

# 2017-2023 Strategic Plan

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**Mike Kreidler**, *Insurance Commissioner*

[www.insurance.wa.gov](http://www.insurance.wa.gov)

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# Message from the Commissioner

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We completed our 2017 – 2023 strategic plan after two and a half months of brainstorming, planning, and plain hard work. What's most important is how we produced it – with your help. Everyone in the agency was invited to contribute to its creation. I'm pleased to report that most of you did, sharing insights and new ideas through strategic planning workshops, the self-assessment, employee survey, and other feedback opportunities.

Our mission remains the same: to protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry. This strategic plan continues moving us closer to our vision of being recognized as a model for consumer protection and state insurance regulation by:

- Protecting and educating consumers,
- Promoting a healthy insurance environment,
- Managing resources and leverage technology to ensure effective and efficient operations; and
- Attracting and developing a capable, engaged, valued, and diverse workforce.

Key messages we heard throughout the strategy sessions revolved around communication, both inside and outside of the agency. That focus from employees reflects a continuing commitment and dedication to honoring our mission on behalf of consumers in our state.

That focus also has a direct connection to all of the work we do on a daily basis. Significant effort will be made over the next few years to inform many more about our vision and mission. We have a great story to tell, and each of us has a hand in crafting that story chapter by chapter.

No matter your job title or classification, each of us plays a vital role. The objectives and strategies we've developed to reach our goals aim to make the work of our agency effective and efficient, while regulating the industry in a fair and consistent way.

Thank you again for your dedication and hard work. Together, we make life better for so many in our state.

A handwritten signature in black ink that reads "Mike Kreidler". The signature is written in a cursive, slightly slanted style.

Mike Kreidler  
Insurance Commissioner

# Our Mission, Vision, Values and Goals

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**It is the Office of Insurance Commissioner's *Mission*** to protect consumers, the public interest, and our state's economy through fair and efficient regulation of the insurance industry.

**It is our *Vision*** to be recognized as a model for consumer protection and state insurance regulation.

## **We value...**

**Respect:** Treating people with courtesy, recognizing contributions and honoring diversity.

**Accountability:** Taking responsibility for our actions and performance and responsibly using the authority and public resources entrusted to us.

**Communication:** Listening and being clear and forthright in all communications to enhance understanding.

**Collaboration:** Working together to achieve agency goals.

**Excellence:** Working effectively in a supportive environment to provide the best services possible.

**Professionalism:** Demonstrating competence, resourcefulness and the highest standards of conduct.

**Integrity:** Committing to honest and ethical behavior.

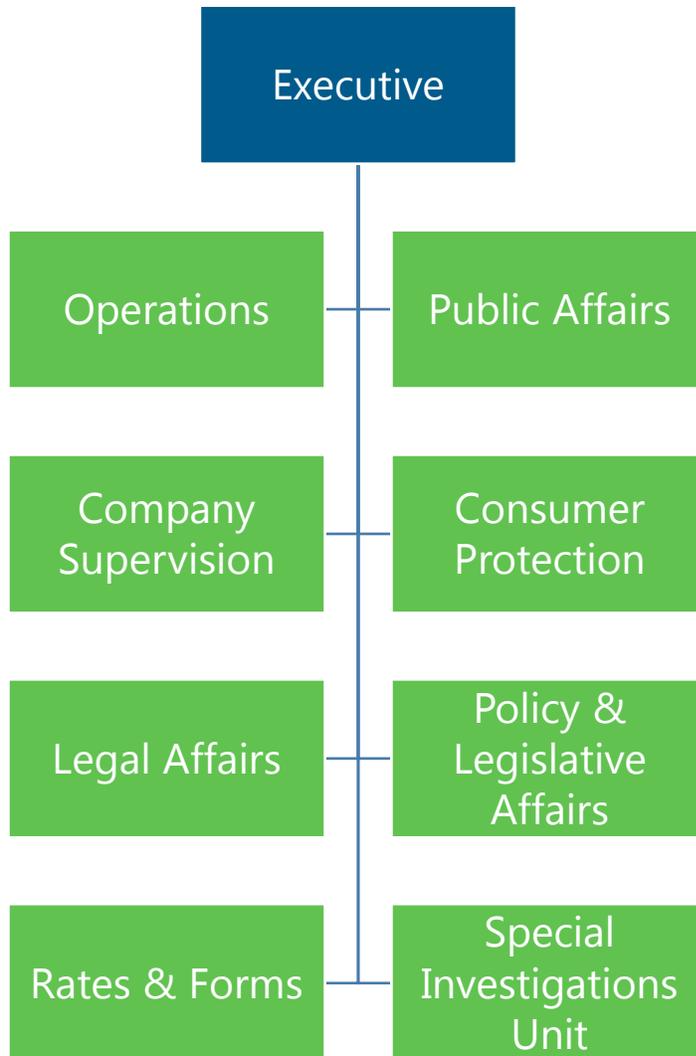
## **Our Goals**

- *Protect and educate consumers*
- *Promote a healthy insurance environment*
- *Manage resources and leverage technology to ensure effective and efficient operations*
- *Attract and develop a capable, engaged, valued, and diverse workforce*

# Agency Structure

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## Organizational Chart



# Review of external environment

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## The insurance business

The insurance industry is critical to Washington's economy and to the well-being of our state's residents. Insurance transactions generate about \$37 billion in economic activity every year and about \$500 million in annual state tax revenue, which is used to fund a wide range of public services.

## National and state economy

As the nation continues to emerge from the 2008 recession, the issues identified over the past five years have changed.

As a result of federal budget issues, the U.S. credit rating was lowered from AAA to AA+ for the first time in the nation's history by Standard & Poor (S&P) in 2011. Fitch, one of the other "big three" credit rating agencies, removed the U.S. from downgrade watch in March 2014. Lower ratings result in declines in government bond yields, and higher borrowing costs. Borrowing costs are a key consideration for the insurance industry.

There are signs of economic recovery, which signal that the flat insurance environment is improving.

- Business bankruptcies have dropped below their level at the start of the 2007-09 recession and are expected to continue falling. This means the erosion of commercial accounts that affected most lines of insurance will continue to ease. However, the low-interest rate climate continues creating challenges to insurers to price risk closer to their claims potential.
- In January 2016, the US economy reached its lowest unemployment level (4.9 percent) since July 2008.
- Premium income has started to increase. Depending on the line of business, this is good news for the insurance industry, as it typically signals an increase in overall sales.

The state economy faces challenges created by the court ruling requiring more than a billion dollar investment in the state's K-12 programs, and a persistent billion dollar plus shortfall in revenue. Premium tax continues to be an important revenue source to the general fund. Premium volume increased beginning 2014 due to increased health coverage take-up by previously uninsured persons resulting from health care reform implementation.

## Changes in the insurance market

New and rapid developments in technology are spawning innovation in services and markets, including insurance; these innovations can present regulatory challenges. Some recent innovations that have regulatory implications are shared services (e.g. Uber, Lyft, or Air BnB) and free digital platforms. Some are on the horizon, such as driverless cars. The OIC must dedicate expertise and resources to anticipating and understanding these challenges, and whether they are better regulated through adaptation of an existing model or require new and innovative methods of regulation.

## Insurance market cycles

The availability and affordability of personal and commercial lines of insurance are cyclical in nature. Life, health, auto, home, liability and other kinds of insurance are influenced by competitive market forces, the regulatory climate, inflation, investment returns, catastrophic events, and the accuracy of predicting future claims.

The property and casualty insurance market is characterized by cyclical patterns in underwriting restrictions, rates, and profits. A full market cycle typically lasts seven to 15 years and is more significant for commercial lines products than for personal lines. The cycle seems to have slowed in recent years, however, and for the most part, “soft market” conditions have prevailed since 2005. The cyclical nature of the property and casualty insurance market makes it likely that another hard market will begin by 2018.

In a soft market, authorized insurers become more willing to insure risks that are considered marginal or unprofitable during the hard market phase of the cycle. As a result, rates have dropped and availability of all but a few types of insurance has improved.

## Interstate uniformity

The insurance industry and its congressional allies have continued to push for greater uniformity among states in licensing and regulatory standards, as well as approval for single “points of entry” for various products. Congress has continued to examine the role that the federal government should play in insurance regulation. Some insurers and their trade associations will likely pursue national standards for products that, if adopted, would reduce the current consumer protection standards here in Washington and most of the larger states.

To promote uniformity among state regulators and reduce the need for federal regulation, the National Association of Insurance Commissioners (NAIC) has developed, or is in the process of developing, accreditation programs in financial examination, market conduct oversight and company licensing. It is anticipated that the NAIC will

continue to consider developing an accreditation program for insurance producer licensing and regulation to promote uniformity among the states.

The Interstate Insurance Product Regulation Compact (Compact) enhances the efficiency and effectiveness of the way insurance products are filed, reviewed and approved for its member states, allowing consumers to have quicker access to competitive insurance products in an ever-changing global marketplace. The Compact promotes uniformity through application of national product standards embedded with strong consumer protections. Washington consumers benefit by having a choice of more products and insurance companies.

Uniformity also provides an opportunity for more proactive insurance regulation, resulting in real-time regulation with more preventive actions and fewer punitive ones. Consumers are the ultimate beneficiaries, receiving stronger products in a better-regulated market that is less costly for all.

## **Health care access**

The Patient Protection and Affordable Care Act (ACA) is being implemented in Washington and across the nation, with the goal of universal access to health care. Over the next decade, there will be a cascade of changes in the insurance marketplace affecting nearly every segment of the market including insurers, insurance producers, providers, employers and consumers. The Insurance Commissioner will need to be extra vigilant in order to quickly respond to the marketplace changes and the ripple effects of federal health care reform.

Health reform had a significant impact in Washington, specifically on the rate of uninsured. Washington's uninsured rate was 8.2 percent in 2014 dropping from 13.9 percent in 2012. Preliminary data shows that the rate will continue to drop in 2015, with an estimated rate at 7.3 percent. The increase in insurance coverage impacted people throughout our state, across all races and income groups, and in both urban and rural areas. However, barriers remain for some. Those who remain uninsured are more likely to be age 18 to 34, lower income, less educated, and predominantly Caucasian and Hispanic.

Even with reform, health care remains expensive for many reasons, ranging from the growing cost of prescription drugs to high administrative costs. As we move past the initial implementation phase of the ACA, new challenges emerge or become more apparent. Of particular concern is the affordability of coverage, as well as the costs to access care. Prior to the ACA, issuers could control costs by excluding sicker consumers or limiting benefit design. Market reforms that are part of the ACA, such as requiring the 10 essential health benefits, prohibiting medical underwriting, and guaranteed availability, protect consumers and ended these discriminatory price control strategies. Now, carriers are looking for different ways to remain competitive and reduce costs. This

includes strategies such as utilizing narrow networks. OIC was the first in the nation to adopt strong network access standards and will monitor how narrow networks affect access and hold up to our standards. In the coming years, monitoring the ongoing tension between costs and access will be central to our role. Rates in Washington remain lower than nationally, but other costs are rising, including out of pocket expenses. Research shows that high deductibles specifically impact people's access to care – as they rise, people are less likely to seek care.

Other issues continue to impact access to care. These include health provider and health insurance company consolidation and increasing costs of prescription drugs. While these issues are very important to consumers and impact costs and access, there is little that OIC can do to address these problems. However, it remains imperative that we monitor these issues to ensure there is no negative impact in the health insurance sector.

## **Fraud and illegal activities**

It is estimated that insurance fraud costs the average insurance consumer between \$400 and \$700 per year in higher premiums. Over the past two years, states have struggled with the economic recession and insurance law violations have steadily increased – a trend that is expected to continue. Nationwide, growing criminal and civil caseloads are outpacing available fraud-fighting resources.

Criminal insurance fraud can take many forms. They include filing false claims, exaggerating claims, submitting fraudulent documents or receipts, staged vehicle collisions, arson for profit and medical provider fraud. Cases often involve multiple claims, multiple suspects and multiple victims and the fraud can occur over months or years. These types of cases require highly trained and dedicated investigative and prosecutorial resources.

As more insurance products are sold via the Internet, without the benefit of advice from a licensed insurance producer, consumers may increasingly be victimized by unseen, distant scammers. The rising cost of health insurance the last several years also has provided a fertile landscape for fraudulent health plans. Scam artists continue to prey on people desperate to find adequate, affordable health care.

Criminal activity can be difficult to detect until a victim comes forward, and by then, it's often too late to counter the damage done. The individual or entity selling illegal insurance can't be located, or worse yet, has morphed into another illegal company under a different name, continuing to prey on vulnerable people.

## **Climate**

Catastrophic climate events are occurring more frequently with greater severity; more property damage prompts more insurance claims. Greater claims, especially those due to catastrophic weather events, affect the ability of the reinsurance industry to attract capital due to reduced return on investment.

The combination of recent research on climate change, new analysis by the U.S. Geological Survey concerning earthquake hazards, and reinsurance costs has led insurers to review their exposure to catastrophic events. The result is less willingness by insurers to provide coverage, despite the soft market.

## **Public perceptions of and access to government**

As revenue instability becomes a growing concern, the resulting pressure on state government to cut services and increase taxes heightens public demand for increased efficiency, effectiveness and accountability in state programs. At the same time, the public increasingly expects to be able to access the information they want when they want it. Improved availability and accessibility to government services and information continues to be of utmost importance to the agency, the insurance industry, and the public.

# Assessment of internal environment

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## Financial health

The Office of Insurance Commissioner (OIC) is currently in good financial health. The OIC is deliberate in making strategic investments that optimize efficiencies and drive down overall costs. However, the future financial health of the agency could be jeopardized by another recession, loss of revenue affecting all of state government, and the often-favored approach of across-the-board budget cuts, regardless of funding source.

The OIC's operating budget is funded by a regulatory surcharge paid in July each year by authorized insurers, health care service contractors (HCSCs), health maintenance organizations (HMOs), title insurance companies, and reinsurers. The surcharge is deposited into a dedicated account to cover the OIC's operating costs for the fiscal year. The regulatory surcharge is based on a percentage of premium volume from each insurer's previous year's tax return. If premium volume goes down, operating revenue goes down; if premium volume goes up, operating revenue goes up.

Although it is funded from a dedicated account and not the state general fund, the OIC's operating budget – like those of other state agencies – must be approved by the Legislature as an appropriation in the biennial budget. The surcharge rate has remained the same since 2008; however, the OIC credited back to insurers and health care providers \$1.9M in 2014 and \$4M in 2015, effectively reducing the net regulatory rate.

A growing issue of concern is the OIC's regulation of entities, such as service contract providers and fraternal benefit societies, which do not contribute to their cost of regulation. This means the companies that do pay the regulatory surcharge are covering the cost to regulate the entities that do not.

The regulatory surcharge rate is subject to a statutory cap; under state law (RCW 48.02.190), it cannot exceed one-eighth of one percent of receipts. Proposals for future budget enhancements, which will be necessary as the agency increases staff to meet national accreditation requirements, undertakes key information technology projects, and develops new market oversight and anti-fraud programs, must be carefully managed because of the statutory cap. Ensuring the long-term viability of operating revenue to meet consumers' needs will require us to explore alternatives; dedicated funding sources to pay for targeted programs such as fraud prevention and mandating that all regulated entities pay their share of the cost of regulation are two examples of funding alternatives.

## Technology

To better position OIC to protect consumers and to keep pace with an increasingly-sophisticated regulatory climate, OIC will continue to make substantial technology investments to its core business systems. With the continued stabilization of national health care reform and the push toward greater transparency and uniformity among states in the areas of licensing, rate review, market oversight and regulatory standards, OIC must continue to leverage technology and build upon earlier Information Technology (IT) investments.

To maximize investments, OIC intends to continue efforts to enhance and modernize its core business systems, leveraging current technologies and expanded business functionality to satisfy new customer needs. OIC must ensure timely and adequate IT staffing levels to maintain and enhance existing systems while anticipating the need for additional capacity to meet emerging business demand resulting from changes in the national health care marketplace. Technology investments are not self-sustaining and, if not considered an agency priority, will languish quickly in today's high-paced technology environment.

OIC recognizes the value of, and dependency on, technology and the connection it has to successfully protecting consumers and regulating the insurance industry. OIC is committed to sustaining its technology investments through continuous and consistent business systems upgrades, and by ensuring that IT staff possesses the necessary domain knowledge and technical expertise to support the systems.

OIC understands the advantages of achieving economies of scale through the adoption of statewide shared services. OIC plans to continue to be efficient as possible with technology dollars by partnering with the state's central service agency, WaTech, to obtain economies of scale where common technology is shared across multiple state agencies and has reached proven levels of maturity. The primary areas being targeted for shared services include network bandwidth optimization, server virtualizations, technology procurement, data center hosting and certain enterprise software and platform consolidation efforts aimed at strengthening OIC's cybersecurity risk profile.

## Workforce issues

Employee competencies are the basis of an organization's success. OIC strives to ensure its staff has the knowledge, skills and abilities to adapt to evolving technologies and improved work methods. Regulating the insurance industry requires expertise in a variety of complex subject areas, and OIC makes it a priority to ensure staff knowledge regarding insurance is kept up-to-date.

OIC faces a workforce environment where 18 percent of current staff are, or will become, eligible for retirement by August 2016. The result of this impending retirement wave

will be the loss of some of the agency's most experienced, knowledgeable employees. Additionally, recruiting for hard to fill classifications such as IT-related and actuarial positions remains a challenge. Recruitment efforts are hampered by the OIC's inability to compete with private sector salaries. To offset the salary issue, OIC intends to attract and retain a high-performing workforce by supporting professional and career development; and promoting work-life balance and wellness in the workplace.

## **Facilities**

Although a new executive office building began construction in 2015 near the Capitol Campus in Olympia, the OIC was not included among the new tenants. Staffing levels have changed because of legislative requirements, putting a strain on existing space needs, particularly in Thurston County. The OIC still awaits the opportunity to move to a new facility to house all agency Thurston County staff in one location, providing a single point-of-service for the citizens of Washington State.

Currently, OIC's main offices are in Tumwater; additional offices are located in Olympia, Seattle, Yakima and Spokane. All facilities are leased, with the exception of the Olympia office in the Insurance Building on the state's Capitol Campus. The agency's functions are relatively stable, but staffing levels can vary due to legislative action, making it difficult to predict future space needs.

# Strategic Plan Goals and Objectives



# Goal 1: Protect and educate consumers

## **Objective 1:** Increase consumer awareness of available agency services

**Strategy 1:** Develop an agency-wide outreach plan that promotes all agency services

## **Objective 2:** Help consumers make informed insurance-related decisions and access their insurance benefits

**Strategy 1:** Seek strategic partnerships with other entities to educate consumers about insurance benefits

**Strategy 2:** Pursue laws and rules that increase access, quality and affordability of insurance

## **Objective 3:** Promote insurance industry awareness of OIC laws, rules and processes

**Strategy 1:** Present information in ways that are meaningful to industry users

**Strategy 2:** Provide outreach and education to the industry

## **Objective 4:** Reduce fraud and unlawful activities

**Strategy 1:** Identify, investigate and take enforcement action against unlawful insurance activity and prosecute criminal insurance fraud.

**Strategy 2:** Educate consumers, law enforcement agencies, insurance company investigators and others on insurance fraud and unauthorized insurance activities

## Goal 2: Promote a healthy insurance environment

### **Objective 1:** Increase company and producer compliance with state and federal insurance laws

**Strategy 1:** Implement, modify, or repeal RCWs and WACs to ensure producer and insurer requirements are clear and up to date

**Strategy 2:** Monitor company and producer market activity

**Strategy 3:** Conduct financial examinations of producers

### **Objective 2:** Cultivate a financially sound insurance industry

**Strategy 1:** Conduct market oversight and targeted and full-scope financial analyses and examinations

**Strategy 2:** Review financial statements for all domestic insurers each quarter for possible regulatory intervention

**Strategy 3:** Implement and update model laws affecting corporate governance and financial solvency

### **Objective 3:** Increase awareness of impacts of climate change on insurance

**Strategy 1:** Maintain a leadership role in acting on climate change and its impact on insurers

**Strategy 2:** Promote awareness of climate change impacts to industry and consumers

### **Objective 4:** Preserve adaptive, state-based insurance regulation

**Strategy 1:** Ensure continued accreditation with the National Association of Insurance Commissioners (NAIC)

**Strategy 2:** Participate in and influence the development of nationwide standards

## Goal 3: Manage resources and leverage technology to ensure effective and efficient operations

**Objective 1:** Pursue improvements and innovations in the use of agency resources

**Strategy 1:** Foster an agency-wide culture of innovation and process improvement

**Strategy 2:** Regularly review and assess technology uses and needs to align with evolving business needs and requirements

## Goal 4: Attract and develop a capable, engaged, valued and diverse workforce

**Objective 1:** Recruit top-tier staff using effective, efficient recruitment strategies and processes

**Strategy 1:** Identify and consistently use recruitment and hiring best practices

**Objective 2:** Support and retain a high-performing, engaged workforce

**Strategy 1:** Support and enhance all levels of staff through professional and career development

**Objective 3:** Promote the achievement of work-life balance and wellness in our workforce

**Strategy 1:** Support and encourage workforce wellness

**Strategy 2:** Promote and enhance a positive and supportive work culture