



Wisconsin Office of the
**COMMISSIONER
OF INSURANCE**

Tony Evers, Governor of Wisconsin
Nathan Houdek, Commissioner of Insurance

DATE February 2, 2023

TO: Senator Mary Felzkowski, Chair
Senator Rob Hutton, Vice-Chair
Members, Senate Committee on Insurance and Small Business

FROM: Nathan Houdek
Governor's Appointee as Commissioner of Insurance

SUBJECT: Confirmation Hearing Testimony

Chair Felzkowski and members of the committee, thank you for the invitation to appear before the committee today.

My name is Nathan Houdek. I had the privilege of being appointed Commissioner of Insurance by Governor Evers in January 2022, and I was honored to be reappointed to that role earlier this year.

I'd like to start by providing a little background about myself. I was born and raised in northern Wisconsin, growing up in the small town of Phillips in Price County. And other than a short time working at a ski resort in Colorado in my early 20s, I've spent my entire life in Wisconsin.

At a young age, my parents taught me the importance of community involvement and public service, and they both continue to be active in local government in their retirement years. My father still serves as the chairman of his township, and he is on the Board of Directors for the Wisconsin Towns Association. And my mother is on the Price County Board of Supervisors.

I moved to Madison for college and shortly thereafter I started interning in the Capitol office of my hometown state representative and working as a page in the state assembly.

Since that time, I've had the opportunity to work as an aide in both the Wisconsin State Assembly and the Wisconsin State Senate. I've also spent time working in the private sector for a healthcare trade association and a government relations consulting firm.

My 20-plus years of experience working in and around Wisconsin state government have taught me to appreciate the importance of working collaboratively with people from across the political spectrum to find common ground and get things accomplished.

Prior to being appointed commissioner, I served as deputy commissioner from 2019 through 2021. In that role, I was the chief operating officer at OCI, which gave me the opportunity to learn the internal operations of the agency and really understand the core regulatory functions.

The last four years serving as commissioner and deputy commissioner have reinforced the importance of OCI's role as the primary regulator of insurance. Ensuring that consumers are protected, maintaining a fair regulatory environment that ensures financial stability, and promoting competition and innovation in the industry is at the core of everything that OCI does.

Wisconsin has a long tradition of being a well-regulated insurance market. And that approach has helped make Wisconsin an attractive market for incumbents and new companies, which has benefited both consumers and the state economy.

In fact, Wisconsin is one of the top five states in the nation for both the number of domestic companies and the total number of licensed companies. We are fortunate to have over 2,000 insurers doing business in Wisconsin, including more than 320 companies that are domiciled in the state.

We also have 200,000 agents licensed to do business in Wisconsin, over 35,000 of which are state residents.

Over the past few years, the insurance industry has continued to grow at a rapid pace in Wisconsin. From 2017 to 2021, over 200 entities were licensed to do business in the state, and over 44,000 more agents were also licensed during that time.

This growth has been great for Wisconsin's economy, resulting in more jobs and more investment. From calendar years 2017 to 2020, total direct premium written increased from \$38.3 billion to \$44.7 billion.

Of course, state revenue from the insurance industry has also increased during this time. Premium tax revenue increased from \$181.5 million in fiscal year 2017 to \$202 million in fiscal year 2021. And total state revenue from the industry increased from \$244.1 million to \$277.2 million during that same time. The numbers for fiscal year 2022 are not official yet, but our preliminary estimates indicate that total revenue will surpass \$300 million for the first time in Wisconsin's history.

But this growth has also created challenges for our agency. Wisconsin has historically had some of the lowest costs to regulate the insurance industry in the nation, and the growth of the industry over the past few years has placed a strain on our ability to continue meeting our regulatory responsibilities.

Additionally, new regulatory filing requirements, and the complexity of those filings, along with new state and federal laws, have further increased our agency's workload and regulatory scope.

In recent years, Wisconsin has joined states across the country in requiring certain companies to file Own Risk and Solvency Assessment reports and Corporate Governance Annual Disclosure reports. And beginning this year, Group Capital Calculations and Liquidity Stress Testing will be required for some companies. Investment portfolios and company transactions have also increased in complexity.

Since 2019, a number of new consumer protection laws have been enacted that OCI is responsible for administering. As of 2020, Wisconsin now licenses public adjusters, and we have 176 licensed adjusters. We also regulate pharmacy benefits managers since the enactment of 2021 Act 9, and we have 30 PBMs licensed in the state since enactment of that law.

As of last year, the new cybersecurity law requires licensed entities to file information security program reports with OCI, and annually certify those programs. OCI is also responsible for overseeing companies that experience a cybersecurity breach. New laws relating to travel insurance and a best interest requirement for the sale of annuities have also impacted OCI.

These new laws and reporting requirements have added important consumer protections, and OCI has been supportive of these developments.

We also administer the \$230 million Wisconsin Healthcare Stability Plan, the reinsurance program for the state's individual health insurance market which was reauthorized through 2028 at the end of last year. And, as of January 2022, OCI is the primary regulator of the federal No Surprises Act, which protects health care consumers from receiving balance bills after visiting a medical provider.

The challenge for our agency is that we have had to manage this increased workload and oversight responsibility without receiving the necessary additional staff resources. This has placed a considerable strain on our existing staff and could jeopardize OCI's ability to continue providing strong financial and market regulatory oversight.

I share this with you today as a preview to the upcoming state budget discussion that will be taking place over the coming months.

The additional staff that we are requesting will allow OCI to handle the increased workload associated with the growth of the industry and effectively administer the important laws that have been enacted in recent years, while continuing to fulfil our core responsibilities of ensuring financial solvency and compliance with state laws and regulations.

As an industry-funded agency, the additional state revenue from the growth of the industry in recent years will more than cover the additional staff expenses. In fact, based on our preliminary estimates, the amount of industry revenue lapsed to the general fund increased by approximately \$10 million from fiscal years 2020 to 2022.

At OCI, we take our regulatory responsibilities very seriously and we remain committed to protecting the strong and competitive insurance market that we have in Wisconsin.

We also remain committed to working with our industry stakeholders to ensure consumers are protected and educated, and that the Wisconsin insurance market remains attractive to incumbents and new companies for the long term.

I appreciate the opportunity to share this information with the committee today, and I look forward to working with you and continuing to see the insurance industry grow and thrive in Wisconsin.

I would be happy to take any questions that you may have.

OCI BUDGET OVERVIEW



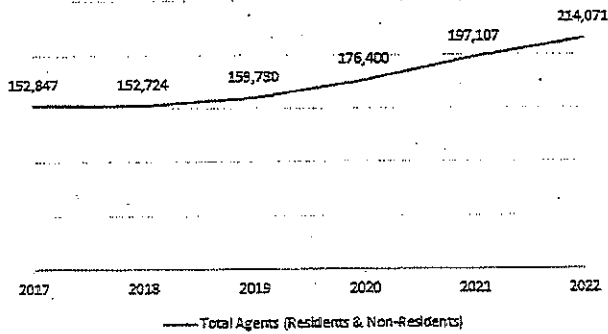
MISSION

It is our mission to protect and educate Wisconsin consumers by maintaining and promoting a strong insurance industry.

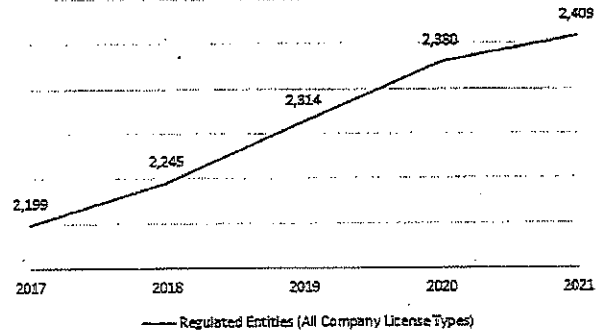
ESTABLISHED

The Office of the Commissioner of Insurance was created by the legislature in 1870.

LICENSED AGENTS 2017-2022

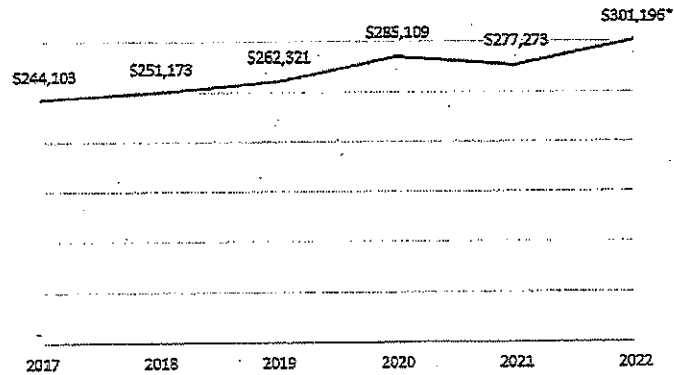


REGULATED ENTITIES 2017-2021



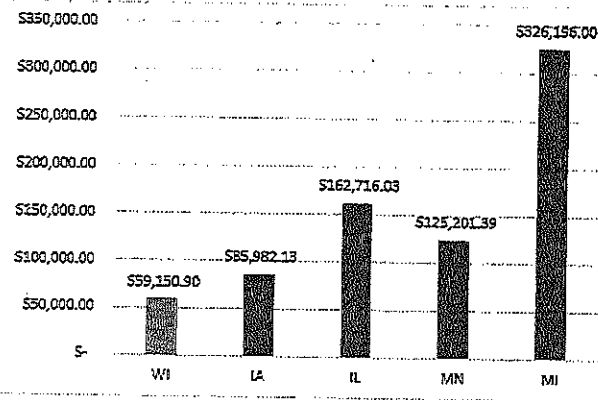
AGENCY REVENUE 2017-2022 FISCAL YEAR (Amounts in \$000s)*

Includes all OCI revenue sources including premium taxes, fire department dues, and forfeitures.



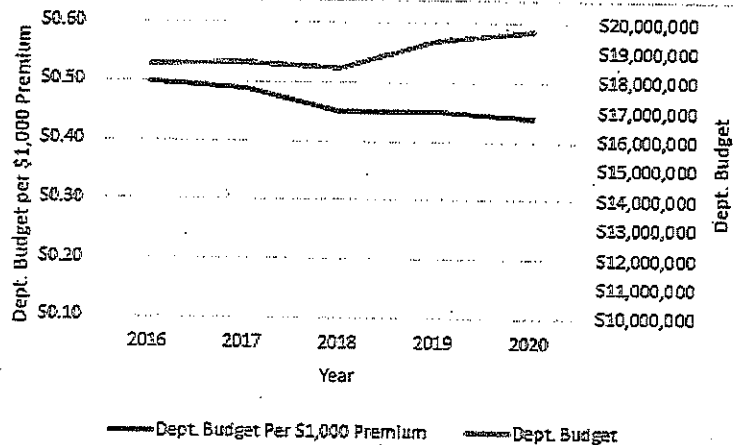
*Estimated

OCI BUDGET PER DOMICILED ENTITY



COST OF REGULATION

OCI's budget has not kept pace with the industry growth in recent years.



INCREASING REGULATORY RESPONSIBILITIES

OCI is required by state statute to maintain NAIC accreditation

No Surprises Act (NSA)

- Federal government enacted in 2022 and OCI is primary enforcer
- Will be implementing Network Adequacy reviews starting in 2023
- Received 27 NSA complaints in the first half of 2022

New Applications and Filing Requirements

- Credit for Reinsurance (2022)
- Group Capital Calculations (2023)
- Liquidity Stress Testing (2023)

New State Laws

- Best Interest Law (2022 Wis. Act 260)
- Insurance Cybersecurity Law (2021 Wis. Act 73)
- Pharmacy Benefit Manager Law (2021 Wis. Act 9)
- Travel Insurance Law (2021 Wis. Act 111)
- Public Adjuster Law (2019 Wis. Act 129)

NAIC Accreditation

Standards Have Increased

- Risk-Focused Analysis
- Corporate Governance Annual Disclosure Reports
- Own Risk Solvency Assessment (ORSA) Reports

Wisconsin Health Care Stability Plan

- Passed in 2018
- Operationalized in 2019
- Expanded from \$200 million to \$230 million in 2021-23 budget
- Extended through 2028