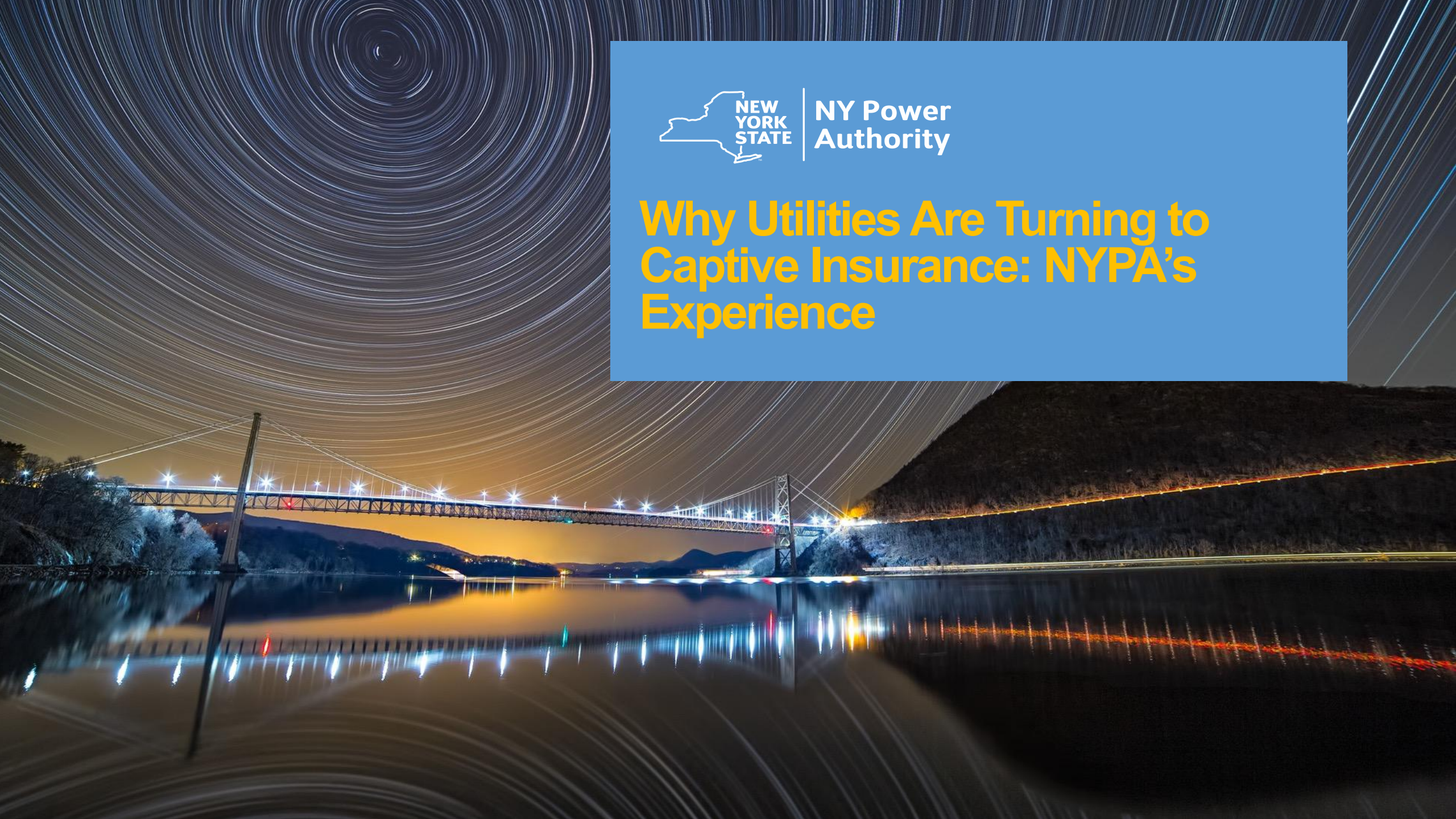




NY Power
Authority

Why Utilities Are Turning to Captive Insurance: NYPA's Experience



Captive Overview

What is a Captive?

A "captive insurer" is generally defined as an insurance company that is wholly owned and controlled by its insureds; its primary purpose is to insure the risks of its owners, and its insureds benefit from the captive insurer's underwriting profits.

A "pure captive" is a wholly owned subsidiary formed to meet the parent needs and potential third-party risks.

Self Insurance retains risk on your balance sheet vs. Captive Insurance is a formalized and regulated risk-financing mechanism in which a company insures itself against future losses.

Captive Advantages

- **Ownership** – At the option of the parent, share in profitability of the Captive.
- **Operates outside of the traditional insurer market** – Ability to customize insurance products which will meet parent's needs.
- **Direct access to reinsurance market**
- **Achievement of alternative risk financing objectives** – Broader coverage, pricing stability, increased control over risk, improved cash flow.
- **Loans** – Parent and the Captive have the ability to provide loans to each other.
- **Access to TRIA** – The Captive can access the federal government's terrorism risk program created under the Terrorism Risk Insurance Act which provides a federal backstop for 80% of covered losses.

Types of Captives

Single Parent

- Wholly owned by one company.
- Insures or reinsures the risks of its parent or affiliated entities.

Group/Association

- Owned by multiple companies or an association, and insures or reinsures the risks of the group.

Rent-A-Cell

- Formed by a third-party sponsor who “rents” cells to outside companies.
- Liabilities and assets of each cell are separate from other cells.
- Each cell owner is usually required to capitalize that particular cell.

Why do Companies Form Captives?

Companies establish captive insurance vehicles for at least one of the following reasons:

Cost: Reduce reliance on third parties and capture costs and profits leaked to insurers. In addition, there may be corporate tax benefit in earning profit in a captive insurance vehicle located in a lower tax jurisdiction.

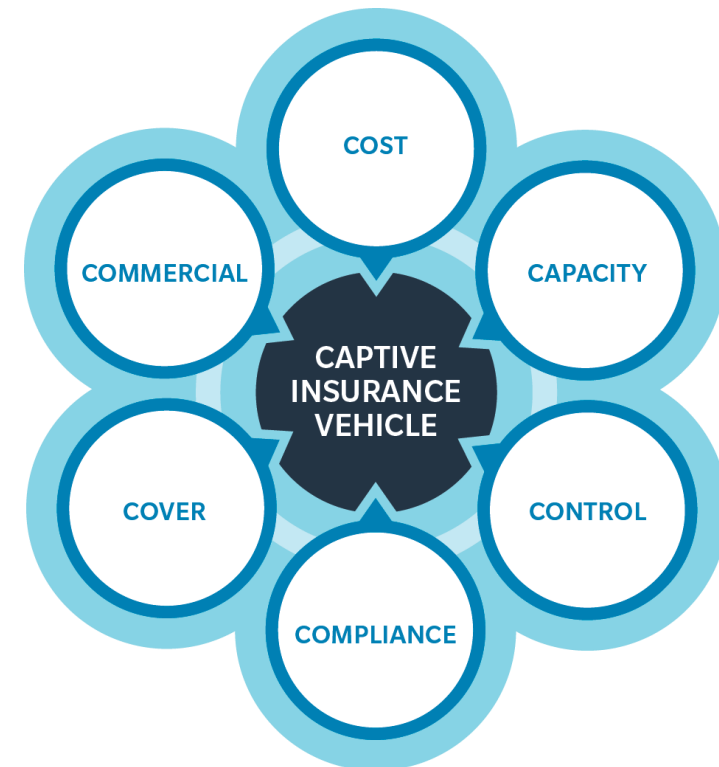
Capacity: A captive insurance vehicle can access international reinsurers and specialty insurers directly, which can introduce new capacity, greater competition, and better pricing for insured risks.

Control: As the primary insurer a captive insurance vehicle can tailor its cover (policy language), manage claims and direct subsequent reinsurance to ensure that the group enjoys the widest possible coverage, at the best price, in a fully transparent manner.

Compliance: A captive insurance vehicle provides a legal basis for subsidiaries to pool retained risk across borders and different tax systems. The accounting, tax, and legal treatment is well known and understood.

Cover: A captive insurance company can issue proof of insurance (cover note or an insurance policy) to comply with contractual obligations. The group may prefer to retain certain risks that it is contractually obliged to insure. For example, professional liability insurance for customers or leased property insurance to a landlord. A captive insurance vehicle can evidence insurance and capture premium that would be otherwise leaked to third parties.

Commercial: A captive insurance vehicle can participate in third-party insurances offered to customers, vendors, or other related parties, such as customer warranty insurance or sub-contractors under an Owner Controlled Insurance Program (OCIP).



Current Captive Statistics



- Top 10 industries by premium: Financial Institutions, Healthcare, Retail/Wholesale, Automotive, Communication/Media/Tech, Energy, Manufacturing, Aviation/Aerospace, Food/Beverage, Transportation.
- Top 5 increases by premium: Chemical, Education, Energy, Food & Beverage, Financial Institutions.
- Top 5 increases in the number of captives in last 2 years: Professional Services, Power & Utility, Food & Beverage; Education, Transportation.
- Most popular lines of business written by new captives: Property, Excess Liability/Auto, Workers Comp/Cyber/E&O.
- Largest Captive Owners: USA, UK, Canada, Australia, France, Japan.
- Top Captive Domiciles: Vermont, Hawaii, Bermuda, Cayman, Guernsey, Isle of Man, Luxembourg, Malta, Singapore.

Value Drivers for NYPA

- Act as a formal funding vehicle to insure risk that the parent has decided to self assume.
- Access reinsurance markets.
- Design and manuscript own policy form.
- Provide means to customize self insured retentions to desired levels.
- Centralize global insurance program.
- Provide evidence of insurance to meet contractual requirements with third parties or statutory obligations.
- Ability to insure commercially uninsurable risks.

Objectives of a Captive Feasibility Study

1. Outline the proposed program structure of the captive program.
2. To highlight the financial and operational value associated with insuring the retained risk of the parent.
3. Detail the captive start up and operating costs.
4. Outline the anticipated funding requirements to the captive with regard to premium and capital to write the proposed lines of coverage.
5. Identify the optimal domicile for the captive.
6. Outline the steps involved in forming the captive.
7. Highlight the roles of the captive's service providers and parent in operating the captive facility.
8. Identify critical next steps for the parent.

Domicile Selection

Factors to Consider

- Permitted business – access to TRIA and US employee benefits can only be done using a US domiciled captive or a branch of an offshore captive.
- Costs:
 - Minimum capitalization requirements.
 - Premium taxes.
 - Operating costs.
- Domicile experience and ease of doing business:
 - Infrastructure – ensuring that your domicile has captive managers, lawyers, banks, and auditors who understand the captive industry is an extremely important factor.
 - Regulation – captive domiciles should have firm, but flexible regulation.
 - Convenience – factors such as the requirement to visit a domicile to have board meetings, frequency of board meetings, and travel time are often taken into consideration.
 - Time frame for licensing.
 - Access to regulators.
 - Diversity of captives regulated/makeup and depth of captives managed.

NYPA Captive Enabling Legislation

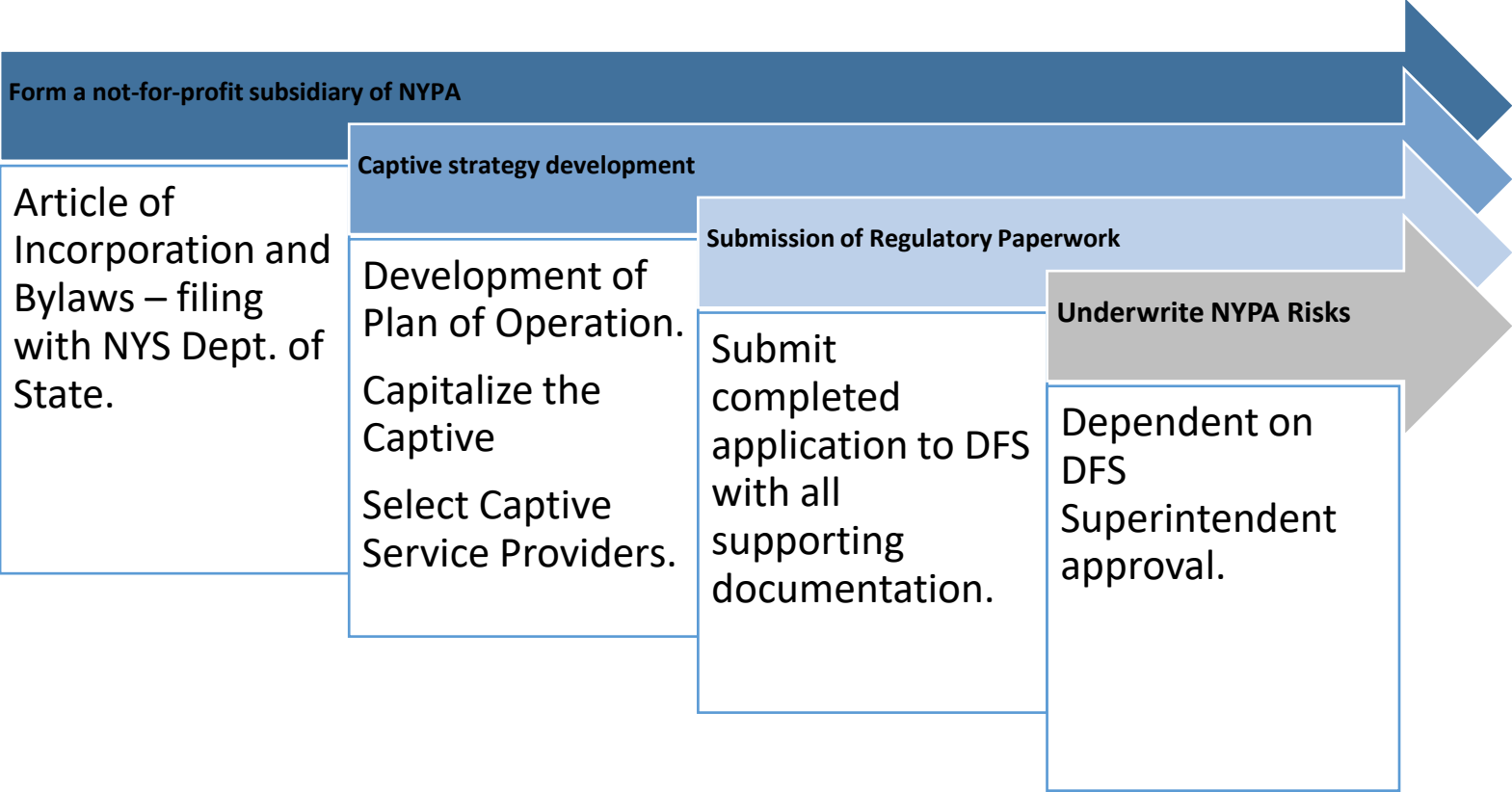
The NYS Legislature passed legislation (Bill # S7087A/A7987) authorizing NYPA and any statutory subsidiary to form a pure captive insurance company. The bill was signed into law by Governor Hochul on May 9, 2022.

- Legislation required Captive to be domiciled in NYS.

NYPA Captive Formation Actionable Items

- Appoint a captive management firm
- Formation of a not-for-profit subsidiary of NYPA
- Formulate Investment Guidelines for captive
- Appoint an outside auditing firm
- Appoint an actuary
- Obtain captive license from NYS DFS
- Establish bank accounts
- Once all approvals and licenses have been obtained and captive managers are in place – fund and underwrite risks that NYPA designates; obtain reinsurance from the global marketplace

Formation Actionable Items



NYPA Captive Insurance Company: Formation Roadmap

- Chapter 193 of the Laws of 2022, enacted May 9, 2022, authorized the Authority and any statutory subsidiary thereof to form a pure captive insurance company, and at a meeting held on September 29, 2022 the NYPA Board of Trustees authorized the incorporation of the Captive.
- Capitalization of Captive (\$100M) was authorized by NYPA Board of Trustees on December 13, 2022.
- Completed Captive License Application submitted to the NYS Department of Financial Services on January 23, 2023.
- Signed Corporate Charter submitted to the NYS Department of Financial Services on April 3, 2023 for filing, and the NYS Department of Financial Services thereafter issued a Certificate of Incorporation for the NYPA Captive Insurance Company, which was incorporated May 2, 2023.
- The Board of Directors of the NYPA Captive Insurance Company held an organizational meeting of the NYPA Captive Insurance Company and approved an organizational resolution on May 25, 2023.
- Requisite organizational meeting approvals and designations filed with the NYS Department of Financial Services, together with proof of capitalization funding.
- NYS Department of Financial Services issued Captive license on July 25, 2023.
- NYPA Captive Insurance Company issued initial insurance policies on September 1, 2023.

NYPA Board of Trustees Formation Approvals

- The Board of Directors of the NYPA Captive Insurance Company was required to hold an organizational meeting of the NYPA Captive Insurance Company and approve an organizational resolution.
- The organizational resolution provided for the following:
 - The adoption of the corporate by-laws.
 - The appointment of the corporate officers, including the president and Chief Executive Officer, the Chief Financial Officer, the Secretary, and the Treasurer.
 - The adoption of the form of the stock certificate and approval of the issuance of shares.
 - The appointment of corporate service providers, including captive manager, financial auditor, actuary, and attorneys.
 - The adoption of an investment policy.
 - The authorization to establish banking accounts.
 - The appointment of the Superintendent of Financial Services as agent for service of process and an individual designated to receive same.
 - The establishment of the fiscal year of the corporation.

NYPA's CAPTIVE PLAN



Phase 1 – Captive Inception

Property + NBCR and Cyber Terrorism



PROPERTY



TERRORISM
(TRIA)

Phase 2 –Commercial risks

Commercially Insurable Risks (Currently Retained and Newly Retained Layers)

- Further explore the following opportunities:
 - General Liability
 - Cyber
 - Workers Comp
 - Environmental
 - D&O
 - Auto Liability
 - Marine Hull & Machinery
 - Marine P&I
 - Water Quality
 - Crime Liability
 - Aviation
 - Health Insurance Stop Loss in Aggregate

Phase 3 – Difficult to Insure and Uninsurable Risks

Commercially Uninsurable Risks

- Further explore the following opportunities:
 - Regulatory Risk
 - Reputational Risk
 - Hydro Flow Risk
 - Transmission Project Coverage
 - Business Interruption Risk
 - Low Probability/High Impact, Catastrophic Risk (Earthquakes, Floods, Wildfires)

Phase 1 - Property Deductible Reimbursement

What is the Captive Insuring?

- The captive will insure NYPA's property retention/deductible without impacting the primary policy that is currently in place.
- NYPA will obtain a "reimbursement" or "Financial Indemnity" policy from the captive whereby the captive is obligated to reimburse NYPA each month for any deductible losses.
- Premium paid to the captive for this reimbursement policy is based upon actuarial projections.

What is the value to NYPA?

- If the commercial market starts requiring NYPA to take larger retentions and retain more risk, NYPA may be able to mitigate the impact by using the captive to directly access international and/or specialty insurers directly, which can introduce new capacity, greater competition, and better pricing.
- Ability to tailor cover (policy language), manage claims and direct subsequent reinsurance to ensure that the group enjoys the widest possible coverage, at the best price.
- Means to obtain formal evidence of coverage.
- Ability to segregate funds and build surplus to stabilize the annual cost incurred.



Phase 1 - TRIA Opportunity

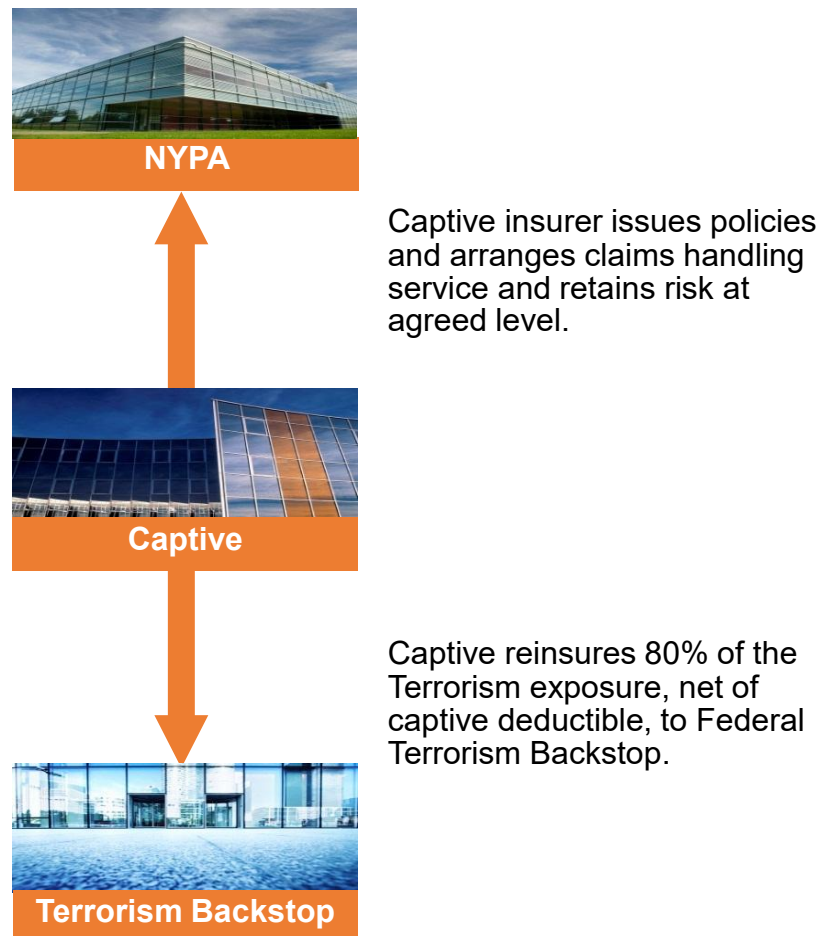
- “Free” government backstop.
- Premium savings/profit potential.
- Broader coverage:
 - Nuclear (**N**).
 - Biological (**B**).
 - Chemical (**C**).
 - Radiological (**R**).
 - Contingent time element.
 - Unnamed locations and automatic acquisitions.
- Best/only means of NBCR protection.
- Used by captive insurers since 2002.

TRIA – How it works

- **FIRST...** loss satisfies trigger:
 - Total insured losses must be $\geq$ \$200,000,000.
- **THEN...** government participates:
 - Government pays difference between insured loss and insurer share.
 - Two components to insurer share.
 - Part 1 (insurer deductible share):
20% of insurer's prior year direct earned premium.
 - Part 2 (insurer quota share):
20% of insurer's loss obligation exceeding Part 1 share.
 - Part 1 + Part 2 = TOTAL INSURER SHARE OF LOSS

Potential Structure

Direct Issue Captive with Federal Backstop



Captive Operation

- Financial Reports
 - Annual Report
 - Audited Financials
 - Actuarial Certification of Loss Reserves
- Taxes
 - Premium Tax
 - Income Tax
- Underwriting
 - Insurance Program Changes
 - Policies and Reinsurance Agreements
- Investments
 - Minimal Capital Requirements
 - Intercompany Loans
 - Shareholder Dividends
- Corporate Governance
 - Director/Officer Appointments
 - Conflict of Interest Disclosures
 - Board Meetings

NYPA Captive Insurance Company: Current Business Plan

- NYPA Captive Insurance Company commenced underwriting insurance policies on September 1, 2023.
 - TRIA Certified NBCR (Nuclear, Biological, Chemical, Radiological) Terrorism policy with an aggregate limit of \$500 million, which policy has an 80% federal backstop.
 - On the \$500M NYPA Property Policy, a reimbursement policy for the \$10M deductible.
 - On the \$65M Cyber Resilience Policy, a reimbursement policy for the \$5M deductible.
 - On the \$100M NYPA General Liability Policy, a reimbursement policy for a \$4.8 million portion of the \$5M deductible.
 - On the \$30M NYCC Property Policy, a reimbursement policy for a \$19.8 million portion of the \$20M deductible.
- Premiums paid to Captive to date (\$28.7 million) represent a cost savings to NYPA, provide coverage not otherwise available through the commercial market, and/or generate surplus capital reserves to support expanded Captive business plans/programs.
- Captive utilization enhances negotiating position when placing commercial coverage lines.
- Looking forward – Placement of commercially uninsurable lines of coverage (hydroflow coverage, transmission coverage, additional excess GL coverage & catastrophic coverage).

NYPA Captive Insurance Company: Financial Statements

- To comply with regulatory requirements, the NYPA Captive Insurance Company unaudited annual financial report was filed with the NYS Department of Financial Services in compliance with a March 1st deadline.
- At its 2025 annual meeting, the NYPA Captive Insurance Company approved KPMG, LLP as its financial auditor, which completed the audit of the annual financial statements (year end 2025).
- The NYPA Captive Insurance Company filed the audited financial statements with the NYS Department of Financial Services in compliance with a June 30th deadline.

NYPA Captive Insurance Company: Annual Meeting Approvals

- The Board of Directors of the NYPA Captive Insurance Company must hold an annual meeting of the NYPA Captive Insurance Company in accordance with its by-laws and applicable NYS law.
- At the annual meeting, the Board of Directors must approve a corporate resolution to provide for the following:
 - The ratification of actions of the officers since the inception of the corporation.
 - The annual appointment of the corporate officers, including the president and Chief Executive Officer, the Chief Financial Officer, the Secretary, and the Treasurer.
 - The appointment of service providers (captive manager, financial auditor, actuary, counsel).
 - The adoption of the Captive current insurance program.
 - The acceptance of the annual business continuity and disaster response plans.
 - The acceptance of the actuarial report and opinion for the year ending December 31, 2025.
 - The acceptance of the audited financial report for the year ending December 31, 2025.

THANK YOU



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