



Quarterly Newsletter from Energy Insurance Services, Inc., Volume 7, Issue 1

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View on the Creek



Captive Optima



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View on the Creek – Welcome to 2023

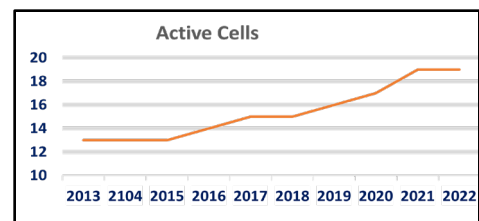
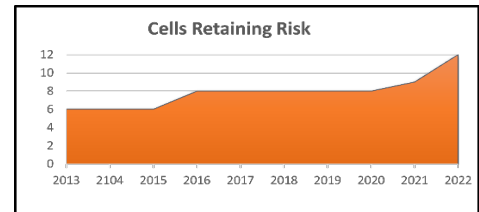
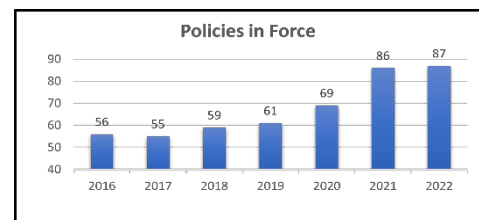
EIS and ECM finished 2022 with strong operational and financial performance. Below is a review of some of the high points discussed in the virtual EIM Risk Managers Information Meeting – State of the Company session.

Do not miss this edition’s Captive Optima section. We discuss the effects of ESG on the insurance market and captive opportunities to manage ESG risks.

EIS 2022 Highlights

- Management Fee credits continued
- Leadership and staffing transitions completed
- EIS has experienced substantial growth in past 10 years
- MBPs prudently taking on more underwriting risk
- Introduced in-house actuary support
- Over 25 conversations with 15 EIM members

SAVE THE DATE
2023 EIS PAC Conference
October 23-26
Charleston Harbor Resort
Charleston, SC



Captive Optima – Environmental, Social & Governance



Insurance is all about analyzing and managing risks to properly protect an organization against unexpected financial losses. ESG compliance is presenting new challenges and risks that can be difficult to manage within an organization. ESG is also a major challenge for insurers as they are figuring out how to help others manage related risks and also trying to determine the many ways ESG affects them. Captive insurance companies can be a very useful tool to mitigate these risks in an organization's insurance program.

The National Association for Insurance Commissioners (NAIC) released the results of their recent climate risk disclosure survey. The responses to the survey highlight the importance of ESG across an organization.

- 25% of global insurers told us that “understanding ESG-related regulations and guidelines” is the main challenge in pushing their ESG agenda followed by “understanding how best to take action on ESG” (17%) and “matching ESG initiatives with customer needs (15%)”
- 49% of insurance CEOs say their company does not have the ability to measure their greenhouse gas (GHG) emissions today, despite the SEC’s proposal for new climate disclosure requirements.
- 85% of global insurers believe ESG will impact all functions of their business. They identified investments as the single largest area of impact (91% respondents), followed by risk and internal audit (90%) and underwriting (88%).
- Global insurers tell us that the main driver of their ESG pursuit is “to minimize the impact from climate change” (26%), “to gain a better reputation as a firm” (11%) and “to minimize risk” (11%).
- Only 35% of global insurers tell us their organization's strategy is “significantly focused” on all three pillars of ESG.



Insurance carriers and brokers are launching products to assist organizations in assessing their ESG risks and then offering products and incentives to those companies that participate in the assessment. Commercial carriers are also offering new products to investors in energy conservation measures, energy service companies and those financing energy saving projects. More carriers are asking about companies' ESG disclosures during the renewal and underwriting process. Launched at the 2012 UN Conference on Sustainable Development, the United Nations Environment Program Finance Initiative Principles for Sustainable Insurance (PSI) serve as a global framework for the insurance industry to address environmental, social and governance risks and opportunities. Formal ESG frameworks are believed to be a future requirement of insurance carriers when presenting submissions to the market.

AM Best has announced the addition of an ESG section to its Credit Reports under Enterprise Risk Management. Analysts explained that the new section will highlight how ESG elements, that are relevant and material to the financial strength of an insurance company, help AM Best to better evaluate how an insurer manages these ESG risks and opportunities. “AM Best has always considered ESG risks in our credit rating analysis, when they were material and relevant to financial strength,” said Matthew C. Mosher, President and CEO of AM Best Rating Services.

An EIS cell is not only useful to an organization's risk management initiatives. A cell can also be utilized to enhance D&O coverage and employee benefits along with filling in any gaps of coverage in areas where commercial carriers are changing language and adding exclusions.

Megan Ogden recently participated in a Podcast with Captive Intelligence related to ESG and captive benefits. You can list to the Podcast here: [ESG Podcast](#)

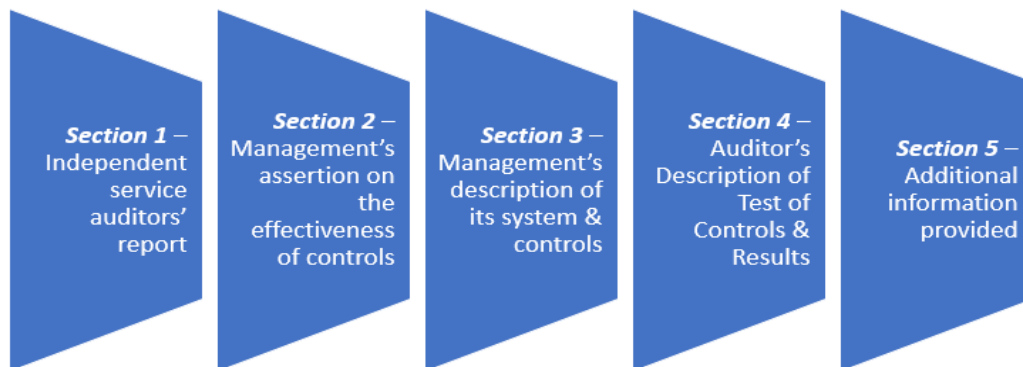
Operational Considerations – SOC 1 Type 2 Report



Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting - "report on the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives included in the description

throughout a specified period." A SOC 1 Report is provided by a Certified Public Accountant (CPA) designated by the American Institute of Certified Public Accountants (AICPA). EIS obtains a SOC 1 report on an annual basis.

Components of a SOC Report



As the captive management company for EIS, ECM is authorized by the South Carolina Department of Insurance to perform the administration and execution of the managerial function of the captive. ECM is responsible for maintaining the books and records of the cells, including financial statement preparation, cash management, policy issuance and regulatory compliance. The SOC 1 report is not required by the South Carolina Department of Insurance but is prepared to provide EIS participants with information and independent assurances about the controls in place at ECM.

The SOC 1 Type 2 Report includes a description of the controls in place for the key areas of ECM's captive management operations – 1) insurance services, 2) cash management, 3) financial reporting and 4) information technology. These areas are the riskiest for fraud and misstatement so it's important to review and test the controls on an annual basis to ensure they are still appropriate and effective. ECM is proud to have received another unqualified or clean opinion in the 2022 SOC 1 Report. The auditors reported that the control description fairly presents ECM's captive system, that control objectives stated in the description were suitably designed to provide reasonable assurance the control objectives would be achieved, and that the controls operated effectively to provide reasonable assurance that the controls stated in the description were achieved.

The SOC 1 Type 2 Report is useful not only for EIS but also for EIS's participants and prospective participants. EIS participants can provide their auditors with the SOC 1 Report to provide additional documentation on the EIS cell and often reduce the procedures required in the financial statement audit.

The annual ECM SOC 1 Report is available to all EIS members and distributed in the first quarter of each succeeding year. Please reach out to Tobias Burke or Kimberly Jenkins with any questions on the report.

EIS Financials



Energy Insurance Services, Inc General Account – Key Financial Data

	As of Dec 31		Year-end
	2022		2021
<i>In thousands</i>	Actual	Budget	Actual
Revenue	\$1,992	\$1,940	\$2,018
Expenses	\$1,929	\$1,819	\$1,856
Surplus	\$4,586	\$4,609	\$4,503

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