2.4.4 PROPERTY AND LIABILITY INSURANCE

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This Guide Memo describes the University's property and liability insurance coverage.

For information on other insurance coverage, see:

- Business travel accident insurance: Guide Memo 2.3.1 [1]: Survivor Benefit Plans.
- University, government, and personal vehicle collision insurance: Guide Memo 8.4.2 [2]: Vehicle Use.
- Rental vehicle collision insurance: Guide Memo 5.4.2 [3]: Travel Expenses.

Authority:
Approved by the Vice President for Business Affairs and Chief Financial Officer.

1. General Information

a. Administration of Insurance
The Risk Management Office is responsible for obtaining insurance and self-insurance coverage and processing all claims.

b. Who Pays for Insurance
Risk Management charges income-producing operations, formula schools, auxiliaries and general funds for their Aggregate Annual Insurance Premiums.

c. Special Insurance Coverage
Any department having special risks that it feels should be insured should discuss the issue with Risk Management. If insurance does appear to be the best way of managing a risk, Risk Management will negotiate a policy with the insurance carrier and rebill the cost to the requesting department.

d. What to do in the Event of an Accident
(1) Emergency Action
Take whatever steps are immediately necessary to render emergency medical care, salvage property, or reduce the further extent of the loss. If anyone is injured, see Guide Memo 7.2.1 [4]: Emergency/Accident Procedures, for emergency procedures, and Guide Memo 7.6.1 [5]: Accident and Incident Reporting, for reporting requirements. Report injuries promptly to comply with state law.
(2) Evidence for Insurance Claim
If possible, do not disturb the evidence or hazard which caused the claim until the area can be inspected, pictures taken, and conditions recorded. Obtain the names and addresses of parties involved, witnesses, etc. Under no circumstances should one admit liability; to do so could jeopardize the insurance coverage. As soon as possible record the details of the accident. The report should include: date, time, place, who or what was involved, how it happened, names, addresses, and estimated ages of persons involved; description of injury,

loss or damage; and action that was or will be taken to prevent a recurrence. All claims must be reported immediately to Risk Management.

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2. Property Insurance

a. General Property Insurance

(1) Situations Covered
Stanford's insurance and self-insurance on buildings and their contents includes coverage for fire, smoke, windstorm, explosion, riot, civil commotion, vandalism, malicious mischief, falling aircraft, and theft.

(2) Situations not Covered
The University does not provide insurance coverage for the following situations:

- Damage caused by rough wear and tear, rust, dust, mechanical failure, maintenance problems, breakage, scratching, marring and staining
- Items identified as lost as a result of inventory
- Failed experiments, or lost or damaged research efforts
- Management errors, financial decisions, or lost income or opportunities
- Government-owned property
- Personal property of faculty, staff, or students
- Damage caused by earthquake, or natural disaster flood
- Damage caused by terrorism or bioterrorism, except damage due to terrorism as defined by TRIA (Terrorism Risk Insurance Act) is covered.
- In any country where trade relations are unlawful, as determined by the Government of the United States of America or its agencies, are not covered. In addition other countries may be excluded from time to time. Please see the Risk Management [6] website for a current list of excluded countries.

(3) Deductible
The first $1,000,000 of each claim is self-insured by the University. The department that suffered the loss or damage of property pays for the first $1,000 of each claim. See Guide Memo 2.4.5 [7]: Protection of Property, for information on possible waivers of the $1,000 deductible through the Police Department's STOPP program.

(4) Claim Processing
Risk Management processes all claims for the replacement value or repair of University property that has been stolen, destroyed or damaged. Depending upon the type, size and location of the loss, Procurement or Land, Buildings and Real Estate (LBRE) will be directly involved in the repairs or reconstruction. The preparation of specifications and a bidding process may be necessary. Risk Management must receive copies of all contracts, work orders, and purchase requisitions.

In the event a claim exceeds $1000, insurance or self-insurance may pay for repair or replacement value (whichever is less). "Replacement value" means the cost to repair or replace (not book value). Loss settlements are based on the cost to repair or replace with like kind and quality. Any upgrading will be at the cost of the department that suffers the loss. If property is not to be replaced (due to obsolescence or no continuing need or use for the property) insurance proceeds will not be based on the actual cash or depreciated value.

b. Boilers, Pressure Vessels and Heavy Machinery
(1) Situations Covered

Insurance covers explosion, burning, bulging, and cracking of insured objects; machinery and equipment are covered for sudden and accidental breakdown.

(2) Deductible

There is a $25,000 deductible per occurrence, except $50,000 for medical diagnostic equipment, the full amount of which is coordinated with LBRE/Buildings and Grounds Maintenance (or the department if it is a service center, an income-producing operation, or an auxiliary).

c. Budgeting Total Property Insurance Expense

(1) Total Property Insurance Expense includes General Property Insurance and Boilers, Pressure Vessels and Heavy Machinery Insurance. Following the end of each fiscal year, the Risk Management department will secure an actuarial study of claims under the Property Insurance Program. The actuarial study will provide two key figures that will be used to budget future property insurance expenses:

> **(a)** Self-insurance reserve required to fund claims (and related expenses) that have occurred prior to the end of the recently completed fiscal year but have not yet been settled/completed. (This can be an accumulation of several years of claims estimates, net of settlements). This actuarial required reserve may be higher or lower than the actual reserve balance at Fiscal Year End.
> **(b)** Actuarial projected self-insurance funding levels, or cost of claims and expenses that will be incurred in the next fiscal year. This will be the amount added to the reserve balance each year to cover claims incurred in that year.

(2) During the budget planning cycle (and no later than February 1), Risk Management will provide the Budget Office with the Aggregate Annual Premium to be charged internally for Property Insurance during the next fiscal year. At the same time, Risk Management will also provide the income-producing operations, formula schools, and auxiliaries with their respective property premium allocation to be charged during the next fiscal year. The Aggregate Premium will be composed of the following five elements:

> **(a)** Actuarial Projection of self-insurance funding for the cost of claims and expenses that will be incurred in the budget year.
> **(b)** A reserve for future catastrophic events.
> **(c)** Risk Management's estimate of premiums to be paid to outside insurers for excess coverage insurance during the next fiscal year.
> **(d)** Risk Management's estimate of other direct expenses (e.g., actuarial studies, legal expenses, brokerage fees, operating expenses) associated with the Property Insurance Program.
> **(e)** 30% of the surplus or deficit in the self-insurance reserve to the actuarial required reserve balance at the prior year-end. The application of a portion of the surplus or deficit (vs. 100%) is intended to provide a smoothing effect to avoid large year-to-year changes in the Aggregate Premium.

(3) The Aggregate Annual Premium is allocated to income-producing operations, formula schools, auxiliaries, and general funds based on property replacement values.

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3. Transit Insurance

a. Situations Covered

Stanford's insurance on transit covers all goods shipped inland to or by Stanford when the transit agreement assigns the risk to Stanford. For large (over 75 lbs.) or complicated shipments, including packing and crating, departments are encouraged to use American Overseas Air Freight.

b. Situations Not Covered

(1) Situations described in section 2.a (c).
(2) Waterborne shipments, unless by inland water, by roll-on/roll-off ferries operating between European ports, or by coastal shipments
(3) Shipments to any country where trade relations are unlawful as determined by the Government of the United States of America or its agencies are not covered. In addition other countries may be excluded from time to time. Please see the Risk Management [6] website for a current list of excluded countries.

c. Deductible
The first $50,000 of each claim is self-insured by the University. The first $1,000 of each claim loss is the responsibility of the department.

d. Claim Processing
Immediate notification of loss to Risk Management is required for losses greater than $1,000. Risk Management must receive copies of contracts, purchase orders, bills of lading or any transit agreements, shipping documents and/or invoices.

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4. Liability Insurance

a. Situations Covered
Liability insurance covers all locations and activities including University and government-owned vehicles. (For information on coverage for vehicles, including personal vehicles used on University business, see Guide Memo 8.4.2 [2]: Vehicle Use. Liability insurance also covers non-owned aircraft, watercraft, professional liability, employers' liability, products liability, etc. University trustees, officers, faculty, and staff are included as additional insureds for activities arising out of and in the scope of their employment.

b. Situations Not Covered
Stanford and insurers do not cover employees or others for their following personal acts:

- Criminal acts (including assault, battery, homicide, manslaughter, etc.)
- Fraudulent/dishonest acts (including theft, plagiarism, false testimony, etc.)
- Acts in which there is a conflict of interest (including personal gain)
- Acts not connected with or arising out of or related to Stanford employment or Stanford activities (e.g., personal gain, etc.)
- Fines, penalties or punishment which government authorities or law places on an individual (includes traffic fines, jail sentences, etc.)

c. Deductible
(1) Public Liability
The first $1,000,000 of each claim for public liability is self-insured by the University.
(2) Employee and/or Student Relations
The first $1,000,000 of each claim for liability claims involving student and/or employee relations is self-insured by the University.

d. Claim Processing
Upon becoming aware of an incident, which could lead to a liability claim or when a claim for liability is received, the department should immediately notify Risk Management.

e. Budgeting Liability Insurance Expense
(1) Liability Insurance includes General Liability, Educators Legal Liability, Automotive, Non-owned Aviation,

and Crime Insurance. Following the end of each fiscal year, the Risk Management department will secure an actuarial study of claims under the Liability Insurance Program. The actuarial study will provide two key figures that will be used to budget future liability insurance expenses:

> **(a)** Self-insurance reserve required to fund claims (and related expenses) that have occurred prior to the end of the recently completed fiscal year but have not yet been settled/completed. (This can be an accumulation of many years of claims estimates, net of settlements) This actuarial required reserve may be higher or lower than the actual reserve balance at Fiscal Year End.
> **(b)** Actuarial projected self-insurance funding levels, or cost of claims and expenses that will be incurred in the next fiscal year. (This will be the amount added to the reserve balance each year to cover claims incurred in that year.)

(2) During the budget planning cycle (and no later than February 1), Risk Management will provide the Budget Office with the Aggregate Annual Premium to be charged internally for Liability Insurance during the next fiscal year. At the same time, Risk Management will also provide the income-producing operations, formula schools, and auxiliaries with their respective liability premium allocation to be charged during the next fiscal year. The Aggregate Premium will be composed of the following four elements:

> **(a)** Actuarial Projection of self-insurance funding for the cost of claims and expenses that will be incurred in the budget year
> **(b)** Risk Management's estimate of premiums to be paid to outside insurers for excess coverage insurance during the next fiscal year
> **(c)** Risk Management's estimate of other direct expenses (e.g., actuarial studies, legal expenses, brokerage fees, operating expenses) associated with the Liability Insurance Program
> **(d)** 30% of the surplus or deficit in the self-insurance reserve to the actuarial required reserve balance at the prior year-end. The application of a portion of the surplus or deficit (vs. 100%) is intended to provide a smoothing effect to avoid large year-to-year changes in the Aggregate Premium.

(3) Allocation of Liability Insurance Expense
A portion of the Aggregate Annual Premium will be carved out and allocated to certain income-producing operations, formula schools and auxiliaries based on use, attendance, occupancy and square footage measures. The balance of the Aggregate Annual Premium after carve outs is then allocated to all income-producing operations, formula schools, auxiliaries, and general funds based on the prior year's actual payroll and headcount data.

Vehicle insurance premiums are allocated on a per vehicle basis and are not included in the Liability Aggregate Annual Premium calculations.

(4) Allocation of Settlement Costs
Following the end of each fiscal year, Risk Management will provide an analysis of the cost of settling all liability claims paid during the year (regardless of the year the claim was incurred). To the extent settlement costs for a particular income-producing operation, Formula School, or auxiliary exceeds the liability insurance premium paid by that unit over the same time period, the unit will be responsible for paying eighty percent (80%) of the excess cost back to the self-insurance reserve account over a three year period. To the extent that these settlement costs are less than the liability insurance premium paid by that unit over the same period, 50% of the surplus will be credited to the unit over a three-year period. To the extent that these settlements result in over funding of the reserve account, the surplus will be applied to lower the Aggregate Annual Premium charged across the University as described in the budget section above.

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5. Crime Insurance

a. Situations Covered
Crime insurance covers loss of monies and securities due to robbery, burglary, theft, or employee dishonesty.

b. Situations Not Covered
Once a loss due to the dishonesty of an employee becomes known, the insurance company will not pay for any future losses caused by that employee. Departments must report claims promptly and take action to prevent or reduce further loss.

c. Deductible
The first $1,000,000 of each claim is self-insured by the University.

d. Claim Processing
(1) Police Report
The department must notify the Police Department immediately (see Guide Memo 2.4.5 [7]: Protection of Property.
(2) Internal Audit Report
The department must notify the Internal Audit department, which will conduct an audit of procedures and policies and make recommendations to strengthen internal controls to help prevent a recurrence of losses.
(3) Insurance Claim
The department must contact the Risk Management office for assistance and instructions on processing a claim.

e. Budgeting Crime Insurance
Included in General Liability Budgeting Process section above.

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6. Other Property and Liability Insurances

a. Bonds
Notary and other miscellaneous bonds are arranged through Risk Management. The premium is charged to the requesting department.

b. Property Leased or Loaned to Stanford
Arrangements must be made through Procurement for any property, which is to be received or accepted as a loan or a lease. It is important that an authorized official sign the agreement. The agreement must indicate the description and value of the property, the party responsible for insurance, the perils to be covered, the party responsible for transportation insurance (both coming and going), etc. Copies of such agreements must be sent to Risk Management.

Forms for loan of artwork [8] are available from the Risk Management forms webpage.

c. Aircraft and Watercraft
If aircraft (other than scheduled airlines) or watercraft (25 H.P. or more and/or 26 feet in length or more) are to be used on University business, call Risk Management, as special insurance arrangements may be necessary to protect both the University, faculty, and staff.

d. Medical Malpractice Insurance

Contact Risk Management for additional information.

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