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Episode 15 How Insurance Mutuals Keep the Energy Moving

Grace Brighter:

Energy is changing fast across upstream, midstream, downstream, power generation, utilities, and emerging technologies. The sector is being reshaped by market volatility, changing regulations, infrastructure constraints, innovation, and rising stakeholder expectations. Today, energy is a boardroom issue, one that sits at the center of geopolitics, supply chains, digital infrastructure, and the growing power demands of a data-driven economy. And with risks more interconnected than ever, leaders are balancing near-term challenges with long-term decisions around reliability, resilience, investment, and performance.

Sarah Baldys:

I am Sarah Baldys, energy and power leader at Marsh's financial and professional liability practice.

Grace Brighter:

And I'm Grace Brighter from Marsh's Energy and Power Practice. We invite you to tune in to stay informed, ask better questions, and navigate what's ahead with confidence.

Sarah Baldys:

This podcast brings together voices from the front lines in the energy and power industry, including operators, executives, investors, attorneys, and subject matter experts for candid conversations about what's happening now and what's coming next. From

renewable project challenges and nuclear trends to cyber risk, wildfire and climate exposures, grid reliability, and the market and operational forces shaping day-to-day decisions, these conversations center on the issues that matter most. Whether you're an energy professional, executive, investor, or simply looking for a clearer view of the sector, this series offers practical insights and real world perspectives from the people closest to the work.

Grace Brighter:

Pete joined EIM in January of 2024 as director of business development and member relations. His role aims to strengthen relationships with EIM members and partners, support business development, and help align EIM strategy with the needs of its membership. Prior to EIM, Pete served as a senior vice president and client executive in Marsh's energy and power practice, advising clients on the design and structure of risk management and insurance programs. Previously, he spent 15 years with FirstEnergy as director of corporate insurance and credit risk with responsibility for the company's insurance, claims, risk management, and credit risk functions. Pete began his insurance career at Nationwide, where he held various roles in the property and casualty claims department. Today, we are super lucky to have Pete Nadle with us from EIM.

Grace Brighter:

Great. So today we're taking a closer look at a topic that definitely plays a huge role in resilience across the energy and power industry, that being insurance mutuals. So for many people, the term mutual is familiar, but the way it works in this sector is less widely understood. And yet for companies in energy and power and risk, mutuals have been a long important part of how this industry approaches risk and long-term stability. So Pete, to start us off, and I know this is definitely a loaded question, but are you able to explain what mutuals are, why they were created, and why they continue to really matter so much in this space?

Pete Nadel:

Sure. And as you said, it is a little bit of a loaded question, but it makes for a little bit of great

conversation because there's a lot of different flavors in this. So at the baseline of a mutual is just specifically the insurance company is owned by its policy holders, members, however you designate them. And there's, like I said, a lot of different flavors of that and versions of that out there in the industry, but specifically to the electric and gas utility industry and all of our partners in that energy space, it's very much that we are focused as an industry mutual on them. So we are owned by the members and the companies that essentially created us decades ago. And that really centers how we think about and how we approach risk and insurance and risk transfer and really just the partnership that we have with our members.

And that's really what it ultimately comes down to is that we are very much a partnership and everything that we're going through is we're doing it as a collective group. And so when we think about and talk to our membership, it's important that they guide us on where we need to go because it's not being driven necessarily from a profit standpoint or a stockholder standpoint. It's driven by essentially what we need in order to meet their needs. And for EIM specifically, we push really hard to try and make sure that we stay almost operating as a nonprofit. So we have a combined ratio goal of trying to be as close to 100% as we can. And we have a really low expense ratio. We keep it right around 6%. So we want to make sure that the 94 of those cents are going back to our members and that takes different forms.

We built up surplus over time and we're operating in a much different position now than when we were created a long time ago. But where we're at currently, we take insurance dollars in with the idea of being able to return them in the form of claim payment. And when we do well, we have the opportunity, we continue to build that surplus in order to sustain the level of insurance that we're providing and the capacity that we put out. And then after that, if we continue to have a surplus over that, we can return that to our members in the form of a dividend. We particularly refer to it as a distribution because that's how it's listed in our bylaws. Other folks call it a continuity credit, things like that. But there's opportunity so we're not just continuing to build surplus or we're not putting it into stockholders' pockets.

It's going right back to those members that rely on us specifically for the insurance needs.

Grace Brighter:

Great. Thanks so much for that, Pete. Extremely insightful. Just wondering if we could have you maybe highlight some of the historical context, really want to hone in on why EIM was created in the first place, what gaps existed in the market or in maybe member needs at the time?

Pete Nadel:

So as those coverage needs continued to develop, the industry took it on themselves to co-ed and start to build their own mutual. And specifically to EIM, we followed another company, EGIS, by about eight years. And for us, it really rose out of a crisis that was happening as a result of the Three Mile Island incident that happened in the late '70s. Most of the utilities at that point, this was all pre-deregulation, so most of the utilities were still vertically integrated. So they owned all the way from the distribution to the generation. And because a lot of that was nuclear power, the D&O industry saw what happened with the Three Mile Island incident and was feeling the effects of that. And so they started to really pull back on the coverage that they were available at the time that the industry actually needed that coverage in order to continue to operate. (03:53)

So they had just had that successful run with the building EGIS for a similar but different construct. And so they got back together and pulled together for EIM, and at that time did a combined general liability and D&O form in order to address that coverage gap. But one of the things that they saw with EGIS that they wanted to continue to build on was EGIS was built with a high level of capacity and being a higher excess market that was going to go behind EGIS and not necessarily compete with them at all, they were going to be a sister mutual that tacked onto the backside of it. They decided to stretch that capacity even further. So at that point they decided that 100 million in coverage was the right number, and we've continued to provide that now 40 years later in one large slug. And that's one of the biggest advantages of the mutual in our space is that depending on your configuration and your eligibility for membership in the varying different mutual companies, you can get over \$200 million of coverage basically from two or three companies.

And that's pretty unique. And it's something that spoils us in the industry as I was a risk manager at one point, but it spoils you in the industry a little bit when you're building a liability tower and you have, and we'll just take EIM and the underlying as the examples, you get

up to \$150 million of coverage between two insurance companies. The administration, the burden on that, the comfort level that you have, the ability for you to really operate when you do have a claim because you're only dealing with two companies, those are really, really valuable as you get into the chain and you get a little bit used to that and it only takes a little bit of opportunity either outside this niche or looking back in the past at what things were like before that where you had 10 policies that were all pulling together to give you a quota share for \$2 million.

And in order to get \$10 million, you had 40 policies that you had to document, you had to make sure you chase, you had to bring all those people in for your renewals. All of those things are items mostly of the past, especially in our industry where we develop relationships and partnerships over time and you really get used to the simplicity of those things even in a very complex world.

Grace Brighter:

Great. So Pete, now that we've defined what a mutual is and why it really exists in this space, hoping we can talk a little bit more about members and their feedback and the landscape there. So I guess for first question here, who can become a member of an industry mutual? And maybe if you could share a little bit of insight of what the membership process looks like, that would be awesome.

Pete Nadel:

Sure. And I'm going to speak specifically around EIM, but it is generally kind of similar within the industry scope. But for EIM, the folks, it's a pretty low bar as far as becoming a member. There are some criteria, but most large or most insurance or most electric utilities and gas distribution utilities do qualify without really any trouble. And that's really our target market, but it's even grown beyond that as we have a number of midstream gas providers, we have water utilities, and we continue to look at the opportunities in the insurance sector because that's something that's going to, and we'll talk about this I'm sure a lot along the way, but the evolution of the power and energy space in the US is changing drastically and very dramatically. And the evolution of the insurance company that comes along with that is going to be a very important landscape as we go forward.

And one of the things that does make us, limits us, but it also works as we really understand the risks that we're taking on is that we maintain our footprint just in the US and Canada. So that is part of the limitation, but it's also something that we're, again, continuing to look at on a regular basis because we know that that's going to continue to evolve over time as well. And there could be opportunities outside of those spaces that we could provide something. And that's really, again, getting back to a little bit of why we're here and why we exist is it's just to support the industry and give them the stability that they need to continue to do the critical service that they're providing to the entirety of the world. So it really feels very small as far as it's insurance and if they're listening to this podcast, they probably get excited about insurance, but outside of this, the audience maybe, it's sometimes hard for people to understand the stability and the backbone that insurance provides and allows some of these folks to operate as they go out and do very, very important things for the world and for each individual person in it.

Grace Brighter:

So you bring up a really key point here. You speak of this evolution of the industry and in your current role at EIMP, director of business development and member relations, you obviously spend a ton of time meeting with members across the country and I'm sure discussing that evolution and evolving change in this industry. I think that puts you in a really unique position here, listening and having all those conversations. So I'd love to hear what key trends are you hearing most often from members? Are there any recurring challenges or themes, maybe even opportunities that keep coming up?

Pete Nadel:

Yeah, I think the one that, and it's really broad, so it seems almost like it's intuitive, but the one that continues to come up is just change. And we hear that word and we hear it used in a lot of different contexts, but it's really relevant in the fact that things are happening at a much, much faster pace and an industry that hasn't been built on change, that was built on stability, both in insurance and the electric utility and power space, those companies have been pretty consistent throughout the years, and there's a lot of great reasons for that. But as the world continues to evolve and things are happening, it does make it important that they embrace a little bit of that change as

they go forward. And that's difficult and it's an adjustment to how everybody has operated previously, but it's something that if you don't do that, we're all going to devalue the offering that we're talking about.

And again, that really important end product that everybody is relying on. And as kind of a point to that, EIM has an insurance advisory committee made up of risk managers that are in our member companies, and we every other year do a survey. And a lot of it has to do with just understanding how folks feel about EIM's operations, but there's a pretty large section at the end that's dedicated to their risks and it's helping us understand what they're seeing in the space, but also to give them a benchmark to talk about what they're internally in their own organizations. And we just completed it about a month ago, and one of the really interesting observations was that we did the last one in 2024, we did this one in 2026, and the two of the top three risks that ranked highest as the ones that they are most concerned about and have the highest velocity weren't on the chart in 2024.

So the things that they're having to adjust to, the velocity in which those things are happening has really created a lot of pace, and that's only going to continue as we go forward and as technology continues to reduce the amount of time that you need to do certain things in and puts pressure on the timelines of what you need to accomplish very specific and very high value projects in. So it's going to be interesting to see how that continues to evolve, but that is the standard that is going to be set. It's just that we're not going to go backwards to where we've got a really long timeline to adjust and we can see risks coming down the road and we've got time to build out infrastructure and make decisions on things over a long period of time. Those timelines are going to continue to be condensed.

And so that's going to put pressure on the risk team at all of our member companies and any energy company to be able to see around the corner a little bit sooner. And it's just going to be a matter of continuing to gather that data and intelligence and have forums like the ones that are set up by the mutuals and this niche of mutuals that they can communicate with their peers and help get out in front of some of these risks as they start to see them coming.

Grace Brighter:

Great. Pete, thinking a lot about some of those emerging risks, one that is top of my mind, and it's a topic we actually did another podcast on, that being wildfire risk. So I'm hoping that maybe you can speak a little bit to wildfire risk, specifically how capacity has evolved and the role that EIM has really played in helping the industry navigate that challenge. I think it's also just a really great example of how a mutual really steps up to provide capacity maybe during a time where traditional markets pull back.

Pete Nadel:

Yeah, and we're kind of a Jekyll and Hyde in that whole story, but I'll talk about that a little bit because all of it fits together to come to a pretty good end story. But certainly, and as I'm talking about that survey, the number one in 2024 was wildfire. And a lot of it just had to do again with the velocity and just the complete understanding of what that looked like. And we want to compartmentalize risks so that makes it easier for us to adjust to them and think about them. And there still is a little bit of a compartmentalize around California and the West Coast and how those risks are evolving. But what we've seen is a little bit of that has continued to change the remainder. Everybody's not going back to a very small and consistent way of thinking about wildfire. It's more the bigger picture that we see this as a catastrophic risk that can have really outsized outcomes that draw from the devastation that happens in those events.

And they're really, really difficult to manage. They're really difficult to solve. And so a lot of things have evolved out of that. One is, and it kind of did start a little bit with us as we saw the continued proliferation of those types of losses. We took a stance of trying to slow play that a little bit and just corner it off into little partitions over time, starting with a little bit of California. And what we found was that it wasn't really sufficient and the unpredictability of the losses and how they were spreading to states outside of that region was happening at a greater pace than we felt like premiums could control. The idea is, well, you just charge more. And in retrospect, everybody looks at that and says yes, but until everybody was comfortable with the idea of what that cost was going to look like on a market scale, that was going to be really difficult.

And so what we saw was we weren't sure we were going to get enough premium support, and so we did have to reduce the amount of capacity that we were

putting out there until we can get a full read on that. And we've seen some really good results from that as far as how it impacts EIM and EIM stability over the long term. Because if you think about what the proposition of EIM is, and we talked about this a little bit at the top of the show, it's really a long-term stable partner that can be there and you know they're going to provide consistent capacity and consistent coverage over time. And what we were seeing is that if we were continuing to provide coverage at the level that we were and had continued to have losses in the way that we were, where we were averaging a full limit loss or two a year, that really significantly impacts how long we're able to sustain business.

And those are really, really painful decisions and they come with a lot of understanding around what's going on in the industry and knowing that it's going to create some issues. But it also speaks to the fact that we can't just look at wildfire as its own peril and do everything to keep that one stable at the sacrifice of everything else that we built coverage on. Wildfire's a very emergent risk and it's something that's very specific and now, but it is not by far the only thing that risk managers have to worry about. And just because there's stability on some of the other losses, we didn't want to lose sight of the fact that if we can't be here for everything, it's going to make it so that we can't be there for anything. And so that drove that, but it also helped create a lot of discussion within the industry and you take whatever silver linings come out of it that you can.

And as the coverage crunch started to really happen and recognize that it put a lot of pressure on budgets, but it also put a little visibility on the idea that insurance can't be your solution and your fallback on everything. It's got to be a multi-pronged approach on risk mitigation. And if insurance is there as your final safety net in order to make sure that you can continue operations, that's a good thing and that's great that they're there for it. But if that position gets out of pace with what you're able to do as a company to mitigate risk, it's going to continue to drive bad results. And so it's repositioned wildfire a little bit as we look at it now. And the industry has really rebounded in and of itself and really taken that peril by both hands and they're really diving into it. And you can see that there's a multi-pronged approach now about how they're mitigating wildfires within their companies, how they're looking at how they fight them, how they operate within storms that they think are going to create those conditions, and

then how they approach it with their regulators too, because the regulators started to see the crunch of that.

And the ultimate idea behind this is that when you are purchasing insurance, it's supposed to be an efficient transfer. And if it's not, and all those dollars are getting pushed down to the customers, anyway, you have to start approaching it from a different way. And so we've seen the industry really embrace that. It's still a challenging market, but we're continually evaluating how we're offering coverage. We have those discussions every day, and we've already upped our limit again to a higher sub-limit within our coverage. And when we're doing that, we're doing it with an eye towards what happened previously. So we're not going to restore coverage without knowing that we can sustain that for the long term. Even if we have that really specific and high level of incidents that are occurring, we want to make sure that anything that we offer, we can continue to offer even in the wake of some very difficult storms, pun fully intended.

Grace Brighter:

Well, that's definitely a great story and I think a perfect example of EIM executing on their business proposition for members and being extremely innovative. So appreciate the insight there. I did want to circle back to that survey you mentioned just a couple minutes ago. Are you able to share some of the other top risks reported by your members?

Pete Nadel:

Yeah, the number one was data centers, and really that's a wide and encompassing idea, but specifically for our group, it's just their ability to meet the demand that they see on the horizon. And I think anybody listening to this podcast is probably pretty aware of the predictions that come out pretty regularly of the demand on the energy grid, certainly in the United States, is exponential. And it's something where it sounds like it's a concern, but when you put the juxtaposition of how energy demand has increased over time previous to that and what we've done to somewhat change the energy mix and the on-demand availability of resources has changed that we've shifted a little bit more towards renewables, which is positive, but it does change the availability schedule of how those resources are available to be deployed. So it's not one for one when you talk about going from a wind farm to a coal plant.

Coal plant brings a whole lot of challenges, but the one thing it does super well is be online and be available for very long period of times, and it's very predictable. Wind farms are less so because they are reliant on the wind. Same thing with solar. You especially know when solar's going to not be producing because there's no sun. So those things are challenges that we have to meet. But prior to this energy demand explosion that we'll call it, a large year for them to increase their regional utility to increase their power factor was 0.5%. That was a really big year and something that they really had to gear up and plan for. Now we're talking about 5% flat as being year over year increases or at least every three years, something along those lines. That's really dramatic and drastic, and that puts a lot of strain and stress on the grid itself and for the utilities who have to think and plan around that.

So that's going to lead to a lot of builds, that's going to lead to a lot of other things that, again, are going to have unintended consequences that we're going to have to manage. And so risk managers are looking at that and there's not really great insurance solutions around those things. And that's for a good reason because you don't want to really insure those types of risks, but there are things that are included in those risks that insurance can play a really specific role in helping to balance out and some of the contractual risks that folks are having to enter into and how they manage their load, how they think about their load going forward. All of those things are opportunities, and not necessarily with EIM, but just opportunities in the marketplace for folks to think about what the efficiency of that risk transfer is going to be.

Grace Brighter:

Great. I'm just going to pause real quick. Great. So Pete, we've talked a lot today about the ever-changing environment in the power and energy world, the history of the industry mutual. So I did want to close with a forward-looking question. It's clear from the conversation today that industry mutuals have really helped meet the needs of the power and energy sector. But looking ahead, how do you see both the industry and the mutual model really needing to evolve over the next three to five years to stay relevant as expectations continue to rise? I know a broad question, but I think it would be really helpful to get your perspective, especially given your experience on the client side once as a broker and now at an industry mutual.

Pete Nadel:

Yeah, I think that it's going to be a very interesting question, and it's one that we get posed every day. Our CEO is very much thinking about strategically what we look like. The first 30 years of EIM were pretty static and steady, and the last decade has been a lot of change. And so even as we take a look at things as core to what we do as our mission, vision, and values, and we're in the process of looking at those right now, it's how do we position ourselves so that we not only continue to provide the service and the level of expectation that our members have, but also look out ahead and see what that looks like going forward in the future, because it's certainly going to be different than what it is today, and how do we make ourselves a little bit more future-proof, to use an IT term, around that?

And it's going to be a fluid evolution, I think is really what we know. So you just get out there and try and get as much data as you can to help inform what that next thing looks like and what the next opportunity is going to be in order to allow you to adjust to what the next volatility thing is. And that survey example is just one of those that's just going to stick in my mind because the answer is probably going to be different two years from now, if it's not a couple days from now. So there's going to be something that's going to change. So it's going forward with a really good and really solid and really thoughtful plan on how we continue to provide great service and member service directly, but then it's also how do we continue to do that? And it's going to be a combination of not only the insurance products that we offer, but just the other ancillary services that we have.

And one of the unique things about EIM that we have that's different within the industry is that we actually have a sponsored sell captive subsidiary. And so any member of EIM can actually start their own captive, but it's then you have the ability to do it and share the administrative expenses with others, even though you've got a very siloed and ring-fenced captive set up within that setting. So captives I think are going to continue to show a lot of value, and now is actually the time to start thinking about that because it's not when you need the crisis, because if you can capitalize your captive over time, it becomes that much more valuable. So it's one of those things that we typically see folks start to explore once they absolutely need it or they see the need arising. It's almost a much better idea to start doing it when you don't, because then that allows you a little more latitude to do that.

And that's going to be certainly a big part of the flexibility and change that happens within the organization. But specifically for how we're thinking about it, one of the things that we've tried to be a little bit out on the edge of for a very small company that only has 50 employees, we try to make sure that how can we optimize efficiency? How can we continue to make sure that we've got that low 6% expense ratio going forward, knowing that we've got to continue to staff up to keep up and keep pace with the additional claims load that we're having, the additional scrutiny that we have to put on underwriting? All of those things are going to continue to require more people. But what we can do is utilize AI tools to allow us to be more efficient at those things and take away some of the manual tasks, the things that we don't necessarily need a human to do, and at least shrink those things down with a human in the loop to make sure that we're not getting hallucinations and things like that, but shrink the amount of time that we have to spend on some of those, what I'll call lower value tasks where it's just data input, things like that, to allow us to spend more time on the strategic part of things and being a better strategic partner with our members.

One of the areas that we've really started to evolve that in is within our claims group. And it was a pretty simple thing that we started, but it's really shown a very high level of return on investment. So folks are likely familiar with the process of providing a border row or a laundry list of claims with each renewal. That was something that we were manually going through and just making sure that we were aware of any claims, something that might give rise to a claim so that we can go back and get more detail since we're taking that information in and we don't want it to get to a point where there's a dispute over when the claim was reported or if it was properly reported, all of those items that can come up in those types of situations. But we've actually used AI and trained our AI to go out and look for things, not only that we have seen or developed over the years where we've seen a claim growing, key phrases, keywords that might cause us some concern, but also to look back at our claims data and use that to extrapolate from that where did this claim come from?

What didn't we see and what we're doing? So we've reduced that border row review time from two days to two hours. And again, it's done with a human in the loop because now instead of going through and looking at every line, they're getting back a report and we're doing it with different confidence levels. And we can set the

confidence level pretty low so that we're getting a really wide swath of results coming back, again, to make sure that we're catching any errors that we have. But that allows that person to then, instead of spending the time going through and reading line by line those border rows, they can pick out those and look at them themselves and then go back and ask additional questions of our insureds or our members as they go forward. So we're spending more time on the high quality thing that's going to actually help us with a claim down the road as opposed to the manual laborious part of that.

So we're starting to try and just look very conservatively, but with a forward-thinking mindset at those opportunities where we can really do that and get more time for our staff to be strategic and less time on lower value stuff. So we're really excited about some of those things and we're really trying to push the envelope a little bit on how we're thinking about it. We're not pushing the envelope on how we're utilizing the tool. We're doing it with what can we utilize it for? And that allows us to be, again, bring in some new things like that that are going to be really high return on investment, but then also not get us in a position where we're over reliant or having concerns about what that looks like going forward. And we know that our folks in the industry are doing similar things and we've seen a lot developing as that goes.

And we know that there are going to be additional risks that come with that AI utilization. In fact, we just have been noticed on a few claims recently where there's been an allegation about that because AI was being used as part of it. So it's never the event, it hasn't caused the event yet, but it is being used as a line of what the facts are that point towards there being a breakdown. So we're seeing that on and we feel like folks are aware of that and we're very conscientious of that too. So we want to make sure that we're doing everything that we can to do it in a very responsible way as we start to walk through that. And that's all we're asking from our members as well.

Grace Brighter:

Great. Well, thank you so much, Pete. This has been a wonderful conversation. I think it really emphasizes just how important the mutuals are in this industry. Really appreciate you walking us through the history, the member perspective, some of the challenges, and then

what the model may look like as it continues to evolve.
So again, thank you for the time.

Pete Nadel:

Thanks, Grace. I had a great time being here. Thanks for inviting me.

Grace Brighter

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