

# PA Insurance Insights

## The Pennsylvania Insurance Department Newsletter

www.insurance.pa.gov

Vol. 2, Issue 1

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This task force is comprised of members from all the department's program areas, leveraging the subject matter expertise of representatives from each of our main regulatory functions.

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PAs successful Underground Storage Tank Indemnification Fund (USTIF) marked its 25th anniversary on Feb. 1, having protected the state's environment by providing more than \$1.1 billion to clean up over 5,500 spills.

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## Message from the Commissioner



Protecting consumers and holding businesses to the highest standards continues to be the Insurance Department's top priority. We are having a direct impact on the consumers we serve and we continue to look for ways to protect and educate the public.

I recently announced that our department reclaimed \$83.5 million for more than 20,000 consumers throughout the state during 2018.

During 2018, 20,002 consumers around Pennsylvania received some form of restitution payment or credit, including the restoration of stolen funds when an agent collected premium payment from a consumer for an insurance policy (continued on page 2)

You may contact the department at [RA-IN-Insights@PA.gov](mailto:RA-IN-Insights@PA.gov)

@PAInsuranceDepartment



@PAInsuranceDept



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**Commissioner continued**

or annuity but did not send the money to the insurance company; processing and payment of previously denied or underpaid claims when a company did not pay a claim as it should under the consumer's policy; and refunding of overcharged premiums when an insurance company charged premiums above the rate that had been approved by the department.

Included in the reclaimed dollars is \$7 million in benefits to more than 900 Pennsylvanians last year through participation in the National Association of Insurance Commissioners' Life Policy Locator Service. Established in 2016, this service helps consumers locate lost life insurance policies and annuity contracts of deceased loved ones.

In some cases, the department's findings through an exam can result in the suspension or revocation of a license. For example, the department revoked the licenses last year of two agents for selling unsuitable annuities to 42 consumers, costing these consumers more than \$159,000 in surrender charges, while making the agents more than \$136,000 in commissions on these inappropriate sales.

The department has also gotten restitution for consumers through market conduct exams on two major health insurers doing business in the state. These market conduct exams, which are underway on all of Pennsylvania's major health insurers, focus on health insurers' compliance with state and federal laws, including issues such as making sure consumers receive mental health and substance use disorder coverage at parity with medical and surgical coverage. Ensuring access to crucial mental health and substance use disorder treatment plays a key part in Gov. Wolf's battle against the opioid crisis in our state.

The Department continues to support Governor Wolf's efforts to combat the opioid crisis in a multifaceted way. Specifically, we are working on a helpful project to educate consumers on parity for mental health and substance use disorder treatment to ensure that consumers and advocates understand their rights. We are currently producing a series of animated videos that explain access to mental health and substance use disorder services based on the most common forms of health insurance coverage, and where to turn if the services may not be achieving

parity. The first of these will be unveiled this month and subsequent videos will follow in the coming weeks. We look forward to showcasing the videos on our website, [www.insurance.pa.gov](http://www.insurance.pa.gov).

We continue to monitor the Trump Administration's enacted and proposed changes to the Affordable Care Act (ACA). In February, I testified before Congress on the potential harms that short-term plans may cause for consumers and the health insurance market. Last year, the Trump Administration approved a rule to extend the duration and renewability of short-term plans and has repeatedly described short-term plans as a viable alternative to purchasing comprehensive, major medical insurance, but has not extended the protections of the ACA to short term plans. I informed the U.S. House Energy and Commerce Committee's Subcommittee on Health that the Insurance Department has received numerous complaints from consumers whose short-term plans failed to provide coverage for services that were excluded based on the fine print of those policies. In the past two years, the department has suspended the licenses of eight producers who misrepresented the coverage available to consumers who purchased short term plans. I also testified that encouraging the proliferation of short-term plans has the potential to increase premiums in and therefore destabilize our individual market.

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*Commissioner Altman testifying before the United States Congress on the potential harms that short-term health plans could cause consumers and the insurance market.*

I'm proud of my Insurance Department colleagues for their hard work in 2018, and I'm confident that we'll continue to build upon our efforts in 2019. I especially want to commend the Department staff who have served the Underground Storage Tank Indemnity Fund, which recently celebrated its 25th anniversary.

*Jessica K. Altman*

## Save the Date!

### Insurance Department to Host 3-Day 'NextGen Insurance Academy' for College Students

The Insurance Department is always looking for ways to attract talented professionals and students to our agency. We offer a variety of positions in the insurance regulatory process, including financial analysis, examiners, rate form reviewers and insurance-focused positions in public policy and legislative research, communications, consumer relations and more.

As part of our efforts, the department is creating a "NextGen Insurance Academy" for college students who are interested in a public or private sector career in the insurance industry.

We are currently planning a three-day interactive experience for college sophomores, juniors and seniors. Participants will take part in workshops focused on insurance careers and will have opportunities to meet and network with insurance industry professionals from the public and private sectors.

The NextGen Insurance Academy will take place Aug. 12 to 14 in Harrisburg. For more information and updates on event details, e-mail [ra-in-NextGenAcad@pa.gov](mailto:ra-in-NextGenAcad@pa.gov) or visit the website.

This is a unique and exciting opportunity to understand insurance careers from regulatory and company perspectives.



## Think Out of the Box and Into the Block

The financial crisis of 2008 provided a hard lesson on protecting investments and many consumers lost confidence in financial institutions as a result. Further, we're living in a world where cybersecurity is becoming more prevalent with the rise of security breaches. So, there is a desire for innovative technology that provides security and transparency to companies and consumers while doing business without a centralized authority. Blockchain technology provides businesses and consumers the confidence to make an educated decision while cutting costs.

A blockchain is a decentralized, distributed ledger with immutable information. In other words, it is a network of  
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## Blockchain continued

computers that jointly manages a database which records encrypted transactions. These transactions are then duplicated over several computers in the blockchain network. The replication and immutability of the data aims to create accountability within the blockchain and support data security. Additionally, the blockchain does not rely on a centralized authority because this information is shared over a network of computers.

One of the most popular examples of a public blockchain is the cryptocurrency, Bitcoin, created by Satoshi Nakamoto. Bitcoin has its own blockchain in which it operates on and was created so that consumers were not dependent on a centralized financial authority. This application allows users to conduct financial transactions with each other directly through a cryptocurrency, without the involvement of a financial institution.

Within the insurance industry, blockchain technology is being deployed to improve claims processing efficiency. Conservatively speaking, claim resolutions can be a highly involved, data driven process. There are several areas that are

involved in the claims process, which may delay the settlement of a claim. Blockchain technology contemplates being able to digitize this information in a collaborative way, and allow for less documentation and unnecessary duplication of efforts. This technology could allow insurance companies to expedite claim processing, as necessary information to resolve the claim could be contained within the blockchain. Such an improvement in company efficiency could result in cost-savings and improve the customer's experience.

As blockchain technology proliferates, the Insurance Department is actively engaging with stakeholders to learn more about the emerging technology. The department is learning from insurers utilizing blockchain technology in their product design, consortiums that are building the blockchain infrastructure, and academic institutions involved in educational endeavors regarding the technology. Through these forums, the department is benefitting from proof of concept initiatives being conducted in the private sector, while always keeping an eye to how it could benefit operations within the public sector.



## Department Creates Cybersecurity Incident Response Task Force

Over the last 24 months, the Insurance Department has studied and reviewed the emerging threat posed by cybersecurity events occurring in the insurance industry. The cybersecurity threat landscape is an important and often overlooked risk to the insurance industry. The cybersecurity threat landscape is an ever-evolving threat that requires an effective, innovative and nimble approach to understanding and managing the threat landscape.

The department believes that to understand the threat, and to truly help mitigate the threat, it is important that we have the tools available to respond to an incident as well as to have open and frank dialog with industry and stakeholders in the course of the department carrying out its regulatory functions.

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## Cybersecurity Task Force continued

As a result of our research, in October of 2018 the department created its Cybersecurity Incident Response Task Force. This task force is comprised of members from all the department's program areas, leveraging the subject matter expertise of representatives from each of our main regulatory functions.

The task force is designed to serve two primary functions. First, it is designed to serve as a resource for industry and stakeholders, helping the department and interested parties to openly discuss the issues, which are presented by the cybersecurity landscape, and to develop proactive solutions and responses to such issues. Second, the task force is designed to act as the department's primary resource and response to industry when a regulated entity has experienced a cybersecurity incident. The department believes that it is essential, in order to clearly and effectively deal with a cybersecurity incident at a regulated entity, to have one central point of contact and to have the subject matter experts in all programs areas holistically review, understand, and make recommendations in the event of such a cybersecurity incident.

To continue to move the ball forward regarding cybersecurity awareness and preparedness, the department invites all stakeholders to share information with us on cybersecurity issues generally. Additionally, should a regulated entity experience a cybersecurity incident, the regulated entity should be open and transparent with the department regarding reporting the incident and effectively working with us to mitigate any issues arising because of the incident.

For more information or to report a cybersecurity event please email [RA-IN-CYBERSECURITY@pa.gov](mailto:RA-IN-CYBERSECURITY@pa.gov).

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## Major Liquidation Concludes

In April 2002, the Insurance Department's Office of Liquidations, Rehabilitations and Special Funds stepped in to take over the management of two very large financially troubled insurance companies. The affiliated Pennsylvania insurance companies, Legion Insurance Company and Villanova Insurance Company, had been placed into rehabilitation by the Commonwealth Court of Pennsylvania. A little over a year later in July 2003, the Commonwealth Court determined that the companies were insolvent, should be placed into liquidation and appointed the commissioner as liquidator. Now, after 16 years of effort to make sure claims were properly evaluated and assets collected, the department is wrapping up this process.

The Commonwealth Court approved the liquidator's final accounting and plan for final distribution on Feb. 27. Final distribution to creditors is imminent and the department will be closing the companies during the second half of 2019. The companies will make final distributions to creditors where 100 percent of administrative expenses and 94 percent of Legion's and 64 percent of Villanova's policy benefit claims will be paid.

To reach this conclusion, the department assumed management in 2003 as these companies had run out of cash to pay claims on a timely basis. The department had to build a liquidation team and systems to be able to collect from almost 400 reinsurers who had agreed to assume much of the companies' risk of loss, take in and evaluate over 46,000 proofs of claim, and work with 56 state insurance guaranty funds to make sure that the majority of the companies' policy benefit claims were being timely handled. In 2018, the liquidation team finalized the valuation of all proofs of claim filed with the companies. The hard work of the liquidation team resulted in the collection of approximately \$2.6 billion in recoveries from the companies' reinsurers.

More than 100,000 claims were transferred from the companies' claims administrators to state guaranty funds, which took over responsibility for handling and paying claims, minimizing the impact on the companies' policyholders and claimants. Ultimately, the guaranty funds have paid approximately 98 percent of the policy claims against the companies. Over time, the two  
**(continued on page 6)**

## Liquidation continued

companies distributed approximately \$2 billion in interim payments to the guaranty funds and made a partial distribution to non-guaranty fund policy claimants. The total amount to be distributed to creditors will approximate \$2.5 billion with \$500 million going out in 2019 as a final distribution.

The Legion and Villanova combined liquidations are the second largest in Pennsylvania history, and among the top five in US history. The companies wrote commercial insurance, primarily workers' compensation, in all 50 states, with annual premiums of up to \$1.4 billion. Liquidations of large companies have historically taken an extremely long time to finalize because of the large number of claims to be resolved and the complex nature of the assets. In fact, all major liquidations to date have taken 25 years or more to complete.

## Consumer Corner

The Insurance Department always seeks ways to partner with other state agencies to help inform and educate consumers. Often, we handle issues that touch multiple state agencies. For example, flooding is a matter that has impacted many Pennsylvania communities, and as we work with multiple Commonwealth agencies on flooding issues we have teamed up with the Pennsylvania Emergency Management Agency (PEMA) to share an interactive presentation.

PEMA has brought Ward's Stormwater Floodplain Simulation Model to Pennsylvania and the department is excited to add it to our tools to help educate Pennsylvanians about floodplain management and flood insurance.

This interactive model simulates several scenarios by providing examples of low, medium and high-risk flood areas. The model also gives the ability to change the land surface; transitioning from wetlands to parking lots and even allows for the addition of a retention pond and levee. This model provides an easy way to visualize how flooding occurs and it demonstrates the importance of flood insurance, flood mitigation and where and how homes should be built.

This model can be used for short lessons in the classroom, at the library or a local municipality event. We, alongside PEMA, debuted it at the Pennsylvania Farm Show in January and are currently developing opportunities to share it with the public in other ways and in new venues.



Consumer Liaison Dave Buono transforms a wetland to a parking lot for a group of children at the Pennsylvania Farm Show, highlighting the importance of flood insurance and why consumers should do research before buying/building a home

# Crop Insurance: Insuring Assets, Supporting Pennsylvania's Economy

by Agriculture Secretary Russell Redding

Farming has always been a risky business. Regardless of what Pennsylvania farmers produce, crop insurance is one of the most important investments they can make in managing farming's inherent risks, and protecting their assets for the future. Helping to protect that future by supporting crop insurance is an important investment the public sector and private sector make together.

Whether it's raising dairy cattle in a volatile market, growing a tried and true field crop, or venturing into an emerging market like hops or hemp, the risks producers must navigate range from erratic weather, to invasive pests, to pricing that is vulnerable to market downturns or changing trade policies. It pays producers to insure themselves and the future of their operations against those risks.

The payoff of the public investment in crop insurance is that it provides a safety net that supports our rural economy, and Pennsylvania's economy overall. The ripple effects of unreimbursed farm losses hit their communities hard, as their employees, suppliers and buyers suffer, as do consumers who want to buy local, and ultimately, small hometown businesses where farm families would spend their dollars.

But farm losses have a much broader impact. In 2017, the department released the first comprehensive analysis of the economic impact of Pennsylvania's agriculture and food industry, which demonstrated that the industry has a \$135.7 billion impact on our



economy annually. It supports just under 580,000 jobs statewide, paying wages of nearly \$27 billion. Investing in crop insurance is investing in a safety net that feeds and fuels us all.

The Pennsylvania Department of Agriculture partners with the USDA and PennState Extension to encourage farmers to purchase crop insurance, and to educate them on their options, the programs available for different commodities, what risks they cover, and how individual programs work. The department co-sponsors a series of webinars from January through September, as well as an annual conference in Harrisburg, offering in-depth information to support farmers in making informed purchase decisions.

Learn more about how crop insurance supports Pennsylvania families at [cropinsuranceinamerica.org](http://cropinsuranceinamerica.org).



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# Private Market Flood Insurance Policies Grow in Pennsylvania



Consumers' interest in protecting their properties from flood damage has increased significantly in the past year, as the number of private market flood insurance policies in Pennsylvania jumped 72 percent from February 2018.

The number of private flood insurance policies increased from 5,200 in February of last year to 8,950 this February. Since Gov. Tom Wolf initiated efforts to educate consumers about the increasing availability of private flood coverage in February 2016, the number of private residential flood policies has leaped almost six-fold and now represents more than one in six such flood insurance policies in the state

Flood insurance is available through private sector insurance and the federal government-run National Flood Insurance Program (NFIP), which almost exclusively provided this coverage prior to changes implemented by Congress in 2014. These changes have led to significantly higher NFIP premiums as subsidies for high-risk properties are phased out to reduce the program's roughly \$25 billion debt.

Phasing out of NFIP subsidies means private insurers can successfully compete in this market, and the department has found in some cases, comparable private coverage is available at significantly lower costs than NFIP policies.

However, private coverage may not be available for some high-risk properties, so the department is recommending that homeowners, business owners, and renters shop both the NFIP and private insurers to find the best plan to protect their homes, businesses, and properties.

Twenty Pennsylvania-licensed insurance companies now sell private flood insurance, in addition to 59 individual producers who sell this coverage through what is called the surplus lines market. Surplus lines insurance is sold through companies licensed outside of Pennsylvania. However, the producers selling this coverage are licensed in Pennsylvania, and the department monitors the financial condition of the companies selling this coverage.

Forty-seven percent of private market flood policies are now sold through Pennsylvania-licensed companies, as compared to only 26 percent two years ago.

The department's Flood webpage not only offers advice to consumers but also lists agents who can discuss surplus lines. Any agents or agencies wishing to appear on this list should contact the department by completing a request form and emailing the completed form to [ra-in-floodins@pa.gov](mailto:ra-in-floodins@pa.gov). Please access the request form [here](#).



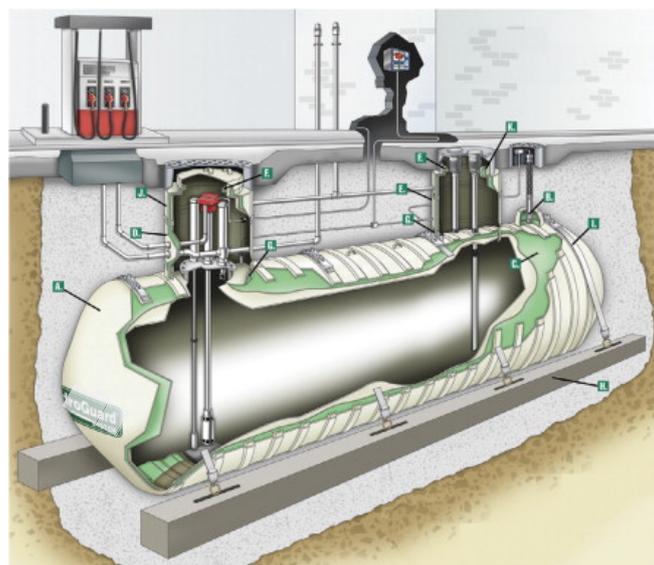
# Department Marks Underground Storage Tank Cleanup Fund's 25th Anniversary

Pennsylvania's successful Underground Storage Tank Indemnification Fund (USTIF) marked its 25th anniversary on Feb. 1, having protected the state's environment by providing more than \$1.1 billion to clean up over 5,500 spills since the program's inception February 1, 1994. This includes more than \$30 million paid to clean up 172 sites and fund ongoing activities at 961 other sites in 2018.

USTIF is funded by fees paid by fuel distributors and underground storage tank owners, and it provides the money needed to ensure prompt cleanup and protection of Pennsylvania's water and land from pollution when leaks or spills occur at Pennsylvania's more than 21,000 registered underground gasoline, heating oil, diesel, and other fuel storage tanks.

Approximately 90 percent of these storage tanks are at convenience stores. Others are located at fuel distributors, manufacturers, schools, colleges, hospitals, churches, farms, trucking companies, auto dealerships and utilities or are owned by municipalities.

Owners of gasoline storage tanks pay a throughput fee of 1.1 cents per gallon of gasoline delivered by their fuel distributors. Owners of underground storage tanks storing commercial heating oil, diesel, kerosene and used motor oil pay an annual capacity fee of 8.25 cents per gallon multiplied by the size of those underground storage tanks.



This fund provides a predictable, cost effective way for fuel distributors and tank owners to obtain this important protection, which is often very difficult and expensive to get on the private market. The USTIF program provides up to \$1.5 million in coverage per tank, with only a \$5,000 deductible. The average cost per cleanup in 2018 was \$293,869.

Pennsylvania's strong storage tank regulations and effective compliance efforts routinely work well to prevent contamination. But when spills do occur, USTIF is an important asset for small business owners to help with costs associated with the cleanup of a release—costs that they wouldn't otherwise be able to afford. Having the financial means to swiftly respond allows contamination to be removed quickly before it can reach water supplies or otherwise affect human health and the environment.



The most cleanups in 2018 occurred in these counties: Allegheny (11); Dauphin (10); Philadelphia (10); Montgomery (7). [Click here for a complete list of 2018 cleanups.](#)

As part of Governor Wolf's GO-TIME initiative to make state government more efficient and cost effective, USTIF moved to an online fee payment system July 1, 2017. This system allows fund participants to access their account 24 hours a day. Online payments can be made in less than one minute.

More information on the fund is available at <https://ustif.pa.gov/>.

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# Department Committed to Following NAIC Accreditation Standards

The focus of the Office of Corporate and Financial Regulation is the financial protection of policyholders. We do that by keeping our primary focus on insurance company solvency.

An effective system of solvency regulation has certain basic components. These components require that regulators have the following: adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs; resources to carry out that authority, and organizational and personnel practices designed for effective regulation.

Nearly 30 years ago, the NAIC began to establish a sound program to aide all insurance departments in solvency regulation by adopting the Financial Regulation Standards ("Standards"). Under this plan, each state insurance department is reviewed by an independent review team whose job is to assess the department's compliance with the Standards. Pennsylvania is one of 52 jurisdictions that currently meets the Standards and strives every day to continue to meet the Standards.

The Financial Regulation Standards and Accreditation (F) Committee of the NAIC consists of regulators from across the country and ultimately decides whether a state meets the requirements set forth in the Standards.

Once an insurance department has demonstrated that it has met, and continues to meet, an assortment of legal, financial, organization, and licensing and change in control standards, as determined by a committee of its peers, it receives and maintains accreditation.

The Accreditation Program is an important part of the state based regulatory system, as it allows for inter-state cooperation and reduces regulatory redundancies. What this means is that if an insurer is domiciled in an accredited state, the other states in which that company is licensed and/or writing business can be assured that the domiciliary state is adequately monitoring the financial solvency of that insurer.

For example: Both Pennsylvania and Ohio are currently accredited states. The Erie Insurance companies are domiciled in Pennsylvania but sell their products in other states, including Ohio. Ohio relies on Pennsylvania to examine the financial solvency of the Erie companies, and can do so because Pennsylvania is an accredited state. Conversely, the Progressive Insurance companies are domiciled in Ohio, but sell their products in Pennsylvania and other states. Pennsylvania relies on Ohio to examine the financial solvency of the Progressive companies, knowing that Ohio is an accredited state.

Additionally, each state's laws or regulations on financial examinations contain a provision that all licensed companies to are to be examined periodically; however, in lieu of performing its own financial exam, a state may accept the exam report prepared by an insurance department that was accredited at the time of exam. Therefore, the inter-state reliance that the accreditation program produces ultimately saves millions of dollars in duplicative examination costs.

A full accreditation review occurs once every five years, and entails a comprehensive review of laws and regulations, analysis and examination functions, as well as the organizational and personnel practices to ensure continued compliance with the accreditation standards.

The Office of Corporate and Financial Regulation monitors changes to the Accreditation Program in various ways: attending the regulator-only F Committee meetings at the NAIC national meetings; staying in communication with the NAIC staff responsible for managing the Accreditation Program, attending educational webinars sponsored by the NAIC and keeping the current Accreditation Program Manuals at our fingertips.

Pennsylvania is committed to following the Accreditation Standards and maintaining its accreditation status.

