



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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Sean Dilweg, Commissioner

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Office of the Commissioner of Insurance Property and Casualty Advisory Council

Minutes October 12, 2007

Council members present: Jim Thomas, Society Insurance Company, Bill Smith, NFIB, Brian Peacy, Employers of Wausau Insurance Company, Steve Tauke, M&I Corporation, Lemuel Eaton, Metro Milwaukee Fair Housing Council, Maryelyn Geisler, American Family Insurance, John Duwell, West Bend Mutual Insurance Company, and Mary Kaiser, Spectrum Insurance Group.

Council Members Absent: Charles Vang, Charles V. Vang Insurance Agency.

OCI representatives present: Sean Dilweg, Commissioner, Kim Shaul, Deputy Commissioner, Jean Terry, Rhonda Peterson, Jennifer Stegall, John Montgomery, Laurna Landphier, Clare Stapleton Concord, Sue Ezalarab, Ronnie Demergian and Karen Becker.

Others present: Louie Shubert, American Family Insurance Company, Don Cleasby, PCI, Roger Steinbach, ISO, Eric Englund, WIA, Jim Polcyn, WEA Insurance Company and Bill Toman, Quarles & Brady.

Jim Thomas chaired the meeting that began at 10:00a.m. in Room 041, 125 South Webster Street, Madison, Wisconsin.

I. Minutes of Previous Meeting

The minutes from the July 13, 2007 meeting were approved. (John Duwell/Brian Peacy)

II. Agent Licensing Update

Laurna Landphier reported that test development was completed in July. The new exam forms will be introduced on December 1. Updates to the candidate handbook are continuous for the on-line version, and reprinting of the paper copies will take place sometime next month to coincide with the newly revised exam content outlines. The Credit and Title examination will be reviewed and updated within the coming months. OCI will be putting new committees together to review and update the current exam forms and create new questions as well.

The OCI agent bills have been introduced as SB 272 and AB 501. These relate to OCI's request for rule making authority to implement fingerprinting of agents in the future, to eliminate certain fees, eliminate the 60-day suspension period for failing to pay biennial fees or failing to comply with continuing education, and to solidify a simplified reinstatement process. The monthly renewals are going very smoothly with very few complaints. The agent licensing staff is assisting those without computer access to process their payments for them. As of this morning, there are 113,386 licensed agents.

III. Legislative Update

Jennifer Stegall informed the Council that Governor Doyle has called a special session of the legislature for Monday, October 15 to act on the Governor's revised budget bill. Many of OCI's budget items were agreed to in conference committee and are anticipated to be in the Special Session bill. Two items not agreed to were OCI's request for an additional financial bureau supervisor and the Governor's proposal for consolidating all attorney positions under DOA. The Special Session bill includes the position and does not consolidate the attorney positions.

Agent Bills

Jennifer said that OCI's agent bills (AB501/SB252) were introduced by Senator Roger Breske and Representative Frank Lasee (the chairs of the Insurance Committees in the Senate and Assembly). The bills eliminate some fees currently charged by OCI, make technical changes to the agent licensing process, allowing greater flexibility for agents who face difficulties with license renewals and provide for an automatic license revocation for agents who leave the state. The bills grant the Commissioner of Insurance rule-making authority to require new agent license applicants to provide fingerprints before having their application approved. These changes make insurance agent regulation in Wisconsin more uniform with insurance agent regulations in other states.

Interstate Compact/Form Review Package

The package is currently being circulated for cosponsorship. Today is the last day to sign on to it. The bill enables Wisconsin to join the Interstate Insurance Product Regulation Compact, which revises policy form filing procedures in Wisconsin and extends Wisconsin's suitability of annuity sales statute to all annuity sales. The compact has jurisdiction over only four product lines: life insurance, annuities, disability income and long-term care insurance.

Federal legislation

Optional Federal Charter (OFC)

Discussion continues on an optional federal charter for insurance companies, however, an anticipated September hearing in the Senate never occurred and has not been scheduled in the near future. The House Financial Services Committee held a hearing on Insurance Reform on October 4 where the NAIC was criticized for its slow pace at uniformity and critics expressed doubt that state regulators would ever get there. John Bykowski, of SECURA in Appleton testified on behalf of NAMIC against an OFC.

Terrorism Risk Insurance Revision and Extension Act (TRIREA) of 2007

The House passed the TRIREA bill on September 20, 2007. As amended by the House the bill would extend the federal backstop on a long-term basis (15 years) and lower trigger levels for federal aid to kick in to \$50 million. In addition, the new legislation would add coverage for nuclear, biological, chemical and radiological (NBCR) events. The bill also extends coverage to so-called "domestic events" for the first time, meaning terrorism acts perpetrated by U.S. citizens as well as those from foreign countries and adds protection for group life insurers. The bill also provides for the creation of a blue-ribbon commission to propose long-term solutions to covering terrorism risks.

The prospects for quick legislative action seemed to have been diminished by a new estimate from the nonpartisan Congressional Budget Office that the measure could increase the deficit by \$3.5 billion over the next five years and by \$8.4 billion over a decade. The White House has threatened a veto of the bill as it was passed in the House. The Senate has yet to consider the measure, but is facing a December 31, 2007 deadline for expiration of the current program.

Nonadmitted and Reinsurance Reform Act of 2007.

There has been no activity on this bill since the last Council meeting, which had considerable discussion at the time.

Insurance Competition Act of 2007

There has been no activity on this bill since our last meeting. The bill appears stalled in Congress. This bill would amend the McCarran-Ferguson Act to make the Federal Trade Commission Act applicable to the business of insurance to the extent that such business is not regulated by state law.

Flood Insurance Reform and Modernization Act of 2007

This bill passed the House on September 20, 2007. Action in the Senate is not expected until 2008. Committee Chairman Dodd is said to be writing his own bill. The bill would allow individuals and

business owners to purchase optional "multi-peril" coverage, such as wind damage, through the flood insurance program. Coverage is not subsidized by the program and rates are actuarially based.

The bill increases the program's borrowing authority to \$21.5 billion; allows the Federal Emergency Management Agency (FEMA) to increase policy rates by as much as 15 percent a year; requires several studies; requires updates to floodplain maps at the 100- and 500-year levels; phases out subsidized rates on vacation homes and second homes; allows small-business owners to be eligible to purchase business interruption coverage at actuarial rates; requires FEMA to report to Congress on the financial status of the NFIP and conduct a thorough review of the nation's flood maps. The bill would make updating and modernizing flood maps an ongoing process. Funding for mapping would also be increased.

Homeowner's Defense Act of 2007.

This bill passed out of the House Financial Services Committee on September 26th and is touted as a private market solution. It attempts to raise investor money in private capital markets to make loans for state and regional reinsurance pools. The bill also creates a National Catastrophe Risk Consortium and a National Homeowner's Insurance Stabilization Program. There is also an annual reporting requirement by the Consortium.

IV. Administrative Rules Update

John Montgomery gave an update on the administrative rules.

Ins 6.05, Wis. Adm. Code

OCI has issued a statement of scope relating to the filing of insurance forms and insurance policy language simplification. Currently Chapter Ins 6, Wis. Adm. Code requires the use of rate and form transmittal documents which are unique to the state of Wisconsin and for use in Wisconsin only. It is the intent to adopt language and conform to the nationally accepted uniform insurance form listing and to modify rules relating to rate and form transmittal documents.

Ins 6.50, Wis. Adm. Code

OCI has issued a statement of scope relating to creating a limited line of authority for travel insurance. This proposal would create a limited line of authority for travel insurance in Wisconsin.

Ins 6.79, Wis. Adm. Code

OCI has issued a statement of scope relating to advisory councils and committees. The commissioner intends to consider adopting a rule to create greater administrative flexibility to adjust the focus and composition of advisory councils to reflect issues currently being addressed by the agency.

Ins 50, Wis. Adm. Code relating to annual audited financial reports, annual financial statements and examinations went into effect October 1, 2007.

Current information about any OCI administrative rules can be found on OCI's Web site at oci.wi.gov located in the Quick Links section under Laws, Rules and Bulletins.

V. Worker's Compensation Update/Rate Filing

Ronnie Demergian said that OCI has approved an overall decrease in the rate level of 2.47% for worker's compensation insurance. The revised rates and rating values went into effective October 1, 2007, applicable to new and renewal business only.

VI. New Business

Subprime Lending and the Impact on Homeowner's Insurance Discussion

Deputy Commissioner Shaul said that because of the attention in the news relating to subprime lending OCI was interested in hearing what impact this is having on the insurance industry. Discussion

followed on how property and casualty insurers did not put their investments in the subprime market. The industry has a large percentage of their investments in bonds or stocks with no ties to lenders. Lemuel Eaton expressed concern that consumers need more education/information about force placed insurance. They are unaware of the high costs associated with force placed insurance. Commissioner Dilweg said that OCI will continue to find ways to educate consumers about the costs associated with force placed insurance.

Governor's Task Force on Climate Change

Clare Stapleton Concord said that global warming is being discussed at all levels – internationally, nationally and as well as here in Wisconsin. Addressing climate change will require comprehensive national policy and international agreements. However, in the absence of federal policy, states and regions are taking the lead on developing policies that may provide models for future national efforts. At the international level the countdown to climate change standards convergence is beginning. Nationally, the NAIC is pursuing parallel tracks (catastrophe funds and regulatory oversight). The NAIC Task Force is considering asking insurers to raise the level of awareness of climate change, ensure firms incorporate knowledge of their own exposure to “climate change” related risk in their business and encourage regulators to evaluate the adequacy of insurers’ identification, retention and mitigation efforts. The NAIC Task Force will release a White Paper Draft in late October, have conference calls on the draft in November and December and have the revision ready for the NAIC National Meeting in December.

In Wisconsin, Governor Doyle created a Task Force on Global Warming that will bring together a prominent and diverse group of key Wisconsin business, industry, government, energy and environment leaders to examine the effects of, and solutions to, global warming in Wisconsin. Using current national and local research, the task force will discuss and analyze possible solutions to global warming challenges that pose a threat to Wisconsin’s economic and environmental health. The task force will create a state plan of action to deliver to the Governor to reduce the state’s contribution to global warming.

Discussion followed on how insurers could be more involved in looking at the insurance risks associated with global warming. Eric Englund said that the Wisconsin Insurance Alliance could create a working group that would provide the technical resources to better identify the risks associated with climate change and to analyze the impact these risks will have on the on the property and casualty industry.

OCI Title Insurance Advisory Committee

Jennifer Stegall said that Commissioner Dilweg has created a nine-member Title Advisory Council to look at issues related to consumer choice and education in the area of title insurance. The council will spend time reviewing issues raised in the April 2007 GAO Report on *Action Needed to Improve Oversight of the Title Insurance and Better Protect Consumers*. An analyst who worked on the report will be at the first meeting to give highlights of the report.

Credit Scoring

Rhonda Peterson said that credit reports has become an issue that is being discussed at both the state and federal level. It has been 10 years since OCI issued the bulletin to insurers on the use of credit reports in underwriting personal auto and homeowner’s policies and OCI is looking for input from the Council on whether there needs to be changes/updates to the bulletin. It was agreed that OCI will give more direction to the Council on what they are looking for – i.e. statute, rule change, etc. Information will be sent to Council members prior to the next meeting. Jim Thomas requested that a copy of the summary done by the FTC commission also be sent to council members with the agenda. Credit scoring will be included as an agenda item for the next meeting.

Auto Repair Program Survey

Rhonda Peterson said that the legislature asked OCI collect information about the claims adjudication practices of auto insurers concerning claims involving auto body repair with respect to the insurer's policyholders and third-party claimants. The survey responses are due November 2. The results of the survey will be discussed at the next meeting.

VII. Next Meeting Date

The next meeting of the Property and Casualty Advisory Council is scheduled for Friday, January 11, 2008 at 125 South Webster Street. The Council adjourned at 12:30 p.m.