

DIVISION OF ADMINISTRATION
OFFICE OF RISK
MANAGEMENT

COMMERCIAL INSURANCE PLACEMENT REPORT AND FINANCIAL ANALYSIS



Fiscal Year 2023

Effective July 1, 2022 pursuant LRS 39:1540

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Executive Summary

Pursuant to R.S. 39:1540, 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. (Gallagher) for a five-year period from February 1, 2018 to January 31, 2023, to provide insurance brokerage and related services to ORM. This insurance placement model continues to serve the State risk program well. ORM has maintained increased coverage limits since the contract's inception and has vastly increased the number of markets willing to consider participating in the State's program. Estimated annual cost savings specific to the broker legislation change is an estimated \$9M annually. The year 2021 was the third largest property loss year in recorded history. Multiple storm losses in 2020 and 2021 drove the continued hardening of the property insurance marketplace specific to Louisiana. On January 1, 2022, Business Insurance reported, "Reinsurance rates up sharply at January renewals. Catastrophe prone accounts with losses increased 10% to 25%." However, Louisiana experienced reinsurance rate action ranging from 30% - 50%, accompanied by a restricted appetite for Louisiana business. Some Industry experts now consider Louisiana the state most vulnerable to weather events in the U.S.

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 further expand a focus on Higher Education and their specific needs.

ORM is pleased to again report that each key target goal identified was addressed in the July 1, 2022 renewals. Detailed information on the lines of insurance secured and 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, 2022 on total property values of \$21,502,536,139.

Part of the continued success of the State’s property program is due to consistent communication with the global underwriting community. The COVID-19 pandemic once again interfered with the usual in-person meeting process; however, several domestic in-person meetings occurred. 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, 2022 placement are as follows:

- The lead for the property program is Lloyds of London, Beazley. Syndicate. AIG was added as a new participant. The overall property program market rate increase was 13.47%. The total premium increase however was 23.57% based in part on increased values. This is a very good result considering the losses, the marketplace and as compared against our peers. (Numerous Louisiana public sector risks with losses received pricing increases above 100% accompanied by reduced limits.)
- Property program options were received addressing: limits, retentions, second event and parametric options, etc. This renewal a combination of parametric options were bound, expanding the coverage scope.
- The ancillary lines remained competitive with rates near expiring.

Statewide Property Program – Market Participants

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

Berkley Re	RPS Eagle	Starr Surplus Lines Ins. Co.	Allied World Assurance Co.	Berkshire (Parametric)	Westport Insurance Co.	MS Amlin	North American Capacity Ins./Swiss Re
Markel/Evanston Insurance Company	Arch Specialty Insurance Co.	Everest Indemnity Insurance Co.	XL Insurance America, Inc.	Axis Surplus Lines Insurance Co.	Hallmark Specialty Insurance Co.	Swiss Re (Parametric)	National Fire and Marine
Ironshore Specialty Ins. Co.	Westchester Surplus Lines	General Security Indemnity Co. of Arizona (SCOR)	Lloyds of London	SOMPO/Endurance	Canopus U.S.	Nephila	Tokio Marine America Ins Co
Everest Re	RSUI Insurance/Landmark American Insurance	Indian Harbor Insurance Co.	Endurance American Specialty	Starstone Specialty Ins. Co.	AIG Specialty Insurance Co.	Munich Re	Gallagher Re

Statewide Property Program: Coverages, Limits and Pricing

The following chart shows the renewal coverage bound on July 1, 2022. The limits shown are specific to Named Storm, Flood, Fire and AOP, and are in excess of the State's \$50M retention.

Coverage	Limits	Price
Named Storm	\$400M	\$40,433,324
Flood	\$325M	Incl.
Fire and AOP (All Other Perils)	\$800M	Incl.
Fine Arts	\$400M	\$193,875
Boiler and Machinery	\$250M	\$471,197
Terrorism (incl. Nuclear, Chemical, Biological, & Radiation (NCBR)	\$150M	\$190,000
Brokerage Fee ¹		\$1,050,000
Total		\$42,338,396

Fine Arts Policy

The stand-alone policy insuring the State's substantial fine arts assets renewed July 1, 2022, as per the expiring limit. The coverage limit of \$400M is written separately and is in addition to the master property policy described above. The definition of fine arts is broad by design. Coverage enhancements are specific to the fine arts exposure, which include a specialized adjusting team. The Fine Arts policy is written with XL Specialty Insurance Company with a \$100M Limit primary layer with an excess layer written with Lloyds of London with a \$300M xs \$100M limit. The permanent collection deductible is \$2,500 for all other perils besides wind/flood and hail. Fine Art on loan or consignment has a zero dollar deductible for all other perils besides wind/flood and hail. Total premium for 2022-2023 is \$193,875 which represents a minimal increase in premium of \$3,000 over the prior year.

Terms, conditions and deductibles remained the same as expiring, with the exception of the windstorm, flood, and hail aggregate deductible increasing to \$300,000 per storm. The change is market-driven, and not specific to the State's loss experience.

Equipment Breakdown (Boiler & Machinery)

The Equipment Breakdown policy is written by XL Insurance America, Inc. This policy covers loss or damage resulting from accidents to boilers, pressure vessels, turbines, machinery, and air conditioning motors and compressors located in buildings owned by the State or buildings for which the State has contractually assumed legal liability. This coverage insures the object for repair or replacement. Coverage also includes business interruption, extra expense and consequential damage. The policy has a coverage limit of \$250 Million. Total premium for 2022-2023 is \$471,197 which represents an increase in premium of \$47,621 over the prior year. This is due to an increase in values and a small rate increase.

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

Terrorism

Lloyds of London writes the property terrorism policy. This coverage provides sabotage and terrorism coverage for Property and Business Interruption, 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 \$190,000 for a slight increase in premium of \$10,000 over the prior year. The increase is due to an increase in property values.

Property Brokerage Fees

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

Financial Analysis (Statewide Property Program)

Act 374, which was signed into law by Governor Edwards on June 7, 2016, eliminated the requirement for ORM to pay surplus lines taxes and surcharges. The combined savings for these taxes/surcharges equaled \$1,744,976 for 2022-2023.

Combined Limit and Pricing Comparison – Statewide Property

Coverage	FY22 Limits	FY23 Limits	FY22 Price	FY23 Price	Price Difference
Named Storm Flood Fire and AOP	\$400M \$325M \$800M	\$400M \$325M \$800M	\$32,719,725 Incl. Incl.	\$40,433,324 Incl. Incl.	\$7,713,599
Fine Arts	\$400M	\$400M	\$190,875	\$193,875	\$3,000
Boiler and Machinery	\$250M	\$250M	\$423,576	\$471,197	\$47,621
Terrorism	\$150M	\$150M	\$180,000	\$190,000	\$10,000
Total			\$33,514,176	\$41,288,396	\$7,774,220

Casualty Insurance Program Overview

The marketing process was similar to the property renewal. The worldwide marketplace was again approached. Terms and conditions were renewed as per expiring.

Based on the most recent appraisal, Hull & Machinery values are up from \$89,085,507 to \$114,177,000. We were able to achieve a 1.1% Hull rate decrease which brought premium from \$233,276 to \$270,602, net of the upfront continuity credit. The increase of the liability – P&I, Vessel Pollution, and both excess layers is 12.3%, which is currently a standard market rise on the liability side. The same continuity credit on expiring has been applied to the renewal. The expiring Marine pricing was \$772,584 after the policy year 2021-2022 continuity credit was applied. The total renewal pricing is \$833,202, resulting in an additional cost of \$60,618 to the State effective July 1, 2022.

Aviation Hull & Liability

Aviation Hull & Liability limits were reduced from \$25 million to \$10 million due to market conditions. Aviation Hull & Liability are written with National Union Insurance Company. The \$10M limit includes passengers and hull per scheduled aircraft for a premium of \$630,895, which is \$56,122 less than what was paid last fiscal year but with a \$15 million limit reduction. Business Insurance reported in July 2022, “Aviation insurance buyers face some of the most challenging renewals in more than a decade, as rising exposures and the war in Ukraine drive up costs, with some experts predicting the toughest conditions since 9/11”.

Aviation General Liability (Airport)

This coverage was also renewed effective July 1, 2022 for an annual premium of \$21,350, an increase in premium of \$1675, from the prior term. Aviation General Liability is written with National Union Insurance Company with a \$25M Each Occurrence Limit.

ASM and the Louisiana Stadium and Exposition District (LSED)

Coverage is obtained by ORM on behalf of the above named insureds as per written contract for operations at the Louisiana Superdome, New Orleans Arena, & Champions Square. 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 \$695,975. This is additional cost of \$30,738 from the expiring term. The premium is based on a 3.55% payroll increase and an experience mod increase of 2%.

Excess Commercial General Liability

Coverage was not renewed per ORM's request. The terms of the contract changed and ASM is now responsible for procuring CGL directly.

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, 2022 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 2022-2023 is \$776,250 representing a premium decrease for this term of \$38,750.

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 terms of both frequency and severity. The cyber marketplace is shrinking, with available capacity a growing concern. In many cases, re-insurers are refusing to provide reinsurance to their insured market clients. Carriers are required by their reinsurers to institute premium increases, higher retentions, and in some cases are sub-limiting coverages. Other than the Florida and Louisiana property marketplace, cyber coverage is currently the most challenging line of business in the insurance industry. Renewal terms were negotiated and the State's retention remained at \$1,500,000. The 25% Sublimit and 50% Coinsurance clauses found in the prior year's policy were removed for the Higher Education institutions for ransomware. A 50% sublimit now 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, 2022 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.

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, for example, 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 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, 2022 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 Gallagher to the institutions to evidence coverage for the students.

This policy was renewed for an annual premium of \$179,130. The premium increase of \$6,674 is attributed to the hardening liability market trend and the addition of the Louisiana Fire and Emergency Training Academy. 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 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 \$2,750.

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 \$1,050,000 for 2022-2023, which is the same as the previous year.

Combined Limit and Pricing Comparison – Statewide Casualty

Coverage	FY22 Expiring Limits	FY23 Renewal Limits	FY22 Expiring Price	FY23 Renewal Price	FY22 to FY23 Price Change
Wet Marine ² Hull Protection and Indemnity (P&I) Pollution	Replacement \$100M <i>Incl.</i>	Replacement \$100M <i>Incl.</i>	\$772,584 <i>Incl.</i> <i>Incl.</i> <i>Incl.</i>	\$833,202 <i>Incl.</i> <i>Incl.</i> <i>Incl.</i>	\$60,618
Crime (incl. employee theft) – ASM and LSED	\$500,000	\$500,000	\$10,958	\$10,958	-
Workers Compensation – ASM and LSED	Statutory	Statutory	\$665,237	\$695,975	\$30,738
Employer’s Liability	\$1M	\$1M	-	-	-
Excess General Liability - ASM and LSED	\$50M	Not Renewed	\$1,083,000	\$0	(\$1,083,000)
Cyber Liability	\$20M/\$20M & \$15M/\$15M Higher Ed	\$11.5M/\$11.5M & \$2M/\$11.5M Higher Ed	\$815,000	\$776,250	(\$38,750)
Crisis Response	\$1M/\$5M	\$1M/\$5M	\$63,138	\$63,138	-
Aviation Hull & Liability	\$25M Hull Sched. Val.	\$10M Hull Sched. Val.	\$687,017	\$630,895	(\$56,122)
Aviation General Liability (Airport)	\$25M Liab.	\$25M Liab.	\$19,675	\$21,350	\$1,675
Agent Fee			<i>Fee Incl. in Property Placement</i>	<i>Fee Incl. in Property Placement</i>	-
Total			4,116,609	\$3,031,768	(\$1,084,841)

Additional Information

Reduced Dependence on Wholesale Brokers

A significant factor in the reduction of brokerage fees in 2015 through 2022, 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 used 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

² The expiring and renewal premiums are net of the premium continuity credits of \$78,676 and \$82,970 respectively.

brokers (London and Bermuda) received 3% - 5% wholesale commission (included in the premium), compared to double digit wholesaler compensation in the past procurement model.

The following markets were directly placed by the broker, without wholesale broker assistance:

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. 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. Gallagher 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. 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 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. Gallagher 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 from 2015 through 2022 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 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.

For clarification, the savings shown in this report are based on actual commercial premiums paid for coverage placed for FY 21-22 versus FY 22-23.