

Office of the Insurance Commissioner Annual Report

2017 Insurance Regulation Overview
July 1, 2018

Mike Kreidler, *Insurance Commissioner*

www.insurance.wa.gov

About the Office of the Insurance Commissioner

The Washington state Office of the Insurance Commissioner (OIC) protects insurance consumers and oversees the insurance industry. We make sure insurance companies follow laws and rules and that people get the coverage they've paid for. Each year, we answer questions and investigate problems for nearly 83,000 people and maintain a statewide network of volunteers who advise 187,000 consumers about health-coverage issues.

In 2017, the Insurance Commissioner regulated 2,411 companies and 170,000 licensees who work in the insurance industry.



In fiscal year 2017, we collected \$603.9 million in premium taxes from insurance companies.

Of that amount:

- We sent \$588 million to the state general fund to support K-12 education, higher education, human services and general government operations.
- We sent \$15.9 million to the Washington Health Benefit Exchange account at the state treasury. The Exchange sells insurance plans to Washington consumers and to the state's Medicaid recipients.

We employ 241 people in Olympia, Tumwater and Seattle. Our budget for 2015-2017—called a biennium—is \$60.9 million.

Insurance plays an important role in our state's economy. The insurance industry in Washington generated more than \$41.7 billion in premiums in 2017. As of 2016, the most recent data available, the industry employed more than 55,000 people in the state and accounted for \$4.4 billion in wages and salaries. In 2015, the most recent data available, it contributed \$6.8 billion to Washington's gross state product, about 1.5 percent of the state's overall total.

The OIC is a member of the National Association of Insurance Commissioners (NAIC), which is the national standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer review, and coordinate their regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally.

About Insurance Commissioner Mike Kreidler

Mike Kreidler is Washington's eighth insurance commissioner.

A former member of Congress, he was first elected as insurance commissioner in 2000 and was re-elected to a fifth term in 2016.

A doctor of optometry with a master's degree in public health, Kreidler practiced at the former Group Health Cooperative in Olympia for 20 years, with 16 of them shared with the Washington State Legislature. He served as a member of the Northwest Power Planning Council and as regional director for the U.S. Department of Health and Human Services. He retired as a lieutenant colonel from the Army Reserves with 20 years of service. His first elected office was on a public school board in 1973.

Commissioner Kreidler is a staunch advocate for consumer protection and has earned a reputation as a fair and balanced regulator. He was honored in 2009 with the "Excellence in Consumer Advocacy Award," presented by consumer advisors to the National Association of Insurance Commissioners. Commissioner Kreidler helped implement the Affordable Care Act in Washington state and is a national and international voice on climate change risk and how it affects insurance companies and consumers.

From his local school district to the state Legislature and halls of Congress, Commissioner Kreidler has served Washingtonians for more than 40 years.



Insurance Commissioner Mike Kreidler participates in a telephone town hall about health care with Gov. Jay Inslee and Washington AARP's Cathy MacCaul.

OIC's MISSION

WE PROTECT THE PUBLIC
INTEREST AND OUR STATE'S
ECONOMY THROUGH FAIR AND
EFFICIENT REGULATION OF THE
INSURANCE INDUSTRY.

OIC's work in 2017

Consumer Protection

Our Consumer Protection Division helps Washington consumers understand insurance and answer questions about all types of products, including annuities, auto, business, health, home, life and more.

We help Washington consumers understand their insurance rights, including how to file a health insurance appeal, submit a complaint against an insurance company, and verify if an agent, agency, or company is authorized to sell insurance in Washington.

In 2017, our consumer advocates:

- Received and processed 7,705 consumer complaints, resulting in recovery of \$18.9 million related to insurance billings, refunds and various claim-handling issues.
- Answered 63,823 calls to our consumer hotline regarding insurance issues, rights and responsibilities.
- Conducted 2,346 live chat sessions.
- Responded to 5,801 written consumer inquiries.
- Mailed 2,758 copies of insurance-related publications to consumers at their request.
- Made 676 in-person contacts at public outreach events.
- Helped consumers resolve various policy issues, including claims, billing and underwriting problems, and offered referral services to other state agencies and organizations, including the Washington Health Benefit Exchange.



Consumers can contact our consumer advocates at 800-562-6900 or www.insurance.wa.gov.

Statewide Health Insurance Benefits Advisors (SHIBA)

SHIBA provides free, unbiased and confidential assistance with Medicare and health care choices through a network of 20 sponsor agencies and hundreds of volunteers who counsel Washington consumers via one-on-one appointments and at outreach events.

SHIBA receives federal funding from the U.S. Department of Health and Human Services, Administration for Community Living.

In 2017:

- More than 400 volunteers donated 95,568 hours. The value of those hours was \$2.3 million.
- SHIBA educated more than 108,000 people and assisted more than 87,000 people with one-on-one counseling.
- SHIBA held more than 3,200 outreach events across the state.



A Seattle TV news reporter interviews a SHIBA volunteer and a client in 2017.

Reviewing insurance rates and forms

Insurance companies submit their insurance policy forms and proposed rates to the Insurance Commissioner for approval. Our Rates and Forms division reviews them to determine if they meet state law requirements. In 2017, we reviewed more than 10,600 form filings, which include policies, amendments and endorsements.

Health insurers submit rates each year for the following calendar year for individual and small-group plans. They submit rates for large-group plans anytime they want to change them.

Property and casualty insurers submit rates anytime they want to change them.

Rates must be sufficient to cover claims and expenses, but must not overcharge consumers or result in discrimination.

REGULATING HEALTH INSURERS

The Insurance Commissioner doesn't regulate self-insured health plans, offered by employers including Microsoft, Boeing and some plans in Washington state government.

Self-insured plans are regulated by the U.S. Department of Labor.

Health insurance

In 2017, 13 insurers sold 154 health insurance plans inside the Washington state Health Benefit Exchange (Exchange) and outside the Exchange on the individual market. The Insurance Commissioner approved an average rate increase of 13.6 percent for those plans.

- Nine insurers sold 108 health plans in the individual market outside the Exchange.
- Seven insurers sold 46 health plans inside the Exchange.

Network access and provider contracting

Insurance companies submit their provider contracts to the OIC for approval and file network access reports to demonstrate they provide access to medically necessary services guaranteed in the insurance plan at in-network cost sharing without billing an enrollee for extra charges.

Our Rates and Forms division reviews these network documents to determine if they meet requirements in state law. In 2017, insurance companies submitted 5,300 provider contracts for approval and 1,650 network access reports.

Property and casualty insurance

Property and casualty insurance covers things like your house and the contents of your house or rental residence; vehicles, including cars, motorcycles and boats; business property or liability; and even pets.

The top five insurance companies that sell homeowner's insurance in Washington are:

1. **State Farm Fire and Casualty Co.:** 18 percent of the market; last approved average rate change was a 4 percent decrease in September 2016.
2. **SAFECO Insurance Co. of America:** 9.7 percent of the market; last approved average rate increase was 5.5 percent in November 2016.
3. **PEMCO Mutual Insurance Co.:** 6.2 percent of the market; last approved average rate increase was 6.1 percent in April 2017.
4. **Allstate Property and Casualty Insurance Co.:** 4.8 percent of the market; last approved average rate increase was 5 percent in June 2014.
5. **Farmers Insurance Co. of Washington:** 4.3 percent of the market; last approved average rate increase was 4 percent in May 2017.

The top five insurance companies that sell auto insurance in Washington are:

1. **State Farm Mutual Automobile Insurance Co.:** 14.9 percent of the market; last approved average rate increase was 7.3 percent in January 2017.
2. **First National Insurance Co. of America:** 6 percent of the market; last approved average rate increase was 14.2 percent in December 2016.

UNINSURED RATE DROPS

THE NUMBER OF PEOPLE WITHOUT HEALTH INSURANCE IN WASHINGTON STATE DROPPED FROM 14.5 PERCENT IN 2012 TO LESS THAN 6 PERCENT IN 2017.

3. **PEMCO Mutual Insurance Co.:** 5.7 percent of the market; last approved average rate increase was 9.5 percent in July 2017.
4. **Allstate Fire and Casualty Insurance Co.:** 5.6 percent of the market; last approved average rate increase was 4 percent in March 2017.
5. **Farmers Insurance Co. of Washington:** 5.3 percent of the market; last approved average rate increase was 4.9 percent in September 2017.

Overseeing insurance companies

Company Supervision oversees all companies that conduct insurance business in Washington. The division oversees companies' licensing and monitors insurance companies for financial health, ability to pay claims and their market conduct. You can [search for insurance companies that are authorized to do business](#) in Washington.

In 2017, we regulated:

- 2,411 insurance companies
- 35 domestic companies
- 2,226 foreign companies
- 22 alien companies
- 327 charitable gift annuity issuers
- 4 discount health plans
- 10 life settlement providers
- 273 purchasing groups
- 20 reinsurance intermediaries
- 103 risk retention groups
- 192 service contract providers
- 15 trustee alien reinsurers
- 40 direct practice providers

Each year, we post information from the NAIC that includes:

- A list of domestic insurers and their market share.
- A summary of Washington premiums and loss ratios.
- A summary of each line of business for all authorized companies to provide direct premiums written, market share and loss ratios.
- Top 40 authorized companies and top 10 groups with direct written premiums, market share, loss ratios and enrollment.

You can find [market information annual reports](#) on our website.

WHAT DOES DOMICILED MEAN?

Insurance regulators talk about where insurance companies are domiciled. That means where they are incorporated to do business.

Domestic: Means the company is domiciled in Washington state.

Foreign: Means the company is domiciled in another state or territory.

Alien: Means the company is domiciled in another country.

We also conduct financial examinations of insurance companies and other companies that are incorporated in Washington. In 2017, our financial examiners completed 19 full-scope examinations of:

Health insurance companies:

- Aetna Better Health of Washington, Inc. (Qualifying financial examination)
- Arcadian Health Plan, Inc.
- Molina Healthcare of Washington, Inc.

Life insurance companies:

- Farmers New World Life Insurance Company

Property and casualty insurance companies:

- Northwest Dentists Insurance Company

We also performed financial examinations of the following entities that are not insurance companies but are required by Washington state law to be examined:

- 13 charitable gift annuities issuers
- 1 Multiple Employer Welfare Association

Sale of Group Health Cooperative

In January 2017, Insurance Commissioner Mike Kreidler [approved the sale](#) of Group Health Cooperative to Kaiser Foundation Health Plans, which became official on Feb. 1.

Kaiser filed its formal application to acquire Group Health with Kreidler’s office in March 2016 after Group Health’s voting members approved advancing the proposed acquisition. Prior to Kreidler’s decision, the agency reviewed numerous public comments and held three public hearings in Tacoma, Seattle and Spokane.



Presiding Officer Bill Pardee and Commissioner Kreidler at the final hearing about the proposed acquisition of Group Health by Kaiser in January 2017.

Independent Review Organizations

Starting Jan. 1, 2017, Independent Review Organizations (IRO) that make binding decisions about health care coverage and payment disputes between health insurers and their enrollees must register with and be certified by the OIC.

An IRO is an option for consumers who have lost an appeal with their health insurer. The IRO process involves an external review of the coverage and payment dispute by an independent organization that isn’t affiliated with the health insurer and doesn’t have a financial interest in the outcome of the case.

In 2017, there were 16 IROs registered in Washington state. You can search [IRO decisions](#) on our website.

New admissions

In 2017, the following companies were admitted as new insurers in Washington state:

- Aetna Better Health of Washington
- Amalgamated Casualty Insurance Company
- American European Insurance Company
- Amica Property and Casualty Insurance Company
- Amtrust Title Insurance Company
- Catholic Financial Life
- Commercial Casualty Insurance Company
- Everest Denali Insurance Company
- Everest Premier Insurance Company
- Federated Reserve Insurance Company
- First American Specialty Insurance Company
- First Community Insurance Company
- Granite Re, Inc.
- ISMIE Mutual Insurance Company
- JM Specialty Insurance Company
- Main Street America Protection Insurance Company
- MCNA Insurance Company
- Merit Health Insurance Company
- MII Life, Incorporated
- MutualAid eXchange
- Nebraska Life Assurance Company
- Oak River Insurance Company
- PacificSource Community Health Plans
- Radnor Specialty Insurance Company
- Redwood Fire and Casualty Insurance Company
- Security First Insurance Company
- Starr Specialty Insurance Company
- UFG Specialty Insurance Company
- United Casualty and Surety
- ZNAT Insurance Company

Companies we revoked or suspended

Insurance companies must have a certificate of authority in order to legally sell insurance in Washington state. In 2017, we revoked or suspended certificates of authority for these companies.

Revoked:

- American Medical and Life Insurance Company
- American Network Insurance Company
- CastlePoint National Insurance Company
- Doctors & Surgeons National Risk Retention Group, Inc.
- Fairway Physicians Insurance Company, a Risk Retention Group
- Guarantee Insurance Company
- Oceanus Insurance Company, a Risk Retention Group
- Penn Treaty Network America Insurance Company

Suspended

- Loyal Christian Benefit Association
- Maidstone Insurance Company
- Omni Indemnity Company
- Public Service Insurance Company
- Upper Hudson National Insurance Company

Companies in receivership

Although rare, if an insurance company becomes financially unstable, we step in to make sure it stops selling new policies and we run the company until its financial condition is stable. Cascade National Insurance Co., a Bellevue-based property and casualty insurer, was in receivership for liquidation starting November 2004. That receivership closed Oct. 20, 2017, and the company is now liquidated.

Licensing insurance professionals

We regulate people who do business in the insurance industry in Washington, called producers. There are several types of producers, including agents, brokers, adjusters and business entities. All producers are classified as resident (they live in Washington) or nonresident (they live outside of Washington).

In 2017:

- We licensed 170,000 insurance producers.
- We also licensed 399 insurance education providers and approved 5,388 education courses. Each resident insurance producer is required to complete 24 hours of continuing education in order to renew a license. Each continuing education provider and the courses they offer are reviewed to ensure each course meets requirements before being approved.

Enforcing insurance laws and rules

Our Legal Affairs division is responsible for interpreting and enforcing insurance laws and rules, encouraging compliance through clear and consistent interpretation of the law, and monitoring enforcement of agency actions. The division assists with the state's legislative agenda, provides prompt and meaningful responses to the public, industry and government inquiries, participates in agency policy development and creates procedures to support the organization's framework.

In 2017, our Legal Affairs division issued 464 enforcement actions against insurance producers and companies and imposed \$1.3 million in fines. The fines we collect are sent to the state's general fund.

The division's Regulatory Investigations Unit (RIU) conducts administrative investigations of insurance producers, insurance companies, and unlicensed and unauthorized entities that violate insurance laws and rules. In 2017, RIU opened 252 cases and investigated a variety of complaints. Complaint outcomes can involve the substantiation of harmful behavior such as misrepresentation, financial misconduct, and untrustworthiness/incompetence, for example.

The RIU differs from the agency's Criminal Investigation Unit (CIU) in that it conducts administrative versus criminal investigations.

Investigating insurance fraud

The Insurance Commissioner's Criminal Investigations Unit (CIU) investigates criminal insurance fraud and works with the state attorney general and local prosecutors to prosecute insurance fraud.

An advisory board of representatives from the insurance industry, consumers, the National Insurance Crime Bureau, county prosecutors and law enforcement advises the insurance commissioner and the CIU.

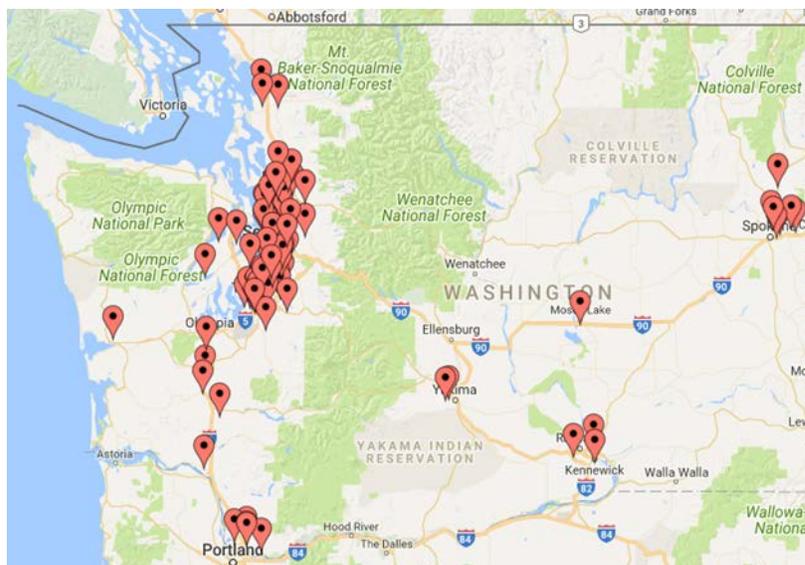
In 2017, CIU:

- Received 1,896 fraud referrals from insurance companies, law enforcement agencies, the National Fraud Insurance Crime Bureau, other government agencies and the public.
- Opened 102 criminal cases, tying a record number since the CIU was established in 2006.
- Worked on more than 175 cases.
- Submitted 33 criminal cases to a prosecutor.
- Had 33 criminal guilty pleas or convictions for Theft 1, Theft 2, False Insurance Claims, and other crimes from 28 defendants.



CIU staff execute a search warrant in 2017.

We investigated insurance fraud cases in the following Washington locations:



Other divisions

We have employees who support the agency's mission and work in other ways:

- **Policy and Legislative Affairs** writes and implements rules, advises the Commissioner and executive team on policy issues, and works with the Legislature on bills and laws. In 2017, policy staff analyzed 291 bills, 54 fiscal notes and adopted 11 sets of rules, ranging from technical updates to model rules from the NAIC and more significant changes to insurance regulations. Find information about our [legislation and rulemaking](#) and [Legislative and commissioner reports](#).
- **Operations** keeps many IT systems running, makes sure our buildings are working, helps plan for emergencies and serves as a liaison to the state Emergency Management Division. Operations also manages all financial and budget matters, and recruits and hires qualified staff.
- **Public Affairs** works with the media and manages the agency's website and social media channels. In 2017, the OIC communicated with 92,000 consumers, media and insurance industry professionals through our subscription news service; reached more than 5,300 people on social media; and had 800,000 visits to our website, www.insurance.wa.gov.

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