

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2016

Table of Contents

I. Overview	3
Mission of the Office of Risk Management and Insurance	3
Organizational Structure.....	4
FY16 Workplan Status	5
II. Risk Finance Programs	6
General Approaches to Risk Finance	6
University Structures	7
Captive Insurance	8
Retained (Self-insured)	12
Commercial Insurance	14
III. Total Cost of Risk.....	18
Total Cost of Risk Summary.....	19
IV. Workplan.....	22
FY17 Workplan	22

I. Overview

Mission of the Office of Risk Management and Insurance

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.

The Risk Management Team:

- Consults with 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.

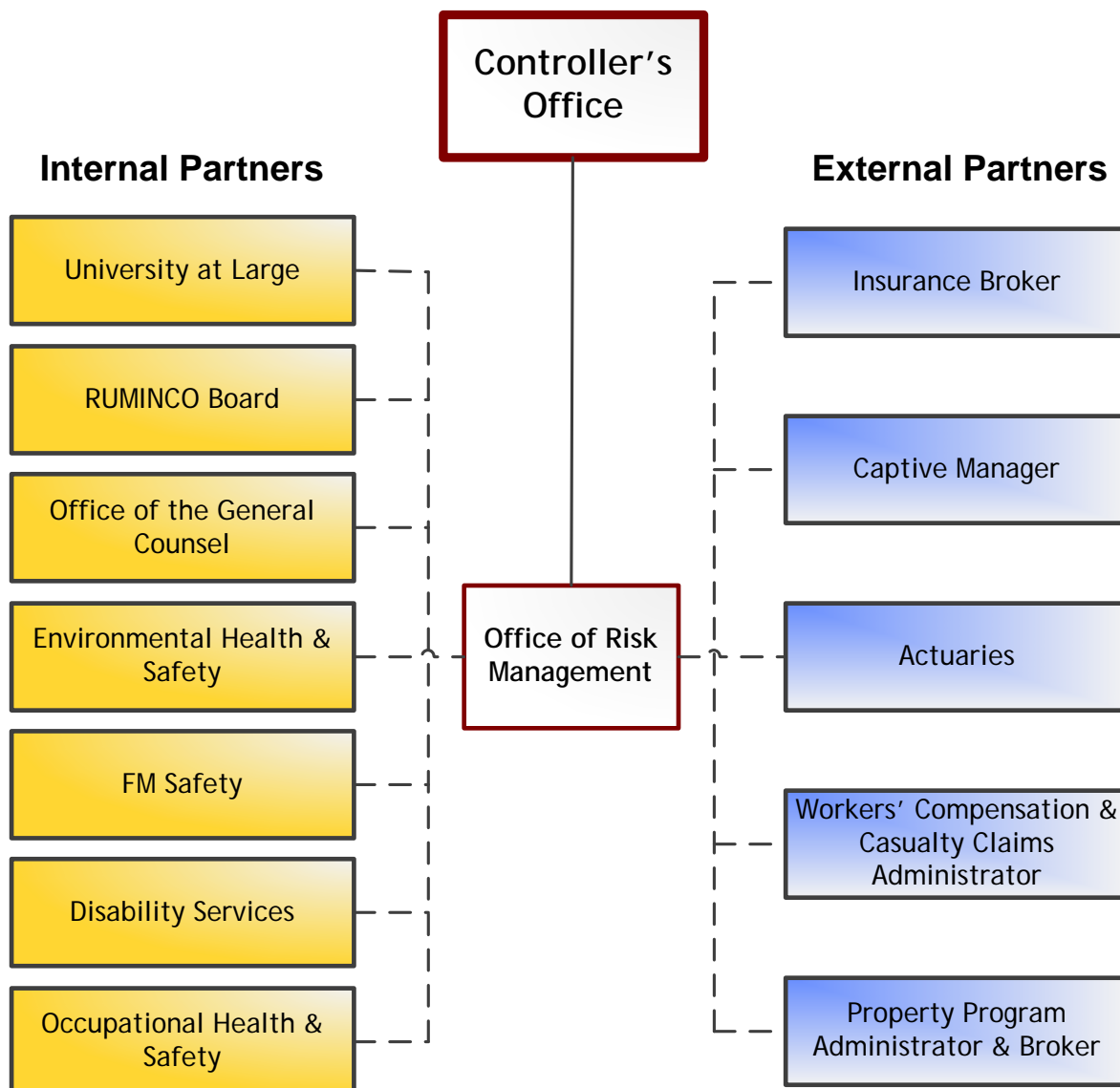
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General 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, 2016.

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.



FY16 Workplan Status

Third Party Administrator RFP

We issued an open RFP to select a vendor to administer claims for RUMINCO, Ltd. (our captive liability insurer) and for our self-insured Workers' Compensation for the next three years. No competitor offered terms superior to incumbent Sedgwick's, and we awarded the contract to them.

Property Insurance RFP

We introduced competition to the Midwest Higher Education Compact ('MHEC') property program. Respondent FM Global Insurance Company ('FM') offered the winning terms.

Savings: The FM program rate was 32% below the MHEC renewal offer. This produced \$1MM in first-year savings.

Stability: We negotiated a three year rate guarantee as well as an accompanying guarantee of a 5% additional rate credit at next year's renewal.

Policy limit: Our new general limit is \$2B, \$250MM more than MHEC.

Expertise: FM's property protection engineers are recognized as the strongest in the property insurance industry.

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

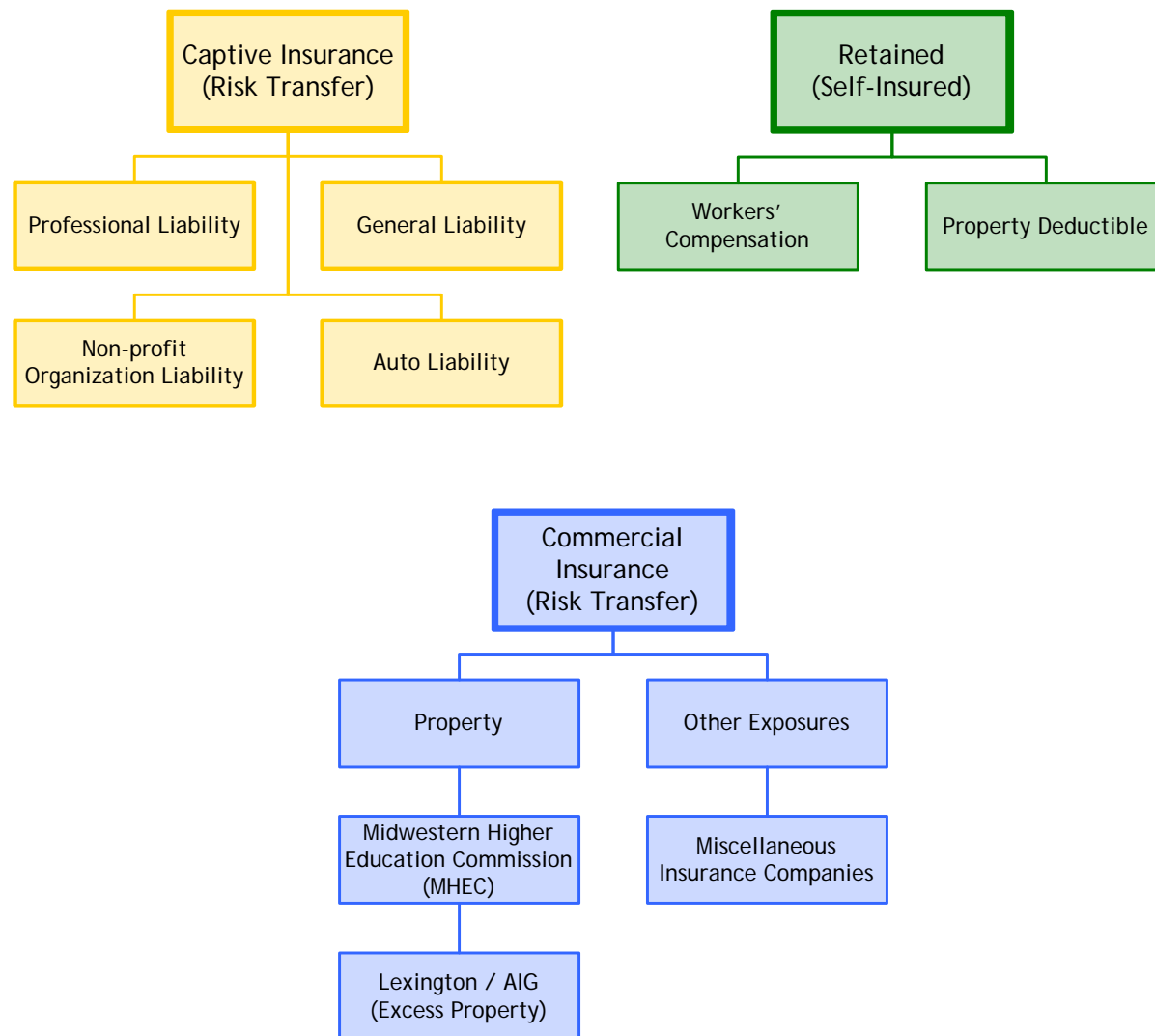
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent 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 owns over \$14 billion in property, and carries a multi-billion property insurance limit. We cannot fund losses at that level internally, so we purchase an insurance contract 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.

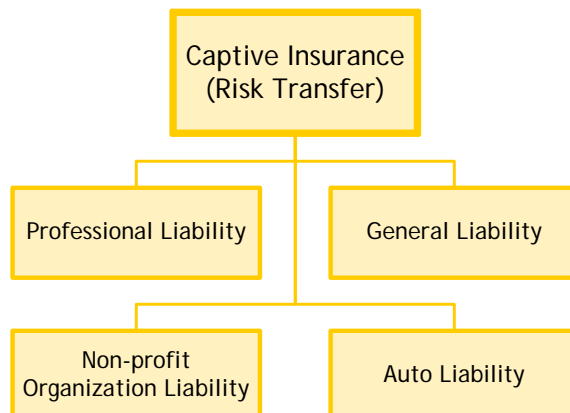
The University finances its Property and Casualty risk using three general strategies:



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: Population concentrations in 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
- 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 over 800 owned vehicles, as well as hired and non-owned autos operated on behalf of and 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:

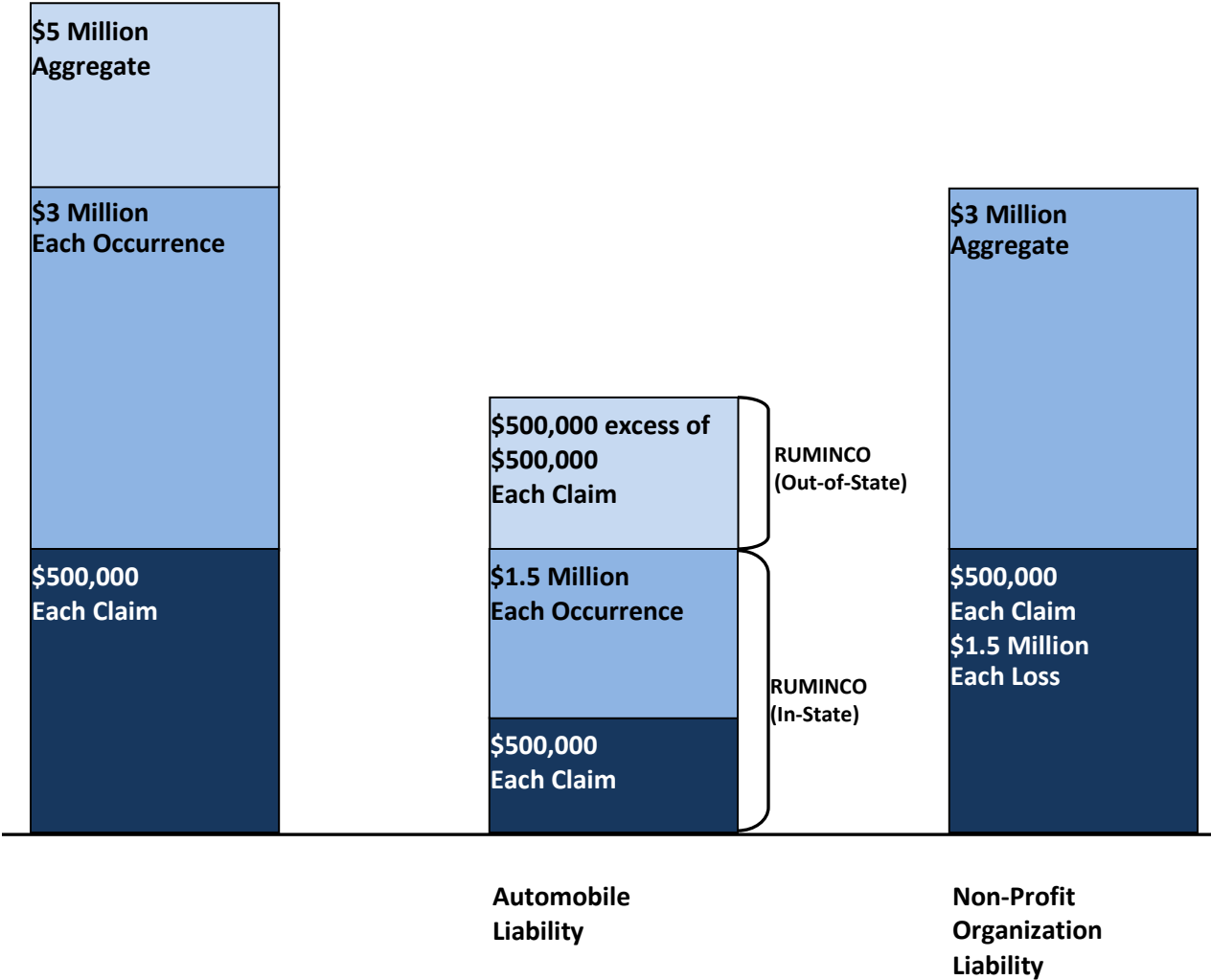
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

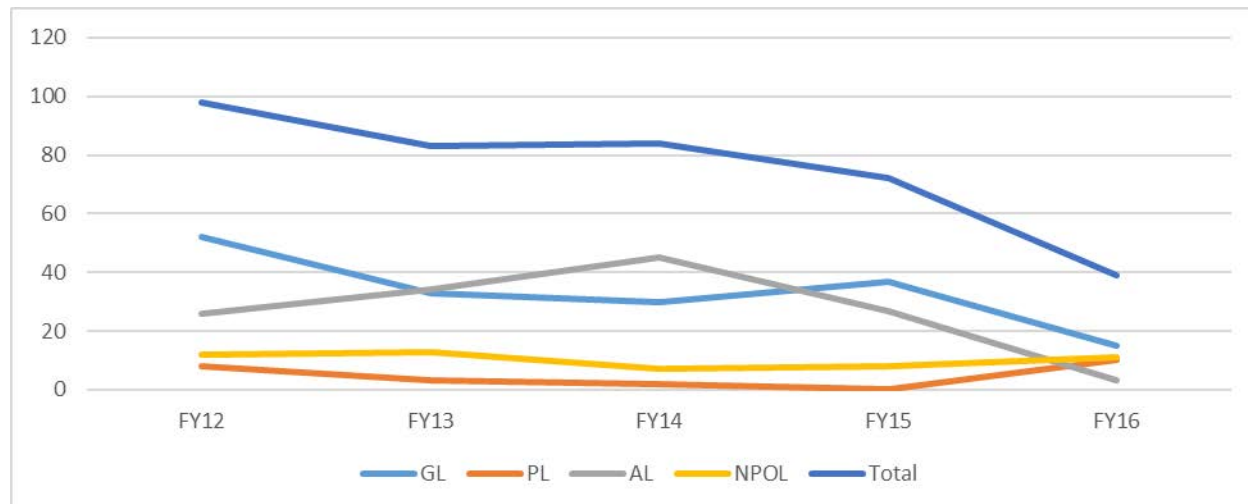
Principal Exposure:

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

Summary of RUMINCO Ltd. Limits

RUMINCO limits are in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit than required effectively waives the Statute’s protection, with the new limit becoming the de facto tort cap.



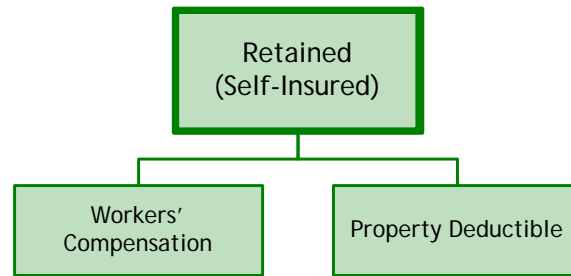
RUMINCO Ltd. Claims Experience**Claim Count by Fiscal Year**

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

RUMINCO's Total Claim Count has averaged 86 claims per year over the past five years.

The Total FY16 Claim Count of 39 represents a five-year low.

RETAINED (SELF-INSURED)



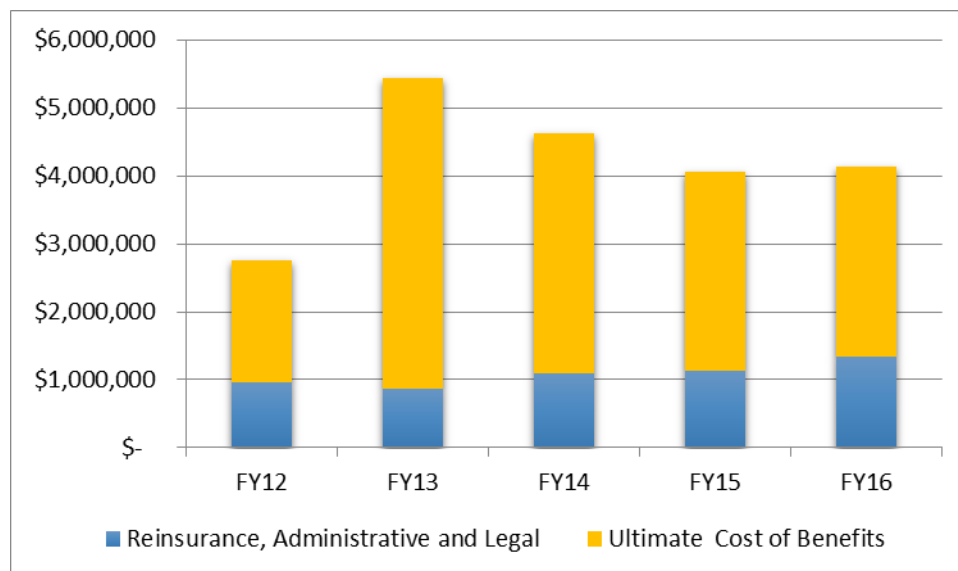
Workers' Compensation Overview

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 \$1,880,000 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.

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 that continue today.

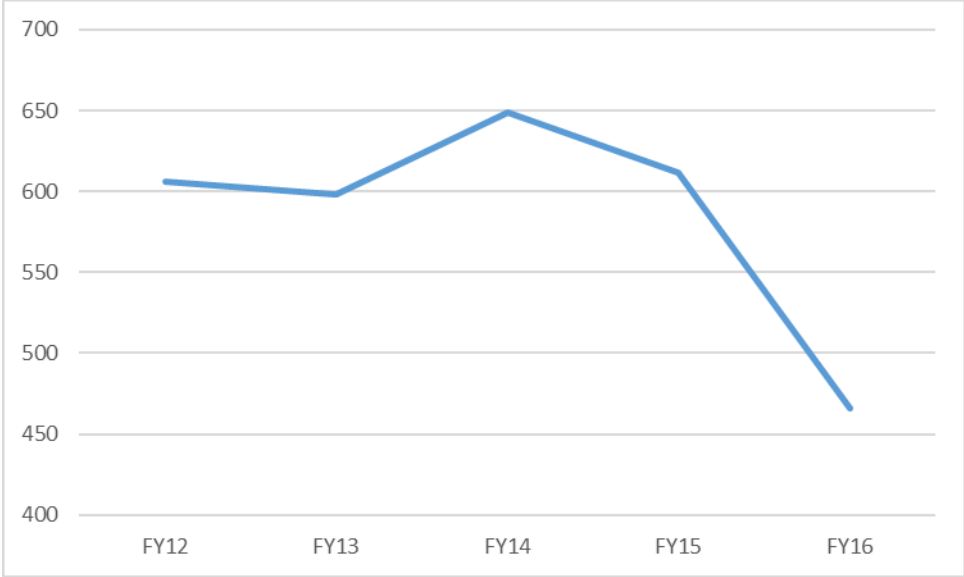
Workers' Compensation Program Costs



Annual claim cost is moderately volatile. Administrative costs are relatively steady.

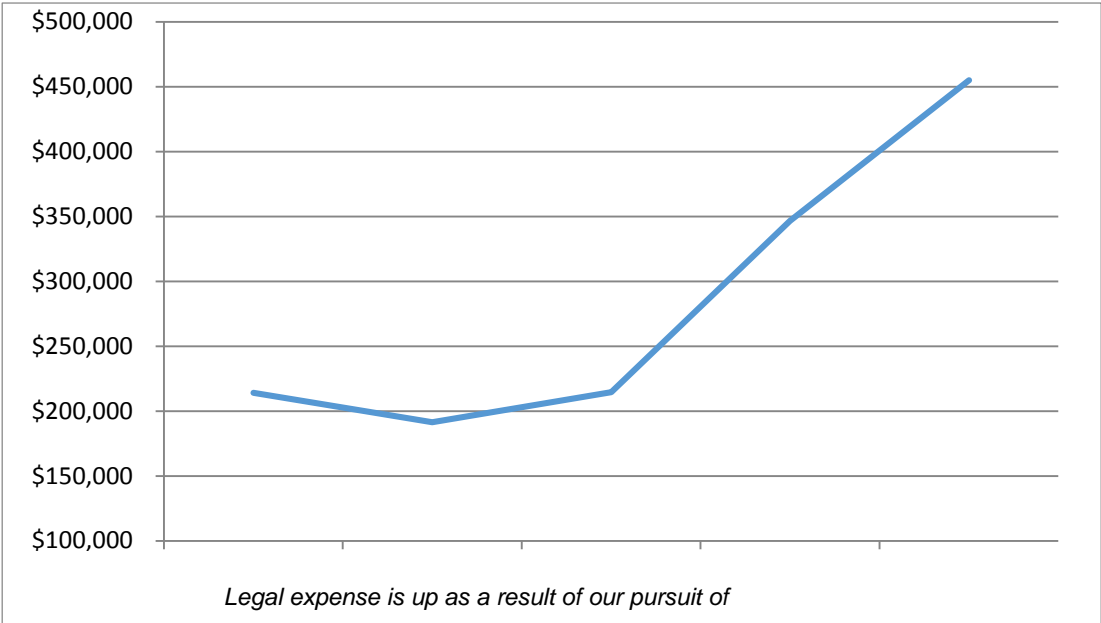
Workers' Compensation

Workers' Compensation Claim Count



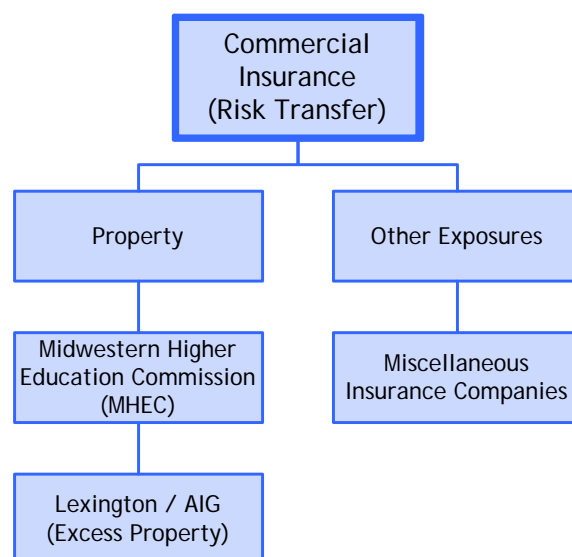
Aggregate claim count is at a five (and ten) year low.

Workers' Compensation Legal Expense



Legal expense is up as a result of our pursuit of binding precedent on 'course of commute' claims

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 million Extra MN General/Auto Liability; \$10 million Extra MN Clinical Trial Liability; \$1.75 billion Property Insurance) and
- Customer/public relations, low price of transfer, or demands by third parties (NCAA Athletic Injury Primary Coverage; Daycare Accident; Fine Art)

Property Insurance premiums are 86 percent of the University's commercial insurance outlay.

Property Insurance

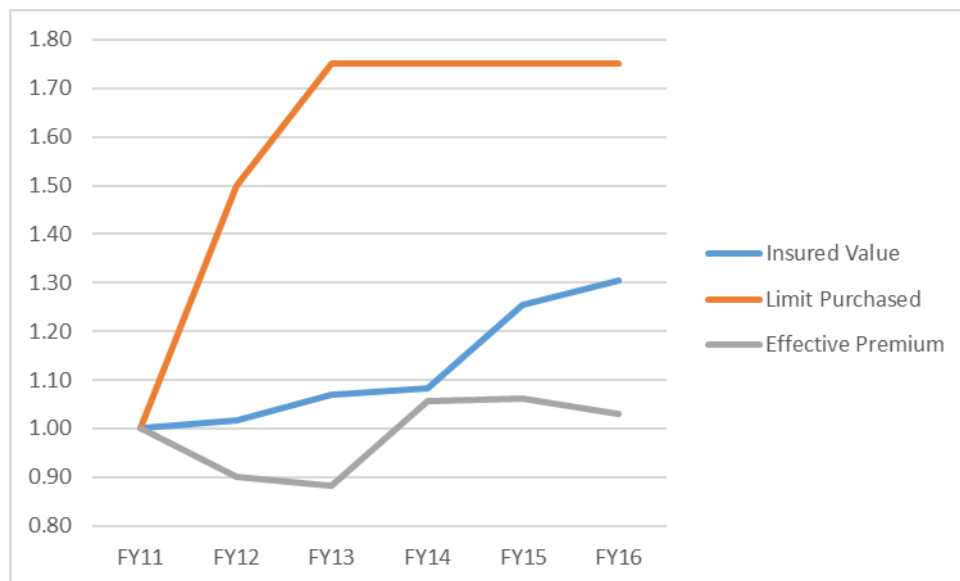
Property Insurance covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is AIG through the Midwest Higher Education Compact (MHEC) Master Property Program.

The University conducted an RFP on its property program in Fiscal Year 11. 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, subject to an annual aggregate of \$1 million.

An effective measure of performance is “Effective Premium”, which reflects changes in deductible cost:

$$\text{Effective Premium} = \text{Premium Paid to Insurer} + \text{Deductible Internally Retained}$$

Trends in Values, Premium and Limit: FY11 = 1

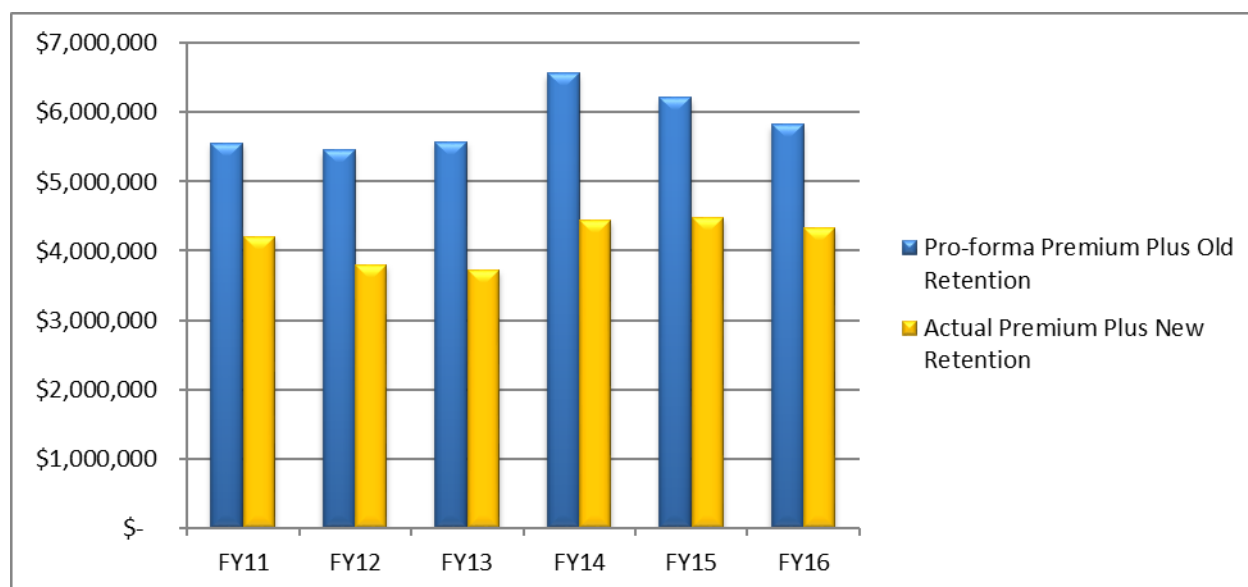


*Property insurance cost drivers are Insured Value and Limit Purchased.
Using FY11 as the baseline, we see Effective Premium has lagged cost drivers.*

Property Insurance

Because we both reduced the rate and increased the deductible from \$200,000 to \$500,000 in FY11, we are interested in whether the net effect of the changes is benefitting the University.

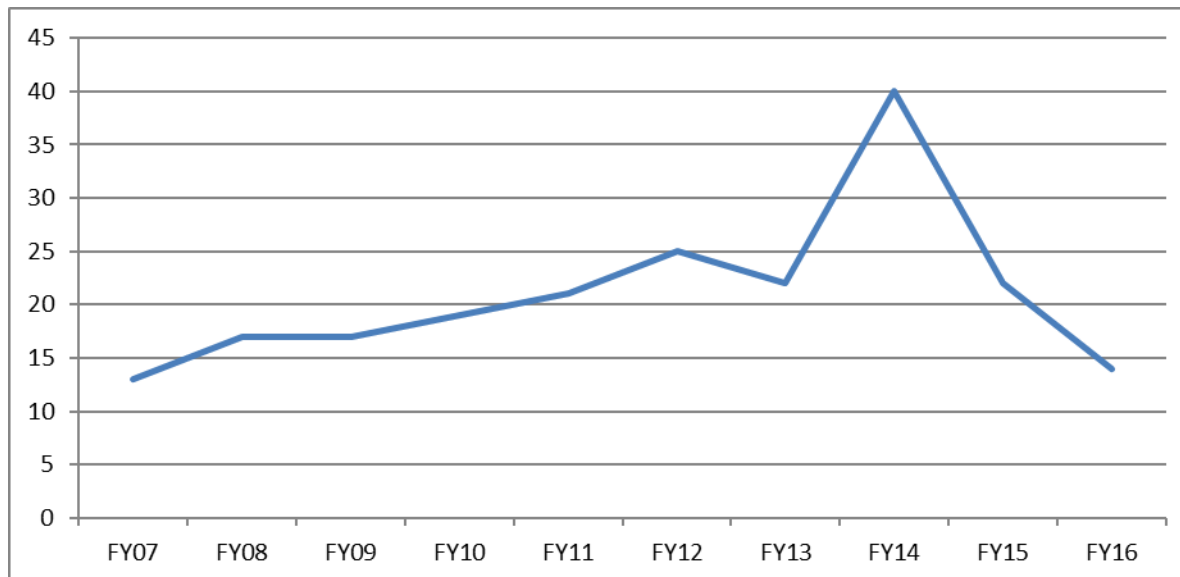
The graph below compares actual total cost (Premium plus Retention) to results adjusted pro-forma to pre-FY11 rates and deductibles.



As a result of restructuring the property program, the University has saved an average of \$1.7 million annually -- a total of \$10.1 million over the six years since the revision.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count was 14 events for FY16, which lies within one Standard Deviation of the historical 10 year average of 21 claims per year. This is an expected regression to the mean after the severe FY14 winter.

In FY15, only one loss exceeded \$200,000, the August 12, 2015, Hail Damage to the Lake Itasca Biological Station (\$600,000).

Miscellaneous Commercial Insurance Coverage

Here is a brief overview of purchased policies with premiums exceeding \$25,000.

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

EXCESS CLINICAL TRIALS LIABILITY – EXTRA MN: \$10 million in coverage excess a \$1 million Self-insured Retention (Deductible) for Clinical Trials 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 \$1 million of primary liability, plus \$14 million of excess liability, arising out of our ownership and use of the 86-foot *Blue Heron* research vessel in Duluth.

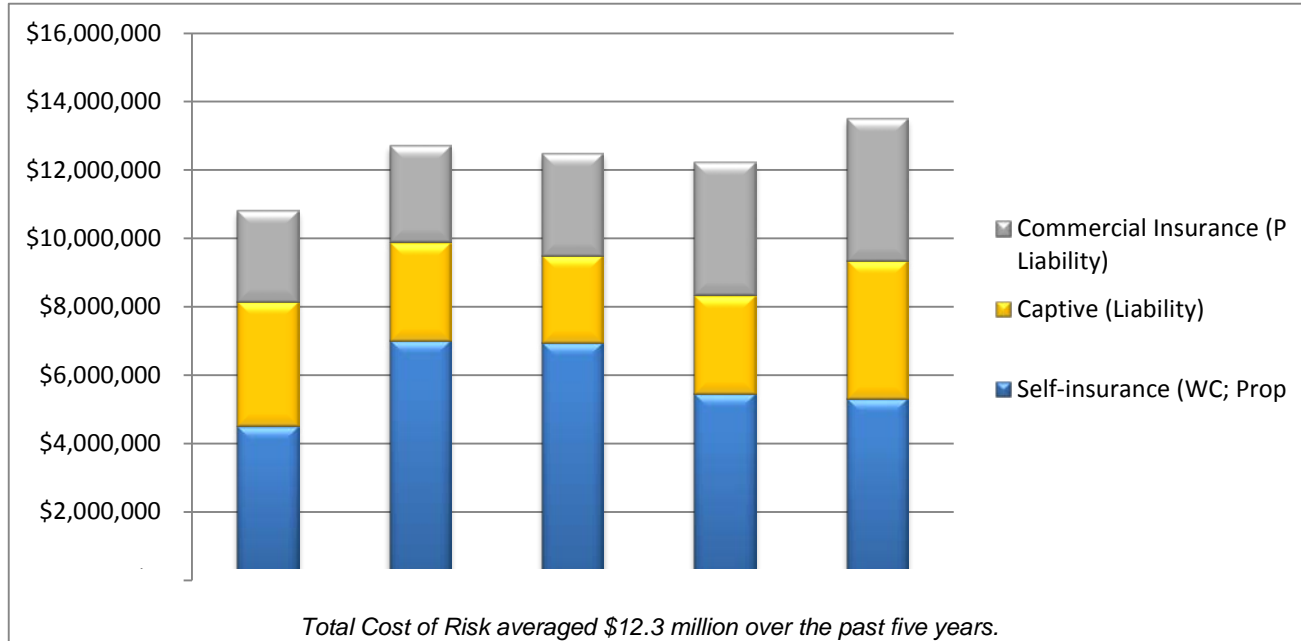
Total Cost of Risk Summary

University of Minnesota

Total Cost of Risk: Fiscal Years 2012 – 2016

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

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



Total Cost of Risk Summary

COST ITEM	FY12	FY13	FY14	FY15	FY16
Captive					
Liability Ultimate Loss (EST.)	\$ 1,829,870	\$ 1,301,165	\$ 728,003	\$ 1,490,186	\$ 2,343,420
Liability Claims Administrator	\$ 63,566	\$ 51,707	\$ 50,542	\$ 56,333	\$ 56,045
Captive Administrative Expenses	\$ 120,930	\$ 116,909	\$ 101,896	\$ 109,878	\$ 105,510
Litigation Cost	\$ 1,633,392	\$ 1,411,683	\$ 1,666,978	\$ 1,223,099	\$ 1,540,318
Total Captive	\$3,647,758	\$2,881,464	\$2,547,419	\$2,879,496	\$4,045,293
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	\$ 1,808,916	\$ 4,567,820	\$ 3,513,577	2,928,820	2,793,860
WC Reinsurance Association	\$ 142,096	\$ 155,784	\$ 223,486	268,505	181,565
Special Compensation Fund	\$ 291,348	\$ 207,312	\$ 301,786	179,742	339,746
WC Claims Administrator	\$ 267,826	\$ 275,324	\$ 313,479	297,777	317,449
Litigation Cost	\$ 214,019	\$ 191,338	\$ 214,638	346,676	455,100
Bill Review Service	\$ 28,640	\$ 32,717	\$ 38,591	32,694	32,281
WC Actuarial	\$ 9,288	\$ 10,300	\$ 10,430	9,892	9,402
WC Total	\$ 2,762,133	\$ 5,440,595	\$ 4,615,987	4,064,106	4,129,403
Retained Property Losses [1]	\$ 1,560,600	\$ 1,463,923	\$ 2,107,430	1,214,922	769,196
Electronic Data Processing [2]	\$ 29,707	\$ 24,371	\$ 12,837	27,288	35,975
Automobile Physical Damage	\$ 156,843	\$ 87,779	\$ 210,577	153,238	380,128
Total Self-insurance	\$4,509,283	\$7,016,668	\$6,946,831	\$5,459,554	\$5,314,702
Commercial Insurance					
All Risk Property	\$ 2,240,136	\$ 2,261,562	\$ 2,345,651	\$3,268,222	\$3,578,633
Excess General/Auto Liability - Extra MN	\$ 234,745	\$ 238,002	\$ 242,762	250,044	262,012
Excess Clinical Trials Liability - Extra MN	--	\$ 139,839	\$ 215,756	184,506	135,000
Intercollegiate Athletics	\$ 31,500	\$ 31,500	\$ 33,500	33,500	33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	\$ 30,613	\$ 31,558	\$ 28,701	28,659	27,494
Fidelity & Crime	\$ 20,210	\$ 20,162	\$ 21,740	22,015	22,015
Fine Arts	\$ 18,280	\$ 18,280	\$ 18,827	18,827	20,934
Nonowned Aircraft Liability	\$ 18,000	\$ 22,000	\$ 22,000	22,000	20,900
Showboat	\$ 6,925	\$ 9,739	\$ 11,748	13,300	6,480
Broadcaster's Liability	\$ 5,365	\$ 5,365	\$ 5,594	5,594	5,594
Child Care Center AD&D	\$ 1,188	\$ 1,159	\$ 1,397	1,198	1,704
Upward Bound AD&D	\$ 376	\$ 406	\$ 406	406	406
Brokerage	\$ 54,000	\$ 37,586	\$ 38,337	38,337	38,337
Total Commercial Insurance	\$2,661,338	\$2,817,158	\$2,986,419	\$3,886,608	\$4,153,009
GRAND TOTAL COST OF RISK	\$10,818,379	\$12,715,290	\$12,480,669	\$12,225,658	\$13,513,004

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

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

Work Plan Fiscal Year 17

Property Insurance Transition

We will work with internal units and departments – most notably, Facilities Management and Capital Planning and Project Management – to integrate FM Global property protection advice into existing and new facilities.

Library Special Collections Move

The Library staff will move \$500,000,000 in rare books and manuscripts from the Wilson Library to the Anderson library over the course of 2017. We will work with the libraries and Capital Planning and Project Management to take advantage of this opportunity to optimally protect these irreplaceable objects.