University of California Office of the President
Department of Financial Management
Office of Risk Services

Annual Report FY 2009

Table of Contents

I. Introduction

The University's Risk Management Program continues to mature and become more strategic.

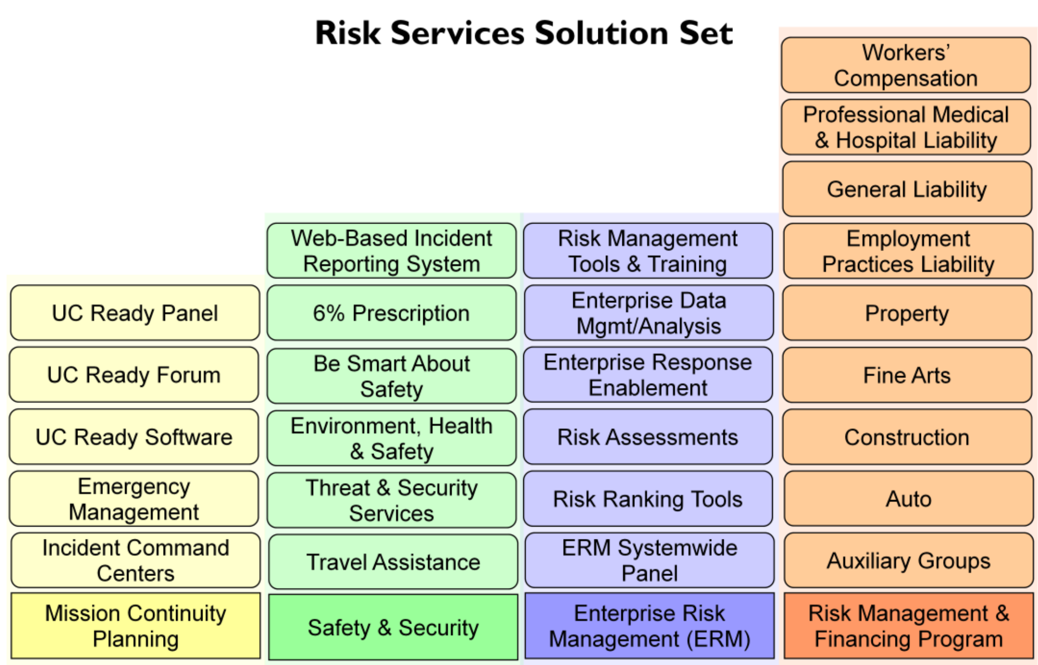
Major functions of the Office of Risk Services (OPRS) include:

- Developing and implementing Enterprise Risk Management (ERM) to identify risks and controls systemwide, resulting in reduced cost and efficiencies
- Identifying risk and developing strategies to minimize the impact of risk
- Developing a center of excellence for managing risk, drawing on the expertise of highly-skilled individuals throughout the University
- Reducing costs and improving safety by executing new ideas and strategic plans in a rapid manner
- Risk Services core responsibilities:
  - Provide claims management services
    - Workers' Compensation Program
    - Professional Medical & Hospital Liability Program
    - General Liability Program
    - Auto Program
    - Employment Practices Liability Program
    - Property Program
    - Fine Arts Program
    - Construction Program
  - Purchase insurance systemwide and develop alternative risk financing mechanisms (by self-insuring we save over $105.6 million each year when considering the cost of first-dollar coverage)
  - Develop loss control programs to reduce claims cost and provide leadership to Environmental Health & Safety (EH&S)
  - Emergency management and business continuity planning (UC Ready)
  - Enterprise Risk Management
  - Settlement of claims and litigation

Good risk management requires communication skills and an ability to establish close ties in many different parts of the organization. The traditional focus on organization-wide financial and hazard issues imparts an ability to understand how critical parts of the organization work on a detailed level.

To strengthen ties and improve communication, OPRS supports the systemwide Risk Management Leadership Council (RMLC), an organization composed of the senior Risk Management leadership from the UC campuses, medical facilities, Office of the President, and Agriculture and Natural Resources. The Council works in partnership with the UC leadership to articulate goals, strategies, priorities, and solutions that

Figure 1. Risk Services Solution Set



support the University missions of teaching, research, public service, and patient care. While respecting the essential independence of the individual UC entities, the Council seeks opportunities to address common Risk Management challenges and to advance the collective Risk Management priorities of its constituent organizations.

While there will always be a need for the functions of traditional risk management and progressive risk management, today's risk management programs must focus on the bigger need for strategic risk management.

II. Enterprise Risk Management

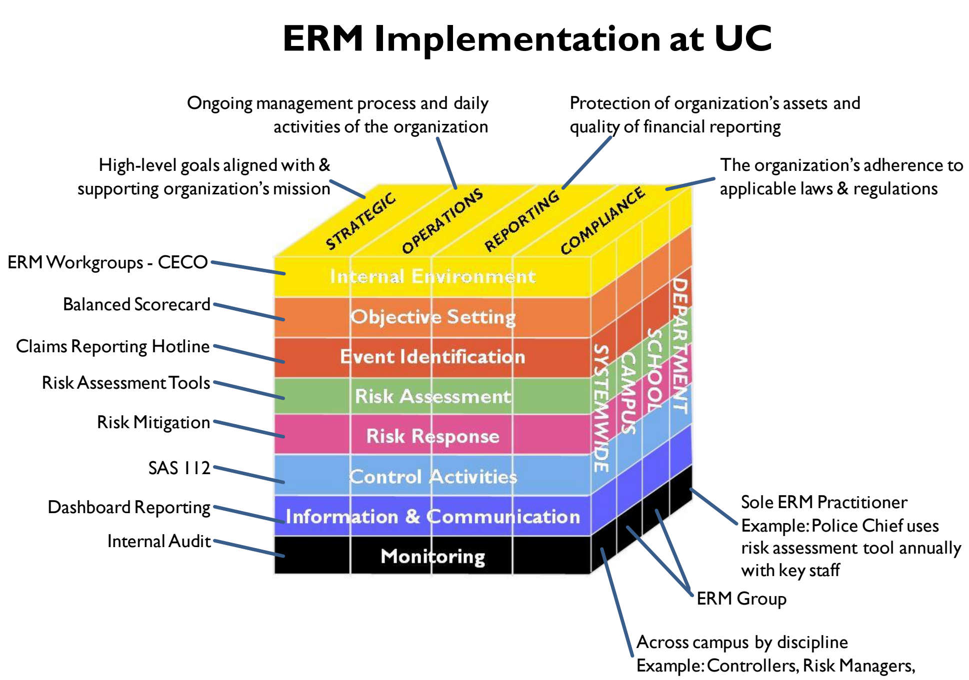
Since 1996, the University of California has been moving towards an enterprise approach to identifying and managing risk:

- The Regents adopt COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework (1996)
- Controller positions established at each campus and Agriculture and Natural Resources (ANR) (late 1990s)
- Several campuses and ANR develop ERM initiatives (2004–present)
- UC Chief Risk Officer established (December 2004)
- ERM Panel formed to develop an ERM strategy (June 2005)
- ERM meetings and interviews completed (October 2006)
- Systemwide ERM survey completed (February 2007)
- ERM Panels formed at most campuses and medical centers (August 2007)
- The Regents appoint Chief Compliance and Audit Officer (October 2007)
- Enterprise Risk Management Information System (ERMIS) launched (April 2009)
- ERM Maturity Model developed (June 2009)

To assist campuses, the Office of the President Risk Services website provides resources, reference materials, links to helpful websites, and a tool kit of sample forms and documents focused on ERM and Risk Assessment. Additionally, with the development of the UC Systemwide Ethics and Compliance Program, more resources will become available for assisting with identification, analysis, and mitigation of risks in regulatory and policy compliance.

The University is a complex organization with a seemingly never ending and always changing variety of risks. Implementation of ERM at UC requires a creative approach which includes delivering a variety of tools to the risk owners to enable them to

Figure 2. ERM Implementation at UC



better identify and manage their particular risk.

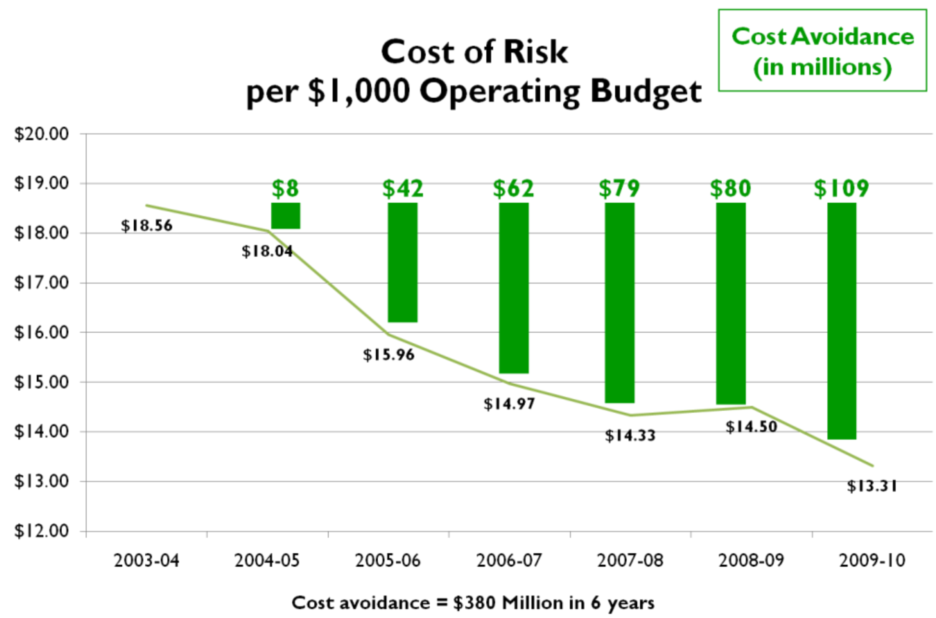
The foundation of UC's ERM program is the COSO ERM Framework and ERM Tools designed to be implemented at all levels of the UC organization: Medical Centers, Schools and campuses, System-wide, Department and Division and individual Levels. The Tools can be "no-tech", low-tech, or high-tech and can be used independently and inter-dependently. UC's ERM program is dynamic and continuously evolving with new Tools being developed, tested and implemented by various groups across the University. The diagram above provides a few examples of how the University is fulfilling the COSO ERM Framework.

III. Cost of Risk

The Cost of Risk includes self-insured losses for the Workers' Compensation, General Liability (including Auto, Employment and Property), and Professional Liability programs. Also included are all of the miscellaneous program costs and premiums, claims administration (OPRS: local and external), and safety (EH&S budget systemwide) and other expenses associated with UC's risk.

We are pleased to report that we continue to reduce our cost of risk, while at the same time expanding coverage and loss control and loss prevention services to the campuses, medical centers, national laboratory, and affiliated organizations (the foundations, alumni associations, and support groups).

Figure 3. Cost of Risk and Cost Avoidance



The cost of risk has decreased in the last three years as compared to the previous three years. Under this method, the average cost of risk for the entire system over the last three years was $14.22. Table 1 is a breakdown of the $14.22 cost of risk per operating budget.

Table 1. Breakdown of Cost of Risk – Based on Fiscal Year Paid Losses

	Last 3 Years – Total UC (2004-05, 2005-06, 2006-07)		
	Cost of Risk ($000)	Per $1,000 Budget	% of Total
Claims Administration	$104,715	$2.15	15%
Safety (EH&S Budget)	91,494	1.88	13%
Premiums	65,617	1.35	9%
GL Self-Insurance	73,742	1.51	11%
PL Self-Insurance	141,035	2.89	20%
WC Self-Insurance	216,736	4.45	31%
Grand Total	$693,340	$14.22	100%

IV. Cost Savings from Special Initiatives, 6/30/2006 to 6/30/2009

OPRS focuses on cost saving in all of our programs. Special initiatives are implemented to reduce costs in specific areas of risk. The initiatives listed in the table below were put in place at various times over the past three years.

Table 2. Cost Savings from Special Initiatives

Special Initiatives	(in thousands of dollars)		
Total Investment	**$13,717**	**Total Savings**	**$68,703**
Workers' Compensation Program			
• Accelerated Claims Closure	$6,900	• Accelerated Claims Closure – Based on claims closing below reserve	$33,200
• Permanent Disability Quality Assurance and 15% "swing" charge	$307	• Permanent Disability Quality Assurance and 15% "swing" charge	$4,100
• LLNL Liability Transfer[1]	$15	• LLNL Liability Transfer	$20,900
• TPA Contract	$0	• TPA savings	$3,900
Environmental Health & Safety			
• EH&S Staffing Stabilized	$0	• *Be Smart About Safety* at UCOP – Reduced claims and cost of claims[3]	$150
• Hazardous Materials	$0	• Disposal Contract Systemwide and savings through new requirements	$100
• Systemwide ergonomic contract	$250	• Systemwide On-line Ergonomics Training	$100
• CHWMEG[2]	$50	• Contract for Audit of TSDF[4] used by all UC sites	$50
Other Programs			
Auto Liability Property Program General Liability } Subrogation and Recovery[5]	$0	• Auto – Subrogation and recovery	$283
		• Property Program – Subrogation and recovery	$599
		• General Liability – Subrogation and recovery	$71
Professional Liability • High Reliability Surgical Team Project "Lifewings" • ELM online education program • *The 6% Prescription* Rebate Program	$6,195	• Professional Liability	$4,407
University-Controlled Insurance Program for Construction (UCIP)	$0	• UCIP	$843
Total Investment	**$13,717**	**Total Savings**	**$68,703**
	(in thousands of dollars)		

[1] Funds already in trust.
[2] CHWMEG, Inc. (www.chwmeg.org) is a non-profit trade association of manufacturing and other "industrial" companies interested in efficiently managing the waste management aspects of their environmental stewardship programs.
[3] In addition, savings improved compliance with OSHA regulations.
[4] Treatment Storage and Disposal Facility.
[5] Costs for recovery & subrogation are included in TPA contract.

V. Program Management

Workers' Compensation Program

In FY 09 the University's Workers' Compensation program continued to perform better than expected and remained in a surplus status for the fourth consecutive year. FY 09's Workers' Compensation program status allowed us to return a retrospective rebate of approximately $37 million to those locations experiencing a surplus status.

Several of our key indicators of program performance reveal:

- In FY 09 our overall paid amount went up slightly by $1,189,929 (1.7%) as compared to an increase of $1,300,481 (1.9%) in FY 08.
- In FY 09 our medical payments remained flat as compared to a 13.8% increase in FY 08.
- In FY 09 our TD payments decreased by $1,563,236 (13%) as compared to a $1,103,607 (10.1%) increase in FY 08
- In FY 09 our PD payments increased by $2,197,345 (14.28%) as compared to a $4,135,078 (21.2%) decrease in FY 08
- In FY 09 the system wide Workers' Compensation indicated accrual rate was 13% lower than it was in FY 08 ($1.00 and $1.15 respectively).

The above key indicators are largely affected by our ability to manage our new claims and existing indemnity claim inventory. As shown in Figure 5, in FY 09 we continued to realize a decrease in the number of new claims filed. New claims in FY 09 were down 8.8% from FY 08 and 31.2% from our high-water mark in FY 05.

As shown in Figure 4, in FY 09 we also continued to realize a decrease in our indemnity claim inventory. Our indemnity claim inventory was down by 5.8% from FY 08 and 44.7% from our high of 6,428 claims in FY 05.

Figure 4. WC Indemnity Inventory

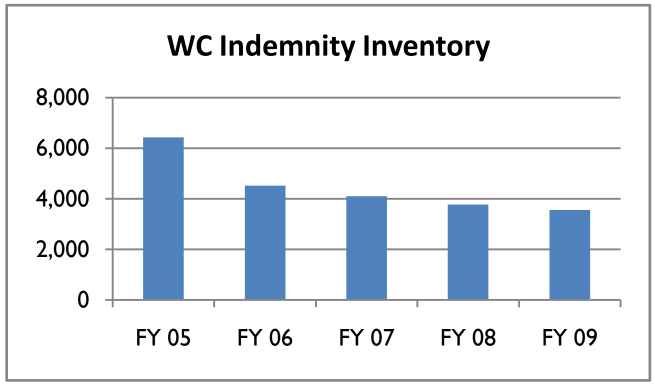
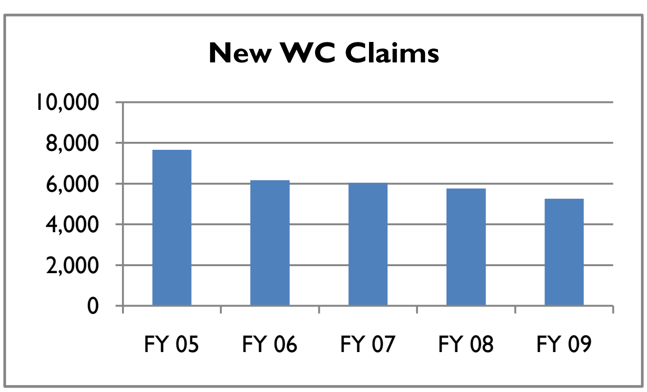


Figure 5. New WC Claims



The University's positive achievements are in large part the result of our continued investment and commitment to proactive loss prevention and loss mitigation programs. To this end, through the Be Smart About Safety program and their own capital investments, the campuses, medical centers and our national laboratory have employed numerous loss prevention and loss mitigation initiatives. In FY 09 $14.5 million of the available $15.3 million in Be Smart About Safety funding was approved and returned for campus and medical center use toward these initiatives. The Be Smart About Safety funding coupled with the reported additional retrospective rebate reinvestment of approximately $7 million and approximately $390,000 in approved deficit deferral programs, resulted in a total safety investment of over $21.9 million through the Workers' Compensation program.

Focus for FY 10 and beyond

Although our Workers' Compensation program has enjoyed several years of positive results, there are numerous pressures mounting that jeopardize our efforts to continually reduce our outstanding liability and the overall cost of this benefit. Uncertainty of case law regarding the American Medical Association guidelines can dramatically increase our permanent disability liability. Double-digit statewide Workers' Compensation medical benefit inflation threatens to increase our highest paid species of Workers' Compensation benefits. Potential Legislative changes that weaken the objectivity of this benefit will undoubtedly lead to increased expenses and overall costs. Reduced budgets and available resources endanger our ability to timely accommodate our injured employees which will increase our temporary disability exposure.

As always, we will continue to proactively evaluate changes in regulations, case law and our program status to develop appropriate responses to mitigate any potential negative effects. But these pressures underscore the importance of our need to continue to focus our efforts and investments in loss prevention. A reduction of losses mutes the potential effects these pressures can have on our program. An avoided loss is a loss not exposed to these pressures. Therefore, loss prevention must remain our primary focus for FY 10 as it is the single most effective tool we can rely on to continually control and reduce our Workers' Compensation liability.

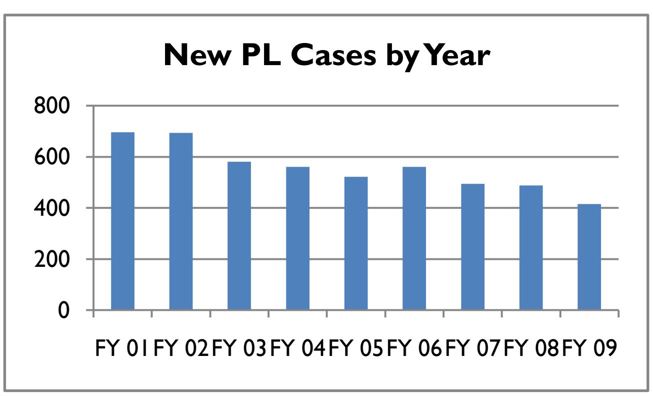
Professional Medical & Hospital Liability Program

Our excess insurer's reviews continue to find the cases to be managed "in a professional, even exemplary, manner."

Pressure on claim costs continues as plaintiff attorneys try to circumvent the limits imposed on damages by the Medical Injury Compensation Reform Act (MICRA) by making allegations not covered by that statute, such as Elder and Dependent Adult Abuse Act allegations. UC continues to be successful in defending against these allegations and in keeping defense costs contained. Increasing costs of damages components in malpractice cases (future healthcare costs, future wage loss, and cost to purchase annuities to fund future periodic payments for these damages) also contribute to higher settlements in individual cases and to pressure on funding for future losses. Due to the nature of Professional Liability losses, severity tends to fluctuate from year to year.

The 6% Prescription provides premium rebates to the UC Medical Centers and Schools of Medicine for loss prevention activities. OPRS continues to support crew resource management training, physician communication efforts, online education, product recall, and other initiatives to improve loss prevention.

Figure 6. New PL Cases by Year

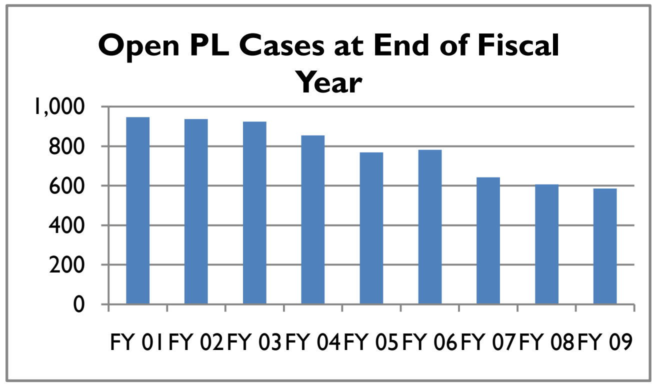


Program Activities During FY 09

- The number of cases presented annually (excluding licensing board actions) was 415, a decrease of 15% from the prior fiscal year, continuing the downward trend in case frequency; see Figure 6.
- Our continued focus on timely, efficient claims processing and case closures resulted in 585 cases (including deposition representation matters) open in the program as of June 30, 2009, a decrease of 3.51% in the number of open cases from the prior fiscal year end. Figure 7 reflects the continued reduction of open claims inventory.
- Marsh performed a review of risk operations at each UC medical center to identify opportunities for improvement and best practices.
- OPRS continues to focus on loss prevention, funding the purchase of "Professional Risk Management", a physician-aimed risk management newsletter, the ELM Exchange online risk management education program for all attendings and residents; and the ECRI Corporation Healthcare Risk Control for each medical center risk management office.
- The "High Reliability Surgical Team" initiative, a patient safety/loss prevention initiative aimed at improving communication among surgical teams, is using LifeWings Partners LLC – a team of physicians, nurses, pilots, former astronauts, physician executives, and insurance experts who have adapted, for use in healthcare, the same teamwork training concepts and safety tools that have made commercial aviation so safe and reliable. Training has occurred at all University medical centers for surgical services and is being expanded to other services in selected locations.

- A seminar for all defense counsel was held in October, 2008, to disseminate information regarding claims handling to all program attorneys, risk managers, and claims staff, with focused objectives on early investigation and efficient claims handling.
- The 6% Prescription Program provided 2% of premiums in grant funds for designated loss prevention initiatives. A system wide competition for 1% of the system premium was held and resulted in an award to UCSD for the best loss prevention initiative; information on their project was shared with all locations. Grant funds have been approved for a variety of loss prevention activities.

Figure 7. Open PL Cases at End of Fiscal Year



General Liability Program

The University's General Liability Program oversees four major lines of risk: General Liability, Employment Practices Liability, Property, and Auto Liability. Over the last fiscal year there has been a significant increase in both indemnity and expense payments of claims (see Figure 8). Two large auto claims were paid within the last fiscal year and substantial dollars were spent for the threat and security program. A general description of all General Liability programs can be found below.

Threat and Security

With the continued threats and attacks to the University relating to animal research, OPRS has elicited the assistance of security consultants in an effort to ensure the safety of our researchers, staff, students and the public from acts of domestic terrorism directed from animal research activists.

Campus Connexxions

With the assistance of the university's insurance broker, Marsh, a web portal has been launched that provides event liability insurance for the following groups:

- Foundations, Alumni & Supports Groups
- Registered Student Organizations
- Sports Clubs
- Outside vendors providing services to the University

All of these groups have had major losses that could affect the University's liability programs. Providing these groups with access to insurance gives the University a first line of defense when claims from their activities arise.

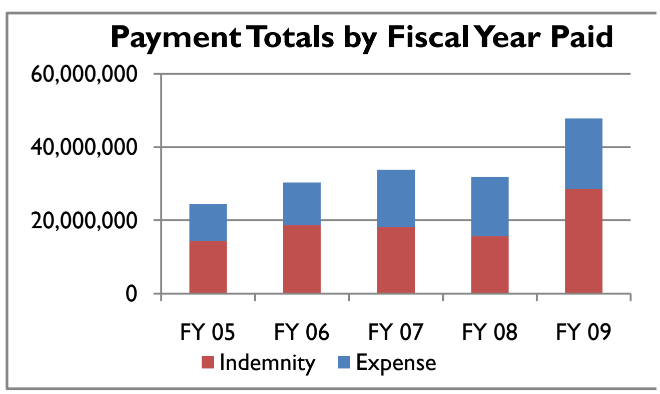
Travel Program

The Office of Risk Services has put in place programs to track University travelers and provide emergency medical, security and evacuation services to faculty, staff and students traveling on University business. With over 35,000 trips taken annually, it has become imperative to provide travelers with electronic safety alerts regarding their destinations.

Auto Program

The Auto Program oversees the risks and exposures that arise out of the fleets of vehicles operated at each location, including physical damage and 3rd party liability, as well as the non-owned 3rd party auto liability exposures relating to the operation of rental and personal vehicles in the course of University-related business. Each campus and

Figure 8. Payment Totals by Fiscal Year Paid



medical center has a variety of vehicle types, from low speed electric vehicles to shuttle van, buses, and larger commercial vehicles. Many of the locations have been initiating driver training programs and the Driver and Fleet Safety Workgroup under the sponsorship of the Risk Management Leadership Council has published a Driver Safety Training Program that outlines the standards and best practices of a driver safety program that can be utilized throughout the University system and help lower the cost of risk associated with the Auto Program. This will be rolled out this coming year.

Employment Practices Liability Program

The Employment Practices Liability program provides insurance, claims and loss prevention programs for risks and exposures in the area of employment and human resources. With over 190,000 employees spread amongst thousands of business and academic units, this is an area of risk that continues to grow and evolve, particularly in financial climates that result in staffing cuts and layoffs. A recent enhancement to this program is EPIC (Employment Practices Improvement Committee), which is a joint initiative between the Office of General Counsel, Office of Risk Services and Campus leaders to strategically address employment practices training needs for targeted departments.

Property Program

With 10 campuses, 5 medical centers and business and research being conducted all over the world, the University has a vast array of property exposures that are valued at over $45 Billion. The Property Program includes insurance programs, claims and loss prevention for physical property including buildings, facilities, equipment, fine arts and library collections, marine research and recreational vessels. OPRS has engaged brokers and insurance carriers to help develop and promote loss prevention education and awareness in these areas. One example of this is funding for Seismic Gas Shut Off Valves that was created with a premium rebate from FM Global, which is a mutual insurance company that provides our property coverage.

Be Smart About Safety

The Be Smart About Safety loss prevention program was expanded to the General Liability programs in FY 08. The locations have embraced this concept well and we have approved funding for driver training programs and materials, back up cameras and alarms, driver cameras, water leak detection equipment, seismic gas shut off valves, loss control and risk management staffing, maintenance, training and education/outreach programs, and more.

Fine Arts Program

UC owns, exhibits, borrows, and loans Fine Art and Library Collections. This includes a vast array of paintings, statues, textiles, film, books, and other items of historical significance. Some of these items and collections are very rare and valuable and as stewards of this property, there is a great effort on behalf of the Library, Museum, and Collections staff at each location to ensure that the items are protected and displayed in a manner to be preserved and protected. In an effort to assist and support the locations, the Risk Management Leadership Council sponsors a Fine Arts Workgroup to help with the risks and exposures that are involved in this area. The University also has brokers who specialize in this area who offer consultation and advice in the area of insurance and loss prevention.

Construction Program

The University of California generates one of the largest volumes of construction in the state. The Office of Risk Services provides oversight for construction-related insurances which are jointly administered by our office and the Capital Projects and Facilities, Design and Construction offices at each location.

Training sessions and loss control site visits continue at campus and medical center locations to maintain awareness and reduce the risk of loss.

The University’s Master Builder’s Risk program was renewed for a three year period with a 23-45% reduction in rates depending upon the construction type. The program continues to offer favorable rates over what a general contractor can provide and enables the University to secure better coverage at a lower cost.

The Office of Risk Services has been working on developing another master program, University Controlled Insurance Program (UCIP) which has the potential to save the University millions of dollars. Similar to the Master Builder’s Risk program, which has been in place since 1989, the University would secure the insurance for the entire construction project. This would include the General Liability, Excess Liability, and Workers' Compensation insurances for the general contractor and all sub-contractors. At inception of a project, the University can save up to 35% compared to the cost of contractor-provided insurance. The program will not only provide better coverage, but there is potential for additional savings at project close-out through an enhanced safety focus.

The University has already demonstrated success with this program concept. Table 3 shows a few projects that have utilized a similar program and achieved savings at project close-out.

Table 3. Cost Savings Achieved at Project Close-Out

	UC Davis		UC Berkeley		
	EB	SESP	CITRIS	DOE	EAL
Construction Value	$33,392,084	$233,521,989	$103,202,853	$43,499,143	$38,866,918
Fixed Premium	$505,868	$4,595,606	$1,303,161	$602,832	$588,666
Loss Aggregate Premium	$660,719	$4,985,908	$2,047,003	$987,549	$983,235
Total	$1,166,587	$9,581,514	$3,350,164	$1,590,381	$1,565,170
Status	Pending	Open	Open	Closed	Closed
Funds Returned at Project Closure	$439,346			$648,618	$194,628
Project Savings as a Percentage of Construction Value	1.31%			1.49%	0.50%

Loss Ratio Average For Program:	17.49%

VI. Prevention and Loss Control

In addition to our *Be Smart About Safety* program, OPRS is responsible for the following programs:

Emergency Management Program

The Emergency Management (EM) programs at the UC campuses and medical centers are staffed by multi-disciplinary personnel in public safety, EH&S, and independent emergency management offices. UC is one of only a few higher education institutions in the nation that have voluntarily adopted the comprehensive and widely endorsed National Standard on Disaster/Emergency Management (NFPA 1600) as its benchmark to self-assess its programs. Our annual Emergency Management Status Report can be found on the UC systemwide emergency management webpage at www.ucop.edu/facil/pd/emergprep/syswidemgt.html

In addition to overseeing and coordinating system-wide emergency preparedness and personnel, the OPRS Emergency Management program serves as UC's liaison to the State Office of Emergency Management (EMA) and serves on multiple state-wide planning committees. OPRS also staffs the UCOP Emergency Manager position and maintains the UCOP Emergency Operations Plan to support continuity of governance/operations of the University's senior executives.

To learn more, visit the UCOP emergency preparedness webpage at www.ucop.edu/facil/pd/emergprep/welcome.html

Environmental Due Diligence Program

OPRS manages the systemwide environmental due diligence program to assess and manage hazardous materials-related risks related to all University property transactions, including acquisitions, sales, and gifts/bequests of real property to both the Regents and Campus Foundations.

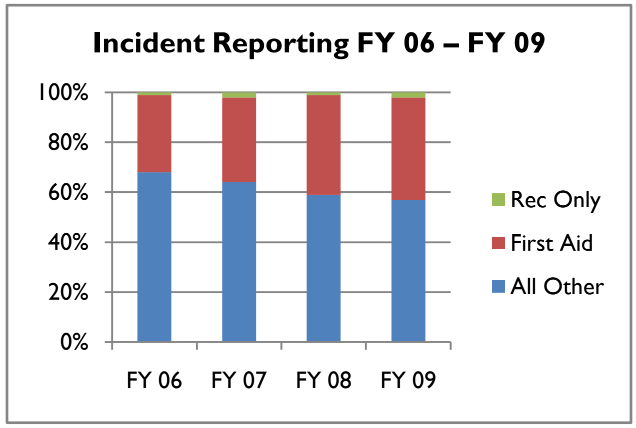
In FY 09, approximately twenty (20) environmental site assessment property investigations were conducted for campuses, foundations, and the Regents, resulting in significant environmental consultant cost savings. In addition, third-party and consultant site assessment reports were reviewed and evaluated, and technical advice was provided to systemwide real estate and legal personnel.

Incident Reporting

We are working to develop and implement a systemwide customized Event Reporting System (ERS). For safety and legal compliance purposes, the University requires that all incidents (aka "Events") be reported and reviewed. For maximum reporting and accurate data capture percentage, the ability to report needs to be made web-based, with easy access and user-friendly entry screens.

The ERS will be implemented as part of iVOS, which is currently used for claims administration by the University's third party administrator, Sedgwick CMS. When the project is complete, the iVOS database will be the end data capture repository of the entry data, for continued follow-up, reporting, and closure of the Event.

Figure 9. Incident Reporting FY 06 – FY 09



Continuity Planning and UC Ready

We are working to implement UC Ready, the award-winning business continuity planning program and software tool developed by UC Berkeley, which is being adopted by all campuses, medical centers, UCOP, and the Berkeley Laboratory. Continuity planning will ensure that UC's core critical functions will be recovered and restored quickly and efficiently following any major operational disruption. If UC is "event-ready", we will be more disaster-resilient.

Systemwide rollout and implementation of the complete program (software, UC Ready coordinators, support staff, training, etc.) began in 2009.

Environment, Health and Safety Programs

The Environment, Health and Safety (EH&S) offices support the mission of the University by providing comprehensive environmental protection, occupational health, and industrial safety expertise to the University community. EH&S enables the research and educational processes through training and consultation, facilitating loss prevention programs, and providing a framework for workplace hazard analysis and control. Each University EH&S Office is staffed with highly skilled personnel representing extensive multidisciplinary backgrounds. OPRS provides strategic guidance, leadership, and system wide coordination of resources to advance the goals of the University EH&S Offices. As part of the University's commitment to excellence in EH&S, OPRS is conducting a system wide review of the UC management system known as Integrated Safety and Environmental Management (ISEM). This review will be documented in a follow up report to President Yudof and the Regents.

Incident Reporting

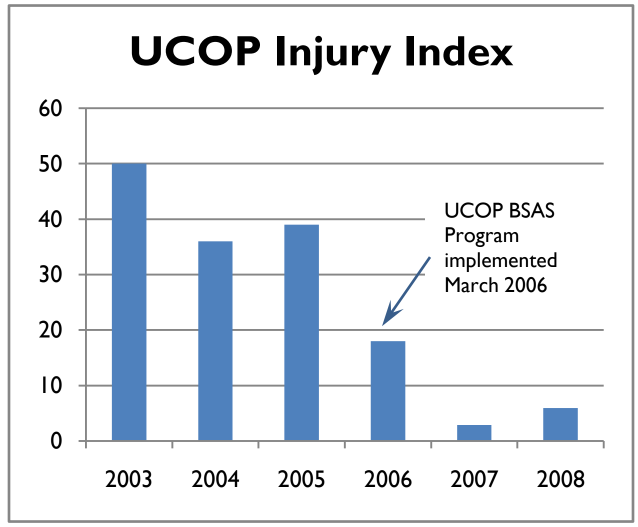
The OPRS web-based Incident Reporting System has been developed, tested, and currently being deployed across the University system. This tool was designed within iVOS and provides an easily accessible and user-friendly mechanism to gather consistent data for a broad spectrum of incidents including anonymous reporting of safety concerns or near misses. Immediately upon entry of an incident, key individuals known as "Gatekeepers" at each University location are notified allowing prompt review, follow up, and tracking to closure. The data is held in a central and secure repository in iVOS and if necessary, transferred into the claims system for timely processing.

UCOP Be Smart About Safety

The BSAS Program has been extremely successful in reducing the injury/illness rate at UCOP. Since implementation of the BSAS program in March 2006, the injury/illness rate decreased 85% by the end of the calendar year 2008. The injury/illness index is a rate relative to a specific location and not influenced by changes in the number of employees. The success of the program at UCOP can be tied to management support, a strong Department Safety Officer program, ongoing monthly safety training, and EH&S technical assistance to the Department Safety Officers. The BSAS program is tailored to meet the needs of the primarily administrative/office functions at UCOP and is now being promoted to the rest of the administrative/office across the University system.

For more details, see the "Environment, Health, and Safety" section of the Risk Services web page at www.ucop.edu/riskmgt/ehs/welcome.html.

Figure 10. Injury Index 2003-2008 (calendar years)



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. Settlement Authority of the President

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. Settlement Authority of the General Counsel

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. Reporting of Settlement Actions

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.

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.