UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2013

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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.

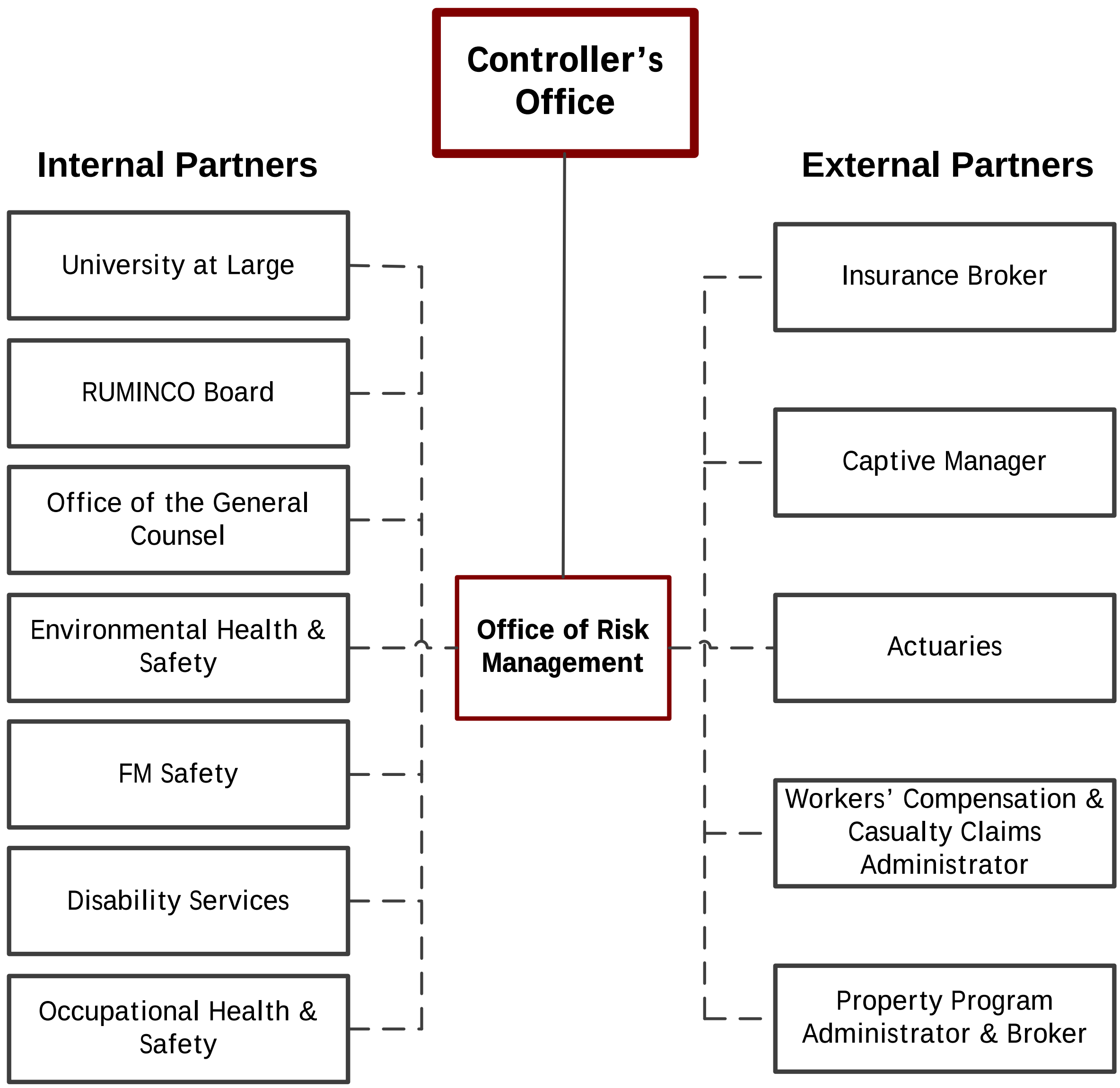
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General 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 year end June 30, 2013.

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.



FY13 Completed Projects

Extra-Minnesota Medical Clinical Trials Liability

Within Minnesota jurisdiction, the University is afforded protection from high-dollar lawsuits by statute. Since we cannot count on similar protections in foreign jurisdictions, Risk Management studied university Medical Clinical Trials activity, prepared application submissions accurately reflecting our exposure, received alternative proposals for addressing the exposures, and finalized and bound coverage for liabilities excess of RUMINCO limits occurring outside Minnesota.

Alcoholic Beverage Sales and Service and Venue Liquor Licensing Policy

We worked with the Office of the President, Contract Administration, and the Office of the General Counsel to complete this administrative policy.

Workers Compensation

Risk Management worked with university Human Resources and Third Party Administrator Sedgwick to improve internal and external communication to minimize claimant payment errors.

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

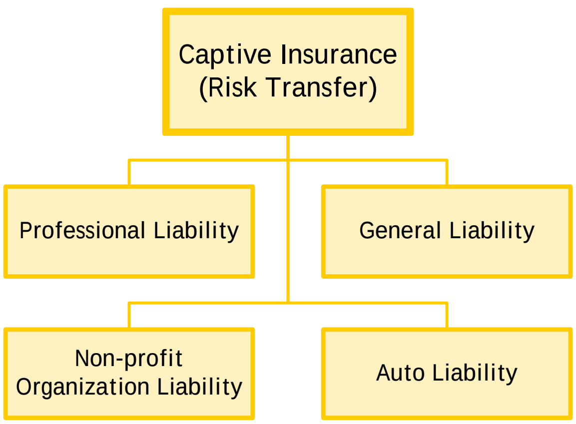
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one's own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent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

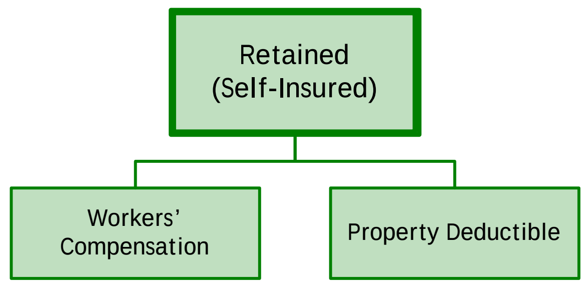
Generally, this principle is not useful when the University is exposed to truly catastrophic loss potential. A good example of this is the property associated with the University's campuses. The University has approximately $11B in property values, and carries a $1B property insurance limit. Because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

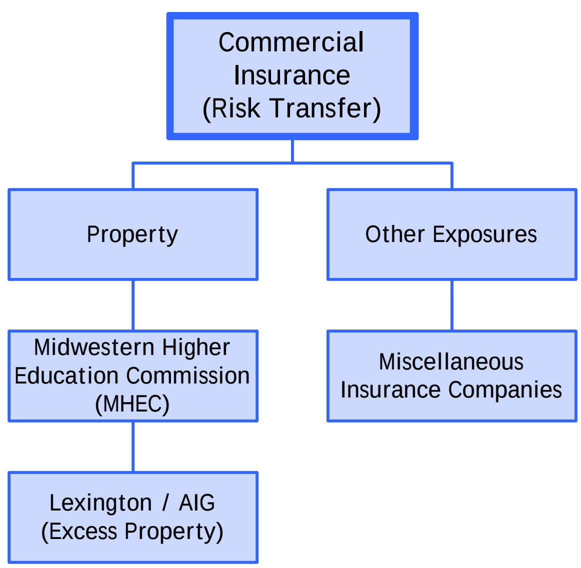
University Structures

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:



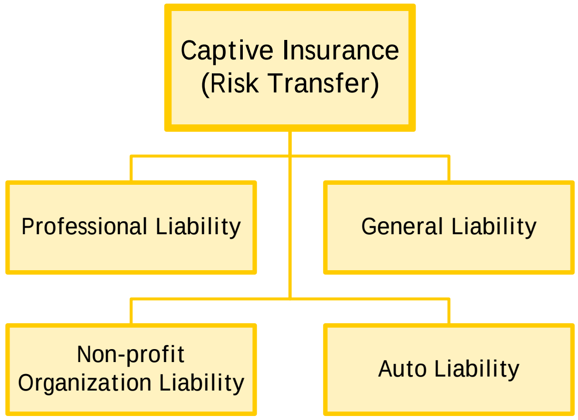




The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal risk financing strategy. This process includes ongoing reviews of the University's loss exposures, claim frequency and severity, and trends in each.

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

CAPTIVE INSURANCE



RUMINCO, Ltd.

RUMINCO Ltd. (*R*egents of the *U*niversity of *M*innesota *IN*surance *CO*mpany) 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:

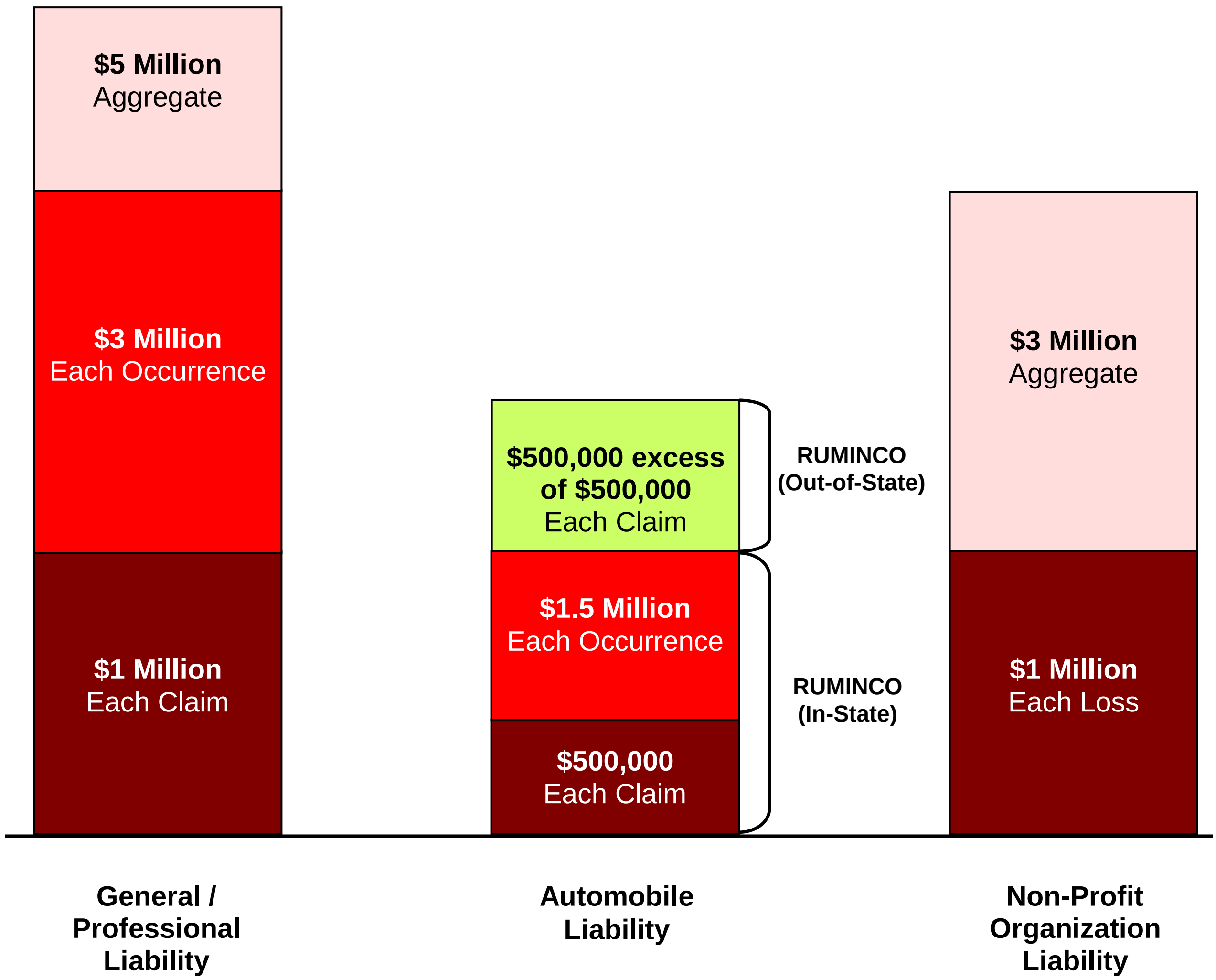
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

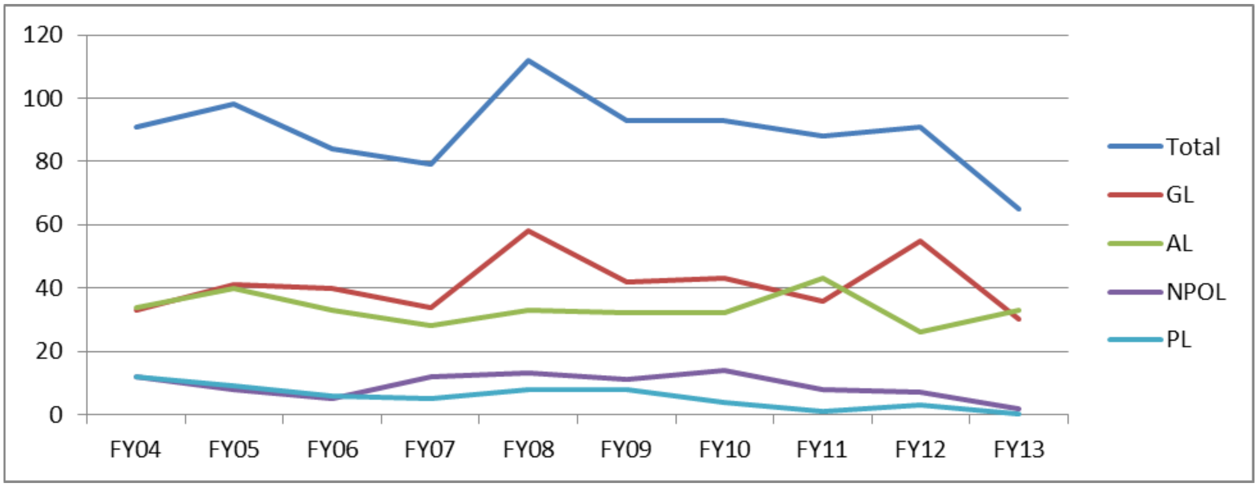
Summary of RUMINCO Ltd. Limits

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



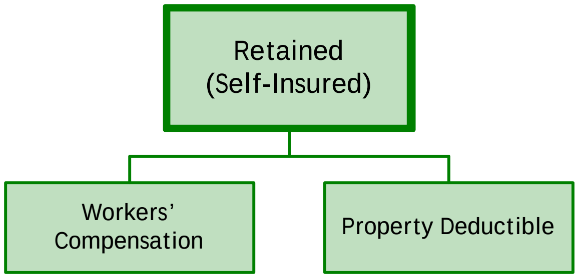
Claim frequency for the four RUMINCO lines of liability coverage over the past ten years.

RUMINCO's Total Claim Count has averaged 89 claims per year over the past ten years.

The FY13Claim Count of 65 represents a ten-year low.

No FY13 claim counts lie farther than two Standard Deviations from the mean. Statistically, this suggests that despite being low, the FY13 claim counts are still within the expected range.

RETAINED (SELF-INSURED)

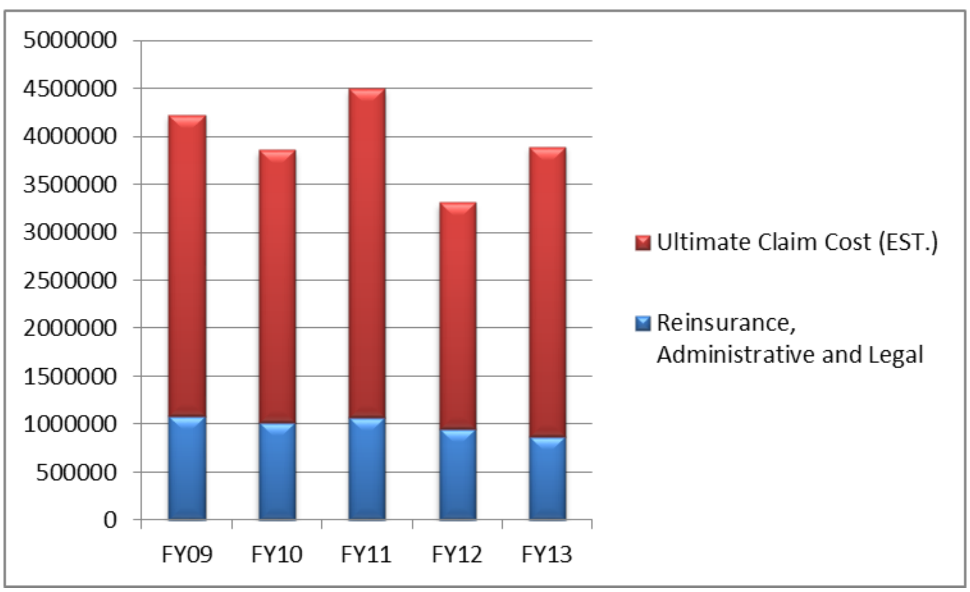


Workers' Compensation Overview

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

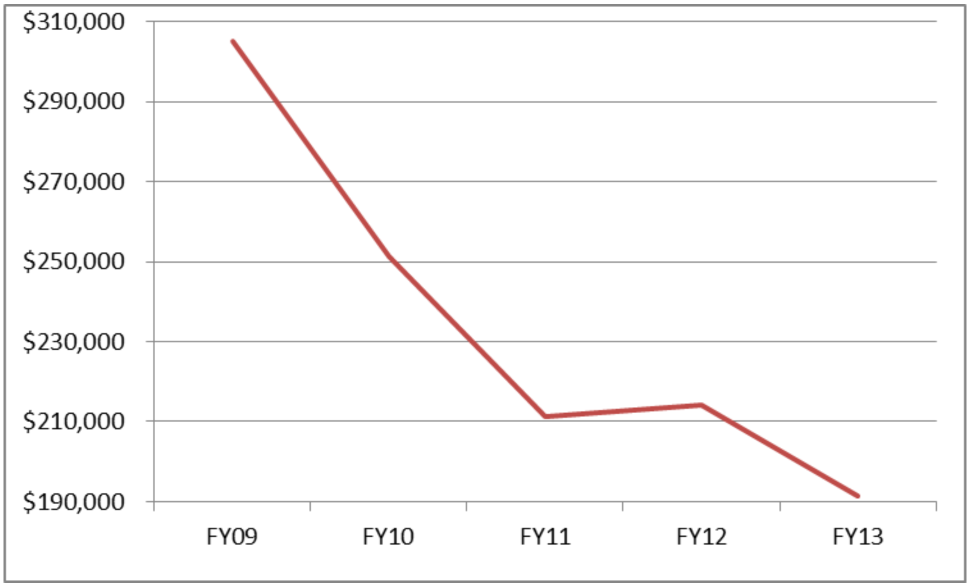


Annual claim cost is moderately volatile. Ancillary administrative costs have steadily decreased now 19% less than in FY09.

Workers' Compensation

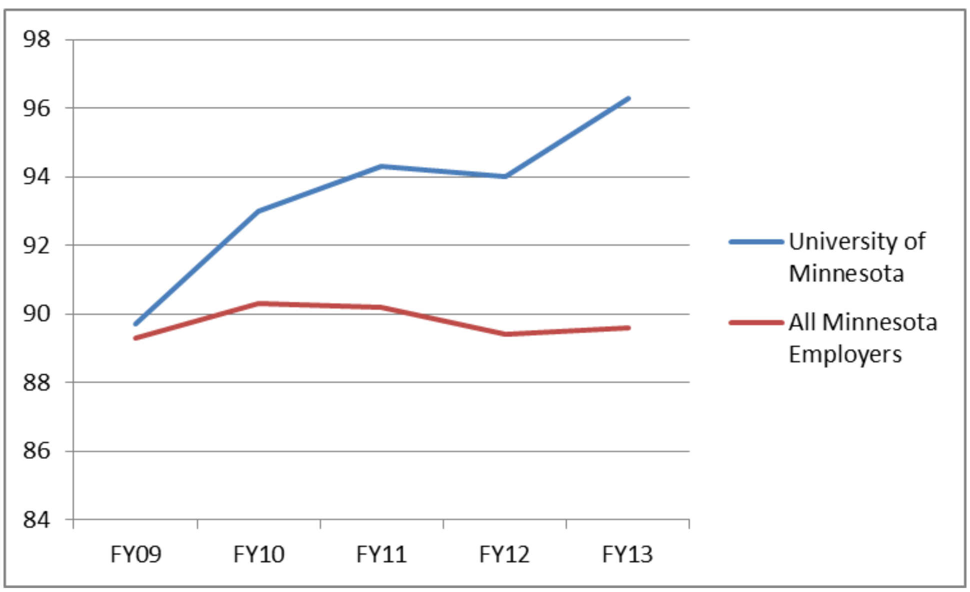
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends.

Workers' Compensation Legal Expenses



Cost of litigating Workers' Compensation has decreased by 37% since FY09.

On-time Reporting to Department of Labor and Industry



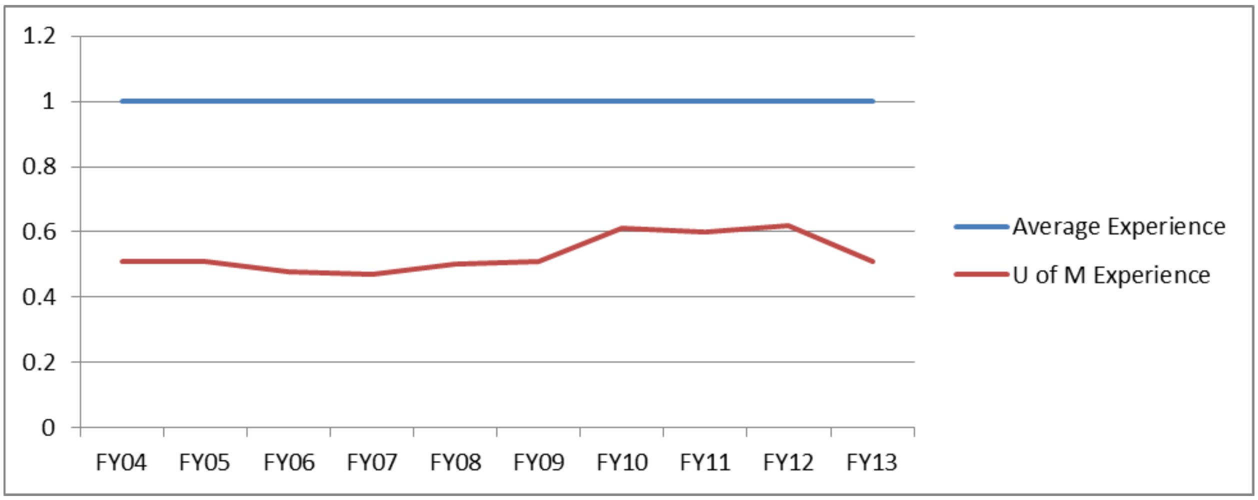
The university's timely reporting of DOLI claims consistently exceeds the Minnesota average. Accurate apportionment of fines and electronic claim reporting are key drivers.

Workers' Compensation

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

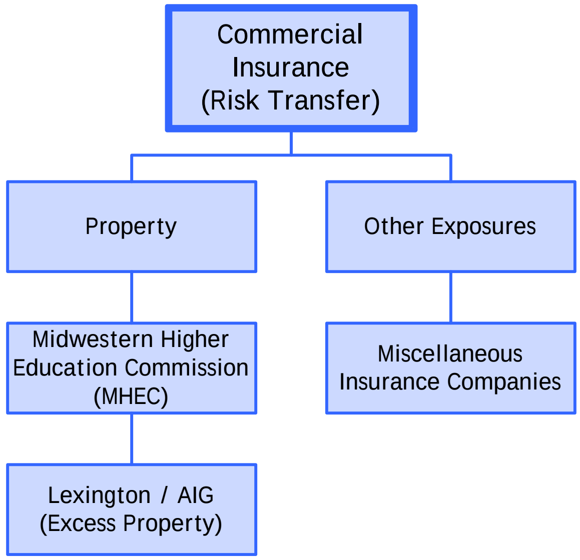
An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below and above signifying better and worse than average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

Minnesota Workers' Compensation Reinsurance Association
Experience Modification Factor



Over the past 10 years, the University's Workers' Compensation experience has consistently been 40 to 50 points lower/better than what general Minnesota injury statistics would predict.

COMMERCIAL INSURANCE



Through the purchase of commercial insurance , the university transfers certain loss exposures to commercial insurance companies.

Reasons to commercially transfer risk include:

- high limits it would be difficult, or impossible, to self-fund ($40 Extra MN General/Auto Liability; $1.75B Property Insurance) and
- convenience , low price of transfer, or acceptance by third parties (NCAA Athletic Injury Primary; Daycare Accident; Fine Art)

Property Insurance premiums are 80 percent of the university's commercial insurance outlay.

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 through the Midwest Higher Education Compact (MHEC) Master Property Program.

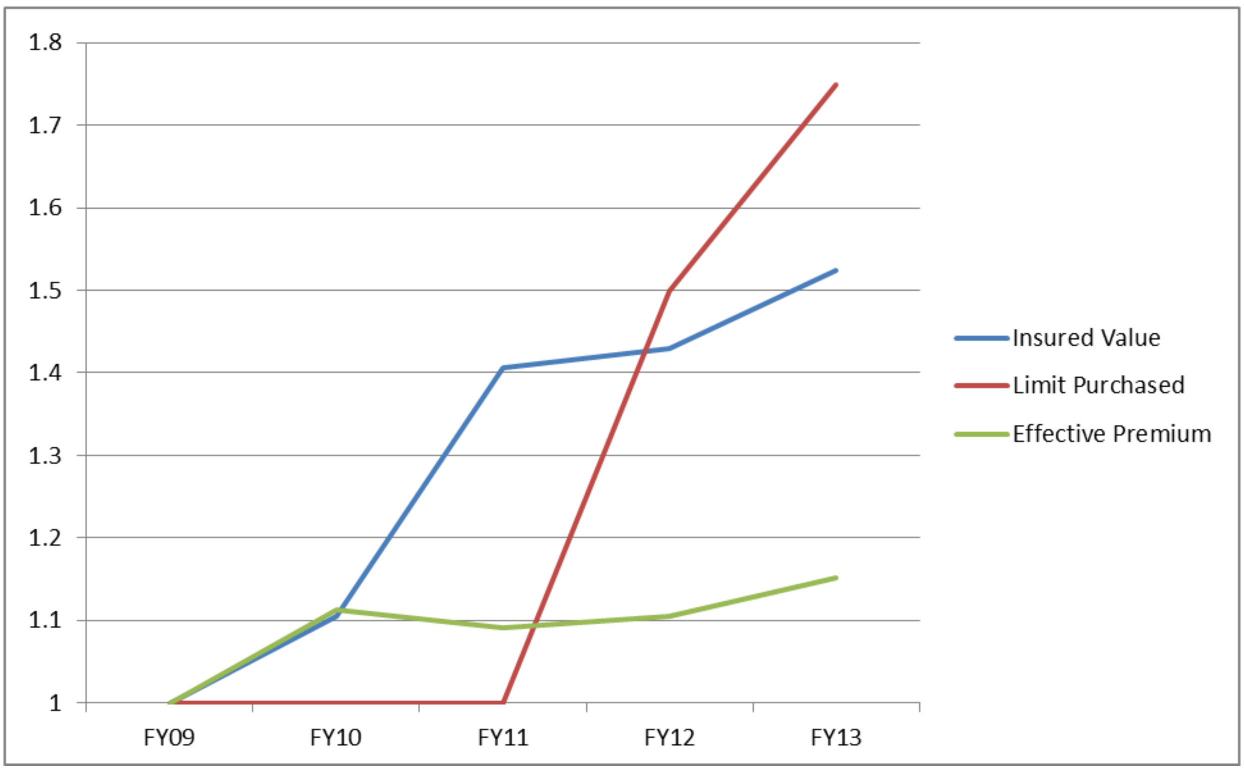
The university had been participating in optional excess layers totaling $1.5B, and purchased another $250MM high excess layer this year, for a total of $1.75B per occurrence.

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.

An effective measure of performance is Effective Premium, which reflects deductible cost:

Effective Premium = Premium Paid to Insurer + Deductible Internally Retained

Trends in Values, Premium and Rates: FY09 = 1

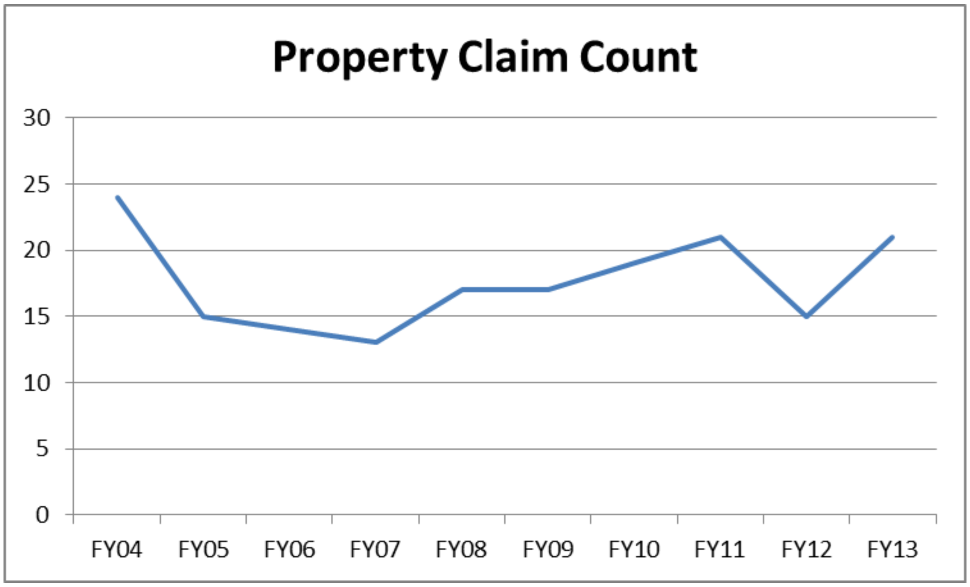


Property insurance cost drivers are Insured Value and Limit Purchased.

Using FY09 as the baseline, we see the marked increase in both, yet effective Premium has remained comparatively stable over the past three years.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count for events exceeding $10,000 was 21 events for FY13, near FY11's ten year high of 24 events.

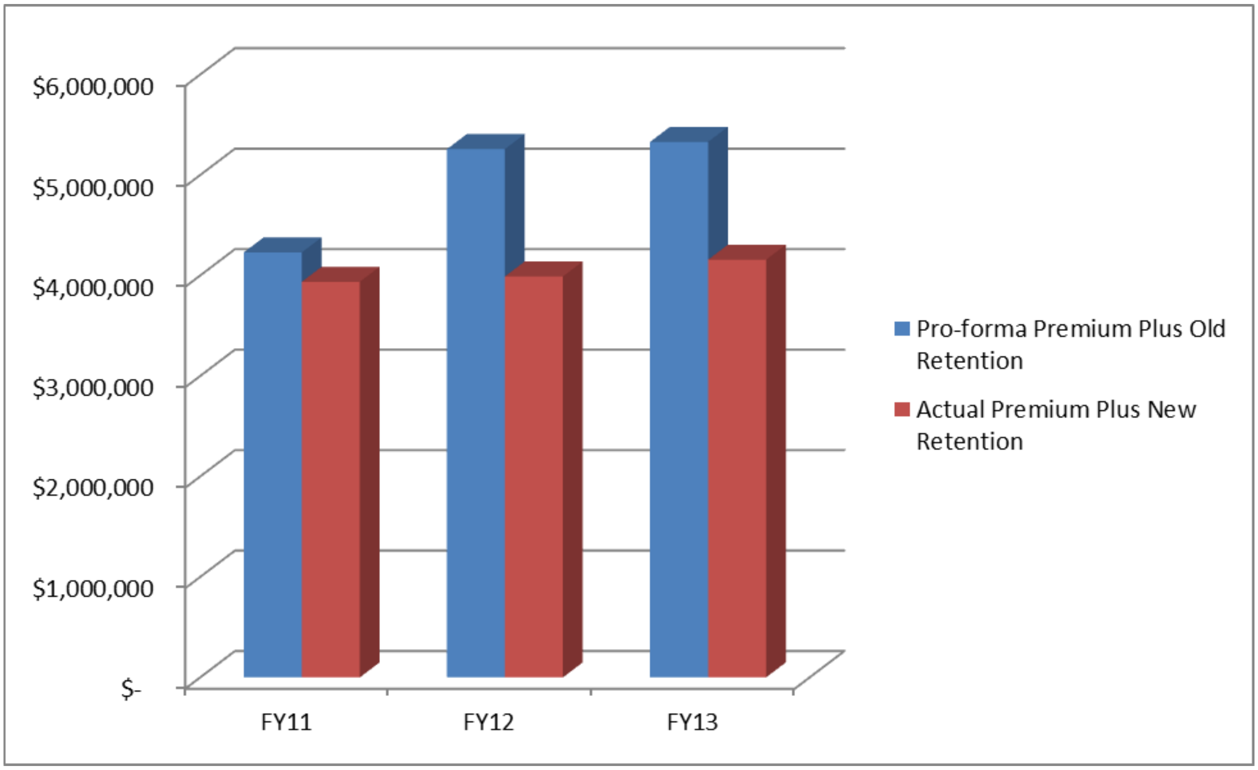
In FY13, four losses exceeded $200,000:

- December 25, Water Damage, Domestic Plumbing, Mayo
- January 20, Water Damage, Domestic Plumbing, Mayo
- February 17, Water Damage, Domestic Plumbing, Wallin Medical Biosciences
- April 23, Water Damage, Vandalism, Dwan

Property Insurance

Because we reduced the rate and increased the deductible from $200,000 to $500,000 for FY11, we are interested in whether those changes are benefitting the university.

The graph below compares actual total cost (Premium plus retention) to results adjusted pro-forma to pre-FY11 rates and deductibles.



As a result of restructuring the property program, the university has saved a total of $2.7MM over the past three years.

Miscellaneous Commercial Insurance Coverage

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) and associated brokerage and consulting was $555,596. The increase from last year's $421,202 was due primarily to the addition of the Excess Clinical Trials Liability policy. Here is a brief overview of purchased policies with premiums exceeding $10,000:

New Coverage:

EXCESS CLINICAL TRIALS LIABILITY – EXTRA MN: $10MM in coverage excess a $1MM Self-insured Retention (Deductible) for Clinical Trials liabilities the university may incur outside the jurisdiction, and Tort Cap protection, of Minnesota law.

Enhanced Coverage:

NON-OWNED AIRCRAFT LIABILITY: Covers the university's liability arising out of use of non-owned aircraft rented or chartered by the University. The new limit is $50MM per occurrence, up from last year's $25MM, and is excess of policies purchased by the owner of the aircraft.

Unchanged Coverages:

EXCESS GENERAL AND AUTO 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.

III. Total Cost of Risk

Total Cost of Risk Summary

University of Minnesota Total Cost of Risk: Fiscal Years 2009 – 2013

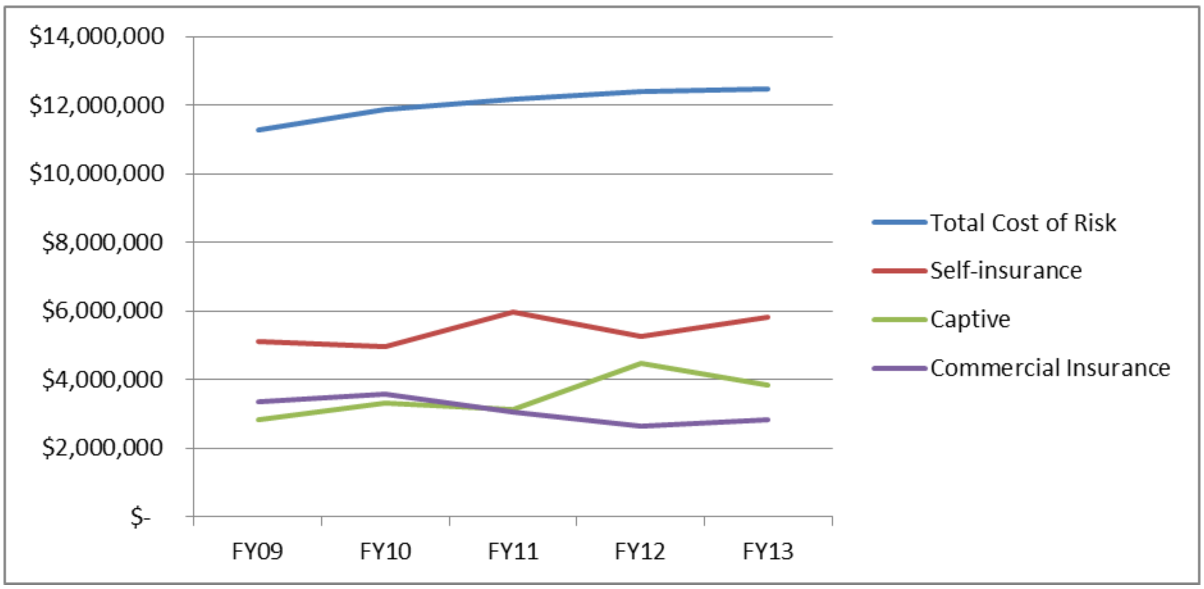
COST ITEM	FY09	FY10	FY11	FY12	FY13
Captive					
Paid Losses	$1,504,934	$1,746,899	$891,472	$1,592,923	$518,400
Case Reserves	2,566	67,695	281,382	922,557	681,521
Incurred, But Not Reported (EST.)	8,430	27,270	136,984	321,830	1,146,326
Liability Claims Administrator	50,724	74,075	69,717	63,566	51,707
Captive Administrative Expenses	148,305	140,793	117,876	120,930	116,909
Litigation Cost	1,103,282	1,245,967	1,617,689	1,469,704	1,309,705
Total Captive	**$2,818,241**	**$3,302,699**	**$3,115,120**	**$4,491,510**	**$3,824,568**
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	3,147,605	2,835,245	3,434,216	2,355,966	3,019,959
WC Reinsurance Association	130,873	158,827	160,246	142,096	155,784
Special Compensation Fund	244,764	261,894	356,973	291,348	207,312
WC Claims Administrator	317,428	298,348	291,712	267,826	275,324
Litigation Cost	305,033	251,371	211,198	214,019	191,338
Bill Review Service	35,191	33,641	36,751	28,640	32,717
WC Actuarial	12,000	7,144	9,892	9,288	10,300
WC Broker Consultation	33,210	11,550	--	--	--
WC Total	**4,226,104**	**3,858,020**	**4,500,988**	**3,309,183**	**3,892,734**
Retained Property Losses [1]	709,190	901,752	1,318,161	1,749,707	1,810,830
Electronic Data Processing [2]	22,184	31,568	36,095	29,707	24,371
Automobile Physical Damage	154,891	173,682	127,295	156,843	87,779
Total Self-insurance	**$5,112,369**	**$4,965,022**	**$5,982,539**	**$5,245,440**	**$5,815,714**
Commercial Insurance					
All Risk Property	$2,987,422	$3,115,827	$2,618,781	$2,240,136	$2,261,562
Property Experience Dividend	(85,691)	na	na	na	na
Total Property Insurance	2,901,731	3,115,827	2,618,781	2,240,136	2,261,562
Excess General/Auto Liability - Extra MN	--	205,511	233,400	234,745	238,002
Excess Clinical Trials Liability - Extra MN	--	--	--	--	139,839
Intercollegiate Athletics	39,000	34,195	53,000	31,500	31,500
Hull, Liability, Pollution (Blue Heron Watercraft)	26,124	28,977	30,613	30,613	31,558
Fidelity & Crime	19,967	19,967	19,967	20,210	20,162
Fine Arts	18,495	17,549	17,549	18,280	18,280
Nonowned Aircraft Liability	19,187	18,229	18,000	18,000	22,000
Showboat	7,648	6,925	6,925	6,925	9,739
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,365
Child Care Center AD&D	931	1,173	1,173	1,188	1,159
Upward Bound AD&D	376	376	376	376	406
RSO Liability	8,047	8,067	--	--	--
Excess Liability for Metrodome [3]	101,894	--	--	--	--
Automobile Liability (out of state) [3]	53,610	--	--	--	--
Study Abroad (France)	7,203	--	--	--	--
Brokerage	128,750	128,750	54,000	54,000	37,586
Total Commercial Insurance	**$3,338,328**	**$3,590,911**	**$3,059,149**	**$2,661,338**	**$2,817,158**
GRAND TOTAL COST OF RISK	**$11,268,938**	**$11,858,632**	**$12,156,809**	**$12,398,288**	**$12,457,440**

[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"
[4] FY11 Retained Property Losses reflects <$1,345,403> Annual Aggregate Deductible Recovery
{5} FY12 Retained Property Losses contemplates expected FEMA reimbursement of $1MM Glensheen Flood Deductible

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 averaged $12MM over the past five years; it was $14MM in FY08.

IV. Workplan

Goals for FY14

Slip/Trip/Fall Accidents

Slip/Trip/Fall accidents are the most common accident at the university. Visitors, students and employees are all subject to these events. We will explore possibilities for reducing the incidence of Slip/Trip/Fall accidents on campus.

Back Injuries from Trash Handling

Back injuries arising from improper lifting of trash bags are a fairly frequent and expensive subset of workers compensation injuries to the lower back. We will investigate education and engineering remediations of this hazard.

Vehicular Cell Phone Use

We will consider developing policy specific to the use of cell phones while operating a vehicle in the course of university business.