



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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## Attachments

### Office of the Commissioner of Insurance Property and Casualty Advisory Council

#### Minutes January 11, 2008

Council members present: Jim Thomas, Society Insurance Company, 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: Bill Smith, NFIB and Charles Vang, Charles V. Vang Insurance Agency.

OCI representatives present: Kim Shaul, Deputy Commissioner, Jean Terry, Rhonda Peterson, John Montgomery, Eileen Mallow, Roger Peterson, Jim Guidry and Sue Ezalarab.

Others present: Jeff Rieder, Ward Group®, Rick Parks, Society Insurance Company, Barbara Ulbrich, State Farm Insurance, Richard Pike, Allstate Insurance, Misha Lee, Sentry Insurance, Louie Shubert, American Family Insurance Company, Jim Polcyn, WEA Insurance Company and Bill Toman, Quarles & Brady.

Jim Thomas chaired the meeting that began at 10:00 a.m. in the Spencer Kimball Conference Room 227, 125 South Webster Street, Madison, Wisconsin.

#### **I. Minutes of Previous Meeting**

The minutes from the October 12, 2007, meeting were approved. (Steve Tauke/Brian Peacy)

#### **II. Review of Industry Benchmarks**

Jeff Rieder, President, Ward Group® gave a presentation entitled "Review of Industry Benchmarks." Benchmarking is a management tool that helps companies remain competitive and become more efficient. The best companies to benchmark with are the top performers in the industry even if they are not the insurer's direct competitors. Top performers may not be the biggest companies either but are top performers because they often have the best workflows and most efficient operating practices.

The presentation discussed the search for those best practices that will lead to superior performance of a company. It is important for companies to integrate best practices and financial comparisons. Top performers usually meet at least 1 of 4 key focus points:

1. Identify product strengths/market niche
2. Achieve geographic concentration to support business
3. Achieve distribution system effectiveness
4. Effectively identify and meet key customer service points

Jeff discussed the observations and trends for the key functional areas of an insurance company: finance, human resources, technology and claims. The outlook for the insurance industry includes: the soft market will continue, expense deterioration, flat to slight increase in claim activity, continue restructure of employee benefits, more geographic and agency expansion, Web-based solutions, changing operation models and structure; agency consolidation; more attentive to M&A activity and evaluation of alternative distribution channels, including direct model considerations.

### III. Legislative Update

Jim Guidry said that since the October meeting a few changes were made to the insurance committees. Senator Roger Breske is no longer the chair of the Senate insurance committee. Senator Jon Erpenbach now chairs the Senate insurance committee. Jim gave an update on the following bills:

**Senate Bill 348** relating to factors for setting premium rates for motor vehicle insurance. This bill prohibits an insurer, when setting rates for automobile insurance, from using as a factor the zip code of the residence of an insured. The bill applies to personal lines and not commercial auto. The bill was referred to the Committee on Health, Human Services, Insurance and Job Creation.

**Assembly Bill 632** relating to insurance coverage of modifications to undamaged portions of property to match repaired portions of property. This bill provides that an insurer under a property insurance policy may agree to pay for any cosmetic modifications, such as painting or siding installation, to the undamaged portion of the property that are necessary to match the repaired, rebuilt, or replaced portion of the property that was damaged. The bill was introduced by Representative Schneider and referred to the Committee on Insurance.

#### **OCI's Technical Bills**

Eileen Mallow said that Senate Bill 272 reforms the license suspension/revocation and reinstatement process for insurance agents that encounter license renewal problems related to fee payments, continuing education or failure to pay child support or delinquent taxes. The bill would grant the commissioner rulemaking authority to require fingerprinting of new agent applicants. The language is necessary to comply with existing FBI policy that enables OCI to access the national Crime Information System. OCI does not require fingerprinting at this time, but the bill would allow OCI to promulgate a rule to require fingerprinting at some point in the future. The bill passed the full Senate. A hearing was held in the Assembly on November 29.

#### **Interstate Compact/Form Review Package**

Eileen Mallow said that legislation relating to the Interstate Insurance Product Compact was introduced as Assembly Bill 542 and Senate Bill 294. The legislation 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 four product lines: life insurance, annuities, disability income and long-term care insurance.

#### **LRB – 0842/6 – OCI's Technical Bill**

Eileen Mallow said that OCI's technical bill will probably be introduced today by Senator Erpenbach and Representative Frank Lasee, chairs of the Senate and Assembly insurance committees. The bill makes various changes to the insurance security fund statutes, removes the Local Government Property Fund from the state investment fund and makes various other insurance related changes. No hearing date has been scheduled. OCI hopes to get the bill passed yet this session.

### IV. Administrative Rules Update

John Montgomery gave an update on the administrative rules.

#### **Ins 6.05, Wis. Adm. Code relating to requiring the use of rate and form transmittal documents to Wisconsin**

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. The actual form document is included as part of the rule. The proposed rule would require insurers to use nationally accepted uniform transmittal documents and produce coding that all other states will be using. Completion of drafting the rule is waiting for passage of Assembly Bill 542.

**Ins 6.50, Wis. Adm. Code relating to creating a limited line of authority for travel insurance**

Currently Wisconsin has 4 limited lines of insurance authority (credit, title, legal expenses and miscellaneous). The proposed rule would create a new limited line for travel insurance that would enable Wisconsin resident agents to more easily obtain authority to sell this insurance in other states. OCI issued a statement of scope in August 2007. A hearing on the rule was held in November and the rule was sent to the legislature for their review in December. The draft rule is now being reviewed by the Senate and Assembly insurance committees. They have until the first week in February to act on the rule.

**Ins 6.79, Wis. Adm. Code relating to advisory councils and committees**

Currently OCI rules create three councils (Life & Disability; Property & Casualty and Employee Welfare Plans). The proposed rule would create more flexibility in the focus and structure of some of the councils. Current language is outdated – one of the committees is to make recommendations on statutes that have been replaced. OCI issued a statement of scope in July 2007. The proposed rule is still being drafted.

**V. New Business****Model Audit Rule**

Deputy Commissioner Kim Shaul said that OCI will be reviewing and considering adopting the NAIC Model Audit Rule. OCI will be asking for input from the Council and insurance companies as part of the decision making process.

**NAIC Reinsurance Rule**

Roger Peterson said that NAIC Reinsurance Task Force is proposing to modernize the U.S. reinsurance regulatory system. The proposal includes the establishment of a new entity called the Reinsurance Supervision Review Department (RSRD). A domestic reinsurer may access the U.S. market upon certification by its state of domicile or another appropriate U.S. regulator. Uniform standards would be established for a company to qualify for certification, and or for a state to qualify to be recognized as a reinsurer's single state regulator. A non-U.S. reinsurer from an RSRD-approved jurisdiction could be certified to access the U.S. market through one jurisdiction, referred to as the reinsurer's "port of entry." The process would also be governed by uniform minimum standards. Roger said that there are a number of issues that require further discussion and analysis. If anyone has any concerns or suggestions about the rule they should contact Roger.

**VI. Other Business****Credit Scoring**

Eileen Mallow said that Commissioner Dilweg testified at a November 29, 2007, hearing on the use of credit information in auto and homeowner's insurance policies. In 1997, OCI issued a bulletin to property and casualty insurance companies that provided OCI's position regarding the use of credit information in underwriting. OCI is considering reviewing the 1997 bulletin to insurers. OCI receives a small number of complaints related to the use of credit information. Since 2002 the total number of complaints received was 148. OCI averages 8,000 complaints annually. For 2007, OCI received 49 complaints, 34 of them against one company that began using credit information as a rating factor for the first time this year in its homeowner's line of business for both new business and renewals.

**Auto Repair Program Survey**

Rhonda Peterson said that the legislature had asked OCI to 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 was to include the following three questions:

1. When settling an auto insurance claim, does the insurer offer the insured and/or third-party claimant an option of a direct repair program?
2. When responding to a consumer inquiry, do insurers use the same procedure in responding to a call from their customer or a claimant?

3. Do insurers use a script and/or talking points in responding to consumer inquiries? Insurers were asked to provide a copy of the appropriate scripts/talking points.

Jean Terry said that the legislature requested that OCI survey these specific companies: Allstate Insurance Company, Farmer's Insurance Company, Liberty Mutual Insurance Company and Progressive Insurance Company. OCI was also asked to provide which property and casualty companies were fined or otherwise penalized over the last 18 month period and what company violation caused OCI to take the action. A copy of the survey results was distributed at the meeting.

#### **VII. Next Meeting Date**

The next meeting of the Property and Casualty Advisory Council is scheduled for Friday, April 11, 2008 at 125 South Webster Street. The Council adjourned at 12:15 p.m.

#### **Attachments to Minutes**

[Review of Industry Benchmarks—Power Point Presentation by Jeff Rieder](#)

[Legislative Update January 10, 2007](#)

[Senate Bill 348](#)

[Assembly Bill 632](#)

[Office of the Commissioner of Insurance—LRB 0842/6](#)

[Senate Bill 272](#)

[OCI Administrative Rules—http://oci.wi.gov/ocirules.htm](http://oci.wi.gov/ocirules.htm)

[NAIC Reinsurance Regulatory Modernization Proposal](#)

[NAIC Reinsurance Regulatory Modernization Framework Proposal Memorandum—  
http://www.naic.org/committees\\_e\\_reinsurance.htm](http://www.naic.org/committees_e_reinsurance.htm)

[Use of Credit Information in Auto and Homeowners Policies—  
Testimony of Commissioner Sean Dilweg](#)

[Credit-Based Insurance Scores: Impacts on Consumers of Automobile Insurance—Executive Summary](#)

[Auto Repair Survey](#)