



Commercial Insurance Placement Report and Financial Analysis

Division of Administration

Office of Risk Management

Fiscal Year 2022

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Executive Summary

Pursuant to R.S. 39:1484(A)(4)(b) and 1540, the Office of Risk Management (ORM) contracted with 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. The procurement of broker of record service enabled through this statute continues to serve the State Risk Management Program well. ORM has maintained increased coverage limits since the contract's inception and the number of markets willing to consider participating in the State's program has vastly increased. Estimated annual cost savings specific to the broker legislation change is an estimated \$9M annually. The 2021 property marketplace continued to harden, more so than the 2020 year (which was also a hardening year). Primarily the historic number of Named Storms affecting our state drove this. Property rate increases in catastrophe-prone regions for the first half of 2021 ranged from 30% - 400% depending on the insured's loss history. The State's overall price increase (near 20%) was significantly better than industry average and nearby Gulf Coast 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 maintain coverage necessary to recover from a catastrophic event.

Pursuant to the original legislation addressed in Act 715 Louisiana Legislation 2014, ORM identified key targets/goals:

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

ORM is pleased report that without exception, each key target goal identified was addressed in the July 1, 2021 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, 2021 on total property values of \$19,744,526,461.

Due to the continuing COVID-19 pandemic and resulting quarantines, for the second year, ORM and AJG were unable to meet in person with our global insurers/underwriters. In order to solidify those relationships with our carriers and to discuss specific challenges for the State, we held multiple video conferences 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 potential new market partners were included in the conversations as well.

The significant outcome of the meetings concerning the July 1, 2021 placement are as follows:

- The overall market *rate* increase for the property program was 20.56%. The total premium increase however was 25.4% based in part on increased values. This is a good result, considering current marketplace conditions and the rates received by peer States.
- ORM received property program options addressing: limits, retentions, second event options, parametric and more.
- The ancillary lines remained competitive with rates near the expiring rates.

Statewide Property Program – Market Participants

Landmark American Insurance	Capsicum Re
Allied World Assurance Corp.	Colony Insurance Company
Amlin Insurance	North American Capacity Ins.
Arch Capital Group	Everest Indemnity Insurance Co.
Axis Insurance U.S.	Hallmark Specialty Insurance Co.
Berkshire Hathaway	Ironshore Insurance Ltd.
SCOR	Lloyds of London
Canopus U.S.	Nephila
Evanston Insurance Company	RSUI Insurance
Endurance American Specialty	Starstone American Specialty Ins.
Starr Companies	Markel
Westport Insurance Co.	SOMPO/Endurance
Westchester Fire Insurance	Tokio Marine America Ins Co
XL Insurance America, Inc.	Indian Harbor Insurance Co.
Parametric via Swiss Re	

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) are program participants.

Statewide Property Program: Coverages, Limits and Pricing

The following chart shows the renewal coverage bound on July 1, 2021. Specific to Named Storm, Flood, Fire and AOP, the limits shown are in excess of the State's \$50M retention. The brokerage fee shown below is the annual brokerage fee and covers both property and casualty lines.

Coverage	Limits	Price
Named Storm	\$400M	\$32,719,725
Flood	\$325M	
Fire and AOP (All Other Perils)	\$800M	
Fine Arts	\$400M	\$190,875
Boiler and Machinery	\$250M	\$423,576
Terrorism (incl. Nuclear, Chemical, Biological, & Radiation (NCBR))	\$150M	\$180,000
Brokerage Fee		\$1,050,000
Total		\$34,564,176

Fine Arts Policy

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2021, at the expiring limit for 2020. This separate coverage limit of \$400M is in addition to the master property policy. The term "fine arts" is defined broadly 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 excess 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. Total premium for 2021 is \$190,875, which represents a minimal increase in premium of \$11,163 over the prior year.

Terms, conditions and deductibles remained the same as the expiring policy, with the exception of the windstorm, flood, and hail deductible increasing to \$30,000 per location and \$250K aggregate per storm. The change is market-driven, and not specific to the State's loss experience.

Equipment Breakdown (Boiler & Machinery)

XL Insurance America, Inc. writes the Equipment Breakdown policy. 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 2021 is \$423,576, which represents an increase in premium of \$72,841 over the prior year. This is due to your increase in values and a small rate increase.

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 of the insured's operations, and Chemical, Biological, Radiological and Nuclear (CBRN) of the insured's operations. The policy has a coverage limit of \$150 Million. This policy renewed for \$180,000, a slight increase in premium of \$6,073 over the prior year. The increase is due to our increase in values.

Property 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 Governor Edwards signed into law on June 7, 2016, eliminated the requirement for ORM to pay surplus lines taxes and surcharges. The savings for these taxes/surcharges equaled \$1,377,844 for FY2022.

Combined Limit and Pricing Comparison – Statewide Property

Coverage	Expiring Limits	Renewal Limits	Expiring Price	Renewal Price	Cost Difference
Named Storm	\$375M	\$400M	\$26,091,637	\$32,719,725	\$6,628,088
Flood	\$325M	\$325M	Incl in above	Incl in above	Incl in above
Fire and AOP	\$800M	\$800M	Incl in above	Incl in above	Incl in above
Fine Arts	\$400M	\$400M	\$179,712	\$190,875	\$11,163
Boiler and Machinery	\$250M	\$250M	\$350,735	\$423,576	\$72,841
Terrorism	\$150M	\$150M	\$173,927	\$180,000	\$6,073
Total			\$26,796,011	\$33,514,176	\$6,718,165

Casualty Insurance

Casualty Renewal Overview

State's Wet Marine Program: Hull & Machinery, Protection & Indemnity, Vessel Pollution and Excess Coverage

The marketing process was similar to the property renewal. The program was presented to the worldwide marketplace. Terms and conditions were renewed as per expiring; however, some restructuring of the \$99M excess underlying layer was needed. Lloyds of London quoted \$300,000 for a \$9M layer and \$200,000 for the \$90M layer. Gallagher re-marketed the \$9M excess underlying P&I layer and received a quote from Validus, Hartford & Liberty for \$215,000. ORM accepted these new markets, which resulted in a net savings of \$85k from the incumbent's renewal offering for this layer of the excess. The expiring Marine pricing was \$556,565 after applying the 2021 continuity credit. The total renewal price is \$772,584, resulting in an additional cost of \$219,019 to the State effective July 1, 2021.

SMG and the Louisiana Stadium and Exposition District (LSED) for operations at the Louisiana Superdome, Smoothie King Center, and Champions Square

Coverage is obtained by ORM on behalf of SMG and LSED for operations at the Louisiana Superdome, Smoothie King Center, and Champions Square as per written contract. The coverage was marketed globally with the following results:

- **Crime** – Coverage remained with Hiscox with a flat renewal premium of \$10,958.
- **Workers Compensation** – Coverage remained with LWCC with a renewal premium of \$665,237. This is additional cost of \$7,621 from the expiring term. The premium is based on a 7% payroll decrease and an experience mod increase of 9.3%.
- **Excess Commercial General Liability** – Limits renewed at \$50M per occurrence/annual aggregate as opposed to \$60M per occurrence/annual aggregate for the prior year. This significant limit reduction was driven by the turbulent and hardening excess liability market for 2021 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 \$50M limit, as per the expiring policies. The renewal resulted in a premium increase of \$238,000 for a total of \$1,083,000. This increase is due to the industry-wide hardening casualty market.

Cyber 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. As the insurance program continues, and the State's IT work becomes more aligned within all agencies, data collection will be undertaken and coverage expanded as it makes sense to do so.

Coverage includes the following:

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

This coverage renewed July 1, 2021, with Lloyds of London. Limits were renewed with limits of \$20M for each and every claim with a \$20M policy aggregate. Named Higher Education institutions are included,

per the expiring policy with a sub-limit of \$15M for each and every claim subject to a \$15M aggregate limit. The renewal premium for 2021 is \$815,000 representing a premium increase for this term of \$275,655.

Public entities have been targeted for cyber-attacks in a significant way throughout the US. As such, carriers have paid out a large number of high dollar claims specifically for public entities, most often as a result of ransomware attacks. Public sector insureds are leading the claim activity in both frequency and severity. The cyber marketplace specific to public sector risk is shrinking, with available capacity a growing concern. In many cases, re-insurers are refusing to provide reinsurance to their insured market clients on public sector accounts. Carriers are required to institute premium increases, higher retentions, and in some cases sub-limiting coverages. It is currently one of the tightest insurance markets for cyber placements. As a result of the current cyber market conditions, the retention was increased from \$750,000 to \$1,500,000. In addition, a 25% Sublimit and 50% Coinsurance was applied to several higher education institutions where the proximate cause is ransomware due to the schools' current security protocols and processes.

Crisis Response

This coverage, insuring all state agencies, renewed July 1, 2021, with Lloyds of London with limits of \$1M per occurrence/\$5M policy aggregate. The renewal pricing is flat at \$63,138 annually. This coverage provides on-site response services to man-made and natural disasters that result in three 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 excess limit. Total Aviation premium for 2021 is \$687,017, which represents an increase in premium of \$53,050 over the prior year.

Aviation General Liability (Airport)

This coverage was also renewed effective July 1, 2021, for an annual premium of \$19,675, an increase of \$1,456 from the prior term. Aviation General Liability is written with National Union Insurance Company with a \$25M each occurrence limit.

Financial Analysis (Statewide Casualty Program)

Combined Limit and Pricing Comparison – Statewide Casualty

Coverage	Expiring Limits	Renewal Limits	Expiring Price	Renewal Price	Cost Difference
Wet Marine			\$556,565	\$851,260	\$216,019
Hull	Replacement	Replacement	Incl in above	Incl in above	-
Protection and Indemnity (P&I)	\$100M	\$100M	Incl in above	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	\$500,000	\$10,958	\$10,958	\$0
Workers Compensation – SMG and LSED	Statutory	Statutory	\$657,616	\$665,237	\$7,621
Employer’s Liability	\$1M	\$1M	Incl. in above	Incl. in above	-
Excess General Liability - SMG and LSED	\$60M	\$50M	\$845,000	\$1,083,000	\$238,000
Cyber Liability	\$20M/\$20M	\$20M/\$20M	\$539,345	\$815,000	\$275,655
Higher Ed Limits	\$15M/\$15M	\$15M/\$15M			
Crisis Response	\$1M/\$5M	\$1M/\$5M	\$63,138	\$63,138	\$0
Aviation Hull & Liability	\$25M Hull Scheduled Values	\$25M Hull Scheduled Values	\$633,967	\$687,017	\$53,050
Aviation General Liability (Airport)	\$25M Liab	\$25M Liab	\$18,219	\$19,675	\$1,456
Agent Fee			<i>Incl. in Property Placement Fee</i>	<i>Incl. in Property Placement Fee</i>	\$0
Total			\$3,321,808	\$4,116,609	\$791,801

Casualty Brokerage Fees

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

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. 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 casualty coverage for the institutions, but per State law has been unable to include the students as insureds, with the exception of 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, 2021 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 for an annual premium of \$172,456. The premium increase of \$5,023 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.

Foreign Package Policy

The Office of Risk Management, recognizing the exposure for foreign travel, purchased a master policy through Zurich American Insurance Company for employees travelling on business for the State of Louisiana. Coverages provided are General Liability - \$1M per Occurrence/\$2M Aggregate limit; Automobile Liability \$1M each Accident; \$1M each Employee per accident/\$1M each employee per disease/\$1M per disease policy aggregate for Voluntary International Employee Compensation and Employers Liability. Additional coverages include Business Travel Accident, Property and Kidnap and Ransom. The annual premium for this policy is \$3,000.

ADDITIONAL INFORMATION

Reduced Dependence on Wholesale Brokers

A significant factor in the reduction of brokerage fees from 2015 through 2021 was the reduced dependence on wholesale brokers. The State saved \$3.1 million dollars in brokerage fees/wholesaler revenue in 2015 as AJG placed much of the coverage directly rather than through the utilization of a wholesale broker. If you extrapolate this across the last four years, the savings in wholesale brokerage commission alone is near \$18.6 million dollars. Domestic and international wholesale brokers are used only when needed. Additionally, when AJG used 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 broker, without wholesale broker assistance, directly placed the following markets:

- Berkshire
- Canopus US
- CV Starr
- National Union Insurance Co.
- Ironshore
- SwissRe
- United Educators
- Focused Higher Education Program

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

In Summary

ORM's intent is threefold; to save money, significantly improve coverage limits and to create a long lasting property program that will stand against severe storm seasons through the utilization of multi-year rates and participation guarantees to gain rate protection and program stability. AJG and ORM do expect to see the overall 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 remain paramount throughout the process in each renewal.

The pricing, coverage terms and number of markets competing for participation in the State's program evidence the success of the placements from 2015 through 2021.

The substantial dollar savings for all lines of coverage placed in the commercial market for ORM (including increased limits, coverage improvements, program stability, and market relationships) would not have been possible under the old 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 in the program presented in this report.

The savings shown in this report is based on actual commercial premiums paid for coverage placed for FY 20-21 versus FY 21-22.