



University of Toronto

BUSINESS AFFAIRS DIVISION - Risk Management and Insurance

TO: Business Board and Audit Committee

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AGENDA ITEM: Business Board Item 9(b)

ITEM IDENTIFICATION:

Risk Management and Insurance Annual Report

JURISDICTIONAL INFORMATION:

The Audit Committee of the Business Board is charged with monitoring the University's risk exposures. The Business Board terms of reference call for regular information reports on financial matters.

PREVIOUS ACTION TAKEN:

This is the third time this report to the Board has been made through its Audit Committee.

HIGHLIGHTS:

The University has a comprehensive insurance program in place with quality insurers and service providers. Despite ongoing turbulence in the insurance marketplace as a result of global events, we strive for stable, long term relationships on a fair basis in terms of pricing and scope of coverage. Our strategic aim is to reduce losses and to contain controllable risks within acceptable parameters through vigilance and good risk management practice.

FINANCIAL AND/OR PLANNING IMPLICATIONS:

Financial results deteriorated again this year due to much higher premiums and greater frequency of self-insured claims. Although the University's overall program is sound and continues to provide good protection against the multitude of diverse risks that it faces, our insurance coverage has been reduced with respect to terrorism and other risks and we are under increased scrutiny from insurers about fire safety and overall risk control practices. Our financial reserves have fallen below optimum target levels and are at the point where they have become a material concern. We will be bringing forward strategies to deal with these issues during this fiscal year.

RECOMMENDATION:

Information only

FOR INFORMATION

RISK MANAGEMENT AND INSURANCE

ANNUAL REPORT TO THE BUSINESS BOARD



**Business Affairs Division
Risk Management and Insurance Department**

May, 2004

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OVERVIEW

Financial results worsened again this year in the University's Risk Management and Insurance program because of continued market volatility and a deterioration of our self-insured claims experience due to increased volume and higher dollar quantum per claim. Overhead classroom projectors, laptop computers and other electronic equipment thefts are a repeating problem even though in many cases departments have taken preventative security measures. Water damage claims are more frequent and very often the cause of loss can be traced back to deferred maintenance items in many University buildings.

The University's insurance program experienced a compound negative effect last year with the commercial market continuing to be difficult while CURIE's* results were the worst in its entire history. Insurers raised prices and reduced coverage so even though our own insured claims experience was good, premiums rose significantly and policy restrictions were added (terrorism and field research equipment are now excluded). CURIE's claims experience suffered due to east coast hurricane and higher liability losses and so they raised premiums again this year (39% overall) and signaled more price increases to come as a result of their actuary's recommendation to revise their premium rating formulae. CURIE's surplus (the amount by which total assets exceed total liabilities) dropped from \$4.1 million to \$99,852 this year after dropping from \$7.2 million in 2001, effectively putting it at risk of insolvency, or, more likely, of an additional premium assessment to its members. CURIE is in a precarious financial state and it will not be a surprise if it calls on its members for extra funds sometime in 2004. We will be reviewing our program next year to determine what long term strategies we need to consider.

The Canadian property-casualty insurance industry rebounded financially in 2003 with a healthy return on equity of 10.7% (1.7% in 2002). The industry's stellar performance was due to better underwriting selection, higher pricing, improved equity markets, and fewer catastrophic claims. Consumers can expect to see stability and perhaps even a measure of competition returning to the commercial market provided there are no more unexpected adverse events.

*CURIE (Canadian Universities Reciprocal Insurance Exchange) is the cooperative risk sharing pool created in 1988 by universities across Canada to underwrite their core property and liability insurance risks. It is wholly owned by its 56 member universities representing some 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 4 and the following narrative provides 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 7.***

- 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 \$60 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) **Crime/Fidelity 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 7. 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 4 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 the University College Residence project, Centre for Cellular and Biomolecular Research, Leslie Dan Pharmacy Building, School of Continuing Studies Renovation and Rotman Vertical Expansion projects, Centre for Communications, Culture and Information Technology at UTM, Management Centre and Student Centre at UTS plus a number of infrastructure upgrades. As other projects start (UTM Wellness Centre, Academic Learning Centre, etc) they will be added into the master contract at the same blanket rates and broad coverage. Projects now complete and covered under our CURIE policies include the New College Residence, Woodsworth College Residence, 89 Chestnut St Residence, Early Learning Centre, Academic Resource Centre at UTS, Phase IV Residences at UTS and Phase 7 Residences at UTM. These and a host of smaller capital projects 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 nearly 9%, 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	03/04	02/03	01/02
<u>General University Insurance</u>	<u>Premium</u>	<u>Premium</u>	<u>Premium</u>
Main property policy	\$917,774	\$659,411	\$559,219
Liability policies			
-comprehensive general liability *	436,519	312,613	261,210
-umbrella/excess liability	14,665	13,538	13,538
Boiler and machinery	110,270	105,019	95,350
Composite crime coverage	68,300	48,600	48,600
Personal professional property floater	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$1,561,528</u>	<u>\$1,153,181</u>	<u>\$992,517</u>

* includes errors and omissions policy

User-directed Insurance

Term accident policies	\$ 3,694	\$ 3,148	\$ 3,295
Automobile blanket fleet policy*	74,985	68,305	62,647
Cogeneration facility**	55,135	52,510	56,160
Fine art collections	24,624	24,624	24,624
Major new construction projects (see note)	562,804	464,126	90,352
Special transit, etc (various departments)	<u>3,000</u>	<u>5,940</u>	<u>6,227</u>
	<u>\$724,242</u>	<u>\$618,653</u>	<u>\$228,741</u>

* excludes self-insured premiums for collision and comprehensive

** included in boiler and machinery policy

Notes: All premiums include 8% PST (except 1% for Automobile 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 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/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 plus or minus 25% depending on the subscriber's claims experience measured on a five-year rolling 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, but because of higher insurable values and market factors, the premium still increased by roughly 35% last year. The liability policies continue to fare poorly over time and our rolling five year loss ratio is above 100% so the rate penalty for this is at the maximum of 25%. Because CURIE's overall claims experience is so poor, on the advice of their actuary, they implemented stage one of a three year plan to raise premiums substantially in order to reverse the erosion of their premium surplus. The table below illustrates the current and historical premium and claims experience by policy year.

Property	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$521,534	\$454,671	\$481,933	\$535,732	\$762,500	\$2,847,049
<i>Losses Paid</i>	0	0	0	0	0	0
Liability	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$190,879	\$194,047	\$202,867	\$261,364	\$346,492	\$1,195,649
<i>Losses Incurred</i>	701,212	724,174	129,688	162,040	0	1,717,114

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.

Non-CURIE policies are purchased through insurance brokers and changes to these commercial contracts were again mostly negative with double-digit premium increases due to the continued hardness of the general insurance market as specified below.

We went through a difficult renewal five years ago on the **boiler & machinery** policy due to one very bad loss with the CoGeneration plant (\$875,000 paid claim) so the premium shot up at the next policy renewal. We've been mostly claim-free since then so we received a discount of

Risk Management and Insurance

15% of the premium (about \$21,000) for renewing with the incumbent carrier. However, they have told us they will not be continuing past renewal so we are now seeking an alternate market.

B&M Policy	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$168,480	\$168,480	\$143,208	\$157,529	\$165,405	\$869,026
<i>Losses Paid</i>	0	0	25,781	0	45,741	71,522

Even though we've now been claim-free for five years under this policy (one large defalcation claim in 1998) the **crime/fidelity** policy was renewed at 40% higher premium and with higher deductibles due to the hard market. We carry a comprehensive fraud policy with a single insurer providing \$15 million overall limit, down from \$25 million limit previously.

Crime Policy	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$35,640	\$35,640	\$48,600	\$48,600	\$68,300	\$236,780
<i>Losses Paid</i>	0	0	0	0	0	0

Our **fine arts** policy renewed on August 1, 2003 after a three-year term, however, we were only able to secure a one year renewal, albeit at the same favourable terms as before. Our claims experience has been very good under this policy.

Fine Arts	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$25,920	\$24,624	\$24,624	\$24,624	\$24,624	\$124,416
<i>Losses Paid</i>	0	0	0	0	0	0

The **vehicle fleet** policy again had only a few minor claims but we were still levied a 10% premium increase at the renewal last summer, this after a 30% rate hike the year before, and due entirely to the hard commercial insurance market.

Auto Policy	1999/00	2000/01	2001/02	2002/03	2003/04	5 Yr
<i>Premium</i>	\$37,541	\$36,068	\$50,660	\$68,305	\$74,985	\$246,941
<i>Losses Paid</i>	5,520	2,102	5,753	16,290	40,849	70,514

General Insurance Structure

CURIE purchases an annual aggregate stop-loss reinsurance policy from FM Global Insurance for \$2.5 million above the first \$2.5 million of its primary \$5 million per loss retention. CURIE's maximum net exposure for any one loss or series of losses is \$2.5 million per year.

CURIE also purchases reinsurance from the commercial market in various layers above \$5 million to build its liability policy limit up to \$20 million.

Limits of Liability

Deductibles Applicable	\$650 million	Quota Share subscription policies include FM Global, American Home, GCAN, CIRI, Swiss Re, Scor, XL Insurance and Allianz.				
	"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.					
	\$60 million					
	Accidental Machinery Breakdown					
	\$10 million					
	100%					
	ACE/INA					
	\$20 million					\$20 million
	Comprehensive General Liability					Errors & Omissions Liability
	\$5 million					\$5 million
CURIE Retention per loss (with 50% reinsured)	Liability Accident Benefits	\$15 million				
\$250,000	100%	Fidelity, theft of money and securities				
	LIBERTY MUTUAL	100%				
	\$5 million	100%				
		Guarantee Company of North America				
	\$15,000/\$100,000	\$5,000	\$15,000/\$50,000			
PROPERTY	BOILER & MACHINERY	GENERAL LIABILITY	AUTOMOBILE	ERRORS & OMISSIONS	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 since 1989. We are considering raising it to \$5,000 per occurrence effective May 1, 2004 as one way to help slow the depletion of the reserve. We expect the reserve to operate roughly in balance from year to year with paid claims being about equal to investment earnings and other income, if any, so that the capital in the reserve fund is essentially preserved at approximately \$1.5 million. For the past several years, losses have been higher than expected while revenue has been lower so the reserve balance has slipped well below the target level. As there is no expectation of a future CURIE dividend and investment earnings are insufficient to pay ongoing claims, the reserve is being rapidly depleted and will need an infusion of central budget funds if we want retain this deductible support mechanism for departments. The present reserve status is shown in the table below.

General Insurance Reserve

Balance, April 30, 2003	\$1,510,810
Claims paid in current year (incl. claims from prior years)	(168,245)
Claims reserved (through to April 30, 2004)	(442,610)
Premiums saved from self-insurance*	36,077
Investment income for current year	<u>77,092</u>
Estimated balance, April 30, 2004	<u>\$1,013,124</u>

*automobile collision and comprehensive; personal professional property floater.

In earlier years, CURIE paid out dividends to subscribers as surplus funds, on the advice of their actuary, were declared free for distribution by its Board. There has been no dividend paid by CURIE since 1999 due to continuing poor claims experience. CURIE's surplus position has declined precipitously since 1999 when it was \$10.7 million, down to just \$0.1 million in 2003. Despite high year by year premium increases, CURIE's operating results continue to deteriorate so their Board has implemented a three year, phased premium increase plan to reverse their poor financial results. For us, this means more double digit rate hikes for at least the next two years and the possibility of a premium assessment this year. CURIE's audited financial statements for 2003 and its annual report are available for review on request.

CLAIMS EXPERIENCE

The University's self-insured claims record deteriorated markedly in 2003/04 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 issues and partly due to plain bad luck. Again, thefts of computers and other electronic equipment remains the chief cause of property loss frequency on our campuses (about 65% of incidents) and the main items stolen at all three campuses are audio-visual projectors and portable computers. However, water damage losses due to freeze-ups, leaking roofs, failing pipes and other causes (about 30% of incidents) accounted for more than half the dollar loss last year and a majority of these can be attributed to lack of proper preventative maintenance. In other words, the problems identified in the report titled "Crumbling Foundations" very often manifest themselves as insurance claims.

The total dollar loss for all property claims is projected to be nearly \$500,000 for the year (about \$350,000 last year). So far we've paid out \$79,000 for this fiscal year and have reserved \$415,000 for claims reported but not yet finalized. The largest self-insured loss (\$50,000) occurred at 89 Chestnut St residence when a fire sprinkler pipe froze during a cold weather snap. The building insulation at that particular spot was inadequate for the temperature and wind chill conditions. Water flowed throughout a large portion of the mezzanine area where the meeting rooms are and down the escalator and elevator shafts. These operating mechanisms are very susceptible to water damage and the units had just been serviced the week before for their regular annual maintenance as prescribed by code.

The Blue Sky Solar Race Team had another mishap when their tow vehicle, a rented Ford Expedition, rolled over on a US Interstate Highway south of Chicago while they were returning from a successful cross country race competition last July. Fortunately, no one was injured as everyone was seat belted in and the vehicle was equipped with all around air bags but the Ford Expedition itself was a write-off and the trailer carrying the solar racer suffered some damage as did the racer itself. The students who are members of the Blue Sky Racing Team have pitched in with energy and enthusiasm to do as much of the repair/restoration work as possible with donated parts and materials and with their own labour to keep costs to a minimum. The total insurance claim was more than \$47,000.

With construction activity on our campuses running at an accelerated 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 were two notable incidents at Centre for Cellular and Biomolecular Research during the excavation phase when existing underground services were damaged. There was also a serious 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. The total claim cost we expect to recover is about \$135,000. We also closed several CoC claim files from prior years, the largest one was for the switchgear loss at Bahen Centre for Information Technology where the net claim recovery was \$150,000.

There was only one claim under our boiler & machinery policy last year, a failure in a 40 year old freon refrigerant chiller unit located in the basement of Lash Miller Building. With much skill and some good luck, the damage was repaired for about \$53,000 and the disruption to building operations was kept to a minimum. However, the claim means we will not get our 'good claims credit' this year, a premium rebate of 15% net of commission (about \$21,000).

There were also no claims last year under our crime/fidelity policy and no employee defalcations uncovered by Internal Audit. This policy is renewing August 1st and we do not expect any serious difficulties this year.

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

The number of reported slip and fall injury claims (23) is trending about the same as the year before as the winter was moderately severe with average precipitation, limited extreme cold temperatures during January and normal concentrations of snow or ice. There were hundreds of potential liability incidents reported to the Risk Management and Insurance Office in the past year and 94 were judged to require investigation for insurance purposes. These resulted in 31 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 five noteworthy incidents of this type last year and the amounts recovered or in process of recovery total about \$50,000. The largest was by a contractor who was working on Philosopher's Walk and damaged underground fibre optic cables that carried communications, data and security services to the northeast part of campus.

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.

CURIE engaged loss control engineering experts to analyze the maximum dollar loss potential should a catastrophic fire engulf the main library complex. This is the heart of the University and has an insured value in excess of \$1.5 billion. It is a very serious concern to reinsurers as well since a loss could potentially exhaust CURIE's total policy limit of \$650 million. The principal recommendation made by the loss control experts is to install automatic fire sprinkler protection throughout Robarts Library. This important item has been included within

the central administration's review and assessment of the University's total risk environment as reported annually to the Audit Committee. In order to evaluate the feasibility, timeframe and cost of such a large project, we engaged a specialist engineering consultant to conduct a detailed study to determine what it would entail to fully comply with all requirements. This project is now being evaluated by the University's senior management and a decision will be forthcoming soon.

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.

We experienced two similar accidents with our biowaste disposal process system when someone put large pieces of foreign scrap metal into the biowaste stream. During processing, which is done at a special facility operated by an independent contractor and which involves autoclaving, shredding and sterile disposal, the scrap metal damaged the shredding machine and we had to pay for repairs costing about \$25,000 in total. We have overhauled our biowaste process methodology to try and avoid such incidents in future.

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.

The Risk Management and Insurance Department has a director and 2.0 FTE support staff comprised of a policy and claims administrator and a secretary/ business officer. The department is located on the third floor at 215 Huron Street.