

RISK MANAGEMENT AND INSURANCE ANNUAL REPORT TO THE BUSINESS BOARD



Business Affairs Division Risk Management and Insurance Department

April, 2005

For Information

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This report summarizes the University of Toronto's experience during fiscal year 2004 and provides an overview of the activities of the Risk Management and Insurance Department.

We are committed to assisting and implementing risk minimization strategies for the University in order to reduce the organization's exposure to fortuitous loss.

Our goal is to be an expert, consultative resource to the University community in advising about insurance, claims and paralegal issues relating to risk management.

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OVERVIEW

Financial results were mixed this year in the University's Risk Management and Insurance program because of continued price volatility with our CURIE* policies but this was offset by an improvement with our self-insured claims experience due to lower claim frequency. Overhead classroom projectors, laptop computers and other electronic equipment thefts are still a problem, however, with lower prices and more widespread security measures, theft incidents have declined somewhat. Water damage claims have become more frequent in many University buildings and very often the cause of loss can be traced back to deferred maintenance items.

The University's insurance program was again negatively impacted by CURIE's poor financial circumstances, however, the commercial market showed clear signs of stabilizing. CURIE and its reinsurers again raised prices and reduced coverage so even though our own claims experience was good, premiums went up and more policy restrictions were added. CURIE raised our premiums by 30% this year (39% last year) and signaled more price increases were likely as a result of their revised premium rating methodology which is based on their actuary's recommendation. CURIE's precarious financial state at the end of 2003 was ameliorated by a \$4 million assessment to its members (UT's share was \$328,000) in early 2004 plus the compounding effect of the huge premium increases over the past two years. CURIE's surplus (the amount by which total assets exceed total liabilities) at the end of 2004 was \$6.0 million, up from the paltry \$99,852 of the year before, so the risk of insolvency has receded for the time being. But CURIE continues on the watch list of the financial regulator in British Columbia and the possibility of further premium assessments against members remains real. We have begun an in-depth review of our entire program to determine what long term strategies we need to consider.

The Canadian property-casualty insurance industry returned to strong financial health in 2004 with a robust return on equity of 20.6% (11.7% in 2003) that generated profits of \$4.2 billion for the industry (\$2.6 billion in 2003) and a very negative public outcry. The stellar performance was due to strict underwriting discipline, continued higher pricing, improved equity markets and fewer catastrophe claims. Consumers can now expect price/coverage stability and even a measure of competition returning to the commercial market in 2005, absent any unexpected adverse events.

*CURIE (**C**anadian **U**niversities **R**eciprocal **I**nsurance **E**xchange) is the cooperative risk sharing pool created in 1988 by universities across Canada to secure their core property and liability insurance risks. It is owned by its 56 member universities representing approximately 85% of the total student population in Canada. CURIE is licensed in each province where it has members and has its offices in Burlington, Ontario. It has a staff of 5 persons and is accountable to its subscribers through an Advisory Board constituted of regional member representatives.

GENERAL UNIVERSITY INSURANCE

These are the centrally funded insurance policies we purchase against normal property and casualty risks to cover all operations of the University. The individual policies and premiums are detailed on page 5 and the following narrative provides coverage highlights for information.

- i) **Main Property Policy:** “All Risks” of physical loss or damage to University buildings and contents on repair/replacement basis with \$650 million limit of loss, subject to \$250,000 deductible. This is the major CURIE policy which insures against perils such as fire, windstorm, water damage, theft, etc. ***For structural details of this and our other policies, please refer to the graphic on page 10.***

- ii) **Liability Policies:**
 - **Comprehensive General Liability:** Through CURIE, we have \$20 million per occurrence limit of loss against legal liability arising from University operations causing bodily injury, personal injury or damage to property of others, subject to \$5,000 deductible. The CURIE policy wordings are specially designed to cover university risks such as sporting activities, contractual undertakings, student practicums, incidental medical/dental malpractice and so on.

 - **Errors & Omissions Liability:** Through CURIE, we also have a policy with \$20 million limit against liability for wrongful acts. *The premium is included in the general liability policy premium.* CURIE retains the first \$3 million of risk and purchases \$17 million excess limit through reinsurance in tandem with the general liability policy. In the private sector this coverage is also called Directors & Officers Liability. It protects governors, officers and employees from claims alleging that an appropriate standard of care was not met or that an act was somehow tainted (misstatement, misfeasance or misconduct).

 - **Umbrella/Excess Liability:** For added catastrophe protection, we purchase a total of \$10 million additional liability limit from commercial insurers to cover on top of the two CURIE policies and our automobile liability policy.

- iii) **Boiler and Machinery Policy:** Comprehensive machinery breakdown coverage on boilers, pressure vessels, electrical and mechanical equipment (motors, transformers, switchgear, air conditioning units, etc.) on repair/replacement basis with \$100 million limit of loss, subject to \$15,000 deductible for all objects except large chillers which have \$100,000 deductible. The cogeneration facility is included in this coverage but at \$100,000 deductible. This policy is purchased from commercial insurers.

- iv) **Composite Crime Policy:** We carry a comprehensive contract with \$15 million limit of loss against theft of money or securities and the fiduciary responsibility of employees, subject to \$15,000 or \$50,000 deductible, depending on category of coverage. This contract is purchased from a specialty commercial insurer.

- v) **Personal Professional Property Policy:** To provide added security for loss to property owned by faculty or staff which is used in a professional capacity and which is located on University premises, we carry a contingent policy to guard against an uninsured loss, i.e. where there is inadequate coverage provided by the individual owner. This policy has \$50,000 per person limit.

Our main policies and how these fit together are illustrated on page 10. In the notes, the term “reinsurance” is used to describe insurance purchased by one insurance company from another in order to spread risk among insurers.

USER-DIRECTED INSURANCE

We purchase certain policies which are grouped on page 5 for the specific needs of departmental users who pay the premiums. These policies, for the most part, are reasonably stable over time in terms of coverage and availability.

Major new construction activity continues underway on our three campuses and we have bundled all the current large capital works together under one master “Course of Construction” (CoC) insurance package to provide better terms at less cost than buying individual project policies. Capital projects presently underway include Terence Donnelly Centre for Cellular and Biomolecular Research, Leslie Dan Pharmacy Building, 155 College Street Renovation, Library Storage Facility at Downsview Campus, Academic Learning Centre at UTM, Centre for Communications, Culture and Information Technology at UTM, Wellness Centre at UTM, UTSC Arts and Administration Building and UTSC infrastructure upgrades. As other projects start (e.g. Varsity Redevelopment, etc) they will be added into the master contract at the same blanket rates and broad coverage. Projects now complete and added into our CURIE policies this year include Woodsworth College Residence, School of Continuing Studies Renovation, Rotman Vertical Expansion project, Sidney Smith Patio project, and Management Centre and Student Centre at UTS. These and a host of smaller capital projects completed during the last fiscal year, together with the normal inflationary increase for our existing buildings and contents (excluding library values) produced an increase in insurable values under our CURIE policy of more than 10%, with a corresponding increase in our premium expense.

We also continue to purchase high risk transportation policies and other specialized insurance coverages for departments on a case by case basis as needed.

PREMIUMS BY POLICY

Policy Name/Description	2002/03	2003/04	2004/05
<u>General University Insurance</u>	<u>Premium</u>	<u>Premium</u>	<u>Premium</u>
Main property policy	\$659,411	\$917,774	\$1,122,253
Liability policies			
-comprehensive general liability *	312,613	436,519	636,090
-umbrella/excess liability	13,538	14,665	29,317
Boiler and machinery	105,019	110,270	105,334
Composite crime coverage	48,600	68,300	68,300
Personal professional property floater	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$1,153,181</u>	<u>\$1,561,528</u>	<u>\$1,975,294</u>

* includes errors and omissions policy

User-directed Insurance

Term accident policies	\$3,148	\$3,694	\$3,138
Vehicle fleet policy*	68,305	74,985	85,872
Cogeneration facility**	52,510	55,135	52,667
Fine art collections	24,624	24,624	25,422
Major new construction projects (see note)	464,126	562,804	156,800
Special transit, etc (various departments)	<u>5,940</u>	<u>3,000</u>	<u>0</u>
	<u>\$618,653</u>	<u>\$724,242</u>	<u>\$323,899</u>

* excludes self-insured premiums for collision and comprehensive

** included in boiler and machinery policy

Notes: All premiums include 8% PST (except 0% for Vehicle policy).
 Term accident policies include AD&D (accidental death or dismemberment) and related coverages such as quadriplegia, paraplegia, loss of limb, etc.
 Cogeneration facility is insured as part of boiler and machinery policy but premiums are broken out separately for charge back.
 All capital project premiums are paid for the full term of construction when policies are taken out except for term and/or value adjustments at the finish of construction. Premiums are expensed in the fiscal year in which they are paid.

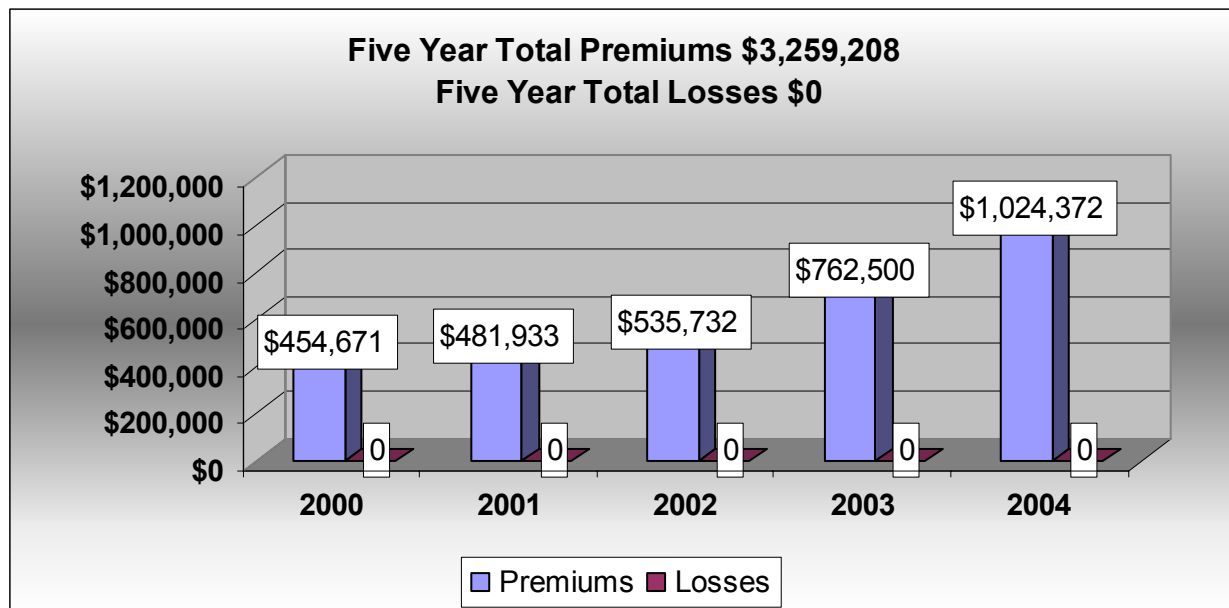
PREMIUM and LOSS HISTORY and COMMENTARY

CURIE's basic property and liability premium rating formulae include a loss experience modifier for each subscriber so individual premiums can vary plus or minus 25% from standard depending on the subscriber's claims experience measured on a five-year rolling average. We have had no property claims for the last dozen years so we enjoy the maximum rate credit of 25% for good loss experience, but because of higher insurable values, market factors and the application of CURIE's new rate surcharges, the property premium increased by nearly 35% year over year. Our liability claims have not fared well over that period so our rolling five year loss ratio is still above 100%, therefore, the rate penalty for this is at the maximum of 25%. In addition, due to CURIE's overall poor claims experience, on their actuary's advice, in 2003 they embarked on a three year plan to raise premiums substantially in order to rebuild their premium surplus, so our total liability premium jumped by 150% last year. If we also include the 2004 assessment charge (\$303,371) which CURIE allocated to liability premiums only, the year over year jump is 230%.

The charts below illustrate the current and historical premium and claims experience by policy year for all our main coverages over the past five years.

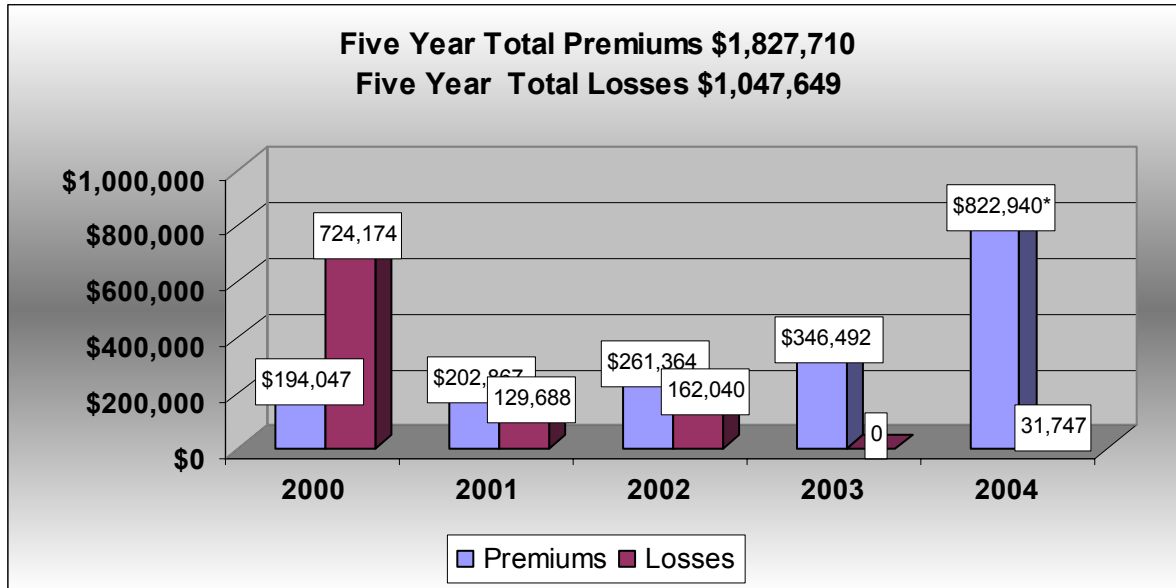
Property Insurance

Premiums and Losses by Policy Year



Liability Insurance

Premiums and Losses by Policy Year



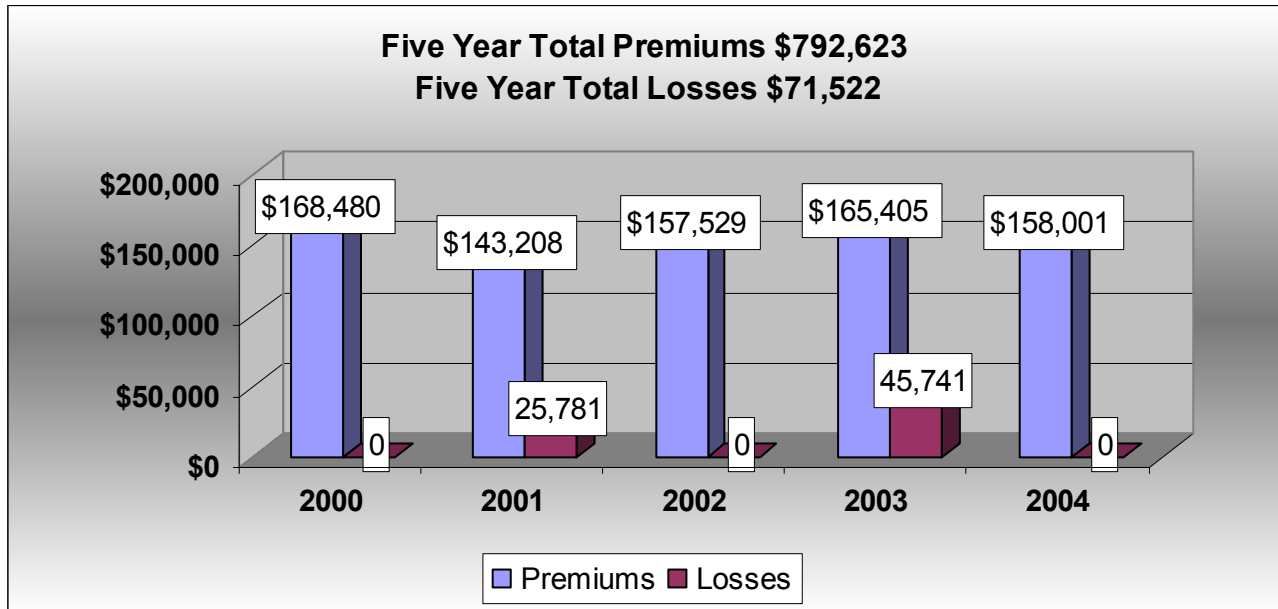
Note: Liability losses incurred include both paid and reserved claims, i.e. because liability claims generally take more than one policy year to settle fully, and the amounts can fluctuate based on claim development, these figures represent best available estimates as provided by CURIE and updated each year.

*CURIE allocated the entire assessment charge in 2004 (\$303,371) to liability premiums, hence the very large percentage increase of 230%. Without this, the numbers are 150% and \$519, 561.

Non-CURIE policies are purchased through insurance brokers and changes to these commercial contracts were mixed, with only one double-digit premium jump due to the continued hardness of the market, however, there are indications of returning price stability in these commercial lines as outlined below.

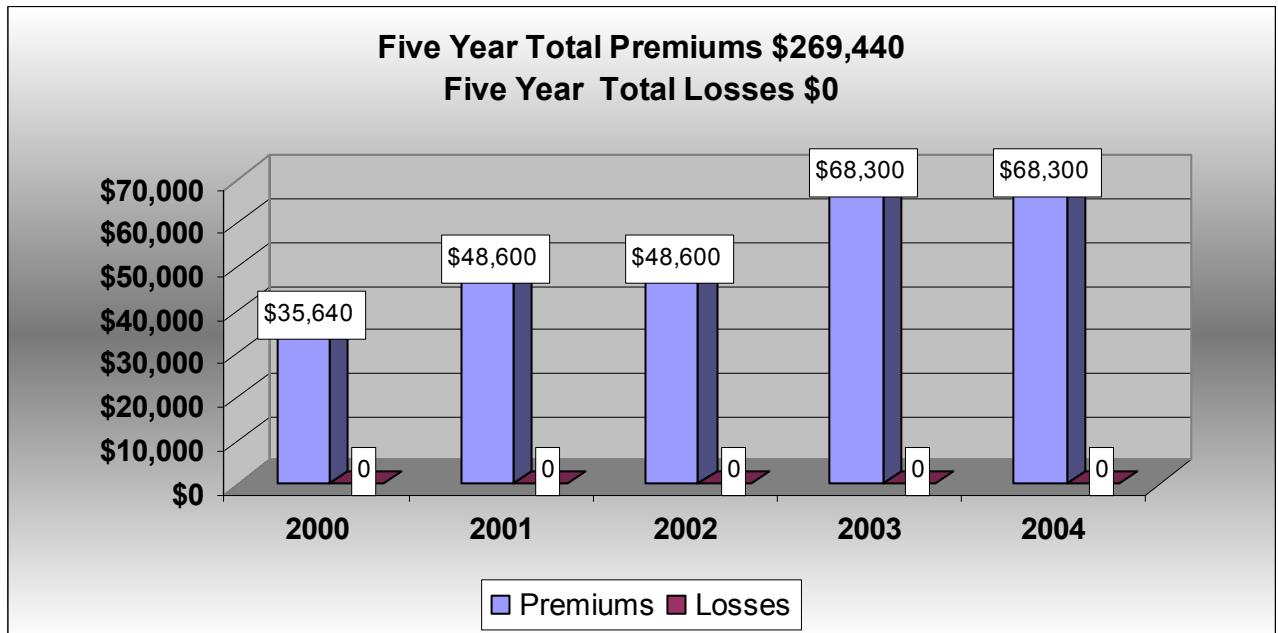
We remarketed the **boiler & machinery** policy last year and hope to develop a stable, long term relationship with our new carrier, ACE/INA. We experienced one very bad loss with the CoGeneration plant (\$875,000 paid claim) six years ago which had a very significant impact on our premium costs, however, claims have been good since then so we have been pressing our case for some mitigation in premiums. We got a slight reduction this year (3%) and hope to do better next year as the market gets more competitive and provided that no serious claims occur.

Boiler & Machinery Policy



We've now been claim-free for seven years under the **crime/fidelity** policy (one large defalcation claim in 1998) so we were able to renew this policy at expiring terms and cost. We carry a comprehensive fraud policy with a single insurer providing \$15 million overall limit at various deductibles. To ensure we are getting the best deal, we intend to compete this policy at the upcoming renewal in August, 2005.

Composite Crime Policy



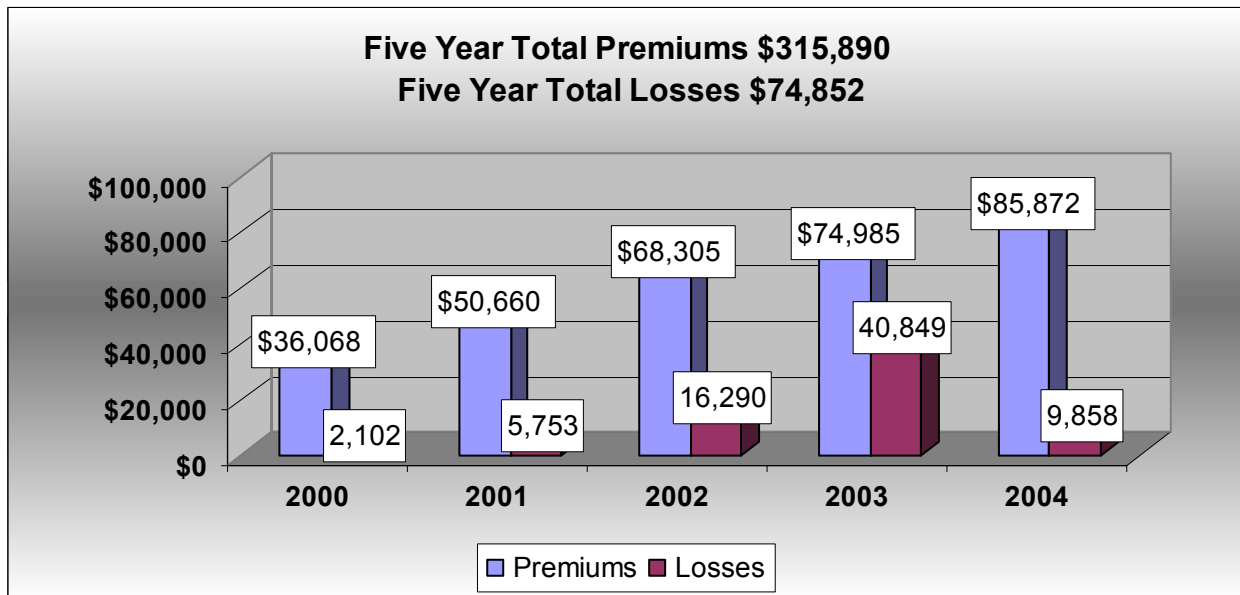
Our **fine arts** policy renewed on August 1, 2004 at the same favourable terms as before except for a small increase due to higher values. Our experience had been very good under this policy until the theft of some paintings from the Faculty of Applied Science and Engineering last year, nevertheless, we expect to renew the policy without too much difficulty next August.

Fine Arts Policy



The **vehicle fleet** policy premium increased by 15% at the renewal last summer, this after a 10% rate hike the year before and was due mainly to the hard commercial insurance market.

Vehicle Fleet Policy



General Insurance Structure						
	\$650 million					
	"All risks" of direct physical loss or damage to buildings and contents. Commercial market for \$645 million excess of CURIE's primary \$5 million limit.					
	Quota Share subscription policies include	\$100 million				
Limits of Liability	FM Global, American Home, GCAN, CIRI, Swiss Re, Scor, XL Insurance and Allianz.					
	Accidental Machinery Breakdown					
				\$10 million		
				Umbrella liability policy with GCAN Insurance Company protects for \$10 million limit per loss above each of these policies so we have		
		100%		\$30 million limit for CGL and E&O policies and \$15 million limit for Automobile		
		ACE/INA	\$20 million		\$20 million	
			Comprehensive General Liability		Errors & Omissions Liability	\$15 million
			100%		100%	
			CURIE		CURIE	Fidelity, theft of money and securities
			(with 75% reinsured)		(with 85% reinsured)	
	\$5 million			\$5 million		100%
	CURIE Retention per loss (with 50% reinsured)			Liability Accident Benefits		Guarantee Company of North America
				100%		
Deductibles Applicable				Liberty Mutual		
	\$250,000					
		\$15,000/\$100,000	\$5,000			\$15,000/\$50,000
	PROPERTY	BOILER & MACHINERY	GENERAL LIABILITY	VEHICLE FLEET	ERRORS & OMISSIONS	COMPOSITE CRIME

INSURANCE RESERVE

We operate an internal reserve account for property claims as a restricted fund to pay the difference between the actual CURIE insurance policy deductible of \$250,000 and a nominal 'responsibility' deductible of \$2,500 which the individual department incurring a loss absorbs. This is set at a level that is intended to reinforce the custodial responsibility of departments for assets entrusted to them and has remained at \$2,500 for many years. We look at the feasibility of raising it from time to time which would help slow the depletion of the reserve, however, it would also place a corresponding burden on departments who incur a loss. We expect the reserve to operate roughly in balance from year to year with paid claims being about equal to investment earnings, capital gains and other income, if any, so that the principal in the fund is preserved at not less than \$1.5 million. For the past several years, losses have been higher than expected while revenue has been lower and so the reserve balance has been declining. As there is no expectation of any future CURIE dividend and investment earnings are insufficient to pay ongoing claims, we have signaled that the reserve may need an infusion of central budget funds at some point if we want to retain our existing internal claims protocol. The present reserve status is shown in the table below.

General Insurance Reserve

(Long Term Capital Appreciation Pool – LTCAP)

Number of LTCAP units (as of March 31, 2005)	10,875.77
Market value per unit (as of March 31, 2005)	\$186.61
Payout rate per unit (as of April 30, 2005)	6.86
Investment income for current year (incl)	74,608
Claims paid in current year (inc. claims from prior years)	325,396
Claims reserved (through to April 20, 2005)	198,000
Premiums saved from self-insurance*	36,813
EFIP Income	2,872
Estimated reserve balance, April 20, 2005	<u>\$1,822,291</u>

*automobile collision and comprehensive; personal professional property floater.

In earlier years, CURIE paid out dividends to subscribers as surplus funds were declared free for distribution by its Board. There has been no dividend paid by CURIE since 1999 due to continuing poor claims experience. With the past two years of high increases due to their new premium strategy and the \$4 million assessment to members in 2004, CURIE's financial results improved last year, finishing with \$6.0 million surplus (\$0.1 million in 2003). But the net result to us has been almost a tripling of our CURIE costs over the last three years. As noted earlier, we have begun an in-depth review of our property/liability insurance program and of our current contractual commitment to CURIE which runs until end, 2007. CURIE's audited financial statements for 2004 and its annual report are available for review on request.

CLAIMS EXPERIENCE

The University's self-insured claims record improved in 2004/05 from the year before. Water damage claims were more frequent due to maintenance and other issues and were also more costly on average due partly to concerns about mould remediation and due partly to plain bad luck. Again, thefts of computers and other electronic equipment were a major cause of property loss frequency on our campuses (about 50% of incidents) and the main items stolen at all three campuses are audio-visual projectors and laptop computers. However, water damage losses due to freeze-ups, leaking roofs, failing pipes and other causes (about 40% of incidents) accounted for more than two thirds of the dollar loss last year. A majority of these losses can be attributed to lack of proper preventative maintenance, in other words, the problems identified in the report titled "Crumbling Foundations" often manifest themselves as insurance claims.

The total dollar loss for all property claims is projected to be around \$300,000 for the year (about \$400,000 last year). So far we've paid out \$315,000 during this fiscal year and have reserved \$210,000 for claims reported but not yet finalized. The largest self-insured loss (\$25,000) occurred at the main bookstore when a hooded thief, carrying a ladder and caught in the act by a security camera, stole a new shipment of 39 MacIntosh i-Pods that had just been put in a display case on the second floor. The thief climbed the ladder from outside the bookstore and accessed the display case from the back which was up against a wired glass window facing the main atrium in the Koffler Student Centre. The display case itself was equipped with an alarm, but this was not activated by forced entry from the back.

We settled one significant claim under our fine arts policy last year involving the theft of three paintings from the main conference room in the Faculty of Applied Science and Engineering. The net recovery was almost \$66,000 so this represents a serious loss under the policy, however, because our historical claims experience is excellent and as we insured the recent Picasso Exhibit under this policy for a large premium (and no losses) we are not expecting any difficulties with the renewal negotiation in August, 2005.

With construction activity on our campuses continuing at a rapid pace, accidents and insurance claims are bound to happen. Since we purchase special 'CoC' construction policies for capital projects, these claims are handled outside the University's normal insurance stream and do not impact our ongoing policies. Two incidents at Terence Donnelly Centre for Cellular and Biomolecular Research which occurred during the excavation phase were resolved as was the

water damage loss at Academic Research Centre at Scarborough where in-floor electrical, data and computer wiring channels were flooded when a fire sprinkler fitting failed. Otherwise, there were only minor incidents on our many construction sites, none of which are expected to materialize as insurance claims.

There were no claims under our boiler & machinery policy last year so our rolling loss experience under this policy continues to improve. Combined with the softening insurance market, we are optimistic that we can obtain better terms and pricing at future renewals.

Legal liability claims remained reasonably constant in frequency last year and there were no new, serious injury, large dollar lawsuits launched against the University that would fall within the coverage afforded by our comprehensive general liability insurance policy with CURIE.

The number of reported slip and fall injury claims (26) is trending higher than last year as the winter was more severe with above average precipitation and higher concentrations of snow and ice but less prolonged extreme cold temperatures during January and February. There were dozens of potential liability incidents reported to the Risk Management and Insurance Office in the past year, of which 74 were judged to require investigation for insurance purposes. These resulted in 29 new claim files being opened. Most are for personal injuries or property damage accidents under the Occupiers' Liability Act involving students or members of the general public. A certain frequency of such occurrences is to be expected for an institution of our size. These claims range between \$500 and \$5,000 per incident and they are handled through our internal protocols as much as possible. More serious accidents are reported to our liability insurer.

The Risk Management and Insurance Department also acts as a paralegal intermediary in recovering funds from third parties for damages caused to University property including buildings, equipment and grounds. Many of these are driving accidents where motorists hit building walls, fences or light standards. There were seven noteworthy incidents of this type last year and the amounts recovered or in process of recovery total about \$15,000. In addition, we are pursuing legal redress against the City for the water damage to the Rotman School of Management and adjacent grounds when a City water main failed in February, 2004. This caused nearly \$80,000 in damage and we are alleging the City's response was inadequate because the water was not shut off for more than ten hours after being reported so the amount of water that escaped caused far more damage than it should have.

RISK MANAGEMENT

Risk management is defined as the process of identifying and analyzing potential loss exposures in order to select the best way to protect assets and reduce loss possibilities. Risk is all around us and claims will always occur, but their impact can be minimized and contained within acceptable limits through an effective risk management program. The Risk Management and Insurance Department strives to be a consultative expert resource to the University community in advising about insurance, claims and paralegal issues related to risk management.

We continue to see a high level of activity in respect to contracts entered into by constituencies of the University such as student work placements especially in the clinical health sciences. Over time, there has been a heightened awareness within the University community about the risks associated with contracting to provide or receive services. This has led to a more balanced risk sharing environment with outside parties through better coordination and review of contracts. Examples include liability waivers and consent forms for student activities such as practicums or field trips, affiliation agreements with health care providers, volunteer agreements, construction contracts and facility/space rentals. These contracts, among others, are reviewed by the Risk Management and Insurance Department to make sure the University's interests are adequately protected. As well, the University recently completed a thorough revision of its Governing Council policy which deals with this very important business activity.

On the advice of loss control engineering experts engaged by CURIE to analyze the maximum dollar loss potential should a catastrophic fire engulf the main library complex, we have now completed a cost study to install automatic fire sprinkler protection throughout Robarts Library. The feasibility, timeframe and precise cost of such a large project was examined in detail and included input from the Chief Librarian and others. The decision now taken by the University's senior management is that the project will not proceed due mainly to ongoing changes in the technology of delivering library services. Traditional library resources are being converted more and more into electronic format so the reliance of library users upon the printed word is gradually reducing, hence the need for physically protecting library books is diminishing. Therefore, to spend the amount of money needed to install fire sprinklers in Robarts Library (\$3.5 million) is not considered justifiable. In addition, the library fully complies with code for all life safety requirements and there are no concerns about occupant safety there.

The Risk Management and Insurance Department continues to act as a resource to the University community about ways and means to reduce thefts of computers and similar 'target risk' equipment in order to alert departments about security measures which are available and to put them in touch with specialist suppliers of security devices. These range from local and central

alarm systems and video camera surveillance to various types of locking or fastening cables, brackets and internal chip/memory securing mechanisms. While these devices act as deterrents to some degree, there is no 100% measure to stop the determined thief, however, as our reducing claims frequency attests, our efforts seem to be having an overall beneficial effect.

We continue to see an increasing tendency toward litigation in personal injury and civil liability matters, sometimes bordering on the trivial. It often seems the only requisite for demanding compensation is injury, real or imagined and regardless of fault or accidental circumstance. Lawyers are becoming involved in such situations as a matter of course and at a much earlier stage than ever before. This invariably means higher claim and expense costs as well as more time, adversarial wrangling and added complexity to resolve. The Risk Management and Insurance Department tries to prudently manage the University's claim litigation resources to keep dollar outflows to a minimum.