

AGENCY OVERVIEW (TRANSMITTAL LETTER)

Indiana Department of Insurance Budget Submittal for Fiscal Year 2012 and Fiscal Year 2013

1. A description of your agency's programs and functions (by department or division, as appropriate)

IDOI MISSION STATEMENT

The purpose of the Indiana Department of Insurance (IDOI) is to protect Hoosiers as they purchase and use insurance products to keep their assets and their families from loss or harm. Consumers may need assistance with certain claim situations or just help in understanding how their policies work. Our other primary obligation is to monitor the financial solvency of the insurance companies domiciled in Indiana so that the legal promises made in insurance policies are honored. To these ends, our IDOI staff is committed to providing exceptional customer service for both our consumers and our companies, and to maintain a fair and objective viewpoint as we examine each issue and circumstance within our jurisdiction.

IDOI's PRIMARY CUSTOMERS

- Insurance consumers who reside in Indiana;
- 177 domestic and 1,643 foreign or alien insurers and health maintenance organizations that operate in Indiana;
- More than 138,000 licensed insurance agents, more than 12,000 licensed insurance agencies, and 345 insurance agent continuing education providers;
- Third Party Administrators, Provider Networks, Medical Claims Review, and Utilization Review Organizations operating in Indiana;
- Claimants who petition for payment from the Indiana Patient's Compensation Fund for excess damages resulting from medical malpractice and health care providers who participate in the Fund;
- Other interested parties, including state and federal legislators, the media, other state insurance departments, and Indiana state agencies.

THE IDOI's MAJOR PROGRAMS ARE:

- Intake and resolution of consumer questions and complaints against licensed insurance companies and agents
- Monitoring financial solvency of insurance companies
- Licensing of insurance companies

- Licensing of insurance agents and insurance agencies
- Review and approval of continuing education courses and providers
- Review of insurance policies and other forms and review of insurance rates for compliance with Title 27 of the Indiana Code
- Investigation and adjudication of company and agent code violations
- Implementation of PPACA (Patient Protection and Affordable Care Act) guidelines affecting insurance regulation
- Administration and defense of the Indiana Patient's Compensation Fund which provides payment for certain malpractice awards and the maintenance of a malpractice claim database.
- Operation of the State Health Insurance Assistance Program (SHIP)
- Licensure and regulation of bail bond, recovery, and title agents
- Administration of Indiana's Long Term Care Partnership Program
- Administration of the Indiana Political Subdivision Risk Management Fund which provides liability insurance to political subdivisions
- Administration of the Indiana Mine Subsidence Insurance Fund which provides mine subsidence insurance to Indiana residents who live in certain, vulnerable areas
- Maintain Mortgage Fraud Database

2. Accomplishments and challenges over the past two years:

Topic: Insurance recovery and restitution for Indiana consumers

Action: The IDOI takes appropriate disciplinary action against insurance producers, agencies, and companies who violate Indiana Code Title 27 or the insurance regulations set forth in Indiana Administrative Code Title 760.

Results: Aggressive and effective disciplinary action is best reflected in the amount of money the IDOI recovers for consumers. The IDOI collected \$20,783,763 in 2009 in combined consumer recoveries and restitution, almost doubling the total amount of \$10,922,376 collected in 2008. From January 1, 2010, to June 30, 2010, the IDOI has collected \$7,917,072 in consumer recoveries and restitution. In addition, the Enforcement Division has negotiated or obtained administrative judgments for fines against companies and agents who have violated the Insurance Code. Company fines in 2009 total \$1,648,650 (up from \$815,360 in 2008), and \$21,250 from January 1, 2010, to June 30, 2010. Producer (agent) fines for 2009 total \$850,315, and from January 1, 2010, to June 30, 2010, total \$55,950.

Topic: Reducing the impact of insolvencies

Action: The unfortunate downturn in the economy led to rehabilitations of two Indiana health care insurers. The IDOI worked with other insurers to ensure the policyholders did not have a gap in coverage and to maximize payment of outstanding claims.

Results: Policyholders for both companies were able, through the efforts of the IDOI, to obtain comparable health care coverage.

Topic: Improving the environment for those seeking to enter the insurance industry as an agent.

Action: The IDOI continued to expand its web-based services. The partnership between our new test provider and Sircon resulted in the means to download the pre-licensing education and test results into our database. New applicants were therefore provided the ability to expeditiously submit license applications and fees electronically with the ability to print their licenses on their personal computer. Services for existing licensees were also expanded, with the adoption of license renewals online through Sircon, our database provider, and also through NIPR, the national database provider. Allowing continuing education (CE) providers to download transcripts into the resident producer's individual database added the ability to virtually renew automatically when the CE is compliant. The IDOI also adopted a secured, interactive website for producers called Producers Edge. This service gives residents access to licensing in all 50 states; the ability to automatically load license information directly from one state to another; immediate license and renewal tracking; customized license renewal reminders; access to current CE transcripts and outstanding requirements; and an integrated, secure, online payment processing of state fees. The IDOI is requesting e-mail addresses of all agents and producers in preparation to eliminate mailing paper invoices and begin the exclusive use of electronic renewal reminders. The IDOI has also adopted electronic CE course submittals and course renewals.

Results: The continuous improvement activities have allowed for expanded expedited paperless transactions for new and existing agents. Agents can be competitive in other states by utilizing the expedited transfer of data for licensing and renewal services. Printing costs for licenses and invoices are being reduced. Physical storage space for CE courses is anticipated to be reduced as providers switch from paper to electronic services.

Topic: Reducing the burden of high malpractice insurance rates for doctors and hospitals while ensuring victims of medical malpractice are fairly compensated for excess damages

Action: After reducing malpractice surcharge rates for physicians and hospitals in 2008 for the first time since the Medical Malpractice Act's (MMA's) passage in 1975, the Patient's Compensation Fund (PCF) reduced rates again in the next two consecutive years. Beginning March 1, 2009, the PCF reduced physician rates by 0.5% and hospital rates by 5%. Beginning March 1, 2010, physician rates were reduced by an additional 17.7%, and hospital rates were reduced by an additional 28.4%. These reductions were partially due to a continuing effort by the IDOI to review the manner of assessing surcharge and accurately place costs on the parties bringing risk to the PCF. The reduction in surcharge rates was possible also because of successes by the PCF in the appellate courts. Based on older law interpreting the MMA, some plaintiffs' attorneys successfully prevented the PCF from introducing evidence in the trial courts that a patient's pre-existing medical condition was partly responsible for the patient's bad outcome or that a patient's medical care cost significantly less than the patient was billed

for. The PCF convinced the Supreme Court that the proper interpretation of the law requires the PCF to pay for damages caused by the actions of the negligent health care provider and not for the patient's illness or injury which caused the patient to seek medical care. Other plaintiffs sought recovery for emotional distress beyond what the PCF determined was available under Indiana law, and the PCF was successful in limiting such recovery. Additionally, the PCF has worked to reduce the administrative costs of receiving surcharges and proof of financial responsibility (typically an underlying insurance policy) from participating health care providers. This has included making more information available through the PCF's public web site; performing standard, non-statutory communications via email rather than U.S. mail; and implementing the use of a computer system to electronically pull information off of certificates of insurance to reduce the number of temporary employees engaged by the PCF.

Results: Reducing the cost of health care providers' professional liability insurance helps enable health care providers to provide affordable health care to Hoosiers. In addition, maintaining a stable PCF helps attract health care providers to Indiana and induces them to remain in Indiana by protecting their personal assets from potential lawsuits. The IDOI has been able to provide that stability while also reducing the costs to physicians and hospitals.

Topic: Disaster response and recovery efforts

Action: The IDOI has continued to partner with other state and federal agencies to provide a coordinated response to disasters faced by Indiana residents. The IDOI is in the process of developing its formal Disaster Recovery Plan in conjunction with the Indiana Department of Homeland Security.

Results: In late September 2008, the secondary effects of Hurricane Ike affected Indiana. Widespread wind damage resulted throughout southern Indiana, combined with flooding experienced in northern Indiana. The IDOI sent response teams of insurance experts to disaster response centers in North Vernon, Madison, Charlestown, New Albany, Portage, Lake Station, Valparaiso, La Porte, and Gary to assist citizens with resulting insurance related inquiries and to enhance their immediate access to their insurers.

In late April and early May 2009, flooding was experienced in Monticello, Winamac, and Rochester. Again the IDOI sent members of their Disaster Response Teams to each location. The IDOI has continued to build on its technical expertise, with five members of the disaster response teams successfully completing their Insurance Producer Licensing training.

Topic: For the first time, the IDOI partnered with the Indiana Department of Child Services (DCS) to identify and collect child support from licensed insurance and bail agents in the State of Indiana who owed child support arrearages.

Action: The IDOI designed a program to audit licensed insurance producers and bail/recovery agents and notify them that their licenses could be suspended if they failed to either pay their child support arrearage in full or enter into an income withholding agreement with their county Child Support Division to pay the arrearage.

Results: From July 1, 2008 through June 30, 2010, the IDOI assisted in the collection of more than \$642,000 in back child support. Due to its partnership with the IDOI, the efficiency of DCS's collection efforts has been increased. By aiding in the collection of back child support, custodial parents are less dependent on taxpayer-funded assistance programs. Additionally, a serious message has been sent to all agents licensed by the IDOI that failure to meet their child support obligation will result in the suspension of their license.

3. Objectives for the next biennium

- Consumer Protection

The IDOI will maintain its aggressive stance on the discipline of producers and companies who violate Indiana Code Title 27 or the insurance regulations set forth in Indiana Administrative Code Title 760 to protect Indiana consumers and to ensure an even playing field for the insurance industry in Indiana.

The IDOI intends to focus on effective regulation of the title insurance industry. For this purpose, it has implemented the Title Insurance Division, which is funded by a fee charged with every title insurance policy sold covering real property in Indiana. By the end of the 2011 biennium, the Title Division will complete a second round of examinations of all existing resident title agencies in Indiana and complete examinations of all existing non-resident title insurance agencies who conduct title insurance business in the state.

In January 2010 the Residential Real Estate Acquisition of Licensee Information and Numbers (RREAL IN) database was implemented. The IDOI maintains the database and will continue to find ways to utilize the information deposited there to protect consumers and their real property.

The IDOI will renew its role as a member of the National Association of Insurance Commissioner's Market Regulation and Consumer Affairs (D) Committee to monitor developments and directives that affect the department, companies and consumers and will continue to monitor and assess NAIC's renewed emphasis toward market regulation accreditation. At the same time, efforts will continue to improve collaboration and uniformity between states to reduce duplication and costs when one company is subjected to several market conduct examinations by multiple states.

- Financial

Once every five years, the National Association of Insurance Commissioners (NAIC), of which Indiana is a member, does an extensive on-site review of each state department of insurance's ability to properly determine the solvency of the companies domiciled in their state. This accreditation process is viewed with great importance in the insurance industry and is vital to all of the companies domiciled in Indiana. A team of outside auditors will do the review. The IDOI was last accredited in 2005 and is currently undergoing its accreditation review. It is anticipated that this review will result in a recommendation that the IDOI be reaccredited for another five years. Without proper accreditation all Indiana companies could be subject to costly financial examinations by other states in which they conduct business.

The IDOI will implement the TeamMate software for the financial analysis and transaction reviews. This implementation will make files readily accessible to the various individuals that participate in financial examinations. In addition, it will reduce the amount of space required for storage, supplies, and paper currently required to maintain these files.

- Political Subdivision Risk Management Commission

The Commission will continue to provide liability coverage to Indiana political subdivisions having difficulty obtaining proper insurance coverage. This program is administered by the IDOI and marketed through independent insurance agents.

- Health Care Reform

The IDOI intends to take the actions necessary to implement the new health care directives created by the Federal Patient Protection and Affordable Care Act.

- Patient's Compensation Fund

Over the next biennium, the PCF will continue to work to more efficiently handle the process of receiving surcharges and proof of financial responsibility. Goals for the biennium include greater use of electronic communication, which will reduce costs, and providing health care providers and insurers a means of electronically filing proof of financial responsibility and surcharge.

In addition, the PCF will prudently litigate necessary issues to establish and maintain legal precedent that furthers the intent of the MMA.

- Mine Subsidence Program

The program will expand education efforts for residents of the 26 southwestern Indiana counties affected by abandoned underground coal mines in order that they may add mine subsidence insurance coverage on their homes or commercial properties. It will also provide public service announcements through media and trade association, and provide additional information through the IDOI's website.

- Disaster Response

The IDOI will expand education efforts for consumers before a crisis occurs. Indiana consumers have particular education needs in the area of flood and earthquake insurance. Indiana has recently partnered with neighboring states that also have earthquake exposure from the New Madrid Fault to compare and share data on building codes, coverage requirements and market inventory.

4. An organizational chart: (Attached to email)

5. Any programs to be reduced, eliminated, and/or replaced by other programs (these should be described in some detail),

None

6. Any reallocation of funds to accomplish these changes should also be included.

The Patient Protection and Affordable Care Act (ACA) passed on March 23, 2010, created significant changes that will affect health insurance in Indiana. IDOI will be responsible for direct implementation, monitoring of participating companies, monitoring of amended filings, grant applications, expansion of consumer services, staff training, and public information. Although IDOI is awaiting clarification of unanswered questions and ambiguities within the ACA from the Department of Health and Human Services (HHS), it is clear that there will be additional demands on IDOI's resources because of ACA. For example, IDOI is currently developing its 2011 legislative agenda for ACA provisions taking effect September 23, 2010, so that Title 27 provisions do not conflict. IDOI is managing all health insurance inquiries and conducting briefings for legislative staffs, industry, associations, providers, employers and other interested parties.

To date, IDOI has added three full-time employees to accommodate for these demands whose salaries are currently paid by an ACA grant. Until HHS completes regulations under its authority in ACA, the final impact on IDOI's budget is not ascertainable. In addition to the three full-time employees referenced above, at a minimum ACA will require significant technological upgrades. Similarly, IDOI's consumer protection division will likely have to be expanded to comply with the vast amount of ACA's consumer provisions.

The IDOI understands the fiscal constraints under which the State is currently operating and the possibility that additional efficiencies may need to be found. This submittal and its objectives were prepared with the assumption of current operating levels.

Sincerely,



Stephen W. Robertson

Acting Commissioner and Executive Director