INSURANCE PROTECTION FOR ALL CALIFORNIANS

Strategic Plan 2012–2015

CALIFORNIA DEPARTMENT OF INSURANCE
INSURANCE COMMISSIONER DAVE JONES

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A Message From Insurance Commissioner Dave Jones

When I took the oath of office as California's fourth elected Insurance Commissioner in January 2011, I pledged to define my Administration by one word: Action.

My Administration has achieved a number of critical successes in a short time. I have prioritized:

(1) Implementation of health care reform.
(2) Enhancement of consumer protections.
(3) Maintenance of a viable, competitive, and fair insurance marketplace.

The hard work and commitment of my staff makes a difference in the day-to-day lives of Californians. Together, we ensure that consumers are paid insurance benefits fairly and timely; that insurers are solvent to pay claims; and that insurance is fair, available, and affordable.

My pledge to make my Administration one of action encompasses a commitment to institutional improvement. We owe it to Californians to accomplish our mission more efficiently and more effectively.

These are challenging economic times. Our services are more important than ever. As Californians struggle to keep and find work, they are also struggling to insure their homes, their cars, their businesses, and their health and well-being. State resources are shrinking when they are needed most. Every day we are required to do more with less.

To do more with less requires a thoughtful and strategic approach. Our resources are more valuable than ever. We cannot afford to approach our role and responsibility of regulating in the same way as we always have.

For this reason, I appointed a department-wide Strategic Planning Committee to create a Strategic Plan for the organization. This effort includes newly developed Vision, Mission, Values and Goals to help guide the direction of this organization and motivate us to continually aim high.

This Strategic Plan was built by my staff. Each branch developed business implementation plans and evaluative tools and metrics to keep us accountable. These plans were informed by various stakeholders who provided candid input about our CDI's strengths and opportunities for improvement. I am grateful for our stakeholders' feedback and I am confident that they will continue to hold us accountable.

This Strategic Plan is an important part of my pledge of action. I am committed to using resources wisely and efficiently in order to maximize consumer protection in an era when that promise is more important than ever.

Sincerely,

DAVE JONES
Insurance Commissioner

CDI 2011 – 2012 Accomplishments

Health Care Reform

- Issued and enforced regulations prohibiting health insurers from denying health insurance to children with pre-existing conditions.
- Issued regulations to implement and enforce the federal Affordable Care Act (ACA), including individual and small group market reforms.
- Assisted Covered California establish California's health benefits exchange
- Reviewed and submitted comments on more than six major federal Affordable Care Act regulations. The Department's comments assisted the federal government in issuing final regulations for the implementation of the Affordable Care Act reflecting California's strong consumer protection interest and experience.
- Received and managed $2.1 million in federal grant money to expand health insurance rate review to evaluate whether filed rates are unreasonable.
- Secured federal funding to enhance consumer assistance pertaining to the ACA. The Department is using these funds, in part, to enhance our consumer call center and to develop a mobile application which will allow consumers greater ease in accessing information about the ACA.
- Saved consumers $73.9 million by issuing and enforcing Medical Loss Ratio regulations that require insurers to spend more of their collected premiums on actual medical care rather than administrative expenses.
- Reviewed more than 150 health insurance policy forms for compliance with new requirements, benefits and consumer protections under the Affordable Care Act.
- Required health insurers to provide treatment for autism, including behavioral treatment.

Premium Savings

- Reviewed 114 health insurance rate filings in the individual and small group health insurance markets and obtained reductions in proposed rates, resulting in $285 million annually in premium savings for individuals and small businesses. The Department, however, continues to lack the authority to reject excessive rate hikes and health insurers

continue to implement excessive and unreasonable rate increases.

- Processed over 2,119 property and casualty insurance rate filings under Proposition 103 during our first 30 months. The Department reduced the overall amount of requested rate increases by $382 million and approved over $968 million in rate reductions, totaling over $1.350 billion in savings to California consumers and businesses. This total additional includes approximately $531 million in rate reductions for personal auto coverage and $258 million in rate reductions for personal homeowners coverage.
- Lowered medical malpractice insurance rates, saving doctors, dentists and other medical providers $54 million in premiums.
- Assisted financially distressed homeowners by requiring insurers who sell "forced placed homeowners insurance" to reduce their rates for a total of $64 million annually in premium savings.
- Approved changes to residential California Earthquake Authority (CEA) earthquake insurance policies to make them more affordable and beneficial. Changes resulted in an average rate reduction of 12.5 percent and provided personal property coverage for the first time.

Insurance Fraud

- The Department oversaw five distinct local assistance grant programs which award grants to district attorneys for the investigation and prosecution of insurance fraud and insurance related crimes. During FY 11/12, we reviewed application requests and awarded grants totaling approximately $57 million in funding to district attorneys. These programs resulted in 2,425 arrests and 2,015 convictions during FY 11/12.
- Successfully sponsored legislative amendments to the Insurance Code during 2012 including granting funding for local district attorneys to investigate and prosecute healthcare fraud. To ensure effective use of new resources the Department developed and hosted a forum for DAs and CDI personnel on insurance fraud by medical professionals in all lines of insurance. Healthcare Fraud 202 is in the development stages.

- The Department joined forces with its Joint Enforcement Strike Force (JESF) partners to conduct a statewide sweep of contractors operating in California's Underground Economy. The Department partnered with the Contractors State Licensing Board (CSLB), the Employment Development Department (EDD), and local district attorney's office in eleven counties. This sweep resulted in 104 enforcement actions including for failure to carry workers' compensation insurance and under-reporting payroll.

Regulations and Legislation

- CDI sponsored nine strong consumer protection bills that were signed into law during the 2011 legislative session. These include bills that will protect seniors from fraudulent activities while purchasing annuities, ensure that agents and brokers do not engage in predatory practices in the selling of reverse mortgages, give life insurance beneficiaries the option to receive payments via a retained asset account, and require disclosure in workers' compensation policies in order to save businesses from spending on unexpected costs.
- CDI sponsored five bills that were signed into law in 2012. These include bills that will: 1) reinstate specified conduct standards and requirements for all bail fugitive recovery persons (bounty hunters); 2) increase funding available to District Attorneys and to CDI to investigate and prosecute health and disability fraud; 3) ensure CDI has the regulatory authority to protect consumers in response to changes brought by the globalization of the insurance business and insurer use of reinsurance; and 4) improve the predictability of Long Term Care insurance rates.
- The Department managed 25 rulemaking projects, reviewed and evaluated 17 potential rulemaking projects and issued eight regulations including the following significant matters:
    - Preventing discrimination by health insurance companies on the basis of gender identity.
    - Extending the medical loss ratio (MLR) requirements to include large group policies.
    - Establishing standards for automobile repairs and the use of aftermarket parts, by increasing the consumer protections regarding insurer estimates and replacement parts used in vehicle repairs.

  - Enforcing the Mental Health Parity Act to protect insurance coverage for autism.
- The Department undertook additional initiatives including:
  - Iran Divestment Initiative. Requested all insurers to divest from the military, energy and nuclear sectors of the Iranian economy due to the risk associated with investments in Iran. As a result of the Commissioner's Iran Divestment initiative, the number of insurers investing in companies doing business with Iran has fallen 98 percent, from 341 insurers to just seven.
  - Climate Change Initiative. The Department surveyed major insurers with regard to what, if anything, insurers are doing to respond to climate change. The Commissioner sought and obtained five other Commissioners' participation in administering the survey and expanded the survey to 72% of the entire United States market. The survey results are made public to help insurers, investors, regulators and members of the public better understand the extent to which the insurance industry is responding to climate change.
  - Reformed the Workers Compensation "Pure Premium Benchmark" process and provided workers' compensation market stakeholders with expert actuarial reviews of workers' compensation cost structure changes.

Enforcement

- Leading a national investigation ("Death Master File Investigation") of life insurers' failure to pay billions of dollars in death benefits. Obtained successful enforcement settlement agreements with seven major life insurers representing over 45 percent of the market requiring them to pay hundreds of millions of unpaid benefits. Insurers paid nearly $10 million in penalities to California while agreeing to reform practices relating to use of the Social Security Administration's deceased persons database so that the companies would properly identify potential beneficiaries of life insurance policies.
- Successfully settled an enforcement action against the Travelers Insurance companies resulting in $10.5 million in premium refunds to policyholders who were overchaged as well as a $1.5 million fine. The

settlement resolved insurance code violations discovered in a market conduct examination of the companies.
- Successfully settled an enforcement action against New Hampshire Insurance Company, providing $10.8 million in increased consumer recoveries.

Insolvency Recovery
- Performed successful early intervention with a failing $300 million domestic property and casualty insurer, resulting in 100% protection of injured workers' claims and the transfer of policies and claims to a healthy third party insurer.
- Collected $226.1 million of reinsurance recoveries, reinsurance commutations and litigation recoveries of failed insurance companies to repay policyholders and creditors.
- Distributed $495.1 million to injured policyholders and guaranty associations from failed insurance companies.

Consumer Protections

- Recovered over $64 million for consumers as a result of investigations of consumer complaints received by the Department and through market conduct examinations of 215 insurance companies by the Department.
- Handled approximately 170,000 consumer calls to our Consumer Hotline.
- Created a unit of dedicated health insurance consumer service officers to better service consumers and assist them in navigating through new healthcare reform laws.
- Obtained successful settlements with major insurers to cover Behavioral Health Therapy to treat autism and eliminate visit limits on speech and occupational therapy.
- Created Elder Financial Abuse Interagency Roundtable (EFAIR) and launched the inter-agency "Senior Gateway' Internet portal.

Community Programs
- Increased insurer investments in underserved communities in California through the department's COIN (California Organized Investment Network) Program from $1.65 million in 2010 to nearly $1.35 billion in 2012.

- Insurance Diversity Initiative. Surveyed and encouraged insurers to diversify their procurement, governing boards and employment. Established the Insurance Diversity Task Force and convened the first ever Insurance Diversity Summit, bringing together more than 200 insurance executives and diverse business owners to identify best practices.
- The Department attended over 250 public outreach events throughout California to increase consumer education about consumer protections
- Strengthened and continued to expand the California Low Cost Auto Program by creating a consumer-friendly website that closely links customers to insurance agents, resulting in more than 9,000 policies in force by the end of 2012.

Licensing

- Issued and renewed 430,093 insurance agent and broker licenses.
- Restricted or suspended the licenses of 986 agents and brokers.
- Opened 15 new testing centers throughout California in 2011 and 2012, including Anaheim, Bakersfield, Carson, Fresno, Santa Clara and Redding. With these new sites and three additional sites that opened in 2013, license applicants now have 21 sites throughout California to take their examination.
- Changed the licensing application process to a more efficient "exam first" method. Applicants can now avoid the higher application fee until after passing a qualifying examination.

Funding for Other State Agency Operations

- Collected $2.4 billion in premium taxes for the state's General Fund for fiscal year 2011-12.
- Contributed $39.4 million in fines and penalties to the state's General Fund since taking office, through the Department's vigorous enforcement activities.

Administration

- The Department earned the Bronze Agency award at the 13th annual State Agency Recognition Awards for its outstanding achievements in contracting with California's Small Business and Disabled Veteran Business Enterprise programs.

CDI Background

The California Department of Insurance (CDI) was created in 1868 as part of a national system of state-based insurance regulation. The insurance marketplace has changed dramatically in the last 144 years, but consumer protection continues to be the core of CDI's mission.

Today, CDI is one of the largest consumer protection agencies in the state. California is the largest insurance market in the United States and the sixth largest insurance market in the world.

Over 1,300 dedicated employees work at CDI to oversee more than 1,500 insurance companies and license more than 320,000 agents, brokers, adjusters, and business entities. In the normal course of business, CDI annually processes more than 7,000 rate applications, issues approximately 160,000 licenses (new and renewals) and performs hundreds of financial reviews and examinations of insurers doing business in California. CDI annually receives more than 180,000 consumer assistance calls, investigates more than 35,000 consumer complaints and, as a result, recovers more than $50 million a year for consumers. CDI also annually receives and processes roughly 28,000 referrals regarding suspected fraud against insurers and others and conducts criminal investigations resulting in roughly 800 arrests.

All of CDI's functions, including overseeing insurer solvency, licensing agents and brokers, conducting market conduct reviews, resolving consumer complaints, and investigating and prosecuting insurance fraud, are to protect consumers.

Consumers, insurance companies, and licensees rely on CDI to ensure that insurance products and services are available to consumers in a timely way,

and that they deliver fair and equal benefits. To meet these expectations, CDI ensures that insurers are solvent, consumer complaints are addressed in a reasonable manner, and insurers and licensees play fairly in the marketplace. CDI regulates insurers with more than $118 billion in annual direct premiums.

In 1998, California voters passed Proposition 103, a citizen-led initiative. Proposition 103 expanded CDI's authority as well as changed the Insurance Commissioner from an appointee of the Governor to an independent statewide officer elected by popular vote. Proposition 103 also required prior approvals of property and casualty rates, including personal auto and homeowner insurance.

CDI enforces the insurance laws of California and has authority over how insurers and licensees conduct business in California.

License fees, assessments, and Proposition 103 recoupment fees are the primary sources of funding for CDI.

CDI's work is accomplished through the following twelve branches:

Consumer Services and Market Conduct: Educates consumers, mediates consumer complaints and enforces insurance laws through investigation of consumer complaints against insurers and licensees and examinations of insurer claims and underwriting files.

Health Care Policy and Reform: Helps oversee state-level efforts to implement federal health care reform in health insurance and assists in the development of health-related policy initiatives.

Rate Regulation: Analyzes and approves filings submitted by property and casualty insurers and other insurance organizations under California's statutes relating to prior approval of rates.

Enforcement: Investigates criminal and regulatory violations, including fraud.

Financial Surveillance: Conducts risk-focused financial surveillance of the insurance industry to ensure it can provide the benefits and protections promised to California citizens.

Legal/General Counsel: Ensures compliance with the California Insurance Code by all insurers and licensees and assists with legislative and regulatory initiatives.

Corporate and Regulatory Affairs: Oversees admission and corporate compliance by insurers.

Office of the Special Counsel: Provides independent legal advice directly to the Insurance Commissioner, provides oversight of Department Rulemaking Projects and Regulations, directs the interaction with the National Association of Insurance Commissioner (NAIC), and manages various special projects and Commissioner-initiatives.

Policy and Planning: Analyzes emerging insurance issues with policy implications and helps implement policy initiatives.

Legislative: Pursues CDI's legislative agenda and represents the Insurance Commissioner on all state and federal legislative issues before the State Legislature and the U.S. Congress in collaboration with the Governor's Administration, legislators and a myriad of stakeholders.

Community Programs: Connects CDI with consumers by creating and sustaining partnerships with community groups, consumer organizations, small businesses, nonprofits, insurance industry organizations, federal, state and local government entities and individuals.

Communications and Press Relations: Coordinates and disseminates CDI's message and objectives to consumers, the industry, media and CDI staff.

Administration and Licensing Services: Provides administrative support services to all CDI programs and licenses over 320,000 agents, brokers, adjusters and business entities.

Strategic Planning Process

In October 2011, Commissioner Jones and his executive team began crafting this Strategic Plan to guide his Administration. It was developed in collaboration with staff throughout CDI as well as various stakeholders.

Commissioner Jones appointed a CDI-wide Strategic Planning Committee to help guide CDI's planning process. This Committee first performed an analysis of CDI's strengths, opportunities for improvement and challenges.

The analysis included information gathered from surveys completed by internal and external stakeholders, including CDI management, insurance providers, industry leaders, and consumer representatives. A series of focus meetings were also conducted with several stakeholders to help provide further context to the survey data. The focus meetings led to a better understanding of stakeholders' needs and expectations. Issues ranged from meeting legislative mandates to improving efficiency through better automation of processes. Results of the surveys and notes from the stakeholders meetings were shared with CDI management.

At the same time, the strategy components of our updated Vision, Mission and Values were crafted in partnership with the executive leadership of CDI.

The Vision, Mission, and Values were introduced to the CDI management team at an offsite meeting. The purpose of the off-site was to provide opportunities for discussion across the CDI branches of our organization-wide drive to preserve and leverage CDI's strengths and opportunities while addressing challenges. The meeting also assisted the team in its effort to craft high-level implementation plans for each organization-wide goal.

This high-involvement approach empowered all levels of management in constructing strategic objectives and implementation plans specific to each branch and program within CDI. Using the internal and external survey data and with perspective provided by the stakeholder meetings and internal discussion, the management team framed the goals and strategies that will be used to guide the various branches in reaching their objectives.

The Strategic Plan, intentionally, does not address every CDI initiative, activity, project, or function. Instead, the Strategic Plan focuses on strategies that are seen as key for organizational improvement in the coming years balanced with Commissioner Jones' priorities to address the potential for innovation and efficiencies that will enhance insurance protection for all Californians.

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EXIT

CDI Vision, Mission & Values

Vision
Insurance Protection for All Californians

Mission
We act to ensure vibrant markets where insurers keep their promises and the health and economic security of individuals, families and businesses are protected.

Values
CDI FAIR
Consumer-focused professionals
Dedicated to serving with
Integrity as a
Fair
Accountable
Innovative and
Responsive team

CDI Goals

Together, we:

- Provide excellent, fair and responsive service.
- Advance effective and efficient business processes.
- Value our resources and use them wisely.
- Promote innovation and professional growth.

CDI Goals and Strategies

CDI Goal 1: We provide excellent, fair and responsive service.

Strategies:

1.1 Excel at our core competencies.
1.2 Implement federal and state laws that improve access to health care.
1.3 Protect and support consumers.
1.4 Provide transparent, consistent, timely communications and oversight.
1.5 Fairly prosecute violations of law.
1.6 Ensure the solvency of insurance companies and protect policy holders and creditors in conservation and liquidation.

CDI Goal 2: We advance effective and efficient business processes.

Strategies:

2.1 Continuously evaluate department processes toward implementing operational improvements.
2.2 Coordinate priorities and operations within and across programs.

CDI Goal 3: We value our resources and use them wisely.

Strategies:

3.1 Be an employer of choice.
3.2 Recognize and reward employee achievements.
3.3 Establish explicit priorities.
3.4 Strategically procure and allocate resources.

CDI Goal 4: We promote innovation and professional growth.

Strategies:

4.1 Ensure a strong institution through strategic recruitment, training, cross training, mentoring, and promotional opportunity.
4.2 Foster a culture of creative problem solving.
4.3 Develop state-of-the-art information technology solutions.