

UNIVERSITY OF MINNESOTA

Annual Report
of the
Office of Risk Management and Insurance
as of
Fiscal Year Ended
30 June 2014

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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.

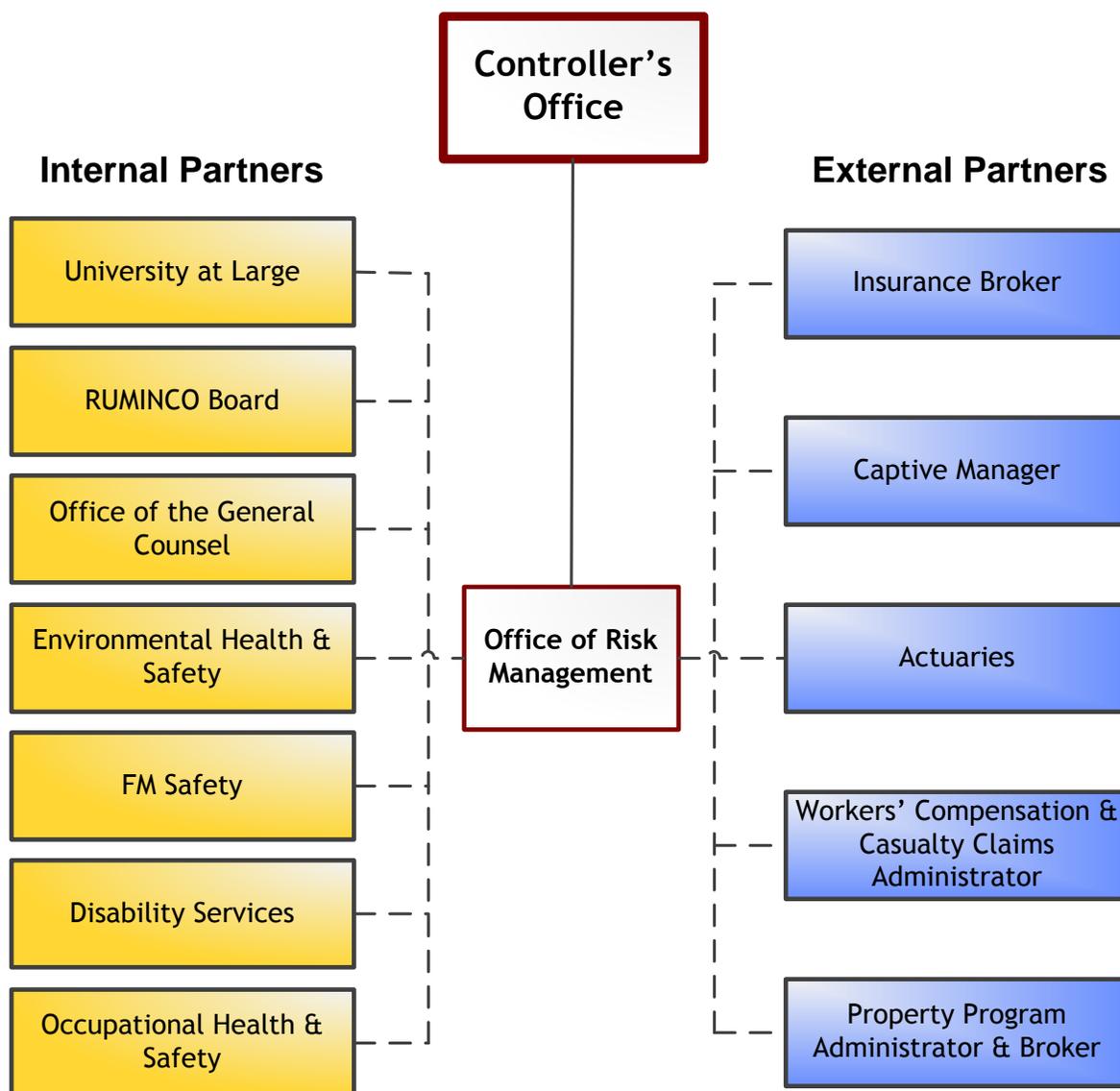
Risk Management uses commercial insurance, captive insurance, and self-insurance to transfer, or budget for, monetary loss arising from risk. It is responsible for the design, procurement, implementation, and maintenance of these programs. Risk Management routinely consults with the Office of General 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, 2014.

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.



FY14 Project Status

Slip/Trip/Fall Accidents

Slip/Trip/Fall accidents are the most common accident at the University. We explored the possibility for reducing the incidence of Slip/Trip/Fall accidents on campus via a publicity campaign, but found that University Human Resources had a similar initiative in process, so put this task into abeyance. We began work on a Return to Work Light Duty program in its place.

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 began an effort with FM Safety to pilot a project to reduce the incidence rate, and will complete it in FY15.

Vehicular Cell Phone Use

Based on multiple research studies concluding that the use of electronic devices, including hands-free electronic devices, diminishes driver reaction time (one study equated the impairment level to that of a .08% legally drunk driver), we proposed a ban on the use of electronic devices, including hands-free electronic devices, during the operation of vehicles in the course of University business.

It was determined that a policy banning cell phone use was unworkable at this time. Fleet policy was however amended to “strongly encourage” not using devices while driving on behalf of the University.

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

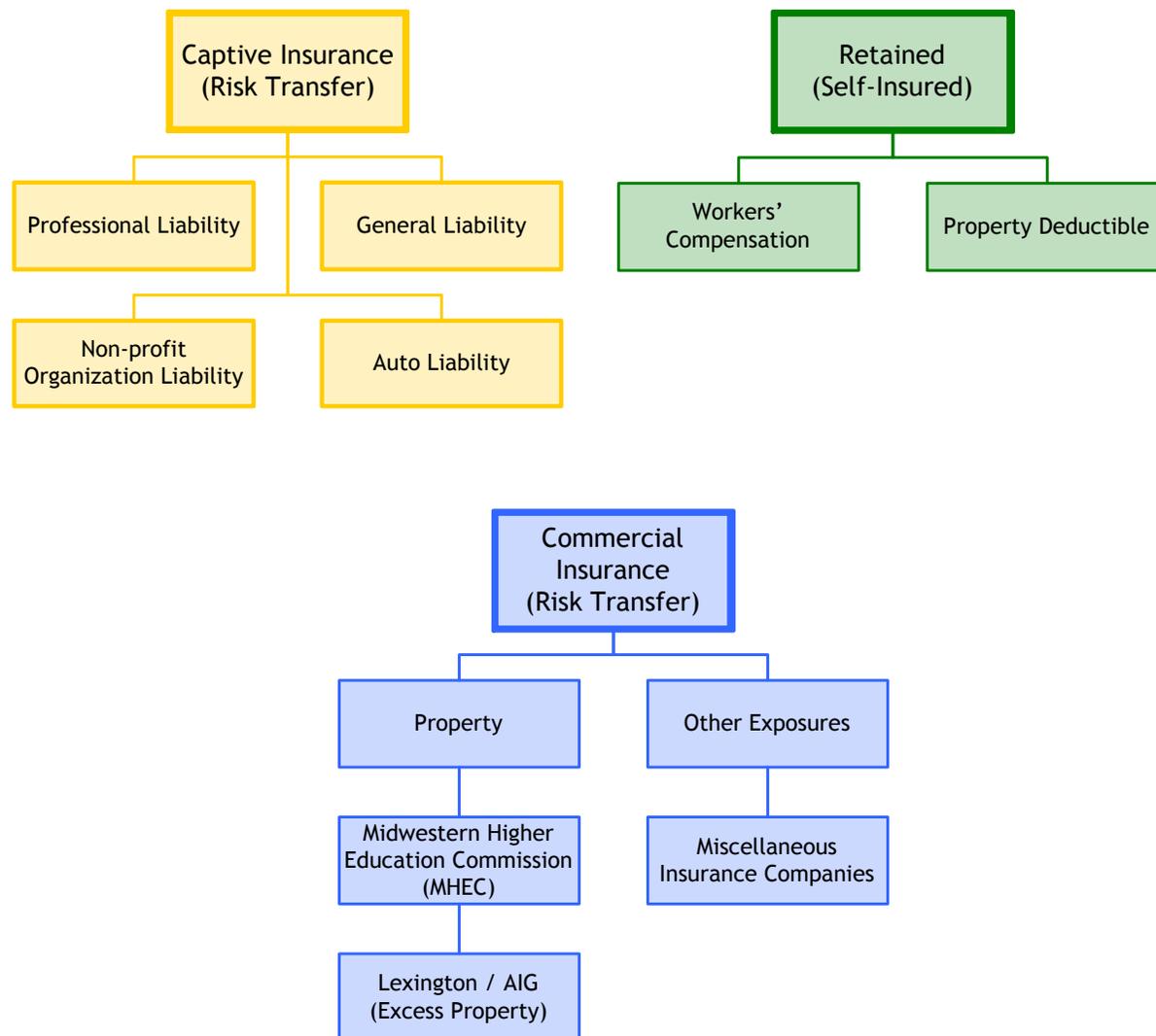
There are specific rationales behind the decision to transfer or retain a specific risk. Because retaining one’s own risk (within limits) tends to be more economical in the long run than paying a third party to assume it, the guiding principle has been for the University to retain risk, to the extent 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 \$12 billion in property values, and carries a \$1.75 billion property insurance limit. We cannot fund \$1.75 billion internally, so the University purchases insurance 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.

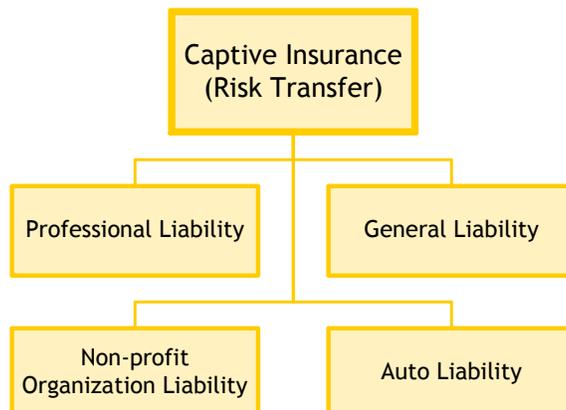
The University finances its Property and Casualty risk using three general strategies:



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 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:

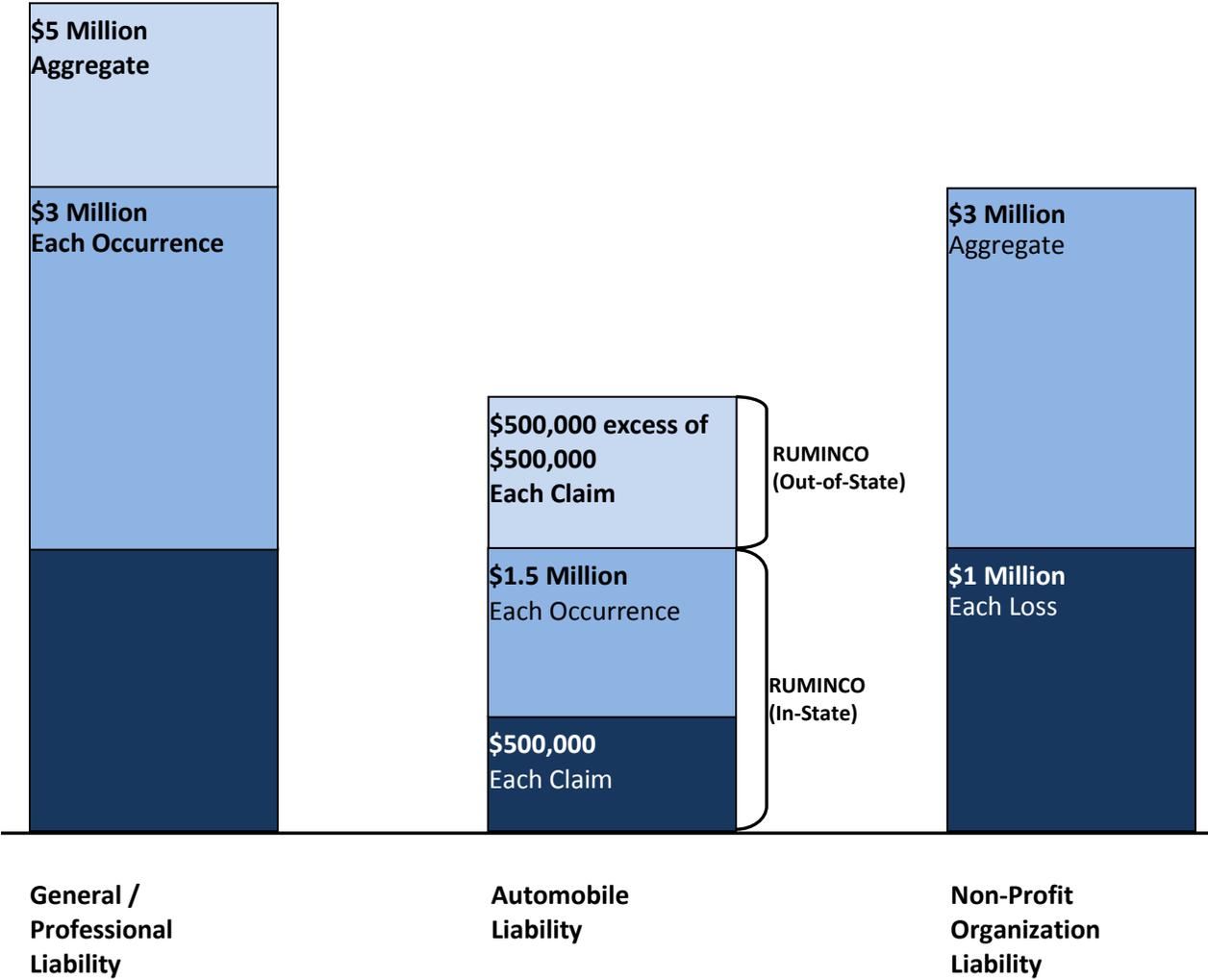
- Directors' and Officers' Liability
- Employment Practices Liability
- Personal Injury e.g., libel, slander, defamation, emotional distress

Principal Exposure:

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

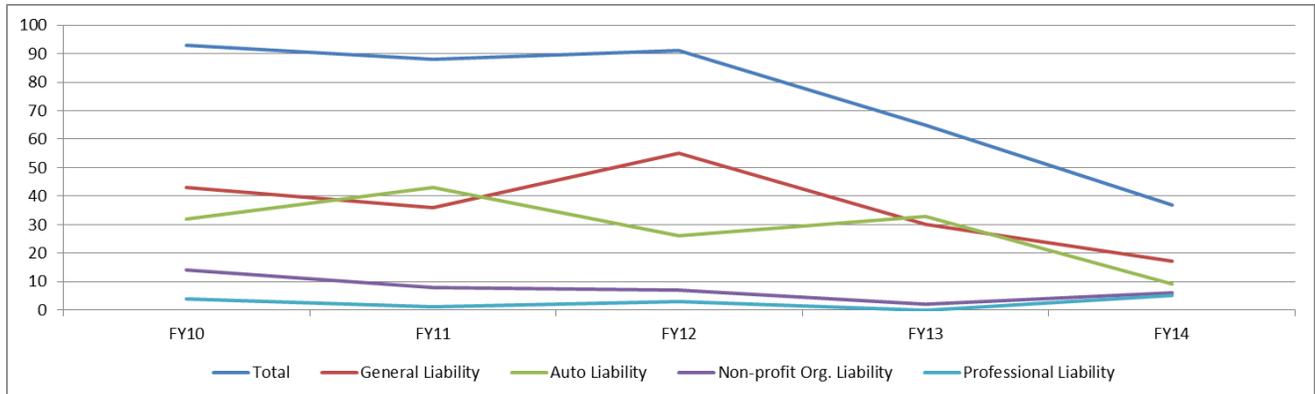
Summary of RUMINCO Ltd. Limits

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



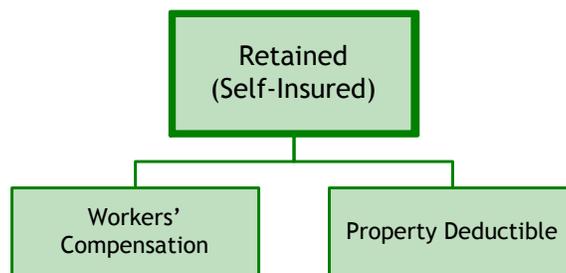
Claim frequency for the four RUMINCO lines of liability coverage over the past five years.

RUMINCO's Total Claim Count has averaged 75 claims per year over the past five years.

The Total FY14 Claim Count of 37 represents a five-year low.

No claim count for any single coverage lies farther than two Standard Deviations from the mean. Statistically, this suggests that despite being low, the FY14 claim counts are still within the expected range.

RETAINED (SELF-INSURED)

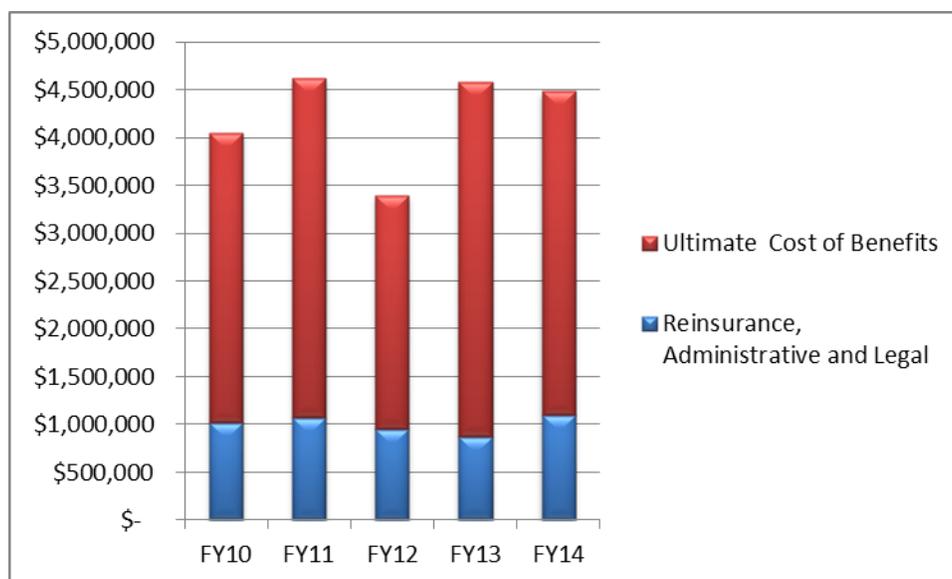


Workers' Compensation Overview

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 \$1,880,000 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.

Workers' Compensation Program Costs

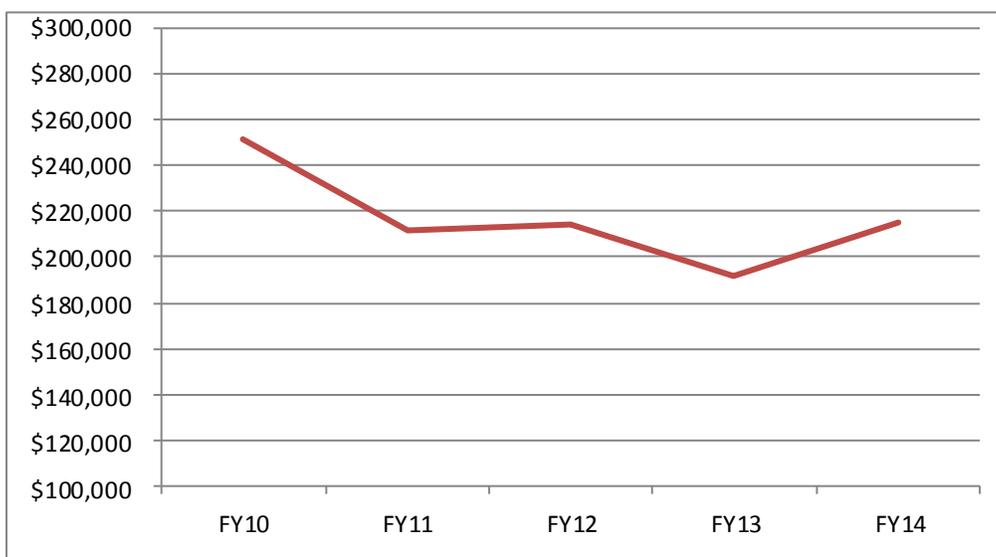


Annual claim cost is moderately volatile. Administrative costs have remained steady.

Workers' Compensation

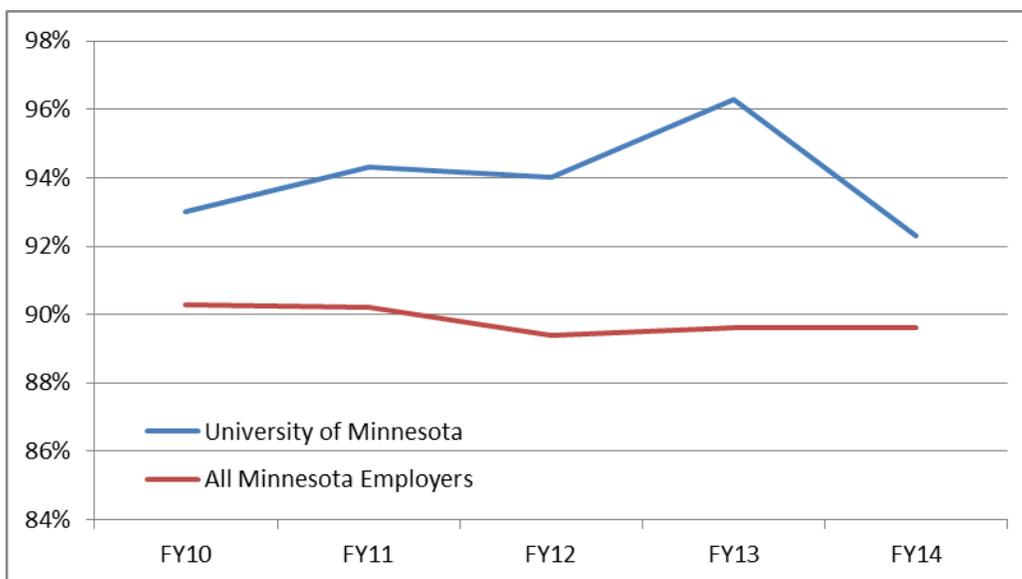
Beginning in FY09, Risk Management began a continuing initiative to make the statutory Workers' Compensation benefit system more transparent, accessible, and easy to use for all parties. That initiative formed the basis for positive trends.

Workers' Compensation Legal Expenses



Cost of litigating Workers' Compensation remains below the FY10 level.

On-time Reporting to Department of Labor and Industry



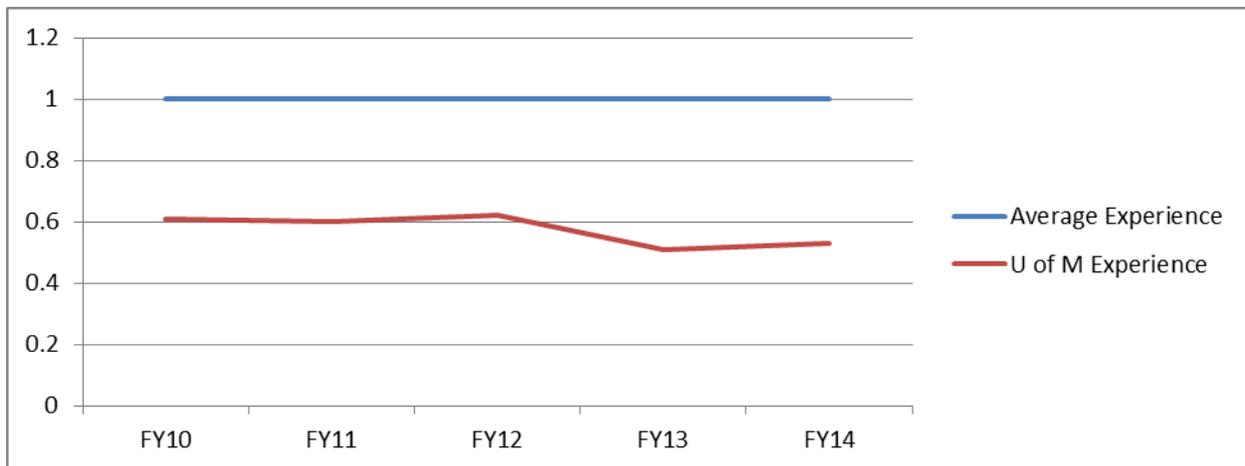
The University's timely reporting of DOLI claims consistently exceeds the Minnesota average. Accurate apportionment of fines and electronic claim reporting are key drivers.

Workers' Compensation

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

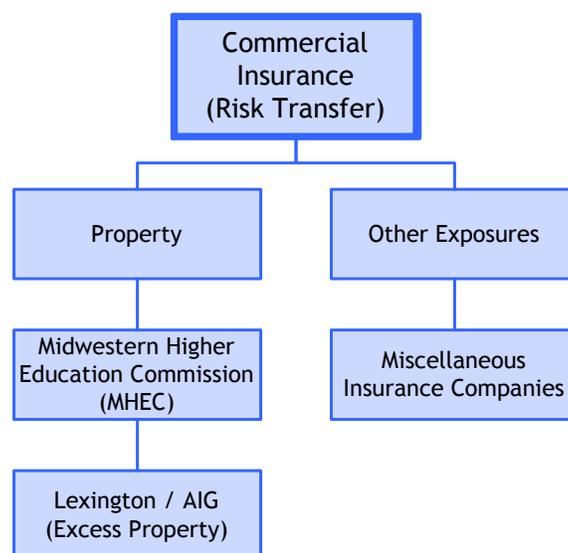
An "Experience Modification Factor" is a standard measure of Workers' Compensation results. It derives from specific employers' rolling three-year loss experience. An Experience Mod of "1.0" designates industry average performance, with levels below 1.0 signifying better than average experience, and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

Minnesota Workers' Compensation Reinsurance Association Experience Modification Factor



Over the past 5 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 million Extra MN General/Auto Liability; \$10 million Extra MN Clinical Trial Liability; \$1.75 billion Property Insurance) and
- convenience, low price of transfer, or demands by third parties (NCAA Athletic Injury Primary Coverage; Daycare Accident; Fine Art)

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

Property Insurance

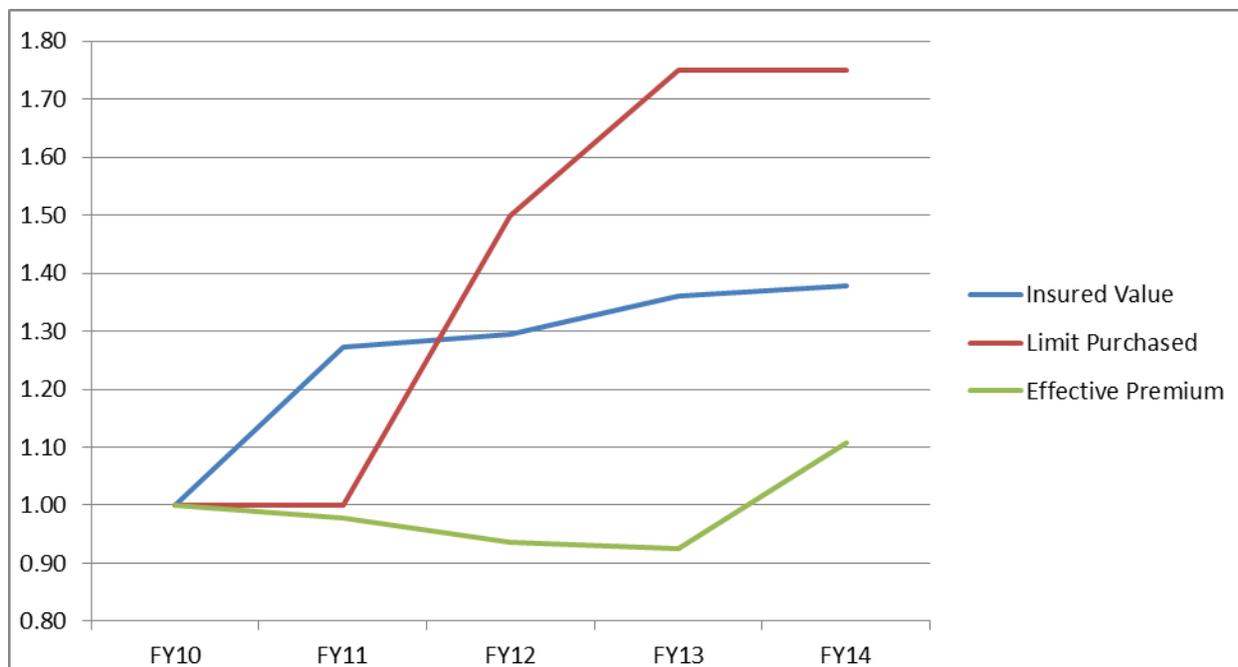
Property Insurance covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils. The principle insurer for the University is AIG through the Midwest Higher Education Compact (MHEC) Master Property Program.

The University 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, 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 Rates: FY10 = 1

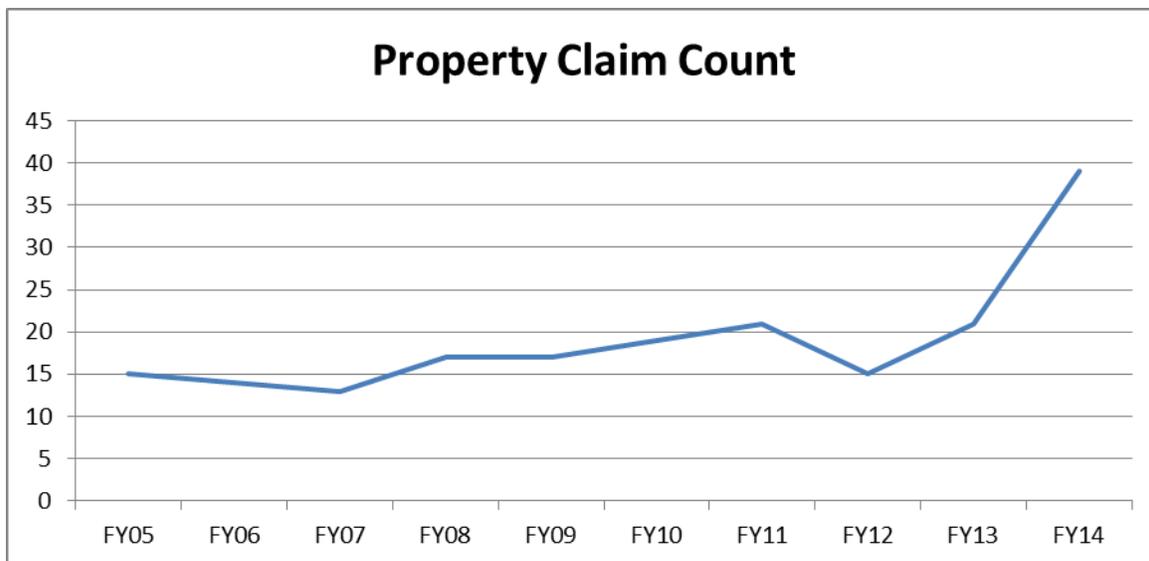


Property insurance cost drivers are Insured Value and Limit Purchased.

Using FY10 as the baseline, we see Effective Premium has lagged cost drivers.

Property Insurance

Property Claim Count by Fiscal Year



Property claim count was 39 events for FY14, a ten year high.

Half were freeze events during the severe 13/14 winter.

In FY14, four losses exceeded \$200,000:

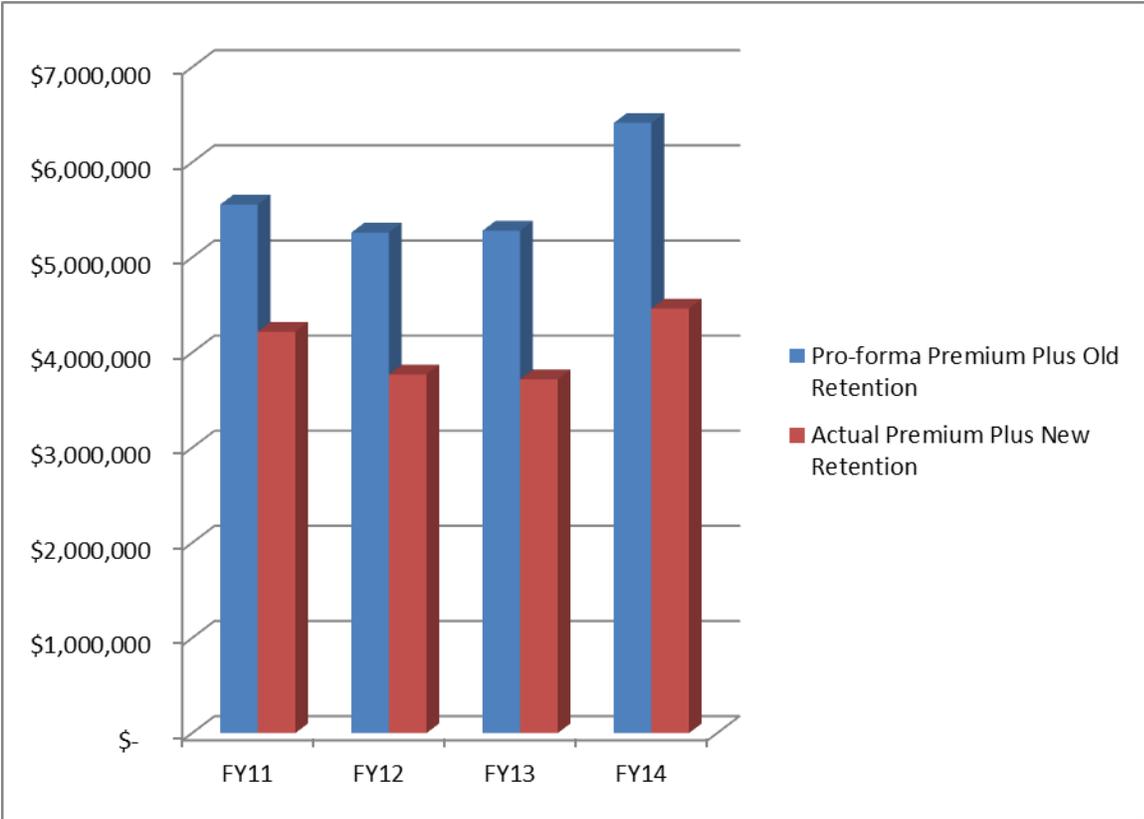
- August 16, 2013, Wind/Hail, Morris
- September 25, 2013, Water Damage, Hasselmo Hall
- December 17, 2013, Water Damage, Mayo
- March 18, 2014, Water Damage, Mayo

This is a very typical large loss count.

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 \$1.58 million over each of the last four years -- a total of \$6.3 million.

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 the use of the 86-foot *Blue Heron* research vessel.

Total Cost of Risk

Total Cost of Risk Summary**University of Minnesota Total Cost of Risk: Fiscal Years 2010 – 2014**

COST ITEM	FY10	FY11	FY12	FY13	FY14
Captive					
Paid Losses	\$ 1,802,866	\$ 1,071,155	\$ 2,410,159	\$ 1,705,185	\$404,513
Case Reserves	\$ -	\$ 963,697	\$ 135,202	\$ 19,641	346,785
Incurred, But Not Reported (EST.)	\$ 12,182	\$ 31,080	\$ 140,614	\$ 347,531	1,283,316
Liability Claims Administrator	\$ 74,075	\$ 69,717	\$ 63,566	\$ 51,707	50,542
Captive Administrative Expenses	\$ 140,793	\$ 117,876	\$ 120,930	\$ 116,909	101,896
Litigation Cost	\$ 1,245,967	\$ 1,617,689	\$ 1,469,704	\$ 1,309,705	1,322,522
Total Captive	\$3,275,883	\$3,871,214	\$4,340,175	\$3,550,678	\$3,509,574
Self-Insurance					
Workers' Compensation Ultimate Loss (EST.)	3,030,541	3,553,424	2,441,522	3,713,051	3,381,262
WC Reinsurance Association	158,827	160,246	142,096	155,784	223,486
Special Compensation Fund	261,894	356,973	291,348	207,312	301,786
WC Claims Administrator	298,348	291,712	267,826	275,324	313,479
Litigation Cost	251,371	211,198	214,019	191,338	214,638
Bill Review Service	33,641	36,751	28,640	32,717	38,591
WC Actuarial	7,144	9,892	9,288	10,300	10,430
WC Broker Consultation	11,550	--	--	--	--
WC Total	4,053,316	4,620,196	3,394,739	4,585,826	4,483,672
Retained Property Losses [1]	901,752	1,600,493	1,530,600	1,457,855	2,117,431
Electronic Data Processing [2]	31,568	36,095	29,707	24,371	12,837
Automobile Physical Damage	173,682	127,295	156,843	87,779	\$210,577
Total Self-insurance	\$5,160,318	\$6,384,079	\$5,111,889	\$6,155,831	\$6,613,940
Commercial Insurance					
All Risk Property	\$3,115,827	\$2,618,781	\$2,240,136	\$2,261,562	\$2,345,651
Excess General/Auto Liability - Extra MN	205,511	233,400	234,745	238,002	242,762
Excess Clinical Trials Liability - Extra MN	--	--	--	139,839	215,756
Intercollegiate Athletics	34,195	53,000	31,500	31,500	33,500
Hull, Liability, Pollution (Blue Heron Watercraft)	28,977	30,613	30,613	31,558	28,701
Fidelity & Crime	19,967	19,967	20,210	20,162	21,740
Fine Arts	17,549	17,549	18,280	18,280	18,827
Nonowned Aircraft Liability	18,229	18,000	18,000	22,000	22,000
Showboat	6,925	6,925	6,925	9,739	11,748
Broadcaster's Liability	5,365	5,365	5,365	5,365	5,594
Child Care Center AD&D	1,173	1,173	1,188	1,159	1,397
Upward Bound AD&D	376	376	376	406	406
RSO Liability	8,067	--	--	--	--
Brokerage	128,750	54,000	54,000	37,586	38,337
Total Commercial Insurance	\$3,590,911	\$3,059,149	\$2,661,338	\$2,817,158	\$2,986,419
GRAND TOTAL COST OF RISK	\$12,027,112	\$13,314,443	\$12,113,402	\$12,523,667	\$13,109,933

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

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

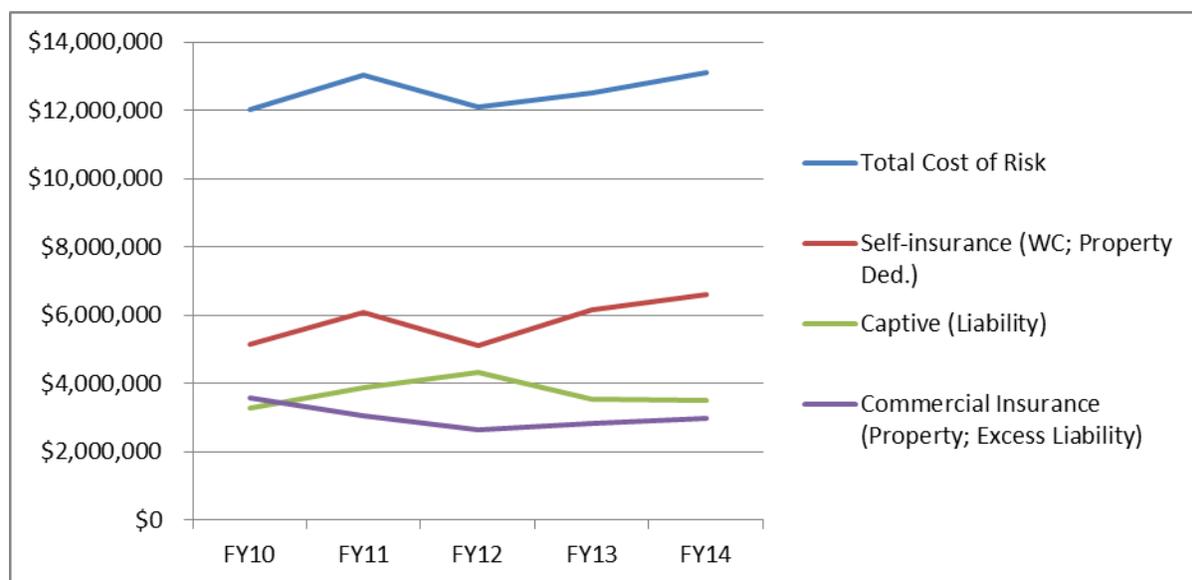
Total Cost of Risk

Total Cost of Risk Summary

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 \$12.5 million over the past five years.

FY11 was the five-year high, with \$13.3 million

III. Workplan

Projects for FY15

Transitional Light Duty Return to Work Program

Recognized best practice is to return injured workers to the workplace as soon as possible. This has been problematic at the University due to the siloed nature of the operations. We will work with Disability Services to structure a trial program to fund early return to work.

Coordination of Evacuation Services

Evacuation of persons insured under different University health plans (Students, Faculty, Staff) for Natural Catastrophe or Political Reason arising while they are outside the US has been handled under separate programs. We will work to find a coordinated solution.

Complete Back Injuries from Trash Handling (Continued)

We will continue work with FM Safety on possible ways to address this workplace hazard.