UNIVERSITY OF OREGON

April 14, 2015

MEMORANDUM

TO: House Committee on Higher Education, Innovation and Workforce Development

FROM: Jamie Moffitt, Vice President for Finance and Administration
Andre Le Duc, Executive Director, Enterprise Risk Services
Deb Donning, Risk Manager, Enterprise Risk Services

RE: HB 2611 – PURMIT and UO insurance

This memorandum provides a brief overview of the University of Oregon's current insurance structure, analysis of insurance structure options, and the chosen independent insurance structure. The University of Oregon's decision to develop an independent insurance structure results in more comprehensive and customized insurance coverage for the UO. In addition, it has been indicated that the UO is large enough to have potential savings by procuring insurance independently. Since UO's allocation represents approximately 24% of the total Public Universities Risk Management and Insurance Trust pool, there should also be no negative impact on insurance premium costs to the remaining pool members.

<u>Current Insurance Structure</u>

The University of Oregon is currently insured through the Public Universities Risk Management and Insurance Trust (PURMIT). PURMIT was created from the Oregon University System (OUS) risk pool. OUS was authorized to procure the system's entire insurance portfolio separate from Oregon Department of Administrative Services effective July 1, 2012.

PURMIT is comprised of the seven public universities. The self-insured retentions (SIR) are significant, $1 million for casualty and $500,000 for property. Each university chooses the campus deductible up to the PURMIT SIR. Effective July 1, 2014, UO chose a $500,000 deductible; an increase from a $5000 deductible the prior year. The increased deductible results in no risk sharing for property coverage and significantly reduced risk sharing for casualty.

Most coverages within PURMIT are shared aggregates and sub-limits among the seven institutions. For example, property coverage is a shared aggregate loss limit of $500,000,000 with a shared sublimit of $100,000,000 for earthquake. The flood sublimit is $25,000,000 shared between UO and Oregon State University. UO's property values are just under $3 billion.

PURMIT allocates premiums costs, projected losses and operational costs to the seven members. UO's allocation is approximately 24% of the total PURMIT budget.

By statute and the trust agreement, PURMIT members had the option to provide notice to PURMIT prior to November that it will procure its insurance independently and no longer be a member of PURMIT. UO exercised this option and provided notice to PURMIT in October 2014 with an effective date of July 1, 2015. This option was made after careful analysis and it allows for more comprehensive and customized coverage with anticipated savings.

Analysis of Insurance Structure Options

UO retained Brown & Brown Northwest (BBN), an insurance consultant, to complete a comprehensive insurance analysis for property and excess liability coverages in early 2014. The objective of the analysis was to determine the projected costs associated with UO procuring similar insurance coverage outside of PURMIT and compare those projected costs with costs under PURMIT. The BBN report was completed in April 2014.

BBN contacted three insurance carriers for both property and excess liability, including the current carriers for PURMIT. In April, BBN considered the market stable and that UO could be reasonably confident the premium indications in the report would not change significantly.

The BBN data compared with current UO PURMIT allocations support a potential savings of 11% if UO were to procure its own property and excess liability insurance, with lowest cost carriers.

In addition, the coverages would be exclusive to UO. As mentioned previously, many PURMIT coverages have shared aggregate limits. Under an independent insurance structure, UO could secure property insurance with an exclusive aggregate limit of $500,000,000 and exclusive sublimits. This exclusive coverage is an important distinction. Under the current structure, UO shares a $100,000,000 sublimit for earthquake with other PURMIT members. If there were a significant earthquake in Oregon that caused damage to multiple PURMIT members, which is likely, the maximum aggregate allowed recovery for all campuses would be limited to $100,000,000. UO has single buildings that exceed that $100,000,000 sublimit. Not only is UO's insurance enhanced by UO no longer being a member of PURMIT, but the other PURMIT members benefit by having fewer members sharing the coverage limits.

<u>Independent Insurance Structure</u>

UO has recently secured a broker, Marsh LLC, and initiated the insurance renewal process. A thorough review of UO's exposures and needs is being completed. As stated previously, coverage levels will be similar to the current structure, but exclusive to UO. In addition to more comprehensive coverage, UO does anticipate some cost savings from the new structure. This is due to the exclusive option of selecting amongst highly rated carriers. The BBN report, as well as recent conversations with brokers, have indicated that the UO is large enough that there is no loss in scale economies from procuring insurance independently. Given that the UO's size represents approximately 24% of the total PURMIT pool, there should be no loss to procurement scale economies for the remaining members of the pool who hold approximately 76% of the coverage.