EIS

# Notes from King Street

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**Links to General Captive Information**

captive.com/news/

cicaworld.com

**Links to SC Captive Information**

http://captives.sc.gov/

http://www.sccia.org

## Reputation Risk

A Tweet goes viral on the suggestion of a scandal at a corporate center of a major publicly held company. A mere suggestion in social media can become the subject of national news in a matter of hours. What is the worst that can happen? Customer sentiment turns negative, a regulatory inquiry is launched, a protest occurs, a rate case is stalled, the stock price falls?

Reputation insurance is now available as a first party cover to transfer the negative financial consequences of an adverse event arising from a reputation issue. Protection is triggered by a parabolic metric tuned to the insured. Underwriters are utilizing big data by drawing from social media, news services, financial performance, rating agencies, among scores of other sources to track and measure public sentiment and the change in the insured's financial performance of its earnings, stock price, etc.

The insurance / reinsurance policy responds to the entity and to its directors, but does not overlap with D&O insurance. Limits are available from Lloyds of London up to $100 million. An article titled, "Reputation Losses Surge in Age of 'Weaponized' Social Media", appeared in the newsletter, Agenda, published by Financial Times Group/Money Media. The following is a link to the article:

http://agendaweek.com/pc/15249131/176693

EIS is collaborating with Steel City Re to co-sponsor a webinar on this emerging topic later this year.

## Medical Stop Loss and Legacy LPT

What do these two items have in common? The answer is – they are showing up in the captive arena with a great deal of frequency.

*Medical stop loss* cover is gaining traction among midsized to large employers due to the incredible escalation of medical and pharmaceutical costs. These employers are seeking alternative risk financing solutions to help control budgeted self-insured health expenses. Captive insurers are being used to transfer risk to protect against outlier years that spike up to the 95th+ percentile of modeled outcomes.

*Legacy LPT* or Loss Portfolio Transfer products have been available in the insurance market for decades. However, recently the utilization of captives has caught our attention in industry sectors that are going through substantial change due to regulations or shifting market focus. Discontinuation or selling of certain operations or business segments, in many instances, leaves a company with a legacy of liability to continue to manage after the closure or sale. Depending on the legacy risk it may cause a drain on ongoing business operations. The typical objectives for a risk manager using a loss portfolio transfer solution include cleaning up their company's balance sheet and financially managing the legacy risk. Utilization of a captive can help create options that are not readily available in the commercial market. Properly structured reinsurance can deliver cost efficiencies and add to the value of the captive and its participant.

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## 2016 EIS Financial Results

We are very happy to report 2016 was a good year, operationally and financially. This table represents the EIS General Account (GA) key financial outcomes for 2015 and 2016 along with the budgets for the next three years. Our 2016 expenses normalized following the transitional phase we experienced in 2015. As you will see in our 2017 – 2019 budgets, we are looking to stay the course by targeting an 85% expense ratio. This expense discipline will enable EIS and ECM to continue providing and advancing the service level our participants expect. We continue to look for technological advancements and new offerings to help EIM risk and insurance managers create efficiencies and value for their utility and energy companies. Please note the 2016 financials are unaudited. Complete EIS Audited financial statements will be posted to each MBP web portal in May.

| | 2015 | 2016 | 2017 Budget | 2018 Budget | 2019 Budget |
|---|---|---|---|---|---|
| GA Surplus | $2.27 | $2.55 | $2.78 | $3.03 | $3.27 |
| Revenue | $1.96 | $2.06 | $2.10 | $2.19 | $2.27 |
| Expense Ratio | 106% | 83% | 85% | 85% | 85% |
| MBP Count | 13 | 14 | 15 | 16 | 17 |
| Avg. Fee/MBP | $.15 | $.15 | $.14 | $.14 | $.13 |
| Avg. Fee/Participant | $.11 | $.11 | $.11 | $.11 | $.11 |