Office of Legal Counsel

BOARD APPROVED
OCTOBER 4, 2024
Cindy Ream
Corporate Secretary

**MEMORANDUM**

**TO:** Finance Committee
Board of Trustees

**FROM:** Steve Schultz, SVP and General Counsel

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

**DATE:** September 20, 2024
**RE:** Ratification of Property Insurance Policy (2024-2025)

**Purpose:** This memo seeks your ratification of the University's procurement of a property insurance policy for the 2024-2025 insurance year, which commences on September 30th.

**Background:** The Office of Risk Management, under Mark Kebert's leadership, has worked diligently once again to renew our insurance coverage in a continuing difficult market. Given the turbulent market circumstances, ongoing economic uncertainty, and natural disasters, it continues to be a challenge to obtain property insurance on reasonable terms.

**Discussion:** Property insurance quoted by our incumbent underwriter, FM, remains the most cost-effective program with the greatest breadth of coverage and notable claims expertise in research equipment. The following discussion presents key terms and considerations underlying this policy.

- ***Policy Terms and Limits***: Terms are substantially the same as those in the policy expiring for the current insurance year. Renewal is annually on September 30th. Coverage limits are $1.5 billion.

- ***Retentions***: $500,000, except for the Wade Power Plant which is $1,000,000.

- ***Premium***: $4,268,676

  The above annual premium reflects an increase of approximately 3.5% over the most recent one paid on the expiring policy. One and one-half percent (1.5%) of the increase is attributable to a rate increase, and the remaining portion is due to an overall increase in building values, which include new construction.

  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 property insurance policy (entailing total premiums in excess of $2 million), full Board approval is required pursuant to Article VII, Section 1(e) of the Bylaws.

We are therefore asking for ratification of this year's property insurance contract with FM after review and approval by the Finance Committee (and subsequent action by the Board via the consent agenda). Consistent with our practice in recent years, and because coverage needs to be bound by September 30th (the end of the insurance year), we have finalized the terms with FM and secured the policy prior to next week's meeting.

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 price escalations sometimes occurring monthly, which makes projections difficult at best.
    - 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, the herbarium collection, terrorism, flood, builders risk construction, and similar risks in the University's profile.

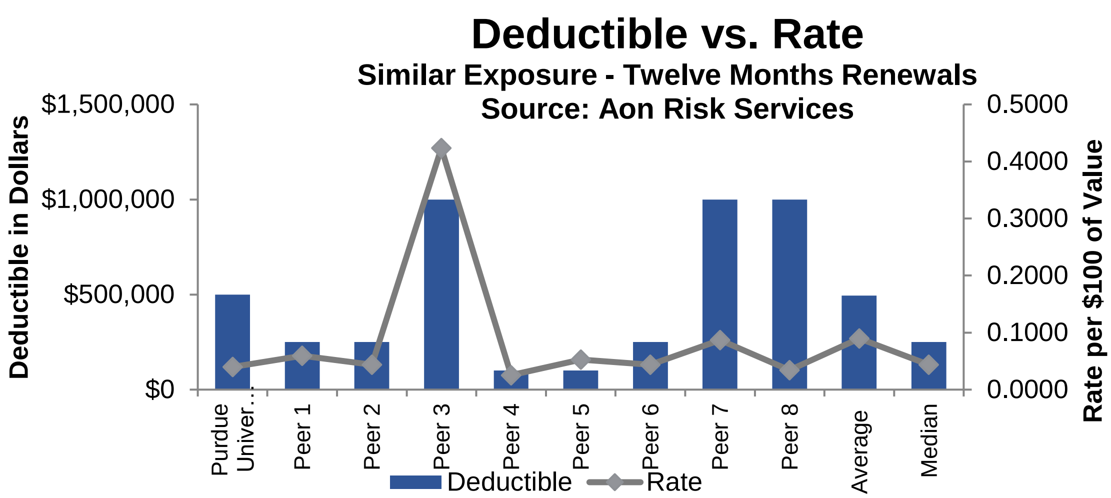
- ***Wins*:**

    - FM provided Purdue with a 7.5% ($342,556) premium credit and granted as a membership credit for renewing with FM. Since FM is a mutual company owned by its policy holders, a membership credit is accorded to members who renew as a reward for their continued partnership. This is a nice feature of the FM relationship.
    - We continue to showcase Purdue's robust loss prevention and loss mitigation programs that differentiate us from peers in numerous ways. This was reflected in the proposals we received.
    - Purdue was provided with an additional premium credit of $228,370 due to FM's resiliency credit program for risk reduction solutions.
    - We were able to retain capacity (policy coverage 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 industry.
    - The benchmarking data below demonstrates Purdue's rate pricing is reasonable, considering its retention and higher limits (i.e., greater coverage) when compared to its peers.

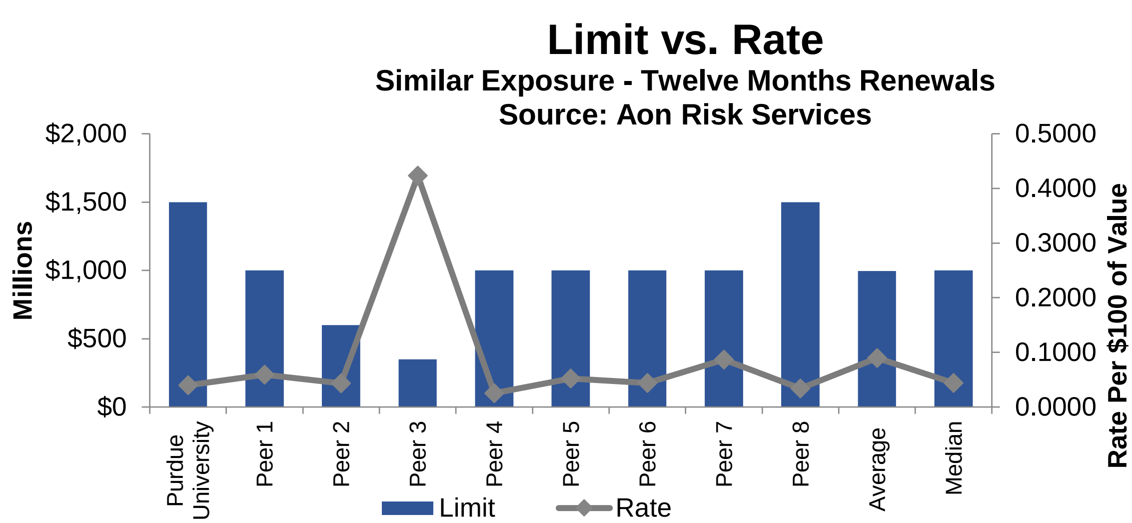
➢ The first graph below depicts a comparison between peer deductibles (or retention) and rates charged per $100 of insured value. Purdue has a retention level of $500,000, which is in line with its peers.

➢ The second graph depicts policy limits purchased compared to the rate paid per $100 of insured value. Purdue purchases hire limits than its peer group, but has a lower rate than its peer group. Purdue's rate is .04 per $100 of insured value, whereas the peer group average is .089 with a median of .043.

- ***Benchmarking Data*:**




Median Deductible: $250,000
Purdue Deductible: $500,000
Average Deductible: $499,444




Median Rate: .0437
Purdue Rate: .0400
Average Rate: .0898