

THE INSURANCE INDUSTRY IN CENTRAL WISCONSIN

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Introduction

Insurance is a business that dates back to ancient times. Risk sharing schemes originally devised by Chinese merchants, Phoenician traders, and early underwriters at Lloyds of London arrived in this country with the pioneers. In Wisconsin the insurance business dates back to the mid 1800s and has developed into one of the state's major economic activities. Some of Wisconsin's domestic insurers, that is companies incorporated in the state of Wisconsin, were established prior to the Civil War.

The insurance industry is usually evaluated in terms of premiums written and earned, loss ratios and benefits paid, capital surplus, and assets. Statistics are often quoted with reckless abandon. Such figures will be presented only to make a point or support a particular conclusion.

Let us look briefly at the impact of the insurance industry, which employs over 2 million people nationally. In 1985 the assets of life, property and casualty insurance companies exceeded one trillion dollars. In that same year Wisconsin domiciled insurers held assets totaling \$40.9 billion or 3.9 percent of the total. Although this report will deal only with the private insurance sector, the impact of government insurers (including social security, federal retirement and disability insurance, worker's compensation, loan guarantee insurance, etc.) should be noted. While private insurers of all types had premium income of \$339.2 billion in 1984, government insurers had an estimated premium income of \$272.3 billion for that same year - 44.6 percent of the total. The ratio of all insurance revenues to disposable personal income of \$2,577 billion in 1984 was 23.7 percent. Maybe this is what has given rise to that often heard statement, I'm sorry, but I'm insurance poor.

Historic Foundations of the Insurance Industry in Wisconsin

The Wisconsin Insurance Report by the Commissioner of Insurance-Business of 1986 lists 1392 insurers authorized to operate in the state of Wisconsin. This total includes 269 Wisconsin companies. The top ranking companies are listed in Tables 1 and 2. Of these 269 companies 20 have their home offices in the Central Wisconsin counties of Lincoln, Marathon, Portage and Wood.¹ Thirteen of those companies are part of two

¹This report focuses only on those companies who had a home office address in Central Wisconsin. An additional comment is necessary concerning the 1986 operations of Sentry Insurance and Wausau Insurance. Wausau Insurance is affiliated with the Nationwide Insurance Group headquartered in Columbus, Ohio. This group, including the Wausau Companies, had direct property and casualty premiums written of \$6.4 billion. The group is composed of 31 companies domiciled in the U.S. and 7 domiciled outside of the U.S. Nationwide Life Insurance Company had net premiums, annuity and separate account considerations, investment income and other income totaling \$1.7 billion. The Sentry Group had direct property and casualty premiums written of \$888 million. The three

organizations, Sentry Insurance and Wausau Insurance. Seven companies were incorporated before the turn of the century and three are more than 100 years old. Tables 3 and 4 provides information on Central Wisconsin insurance companies.

Among the oldest Wisconsin insurers are Town Mutuals. Town Mutuals began by providing fire insurance on homes and farm buildings. They were created because of the need to reduce individual risks by spreading them among close neighbors. Today there are 105 Town Mutuals, most of which were established prior to 1900. The five Central Wisconsin Town Mutuals are headquartered in Amherst Junction, Marshfield, Vesper and Wausau.

TABLE 1
Largest Wisconsin Property and Casualty Insurers
(According to National Premiums Earned)

Company	National Premiums Earned (millions)	Wisconsin Premiums Earned (millions)	Admitted Assets (millions)
1 American Family Mutual Ins. Co.	\$1095.5	\$281.9	\$1670.4
2 Employers Insurance of Wausau	\$775.9	\$145.6	\$2562.6
3 Sentry Insurance, a Mutual Co.	\$486.0	\$49.0	\$1321.8
4 Blue Cross Blue Shield United	\$297.3	\$297.3	\$196.4
5 Dairyland Insurance Co.	\$217.3	\$12.0	\$429.5
6 Wisconsin Physicians Service Ins.	\$188.4	\$188.4	\$201.3
7 General Casualty Co. of Wis.	\$160.9	\$108.2	\$276.7
8 Cumis Insurance Society Inc.	\$140.8	\$5.0	\$429.5
9 Compcare Health Services Ins. Corp.	\$131.8	\$142.8	\$27.3
10 Northwestern National Casualty Co.	\$111.9	\$6.2	\$232.9
11 Mutual Service Casualty Ins. Co.	\$98.2	\$6.9	\$171.6
12 Lyndon Insurance Co.	\$96.8	\$0.2	\$463.3
13 Milwaukee Mutual Ins. Co.	\$91.9	\$31.8	\$119.1
14 Heritage Mutual Ins. Co.	\$91.6	\$75.7	\$149.6
15 Secura Insurance, a Mutual Co.	\$84.6	\$45.1	\$112.5
16 West Bend Mutual Ins. Co.	\$69.1	\$38.0	\$122.2
17 Rural Mutual Ins. Co.	\$67.1	\$52.0	\$85.0
18 Church Mutual Insurance Co.	\$58.9	\$4.6	\$112.9
19 Regent Insurance Co.	\$46.0	\$27.5	\$84.3
20 Family Health Plan Cooperative	\$43.5	\$43.5	\$26.9

Source: Wisconsin Insurance Report 1986

Sentry life insurance companies had premium and annuity considerations of over \$210 million. When added together Sentry's income exceeds a billion dollars.

Employers Insurance of Wausau was incorporated in 1911, the same year as the passage of the Wisconsin Workmen's Compensation Law. It was organized for the purpose of providing coverage required by law for injury to employees of the lumber business. Sentry Insurance, originally Hardware Mutuals, was organized to provide low cost fire insurance to hardware dealers. It was relocated to Stevens Point when P.J. Jacobs became secretary of the Wisconsin Retail Hardware Association.

The Sentry Life Insurance Company and Employers Life Insurance Company were organized to support and complement the fire and casualty activities of the major insurers in our area. The first life insurer, Sentry Life, was established in 1958.

Today's Insurance Business in Wisconsin

The total number of employees directly involved in the insurance business in Wisconsin is difficult to pinpoint exactly. However the industry clearly represents one of the major employment categories for the state. Federal government sources show Wisconsin insurance employment at 43,079 in 1985, up 11,870 from 1975. Each of the four Central Wisconsin counties included in this study contains a single major player in the applicable employment bracket, so because of disclosure laws, official government data do not provide separate figures for insurance employment. But other published sources list the total employment of Church Mutual, Sentry Insurance and Employers Insurance of Wausau at approximately 5000 people. In addition there are

TABLE 2
Largest Wisconsin Life Insurers
(According to National Premiums and Annuities)

Name of Insurer	Premium & Annuity (millions)	National Premiums Written (millions)	Wisconsin Admitted Assets (millions)
Northwestern Mutual Life Ins. Co., The	\$2924.4	\$142.6	\$20187.3
Lyndon Insurance Co.	\$1144.3	\$1.1	\$463.3
Aid Association for Lutherans	\$742.7	\$97.5	\$0.0
Employers Health Ins. Co.	\$505.3	192.1	\$288.0
Time Insurance Co.	\$377.3	\$37.4	\$582.9
Cuna Mutual Ins. Co.	\$366.8	\$9.7	\$728.6
Commercial Life Ins. Co.	\$251.9	\$1.4	\$1236.9
Sentry Life Insurance Co.	\$199.2	\$22.0	\$850.5
Cudis Ins. Soc. Inc.	\$172.7	\$2.5	\$312.8
Old Line Life Ins. Co. of America, The	\$156.2	\$22.2	\$524.5
Wausau Life Insurance Co.	\$128.0	\$0.0	\$68.4
Assoc. Life Ins. Co. Inc.	\$61.9	\$7.2	\$136.1
Rural Security Life Ins. Co.	\$45.5	\$56.7	\$141.0
National Guardian Life Ins. Co.	\$37.9	\$20.4	\$303.9
Employers Life Ins. of Wausau	\$37.5	\$20.7	\$518.6
Wisconsin National Life Insurance Co.	\$37.4	\$6.9	\$186.2
American Family Cap. Ins.	\$33.7	\$0.0	\$102.7
Catholic Knights Ins. Co.	\$26.0	\$22.0	\$186.6
General Life Ins. Corp. of Wi.	\$14.6	\$5.8	\$92.2
Catholic Family Life Ins.	\$9.3	\$7.1	\$64.7

approximately 250 agencies in the four county area covered in this report. They range in size from one person to a dozen or more. The Office of the Commissioner of Insurance sent license renewal notices to 55,200 insurance agents statewide in late 1987. About 15 percent will not renew which indicates that the insurance business continues its function as an entry into and exit from production or sales employment. However on a statewide basis between 700 and 800 new insurance agents are licensed monthly. Due to high turnover and fluctuations in the work force, total employment figures may be somewhat understated. But overall, the employment trend in sales has been upward, the number of people holding licenses is two and a half times greater than in 1977.

Our four county area is the home for 20 of the 269 Wisconsin domestic insurance companies. These companies have to a large degree participated in the ups and downs of the national insurance business cycle. Figure 1 shows the percent change in the assets for all Wisconsin insurers for the years 1967-86 adjusted for inflation. These

assets are the totals for all insurers combined (life, health, property and casualty). The combining of all types of insurance in the chart will reduce somewhat the fluctuations that would be seen in single lines of insurance, such as general liability, worker's compensation or health insurance. Over this 20 year period assets increased from the previous year in all but 1969, 1974 and 1981. Central Wisconsin companies, representing 7.4 percent of Wisconsin domestic insurers, held 12.4 percent of the assets. In dollars the assets held by these 20 companies totaled \$5.7 billion. The three major players, Church Mutual, Sentry Group and Wausau Companies, held in excess of 99 percent of these assets.

Figure 1
WISCONSIN INSURANCE COMPANIES
% CHANGE IN ADJUSTED ASSETS 1967-1986

Performance of the Central Wisconsin Insurance Industry

All insurers conducting business in Wisconsin had written premiums (the life insurers) of \$2.84 billion, and earned premiums (the property and casualty insurers) of \$3.83 billion for their Wisconsin operations for a total of \$6.67 billion. The benefits paid and direct losses incurred by these 1392 companies came to \$4.6 billion.

How did our Central Wisconsin insurance companies fare? Remember, this is a business where stock property and casualty companies (companies owned by stockholders as opposed to mutual companies which are owned by policyholders) had an underwriting gain in only 4 of the 14 years from 1972 to 1985. In fact stock property and casualty companies had underwriting gains in only 12 of the 30 years from 1957 through 1985. This report will deal with the 1986 figures, the most current available.

Looking at the 1986 property and casualty figures first, our 13 Central Wisconsin property and casualty companies were responsible for 16 percent of the property and casualty net income in Wisconsin. On their nationwide operations these companies had a loss ratio of 78.2 percent. That percentage is derived by dividing direct losses incurred by direct premiums earned. On their Wisconsin business, this ratio improved significantly to 63.7 percent. The lowest loss ratio of the IS property and casualty companies belongs to the Seneca Sigel Mutual Insurance Company, a Town Mutual from Vesper, Wisconsin, which had a 44 percent loss ratio. In every case but one, the **Central Wisconsin companies enjoyed better** loss ratios on their Wisconsin business than on their nationwide activity (Table 3). Apparently there is truth to the statement that Wisconsin is a good place to do business. Total net income from **nationwide operations, including Wisconsin, totaled \$79.9 million. Only two companies had negative figures** in the net income column for 1986.

TABLE 3
Central Wisconsin
Domestic Property and Casualty Insurance Companies

Year Inc.	Company	Admitted Assets (thousands)	National Premiums Earned (thousands)	Wisconsin Direct Premiums (thousands)	Loss Ratios National Wisconsin	
1875	Wausau Mutual Insurance Co. Wausau	\$2,227.7	\$2,127.9	\$2,127.9	65%	65%
1876	Stettin Mutual Insurance Co. Wausau	\$981.7	\$834.2	\$834.2	64%	60%
1887	New Hope Mutual Insurance Co. Amherst Junction	\$793.6	\$185.0	\$185.0	51%	51%
1891	Seneca Sigel Mutual Insurance Co. Vesper	\$532.2	\$215.2	\$215.2	51%	44%
1895	Wisconsin Interscholastic Athletic Assoc.					
1897	Church Mutual Merrill	\$112,872.9	\$58,889.6	\$4,607.4	73%	52%
1898	McMillan-Warner Mutual Ins. Co. Marshfield	\$2,173.1	\$806.0	\$806.0	82%	80%
1911	Employers Insurance of Wausau Wausau	\$2,562,629.1	\$775,894.9	\$145,566.8	103%	63%
1913	Sentry Insurance Stevens Point	\$1,321,805.9	\$486,026.2	\$49,032.6	73%	47%
1962	Delta Dental Plan of Wisconsin Stevens Point	\$1,420.8	\$7,740.8	\$3,781.1	89%	71%
1968	Sentry Indemnity Co. Stevens Point	\$62,073.4	\$32,186.5	\$561.6	73%	114016
1976	Wisconsin Health Care Liab. Ins. Plan Wausau	\$74,502.7	\$8,702.3	\$8,702.3	174%	123%
1979	Wausau Underwriters Insurance Co. Wausau	\$110,337.3	\$32,555.0	\$57,568.6	99%	61%
1980	North Central Health Protection Plan	\$4,394.5	\$23,256.3	\$23,256.3	91%	91%
1982	Sentry Reinsurance Inc. Stevens Point					

Source: Wisconsin Insurance Report 1986

TABLE 4
Central Wisconsin
Domestic Life Insurance Companies

The life insurance companies here in Central Wisconsin wrote premiums of just over \$43 million in Wisconsin and paid benefits of \$36.9 million. Central Wisconsin life insurance companies had 4.8 percent of the premium and annuity considerations written by Wisconsin companies on a nationwide basis. Their gain from operations was 2.5 percent of the almost \$1.3 billion gain of Wisconsin life insurers. The net income and gain from operations of the life and property/casualty companies exceeded \$102 million making 1986 a good year for the industry in Central Wisconsin.

Outlook for Wisconsin Insurer

CEOs from Northwestern National Insurance Company, Heritage Insurance, and Milwaukee Insurance, addressing the Independent Insurance Agents of Wisconsin at their annual meeting in April, indicated that the years ahead will not be easy. A recent headline in Business Insurance, March 21, 1988, .said "Competition to Pressure Insurer's 1988 Results." BI's survey of 26 major commercial property/casualty insurers indicates that the underwriting recovery (profit from underwriting activities) has slowed if not stalled and premium growth is sluggish. According to a vice-president of Sentry Insurance, "It's going to be a very challenging year."

The industry will have a variety of challenges to contend with in 1988. The group health insurance business will be difficult with continuing increases in health care costs. Organizations, in their attempts to keep employee benefit costs down, will ask covered members of the group to pay an increasing portion of health care bills. To control costs, deductibles in policies will increase, second opinions will be required and certain medical procedures will be done on an outpatient basis. It will be difficult to make money in the health care business. While the creation of health maintenance organizations has provided competition, some health insurers may face financial difficulties. Myron Picault, senior vice president and senior analyst for Oppenheimer and Company, describes the group accident and health area as "the pits."

Commercial property and casualty pricing will be under increasing pressure. Insurance companies attract business by lowering rates which results in lower premiums. C. Robert Snyder, chairman and chief executive officer of Milwaukee based Northwestern National Insurance Company, explained insurance company behavior to a group of insurance agents this way: it is "like a grocery store where check-out girls set the price for each product as it goes through the check-out." When asked if companies would be buying business by lowering premiums, he added, "It looks like it is coming."

Personal property and casualty lines, that is homeowner's and automobile insurance, were good to insurers in Wisconsin in 1986. Overall insurers' loss ratios were 55 percent for homeowners and 66 percent for private passenger automobile. According to John Holder, who heads Heritage Mutual Insurance in Sheboygan, there is "moderation in personal lines" pricing. He did add in a general comment to a large audience of independent agents that, "Our (Heritage Mutual Insurance) prices are down 9 to 10 percent since June of 1987." He further commented that he felt the industry was showing moderation and "we're not a complete bunch of idiots."

Life insurance companies face increased competition from a number of players. Banks, savings and loans, stockbrokers and others are offering financial services. Many of these products are interest rate sensitive and the more sophisticated consumers of today are quick to shop around.

As to the overall future of insurance, while the form may change, the social benefits that the industry delivers haven't changed much. Insurance that indemnifies against losses, provides a basis for credit, and assists in solving complex social problems should certainly continue in the years ahead. I had the good fortune to receive a charge some 40 years ago from John A. Diemand, president of the Insurance Company of North America. Mr. Diemand made his remarks to a group of agents graduating from their home office school. It has been a long time but the message is clear and I believe still valid. If you take good care of the customer, your insured, sales and commissions will take care of themselves. This is where the insurance industry is today. If it can handle the needs of the customer, and I am certain it can, it will be here to stay.