



LEGISLATIVE
AUDITOR
GENERAL

An In-Depth Budget Review of The Utah Insurance Department

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Lead Auditor

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Office of the Commissioner

Divisions


 Administration

Health and Life 

 Captive


Financial Regulation and Licensing 

 Fraud

Property and Casualty 

Board & Commission

 Title and Escrow Commission

Bail Bond Board 

The Utah Insurance Department has around 90 full-time equivalents, spread across six divisions and the Office of the Commissioner.





The Utah Insurance Department is Funded Through Fees Assessed on the Industry

Funding Source	2021 Funding	Percentage of UID Funding
General Fund	\$10,000	0.1%
Federal Fund	384,600	2.4%
Dedicated Credits	481,800	3.0%
Fees	\$15,375,400	94.9%
Total	\$16,251,800	100.0%

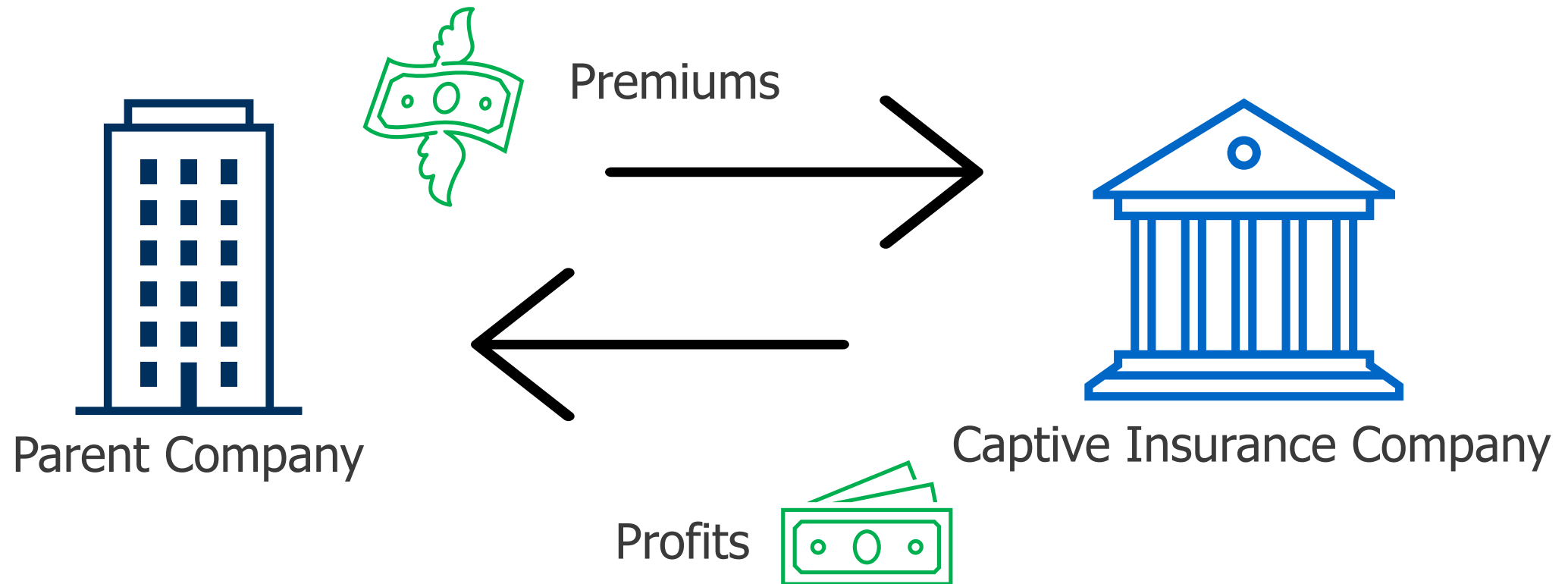




Chapter II

Better Policies are Needed to Reduce Perception of Conflict of Interest in Captive Insurance Division

Captive Insurance Overview



The Captive Division Has Fully Embraced its Role of Promotion, But Can Improve its Role as a Regulator

Promotion

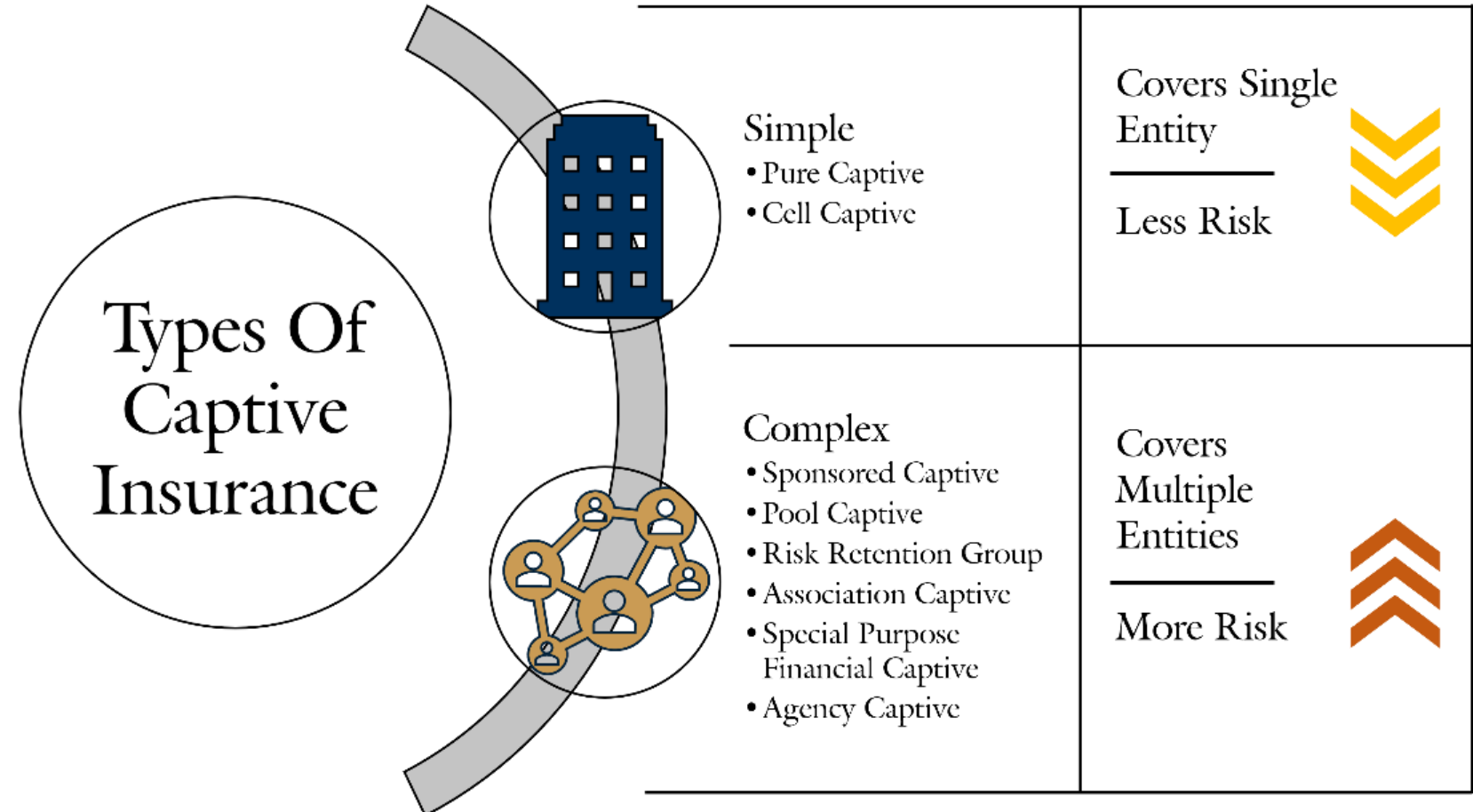
- Sponsor Captive Conferences
- Advertising
- Relationships with Captive Service Providers

Regulation

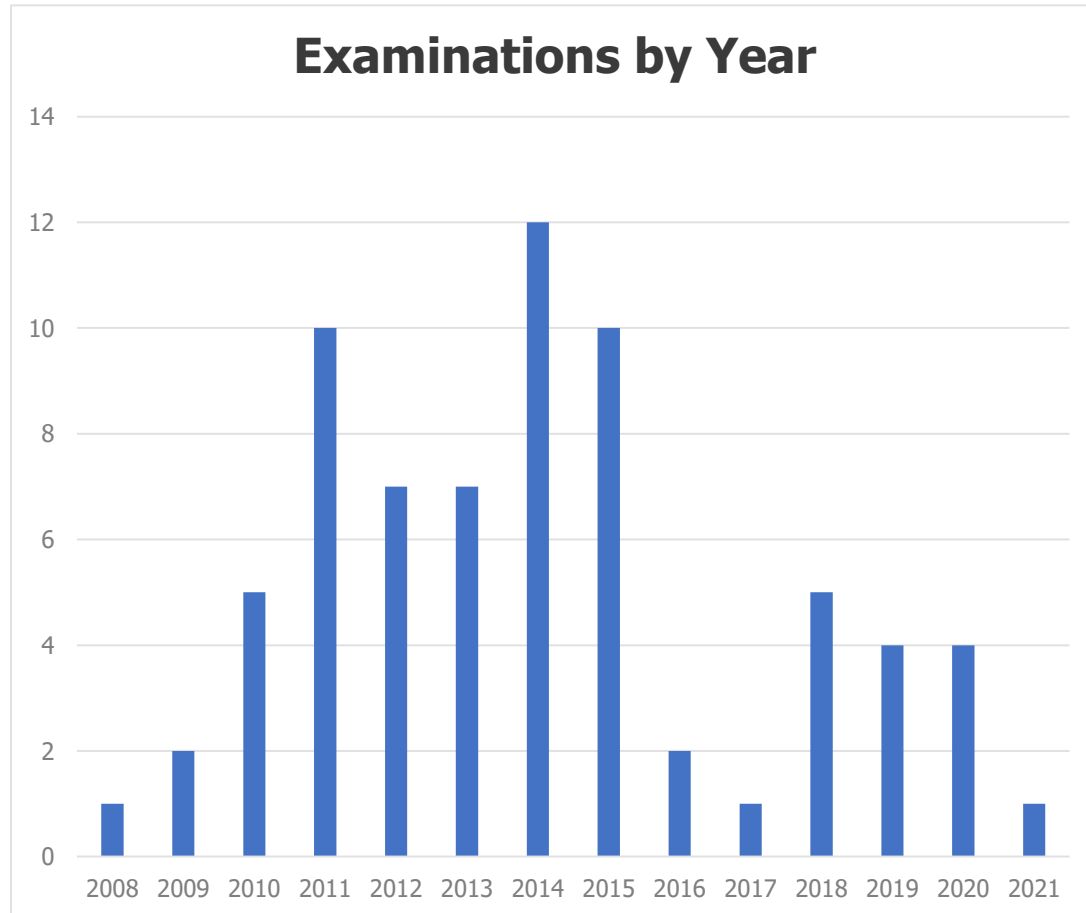
- Maintain Solvency
- Compliance with Utah Law
- Conduct Financial Examinations
- Disciplinary Enforcement



Different Types of Captives Carry Varying Levels of Risk



The Division Lacks Policies to Dictate How to Address Higher Risk Captives



- When to conduct full-scope financial examinations
- How to address non-compliance
- What lines of insurance require additional scrutiny
- Process to approve certain financial transactions





Chapter III

Captive Insurance Provides the State with Less Economic Benefit Than Originally Estimated

Captive Insurance Provides the State with Less Economic Benefit Than Originally Estimated



Year	Adjusted Total Economic Benefit	Number of Captives	Benefit per Captive
2018	\$11,201,536	428	\$26,172
2019	10,514,832	422	24,917
2020	9,656,732	398	24,263
2021	\$8,568,664	369	\$23,221



Captive Insurance Provides the State with Less Economic Benefit Than Originally Estimated



<u>Jobs</u>	
Captive Services*	\$5,295,757
Annual Fees to UID	1,704,004
<u>Other Expenditures</u>	
Board of Directors Meetings	236,425
Miscellaneous	1,332,478
Total	\$8,568,664



Options to Increase the Economic Benefit of Captive Insurance

- Conducting Full-scope Financial Examinations when appropriate
- In-state Board of Directors Meetings
- Amending statute to require more than one director present to constitute a quorum
- Requiring captives to utilize Utah-based captive management firms
- Implementing a self-procurement tax




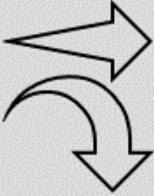

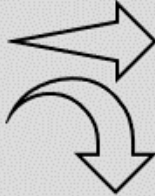





Chapter IV

The Insurance Fraud Division Could Have a Greater Impact on Fraud Prevention

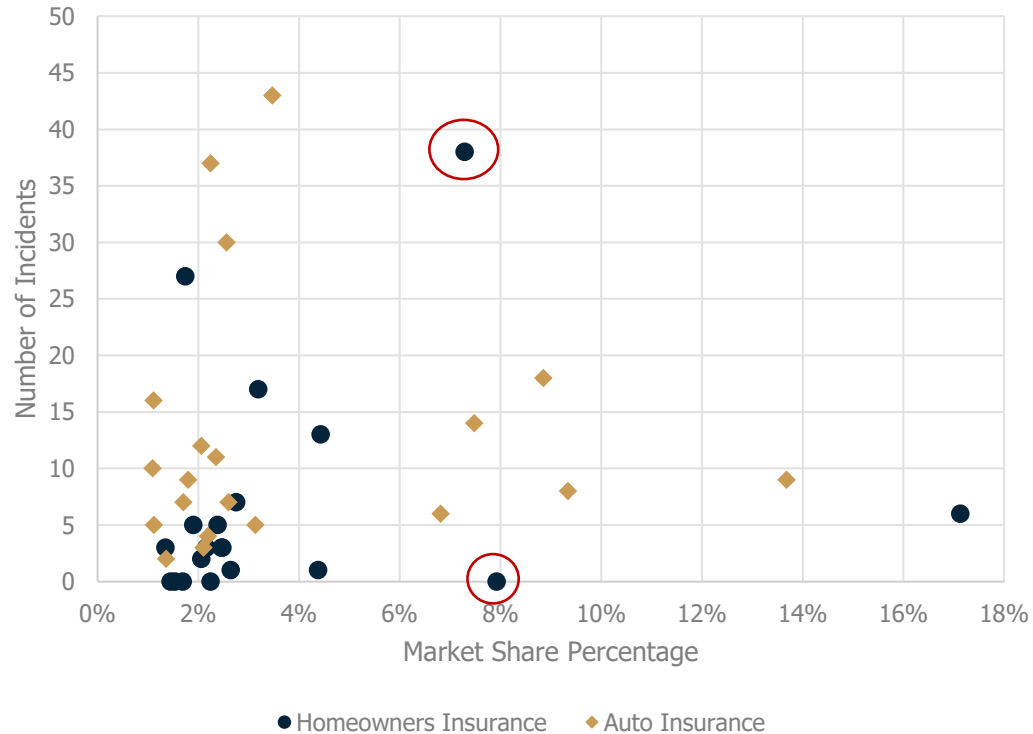
Several Steps of the Fraud Detection and Investigation Process Screen Out Important Cases

<p>Individuals choose to commit fraud</p> 	<p>Limited education on fraud and low bar for claims do not filter out simple fraud incidents</p> 	<p>Insurance companies receive claim and detect fraud</p> 	<p>Some companies detect and report more incidents than others</p> 	<p>Insurance company investigators investigate claim</p> 	<p>Some companies provide better referrals than others</p> 	<p>IFD receives and investigates referrals</p> 
<p>Action Steps</p>	<p>Citizen education campaign</p> <hr/> <p>Mandatory pre-inspection photos</p>		<p>Require submission of fraud plans</p> <hr/> <p>Educate companies</p>		<p>Analyze data</p> <hr/> <p>Educate investigators</p>	<p>Utilize creative staffing approaches</p>

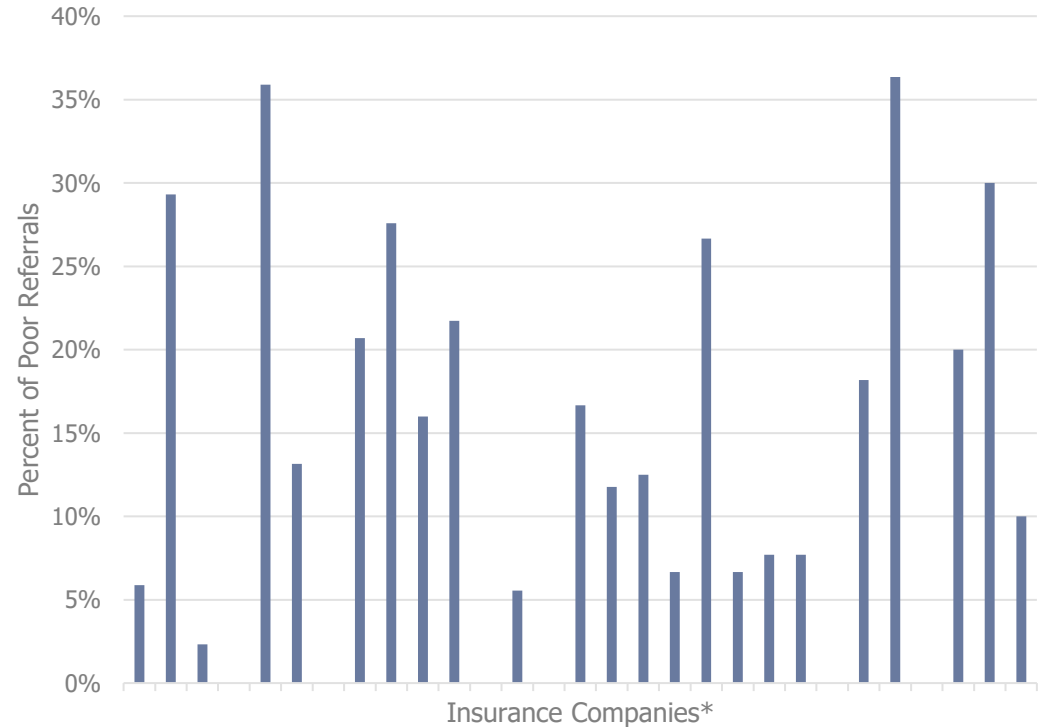


Analysis of Fraud Prevention Efforts of Insurance Companies Could Improve Referrals

Utah's Top Twenty Auto and Homeowner's Insurers Do Not Report Fraud at a Similar Rate

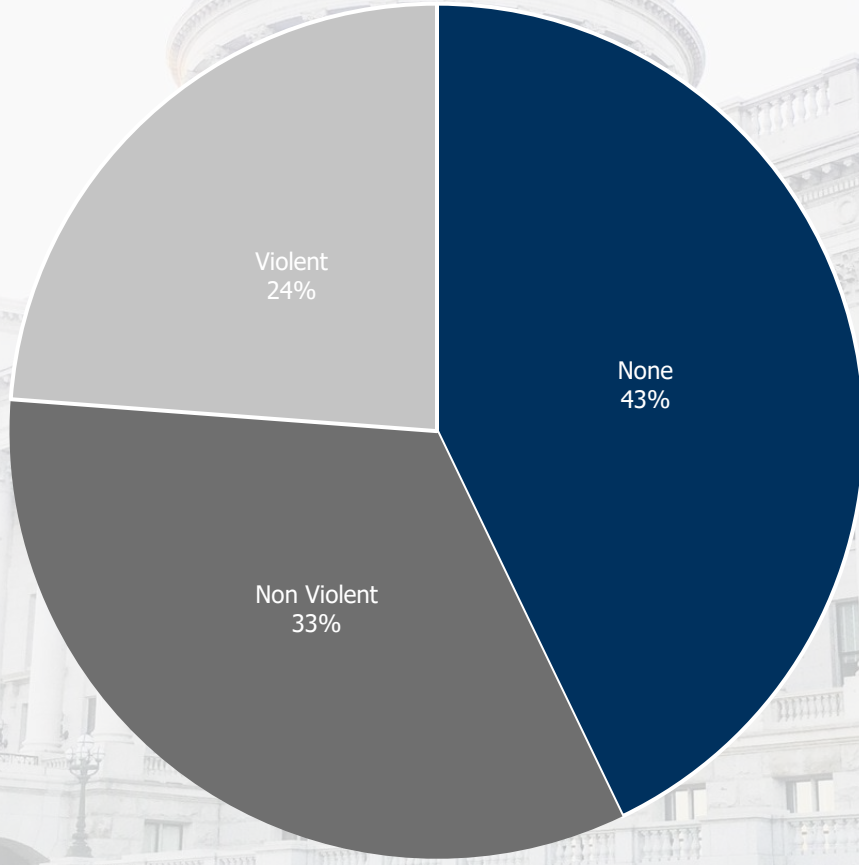


Some Insurance Companies Frequently Submit Poor-Quality Referrals





Many Perpetrators of Insurance Fraud Are First Time Offenders





Questions?



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COMPLIANCE



The Captive Insurance Division lack policies to guide its response to non-compliance. As a result, we identified instances of significant non-compliance in which the division took no formal action.



Insurance is regulated on the state-level.
The National Association of Insurance Commissioners (NAIC) serves
as the association of states and territories responsible for
coordinating regulatory efforts.