BOARD APPROVED
October 2, 2020
Janice Indrutz
Corporate Secretary

Office of Legal Counsel

M E M O R A N D U M

TO:	Audit and Risk Management Committee Board of Trustees
FROM:	Steve Schultz, General Counsel
CC:	Mitch Daniels, President Chris Ruhl, Treasurer and Chief Financial Officer Mark Kebert, Director of Domestic and Global Risk
DATE:	September 23, 2020
RE:	Approval (Ratification) of Property Insurance Policy

Purpose. This memo seeks your ratification of the University's procurement of a property insurance policy for the 2020-2021 insurance year, which commenced on October 1st.

Background. The Office of Risk Management, under Mark Kebert's leadership, has worked diligently to renew our insurance coverages in an extremely difficult market this year. Given the turbulent circumstances created by the pandemic and social unrest, it was particularly challenging to obtain property insurance on reasonable terms in this renewal cycle. You may recall that, as a result of a prudent measure approved by Treasurer Sullivan in 2015, we were able to lock in property insurance premiums for a five-year period. This foresight allowed us to avoid the steadily rising premiums that our peers have experienced over the last few years—at least until now.

Coverage. Although Mark's team ran a competitive process with multiple insurers, the most favorable property insurance premium rates (quoted by FM Global) are as follows:

Base Premium	$3,292,697
TRIA Terrorism Coverage	$55,000
Total Premium:	**$3,347,697**

The policy will provide $1.5 billion in coverage, with a required University retention of $500,000. Mark reports that the FM Global proposal provided the broadest coverage, workable deductibles, and most reasonable pricing (against market comparators). Still, it is a significant increase over last year's approximately $1.9 million in total property insurance premium, which was based on the rates that have been in place for the past five years.

The Bylaws provide that Board approval is not required for obligations relating to normal and routine operations, and we generally consider our insurance policies to be in that category. However, because of the materiality of this year's increase, the current state of the property insurance markets, and the fact that this year's premium is in excess of $2 million, we are asking for ratification of the FM Global property insurance contract by the Committee (and subsequently by the Board via the consent agenda). Because coverage needs to be bound by

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September 30th (the end of the insurance year), we will be taking action prior to your meeting to finalize terms with FM Global.

At your December meeting, you will receive the annual Risk Management report with more details about the state of the markets and our risk management program, but below are some current observations from Mark:

***Challenges faced in recent property insurance renewal*:**

- Entering a seller's market (hard market) after enjoying 5-year fixed rate insurance agreement at extremely favorable pricing.
- Markets rapidly changing on a monthly basis (escalating pricing), making pricing projections difficult.
- Finding appropriate coverage capacity (policy limits), with affordable retention.
- Finding reasonable and adequate policy sublimit for important special coverages, such as research animals, herbarium collection, terrorism, flood, builders risk construction, etc.

***Wins*:**

- We were highly successful in showcasing Purdue's robust loss prevention and loss mitigation programs, differentiating ourselves from our peers. This was reflected throughout the proposals we received.
- We reduce proposed rates by about 15% compared to the original indication from the market. This was achieved by coordinating multiple engineering visits and providing timely responses to concerns. The relationships created throughout the years by ORM with the Property Underwriter community is strong and has paid dividends.
- We have kept retention levels manageable within the Risk Management fund. Some of our peers are seeing minimum retention levels of $1M compared to our $500K.
- We were able to secure capacity (policy limits) of $1.5 billion with one primary insurer vs a quota share program with multiple insurers. This was more cost-effective. Originally most insurers wanted to take us down to $1 billion and some were only offering $750M in limits.
- In the end we were able to secure broader coverage terms than initially offered. More robust than some of our peers, i.e. we increased miscellaneous property from $10M to $25M. We also negotiated an enhanced coverage territory from North America to Global.
- Through the marketing process we were able to have meaningful exchanges of information with several highly respected and important underwriters in the property market. We received feedback that they were impressed with Office of Risk Management operations and if not selected, would be interested in exploring partnerships in the future. This will serve us well going forward.