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Ohio Department of Insurance Budget Testimony, FY 2016 – 2017  
On behalf of Lt. Governor and Director Mary Taylor  
Jillian Froment, Deputy Director  
May 5, 2015

Chairman Beagle, Vice Chair Williams, and members of the Senate Workforce Finance Subcommittee - on behalf of Lt. Governor Mary Taylor, thank you for the opportunity to address the committee today regarding the Department's FY 2016 and 2017 biennial budget request.

Our request reflects our assessment of the services we provide as well as the important role we serve on behalf of all Ohioans. The resources identified in this submission are needed by the Department to not only meet our statutory mission but also to better serve our citizens by ensuring that there is a safe and sound insurance marketplace in Ohio.

The Department is charged with the significant responsibility of licensing and regulating the activities of more than 1,600 insurance companies, including nearly 240 domestic companies, who write more than \$64.1 billion in insurance premiums. Ohio is the seventh largest insurance state, by premium volume, in the United States and the 19th largest insurance market in the world. We also issue licenses and monitor the conduct of more than 192,000 insurance agents and 16,000 insurance agencies.

The Department monitors the financial health of insurance companies and investigates consumer complaints and insurance fraud. Further, the Department determines if services and benefits offered by insurance companies are consistent with policy provisions and Ohio law, reviews company filings for life, accident, health, managed care, property, and casualty policies, and reviews and approves forms and rates. The Department carries out all of these duties with funding provided solely by Ohio's insurance industry. Companies, agents and other entities pay fees providing 100 percent of the Department's necessary funding. The Director of Insurance, who is appointed by the Governor, heads the Department, which currently has approximately 250 full-time permanent employees.

### **Summary of Budget Request**

The Department is requesting \$ 36,841,409 in FY 2016 and \$ 37,543,853 in FY 2017 for all funds—representing a total request of approximately 100% of the FY 2015 appropriations for existing funds plus the addition of new captive funding. The Department is requesting \$492,252 in FY 2016 and \$1,198,696 in FY 2017 to support the implementation of House Bill 117 of the 130<sup>th</sup> General Assembly, which charged the Department with regulatory oversight of captive insurance companies. Amended Substitute House Bill 64 contains new uncodified language (303.20) that deals with the initial funding needs of the Department to implement Ohio's captive program. The language allows for a transfer from the Insurance Operating Fund (Fund 5540) to the Captive Insurance Regulation and Supervision Fund (5PTO). The language establishes that

once funds from fees are sufficient to cover operations, the funds transferred will be paid back according to a schedule adopted by the Director of OBM and the Superintendent of Insurance.

## **Current Status**

Mission – The mission of the Ohio Department of Insurance is to provide consumer protection through education and fair but vigilant regulation while promoting a stable and competitive environment for insurers. To that end, we have developed the following goals:

1. **Provide Fair and Appropriate Market Regulation** – Investigate persons or entities who commit insurance fraud or are suspected of violating Ohio’s insurance laws, including those laws regarding unfair or deceptive practices. The Department will provide a regulatory response that is reasonable, appropriate and proportional.
2. **Provide Excellent Consumer Services** – Empower consumers to make informed insurance purchasing decisions by providing educational information, training, and consultation. Additionally, the Department will assist consumers who encounter difficulties by answering inquiries and investigating and resolving complaints. The Department will help seniors, caregivers, and other Medicare recipients obtain information on Medicare products and programs and will work to prevent predatory sales practices directed toward seniors by partnering with the Department of Aging and the Department of Commerce.
3. **Provide a Robust, Competitive and Stable Marketplace** – Provide a regulatory environment that supports a competitive insurance market ensuring a stable insurance market for consumers. The Department will assess solvency and review statutory filings of Ohio-based companies, as well as rate and policy form filings from all companies licensed in Ohio. The Department will also perform audits of non-Ohio based companies and review business practices of all companies licensed in Ohio.
4. **Foster Economic Development** – Enhance Ohio’s ability to attract and retain insurance businesses and jobs for Ohioans through regulatory reform while ensuring a stable insurance market for consumers. The Department will review existing rules and regulations to promote flexibility, balance, transparency and consistency.

Since January 2011, the Department has worked to more efficiently carry out its mission in order to protect consumers, foster a stable, competitive insurance market in Ohio, while ensuring companies are complying with state insurance laws. Below are some examples of how the Department has wisely and carefully used state resources to carry out our goals:

### **1. Provide Fair and Appropriate Market Regulation**

#### Service on NAIC Committees and Task Forces -

The Department has been appointed to serve on nineteen National Association of Insurance Commissioners (NAIC) committees and task forces, including serving as a member of the Life and Annuities Committee and the Market Regulation and Consumer Affairs Committee. The

committees and task forces address issues such as protecting seniors, fighting insurance fraud, maintaining market competition, creating regulatory efficiencies and monitoring the financial solvency of insurers.

Addressing Agent Misconduct and Unlicensed Activity -

The Department continued its vigilance in rooting out those insurance agents and agencies that chose to not follow the law and commit wrongdoing. During fiscal year 2014, the Department received more than 7,000 allegations of agent misconduct and insurance fraud. As a result of 1,985 administrative and criminal investigations conducted, evidence was gathered to show 577 individuals and entities violated Ohio's insurance laws. Additionally, administrative and/or criminal action was initiated against 408 individuals. Allegations pertaining to unlicensed activity and agent misconduct were received and more than 1,950 administrative investigations were initiated. While approximately 900 cases are currently being addressed by the Department for insurance law violations, the licenses of more than 225 agents and agencies have already been surrendered or revoked.

**2. Provide Excellent Consumer Service**

Department Saved Ohioans \$5.6 Million -

In FY 2014, the Department saved or recovered \$5.6 million for Ohioans and received more than 21,000 phone calls from consumers resulting in 5,400 complaints – the majority of which dealt with the denial of insurance claims.

OSHIIP Helps Consumers Save \$14.8 Million -

The Department's Ohio Senior Insurance Information Program (OSHIIP) helped Ohio Medicare beneficiaries save \$14.8 Million during FY 2014. OSHIIP counseled more than 135,000 consumers and conducted more than 2,100 statewide events. OSHIIP expanded their online training. In addition, OSHIIP conducted 11 public forums, including Medicare Check-Up Days during Medicare Open Enrollment in the fall.

**3. Provide a Robust, Competitive and Stable Marketplace**

The Department Closely Monitors Insurers to Ensure Claims are Paid to Consumers -

The Department protects Ohio insurance consumers through monitoring the financial stability of insurance companies. During fiscal year 2014, the agency:

- Completed all reviews of insurers' quarterly and annual financial statements within accreditation time frames prescribed to the Department.
- Reviewed approximately 512 company transactions, including six applications for domestic Certificates of Authority and several significant mergers, acquisitions and re-domestications.
- Completed 55 financial examinations of Ohio domestic insurers, including participation in two supervisory colleges.

#### Appointment Fee Expected to Generate \$11.3 Million in Savings

An amended rule took effect on June 30, 2014 (enabled by House Bill 59 – operating budget) that reduced the agent appointment fee by 25%, from \$20 to \$15, resulting in an expected \$11.3 million in reduced annual costs. The reduction is the latest common sense agent fee measure taken by the Department. A \$5 appointment termination fee was eliminated in 2013, while those who renew licenses late now pay \$50 instead of \$100. The license reinstatement fee was also reduced from \$300 to \$100.

#### **4. Foster Economic Development**

##### Addressing Industry Workforce Needs -

In partnership with the Insuring Ohio Futures initiative, the Department, through outreach events across the state, highlighted job opportunities and educated Ohioans about insurance career opportunities that will be available to students, career-changers and veterans in Ohio by the year 2020. Approximately 26,000 new workers will be needed by 2020. Industry and higher education leaders have worked together to create a significant number of new higher education courses, insurance certificates and majors at colleges and universities throughout Ohio.

##### Increased Interest by Insurers in Ohio Marketplace -

In 2014, the Department completed reviews of nearly 20 foreign insurance company applications for admission, 12 requests for additional lines of business, six requests for surplus lines authority and one application for trusted reinsurer status. Additionally, the Department certified \$522.7 million in premium and franchise taxes utilizing its updated online tax reporting program that saved significant time and resources for insurance companies.

#### **Challenges and Opportunities for FYs 2016 and 2017**

In addition to continuing our efforts mentioned above, we anticipate the following issues will also challenge the Department in FYs 2016-2017:

##### **1. Health Care:**

Over the last several years Ohio's health insurance market has seen significant changes due to new federal mandates. Due to significant delays in implementation by the federal government, changes will continue into the next biennium. These federal mandates will continue to create uncertainty in Ohio's market as companies struggle to keep up with significant new regulation from the federal government. This uncertainty will make the Department's job more important than ever as staff must help companies understand vague and unclear rules and regulations.

Staff will continue to work with companies and consumer-focused stakeholders to mitigate the impacts of federal regulation on Ohio small business and individual consumers. Significant shifts in the market are expected to continue to result in dramatic increases in health care premiums. While the Department will not be able to reduce the impact of federal mandates on

insurance premiums, staff must ensure companies have accurately and adequately accounted for the substantial changes to their cost projections and forms.

2. Implementation of Captive Insurance Company Legislation:

House Bill 117 of the 130<sup>th</sup> General Assembly (H.B. 117) established the ability of Captive Insurance Companies to be domiciled and operated in Ohio by creating chapter 3964 of the Revised Code. Unanimously supported in both chambers, H.B 117 assists existing Ohio businesses by providing alternative risk management vehicles.

The General Assembly has mandated the Ohio Department of Insurance license and oversee Captive Insurance Companies. This is a new service that was not previously provided by the Department. Funding mechanisms were established in R.C. 3964.13 and R.C. 3964.15 to support these services. The funding is tied directly to the number of captive insurance companies that are licensed to operate in Ohio and the expenses incurred in carrying out the regulatory oversight.

3. Implementation of Senate Bill 140: Significant reforms were made to Ohio insurance law with the passage of Senate Bill 140 of the 130<sup>th</sup> General Assembly (S.B. 140), which was signed into law in June of 2014. This bill made changes to Ohio's insurance laws that will maintain the strength and competitiveness of Ohio's insurance marketplace while also providing new consumer protections. Many of these changes were required to maintain accreditation by the NAIC. Accreditation of the Department eliminates duplicative and expensive examinations of Ohio-domiciled insurers by other states, the cost of which would ultimately be passed on to consumers.

As a result of the changes contained in S.B. 140, the Department must complete enhanced holding company analysis for each insurer group that includes an Ohio-domiciled insurer and must meet comprehensive quality standards applicable to mergers, acquisitions and license applications. The Department must also work with domestic insurers to implement significant changes to the regulatory schema including an alternative investment code, requirements pertaining to accredited and/or certified reinsurers and enhanced corporate governance/enterprise risk management reporting in the form of annual insurer-prepared Own Risk and Solvency Assessments.

## **Conclusion**

The Department continues to focus on protecting consumers, fostering a stable and competitive insurance market in Ohio, fighting fraud and providing fair and vigilant regulation of Ohio's insurance industry. In order to carry out these core missions, we respectfully request your support of the Department's budget request for FYs 2016 and 2017.

This concludes my testimony. I would be happy to answer questions at this time.