



COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
HARRISBURG

THE COMMISSIONER

September 13, 2017

The Honorable Senator Donald White
Senate Box 203041
Harrisburg, PA 17120-3041
Room: 286 Main Capitol

The Honorable Tina Pickett
315-A Main Capitol Building
PO Box 202110
Harrisburg, PA 17120-2110

The Honorable Senator Sharif Street
Senate Box 203003
Harrisburg, PA 17120-3003
Room: 535 Main Capitol

The Honorable Anthony M. DeLuca
115 Irvis Office Building
PO Box 202032
Harrisburg, PA 17120-2032

Dear Committee Chairs,

Under Governor Wolf's leadership, we work every day to protect the insurance consumers of Pennsylvania from any actions by companies or individuals licensed in our state that violate our laws and regulations on insurance practices, and bring harm to our constituents. We also work hard to educate consumers about how to get the most from every dollar they spend on insurance, and to maintain a vibrant and competitive market in all areas of insurance.

The proposal announced last week by House Republicans to take money from 60 state funds, including the Insurance Regulation and Oversight Fund (IROF), would in fact cripple this agency by depriving it of the bulk of the funding needed to run the day-to-day operations of the Insurance Department, including paying the staff who protect our citizens.

House Republican members who proposed this budget recommend taking \$20 million from the IROF. They may have mistakenly assumed because there is a balance of approximately \$25.7 million showing in this fund as of June 30, 2017, that this is excess money not needed to run the Insurance Department for the fiscal 2017-18 year. In fact, as you know, this is not at all the case. Had the legislators who proposed taking the critical funding from the department budget contacted the department, we could have explained this to them.

Under Act 46 of 2013 all licensing fees and assessments levied by the Insurance Department go to the General Fund. Then 50 percent of this funding is returned to the department to fund its entire operations for the year. In addition Act 46 requires the Insurance Department to return any unspent money that is in excess of the retention balance to the General Fund. The retention balance was established to maintain the cash flow for IROF until revenues are collected each fiscal year. In July of this year, the department did return \$1.9 million, so the available balance in the IROF for the 2017-18 fiscal year is \$23.8 million. The Insurance Department budget for the current fiscal year is \$27.1 million.

However, the timing of when funds are available to the Insurance Department is critical. The remaining \$23.8 million balance in the IROF must be used to run the department through March of 2018. This is because most of the license fees and assessments on insurance agents and companies are not levied until January of each year. The department spends roughly \$2.2 million per month, but sees income of only about \$1.1 million a month from July through March, in money transferred from the General Fund to the IROF. Transfers from the General Fund to the IROF in the fourth quarter of the fiscal year, April through June, are projected to average \$7.1 million this fiscal year, once funds are received from licensing fees and assessments, allowing the department to again build the needed balance for fiscal year 2018-19.

Monthly, the department effectively operates with a cash flow deficit of approximately \$1.1 million per month for nine months from July through March. The balance of \$23.8 million as of July 1 allows the department to continue operating and providing important consumer protections throughout the entire year. Thus, a one-time transfer of \$20 million from the IROF to the General Fund in September, would leave the IROF with a negative balance by October. This would mean the Insurance Department would be effectively shut down, unable to meet operating expenses such as payroll, vendor payments, and so on, until sufficient revenue is collected in April of 2018. This scenario will occur again in fiscal year 2018-19.

What would this mean for your constituents, and all the people of Pennsylvania? It would mean the Insurance Department would no longer be able to provide important consumer protections. These include:

- Answering consumer complaints and questions on all types of insurance, including health, auto, homeowners, renters, and flood. The department handled 13,051 consumer complaint investigations in calendar year 2016, resulting in \$2.9 million in restitution for 477 Pennsylvanians, and also fielded 39,830 consumer phone inquiries.
- Conducting market conduct examinations of insurance companies, to make sure they are abiding by our laws and regulations. The Insurance Department engaged in 21 such examinations in calendar year 2016 resulting in more than \$154 million in restitution for 11,656 Pennsylvanians.
- Enforcement actions against companies and individual licensees found to have violated our insurance laws. The department levied 218 enforcement actions in calendar year 2016, including 60 license revocations or suspensions, and \$2.8 million assessments of civil penalties and \$165 thousand in restitution for 32 Pennsylvanians.
- Educating consumers about how to better understand insurance products they buy, and make the most of their insurance dollars. During 2016-17, Insurance Department staff reached approximately 216,000 consumers at approximately 125 events around the state, including many senior fairs and other constituent events held by members of the Legislature.
- Protecting policyholders by ensuring Pennsylvania's 270 domestic companies are financially strong and paying claims as they come due. We regulate companies through licensing, approving corporate transactions, analyzing company financial reports and conducting onsite examinations of company financial statements. We receive approximately 40 license requests per month from companies that want to do business in Pennsylvania. In addition, we analyze approximately 170 company financial statements quarterly for solvency concerns and we conduct on average 55 exams each year.

September 13, 2017

Page 3 of 3

- Performing the financial analysis and the examination functions are required for the department to maintain accreditation. Accreditation enables policyholders who purchased a policy from a Pennsylvania company to have comfort the department is appropriately monitoring the insurance company's solvency.

Taking \$20 million from the Insurance Department's operating budget would immediately curtail many of these critical services, and would soon effectively shutter this department until next April.

We hope you will join us in opposing the taking of \$20 million from the IROF, and work with the administration on finding a responsible way to fund the important services provided in the approved state spending plan for the current fiscal year.

If you have any questions or comments, please feel free to contact my Legislative Director, Abdoul Barry, at (717) 783-2005.

Sincerely,

A handwritten signature in black ink that reads "Jessica K. Altman". The signature is written in a cursive, flowing style.

Jessica K. Altman
Acting Commissioner