

FOUR CAMPUSES UNITED
ALL FOUR: COLORADO

Regent Finance Committee
Insurance Captive Overview
August 16, 2017



University of Colorado

Boulder | Colorado Springs | Denver | Anschutz Medical Campus

Current CU Property/Casualty Insurance Program

Self-Insurance Program Administration Includes:

- **Workers' Compensation**
- **Property**
- **General Liability**

- **Examples of past claims:**
 - Student instructor fell 40' over railing resulting in permanent injuries requiring life long medical care
 - Police officer fatality resulting in life long dependent financial benefits
 - Flood resulting in damage to 131 buildings
 - Freezer failure resulting in medical research loss



Current CU Property/Casualty Insurance Program

Self-Insurance Program Administration Includes:

- In-house claim file handling and payment for all lines of coverage
- In-house legal and litigation handling
- Process approximately 1,700 claims/suits per year
- In-house claim collections against negligent third-parties generated \$4.7 million in claim recoveries in FY 2016



Current CU Property/Casualty Insurance Program

Self-Insurance Program Coverages Includes:

Property

Self insurance coverage per claim = \$500,000, limit = \$1 billion

Covers buildings and content, fine arts/rare papers, business income, research

General Liability

Self insurance coverage per claim = \$1.25 million, limit = \$45 million

Covers errors and omissions, pollution liability, employment, fiduciary, foreign accident and medical, cyber, police, auto

Workers' Compensation

Self insurance coverage per claim = \$1.5 million, limit = statutory

Covers workplace injuries per Colorado statute



What is a Captive Insurance Company?

- A private, limited purpose insurance company (wholly owned subsidiary) that insures or reinsures the risks of its owner(s) and sometimes related or affiliated third parties.
- An alternative risk financing vehicle that many companies and institutions use to lower their overall total cost of risk. A correctly structured captive could offer CU financial benefits through the ability to fund for insurance more efficiently and take risk, where appropriate, for both student and partner programs.



What is a Captive Insurance Company?

History

- Date back to the early 1960's
- Becomes more popular during insurance crisis periods
- Today there are approximately 7,000 captives worldwide
- Utilization reaches far beyond Fortune 1,000
- Colorado has the oldest captive legislation in the country

Current CU structure includes a high self-insurance limit per claim with a layer of commercial insurance that is provided by the retail market.

A captive structure includes a high deductible with a layer of commercial insurance that is provided by the wholesale market.



Why a Captive?

Control of Process

- Premiums based on specific needs of CU, not an insurance company
- Payment flexibility of premium on CU's terms with no finance charge
- Complete underwriting control – who and what is insured for what price

Revenue Opportunities

- Capture potential underwriting income from third party business



Why a Captive?

Cost Savings

- Ability to access reinsurance markets for additional capacity and wholesale pricing
- Elimination of insurance carrier overhead expenses and profit
- Premiums are actuarially based on CU's loss experience, not the experience of an industry in general

Customized for CU

- Underwriting flexibility to provide coverage where it is unavailable or overpriced in the commercial marketplace
- Ability to provide customized coverage-specific policy forms which will allow CU to address its unique risks and exposures



Captive Benefits

- Potential cost savings benefit of approximately \$450,000 annually- Workers' Compensation, General Liability, and Property.
- Revenue generation opportunities:
 - A tenant users liability insurance program
 - A student-tenant liability product
 - A CU sponsored tuition guard product
 - Produce bonds to meet contract compliance requirements
 - A study-abroad student accident/medical insurance product



Captive Benefits

- Insurance coverage that could be added in the future, pending favorable analysis:
 - Student health
 - Voluntary employee benefits
 - Medical malpractice
- The financial cost savings and income opportunities could well exceed the annual captive operating costs
- Would help position the University of Colorado for any challenges with the traditional marketplace at future renewal times



Captive and Usage by Higher Education Institutions

- Cornell University
- Duke University
- Northwestern University
- Penn State University
- Rutgers University
- Stanford University
- University of Arizona
- University of California
- University of Iowa
- University of Michigan
- University of Minnesota
- University of Washington



CU Captive Project Management

Institutional Assessment

- Feasibility study completed by external party
- Business case developed
- Quantitative and qualitative opportunities identified
- Resources, internal and external, available
- Reinsurance/Excess insurance market and partner research completed
- CU peer captive utilization research conducted and completed



CU Captive Project Management

Operation/Management

- Regulatory and licensing matters identified and addressed
- Legal/legislative matters and activities identified and addressed
- Audit and accounting matters researched and addressed
- Program design and structure (single parent) researched and identified
- Domicile researched and identified
- CU management/directors identified
- Preliminary approval by Division of Insurance obtained



CU Captive Project Management

Budget

- Pro forma financial statements completed:
 - Workers' compensation initial transition into captive
 - Allocation of annual premium of \$7.5M
 - Annual claim losses of \$6.6M
 - Annual expenses of \$201K
 - Estimated surplus remains in captive
- Captive start-up and management costs identified
- Capitalization requirements identified and confirmed



CU Captive Project Management

Next Steps

- Finalize captive business plan for division of insurance approval
- Submit application to division of insurance for final approval
- Finalize captive formation of legal entity with Secretary of State
- Finalize capitalization for captive start-up
- Draft captive workers' compensation insurance policy
- Obtain captive license from division of insurance

