

**Department of Insurance**

**A.R.S. § 20-101**

Director: Charles Cohen

JLBC Analyst: Pat Mah

	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Approved</b>	<b>FY 2003 Approved</b>
<b>PROGRAM BUDGET</b>				
Policy and Administration	1,361,800	1,383,600	1,193,400	1,219,700
Consumer Support	1,826,100	1,878,700	2,182,700	2,237,900
Managed Care and Dental Plan				
Oversight SLI	0	500,000	644,600 <sup>1/</sup>	666,500
<i>Program Subtotal - Consumer Support</i>	1,826,100	2,378,700	2,827,300	2,904,400
Premium Tax Collections and Analysis	131,000	134,800	153,300	157,800
Solvency Regulation	380,300	396,200	439,800	441,900
Captive Insurers Section SLI	0	0	93,000	275,000
<i>Program Subtotal - Solvency Regulation</i>	380,300	396,200	532,800	716,900
Licensing	517,400	555,300	657,800	705,600
Fraud Investigation and Deterrence	1,077,500	1,139,800	1,129,300	1,262,600
<b>TOTAL APPROPRIATIONS</b>	<b>5,294,100</b>	<b>5,988,400</b>	<b>6,493,900</b>	<b>6,967,000</b>
<b>OPERATING BUDGET</b>				
Full Time Equivalent Positions	107.0	111.0	119.0 <sup>2/</sup>	126.0 <sup>2/</sup>
Personal Services	3,331,600	3,493,700	3,666,500	3,978,000
Employee Related Expenditures	701,400	754,500	856,800	859,000
Professional and Outside Services	247,900	274,300	276,100	283,600
Travel - In State	25,100	24,100	24,100	24,100
Travel - Out of State	15,500	14,100	14,100	14,100
Other Operating Expenditures	844,400	917,200	907,800	861,000
Equipment	128,200	10,500	10,900	5,700
<i>Operating Subtotal</i>	5,294,100	5,488,400	5,756,300	6,025,500
Special Line Items (SLI)	0	500,000	644,600	666,500
<b>SUBTOTAL</b>	<b>5,294,100</b>	<b>5,988,400</b>	<b>6,400,900</b>	<b>6,692,000</b>
<b>Additional Appropriations -</b>				
Captive Insurers, Ch. 327	0	0	93,000 <sup>3/</sup>	275,000 <sup>3/</sup>
<b>TOTAL APPROPRIATIONS</b>	<b>5,294,100</b>	<b>5,988,400</b>	<b>6,493,900 <sup>4/</sup></b>	<b>6,967,000 <sup>4/</sup></b>
<b>FUND SOURCES</b>				
General Fund	5,294,100	5,988,400	6,493,900	6,967,000
<b>TOTAL APPROPRIATIONS</b>	<b>5,294,100</b>	<b>5,988,400</b>	<b>6,493,900</b>	<b>6,967,000</b>

**AGENCY DESCRIPTION** — *The department regulates the insurance industry. The department's major duties include solvency regulation, collection and audit of insurance premium taxes, agent licensing, company certification, consumer assistance, complaint resolution, rate and policy form regulation, and administration of companies in receivership. The department collects various filing and licensing fees, which are deposited to the state General Fund. The revenues derived from these fees are required by law to be between 95% and 110% of the department's state General Fund appropriation.*

<sup>1/</sup> In accordance with Laws 2000, Chapter 339, the FY 2002 appropriation includes the \$133,000 in Personal Services and Employee Related Expenditures transferred from the Department of Health Services. (General Appropriation Act footnote)  
<sup>2/</sup> Includes 10 FTE Positions in FY 2002 and 13 FTE Positions in FY 2003 funded from Special Line Items.  
<sup>3/</sup> Pursuant to Laws 2001, Chapter 327, this appropriation is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.  
<sup>4/</sup> General Appropriation Act funds are appropriated as a Lump Sum by Agency with Special Line Items.

PERFORMANCE MEASURES	FY 1999	FY 2000	FY 2001	FY 2002-03
	Est./Actual	Est./Actual	Estimate	Estimate
• Average calendar days to complete a consumer complaint investigation	50/45	35/93.5	90	90
• Number of new domestic company receiverships	NA	NA/1	0	0
• Average days required to complete fraud investigations	70/66	55/108	100	100/70
• % of survey licensees respondents indicating "satisfied" or better	NA	75/81.2	82.5	85
• % of consumer services survey respondents indicating "satisfied" or better	NA	NA/88	88	88
• Average days to issue license after receiving all required information from applicant	35/33.8	28/33.1	31.4	31.4
• Maximum number of days for approval of new products	NA	NA	NA	60
• Maximum number of days for approval of new rates	NA	NA	NA	60
• % of agency staff turnover	NA/11.3	NA/17.1	15.1	15.1
• Administration as a % of total cost	NA	23.8/NA	24	22.3/22.1

**Policy and Administration Program** — This program develops and implements administrative and regulatory policies and procedures. It also coordinates and directs the activities of other programs in the department.

**Consumer Support Program** — This program provides insurance-related information and assistance to insurance consumer and claimants in response to inquiries. It also publishes consumer information guides and assists consumers in obtaining insurance coverage.

The appropriation includes a FY 2002 increase of \$34,700 and 1 FTE Position above FY 2001 and a FY 2003 increase of \$77,200 and 2 FTE Positions above FY 2001. The FY 2003 amount also includes \$5,700 in one-time equipment costs. The number of consumer requests for assistance has increased from 89,578 in 1995 to 108,183 in 1999. The average annual rate of growth has been about 4%. The appropriation will provide a new Administrative Assistant I in FY 2002 and a new Consumer Services Specialist II in FY 2003. These additional 2 FTE Positions will allow the department to keep pace with the growth in requests for assistance.

**Managed Care and Dental Plan Oversight Special Line Item** — This Special Line Item reflects monies related to the transfer of regulatory responsibilities for overseeing health care service delivery by Health Care Service Organizations and Prepaid Dental Plan Organizations. These service delivery organizations function as insurance companies and health care providers in that they both finance the cost of health care and provide and arrange health care delivery.

Laws 2000, Chapter 355 appropriated 4 FTE Positions and \$500,000 from the General Fund for FY 2001 for the purpose of performing these health care delivery oversight duties. This appropriation is continued in both FY 2002

and FY 2003 for no net change from FY 2001. In addition, this Special Line Item reflects monies initially transferred from the Department of Health Services by Laws 2000, Chapter 339, as shown in *footnote 1* at the beginning of this report. These monies fund 2 FTE Positions for oversight over the dental care components starting in FY 2002. The appropriation also reflects an increase of 3 FTE Positions at the beginning of FY 2002. Funding for these new positions come from already existing resources by reallocating one-time expenses that were needed in FY 2001 for start-up cost. The FTE Positions in this Special Line Item total to 9 in both FY 2002 and FY 2003.

**Premium Tax Collections and Analysis Program** — This program develops and provides tax report forms and information to companies paying premium taxes. It also audits reports and assesses penalties and interest for late payments.

**Solvency Regulation Program** — This program monitors the ability of authorized insurers to perform their financial obligations under insurance policies. It also administers the estates of Arizona insurer receiverships and pays certain claims owed by insolvent insurers to Arizona residents.

**Captive Insurers Section Special Line Item** — This Special Line Item consist of monies appropriated by Laws 2001, Chapter 110 for a new Captive Insurers section. (See the *Additional Appropriations section in this analysis for further details.*)

**Licensing Program** — This program analyzes applications from various entities for license to provide insurance products and services in Arizona. It also oversees continuing education and pre-license examinations.

The appropriation includes a FY 2002 increase of \$26,100 and 1 FTE Position above FY 2001 and a FY 2003 increase of \$47,100 and 2 FTE Positions above FY 2001. The number of people requesting licenses has continued to grow significantly in recent years. Applications for licenses have increased by over 11% annually since 1996. The processing time for an applicant to be issued a license currently takes approximately 31.4 calendar days. In FY 1997, processing time was 21 days and grew to 33.1 days in FY 2000 when the number of applications increased by 20.1%. The appropriation provides 2 new Administrative Assistant II FTE Positions over the biennium. These 2 additional FTE Positions will help prevent further growth in the time it takes to process applications.

**Fraud Investigations and Deterrence Program** — This program receives investigative referrals related to insurance fraud from insurers and other sources. It conducts criminal investigations and promotes awareness of insurance fraud.

The appropriation includes an increase of \$76,200 in FY 2003 to fund 2 new Special Investigator FTE Positions for completing investigations to determine whether fraud has occurred. Currently, the investigation process exceeds an average of 100 days. The reported time for FY 2000 was 108 days. The additional 2 new FTE Positions in FY 2003 reduces the processing time to an estimated average of 70 days in FY 2003.

**Additional Appropriations: Captive Insurers (Chapter 327)** — Appropriates non-lapsing General Fund monies of \$93,000 and 1 FTE Position in FY 2002 and \$275,000 and 4 FTE Positions in FY 2003 to establish a new captive insurance section in the department. This new section is for regulating and marketing to non-insurance companies whose business assets will allow them to self-insure for specific needs that they may have. The appropriation provides for a phase-in of this new section during FY 2002 and its full operation in FY 2003.

The new legislation authorizes the collection of certificate of authority issuance and renewal fees as prescribed by the department. These fees will be deposited in the state General Fund and are excluded from a statutory requirement that the department collect fees in an amount that will recover 95% to 110% of its appropriated budget. This appropriation is displayed in the Solvency Regulation program under a new Captive Insurers Section Special Line Item.

**Additional Legislation: Insurers; Examination; Five Years (Chapter 110)** — Laws 2001, Chapter 110 authorizes the department to make an assessment for the costs of employing financial analysts to assist in conducting financial surveillance of domestic insurers. The legislation establishes statutory minimum and

maximum amounts for the fee assessments based on assets held by an insurer. Monies from these fees are to be deposited in a new non-appropriated Financial Surveillance Fund also established by this legislation.

**Other Issues:** The department plans to adjust its fees in July 2001 in accordance with a statutory requirement that fees be adjusted to recoup 95% to 110% of its General Fund appropriation. This fee adjustment will place fees at their existing statutory caps to recoup an estimated 97% of the department's FY 2001 appropriation. As a result, the department will no longer have the ability to increase fees in future years to continue to comply with this statutory requirement. The need for another fee increase appears likely given that the approved FY 2002 General Fund appropriation is an increase of 7% above FY 2001. Legislation to raise the statutory fee caps was considered during the 2001 Session, including S.B. 1023. However, S.B. 1023 failed to receive the two-thirds majority vote necessary for its passage.

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