

STRATEGIC PLAN

AGENCY MISSION

We protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry.

STATUTORY AUTHORITY STATEMENT

The Office of Insurance Commissioner is created by Chapter 48.02 RCW. Subsequent chapters of Title 48 define the Commissioner's authority and responsibility for matters such as insurance company formation, capital and reserve requirements, regulatory requirements for specified lines of insurance, and company rehabilitation or liquidation.

GOAL: *PROTECT AND EDUCATE CONSUMERS*

Objective: Increase company and producer compliance with Title 48 RCW

Strategies:

- Implement and/or repeal WAC rules to assist companies in complying with Title 48 RCW
- Enforce authorized insurer compliance with Title 48 RCW
 - Statewide Result** – Improve the health of WA citizens
 - Agency Activity** – Policy and Enforcement
 - Performance Measure** – Number of enforcement actions and compliance plans issued against authorized insurers
 - Performance Targets** – 48 in FY 2010 and 48 in FY 2011
- Conduct financial examinations and compliance audits of producers
- Investigate complaints of producers
 - Statewide Result** – Improve the health of WA citizens
 - Agency Activity** – Investigations and Enforcement
 - Performance Measures** – Number of investigations, compliance audits, and financial examinations of producers completed
 - Performance Targets** – 600 in FY 2010 and 600 in FY2011

Objective: Reduce fraud and unlawful activities

Strategies:

- Identify, investigate and take enforcement action against unauthorized insurance activity
 - Statewide Result** – Improve the health of WA citizens

Agency Activity – Policy and Enforcement

Performance Measure – Number of investigations of suspected unauthorized insurance activity completed

Performance Targets – 52 in FY2010 and 52 in FY 2011

- Identify, investigate & prosecute organized fraud
- Investigate fraudulent motor vehicle theft insurance claims
- Educate consumers, law enforcement agencies, and insurance investigators on how to identify and/or investigate insurance fraud

Statewide Results – Improve the economic vitality of businesses and individuals

Agency Activity – Policy and Enforcement

Performance Measures – Amount of restitution value assessed and projected insurance claim payouts saved on behalf of victims of insurance fraud

Performance Targets - \$2.2 million in FY 2010 and \$2.2 million in FY 2011

Objective: Improve title insurance regulation

Strategies:

- Establish filing standards for prior approval of title insurance rates
- Implement internal procedures for processing prior approval of title insurance rates

Statewide Result – Improve the economic vitality of businesses and individuals

Agency Activity – Regulation of Insurance Rates and Forms

Performance Measure – Average number of days required to finalize the filing review process for rate and form filings

Performance Targets – 28.5 in FY 2010 and 28.5 in FY 2011

GOAL: PROMOTE A HEALTHY INSURANCE CLIMATE THAT MEETS CONSUMER NEEDS

Objective: Establish guaranteed health benefits for WA residents

Strategies:

- Create an advertisement campaign to educate WA residents about guaranteed health benefits coverage

Statewide Results – Improve the health of Washington citizens

Agency Activity – Policy and Enforcement

Performance Measure – Number of guaranteed health benefit education events conducted

Objective: Prevent the insolvency of domestic insurers

Strategies:

- Enforce solvency standards by conducting targeted and full scope financial analyses and financial examinations; and through market conduct oversight
- Review financial statements for all domestic insurers each quarter for possible regulatory intervention

Statewide Results – Improve the economic vitality of businesses and individuals

Agency Activity – Monitoring Insurance Company Solvency

Performance Measure – Percentage of the biennial financial examination plan completed in order to maintain the 5-year financial examination cycle of domestic insurers

Performance Targets – 50% in FY 2010 and 50% in FY 2011

Objective: Maintain Financial Monitoring accreditation by the National Association of Insurance Commissioners (NAIC)

Strategies:

- Maintain financial examination quality and frequency sufficient to exceed NAIC requirements
- Review, analyze and/or approve holding company filings

Statewide Results – Improve the economic vitality of businesses and individuals

Agency Activity – Monitoring Insurance Company Solvency

Performance Measure – Percentage of the biennial financial examination plan completed in order to maintain the 5-year financial examination cycle of domestic insurers

Performance Targets – 50% in FY 2010 and 50% in FY 2011

Objective: Increase compliance with NAIC and federal uniformity and reciprocity standards

Strategies:

- Complete conversion from cyclic exam process to analysis process for real-time monitoring of insurers' activity in the market place
- Adopt NAIC model laws/rules necessary for market regulation and company licensing accreditation

Statewide Results – Improve the economic vitality of businesses and individuals

Agency Activity – Monitoring Insurance Company Solvency

Performance Measure – Percentage of domestic insurers’ market issues resolved in level 1 analysis; Percentage of domestic insurers’ market issues not resolved in level 1 analysis that are resolved in level 2 analysis

- Align producer licensing procedures and laws with the producer licensing model, the NAIC resident licensing uniformity standards, and the Gramm-Leach-Bliley Act reciprocity requirements
 - Statewide Results** – Improve the economic vitality of businesses and individuals
 - Agency Activity** – Agents and Brokers Licensing and Education
 - Performance Measure** – Number of producer licenses issued and notices of appointments and affiliations filed
 - Performance Targets** – 350,000 in FY 2010 and 350,000 in FY 2011
 - Mandate SERFF as the exclusive vehicle for submitting rate and form filings
 - Statewide Results** – Improve the economic vitality of businesses and individuals
 - Agency Activity** – Regulation of Insurance Rates and Forms
 - Performance Measure** – Average number of days required to finalize the filing review process for rate and form filings
 - Performance Targets** – 28.5 in FY 2010 and 28.5 in FY 2011
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GOAL: MEASURABLY IMPROVE CUSTOMER SERVICE, ACCESS, AND SATISFACTION

Objective: Upgrade SIMBA core and improve on-line services

Strategies:

- Ensure agency’s core systems and technical staff remain updated on current technologies
- Implement high priority enhancements for business functionality that has been accumulating since the initial release of SIMBA
- Decommission/Replace Kavis
 - Statewide Results** – Improve the economic vitality of businesses and individuals
 - Agency Activity** – Agency Administration

Expected Results – To provide executive and administrative services in support of the agency’s mission in a professional, qualitative, and responsive manner which emphasizes efficiency and cost-effectiveness

- Add self-service capabilities for consumers to securely file inquiries and complaints over the internet
- Integrate Client Activity Tracking System (CATS) into SIMBA

Statewide Results – Improve the health of WA citizens

Agency Activity – Consumer Information and Advocacy
Health Insurance Benefits Advisors

Performance Measure – Consumer inquiries received and answered

Performance Targets – 137,000 in FY 2010 and 137,000 in FY 2011

Performance Measure - Amount recovered for consumers as a result of OIC intervention

Performance Targets - \$12.3 million in FY 2010 and \$12.3 million in FY 2011

GOAL: *PROMOTE A POSITIVE AND PRODUCTIVE WORK ENVIRONMENT*

Objective: Improve recruitment success and retention of hard to fill positions

Strategies:

- Develop and implement a workforce development and succession plan
- Create and implement an employee recognition “investment plan”
- Implement a leadership development training program for supervisors and managers

Statewide Results – Strengthen the government’s ability to achieve results efficiently and effectively

Agency Activity – Agency Administration

Expected Results – To provide executive and administrative services in support of the agency’s mission in a professional, qualitative, and responsive manner which emphasizes efficiency and cost-effectiveness

PERFORMANCE ASSESSMENT

Actual performance is on target with performance estimates. There are no material variances or issues to report.

EXTERNAL ENVIRONMENT

Insurance is a \$25 billion business in Washington

The insurance industry is critical to Washington's economy and to the well-being of our state's residents. Insurance transactions generate about \$25 billion in economic activity every year and generate about \$450 million in state tax revenue annually that is used to fund a wide range of public services.

Insurance market cycles

The availability and affordability of personal and commercial lines of insurance are cyclical in nature. Life, health, auto, home, liability and other kinds of insurance are influenced by competitive market forces, the regulatory climate, inflation, investment returns, catastrophic events, and the accuracy of predicting future claims.

The property and casualty insurance market is characterized by cyclical patterns in underwriting restrictions, rates, and profits. These cycles are more significant for commercial lines products than for personal lines. A full market cycle typically lasts seven to 15 years. During the "hard market" phase, rates rise and some insurers lose their appetite for insuring certain risks. Insurers abandon lines of business that they find to be unprofitable. Some businesses and consumers find that they are able to purchase insurance only through an insurer of last resort. This may be a surplus lines insurer or some other alternative insurance market – where rates and policy forms are unregulated and there is no financial recourse if the insurer can't fulfill its promises. In contrast, insurance prices level off and fall in a "soft market," and authorized insurers become more willing to insure the risks that they considered marginal or unprofitable during the hard market phase of the cycle.

From 2000 to 2003 Washington and the rest of the nation endured a hard market. For the most part, soft market conditions have now prevailed for several years. Rates have dropped and availability of all but a few types of liability insurance has improved.

Even the severe hurricane events of 2004 and 2005 (Hurricanes Katrina and Rita) did not seem to reverse the softening market for liability insurance. The property and casualty insurance industry made significant profits in those two years – in spite of the hurricanes.

Extreme weather events, however, have led insurers to review their exposure to catastrophic events more broadly, in light of recent research on climate change, earthquake hazards, and other issues. The result is less willingness by insurers to provide earthquake coverage, and several

large writers of homeowner insurance have exited the earthquake insurance market here. Reinsurance costs are one factor leading to this reduction in earthquake insurance writers.

Regardless of the number, type, magnitude, and location of catastrophic events that affect the insurance industry in the next several years, the cyclical nature of the property and casualty insurance market makes it likely that there will be another hard market between now and 2015.

Enhanced insurance regulation through inter-state uniformity and operational efficiencies

The adoption of the new state market conduct oversight law in 2007 marked a paradigm shift in insurance regulation. It moved us from a statutorily required five-year cycle for market conduct examinations of domestic companies to market analysis that will direct resources toward problem insurers and focus on specific regulatory violations regardless of the state of domicile. This profound change was driven at the national level to modernize and standardize insurance regulation and to better focus limited resources on consumer protection.

The insurance industry and its congressional allies will push for greater uniformity among states in licensing and regulatory standards, and single “points of entry” for various products to gain approval. Congress will continue to re-examine the role that the federal government should play in insurance regulation. Some insurers and their trade organizations will pursue national standards for products that would reduce the current consumer protection standards here in Washington state and most of the larger states.

State insurance regulators do recognize the need for more uniformity. Uniformity can be more efficient from both the regulator and regulated perspectives. And a uniform state system of regulation is likely to provide stronger consumer protection than a monstrous bureaucracy that a federal system would create.

Uniformity and its efficiencies also provide an opportunity for insurance regulation that is more proactive than reactive, in real-time rather than after-the-fact, and is preventive more than punitive. Consumers will be the ultimate beneficiaries by receiving stronger products in a better-regulated market that is less costly to all involved.

Health Care Cost and Access

Today’s health insurance system is in crisis. Seven hundred thousand people in Washington State are uninsured. One of every four people lucky enough to have insurance doesn’t have enough coverage to meet their needs—leaving them unprepared to pay for medical expenses. Safety nets available to the uninsured or underinsured through programs that rely on state revenue, such as the Basic Health Plan and Medicaid, will continue to deteriorate for the short and mid-term. The loss of state subsidies has added tens of thousands more people to the uninsured ranks.

The health insurance crisis will only worsen. An aging population combined with expensive

medical technologies and anticipated federal and state cuts to reimbursement formulas for providers will put additional stress on the system. Consumers will require more help to find affordable coverage and to challenge coverage decisions they believe to be unfair.

State government spends an estimated \$4.5 billion on health care, up from \$2.7 billion in 2000. This \$2 billion increase means that the share of the state budget dedicated to health care has jumped from 22 percent in 2000 to 28 percent today. Additionally, Washington health care providers spent nearly \$584 million in 2006 for uncompensated care for the uninsured, an increase of 28% from 2002.

The lack of significant reform efforts by the federal government creates an opportunity for creative solutions to the health insurance crisis at the state level. The OIC will continue to devote energy and resources toward achieving consensus on fundamental changes in the system to expand risk pools, increase competition, help control health care costs, and work toward health insurance reform that would offer the peace of mind and guaranteed level of financial security that all Washingtonians deserve.

Fraud and unlawful activities

The 2006 creation of an anti-fraud program within the OIC targets organized crime rings involved in insurance fraud. Although Washington ranked 18th in the nation in 2005 for premium volume, we ranked 11th for suspected insurance fraud. The costs associated with this kind of criminal activity add as much as \$400 per year to the average consumer's insurance bill. Significant savings can be achieved with effective criminal fraud investigation and prosecution.

The OIC is challenged with a growing criminal caseload. As this state and the nation face potential economic downturns and national disasters, the rate of criminal insurance fraud is expected to get even worse.

Overall, OIC enforcement activity has increased steadily over the past two years, and is expected to continue its climb. This includes insurance code violations by insurers, agents and brokers who have agency approval to operate in Washington, as well as those that are not authorized. We believe that early detection, termination, and broad communication of unlawful insurance activities is the most effective means of protecting Washingtonians and ensuring that competitors do not gain an unfair advantage.

This effort is particularly important as the rising cost of health insurance provides a fertile landscape for fraudulent health plans. Scam artists continue preying on vulnerable people struggling to find adequate, affordable health care. Early education to alert consumers about phony health insurance plans is vital because there is little recourse once they become victims holding unpaid health claims.

Also, as more insurance are sold via the Internet, without the benefit of advice from an agent or broker, consumers will require greater assistance and information from the OIC about insurance companies and the products they sell.

Climate Change

The effects of climate change on property and casualty insurance is evolving. As weather patterns change, major hurricanes, wildfires, and flooding occur more frequently across the country. More property damage prompts more insurance claims. The reinsurance industry has made this issue a priority as the industry's combined ratio climbed from 106.2 in 2004 to 129.4 in 2005. This means for every \$1 in revenue, reinsurers paid out \$1.29.

If catastrophic weather events continue at this pace, it may affect the ability of the reinsurance industry to attract capital due to reduced return on investment. This would result in decreased reinsurance capacity available for primary property and casualty insurance carriers at likely higher rates. This, coupled with the continued expansion and increased property values in catastrophe prone areas, may cause the property and casualty market to harden, or even contract, if carriers are unwilling to accept new risk or renew some existing risk. It could result in higher prices for consumers or even compromise the ability of consumers to obtain property coverage.

Public Perceptions of and Access to Government

The OIC receives funding from an industry surcharge, not from the state general fund. However, the fiscal strains of funding for education and other state programs have an indirect – but significant – impact on this agency. As revenue instability becomes a factor, the resulting pressure on state government to cut services and increase taxes creates a demand by the public for increased efficiency, effectiveness and accountability in state programs. The OIC will be expected to effectively manage available resources and ensure that staff has the knowledge, skills and abilities to adapt to evolving technologies and improved work methods.

Access to government services and information continues to be of utmost importance to the public, the insurance industry and the OIC. Several major initiatives are underway to improve access, make more information available via the Internet and expand electronic commerce. The OIC will continue to build upon earlier efforts, while moving toward greater uniformity among states in licensing and regulatory standards, and single “points of entry” for various products to gain approval.

INTERNAL ENVIRONMENT

Financial Health Assessment

The agency does not foresee any trends in its revenue sources, fund balance changes, or cost pressures that will negatively affect the agency's financial stability. The agency's operating costs are funded by a Regulatory Surcharge that is paid in June of each year by insurers, health care service contractors (HCSCs), and health maintenance organizations (HMOs). This money is deposited in a dedicated fund to pay the operating costs for the following fiscal year. This is expected to continue as a very stable source of revenue.

This surcharge increases as premiums rise each year. The incremental increase is expected to sufficiently cover inflationary costs for agency salaries, benefits, and equipment. The surcharge rate is subject to a statutory cap. Because of staffing increases to meet national accreditation requirements, undertake IT projects, and develop the new market oversight and anti-fraud programs, proposals for future budget enhancements must be carefully managed. Ensuring the long-term viability of operating revenue to meet consumers' needs requires the investigation of alternative dedicated funding sources to pay for targeted programs.

If universal health care or some other major health care reform is adopted, it could impact the premium tax and regulatory surcharges collected from health insurance. That impact cannot be quantified at this time.

Technology Strategies

To better position the agency to protect consumers and to keep pace with an increasingly sophisticated regulatory climate, OIC has made a number of substantial technology investments into its core regulatory business systems. Since 2004, OIC has replaced its legacy HP3000 core computing system, implemented an online Medicare client contact tracking system, and modernized its technical infrastructure and networking capabilities. The agency has also fulfilled two of four planned 2007-09 online initiatives to increase "self-service" and e-commerce services to the public. The remaining two initiatives are on target to be completed by the end of June 2009. With the national push toward greater uniformity among states in the areas of licensing, market oversight and regulatory standards, OIC must continue to leverage technology as a vehicle to achieve uniformity and build upon earlier investments.

To maximize the business benefit of these investments, OIC intends to keep and build upon its regulatory core business systems on current supported technologies. The agency must ensure timely and adequate IT staffing levels to maintain and enhance the systems. Technology investments are not self-sustaining and, if not considered an agency priority, will languish quickly in today's high pace technology environment.

OIC recognizes the value of and dependency on technology and the connection it has to protecting consumers and regulating the insurance industry. The agency is committed to

sustaining its technology investments through continuous and consistent business systems upgrades, and by ensuring that IT staff possesses the necessary domain knowledge and technical expertise to support the systems.

Workforce issues in a rapidly changing world

Now more than ever, employee competencies are the basis of an organization's success. The OIC is no exception. Staff training and development play crucial roles in helping the organization keep up with the breathtaking pace of technology changes, greater demands for worker accountability and productivity, and pressure to do more with less.

The OIC will be expected to effectively manage available resources and ensure that staff has the knowledge, skills and abilities to adapt to evolving technologies and improved work methods. The public and insurance industry continue to expect more Internet-based systems and more automation of business processes. Coupled with the move toward states' uniformity in licensing and insurance regulation, the OIC must prepare to transition its workforce to an increasingly electronic work environment.

Staff Recruitment and Retention

Forces outside OIC may make hiring specialized positions more difficult. For example, in the accounting/auditing profession fewer people are entering into degree programs that supply Financial Examiner positions. In the information technology field, recruiting, hiring and retaining experienced .NET developers, system analysts, infrastructure staff and project leaders will be very difficult for the next four to six years with technology positions in high demand by both the private and government sectors. Because private industry generally pays at a much higher level, we expect more difficulty in filling vacancies.

As key OIC staff move into their retirement years, it's important to find talented replacements. Almost 50% of OIC current staff are or will become eligible for retirement by 2015. Those possible retirements coupled with ordinary turnover may result in service delays while positions are vacant.

Facility Assessment

The state Department of General Administration, in coordination with the Office of the Secretary of State and OIC, is building the Heritage Center/Executive Office Building (HC/EOB). These new buildings are the first "monumental" new construction projects approved by the Legislature for the west capitol campus in more than 50 years and are expected to be occupied for over 100 years. OIC will be the primary EOB tenant allowing the agency to relocate staff displaced from the capitol campus earthquake repairs and retrofitting.

The new Executive Office Building supports the 2006 Capitol Campus Master Plan by reducing

leased space and collocating state offices. The EOB will be energy efficient and will provide a healthy work environment. Products chosen for the building will be sustainable, reusable, durable and environmentally friendly, resulting in at least a Silver certification from Leadership in Energy and Environmental Design. The building will be financed through a certificate of participation (COP). OIC will lease the space from General Administration, resulting in increased lease costs for the life of the COP.