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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:

- Advises 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 consultation 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, 2018.
**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.
Total Cost of Risk Summary

University of Minnesota

Total Cost of Risk: Fiscal Years 2014 – 2018

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 $13.5 million over the past five years.
## Total Cost of Risk Summary

<table>
<thead>
<tr>
<th>COST ITEM</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Captive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liability Ultimate Loss (EST.)</td>
<td>$1,323,021</td>
<td>$1,494,884</td>
<td>$5,576,442</td>
<td>$1,381,863</td>
<td>$2,196,973</td>
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<tr>
<td>Liability Claims Administrator</td>
<td>$50,542</td>
<td>$56,333</td>
<td>$56,045</td>
<td>$44,428</td>
<td>$37,875</td>
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<tr>
<td>OGC Expenses</td>
<td>$927,558</td>
<td>$965,031</td>
<td>$1,010,487</td>
<td>$1,070,267</td>
<td>$1,216,563</td>
</tr>
<tr>
<td><strong>Total Captive</strong></td>
<td>$2,403,017</td>
<td>$2,626,126</td>
<td>$6,748,484</td>
<td>$2,606,351</td>
<td>$3,694,127</td>
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<tr>
<td>Self-Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workers’ Compensation Ultimate Loss (EST.)</td>
<td>$3,616,525</td>
<td>$2,735,723</td>
<td>$3,412,376</td>
<td>$3,853,978</td>
<td>$4,238,423</td>
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<tr>
<td>WC Reinsurance Association</td>
<td>$154,209</td>
<td>$156,489</td>
<td>$177,439</td>
<td>$200,430</td>
<td>$162,744</td>
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<tr>
<td>Special Compensation Fund</td>
<td>$301,786</td>
<td>$179,642</td>
<td>$339,746</td>
<td>$272,944</td>
<td>$231,580</td>
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<tr>
<td>WC Claims Administrator</td>
<td>$313,479</td>
<td>$297,777</td>
<td>$317,449</td>
<td>$333,468</td>
<td>$386,366</td>
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<tr>
<td>Litigation Cost</td>
<td>$214,638</td>
<td>$346,676</td>
<td>$455,100</td>
<td>$341,339</td>
<td>$248,438</td>
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<td>WC Actuarial</td>
<td>$38,591</td>
<td>$32,694</td>
<td>$32,281</td>
<td>$31,652</td>
<td>$46,552</td>
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<tr>
<td>WC Total</td>
<td>$4,649,658</td>
<td>$3,758,893</td>
<td>$4,743,793</td>
<td>$5,042,054</td>
<td>$5,322,002</td>
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<tr>
<td>Retained Property Losses [2]</td>
<td>$2,213,795</td>
<td>$1,240,717</td>
<td>$875,304</td>
<td>$1,390,027</td>
<td>$1,289,059</td>
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<tr>
<td><strong>Total Self-insurance</strong></td>
<td>$6,876,290</td>
<td>$5,026,898</td>
<td>$5,655,072</td>
<td>$6,437,392</td>
<td>$6,623,691</td>
</tr>
<tr>
<td>Commercial Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Risk Property</td>
<td>$2,345,651</td>
<td>$3,268,222</td>
<td>$3,578,633</td>
<td>$3,139,232</td>
<td>$3,020,524</td>
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<tr>
<td>Excess General/Auto Liability - Extra MN</td>
<td>$242,762</td>
<td>$250,044</td>
<td>$262,012</td>
<td>$261,296</td>
<td>$269,441</td>
</tr>
<tr>
<td>Excess Clinical Trials Liability - Extra MN</td>
<td>$215,756</td>
<td>$184,506</td>
<td>$135,000</td>
<td>$119,286</td>
<td>$119,286</td>
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<td>Cyber Security Liability</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$18,193</td>
<td>$218,314</td>
</tr>
<tr>
<td>Intercollegiate Athletics</td>
<td>$33,500</td>
<td>$33,500</td>
<td>$33,500</td>
<td>$33,500</td>
<td>$33,500</td>
</tr>
<tr>
<td>Hull, Liability, Pollution (Blue Heron Ship)</td>
<td>$28,701</td>
<td>$28,659</td>
<td>$27,494</td>
<td>$27,494</td>
<td>$27,494</td>
</tr>
<tr>
<td>Other States Workers Compensation</td>
<td>$6,093</td>
<td>$5,386</td>
<td>$26,383</td>
<td>$14,864</td>
<td>$26,129</td>
</tr>
<tr>
<td>Fidelity &amp; Crime</td>
<td>$21,740</td>
<td>$22,015</td>
<td>$22,015</td>
<td>$22,015</td>
<td>$23,059</td>
</tr>
<tr>
<td>Fine Arts</td>
<td>$28,701</td>
<td>$28,659</td>
<td>$27,494</td>
<td>$27,494</td>
<td>$27,494</td>
</tr>
<tr>
<td>Fidelity &amp; Crime</td>
<td>$11,748</td>
<td>$13,300</td>
<td>$6,480</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Brokerage</td>
<td>$406</td>
<td>$406</td>
<td>$406</td>
<td>$406</td>
<td>$406</td>
</tr>
<tr>
<td><strong>Total Commercial Insurance</strong></td>
<td>$2,992,512</td>
<td>$3,891,994</td>
<td>$4,179,392</td>
<td>$3,723,088</td>
<td>$3,827,771</td>
</tr>
<tr>
<td><strong>GRAND TOTAL COST OF RISK</strong></td>
<td>$12,271,819</td>
<td>$11,545,018</td>
<td>$16,582,948</td>
<td>$12,766,831</td>
<td>$14,145,590</td>
</tr>
</tbody>
</table>

[1] Captive Administrative Expenses includes U-wide harassment training.
[2] Amount of Insurable property losses between $10,000 and deductible.
[3] EDP coverage is self-insured; figure shows losses excess $500.
[4] Showboat management agreement w/Padelford ended 9/30/16. CLA transferred ownership of the boat after the final performance season (July-Aug 2016).
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; Property Deductible – *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.
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.
Claim frequency for the four RUMINCO lines of liability coverage over the past five years. Total RUMINCO Claim Count has been steady.
**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 $2,000,000 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**

*Most of the cost volatility is in the Ultimate Cost of Benefits.*
**Workers’ Compensation**

**Workers’ Compensation Claim Count**

Claim count is stable.

**Workers’ Compensation Legal Expense**

Legal expenses have returned to typical levels. FY16 required expensive litigation.
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.

Property insurance premiums equal the Rate times the Insured Value. We realized an immediate rate decrease on beginning our relationship with FM Global on 07/01/16 (FY17). FM Global has provided the University a guaranteed fixed rate since then; subsequent premium changes are a result of property values changes, or policy holder dividends from the insurer.

Premium/Insured Value History

A fixed rate and policy holder dividends have caused insured value growth and premium to positively diverge since FY16.
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.

Property Claim Count by Fiscal Year

Property claim count was 30 events for FY18; the 10 year average is 23 claims per year.

FY14 had an extraordinarily cold winter, which caused many domestic water pipe failures.

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

07/29/17  Power Outage, St. Paul Veterinary-- $293,929
010/2/18  Water Damage from frozen pipes, Mpls Rec Center-- $260,959
**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.

**CYBER SECURITY LIABILITY – EXTRA MN:** $10 million in coverage excess a $250,000 Self-insured Retention (Deductible) for Cyber Security 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.

**OTHER STATES WORKERS COMPENSATION:** To comply with local statutes, we purchase Workers Compensation to cover workers permanently stationed in states other than Minnesota.

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**Property vs. All Other Commercial Insurance**

![Chart showing comparison of Property Insurance and Miscellaneous Commercial Insurance premiums from FY14 to FY18.]

*Property insurance drives the commercial insurance cost. Formerly volatile property insurance premiums have stabilized since moving to the new carrier in FY16.*
**FY18 Workplan Status**

**Property Insurance Transition**

We have worked with Facilities Management, Capital Planning and Project Management to integrate FM Global property protection services into our space planning practices. The transition has gone well and our staff are making good use of the new vendor. These new procedures will ensure we make state of the art fire and flood protection improvements at the most cost effective time.

**Library Special Collections Move**

As the Library staff and Capital Planning and Project Management moved $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.

**Cyber Liability**

When we last considered Cyber Liability five years ago, the market was nascent and coverage terms were inconsistent. We tested the Cyber Liability market and found that the product has matured to meet our needs. We now have in place Cyber Liability coverage that addresses events that may fall outside Minnesota Tort Cap protection.

**Work Plan Fiscal Year 19**

**Medical Rare Books Library Collection Move**

As the Library staff and Capital Planning and Project Management prepared to move $150,000,000 in rare medical books and manuscripts, we will advocate taking advantage of this opportunity to optimally protect these irreplaceable objects for future generations.

Protection suggestions will include 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.

**PWB Diesel Fuel System Enhanced Protection**

Pipe systems route diesel fuel to fire pumps and generators within the Phillips Wangensteen complex. A fuel accident would present severe fire and smoke hazards. The PWB complex is due for imminent renovations, which present the optimal time for cost-effective protection improvements. We will work with Capital Planning and Project Management, Energy Management, Facilities Management and insurer FM Global to devise and implement enhanced protection.

**Excess Liability**

While Minnesota tort cap statute largely shields the University from sizable adverse judgements, some claims are not contained by that statute. We do have $40MM in General and Automobile Liability in place to address the gap (excess the limit of $1MM through wholly-owned captive RUMINCO, Ltd.). We will pursue quotes for coverage in excess of that limit. We will also seek excess coverage over the existing RUMINCO policy covering Employment Practices and Educator’s Liability.