

Market Analysis ~ September Series



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Market Analysis ~ September Series

Presented by:
The Pennsylvania Insurance Department



**September 16,
2010**
8 a.m. to 3 p.m.
Property & Casualty
focus

**September 30,
2010**
8 a.m. to 3 p.m.
Life, Accident & Health
focus

**Temple University Harrisburg
Conference Center**

234 Strawberry Square, Harrisburg, PA 17101
www.temple.edu/harrisburg

Program Overview ~ Setting the Stage

Ron Gallagher, Deputy Insurance Commissioner
rgallagher@state.pa.us

- Welcoming Comments and Useful Information
- Scanning Today's Program
- Brief Overview of the Department
- Brief Overview of the PA Market
- PA Complaint Overview

Welcoming Comments and Useful Information:

- Welcome and Background
- Our Sponsors
- Location of Restrooms
- Lunch on your own (times are tough)
- Who is in the audience today

Our Sponsors:



The Insurance Federation
of Pennsylvania, Inc.



PA Association of Mutual
Insurance Companies

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Click link below for map:

[Lunch on your own](#)

Who is in the audience today?

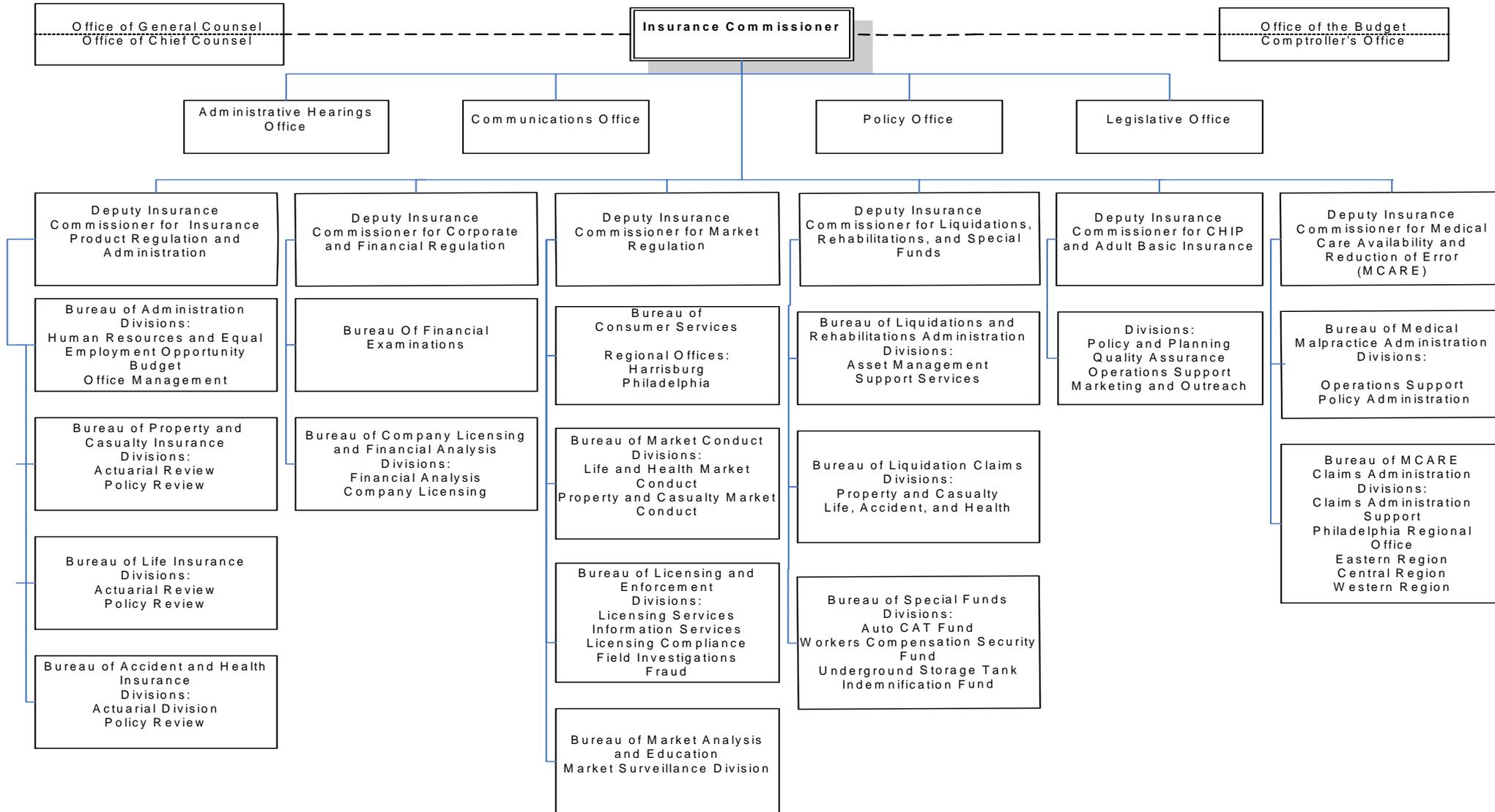
- 56 Carriers
- Legislative Staff
 - House of Representatives
 - Senate Banking Committee
- 6 Law Firms
- 2 Trade Groups
- PA Insurance Department Presenters, Support Staff and Legal Counsel

Scanning Today's Program:

- | | | | |
|--------------|--|--------------|--|
| 8:00 | Registration | 10:45 | Market Actions - A Year in Review
<i>Chris Monahan, Director, Bureau of Market Conduct</i> |
| 8:30 | Setting the Stage
<i>Ron Gallagher, Deputy Commissioner for Market Regulation</i> | 11:15 | Morning Wrap-up/Questions |
| 9:00 | "Undressing" Market Analysis
<i>Jeff Arnold, Market Analysis</i> | 11:45 | Lunch (on your own) |
| 10:00 | The "411" for Carriers and Consultants
<i>Cindy Fillman, Director, Market Analysis and Education</i> | 1:00 | Walk in the Regulator's Shoes
<i>Participate in a workshop and conduct a market regulation committee session</i> |
| 10:30 | Morning Break | 2:00 | Afternoon Wrap-up/Questions |
| | | 2:30 | Roundtable Discussion with Deputy Commissioners |

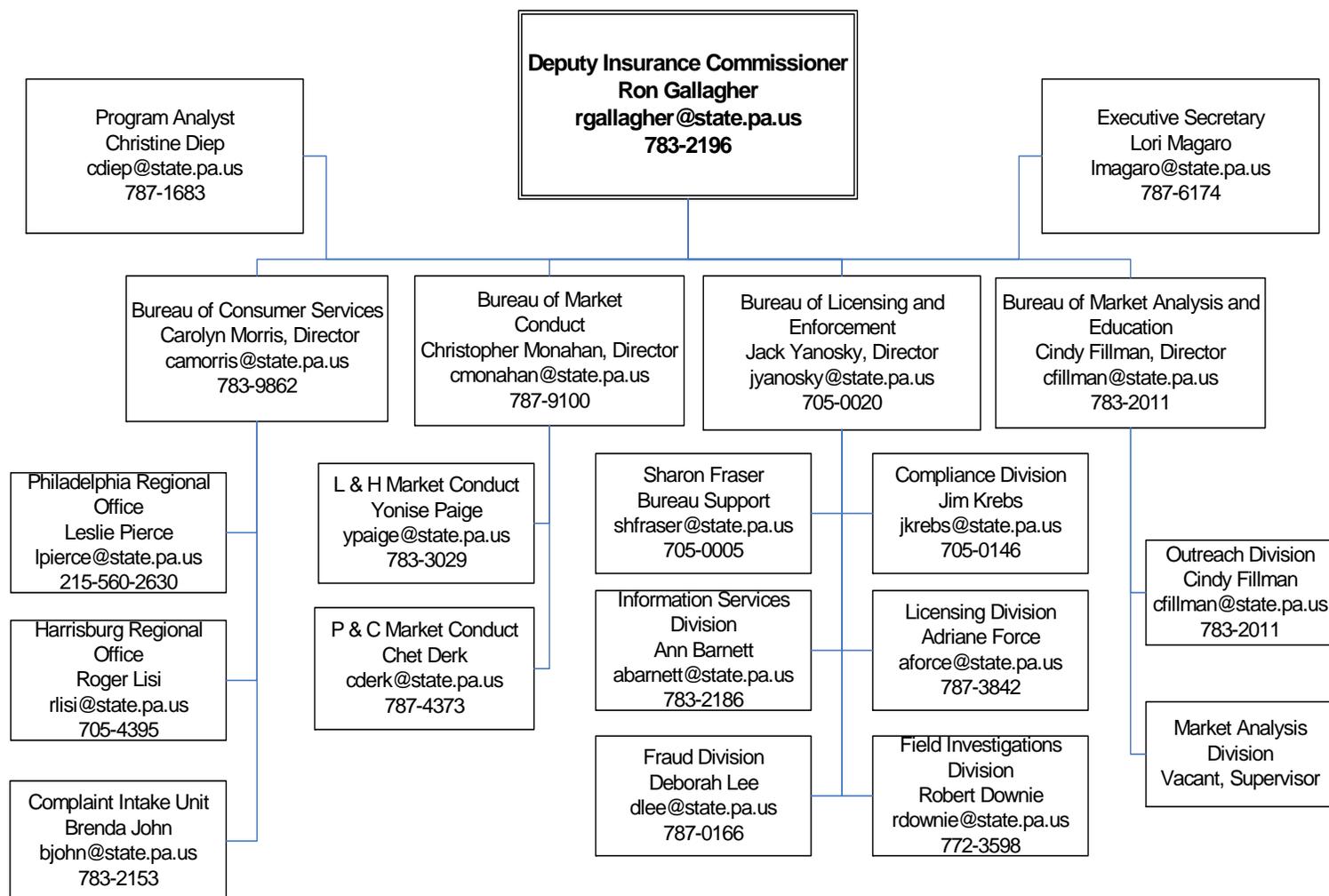
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INSURANCE DEPARTMENT



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Office of Market Regulation



Overview of the PA Market:

- \$81 billion in Annual Premium
 - 5th Largest Market in US
 - 12th Largest Market in World
- 288 Domestic carriers
- 1,869 licensed carriers
- 181,327 licensed producers
 - 72,301 residents
 - 109,026 non-resident
- \$41 million to GF annually (approx)
- \$18.5 million budget annually (approx)
- 220 positions (approx on regulatory only)

Overview of the PA Market ~ State Budget:

States in Descending Order of 2010 Budget

State	2010	Rank
New York	\$556,976,000	1
California	\$240,051,000	2
Florida	\$114,423,066	3
Texas	\$102,547,440	4
Ohio	\$94,830,371	5
Kentucky	\$40,532,900	6
West Virginia	\$40,473,933	7
North Carolina	\$29,863,635	8
Louisiana	\$29,387,018	9
New Jersey	\$29,198,000	10
Michigan	\$29,020,800	11
Maryland	\$27,361,093	12
Virginia	\$26,256,198	13
Delaware	\$25,087,000	14
Connecticut	\$24,828,742	15
Washington	\$23,182,000	16
Illinois	\$22,619,000	17
Pennsylvania	\$21,807,000	18
Alabama	\$20,404,588	19
Arizona	\$19,439,700	20



Overview of the PA Market:

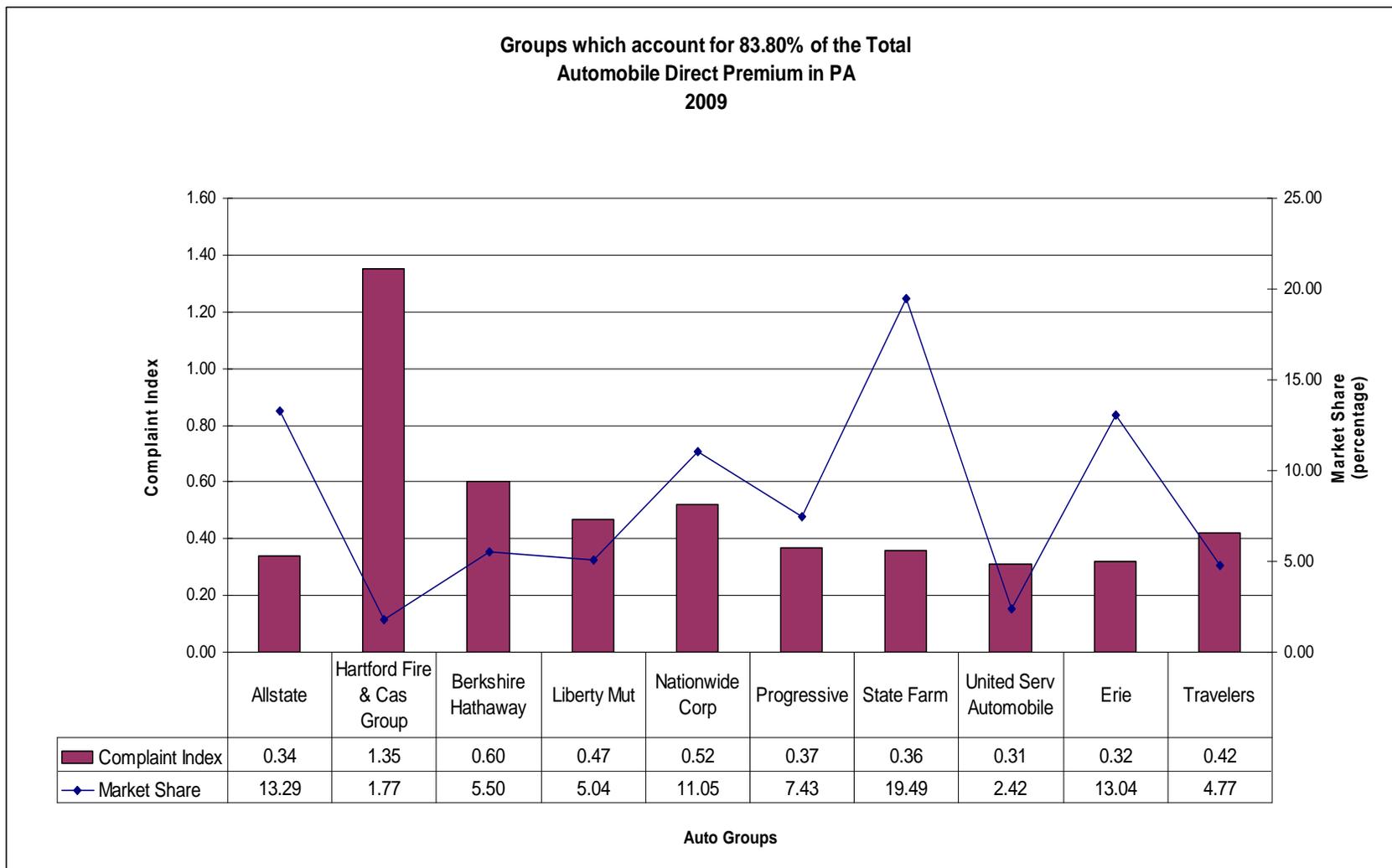
States in Descending Order of 2008 Premium Volume



State	2008	Rank
California	\$220,922,831,947	1
New York	\$150,859,397,709	2
Florida	\$105,328,277,735	3
Texas	\$99,037,673,043	4
Pennsylvania	\$81,078,728,038	5
Illinois	\$59,598,002,201	6
New Jersey	\$59,467,162,770	7
Ohio	\$55,366,587,161	8
Michigan	\$50,998,104,902	9
Massachusetts	\$43,551,960,738	10

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Overview of the PA Market:

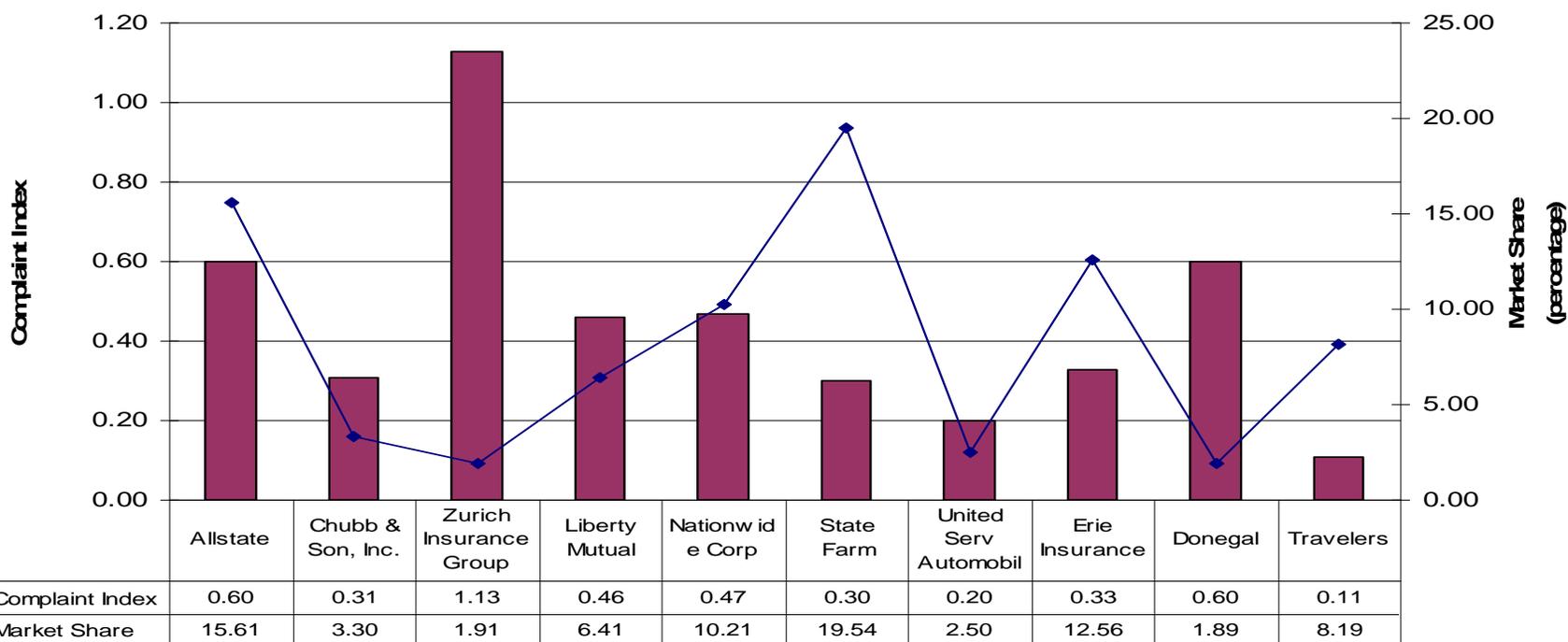


Note:
The 2009
market share
information
came from
the NAIC as
of May 4,
2010.

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Overview of the PA Market:

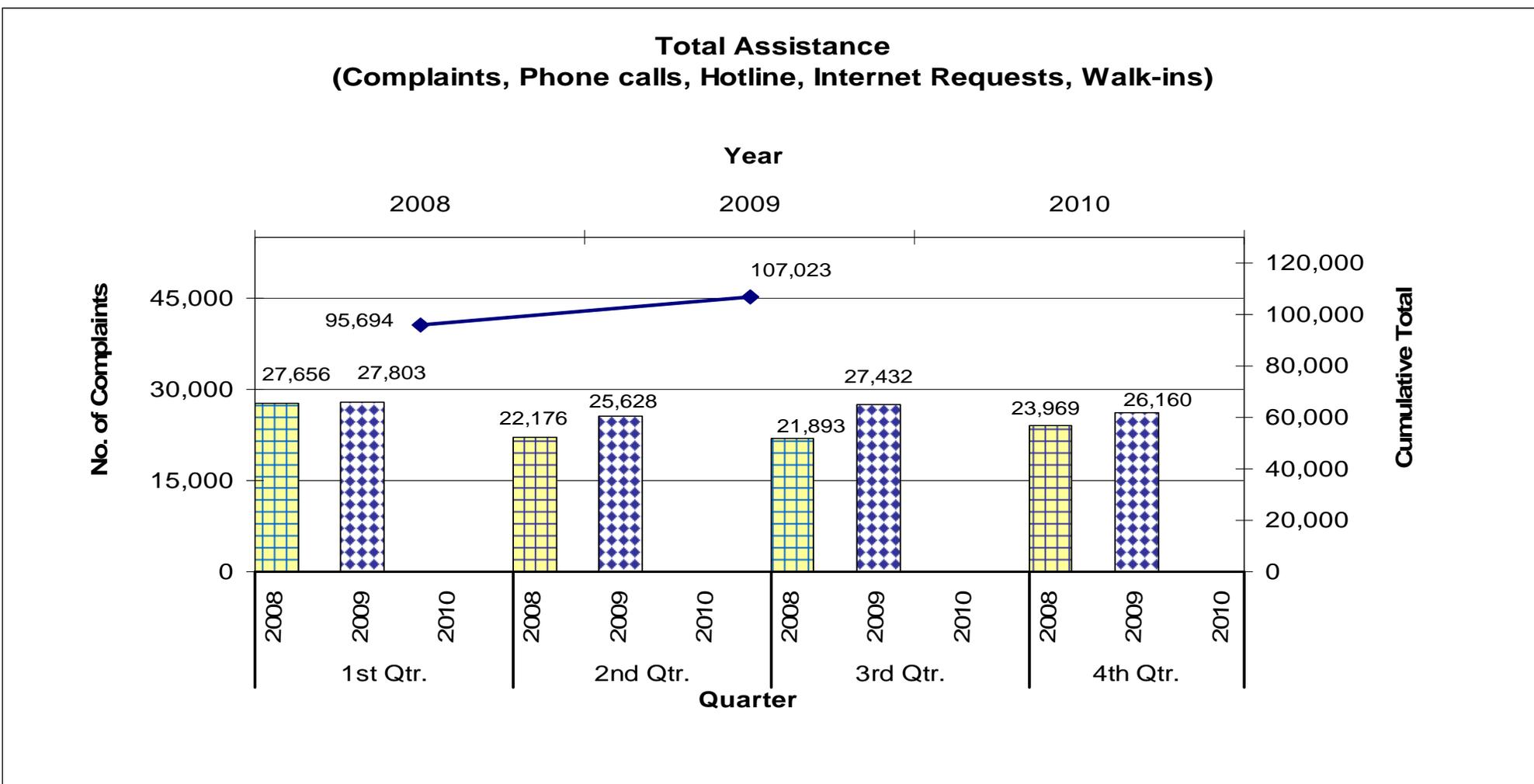
Groups which account for 82.12% of the Total Homeowners Direct Premium in PA 2009



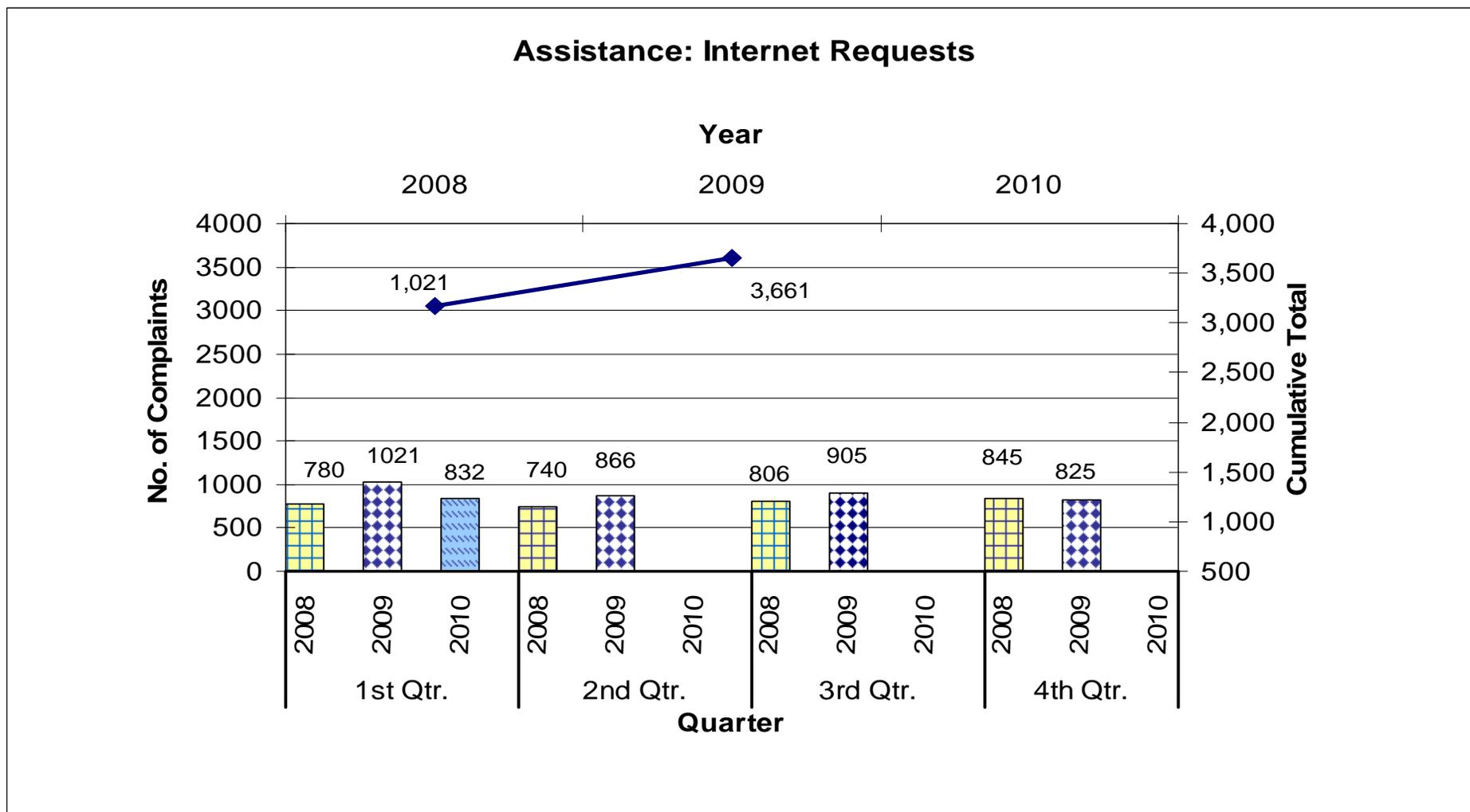
Homeowner Groups

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PA Complaint Overview:

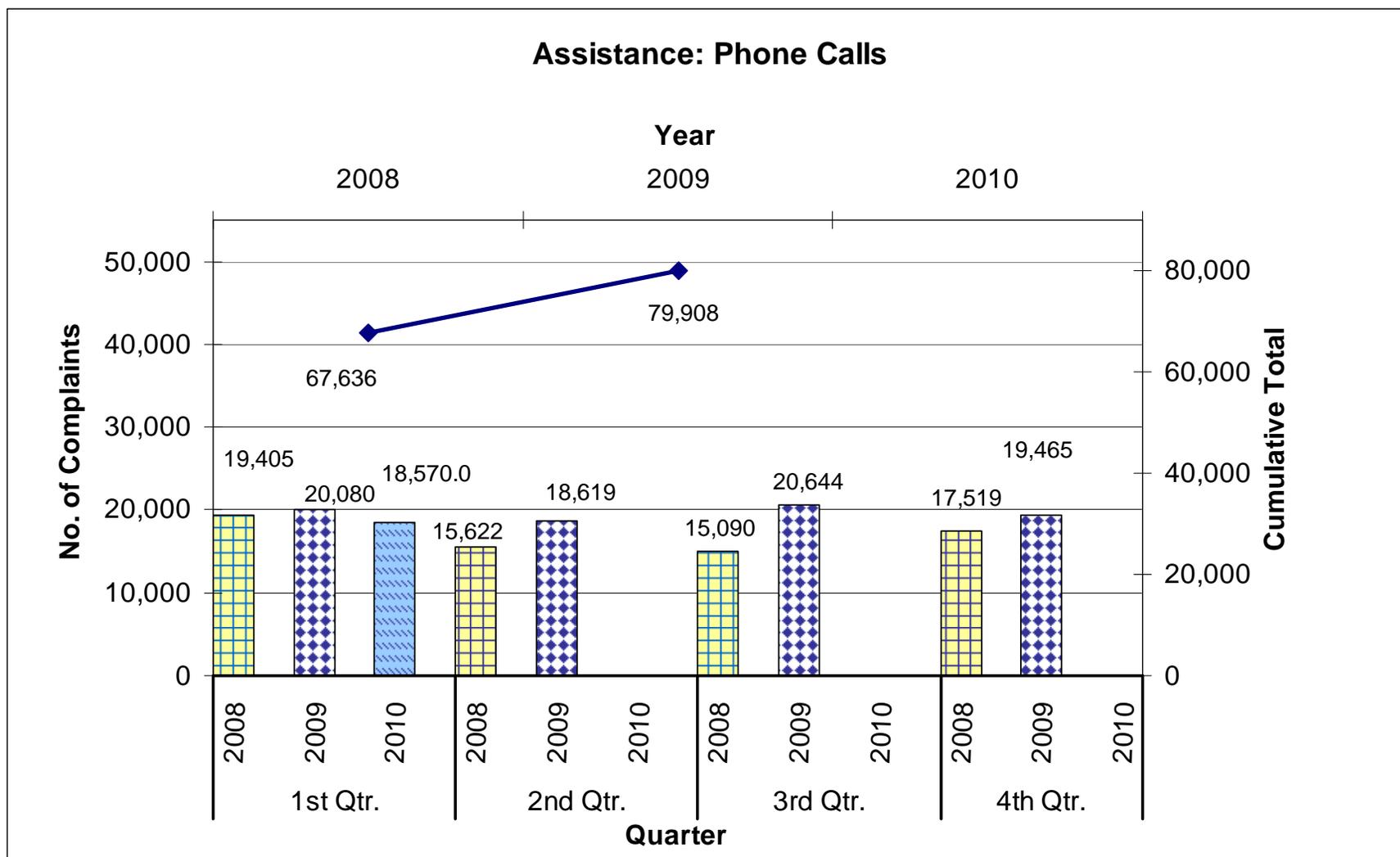


PA Complaint Overview:



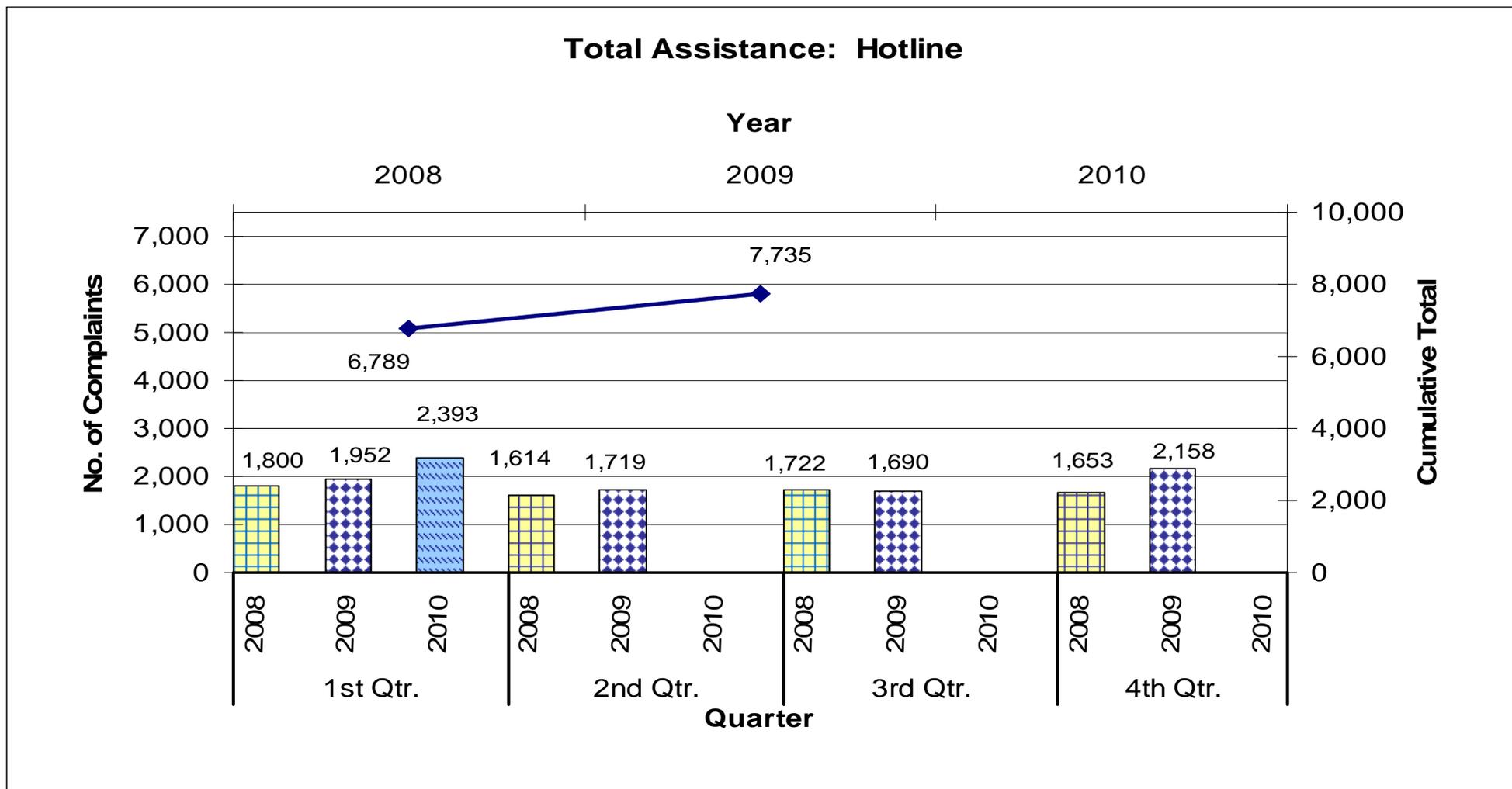
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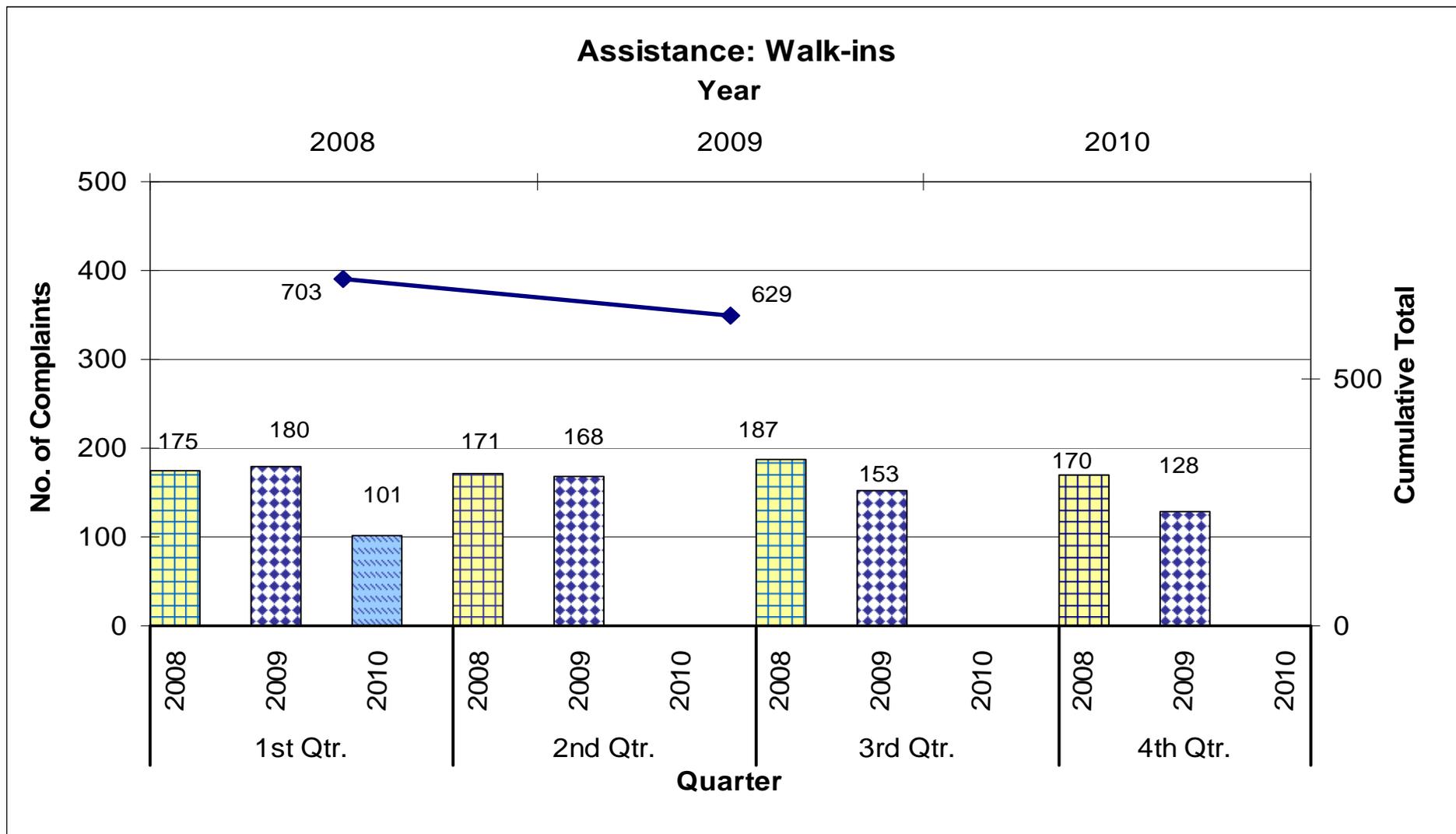
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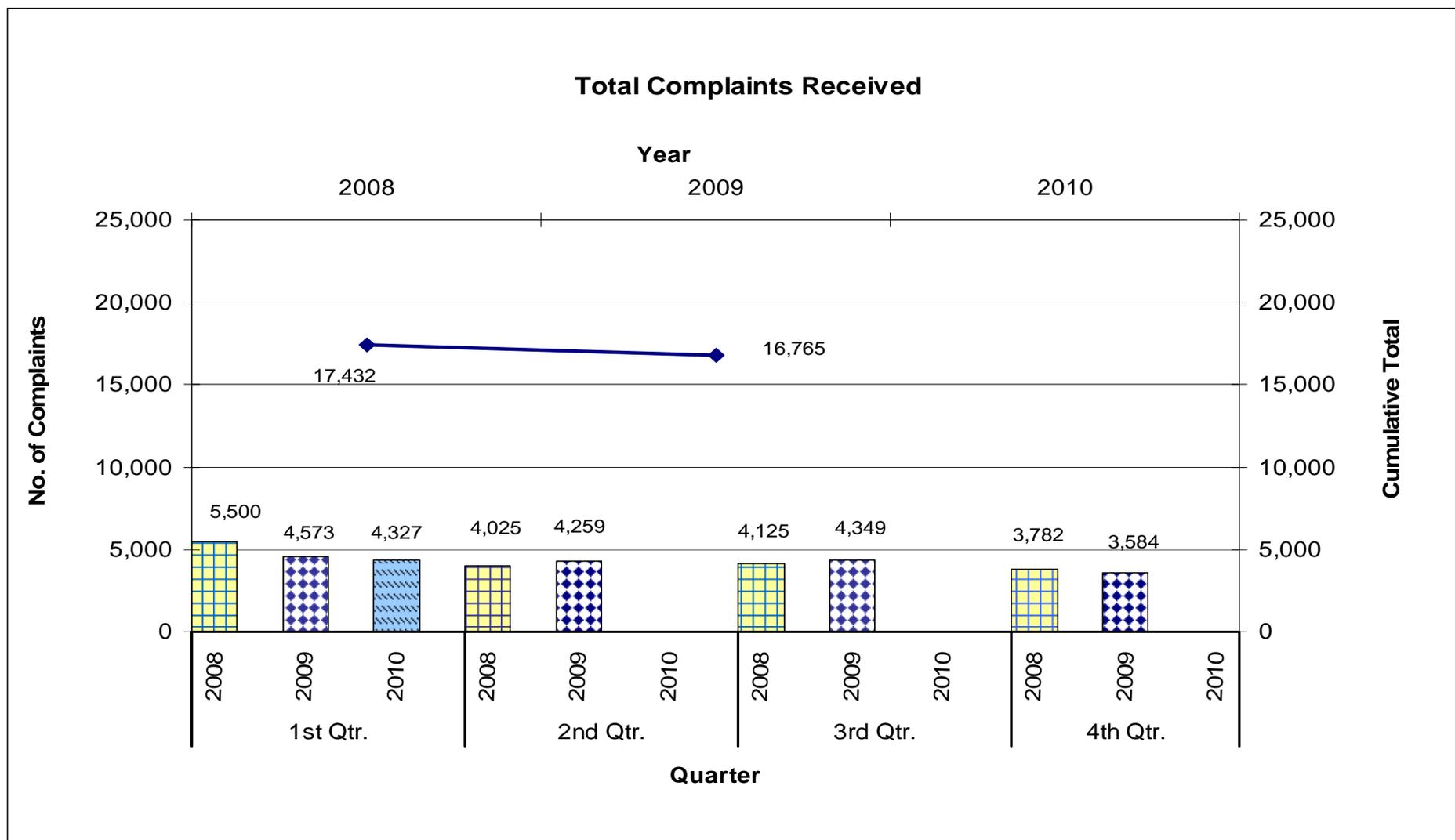


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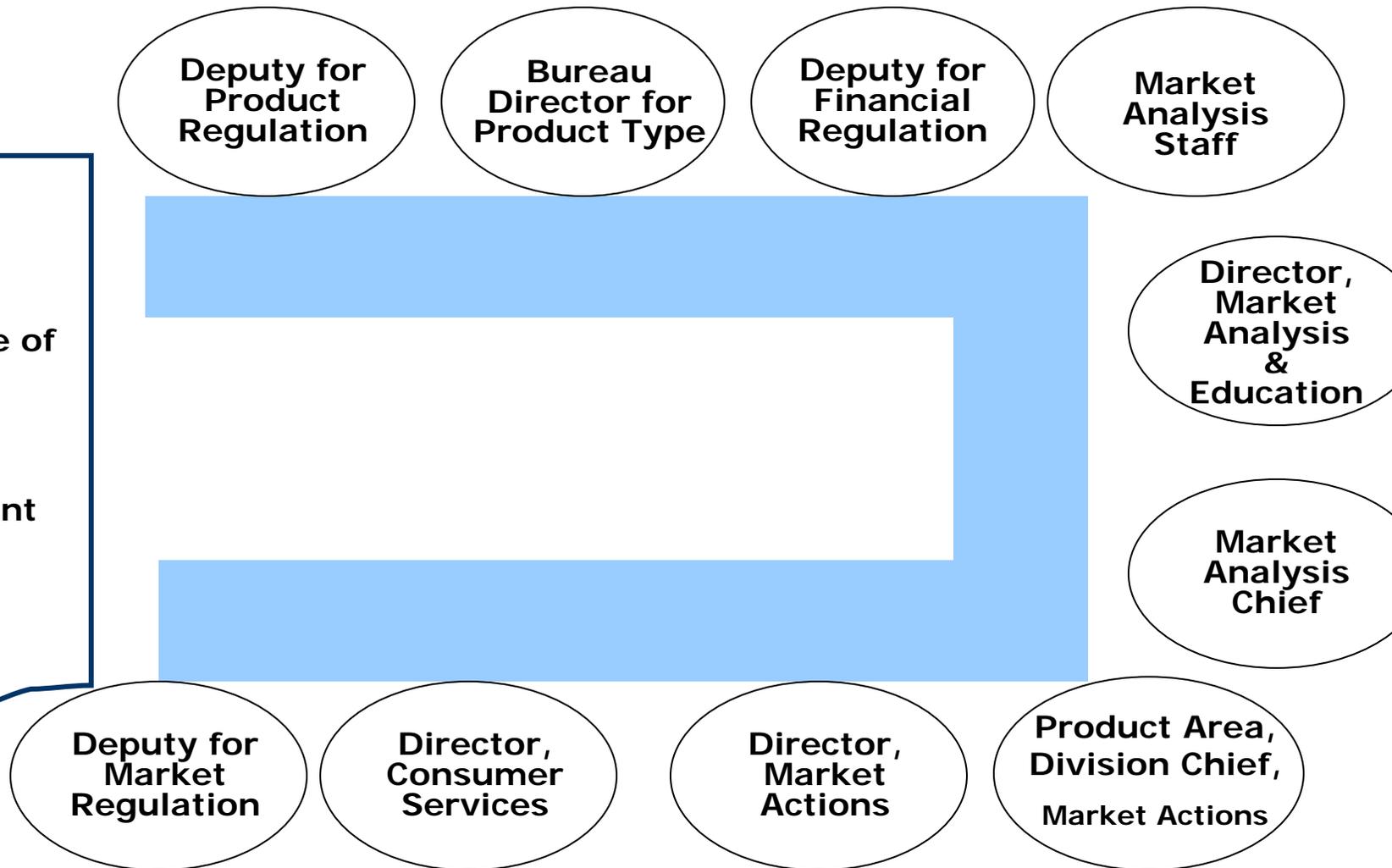
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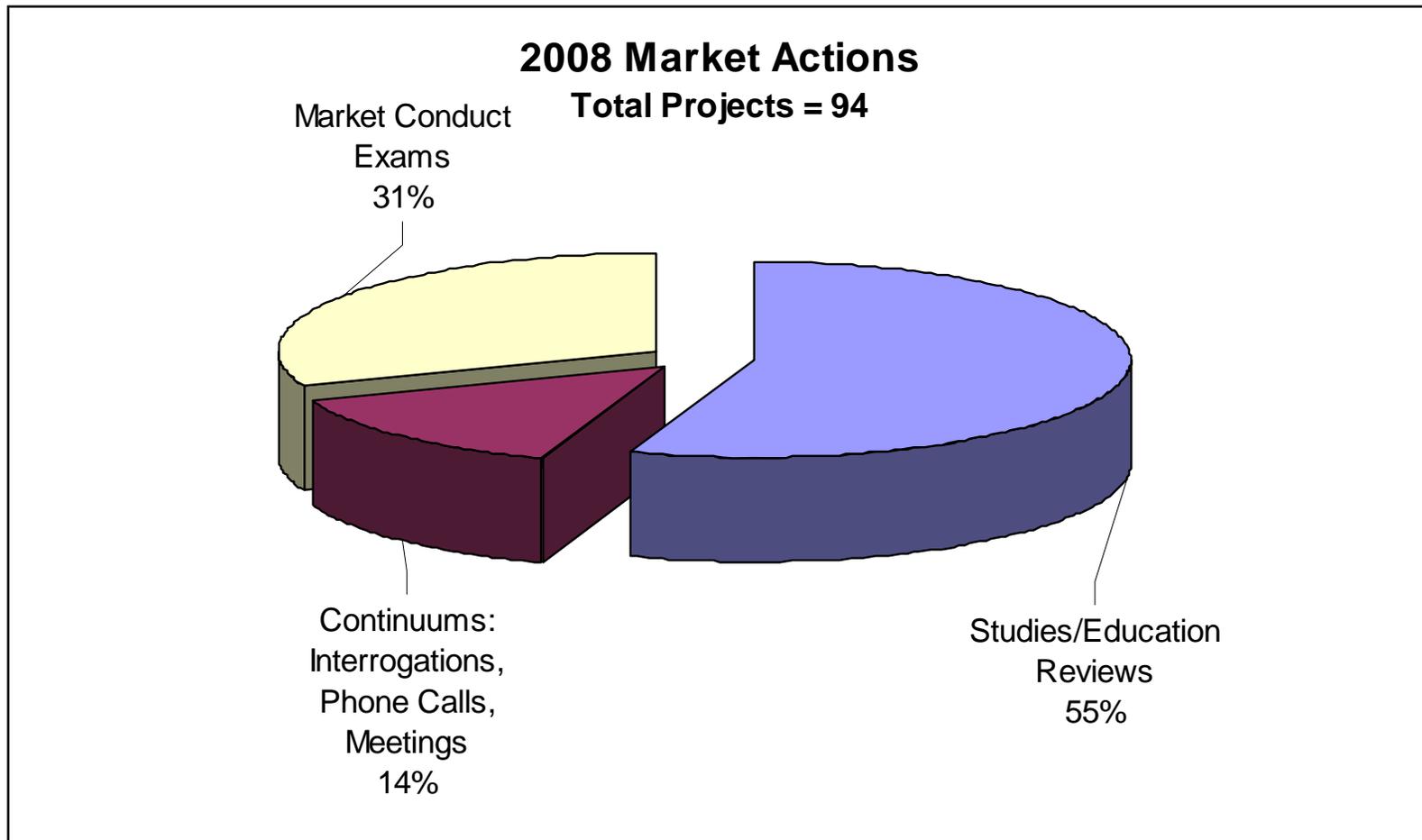
Market Regulation Committee:

Background

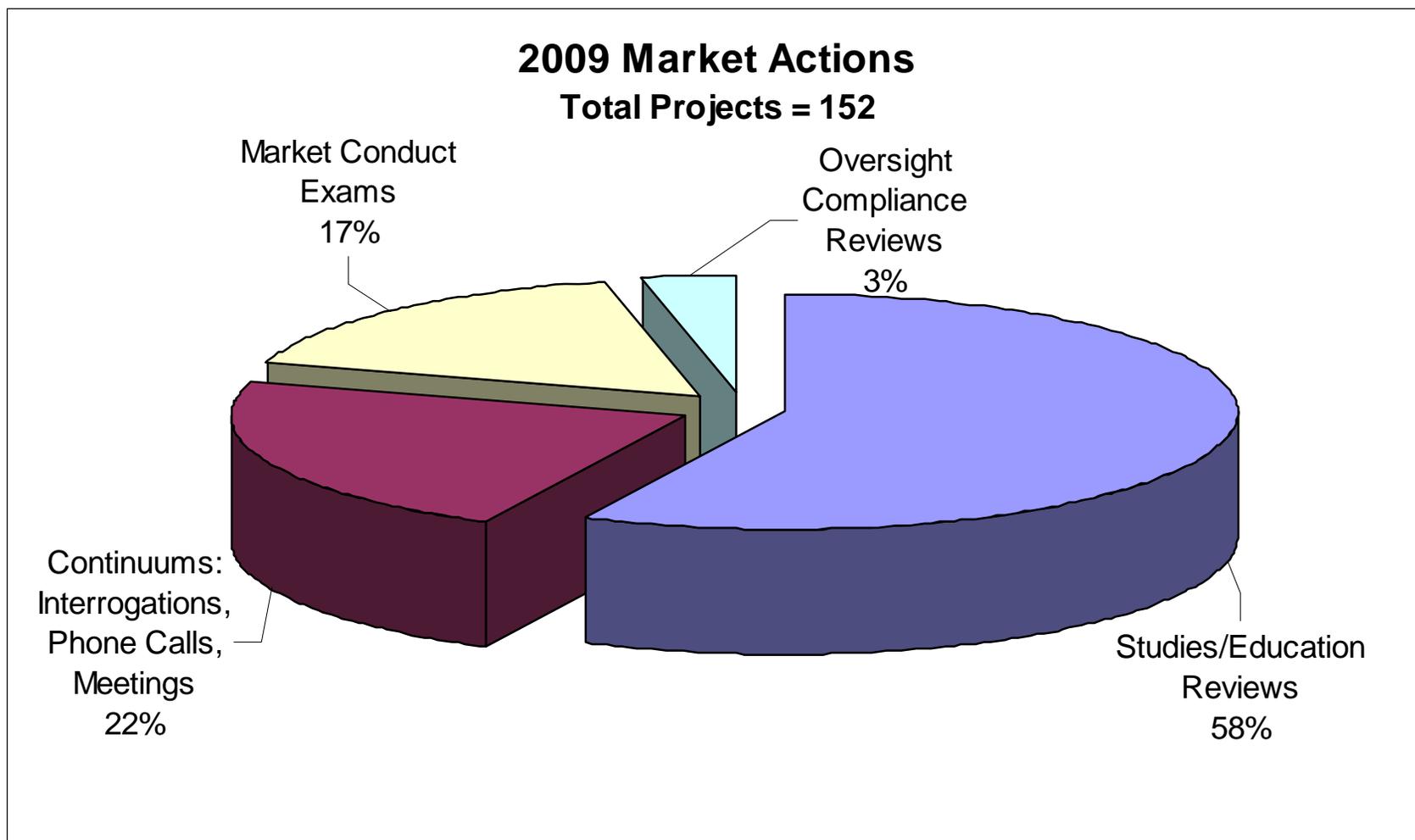
- Multidisciplinary Analysis
- Decides on course of action regarding continuum
- Reviews Level 1 Analysis, Complaint Analysis, Product Filings, Financial Health
- Meets 6-9 times annually



Market Conduct Examinations:



Market Conduct Examinations:



“Undressing” Market Analysis ~ Overview of baseline, market conduct annual statement (MCAS), Level 1 data

Jeffrey Arnold, Market Analysis Examiner
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“Undressing” Market Analysis Overview:

- Baseline Analysis
- Market Conduct Annual Statement
- Level 1 Review

Baseline Analysis:

- Uses data as a benchmark from which deviations and comparisons are measured
- Systematic process whereby basic parameters are used to evaluate the entire marketplace
- Used to identify companies that may require a more detailed and thorough analysis

Baseline Analysis:

- Private Passenger Auto
 - Homeowners
 - Individual Life
 - Individual Annuity
 - Group Life
 - Group Annuity
-
- Accident & Health
 - Group Accident & Health
 - Credit
 - Medicare Supplement
 - Long Term Care

Baseline Analysis:

- Market Analysis Prioritization Tool (MAPT)
- Select companies with over \$100,000 in direct premiums written
- Select specific information from the report to conduct baseline analysis

Consumer Complaint Data:

- Measures a company's performance, in terms of complaints, against another company's in the same market
- Measures changes in a company's complaint performance over the analysis period
- Complaint ratios are based on a company's specific information and provides a ratio of confirmed complaints per \$1,000 of premium
- Complaint ratios are needed for each company to calculate the complaint index
- Measures a company's performance relative to other companies in the same market
- The average complaint index is always 1.0 for a market for analysis purposes

Premium Volume:

- Find companies with significant fluctuations in premium volume
- Companies should be identified with dramatic growth (33% or more)
- Companies should be identified with dramatic decline (10% or more)

Reserves:

- Compare changes in losses and changes in reserves
- Identify companies with a spike in reserves without a corresponding increase in losses paid
- Losses and reserves should be moving in the same direction at a similar rate

Loss Ratios:

- Identify companies with loss ratios that are significantly higher or lower than other companies in the same market
- Identify unusual trends or year to year variations
- Private passenger auto and homeowners

Defense Costs:

- Determine if companies have had a significant change in defense costs from year to year
- Determine whether defense costs are moving in correlation to direct losses and premium volume
- Defense costs should be rising relative to increases in premium volume and losses

IRIS Ratios:

- Insurance Regulatory Information System (IRIS)
- Tool designed to assist insurance departments in monitoring the industry's financial condition
- Identify potential financial difficulties
- There is a separate series of IRIS ratios for P&C and L&H companies
- IRIS ratios are a preliminary screening tool
- IRIS ratios outside the pre-established norm do not necessarily indicate an adverse financial condition
- The IRIS ratio merely provides a signal to follow-up to determine the cause of the changes in the company measured by the ratio or ratios in question

P & C

- Gross Premium to Surplus
- Net Premium to Surplus
- Change in Net Writings
- Liabilities to Liquid Assets

L&H

- Net Change in Capital and Surplus
- Gross Change in Capital and Surplus
- Change in Premium
- Change in Product Mix

Market Conduct Annual Statement (MCAS):

The Market Conduct Annual Statement (MCAS) is a uniform method for states to collect key data regarding:

- Individual Life cash and non-cash value products
- Group Life cash and non-cash value products
- Individual fixed and variable annuities
- Private Passenger Auto and Homeowners

Market Conduct Annual Statement:

- Regulated entities may download instructions and a data collection program from the NAIC

- Allows state regulators to compare and contrast entity-specific results with the remainder of the industry regarding such issues as:
 - Replacements
 - Nonforfeitures
 - Complaints
 - Life Insurance Face Values
 - Cancellations
 - Claims taking longer than 60 days to finalize

Market Conduct Annual Statement:

- Call Letter is sent by the NAIC with instructions on how to load data
- Company sends data to Insurance Department to be loaded into Database
- Certificate of Compliance
- Data Integrity checks are performed to ensure data is correct (20% variance in premium)

Market Conduct Annual Statement:

- Statewide averages are viewed
- Company data is viewed to determine if there are company ratios that exceed the statewide averages
- Company report cards are developed and sent to companies
- Company outliers are identified
- Outliers are analyzed and compared with companies identified as possible outliers through baseline analysis
- Identify companies that may need to have a Level 1 Review conducted

Level 1 Review:

- The Division of Market Analysis uses the Level 1 review as a tool to learn more about a company's:
 - Operations
 - Financial Ratios
 - Special Activities (SAD)
 - Regulatory Actions
 - Examinations

Level 1 Review:

- Market Initiative Tracking System (MITS)
- Premiums
- Market Share
- Resisted or Unpaid Claims
- Complaints
- Market Conduct Annual Statement
- Conclusion

Operations:

- Significant changes in officers, directors or trustees over last 3 years
- Changes in company's organization, management or operations
- Mergers or consolidations
- Revocation of Certificates of Authority, licenses or registration
- Change in state of domicile

Financial Ratios:

- Review RBC ratios for the last 5 year period
- Has the company's RBC ratio triggered any action level events or has the RBC ratio significantly declined during the period
- Defense costs should be rising relative to increases in premium volume and losses

Level 1 Review:

- Company Action
- Regulatory Action
- Authorized Control Level
- Mandatory Control Level

Special Activities:

- Entries in the NAIC's Special Activities Database (SAD) of substantive concern over past 5 years
- Market Activities
- Legal Actions

Regulatory Actions:

- Substantive regulatory actions
- Reasons for actions
- Patterns
- High dollar penalties

Examinations:

- Review Exam Tracking System (ETS) summary
- More than 3 exams in past 12 months
- Substantive concerns
- Patterns
- Exam triggers

Premiums:

- Review company's direct premium reported on a national and state basis
- Has premium increased or decreased by 33% in any single year during last 5 years
- Is company keeping up with growth (claims staff)
- Why is there a decrease in premiums (solvency)

U.S. Market Share:

- Significant Changes in market share for state under review over last five years
- Specific line of business

Loss and Expense Ratios:

- For the lines of business under review in all jurisdictions, are loss and expense ratios unusually high or low as compared to industry averages?
- In the state and lines of business under review, are loss and expense ratios unusually high or low as compared to industry averages?

Resisted or Unpaid Claims:

- Review Premium written
- Direct defense and cost containment expenses paid
- Direct Losses Incurred
- Industry averages over last 5 years

Complaints:

- Significant changes in confirmed Complaint Index current year plus four years
- Significant changes in complete Complaint Index current year plus four years
- Review 5 year complaint report

Market Conduct Annual Statement:

- Does a state participate?
- Applicable to line of business under review?
- Identified as outlier?
- What Schedules is company considered an outlier? (PPA, HO, ILCVP, ILNCVP, GL, IFA, IVA)
- Statewide average comparisons (Ratios of concern) (MCAS)

Conclusion:

- What is recommended for the next step upon completion of the Level 1 review?
- Direct contact with the company
- Investigation is scheduled
- Examination is scheduled
- Enforcement Action may be scheduled
- Contact the Collaborative Action Designee (CAD) of other states with similar concerns
- Proceed with another option on the continuum of regulatory responses (develop letter to company, phone call, conference call, or meet with company)
- No further analysis is necessary
- Level 2 is scheduled

COGNOS Reports:

- An internal report that shows confirmed complaints and/or enforcement referrals for a specified window of time for a company

Reporting:

Reports are developed from a combination of findings from:

- Baseline Analysis
- Market Conduct Annual Statement
- Level 1 Review
- COGNOS Report

Reporting:

Findings are presented to the Market Regulation Committee

- Deputies and Directors of the various program areas of the Insurance Department
- Action to be taken
 - Market Conduct Exam
 - Monitor through future analysis
 - Continuum through a meeting
 - Continuum through letter or phone call
 - Other

The “411” for Carriers and Consultants

Cindy Fillman, Director, Bureau of Market Analysis and Education
cfillman@state.pa.us

Informing your Regulator:

- Educational Reviews
- Studies
- Questionnaires

Educational Review-A Case Study:

- Act 62-Autism Mandate
- Initial letter-expectations
- Reports
- Many interventions
- Follow up reports-to inform legislative report

Studies-climate Change:

- Initial letter-expectations
- Reassurance
- Full disclosure
- Purely educational
- What PA did right

Questionnaires-Healthcare Reform:

- Initial letter-expectations
- Questionnaires-not mandatory but detailed.
Usually in the insurers interest to share information.
- Informs policy and potentially legislation

Division of Education:

Healthcare Reform

- Grant Applications
- High Risk Pool
- Exchange
- Consumer Assistance Program

Other Policy Issues

- Climate Change
- Autism
- Title Insurance

Market Actions ~ A Year in Review

Christopher Monahan, Director, Bureau of Market Conduct
cmonahan@state.pa.us

Baseline Analysis:

Nine lines of insurance and 1,283 insurance companies were analyzed through baseline analysis from 2008 data. Baseline analysis included review of:

- 214 private passenger automobile insurers
- 166 homeowners insurers
- 56 long-term care insurers
- 174 individual accident and health insurers
- 189 group accident and health insurers
- 266 individual life and annuities insurers
- 119 group life and annuities insurers
- 62 Medicare supplement insurers
- 37 credit insurers

Baseline Analysis:

Baseline analysis scoring includes the use of:

- Division of Market Analysis Scoring Model
- NAIC Market Analysis Prioritization Tool (MAPT)
- MCAS Scoring Model
- All three scoring models or tools are used to create aggregate scores for all companies in baseline analysis process
- Scores are used as primary tool to select outliers

Level 1 Analysis:

132 outliers from baseline analysis also underwent level 1 analysis in 2008. This is up from last year when 125 companies underwent Level 1 analysis for 2007 data. The number of companies undergoing Level 1 analysis for each line of insurance looks like this:

- 28 for long-term care and/or Medicare supplement insurance
- 52 companies for private passenger automobile and/or homeowners lines
- 29 companies for individual and/or group life and annuities lines
- 20 for individual accident & health and/or group accident & health
- 3 companies for the credit insurance

NAIC mandates require PA to conduct a minimum of 40 level 1 reviews each data year and so, PA well exceeded its minimum requirement

Market Regulation Committee:

From the 132 companies undergoing Level 1 analysis, a total of 68 of them rose to the level of being presented during 6 different MRC meetings over the past nine months.

Market Regulation Committee:

The following summarizes the dispositions of the 68 companies presented to MRC based on 2008 data findings:

- 26 companies monitored through future market analysis projects
- 14 companies had meeting scheduled with the Department to gain more information and understanding about issues of concern
- 13 companies were contacted through interrogatories or phone calls to gain more information and understanding about issues of concern
- 6 companies needed us to follow-up with regulators from other states to better understand actions and initiatives involving the companies
- 6 companies had target market conduct examinations called
- 2 companies had suspended market conduct examinations re-opened
- 1 company had a comprehensive market conduct examination called

Market Conduct Examinations:

During 2009, 48 market conduct examinations were closed resulting in:

- \$1,063,112 in penalties
- \$1,119,350 in restitution to PA consumers

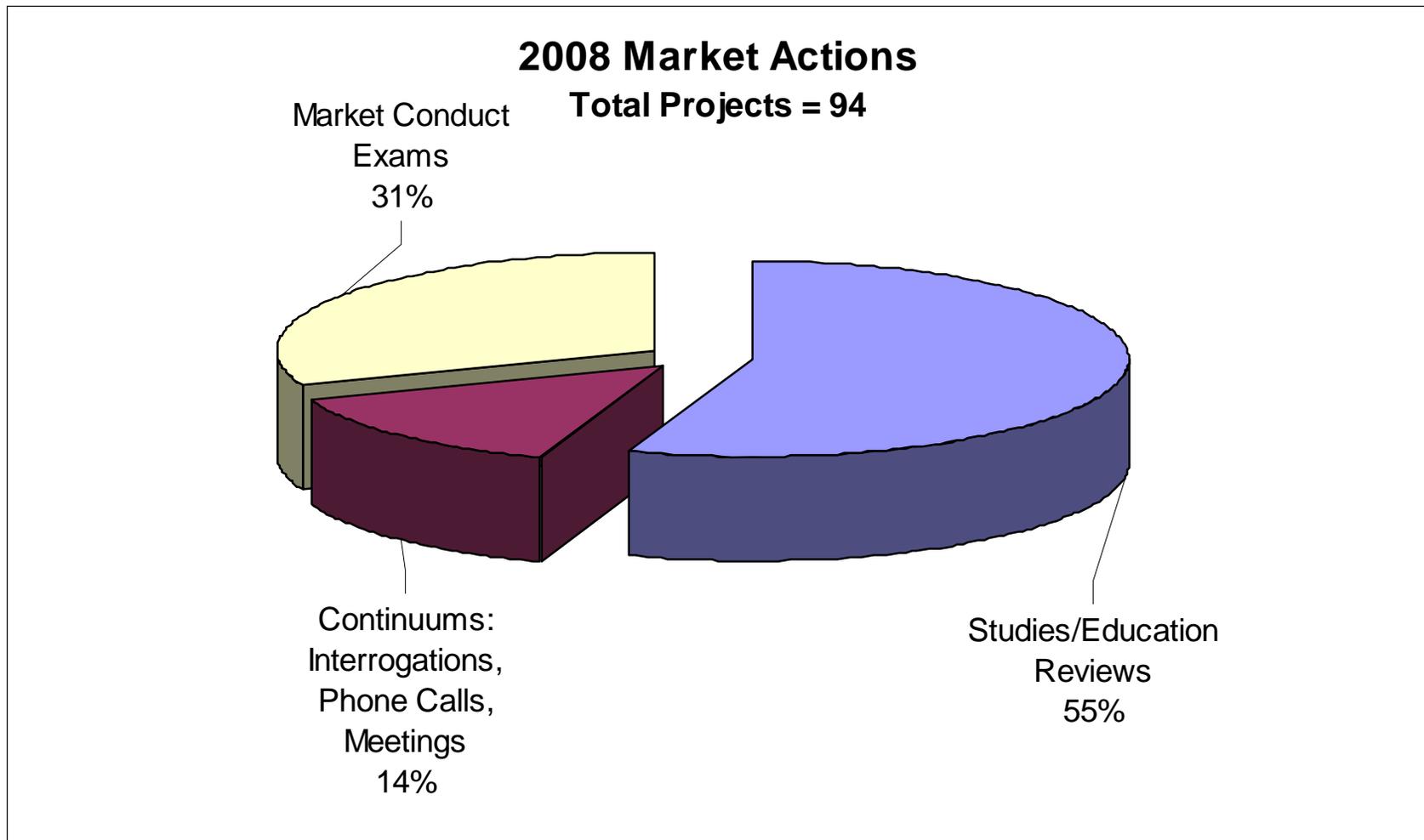
The number of market conduct examinations called by the Department has been declining over the past three years

Market Conduct Examinations:

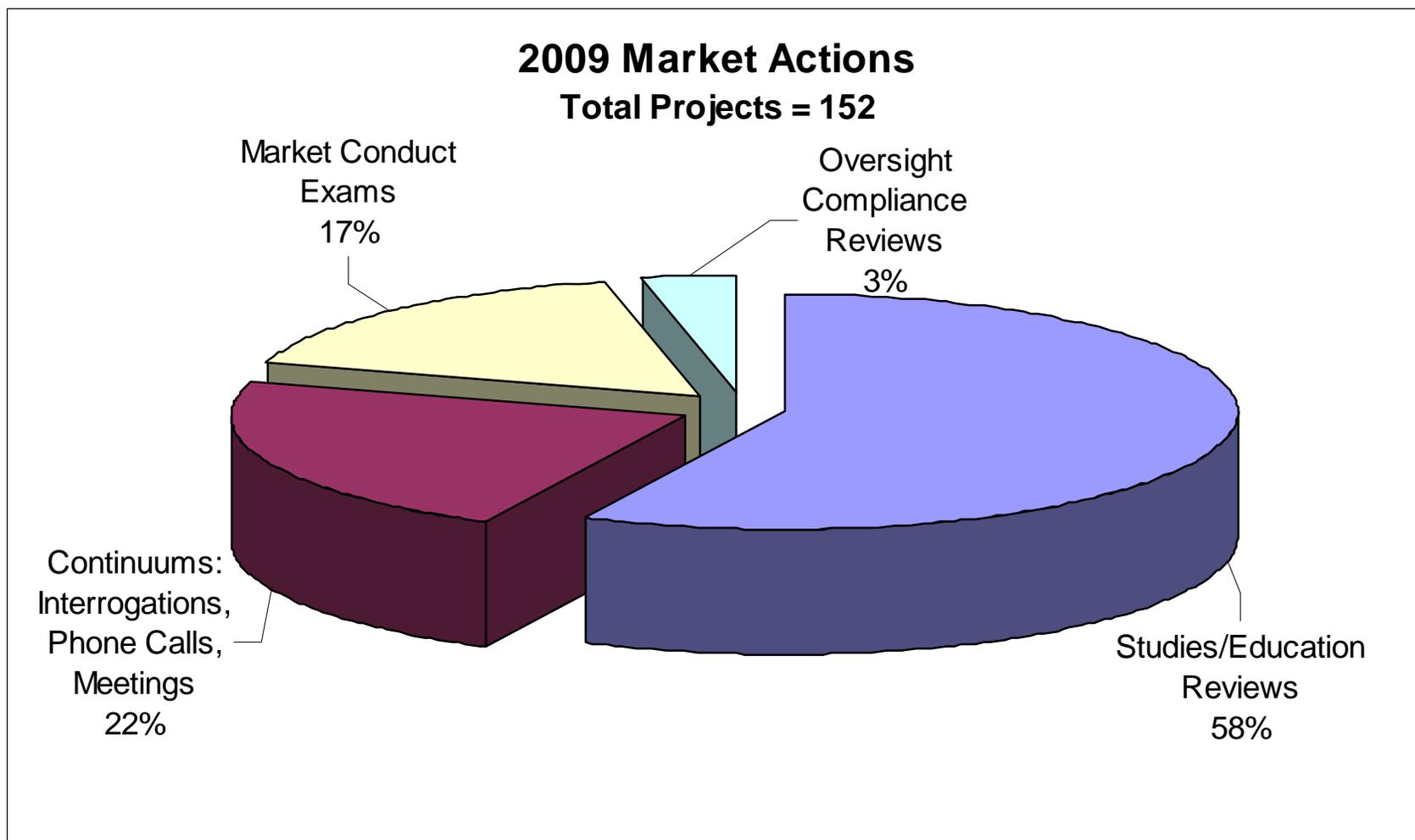
3 Year Overview of Exams

		2007	2008	2009
Exams Opened	P & C	43	24	14
	L & H	22	5	12
	Oversights and Multi-State Exams Open	2	0	5
Total Exams Opened		67	29	31
Exams Closed	P & C	20	31	29
	L & H	21	18	16
	Oversights and Multi-State Exams Closed	3	3	3
Total Exams Closed		44	52	48

Market Conduct Examinations:



Market Conduct Examinations:



Morning Wrap-up ~ Questions

Lunch

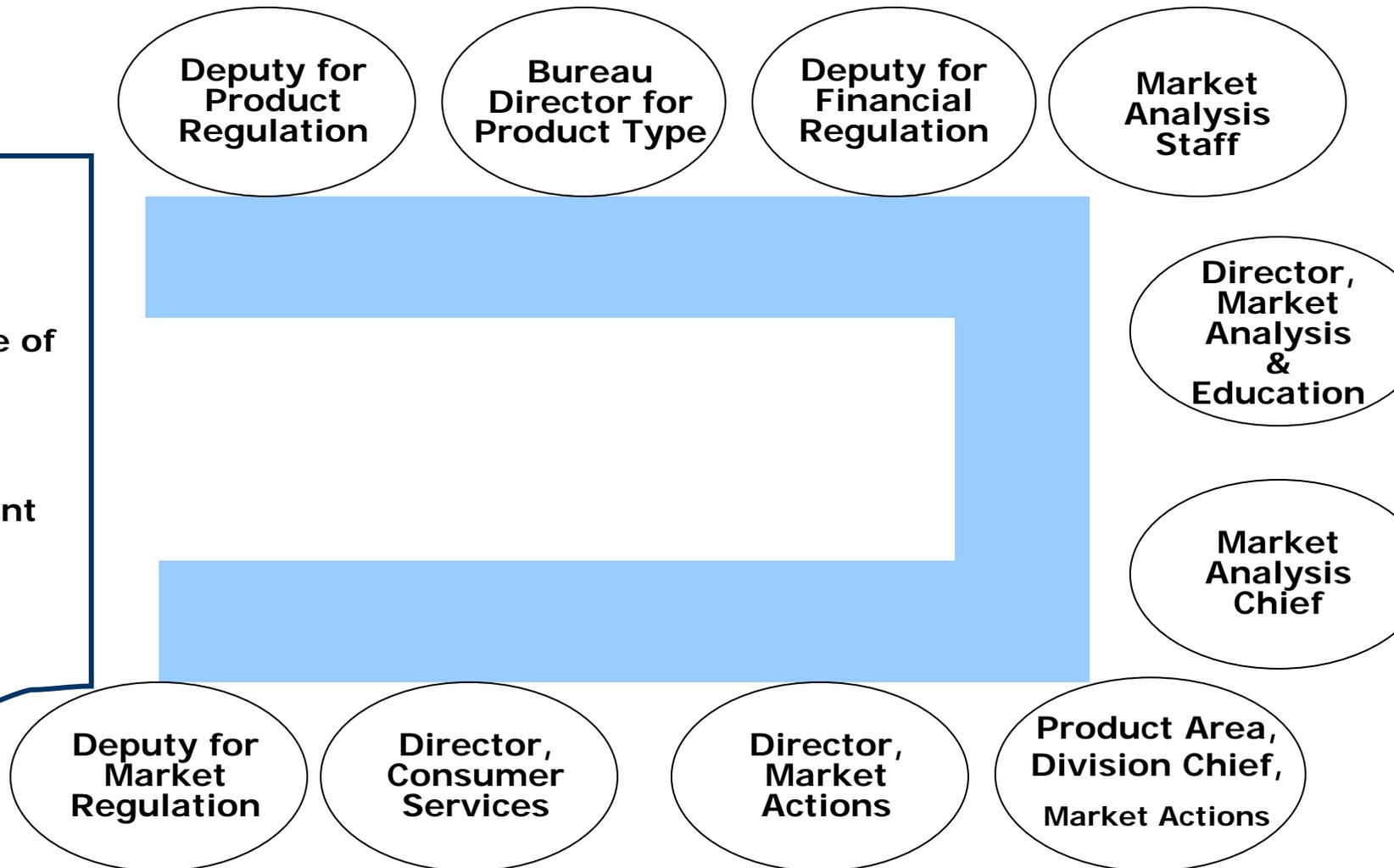
Walk in the Regulator's Shoes



Market Regulation Committee:

Background

- Multidisciplinary Analysis
- Decides on course of action regarding continuum
- Reviews Level 1 Analysis, Complaint Analysis, Product Filings, Financial Health
- Meets 6-9 times annually



Afternoon Wrap-up ~ Questions

Roundtable Discussion with Deputy Commissioners

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