



Bickmore Risk Services



Oregon University System

RISK MANAGEMENT Study – Findings

January 4, 2012

Project Purpose

Assist OUS in its separation from DAS by:

- Designing new risk finance mechanisms;
- Determining appropriate risk management organization:
 - Internal staffing levels;
 - Outsourced service needs;
 - Reporting structure;
- Identifying potential RMIS solutions;
- Developing an implementation plan; and
- Supporting OUS in transition negotiations with DAS.

BRS Team

Michael M. Kaddatz, CPCU, ARM

Director, Risk Management Services

David M. Luke, JD, ARM

Senior Consultant

Charles D. Gray, CSP, CPEA

Director, Risk Control Services

John Alltop, FCAS, MAAA

Managing Director, Actuarial and Risk Finance

Jo Ann Wood, CPCU, AIC, RLU, ARM

Manager, Claims Consulting Services

Frederick C. Treffinger

Information Services Consultant

Project Work Steps

1. Interviewed:
 - OUS & Campus Risk Management Stakeholders
 - Key DAS Risk Management Personnel
 - State Broker and Insurer Representatives
2. Surveyed 900+ employees
3. Analyzed:
 - Financial statements and budgets
 - Property values & other exposure data
 - Campus demographic information
 - Historical property and casualty loss data
 - Risk costs allocated by DAS
4. Reviewed summaries of existing insurance policies
5. Considered applicable tort caps
6. Evaluated current risk management organization and staffing levels
7. Developed projections of insurance and other costs for OUS program

Exposures - Property

- \$8.8 Billion in Total Insured Values (TIV)
- Plus Undetermined Business Income & Extra Expense
- Largest concentration of values: approximately \$185MM
- Catastrophic exposure not formally assessed
- Largest claim since 1991 – approximately \$6MM (fire/smoke)

Exposures – Property

Property Values

- No formal appraisal in recent history
- No consistent valuation methodology
- Not consistently updated

Conclusions

- Conduct property appraisals on buildings over \$5 million
- Conduct PML study to formally assess catastrophic risk

Exposures - Liability

General / Auto / Educators Legal / Professional

- Current State Bodily Injury (BI)/Personal Injury (PI) cap: \$1.7MM/\$3.4MM (through 6/30/12)
- “Local Public Bodies” PI/BI cap: \$600K/\$1.2MM (7/1/12 forward)
- Property Damage Liability cap currently set at \$101,400/\$506,900
- Caps adjusted annually

Exposures – Liability

(continued)

General / Auto / Educators Legal / Professional

- Unlimited liability for extra-territorial/federal causes of action
- Potential unlimited liability for some pollution liability (e.g. mandated clean-up), or other liability where no tort claim (e.g. cyber liability)
- Largest claim since 1991 – approximately 1.5MM (Employment Practices Liability)
- Largest non-EPL claim since 1991 - approximately \$485K (Automobile Liability)

Exposures - Crime

Employee Dishonesty

- Long-time trusted employee embezzlement
- Largest OUS claim in last five years less than \$300K
- Broad Industry data shows public entity losses have been as high as \$10MM

Exposures – Workers' Compensation

- Statutory-Oregon and other states
- Foreign exposures
- Repatriation / Endemic Disease
- Jones Act (for crews of watercraft)
- Largest claim since 1991 - approximately \$635K

Current Risk Financing Program

Coverage	Limits	Self-Insured Retention / Deductible
General Liability	Unlimited	None
Auto Liability	Unlimited	None
Educators Legal Liability	Unlimited	None
Medical Malpractice	Unlimited	None
Professional Liability	Unlimited	None
Cyber Liability	Not Covered	Not applicable
Aircraft Liability (Leased Only)	\$30,000,000	None
Protection & Indemnity	\$5,000,000 to \$15,000,000	None
Marine Pollution Liability	\$5,000,000	None
Fiduciary Liability	Unlimited	None
Special Events Liability	\$2,000,000	None

Current Risk Financing Program

Coverage	Limit	Self-Insured Retention / Deductible
Property	\$400,000,000	\$2,500
Property –Earthquake	Included in \$400,000,000 Limit	\$2,500
Property - Flood	Included in \$400,000,000 Limit	\$2,500
Boiler & Machinery	\$100,000,000	\$25,000
Crime	\$20,000,000	\$5,000 (\$500 if internal control in place)
Excess Workers' Compensation	Statutory	None
Foreign Voluntary Workers' Compensation	Statutory	None

Cost of DAS Coverage and Services

Program	Estimated 2012-13 Cost*
Workers' Compensation	\$3,150,000
Tort Liability	3,459,000
Property / Crime	4,790,000
Total	\$11,399,000
	* 50% of 11-13 Biennial Risk Charge Allocations per DAS

Major Risk Treatment Techniques & Tools



OUS Risk Finance Program Design

- Considerations
 - July 1, 2012 Implementation
 - Retain Broad Protection Features of DAS Programs
 - Provide Resource to Handle Claims
 - Maintain or Reduce Costs
 - Provide for Cost Stability
 - Enhance Loss Prevention Capability

Why a Joint Approach to Risk Finance

- Smoother transition from DAS
 - Coverage replacement
 - Claim handling mechanism
- Economies of scale = \$
- Increased ability to retain risk

Why a Joint Approach to Risk Finance

(Continued)

- Spread of risk – impact of large loss diminished
- Synergy of shared
 - Resources
 - Experiences
 - Challenges
 - Solutions

Conclusion: Workers' Compensation

Maintain Program with SAIF

- SAIF's claim handling resources are sound
- Relationship with campuses is good
- Loss prevention resources available from SAIF
- SAIF's cost + premium formula is reasonable
- Overall smooth transition expected
- Costs shared by Universities

OUS 2012-13 WC Cost Estimate

- Preliminary Price Indicators from SAIF
 - Standard Premium --\$5,004,989
 - Basic Prem. Factor -- .132
 - Loss Conversion Factor – 1.15
 - Expected Losses -- \$3,215,000, disc. 2%, per BRS analysis

Cost Component	Retrospective Formula	Est. 2012-13 Cost
Basic Premium	\$5,004,000 X .132 =	\$660,659
Converted Losses	\$3,215,000 X 1.15 =	3,697,250
	Total	\$4,357,909

Conclusion: Tort Liability

- Self-insure
- System SIR between \$100,000 & \$500,000
- Excess insurance to \$40 million limit
- Wrap Around Oregon Tort Caps
- Claims Administered by Contract Firm (TPA)
- Losses and other costs shared by Universities

Tort Liability Structure

DAS Program

(Unlimited)



Pooled Self-Insurance with
other State Agencies

New OUS Program

\$40 M

Commercial Insurance

\$500 K

Pooled Self-Insurance with
7 OUS campuses

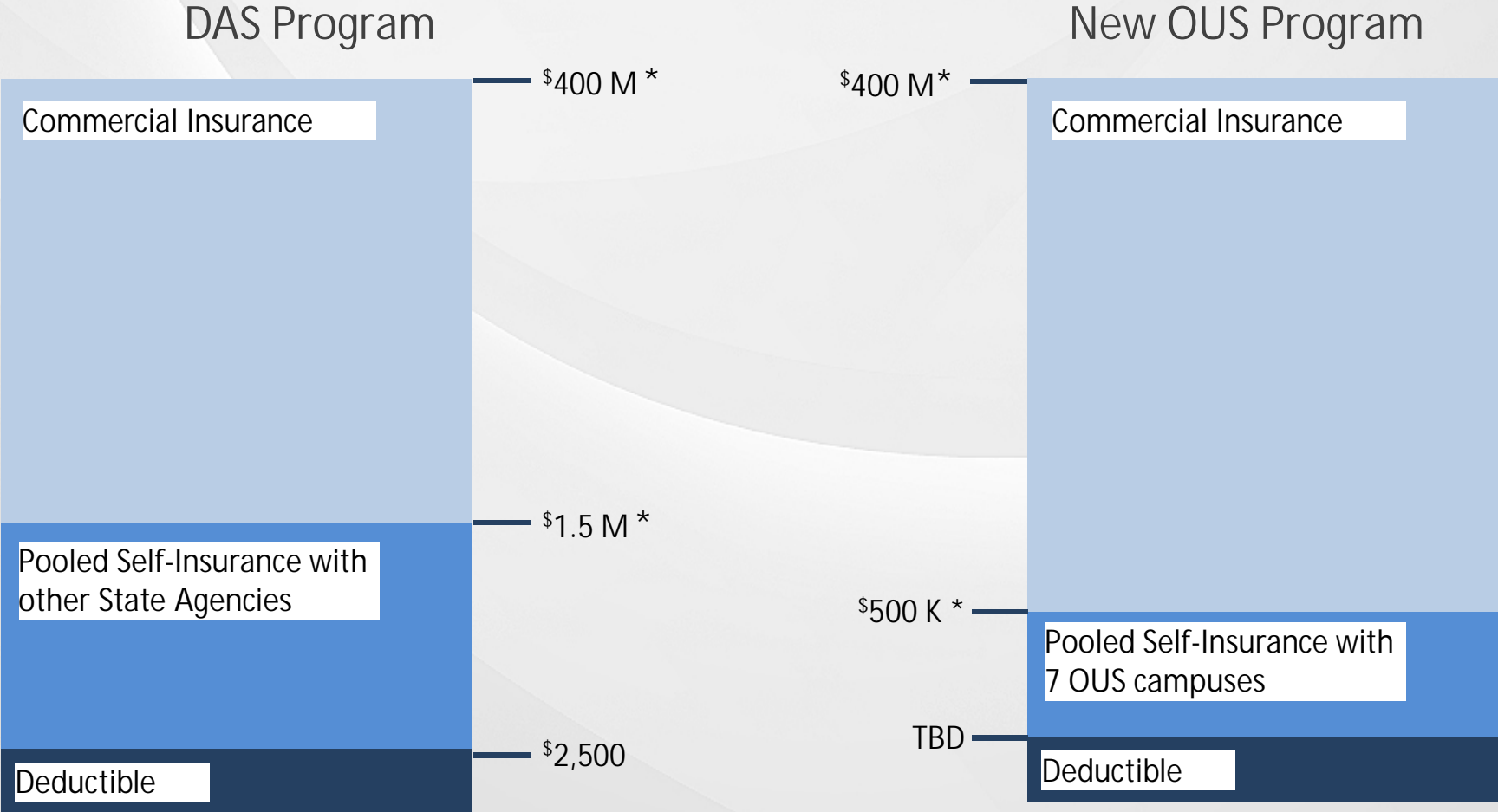
OUS 2012-13 Tort Liability Cost Estimate

Cost Component	Est. 2012-13 Cost
Losses within Self-Insured Retention *	\$1,134,000
Excess Insurance Premium**	1,200,000
Contract Claim Administration ***	45,000
Total	\$2,379,000
<ul style="list-style-type: none">• *Expected losses, discounted at 2%, per BRS actuarial analysis @ \$500K SIR• **Per informal commercial insurance market indications• ***BRS estimate per claim volume in DAS data base	

Conclusion: Property

- Large Deductible Program
- System deductible between \$100,000 & \$500,000
(Catastrophic peril deductible different)
- Excess Insurance to \$400 million per loss
- Claims administered by TPA
- Losses and other costs shared by Universities

Property Program Structure



NOTES – Not drawn to scale. *Separate limits apply for catastrophe perils.

OUS 2012-13 Prop. Cost Estimate

Cost Component	Est. 2012-13 Cost
Losses within Deductible *	\$1,381,000
Insurance Premium **	1,980,000
Contract Claim Administration ***	45,000
Total	\$3,406,000
* Expected losses, discounted at 2%, per BRS actuarial analysis @ \$500K SIR	
** Per informal commercial insurance market indications	
*** BRS estimate per claim volume in DAS data base	

2012-13 Core Program Cost Comparison DAS vs. New OUS Program

Core Program	DAS Budget Allocation	New OUS Program
Workers' Compensation	\$3,150,000	\$4,358,000
Tort Liability	3,459,000	2,379,000
Property	4,790,000	3,406,000
Total	\$11,399,000	\$10,143,000

Other Cost Considerations

- DAS vs. OUS Core Program = +\$1,256,000 before:
 - Peripheral Insurance Programs (e.g. Marine, Other states WC);
 - Loss Reductions from Enhanced EH&S initiatives;
 - System Risk Management Office;
 - Assumption of Tail Claims;
 - Contingency Margin.

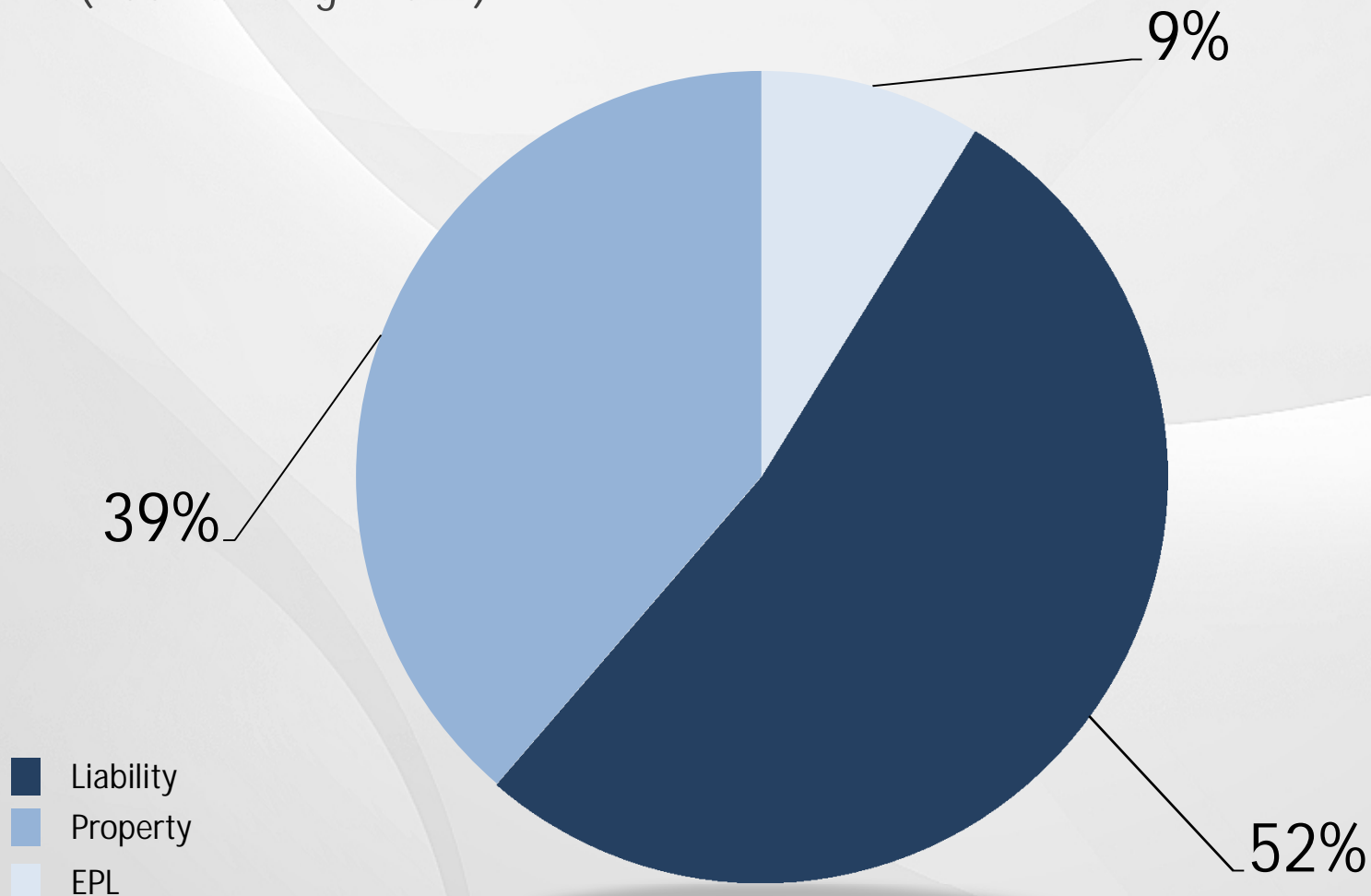
Liability and Property Claims History

Annual number of Liability, Employment Practices Liability (EPL) and Property Damage claims.

Agency	2011	2010	2009	2008	2007
EOU	5	4	1	5	9
OIT	0	4	3	2	4
OSU	44	52	54	75	83
OUS	0	0	1	0	0
PSU	27	46	44	34	26
SOU	2	6	25	12	9
UO	22	39	44	29	36
WOU	7	0	4	0	2
<i>Total</i>	<i>107</i>	<i>151</i>	<i>176</i>	<i>157</i>	<i>169</i>

Liability and Property Claims History

Number of Liability, Employment Practices Liability(EPL) and Property Damage claims (2007 through 2011)



Property and Liability Claims Handling

Due to relatively low volume, claim handling responsibilities most efficiently handled by TPA.

- Lower annual cost
- Geographical spread of resources
- Depth and breadth of claim experience

Estimated Annual TPA costs: \$90,000.

OUS oversight required as well as increased monitoring by liaisons at the campuses.

Workers' Compensation Claims History

Annual (FYE) number workers' compensation claims received per SAIF (as of 10/2011).

Agency	2011	2010	2009	2008	2007
EOU	13	11	14	13	19
OIT	14	13	17	18	8
WOU	30	25	30	37	13
OSU	187	173	215	194	177
SOU	28	24	33	28	13
UO	149	136	161	159	159
PSU	54	46	45	40	44
OUS	0	0	0	0	0
<i>Totals</i>	<i>475</i>	<i>428</i>	<i>515</i>	<i>489</i>	<i>433</i>

WC Claims Handling

Workers' Compensation Claims (WC) – Agency liaisons are able to follow up on coordination of return to work with departments and claim resolution activities using:

- Full internet access to paperless claims environment;
- Full access to SAIF team members by E-mail or phone; and
- Full access to In-House legal staff.

Even where claims are disputed, the liaison reports employee satisfaction with SAIF claims handling.

WC Claims Handling

Recommendation

Continuing workers' compensation claims administration with SAIF.

Risk Control Defined

- All activities directed toward the prevention and mitigation of university liability, property, and workers' compensation claims and losses.
- For OUS, the campus resources assigned to perform these activities are usually labeled EH&S or Risk Management.

Risk Control

Core Findings

1. Safety Accountability Lacking Among Deans, Directors & Department Heads
2. EH&S & Risk Management are not Viewed as Essential Contributors to the Missions of the Universities
3. Campus Risk-Related Departments Operate in Silos
4. EH&S is Event and Compliance Focused
5. UO's is the most-advanced EH&S Model

Risk Control

Core Findings (cont'd)

6. Campus EH&S Staffing & Budget Decisions Are Not Strategic and Tend to be Subservient to the Priorities of Senior Department.
7. Risk Control (EH&S) is Viewed as an Expense not an Investment.
8. SAIF provides Risk Control services upon request to all campuses.
9. DAS has not Provided Material Risk Control Service or Support.
10. Under DAS' Risk Cost Allocation Model, campuses have been Insulated from the Financial Impact of Claims & Losses.

Risk Control

Recommendations – Practices

1. Develop Risk Control plans with a strategic (vs compliance or event) orientation at campus and system levels.
2. Allocate risk costs in a manner that rewards campuses with better loss records.
3. Use System Risk Funds to support high priority Risk Control initiatives at the Campus level.
4. Establish Regular Meetings of System and campus Risk personnel to facilitate Risk Control strategic plan development, teamwork, skill development and information sharing.

Risk Control

Recommendation – Staffing

1. Establish Environmental Health & Safety (EH&S) Manager Position at the OUS level.
2. Continue EH&S Director Positions at UO and OSU.
3. Consider Placing one Credentialed (CSP/CIH) person at each of the smaller campuses.
4. Use OUS EH&S Manager to coordinate Risk Control system-wide and to mentor less experienced campus EH&S personnel.

Risk Management Information System

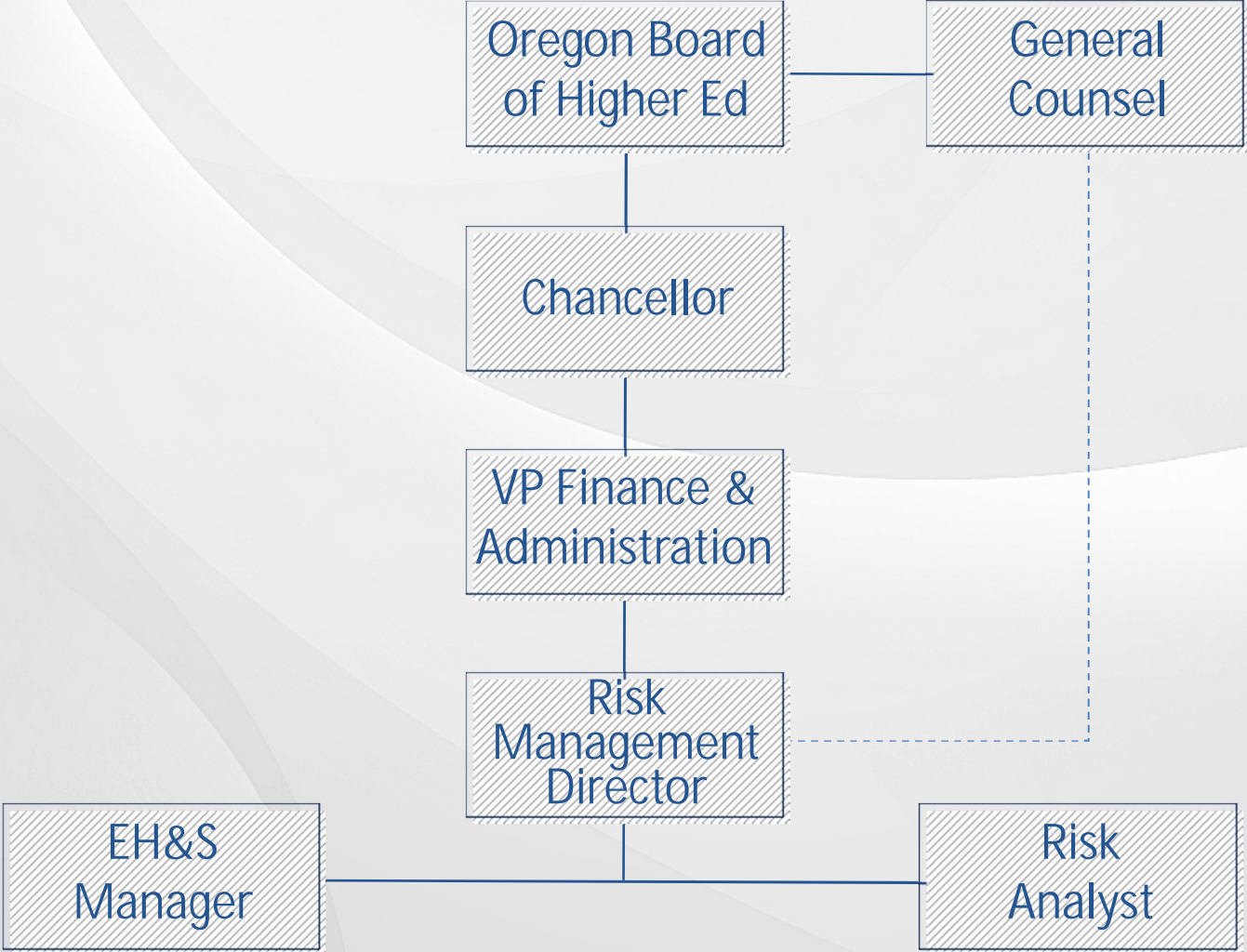
- Near term: Rely on SAIF and the Property/Liability TPA systems to address the immediate need for collecting and tabulating claims data for basic management reports.
- Longer term: Purchase a data--consolidation system which integrates the claims data with exposure data and supports data analysis and reporting.
- Additional capabilities may include underwriting, risk control support, insurance policy tracking, certificate tracking.
- By 2014 conduct a needs assessment, develop an RFP, and obtain competitive proposals.
- Internal system integrations can be added to provide additional reporting and analysis capabilities.

Risk Management at OUS Level

Hire a Risk Management Director and Risk Analyst to:

- Conduct system-wide risk identification, evaluation, and treatment;
- Place all insurance;
- Manage broker, claims TPA, and other risk management vendors;
- Collect and manage underwriting data;
- Provide input to strategies on litigated claims;
- Direct claims settlement to established authority levels;
- Develop risk management policies and procedures;
- Budget and allocate risk costs;
- Oversee EH&S Manager's efforts;
- Measure and report to senior management program results; and
- Provide loss trending, risk management expertise, and program results to the institutions

Proposed Organizational Chart



OUS RM Administration Budget

Administration	\$Cost	Notes
1 Risk Management Director	\$210,000	Assumes \$150,000 salary, \$15,000 for health, plus 30% load for other payroll expenses
2 EH & S Manager	188,500	Assumes \$130,000 salary, \$15,000 for health, plus 30% load for other payroll expenses
3 Risk Analyst	123,500	Assumes \$80,000 salary, \$15,000 for health, plus 30% load for other payroll expenses
4 Travel / Services / Supplies	60,000	According to OUS, typical costs are \$20,000 per employee
5 Conferences / Training	15,000	Assumes \$2,500 per conference attended by RM Director (3), EH&S Mgr. (2) and Analyst (1)
6 Property/Liability Claim Audit	12,000	Based on recommended sample size of 75 claims at \$160 per claim
7 Workers' Comp. Claim Audit	11,200	Based on recommended sample size of 70 claims at \$160 per claim
8 Dues / Subscriptions	1,000	
9 Actuarial Studies	20,000	Estimated by BRS
10 Property Appraisal	75,000	Estimated by vendor to appraise all locations with values of \$5 mil. or greater
11 Special Studies / Misc.	15,000	
Total Administration Budget	\$731,200	

Cost Comparison Summary

2012-13

Cost Component	DAS Budget Allocation	New OUS Program Est. Cost
Workers' Compensation	\$3,150,000	\$4,358,000
Tort Liability	3,459,000	2,379,000
Property	4,790,000	3,406,000
Peripheral Insurance	Included Above	200,000
OUS Risk Management Unit	Not Applicable	731,200
Effect of Robust EH&S*	Not Applicable	(285,000)
Totals	\$11,399,000	\$10,789,200
Difference		\$609,800

*Favorable impact estimated by BRS at 5% of projected losses

Other Program Design Comments

- To allow for contingencies, funding for 2012-13 should be not less than DAS Budget Allocations;
- OUS will inherit assets and outstanding (tail) liabilities for pending losses, underfunded by about \$2.7 million. Provisions should be made to fully fund such liabilities over time;
- All self-insured claims should be funded with prudent margins for contingencies (e.g. 70%-80% confidence levels);
- To ensure assets set aside to fund outstanding liabilities remain in tact, consider establishing a trust, captive insurer or other formal structure to hold such assets.

Why a Formal Structure

- Protects Funded Reserves
- Promotes Fiscal Conservancy
- Provides Governance Structure to:
 - Collegial Participation in program management
 - Resolve claims issues
 - Confer on cost allocation
 - Measure performance
 - Guide program evolution from traditional Risk Management to Enterprise Risk Management
- Adds objectivity to risk treatment and resource allocation

Next Steps

- Hire OUS Risk Management Director immediately;
- Begin process to select OUS insurance broker by March 15, 2012;
- Begin Property/Liability Claims TPA selection process by March 2012;
- Complete negotiations on tail liabilities with DAS;
- Initiate renewal negotiations with SAIF by April 2012;
- Replace Specialty Insurance Placed by DAS/Negotiate Return of Premium on Group Policies by May 2012
- Establish funding for projected 2013 liabilities by June 2012
- Select cost allocation model by June 2012
- Consider formation of a trust or captive to protect self-insurance assets by October 2012
- Conduct RMIS Needs Assessment and Product Selection by July 2014