

State of Alaska
FY2005 Governor's Operating Budget

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

Contents

RDU/Component: Insurance Operations	3
<i>End Results</i>	3
<i>Strategies to Achieve Results</i>	3
Component Financial Summary	13
Summary of Component Budget Changes	14
Personal Services Information	15

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

Core Services:

1. Licensing
2. Compliance
3. Filing Approval
4. Public Information

End Results	Strategies to Achieve Results
<p>(1) Efficient licensing of both insurers and persons transacting insurance business</p> <p><u>Target:</u> 80% of producer applications issued within 10 days <u>Measure:</u> 30% increase in applications processed within 10 days</p> <p><u>Target:</u> 80% of Insurance Company applications issued within 60 days <u>Measure:</u> 30% increase in the number of applications processed within 60 days</p> <p>(2) Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent</p> <p><u>Target:</u> 100% of financial and Market conduct examinations are done on domestic companies every three years <u>Measure:</u> % completed every three years</p> <p><u>Target:</u> 100% of alleged violations of Alaska insurance laws and statutes are investigated <u>Measure:</u> 60 % of consumer complaints and statutory violation investigations finalized annually</p> <p>(3) Competitive, up-to-date insurance products are available to Alaskan consumers</p> <p><u>Target:</u> 65% of the market share is shared by the top 5 insurers <u>Measure:</u> % of market share of top 5 insurers</p> <p><u>Target:</u> 80% of filing approvals completed within 30 days</p>	<p>(1) Develop an integrated computer system and programs to file applications electronically</p> <p><u>Target:</u> 80% of applications filed electronically to obtain license <u>Measure:</u> % of applications filed electronically</p> <p>(2) Develop payment process for electronic payments to obtain, renew or amend a license</p> <p><u>Target:</u> 80% of fees received electronically <u>Measure:</u> % of fees received electronically</p> <p>(3) Insurance Company applications reviewed efficiently</p> <p><u>Target:</u> One application completed per FE examiner per week <u>Measure:</u> Number of applications completed</p> <p>(4) Prompt approval of surplus lines applications</p> <p><u>Target:</u> Approve/deny within 90 days of receipt <u>Measure:</u> # of days from receipt to completion</p> <p>(5) Timely completion of examinations</p> <p><u>Target:</u> 100% of statutorily required financial examinations completed within 18 months of the "as of" date <u>Measure:</u> % of examinations completed within 18 months</p> <p>(6) Consumer complaints are handled with timeliness and</p> <p><u>Target:</u> 80% of consumer complaint files are completed within 45 days</p>

End Results	Strategies to Achieve Results
<p><u>Measure:</u> 30% increase in the number of filing approvals completed within 30 days</p> <p>(4) Alaskan consumers are aware and knowledgeable about insurance</p> <p><u>Target:</u> 80 % of consumer guides updated within one year of previous version <u>Measure:</u> 25% increase in consumer guides updated within one year</p>	<p><u>Measure:</u> 25% increase in the number of complaints closed within 45 days</p> <p>(7) "Target" market conduct examinations are used to assess market practices</p> <p><u>Target:</u> 10 "target" examinations are conducted annually <u>Measure:</u> 75% of examinations are completed within 6 months of opening date</p> <p>(8) Increase rates of administrative action and/or prosecution rates for statutory violations</p> <p><u>Target:</u> 60% of statutory violations result in administrative, civil or criminal action <u>Measure:</u> 35% increase in cases resulting in administrative, civil or criminal action.</p> <p>(9) Turn insurer prospects into active insurers</p> <p><u>Target:</u> 1 new insurer in the marketplace each year <u>Measure:</u> # of new active insurers in the Alaska marketplace</p> <p>(10) Reduce time needed to process SERFF filings</p> <p><u>Target:</u> Processing speed doubled <u>Measure:</u> % reduction in time needed to process SERFF filings</p> <p>(11) Improve insurance company filings compliance with Alaska laws and regulations</p> <p><u>Target:</u> Develop filing checklists for all products lines within one year <u>Measure:</u> % of filing checklists completed within one year</p> <p>(12) Timely and accurate responses to inquiries from consumers, insurance industry, legislators and others</p> <p><u>Target:</u> 80% of phone calls and emails receive a response within 24 hours <u>Measure:</u> % of phone calls and emails returned within 24 hours</p> <p>(13) Conduct public outreach programs to provide educational assistance in understanding insurance products and processes</p> <p><u>Target:</u> 10 Outreach programs conducted annually <u>Measure:</u> % increase in number of programs conducted</p>

Major Activities to Advance Strategies	
<ul style="list-style-type: none"> ACTIVITIES FOR LICENSING STRATEGIES 	<ul style="list-style-type: none"> 1. Develop a guide for insurers with Alaska specific

Major Activities to Advance Strategies

- 1. Implement an imaging process
- 2. Create a committee to streamline forms and fee structures
- 3. Distribute carrier/surplus lines applications to financial examiners for processing upon receipt
- 4. Quarterly meetings with AG staff to review current licensing actions/issues
- 5. Develop payment process for credit card payments or EFT
- **ACTIVITIES FOR COMPLIANCE**
- 1. Staff training both to maintain required certifications and NAIC issue specific training
- 2. Review annual statements for factors outside the norm
- 3. Implement early planning sessions for both financial and market conduct examinations
- 4. Perform examinations both as desk audits and site audits to confirm compliance
- 5. Implement an integrated complaint and investigation tracking system
- 6. Training for investigator unit with various law enforcement agencies
- 7. Fund an assistant AG with the criminal division to work with the Division of Insurance
- 8. Create a web based premium tax report that will automatically post to internal data base and will interface with NAIC data base
- 9. Perform audits of insurers and surplus lines brokers for premium tax and fee payments
- 10. Monitor financial condition of both admitted and surplus lines insurers
- **ACTIVITIES FOR FILING**
- information
- 2. Staff participation in NAIC meetings, seminars and other related training
- 3. Visit insurers to present favorable market conditions and statistics
- 4. Participate in the NAIC "market analysis" project to modernize our approach to market oversight
- 5. Require companies to use filing checklists
- 6. Implement a process for desk audits or on-site audits to improve filing quality
- 7. Increase access to the NAIC data base for ability to utilize the national tools available
- 8. Investigate a new connection to the SERFF to allow filings analysts to efficiently process filings
- 9. Review legal requirements for filings with AG staff with regular meetings
- 10. Perform assessment of a Surplus Lines Association to provide a cost/benefit analysis
- **ACTIVITIES FOR PUBLIC INFORMATION**
- 1. Develop a frequently asked questions format for publication on the web site and paper distribution
- 2. Prepare Division annual report
- 3. Prepare updates to the various consumer guides
- 4. Visit consumer groups to do informational meetings on topics of current interest
- 5. Develop a public information officer to provide consistent information to the public
- 6. Update the public request for information process to provide efficient responses to requests and to provide documentation of compliance with deadli

FY2005 Resources Allocated to Achieve Results

FY2005 Component Budget: \$5,317,300

Personnel:

Full time	57
Part time	0
Total	57

Performance Measure Detail

(1) Result: Efficient licensing of both insurers and persons transacting insurance business

Target: 80% of producer applications issued within 10 days

Measure: 30% increase in applications processed within 10 days

Percent Producer Licenses Issued Within 10 Days (FY05 Projected)

Year				% in 10 Days	YTD Total
2003				34%	34%
2004				51%	51%
2005				76%	

Analysis of results and challenges: The Division cannot conduct business without approved licensed individuals.

Target: 80% of Insurance Company applications issued within 60 days

Measure: 30% increase in the number of applications processed within 60 days

Percent of Insurance Company Certificates of Authority issued within 60 days (FY05 Projected)

Year				% in 60 Days	YTD Total
2005				25%	

(2) Result: Insurance companies and persons transacting insurance comply with Alaska laws and are financially solvent

Target: 100% of financial and Market conduct examinations are done on domestic companies every three years

Measure: % completed every three years

Percent of Financial and Market Conduct Examinations Completed on Domestic Companies Every Three Years

Year				% Completed	YTD Total
2003				25%	25%
2004				50%	
2005				100%	

Analysis of results and challenges: The Division is the primarily regulator for domestic companies. It is critical that examinations are done in a timely manner.

Target: 100% of alleged violations of Alaska insurance laws and statutes are investigated

Measure: 60 % of consumer complaints and statutory violation investigations finalized annually

Percentage of consumer complaints and Statutory Violation Investigations Finalized Annually

Year				% Finalized	YTD Total
2003				40%	40%
2004				60%	
2005				70%	

Analysis of results and challenges: The Department of Law needs to come up with an AG position in the criminal division to work with the Division of Insurance on alleged violations.

(3) Result: Competitive, up-to-date insurance products are available to Alaskan consumers

Target: 65% of the market share is shared by the top 5 insurers

Measure: % of market share of top 5 insurers

Percentage of Market Share of Top Five Insurers

Year				% Market	YTD Total
2002				90%	90%
2003				85%	85%
2004				80%	
2005				75%	

Analysis of results and challenges: Division staff need to visit insurers and present favorable market conditions and statistics to attract more insurers. Develop a guide for insurers with Alaska specific information.

Target: 80% of filing approvals completed within 30 days

Measure: 30% increase in the number of filing approvals completed within 30 days

Percent of Filing Approvals Completed Within 30 Days

Year				% Completed	YTD Total
2003				37%	37%
2004				48%	
2005				63%	0

Analysis of results and challenges: The Division should give priority review to companies that generally comply with Alaska filing requirements. The Division should also implement a process for desk audits or on-site audits to improve filing quality.

(4) Result: Alaskan consumers are aware and knowledge-able about insurance

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

Measure: 25% increase in consumer guides updated within one year

Percentage Increase in Consumer Guides Updated within One Year

Year				% Completed	YTD Total
2003				50%	50%
2004				75%	
2005				100%	

Analysis of results and challenges: The Division needs to integrate the business needs analysis to implement an IT system that will function with optimal integration for each section of the Division/Public Information. The IT system can provide staff with a program to update the various consumer guides.

(1) Strategy: Develop an integrated computer system and programs to file applications electronically

Target: 80% of applications filed electronically to obtain license

Measure: % of applications filed electronically

Percent of Applications Filed Electronically (FY05 Projected)

Year				% Electronic	YTD Total
2005				25%	

Analysis of results and challenges: The Division needs to integrate the business needs analysis to implement an IT system that will function with optimal integration for each section of the Division/Licensing.

(2) Strategy: Develop payment process for electronic payments to obtain, renew or amend a license

Target: 80% of fees received electronically

Measure: % of fees received electronically

Percent of Fees Received Electronically (FY05 Projected)

Year				% Electronic	YTD Total
2005				25%	

Analysis of results and challenges: The Division needs to integrate the business needs analysis to implement an IT system that will function with optimal integration for each section of the Division/Licensing.

(3) Strategy: Insurance Company applications reviewed efficiently

Target: One application completed per FE examiner per week

Measure: Number of applications completed

Percentage of Applications Completed Within One Week (FY05 Projected)

Year				% Completed	YTD Total
2005				25%	

Analysis of results and challenges: The Division needs to implement an imaging process.

(4) Strategy: Prompt approval of surplus lines applications

Target: Approve/deny within 90 days of receipt

Measure: # of days from receipt to completion

Percentage of Surplus Lines Applications Approved or Denied within 90 Days of Receipt (FY05 Projected)

Year				% in 90 Days	YTD Total
2003				50%	50%
2004				75%	
2005				100%	

Analysis of results and challenges: Companies do not respond to Division inquiries in a timely matter so the 90 days to approve or deny is extended. Perform audits of surplus lines brokers for premium tax and fee payments. Review monthly surplus lines brokers filings including affidavits.

(5) Strategy: Timely completion of examinations

Target: 100% of statutorily required financial examinations completed within 18 months of the "as of" date

Measure: % of examinations completed within 18 months

% of Examinations Completed within 18 months

Year				% in 18 Mo	YTD Total
2003				50%	50%
2004				75%	
2005				100%	

Analysis of results and challenges: The Division needs to review annual statements for factors outside the norm. They also need to perform examinations both as desk audits and sites audits to confirm compliance.

(6) Strategy: Consumer complaints are handled with timeliness and

Target: 80% of consumer complaint files are completed within 45 days

Measure: 25% increase in the number of complaints closed within 45 days

Percentage of Consumer Complaint Files are Completed Within 45 Days

Year				% Completed	YTD Total
2003				50%	50%
2004				75%	
2005				80%	

Analysis of results and challenges: The consumer does not provide complete information.

(7) Strategy: "Target" market conduct examinations are used to assess market practices

Target: 10 "target" examinations are conducted annually

Measure: 75% of examinations are completed within 6 months of opening date

Percentage of Examinations Completed Within Six Months of Opening

Year				% in 6 Mos	YTD Total
2003				25%	25%
2004				50%	
2005				75%	

Analysis of results and challenges: Division staff (Consumer Services, Investigations, Filings and Financial) need to work closely to target companies that need to have a market examination conducted.

(8) Strategy: Increase rates of administrative action and/or prosecution rates for statutory violations

Target: 60% of statutory violations result in administrative, civil or criminal action

Measure: 35% increase in cases resulting in administrative, civil or criminal action.

(9) Strategy: Turn insurer prospects into active insurers

Target: 1 new insurer in the marketplace each year

Measure: # of new active insurers in the Alaska marketplace

Number of new active insurers in the Alaska Marketplace

Year				# New	YTD Total
2004				25%	
2005				50%	

Analysis of results and challenges: Division staff need to visit insurers and present favorable market conditions and statistics to attract more insurers. Develop a guide for insurers with Alaska specific information. Participate in the NAIC "market analysis" project to modernize our approach to market oversight.

(10) Strategy: Reduce time needed to process SERFF filings

Target: Processing speed doubled

Measure: % reduction in time needed to process SERFF filings

% Reduction in Time Needed to Process SERFF Filings

Year				% Reduction	YTD Total
2003				100%	100%
2004				50%	
2005				25%	

Analysis of results and challenges: The connection time in receiving SERFF filings from NAIC is very slow and

comes over a modem line at 132K. The Division needs to integrate the business needs analysis to implement an IT system that will function with optimal integration for each section of the Division/Filings.

(11) Strategy: Improve insurance company filings compliance with Alaska laws and regulations

Target: Develop filing checklists for all products lines within one year

Measure: % of filing checklists completed within one year

Percentage of Filing Checklists Completed within One Year

Year				% Completed	YTD Total
2004				50%	50%
2005				100%	100%

Analysis of results and challenges: Require companies to use checklists. The Division needs increase access to NAIC data base for enhanced ability to use the national tools available.

(12) Strategy: Timely and accurate responses to inquiries from consumers, insurance industry, legislators and others

Target: 80% of phone calls and emails receive a response within 24 hours

Measure: % of phone calls and emails returned within 24 hours

Percentage of Phone Calls and Emails Returned within 24 Hours

Year				% w/in 24 Hr	YTD Total
2003				25%	25%
2004				50%	
2005				75%	

Analysis of results and challenges: The Division should develop a frequently asked questions format for publication on the web site and for hardcopy distribution.

(13) Strategy: Conduct public outreach programs to provide educational assistance in understanding insurance products and processes

Target: 10 Outreach programs conducted annually

Measure: % increase in number of programs conducted

Percentage Increase in Number of Programs Conducted

Year				% Increase	YTD Total
2003				25%	25%
2004				50%	
2005				100%	

Analysis of results and challenges: The Division should develop a public information officer to provide consistent information to the public. The Division should visit consumer groups to do informational meetings on topics of current interest.

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. Alaska faces a crisis in funding for the Alaska Insurance Guaranty Association due to the insolvency of a major workers compensation carrier. The workers compensation market is dominated by relatively few carriers which put 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.

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.

Significant Changes in Results to be Delivered in FY2005

No significant changes.

Major Component Accomplishments in 2003

National Association of Insurance Commissioners (NAIC) deemed Alaska to be reciprocal for Producer Licensing under Gramm-Leach-Bliley Act.

Issued two consents under 18 U.S.C. 1033, issued disciplinary regulatory orders and license denials, and imposed fines.

Awarded new testing contract for professional insurance examinations that reduced examination fees.

Initiated project that analyzed the technology need and defined business requirements for each of the sections within the division.

Published updated insurance examination handbooks.

Issued or renewed 9,212 licenses to persons selling insurance in Alaska, and processed over 9,000 company appointments and 2,700 terminations of company appointments

Suspend four Alaska certificates of authority continued suspension of 19 and revoked three.

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

Licensed 34 insurance companies by issuing a certificate of authority, registered 10 risk retention groups, approved one accredited reinsurer, and licensed two automobile service corporations.

Collected \$36,257,701.00 in premium taxes and fees.

Opened and investigated 304 consumer complaints. In addition handled over 5,600 telephone and e-mail consumer insurance inquiries.

Took action that resulted in additional payments of \$152,007 to consumers.

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

Filed two regulations, issued ten bulletins, ten regulatory orders, four disciplinary orders and five suspension and revocation orders.

Opened 21 civil/criminal investigations, closed 9 with several of these cases being strongly considered for prosecution.

Received 4,222 insurance contract and premium rate filings from December 2, 2002 to June 30, 2003. Of these filings,

2,149 were approved and 302 filings were disapproved by the division or withdrawn by the company because they did not comply with Alaska laws. The remainder, 1,771, 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 updated Medicare Supplement Insurance Rate Guide and Homeowners Insurance Guide.

Issued report on *Insurance Credit Scoring in Alaska*.

During the autumn of 2002, the Market Conduct section initiated, on short notice and with reduced staff, three "focused" examinations on personal lines (Automobile & Homeowners) insurers in Alaska. The examinations were to focus on the use of 'credit scoring' by the insurers (selected as a representative sample of the entire market). This was the first such attempt to investigate the issue by the Division. The data collection efforts were tedious and time consuming. Despite this, the exam team scrutinized and analyzed the data and the preliminary results (not yet finalized for public release) were used by the division (internally) in its advisory role to the legislature. The result was the passage and adoption of House CS for CS for Senate Bill No. 13 (L&C). The passage of this bill allows the continued use of credit scoring as an effective tool by insurers marketing insurance in Alaska, thus providing an incentive for insurers to maintain a diverse market share in Alaska, while providing consumer protections against the overuse or abuse of credit scores in the underwriting processes.

In early spring of 2003 The Market Conduct section responded to an urgent request of the director to assist the Investigative section in an investigation of serious allegations involving a licensed insurance agency in Anchorage. The Market Conduct review resulted in the identification and protection of 15 "orphaned" policyholders of the agency.

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@dced.state.ak.us</p>

**Insurance Operations
Component Financial Summary**

All dollars shown in thousands

	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Non-Formula Program:			
Component Expenditures:			
71000 Personal Services	3,313.5	3,519.9	3,626.1
72000 Travel	151.4	187.5	187.5
73000 Contractual	1,322.5	1,415.2	1,409.2
74000 Supplies	45.8	59.2	59.2
75000 Equipment	140.5	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	4,973.7	5,217.1	5,317.3
Funding Sources:			
1156 Receipt Supported Services	4,973.7	5,217.1	5,317.3
Funding Totals	4,973.7	5,217.1	5,317.3

Estimated Revenue Collections

Description	Master Revenue Account	FY2003 Actuals	FY2004 Authorized	FY2005 Governor
Unrestricted Revenues				
Receipt Supported Services	51073	4,798.2	0.0	0.0
Unrestricted Fund	68515	39,420.3	34,304.2	37,617.5
Unrestricted Total		44,218.5	34,304.2	37,617.5
Restricted Revenues				
Receipt Supported Services	51073	4,973.7	5,217.1	5,317.3
Restricted Total		4,973.7	5,217.1	5,317.3
Total Estimated Revenues		49,192.2	39,521.3	42,934.8

**Summary of Component Budget Changes
From FY2004 Authorized to FY2005 Governor**

All dollars shown in thousands

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
FY2004 Authorized	0.0	0.0	5,217.1	5,217.1
Adjustments which will continue current level of service:				
-Changes to Retirement and Other Personal Services Rates	0.0	0.0	100.2	100.2
FY2005 Governor	0.0	0.0	5,317.3	5,317.3

**Insurance Operations
Personal Services Information**

Authorized Positions		Personal Services Costs		
	FY2004 Authorized	FY2005 Governor		
Full-time	57	57	Annual Salaries	2,758,122
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	1,127,203
			<i>Less 6.67% Vacancy Factor</i>	(259,225)
			Lump Sum Premium Pay	0
Totals	57	57	Total Personal Services	3,626,100

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	3	0	3
Insurance Analyst II	2	0	3	0	5
Insurance Analyst III	1	0	2	0	3
Insurance Analyst IV	1	0	1	0	2
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
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