



FAIR. FAST. PROFESSIONAL.

Financial Services Commission
Office of Insurance Regulation

Presentation of Agency Schedule VIII B Reduction Issues
August 2007





FAIR. FAST. PROFESSIONAL.

Past Budget vs. Current Budget

| | FY 2005-2006 | FY 2006-2007 | FY 2007-2008 |
|-------------------|---------------------|---------------------|---------------------|
| FTE | 305 | 311 | 315 |
| OIR Budget | \$24,021,122 | \$24,150,645 | \$26,939,144 |

Total Number of Insurance Related Entities

| | |
|---------------------|-------|
| As of June 30, 2005 | 3,466 |
| As of June 30, 2006 | 3,695 |
| As of June 30, 2007 | 3,900 |





FAIR. FAST. PROFESSIONAL.

Public Hurricane Model – Maintenance and Support (\$623,512 recurring)

- ❖ Residential property insurers and licensed rating and advisory organizations are required to compile property insurance loss data, and to provide associated exposure data to the Office of Insurance Regulation (Office) or Florida International University (FIU).
- ❖ FIU is under contract with the Office to continue to develop, maintain and support the Model and to provide model related services
- ❖ The Florida Legislature provides the Office with \$623,512 in recurring funds in order to support and maintain the Model and meet the requirement of complying with the standards of the Commission.
- ❖ The Office can meet this statutory requirement if legislation is passed requiring residential property insurers and licensed rating and advisory organizations to pay the costs of running their rate filings through the Model instead of the State of Florida bearing this cost.





FAIR. FAST. PROFESSIONAL.

Title Insurance Rates – Data Collection and Analysis (\$100,000 recurring)

- ❖ The Office is required to review and adjust (if needed) title insurance rates not less frequently than once every three years. In order to meet statutory requirement, it is necessary to collect statistical data and conduct an actuarial analysis performed on the data.
- ❖ The goal is to provide an adequate and fair rate structure for the premium and services performed in real estate closing transactions and issuance of title insurance.
- ❖ The Florida Legislature has provided \$150,000 to the Office to gather title insurance data in accordance with Section 624.501(27)(e)(2) and 627.782, Florida Statutes.
- ❖ The Office believes it can meet this statutory requirement with \$50,000 in recurring revenues as the data collection element is being conducted with in-house resources.





FAIR. FAST. PROFESSIONAL.

Public Rate Hearing Announcements (\$100,000 recurring)

- ❖ The Office is required to conduct a public rate hearing on any residential rate filing that is based in whole or in part on data from a computer model, when the rate filing is in excess of 15 percent.
- ❖ The Florida Legislature provided the Office with \$150,000 in recurring funds for the 2007-2008 Fiscal Year in order to meet this requirement.
- ❖ The Office believes it can meet this statutory requirement with \$50,000 in recurring revenues because the Office has partnered with the Florida Channel to broadcast the hearings statewide so that interested stakeholders and policyholders can view the hearings even if they are not in the immediate vicinity.
- ❖ Further, streaming videos of the hearings are available 24 hours a day on the Office's website at <http://www.floir.com/pcfr/ratehearingsIndex.htm>.





FAIR. FAST. PROFESSIONAL.

Base OPS (\$50,000 recurring)

- ❖ The Office has responsibility for enforcing the provisions of Chapters 20, 112, 120, 440, 624, 625, 626, 627, 628, 629, 630, 630, 631, 632, 634, 635, 636, and 641, 642, 648, 651 and 817, F.S., and applicable rules, as they relate to the review of policy contracts and associated rates. The Office is responsible for:
 - Rate and form filings to ensure compliance
 - Monitoring the financial condition of all regulated entities through analysis and exams
 - An admissions process for new entities as well as those proposing to expand their business
 - Conducting market investigations and analyzing market trends for consumers
- ❖ In addition to paying the salaries of OPS employees, the Office allocates OPS funds for the fulfillment of our essential functions outlined above.
- ❖ Based on 2006-2007 experience, the Office believes that we can continue to meet all statutory requirements with \$782,750 in OPS funds.





FAIR. FAST. PROFESSIONAL.

Property and Casualty Financial Oversight Financial Examinations (\$454,200 recurring)

- ❖ The Office is required to conduct financial examinations of property and casualty insurers in order to protect consumers and provide early detection of weakening financial conditions.
- ❖ Prior to the 2007 Legislative Session, the Office was required to obtain consent from the insurance company in order to contract with outside experts to conduct an examination and have the company cover the costs of that outside expert. Otherwise, the Office was required to use state resources.
- ❖ House Bill 1549 (Chapter Law # 2007-224) permits the Office to engage outside experts to conduct the financial examinations and allows the Office to select the financial examination experts and bill the insurer for the cost of the examination.
- ❖ The Office believes due to the engagement of outside experts to conduct the financial exams, there will be a significant reduction in travel expenses for our examiner positions.





FAIR. FAST. PROFESSIONAL.

Life and Health Financial Oversight Financial Examinations (\$75,840 recurring)

- ❖ The Office is required to conduct financial examinations of life and health insurers in order to protect consumers and provide early detection of weakening financial conditions.
- ❖ Prior to the 2007 Legislative Session, the Office was required to obtain consent from the insurance company in order to contract with outside experts to conduct an examination and have the company cover the costs of that outside expert. Otherwise, the Office was required to use state resources.
- ❖ House Bill 1549 (Chapter Law # 2007-224) permits the Office to engage outside experts to conduct the financial examinations and allows the Office to select the financial examination experts and bill the insurer for the cost of the examination.
- ❖ The Office believes due to the engagement of outside experts to conduct the financial exams, there will be a significant reduction in travel expenses for our examiner positions.





FAIR. FAST. PROFESSIONAL.

Vacant Positions (\$540,721 recurring)

- ❖ During the 2006-2007 Fiscal Year, the Office:
 - processed 527 company applications in an average of 77 days.
 - met or exceeded all standards for reviewing forms and rates filed by insurers within 90 days. In total, the Office reviewed 18,925 form and rate filings.
 - conducted 100% of the Priority 1-4 financial reviews within the national standard timeframes. A total of 10,493 financial reviews.
- ❖ Due to the past three years of property legislation, the Office has seen a unprecedented number of filings. However, the Office expects to continue to meet the aforementioned performance standards at our current staffing level of 315 FTE's. Over the course of a Fiscal Year, the Office's vacant positions fluctuate; however, we strive to fill all positions within 90 days. Currently, there are 26 vacant positions within the Office and we have identified 11 of the 315 positions that were frozen effective July 27, 2007 until further budget reduction determinations are made by the Legislature and Governor.





FAIR. FAST. PROFESSIONAL.

Specialty Examinations (\$412,328 recurring)

- ❖ Specialty Product Administration is charged with the regulation of various insurance related entities: Auto, Home and Service Warranties, Premium Finance Companies, Legal Expense Insurance, Third Party Administrators, Continuing Care Retirement Communities, Donor Annuities and Viatical Settlements.
- ❖ The primary responsibility of Specialty Product Administration is to license entities, examine them for compliance with applicable laws and rules and monitor their financial condition for the protection of the public from insolvency risks and unethical business practices.
- ❖ Specialty Product Administration reviews the financial statement filings of licensed companies and conducts on-site financial and market conduct examinations. The Office has a section of five full time equivalent (FTE) positions for this process.
- ❖ The Office believes it can meet the statutory requirement of protecting the public from insolvency risks and unethical business practices if the Florida Statutes were amended to allow financial and market conduct examinations on an as needed basis, and that the examination costs be borne by the insurance related entities and not the State of Florida.





FAIR. FAST. PROFESSIONAL.

Floating Vacancies (\$104,148 recurring)

- ❖ Over the course of a Fiscal Year, the Office experiences a vacancy ratio of approximately 5-10%. A portion of the turnover is due to employees retiring, participation in the Deferred Retirement Option Program, transfer to another state agency or private sector employment opportunities.
- ❖ The Office will review the employees planning to retire and strategically identify two (2) non-mission critical positions to eliminate during the course of the Fiscal Year.

