

MEMORANDUM

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 30, 2022

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 2022-2023 insurance year, which commences on October 1st.

Background. The Office of Risk Management, under Mark Kebert's leadership, has worked diligently to renew our insurance coverages in a continuing difficult market. Given the turbulent circumstances following the pandemic, ongoing economic uncertainty, and natural disasters such as Hurricane Ian this week, it continues to be challenging to obtain property insurance on reasonable terms.

Coverage. Property insurance quoted by our incumbent underwriter, FM Global, remains the most cost-effective program with the greatest breadth of coverage. Policy renewal terms are as follows:

Policy Terms: \$1.5 billion in coverage
Retention of \$500,000
Terms are substantially the same as those expiring for current insurance year

Premium: \$4,100,000

The above premium is an increase of 4.5% over the expiring rate.

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 payment, we are asking for ratification of the FM Global property insurance contract by the Committee (and subsequently by the Board via the consent agenda). Consistent with recent practice, and because coverage needs to be bound on the date of this memo (the end of the insurance year), we are acting prior to next week's meeting to finalize terms with FM Global.

In December you will receive the annual Risk Management report with more details about the state of the markets and our risk management program. What follows are current observations from Mark Kebert regarding the state of the property insurance market:

Challenges faced in recent property insurance renewal:

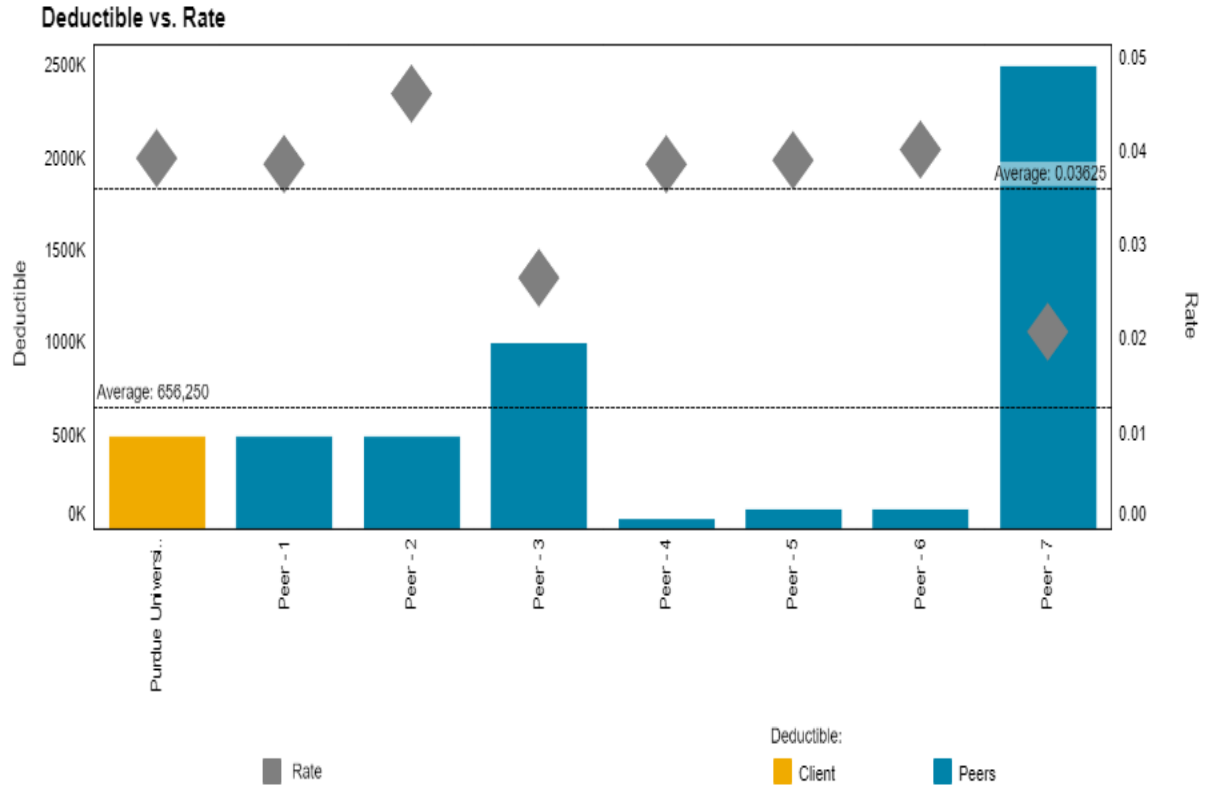
- The current insurance environment remains a “hard market.” as demonstrated by general pricing instability and stringent underwriting.
- Markets continue to change rapidly, with dramatic price escalations sometimes occurring monthly—making pricing projections difficult.
- It remains difficult to find appropriate coverage capacity (i.e., acceptable policy limits), with affordable retentions.
- It is also difficult to find reasonable and adequate policy sublimits for important special coverages, such as research animals, herbarium collection, terrorism, flood, builders risk construction, etc.

Wins:

- In our efforts to secure coverage, we continue to showcase Purdue’s robust loss prevention and loss mitigation programs that differentiate us from peers in numerous ways. This was reflected through the proposals we received.
- 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 retain capacity (policy limits) of \$1.5 billion under one primary insurer versus the need to resort to a quota share program underwritten by multiple insurers. Use of a single insurer remains the most cost-effective option.
- The benchmark data that follows demonstrates Purdue rate pricing is reasonable, considering its lower retention and much higher limits (i.e., greater coverage) when compared to its peers.
 - The first graph depicts a comparison between peer deductibles (or retention) and rates charged per \$100 of insured value. Purdue has a lower retention level than the group average: that is, \$500,000 for Purdue versus the peer average of almost \$700,000 (as demonstrated by the horizontal line representing the cumulative average of blue bars on the graph).
 - In terms of rate pricing, the average peer rate is \$.0363, compared to Purdue’s rate of \$.0391 as demonstrated by the gray diamond-shaped graph points. Purdue’s slightly higher rate is reflective of our much larger policy limits (i.e., greater coverage), as compared to the peer group.
 - The second graph below shows a comparison of Purdue relative to peers in the categories of limits (or coverages) purchased and total insurable values. Purdue is once again identified by the yellow bar, which indicates our limit of coverage at \$1.5 billion, which is nearly twice as great as the average peer limit of approximately \$800 million. The grey diamond-shaped points indicate Purdue’s total insurable values.

Benchmark Data:

Benchmarking Insights for Purdue University



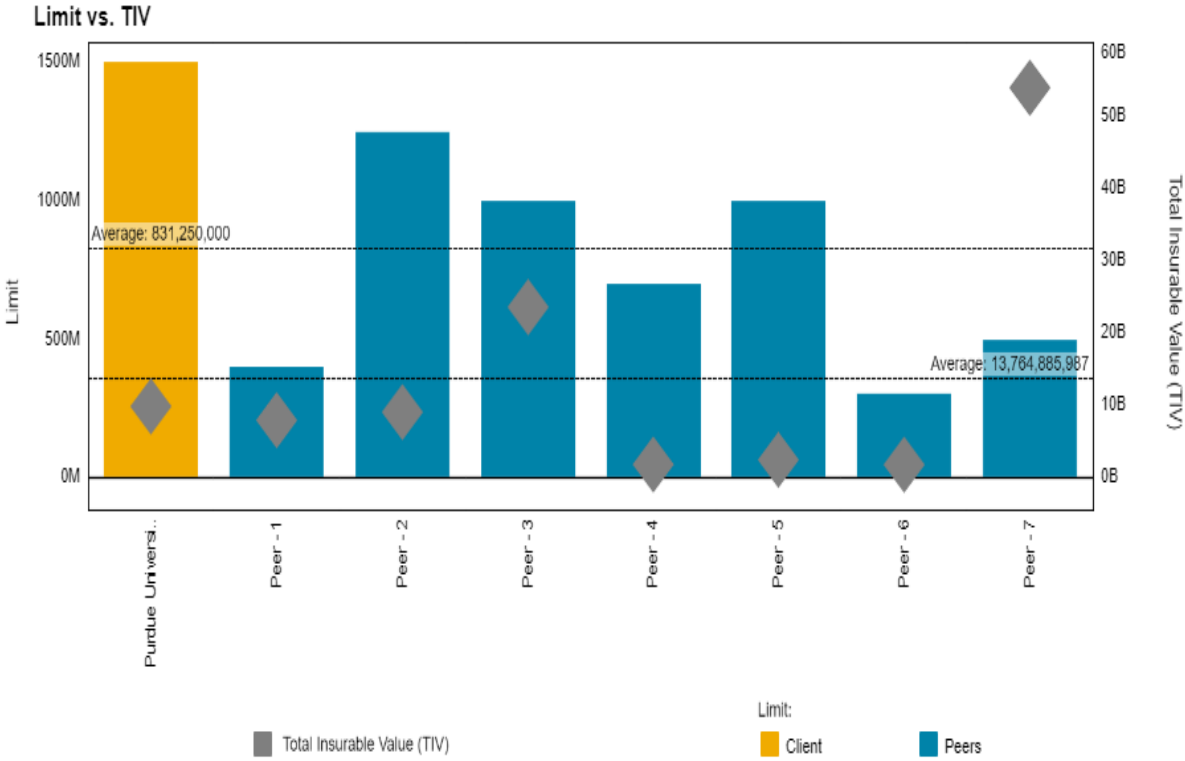
Average Deductible: \$656,250

Purdue Deductible: \$500,000

Average Rate: 0.0363

Purdue Rate: 0.0391

Benchmarking Insights for Purdue University



Average Limit: \$831,250,000 Purdue Limit: \$1,500,000,000

Average TIV: \$13,764,885,987 Purdue TIV: \$11,162,059,054