April 10, 2017

The Honorable Eric LaFleur, Chairman
Joint Legislative Committee on the Budget
P.O. Box 44294
Baton Rouge, LA 70804

Dear Senator LaFleur,

Please find enclosed the Risk Management Autonomy FY2016 Annual Update per the request of the Joint Legislative Committee on the Budget at its meeting on October 17, 2014. The attached report provides an overview of the status of LSU’s Risk Management program, including key steps taken and milestones achieved since the Joint Legislative Committee on the Budget approved LSU’s High Level Risk Management Autonomy in accordance with R.S. 17:3139.5(5)(c)(ii).

With the implementation of this autonomy LSU has been successful in both better protecting and servicing the unique risk management needs of the University while also exceeding financial savings expectations. We fully expect the LSU program to remain strong and secure as the savings have been reinvested into the program to protect against future losses and their impact on the University.

Please do not hesitate to contact my office with any questions or requests for additional materials.

Sincerely,

[Signature]

John C. Borne
Deputy Chief Technology Officer for Security and Risk
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Executive Summary

Louisiana State University and Agricultural and Mechanical College (LSU or University) is pleased to provide you with an annual update on the status of the Risk Management Autonomy granted by LA R.S. 17:3139.5(5)(c)(ii)(aa) commonly known as the "LA Grad Act 2.0." As of July 1, 2016, LSU has successfully completed the phased-in plan of implementation developed in coordination with the Attorney General (AG) and the Division of Administration (DOA) and subsequently approved by the Joint Legislative Committee on the Budget (JL CB).

This document highlights the key steps and milestones that have been taken to complete the implementation of risk management autonomy granted by JL CB in the fall of 2014. As a result of such autonomy LSU has now developed an independent risk management program that serves to reduce risks to the University, and to assure appropriate and continuous insurance coverage for LSU at the lowest possible cost. LSU has also successfully outsourced many of the services previously provided by or through the State Office of Risk Management (ORM), including claims administration services, elevator inspections, actuarial services and building appraisals.

LSU’s Office of Risk Management has completed the development of policies and procedures, and the onboarding of staff to support the autonomous program. Most notably the University hired Edward Nobles as Director of Risk Management, Mr. Nobles came to LSU with 11 years insurance industry experience and over 17 years of experience leading Risk Management departments at two major research universities. In addition to a new director two additional risk analysts were also hired to support the growing breadth of the program and role of the Office.

As previously reported the preparation of staff and University resources for risk autonomy began upon the passage of the "LaGrad Act 2.0." but the transition of insurance coverage lines began immediately following the approval of JL CB in October of 2014 for the phased-in plan of implementation. Risk Management staff with support from Arthur J. Gallagher Risk Services began marketing the placement of commercial property insurances with an effective date of June 1, 2015. The transition to commercial Workers Compensation insurance and the assumption of past claims became effective July 1, 2015. At the request of the Attorney General and with the support of the State Office of Risk Management, LSU delayed its transition of primary liability coverages and existing liability claims to FY2017 to allow time to address legal representation and claim handling issues. All outstanding issues were resolved and on July 1, 2016 primary commercial liability insurance became effective and LSU assumed its remaining claims from the State Office of Risk Management.

LSU has been proactive in facing the challenges associated with the changing landscape of insurance and risk management. The University now has the ability to control its risk management program, and thus, its total cost of risk (TCOR) to not only reduce cost, but to manage a comprehensive insurance program that provides broader coverage and services which better protects the University and State. The total cost of risk model implemented by the University has also allowed LSU to meet its unique financial and budgetary needs by controlling external and internal costs, retained losses, and insurance premiums.
With the close of FY2016 LSU is on track to exceed cost savings expectations. With that being said, the savings produced from the first full year of autonomy have been expended to establish claim reserves for the cost of future claims as well as for the cost of legacy claims assumed from the State Office of Risk Management. Savings were also invested in the risk management loss mitigation and insurance programs to reduce future losses or their impact on the University.

Background

LA Grad Act 2.0 provided Louisiana State University and Agricultural and Mechanical College an opportunity to pursue autonomy in several areas that could reduce cost and/or increase revenues to support the mission of the University and protect its academic core. Exemption from the State’s risk management program is one such autonomy that the University chose to pursue due to a steep rise in LSU’s insurance premiums between FY06 and FY11.

To gain risk management autonomy LSU completed all necessary steps as outlined by both the Board of Regents and the Division of Administration (DOA). First, LSU met specific performance objectives established with the Board of Regents. Second, the University provided an application for risk management autonomy to the DOA, which demonstrated that the quality and qualifications of LSU’s staff, processes, and policies were satisfactory for an autonomous program. This application was used to evaluate LSU’s operational capacity as outlined in LA Grad Act 2.0, which was subsequently determined to be sufficiently capable by DOA in December of 2013. As a final step, LSU presented a Business Plan to the Legislative Fiscal Office and the Joint Legislative Committee on the Budget (JLCB) which included a phased-in plan of implementation and projected cost savings. This business plan was approved in October of 2014.

LA Grad Act 2.0

Specifically, the LA Grad Act provides the following in relation to the risk management autonomy in accordance with R.S. 17:3139.5(5)(c)(ii):

(c) High level. Notwithstanding any provision of law to the contrary and in addition to the base level and intermediate level autonomous granted pursuant to Subparagraphs (a) and (b) of this Paragraph, any institution that is determined by the Board of Regents to have met the short-term targets established in the performance agreement may be granted the autonomous as provided in this Subparagraph; however, no institution shall be granted such an autonomy until after the division of administration determines that for the following year the institution possesses the capacity relevant to the autonomy including, at a minimum, a review of the most recent fiscal audit by the legislative auditor and has a one hundred fifty percent of normal-time Integrated Postsecondary Education Data System graduation rate within five percent of the average graduation rate for its classification according to the Southern Regional Education Board.

(ii)(aa) Exemption from participation in the state’s risk management program established by R.S. 39:1527 et seq. and administered by the office of risk management, pursuant to a phased-in plan of implementation as determined by the institution in collaboration with the attorney general and the division of administration, subject to the prior review and approval of the Joint Legislative Committee on the Budget. This exemption shall not include the coverage provided by the state’s risk management program pursuant to R.S. 40:1299.39.*

(bb) Nothing in this exemption shall abrogate, amend, or alter the authority of the attorney general or the Department of Justice under Article IV, Sections 1 and 8 of the Constitution of Louisiana or any other provision of law to represent the state and all departments and agencies of state government in all litigation arising out of or involving tort or contract. Any institution that is granted an exemption
under this Item shall enter into an interagency agreement with the attorney general and pay the
to the attorney general reasonable attorney fees and expenses incurred in representing the institution.

(cc) Nothing in this Item shall be construed as creating any independent or separate cause of action
against the state. The state shall continue to be sued only through the exempt institution’s
management board and cannot be sued in addition to or separately from the exempt institution’s
management board in any cause of action asserted against the exempt institution. Neither the state
nor the office of risk management shall be responsible for payment of any judgment against the exempt
institution’s management board. The state’s obligation to indemnify a covered individual as provided
in R.S. 13:5108.1 shall not be performed by the office of risk management.

(dd) Any contract between the exempt institution’s management board and its insurer shall name the
state as an additional insured. Any provision in any contract between the exempt institution’s
management board and its insurer that conflicts with the provisions of this Section shall be deemed
null and void.

(ee) Nothing in this Item shall be construed to adversely affect any of the substantive and procedural
provisions and limitations applicable to actions against the state, including but not limited to the
provisions of R.S. 13:5106, 5107, 5108.1, and 5112, and
R.S. 9:2800 which would continue to apply equally to any exempted institution. Those provisions that
will not apply are those that are specifically excluded in this Section. Upon transfer of each line of
coverage to the exempted institution under this Section, the provisions of R.S. 39:1527 et seq., as well
as the provisions of R.S. 13:5106(B)(3)(c), shall not apply to the line of coverage so transferred, nor
to any claims asserted against the exempted institution within the transferred line of coverage.

LSU’s Risk Management Program Overview

The University’s risk management program is administered by LSU’s Office of Risk Management (RM)
within the Division of Finance and Administration and ultimately reports to the Vice President and Chief
Financial Officer. The Office of Risk Management’s mission is to protect people, property, the
environment, financial resources, and other assets in support of the University’s teaching, outreach,
research, and student services missions.

The University has developed its commercial insurance program with a focus on optimizing the total
cost of risk, which may include various loss retentions, commercial coverages, and outsourcing of
professional services to assure efficient and cost effective risk transfer, and risk financing with
minimum exposure for LSU. The University utilizes third party administrators (TPAs) to provide claims
handling and loss mitigation services. The University has also engaged experienced actuaries to
data conducts analysis, develop loss projections, and to assist with the development of a
comprehensive cost allocation model for departments and cost centers to encourage and reward
departmental implementation of effective safety and loss prevention programs at the unit level.

The University’s risk management, safety, and loss prevention teams are made up of approximately
twenty-two full-time qualified staff members, many of whom hold masters and doctoral degrees. LSU
Risk Management and safety personnel also hold active certifications and professional designations
including Certified Risk Manager and Certified Safety Professional.
Claims Administration

Workers’ Compensation
Through a competitive process, the University selected CorVel Corporation, with offices in Metairie, LA, to provide claims administration services for the University’s workers’ compensation claims. CorVel was the most responsive vendor by not only providing a dedicated adjuster for the University’s claims, but also a 24-hour employee injury call center that allows injured employees with non-urgent medical needs to discuss their injuries with a nurse, who in turn recommends the best course of action for the employee. With this approach, LSU with the support of CorVel, has been able to:

- reduce lost time claims by more than 50%,
- reduce estimated legacy claim costs by over $2M for the life of the claims,
- reduce open legacy claims inventory by more than two thirds (closed 101 claims),
- and improve pharmacy mix to 85% generic utilization.

Liability
The University selected Cannon, Cochran, Management Services Inc (CCMSI), with an office in Metairie, LA, to provide claims administration services for the University’s high-deductible liability coverage including general liability, auto liability, educator’s legal liability, and professional liability. CCMSI took over claims effective July 1, 2016. Claims administration for the University’s foreign liability coverage is handled directly by the insurance provider AIG Inc., through their World Source subsidiary as they are best positioned to handle claims made abroad.

Property
For property claims, the University elected to self-administer these claims within policy deductibles. If a loss exceeds a policy deductible, or is expected to exceed a policy deductible, then various claims administration/adjusting firms have been selected to handle the claim depending on the coverage and type of loss. All building, mobile equipment, content, and business interruption claims are adjusted by John Green of Vericliam, Inc., and Boiler and Machinery Claims are adjusted by David Lofton of Boiler Machinery Loss Consultants. Fine Art Claims are adjusted by Ellen Ross who also serves as the University’s Fine Art broker with Arthur J. Gallagher Services.

Insurance Coverages
A key component of the risk management autonomy granted to the University is its ability to purchase insurance in order to transfer large portions of the University’s risk. All commercial insurance coverages have been purchased through the University’s broker Arthur J. Gallagher Risk Services (AJG). AJG was selected in coordination with the State Office of Risk Management through a competitive process. The University with the support of AJG has placed several commercial insurance policies (Appendix 1) that are unique to higher education and in some cases specifically written for LSU. These specialized policies have replaced all previous coverages provided by the State’s self-insurance program, apart from Medical Malpractice to which the autonomy did not apply. Overall, the University’s new policies have coverage terms and conditions that meet or exceed the coverage provided by the state self-insurance fund, including several additional coverages and enhancements which are noted in the sections below by each area of coverage. LSU purchasing independent insurance policies increases the overall coverage for the State due to the enhanced coverages and higher limits. Other key improvements include the University’s efforts to create long-lasting relationships with the insurance marketplace that will allow LSU’s Office of Risk Management to better protect LSU’s assets and budget, by ensuring the best possible pricing for coverages.

Workers Compensation
Commercial workers’ compensation and employer’s liability coverage was procured in compliance with State of Louisiana law, rules, and regulations. Midwest Employers Casualty Company was selected
by the University to provide excess statutory coverage over LSU’s self-insured retention. AIG was
selected to provide “Defense Base Act” coverage for LSU employees working overseas under US
Department of Defense or State Department contracts. LSU maintains a self-insured retention
(deductible) of $1,000,000 for coverage with an aggregate stop-loss. In addition to excess coverage,
Midwest Employers Casualty Company also provides the University with a training platform and in-
person safety training as additional resources at no additional cost. With a such a large self-insured
retention in place, the University self-finances the major portion of the cost of workers’ compensation,
which has allowed a 94% reduction in premium payments when compared to the base FY2015
workers’ compensation premium under the state’s self-insurance program.

General Liability
The State Office of Risk Management continued providing primary liability coverage to the University
as part of the State’s self-insurance program in FY16 for existing coverages after it was determined
that a delay was in the best interest of all parties to address legal representation and claim handling
issues. Additional time was needed to resolve these issues so that a smooth transition could occur
between the claims administrators, outside counsel, and the Attorney General’s staff.

The University however did purchase an additional $5,000,000 of excess general liability and
educator’s legal liability coverage, which increased the University’s total limits to $10,000,000. This
decision was made based upon a peer review that determined the University’s liability limits were
significantly lower than other peer institutions. It was also determined that the current limits could
quickly be eroded if employment practice claims came about as a result of budgetary uncertainty.

The excess policies were purchased from United Educators (UE), an education industry focused risk
retention group, of which LSU is now a member. UE is owned and governed by the more than 1,300
school, college and university members of the group throughout the country. In addition to allowing
LSU to increase its limits, the policy forms (containing inclusionary/exclusionary language) provided
by UE are tailored specifically for higher education. Further, the UE policy also acts as drop down
coverage and provides primary coverage for claims not covered by the state self-insurance program
provided through the State Office of Risk Management.

The University also purchased a stand-alone foreign general and auto liability policy from AIG that
provided coverage tailored to the University’s international activities while also addressing the need
for specialized counsel and claims staff if an international claim were to arise. With the purchase of
foreign liability, the University was also able to enhance its accident coverage for employees and
students through securing the services of International SOS. In fact, International SOS provided
support to LSU students traveling in Nice, France during the recent terrorist attacks, in addition they
have medically evacuated a student during a serious medical emergency.

For the first time, the University purchased Cyber Liability insurance to cover the University’s security
and privacy liability, including network interruption caused by a security failure or cyber extortion. This
policy also provides coverage for expenses associated for LSU to comply with Louisiana’s breach
notification laws and incident response services by forensic security firms if necessary to ensure a
breach is mitigated.

The University assumed claims administration of legacy claims and placed commercial policies for all
lines of liability coverage effective July 1, 2016 with the exception of Medical Malpractice Liability,
which was not subject to Autonomy.

Auto Liability and Physical Damage
The State Office of Risk Management continued providing auto liability coverage to the University as
part of the State’s self-insurance program in FY16. The University assumed claims administration of
legacy claims and placed commercial policies for auto liability coverage effective July 1, 2016.
Property
The University was tremendously successful in placing a manuscript master policy written by Arthur J. Gallagher specifically unique to LSU with a maximum limit of $150,000,000 with eleven participating carriers, including Lloyds of London, effective June 1, 2015. This policy reduced the overall premium rate by 46%, and a negotiated two-year rate allows budget stability in anticipation of those years in which tropical events impact Louisiana and the University.

The master property policy improvements included but are not limited to:
- Blanket Limits
- Replacement Cost on Contents and Equipment
- Named Hurricane instead of Named Storm
- Expanded and Tailored Coverages
  - Business Interruption Coverage
  - Over-the- Side and Field Coverage
  - Underground Coverage
  - Legacy Oak Coverage
  - Coverage for Mike the Tiger
- Improved Claims Administration
  - Self-Administered
- Dedicated Excess Adjuster

Bonds & Crime
The University purchased commercial Crime insurance with limits of $2,000,000 per occurrence from Travelers Bond & Specialty Insurance company.
## Summary of Commercial Insurance Coverages

<table>
<thead>
<tr>
<th>Insurance Type</th>
<th>Coverage (Perils)</th>
<th>Insurer</th>
<th>Limits</th>
<th>Deductible</th>
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</thead>
<tbody>
<tr>
<td><strong>I. Property Insurance</strong></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Property</td>
<td>&quot;All Risks&quot; including Wind, Flood &amp; Earthquake</td>
<td>Lexington (Lead), Lloyds of London, and 9 other carriers</td>
<td>$200M</td>
<td>$1M Named Hurricane/$250K All Other Perils</td>
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<td>Boiler &amp; Machinery</td>
<td>Equipment Explosion, Burnout, Breakdown</td>
<td>XL Insurance America</td>
<td>$250M</td>
<td>$250K</td>
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<td>Fine Arts - Primary</td>
<td>&quot;All Risks&quot; including Flood &amp; Earthquake</td>
<td>XL Specialty Insurance</td>
<td>$75M</td>
<td>$2,500AOP/$25k Wind/Flood</td>
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<td>Crime</td>
<td>Employee Theft, Money Orders &amp; Counterfeit Money, Computer Crime, Funds Transfer Fraud</td>
<td>Travelers Casualty &amp; Surety Co. of America</td>
<td>$5M General, $1M On Premises; $500k In Transit; $5M Policy Aggregate</td>
<td>$50K except $5k for Computer Program &amp; EDP Restoration Expense</td>
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<td><strong>II. Liability Insurance</strong></td>
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<tr>
<td>Excess General Liability</td>
<td>Excess General Liability &amp; Auto</td>
<td>United Educators</td>
<td>$5M Each Occurrence/$5M Aggregate</td>
<td>$5M SIR</td>
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<td>Educators Legal Liability</td>
<td>Wrongful Acts, Errors and Omissions, Employment Practices Liability</td>
<td>United Educators</td>
<td>$5M Each Claim/$5M Aggregate</td>
<td>$5M SIR</td>
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<td>Foreign General Liability &amp; Auto Liability</td>
<td>International Package - GL &amp; Auto</td>
<td>Insurance Company of the State of PA</td>
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<td>Auto PD Only - $1K Hired Autos</td>
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<td>Cyber Liability</td>
<td>Privacy/Security Liability, Security Breach, Multimedia, Cyber Extortion, BI &amp; Digital Asset Restoration;</td>
<td>AIG</td>
<td>$5M/$5M Aggregate</td>
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<td><strong>III. Workers Compensation</strong></td>
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<td>Workers Compensation</td>
<td>Employee Injuries/Disease</td>
<td>Midwest Employers Casualty</td>
<td>Statutory WC/$1M E.L</td>
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<td>Defense Base Act</td>
<td>Workers Compensation - Federal Contract</td>
<td>Insurance Company of the State of PA</td>
<td>$1M Each Accident; $1M Disease</td>
<td>None</td>
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<td><strong>IV. Other Coverages</strong></td>
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<td>Disaster Management Services</td>
<td>Disaster Response Management Services</td>
<td>Lloyds of London</td>
<td>$1M any one occurrence/$2M agg</td>
<td>5 People Injured Triggers Coverage</td>
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<td>Hull &amp; Machinery</td>
<td>Watercraft Hull Coverage</td>
<td>AGCS Marine Insurance Company</td>
<td>$300K</td>
<td>$25K</td>
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<tr>
<td>Terrorism - Foreign &amp; Domestic</td>
<td>Property, Liability &amp; CBRN Terrorism--Worldwide</td>
<td>Underwriters at Lloyd's</td>
<td>$150M Property; $25M Liability</td>
<td>$10k Per Occurrence</td>
</tr>
</tbody>
</table>


State Reporting Procedures

Building Appraisals
LSU selected American Appraisal to complete all building and content appraisals for new construction, following significant additions/enhancements, or periodically on a 4-year schedule. LSU Risk Management in coordination with LSU’s Office of Facility Services (OFS) has maintained an updated Schedule of Values (SOV) including replacement and content values, and exposure reporting to carriers. The University has provided all necessary reporting as determined by ORM. In addition to standard commercial appraisals, LSU has also completed a wind assessment study on all high value buildings to provide secondary wind modifiers to commercial underwriters.

Boiler and Machinery Jurisdictional Inspections
XL Catlin America, Inc. with support from LSU staff, completed all jurisdictional boiler inspections in compliance with the State Boiler Inspection Law (Louisiana Revised Statute Title 23 Chapter 5) and all other requirements as established by University policy and the insurance provider of Equipment Breakdown coverage. In addition to jurisdictional inspections, Infrared Testing Inc. also completed two days of thermal imaging on the Co-generation power facility and other large boilers and electrical equipment.

Elevator Inspections
LSU has contracted with Lerch Bates Inc., an elevator inspection firm, to perform inspections for elevators, escalators, dumbwaiters, and lifts for the disabled in all University buildings. The contractor is required to provide reports to LSU Environmental, Health, and Safety.

Financial Reporting
LSU’s Office of Financial Accounting and Reporting has included liabilities and payments associated with claims in LSU’s consolidated financial statements developed each fall for the prior fiscal year.

CorVel, LSU’s workers’ compensation claims administrator, and LSU Risk Management have completed all necessary reporting of claims and financial information to the Louisiana Workforce Commission, Office of Workers’ Compensation.

Claims Litigation
LSU entered into an Interagency Agreement with the Louisiana Department of Justice (DOJ) Office of the Attorney General Litigation Program which provides for the legal representation of LSU and its various departments and their officials, officers, and employees in all tort claims. For such services LSU, has agreed to pay DOJ attorney fees, expenses and administrative overhead as outlined in the Interagency Agreement to represent the University.
LSU has also worked with United Educators and Arthur J. Gallagher to identify specialty counsel that the AG can select from when they deem it more appropriate than in-house counsel.

Fiscal Impact Analysis
FY16 being the first year of LSU’s transition saw the partial implementation of autonomy from the State’s risk program. Despite that partial implementation, LSU exceeded the predicted cost savings. These cost savings were due to LSU’s ability to pursue independent coverages, the implementation of large self-insured retentions (high deductibles), the ability to acquire coverage based on LSU’s independent loss history, exposure and mitigation initiatives, and the independent management of claims and their reserves. The largest savings were realized by securing a competitive rate from the property market that was 46% below the rate in FY2015, and reducing workers’ compensation premiums by nearly 94%. Initial savings resulting from autonomy have allowed the university to fund the cost of legacy claims associated with LSU’s exit from the State self-insurance program; increase
our investment in loss prevention programs, which could create further savings through reduced claims and claims costs; and to prepare financially to face future hard insurance market cycles.

Estimated Savings
To determine LSU's estimated savings, the University has adopted the total cost of risk (TCOR) model as described in the Risk Management Autonomy Business Plan, which included all internal cost, external cost, retained losses, and insurance premiums. Once calculated, the TCOR was then compared to ORM's historical insurance program, with a relevant trend factor applied. Using this model, LSU's risk autonomy produced a savings of nearly $1.8M, this was reduced, however, since the University was required to fund legacy claims assumed from ORM in the amount of $1.1M, resulting in an annual savings of $700K.

Disclaimer

It must be understood that all projections in this report are based on current knowledge and cannot guarantee the future cost/savings of LSU's autonomous risk management program. The complex variables associated with the purchase of insurance and the occurrence of claims (e.g., hurricanes, fire, class action employment practices, global catastrophic events) may impact the financial reserves and/or premium cost for each program.