

State of Alaska FY2007 Governor's Operating Budget

Dept of Commerce, Community, & Economic Development Insurance Operations RDU/Component Budget Summary

RDU/Component: Insurance Operations

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

Contribution to Department's Mission

To assure competitive, viable, ethical and lawful insurance is available to Alaskans.

Core Services

- Licensing
- Compliance
- Filing Approval
- Public Information

End Results	Strategies to Achieve Results
<p>A: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent</p> <p><u>Target #1:</u> No domestic insurance company becomes insolvent <u>Measure #1:</u> Number of insolvent insurers</p> <p><u>Target #2:</u> 75% of investigations approved by the Director are completed within one year. <u>Measure #2:</u> Percentage completed within one year.</p>	<p>A1: Timely financial examinations of domestic insurers</p> <p><u>Target #1:</u> 100% of financial examinations of domestic insurance companies are done every three years <u>Measure #1:</u> Percentage completed every three years</p> <p>A2: Efficient licensing of both insurers and persons transacting insurance business</p> <p><u>Target #1:</u> Producer applications processed within 10 days <u>Measure #1:</u> Average number of days for processing</p> <p><u>Target #2:</u> 80% of insurance company applications issued within 60 days <u>Measure #2:</u> Percentage of applications issued within 60 days</p> <p><u>Target #3:</u> Surplus lines applications are approved or denied within 90 days of receipt of a complete application. <u>Measure #3:</u> Percentage completed within 90 days</p> <p>A3: Thorough review of alleged violations of Alaska statutes</p> <p><u>Target #1:</u> 100% of alleged violations of Alaska statutes undergo an initial case review, and receive a recommendation whether or not to present to the Director for approval to investigate. <u>Measure #1:</u> Percentage of case assessments and investigations performed</p>

	<p>A4: Market conduct examinations are used to assess market practices</p> <p><u>Target #1:</u> Perform market conduct examinations and market analysis to resolve compliance and market access issues.</p> <p><u>Measure #1:</u> Number of compliance issues that are resolved through market conduct examinations and market analysis.</p> <p>A5: Enhancement of capacity to receive electronic filings</p> <p><u>Target #1:</u> Reduce time needed to process electronic filings</p> <p><u>Measure #1:</u> Percentage reduction in time needed to process electronic filings</p> <p>A6: Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations</p> <p><u>Target #1:</u> Develop state specific filing checklists for self-certification of all product lines</p> <p><u>Measure #1:</u> Percentage of companies making filings accompanied by self-certification forms</p>
End Results	Strategies to Achieve Results
<p>B: Competitive, up-to-date insurance products are available to Alaskan consumers</p> <p><u>Target #1:</u> No more than 65% of the Property and Casualty market is shared by the top 5 insurers</p> <p><u>Measure #1:</u> Percentage of market share - top 5 Property and Casualty insurers</p> <p><u>Target #2:</u> 80% of rate and policy form filing approvals completed within 30 days</p> <p><u>Measure #2:</u> Percentage approved within 30 days</p>	<p>B1: Alaskan consumers are aware and knowledgeable about insurance</p> <p><u>Target #1:</u> 80% of consumer guides updated within one year of previous version</p> <p><u>Measure #1:</u> Percentage of consumer guides updated within one year</p> <p>B2: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes</p> <p><u>Target #1:</u> 6 outreach programs conducted annually</p> <p><u>Measure #1:</u> Number of programs conducted annually</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> • Implement an imaging process • Create a committee to streamline forms and fee structures • Review and revise company licensing instructions on forms and website for clarity, completeness and add "Frequently Asked Questions". • Quarterly meetings with Attorney General staff to review current licensing actions/issues • Implement payment process for credit card payments or Electronic Fund Transfer. • Implement an electronic filing process for nonresident 	<ul style="list-style-type: none"> • Develop a guide for insurers with Alaska specific information • Staff participation in National Association of Insurance Commissioners meetings, seminars and other related training • Visit insurers to present favorable market conditions and statistics • Participate in the National Association of Insurance Commissioners "market analysis" project to modernize our approach to market oversight • Require companies to use filing checklists

Major Activities to Advance Strategies

- applications and renewals
- Implement an electronic program filing process for continuing education
- Implement an electronic process that will automatically search for adverse administrative actions taken against persons by other states prior to issuance and renewal of licenses
- Implement early planning sessions for both financial and market conduct examinations
- Perform examinations both as desk audits and on-site audits to confirm compliance
- Implement an integrated complaint and investigation tracking system
- Training for investigator unit with various law enforcement agencies
- Fund an assistant Attorney General with the criminal division to work with the Division of Insurance
- Perform onsite/desk audits of insurers and surplus lines brokers for premium tax and fee payments
- Monitor financial condition of both admitted and surplus lines insurers by review of annual statements for factors outside the norm
- Implement a process for desk audits or on-site audits to improve filing quality
- Increase access to the National Association of Insurance Commissioners data base for ability to utilize the national tools available
- Investigate a new connection to the System for Electronic Rate and Form Filing to allow filings analysts to efficiently process filings
- Perform assessment of a Surplus Lines Association through a cost/benefit analysis
- Develop a frequently asked questions format for publication on the web site and paper distribution
- Prepare Division annual report
- Prepare updates to the various consumer guides
- Visit consumer groups to do informational meetings on topics of current interest
- Develop a public information officer to provide consistent information to the public and oversee division website
- Update the public request for information process to provide efficient responses and to provide documentation of compliance with deadlines

FY2007 Resources Allocated to Achieve Results

FY2007 Component Budget: \$5,923,900

Personnel:

Full time	53
Part time	0
Total	53

Performance Measure Detail

A: Result - Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent

Target #1: No domestic insurance company becomes insolvent

Measure #1: Number of insolvent insurers

Number of insolvent insurers.

Year	YTD Total
2003	0
2004	0 0%
2005	0 0%

Target #2: 75% of investigations approved by the Director are completed within one year.

Measure #2: Percentage completed within one year.

Percentage of investigations completed.

Year	YTD Total
2003	0
2004	0
	0%

A1: Strategy - Timely financial examinations of domestic insurers

Target #1: 100% of financial examinations of domestic insurance companies are done every three years

Measure #1: Percentage completed every three years

Percent of completed financial examinations done every three years.

Year	YTD Total
2003	100%
2004	100%
2005	100%

A2: Strategy - Efficient licensing of both insurers and persons transacting insurance business

Target #1: Producer applications processed within 10 days

Measure #1: Average number of days for processing

Percentage processed

Year	YTD Total
2003	15
2004	15
	0%
2005	11
	-26.67%

Analysis of results and challenges: The Division has increased its efficiency in this category. Time to process applications has decreased by over 25%. The Division still needs to increase its efficiency by one day. It is anticipated that electronic filing will help increase efficiency.

Target #2: 80% of insurance company applications issued within 60 days

Measure #2: Percentage of applications issued within 60 days

Percent issued within 60 days

Year	YTD Total
2003	56
2004	74
	+32.14%
2005	77
	+4.05%

Analysis of results and challenges: The Division is steadily increasing the number of applications issued within 60 days of filing, though that numbers is below the goal of 80%. It is anticipated that electronic filing will bring the Division closer to meeting that goal, or will enable the Division to reach it.

Target #3: Surplus lines applications are approved or denied within 90 days of receipt of a complete application.

Measure #3: Percentage completed within 90 days

Percentage completed in 90 days

Year	YTD Total
2003	86
2004	75 -12.79%
2005	82 +9.33%

Analysis of results and challenges: The Division has improved in this category over last year.

A3: Strategy - Thorough review of alleged violations of Alaska statutes

Target #1: 100% of alleged violations of Alaska statutes undergo an initial case review, and receive a recommendation whether or not to present to the Director for approval to investigate.

Measure #1: Percentage of case assessments and investigations performed

Percentage of case assessments

Year	YTD Total
2005	50%

Analysis of results and challenges: Not all allegations of violations warrant a written analysis. However, every allegation of wrongdoing that the Division receives undergoes a formal or informal analysis.

A4: Strategy - Market conduct examinations are used to assess market practices

Target #1: Perform market conduct examinations and market analysis to resolve compliance and market access issues.

Measure #1: Number of compliance issues that are resolved through market conduct examinations and market analysis.

Number of compliance issues resolved

Year	YTD Total
2003	0
2004	3 0%
2005	10 +233.33%

Analysis of results and challenges: This number has been increasing in the last two years.

A5: Strategy - Enhancement of capacity to receive electronic filings

Target #1: Reduce time needed to process electronic filings

Measure #1: Percentage reduction in time needed to process electronic filings

Analysis of results and challenges: Because electronic filing is new to the Division, there is not yet a basis for comparison. We expect to have data for this item next year.

A6: Strategy - Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations

Target #1: Develop state specific filing checklists for self-certification of all product lines

Measure #1: Percentage of companies making filings accompanied by self-certification forms

Analysis of results and challenges: Because self certification is a new process, there is no basis for

comparison between years. We anticipate having data to report next year.

B: Result - Competitive, up-to-date insurance products are available to Alaskan consumers

Target #1: No more than 65% of the Property and Casualty market is shared by the top 5 insurers

Measure #1: Percentage of market share - top 5 Property and Casualty insurers

Percentage of Property and Casualty market share: top 5 insurers:

Fiscal Year	YTD Total
FY 2003	37.7
FY 2004	Not Avail.

Analysis of results and challenges: Because data for FY 2004 is not yet available, due to the time frames involved in reporting and analyzing the data. Consequently, there is no basis for analysis for this goal. Data for FY 2004 will be available next year.

Target #2: 80% of rate and policy form filing approvals completed within 30 days

Measure #2: Percentage approved within 30 days

Percentage of approvals within 30 days

Year	YTD Total
2003	53
2004	59 +11.32%
2005	68 +15.25%

Analysis of results and challenges: The Division has not yet met this goal, but anticipates improvement. Flex filing will likely increase this number substantially.

B1: Strategy - Alaskan consumers are aware and knowledgeable about insurance

Target #1: 80% of consumer guides updated within one year of previous version

Measure #1: Percentage of consumer guides updated within one year

Percentage of consumer guides updated

Year	YTD Total
2003	80
2004	80
2005	80

B2: Strategy - Conduct public outreach programs to provide educational assistance in understanding insurance products and processes

Target #1: 6 outreach programs conducted annually

Measure #1: Number of programs conducted annually

Number of programs conducted

Year	YTD Total
2003	0
2004	6
2005	6

Key Component Challenges

The Division will continue to investigate alleged or suspected violations of insurance laws. Timely completion of investigations and either closure of the investigation or additional referrals for administrative or criminal actions is a priority requiring education and cooperation from other state agencies.

The State of Alaska has an increasing lack of a healthy, competitive insurance market place. The workers compensation market is dominated by relatively few carriers which puts our state at risk of losing a viable option for employers to obtain a statutorily mandated coverage. The homeowner's market is fast becoming difficult with two carriers writing 65% of the business and seeking to reduce market share. This, in turn, creates pressure on the real estate industry as sales of property and re-financing depends on the availability of insurance coverage to satisfy the lenders. One key element to be developed will be regulatory modernization to keep Alaska consistent with regulatory practices across the country.

In the summer of 2003 the Division began a business needs analysis project to address internal and external communication and processes issues. The first phase of the project has been completed with analysis of current work flows and development of optimal processes. An internal team is in place to begin implementation of the needs identified in the analysis phase. Resources, both staff and financial, to move this project forward will be key in developing further efficiencies in Division operations.

The Division has initiated several projects which seek to review the practices of various components of the industry which is regulated. Included in the investigations are sales practices of agents and brokers, licensing of individuals selling various products in the auto industry and sales and marketing practices in the title insurance industry. Assuring that consumers are adequately protected is the goal of the reviews of the current practices.

Oversight of both the financial solvency and the underwriting and claims practices of insurance companies is a primary regulatory function. Monitoring both the financial performance and the practices of the companies who write business in Alaska requires efficient utilization of resources.

Significant Changes in Results to be Delivered in FY2007

No significant changes.

Major Component Accomplishments in 2005

Implemented procedural changes to allow nonresident applicants to electronically file an application and receive approval within 24 hours. Application fee payment by credit card is now accepted. Since this process has been implemented, approximately 50% of initial applications received have been transmitted electronically.

Eliminated filing requirements for insurance companies specific to company appointments and company appointment terminations.

Issued or renewed 15,316 licenses to persons selling insurance in Alaska, and processed over 14,300 company appointments and 82,200 terminations of company appointments. The large number of company appointment terminations occurred because company appointment requirement was eliminated by statute during the 2005 legislative session.

Implemented a process to allow our testing vendor to collect and transmit electronic fingerprints for storage into a national, centralized fingerprint repository for future when licensees change their line of authority or state of residency, consistent with national standards.

Approved Surplus Lines Insurers-10 and Purchasing Groups Registered-33.

Suspended two Alaska certificates of authority held by companies during the period, continued suspension of nine, revoked three, and allowed four certificates of authority to expire.

Maintained accreditation from the National Association of Insurance Commissioners (NAIC) through the annual self-evaluation affirming that the Division meets strict national standards for solvency regulation.

Licensed 21 insurance companies by issuing a certificate of authority, registered four (4) risk retention groups, approved three (3) accredited re-insurers, licensed one (1) joint title plant and licensed three multiple employer welfare arrangements.

Collected \$45,940,165 in premium taxes and fees, \$532,271 in company penalties and \$ 207,556 in producer penalties.

Opened and investigated in 459 consumer complaints. In addition handled over 6,800 telephone and email consumer inquiries.

Took action that resulted in additional payments of \$277,157 to consumers in calendar year 2004.

Opened six (6) civil/criminal investigations, closed one (1).

Issued 12 bulletins, 10 regulatory orders, 20 disciplinary orders, 18 suspension and revocation orders and adopted five (5) regulations. The regulations dealt with the following matters:

1. Regulating investments of domestic insurers, record and financial reporting by domestic insurers, and reinsurance requirements.
2. Actuarial opinions and memoranda and with mortality tables.
3. Privacy of consumer financial and health information.
4. Health claim communication and prescription drug cards.
5. Allowing an insurer to offer property and casualty insurance coverage to large commercial risks without prior approval of the policy rates and forms by the division.

Received 5,285 insurance contract and premium rate filings from July 1, 2004 to June 30, 2005. Of these filings, 3,027 were approved and 352 filings were disapproved by the division or withdrawn by the company because they did not comply with Alaska laws. The remainder, 1,906, are under review. Filing review includes significant analysis of insurance policy and rate-related laws and issues to ensure that insurance contracts and associated premiums meet Alaska's statutory requirements.

Published an updated Homeowners Insurance Guide.

Published two new consumer brochures related to the use of credit information in insurance rating and underwriting.

Began participating in a pilot project to give priority review to property and casualty form filings if the insurer certifies that the filing complies with Alaska law.

Reduced the process time for filings submitted electronically by installing a VPN connection to the server.

Developed checklists for most lines of business to assist insurers in submitting filings that comply with the insurance law.

Conducted financial examinations of six (6) Alaska domestic insurers. Of the six (6), three (3) were completed and three (3) were started, but have not yet been completed.

Statutory and Regulatory Authority

AS 21 Insurance
AAC 3 21 to 31 Insurance

Contact Information
<p>Contact: Linda S. Hall, Director Phone: (907) 269-7900 Fax: (907) 269-7910 E-mail: Linda_Hall@commerce.state.ak.us</p>

**Insurance Operations
Component Financial Summary**

All dollars shown in thousands

	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,622.2	4,003.7	3,822.2
72000 Travel	148.5	187.5	187.5
73000 Services	1,223.6	1,408.3	1,819.7
74000 Commodities	118.7	59.2	59.2
75000 Capital Outlay	0.2	35.3	35.3
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
Expenditure Totals	5,113.2	5,694.0	5,923.9
Funding Sources:			
1156 Receipt Supported Services	5,113.2	5,694.0	5,923.9
Funding Totals	5,113.2	5,694.0	5,923.9

Estimated Revenue Collections

Description	Master Revenue Account	FY2005 Actuals	FY2006 Management Plan	FY2007 Governor
Unrestricted Revenues				
Receipt Supported Services	51073	6,220.3	6,000.0	6,000.0
Unrestricted Fund	68515	46,680.5	44,100.0	44,100.0
Unrestricted Total		52,900.8	50,100.0	50,100.0
Restricted Revenues				
Receipt Supported Services	51073	5,113.2	5,694.0	5,923.9
Restricted Total		5,113.2	5,694.0	5,923.9
Total Estimated Revenues		58,014.0	55,794.0	56,023.9

**Summary of Component Budget Changes
From FY2006 Management Plan to FY2007 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2006 Management Plan	0.0	0.0	5,694.0	5,694.0
Adjustments which will continue current level of service:				
-FY 07 Wage Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	73.1	73.1
-FY 07 Health Insurance Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	9.5	9.5
-FY 07 Retirement Systems Cost Increase	0.0	0.0	139.5	139.5
Proposed budget increases:				
-Risk Management Self-Insurance Funding Increase	0.0	0.0	7.8	7.8
FY2007 Governor	0.0	0.0	5,923.9	5,923.9

**Insurance Operations
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2006</u>				
<u>Management</u>		<u>FY2007</u>		
<u>Plan</u>		<u>Governor</u>		
Full-time	57	53	Annual Salaries	2,606,488
Part-time	0	0	COLA	69,789
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	1,427,234
			<i>Less 6.86% Vacancy Factor</i>	(281,311)
			Lump Sum Premium Pay	0
Totals	57	53	Total Personal Services	3,822,200

Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Accounting Clerk II	0	0	1	0	1
Accounting Tech I	0	0	1	0	1
Actuary	0	0	2	0	2
Administrative Clerk II	3	0	2	0	5
Administrative Clerk III	0	0	3	0	3
Administrative Manager III	0	0	1	0	1
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
Insurance Licensing Exam I	0	0	4	0	4
Insurance Licensing Exam II	0	0	1	0	1
Investigator II	1	0	0	0	1
Investigator III	2	0	0	0	2
Investigator IV	1	0	0	0	1
Paralegal II	1	0	0	0	1
Prog Coordinator	0	0	1	0	1
Publications Tech I	0	0	1	0	1
Records & Licensing Spvr	0	0	1	0	1
Secretary	1	0	0	0	1
Tax Auditor III	0	0	1	0	1
Totals	23	0	30	0	53