

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2012

Table of Contents

I. Overview	3
Mission of the Office of Risk Management and Insurance.....	3
Organizational Structure	4
FY12 Milestones and Accomplishments	5
II. Risk Finance Programs	6
General Approaches to Risk Finance	6
University Structures.....	7
Captive Insurance.....	8
Retained (Self-insured).....	12
Commercial Insurance.....	15
III. Total Cost of Risk.....	19
Total Cost of Risk Summary	19
IV. Workplan.....	21
Goals for FY12.....	21

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.

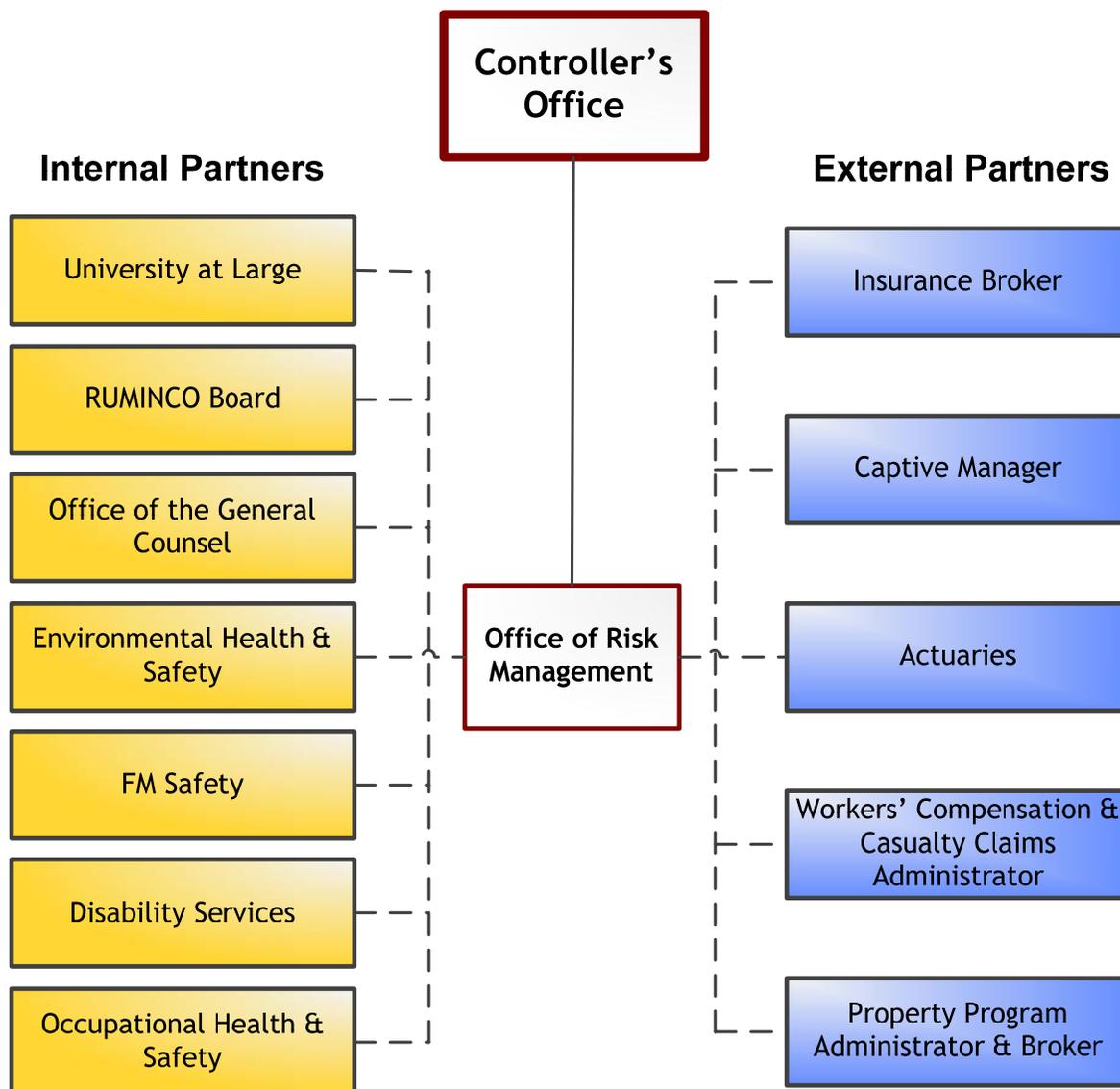
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation and maintenance of these programs. Risk Management routinely consults with the Office of General 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 year end June 30, 2012.

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.



FY12 Milestones and Accomplishments

Extra-Minnesota Medical 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 FY12, Risk Management studied university Medical Clinical Trials activity, prepared application submissions accurately reflecting our exposure, and received alternative proposals for addressing them. We will secure coverage as part of our FY13 insurance program.

Standardized Contract Insurance Clauses

Risk Management reviewed the insurance sections of the standard contracts the University uses. Goals included ensuring the protection of the university, the practical ability of contract partners to comply with requirements, appropriateness of standards to the tasks normally covered by the contracts, and standardization.

Policy on Insurance

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

Physical Safety Improvements

Risk Management administers the Safety Fund, an annually replenished pool of funds used for purchase of durable equipment that improves the workplace safety for university Employees. Because this fund can be particularly helpful in tight fiscal environment, Risk Management encouraged use of it throughout FY12. Recipient campuses and entities included Crookston, St Paul, Crookston, Duluth, the Large Lakes Observatory, Twin Cities and Duluth Facilities Management and the Department of Environmental Health and Safety. The Safety Fund disbursed a total of \$101,123 in FY12.

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

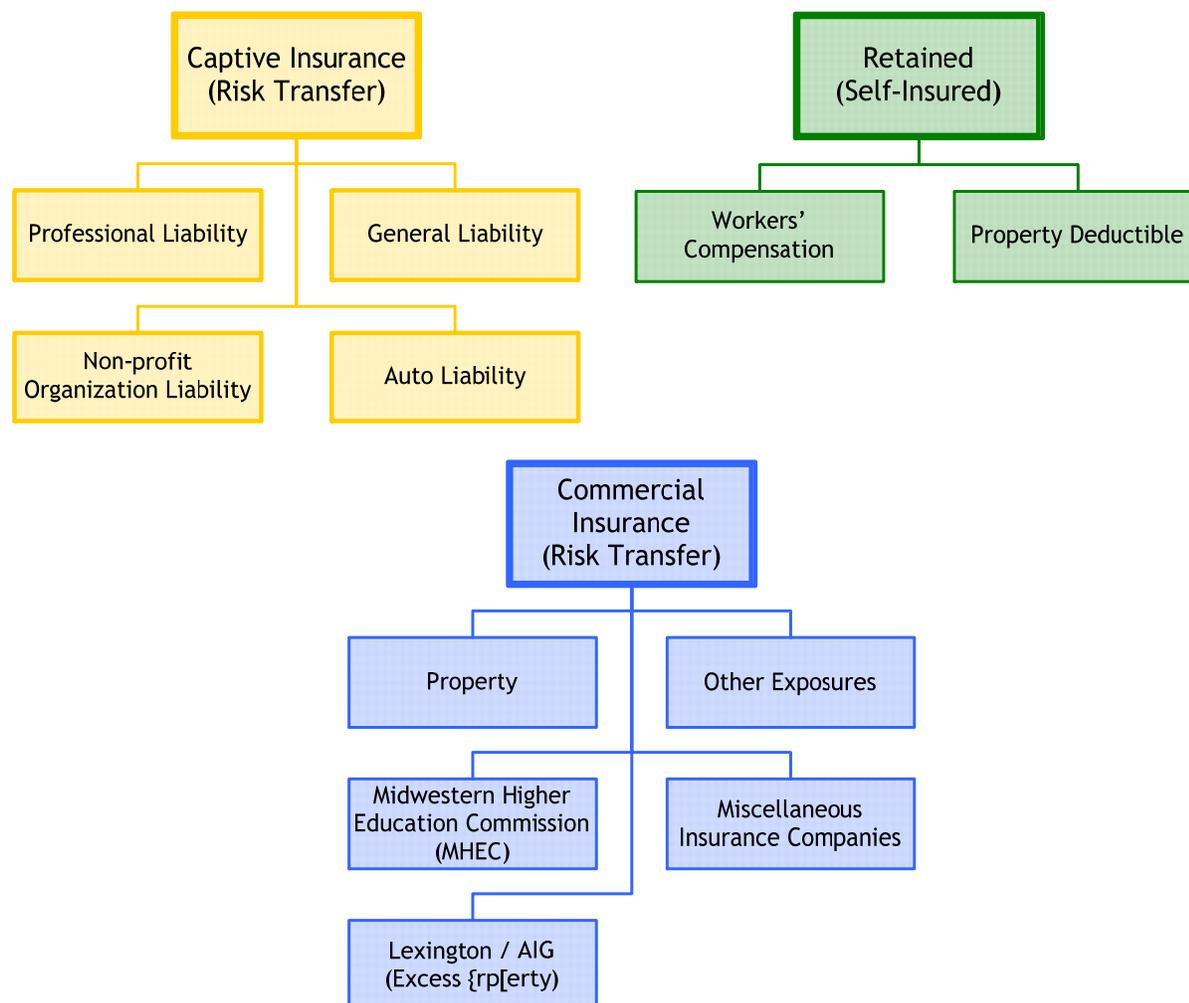
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent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

University Structures

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

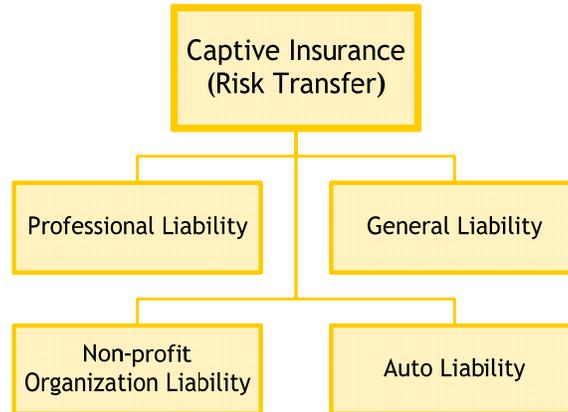
The University finances its Property and Casualty risk using three general strategies:



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.

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; and**
- **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.

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:

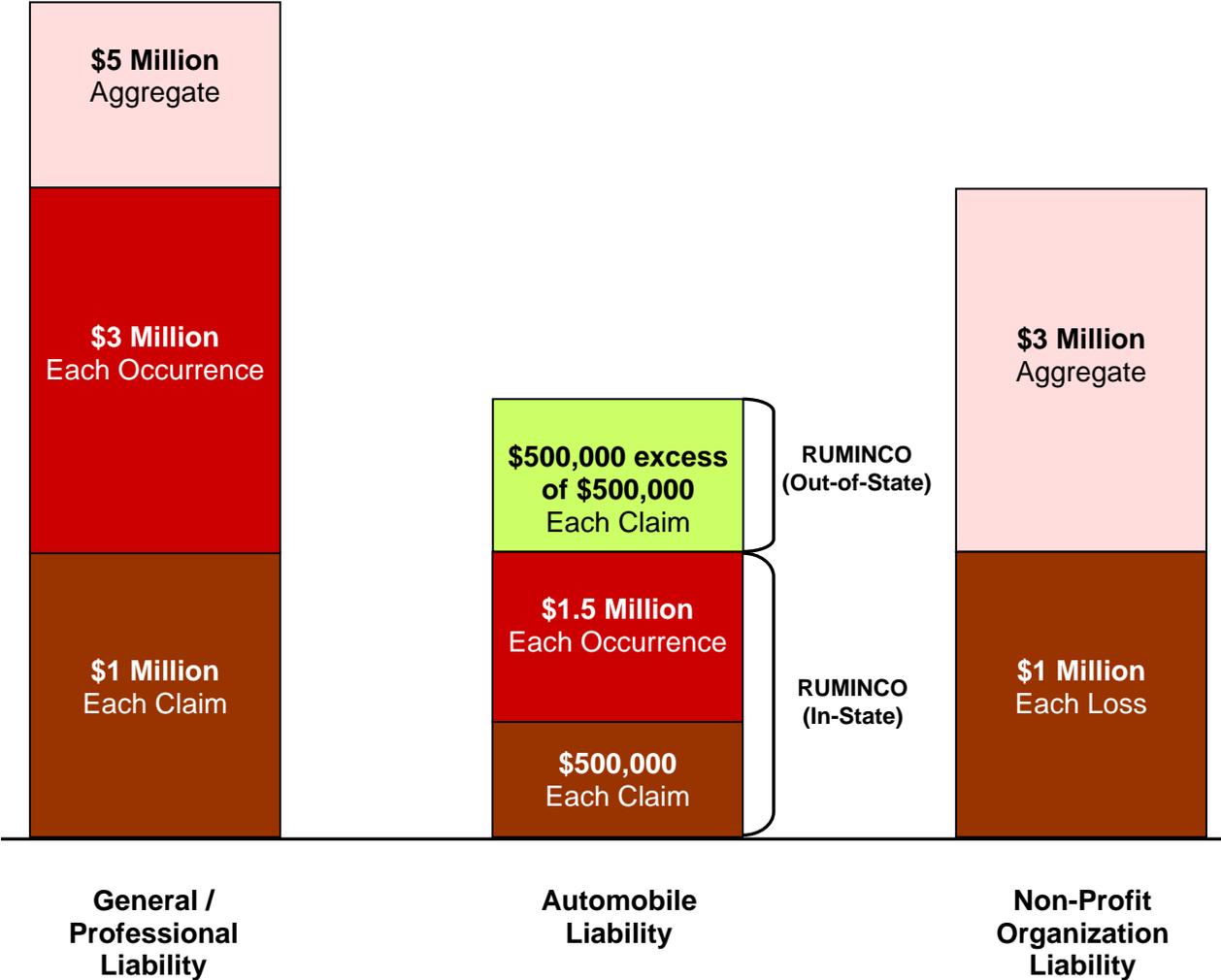
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

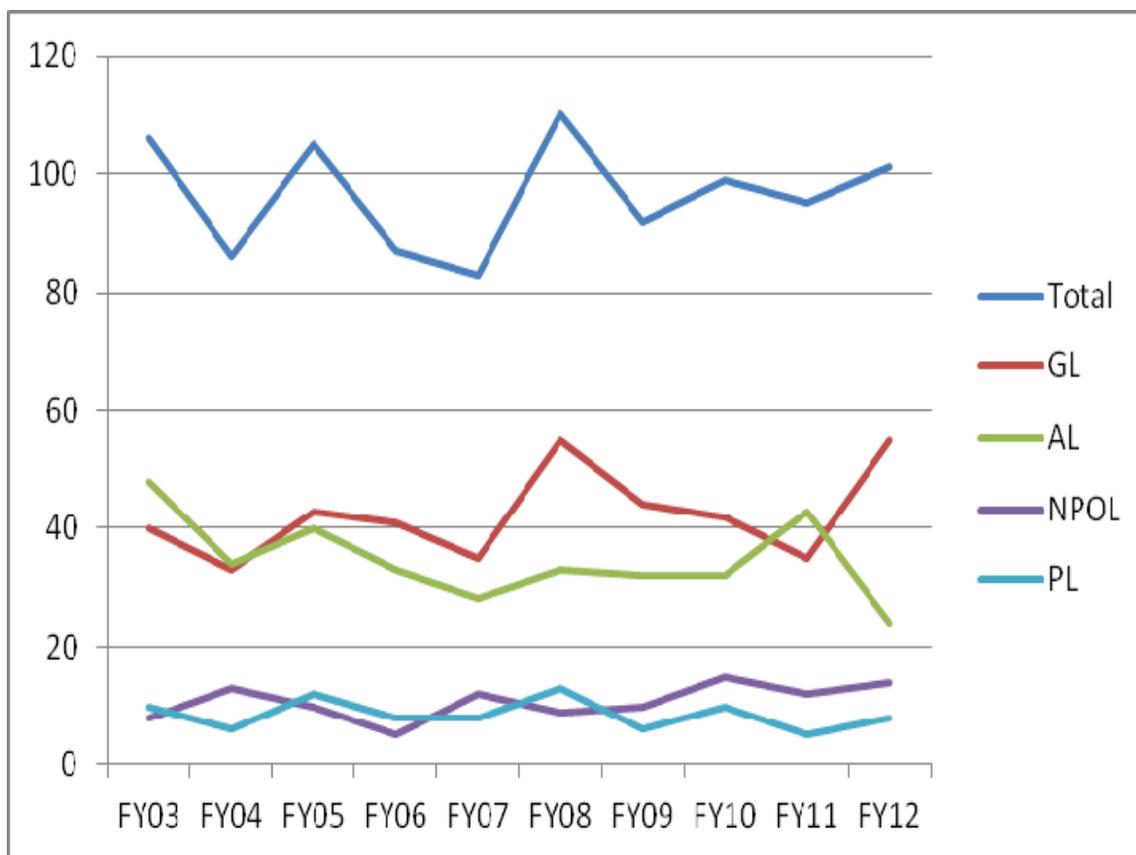
Summary of RUMINCO Ltd. Limits

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.



RUMINCO Ltd. Claims Experience

Claim Count by Fiscal Year



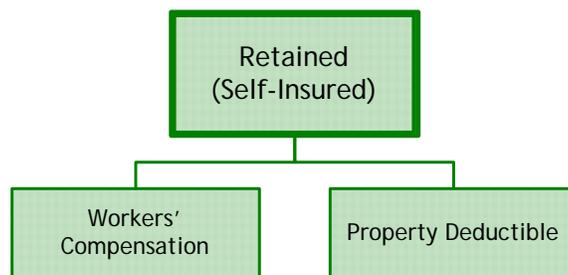
Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO's total claim count has averaged 93 claims per year.

No FY12 claim counts lie farther than two Standard Deviations from the mean,

Statistically, this suggests fairly 'typical' claim counts.

RETAINED (SELF-INSURED)

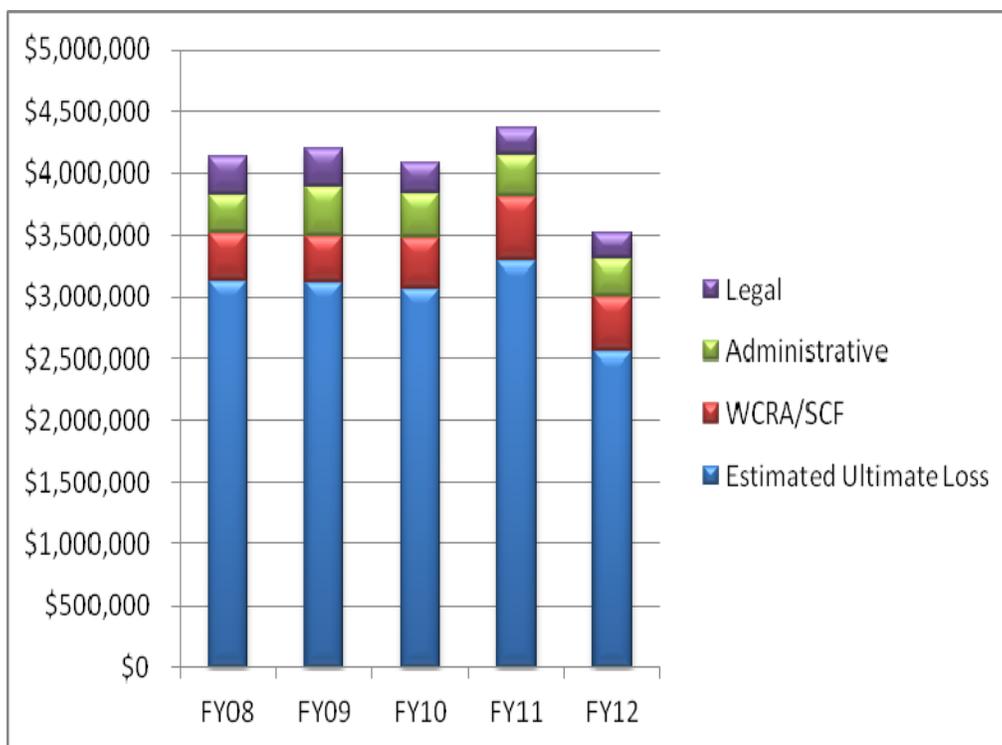


Workers' Compensation Overview

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 \$1,840,000 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.

Workers' Compensation Program Costs

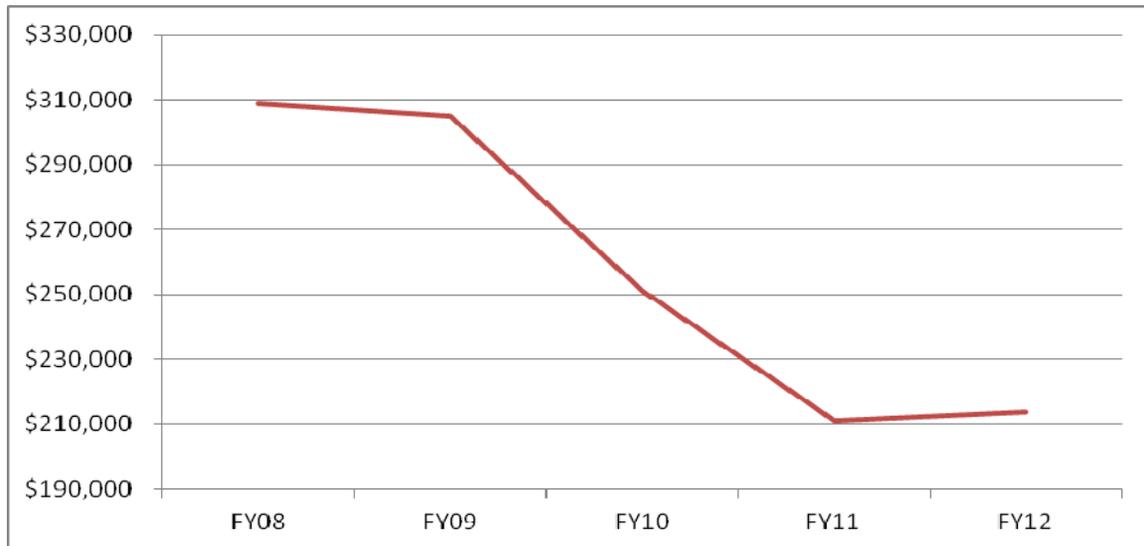


Medical costs continue to rise, but the total cost of Workers' Compensation statute compliance is down 15% when compared to Fiscal Year 2008. Total Cost and Estimated Ultimate Loss are at five-year lows.

Workers' Compensation

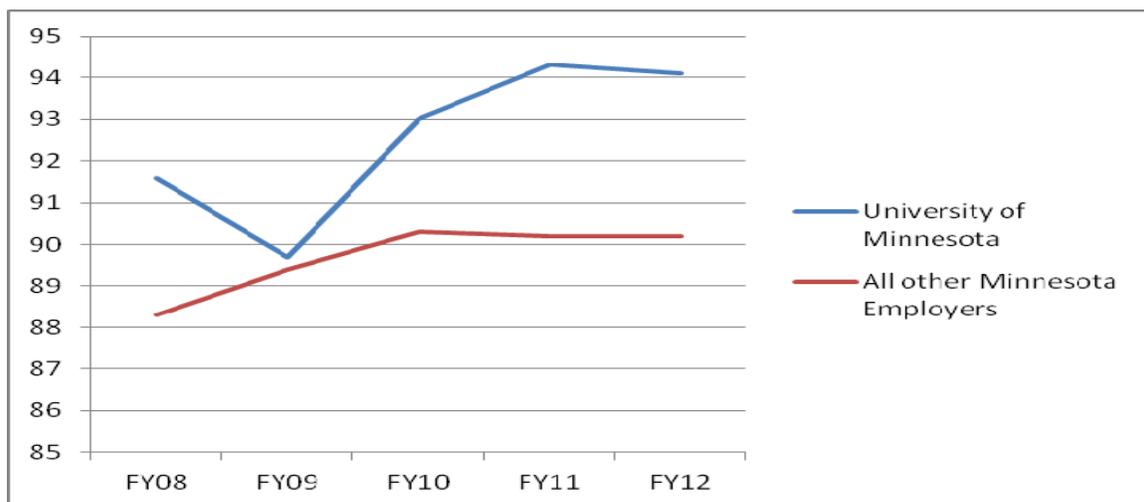
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible and easy to use for all parties. That initiative formed the basis for positive trends.

Workers' Compensation Legal Expenses



Workers' Compensation litigation cost has decreased by 31% since FY08.

On-time Reporting to Department of Labor and Industry



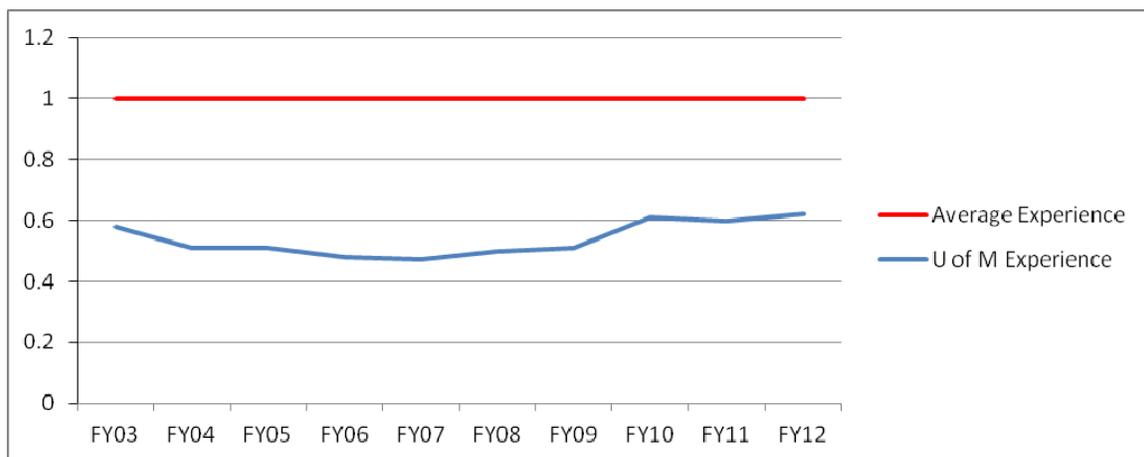
Despite our highly decentralized structure, the university's timely reporting of DOLI claims consistently exceeds the Minnesota average.

Workers' Compensation

The Minnesota Workers' Compensation Reinsurance Association annually calculates the University's Experience Modification Factor.

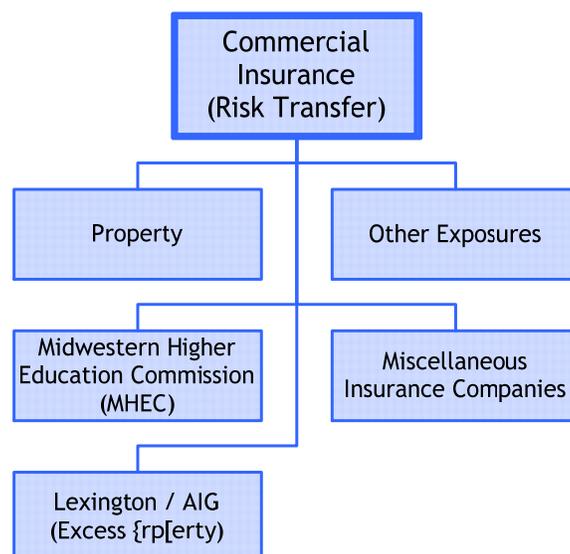
An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below and above signifying better and worse than average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

Minnesota Workers' Compensation Reinsurance Association Experience Modification Factor



Over the past 10 years, the University's Workers' Compensation experience has been 40 to 50 points better than the predicted average.

COMMERCIAL INSURANCE

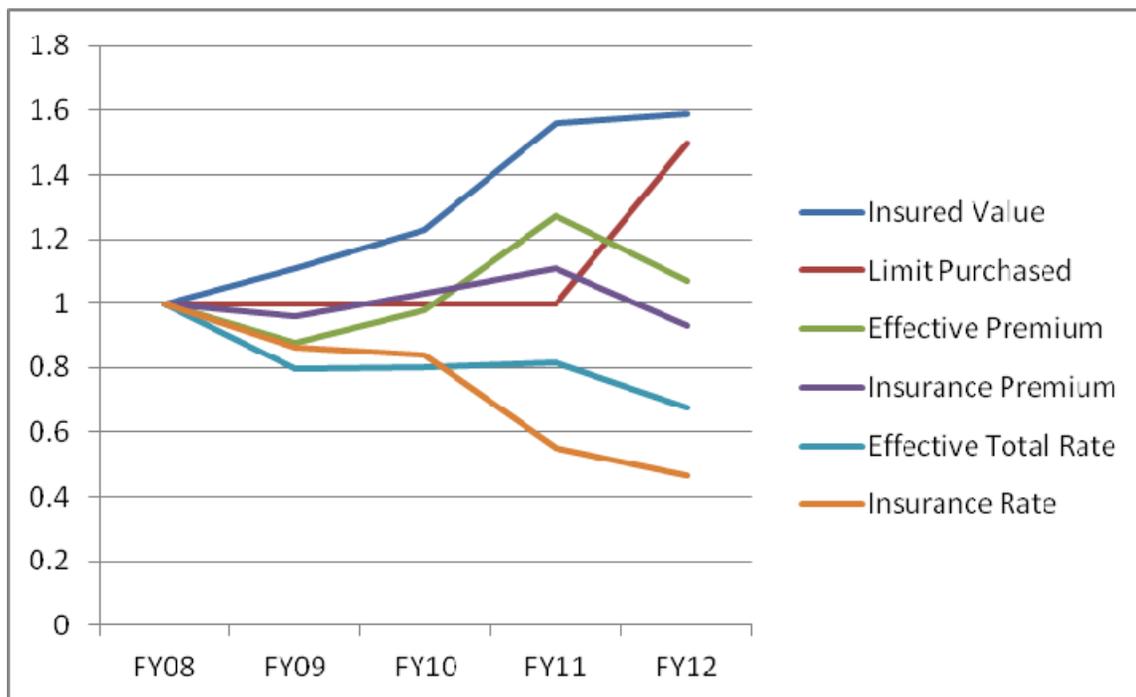


Property Insurance

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 AIG vis the Midwest Higher Education Compact (MHEC) Master Property Program. Default limit under the program is \$500MM. The University purchases another \$1B excess of standard limits, for a \$1.5B per-occurrence total.

The University conducted a July 1, 2010 RFP on 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: FY08 = 1



Using 2008 as the baseline (2008 = 1) this chart shows insurance Rate decreases offsetting. Insured Value and Insurance Limit increases, moderating Effective Premium relatively stable.

Since FY08:

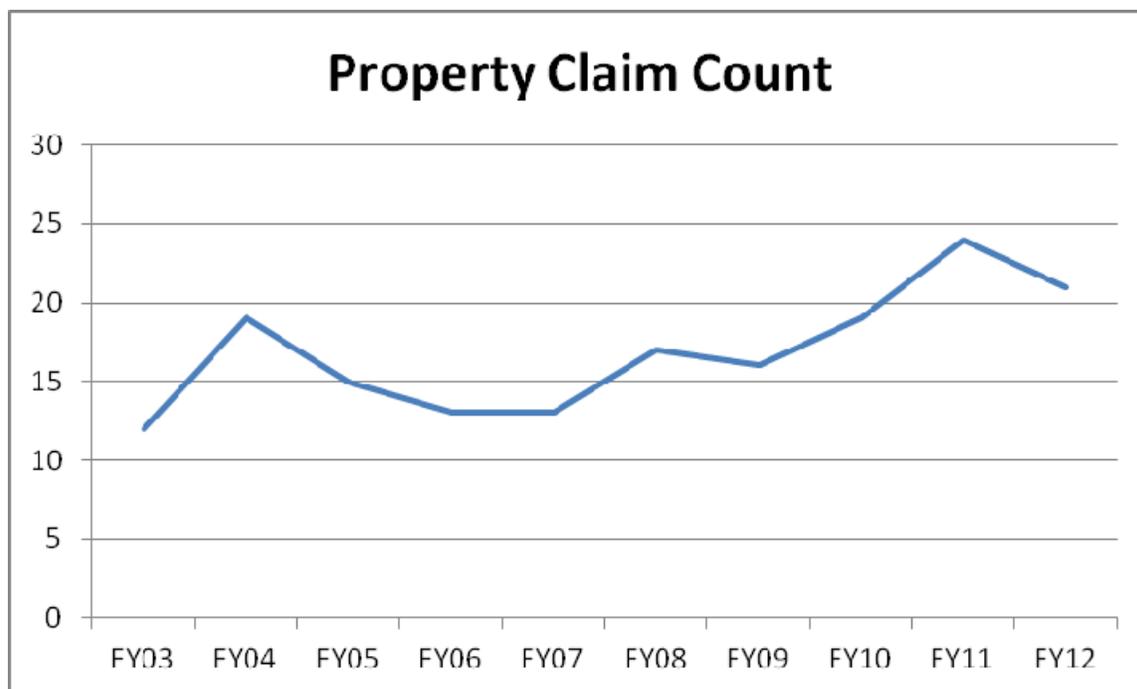
- Cost drivers are up (insurable values 59%; Limit of insurance 50%); and
- Insurance Rate on insured values is down 46%.

The most complete measure of performance is Effective Premium, which reflects deductible cost: $Effective\ Premium = (Premium + Amount\ Retained) / Total\ Insured\ Values$.

- Despite the main Cost Driver (Insured Value) increasing 59%, Effective Premium is only up 7%.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count for FY12 was 21 events, near the ten year high of 24 of FY11.

Like FY11, FY12 losses were again notable for their frequency, severity and unusual nature:

- Five losses exceeded \$200,000, a consecutive ten-year record (1-2 formerly typical)
 - July 17, 2011 Rain Damage (Commonwealth Terrace/Robbie Stadium),
 - September 6, 2011 Mayo pipe burst
 - March 14, 2012 VFW valve failure
 - May 4 2012 Vet Science Pipe Leak
 - June 19, 2012 Glensheen water damage from heavy rain
- Other notable events
 - August 2, 2011 Cedar Creek ROC wind damage
 - May 19, 2012 St Paul Shelter wind damage

These events accounted for:

- 33% of the 23 loss claim count; and
- 90% of the University-incurred deductible expenses.

Property Insurance

Because we reduced the rate and increased the deductible following in FY11, it is useful to consider whether those changes are benefitting the university.

The university saved \$667,192 in FY12 when compared to pro forma results based on applying pre-RFP FY10 rate and deductible to FY12 values and loss history. Even in the context of a challenging claim year, the net result of the deductible and rate changes was financially positive for the University.

Including similarly-calculated FY11 savings, the university has so far saved over \$1MM by restructuring the program.

Miscellaneous Commercial Insurance Coverage

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was \$367,202, a decrease of 5% from FY11 levels (which were down 7% over FY10). 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.

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

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.

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.

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.

III. Total Cost of Risk

Total Cost of Risk Summary

University of Minnesota Total Cost of Risk: Fiscal Years 2008 – 2012

COST ITEM	FY08	FY09	FY10	FY11	FY12
Captive					
Paid Losses	\$2,819,257	\$1,504,261	\$1,638,574	\$875,302	\$678,757
Case Reserves	1,035,378	3,239	119,651	384,650	1,382,524
Incurred, But Not Reported (EST.)	1,350	7,000	70,000	326,000	1,109,000
Liability Claims Administrator	54,624	50,724	74,075	69,717	63,566
Captive Administrative Expenses	131,177	148,305	140,793	117,876	120,930
Litigation Cost	1,083,375	1,103,282	1,245,967	1,617,689	1,469,704
Total Captive	\$5,125,161	\$2,816,811	\$3,289,060	\$3,391,234	\$4,824,481
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	3,132,865	3,122,911	3,064,459	3,290,657	2,565,043
WC Reinsurance Association	109,815	130,873	158,827	160,246	142,096
Special Compensation Fund	273,999	244,764	261,894	356,973	291,348
WC Claims Administrator	245,326	317,428	298,348	291,712	267,826
Litigation Cost	308,934	305,033	251,371	211,198	214,019
Bill Review Service	27,985	35,191	33,641	36,751	28,640
WC Actuarial	12,000	12,000	7,144	9,892	9,288
WC Broker Consultation	28,350	33,210	11,550	--	--
WC Total	4,139,274	4,201,410	4,087,234	4,357,429	3,518,260
Retained Property Losses [1]	1,059,750	709,190	901,752	2,616,631	2,573,326
Electronic Data Processing [2]	55,499	22,184	31,568	36,095	29,707
Automobile Physical Damage	125,338	154,891	173,682	127,295	156,843
Total Self-insurance	\$5,379,861	\$5,087,675	\$5,194,236	\$7,137,450	\$6,278,136
Commercial Insurance					
All Risk Property	\$3,061,018	\$2,987,422	\$3,115,827	\$2,618,781	\$2,240,136
Property Experience Dividend	(32,453)	(85,691)	na	na	na
Total Property Insurance	3,028,565	2,901,731	3,115,827	2,618,781	2,240,136
Excess Liability - Extra MN	--	--	205,511	233,400	234,745
Intercollegiate Athletics	76,000	39,000	34,195	53,000	31,500
Hull, Liability, Pollution (Blue Heron Watercraft)	26,124	26,124	28,977	30,613	30,613
Fidelity & Crime	43,232	19,967	19,967	19,967	20,210
Fine Arts	43,750	18,495	17,549	17,549	18,280
Nonowned Aircraft Liability	17,649	19,187	18,229	18,000	18,000
Showboat	7,648	7,648	6,925	6,925	6,925
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,365
Child Care Center ADD	1,275	931	1,173	1,173	1,188
Upward Bound AD&D	310	376	376	376	376
RSO Liability	7,725	8,047	8,067	--	--
Excess Liability for Metrodome [3]	119,164	101,894	--	--	--
Automobile Liability (out of state) [3]	51,881	53,610	--	--	--
Study Abroad (France)	6,500	7,203	--	--	--
Consultation	19,737	--	--	--	--
Brokerage	128,750	128,750	128,750	54,000	54,000
Total Commercial Insurance	\$3,583,675	\$3,338,328	\$3,590,911	\$3,059,149	\$2,661,338
GRAND TOTAL COST OF RISK	\$14,088,697	\$11,242,814	\$12,074,207	\$13,587,834	\$13,763,955

[1] Amount of Insurable property losses between \$10,000 and deductible.

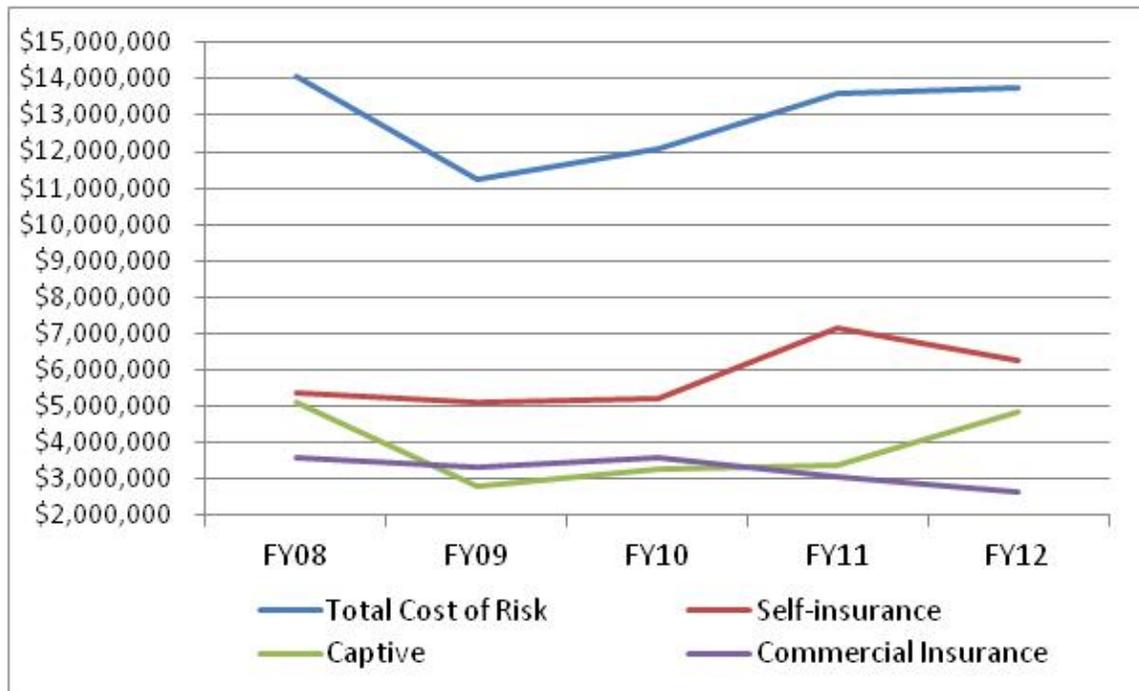
[2] EDP coverage is self-insured; figure shows losses excess \$500/claim.

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

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

- Self-Insured costs;
- Captive costs; and
- Commercial Insurance premiums.

Total Cost of Risk by Fiscal Year



Total Cost of Risk has averaged \$13MM over the past five years, ranging from \$11.2MM (FY09) to \$14.1MM (FY08).

IV. Workplan

Goals for FY12

Extra-Minnesota Medical Clinical Trials Liability

We will finalize and bind coverage.

Alcoholic Beverage Sales and Service and Venue Liquor Licensing Policy

We will work with Contract Administration to complete this administrative policy.

Workers Compensation

Risk Management will continue to improve communication between university Human Resources and Third Party Administrator Sedgwick to minimize claimant payment errors.