UCOP Office of Financial Management
Risk Services
Annual Report 2004/2005

I. Evolving Risk Services

In December 2005, with the engagement of a new Chief Risk Officer (CRO), the Department of Risk Management redirected its emphasis. The department name was changed to Risk Services, which reflected the new broadened approach to identifying and managing risk and strengthened its service-based approach to leading and supporting the Department's constituents.

A new mission statement was created along with a complete reworking of the department's website.

Our mission is to enable the University faculty, staff, and students to identify and manage risks associated with their activities, consistent with the University's missions of teaching, research, and public service. By strategically managing risk we can reduce the chances of loss, create greater financial stability, and protect our resources.

http://www.ucop.edu/riskmgt/welcome.html

Major initiatives of the Department of Risk Services are:

- the development of an Enterprise Risk Management Program,
- identification and reduction of the Cost of Risk,
- strengthening our Program Management and claims processes,
- optimizing our Risk Financing Strategy, and
- further development of Prevention and Loss Control Programs.

II. Enterprise Risk Management (ERM)

We are moving towards an enterprise approach to identifying and managing risk including financial, business, operational and governance risks.

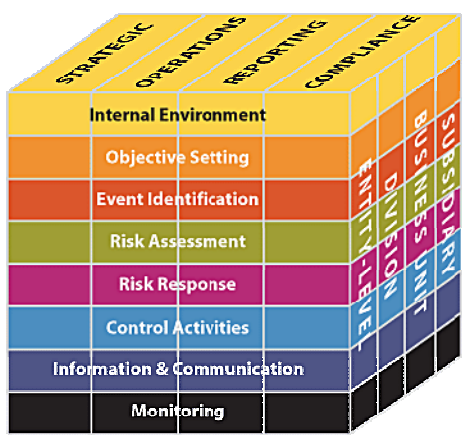
- ERM Panel formed in June of 2005 to develop an ERM strategy
- Review of current Risk Assessment efforts completed by CRO and presented to ERM Panel

As a leading institution of higher education and financial practices, the University of California (UC) is planning to implement the Enterprise Risk Management (ERM) framework advocated by the Committee of Sponsoring Organizations of the Treadway Commission[1] (COSO). An ERM Panel was formed that includes management representatives from Office of the President (OP) and the campuses. The immediate mission of the Panel is to develop a Request for Proposal (RFP) for consultation services related to coordinating and implementing ERM initiatives at UC.

Additionally, a project is already underway with a Work Team (team formed at the Risk Summit in March of 2005) and Aon Risk Management Information System (RMIS) to look at various systems available in the market and/or the feasibility of using Valley Oak System (VOS – our current claims system) and/or our internal data warehouse as a system for ERM. The Panel members received copies of the Aon plan and timeline.

The Panel will request that the consultant review our existing programs and data and identify what components of the ERM Framework we need to improve on and what processes or programs we may need to implement in order for UC to move forward with the implementation of ERM.

ERM Framework



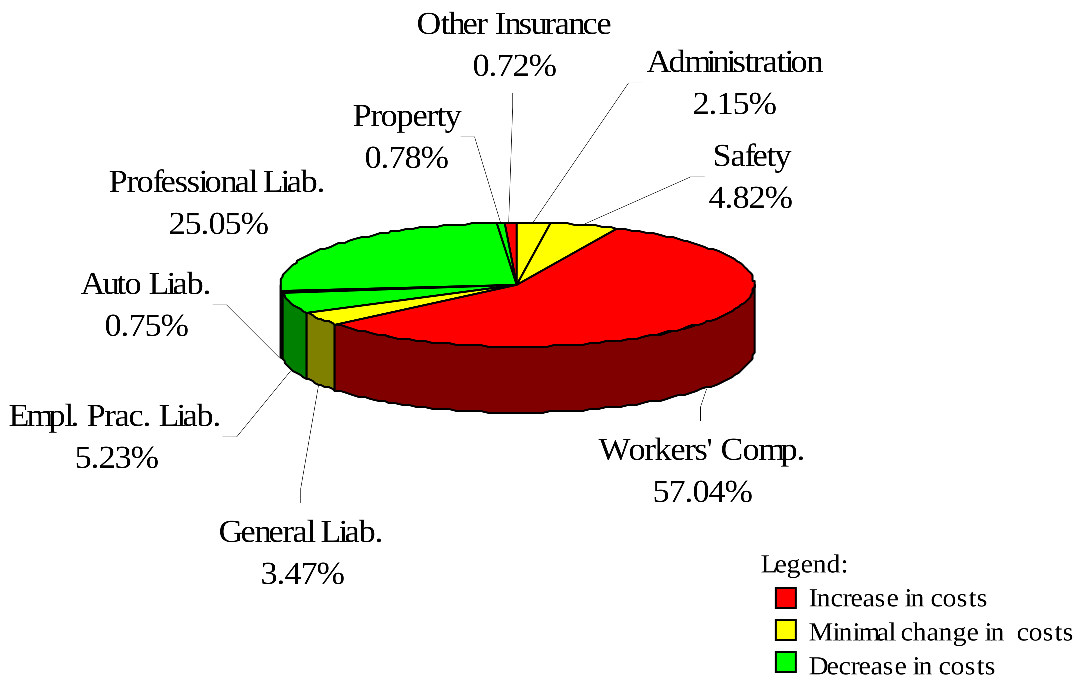
The overall strategy is to develop a data warehouse that can manage information that is currently being collected by various groups, existing programs, and initiatives throughout the system. This data could then be used with the COSO framework to analyze processes, risks, and controls system-wide.

[1] http://www.coso.org

As we move forward with our Enterprise Risk Management (ERM) initiative we will be able to look at the Total Cost of Risk which would include losses not included in the self-insured program, such as employee grievances, human subject injury, and other operational risks, as well as regulatory risks (fines), business risk (grants, patents), reputation risk, governance, and other events that have a potentially negative consequence or positive consequence such as missed opportunities. By identifying and analyzing the full cost of risk, we will develop strategic plans to reduce the cost and free up resources to be used for meeting the University's mission.

III. Cost of Risk FY 2004/2005

The current Cost of Risk analysis includes insurance premium, costs of risk evaluation and analysis, risk control, administration, uninsured or self-insured losses and indirect costs of uninsured losses (where coverage is extended in the interest of doing business), and safety (EH&S budget) relative to operating budget. The retained losses are inclusive of all open and pending claims regardless of date of loss. In other words, they are our book of liability as of valuation date. Benchmarking against operating budget allows us to see if our risk has increased or decreased relative to our exposure.



Looking at the current cost of risk we can see that for the last four fiscal years the cost of risk has been increasing. The primary driver has been workers' compensation. Monitoring our cost of risk year over year allows UC to benchmark its progress and identify areas for improvement. Our goal is to reduce the cost of risk year over year. We are currently working on a 10-year study of the cost of risk.

Cost of Risk 2000-2005										
	2000/01		2001/02		2002/03		2003/04		2004/05	
	Cost	Cost of Risk per $1,000	Cost	Cost of Risk per $1,000	Cost	Cost of Risk per $1,000	Cost	Cost of Risk per $1,000	Cost	Cost of Risk per $1,000
Administration	10,178,416	0.80	12,675,720	0.97	12,574,542	0.90	12,505,318	0.85	12,804,245	0.84
Safety	30,936,000	2.43	31,556,000	2.40	29,263,000	2.11	28,179,000	1.93	28,742,580	1.90
Workers' Comp.	179,901,966	14.16	233,784,130	17.79	292,275,034	21.05	310,442,446	21.22	340,359,430	22.46
General Liability	20,322,261	1.60	22,422,844	1.71	23,500,835	1.69	19,547,112	1.34	20,715,854	1.37
Empl. Prac. Liab.	47,910,700	3.77	43,508,371	3.31	43,623,804	3.14	31,346,211	2.14	31,195,535	2.06
Auto Liability	5,674,833	0.45	4,225,117	0.33	5,612,056	0.40	4,465,628	0.31	4,450,771	0.29
Professional Liab.	142,060,672	11.18	161,527,348	12.30	158,771,557	11.43	147,957,061	10.13	149,434,071	9.86
Property	2,683,010	0.21	3,937,092	0.30	9,204,993	0.67	8,735,168	0.60	4,671,422	0.31
Other Insurance	2,356,109	0.18	2,375,801	0.18	4,573,952	0.32	3,747,360	0.26	4,284,205	0.29
Cost of Risk	442,024,017	34.78	516,012,423	39.29	579,399,773	41.71	566,925,304	38.78	596,658,113	39.38

Cost of Risk Benchmarking

The best benchmarking practice for UC is to track against its own performance and look for consistent, quantifiable improvements year over year. Additionally, UC will participate on a go-forward basis in the Cost of Risk Study, which is a nationwide report sponsored by the Risk Insurance Management Society[2]. This study will allow us to benchmark our performance against other agencies on the basis of cost of risk.

Risk Services Team Focused on Reducing the Cost of Risk

Risk Services has a vision to create a transformation model for the management of risk at UC, a model that will align the risk management strategy to the UC's Mission. This is focused on reducing the cost of risk by harnessing the talent and aptitude of the local Campus Risk Managers, Medical Center Risk Managers, Workers Compensation Managers, General Counsel, Environmental Health and Safety Directors, Occupational Health Clinic Practitioners, and others.

[2] http://www.rims.org/

A ***Risk Summit*** was held in March of 2005 in San Diego wherein 143 attendees were given the mission to reduce the cost of risk by 15% in 24 months. Ten work teams were formed to strategically address issues that are impacting the Cost of Risk.

Work Teams:	**Goal:**	**Deliverables:**
Ergonomics	Identify best practices for reducing repetitive injuries resulting from materials handling within the University of California and methods to transfer best practices.	Provide recommendations to Environmental Health & Safety Directors, Risk Managers, and Senior Management at all locations.
Foreign Travel	Manage the risk of travel by promoting safety protocols.	Develop addendum to travel policy that provides universal guidelines for faculty, staff and students.
Loss Prevention	Develop action plan.	Prepare report evaluating how safety and loss prevention can be incorporated into job performance reviews.
Professional Liability Benchmarking	Identify types of critical information, audience, and report format for the Professional Medical and Hospital Liability Program.	Produce reports for posting on Intranet (password protected).
General Liability Benchmarking	Identify types of critical information, audience, and report format for the General Liability & Employment Liability Programs.	Produce reports for posting on Intranet (password protected).
Workers' Compensation Benchmarking	Identify types of critical information, audience, and report format for the Workers' Compensation Program.	Produce reports for posting on Intranet (password protected).
Partnerships in Prevention	Identify critical points of partnership for Environmental Health & Safety and Workers' Compensation Managers for each location.	Develop safety campaign with at least 3 low cost communication pieces for use throughout the system that can be co-promoted by Environmental Health & Safety and Workers' Compensation Managers.
Return to Work Accommodations	Identify successful methods for overcoming department resistance to making accommodations.	Produce sample modified duty job analysis. Publish samples on intranet with work group findings.
Key Performance Indicators	Identify top 5 steps to establishing a culture of accountability.	Develop Key Performance Indicators recommendation report.
Enterprise Risk Management – Risk Information System	To gather information over the next 6 months on what "homegrown" database systems are in use by all managers of Risk.	Provide information developed to the University of California Office of the President, the Office of the President Risk Services, and the Consultant at AON who is evaluating Risk Management Information System needs.

IV. Enhanced Program Management

Workers' Compensation Program

Financial Highlights (in thousands of dollars)	2003	2004	2005
Claims Paid	78,827	80,293	71,379
Total Retained Claims Liability	278,392	353,151	346,500

Program deficits can and have occurred as a result of increasing actuarial loss projections that result in inadequate accruals from the campuses and medical centers. The occurrence of increasing workers' compensation costs and respective loss projections affected employers throughout the State over the last several years. This increase in costs was a result of legislation and increased benefit costs.

Our actuaries are projecting, at a conservative 75% confidence level, that the University's deficit is likely to go from the 02/03 deficit of $119 million to a deficit of $27 million by June of 2007 as a result of the initiative described in this report and reduced medical costs as a result of legislative reform. We anticipate that the program deficit will be significantly reduced or eliminated by the end of calendar year 2007 as a result of corrective legislation and initiatives that have recently been put in place.

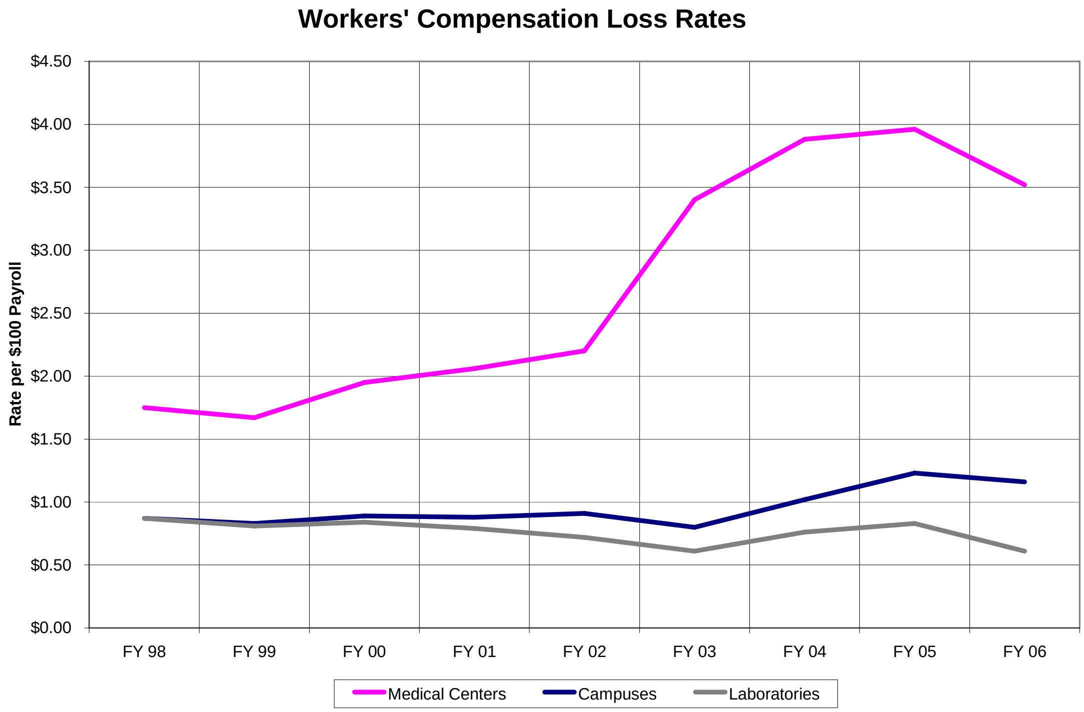
During FY '04, we reported a leveling of workers' compensation costs which had been subject to significant cost increases in each year since the early 1990s. Now, at the end of FY '05, the University is beginning to realize cost reductions due to enhancements made at all levels of the University's program during FY '04 and program changes made to optimize cost reductions afforded by 2003 and 2004 workers' compensation legislation.

Most importantly, attributable to additional opportunities identified during FY '05, we can anticipate further enhancements and cost reductions over the next several years. In February of 2005, the Office of Risk Services developed its overall objective to reduce the cost of risk by 15% over the following two fiscal years. As the workers' compensation program represents more that 50% of those costs, it will need to achieve at least a 15% reduction for the University to achieve its overall risk management objective. To accomplish this, we have introduced a number of initiatives to:

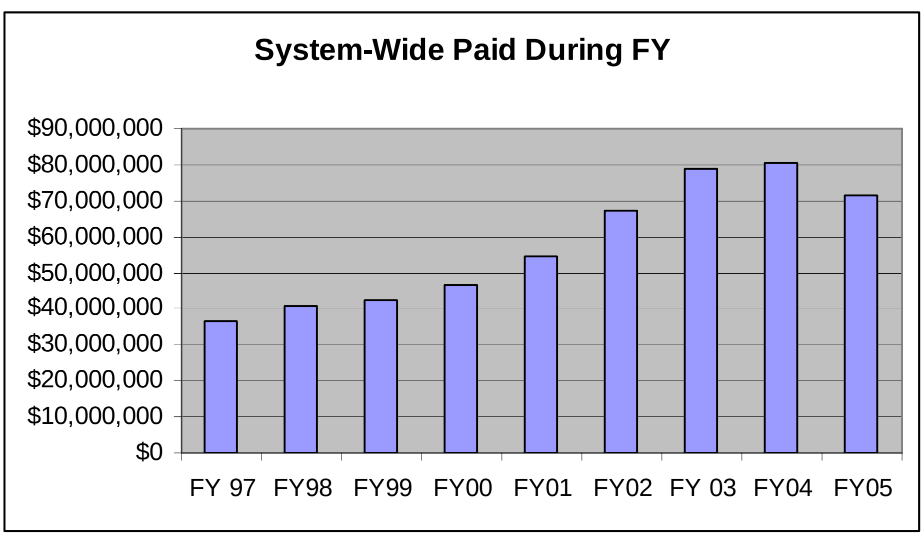
- enhance injury prevention efforts throughout the University system;
- reduce outstanding workers' compensation liabilities, thereby enabling a redirection of funds to the University's mission of education, research, and public service (refer to FY '05 and '06 initiatives below); and
- extend optimum medical treatment to injured employees to enhance physical recoveries, reduce medical costs, and improve employee productivity.

Cost Improvements Achieved During FY '05

Costs associated with the University's workers' compensation program began to level in FY '04 and trend downward in FY '05. The nature of this positive trend is attributable to efforts identified in the section above, and can be measured in two ways. The following graphs depict key trends in the University's Workers' Compensation program.



The higher medical center rates reflect the greater injury exposures at those facilities. This is because medical center jobs, on the whole, are much more labor-intensive.



Initiatives for FY ’05 and FY ’06 to Achieve Program Objectives

- Reduce Outstanding Workers’ Compensation Liabilities – During early 2005, the University embarked on an effort to reduce outstanding workers’ compensation liabilities. Toward this end, Risk Services is undertaking the following initiatives:

  Implementation of New Settlement Strategy – Effective February of 2005, Risk Services instructed our third party claims administrator to resolve claims by final settlement, wherever possible. Historically, the University has resolved only the indemnity exposure on claims wherein claimants remained active employees of the University, thereby leaving reserves on claims to pay for ongoing medical costs. Future settlement efforts will seek to close out all future exposures.

  Accelerated Claims Closure Project – The University’s insurance broker and consultant, AON, has been commissioned to work directly with our third party claims administrator to finalize and settle open claims that account for a major portion of outstanding liabilities. This effort will extend through FY ’06.

  Utilization Review on Future Medical Claims – Recent legislation enables employers to require medical providers to conform to scientifically-based medical treatment guidelines. Prior to this, employers were left largely to the mercy of medical provider treatment recommendations. Accordingly, the University’s third party claims administrator is requiring that all medical treatment conform to the new standard. This effort is resulting in reduced future liability for medical costs and is enhancing the University’s ability to settle claims with future medical exposure.

  Change in Incident/First-Aid Practices – The University, with the cooperation of its medical providers, has initiated an effort to reduce the number of industrial injuries that result in outright claims by appropriately identifying first-aid incidents as such.

- Enhance Medical Services to Injured Workers and the University – Commencing with a Risk Summit held in San Diego during March of 2005, Risk Services is undertaking an effort to bring our primary care/occupational health physicians and clinicians in line with the University’s injury management and cost reduction efforts. The following initiatives are underway:

  Best Practices/Services Agreement with Primary Care Physicians –The University contracted with an independent occupational healthcare physician/consultant to evaluate the medical services provided to each University location and work with those locations to implement the consultant’s recommendations. The collective objectives are to improve level of treatment, reduce the duration of disability from the workplace, retain control of medical treatment, and reduce costs associated with medical treatment and injured worker benefits. This effort has culminated in the development of “Case Management Guidelines for Occupational Health Providers”.

  Provision of Occupational Health System Software to Primary Care/Occupational Health Providers – Risk Services is working with our primary health providers to improve the efficiency of occupational clinics serving the University. Many such clinics lack up-to-date software that can improve communications and office efficiencies and reduce costs. In a collective effort, two systems have been identified and will be made available, inclusive of training, to our occupational clinics.

Provision of Impairment Rating Training, Certification, and Software – Permanent Disability benefits are awarded to injured workers determined to have sustained permanent residual disability resulting from an industrial injury. The level of disability and associated costs are determined by physicians. Historically, the rules surrounding such medical determinations were largely subjective, encouraged litigation, and resulted in high costs. With the enactment of SB 899, California has adopted a much more objective system of determining physical impairment by adopting the AMA Guidelines that are employed by most other states. Risk Services is providing our occupational health providers with training, certification, and software that will enable them to assess disability on the University's behalf.

Managed Provider Network – With the passage of SB 899, employers are able to establish State-approved medical networks within which employees must treat, unless they have pre-designated a personal physician. The University's application for such a network has been approved by the Department of Industrial Relations allowing UC to implement a network and control our claims cost more effectively. We expect the network will be implemented by mid-FY '06.

Professional Medical & Hospital Liability Program

Financial Highlights (in thousands of dollars)	2003	2004	2005
Claims Paid	40,372	40,485	48,963
Total Retained Claims Liability	168,818	158,958	154,357

The University's Professional Medical & Hospital Liability Program continues to experience reductions in the number of claims that are presented on an annual basis by 7.47% in FY '04 – '05 and 22% between FY '02 and FY '05. Interestingly, during our renewal meetings with underwriters, a national reduction in medical malpractice claims was noted by the insurers. Additionally, the projected actuary funding needs for occurrences expected during Fiscal Year 2006 decreased 10% system-wide based on the actuary findings using reserves as of June 30, 2004.

Despite these positive program results, there is continued pressure on claim costs due to plaintiff attorneys trying to circumvent the limits imposed on damages by the Medical Injury Compensation Reform Act (MICRA) by making allegations that are not covered by that statute, such as Elder and Dependent Adult Abuse Act allegations. While the University has been successful in defending against these allegations, there is increased cost of defense associated with such multiple allegations being made in medical malpractice cases. Also, the increasing costs of the components of damages in malpractice cases, that is, future healthcare costs, future wage loss, and the cost to purchase annuities to fund future periodic payments for these damages are contributing to higher settlements.

To achieve future program cost reductions we are focusing on the following initiatives:

- **Early claim investigation and resolution** – The University's philosophy has always been early identification of exposures, investigation, and timely resolution as appropriate to the matter. We are, however, increasing the emphasis on early investigation to ensure we are timely recognizing the exposure to the University and optimizing our ability to favorably resolve the matter – either through dismissals of cases of no liability exposure or through settlement of liability cases.
- **Improved claim reserving practices –** Efforts are being made to ensure that we are establishing an appropriate reserve for both defense and indemnity costs as early as possible. Improved early investigation and evaluation of defense costs is the key to success. Octagon Risk Services, Inc, the Program's Third Party Administrator is focusing discussion with the claims account representatives to ensure we are recognizing the University's liability exposure as quickly as possible.
- **Increased efficiency in legal defense of cases –** The Office of General Counsel recently recruited an experienced medical malpractice litigation attorney to partner with the Office of the President, Department of Risk Services (OPRS) in the management of the medical malpractice cases and to provide oversight of the outside defense counsel. This recruitment fills a position that has been vacant since December 2004 and is expected to assist in developing improved efficiencies in the defense of our medical malpractice cases.
- **Loss prevention** - The focus of OPRS will be increasingly on loss prevention activities in an effort to minimize our future exposures.

The program scope is anticipated to broaden in the future. The program is considering providing limited legal representation to clinicians being investigated by the California licensing bodies. The program is also assuming management of unfunded liabilities arising from injuries to research subjects in situations where there is no negligence. This program is in support of the University's policy of ensuring that research subjects do not incur out of pocket expenses for injuries sustained during participation in clinical trials. Finally, the program is in the process of divesting itself of old cases in which the University retained the risks through self-funding annuities by purchasing annuities through the commercial life market.

Program Achievements during FY '05

In Fiscal Year 2005 the Professional Medical and Hospital Liability Program focused on timely case closures. As a result, as of June 30, 2005 less than 800 cases were open in the program. The Program has also worked to develop improved reporting to University leadership to keep them informed about University program experience.

Last year OPRS purchased subscriptions to ECRI Corporation Healthcare Risk Control for each medical center risk management office. This loss prevention resource was made available to the medical centers as part of the loss prevention initiatives.

http://www.ecri.org/Products_and_Services/Membership_Programs/Healthcare_Risk_Control_System/Default.aspx

Initiatives for FY ’05 and FY ’06 to Achieve Program Objectives

- Reduce Outstanding Professional Medical & Hospital Liabilities

  Investigate cases expeditiously

  Resolve and close cases timely

  Timely and accurately identify University financial exposure through effective reserving practices

- Enhance Training

  Develop and implement training programs for loss prevention

  Develop defense counsel training program to improve program efficiencies

- Develop, as appropriate, program provision of legal counsel for limited California licensing board coverage

- Develop and implement program management of unfunded medical expenses incurred by clinical research subjects

General Liability Program

Financial Highlights (in thousands of dollars)	2003	2004	2005
Claims Paid	13,492	14,716	12,430
Total Retained Claims Liability	54,991	41,194	42,214

To support a reduction in the cost of risk for the general liability program, we have introduced a number of initiatives to:

- enhance loss prevention efforts throughout the University system;
- seek the most efficient method of resolving outstanding claim liabilities, thereby enabling a redirection of funds to the University’s mission of education, research, and public service; and
- extend coverage in areas that have historically not been covered (e.g., certain student claims and employment practices agency claims).

The General Liability Program involves managing losses that can arise in three areas: auto liability, employment practices liability, and general liability (e.g., slip and falls). During FY ’04, we reported a continuing decrease in the number of claims and the amount paid to resolve these types of claims and, for the first time in over 7 years, the general liability program recognized a small surplus. As a result, we were able to suspend payments to the previous deficit during FY ’05 and are hopeful we can do so in FY ’06. While we have seen the number of claims decline, there has been an increase in the Total Retained Claims Liability on general liability program cases as noted in the chart above. That increase can be attributed to one large verdict on an employment practices claim in Southern California and an increase in reserves for the claims arising out of the Willed Body Programs.

Over the past few years we have attributed some of the decline in the number of claims and their costs to claims handling efficiencies put into place by our third-party administrator, Sedgwick CMS. Sedgwick has been successful in implementing early response claims handling processes which has allowed us to quickly close claims and continue to vigorously defend those which we feel have no merit.

Cost Improvements Achieved During FY ’05

- Loss frequency reduction: 16.2% reduction in claims made from year end 2001 to fiscal year end 2005 and 15.2% reduction in claims frequency for FY ’04-’05.

  Litigated case reduction: 40.3% reduction in litigated claims from year end 2001 to fiscal year end 2005 and 4.7% reduction for FY ’04-’05.

Initiatives for FY ’05 and FY ’06 to Achieve Program Objectives

- Enhance and extend coverage within the various disciplines

  Develop a mechanism to cover historically unfunded liability for the University’s sports club programs

  Develop a program that addresses historically unfunded liability for the employment practices agency claims

  Review and change Business and Finance bulletins to be consistent with the excess insurance policies

- Increased efficiency in legal defense of cases – The Office of General Counsel is recruiting an experienced general liability litigation attorney to partner with the Office of the President, Department of Risk Services (OPRS) in the management of general liability cases which will include comprehensive review of insurance, indemnification, and other issues that arise pertaining to the General Liability Program.

Property Program

Financial Highlights (in thousands of dollars)	2003	2004	2005
Claims Paid	6,571	1,467	7,749
Total Retained Claims Liability	8,241	15,306	11,422

During FY ’06, Risk Services will expand the role of Sedgwick CMS and seek their assistance with the effective management of the property program. Losses in the property program, with over $38 billion in assets, have historically been managed and adjudicated at the campus level. Although our losses have been few, a standardized approach to property claims handling with the aggressive pursuit of subrogation potential is expected to bring us better recoveries and a level of expertise that has not always been present. Sedgwick CMS has agreed to be our partner in this process. The property program has incurred some significant fire losses in the past few years at Santa Cruz’s Sinsheimer Lab, UC Irvine’s Reines Hall, UC Riverside’s Lothian Hall, and a county-wide fire in San Diego causing smoke damage to the campus and medical center, fire damage to Elliot Field Station and SCRIPPS Ranch Seismic Station. These major fire losses contributed to the increase in the Total Retained Claims Liability.

Initiatives for FY ’05 and FY ’06 to Achieve Program Objectives

- Restructure the handling of property claims

    Outsource claims handling to Sedgwick CMS

    Aggressively pursue the recovery from parties who damage University property

    Move the claim reporting feature to Sedgwick’s JURIS system which will allow for more timely reporting of claims and better source data for finding the root cause of a loss

    Strengthen OPRS management and oversight of the property program

    Examine and implement a “Best Practices” approach for minimizing loss to University property

V. Risk Financing Strategy

Our strategy is to mitigate risks whenever possible. Many of UC's hazard and operational risks are insured at a catastrophic level; however, insurance in and of itself is not a mitigation strategy, it is a financial strategy. If normal business practices and loss prevention and control programs will eliminate the possibility of an adverse event, or reduce to an acceptable level the cost of an adverse event, then purchasing insurance may not be the best way to mitigate the risk. Recognizing that the University of California is exposed to various property and liability risks which may be insured or not insured, in whole or in part, it is University policy with respect to the management of such risks is to:

- evaluate risk primarily from the standpoint of the entire University, rather than a single campus or department;
- eliminate or modify conditions and practices, whenever practical, which may cause loss;
- assume risks whenever the amount of potential loss would not significantly affect the University-wide financial position; and
- insure risks whenever the amount of potential loss would be significant *(note: a Risk Bearing Capacity Study is currently underway to assist in determining what measure of risk exposure would best define a "significant" risk).*

The Risk Services Department participated in the Hazard Vulnerability Assessment (HVA) process. A report was completed under the direction of the systemwide Safety, Security, and Anti-Terrorism (SSAT) Committee. It reviewed goals and objectives for both the SSAT Committee and the HVA Initiative, provided an overview of the campus risk assessment process, summarized the system-wide hazard vulnerability assessment findings, and made recommendations for University-wide risk reduction and mitigation strategies.

The HVA was extremely helpful this year in evaluating types of insurance to purchase and at what level of coverage. For example, as a result of the HVA, we were able to purchase Terrorism coverage which includes catastrophic coverage for domestic and foreign terrorism, providing coverage for both bodily injury and property damage. This type of coverage had previously been difficult to place, but because of the information collected in the HVA we were able to obtain a policy that is appropriate considering our exposure.

By self-insuring risk, the University can exert direct control over program costs through retention of premiums, development of loss prevention and control programs, and claims management.

Insurance Renewal Highlights

Overview

- ➢ Two major programs, property and general liability/professional liability (GL/PL), renewed July 1st.
- ➢ Marketing efforts were increased with 50% more markets being reached than in previous years.

- We are currently working on preparing a Risk Bearing Capacity Study and a Captive Feasibility Study which will assist us in developing a long term strategy for our insurance and self-funding programs at UC.

Property

- Retention was increased from $2.5 million to $7.5 million. An analysis of losses relative to premium payments and claims paid by excess carriers supports this decision. Premiums paid in a 10-year period exceed claims paid in the excess layers by a ratio of twelve to one.
- Terrorism coverage was purchased with a $2.5 million self-insured retention and $100 million in coverage limits. It includes coverage for bodily injury and property damage for both domestic and foreign terrorism.
- The overall savings on the core property premium is 34% at approximately $3.1 million which is a $1.7 million reduction.
- Other lines of coverage (e.g., fine arts, boiler, crime, etc.) are all renewing with final savings to be determined.
- The species policy for fine arts was renewed at $1.1 billion in coverage which is lower than the previous year ($2 billion) due to capacity in the fine arts market being limited.
- The exposure (property value) increased by 15%.

General and Professional Liability

- Some markets declined to quote on any line of coverage and some markets declined to quote on general liability. This is not unique to UC.
- Quotes were obtained for multi-year options as well as separate quotes on general liability and professional liability, but none of these programs had enough reward (price reduction) relative to the increased risk (retention). We will be studying the feasibility of alternative insuring schemes, including captives, for this and other risk exposures going forward.
- Coverage was expanded to include Managed Care liability.
- Coverage was expanded to include Human Subject injury for non-patient claimants.
- The pricing on the premium for GL/PL is $30,000 less than the previous year at approximately $6.2 million.

VI. Prevention and Loss Control

We are dedicating significant time and resources to loss prevention as this is the best practice in managing our risk and protecting our faculty, staff, students, and the public that we serve.

- Funded over two million in loss prevention and loss reduction efforts at the campuses and medical centers resulting in reduced loss time claims and reduced cost of claims
- As of July 2005, Environmental Health and Safety at OP is teamed with the Risk Services Department and is working on supporting a variety of centralized and local loss prevention and loss control efforts including implementing a Safety Program at the Office of the President: ***"Be Smart About Safety"***

Loss Prevention and Reduction Efforts

Campus	**Description**
UC Davis Medical Center	Fund ergonomic specialist and purchase of ergonomic equipment. Fund lift team and equipment.
UC Irvine	Promote the health and safety of people at work through injury prevention, disability management, & return-to-work efforts.
UC Irvine Medical Center	Create low lift/no lift environment for clinical personnel.
UC Los Angeles	Supplement EH&S loss prevention efforts with safety training "with the intent to prevent," directed specifically to reducing the frequency of employee work-related injuries.
UC Los Angeles Medical Center	Implement 24/7 lift team program. Provide ergonomic training and equipment. Hire accident investigator to identify root causes of injuries. Expand return-to-work coverage.
UC Riverside	Prevent or reduce injuries through safe work practices and pre-employment physicals. Promote manager and employee accountability, especially in high-risk occupations.
UC San Diego	Enhance return-to-work program, expand ergonomic evaluations, pilot early-intervention injury treatment program, and investigate injuries promptly to avoid recurrence.
UC San Diego Medical Center	Fund ergonomic specialist and ergonomic equipment. Fund lift team equipment.
UC San Francisco Medical Center	Promote use of lift-assist equipment in everyday tasks. Provide ergonomic evaluations and equipment.
UC Santa Barbara	Promote "safety culture" through training in safe working practices, injury prevention, and wellness activities. Investigate injuries immediately.
UC Santa Cruz	Support safety & injury-management infrastructure for training and outreach.

Environmental Health and Safety (EH&S) Program

- During Calendar Year (CY) 2004[3] the system-wide averages in almost all areas of Cal/OSHA reporting decreased. For example, the restricted days rate dropped from

[3] All EH&S statistics are calculated on a CY (calendar year) basis to ensure alignment with Cal/OSHA and EPA reporting and recording requirements.

35.5 to 32.7, the lost days rate from 26.8 to 24.6, the lost days number of cases from .79 to .63, and the overall performance index from 69.9 to 63.2. Although some of these were small gains, they are considerable improvements and constituted a reversal of trends from the past year when almost all rates increased. With the increased emphasis and availability of loss prevention funding through the former Deficit Deferral and the new “Be Smart About Safety” program these numbers should continue to trend in a positive direction.

- The EH&S departments at the campuses will continue to use the additional opportunities from increased loss prevention funding to identify new areas for cost reduction and aggressive loss prevention efforts. The Risk Services goal of 15% reduction in the cost of risk in the next two years is very achievable as long as the emphasis remains on loss prevention. Preventing the occurrence in the first place is much more cost-effective than trying to control its cost after it has occurred.

Cost Improvements Achieved During CY ’05

- Reduce frequency of injury accidents by continued emphasis on prevention.
- Increase use of EH&S task-specific workgroups to identify problem areas and recommend solutions.

Initiatives for CY ’06 to Achieve Program Objectives

- Safety communications initiative to emphasize the available resources to assist employees: “Be Smart About Safety”.
- Creation of new EH&S policy. Integrated Safety and Environmental Management (ISEM) streamline EH&S support and direct responsibility to the appropriate level.

Appendix A. University Risk Financing Policy

Approved January 16, 1970; revised September 22, 2005

1. Recognizing that the University of California is exposed to various property and liability risks which either may be insured or not insured, in whole or in part, it is University policy with respect to the financial management of such risks to:
   a. evaluate risk primarily from the standpoint of the entire University, rather than a single campus or department;
   b. eliminate or modify conditions and practices, whenever practical, which may cause loss;
   c. assume risks whenever the amount of potential loss would not significantly affect the University-wide financial position;
   d. insure risks whenever the amount of potential loss would be significant; and
   e. purchase insurance from whichever insurance carrier is deemed to be in the best interests of the University.

2. The President is assigned the authority and responsibility for:
   a. coordination of the University risk management program;
   b. purchase of all property and liability insurance, including selection of sources; and
   c. administering all University insurance programs.

3. In determining what constitutes a significant loss, the President will rely on a Biannual Risk Retention Study to determine the appropriate level of risk retention. Exceptions to these guidelines may be made by the President when:
   a. it is desirable to buy special services, such as inspection or claim adjustment services, in connection with insurance;
   b. insurance is required by law or contractual agreement;
   c. deductible insurance or non-insurance does not satisfy the test of economic feasibility;
   d. insurance is not available;
   e. insurance is not available on a financially sound basis;
   f. in the judgment of the President, an exception is deemed to be in the best interests of the University.

4. In purchasing insurance, the President will use the following guidelines:

   a. insurance negotiations will be conducted by a qualified broker on behalf of the University;

   b. selection will be based on quality of protection and services provided and the ultimate cost, in that order;

   c. the University will maintain a competitive atmosphere, but with continuity of relationships with insurance sources unless a significant reason for change exists.

Appendix B. Policy on Settlement of Claims and Litigation

Effective July 20, 2000

1. As used in this Policy, the following terms shall have the meaning specified:

   a. "Claim" shall refer to any demand for payment which is disputed in whole or in part and is made other than through litigation. Commercial negotiations to adjust amounts payable under a contract shall not be treated as "claims."

   b. "Litigation" shall refer to legal proceedings in the form of a lawsuit, arbitration proceeding, or internal or external administrative proceeding.

2. <u>Settlement Authority of the President</u>

   The President shall have authority to settle claims when the consideration paid or received by the University shall have a value not in excess of $100,000. Settlement of claims when the consideration paid or received by the University exceeds $50,000 shall require the concurrence of the General Counsel. Settlement of claims by the President shall be subject to appropriate funding.

3. <u>Settlement Authority of the General Counsel</u>

   The General Counsel shall have authority to settle claims and litigation when the consideration paid or received by the University shall have a value not in excess of $250,000. Settlement of claims or litigation by the General Counsel shall be subject to appropriate funding.

4. <u>Reporting of Settlement Actions</u>

   The following reports of settlement actions shall be submitted to The Regents:

   a. Annually by the President, all settlements of claims.

   b. At each regular meeting of The Regents by the General Counsel, all settlements of claims and litigation when the consideration paid or received by the University has a value between $50,000 and $250,000.

   c. At each regular meeting of the Regents by the General Counsel, all settlements of claims and litigation approved by the Chairman of the Board and the Chairman of the Committee on Finance pursuant to section 5.a. hereof.

5. Settlement Actions Reserved to The Regents

The following proposals for settlements of claims or litigation shall be submitted to the Chairman of the Board and the Chairman of the Committee on Finance or to The Regents for prior approval:

a. To the Chairman of the Board and the Chairman of the Committee on Finance, settlements when the consideration to be paid or to be received by the University has a value between $250,000 and $500,000.

b. To The Regents, settlements when the consideration to be paid or to be received by the University has a value in excess of $500,000.

c. To The Regents, settlements of any amount involving significant questions of University policy.

All settlement proposals shall be accompanied by the recommendation of the General Counsel and a statement of the applicable fund source.