

MEMORANDUM

TO: Audit and Enterprise Risk Committee
Board of Trustees

FROM: Steve Schultz, SVP and General Counsel

CC: Mung Chiang, President
Chris Ruhl, Treasurer and Chief Financial Officer
Mark Kebert, Director of Domestic and Global Risk

DATE: September 29, 2023

RE: Approval (Ratification) of Property Insurance Contract for 2023-2024

BOARD APPROVED
OCTOBER 6, 2023

Cindy Ream
Corporate Secretary

Purpose. This memo seeks your ratification of the University's procurement of a property insurance policy for the 2023-2024 insurance year, which commences on October 1st.

Background. The Office of Risk Management (ORM), under Mark Kebert's leadership, has once again worked diligently to renew our insurance coverages in a continuing difficult insurance market. Given the turbulent circumstances following ongoing economic uncertainty and natural disasters, obtaining property insurance on reasonable terms continues to be a challenging proposition.

Coverage. ORM reports that the property insurance quoted by our incumbent underwriter, FM Global, remains the most cost-effective program with the greatest breadth of coverage. Policy renewal terms for the coming insurance year are as follows:

Policy Terms: \$1.5 billion in coverage.
Retention of \$750,000 power plant and \$500,000 other.
Terms are substantially the same as those in the expiring contract.

Premium: \$4,160,000

The above premium reflects a rate increase of 3.99% over the expiring rate for this past year.

Request for Ratification. As you know, the Bylaws provide that Board approval is not required for obligations relating to normal and routine operations, and we have historically considered our insurance policies to be in that category. However, because annual property insurance premiums have exceeded \$2 million in recent years, we are once again seeking **ratification of this year's 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 the forthcoming meeting to finalize the terms of this contract with FM Global.

In December, you will receive Mark Kebert's customary annual ORM report with more details about the state of the markets and our risk management program. What follows are his current observations regarding the state of the property insurance market specifically:

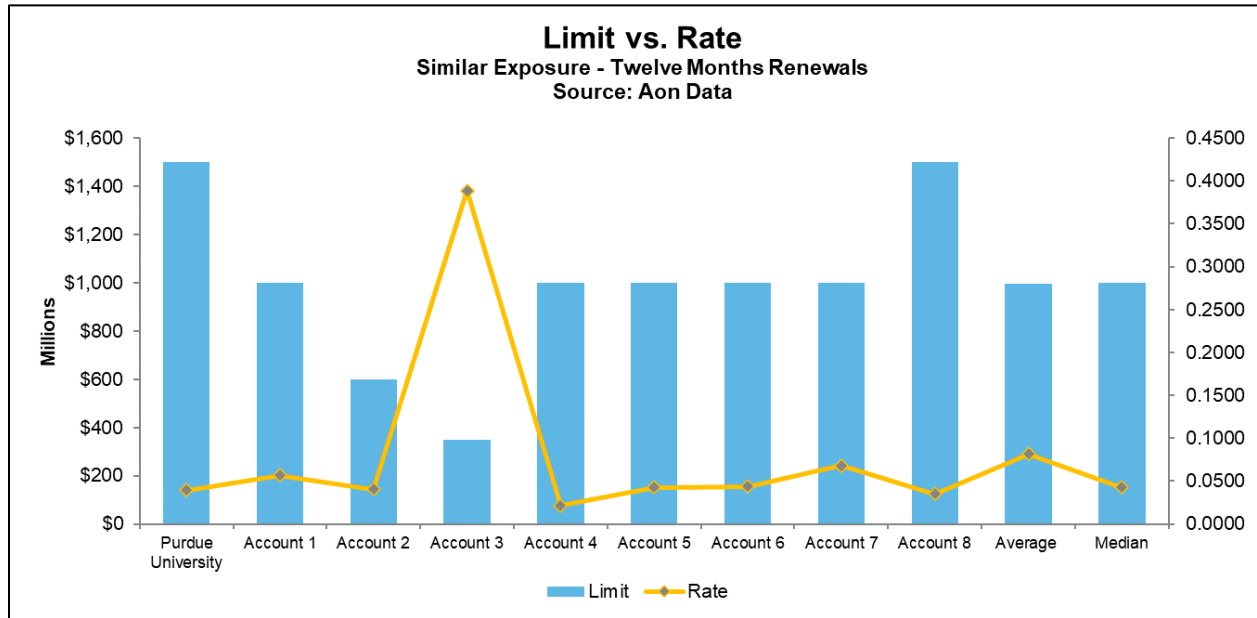
Challenges faced in recent property insurance renewal:

- The current insurance environment remains a “hard market,” as demonstrated by general pricing instability and stringent underwriting.
- Markets continue to change rapidly, with 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 sub-limits for important special coverages, such as research animals, herbarium collections, terrorism, flood, builders risk construction, etc.

Wins:

- In ORM's 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 were able to negotiate a rate reduction of 2% from the original underwriting quote. This resulted in premium savings of \$87,300.
- We have kept retention levels manageable within the Risk Management Fund.
- 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 in the market.
- The benchmark data that follows demonstrates Purdue's 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 coverage limits purchased and rates charged per \$100 of insured value. Purdue's rate is below both the median and average reflected in this chart. The graph also demonstrates that Purdue is able to secure higher limits than many of our peers at a lesser rate. This again reflects Purdue's robust loss prevention programming.
 - The second graph below shows a comparison of Purdue relative to peers in the categories of deductibles and rate per \$100 of insured values. Purdue's deductible is greater than the median and similar to the average of this peer grouping.

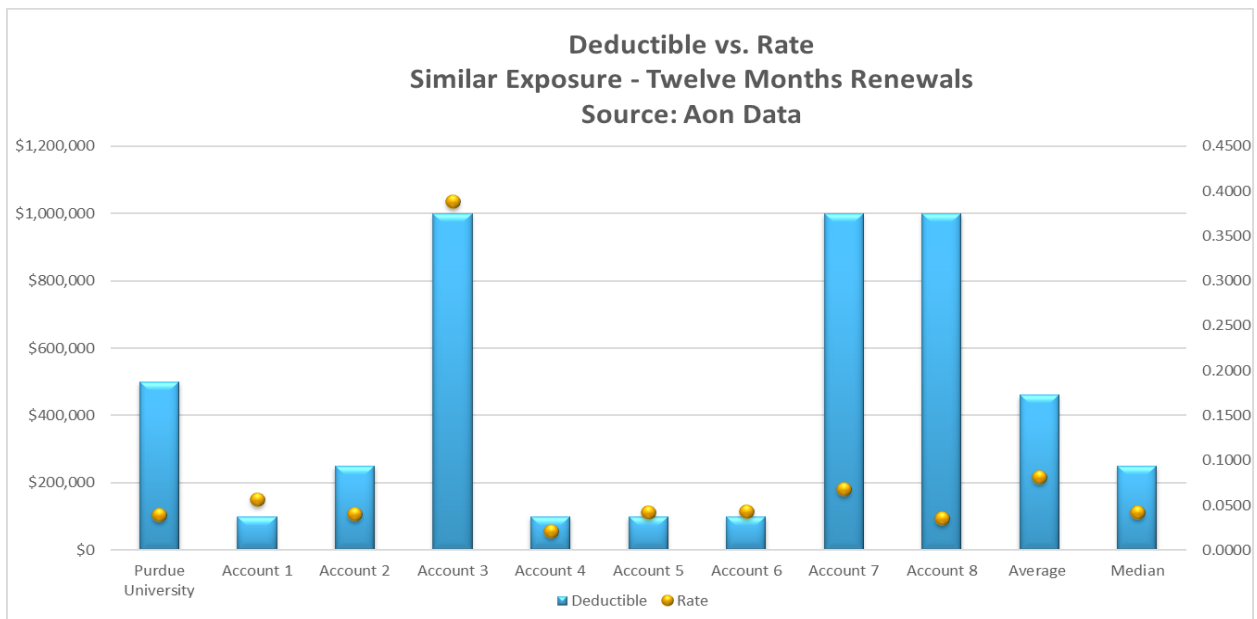
Benchmark Data:



Median Rate: .0426

Purdue Rate: .03925

Average Rate: Exceeds .05000



Median Deductible: \$250,000

Purdue: \$500,000

Average Deductible: \$450,000