UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of Fiscal Year Ended
30 June 2017

Table of Contents

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.

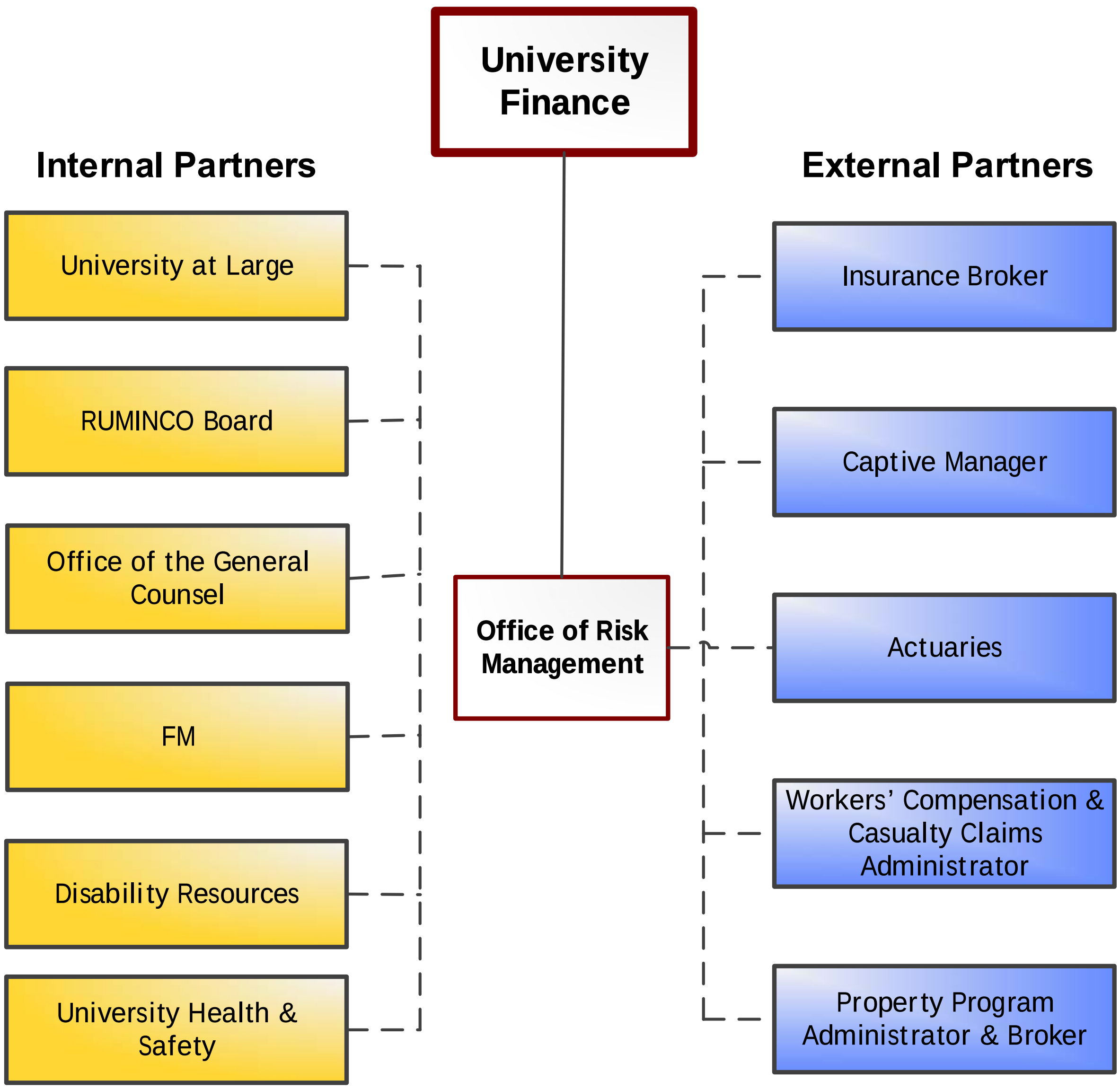
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General 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, 2017.

Organizational Structure

The Office of Risk Management:

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



FY17 Workplan Status

Property Insurance Transition

We worked with Facilities Management, Capital Planning and Project Management, and various internal units and departments to integrate FM Global property protection services into our practices. The transition has gone well and our staff are making good use of the new vendor.

Library Special Collections Move

As the Library staff and Capital Planning and Project Management prepared to move $500,000,000 in rare books and manuscripts from the Wilson to the Anderson Library, we took advantage of this opportunity to optimally protect these irreplaceable objects for future generations.

The new space now includes state of the art Clean Agent Fire Suppression to minimize the chance of water damage to the materials, as well as highly sensitive smart sensors which constantly monitor the area for minute traces of combustion smoke or water escape.

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

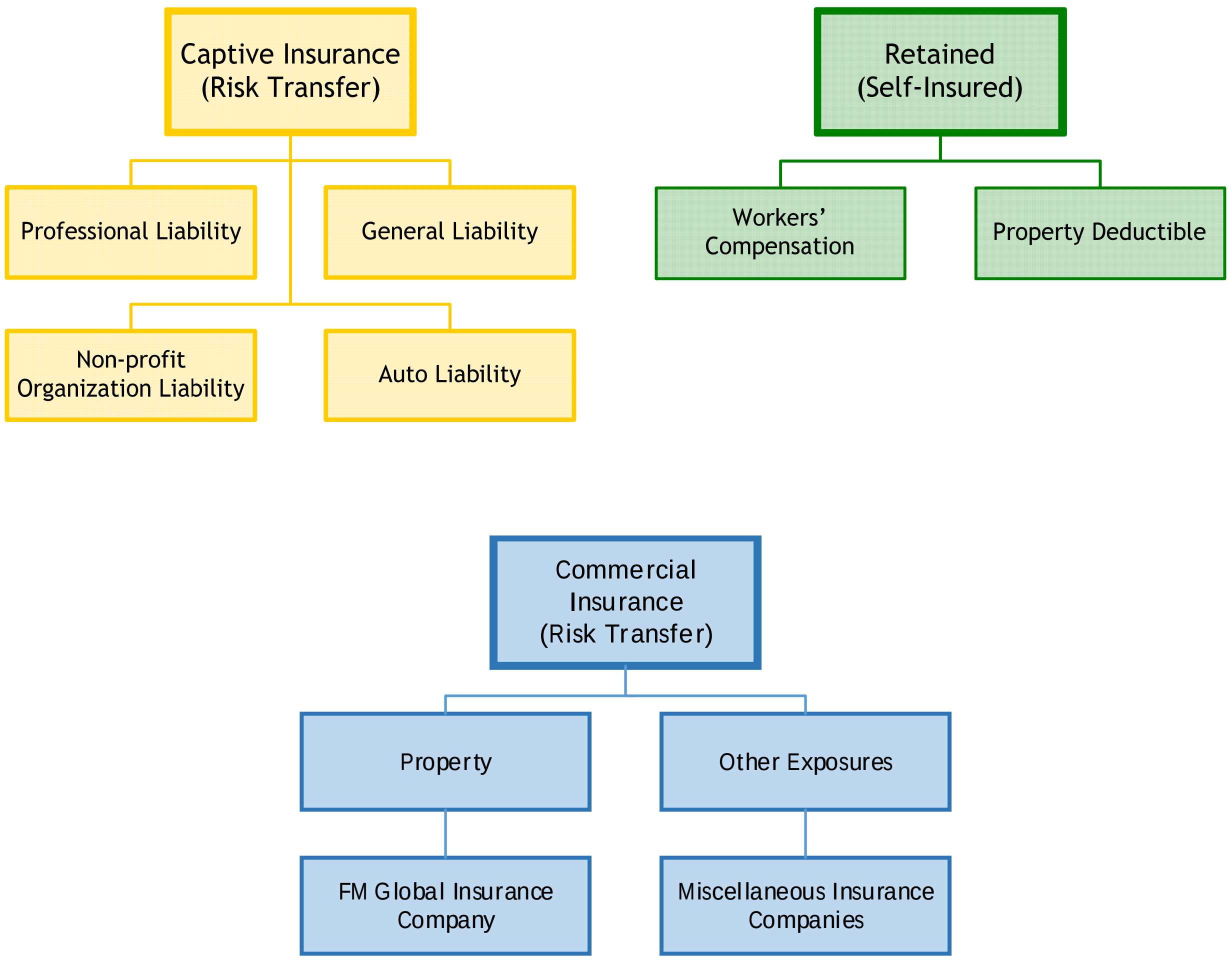
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one's own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent 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 $2 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.

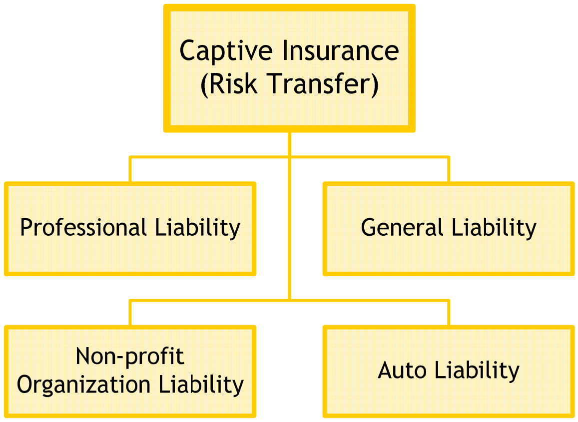
The University finances its Property and Casualty risk using three general strategies:



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. (*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: 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:

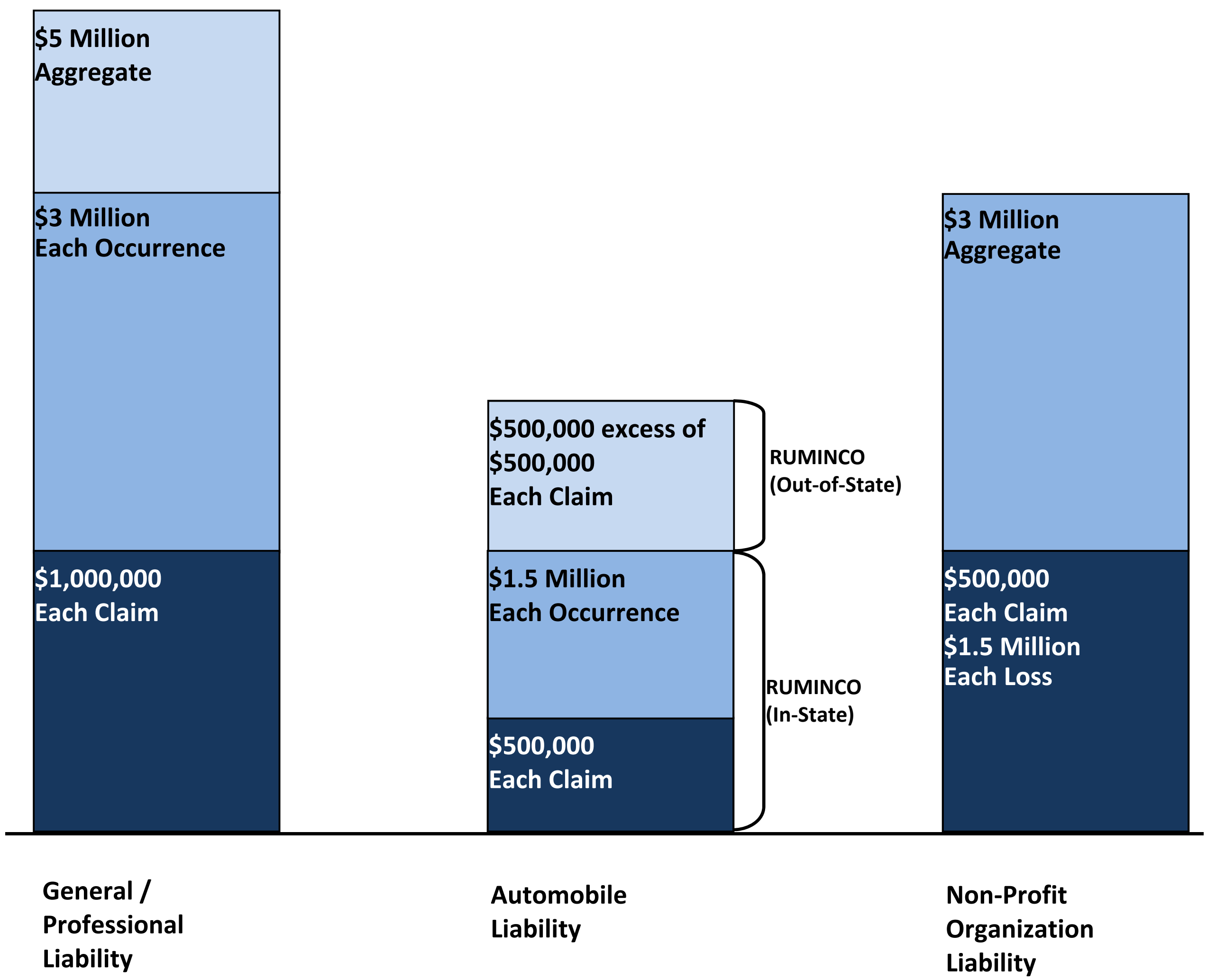
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

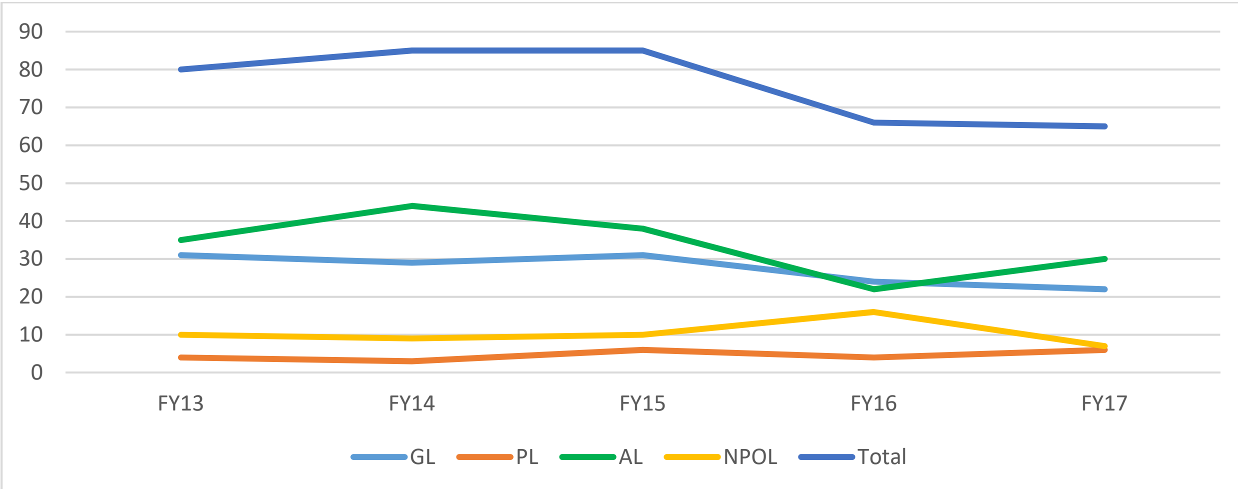
Summary of RUMINCO Ltd. Limits

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

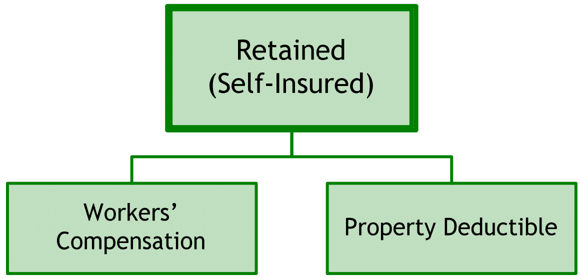


Claim frequency for the four RUMINCO lines of liability coverage over the past five years.

RUMINCO’s Total Claim Count has averaged 76 claims per year over the past five years.

The Total FY17 Claim Count of 65 represents a five-year low.

RETAINED (SELF-INSURED)



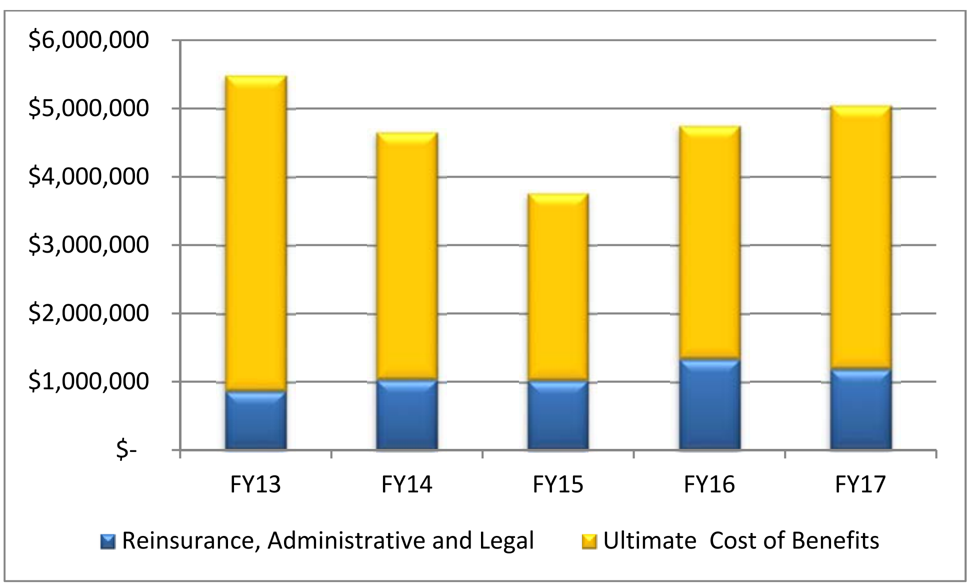
Workers' Compensation Overview

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.

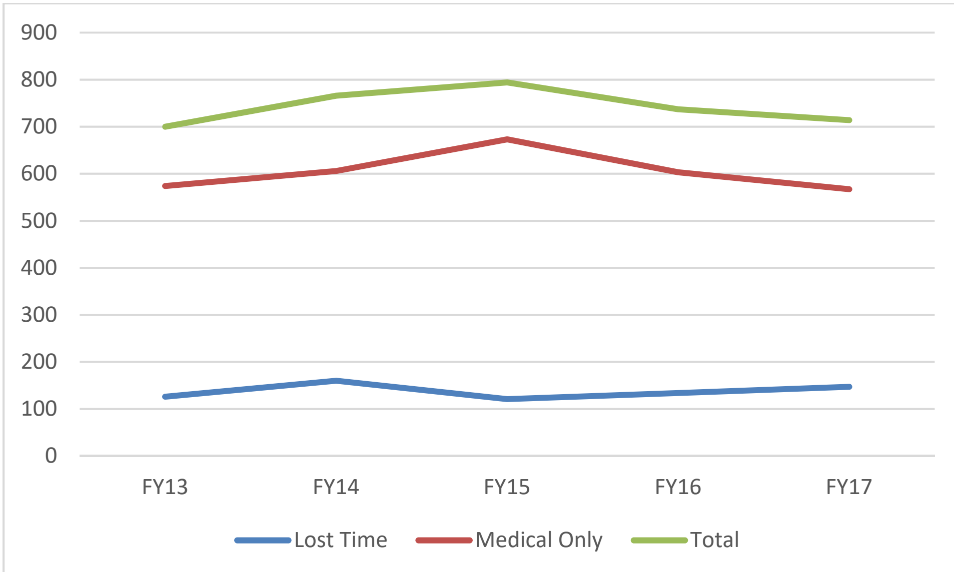
Workers' Compensation Program Costs



Ultimate cost of benefits is moderately volatile. Administrative costs are relatively steady.

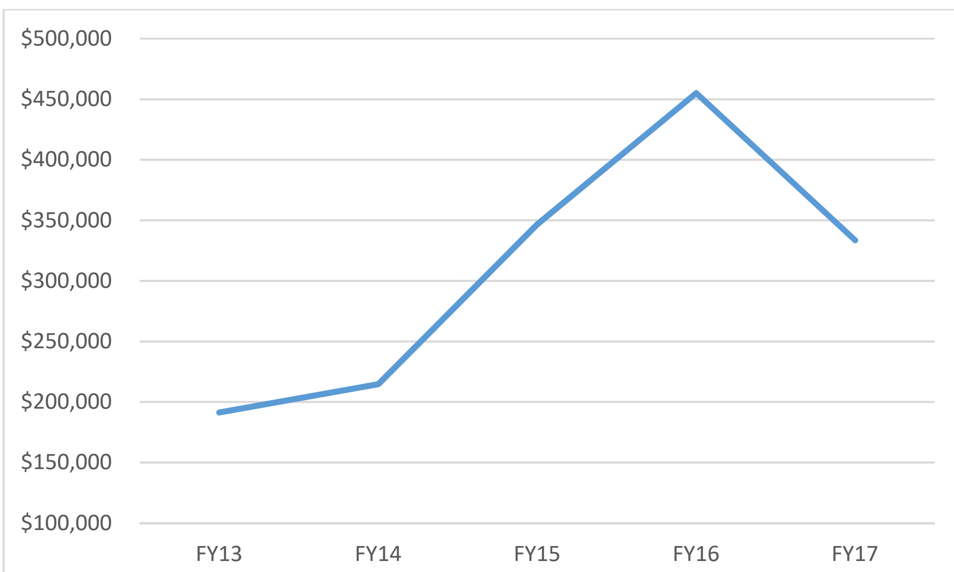
Workers' Compensation

Workers' Compensation Claim Count



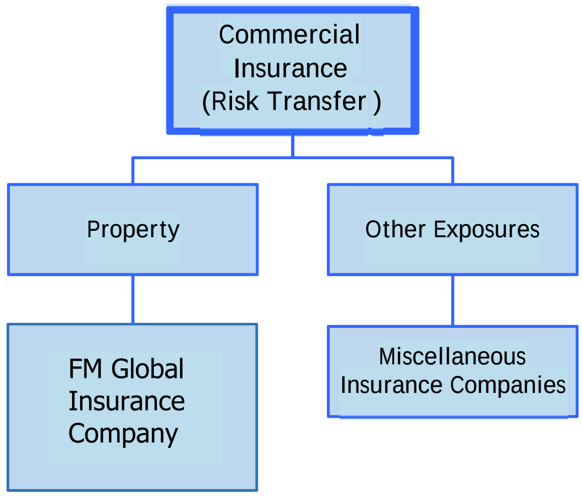
Aggregate claim count is stable.

Workers' Compensation Legal Expense



Legal expenses are returning to typical levels after 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 that would be difficult or impossible to self-fund ($40 million Extra MN General/Auto Liability; $10 million Extra MN Clinical Trial Liability; $2 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 85 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 insurer for the University is FM Global Insurance Company.

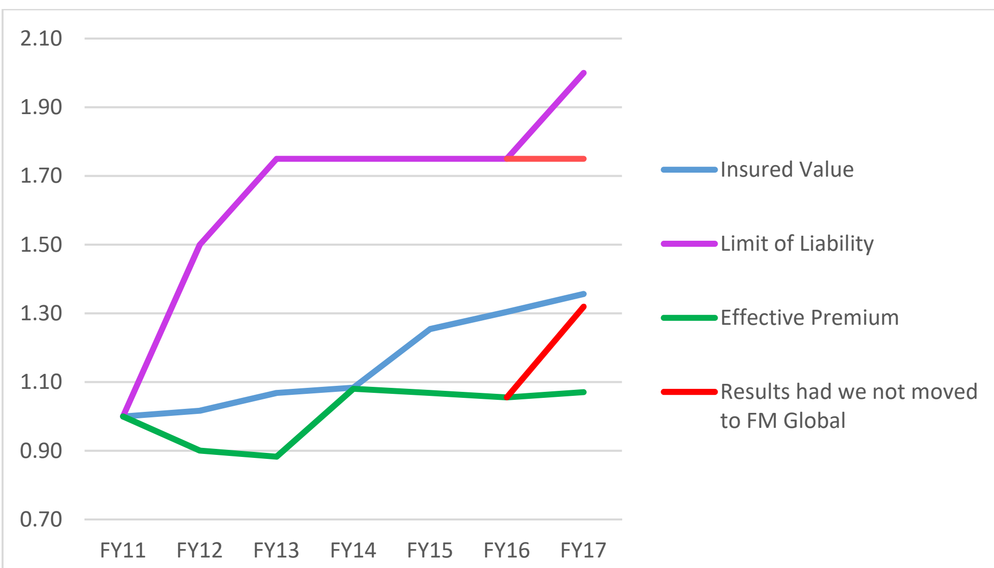
We revised the program deductible from $200,000 to $500,000 in FY11 and have been monitoring program performance since. An effective measure of performance is "Effective Premium", which reflects changes in deductible cost:

Effective Premium = Premium Paid to Insurer + Deductible Internally Retained

The chart below shows the change in Effective Premium in relation to two key Premium Cost Drivers (Insured Value and Limit of Liability) since FY11 (with FY11 having been converted to a baseline of "1").

FY17 was our first full year with our new property insurer, FM Global Insurance Company. The chart demonstrates the immediate positive impact the change has brought to the University. The red trend lines show the results had we not moved to FM Global; Effective Premium would have been $1.05MM higher, Limit of Liability $250MM lower.

Trends in Values, Premium and Limit: FY11 = 1

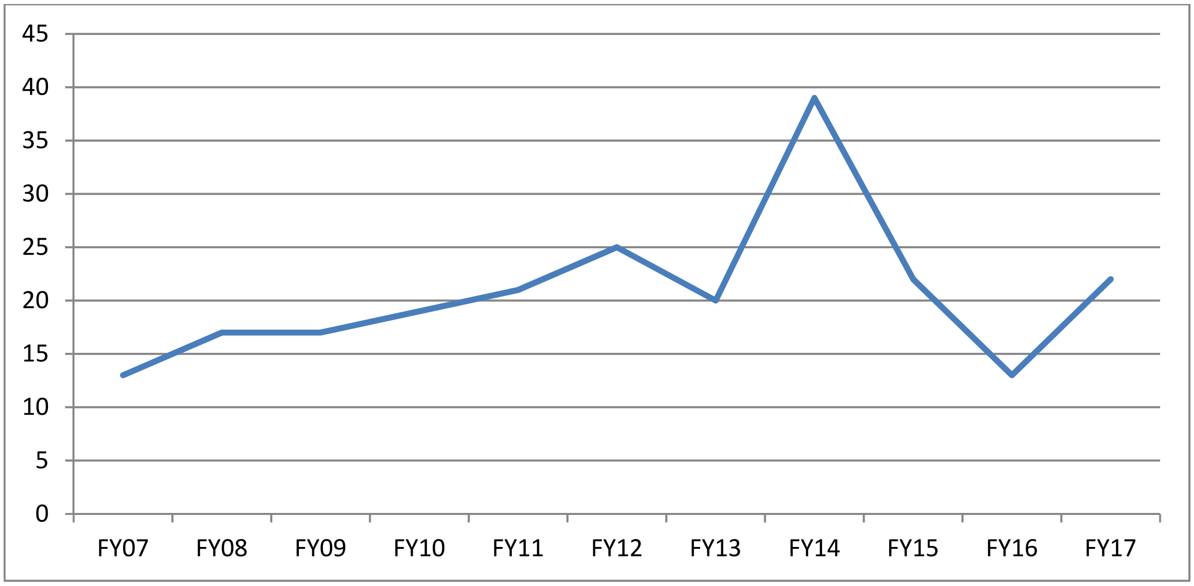


Premium Cost Drivers are Insured Value *and* Limit Purchased*.*

Using FY11 as the baseline, we see the growth of Premium Cost Drivers continuing to outpace Effective Premium.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count was 22 events for FY17, very closely aligning with the historical 10 year average of 21.5 claims per year.

.

In FY17, losses exceeding $200,000 were as follows:

7/20/16	Wind/Hail, Duluth -- $210,130
1/19/17	Water Damage from frozen sprinkler leak, NCROC -- $600,000
2/10/17	Water damage from frozen sprinkler leak, TCF Stadium -- $272,197

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.

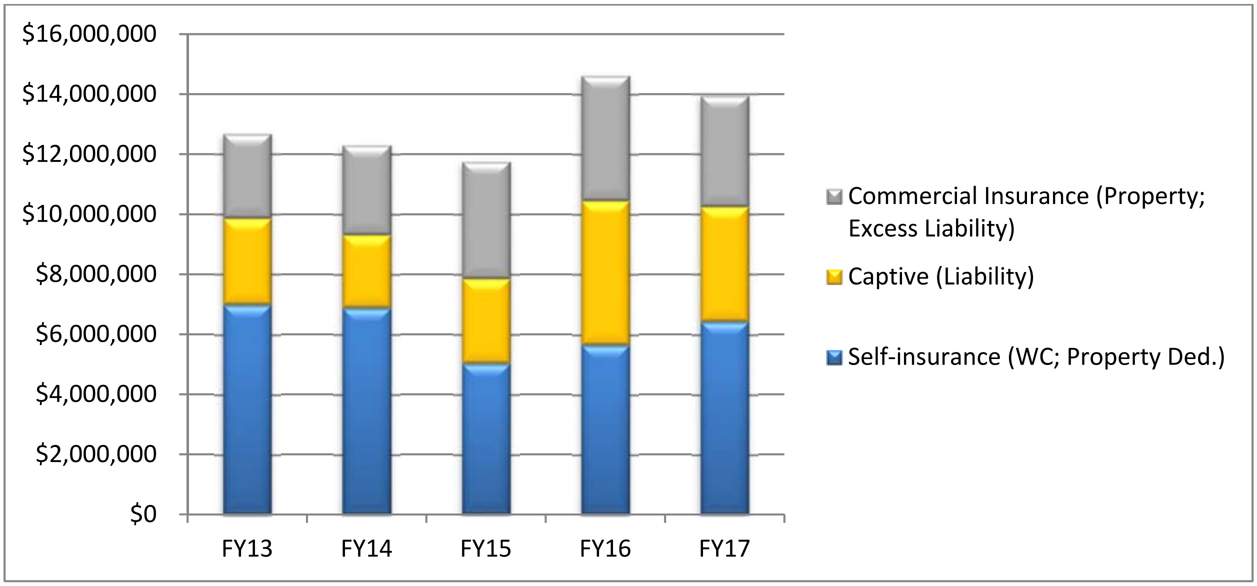
Total Cost of Risk Summary

University of Minnesota

Total Cost of Risk: Fiscal Years 2013 – 2017

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

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



Total Cost of Risk averaged $13.0 million over the past five years.

Total Cost of Risk Summary

COST ITEM	FY13	FY14	FY15	FY16		FY17
Captive						
Liability Ultimate Loss (EST.)	$ 1,789,340	$ 1,350,715	$ 1,691,202	$ 3,614,225		$ 2,581,476
Liability Claims Administrator	$ 51,707	$ 50,542	$ 56,333	$ 56,045		$ 44,428
Captive Administrative Expenses	$ 116,909	$ 101,896	$ 109,878	$ 105,510		$ 109,793
OGC Expenses	$ 919,544	$ 927,558	$ 965,031	$ 1,010,487		$ 1,070,267
Total Captive	**$2,877,500**	**$2,430,711**	**$2,822,444**	**$4,786,267**		**$3,805,964**
Self-Insurance						
Workers' Compensation Ultimate Loss (EST.)	$ 4,618,361	$ 3,616,525	2,735,723	3,412,376		3,853,978
WC Reinsurance Association	$ 149,612	$ 154,209	156,489	177,439		200,430
Special Compensation Fund	$ 207,312	$ 301,786	179,642	339,746		272,944
WC Claims Administrator	$ 275,324	$ 313,479	297,777	317,449		333,468
Litigation Cost	$ 191,338	$ 214,638	346,676	455,100		341,339
Bill Review Service	$ 32,717	$ 38,591	32,694	32,281		31,652
WC Actuarial	$ 10,300	$ 10,430	9,892	9,402		8,243
WC Total	$ 5,484,964	$ 4,649,658	3,758,893	4,743,793		5,042,054
Retained Property Losses [1]	$ 1,463,923	$ 2,213,795	1,240,717	875,304		1,379,845
Electronic Data Processing [2]	$ 24,371	$ 12,837	27,288	35,975		5,311
Total Self-insurance	**$6,973,258**	**$6,876,290**	**$5,026,898**	**$5,655,072**		**$6,427,210**
Commercial Insurance						
All Risk Property	$ 2,261,562	$ 2,345,651	$3,268,222	$3,578,633		$3,139,232
Excess General/Auto Liability - Extra MN	$ 238,002	$ 242,762	250,044	262,012		261,296
Excess Clinical Trials Liability - Extra MN	$ 139,839	$ 215,756	184,506	135,000		119,286
Intercollegiate Athletics	$ 31,500	$ 33,500	33,500	33,500		33,500
Hull, Liability, Pollution (Blue Heron Ship)	$ 31,558	$ 28,701	28,659	27,494		27,494
Other States Workers Compensation	$ 3,611	$ 6,093	5,386	26,383		14,864
Fidelity & Crime	$ 20,162	$ 21,740	22,015	22,015		22,015
Fine Arts	$ 18,280	$ 18,827	18,827	20,934		20,934
Nonowned Aircraft Liability	$ 22,000	$ 22,000	22,000	20,900		20,900
Showboat [3]	$ 9,739	$ 11,748	13,300	6,480		-
Broadcaster's Liability	$ 5,365	$ 5,594	5,594	5,594		5,412
Child Care Center AD&D	$ 1,159	$ 1,397	1,198	1,704		1,687
Upward Bound AD&D	$ 406	$ 406	406	406		406
Brokerage	$ 37,586	$ 38,337	38,337	38,337		37,869
Total Commercial Insurance	**$2,820,769**	**$2,992,512**	**$3,891,994**	**$4,179,392**		**$3,704,895**
GRAND TOTAL COST OF RISK	**$12,671,527**	**$12,299,513**	**$11,741,336**	**$14,620,731**		**$13,938,069**

[1] Amount of Insurable property losses between $10,000 and deductible.
[2] EDP coverage is self-insured; figure shows losses excess $500.
[3] Showboat management agreement w/Padelford ended 9/30/16. CLA transferred ownership of the boat after the final performance season (July-Aug 2016).

Work Plan Fiscal Year 18

Cyber Liability

When we considered Cyber Liability five years ago, the market was nascent and coverage terms were inconsistent. We will again test the Cyber Liability market to see if the product has matured to meet our needs.

Return to Work

We have been cooperating with Disability Resources on a trial Return to Work program. The program provides light duty work to employees out on Workers Compensation who cannot immediately return to their normal duties. That program has been successful. We will work with Disability Resources and our Work Comp Third Party Administrator Sedgwick to formalize the program.