

INSURANCE PROTECTION FOR ALL CALIFORNIANS

Strategic Plan 2016-2018



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 – 2016 Accomplishments

Health Insurance Reform

- Worked with federal and other state agencies to implement the Affordable Care Act (ACA) in California.
- Issued regulations to implement and enforce the federal ACA, including individual and small group market reforms, prohibitions on denying consumers insurance policies based on a pre-existing condition, and strengthening the department's Independent Medical Review (IMR) program.
- The department also issued regulations resulting in increased consumer access to prescription drugs, mental health and substance abuse disorder benefits, treatment for gender dysphoria for transgender Californians, and treatment for pervasive autism disorder (including behavioral treatment).
- The department issued provider network adequacy regulations to address systemic problems consumers experienced accessing providers. Among other items, the regulations added protection such as appointment waiting time standards to existing time and distance standards and improved specificity of network requirements for mental health and substance use disorders.
- Reviewed and submitted comments on numerous major federal ACA regulations. The department's comments assisted the federal government in issuing final regulations for the implementation of the ACA reflecting California's strong consumer protection interest and experience.
- Assisted Covered California in establishing California's Health Benefit Exchange.
- Managed over \$2.1 million in federal grant money to expand health insurance rate review to evaluate whether filed rates are unreasonable. Awarded an additional \$589,500 to further the department's rate review and price transparency work. CDI provided \$225,000 in the form of grants to consumer organizations to increase public participation in the rate review process.
- Awarded \$1.84 million in grant funding from the Centers for Medicare and Medicaid Services to strengthen California's enforcement efforts and consumer protections related to non-discrimination standards, coverage of preventive services, medical loss ratio compliance, and mental health parity.
- Implemented the Online Medical Price and Quality Transparency Project using federal grants of approximately \$5.2 million awarded to the department over the last three years. In partnership with UC San Francisco and Consumer Reports, the department developed California Health Care Compare – where consumers can look up information about cost and quality and see a range of estimated costs for their region for more than 100 different medical procedures.
- Secured federal funding to enhance consumer assistance pertaining to the ACA. The department used these funds, in part, to enhance our consumer call center and redesign our website so that information is more easily accessed using mobile devices. This allows consumers greater ease in accessing information about the ACA.
- Saved consumers \$84 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 3,796 insurance policy forms for compliance with new requirements, benefits, and consumer protections.
- Required health insurers to provide treatment for autism, including behavioral treatment.
- Analyzed and held extensive public hearings regarding three separate mergers of health insurers. The Department had direct approval jurisdiction over the Health Net/Centene merger which the Department approved on the condition that Centene comply with stringent requirements so that the combined entity will be a stronger and continuing competitor in the California commercial market.
- The Department also analyzed and held hearings in the other two proposed mergers, Humana-Aetna and Anthem-Cigna. In both cases, the Department found that the proposed merger would significantly increase market concentration and would present immediate competitive concerns. While the Department did not have direct authority to reject these mergers, the Department's findings of law and fact were presented to the U.S. Department of Justice (DOJ) and the Commissioner urged the United States Attorney General to block the merger. Both mergers were blocked by courts, consistent with the Department's findings.

Premium Savings

- Reviewed 381 health insurance rate filings in the individual and small group health insurance markets and obtained reductions in proposed rates, resulting in over \$344 million 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 47,536 property and casualty insurance rate filings under Proposition 103 during our first 78 months. The department reduced the overall amount of requested rate increases by \$1.249 billion and obtained over \$1.493 billion in rate reductions, totaling over \$2.742 billion in savings to California consumers and businesses. This total includes approximately \$1.059 billion in rate reductions for personal auto coverage and \$747 million in rate reductions for personal homeowners' coverage.
- Lowered medical malpractice insurance rates saving doctors, dentists and other medical providers \$61 million annually in premiums.
- Assisted financially distressed homeowners by requiring insurers who sell "forced placed homeowner insurance" to reduce their rates for a total of \$64 million annually in premium savings.
- Approved a rate decrease of 12.5 percent for California Earthquake Authority (CEA) policyholders. Also approved changes to the CEA residential insurance policies to provide consumers with more coverage options.
- Ordered State Farm to lower its homeowners rates by 6.9%, saving consumers millions of dollars and defeated State Farm's effort in court to forestall the rate reductions.

Insurance Fraud

- The department administered five distinct local assistance grant programs which award funds to district attorneys for the investigation and prosecution of insurance fraud and insurance related crimes. During fiscal year 16/17, we reviewed application requests and awarded grants totaling approximately \$64.1 million in funding to district attorneys. These programs resulted in 4,711 arrests and 11,534 convictions from fiscal year 11/12 through 15/16.
- In 2016, the Enforcement Branch continued to fight the underground economy by joining forces with allied agencies such as the Contractors State License Board, the Employment Development Department, the Department of Industrial Relations and the Franchise Tax Board. We continue to be an active participant with the Joint Enforcement Strike Force (JESF). An example of an underground economy case is as follows:



- CDI participated in a multi-agency investigation of buffet restaurants that included the Department of Industrial Relations, the Employment Development Department, and the Contra Costa District Attorney's Office. The initial investigation looked into the operations of 10 Bay Area restaurants finding instances in which employees were not paid at all, while others were given only \$200 a month or \$1.15 an hour for a 72-hour work week. Further investigation revealed insurance premium fraud and conspiracy to violate minimum-wage, payroll tax, and sales tax laws. The owners of the businesses were prosecuted and sentenced to three years and four months in jail and ordered to pay \$4.5 million in unpaid minimum wage and overtime to their workers and another \$1.5 million in unpaid taxes. This case was prosecuted by the Contra Costa District Attorney's Office.
- In the department's battle against medical provider fraud, CDI successfully led an investigation of fraudulent medical billing with assistance from the Orange County District Attorney's Office Bureau of Investigation, the Federal Bureau of Investigation (FBI), and the National Insurance Crime Bureau. The defendants were charged for their part in the scheme of billing for unnecessary creams, tests and treatments. More than 13,000 patients and at least 27 insurance carriers were victims. Approximately \$23.2 million was paid out to the defendants out of a total of \$40 million billed to insurers. This investigation led to the filing of charges against more than two dozen doctors, pharmacists and business owners and is being prosecuted by the Orange County District Attorney's Office.
- Another complex healthcare fraud investigation conducted by CDI resulted in the arrest of two defendants, the owners of a drug and alcohol recovery center, for allegedly conspiring to defraud patients and insurers out of more than \$176 million dollars. According to investigators, the defendants are accused of luring vulnerable people addicted to drugs and alcohol to their recovery center with a variety of treatment marketing schemes. The defendants would then allegedly steal patient identities and buy health insurance policies for them without their knowledge. After completing treatment, insurance companies would allegedly continue to be billed for treatment services. If convicted on all counts, the defendants face more than 35 years in prison. This case is being prosecuted by the Los Angeles County District Attorney's Office.

- The department investigated and worked with district attorneys to secure convictions for insurance fraud against seniors. An example is as follows:
 - Steven Edward Branstetter was investigated by CDI and arrested on an elaborate \$2.25 million bogus insurance and annuity scam. After clients were unable to cash their annuities, CDI's Investigation Division discovered that Branstetter issued fraudulent annuity contracts and life and disability insurance policies for the purpose of keeping the premiums for his personal use. Branstetter pled to two counts of theft of an elder in violation of Penal Code section 368 (d) and admitted to the white collar crime allegation in violation of Penal Code section 186.11. Branstetter was sentenced to seven years in state prison and the judge added that the defendant in this case was "sinister and evil for preying on vulnerable people."
- Another senior case involved Joseph Francis Bartholomew who was investigated by CDI in conjunction with the FBI and arrested for participating in an \$11 million Ponzi scheme. Bartholomew was charged with one felony count for the use of a device or scheme to defraud and 28 felony counts of using untrue statements in the sale of a security with sentencing enhancements for aggravated white collar crime over \$500,000 and loss greater than \$3.2 million. Bartholomew owned and operated MBP Insurance Services, Inc., which offered and sold unsecured securities based on fraudulent insurance policies. He defrauded 28 investors by falsely promising them a return of 15 to 40 percent in interest from their investment. Bartholomew pled guilty on all counts and was sentenced to ten years in state prison with a restitution order of \$11,354,269.
- In July 2016, a \$30 million settlement was reached with pharmaceutical giant Bristol-Myers Squibb over allegations of drug marketing fraud and physician kickbacks. The settlement stems from charges in a whistleblower lawsuit filed by three former Bristol-Myers Squibb sales representatives. The whistleblower lawsuit alleged that Bristol-Myers Squibb violated the California Insurance Frauds Prevention Act by employing and using sales representatives for the purpose of defrauding private commercial health insurers by using kickbacks to procure patients or clients.
- In November 2013, we settled a major qui tam case against Sutter Hospital and Multiplan, a preferred provider organization. The case involved allegations of false medical billing practices. Sutter and Multiplan agreed to settle the case just before trial for a record \$46.95 million.
- In December 2015, a \$23.2 million settlement was reached by CDI and whistleblowers with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud in violation of state law.



- The department's portion of the settlement proceeds from the Sutter case has been used to create an enhanced fraud investigation and prevention program. Over \$3.5 million will be used for up to 32 four-year limited-term positions for enhanced anti-fraud efforts, including investigation of additional cases and civil litigation workload associated with California's false and fraudulent insurance claims act. As part of this program beginning fiscal year 14/15, \$1 million annually over four years will be provided for local assistance to district attorneys to investigate and prosecute Disability and Healthcare insurance fraud. The department's portion of the settlement proceeds will be used to create an enhanced investigation and fraud data analytics program. A total of \$6.46 million will be received over a five-year period and will be used to fund eight Investigation Division positions focused on the investigation and prevention of Life and Annuity fraud cases with an emphasis on cases targeting seniors. Additionally, these funds will be used to implement a fraud data analytics program that will improve the Fraud Division's ability to identify trends, patterns and high impact cases.

Legislation and Regulations

- In the 2011 calendar year, nine CDI sponsored bills were signed into law. These include bills which 1) protect seniors from fraudulent activities while purchasing annuities; 2) ensure that agents and brokers do not engage in predatory practices in the selling of reverse mortgages; and 3) require disclosure in workers' compensation policies in order to save businesses from unexpected costs.
- In the 2012 calendar year, five CDI sponsored bills were signed into law. These include bills which 1) reinstate specified conduct standards and requirements for all bail fugitive recovery persons (bounty hunters); 2) increase funding available to district attorneys and CDI to investigate and prosecute health and disability fraud; and 3) improve the predictability of long-term care insurance rates.
- In the 2013 calendar year, four CDI sponsored bills were signed into law. These include bills which 1) adopt solvency standards to help prevent insurers and insurance groups from collapsing, providing a financial boost to California's economy of more than \$460 million by 2016 through increased investment and tax incentives in California's underserved communities; and 2) eliminate the sunset on three insurance related special assessments used to fight insurance fraud.
- In the 2014 calendar year, nine CDI sponsored bills were signed into law. These include bills which 1) allow California's small businesses to maintain their existing small group health insurance coverage for their employees for an additional year; 2) protect seniors by requiring that insurers provide seniors with additional disclosure notification and protection when purchasing an immediate annuity; and 3) expand California's Low Cost Automobile Insurance Program to allow more low-income Californians the opportunity to purchase affordable automobile insurance, most importantly newly licensed non-citizen individuals who will receive a driver's license pursuant to Assembly Bill 60 of 2013.

- In the 2015 calendar year, seven CDI sponsored bills were signed into law. These include bills which 1) modernize insurer reserve practices to more appropriately align with risks actually assumed by the individual insurer so that consumers and policyholders are protected; 2) protect seniors by requiring insurers to give a clear disclosure of their long-term care benefits available; 3) place additional safeguards on annuity products to ensure better financial security for consumers; 4) expand a life insurer's ability to transact specified insurance-related business electronically with the prior opt-in consent of the consumer; and 5) grant \$3 million in earthquake seismic retrofit funding to protect Californians from the dangers of earthquakes through the Earthquake Brace and Bolt program that strengthens homes.
- In the 2016 calendar year, three CDI sponsored bills were signed into law. These include bills which 1) establish and enhance consumer protections against unfair practices by insurance adjusters; and 2) increase public awareness of the availability of the FAIR Plan (the insurer of last resort) by requiring agents to more actively assist consumers with their FAIR Plan application and attempts to find adequate fire coverage.
- The department manages roughly 30 rulemaking projects at any time, and issues approximately 15 regulations on an annual basis. From 2011 to 2016, the department has managed 191 rulemaking projects. In 2016, the department issued 11 regulations. These regulations cover health care, life, property and casualty, and workers' compensation insurance as well as financial solvency and insurance producer (agent and broker) issues. Significant matters (2011-2016) include:
 - Auto Body Repair Labor Rate Surveys, that identify and clarify consistent standards by which insurers can conduct reliable labor rate surveys;
 - Anti-Steering in Auto Body Repairs, that addresses the problem of insurance companies who communicate deceptive and untruthful information in order to improperly "steer" the claimant to an insurer-chosen repair shop; and,
 - Workers' Compensation Forms Regulations, that create a framework for the submission, approval, withdrawal of approval, and overall use of workers' compensation policy forms, endorsements, and collateral agreements by insurers.
- The department undertook additional initiatives including:
 - NAIC Climate Risk Disclosure Survey. In 2016, California continued to lead a multi-state group (Connecticut, Minnesota, New Mexico, New York, and Washington) that administered the NAIC Climate Risk Disclosure Survey to more than 1,000 companies representing approximately 78% of the entire insurance market. California continued to maintain three interactive survey websites which allow regulators, insurers, and members of the public to quickly analyze the survey results.
 - Climate Risk Carbon Initiative. Established the Climate Risk Carbon Initiative that calls on the insurance industry to (1) voluntarily divest from their investments in thermal coal enterprises and to refrain from future investments in them, and (2) required insurers that write \$100 million or more in premium nationally to disclose detailed coal, oil, gas and power-generating utility investments.

- Sustainable Insurance Forum (SIF). In 2016, the Commissioner played a leadership role in forming the Sustainable Insurance Forum, an international collaboration of insurance regulators and supervisors, to promote cooperation on critical sustainable insurance challenges, such as climate change. The inaugural meeting was held in San Francisco and included representatives from Brazil, California, France, Ghana, Jamaica, Morocco, the Netherlands, Singapore and the U.K., as well as the International Association of Insurance Supervisors and the United Nations Environmental Programme (UNEP).
- 4th Climate Change Assessment. California's Fourth Climate Change Assessment is the first major, cross-sectoral effort to implement parts of California's Climate Change Research Plan as well as support key recommendations of Safeguarding California. The Department leads the grant review team and acts as the Technical Manager for the research project on the impact of climate change on wildfires in California and the availability and affordability of insurance.

Legal

- Continued leading a national investigation (Death Master File Investigation) of life insurers' failure to pay billions of dollars in death benefits. We successfully obtained enforcement settlement agreements with 24 major life insurers representing approximately 78 percent of the market since the effort commenced, requiring them to pay more than 7.3 billion to beneficiaries nationally. Insurers have paid approximately \$19 million in penalties to California while agreeing to reform practices relating to the use of the Social Security Administration's Death Master File database to identify deceased policyholders so that the companies would locate their beneficiaries and pay them benefits due under the policies.
- In conjunction with other states, we successfully settled an enforcement action against Life Insurance Company of North America that resulted in a \$500,000 penalty to California and remediation of improperly handled long term disability claims for claimants across the nation expected to total in the tens of millions of dollars. The settlement resolved insurance code violations discovered in a market conduct examination of the company.
- In 2013, two additional actions were settled successfully. Homesite Insurance Company agreed to settle with the department for \$350,000 and Safeco Group settled for \$900,000 for rating and underwriting violations resulting from examinations.
- Was successful in a litigation matter upholding the principle that if a significant financial proportion of a health care service plan's business is indemnity insurance, then for tax purposes the health care service plan is subject to gross premium taxes.
- In July 2016, the Department reached a \$30 million settlement with Bristol Myers Squibb under the Insurance Frauds Prevention Act for allegations of kickbacks and other unlawful marketing tactics by a pharmaceutical manufacturer.

- Obtained a California Supreme Court 7-0 vote decision upholding the Department's replacement-cost fire-insurance regulations that require insurers to provide complete estimates of the cost to replace their homes in the event of a total loss.
- Investigated and obtained a settlement with Zenefits including 3 million dollars for licensing violations and a 4 million penalty for subverting pre-licensing education requirements. Half of penalty suspended pending a future examination of company practices
- Obtained a court-of-appeal decision upholding the Department's regulations that prohibit insurers from charging ratepayers for the cost of brand advertising that doesn't benefit ratepayers, and upholding the Department's formula-based rate-approval process adopted shortly after early Proposition 103 litigation.
- Obtained a court-of-appeal decision upholding the Department's regulations that insurers actually provide a 30-day grace period before terminating a policy, and that require insurers to provide notice to consumers of their right to appeal health-insurance-policy terminations.
- Supported and obtained a court-of-appeal decision that prevents the FAIR Plan from refusing to pay, under an actual-cash-value policy, for repairs to partially damaged homes when the cost of repair is within policy limits, but higher than the fair-market value e.g., because the home is in a low-income neighborhood.

Insolvency Recovery

- Distributed \$1.1 billion to injured policyholders and guaranty associations from failed insurance companies, from January 1, 2011 through June 30, 2017.
- Took the lead, among five other state regulators, to resolve a collapsing significant national Property and Casualty insurer, by merging 10 companies into a California domiciled insurer and placing the California Company into Conservation and eventually into Liquidation, in an orderly manner. Through the Conservation period, claimants were paid \$338 million, on a timely basis. Upon liquidation, policyholder claims have been transfer to the Guaranty Associations for timely process of their claims.
- Obtained a favorable \$200 million settlement to the outstanding Executive Life Insurance litigation with Artemis clearing the way for final closure of this estate, in the near future.
- Collected \$563 million (through December 31, 2016) of reinsurance recoveries, reinsurance commutations and litigation recoveries of failed companies (including Executive Life recovery, above) available to pay policyholders and creditors.
- Performed early intervention with a failing domestic workers compensation insurer and executed a loss portfolio transfer thus negating a need for guarantee association involvement.
- Performed early intervention with a failing domestic health insurer, efficiently transitioning 20,000 members to more stable insurers and working with state insurance guaranty associations to facilitate the timely payment of claims.

Consumer Protections

- Recovered over \$360 million for consumers as a result of investigations of consumer complaints received by the department and through market conduct examinations by the department.
- Handled over 152,000 consumer calls to our Consumer Hotline in 2016.
- Deployed department staff to assist consumers impacted by several natural disasters, occurred in 2016.
- Completed implementation of the Licensee portal for electronic handling of consumer complaints.
- Assisted NAIC in the development and testing of a national Life Insurance Policy Locator tool to assist consumers in locating life and annuity policies of loved ones.
- Worked on the implementation of various pieces of insurance-related legislation, including End of Life Options Act that went into effect on June 9, 2016.
- CDI continues to enforce regulations promulgated in 2012 that prohibit discrimination in health insurance based on gender identity and expression. The regulations were the first of their kind in the nation and produced a first-of-its-kind economic analysis of the impact to premiums of removing barriers to care. The study has been successfully used widely by organizations to advocate for similar protections in 13 other states and the District of Columbia. While California is the only state to have enacted regulations many other states have issued guidance or director's letters prohibiting discriminatory blanket exclusions. Further, the federal government used our regulation and economic analysis when drafting federal regulations that prohibit discrimination based on gender identity nationwide.



Community Programs and Policy Initiatives

- The California Organized Investment Network (COIN) guides insurers on making safe and sound investments that yield environmental benefits in California and/or social benefits for the State's underserved communities. COIN sourced 5 COIN Insurer Investment Bulletins to generate up to \$2.4 billion of investment in infrastructure, small and middle sized businesses, real estate, and financial technologies (Fin Tech) for low-to-moderate income populations in California.
- Conducted the 2016 Community Investment Survey (CIS) Data Call. The survey targeted the top 228 insurance companies that wrote more than \$100 million in California premiums to make transparent the amount of capital insurers held in California community development and green investments between 2013 and 2015. Some of the highlights from our findings include:
 - Total COIN qualified investment holdings increased by 19% from \$18.39 billion in 2013 to \$21.85 billion in 2015
 - High Impact Investment holdings increased by 9% from \$5.41 billion in 2013 to \$5.88 billion in 2015
 - Green investment holdings increased by 11% from \$7.18 billion in 2013 to \$7.98 billion in 2015
 - Rural investment holdings increased by 15% from \$2.29 billion in 2013 to \$2.64 billion in 2015

- COIN Community Development Financial Institutions (CDFI) Tax Credit program increased investments from \$1.9 million in 2010 to a record \$183 million in 2016 and awarded \$10 million in CDFI Tax Credits for \$50 million in private investments into COIN Certified CDFIs. Assembly Bill 32 (Pérez, 2013) quintupled COIN's CDFI Tax Credit from \$2 million to \$10 million annually, increasing the amount of private capital available for community development investments. From 2011 to 2015, COIN awarded \$36.7 million in tax credits and leveraged \$183.6 million in private capital of which \$85.1 million was raised through insurance companies. COIN Certified CDFIs that received insurer investments have financed projects including affordable housing, small business loans, charter schools, and medical facilities in San Diego, Los Angeles, San Francisco, Northern California, the Central Valley, and various other regions across California.
 - COIN CDFI Certification Program added regulations in 2014 that allowed COIN to conduct a rigorous review of all CDFIs certified through the program. CDFIs must renew their certifications annually and apply for recertification every three years. This involves extensive review of the CDFI's mission, projects, and financials to ensure the CDFI will remain solvent for the five-year term of a potential investment.
- In 2014, COIN launched the Inaugural COIN Investment Summit. The 2016 COIN Investment Summit was held on August 17th at the California Endowment in downtown Los Angeles and brought together insurers, CDFIs, community organizations, asset managers, government officials, trade associations, and other stakeholders to engage in productive and insightful dialogue to garner feedback and suggestions on COIN's programs.
- We established the successful Insurance Diversity Initiative to increase procurement from California's diverse suppliers and diversity amongst insurer governing boards. CDI administered two first-in-the-nation surveys examining insurance industry procurement from diverse businesses (woman, minority, disabled veteran, and LGBT-owned businesses) and the state of diversity on insurer governing boards, respectively. The Insurance Diversity Task Force, in collaboration with CDI, hosted the Annual Insurance Diversity Summit and issued awards to insurers and advocates for best practices in supplier diversity and governing board diversity. With over 200 attendees, the Summit included business matchmaking sessions, business-to-business networking, an insurer-only work session, and a governing board roundtable.
- Increased the amount of goods and services the insurance industry purchased from California's diverse businesses (woman, minority, disabled veteran, and LGBT-owned businesses) by 83% since 2012, a \$770 million increase over four years.
- Since 2011, the department attended 1,476 public outreach events throughout California to increase consumer education about insurance products, regulation and the California Low Cost Automobile insurance program.
- Since the inception of California's Low Cost Automobile (CLCA) Insurance Program in 1999, 121,753 Californians received insurance through the program. At the end of 2016, 14,388 active policies were in force, 633 policies were cancelled, and 2,422 policies were written as new business.

- Strengthened and expanded California's Low Cost Automobile (CLCA) Insurance Program by completing the implementation of the provisions of AB 1024 (Hueso 2011). This provided for the establishment of an online producer and web portal, to process online applications for program-eligible consumers. This web-based product is intended to allow consumers to apply for the CLCA program directly online, without having to physically visit a producer's office.
- In collaboration with the Consumer Services Division and Rate Regulation Bureau, Statistical Analysis Division (SAD) conducted a wildfire survey to determine the state of the homeowners' insurance market regarding availability in wildfire prone areas. The results of this survey were presented to a Senate Insurance Committee hearing in March 2016.
- In 2016, SAD conducted special projects including the Northern California Wildfire Loss Summary to determine the extent of the losses incurred as a result of the two major wildfires in Northern California in 2015 and the development of a data call in support of the Climate Risk Carbon Initiative to disclose thermal coal and fossil fuel related investments.
- The Ombudsman's primary function is to ensure the department provides the highest level of customer service to our consumers, insurers, agents, brokers, and public officials. In 2016, Ombudsman staff facilitated and closed 1,220 cases, responding to 809 consumer requests for assistance, 327 legislative inquiries, and 84 general requests from other divisions within the department or other state agencies.

Insurance Company Licensing and Oversight of Corporate Transactions

- Since 2011, 234 new insurance companies have been licensed to do business in California, demonstrating CDI's success in attracting and retaining new insurance companies to the state.
- The increased number of new companies is a result of CDI's fair and expeditious licensing process that includes expanded information for applicants on CDI's website as well as electronic filing procedures to further streamline the process.
- Obtained re-entry of Allstate into the California homeowner market after a nine year absence during which Allstate did not write new homeowner policies. With Allstate's return, competition increased in the insurance market, consumers have additional homeowner coverage choices, and Allstate's own homeowner insurance rates were reduced statewide by an average of 12.6 percent.
- Developed emergency regulations to assist the COIN Program in increasing insurer investments in underserved communities in California.
- Enhanced and upgraded essential licensing checklists and forms on CDI's public website to improve processing times and to provide innovative and accessible information to insurers submitting corporate transaction applications to CDI.
- Developed credit for reinsurance regulations to revise existing reinsurance regulations to conform to the federal Dodd-Frank financial reform legislation and to detail requirements for a cedent to obtain financial statement credit for reinsurance cessions.

- Sponsored Senate Bill 1448 (2012), conforming legislation to the Holding Company Model Act. This legislation was implemented in 2013. Key revisions included insurer reporting on material risks within the insurance holding company system (enterprise risk to the insurer) and examination authority with respect to enterprise-wide risks; participation by state insurance regulators in "supervisory colleges," a forum for regulators of various jurisdictions; corporate governance information at the individual-regulated insurer and group levels; and enhanced access to information regarding any entity within the insurance holding company system.
- Sponsored and implemented Assembly Bill 1234 (2014) which supplemented the California Insurance Holding Company System Regulatory Act provisions related to the confidential treatment of materials submitted to the Insurance Commissioner.
- In response to a new class of licensing in the NAIC model acts, developed and implemented the certified reinsurer application process, primarily involving applications submitted by non-U.S. reinsurers. Staff reviews and assess U.S. treaties and the laws of foreign countries addressing enforceability of judgments rendered in the U.S., and in the courts of a foreign jurisdiction.
- California Members Title Insurance Company re-domiciled in California in 2014, highlighting a trend beginning last year of new companies starting their operations in California or moving to California.
- Sponsored and implemented AB 533 (2016) which requires the filing of an annual descriptive summary of an insurer or insurance group's corporate governance so the Insurance Commissioner can gain and maintain an understanding of the insurer's corporate structure, policies and practices.

Financial Oversight

- Sponsored and obtained enactment of Corporate Governance legislation which requires annual filings by insurers on its corporate governance.
 - Insurer or group corporate governance framework.
 - Policies and practices of its Board of Directors.
 - Policies and practices directing senior management.
 - Policies and practices to ensure the appropriate level of oversight of critical risk areas.
- Passed the National Association of Insurance Commissioners Accreditation Review during 2014. This outside review is conducted every five years of all state insurance departments to ensure that all states have enacted the appropriate laws and provide the necessary financial oversight in accordance with national financial solvency standards. California received a full five year accreditation.

- Sponsored and obtained enactment of the Own Risk and Solvency Assessment Legislation known as “ORSA” which in 2015:
 - Requires larger insurers to develop an assessment of their enterprise risk management processes and capital needs.
 - Requires the insurer to provide an annual ORSA report to the department.
- Promulgated the Hazardous Financial Condition Regulation which:
 - Enables the department to have earlier detection of financially troubled insurers and to take necessary regulatory action.
 - Enables earlier interaction with financially troubled insurers to develop remediation plans.
- Provided leadership and/or participation in key National Association of Insurance Commissioners working groups and task forces.
 - Participate in NAIC’s Life Actuarial Task Force to make appropriate revisions to the Valuation Manual.
 - Lead NAIC drafting group to improve requirements for insurers’ PBR Actuarial Reports.
 - Review commercial vendor software systems for PBR, avoiding reliance on “black box” calculations.

Agent and Broker Licensing

- Continued efforts to improve service levels, including adding new online services and enhancing consumer protection efforts. For instance, in April 2017, an online agent language locator service was launched. The new service provides an online tool for consumers to use to locate an agent or broker who speaks their selected language in any given geographical area in California. There are more than 13,000 agents participating in the service speaking 36 languages.
- Continued efforts toward licensing uniformity and reciprocity with other states while strengthening California’s rigorous consumer protection standards. Sponsored and implemented SB 488, effective January 2017, which conforms to the National Association of Insurance Commissioners’ public adjuster licensing standards that includes the addition of a new 20-hour pre-licensing education requirement for California applicants. The new education requirement enhances the knowledge applicants must possess prior to becoming licensed as public adjusters, who consumers may hire to assist in the insurance claims process.
- Since January 2011, the department has also:
 - Issued and renewed 1,285,725 insurance producer, bail agent and insurance adjuster licenses.
 - Restricted, suspended or revoked the licenses of 4,487 insurance producers, bail agents and insurance adjusters, while denying the licenses for 1,874 applicants.

Administration

- CDI's commitment to the State's Small/Micro Business (SB/MB) and Disabled Veteran Business Enterprise (DVBE) programs is reflected in CDI's participation rates. In the last seven years, the department has consistently exceeded the statewide participation rate goals of 25 percent for SB/MB and 3 percent for DVBE.
- Beginning July 1, 2016 the Electronic Fund Transfer (EFT) payment method was extended to insurance companies for invoice payments. Insurance companies are now able to pay their invoices over the phone, web, or mobile device. Previously, this method of payment was offered only for premium tax payments. The EFT payment option is cost-effective for both CDI and our customers and will provide companies a secure, faster, and more efficient way to make payments by reducing the resources associated with mailing paper checks.
- The CDI Menu Modernization Project (CMMP) completed 15 of 26 sub-projects. Most significantly, the Project implemented the Company Information Tracking System, which allows for tracking of companies or insurer information and provides data to multiple CDI programs.
- Implemented innovations to create operational efficiencies and control costs while improving service levels, including enhancing the department's information security and disaster recovery capabilities as well as modernizing mission critical, legacy information and technology systems.
- CDI's website was named by InsuranceQuotes.com in 2011 as one of the best in the nation for giving consumers access to critical insurance information. The department's website was modernized in 2014 to enhance health and consumer information and implement a responsive design platform to enhance mobile users' experience.
- Sustained achievement in submitting high-quality financial reports to the State Controller's Office, thus meeting established criteria for Excellence in Financial Reporting.
- Implemented a robust training and development program focused on strengthening the organization and promoting innovation and professional growth to improve protection for consumers and ensure a healthy and vibrant insurance market.
- The Office of Principle Based Reserving was created to address SB 696, a law that enacted a new method for determining policy reserves and their associated risks.

Significant Contributions to State's General Fund

- CDI collected \$2.6 billion in premium taxes for Fiscal Year 2015-16 for the State's General Fund.
- Through the department's vigorous legal and enforcement activities, we contributed \$137.4 million in fines and penalties to the State's General Fund since taking office.

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 market place has changed dramatically over time, but consumer protection continues to be the core of CDI's mission.

Today, CDI is the largest consumer protection agency in the state. With annual direct premiums of \$288 billion, California is the largest insurance market in the United States and the sixth largest insurance market in the world.

Nearly 1,400 dedicated employees work at CDI to oversee more than 1,300 insurance companies and license more than 400,000 agents, brokers, adjusters, and business entities. In the normal course of business, CDI annually processes more than 8,000 rate applications, issues approximately 190,000 licenses (new and renewals) and performs hundreds of financial reviews and examinations of insurers doing business in California. CDI annually receives more than 170,000 consumer assistance calls, investigates more than 37,000 consumer complaints and, as a result, recovers more than \$84 million a year for consumers. CDI also annually receives and processes tens of thousands of referrals regarding suspected fraud against insurers and others and conducts criminal investigations resulting in thousands of arrests every year.

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 timely, 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.

In 1988, 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 eleven branches:

Administration and Licensing Services: Provides administrative support services to all CDI programs and licenses more than 400,000 agents, brokers, adjusters and business entities.

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

Community Programs & Policy Initiatives: 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. This branch is also responsible for analyzing emerging insurance issues with policy implications and helps implement policy initiatives.

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.

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 consumers.

Health 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.

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

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.

Special Counsel to the Commissioner: 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 Commissioners (NAIC), and manages various special projects and Commissioner-initiatives.

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.





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.