Commercial Insurance Placement Report

FISCAL YEAR 2017

STATE OF LOUISIANA | DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

The Commercial Insurance Placement Report is prepared pursuant to Louisiana Revised Statute 39:1540(B). Act 715 of 2014 Regular Session granted the Office of Risk Management (ORM) the authority to procure the State's insurance through a third-party insurance broker, in accordance with industry best practices. ORM contracted with Arthur J. Gallagher Risk Management Services, Inc. (AJG) in January 2015 to substantively improve how the State acquires insurance.

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Executive Summary

Ten key goals and targets were identified through the revised Commercial Insurance Placement model.

- Assure and obtain competitive pricing for insurance including full transparency related to revenue;
- Validate and certify a global marketing effort;
- Create strong market relationships between the State and potential insurers, necessary for on-going program support;
- Improve coverage terms;
- Obtain multi-year contract terms and rates;
- Reduce dependence on wholesale brokers, thereby saving public dollars;
- Create long-term program stability;
- Improve the quality of data provided to the marketplace;
- Enhance coverage and resources for the State's fine arts assets and unique culture;
- Further expand a focus on Higher Education and their specific needs.

INCREASED Competition

TRIPLED Limits

$9 Million Saved

ORM is pleased to again report that without exception, July 1, 2016, each key target goal identified was met. ORM and AJG have been able to clarify and improve the insurance market's understanding of the State's insurability and bringing insurers to the table who previously had not offered coverage. ORM has increased coverage limits significantly, in some cases doubling or tripling limits, bringing the State's insurance limits into closer alignment with the exposure of the highest valued structures. These coverage increases have been accomplished while reducing the State's premiums, such that the State is getting more coverage, which better matches the State's needs, while saving taxpayers more than $9 million annually. Detailed information of the lines of insurance secured in addition to a fiscal analysis follow in this report.

AJG provides brokerage and consulting services for the Statewide Property Program, the Statewide Casualty Program, the LSU Property Program and the LSU Casualty Program[1]. The placement activities of each are provided for in the report.

[1] LSU-BR exited the Statewide Property and Casualty Program through the GRAD Act on July 1, 2015 and July 1, 2016, respectively. LSU through ORM's Broker RFP, contracts with AJG for commercial insurance placement.

SIGNIFICANT CHANGES AND ENHANCEMENTS

There were several positive changes this year, including a significant enhancement for the higher education institutions under the Statewide Property Program. Two casualty related coverages were placed: Cyber Liability and Crisis Response (a liability mitigation tool). And- in response to a need generated by the member higher education institutions with internship programs, Student Internship coverage was acquired to allow continuance of those clinical and intern programs, but without cost to the State. The highlights are below with detailed information provided in the report.

Statewide Property

- Higher Education - 50% Reduction in "All Other Perils" Deductible
- Nearly $1M Premium Decrease over the prior year

New Statewide Coverages

- $1.25M Parametric
- Cyber Liability
- Crisis Reponse
- Student Internship Coverage

Broker of Record

- Improved Data Project – (Construction, Occupancy, Protection, Exposure-COPE)
- Reduced Dependence on Wholesale Brokers

New LSU-BR Coverages

- Primary General Liability and Auto Liability
- Primary Educators Legal Liability
- Licensed Professional Liability (Higher Education Student Experiential Learning)
- Student Travel Accident
- Wet Marine Hull and Machinery
- Crisis Response

LEGISLATIVE CHANGES

Act 374 of the 2016 Regular Session eliminated the requirement for ORM to pay surplus lines taxes and surcharges. The combined charge for these taxes/surcharges equaled $1,077,916.82 in FY 15-16. Although insurance limits were unchanged from FY 15-16, renewal pricing was reduced for July 1, 2016 primarily due to this change.

Statewide Property

The State through its Broker, continued to build upon its newly found market relationships to place insurance effective July 1, 2016 on a total property value of $16,839,417,201. Although most of the insurers were in the second year of a 2-year rate agreement, the original goals remained priority. The total cost for the Statewide Property Renewal Coverages was $24,109,186. The broker's property brokerage fee remains at $880,000 as per expiring – an annual savings of $3,110,000 savings from FY 14-15.

ORM and AJG again met with over fifty (50) insurers/underwriters, many of whom, because of the former procurement model, had shown no previous interest in participating in the State's program, but now were expressing interest and offering capacity.

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.

Highlights

- All insurers agreed to extend the current rate terms through July 1, 2018 (instead of July 1, 2017 as originally agreed);

- The insurers have agreed to a 10% no claims bonus or 10% rate reduction in FY 17-18. The domestic and international insurers have slightly different ways of accomplishing this, but both allow for a 10% overall reduction in payment should the program perform well in FY 16-17. Lloyds of London's insurers will issue a 10% no claims bonus in the form of a return premium to the State. The domestic insurers have agreed to a 10% rate reduction for the FY 17-18 policy term should losses not exceed a certain threshold outlined in the policy.

- The named windstorm deductible has been reduced from $50 million to $25 million per occurrence for higher education properties only and $25 million per occurrence for non-higher education properties only. The $50 million SIR remains if both categories of properties are damaged in a single windstorm event.

- A key enhancement was negotiated for the member higher education institutions:
    - The "All Other Perils" (non-windstorm) deductible is now $5M in lieu of $10M effective July 1, 2016.
    - This $5M deductible sits within the State's $10M All Other Perils deductible should multiple locations including non-higher education facilities be impacted within the same occurrence.

- A $1.25M parametric coverage via CapsicumRe was added. This coverage is specific to the New Orleans area, which includes a concentration of large structures such as the Superdome, Smoothie King Center and the University Medical Center, and provides payouts subject to assigned wind speeds instead of a damage component.

STATEWIDE PROPERTY – MARKET PARTICIPANTS

Allianz Global Corp	Allied World Assurance Corp.	Amlin Insurance	Arch Capital Group
Aspen American Insurance	Axis Insurance U.S.	Berkshire Hathaway	BRIT Insurance
Canopius U.S.	Capsicum Re	Colony Insurance Company	Ironshore Insurance Ltd.
Lexington Insurance Co.	Liberty Insurance	Lloyds of London	Maxum Indemnity Company
Nephila	Parametric via CapsicumRe	RSUI Insurance	ScorRe Insurance
Starr Companies	SwissRe Insurance	Westchester Fire Insurance	XL Catlin America Group

FINE ARTS POLICY

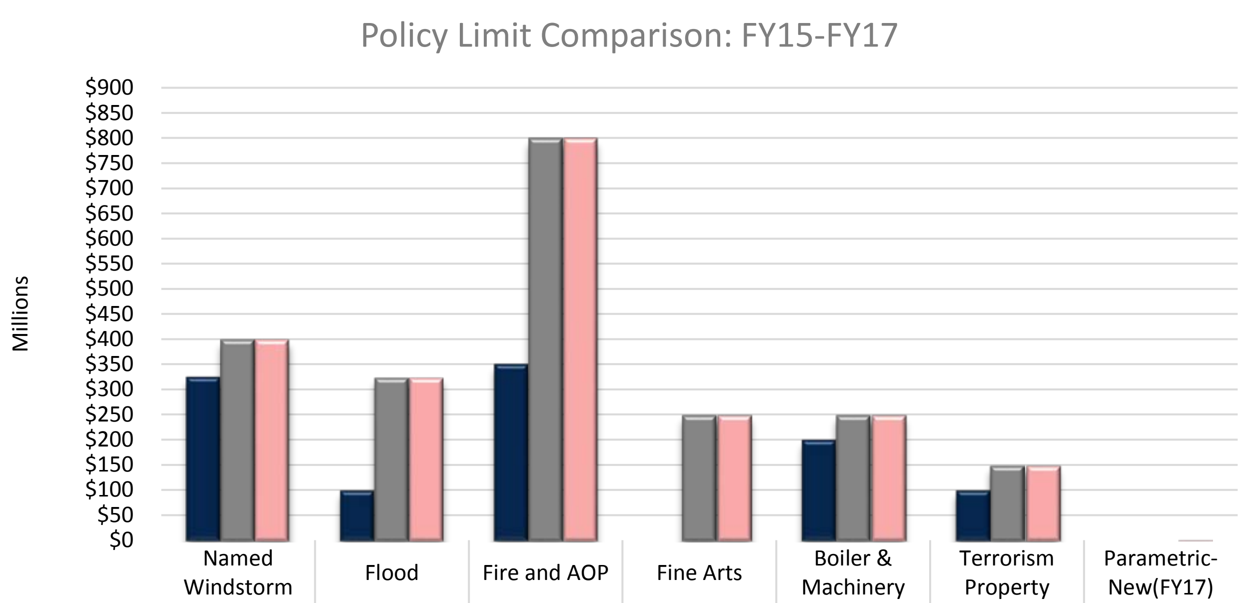
The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2016. The separate coverage limit of $250M is in addition to the master property policy (Named Storm, Flood, and Fire and AOP). The definition of fine arts is broad by design and coverage enhancements are specific to the fine arts exposure, which include a specialized adjusting team.

FINANCIAL ANALYSIS (STATEWIDE PROPERTY)

SAVINGS (FY15-FY17) - PROPERTY

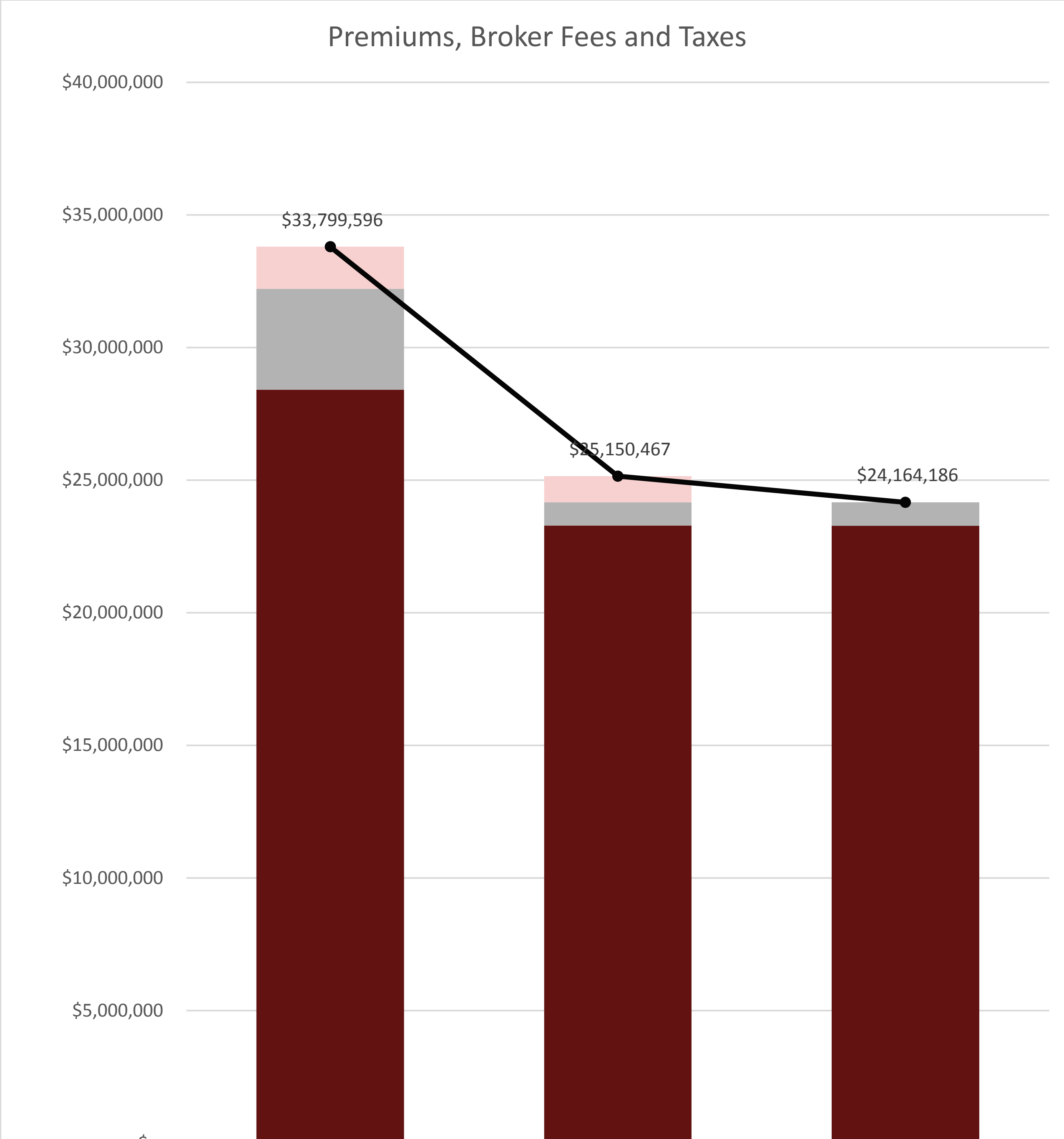
COVERAGE	FY15 EXPIRING LIMITS	FY15 EXPIRING PRICE	FY16 EXPIRING LIMITS	FY16 EXPIRING PRICE	FY17 RENEWAL LIMITS	FY17 RENEWAL PRICE	CHANGE
Named Storm	$325M	$27,724,506	$400M	$22,602,577	$400M	$22,562,884	**($5,161,622)**
Flood	$100M	Incl in above	$325M	Incl in above	$325M	Incl in above	**Incl in above**
Fire and AOP	$350M	Incl in above	$800M	Incl in above	$800M	Incl in above	**Incl in above**
Fine Arts	Incl in above	Incl in above	$250M	$152,526	$250M	$152,526	**Incl in above**
Boiler and Machinery	$200M	$378,974	$250M	$296,244	$250M	$295,776	**($83,198)**
Terrorism	$100M	$307,500	$150M	$235,939	$150M	$218,000	**($89,500)**
Parametric-NEW FY17	NA	NA	NA	NA	$1.25M	$55,000	**$55,000**
Agent Fee		$3,800,000		$880,000		$880,000	**($2,920,000)**
Surplus Lines Taxes		$1,588,616		$983,181		$0	**($1,588,616)**
Total		**$33,799,596**		**$25,150,467**		**$24,164,186**	**($9,635,410)**

POLICY LIMIT COMPARISON



	Named Windstorm	Flood	Fire and AOP	Fine Arts	Boiler & Machinery	Terrorism Property	Parametric-New(FY17)
FY15 Limits	$325	$100	$350	$0	$200	$100	0
FY16 Limits	$400	$325	$800	$250	$250	$150	0
FY17 Limits	$400	$325	$800	$250	$250	$150	$1.25

PRICING COMPARISON – STATEWIDE PROPERTY



	FY15	FY16	FY17
Taxes	$1,588,616	$983,181	$-
Broker Fee	$3,800,000	$880,000	$880,000
Premium	$28,410,980	$23,287,286	$23,284,186
Total	$33,799,596	$25,150,467	$24,164,186

STATEWIDE CASUALTY

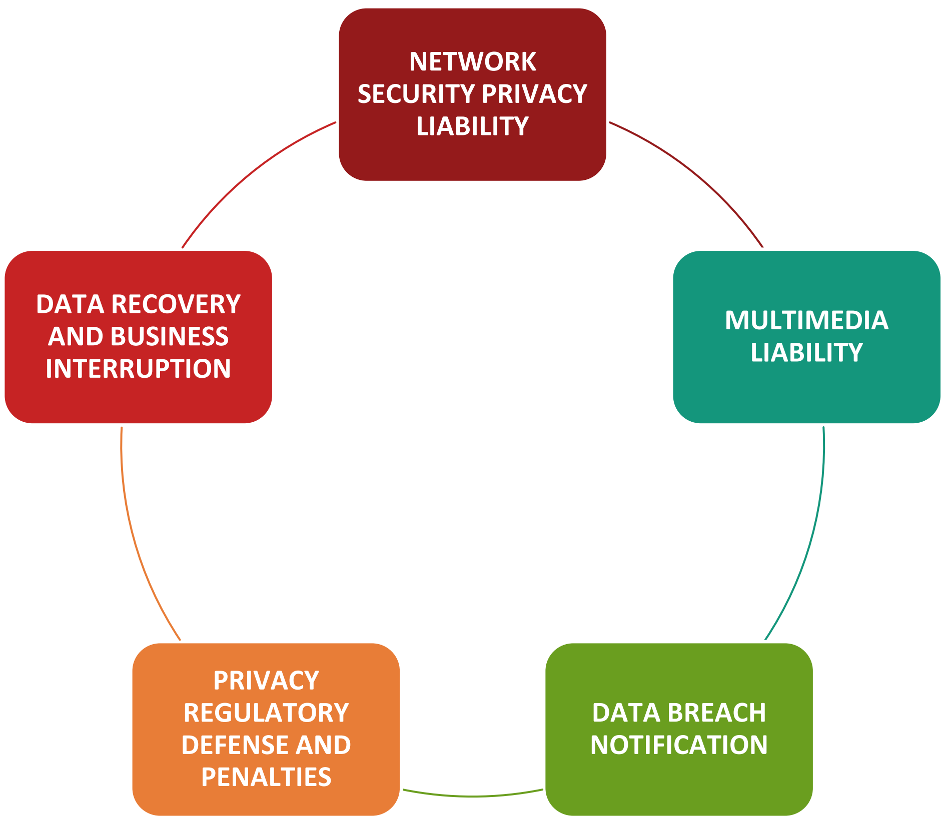
The marketing process was similar to the property renewal. The worldwide marketplace was approached. Terms and conditions were renewed with a positive impact on the State's program. The fee for the Statewide Casualty Program is $110,000.

WET MARINE PROGRAM:

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

Expiring marine pricing was $652,743. The renewal pricing is $615,860, resulting in a $36,833 savings to the State effective July 1, 2016.

CYBER LIABILITY – **NEW!**



This is a new coverage for FY2016 through Lloyds of London with limits of $10M policy aggregate for a pricing of $262,887 annually. Coverage was written for the State's Office of Technology Services (OTS) and the State entities that OTS oversees for IT services. This is the initial placement of the program. As the insurance program continues and the State's IT work becomes more aligned with all agencies statewide, data collection will be undertaken and coverage expanded as needed. The coverage includes the following: Network Security Privacy Liability, Data Recovery and Business interruption, Multimedia Liability, Privacy Regulatory Defense and Penalties and Data Breach Notification.

CRISIS RESPONSE – **NEW!**

Crisis Response is a new coverage insuring all state agencies and was placed July 1, 2016 through Lloyds of London with limits of $1M per occurrence/$5M policy aggregate. The pricing is $45,939 annually. This coverage provides on-site response services to man-made and natural disasters that occur on state property or directly affect the operations of a covered state agency and cause a loss of five lives or more. 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.

LICENSED PROFESSIONAL LIABILITY (HIGHER EDUCATION STUDENT EXPERIENTIAL LEARNING) – **NEW!**

Many of the State's Higher Education Institutions offer internship programs through outside businesses and non-profit organizations as part of the curriculum, such as a nursing internship through a local hospital. 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. This has created a challenge for those institutions depending on cooperation of third parties to assist with their internship curriculums. August 1, 2016, coverage was placed through United Educators Insurance Company for those students participating in qualifying programs at specifically named institutions. The minimal cost ($14.40 per student) is not borne by the State, but is left to each participating institution to manage and transfer back to the students. Limits in the amount of $1M per claim/$5M policy aggregate were bound for the price of $85,000. Certificates of insurance are provided by AJG to the institutions to evidence coverage for the students.

LOUISIANA STADIUM AND EXPOSITION DISTRICT (LSED) AND SMG

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
- Crime – Coverage remained with Hiscox with a flat renewal for a total annual premium of $13,385.

WC
- Workers Compensation - Coverage remained with LWCC with a renewal premium of $556,884. This is an increase of $86,780 over expiring due to a 4.49% payroll increase and a loss experience deterioration, resulting in an e-mod increase of 24.68%

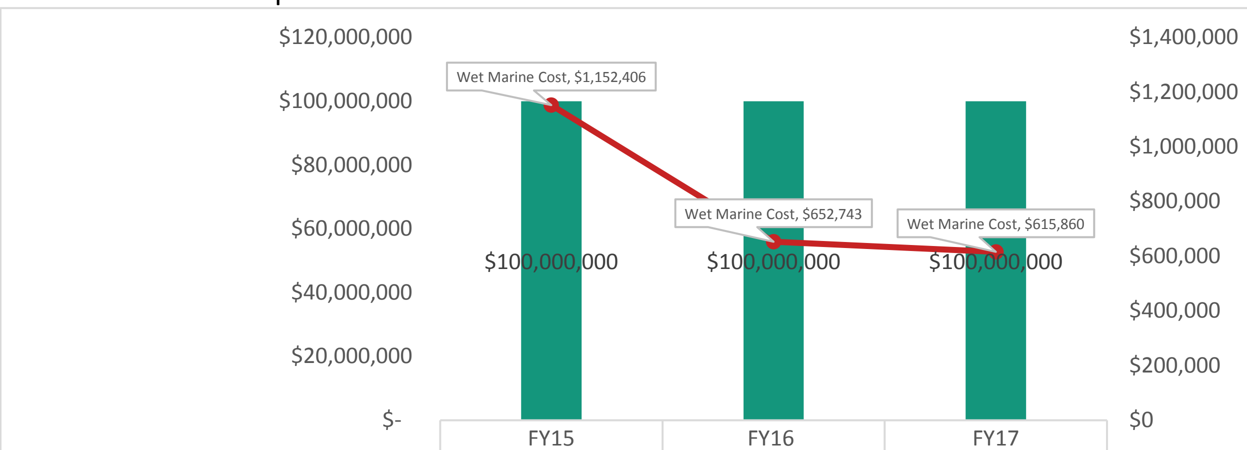
CGL
- Excess Commercial General Liability limits up to $100M – Coverage includes law enforcement liability as per the expiring policy. The renewal premium had a minimal increase of $10,586 for a total of $597,972.

FINANCIAL ANALYSIS – STATEWIDE CASUALTY INCL. LSED/SMG

LIMIT AND PRICING 3-YEAR COMPARISON BY COVERAGE (STATEWIDE CASUALTY)

Wet Marine

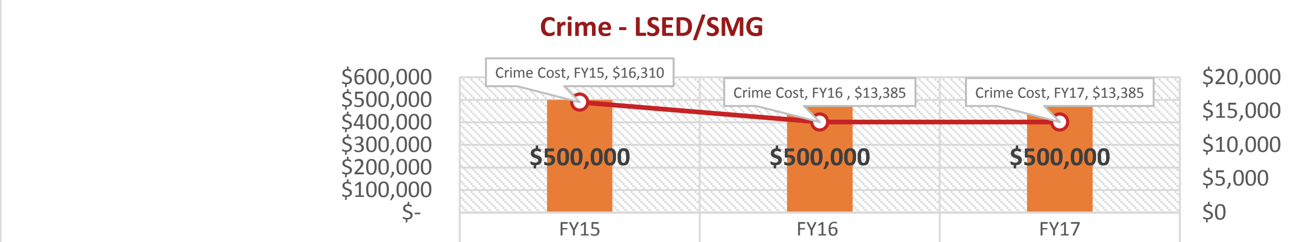
The Wet Marine coverage includes Hull, Protection and Indemnity (P&I) and Pollution. The policy Limit for Hull is “replacement”. Pollution and P&I limits are reflected in the chart below.



	FY15	FY16	FY17
Wet Marine - Protection and Indemnity (P&I), Pollution in P&I limit, Hull limit is replacement	$100,000,000	$100,000,000	$100,000,000
Wet Marine Cost	$1,152,406	$652,743	$615,860
	FY15	FY16	FY17

LSED/SMG Commercial Coverages

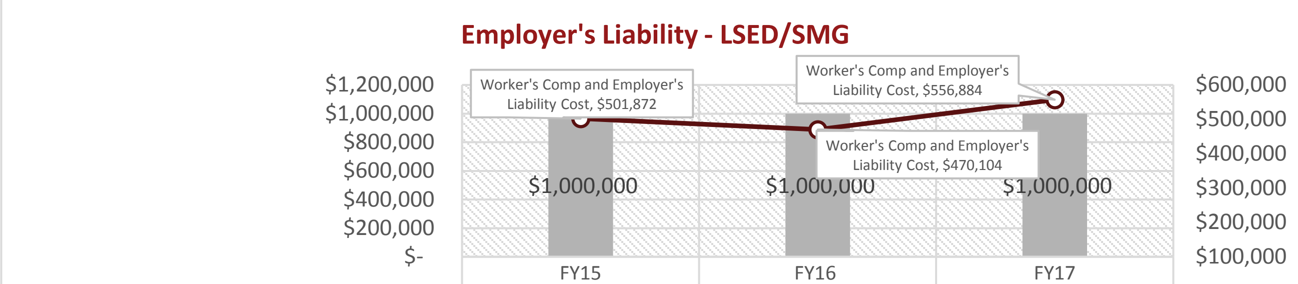
Crime – LSED/SMG



	FY15	FY16	FY17
Crime (incl. employee theft) – SMG and LSED	$500,000	$500,000	$500,000
Crime Cost	$16,310	$13,385	$13,385

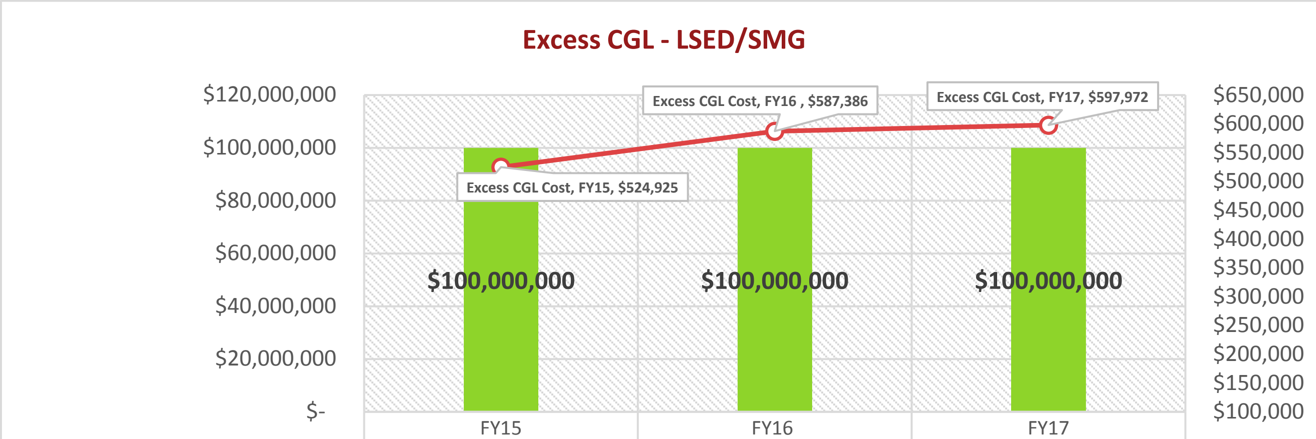
Worker's Compensation and Employer's Liability – LSED/SMG

The Worker's Compensation limits are in accordance with statutory requirements. The employer's liability limit is reflected in the following chart.



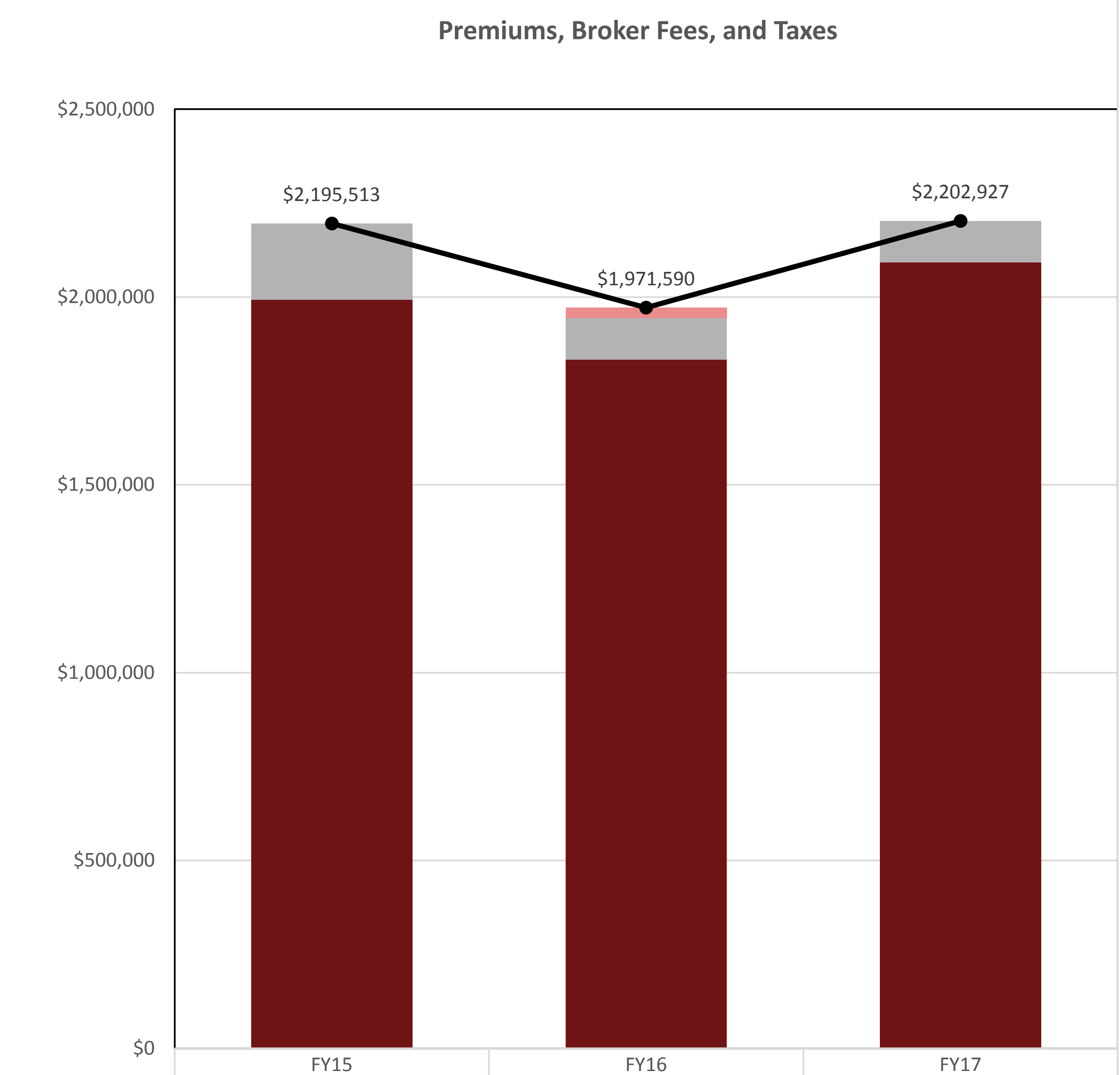
	FY15	FY16	FY17
Worker's Comp and Employers Liability (WC-Statutory, EL - $1M)	$1,000,000	$1,000,000	$1,000,000
Worker's Comp and Employer's Liability Cost	$501,872	$470,104	$556,884

Excess CGL – LSED/SMG



	FY15	FY16	FY17
Excess CGL - SMG and LSED	$100,000,000	$100,000,000	$100,000,000
Excess CGL Cost	$524,925	$587,386	$597,972

Pricing Comparison – Statewide Casualty incl. LSED/SMG



	FY15	FY16	FY17
Taxes	$0	$27,973	$0
Broker Fees	$202,430	$110,000	$110,000
Premiums	$1,993,083	$1,833,617	$2,092,927
Total by FY	$2,195,513	$1,971,590	$2,202,927

BROKER OF RECORD - ADDITIONAL BENEFITS

IMPROVED DATA PROJECT

As part of the brokerage services scope of work, AJG's team collected Secondary Construction/Occupancy/Protection/Exposure (COPE) information on 763 of the State's highest valued buildings in calendar year 2015 and expanded this to 2030 locations so far in 2016. 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 State's 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.

REDUCED DEPENDENCE ON WHOLESALE BROKERS

A significant factor in the reduction of brokerage fees in FY 15-16 and FY 16-17 was the reduced dependence on wholesale brokers. The State saved $3.1 million dollars in brokerage fees beginning July 1, 2015 as AJG placed much of the coverage directly rather than through the utilization of a wholesale broker. Both domestic and international wholesale brokers were used only when needed. Additionally, when AJG did use a wholesale brokers, both AJG and ORM were present during the presentations enabling ORM and AJG to maintain control of the placement. The fees for the domestic wholesalers are included in the contract brokerage fee of $880,000. The international wholesale brokers (London and Bermuda) received a 3% wholesale fee (included in the premium), compared to double digit fees 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	ScorRe	SwissRe	United Educators

FOCUSED HIGHER EDUCATION PROGRAM

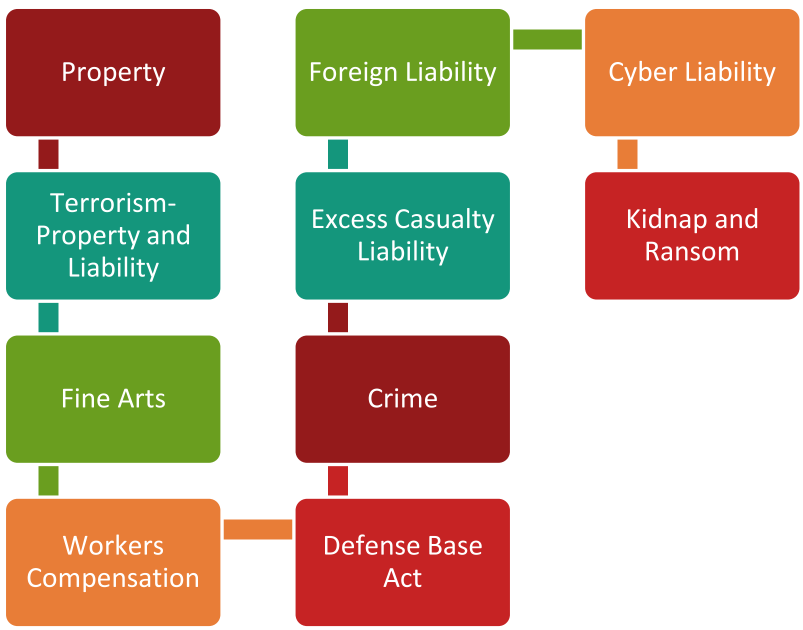
Several stand-alone programs are in the process of development for the State's higher education institutions. These insurance programs will be voluntary for the institutions to supplement coverage ORM is already providing. One example is the Professional Liability coverage for students described earlier in this report. Round table discussions on risk management specific to higher education have been ongoing since the Fall of 2015 and will continue quarterly and regionally. AJG brings a higher education practice and reputation to the table to assist with the State's exposures concerning higher education risks.

LSU PROGRAM

OVERVIEW

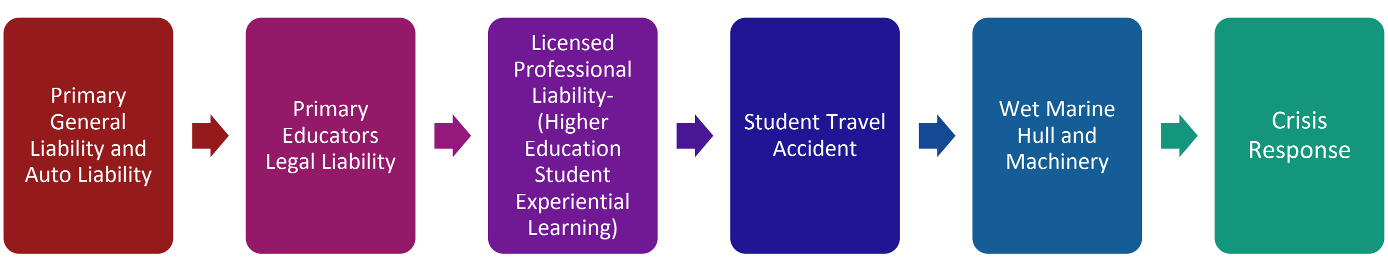
LSU approval for risk management autonomy under the Grad Act 2.0 was granted in the Fall of 2014. Under the terms of the insurance broker contracts, AJG has assisted LSU with placing stand-alone coverage, outside of ORM's programs, starting June 1, 2015 and renewing July 1, 2016 with the following lines of insurance:

RENEWAL LINES OF COVERAGE



NEW COVERAGES

As of July 1, 2016, the following lines of new coverage were also placed by AJG for LSU on a stand-alone basis:



LSU PROPERTY

LSU'S Property Renewal was equally successful to the State's. The data project, market meetings, and overall renewal process was similar to the State's. LSU was also able to roll forward their multi-year arrangement to FY 18-19, contingent upon a favorable loss history. A 10% rate reduction in FY 17-18, similar to the State's in terms of domestic and international response, was negotiated. This is contingent on a loss-free FY 16-17. Coverage renewed June 1, 2016 as follows:

- Expiring Property Values: $2,688,647,205
- Renewal Property Values: $2,822,198,119
- **Property limit increased to $200,000,000**
- Fine Arts limit of $75,000,000
- Terrorism limit renewed at $150,000,000
- Business Interruption limit renewed at $114M

LSU's FY17 renewal premium remained flat at a cost of $3,765,000. The "over the side" coverage previously written stand-alone through Travelers, was not renewed, instead the coverage was added to the master policy program. Additionally limits for Research Equipment at owned, leased and non-owned locations were added, including Builders Risk Coverage with a sublimit of $5,000,000. Terms were also negotiated for the FY 16-17 period increasing sublimits on the following: Accounts Receivables, Valuable Papers, etc.

BROKERAGE FEES – LSU PROPERTY

The expiring fee was $220,000 for the LSU Property Program but reduced June 1, 2016 by $13,500 to $206,500 to account for a change in RMS software services.

LSU CASUALTY

AJG has assisted LSU with placing stand-alone coverage, outside of ORM's programs, to facilitate their transition to risk management autonomy. Both lines were heavily marketed domestically.

- Workers' Compensation (statutory) was renewed with a $1M SIR through Midwest Employers Casualty Company for an annual premium of $211,614 which is a reduction of $27,226 from expiring.
- Crime coverage was renewed with Traveler's Insurance Company for an annual premium of $23,854 which is a reduction of $3,671 from expiring.

- Excess Liability (General Liability, Auto) through United Educators was renewed effective July 1, 2016 with a limit of $15M and premium of $287,958.
- Cyber Liability coverage was moved from AIG to Lloyds of London effective July 1, 2016 with a $5M limit for a premium of $146,880. The change was made to improve terms and pricing.
- Faculty Foreign Business Travel Accident was renewed July 1, 2016 with ACE Insurance Company for a premium of $40,195.
- Kidnap and Ransom coverage written with National Union Fire Insurance Co of Pittsburgh, PA was renewed July 1, 2016 for premium of $3,606.
- Foreign General Liability and Auto Liability were renewed with Insurance Company of the State of PA effective July 1, 2016 with a $5M limit for a premium of $25,510.
- Defense Base Act cover was renewed July 1, 2016 with a $1M limit with Insurance Company of the State of PA for a premium of $6,799.
- Primary General Liability and Auto Liability coverage were placed effective July 1, 2016 through United Educators Insurance Company with limits of $500,000 excess of a $500,000 retention for a premium of $224,243.
- Primary Educators Legal Liability with a limit of $15,000,000 was written for a premium of $182,914.
- Crisis Response coverage effective July 1, 2016 was placed through Lloyds of London with a limit of $1M per occurrence/$2M policy aggregate for a premium of $18,325.
- Licensed Professional Liability (Higher Education Student Experiential Learning), $1M limit, was placed through United Educators effective July 1, 2016 for a premium of $76,408.
- Student Travel Accident with placed through Chubb Insurance Company effective July 1, 2016 for a premium of $76,367.
- Wet Marine Hull & Machinery was placed effective July 1, 2016 with AGCS Marine Insurance Company for a premium of $6,500.

BROKERAGE FEES – LSU CASUALTY

The second year fee for the LSU Casualty program is $100,000 (as compared to expiring $120,000) plus 5% of the total pure premium bound. The 5% cost is not shown in the pure premiums reflected above.

IN SUMMARY

ORM's intent with regard to Act 715 was 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 rate and participation guarantees to gain rate protection and program stability. 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 both FY16 and FY17 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 and LSU, significantly 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, 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 15-16 versus FY 16-17.

Resources made available as a result of Act 715 will assist ORM in its on-going efforts to drive down the cost of risk and provide stability for the State for years to come.