

# UNIVERSITY OF MINNESOTA

*Annual Report*  
*of the*  
*Office of Risk Management*  
*as of*  
*Fiscal Year Ended*  
*30 June, 2008*

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## I. Overview

### *The Mission of the Office of Risk Management*

- Provide consultation to the University community regarding the risk naturally encountered in the course of Research, Teaching and Outreach.
- Minimize the frequency and severity of physical injury and property damage through education and specific loss control measures.
- Protect and preserve University human and financial resources.

The University is constantly engaged in discussion with virtually all segments of the University and the outside community regarding risk and risk management. The Office of Risk Management serves as risk and insurance liaison in these situations.

A 'risk-free' University is one in which no productive activity can take place. Our position on most issues is, if possible, to find a way to promote and enable Research, Teaching and Outreach opportunities. That said, we must also amend or triage certain activities in order to avoid injuries and property damage. The Office enjoys the excellent support of Environmental Health and Safety, Facilities Management and Disability Services, who share the goal of identifying and mitigating physical risk.

The Office of Risk Management uses commercial and captive insurance, as well as retention (self-insurance) to finance monetary loss arising from risk. The Office of Risk Management is charged with the design, procurement, implementation and maintenance of these programs, which are all designed to administer the financial consequences of loss events. The Office also routinely consults with the Office of General Counsel with respect to problematic risk and insurance provisions of many of the contracts the University seeks to enter into annually.

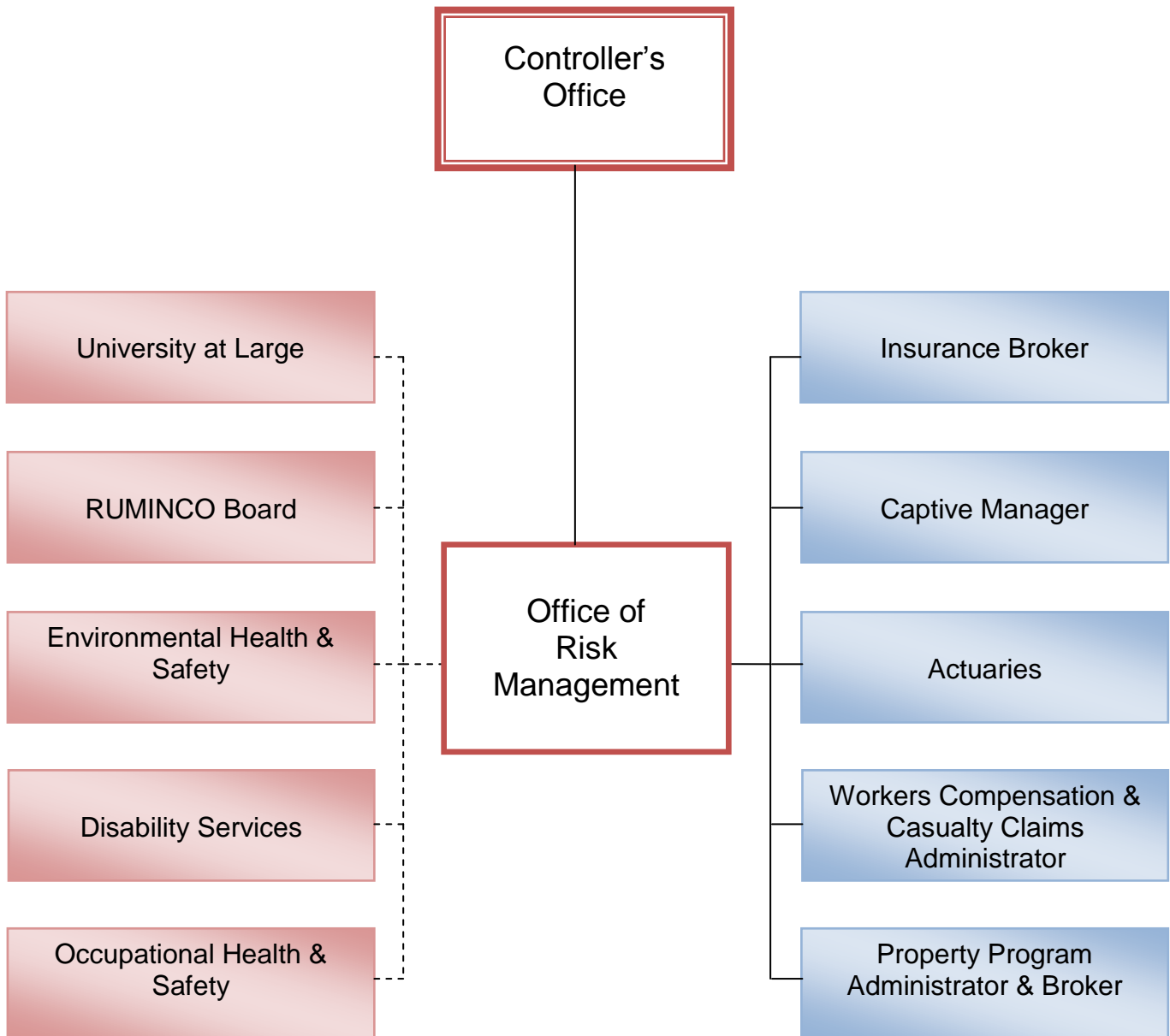
This report summarizes the scope of operations of the University's Office of Risk Management as of fiscal year end June 30, 2008.

## I. Overview

### *Organizational Structure*

The Office of Risk Management

- Acts at the direction of the Controller's Office
- Has a dotted line relationship with many University entities and resources
- Directly controls the activities of insurance vendors and suppliers



## I. Overview

### ***FY08: Milestones and Accomplishments***

#### **Director of Risk Management Position Filled**

After a year-long search, the Controller's Office filled the Director, Risk Management position on March 31, 2008.

#### **Departmental Structure Review**

During the search for a new Director, the Controller and Associate Controller recognized that the limited resources within the Office of Risk Management might be used more effectively. One of the first charges to the new Director was to assess the appropriateness of the Office's structure and staffing to the tasks at hand.

#### **Resource Redeployment**

In June of 2008, the Director of Risk Management restructured the department. The goals of the restructure were to

- More effectively engage the services of the Third Party Claims administrator
- Free internal resources for redeployment
- Improve overall service to the University

The Office eliminated the Workers Compensation Department and transferred its duties to the Third Party Claims Administrator, with no increase in external cost. The Office also created two new Insurance Generalist positions:

- Executive Administrative Specialist (filled 06/08) and
- Associate Director Risk Management

#### **Initiation, Workers Compensation Revitalization**

In many measures -- claim count, dollars appropriated, employee contact and employee satisfaction -- the Workers Compensation program is arguably the most important program Risk Management administers. The Office has initiated a broad and complete analysis of the current system and processes, with a strong focus on enhancing efficiencies.

## 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 will be 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.

The University broadly treats its risk as follows:

- Liability – **Transferred** to Captive Insurer (RUMINCO)
- Workers Compensation – **Retained**; Self-Insured
- Property and Miscellaneous Insurance – **Transferred** to Commercial Insurers

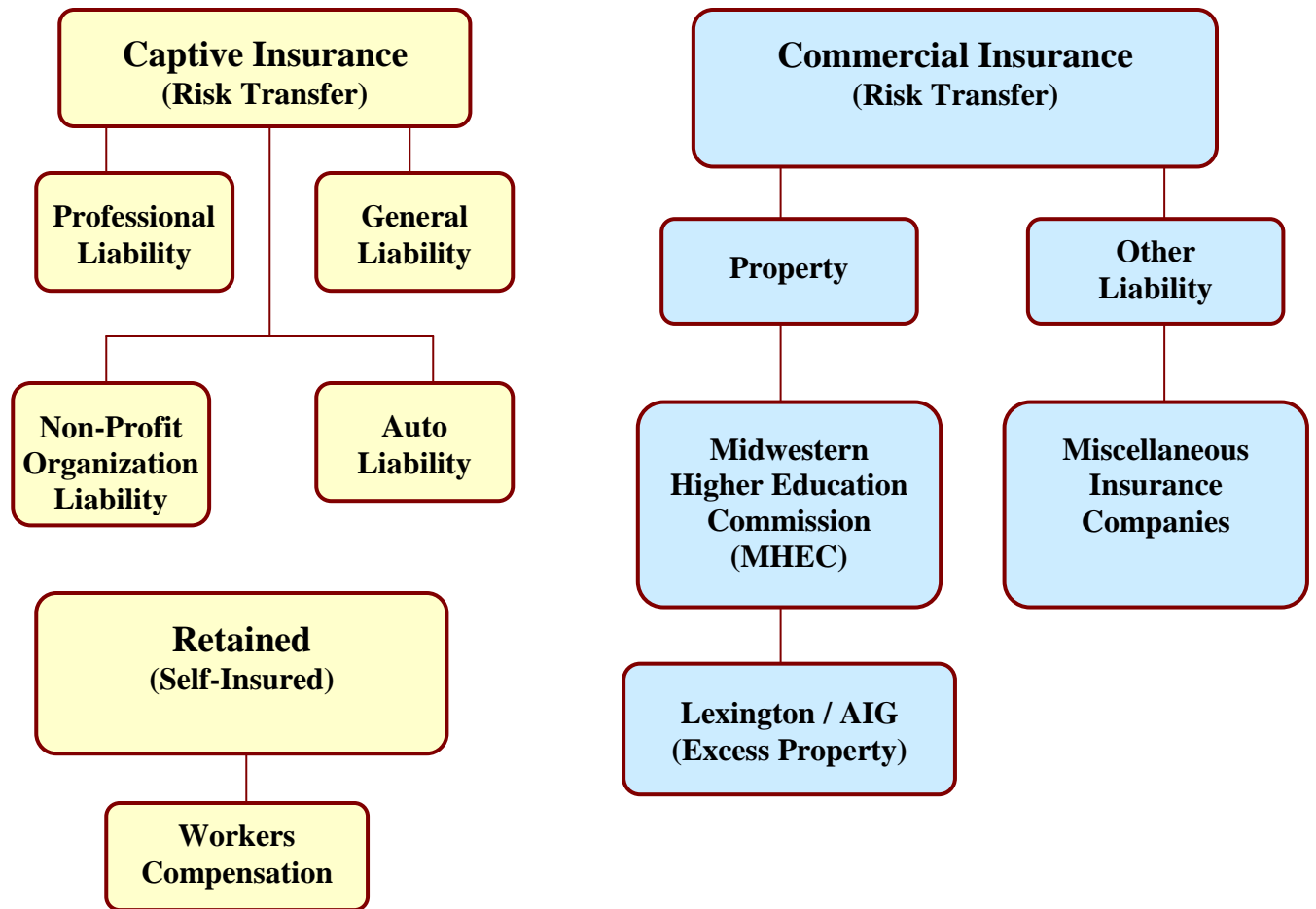
There are specific rationales behind the decision to transfer or retain a specific risk. The guiding principle has been that if it is financially possible and reasonable for the University to retain risk, it is best to do so, as retention tends to be more economical in the long run.

Generally, this principle is abrogated by exposure to truly catastrophic loss potential. A good example of this is the property associated with the University’s campuses. With values in excess of seven billion dollars, there is no reasonable way for the University to fund for a catastrophic property loss event. The University purchases an insurance policy to transfer that exposure to a third party.

## II. Risk Finance Programs

### 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 a combination of three main mechanisms:



The Office of Risk Management monitors the University's loss trends and the insurance marketplace to determine the optimal combination of risk financing methods. 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.

## II. Risk Finance Programs

### Captive Insurance

**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 Regents decided to form RUMINCO Ltd. to fund its primary layer of protection for:

- General Liability and
- Professional Liability

The University purchased excess limits from commercial insurance companies until 1986, when the Office of the General Counsel furnished an opinion that the State of Minnesota's Tort Statute effectively and reliably limits the University's exposure to Tort Liability. Leadership chose to discontinue the purchase of Excess Liability from commercial insurers and rely solely on the limits underwritten through RUMINCO. As RUMINCO matured and its surplus (i.e., net worth) grew, the RUMINCO Board added other lines of coverage:

- Automobile Liability
- Non-Profit Organization Liability

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.

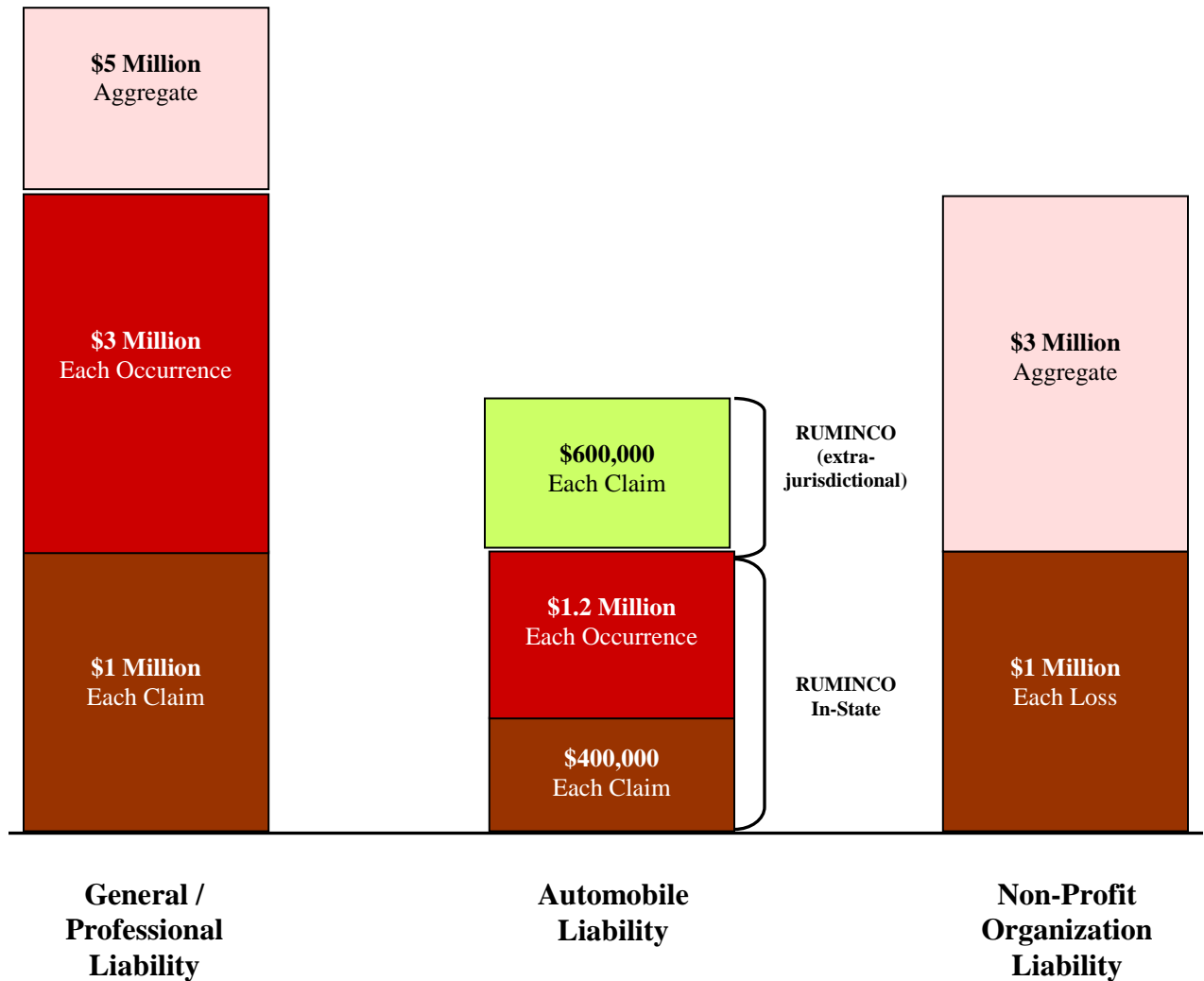
The graph on the next page summarizes RUMINCO's current coverage structure, and is followed by descriptions of each line of coverage in the order laid out in the bullets above.

## II. Risk Finance Programs

### Captive Insurance

#### *Summary of RUMINCO Ltd. Limits*

Limits within the RUMINCO program are generally in the same range as the maximum payout prescribed by the Minnesota Tort Cap statutes; buying more limit effectively waives the Statute's protection to the same extent insurance exists excess of the statute cap.



## II. Risk Finance Programs

### Captive Insurance

#### *General Liability*

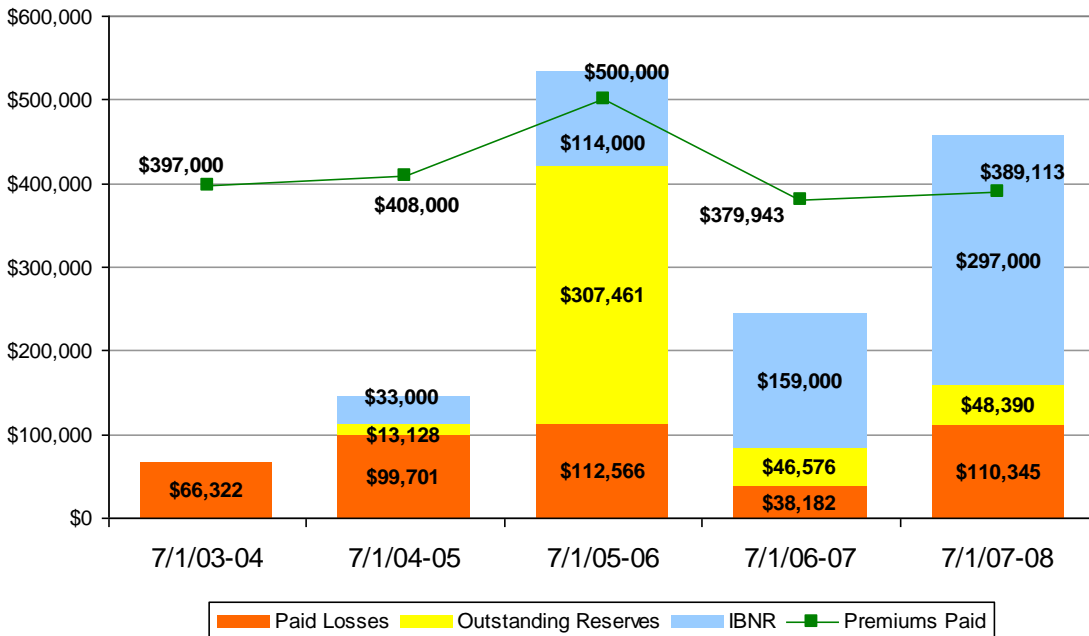
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** General liability insures the University's legal liability for third party bodily injury or property damage.

**Principal Frequency Exposure:** Premises injuries to third parties (slip-and-falls).

**Principal Severity Exposure:** Concentrations of people in facilities such as dormitories, stadiums and arenas exposed to fire, collapse, explosion, etc.

**Five-Year Premium and Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO (and the University) if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs

### Captive Insurance

#### *Professional Liability*

Carrier: RUMINCO Ltd.

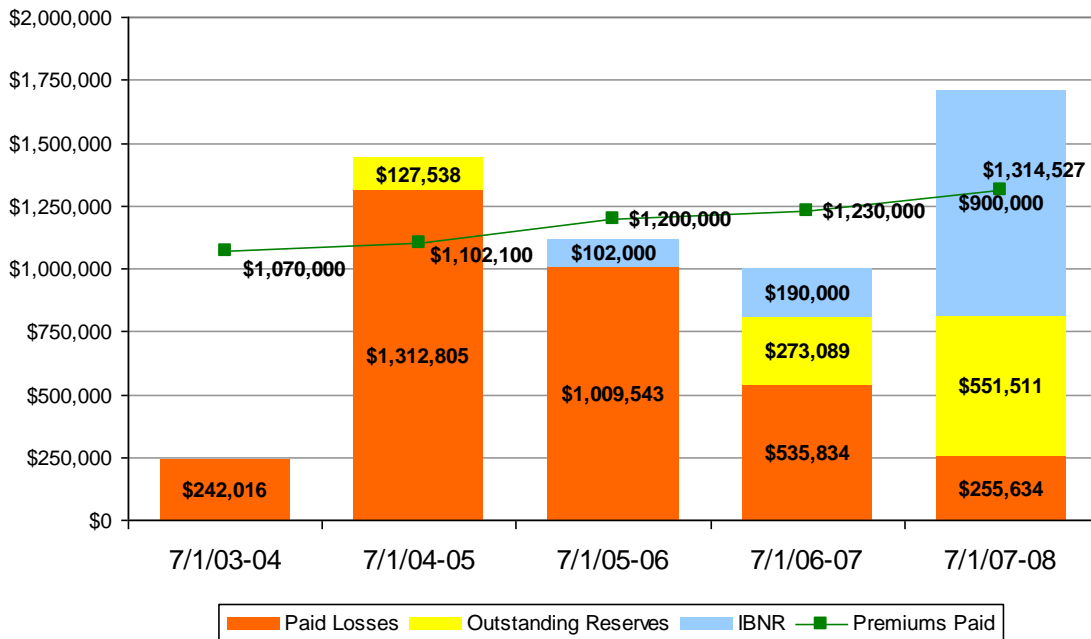
**Coverage Summary:** Legal liability for damages arising out of professional services, including:

- Medical (including the Medical School and Boynton Health Service physicians), surgical, dental or nursing treatment, including the related furnishing of food or beverages
- Furnishing or dispensing of drugs or medical, dental, or surgical supplies of appliances
- Handling of or performing post-mortem 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 Frequency Exposure:** Medical Malpractice

**Principal Severity Exposure:** Medical Malpractice

**Five-Year Premium and Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO (and the University) if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs

### Captive Insurance

#### *Automobile Liability*

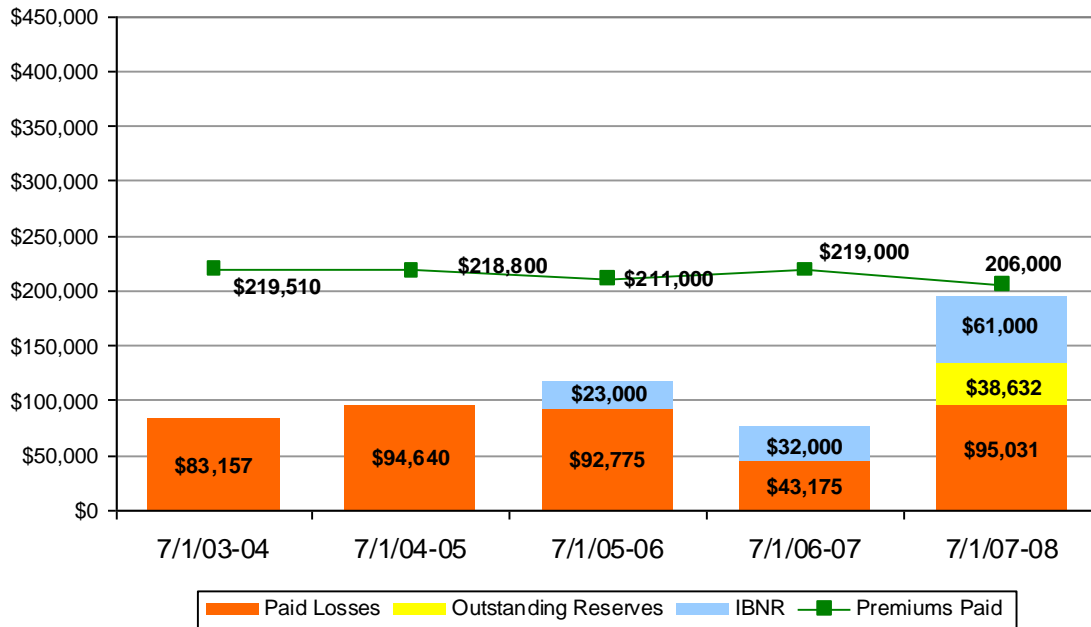
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** Auto Liability covers legal liability for bodily injury and property damage arising out of the use of 775 owned vehicles, hired autos, and non-owned autos operated with the permission of the University.

**Principal Frequency Exposure:** Collision damage to third parties' vehicles.

**Principal Severity Exposure:** Vehicle accidents involving multiple passenger vehicles.

**Five-Year Premium & Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO (and the University) if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs

### Captive Insurance

#### *Non-Profit Organization Liability*

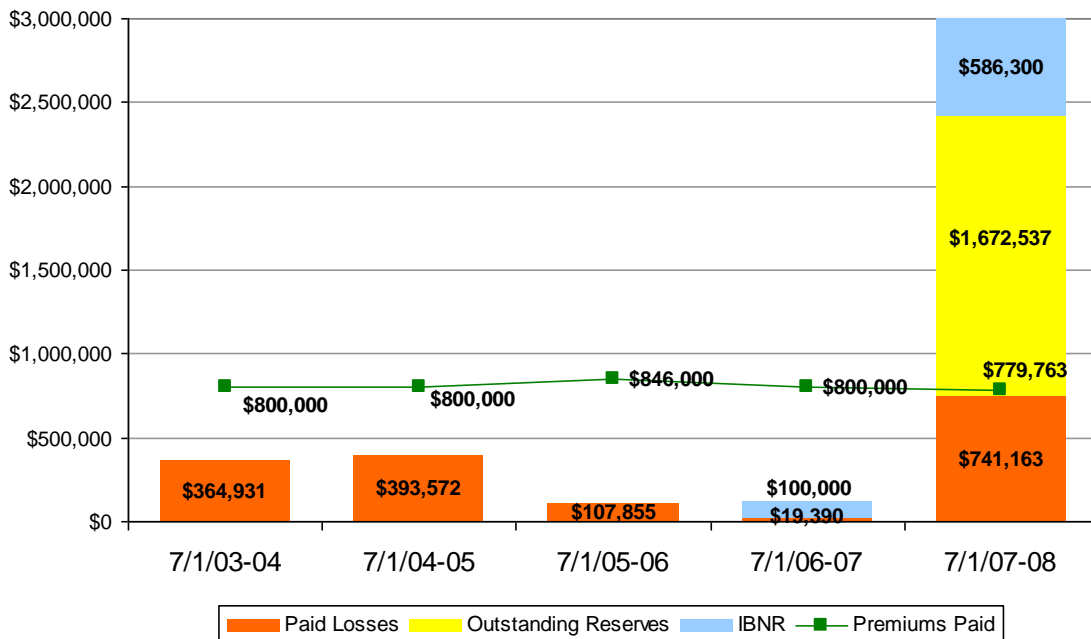
**Carrier:** RUMINCO Ltd.

**Coverage Summary:** This policy 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 Frequency & Severity Exposures:** Employment related claims such as allegations of sexual harassment, failure to grant tenure, discrimination, etc.

**Five-Year Premium & Loss History:** RUMINCO's premiums are set based on recommended funding levels determined by a certified actuary. Premiums are used to fund losses, and are fully retained by RUMINCO (and the University) if not expended on loss events. Expected losses include Paid Losses, Outstanding Reserves and Incurred but Not Reported (IBNR) components.



## II. Risk Finance Programs

### Retained

### *Workers Compensation*

**Coverage Summary:** Medical costs and wage loss for University employees who are injured while acting in the scope of their duties.

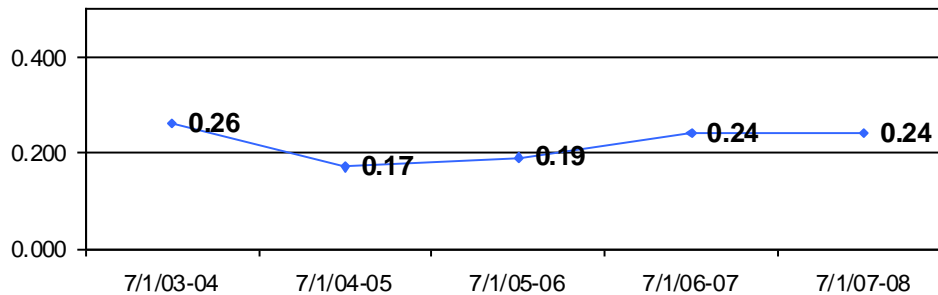
**Limits:**

The University is a qualified self-insurer under Minnesota law. It assumes liability up to \$1,720,000 in any one Workers' Compensation occurrence. Excess protection is provided by the Workers Compensation Reinsurance Association (WCRA). The WCRA was created by the State of Minnesota as a funding source, acting as an excess insurer for serious claims.

**Average Cost per Claim**

Fiscal Year	Avg. Cost per Claim
2007-08	\$4,371
2006-07	\$6,010
2005-06	\$4,466
2004-05	\$3,379
2003-04	\$4,513

**Loss Rate/\$100 Payroll**

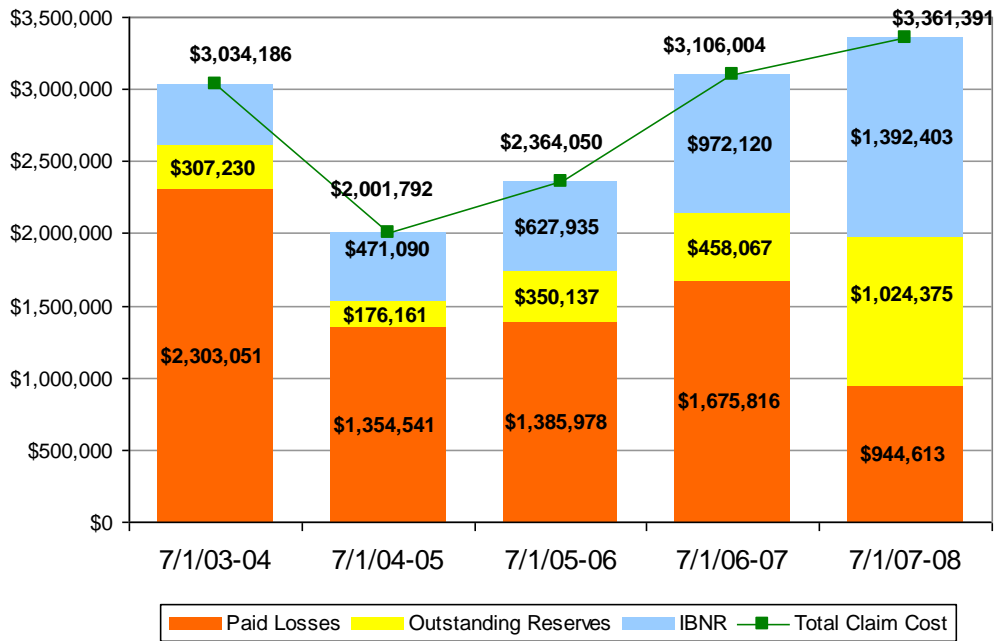


## II. Risk Finance Programs

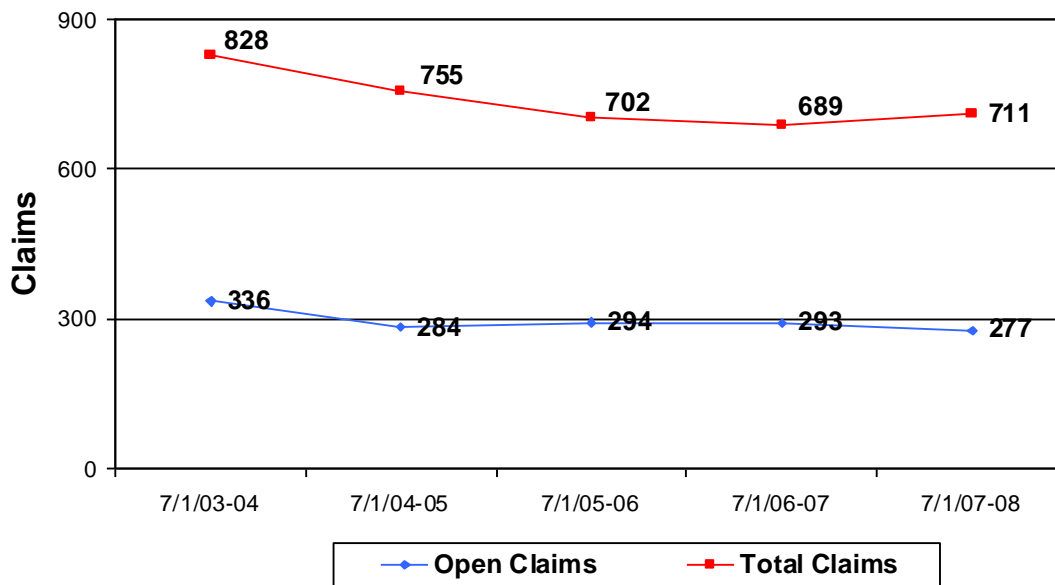
### Retained

### *Workers Compensation*

#### Five-Year Loss History



#### Claim Count



## II. Risk Finance Programs

### Transfer

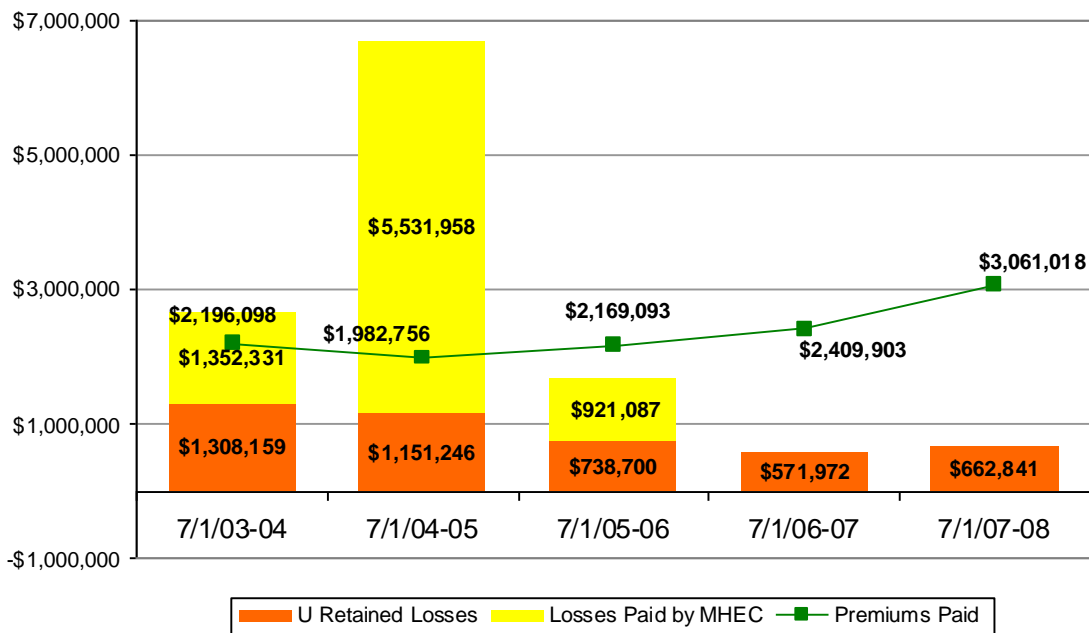
### *Property Insurance*

**Carrier:** Lexington

**Coverage Summary:** Covers risks of direct physical loss or damage to the “covered property” as defined in the policy, subject to sublimits and specifically excluded perils.

**Limits:** \$1 Billion per occurrence.

**Five-Year Loss History:** Property premiums are set based on historical claim patterns and current exposure aggregations. Premiums are used to fund losses, and are fully retained by the insurance company if not expended on loss events. The University retains the first \$200,000 of each loss in the form of a deductible. Departments see only \$10,000 of this, with the office of Risk Management funding the remainder.



The FY08 premium year does not reflect the MHEC dividend. While not guaranteed, the dividend averaged \$526,000 over the 4 years prior.

## II. Risk Financing Program

### Transfer

#### *Miscellaneous Insurance Coverage*

The aggregate cost of all commercial insurance programs (excluding the MHEC Property Program) was \$593,241 in FY08. Here is a brief overview of the purchased policies:

**AUTOMOBILE EXCESS LIABILITY (Extra-Minnesota Jurisdiction):** Provides \$5,000,000 Automobile Liability limits for University-owned automobiles involved in incidents occurring outside the State of Minnesota. Coverage applies excess of \$1.2M underwritten by RUMINCO. The possibility of not having tort statute protection in other states prompts this coverage purchase.

**BROADCASTER'S LIABILITY:** Provides Media-Peril coverage for the University-owned radio stations, KUOM (Minneapolis), KUMD (Duluth), and KUMM (Morris).

**CHILD CARE CENTERS:** Provides accidental medical, death and dismemberment coverage for enrollees at the University-owned and operated child care centers.

**FIDELITY & CRIME:** Coverage for loss of money or securities due to employee theft and dishonesty, computer fraud, and related perils.

**FINE ARTS:** Primary coverage for fine arts (i.e., artwork, books, manuscripts, antiques, etc).

**EXCESS LIABILITY (METRODOME):** Coverage applies to the University's liability to third parties arising out of its use of the Metrodome, and must continue until the University entirely ceases Metrodome operations. The Metrodome use contract with the Metropolitan Sports Facilities Commission requires the University to carry \$5,000,000 of liability insurance. The first \$1,000,000 in coverage is insured through RUMINCO with the remaining \$4,000,000 being covered under this Excess Liability policy.

**INTERCOLLEGIATE ATHLETICS:** This policy insures medical costs arising from injuries sustained by University intercollegiate athletes during play, practice or travel.

**NON-OWNED AIRCRAFT LIABILITY:** Covers the University's liability arising out of use of non-owned aircraft rented or chartered by the University. The limit is \$25 million per occurrence, and is intended to be excess of any policies purchased by the owner of the aircraft.

**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.

**UPWARD BOUND EARLY INTERVENTION AD&D:** Accidental medical, death, and dismemberment coverage for participants in Upward Bound activities, for both the Minneapolis and Duluth campuses.

**SHOWBOAT HULL & LIABILITY:** Coverage is purchased through Paddleford Company for the University's hull & liability exposure arising out of its sponsorship of the *Showboat* dinner theatre. The boat is moored at the University's dock on the Mississippi.

**STUDY ABROAD (FRANCE):** Foreign Liability coverage with an approved ("admitted") French insurance carrier is required for University operations in France.

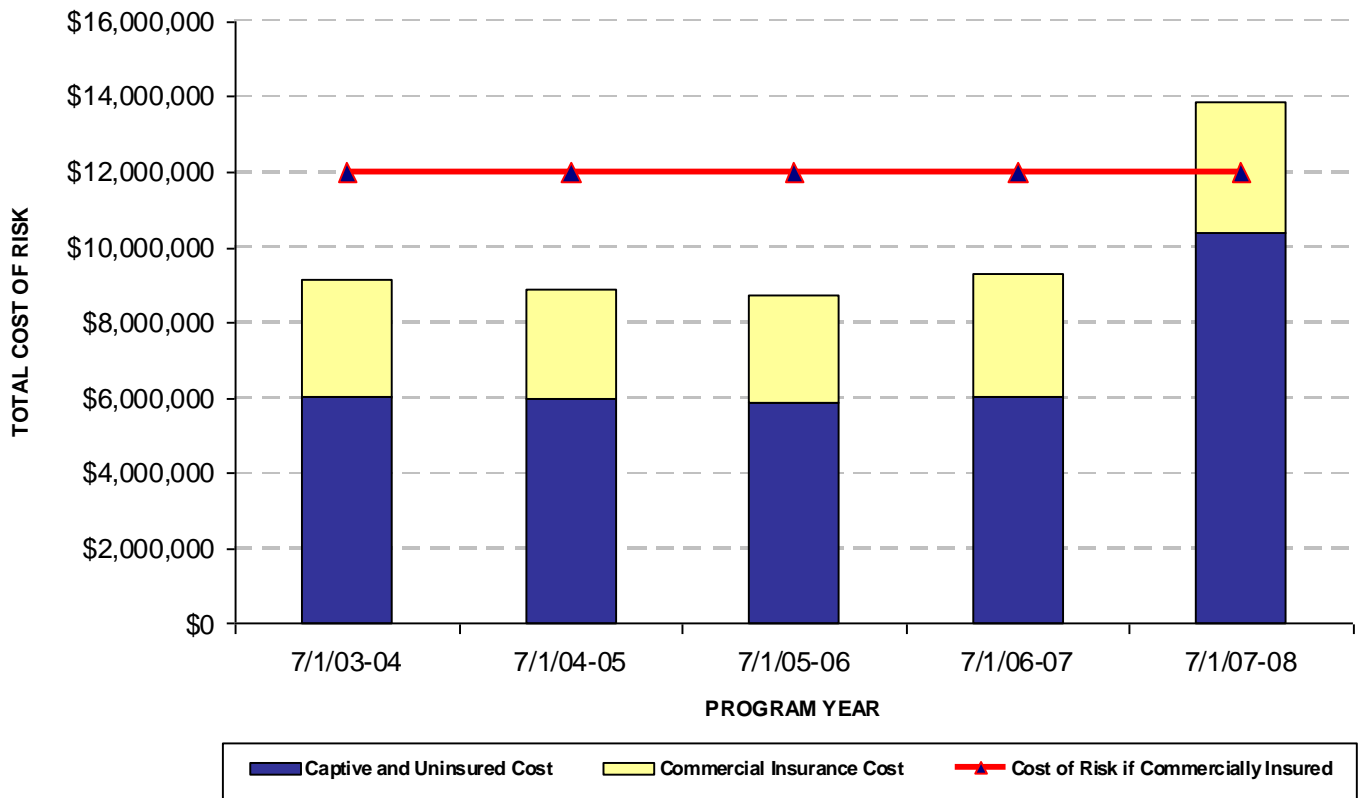
### III. Cost of Risk

We define **Cost of Risk** as:

**Commercial Insurance Premiums + [Captive and Retained Losses + Administrative Expenses] + Brokerage and Consultative Costs**

**Estimated Cost Savings, RUMINCO and the Workers Compensation Program combined**  
 “Cost of Risk if Commercially Insured” contemplates a 30% Administrative/Profit burden on the 5-year average of the “Captive and Retained Cost” component. This burden represents an estimate of costs commercial insurers experience that our programs are not exposed to. Aggregate 5-year savings in this model total \$8,600,000. Our estimate of what the University might have paid in commercial insurance premiums is based on our actuary’s loss forecasts for RUMINCO and Workers Compensation applied to average insurance industry profit and expense loads.

When the University opts to captivize or self-insure an exposure, it assumes additional risk. The chart below shows the University’s actual cost of risk (bars) versus the estimated cost of risk had the University opted to commercially insure all of its risks (red line). The gap between the two represents the annual savings.



**University of Minnesota  
5-Year Cost of Risk Summary  
Total Amounts Paid by Fiscal Year, FY 2004 – 2008**

COST ITEM	7/1/03-04	7/1/04-05	7/1/05-06	7/1/06-07	7/1/07-08
<b><u>Captive Expenses</u></b>					
Paid Losses	\$756,425	\$1,900,718	\$1,322,061	\$632,935	\$1,202,173
Case Reserves	0	140,866	308,138	323,311	2,311,069
Incurred, But Not Reported (ESTIMATE)	0	33,000	239,000	481,000	1,844,300
Captive Administrative Expenses	70,614	86,888	88,426	148,144	131,177
<b>Total Captive</b>	<b>\$827,039</b>	<b>\$2,161,472</b>	<b>\$1,957,625</b>	<b>\$1,585,390</b>	<b>\$5,488,719</b>
<b><u>Self-Insurance</u></b>					
Workers' Compensation	3,034,186	2,001,792	2,364,050	3,106,004	3,361,391
WC Claims Administrator	272,512	160,052	219,251	224,294	244,013
WC Reinsurance Association	100,021	75,379	89,047	95,350	109,815
Special Compensation Fund	323,480	259,738	282,918	204,758	273,999
Bill Review Service			23,753	38,239	27,985
WC Actuarial	15,000	15,000	16,000	16,000	12,000
WC Broker Consultation					28,350
WC Total	3,745,199	2,511,961	2,995,019	3,684,645	4,057,553
Retained Property Losses [1]	1,308,159	1,151,246	738,700	571,972	662,841
Electronic Data Processing [2]			51,180	91,211	55,499
Automobile Physical Damage	159,772	161,891	124,174	101,189	125,338
<b>Total Uninsured</b>	<b>\$5,213,130</b>	<b>\$3,825,098</b>	<b>\$3,909,073</b>	<b>\$4,449,017</b>	<b>\$4,901,231</b>
<b><u>Commercial Insurance Premiums</u></b>					
All Risk Property	\$2,758,765	\$2,700,397	\$2,578,036	\$2,827,147	\$3,061,018
Less: MHEC Dividend	(562,667)	(717,641)	(408,943)	(417,244)	
Total Property Insurance	2,196,098	1,982,756	2,169,093	2,409,903	3,061,018
Automobile Liability (out of state)	206,000	187,500	185,400	191,554	51,881
Boynton Professional Liability [3]	67,827	167,041	20,250	-	-
Broadcaster's Liability	5,677	5,677	5,960	5,960	5,365
Child Care Center	979	1,406	1,406	1,406	1,275
Electronic Data Processing [2]	148,530	63,483			
Excess Liability for Metrodome	59,740	55,106	115,952	115,952	119,164
Fidelity & Crime	50,645	51,300	49,553	49,407	43,232
Fine Arts	50,197	55,837	55,988	55,988	43,750
Intercollegiate Athletics	104,178	112,558	70,970	79,772	76,000
Nonowned Aircraft Liability	28,250	28,250	20,545	20,545	17,649
Special Events	26,885	26,885	26,102	24,365	Non-renewed
Student Activities Office (RSO Liability)	9,992	5,000	5,000	5,000	7,725
Hull & Liability for Watercraft	14,800	20,315	18,042	15,599	15,599
Excess Marine Liability	11,870	11,870	9,540	9,450	9,450
Pollution (Blue Heron watercraft)	900	900	900	1,000	1,075
Upward Bound AD&D	1,440	1,440	206	310	310
Showboat				10,433	7,648
Study Abroad (France)				6,500	6,500
Consultation		3,602	2,513	6,400	19,737
Brokerage	110,549	114,143	110,070	103,397	128,750
<b>Total Commercial Insurance</b>	<b>\$3,094,557</b>	<b>\$2,895,069</b>	<b>\$2,867,490</b>	<b>\$3,112,941</b>	<b>\$3,616,128</b>
<b>GRAND TOTAL COST OF RISK</b>	<b>\$9,134,726</b>	<b>\$8,881,639</b>	<b>\$8,734,188</b>	<b>\$9,147,348</b>	<b>\$14,006,078</b>

- [1] Insurable property losses falling within department deductibles or overall program deductibles.  
 [2] EDP coverage was self-insured starting FY 2005-06; figure now shows losses paid by RM Dept.  
 [3] Transferred to RUMINCO FY07

## IV. Workplan

### Major Goals for FY09 & FY10

#### Workers Compensation

Continue efforts to improve the Worker's Compensation program administration:

##### Efficiency

- Streamlining workflow
- Gaining time by refining processes

##### Communication

- Improving the information to our clients, the Employees of the University
- Coordinating and expediting information exchange between the several University Departments with a Workers Compensation interest or role

##### Teamwork

- Effectively integrating the special skills and capabilities of internal resources such as Occupational Health and Safety, the Department of Environmental Health and Safety and Disability Services
- Refining the use of existing outside vendors, such as our Third Party Claims Administrator and our primary Occupational Health clinics

We expect these efforts to produce increasingly positive results, including:

- Satisfied Employees
- Decreased litigation
- Quicker, less expensive claim closure

### Extra-Minnesota Liability Limits

As the University continues to expand operation beyond the Minnesota State border, the chance of incurring Tort Liability imposed by an alien jurisdiction will increase. The University will enjoy no Tort Cap protection in those situations.

Risk Management is currently working to establish options for greater limits of insurance applicable to extra-Minnesota suits. Our first placement option will focus on General Liability.

We expect the excess General Liability option to be ready and bindable prior to this year's July 1 insurance anniversary. A similar effort will subsequently be made to develop an excess option for extra-Minnesota Medical Products and Medical Clinical Trials actions.