

PA Insurance Insights

The Pennsylvania Insurance Department Newsletter

www.insurance.pa.gov

Vol. 1, Issue 3

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Message from the Commissioner



One of the core tenets of Gov. Wolf's leadership is commitment to a government that works. A government that works is one that operates beyond the silos of individual agencies, and solves the problems facing Pennsylvanians through coordination and collaboration. This is why, in line with that philosophy, serving the insurance consumers of Pennsylvania requires partnerships. Establishing and growing these partnerships is important to me in fulfilling Gov. Tom Wolf's priorities for the department of consumer protection and education.

The partnership theme is crucial to an initiative launched recently to help drivers who switch auto insurers, which you can learn more about in this newsletter's "Consumer Corner." (Continued on page 2)

You may contact the department at RA-IN-Insights@PA.gov

@PAInsuranceDepartment



@PAInsuranceDept



Commissioner Continued

Many drivers assume that when they switch auto insurers, they do not have to notify the Pennsylvania Department of Transportation (PennDOT) of their new insurance coverage. We receive thousands of consumer calls every year on this issue, so we created a new brochure explaining the procedure for notifying PennDOT. I ask for the cooperation of Pennsylvania's 77,000 property and casualty (P&C) producers in helping their customers either notify PennDOT or providing this brochure so the consumer understands his or her responsibility.

If you are a P&C producer or work for an auto insurer, please share this brochure.

We also partner with our sister agencies to deliver important messages to Pennsylvanians. Currently we are working with PennDOT on not only the auto insurance switching brochure, but on motorcycle safety classes to make riders safer and eligible for discounts some insurers offer for taking safety classes. We partner with the Departments of Health and Human Services to deliver critical health insurance information, and with the Department of Aging on issues including health coverage and making sure seniors don't pay for auto insurance coverages they may no longer need. We work with the Pennsylvania Emergency Management Agency, Department of Community and Economic Development, and Federal Emergency Management Agency to deliver the message on why flood insurance is coverage homeowners, businesses, and renters should consider. The Department of Education helps us get Insurance 101, a lesson for new drivers on auto insurance, into our schools.

This past year we partnered with consumer groups, such as the Pennsylvania Health Access Network, the Hospital and Healthsystem Association of Pennsylvania, health insurers participating in the individual market, and many legislators to educate consumers on open enrollment. The PA Breast Cancer Coalition spread the word on Gov. Wolf's mandate that insurers cover 3D mammograms the same as traditional 2D tests.

AARP continues to be a valuable partner in making sure people better understand annuities, and how to make smart decisions regarding whether and which of these products to buy. AAA is a great partner in conducting senior driver classes to make our roads safer and our senior drivers eligible for auto insurance discounts. The PA Association of Realtors and Neighborworks Northeast PA have helped deliver important information on homeowners' insurance information. And I am dedicating time this summer to partner with academic institutions to engage students interested in careers in the insurance industry.

The list goes on, but the bottom line is I rely on many of you reading this newsletter to help Pennsylvanians get the coverage they need at fair prices, and make sure they are protected from anyone who would seek to harm them financially. During my term as commissioner, I will foster these cooperative relationships to better serve all Pennsylvania insurance consumers.

Jessica K. Altman

Department's Financial Analysis Division Begins Risk-Focused Analysis Procedures for Insurance Companies

Pennsylvania and other states are responsible for ensuring solvency of insurers operating in their respective jurisdictions. The Pennsylvania Insurance Department takes this responsibility seriously to protect all consumers and ensure that all insurers can completely and timely pay claims.

Insurers are increasingly becoming part of larger affiliated groups that in many cases include non-insurance entities and international operations, so their structure and complexity can be complicated.

(Continued on page 3)

Risk-Focused Analysis Continued

In 2017, the National Association of Insurance Commissioners (NAIC) implemented a new comprehensive risk-focused framework for the conduct of financial analyses of insurance companies on a national basis. This process became effective for financial analyses conducted as of year-end Dec. 31, 2017. A risk-focused approach with financial examinations performed on Pennsylvania insurers has been in place for a number of years.

Historically, the analysts' review of insurers was mainly focused on reviewing an insurer's financials. This new analysis approach will broaden and enhance the identification and evaluation of risks inherent to an insurer's operations, reflecting the trends towards more complex affiliations and company structures.

For Pennsylvania companies, this new framework applies to insurers domiciled here and operating in more than one other state.

Among the new risk-focused procedures is the utilization of risk repositories for each of nine consistent branded risk categories: Credit, Legal, Liquidity, Market, Operational, Pricing and Underwriting, Reserving, Reputational, and Strategic.

Each risk repository details a list of possible qualitative and quantitative procedures, including specific data elements, benchmarks, and procedures from which the analyst may select to use in his or her review of each respective risk. In using these procedures, the analyst reviews the results in conjunction with various types of informational filings required of insurers, including, but not limited to, business plans, projections, biographical affidavits (of officers and directors), risk-based capital, SEC filings and a company's Own Risk Solvency Assessment (ORSA). Information is obtained from numerous sources other than a company's financial statements.

As a crucial part of the overall risk assessment process, analysis staff communicates and/or coordinates as necessary with staff from other areas within the Insurance Department, as well as other state, federal and international regulators. In addition, analysis staff has ongoing contact with company management for additional information as necessary. These efforts help ensure the Insurance Department's consistent application of laws, regulations and procedures for monitoring the compliance and solvency of insurers.

Through the NAIC's accreditation program, the Insurance Department's Office of Corporate and Financial Regulation is subject to regular examination by the NAIC to ensure that Pennsylvania has sufficient and qualified staff, certain insurance laws and regulations in place and that the analyses and examination work are completed timely. The NAIC accreditation process is critical, as it promotes regular communication with other regulators and consistency among states with solvency monitoring practices.

Similar to a risk-focused financial exam performed on Pennsylvania domiciled insurers, the accreditation review of the Insurance Department's Office of Corporate and Financial Regulation is completed at least once every five years.



Department E-mail Initiative Provides Important Updates Directly to P&C Producers



The Insurance Department has initiated a new e-mail communications outreach strategy with the approximately 77,000 licensed property and casualty (P&C) producers in Pennsylvania, as a further step in fostering cooperation and information sharing between the department and industry with the goal of better serving consumers.

The e-mail communication will be used on an occasional basis to quickly transmit important information that will be relevant to P&C producers.



The department first used this e-mail distribution to send our new brochure on how to help customers switching auto insurance companies, urging producers to download the brochures and share them with customers.

Following the initial communication, a few producers questioned whether the e-mail was spam. The sender address P&C producers will see when they receive this email is RA-PWPAINSDEPTPAANDC@pa.gov. Producers seeing this sender address can open the e-mail, as it is legitimate.

Any producer who needs to update an e-mail address to receive these communications can do so at SIRCONN or NIPR.

New Brochure Reminds Drivers to Inform PennDOT When Switching Auto Insurers

Working with the Pennsylvania Department of Transportation (PennDOT), the Pennsylvania Insurance Department recently announced a new brochure to help ensure that drivers who switch auto insurers inform PennDOT that they still have the legally required coverage.



Under Pennsylvania law, insurers must tell PennDOT when someone cancels their auto insurance, but it is the driver's responsibility to notify PennDOT of their new insurance. Unfortunately, many drivers are not aware of this responsibility or believe their insurer or producer is taking care of it and are surprised to receive a letter from PennDOT warning them that they will have their vehicle registration revoked and be fined \$500 plus reinstatement costs for being uninsured. The Insurance Department receives thousands of complaints a year from drivers who receive PennDOT notices that they do not have coverage when, in fact, they are insured.

The Insurance Department hopes this new brochure will help end this confusion and lessen the chance drivers face penalties. The department asks producers and insurers to share this information and brochure with their customers to help them understand how to avoid this situation.



Consider a Career at the Insurance Department

If you have any interest in financial analysis or a curiosity with actuarial science and have a background in accounting, mathematics, or mathematical statistics, as well as strong computer skills and in-depth knowledge of software products, you may be able to find a career with the Pennsylvania Insurance Department.

The Insurance Department's work is highly specialized and we are well versed with insurance-related products. Because our agency is motivated to improve our daily operations and working relationships with our regulated entities, we have a strong desire for quality communicators. Since we also coordinate closely with other state and federal agencies, our department continues to seek individuals who possess quality networking and collaborative skills.

The Insurance Department is always looking for new talent and our vacancies are always posted on www.employment.pa.gov. As of April 23, 2018, the civil service announcements and openings have moved to this site and are now listed along with non-civil service postings. (Continued on page 7)

Career Continued

According to the State Civil Service Commission, employment opportunities are posted on a continuous basis and interested individuals are encouraged to visit the site frequently. There are even detailed instructions on receiving "Job Alerts" for notification via e-mail.

By utilizing the civil service hiring process, the Insurance Department has been very successful in identifying qualified individuals for employment. If you are interested in a challenging and rewarding career, please submit your application to one of our job postings.

Department Uses Liquidated Company's Legal Tracking System to Create New Resource

Reliance Insurance Company was ordered into liquidation by the Commonwealth Court on October 3, 2001. Reliance, a property and casualty insurer founded in the early 19th century in Philadelphia, remains the largest insurance insolvency in history.

As a result of Reliance's size, it has been a long, complicated, and ongoing process of determining the full extent of the company's liabilities and preparing for final distribution of all assets.

As a result of the liquidation, legal actions were instituted across the country. The actions were precedent-setting in nature but too numerous to easily track. The need for a legal tracking system prompted the staff at Reliance to create a Liquidation Library. The plan was for the Liquidation Library to accumulate the experience of 18+ years so that information is not lost for the Insurance Department's Office of Liquidations Rehabilitations and Special Funds (OLRSF) when the Reliance liquidation is closed.

What is now known as the Liquidation Library began its existence as the LawBank in the early days of the Reliance liquidation. During the first five years of the liquidation there was a need to coordinate outside counsel handling many similar types of litigation, including counsel outside of Pennsylvania.

In an effort to minimize outside counsel expenses, Reliance tried to standardize legal arguments in pleadings that would be used in a variety of situations. In the early stages, legal filings included pleadings such as motions and briefs to stay litigation against Reliance. Later on, legal filings included arguments used repeatedly in proof of claim objection proceedings.

The further Reliance got into the liquidation process, the more its liquidation staff found themselves asking how legal issues were handled back in the early days of the liquidation proceeding, because legal issues were starting to repeat.

It was easier to accumulate historical documents and information in one place rather than searching for the relevant information all over again whenever someone asked, so Reliance expanded the LawBank to a larger platform and made it more formalized. The LawBank was renamed the Liquidation Library and became particularly useful to keep track of all referee proceedings. The referee recommendation report was shared internally to keep Reliance attorneys and claims management informed about the outcome of objection litigation.

The Reliance liquidation is entering the final phase and the focus of the Liquidation Library is on accumulating research, pleadings, procedures, policies, and related documents such as historical information for use in future estates.

(Continued on page 8)

Tracking System Continued

The Liquidation Library will find a home in Harrisburg in our Office of Liquidations Rehabilitations and Special Funds. OLRSF intends to utilize all of the cases and documents recorded by Reliance in future liquidations. In addition, OLRSF will add additional cases from new liquidations, growing the Liquidation Library. This is especially important in cases of first impression so liquidation staff can utilize the knowledge held within the system for the benefit of policyholders in future liquidations.

Legislative Update



Annuity Suitability and Life Policy Locator Bill Signed into Law

Legislation focusing on annuity suitability and the life policy locator service was signed into law recently as Act 48 of 2018. The department is grateful for the legislature's cooperation in passing this law, which was introduced by Rep. Marguerite Quinn as House Bill 152, as it includes language that will help ensure that Pennsylvanians receive clear and appropriate sales, marketing, and financial advice relating to the purchase and management of annuity contracts from insurers and insurance producers.

Pennsylvania's Suitability of Annuity Transactions law was originally passed in 2010 to protect consumers from being placed into an annuity contract that was not suitable for the consumer. That legislation was inspired by the NAIC Model Regulation of that same year. While the 2010 law was a great step forward in consumer protection, the NAIC and other states have since provided more safeguards for consumers in the ensuing years.

The new law will follow the evolution of the annuity suitability protections seen in other jurisdictions and provide the Pennsylvania Insurance Department with increased authority to ensure that a consumer is reasonably informed about various policy features of the annuity, such as surrender fees, investment advisory fees, tax penalties, etc. A determination of suitability will be based on the consumer's suitability information, which includes the consumer's age, income, financial experience, financial objectives, liquidity needs, risk tolerance, tax status, and other factors. It expressly prohibits an insurer from issuing an annuity recommendation to a consumer unless there is a reasonable basis to believe that the annuity is suitable for the consumer.

The new law institutes a continuing education requirement for insurance producers who sell annuities. The education requirement consists of a four-hour course that will cover the types of annuities and their various classifications, the application of income taxation of qualified and nonqualified annuities, and the primary uses of annuities, among other topics.

The department also supported passage of provisions of Act 48 which require the department to maintain an electronic database of contact information for each life insurer that has life insurance policies or annuity contracts in force in Pennsylvania. The language requires the department and certain insurers to participate in the NAIC's Life Insurance Policy Locator Service for the purpose of searching for and responding to inquiries that seek to find policies that cover a decedent.

Finally, the law also repealed Section 429 of the Insurance Company Law, which had mandated a cap on the surplus fund of a domestic mutual life insurance company not to exceed 10 percent of its reserve, or \$100,000, whichever is greater, and the excess of the market value of its securities over its book value.

We are appreciative of the legislature's efforts to pass House Bill 152 into law to ensure that consumers are informed throughout the process of shopping for and possibly purchasing an annuity.

Video Offers Tips for Homeowners to Protect Their Properties While on Vacation

As summer vacation begins, the Pennsylvania Insurance Department urges homeowners to take precautions to protect their homes from break-ins.

The department has created a short video that provides common-sense steps homeowners can take to lessen the chance of a break-in and perhaps save on their homeowners' insurance. The video is posted on the department's homeowners' insurance page, along with a home security checklist.

The Insurance Department encourages folks to share the video and security checklist with consumers or clients, either directly or through social media.

The video and checklist contain practical advice that homeowners can use as they prepare to travel, including the following tips:

- **Install dead bolt locks on doors.**
- **Invest in a burglar alarm system. Some alarm systems may result in an insurance discount.**
- **Keeping your home looking "lived-in" is also a good idea. Put interior lights on a timer. Choosing a few rooms to remain lit gives the impression someone is home. Consider a timer or asking a neighbor to turn on interior and exterior lights at night.**
- **Stop mail delivery, or have a trusted neighbor collect your mail, newspapers, and any delivered packages so they don't stack up outside.**
- **Ask a neighbor to cut the grass if you'll be gone long enough that the growth will be noticeable.**
- **Leave a radio on and turn down your doorbell if possible. Some thieves ring the doorbell or knock to try and determine if anyone is home, and having a loud radio playing and the doorbell level muted plants doubt in an intruder's mind as to whether no one is home or the resident just didn't hear the doorbell or knock.**
- **Turn off and stow your computer out of sight to discourage an intruder from trying to hack into your personal accounts.**

- **Don't put valuable documents in a personal desk or office where burglars will know to look for them. Put important documents and expensive items such as jewelry in a lockbox or safe elsewhere in the house, or at another location such as a friend or relative's home, or in a safety deposit box.**

- **Don't announce your trip in advance except to a small group of trusted friends and don't post pictures on social media while you are away. Both are a sure way of letting potential burglars know your home is empty.**

- **Review your homeowners' policy to make sure you are getting any discounts for security measures you may have taken, and to make sure you have the coverage you want for the personal items you take along.**



That's not a burglar, but rather Dave Buono, the Insurance Department's consumer liaison, who helped contribute to a new video created by the department offering tips for homeowners on protecting their homes while they're away on vacation.

Department Highlights



Opioid Treatment Center Press Conference

At a recent Harrisburg news conference Lizz DeWolfe warned families to be wary of predatory practices used by some treatment centers and sober living homes. Pennsylvania Department of Drug and Alcohol Programs Secretary Jennifer Smith and Pennsylvania Insurance Commissioner Jessica Altman joined DeWolfe to discuss this issue as part of the Wolf Administration's efforts to comprehensively address the opioid crisis. DeWolfe is the founder of Not One More in Wyoming County and the mother of J.J. Baker, who died of an opioid overdose at 23 after having sought treatment at a Florida treatment facility.

NAIFA

The Insurance Department regularly meets with professionals in the insurance industry to discuss the latest developments at the department and relevant topics. Executive Deputy Commissioner Seth Mendelsohn recently spoke about a variety of insurance issues at a National Association of Insurance and Financial Advisors (NAIFA) meeting, held in Harrisburg.



Celebration of Service

Each year, the Insurance Department recognizes employees who have reached milestone anniversaries in service to the Commonwealth with a special luncheon and certificate presentation. Commissioner Jessica Altman and Executive Deputy Commissioner Seth Mendelsohn recently honored employees celebrating 10, 15, 20, 30, and 35 years of service.



10: Vernon Schmidt, Lisa Fry, Richard Burgan, Kimberly Merwine, Lori Bercher and Richard Barr. Not pictured: Abdoul Barry, Ronald Laird, Edward McVey and Amy Yeckley



15: Melissa Greiner, Michael Jones and Patricia Sheldon. Not pictured: Angela Barninger, Laurie Castagna, Heather James and Michael McKenney



20: Ranga Tadavarthy, Rashmi Mathur, Wendy Seidel, Leslie Pierce, Leslie Luciew and Melinda Kaufman. Not pictured: John Lee and Xiaofeng Lu



30: Michael Gurgiolo, Wayne Fetsko and Stephen Boston. Not pictured: Troy Peterson



35: Kathleen Butler