



UNIVERSITY OF TORONTO



RISK MANAGEMENT and INSURANCE REPORT for AUDIT COMMITTEE and BUSINESS BOARD

Annual Report 2007/08

This report summarizes the University of Toronto's experience for the fiscal year ending April 30, 2008 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

Financial results improved markedly this year in the University's Risk Management and Insurance program with lower premium costs for our principal coverages combined with better loss experience under our self-insured claims program.

As of Jan. 1, 2008, we ended our participation in CURIE, the reciprocal insurance exchange set up for Canadian universities in 1988 and of which we were a founding member, and placed our main property and liability insurance policies directly in the commercial market through HKMB Hub International Ltd. insurance brokers at better terms and pricing than we had before. The other policies that we have historically purchased in the commercial market remained price/coverage competitive as well.

Experience under these purchased insurance policies was marred by another large claim involving our boiler and machinery coverage when the starter gear assembly for the Cogeneration plant failed and resulted in the machine being out of service for a period of more than 3 months. The loss of electricity production and damage to the machine is estimated to exceed \$1 million net of substantial deductibles. Other than this single large accident, our claims experience under all other policies was excellent.

Experience under our self-insured claims program was notably better last year with fewer large losses and reduced claims frequency. The worst claim was again a water damage loss involving several floors of the new Oscar Peterson Hall Residence at UTM where a student resident inadvertently tripped one of the fire sprinklers in his room and escaping water caused over \$80,000 damages. Another large claim happened at David Dunlop Observatory when a windstorm knocked over a large tree onto the roof of a house causing \$75,000 damage. Fortunately, no was injured in this accident.

Thefts of laptops and other high value items are still a problem although with lower prices and more prevalent security measures, the total dollar loss from claims has declined. Overall, water damage claims are occurring more often throughout University premises, especially in older buildings and these can be very disruptive and costly, and the cause of loss can often be traced back to deferred maintenance items.

The Canadian property-casualty insurance industry enjoyed another robust financial year in 2007 with a healthy return on equity of 17.5% (18.5% in 2006) that generated profits of \$4.0 billion for the industry (\$4.2 billion in 2006). The strong Canadian performance was mirrored in the U.S. market also following another year of better than expected natural catastrophe losses in North America, especially the U.S. hurricane season. Insurers are continuing to stress discipline with pricing and underwriting standards and if financial markets remain healthy, we can anticipate continued price/coverage stability and competition in the commercial market in 2008.

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:** As of 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:** As of 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, also called 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 \$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, also at \$100,000 physical damage deductible. This policy continues to be 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 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

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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 have seen some higher rates recently 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 suppliers for these specialized coverages to ensure the University is getting the most competitive insurance terms available at all times.

Large capital project works are continuing on our campuses although the level of ongoing construction activity has lessened somewhat. We purchase builders' risk and wrap-up liability coverage as and when needed for individual projects. Major capital projects presently underway include the renovation at 255 McCaul St. for the new St. George Examination Centre, the New Economics Building at St. George Campus and the New Science Building at UTSC. Projects completed and added to our ongoing policies this fiscal year included Oscar Peterson Hall at UTM, the Centre for Biological Timing and Cognition at St. George Campus and the group of buildings purchased recently from the Sisters of St Joseph at the northeast corner of Queen's Park Crescent East at Wellesley St., as well as a number of smaller properties.

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.

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 most of the past several years, losses had been higher than expected while revenue was lower and so the reserve balance had been declining, however, last year's results produced a small net positive contribution to the reserve fund. In future, should there be insufficient funds available to pay claims, 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, 2008)</i> | 7,827.24 |
| Market value per unit <i>(as of April 01, 2008)</i> | \$204.94 |
| Payout rate per unit <i>(as of April 01, 2008)</i> | \$7.65 |
| Investment income for current year <i>(as of April 30, 2008)</i> | \$59,878 |
| Claims paid in current year <i>(incl. claims from prior years)</i> | \$221,015 |
| Claims reserved <i>(through to April 30, 2008)</i> | \$417,335 |
| Premiums saved from self-insurance* | \$37,842 |
| Estimated reserve balance <i>(as of April 30, 2008)</i> | <u>\$1,604,092</u> |

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

For information and to complete our final policy year under CURIE at Dec. 31, 2007, CURIE's financial results stayed about level last year, finishing with \$16.6 million surplus (\$16.5 million in 2006). Since we have terminated our membership, we are ineligible for a share of any future distribution of surplus monies from this pool, and we remain assessable for any shortfall of funds required by CURIE to pay claims that occurred prior to Dec. 31, 2007. The likelihood of either of these eventualities is considered extremely remote. As before, CURIE's audited financial statements for 2007 and its annual report are available for review on request.

Claims Experience

The University's self-insured claims record was better in 2007/08 than in previous years. Water damage claims continued to be troublesome and were either due to maintenance-related issues or accidental discharge from fire sprinklers caused by students in residence rooms. These types of losses tended to be more costly because of the rapid spread of water from floor to floor in multi-story buildings and occupants' concerns about mold remediation. We had a pipe failure above a bank of ultra low temperature freezers (used to store biological research samples) in the basement of Medical Sciences Building that caused more than \$50,000 damage. These types of water damage losses, due to leaking roofs or pipes and other preventable causes (about 45% of incidents), accounted for the bulk of the dollar losses last year. While these can be attributed to deferred maintenance problems that often result in insurance claims, others are due to simple misfortune, such as the windstorm accident at David Dunlop Observatory where a large tree fell on top of an adjacent dwelling (luckily unoccupied at the time).

As noted earlier, thefts of various types of valuable electronic equipment were again 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). But there were no serious fire incidents in University buildings or in any student residences and only three minor vandalism losses so our claims record overall is still very good.

The total dollar loss for all self-insured property claims that occurred during the period is estimated to be around \$116,000 (about \$330,000 last year). So far we've paid out \$221,000 during this fiscal year and have a reserve sum of \$417,000 for claims recorded to date but not yet finalized. The largest self-insured loss (\$80,000) was the mechanical injury to a fire sprinkler head in the new Oscar Peterson Hall Residence which caused hundreds of gallons of water to escape before the system could be shut down and resulted in much water damage to furnishings, carpets and drywall throughout several floors.

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 did not have any large new claims on our various construction sites during the past year; there were only a few minor incidents, none of which are expected to materialize as insurance claims.

There were two significant claims under our boiler & machinery policy in the first year of coverage with our new insurer in 2006, totaling more than \$557,000 net of deductibles, so our eight year record without any large losses ended rather

abruptly. The 2007 policy year was even worse with a major loss involving the starter gear assembly for the Cogeneration plant. Due to the specialized nature of these gears, the manufacturer's technicians are required to repair the machine (at significant extra cost) so the unit was out of service for more than 3 months. The resulting insured loss is estimated at \$1 million net of large deductibles (\$160,000) so our claims experience under this policy will be negative for many years to come. However, due to market competitiveness and our willingness to purchase spare parts for the Cogeneration machine to prevent a similar problem, the impact on our renewal premium at April 30, 2008 was minimal.

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 produced better results last year. The Risk Management and Insurance Department, in cooperation with a number of user departments, conducted driving loss prevention seminars for fieldwork participants and this effort seems to have lead to the desired mitigation in vehicle claims. We plan to continue this risk management dialogue annually with departments to offer guidelines for safe vehicle use, driver training and to stress the importance of accident prevention.

Legal liability claims remained reasonably constant in frequency last year and there were no new, viable, serious injury, large dollar lawsuits launched against the University that would fall within the coverage afforded by our comprehensive general liability insurance policy or the errors and omissions liability policy. However, there are a number of continuing claim files from prior years that 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, 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 ('slip and falls') and these trend more or less in tandem with the severity of winter weather conditions. This year's enormous amounts of snow and ice were unusual but, counter-intuitively, 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 13 new liability claim files last year and 4 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 \$3,000 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 eight noteworthy incidents of this type last year and the amounts recovered or in process of recovery total about \$41,000. The largest was for a vehicle that damaged the hand rails and bike rack in front of 155 College St. (\$25,200). In addition, we settled the litigation prior to trial against the City of Toronto for the water damage to the Rotman School of Management premises when a City water main ruptured in February, 2004 and caused substantial damage to the interior of the building and adjacent grounds. The dispute with the City centered 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. The settlement was satisfactory for the University.



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 have initiated a risk management dialogue with departments who lease vehicles for summer field research activities, often involving graduate students. These vehicles are put to use in the rural areas of Ontario, both off road in the bush and on gravel roads, sometimes with the vehicle entrusted to only the student(s). Over the past several years, we have noted an increasing number of accidents, many small but several more costly, but as yet not involving any serious personal injury and so we have taken active mitigation steps to avoid serious problems in future.

We continue to see an increasing tendency toward litigation in personal injury and civil liability matters, which is arguably a societal trend, but can sometimes border on the extreme. It often appears the only requisite for demanding monetary compensation is some injury, real or perceived and regardless of fault or accidental circumstance. Lawyers seem to become involved in such situations as an early matter of course and this invariably means higher claim and expense costs plus 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 reasonable minimum.