



BUILDING A STRONGER
BRIDGE TOGETHER



2010 RISK MANAGERS
INFORMATION MEETING

Energy Insurance Services

Breakout Session

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Agenda

- **USA Risk Group of South Carolina**
Captive Management Services and Capabilities
Tobias Burke and Adam Forstot
- **Milliman**
Captives and Actuaries – A Winning Partnership
Steve DiCenso and Chris Kogut
- **Global Risk Partners**
Profitable Assumption of Third Party Risk
John Cornelius

USA Risk Group

Captive Management Services and Capabilities

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Overview

- 4th largest captive manager in the world
- Largest independent captive manager in South Carolina
- More than 275 captives under management in 13 domiciles

EIS Team

- 5 of 6 hold professional designations
- Average 7 years of captive experience
- Average 23 years of insurance or accounting experience

SAS 70

- Do you have one? Is it comprehensive?
- EIS SAS 70 covers I.T., Finance and Internal Controls
- Key value for EIS members:
Documents insurance procedures

Enhancement to EIS Service Platform

- Expanded reporting capabilities
- Web Portal
 - Members granted secure, on-line access to policy and financial information
 - Enhanced disaster recovery
 - Onsite workload for auditors reduced
- Improved turnaround time on payables and policy issuance
- Greater transparency to the Members

Questions?

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Captives and Actuaries A Winning Partnership

Steve DiCenso, FCAS, MAAA
Chris Kogut , FCAS, MAAA



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Overview of Presentation

- **Actuarial Risk Assessment and Evaluation**
- **What Actuaries Do for Captives**
- **The Value Actuaries Generate for Captives**
- **What Separates Milliman**
- **Questions and Answers**

Actuarial Risk Assessment and Evaluation

- **Risk Assessment**
 - Evaluate Company Exposure to Loss
 - Review Historical Loss Experience
 - Determine Risk Appetite
 - Perform Actuarial Analysis
 - Estimates of Ultimate Loss and Loss Variability
- **Risk Control**
 - Perform Cost/Benefit Analysis
 - Retained vs. Insured Risk – Compare to Market Pricing Alternatives
- **Map Risk Assessment to Risk Control**
 - Recommend Whether Captive is Best Risk Financing Option
 - Quantitative and Qualitative Review of Advantages vs. Disadvantages

What Actuaries Do for Captives

- **Captive Feasibility Study**
 - **Develop Rates/Funding Levels**
 - Evaluate Need for/Impact of Including Risk Margin in Rate Levels
 - **Establish Appropriate Capital Levels**
 - Model Statistical Variability and Impact on Risk Appetite
 - **Analyze Appropriate Reinsurance Levels**
 - **Prepare Pro-Forma Financial Statements**
 - Estimate Underwriting Income, Investment Income, Taxes
 - Expected and Adverse Scenarios
 - **Calculate Economic Benefit**
 - Savings vs. Costs, Including Opportunity Cost of Capital
- **Assist Captive Manager with Captive Application**

What Actuaries Do for Captives (cont)

- **On-going Actuarial Analysis**
 - **Prepare Reserve Analysis**
 - **Provide Range of Estimates / Confidence Level Analysis**
 - **Issue Statement of Actuarial Opinion for Regulatory Purposes**
 - **Determine Forecasted Rate/Premium Levels**
 - **Re-evaluate Appropriate Retained vs. Reinsured Limits**
 - **Assess Capital Adequacy**
 - **Perform Cash Flow Modeling**
 - **Develop Cost Allocation Methodology to Company Subsidiary**
 - **Perform Dividend Analysis**

What Actuaries Do for Captives (cont)

- **Other Analyses**
 - **Compare Actual vs. Expected Losses**
 - **Determine Collateral Requirements (if Reinsurer)**
 - **Perform Claims Management Review**
 - **Compare Cost of Risk vs. Alternative Risk Financing**
 - **Evaluate Inclusion of Third-Party (“Unrelated”) Risks**
 - **Employee Benefits**
 - **Create Predictive Models of Claims Experience**
 - **Perform Risk Transfer Analysis**

The Value Actuaries Generate for Captives

- **Estimate Sound Rate Levels**
- **Estimate Required Loss Reserve Accrual**
- **Provide Captive with Rigorous Analysis of Risk**
 - Premium, Limits, Reinsurance vs. Surplus
- **Show Management the Value of a Captive in:**
 - Reducing Costs
 - Stabilizing Costs
- **Other Value-Added Work**
 - Insurance Placement Discussions
 - Internal Planning/Budgeting and Cost Allocation
 - Utility Rate Recovery Filings

What Separates Milliman

- **Milliman's Property and Casualty Actuarial Consulting Practice is One of the Two Largest in the U.S.**
- **Provide Actuarial Services, Including Funding and Loss Reserving Projections, to:**
 - **Milliman - over 300 Captives in over 20 Domiciles**
 - **Boston Casualty - over 225 Captives in 11 Domiciles**
- **Provide Captive License Application Review Services to Eight State Insurance Departments**
- **Participation in Industry Groups and Boards**
- **Independent Fiduciary on the Majority of all Employee Benefit Captive Filings with the Department of Labor**

Questions?

Profitable Assumption of Third Party Risk

One EIM Member's Experience
With Alternative Risk

John Cornelius, Global Risk Partners

Objectives

- Identify ideal third party exposure
- Describe a captive strategy to lower cost of risk for that exposure
- Describe one existing EIM Member's program to illustrate how goals have been attained

Ideal Exposure

Third Party Exposure – Contractor Budget

All utilities budget significant expense related to contractors

Certain contracting exposures are made to order for assumption by Captive

Specifics of Ideal Exposure

- Members already bearing cost of risk in corporate program or operating company expense
- Sufficient dollars to enable assumption of fixed costs, claims, safety etc. and PROFIT
- Member has existing organizational expertise with respect to contractor costs and claims and loss control
- Ease of conducting accurate feasibility analysis
- Ease of administration

Line Construction Rolling Wrap up

- Close to perfect example of the criteria established for ideal exposure
- Eliminate traditional obstacles to implementing a wrap-up by selection of “right” exposures
- Relatively continuous O&M or capital construction are excellent candidates

Energy 2000 Program

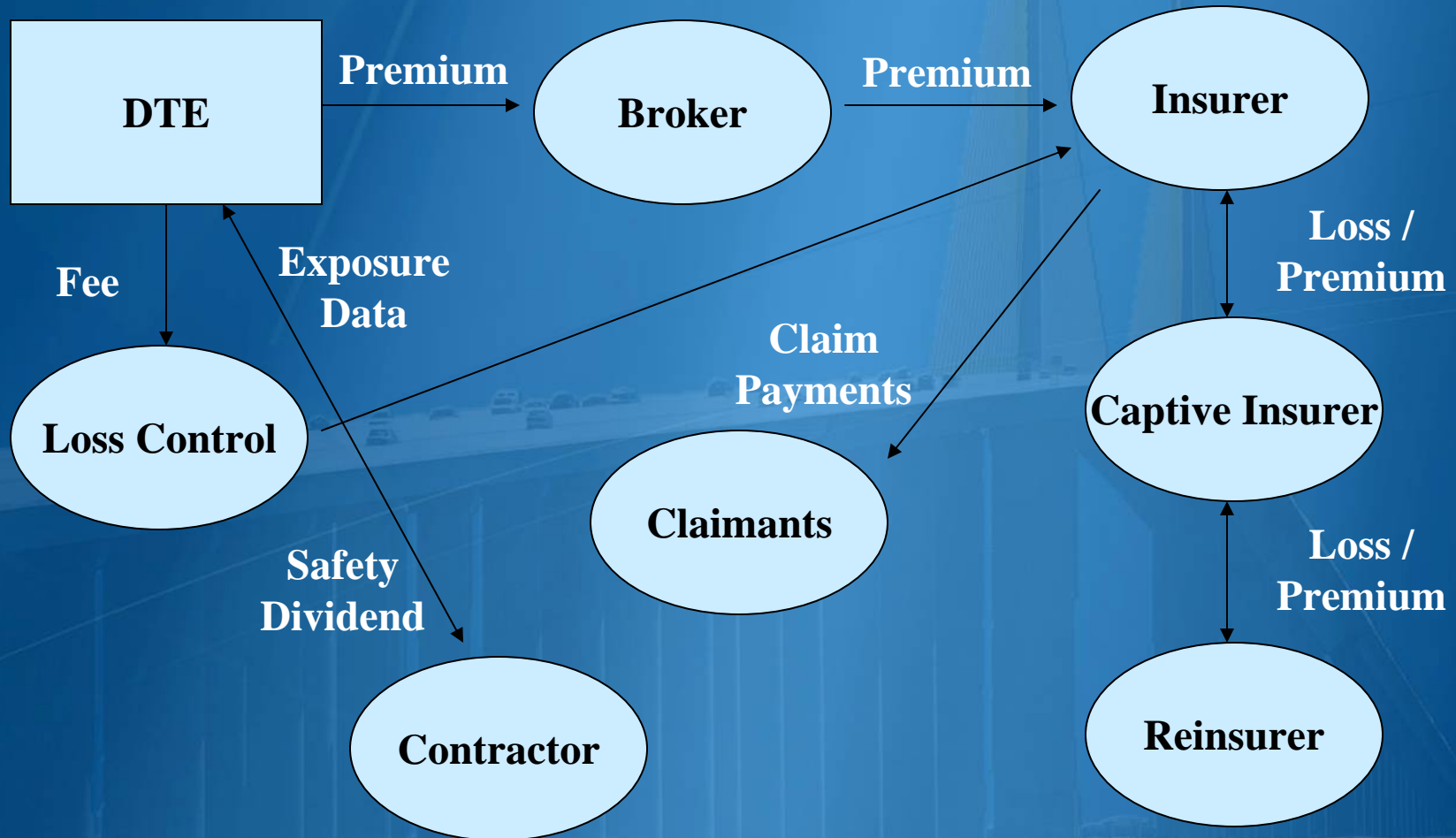
- In place since 1995
- Current carrier is Zurich
- EIS / DTE manage purchase of reinsurance
- Claims handled by Zurich
- Safety handled by independent group of retired utility line construction personnel
- Estimate of time spent on program by Risk Manager
- Savings in following exhibit are compared against actual contractor insurance charges for line construction not in program

DTE Wrap-up Costs vs. Benefits

14 Years and Counting

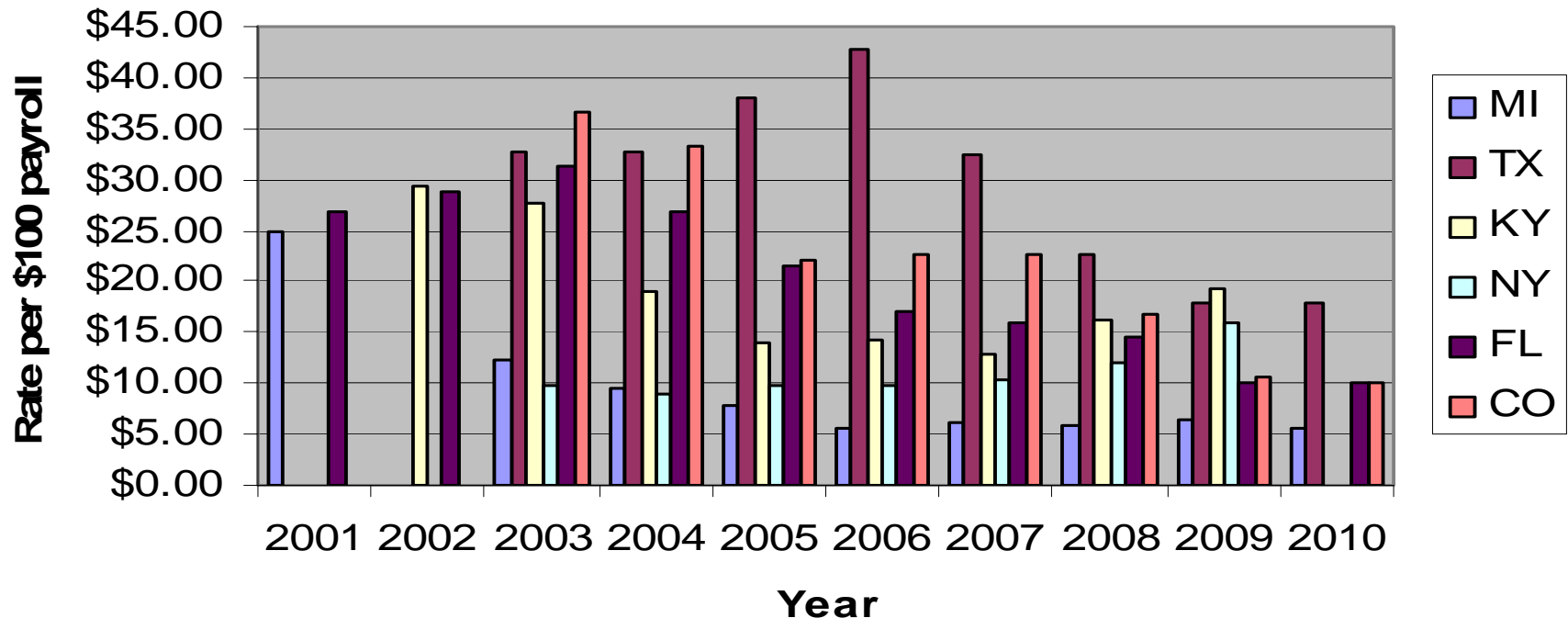
Costs x \$1000	Category
\$10,000	Insurance costs including reinsurance
\$9,100	Incurred Loss net of reinsurance recoveries
\$3,800	Loss Control
\$1,900	Admin
\$859	Safety Dividend
\$25,659	Total Disbursements
Benefits x \$1000	
\$7,900	Surplus added to EIB EIS
\$10,000	Up-front benefit (discount) to operating company @ average contractor cost of 14% percent of payroll

Energy 2000 Diagram



Can DTE experience be duplicated?

Power Line Construction WC Rates



Benefits of Assumption of Third Party Risk Using a Wrap

- Control cost for utility
- Control Insurance Coverage
- Control Claims Handling
- Reduce Litigation
- Facilitate compliance with health and safety regulations
- Improve Productivity
- Achieve healthy growth for EIS cell
- Employee Engagement

Ease of Administration

- Program is based on basic insurance blocking and tackling
 - Policy forms are standard
 - Insurance industry will actively compete for reinsurance and excess insurance
 - Reinsurance Agreements are automated and standardized
 - TPA and claim expertise readily available
 - No complicated tracking of contractors, audits etc.

Summary

- Select a substantial continuing third party contracting exposure
- Apply the criteria suggested
- Check contractor rates
- Check State regulations for wrap-ups
- Estimate losses using actual or own experience
- Estimate expenses

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