

IV. Funds and Program Management



Information Services Section

The Information Services Section provides new applications, project management, architecture, design work and programming; network and database operations and security; maintenance support for all in-house computer applications and interfaces for all external applications; hardware and software testing and acquisitions; and help desk support for desktop and laptop PCs, printers, faxes, scanners and copiers. The section is also responsible for the agency's project management program. The section strives for 99.9% uptime of the database and network. Agency telecommunications services are also provided or coordinated through this section.

Applications

On the applications side of the Information Services Section, the following work was accomplished in support of user business applications:

- Completed Phase 1 of the Complaint system redesign.
- Started work on Phase 2 of the Complaint system.
- Completed Phase 3 of the Injured Patients and Families Compensation Fund, including electronic payments.
- Completed Premium Tax system redesign, including the ability to send correspondence electronically.
- Started work on the Rate Review system.
- Completed work on standardizing user interface design for secured Web applications.
- Implemented digital asset management and letter generation solutions.
- Started work on the Legal system.

Infrastructure

On the technical side of the Information Services Section, the following work was accomplished to improve business users' computing environment:

- Completed laptop roll out for the agency.
- Tested disaster recovery at alternate site.
- Implemented wireless connectivity at the agency.
- Upgraded network switches for the agency.

Management

On the management side of the Information Services Section, the following work was accomplished to improve overall IT program management:

- Hired an Applications Manager.
- Developed processes for tools selection and research.

Project Management Office and Quality Assurance

The Project Management Office (PMO) is responsible for all projects the agency undertakes. It provides training in project management and ensures that the projects meet business goals. The PMO reports project performance directly to the Project Governance Board on a quarterly basis.

Activities in 2012 included:

- Continued improvements to the project management process.
- Implemented quality assurance processes.
- Started microfiche conversion project.

Management Analysis and Planning

The Management Analysis and Planning Section (MAPS) supports the mission of the Office of the Commissioner of Insurance (OCI) through oversight of the agency's business planning processes in the areas of financial management and office management. This section is responsible for the agency's budget, accounting, and fiscal responsibilities, records management, and administers office management services, including risk management, health and safety, building maintenance, and parking coordination. MAPS staff also serves as liaison between the agency and the Department of Administration for human resources and procurement services.

Financial Management

This area provides accounting, budgeting, contract management, internal control, procurement, risk management, and vendor payment services for OCI. The section produces the annual operating budgets for all units of the agency, external financial reports at the fund and agency level, GAAP reports, and required statutory reports, e.g., the minority contracting reports, as well as annual contract justification for continued contract renewals.

The staff is responsible for providing technical budget assistance and guidance to OCI managers and staff, tracking expenditures and revenues, collecting accounts receivables, calculating and billing the annual examination assessment, calculating and billing the annual care management organization examination charges, administering the state purchasing card program, cashiering and serving as liaison with the Department of Administration-Procurement.

Some of the accomplishments in this area during the past year include:

- Member of the State Agency Purchasing Council.
- Continued meeting requirements for obtaining IT contract services through the vendor-managed IT services contract.
- Developed the agency's 2013-2015 Biennial Budget Request.

Office Management

The Office Management area provides essential office leadership and services in an effort to achieve a quality workforce and environment in support of the mission of the agency. This area is responsible for monitoring and maintaining agency policies and procedures, managing administrative matters affecting the business operation of the agency, and serving as liaison with the Department of Administration-Human Resources as well as staff development. In an effort to strive to achieve physical accommodations for maximum comfort, security, and safety for staff and visitors alike, this area is responsible for the management of building maintenance and security, along with provision of health and safety oversight.

Some of this area's major accomplishments for 2012 were:

- Continued the agency's ongoing supported work efforts by renewing the employment of disabled individuals through Community Work Services, Inc.
- Responded to employees' ergonomic needs.
- Reviewed and updated the agency's Health and Safety Action Plan.
- Reconfigured office space to accommodate organizational changes.
- Utilized all available National Association of Insurance Commissioners' (NAIC) grant/zone funds to support our regulatory training needs.
- Provided specialized industry training in-house.
- Managed Employee Assistance Program (EAP) involvement, including: attended quarterly meetings, worked on Health Fair and gave updated EAP information to agency.
- Coordinated OCI Affirmative Action Advisory Committee involvement, including: monthly meetings, attended joint State AAAC meeting and updated committee members with information shared, initiated an "Adopt a School" program in the agency, represented the agency at campus career fairs to provide information to prospective graduates about employment opportunities in insurance, and organized a diversity luncheon within the agency.

Alternative Work Patterns

OCI is cognizant of the need to offer a flexible work environment in order to maximize the employment options available to existing and potential state employees and to meet the needs of our constituents. OCI encourages the utilization of alternative work patterns such as flex time, part-time, and shared-time schedules to increase productivity, extend services, reduce absenteeism, improve employee morale, allow for employee development, and maximize energy conservation through ridesharing and use of mass transit systems. Approximately 90% of

the agency's staff has some form of nonstandard work schedule. The agency also reviews requests, on a case-by-case basis, from staff who wish to temporarily work from their home. The agency recognizes that alternative work pattern schedules may provide opportunities for individuals to productively utilize their skills, talents, and abilities. It recognizes that a traditional full-time work schedule may not meet the needs of individuals who, due to age, health, or family circumstances, find such a schedule in conflict with responsibilities outside of work.

Injured Patients and Families Compensation Fund (Fund)

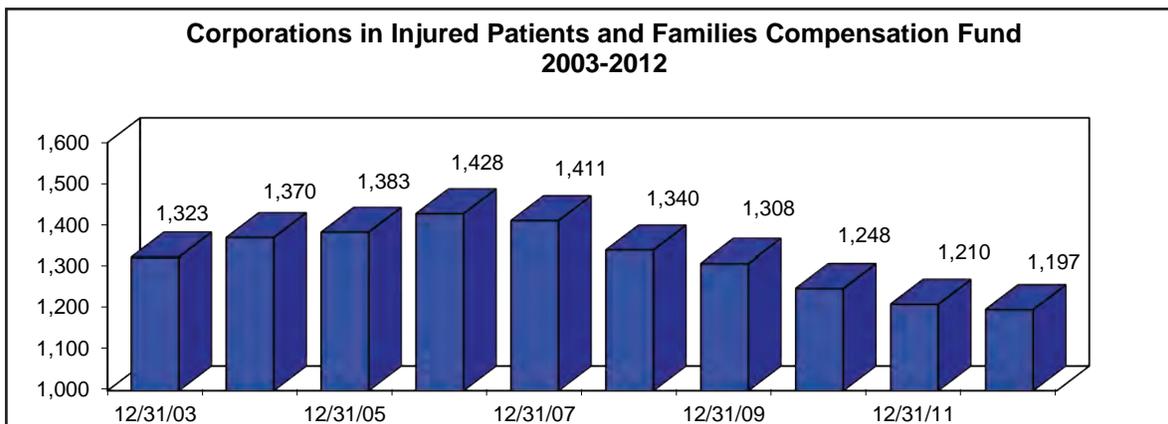
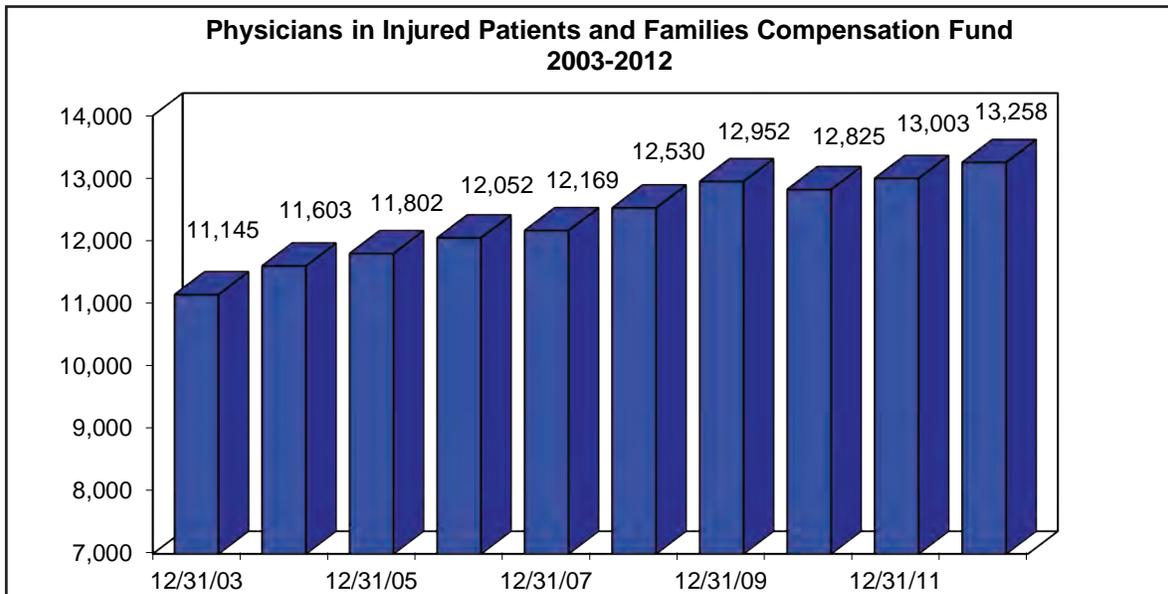
The Fund was created in 1975 to provide excess medical malpractice insurance for Wisconsin health care providers. The Fund is governed by a 13-member Board of Governors (Board) that consists of 3 insurance industry representatives, a member named by the Wisconsin Association for Justice, a member named by the State Bar of Wisconsin, 2 members named by the Wisconsin Medical Society, a member named by the Wisconsin Hospital Association, 4 public members appointed by the Governor, and the Commissioner of Insurance who serves as the chair. The Fund's administrative staff is provided by OCI.

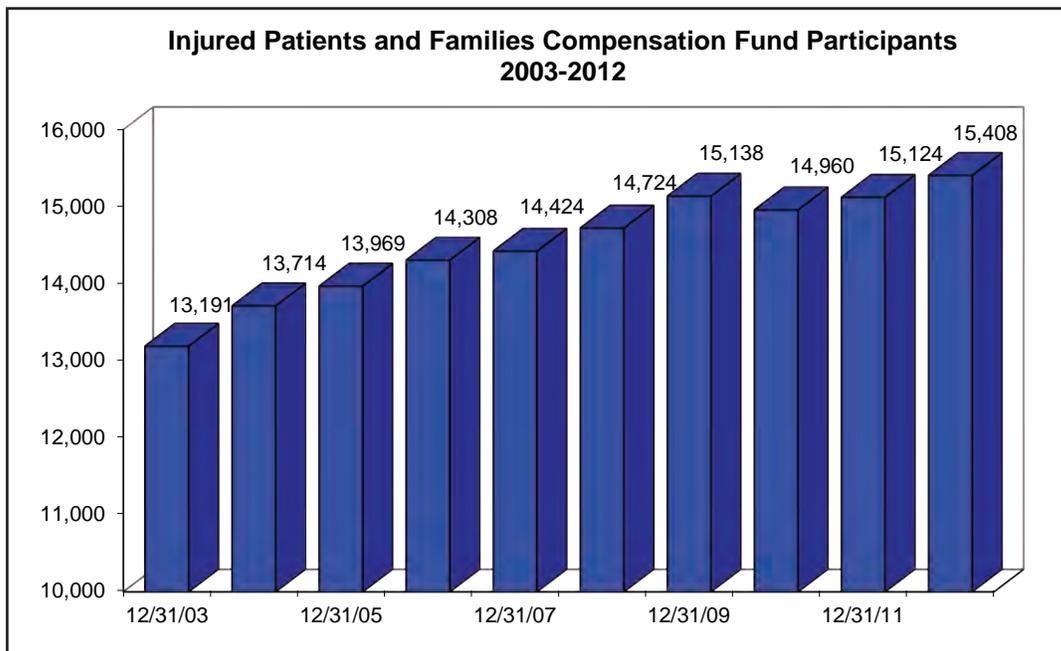
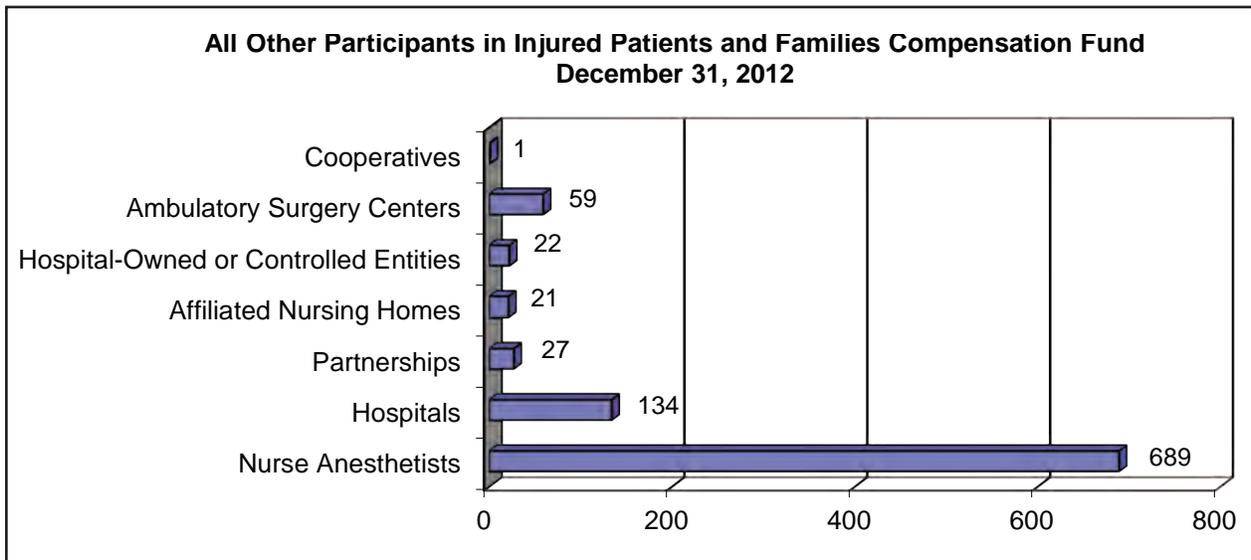
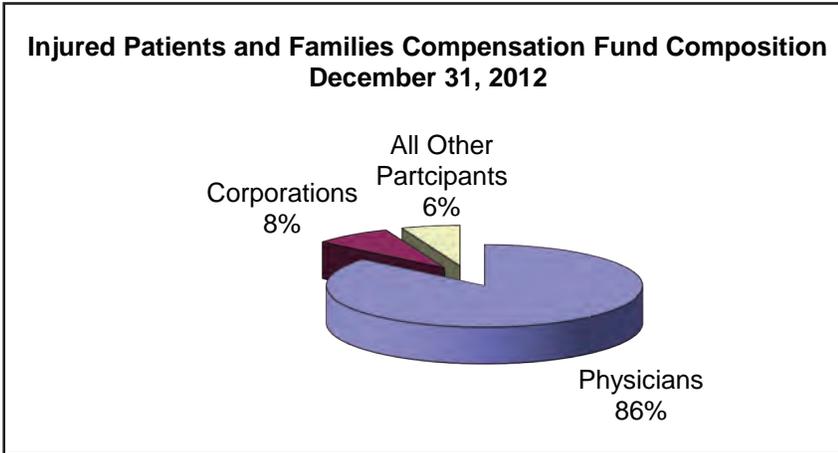
The Board is assisted by an Actuarial and Underwriting Committee, a Legal Committee, a Claims Committee, a Finance/Investment/Audit Committee, a Risk Management and Patient Safety Committee, and a

Peer Review Council. The Board and its committees meet quarterly.

The Fund operates on a fiscal year basis—July 1 through June 30. Administrative costs, operating costs, and claim payments are funded through assessments on participating health care providers.

As of December 31, 2012, the vast majority of Fund participants were physicians at 86%, with corporations comprising another 8% and the remaining 6% comprised of various other participant types as illustrated in the charts below. At year-end 2012, Fund participants totaled 15,408 comprised of 13,258 physicians, 1,197 corporations, 689 nurse anesthetists, 134 hospitals with 21 affiliated nursing homes, 59 ambulatory surgery centers, 27 partnerships, 22 hospital-owned or controlled entities, and one cooperative.





From July 1, 1975, through December 31, 2012, 5,866 claims had been filed in which the Fund was named. During this period, the Fund's total number of paid claims was 664, totaling \$826,251,011. Of the total number of claims in which the Fund has been named, 5,077 claims have been closed with no indemnity payment.

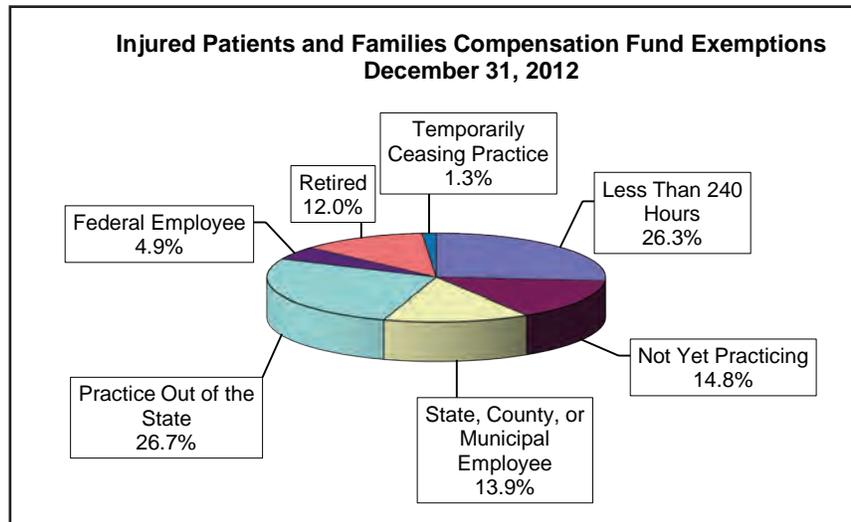
2012 Major Activities

- The 2012 implementation of a Web-based interface to the Fund system allows the public, health care providers, and employers of health care providers to access Fund records at any time.
 - The general public may search the database for coverage records of Fund participants.
 - Providers may gain secure access to opt-in to paperless billing for Fund assessments and view payment records.
 - Employers who make payments for Fund participants may also gain secure access to opt-in to paperless billing and view employee payment records.

Links to the public database and to secure log-in access are available on OCI's Fund Web page (oci.wi.gov/ipfcf/sysaccess.htm).

This release is phase 3 of the Fund system development (initial release of phase 1 occurred in March 2010; phase 2 released in June 2011 allows carriers and self-insurers system access to download certificates). Continued development will incorporate further functionality, eventually allowing providers and employers to make electronic payment of Fund fees and update employment affiliations and addresses.

- Fund administration closely monitors the use of outside counsel. Pursuant to a court decision in 2000, the Fund hires separate defense counsel on each claim. Fund staff monitors the claims and the use of this outside counsel to ensure that, while the Fund receives the necessary representation, legal fees are controlled.
- Pursuant to a Legislative Audit Bureau recommendation and a directive by the Board of Governors (Board), an actuarial audit was performed in 2011 on the analysis performed in 2010 by the outside actuarial firm. This audit opinion concluded that the assumptions and methodologies used by the Fund's actuary and the risk margin of 25% established by the Board were reasonable. A recommendation was made to reduce the discount factor used to discount the claim liability reserves. Prior to the issuance of the audit report, the Board reduced the discount factor by .5%, to 5.0%, applicable to June 30, 2012, reserves. During 2012, the Board reduced the discount factor an additional .5%, to 4.5%, applicable to June 30, 2013, reserves.
- The Fund continually monitors and updates the exemption status for providers that held a license to practice in Wisconsin but for which a current exemption or certificate of insurance was not on file with the Fund. Providers that remain in noncompliance are referred to their respective licensing boards for appropriate enforcement action by that board. As of December 31, 2012, there were 11,475 providers exempt from participation in the Fund. The various bases for exemption are illustrated in the chart below.



Following are financial statements—statement of net equity and statement of revenues, expenses and changes in Fund equity—for the Fund for the fiscal year ending June 30, 2012.

Injured Patients and Families Compensation Fund
Statement of Net Equity
June 30, 2012, Unaudited

Assets	Liabilities
<p>Current Assets</p> <p>Cash \$ 90,622</p> <p>State Investment Fund Shares 39,887,604</p> <p>Short-term Investments (market value) 69,593,881</p> <p>Bond Investment Income Receivable 9,440,328</p> <p>State Shares Interest Receivable 9,296</p> <p>Investment & Securities Lending Receivable 12,194</p> <p>Assessments Receivable 245,847</p> <p>Less: Allowance for Uncollectible Accounts (705)</p> <p>Prepaid Items 6,612</p> <p>Supplies Inventory and Other Assets 1,986</p> <p>Other Receivables 18,846</p> <p>Total Current Assets <u>119,306,511</u></p> <p>Noncurrent Assets</p> <p>Restricted Cash – Liability for FME Account 34,010,396</p> <p>Long-term Investments (market value) 874,699,028</p> <p>Capital Assets, Net of Accumulated Depreciation 467,351</p> <p>Total Noncurrent Assets <u>909,176,775</u></p> <p>Total Assets <u>\$1,028,483,286</u></p>	<p>Current Liabilities</p> <p>Future Benefits and Loss Liabilities - Short-term \$ 82,214,231</p> <p>Assessments Received in Advance 208,982</p> <p>Provider Refunds Payable 1,059,192</p> <p>General & Administrative Expenses Payable 54,662</p> <p>Medical Mediation Panels Payable 12,420</p> <p>Compensated Absences 17,946</p> <p>Total Current Liabilities <u>83,567,433</u></p> <p>Noncurrent Liabilities</p> <p>Loss Liabilities:</p> <p>Liability for IBNR 619,211,192</p> <p>Liability for Reported Losses 20,146,674</p> <p>Liability for LAE 112,230,853</p> <p>Estimated Loss Liabilities 751,588,719</p> <p>Less: Amount Representing Interest (119,821,247)</p> <p>Discounted Loss Liabilities 631,767,472</p> <p>Liabilities for Future Medical Expenses 34,010,396</p> <p>Total Loss Liabilities 665,777,868</p> <p>Less: Loss Liabilities, Current Portion (82,214,231)</p> <p>Noncurrent Loss Liabilities 583,563,637</p> <p>Compensated Absences - Long-term 51,351</p> <p>Other Post-employment Benefits 39,251</p> <p>Total Noncurrent Liabilities <u>583,654,239</u></p> <p>Total Liabilities 667,221,672</p> <p>Net Equity</p> <p>Invested in Capital Assets, Net of Related Debt 467,351</p> <p>Restricted for Injured Patients and Families 360,794,263</p> <p>Total Net Equity <u>361,261,614</u></p> <p>Total Liabilities and Net Equity <u>\$1,028,483,286</u></p>

**Injured Patients and Families Compensation Fund
Statement of Revenues, Expenses
and Changes in Fund Net Equity for the
Fiscal Year Ended June 30, 2012, Unaudited**

Operating Revenues:	
Assessments	\$ 36,371,756
Assessment Interest Income	(40)
Administrative Fee Income	<u>35,684</u>
Total Operating Revenues	<u>36,407,400</u>
Operating Expenses:	
Underwriting Expenses:	
Net Losses Paid	1,211,182
Loss Adjustment Expense Paid	3,867,772
Risk Management Expenses	57,390
Medical Expenses Paid	1,472,998
Change in Liability for IBNR	8,758,002
Change in Liability for Reported Losses	12,997,250
Change in Liability for Loss Adjustment Expense	2,650,220
Change in Amount Representing Interest	8,049,300
Change in Liability for Future Medical Expense	<u>(3,179,979)</u>
Total Underwriting Expenses	35,884,135
General and Administrative Expenses	532,255
Depreciation Expense	<u>35,643</u>
Total Operating Expenses	<u>36,452,033</u>
Operating Income (Loss)	<u>(44,633)</u>
Nonoperating Revenues (Expenses):	
Investment Income	67,517,498
Miscellaneous Revenue	<u>6,854</u>
Change in Net Assets	67,479,719
Transfers to the General Fund	<u>(16,525)</u>
Net Change in Fund Equity	67,463,194
Net Equity	
Net Equity - Beginning of Period	<u>293,798,420</u>
Net Equity - End of Period	<u>\$361,261,614</u>

Local Government Property Insurance Fund (Fund)

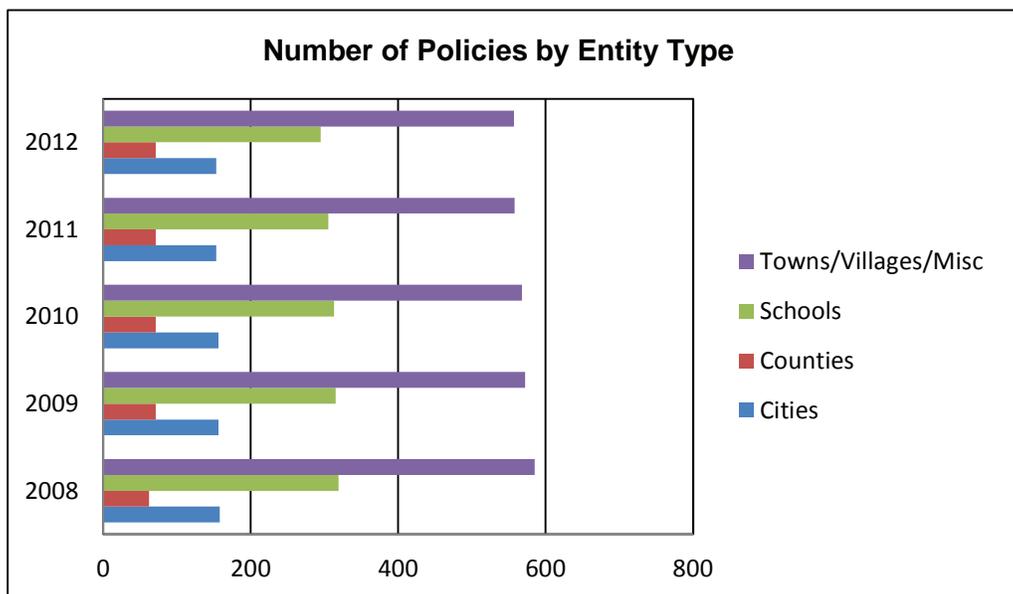
The Fund is established by ch. 605, Wis. Stat. The purpose of the Fund is to make property insurance available for local government units. The Commissioner of Insurance by law is designated as the Fund's manager. The Fund has one state employee who supervises day-to-day operations of the Fund by contracting for specialized services. The Fund contracts with: ASU Group (policy services), Crawford & Company (claims), C-BIZ (appraisal services), ISO (rate services), Pinsoft (software), Willis (broker of record), AMI Risk Consultants (actuarial services) and Borgelt, Powell, Peterson & Frauen (legal).

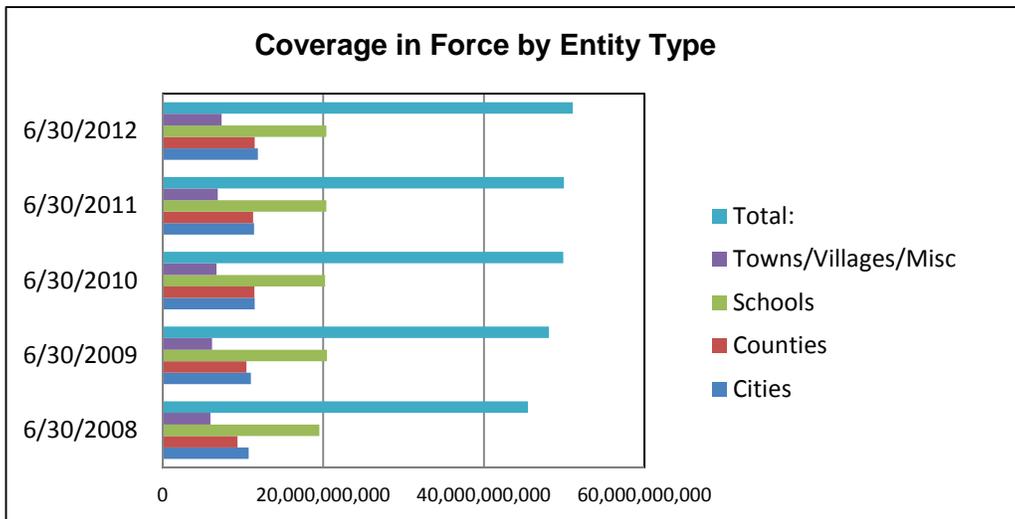
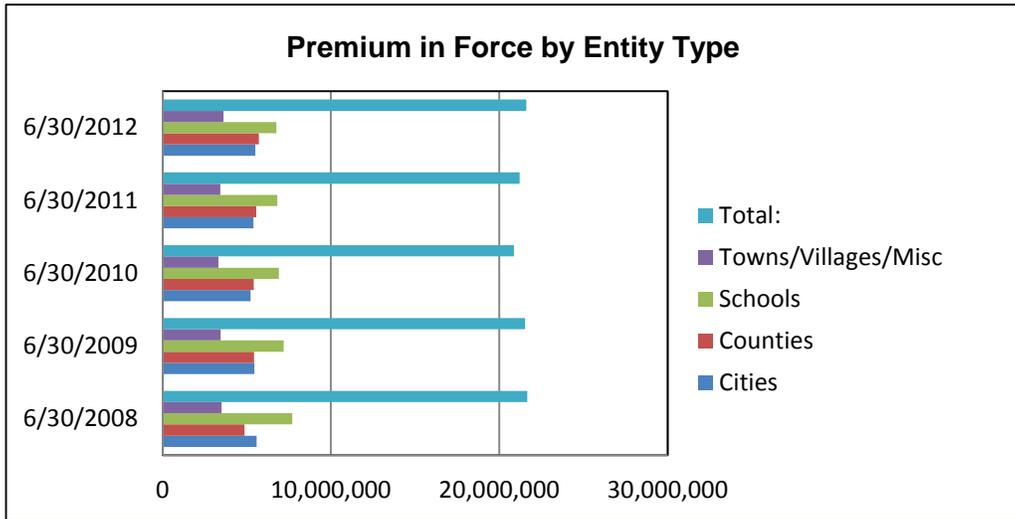
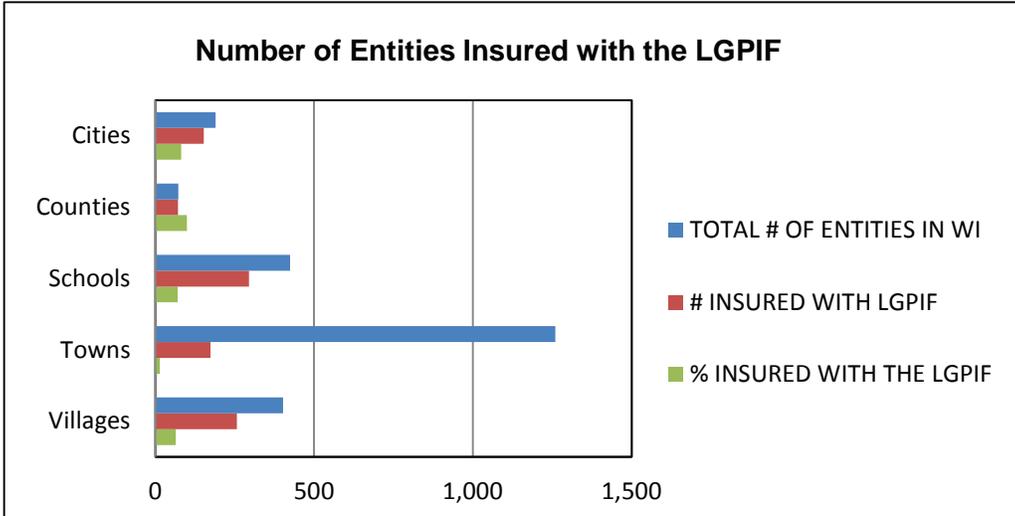
As of June 30, 2012, the Fund insured 1,076 policyholders: 71 counties, 295 schools, 153 cities, 174 towns, 257 villages and 126 miscellaneous (libraries, etc.) jurisdictions. Combining new business and terminations, the overall number of policyholders decreased by 11 since the previous fiscal year-end. Two graphs are included that reflect changes in the Fund's policyholder base and growth in its insurance coverage in force. The Fund had 71 builder's risk policies at June 30, 2012, versus 37 as of June 30, 2011.

The Fund's insurance coverage in force represents property that is insured against loss. The more property insured, the greater the potential for a loss. The total amount of insurance coverage in force as of June 30, 2012, was \$51.0 billion, up from \$50.0 billion as of the previous fiscal year-end.

The Fund's balance sheet and income statement for the fiscal year ending June 30, 2012, are included with this report. The Fund experienced an underwriting loss of approximately \$6.4 million following an underwriting loss of \$12.2 million the previous year.

Fund management will continue to monitor insurance in force, claims trends and Fund surplus when evaluating the Fund's rating structure. The decline in surplus also affects the Fund's rates. The Fund actuarially determines rate increases or decreases in order to maintain adequate levels of surplus. Claims costs coupled with higher self-insured Fund reinsurance retention levels and reinsurance premium will continue to be factors considered in the rate-setting analysis.





Wisconsin Insurance Report Business of 2012
Funds and Program Management, Local Government Property Insurance Fund

Following are financial statements—balance sheet and income statements—for the Fund for the fiscal year ending June 30, 2012.

Local Government Property Insurance Fund Balance Sheet—Statutory Basis June 30, 2012	
Assets	
Bonds	\$ 5,536,598
Investment Fund	24,631,00
Cash at Treasury	103,056
Premiums Receivable	578,240
Reinsurance Recoverable	5,569
Interest Receivable	<u>36,819</u>
Total Assets	<u>\$30,891,282</u>
Liabilities and Surplus	
Liabilities	
Net Loss Reserves	\$12,688,273
Loss Adjustment Expenses Payable	316,734
Net Unearned Premiums	3,355,426
Reinsurance Payable	0
Premium Received in Advance	48,813
Dividends Payable	0
Other Expenses Payable	<u>433,530</u>
Total Liabilities	\$16,842,776
Surplus	
Surplus - Beginning of Year	20,105,996
Net Income	<u>(6,186,039)</u>
Surplus - End of Year	<u>14,048,506</u>
Total Liabilities and Surplus	<u>\$30,891,282</u>

Local Government Property Insurance Fund Income Statement—Statutory Basis June 30, 2012	
Premiums Earned	
Direct Premium Earned	\$21,304,624
Reinsurance Ceded	<u>(6,394,319)</u>
Net Premium Earned	\$ 14,910,305
Losses Incurred	
Direct Losses Incurred	18,547,487
Reinsurance Loss Recoveries (Earned) Incurred	<u>(114,132)</u>
Net Losses Incurred	18,661,619
Loss Adjustment Expenses	1,012,193
Other Underwriting Expenses	<u>1,615,745</u>
Total Net Losses and Expenses	<u>21,289,557</u>
Underwriting Loss	(6,379,252)
Investment & Other Income	
Investment Fund Earnings	<u>193,213</u>
Net Investment Income	<u>193,213</u>
Net Loss	<u>\$ (6,186,039)</u>

State Life Insurance Fund (Fund)

The Fund is a segregated fund located within OCI. The Fund offers a maximum of \$10,000 of life insurance to state residents. Operating as a mutual insurance company, the Fund has a manager and is supervised by the Commissioner.

Wisconsin is the only state in the nation that offers a life insurance program to residents. All policies issued are participating and there is no marketing of the Fund. The lapse rate on Fund policies is a low .9%. As of December 31, 2012, there were 26,742 policies in force.

Section 607.15, Wis. Stat., requires the Fund to distribute annually among the policyholders its net profits and to the extent practicably possible, maintain a ratio of surplus to assets between 7% and 10%. In 2012, a distribution of \$2.1 million was paid to policyholders in the form of dividends.

Following are financial statements—balance sheet and income statements—for the Fund for the year ending December 31, 2012.

State Life Insurance Fund Balance Sheet December 31, 2012	
Assets	
Bonds	\$89,334,111
Policy Loans	3,601,236
Cash and Bank Deposits	2,211,790
Premiums Deferred and Uncollected	87,219
Investment Income Due and Accrued	1,526,820
Recoverable Reins.	<u>0</u>
Total Assets	<u>\$96,761,176</u>
Liabilities and Surplus	
Reserves for Life Policies and Contracts	\$64,094,484
Interest Maintenance Reserve	53,571
Policy Claims	181,434
Dividends Due and Unpaid (2012)	16,822
Dividends - Provision for 2013	2,134,627
Deposit Type Contracts	19,188,233
Unclaimed Property	28,307
Taxes, Licenses, Fees Accrued	584
Suspense and Cancelled Drafts	111,721
Expenses Due and Accrued	42,966
Back Up Withholding	650
Premiums Received in Advance	31,810
Asset Valuation Reserve	<u>289,368</u>
Total Liabilities	\$86,174,577
Surplus	<u>10,586,599</u>
Total Liabilities and Surplus	<u>\$96,761,176</u>

State Life Insurance Fund Income Statement December 31, 2012	
Income	
Premiums	\$1,622,053
Investment Income	5,369,567
Amortization of Interest Maintenance Reserve	10,199
Miscellaneous Income	<u>2,519</u>
Total Income	\$7,004,338
Expenses	
Death Benefits	1,236,643
Matured Endowments	259,000
Other Policy Benefits	1,073,579
Increase in Reserve	697,278
General Operating Expense	<u>566,140</u>
Expenses before Dividends	<u>3,832,640</u>
Net Gain before Dividends	<u>3,171,698</u>
Dividends to Policyholders	<u>2,116,145</u>
Net Gain (Loss) from Operations	<u>\$1,055,553</u>