



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 July 11, 2008

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

Council members absent: Bill Smith, National Federation of Independent Business.

OCI representatives present: Commissioner Sean Dilweg, Deputy Commissioner Kim Shaul, Mikaela Reck, Eileen Mallow, Jim Guidry, Jennifer Stegall, Roger Peterson, Guenther Ruch, Rhonda Peterson, Ronnie Demergian, Jo LeDuc, Sue Ezalarab and Mary Reines.

Others present: Ralph Herrmann, Worker's Compensation Rating Bureau, Rick Parks, Society Insurance a Mutual Company, Roger Steinbach, Don Cleasby, American Family Insurance Company, Andy Franken, Wisconsin Insurance Alliance, Bill Toman, Quarles & Brady, and Barbara Ulbrich, State Farm Insurance.

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. **Approval of April 11, 2008, Minutes**

The minutes from the April 11, 2008, meeting were approved.

Brad Bodden of American Family Insurance was introduced as a new agent member of the council.

II. **Insurance Workforce Initiative**

Deputy Commissioner Kim Shaul touched base on the Insurance Workforce Initiative. Wisconsin is the 6th largest insurance state in terms of premium volume. Wisconsin's insurance industry employs about 65,000 people in Wisconsin. Approximately 35,000 of these are agents. The industry is projecting an increased need for employees over the next 10 years. The Commissioner's goal is to build awareness of this need statewide and would like OCI to help facilitate programs available to help build a skilled workforce for the insurance industry and for agents. To date we have been working with the Wisconsin Foundation for Independent Colleges which has an insurance internship program set up. OCI is also working with the UW System and technical colleges.

III. **NAIC Issues**

A. **Model Audit Rule Work Group**

Jim Guidry said that a rule hearing was held on July 8, 2008. It was discovered that we inadvertently omitted a piece on exemptions and effective dates. We will add that back in the rule and send the rule to the legislature. Everything has gone smoothly and the rule should have an effective date of January 1, 2010.

B. Market Conduct Annual Statement

Eileen Mallow said that this is on hold indefinitely. The market conduct data set has been occurring and will go on as it is currently. The issue is with companies, as they do not want public/open records on financial records. The data could reveal business practices. This all started 20 years ago on a concept by Illinois to track market conduct practices of insurance companies. Currently, the data is not centrally housed. Commissioner Dilweg does feel what Ohio is doing is fine. The NAIC wants to facilitate distribution. The industry is interested in Market Conduct Annual Statements but there is no time deadline.

Comment/question from the council:

- How does it affect the market conduct exams at OCI? These statements help OCI hone in on issues with companies and can focus office resources on issues. It also adds to our ability to not only look at companies, but the exams are more efficient and can be reviewed with industry trends.

C. Climate Change and Global Warming

Commissioner Dilweg said that the white paper was adopted in June. OCI has met with the Wisconsin Insurance Alliance and held a working group meeting in Madison. The current issue is disclosure, as a supplement to the annual statement. OCI is looking at getting scientists involved to present at a meeting in Colorado and have open discussion. California has raised the question on what level companies will be involved. The goal of the work group is to get the heavy lifting done between now and the end of August. All comments and various survey results are available on the NAIC Web site.

Comments/questions from the council:

- Concern was expressed on how the data would be used and if the data submitted would be valued. A test run of data should be done to see if the answers will give value and could be used going forward.
- It would be good if the data collected could be accumulative so trends can be seen.
- The process will be transparent and will continue to be open to information suggested by the council.
- The issue of SEC companies versus non-SEC companies. Another issue is the size of a company (i.e., global, regional, etc.) because the more local you get it is difficult to get a broad sense of how climate change affects the business practices. A larger company with a broad range of products and regulated also by the SEC may be more appropriate and not as appropriate for smaller companies.

D. NAIC Reinsurance Task Force

Roger Peterson gave an update on the last year of activity from the NAIC Reinsurance Task Force. The task force has a new change from New Jersey. There is a revised approach for non-U.S. reinsurers to have a state qualify as a monitor. A national reinsurance concept is being introduced and would monitor the financial conditions and requirements. Relying on the home state/domestic state to regulate a high level of data based on the ratings from rating agencies and compliance of collateral terms. Effort is to streamline reinsurers' regulation and the concept has developed a lot. The issues around this have been addressed. A public hearing will be held in late July. The intent of the public meeting is to receive public comment and for regulators to discuss those comments to finalize details through the task force. The concept could be finalized before the end of 2008.

Comments/questions from the council:

- Could any state be a port of entry? There will be a process for a state with standards to meet in order to become a port of entry state.

- Will this concept work even if all states do not meet NAIC standards? Confident once the revised model is adopted, then accreditation becomes a situation for states to consider. There probably will be a timeframe for states to consider and adopt the process.
- Would non-U.S. reinsurers be involved in the process? The push is to conform both U.S. and non-U.S. reinsurers. States have more focus on U.S. reinsurers and it has been difficult to navigate the different views, but Commissioner Goldman, Chair, has done a good job to address this.
- If the U.S. implements federal regulation and preempts the state rule, how will this affect the model? At this time we are not venturing to guess what the legislature will do, but the goal is to keep preemption issues at bay. The NAIC is trying to take into consideration any federal issues/actions to avoid federal involvement.

IV. Legislative Update

Jim Guidry provided an update on OCI and Federal legislation.

OCI Legislation

OCI has begun the process of developing legislative proposals for next year. Staff is currently submitting suggestions for statute and administrative rule changes for the next legislative session that begins in January. Later this month the suggestions will be evaluated and a final list will be developed. It is the agency's goal to have legislative drafts that are ready for introduction at the beginning of the new session.

Federal Legislation

Insurance Information Act H.R. 5840

The House Capital Markets, Insurance, and Government Sponsored Enterprises Subcommittee marked up a substitute amendment to the Office of Insurance Information (OII) bill. The bill creates an office of insurance information to coordinate federal efforts and establish federal policy on international insurance matters. Other duties include advising the secretary of the treasury on major domestic and international insurance matters effecting consumers and insurers; serving as the primary advisor regarding the export and promotion of insurance products and services; and to collect and analyze data related to insurance. The bill gives the OII the authority to preempt state law where it is determined that state law is inconsistent with agreements related to federal policy on international insurance matters. An attempt to amend the bill that would have redirected this preemption authority to Congress was withdrawn.

Increasing Insurance Coverage Options for Consumers Act H.R. 5792

The House Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee marked up HR 5792. This bill permits risk retention groups to begin offering commercial property coverage in addition to liability coverage. The bill also adds requirements for corporate governance standards.

National Association of Registered Agents and Brokers Report Act of 2008 H.R. 5611

This bill established the National Association of Registered Agents and Brokers (NARAB) to provide a mechanism through which licensing, continuing education, and other insurance producer qualification requirements and conditions can be adopted and applied on a multi-state basis, while preserving the rights of states to license, supervise, and discipline insurance producers, and to prescribe and enforce laws and regulations with regard to insurance-related consumer protection and unfair trade practices. The bill grants membership into NARAB to any agent licensed in their home state. Agents would be subject to a national criminal background check if one has not been conducted in their home state. States would be prohibited from denying a license to NARAB members.

V. Worker's Compensation Rate Structure Evaluation

Guenther Ruch gave an overview of the Worker's Compensation Rate Structure Evaluation that is occurring. The purpose was to give the council a "heads up" as the Bureau is looking to make changes. Wisconsin has used administered pricing for its Worker's Compensation program since 1911, where everyone charges the same rate based upon rates filed by the Worker's Compensation Rating Bureau (WCRB) with OCI and subsequently approved by OCI. This structure has worked very well for Wisconsin. The WCRB's rating committee is looking at the rating structure for more individual insurance company flexibility. This item will be on the agenda for the council as the project evolves.

Comments/questions from the council:

- What are the underlying drivers suggesting changes are needed? Wisconsin is one of the last administered pricing states. Being responsive to individual risks is important to consider. Wisconsin has not experienced a worker's compensation insurance crisis like other states.
- With Wisconsin's worker's compensation history, if we do not have a problem, why even review it? It sounds like introducing volatility in the worker's compensation market. This is why we are involving the council. While we agree that it is a good business practice to review a program for modernization and improvement, we must be very careful with a functioning market with these types of issues as they arise. The WCRB is going to look at the rating structure just because it has been so long and the pros and cons of the current system with options will be reviewed.

VI. Bulletin to All Property and Casualty Insurers Regarding Renewals and Nonrenewals

Rhonda Peterson informed the council that the bulletin to insurers was released in June. The bulletin is available on the OCI Web site.

VII. Agent Licensing Update

Sue Ezalarab said that OCI will be looking at statutory changes in January. Also, if agents do not pay renewals in a timely manner or complete CE's, their license will be revoked until requirements are satisfied.

VIII. Other Business

A. Survey on Storm Damage

Jim Guidry provided a brief summary of results from a survey submitted to 20 Wisconsin insurance companies in regards to all the storm damage in June of 2008. All the companies responded to the five questions asked on the survey. Eleven of the 20 insurers did dispatch a catastrophe unit or increased adjusting and claims handling staff to accommodate increased claims activity. Insurers reported they had 2.2 million policyholders in the affected areas, with 18,813 claims filed as of the reporting date of the survey. The potential losses were estimated to reach \$55.6 million. OCI's Local Government Property Insurance Fund has had 80 claims. The Governor did set up a team to deal with the flooding and other summer storm issues. OCI is on this team.

Comments/questions from the council:

- Is OCI getting complaints from insureds? Yes, so far we have received 25 complaints. We are also referring individuals to FEMA.
- Are companies doing a good job of working well with insureds? Yes, they seem to be and are using this as an opportunity to educate insureds.

B. File and Use Policy Form Filings

Sue Ezalarab provided an update to the council on form filing procedures. Effective July 1, 2008, Wisconsin law changes the prior approval requirement for many insurance policy forms. Information about the changes and instructions for policy form filings are available on OCI's Web site.

IX. Next Meeting Date

The next meeting of the Property and Casualty Advisory Council is scheduled for Friday, October 10, 2008, at 125 South Webster Street.

Attachments to Minutes

[Model Audit Rule](#)

[NAIC Climate Change and Global Warming Task Force](#)

[NAIC Reinsurance Task Force Activities](#)

[Wisconsin Compensation Rating Bureau Rating Committee Members](#)

[Bulletin to All Property and Casualty Insurers Regarding Renewals and Nonrenewals](#)

[Form Filing Procedures as of July 1, 2008](#)