

Financial Services Commission
Office of Insurance Regulation
An Introduction

Transition Manual, 2006



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PART I THE OFFICE OF INSURANCE REGULATION

The Florida Legislature created the Office of Insurance Regulation (Office) in 2003:

“The Office of Insurance Regulation, which shall be responsible for all activities concerning insurers and other risk bearing entities, including licensing, rates, policy forms, market conduct, claims, issuance of certificates of authority, solvency, viatical settlements, premium financing, and administrative supervision, as provided under the insurance code or chapter 636. The head of the Office of Insurance Regulation is the Director of the Office of Insurance Regulation, who may also be known as the Commissioner of Insurance Regulation.”

--Section 20.121,(3)(a)1, Florida Statutes

The Commissioner is appointed by, and reports to, the Financial Services Commission. The Commission is comprised of the Governor, the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture. The Commission serves as agency head for purposes of rulemaking pursuant to ss. 120.536-120.565. Commission action is taken by majority vote. The Director (Commissioner) of Insurance Regulation is considered the agency head for purposes of final agency action for all areas within the regulatory authority delegated to the Office.¹

The Office is, for purposes of administrative, personnel, and technology support, housed within the Department of Financial Services. Office funding is appropriated directly by the Legislature from the Insurance Regulatory Trust Fund (IRTF), funded by insurance company licensing fees, fines that may be levied for non-compliance with provisions of the Insurance Code, and a portion of premium tax paid by surplus lines carriers transacting insurance in this State.²

Vision

The Florida Office of Insurance Regulation envisions a robust and competitive insurance market that maintains consumer protection and provides protection for the Florida insurance buying public.

Mission Statement

To ensure that insurance companies licensed to do business in Florida are financially viable; operating within the laws and regulations governing the insurance industry; and offering insurance products at fair and adequate rates which do not unfairly discriminate against the buying public.

¹ Section 20.121,(3)(c), Florida Statutes

² See s. 624.523 Insurance Regulatory Trust Fund; and s. 626.932 Surplus Lines Tax

Insurance Company Regulation – Overview

An insurance company's decision to enter the Florida marketplace may well begin with the Office's Business Development and Market Research (BDMR) unit. From this office, an insurance company can obtain general information about the business climate in Florida, become acquainted with the requirements of making an application for a Certificate of Authority (COA) to transact the business of insurance in this State, and examine detailed, public information about Florida's markets for an insurance product.

The Business Development and Market Research unit not only engages in marketing outreach to potential new companies, but is that unit within the OIR that is responsible for the efficient and transparent management of data collection, validation, and analysis. Within the unit is housed the Company Admissions Section which handles company licensure and company acquisition filings. After licensure, a COA is granted for those lines of business for which the company will write insurance coverage, and the new company begins its interaction with the core units of the Office charged with regulatory oversight of Florida's insurance industry.

Financial Oversight

The Office is charged with the responsibility for review of the financial books and records of insurance companies and related entities to ensure that insurance companies remain financially viable and are in compliance with Florida law.

The Office's professional financial examiners conduct quarterly and annual reviews of each company's financial statements. The monitoring of company financial status includes the tasks of conducting actuarial reviews, field examinations and analyses of financial statements and reports. As required by law, periodic on-site financial examinations are conducted to assure compliance and verify that accurate information has been submitted pursuant to statute and administrative rule regulation. In addition to the monitoring of established companies, reviews are conducted of all new insurers desiring entrance to the Florida marketplace; and specific, target reviews are undertaken when there are any material changes in ownership of carriers domiciled in Florida. The financial oversight offices also participate in multi-state financial examinations under the auspices of the National Association of Insurance Commissioners (NAIC).

With respect to national accreditation of state insurance regulatory functions, the Office's financial oversight staff participates in the Financial Regulation Standards and Accreditation Program. The objective of the accreditation program is to provide consistent solvency regulation of multi-state insurance companies with an emphasis on developing minimum solvency laws and regulations standards, effective and efficient financial analysis and examination processes, and appropriate organizational and personnel practices. In 2003, an independent review team reviewed the Office and awarded the Florida Office of Insurance Regulation its third consecutive accreditation.

Insurance Product Review

In addition to financial oversight, a second core function of the Office's insurance regulatory role is that of product review – review and approval of insurance product forms and rates. Form filings include policy forms (contracts), new products or changes to existing products. Rate filings are requests from an insurer to increase, decrease, or maintain current rates associated with specific policy forms. Policy forms and rates receive rigorous review by the Office's staff to determine compliance with Florida Statutes and to ensure that the products are offered at a fair and adequate price and that they do not unfairly discriminate against the public.

Florida Statutes establishing filing requirements and Office approval for products to be marketed in Florida are intended to provide a stabilizing effect on rates – to avoid dramatic rate changes and to encourage carriers to keep rate changes closely aligned with underlying cost changes over time. The statutes intend to facilitate objective competition in a rate and benefits/coverage environment that best meets the needs of Florida's insurance consumers.

Market Investigations

The Market Investigations Unit conducts examinations and investigations of insurers and related parties regarding business practices and patterns of alleged violations of the Florida Insurance Code. The unit is comprised of four sections; Property and Casualty Section, Life and Health Section, Unauthorized Entities Section, and Market Analysis Section.

The Property and Casualty and Life and Health Sections of the unit conduct examinations and investigations of the business practices of authorized Florida insurers. The Unauthorized Entities Section investigates allegations of unauthorized and illegal insurance activity. The Market Analysis Section identifies trends and analyzes patterns of insurer data related to industry or marketplace issues which may arise from a pattern of consumer complaints, financial trending, and other business environment developments. The findings of market conduct examinations and investigations may result in administrative action, the imposition of fines, and can require corrective action in order to protect insurance consumers from unlawful or harmful business practices.

It is important to note, however, that the role of Market Investigations is multi-purpose – i.e., the unit is driven not only by its investigative role, but engages in the opportunity to provide technical assistance and corrective guidance as the unit interacts with insurance companies. Most apparent in its business-friendly relationship with new companies is providing advice and counsel on the best practices to ensure continuing compliance with Florida Statutes and administrative rules. The goal of the unit is to create a “partnership in regulation” environment that works to the benefit of companies, the Office, and Florida's insurance consumers.

Legal Services

The attorney, paralegal, and administrative staff of the Office's Legal Services Unit provides legal advice and counsel to the Office, under the direction and supervision of the General Counsel. The Legal Services unit represents the Office in state and federal courts, informal administrative hearings, hearings at the Division of Administrative Hearings, arbitration proceedings and cases pending in any other forum. The Legal Services Office also reviews applications for new companies, works with the examiners on regulatory issues, and handles the issuance of rules, orders, and other legal documents produced by the Office.

Regulatory Division: Life and Health – Property and Casualty

The regulation of life and health insurance, property and casualty insurance, and specialty insurance products requires different financial, actuarial, and regulatory expertise. The Office is thus divided into Life and Health Financial Oversight and Product Review business units and Property and Casualty Financial Oversight and Product Review units. An additional unit, Specialty Product Administration regulates a range of special insurance products -- auto, home and service warranties, premium finance companies, legal expense insurance, licensing and regulation of third party administrators, continuing care retirement communities, donor annuities and viatical settlement providers. The Specialty Product Administration unit reviews the financial statement filings of licensed companies and conducts periodic on-site financial and market conduct examinations.

Insurance Regulation and the Department of Financial Services

The Office's interaction with insurance regulatory responsibilities assigned to the Department of Financial Services (DFS) occurs at several regulatory intersections: Consumer complaints received by the DFS Division of Consumer Services may constitute patterns of company practices in violation of the Insurance Code and are referred to the Market Investigation unit for investigation. In turn, Market Investigation examinations may discover potential fraudulent actions that are referred to and worked with the law enforcement personnel of the DFS Division of Insurance Fraud. In some instances, such investigations involve insurance agents licensed by the DFS Division of Agent and Agency Services and Office staff will work with the DFS to assist in making cases with the Division's Bureau of Agent Investigations. In instances where an insurance company financial condition has significantly deteriorated to the point of insolvency, the Office will refer a company to the DFS Division of Rehabilitation and Liquidation.

Administrative Overview

As previously noted, the Office of Insurance Regulation (Office) is administratively housed with the Department of Financial Services (DFS). In statute, that relationship is expressed in this excerpt of s. 20.121, F.S., emphasis provided:

20.121 Department of Financial Services.--

(3) FINANCIAL SERVICES COMMISSION.--Effective January 7, 2003, there is created within the Department of Financial Services the Financial Services Commission, composed of the Governor, the Attorney General, the Chief Financial Officer, and the Commissioner of Agriculture, which shall for purposes of this section be referred to as the commission. Commission members shall serve as agency head of the Financial Services Commission. **The commission shall be a separate budget entity and shall be exempt from the provisions of s. 20.052.** Commission action shall be by majority vote consisting of at least three affirmative votes. **The commission shall not be subject to control, supervision, or direction by the Department of Financial Services in any manner, including purchasing, transactions involving real or personal property, personnel, or budgetary matters.**

(e) *Administrative support.*--The offices shall have a sufficient number of attorneys, examiners, investigators, other professional personnel to carry out their responsibilities and administrative personnel as determined annually in the appropriations process. **The Department of Financial Services shall provide administrative and information systems support to the offices.**

Pursuant to this provision, the Office develops and presents its budget requests directly to the Executive Office of the Governor and the Florida Legislature. The Office has developed performance measures and standards to assess the performance of its activities in support of its budget requests (refer to Part IV – Attachments).

With respect to the Office's interaction with DFS in matters involving administrative support, the Office has inherited the responsibility to directly manage its personnel matters – i.e., to recruit, advertise, and hire personnel -- subject to DFS personnel office review for compliance with required state agency hiring and personnel policies and procedures.

With respect to the Office's interaction with DFS in matters involving information systems support, the Office seeks independent and project specific appropriations for technology initiatives and upgrades. The Office has direct liaison with DFS technology support staff and it is the DFS Division of Information Systems that provides the Office with standard desktop, network, and programming assistance for integrated computer systems in use by both the Office and DFS.

The Office of Inspector General

The Office of Inspector General is charged with the responsibility to conduct financial and program audits, management reviews, business and technical consultation engagements, and risk assessment methodologies appropriate for the activities of the Office. The Inspector General reports directly to the Commissioner of Insurance Regulation.

Accomplishment Highlights

Regulatory Achievements³

Policyholder Restitution

Since the Cabinet Reorganization Act of 2002 and the creation of the Financial Services Commission, effective January 7, 2003, the Office has made significant successful efforts to provide restitution to Florida's policyholders. Over the past three years, fees, fines and restitution to policyholders amount to more than \$5.6 million in 2004; \$10.3 million in 2005; and over \$21 million as of November 1, 2006.

Workers Compensation Insurance

During the 2003 Special Session A, the Florida Legislature passed Senate Bill 50A, which became law on July 15, 2003 and included a number of reforms aimed at reducing workers' compensation system costs. On the heels of the legislation, the Office approved a 14% decrease in workers' compensation rates, followed by a 5% decrease in 2005, a 13.5% decrease in 2006, and most recently, a 15.7% reduction in workers compensation rates to be implemented January 1, 2007. Since the 2003 legislative reforms, rates have decreased 40% and Florida employers will see an overall cumulative reduction of \$1.9 billion in annual premiums through 2007.

Medical Malpractice Insurance

Later in the 2003 Special Session D, the Florida Legislature passed Senate Bill 2D designed to address Florida's crumbling environment for medical malpractice insurance. Many physicians were unable to secure affordable coverage and others were not able to secure any coverage, at any price. The number of insurers writing in Florida had dwindled to single digits. Insurer losses continued to rise, resulting in significant increased rates. Doctors felt they were being forced to either reduce policy limits they carried; cease providing certain types of medical care to their patients; leave the State; or retire early. Early indications from the 2003 reforms provide a glimpse of hope for the once maligned market. Since the passage of 2D, there have been a total of 19 companies that have entered Florida's medical malpractice market.

Viatical Settlement Provider – A Significant Case of Fraud

In May 2004, the Office issued an order suspending Mutual Benefits Corporation, the nation's largest viatical company, to act as a viatical settlement provider in

³ Additional accomplishments are listed in business unit sections, Part II.

Florida and the U.S. Securities and Exchange Commission seized the assets of the company and placed it in federal receivership. The Office has assisted the attorneys and investigators of the SEC in their ongoing investigation of Mutual Benefits Corporation (MBC), which resulted in the findings that MBC had committed multiple counts of fraud and securities violations on unsuspecting Florida consumers. The SEC has estimated that the company oversaw the fraudulent sale of over \$1 billion in viatical settlements from 1994 through 2004.

Unfair Trade Practices – Consumer Protection

The Office participated in the investigation and litigation of insurance brokers and insurers' unfair trade practices, including: undisclosed compensation, steering, and bid-rigging. In joint investigations with the Department of Financial Services and the Attorney General's Office, numerous violations of Florida's Racketeer Influenced and Corrupt Organization (RICO) Act have been identified and restitution of up to three times the amount lost due to the unlawful conduct is available to Floridians.

Property Insurance – Rate Change Public Hearings

After a devastating 2004 Hurricane Season with 1.65 million claims and \$25 billion in insured losses, Florida's property insurance market reached a critical level. Many consumers were unable to secure affordable property coverage and others were not able to find coverage in the voluntary market at any price. The 2005 Florida Legislature modified the Florida Statutes to require the Office to hold public rate hearings for any company rate change request of 15% or more if the proposed rate change relies on a computer model. The previous threshold was 25%. Since March 2005, the Office has conducted more than 70 public rate hearings across the State of Florida. In the hearings, insurance company representatives are questioned by Office staff, in addition to consumer advocates and representatives from consumer organizations. The Office has worked with the Florida Channel to broadcast all hearings in order for interested stakeholders and policyholders to view the proceedings without having to travel to the hearing site. All hearing agendas and streaming videos are available 24 hours a day on the Office's website at <http://www.floir.com/pcfr/RateHearingsIndex.htm>.

Catastrophic Claims Reporting

Immediately following Hurricane Charley's crashing into Florida in the fall of 2004, the Office quickly designed and implemented a state-of-the art web-based Catastrophic Event Data Reporting System (CEDRA) for the Governor, Cabinet, Legislature and any interested parties. CEDRA allows insurance companies to report insurance claims and financial loss data directly through the Office's Internet-Portal (I-Portal) in an efficient and user-friendly manner. In addition, the data is received immediately by regulators in order to assess the marketplace and ensure companies are operating with the necessary resources to adequately

fund claims as well as provide a number of reports for use by policymakers, the media and the general public.

After the 2004 Hurricane Season as well as the 2005 catastrophic impact of Hurricanes Katrina and Rita on the Gulf Coast states, Florida shared this technology and provided its servers and resources with our sister states (Texas, Louisiana, Mississippi, and Alabama), in order to coordinate the data gathering effort. This effort was necessary to provide much needed information to state insurance regulators as well as data to local, state, and federal officials responsible for making policy decisions for the relief and rebuilding effort over the next several years. All property and casualty insurers transacting direct business in Florida, including surplus lines carriers, are required to report disaster information. Florida is spearheading efforts at the National Association of Insurance Commissioners to work with any states that would like to benefit from the technology, and report and analysis coordination. As a result of Florida's efforts, the NAIC created the Disaster Reporting Working Group to address state coordinated data collection efforts during catastrophes. More information on Florida's disaster reports are available at:

<http://www.floir.com/Hurricanes/Seasonsinfo.htm>.

Insurer Assistance – Filing Compliance Symposium

In 1995, the former Department of Insurance initiated a Filing and Compliance Symposium to provide a forum for insurance industry personnel to learn about the Office's electronic filing system (I-File), to be briefed on new legislation and current topics in the marketplace, and to discuss the basics about how companies can improve the quality of rate and form filings in order to facilitate more timely reviews and approvals. The Symposium has become a huge success and the Office's partnership with the industry has expanded participation and interest in the forum. In 2006, more than 350 industry representatives attended the Symposium.

Multi-State Filing Program

The Office recently completed its second year as the lead state in the Multi-State Review Program (MSRP). The MSRP was designed by the Office in conjunction with regulators in California and Texas in response to the Life Insurance industry need to get their products to the market in a timely manner. Insurers can make a single annuity filing, which will be reviewed against a set of product standards comprised of the highest standard in the three states. If the product meets those standards, the company will receive approval to market it in Georgia, Louisiana, Florida, Texas, California and Nevada and the District of Columbia. Participating insurance companies have seen a noticeable increase in their product's speed to market and a reduction in administrative costs. Each paperless submission offers insurers the opportunity to obtain product approval in 60 days or less with an average review period of 38 days. In the second half of 2005, the Office began

work on developing life standards to allow for simultaneous review and approval of life insurance filings through the MSRP with an estimated implementation date of winter 2006. More information on the MSRP is available at: <http://www.floir.com/MSRP.htm>.

Commercial Property Insurance

During the summer of 2006, the Office learned the insurance problem in our state transcended the homeowners market, and began affecting the commercial markets as well. Anecdotal information was pouring in from policymakers, media, business owners, agents, and others about problems of the cost and availability of commercial business insurance following the 2004-2005 Hurricane Seasons. The Office designed and implemented a survey that was accessible via the internet. In only a two week period, 1,914 responses were received from Florida businesses.

The results were cause for concern. For commercial property insurance 17% of the business could not find any coverage at any price. Fifteen percent (15%) found coverage, but not as much as they needed, while 39% found coverage at rates which they deemed to be unreasonable. The anecdotal information was confirmed, which prompted Governor Bush and the Cabinet to establish the Commercial Property & Casualty Joint Underwriting Association (PCJUA) in September to provide the business community with an insurance safety net. To date, the PCJUA has bound 147 policies covering 226 buildings with more than \$60 million in insured value. While this number is only a fraction of the 1.8 million businesses that operate in the State of Florida – it does demonstrate the accomplishment of all of our state leaders in being proactive to prevent additional strain on the marketplace and Florida's consumers.

Legislative Achievements⁴

Public Hurricane Loss Projection Model

In 2001, the Florida Legislature approved funding of a Public Hurricane Loss Projection Model. This model was jointly developed by the Office and Florida International University (FIU) and its purpose is to guarantee appropriate insurance rate regulation. Until now, meteorological and actuarial models for determining hurricane loss projections used for computing homeowners' insurance rates were available only through private insurance companies and affiliated organizations. The critical components of those models are considered proprietary and are unavailable for public assessment and evaluation. With a final price tag of \$2.7 million, not only is the Public Model less expensive than

⁴ Additional accomplishments are listed in business unit sections, Part II.

the \$8 to \$15 million dollar models used by the private sector, but the Office retains ownership of this model, and has replicated the results of recent filings and placed them on our website for any interested parties at: <http://www.fldfs.com/edms> and search "Public Hurricane Model" under keywords.

In addition, the Office and FIU are in the process of expanding the Public Hurricane Model to include commercial residential structures such as condominiums and apartment buildings. The model is currently restricted to the analysis of single-family homes, including manufactured houses. However, a large portion of the existing Florida building stock corresponds to commercial residential structures. Many of these buildings are in high-risk prone areas and damage can have a significant impact on the lives of Floridians, and the economy of the state as was demonstrated during the 2004 and 2005 Hurricane Seasons.

Regulation of Unauthorized Insurance Entities

During the 2004 Legislative Session, the Office successfully secured six positions in order to protect policyholders from unauthorized insurance entities and unlicensed discount medical plan organizations:

- 3 positions to assist in the prosecution of unauthorized insurance entities, that are becoming increasingly prevalent in hard markets
- 3 positions to regulate the new regulatory structure for Discount Medical Plan Organizations
- 1 position to analyze competition in the workers compensation market

Discount Medical Plan Organizations

The Discount Medical Plan Organization enabling legislation charged the Office with the responsibility to regulate products sold in the Discount Medical Plan industry. Prior to the enactment of a regulatory structure in this industry, the Department of Financial Services, Division of Consumer Services, received over 1,000 consumer complaints per year. Through the legislative changes and implementation efforts of the Office, consumer complaints have decreased by 90%.

Florida Hurricane Catastrophe Fund

In 2004, the Office worked closely with legislative leaders, industry representatives and consumer groups to pass Senate Bill 2488, which increased the overall capacity in the Florida Hurricane Catastrophe Fund (CAT Fund) from \$11 to \$15 billion as well as created an additional \$15 billion of subsequent season capacity which grows over time. At that time, CAT Fund coverage was three to four times less expensive than private reinsurance and additional capacity provided insurance policyholders with significant savings.

Workers Compensation Insurance

The 2004 Legislature created a law requiring workers' compensation insurers to notify the Office of a significant underwriting change that materially limits or restricts the number of workers' compensation policies or premiums written in the state. Previous disruptions were caused in the marketplace by companies' non-renewing significant amounts of policyholders due to a change in underwriting policy. The new web-based Workers Compensation Collection System, established by the Office, collects this information and requires carriers to notify the Office of significant underwriting changes within certain time frames to minimize market disruption.

Property Insurance Reform - 2005

With the unprecedented events of the 2004 Hurricane Season, it became clear that legislative changes needed to be made for Florida's consumers as well as the insurance industry. In 2005, the major property insurance package, SB 1486 (Ch. 2005-111), was created to address many of the issues that arose during the hurricane season. This legislation was a major undertaking by the Office and included multiple provisions designed to protect consumers and offer transparency to Florida policyholders about the content of their homeowner's policies. And changes to the Florida Hurricane Catastrophe Fund will make it easier for insurers to tap into the fund when disaster occurs, thereby reducing premium costs for homeowners.

Unauthorized Insurers

HB 1065, (Ch. 2005-144) relating to unauthorized insurance entities, was developed to clarify the intent of the law and strengthen the ability of the Office to protect consumers by the issuance of a "cease and desist" order against an entity operating without a certificate of authority. The legislation also is assisting in our efforts to prosecute cases against unauthorized entities by specifying that selling insurance products without a license constitutes an immediate threat and causes irreparable harm to a consumer.

Third Party Administrators

The Office was made aware of some problems pertaining to Third Party Administrators (TPA) such as: questionable assets, debt, impairment and unsound financial conditions. A TPA informed the Office that a Senior Vice President of marketing had diverted \$43.7 million of premiums and commissions, depriving \$8.9 million in operating fees and commissions from a company. This individual was subsequently convicted of diverting at least \$17 million from the company for personal use. The TPA signed a consent order agreeing to a number of requirements, including capital infusions and submissions of audited financial statements. However, they did not submit audited financial statements

as agreed, and effective July 23, 2004, surrendered their TPA Certificate of Authority to the state of Florida. The Legislature and Office closed this loophole in 2005 by requiring TPA's to file audited financial statements, enhancing the ability to determine the company's financial solvency, as well as requires applicants to submit business plans to aid in the determination of a company's operational and managerial competency.

Health Insurance

Also in 2005, a health insurance package, HB 811 (Ch. 2005-231), provided additional authority to the Office of Insurance Regulation to disapprove a health flex plan if the officers or directors are incompetent, untrustworthy or lacking in insurance managerial experience. The legislation increased the financial examination interval for HMOs from three to five years, which allows the Office to focus examination resources on those companies requiring additional oversight and is consistent with the National Association of Insurance Commissioners Model Act and accreditation parameters.

Property Insurance Reform - 2006

In the 2006 Session, the Office worked closely with the Governor's Office and the Florida Legislature on the enactment of Senate Bill 1980 (Ch. 2006-12) which included a number of reforms intended to enhance and provide some temporary relief in the Florida property market, to include:

- Layer of reinsurance below the Florida Hurricane Catastrophe Fund for Limited Apportionment eligible insurers
- Established funding for a \$250 million hurricane damage mitigation program to fortify Florida residential structures to better withstand tropical and hurricane force winds
- Established funding for a \$250 million insurance capital build-up program to encourage new or better capitalized entrants into the market
- Appropriated \$715 million to Citizens Property Insurance Corporation to offset a portion of the 2005 deficit
- Requires the Financial Services Commission (FSC), rather than the Office, to approve Citizens' Plan of Operation. Requires the Executive Director of Citizens to be confirmed by the Senate
- Requires the Office to perform a market conduct examination of Citizens every two years
- Authorizes the Commissioner of the Office of Insurance Regulation to issue orders when the Governor declares a state of emergency
- Requires the FSC adopt rules standardizing requirements that may be applied to insurers after a hurricane, addressing claims reporting requirements, grace periods for payment of premiums, and temporary postponement of cancellations and non-renewal

- Creation of a Home Grading System – requires the Office to develop an objective home structure rating system that will allow homeowners to evaluate the relative ability of Florida properties to withstand the wind load from a sustained severe tropical storm or hurricane

Legislative Session - 2006

The 2006 Florida Legislature enacted a number of other pieces of legislation that will have a profound effect on consumers and Florida's insurance market:

1. Long Term Care Insurance -- In 2005, the Office conducted a comprehensive study of Long Term Care (LTC) Insurance in an effort to find solutions to rate increases on older LTC policies and to enhance sales on newer adequately priced products. The collected feedback from the study, private insurers, consumers and the regulators as well as from the 2005 public hearing ultimately led to the Long-Term Care Insurance market reforms of 2006. The Florida Legislature approved a senior protection bill, HB 947 (Ch. 2006-254), which makes Long-Term Care Insurance (LTC) more affordable, available, and marketable. The law is designed to restore confidence in the LTC market and increase overall sales to seniors which have declined in recent years due to problems in the market. The legislation establishes a Long-Term Care Partnership Program with Medicaid, which provides seniors incentives to purchase more affordable Long-Term Care Insurance, by allowing them to protect their personal assets in an amount equal to the benefits provided by their policy from Medicaid spend-down requirements.

In closed blocks of business, the law protects seniors by limiting the amount of a rate increase applicable to in-force long term care policies and provides a non-forfeiture benefit on lapse as well as an incontestability provision. As a result, seniors will know that their insurer did a thorough job of reviewing their application and will be protected from post-claim underwriting or any frivolous allegations of fraud when applying for benefits. Seniors and their families are protected from excessive rate increases in the future that result from an insurer choosing to close a block of business and sending it into a rating "death spiral."

In the event of justifiable rate increases, seniors now have options to reduce benefits or cancel their policy but at least walk away with a paid up policy equal to the amount of premiums already paid. This is currently available to seniors that purchased a LTC policy after March 2003; however, at that time, the Legislature did not include the same protections to policies already in force.

2. Life Insurance, Intent to Travel -- House Bill 299 (Ch. 2006-277) makes it an unfair trade practice to use travel plans in underwriting life insurance policies unless the insurer can prove that it is based on sound actuarial principles and actual or reasonably anticipated experience and provides a process to make exceptions to the bill using the rulemaking authority of the Florida Cabinet. Under the legislation, the Office is required to review all applications that are

denied based on travel in future market conduct examinations and triple the fines for such violations.

The bill was prompted by an incident with Florida's Congresswoman Debbie Wasserman-Schultz. The Congresswoman was turned down by her insurer for an increase in the amount of her insurance because of her "intent to travel." The situation revealed that many insurers were disapproving applications on that basis with no actuarial justification. This left many Floridians who travel back to their native country or who travel for religious purposes in a situation where they were unable to obtain any life insurance.

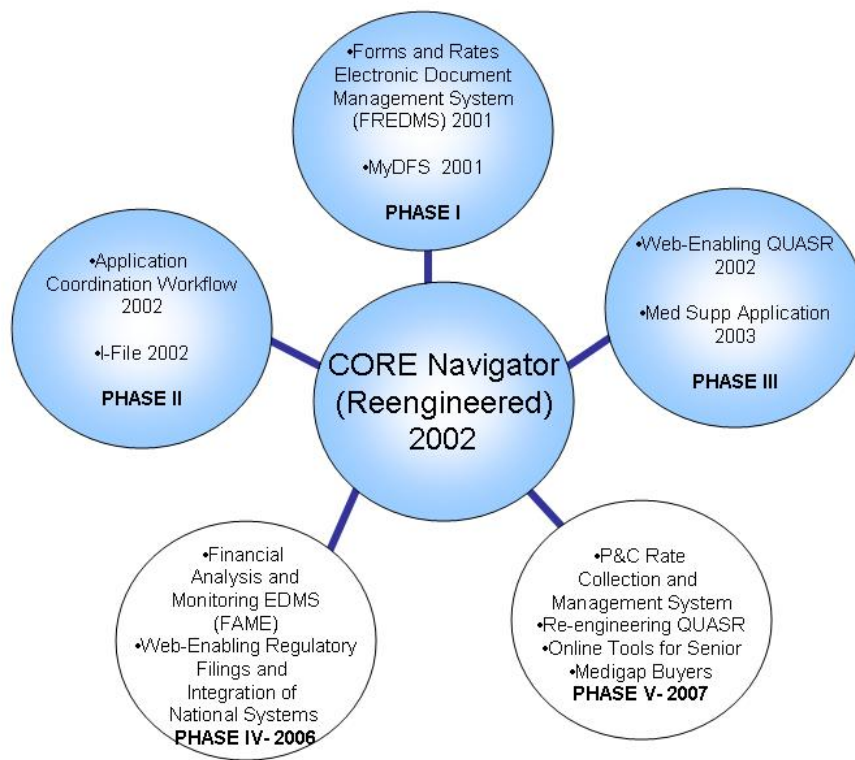
The recently enacted law prevents insurance companies from unfairly discriminating against people who travel outside the country. The measure prohibits charging higher rates or refusing coverage to those applying for insurance solely on the basis of that individual's past lawful foreign travel experiences or solely on the basis of the individual's future lawful foreign travel plans (unless the insurer can provide justification as to why the travel has an adverse effect on their health or life expectancy).

Similarly, the Financial Services Commission (FSC) unanimously approved Rule 690-125.003, Relating to Unfair Discrimination Because of Travel Plans, F.A.C., as authorized by the Unfair Insurance Trade Practices Act. The Rule prohibits insurance companies from refusing coverage or charging different rates to consumers without actuarial justification. Through Florida's efforts, the National Association of Insurance Commissioners has established a subgroup of its Life Insurance Committee to develop a model act or model statute to address unfair discrimination against a person with intent to travel.

Technology Achievements⁵

The Office of Insurance Regulation (former Department of Insurance) developed a unique technology plan that optimizes resources and provides a sustainable framework for integration and growth for all insurance regulatory functions. The technology initiatives in the plan were designed to provide benefits such as: compliance with national accreditation standards, speed to market, expeditious tracking of business services, and increased functional efficiency.

The plan was based on prioritized phases as follows:



The foundational system is known as the Company and Other Regulated Entities (CORE) Navigator and is the main database of the Office. CORE contains insurer licensing information such as: address, phone number, lines of business authorized, officer & director and historical company information. Although the state of Florida has one of the most advanced regulatory technology systems in the country, the Office's application and company licensing process is completed by hard copy, wherein companies submit paper files that are scanned by Office employees into a workflow system. The 2006

⁵ Additional accomplishments are listed in business unit sections, Part II.

Legislature provided the Office with \$500,000 and the ability to web-enable company admissions and applications in order to support the state of Florida's strong commitment of speed to market efforts, continuing to remove some of the entry barriers in the marketplace. Prior to the scanning and electronic workflow process in 2002, it took the Office approximately 141 days to approve an application. By 2004, this number was greatly reduced to 54 days. Web-based applications will improve the application processing time and bring companies and their products to the marketplace in a more efficient manner – this translates into improved competition, choice and selection for Florida's consumers.

Florida has what is considered the most comprehensive electronic insurance form and rate filing submission system in the nation. The Internet Portal (I-Portal) was opened in July of 2002 to act as an umbrella for all departmental Internet business processes relating to the insurance industry, such as the Internet Filing (I-File) system. The goal of the Internet Portal is to provide a one-stop workbench for the insurance industry to conduct business with the Office over the Internet. Through the use of the Internet, solid application software, and other emerging technologies, the Office has improved customer service while lowering its operating costs for the citizens of Florida. The Internet Filing application standardizes simplifies and automates the insurer's process of entering filing and rate data into an electronic package for subsequent attachment to a filing submitted through the Filing Assembly and Submission System

The I-File system allows insurers to submit forms and rates for review and approval with significant advances in speed and efficiency. The Office instituted several electronic form and rate I-File system enhancements during this past calendar year. These changes allowed Florida to conform to the National Association of Insurance Commissioner's (NAIC) product matrix and coding standards and enabled the NAIC to compare all insurance department policy filings and processing standards on a nationwide basis. The I-File evolution creates the ability for all stakeholders to analyze and compare rates of insurers and thus be able to make informed and educated insurance decisions with the most current information available to the Office.

As part of the 2003 legislative reforms related to medical malpractice insurance, the Office was charged with the task of designing and implementing a Professional Liability Claims Reporting (PLCR) System for medical, legal, and directors and officers closed claims. PLCR contains the following data and insurers must submit information to the Office as required under the Florida Statutes and Florida Administrative Code:

- A Medical Professional Liability (MPL) form which must be submitted by self-insured medical facilities, insurers providing coverage for such facilities, or insurers providing coverage for individual practitioners for any claim resulting from error, omission, or negligence in the performance of the insured.
- A Lawyers Professional Liability (LPL) form which must be submitted by insurers providing coverage for members of the Florida Bar for any claim resulting from error, omission, or negligence in the performance of the insured.

- A Directors & Officers (DNO) Liability Form which must be submitted by insurers providing coverage for officers' and directors' liability for any claim resulting from error, omission, or negligence in the performance of the insured officer's or director's services.

The PLCR System framework was built around the concept of transparency for all 17 million Floridians to gain access to closed claims based on errors, omissions and negligence. The general public and interested parties may search the public website at: <http://www.fldfs.com/Data/Liability/index.htm>.

Following the cutting edge CORE and I-File technology applications, the Office determined that it lacked an internal electronic management workflow system for financial monitoring and analysis. In 2005, the Office requested and the Legislature provided \$2.4 million dollars to build a system that would automate and web enable manual data collection systems, and integrate national functional regulation systems with internal workflows.

Over a two-year period, the Office designed and implemented a web-based Financial Analysis & Monitoring Electronic Document Management System (FAME), which performs two main functions: (1) allows regulated companies to electronically file financial statements and other financial-related documents with the Office and (2) automatically indexes filed documents into a workflow system for electronic review and routing to supervisors and examiners for review. This new electronic process can be adapted and implemented by other state insurance departments and was designed to decrease the review time of both analysts and management for each company, provide centralized, easy-to-access electronic storage for multiple users to access, and eliminate the routing of paper files.

FAME is the first state insurance regulatory filing and financial analysis system in the nation that eliminates all paper filings and workpapers by providing the means for regulated companies to file all financial documents and correspondence electronically. Electronically filed documents are then reviewed and routed electronically, reducing the review time needed by analysts and management and allowing multiple users to access the same filing simultaneously.

In June 2006, the Office launched a website that provides Floridians the ability to compare and search the benefits and premiums for small employer health plans offered in the state. Small businesses can use the site to obtain a sample monthly cost to provide health insurance for their employees. The Small Employer Rate Collection System (SERCS) website gives small employers the ability to view small group major medical health insurance rates for standard, basic and high deductible health plans currently available in the state. Small businesses can enter the employees that they employ in various categories and calculate an estimated monthly cost for their company. In addition to searching for small group employer rates, the website will have links for frequently asked questions on small employer health insurance, links to various health insurance consumer guides and information for consumers to request assistance with

the website or for information on health insurance. Small employers are able to use this tool 24 hours a day, 7 days a week at: <https://apps.fldfs.com/sercs/>.

Insurers doing business in the state of Florida are required by s. 624.424 (10), F.S., to report statistical information to the Office in conjunction with their quarterly financial reports. The Office developed this Internet-based Quarterly Supplemental Reporting (QUASR) System to implement this requirement. QUASR contains personal residential (homeowners and mobile homeowners) and commercial residential (condominiums and apartments) exposure data, by county, reported by licensed insurers.

Although QUASR has been used as a valuable tool by regulators and policymakers since its inception in 1996, the Office has proposed to upgrade and expand its capabilities to increase Florida's monitoring capabilities as it relates to ensuring reasonable rates, proper policy development, insurer solvency, and market practices; expedite data collection from hundreds of insurance companies; facilitate data management and storage for timely analysis of emerging trends in the property insurance market; and provide real time data for insurance consumers and policymaking stakeholders to examine markets with the ease of self-directed research tools via the internet.

Emerging Issues

Insurer Rate Filings

The Office is currently in litigation with the industry, through its trade organizations FIC and NAMIC, regarding a rule approved by the FSC that governs the process by which insurers make rate filings with the Office. The rule requires insurers to provide all the information they wish to have considered in support of a proposed rate in their rate filing. There are several significant issues in this litigation involving the interpretation of several provisions of Chapter 120. Among those issues are whether the FSC has authority to delegate to the Office the authority to publish a rule subject to its final approval and whether the provisions of Section 120.57(k), Florida Statutes that require administrative proceedings before the Division of Administrative Hearings (DOAH) to be “de novo”, allows an insurer to file information never provided to the Office with DOAH in the midst of litigation

Credit Scoring

The Office is currently in litigation over the insurance industry's challenge to the FSC's rule regarding the use of credit scoring in underwriting and rating policyholders. Several studies and admissions by industry experts have demonstrated that the use of credit scoring by insurers adversely impacts policyholders on the basis of race, income and sex. As a result, the Office proposed a rule to the FSC that requires insurers to demonstrate that their use of credit scoring does not adversely impact policyholders on the basis of race, color, religion, marital status, age, gender, income, national origin, or place of residence, in order to use it for underwriting of rating purposes. The FSC has approved the rule for final adoption.

Tier Rating

The Office is currently engaged in investigation and potential litigation of the insurance industry's practices regarding tier rating (joint effort with Attorney General's office). Tier rating is the practice by insurers of placing policyholders in different pricing tiers or companies depending on the underwriting risk associated with the individual policyholder. Review of this practice has revealed that insurers are leaving policyholders in the higher priced tier or company even though the insured now qualifies for a lower pricing tier or company.

Title Insurance – Rates

The Office is currently in the process of rulemaking on behalf of the Financial Services Commission (FSC) for the purpose of promulgating new rates for the title insurance industry. A review of title rates previously conducted by the Office revealed that title rates in Florida are among the highest in the nation. The Office

has issued a comprehensive data call to insurers and agents that will be used by an outside actuary to set new rates. It is expected that the title industry will aggressively oppose any attempt to lower current rates. The information in the data call will also provide an in depth look at how the current premiums are being used.

Title Insurance – Compensation

The Office is currently investigating various title insurers for providing unlawful compensation in exchange for the referral of business through the use of sham title agencies. These agencies do little if any title work and are created for the purpose of rebating premium to the partners or shareholders (realtors, developers, and others) for the referral of business. This issue is of national scope and has already led to a number of significant settlements including one in Florida.

Senior Protections

The Office is presently coordinating with the Agency for Health Care Administration, the Department of Children and Families and the Department of Financial Services to implement the Long Term Care (LTC) Partnership provisions of HB 947. One area of possible controversy deals with allowing existing LTC policyholders to exchange their policies for a new policy. The federal law that authorized the partnership does not provide for retroactive qualification of policies. Therefore, the Office is seeking to establish parameters specifying which existing policies may be exchanged for a new qualifying policy and the credits that an insurer must provide to recognize the value of the existing policy in the exchange.

Insurers continue to express their concerns about both the rate protections and the incontestability period provided by the 2006 legislation. Although none have done so at this point, there were numerous threats during the legislative process from companies that they would be forced to leave the Florida market. In addition, there is a possibility that the legislation could be introduced to amend the 2006 legislation and weaken its protection standards for seniors and their families.

Discount Medical Plan Organization Regulation

Legislation was passed in 2006 that weakened the Discount Medical Plan Organization (DMPO) regulatory scheme in Florida. The legislation was subsequently vetoed by the Governor, but it remains a strong possibility that the industry would attempt to weaken the strong consumer protections that were created in 2004. The proposal increased the "safe harbor" for DMPO prices from \$30 to \$60 per month. It eliminated much of the financial reporting and any regulation about bundling DMPO's with an unregulated product. Eliminating any

of the existing restrictions on bundling will provide an opportunity for companies to completely avoid DMPO regulation. The DMPO study conducted by the Office and the Georgetown University Health Policy Institute fully supports the existing regulatory structure and, in fact, identifies several areas where regulation should be strengthened.

Foreign Travel

The Office is presently promulgating rules, as authorized by the 2006 legislation to define travel vs. relocation, specify filing requirements, and provide for exemptions to the prohibition.

The Office is also providing leadership to an National Association of Insurance Commissioners working group that is developing a national model to address travel discrimination. It is anticipated that, once again, Florida's regulatory scheme will become the national model.

Uninsured

The Office staff has been busy working on addressing issues of uninsured and underinsured including participating in "Legislative Idea Raisers sponsored by Representative Holly Benson and numerous meetings and discussion with legislative committee staff. In addition, the Office chairs the Florida Health Insurance Advisory Board, established in statute to, among other things, recommend strategies and legislation to improve the health insurance market.

The Office completed an intensive analysis in 2006 of the feasibility of reinsurance and proposed legislation called "Healthy Florida Small Employer Health Insurance Program" which was modeled after "Healthy New York" and used reinsurance as the core provision. Legislation was proposed but did not pass that would provide stop loss reinsurance for low income employee groups, which would lower the health insurance premiums by about 40%.

The Office continues to support the opening of the Florida Health Insurance Plan (FHIP), a high risk pool that was established in 2004, but the Plan has never been funded. The FHIP would provide coverage to individuals with medical conditions that make them otherwise uninsurable, and providing organized care and preventive type services to these individuals is projected to provide a return of \$2.50 for every \$1.00 spent.

The Office is currently monitoring the success of a plan implemented by a local Health Maintenance Organization (HMO), Capital Health Plan, which covers employees of small businesses in a four county area. The plan offers a 40% premium subsidy for two years to those who qualify. The employer and employee pay the remainder of the premium. To qualify, the company must be based in the a four county area, have been in business at least 12 months, have

less than 25 employees, pay average wages of \$12 or less per hour, and not have offered health insurance or HMO coverage for at least the past 12 months. After the two-year period, premiums would revert back to standard premiums. Using this type of program along with options that provide for reinsurance is worth exploring.

Other potential ideas from other states which may be explored are:

- Consideration of the "Connector" concept from the Massachusetts Plan by blending the idea with reinsurance. By using this method the state would not only be providing reinsurance but screening plans would be available to participants for quality and affordability.
- Negotiating with providers to accept a lower reimbursement for services as has been done in the "ValueBlue" program in Kansas, could also help in developing new concepts for Florida.

Interstate Compact

As an alternative to a proposal from the life insurance industry for an option of federally chartered and regulated life insurance companies, the NAIC created an Interstate Compact for the regulation of asset based insurance products (life insurance, annuities, long term care and disability income). The compact develops product standards for these insurance products and provides that an insurer can file their new products with the Compact, and upon approval of the product, begin marketing it in all compacting states (Note: Florida's Multi-State Review Program accomplishes a similar purpose, but does not require any legislation or delegation of authority to a separate entity).

The Office was an integral part of the group that drafted the compact legislative language which has now been adopted in 28 states. The legislation was proposed in Florida in 2005; however, it was never brought before any committees for consideration. Issues have been raised by legislative staff, that the Interstate Compact provides for unconstitutional delegation of authority and violates Florida's open records requirements.

The Office of Insurance Regulation serves as the co-chair of the working groups that establish the proposed product standards and has ensured that they provide consumer protections that equal or exceed the protections provided by Florida law. Although not a member of the compact, the Office continues to lead the standards development as well as monitors the compact activities and testifies on its proposed rules in an effort to facilitate Florida's ability to join the Compact. It is anticipated that legislation will again be introduced in the 2007 legislature.

Insurer Underwriting – Occupation and Education

The Office is currently reviewing the use of occupation and education as underwriting and rating factors to determine whether their use adversely impacts policyholders based upon race or income. It is anticipated that a public hearing will be held in January to receive testimony and data regarding the use and impact of these factors to determine whether legislation should be recommended to proscribe their use.

Insurer Undisclosed Compensation

Investigation and litigation of insurance brokers and insurers' unfair trade practices, including undisclosed compensation, steering, bid-rigging (joint effort with Attorney General's office and the Department of Financial Services).

Florida's National Leadership Role

The National Association of Insurance Commissioners (NAIC)

The National Association of Insurance Commissioners (NAIC) is the organization of insurance regulators from the 50 states, the District of Columbia and the five U.S. territories. The NAIC provides a forum for the development of uniform insurance regulatory policy, when uniformity is appropriate.

State insurance regulators created the NAIC in 1871 to address the need to coordinate regulation of multi-state insurers. The first major step in that process was the development of uniform financial reporting by insurance companies.

Since then, new legislative concepts, new levels of expertise in data collection and delivery, and a commitment to even greater technological capability have moved the NAIC forward into its role as a multidimensional, regulatory support organization.

With offices in Kansas City, Missouri, New York and Washington, D.C. the NAIC staff provide invaluable support and information to insurance regulators, companies and consumers.

The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members.

Florida and the NAIC

Florida has exercised leadership within the NAIC by serving as Chair or Vice Chair of significant standing committees and continues to be actively involved in several key committees of the NAIC.

Florida is Chair of the following NAIC Committees:

- Property & Casualty Insurance (C) Committee
- Catastrophe Insurance (C) Working Group
- Southeastern Zone (EX) – comprised of thirteen southeastern states
- Disaster Reporting (E) Working Group

Florida is Co-Chair of the following NAIC Committees:

- Interstate Compact National Standards (EX) Working Group
- Interstate Compact Commission

Florida is Vice-Chair of a variety of NAIC Committees including:

- Long Term Care (B) Working Group
- Senior Issues (B) Task Force

- Speed-to-Market (EX) Task Force
- Information Systems (H) Task Force

Florida is a member of the following NAIC Committees:

- Climate Change and Global Warming (EX) Task Force
- Government Affairs (EX) Task Force
- Life Insurance & Annuities (A) Committee
- Travel to Foreign Countries (A) Working Group
- Health Insurance & Managed Care (B) Committee
- Workers' Compensation (C) Task Force
- Financial Condition (E) Committee
- Reinsurance (E) Task Force
- Information Resources Management (H) Committee
- Strategic Systems Planning (H) Working Group
- Accident & Health Working Group

Florida's Leadership

Emerging Issues

National and International Insurance Regulation

Within the last three years, Florida has markedly increased its level of NAIC activity and leadership, and is now more involved in committee activity than any other state. As part of that participation, Florida has been leading the national debate and development of several key areas, including:

- Through the Chair's role at the Catastrophe Insurance Working group, Florida has led the national debate on the role and structure of a national catastrophe plan. Within the NAIC membership, working with industry, state legislators through the National Conference of Insurance Legislators (NCOIL) and with members of Congress, the Office is continuing to focus the debate on this most critical issue of national economic security.
- As a member of the Reinsurance Task force, the Florida Office has been at the forefront of asking for a review and possible change of the way in which the regulatory community allows insurers to take accounting and solvency credit for reinsurance they purchase to manage their risk programs. As a key member of the Reinsurance Task Force Drafting Group, the Office has been instrumental in offering proposed rules to modernize the current collateral for reinsurance guidance that does not reflect many of the market and regulatory innovations that have occurred globally over the last decade.
- As Chair of the Disaster Reporting Working Group, the Office is leading the nation's insurance regulators in the development of an efficient system of multi-state reporting of financial and loss information following a catastrophic disaster.

Following in the wake of Hurricane Katrina, a number of states (both those in the Gulf Coast as well as many outside the region) saw the need for getting information from insurance companies regarding losses and damage in a systematic fashion. Florida offered the nation its disaster reporting framework, developed in the aftermath of the 2004 Hurricane Season. As the chair of this working group, Florida is ensuring that disaster reporting across the country will be reported in a consistent fashion and in an efficient manner, thus minimizing the time and costs to the industry while giving the regulatory community the tools they need.

- Commissioner McCarty was asked by the NAIC membership to represent the U.S. insurance regulatory community at the Joint Forum, a multilateral organization representing banking, securities, and insurance regulators from around the globe that is charged with research and analysis of cross-sectoral similarities and differences in the regulatory processes and procedures employed across various segments of the financial services marketplace. In addition to working with the other members to define relevant research initiatives, the Commissioner has also been adamant about making the results of this research transparent to a much broader community than had previously been the case.

National Conference of State Legislators (NCOIL)

The National Conference of Insurance Legislators (NCOIL) is an organization of state legislators whose main area of public policy concern is insurance legislation and regulation. Many legislators active in NCOIL either chair or are members of the committees responsible for insurance legislation in their respective state houses across the country.

NCOIL's primary goals are to:

- Educate state legislators on current and perennial insurance issues
- Help state legislators from different states interface effectively with each other
- Improve the quality of insurance regulation
- Assert the prerogative of legislators in making state policy when it comes to insurance
- Speak out on Congressional initiatives that attempt to encroach upon state primacy in overseeing insurance

Florida and NCOIL

Office staff participates in and attends NCOIL committee meetings, special subcommittee meetings, roundtable discussions, and general sessions.

The Florida Insurance Marketplace -- Snapshot, November 20, 2006

Florida Premium Written for Year Ended 12/31/05
Data rounded to nearest thousands

Admitted Market:	
Property and Casualty	\$ 32,703,673
Life, Annuity, Accident & Health	45,560,118
Title Insurance	2,432,774
Fraternal Benefit Society	241,921
Subtotal	\$ 80,938,486
Surplus Lines Market	3,541,570
Residual Markets:	
Citizens Property Insurance Corporation	1,609,085
Florida Workers Compensation JUA	77,504
Florida Auto JUA	6,897
Florida Medical Malpractice JUA	19,514
Total Written Premium	\$ 86,193,055

2005 Premium Information by Line of Business

Property Lines	\$10.2 billion
Auto Lines	\$14.4 billion
Workers Compensation	\$3.7 billion
Medical Malpractice	\$849 million
Health	\$19.3 billion
Life	\$6.9 billion
Annuities	\$13.6 billion

In June 2004, the Office regulated 3,495 insurance entities and by June 2005, the total number of regulated entities in Florida increased to 3,751. At the end of Fiscal Year 2005-2006, the total number of regulated entities in Florida was approximately 3,800.

Life and Health Insurers 695 Licensed Entities

Alien Insurers – 7
Domestic insurers – 21
Foreign insurers– 488
Health Maintenance Organizations – 37
Prepaid Ltd. Health Service Organizations – 22
Multiple Employer Welfare Association – 1
Prepaid Health Clinics - 5
Medicare Plus Choice Provisionally Sponsored Organizations – 2
Accredited Reinsurers - 7
Fiscal Intermediary Service Organizations - 16
Fraternal Benefit Societies - 37
Health Flex Plans – 5
Offshore Insurer – 2
Discount Medical Plan Organizations – 38
Church Benefit Organizations – 7

Property & Casualty Insurers 1,723 Licensed Entities

Domestic insurers - 136
Foreign insurers - 748
Accredited Reinsurer – 28
Group Self-Insurance Funds – 4
Industrial Insured Captive Insurer – 3
Medical Malpractice Self Insurance Funds – 4
Reciprocal Insurers – 6
Risk Purchasing Groups – 325
Risk Retention Groups – 75
Surplus Lines Insurers – 146
Surplus Lines Aviation and Wet Marine Insurers – 6
Title Insurers – 28
Trusted Reinsurers – 5
Advisory Organizations – 11
Assessable Mutual Insurer – 1
Independent Educational Self-Insurance Fund – 1
Local Government Self Insurance Funds – 3
Local Government Unit Payee/Self Insurer – 177
Other Insurer Related Entity – 1
Rating Organizations – 7
Residual Market Insurers – 8

Specialty Companies **1,419 Licensed Entities**

Viatical Settlement Providers – 9
Continuing Care Retirement Communities – 70
Donor Annuities – 749
Service Warranty Companies – 89
Auto Warranty Companies – 64
Home Warranty Companies – 21
Premium Finance Companies – 87
Prepaid Legal Insurers – 14
Third Party Administrators – 306
Life Expectancy Providers – 6
Service Companies – 4

Property Insurance

- As of September 30, 2005, Citizens Property Insurance Corporation had nearly 1.3 million policyholders.
- As of November 2, 2006, the Property and Casualty Joint Underwriting Association, the residual market for commercial non-residential policies, had bound 147 policies with 226 buildings. The PCJUA has received \$1.07 million in premium for \$59.96 million of total insured value.
- As of October 31, 2006, 11 insurers applied for the Capital Incentive Build-Up Program - 3 insurers issued surplus notes to the state; 1 insurer has received approval; 4 applications have been processed and are under review; and 3 insurers are scheduled for a review.

Financial Oversight

- During the calendar year 2005, the Office completed 9,840 financial reviews and 199 financial examinations:
 - Life and Health Financial Oversight – 3,571
 - Property and Casualty Financial Oversight – 4,627
 - Specialty Insurers – 1,841

Product Review

- During the 2005 calendar year, the Office reviewed and acted upon a total of 15,669 rate and form filings:
 - Life and Health Product Review – 8,071 Form and Rate Filings
 - Property and Casualty Product Review – 7,598 Form and Rate Filings

Market Investigations

As of November 20, 2006, Market Investigations has completed 1,052 investigations and 36 examinations

PART II
BUSINESS UNITS OF THE OFFICE OF INSURANCE REGULATION

Office of the Commissioner

Kevin McCarty
Commissioner of Insurance Regulation

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The Commissioner of Florida's Office of Insurance Regulation provides the Office's policy and executive leadership.

The Commissioner serves as a member of the National Association of Insurance Commissioners (NAIC), the national organization of insurance regulators from all 50 states, the District of Columbia and the four U.S. territories. The NAIC provides states with a forum for the development of uniform policy where appropriate. Participation at the NAIC affords the Office the opportunity to take part in resolving major insurance issues and contribute to the development of national policies.

Office of Chief Economist

Reporting directly to the Commissioner, the Office of Chief Economist is charged with the responsibility to research the economic impact associated with emerging regulatory issues, to produce the annual Workers Compensation and Medical Malpractice Market Reports, and to provide the Office with the ability to produce complex data-driven analysis of the insurance markets in Florida.

All functions within the Commissioner's Office are divided into one of two program areas: Executive Direction and Support, and Compliance and Enforcement.

Executive Direction and Support includes the Commissioner's Office, the Office of General Counsel/Legal Services, and the Office of the Inspector General (OIG).

Compliance and Enforcement consists of the Office of the Chief of Staff, Insurer Regulation Offices of Deputy Commissioner for Life and Health Insurance, Deputy Commissioner for Property and Casualty Insurance, and the Deputy Commissioner for Business Development and Market Research.

Office of Inspector General

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The Office of Inspector General is designed to assist the Commissioner of Insurance Regulation and other Office managers to successfully execute agency programs, functions and activities.

Since its inception, in October 2003, the Office of Inspector General has successfully developed and implemented the charter, programs, policies and procedures that are required to support the mission of an Inspector General.

The Office of Inspector General:

- Provides investigation services, internal audits, and internal management reviews in accordance with professional standards and, where applicable, federal and state laws and rules;
- Provides business consultation services and technical consultation services;
- Provides assessments of the effectiveness of management functions; and
- Promotes the integrity, economy, efficiency, effectiveness and cost-effectiveness of the Office's operations and administration.

The Office of Inspector General recently underwent a Quality Assurance Review that was performed by the state's Auditor General. The result of the review was a "no findings" report – i.e., that the Office of Inspector General has met or exceeded the review criteria utilized by the state's Auditor General.

Activities and Accomplishments, 2005-2006

- Completed investigations in a thorough and timely manner
- Completed research concerning and updating OIG Policies and Procedures
- Updated descriptions of the Office's Auditable Units
- Completed a risk assessment of the Office's Auditable Units
- Completed Internal Audits in accordance with approved plans
- Provided coordination support to audits and reviews performed by external entities such as the Auditor General, including completion of required follow-up activities and related reporting

Technical Assistance, Consultation Services, and Special Project Activities including:

- Monitoring applications that were submitted to the Department of Community Affairs for funding under the FEMA-supported Hazard Mitigation Grant Program
- Monitoring construction of Windstorm Damage Training and Demonstration Centers (Hurricane Houses)
- Preparing Legislative Budget Request documentation for purposes of obtaining funding for construction of additional Hurricane Houses, for development of a statewide Mitigation Outreach Training Program, and for additional staff
- Completing a preliminary risk assessment related to implementation of the Florida Hurricane Damage Mitigation Program required pursuant to s. 215.5586, F.S. created in 2006 (SB 1980/Ch. 2006-12)
- Assisting in the development of selected Administrative Policies and Procedures (AP&Ps) for the Office and DFS, pertaining to software change management, public records, and other topics
- Initiating work on issues that have been identified as being of long-term interest to the Office involving matters related to data validation and verification and computer capacity management
- Assisting in the enhancement and development of business application systems
- Assisting in the development of Office contracts

Annual or Recurring Events

- Review and update documented Auditable Units.
- Review and update the OIG risk assessment system.
- Execute the OIG risk assessment system for purposes of assessing risks associated with the Office's Auditable Units.
- Review and update both the OIG Annual Work Plan and the OIG Long-Term Work Plans.
- Review and update the OIG Annual Report.

Office of the Chief of Staff

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The Office of Chief of Staff is the senior executive management unit of the Office of Insurance Regulation. The Chief of staff provides leadership, administrative direction and policy advice to the units within the Office, manages the fiscal resources and personnel to maximize the delivery of services and technical assistance, and advises the Commissioner, Governor, Cabinet and Legislature on policies relating to the regulation of insurance.

The Office of Chief of Staff is responsible for the coordination and completion of a series of required executive actions, including:

- Submitting the Office's annual legislative budget requests;
- Serving as the chair of the Technology Steering Committee, which conducts bi-weekly meetings to identify, prioritize and oversee system technology plans and projects;
- Coordinating and approving Office personnel actions;
- Serving as the agency's safety coordinator;
- Serving as the agency's disaster coordinator;
- Serving as the agency's personnel and purchasing liaison contact for matters involving the Department of Financial Services;
- Coordinating informational memoranda releases.

The Chief of Staff directly supervises the Communications Office, Government Relations Office, and the budget and personnel managers of the Office.

Communications Office

The Communications Office represents the Office to the news media of Florida. The Communications and Public Information Office serves as the primary contact with news media and the significant responsibilities of the Communications Office include:

- Researching, writing, editing and distributing Office press releases;
- Coordinating interviews with news media and the Commissioner and Senior management;

- Responding to public or media requests for information;
- Coordinating internal communications to assure the media and interested parties have access to the most current information and expertise available to better understand complex insurance regulatory issues and actions.

Government Relations Office

The Government Relations Office consists of a Cabinet Affairs Office and Legislative Affairs Office and is responsible for the development, coordination, and communication of legislative priorities and rulemaking.

The Legislative and Cabinet Affairs Office's are responsible for establishing and maintaining contacts on legislative matters within the Executive Office of the Governor, the Florida Legislature, and other local, state, and federal entities. Among its responsibilities:

- Response and communication to legislative members and staff matters affecting policy and administration of Office insurance programs and activities.
- General oversight of legislative activities involving Office business units.
- Administration of pre-legislative activity that includes:
 - Coordination of interim meetings with legislators.
 - Coordination of interim legislative projects.
 - Gathering, where appropriate, input from industry representatives and other interested parties related to potential legislative initiatives.
 - Coordination of drafts for proposed bills and bill amendments.
 - Solicitation of legislative sponsorship for regulatory initiatives.
 - Providing briefing materials for Financial Services Commission/Legislative Directors of interested or affected executive and cabinet agencies.
- Representation of the Office during Legislative Session that includes:
 - Meeting with and providing information to legislators on matters that affect the regulation of the insurance industry.
 - Managing legislative calendars and required committee appearances.
 - Monitoring and prioritizing of legislation affecting the Office.
 - Coordinating bill analyses provided to legislative members and staff.
 - Appearing before legislative committees, as required.
 - Coordinating responses to legislative information requests.
- Coordination of post-session activities that include:
 - Publication/distribution of post-session legislative summaries and reports.
 - Implementation of policies, procedures and programs that assure the accurate and timely implementation of legislation.
 - Management of Office response to constituent requests from legislative offices and committee staff.
 - Management of the Office's internal program to assure timely implementation of legislative mandates, to assure appropriate rules are developed and implemented, and ensure the impact of new legislation is communicated effectively within the Office and its regulated entities.

The primary role of the Cabinet Affairs Office is to facilitate communication with and response to matters affecting Office oversight by the Financial Services Commission. The Cabinet Liaison works with and is an active part of the Governmental Relations Office. Unique responsibility assigned to Cabinet Affairs includes:

- Interaction with the Financial Services Commission -- providing information regarding proposed rules, board recommendations, legislation and other matters affecting the Office
- Coordination and presentation to Cabinet Aide briefings on matters affecting the Office
- Coordination of appointments and recommendations for boards and commissions

Legal Services

Office of General Counsel

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The Office of General Counsel and Legal Services provides legal counsel to the Commissioner of Insurance Regulation, represents the Office in judicial, administrative and rule-making proceedings, provides legal assistance, coordination and oversight to the Market Investigations Business Unit.

The Legal Services Unit is organized into two principal legal sections:

Regulatory Actions Section

- Provides legal counsel to the Commissioner and staff, regarding all matters related to the regulation of insurers.
- Responds to requests for legal opinions from inside and outside the Office.
- Advises the Commissioner and Office staff on a daily basis on all legal matters.
- Assists in the development and analysis of new legislation and rules.
- Assists Office staff in the preparation of complex contracts and agreements concerning financial and market conduct examinations of insurers.
- Reviews and provides analysis of the legal sufficiency of admissions applications and other company documents.
- Provides assistance to the Legislative Affairs Office in the development of and interpretation of proposed legislation.

Litigation Section

- Handles all litigation including judicial proceedings in state and federal courts, administrative proceedings before the Division of Administrative Hearings, and appeals before the Florida Supreme Court and District Courts of this State as well as cases from the Subscriber Assistance Panel (HMO appeals) referred to the Office by the Agency for Health Care Administration.
- Responds to public information requests and handles related litigation, including injunction hearings on alleged trade secret documents.
- Provides advice and litigation support in personnel matters and for challenges to Office rules.
- Provides advice as requested regarding the Office's review of insurers' annual rate filings required by the Insurance Code, including assistance with public rate hearings and defending Office actions regarding those filings if challenged.

Activities and Accomplishments, 2005-2006

- The Office of General Counsel and Market Investigations unit received 2005 Davis Productivity recognition for the Viatical Examination Strike Force (for Mutual Benefits Corporation), the Emergency Rules and Orders Team and a Notable Team Award for the Multi-State Review Program. The units were also awarded recognition in 2003 and 2004 for the efforts of the Unauthorized Entity Enforcement and Monetary Recovery Team and Viatical Examination Strike Force. The Legal Services Office also received certificates of appreciation from the Chief Financial Officer for participation in the Hurricane Mediation Program
- Efforts and actions by the unit resulted in protecting consumers and includes the collection of fines, costs, and restitution:
 - In 2004 of more than \$5,678,420
 - In 2005 of more than \$10,330,652.
 - As of November 1, 2006 of more than \$17,788,882.
- Specific company actions included:
 - Nationwide Insurance Company of Florida: Homeowners' examination resulting in refunds of \$2,872,897 to policyholders and payment of \$250,000 administrative costs to the Office.
 - AmeriFirst Funding Group: Prevented from attaining license as a viatical settlement provider. Several of the principals of AmeriFirst were also principals of Future First Financial Group (a company that went into conservatorship).
 - Mercury Insurance Group: Examination resulting in a \$500,000 fine and \$500,000 administrative costs to the Office, and significant refunds to Florida policyholders.
 - National States Insurance Company: Prevented from increasing rates by 53% for 4,361 Florida policyholders.
 - AIG: Disapproval of rates upheld because AIG did not justify its terrorism rates.
 - AIG: Settlement requiring refunds in all terrorism rate filings (the bulk being in workers compensation and estimated at about \$14 million, including costs and fees paid to the Office of \$300,000).
 - AIG: Order entered imposing a fine of \$500,000.00 for failure to report required information to the National Council on Compensation Insurance (NCCI). Fine paid and AIG is now participating in NCCI's remediation program.
- Assisted attorneys and investigators of the U.S. Securities and Exchange Commission in their investigation of Mutual Benefits Corporation (MBC) which resulted in the findings of the U.S. District Court in Miami that MBC had committed multiple counts of fraud and securities violations.

Activities

- Public Hurricane Model: Agreement with Florida International University to continue maintaining and improving the Model and providing for the Office (on behalf of the State of Florida) to gain all copyrights to the Public Model.
- Attorneys participated in DFS' Hurricane Mediation Program, 2004-2005
- Participated in the investigation and litigation of the insurance industry's practices regarding tier rating (joint effort with Attorney General's office)
- Participated in the investigation, rulemaking and litigation of the title insurance industry and its rates.
- Participated in the investigation and litigation of insurance brokers and insurers' unfair trade practices, including undisclosed compensation, steering, bid-rigging (joint effort with Attorney General's office and the Department of Financial Services).
- Conducted the investigation of finite reinsurance contracts issued to Florida insurers that later became insolvent.
- Conducted rulemaking and litigation of the insurance industry's practice regarding use of credit scoring.
- Conducted rulemaking and litigation regarding the process by which insurer's make rate filings with the Office.
- Represented the Office in litigation regarding the Financial Services Commission delegation of rulemaking authority to the Office.
- Represented the Office in litigation concerning the Florida Hurricane Catastrophe Fund Emergency Assessment Order.

Annual or Recurring Events

Annual Variance/Waiver Report

Pursuant to Section 120.542, F.S., a variance and/or waiver report is made to the Governor, Speaker of the House and President of the Senate to identify any variances and/or waivers granted during the period October 1, 2005 and September 30, 2006.

Biennial Rules Report

Pursuant to Section 120.74, F.S., a rules report is made to Speaker of the House and The President of the Senate to identify rules that were filed for adoption or repealed during the period October 1, 2005 to September 30, 2007.

Market Investigations

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Market Investigations is the enforcement and compliance unit for the Office which monitors the activities of authorized Life and Health and Property and Casualty insurers within the Florida insurance marketplace to assure proper compliance with the Florida Insurance Code.

When adverse business practices are identified relative to specific companies, markets or insurance products, companies are reviewed for compliance through a multitude of possible regulatory responses, from contacting the insurers for a response to the identified issue, to desk investigations or on-site field examinations.

Over the last few years, Market Investigations has incorporated a targeted approach to market conduct reviews. Rather than conducting reviews on a statutorily required routine basis, industry problems are identified through market analysis by trending patterns and practices of consumer complaints, financial data and other data available through market and environmental sources.

Targeted industry compliance reviews may also be conducted as a result of legislative changes to the Florida Insurance Code to determine if insurers are complying with those changes. These regulatory responses enable Market Investigations to determine the extent of the problem and work with the company to resolve the problem efficiently.

Market Investigations also investigates and initiates regulatory enforcement actions against unauthorized entities that illegally transact insurance business in Florida or with Florida consumers. During periods of hardened markets, the decreased availability of some insurance products creates a climate ripe for unauthorized insurance activity and insurance fraud, necessitating increased emphasis in this area.

The Florida Market Investigation unit also participates with other states in NAIC multi-state reviews. These multi-state reviews allow regulators from different states to work together to resolve like problems and address issues through uniformity and collaborative actions that may affect consumers in numerous states.

Business Unit Organization

Market Investigations is organized into four different sections:

- Property & Casualty
- Life & Health/Managed Care
- Unauthorized Entities
 - The fundamental charge of these sub-units is to assure compliance with governing statutes and rules and to monitor how the industry interacts with the citizens of Florida. Market Investigations has the authority to assess administrative penalties, direct corrective action and restitution, and mandate conduct that protects the insurance consumer from unlawful or harmful business practices.
- **Market Analysis**
 - The primary responsibility of this sub-unit is to analyze current and historical market and financial data and trends to determine if any anomalies exist that may indicate an unlawful or harmful business practice or pattern exists.

Activities and Accomplishments, 2005-2006

- In 2005, Market Investigations concluded 2055 investigations and 38 examinations. Consumer recoveries based on regulatory enforcement actions totaled \$5,417,081 and penalties totaled \$1,012,250, which included 37 Administrative Orders.
- In 2006 year to date, Market Investigations concluded 1052 investigations and 36 examinations. Consumer recoveries based on regulatory enforcement actions totaled \$13,281,323, and penalties totaled \$1,326,657, which included 40 Administrative Orders.
- Industry-wide investigation or examination projects conducted or in progress that are related to verifying compliance are:
 - Professional Liability Claims Reporting Database
 - Quarterly Supplemental Reporting (QUASR) Database
 - Hurricane Claims
 - Note: To achieve our objective of completing our review of hurricane claims and related issues timely, all professional Market Investigations' staff, regardless of area of expertise, received training and were assigned hurricane files. Staff conducted 2,063 investigations and 17 examinations related to hurricane claims.
 - Annuity Suitability to Seniors
 - Discount Medical Plan Organizations
 - Professional Employer Organizations
 - Division of Insurance Fraud Reporting Requirements

- Prompt Pay Related to Health Claims
- Credit Scoring
- Freedom to Travel

Annual or Recurring Events

- Beginning on March 1, 2007, an annual report to the President of the Senate and Speaker of the House on the implementation of The Freedom to Travel Act, is required pursuant to s. 626.9541 (1)(dd), F.S.
- Market Investigations is responsible for:
 - Annual activity report
 - Monthly activity reports
- All Market Investigations professional staff meet weekly with the Director at a "triage" meeting to discuss ongoing investigations, examinations or special projects. This meeting provides a forum for professional staff to ask any questions about files and is used as a vehicle for on-going training. Discussions may include specific questions related to the file, discussions on investigative or examination procedures, or discussion of new upcoming initiatives.
- Director meets weekly with each sub-unit's Investigation Manager to discuss progress of specific cases or market trends.
- Each unit is responsible for reporting to the National Association of Insurance Commissioners the relevant statistics for all examinations.

Insurance Regulation

Office of Deputy Commissioner, Property and Casualty Insurers

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The Deputy Commissioner of Insurance Regulation of Property and Casualty Insurers provides direction and support for the Business Units regulating statutory compliance and monitoring of property and casualty industry markets. In addition, the Deputy Commissioner handles residual market issues including Citizens Property Insurance Corporation, CAT Fund assessments, certain data calls, boards and committees.

The Deputy Commissioner for Property and Casualty Insurance provides leadership, administrative direction, and policy advice to the regulatory business units; manages fiscal resources and personnel; and advises the Commissioner and the Legislature on policies relating to the regulation of insurance.

Business Units

The Deputy Commissioner directly supervises the Property and Casualty Product Review and Property and Casualty Financial Oversight business units.

Business Unit Directors oversee the daily regulatory activity of the unit and manage the personnel and budget matters affecting the unit. The Director is also charged with the responsibility to manage the development and implementation of legislation, and to represent the Office in local, state, and national forums.

Property and Casualty Product Review

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Property and Casualty Product Review is responsible for the review and approval of policy forms, policy rates, policy rules and underwriting guidelines for property and casualty insurance products marketed in this State.

Product Review analysts understand how insurance policies are structured, the coverage traditionally offered, and are sensitive to the affect of any changes in policy language that may reduce coverage for the insurance consumer. By law, the office must approve policy language changes for various lines of coverage that include but are not limited to: private passenger automobile; homeowners; farm owners; mobile homeowners; personal inland marine; auto, home and service warranties; boiler and machinery; burglary and theft; commercial fire and allied lines; dwelling fire and allied lines; glass; fidelity; surety; bond; financial guaranty; mortgage guaranty; personal liability; and personal umbrella liability insurance lines.

The unit also reviews forms and rates for medical malpractice, professional liability, general liability, products liability, commercial auto, as well as other miscellaneous and related lines. Product Review analysts are also responsible for enforcing laws related to the filing of forms and rates of warranty products, prepaid legal products and premium finance agreements.

As each rate filing is received, Property and Casualty Product Review actuaries and analysts read the filing and perform independent calculations to determine whether the filing complies with applicable actuarial standards, statutes, and administrative rules. The actuaries make certain that rates are not inadequate, excessive, or unfairly discriminatory.

The actuaries and analysts are also responsible for the review of rates, rules and forms for all insurance companies writing workers' compensation and employer's liability insurance in Florida. Each year, the NCCI files a rate filing to establish a rate for all member workers' compensation insurers. The office conducts a hearing on this filing where evidence is received from affected businesses, NCCI, the Consumer Advocate and others. This process, primarily as a result of law changes and greater enforcement, has resulted in substantial reductions in rates for workers' compensation over the past few years. Analysts answer consumer and business inquiries related to workers'

compensation issues, and coordinate and monitor the activities of the NCCI Appeals Board, the Florida Workers' Compensation Joint Underwriting Association, and the Florida Legislature. The Workers Compensation actuary and analysts also provide technical assistance and advice to other areas within the Office and DFS, including market conduct, solvency, consumer services, and risk management units.

Florida law requires auto and workers compensation insurers to return amounts to consumers that are defined by law as excess profits. Private passenger automobile insurers are required to submit information to enable the office to determine if those insurers have made excess profits. The actuaries in this area provide analysis and expert testimony in these excess profits cases. Other data collection and analysis activities include the management of databases for reporting medical malpractice, lawyer's liability and directors' and officers' liability closed claims.

The Property and Casualty Product Review unit must comply with specific statutory timelines for the review of each type of filing received. The statutory timelines range from 15 days for certain types of recoupment filings to 90 days for certain types of rate filings. Each year the unit receives an estimate 4,000 form filings and 3,700 rate/underwriting rule filings.

Property and Casualty Product Review is organized into two principal regulatory sections:

Rates Unit

- Responsible for conducting a timely review of each rate or rule filing submitted to ensure filings comply with the actuarial guidelines specified in law and rule; and,
- Responsible for the oversight and compliance requirements for the reporting of excess profits of private passenger automobile and workers' compensation insurance.

Forms Unit

- Responsible for conducting a timely review of each form filing submitted to ensure filings comply with the requirements specified in law and rule.

Activities and Accomplishments, 2005-2006

Homeowners Insurance

- Conducted 73 rate hearings since March of 2005, in compliance with s. 627.0269(7), F.S., requiring the Office to hold public hearings for any rate change request of 15% or more if the proposed rate change relies on a computer model.
- Implemented the 2006 Property Insurance Reform Act (SB 1980/Ch. 2006-12):
 - Published the Sinkhole Presumed (Rating) Factor in September of 2006;

- Initiated the re-evaluation of wind mitigation discounts & credits for property policies;
- Performed research related to the insurability of attached or free standing structures for residential properties; and
- Developed an equity rate of return for property insurance rate filings;
- Completed implementation of legislative directives to:
 - Develop a checklist for insurers to use in notifying insureds of items “covered” or “not covered” under their homeowners’ insurance policy;
 - Published a feasibility and cost/benefit study of a Florida Sinkhole Insurance Facility;
 - Published a Standard Rating Territories Report;
 - Published a Law and Ordinance Study; and,
 - Adopt an insurer form for insurers to notify policyholders of credits available for mitigation based on certain construction or protective devices used or installed on the insured property
- Completed review and approval of new calendar year hurricane deductible endorsements submitted by every residential property insurer in Florida.
- Completed review and approval of an increased number of filings resulting from changes in law affecting:
 - Law and ordinance coverage.
 - The amounts of hurricane deductibles insurers were required to offer.
 - Requirements applicable to a policy declarations pages.
 - Modifications to policies related to changes affecting sinkhole, replacement cost coverage, cancellation/non-renewal, and mediation coverages.

Title Insurance

- Conducted 10 hearings and rule workshops associated with establishing title insurance rates (established by Office Rule) in the period November 2005-2006.
- Implemented legislation requiring the Office to adopt a Mortgage Certificate of Release form and actuarially sound premium associated with its use.
- Implemented legislation that redefined title insurance to include title to personal property – a hearing on the Office’s proposed policy form and rate is scheduled in January of 2007.
- Initiated a title insurance industry data call for 2006 to facilitate the mandatory review of title insurance premium by the Financial Services Commission.

Form and Rate Filings

- Continued to enhance and re-designing the Rate Collection System and Rate Management Systems for Auto, Homeowners and Dwelling policies: The Florida Office has what is considered the most comprehensive electronic insurance rate and policy submission system in the nation. The “I-File” system allows insurers to submit forms and rates for review and approval with significant advances in speed and efficiency. The “I-File” evolution creates the ability for all stakeholders to analyze and compare rates of insurers and thus be able to make informed and

educated insurance decisions with the most current information available to the Office.

- For 2006, the unit will add a rate collection and rate management system for commercial property lines including business owner's policy, general liability policy and commercial automobile insurance.

Personnel Activity and Achievements

- Policy forms staff provides technical expertise to the Department of Financial Services including its Hurricane Claim Mediation program, the Division of Consumer Services and the Office's Market Investigations unit, and are important participants on disaster response teams.
- The actuaries and analysts advise other governmental entities, including state and local governments.

Annual or Recurring Events

- Annual rate filings as prescribed in s. 627.0645, F.S.
- Required receipt and review of insurer reports
 - "QUSAR" – Quarterly Supplemental Reporting System – data collection for personal lines property insurance that includes, but is not limited to: number of policies issued, county of location, company exposure for each policy, etc.
 - Private passenger automobile and workers' compensation insurers must submit their excess profits reports no later than July first of each year.
 - Insurers reporting lawyers liability or medical malpractice closed claim data are required to do so within 30 days of closing out the claim; and,
 - Insurers reporting directors' and officers' liability closed claim data are required to do so within 60 days closing out the claim.

Property and Casualty Financial Oversight

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Property and Casualty Financial Oversight is responsible for monitoring the financial condition of property & casualty, title insurers and self-insurance funds through the review of applications, ongoing financial analysis, periodic financial examinations and appropriate regulatory action.

The unit is also responsible for the review of material changes of ownership of insurers domiciled in Florida. The Unit conducts actuarial reviews to assure companies maintain adequate reserves and performs field examinations and analyses of financial statements and reports. The unit conducts desk reviews, on-site financial examinations and targeted reviews in the event there are changes or potential changes to a company's financial condition.

There were 68 new property and casualty insurers licensed during 2005, including 20 domestics and 48 foreign insurers.

As part of the Office's involvement with the National Association of Insurance Commissioners (NAIC), the financial surveillance areas participate in the Financial Regulation Standards and Accreditation Program. The objective of the accreditation program is to provide consistent solvency regulation of multi-state insurance companies with an emphasis on developing minimum solvency laws and regulations standards, effective and efficient financial analysis and examination processes, and appropriate organizational and personnel practices.

Property and Casualty Financial Oversight is organized into four principal sections:

Actuarial Section

- Responsible for assisting the analysis and examination units on actuarial related items for all property and casualty insurers. The actuarial analysis and examinations are performed both at the Office as well as on-site at the offices of the regulated entity.
- Participates with the review of actuarial related items in regards to applications for new domestic entities.

Applications Section

- Reviews applications for material changes in ownership of insurers as well as applications for new insurers requesting to do business in Florida.

Examinations Section

- Responsible for periodic on-site financial examinations, including NAIC coordinated, multi-state exams of larger entities.

Analysis Section

- Responsible for the receipt and review of financial statements, submitted by insurers at least four times per year, holding company registration statements, and other requested documents related to the financial solvency of a regulated insurer.

Activities and Accomplishments, 2005-2006

- Initiated or accelerated financial examinations in response to the 2004 and 2005 hurricane seasons in order to assess financial statement accuracy and to ensure that potential impairments and insolvencies were identified in a timely manner and held to a minimum for 2005-2006.
- Conducted a pre-hurricane season data call to assure that each property insurer has sufficient reinsurance available and can withstand at least two major storms..
- Coordinated the review and approval process for the complex re-domestication and subsequent conversion/reorganization of a national company to Florida.
- Reviewed 10 insurer depopulation plans involving 293,684 policies from Citizens to the private market.
- Completed 51 insurer financial examinations in 2005, an increase from 2004 and all examinations were completed within the 18-month completion requirement.
- Completed financial reviews for 3,360 quarterly statements and 1,125 annual statements during 2005.

Annual or Recurring Events

- Receive and review annual financial statements from all property & casualty and title insurers (due March 1st).
- Receive and review quarterly financial statements from all property & casualty and title insurers (due May, August and November 15th).
- Receive and review annual audited financial statements from all property & casualty and title insurers (due June 1).
- Develop annual and quarterly filing requirements and instructions for the next calendar year.
- Process certificate of authority applications within 60 (foreign insurer) to 90 (domestic insurer) days of receipt.
- Respond to public information requests.

- Participate in initiatives sponsored by the National Association of Insurance Commissioners.
- Make legislative proposals to enhance the Office's ability to regulate financial solvency.
- Continual review of statutes, analysis and examination policies and procedures to ensure continued compliance with NAIC Accreditation Standards.

Office of Deputy Commissioner, Life and Health Insurers / Specialty Insurers

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The Deputy Commissioner of Insurance Regulation of Life and Health/Specialty Insurers provides direction and support for the Business Units regulating statutory compliance and monitoring of life and health and specialty industry markets.

The Deputy Commissioner for Life and Health and Specialty Insurance provides leadership, administrative direction, and policy advice to the regulatory business units; manages fiscal resources and personnel; and advises the Commissioner and the Legislature on policies relating to the regulation of insurance.

Business Units

The Deputy Commissioner directly supervises the Life and Health Product Review, Life and Health Financial Oversight, and Specialty Product Administration business units.

Business Unit Directors oversee the daily regulatory activity of the unit and manages the personnel and budget matters affecting the unit. The Director is also charged with the responsibility to manage the development and implementation of legislation, and to represent the Office, the Commissioner or the Deputy in local, state, and national forums.

Life and Health Product Review

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Life and Health Product Review is responsible for the review and approval of policy form and rate filings received from health and life insurance companies, health maintenance organizations, discount medical plans, and related entities and products.

Health insurance includes, but is not limited to, indemnity and preferred provider organization major medical policies, managed care policies, Medicare Supplement policies, long-term care policies, limited benefit, disability income and catastrophic illness indemnity insurance. Continuing Care Retirement Community plans, Health Flex plans, Prepaid Limited Health plans, and Discount medical plan filings are included in the health category. The unit is also responsible for the actuarial review of individual health insurance rates and rates for groups under 51, to ensure premiums are reasonable in relation to benefits as required by law.

Life insurance includes: term life, whole life, universal life, variable life as well as fixed and variable annuities, credit life, credit disability and viatical filings are also included in the life category.

The business unit receives policy and rate filings from over 900 carriers licensed to sell L&H products, including companies that are active in the Florida small group market.

Life and Health Product Review is organized into two principal regulatory sections:

Rates Unit

- Performs actuarial reviews of rate filings to ensure compliance; and
- Makes actuarial recommendations regarding approval or disapproval of each rate filing submitted.

Forms Unit

- Responsible for enforcing compliance with statutes and rules governing insurance policy contract forms, applications, endorsements or other forms associated life and health insurance products.

Activities and Accomplishments, 2005

- Davis Productivity Awards:
 - An L&H Forms Team received a plaque for increased productivity; and,
 - Staff member Bethany Kocher received a plaque for developing rate publication criteria for standard risk rates

- The Office of Insurance Regulation completed its second year as the lead state in the Multi-State Review Program (MSRP). The MSRP was designed by the Office in conjunction with regulators in California and Texas in response to the Life Insurance industries need to get their products to the market in a timely manner. Insurers can make a single filing which will be reviewed against a set of product standards comprised of the highest standard in the three states. If the product meets those standards, the company will receive approval to market it in Georgia, Louisiana, Florida, Texas, California and Nevada and the District of Columbia. Participating insurance companies see a noticeable increase in their product's speed to market and a reduction in administrative costs. Each paperless submission offers insurers the opportunity to obtain product approval in 60 days or less with an average review period of 38 days. In the second half of 2005, the Office began work on developing life standards to allow for simultaneous review and approval of life insurance filings through the MSRP with an estimated implementation date of November 2006.

- System enhancements - The Office instituted several electronic form and rate I-File system enhancements during this calendar year. These changes allowed Florida to conform to the National Association of Insurance Commissioner's (NAIC) product matrix and coding standards and enabled the NAIC to compare all insurance department policy filings and processing standards on a nationwide basis. In addition to making Florida's codes consistent with the national standards, the changes made the filing system more user-friendly.

- During calendar year 2005, 321 companies made policy form filings. Another 385 companies submitted accident, health and managed care products and associated rates for review in this same period -- the unit processed 8,212 submissions in 2005, an increase of 9.5% from the number of submissions for the same period in 2004.

- The timeliness of reviews performed by the Life and Health Product Review Unit also saw improvement in 2005. Nearly 65% of the Life and Health Product Review Unit rates reviews were completed in 30 calendar days or less. Moreover, approximately 89% of 2005 reviews were completed within 45 calendar days or less. Filings that exceeded 45 days were generally at the request of the filing company in order to allow for the submission of additional materials to obtain approval of the filing.

- Thus, for calendar year, 2005, the unit processed 8,213 submissions in an average of 26.93 days – a statistic that makes Florida a national leader among state regulatory offices.

Discount Medical Plans

- In 2004 the Office proposed and the legislature adopted a comprehensive scheme to regulate products sold in the Discount Medical Plan industry. Whereas in 2004, the DFS Division of Consumer Services received over 1,000 complaints regarding discount medical plans, the implementation of a regulatory structure, including licensure, has resulted in a 90% decrease in consumer complaints.
- A total of 553 form and rate filings from Discount Medical Plans have been received to date, of which 346 have been approved.
- Based on the Office's recognized leadership in the area of regulating DMPO's, the Office was appointed to lead the NAIC working group charged with developing a model regulatory structure for DMPOs. The model produced by the working group provided for a comprehensive structure very similar to Florida, but also allowed some states to opt out of certain components based on resource availability. The model was adopted unanimously by the NAIC Plenary.
- In August of 2006, the Office held a public forum in Miami to solicit input from stakeholders and the public to assess whether the regulation of discount medical plans was meeting the objective of providing a healthy market while also protecting consumers.
- The unit requested further input via a study conducted by a research team from the Georgetown University Health Policy Institute to examine the discount medical plan organization (DMPO) marketplace, the impact of legislation designed to protect consumers, and to make recommended changes to strengthen regulation, where necessary, and to eliminate any unnecessary components of the current regulatory framework. The study is entitled, "Discount Medical Plan Organizations: Past, Present, and Future in Florida and in Other States" and is available for review on the Office website.

Updated Checklists

- Life and Health Product Review staff revised and created checklists for all types of filings to assist insurance carriers in faster submission, review and approval of their products.
- All checklists have been incorporated into the Florida Administrative Code.

Filing & Compliance Symposium

- First initiated in 1995, the Symposium provides a forum for insurance industry personnel to learn about the Office electronic filing system (I-File), to be briefed on new legislation and other current topics, and to discuss the basics about how companies can improve the quality of rate and form filings in order to facilitate more timely reviews and approvals.
- In 2006, over 350 industry representatives attended the symposium.

Medicare Supplement Insurance

- Pursuant to the provisions of the Federal Medicare Modernization Act of 2003 (MMA) and amended Florida Rule 690-156, F.A.C., in 2005 close to 60 companies have been required to file and obtain the Office's approval of any necessary endorsements to Medicare Supplement forms and adjustments to premium rates required to strip out prescription benefits.
 - Medicare Supplement insurance (Medigap) is a health policy sold by private insurance companies to fill the "gaps" in the Medicare Plans. Medigap policies help Florida's seniors pay some of the health care costs that the Medicare Plans do not cover. There are more than 30 companies insuring 650 thousand Florida lives with Medigap coverage. These insurers generated more than \$1.3 billion dollars in taxable premium payments in 2005. By concept and design, Medigap policies are standardized for easy benefit comparison by the consumer. Currently, there are 12 standardized Medigap plans called "A" through "L." Each plan, A through L, has a different set of benefits. Plan A covers only the basic (core) benefits, while Plan J offers the most benefits in addition to these basic (core) benefits.

Long Term Care Insurance

- In 2005 and 2006, the Life and Health Product Review business unit completed Phase 1 and 2 of a comprehensive analysis of the Long-Term Care Insurance market which focused on an assessment of the overall long term care market on a national level but with a particular focus on Florida.
- As part of the study, the Office held a public hearing designed to elicit alternative points of view, current issues existing in the Florida market and suggested courses of action to enhance the long-term care market in Florida.

Principal Based Reserving

- The Office is working with the National Association of Insurance Commissioners to develop a new reserving method to replace the current formulaic method with one that provides for reserved based on a modeling approach.
- The Office worked with actuaries from other states and with the American Council of Life Insurers to develop an interim solution (a formula that provides relief from redundant reserving) while the full Principle Based Reserving formulas are being developed.

Personnel Activity and Achievements

- Staff developed criteria for a training program in basic life and health fundamentals and now provides instructors for classes attended by personnel from throughout the Office and DFS;
- Technical assistance is provided to the DFS in the development of agent questionnaires pertaining to the life, annuity and viatical industry; for the annual Consumer Guides related to long term care insurance products;
- Selected staff attend the Southeastern Regulators Association ("SERA") for life and health form and rate training;

- Senior staff teach a six-month statutory training program to all newly hired Forms analysts, and to other interested parties from throughout the Office; and,
- During the 2005 Hurricane season, several staff members volunteered to work in the most devastated areas of the state, providing assistance to affected Florida residents.

Annual or Recurring Events

- Compliance with statutory timelines allowing not more than 45 days before a final decision must be made on any form or rate filing.
- On an annual basis, the unit surveys all individual health insurance carriers relative to their rates and benefits and subsequently develops the "Standard Risk Rates" that serve as the limit on conversion and FCHA policies.
- Each year, the unit will be surveying all companies that sell Long-Term Care insurance policies in Florida to determine the average new business rate for each of the categories of Long-Term Care coverage, facility, non-facility and comprehensive, available for sale in Florida. This information will be used as an upper limit on the rate that can be charged on existing policies of these types for companies that do not currently sell the product or products in Florida.
- Annually, the unit surveys all health carriers for enrollment and income data and produces a detailed report, that serves as a valuable tool to the Legislature and other parties interested in the composition of Florida's health insurance market.

Life and Health Financial Oversight

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Life and Health Financial Oversight monitors the financial solvency of life and health insurers licensed to do business in the State of Florida.

The unit is also responsible for the review of material changes of ownership of insurers domiciled in Florida. The unit also administers the admissions process for new life and health entities as well as those proposing to expand into additional lines of business.

Entities subject to the unit's regulatory oversight include life and health insurers, fraternal benefit societies, health maintenance organizations, pre-paid limited health service organizations, pre-paid health clinics, multiple employer welfare arrangements, fiscal intermediary service organizations, discount medical plan organizations, as well as Healthflex entities that are either licensed, authorized or otherwise approved to operate in the State of Florida.

The Unit conducts actuarial reviews to assure companies maintain adequate reserves and performs field examinations and analyses of financial statements and reports. The unit conducts desk reviews, on-site financial examinations and targeted reviews in the event there are changes or potential changes to a company's financial condition.

As part of the Office's involvement with the National Association of Insurance Commissioners (NAIC), the financial surveillance areas participate in the Financial Regulation Standards and Accreditation Program. The objective of the accreditation program is to provide consistent solvency regulation of multi-state insurance companies with an emphasis on developing minimum solvency laws and regulations standards, effective and efficient financial analysis and examination processes, and appropriate organizational and personnel practices.

Life and Health Financial Oversight is organized into three principal sections:

Life & Health Insurer Financial Analysis Unit

- Responsible for monitoring the financial condition of all life and health insurers and fraternal benefit societies;

- Performs financial monitoring via the review of periodically filed financial statements to ensure continued compliance with all applicable financial statutes and rules as well as to identify any signs of deteriorating financial condition; and,
- Responsible for reviewing applications for new domestic insurer certificates of authority, foreign insurer certificates of authority, request to add lines-of-business, reorganizations, mergers and acquisitions.

Health Maintenance Organization Financial Analysis Unit

- Responsible for monitoring the financial condition of all health maintenance organizations, pre-paid limited health service organizations, pre-paid health clinics, multiple employer welfare arrangements, fiscal intermediary service organization as well as Healthflex entities;
- Performs financial monitoring via the review of periodically filed financial statements to ensure continued compliance with all applicable financial statutes and rules as well as to identify signs of deteriorating financial condition; and,
- Responsible for reviewing applications for new domestic entities, reorganizations, mergers and acquisitions.

Health Maintenance Organization Actuarial Analysis Unit

- Responsible for assisting the analysis and examination units on actuarial related items for all health maintenance organizations, pre-paid limited health service organizations, pre-paid health clinics, multiple employer welfare arrangements, fiscal intermediary service organization as well as Healthflex entities;
- Conducts actuarial analysis and examinations both at the Office and on-site at the offices of the regulated entity; and,
- Participates with the review of actuarial related items in regards to applications for new domestic entities.

Activities and Accomplishments, 2005-2006

- Completed financial reviews and analyses on all licensed entities.
- Completed reviews on applications for licensure, acquisitions and mergers for all life and health insurers as well as managed care entities.
- Implemented legislation that became law effective July 1, 2005, for the determination of eligibility to operate as an Alien Insurer Pursuant to Subsection (8) of Section 624.402(8), Florida Statutes.
- Received a Davis Productivity Certificate of Commendation for implementing the new Discount Medical Plan statute.
- Completed examination of life and health insurance company actuarial reserves and liabilities.
- Reviewed domestic company actuarial opinions, regulatory asset adequacy issues summaries, and several actuarial memoranda.
- Reviewed domestic company risk based capital reports and subsequently corrected any errors that were identified during report reviews.
- Reviewed reinsurance treaties for transfer of risk and non-domestic company risk based capital reports for accuracy, as requested.

- Provided information and updated the Office's website regarding licensing, filing requirements, and HMO financial summaries and enrollments.
- Completed examinations of life and health insurance company and health maintenance organization actuarial reserves and liabilities.
- Issued Certificates of Valuation, as needed.
- Completed and issued final reports on 14 statutory financial condition examinations of life and health insurers and health maintenance organizations during the 2005 calendar year.

Annual or Recurring Events/Deadlines

- Receive and review annual financial statements from all life and health insurers (due March 1st) and health maintenance organizations (due April 1st).
- Receive and review quarter financial statements from all life and health insurers as well as health maintenance organizations (due May, August and November 15th).
- Receive and review annual audited financial statements from life and health insurers (due June 1) and health maintenance organizations (due April 1st).
- Receive and review annual, quarterly and audited financial statements from a variety of other regulated entities on a periodic basis as required by statute or rule.
- Develop annual and quarter filing requirements and instructions for the next calendar year.
- Process certificate of authority applications within 60 (foreign insurer) to 90 (domestic insurer) days of receipt.
- Respond to public information requests.
- Participate in national initiatives sponsored by the National Association of Insurance Commissioners.
- Make legislative proposals to enhance the Office's ability to regulate financial solvency.
- Engage in continuing review of statutes, analysis and examination policies and procedures to ensure continued compliance with National Association of Insurance Commissioner Accreditation Standards.

Specialty Product Administration

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Specialty Product Administration provides regulatory and oversight responsibility for a variety of insurance-related industries, including insurance administrators, continuing care retirement communities, motor vehicle service agreement companies, home warranty associations, service warranty associations, service warranty manufacturers, premium finance companies, donor annuities, legal expense corporations, viatical settlement providers, and life expectancy providers.

The primary responsibilities of the unit are to license, examine, and monitor the solvency of regulated entities and to protect policyholders from insolvency risks and unethical business practices.

The unit reviews the financial statement filings of specified specialty insurers licensed to operate in Florida. The unit conducts periodic on-site examinations to verify the quality of assets, adequacy of stated liabilities, general operating results, and market conduct of the regulated entity. Currently, the unit monitors some 1,450 regulated entities.

Specialty Product Administration is organized into four principal sections:

Continuing Care Retirement Communities (CCRCs) and Donor Annuities Section

- Reviews CCRC applications for licensure and acquisition and Donor Annuity applications for registration, licenses and registers entities to do business in Florida, examines for statutory compliance, and monitors solvency.

Viatical Settlement Section

- Regulates Viatical Settlement Providers and Life Expectancy Providers;
- Reviews Viatical Settlement Provider applications for licensure and acquisition;
- Reviews Life Expectancy Providers applications for registration, licenses;
- Licenses and Registers Entities to do business in Florida;
- Examines regulated entities for statutory compliance;
- Participates in pre-licensing examinations of applicants;
- Participates in field and target examinations of licensees; and,
- Investigates unauthorized entities.

Warranties & Financial Services Section

- Regulates service, home and auto warranty companies, premium finance companies, legal expense plans, and insurance administrators.
- Reviews applications for licensure and acquisition, licenses companies, examines for statutory compliance, and monitors company solvency.

Field Examination Section

- Performs on-site financial and market conduct examinations of companies regulated by the unit -- the section performs approximately 130 examinations per year; and,
- Performs target examinations and investigations, on an as-needed basis.

Activities and Accomplishments, 2005-2006

- Specialty Product Administration was the recipient of three Davis Productivity Awards this past year:
 - For participation on the Viatical Strike Force team that successfully halted an on-going \$1.4 billion viatical fraud;
 - For increased performance and productivity by the Compliance Review Team that developed and implemented newly enacted requirements related to financial reporting and review of regulated entities; and,
 - For improved efficiencies in an automated company application process.

In addition, the unit:

- Completed 134 on-site field examinations and 1,707 in-house financial statement reviews and analyses.
- Initiated legislation (subsequently enacted) to prohibit Home, Service, and Motor Vehicle warranty companies from lending company funds to company directors, officers, or controlling persons; and to require home warranty contracts to include more specific cancellation and refund provisions.
- Initiated and assisted in rule development and adoption to implement legislation affecting Life Expectancy Providers.
- Participated in development and testing of the Regulatory Electronic Processing System which will allow for electronic filing and receipt of financial reports.
- Revised forms to promote more consistency among the various license types for enhanced uniform analysis, and to facilitate electronic filing and receipt of financial reports.

Annual or Recurring Events

- Applications for licensure and acquisition must be reviewed and processed within statutory requirements.
- Data pertaining to the unit is provided annually to be included in the Office of Insurance Regulation's Annual Report
- Annual meeting of the Governor's Continuing Care Advisory Council

Office of Deputy Commissioner, Business Development and Market Research

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Business Development and Market Research Office is a repository of business and professional expertise engaged in the effort to expand and retain insurance company presence in all Florida's insurance markets, to facilitate a streamlined company admissions program and to develop, evolve and validate essential company data in use throughout the Office.

Commissioner McCarty created the Business Development and Market Research Unit (BDMR) in 2005 to oversee the expansion and retention of Florida's insurance company marketplace and to serve as the information clearinghouse for the collection and dissemination of insurance data that can better inform and educate Florida's insurance consumers.

The Office of Deputy Commissioner of BDMR coordinates the company application process and reviews all applications for company licensure for presentation to the Commissioner for final admissions decisions.

The Deputy Commissioner coordinates, facilitates, and represents the Office in meetings with insurers, reinsurers, applicants for licensure, and other interested parties. The Deputy Commissioner also represents the Office in business recruitment initiatives coordinated with economic development programs and business groups throughout the State.

Since its inception, the Deputy Commissioner has been an active participant in significant business forums throughout Florida. The Deputy represented the OIR in the work of the Governor's Property Insurance Reform Committee in the summer and fall of 2006. In the brief period from July of 2006 through November 1, 2006, the Deputy Commissioner was a key note speaker at more than eleven economic development and business conferences and also participated as a panel member in several additional settings. Using the resources of BDMR, the Deputy was able to research and present significant updates in marketplace conditions, update groups on the details and implementation of major property insurance legislative changes.

The Office of Deputy Commissioner of BDMR coordinates the company application process and reviews all applications for company licensure for presentation to the Commissioner for final admissions decisions.

The Deputy Commissioner supervises the following units and sections:

- Business Development Unit
- Company Admissions Unit
- Market Research Unit

Business Development Unit

The Business Development Unit (BDU) oversees Office efforts of expansion and retention of insurance companies in the Florida marketplace and serves as the Office's ombudsman assisting companies with the regulatory process.

The BDU has identified and targeted economic development entities around the state to leverage existing business development efforts. The unit has implemented a recent appropriations to work with Enterprise Florida (EFI), a quasi-governmental entity created in 1997 to bring more innovative, high-growth industries to Florida.

In addition to leveraging existing outreach efforts by Enterprise Florida, BDU staff also attended EFI and other business development meetings around the state to brief members on the state of the property insurance market in Florida. After two years and eight named storms, Florida was reeling from the devastation and skyrocketing property insurance rates; subjects which were very pressing on the minds of business leaders around the state.

While BDU staff conducted these external marketing and corporate recruitment efforts, the Unit also engaged in retention efforts by streamlining internal processes and redesigning the Office website (www.floir.com) to make submission of applications, rate and form filings, and required reports more user-friendly for the insurance industry. The result is the Industry Portal, a web page that contains all the online applications that companies need for regulatory compliance

The BDU efforts to improve Office regulatory efficiency include a complete redesign of the Office website, special projects to make the Office information more accessible and transparent, and Ombudsman efforts to improve customer service. The BDU engages in continuous monitoring of the Office's website for updates and evaluation of its utility to internet users.

In 2005, the BDU created the distinctive Office logo and accompanying text, "Fair. Fast. Professional." The Office has used this successful branding to build positive public and industry awareness and recognition among Florida's insurance consumers, other state regulators, and throughout the national insurance marketplace. The adherence to the

principles embodied in the words "Fair. Fast. Professional." also serve as an internal reminder of the Office's essential regulatory goal.

Company Admissions Unit

The Company Admissions Unit is responsible for the receipt and initial review of all company applications for the sale of insurance and insurance-related products regulated by the Florida Office. The section also coordinates background and fingerprint investigations of persons in key management or oversight positions for licensed companies and companies' seeking a place in Florida's admitted insurance market.

In calendar year 2005, the Admissions section processed 299 application approvals in an average time of just 60.25 days and participated in 1,556 investigations associated with the applications/admissions process.

Market Research Unit

The primary purpose of the Market Research Unit (MRU) is to ensure efficiency and transparency in the collection, validation, analysis and subsequent republication of data, information and resource materials relating to the oversight and development of Florida's insurance markets for the benefit of the state's insurance consumers.

The Market Research Unit (MRU) was created with personnel from existing workgroups within the Office -- research, project management and data collection and analysis professionals with a broad knowledge of the principles of insurance and associated products.

Staff of the MRU takes leadership roles in the Office's development and evolution of major technology systems and serving as project managers, subject matter experts and data consultants.

The MRU is continuously engaged in improving Office statutory data collections, rate change reports by company and product type, and market share reports by line of business (coverage type). In 2005, the MRU collected, validated and disseminated over 2,500 unique data elements associated with annual, quarterly, monthly, and special data reporting required of the Office by statute, rule or by special data requests made by the Financial Services Commission, the Florida Legislature, or in association with the responsibilities of the Office of the Commissioner.

The manager of the Market Research Unit serves as the Office's Liaison with the National Association of Insurance Commissioners (NAIC). The unit thus becomes a source of coordination and administrative staffing of many of the activities, meetings and publications of the 55 national committees, workgroups and taskforces established with the NAIC's membership. The unit also facilitates Florida's chairmanship of the NAIC's Southeastern Zone working group that is comprised of 13 states.

Activities and Accomplishments, 2005

- The Business Development Unit received a Davis Productivity Award for taking on the project of website redesign thus saving the Office the expense of technology consultant services.
- The Company Admissions section received three (3) Davis Productivity Awards; a plaque and two certificates of commendation – related to demonstrated teamwork on company applications awarded jointly with other business units within the Office.
- The Market Research Unit received a Davis Productivity Award for innovations and streamlining of the Accident and Health reporting requirements.

Business Development Unit

- Performed research of Potential Marketing Partner Contacts.
- Created a Marketing Brochure and Other Collateral Marketing Material.
- Redesigned the Office Website through activity that included:
 - Conducting focus groups for industry input;
 - Creating a web posting protocol;
 - Enhancing website tools to include an enhanced search engine, current topics, various user manuals, and updates to Office application and filing forms; and,
 - Web Posting Protocol.
- Developed and now maintains the website for the new Florida Property & Casualty Joint Underwriting Association (Commercial JUA).
- Contacted recently licensed companies, in the role of Ombudsman, to solicit input about the just-completed licensing process and to evaluate any needed internal adjustments.

Market Research Unit

- Established a centralized data warehouse for mission critical Office data.
- Developed the Catastrophic Event Data Collection and Analysis (CEDRA) reporting module.
- Completed the discovery and design phases of the Small Employer Rate Collection System (SERCS) and Financial Analysis and Monitoring Electronic Document Management System (FAME)..
- Assisted in the preparation and subsequent evaluation of Requests for Quote (RFQ); Requests for Information (RFI); Requests for Proposal (RFP) and Invitations to Negotiate (ITN).
- Provided direction and coordination of all phases of the technology design, development, testing, acceptance, deployment and post-deployment activities.

Annual or Recurring Events

Published/Maintained by the unit

Annual Reports

- Florida Office of Insurance Regulation Annual Report
- Report of Gross Annual Premiums and Enrollment Data for Health Coverages Issued to Florida Residents
- Individual Health Coverage Policy Forms Issued/Renewed in Florida
- Calendar Year Experience Report - Calendar Year Experience
- Small Employer Group Health Annual Report

Quarterly Reports

- State of Florida Employee Health Care Access Act Enrollment Report
- The Commercial and Personal Residential Property Supplemental Quarterly Report

Ad Hoc Reports (as data is received)

- Professional Liability Claims Reporting

Insuring Entities Created By Statute

Residual Markets

Residual market organizations are created to be an “insurer of last resort” to issue insurance policies for those risks that cannot find coverage in the admitted market or surplus lines market. These organizations come in several forms including, but not limited to, Joint Underwriting Associations (JUA’s), Health Associations, and Compensation Funds. Each organization is created pursuant to legislative intent. Certain policy contracts and rates are subject to Office approval. JUA Plans of Operation are subject to approval by the Office, with the exception of Citizens Property Insurance Corporation, where the Plan of Operation is approved by Order of the Financial Services Commission.⁶

Citizens Property Insurance Corporation (Citizens)

Statutory Reference: s. 627.351(6), F.S.

<http://www.citizensfla.com/index.asp>

Citizens Property Insurance Corporation was formed in 2002 to merge the then existent Florida Residential Property and Casualty Joint Underwriting Association (FRPCJUA) and the Florida Windstorm Underwriting Association (FWUA). Citizens issues personal and commercial lines property insurance for risks that cannot find coverage in the private market.

Board of Governors: s. 627.351(c)4.a., F.S.

Eight (8) individuals who are residents of this state, from different geographical areas of this state.

- The Governor, the Chief Financial Officer, the President of the Senate, and the Speaker of the House of Representatives shall each appoint two members of the board.
- At least one of the two members appointed by each appointing officer must have demonstrated expertise in insurance.
- The Chief Financial Officer shall designate one of the appointees as chair.
- All board members serve at the pleasure of the appointing officer.
- All board members, including the chair, must be appointed to serve for 3-year terms beginning annually on a date designated by the plan.
- Any board vacancy shall be filled for the unexpired term by the appointing officer.
- The Chief Financial Officer shall appoint a technical advisory group to provide information and advice to the Board of Governors in connection with the board's duties under this subsection.

⁶ Pursuant to SB 1980 (Ch 2006-12), the Plan of Operation for Citizens is subject to approval by Order of the Financial Services Commission (s. 627.351(6)(a)2.).

Property and Casualty Joint Underwriting Association

Statutory Reference: s. 627.351(5), F.S.

Rule 69P-2.001-.002; Property and Casualty Risk Apportionment Plan, F.A.C.

<http://www.floir.com/PCJUA/Index.htm>

The Commercial Property and Casualty Joint Underwriting Association (PCJUA) was activated in August of 2006, pursuant to the causal conditions met pursuant to s. 627.351(5) and pursuant to Rule 69P-2.001-.002; Property and Casualty Risk Apportionment Plan, F.A.C., adopted by the Financial Services Commission on October 3, 2006.

The PCJUA was activated to help provide commercial property coverage to Florida's business community when business owners were unable to procure property insurance coverage in the private market.

The PCJUA only writes commercial non-residential property coverage. Wind and hail are the sole cause of loss covered under the initial PCJUA program. The PCJUA writes wind-only commercial non-residential property coverage in all areas of the state except areas in which Citizens Property Insurance Corporation writes wind-only policies. In its initial program, the PCJUA only provides coverage for structures of up to \$1 million maximum total insured structure value per named insured. To be eligible for PCJUA coverage, the named insured cannot own commercial non-residential structures in the State of Florida with total insured value in the aggregate greater than \$1 million, excluding properties insured by Citizens Property Insurance Corporation.

Board of Governors: s. 627.351(5)(a)11, F.S.

Thirteen (13) members, appointed by the Chief Financial Officer for two (2) year terms.

Note: The Chief Financial Officer also appoints a Risk Underwriting Committee of the PCJUA that is not a committee or subcommittee of the Board. The Risk Underwriting Committee decisions are limited to the determination of eligibility of individual risks for coverage. The Committee consists of three (3) members experienced in evaluating insurance risks: One (1) member is a representative of the market assistance plan created under s. 627.3515; One (1) member is selected by the insurers participating in the Joint Underwriting Association; and One (1) member is named by the Chief Financial Officer.

Florida Automobile Joint Underwriting Association (FAJUA)

Statutory Reference: s. 627.311(3) and 627.351(1)

<https://www.aipso.com/fl>

The FAJUA was created in 1973 to provide automobile insurance to qualified applicants unable to procure coverage in the private market.

Board Members: s. 627.311(3)(e), F.S.

Eleven (11) Members, serving two (2) year terms:

- Five (5) members of the board must be appointed by the Chief Financial Officer.
- Six (6) members of the board must be appointed by the participating insurers, two of whom must be from the insurance agents' associations.

Florida Workers Compensation Joint Underwriting Association (FWCJUA)

Statutory Reference: s. 627.311(5), F.S.

<http://www.fwcjua.com>

The Workers Compensation Joint Underwriting Association (WCJUA) was established in 1994 to provide workers compensation and employer's liability insurance to applicants who are required by law to have coverage but who are unable to obtain a policy in the private market.

Board of Governors: s. 627.311(5)(b), F.S.

Nine (9) members serving 4-year terms:

- **Three (3) members appointed by the Financial Services Commission.**
 - **Each member appointed by the Commission shall serve at the pleasure of the Commission;**
- Two (2) of the 20 domestic insurers, as defined in s. 624.06(1), F.S., having the largest voluntary direct premiums written in this state for workers' compensation and employers' liability insurance, which shall be elected by those 20 domestic insurers;
- Two (2) of the 20 foreign insurers as defined in s. 624.06(2), F.S., having the largest voluntary direct premiums written in this state for workers' compensation and employer's liability insurance, which shall be elected by those 20 foreign insurers;
- One person (1) appointed by the largest property and casualty insurance agents' association in this state; and
- The consumer advocate appointed under s. 627.0613, F.S., or the Consumer Advocate's designee.

Note: Pursuant to s. 627.311(5)(d)3.f., F.S., if the FWCJUA plan does not have a sufficient cash basis to meet three (3) months of projected cash needs for subplan D, the board may request a transfer of funds from the Workers Compensation Trust Fund to the plan. A request for transfer is to be verified by the Office and approved by the Legislative Budget Commission. This contingency reserve provision expires on July 1, 2007.

Florida Medical Malpractice Joint Underwriting Association (FMMJUA)

Statutory Reference: s. 627.351(4), F.S.

<https://www.prod.fmmjua.com/fmmjua/index.jsp>

The FMMJUA was established in 1975 to afford health care providers coverage for claims arising out of a failure to render, or the rendering of, medical care or services. The policies offered are both assessable and participating.

Board of Directors: s. 627.351(4)(c), F.S.

Nine (9) members serving four (4)-year terms; one (1) of whom elected as Chair:

- Five (5) representatives selected by the Chief Financial Officer:
- One (1) attorney to be named by The Florida Bar,
- One (1) physician to be named by the Florida Medical Association,
- One (1) dentist to be named by the Florida Dental Association, and
- One (1) hospital representative to be named by the Florida Hospital Association.

Other Insuring Entities Created By Statute

In addition to residual market organizations, the Office has a regulatory relationship with other insuring entities created by Florida law. Those organizations:

Florida Surplus Lines Service Office (FSLSO)

Statutory Reference: Section 626.921, F.S.

<http://www.fslso.com>

The Florida Surplus Lines Service Office (FSLSO) was formed in 1997 to create a self-regulating, nonprofit association to promote and monitor surplus lines insurance. Surplus lines insurance is insurance for high-risk policies that companies in the private or admitted market will not cover (e.g., covering the insurance risk for a nuclear power plant or the many commercial properties along Florida's coastline). A familiar surplus lines company is Lloyd's of London. Surplus lines companies are not subject to the same regulations as companies in the admitted or private market, but must report policy information electronically to the FSLSO. The goal of the FSLSO is to promote a stable, efficient and financially viable surplus lines market in Florida.

Board of Governors: s. 626.921(4), F.S.

Nine (9) members, serving 3-year terms:

- Eight (8) members appointed by the Department of Financial Services
- The Insurance Consumer Advocate

Note: Pursuant to the provision in s. 627.921(3)(e), F.S., the FSLSO submits its annual budget for the operation of the service office to the Office for review and approval.

Florida Birth-Related Neurological Injury Compensation Association (NICA)

Statutory Reference: s. 766.301-766.316, F.S.

<http://www.nica.com/>

NICA was created in 1988 for the purpose of providing compensation, irrespective of fault, for birth-related neurological injury claims and encouraging physicians to practice obstetrics without fear of medical malpractice lawsuits.

Board of Directors: s. 766.315, F.S.

Five (5) members appointed by the Chief Financial Officer; for staggered terms of three (3) years:

Note: Pursuant to the provision in s. 766.314(7)(a), F.S., the Office is to conduct an actuarial valuation of the assets and liabilities of the plan no less frequently than biennially.

Florida Patients' Compensation Fund (FPCF)

**Statutory Reference: s. 766.105, F.S.
(No Website Available)**

The FPCF was created in 1975 as a fund to be utilized by health care providers to pay that portion of any liability claim for medical malpractice or property damage sustained by any patient of a member hospital. The FPCF has issued no new policies since June 3, 1983, and remains in existence for the sole purpose of managing claims pay-outs from claims incurred by its participating members prior to June 3, 1983.

Board of Directors: s. 766.105 (3)(b), F.S.

Eleven (11) members, serving four (4) year terms:

- Seven (7) members appointed by the Chief Financial Officer;
- One (1) attorney appointed by The Florida Bar;
- One (1) representative of physicians appointed by the Florida Medical Association; and
- Two (2) representatives of hospitals appointed by the Florida Hospital Association.

Florida Comprehensive Health Association (FCHA)

**Statutory Reference: s. 627.648, F.S.
(No Website Available)**

The FCHA was established to provide health insurance policies for high-risk individuals that cannot find health insurance in the voluntary market. FCHA has not written any new policies since 1993. FCHA assesses health insurers annually on all premiums except Medicare and Medicaid.

Board of Directors: s. 627.64872(3), F.S.

Nine (9) members, Director of FCHA serves as Chair;

- Director or his or her designated representative, who shall serve as a member of the board and shall be its chair,
- Five (5) members appointed by the Governor
 - At least two (2) of whom shall be individuals not representative of insurers or health care providers
- One (1) member shall be appointed by the President of the Senate
- One (1) member appointed by the Speaker of the House of Representatives
- One (1) member appointed by the Chief Financial Officer.

Health Maintenance Organization Consumer Assistance Plan (HMO CAP)

**Statutory Reference: s. 631.811-631.828, F.S.
(No Website Available)**

The HMOCAP was established to protect the subscribers of HMOs, subject to certain limitations, against the failure of an HMO to perform its contractual obligations due to its insolvency.

Board of Directors: s. 631.816, F.S.

Not less than five (5) nor more than nine (9) members approved and appointed by the Department of Financial Services among persons recommended by member HMOs.

Note: Pursuant to s. 631.823, F.S., the HMO CAP plan is subject to examination and regulation by the Office and must submit an annual financial report to the Office for review.

**PART III
BUDGET AND PERFORMANCE MEASURES**

2006-2007 Budget Overview

Issue	2005-2006 Funding	2006-2007 Funding	Difference Over/(Under)
Positions	305	311	6
Salaries and Benefits	\$17,538,462	\$18,663,131	\$1,124,669
<ul style="list-style-type: none"> Salary and benefit increases are attributable to six new established FTEs, a retirement funds adjustment, and a state employee salary adjustment effective October 1, 2006. 			
OPS	\$3,222,750	\$1,193,245	(\$2,029,505)
<ul style="list-style-type: none"> \$60,495 is provided to support the functions of the Business Development and Market Research Business Unit 			
Expense	\$2,959,486	\$3,160,416	(\$200,930)
<ul style="list-style-type: none"> \$66,476 is provided to support six new established FTEs \$150,000 is provided for a Title Insurance Study \$37,111 is provided to support the functions of the Business Development and Market Research Business Unit 			
OCO	\$152,000	\$15,000	(\$135,100)
<ul style="list-style-type: none"> \$11,500 is provided for six new established FTEs \$3,500 is provided to support the functions of the Business Development and Market Research Business Unit 			
Special Categories – Contracted Services	New Category (last year funds were OPS)	\$1,227,872	\$1,227,872
<ul style="list-style-type: none"> \$350,000 is provided for the web-enabling of the Company Admissions System \$877,872 is provided for the Public Hurricane Model to evaluate homeowners' insurance rates, create a commercial property model and provide continuing maintenance and support 			
Qualified Expenditure	New Category (last year funds were OPS)	\$1,850,000	\$1,850,000
<ul style="list-style-type: none"> \$1,850,000 is provided for the Property and Casualty Rate Data Collection and Management System and the expansion of the Internet Filing system (I-File) for commercial lines of business 			
TOTAL BUDGET	\$24,021,122	\$27,072,985	\$3,051,863

2006-2007 Performance Measures

Program: Financial Services Commission	
Compliance and Enforcement	
Measure	Standard
Maximum number of days from date of applications for a new certificate of authority initially submitted to the OIR to the date the OIR approves or denies the application pursuant to 120.80(9), F.S.	180 days
Number of applications processed	328
Number of rate and forms review completed	13,000
Percent of rate and forms filings completed within 90 days	92%
Number of financial review and examinations completed	11,952
Percent of financial analysis reviews completed timely (within 90 days)	93%
Number of examinations and investigations that are completed for licensed companies and unlicensed entities	760
Current number of licensed/regulated insurance entities	3,500
Residual market premium as a percent of total premium for homeowner's (total), mobile home, dwelling fire insurance	22.5%
Residual market premium as a percent of total premium for workers' compensation insurance	0.75%
Residual market premium as a percent of total premium for automobile insurance	0.5%
Average risk based capital percentage	5%
Percent of financial exams completed within 18 months of exam date	98%
Executive Direction and Support Services	
Measure	Standard
Administrative costs as a percent of total agency costs	<12.6%
Administrative costs as a percent of total agency positions	<12.6%

2007-2008 Legislative Budget Request and Priorities

QUASR Re-Engineering	Recurring \$0	Non-Recurring \$683,000
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Pursuant to Section 624.424(10), Florida Statutes, each insurer doing business in Florida is required to file a quarterly report containing data for personal lines and commercial lines residential property insurance policies. This Quarterly Supplemental Reporting System (QUASR) is supplemental to the insurers' quarterly financial statements. The data is collected quarterly on a month by month basis. The proposed upgrade and expansion of QUASR will provide more accurate and timely data for stakeholder analysis to make more informed policymaking, regulatory and financial oversight decisions. Additionally, by leveraging existing I-Portal technologies, Florida's insurance consumers and any interested third parties will receive enhanced and more transparent data and regulatory information, and they will be able to conduct their own data retrieval and research. This system has not been re-engineered since 1996.

One (1) FTE – Property and Casualty Product Review - Additional Salaries and Benefits for Employee Retention	Recurring \$364,279	Non-Recurring \$4,726
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Property and Casualty Product Review is the business unit within the Office that reviews all property and casualty insurance form and rate filings for the State of Florida. Additionally, in 2003, the business unit assumed the responsibility for the regulation of title insurance forms and rates, with no additional resources. The Office is requesting one Senior Management Analyst II – SES, to manage the increased workload due to the additional title insurance responsibility, statutory changes resulting in the 2004 and 2005 hurricane seasons and the ever-evolving marketplace.

As the third largest state in the nation, Florida has been viewed as an attractive place to conduct business and make a home for our families. Florida has a low cost of living, a great climate, and no personal state income tax. However, in the area of recruiting the best and brightest insurance minds in the country, Florida is starting to lose the recruiting and retention battle to even the smaller states. Actuaries are required to pass numerous exams and earn and maintain a professional designation from either the Society of Actuaries (SOA) or the Casualty Actuarial Society (CAS). Florida's current actuarial staff has been recruited more diligently by other states and the private sector because of more attractive annual salaries. Private sector property and casualty actuaries with 20 plus years experience typically receive annual compensation averaging \$288,000 per year (based on the 2006 study conducted by D.W. Simpson & Company). Recently, Louisiana recruited a Florida Actuary for \$150,000 per year, \$50,000 more than the individual's current salary with 23 years experience. Florida's property and casualty actuaries average \$112,000 per year. Florida's base rate of pay for an actuary is \$74,858. The Office is requesting \$294,309 in additional salary and rate for recruitment and retention of actuarial staff.

Public Hearing Advertisements	Recurring \$752,000	Non-Recurring \$0
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It is essential that residential property insurance rate hearings be open to the public. These hearings promote the requirements of the Florida Insurance Code that a rate not be excessive, inadequate, or unfairly discriminatory. Pursuant to Section 627.0629(7), Florida Statutes, the Office of Insurance Regulation (Office) is required to conduct a public rate hearing on any rate filing that is based in whole or part on data from a computer model if the filing exceeds 15 percent. The Office advertises these hearings in the Florida Administrative Weekly (FAW) and sends press releases to media and statewide newspapers for publishing.

Despite these efforts, the average attendance for a public rate hearing has been 10 participants per hearing. If proper funding is provided, the Office will be able to ensure local newspapers provide adequate notice to the local public far in advance of a public hearing or workshop taking place. In order for the Office to better achieve its goals, public participation is essential.

Funds to Develop Commercial Portion of the Public Hurricane Model	Recurring \$0	Non-Recurring \$554,360
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In order to develop an unbiased and non-proprietary hurricane model the Legislature approved funding beginning in Fiscal-Year 2000-2001. The former Department of Insurance enlisted experts from the State University System and external consultants to develop and maintain a risk assessment model. The model is public and non-proprietary, based on the best practices and scientific analysis available. The model is used for rate making and to assess the efficacy of disaster mitigation strategies. The Hurricane Loss Model has three essential stages: (1) model development, (2) interactive testing and (3) external validation. The development of the model entailed effort by enlisted experts in a number of areas, including: meteorology, structural engineering, spatial systems, computer modeling, actuarial science, and finance. The model, to the extent possible, uses existing databases and is modular in design. The model's elements and interactions were designed through interaction that brought together experts from public and private institutions across the country. The model is complete and has been accepted by the Office.

Private computer models have projected huge hurricane losses, which are a component used by insurers in justifying rate increases. Currently there are four major models in use by private insurance companies. Loss projections vary significantly among the models. An analysis by Office of Insurance Regulation actuaries found that one frequently used model overstated by 40 percent the cost of the 57 hurricanes that have struck Florida in the last 96 years. The same model overstated the actual losses caused by Andrew, Hugo, Erin and Opal by 20 percent. The Public Hurricane Model will provide a check on the assumptions, analysis, and results provided by the proprietary models, and provide critical assistance to the Office in the rate review process. The commercial expansion will facilitate the use of the model in reviewing the rates for condos, apartments, and other similar structures.

Two Additional Hurricane Houses	Recurring \$0	Non-Recurring \$1,500,000
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There is an urgent need for construction for two additional Windstorm Damage Mitigation Training and Demonstration Centers -- one in the Great Bend area of Northern Florida and one on the West Coast area of Central Florida.

A project to construct Regional Windstorm Damage Mitigation Training and Demonstration Centers, or **Hurricane Houses**, was initiated by the former Department of Insurance in 1998. The premise for this project is that a statewide network of permanent regional training and demonstration centers will facilitate training and education of the general public, homeowners and others with regard to windstorm damage mitigation methods and also support local, county, and state governments with regard to windstorm damage mitigation in related comprehensive mitigation planning.

Construction of the fourth regional training and demonstration center in the City of Davie in Broward County has recently been completed and turned over to Broward County officials. Construction of two additional centers is urgently required in order to support the objective of providing Windstorm Damage Mitigation Training and Demonstrations for Florida citizens statewide. Accordingly, funding in the amount of \$1,500,000.00 is requested to support funding of the related construction project. Proposed expenditures will cover costs associated with site preparation for each center as well as costs associated with construction of each center. Efforts will be exerted to obtain donated services and construction materials during construction of these centers to the maximum extent that this can reasonably be achieved (this occurred for the original four hurricane houses).

Outreach Tools for Florida's Senior Medigap Insurance Buyer	Recurring \$0	Non-Recurring \$475,000
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The 2004 Legislature enacted HB 1629 - "The 2004 Affordable Health Care for Floridians Act". Two of the issues highlighted in the law are the growing trend toward consumer driven health care and recognition that some Floridians have been misled about what they are purchasing. The Act requires insurance carriers, health care providers, and the Office of Insurance Regulation (Office) to provide easily accessible data about pricing and quality of service information so that insurance consumers are empowered to make informed decisions about their health care and health insurance options. The effective and efficient collection, analysis and publication of data are paramount to information sharing and consumer protection. The establishment and maintenance of all viable communication channels with and between the insurance industry, consumers and the legislative and executive branches of government is vital to the success of the Act.

Medicare Supplement insurance (Medigap) is a health policy sold by private insurance companies to fill the "gaps" in the Medicare Plans. Medigap policies help Florida's seniors pay some of the health care costs that the Medicare Plans do not cover. There are more than 30 companies insuring 650,000 Florida lives with Medigap coverage. These insurers generated more than \$1.3 billion dollars in taxable premium payments in 2005. By concept and design, Medigap policies are standardized for easy benefit comparison by the consumer. Currently, there are 12 standardized Medigap plans called "A" through "L." Each plan, A through L, has a different set of benefits. Plan A covers only the basic (core) benefits, while Plan J offers the most benefits in addition to these basic (core) benefits. The number and variety of plan benefits makes it difficult for seniors and their families to get the best policy for their individual needs.

Windstorm Damage Mitigation Training and Outreach Centers – Outreach Program	Recurring \$262,000	Non-Recurring \$52,000
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The state of Florida requires the development of a Windstorm Damage Mitigation Outreach Program to be deployed by each of the Windstorm Damage Mitigation Training and Demonstration Centers, Hurricane Houses, for purposes of educating and training a wide range of audiences in both technical and practical mitigation methodologies, techniques, and technology that can be applied to strengthen homes and other structures against damage by tropical storms or hurricanes. The targeted audiences for this program include: the general public; homeowners; home buyers; architects/designers; building code enforcement officials; building contractors; subcontractors; real estate professionals; building suppliers; mortgage lenders; property appraisers; property insurers; local, county and state authorities; weather and windstorm damage mitigation professionals; and others who may have an interest in windstorm damage mitigation. Construction of four Hurricane Houses has been completed and funding has been requested to construct two additional facilities in order to complete a planned statewide network of Hurricane Houses. This outreach program is essential for purposes of creating a mitigation mind set among citizens throughout Florida and to assist in breaking the cycle of destruction and reconstruction that is associated with tropical storms and hurricanes throughout Florida.

The Office recently analyzed the impact of wind protection measures on six properties currently in Citizens Property Insurance Corporation in Broward, Brevard, Sarasota, and Dade Counties with structure values varying from \$100,000 to \$400,000. Those properties utilized mitigation measures such as exterior masonry walls, roof covers, protected roof-wall connections, retrained foundations and other hurricane protection measures. The premium savings to the consumer ranged from \$770 to \$3,800 annually. Through the Hurricane Houses and the proposed Outreach Program, more Floridians can learn how to protect their most valuable asset – their homes. Research has indicated that approximately 85 percent of the five million homes in Florida are not built to the stricter building codes. And according to a report issued by the 2005 Multi-Hazard Mitigation Council of the National Institute of Building Sciences, every dollar spent on mitigation saves an average of four dollars. If Florida consumers construct better homes or properly retrofit their existing homes, this will translate into less damage due to tropical storm and hurricane force winds, which means lower costs for insurance companies, lower premiums for policyholders, and a more efficient recovery for Florida's economy.

Network Printers and Laptops	Recurring \$0	Non-Recurring \$94,060
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The Office of Insurance Regulation (Office) requires a hardware technology update of network printers. The current printers are over five (5) years old and most of the parts are no longer produced by the manufacturer. When these network printers malfunction, productivity stops. This is an important work stoppage and the Office is requesting funds to replace the current twenty-eight

(29) network printers. These printers are used by 311 FTE positions within the Office. In addition, the Office is requesting funding for two laptop computers to be shared by the twenty-three (23) attorneys in the office. The litigation attorneys are frequently out of the office at court, depositions, or administrative hearings. The ability to have a portable work station increases efficiency. Regulatory attorneys may be at hearings, rule workshops, or legislative meetings and also have the need to be able to work at remote locations.

Updating the Office's information technology equipment will provide the Office the resources necessary to achieve the duties required by Office staff and allow the Office to perform job duties and statutory requirements.

One (1) FTE – Legal Public Records Requests	Recurring \$56,814	Non-Recurring \$4,726
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Currently, the Legal Services Office uses several electronic document programs, including, but not limited to: a shared drive and folders, Client Profiles and the Companies and Other Related Entities system. Over time, these electronic document programs have saved a substantial amount of time and financial resources for consumers because of the efficient manner with which attorneys can complete legal reviews of the electronic submissions. By moving to an electronic database for all Legal Services Office documents, the Office of Insurance Regulation (Office) will realize the efficiency of retrieving electronic documents. With the increased workload of the attorney and support staff, electronic document storage is essential.

Currently, public records requests are completed by searching a hard copy file room for each document related to the request, which many times takes hours out of an attorney's normal duties and responsibilities. Based on previous experience, many hard copy searches have lasted six hours. At \$25/hour of attorney time, the basic search would cost \$150 in human resource time. The same search could be completed electronically in less than ½ hour or \$12.50 of attorney time. In addition, providing the documentation to the public requestor usually involves printing each document and mailing the documents. With electronic documents, there is no printing and mailing time, the documents can be sent immediately to the requestor and received within moments. Funding for a Government Analyst I position will allow the Legal Services Office to begin implementing an electronic document management system for all legal case files, which will save valuable office space and make retrieval more efficient. In addition, moving files to an electronic format will allow for quicker responses to public records requests and will save money for the consumer. Providing electronic information is less expensive than providing copied paper documents. Having an electronic "file room" and person dedicated to managing the storage of these documents results in more expedient searches and legal research.

One (1) FTE – Inspector General's Office	Recurring \$69,970	Non-Recurring \$4,726
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The Office of Insurance Regulation (Office) requires additional resources and is requesting one Internal Auditor/Investigator position in the Office of Inspector General (OIG). This Office's OIG was established in October 2003. The scope of activities performed by the OIG includes: investigations;

internal audits – performance audits, compliance audits, financial audits; management reviews; business consultation engagements; technical consultation engagements; and numerous special projects. Over the past three years, apart from developing the OIG function within the Office, the Inspector General (IG) has been called upon to provide extensive technical and business consultation support to a broad range of challenging OIR projects, complete frequent management reviews, and complete numerous investigations and inquiries.

Approval of this request will enhance the Office's internal auditing, review, analysis and management support activities. Funds will be applied for salaries, benefits, office space, office equipment, computer hardware, and computer software. The Internal Auditor/Investigator position incumbent will support the Commissioner, Chief of Staff, Deputy Commissioners, Directors and other management and staff as well as all of this Office's programs, functions and sub-functions. Activities and tasks that will be performed by the Internal Auditors/Investigators will be those that are identified in the OIG's Annual Plans and Long-term Plans, as well as those that emerge from time to time as a result of management's interests and concerns.

**PART IV
ATTACHMENTS**

Studies And Reports Required Under Florida Law

**Executive Summary
2006-07**

Report	Office of Origin	Statute	Due Date
Annual Reports			
Office of Insurance Regulation Annual Report	Business Development/Market Research (BDMR)	624.313,315; 627.914,915, 9122; 634.137; 641.23	Due date is not specified in Florida Statutes
Officers and Directors Liability Claims – Annual Summary (published within Annual Report)	Chief Economist	627.9122 (3)	Due date is not specified in Florida Statutes
Long Range Program Plans	Office of the Chief of Staff	216.013	9/15/06 - Draft 10/15/06 - Final
Long-Term and Annual Audit Plans Based on Periodic Risk Assessments/Annual Report	Office of the Inspector General	20.005(5)(h) and (7)	9/30/06
Medical Malpractice Liability Claims – Annual Summary	Chief Economist	627.912(6)(b)	10/1/06

Report	Office of Origin	Statute	Due Date
Legislative Budget Request	Office of the Chief of Staff	216.023	10/15/06
Florida Health Insurance Plan – Annual Report	Deputy Commissioner, Life and Health	627.64872	2/1/06
<i>Florida Comprehensive Health Association (FCHA) – Summary of Activities</i>	<i>Florida Comprehensive Health Association (FCHA)</i> ⁷	<i>627.6488(4)(i)</i>	<i>10/1/06</i>
Health Flex Program Evaluation (Joint Report with AHCA)	Deputy Commissioner, Life and Health	408.909(9)	1/1/07
Workers' Compensation – Marketplace Availability and Affordability	Chief Economist	627.211(6)	01/01 of each year
Financial Services Commission – Probable Maximum Loss (PML), Financing, Potential Assessments for: <ul style="list-style-type: none"> • Citizens Property Insurance • Florida Catastrophe Fund • Florida Guaranty Association • 	Deputy Commissioner, Property and Casualty	627.3519	2/1/07
Life Insurance Travel Underwriting Company Reports	Deputy Commissioner, Life and Health	626.9541(1)(dd)(6)	3/1/07
Small Employers Health Care Access Program	Deputy Commissioner, Life and Health	627.6699(15)(l)	3/15/07
Health and Accident Insurance	Business Development/Market Research (BDMR)	627.9175(2)(c)	5/15/07

⁷ Although the OIR is not the office of origin for this report, the OIR is required by statute to assist the FCHA as needed in preparing it.

Report	Office of Origin	Statute	Due Date
Agency Rule Variances and Waivers	Office of the General Counsel	120.542(9)	10/1/07
Biennial – Triennial Reports			
Workers' Compensation Three Member Panel – Methods to Improve the Workers' Compensation Health Care Delivery System (the Office provides data and support to DFS to complete the recommendations)	Property and Casualty Product Review – Workers Compensation Actuary	440.13(12)(e)(4)	1/1/07 – Every two years
Agency Rules Report – Identifies Rules Filed for Adoption and Repeal	Office of the General Counsel	120.74	10/1/07 – Every two years
Financial Services Commission –Independent Actuarial Peer Review of Workers' Compensation Rating Organization	Property and Casualty Product Review – Workers' Compensation Actuary	627.285	2/1/08 – Every two years
Citizens Market Conduct Examination –Plan of Operation and Internal Operations Compliance	Market Investigations	627.351(6)(k)	2/1/09 – Every two years
Title Insurance - Premium Review	Property and Casualty Product Review - Director	627.782(7)	6/09 – Every three years
One-Time Reports, 2006			

Report	Office of Origin	Statute	Due Date
Sinkhole Presumed Factor – Legislative Directive, 2006	Property and Casualty Product Review - Director	SB 1980, Section 40 Directive (Chapter Law 2006-12)	9/1/06
BDMR and Enterprise Florida – Efforts to Expand Insurance Business to Florida	Business Development/Market Research (BDMR)	HB 5001 (Chapter Law 2006-25; in Appropriations Proviso)	12/01/06
Recommendations on the Insurability of Attached or Free Standing Structures	Property and Casualty Product Review - Director	SB 1980, Section 38 Directive (Chapter Law 2006-12)	1/1/07
Rating Scale Program for Hurricane Damage Mitigation Program	Office of the Inspector General	SB 1980, Section 39 Directive (Chapter Law 2006-12)	3/31/07 – Report is submitted to DFS
Re-evaluation of Discounts, Credits, Rate Differentials, and Reductions	Property and Casualty Product Review - Director	627.0629(1)	7/1/07

Acronyms

ACRONYM	Stands for...
A & H	Accident and Health Insurance
AAI	Alliance of American Insurers
AHCA	Agency for Health Care Administration
AD&D	Accidental Death and Dismemberment
ADLs	Activities of Daily Living (Long Term Care Insurance)
AFE	Accredited Financial Examiner -- a professional designation awarded by the Society of Financial Examiners; lower in rank than a CFE designation
AIA	American Insurance Association
AIE	Accredited Insurance Examiner - (Professional designation awarded by IRES)
ALE	As in property insurance coverage – Additional Living Expense
ASO	Administrative Services Only (contract term used by companies and TPA's who bear no risk in an insurance arrangement, but who provide administrative services only, like claims handling, billing, premium collection, etc.)
Attachment Point	As in reinsurance – The dollar amount of total claims cost above which the reinsurer pays all or part (quota share) of the carrier's claims loss.
BC/BS or "Blues"	Blue Cross & Blue Shield
BI	Auto Insurance -- Bodily Injury Coverage
Cat Fund	Florida Hurricane Catastrophe Fund
CCRC	Continuing Care Retirement Community
CEDRA	Catastrophic Event Data Reporting and Analysis
CFE	Certified Financial Examiner - highest professional designation for financial examiners
CIE	Certified Insurance Examiner (Highest professional designation awarded by IRES)
Citizens	Citizens Property Insurance Corporation "insurer of last resort – property insurance"
CLP	Contractual Liability Policy
CLU	Chartered Life Underwriter (professional designation in the life industry)
CO	Consent Order
COA	Certificate Of Authority
COB	Coordination Of Benefits
COBRA	Consolidated Omnibus Budget Reconciliation Act
CORE	Companies and Related Entities. Includes a Navigator interface and database for Insurance Companies and Related Entities demographic and licensing information.
D-QUASR	Internal reporting system for QUASR (see definition provided below)
DCCS	Department Closed Claim System -- These computer applications collect and manage professional liability closed claims reported by insurers as required by statute.
DMPOs	Discount Medical Plan Organizations
E&O Policy	Error & Omission Policy
EDMS	Electronic Document Management System
EIC	Examiner-In-Charge
EOB	Explanation of Benefits -- the form showing how a health insurance claim is handled

ACRONYM	Stands for...
ERISA	Employer Retirement Income Security Act
FAC	Florida Administrative Code
FAHA	Florida Association Of Homes For The Aging
FAHMO	Florida Association of HMOs
FAIFA	Florida Association of Insurance and Financial Advisors
FAME	Financial Analysis and Monitoring Electronic Document Management System. Includes REFS.
FAST	Financial Analysis Solvency Tools -- an NAIC screening of insurance company financial statements that scores companies to target those that appear to need priority regulatory review
FCHA	Florida Comprehensive Health Association--Health insurance risk pool medically uninsurable individuals; closed to new enrollment since 1991.
FHCF	Florida Hurricane Catastrophe Fund ("Cat Fund")
FHIP	Florida Health Insurance Plan ("high risk pool")
FIGA	Florida Insurance Guaranty Association
FLHIGA	Florida Life and Health Insurance Guaranty Association
FLICRA	Florida Life Care Residents Association
FLMI	Fellow Life Management Institute(a professional designation awarded by LOMA to individuals who pass a series of tests on life insurance company procedures and products)
FMAP	Florida Market Assistance Plan – a function of Citizens Property Insurance Company
FLTA	Florida Land Title Association
FMMJUA	Florida Medical Malpractice Joint Underwriting Association
FR EDMS	Forms and Rates Electronic Document Management System. Workflow application for processing and managing Form & Rate and Data Filings.
FLSO	Florida Surplus Lines Service Office
FWCIGA	Florida Workers' Compensation Insurance Guaranty Association
FWCJUA	Florida Workers' Compensation Joint Underwriting Association
GLB	Gramm-Leach-Bliley Financial Services Modernization Act
Healthy Kids	Florida Healthy Kids Corporation Act
HIAA	Health Insurance Association of America
HIPAA	(fed) Health Insurance Portability and Accountability Act
HMO	Health Maintenance Organizations
HMO-CAP	Health Maintenance Organization Consumer Assistance Plan (insolvent HMOs)
HO	Homeowners Insurance Policy (see also MHO – mobile homeowners ins policy)
HWA	Home Warranty Association
IBNR	Incurred But Not Reported -- a reserve amount set up for claims that have happened but have not been reported (paid out to policyholder).
IDCS	IFWS Data Collection System – underlying system for CEDRA, SERCS, CATFund and other data reporting systems. Data Collection module under IFWS.
IFILE	Internet Filing System. Used for Form & Rate and Data Filings.
IFO	Immediate Final Order
IFWS	Internet Filing and Workflow System ("Foundation Project"). Common database schema that includes product and related information shared by IFILE, FR EDMS

ACRONYM	Stands for...
	and IDCS.
III	Insurance Information Institute
IRES	Insurance Regulatory Examiners' Society (Professional Organization for Market Conduct Staff)
IRIS	Insurance Regulatory Information System--"early warning system" prepared by the NAIC comprised of a series of ratios and financial review to help regulators identify possible adverse financial problems within a company.
ISO	Insurance Services Office
JUA	Joint Underwriting Association (AutoJUA; WCompJUA; MedMalJUA; PCJUA)
KidCare	Florida KidCare Program funded under "CHIP" Child Health Insurance Program under new Title XXI of the federal government.
LOB	Line Of Business
LOC	Letter Of Credit
LOMA	Life Office Management Association: A professional organization that offers training mainly to the life insurance industry. Offers professional designations to those completing a series of courses; courses are designed for home office and regulators.
LTC	Long Term Care
Med-Pay	Medical Payment policy most commonly associated with auto PIP policy
Med-Sup	Medicare Supplement Insurance policy
MEWA	Multiple Employer Welfare Association
MGA	Managing General Agent (used by Property & Casualty insurers)
MHO	Mobile Homeowners Insurance
MIB	Medical Information Bureau
MSA	Medical Savings Accounts
MVSA	Motor Vehicle Service Agreement (auto warranty)
MVW	Motor Vehicle Warranty
NAIC	National Association of Insurance Commissioners
NCCI	National Council on [Workers] Compensation Insurance
NCOIL	National Council of Insurance Legislators
NFIP	National Flood Insurance Program (FEMA Sub-Agency)
NICA	Florida Birth-Related Neurological Injury Compensation Association
P&C	Property and Casualty
PCP	Primary Care Physician
PD	Property Damage (common use: auto insurance) "PIP/PD"
PFC	Premium Finance Company
PLHSO	Prepaid Limited Health Service Organization – (Chapter 636)
PIA	Professional Insurance Agents
PIP	Personal Injury Protection: for auto accidents ("PIP/PD" -- see PD property damage)
PLCR	Professional Liability Claims Reporting system --- Online data collection application that tracks closed professional liability claims (most notably medical malpractice claims)
POS	Point of Service – endorsement for an HMO to permit subscriber to use providers

ACRONYM	Stands for...
	outside the HMO network
PPO/EPO	Preferred Provider Organization/Exclusive Provider Organization
QUASR	Quarterly Supplemental Reporting System --- Online data collection for property insurance; exposure; number of policies; location, etc.
RBC	Risk Based Capital --sets capital requirement for insurance companies based on measures of risk to type of asset exposure (NAIC Model Act)
REFS	Regulatory Electronic Financial System. Part of FAME.
RIRS	Regulatory Information Retrieval System (NAIC's Database of Regulatory Actions against agents)
RPG	Risk Purchasing Group
RRG	Risk Retention Group
S & P	Standard and Poor's -- Companies and investment grade of securities
SERC	Small Employer Rate Collection. Incorporated into IFWS, IDCS, IFILE and FR EDMS. Includes a Consumer Internet Website for searching on Small Employer Sample Rates.
SESRS	Small Employer Sample Rate Search (https://apps.fldfs.com/sercs/)
SERFF	System for Electronic Rate and Form Filing (NAIC rate and form filing system)
SHINE	Serving Health Insurance Needs for Elders (Fla. Dept Elder Affairs)
SIU	Special Investigative Unit (the fraud unit in an insurance company--required via legislation circa 1997)
SOA	Society of Actuaries
SOFE	Society of Financial Examiners (a professional organization that promotes education and training for financial examiners. Awards designations to members who pass a series of tests and maintain continuing education requirements)
Sub	Subsidiary(any person that is owned or controlled by an insurer)
SVO	Securities Valuation Office(a NAIC office in New York that assigns financial statement values to the stock and bond investments of insurers)
SWA	Service Warranty Association
SWM	Service Warranty Manufacturer
TEFRA	Tax Equity and Fiscal Responsibility Act
TPA	Third Party Administrator (used by Life & Health Insurers)
TRICARE	Armed Services Insurance Plans
TRIA	Terrorist Risk Insurance Act – Federal Reinsurance back-stop for loss from terrorist attack
UCR	Usual and Customary -- medical fees for service
UEs	Unauthorized Entities – selling insurance without authority or approval from the Office
VSP	Viatical Settlement Provider
WCCS	Workers Compensation Data Collection System --- Online data collection system workers' compensation insurers use to submit required data