

Office of the
Legislative Fiscal Analyst

FY 2001 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Insurance Department

Contents:

- 1.0 Summary
- 2.0 Issues
- 3.0 Programs
- 4.0 Additional Information

1.0 Insurance Department

Summary	Utah Code 31A-2-101 states that the Insurance Department shall administer the Insurance Code, seeking to achieve the purposes in Section 31A-1-102, and shall perform other duties imposed by law. The Insurance Department regulates insurance companies and individual agents to assure equitable and competitive business practices.
Department Mission Statement	The Insurance Department is a service organization that protects the public and the consumers of insurance products by reasonably and fairly regulating the Utah insurance industry. It works to foster a competitive insurance market within the State. The Department accomplishes this by monitoring and promoting the solvency of insurance companies in Utah.
Organizational Structure	<p>The Utah State Insurance Department is operated under the direction of the Insurance Commissioner. The Commissioner has a Deputy Commissioner and two Assistant Commissioners, each with delegated responsibilities.</p> <p>The Department is divided into seven work sections funded from the General Fund. The Department reorganized its work processes along lines of insurance. Activity, function and structure have been regrouped to reduce processing time, improve Department efficiency, and enhance customer service. Traditionally, this grouping has been considered one budget. These funds are offset by fees collected by the Department and which are deposited into the General Fund. Fees are collected for a variety of activities in addition to licensing of agents and brokers.</p>
Utah Tomorrow	The Department of Insurance has been involved with Utah Tomorrow since it began. The Free Enterprise and Regulatory Systems section of Utah Tomorrow lists benchmarks related to the Department's own goals and activities. Each of the provisions of the mission statement are related to an item in Utah Tomorrow. Most of the benchmarks are process or activity related. It is difficult accurately measure performance and evaluate the benefit of a regulatory agency like the Insurance Department.

	Analyst FY 2001 Base	Analyst FY 2001 Changes	Analyst FY 2001 Total
Financing			
General Fund	\$3,724,700		\$3,724,700
Dedicated Credits Revenue	860,300		860,300
GFR - Bail Bond Surety Administration	15,000		15,000
Beginning Nonlapsing	794,100		794,100
Closing Nonlapsing	(613,300)		(613,300)
Total	<u>\$4,780,800</u>		<u>\$4,780,800</u>
Programs			
Administration	\$3,726,400		\$3,726,400
Relative Value Study	47,900		47,900
Insurance Fraud Program	883,600		883,600
Bail Bond Program	5,900		5,900
Title Insurance Program	43,700		43,700
Office of Consumer Health Assistance	73,300		73,300
Total	<u>\$4,780,800</u>		<u>\$4,780,800</u>
FTE	78.0		78.0

2.0 Budget Highlights: Insurance Department

2.1 Insurance Fees

The Insurance Department collects more in fees to the General Fund than it receives in appropriation. The department collection of fees is authorized under UCA 31A-3-103. The department collected \$1.7 million in surplus line taxes (insurance written by non-admitted companies), and in FY 1999 the insurance industry paid to the Tax Commission \$74.6 million on estimated insurance premiums. The premium taxes are deposited directly into the General Fund. Direct revenue generated by the Department that was added to the General Fund for FY 2000 from FY 1999 was \$4,983,118. The net amount deposited to the General Fund was \$1,686,438. This revenue could be available to fund needed systems and processes to enhance service to the insurance industry. The Insurance Department is primarily funded with General Fund.

2.2 COSMOS

The Insurance Department is planning to purchase an off-the-shelf management information system. The purpose of the system is to update and integrate insurance processing systems and to implement e-commerce type of transactions. One-time funding of \$656,000 is needed to purchase and implement the system. Ongoing funding of \$75,000 is needed to operate and maintain the system and pay for software licensing. See section 3.1 for additional details.

2.3 Office of Consumer Health Assistance Support

Senate Bill 56 (1999 Legislative Session) created the Office of Consumer Health Assistance (OCHA). The fiscal note identified the need for four FTE's. Only two FTE's were funded. The legislation requires OCHA to be a resource to health care consumers, the public, government agencies and the legislature. They are to educate health care consumers by producing, collecting, disseminating educational materials, and summarizing the information gathered. The Department is currently unable to perform all of these functions because they lack the FTE and funding to do them. One FTE and funding of \$53,000 from the General Fund would be needed to more fully satisfy this requirement. This position will not generate additional revenue.

2.4 NAIC Accreditation Requirement

The Department of Insurance must conduct timely and meaningful examinations of insurers doing business in Utah to maintain its NAIC accreditation. To maintain the triennial examination schedule and to expand the market conduct examinations, the Department needs two additional market conduct examiners and one financial examiner. The costs of these examiners are recovered from the companies that are examined. Funding of \$143,900 from the General Fund is required for the three FTE to maintain this schedule. The Analyst recommends this building block be placed on the priority list.

3.1 Programs: Insurance Department-Administration

Recommendation The Analyst recommends funding of \$3,726,400 of which \$3,651,400 is from the General Fund.

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
General Fund	\$3,392,600	\$3,682,500	\$3,651,400	(\$31,100)
Transfers	(5,800)			
Beginning Nonlapsing	50,000	75,000	75,000	
Closing Nonlapsing	(75,000)			
Lapsing Balance	(64,900)			
Total	\$3,296,900	\$3,757,500	\$3,726,400	(\$31,100)
Expenditures				
Personal Services	\$2,804,000	\$3,333,800	\$3,301,400	(\$32,400)
In-State Travel	1,000	1,000	1,000	
Out of State Travel	54,800	52,200	52,200	
Current Expense	227,600	194,400	195,700	1,300
DP Current Expense	171,200	176,100	176,100	
DP Capital Outlay	10,000			
Capital Outlay	28,300			
Total	\$3,296,900	\$3,757,500	\$3,726,400	(\$31,100)
FTE	66.0	66.0	66.0	

Purpose **Administration** manages the other divisions and is responsible for budgeting, financial tracking, personnel, actuarial services, and managerial statistics. It has 14 FTEs.

Information Technology is responsible for all of the data processing equipment and maintenance in the department which includes the LAN/WAN. This division has 5 FTEs.

Producer Services has 7 FTEs and is responsible for the issuance and renewal of licenses to all Utah insurance agents and agencies. Licensees qualify through examination. In FY 99, the division issued 9,236 new agent licenses for a total of 30,697.

Financial Examination and Company Licensing/Solvency Division licenses 1,504 insurance companies to do business in Utah. It also monitors financial strength and solvency. The division is responsible for the financial examination of insurers according to statute. Because not all of the companies are headquartered in Utah, the examiners may spend their time out of state. The Insurance Department is reimbursed by the insurer being examined for all costs incurred during the examination, which includes examiners salaries and benefits. These reimbursements are deposited into the General Fund. The section has 16 FTEs.

Property and Casualty, Health, and Life Divisions function by line of insurance. These divisions handle telephone and walk-in complaints and inquiries from the public. They review and analyze policy forms and rates which are filed by insurance companies, and investigate and resolve alleged violations of the insurance code and rules. These divisions handled 41,461 consumer and license inquiries and 1,117 formal complaints in FY 1999. The amount of claims recovered for Utah consumers in FY 1999 was \$1,736,420. The number of rate/form filings reviewed was 12,812. There were 398 administrative/disciplinary actions taken against agents, agencies and companies. There are a total of 24 FTE's.

COSMOS

The Insurance Department is planning to purchase an off-the-shelf management information system. The purpose of the system is to update and integrate insurance processing systems and to implement e-commerce type of transactions.

The Department interacts with more than 1,400 foreign insurance companies and hundreds of Utah companies. The Financial Services Modernization Act (FSMA) passed by the U.S. Congress and signed by President Clinton on November 12, 1999. This removed restrictions on banks and securities firms that prevented them from selling insurance and securities. Banks and securities firms' insurance operations will be regulated at the state versus the federal level provided the state's eliminate electronic and other barriers to interstate commerce by November 11, 2003.

COSMOS is an application designed for state insurance departments and the insurance industry. The system:

- 1) will promote e-commerce within the industry;
- 2) is compatible with the National Association of Insurance Commissioner (NAIC) initiatives;
- 3) incorporates Internet connectivity;
- 4) should streamline the way the insurance industry, companies, agencies and agents do business; and
- 5) provide uniform treatment of activity and regulation throughout the industry.

It is currently in production in insurance departments in Arkansas, California, Colorado, Indiana, Pennsylvania, and Wyoming. It has been approved for implementation in Iowa, Missouri, Nevada, Ohio, and Virginia. It is being considered in Oregon, Washington, and Texas.

One-time funding of \$656,000 would be needed to purchase and implement the system. Ongoing funding of \$27,500 is needed to operate and maintain the system and pay for software licensing.

NAIC Accreditation Requirement

The Department of Insurance must conduct timely and meaningful examinations of insurers doing business in Utah to maintain its National Association of Insurance Commissioners (NAIC) accreditation. The Utah Insurance Code requires the Department to examine insurers at least once every five years for solvency and market practices. The Department has established an examination schedule that requires a complete financial examination and very limited market conduct examination every three years. To maintain the triennial examination schedule and to expand the market conduct examinations, the Department needs two additional market conduct examiners and one financial examiner.

The costs of these examiners are recovered from the companies that are examined. It is estimated that these additional FTE will generate approximately \$200,000 to the General Fund. Funding of \$143,900 General Fund is recommended for the three FTE to maintain this schedule and satisfy these requirements.

Bail Bond Insurance

House Bill 376 from the 1998 General Session transferred the Bail Bond Program oversight from the Courts to the Department of Insurance.

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
GFR - Bail Bond Surety A	\$15,000	\$15,000	\$15,000	
Beginning Nonlapsing		9,500	9,500	
Closing Nonlapsing	(9,500)	(18,600)	(18,600)	
Total	\$5,500	\$5,900	\$5,900	\$0
Expenditures				
Personal Services	\$1,900	\$1,900	\$1,900	
In-State Travel	1,200	1,300	1,300	
Out of State Travel	500	600	600	
Current Expense	1,900	2,100	2,100	
Total	\$5,500	\$5,900	\$5,900	\$0

The Insurance Department has the statutory responsibility of regulating the bail bond surety industry and bail bond agents operating in Utah (Title 31A-23-35). This requires them to ensure that all bail bond sureties and bail bond agents demonstrate adequate preparation, competency, and practice honesty and integrity. The Department is to ensure that Utah has a strong bail bond surety insurance market that actively supports the needs of our citizens, judiciary, and law enforcement organizations for reliable bail bond sureties, bail bond agents, and bail bonds at competitive prices. Assistance is to be provided to the public through information and education. Along with this program is the responsibility to investigate and prosecute all unprofessional conduct by bail bond sureties or bail bond agents. Staff is provided to the Bail Bond Surety Oversight Board who reviews new licensing applications and reviews complaints from the public about bail bond sureties or bail bond agents.

Funding of \$15,000 Restricted Revenue from fees and penalties is used for staff and board expenses.

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
New Agent Licenses	4,855	7,147	9,236
Forfeiture Collections	\$427,880**	\$169,250	\$271,406*
Disciplinary Actions	369	335	398
Consumer Claims Recovered	\$1,400,000	\$1,170,000	\$1,736,420

* - Includes one time collection of \$100,000 company fine.

** - Includes one time collection of \$251,000 company fine.

Office of Consumer Health Assistance

Senate Bill 56 (1999 Legislative Session) created the Office of Consumer Health Assistance (OCHA). The base budget for this program is \$73,300 from the General Fund.

	FY 1999	FY 2000	FY 2001	Est/Analyst
	Actual	Estimated	Analyst	Difference
Financing				
General Fund		\$73,500	\$73,300	(\$200)
Total	\$0	\$73,500	\$73,300	(\$200)
Expenditures				
Personal Services		\$69,000	\$69,600	\$600
In-State Travel			200	200
Current Expense		500	3,500	3,000
DP Current Expense		4,000		(4,000)
Total	\$0	\$73,500	\$73,300	(\$200)
FTE		2.0	2.0	

The fiscal note identified the need for four FTE's. Only two FTE's were funded. The legislation requires OCHA to be a resource to health care consumers, the public, government agencies and the legislature. They are to educate health care consumers by producing, collecting, disseminating educational materials, and summarizing the information gathered. The Department is currently unable to perform all of these functions because they lack the FTE and funding to do them. One FTE and funding of \$53,000 from the General Fund would be needed to more fully satisfy this requirement. This position will not generate additional revenue.

3.2 Programs: Insurance Department-Insurance Relative Value Study

Recommendation The Analyst recommends a budget of \$47,900. Funding is made from Dedicated Credits collected from insurance companies. Sufficient funds are available to adequately fund the study.

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits Revenue	\$57,300	\$50,000	\$50,000	
Beginning Nonlapsing	345,800	374,200	374,200	
Closing Nonlapsing	(374,200)	(376,300)	(376,300)	
Total	\$28,900	\$47,900	\$47,900	\$0
Expenditures				
Current Expense	\$28,900	\$47,900	\$47,900	
Total	\$28,900	\$47,900	\$47,900	\$0

Purpose Under UCA 31A-22-307, the Relative Value Study is to determine the reasonable value of medical expenses. The study is updated every other year with FY 2000 being a year that does not need any expenditures. It is funded by a 0.01 percent tax on motor vehicle liability, uninsured motorist, and personal injury protection insurance premiums. These funds are collected by the Tax Commission as Dedicated Credits and are made non-lapsing in the Utah Code. The study is produced by Relative Value Studies, Inc. of Denver. The contract to do the study is rebid every three years. The Department charges \$10 per copy.

More Dedicated Credits have been collected over the years than are needed to fund the study. The collection rate was reduced by the 1997 Legislature. Increased population and improved collections have maintained more than sufficient revenue to fund the biennial study.

Performance Measures This area is to produce the Relative Value Study which is accomplished every second year and reported to the Legislature.

3.3 Programs: Insurance Department-Fraud Division

Recommendation

The Analyst recommends a continuing budget of \$883,600. The primary changes in the budget are due to Personal Services and internal service fund adjustments.

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits Revenue	\$811,500	\$775,400	\$765,600	(\$9,800)
Beginning Nonlapsing	265,200	306,200	306,200	
Closing Nonlapsing	(306,200)	(188,200)	(188,200)	
Total	\$770,500	\$893,400	\$883,600	(\$9,800)
Expenditures				
Personal Services	\$396,400	\$519,300	\$514,300	(\$5,000)
In-State Travel	2,000	2,000	2,000	
Out of State Travel	4,700	4,700	4,700	
Current Expense	355,900	355,900	351,100	(4,800)
DP Current Expense	11,500	11,500	11,500	
Total	\$770,500	\$893,400	\$883,600	(\$9,800)
FTE	9.0	9.0	9.0	

Purpose

The 1994 Legislature created the Insurance Fraud Act (UCA 31A-31-101 through 108). This division is charged with the responsibility of conducting criminal investigations and prosecutions of insurance fraud violators. Utah residents pay more than \$350 million annually (10 percent of insurance premiums) to cover the costs of fraudulent claims. The program is funded by assessments made on insurers based on the amount of business they do in Utah according to the following table:

Total Utah Premiums	Assessment
\$1,000,000 or less	\$75
>\$1,000,000 to \$2,500,000	\$263
>\$2,500,000 to \$5,000,000	\$563
>\$5,000,000 to \$10,000,000	\$1,125
>\$10,000,000 to \$50,000,000	\$4,500
More than \$50,000,000	\$11,250

These funds are collected as Dedicated Credits that are designated nonlapsing in the Utah Code.

Process oriented measures	FY 95	FY 96	FY 97	FY 98	FY 99
Cases opened	111	101	121	143	132
Prosecutions initiated	42	37	64	68	65
Sentences handed down	13	31	26	28	50

A limiting factor to final resolution is the court process

3.4 Programs: Insurance Department-Title Insurance

Recommendation The Analyst recommends funding of \$43,700 from Dedicated Credits and Nonlapsing Balances.

	FY 1999	FY 2000	FY 2001	Est/Analyst
Financing	Actual	Estimated	Analyst	Difference
Dedicated Credits Revenue	\$46,500	\$45,200	\$44,700	(\$500)
Beginning Nonlapsing		29,200	29,200	
Closing Nonlapsing	(29,200)	(30,200)	(30,200)	
Total	\$17,300	\$44,200	\$43,700	(\$500)
Expenditures				
Personal Services	\$12,400	\$43,100	\$42,600	(\$500)
In-State Travel	500	800	800	
Current Expense	300	300	300	
DP Current Expense	4,100			
Total	\$17,300	\$44,200	\$43,700	(\$500)
FTE		1.0	1.0	

Purpose The 1998 Legislature passed House Bill 265, Title Insurance Amendments, which created Utah Code 31A-23-315. The new law allows an assessment on title insurance companies and agencies to pay for any cost or expense incurred by the Department in administration, investigation and enforcement of code provisions as related to the marketing of title insurance. The need to regulate the marketing of title insurance has been realized by the title insurance industry and the Department. This program provides an additional qualified person who will respond to industry complaints. This program is time limited with a sunset repeal date of July 1, 2001.

Performance Measures The performance measures are a partial year from March 1999 through June 30, 1999 because the FTE was hired in March 1999.

Number of Investigations	11
Amount of fines collected (4)	\$9,250
Number of disciplinary actions/letters of admonition	7
Industry education classes/presentations	30

3.5 Programs: Insurance Department-Fees

The Insurance Department has a listing of fees that must be approved and included into the Appropriations Act. The following fees are recommended for FY 2001. There is no fee increases. The fees recommended here generate enough revenue to fund the three FTE discussed in section 2.4.

Legislative Fiscal Analyst

Fee Title	FY 2000 Current Rate*	FY 2001 Proposed Rate*	Difference	FY 2001 Units	Projected Revenue Change
Certificate of Authority (CA)	500	500			
Continuation of CA	50	50			
Reinstatement of CA	500	500			
Redomestication Filing	750	750			
Amendment to CA	100	100			
Amendment of Articles/Bylaws	25	25			
Filing Annual Statement	250	250			
form A Filing	1,500	1,500			
Form B Filing	25	25			
Form D Filing	100	100			
Stock Solicitation Permit, not SEC	1,000	1,000			
Stock Solicitation Permit, Private/SEC	250	250			
Application for Accredited Reinsurer	500	500			
Accredited Reinsurer Renewal	250	250			
Application for Trusteed Reinsurer	500	500			
Trusteed Reinsurer Renewal	250	250			
Ind. License to Solicit w/Stock Permit	50	50			
Ann Statement & Renewal of Fraternal	50	50			
Organizational Permit for Mutual Insur	500	500			
Registered Agent	10	10			
Insurer Examinations (not a fee but examination revenue from insurers)					
Risk Retention Group Annual Statement	250	250			
Surplus Lines Application	500	500			
Surplus Lines Annual Statement	250	250			
Rate Service Org License	250	250			
Rate Service Org Renewal	50	50			
Risk Purchasing Group Initial/Renewal	100	100			
Power of Attorney	10	10			
Authorization to Appoint and Remove	10	10			
Res and Nonres Producer License (initial & renewal)	60	60			
Res and Nonres Limited Line Producer License (initial & renewal)	45	45			
Res and Nonres Agency License (initial & renewal)	60	60			
Addition of Producer Classification or Line of Authority	25	25			
Agent Appointment/Term/Renewal	12	12			
Agency Designee Appt/Term/Renewal	12	12			
Continuing Ed Fee, per individual	10	10			
CE Provider Application or Renewal	100	100			
CE Course Post Approval	25	25			
Filing Policy Forms/Rates/Rules	20	20			
Workers' Comp Schedule	5	5			
Life Illustration Certification Filing	30	30			
Photocopy, per page	25 cents	25 cents			

	FY 2000 Current Rate*	FY 2001 Proposed Rate*	Difference	FY 2001 Units	Projected Revenue Change
Annual Statement Copy	40	40			
Affixing Commissioner's Seal	10	10			
Service of Legal Process	10	10			
Annual Report to Governor	10	10			
Mailing Lists, per page	1	1			
Electronic Format List, minimum fee	50	50			
Returned Check Charge	15	15			
Compliance & Enforcement Fines (not a fee, but fines collected from agents, agencies & cos)					
TOTAL GENERAL FUND					
Fraud Assessment (dedicated credit; estimate of revenue to be collected from assessment)					
Title Assessment (dedicated credit; estimate of revenue to be collected from assessment)					
Relative Value Study (dedicated credit)	10	10			
Bail Bond Surety CA (restricted revenue)	500	500			
TOTAL DEDICATED CREDITS AND RESTRICTED REVENUE					

4.0 Tables: Insurance Department

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Financing	Actual	Actual	Actual	Estimated	Analyst
General Fund	\$3,082,600	\$3,161,000	\$3,392,600	\$3,756,000	\$3,724,700
Dedicated Credits Revenue	609,600	833,600	915,300	870,600	860,300
GFR - Bail Bond Surety Administration			15,000	15,000	15,000
Transfers			(5,800)		
Beginning Nonlapsing	453,700	506,500	661,000	794,100	794,100
Closing Nonlapsing	(506,500)	(661,000)	(794,100)	(613,300)	(613,300)
Lapsing Balance	(127,700)	(14,000)	(64,900)		
Total	\$3,511,700	\$3,826,100	\$4,119,100	\$4,822,400	\$4,780,800
% Change		9.0%	7.7%	17.1%	-0.9%
Programs					
Administration	\$2,954,900	\$3,147,000	\$3,296,900	\$3,757,500	\$3,726,400
Relative Value Study	26,800		28,900	47,900	47,900
Insurance Fraud Program	530,000	679,100	770,500	893,400	883,600
Bail Bond Program			5,500	5,900	5,900
Title Insurance Program			17,300	44,200	43,700
Office of Consumer Health Assistance				73,500	73,300
Total	\$3,511,700	\$3,826,100	\$4,119,100	\$4,822,400	\$4,780,800
Expenditures					
Personal Services	\$2,824,900	\$3,099,400	\$3,214,700	\$3,967,100	\$3,929,800
In-State Travel	2,000	1,300	4,700	5,100	5,300
Out of State Travel	67,300	38,600	60,000	57,500	57,500
Current Expense	362,000	389,700	614,600	601,100	600,600
DP Current Expense	164,500	284,300	186,800	191,600	187,600
DP Capital Outlay	29,500		10,000		
Capital Outlay	61,500	12,800	28,300		
Total	\$3,511,700	\$3,826,100	\$4,119,100	\$4,822,400	\$4,780,800
FTE	68.0	74.0	75.0	77.0	77.0