

**State of Alaska  
FY2009 Governor's Operating Budget**

**Department of Commerce, Community, and 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
- Investigations
- Filing Approval
- Public Information

End Result	Strategies to Achieve End Result
<p><b>A: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent</b></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><b>A1: Timely financial examinations of domestic insurers</b></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><b>A2: Efficient licensing of both insurers and persons transacting insurance business</b></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><b>A3: Thorough review of alleged violations of Alaska statutes</b></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><b>A4: Market conduct examinations are used to assess market practices</b></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><b>A5: Develop an insurance company self-certification program that rate and policy form filings comply with Alaska laws and regulations</b></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 Result	Strategies to Achieve End Result
------------	----------------------------------

<p><b>B: Competitive, up-to-date insurance products are available to Alaskan consumers</b></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><b>B1: Alaskan consumers are aware and knowledgeable about insurance</b></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><b>B2: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes. The Division also updated its Alaska Insurance Consumer Guide, which is now available to people across the state.</b></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"> <li>• Review and revise company licensing instructions on forms and website for clarity and completeness.</li> <li>• Quarterly meetings with Attorney General staff to review current licensing actions/issues</li> <li>• Perform examinations both as desk audits and on-site audits to confirm compliance</li> <li>• Implement an integrated complaint and investigation tracking system</li> <li>• Training for investigator unit with various law enforcement agencies</li> <li>• Fund an assistant Attorney General with the criminal division to work with the Division of Insurance</li> <li>• Perform onsite/desk audits of insurers and surplus lines brokers for premium tax and fee payments</li> <li>• Review surplus lines insurers financial statements utilizing software that searches for factors outside the norm, and review by staff</li> <li>• Staff participation in National Association of Insurance</li> </ul> | <ul style="list-style-type: none"> <li>• Increase access to the National Association of Insurance Commissioners data base for ability to utilize the national tools available</li> <li>• Perform assessment of a Surplus Lines Association through a cost/benefit analysis</li> <li>• Develop a frequently asked questions format for publication on the web site and paper distribution</li> <li>• Coordinate with the new Office of Consumer Affairs and Investigations with new consumer education and consumer outreach</li> <li>• Prepare updates to the various consumer guides</li> <li>• Develop a public information officer to provide consistent information to the public and oversee division website</li> <li>• Update the public request for information process to provide efficient responses and to provide documentation of compliance with deadlines</li> <li>• Implement a process for desk audits or on-site audits</li> </ul> |
|--|--|

**Major Activities to Advance Strategies**

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• Commissioners meetings, seminars and other related training</li> <li>• Visit insurers to present favorable market conditions and statistics</li> <li>• Participate in the National Association of Insurance Commissioners "market analysis" project to modernize our approach to market oversight</li> <li>• Require companies to use filing checklists</li> </ul> | <ul style="list-style-type: none"> <li>to improve filing quality</li> <li>• Investigate a new connection to the System for Electronic Rate and Form Filing to allow filings analysts to efficiently process filings</li> <li>• Prepare Division annual report</li> <li>• Visit consumer groups to do informational meetings on topics of current interest</li> </ul> |
|---|--|

**FY2009 Resources Allocated to Achieve Results**

<p><b>FY2009 Component Budget: \$6,694,500</b></p>	<p><b>Personnel:</b></p> <table border="0"> <tr> <td>Full time</td> <td style="text-align: right;">53</td> </tr> <tr> <td>Part time</td> <td style="text-align: right;">0</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right; border-top: 1px solid black;"><b>53</b></td> </tr> </table>	Full time	53	Part time	0	<b>Total</b>	<b>53</b>
Full time	53						
Part time	0						
<b>Total</b>	<b>53</b>						

**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
2003	0
2004	0 0%
2005	0 0%
2006	0 0%
2007	1 0%

**Analysis of results and challenges:** A Multiple Employer Welfare Association (MEWA) submitted a financial report in 2007 which may indicate that it may not have the funds to pay claims. The division is currently working with the MEWA to insure that claims can be paid, and will take whatever action is appropriate to protect policyholders.

**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
2003	87
2004	85 -2.30%
2005	79 -7.06%
2006	67 -15.19%

*This information is based upon an annual, rather than FY calendar. Complete information for 2007 is not yet available.*

**Analysis of results and challenges:** Note that the number and complexity of investigations varies from year to year. Consequently, the percentage of completed investigations will vary.

**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
2003	100%
2004	100%
2005	100%
2006	100%
2007	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
2003	15
2004	15 0%
2005	11 -26.67%
2006	5 -54.55%
2007	2 -60.00%

**Analysis of results and challenges:** The Division has increased its efficiency in this category. Time to process applications has decreased by 60%.

Electronic processing has helped to increase our efficiency and meet our needs.

**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
2003	56
2004	74 +32.14%
2005	77 +4.05%
2006	75 -2.60%
2007	74.7 -0.40%

**Analysis of results and challenges:** The Division is slightly below its 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
2003	86
2004	75 -12.79%
2005	82 +9.33%
2006	88 +7.32%
2007	100 +13.64%

**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
2005	81
2006	100 +23.46%

**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. Note that in May of 2005, the Division began conducting an informal analysis to determine whether or not to open up a formal investigation. Consequently, there are no figures for prior to 2005. Note also that these numbers are based upon an annual, rather than FY calendar.

**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
2003	0
2004	3 0%
2005	10 +233.33%
2006	12 +20.00%
2007	12 0%

**Analysis of results and challenges:** Market conduct exams are used to assess compliance with the law, best practices, and to correct behavior. The division participates in in-state and multi-state examinations (collaborative examinations among jurisdictions). The issues involved are varied and can range from review of sales materials, advertising, claims review and agent training. The number of issues set out in this chart represent major compliance matters that have been corrected during the relevant time-frame.

**A5: 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

**Percentage of companies making filings accompanied by self-certification forms**

Year	YTD
2006	34
2007	37 +8.82%

**Analysis of results and challenges:** Since the self-certification was enacted in statute, effective 11/2/05, the self-certification became available to both property/casualty and life/health insurers, not just property/casualty insurers, and the number of filings made under the file and use review process averaged about 30 filings per month in 2006 and grew slightly to average about 35 filings per month in 2007. This filing method is used primarily by property/casualty insurers (approximately 100 property/casualty insurers made file and use form filings in 2007 while only about 40 life/health companies used this method).

**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:**

Year	YTD
FY 2003	37.7
FY 2004	37.8
FY 2005	37.6
FY 2006	36.2

**Analysis of results and challenges:** Data for FY 2007 is not yet available, due to the time frames involved in reporting and analyzing the data. However, based upon the data for FYs 2003-2006, it appears that there is no undue concentration in the Property and Casualty markets.

**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
2003	53
2004	59 +11.32%
2005	68 +15.25%
2006	60 -11.76%
2007	63 +5.00%

**Analysis of results and challenges:** The Division continues to work on meeting this goal. The filing review statute change that became effective on November 2, 2005 has helped speed up the review process. However, due to significant staff turnover, the turn around time has increased due to training of the new analysts. As the analysts have become more experienced, the review time began to decrease. The average review time for rate and form approval in 2007 was 38 days compared to a 40 day average review period in 2006. We anticipate being able to increase the number of filings that meet the 30 day review period next year.

**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
2003	80
2004	80
2005	80
2006	80
2007	80

**Analysis of results and challenges:** We continuously update our consumer guides, which are available over the internet. As changes to the law and market conditions warrant, we review and update our consumer guides.



This is an ongoing project at the division.

**B2: Strategy - Conduct public outreach programs to provide educational assistance in understanding insurance products and processes. The Division also updated its Alaska Insurance Consumer Guide, which is now available to people across the state.**

**Target #1:** 6 outreach programs conducted annually

**Measure #1:** Number of programs conducted annually

**Number of programs conducted**

Year	YTD
2003	0
2004	6
2005	6
2006	9
2007	9

**Analysis of results and challenges:** The Director and Deputy Director speak to numerous stakeholder groups throughout the year. This includes chambers of commerce, as well as consumer, agent, and industry groups.

### 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 number of insurance licensees grew about 8% over last year and expects continued growth over the coming years. The increase in licensees is straining our already limited legal resources, attorneys, and hearing officers. Appeals of denied license suspensions or revocations, and other licensing matters consume an enormous amount of both attorney and hearing officer time. Even matters that do not involve litigation, such as the legal analysis involving license applicant with felony convictions, often require considerable attorney time to review and analyze.

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 63.98% 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 Workers Compensation there are three writers writing 65.4% of the market.

The Division's IT staff began to create and modify existing software and introduce new technology to enhance current processes. The new technology includes a period of learning that will reduce the efficiency of the programmers until their proficiency is advanced. However, this knowledge will greatly enhance the development of future efficiencies in the Division operations. Using the State recommended Stellent as a file repository is software new to the Division. Initial steps taken to implement Stellent were a needs analysis of the filing section and the creation of a Metadata schema for the division. There must be more work completed by the Division before there is a tangible result from using Stellent.

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 FY2009

No significant changes.

## Major Component Accomplishments in 2007

Collected \$56,500,431 in premium taxes and fees in fiscal year 2007.

Received reaccreditation from the National Association of Insurance Commissioner's (NAIC) after an on-site examination by NAIC affirming that the Division meets strict national standards for solvency regulation. The NAIC approved the Division's reaccreditation, and found no areas where the Division's performance could be improved.

In addressing the internal and external communication and processes we have a new on-line complaint form available for consumers, the market conduct examiners received a new module to track their exam, the licensing examiners have an internal form for processing applications that greatly reduces the time and errors made in the former process and investigations has new search capabilities that captures information from all other section modules and incorporates professional licensing, business licensing, corporations, banking, and securities information.

Registered 18 Purchasing Groups.

Three premium tax audits of surplus lines brokers were completed.

Certificates of Authority: revoked two, allowed one to expire, and suspended five.

Licensed 19 insurance companies by issuing a certificate of authority, registered one risk retention group, approved one accredited re-insurer, licensed one multiple employer welfare arrangement

Opened and investigated 339 consumer complaints. Took action that resulted in additional payments of \$520,072.81 to consumers in calendar year 2006.

Opened 47 criminal investigations, closed 25 in fiscal year 2007. Achieved four felony convictions: fraudulent auto claim, agent fraud, long-term disability fraud, and worker's compensation fraud.

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

Conducted financial examinations of five Alaska domestic insurers. Completed four.

Closed three Alaskan Market Conduct Exams that were opened in 2005 and three multi-state actions.

## Statutory and Regulatory Authority

AS 21 Insurance  
AAC 3 21 to 31 Insurance

### Contact Information

**Contact:** Linda S. Hall, Director  
**Phone:** (907) 269-7900  
**Fax:** (907) 269-7910  
**E-mail:** linda.hall@alaska.gov

**Insurance Operations  
Component Financial Summary**

*All dollars shown in thousands*

	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	3,646.6	3,880.7	4,216.6
72000 Travel	182.4	187.5	187.5
73000 Services	1,837.0	1,764.9	2,195.9
74000 Commodities	71.3	59.2	59.2
75000 Capital Outlay	1.4	35.3	35.3
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>5,738.7</b>	<b>5,927.6</b>	<b>6,694.5</b>
<b>Funding Sources:</b>			
1156 Receipt Supported Services	5,738.7	5,927.6	6,694.5
<b>Funding Totals</b>	<b>5,738.7</b>	<b>5,927.6</b>	<b>6,694.5</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2007 Actuals	FY2008 Management Plan	FY2009 Governor
<b>Unrestricted Revenues</b>				
Receipt Supported Services	51073	12,026.2	11,825.0	11,075.0
Unrestricted Fund	68515	47,109.6	47,109.6	47,109.6
<b>Unrestricted Total</b>		<b>59,135.8</b>	<b>58,934.6</b>	<b>58,184.6</b>
<b>Restricted Revenues</b>				
Receipt Supported Services	51073	5,738.7	5,927.6	6,694.5
<b>Restricted Total</b>		<b>5,738.7</b>	<b>5,927.6</b>	<b>6,694.5</b>
<b>Total Estimated Revenues</b>		<b>64,874.5</b>	<b>64,862.2</b>	<b>64,879.1</b>

**Summary of Component Budget Changes  
From FY2008 Management Plan to FY2009 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2008 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>5,927.6</b>	<b>5,927.6</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 09 Health Insurance Increases for Exempt Employees	0.0	0.0	0.8	0.8
-FY 09 Bargaining Unit Contract Terms: General Government Unit	0.0	0.0	180.1	180.1
<b>Proposed budget increases:</b>				
-Program Coordinator Position Costs in Administrative Services	0.0	0.0	21.0	21.0
-Core Service Increases Paid to Department of Administration	0.0	0.0	62.0	62.0
-Legal Costs	0.0	0.0	503.0	503.0
<b>FY2009 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>6,694.5</b>	<b>6,694.5</b>

**Insurance Operations  
Personal Services Information**

Authorized Positions		Personal Services Costs		
<u>FY2008</u>				
<u>Management</u>	<u>Plan</u>	<u>FY2009</u>	<u>Governor</u>	
Full-time	53	53	Annual Salaries	2,782,617
Part-time	0	0	COLA	180,571
Nonpermanent	0	3	Premium Pay	0
			Annual Benefits	1,567,245
			<i>Less 6.93% Vacancy Factor</i>	(313,833)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>53</b>	<b>56</b>	<b>Total Personal Services</b>	<b>4,216,600</b>

**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 I	0	0	3	0	3
Administrative Clerk II	3	0	3	0	6
Administrative Clerk III	0	0	2	0	2
Administrative Officer II	0	0	1	0	1
Consmr Service Spec(Insurance)	3	0	0	0	3
Consmr Service Supr(Insurance)	1	0	0	0	1
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	3	0	3
Insurance Analyst II	0	0	3	0	3
Insurance Analyst III	3	0	2	0	5
Insurance Analyst IV	0	0	1	0	1
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
<b>Totals</b>	<b>23</b>	<b>0</b>	<b>33</b>	<b>0</b>	<b>56</b>