B. Finance and Asset Management Committee

Portage Bay Insurance Annual Report

BACKGROUND

Portage Bay Insurance (PBI) is the University of Washington’s not-for-profit single parent captive insurance company. The Board of Regents authorized its creation on July 1, 2002 in order to allow UW to approach reinsurance markets, thereby increasing available markets for catastrophic coverage. Other purposes included retention of investment earnings, regulation by Hawaii Insurance Commissioner, and the ability to craft policy language to meet UW’s needs.

On June 30, 2014, PBI completed its twelfth year of operation. It is providing the coverages and services envisioned in its 2002 business plan as well as additional new coverage and services.

Governance and Management

The PBI Board of Directors includes one outside director and six University employees having significant responsibilities for risk management, liability management and asset management (see attachment 1). PBI contracts with the University for claim and risk management services from the Office of Risk Management and for investment services from the Treasury Office. It also contracts with Strategic Risk Solutions for captive management and regulatory compliance services, Milliman for actuarial analysis, KPMG for audit services, Char, Hamilton, Yoshida & Shimomoto for legal counsel, and Saslow, Lufkin & Buggy for tax filing preparation.

FY14 Asset/Liability Changes

PBI provides professional, general, automobile, employment practices, and information security and privacy 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. FY14 results included total assets of $81 million (down 12% from FY13) and total liabilities of $46 million (down 22% from FY13). 111 claims were closed in the fiscal year, 58 with no payment to the claimant. Funds are invested in the University’s Invested Funds Portfolio which had a total return for the year of 5%. Milliman has opined that PBI is adequately funded to meet its liabilities.
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Reinsurance

PBI reinsures against catastrophic losses with European, Bermudian, and American reinsurers having A.M. Best ratings of A- or better. For medical malpractice and general liability, reinsurance coverage with limits of $100 million is purchased for $2.5 million in annual premium. Information security and privacy coverage is reinsured with limits of $10 million for $250,000 in annual premium.

Regulatory Compliance and Audit

KPMG completed PBI’s FY14 annual audit with no findings or issues. In 2013, a full regulatory review found PBI in compliance with all requirements of Hawaii, its state of domicile. The IRS has ruled that PBI qualifies as a 501c3 tax-exempt corporation; it regularly files the required 990 forms.

Program Accomplishments

In a 2014 A.M. Best analysis of 200 rated captive insurance companies, it was found that captives outperform commercial insurers in every key financial measure. PBI compared favorably to that group of captives in three ways: its underwriting approach provides more stable and predictable costs, enhanced coverage terms and evidence-based mitigation programs; its operating costs are lower and it avoids federal tax liabilities through its legal structure; and its loanback of assets to its parent, UW, minimizes investment management costs. Operating ratios are presented in attachment 2.

Due to its conservative 75% confidence level, PBI was able to absorb an unexpected $15 million medical malpractice verdict in July, 2013 (of which $5M was reinsured) without turning to the University for additional funding.

In 2012, in anticipation of increased federal enforcement of Title IX, PBI created a Compliance Support Program and hired the UW’s first dedicated Title IX/ADA Coordinator. It has since assumed responsibilities for UW-wide leadership in the safety of minors area as well. It provided the project manager for the President’s Task Force on Sexual Assault Prevention and Response and is a key player in the implementation of the Task Force’s eighteen recommendations.

Also in 2012, PBI issued its first Information Security and Privacy policy which was fully reinsured with London carriers. The policy covers the costs of forensics consultants, public relations and crisis management firms, statutorily required
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communications, credit monitoring and other claimant assistance, litigation defense, regulatory fines and penalties, arbitration awards, claim settlements and verdicts, the salaries and benefits of temporary UW employees hired to manage privacy and security injuries, and other costs reasonably incurred to mitigate damage. Because UW wrote the policy language, there are far fewer restrictions than normally found in commercial products.

In 2011, PBI extended liability coverage to Northwest Hospital and Medical Center, saving the UW Medicine system approximately $1.5M annually.

A PBI-funded “Patient Safety Innovations Program” (PSIP) was introduced in 2007. Structured as an internal research grant program, it has the dual objectives of strengthening UW’s culture around patient safety and, ultimately, controlling liability costs. Thus far, fourteen grants have been awarded at a cost of $840,000. Some PSIP-funded research products have been implemented by the UW medical centers, including: an on-line system to highlight critical radiology results; a uniform morbidity and mortality process for evaluating poor outcomes of patient care; team communications training in code blue response; and improved inter-operative glycemic control.

FY15 Goals

A UW-wide Compliance Education initiative is being rolled out this winter, providing free education and training to UW employees in a number of compliance areas with UW-wide applicability.

PBI will also be creating a forum for the risk managers of the facilities involved in UW Medicine’s Accountable Care Network to meet regularly to discuss emerging liability and risk financing issues, and to consider mutual loss prevention opportunities.

Attachments
1. Portage Bay Insurance 2014-2015 Board of Directors
2. Portage Bay Insurance Operating Ratios
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elizabeth Cherry</td>
<td>Executive Director, Risk Management</td>
</tr>
<tr>
<td>Tim Dellit</td>
<td>Associate Dean for Clinical Affairs, School of Medicine</td>
</tr>
<tr>
<td>Mark Green</td>
<td>Associate Dean for Business, School of Medicine</td>
</tr>
<tr>
<td>Rolf Johnson</td>
<td>Chief of Staff, President’s Office</td>
</tr>
<tr>
<td>Chris Malins</td>
<td>Associate Vice President, Treasury</td>
</tr>
<tr>
<td>Marcia Rhodes</td>
<td>Director, School of Medicine and Health Sciences Risk Management</td>
</tr>
<tr>
<td>Herb Van Der Veer</td>
<td>Retired Insurance Brokerage Company Executive</td>
</tr>
</tbody>
</table>
Portage Bay Insurance Operating Ratios

**Loss Ratio:** Paid and reserved claims divided by premium

![PBI Loss Ratio 2005-2014](image)

**Discussion:** The volatility in PBI’s loss ratio is not unusual for small captives, especially ones covering medical malpractice. The volatility argues for conservative funding in order to absorb large losses without going into deficit.

**Expense Ratio:** Operating Costs divided by premium

![PBI Expense Ratio 2005-2014](image)

**Discussion:** The expense ratio compares total costs of operating the company to premiums charged. Since PBI contracts with UW for claims management, risk management, and investments management services, PBI’s costs are low by industry standards.