



**Ohio Department of Insurance Budget Testimony FY 2012-2013
On behalf of Lt. Governor and Director of Insurance Mary Taylor
Jillian Froment, Assistant Director and Chief Administrative Officer
May 16, 2011**

Introduction

Good afternoon. I would like to thank Chairman Widener, Ranking Member Skindell, and members of the Senate Finance Committee for allowing me, on behalf of our Lt. Governor and Director, to present the Ohio Department of Insurance's FY 2012-2013 biennial budget request.

This budget request is aligned with our mission to vigorously investigate insurance fraud; empower consumers to make informed insurance decisions; and promote a robust, stable and competitive market place.

Other priority initiatives include integrating the Common Sense Initiative in all aspects of the department, providing excellent customer service and implementing an enterprise system that will facilitate e-commerce with business constituents. The Lt. Governor strongly believes that significant regulatory reform and rethinking how government operates will be a substantial step forward to increasing Ohio's ability to attract and retain insurance businesses and jobs for Ohioans.

About the Department

The Department of Insurance is charged with regulating Ohio's dynamic and sophisticated insurance industry. We regulate nearly 1,700 insurance companies, 20,700 agencies and 82,000 Ohio insurance agents. Additionally, we license 211,000 out-of-state agents, and we monitor our market to ensure that these agents comply with Ohio standards for sales practices. The Ohio Department of Insurance is looked upon as a national leader in insurance regulation. The Department has a long-tradition of being at the forefront of effective and responsible regulation that encourages positive growth for the insurance industry in Ohio. This national reputation is a source of pride and Lt. Governor Taylor has pledged to build upon this reputation of excellence.

Maintaining Integrity in the Ohio Insurance Market

Insurance companies write about \$54 billion in premiums in Ohio, which is the 9th largest volume in the country. As a result, Ohio insurers contribute about \$450 million annually in premium taxes to the General Revenue Fund.

Monitoring the financial solvency of insurance companies operating in Ohio to ensure they are fiscally sound and stable is one of the most important functions we perform. The Department analyzes the quarterly financial statements submitted by each of our 250 domestic insurers, plus

performs streamlined quarterly analysis of over 1,400 foreign insurers. The Department conducts periodic, on-site financial exams of domestic insurers at least once every five years and more often, where needed, for targeted companies.

The Department conducts investigations of insurance companies in the marketplace, called “market conduct” exams, to assess complaints and investigate allegations of wrong doing. Examinations may be either comprehensive or targeted on specific issues if there is information that recent events have negatively impacted an insurer. In 2010, the Department conducted 25 external exams and 112 desk reviews. Our investigations can lead to suspension or revocation of licenses or authority to operate in Ohio, or even to criminal prosecutions.

The Department reviews thousands of rate requests filed by companies to ensure that the rates meet all state-mandated actuarial and financial requirements. Additionally, we review company forms to ensure compliance with insurance code, such as consumer disclosure requirements. We also review new insurance products to determine their compliance with Ohio law. In 2010, the Department received 8,461 filing submissions with an average turnaround time of 27 days.

Assisting Consumers

The Department empowers consumers to make informed insurance purchasing decisions by providing educational information, training and consultation. Additionally, we assist consumers who encounter difficulties by answering inquiries and investigating and resolving complaints. The Department assists seniors, caregivers and other Medicare recipients obtain information on Medicare products and programs; and works to prevent predatory sales practices directed toward seniors by partnering with the Departments of Aging and Commerce.

In 2010 we received more than 121,000 calls to our consumer affairs staff, which includes calls to our Ohio Senior Health Insurance Information Program (OSHIIP). As a result of these calls, we investigated and resolved 5,152 insurance complaints and recovered \$10.3 million on behalf of Ohio consumers.

Ohio currently has 1.9 million Medicare beneficiaries, and approximately 96,500 Ohioans turn 65 each year. OSHIIP assists Ohio’s Medicare beneficiaries, their families and healthcare professionals acquire greater understanding and use of available health insurance options, including Medicare, Medicaid and private insurance. OSHIIP disseminates insurance-related information throughout Ohio via OSHIP’s toll-free hotline, publications/brochures, speakers’ bureau, trained and certified volunteers and a web site.

Fighting Fraud

Nationally insurance fraud costs insurance companies and consumers in excess of \$80 billion dollars a year, while agent misconduct often results in a consumer sustaining a financial loss. Insurance fraud adversely impacts the Ohio insurance market by causing increases in insurance rates for all Ohioans.

The Department vigorously investigates over 6000 allegations annually of misconduct or fraud committed by agents, agencies, unlicensed individuals/entities, consumers and medical providers. Investigative efforts include: collecting and analyzing subpoenaed information, investigatory interviews, undercover operations, investigative support to insurance carriers, legal assistance to local prosecutors and public awareness programs. In 2010, the department referred 86 individuals for prosecution. We also revoked 101 agent licenses and accepted the surrender of 175 licenses.

General Operating Budget and Contributions to GRF

The Department was created in 1872 and has been a non-General Revenue Fund agency since 1981. Of our approximately \$36 million annual operating budget, the largest portion comes from agent appointment fees. In FY 2010, these fees generated about \$30 million. The appointment fee is \$20, of which \$5 goes automatically to the GRF (\$9.4 million last fiscal year).

Total fees and assessments related to the Department's operations going to the GRF in FY 2010 totaled more than \$17 million. This figure does not include the \$446 million in premium tax that is paid annually to the GRF by insurance companies operating in Ohio. The premium tax is certified by our Department and collected by the State Treasury and remitted directly to the GRF.

We maintain five separate rotary funds: Fund 5540 – our Operating Fund; Fund 5550 – our Examination Fund; Fund 3EV0 – the Health Insurance Premium Review Fund; Fund 3EW0 – our Health Exchange Planning Fund; and Fund 3U50 – our OSHIIP Fund.

Department of Insurance Operating Fund (designated Fund 5540)

Three-fourths of agent appointment fees, along with other fees, are credited to this fund. This fund provides for all operating expenses of the Department, except for expenses of financial examinations of insurers, OSHIIP, and specific items related to the implementation of the federal Patient Protection and Affordable Care Act (PPACA), which I will describe shortly.

Examination Fund (designated Fund 5550)

Payments from insurers for expenses of examination of financial affairs and domestic and foreign assessments are credited to this fund. Generally these credits match expenditures for these exams.

Health Insurance Premium Review Fund (designated Fund 3EV0)

The U.S. Department of Health and Human Services awarded the Department \$1 million to increase capacity for oversight of a high volume of complex health insurance rate filings, as well as increase transparency and accountability specifically related to PPACA. The Department will incorporate key elements of the federal data reporting requirements into the changes to product filing procedures. We will need to expand our process to achieve totally integrated product and

rate filing reforms. We anticipate future funding opportunities to be made available throughout the next biennium, as well, to continue these functions.

Health Exchange Planning Fund (designated Fund 3EW0)

The U.S. Department of Health and Human Services awarded the Department \$1 million to evaluate and plan for a health exchange in Ohio. We will be gathering data through IT and actuarial modeling to determine the advantages, disadvantages and impacts of implementing and operating a health insurance exchange. We anticipate future funding opportunities to be made available throughout the next biennium, as well, to continue these functions.

The Ohio Senior Health Insurance Information Program (“OSHIIP”) Fund (designated Fund 3U50)

OSHIIP is primarily funded through a federal grant to provide Medicare insurance information to Ohio seniors and other Medicare-eligible Ohioans. As federal funds are transferred, they are deposited in this fund so they are not commingled with other Department funds. The current federal funding level is about \$2 million a year, of which \$1.5 million is a basic award. The remainder is made up of carryover of prior awards and a special Medicare Improvements for Patients and Providers Act (MIPPA) grant that comes to us through the Department of Aging. Since 2005, OSHIIP has played an essential role in educating Ohioans about Medicare prescription drug coverage. OSHIIP is supported primarily by federal funds, but the Department contributes approximately 8 percent annually to its operations.

Summary of FY 2012-2013 Budget Request

The Department’s funding request for fiscal year 2012 is \$36.2 million (or a 6.9% decrease from fiscal year 2011). The funding request for fiscal year 2013 is \$35.6 million (or a 1.7% decrease from fiscal year 2012).

The Department’s proposed budget includes two components. The first are federal dollars that will be used to implement specific programs as I just described. The second component is made up of the standard operating fund and the examination fund. This second component provides for the expenses necessary to carry out the Department’s responsibilities and will support the following objectives:

- Oversee the financial solvency of insurance companies and health insuring corporations operating in Ohio, and assure that companies operating in Ohio are stable and sound.
- Provide consumers with education on insurance matters, such as health care coverage options and issues of interest to seniors.
- Provide consumers with assistance regarding insurance coverage and claims-related concerns.
- Oversee insurance sales, claims handling activities, and insurance company interactions with policyholders to ensure they are fair and compliant with Ohio law.

- Investigate fraud and misconduct in a thorough and professional manner.
- Protect Ohio's senior population from predatory sales practices by strengthening regulatory measures, educating seniors and continuing partnerships with organizations that serve senior citizens.
- Continue efforts to implement the PPACA
- Continue implementation of an enterprise system that will facilitate e-commerce with business constituents and allow Ohio to comply with the reporting requirements of the National Association of Insurance Commissioners.
- Provide staff educational and training opportunities to enhance their insurance knowledge in order to effectively monitor a complex and ever changing insurance industry.
- Continue efforts in overseeing the licensure and education of insurance agents

Our staff size is modest compared to other states with similar size domestic markets. We will continue to assess the changing personnel needs and leverage technology to ensure that we have necessary staffing and resources to effectively carry out statutory responsibilities and to focus on our priority areas, such as combating insurance fraud.

Conclusion

In conclusion, we at the Department of Insurance are working to vigorously investigate insurance fraud; empower consumers to make informed insurance decisions; and promote a robust, stable and competitive market place. We respectfully request your consideration of our budget request to achieve these goals.

This concludes my testimony. I am happy to answer any questions.