

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Maximum number of days from date of application for a new certificate of authority initially is submitted to the OIR to the date the OIR approves or denies the application pursuant to 120.80(9), F.S.

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Pursuant to Chapters 624, 626, 627, 628, 629, 632, 634, 641, and 651, F.S., the Office of Insurance Regulation (Office) is responsible for approval/disapproval of all company licensure requests. Processing of company licensure requests include the review of business plans, financial resources, statutory compliance and background checks on directors and officers. An entity, as referenced in this measure, is any company requesting permission from the Office to sell insurance in the State of Florida. Regulated entities are required to seek approval for permits, licenses, acquisitions, mergers, additional lines of business and other types of applications through the Office prior to conducting business in the state. The Office is mandated by statute to process the company request within a given statutory timeline. Once submitted, the application is reviewed by an analyst for completeness then routed to an examiner that reviews the business plans, background checks and financial resources for statutory compliance. After the examiner's review is complete, Office management reviews the application. Upon completion of the review, the Office will issue an approval/disapproval letter to the company.

The average number of days until an application is complete is calculated by dividing the total number of days in inventory by the total number of applications.

**Validity:**

The Office is responsible for processing all entity application requests within a given statutory timeline. Measuring the average number of days until an application is complete validates the Office's compliance with Florida Statutes as set forth by the legislature and identifies the overall effectiveness and efficiency of the service. The lower the average, the more effective and efficient the service is performing.

**Reliability:**

Weekly and quarterly reports are generated listing the date of receipt and status of each licensure request. The Company and Other Related Entities (CORE)

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tracking database provides reminder notices to facilitate adherence to statutory timelines.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Number of applications processed

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Pursuant to Chapters 624, 626, 627, 628, 629, 632, 634, 641, and 651, F. S., the Office of Insurance Regulation (Office) is responsible for approval/disapproval of all company licensure requests. Processing of company licensure requests includes the review of business plans, financial resources, statutory compliance and background checks on directors and officers.

An entity, as referenced in this measure, is any company requesting permission from the Office to sell or withdraw from selling, insurance in the state of Florida. Regulated entities are required to seek approval for permits, licenses, acquisitions, mergers, additional lines of business and other types of applications through the Office prior to conducting business in the state. These companies are also required to seek Office approval before withdrawing their insurance related business from the state.

Companies call the applications section to request the proper form based on the type of business. Currently, there are forms for permits, licenses, redomestications, conversions, letter of registration, letters of eligibility, letters of approval, provisional, additional lines of business, acquisitions, and mergers. Once submitted, the application is reviewed by an analyst for completeness. An examiner reviews the application to ensure that all background checks, business plans, and financial resources are statutorily compliant and then analyzes the company's request. The examiner will contact the company if he/she has any questions concerning the license request. Once the examiner's review is complete, Office management reviews the application.

Upon completion of review, the Office will issue an approval/disapproval letter to the company. The company can elect to call for a hearing if they disagree with the decision rendered by the Office.

**Validity:**

The number of applications processed by the Office does not provide qualitative information or data to decision makers. Application numbers do not provide an assessment of Florida's insurance market.

**Reliability:**

A weekly report is generated that lists the date of receipt and status for each licensure request. The Company and Other Related Entities (CORE) electronic

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data management tracking system provides a total listing of the volume of activity in this area.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Number of rate and form reviews completed

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Pursuant to Chapters 626, 627, 634, 635, 636, 641, 642, 651, F. S., the Compliance and Enforcement Service is responsible for approval/disapproval of all insurance company rate and form filing requests. Reviewing company form and rate filings includes verification of actuarial requests, actuarial certification and statutory compliance.

Filings are comprised of documents electronically submitted to the Office of Insurance Regulation (Office), which contain proposed rates, rules, and forms. Rate filings contain proposed rates and the actuarial justification for them. Form filings contain proposed policy language. Most filing requests submitted to the Office are subject to statutorily mandated review time limits and are processed accordingly.

Insurance companies and other regulated entities are required to submit their filings to the Office for approval or for informational purposes as dictated by statute. The Office's Internet Filing System (IFS) provides a virtual workbench on which companies can build their filings, automatically check for its completeness and then automatically introduce the filing into the Office's Electronic Data Management System (EDMS). EDMS assigns each filing a unique number that is used to track the filing through the review process. The system also tracks the elapsed time from the receipt of each filing to measure timeliness in completion of its review.

Specially trained personnel analyze the filings for statutory compliance. Rate filings are also analyzed to ensure that the rates are reasonable in relation to the benefits provided and that they are not inadequate, excessive nor unfairly discriminatory. During the review process, analysts may contact the company for further clarification or justification of the data that is submitted. The filing is then discussed with Office management to determine an approval or disapproval thereof.

Based on the findings, the Office issues a decision letter to either approve or disapprove the company's request. At this juncture, the company has the option to call for hearing or arbitration proceedings if they are in disagreement with the decision by the Office.

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**Validity:**

The number of rate and form reviews completed only provides the number of products and services in the marketplace. A timely review and decision allows consumers prompt access to new products and/or companies quick access to necessary rate increases. Most filing requests submitted to the Office is subject to statutorily mandated review time limits and are processed accordingly. Tracking each filing from receipt to approval/disapproval status provides the Office with the ability to validate its compliance with time constraints set forth by the legislature as well as identifies the overall effectiveness and efficiency in handling rate and form filings.

**Reliability:**

The Office generates reports weekly that lists date and status for each company request. Through the use of the EDMS tracking database and Microsoft Access (used for data queries), the service ensures that company requests are handled according to statutory timelines.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Percent of rate and forms filings completed within 90 days

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Pursuant to Chapters 626, 627, 634, 635, 636, 641, 642, 651, F. S., the Compliance and Enforcement Service is responsible for approval/disapproval of all insurance company rate and form filing requests. Reviewing company form and rate filings includes verification of actuarial requests and verification of actuarial certification and statutory compliance. Filings are comprised of documents submitted to the Office of Insurance Regulation (Office), which contain proposed rates, rules, and forms. Rate filings contain proposed rates and the actuarial justification for them. Form filings contain proposed policy language. **Most filing requests submitted to the Office are subject to statutorily mandated review time limits and are processed accordingly.** Specially trained personnel analyze the filings for statutory compliance. Rate filings are also analyzed to ensure that the rates are reasonable in relation to the benefits provided and that they are not inadequate, excessive, nor unfairly discriminatory. During the review process, analysts may contact the company for further clarification or justification of the data that is submitted. The filing is then discussed with Office management to determine an approval or disapproval thereof. Based on the findings, the Office issues a decision letter to either approve or disapprove the company's request.

**Validity:**

Tracking each filing from receipt to approval/disapproval status provides the Office with the ability to validate its compliance with time constraints set forth by the Legislature as well as identifies the overall effectiveness and efficiency in handling rate and form filings.

**Reliability:**

The Office generates reports weekly that lists date and status for each company request. Through the use of the EDMS tracking database and Microsoft Access (used for data queries), the service ensures that company requests are handled according to statutory timelines.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Number of financial reviews and examinations completed

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

In-house financial reviews are analyses of quarterly and annual financial statement filings by licensed entities. Field financial examinations are on-site audits of a regulated entity's financial books and records. Actuarial reviews are reviews of annual actuarial certification by an Office of Insurance Regulation (Office) actuary.

1. Review of quarterly and annual financial filings of companies
2. Internal review of all filings/examinations
3. Review reinsurance plans
4. Communicate with company or their representatives
5. Supervisory review
6. Performance of financial exams
7. Use of specialists to participate in exams
8. Actuarial review
9. If necessary, referrals to legal, fraud, rehabilitation, and/or other states

Companies send all financial (quarterly and annual) data in through the Regulatory Electronic Filing System (REFS) located on the Office's I-Portal. Office examiners then analyze the information for compliance with Florida laws and any material change in financial condition. If concerns are raised, the examiner contacts the company for an explanation. Following the examiner's review, a supervisor renders a decision to approve or forward on for financial examination. If warranted, a financial exam is started which may involve participation of outside specialists. During the examination, an actuarial review is sought to determine if reserves are adequate.

**Validity:**

Financial reviews are one of the most effective methods for ensuring statutory compliance by companies. Since the Office is charged with the responsibility of monitoring and regulating insurance entities, it is important to conduct financial reviews to ensure companies are operating within the statutory requirements imposed by the Florida Insurance Code. This is a national accreditation standard for State Insurance Departments.

**Reliability:**

## Exhibit IV – Performance Measure Validity and Reliability

Office staff uses the Financial Analysis and Monitoring EDMS (FAME) system to prioritize and track workflow of each examiner. Reports can be queried that show the number of financial reviews completed or open. The database also reconciles with the CORE database to ensure companies' submittal of financial filings.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Percent of financial analysis reviews completed timely (within 90 days)

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

In-house financial reviews are analyses of quarterly and annual financial statement filings by licensed entities. Field financial examinations are on-site audits of a regulated entity's financial books and records. Actuarial reviews are reviews of annual actuarial certification by an Office of Insurance Regulation (Office) actuary.

1. Review of quarterly and annual financial filings of companies
2. Internal review of all filings/examinations
3. Review reinsurance plans
4. Communicate with company or their representatives
5. Supervisory review
6. Performance of financial exams
7. Use of specialists to participate in exams
8. Actuarial review
9. If necessary, referrals to legal, fraud, rehabilitation, and/or other states

Companies send all financial (quarterly and annual) data in through the Regulatory Electronic Filing System (REFS) located on the Office's I-Portal. Office examiners then analyze the information for compliance with Florida laws and any material change in financial condition. If concerns are raised, the examiner contacts the company for an explanation. Following the examiner's review, a supervisor renders a decision to approve or forward on for financial examination. If warranted, a financial exam is started which may involve participation of outside specialists. During the examination, an actuarial review is sought to determine if reserves are adequate.

**Validity:**

Financial reviews are one of the most effective methods for ensuring statutory compliance by companies. Since the Office is charged with the responsibility of monitoring and regulating insurance entities, it is important to conduct financial reviews to ensure companies are operating within the statutory requirements imposed by the Florida Insurance Code. This is a national accreditation standard for State Insurance Departments.

**Reliability:**

## Exhibit IV – Performance Measure Validity and Reliability

Office staff uses the Financial Analysis and Monitoring EDMS (FAME) system to prioritize and track workflow of each examiner. Reports can be queried that show the number of financial reviews completed or open. The database also reconciles with the CORE database to ensure companies' submittal of financial filings. The service ensures company filings are handled within statutory guidelines.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Number of examinations and investigations that are completed for licensed companies and unlicensed entities

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Insurance problems are identified through the regular analysis of consumer complaints and environmental scanning. Complaints received from a variety of sources are tracked and trends are developed to determine complaint ratios. Periodicals, industry trade presses, company websites, and other sources of insurance related information is reviewed to assist in problem identification. Once specific problems are identified, the bureau targets areas for review such as cancellations/non-renewals, claims issues, company related agent issues, underwriting and other policyholder issues. The bureau has two primary mechanisms at its disposal to review potential violations: 1) an examination and 2) an investigation.

An examination is an on-site review of a regulated entity's business practice. An examination plan is developed and an examination is scheduled and conducted to review use and application of appropriate forms and rates, cancellations/non-renewals, company agent/agency issues, claims, complaints, etc. for lines of business the insurer is authorized to write. A report is issued and based on the findings; appropriate administrative action is taken to require the company to correct any non-compliance practices.

An investigation is usually conducted through an in-house desk audit but may also be conducted in the field. An investigation includes the review of specific allegations of business practices or operational functions in violation of Florida Statutes or the Florida Insurance Code. A conclusion is documented and follow up is maintained to ensure that procedures have been established to correct any violations and/or correct any non-compliant practices.

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**Validity:**

The number of examinations and investigations are being combined into performance measurement due to the new NAIC Market Analysis program formally initiated in January 2004. This program will result in a negative adjustment in the number of examinations completed with a positive adjustment in the number of investigations completed. This change will be more proactive in identifying problems sooner and provide a better protection to consumers by ensuring adherence to Florida laws and regulations governing the insurance industry. Recommend changing measure to read: Number of examinations and investigations that are completed for licensed companies and unlicensed entities.

Market Conduct Examinations and Investigations are the most effective methods for ensuring that carriers are using accurate advertising materials and approved policy forms and rates, timely processing of claims and otherwise performing appropriately in their dealings with Florida insurance customers. Since the Office of Insurance Regulation is charged with statutory responsibility of monitoring and regulating entities' business practices, it is important to conduct examinations and investigations to ensure that companies are operating with the statutory requirements imposed by the Florida Insurance Code.

**Reliability:**

Work papers and/or data accumulated prior to and during an examination or investigation is maintained and archived in compliance with Florida law. Pertinent data is input into a tracking database. This system prioritizes and tracks investigations and/or examinations, which examiner has been assigned and length of time that it has been opened. Reports are periodically queried to provide an overview of the bureau's operations thus qualifying this system as an acceptable tool for this measure.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement – Insurance

**Measure:** Current number of licensed/regulated insurance entities

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Pursuant to Chapters 624, 626, 627, 628, 629, 632, 634, 641, and 651, F. S., the Office of Insurance Regulation (Office) is responsible for approving/disapproving all company licensure requests, reviewing quarterly and annual financial statement filings by licensed entities, investigating an entity's specific type of business practice or operational function, and approving/disapproving all insurance company rate and form filing requests. The Office, using the Company or Related Entity (CORE) tracking database, records and tracks financial information related to regulated companies. Reports are generated from CORE that list the total number of entities regulated by the service.

**Validity:**

The Office is responsible for regulating insurance entities as described above. Measuring the number of licensed entities provides an indication of the workload associated with certain aspects of regulating the insurance industry but does not reflect the Office's effectiveness in regards to that regulation or determining the competitive nature of the Florida insurance market.

**Reliability:**

The Office maintains the CORE database that lists the addresses of all insurers and their officers, which are licensed to conduct business in Florida. Querying the database using Microsoft Access will give the user a listing of the total number of regulated entities.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Residual market premium written as percent of total premium for homeowner's (total), mobile home, dwelling fire insurance

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

The Office of Insurance Regulation (Office) and the National Association of Insurance Commissioners (NAIC) receive reports from homeowner's insurers (including the residual markets) that list their total written premium. The premiums are added together to give the total written premium by line. Next, the premium for each residual market is divided by the total premium written in that particular line to derive the percentage of market share held by the residual market entity. The value is then compared to the previous year values to determine if the residual market has increased or decreased.

**Validity:**

The size of the residual markets is governed by influences over which the Office has no control. State law created the Citizens Property Insurance Corporation (Citizens) to combine and replace the Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the Florida Wind Underwriting Association (FWUA). A factor that will affect the number of insurers placed in Citizens is the end to the moratorium statute. Previously, there had been in place a statute that did not allow insurers to non-renew policies. As of June 2001, that statute was automatically repealed, which means that insurers can leave and are leaving the market, thereby increasing the number of policies in Citizens. Additionally, prior to the merger of the FRPCJUA and the FWUA the measure used was only that of the FRPCJUA. With the merger into Citizens, the number of policies and premium count includes all policies including 'wind only' which has substantially increased the premium count in Citizens.

**Reliability:**

The Office and the NAIC collect data from homeowners' insurers on a quarterly and annual basis. Office staff uses Microsoft Access and Excel to compile total written premium by line for insurers and compare it to the residual markets to derive a percentage of market share for the particular residual market entity

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement – Insurance

**Measure:** Residual market premium as percent of total premium for Workers' Compensation

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

The Office of Insurance Regulation (Office) and the National Association of Insurance Commissioners (NAIC) receive reports from workers' compensation insurers (including the residual markets) that list their total written premium. The premiums are added together to give the total written premium by line. Next, the premium for each residual market is divided by the total premium written in that particular line to derive the percentage of market share held by the residual market entity. The value is then compared to the previous year values to determine if the residual market has increased or decreased.

**Validity:**

The Florida Workers' Compensation Joint Underwriting Association's (FWCJUA) size is a function of the cyclical nature of the workers' compensation market. Currently, there is some tightening in the market and an expectation as to why the FWCJUA has experience growth. There is a correlation between a slow economy, rising unemployment and the increase in workers' compensation injuries. When claims grow, carriers reduce the number of policies they write. When the availability of capacity in the market contracts, the FWCJUA serves as a residual market. The Legislature has taken action to address the present situation: time will give us the results.

**Reliability:**

The Office and the NAIC collect data from workers' compensation insurers on a quarterly and annual basis. Office staff uses Microsoft Access and Excel to compile total written premium by line for insurers and compare it to the residual markets to derive a percentage of market share for the particular residual market entity.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Residual market premium as percent of total premium for automobile insurance

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

The Office of Insurance Regulation (Office) and the National Association of Insurance Commissioners (NAIC) receive reports from automobile insurers (including the residual markets) that list their total written premium. The premiums are added together to give the total written premium by line. Next, the premium for each residual market is divided by the total premium written in that particular line to derive the percentage of market share held by the residual market entity. The value is then compared to the previous year values to determine if the residual market has increased or decreased.

**Validity:**

The size of the Florida Automobile Joint Underwriting Association (FAJUA) is governed by many influences over which the Office has no control. Recently, fraud in the automobile lines has caused many auto insurers to experience significant losses. The legislature has passed legislation to address this issue while the Office has actively worked to detect and prosecute fraudulent activity. However, this is a problem that may cause many insurers to reduce their writings and could in turn increase the size of the FAJUA. More recently there has been an improvement detected in the voluntary automobile market.

**Reliability:**

The Office and the NAIC collect data from automobile insurers on a quarterly and annual basis. Office staff uses Microsoft Access and Excel to compile total written premium by line for insurers and compare it to the residual markets to derive a percentage of market share for the particular residual market entity.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Average risk based capital percentage

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Insurance Regulation receives the annual statement for each licensed domestic insurer. The total adjusted capital and authorized control level risk based capital is reported on each statement. Each of these values is summed in an excel spreadsheet. The average risk based capital percentage is then calculated by dividing the sum of the total adjusted capital by the sum of the authorized control level risk based capital.

**Validity:**

Risk based capital attempts to measure the adequacy of insurer's capital and surplus through the application of factors to various asset, reserve and premium items. The results of the calculations are expressed as a ratio. Section 624.4085, F.S., indicates an adequate risk based capital level is considered to be any result above two to one. No action may be taken by the Office against any company whose risk based capital ratio exceeds the two to one threshold. Further, many companies manage their operations as to maximize their returns at acceptable levels of risk. This could often result in ratios that are lower but still above any threshold that would necessitate Office action as required by Florida Statutes.

**Reliability:**

The data is included in each National Association of Insurance Commissioners (NAIC) Annual Statement filed with the Office and the NAIC from all of the domestic insurers. Office staff uses Microsoft Excel and Access to compile the data and calculate the results.

## Exhibit IV – Performance Measure Validity and Reliability

**Department:** Office of Insurance Regulation

**Program:** Financial Services Commission

**Service/Budget Entity:** Compliance and Enforcement - Insurance

**Measure:** Percent of financial exams completed within 18 months of the exam date

**Action** (check one):

- Requesting revision to approved performance measure.
- Change in data sources or measurement methodologies.
- Requesting new measure.
- Backup for performance measure.

**Data Sources and Methodology:**

Periodic exams, as required by statute, provide protection to consumers and ensure companies are operating within the laws and regulations governing the insurance industry. The 18-month timeframe is consistent with NAIC accreditation guidelines.

**Validity:**

The Office is statutorily responsible for monitoring the financial condition of all regulated insurance entities through internal financial examination and analysis.

**Reliability:**

The NAIC standard is 100% completion of financial exams within 18 months timeframe. However, Florida law allows for exceptions and due process for companies. There are some Florida exams that take longer than 18 months.