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MADISON, WI 53703  
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**MEMORANDUM**

TO: Honorable Members of the Senate Committee on Agriculture, Financial  
Institutions and Insurance

FROM: Jon Hochkammer, Director of Insurance Operations *J. H.*

DATE: June 3, 2003

RE: Senate Bill 176

Under current law, any number of municipalities or associations of municipalities may organize a municipal insurance mutual to provide workers' compensation insurance, liability insurance or risk management services to the members of the municipal insurance mutual. This bill would allow the previously mentioned insurers to also write property insurance to the same members they currently are authorized to insure.

In 1985, many Wisconsin municipalities lost their liability insurance when several commercial carriers ceased writing municipal business. Municipalities were forced to seek liability insurance from a limited commercial market that increased premiums and reduced coverage. Municipalities responded to the 1985 liability insurance crisis by creating municipally-owned mutual insurance companies.

Since that time, additional insurance coverages were added by municipal mutual insurance companies including self-insured services, workers' compensation, nursing home liability and owner-controlled insurance purchase programs for public construction projects.

In the areas previously mentioned, local government has been able to respond when the commercial market lost its focus or underwriting changes occurred. Under current law, municipal mutual insurance companies are not allowed to offer property insurance and are restricted to purchase this coverage at renewal rates, which have skyrocketed in recent years.

For many years, the Local Government Property Insurance Fund (LGPIF) has met the property insurance needs of Wisconsin's local units of government. During that time local government had a valuable "partner" in the LGPIF, as Wisconsin's statutes do not

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WCA Testimony – Senate Bill 176  
June 3, 2003

allow municipal mutual insurance companies to write property coverage, including automobile physical damage coverage. This was and still is the only source of providing the same “package” approach that multi-line commercial competitors enjoy. During this same time period, municipally-owned mutual insurance companies were allowed to focus on the lines of coverage available by statute and assist the LGPIF in continuing their service to counties, cities, towns and school districts.

Adverse changes in the property insurance marketplace began over 24 months ago and escalated following the tragedy of September 11, 2001. While able to compete at the time, the LGPIF was not immune to reinsurance and capacity problems within the industry and due to this, combined with increases in loss activity over the past several years, LGPIF was forced to take rate actions in response. These rate increases (of between 80 – 300 percent) have created a complete turnaround in the industry and the multi-line commercial carriers have been quick to respond.

The recent actions of the LGPIF, combined with the inability to provide property insurance coverage, has placed the municipal mutual insurance companies, owned by local units of government, in the position of purchasing insurance coverage in an uncompetitive market. Years of improving the liability and worker’s compensation risk management and risk financing for local governments are at risk. Today’s public entity property insurance buyers are in dire need of increased competition to assist budget conscious public officials in controlling property insurance costs.

The solution to this dilemma is a change in the current statutes to allow municipal owned mutual insurance companies to provide quality, cost effective property insurance coverage to those eligible for coverage through municipally-owned mutual companies or their affiliated insurance companies.

We respectfully request that the Committee support SB 176, therefore allowing all local units of government the opportunity to control their property insurance costs.

Thank you for considering our comments. Please do not hesitate to contact me if you have any questions at 608.663.7188.

Sen. Schultz

## ALLOWING MUNICIPAL OWNED MUTUAL INSURANCE COMPANIES TO OFFER PROPERTY INSURANCE COVERAGE

**Issue:** Allowing Wisconsin's municipal mutual insurance companies the ability to underwrite property insurance.

**Background:** Current law allows municipalities to organize municipal mutual insurance companies.

In Wisconsin, state law allows municipalities, including counties, or associations of municipalities to organize municipal insurance mutual insurance companies. §611.11 (4), Wis. Stats. allows municipal mutual insurance companies to provide "liability insurance, risk management services and workers' compensation insurance to their members."

In 1985, many Wisconsin municipalities lost their liability insurance when several commercial carriers ceased writing municipal business. Municipalities were forced to seek liability insurance from a limited commercial market that increased premiums and reduced coverage. Municipalities responded to the 1985 liability insurance crisis by creating municipally owned mutual insurance companies.

Since that time, additional insurance coverages were added by municipal mutual insurance companies including self-insured services, workers' compensation, nursing home liability and owner controlled insurance purchase programs for construction projects.

Since municipal mutual insurance companies are owned and operated by municipalities, the policies and services have been custom-designed to meet their needs.

In the areas previously mentioned, local government has been able to respond when the commercial market lost its focus or underwriting changes occurred. Under current law, municipal mutual insurance companies are not allowed to offer property insurance.

**Summary:** For many years, the Local Government Property Insurance Fund (LGPIF) has met the property insurance needs of Wisconsin's local units of government. During that time local government had a valuable "partner" in the LGPIF, as Wisconsin's statutes do not allow municipal mutual insurance companies to write property coverage, including automobile physical damage coverage. This was and still is the only source of providing the same "package" approach that multi-line commercial competitors enjoy. During this same time period, municipally owned mutual insurance companies were allowed to focus on the lines of coverage available by statute and assist the LGPIF in continuing their service to counties, cities, towns and school districts.

Adverse changes in the property insurance marketplace began over 24 months ago and escalated following the tragedy of September 11, 2001. While able to compete at the time, the LGPIF was not immune to reinsurance and capacity problems within the industry and due to this, combined with increases in loss activity over the past several years, LGPIF was forced to take rate actions in response. These rate increases (of between 80 – 300%) have created a complete turnaround in the industry and the multi-line commercial carriers have been quick to respond.

The recent actions of the LGPIF, combined with the inability to provide property insurance coverage, has placed the municipal mutual insurance companies, owned by local units of government, in the position of being overrun. Years of improving the liability and worker's compensation risk management and risk financing for local governments are at risk. Today's public entity property insurance buyers are in dire need of increased competition to assist budget conscious public officials in controlling property insurance costs.

The solution to this dilemma is a change in the current statutes to allow municipal owned mutual insurance companies to provide quality, cost effective property insurance coverage to those eligible for coverage through municipally owned mutual companies or their affiliated insurance companies.

## Committee on Agriculture, Financial Institutions and Insurance

Date: June 3, 2003

### Committee Ballot

The Senate Committee on Agriculture Financial Institutions and Insurance  
After Public Hearing and in Executive Session on:

Senate Bill 173, Relating to: the agricultural producer security program, granting rule-  
making authority, and making an appropriation

And

★ Senate Bill 176, relating to: authorizing municipal insurance mutuals to provide property  
insurance,

request you as a member indicate your vote on Senate Bill 173 and Senate Bill 176

**Committee Member**

Senator Neal Kedzie on SB 173

AYE



NAY



NOT VOTING



Senator Neal Kedzie on SB 176

AYE



NAY



NOT VOTING



  
Senator Neal Kedzie

Senator Julie Lassa  
Sen. Comm on Agriculture, Ins &n  
Financial Institutions  
Room 3 South  
State Capitol

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★ Senate Bill 176, relating to: authorizing municipal insurance mutuals to provide property  
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Request you as a member indicate your vote on Senate Bill 173 and Senate Bill 176

**Committee Member**

Senator Julie Lassa on SB 173

AYE

NAY

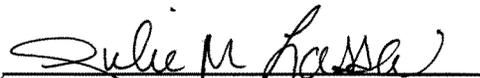
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AYE

NAY

NOT VOTING

Senator Julie Lassa on SB 176

  
Senator Julie Lassa

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**Committee Member**

Senator Dale Schultz on SB 173

AYE

NAY

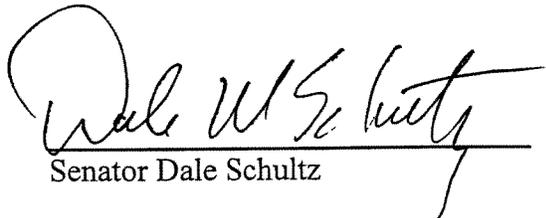
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AYE

NAY

NOT VOTING

Senator Dale Schultz on SB 176

  
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Request you as a member indicate your vote on Senate Bill 173 and Senate Bill 176

**Committee Member**

**Senator Dave Hansen on SB 173**

**AYE**

**NAY**

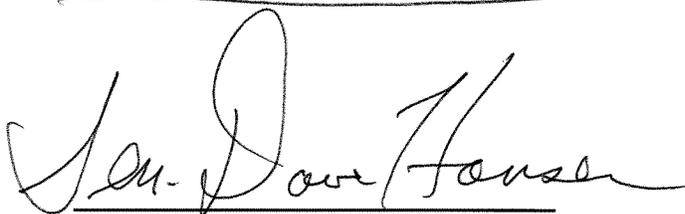
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**Senator Dave Hansen on SB 176**

**AYE**

**NAY**

**NOT VOTING**



Senator Dave Hansen

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Request you as a member indicate your vote on Senate Bill 173 and Senate Bill 176

**Committee Member**

**Senator Ron Brown on SB 173**

**AYE**

**NAY**

**NOT VOTING**

**AYE**

**NAY**

**NOT VOTING**

**Senator Ron Brown on SB 176**

Senator Ron Brown

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And

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insurance,

request you as a member indicate your vote on Senate Bill 173 and Senate Bill 176

**Committee Member**

Senator Dale Schultz on SB 173

AYE

NAY

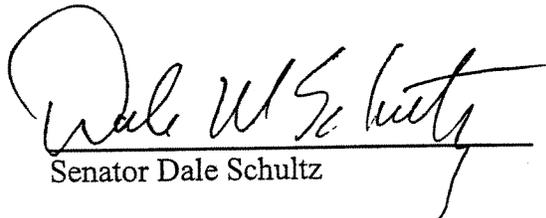
NOT VOTING

Senator Dale Schultz on SB 176

AYE

NAY

NOT VOTING

  
Senator Dale Schultz