



DIVISION OF ADMINISTRATION  
**OFFICE OF RISK MANAGEMENT**

COMMERCIAL INSURANCE PLACEMENT  
REPORT AND FINANCIAL ANALYSIS

**Fiscal Year 2024**

Effective July 1, 2023 pursuant to Section 1. R.S. 39:1484(A)(4)(b) and 1540.

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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) issued a Broker Services RFP for insurance brokerage and related services and subsequently awarded a contract to Arthur J. Gallagher Risk Management Services, Inc. (Gallagher). The contract was for a five-year period, February 1, 2018 to January 31, 2023, with an emergency contract extension thru October 31, 2023. The point of the extension was to manage the timing of the Broker Services RFP/award process to coordinate better with the effective dates of commercially placed insurance renewals. The collaboration with Gallagher continues to serve ORM well. ORM has maintained increased coverage limits since the contract's inception and in that time, has vastly increased the number of markets willing to consider participating in the State's program. Additionally, ORM has been able to access non-traditional insurance options, providing unique coverage at a competitive price.

In retrospect, the Legislature's approval of Act 715 of 2014 has proven to be a fortuitous decision when considering the insurance market's performance over the past eight years. Preceded by six years of consecutive losses, the year 2023 experienced the most severe hardening in the property market's history. This hardening was attributed not only to sustained losses but also to substantial increases in reinsurance rates and alterations in terms and conditions. In January 10, 2023, *Business Insurance* wrote, "Property catastrophe reinsurance rates for loss-hit U.S. accounts jumped between 45% and 100% at Jan. 1 renewals..."

The implementation of Act 715 of 2014 continues to yield substantial cost savings and crucial benefits for the State, enabling it to maintain the necessary coverage for recovering from catastrophic events. Initially, the estimated annual cost savings resulting from the broker legislation change was near \$9 million. However, due to the state of the insurance market over the last two years, this figure has increased to an estimated amount exceeding \$14 million annually.

In accordance with Act 715 of 2014, ORM identified the following 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, the July 1, 2023 renewals addressed each key target goal without exception. 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, 2023 on total property values of \$21,836,863,051. With the approval from the Commissioner's office along with the LSU System, UMC New Orleans's hospital manager moved the property insurance into a stand-alone program removing over \$1 Billion in total insurable value from the state's schedule for this fiscal year.

Part of the continued success of the State's property program is due to consistent communication with the global underwriting community. Foreign and domestic in-person meetings occurred. Many occurred for the first time post-COVID 19. Most of the underwriters involved in the State's property program have been participating for several years. However, discussions also included potential new market partners. Key results of the work concerning the July 1, 2023 placements are as follows:

- Lloyds of London, Beazley Syndicate, leads the property program. The market rate for the overall property program increased by 21.01%. The total premium increased by 22.89%. In addition, the State was required to participate at 7.5% of the first layer due to the hardening of the market. ORM was able to save approximately \$2,325,000 by participating in this layer. This is a commendable outcome, especially considering the losses and the current market conditions. In comparison to our peers, many who experienced pricing increases above 100%, our result is favorable. Property program options received address: value increases, limits, retentions, second event and parametric options, etc.
- The combination of parametric options bound with this renewal expanded the coverage scope both in terms and in geographic footprint.
- The ancillary lines remained competitive with rates near expiring.

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

## STATEWIDE PROPERTY PROGRAM – MARKET PARTICIPANTS

### Market Participants

Allied World Assurance Co.	Lloyds of London (20+ syndicates)	Starr Surplus Lines Ins. Co.
AIG Specialty Insurance Co.	Canopus U.S.	Westport Insurance Co.
Arch Specialty Insurance Co.	National Fire and Marine Ins. Co.	Starstone Specialty Ins. Co.
Axis Surplus Lines Insurance Co.	Ironshore Specialty Ins. Co.	Indian Harbor Insurance Co.
General Security Indemnity Co. of Arizona (SCOR)	Hallmark Specialty Insurance Co./replaced by Starstone Paper	Markel/Evanston Insurance Company
Endurance American Specialty Ins. Co./SOMPO	RSUI Insurance/Landmark American Insurance Co.	Westchester Surplus Lines Ins. Co.
Tokio Marine America Ins Co.	Berkshire (Parametric)	MS Amlin
North American Capacity Ins./Swiss Re (Parametric)	RPS Eagle/Falls Lake National Insur. Co.	Munich Re/Princeton Excess and Surplus Lines Ins. Co.
Nephila	Chubb Bermuda	

## STATEWIDE PROPERTY PROGRAM: COVERAGES, LIMITS AND PRICING

The following chart shows the renewal coverage bound on July 1, 2023. Specific to Named Storm, Flood, Fire and AOP, the limits are shown in excess of the State's \$50M Named Storm retention and \$10M AOP retention:

Coverage	Limits	Price <sup>1</sup>
Named Storm	\$300M	\$49,686,434
Flood	\$260M	Included above
Fire and AOP (All Other Perils)	\$800M	Included above
Fine Arts	\$400M	\$207,602
Equipment Breakdown	\$250M	\$554,153
Terrorism (Includes Nuclear, Chemical, Biological, & Radiation-sub-limited)	\$150M	\$209,000
*Brokerage Fee		\$990,000
<b>Total</b>		<b>\$51,647,189</b>

### FINE ARTS POLICY

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2023 at the expiring limit of \$400M. This is written as a separate policy and is in addition to the master property policy described above. The definition of fine arts is broad. Coverage enhancements are specific to the fine arts and include a specialized adjusting team. The management of the Fine Arts program changed personnel, moving from Gallagher U.S. specialists to Gallagher London specialists in order to achieve better results and servicing. The Fine Arts policy is written with Lloyds of London with a \$100M limit primary layer and an excess layer with a \$300M excess of \$100M limit. The permanent collection deductible is \$2500 for all other perils besides windstorm/ hurricane and/or flood. Fine Art on loan or consignment has a zero deductible for all other perils besides windstorm/ hurricane and/or flood. The windstorm/hurricane and/or flood deductible is \$30,000 per location with a maximum of \$250,000 per storm. Total premium for 2023-2024 is \$207,602, which represents an increase in premium of \$16,727 over the prior year.

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<sup>1</sup> The fee shown above is the entire brokerage fee and includes both property and casualty lines.

## **Equipment Breakdown (Boiler & Machinery)**

The Equipment Breakdown policy is written by XL Insurance America, Inc. The equipment breakdown peril is excluded from property policies, hence the need for standalone coverage. Equipment breakdown insurance covers losses caused internally within a machine or piece of equipment, which creates mechanical failure or electrical breakdown. Almost every type of equipment is covered – for example: boilers, pressure vessels, turbines, machinery, elevators, refrigerators, escalators, security systems, air conditioning motors, HVAC systems, fire alarm systems 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 2023-2024 is \$554,153, which represents an increase in premium of \$82,956 over the prior year. This is due to an increase in values and a small rate increase.

## **TERRORISM**

Lloyds of London writes the terrorism policy. This coverage provides sabotage and terrorism coverage for Property and Business Interruption as well as terrorism liability, and Chemical, Biological, Radiological and Nuclear (CBRN) coverage with respect to the Insured's operations. The policy has a coverage limit of \$150 Million. This policy renewed for \$209,000 for a small increase in premium of \$19,000 over the prior year. The increase is due to an increase in property values.

## **PROPERTY BROKERAGE FEES**

ORM executed an emergency contract extension February 1, 2023, for a nine-month period that ended November 1, 2023, for \$787,500 for the combined property and casualty placements. ORM also released a new Broker Services RFP. Arthur J. Gallagher again received the contract award. The three-year contract is effective, November 1, 2023 through October 31, 2026, for an annual fee of \$960,000. The FY24 contract fee is \$990,000.

## FINANCIAL ANALYSIS (STATEWIDE PROPERTY PROGRAM)

Act 374, which 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 \$2,456,874 for 2023-2024.

### COMBINED LIMIT AND PRICING COMPARISON – STATEWIDE PROPERTY

FY 22-23		FY 23-24		PRICE CHANGE	
Coverage	Expiring Limits	Expiring Price	Renewal Limits	Renewal Price	(+/-)
Named Storm	\$400M	\$40,433,324	\$300M	\$49,686,434	\$9,253,110
Flood	\$325M	Incl in above	\$260M	Incl in above	Incl in above
Fire and AOP	\$800M	Incl in above	\$800M	Incl in above	Incl in above
Fine Arts	\$400M	\$193,875	\$400M	\$207,602	\$13,727
Equipment Breakdown	\$250M	\$471,197	\$250M	\$554,153	\$82,956
Terrorism	\$150M	\$190,000	\$150M	\$209,000	\$19,000
<b>Total</b>		<b>\$41,288,396</b>		<b>\$50,657,189</b>	<b>\$9,368,793</b>



## CASUALTY INSURANCE

### CASUALTY RENEWAL OVERVIEW

#### **STATE'S WET MARINE PROGRAM: HULL & MACHINERY, PROTECTION & INDEMNITY, VESSEL POLLUTION**

The marketing process was similar to the property renewal process. Again, ORM approached the international marketplace. The Hull & Machinery renewal was favorable with only a 2.5% rate increase. This marked one of the lowest 2023 market rate increases achieved. The State also maintained the 20% continuity credit, given at the inception of the program. Crew exposures were down which affected the liability renewal favorably. Global market conditions were supporting increases between 7.5-15%. However the State fared much better, achieving a 5% Protection and Indemnity (P&I) premium increase, a flat renewal on the primary excess, and an 8% increase on the \$90M XS \$10M with incumbent markets. ORM maintained the upfront continuity credits on P&I and top layer excess. The overall program increase was 3.34% at \$860,324, while maintaining terms and conditions. This was a tremendous renewal for the State.

#### **ASM AND THE LOUISIANA STADIUM AND EXPOSITION DISTRICT (LSED) FOR OPERATIONS AT THE LOUISIANA SUPERDOME, NEW ORLEANS ARENA, & CHAMPIONS SQUARE**

ORM obtained coverage on behalf of the above named insureds 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 \$685,990 which is 1.43% less than the expiring premium. The premium is based on a loss experience modification factor which decreased 1.04%.

#### **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:
    - 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, 2023 with Lloyds of London. Limits were renewed with \$11.5M each and every claim with an \$11.5M policy aggregate. Named Higher Education institutions are included with a sub-limit of \$2M each and every claim subject to the \$11.5M aggregate limit. The renewal premium for 2023-2024 remains flat at \$776,250.

Public entities have been targeted for cyber-attacks in a significant way throughout the US including Louisiana. Carriers have paid out a large number of high dollar claims specifically for public entities, most often because of ransomware attacks. Public sector insureds are leading the claim activity in the U.S. in terms of both frequency and severity. Renewal terms were negotiated and the State's retention remained at \$1,500,000. A 50% sublimit still applies to all coverages for the OTS managed agencies where the proximate cause is ransomware. This is due to OTS's lack of Multi-Factor Authentication. A biometric exclusion applies to LA Tech, LSUHSC New Orleans, and Southeastern.

- Crisis Response -- This coverage renewed July 1, 2023 with Lloyds of London with limits of \$1M per occurrence/\$5M policy aggregate for a renewal premium of \$66,294, which is an increase of \$3,156 over last year's premium. 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 is written with National Union Insurance Company with a \$25M Limit including passengers and hull *per scheduled* aircraft for a premium of \$657,311. This premium is \$26,416 more than last fiscal year but has an additional \$15M in limits.
- Aviation General Liability (Airport) – This coverage was also renewed effective July 1, 2023 for an annual premium of \$23,165, which is an additional premium of \$1,815 from the prior term. Aviation General Liability is written with National Union Insurance Company with a \$25M Each Occurrence Limit.

## COMBINED LIMIT AND PRICING COMPARISON – STATEWIDE CASUALTY

Casualty	FY 22-23		FY 23-24		
Coverage	Expiring Limits	Expiring Price	Renewal Limits	Renewal Price	Price (+/-)
Wet Marine <i>Premium Continuity Credit</i>		\$916,172 (\$82,970)		\$946,192 (\$85,868)	\$27,122
<i>Hull</i>	Replacement	Incl in above	Replacement	Incl in above	-
<i>Protection and Indemnity (P&amp;I)</i>	\$100M	Incl in above	\$100M	Incl in above	-
<i>Pollution</i>	Incl in above	Incl in above	Incl in above	Incl in above	-
Crime (incl. employee theft) – ASM and LSED	\$500,000	\$10,958	\$500,000	\$10,958	\$0
Workers Compensation – ASM and LSED	Statutory	\$695,975	Statutory	\$685,990	(\$9,985)
Employer’s Liability	\$1M	Incl in above	\$1M	Incl in above	-
Cyber Liability	\$11.5M/\$11.5M & \$2M/\$11.5M Higher Ed	\$776,250	\$11.5M/\$11.5M & \$2M/\$11.5M Higher Ed	\$776,250	\$0
Crisis Response	\$1M/\$5M	\$63,138	\$1M/\$5M	\$66,294	\$3,156
Aviation Hull & Liability	\$10M Hull Scheduled Values	\$630,895	\$25M Hull Scheduled Values	\$657,311	\$26,416
Aviation General Liability (Airport)	\$25M Liab.	\$21,350	\$25M Liab.	\$23,165	\$1,815
Agent Fee		Incl. in Property Placement Fee		Incl. in Property Placement Fee	
<b>Total</b>		<b>\$3,031,768</b>		<b>\$3,080,292</b>	<b>\$48,524</b>

## **CASUALTY BROKERAGE FEES**

As stated above, the fee for the Statewide Casualty Program is *included* within the annual Property Placement Fee for a combined total of \$990,000 for 2023-2024.

### **LICENSED PROFESSIONAL LIABILITY (HIGHER EDUCATION STUDENT EXPERIENTIAL LEARNING)**

Many of the State's Higher Education Institutions offer internship programs through external 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 is unable to include the students as insureds. The exception to this is malpractice liability coverage provided through Louisiana Revised Statute 40:1237.1 et. seq. In the past, this has created a challenge for those institutions and their students who are dependent on the cooperation of third parties to assist with their internship curriculums. Coverage was renewed effective July 1, 2023 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. Gallagher provides certificates of insurance to the institutions to evidence coverage for the students. This policy was renewed for an annual premium of \$179,621, which is a slight premium increase of \$491.

### **FOREIGN TRAVEL 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. The annual premium for this policy is flat at \$2,750.

## **ADDITIONAL INFORMATION**

### **REDUCED DEPENDENCE ON WHOLESALE BROKERS**

A significant factor in the reduction of brokerage fees from 2015 through 2023 was the reduced dependence on wholesale brokers. The State saved \$3.1 million dollars in brokerage fees/wholesaler revenue in 2015 as Gallagher placed much of the coverage directly rather than through the utilization of a wholesale broker. If you extrapolate this across the last eight years, the savings in wholesale brokerage commission alone is near \$24.8 million dollars. Both domestic and international wholesale brokers are used only when needed. Additionally, when Gallagher did use wholesale brokers, both Gallagher and ORM were present during the presentations to ensure 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:

- AWAC
- Berkshire
- Canopus US
- CV Starr
- National Union Insurance Co.
- Ironshore
- Swiss Re
- United Educators
- AIG
- Hiscox
- Munich Re
- SCOR

### **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. State Higher Ed Institutions continue to engage actively with other higher-ed institutions nationwide through URMIA, a national risk management organization specific to higher education. They also use the various resources offered through this platform. Gallagher 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 to not only save money and significantly improve coverage terms - 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. The intent is to garner rate protection, create program stability and partner with those carriers who provide competitive options and terms.

As it stands now, Gallagher and ORM do expect to see the upcoming 2024 marketplace to be less chaotic with fewer capacity issues. However, updated 2023 modeling (recently released) is not favorable to Louisiana. 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 renewal.

The success of the placements from 2015 through 2023 is evidenced by the pricing, coverage terms and the 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 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 results achieved in the global insurance marketplace. This impact is evidenced in the program presented in this report.

For clarification, the costs shown in this report are based on actual commercial premiums paid for coverage placed for FY 22-23 versus FY 23-24.