Transit Mutual Insurance Corporation of Wisconsin

Summary:

Before the Transit Mutual Insurance Corporation of Wisconsin was established, transit agencies around the state used a buying group, the Wisconsin Municipal Transit Insurance Commission, to purchase insurance coverage. Before the buying group was established, various transit groups all over the state were paying different deductible and rates for insurance coverage. The Transit Mutual Insurance Corporation of Wisconsin (TMI) is the first of its kind in the nation. What started out as a consortium of 19 transit systems in Wisconsin, the Wisconsin Municipal Transit Insurance Commission became the Transit Mutual Insurance Corporation of Wisconsin in 1986. As a mutual insurance company, transit agencies belonging to the Transit Mutual Insurance Corporation became responsible for their own liability. Every transit system except Milwaukee, Superior (part of Duluth), and Ladysmith, is a part of the Transit Mutual Insurance Corporation.

Description:

Wisconsin is always looking to be innovative, and in the late 1970s, the state hired a consultant for insurance related issues. All over the state, the various transit groups were paying different deductibles and rates. A study was conducted to look into the probability of combining potential coverages for some substantial savings. As a result, the buying group, the Wisconsin Municipal Transit Insurance Commission, was formed. The insurance coverages for the members of the buying group were combined into one umbrella policy. Because of the combined insurance coverages, transit agencies were able to take advantage of the savings provided for by the umbrella policy.

In 1985, six months before the policy renewal, the buying group was told by the insurance company that its premiums would increase substantially. The buying group had six months to decide whether to continue its coverage with the current company or seek elsewhere. During board meetings, discussions about forming their own mutual insurance company surfaced. When the buying group was told of its substantial premium increase for the following year, the group saw it as an opportunity to expand the group into its own mutual insurance company. The Wisconsin Department of Transportation (WISDOT) provided funding to study the possibility of going private and starting its own mutual company. The study found that the buying group had enough resources to form its own mutual company.

First, the buying group had to go to the commissioner of insurance to get the approval to start an insurance company. The buying group had to get a charter to form its own mutual company. On January 1, 1986, bylaws were adopted and the Transit Mutual Insurance Corporation of Wisconsin was officially established. The Transit Mutual Insurance Corporation, consisting of 19 transit agencies with fixed routes, was the first one in the nation. The head office is located in Appleton, Wisconsin.
The directors of the Wisconsin Municipal Transit Insurance Commission became Board of Directors for the Transit Mutual Insurance Corporation. The board members consisted primarily of people from the transit agencies, but a couple of the members were non-transit. The board membership is a 3-year term, and it is up to the community to select a member to be on the board of directors. Nancy Kreutzman serves as the executive director, and Mike Glasheen serves as the secretary/treasurer. The company now has three officers: president, vice president, and secretary/treasurer. Prior to the formation of the Transit Mutual Insurance Corporation of Wisconsin, both Nancy and Mike had managed the buying group in addition to their full-time jobs. Now, Nancy works full-time for the insurance corporation as an employee. Currently, there are three full-time and three part-time employees working with Nancy in Appleton.

Because the company writes its own coverage, premiums have become cheaper. Annual premiums amount to about $1.5 million and the company cedes out $5 million for reinsurance. Transit agencies needing excessive coverages have to go outside of the company for coverage.

The corporation has a working website, but it is not yet up and running for public view.

**User Assessment**

**Customers:**

Even before the formation of the buying group, a study committee was formed. This committee and few other members from various transit agencies formed the buying group. Communities used a decision tree as a basis to decipher whether to become a member of the buying group or not. Once the community was committed to the buying group, it was “committed.” Once a community made the decision to get involved with the buying group, the community forgot about it. As an adage for “attitudes” goes, “if you do not hear about anything, assume it must be working.”

Communities pay their premiums annually with the understanding that additional assessments could be made. Fortunately, they never had any assessments.

**Agency:**

The Transit Mutual Insurance Corporation of Wisconsin’s head office is in Appleton. For the first five years, there were no operational expenses. However, there was one big claim of $750,000 in the first year, which was resolved within a year. Even with the one big claim, at the end of the year, the company was in the black. In the next four to five years, the company had put a lot of money away in a savings account. After five years, the company hired Nancy Kreutzman as its executive director in July 1991, and set an administrative budget. The values of the claims have gone up due to inflation but communities are still paying the same premium. In the mid-1980s, Mike Glasheen was
hired as a consultant by the federal government on several occasions to visit other states and talk about the formation of the transit mutual insurance corporation.

Board members vote on issues and have many opportunities to bring up issues. However, a once-a-year closed session provides an opportunity for the members to “just talk.”

**Technology Assessment:**

**Relative Benefits:**

One of the main advantages of the buying group was that due to the low insurance rates, it was cheap. The Transit Mutual Insurance Corporation has more advantages since it is not subject to the vagaries of the insurance companies. For 17 years, the Transit Mutual Insurance Corporation has had stable insurance rates, and since it’s their money, they could be safer with the money. Other advantages of the TMI are that if all of the premiums are not spent (for claims, etc.), the money goes back into the bank account, and if premiums do go up TMI offers premium deductions.

TMI has yet to find any disadvantages. Because of the formation of the mutual insurance company, local insurance agents may have lost out on the future commissions but despite this possible drawback for the local insurance agents, there are no real disadvantages.

**Trial process:**

A preliminary study was conducted in 1980, and in 1981 the buying group was officially established. It took about a year to form. Communities used a decision tree as a guide to decide whether to join the group or not. With regard to TMI, there was some opposition by smaller communities to the establishing of an insurance company in the beginning. Thus, a decision tree is very important to help communities decipher whether joining the group is a good idea.

**Observability:**

The success of the program was observed by how much surplus was being generated, the stability of the premiums (being able to ride out the market ups and downs), and everybody’s estimation of success. According to each community, it seems the mutual insurance company has been and is a success. According to the board members, the attitude felt is that it worked and they should keep it going.

No survey has been done.
Complexity:

Before the formation of TMI, the buying group already had five years of data for analysis in an actuarial study. In order to establish a mutual insurance company, one needs data and a confidence level that the potential company wants to use for funding purposes. It is advisable to use a formula to decipher the funding at a certain confidence level, and to know your industry. For example, $1 million dollars may provide a 90% confidence level of coverage for the year depending on the policy.

The success of the program depends on a combination of a lot of things and the people involved. As for dos and don'ts: “Do be involved…board members should be involved in the process, and don’t get out because it’s harder to get back in” (in reference to the insurance members).

Cost:

The implementation cost for the Transit Mutual Insurance Corporation was about $1 million to $1.25 million. To start a similar program elsewhere and depending on the number of transit agencies involved, one might need about $1 million dollars. During the planning stages, one needs to decipher the premium costs, administrative costs, claims costs, and payments costs. It is also necessary to come up with a set of numbers (dollar amounts) for various confidence levels.

Since 1986, TMI has saved about $7 million dollars. Each year, the Board of Directors votes on a premium reduction dividend that comes right off the top of the premium amount. This amount has been stable at a 30% discount for the past several years. This premium reduction comes from savings.

Consequences of Failure:

There were definitely concerns about failure and concerns about accidents. It was decided that for accidents, TMI would go to the communities for additional assessments.

Implementation Issues:

The buying group members were already talking about the possibility of starting an insurance company for about a year before the formation of TMI. The issue had been raised at board meetings, and board members felt that it was the “genesis of the next step.”

Communities used the decision tree process to decide whether to join. From the decision tree process, if communities stood to save money, they had to join the group. If it turned out to be a “wash,” then it was up to the community to decide whether to join. If it cost more money, then the community could opt out and stay with the local carrier. When the insurance rates came in, it turned out to be a 30-50% savings for everybody.
Fifteen out of twenty transit systems joined immediately. Watertown eventually dropped out of the Transit Mutual Insurance Corporation because it had changed its fixed route to a shared ride, and Milwaukee was never part of it.

The buying group consisted of cities and towns who ran transit systems. Under the larger umbrella policy, each city/town was assessed its own share of premiums based on a percentage of the whole premium. A board of commissioners, one from each member community, managed the buying group. In 1985, the insurance carrier gave advance warning that they were going to double the premiums in a six month timeframe, and the buying group needed to conduct a fast study to form its own company.

Even before getting the approval to form the mutual insurance company, the buying group had all of the necessary information before January 1, 1986. If a state does not already have a buying group, the formation of their own mutual insurance company will depend on the will of the communities, a shepherd-like person to lead, support of the community, and a personal will. To implement the same program in another city, it could take a couple of years if there is no buying group already in existence. A state will need a study on insurance coverage and premiums, an actuarial study, and the amount of premium dollars necessary to get that critical mass.

As for what's next for TMI, the group is always looking to improve the services delivered. The group is looking into a safety premium structure, and is looking at underwriting workers compensation (capturing premiums not used for workers compensation and put in the bank). The company hires out actuaries. Within the last year, claims have become an in-house function. Next year, the company will hire a corporate attorney for corporate legal issues. TMI sponsors the ROADEO: a competition for the bus drivers once a year. Fifty-three drivers competed in May 2003 for monetary awards (1st through 4th places), fun and to promote safety, training programs.

Currently, there are other similar type groups: Wisconsin Municipal Mutual Insurance Company, and the City and Village Municipal Insurance company. Both of these groups were patterned after the TMI model.

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