Regent Finance Committee
Insurance Captive Overview
August 16, 2017
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:

<table>
<thead>
<tr>
<th>Coverage</th>
<th>Self insurance coverage per claim</th>
<th>Limit</th>
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<tbody>
<tr>
<td><strong>Property</strong></td>
<td>$500,000</td>
<td>$1 billion</td>
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<tr>
<td></td>
<td>Covers buildings and content, fine arts/rare papers, business income, research</td>
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<tr>
<td><strong>General Liability</strong></td>
<td>$1.25 million</td>
<td>$45 million</td>
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<td></td>
<td>Covers errors and omissions, pollution liability, employment, fiduciary, foreign accident and medical, cyber, police, auto</td>
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<tr>
<td><strong>Workers’ Compensation</strong></td>
<td>$1.5 million</td>
<td>statutory</td>
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<tr>
<td></td>
<td>Covers workplace injuries per Colorado statute</td>
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</table>
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:
  o A tenant users liability insurance program
  o A student-tenant liability product
  o A CU sponsored tuition guard product
  o Produce bonds to meet contract compliance requirements
  o A study-abroad student accident/medical insurance product
Captive Benefits

• Insurance coverage that could be added in the future, pending favorable analysis:
  o Student health
  o Voluntary employee benefits
  o 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