

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Portage Bay Insurance Annual Report

INFORMATION:

On June 30, 2010, the University’s captive insurance company, Portage Bay Insurance (PBI), completed its eighth year of operation. It is providing all coverage and services envisioned in its 2002 business plan. The following report is for information only.

GOVERNANCE AND MANAGEMENT:

The PBI Board of Directors includes two outside directors and five University employees having significant responsibilities for risk management, liability management and asset management. PBI contracts with the University for claim and risk management services from the Office of Risk Management and for investment services from Treasury. It contracts with Strategic Risk Solutions, a captive management company located in Phoenix, Arizona, to manage and account for its activities.

FY10 ASSET/LIABILITY GROWTH:

PBI provides professional, general, automobile and employment practices liability insurance coverage for the University, its employees and students. Annual premiums are established through an independent actuarial study and are paid by the central administration and self-sustaining units.

Fiscal year financial results are as follows:

	FY10 in millions	FY09 in millions	% Change Inc./.(Dec.)
Premiums Earned	\$11.6	\$11.8	(1.7%)
Losses Incurred	\$9.2	\$12.1	(24%)
Total Assets	\$69.8	\$74.2	(5.9%)
Total Liabilities	\$31.2	\$33.8	(7.7%)
Member’s Equity	\$38.6	\$40.4	(4.5%)

The reduction in losses, assets, liabilities and equity was driven by the settlements of several large claims, consistent with the national and regional trends of increased severity in professional liability losses. Overall, 118 claims were closed in the fiscal year, 37% without any payment to the claimant. Funds are invested in the University’s Invested Funds Pool which had a total return for the fiscal year

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Portage Bay Insurance Annual Report (continued p. 2)

2010 of 6.3%. Milliman, the University's independent actuary, has opined that PBI is adequately funded to meet its liabilities.

REINSURANCE:

PBI reinsures against catastrophic losses with London, Bermuda, Swiss and American reinsurers having A.M. Best ratings of A- or better. On July 1, 2010, coverage with limits of \$100 million was renewed for a \$2.5 million premium.

REGULATORY AND AUDIT:

KPMG has completed the PBI annual audit with no findings or issues. In 2007, a full regulatory review found PBI in compliance with all requirements of Hawaii, its state of domicile. The next mandated review will be in 2012. The IRS has ruled that PBI qualifies as a 501(c)(3) tax-exempt corporation.

PROGRAM ACCOMPLISHMENTS:

After UW Medicine and Northwest Hospital affiliated on January 1, 2010, a study was undertaken to determine whether it was feasible from financial, coverage and program perspectives to provide PBI coverage to Northwest. The results were: that providing professional, general and automobile liability coverage through PBI would save approximately \$2 million in premium annually; that PBI coverage was acceptable to Northwest and its employed practitioners; and that all necessary programmatic changes could be completed prior to January 1, 2011, the expiration date of Northwest's coverage program. Accordingly, PBI coverage for Northwest incepted on January 1, 2011 and is considered to be an early and significant benefit of the affiliation.

FY11 GOALS:

The Board of Directors will be completing a risk assessment this year to identify and assess the risks facing PBI, and to prioritize issues for mitigation and monitoring.