

# **State of Alaska FY2002 Governor's Operating Budget**

Department of Community & Economic Development  
Insurance Operations  
BRU/Component

## **Component: Insurance Operations**

**Contact: Robert A. Lohr, Director**

**Tel:** (907) 269-7900 **Fax:** (907) 269-7910 **E-mail:** Bob\_Lohr@dced.state.ak.us

### **Component Mission**

The mission of the Division of Insurance is to protect and serve the state by regulating all aspects of insurance in Alaska.

### **Component Services Provided**

Consumer Service Section - Investigates consumer complaints, gathers and evaluates data, researches insurance laws and renders impartial determinations of compliance with insurance statutes and regulations. Responds to consumer inquiries received by phone calls and e-mails regarding insurance in general and explaining specific policy provisions. Provides information and consumer education presentations on insurance issues through community outreach programs

Licensing Section - reviews all documents received with regard to the license process to ensure that a person is competent, trustworthy, and qualified to obtain, renew, or amend a license. The section is in daily contact with applicants, licensees, and the general public conveying information relative to producer licensing. Determination of possible violations are referred with recommendations to the director. The section is continuously reviewing the statutes and regulations, recommending amendments to the director when necessary.

Assists and provides information to licensees for obtaining statutory required licenses, issue licenses, and maintain 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.

Investigation Section - Investigates violations of Title 21, referring the civil/administrative cases to the Assistant Attorney General's Office and the criminal cases to the District Attorney's Office. Criminal cases are referred to the Office of Special Prosecutions and Appeals, the U.S. District Attorney's Office or the Federal Bureau of Investigation. Researches and prepares documentation for administrative hearings at which the Assistant Attorney General and paralegal assistant represent the division. Performs background investigations on prospective licensees and renewing licensees.

Market Examination Section - Performs market conduct examinations and investigations on insurance companies or producer licensees to ensure: insurance quality and compliance with Alaska's insurance law, and that the Alaskan consumer is treated fairly in the insurance marketplace.

Financial Examination Section - Reviews solvency of insurers doing business in this state. Admits 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 current information on insurers and related entities eligible to operate in Alaska. 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.

Filing Review Section - Reviews the rates and policy forms 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;
  - 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;
  - Monitoring developing trends through the country to prevent adverse results to Alaskans.

### **Key Component Issues for FY2001 – 2002**

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. Essential Legislative initiatives for 2001 based on NAIC model laws include:

**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:** The current investment statutes under AS 21.21 were adopted in 1966 with only minor changes in the past 34 years. Since that time, the types of investments and investment markets have changed. Many new products are available that are not addressed in our statute.

**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.

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 is desirable.

Alaska is now only minimally able to utilize national data base regulatory information systems. We need to continue to make progress to gain optimal access to these important regulatory tools including all NAIC data base systems.

### **Major Component Accomplishments for FY2000**

- Opened and investigated 502 consumer complaints and closed 482. In addition handled over 1,200 inquires.
- Took action that resulted in additional payments of \$418,440 to consumers.
- Assisted consumers during the Cordova avalanche disaster by sending a Consumer Service Specialist to assist consumers with insurance issues.
- Opened 51 civil/criminal investigations, closed 44 with 3 investigations leading to criminal convictions.
- Completed examination of insurance practices of four persons selling insurance.
- Audited 1200 company tax filings and collected \$29,447,186 in premium taxes and fees.
- Authorized 17 new insurance companies to operate in Alaska, suspended 15 and revoked one certificate of authority due to hazardous financial condition.
- Completed financial examinations of two Alaskan companies to determine solvency and compliance with Alaska laws. In addition performed administrative work for liquidation of one Alaska insurance company.
- Received and reviewed 6,280 insurance contracts and premium rate filings. Over 600 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, Medicare supplement and workers compensation insurance.
- Implemented a new continuing education audit program for persons selling insurance in Alaska and performed 76 audits.
- Issued and renewed over 5,600 licenses to persons selling insurance in Alaska and processed over 5,000 company appointments and responded to over 13,000 inquires.
- Issued eleven disciplinary, six regulatory orders and one license denial and collected over \$14,000 in fines.

### **Statutory and Regulatory Authority**

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

## Key Performance Measures for FY2002

### **Measure: The average time taken to respond to consumer complaints**

*(Added by Legislature in FY2001 version.)*

#### **Current Status:**

Baseline data is being collected in FY 2001.

#### **Benchmark:**

We looked at other states similar in size with the same volume of work and found that our number of days for resolutions fell in between theirs, which was 37 to 42 days.

#### **Background and Strategies:**

FY 2001-85% of formal complaints will have communications sent to the consumer and to the company for their response, or the complaint will be resolved within 40 days. 10% of formal complaints could extend beyond 40 days because of potential violation actions; file review by the Attorney General's office; involvement with other DOI sections; multiple issues or complexity of materials in files being investigated. 5% of formal complaints could extend beyond 40 days due to issues pending additional information from complainant or company; delays due to staff shortages and absences; periods of high complaint volume; or delays due to specialists meeting high priority special assignment deadlines.

### **Measure: The average number of days required to process applications and issue licenses and renewals.**

*(Added by Legislature in FY2001 version.)*

#### **Current Status:**

FY99 to FY00 the current average processing time was 10-15 working days.

#### **Benchmark:**

In Wyoming a state with a similar population our processing time is in-line with theirs which is ten days, even though we have dissimilar laws and regulations.

#### **Background and Strategies:**

The high number of incomplete applications received complicates measuring the average number of days required to process applications. Currently approximately 75% of all applications submitted are incomplete. To remedy this problem the division is moving to an electronic application process that 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 contained in the application.

In FY 2001, a complete application will be processed and a license issued within 5 days of receipt of the application.

For applications that are not complete they are sent notification that the license cannot be processed without additional information. When the necessary information is received a license is issued within 5 days.

### **Measure: The number of insurance-related civil and criminal investigations completed.**

*(Added by Legislature in FY2001 version.)*

#### **Current Status:**

In FY 2000 the division opened 60 cases, closed 37 and 3 of the cases lead to criminal convictions. We investigate every case that is opened.

#### **Benchmark:**

Our baseline is to close over 60% of the cases that we open during the year and to present those cases deemed for litigation to the DA's office for prosecution. This compares to the state of Wyoming, which opened 80 cases, closed 49 with 4 cases referred for 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. Prevention of fraud can be reduced through providing more educational materials and having investigators conduct education seminars and speak at professional meetings.

**Status of FY2001 Performance Measures**

	<i>Achieved</i>	<i>On track</i>	<i>Too soon to tell</i>	<i>Not likely to achieve</i>	<i>Needs modification</i>
<ul style="list-style-type: none"> <li>• The average time taken to respond to consumer complaints.</li> <li>• The average number of days required to process applications and issue licenses and renewals.</li> <li>• The number of insurance-related civil and criminal investigations completed.</li> </ul>		X			

**Insurance Operations**  
**Component Financial Summary**

All dollars in thousands

	FY2000 Actuals	FY2001 Authorized	FY2002 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	2,621.8	2,925.1	3,103.6
72000 Travel	121.2	187.5	187.5
73000 Contractual	936.9	1,235.4	1,224.9
74000 Supplies	71.2	59.2	59.2
75000 Equipment	172.1	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
<b>Expenditure Totals</b>	<b>3,923.2</b>	<b>4,442.5</b>	<b>4,610.5</b>
<b>Funding Sources:</b>			
1005 General Fund/Program Receipts	3,923.2	0.0	0.0
1053 Investment Loss Trust Fund	0.0	77.4	0.0
1156 Receipt Supported Services	0.0	4,365.1	4,610.5
<b>Funding Totals</b>	<b>3,923.2</b>	<b>4,442.5</b>	<b>4,610.5</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2000 Actuals	FY2001 Authorized	FY2001 Cash Estimate	FY2002 Governor	FY2003 Forecast
<b>Unrestricted Revenues</b>						
Unrestricted Fund	68515	29,519.2	28,352.0	29,410.8	29,424.0	29,424.0
<b>Unrestricted Total</b>		<b>29,519.2</b>	<b>28,352.0</b>	<b>29,410.8</b>	<b>29,424.0</b>	<b>29,424.0</b>
<b>Restricted Revenues</b>						
General Fund Program Receipts	51060	3,923.2	0.0	0.0	0.0	0.0
Receipt Supported Services	51073	0.0	4,365.1	4,365.1	4,610.5	4,610.5
Investment Loss Trust Fund	51393	0.0	77.4	77.4	0.0	0.0
<b>Restricted Total</b>		<b>3,923.2</b>	<b>4,442.5</b>	<b>4,442.5</b>	<b>4,610.5</b>	<b>4,610.5</b>
<b>Total Estimated Revenues</b>		<b>33,442.4</b>	<b>32,794.5</b>	<b>33,853.3</b>	<b>34,034.5</b>	<b>34,034.5</b>

## Insurance Operations

### Proposed Changes in Levels of Service for FY2002

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 will implement an electronic process for company appointments and terminations and begin implementation of an electronic licensing process.

Filing section will allow companies to file contract and premium rate filings electronically.

Increments for the Divisions of Insurance, Occupational Licensing, and Banking, Securities, & Corporations are requested to cover rent expenses in FY02. An increment for the DCED State Facilities Rent Component is requested to receive the rent payments, in the form of interagency receipts. General funds, in the amount of FY01 rental rates paid by the 3 divisions, are transferred to the Department of Administration.

### Summary of Component Budget Changes

#### From FY2001 Authorized to FY2002 Governor

*All dollars in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2001 Authorized</b>	77.4	0.0	4,365.1	4,442.5
<b>Adjustments which get you to start of year:</b>				
-Update Executive Administration and Support Cost Allocation Plan	0.0	0.0	71.6	71.6
<b>Adjustments which will continue current level of service:</b>				
-Convert Special FY2001 Labor Cost Fund Sources to Rcpt Svcs	-77.4	0.0	77.4	0.0
-Year 2 Labor Costs - Net Change from Fy 2001	0.0	0.0	24.3	24.3
<b>Proposed budget increases:</b>				
-State Facilities Rent	0.0	0.0	72.1	72.1
<b>FY2002 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>4,610.5</b>	<b>4,610.5</b>

## Insurance Operations

### Personal Services Information

Authorized Positions			Personal Services Costs	
	FY2001 Authorized	FY2002 Governor		
Full-time	53	55	Annual Salaries	2,450,595
Part-time	0	0	COLA	36,554
Nonpermanent	0	0	Premium Pay	0
			Annual Benefits	850,023
			<i>Less 7.00% Vacancy Factor</i>	<i>(233,572)</i>
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>53</b>	<b>55</b>	<b>Total Personal Services</b>	<b>3,103,600</b>

### 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 I	0	0	1	0	1
Administrative Clerk II	3	0	2	0	5
Administrative Clerk III	1	0	3	0	4
Administrative Manager III	0	0	1	0	1
Analyst/Programmer II	1	0	1	0	2
Analyst/Programmer IV	0	0	2	0	2
Assistant Actuary	0	0	1	0	1
Business Reg Examiner	0	0	6	0	6
Consmr Compl Spec/Ins	3	0	1	0	4
Dep Dir Insurance	0	0	1	0	1
Division Director	1	0	0	0	1
Ins Analyst III, Rates	0	0	1	0	1
Ins Financial Exam I	1	0	1	0	2
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	1	0	3	0	4
Insurance Analyst III	2	0	2	0	4
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
Records & Licensing Spvr	0	0	1	0	1
Revenue Auditor III	0	0	1	0	1
<b>Totals</b>	<b>23</b>	<b>0</b>	<b>32</b>	<b>0</b>	<b>55</b>