

AMENDMENT TO ACTUARIAL AND CONSULTANT SERVICES AGREEMENT

This Amendment to the Actuarial and Consultant Services Agreement (the “Amendment”) is between Perr & Knight, located at 225 Mizner Blvd., Ste. 210, Boca Raton, Florida 33432, and the Bureau of Legislative Research (“BLR”), located in the State Capitol Building, Room 315, 500 Woodlane Street, Little Rock, Arkansas, 72201, and is an amendment to the Actuarial and Consultant Services Agreement for education facilities property insurance actuarial and consulting services entered by and between Perr & Knight and the BLR on October 18, 2024 (the “Agreement”).

WHEREAS, it is the desire of the Subcommittee to amend the Agreement to revise the scope of work to be completed by Perr & Knight under the Agreement in order to streamline the captive formation process prior to the launch of the captive insurance company; and

WHEREAS, Attachment A to the Agreement at Section VI. sets out the Scope of Services under the Agreement and contains duties related to "Captive Formation and Set-Up", listed as subsections (8) through (12); and

WHEREAS, the Subcommittee voted at its meeting on November 6, 2024 to amend Subsection VI. of Attachment A to the Agreement to require Perr & Knight to coordinate the selection process of the Captive Program Consultant and Administrator, who will conduct the duties previously to be performed by Perr & Knight under subsections VI.(8)-(12), and that approval was adopted by the Legislative Council at its meeting on November 15, 2024; and

WHEREAS, paragraph 12 of the Agreement provides that the Agreement “may be amended upon agreement of both parties to the Agreement and the approval of the Subcommittee and the Legislative Council. Any amendment to this Agreement must be in writing and signed by both parties.”

NOW THEREFORE, per the approval of the Subcommittee and the Legislative Council as given on November 6, 2024, the parties hereby agree to amend the Agreement as follows:

1. The scope of services to be performed by Perr & Knight in relation under the Agreement is hereby amended as follows:

VI. SCOPE OF SERVICES

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

Captive Feasibility Study

- (1) Summarize the AR Public School Systems & Public Buildings existing insurance programs and costs.
- (2) Analyze the captive's risk profile, including loss history, risk exposure, and potential future liabilities.
- (3) Perform an actuarial analysis to estimate the prospective captive’s retained loss and loss adjustment expenses (“LAE”) on an expected value basis and on a basis representing an adverse scenario. (See Scope items (16) through (24) below.)
- (4) Compare the costs of traditional insurance with the retained loss and LAE to estimate potential savings resulting from the captive.

- (5) Assess tax implications, determine capitalization requirements, and estimate operational expenses.
- (6) Determine the structure (pure, group, or cell captive) based on financial considerations.
- (7) Provide a report documenting items (1) through (6), presenting our recommendations and outlining next steps.

Captive Formation and Set-Up

(8) Coordinate the vendor selection process for a Captive Program Consultant and Administrator including identifying, interviewing, and making recommendations to the Legislative Council Executive Subcommittee. The Captive Program Consultant and Administrator may also serve in the role of Reinsurance Broker both during captive formation and set-up and following legislative creation of the captive insurance company. The scope of work for the Captive Program Consultant and Administrator, which shall be included in the procurement documents released by Perr & Knight shall include without limitation the following:

- (a) Prepare a formal business plan for the proposed captive insurer containing required content in the form required by the domiciliary regulatory authority for the captive application;
 - (b) Coordinate the vendor selection process including identifying, interviewing, and making recommendations as to all industry service providers needed to support the captive's operations (i.e. attorneys, reinsurance brokers, investment managers, claims administrators, and auditors);
 - (c) Prepare and file the necessary application, and supporting documents, with the domiciliary regulatory authority;
 - (d) Respond to questions from the domiciliary regulatory authority regarding the licensing application; and
 - (e) Using exposure data and claims experience from the AR Public School Systems & Public Buildings and available industry data, develop a rating plan to facilitate the allocation of insurance cost/determination of premium for each school district and public agency.
- (9) Act as a liaison between the Captive Program Consultant and Administrator and the Executive Subcommittee, and assist the subcommittee with its oversight of the work of the Captive Program Consultant and Administrator during the period of captive formation and set-up.

Data Review and Aggregation – to be Prepared on a Semi-Annual Basis

- (10) Submit a data request to the Subcommittee outlining all the information required for the actuarial analysis 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 individual claims data for each building.
- (11) Review all data provided by the Subcommittee or on the Subcommittee's behalf for reasonableness and consistency. Our review will not be a comprehensive audit of data. However, we will note any inconsistencies we see in the data and/or any data that appears to be incorrect.
- (12) Aggregate the data in preparation for the actuarial analysis.

Actuarial Analysis – to be Prepared on a Semi-Annual Basis

- (13) 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.
- (14) Estimate the historical ultimate ground up loss and LAE by peril grouping for the AR Public School Systems & Public Buildings, using generally accepted actuarial methods. We will supplement the Subcommittee's historical data for catastrophe perils with industry and/or modeled data, as necessary.
 - (15) Using the results of item (14) and assumptions regarding exposure and loss trend, project the ultimate loss and defense and cost containment expenses ("DCCE") and ultimate loss and DCCE rate per \$100 of insured value, overall and by peril grouping, for the upcoming fiscal accident period, at various per occurrence retentions.
 - (16) Using the AR Public School Systems & Public Buildings claims data, project the ultimate loss and DCCE and ultimate loss and DCCE rate per \$100 of insured value ("the Rater"), overall and by peril grouping, for the upcoming fiscal accident period using claim simulation techniques. Estimates will be provided at various retentions and confidence levels for each of the three programs. The Rater will be used to allocate the funding estimates by building type and/or school district.
 - (17) Produce claim stratification exhibits to examine the historical percentage of claims and claim dollars for various size of loss categories to facilitate review the impact on losses of multiple deductible structures.
 - (18) Prepare supporting documents for the projected ultimate loss and DCCE, by peril grouping, along with the underlying assumptions that went into determining the estimates. Using this information, prepare an actuarial reserve analysis to estimate the outstanding loss and DCCE. Review the captive's balance sheet and issue an actuarial opinion as to the adequacy of the carried reserves.
 - (19) 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.
 - (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.

Risk Strategies and Solutions ("RSS") Consulting – Ongoing

- (22) Assist in determining optimal level of risk based on actuarial analysis of the risk profile, loss experience of the captive, and reinsurance pricing.
- (23) Review the captive's structure, performance, and strategy to ensure it continues to meet the state's evolving risk management and financial goals.
- (24) Evaluate the captive's capital and surplus to ensure that it meets regulatory requirements and remains financially sound.
- (25) Continuously evaluate the state's risk exposures to determine whether any new or emerging risks should be covered by the captive.
- (26) Analyze claims and loss trends to help the state adjust risk management practices or modify the captive's coverage.
- (27) Provide benchmarking data to compare the captive's performance against industry standards or similar captives, if applicable.
- (28) Review insurance policies for the risks that the captive insures, ensuring they are tailored to the state's needs.
- (29) Help structure and negotiate reinsurance treaties, including managing relationships with reinsurance brokers and carriers.

- (30) Advise on and facilitate alternative risk transfer mechanisms when appropriate to enhance the captive's risk management capabilities.
- (31) Provide regular reports to the captive's board of directors on the captive's performance, including financial results, underwriting performance, claims activity, and any key issues.

In addition, all references to "Scope Items" in Attachment A, Section VII. Proposed Fees, are hereby amended to reflect the updated numbering in Section VI above, and no other amendments are made to Section VII by this Amendment to the Agreement.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

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IN WITNESS WHEREOF, Perr & Knight and BLR have executed this Amendment this ____ day of November, 2024.

Perr & Knight:

Kyle M. Hales, Principal

Date

**BUREAU OF LEGISLATIVE
RESEARCH:**

Marty Garrity, Director

Date

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