RISK MANAGEMENT AND INSURANCE
ANNUAL REPORT TO THE BUSINESS BOARD

Business Affairs Division
Risk Management and Insurance Department

April, 2006

For Information

36567

This report summarizes the University of Toronto's experience during fiscal year 2005 and provides an overview of the activities of the Risk Management and Insurance Department.

We are committed to assisting and implementing insurance 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 deteriorated this year in the University's Risk Management and Insurance program because of continued price volatility with our CURIE* policies. This was exacerbated by worse than normal experience with our self-insured claims because of the serious flooding at UTSC during the August 19, 2005 torrential rainstorm. Thefts of laptop computers and other electronic items are still a problem although with lower prices and increased security measures, theft incidents have declined. But water damage claims are occurring more frequently in many University buildings. These can be very disruptive and costly and unfortunately, the cause of loss can often be traced back to deferred maintenance items.

While the University's insurance costs were again driven up significantly by higher CURIE premiums, the commercial market was relatively stable despite huge storm losses in the USA and elsewhere. CURIE served up the third and hopefully final tranche of its actuarially mandated repricing scheme so even though our own claims experience continues to be very good, our premiums went up by another 24% this year (30% and 39% the prior two years) and CURIE signaled that more price increases were possible if claims exceed their actuarial predictions. CURIE's financial state improved in 2005 due to the compounding effect of the large premium increases over the past three years so its surplus (the amount by which total assets exceed total liabilities) at the end of 2005 was up to $11.2 million ($6.0 million in 2004) and hence the risk of insolvency has receded somewhat. But CURIE lost its $2.5 million stop loss reinsurance protection because of its claims frequency so it is now exposed for $5 million each and every claim, therefore the possibility of future premium assessments against members remains real. Our own claims experience relative to CURIE's overall is markedly better so it is in our best interest to consider other insurance options. We are continuing an in-depth review of our entire program to determine the best long term strategy to consider.

The Canadian property-casualty insurance industry enjoyed another robust financial year in 2005 with a healthy return on equity of 16.9% (20.6% in 2004) that generated profits of $4.0 billion for the industry ($4.3 billion in 2004), a somewhat counter-intuitive result in view of the great hue and cry about weather related losses, especially from hurricanes Katrina and Rita. But the strong performance was due to steady pricing, continued underwriting discipline and healthy global equity markets so we anticipate ongoing price/coverage stability in the commercial market for 2006.

*CURIE (**C**anadian **U**niversities **R**eciprocal **I**nsurance **E**xchange) is the risk sharing entity created in 1988 by universities across Canada to secure their core property and liability insurance risks. It is co-operatively owned by its 56 member universities representing about 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 a Board of Directors made up of member representatives on a regional basis.

GENERAL UNIVERSITY INSURANCE

These are the central budget funded policies we purchase against insurable property and casualty risks to cover all operations of the University. The individual policies and premiums are listed 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 core 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 legal liability for wrongful acts. *The premium is included in the general liability policy premium.* CURIE retains the first $5 million of risk and purchases $15 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 vehicle fleet 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 also 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 safeguard 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 are sourced from the commercial market through various brokers and, for the most part, are reasonably stable over time in terms of coverage, price and availability. We remarket these periodically to ensure the University is getting current, competitive insurance terms at all times.

Significant capital project construction works continue on our three campuses although the level of ongoing construction activity has lessened somewhat. As a result, and due to insurance market fluctuations, it is no longer advantageous to bundle all capital works together under one master policy so we are purchasing coverage as and when needed for individual projects. Capital works presently underway or soon beginning include Leslie Dan Pharmacy Building, Centre for Biological Timing and Cognition, Varsity Centre for Physical Activity, New Economics Building and the New Science Building at UTSC. For each project, we arrange coverage at the most favorable rates and best policy terms available in the marketplace. Projects now complete and added into our CURIE policies this year include 155 College Street Renovation, Terence Donnelly Centre for Cellular and Biomolecular Research, Library Storage Facility at Downsview Campus, Academic Learning Centre at UTM, Centre for Communications, Culture and Information Technology at UTM, Wellness Centre at UTM, Arts and Administration Building at UTSC and various infrastructure upgrades at UTSC and at St. George Campus. 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 6% 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 by FISCAL YEAR

Policy Name/Description	**2005/06**	**2004/05**	**2003/04**
General University Insurance	Premium	Premium	Premium
Main property policy	1,437,255	$1,122,253	$917,774
Liability policies			
-comprehensive general liability *	842,700	636,090	436,519
-umbrella/excess liability	29,317	29,317	14,665
Boiler and machinery	107,019	105,334	110,270
Composite crime coverage	66,960	68,300	68,300
Personal professional property floater	14,000	14,000	14,000
	$2,483,251	$1,961,294	$1,547,528

* includes errors and omissions policy

User-directed Insurance			
Term accident policies	3,061	$3,694	$3,138
Vehicle fleet policy*	75,207	74,985	85,872
Cogeneration facility**	53,510	55,135	52,667
Fine art collections	***78,747	24,624	25,422
Major new construction projects *(see note)*	114,244	562,804	156,800
Special transit, etc (various departments)	6,500	3,000	0
	$331,269	$721,242	$323,899

* excludes self-insured premiums for collision and comprehensive
** included in boiler and machinery policy
*** includes special, one time Picasso Exhibit coverage

Notes: All premiums include 8% PST (except 0% for Vehicle and Special Transit policies)
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 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.

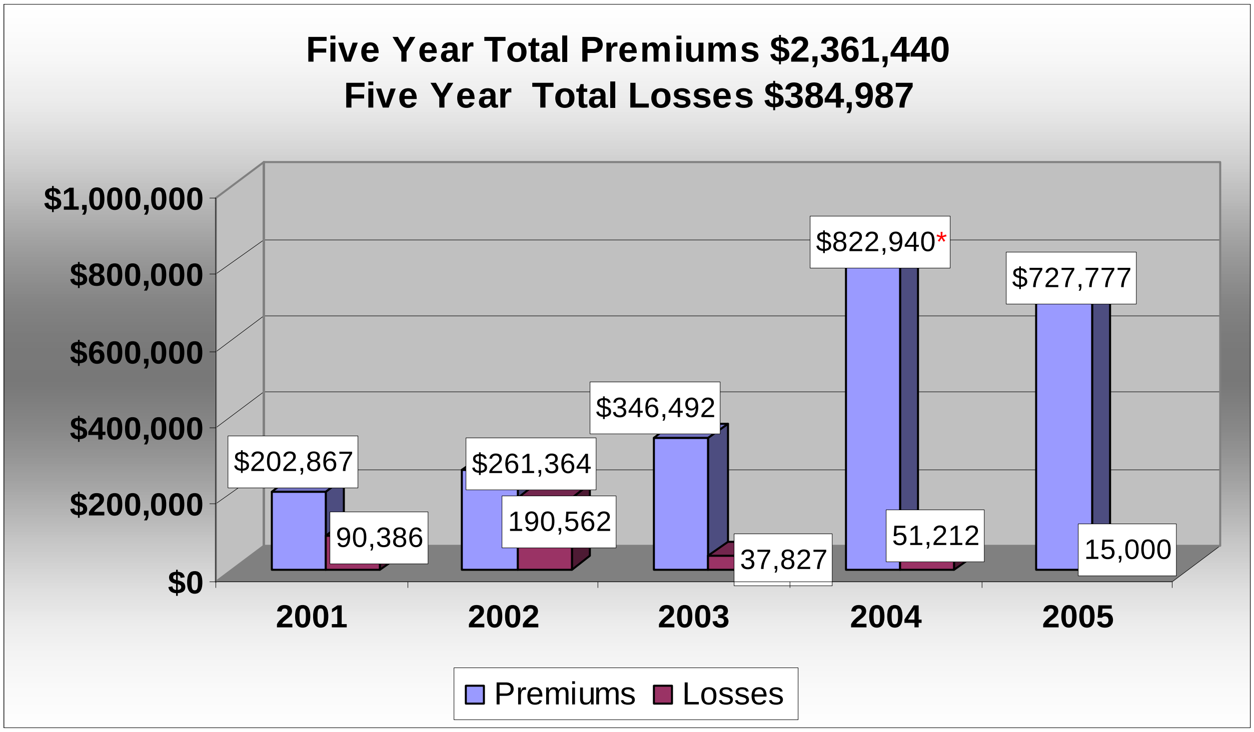
PREMIUM and LOSS HISTORY and COMMENTARY

CURIE's property and liability premium rating formulae include a loss experience modifier for each subscriber so individual premiums can fluctuate up to *plus/minus* 25% depending on the subscriber's claims experience measured on a five-year rolling basis against the CURIE average. We have had no property claims for the last ten years so we enjoy the maximum rate credit of 25% for good loss experience and so the property premium increased by only 6% last year in tandem with the rise in our insurable values. The liability policies have not fared as well over that period and our rolling five year loss ratio is around 40% so the rate credit here is only 3%. But because of CURIE's overall poor claims experience, on the advice of their actuary, in 2003 they embarked on a three year plan to raise premiums substantially in order to rebuild their surplus and so our liability premiums jumped again last year by 40%, factoring out the effect of the premium assessment the year before which CURIE had allocated entirely to liability premiums.

The charts below illustrate the comparative premium and claims experience by policy year for all our main coverages over the past five years. All figures are shown by policy year.

Property Insurance

Liability Insurance



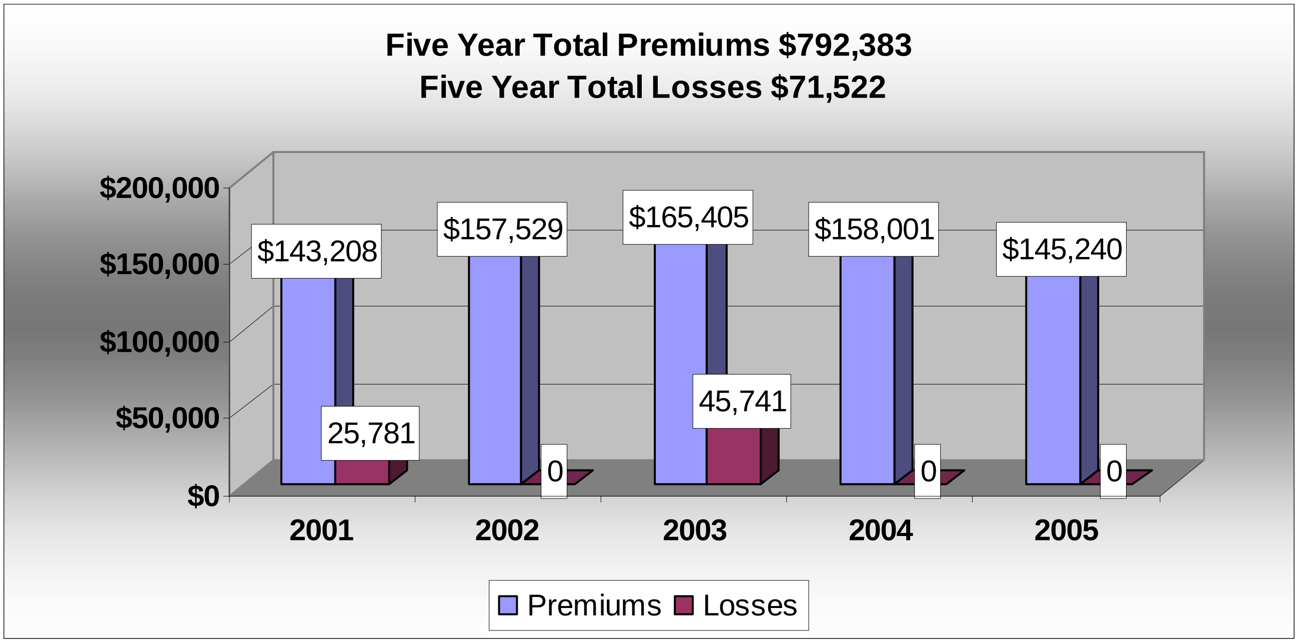
Note: Liability losses incurred include both paid and reserved claims, i.e. because liability claims generally take more than one policy year to settle fully, and the amounts can fluctuate based on claim development, these figures represent best available estimates as provided by CURIE and updated each 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 various insurance brokers and changes to these commercial contracts were relatively minor due to our good loss experience, remarketing of certain policies and continuing price stability within the commercial sector as detailed below.

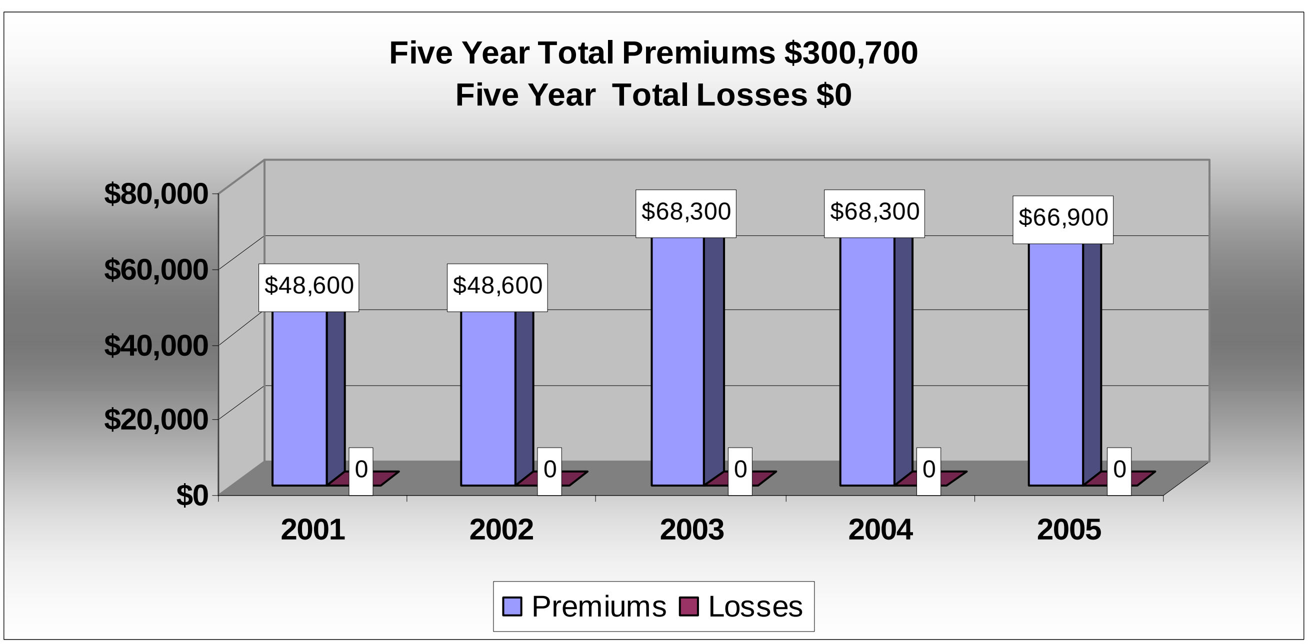
We recently renewed the **boiler & machinery** policy again with our new carrier, Royal Sun Alliance and hope to foster a stable, long term relationship with them. The one very bad loss we had with the CoGeneration plant ($875,000 paid claim) seven years ago had a very significant impact on our premium costs, however, claims have been good since then so we are seeing some rating flexibility. At the same time, our risk profile is expanding due to our capital works additions and this has a rising impact on our total premium costs.

Boiler & Machinery Policy



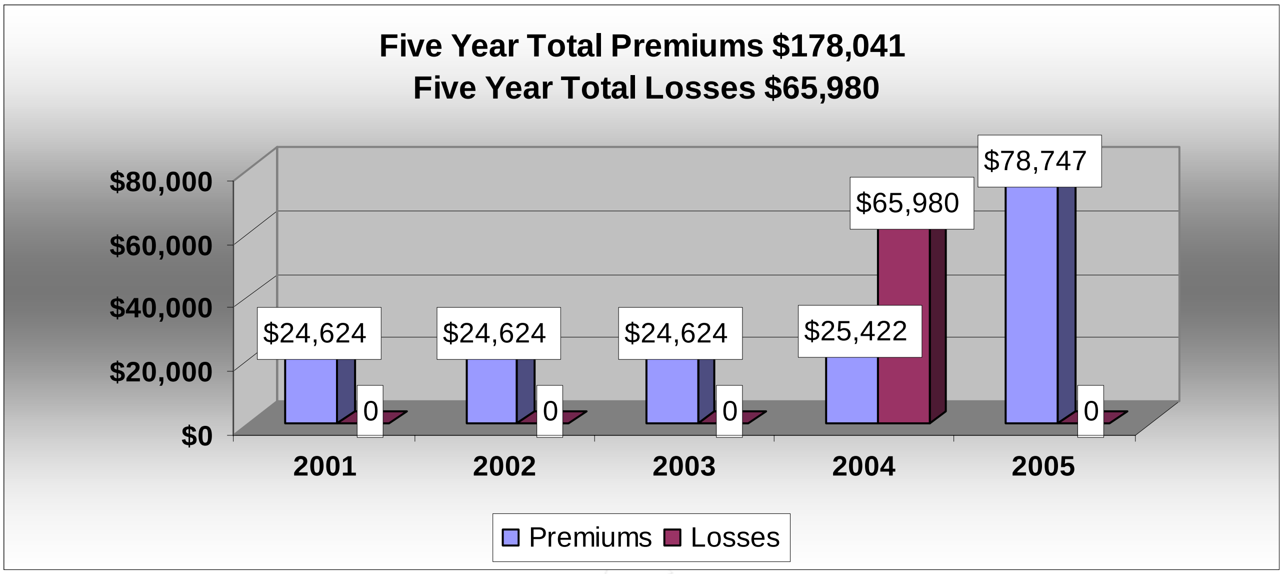
We've now been claim-free for eight years under the **crime/fidelity** policy (one large defalcation claim in 1998) so we were able to again renew this policy at expiring terms and cost. We carry a comprehensive fraud policy with a single insurer providing $15 million overall limit at various deductibles. To ensure we are getting the best deal overall, we will likely compete this policy at the upcoming renewal in August, 2006.

Composite Crime Policy



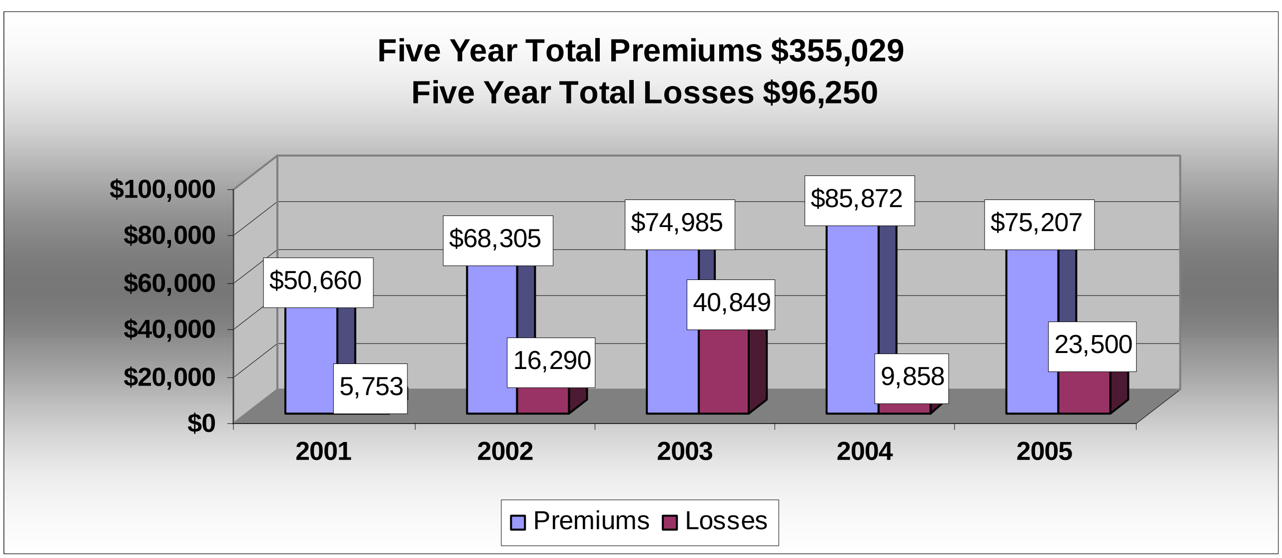
Our **fine arts** policy renewed with the same favorable terms as before except for valuation changes. We added the recent Picasso Exhibition into this policy on a pro rata basis as our collaboration with the Gardiner Museum required us to provide the insurance for the show which was altogether a highly successful event. Our claims experience has been good under this policy.

Fine Arts Policy



The **vehicle fleet** policy premium decreased at the renewal last summer because we remarketed the policy and competed the incumbent broker to ensure the best possible terms for the University. We changed both broker and market on this policy and improved coverage terms overall.

Vehicle Fleet Policy



General Insurance Structure

***CURIE is no longer able to economically purchase stop loss reinsurance to reduce its $5 million per loss retention to $2.5 million on the property side but CURIE still buys annual aggregate reinsurance to $7.5 million. Therefore, its maximum per claim exposure is now $5 million and its maximum total property claims exposure is $7.5 million per year.**

****CURIE also purchases reinsurance from the commercial market in various layers above $5 million to build its policy limit up to $20 million for both CGL and E&O**

	MAIN PROPERTY	BOILER & MACHINERY	GENERAL LIABILITY	VEHICLE FLEET	ERRORS & OMISSIONS	COMPOSITE CRIME
Limits of Liability	**$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.	**$100 million** Accidental Machinery Breakdown 100% Royal and Sun Alliance	**$10 million** Umbrella liability policy with GCAN protects for $10 million limit per loss above each of these policies so we have $30 million limit for CGL and E&O policies and $15 million limit for Vehicles			
	Quota Share subscription policies in excess of loss layers including FM Global, American Home, GCAN, Zurich, Scor, Allianz, ACE/ INA and Lloyd’s.		**$20 million** Comprehensive General Liability 100% CURIE **(with 75% reinsured)		**$20 million** Errors & Omissions Liability 100% CURIE **(with75% reinsured)	**$15 million** Fidelity, theft of money and securities 100% Guarantee Company of North America
	$5 million *CURIE retention per loss (with 0% reinsured)			**$5 million** Liability Accident Benefits 100% Zurich Insurance Company		
Deductibles per claim	**$250,000**	**$15,000/ $100,000**	**$5,000**			**$15,000/ $50,000**

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 intend 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 April 30, 2006)	8,787.475
Market value per unit (as of April 01, 2006)	$204.06
Payout rate per unit (as of April 30, 2006)	7.72
Investment income for current year	67,801
Claims paid in current year (inc. claims from prior years)	240,077
Claims reserved (through to April 30, 2006)	343,000
Premiums saved from self-insurance*	35,212
EFIP Income	4,437
Estimated reserve balance, April 30, 2006	$1,793,172

*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 their poor claims experience. With the recent series of high rate increases due to their revised premium strategy and the $4 million assessment to members in 2004, CURIE's financial results improved again last year, finishing with $11.2 million surplus ($6.0 million in 2004). But the overall net result to us has been a near-tripling of our CURIE costs over the last few 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 the end of 2007. CURIE's audited financial statements for 2005 and its annual report are available for review on request.

CLAIMS EXPERIENCE

The University's self-insured claims record worsened in 2005/06 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 heightened concerns about mold remediation and due partly to plain bad luck. The torrential rainfall that hit Toronto on August 19th caused serious flooding and erosion damage at UTSC. The footings of the bridge across Highland Creek were seriously exposed and the bridge safety railing was washed away, the tennis courts were covered by mud to a depth of 15 cm, the fencing was pushed over and several UTSC buildings suffered water penetration. Overall, the remediation costs are expected to be nearly $200,000. Thefts of computers and other types of electronic equipment were again a significant contributor to property loss frequency on our campuses (about 30% of incidents) and the main items stolen at all three campuses are audio-visual projectors and laptop computers. Water damage losses due to freeze-ups, leaking roofs, failing pipes and other preventable causes (about 35% of incidents) accounted for the bulk of the dollar loss last year (not counting the August flood at USTC). A majority of these water damage losses can be attributed to the deferred maintenance problems highlighted by the report titled "Crumbling Foundations" which often manifest themselves as insurance claims.

The total dollar loss for all property claims is projected to be around $400,000 for the year (about $300,000 last year). So far we've paid out $240,000 during this fiscal year and have reserved $343,000 for claims reported but not yet finalized. The largest self-insured loss ($200,000) is the flood damage at UTSC that occurred last August as described above.

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. There was one serious water damage loss ($100,000) at Terence Donnelly Centre for Cellular and Biomolecular Research where a very expensive laboratory microscope was damaged by water from an equipment failure in the ceiling above that caused the high voltage power supply unit to fail. There were two incidents at the Leslie Dan Pharmacy Building site, one a bizarre theft of about 1,000 lbs of copper wiring and elements ($25,000) that comprised the structure's lightning arrestor system that had been installed on the building's roof. The other was accidental damage by a contractor to some underground high voltage power cables ($30,000) supplying the nearby Tanz Building. These claims are all in process of satisfactory settlement. Otherwise, there were only minor incidents on our various 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 stabilizing insurance market, we are optimistic that we can obtain satisfactory terms and pricing at future renewals.

There were no claims under our fine art and crime policies so we continue to enjoy excellent loss experience under these contracts. We had one claim under the vehicle fleet policy for damage to a leased truck used in field research. The pickup was being driven by a graduate student on a gravel road when he lost control and rolled the vehicle into a ditch. Fortunately, the student was uninjured, but the truck needed $23,500 of repairs. As this is not the first serious claim combining leased vehicles, field research and graduate students, we have initiated a risk management dialogue with the departments involved to stress the importance of loss prevention.

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. However, there are a number of continuing claim files we are actively monitoring.

There are hundreds of incidents reported to the Risk Management and Insurance Office each year especially from our athletics and recreation facilities, which are reviewed for risk information and remediation purposes as necessary and most of these do not materialize as claims. But there are also dozens of other potential liability incidents reported as well, many of which involve loss of balance accidents (aka ‘slip and falls’) and these trended lower last year as the winter was quite mild with below average precipitation and relatively modest amounts of snow and ice. We opened 16 new liability claim files last year and 9 of these were loss of balance accidents on our premises 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 despite best efforts to maintain our premises in safe and proper condition. These claims generally range between $500 and $5,000 per incident and they are handled through our internal protocols to the extent 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, bollards or light standards. There were five noteworthy incidents of this type last year and the amounts recovered or in process of recovery total about $35,000. By far the largest and most contentious is the continuing litigation against the City for the water damage to the Rotman School of Management when a City water main ruptured in February, 2004 and caused nearly $80,000 in damage to the interior of the building and adjacent grounds. The dispute with the City centers on the time it took them to shut off the water, which flowed 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, in terms of its applicability to insurance, 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 and advised by the Risk Management and Insurance Department to make sure the University's interests are adequately and fairly protected.

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% guaranteed measure to stop the determined thief, however, as our reducing claims frequency attests, our efforts seem to be having an overall beneficial effect.

As noted above, we have initiated a risk management dialogue with departments who lease vehicles, usually brand new pickup trucks, to use for summer field research activities, often involving graduate students. These vehicles are put to arduous use in the wilds of Ontario, both off road in the bush and on gravel roads, sometimes with the vehicle entrusted to only the student(s). Over the last few years, we have noted an increasing number of incidents, mostly small but occasionally costly so we need to take some remedial steps to prevent future problems.

We continue to see an increasing tendency toward litigation in personal injury and civil liability matters, which is arguably a societal trend, but can border on the trivial. It sometimes seems the only requisite for demanding monetary compensation is injury, real or imagined and regardless of fault or accidental circumstance.

And 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.