



Wisconsin Insurance Alliance

Wisconsin Insurance Alliance
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*Wisconsin Association
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The Voice of Wisconsin's Community-Based Health Plans

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December 17, 2014

The Honorable Governor Scott Walker
115 East Capitol
Madison, WI 53702

Dear Governor Walker:

The Wisconsin insurance industry commends you for your commitment to efficient and effective government and growing Wisconsin's economy. However, we are deeply concerned with discussion regarding merging the Wisconsin Office of the Commissioner of Insurance with other state agencies.

The insurance industry plays a critical role in Wisconsin's economic picture. Even during the national economic downturn, Wisconsin's insurance industry continued to grow jobs¹ and increase salaries.² The 80,000 insurance company employees receive an average salary of \$61,549 (more than 50% above the state average).

Wisconsin's positive regulatory climate plays an important role in generating these jobs. Wisconsin has the fourth highest number of domestic insurers³ and the second highest number of licensed insurers.⁴ That is because Wisconsin is generally considered to be a good place to do business.

In addition to jobs, the industry generates considerable tax revenue paying \$148 million in premium taxes and \$28 million in corporate income taxes per year. Further, the industry is assessed fees to pay for regulation. No GPR is used in the regulation of the insurance industry. Last year, the insurance industry was assessed fees totaling over \$40 million. Over half of these

¹ From 2001 – 2010 insurance jobs grew by 11.1% while job counts fell 3.3% across all industries statewide. Source: Wisconsin Taxpayers Alliance Study 2013

² During the study period, the average Wisconsin wage rose 26.6% while wages within the insurance industry rose 37.1%. Source: Id.

³ Id.

⁴ Id.

funds were transferred to the general fund or lapsed to DOA. Therefore, rather than user fees most of the funds are an additional tax assessment on the industry. If any savings result from the merger of OCI with other agencies, the actual tax assessment on insurers will increase because additional user fees will be diverted from the regulation of the insurance industry to the general fund. If no savings are realized from the merger, the significant negative impact on the industry is not justified.

There will be a significant negative impact from reducing positions or expenditures related to the regulation of the insurance industry because Wisconsin already has a bare bones budget for regulation, among the lowest in the nation (see Appendix A). Wisconsin's robust insurance industry is complex and requires adequate, knowledgeable staff to respond to the state, national and international challenges. In addition, most of OCI's administrative functions were previously transferred to the Department of Administration (DOA), preventing administrative savings from a merger.⁵ The lack of in-house administrative staff will mean that regulatory personnel will be diverted from regulatory functions in order to implement the merger.

Effective regulation is critical to the success of Wisconsin's insurance industry and the protection of Wisconsin insurance consumers. A Cabinet-level agency with sufficient line staff and management expertise is necessary for the following reasons:

- Protect consumers and create a level playing field to enforce laws and prevent a competitive disadvantage from bad actors.
- Protect consumers and insurers by preventing insurer insolvencies.⁶
- Recognize the importance of the insurance industry and maintain the current level of state government expertise and oversight through continued Cabinet level leadership.
- Telegraph to insurers in other states who may be considering redomesticating that Wisconsin is a state that supports and recognizes the importance of the insurance industry.
- Grow insurance jobs within the state and prevent loss of existing jobs.
- Meet national standards for accreditation.⁷
- Defend against federal encroachment of insurance regulation^{8 and 9}

⁵ As of the 2005-2007 State Budget, the DOA Bureau of Human Resources is responsible for recruitment and hiring, staff training and employee assistance programming on behalf of OCI.

⁶ If a Wisconsin insurer becomes insolvent, an assessment is made against other insurers to compensate policyholders of the insolvent insurer. We directly pay for poor financial regulation

⁷ OCI must have the regulatory resources needed to meet the accreditation standards of the National Association of Insurance Examiners (NAIC). These standards include frequency of financial examinations and other responsibilities. If OCI doesn't meet the standards, other states will not defer to Wisconsin's financial analysis, requiring Wisconsin domestic insurers to be examined individually by the other states.

⁸ The Wisconsin insurance industry is trying to defend against federal encroachment on insurance regulation. In the wake of the 2008 financial crisis, the state insurance regulatory system is under increasing pressure from Washington to demonstrate that it is capable to regulate the large, national insurance companies that call Wisconsin home. Weakening state insurance regulation at this time poses a threat to continued state regulation of our larger domestic companies

- Engage in international discussions related to the capital standards required for insurers which have a significant impact on Wisconsin's large domestic industry.
- Provide sufficient management level personnel to staff and influence model law development at the National Association of Insurance Commissioners (NAIC).¹⁰

For these reasons, the Wisconsin Insurance Alliance, the Wisconsin Council of Life Insurers and the Wisconsin Association of Health Plans respectfully request that the Office of the Insurance Commissioner continue to be a stand-alone, Cabinet agency with sufficient resources to protect Wisconsin consumers and effectively regulate the insurance industry.

Sincerely,

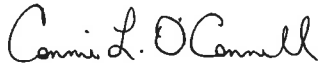
Sincerely,



Andy Franken, Wisconsin Insurance Alliance



Nancy Wenzel, Wisconsin Association of Health Plans



Connie O'Connell, Wisconsin Council of Life Insurers

⁹ The federal government continues to overreach its authority for regulating health insurance, most recently in the case of the proposed Notice of Benefit & Payment Parameters for 2016. Wisconsin needs strong, focused leadership to reassert the state's role in regulating and protecting the health insurance market.

¹⁰ a. OCI must have the resources and profile to remain influential within the NAIC. The NAIC develops many model laws that are adopted uniformly across the country. In order to influence the development of these laws, OCI needs the top level staff participation on key committees. While it is helpful to have the Commissioner in the leadership ranks, many decisions are made at a top staff level and OCI needs adequate, dedicated management staff to influence this process.

Appendix A¹¹

1. OCI has one of the lowest spending levels nationally for the regulation of insurance. Despite having the fourth highest number of insurers domiciled in a state, Wisconsin's expenditure of \$16.8 million for regulation of the industry is significantly less than the national average of \$26.1 million.
2. OCI's budget per company is the second lowest in the country. We spend \$67,835 per domestic Life, Health, Property and Casualty Insurer and Title Insurer compared to the national average of \$352,866.
3. Wisconsin ranks third in the country for the number of companies each examiner is responsible for. Wisconsin has one examiner for every 5.5 companies as compared to the national average of each examiner being responsible for 2.6. This means each examiner in OCI has considerably more responsibility than their counterparts in other states.
4. Of the sixteen states we are aware of with the insurance department combined into a larger department, only seven spend less than the national average and all but one spend more than double the amount Wisconsin spends on regulation per insurer. The one remaining state spends \$119,311 per insurer, still considerably more than Wisconsin.

¹¹ 2013 Insurance Department Resources Report