

State of Alaska
FY2003 Governor's Operating Budget

Department of Community & Economic Development
Insurance Operations
BRU/Component Budget Summary

BRU/Component: Insurance Operations

(There is only one component in this BRU. To reduce duplicate information, we did not print a separate BRU section.)

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Component Mission

The mission of the Division of Insurance is to:

1. develop, interpret, and enforce the insurance statutes and regulations,
2. protect and educate the consumer, and
3. enhance the insurance business environment.

Component Services Provided

Consumer Service Section - Responds to consumer inquiries regarding insurance in general and explaining specific insurance policy provisions. Investigates consumer complaints, and renders impartial determinations of compliance with insurance statutes and regulations. Provides information and consumer education presentations on insurance issues through community outreach programs

Licensing Section – Issues an insurance license to an applicant only after determining that a person is competent, trustworthy, and qualified to obtain, renew, or amend a license. Assists and provides information to licensees for obtaining statutorily required licenses, issuing licenses, and maintaining licensee records while identifying statutory or regulatory needs with emphasis on public protection. Responsible for reviewing the qualifications and trustworthiness of people seeking to market insurance products in Alaska. Oversees and administers required continuing education for producers.

Make recommendations to the director concerning possible license violations.

Investigation Section - Investigates alleged or suspected violations of the insurance laws under Alaska Statutes Title 21. The types of cases investigated include claimant fraud, licensed applicant issues, workers' compensation fraud, agent fraud, insurance company fraud, insurance document fraud, operating without a license issues, premium fraud, medical care provider fraud, and bail bonds issues. The cases are presented to the Director for consideration of referral of the civil/administrative cases to the Assistant Attorney General's Office and the criminal cases to the District Attorney's Office. Criminal cases are also referred to the Office of Special Prosecutions and Appeals, the U.S. District Attorney's Office, or the Federal Bureau of Investigation.

Market Examination Section - The Division of Insurance is not only charged with regulating the "conduct" of insurance companies, producers, brokers, and adjusters; it is also charged with the responsibility to maintain a stable and affordable insurance marketplace in Alaska. It is imperative that the "markets" function in a balanced and predictable way, so that insurance companies can provide the products and services that are so critical to our society. When imbalances start to occur within insurance markets, the system starts to show signs of stress. Like the Financial Examination section that specializes in monitoring the financial vital signs of insurers, the Market Conduct Examination section monitors the many other facets of the "insurance market." in order to detect any signs of stress. It performs detailed and structured market conduct examinations that give the division a better picture of how the insurance market is functioning. It uses specific sampling techniques to maintain a fair and balanced review of the examinee. It also serves as an information resource for other sections of the Division, such as the investigation, licensing and the consumer complaint sections. It has to maintain a broader overview of the market as a whole and uses market conduct examinations as its primary tool to "take the pulse" of the insurance industry in Alaska.

Financial Examination Section - Reviews solvency of insurers doing business in this state. Admits qualified new companies wishing to do business in Alaska. Restricts companies that are a hazard to Alaska consumers due to financial standing or noncompliance with Alaska law. Maintains surplus lines white list (approved list) for the benefit of Alaska consumers. Examines domestic insurance company's financial records in order to verify that the company is

complying with Alaska financial statutes and that the annual financial statement information is reasonably accurate. Performs premium trust examination of producer licensees to verify trust accounts and compliance with Alaska law. Compiles information from all division sections for the division's Annual Report. Collects premium taxes and fees from insurance companies and other entities subject to tax or fees set out in Title 21.

Filing Review Section – Insurance contracts and premium rate filings used by insurers in providing insurance coverage for Alaskans. Prepares consumer education materials such as the Automobile and Homeowners Rating Examples booklets, the Medicare Supplement Insurance Rate Guide, and the Workers' Compensation Rating Guide.

Actuaries - Participate in the solvency review of domestic insurers, drafting insurance laws and regulations, and collecting and analyzing data to aid in developing more effective regulation of insurance in Alaska. Administer and manage the Filings Review Section.

Component Goals and Strategies

To protect and educate the consumer and enhance the insurance business environment by:

- Responding to all inquires and request for information from consumers and assisting them in resolving insurance claims and other related policy matters;
- Increasing consumer awareness and knowledge about insurance through outreach programs by developing publications, consumer education and community outreach programs;
- Investigating fraudulent insurance activities and taking appropriate administrative action or referring for criminal prosecution;
- Investigating alleged or suspected violations of the insurance laws as defined within Alaska Statutes Title 21 and taking appropriate administrative action or referring for criminal prosecution.
- Examining practices of insurance companies and persons selling insurance to assure their compliance with Alaska law;
- Monitoring insurance company financial statements, ratios and other reports to ensure their abilities to pay claims and examining Alaskan insurers to assure their solvency and compliance with Alaska laws;
- Expanding the Alaskan insurance market by authorizing qualified companies to provide insurance products;
- Reviewing insurance policy contracts offered in Alaska to assure they are not ambiguous or misleading and are in compliance with insurance laws;
- Reviewing rates charged for property and casualty coverage and certain types of health and credit coverage to assure they are not inadequate, excessive or unfairly discriminatory;
- Assuring that persons selling insurance are trustworthy and knowledgeable about the products they sell;
- Streamline the license process for both insurers and person transacting business in this state.
- Monitoring developing trends through the country to prevent adverse results to Alaskans.

Key Component Issues for FY2002 – 2003

In November 1999 President Clinton signed into law the Gramm-Leach-Bliley Act (GLBA) that repealed restrictions in the Glass-Steagall Act and the Bank Holding Company Act of 1956 on affiliations between banks, insurance companies and securities firms. This law challenges the Division to review how we perform our mission of protecting the Alaska insurance consumer. GLBA changes the landscape of regulation for the financial services industry in the United States. GLBA supports functional regulation of the various financial service sectors, and states maintain their authority to

regulate insurance. However, greater cooperation and communication with federal regulators and among state insurance departments is crucial to maintaining the quality of regulation that the Division provides. A large portion of essential Legislative initiatives for 2001 based on NAIC model laws were met:

Producer Licensing Model Act: GLBA provides that if 29 states do not adopt reciprocity in agent and broker licensing by November 2002, states will lose authority to license non-residents.

Insurance Company Investment Policy: This area will be resolved with the adoption of the Investment Regulations that are currently in the process with an expected effective date during the first quarter of 2002. Confidentiality of Documents is still an issue since our statute did not pass last session.

Privacy of Insurance Consumer Personal Information: Under GLBA states are directed to adopt and enforce privacy standards relating to defined nonpublic personal health or financial information. Specific legislative authority to adopt the NAIC model privacy regulations was passed in 2001.

Additional proposed legislation in 2002 will include the following:

Confidentiality of Documents: Authority for the director to keep certain information confidential is needed so the division can obtain documents or information from other states, federal and international regulatory agencies, law-enforcement agencies, and the NAIC. The director must be able to hold confidential information submitted by insurers and licensees determined to be legally privileged and nonpublic personal health and/or financial information provided to the division in the course of conducting business.

Alaska continues to make progress to utilize and gain optimal access to national data base regulatory information systems that focus on areas to eliminate paper and redundancies, spearheaded by the NAIC.

Continue to investigate alleged or suspected violations of the insurance laws in a more efficient and effective manner. The fraudulent claim investigations have revealed the offenders have been becoming more involved in other general crimes, arson, attempted murder, theft, worker's compensation, etc., which require more abilities than just investigating insurance law violations. As the industry continues to gain confidence in the State of Alaska, Division of Insurance abilities, they are more willing to report suspected violation of the insurance laws.

Another issue to be addressed is the Division's Investigation Section conducting worker's compensation investigations. Worker's Compensation is a division of the Department of Labor. The Division does not receive any investigative or budgetary compensation for conducting investigations into alleged or suspected violations of their laws. There has recently been a significant number of workers' compensation investigations opened. In 1997 there were four cases, 1998 there were six cases, in 1999 there were two cases, in 2000 there were twelve cases, and as of September 2001 there are twelve cases. These cases are quite complex as they involve reviewing medical records, physicians reports, court and industry depositions as well as determining the representations made by the injured worker to be compared with conflicting information.

Continue to educate the law enforcement agencies throughout the State of Alaska concerning the insurance laws to provide them with the ability to conduct suspected or alleged insurance law violations to be presented to a prosecutor.

Major Component Accomplishments in 2001

Opened and investigated 469 consumer complaints and closed 455. In addition handled over 3,960 inquires.

Took action that resulted in additional payments of \$355,623 to consumers.

Presented insurance community outreach programs to several Alaska business and civic organizations.

Participated in a live audience Public radio program on KSKA, responding to callers with answers to insurance questions.

Opened 51 civil/criminal investigations, closed 44 with 3 investigations leading to criminal convictions.

Completed examination of insurance practices of four persons selling insurance.

Received and audited 1,200 tax filings and collected \$ 27,221,265 in premium taxes and fees.

Suspended nine Alaska certificates of authority and revoked ten certificates of authority originally held by insurance companies to operate in Alaska.

Completed financial examinations of three Alaskan companies to determine solvency and compliance with Alaska laws. In addition performed administrative work for liquidation of one Alaska insurance company.

Received 5,863 insurance contract and premium rate filings. 518 filings were disapproved by the division or withdrawn by the company because they did not comply with Alaska laws.

Updated and published premium rate guides for automobile, homeowners, and Medicare supplement insurance. Also, developed and published a new Long Term Care insurance guide.

The filings section completed training in the System for Electronic Rate and Form Filing (SERFF) system which will allow filings to be submitted and processed electronically.

Issued and renewed over 7,607 licenses to persons selling insurance in Alaska and processed over 5,700 company appointments and 3,200 termination of company appointments.

Issued one consent under 18 USC 1033, issued disciplinary regulatory orders and license denials and collected fines.

The Division anticipates receiving before the end of the calendar year its certification from the NAIC for the Uniform Regulation Through Technology (URTT) award.

Statutory and Regulatory Authority

Alaska Statute Title 21
Alaska Administrative Code 3 AAC 21 to 31

Key Performance Measures for FY2003

Measure:

The average time taken to respond to consumer complaints.
Sec 35(b)(1) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY01 a baseline target of 40 days was established for the average time it should take to respond to consumer complaints. The average time to respond to a complaint varies due to the complexity of the complaint. Our goal is to respond and resolve consumer complaints within 40 days.

Benchmark Comparisons:

Other states similar in size with the same volume average between 37 to 42 days to resolve complex consumer complaints.

Background and Strategies:

The Consumer Services Section received 461 formal written complaints, responded to 3,960 phone calls and 144 emails dealing with some form of consumer complaint. The performance measure given is the average time to respond to consumer complaints. Most complaints receive some type of response within five days of receipt. Our goal is to resolve 85 percent of formal written complaints within 40 days. Approximately 15 percent of the formal complaints received may extend beyond the 40-day time frame because of the complexity of the complaint and the time needed to coordinate with others sections.

Measure:

The average number of days required to process applications and issue licenses and renewals.
Sec 35(b)(2) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY99 and FY00 the average processing time for all license applications was 0-15 working days. During FY2001 the average time for issuing a renewal license was eight-working days and the average time for issuing an initial license was thirteen-working days. The number of license renewal requests grew 22 percent and new applications increased by 12 percent compared to FY00. This significant growth in volume has necessarily impacted processing time.

In FY03 the average processing time for new applications may increase up to two additional days due to implementation of the new federal and state legislation that requires a major overhaul of our licensing process designed to make Alaska's licensing process uniform and consistent with other states as required under state law (HB 184) and federal law. This change will achieve greater efficiencies and provide an easier method for an agent to become licensed in all states.

Benchmark Comparisons:

The average time for processing complete license applications and renewals in states of similar size and staffing is ten days.

Background and Strategies:

Currently approximately 75 percent of all license applications received by the division are incomplete. This requires the division to request additional required information from the applicant. Not only does this increase the average number of days required to process applications; the applicant's length of time to respond is outside the division's control. To remedy this problem the division is moving to an electronic application process. This change will substantially reduce if not eliminate the ability to submit an incomplete application. The electronic application will not allow an applicant to submit an application unless all required information is completed.

The processing time for issuing initial and renewal licenses during FY03 is estimated to increase to ten-working days. The processing time will increase due to the requirements of federal legislation (GLBA) and state legislation (HB 184). This legislation is designed to streamline the application process and will make it easier for agents to become licensed in all 50 states. However, during the transition the division must design and implement a new electronic application process.

Measure:

The number and percentage of insurance-related civil and criminal investigations completed.
Sec 35(b)(3) Ch 90 SLA 2001(HB 250)

Alaska's Target & Progress:

In FY01 the division closed 24 cases. Six cases were closed because no violations were found. Eleven cases were referred to the District Attorney for criminal prosecution and ten cases were referred to the Attorney General for civil or administrative action. Some cases are referred to both the Attorney General and District Attorney for dual actions.

Of those cases referred to the District Attorney, six resulted in convictions. Many of the cases referred for possible civil disciplinary action are pending action.

A target for FY03 is to close at least 62 percent of the cases opened during the fiscal year and to present appropriate cases to the District Attorney's office.

Benchmark Comparisons:

This division looked at other states similar in size and staffing with the same volume of work and found that the number of investigations completed is similar. For example, Wyoming opened 80 cases and closed 49, with 4 cases referred for possible regulatory action.

Background and Strategies:

Insurance fraud is widespread through all 50 states. It includes private citizens filing fraudulent claims to insurance companies and insurance agents or companies violating a statute or regulation included in the State of Alaska insurance laws. Fraud can be reduced through providing more educational materials and publicizing successful convictions and disciplinary action.

Insurance Operations
Component Financial Summary

All dollars in thousands

Non-Formula Program:	FY2001 Actuals	FY2002 Authorized	FY2003 Governor
Component Expenditures:			
71000 Personal Services	2,825.5	3,103.6	3,435.8
72000 Travel	128.2	187.5	187.5
73000 Contractual	885.2	1,234.0	1,074.0
74000 Supplies	49.0	59.2	59.2
75000 Equipment	48.8	35.3	35.3
76000 Land/Buildings	0.0	0.0	0.0
77000 Grants, Claims	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	3,936.7	4,619.6	4,791.8
Funding Sources:			
1053 Investment Loss Trust Fund	77.4	0.0	0.0
1156 Receipt Supported Services	3,859.3	4,619.6	4,791.8
Funding Totals	3,936.7	4,619.6	4,791.8

Estimated Revenue Collections

Description	Master Revenue Account	FY2001 Actuals	FY2002 Authorized	FY2002 Cash Estimate	FY2003 Governor	FY2004 Forecast
Unrestricted Revenues						
General Fund Program Receipts	51060	86.5	0.0	0.0	0.0	0.0
Receipt Supported Services	51073	4,121.6	4,121.6	4,121.6	4,121.6	4,121.6
Unrestricted Fund	68515	27,221.2	27,963.1	27,963.1	27,963.1	27,963.1
Unrestricted Total		31,429.3	32,084.7	32,084.7	32,084.7	32,084.7
Restricted Revenues						
Receipt Supported Services	51073	3,859.3	4,619.6	4,619.6	4,791.8	4,791.8
Investment Loss Trust Fund	51393	77.4	0.0	0.0	0.0	0.0
Restricted Total		3,936.7	4,619.6	4,619.6	4,791.8	4,791.8
Total Estimated Revenues		35,366.0	36,704.3	36,704.3	36,876.5	36,876.5

Insurance Operations

Proposed Changes in Levels of Service for FY2003

An increment is requested to create a new Market Conduct Examiner position located in Juneau. Currently the Market Conduct Section is composed of only 3 positions, one of which is supervisory. In the past the Alaska Division of Insurance had six Market Conduct Insurance Analysts (examiners) plus a supervisor. Gradually, the section was redesigned and moved entirely to Anchorage, and through attrition and other factors, the section was reduced to one person. Adding a Market Conduct position to Juneau results in closer proximity for the conduct of specialized market conduct examinations of surplus lines brokers, the majority of whom are Seattle based. Alaska is probably the one state that depends most heavily upon the specialty surplus lines markets to provide for the insurance needs of much of our small and mid-sized commercial risks. The market conduct section of the division has been a longstanding resource for the resident and non-resident surplus lines brokerage houses alike, and has been instrumental in developing and maintaining a level regulatory playing field. This market is vital to the economic well being of our economy.

Consumer Services will establish an electronic complaint process to decrease response time for staff to handle to complaints. Make improvements to the database interface for ease of use/functionality.

Licensing Section tested and implemented an electronic process for company appointments and terminations. This process will be done by December 31, 2001. The implementation of an electronic licensing process is underway and should be completed by the end of fiscal year 2002.

Filing Section will complete development of filing checklists for most insurance products to assist insurers in submitting filings that comply with Alaska law. This will decrease the amount of time required to review certain filings and will promote consistency in the review process.

Filings Section will develop the necessary electronic submission requirements so that insurers may begin filing and the division may begin receiving and reviewing filings through SERFF.

Obtain investigative or budgetary assistance from the Department of Labor, Division of Worker's Compensation.

The division will participate in a department capital budget request that seeks to provide funds to convert from microfilm and microfiche to images and paper files to images. This is part of the project to improve public access to information and increase staff efficiency through technology and e-commerce. This will allow the public to access documents directly, and will shorten the response time to reply to information requests. This request is to be funded with fees through receipt supported services.

Summary of Component Budget Changes

From FY2002 Authorized to FY2003 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2002 Authorized	0.0	0.0	4,619.6	4,619.6
Adjustments which will continue current level of service:				
-Year 3 Labor Costs - Net Change from FY2002	0.0	0.0	112.3	112.3
Proposed budget increases:				
-New Market Conduct Examiner	0.0	0.0	59.9	59.9

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Governor	0.0	0.0	4,791.8	4,791.8

Insurance Operations

Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2002</u> <u>Authorized</u>	<u>FY2003</u> <u>Governor</u>		
Full-time	55	57	Annual Salaries	2,648,622
Part-time	0	0	COLA	65,330
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	957,165
			<i>Less 6.41% Vacancy Factor</i>	<i>(235,317)</i>
			Lump Sum Premium Pay	0
Totals	55	57	Total Personal Services	3,435,800

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accounting Clerk II	0	0	1	0	1
Actuary	0	0	1	0	1
Administrative Clerk II	2	0	3	0	5
Administrative Clerk III	1	0	3	0	4
Administrative Manager III	0	0	1	0	1
Analyst/Programmer III	1	0	0	0	1
Analyst/Programmer IV	0	0	2	0	2
Analyst/Programmer V	0	0	1	0	1
Assistant Actuary	0	0	1	0	1
Business Reg Examiner	0	0	6	0	6
Consmr Complt Spec/Ins	2	0	0	0	2
Dep Dir Insurance	0	0	1	0	1
Division Director	1	0	0	0	1
Ins Financial Exam I	2	0	1	0	3
Ins Financial Exam II	3	0	0	0	3
Ins Financial Exam III	1	0	0	0	1
Insurance Analyst I	0	0	1	0	1
Insurance Analyst II	3	0	3	0	6
Insurance Analyst III	1	0	4	0	5
Insurance Analyst IV	1	0	1	0	2
Investigator II	2	0	0	0	2
Investigator III	1	0	0	0	1
Investigator IV	1	0	0	0	1
Paralegal Asst II	1	0	0	0	1
Prog Coordinator	0	0	1	0	1
Records & Licensing Spvr	0	0	1	0	1
Revenue Auditor III	0	0	1	0	1
Secretary	1	0	0	0	1
Totals	24	0	33	0	57