VIEW ON THE CREEK

November 16, 2021

Quarterly Newsletter from Energy Insurance Services, Inc., Volume 5, Issue 4

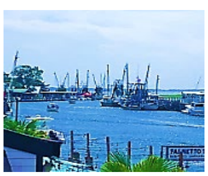
In this Issue:

View on the Creek

Captive Optima

Focus on Benefits

View on the Creek



It has been an outstanding three quarters for EIS and ECM. We returned to our offices in July and last month returned to our in-person PAC Meetings and Conference. We are growing both in staffing and resources, along with new Participants setting up Mutual Business Programs. On top of this, we got through hurricane season without a major tropical weather threat. Business is beginning to look and feel almost normal.

It is hard to express the joy felt by EIS and ECM staff at seeing so many of our MBP Program Advisory Committee members at our annual gathering. The weather cooperated with very mild October temperatures and little humidity. We kicked off our individual PAC meetings early Monday to start the week. The General Session occupied Tuesday morning followed by several more PAC meetings, which then finished Wednesday morning. Wednesday afternoon was reserved for our planned activities of golf, kayaking, or a spa treatment. Many of our PAC Members and guests enjoyed one of these conference activities that provided opportunities for networking with staff and other Participants.

Our General Session provided an overview of several items including updates on

- 2022 Audit and Taxes
- ECM SOC 1 status
- Anti-Money Laundering Protocols
- South Carolina Department of Insurance
- EIS Portal

We also reviewed the strategic perspective of risk financing opportunities. This is discussed more in our Captive Optima section below. Next year EIS will be celebrating its 30th anniversary at The Sanctuary on Kiawah Island, South Carolina from November 7 – 10.

New MBP Launched

We are very pleased to welcome a new EIS Participant. This makes the second mutual business program formation of 2021. EIS now has 19 active protected cells. We are in discussions with several other EIM Members that have expressed the potential or desire to launch a new Mutual Business Program before year-end. Whether these launch or not, EIS/ECM continues to field new inquiries regarding the opportunities a captive risk financing program may provide.

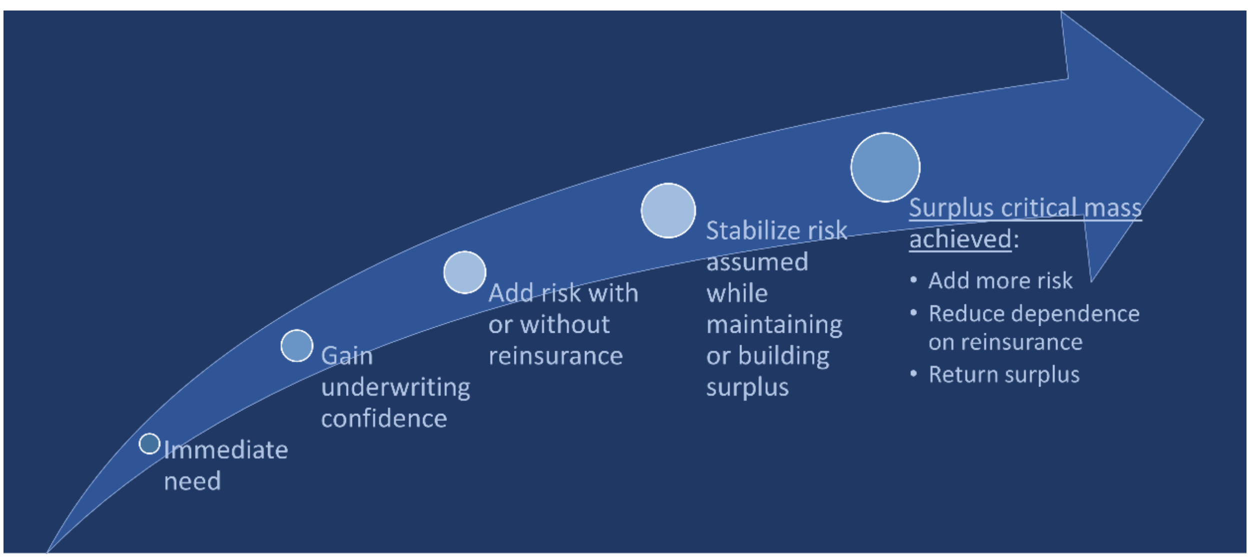
Captive Optima – Risk Financing Opportunities

When and where will the relief from the current insurance market come? The insurance industry trade journals continue to report the market will continue to see increases (although at a slowing rate) until 2023.

Swiss Re Institute released a report this month declaring global liability rates will grow annually, on average, by 4.7% until 2040, which suggests your current liability program cost will be 2.5 times greater in 2040.

Given future cost and capacity uncertainty, now may be an ideal time to consider optional risk financing strategies and the role that a captive insurance facility may play in supporting your organizational long-term strategy. Given the overwheming number of inquiries EIS has fielded since 2019, we can certainly attest to why so many EIM Members are seeking new solutions. The issues we see are centered around one or more of these three tactical objectives: cost, stability and capacity. At the start of using a captive facility, it may be very difficult to meet all three. In many instances, one objective may run counter to another early on. The storm picture suggests you need to first address the storm (or threat of a storm), but also have a vision for the daylight or sun that will eventually shine through. It takes time, sometimes several years, to realize the strategic advantage. How much time is dependent upon several factors such as initial capitalization, underwriting success, reinsurance support, diversification of risk, and premium adequacy, to name a few.

So, it is important to look at a captive alternative with a long-term perspective, one where a tactical fix evolves to a blaze a new strategic path. The following chart suggests one such path.



How one starts and ends up is as varied as there are EIM Members. No two paths will be identical. However, there is a common theme that exists among the active EIS MBPs that started nearly 30 years ago. All have grown into a strategic platform. As such, they are being exceptionally responsive with relative ease to address the risk and market issues that have faced them over the past few years and likely for many years to come.

If you have not started to take a serious look at a captive facility, now is the time. Maybe your path will look like the following chart.

Focus on Benefits – An Opportunity

By now, many of our EIS participants should have received an analysis of how a few of their company's benefit programs may be able to find cost savings and other efficiencies by utilizing a captive. The analysis provided by Spring Consulting customized for each of our Participants focused on the following benefits:

- Retiree medical
- Life insurance
- Long-term disability

Spring Consulting has partnered with EIS since 1995. It helped to create the retiree medical (long term stop loss) plan used by the multi-participant MBP 15. Its expertise centers around the use of captives for benefits coverage. Using publicly available information, Spring looked at each of the businesses and, after applying some professional judgment and assumptions, provided estimates of likely cost advantages for insuring these three benefits within a captive facility.

Although no two are like, we have some averages that we can share.

Savings on life and long-term disability programs written within a captive facility are largely driven by current market premiums, the historic loss ratio, and the expected losses. A captive can drive the cost down by reducing or eliminating costs that would otherwise go to brokers and underwriters. Expected costs for these programs are generally 9% - 11% less than in a traditionally insured structure.

Organizations that have fully funded their retiree medical programs can realize tax efficiency of investment income when placed in the MBP 15 program. Those that are not fully funded can also realize immediate tax advantages on the premiums used to initiate coverage in MBP 15.

If you wish to see what your firm can expect, please reach out to Tameeka Heyward at theyward@eimltd.com.

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