

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Portage Bay Insurance Report

When the Board of Regents approved the creation of the University's captive insurance company, Portage Bay Insurance ("PBI") in June 2002, it required that an annual report be made. On June 30, 2006, after four full years of operation, PBI is fully implemented and is approaching maturity.

FY06 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. PBI will continue to be in a growth phase for a few more years of operation. At the end of FY06, assets were \$37 million (up 35% from FY05) and liabilities were \$18 million (up 42% from FY05). Funds are invested in the University's invested funds portfolio which had a total return for the year of 6.2%, outperforming its benchmark by 60 basis points. Milliman USA, 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 and Swiss reinsurers having A.M. Best ratings of A- or better. The competition to reinsure PBI is such that it enjoyed an improvement in terms and conditions of reinsurance coverage at the July 1, 2006 renewal. Currently, it purchases \$75 million in limits above its self-insured retentions.

Regulatory and Audit

KPMG has issued its FY06 audit report with no findings. PBI is in full compliance with all regulatory requirements of Hawaii, its state of domicile. The IRS has ruled that PBI qualifies as a 501c3 tax-exempt corporation and that it is not required to file 990 forms.

Governance

The PBI Board of Directors includes two outside directors as well as its captive manager and five University employees having significant responsibilities for risk management, liability management and asset management.

Coming year

In addition to the annual audit, PBI will be subject to a full regulatory review this year. The Board will also be considering whether and how PBI might promote innovative loss control initiatives throughout the University, and how premium stabilization could be accomplished over time.