



UNIVERSITY OF  
**TORONTO**



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

**Annual Report 2009/10**

This report summarizes the University of Toronto's experience for the fiscal year ending April 30, 2010 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.

**Eric G. Fleming, Director**

Tel. (416) 978-6478

Email [eric.fleming@utoronto.ca](mailto:eric.fleming@utoronto.ca)

**Tanya V. Patina, Insurance and Claims Administrator**

Tel. (416) 978-7484

Email [tanya.patina@utoronto.ca](mailto:tanya.patina@utoronto.ca)

**Beata Kuszewska, Administrative Assistant**

Tel. (416) 978-7465

Email [beata.kuszewska@utoronto.ca](mailto:beata.kuszewska@utoronto.ca)

## Contents

<b>Overview</b> .....	<b>3</b>
<b>General University Insurance</b> .....	<b>4</b>
<b>General Insurance Program Structure</b> .....	<b>6</b>
<b>User-Directed Insurance</b> .....	<b>7</b>
<b>Insurance Reserve</b> .....	<b>8</b>
<b>Claims Experience</b> .....	<b>9</b>
<b>Risk Management</b> .....	<b>11</b>
<b>Appendix (Strictly Confidential)</b>	
<b>Premiums by Policy by Fiscal Year</b>	
<b>Premiums and Insured Loss History with Commentary</b>	



## Overview

Overall financial results were better this year in the University's Risk Management and Insurance program with slightly lower premium costs 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 all subsequent renewals coincide with our fiscal year. The University's good claims experience continues and we were again successful in renewing our major policies at favorable terms despite some firmness in the markets. The other insurance contracts 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 continued excellent overall and except for two ordinary winter loss of balance (slip and fall) accidents covered by our general liability policy, there were no significant claims reported 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. We suffered three large water damage losses, two in our high rise student residences involving elevators and one in an old dwelling being renovated for faculty housing. These three losses are reserved at \$239,000 altogether. The other 11 claim incidents are comprised of one theft, various minor water damage accidents and one fire loss in Zoology, altogether reserved at approximately \$80,000 in total.

The Canadian property-casualty insurance industry enjoyed another healthy financial year in 2009 with good return on equity of 7.9% (6.8% in 2008) that generated profits of \$2.5 billion for the industry (\$2.0 billion in 2008) following a strong rebound in world financial markets and even more robust performance by the Canadian economy. While there are some industry warnings, as always, about hardening insurance markets over the near term, we anticipate continued price/coverage stability and competition for best of class risks and this is how we intend to position the University in the insurance marketplace.

## General University Insurance

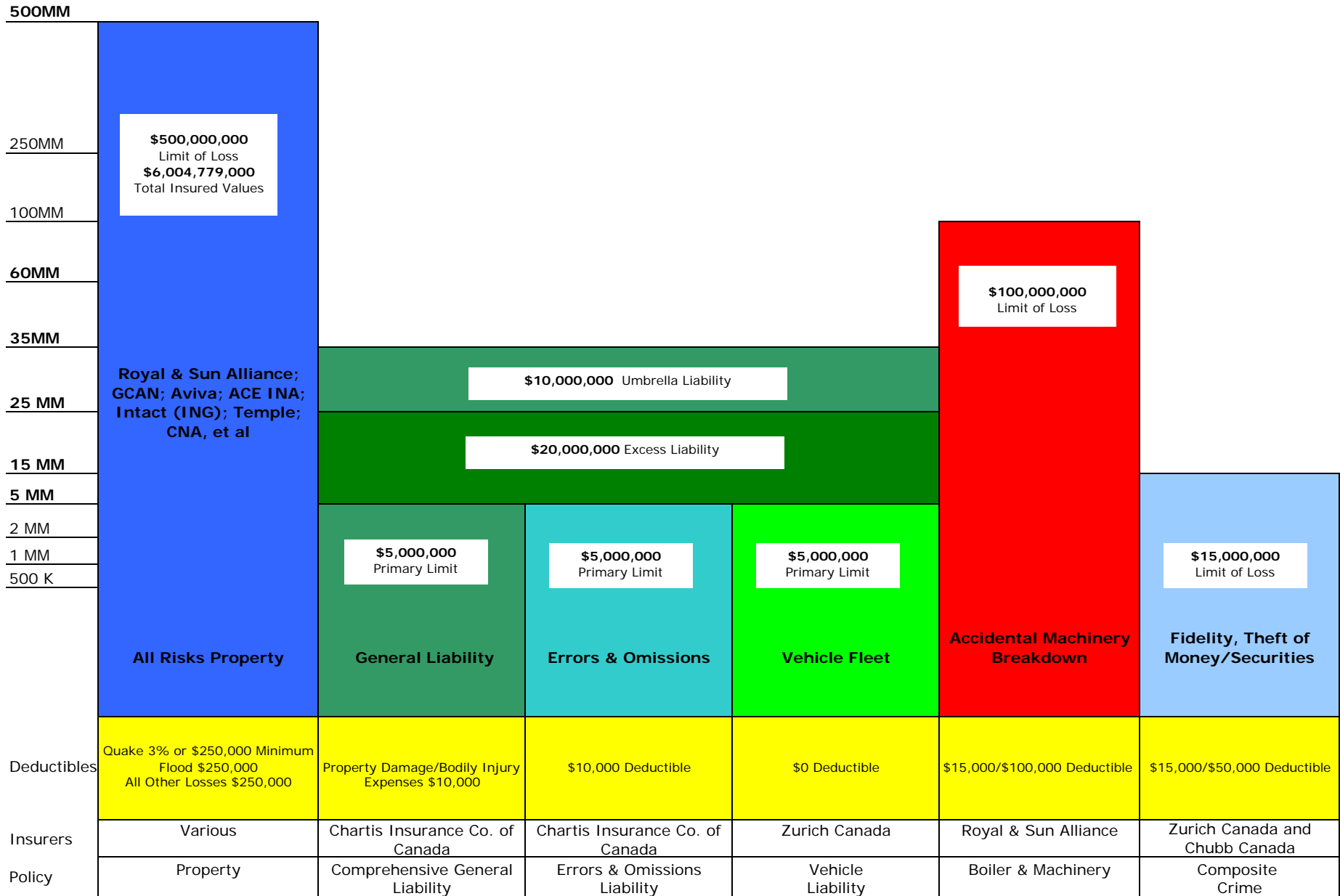
These are the central budget funded policies we purchase against insurable property and casualty risks to cover all operations of the University. The individual policies and premiums are listed in the Appendix and the following narrative provides coverage highlights for general information. All of these 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 \$100 million limit of loss, subject to \$25,000 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.

To optimize insurance terms for our many new construction projects in this specialty market segment, we competed both the qualified insurers and the broker vendors for these specialized policy coverages and have now established a long term relationship with Commonwealth Insurance Company through HKMB Hub International Ltd. to provide our core policies for the three KIP projects, the Rotman Expansion and the UTM Health Sciences projects. By aggregating coverage in this way, we have optimized terms and pricing on nearly \$250 million of new capital works as well as for future projects that may be included in the program.

These five large projects continue apace on our main campuses and are supplemented by numerous smaller works, including the Robarts Library renovations, the new Parkade Structure at UTM and various interior renovation and retrofit projects ongoing in multiple locations.

Projects completed and added to our continuing policies this fiscal year included the first phase of the South Building renovation at UTM, the Varsity Pavilion at St. George Campus as well as a number of smaller works. Anticipated new construction projects in the near term include the Faculty of Law expansion, and the Pan Am Games infrastructure buildout.

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 commercial 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 has operated roughly in equilibrium year to year with paid claims being about equal to investment payout, capital gains and other income, if any, thus preserving the principal in the fund. For much of the last several years, losses have been trending higher while revenue has dropped and so the reserve balance has been declining steadily. With continued claim outflows and nil investment payout in 2009, we submitted and received approval during 2009-10 for a plan to rebuild the capital in the reserve over a ten year period using central budget funds in order to retain our existing self-insured claims handling protocol.

An annual allocation of \$400,000 has been included in base budget until the capital in the reserve is built up to at least \$2.5 million, together with a special, one time capital infusion of \$400,000, thereby providing an additional \$800,000 to the reserve at May 1, 2010. Since the reserve pays self-insured claims up to the commercial policy deductible, 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 was deemed prudent to have the capital balance in the reserve adequately prepared beforehand. The present reserve status is shown below and consists of two accounts: an LTCAP fund and an expendable fund.

	<b>LTCAP Fund</b>		<b>Expendable Fund</b>
	<i>Fund Units</i>	<i>Dollars</i>	<i>Dollars</i>
Opening balance May 1, 2009	5,259.96	784,116	195,478
Investment income		92,246	211
Payout		(38,187)	38,187
Self insured premiums			42,806
Claims paid in FY 09-10	-	-	<u>(218,043)</u>
Balance at April 30, 2010	5,259.96	838,175	58,639
Cash infusion May 1, 2010	<u>1,819.89</u>	<u>290,000</u>	<u>510,000</u>
Balance at May 1, 2010	7,079.85	1,128,175	568,639
Claims reserved			(300,000)

In summary, effective May 1, 2010, a total of \$1,128,175 was held in the LTCAP fund towards the \$2.5 million reserve target, and the sum of \$568,639 was held in the expendable fund in support of short-term and medium term claims. Of that sum, an estimate of \$300,000 is currently reserved for known but not yet settled claims, which amount is expected to be paid from the expendable fund. Our strategic goal is to increase the LTCAP fund to the \$2.5 million target over time.

## Claims Experience

The University's self-insured claims record was similar in 2009/10 as in the prior year. Water damage claims were again prevalent and were due to maintenance-related issues and accidental discharge from domestic water piping. There were two major incidents in high-rise residences where water damaged sensitive elevator control equipment resulting in expensive repairs and inconvenience to student residents. Such losses in multi-story buildings are also more costly because of the rapid spread of water from floor to floor and occupants' concerns about mold remediation. We also had one small fire incident in a laboratory in Zoology where the fire loss itself was minor but the damage to sensitive equipment was significantly worsened by the use of hoses by Toronto Fire Department to suppress the smoke and flames. This is a typical outcome in a building that does not have an automatic fire sprinkler system.

Thefts of various types of valuable electronic equipment remain a contributor to property loss frequency on our campuses (about 25% of reported incidents) but with decreasing replacement costs for these items, they are becoming less of a contributor to our overall claim total. There were a few minor vandalism losses and a spoilage loss in a food freezer but the rest of the notable minor loss incidents (about 50%) were also due to water damage.

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). We've adjusted and paid out \$18,200 during this fiscal year and have a reserve sum of \$300,000 for claims incurred and reported but not yet finalized. Two noteworthy self-insured losses (\$180,000 total) were due to the water damage incidents described above in high-rise student residences.

With significant construction activity on our campuses, any accidents or insurance claims are handled outside the University's normal insurance stream and do not impact our regular policies or our self-insured program. This is one of the main reasons we purchase special 'CoC' construction policies for our capital projects. Luckily, we did not have any new claims on our various construction sites during the past year and there are no remaining claims outstanding from previous years.

There were no new claims under our boiler & machinery policy last year but considering the three large claims from previous years, our multi-year claims experience under this policy remains negative, however, due to market competitiveness and other factors, we were successful in mitigating the net impact on our renewal premium as of April 30, 2010

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 educate users and 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 two winter slip and fall claims, one at St George Campus and one at UTM, there were no serious 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 diminishing number of CURIE claim files remaining from prior years that we are continuing to monitor as these are settled or otherwise resolved through the normal litigation process.

There are hundreds of incidents reported annually to the Risk Management and Insurance Office, especially from our athletics and recreation facilities. These incident reports are reviewed for risk information and remediation purposes as required and most of them do not materialize as claims. We opened only seven 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. All 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 while others are due to accidents caused by contractors working on our premises. There were seven incidents of this type last year and the amounts recovered totaled nearly \$82,000, the largest due to a contractor working in a high-rise student residence.

## 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.