The Evolution of Insurance Market Regulation

October 22, 2009

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Program Overview: Setting the Stage

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- The strategy behind department surveys
- How MCAS data impacts your bottom line
- Who's who in the department
- Case studies that may apply to your company
- Our process for choosing exams and other regulatory actions

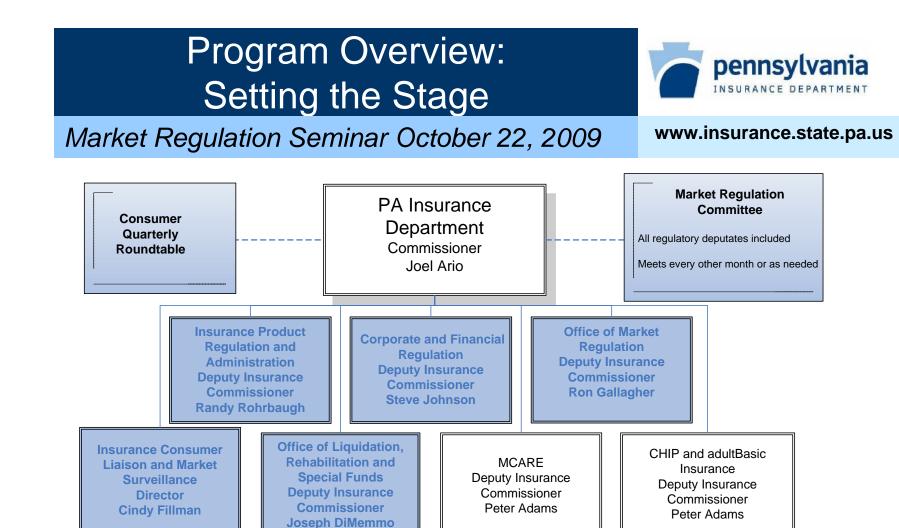
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- Informational materials
- Review program attendees
- Special thanks





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Consumer Quarterly Roundtable

- Focus is on "Big Picture" market activities
- Open to larger audience in Department

Consumer Centered Discussions

Market Regulation Committee

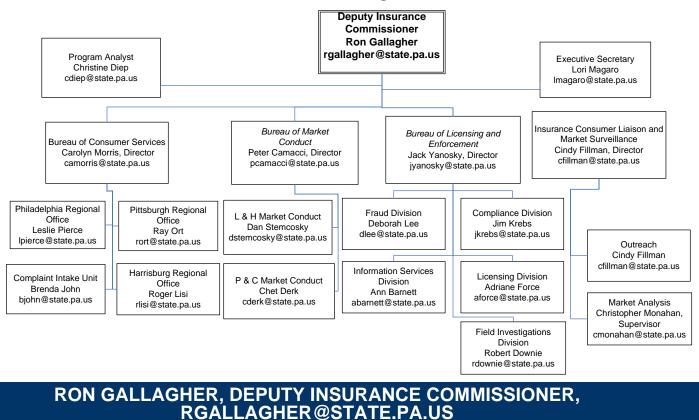
- Technically oriented towards MCAS, complaints, filings, surveys and marketplace information analysis
- Purpose is to prioritize (choose) best continuum option to address potential and real marketplace activities

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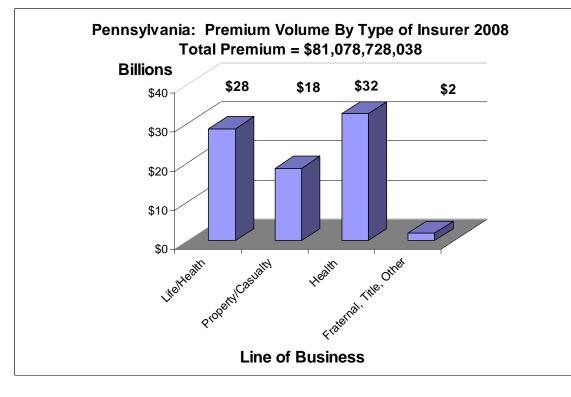
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Fast Facts:

- 5th largest US market
- 15th largest in world
- 18th largest regulatory budget
- \$21.8 million annual budget
- \$50.3 million fees and fines

290 employees

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Licensed Producers 2008

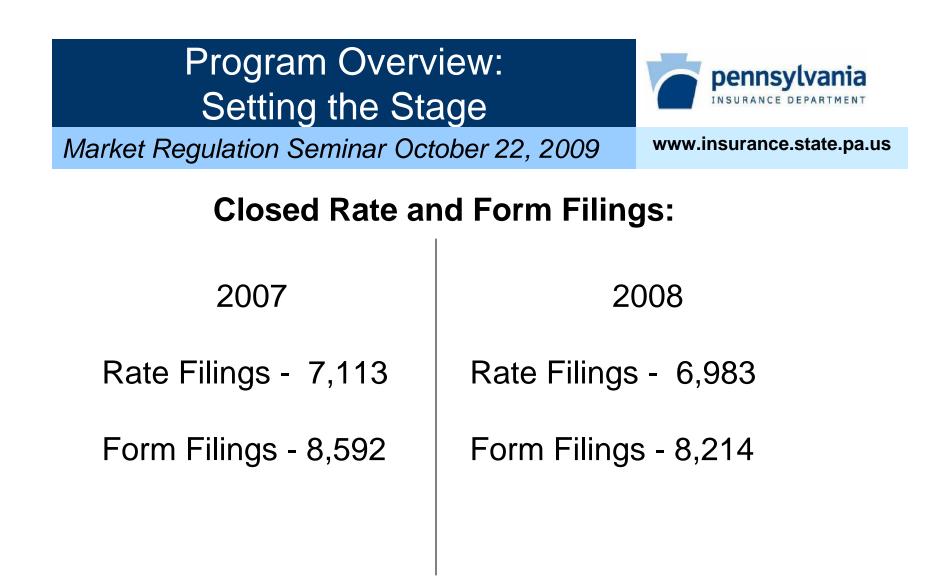
- 112,466 Total non-resident producers
- 85,780 Total resident producers
- 11,493 New resident producers annually
- 22,981 New non-resident producers annually



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Fast Facts:

- 1 of 14 states with digital fingerprinting
- 7 day turnaround on new resident licenses
- Same day on non-resident
- Completely online and paperless



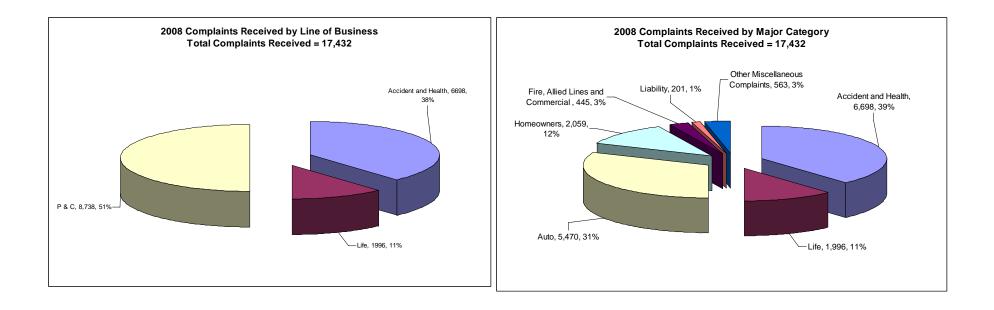
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Morning Session covers foundational information

- Afternoon Session covers practical applications
- Introduce Moderator Steven B. Davis, Esq.

ASK LOTS OF QUESTIONS

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Resources

- 2008 NAIC Insurance Department Resources Report
- NAIC International Relations Resource Guide
- Pennsylvania Insurance Department Annual Statistical Report

Market Analysis as the Foundation for Effective Market Regulation Market Regulation Seminar October 22, 2009



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Market Analysis as the Foundation of an Effective Market Regulation Program

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Insurance Regulation Serves Two Purposes

- Financial regulation to ensure that insurers have the resources to honor their promises
- Market regulation to ensure that consumers are treated fairly
- Both are vital to effective consumer protection



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Assessing the Effectiveness of Market Regulation

- Threshold test is whether we are identifying the most important consumer problems
- If not, we may be wasting resources looking in the wrong corners
- And missing opportunities to correct practices that do harm to consumers





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Traditional Exam Approach Fails The Test

- History of market regulation is primarily about comprehensive "market conduct" exams (1970s through 1990s)
- Resource intensive for regulators and companies
- Focus was on easy to measure issues, which were not necessarily the issues causing most harm to consumers





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Industry and Consumer Critiques

- Industry complained about overly intrusive exams and technical "gotchas" (e.g., licensing deadlines, advertising logos)
- Consumers complained about disconnect between exam reports and high profile consumer abuses (e.g., unsuitable life sales)

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Response was Shift to Market Analysis

- NAIC developed Market Analysis Handbook, Market Conduct Annual Statement, and other new tools
- Focus on consumer complaints, annual statement, and other information to direct resources
- Develop continuum of options to calibrate responses
- Expand use of multi-state approaches

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Reform is Work in Progress

- Market data centralized for first time in 2009
- Need for more data elements
- Be mindful of limitations with any specific data set
- Pay attention to broader regulatory climate
- Use data in context with other information (roundtable process)

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Change is Always Challenging

- Hard to get past over reliance on exams as the only dependable tool
- Interrogatories, surveys, and other continuum tools still being refined
- Potential for miscommunication when protocols are not clear
- Opens discussion on transparency and confidentiality of information

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Accreditation Is Next Step

- Bring more rigor to the analysis process
- Break down silos within insurance departments
- Better communication between regulators and industry about regulatory options and how they should work day-to-day
- Accreditation necessary to maximize cooperation and minimize redundancy

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Goals for Today

- Enhance understanding and comfort level with analysis-driven process
- Encourage feedback to improve process (today and in future)
- Build stronger sense of shared purpose (while recognizing that it will always be more challenging than on financial side)

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What is Market Analysis About?

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Market Analysis

- Provide tools for the Department to review the market
- Identify companies that are potentially harming consumers
- Assist in targeting regulatory action to address those companies that appear to be experiencing compliance problems

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NAIC Tools

- Market Analysis Company Listing
- Market Analysis Company Prioritization Tool
- Market Systems Databases

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Insurance Department Tools

- Consumer Quarterly Roundtable
 - -- Multi-disciplinary
 - -- Data collection, direct consumer contact, legislative and press interest

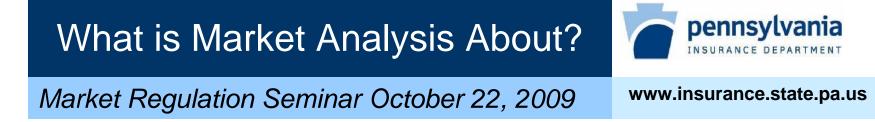




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Insurance Department Tools

- Market Regulation Committee
 - -- Multi-disciplinary
 - -- Data driven-market, product filings, financial data, complaints



Baseline Analysis

- systematic process where basic parameters are used to evaluate the entire marketplace
- marketplace can be better targeted to companies needing further review





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Level 1 Analysis

 A more detailed review of certain information contained in NAIC databases and problems we have identified through Department tools

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Level 2 Analysis

• A review process that assists the Department in confirming that there is a market regulatory issue

OR

• Determines to a much greater degree the cause and extent of the problem

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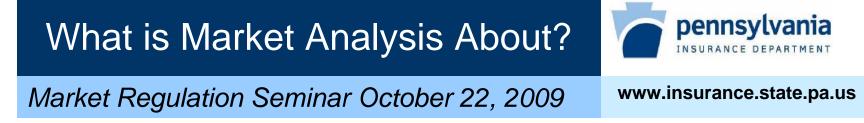




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Other Surveys

- Are a continuum option available to the Market Regulation Committee
- Can be used to understand policy implications of an industry practice as raised through the Consumer Quarterly Roundtable
- Assist the NAIC on an issue with national implications



Educational Reviews

- The Department works to educate the insurance industry about terms and expectations when laws are newly introduced or changed
- Surveys of the industry are taken on compliance with the new laws
- Example-Act 62-Autism and Colorectal Cancer Screening Benefits

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Market Analysis Team

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How is MCAS Information Used by the Regulator and the Company? *Market Regulation Seminar October 22, 2009*



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How is MCAS Information Used by the Regulator and the Company?

CHRISTOPHER MONAHAN, SUPERVISOR, CMONAHAN@STATE.PA.US

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Emergence of MCAS

Background

- Nine States Initially Participated
- Claims and Underwriting Data Requested and Analyzed
- Any company licensed was included

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Emergence of MCAS

Initial Life MCAS Project

- First MCAS Focused on Life and Annuity Insurers
- Data Called in July 2002 from 439 Insurers
- Data Period of January through June 2002

Initial Property & Casualty MCAS Project

- Second MCAS Focused on Property & Casualty Insurers
- Data Called in September 2002 from 330 Insurers
- Data Period of January through June 2003

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MCAS Today

- \$50,000 of Direct Written Premium or Annuity Considerations in the State
- MCAS Project now Conducted by 29 states
- Data Period Now Based on Annual Basis (i.e. January to December)



- Data Fields Expanded to Include Law Suit Information
- Most Recent MCAS Projects Included 277 Property & Casualty Insurers and 317 Life Companies

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Purpose of MCAS

- To provide a uniform system of collecting market conduct related information
- To provide regulators with information not otherwise available for market analysis
- To promote uniform analysis by applying consistent measurements and comparisons between companies, allowing all companies to be compared on an equal basis

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Data Elements-P & C

Number of Claims:

- •Open at the beginning of year
- •Opened during the year
- •Closed with payment
- •Closed without payment
- •Paid in 30, 60, 90 days, etc.

Median Days to Date of Report Number of Suits:

- •Filed
- •Closed
- •Open at year-end

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Data Elements – P & C

Number of Policies:

New - written during yearIn force at year-end

Number of Autos/Homes/Insureds:

Covered at year-end

Direct Written Premiums

Number of Cancellations:

Mid-termDuring the underwriting period

Number of Nonrenewals

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Data Elements – L & A

Number of Replacements

Number of 1035 exchanges

Number of Policies:

- •In force at year-end
- •With outstanding loan balances
- •Surrendered

Total face amount of policies:

- Issued
- •In force year-end

†\$

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Data Elements – L & A

Premiums:

Direct Written PremiumAnnuity Considerations

Number of Written Complaints Received from:

ConsumersDepartment of Insurance





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Data Elements – L & A

Number of Claims:

- Closed with payment in 60 days
- Closed with payment beyond 60 days
- Denied, resisted, or compromised
- Received during year





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Public Policy Issues

- Certificate of Compliance
- Accuracy of Data
- Company Resources
- Expansion of MCAS to Other Lines of Business and Data Fields (Rescissions)



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Resources

- Market Analysis Handbook
- Market Conduct Annual Statement
- Various NAIC Regulatory Databases
- Department Complaint and Referral Data



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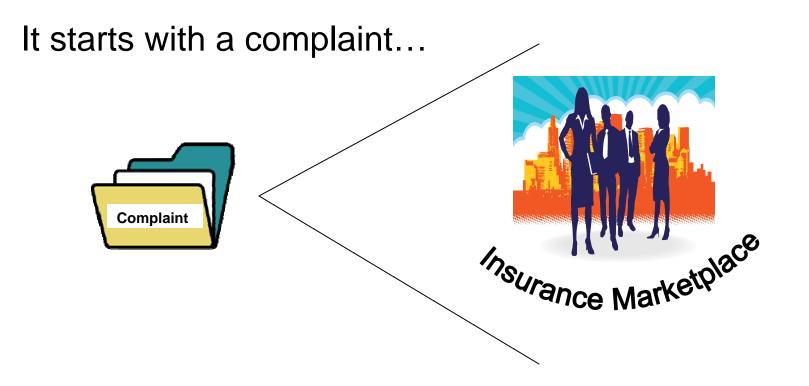


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How is Complaint Information used by the Regulator and the Carrier?

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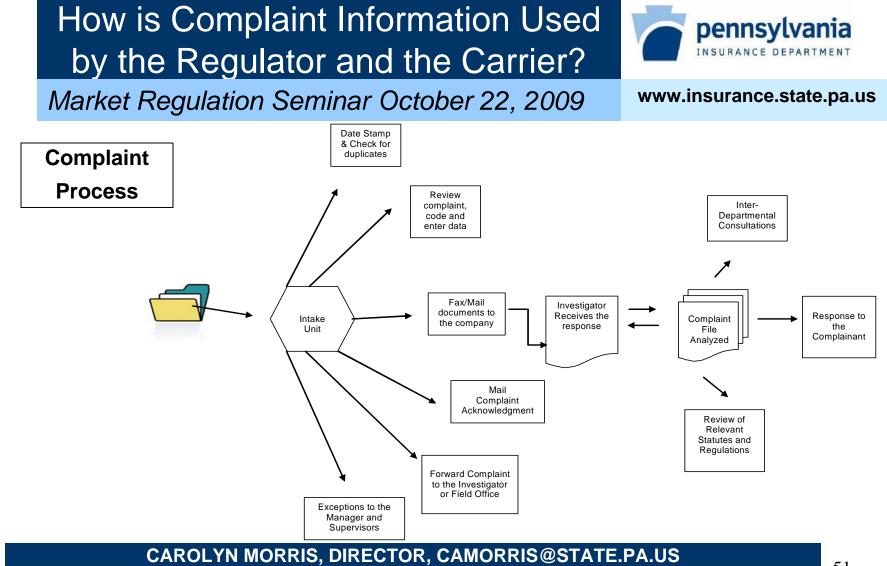




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How is Complaint Information Tracked?







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What Complaint Information is Shared with the Public?

- Public Information Requests
- NAIC Complaint Data System

How is Complaint Information Used by the Regulator and the Carrier?

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How is Complaint Information Evaluated by the Department?

- Market Regulation Committee Meetings
- Consumer Quarterly Roundtable
- Referrals to Enforcement
- Referrals to Market Conduct

How is Complaint Information Used by the Regulator and the Carrier?



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2008 Market Share and Confirmed Auto Complaints

Group Code	NAIC Code	Company Name	Market Share	Complaint Share	Complaint Index	Claims Handling	Marketing and Sales	Policy- holder Services	Underwriting	Total
0		Group XYZ								
0	11111	Company X	5.84	3.06	0.52	72	6	14	38	130
0	11112	Company X01	3.38	0.49	0.15	5	2	5	9	21
0	11113	Company X02	2.16	0.56	0.26	14	0	2	8	24
0	11117	Company X06	0.56	0.24	0.42	4	0	1	5	10
0	11118	Company X07	0.01	0.00	0.00	0	0	0	0	0
0	11119	Company X08	0.01	0.00	0.00	0	0	0	0	0
0		Total	11.96	4.92	0.36	95	8	22	60	185
9		Group TUV								
9	22221	Company T	0.43	1.06	2.49+	11	2	1	31	45
9	22221	Company T01	0.40	0.54	1.35	4	0	2	17	23
9	22222	Company T02	0.37	0.89	2.42 ⁺	6	1	4	27	38
9	22223	Company T03	0.27	0.16	0.61	3	0	0	4	7
9	22210	Company T20	0.03	0.02	0.71	1	0	0	0	1
9	22216	Company T16	0.01	0.09	9.41 +	2	0	0	2	4
9		Total	1.51	3.72	1.79	27	3	7	81	118

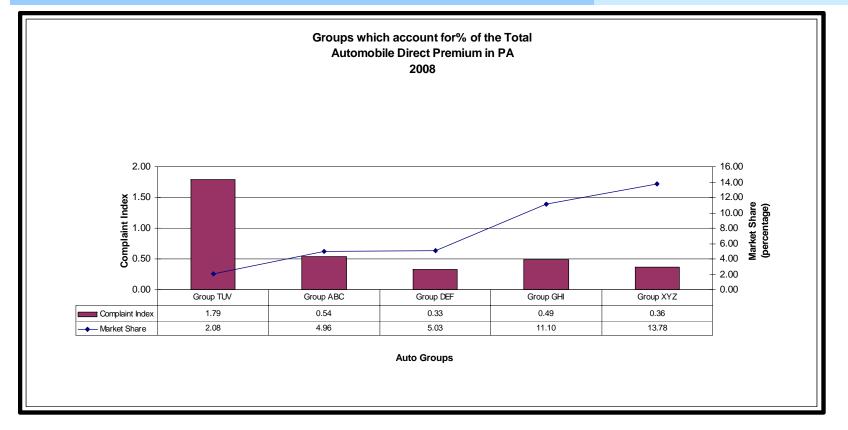
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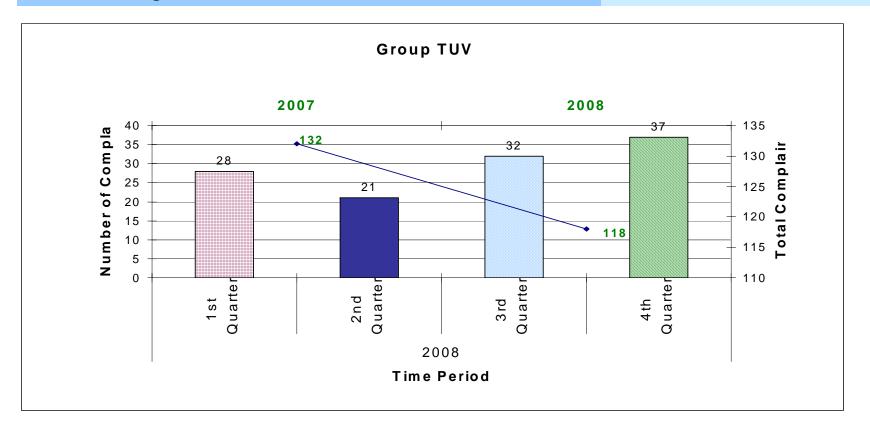
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Complaint Reconciliation?

- NAIC Code
- Insurance Company
- Type of Coverage
- Type of Product

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Market Regulation Continuum: What is it and How Does it Work?

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What do you think of when you hear the term market conduct?

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What is the continuum of regulatory responses?

- A range or spectrum of regulatory options available to regulators in the insurance market place with a focus on consumer protection
 - Regulatory response should be appropriate to the identified problem.
 - Regulatory response should best leverage resources and be cost effective for both the department and company while utilizing all the tools available within the market conduct continuum.

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Managing the continuum of market conduct regulatory responses, the following are examples of options we are utilizing:

- Information gathering and analysis
- Interview or meeting with company
- Policy and procedure reviews
- Correspondence
- Interrogatories
- Company self audits

- Department desk audit
- Targeted examination
- Comprehensive examination
- Multi-state examinations
- Enforcement actions
- Monitor through future analysis

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Why is the continuum needed?

- The concept is not new, but now it is moving toward a more market analysis driven process to achieve a more appropriate response and solution of least impact
- To ensure restitution and provide protection to consumers
- The continuum is not meant to be a progression of options or actions that lead to an exam

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What does the continuum mean to you?

- More collaborative approach
- More transparent and strategic
- More dialogue and interaction



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Value to Regulators

- consistency in evaluating compliance
- appropriate use of resources
- uniform application of enforcement

Value to Consumers

- targeting areas of risk and concern
- more consistent regulation of market place

Value to Insurers

- consistency in evaluating and treating like insurers alike
- various options may be less intrusive than an examination
- collaborative actions maybe a resource savings

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How do we select companies and continuum options applied?

•Market Regulation Committee

•Referrals from program areas



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Company A – A & H Insurer:

Issue – claim handling complaints and compliance with previous exam Continuum options -- correspondence, self audit, questions satisfied Outcome – satisfied with company compliance

Company B – Health Insurer:

Issue – incorrect administrative procedure leading to denial of coverage Continuum options – correspondence, self audit, interview Outcome – problem corrected, claims restitution made to consumers

Company C - P & C Insurer:

Issue - allegation of improper direct marketing Continuum options -- interview, investigation Outcome – violations, consent order with penalty, process change

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Resources

- PA Statutes (Title 40, UIPA, Exam Law)
- Title 31 <u>www.pacode.com</u>
- NAIC Market Regulation Handbook

Panel Discussion: Lessons Learned from the Continuum of Regulatory Responses

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Panel Discussion: Lessons Learned from the Continuum of Regulatory Responses

JACK YANOSKY, DIRECTOR, JYANOSKY@STATE.PA.US PETER CAMACCI, DIRECTOR, PCAMACCI@STATE.PA.US CHRISTOPHER MONAHAN, SUPERVISOR, CMONAHAN@STATE.PA.US Panel Discussion: Lessons Learned from the Continuum of Regulatory Responses



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Licensing and Enforcement

- Producer diverted over \$500,000 in premiums and converted to own use afterwards.
- Insurer violated prior Market Conduct order to comply with Act 6 notice requirements.
- Public Adjuster firm assigned a public adjuster solicitor claims to handle. The solicitor applied for an adjuster license after the fact.

Market Conduct

- Claim handling practices maintaining claim files, timeliness of claim payment, inappropriate claim denials and noncompliance with mandated benefits
- Underwriting notice requirements – notice requirements for policy cancellation and non-renewal
- Rating various disclosures are missing from time of application

Market Analysis

- Inaccurate MCAS data and the Certificate of Compliance
- Company compliance officers and what they need to know about the MCAS
- How the use of MCAS data by the Department benefits the industry

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Improving Market Regulation Through NAIC Accreditation

Ralph S. Tyler Maryland Insurance Commissioner Premise: There is a correlation between improving market regulation and a system of accreditation.

Core Elements of Accreditation Program

- Legal authority to conduct full range of necessary and appropriate market regulation activities.
- Defined, measurable standards against which to judge performance.
- Appropriately organized departments with appropriately trained staff.

Legal Authority

- What is the legal authority for states' market regulation activities?
- Is the authority upon which states rely currently adequate and appropriate?

Legal Authority

- What are the characteristics of market regulation activities which distinguish them from financial regulation/examinations?
- The examination statute was not designed for market regulation.
- The option of a regulation authorizing and defining market regulation activities.

Measurable Standards

- What are the defining characteristics of an adequate program of market regulation?
- Any meaningful accreditation system must embody clear criteria or standards against which agency's performance will be measured.

Measurable Standards

Approaches:

- Defined process for identifying "most important" problems in the market (what does "most important" mean?) and evidence that those problems are being pursued effectively.
- Frequency of reviews, surveys, or examinations.

Measurable Standards

Approaches:

- Measurement against a state-specific plan.
- Evaluate how the plan was developed (what were plan's objectives and why were those objectives selected?) and then evaluate performance in relationship to the plan.

Appropriate Organization with Appropriate Staff

- How should a market regulation department be organized?
- How should a market regulation department be staffed?

Appropriate Organization with Appropriate Staff

- Relationship of consumer complaint unit to that of market regulation.
- Separation (or not) of property and casualty from life and health.
- Cross-training and continuing education.

Barriers to Accreditation

- Change is painful and prospect of change generates resistance.
- Accreditation implies, as it should, accountability and review. This is threatening.
- Concern about limited state resources.

NAIC Market Accreditation Workgroup

- Development of an accreditation program is a priority of the Market Regulation (D) Committee.
- Workgroup activated in 2009 to address the "how" not the "why" of accreditation.
- Diverse group of states involved.
- Public meetings and calls.
- Status of group's discussions.



Questions and Answers with the Department

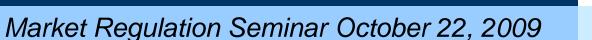
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Wrap Up

STEVE DAVIS, MODERATOR

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