STANDING COMMITTEES

Finance and Asset Management Committee

Portage Bay Insurance Annual Report

BACKGROUND

In 1976, the Legislature of the State of Washington authorized the University of Washington to self-insure and gave the Board of Regents the authority to determine the terms and conditions of coverage for UW and its employees and students. Since then, UW has directed its own risk financing and liability management program separately from the State’s program.

During the past 40 years, loss experience has been as follows:

Our current risk financing vehicle, 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, 2015, PBI completed its thirteenth year of operation. It is providing the coverages and services envisioned in its 2002 business plan as well as additional services.

GOVERNANCE AND MANAGEMENT

The PBI Board of Directors includes two outside directors 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 Compliance and Risk Services 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 Crow Horwath for tax filing preparation.

FY15 ASSET/LIABILITY CHANGES

PBI provides healthcare professional, general, automobile, and employment practices liability coverage. Annual premiums are established through an independent actuarial study and are paid by the central administration and self-sustaining units. FY15 results included assets of $87 million (up 8% from FY14) and liabilities of $61 million (up 32% from FY14). Of the 123 claims closed during the fiscal year, 71 (58%) involved no payment to the claimant. Funds are invested in the University’s Invested Funds Portfolio which had a total return for the year of 2.7%. Milliman has opined that PBI is adequately funded to meet its liabilities.

REINSURANCE

PBI reinsures against catastrophic losses with European, Bermudian, and American reinsurers having A.M. Best ratings of A- or better. For healthcare professional, general and automobile liability, reinsurance coverage with limits of $100 million is purchased for $2.5 million in annual premium.

REGULATORY COMPLIANCE AND AUDIT

KPMG completed PBI’s FY15 annual audit with no material findings or adjustments to its financial statements. PBI is the process of a regularly scheduled regulatory review by the Insurance Commissioner of the State of
STANDING COMMITTEES

Finance and Asset Management Committee

Portage Bay Insurance Annual Report (continued p. 3)

Hawaii, its state of domicile. The IRS has ruled that PBI qualifies as a 501c3 tax-exempt corporation; it regularly files the required 990 and 720 forms.

PROGRAM ACCOMPLISHMENTS

Due to its conservative 75% confidence level, PBI was able to absorb an unexpected $15 million healthcare professional liability verdict in July 2013 (of which $5 million was reinsured) without turning to the University for additional funding. Although it has a relatively small spread of risk compared to commercial companies, PBI has maintained predictable, gradual and affordable increases in its premiums despite some volatility in UW’s liabilities and investment returns (see Attachment 2).

In 2015, PBI funded the creation of the Compliance Services Program, which expanded the University’s focus to include structural as well as substantive compliance activities. Compliance Services is supporting the implementation of key mitigation activities identified through compliance assessments by subject matter experts from across the University and its second compliance report to the Board of Regents will be presented at today’s full Board meeting.

On January 1, 2016, PBI chose not to renew its Information Security and Privacy policy. Premiums for this fully reinsured program became prohibitively expensive as underwriters began to pay data breach liabilities from the retail and banking sectors. Now, costs arising from privacy and security breaches at UW will be funded by the self-sustaining units in which they occurred, or, for other units, from funds identified by the Compliance and Risk Services and Planning and Management offices.

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, 18 grants have been awarded at a cost of just under $1 million. 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.
STANDING COMMITTEES

Finance and Asset Management Committee

Portage Bay Insurance Annual Report (continued p. 4)

FY16 GOALS

PBI’s goals for FY16 are continued development of Compliance Services, predictable, gradual and affordable premium growth, and maintenance of low administrative costs.

Attachments
1. Portage Bay Insurance 2015 Board of Directors and Officers
2. University of Washington Professional Liability Program, Assets and Liabilities by Fiscal Year as of 6/30/15
Portage Bay Insurance

2015 Board of Directors and Officers

Elizabeth Cherry, Associate Vice Provost, Compliance and Risk Services (President)
Marcia Rhodes, Director, Health Sciences and UW Medicine Risk Management (Vice President)
Craig Watanabe, Strategic Risk Solutions, Hawaii (Secretary and Treasurer)
Tim Dellit, MD, Associate Dean for Clinical Affairs, School of Medicine
Mark Green, Vice Dean for Administration and Finance, School of Medicine
Rolf Johnson, Chief of Staff, Office of the President
Mike Kelly, Mike Kelly Risk Management Services, LLC
Chris Malins, Associate Vice President, Treasury
Herb Van Der Veer, James & Gable Insurance Brokers, Inc.