



## **Director Jillian Froment Budget Testimony**

### **House Finance Subcommittee on Health and Human Services**

**Thursday, March 28, 2019**

Chairman Romanchuk, Ranking member West, and members of the House Finance Subcommittee on Health and Human Services, thank you for the opportunity to join you today to discuss the Ohio Department of Insurance's budget request for FY 2020 and 2021. The department is the regulator of insurance in Ohio and is responsible for licensing agents, overseeing financial solvency of insurers and enforcing insurance laws. The department also serves as one of the largest consumer protection agencies in the state.

### **ABOUT THE DEPARTMENT**

The department is responsible for regulating more than 1,600 insurance companies licensed to do business in Ohio, including more than 270 that are headquartered here. As the sixth largest insurance market in the United States by premium volume and the 17th largest in the world, Ohio has \$84 billion in insurance premiums written by insurers each year. The department also licenses and monitors the conduct of 220,000 insurance agents and 18,000 insurance agencies that do business with Ohio consumers. The department is funded largely by licensing and examination fees paid by the industry and is a non-general revenue agency.

In 2018, the department helped Ohioans save or recover nearly \$42 million. Our agency received more than 20,000 inquiries and handled over 6,000 complaints; and we participated in hundreds of events across Ohio where we engaged consumers and helped answer their insurance questions. The department worked collaboratively with the legislature and the industry to enact new data security measures that protect consumers. And the department continues to serve as a national leader among regulators in the U.S.

In addition, over the past year, we have worked diligently with the mental health community to review our internal processes and educational materials in an effort to be more proactive and better protect consumers. That process resulted in a new mental health parity toolkit for consumers as well as a new process for handling provider complaints when a consumer is unable or unwilling to contact the department.

### **PRIORITIES FOR THE BINENNIUM**

In recent years, the department has experienced a number of challenges facing regulators and the industry. Implementation of new products that include complex modeling and automation, and the uncertainty surrounding significant changes to health insurance have created disruptions. In addition, the department continues to face the loss of experienced staff due to retirement requiring more resources dedicated to cross training and identifying new talent. These challenges are at the foundation of our budget request.

### ***Emerging Market Trends***

New market trends driven by technology and emerging products present significant disruption for consumers, the industry and regulators. But these market trends will lead to more diversity in products, ultimately giving consumers more choices. As new products emerge and insurers write more consumer-driven policies that are less cookie-cutter in nature, we too at the department must adapt.

In order to maintain both appropriate consumer protections as well as a level playing field for the industry, the department must stay up-to-date on complex actuarial and statistical models being used by companies. In order to provide advanced staff training and the use of subject matter experts, the department is requesting an additional appropriation of \$300,000 in both fiscal year 2020 and 2021.

### ***Maintaining Accreditation with the National Association of Insurance Commissioners***

The department is accredited by the National Association of Insurance Commissioners (NAIC). The NAIC accreditation program ensures state insurance departments meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. NAIC accreditation allows the other 49 states to rely on Ohio to fulfill effective financial regulatory oversight of the insurers headquartered in Ohio. The process for maintaining accreditation with NAIC is both rigorous and necessary. As each state is evaluated on a number of important standards, a department's ability to demonstrate it has the necessary resources to regulate the

industry is an important component. To that end, NAIC standards call for at least one analyst for every 20 companies domiciled in Ohio.

In the last five years, Ohio's domestic market has grown by over 45 insurers (19%). As a result, our company to analyst ratio at the department has increased from 19.6:1 to now 23.3:1. In order to maintain NAIC accreditation standards and effectively regulate the solvency of Ohio domestic insurers, the department is asking for additional appropriation of \$536,921 in both fiscal year 2020 and 2021 to align our staff ratio with NAIC requirements.

### ***Implementing New Cybersecurity Reforms***

Thanks to the legislature's hard work at the end of the last General Assembly, Ohio is now one of only three states with insurance specific cybersecurity provisions in state law. As a result, Ohio insurance entities will follow specific standards in order to protect both consumer and company data. These standards will help maintain a level playing field for insurance entities operating in Ohio while also providing the department specific consumer protection authority in the event of data breaches. We know cyber-attacks are inevitable, but this new law will help better protect data on the front end as well as give the department better tools and information in the event of an attack on an Ohio-based insurance entity.

As these new standards are implemented, the department will need new resources and staff to monitor the Ohio-based insurers, the agencies, the agents, and other licensees who must comply with these reforms. New training will be needed for department staff and the industry alike. As

a result the department is requesting additional funding to carry out these new responsibilities in the amount of \$225,000 in fiscal year 2020 and \$200,000 in fiscal year 2021.

***Addressing Mental Health and Substance Use Insurance Benefit Challenges***

The department has worked diligently to streamline and improve our efforts related to consumers using their mental health and substance use disorder benefits. Our efforts have resulted in refocused consumer materials, continued engagement with stakeholders to understand the challenges consumers face when using these insurance benefits and working with the industry on identifying areas for improvement and best practices – but there is more work to do.

In the upcoming budget, the department will further Governor DeWine's RecoveryOhio Initiative through our continued efforts to ensure compliance with state and federal law while looking for complaint trends that identify opportunities to assist patients and/or possible areas of industry non-compliance. In addition, we plan to significantly increase our outreach to consumers across the state by launching an educational campaign aimed at helping consumers better understand the coverage while directing them to our department as a resource. These new efforts will require an increase in appropriation for which the department is requesting \$1,000,000 in both fiscal years 2020 and 2021.

## **BUDGET REQUEST**

In summary, the Department is requesting \$42,141,940 for Fiscal Year 2020 (an 11.5 percent increase over Fiscal Year 2019) and \$43,464,160 for Fiscal Year 2021 (a 3.1 percent increase over Fiscal Year 2020).

Mr. Chairman and members of the committee, thank you for the opportunity to present the department's budget proposal. At this time, I would be happy to answer any questions.

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