

VII. STANDING COMMITTEES

B. Finance, Audit and Facilities Committee

Portage Bay Insurance Report

On June 30, 2007, the University's captive insurance company, Portage Bay Insurance (PBI), completed its fifth year of operation. It is providing all coverage and services envisioned in its 2002 business plan.

Governance and Management

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. PBI contracts with the University for claim and risk management services through the Office of Risk Management, and for investment services through Treasury.

FY07 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. At the end of FY07, assets were \$48 million (up 31% from FY06) and liabilities were \$28 million (up 50% from FY06). 104 claims were closed in the fiscal year, 40% without any payment to the claimant. Funds are invested in the University's invested funds portfolio which had a total return for the year of 10.8%, outperforming its benchmark by 120 basis points. Milliman USA, the University's independent actuary, has opined that PBI is adequately funded to meet its liabilities.

The steep growth in equity of the start-up years will begin to level off as the rate of claim pay-outs continues to mature. Given stable risk exposures, equity should stabilize in the \$5 - \$10 range around 2010.

Reinsurance

PBI reinsures against catastrophic losses with London, Bermuda, Swiss and American reinsurers having A.M. Best ratings of A- or better. Negotiations resulted in July 1, 2007 reinsurance premium reductions in an amount sufficient to increase the UW's limits from \$75 million to \$100 million at no additional cost.

Regulatory and Audit

KPMG has issued its FY07 audit report with no findings. A full regulatory review found PBI in compliance with all requirements of Hawaii, its state of domicile.

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The IRS has ruled that PBI qualifies as a 501c3 tax-exempt corporation and that it is not required to file 990 forms.

FY08 Goals

This year, PBI will implement a plan to control premium growth and will also explore ways to promote innovative loss control initiatives throughout the University.