



UNIVERSITY OF
TORONTO



**RISK MANAGEMENT and INSURANCE REPORT
for
AUDIT COMMITTEE and BUSINESS BOARD**

Annual Report 2008/09

This report summarizes the University of Toronto's experience for the fiscal year ending April 30, 2009 and provides an overview of the principal 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

Overall financial results were better this year in the University's Risk Management and Insurance program with lower premium costs once again for our principal coverages combined with relatively good loss experience under our self-insured claims program.

As of Jan. 1, 2008, we exited from CURIE, the reciprocal insurance exchange set up for Canadian universities in 1988 and placed our main property and liability insurance policies directly in the commercial market through HKMB Hub International Ltd. We extended the initial policy period to April 30, 2009 so that future renewals would coincide with our fiscal year. For this first commercial term, we were effectively claims-free so that we were successful in renewing the policies at more favorable cost despite some turbulence in the markets. The other policies that we have historically purchased commercially remained price/coverage competitive as well. Specifics are included in the confidential Appendix hereto.

Loss experience under our purchased insurance policies was excellent overall, except for one ordinary winter loss of balance (slip and fall) accident covered by our liability policy and no significant adverse claims otherwise.

Loss experience under our self-insured claims program was about the same last year as the previous year both in total dollar amount incurred and in claims frequency. The two largest losses were fire claims, both in Lash Miller Building, and are reserved at \$175,000 combined. The other 36 claim incidents are comprised of theft, vandalism and water damage losses in various buildings totaling approximately \$150,000.

The Canadian property-casualty insurance industry enjoyed a reasonably good financial year in 2008 with satisfactory return on equity of 6.8% (17.5% in 2007) that generated profits of \$2.0 billion for the industry (\$4.9 billion in 2007) despite a great deal of turmoil in world financial markets and the well publicized meltdown of AIG's expansion into exotic credit derivative instruments. While there are some industry warnings being sounded about hardening insurance markets over the next year, we anticipate continued price/coverage stability and competition for best of class risks and this is how we strive to position the University in the insurance marketplace.

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 in the Appendix and the following narrative provides coverage highlights for general information. All of these policies are now sourced from major domestic commercial insurers.

- i) **Main Property Policy:** Since Jan. 1, 2008, we purchase coverage for 'all risks' of physical loss or damage to University buildings and contents on repair/replacement basis (except reproduction value for designated historical structures) with \$500 million limit of loss and with \$250,000 per occurrence deductible. This is a blanket subscription policy with various large general insurers participating and covers against perils such as fire, theft, water damage, windstorm, etc.

- ii) **Liability Policies:**
 - **Comprehensive General Liability:** Since Jan. 1, 2008, we purchase primary \$5 million per occurrence limit of loss against legal liability arising from University operations causing bodily injury, personal injury or damage to property of others at \$10,000 per occurrence deductible. The policy wordings are specially designed to cover normal university operating risks including from sporting activities, contractual undertakings, student placements, incidental medical and dental malpractice and so on.
 - **Errors & Omissions Liability:** Concurrently as above, we purchase a policy with \$5 million limit against legal liability for wrongful acts, and including directors & officers liability, to protect governors, officers and employees while carrying out their University duties, against claims alleging that an appropriate standard of care was not met or that an act was somehow tainted (misstatement, misfeasance or misconduct).
 - **Excess Liability:** For higher catastrophe protection, we also purchase a total of \$20 million additional liability limit from commercial insurers to supplement the comprehensive general and errors and omissions liability policies as well as our vehicle fleet liability policy.
 - **Umbrella Liability:** For even higher catastrophe protection, we have added another \$10 million additional liability limit from commercial insurers to cover on top of all of the above policies so that our total limit of liability coverage available per loss is \$35 million.

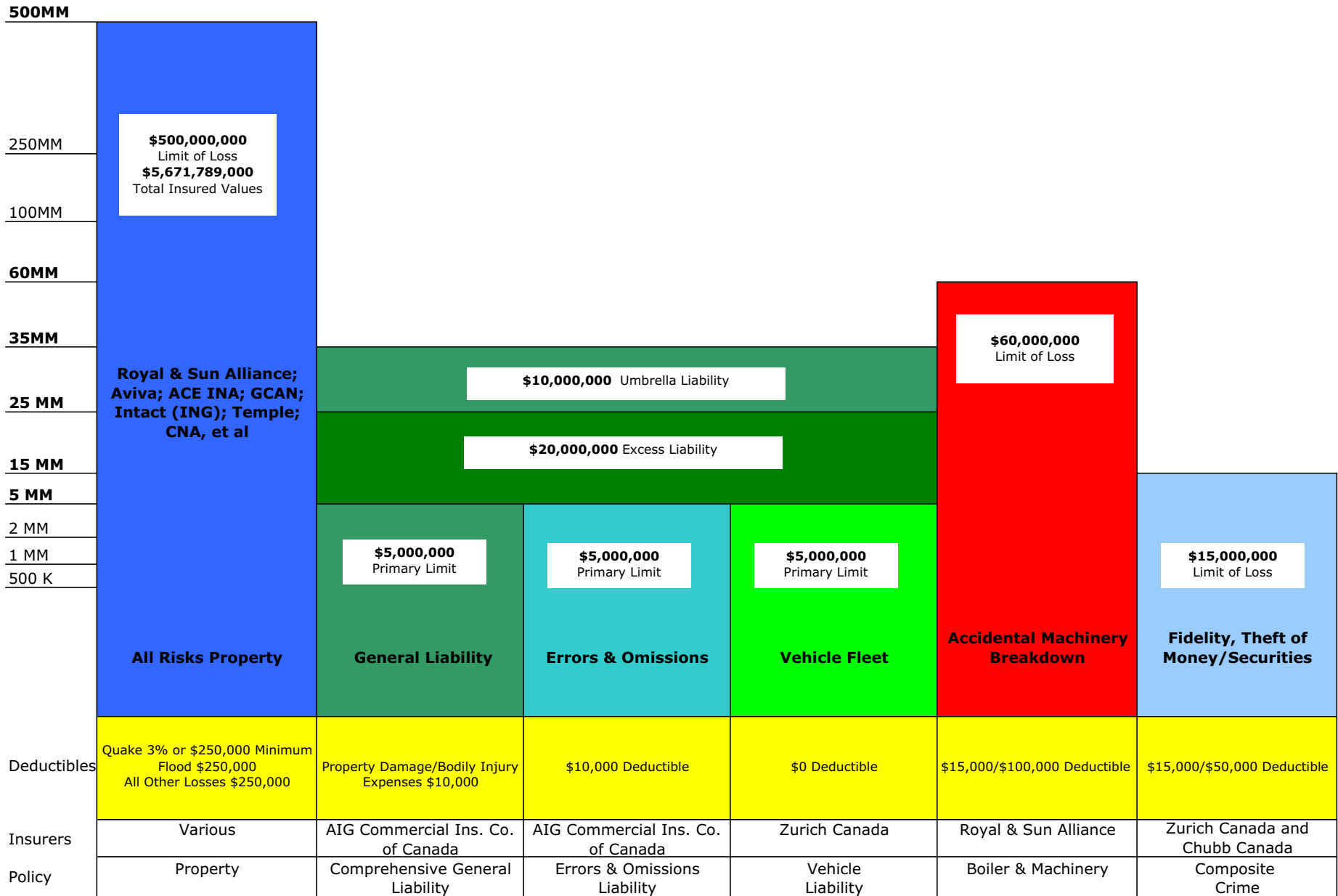
- iii) **Boiler and Machinery Policy:** Comprehensive machinery breakdown coverage on boilers, pressure vessels, electrical and mechanical equipment (motors, transformers, switchgear, air conditioning units, etc.) on repair/replacement basis with \$60 million limit of loss, subject to \$15,000 deductible for all objects except large chillers which have \$100,000 deductible. The Cogeneration facility is included in this coverage, also at \$100,000 physical damage deductible. This policy continues to be purchased from commercial insurers.

- iv) **Composite Crime Policy:** We carry comprehensive crime/fidelity coverage with combined \$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, purchased from specialty commercial insurers.

- 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 provide 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 in the coverage chart on the following page.

GENERAL INSURANCE PROGRAM STRUCTURE



User-Directed Insurance

We regularly purchase certain policies, which are also grouped in the Appendix (including the relevant premium comparison data) for the specific needs of departmental users who pay these premiums. These policies are also 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 continue to see higher rates for our new construction projects that reflect the overall adverse claims experience in this specialty market segment and we periodically compete both the market and the broker vendors for these specialized coverages to ensure the University is getting the most competitive insurance terms available at all times. In future we will also look at offerings from major contractors in this regard.

Large capital project works continue on all our campuses although the level of new construction activity lessened last year. We purchase builder's risk and wrap-up liability coverage as and when needed for individual projects in accordance with contract specifications. Major capital projects presently underway include the renovation of the South Building at UTM, Robarts Library renovations and the Pavilion Building at Varsity Stadium. Projects completed and added to our ongoing policies this fiscal year included the SciNet High Performance Computing Centre at Keele and Steeles, the New Science Building at UTSC, the new Examination Centre at 255 McCaul St. and Max Gluskin House at St. George Campus as well as a number of smaller works. Anticipated new construction in the near term includes the Rotman School Expansion scheduled to begin in summer and the Health Sciences Complex at UTM that has recently received final clearance to start. New Instructional Centre Complexes are planned for each of the suburban campuses and are awaiting funding approvals.

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

Insurance Reserve

We operate an internal reserve account for property claims as a restricted fund to pay the difference between the actual property 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 balance, however, it would also place a corresponding burden on departments who incur a loss.

Historically, the reserve was intended to operate roughly in equilibrium 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 was preserved at not less than \$1.5 million. For most of the past several years, losses had been trending higher while revenue has dropped and so the reserve balance had been declining steadily. With continued claims payouts and last year's nil investment earnings, the reserve's market value is only nominally above its book value. We have signaled that the reserve will 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 below.

General Insurance Reserve

(Long Term Capital Appreciation Pool – LTCAP)

Number of LTCAP units <i>(as of April 30, 2009)</i>	5,259.97
Market value per unit <i>(as of April 30, 2009)</i>	\$147.05
Payout rate per unit <i>(as of April 30, 2009)</i>	nil
Expendable investment income for current year <i>(as of April 30, 2009)</i>	1,449
Claims paid in current year <i>(incl. claims from prior years)</i>	\$400,579
Claims reserved <i>(through to April 30, 2009)</i>	\$228,000
Premiums saved from self-insurance*	\$46,518
Estimated reserve balance <i>(as of April 30, 2009)</i>	<u>\$968,961</u>

**automobile collision and comprehensive; personal professional property floater.*

Since many of the self-insured claims paid out of the reserve are the result of infrastructure deficiencies and deferred maintenance problems, we have proposed that should any OTO funds become available, a small percentage allocation should be made to rebuild and sustain the capital integrity of the insurance reserve. Moreover, since the reserve pays self-insured claims up to the policy deductible which is currently \$250,000, if we were to increase our deductible to the next step at \$500,000 in order to save premiums should the market harden, it would be prudent to have the capital balance in the reserve adequately prepared beforehand.

Claims Experience

The University's self-insured claims record was similar in 2008/09 as in the prior year. Water damage claims continued to be troublesome and were due to maintenance-related issues and accidental discharge from domestic water piping. These types of losses tend to be costly because of the rapid spread of water from floor to floor in multi-story buildings and occupants' concerns about mold remediation, however, the most worrisome losses are from fire and smoke damage where there is a potential for injury to persons. Luckily, the fire incidents we had last year did not involve any personal injuries.

As in previous years, thefts of various types of valuable electronic equipment remain a notable contributor to property loss frequency on our campuses (about 35% of incidents) and the main items stolen at all three campuses were laptop computers and similar high value electronic items (cameras, microscopes, sound equipment, etc). There were a few minor vandalism losses and the rest of the losses (about 40%) were caused by water damage, the most notable due to a ruptured water pipe in the bathroom wall of a high rise student residence (\$23,000).

The total dollar loss for all self-insured property claims that occurred during the period is estimated to be around \$320,000 (about \$285,000 last year). So far we've paid out \$91,500 during this fiscal year and have a reserve sum of \$228,000 for claims recorded to date but not yet finalized. The two largest self-insured losses (\$175,000 total) were due to fires and both occurred in Lash Miller Building last winter where the flames were quickly controlled by the Fire Department, but smoke and resultant water damage produced extensive remediation costs

With construction activity on our campuses ongoing, albeit at a reduced pace, accidents and insurance claims continue 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 regular policies. We had only one large new claim on our various construction sites during the past year involving a contractor at UTM campus who was excavating a trench with a backhoe when it tore up a 600 volt buried concrete duct bank causing about \$75,000 in damage. We are at loggerheads with the contractor over liability for this damage.

There were no new claims under our boiler & machinery policy last year and we settled the large loss to the Cogeneration plant from the year before for a net amount of \$611,000 after deductibles. Considering the two large claims from the previous year, our claims experience under this policy will be negative for many years to come but due to market competitiveness and other factors, we were successful in mitigating the net impact on our renewal premium at April 30, 2009

There were no claims under our fine art and crime policies and we continue to enjoy excellent loss experience under these contracts. While in prior years there were problems with vehicles rented for fieldwork use, particularly when students were driving, increased focus on loss prevention and risk awareness continues to pay dividends and there were no losses last year, same as the year before. The Risk Management and Insurance Department, in cooperation with a number of user departments, conducts annual driving loss prevention seminars for fieldwork participants in order to mitigate vehicle claims. We plan to continue this risk management dialogue with departments to offer guidelines for safe vehicle use, driver training and to stress the importance of accident prevention.

Legal liability claims remained reasonably steady in frequency last year and, except for one ankle fracture slip and fall claim last January, there were no new, viable, serious injury, large dollar lawsuits launched against the University that would come under the coverage afforded by our comprehensive general liability insurance policy or the errors and omissions liability policy. There are a number of continuing claim files from prior years that we are actively monitoring and these are settled or otherwise resolved through the normal litigation process.

There are hundreds of incidents reported to the Risk Management and Insurance Office each year, especially from our athletics and recreation facilities, and which are reviewed for risk information and remediation purposes as required, however, most of these do not materialize as claims. And there are dozens of other potential liability incidents reported as well, many of which involve loss of balance accidents and these align with the severity of winter weather conditions. This year's large amounts of snow and ice were again unusual but, like the previous year resulted in less frequency of claim reports as people simply accepted the fault as being due to Mother Nature and not the UofT.

We opened only nine new liability claim files last year and three of these were loss of balance accidents on our premises under the Occupiers' Liability Act involving students or members of the general public. Others were minor mishaps involving damage to property, mostly vehicles. 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. Any 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 two minor incidents of this type last year and the amounts recovered totaled just under \$5,000 as well as some damaged escalator treads at 89 Chestnut St. where we recouped \$10,000 from careless piano movers.

Risk Management

Risk management, in terms of its relationship 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 financial loss possibilities. Risk is all around us and claims will always occur, but their financial impact can be minimized and contained within acceptable limits through an integrated, effective risk management approach. 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 placements 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 valuable equipment and property loss in general. As noted above, we provide risk management information sessions for departments who lease vehicles for summer field research activities, especially those involving students. These leased vehicles are put to use in rural areas, both off road in the bush and on gravel roads, sometimes with the vehicle entrusted to only the student(s). Sometimes young drivers, raised on paved city roads, are unaware of the hazards involved when driving sans pavement, so educating them about safety is important. As a result of these efforts, we have seen a decrease in both accident frequency as well as accident severity.

We continue to see a societal trend toward more litigation in personal injury and civil liability matters and, combined with the increasingly diverse student community that we serve, leads to much more claims activity, file documentation and due diligence requirements. For example, the number of elderly and physically disadvantaged persons using our facilities is growing and this puts added pressure on scarce resources to keep premises reasonably safe for everyone who uses them. The Risk Management and Insurance Department tries to prudently manage the University's claims and litigation resources to keep dollar outflows to a reasonable minimum.