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—Brian McCarthy

## Captive Insurance Program Rewards Safe Practices

**A NEW INSURANCE PROGRAM DEVELOPED** by a Massachusetts-based insurance company exclusively for fuel distributors, and launched with 15 policyholders, expects to see enrollment quadruple in 2007.

The “Energi” program, launched by Conifer Energy of Peabody, Mass., is designed to help select fuel companies control their insurance costs by pooling their resources with similar companies that adhere to industry standards for safety and loss prevention. Energi offers property and casualty coverage.

### A Three-Year Project

Brian McCarthy, managing director of Conifer, said his company worked for three years and invested \$1.8 million to develop the Energi program. Energi is a “captive” insurance program, which means that it insures a limited scope of risk to which it has unique access. Captive programs insure 65 percent of Fortune 500 companies and many specialty industries, according to McCarthy.

Conifer developed the Energi program because many insurance carriers were walking away from the fuel distribution business, and those that remain sometimes offer policies that leave coverage gaps for fuel distributors, especially in the area of pollution liability, he said.

Company literature says that Energi’s business model provides “an alternative risk transfer program that creates stability for the insurance demands for certain sectors of the energy industry. Energi Holdings Inc. represents an excellent opportunity for energy companies that embrace industry best practices and are interested in sharing risk with other well-managed, safety-conscious energy companies. The objective is to share in the potential financial benefits relating to

a favorable loss experience in order to reduce insurance costs over the long term and to build shareholder value.”

One of the keys to success for a captive program such as Energi, McCarthy said, is the selection of policyholders. Conifer plans to keep insurance costs in check by offering insurance only to companies having demonstrated a history of safety while excluding higher-risk companies.

In the Oilheat business, full-service companies have been shown to have lower risk factors than discount oil companies who offer delivery only, according to McCarthy, who said that Conifer has conducted independent research into Oilheat-related insurance claims. “Full-service companies have a deeper relationship with the customers, and they know about their systems and tanks,” said McCarthy.

### Close Scrutiny

To qualify for coverage under Energi, an Oilheat marketer must undergo a compliance audit to determine whether their operations adhere to industry best practices as established by the National Oilheat Research Alliance (NORA).

As part of the approval process, an Energi representative rides with a delivery driver to validate whether employees follow through on the practices that Energi espouses.

Some of the questions on the compliance audit for drivers are as follows. Does the driver adhere to the no whistle, no fill policy? Does the driver check all visible tanks, piping and lines? Does the driver verify the address on the ticket and check that there is a label on the fill pipe? Does the driver secure his vehicle during delivery?

The dealership also must answer questions

pertaining to record keeping on system inspections; logging of customer complaints; delivery location information on delivery tickets; records of customer fuel consumption; a system for identifying abnormalities in consumption; and contracts with subcontractors.

Conifer also audits company performance on an ongoing basis and can withhold policy renewal—but not claim payment—for companies that do not continuously follow best practices.

For companies that do not qualify for coverage, Conifer offers a “migration path” that involves educating employees about safe practices.

### Safe Practices Are Rewarded

Conifer’s Donald FitzGerald acknowledged that a program like Energi could create a situation where safety-conscious companies enjoy favorable insurance costs, while companies with higher risks are forced to pay more elsewhere. “There is a cost for not doing safe business, and it’s in insurance,” he said. “There is cause and effect, and there’s no faster way to get religion than to see your insurance costs jump.”

Enrolling for coverage from Energi is a substantial commitment for an Oilheat marketer, because policyholders must also buy capital shares equivalent to 5 percent of a year’s premium and produce a letter of credit equivalent to 45 percent of the annual premium. Citizens Bank is willing to underwrite the letter of credit for Energi policyholders, according to McCarthy.

Energi policyholders receive their coverage from Travelers Insurance/Discover Re, which in turn is reinsured by Energi. In addition to Oilheat marketers, Energi insures wholesale and retail propane distributors. ☐