

**State of Alaska
FY2004 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. Makes recommendations to the director concerning possible license violations.

Investigation Section. Investigates alleged or suspected violations of the insurance laws under AS 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 AS 21.

Filings Review Section. Reviews 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 requests 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 AS 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;
- Streamlining the license process for both insurers and people transacting business in this state.
- Monitoring developing trends through the country to prevent adverse results to Alaskans.

Key Component Issues for FY2003 – 2004

In November 1999 President Clinton signed into law the Gramm-Leach-Bliley Act (GLBA) that repealed restrictions on affiliations between banks, insurance companies and securities firms, and changed the regulation of the financial services industry in the United States. This law challenged the Division to review how we perform our mission of protecting the Alaska insurance consumer. 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 National Association of Insurance Commissioners (NAIC) model laws were met:

Producer Licensing Model Act: GLBA provided that if 29 states do not adopt reciprocity in agent and broker licensing by November 2002, states will lose authority to license non-residents. At least 29 state have met his requirement.

Insurance Company Investment Policy: Regulations revising the restrictions on investments by Alaskan domestic insurers to allow more recent, safe investment vehicles were adopted and took effect December 28, 2001.

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. Public hearings have been held on the proposed regulations and the division is reviewing public comments.

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. Legislation passed in 2002 grants the director the authority to hold these documents confidential.

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.

The Division will continue to investigate alleged or suspected violations of the insurance laws in a more efficient and effective manner. The fraudulent claim investigations have revealed that offenders are 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's abilities, they are more willing to report suspected violations of the insurance laws. The Division must continue to educate the law enforcement agencies throughout the State of Alaska concerning the insurance laws to provide them with the ability to conduct investigations of suspected or alleged insurance law violations to be presented to a prosecutor.

Major Component Accomplishments in 2002

Opened and investigated 488 consumer complaints. In addition, handled over 4,100 telephone and e-mail consumer insurance inquiries.

Took action that resulted in additional insurance payments of \$231,300 to consumers.

Presented insurance education and community outreach programs to a number of Alaska business and civic organizations.

Opened 48 civil/criminal investigations, and closed 34 with 3 investigations leading to criminal convictions.

Received and audited 1,168 tax filings and collected \$38,887,762 in premium taxes and fees.

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

Completed financial examinations of two Alaskan insurance companies to determine solvency and compliance with Alaska laws. In addition, performed administrative work and litigation for liquidation of an Alaskan life insurance company.

Received 6,270 insurance contract and premium rate filings. 482 filings were disapproved by the division or withdrawn by the company because they did not comply with Alaska laws. Filing review included significant analysis of policy and rate related issues in regard to the filings and development of solutions to those issues that prevent adverse results to Alaskans, such as restriction of terrorism exclusions in insurance policies issued in Alaska.

Received accreditation from the NAIC affirming that the Division meets strict national standards for solvency regulation.

Published updated premium rate guides for automobile insurance.

The filings section implemented and started reviewing electronic filings through a System for Electronic Rate and Form Filing (SERFF).

Issued or renewed over 8,549 licenses to persons selling insurance in Alaska, an increase of 12.4% from last fiscal year, and processed over 8,300 company appointments and 3,200 termination of company appointments.

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

Implemented electronic filings for company appointments and terminations through an authorized business partner of the NAIC's affiliate, National Insurance Producer Registry (NIPR).

Received certification from the NAIC for the Uniform Regulation Through Technology (URTT) award.

Statutory and Regulatory Authority

AS 21	Insurance
AAC 3 21 to 31	Insurance

Key Performance Measures for FY2004

Measure:

The percentage of change when compared to the prior fiscal year in the average time taken to respond to consumer complaints.

Sec 35(b)(1) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The average time to close a consumer complaint in FY01 was 42 days. The average time to close a consumer complaint in FY02 was 18 days, an improvement of 57 percentage points.

In FY01, the Division resolved 70 percent of complaints within 40 days. In FY02, the Division resolved 94 percent of complaints within 40 days, an improvement of 24 percentage points.

In FY03 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. The Division's 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 488 formal written complaints, responded to over 4,100 phone calls and emails dealing with some form of consumer inquiry or 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 percentage of change when compared to the prior fiscal year in the average number of days required to process applications and issue licenses and renewals.

Sec 35(b)(2) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

The average time to process a new application and a renewal:

New Application FY 2001 = 13 days
New Application FY 2002 = 7 days.
Percent of change = 46.2% faster.

Renewal Application FY2001 = 8 days.
Renewal Application FY 2002 = 5 days.
Percent of change = 37.5% faster.

During FY 2003 the average time for issuing a renewal license was five-working days and the average time for issuing an initial license was seven-working days. The division experienced a 12% average increase in volume for new and renewal applications.

In FY04 the average processing time for new applications could easily be less than the Division's FY 03 goal of 10 working days for new and renewal applications. The DP conversion to a new processing system is not complete. However the licensing staff is capable of completing the necessary work within the old system. While the process is cumbersome and slow the licensing staff has become fairly efficient in its use. The goal for FY04 will remain at 10 working days to allow for a slight slow down when the conversion takes place.

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. This increases 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 FY04 is ten-working days.

Measure:

The number and percentage of insurance-related civil and criminal investigations completed.

Sec 35(b)(3) Ch 124 SLA 2002(HB 515)

Alaska's Target & Progress:

In FY02 the division closed 34 cases. 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

	FY2002 Actuals	FY2003 Authorized	FY2004 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	2,988.6	3,435.8	3,475.0
72000 Travel	111.1	187.5	187.5
73000 Contractual	1,111.5	1,152.2	1,415.2
74000 Supplies	49.7	59.2	59.2
75000 Equipment	213.1	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	4,474.0	4,870.0	5,172.2
Funding Sources:			
1156 Receipt Supported Services	4,474.0	4,870.0	5,172.2
Funding Totals	4,474.0	4,870.0	5,172.2

Insurance Operations

Proposed Changes in Levels of Service for FY2004

The division is streamlining its process regarding criminal background check fees, collected from insurance-sales licensure applicants and paid to the Department of Public Safety (DPS), by requiring applicants to submit only one check to the division for the entire application process. Historically, applicants were required to submit two checks - one to the division for application, and one to DPS for a criminal background check. As part of this change, the division has requested an increment to collect this fee from applicants and pay DPS for the criminal background checks via a Reimbursable Services Agreement.

Summary of Component Budget Changes

From FY2003 Authorized to FY2004 Governor

All dollars in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2003 Authorized	0.0	0.0	4,870.0	4,870.0
Adjustments which will continue current level of service:				
-Annualize FY2003 COLA Increase for General Government and Supervisory Bargaining Units	0.0	0.0	35.8	35.8
-\$75 per Month Health Insurance Increase for Non-covered Staff	0.0	0.0	3.4	3.4
Proposed budget increases:				
-Increases in various rate-based services	0.0	0.0	63.0	63.0
-Criminal Background Checks	0.0	0.0	200.0	200.0
FY2004 Governor	0.0	0.0	5,172.2	5,172.2

Insurance Operations
Personal Services Information

	Authorized Positions		Personal Services Costs	
	<u>FY2003</u> <u>Authorized</u>	<u>FY2004</u> <u>Governor</u>		
Full-time	57	57	Annual Salaries	2,724,427
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	967,985
			<i>Less 5.89% Vacancy Factor</i>	(217,446)
			Lump Sum Premium Pay	0
Totals	57	57	Total Personal Services	3,474,966

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	3	0	3	0	6
Administrative Clerk III	0	0	3	0	3
Administrative Manager III	0	0	1	0	1
Analyst/Programmer III	1	0	1	0	2
Analyst/Programmer IV	0	0	1	0	1
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	3	0	0	0	3
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	2	0	5	0	7
Insurance Analyst III	1	0	2	0	3
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 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