

DEPARTMENT OF INSURANCE

BUSINESS, ECONOMIC DEVELOPMENT & LABOR APPROPRIATIONS SUBCOMMITTEE
STAFF: ANDREA WILKO

BUDGET BRIEF

SUMMARY

The Insurance Department protects the public by regulating insurance companies and individual agents to assure equitable and competitive business practices. The department is divided into ten work sections as shown on page 2 funded by dedicated credits or restricted funds. Funds in excess of appropriations are deposited into the General Fund. Fees are collected for a variety of activities in addition to licensing of agents and brokers.

ISSUES AND RECOMMENDATIONS

The subcommittee should consider the following items in its deliberations:

Budget Adoption

For the Department of Insurance, the Fiscal Analyst recommends an FY 2013 budget of \$124,000,400 as shown in the table on page 4 titled Insurance.

Adoption of Fees

For the FY 2013 fee schedule for the Department of Insurance, please refer to the issue brief, *Department of Insurance: FY 2013 Fee Schedule*.

Federal Funds

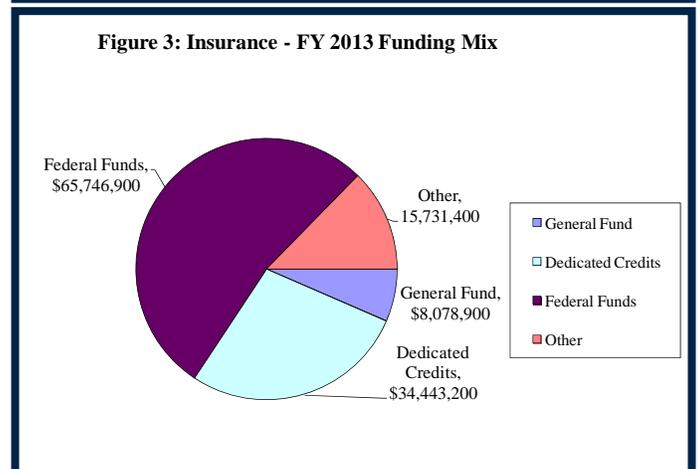
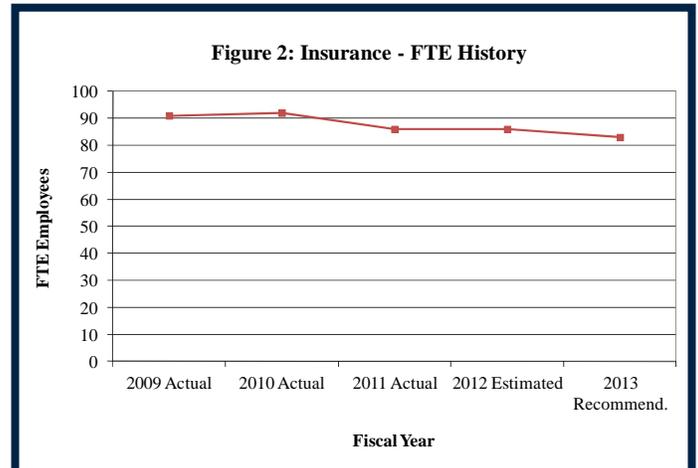
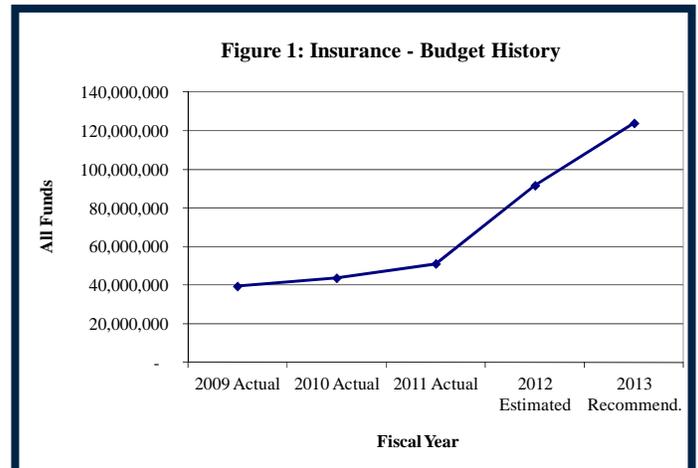
Federal funds for Department of Insurance are shown in the Issue Brief *Business, Economic Development, and Labor: Federal Funds*.

Governor's Recommendation

The Governor recommended the following from the Insurance Department Account:

1. \$57,000 for financial examiners retention
2. \$50,000 for travel reimbursement
3. \$81,000 one-time for financial manager training

The Governor recommended an additional \$1,899,800 in federal funds to improve the health insurance premium review process in Utah.



BUDGET DETAIL

With the passage of House Bill 19, 1st Substitute, the Utah Insurance Department has an overall base budget funding mix for FY 2013 of the following: 27% Dedicated Credits (\$34,443,200), 8% General Fund (\$8,078,900), 5% nonlapsing balances (\$5,923,000), 53% Federal Funds (\$65,746,900), and 8% Restricted Funds (\$9,808,300). (See below for more information)

The overall budget for the Insurance Department has increased from FY 2008 to the FY 2013 base budget. This increase is mainly due to increases in Dedicated Credits, Federal Funds and nonlapsing balances in the Comprehensive Health Insurance Pool.

Funding for most of the Department of Insurance programs has been converted to restricted revenue. The remaining General Fund appropriation for the Utah Department of Insurance is found in the HIPUtah line item and a small allocation in the Title Insurance Program (\$3,900).

AGENCY DIVISIONS AND SECTIONS

The Utah Insurance Department includes the following ten divisions and sections:

Office of the Commissioner, Administration, Information Technology Services Divisions – these divisions provide oversight, direction, budgeting, and other support to the entire department.

Bail Bond Surety Oversight – makes rules recommendations to the commissioner, reviews applications and governs licenses for bail bond surety insurance businesses.

Captive Insurers – focuses on implementation of the Utah Captive Insurance Companies Act, including processing applications for new and existing insurers.

Examinations/Solvency Division – responsible for licensing, examination and verification of financial information submitted to the department.

Fraud Division – conducts investigations into insurance fraud, identifies and prosecutes violators.

Health and Life Division – regulates the health and life insurance industry in Utah for licensees and consumers.

Property & Casualty – regulates home, auto, business and other insurance policies.

Market Conduct/Enforcement – conducts investigations and audits of the insurance industry and seeks to verify compliance with insurance laws and administrative proceedings conducted by the department.

Producer Licensing – licenses agents, brokers, adjusters and consultants.

Title and Escrow – enforces title insurance and escrow codes, licensing, and assessments on insurers.

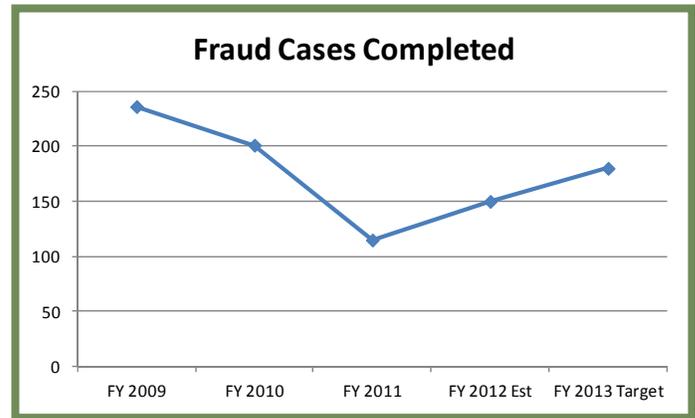
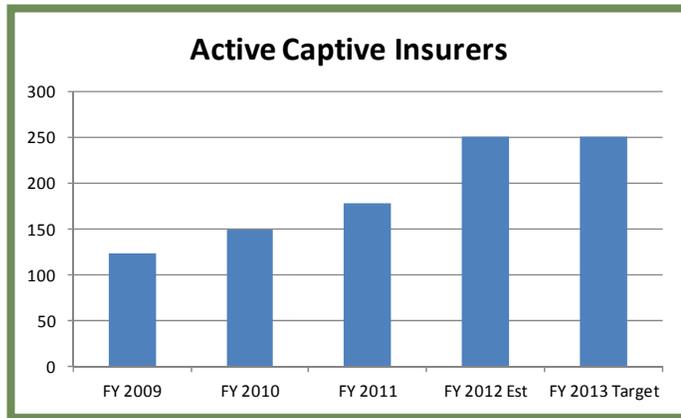
RESTRICTED ACCOUNTS

During the 2011 General Session, a new restricted account was created within the Department of Insurance through passage of House Bill 19, “Insurance Law Related Amendments” (Dunnigan, J.). This account holds money formerly contained in the General Fund. Excess collection balances over appropriations will be deposited into the General Fund.

ACCOUNTABILITY DETAIL

Captive insurance companies are companies that primarily insure the risks of businesses related to it through common ownership. Captive Insurers provide high paying jobs and bring financial assets to Utah. A department goal is to bring these captive insurers to Utah. The number of active captive insurers in the state is shown in the chart titled Active Captive Insurers.

Another department goal is to protect consumers from unscrupulous and dishonest persons in the business of insurance. To measure success the department keeps records of the number of fraud cases completed annually. Statistics for this measure are shown in the chart titled Fraud Cases Completed.



BUDGET DETAIL

The following tables show the budget history for the Utah Department of Insurance line items in addition to a department wide summary. The surge in federal funds is the result of the expansion of the Federal HipUtah program.

| Insurance | | | | | | |
|-----------------------------------|---------------------|-------------------------|---------------------|---------------------|---------------------|-------------------------|
| Sources of Finance | FY 2011 Actual | FY 2012 Appropriated | Changes | FY 2012 Revised | Changes | FY 2013* Recommended |
| General Fund | 13,438,000 | 8,078,900 | 0 | 8,078,900 | 0 | 8,078,900 |
| General Fund, One-time | (25,000) | 35,000 | 0 | 35,000 | (35,000) | 0 |
| Federal Funds | 5,634,300 | 15,118,000 | 18,062,200 | 33,180,200 | 32,566,700 | 65,746,900 |
| Dedicated Credits Revenue | 25,900,100 | 39,076,900 | (5,261,200) | 33,815,700 | 627,500 | 34,443,200 |
| GFR - Bail Bond Surety Admin | 23,500 | 23,500 | 0 | 23,500 | 0 | 23,500 |
| GFR - Guaranteed Asset Protection | 89,000 | 89,000 | 0 | 89,000 | 0 | 89,000 |
| GFR - Insurance Department | 0 | 5,894,900 | 0 | 5,894,900 | 0 | 5,894,900 |
| GFR - Insurance Fraud Invest. | 0 | 1,984,500 | (1,984,500) | 0 | 1,984,500 | 1,984,500 |
| GFR - Relative Value Study | 0 | 90,000 | 0 | 90,000 | 0 | 90,000 |
| GFR - Health Insurance Actuarial | 150,000 | 147,000 | 35,000 | 182,000 | (35,000) | 147,000 |
| GFR - Technology Development | 784,900 | 645,700 | 0 | 645,700 | 0 | 645,700 |
| GFR - Criminal Background Check | 162,500 | 165,000 | 0 | 165,000 | 0 | 165,000 |
| GFR - Captive Insurance | 664,400 | 688,900 | (100) | 688,800 | 0 | 688,800 |
| GFR - Title Licensee Enforcement | 75,000 | 79,900 | 100 | 80,000 | 0 | 80,000 |
| Beginning Nonlapsing | 28,268,300 | 21,823,700 | 1,371,400 | 23,195,100 | (8,851,300) | 14,343,800 |
| Closing Nonlapsing | (23,195,100) | (13,375,800) | (968,000) | (14,343,800) | 5,923,000 | (8,420,800) |
| Lapsing Balance | (815,500) | 0 | (119,500) | (119,500) | 119,500 | 0 |
| Total | \$51,154,400 | \$80,565,100 | \$11,135,400 | \$91,700,500 | \$32,299,900 | \$124,000,400 |
| Line Items | | | | | | |
| Insurance Department Admin. | 8,357,600 | 10,617,600 | 1,248,700 | 11,866,300 | (1,052,600) | 10,813,700 |
| Comprehensive Health Insurance | 42,626,900 | 69,658,200 | 9,851,600 | 79,509,800 | 33,422,500 | 112,932,300 |
| Bail Bond Program | 1,300 | 23,500 | 0 | 23,500 | 0 | 23,500 |
| Title Insurance Program | 77,800 | 83,800 | 100 | 83,900 | 0 | 83,900 |
| Risk Adjuster | 90,800 | 182,000 | 35,000 | 217,000 | (70,000) | 147,000 |
| Total | \$51,154,400 | \$80,565,100 | \$11,135,400 | \$91,700,500 | \$32,299,900 | \$124,000,400 |
| Categories of Expenditure | | | | | | |
| Personnel Services | 5,710,000 | 6,737,600 | 431,800 | 7,169,400 | 41,900 | 7,211,300 |
| In-state Travel | 6,100 | 42,900 | (12,200) | 30,700 | 4,000 | 34,700 |
| Out-of-state Travel | 57,800 | 120,700 | 4,400 | 125,100 | 8,400 | 133,500 |
| Current Expense | 43,693,900 | 48,630,700 | 32,957,400 | 81,588,100 | (38,371,600) | 43,216,500 |
| DP Current Expense | 1,325,500 | 1,365,700 | 1,421,500 | 2,787,200 | (873,300) | 1,913,900 |
| DP Capital Outlay | 0 | 3,000 | (3,000) | 0 | 0 | 0 |
| Capital Outlay | 8,300 | 0 | 0 | 0 | 0 | 0 |
| Other Charges/Pass Thru | 352,800 | 23,664,500 | (23,664,500) | 0 | 71,490,500 | 71,490,500 |
| Total | \$51,154,400 | \$80,565,100 | \$11,135,400 | \$91,700,500 | \$32,299,900 | \$124,000,400 |
| Other Data | | | | | | |
| Budgeted FTE | 86.0 | 83.0 | 3.0 | 86.0 | 1.5 | 87.5 |
| Vehicles | 10 | 10 | 0 | 10 | 0 | 10 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

| Insurance - Insurance Department Administration | | | | | | |
|--|--------------------|---------------------|--------------------|---------------------|----------------------|---------------------|
| | FY 2011 | FY 2012 | | FY 2012 | | FY 2013* |
| Sources of Finance | Actual | Appropriated | Changes | Revised | Changes | Recommended |
| General Fund | 5,357,800 | 0 | 0 | 0 | 0 | 0 |
| General Fund, One-time | (25,000) | 0 | 0 | 0 | 0 | 0 |
| Federal Funds | 171,800 | 1,049,900 | 1,011,800 | 2,061,700 | (805,900) | 1,255,800 |
| Dedicated Credits Revenue | 1,967,500 | (5,400) | 1,989,900 | 1,984,500 | (1,984,500) | 0 |
| GFR - Guaranteed Asset Protection | 89,000 | 89,000 | 0 | 89,000 | 0 | 89,000 |
| GFR - Insurance Department Acct | 0 | 5,894,900 | 0 | 5,894,900 | 0 | 5,894,900 |
| GFR - Insurance Fraud Investigation | 0 | 1,984,500 | (1,984,500) | 0 | 1,984,500 | 1,984,500 |
| GFR - Relative Value Study | 0 | 90,000 | 0 | 90,000 | 0 | 90,000 |
| GFR - Technology Development | 784,900 | 645,700 | 0 | 645,700 | 0 | 645,700 |
| GFR - Criminal Background Check | 162,500 | 165,000 | 0 | 165,000 | 0 | 165,000 |
| GFR - Captive Insurance | 664,400 | 688,900 | (100) | 688,800 | 0 | 688,800 |
| Beginning Nonlapsing | 282,600 | 15,100 | 351,100 | 366,200 | (366,200) | 0 |
| Closing Nonlapsing | (366,200) | 0 | 0 | 0 | 0 | 0 |
| Lapsing Balance | (731,700) | 0 | (119,500) | (119,500) | 119,500 | 0 |
| Total | \$8,357,600 | \$10,617,600 | \$1,248,700 | \$11,866,300 | (\$1,052,600) | \$10,813,700 |
| Programs | | | | | | |
| Administration | 5,416,200 | 6,944,800 | 784,000 | 7,728,800 | (718,100) | 7,010,700 |
| Captive Insurers | 510,800 | 688,800 | 153,600 | 842,400 | (153,600) | 688,800 |
| Criminal Background Checks | 147,000 | 165,000 | 15,500 | 180,500 | (15,500) | 165,000 |
| Electronic Commerce Fee | 587,800 | 645,700 | 197,100 | 842,800 | (197,100) | 645,700 |
| GAP Waiver Program | 4,400 | 89,000 | 0 | 89,000 | 0 | 89,000 |
| Insurance Fraud Program | 1,685,200 | 1,993,700 | 99,100 | 2,092,800 | 31,700 | 2,124,500 |
| Relative Value Study | 6,200 | 90,600 | (600) | 90,000 | 0 | 90,000 |
| Total | \$8,357,600 | \$10,617,600 | \$1,248,700 | \$11,866,300 | (\$1,052,600) | \$10,813,700 |
| Categories of Expenditure | | | | | | |
| Personnel Services | 5,640,900 | 6,543,300 | 395,200 | 6,938,500 | 41,900 | 6,980,400 |
| In-state Travel | 6,000 | 41,400 | (11,900) | 29,500 | 4,000 | 33,500 |
| Out-of-state Travel | 52,500 | 111,000 | 4,700 | 115,700 | 8,000 | 123,700 |
| Current Expense | 1,331,400 | 1,766,200 | 242,600 | 2,008,800 | (233,200) | 1,775,600 |
| DP Current Expense | 1,318,500 | 1,360,000 | 1,413,800 | 2,773,800 | (873,300) | 1,900,500 |
| DP Capital Outlay | 0 | 3,000 | (3,000) | 0 | 0 | 0 |
| Capital Outlay | 8,300 | 0 | 0 | 0 | 0 | 0 |
| Other Charges/Pass Thru | 0 | 792,700 | (792,700) | 0 | 0 | 0 |
| Total | \$8,357,600 | \$10,617,600 | \$1,248,700 | \$11,866,300 | (\$1,052,600) | \$10,813,700 |
| Other Data | | | | | | |
| Budgeted FTE | 84.0 | 82.0 | 2.0 | 84.0 | 1.5 | 85.5 |
| Vehicles | 10.0 | 10.0 | 0.0 | 10.0 | 0.0 | 10.0 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

Insurance - Comprehensive Health Insurance Pool

| Sources of Finance | FY 2011 | FY 2012 | Changes | FY 2012 | Changes | FY 2013* |
|----------------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|----------------------|
| | Actual | Appropriated | | Revised | | Recommended |
| General Fund | 8,075,000 | 8,075,000 | 0 | 8,075,000 | 0 | 8,075,000 |
| Federal Funds | 5,462,500 | 14,068,100 | 17,050,400 | 31,118,500 | 33,372,600 | 64,491,100 |
| Dedicated Credits Revenue | 23,932,600 | 39,082,300 | (7,251,100) | 31,831,200 | 2,612,000 | 34,443,200 |
| Beginning Nonlapsing | 27,985,700 | 21,808,600 | 1,020,300 | 22,828,900 | (8,485,100) | 14,343,800 |
| Closing Nonlapsing | (22,828,900) | (13,375,800) | (968,000) | (14,343,800) | 5,923,000 | (8,420,800) |
| Total | \$42,626,900 | \$69,658,200 | \$9,851,600 | \$79,509,800 | \$33,422,500 | \$112,932,300 |
| Programs | | | | | | |
| Comprehensive Health Insurance | 42,626,900 | 69,658,200 | 9,851,600 | 79,509,800 | (38,069,800) | 41,440,000 |
| Federal HIPUtah | 0 | 0 | 0 | 0 | 71,492,300 | 71,492,300 |
| Total | \$42,626,900 | \$69,658,200 | \$9,851,600 | \$79,509,800 | \$33,422,500 | \$112,932,300 |
| Categories of Expenditure | | | | | | |
| Out-of-state Travel | 4,200 | 7,900 | (1,600) | 6,300 | 400 | 6,700 |
| Current Expense | 42,269,900 | 46,778,200 | 32,725,200 | 79,503,400 | (38,068,400) | 41,435,000 |
| DP Current Expense | 0 | 300 | (200) | 100 | 0 | 100 |
| Other Charges/Pass Thru | 352,800 | 22,871,800 | (22,871,800) | 0 | 71,490,500 | 71,490,500 |
| Total | \$42,626,900 | \$69,658,200 | \$9,851,600 | \$79,509,800 | \$33,422,500 | \$112,932,300 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

Insurance - Bail Bond Program

| Sources of Finance | FY 2011 | FY 2012 | Changes | FY 2012 | Changes | FY 2013* |
|----------------------------------|----------------|-----------------|------------|-----------------|------------|-----------------|
| | Actual | Appropriated | | Revised | | Recommended |
| GFR - Bail Bond Surety Admin | 23,500 | 23,500 | 0 | 23,500 | 0 | 23,500 |
| Lapsing Balance | (22,200) | 0 | 0 | 0 | 0 | 0 |
| Total | \$1,300 | \$23,500 | \$0 | \$23,500 | \$0 | \$23,500 |
| Programs | | | | | | |
| Bail Bond Program | 1,300 | 23,500 | 0 | 23,500 | 0 | 23,500 |
| Total | \$1,300 | \$23,500 | \$0 | \$23,500 | \$0 | \$23,500 |
| Categories of Expenditure | | | | | | |
| Personnel Services | 0 | 22,300 | (500) | 21,800 | 0 | 21,800 |
| Out-of-state Travel | 400 | 0 | 500 | 500 | 0 | 500 |
| Current Expense | 900 | 1,200 | 0 | 1,200 | 0 | 1,200 |
| Total | \$1,300 | \$23,500 | \$0 | \$23,500 | \$0 | \$23,500 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

| Insurance - Title Insurance Program | | | | | | |
|-------------------------------------|-----------------|-----------------|--------------|-----------------|------------|-----------------|
| Sources of Finance | FY 2011 | FY 2012 | Changes | FY 2012 | Changes | FY 2013* |
| | Actual | Appropriated | | Revised | | Recommended |
| General Fund | 5,200 | 3,900 | 0 | 3,900 | 0 | 3,900 |
| GFR - Title Licensee Enforcement | 75,000 | 79,900 | 100 | 80,000 | 0 | 80,000 |
| Lapsing Balance | (2,400) | 0 | 0 | 0 | 0 | 0 |
| Total | \$77,800 | \$83,800 | \$100 | \$83,900 | \$0 | \$83,900 |
| Programs | | | | | | |
| Title Insurance Program | 77,800 | 83,800 | 100 | 83,900 | 0 | 83,900 |
| Total | \$77,800 | \$83,800 | \$100 | \$83,900 | \$0 | \$83,900 |
| Categories of Expenditure | | | | | | |
| Personnel Services | 69,100 | 72,000 | (3,500) | 68,500 | 0 | 68,500 |
| In-state Travel | 100 | 1,500 | (300) | 1,200 | 0 | 1,200 |
| Out-of-state Travel | 700 | 1,800 | (200) | 1,600 | 0 | 1,600 |
| Current Expense | 900 | 3,100 | (900) | 2,200 | 0 | 2,200 |
| DP Current Expense | 7,000 | 5,400 | 5,000 | 10,400 | 0 | 10,400 |
| Total | \$77,800 | \$83,800 | \$100 | \$83,900 | \$0 | \$83,900 |
| Other Data | | | | | | |
| Budgeted FTE | 1.0 | 1.0 | 0.0 | 1.0 | 0.0 | 1.0 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.

| Insurance - Risk Adjuster | | | | | | |
|----------------------------------|-----------------|------------------|-----------------|------------------|-------------------|------------------|
| Sources of Finance | FY 2011 | FY 2012 | Changes | FY 2012 | Changes | FY 2013* |
| | Actual | Appropriated | | Revised | | Recommended |
| General Fund, One-time | 0 | 35,000 | 0 | 35,000 | (35,000) | 0 |
| GFR - Health Insurance Actuarial | 150,000 | 147,000 | 35,000 | 182,000 | (35,000) | 147,000 |
| Lapsing Balance | (59,200) | 0 | 0 | 0 | 0 | 0 |
| Total | \$90,800 | \$182,000 | \$35,000 | \$217,000 | (\$70,000) | \$147,000 |
| Programs | | | | | | |
| Risk Adjuster | 90,800 | 182,000 | 35,000 | 217,000 | (70,000) | 147,000 |
| Total | \$90,800 | \$182,000 | \$35,000 | \$217,000 | (\$70,000) | \$147,000 |
| Categories of Expenditure | | | | | | |
| Personnel Services | 0 | 100,000 | 40,600 | 140,600 | 0 | 140,600 |
| Out-of-state Travel | 0 | 0 | 1,000 | 1,000 | 0 | 1,000 |
| Current Expense | 90,800 | 82,000 | (9,500) | 72,500 | (70,000) | 2,500 |
| DP Current Expense | 0 | 0 | 2,900 | 2,900 | 0 | 2,900 |
| Total | \$90,800 | \$182,000 | \$35,000 | \$217,000 | (\$70,000) | \$147,000 |
| Other Data | | | | | | |
| Budgeted FTE | 1.0 | 0.0 | 1.0 | 1.0 | 0.0 | 1.0 |

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.