

VIEW ON THE CREEK

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Quarterly Newsletter from Energy Insurance Services, Inc., Volume 5, Issue 1

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EIS and ECM finished 2020 with strong operational and financial performance. Below is a review of some of the high points discussed in the virtual EIM Risk Managers Information Meeting - State of the Company session.

Do not miss this edition's Captive Optima section. We touch on reviewing the risk matrix and the different attributes of risk as viewed through the captive lens. We also talk about risk pooling. As mentioned in the RMIM, we have been approached regarding EIS' ability to have a pooled risk or multi-participant cell for the purpose of

both excess liability and wildfire covers.

- **Insurance Advisory Committee (IAC) Survey Questions**
- **EIS Composition of Business Written**
- Save the Date! (EIS Annual PAC Conference)



IAC Survey Questions – Great Results

The IAC's biennial survey provided strong feedback to EIS. The two questions being consistently asked are:

- Have you considered using EIS? 1)
- Does EIS bring value to EIM members? 2)

EIS has been disappointed in years past with results indicating many survey respondents were not familiar with EIS. However, the positive responses in this most recent survey increased significantly with over 50% indicating they have

considered EIS, and 67% indicating EIS does provide value.

EIS Composition of Business Written

EIS KNOWS WILDFIRE

The most popular question from EIM Members seeking more information about EIS: "What lines of business do current participants write in their cells?"

From the chart, you will observe that EIS Participants overwhelmingly use their cells to write third-party insurance and that most of the premium currently flowing into EIS is for wildfire coverage. However, from a policy count standpoint most thirdparty policies are general liability written as a primary or deductible buydown cover. Many of the liability policies are written for all business operations of the Participant, others are written to cover very limited operations or circumstances. This chart represents



written premium per million dollars and the proportions between premium that is net to the EIS MBP and what is ceded to reinsurers.



Save the Date – Watch for the Conference Registration notice in August!

Our 2021 PAC Conference is scheduled for late October. Our signature event brings Program Advisory Committee members and professional associates together to meet and discuss their specific programs. Along with the PAC meetings, a General Session will cover several risk and captive topics. This is always a great networking opportunity for all program Participants to share ideas with each other and for EIM Members exploring captives and EIS.

Captive Optima – Are you beginning to explore a captive?



Last quarter, this section looked at risk financing optimization studies and the use of a SWOT analysis. Both tools can be useful to identify the attributes of your risk and insurance department and risk strategies including captives or other forms of alternative risk financing. This quarter we contrast the traditional risk matrix and the strategy it suggests in each quadrant vs. a matrix viewed through the lens of a captive strategy alternative.

The traditional matrix generally suggests how to most effectively and efficiently deal with a risk according to its relative occurrences in frequency and severity. Frequency and severity are represented on the horizontal and vertical axes of the matrix, respectively. The matrix provides a primary suggestion of what to do with the risks that fall in each quadrant. These suggestions are attempting to point where to focus and allocate risk expense, time, and effort.



- *Retain* hold the risk within the organization or business unit through deductibles or self-insured retention
- Reduce control the risk by applying loss control and training
- Transfer shift the risk to other parties either through insurance or other noninsurance contract
- Avoid –remove the risk by changing operations or the business plan

I am confident, you will quickly see that this matrix is a somewhat academic, if not elementary. Most risks require more than one approach. Business, particularly, generation/production, transmission and distribution of natural gas or electricity is a complex risk in most environments. Geography, population density and legal jurisdiction are but a few items that may multiply the complexity. However, it is a classic perspective and one that we believe is a proper basis of comparing/contrasting a traditional risk management strategy to a non-traditional strategy that considers alternatives, including the use of a captive to finance risk.



Looking at this matrix through the lens of a captive strategy may put a very different perspective on the view of the risks you face and the treatment.

We see EIS Participants using captive solutions to address risks that fall in all four quadrants. The lower quadrants lean towards full retention of the risks with lower severity, while risks that fall in the upper half (higher severity) would likely look towards reinsurance support.

The level of capital and premium adequacy within the captive environment is critical. Many captives at formation would be best to retain those risks that are well characterized and highly predictable. In other words, start slow and work up to taking on higher severity and less predictable type risks, unless a stable reinsurance market is available to support the captive risk.

These matrixes are conceived from the perspective of a single enterprise point of view. What if we look at these risks from the perspective of a group captive or other alternative risk financing vehicle where several enterprises join together to create capacity, control cost, and put capital at risk in a pool?

This question is being raised by several EIM Members. EIS and ECM has been invited into conversations regarding pooling risks in two specific areas:



• Excess Liability

Wildfire Risk

Risk pooling is well within the capability of EIS through EIM Members collectively creating and participating in a dedicated protected cell within EIS. Optionally, EIS Participants with their individual protected cells may arrange to reinsure other EIS Participants within their respective protected cells on a

reciprocal basis. Most interesting is that a solution does not have to be within EIS.

Before any group considers pooling capital to address their potential exposure to wildfire risk, we strongly encourage EIM Members to consider our wildfire solution. Specifically, we can address wildfire risk for an

EIM Member, nearly on a moment's notice. Our well-developed business plan for a 100% pass-through reinsurance program is completely replicable for non-California wildfire risk. Our reinsurance is placed by the most seasoned brokers in this arena that have established and maintained relationships with a community of reinsurers supporting EIS programs for over a decade.



When sufficient commitment to pool wildfire risk exists, and the attributes of the

interested EIM Members fit a viable and sustainable solution, EIS and ECM are ready to go! Our consultancy under our Energy Captive Management entity can help conceive and establish a new group captive in an appropriate state jurisdiction that would be best suited to the needs of the risk and Members seeking to participate in such a captive structure.

Focus on Benefits – An Opportunity



Much attention in today's insurance media is being given to the advantages of captive insurance to meet the capacity and cost challenges of excess liability and property insurance. But what about corporate medical benefit costs? It seems counter-intuitive that an organization would choose to explore a captive for its property and casualty issues but not for its medical costs. This is especially true considering the dramatic increase in the cost of medical care for over 15 years. Medical stop-loss insurance has also been in a hard market lasting well over 10 years.

Many organizations outside of the utility industry have employed captive insurance structures over the past 5 years to hedge against an extraordinary adverse year of unforeseen medical loss expense levels, whether driven by frequency or severity.

EIS firmly believes there are many EIM Members that may be prime candidates for this type of approach to assist their overall enterprise goals of maintaining and managing costs and cash flow.

There are three basic approaches to structure a stop loss cover: specific, aggregate and a combined specific and aggregate basis.

- Specific stop loss protects against a catastrophic claim on any one individual
- Aggregate stop loss protects against unexpected frequency and severity of all claims in a defined time period
- Both specific and aggregate protects for a combination of individual catastrophe and the unexpected aggregation of loss in a defined time period

Combining those structures can lead to a number of variations to meet the unique needs of an employer and the characteristics of its employee census.

Key objectives in exploring medical stop-loss in a captive depends whether your company already insures this risk or not.

- If your company uses stop loss insurance now -
 - Assessing the efficiency of an existing stop loss program
 - Reducing cost of insurance programs over time
 - Lessening dependence on traditional insurance and market shifts
- Whether or not your company uses stop loss insurance now
 - Improving cash flow and more efficient loss funding
 - Holding reserves and earning investment income
 - Seeking medical stop loss reinsurance or including this risk in a multiline aggregate reinsurance protection with other lines insured within the captive

This sample schematic suggests one way a captive can be utilized to help fund for medical benefit claims.

- The employer retains some risk, typically expected losses
- The captive provides additional retained risk for unexpected individual and aggregate loss
- The reinsurer protects the captive for worsecase scenario of individual and/or aggregate loss



Insuring medical stop loss cover into an existing captive with traditional property and casualty insurance is, in nearly all instances, adding significant stability to the captive's risk portfolio due to the uncorrelated risk of medical stop loss to other captive insured risks. This risk as represented here is written as a policy only influenced by medical benefit costs.

Imagine this structure combined with the aggregation of retained liability and property risk. A stop-loss covering property deductibles and liability self insured retentions with a high level of retained medical benefit costs.



EIS Financials



	Energy Insurance Services, In General Account – Key Financial				
0 0 0			As of December 31		
		(in thousands)	2020 Actual	2020 Budget	2019 Actual
		Revenue	\$1,973	\$1,944	\$2,530
		Expenses	\$1,720	\$1,824	\$1,691
		Surplus	\$4,379	\$4,260	\$4,166
		Surplus	\$4,379	\$4,260	\$4,166

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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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