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RISK MANAGEMENT TRACKING REPORTS

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Abstract:

Managing a risk management operation for a college or university can be a daunting responsibility. One of the principal risk management responsibilities typically involves claims management, which can become rather complex and overwhelming if not managed appropriately. Institutions often carry on this function without giving much thought to tracking their claims activity. Unfortunately, without good management reporting practices in place, it is easy for a risk management operation to allow its claims management responsibilities to get out of control and, consequently, become less responsive to the institution's need for effective loss recovery.

For those institutions that self-insure or retain large deductibles on their insurance coverages, it is also important to maintain close scrutiny over the amount of losses paid out in a given year and any outstanding reserves that are anticipated to be paid on pending claims. Along with a good tracking methodology for paid claims and pending reserves, it is also important to track whether the institution is maintaining an adequate fund to pay for claims. Due to the unpredictable nature of losses, the importance of maintaining a good system of periodic management reports to track the institution's claims activity, its financial impact to the institution, and the adequacy of its loss funds cannot be overstated.

Introduction of the Organization:

The University of Virginia, located in historic Charlottesville, Virginia, has the distinction among institutions of higher education of being founded by the nation's third President, Thomas Jefferson, in 1819. The University is public, although it enjoys strong support from its alumni and maintains an endowment approaching \$2 billion. It was recently selected as the #2 public university in the country, and has maintained either the top or second spot among public higher education institutions since *U.S. News & World Report* began ranking public universities in 1998. Among all universities, public and private, the University of Virginia is ranked #23.

The University offers fifty-two bachelor's degrees in forty-seven fields, eighty master's degrees in sixty-four fields, fourteen specialist degrees, two first-professional degrees (law and medicine), and forty-eight doctoral degrees in forty-eight fields. During the 2004-2005 academic year, the University awarded 5,877 academic degrees: Bachelor's (3,353), Master's (1,632), Post-Masters(66), Doctorate (341), Law (354), and Medicine (131). The present number of full time faculty is about 2,027, with approximately 13,231 undergraduates and 6,298 graduate students.

Additionally, the University of Virginia Health System is a nationally renowned academic medical center, committed to providing outstanding patient care, educating tomorrow's health care leaders, and discovering new and better ways to treat diseases. The Medical Center was named one of the nation's Top 100 Hospitals for the third year in a row, according to a study of 5,000 hospitals. The University resources also includes seventeen school and department libraries, with a circulation of nearly 5 million books, plus a wide range of computing services available to students and faculty. In Athletics,

the University competes as an NCAA Division I school, with 25 intercollegiate varsity sports, more than 50 club sports, and an extensive intramural sports program.

Statement (restatement) of the Problem/Initiative:

The need to develop risk management tracking reports was an initiative that was instituted in order to keep management informed about the volume of claims activity throughout the University. Prior to developing a monthly tracking report, it was not generally known how many general liability, automobile, crime, boiler & machinery, or property claims were incurred in a given fiscal year. Even more importantly, the financial cost of self-insured programs was not known until it was reviewed at the end of the year, which would mean that there was little warning of exceeding budgeted funds until it actually happened.

It was determined that we wanted to know how many claims were occurring throughout the University. Moreover, we wanted to know what general categories they fell into, such as liability, property, boiler & machinery, automobile and other areas. We also wanted to get a handle on how long it was taking us to settle those losses that fell within our self-insured retention for property, boiler & machinery, and automobile physical damage. In addition, we wanted reports that would let us know what the financial impact has been for incurred losses, and we wanted to maintain accurate historical data to use in projecting future losses for funding purposes. Finally, we wanted to maintain a track on how well we were handling subrogation losses on behalf of the University, which involved damages incurred by the University from third parties who were at fault.

Design:

The methodology for achieving this goal was to develop various risk management reports, which would be produced on a monthly basis to track specific aspects of claims for the University. These management reports were designed by the University's risk management staff and have been a work in progress over several years. We did not hire any outside consultants, so there was no cost to the University in developing these tracking reports. However, the University does maintain a sophisticated risk management information system that maintains a database of information pertaining to its claims, which did require some expense when it was first implemented years ago and when it was upgraded about seven years ago.

Essentially, the risk management claims tracking reports were developed using Excel spreadsheets and by utilizing the information obtained from the University's risk management information system. It was determined that we wanted to develop a *Claims Activity Report*, and it would show the number of new, closed, and pending claims. The claims numbers would be grouped into five categories: automobile, liability, property, boiler & machinery, and other. This information would be shown on a chart by month throughout the fiscal year. Also, for comparative informational purposes, there would be information provided on previous fiscal years as well. Another report, the *Aged Property Claim Report*, was designed to track how long it was taking to settle losses that fell within the University's self-insured loss retention. Pending losses for property, boiler & machinery, and automobile physical damage were tracked monthly, showing how many

outstanding claims fell within the following age categories: 0-3 months, 3-6 months, 6-12 months, 12-18 months, 18-24 months, and 24 months and older.

Another management report, the *SIR Fund Status Report*, was designed to monitor the adequacy of the self-insured retention funds on a monthly basis, which was to ensure that adequate funds were being maintained to pay for the institution's incurred and anticipated losses. Each month this report would show the fund's beginning balance, the amount of paid claims, any credits, and the ending balance. In addition, it would show any outstanding reserves on pending claims, which would provide a picture of how adequate the fund is when considering future anticipated loss payments. A *Subrogation Report* was designed to show, by fiscal year, the number of losses the University sustained from third parties. This monthly report was developed to illustrate the number of open subrogation property claims and their associated cost, and the number of closed subrogation claims and the amount of compensation recovered by the University.

A *Vehicle Physical Damage Loss History Report* was developed to track, by fiscal year, the total number and amount of losses paid out for automobile physical damage losses. This report also shows the total amount of any outstanding reserves that are pending on open claims. Additionally, for future loss projecting purposes, this report also trends past fiscal years' losses for inflation so that the historical data is converted into current day monetary values. This report also calculates a projected future annual loss estimate, which is automatically updated each month when new loss information is incorporated. Each month a *Self-Insured Loss History Report* is prepared on property losses and boiler & machinery losses, and it provides the same information as depicted above for the vehicle physical damage report.

Implementation:

As mentioned previously, this has been a work in progress over the years, although the initial basic design was developed several years ago and has simply been modified as ideas for improvement have been considered. Practically speaking, if an institution has its loss data available, these reports could be developed by an institution's risk management staff within a short period of time. It would require someone who is knowledgeable about developing the loss information, understands the financial data and trending calculations, and is proficient with Excel spreadsheets. Once the reports are initially established, it is simply a matter of updating them each month with current loss data.

Benefits:

The benefits derived from implementing these reports can be very important to an institution. It gives the organization a definite understanding of the amount of claims activity arising out of its operations. Management will know the types of claims that are occurring throughout the year, as well as how many are still outstanding. It will identify any potential backlog in claim handling. A most important element in containing an organization's risk management costs is in effectively managing its claims. For instance, when claims are not handled in a timely fashion, claimants will often seek legal means to address their concerns, which will ultimately cost the institution more. Likewise, when faculty and staff do not have the equipment or facilities they require due to a loss, it could negatively affect their efforts to provide quality instruction, research, patient care, or

public service on behalf of the institution. . These reports also give the institution an idea of the workload being managed by their risk management staff, and it could indicate whether staffing issues need to be addressed. The status report on the self-insurance funds will alert the organization to whether it has a funding adequacy problem, and it will let management know this far in advance of the fund being depleted. The subrogation reports let the institution know whether it is recovering its losses from third parties, or whether those financial recovery opportunities are being lost. Finally, the loss history reports are valuable for maintaining a history of the institution's losses, showing an institution's current loss reserve still to be paid, and for projecting future loss estimates and budgeting adequate self-insurance funds.

Retrospect:

It would have been nice if we had not needed to invent this process to monitor our institution's claims, but having done so we are certainly willing to share it with other institutions, thereby saving them the effort of inventing this process. To conclude, the sooner that an institution becomes comfortable with this process, the sooner it will have more confidence in self-insuring some of its risk, which will mean long term savings for the institution when it does not have to depend upon purchasing as much insurance.