FEDERATED RURAL ELECTRIC
INSURANCE EXCHANGE

INSURANCE INS AND OUTS

Agenda Items

- Current Insurance Market
  - Factors affecting it
- Typical Co-op Insurance Program
- Do and Don’ts, Ins and Outs, Tips and Tricks, Pitfalls and Downsides

Current Insurance Market

- What affects the insurance market?
  - Catastrophes/large losses
    - e.g. hurricanes, wildfires, uptick in “nuclear verdicts”
  - Reinsurance
    - Without reinsurance, many companies cannot or will not write certain lines/limits/exposures
  - Inflation/currency exchange rate

Reinsurance and Pricing for Federated

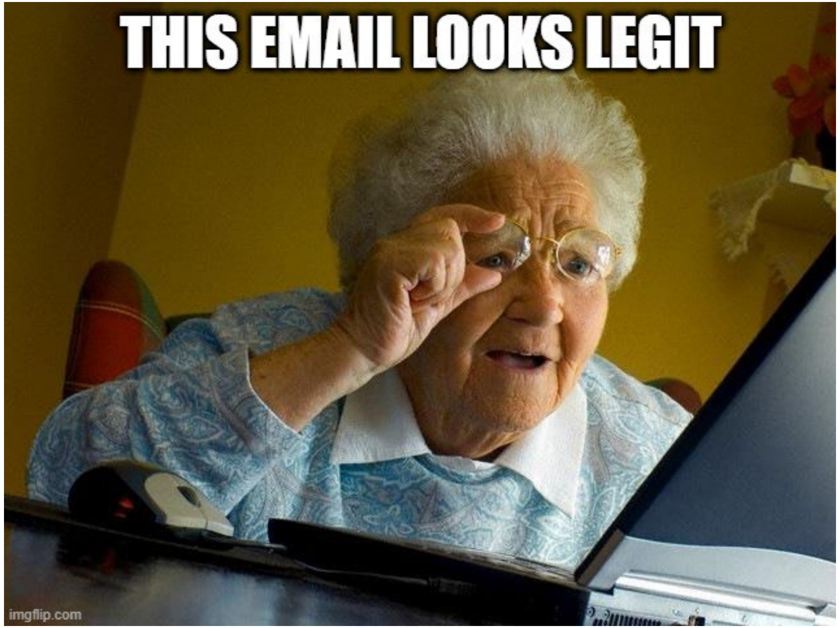
- Reinsurance pricing for Federated driven not only by Federated's results, but by various other factors such as:
  - Litigation and damage trends
  - Large losses in other sectors/unrelated books of business
  - Geopolitical strife
  - Inflation and currency exchange rates
  - Capacity issues/reduction in risk appetite

Overview of Typical Cooperative Insurance Program

- First-party coverage
  - Property, crime, auto physical damage (comp and collision)
- Third-party coverage
  - General liability, auto liability, D&O and employment-practices liability

Additional Coverages

- Cyber
  - Liability, Tech E&O, Crime
- Specialized property
  - Earthquake, Flood, Equipment Breakdown
- Specialized liability
  - Professional Liability, Pollution
- Work Comp/Employer's Liability



Property

- What does it cover?
  - Buildings, substations, contents
  - Extensions related to debris removal, limited pollution (on-site), property of others
- What it doesn't cover?
  - Land values, lines and poles, underground/underwater line/cable

Potential Issues

- Undervalued property
  - Federated does not have coinsurance clause
- Unreported property
  - Tell your insurer about the property
- Difficult replacement

Property Trends

- Everything is more expensive
  - Building materials, contractors, etc.
- Repairs are more expensive and take longer, which drives up other expenses
- Insurance rates frequently lag behind inflation
  - Rate filings, loss data, inflation data

General Liability

- What does it cover?
  - Premises liability, ongoing/completed operations (i.e. contractors and public contacts)
  - Covers bodily injury and property damage
    - Does not typically cover purely economic loss because coverage is not triggered

General Liability

- What it does not cover?
  - Criminal/intentional acts
  - Pollution (exceptions)
  - Professional services
  - Asbestos, silica, PFAs (microplastics)
  - Claims from employees
  - Your own property/work

General Liability Trends

- Social inflation increases exposure
  - Jurisdiction-based
- Limits restricted for certain exposures (wildfires) and regions (western states)

Auto

- Similar to normal property, vehicles more expensive
  - Bucket trucks and specialized equipment
- Auto liability is still one of the largest single exposures for any business
  - Risk control/management is difficult
  - UM/UIM coverages
    - What's the exposure for a business?

Worker's Compensation

- Rates are largely set by NCCI
  - Co-op linemen have their own class code (7540)
- Rates have generally been decreasing
  - NCCI tends to focus on frequency more than severity
  - Severity drives losses for a cooperative
    - Life expectancy increases, medical care improves/changes, injured employees receive more care over the course of a lifetime

Worker’s Comp and Employer’s Liability

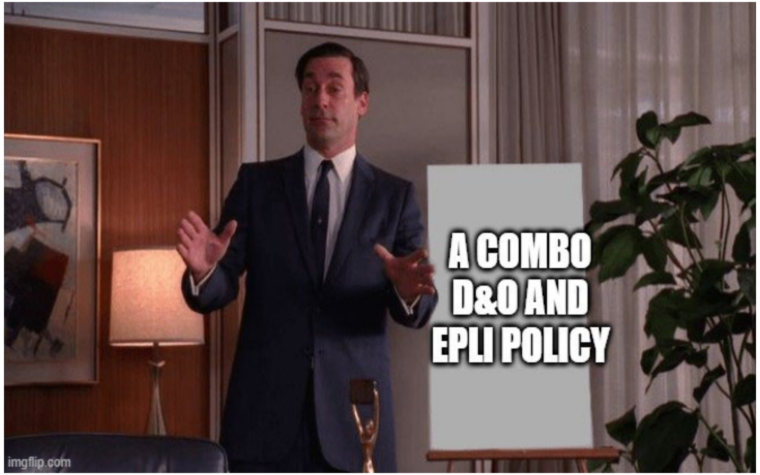
- Auto still a large exposure for work comp
- Employer’s liability is required/purchased but very rarely used (good)
  - Normally better to use work comp than say someone was not in course and scope

Cyber

- Cyber Liability
  - Ransomware, notification expenses, security breaches, data restoration
  - Cyber crime and Tech E&O
- Cyber market is constantly evolving
  - Initially very profitable for insurers and then losses started happening

D&O and EPLI

- Federated's Directors, Officers, & Managers (DOM) Policy is a combo policy
  - Directors & Officers
  - Employment Practices
  - Claims-made coverage
    - Retro date

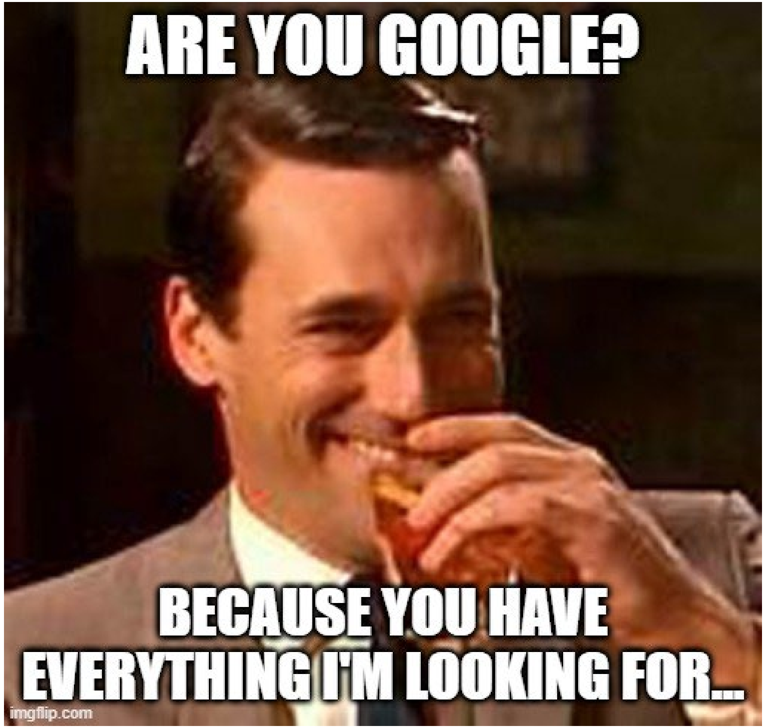


D&O and EPLI

- D&O Protects management and board of directors from decisions made involving the management of the company
  - Does not cover disputes between insureds (insured v. insured exclusion)
  - Business judgment rule
    - Decisions made with due care in good faith
    - How and why did you make the decision?

EPLI

- Covers employment-related claims
  - Wrongful termination, discrimination, harassment, employment contracts
  - Exception to insured v. insured



Special Coverages

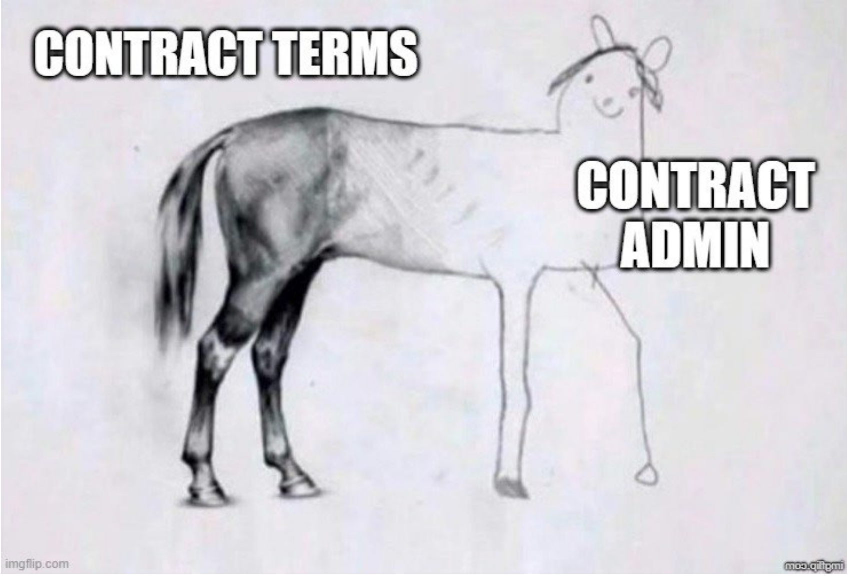
- Earthquake/Flood
  - Perils not covered on normal property policy
- Equipment Breakdown
  - Covers breakdown of equipment not caused by an occurrence
    - Exceptions apply
- Professional Liability
  - Exposure varies but depends on services offered and to whom
- Pollution
  - Sometimes large pollution limits required in certain contracts

Insurance Potpourri

- What limits do I need?!
  - Ultimately should have a reason for doing what you did; goes back to business judgment
    - Failure to purchase or maintain adequate insurance excluded in D&O Policies
  - You don’t need to insure against every possible scenario that could happen; there will always be risk

Free Insurance

- Contractors working for you:
  - Should have insurance
  - Should indemnify you
  - Should add you as additional insured
- Depends on type of contractor



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14. INDEMNIFICATION

A. Licensee Indemnification. Licensee shall indemnify, protect, save harmless and insure Licensor, its officers, directors, employees and members, from and against any and all claims and demands for, or litigation with respect to, service interruptions, damages to property and for injury or death to persons, including payments made under any Worker's Compensation Law or under any plan for employee disability and death benefits and including all expenses incurred in defending against any such claims or demands, or other damages which may arise out of or be caused by Licensee or its agents, employees, contractors or subcontractors with respect to the erection, operation, maintenance, presence, use, repair, rearrangement or removal of Licensee's Attachments or Unauthorized Attachments or the proximity of Licensee, its agents and employees on or in the vicinity of Licensor's Distribution Poles, except to the extent caused by the gross negligence or wilful misconduct of any indemnitee.

B. Licensor Indemnification. Except as otherwise stated in this Agreement, Licensor shall indemnify and hold harmless Licensee from and against any and all claims and demands for, or litigation with respect to, damages to property, and for injury or death to persons, which may be caused by any gross negligence or wilful misconduct of Licensor or its employees, agents, contractors or subcontractors, on or in the vicinity of Licensee's authorized attachments.

B. Notice. In the event of any claim, demand or litigation specified in this section, the Party to be indemnified (the "Indemnitee") ~~Licensor~~ shall give prompt notice to ~~Licensee~~ the other Party (the "Indemnitor") of such claim, demand or litigation. ~~Licensee~~ The Indemnitor shall have sole control of the defense of any action or litigation on such a claim or demand (including the selection of appropriate counsel) and all negotiations for the settlement or compromise of the same, except that The Indemnitor ~~Licensee~~ shall not make any non-monetary settlement or compromise without ~~Licensor's~~ the Indemnitee's consent, which consent shall not be unreasonably withheld. The Indemnitee ~~Licensor~~ shall cooperate with ~~Licensee~~ the Indemnitor in the defense and/or settlement of any claim, demand or litigation. Nothing herein shall be deemed to prevent ~~Licensor~~ the Indemnitee from participating in the defense and/or settlement of any claim, demand or litigation by ~~Licensor's~~ the Indemnitee's own counsel at ~~Licensor's~~ the Indemnitee's own expense.

15. LIMITATIONS ON DAMAGES

UNLESS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, ~~LICENSOR~~ NEITHER PARTY SHALL ~~NOT~~ BE LIABLE TO ~~LICENSEE~~ THE OTHER FOR CONSEQUENTIAL, INCIDENTAL, PUNITIVE, EXEMPLARY OR INDIRECT DAMAGES SUFFERED BY ~~LICENSEE~~ THE OTHER OR BY ANY SUBSCRIBER, CUSTOMER OR PURCHASER OF ~~LICENSEE~~ THE OTHER FOR LOST PROFITS OR OTHER BUSINESS INTERRUPTION DAMAGES, WHETHER BY VIRTUE OF ANY STATUTE, IN TORT OR IN CONTRACT, UNDER ANY PROVISION OF INDEMNITY, OR OTHERWISE, REGARDLESS OF THE THEORY OF LIABILITY UPON WHICH ANY SUCH CLAIM MAY BE BASED.

16. INSURANCE

A. Insurance Requirement. Licensee shall carry insurance in such form and issued by such companies as are reasonably satisfactory to Licensor to protect the Parties from and against any and all claims, demands, actions, judgments, costs, expenses and liabilities of every name and nature which may arise or result directly or indirectly from or by reason of any loss, injury, death

Renewals

- The sooner the better on renewal information
  - Allows time to spot issues and consider coverage options
  - Some co-ops need board approval but timing is important there

The End is Near

- Market goes in cycles, things are a little expensive right now
- Update information regularly
- There will always be risk
- Safety helps mitigate the risk along with good administration and policy

Questions?!?!