



Office of the Insurance Commissioner

Strategic Plan

July 2011 – June 2019

Mike Kreidler - Insurance Commissioner

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Commissioner's Message



After eight months of brainstorming, planning, and plain hard work, we have completed our 2011-2019 strategic plan. What's most important is *how* we produced it – from the ground up. Everyone in the agency was invited to contribute to its creation. I'm pleased to report that most of you did, sharing insights and new ideas through strategy sessions and other feedback opportunities.

Our mission remains the same: to protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry. This strategic plan continues moving us closer to our vision of being *recognized as a model for consumer protection and state insurance regulation* by:

- Increasing consumers' awareness of our services.
- Creating opportunities to ensure our resources are used effectively and efficiently to support agency priorities.
- Developing our workforce to meet the challenges of evolving regulatory demands.
- Taking a more integrated view of our regulatory functions to increase understanding and ownership across divisions.

One clear message we heard throughout the strategy sessions was this: although the way we conduct business has changed, the agency has not evolved to meet those changes. With changing technology and the move toward federal uniformity, we should be continuously examining our business practices and leveraging our resources. Our long-range strategic plan focuses on transforming our agency to reflect the way we now do business. Our plan, supported by the agency's upcoming 2011-13 business plan and each division's operational plan, will help us successfully implement federal health care reform.

Accomplishing our goals requires active engagement from every person in the agency. No matter your job title or classification, each of us plays a vital role. The objectives and strategies we've developed to reach our goals aim to make the work of our agency effective and efficient, while regulating the industry in a fair and consistent way.

Thank you for your dedication and hard work, and all you do to make the Insurance Commissioner's Office a success.

A handwritten signature in black ink that reads "Mike Kreidler". The signature is written in a cursive, flowing style.

Mike Kreidler
Insurance Commissioner

Our Mission, Vision, Values and Goals

It is the Office of Insurance Commissioner's Mission to protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry.

It is our Vision to be recognized as a model for consumer protection and state insurance regulation.

We value...

Respect: Treating people with courtesy, recognizing contributions and honoring diversity.

Accountability: Taking responsibility for our actions and performance and responsibly using the authority and public resources entrusted to us.

Communication: Listening and being clear and forthright in all communications to enhance understanding.

Collaboration: Working together to achieve agency goals.

Excellence: Working effectively in a supportive environment to provide the best services possible.

Professionalism: Demonstrating competence, resourcefulness and the highest standards of conduct.

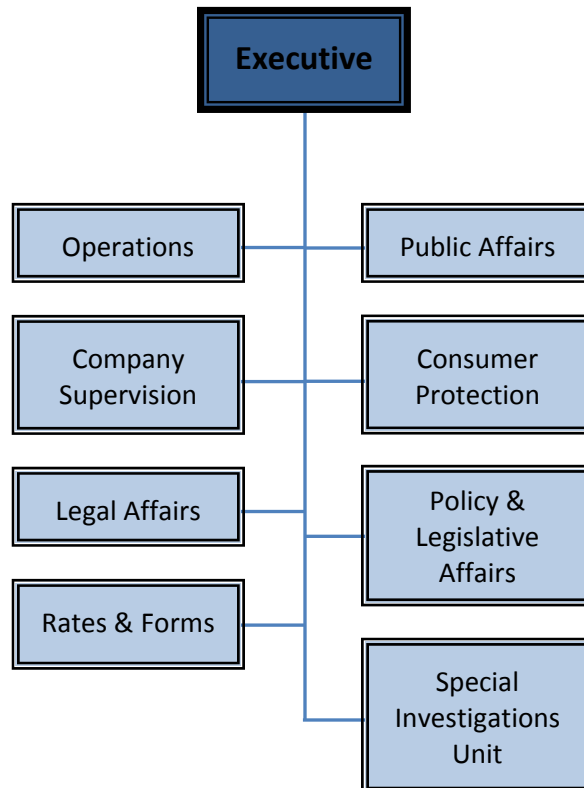
Integrity: Committing to honest and ethical behavior.

Our Goals

- *Protect and educate consumers*
- *Promote a healthy insurance environment*
- *Pursue improvements and innovations in agency programs and processes*
- *Develop, retain and value a high quality, diverse workforce*

Agency Structure

Organizational Chart



Review of External Environment

The insurance business

The insurance industry is critical to Washington's economy and to the well-being of our state's residents. Insurance transactions generate about \$25 billion in economic activity every year and about \$450 million in annual state tax revenue, which is used to fund a wide range of public services. The current recession is directly impacting insurance markets and requires even greater vigilance on the part of insurance regulators.

National & state financial crisis

The financial crisis that erupted during the third quarter of 2008 has highlighted the need for increased oversight of insurers' financial positions by insurance regulators. Though the vast majority of insurers will survive the crisis, all insurers have been and will continue to be adversely impacted financially by economic forces.

Many insurers began experiencing investment devaluations in late 2008. These devaluations have reduced net worth and, in the long run, produce less income. There are signs of recovery; equity markets have soared since March 2009. Housing prices have stopped falling and sales have improved. However, the markets are still well off the 2007 levels.

Property and casualty insurers have recovered fairly well because they generally have conservative investment portfolios that rely on bonds and fixed income securities. Life insurers, on the other hand, held more than \$450 billion in commercial loans and mortgage-backed securities at the end of 2008; because of this, the recovery of life insurers will take longer than that of property and casualty insurers. Most insurers will withstand the economic strain, assisted by watchful state regulators.

Current economic conditions are causing individual and business consumers to reduce or forego insurance coverage, thereby further reducing insurer income. Bank balance sheets continue to shrink, holding back business and consumer spending. The economic recovery will be slow, and premium income related to insurance purchases may not rise for several years.

The stagnation of premium income translates to zero growth in premium taxes – revenue which supports state government programs. It also impedes the growth of the regulatory surcharge that is used to fund the cost of operating this office. In 2010 and beyond, business and government will need to adjust to a new 'normal' – a slower-growing economy characterized by higher unemployment, higher savings, and reduced spending.

Insurance market cycles

The availability and affordability of personal and commercial lines of insurance are cyclical in nature. Life, health, auto, home, liability and other kinds of insurance are influenced by competitive market forces, the regulatory climate, inflation, investment returns, catastrophic events, and the accuracy of predicting future claims.

The property and casualty insurance market is characterized by cyclical patterns in underwriting restrictions, rates, and profits. A full market cycle typically lasts seven to 15 years and is more significant for commercial lines products than for personal lines. For the most part, “soft market” conditions have prevailed since 2005. The cyclical nature of the property and casualty insurance market makes it likely that another hard market will begin between now and 2015.

In a soft market, authorized insurers become more willing to insure risks that are considered marginal or unprofitable during the hard market phase of the cycle. As a result, rates have dropped and availability of all but a few types of insurance has improved. The global recession is in slow recovery, leaving insurers with lower demand for their products.

Interstate uniformity

The insurance industry and its congressional allies have continued to push for greater uniformity among states in licensing and regulatory standards, as well as approval for single “points of entry” for various products. Congress has continued to re-examine the role that federal government should play in insurance regulation. Some insurers and their trade organizations will likely pursue national standards for products that, if adopted, would reduce the current consumer protection standards here in Washington state and most of the larger states.

To promote uniformity among state regulators and reduce the need for federal regulation, the National Association of Insurance Commissioners (NAIC) has developed, or is in the process of developing, accreditation programs in financial examination, market conduct oversight and company licensing. It is anticipated that the NAIC will develop an accreditation program for insurance producer licensing.

The Interstate Insurance Product Regulation Compact enhances the efficiency and effectiveness of the way insurance products are filed, reviewed and approved for its member states, allowing consumers to have quicker access to competitive insurance products in an ever-changing global marketplace. The Compact promotes uniformity through application of national product standards embedded with strong consumer protections. Washington consumers benefit by having a choice of more products and insurance companies.

Uniformity also provides an opportunity for more proactive insurance regulation, resulting in real-time regulation with more preventative actions and fewer punitive ones. Consumers are the ultimate beneficiaries, receiving stronger products in a better-regulated market that is less costly for all.

Health care access

Federal health care reform – passed by Congress and signed into law by the President in March 2010 – is being implemented with the goal of universal access to care; this creates a cascade of change in the insurance marketplace over the next decade. For most Washingtonians, health care accessibility is based on ability to pay. For the almost one million uninsured Washingtonians, the public safety net is their only recourse. The uninsured rate increased 21% from 2008 to 2009, and continues to rise; nearly 19% of Washington’s population between the ages of 19 and 64 has no insurance. For those with insurance, coverage may not be sufficient to make necessary care affordable. Additionally, rural Washingtonians face issues with access to care and a limitation on the variety and types of provider specialties close to their homes.

Health care is expensive for many reasons, ranging from the growing cost of medical care to high administrative and drug costs. Billing and payment systems are complex and markedly different; they are viewed by many as a huge barrier to accessibility. Coverage denials save carriers money, pushing the financial burden of care back on the consumer and provider. The public safety net is at risk because of projected cuts due to the state’s multi-billion dollar deficit.

Approximately 70% of Washington’s workforce is employed by firms with 50 or more employees. Nearly 90% of these employers offer health care coverage to their full-time employees. Small employers (fewer than 50 employees) offer healthcare coverage to at least 45% of their employees.

On average, 9.3% of part-time employees are offered insurance through their employer, regardless of firm size. Employers cover an average of 83% of the premium for full-time employees and 54.8% for part-time employees. The average monthly premium per employee in 2009 was \$366¹.

The insurance marketplace consists of both group and individual insurance markets. As premiums increase, partly due to inflation and cost issues triggered by the recession, those in the individual and small group markets will be particularly vulnerable to reduced access to care as costs continue to climb.

Fraud and illegal activities

It is estimated that insurance fraud costs the average insurance consumer up to \$400 per year in higher premiums. Over the past two years, as states have struggled with the economic recession, insurance law violations have steadily increased – a trend that is expected to continue. Nationwide, growing criminal and civil caseloads are outpacing available fraud-fighting resources.

As more insurance products are sold via the Internet, without the benefit of advice from a licensed agent or broker, consumers may increasingly be victimized by unseen, distant scammers. The rising cost of health insurance the last several years also has provided a fertile

¹ From Washington State Employee Benefits Survey Report, Employment Security Department, April 2010.

landscape for fraudulent health plans. Scam artists continue to prey on people desperate to find adequate, affordable health care.

Criminal activity can be difficult to detect until a victim comes forward, and by then, it's often too late to counter the damage done. The individual or entity selling illegal insurance can't be located, or worse yet, has morphed into another illegal outfit under a different name, continuing to prey on vulnerable people.

Climate

Catastrophic climate events are occurring more frequently with greater severity; more property damage prompts more insurance claims. Greater claims, especially those due to catastrophic weather events, affect the ability of the reinsurance industry to attract capital due to reduced return on investment.

The combination of recent research on climate change, new analysis by the U.S. Geological Survey concerning earthquake hazards, and reinsurance costs has led insurers to review their exposure to catastrophic events. The result is less willingness by insurers to provide coverage, despite the soft market. Several large homeowner insurance carriers have exited the earthquake insurance market in Washington State.

Public perceptions of and access to government

As revenue instability becomes a growing concern, the resulting pressure on state government to cut services and increase taxes heightens public demand for increased efficiency, effectiveness and accountability in state programs. At the same time, the public increasingly expects to be able to access information they want when they want it. Improved availability and accessibility to government services and information continues to be of utmost importance to the agency, the insurance industry, and the public.

Assessment of Internal Environment

Financial health

The Office of Insurance Commissioner (OIC) is currently in good financial health. The OIC is deliberate in making strategic investments that optimize efficiencies and drive down overall costs. However, the future financial health of the agency could be jeopardized by the recession, loss of revenue affecting all of state government, and the often-favored approach of across-the-board budget cuts, regardless of funding source.

The OIC's operating budget is funded by a regulatory surcharge paid in June each year by authorized insurers, health care service contractors (HCSCs), health maintenance organizations (HMOs), title insurance companies, and alien reinsurers. The surcharge is deposited into a dedicated account to cover the OIC's operating costs for the following fiscal year. The regulatory surcharge is based on a percentage of premium volume from each insurer's previous

year's tax return. If premium volume goes down, operating revenue goes down; if premium volume goes up, operating revenue goes up.

Although it is funded from a dedicated account and not the state general fund, the OIC's operating budget – like those of other state agencies – must be approved by the Legislature as an appropriation in the biennial budget. Premium volume decreases resulted in the OIC having to increase the surcharge rate by 2.5% in 2007 and by 5% in 2008. These were the first rate increases since 1996. In 2009, the OIC was able to keep the rate at the 2008 level. In 2010, the rate remained the same, but the agency was able to a credit of \$775,000 back to insurers, thus decreasing the net regulatory rate.

A growing issue of concern is the OIC's regulation of entities, such as service contract providers and fraternal benefit societies – that do not contribute to their cost of regulation. This means the companies that do pay the regulatory surcharge are covering the cost to regulate these entities that do not.

The regulatory surcharge rate is subject to a statutory cap; under state law (48.02.190 RCW), it cannot exceed one-eighth of one percent of receipts. Proposals for future budget enhancements, which will be necessary as the agency increases staff to meet national accreditation requirements, undertakes key information technology projects, and develops new market oversight and anti-fraud programs, must be carefully managed because of the statutory cap. Ensuring the long-term viability of operating revenue to meet consumers' needs will require us to explore alternatives; dedicated funding sources to pay for targeted programs such as fraud prevention and mandating that all regulated entities pay their share of the cost of regulation are two examples of funding alternatives.

Technology

To better position the agency to protect consumers and to keep pace with an increasingly-sophisticated regulatory climate, the OIC has made a number of substantial technology investments to its core regulatory business systems. With the national push toward greater uniformity among states in the areas of licensing, market oversight and regulatory standards, the OIC must continue to leverage technology and build upon earlier IT investments.

To maximize investments, the agency intends to build upon its regulatory core business systems on currently-supported technologies. The agency must ensure timely and adequate IT staffing levels to maintain and enhance the systems. Technology investments are not self-sustaining and, if not considered an agency priority, will languish quickly in today's high-paced technology environment.

The OIC recognizes the value of and dependency on technology, and the connection it has to successfully protecting consumers and regulating the insurance industry. The OIC is committed to sustaining its technology investments through continuous and consistent business systems upgrades, and by ensuring that IT staff possesses the necessary domain knowledge and technical expertise to support the systems.

The agency understands the advantages of statewide shared services. The possibility that some services provided by agency IT staff could be consolidated within a centralized agency (most likely the Department of Information Services) and provided to the OIC as a shared service is gaining momentum. Some of the areas being targeted include network administration, servers, technology procurement and certain enterprise systems.

Workforce issues

Employee competencies are the basis of an organization's success. The OIC strives to ensure its staff has the knowledge, skills and abilities to adapt to evolving technologies and improved work methods. Regulating the insurance industry requires expertise in a variety of complex subject areas, and the agency makes it a priority to ensure staff knowledge regarding insurance is kept up-to-date.

The OIC faces a workforce environment where nearly half of current staff are or will become eligible for retirement by 2015. A recent inquiry of retirement-eligible staff indicated most are considering delaying their retirement, which may result in a more concentrated impact over a shorter time period once the economy improves, rather than having the retirements more evenly spread over a number of years. The result of this retirement wave is the loss of some of the agency's most experienced, knowledgeable employees. The OIC is developing a succession plan to aid in managing workforce turnover, including that of younger employees who tend to stay, on average, only two or three years in a job.

Facilities

The Executive Office Building project, of which OIC will be the primary tenant, has been placed on hold due to the current economic recession. When this project is complete, it will house all agency staff in Thurston County in one location, providing a single point-of-service for the citizens of Washington State.

Currently, the agency's main office is in Tumwater; additional offices are located in Olympia, Seattle and Spokane. All facilities are leased, with the exception of the Olympia office located in the Insurance Building on the state's Capitol Campus. Three of these leases expire by the end of 2012, and we will either need to renew the leases or relocate. The agency's functions are relatively stable, but staffing levels can vary due to legislative action, making it difficult to predict future space needs.

Achieving Results

Goal: Protect and educate consumers

Objective: Increase consumer awareness of available agency services

Strategies:

- Develop and implement external outreach plan promoting agency services

Objective: Increase company and producer compliance with state and federal insurance laws

Strategies:

- Implement, modify or repeal RCWs and WACs to clarify, eliminate and/or plain talk insurer and producer requirements
- Enforce authorized insurer and producer compliance with Title 48 RCW
- Conduct financial examinations and compliance audits of producers

Objective: Reduce fraud and unlawful activities

Strategies:

- Identify, investigate and take enforcement action against unauthorized insurance activity
- Identify, investigate and prosecute criminal insurance fraud
- Educate consumers, law enforcement agencies and insurance investigators on insurance fraud and unauthorized insurance activities

Goal: Pursue improvements and innovations in agency programs and processes

Objective: Improve the efficient use of agency resources

Strategies:

- Restructure agency business processes to reflect agency priorities, business need, and efficiency
- Increase use of technology

Goal: Promote a healthy insurance environment

Objective: Increase the number of Washingtonians with health insurance benefits

Strategies:

- Implement federal health care reform

Objective: Prevent the insolvency of domestic insurers

Strategies:

- Conduct market oversight, targeted and full scope financial analyses and financial examinations
- Review financial statements for all domestic insurers each quarter for possible regulatory intervention
- Monitor and participate in NAIC's Solvency Modernization Initiative (SMI) process

Objective: Increase conformity with NAIC and federal uniformity and reciprocity standards

Strategies:

- Meet NAIC accreditation standards
- Participate in the development of NAIC model laws/rules
- Participate in the development of interstate compact product standards

Goal: Develop, retain and value a high quality, diverse workforce

Objective: Improve recruitment and retention of staff

Strategies:

- Implement the workforce development and succession plan
- Implement the employee recognition plan

Objective: Improve employee job competencies

Strategies:

- Implement a formal cross-training plan
- Provide employee development opportunities

Support of Statewide Results

Strategic Goals	Priorities of Government		
	Improve the health of WA citizens	Economic vitality	Gov't efficiency
Protect and Educate Consumers			
Promote a healthy insurance environment			
Pursue improvements & innovations in agency programs and processes			
Develop, retain and value a high quality, diverse workforce			

If shaded, goal has effect on indicated Priority.

Statutory Authority References

RCW Reference Title 48 – Insurance

Title	Explanation
48.01	Initial Provisions
48.02	Insurance commissioner
48.03	Examinations
48.04	Hearings and appeals
48.05	Insurers – General requirements
48.06	Organization of domestic insurers
48.07	Domestic insurers – powers
48.08	Domestic stock insurers
48.09	Mutual insurers
48.10	Reciprocal insurers
48.11	Insuring powers
48.12	Assets and liabilities
48.13	Investments
48.14	Fees and taxes
48.15	Unauthorized insurers
48.16	Deposits of insurers
48.17	Insurance producers, title insurance agents, and adjusters
48.18	The insurance contract
48.18A	Variable contract act
48.19	Rates
48.20	Disability insurance
48.21	Group and blanket disability insurance
48.21A	Disability insurance -- Extended health
48.22	Casualty insurance
48.23	Life insurance and annuities
48.23A	Life insurance policy illustrations
48.24	Group life and annuities
48.25	Industrial life insurance
48.25A	Life insurance -- Profit-sharing, charter, founders, and coupon policies

Title	Explanation
48.26	Marine and transportation insurance (Reserved)
48.27	Property insurance
48.28	Surety insurance
48.29	Title insurers
48.30	Unfair practices and frauds
48.30A	Insurance fraud
48.31	Mergers, rehabilitation, liquidation, supervision
48.31B	Insurer holding company act
48.31C	Holding company act for health care service contractors and health maintenance organizations
48.32	Washington insurance guaranty association act
48.32A	Washington life and disability insurance guaranty association act
48.34	Credit life insurance and credit accident and health insurance
48.35	Alien insurers
48.36A	Fraternal benefit societies
48.37	Market conduct oversight
48.38	Charitable gift annuity business
48.41	Health insurance coverage access act
48.42	Personal coverage, general authority
48.43	Insurance reform
48.44	Health care services
48.45	Rural health care
48.46	Health maintenance organizations
48.47	Mandated health benefits
48.50	Insurance fraud reporting immunity act

Title	Explanation
48.53	Fire insurance -- Arson fraud reduction
48.56	Insurance premium finance company act
48.58	Riot reinsurance reimbursement
48.62	Local government insurance transactions
48.64	Affordable housing entities -- Joint self-insurance programs
48.66	Medicare supplemental health insurance act
48.68	Health care savings account act
48.70	Specified disease insurance act
48.74	Standard valuation law
48.76	Standard nonforfeiture law for life insurance
48.80	Health care false claim act
48.83	Long-term care insurance coverage -- Standards
48.84	Long-term care insurance act
48.85	Washington long-term care partnership
48.87	Midwives and birthing centers -- Joint underwriting association
48.88	Day care services -- Joint underwriting association
48.90	Child day care centers -- Self-insurance
48.92	Liability risk retention
48.94	Reinsurance intermediary act
48.97	Producer-controlled property and casualty insurer act
48.98	Managing general agents act
48.99	Uniform insurers liquidation act
48.102	Life settlements act
48.104	Holocaust victims insurance relief act

Title	Explanation
48.110	Service contracts and protection product guarantees
48.111	Home heating fuel service contracts
48.115	Rental car insurance
48.120	Specialty producer licenses -- Communications equipment or services
48.125	Self-funded multiple employer welfare arrangements
48.130	Interstate insurance product regulation compact
48.135	Insurance fraud program
48.140	Medical malpractice closed claim reporting
48.150	Direct patient-provider primary health care
48.155	Health care discount plan organization act
48.160	Guaranteed asset protection waivers
48.165	Uniform administrative procedures -- Health care services
48.170	Self-service storage insurance producers