DIVISION OF ADMINISTRATION

OFFICE OF RISK MANAGEMENT

COMMERCIAL INSURANCE PLACEMENT REPORT AND FINANCIAL ANALYSIS

Fiscal Year 2020

Effective July 1, 2019 pursuant to Section 1. R.S. 39:1484(A)(4)(b) and 1540.

1 CONTENTS

2 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 the State well. ORM has maintained the previously increased coverage limits (in some cases doubled or tripled) and, in doing so, the State's insurance limits are in closer alignment with the exposure of the highest valued structures. The coverage and limits secured have been accomplished while reducing, and then maintaining, the State's premiums, such that the State is getting broader coverage while continuing to save taxpayers more than $9 million annually. The 2019 property marketplace hardened as a result of negative loss impacts globally beginning in 2016 to current. Property rate increases in 2019 in catastrophically-prone regions range from 20% to 400%. As a result of the negotiations last year for the 2020 fiscal year renewal, the State's rate increase with Lloyds of London was capped at 5%. This resulted in a multimillion dollar savings for the July 1, 2019 renewal compared to others with similar risk. 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:

- 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 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, 2019 renewals. Detailed information of the lines of insurance secured in addition to a fiscal analysis follow in this report.

3 STATEWIDE PROPERTY PROGRAM OVERVIEW

The State, through its Broker, continued to build upon its market relationships to place insurance effective July 1, 2019 on total property values of $17,689,386,272.

ORM and AJG again met with over fifty (50) global insurers/underwriters to discuss and negotiate the best terms for the State. These underwriters consist of on-going relationships and potential new market partners. The significant outcomes of the meetings concerning the July 1, 2019 placement are as follows:

The pricing obtained with Lloyds for this 2019/20 renewal was negotiated in 2018 and capped at a 5% rate increase. This negotiation turned out to be fortuitous given the double digit hardening of the marketplace in early 2019.

It is important to note these changes were negotiated with the Lloyds underwriters during the marketing meetings held spring 2018 following a very difficult earnings year for the marketplace in 2017.

- Hurricanes Harvey, Irma and Maria cost the industry billions of dollars;
- Attritional losses such as hail damage and wildfires added to the overall loss picture;
- 2017 was one of the hardest years in the insurance industry – surpassing even Hurricane Katrina.

- The pricing negotiated with the remaining markets: Amlin treaties, Bermuda and the Domestics ranged from a 5.03% DECREASE to a 15.58% INCREASE.

- The overall property program market rate increase was 4.31% and the total premium increase was 9% including increased TIV values. This is a great result considering the marketplace and what our peers are facing.

- The Named Hurricane wording remains in place for the 2019-2020 policy term, marking the third year of market acceptance of this unique coverage not available to most insureds. This previously negotiated wording opened up Tropical Storm limits to the very top of the program, $800M. Had a storm made landfall as a tropical storm, the limit available would have been $800M in lieu of $400M that was in place in FY17.

  The markets also agreed to continue with a $25,000,000 Per Occurrence Named Hurricane In lieu of Named Windstorm for Higher Ed Locations and a $25,000,000 Per Occurrence Named Hurricane In lieu of Named Windstorm for Non-Higher Ed Locations, subject to a $50,000,000 Per Occurrence Maximum.

3.1 Statewide Property Program – Market Participants

The property market participants are listed in the following table. 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.

Landmark American Insurance	Capsicum Re	Nephila
Allied World Assurance Corp.	Colony Insurance Company	RSUI Insurance
Amlin Insurance	North American Capacity Ins.	Starr Companies
Arch Capital Group	Everest Indemnity Insurance Co.	Westport
Axis Insurance U.S.	Hallmark Specialty Insurance Co.	Westchester Fire Insurance
Berkshire Hathaway	Ironshore Insurance Ltd.	XL Insurance America, Inc.
BRIT Insurance	Lexington Insurance Co.	Parametric via Swiss Re
Canopius U.S.	Lloyds of London	Markel
Evanston		

3.2 Statewide Property Program: Coverages, Limits and Pricing

The following chart shows the renewal coverage bound on July 1, 2019. The brokerage fee of $1,050,000 is the fee paid for the placements of both the property and casualty lines.

Coverage	Limits	Price
Named Hurricane Flood Fire and AOP (All Other Perils), including Named Windstorm	$400M $325M $800M	$22,727,188
Fine Arts	$400M	$188,475
Boiler and Machinery	$250M	$313,626
Terrorism (incl. Nuclear, Chemical, Biological, & Radiation (NCBR)	$150M	$162,500
*Brokerage Fee	-	$1,050,000
Total	-	$24,441,789

**THE FEE SHOWN ABOVE IS THE ENTIRE BROKERAGE FEE, INCLUDING BOTH PROPERTY AND CASUALTY LINES.*

3.3 Fine Arts Policy

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2019, as per the expiring limit for 2018. 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. Total Fine Arts premium for 2019 is $188,475.

3.4 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. Coverage also includes business interruption, extra expense and consequential damage. The policy has a coverage limit of $250,000 Million. Total premium for 2019 is $313,626 which represents an increase in premium of $24,461 over the prior year.

3.5 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 in respect of the Insured's operations, and 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 the same premium as last year which was $162,500.

3.6 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.

4 Financial Analysis Statewide Property Program

The premium increased by $2.1 million (9%) over the prior year. This increase was driven primarily by a hardened insurance market after catastrophic property losses due to Hurricanes Harvey, Irma and Marie and to a lesser extent an $890 million (5%) increase in TIV. Given, that some peers are experiencing double digit increases and considering ORM had an almost $1 billion increase in values, the $2.1 million negotiated rate is an accomplishment.

4.1 Combined Limit and Pricing Comparison – Statewide Property

	FY 18-19		FY 19-20		Cost
Coverage	**Expiring Limits**	**Expiring Price**	**Renewal Limits**	**Renewal Price**	**Change ($)**
Named Hurricane	$400M	$20,624,766	$400M	$22,673,188	$2,048,422
Parametric	$1.25M	$54,000	$1.25M	$54,000	$0
Flood	$325M	Incl. above	$325M	Incl. above	Incl. above
Fire and AOP	$800M	Incl. above	$800M	Incl. above	Incl. above
Fine Arts	$400M	$188,475	$400M	$188,475	$0
Boiler and Machinery	$250M	$289,165	$250M	$313,626	$24,461
Terrorism	$150M	$162,500	$150M	$162,500	$0
Total		**$21,318,906**		**$23,391,789**	**$2,072,883**

5 CASUALTY INSURANCE

5.1 CASUALTY RENEWAL OVERVIEW

5.1.1 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 $488,297 after the continuity credit. The renewal pricing is $478,882 resulting in a reduced cost of $9,415 to the State effective July 1, 2019.

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

Coverage is obtained by ORM on behalf of the above named insureds as per written contract. Coverage was marketed globally with the following results:

- Crime – Coverage remained with Hiscox with renewal premium of $13,368, which is a slight decrease from expiring premium of $13,385.
- Workers Compensation- Coverage remained with LWCC with a renewal premium of $674,292. This is a cost savings of $71,446 from the expiring term. The premium is based on a 3.41% payroll increase and an experience mod decrease of -13.58%.
- Excess Commercial General Liability limits are $100M – Coverage includes law enforcement liability as per the expiring policy. The renewal resulted in a premium increase of $25,971 for a total of $641,385. This increase is attributed to a slight elevation of exposure base (revenues), but mostly due to a hardening casualty market industry-wide.

5.1.3 STATE OF LOUISIANA

- 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:
        - Network Security Privacy Liability
        - Data Recovery and Business interruption
        - Multimedia Liability
        - Privacy Regulatory Defense and Penalties
        - Notification

  This coverage was renewed July 1, 2019 with Lloyds of London. Limits were renewed with limits of $20M Each and Every Claim with a $20M policy aggregate. Named Higher Education institutions are included, per the expiring policy with a sub-limit of $10M each and Every Claim subject to a $10M aggregate limit. The renewal premium for 2020 is $469,695; the same as the prior year.

- Crisis Response -- This coverage insuring all state agencies renewed July 1, 2019 with Lloyds of London with limits of $1M per occurrence/$5M policy aggregate. The renewal pricing is $56,250 annually; a flat renewal. 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 xs $10M limit. Total Aviation premium for 2019 is $557,422 which represents an increase in premium of $5,104 over the prior year.

- Aviation General Liability (Airport) – This coverage was also renewed effective July 1, 2019. Aviation General Liability is written with National Union Insurance Company with a $25M Each Occurrence Limit.

5.2 CASUALTY BROKERAGE FEES

The fee for the Statewide Casualty Program is *included* within the annual Property Placement Fee for a combined total of $1,050,000 for 2019, which is the same as the previous year.

6 FINANCIAL ANALYSIS STATEWIDE CASUALTY PROGRAM

The statewide casualty program was renewed with a cost decrease of $49,804 over the prior year. The increase is primarily attributed to a lower experience modification rate for SMG Worker's Compensation. This resulted in a cost savings of $71,446. This decrease was offset by an increase in the Excess Commercial General Liability for SMG and LSED. This increase ($25,971) is primarily attributable to a hardening of the casualty market industry-wide and slightly to an increase in exposures (revenues).

6.1 COMBINED LIMIT AND PRICING COMPARISON – STATEWIDE CASUALTY

Casualty Coverage	FY 18-19 Expiring Limits	FY 18-19 Expiring Price	FY 19-20 Renewal Limits	FY 19-20 Renewal Price	Cost Change
Wet Marine		$549,544		$540,129	($9,416)
Premium Continuity Credit		($61,246)		($61,247)	
Hull	Replacement	Incl in above	Replacement	Incl in above	-
Protection & 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	$13,385	$500,000	$13,368	($17)
Workers Compensation – SMG	Statutory	$745,738	Statutory	$674,292	($71,446)
Employer's Liability	$1M	Incl in above	$1M	Incl in above	-
Excess Comm Gen Liab - SMG and LSED	$100M	$615,414	$100M	$641,385	$25,971
Cyber Liability	$10M/$10M	$469,695	$20M/$20M (Higher Ed $10M/$10M)	$469,695	-
Crisis Response	$1M/$5M	$56,250	$1M/$5M	$56,250	-
Aviation Hull & Liability	$25M Hull Scheduled	$552,318	$25M Hull Scheduled	$557,422	$5,104
Aviation General Liability (Airport)	$25M Liab	$17,634	$25M Liab	$17,634	-
Agent Fee		See Property		See Property	-
Total		**$2,958,732**		**$2,908,928**	**($49,804)**

7 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 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. This challenge was eliminated by utilizing a commercial licensed professional liability policy. The cost is not borne by the State, but is left to each participating institution to manage and pass through to the affected students.

Coverage was renewed effective July 1, 2019 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 $161,434. This is a $9,138 premium increase over the prior year. The premium increase of $9,138 is attributed to the hardening liability market trend.

8 Additional Benefits

8.1 Improved Data Project

As part of the initial brokerage services scope of work, AJG's team collected Secondary Construction/Occupancy/Protection/Exposure (COPE) information of 3500+ structures. In addition, training was provided for Sedgwick so that the secondary modifier information collection will continue in the future. ORM has accomplished its goal and now has the necessary data on each building.

Secondary COPE data is used to impact catastrophe modeling reports of large, highly valued property schedules, such as the State's, utilized by the insurance marketplace to better assess the risk and catastrophic exposure. The addition of the COPE data and supplemental information about positive changes in the State's physical environment (New Orleans levee improvements, adoption of uniform building codes) generated significant positive developments to the State's modeling results and underwriting review, as follows:

2017 Modeling Results:

Hurricane *(Incl Storm Surge)*
State of Louisiana has approximately $16.7 Billion in values exposed to hurricane related events in the State of Louisiana. **Figure 1-1** illustrates the probability of ground up losses exceeding various amounts due to one event in a given year, as described by the Occurrence Exceedance Probability (OEP). The 250yr event loss probability is commonly used by the insurance marketplace as a gauge for insurance pricing.

Critical Prob.	Return Period	AIR		RMS	
		Ground Up	Gross Loss	Ground Up	Gross Loss
0.10%	1,000	$1,813,572,272	$1,760,815,080	$1,438,663,347	$1,385,500,629
0.20%	500	$1,378,915,439	$1,326,505,414	$1,065,535,573	$1,011,869,722
0.40%	**250**	**$1,113,835,277**	**$1,062,414,678**	**$743,231,433**	**$691,535,591**
1.00%	100	$644,484,032	$593,408,841	$412,227,961	$361,640,631
2.00%	50	$343,052,527	$292,333,963	$235,458,644	$185,144,961
5.00%	20	$172,420,747	$122,102,739	$82,907,202	$32,868,416
AAL		**$39,123,226**	**$26,825,866**	**$19,751,948**	**$13,645,158**

Figure 1-1

2018 Modeling Results:

Hurricane *(Incl Storm Surge)*
State of Louisiana has approximately $16.8 Billion in values exposed to hurricane related events in the State of Louisiana. **Figure 1-1 & Figure 1-2** illustrates the probability of ground up losses exceeding various amounts due to one event in a given year, as described by the Occurrence Exceedance Probability (OEP). The 250yr event loss probability is commonly used by the insurance marketplace as a gauge for insurance pricing.

Critical Prob.	Return Period	RMS	
		Ground Up	Gross Loss
0.10%	1,000	$1,405,031,686	$1,352,237,542
0.20%	500	$1,021,006,787	$968,505,023
0.40%	**250**	**$697,787,881**	**$646,155,264**
1.00%	100	$379,427,327	$328,728,353
2.00%	50	$212,617,954	$162,446,496
5.00%	20	$71,783,130	$21,754,084
AAL		**$17,921,914**	**$12,351,528**

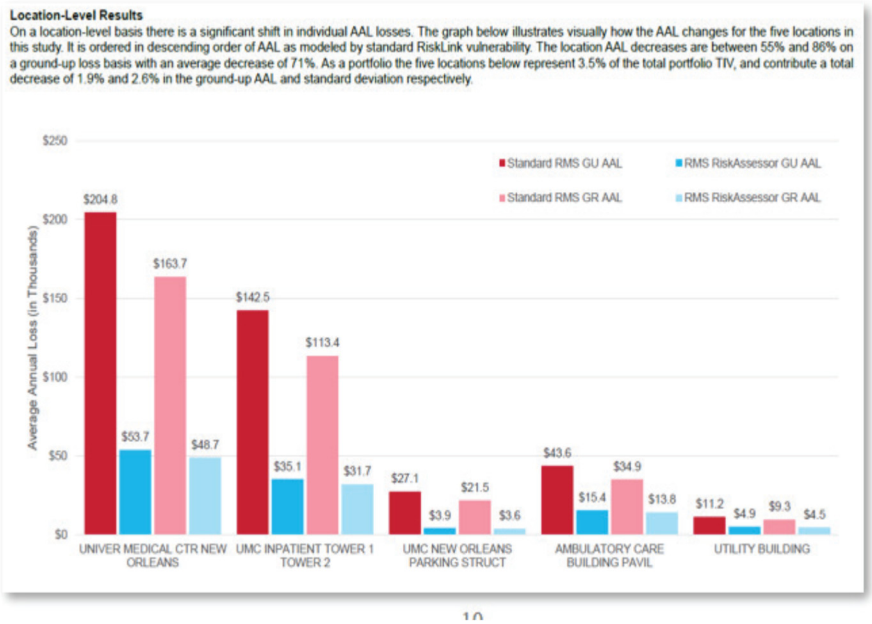
Figure 1-1

8.2 "Bespoke" CAT Modeling Investments

8.2.1 Improved Data Project

In late 2017, the first pilot bespoke project for the State was completed, using the comprehensive engineering data for the University Medical Center 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, an unbiased and credible source of data, the carriers trusted and factored this information into their underwriting decisions for 2018 and will continue onto the future.

This is a long-term investment in being able to quantify the State's true risk to the market. The next bespoke project currently in process is the Superdome. These results will be available shortly.



8.3 Reduced Dependence On Wholesale Brokers

A significant factor in the reduction of brokerage fees in 2015, 2016, 2017 and 2018 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 saving in wholesale brokerage commission alone is near $12.4 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 wholesale broker assistance:

AIG	AWAC	Berkshire	Canopius US	CV Starr	Chubb
Ironshore	Lexington	National Union	SwissRe	United Educators	

8.4 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 a higher education practice and reputation to the table to assist with the State's exposures concerning higher education risks.

9 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 against another severe storm season through 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 remains paramount through the process with each and every renewal.

The success of the placements for 2015, 2016, 2017, 2018 and 2019 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 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.

For clarification, the savings shown in this report is based on actual commercial premiums paid for coverage placed for FY 18-19 versus FY 19-20.