

WISCONSIN INSURANCE ALLIANCE

44 EAST MIFFLIN STREET • SUITE 201

MADISON, WISCONSIN 53703

(608) 255-1749 FAX (608) 255-2178

wial@tds.net / www.wisinsal.org

Eric Englund
President

Dan Ferris
Chairperson
SECURA Insurance

Misha Lee
Vice Chairperson
Sentry Insurance

Alan Ogilvie
Secretary/Treasurer
Capital Indemnity Corp

Members:

ACUTTY
Ameriprise Auto & Home Ins
American Family Insurance
Badger Mutual Insurance
Capitol Indemnity Corp
Church Mutual Insurance
CUNA Mutual Insurance Group
1st Auto & Casualty Insurance Co
General Casualty Insurance
Germantown Mutual Insurance
Homestead Mutual Insurance Co
Integrity Mutual Insurance
Ixonia Mutual Insurance Co
Jewelers Mutual Insurance
Kemper Auto & Home
League of Wise Mutual
Manitowoc Mutual Insurance
Maple Valley Mutual Insurance
McMillan/Warner Mutual Ins
Mount Morris Mutual
Old Republic Surety Co
Partners Mutual Insurance Co
PIC Wisconsin
Progressive Northern Insurance Cos
Racine County Mutual Insurance Co
Rural Mutual Insurance Co
SECURA Insurance
Sentry Insurance
Sheboygan Falls Insurance
Society Insurance
State Auto Insurance Cos
Sugar Creek Mutual Insurance Co
United Wisconsin Insurance Co
Unitrin Business Insurance
Waukesha Cty Mutual Insurance
Wausau Insurance Cos
WEA Property & Casualty Co
West Bend Mutual Insurance
Wilson Mutual Insurance
Wisc American Mutual Insurance Co
Wisc Assn of Mutual Insurance Cos
Wisc County Mutual Insurance Co
Wisc Mutual Insurance Co
Wisc Reinsurance Corp

Associate Members:

A I G
Allied Insurance
Allstate Insurance
Auto Club Insurance Assn
C N A
Farmers Insurance
Liberty Mutual
Nationwide Indemnity
S F M
State Farm Insurance
St Paul Travelers
Western National Mutual Ins Co

MEMORANDUM

TO: Joint Committee on Finance

FROM: Eric Englund

DATE: May 1, 2007

SUBJECT: Automated Insurance Intercept Program
DHFS –Medical Assistance – Administration and FoodShare
Paper #409 – Alternative #3

ISSUE

The Governor's 2007-09 State Budget under DHFS – Medical Assistance – Administration and FoodShare, proposes to create an Automated Insurance Claim Intercept Program. The program mandates that before an insurer pays out a claim of \$500 or more to any individual the insurer is required to determine if there is a "medical assistance liability" or "support liability." If such liabilities exist the insurance company is then required to pay those liabilities to the state prior to fulfilling payment of the balance of the claim.

IMPLICATIONS TO PROPERTY & CASUALTY INSURANCE

P&C insurers provide insurance coverage to individuals and businesses throughout Wisconsin. In 2005, Wisconsin consumers spent more than \$7 billion dollars on P&C insurance products. Our industry paid claims in excess of \$5 billion dollars and issued nearly one million claim checks of \$500 or more to claimants.

The proposed intercept program removes responsibility from the state and forces it onto insurance companies to be a collection agent on matters completely unrelated to an insurance claim. This program forces P&C insurers into a position where companies would have to verify every claim payment with a state database for potential medical assistance and child support liabilities. Even more disruptive, insurance companies would be forced to divert from the normal claims-handling process resulting in increased administrative costs. This program also puts insurance companies in a legally challenged position of ignoring their contractual responsibility to pay claims in order to comply with the requirements of the program.

PROGRAM CREATES MORE PROBLEMS THAN BENEFITS

- P&C insurance companies are forced to become a collection agency for the state when we are in the businesses of assessing risk and paying claims.
- It delays the claims process between insurance companies and policyholders and others seeking an insurance claim.
- Insurance companies would need to amend all their policy forms in order to comply with the requirements of the program. This will be extremely burdensome and costly.
- It creates problems for an insurer as to why a claimant is not being paid the full value of their claim and exposes the insurer to potential lawsuits for not fulfilling their contractual obligations.
- Claimants will inflate claims in order to meet the proposed obligations. The resolution of those inflated claims will involve significant increased costs in both claims administration and claims legal settlement costs.
- The State of Massachusetts acknowledges to the non-partisan Legislative Fiscal Bureau (LFB) that they did not see a substantial increase in funds collected under that state's intercept program. We would strenuously argue that the suggested recovery estimates to the state are unsupported by any evidence. Additionally, the administrative costs of the program will be more than the potential revenues generated.
- The vast majority of P&C claims involve individuals who have a damaged car, home, or have been injured at work. The challenge for insurers is to get the car fixed now, get the hole in the roof fixed before rain destroys more property, and get a worker's compensation benefit paid to the injured worker. A variety of statutes and administrative rules require timely payment of claims. This initiative contradicts that payment process, ultimately slowing it down and reducing funds available to pay the claim appropriately. Should this program be enacted, your constituent with the damaged car, hole in the roof of their house, or workplace injury may not have the sufficient insurance claim dollars available to make them whole.

CONCLUSION

This budget initiative directly interferes with the claims process and will significantly increase administrative expenses for insurers and ultimately consumers. The program is certain to create situations where consumers will not have timely access to insurance payments necessary to resolve their claims. State government should not be in the business of forcing private businesses to collect the outstanding debts or liens of others.

We respectfully request that the committee vote for Alternative #3 to Delete the provision.

Thank you for your consideration.