE MANAGEMENT

Power of Attorney Updated

Please note with the recent change in our Controller position we have updated our Power of Attorney (POA) document. Megan Ogden replaces Jeff Tkacz as the attorney-in-fact, and we changed our address to our new Mt. Pleasant location. Tobias will be sending the updated version as renewal letters are transmitted to our Program Advisory Committees or primary point of contact for each Mutual Business Program. Please be watching for these emails. We hope to have each MBP updated with a newly executed POA at their next renewal.

2020 Program Advisory Committee Meetings

We are going virtual for 2020. We are focusing on our original conference dates of October 26-28. However, we will be exercising a great deal of flexibility for your convenience. Taniyka Ragland will be sending a suggested date and time for your individual PAC meeting in early September. These meetings will be conducted on either the Zoom or Microsoft Teams platforms. Additionally, Taniyka is investigating the best means to conduct a virtual general session. This, if viable, will be an abbreviated version of our in-person meetings from the past.

EIS Financials

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

in thousands	As of June 30			Full Year		
	2020 Actual	2020 Budget	2019 Actual	2020 Forecast	2020 Budget	2019 Actual
Revenue	$995	$995	$1,265	$1,953	$1,944	$2,530
Expenses	$834	$851	$777	$1,698	$1,824	$1,691
Surplus	$4,298	$4,274	$3,891	$4,367	$4,260	$4,166

Energy Insurance Services, Inc. | 410 Mill Street, Suite 401 | Mt. Pleasant, SC 29464
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