

THE BEGINNER'S GUIDE TO INSURANCE & RISK IN HIGHER EDUCATION

Miguel O. Delgado
Assistant Director, Insurance Programs
University of Arizona



WACUBO- BMI 2019- Track 1

LEARNING OBJECTIVES

- Identify and understand the primary risk exposures in higher education.
- Describe the basic lines of insurance coverage and how they apply to higher education risk exposures.
- Recognize key insurance terms and potentially problematic language.
- Provide essential guidance to colleagues on the core principles of insurance and sound risk management.





Introduction & Background Information

Types of Insurance Coverage & Key Terminology

Interactive Exercises

Question Time

INTRODUCTION & BACKGROUND INFORMATION



BACKGROUND INSURANCE QUESTIONS

- How many of you view **insurance** as a valuable commodity?
- How many of your view **insurance** as a necessary evil?
- How many of you have had a favorable **insurance** claim experience?
- How many of you have had an unfavorable **insurance** claim experience?
- How many of you feel like you have paid a lot of money for **insurance** and received very little in return?





CAN YOU HOLD
INSURANCE?



CAN YOU TOUCH
INSURANCE?



CAN YOU SEE
INSURANCE?



CAN YOU SMELL
INSURANCE?



IS INSURANCE A
TANGIBLE OBJECT OR AN
INTANGIBLE OBJECT?

WHAT EXACTLY IS INSURANCE?



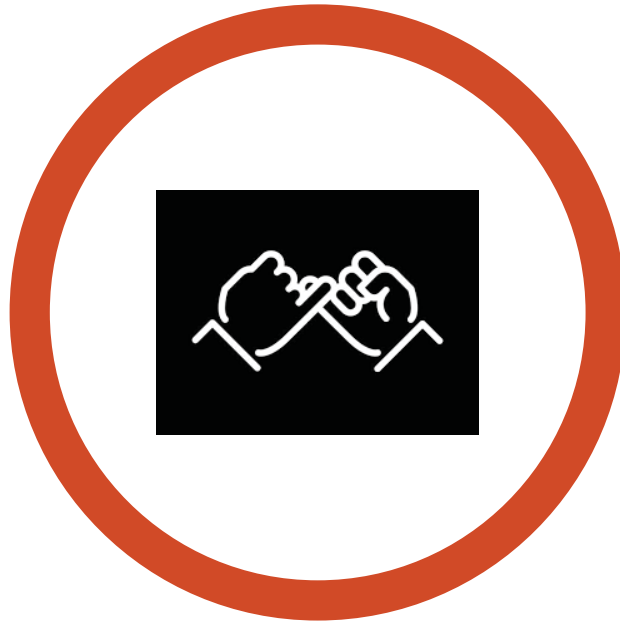
WHAT EXACTLY IS INSURANCE?

- Who thinks that insurance is a tangible object?
- Who thinks that insurance is an intangible object?
- Who thinks that insurance is both tangible and intangible?



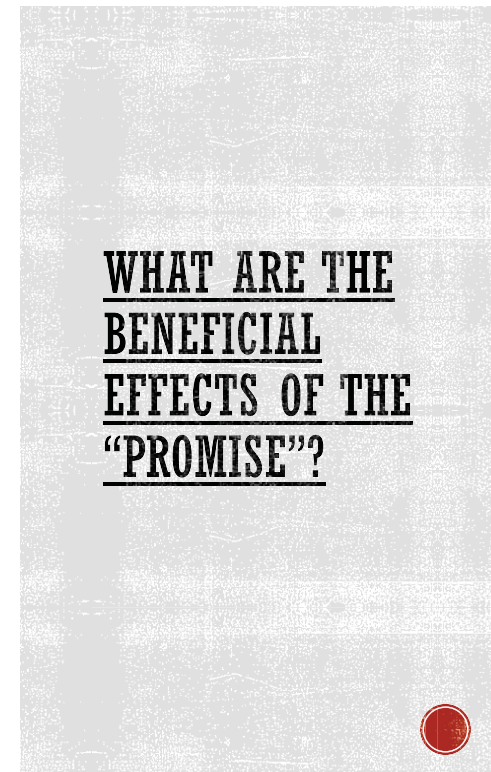
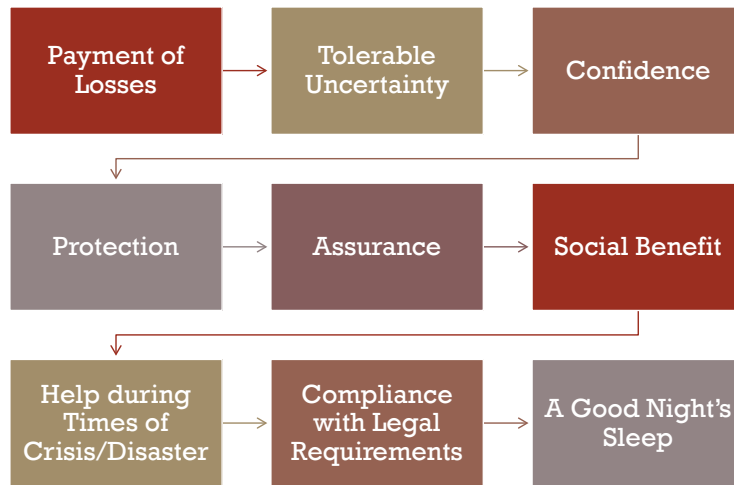
DICTIONARY DEFINITIONS

- **Investopedia**- insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company.
- **Merriam-Webster**- coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril.
- **Dictionary.com**- the act, system, or business of insuring property, life, one's person, etc., against loss or harm arising in specified contingencies, as fire, accident, death, disablement, or the like, in consideration of a payment proportionate to the risk involved.
- **Wikipedia**- a means of protection from financial loss. It is a form of risk management, primarily used to hedge against the risk of a contingent or uncertain loss.
- **Google Dictionary**- a practice or arrangement by which a company or government agency provides a guarantee of compensation for specified loss, damage, illness, or death in return for payment of a premium.



WHAT ARE YOU ACTUALLY PURCHASING?

In one word, insurance is a
PROMISE.



RISK EXPOSURES IN HIGHER EDUCATION



Before we can identify and discuss which insurance coverages are necessary, we have to understand the Higher Education landscape.



The most basic method of identifying Risk Exposures is to determine what you have.





RISK EXPOSURES IN HIGHER EDUCATION

- Colleges, universities, and institutions of higher learning are often described as SMALL to MEDIUM SIZED _____.



Buildings/Facilities (dorms, residential facilities, dining facilities)

Utility Systems

Construction Projects

People (Faculty, Staff, Students, Visitors, etc.)

Transportation (passenger & commercial vehicles, shuttle buses, etc.)

Law Enforcement/Security

Revenue/Tuition

Data/Electronic Files/Information

Money/Investment Accounts

Equipment/Business Personal Property

Fine Art/Special Collections/Museums

Contracts/Agreements

Programs, Events, Activities (Domestic & International)

WHAT DO
INSTITUTIONS
OF HIGHER
EDUCATION
HAVE?



RISK EXPOSURES IN HIGHER EDUCATION

- When considering “what we have” (ALL THAT WE HAVE), the question begs to be asked, “WHAT COULD GO WRONG?”



- Overall, most Institutions of Higher Education have the same basic risk exposures as a small to medium sized city or a medium to large corporate organization.
- However, Institutions of Higher Education have a plethora of risk exposures that are unique to our industry (e.g., Athletics, Research, International Travel, Agriculture, Medical Facilities/Medical Instructional Programs, Tuition Revenue, Minors on Campus, Reputational Risk).
- As we examine “what we have” and “what could go wrong”, we find that most of our risk exposures fit into one of four “Quadrants of Risk.”



Hazard Risk



Financial Risk



Operational Risk



Strategic Risk

The most common method for addressing and treating risks is **INSURANCE**.

INSURANCE is most frequently used for **RISK TRANSFER**.

Based on the type of risk, there is a typically a specific **INSURANCE** coverage developed to address the specific risk exposure.

Most commercial insurance policies are structured in a manner so that policies specifically exclude exposures that are covered by other types of insurance policies.

FOUR QUADRANTS OF RISK



RISK TREATMENT



MAJOR LINES OF INSURANCE COVERAGE

- **KEY TERM-** First-Party Insurance vs. Third-Party Insurance
- **First-Party Insurance-** insurance that is purchased to cover the named policy holder (insured) against damages or losses suffered by the policy holder to the policy holder's person or property
- Property Insurance and Auto Insurance (Comprehensive & Collision)
- Most forms of Health Insurance
- **Third-Party Insurance-** insurance that is purchased to protect the named policy holder against liability for damages or losses caused by the named insured to another's person or their property.
- Liability coverages
- **Which do you need? COMBINATION OF BOTH**
- **Which should you require of outside entities? USUALLY JUST THIRD-PARTY LIABILITY**



FIRST-PARTY INSURANCE COVERAGES

Property Insurance- Covers damage to real or personal property from a variety of perils, including but not limited to fire, lightning, business interruption, glass breakage, tornado, windstorm, hail, water damage, damage from aircraft or vehicles, theft, vandalism.

Auto Physical Damage Insurance- Covers material damage to the insured's motor vehicles arising from collision or comprehensive (theft, vandalism, hail, fire) losses. Typically covers rented or leased vehicles.

Fine Art Insurance- Provides broad "all risk" coverage for items ranging from visual arts like paintings and sculptures, to rare books, historical artifacts, archaeological specimens. Typically covers "loaned art."

Crime/Fidelity Insurance- Provides coverage for loss of cash, goods, or securities caused by employee theft, embezzlement, forgery, funds transfer fraud, computer fraud, etc.

MAJOR LINES OF INSURANCE COVERAGE

FIRST-PARTY INSURANCE COVERAGES- Continued

Cyber Risk Insurance (hybrid coverage)- Provides coverage for first-party expenses related to a data breach, such as notifying potential victims, offering credit monitoring subscriptions, business interruption losses, software/system recovery, and regulatory fines.

Builders' Risk Insurance- Provides coverage for loss to buildings in the course of construction. Also includes machinery, equipment, and materials used during construction.

International Travel Insurance- Provides coverage to authorized travelers for emergency medical care, emergency evacuation, repatriation, etc.



THIRD-PARTY INSURANCE COVERAGES



Commercial General Liability Insurance- Flexible and broad liability coverage for bodily injury, personal injury, and property damage caused by the business' operations, products, or injury that occurs on the business premises.



Auto Liability Insurance- Protects the insured against financial loss because of legal liability for motor vehicle related injuries or damage to the property of others caused by accidents arising out of the ownership, maintenance, or use of a motor vehicle. Typically transfers to rented or leased vehicles.



Professional Errors and Omissions Liability Coverage- Coverage available to pay for liability arising out of the performance of professional or business related duties, tailored to the needs of a specific profession. Examples include architects, engineers, lawyers, real estate agents, medical professionals, counselors, accountants, and other professions requiring licensure or certification.

MAJOR LINES OF INSURANCE COVERAGE





THIRD-PARTY INSURANCE COVERAGES- Continued



Employment Practices Liability/Educators Legal Liability-

Liability insurance for employers for claims arising from allegations of wrongful termination, unlawful discrimination, or sexual harassment.



Liquor Liability Insurance- Coverage for the liability of an entity involved in the retail sale of alcoholic beverages, or the serving of alcoholic beverages, to persons who have incurred bodily injury or property damage arising from an intoxicated person.



Cyber Risk Insurance (hybrid coverage)- Provides liability coverage for third-party claims and lawsuits filed by potential victims and affiliated parties.



Workers' Compensation Insurance- Provides coverage to employees for injuries arising out of their employment and in the course of their employment. Coverage usually consists of payment of reasonable and related medical expenses and reimbursement of lost wages.

MAJOR LINES OF INSURANCE COVERAGE

KEY TERMS

- **Premium-** the amount your entity pays for insurance coverage.
- **Certificate of Insurance-** a piece of paper that summarizes the most important elements of an insurance policy.
- **Deductible-** the amount your entity will need to pay before the insurance policy covers the remaining balance.
- **Self-Insured Retention-** the portion of a property or liability loss retained by a policyholder.
- **Endorsement-** A written agreement that changes the terms of an insurance policy by adding or subtracting coverage.
- **Insurer-** the insurance company who issues the insurance policy and agrees to pay for losses and provide covered benefits.
- **Named Insured-** the person or business actually named in the insurance policy.
- **Additional Insured-** usually refers to an outside person or entity added to the policy by an endorsement.
- **Additional Named Insured-** a person or business named somewhere else in the policy, usually a subsidiary or affiliated company (forfeit the ability to file a liability claim as a third-party claimant)

KEY TERMS

- **Limits of Insurance-** the maximum amount of benefits the insurance company agrees to pay in the event of a loss.
- **Underwriting-** the process to evaluate the insurance application in order to determine the acceptability of the risk.
- **Exclusions-** contractual provision in a policy that denies or restricts coverage for certain perils, persons, property, or locations.
- **Effective Dates-** the dates that the policy is in force. (actually look at the dates!)
- **Replacement Cost Value-** the amount that it costs to replace lost or damaged property with new property of like kind or quality.
- **Actual Cash Value-** the fair market value of the property or item.
- **Subrogation-** the process of recovering the amount of claim damages paid out from the legally liable party, usually from any applicable insurance.



POTENTIALLY PROBLEMATIC LANGUAGE

POTENTIALLY PROBLEMATIC LANGUAGE

- **Additional Insured Requirement-** The other party in a contract requires to be named as "Additional Insured."
 - ✓ Not usually permissible in State-administered Self Insurance Programs
 - ✓ In the commercial insurance sector, must be performed by **policy endorsement**.
- **Waiver of Subrogation**
 - ✓ Prohibits an insurance carrier from recovering money they paid on a claim from a negligent third party.
 - ✓ Must be performed by **policy endorsement**.
- **Contractual Limitation of Liability-** clause or provision in a contract that limits the amount of potential damages that may be recovered for the negligent acts of a party. If enforceable, the clause "caps" the amount potential damages.



PROVIDING GUIDANCE TO OTHERS



Where do we go from here? What do I do with this knowledge?

- Two Primary Directions (tangible ways to benefit your institution)
- Recognize potential for covered insurance losses and serve as a “departmental expert” for insurance questions.
- Recognize the need for insurance coverage or deficiencies in coverage when contracting with third-parties/outside entities.

INTERACTIVE EXERCISES





QUESTIONS?

Miguel Delgado

(520) 621-5392

mdelgado1@email.arizona.edu

