University of California Office of the President

Department of Financial Management
Office of Risk Services
Annual Report FY 2007

I. Introduction

Because of the widely varied range of activities and programs inherent in the life of a university, managing risk in an academic setting presents unique challenges that are unlikely to be faced by companies in the private sector. The risk-related groups systemwide are dedicated to reducing the cost of risk throughout the University, and most importantly, creating a safe environment for our students, patients, employees, and visitors.

In March of 2005, at our annual Risk Summit, we set the goal of reducing the cost of risk by 15% in 24 months. At the time this seemed like a daunting task, but through teamwork and commitment to making rapid changes, we cut the cost of risk by 16% in only 18 months.

Of course, we would like to have all employees injury-free. By reinvesting savings in safety and loss prevention programs we can make even greater strides. Currently for fiscal year 2008, $15.3 million has been earmarked for *Be Smart About Safety* programs. The *Be Smart About Safety* program funds a wide variety of safety and loss prevention programs. The *Be Smart About Safety* program also encourages care for the environment. Recently, the Office of the President was honored for being the first educational institution in the state to partner with the California Department of Toxic Substance Control on their *Take-It-Back* program that encourages proper disposal of universal wastes such as used batteries, used cell phones, and mercury thermometers.

In addition to hazard risk, our new Enterprise Risk Management program looks to address all organizational risks, such as financial, strategic, reporting, and compliance. We are just getting our Enterprise Risk Management program off the ground, with Enterprise Risk Management groups forming at many locations and the development of a data warehouse system to provide business intelligence. This will allow us to better monitor our risk controls. As the University moves forward, the management of risk on an enterprise-wide basis will be critical to our success.

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
  - Develop loss control programs to reduce claims cost and provide leadership to Environmental Health & Safety (EH&S)
  - Settlement of claims and litigation (see Appendix B. Policy on Settlement of Claims and Litigation)

II. Executive Summary

Enterprise Risk Management (ERM)

The campuses and medical centers in the UC system operate with a high degree of autonomy, and ERM efforts have been locally driven in large part. Many of the campuses already have ERM groups in existence. At some locations, the groups were created as part of other, ongoing ERM activities; at others, existing groups or committees have expanded their charters and range of activities to incorporate their ERM efforts.

Cost of Risk/Cost Savings

By investing in a variety of initiatives across the areas of Risk Services responsibilities, we have achieved significant savings; the comparatively small investment of $9.61 million has resulted in savings to date of $101.54 million. The Cost of Risk is also markedly lower, having been reduced by 16% over the past 18 months.

Program Management – Workers' Compensation

As a result of our FY 06 surplus of $55.2 million, we were able to return a retrospective rebate of approximately $31.5 million to those locations experiencing a surplus status. While all locations are investing in safety through the *Be Smart About Safety* program, many of these locations are also reinvesting portions of their rebate in loss prevention and loss control programs which will help ensure continued positive results.

Program Management – Professional Medical & Hospital Liability

The number of open cases in the program has decreased by 17.90% from last year and by 32.13% since June 30, 2001. Last year the University's Professional Medical and Hospital Liability Program implemented a premium incentive program called *The 4% Prescription*, aimed at reducing claim frequency by increasing risk management education and loss prevention.

Program Management – General Liability

The number of general liability claims brought against the University has decreased over the past two years, but the cost of these claims has increased. OPRS works in partnership with many different groups throughout the system providing education and other resources to help reduce claims in this program.

Program Management – Automobile

Over the last five years our vehicle count has increased by about 900 vehicles. The Auto Liability Claims Paid was stable from 2006 to 2007; however, there have been some significant occurrences in the past year that have resulted in an increase in the Total Retained Claims Liability. In response to the increase in the number of Fleet vehicles and Auto claims, the Risk Management Leadership Council has formed a systemwide Driver and Vehicle Safety workgroup and has designated a Risk Manager as a liaison to the systemwide Fleet Managers Council.

Program Management – Employment Practices Liability

The number of employment practices claims brought against the University has remained relatively stable over the past four years, but the cost of litigating such claims has doubled. At the 2007 Risk Summit, OPRS rolled out a process for reviewing EPL claims after closure to prevent recurrence in the same department.

Program Management – Property

Since overhauling the Property Program in FY 06, the program has been successful in recovering over $3.3 million in subrogation and excess insurance.

UC has also purchased coverage through FM Global, a company which provides loss control and engineering services that will be of great value to the campuses and UC's Property Program.

Program Management – Fine Arts

The University purchases insurance to cover its multi-billion dollar holdings in fine arts and library materials, but such coverage is rising in cost while its availability decreases. OPRS will coordinate meetings with the Fine Arts insurance broker which will include tours of campus museums and meetings with campus risk and museum personnel to assist in developing best practices for Fine Arts exposures.

Program Management – Construction

Risk Services works with the Capital Projects and Facilities, Design, and Construction offices at each location to administer construction-related insurances and provide guidance in safety and loss control for each project. Through bulk purchasing and leveraging other lines of insurance purchased by the University, the systemwide Master Builder's risk program is able to provide rates more favorable than could be achieved if each project were treated individually.

Another method by which to save on insurance costs is through an Owner Controlled Insurance Program (OCIP). In addition to cost savings, additional benefits of an OCIP include consistency of insurance and dedicated limits provided on each project, enhanced safety and loss control, coordinated claims management, and minimization of litigation (subrogation and cross liability).

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. It is important to understand what insurance the University is **not** purchasing, but is generally commercially available. We are carefully looking at exposures that are uninsured and considering whether they can be most effectively addressed through the purchase of insurance, loss mitigation efforts, or a combination of the two.

Prevention and Loss Control

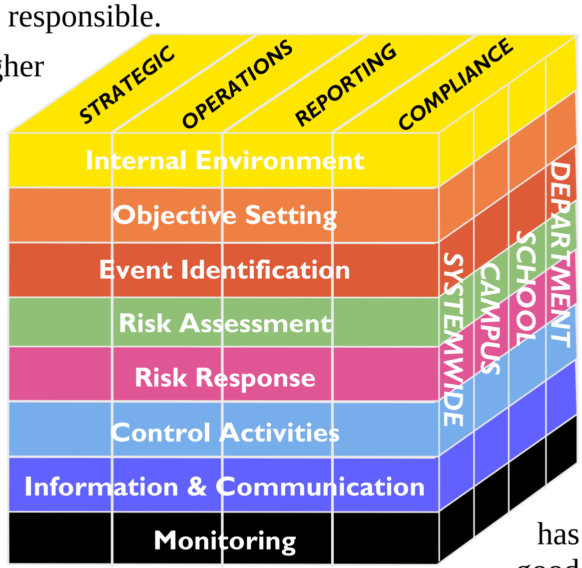
Through the new systemwide *Be Smart About Safety* program, Risk Services provides funding for new safety education and injury prevention programs at the campuses and medical centers. In its implementation at UCOP, the *Be Smart About Safety* program has trained more than 80% of UCOP employees, raised awareness of safety issues in the workplace, and resulted in UCOP having the lowest total loss index systemwide.

The Office of Risk Services sponsors a number of events and groups to support its initiatives and programs. These include the Risk Management Leadership Council, the annual Risk Summit, the annual EH&S Academy, coalitions which provide guidance and leadership in the area of risk, and the Environmental Health & Safety Leadership Council with multiple systemwide workgroups.

III. Enterprise Risk Management

Enterprise Risk Management (ERM) links institutional governance, risk management, and the University's strategic goals. Simply, it is a way to more effectively manage all of the risks that exist on a university campus, including traditional hazard risks as well as financial, operational, governance, and reputational risks. The more effectively risks are managed, the more savings, both direct and indirect, for an institution. ERM helps an institution to sustain its competitive advantage, solidify its integrity and reputation, respond effectively when a significant event occurs, avoid financial surprises, and effectively manage all of its resources. Further, instead of having only a few dedicated personnel managing traditional risks, ERM employs everyone on campus to manage those risks for which they are responsible.

As a leading institution of higher education and financial practices, the University of California is working to implement the ERM framework advocated by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



- ERM Panel formed in June of 2005 to develop an ERM strategy
- Review of current Risk Assessment efforts completed by Chief Risk Officer and presented to ERM Panel
- Request for Proposal issued; KPMG International selected as consultant to review existing programs and data and identify what components of the ERM Framework need to be improved on and what processes or programs may need to be implemented in order for UC to move forward with the implementation of ERM
- More than 20 meetings held with over 300 senior executives and key process owners at the campuses and medical centers and with 33 key process owners at UCOP; information gathered during these meetings being used to develop performance metrics and determine next steps in rolling out ERM systemwide
- Request for Proposal for ERM data warehouse issued; proposals received currently being reviewed
- Preliminary assessment of status of ERM efforts complete; report on moving forward with ERM program is under development

The campuses and medical centers in the UC system operate with a high degree of autonomy, and ERM efforts have been locally driven in large part. Eight locations have ERM groups in existence: UCB, UCD, UCI, UCLA, UCM, UCR, UCSB, and UCSDMC. At some locations, the groups were created as part of other, ongoing ERM activities; at other locations, existing groups or committees have expanded their charters and range of activities to incorporate their ERM efforts. The longest-standing group, at UC Davis, has existed since 2003 and is a good example of how such campus- and medical center-based groups can effectively address risk across the enterprise. The members of each location's ERM group come from multiple disciplines; at UC Davis the group is made up of representatives from more than a dozen different departments such as Risk Management, Materiel Management, Workers' Compensation, Environmental Health and Safety (EH&S), Internal Controls, Internal Audit, and the Controller's office. This facilitates sharing of cross-disciplinary expertise and gives all members of the group a more complete understanding of the risks faced that might prevent UC Davis from completing its strategic plans.

We issued a Request for Proposal for a Risk Management Information System (RMIS) and have received proposals from four firms in response. We will soon be moving forward with developing this ERM data warehouse, which will use dashboard technology to monitor key performance indicators. It will also provide a platform for documenting and monitoring controls, risk, testing, and remediation of weaknesses found in the control environment. This will better serve the University with its compliance and control and accountability programs.

Many colleges and universities have already adopted an ERM orientation to risk management or are doing so, including Pennsylvania State University, Texas A&M, the University of Washington, Florida A&M, and Stanford. The National Association of College and University Business Officers (NACUBO) and Pricewaterhouse Coopers issued a whitepaper in 2003 titled “Developing a Strategy to Manage Enterprisewide Risk in Higher Education” which incorporated feedback from leaders of institutions of higher education that have implemented ERM, such as Harvard, MIT, the University of Chicago, and others.

The University Risk Management and Insurance Association (URMIA) has formed an ongoing ERM think-tank. Membership includes representation from Princeton, Auburn, Pennsylvania State, and the University of Denver, among others. Chief Risk Officer Crickette is participating on behalf of UC.

Other organizations moving towards ERM include the American Society for Healthcare Risk Management (ASHRM), which presented several workshops on ERM at their 2007 annual conference, including one which tied risk management directly to performance improvement through ERM philosophies and activities. ECRI (formerly the Emergency Care Research Institute) issued an analysis in 2006 of ERM in the healthcare sector which concluded that even though non-profit organizations are not required to comply with Sarbanes-Oxley, “the value in using an enterprise approach to manage risks in the increasingly complex healthcare environment is becoming apparent.”

IV. Cost of Risk

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.

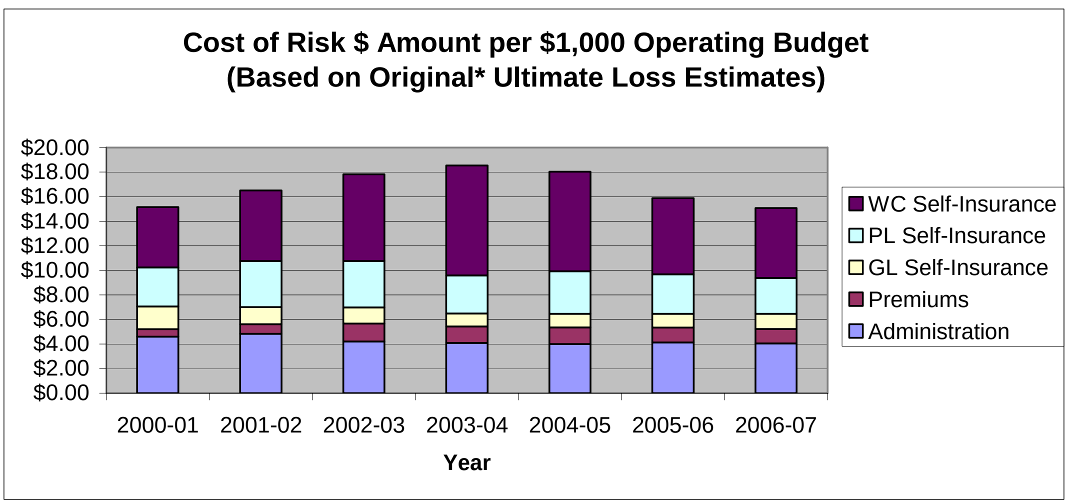
Based on actuarial analysis of our program as of December 31, 2006, in just over 18 months we have achieved a 16% reduction in the cost of risk ($18.04 → $15.08 = 16.4%).

The savings in the cost of risk were made up from numerous initiatives and changes in our processes and procedures. "Cost Savings Highlights from 1/1/2006 to 6/30/2007" highlights some of these efforts.

UNIVERSITY OF CALIFORNIA COST OF RISK
BASED ON ORIGINAL* PROGRAM YEAR ULTIMATE LOSS ESTIMATES

	Total Cost of Risk ($000)						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Administration[1]	$58,277	$63,510	$58,415	$58,904	$60,441	$66,498	$68,493
Premiums[2]	7,976	10,082	20,133	19,389	20,795	19,741	20,136
GL Self-Insurance	23,505	18,408	18,623	15,367	16,822	18,032	20,974
PL Self-Insurance	40,298	49,463	52,220	44,729	52,478	51,801	49,398
WC Self-Insurance	62,653	75,473	98,127	129,552	123,142	100,196	96,600
Grand Total	**$192,710**	**$216,936**	**$247,519**	**$267,940**	**$273,678**	**$256,268**	**$255,600**
Operating Budget[3]	**$12,712,104**	**$13,140,793**	**$13,889,071**	**$14,439,034**	**$15,166,939**	**$16,138,574**	**$16,945,503**

	Total Cost of Risk per $1,000 Operating Budget						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Administration	$4.58	$4.83	$4.21	$4.08	$3.99	$4.12	$4.04
Premiums	0.63	0.77	1.45	1.34	1.37	1.22	1.19
GL Self-Insurance	1.85	1.40	1.34	1.06	1.11	1.12	1.24
PL Self-Insurance	3.17	3.76	3.76	3.10	3.46	3.21	2.92
WC Self-Insurance	4.93	5.74	7.07	8.97	8.12	6.21	5.70
Grand Total	**$15.16**	**$16.51**	**$17.82**	**$18.56**	**$18.04**	**$15.88**	**$15.08**



Notes: [1]Assumed 2005-06 Administration will increase by 3% in 2006-07.
[2]Assumed 2005-06 Premium will increase by 2% in 2006-07.
[3]Assumed 2005-06 Operating Budget will increase by 5% in 2006-07.

*Or earliest available

V. Cost Savings Highlights from 1/1/2006 to 6/30/2007

Special Initiatives	(in thousands of dollars)		
Total Investment	**$9,613**	**Total Savings**	**$101,535**
Workers' Compensation Program			
• Accelerated Claims Closure	$4,800	• Accelerated Claims Closure – Based on claims closing below reserve	$26,500
• Permanent Disability Quality Assurance	$150	• AMA Quality Assurance	$900
• Strategic changes to internal procedures	$0	• Reduced claims expense resulting from modifications in UC internal procedures in response to changes in law	$65,000
Environmental Health & Safety			
• EH&S Staffing Increased	$150	• *Be Smart About Safety* at UCOP – Reduced claims and cost of claims[2]	$100
• Hazardous Materials – renegotiated contract	$0	• Disposal Contract Systemwide and savings through new requirements	$100
• Systemwide ergonomic contract	$88	• Systemwide On-line Ergonomics Training	$200
• CHWMEG[1]	$25	• Contract for Audit of TSDF[3] used by all UC sites	$40
Other Programs			
Auto Liability / Property Program / General Liability } Subrogation and Recovery	$400	• Auto – Subrogation and recovery	$211
		• Property Program – Subrogation and recovery	$3,300
		• General Liability – Subrogation and recovery	$184
Professional Liability • High Reliability Social Team Project	$1,000		
• Vanderbilt Physician Complaint Evaluation Program	$1,000	• Professional Liability	$5,000
• *The 4% Prescription* Rebate Program	$2,000		
Total Investment	**$9,613**	**Total Savings**	**$101,535**
	(in thousands of dollars)		

OPRS focuses on cost saving in all of our programs, which occur on a daily basis. Special initiatives are implemented to reduce costs in specific areas of risk.

[1] 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.

[2] In addition, savings improved compliance with OSHA regulations.

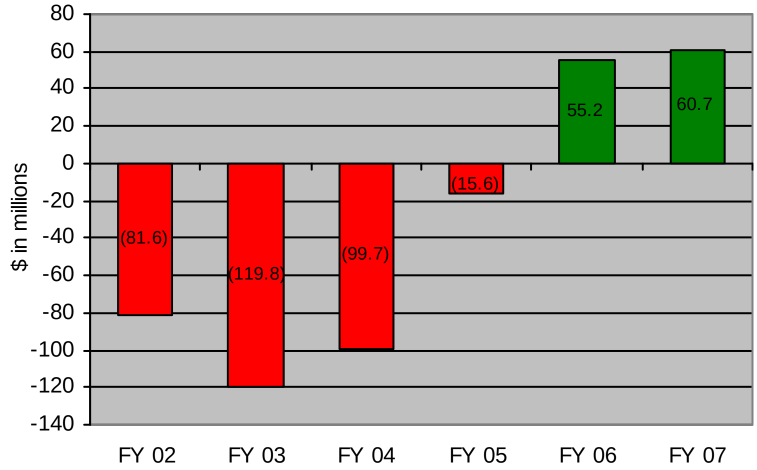
[3] Treatment Storage and Disposal Facility

VI. Program Management

Workers' Compensation Program

Figure 1 represents the financial status of the UC self-insured Workers' Compensation Program. The status refers to UC's outstanding liabilities as compared to the available funding in the workers' compensation trust to pay for those liabilities. As a result of new loss prevention programs and changes to internal procedures, the Workers' Compensation Program, after several years of deficit funding, is now enjoying a second consecutive year of surplus funding.

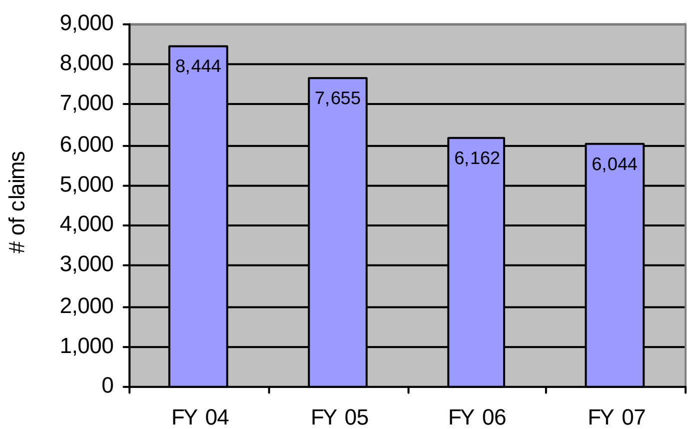
Figure 1. Program Status



As a result of our FY 06 surplus of $55.2 million, we were able to return a retrospective rebate of approximately $31.5 million to those locations experiencing a surplus status. Many of these locations are reinvesting portions of their rebate in loss prevention and loss control programs which will help ensure continued positive results.

Although we appear to be experiencing some leveling of our workers' compensation costs, in FY 07 our total payments decreased by approximately $3.3 million or 4%. More important is our continued decrease in retained liabilities. FY 07 we realized our third consecutive year of reducing our outstanding liability. Our FY 07 outstanding liability is 3% lower than FY 06 and 13.4% lower than FY 04.

Figure 2. New Claims



As shown in Figure 2, we have also begun to experience some leveling in our frequency of new claims, down 2% from FY 06 and 28% from FY 04. Our ability to decrease our frequency of new claims is integral to our continued success in decreasing our outstanding liability. To this end, through the *Be Smart About Safety* program and their own capital investments, the campuses, medical centers, and laboratories have employed numerous loss prevention initiatives.

Another key component to decreasing outstanding liability is our ability to reduce claim inventory. Through implementation of the Accelerated Claims Closure Project, revision of our settlement strategy, and Third Party Administrator incentives, we continue to realize a reduction in our indemnity claim inventory, and were successful in reducing our indemnity claim inventory by 417 claims or 9%.

Program Activities During FY 07

The above favorable financial achievements were realized as a result of the following initiatives:

- Continuation of the Accelerated Claims Closure Project: to date this program has resulted in the closure of 2,518 indemnity claims and has reduced outstanding claim reserves by approximately $26.5 million.

- Implementation of the *Be Smart About Safety* Program: all campuses and medical centers successfully submitted and received approval of loss prevention and loss control programs.
- Implementation of the Permanent Disability Final Report Quality Assurance Program: since implementation this program has realized a savings in permanent disability of approximately $900,000.
- Completion of an independent review of our Managed Care Program: an independent auditor was used to review our medical bill review and nurse case management programs and concluded that we currently employ a model bill review program with no areas of improvement needed.
- Implementation of a systemwide Prescription Medication Program: this program allows injured employees to receive prescribed medications more effectively and efficiently by streamlining a burdensome administrative process; it also provides a reliable defense against prescription medication abuse through the use of clinical utilization management and electronic interfaces of relevant data.
- Implementation of a systemwide Fraud Abatement Program: in the first three months of this program seven fraud referrals have been made to the Department of Insurance.
- A comparative analysis by an outside consulting firm compared our loss experience with that of other large public institutions and institutions of higher education. Our results were superior in loss rate and in the frequency and severity of claims.

Initiatives for FY 08 to Continue to Achieve Program Objectives

Continuing our goals of reducing our outstanding liabilities and enhancing systemwide injury prevention efforts, we will continue to support our existing proven programs and proceed with the following initiatives in FY 08:

- Implementation of an Occupational Health Clinic Information System: We are partnering with our UC occupational health clinics to implement an effective information system that will streamline clinic operations in conjunction with the efficient, real-time secure transfer of medical information with primary goals of improving care, reducing disability and facilitating claims management.
- Conduct a Litigation Review and Evaluation of the UC Defense Counsel Panel: This is a project that is being carried over from FY 07. We will be conducting a qualitative review of our workers' compensation litigation defense guidelines, procedures and counsel panel.
- Implement a systemwide Preferred Provider Physical Therapy Network: A need has been identified to provide supplemental options to our current physical therapy providers. Therefore, we are arranging for access to a statewide preferred provider physical therapy network that will afford us more timely service while reducing the costs of physical therapy. This network maintains the highest quality of care and adheres to established workers' compensation protocols.
- Conduct a Request for Proposal for Third Party Administrator (TPA) Services: Our current TPA contract for claims administration expires at the end of FY 08. We will evaluate TPAs on their ability to meet the unique needs of our self-insured programs while providing excellent customer service to both our injured workers and UC systemwide.

Professional Medical & Hospital Liability Program

Financial Highlights (in thousands of dollars)	2003	2004	2005	2006	2007
Claims Paid	$40,372	$40,485	$48,963	$43,887	$57,269
Professional Liability				$140,163	$164,210
Center for Reproductive Health				$5,344	$4,566
General Liability–Medical Centers				$3,055	$3,770
Employment Practices Liability–Medical Centers				$6,471	$7,044
Total Retained Claims Liability	$168,818	$158,958	$154,357	$155,033	$179,590*
* Increase from FY 06 to FY 07 is primarily due to increasing the confidence level from the previous 50% to 65%.					

During the past year, the University's Professional Medical and Hospital Liability Program experienced a significant decrease (12.34% over last year) in the number of cases presented on an annual basis (excluding licensing board actions). The increase in total retained claims liability was the result of multiple claims, such as the Irvine liver claims, fertility claims, and willed body cases, and to increasing our confidence level to match prevailing industry practice of setting confidence levels at more conservative rates. Review of the program by our excess insurer was highly complimentary and the cases were found to be managed in a highly professional manner: "As can be gleaned from these observations, we continue to believe that the UC claim files are being managed in a professional, even exemplary, manner. Liability and damage information are aggressively developed. The choice of experts is carefully considered and timely obtained. The claim files are thoroughly documented with the thoughts and strategy recommendations."

As noted last year, 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 continues to be successful in defending against these allegations, there is increased cost of defense associated with such multiple allegations being made in medical malpractice cases. Also, increasing costs of the components of damages in malpractice cases (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.

Program Activities During FY 07

In FY 07 the Professional Medical and Hospital Liability Program continued to focus on timely and efficient claims processing and case closures. As a result, as of June 30, 2007 there were 642 cases (including deposition representation matters) open in the program. The number of open cases in the program has decreased by 17.90% from last year. The program scope broadened with the initiation of limited coverage for licensing board actions taken against University licensed healthcare practitioners (nurses, doctors, etc.). Since the program's inception in FY 06 we have opened 18 cases.

OPRS has continued to focus on loss prevention, funding the purchase of "Professional Risk Management", a physician-aimed risk management newsletter, for all attendings and residents; the ECRI Corporation Healthcare Risk Control for each medical center risk management office; and the ELMExchange online risk management education program for attendings and residents.

In addition to the focus on risk education, as part of the loss prevention initiative OPRS funded a patient safety/loss prevention initiative aimed at improving the communication among surgical teams. The "High Reliability Surgical Team" initiative 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 UCSD, UCI, and UCSF, and will be conducted at UCD and UCLA in the Fall of 2007.

Initiatives for FY 08 to Continue to Achieve Program Objectives

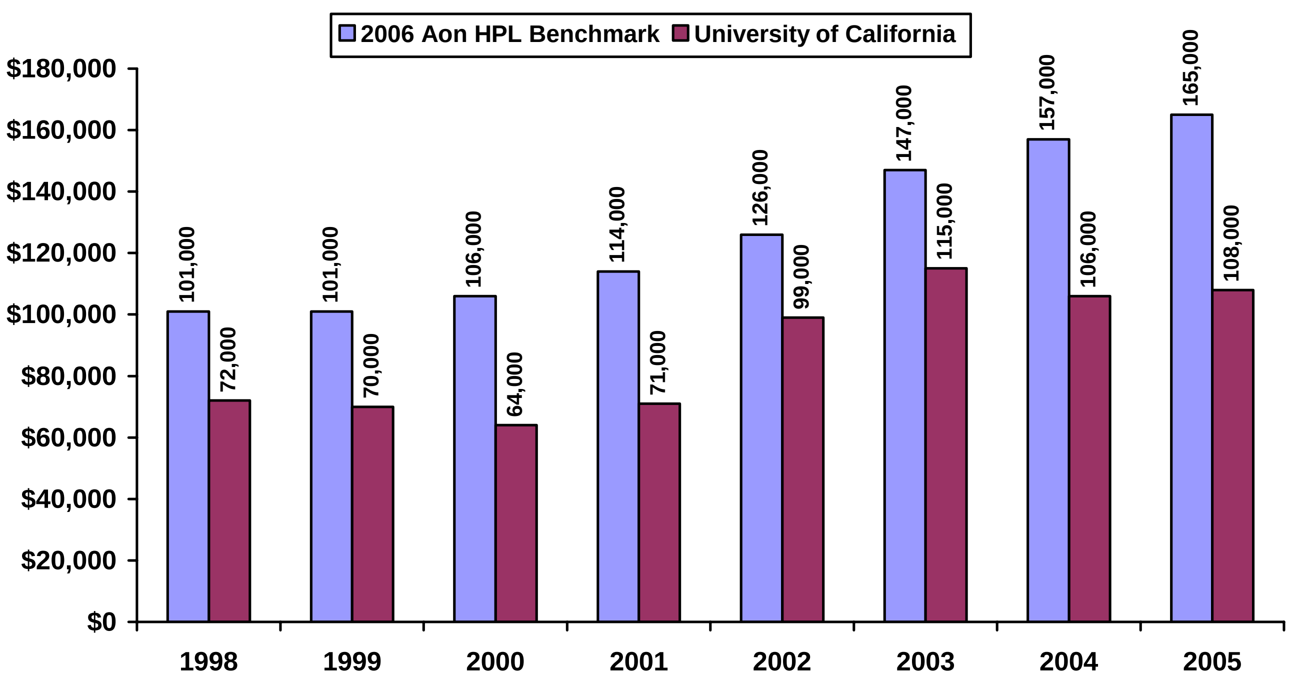
Last year the University's Professional Medical and Hospital Liability Program implemented a premium incentive program called *The 4% Prescription*, which is aimed at reducing claim frequency by increasing risk management education and loss prevention. The program is planned to expand during this next year with continued focus on loss prevention.

Benchmarking Claims Management Results

Again this year the University's Professional Medical and Hospital Liability Program participated in the Aon 2006 benchmark analysis. This study was developed to provide healthcare risk managers with an evaluation of their cost of risk compared with industry benchmarks – previously a difficult task in the medical malpractice market. Aon's analysis of UC data indicates that UC has lower claim frequency, claim severity, and loss costs when compared to the benchmarks.

Hospital Professional Liability – University of California Historical Severity

Limited to $2 Million per Occurrence



General Liability Program

Financial Highlights (in thousands of dollars)	2003	2004	2005	2006	2007
Claims Paid	$6,612	$6,688	$5,307	$5,784	$8,020
Total Retained Claims Liability	$19,123	$18,323	$14,427	$17,108	$19,737

The University's size and continuous growth makes risk inherent in our business. Whether research, clinical care, or pure teaching, the mere fact that our campuses are large and public gives rise to accidents and injury.

The General Liability Program is the program that provides coverage for claims that arise on our premises or from our operations, such as slip and fall claims, student dismissals, and other claims brought by third parties. The greatest challenge can be large "batch" type claims such as willed body, which occur infrequently, but can be very expensive to resolve. We have been fortunate that over the last few years our frequency has remained relatively stable, as shown in Table 1; however, the cost severity has been volatile. The willed body cases have been difficult to project actuarially.

Loss Control Measures

Because general liability losses can develop out of any of our campus operations, OPRS has the formidable task of meeting and collaborating with several different systemwide groups in an effort to mitigate risk, including:

- Housing and Dining Directors
- Recreation and Sports Directors
- 4-H and other ANR groups
- Campus Security/Police Personnel
- Early Academic Outreach
- Student Affairs
- Emergency Management

OPRS often attends systemwide meetings with the above-referenced groups and others in order to continually assess their activities and evaluate their risks.

OPRS is working with the University's actuary to develop incentive-based programs to help reduce the cost of risk.

Program Activities During FY 07

- In partnership with Office of General Counsel, sponsored a session at this year's Risk Summit to address sweep sheets (documentation of regular inspection and cleaning of floors) as a mechanism of defending slip and fall claims.
- Worked collaboratively with Risk Managers systemwide to identify student-related risk.
- Identified groups across the system that would benefit from having a Risk Council liaison to assist them with risk and safety issues.
- Worked with the University's Third Party Administrator to put together frequency and severity loss reports so that campuses can better access their own risks.

Table 1. New General Liability Claims

	2003	2004	2005	2006	2007
GL – Bodily Injury (BI)	182	167	159	149	151
GL – Property Damage (PD)	223	252	197	222	214
Total GL Claims (BI/PD)	405	419	356	371	365

Auto Program

Financial Highlights (in thousands of dollars)	2003	2004	2005	2006	2007
Claims Paid	$1,738	$1,409	$829	$1,101	$3,359
Total Retained Claims Liability	$3,455	$3,024	$2,800	$2,973	$6,199

The University has a fleet of over 5,300 vehicles, including passenger and light trucks, buses, vans, scooters, and our fastest growing category, electric cars. Over the last five years our vehicle count has increased by about 900 vehicles. With that increase, there has been a noted increase in the number of auto claims and claims paid in the Program. Additionally, the Claims Paid and Total Retained Liability numbers have increased as a result of the Auto Program now combining both Auto Liability and Auto Physical Damage in one program. Previously, the Auto Physical Damage numbers were not included. The Auto Liability Claims Paid was stable from 2006 to 2007; the increase from FY 06 to FY 07 was due primarily to two large claims in the past year that have resulted in a significant increase in the Total Retained Claims Liability.

Table 2 shows the number of new claims received in a fiscal year. There has been a significant increase in the number of 1st party claims (damage to the University's own vehicles). The increase in reported claims was expected in part, because we have centralized the reporting and handling of these claims. Prior to October of 2005, each campus individually handled their fleet claims and did not report all claims to Office of the President, Office of Risk Services. There has been a slight decrease in the number of 3rd party claims (accidents where we cause property damage or bodily injury to others).

Subrogation efforts have recovered over $211,000 for FY 07.

Loss Control Measures

In response to the increase in the number of Fleet vehicles and Auto claims, the Risk Management Leadership Council has formed a systemwide Driver and Vehicle Safety workgroup. The workgroup is composed of members from Risk, Fleet, and EH&S from each campus. The work-group is currently reviewing existing driver's training programs and analyzing the current claims data and how it is captured to determine its relevancy in order to address areas that are in need of training. The Leadership Council has also designated a Risk Manager as a liaison to the Fleet Managers Council and the OPRS Program Manager continues to partner with Fleet Managers and attends the annual Fleet Managers conference to provide claim data overviews and discuss areas of risk within Fleet operations.

OPRS is currently designing a Loss Control Rewards program to help promote and encourage the campuses to reduce the frequency and severity of automobile claims.

Table 2. New Auto Claims

	2003	2004	2005	2006	2007
Total Auto 1st Party	343	312	352	599	716
Total Auto 3rd Party	286	320	269	349	321
Total Auto Claims	629	632	621	948	1,037

Employment Practices Liability Program

Financial Highlights (in thousands of dollars)	2003	2004	2005	2006	2007
Claims Paid	$5,142	$6,620	$6,294	$9,021	$15,413
Total Retained Claims Liability	$32,413	$19,847	$24,987	$27,827	$33,124

The Employment Practices Liability Program responds to claims that the University's own employees file against their employer. These claims can allege various forms of discrimination and harassment.

Employment Practices Liability (EPL) claims are volatile, expensive, and can garner the attention of the press. They are often difficult claims for the University. However, nationwide, all employers struggle with these types of claims.

The University has over 190,000 employees, and this number is steadily growing. As the University grows, so does the risk for potential Employment Practices claims. The Office of Risk Services, in partnership with Office of General Counsel, manages the defense of employment liability lawsuits that are filed against The Regents.

As shown in Table 3, with the exception of FY 04, the number of employment lawsuits filed against the University has remained steady. However, the cost of litigating these claims continues to rise. Over the last few years we have had some unfavorable verdicts and large settlements that have greatly increased the amounts paid to resolve and defend these claims.

There were 54 employment lawsuits filed in the last fiscal year. The top three categories were disability discrimination, age discrimination, and sexual harassment.

Loss Control Measures

To effectively manage these exposures OPRS has done the following:

- Worked with Office of General Counsel and hired a lawyer dedicated to EPL litigated claims. In addition, we have agreed to team up and retain additional resources to provide training and loss prevention programs targeted at reducing the cost associated with these types of claims.
- Teamed up with the Disability Managers throughout the system to provide education on how disability issues can result in claims.
- Partnered with Office of General Counsel to review closed EPL claims every quarter, then conduct follow-up meetings with Human Resources and related personnel to discuss "lessons learned" from resolved cases.
- At the 2007 Risk Summit, rolled out a process for reviewing EPL claims after closure to prevent recurrence in the same department.

Table 3. New Employment Practices Claims

	2003	2004	2005	2006	2007
Employment	55	64	56	56	54

Property Program

Financial Highlights (in thousands of dollars)	2003	2004	2005	2006	2007
Claims Paid	$6,571	$1,467	$7,749	$11,095	$4,274
Total Retained Claims Liability	$8,241	$15,306	$11,422	$6,223	$6,151

The University has over $43 billion in property assets including buildings and structures, equipment, and contents. This does not include library contents, fine arts, new construction, or boiler and machinery equipment, such as chillers and Co-Gen facilities.

Table 4 gives the number of claims reported this current fiscal year and shows that there has been an overall decrease in the number of property claims, particularly with buildings and structures. We are analyzing this decrease to determine if this is a result of new loss prevention programs or underreporting in prior years. Although the number of claims in FY 04 and FY 05 decreased, the higher figures for claims paid in 2006 are due to some large claims that resolved.

OPRS, in partnership with Sedgwick CMS, has been successful in recovering over $3.3 million in subrogation and excess insurance.

Loss Control Measures

UC has renewed our Property coverage with FM Global, a company that specializes in property insurance and who will partner with UC to jointly develop innovative and cost-effective property risk management solutions to enable the campuses to understand and reduce their property risks. OPRS is also designing a Loss Control Rewards program to help the campuses promote and encourage reducing the frequency and severity of property claims.

Partnering with Facilities Administration, OPRS is looking to develop an Integrated Capital Asset Management Program (ICAMP). ICAMP will identify needs and requirements with UC Capital Assets; quantify these needs and requirements; and prioritize and plan for these needs and requirements. It will allow UC to measure the condition of Capital Assets; assess the value of Capital Assets and land; benchmark within asset types; provide risk-related data systemwide; reduce frequency and severity of claims resulting from deferred maintenance; improve life safety for employees, students, and visitors; and improve UC's reputation and position in the insurance marketplace. ICAMP will be web-based and hosted outside of UC. Various internal customers will have access to data to make decisions based on business intelligence. Initial assessments of all UC Capital Assets will be performed by third-party experts to form an initial "baseline".

Table 4. New Property Claims

	2003	2004	2005	2006	2007
Property – Building	431	384	327	261	113
Property – Contents	36	43	38	176	166
Property – Other	5	4	4	19	4
Library – Contents	0	0	0	2	1
Fine Arts – Contents	2	0	0	0	0
Total Claims	474	431	369	458	284

Fine Arts Program

The University maintains a large collection of Fine Arts, which includes displays of artwork and unique collections of historical and valuable items. These collections are located throughout the University, either in informal settings; at museums, galleries, or libraries; or through traveling exhibits. In addition to these items, there are also library collections and miscellaneous pieces of historic and artistic value that are acquired by or donated to the University. Current reported values are $1.5 billion for fine arts and $10.8 billion for library materials.

Losses in this program have had a low frequency, but there is potential for high severity due to the nature of fine art being of historic or artistic value and being unique and irreplaceable. Due to these high values and unique exposures, the University purchases insurance specific to Fine Arts. The insurance capacity available continues to decrease, which results in the increased cost for this coverage.

The number of claims has remained stable, with 8 reported FY 06-07 and 7 reported FY 05-06. The claim payments range from $1,000 up to $10,000, with the exception of one claim currently reserved at $65,000 for vandalism damage to sculptures that are valued at $845,000. All losses are for damage to artwork which requires some kind of restoration versus losses of entire pieces of artwork which would require full replacement. Coverage for exhibits is also provided under this program, and the majority of the losses reported are for artwork belonging to others while on exhibit at the University.

Loss Control Measures

The UC Risk Management Leadership Council is in the process of forming a Fine Arts Workgroup to focus on this exposure and to develop a system-wide standard to collect and record the Fine Arts inventories, review the processes used in establishing the values of the items and improve the controls at each campus. The improved data will enable UC to evaluate the most effective method for insuring Fine Arts systemwide.

Additionally, OPRS will coordinate meetings with the Fine Arts insurance broker which will include tours of campus museums and meetings with campus risk and museum personnel to assist in developing best practices for Fine Arts exposures.

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.

Over the past year, the Office of Risk Services and the insurance broker have provided training sessions at campus and medical center locations to create greater awareness of construction risks and a better understanding of the insurance. The insurance company also routinely conducts loss control visits to construction sites and advises on measures to be taken to reduce the risk of loss on the site. The services of the insurance company can also be engaged for any construction project that may present significant or unusual risks so they can assist with addressing those risks.

As the cost of construction continues to rise, one way to reduce costs is by having the University purchase the insurance rather than the general contractors. Builder's risk insurance, which covers loss or damage to a project during the course of construction, is provided through the University's Master Builder's risk program. This program offers favorable rates over what a general contractor can provide, which translates into lower insurance premiums. This is made possible through bulk purchasing and leveraging of other lines of insurance purchased by the University.

Exposure for construction risks can be far greater than the premium. For example, for the 2000-2001 policy year, the loss ratio (losses relative to premium) was 206%; for the 2002-2003 policy year, the loss ratio was 327%.

Another method by which to save on insurance costs is through an Owner Controlled Insurance Program (OCIP). Basically, the University, as the project owner, secures 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. The traditional method is to have the contractor/sub-contractors provide the insurance and then charge back the

University for the cost. This cost will usually include an additional profit margin (and may also include independent agent and broker commission) and is embedded in the total project cost.

The key to reducing the cost in an OCIP is safety and loss control. Fewer losses and lower loss costs will reduce the final project cost, particularly with a loss sensitive program. The Office of Risk Services participates in monthly visits to OCIP construction sites during which safety issues are addressed and recommendations are made, for which the general contractor is responsible for compliance.

Table 5 shows projects covered by OCIP with an indication of projected cost savings. Since claims under an OCIP can continue on for several years beyond the close of the project, it takes several years to finalize the actual savings achieved on any particular construction project.

We would like to see more locations participating in the OCIP. We have determined that the main "road block" is the release of premium savings to the locations. The Carrier retains the savings for ten years and the locations would like to see this savings sooner. We are working on developing a financial vehicle that will securitize the funds, reserve for losses, and release a significant amount of the premium at the close of the project rather than the current ten-year waiting period.

Table 5. Projected Cost Savings Under OCIP

	UCLA (As of 5/2007)	UCSF (Completed 11/2005)	UCDMC* (As of 7/2007)	UCB* (As of 6/2007)
Project Duration Forecast	113 Months (2000 to 2008)	56 Months (2001 to 2005)	48 Months (2004 to 2008)	41 Months (2005 to 2009)
Construction Value EARNED	$914,084,611†	$202,625,795	$136,772,543†	$53,182,380
Payrolls EARNED (Pending Audit)	$316,180,713	$59,587,374	$22,045,394	$10,582,921
Est. Savings EARNED (GROSS)	$22,086,349 (2.4% of CV)	$3,485,000 (1.7% of CV)	$1,363,542 (1.0% of CV)	$1,135,700 (2.1% of CV)

* Loss-Sensitive Program – Savings affected by losses on project

† Construction Values reflected as % completed and/or paid

VII. Prevention and Loss Control

UC Office of the President *Be Smart About Safety*

In 2006, UCOP initiated a new employee safety program, *Be Smart About Safety*. This program trained 46 department safety officers who in turn conduct mandatory monthly safety meetings and quarterly area inspections, maintain safety bulletin boards, and assist in mishap investigation. During its first year, this new program has trained over 80% of UCOP employees in numerous safety-related topics. This program has created a new awareness and energy for employee safety at UCOP. In 2006, UCOP had the lowest total loss index systemwide; the UC average was 59.3, while UCOP's index was 18.0.

Environmental Health & Safety Program

The Environmental Health & Safety (EH&S) programs at the University of California campuses, hospitals, Agriculture and Natural Resources (ANR), and national laboratories are a major effort, which includes over one thousand employees working in numerous disciplines. Their goal is to continually reduce the cost of risk through loss prevention. The EH&S departments are the primary contact for local, state and federal agencies to inform the campus communities of regulatory requirements and to perform compliance functions related to EH&S. Requests for EH&S information, training, regulatory interpretation and applicability, approval of potentially hazardous procedures, resolution of safety problems, and surveillance and monitoring are all functions handled by the EH&S departments. EH&S serves as the campus workplace safety consulting resource. They are working partners in campus advisory groups such as the Chemical Safety Committee, the Radiation Safety Committee, the Animal Use and Care Committee, the Biological Safety Committee, and numerous other administrative and research committees. The EH&S departments must also interface with all campus departments to ensure their activities are successful and safe.

EH&S Program Results

- During CY 06* the systemwide averages in almost all areas of Cal/OSHA reporting decreased. For example, in the key area of lost work days, the lost days rate dropped from 21.0 to 18.5, the lost days number of cases rate from .56 to .51, and the overall performance index from 63.2 to 59.3. Although some of these were modest gains they are considerable improvements and constituted a continued reversal of trends from the past year when rates increased. With the increased emphasis and availability of loss prevention funding through 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 *Be Smart About Safety* loss prevention funding to identify new areas for cost reduction and aggressive loss prevention efforts. For more details, see the "Environment, Health, and Safety" section of the Risk Services web page at http://www.ucop.edu/riskmgt/ehs/welcome.html.

*OSHA regulations require that data be reported on a Calendar Year basis, not Fiscal Year.

Appendices

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. <u>Settlement Actions Reserved to The Regents</u>

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.