

Master Property Program and Stone Arch Captive Update

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Goal

1. Update
2. Context for Governance Committee Recommendation

Recommendation (Action Item, Governance Committee Report)

Establish an Ad Hoc Commissioner Committee to help inform and advise the Commission on the future of Stone Arch Insurance Company, MHEC's wholly-owned captive, and share its findings and recommendations to the Executive Committee at the June 2025 Executive Committee Meeting.

Why?

1. Commission is the sole shareholder of Stone Arch, and thus has a fiduciary duty.
2. Our Commission has a practice of using committees to review and advise on important issues that require a deeper level of exploration.

Where we started: Master Property Program (MPP)

- Group property insurance program 1994-2023.
- Sunsetting due to variety of changes in insurance market.
- 12 claims left; 12-18 months.

Captive insurance

Captive insurance is when a business creates its own insurance company to cover its unique risks, rather than buying insurance from a traditional insurance provider.

Benefits:

- save on costs
- control coverage
- keep any profits from the insurance

Covers the first layer of risk (MPP \$2 million).

Master Property Program Wrap-Up

MPP was supported by two captives:

EPIC (rent-a-captive, through 2021)

- Final EPIC dividend distribution of \$1.1M to 49 institutions in November 2024.

Stone Arch (MHEC's solely-owned captive, 2021-2023)

- When all claims are complete (2025 or 2026), final dividends can be distributed.

Stone Arch Insurance Company

2021 Formation:

1. Feasibility Study
2. Domicile Selection
3. Regulatory Application
4. Capitalization
5. Launch

Structure: organized as a single-parent captive, which means we can insure our own business or a controlled but unaffiliated business, such as a management contract.



How could MHEC use Stone Arch?

Potential insurance coverages:

- Property
- Employee Benefits
- Cyber Liability
- Group Health
- Worker's Comp
- Stop-loss
- Terrorism
- Directors and Officers'
- Casualty Insurance

Structure options:

- Single-parent captive
- Cell captive
- Risk retention group
- Group
- Dormancy
- Dissolve

Strategic Review

Summer 2024: Began a **Strategic Review** to explore options.

Strategic Review Focus Group

- Blake Flanders, Kansas Board of Regents
- Dan Hurley, Michigan Association of State Universities
- David Pearce, University of Central Missouri
- Paul Turman, Nebraska State College System
- Julie Underwood, University of Wisconsin-Madison
- Joseph Rayzor, University of Wisconsin System Board of Regents, former chair, MPP Leadership Committee

Findings

- More time needed
- Commission-level Ad Hoc Committee

Ad Hoc Commissioner Committee

Recommendation

Establish an Ad Hoc Commissioner Committee to help inform and advise the Commission on the future of Stone Arch Insurance Company, MHEC's wholly-owned captive, and share its findings and recommendations to the Executive Committee at the June 2025 Executive Committee Meeting.

Committee

- Mix of legislators and higher education leaders
- General knowledge/interest in learning
- Option for committee members to bring in people with risk management expertise to help explore options and advise the committee
- Explore and guide from a MHEC-level perspective