

Property and Liability Insurance Program for Insurance Year 2012-2013

Program Purpose

The Risk Management Department at Purdue University identifies and evaluates risk and loss exposures to the valued assets (people, reputation and property) of the university and affiliate organizations in order to efficiently and appropriately manage and finance those exposures.

Purdue's risk management fund represents reserves and working capital designed to cover all of the University's current retained losses, as well as incurred losses not yet reported related to the following types of exposures. Assets in the fund also allow for a loss control investment grant program, established to assist departmental areas in mitigating important risks.

- **Property**
The property program provides replacement cost coverage for most buildings and contents owned by Purdue or its affiliates. Coverage is also included for buildings under construction, business interruption, boiler and machinery loss, fine arts, and valuable paper/rare book exposures.
- **Liability**
The liability program provides a broad range of coverage including general, auto, professional, employment practices, directors and officers, educational malpractice, and other liability exposures that are specific to higher education. Higher education specific exposures include coverage such as student medical professional liability and study abroad.
- **Aviation**
The aviation program provides aircraft liability and physical damage coverage, as well as general liability coverage associated with the ownership and operation of an airport.

Program Financial Health

The University's risk management fund continues to be in sound financial health. The chart below shows the funds' calculated Viability Ratio. This ratio measures expendable resources that are available to cover obligations (operating costs and claims). Currently, the fund has resources exceeding the minimum acceptable level of 2.0 times obligations (depicted by the red line in the graph).

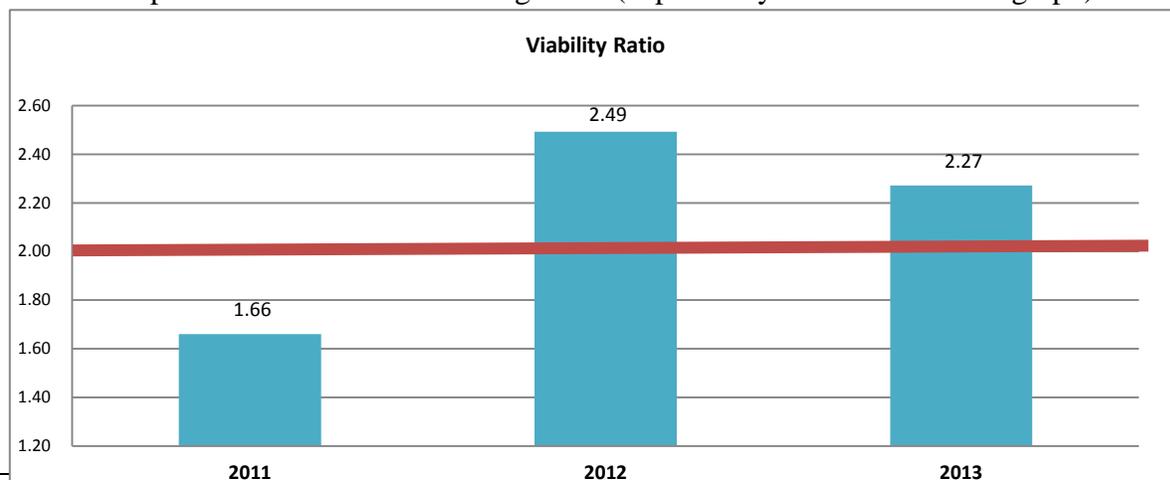


Exhibit A (attached) shows the Balance Sheet for the Risk Management fund.

The financial activity of the risk management fund over the last three years is illustrated in the following chart. The most recent year concluded at a planned negative operating position of \$1.3 million in an effort to begin the process of spending down some of the level of fund reserves.

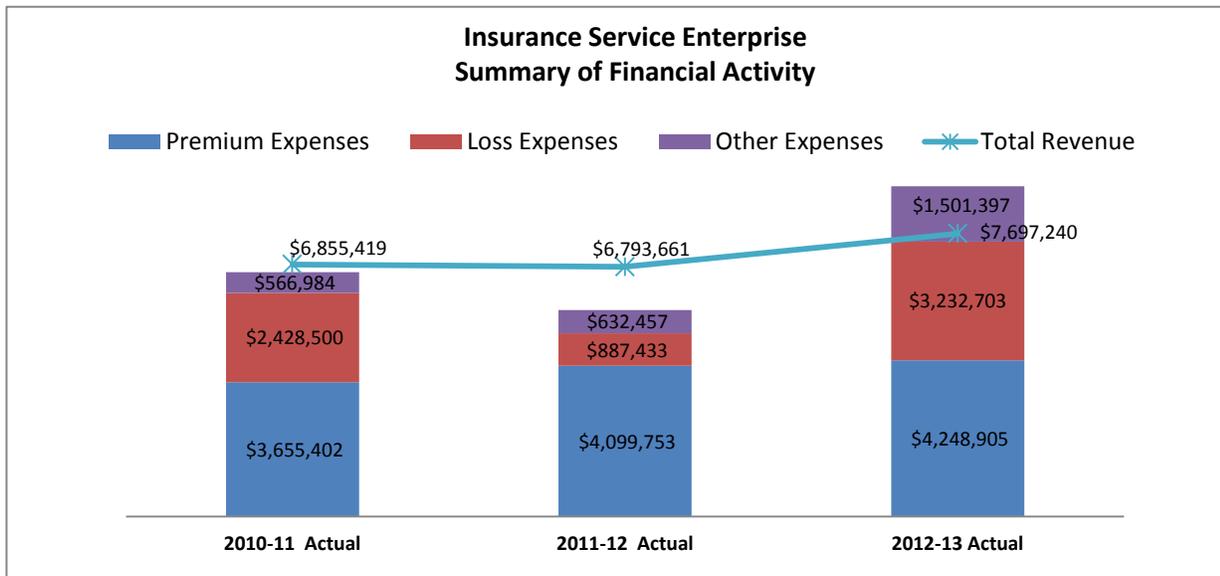
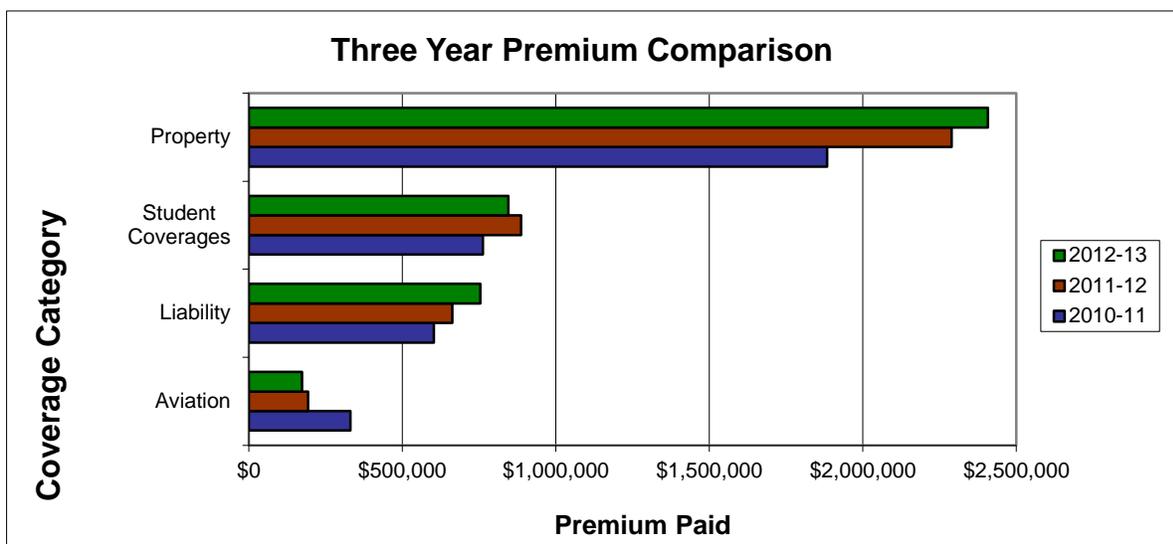


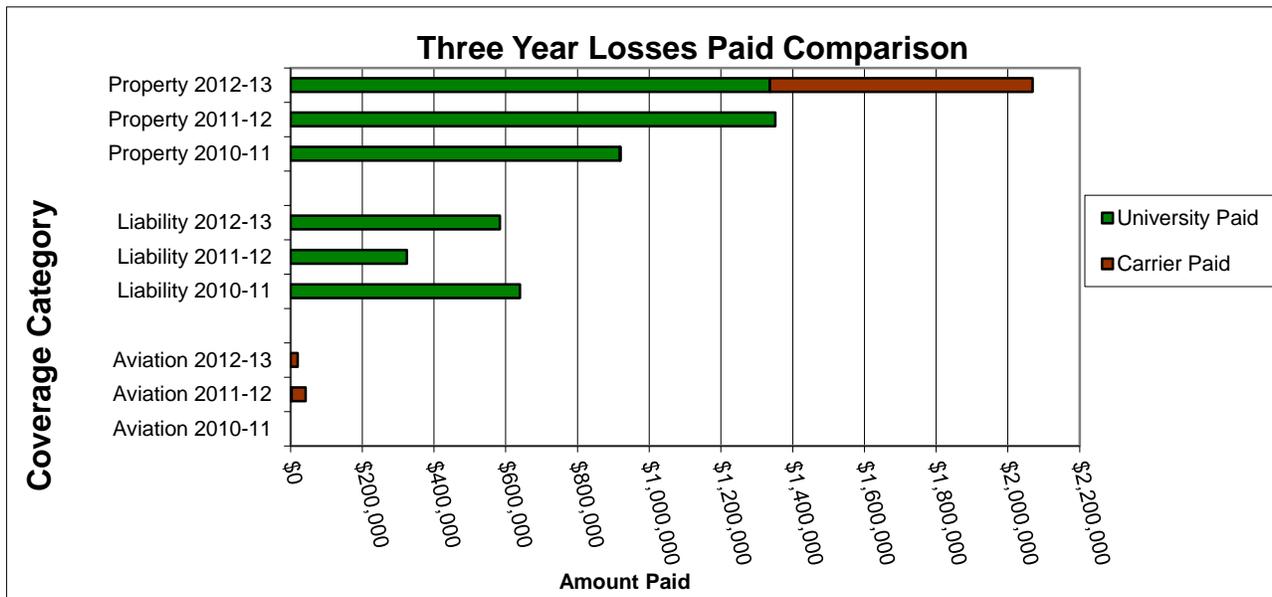
Exhibit B (attached) shows the Statement of Income and Expense for the Risk Management fund.

Total revenue paid into the program increased by approximately \$1 million compared to the prior year. This increase was associated with a large insurance recovery. University billing rates were intentionally held flat and the minimal revenue growth in this category was the result of the growth in the underlying basis, such as personnel and property values.

Total premium related expense increased by approximately 3.6%. This was due primarily to market conditions and enhanced exposures associated with the growth of University programs and assets. The chart below shows a three year premium comparison for the major lines of insurance coverage the University purchases.



Loss expenses increased compared to the prior year due to a large research loss at the West Lafayette campus, and a significant wind damage loss at the Fort Wayne campus. The prior year's losses were unusually low in comparison to the University's extended loss history. The chart that follows shows the University's three year losses paid comparison.



Other Expenses increased from the prior year driven by two factors. First, an external review of the program is conducted every five years and 2012-13 was a review year under that schedule. Consultant costs are included in operating costs in the current year and not in the prior year. Secondly, as a result of reserve levels and program redesigns, \$750,000 of the reserves was returned to the University. This is reflected on the income statement as Other Expenses - Return of Prior Year Revenues.

Claim Trends

Exhibits C and D (attached) show the University's claim count and average net incurred loss trends, respectively, (by major line of coverage) for the last three insurance years. Overall, Purdue's trends are typical of a similar size major research and land grant institution. Major causes contributing to the frequency (claim count) and severity (average net incurred loss) include the following:

- **Auto Liability and Auto Physical Damage** - The primary cause of loss in these areas is the result of driver incidents. During 2009-2010, a vehicle use policy was implemented that established a qualification process and training for drivers. As a result, the University has seen some reduction in the number of claims from its previous average and has not re-experienced the highest-severity claims. However, due to a normal two to three year settlement process cycle typical to auto liability claims, the severity value is still high.
- **General Liability and Educators' Legal Liability** - The main causes of loss in these areas include wrongful termination, discrimination, and injuries caused by animals. Management implemented loss mitigation measures this past July to reduce both frequency and severity of these losses. Mitigation measures include a departmental loss sharing program by which departments will share in loss settlements through deductibles. Enhanced training related to employment related matters is available and departments who attain certain training

benchmarks will be eligible to reduce or eliminate deductibles. It is believed this loss sharing program will impact trends in a favorable way moving forward.

- Property Claims - The primary contributing cause driving the frequency of claims is water damage. The most severe claims were wind damage and freezer temperature change, which resulted in damage to or total loss to stored research. To mitigate these losses in the future, management has implemented a surface water emergency response plan, departmental loss sharing deductible program, and the Risk Mitigation Investment Grant program. Efforts have just begun related to freezer identification and loss remediation.

Loss Control

Loss control and prevention services continue to be a major point of emphasis with the University's brokers and underwriters, as well as the Risk Management Department. Some of the more significant risk improvements during the past insurance year follow:

- Over 255,000 square feet of additional automatic sprinkler system installations at existing facilities. This included Mackey Arena and Elliott Hall of Music. It is estimated by the property insurer that these actions have reduced potential loss exposure associated to fire at these facilities by approximately \$76,000,000.
- Flood emergency response plan development and implementation at the Calumet campus. This included plans for surface water exposures as well as the 100 and 500 year event exposures. It is believed these plans will mitigate approximately \$22,000,000 in potential losses.
- Improved utility plant maintenance programs that included enabling low water cutoff devices in boiler number 2, electronic over speed devices on turbine generator 1 and 2 tested more frequently, and safety relief valve program implementation.

By insurance year end 2013, the University's property insurer had expended approximately 504 engineering hours and 15 campus visits dedicated to loss mitigation and recommendations. An additional 649 engineering hours were dedicated to complying with jurisdictional boiler inspections.

Loss improvement recommendation under consideration by management for the future, include the following:

- Additional minor flood and water run off protections for all of the campuses controlled by Purdue.
- Improve electrical maintenance for the low and medium voltage equipment and battery banks at the utility plant. Develop a contingency plan for the loss of cooling towers at the utility plant.
- Provide automatic sprinklers in unprotected areas of Stewart Center (WL), Lynn Hall (WL), Helmke Library (FW), Ketterling Hall (FW), Ginsberg Hall (FW), and Student Faculty Library Center (Cal).

Structure of Risk Management Program

The University did not make any major modifications to the fundamental structure of its insurance program in the current year. For all coverage categories, commercial insurance was combined with the

self-insurance fund to cover the costs of the retained risks. The following highlights major coverage, insurers, and retentions.

- Property
 - Insured through Factory Mutual Insurance Company
 - Policy retention \$250,000
 - A.M. Best financial strength rating of A+
- Liability
 - Primary insurance carrier is United Educators
 - Catastrophic excess liability coverage limit of \$30,000,000
 - Catastrophic excess educator's legal liability/director's & officer's liability coverage limit of \$25,000,000
 - Annual aggregate retention of \$2,000,000 for the general liability exposure, educator's legal liability/director's & officer's liability insurance
 - A.M. Best financial strength rating of A
 - Commercial crime and employee faithful performance of duties coverage provided by Fidelity and Deposit Company of Maryland (a Zurich company)
 - Limits of \$11,000,000
 - A.M. Best financial strength rating of A+
- Aviation
 - Insured through QBE Insurance Corporation
 - Limits of \$25,000,000
 - Policy retention \$25,000
 - A.M. Best financial strength rating of A
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As noted earlier, the University assessed its self-insurance program financing structure. To encourage good loss identification practices and loss prevention habits in line with Enterprise Risk Management (ERM) practices, the following modifications were made to the financing structure based on best practices in Risk Management:

- Reduction of internal recharge rates for 2014 and 2015 insurance years
- One time premium rebate of \$750,000
- Alignment of internal deductibles and loss sharing programs with peers
 - Includes a good claim history deductible waiver policy for Property, Liability, Employee Crime, and Auto
 - Deductible waiver program for Discrimination, Harassment and other Employment-related claims based on department training efforts and compliance with HR policies
- Creation of a recurring budget for the Risk Mitigation Investment Grant program, which will provide additional funding source to departments for their loss control mitigation efforts

Forward View of Plan Year 2013-14 and Beyond

In keeping with the practice to review the University risk management program in detail, the program was reviewed by an independent consultant. Through a competitive bid process, Albert Risk Management (Albert) was selected to perform that review and guide Purdue through a competitive broker selections process. Recommendations regarding securing competitive underwriting bids associated with major insurance coverage components were also made by Albert.

As a result of the above process, it was determined that the University would benefit from a more strategic partnership with a single broker than distributing business across multiple brokers. To this end, the University selected AON Risk Solutions as the University's broker for all major coverage lines except aviation. Arthur J. Gallagher was retained as the broker of Purdue's aviation insurance program due to their exceptional performance and fair pricing associated with that program.

The University consulted with both Albert and AON to conduct a comprehensive review of policy coverage, prices, and market conditions. Based on the collective advice of Albert and AON and the following major factors, the University did not bid major insurance programs for the 2013-2014 insurance years:

- Property - a membership credit offered by the incumbent coupled with a flat renewal rate and coverage enhancements
- Liability – the incumbent specializes in higher education and therefore, the policy form combined with current competitive pricing
- Aviation - the renewal premium was competitively priced by the incumbent and included a premium credit associated with not having many losses

The University will continue to work with AON to assess the market next year and go through the competitive process if the conditions appear to be favorable.

As a result of the renewal process, the University did make the following modifications to its policy limits for the 2013-2014 insurance year.

- Liability – Increased general excess liability insurance coverage limits from \$30 million to \$40 million to move Purdue closer to limits purchased by its peer institutions
- Aviation –
 - Moved the policy to \$250,000 annual aggregate retention on physical damage of aircraft while allowing the aviation department to participate in lower deductibles through the self-insurance program
 - Created premium capacity to increase policy limit to \$50,000,000 for airport operations as well as flight operations on the Beechjet and Phenom turbine craft, which are more in line with industry catastrophic loss standards

Program Administration

The independent consultant Albert was also retained to review the department operations in the current year. This review confirmed that the department was appropriately staffed and managed for the size of the University's operations. Overall, Albert's report indicated the department has developed a program that is structured well, priced well, and is placed with stable insurance underwriters that are known for adding value to an organization's insurance program.

EXHIBIT A

Risk Management Balance Sheet		
	September 30, 2013	September 30, 2012
Assets		
Current Assets		
Cash & Cash Equivalents	\$ 13,990,026	\$ 15,335,185
Accounts Receivable, net	19,243	12,940
Prepaid Expenses	-	75,280
Total Current Assets	14,009,269	15,423,405
Total Assets	\$ 14,009,269	\$ 15,423,405
Liabilities		
Current Liabilities		
Accounts Payable	8,210	833
Total Current Liabilities	8,210	833
Noncurrent Liabilities		
Claims Pending-Auto	190,769	72,127
Claims Pending-Liability	1,098,261	1,163,380
Claims Pending-Property	637,879	1,005,084
Claims Pending-Other	-	-
Total Claims Pending	1,926,909	2,240,591
Claims IBNR-Auto	538,011	407,730
Claims IBNR-Liability	1,815,593	1,767,940
Total Claims Incurred But Not Reported	2,353,604	2,175,670
Total Noncurrent Liabilities	4,280,513	4,416,261
Total Liabilities	\$ 4,288,723	\$ 4,417,094
Net Position – Unrestricted		
Total Net Position	\$ 9,720,546	\$ 11,006,311

EXHIBIT B**Risk Management
Statement of Income and Expense**

	September 30, 2013	September 30, 2012
Revenues		
Revenue Paid to the Insurance Program	\$ 6,520,659	\$ 6,199,751
Interest Earnings on Reserves	367,877	482,165
Loss Recovery by Commercial Carriers	751,885	39,427
Third Party Recoveries	56,819	72,318
Total Revenues	\$ 7,697,240	\$ 6,793,661
Expenses		
Premium Related Expenses		
Premiums Paid to Carriers	4,149,765	4,039,615
Broker Fees	99,140	60,138
Total Premium Related Expenses	4,248,905	4,099,753
Loss Related Expenses		
Losses Paid	2,671,937	1,717,645
Claim-Related Legal Fees	669,124	638,293
Third-Party Administrator Expenses	27,390	37,810
Total Loss Related Expenses Paid	3,368,451	2,393,748
Claim Accrual Adjustment	(135,748)	(1,506,314)
Total Loss Related Expenses	3,232,703	887,434
Other Expenses		
Loss Control Program Expenses	66,615	66,976
Operating Expenses	684,782	565,480
Return of Prior Year Revenues	750,000	-
Total Other Expenses	1,501,397	632,456
Total Expenses	\$ 8,983,005	\$ 5,619,643
Increase (Decrease) in Net Position	\$ (1,285,765)	\$ 1,174,018

EXHIBIT C

Claim Count Trend

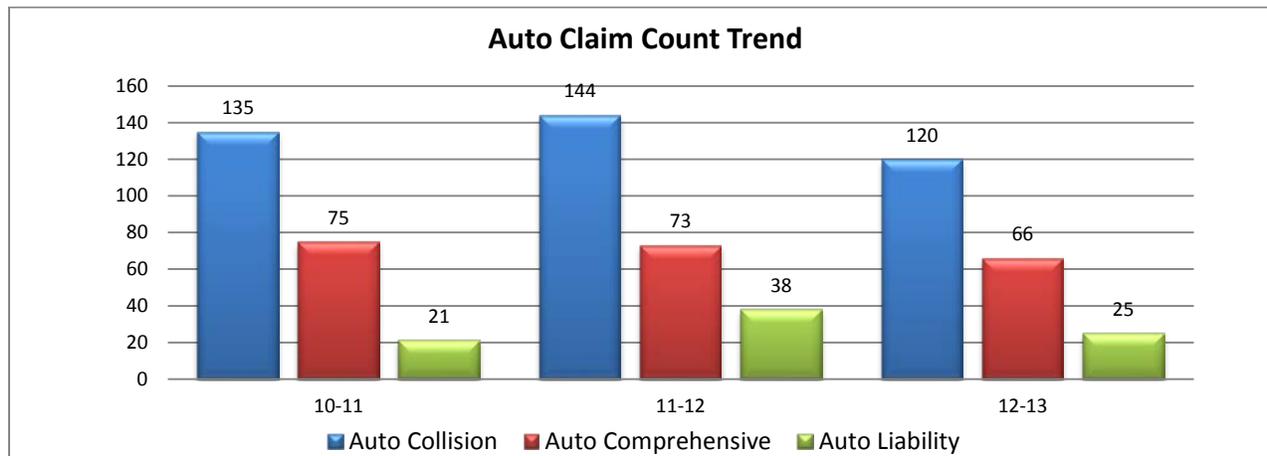


EXHIBIT D

Average Net Incurred Claims

