



Commercial Insurance Placement &
Financial Analysis Report
Policy Year 2020-2021

DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

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EXECUTIVE SUMMARY

Pursuant to R.S. 39:1484(A)(4)(b) and 1540, in accordance with industry best practices, and approved by the State Legislature, the Office of Risk Management (ORM) entered into a contract awarded to Arthur J. Gallagher Risk Management Services, Inc. (AJG) for a five-year period from February 1, 2018 to January 31, 2023 to provide insurance brokerage and related services to ORM. This collaboration continues to serve ORM well. ORM has maintained increased coverage limits since the contract's inception. Estimated annual cost savings is an estimated \$9M annually. The 2020 property marketplace continued to harden, more so than the 2019 year. Property rate increases in catastrophically-prone regions range from 30% - 400% depending on loss history. The State's overall property rate (cost per \$100 of Total Insured Value (TIV)) increase of 7% was significantly better than industry average and nearby peers. The Legislature's leadership in approving Act 715 of 2014 continues to save significant dollars and reap benefits critical to the State and its ability to recover from a catastrophic event.

PURSUANT TO THE ORIGINAL LEGISLATION ADDRESSED IN ACT 715 LOUISIANA LEGISLATION 2014, ORM IDENTIFIED KEY TARGETS/GOALS:

1	•To assure and obtain competitive pricing for insurance, including full transparency related to revenue;
2	•To validate and certify a global marketing effort;
3	•To create strong market relationships between the State and potential insurers, necessary for on-going program support;
4	•To continue to negotiate optimal coverage terms;
5	•To seek multi-year contract terms and rates;
6	•To reduce dependence on wholesale brokers, thereby saving public dollars;
7	•To create long-term program stability;
8	•To improve the quality of data provided to the marketplace;
9	•To enhance coverage and resources for the State's fine arts assets and unique culture;
10	•To further expand a focus on Higher Education and their specific needs.

ORM is pleased to again report that without exception, each key target goal identified was addressed in the July 1, 2020 renewals. Detailed information of the lines of insurance secured in addition to a fiscal analysis follow in this report.

STATEWIDE PROPERTY PROGRAM

Overview

The State, through its Broker, continued to build upon its market relationships to place insurance effective July 1, 2020 on total property values of \$18,982,652,068.

Brought about by the COVID-19 travel restrictions, this year ORM and AJG were unable to meet in person with our global insurance underwriters. In order to solidify those relationships with our carriers and to discuss specific challenges for the State, several video conference calls were made with both domestic and international underwriters. The majority of the underwriters participating have been on the State's property program for a number of years now, but there were also several potential new market partners involved in the conference calls as well.

The most significant outcomes of the meetings concerning the July 1, 2020 placement are:

The overall property program market rate increase was 6.98%. The total premium increase however was 14.80% based on increased property values. This is a great result considering the marketplace and what our peers received.

Received seven (7) master property program options addressing: limits, retentions, second event options, self-insured buffer layer options and more.

The ancillary lines of coverage, including equipment breakdown, terrorism, and fine arts, remained competitive with rates near expiring. In the case of Fine Arts, a reduction was obtained.

The specific Named Hurricane wording was removed for the 2020-2021 policy term. However, the property coverage includes Named Storm wording which is standard in the industry and is the same windstorm coverage enjoyed by the State prior to 2017. This change was made after much thought and negotiation. ORM agreed with markets to change the wording for the new term in order to obtain 100% primary limit capacity and to obtain a positive impact the overall property rate for this renewal.

Statewide Property Program – Market Participants

The program is diverse by design and reflects an expanded cross section of the insurance marketplace: Domestic, Lloyds of London, Bermuda, Treaty Reinsurers, Parametric and Insurance Linked Securities (ILS) program participants.



Statewide Property Program: Coverages, Limits and Pricing

The following chart shows the renewal coverage bound on July 1, 2020. Specific to Named Storm, Flood, Fire and AOP, the limits are shown in excess of the State’s \$50M retention:

Coverage	Limits ¹	Price
Named Storm	\$375M	\$26,091,637
Flood	\$325M	
Fire and AOP (All Other Perils)	\$800M	
Fine Arts	\$400M	\$179,712
Equipment Breakdown (Boiler and Machinery)	\$250M	\$350,735
Terrorism (incl. Nuclear, Chemical, Biological, & Radiation (NCBR)	\$150M	\$173,927
*Brokerage Fee		\$1,050,000
Total		\$27,846,010

¹ The fee shown above is the entire brokerage fee, including both property and casualty lines.

Fine Arts Policy

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2020, as per the expiring limit for 2019. This separate coverage limit of \$400M is in addition to the master property policy described above. The definition of fine arts is broad by design and coverage enhancements are specific to the fine arts exposure, which include a specialized adjusting team. The Fine Arts policy is written with XL Specialty Insurance Company with a \$100M Limit primary layer with an excess layer written with Lloyds of London with a \$300M xs \$100M limit. The permanent collection deductible is \$2500 for all other perils besides wind, flood and hail. Fine Art on loan or consignment has a zero deductible for all other perils besides wind, flood and hail.

Terms, conditions and deductibles remained the same as expiring, with the exception of the addition of a hail deductible to equal the windstorm and flood deductibles at \$25,000 per location. There is good news with this – windstorm, hail and flood deductibles have a maximum of \$100K aggregate per storm which serves to cap the exposure. The change is market-driven, and not specific to the State's loss experience. Taking into consideration a no-claims bonus of \$8,763 for the 19/20 policy year, the Fine Arts renewal premium is down, for a total of \$179,712.

Equipment Breakdown (Boiler & Machinery)

The Equipment Breakdown policy is written by XL Insurance America, Inc. This policy covers loss or damage resulting from accidents to boilers, pressure vessels, turbines, machinery, and air conditioning motors and compressors located in buildings owned by the State or buildings for which the State has contractually assumed legal liability. This coverage insures the object for repair or replacement. Coverage also includes business interruption, extra expense and consequential damage. The policy has a coverage limit of \$250 Million. Total premium for 2020 is \$350,735 which represents an increase in premium of \$37,109 over the prior year. This is due in part to the increase in property values on which the rating is based.

Terrorism

Lloyds of London writes the property terrorism policy. This coverage provides sabotage and terrorism coverage for Property and Business Interruption, terrorism coverage for liability, along with Chemical, Biological, Radiological and Nuclear (CBRN), with respect to the Insured's operations. The policy has a coverage limit of \$150 Million. This policy renewed for \$173,927 for an increase in premium of \$11,427 over the prior year. This is due in part to the increase in property values on which the rating is based.

Brokerage Fees

The broker's contract renewed in 2018 for a five-year term. The fee is \$1,050,000 annually for property and casualty placements combined.

Financial Analysis (Statewide Property Program)

Act 374, which was signed into law by Governor Edwards on June 7, 2016, eliminated the requirement for ORM to pay surplus lines taxes and surcharges. The combined savings for these taxes/surcharges equaled \$1,377,844 for the 2020/2021 placement.

COMBINED LIMIT AND COST COMPARISON – STATEWIDE PROPERTY					
	FY 19-20		FY 20-21		
COVERAGE	EXPIRING LIMITS	EXPIRING PRICE	RENEWAL LIMITS	RENEWAL PRICE	Change in Cost
Named Hurricane (FY20) / Named Storm (Eff. FY21)	\$400M	\$22,727,188	\$375M	\$26,091,637	\$3,364,448
Flood	\$325M	Incl in above	\$325M	Incl in above	Incl in above
Fire and AOP	\$800M	Incl in above	\$800M	Incl in above	Incl in above
Fine Arts	\$400M	\$188,475	\$400M	\$179,712	(\$8,763)
Boiler and Machinery	\$250M	\$313,626	\$250M	\$350,735	\$37,109
Terrorism	\$150M	\$162,500	\$150M	\$173,927	\$11,427
Total		\$23,391,789		\$26,796,010	\$3,404,221

CASUALTY INSURANCE

State's Wet Marine Program

HULL & MACHINERY, PROTECTION & INDEMNITY, VESSEL POLLUTION EXCESS COVERAGE

The marketing process was similar to the property renewal. The worldwide marketplace was again approached. Terms and conditions were renewed as per expiring. Expiring Marine pricing was \$511,711 after the continuity credit. The renewal pricing is \$553,566 resulting in an additional cost of \$41,854 to the State effective July 1, 2020.

SMG and the Louisiana Stadium and Exposition District (LSED)

(Operations at the Mercedes-Benz Superdome, Smoothie King Center, & Champions Square)

Coverage for SMG and the Louisiana Stadium and Exposition District (LSED) is obtained by ORM on behalf of the above named insureds for operations at the Mercedes-Benz Superdome, Smoothie King Center, & Champions Square, as per written contract. Coverage was marketed globally with the following results:

CRIME

Coverage remained with Hiscox with renewal premium of \$10,958, which is a significant decrease in cost from the expiring premium of \$13,368.

WORKERS COMPENSATION

Coverage remained with LWCC with a renewal premium of \$657,616. This is a cost savings of \$16,676 from the expiring term. The premium is based on a 0% payroll increase and an experience mod decrease of -14.85%.

EXCESS COMMERCIAL GENERAL LIABILITY

Limits were renewed at \$60M per occurrence/annual aggregate as opposed to \$100M per occurrence/annual aggregate for the prior year. This significant limit reduction was driven by the turbulent and hardening excess liability market for 2020 term. Many peers were not able to obtain 100% capacity of prior year limits, and if the capacity was available, the double and triple premium increases were simply not affordable. The decision was made to reduce the limits in order to meet budget constraints, but still fulfill the contract requirements with SMG.

This coverage includes law enforcement liability up to the \$60M limit, as per the expiring policies. The renewal resulted in a premium increase of \$203,615 for a total of \$845,000. This increase is completely attributed to the hardening casualty market industry-wide.

Other Statewide Programs

CYBER

Cyber, including First Party and Third-Party Liability Coverage was written for the State's Office of Technology Services (OTS) and the agencies/departments that fall under OTS for IT services. It also includes coverage for those State Higher Education institutions that choose to participate. Coverage continues to expand to include additional agencies coverage needs are identified.

- Coverage includes the following:
 - Technology/Professional Errors & Omissions
 - Network Security Privacy Liability
 - Data Recovery and Business interruption
 - Multimedia Liability
 - Privacy Regulatory Defense and Penalties
 - Notification
 - Cyber Extortion
 - Business Income and Digital Asset Restoration

This coverage was renewed July 1, 2020 with Lloyds of London. Limits were renewed at \$20M each and every claim with a \$20M policy aggregate. Named Higher Education institutions are included, as per the expiring policy, with a sub-limit of \$15M each and every claim subject to a \$15M aggregate limit. The renewal premium for 2020/2021 policy year is \$539,345 representing a premium increase for this term of \$69,650.

CRISIS RESPONSE

This coverage insuring all state agencies renewed July 1, 2020 with Lloyds of London with limits of \$1M per occurrence/\$5M policy aggregate. The renewal pricing is \$63,138 annually, which is an increase of \$6,888 over the expiring term. This coverage provides on-site response services to man-made and natural disasters that result in three (3) or more fatalities and/or critical injuries. It includes the establishment of family assistance centers near the location of the incident, media support, assistance to victims' families, assistance to first responders and other types of necessary resources consistent with managing the aftermath of a crisis.

AVIATION HULL & LIABILITY

Aviation Hull & Liability is written with National Union Insurance Company with a \$10M Limit including passengers and hull per scheduled aircraft values. Excess Aircraft Liability is written with QBE Insurance with a \$15M xs \$10M limit. Total Aviation premium for 2020/2021 policy year is \$633,967 which represents an increase in premium of \$76,545 over the prior year due to market hardening.

AVIATION GENERAL LIABILITY (AIRPORT)

This coverage was also renewed effective July 1, 2020 for an annual premium of \$18,219; an additional premium of \$585 from the prior term. Aviation General Liability is written with National Union Insurance Company with a \$25M Each Occurrence Limit.

LICENSED PROFESSIONAL LIABILITY (HIGHER EDUCATION STUDENT EXPERIENTIAL LEARNING)

Many of the State's Higher Education Institutions offer internship programs through outside businesses and non-profit agencies as part of the curriculum, such as a teaching internship through a local school system for example. Many third party providers/businesses require evidence of professional liability and general liability coverage from the student and institution before they will allow students to intern at their facility. The State provides liability coverage for the institutions, but, per state law, has been unable to include the students as insureds, with the exception of medical malpractice liability coverage provided through Louisiana Revised Statute 40:1237.1 et. seq. In the past, this has created a challenge for those institutions as well as their students depending on cooperation of third parties to assist with their internship curriculums. Coverage was renewed effective July 1, 2020 with United Educators Insurance Company to provide coverage to those students participating in qualifying programs at specifically named institutions. Limits remain unchanged from the prior term -- \$1M per claim/\$5M policy aggregate. Certificates of insurance are provided by AJG to the institutions to evidence coverage for the students.

This policy was renewed effective July 1, 2020 with United Educators Insurance Company for an annual premium of \$167,433. The premium increase of \$5,999 is attributed to the hardening liability market trend. The cost is not borne by the State, but is left to each participating institution to manage and pass through to the participating students.

Brokerage Fee

The fee for the Statewide Casualty Program is *included* within the annual Property Placement Fee for a combined total of \$1,050,000 for 2020, which is the same as the previous year.

Financial Analysis

COMBINED LIMIT AND PRICING COMPARISON – STATEWIDE CASUALTY					
Casualty Coverage	FY 19-20		FY 20-21		Increase/Decrease
	Expiring Limits	Expiring Price	Renewal Limits	Renewal Price	
Wet Marine		\$572,958		\$631,430	\$41,855
Premium Continuity		(\$61,247)		(\$77,865)	
Credit					
Hull	Replacement	Incl in above	Replacement	Incl in above	-
Protection and Indemnity (P&I)	\$100M	Incl in above	\$100M	Incl in above	-
Pollution	Incl in above	Incl in above	Incl in above	Incl in above	-
Crime (incl. employee theft) (SMG and LSED)	\$500,000	\$13,368	\$500,000	\$10,958	(\$2,410)
Workers Compensation (SMG and LSED)	Statutory	\$674,292	Statutory	\$657,616	(\$16,676)
Employer’s Liability	\$1M	Incl in above	\$1M	Incl in above	-
Excess General Liability - SMG and LSED	\$100M	\$641,385	\$60M	\$845,000	\$203,615
Cyber Liability	\$20M/\$20M & \$10M/\$10M	\$469,695	\$20M/\$20M & \$15M/\$15M	\$539,345	\$69,650
Crisis Response	Higher Ed \$1M/\$5M	\$56,250	Higher Ed \$1M/\$5M	\$63,138	\$6,888
Aviation Hull & Liability	\$25M Hull Scheduled Values	\$557,422	\$25M Hull Scheduled Values	\$633,967	\$76,545
Aviation General Liability (Airport)	\$25M Liab	\$17,634	\$25M Liab	\$18,219	\$585
Agent Fee		<i>Included in Property Placement Fee</i>		<i>Included in Property Placement Fee</i>	\$0
Total		\$2,941,757		\$3,321,807	\$380,052

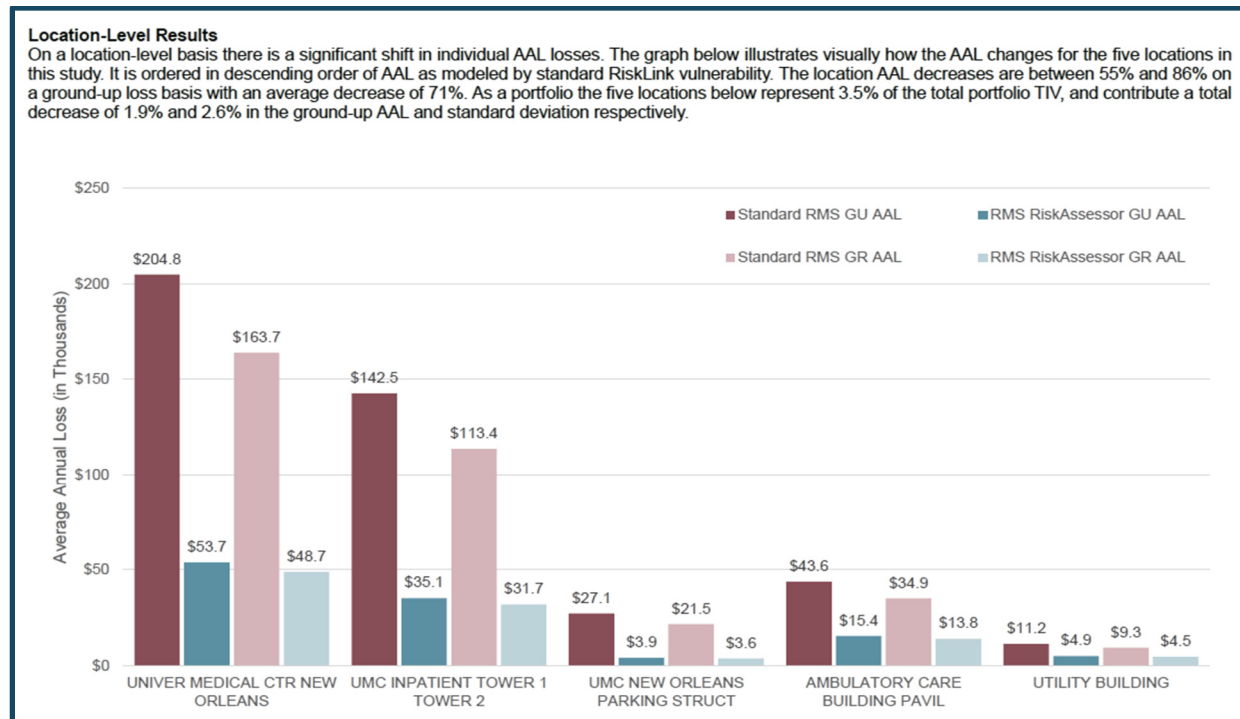
ADDITIONAL INFORMATION

Improved Data Project – Bespoke CAT Modeling Investments

In late 2017, the first bespoke secondary modeling project for the State was completed, using comprehensive engineering data for the University Medical Center (UMC) in New Orleans. This data project had a direct, positive result on the State’s property rate for the 2018/19 renewal. Because this analysis was provided directly by RMS, industry standard modeling service, accordingly an unbiased and credible source of data, the carriers trusted and factored this information into their underwriting decisions for 2018 and continue to do so. These stand-alone modelling reports are long-term investments, critical to provide the ability to quantify the State’s true risk to the insurance market.

Please see evidence of this work below. The blue colors show the impact of this project and as you see, are vastly different than standard modeling (pink/red colors). The result was so substantial, it impacted pricing on the entire portfolio, not limited to UMC.

UNIVERSITY MEDICAL CENTER BESPOKE MODELING RESULTS

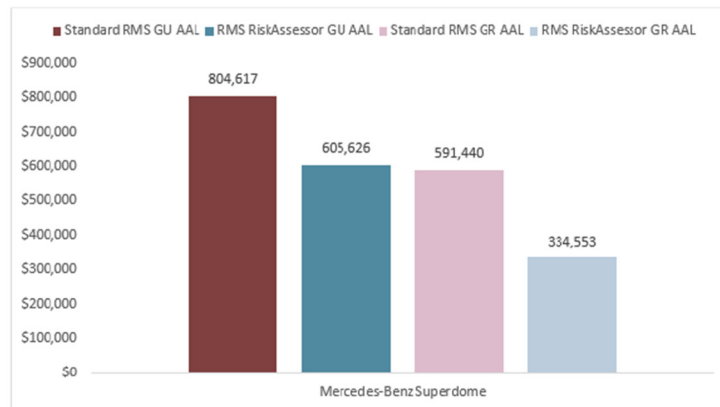


In 2019, a second bespoke modeling project was performed, again as part of the existing brokerage fee, this time the modeling was done on the Superdome:

MERCEDES-BENZ SUPERDOME BESPOKE MODELING RESULTS

We have noted a significant shift in AAL losses. The graph below illustrates visually how the AAL changes for the 'Mercedes Benz Superdome' location. When modelled using RiskAssessor curves, we noted a Ground Up AAL decrease of 25% and Gross AAL decrease of 43%.

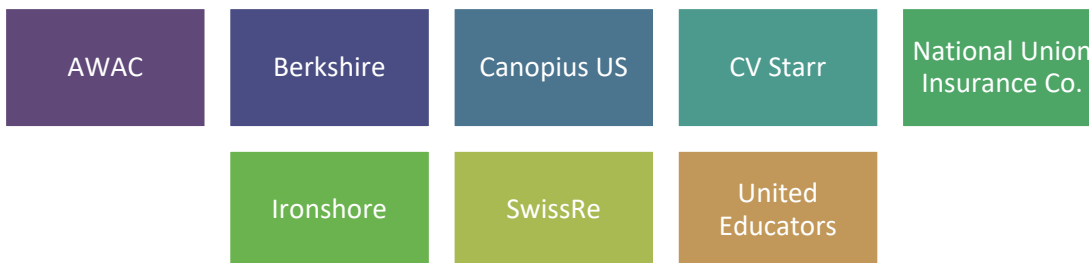
We assume that the inputs provided are correct as per the physical condition of the building and surroundings.



Reduced Dependence On Wholesale Brokers

A significant factor in the reduction of brokerage fees since the 2015/2016 policy year is the reduced dependence on wholesale brokers. The State saved \$3.1 million dollars in brokerage fees/wholesaler revenue in 2015/2016 as AJG placed much of the coverage directly rather than through the utilization of a wholesale broker. If you multiply this savings over the last six years, the savings in wholesale brokerage commission alone is near \$18.6 million dollars. Both domestic and international wholesale brokers are used only when needed. Additionally, when AJG did use wholesale brokers, both AJG and ORM were present during the presentations enabling ORM and AJG to maintain control of the placement. The revenue for the domestic wholesalers are included in the contract brokerage fee of \$1,050,000. The international wholesale brokers (London and Bermuda) received 3% - 5% wholesale commission (included in the premium), compared to double digit wholesaler compensation in past programs.

THE FOLLOWING MARKETS WERE DIRECTLY PLACED BY THE BROKER,
WITHOUT WHOLESALER ASSISTANCE:



Focused Higher Education Program

The participation in the Licensed Professional Liability coverage program has significantly increased since inception in 2016. We expect this trend to continue. Regional Round table discussions on risk management specific to higher education have been ongoing since the fall of 2015 and continue quarterly. The responses have been significantly positive. AJG worked closely with ORM to facilitate a system-wide membership to URMIA, a national risk management organization specific to higher education institutions. In doing so, the State's higher education institutions have access to their peers and resources across the U.S. AJG continues to bring a higher education practice and reputation to the table to assist with the State's exposures concerning higher education risks.

IN Summary

ORM's intent is not only to save money and significantly improve coverage limits - both of which have been accomplished -- but also to take steps necessary to create a long lasting property program that will stand secure through against another severe storm seasons by negotiating multi-year rate and participation guarantees to gain rate protection and program stability. AJG and ORM do expect to see the overall commercial market continue to harden, and ORM is prepared to adjust the program in upcoming fiscal years to minimize premium increases while still providing adequate coverage to protect the State's assets. Protecting the State's budget and being able to cost effectively insure the State's assets remains paramount through the process with each and every renewal.

The success of the placements from 2015/2016 forward are evidenced by the pricing, coverage terms and number of markets competing for participation in the State's program.

The substantial dollar savings for all lines of coverage placed in the commercial market for ORM include increased limits, coverage improvements, program stability, and market relationships would not have been possible under the previous insurance procurement model. The enactment of Act 715 in the 2014 Regular Session, which allowed ORM to select a broker rather than bidding a predetermined insurance program, facilitated the tremendous impact made on the insurance marketplace. This impact is evidenced across the programs presented in this report.

For clarification, the savings shown in this report is based on actual commercial premiums paid for coverage placed for FY 19-20 versus FY 20-21.