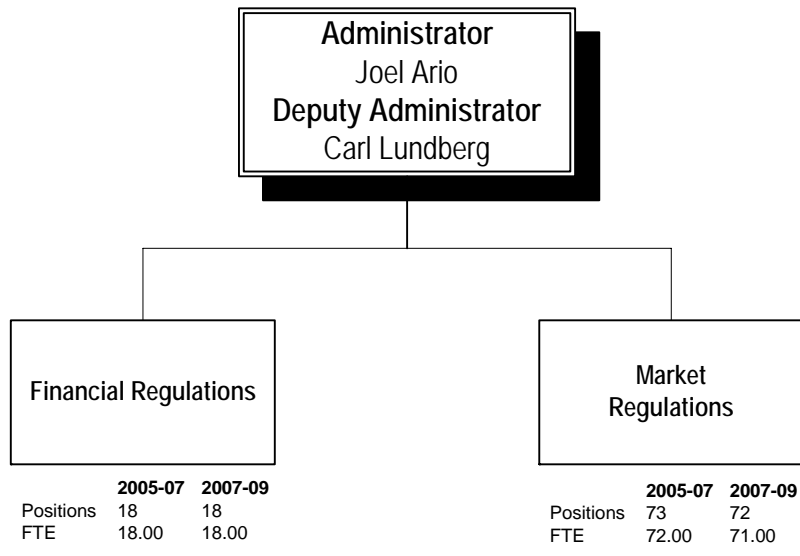


INSURANCE DIVISION



Ensure insurers maintain the financial resources to meet their obligations to individual, group, and business policyholders.

- ◆ Monitor financial solvency of insurers authorized to do business in Oregon
- ◆ Examine applications and admit insurers to do business in Oregon
- ◆ Conduct financial examinations
- ◆ Serve as receiver for liquidations and rehabilitations
- ◆ Collect and audit insurance taxes paid by insurers
- ◆ Resolve consumer complaints against insurers and producers (agents and consultants)
- ◆ Maintain a consumer advocacy program
- ◆ Establish licensing requirements for producers
- ◆ Monitor compliance with producer continuing-education requirements
- ◆ Write and publish consumer education materials
- ◆ Provide administrative services for the division
- ◆ Perform market surveillance through market analysis
- ◆ Investigate violations of the insurance code
- ◆ Conduct examinations of insurers' behavior in the marketplace (market conduct examinations)
- ◆ Review policy forms and premium rates for certain lines of insurance
- ◆ Monitor compliance with health insurance reforms

SHIBA program reporting to OMIP Administrator:

- ◆ Help seniors and other Medicare beneficiaries with health insurance issues through SHIBA program

	2005-07	2007-09
Positions	2	4
FTE	2.00	3.50

Insurance Division including SHIBA

2005-07	2007-09
Approved	Requested
93 Positions	94 Positions
92.00 FTE	92.50 FTE
\$15,548,053	\$18,129,287

INSURANCE DIVISION

Mission

To administer the Insurance Code for the protection of the insurance-buying public while supporting a positive business climate.

What we do

Ensure the financial soundness of insurers and promote the availability and affordability of insurance and the fair treatment of consumers by:

- Licensing insurance companies and monitoring their solvency.
- Reviewing insurance products and premium rates for compliance.
- Licensing insurance producers and consultants.
- Resolving consumer complaints.
- Investigating and penalizing companies and producers for violations of insurance law.
- Monitoring the marketplace conduct of insurers and producers.
- Educating the public about insurance issues.
- Advocating reforms that protect the insurance-buying public.

Program delivery

Insurance Regulation

Insurance is regulated at the state level because important regulatory issues involve consumer protection concerns that vary by state. Because regional and national companies dominate the industry, however, efficient and effective regulation depends on coordination and consistency among the states. This coordination occurs when states develop accreditation programs, model laws, and other strategies as members of the National Association of Insurance Commissioners (NAIC). Collaboratively through NAIC, states create uniformity when it makes sense and preserve state flexibility when that is best for consumers.

Number of:	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Division FTE	95.75	95.75	94.5	94.5	95.21	95.21	93	93	90	92
Licensed Producers (CY-end) ¹	27,547	30,853	34,086	39,083	44,605	48,737	54,767	59,155	65,108	71,406
Authorized Companies (CY-end) ²	1,599	1,607	1,641	1,639	1,642	1,662	1,649	1,657	1,677	1,465
Policy Rates & Forms Filed (FY) ³	31,010	34,739	35,305	35,672	36,039	32,918	36,321	41,358	36,807	41,292
Premiums Written (CY-end) ⁴	\$9.4 billion	\$9.9 billion	\$10.2 billion	\$11.0 billion	\$12.5 billion	\$14.2 billion	\$13.7 billion	\$14.4 billion	\$15.0 billion	Not available
Premium Taxes Collected (FY) ⁵	\$78.8 million	\$61.9 million	\$50.3 million	\$54.8 million	\$53.9 million	\$66.1 million	\$54.4 million ⁶	\$64.0 million	\$63.4 million	\$63.6 million

1. Producers (including adjusters & consultants) with active license status as of Dec. 31; from Actuate report UA8030.

2. Companies with active license status as of Dec. 31; from *Insurance Division Monthly Reports - Company Section*.

3. Sum of all rates and forms filing coded during the fiscal year; from *Insurance Division Monthly Reports - Rates and Forms Section*. FY 2000 figure is an estimate (the average of 1999 and 2001).

4. Premiums written in all lines of insurance, including annuities; from *Insurance Division Annual Report* posted on the Insurance Division Web site, www.insurance.oregon.gov.

5. Premium taxes collected during the fiscal year; from the *Insurance Division Annual Report* through FY 1998; from FABS Fiscal Section's *Financial Statements* after that.

6. Includes \$9.28 million in OIGA recovery.

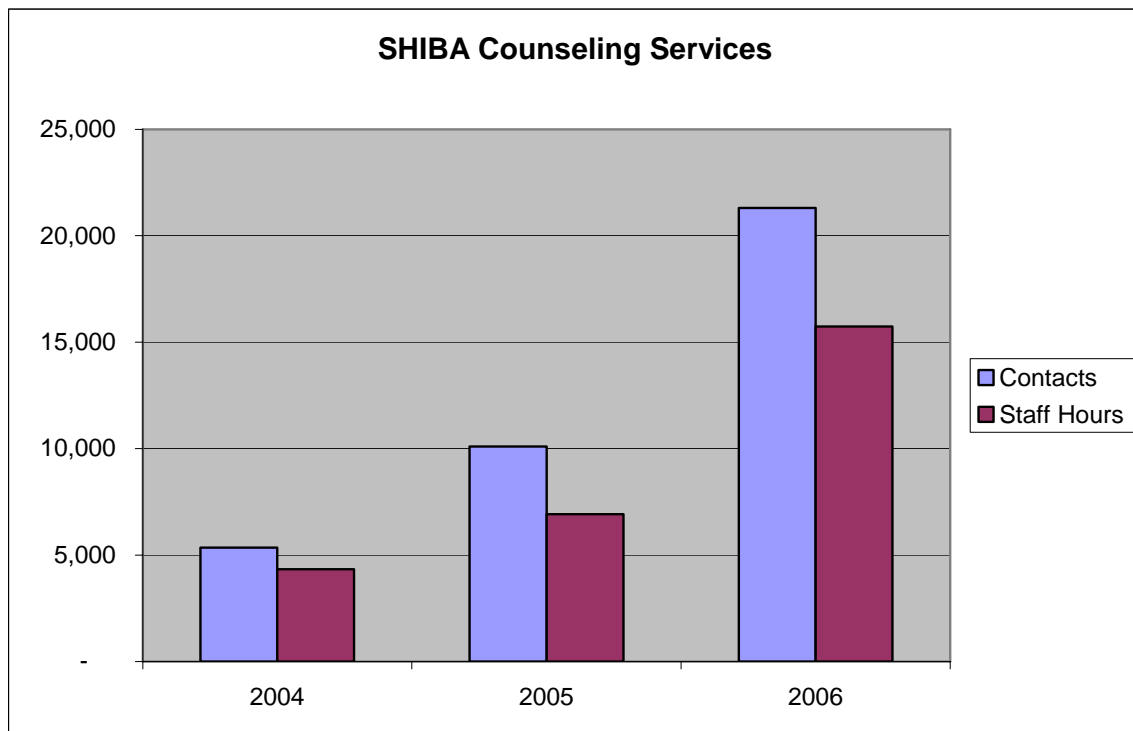
Source: IMD, Department of Consumer and Business Services

INSURANCE DIVISION

Senior Health Insurance Benefits Assistance (SHIBA)

Senior Health Insurance Benefits Assistance is a federally funded program. The program receives funds through a continuous federal grant from the Centers for Medicare & Medicaid Services and a small grant from the Department of Human Services for fraud and abuse prevention training. The grant year extends from April 1, 2006 through March 31, 2007. The federal grant appropriates funds annually using a formula-driven allocation.

The SHIBA program recruits, trains, and monitors a network of community volunteers that provide critical assistance to Oregonians who are newly eligible for Medicare and need help with understanding and selecting traditional Medicare health insurance benefit options. For example, during FY 2006, this program was extremely critical in providing education and guidance to Oregonians who were current Medicare enrollees as well as to newly eligible persons in understanding the highly complex array of drug coverage choices available to them under the Medicare Part D program. The Medicare Part D program began providing drug coverage benefits effective Jan. 1, 2006.



Accomplishments, 2005-2007

1. Oregonians have better access to insurance coverage and more rights in the insurance market. The Insurance Division:

- Implemented mental health parity rules as a result of 2005 legislation (SB 1) that give Oregonians with mental health needs more access to services and the right to an independent review if they believe their insurer is not treating mental health conditions the same as physical health conditions.

INSURANCE DIVISION

- Continued to address problems with affordability and availability of commercial property and casualty insurance markets. The division collaborated with various parties to assist in locating available markets for adult foster care providers and for contractor liability insurance, and locating liability insurance for providers of children's programs in Oregon.
- Processed 52 applications from insurance companies for new certificates of authority to do business in Oregon; 49 of those applications were approved.
- Received and reviewed 2,777 rate filings and 13,300 form filings, representing 59,526 total forms for use in Oregon, to ensure the policies meet the needs of consumers.
- Developed a "homeowner bill of rights" that was passed by the 2005 Legislature and provides new protections to consumers relating to homeowner insurance.
- Adopted rules that require disclosure when an insurance agent, broker, or consultant receives compensation from both a customer and an insurer to help prevent conflicts of interest.
- Adopted rules that provide better protections to consumers buying long-term care insurance. The rules provide greater predictability of rates, better disclosure of policy terms, and improved consistency with other states.

2. Complying with the division's regulations is faster and easier for insurance companies. The division:

- Adopted the National Association of Insurance Commissioners model rules for coordination of benefits that allow health insurance companies to use the same policy language and claims procedures in Oregon that they use in other states that have adopted the model.
- Started allowing insurance agents to complete their required prelicense training online at schools approved by the Insurance Division, reducing expense and eliminating travel time. Agents also can find links to approved online training schools on the division's Web site.
- Continued to expand electronic filing options for customers. The division processed approximately 82 percent (17,596) of nonresident licensing applications electronically and received 31 percent of product filings electronically. It received 42 percent of consumer complaints against insurance companies electronically and conducted most market and all financial examinations electronically. The division instituted electronic nonresident renewals on Aug. 30, 2006; and 10 percent (1,829) of nonresident renewals were filed electronically by Dec. 31, 2006.
- Conducted seminars for the insurance industry on various subjects such as prompt pay, suitability, and avoidance of agent misconduct.
- Made training presentations at insurance-related association meetings.

3. The public has more information about the health insurance market so they can make better decisions. The Insurance Division:

- Created a searchable online database that provides information about health insurers, including the number of members enrolled in their health plans, claim costs, administrative costs, and net income.
- Published a first-of-its-kind report for the 2007 Legislature about health insurance regulation in Oregon and the financial performance of health insurers. The report offers

INSURANCE DIVISION

seven recommendations to improve the affordability and availability of commercial health insurance in Oregon.

4. Consumers are better protected as a result of the Insurance Division's enforcement efforts. The division:

- Participated in several enforcement actions with other state insurance regulators. In one of the largest settlements, Zurich American Insurance Company agreed to pay Oregon policyholders more than \$800,000 to resolve allegations that Zurich and its subsidiaries engaged in anti-competitive practices.
- Revoked the insurance licenses of 44 insurance agents or agencies for conduct harmful to consumers.
- Completed 715 investigations of insurance producers and 409 investigations of insurance companies.
- Completed 178 enforcement actions and assessed civil penalties of \$711,191 to be deposited into the General Fund.
- Completed investigation of producer compensation practices of major Oregon commercial lines brokers, resulting in a sanction and \$75,000 fine of one broker and refund of excess commissions paid by public entities. Collaborated with other states to address misconduct by two national insurers and two national brokers of property and casualty coverage.
- Completed field work on 20 financial examinations of insurers to monitor solvency.

5. Consumers are able to resolve disputes with insurance companies as a result of the Insurance Division's Consumer Advocacy Unit. The unit:

- Assisted 5,419 consumers with their complaints against insurance companies, with more than 76 percent resolved with relief for the consumers, helping to recover millions of dollars for consumers.
- Developed two new consumer publications to answer frequently asked insurance questions and to explain the complaint process.
- Responded to 21,250 phone inquiries, providing advice and education to consumers.

6. The Insurance Division lent its expertise to multi-agency efforts to ensure the availability and affordability of insurance. The division:

- Provided staff support and research for the Construction Claims Task Force established by HB 2078, which resulted in five insurance-related recommendations, including first-party warranty coverage, streamlined contractor group liability filing requirements, and data reporting.
- Participated in the Partners for Disaster Resistance and Resilience State Interagency Hazard Mitigation Team to provide insurance assistance and expertise.
- Participated in a multi-agency task force to identify and resolve issues related to the rehabilitation of drug-infected dwellings.

7. Oregon seniors received accurate and objective information about Medicare. The Senior Health Insurance Benefits Assistance (SHIBA) program:

- Provided free counseling to more than 27,000 Oregon Medicare beneficiaries during the Medicare Part D – Prescription Drug Coverage Open Enrollment. SHIBA and its sponsor

INSURANCE DIVISION

network mobilized more than 300 volunteers and helped more than 8,700 beneficiaries enroll in the drug plan.

- Established four new sponsors to provide counseling services to Gilliam, Harney, Hood, Lane, Sherman, Wasco, and Wheeler counties.
- Partnered with community organizations, such as AARP Oregon and Portland Social Security Public Affairs, to provide outreach to counties that have large numbers of Medicare beneficiaries with limited incomes as well as a large percentage of Oregon's Hispanic population.

Note: Data is based on 18-month period (July 2005-December 2006).

Anticipated results, 2007-2009

Insurance Regulation

- Continue to achieve broader transparency about health care costs:
 - Implement statutory changes resulting from legislation proposed during the 2007 session that will make consumers' out-of-pocket health care costs more transparent by having insurers provide their members with estimated out-of-pocket costs for selected health care procedures.
 - Collect data from insurers about hospital costs for select procedures and publish data showing average costs for all insurers by procedure and hospital to make hospital costs more transparent and to assist Oregon consumers with their health care choices.
- Assist in the development of the Governor's Healthy Kids Plan and other efforts to broaden access to affordable and available health insurance for all Oregonians.
- Partner with the Department of Human Services to allow Oregonians to participate in a federal program that rewards consumers who purchase long-term care insurance and reduces the need for Medicaid to cover their nursing home costs.
- Expand the availability and affordability of insurance by developing targeted solutions for troubled insurance markets.
- Expand use of market analysis tools to identify areas with the most significant consumer protection problems. This will help the division identify and change market practices detrimental to consumers.
- Take a more effective, risk-based approach to financial regulation. Analysts will focus their examinations on areas of greater risk to be more efficient while still ensuring insurance companies remain solvent and have the financial resources to pay future claims.
- Expand consumer outreach so consumers are more informed about the services the division offers.
- Use technology, such as the Internet, to give consumers better access to division services and reduce processing time.
- Expand electronic rate and form filing, provide regulatory approval to product filings in a timely manner, and work with other states to create uniform procedures and requirements.
- Connect the electronic rate and form filing system used by insurers with the Insurance Division database so that information insurers enter is automatically downloaded into the division's database.
- Implement an enforcement program for submission of rates and forms to encourage accurate filing preparation and compliance.

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- Continue to automate electronic distribution of multi-state financial and market-conduct examination reports, tax returns, Schedule P filings, and fund transfer.
- Enable resident and nonresident producers to apply for, renew, and receive licenses electronically, and continue to implement uniform nationwide reciprocal electronic licensing.
- Continue to automate the producer licensing process to enable quicker receipt of licenses by producers.
- Review programs in an effort to create more efficiencies by streamlining processes and eliminating outdated regulatory practices.

Senior Health Insurance Benefits Assistance (SHIBA)

- Increase locally based counseling services by adding SHIBA sponsors in four additional rural Oregon counties and along the central Oregon coast.
- Outreach to pharmacies to ensure they are aware of services SHIBA can provide to their clients.
- Focus outreach efforts to counties that have the highest concentration of limited income beneficiaries, the largest estimated population of disabled persons under 65, the poorest median income, and/or the highest percentage of persons over 65 per capita.

Key performance measures and related outcomes

The overall purpose of the Insurance Division's performance measures is to ensure that consumers are protected, a positive business climate is maintained, and all customers (consumers and regulated entities) receive excellent service. Meeting performance goals contributes to several broader outcomes for Oregonians.

The division's financial regulation program protects Oregon citizens and businesses by ensuring that insurance companies have the resources to honor their promises. No Oregon-based insurance company has become insolvent since 1991.

The market regulation program protects Oregonians by promoting the affordability and availability of insurance and the fair treatment of Oregon consumers. Oregon has competitive markets providing consumer choice in all major consumer lines (life, health, auto, and homeowner), and the Insurance Division has pursued multiple strategies to improve access in the few commercial markets with problems. The Insurance Division employs an increasingly diverse set of regulatory strategies to ensure that insurance contracts are fair and that insurance companies process claims promptly and fairly and otherwise meet their obligations to Oregonians.

The consumer services program provides public education and helps individual Oregonians resolve insurance disputes. The Insurance Division handles approximately 20,000 inquiries and 5,000 complaints each year and increasingly uses the information it collects in this process to set priorities for broader consumer protection efforts. Consumer advocates achieve relief for the consumer in more than 70 percent of the confirmed complaint cases.

- *Percent of confirmed complaints resolved with relief for the consumer.* Target: 70 percent by 2009. Progress report: In 2006, 76.3 percent of complaints were resolved with relief to the consumer.

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- *Percent of insurance complainants, producers, and companies who rate their experience with the highest rating.* Target: 50 percent by 2009. Progress report: In 2006, 50.8 percent of complainants, producers, and companies rated their experience with the Insurance Division at the highest rating.
- *Percent of insurance filings closed within 30 days of receipt.* Target: 82 percent by 2009. Progress report: In 2006, 62.8 percent of insurance filings were closed within 30 days of receipt.
- *Percent of insurance complaints closed within 60 days.* Target: 90 percent by 2009. Progress report: In 2006, 73.3 percent of insurance complaints were closed within 60 days, up from 65.9 percent in 2005.
- *Percent of Certificate of Authority reviews completed within 90 days.* Target: 80 percent by 2009. Progress report: In 2006, 54.2 percent of Certificate of Authority reviews were completed within 90 days.
- *Percent of Insurance Division permanent rules developed with input from an advisory committee or a comparable alternative.* Target: 100 percent by 2009. Progress report: In 2006, 100 percent of the division's permanent rules were developed with input from an advisory committee or a comparable alternative.
- *Percent of disciplinary cases closed that used alternative dispute resolution.* Target: 100 percent by 2009. Progress report: In 2006, 94.1 percent of disciplinary cases were closed using alternative dispute resolution, up from 90.9 percent in 2005.

Key issues

- How to reform state-based insurance regulation to achieve national uniformity where it is appropriate, while preserving the flexibility to address specific consumer problems on a state-by-state basis.
- How to ensure that quality health insurance is available and affordable.
- How to promote the affordability and availability of professional medical liability insurance in rural areas and contractor liability insurance.
- How to anticipate and respond to needs of the insurance-buying public, with respect to insurance costs, availability of coverages, and insurance marketing and trade practices.
- How to implement technology changes to improve customer service and enhance operational efficiency and effectiveness.

Revenues

The operating budget for the Insurance Division is financed from Other Funds paid by insurance companies and producers:

- License fees and charges for services
- Insurance premium assessments
- Company examination fees
- Investment income
- Workers' compensation premium assessment transfer
- Federal Funds spent as Other Funds

The division also receives a federal grant from the Health Care Financing Administration. The grant is used to fund the Oregon Senior Health Insurance Benefits Assistance (SHIBA) program,

INSURANCE DIVISION

which provides insurance information, counseling, and assistance to Medicare beneficiaries. No state match is required for this grant, but the grant is supplemented by state funds through a grant from the Department of Human Services for fraud and abuse prevention training.

Fee changes

The division conducts annual studies of planned expenditures, workload levels, and revenue collections to determine appropriate funding levels. During the 2005-2007 biennium, the division did not change any fees.

General Fund

The Insurance Division does not receive a General Fund appropriation. It does collect retaliatory taxes from out-of-state insurance companies, which are transferred to the state General Fund for general governmental purposes. The retaliatory tax is collected from insurance companies based on the tax rate in each company's domestic state. Premium taxes collected from surplus lines producers are also transferred to the General Fund.

Policy Packages

Policy Package No. 141: SHIBA

Governor's Recommended Budget \$825,346 - 1.5 FTE

Purpose

This policy package enhances the SHIBA program, assisting Oregon's seniors.

How Achieved

Oregon's Senior Health Insurance Benefits Assistance Program (SHIBA) is part of a larger network of federally funded State Health Insurance Programs (SHIP). The mission of SHIP programs is to ensure Medicare beneficiaries have a competent, committed, and compassionate consumer-focused network of employees and volunteers who provide accurate and objective information through innovative community programs at the state and local level.

SHIBA has been seeing a significant increase in demand for its services. Medicare is becoming more complex, and there are more options and plans for beneficiaries to sort through. During 2005-06, SHIBA provided critical assistance to Medicare beneficiaries and their families who needed help understanding Medicare's prescription-drug benefit (Part D). Prescription drug coverage became available for the first time in Medicare's history on Jan. 1, 2006, and Oregon beneficiaries chose from a complex array of prescription drug insurance plans.

With the added pressures of training and support for the Medicare Part D program, the SHIBA staff has been inundated with more calls than in the past. The calls initially were for assistance in getting enrolled into the new program. As the enrollment period ended, calls continued and were related to complex issues around claims and problems with the coverage that was chosen. There also will be increased assistance each year around November and December during the open enrollment period of the new program.

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SHIBA expects the increased demand to continue. By the year 2020, Oregon is projected to rank fourth in the nation in Medicare population density, creating even more beneficiaries who will need SHIBA's help.

For these reasons, the department is now requesting an additional \$825,346 for the program. A large portion of the policy package will allow SHIBA to give more financial support to its 25 sponsors that provide local counseling services to communities throughout Oregon. Additional funds will allow the sponsors to buy more supplies, recruit more volunteers, and hire a part-time employee at each site. The policy package also will fund two additional positions for the SHIBA program in order to respond to seniors in Oregon on their Medicare issues. Finally, the additional funds will help SHIBA increase its infrastructure so that it can provide better customer service. SHIBA plans to use the funding to improve its technology and distribute more Medicare publications to its sponsors and the public.

Staffing Impact

2 positions, 1.50 FTE, Principal Executive Manager C, Office Specialist 2

Revenue Source

State SHIP programs are funded on an annual basis by the federal Centers for Medicare and Medicaid Services (CMS) using a formula-driven allocation. In Oregon, historically CMS has provided the sole source of funding for SHIBA, although in the past some indirect costs associated with the program have been assumed by the agency directly responsible for SHIBA's administration and minor grants were received from the Department of Human Services for fraud and abuse prevention training. DCBS expends Federal Funds as Other Funds. This package is submitted in conjunction with the Department of Human Services, Policy Option Package 103. Funding for this package will be from the General Fund through the Department of Human Services, received as Other Funds.

Policy Package No. 142: 24-Hour Patrol Operations.

Governor's Recommended Budget, transfers revenue to Oregon State Police: \$25,039,927 – creates 68.64 FTE for OSP

The safety of Oregon's citizens depends on the ability to restore a stable funding source to the Oregon State Police in order to enable 24/7 patrol coverage of the state's road and highways. Since 1980 when the agency lost its dedicated funding, the number of patrol troopers has decreased 50 percent, while in that same time period Oregon has gained 1 million residents. The Governor's proposal to restore a dedicated source of funding for OSP's Patrol Division will help avoid the volatile General Fund shifts that have caused massive layoffs, impacted morale, and placed the safety of the public at risk.

Restoration of 24/7 coverage through a dedicated source of funding will save lives by:

- **Stopping hazardous violations:** reducing the frequency of speeding, reckless driving, injury accidents, and fatalities by increased enforcement and the deterrent effect of more patrol presence.
- **Drug interdiction:** choking off the flow of methamphetamine and other illegal substances through increased interception of traffickers and fugitives on Oregon's major highways.

INSURANCE DIVISION

- **Stopping impaired drivers:** protecting the public from the ongoing threat of impaired drivers by increasing the number of DUII arrests.
- **Better response time:** reducing response times to accidents and other emergencies where minutes can make the difference between life and death.

This policy package will be funded by imposing a surcharge on premiums paid for motor vehicle liability insurance above mandatory requirements for the Oregon State Police to establish 139 trooper positions. The Department of Consumer and Business Services will collect the surcharge. This policy package is submitted in conjunction with the Oregon State Police, Policy Option Package 201.

INSURANCE DIVISION

Governor's Recommended Budget

	Request	FTE
2005-07 Legislatively Adopted Budget	\$ 15,548,053	92.00
Base Budget Adjustments		
Net Cost of 2005-07 Position Actions:		
Administrative, Biennialized E-Board, Phase-outs	\$ 1,025,146	(1.00)
Estimated Cost of 2007-09 Merit Increase	\$ 269,072	-
Subtotal: 2007-09 Base Budget	\$ 16,842,271	91.00
Essential Package 010 - Non-PICS Adjustments		
Vacancy factor adjustment.	\$ (99)	-
Non-PICS adjustments for unemployment, overtime, temporaries, and mass transit taxes calculated as .006 of base salaries and wages.	\$ 54,024	-
Essential Package 021/022 - Phase in/out	\$ -	-
Essential Package 030 - Cost Adjustment for Inflation and Price List		
Cost of Goods & Services Increase/(Decrease)	\$ 127,950	-
Increase/shift in State Government Service Charges.	\$ 279,795	-
Essential Package 060 - Technical Adjustments	\$ -	-
Subtotal: 2007-09 Essential Budget Level	\$ 17,303,941	91.00
Policy Packages		
Policy Package 141 - Transfer SHIBA	\$ 825,346	1.50
Policy Package 142 - 24-Hour Patrol Operations	\$ -	-
Total: 2007-09 Governor's Recommended Budget	\$ 18,129,287	92.50

INSURANCE DIVISION

Revenues and Disbursements

2007-09 Beginning Balance		\$ 9,778,875
Revenues		
Insurance Taxes	\$ 185,656,717	\$ -
Workers' Compensation Taxes	\$ 54,474	\$ -
Fire Marshal Fees	\$ 17,266,554	\$ -
Business License & Fees	\$ 17,497,351	\$ -
Fines & Forfeitures	\$ 750,000	\$ -
Interest Income	\$ 1,362,513	\$ -
Federal Revenues	\$ 898,617	\$ -
Charges for Services	\$ 1,602,016	\$ -
Sales Income	\$ 6,000	\$ -
Other Revenues	\$ 200,000	\$ -
Subtotal Revenues		\$ 225,294,242
Transfers		
Transfer In - Dept. of Human Svcs	\$ 825,346	
Transfer Out - Intrafund	\$ (2,985,278)	\$ -
Transfer Out - General Fund	\$ (162,016,790)	\$ -
Transfer Out - Dept. of State Police	\$ (42,306,481)	\$ -
Subtotal Transfers		\$ (206,483,203)
Available Funds		\$ 28,589,914
Budget		\$ 18,129,287
2007-09 Ending Balance		\$ 10,460,627