

# 2007 Risk Management & Insurance Report



UNIVERSITY OF MINNESOTA

**Driven to Discover<sup>SM</sup>**

# Summary

- The University finances risk using a prudent mix of risk retention and risk transfer
- Total cost of risk continues to be low
- Claims are trending downward across most categories of risk
- RUMINCO, LTD has been a very cost-effective method of financing some risks
- A number of new risk management initiatives are scheduled for FY 2008

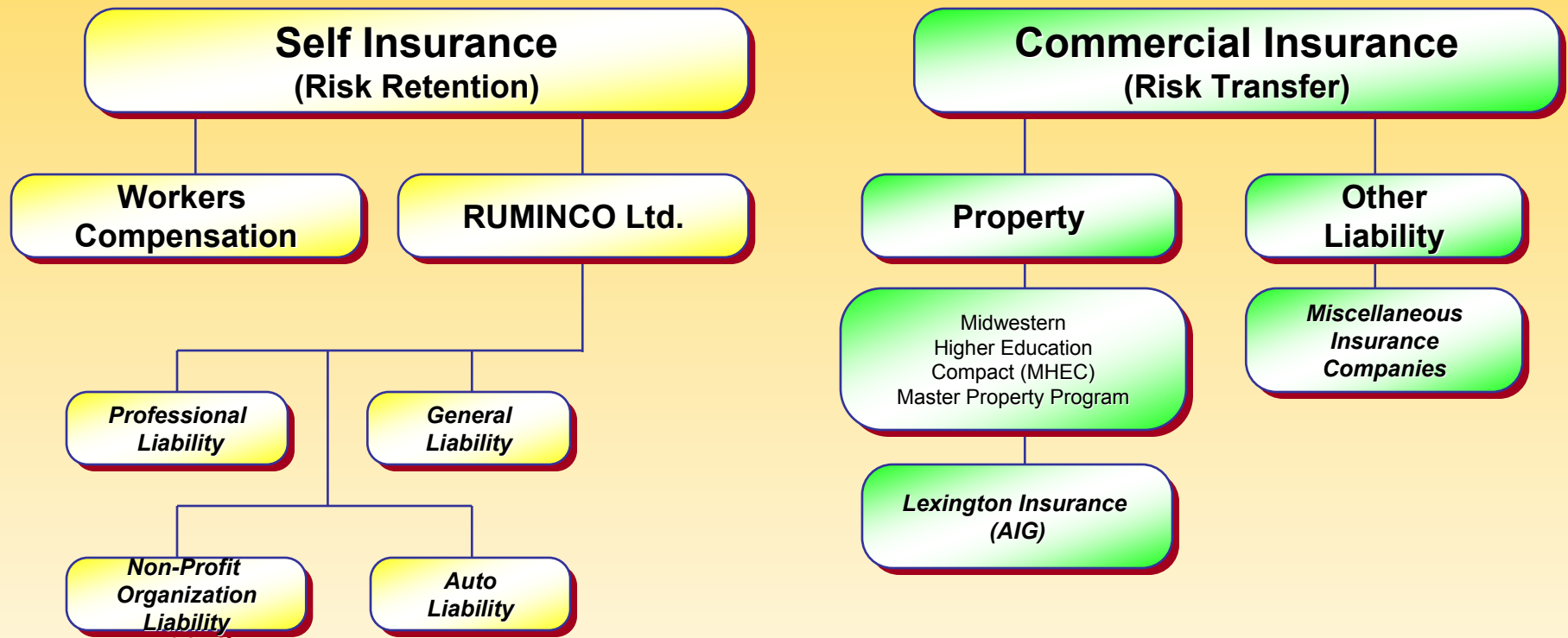


# Risk Retention versus Risk Transfer

- Risk retention - the institution's assumption (retention) of some risk
  - Risk prevention, level of deductibles
  - Example: 80% of property claims are preventable
- Risk transfer – the transfer of risk to another party, typically by the purchase of commercial insurance



# Risk Financing Structure



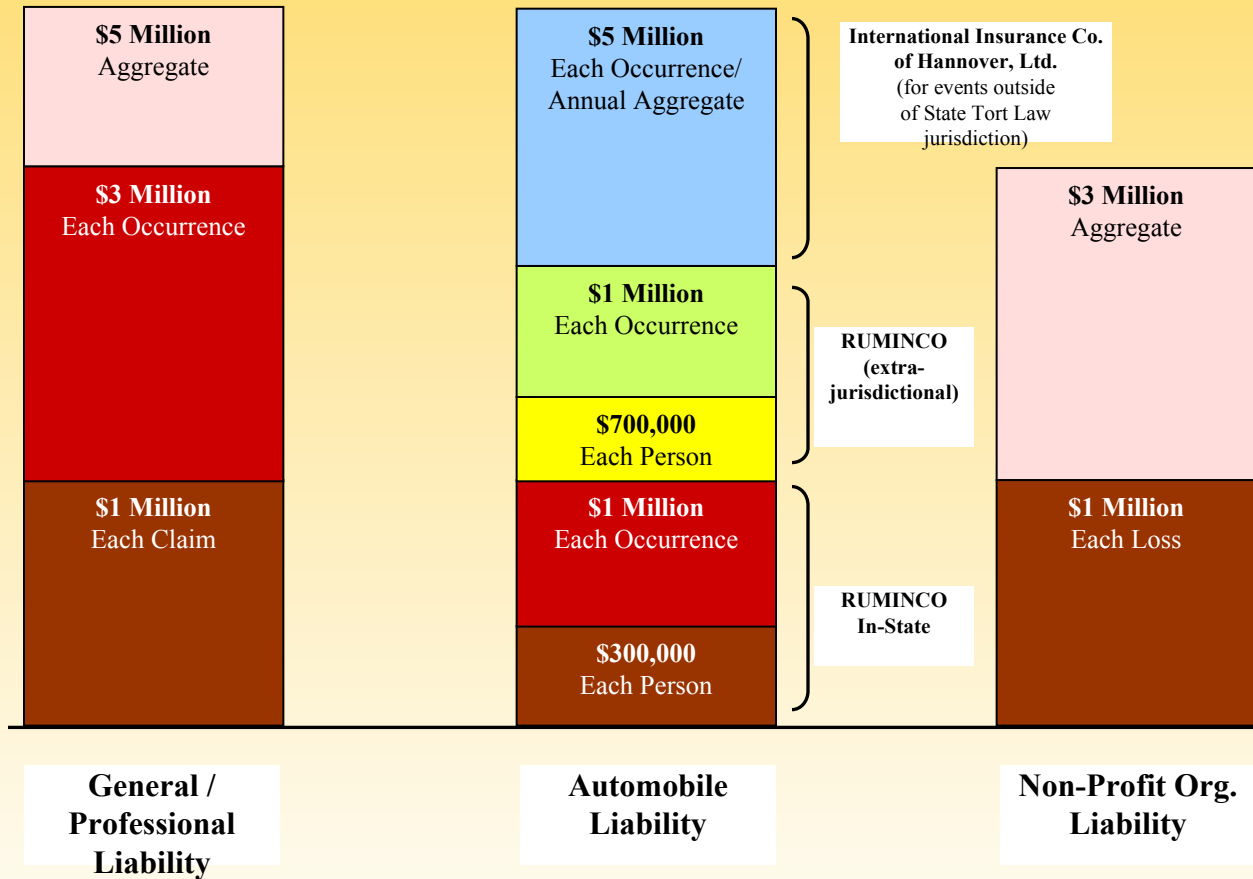
# RUMINCO, Ltd.

- Regents of the University of Minnesota Insurance Company
- Captive insurance subsidiary formed in 1978
- Original coverage – general and professional liability (medical malpractice)
- Additional lines of coverage later added
  - Auto liability and out of state auto liability
  - Non Profit Organizational Liability (NPOL)



# RUMINCO, Ltd

## Summary of Coverage



# RUMINCO, Ltd

## 5 Year Cost Savings Estimate

- An estimate of savings for last 5 years, utilizing captive insurance subsidiary
- Methodology uses industry rates for purchased coverage that is comparable to U of M's self-insured coverage
- Total estimated savings for the period 2003 – 2007 is \$9.9 million
- 44% savings over commercially-purchased insurance



# Workers' Compensation

- The University is self-insured up to \$1,600,000 per occurrence
- Excess liability provided by WCRA, a state-created excess liability entity.
- UM uses a third-party administrator for claims processing
- Loss prevention is key to a successful workers' compensation program
- Claims reported and losses paid have trended downward since 2004





# MHEC Master Property Program

- Midwest Higher Education Compact is a regional collaborative organization
- Provides services to members, including the Master Property Program (MPP)
- 47 institutions in 13 states with over 100 campuses participate in the MPP
- Total insured value of property for MPP institutions = \$58.2 billion
- Policy provides extraordinarily broad coverage



# MHEC Master Property Program

- Summary of coverage
  - UM deductible - \$200,000 / occurrence
  - MHEC reserves layer - \$1,000,000 / occurrence
  - Primary insurance layer - \$100 million / occurrence / member
  - Base “excess” layer - \$400 million / occurrence, with shared limit
  - “Excess” layer- \$500 million / occurrence, with shared limit



# MHEC Master Property Program

- 5 year pattern of claims paid range from a high of \$5.3 million in 2005 to a low of \$65,000 in 2007
- 2005 included one large claim at UMD (Swenson building vandalism)
- 2008 - initiated a “business interruption” claim related to 35W bridge collapse

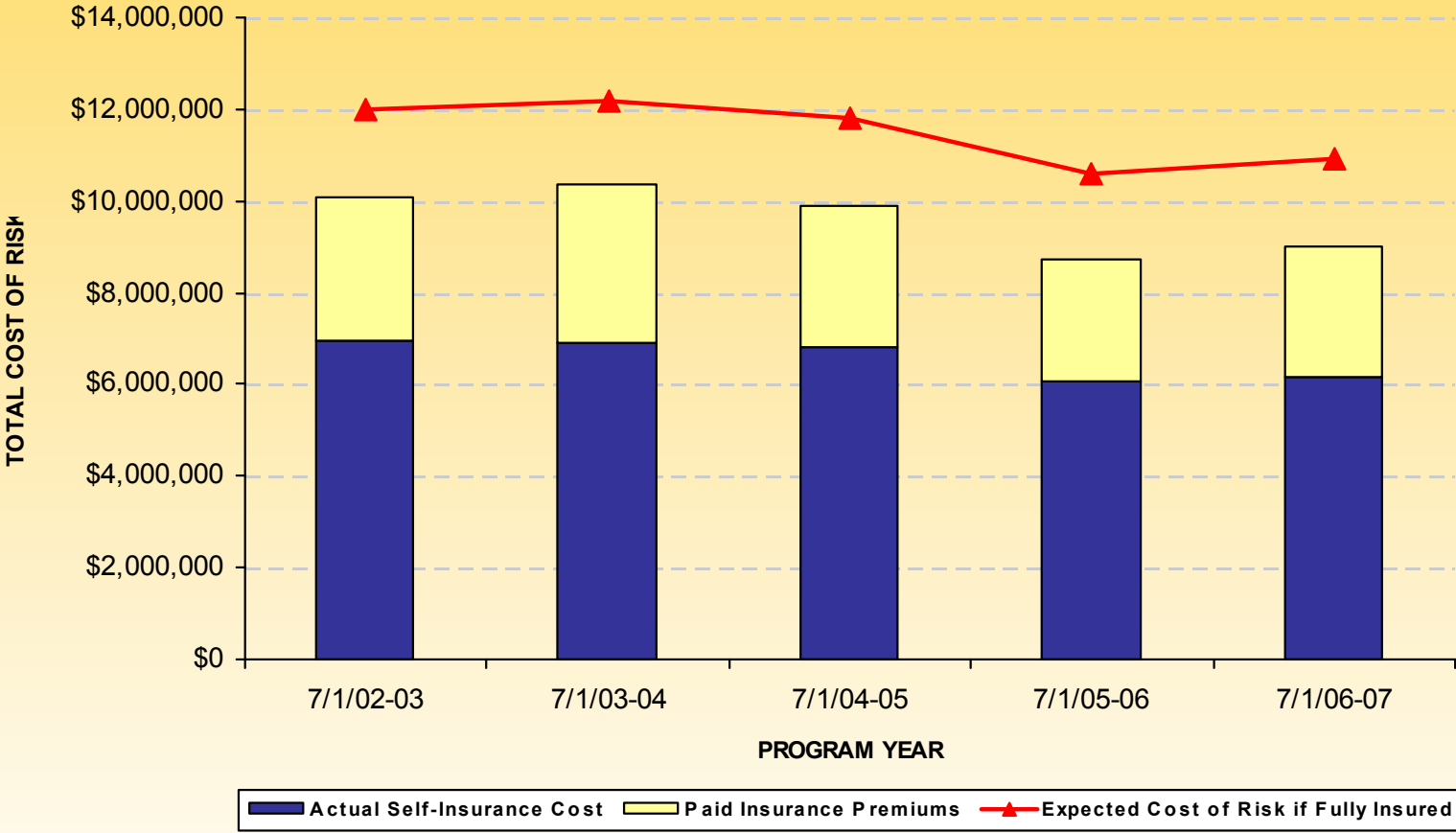


# 5 Year Cost of Risk

- Represents the cost to insure the U of M
- Includes all premiums, self-insurance costs, and retained losses
- FY 07 increase (3.1%) reflects favorable loss experience plus soft insurance markets
- 5 year average annual cost increase = 1%.
- Current risk program has significantly lower costs versus pure commercial insurance



# Five Year Cost of Risk



# 5 Year Loss Summary

- Represents the total losses incurred by the U across all categories of risk
- 5 year pattern of losses has ranged from a low of \$5.1 million for FY 2003 to a high of \$10.4 million in 2005.
- Historically significant exposure areas:
  - Professional liability
  - NPOL
  - Workers' compensation
  - Property



# FY 2008 Workplan

- New director of risk management and insurance
- “Best practice” review of risk management department
  - Implement data analysis capabilities
- Market miscellaneous lines of insurance & capitalize on “soft markets”
  - Reduce premiums
  - Add coverage



# FY 2008 Workplan

- Strategic review of RUMINCO, LTD
  - Evaluate domicile options
  - Update legal insurance documents
  - Assess potential for placing additional lines of coverage through RUMINCO
- Continue working with MHEC MPP on program improvements

