

NOTES FROM KING STREET

Quarterly Newsletter from Energy Insurance Services, Inc., Volume 3, Issue 2

May 20, 2019



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View from the Corner



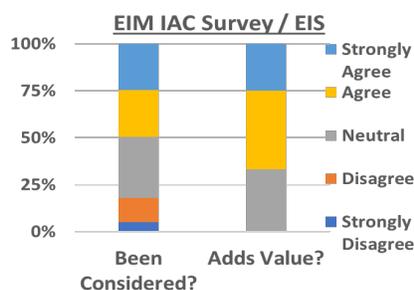
EIS is working with EIM Members to help find solutions for a variety of coverage gaps and enhance risk financing efficiencies.

Where is your coverage gap?

- High retentions
- Narrow coverage terms
- Aggregation of retained risk
- Uninsured or uninsurable risk



Alternative risk financing via captive insurance may be a solution. *So, is EIS delivering*

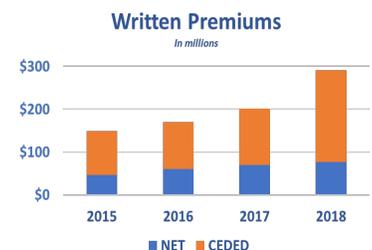


solutions? Two key measures help answer this question.

Feedback from the EIM Insurance Advisory Committee's Biennial Survey is one. The chart to the left represents the 2017 responses regarding EIS. Of the survey respondents familiar with EIS, 50% have considered solutions with EIS. Of those who have considered EIS, 67% agree EIS offers important value-added services. These responses improved considerably since the last survey in 2015.

Annual written premium is another indicator. EIS participants have dramatically increased the level of risk and reinsurance placed through their Mutual Business Programs since 2015.

These indicators are encouraging as EIS continues to strive to serve and assist our EIM Members seeking solutions.



Captive Optima

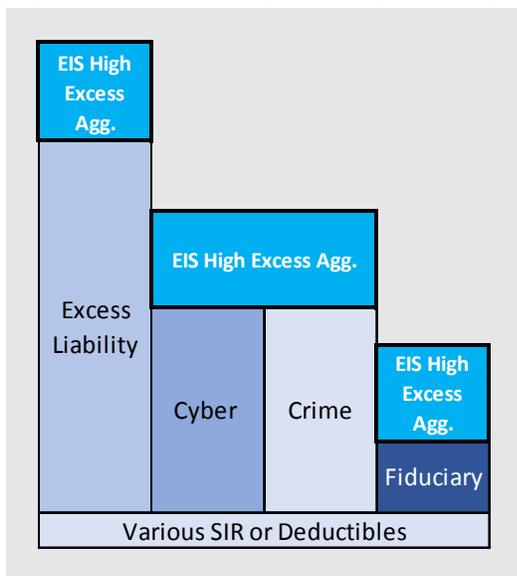


EIS is receiving a surprising number of inquiries from our EIM Members. Maybe it is not too surprising, given the number and catastrophic nature of insurance market losses occurring in the energy and utility sectors. These losses coupled with recently announced insurer and reinsurer capacity withdrawals from high carbon emitting operations is bringing pricing and capacity pressure on many energy and utility companies.



We are pleased several EIS Participants are using their MBPs (protected cells) to access reinsurance and/or putting their MBP capital to work by assuming excess liability risk along side other mutual insurers such as NEIL, OCIL and EIM. Some are retaining new risks within their MBPs on a stand-alone basis.

This seems natural to us, as many of our MBPs have built substantial value over the years and are capable of supporting limits in this time of need to fill holes the market is making in their liability towers.



One Participant recently put their MBP's capital to work by writing a multi-line **'High Excess Aggregate'** policy that provides significant limits over four separate lines of business: excess liability, cyber, crime and fiduciary liability. The diversity of the risks, along with the modelled lower probability of loss, drove the pricing for this policy to a very attractive level (substantially below market pricing, if purchased on a line by line basis). This is a very innovative and creative use of an MBP's capital that is now delivering value back to this Participant's parent and operating companies.

EIM Member inquiries are not just about seeking high excess capacity solutions. We continue to work with

Members to help provide first look analysis on deductible buydown programs for auto, general liability, workers compensation, property and other risks. Captives are made for times like these. Now is the perfect time to explore the use of a captive to deliver solutions to risk financing and insurance challenges.

Focus on Benefits



EXPRO IS MOVING FORWARD

ExPro is the Department of Labor (DOL) “fast-track” exemption process to allow employers with captive insurance companies to insure benefits within their captive. Recently, captive and insurance trade media reported ExPro is suspended. These reports may be a bit exaggerated. The last exemption granted under ExPro was to Hyatt in late 2017. In 2018 the DOL began to review and refine the ExPro process. In doing so, they took a break from accepting new ExPro applications. The DOL review focused on two criteria employers must meet to utilize this process:

- Enhancement of participants' benefits
- Engagement of an independent fiduciary to ensure the transaction is in the interests of participants



Now, Karin Landry of Spring Consulting confirms the DOL is currently accepting and evaluating new applications under ExPro. At least one current application is under review.

ExPro has been used by the DOL for over 10 years to greatly reduce the time and cost needed to receive an exemption by employers replicating previously accepted filings. Exemptions under the ExPro procedure generally take 45 days. Otherwise, individual filings may take up to a year or more.

Over 30 large US-based corporations insure employee benefits within their wholly-owned captive insurance companies. Many have used the ExPro process to obtain the exemption needed to do so. The employee benefits typically insured in these captives include:

- Life insurance
- Accidental death and dismemberment
- Short-term disability
- Long-term disability

On another note, we believe the ExPro news is a good indication for EIS' outstanding DOL query to be answered soon. Our query seeks confirmation that an EIS MBP's (protected cell) with a sole participant, as an employer, is not a party-in-interest under ERISA rules, if the participant chooses to insure benefits within its MBP. If so, an exemption for a prohibitive transaction will, definitively, not be necessary. EIS' query has been outstanding for over three years.

Operational Considerations – Emerging Blockchain



Blockchain is entering the captive insurance industry. At least three prominent captive jurisdictions have recently announced establishing or exploring blockchain and other InsurTech platforms.

Vermont is creating a trial platform to explore facilitation of its regulatory filing processes for its captive industry.

Bermuda is examining how a blockchain platform can help facilitate insurance and reinsurance transactions. The Bermuda Monetary Authority recently licensed its first insurance regulatory sandbox that will test an electronic marketplace for the transfer and trading of re/insurance risks.

South Carolina is introducing legislation to enact the *South Carolina Blockchain Industry Empowerment Act of 2019*. This will establish South Carolina as an incubator for blockchain technology.

EIS/ECM is keeping its eyes on these and other developments. Jeff Tkacz will be attending several InsurTech conferences this year to learn about the emerging technology companies and what is being developed. Technology is changing at a rapid pace and we intend to be informed to utilize these new developments if and when their efficiency and applicability benefit MBP Participants. At this point, we will wait and carefully watch these jurisdictions and the many insurers and reinsurers that are adopting blockchain platforms.



EIS Financials



Energy Insurance Services, Inc. General Account - Key Financial Data As of March 31, 2019

	First Quarter			Full Year		
	2019 Actual	2019 Budget	2018 Actual	2019 Forecast	2019 Budget	2018 Actual
<i>(In thousands)</i>						
Revenue	\$641	\$609	\$599	\$2,444	\$2,431	\$2,477
Expenses	\$389	\$391	\$437	\$1,648	\$1,629	\$1,741
Surplus	\$3,695	\$3,667	\$3,062	\$4,119	\$4,115	\$3,496

Save the Date!

EIS ANNUAL PAC CONFERENCE | NOVEMBER 4 – 7, 2019

THE SANCTUARY | KIAWAH ISLAND, SC

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.”

Energy Insurance Services, Inc.
409 King Street, Suite 201
Charleston, SC 29403
www.eimltd.com/EIS

Contact Us:

Randy Martin rmartin@eimltd.com
Tanyka Ragland tragland@eimltd.com

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