



University of Toronto

BUSINESS AFFAIRS DIVISION - Risk Management and Insurance Department

TO: Business Board and Audit Committee

SPONSOR: Acting CFO

CONTACT INFO: Sheila Brown, 416-978-2065 (sheila.brown@utoronto.ca)

DATE: May 12, 2003 for May 21, 2003 and for June 19, 2003

AGENDA ITEM: Business Board Item #9(a)

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 second time this report to the Board has been made through its Audit Committee.

HIGHLIGHTS:

The University has a comprehensive insurance program in place with stable, quality insurers and service providers. Despite ongoing turbulence in the insurance marketplace as a result of global events, we emphasize 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 markedly during the year due to higher premiums and 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 risks and our financial reserves have been diminished below optimum target levels. While not of immediate concern, we will keep a close watch on developments.

RECOMMENDATION:

Information only

RISK MANAGEMENT AND INSURANCE

ANNUAL REPORT TO THE BUSINESS BOARD



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

May, 2003

TABLE OF CONTENTS

OVERVIEW	1
GENERAL UNIVERSITY INSURANCE	2
USER-DIRECTED INSURANCE.....	3
PREMIUMS BY POLICY	4
PREMIUM/LOSS HISTORY AND COMMENTARY	5
GENERAL INSURANCE STRUCTURE.....	7
INSURANCE RESERVE	8
CLAIMS EXPERIENCE.....	9
RISK MANAGEMENT	10

OVERVIEW

Financial results deteriorated markedly this year in the University's Risk Management and Insurance program due mainly to volatile market conditions. Our self-insured claims experience worsened due to increased volume of claims. LCD (Liquid Crystal Diode) classroom projectors, laptop computers and other electronic equipment thefts are a repeating problem even though in many cases departments have taken reasonable preventative security measures.

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 55 member universities representing more than 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.

The warnings in last year's report about the worsening outlook for the University's insurance program both through CURIE and the commercial marketplace post-Sept. 11th have materialized with a vengeance with likely still more troubles to come. The insurance industry raised prices and reduced coverage across the board, even for its 'best-of-class' customers, so even though our claims experience was good, premiums rose significantly and policy restrictions were added. CURIE was able to mitigate these negative effects somewhat, but due to its own worsening claims experience, CURIE also raised premiums again this year (39% overall) and warned of more price increases to come. CURIE's surplus (the amount by which total assets exceed total liabilities) dropped from \$7.2 million to \$4.1 million last year, the lowest level in its history. While not a threat to its solvency or ability to pay claims, it is nevertheless a negative trend, so CURIE again did not make any dividend payment to its subscribers last year.

The Canadian property-casualty insurance industry had another poor financial year in 2002 with a meagre return on equity of 1.6% (3.0% in 2001). The industry's lacklustre performance was compounded by the continuing decline in equity markets, markedly higher catastrophic claims costs and steeper adverse liability claims development. Consumers can expect to see more double-digit premium increases, shrinking capacity and continued turbulence over the next few years, although some observers are speculating the worst of the 'shock and awe' may now be behind us.

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 \$15 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 \$100 million limit of loss, subject to \$15,000 deductible for all objects except large chillers which have \$100,000 deductible. The cogeneration facility is included in this coverage but at \$100,000 deductible. This policy is purchased from commercial insurers.
- iv) **Crime/Fidelity Policy:** We carry a comprehensive contract with \$25 million limit of loss against theft of money or securities and the fiduciary responsibility of employees, subject to \$5,000 or \$25,000 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 projects 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 Woodsworth, New College, UTM and UTS Residence projects, Centre for Cellular and Biomolecular Research, Leslie Dan Pharmacy Building, Centre for Communications, Culture and Information Technology, Academic Resource Centre at UTS, and the Early Learning Centre. As other projects start (UTS Student Centre, UTS Management Building, 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 Morrison Pavilion at Gerstein Library, 500 University Ave renovations, Soils Laboratory and Greenhouse, and UTM Centre for Applied Bioscience and Biotechnology. 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, produced an increase in insurable values under our CURIE policy of nearly 11%, with a commensurate increase in our premium expense.

Last year, we purchased two special transportation policies of note, one for Physics Department to Geneva, Switzerland for their participation in the Atlas Detector Project, part of CERN, the European Nuclear Research Program and the other for UT Institute for Aerospace Studies to Plesetsk, Russia as part of an international joint venture for a multiple satellite launch.

PREMIUMS BY POLICY

Policy Name/Description	02/03	01/02	00/01
<u>General University Insurance</u>	<u>Premium</u>	<u>Premium</u>	<u>Premium</u>
Main property policy	\$659,411	\$559,219	\$520,488
Liability policies			
-comprehensive general liability *	312,613	261,210	219,096
-umbrella/excess liability	13,538	13,538	10,638
Boiler and machinery	105,019	95,350	112,320
Composite crime coverage	48,600	48,600	35,640
Personal professional property floater	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>
	<u>\$1,153,181</u>	<u>\$992,517</u>	<u>\$912,182</u>

* includes errors and omissions policy

User-directed Insurance

Term accident policies	\$ 3,148	\$ 3,295	\$ 7,479
Automobile blanket fleet policy*	68,305	62,647	53,020
Cogeneration facility**	52,510	56,160	56,160
Fine art collections	24,624	24,624	24,624
Major new construction projects (see note)	464,126	90,352	96,867
Special transit (various departments)	<u>x5,940</u>	<u>6,227</u>	<u>6,227</u>
	<u>\$x618,653</u>	<u>\$228,741</u>	<u>\$242,377</u>

* includes self-insured premiums for collision and comprehensive

** included in boiler and machinery policy

Notes: All premiums include 8% PST (except 2% 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 20% depending on the subscriber's claims experience measured on a five-year rolling average. We have had no property claims for the last nine years so we enjoy the maximum rate credit of 20% for good loss experience, but because of higher insurable values mainly due to new construction, the premium still increased by roughly 11% last year. The liability policies continue to fare poorly over time and our rolling five year loss ratio still hovers near 160% so the rate penalty for this stayed at the maximum of 15%. In addition, because CURIE's overall liability loss experience deteriorated, they again imposed an across the board increase of 25% for all subscribers (25% in 2001 and 15% in 2000). The table below illustrates the current and historical experience by policy year.

Property	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$504,321	\$521,534	\$454,671	\$481,933	\$535,732	\$2,588,870
<i>Losses Paid</i>	0	0	0	0	0	0

Liability	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$183,494	\$190,879	\$194,047	\$202,867	\$261,364	\$1,032,651
<i>Losses Incurred</i>	249,990	591,536	731,043	62,893	35,500	1,670,962

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.

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 hardening of the general insurance market as detailed below.

We went through a difficult renewal a few years ago on the boiler & machinery policy due to very bad loss experience. The policy then negotiated with ACE/INA has been essentially loss-free since so last year we managed to negotiate a 'good claims credit' of 15% of the premium as

Risk Management and Insurance

a discount at policy inception. This amounts to about \$21,000 net and will apply so long as we keep losses below an agreed threshold and we renew with the same carrier.

B&M Policy	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$168,480	\$168,480	\$168,480	\$143,208	\$157,529	\$720,469
<i>Losses Paid</i>	874,814	0	0	25,781	0	900,595

Factoring for bad loss experience three years ago (one large defalcation claim) our crime/fidelity policy was renewed for two years at 26% higher premium. This policy comes up for renewal August, 2003. We are now carrying a comprehensive fraud policy with a single insurer providing \$25 million overall limit and we hope we can retain this level of coverage.

Crime Policy	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$35,640	\$35,640	\$35,640	\$48,600	\$48,600	\$204,120
<i>Losses Paid</i>	775,432	0	0	0	0	775,432

Our fine arts policy is at the end of its current three-year term on August 1, 2003 and with our good claims experience, we don't expect any significant changes to this contract at renewal.

Fine Arts	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$25,920	\$25,920	\$24,624	\$24,624	\$24,624	\$125,712
<i>Losses Paid</i>	0	0	0	0	0	0

The vehicle fleet policy again had only a few minor claims but we were levied a 30% premium increase at the renewal last summer, this after a 40% rate hike the year before, all due entirely to the hard commercial insurance market.

Auto Policy	1998/99	1999/00	2000/01	2001/02	2002/03	5 Yr
<i>Premium</i>	\$41,053	\$37,541	\$36,068	\$50,660	\$68,305	\$213,009
<i>Losses Paid</i>	5,213	5,520	2,102	5,753	16,290	34,878

INSURANCE RESERVE

We operate an internal reserve account for property insurance 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 must absorb. This deductible is set at a level which is intended to reinforce the custodial responsibility of departments for assets entrusted to them.

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 so the capital in the reserve fund is essentially preserved at approximately \$1.5 million. At prior fiscal year end, the reserve was somewhat higher than normal due to better than expected claim results but this year, due to reduced investment revenue and higher than normal claims, the balance has decreased below the target level. The present status of the reserve is shown in the table below.

General Insurance Reserve

Balance, April 30, 2002	\$1,766,254
Claims paid in current year (incl. claims from prior years)	(251,278)
Claims reserved (through to April 30, 2003)	(247,300)
Premiums saved from self-insurance*	25,210
Investment income for current year	<u>85,510</u>
Estimated balance, April 30, 2003	<u>\$1,378,396</u>

*automobile collision and comprehensive; personal professional property floater.

In some prior years, CURIE has 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 poor claims experience. CURIE's surplus position declined sharply from \$7.2 million in 2001 to \$4.1 million last year, well down from the \$10.7 million CURIE had in 1999. Despite high year by year premium increases, their financial performance continues to deteriorate and so their Board has sanctioned an actuarial review of their rating methodology and continuing premium requirements. For subscribers, this likely means more double digit rate increases can be anticipated in future. CURIE's audited financial statements for 2002 and its annual report are available for review on request.

CLAIMS EXPERIENCE

The University's self-insured claims record deteriorated somewhat in 2001 from the year before. Water damage claims were more costly on average due partly to emerging concerns about mould issues and increased public awareness. But the frequency of thefts involving computers and electronic equipment remains the chief cause of property loss on our campuses (about 75% of incidents). Along with many other institutions, we are experiencing an epidemic of audio-visual projector thefts on our campuses. These expensive LCD projector units (each worth \$5 - \$10,000) are normally ceiling mounted in classrooms, are secured with heavy bolts or cables, and many were also equipped with audible alarms or security cages. But all these measures were insufficient to prevent their theft. Thieves are certainly becoming bolder and ordinary security measures are sometimes inadequate to stop them. Even video surveillance of the premises is insufficient to deter these brazen bandits. Police report that thieves often work in organized gangs that target a number of University buildings over a brief span of time, then they disappear to another locale and repeat the pattern. This is a difficult problem to control given the size of the University, our location and accessibility of premises and with the large number of easily liquidated 'target risk' items (laptop computers, video projection equipment, printers, fax machines, etc) that we have in our premises. We must strive to be vigilant at all times.

The total dollar loss for all property claims is projected to be about \$347,000 for the year (about \$300,000 last year). So far we've paid out \$100,000 and have reserved \$247,000 for claims reported but not yet finalized. The largest self-insured loss (\$57,000) occurred when the Blue Sky Solar Race vehicle was being driven to an exhibition in Montreal and was involved in a collision with another vehicle. Fortunately, there were no serious personal injuries, but the race vehicle, due to its sophisticated solar array panels and delicate carbon fibre shell construction, has to be substantially rebuilt. The students who are members of the Blue Sky Racing Team are pitching in with energy and enthusiasm to do the work with donated parts and materials and their own labour as much as possible to keep costs to a minimum. Working with the support of the Dean's Office, we also reviewed the operational protocols for the Program and implemented a number of improvements which we hope will reduce future risks.

With construction activity on our campuses running at an accelerated pace, accidents and claims are bound to happen. Since we purchase special 'COC' policies for capital projects, these claims are handled outside the University's normal insurance stream and do not impact our

ongoing policies. There were several major claims at Bahen Centre for Information Technology, including a power outage in the main switchgear unit at Koffler Student Centre, an infestation of vermin in the underfloor communications cabling, a small fire in an air handling unit and several 'near misses'. The total claims costs recovered or in process of recovery are nearly \$275,000.

There were no claims under our boiler & machinery policy last year, so we will again realize a premium rebate of 15% net of commission, our pre-agreed 'good claims credit' amount.

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 hope our excellent claims record over the past four years will cast us in a favourable light with insurers.

Legal liability claims remained relatively constant in frequency last year and, unlike previous years, there were no new 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 (21) is trending worse from the year before as the winter was quite severe with higher than average precipitation, extreme cold temperatures and above normal concentrations of snow or ice for an extended period. There were hundreds of potential liability incidents reported to the Risk Management and Insurance Office in the past year and 123 were judged to require investigation for insurance purposes. These resulted in 24 new claim investigation files being opened. Most are minor 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. The average value of these claims ranges between \$500 and \$5,000 per occurrence and are handled through our internal protocols. More serious accidents are reported to our liability insurer, CURIE.

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. There were four noteworthy incidents of this type last year and the amounts recovered or in process of recovery total about \$32,000. The largest involves rekeying the main exterior and interior doorlocks at OISE/UT after a security guard misplaced his set of master keys and the building's basic key security system was compromised.

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 insured values in excess of \$1.5 billion. It is a serious concern to reinsurers as well since a loss could potentially exhaust CURIE's total policy limit of \$650 million. The two main recommendations made by the loss control experts are to install automatic fire sprinkler protection throughout Robarts Library and to upgrade the fire barrier rating of the bridge connecting Robarts with Thomas Fisher Library from two to four hour fire separation rating. These items were also presented to the Audit Committee as part the administration's review of the University's total risk environment and the two recommendations are currently being evaluated for feasibility and cost by Facilities and Services Division using both internal resources and outside consultants and contractors. Upgrading fire protection in the way recommended by CURIE and their experts is a very expensive, difficult and time-consuming project.

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.

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 1.75 FTE support staff comprised of a policy and claims administrator and a shared secretary/ business officer. The department is located on the third floor at 215 Huron Street.