

## II. KEY MEASURE ANALYSIS

Agency Mission: To serve and protect Oregon’s consumers and workers while supporting a positive business climate in the state.

### PART II: KEY MEASURE ANALYSIS

KPM #1	REGULATORY CONDITION	Measure since: 2000
	<b>Percent of regulated entities operating at desirable levels of acceptability or soundness.</b>	
<b>Goal</b>	DCBS Goal #1: Protect consumers and workers in Oregon.	
<b>Oregon Context</b>	Oregon Benchmark #9: Oregon’s national rank in the cost of doing business.	
<b>Data source</b>	DFCS data systems, WCD Claims Information System, and WCD Field Audit Unit Quarterly Claims Processing Performance Audit data.	
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1. **OUR STRATEGY**

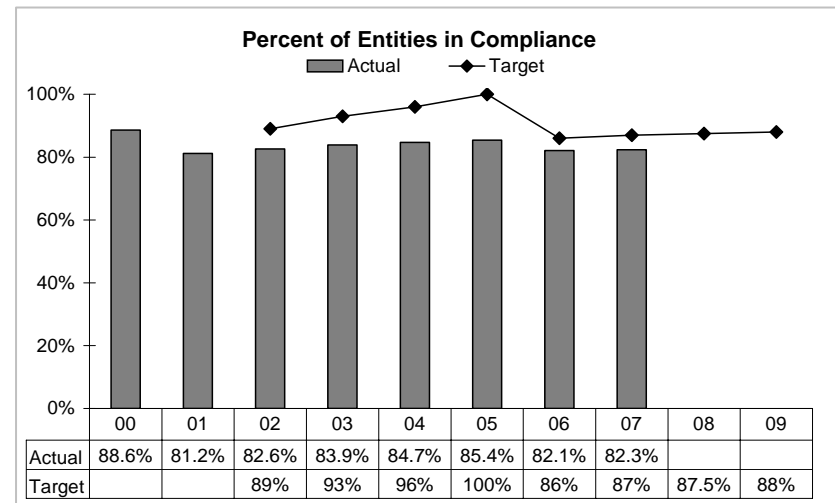
Achieve efficient regulation through risk-based examinations and redesigned insurer regulation based upon key performance indicators.

2. **ABOUT THE TARGETS**

This measure is a composite of the performance of mortgage lenders, banks and trusts, consumer finance companies, credit unions, and pawnbrokers regulated by the Division of Finance and Corporate Securities (DFCS), plus workers’ compensation insurers regulated by the Workers’ Compensation Division (WCD). It shows the percentage of regulated entities we have examined that operate at or above desirable levels of performance or soundness, defined in accordance with relevant regulatory criteria.

In addition to industry timeliness and conduct toward customers, the measure includes many factors that depend on the state of the economy, such as financial soundness, management strength, and asset quality. Because of the economic effect and our focus on risk-based examinations, a 100 percent compliance target is not feasible. Targeting steady improvement in the 80 percent range is a more realistic expectation.

We have decreased our targets to reflect the fact that we have moved to “risk-based” regulation. Risk-based means exams and audits focus on companies and industry segments where there is more risk for noncompliance. Taking this approach, we are more likely to examine low-performing institutions. Therefore, this measure is no longer measuring the overall compliance of the industry; it is instead measuring a subset of that industry that is less likely to be performing at acceptable levels.



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### 3. HOW WE ARE DOING

Between 2001 and 2005, the department saw a steady increase in this measure. However, performance has declined in the most recent two years, down to 81.7 percent in 2007, largely from the focus on risk-based exams. Another factor is that we raised our performance standard for insurers from 80 percent to 90 percent, so fewer insurers are meeting this new threshold.

### 4. HOW WE COMPARE

Oregon's financial institutions and entities perform above national averages in this measure. As of June 30, 2007, 97.6 percent of Oregon-chartered banks were rated a "1" or "2" (the two highest rankings), compared with 94.8 percent of all FDIC-insured institutions and 94.8 percent of FDIC-insured banks in the San Francisco region. And 100 percent of Oregon credit unions are rated a "1" or "2" compared with 83 percent in our 13-state region. Mortgage lenders saw a substantial increase from 64.5 percent in 2006 to 77.2 percent in 2007. In addition, the Workers' Compensation Research Institute has indicated that Oregon has one of the highest percentage rates for timely payment of benefits to injured workers.

### 5. FACTORS AFFECTING RESULTS

Results for regulated financial entities can depend on variables such as the state of the economy and increasing numbers of new licensees. For example, because of the growth in the housing market, DFCS has seen an increasing number of complaints about mortgage lending, so it is conducting more for-cause exams in that industry. The department's risk-based approach to regulation also has affected the results and may mean that the data does not reflect the intent of this measure. Focusing on areas of greater risk is more effective, and the department expects it will result in more compliance with laws and regulations. In addition, the Workers' Compensation Division has increased its performance standards for insurers, requiring them to provide timely and accurate benefits 90 percent of the time instead of 80 percent of the time. This change has pushed down compliance levels in the short-term, but the department expects the move to increase compliance in the long-term.

### 6. WHAT NEEDS TO BE DONE

The department will continue to focus on risk-based and for-cause exams and audits so it can identify common problems and provide education for a specific entity or industry segments. The 2007 Legislature passed several consumer bills that affect financial institutions; the department will work on new rules related to that legislation and continue to identify statutory and administrative rule changes needed to clarify regulatory requirements. The Workers' Compensation Division will closely monitor data to determine the effect of increasing the performance thresholds on insurers and the workers' compensation system. It will continue to educate insurers about the changes and look for ways to streamline regulations.

In addition, the department is looking at potential changes in this measure in the interim, including splitting it up so it does not cover such a wide range of regulated activities.

### 7. ABOUT THE DATA

The reporting cycle is each fiscal year. Data are derived from examination results of banks, credit unions, mortgage lenders, consumer finance companies, and pawnbrokers based on an established rating system within each program. Data for the workers' compensation insurers comes from the claims information database.