



April 3, 2024

Jillian E. Thayer
Chief Legal Counsel
Arkansas Bureau of Legislative Research
State Capitol, Room 315
Little Rock, Arkansas 72201

Re: Perr&Knight Proposal – Actuarial and Strategic Consulting Services

Dear Ms. Thayer:

Perr&Knight (“we”, “us”, or “our”) is pleased to present this proposal to provide actuarial and strategic consulting services to the Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”) related to a review of the state’s commercial property insurance coverage of their K-12 public school districts, institutions of higher education, and properties owned and operated by state agencies.

We appreciate the opportunity to submit this proposal to the Subcommittee. Should you have any questions regarding the proposal, please do not hesitate to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "KHales", written over a light blue horizontal line.

Kyle M. Hales, ACAS, MAAA
Principal & Consulting Actuary
Director | Risk Strategies & Solutions
Perr&Knight
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Enclosures

April 3, 2024

PROPOSAL FOR SERVICES

ACTUARIAL & STRATEGIC CONSULTING SERVICES

Created for: Arkansas Bureau of Legislative Research
Prepared by: Perr&Knight



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I. FIRM BACKGROUND

Perr&Knight (“we”, “us”, or “our”) is a leading provider of insurance support services, including Risk Strategies & Solutions, Actuarial Consulting, Regulatory Compliance, Product Design, Competitive Intelligence and Insurance Operations & Technology. Perr&Knight is an independent consulting firm, completely unbiased in its analyses and recommendations. We were founded in 1994 and employ over 120 professionals. Perr&Knight maintains offices in Los Angeles, California, Boca Raton, Florida, the New York Metro Area, Ft. Worth, Texas and Cincinnati, Ohio.

Perr&Knight's practice areas leverage our extensive internal capabilities and robust industry relationships - built on the credibility of 30+ years of delivering high-quality consulting - to revolutionize the insurance landscape. We provide comprehensive, end-to-end suites of services to forward-thinking visionaries who have unique ideas for insurance products but lack some or all the technical insurance framework. Perr&Knight will help turn these innovative concepts into practical, fully compliant, and exceptionally effective insurance programs.

With a substantial and seasoned team of actuaries and a technically broad set of consultants, as well as an impeccable reputation within the insurance industry, we possess the unique sets of skills and resources to provide customized strategies and solutions that not only meet rigorous regulatory requirements but also thrive in the ever-evolving insurance market. Perr&Knight serves as the ultimate partner for transforming your insurance aspirations into tangible realities.

With significant actuarial resources including 31 Fellows and Associates of the Casualty Actuarial Society (“CAS”) and the Society of Actuaries (“SOA”), Perr&Knight is among the top 10 largest property & casualty actuarial consulting firms in the United States. Our actuaries have over 500 years of combined experience in the industry and come from diverse backgrounds including rating bureaus, primary insurance companies, reinsurance companies, insurance departments and other consulting firms. Our consultants’ experience spans all lines of property casualty and supplemental health insurance in all U.S. jurisdictions. Perr&Knight’s accredited consulting actuaries meet the requirements of the American Academy of Actuaries Code of Professional Conduct in that we annually fulfill the prescribed continuing education requirements and satisfy applicable qualification standards associated with the services we provide. Among our consulting actuaries are industry speakers and CAS/AAA committee participants. Perr&Knight is committed to the professional education and development of our actuaries, and as a result, boasts a team of knowledgeable, well-rounded actuaries familiar with cutting edge methods and technologies, who are guided by core actuarial standards and principles.

Perr&Knight’s data scientist works together with our experienced actuarial staff to use the latest approaches of statistical modeling and machine learning to transform raw data into information that drives business decisions. This team brings together insurance expertise with strong statistical knowledge to optimally use data analytics in the complex insurance market. Our staff

is well-informed regarding state insurance department requirements for statistical modeling. Our services include rate plan monitoring, implementation of new rating variables, underwriting scoring models, fraud detection tools and claim handling assistance.

Our Regulatory Compliance staff includes individuals who have obtained the following designations: Associate Compliance Professional (“ACP”); Certified Compliance Professional (“CCP”); Chartered Property Casualty Underwriter (“CPCU”); Associate in General Insurance (“AINS”); and Associate, Insurance Regulatory Compliance (“AIRC”). We are a Gold Level Sponsor each year at the Association of Insurance Compliance Professionals’ (“AICP’s”) annual conference and our professionals regularly attend conferences to stay abreast of the latest regulatory compliance issues. Our staff also actively participates in professional organizations and has held the positions of President, Past President, Vice-President, Secretary and Treasurer of the Western Chapter of the AICP and Southwest Region Editor of the AICP’s Journal. We also participate as an interested party in several of the NAIC’s working groups and our staff includes a member of the Product Steering Committee for SERFF. In addition to our expertise, Perr&Knight has developed web-based tracking applications: StateFilings.com and LicenseReporter.com. These secured websites allow our clients real time access to their filings, bureau monitoring and licensing applications and have improved the productivity of our Regulatory Compliance Staff and communication with our clients.

Perr&Knight’s Product Design team has over 200 years of experience in the insurance industry; in claims, compliance, operations, product development, product management and underwriting. Our Product Design consultants use innovative thinking and deep insurance expertise to assist clients in increasing efficiency, improving their competitive position, developing and filing products and forms and navigating the complex insurance regulatory environment. This team understands the importance of continued education and professionalism and has obtained more than 15 different insurance designations, including Associate, Compliance Professional (“ACP”); Associate in General Insurance (“AINS”); Associate in Regulation and Compliance (“AIRC”); Certified Compliance Professional (“CCP”); Certified Fraud Examiner (“CFE”); Chartered Property Casualty Underwriter (“CPCU”); Fellow, Life and Health Claims (“FLHC”); Fellow Life Management Institute (“FLMI”) and Market Conduct Management (“MCM”). The team is also active in the industry with members regularly speaking at industry conferences and serving on the Board of Directors for The Insurance Regulatory Examiners Society Foundation (“IRES-F”).

Over 90% of U.S. property & casualty insurance companies have used Perr&Knight’s competitive intelligence services. We have extensive experience providing competitive intelligence services to the insurance industry and have access to a nationwide library of insurance company filings on RateFilings.com through a business relationship with S&P Global, who acquired RateFilings.com from Perr&Knight in 2015.

Our Operations & Technology Consulting practice comprises three principal areas of service that provide technical solution planning and development, systems implementation and deployment expertise, as well as statistical reporting services. Our team of credentialed project managers, business analysts, solution architects and database developers assist insurance and related organizations with vendor selection, requirements documentation, process improvement, database design, change management, and a variety of statistical reporting services for all lines of business in every state to every bureau, statistical agent or regulatory body in the United States. Our professionals hold credentials from the Project Management Institute (“PMP” and “PMI-ACP”), Stanford University (“SCPM”) and the American Society for Quality (Six Sigma Black Belt), have been quoted or published in multiple industry trade publications, participate in industry trade organizations and speak regularly at national trade conferences.

II. RELEVANT EXPERIENCE

Perr&Knight's consultants have significant experience assisting clients with similar projects. A sampling of these projects with scopes similar to the scope of this engagement are described below.

- We assisted multiple government, social service and non-profit entities with designing and implementing various risk management strategies, including outlining options for diversifying, retaining, and reinsuring risk. These entities include school systems, municipalities, religious organizations, and health care systems.
- We assisted several clients in evaluating complex insurance structures such as estimating the impact of varying reinsurance agreements by layer of insurance or loss portfolio, calculating liabilities from loss portfolio transfers and projecting liabilities for different retention levels.
- We prepared a loss ratio projection by coverage for an insurance service provider's portfolio of hotel risks across several states. These loss ratio projections were indicative of the portfolio's overall profitability and premium levels. It was anticipated that analysis would help develop rates for a new program.
- We worked for a client who is a specialty wholesale insurance broker and provides various commercial property and casualty insurance products. We provided a full review of both the rates and reserves of the client's program. The rate review included an indication at the countrywide as well as at individual state levels. The rate indications were performed at the line of insurance and coverage levels. Based on the results of these reviews, we made recommendations for numerous rating variables and relativities, including loss cost multipliers ("LCMs") and exceptions to ISO rating loss cost modification factors for class codes, territories, and weight class.

Section III. References provides a list of clients, who we believe would attest to the superior work product and customer service they received throughout our engagements. If requested, we would be more than willing to provide contact information for these clients.

III. REFERENCES

Below are a few clients who would be more than willing to attest to the superior work product and customer services we provide.

Client	Lines Reviewed
Tri-County Schools Self Insurance Group	Commercial Property, General Liability, and Workers Compensation
Santa Barbara Schools	Workers Compensation
City of Fresno	Commercial Property and Workers Compensation
City of Reno	General Liability, Automobile Liability, Professional Liability, and Workers Compensation
Kern County	General Liability and Workers Compensation
Archdioceses of Los Angeles	Commercial Property, General Liability, Automobile Liability, and Workers Compensation
Bishops Plan Insurance Company	Commercial Property, General Liability, Automobile Liability, and Workers Compensation
Diocese of Corpus Christi	Commercial Property, General Liability, and Workers Compensation
Nike Inc.	Cargo, Commercial Property, General Liability, Automobile Liability, and Workers Compensation

In addition, Perr&Knight’s annually attends and presents at numerous conferences including the Association of Insurance Compliance Professionals (“AICP”), Casualty Actuarial Society (“CAS”), Hawaii Captives Insurance Council (“HCIC”), InsurTech Connect, Target Markets, and World Captive Forum, among many others, where we share and gather industry related information impacting our clients.

IV. KEY PROJECT TEAM MEMBERS

If engaged by the ARBLR to perform the proposed services, Perr&Knight would assign a team of professionals with relevant experience with similar projects, who would be led by the following management level employees.

(1) Kyle M. Hales, ACAS, MAAA

Kyle M. Hales is a Principal & Consulting Actuary and the Director of Perr&Knight's Risk Strategies and Solutions practice area. He leads a team of consultants focused on insurance and risk mitigation strategies, as well as pricing, reserving, and new product development work for numerous commercial and personal lines products.

Kyle's business development and risk mitigation experience includes assistance in creating business plans, pro-forma financial statements, and roadmaps intended to provide clients with an outline of the benefits, drawbacks, costs, timing, and steps necessary to diversify, retain, and reinsure risk efficiently and effectively. This includes developing pitch-decks aimed at presenting these ideas to potential business partners and insurance carriers.

Kyle provides loss and loss adjustment expense reserve analysis to a variety of insurers and self-insurers, covering most personal and commercial lines of insurance. He serves as the opining actuary for multiple insurance companies, risk retention groups, captives, and self-insured entities. Kyle also has experience analyzing death, disability, and retirement reserves and long-term policy unearned premium reserves in accordance with NAIC codification requirements. He specializes in reserving for medical malpractice professional liability products including: hospitals; nursing homes; and urgent care centers; as well as physicians & surgeons and numerous miscellaneous allied healthcare professionals.

Kyle's commercial lines ratemaking experience includes pricing and product development for various types of medical and non-medical professional liability insurance including hospitals, physicians, allied healthcare professionals, architects & engineers, accountants and lawyers. His commercial lines ratemaking experience also extends to independent and bureau-based general liability, commercial auto, commercial property, and surety bond pricing. Kyle has extensive experience working with insurance companies to efficiently and compliantly navigate regulatory requirements related to insurance rating plans.

Prior to joining Perr&Knight in 2004, he worked as an actuarial analyst within the Property & Casualty Actuarial Department at State Farm Mutual Automobile Insurance Company.

Kyle graduated from the State University of New York at Buffalo with a dual Bachelor of Arts in Mathematical-Economics and a second major in Statistics in 1999. He became a Member

of the American Academy of Actuaries and an Associate of the Casualty Actuarial Society in 2004.

(2) Charles Lenz, ACAS, MAAA

Charles (“Charlie”) Lenz is a Principal & Consulting Actuary with Perr&Knight and has more than 25 years of experience in the property & casualty insurance industry. Charlie leads a team of actuaries who provide analysis and advice to clients including insurance companies, public and private self-insureds, brokers, and claims administrators.

Charlie assists dozens of captive insurance companies and self-insureds with reserve analysis and certification, funding studies, retention analysis, benchmarking studies, and other actuarial studies. He has extensive expertise in commercial property insurance and many years of experience working with insurers and non-insurance company clients that have significant operations throughout the United States.

Prior to joining Perr&Knight’s Santa Monica, California office, Charlie held positions with a large commercial insurer and one of the four large audit firms.

Charlie graduated magna cum laude from the University of California at Los Angeles with a Bachelor of Science in Applied Mathematics in 1990. He became an Associate of the Casualty Actuarial Society in 1995 and a Member of the American Academy of Actuaries in 1996.

The consultants listed above would be supported by additional Perr&Knight staff with appropriate experience. The number of consultants assigned to the project would be customized to ensure sufficient expertise and to meet project deadlines.

V. PROJECT DESCRIPTION

The Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”) is engaged in a study with the clear intent to develop and implement a strategic plan and legitimate framework for provision of reasonably priced property insurance coverage options for K-12 school districts and institutions of higher education facilities in the State of Arkansas on an actuarially sound basis while providing for oversight of the plans through a governing structure and legislative oversight.

Currently, school districts purchase property insurance coverage through one of two separate entities: the Arkansas Public School Insurance Trust (“APSIT”) administered by the Arkansas Insurance Department (“AID”) or the Arkansas School Boards Association (“ASBA”). For the 2023-2024 plan year, school districts faced significant increased property insurance premiums under both plans. In addition, the institutions of higher education participate in a property insurance program administered by the Arkansas Insurance Department that also includes property owned and operated by state agencies, known as the Arkansas Multi-Agency Insurance Trust (“AMAIT”).

The study has been ongoing since August 2023, and a determination has been made that it is in the best interests of the state for the K-12 school property insurance plans to be consolidated under one plan administered by the Arkansas Insurance Department. In addition, the Subcommittee is seeking recommendations related to best practices for administration of the plans for property owned by institutions of higher education and state government entities. Collectively, the Arkansas K-12 school districts, institutions of higher education, and state government entities will be referred to as (“the AR Public School Systems & Public Buildings”).

It is the objective of the Subcommittee, by entering into a contract for consulting services with Perr&Knight, to provide to the members of the Arkansas Legislative Council detailed and accurate information concerning a multi-year strategic path forward for provision of property insurance to the AR Public School Systems & Public Buildings in a manner that will provide for reasonable and predictable premium rates, as well as consistent governance of the plans and legislative oversight, funding mechanisms, and options for revisions to the current plans, including without limitation the possibility of implementing a self-insured structure or utilizing re-insurance, or some combination of self-insurance with reinsurance above recommended specific aggregate limits, and recommendations related to possible inclusion of state properties in any plan that is developed. .

We understand that the Subcommittee would like an actuarial study to be conducted with the intention of reviewing the AR Public School Systems & Public Buildings ’s historical property claim and exposure data, as well as industry data, as appropriate, and determining a reasonable loss cost per \$100 of insured value. We will review and provide actuarially sound rating by peril for catastrophe and non-catastrophe coverages. We will additionally review and provide a

recommendation as to whether the Subcommittee should implement a rating plan that offers different rates by school district.

VI. SCOPE OF SERVICES

To assist the Subcommittee, we will provide the following scope of services:

Data Review and Aggregation

- (1) Submit a data request to the Subcommittee outlining all the information required for the actuarial analysis. This will include items including, but not limited to:
 - (a) The total insured value of each building;
 - (b) If available, the date of the last value assessment for each building; and
 - (c) The historical premium and detailed claims data for each building, by peril.
- (2) Review all data provided by the Subcommittee or on the Subcommittee's behalf for reasonableness and consistency. We will ask questions that arise from our review. Our review is not an audit of data.
- (3) Aggregate the data in preparation for the actuarial analysis.

Actuarial Analysis

- (4) Gather and review publicly available data and loss cost information for similar insurance programs written in the commercial marketplace to supplement the Subcommittee data as appropriate.
- (5) Estimate the historical ultimate ground up loss and loss adjustment expenses ("LAE") by peril grouping for the AR Public School Systems & Public Buildings, using actuarial methods of loss development. We will supplement Subcommittee's historical data for catastrophe perils with industry and/or modeled data, as necessary.
- (6) Prepare separate actuarial reviews of the estimated ultimate ground up loss and LAE by peril grouping and by school system.
- (7) Using the results of (5) and (6), determine whether it is actuarially appropriate to prepare separate loss distribution curves by school system and/or by peril grouping.
- (8) Based on the results of (5) through (7), determine actuarially sound loss distribution curves for each peril grouping and/or school system along with a set of rating factors to address differentiating rate characteristics for the upcoming 12-month fiscal period.
- (9) Convert the loss distribution curves from (8) into loss costs per \$100 of total insured value, which can be used to determine actuarial appropriate pricing for various self-insured attachment points, as well as excess layers.
- (10) Prepare supporting documents for the projected loss costs, by peril grouping and school system, along with the underlying assumptions that went into determining the loss costs.
- (11) Submit the results and supporting documentation to the Subcommittee in the form of a draft report explaining our methodologies, assumptions, and considerations. A series of exhibits presenting our calculations will accompany the report.
- (12) Discuss the results and report with the Subcommittee.
- (13) Issue final supporting exhibits and a report to the Subcommittee based on any revisions or changes that were discussed with the Subcommittee.

Risk Strategies and Solutions (“RSS”) Consulting

- (14) Lead the Subcommittee through a series of questions designed to assess the current state of the AR Public School Systems & Public Buildings’ property insurance, including but not limited to items such as:
 - (a) The approximate total replacement cost of all public schools in the state of Arkansas;
 - (b) The total insured value of all public schools in the state of Arkansas;
 - (c) The most recent year’s total insurance premium;
 - (d) The current valuation cycle for each school system, if any;
 - (e) The current maintenance schedule for each school system, if any; and
 - (f) Details on the existing insurance policies, including items such as limits, deductibles, exclusions, etc.
- (15) Review any documents provided by the Subcommittee in support of responses to the questions in scope item (14).
- (16) Research and prepare a summary of the current state of operations for property insurance on other publicly owned buildings throughout the state of Arkansas, to the extent this information is publicly available. This may include public buildings such as courthouses, libraries, museums, power stations, etc.
- (17) Research and prepare a summary of the current state of operations for property insurance for school systems in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, to the extent this information is publicly available.
- (18) Present the results of the assessment in a report that summarizes the Subcommittee’s responses to key questions, identifies gaps and/or limitations in the current operations, and compares the AR Public School Systems & Public Buildings’ current operations to other public buildings in Arkansas and to school districts in other states.
- (19) Using the results of the Actuarial Analysis and (18), draft a written report which will outline our recommend next steps to the Subcommittee, which could include:
 - (a) Maintaining the current property insurance structure;
 - (b) Creating a captive insurance entity to self-insure all or a portion of the AR Public School Systems & Public Buildings’ property insurance; and/or
 - (c) Presenting other potential self-insurance options such as creating a Joint Powers Authority.
- (20) Discuss the results and report with the Subcommittee.
- (21) Issue final supporting exhibits and a report to the Subcommittee based on any revisions or changes that were discussed with the Subcommittee.

VII. PROPOSED FEES

We will bill the Subcommittee for our actual time spent completing the scope of services outlined above at the billing rates listed in the table below.

Service Category	Consultant	2024 Billing Rate
Actuarial	Credentialed Consulting Actuary	\$625 per Hour
	Non-Credentialed Actuarial Consultant	\$445 per Hour
Risk Strategies	Strategic Risk Consultant	\$625 per Hour

Using these billing rates, the table below outlines our estimated fees and turn-around times for the scope of services outlined above.

Service Category	Scope Items	Estimated Fees	Time Frame ¹
Actuarial	(1) through (3)	\$15,000	2 weeks
	(4) through (13)	\$105,000	2 months
RSS Consulting	(14) through (21)	\$375,000 ²	3 to 4 months
Total		\$495,000	4 to 5 months³

Notes:

1. The time frames above do not include any time for the Subcommittee's review of deliverables.
2. Our fees consider a total of seven in-person trips to Little Rock, Arkansas, including reasonable travel expenses. Should additional trips be requested, the fees may exceed the upper limit listed above.
3. The total time reflects the fact that some services can be performed concurrently.

The breakdown of fee estimates by service category is approximate. We will bill only for our actual time worked. The terms of this proposal are valid until May 1, 2024. Invoices will be sent on or around the 15th of each month for work completed in the prior month. Payment of invoices will be due within 30-days.