

State of Wisconsin

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Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: April 2, 2018

Re: s. 16.515/16.505(2), Stats. Request

Attached is a copy of a request from the Department of Administration, received April 2, 2018, pursuant to s. 16.515/16.505(2), Stats., on behalf of the Office of Commissioner of Insurance.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Thursday, April 19, 2018**, if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN:jm



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary

Date: April 2, 2018

To: The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance

The Honorable John Nygren, Co-Chair
Joint Committee on Finance

From: Ellen E. Nowak, Secretary
Department of Administration

APR 02 2018

St. Finance

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Subject: s. 16.515/16.505(2) Request(s)

Enclosed are request(s) that have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2017-18</u>		<u>2018-19</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
OCI 20.145(1)(g)	General program operations		4.0*	\$339,500	4.0*

* 3.0 FTE permanent positions and 1.0 FTE project position ending 03/28/22.

As provided in s. 16.515, the request(s) will be approved on April 23, 2018, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

Please contact Kirsten Grinde at 266-1353, or the analyst who reviewed the request in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

Date: March 28, 2018
To: Waylon Hurlburt
From: Cindy Dombrowski
Subject: Section 16.515/16.505(2) Request(s)

Attached is a s. 16.515/505(2) request analysis for your approval and processing. Listed below is a summary of each item:

DOA RECOMMENDATION:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2017-18</u>		<u>2018-19</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
OCI 20.145(1)(g)	General program operations		4.0*	\$339,500	4.0*

* 3.0 FTE permanent positions and 1.0 FTE project position ending 03/28/22.

AGENCY REQUEST:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>2017-18</u>		<u>2018-19</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
OCI 20.145(1)(g)	General program operations	\$510,000	6.0	\$510,000	6.0

WRH APPROVAL WRH (FORWARD TO GAIL TAPPEN)



STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Scott Walker, Governor
Ellen Nowak, Secretary
Waylon Hurlburt, Administrator

Date: March 28, 2018

To: Ellen Nowak, Secretary
Department of Administration

From: Cindy Dombrowski
Executive Policy and Budget Manager

Subject: Request Under s. 16.505/515 from the Office of the Commissioner of Insurance for 6.0 FTE PR Positions and a Supplement of \$510,000 PR for Examination Support

Request:

Under the statutory provisions of ss. 16.505 and 16.515, the Office of the Commissioner of Insurance requests the creation of 6.0 FTE PR funded positions and a supplement of \$510,000 PR expenditure authority in fiscal years 2017-18 and 2018-19 to fund insurance company financial examination and related activities. While the agency's request indicates it would repurpose positions, it has not identified program revenue positions to reallocate; therefore this request is being treated as a request for new FTE positions.

Revenue Sources for Appropriation:

The program revenue general program operations appropriation under s. 20.145(1)(g) is funded by assessments levied on insurance companies and fees paid by insurance intermediaries. There will be sufficient cash in the appropriation to support the expenditure authority increase because the amount of additional expenditures will equal the amount of new revenue paid by Wisconsin's domestic insurers for mandated financial examinations.

Background:

The Office of the Commissioner of Insurance is vested with broad powers to ensure that Wisconsin's insurance industry responsibly and adequately meets the insurance needs of Wisconsin citizens. The office performs a variety of tasks to protect insurance consumers and ensure a competitive insurance environment. The office is responsible for reviewing insurance policies that are sold in Wisconsin to make sure they meet the requirements set forth in Wisconsin law, conducting examinations of domestic and foreign insurers to ensure compliance with Wisconsin laws and rules, monitoring the financial solvency of licensed companies to make sure that consumers have the insurance coverage they expect when they need it, and issuing licenses to the various parties involved in selling and marketing insurance products.

The National Association of Insurance Commissioners (NAIC) is a national standard-setting and regulatory support organization created and governed by the chief insurance regulators

from the 50 states, District of Columbia and five U.S. territories. Through NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight.

The Commissioner of Insurance is required under s. 601.43(2)(a) to examine every domestic insurer and every licensed rate service organization in Wisconsin. Revenue to support the office, as it relates to this request, is paid by insurance companies and associated with a variety of fees laid out in Chapter 600, Wisconsin Statutes, related to the regulation of the insurance industry in this state, as well as all reasonable costs of required examinations.

The commissioner is required to report annually regarding the status of the insurance industry in Wisconsin, regulatory developments, consumer complaints and other activities of the agency. In 2016, the latest year the report was issued, the office processed 22,581 new individual/firm applications; licensed 2 new domestic insurers, 22 nondomestic insurers, 3 vehicle protection products, 1 life settlement provider and 16 service contract providers; examined 35 domestic insurance companies' finances and more than 1,800 financial statements; and responded to more than 25,000 consumer inquiries.

Analysis:

The office has requested an increase in position authority of 6.0 FTE PR positions to meet increased workload demands. The office indicates several primary driving forces behind its increased workload. First, the office indicates an increase in the requirements from NAIC as it relates to reporting and analysis requirements. Certain timeliness requirements are laid out in statute and administrative code. For example, Ins 50.50 of the Administrative Code requires that, at a minimum, every insurer licensed in this state be examined every five years, with minor exceptions.

The office has indicated that it is behind in completing examinations and reviews. Specifically, 38 town mutual insurance companies have not been examined within the five-year required window. The table below demonstrates the backlog the office has experienced in completing its review of town mutual insurance companies. The office indicates it has insufficient resources to complete the examinations for both the town mutual insurance companies as well as the required reviews for care management organizations.

	2017		2018		Backlog	
	Required	Completed	Required	Planned	2017	2018
Domestic Insurance Companies	34	34	49	49	0	0
Town Mutuals	28	2	36	0	26	36
Care Management Organization	0	0	3	0	3	3
Domestic Analysis Review	247	245	252	252	2	0

Also, NAIC requires the completion of an "Own Risk and Solvency Assessment" (ORSA), which is an internal process undertaken by an insurer or insurance group to assess the adequacy of its own risk management and current and prospective solvency positions under normal and

Ellen Nowak, Secretary
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severe stress scenarios. The association requires a confidential high-level ORSA summary report be submitted annually to the commissioner if the insurer is a member of an insurance group and, upon request, to the domiciliary state regulator. At present, the office indicates it has 16 new ORSA reviews to conduct.

The office has indicated it anticipates that, in 2019, the ORSA reports will need to be reviewed in a certain amount of time, though the timeframe has not yet been specified. This change is expected to begin effective January 1, 2019, and will result in a two-level review with the office reviewing and then distributing the reports to other states with a domestic in the group. At present, supervisory staff have been conducting the reviews due to workload demands of the examiners.

Further, the office is required to review and analyze a variety of reports including corporate governance reviews and quarterly risk-focused analysis of domestic insurers. According to the office, there will be approximately 245 new reviews from each category.

Lastly, NAIC accreditation is a certificate given to a state insurance department once it has demonstrated it has met and continues to meet an assortment of legal, financial and organizational standards as determined by a committee of its peers. The accreditation program relies on state certification by other regulators (i.e., peer review); requires risk-focused financial surveillance including on-site examinations; and requires solvency-related model laws, rules and guidelines that have been produced through consensus and collaboration.

Accredited insurance departments are required to undergo a comprehensive review by an independent review team every five years to ensure the departments continue to meet baseline financial solvency oversight standards. These departments are also required to undergo a desk audit annually. The accreditation standards require state insurance departments to have adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs, and that they have the necessary resources to carry out that authority.

Beginning in October 2018, the office will undergo its NAIC accreditation review and audit. The review will include full review of all related Wisconsin laws and regulations, the financial analysis and financial examinations functions, department oversight, organizational and personnel practices, and general compliance with accreditation standards. According to the office, if NAIC finds the agency understaffed and unable to meet its workload demands, its accreditation could be jeopardized. Should that occur, insurers could base their headquarters in other states and other states would no longer rely on the trustworthiness of Wisconsin financial exams.

Under 2017 Wisconsin Act 59, the 2017-19 Biennial Budget, the office is allocated a total of 137.0 FTE positions, of which 120.15 FTE positions are funded via program revenues. As of March 29, 2018, the office has 5.9 FTE PR positions vacant, of which 4.0 FTE positions are insurance examiners or the commensurate. While it could be argued that the level of vacancy within the agency appears sufficient to fulfill the reporting and examination requirements of this request, all of the vacant examiner positions have been vacant for less than six months

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and the office intends to recruit for these positions. The office indicates that the longer the positions are vacant, the larger the backlog of work will be.

The department further requests a supplement of \$510,000 PR annually to support the costs of these positions. The agency has identified it would hire insurance financial examiner-entry positions, with an annual salary of \$62,000 per position. The table below represents the costs associated with the request, which are \$700 less than the agency's request due to rounding.

<u>Line</u>	<u>Cost</u>
Salary	\$372,000
Fringe Benefits	<u>137,300</u>
	\$509,300

Typically, examiner positions are required to travel to the offices of the insurance companies being audited or examined. The office did not build in any travel costs or costs associated with renting a fleet vehicle into the request and indicates it will absorb those costs within its existing budget authority.

Given the timing of the request and the amount of time to recruit and hire positions, the office indicates it would not require expenditure authority in fiscal year 2017-18 but would require ongoing expenditure authority beginning in fiscal year 2018-19.

Given the volume of vacancies within the agency, it could be argued that fewer additional full-time staff could be necessary to meet the workload demands previously discussed. In addition, given the backlog of reviews and examinations, authorizing project position support to further support the financial analysis and examinations unit could be appropriate. It appears reasonable to approve 3.0 FTE PR permanent positions and an additional 1.0 FTE PR four-year project position to address the backlog of examinations. If 3.0 FTE PR permanent positions and 1.0 FTE PR project position were granted, the salary and associated fringe benefits costs would total \$339,500 PR annually.

If this request is denied, the office indicates it will be unable to meet its obligations for NAIC accreditation and may lose its accredited status. In addition, the office will fall further behind in completing its required financial audits of the Wisconsin domestic insurance market. In order to preserve accreditation, the office has indicated it would likely need additional expenditure authority, beyond the current \$510,000 PR requested, to hire contract staff to complete the required examinations and reviews.

Recommendation:

Modify the request to provide: (a) 3.0 FTE PR permanent positions and 1.0 FTE four-year project position beginning in fiscal year 2017-18; and (b) supplemental ongoing expenditure authority of \$339,500 PR in fiscal year 2018-19 to address the backlog of reviews and examinations.



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

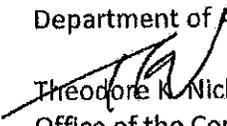
Scott Walker, Governor
Theodore K. Nickel, Commissioner

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DATE: November 7, 2017

TO: Waylon Hurlburt, Administrator
Division of Executive Budget and Finance
Department of Administration

FROM:  Theodore K. Nickel, Commissioner
Office of the Commissioner of Insurance

RE: Position Authority for the Division of Regulation & Enforcement

Request:

Under the statutory provision of s. 16.505 and s. 16.515, the Office of the Commissioner of Insurance (OCI) requests the creation of 6.0 FTE program revenue-funded permanent positions beginning in fiscal year 2018 and an increase in expenditure authority of \$510,000 and thereafter of program revenue expenditure authority. *This request does not increase the number of FTE positions at OCI, rather it repurposes positions which were allocated to other programs within the department.*

Number of OCI FTE Positions by year:

2014 – 153.30 FTE

2015 – 153.30 FTE

2016 – 151.50 FTE

2017 – 151.50 FTE

2018 – 138.50 FTE – (Includes request for 6 additional FTEs and the reductions 14.5 FTEs transferred to DET.)

Background:

As you may know, insurance regulation has been subject to increasing external and internal pressures in recent years that have forced states to respond accordingly. Fundamental changes in the structure and performance of the insurance industry have made regulating the industry more complex due to the following reasons:

- Competitive forces have caused insurers to assume increased risk in order to offer more attractive prices and products to consumers.
- Continued low interest rates have resulted in insurers investing in more complex investments to get a higher investment return.

- Insurance markets have increasingly become national and international in scope as insurers have widened the boundaries of their operations.
- High costs in some lines of insurance and the economic impact of natural and man-made disasters have focused greater public attention on regulatory decisions.

These forces have had a dramatic effect on state insurance regulators like OCI. Over the past two decades, the states have engaged in an unprecedented program to revamp the framework for insurance regulation in order to avoid a one size fits all federal regulator. A good share of this effort has been directed at strengthening solvency regulation by establishing higher capital standards for insurers, **expanding financial reporting**, improving monitoring tools and accrediting insurance departments. A second wave of initiatives has focused on improving the effectiveness and efficiency of market regulation. Many states have significantly enhanced their resources devoted to insurance regulation in terms of staffing, technology and systems to support these efforts. At the same time, the National Association of Insurance Commissioners (NAIC) has played an increasingly central role in state regulators' efforts to coordinate, strengthen and streamline their oversight of the insurance industry.

Justification for additional position authority:

1) Additional NAIC Reporting and Analysis Requirements

As mentioned above, in recent years the NAIC has added additional regulatory oversight to help strengthen state based regulation. Currently, Wisconsin is required under State Statute (s. 601.43) to examine insurers as deemed necessary. In addition, Section Ins. 50.50, Wis. Adm. Code mandates domestic insurers be examined every five years at a minimum. Each state is responsible for conducting exams of their domestic insurers in accordance with NAIC accreditation standards. It is designed to ensure every accredited state produces similar quality, thorough, and timely financial reviews. The NAIC also requires the five year exam minimum plus imposes additional reviews and analysis in order for Wisconsin to maintain its status as an NAIC "accredited" state. The Bureau of Financial Analysis and Examinations is currently preparing for the following additional reviews and analysis to meet NAIC accreditation standards beginning in 2018:

- Risk focused analysis review beginning with year-end 2017 analysis
- 2017 Insurer Own Risk Solvency Reports (ORSA)
- 2019 Annual Corporate Governance Reporting
- Passage of NAIC model laws regarding corporate governance, annuity suitability, and reinsurance rules

2) NAIC Accreditation

OCI will undergo its NAIC five year accreditation review/audit in October 2018. This review includes an in-depth analysis of the quality, timeliness, and accuracy of our financial exams and analysis. It also looks at our ability to regulate our companies by ensuring that we have the appropriate number of staff and experience to effectively maintain our trustworthiness and accountability as state regulators. Loss of accreditation or poor performance due to

understaffing could result in a reduction in the number of insurers choosing to domicile in our state as well as jeopardize our domestic insurance market as a whole. It should be noted, in some cases, insurers base their decision to locate their headquarters and main employee workforce in the state of their domestic regulator, i.e. American Family Insurance and Northwestern Mutual Life. In addition, the loss of our NAIC accredited status means that other states will no longer rely on the quality, accuracy, or trustworthiness of Wisconsin's financial exams. In this case, our domestic insurers will be subject to multiple financial exams from each state they write business in. Multiple financial exams would have a significant financial impact on our multi-state domestic insurers.

3) *Growth of Wisconsin Domestic Insurance Market*

Wisconsin's domestic insurance market has become increasingly complex. For example, American Family Insurance recently domiciled all of their insurance companies to Wisconsin from Ohio. While this is beneficial to the State of Wisconsin, one large domestic transfer adds a significant amount of work to the Bureau which did not exist previously. For example, in prior years, we would perform the American Family examination at the Madison, WI American Family headquarters, but do to the companies being redomiciled to Wisconsin our examiners will now have to travel to Boston, MA and Nashville, TN during the current examination.

Wisconsin is also the lead state of many large multi-state examinations. For example, the Humana Group is comprised of 35 insurers with four domesticated in Wisconsin. As part of the lead state concept, Wisconsin is responsible for developing an examination coordination plan, monitoring the overall solvency of the group, and reporting to other states that have a domestic in the group. The most recent examination of the Humana Group that was led by Wisconsin included 10 states covering 19 legal entities. The next examination in 2021 is expected to be even larger as more states move to be on the same schedule as Wisconsin. As the lead state we are responsible for developing and implementing the examination plan of the entire group, which includes determining the scope of the examination, assigning work that is to be performed, performing all coordination functions between the states and the insurer, etc. In these large examinations, we do not always get assistance from other states. Wisconsin was fortunate this past exam to get assistance from three other states who provided examiners. Had we not received assistance from three states, Wisconsin would have had to assign 10 examiners to this examination versus four. Assigning an additional six Wisconsin examiners would have likely resulted in other required examinations not being completed and putting our "accredited" status in jeopardy.

The Wisconsin domestic insurers have grown over the past five years based on assets and premium volume as follows:

Year	Assets	Year over Year % Change	Nationwide Net Premium	Year over Year % Change
2012	\$364,100,691,402		\$74,191,649,857	
2013	388,175,711,416	6.6%	79,969,661,495	7.8%
2014	408,284,425,861	5.2	85,572,279,610	7.0
2015	425,119,695,947	4.1	90,037,623,482	5.2
2016	446,521,638,979	5.0	92,074,300,588	2.3

Over the past five years insurer's assets and nationwide net premiums have increased 22.6% and 24.1%, respectively. The growth is attributable to groups domiciling more companies in the group to Wisconsin, Wisconsin companies increasing their overall business volume, etc. As the Wisconsin insurance industry continues to grow year over year, it further strains our resources in performing timely and quality in-depth analysis and examinations.

Consequences if position authority is not granted:

- Town mutual financial exams will continue to be on hold which may result in missed town mutual solvency concerns and our ability to address these concerns early. Delayed town mutual exam may affect Wisconsin's rural businesses and farms should insolvency occur.
- Wisconsin will become less attractive for insurers who are looking to re-domicile here due to backlog issues.
- Current domestic insurers may choose to domicile in another state that more effectively and quickly addresses their regulatory needs.
- Timeliness of five year exams could be delayed which is likely to result in an unfavorable NAIC accreditation report and is a violation of Wisconsin State Statute requirements.
- Loss of NAIC accreditation would significantly harm Wisconsin's domestic industry as each company could be examined separately by each state in which they write business.
- Inability for Bureau to adequately staff exams of insurers where there is a need to conduct additional solvency review prior to the five year requirement.
- Bureau may need to hire outside contract examiners, which will result in greater cost to the industry and less effective regulation.
- Employee overtime will continue, which may lead to greater attrition of qualified staff.

Revenue Sources for Appropriation:

The positions would be funded from OCI's s.20.145 (1) (g) general program operations appropriation and 100% of the costs will be paid for by Wisconsin domestic insurers. Funding in this OCI appropriation derives from a mixture of assessments levied by OCI on insurance companies and fees paid by insurance agents to OCI.

Conclusion

OCI has taken every measure possible to repurpose staff in an effort to comply with our philosophy of responsible government regulation. Each time a current position opens up, we evaluate the need to replace that position, and when possible we move positions into the areas where we have the greatest need. For example, the Division of Regulation and Enforcement repurposed its operational program assistant to the Division Administrator and hired a financial examiner instead. The Division has made other similar position moves to add internal resources to the financial bureau.

Finally, this request would allow the Financial Exams and Analysis Bureau to achieve a prudent examination cycle, perform an appropriate level of financial analysis and complete its other duties in accordance with the NAIC accreditation requirements. The additional staffing costs would result in an increase in the annual assessment billing of domestic insurers under s. Ins 16.01, Wis. Adm. Code, for funding of the examination function and as such **does not represent an increase in General Purpose Revenue (GPR) expenditures**. The annual assessment increase for insurers would be approximately 6% each. For example, our top insurers' assessment would increase from \$577,735 to \$612,394 or \$34,659. We believe the assessment would be far less costly to Wisconsin domestic insurers, our economy, and our workforce should Wisconsin slip in its responsibility and commitment to our domestic insurance industry. Most importantly, we believe our domestic insurers would agree with our assessment and support our request for additional position authority given that we are not increasing FTE positions.