

# **UNIVERSITY OF MINNESOTA**

*Annual Report*  
*of the*  
**Office of Risk Management and Insurance**  
*as of*  
**Fiscal Year Ended**  
**30 June 2011**

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## I. Overview

### ***Mission of the Office of Risk Management and Insurance***

The Office of Risk Management and Insurance:

- Provides consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach;
- Minimizes the frequency and severity of physical injury and property damage through education and specific loss control measures; and
- Protects and preserves University human and financial resources.

The Office of Risk Management and Insurance ('Risk Management') accepts as principle that assuming some risk is integral to being productive. The University must take risks and Risk Management must find ways to minimize the financial impact of adverse outcomes.

Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation and maintenance of these programs. Risk Management routinely consults with the Office of General Counsel with respect to risk and insurance provisions of the contracts the University seeks to enter.

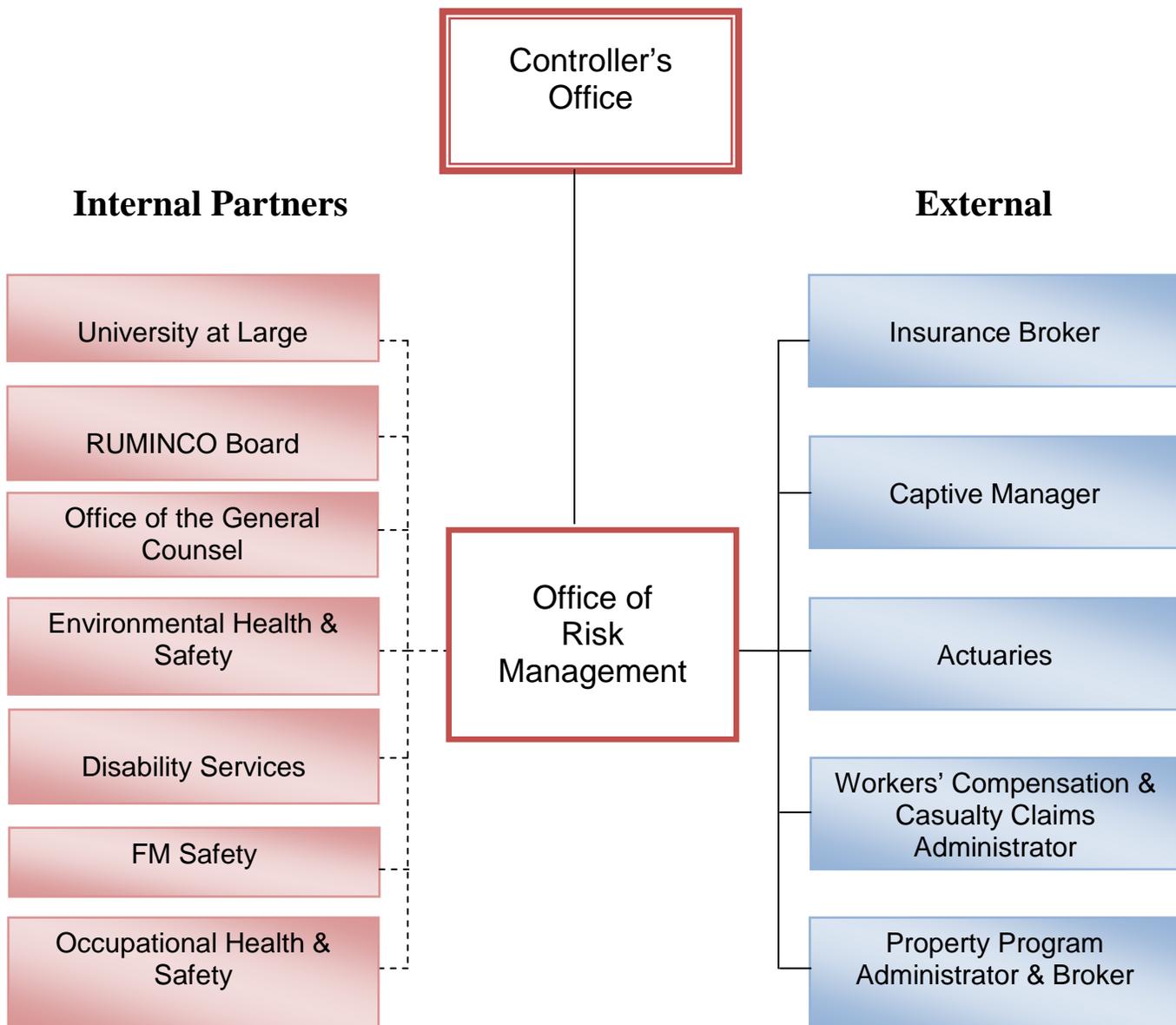
This report summarizes the scope of operations of the University's Office of Risk Management and Insurance as of fiscal yearend June 30, 2011.

## I. Overview (cont.)

### *Organizational Structure*

The Office of Risk Management:

- Acts at the direction of the Controller's Office;
- Maintains dotted line relationships with many University entities and resources; and
- Controls the activities of several insurance vendors and suppliers.



## I. Overview (cont.)

### ***FY11 Milestones and Accomplishments***

#### **Third Party Administration Request for Proposal: Workers' Compensation and Liability Claims**

Risk Management conducted a Request for Proposal process for Third Party Administration of Liability and Workers' Compensation claims. Sedgwick was deemed the most complete provider by the RFP team, and offered lower fees on several key services, with prices locked in for three years. Based on current use patterns, we estimate \$84,000 in life of contract total savings, a decrease of 10% when compared to former pricing.

#### **Property Program Performance**

One year after the recalibration of our rate and deductible through the Request for Proposal process, we can assess the end result. Despite a year of unusual property loss frequency, our effective premium rate\*, which reflects both rate and deductible, has reached a five year low, 26% below its FY08 peak.

\* Effective Premium Rate = [Premium paid to Insurers + Retained Deductible Cost] / (Total Insured Values/100)

## II. Risk Finance Programs

### General Approaches to Risk Finance

The financial consequences of risk may be **Retained** or **Transferred**.

- **Risk retention** (often called “self-insurance”) is characterized by the assumption (retention) of financial risk consequences. This retention ranges from a deductible to carrying no insurance whatsoever. Optimally, risk retention is the result of pre-considered choice.
- **Risk transfer** is characterized by the passing of the financial consequences of risk to a third party (typically an insurer) via purchase of a contract (typically an insurance policy) that specifies the terms and conditions of the transfer.

Broadly, the University treats its risk as follows:

- Liability – **Transferred** to Captive Insurer (RUMINCO, Ltd.)
- Workers’ Compensation – **Retained**; Self-Insured
- Property and Miscellaneous Insurance – **Transferred** to Commercial Insurers

There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent that it is financially possible and reasonable to do so.

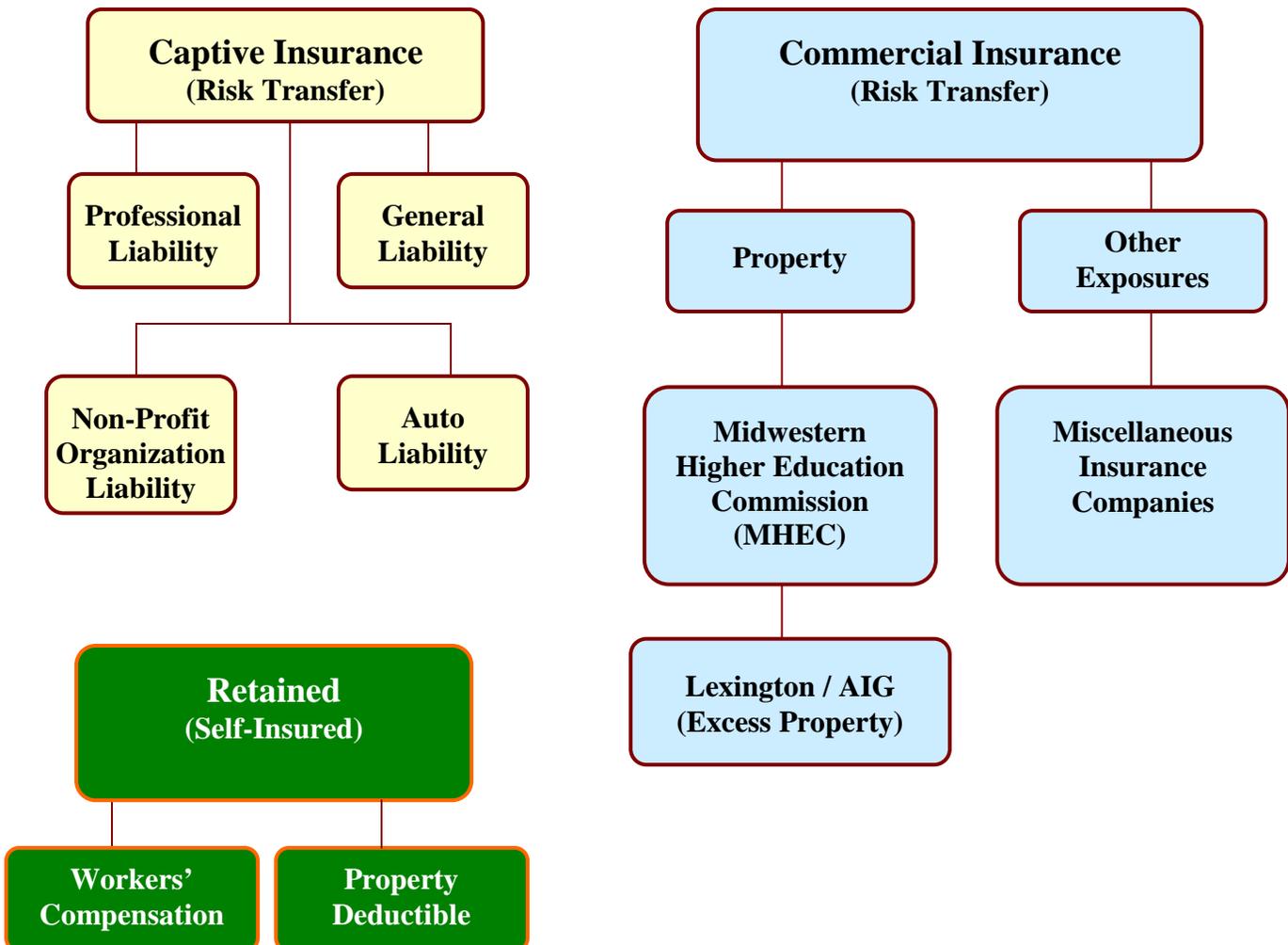
Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. The University has approximately \$11B in property values, and carries a \$1B property insurance limit. Because there is no good way to fund \$1B internally, the University purchases an insurance policy to transfer the exposure to a third party.

## II. Risk Finance Programs (cont.)

### University Structures

Much activity of the Office of Risk Management centers on the establishment, maintenance and continuing refinement of risk finance mechanisms.

The University finances its Property and Casualty risk using three general strategies:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

The following sections describe the University's **Captive**, **Retained** and **Commercially Insured** risk financing programs.

## II. Risk Finance Programs (cont.)

### Captive Insurance

#### ***RUMINCO, Ltd.***

**RUMINCO Ltd. (Regents of the University of Minnesota Insurance Company)** is a captive insurance company, a wholly owned subsidiary of the University of Minnesota. It was incorporated in 1978 during a nationwide crisis in the medical malpractice insurance market. At that time, the University Hospitals and Clinics and the Medical School faced 400% increases in premiums. After exploring various risk financing options, the University decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- **General Liability; and**
- **Professional Liability (Medical Malpractice)**

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel advised that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liabilities incurred within Minnesota jurisdiction.

As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- **Automobile Liability**
- **Non-Profit Organization Liability (Employment Claims)**

Over one-third of a century, RUMINCO has proven itself to be a useful funding tool for the University. It is a formalized, disciplined way to finance risk, yet retains flexibility and provides long-term stability.

## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### ***RUMINCO, Ltd. Coverage Overview***

**A. General Liability** insures the University's legal liability for third party bodily injury or property damage.

**Principal Exposures:**

*Frequency:* Premises injuries to third parties (slip-and-falls)

*Severity:* Concentrations of people in facilities such as dormitories, stadiums and arenas exposed to fire, collapse, explosion, etc.

**B. Professional Liability** covers damages arising out of professional services, including:

- Medical, surgical, dental or nursing treatment
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies or appliances
- Performing postmortem examinations
- Services by any person as a member of a formal accreditation or similar professional board or committee of the University, or as a person charged with the duty of executing directives of any such board or committee
- Service by accountants, architects, engineers, lawyers, and teachers acting within the scope of their duties as employees of the University

**Principal Exposure:**

*Frequency and Severity:* Medical Malpractice

**C. Auto Liability** covers legal liability for bodily injury and property damage arising out of the use of approximately 800 owned vehicles, as well as hired and non-owned autos operated with the permission of the University.

**Principal Exposures:**

*Frequency:* Collision damage to third parties' vehicles

*Severity:* Vehicle accidents involving multiple-passenger vehicles

**D. Non-Profit Organization Liability** covers liability claims not triggered by Bodily Injury or Property Damage, including:

- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

**Principal Exposure:**

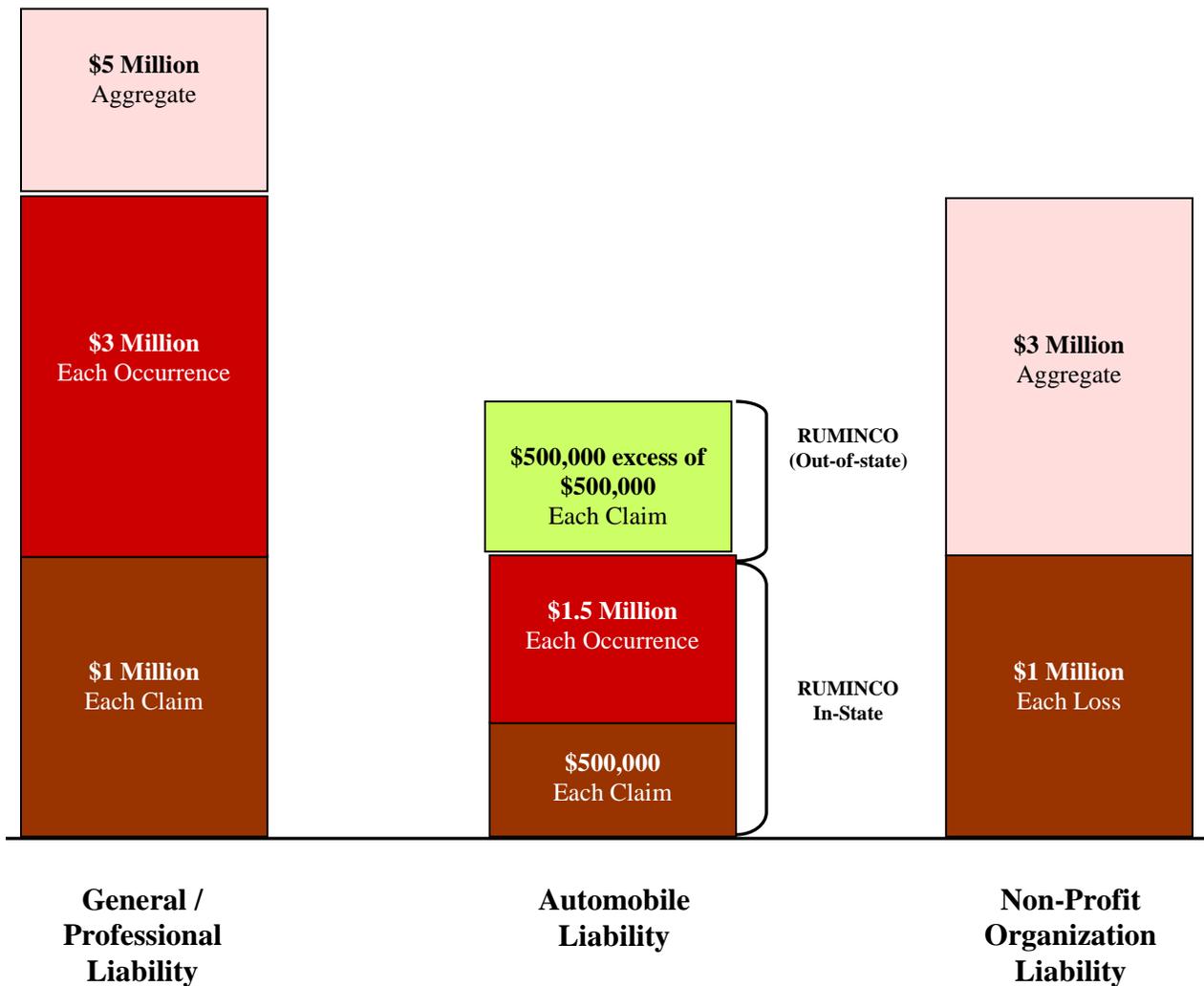
*Frequency and Severity:* Employment-related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *Summary of RUMINCO Ltd. Limits*

Because RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit effectively waives the Statute's protection.

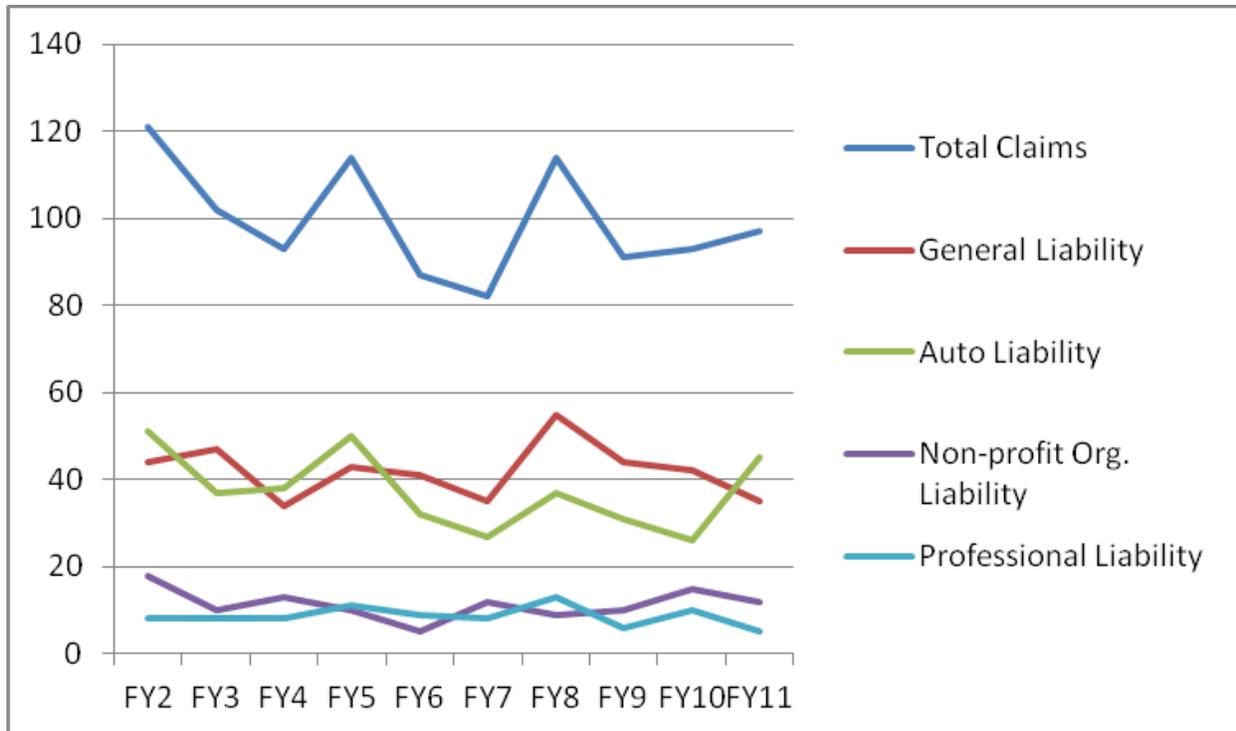


## II. Risk Finance Programs (cont.)

### Captive Insurance (cont.)

#### *RUMINCO Ltd. Claims Experience*

### Claim Count by Fiscal Year



Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO's total claim count has averaged 99 claims per year. Only one FY11 total (Professional Liability) is beyond one standard deviation from its historical mean, and it deviates in the favorable direction.

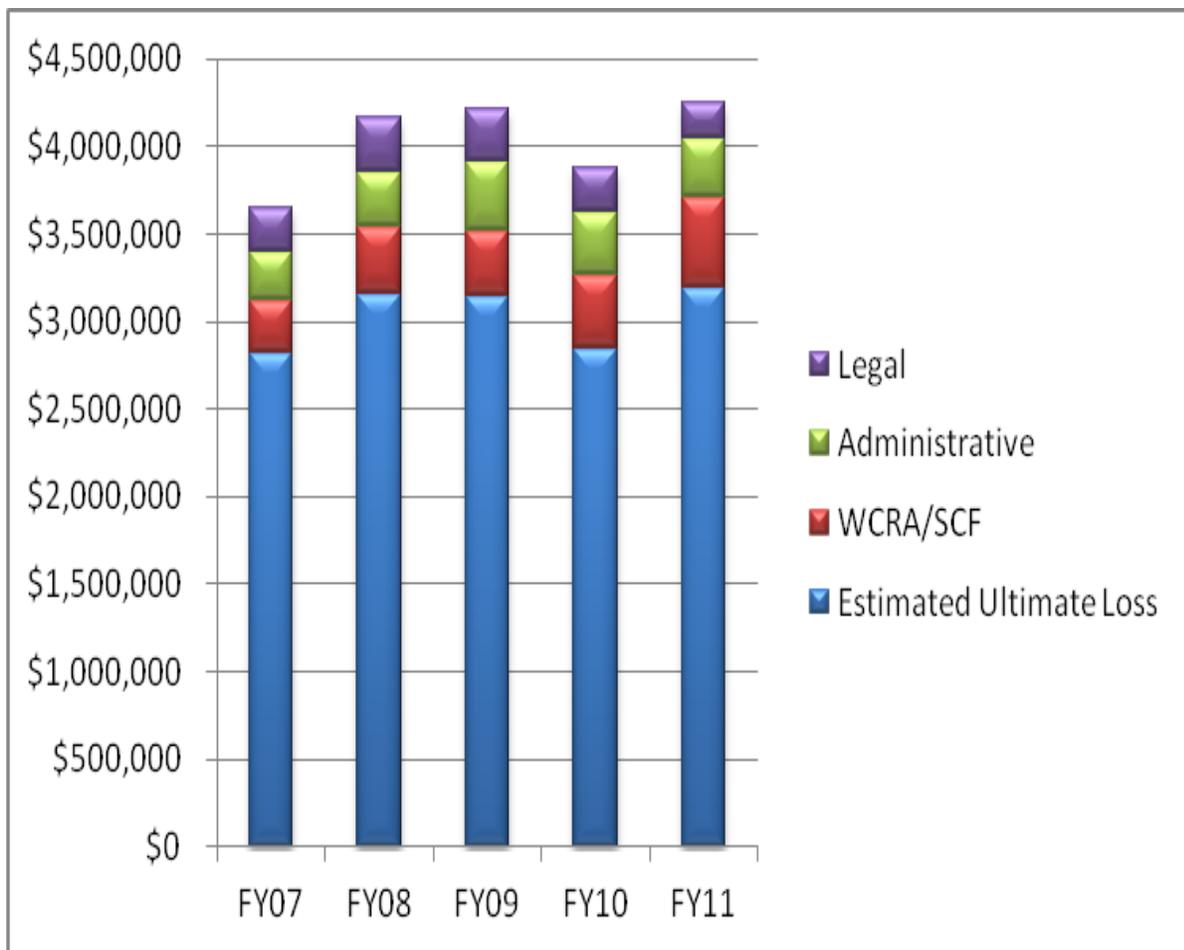
## II. Risk Finance Programs (cont.)

### Retained (Self-insured)

#### *Workers' Compensation Overview*

**Workers' Compensation** benefits are mandated and governed by Minnesota statute. Benefits include medical costs, wage loss and retraining costs for University employees who are injured while acting in the scope of their duties.

The University is a qualified self-insurer under Minnesota law, assuming liability up to \$1,800,000 in any one Workers' Compensation occurrence. The Workers' Compensation Reinsurance Association (WCRA), an excess insurer for catastrophic claims created by the State of Minnesota, provides excess protection.



Total costs associated with Workers' Compensation administration have remained close to \$4MM.

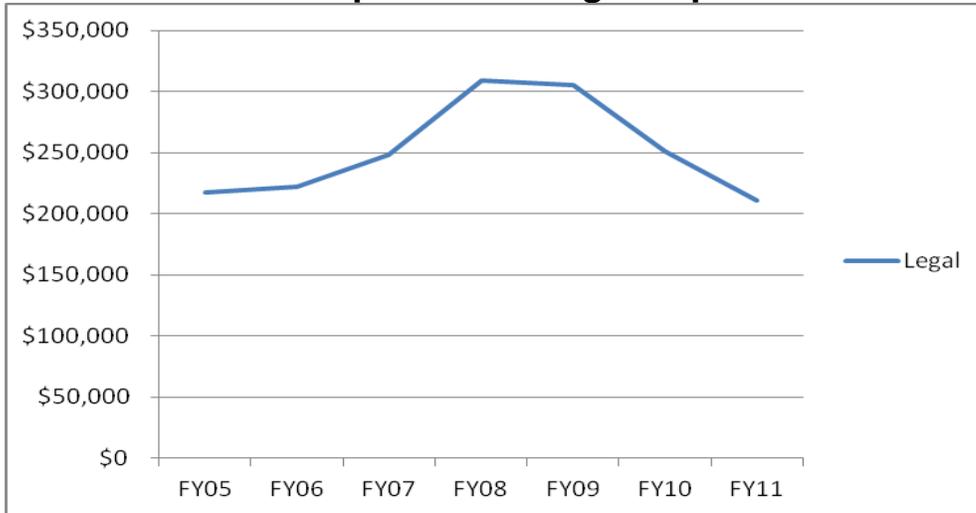
## II. Risk Finance Programs (cont.)

### Retained (Self-insured)

### *Workers' Compensation*

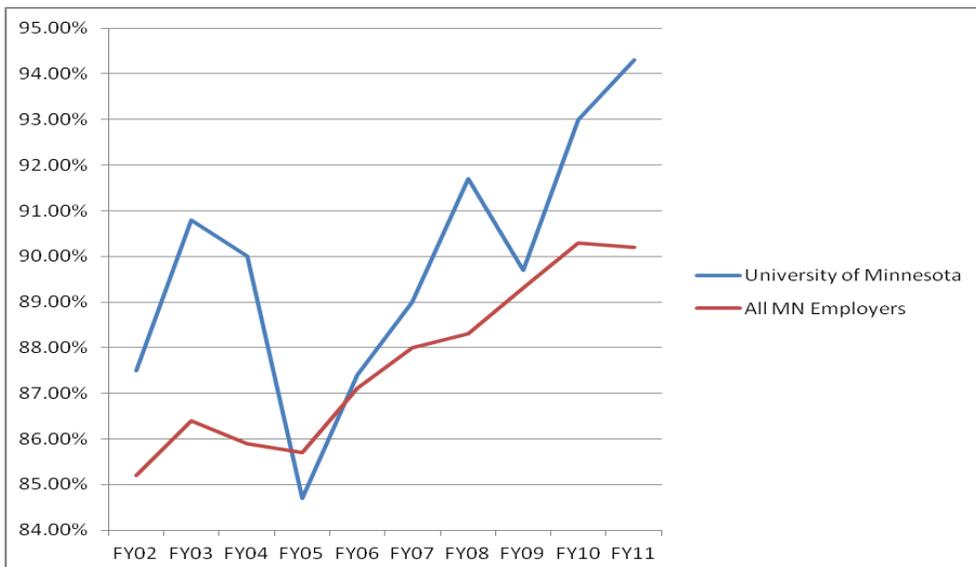
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible and easy to use for all parties.

#### Workers' Compensation Legal Expenses



Work Comp litigation cost has decreased by one-third since FY08.

#### On-time Reporting to Department of Labor and Industry



The University's on-time reporting of DOLI claims has consistently exceeded the Minnesota average, and reached a ten-year high in FY11.

## II. Risk Finance Programs (cont.)

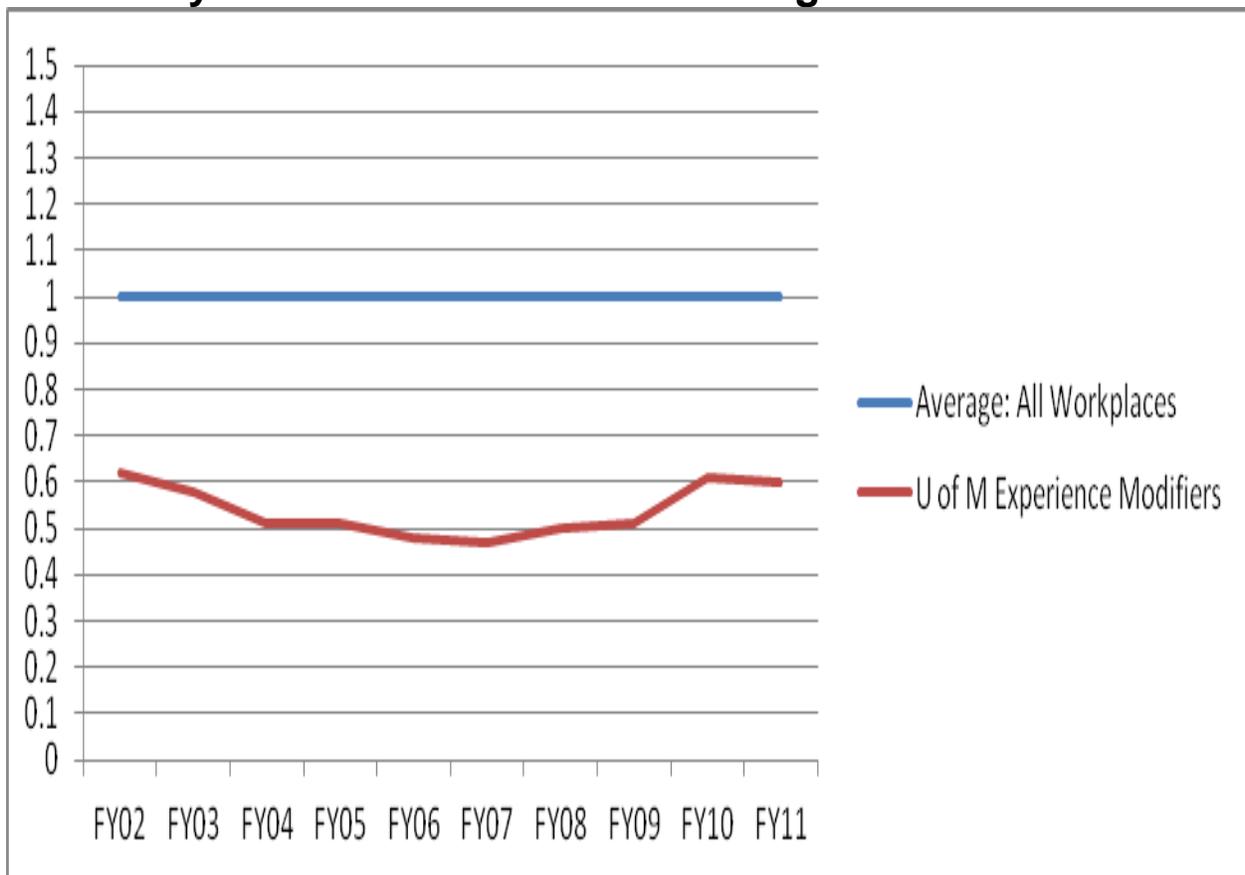
### Retained (Self-insured)

#### *Workers' Compensation*

An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below and above signifying better and worse than average experience, respectively.

The Minnesota Workers' Compensation Reinsurance Association annually calculates the University's Experience Modification Factor. Over the past 10 years, the University's factor has been 40 to 50 points better than the average for its industry group.

#### Experience Modification Factor: University of Minnesota vs Class Average



The University's Experience Modification Factor for ten years as calculated by the Minnesota Workers' Compensation Reinsurance Association (WCRA).

## II. Risk Finance Programs (cont.)

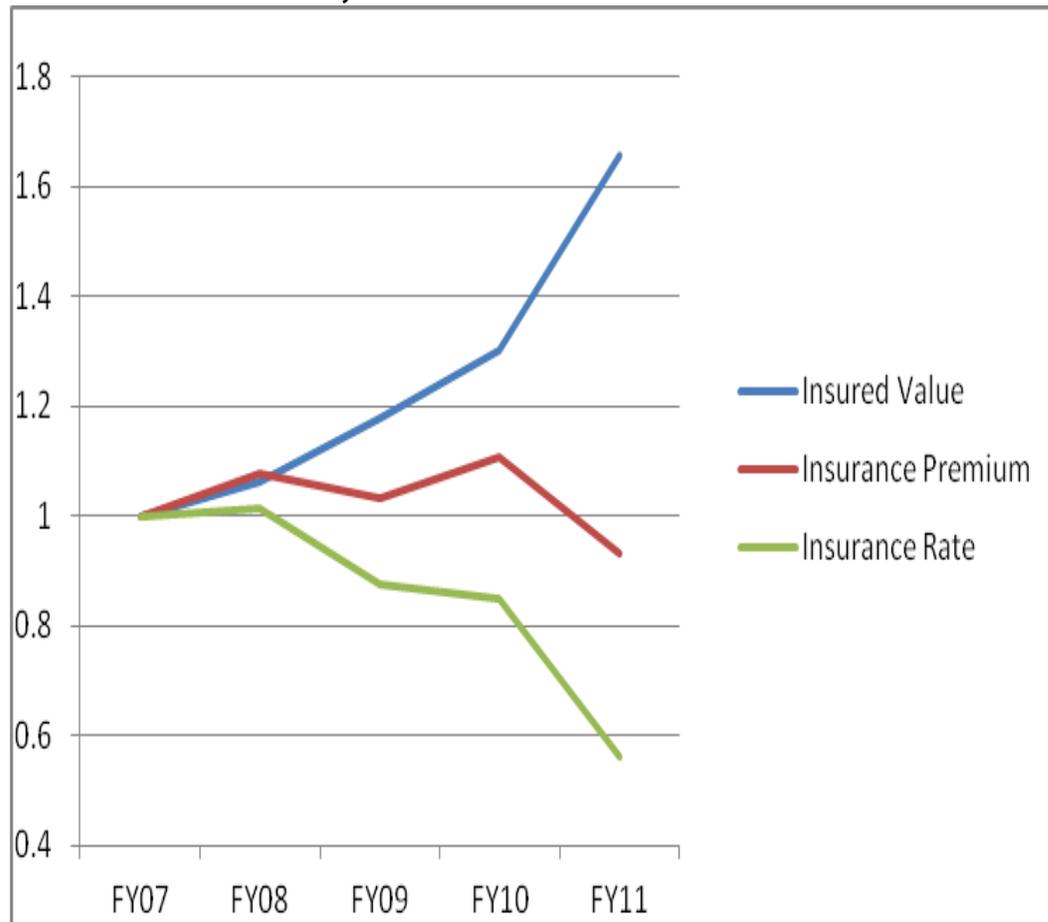
### Commercial Insurance

#### *Property Insurance*

**Property Insurance** covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is Chartis (AIG) through the Midwest Higher Education Compact (MHEC) Master Property Program. Default limit under the program is \$500MM. The University purchases another \$500MM excess of standard limits, for a \$1B per-occurrence total.

Early in 2010, the University conducted an RFP for the July 1, 2010, renewal of its property program. Based on our ten-year loss history, we chose at that time to revise our deductible level from \$200,000 to \$500,000 per claim event.

#### Trends in Values, Premium and Rates: FY07 = 1



Using 2007 as the baseline (2007 = 1) this chart shows rate decreases offsetting value increases, leaving premium relatively stable.

The competitive process and deductible revision resulted in a 34% insurance rate decrease.

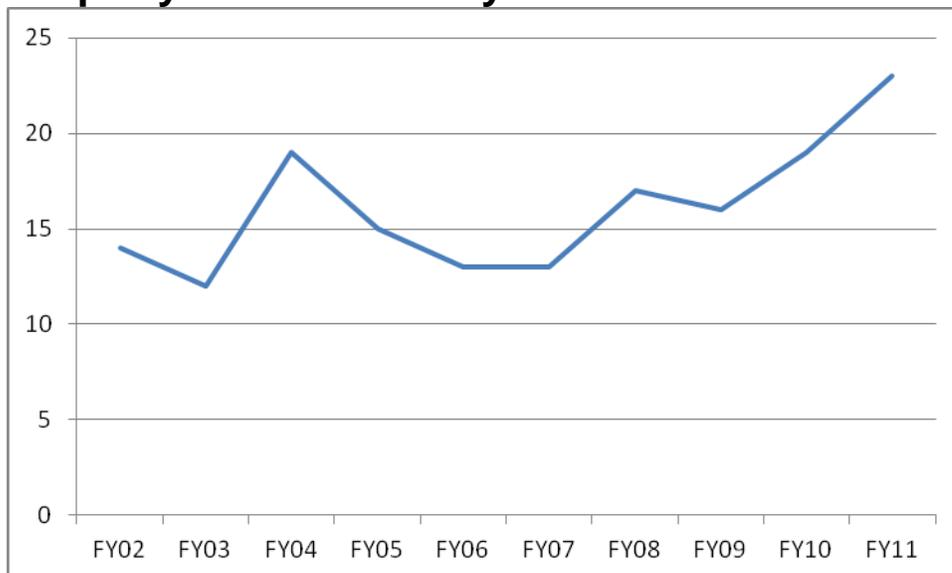
## II. Risk Finance Programs (cont.)

### Commercial Insurance (cont.)

#### *Property Insurance*

We expected some rate savings would be eroded by the increased deductible. Fiscal year 2011 was in fact notable for the number of events; the property claim count reached a ten-year high of 23.

#### Property Claim Count by Fiscal Year



Property claim count reached a ten-year high of 23 events.

FY11 losses were also notable for their severity and unusual nature:

- Four losses exceeded \$200,000, again a ten-year record (1-2 typical)
- Notable Events:
  - Soudan Mine Fire,
  - 10 August 2010 storm,
  - Metrodome roof collapse (affecting our baseball schedule),
  - Ice-crush of our Mississippi boat dock, and
  - Three research freezer failures.
  - Phillips Wagensteen Water Claim

These events accounted for:

- 35% of the 23 loss claim count, and
- 80% of the University-incurred deductible expenses.

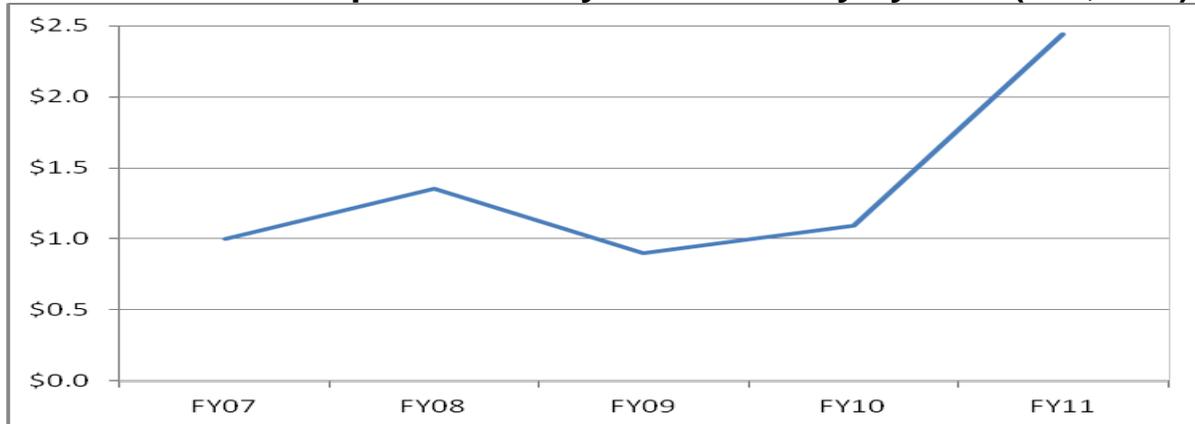
## II. Risk Finance Programs (cont.)

### Commercial Insurance

#### *Property Insurance*

The unusual loss year combined with taking a higher deductible produced a spike in retention (deductible cost in excess of \$10,000 incurred by the University and reported to Risk Management) cost incurred by the University for FY11.

#### Total Deductible Expense Paid by the University by Year (000,000s)



Property loss retention cost (incurred deductible) is affected by claims experience and deductible level.

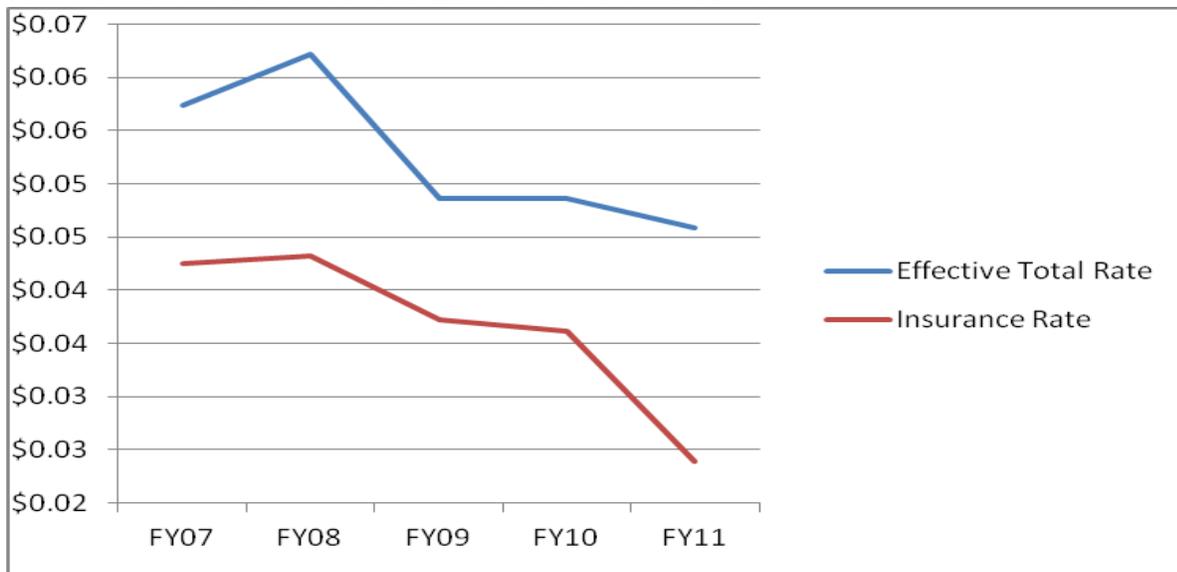
Rate paid to insurers is down 44% since FY07, from \$0.043 to \$0.024.

A more complete measure of performance is Effective Total Rate, which reflects retention cost;

Effective Total Rate = (Premium + Amount Retained)/Total Insured Values

Effective Total Rate is down 26% from its peak in FY08.

#### Rate Paid to Insurer vs. Effective Total Rate



Effective Total Rate has decreased 26% since its FY08 peak, reaching a five-year low of \$0.046 (High=\$0.062)

## II. Risk Finance Programs (cont.)

### Commercial Insurance

#### *Property Insurance*

The University saved \$360,285 compared to results based on applying expired FY10 rate and deductible to FY11 values and experience. Even in the context of a challenging claim year, the net result of the deductible and rate changes was financially positive for the University.

#### *Miscellaneous Commercial Insurance Coverage*

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was \$440,368 a decrease of 7% from FY10 levels. Here is a brief overview of the purchased policies with premiums exceeding \$10,000:

**EXCESS LIABILITY – EXTRA MN:** \$40MM in coverage excess a \$1MM Self-insured Retention (Deductible) for General and Automobile liabilities the University may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

**FIDELITY & CRIME:** Coverage for loss of money or securities due to employee theft and dishonesty, computer fraud, and related perils.

**FINE ARTS:** Insurance specific to artwork, books, manuscripts, antiques, etc.

**INTERCOLLEGIATE ATHLETICS:** This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

**NON-OWNED AIRCRAFT LIABILITY:** Covers the University's liability arising out of use of non-owned aircraft rented or chartered by the University. The limit is \$25MM per occurrence, and is intended to be excess of any policies purchased by the owner of the aircraft.

**HULL & LIABILITY (Primary & Excess):** Physical Damage and Liability coverage up to \$1M of primary plus \$14M of excess liability arising out of the use of the 86-foot *Blue Heron* research vessel.

**SHOWBOAT HULL & LIABILITY:** Coverage is purchased through Paddleford Company for the University's Hull & Liability exposure arising out of its sponsorship of the *Showboat* dinner theatre. The boat is moored at the University's dock on the Mississippi.

#### **Discontinued**

The coverages provided in these policies were negotiated into the new "Excess Liability – Extra MN" policy.

**AUTOMOBILE EXCESS LIABILITY (Extra-Minnesota Jurisdiction):** Provided \$5MM Automobile Liability limits for University automobile liabilities arising outside the State of Minnesota.

**EXCESS LIABILITY (METRODOME):** Coverage applied to the University's liability arising out of its use of the Metrodome, and provided \$4MM of liability insurance excess of \$1MM in primary coverage through RUMINCO.

### III. Total Cost of Risk

#### University of Minnesota Total Cost of Risk: Fiscal Years 2007 – 2011

COST ITEM	FY07	FY08	FY09	FY10	FY11
<b>Captive</b>					
Paid Losses	\$657,170	\$2,790,987	\$1,285,329	\$1,619,891	\$327,541
Case Reserves	--	963,721	341,548	130,576	1,042,433
Incurred, But Not Reported (ESTIMATE)	1,000	13,000	42,000	289,000	1,076,000
Liability Claims Administrator	42,159	54,624	50,724	74,075	69,717
Captive Administrative Expenses	148,144	131,177	148,305	140,793	117,876
Litigation Cost	692,967	1,083,375	1,103,282	1,245,967	1,617,689
<b>Total Captive</b>	<b>\$1,541,440</b>	<b>\$5,036,884</b>	<b>\$2,971,188</b>	<b>\$3,500,302</b>	<b>\$4,251,256</b>
<b>Self-Insurance</b>					
Workers' Compensation Est. Ultimate Loss	2,821,771	3,160,318	3,139,282	2,848,430	3,188,112
WC Reinsurance Association	95,350	109,815	130,873	158,827	160,246
Special Compensation Fund	204,758	273,999	244,764	261,894	356,973
WC Claims Administrator	221,554	245,326	317,428	298,348	291,712
Litigation Cost	248,656	308,934	305,033	251,371	211,198
Bill Review Service	38,239	27,985	35,191	33,641	36,751
WC Actuarial	16,000	12,000	12,000	7,144	9,892
WC Broker Consultation	--	28,350	33,210	11,550	--
<b>WC Total</b>	<b>3,646,328</b>	<b>4,166,727</b>	<b>4,217,781</b>	<b>3,871,205</b>	<b>4,254,884</b>
Retained Property Losses [1]	866,251	1,059,750	709,990	901,752	2,407,782
Electronic Data Processing [2]	91,211	55,499	22,184	31,568	36,095
Automobile Physical Damage	101,189	125,338	154,891	173,682	127,295
<b>Total Self-insurance</b>	<b>\$4,704,979</b>	<b>\$5,407,314</b>	<b>\$5,104,846</b>	<b>\$4,978,207</b>	<b>\$6,826,056</b>
<b>Commercial Insurance</b>					
All Risk Property	\$2,827,147	\$3,061,018	\$2,987,422	\$3,115,827	\$2,618,781
Property Experience Dividend	(14,384)	(32,453)	(85,691)	na	na
Total Property Insurance	2,812,763	3,028,565	2,901,731	3,115,827	2,618,781
Automobile Liability (out of state) [3]	191,554	51,881	53,610	--	--
Broadcaster's Liability	5,960	5,365	5,365	5,365	5,365
Child Care Center	1,406	1,275	931	1,173	1,173
Excess Liability for Metrodome [3]	115,952	119,164	101,894	--	--
Excess Liability - Extra MN	--	--	--	205,511	233,400
Fidelity & Crime	49,407	43,232	19,967	19,967	19,967
Fine Arts	55,988	43,750	18,495	17,549	17,549
Intercollegiate Athletics	79,772	76,000	39,000	34,195	53,000
Nonowned Aircraft Liability	20,545	17,649	19,187	18,229	18,000
Special Events	24,365	--	--	--	--
RSO Liability	5,000	7,725	8,047	8,067	--
Hull & Liability (Blue Heron Watercraft)	15,599	15,599	15,599	18,315	19,951
Excess Marine Liability	9,450	9,450	9,450	9,450	9,450
Pollution (Blue Heron Watercraft)	1,000	1,075	1,075	1,212	1,212
Upward Bound AD&D	310	310	376	376	376
Showboat	10,433	7,648	7,648	6,925	6,925
Study Abroad (France)	6,500	6,500	7,203	--	--
Consultation	6,400	19,737	--	--	--
Brokerage	103,397	128,750	128,750	128,750	54,000
<b>Total Commercial Insurance</b>	<b>\$3,515,801</b>	<b>\$3,583,675</b>	<b>\$3,338,328</b>	<b>\$3,590,911</b>	<b>\$3,059,149</b>
<b>GRAND TOTAL COST OF RISK</b>	<b>\$9,762,220</b>	<b>\$14,027,873</b>	<b>\$11,414,362</b>	<b>\$12,069,420</b>	<b>\$14,136,462</b>

[1] Insurable property losses excess of \$10,000 falling within the deductible.

[2] EDP coverage is self-insured; figure shows losses excess \$500/claim.

[3] Replaced by "Excess Liability – Extra MN"

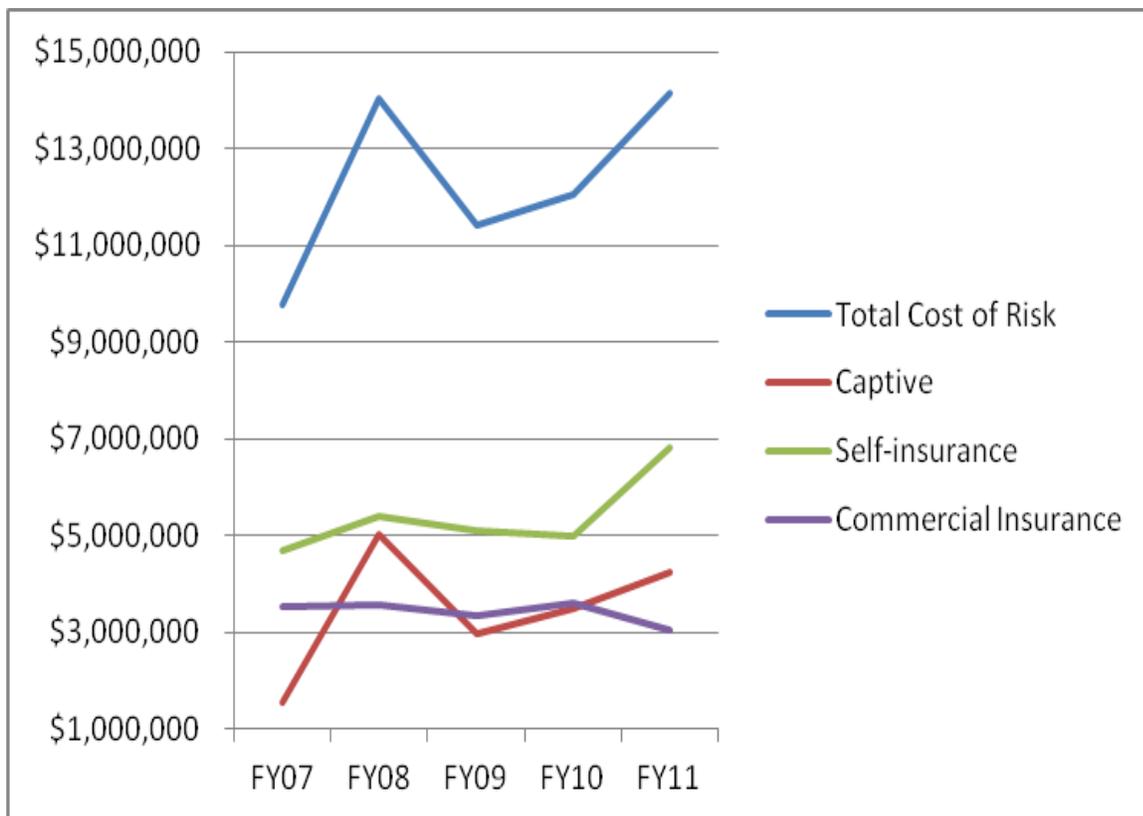
### III. Total Cost of Risk (cont.)

The University's Total Cost of Risk is the sum of

- Captive expenses,
- Self-Insured expenses and
- Commercial Insurance premiums.

Total Cost of Risk has averaged \$12.3MM over the past five years, ranging from \$9.8MM to \$14.1MM.

#### Total Cost of Risk by Fiscal Year



The volatility of our Total Cost of Risk closely tracks the claims experience of the RUMINCO, Ltd. captive.

## **IV. Workplan**

### **Goals for FY12**

#### **Extra-Minnesota Clinical Trials Liability**

Within Minnesota jurisdiction, the University is afforded protection from high-dollar lawsuits by statute. We cannot count on similar protections in foreign jurisdictions. In FY10, Risk Management established a new excess liability insurance placement for catastrophic extra-Minnesota General and Auto liabilities. We are now pursuing a similar program that would apply to extra-Minnesota clinical trials we sponsor.

#### **Standard Contracts**

We will review the insurance sections of the standard contracts the University uses. The central goal will be the practical ability of contract partners to comply with requirements, appropriateness of standards to the tasks normally covered by the contracts, and, to the extent possible, standardization.

#### **Insurance Policy**

We will review University administrative policy addressing property and casualty insurance. Our focus will be on streamlining the policy, making sure the information is relevant to end users and that key points are immediately recognizable and easy to understand.

#### **Physical Safety Improvements**

The Safety Fund is an annually replenished pool of funds used for purchase of durable equipment that improves the safety profile of the University workplace. Risk Management administers the Safety Fund, and encourages units to apply for funding whenever appropriate. This fund can be particularly helpful in this fiscal environment. We are actively seeking areas where Safety Fund support will be optimally useful.