

Commissioner of Securities and Insurance Montana State Auditor Interim Committee Report

Presented by

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Commissioner of Securities and Insurance
Montana State Auditor

April 20, 2012



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Duties of the Montana State Auditor

**The Montana State Auditor is the ex-officio
Commissioner of Securities and Insurance (CSI)**

- Consumer protection, industry regulation, and education are primary duties
- The Commissioner is Montana's representative in:
 - The National Association of Insurance Commissioners (NAIC)
 - The North America Securities Administrators Association (NASAA)



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CSI Office Structure

The Commissioner's office includes two departments:

- **Securities Department**, led by Deputy Commissioner of Securities Lynne Egan
- **Insurance Department**, led by Deputy Commissioner of Insurance Bob Moon



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CSI Office Structure (cont.)

The Commissioner's executive office includes:

- **Grants Bureau**, led by Christa McClure
 - All-payer, all-claims database
 - Federal grants for exchange, rate review, and consumer assistance
- **Special Projects**, led by Christine Kaufmann
 - Patient-Centered Medical Home Initiative
 - Cancer Clinical Trials Study



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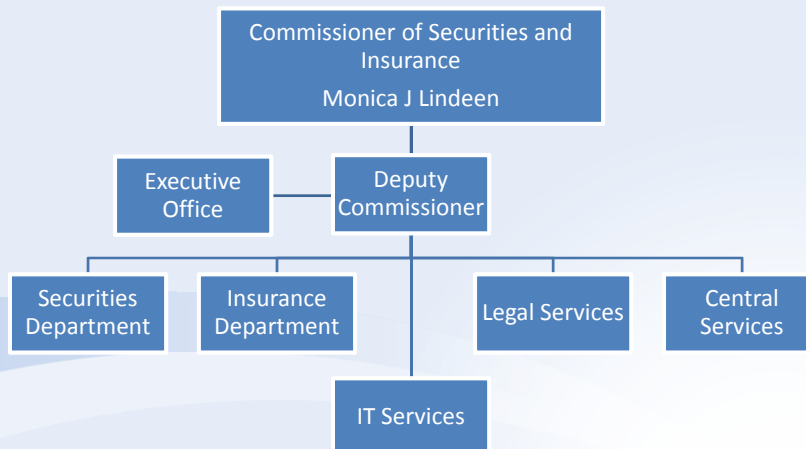
CSI Office Structure (cont.)

The following bureaus serve both departments and the executive office:

- **Legal Services**, led by Chief Legal Counsel Jesse Laslovich
- **Central Services**, led by Sharon McCabe
- **IT Services**, led by Dawn Harmon



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Technology Improvements

Investments in Technology have streamlined industry regulation and consumer protection

- Electronic form filings for faster processing
- Progress toward national standard through SERFF
- Online continuing education reporting for agents
- New, interactive complaint form for consumers



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New website: csi.mt.gov

- In October 2011, the CSI finished a complete website redesign
- New site is more user-friendly for consumers and industry



The screenshot shows the homepage of the Montana Commissioner of Securities and Insurance (CSI). The header features the CSI logo and the name Monica J. Lindeen. Below the header is a navigation menu with links for Home, Consumers, Industry, News, and Contact Us. A search bar is also present. The main content area includes a sidebar with buttons for Home Page, Consumer Information, Industry Information, News, and Commissioner's Corner. The central banner features the text "FINANCIAL FIELD MANUAL" and "Resources for Military Families" with a "click here" link. To the right, a "Quick Links" section lists various services such as "How to Report Fraud", "File an Insurance Complaint", "Find an Insurance Agent, Agency or Company", "Senior Information Center", "Land Board", "Insure Montana", "Securities Department", and "Captive Insurance". The background of the banner shows a rural landscape with mountains and barns.

Securities Department

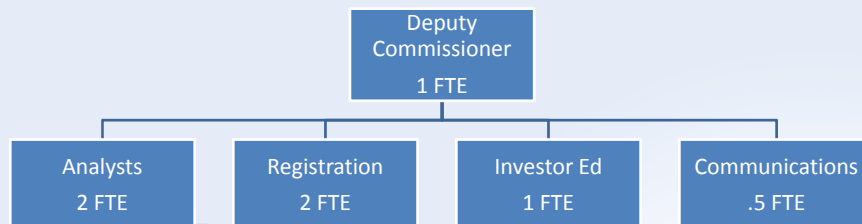
The CSI's Securities Department:

- Protects investors and persons involved in securities transactions
- Promotes uniformity amongst the states in securities regulation
- Encourages capital investment in Montana



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Securities Department Structure



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Securities Department Customers

- Approximately 60% of Montana households have at least one investment account
- The Securities Department serves every Montanan that has a(n):
 - investment account
 - retirement account
 - college savings plan
 - other type of investments
- The Securities Department helps Montana businesses access capital to start or grow



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Securities Department Revenue

- In FY 2011, the Securities Department brought in **\$11,585,926** in revenue
- Total expenditures for the year were \$932,792
- Through March 31 of FY12, the Securities Department has brought in \$10,449,142 in revenue and anticipates total revenue for FY12 to be in excess of **\$13,000,000**, for an annual increase nearly 13%
- For every **\$1.00** spent in regulating the securities industry in Montana in FY11, the Department brought in over **\$12.42**. In FY12, the Division estimates it will bring in **\$14.04** in revenue for every dollar spent



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Growth in Securities

	10 Years Ago	Today	% Change
Licensed Salespeople	60,658	90,554	+58%
Licensed Broker-Dealer & Investment Advisory Firms	1,878	2,313	+23%
Multi-level Distribution Co.	43	195	+353%
Broker-Dealer Branch Offices	604	655	+10%
Revenue	\$7.5 Million	\$13 Million	+73%
CSI Securities Staff Size	11.5 FTE	11.5 FTE	0%



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Consumer Protection - Securities

In the current biennium:

- The CSI has returned nearly **\$5 million** to Montanans harmed by securities fraud or abuse
- The CSI has ordered over **\$14,000,000** in restitution to victims of wrongdoing
- The CSI has levied **\$378,913** in fines against firms and individuals



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Consumer Education - Securities

In the last two years:

- The CSI provided investor education programs throughout the state, providing educational resources to thousands of households across the state
- The CSI provided financial literacy tools to hundreds of high school students



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Small Business Development

In the last two years:

- The CSI has helped dozens of small businesses obtain millions of dollars in capital through equity and debt offerings
- Without this assistance, many of these businesses may never have started up and many may now be out of business



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GOLD DIGGERS:

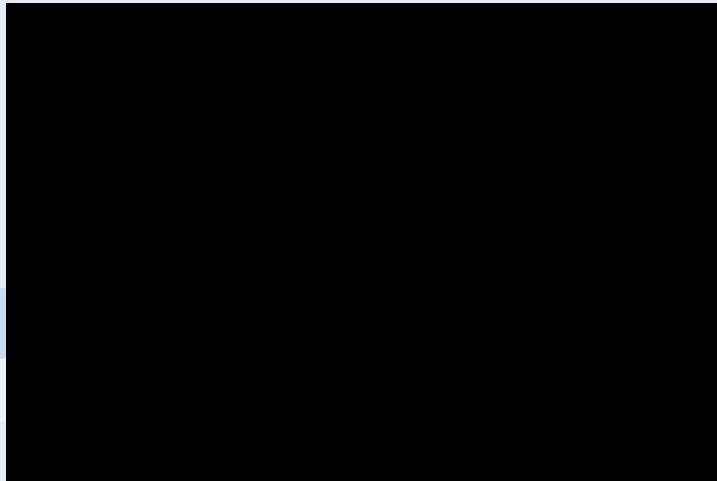
INVESTMENT FRAUD IN THE TREASURE STATE

- Through a grant from the Investor Protection Trust, the CSI developed an investor education documentary
- The film highlights two high-profile cases in Montana, the Arthur Heffelfinger criminal matter in Helena and the Anne Schlenker criminal matter in Bozeman
- Actual victims of the crimes are featured in the 50-minute film, which is narrated by actor Bill Pullman
- Since its premiere in October 2011, more than 5,000 copies have been distributed throughout the state
- The CSI continues to host dozens of screenings of the film in senior centers, for civic organizations and at other events



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Gold Diggers Clip: Innocent Victims

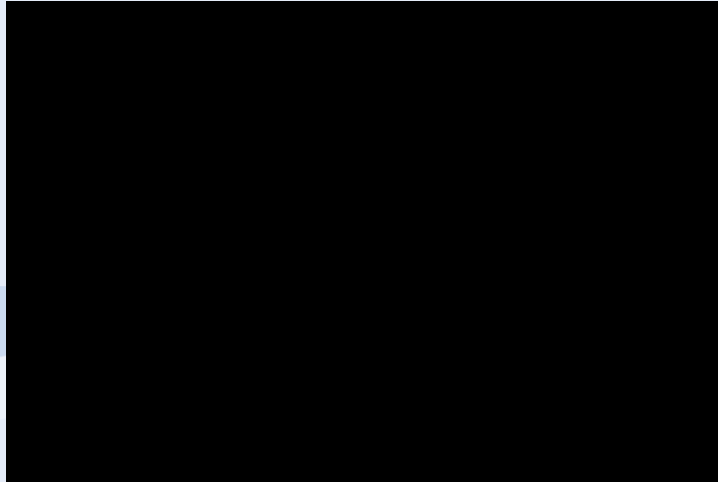


click to play



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Gold Diggers Clip: Trust Betrayed



click to play



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Class Level Notice Filings

- In its most recent audit, the Legislative Auditor recommended the CSI change the way it collected notice filing fees from investment companies and similar issuers
- As a result, the Investment Company Institute (ICI) filed a lawsuit enjoining the CSI from changing its fee collection policy
- In the spring of 2011, a Lewis & Clark District Court Judge ruled in favor of the CSI
- As a result, the CSI changed its collection policy and has seen a 42% increase in this revenue category
- The anticipated additional revenue for FY12 & FY13 will be more than **\$3 million**



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Securities Restitution Assistance Fund

- Many times, restitution is ordered but the wrongdoer does not pay or is unable to pay the victim
- In FY09 & FY10, \$4,379,380 in restitution was ordered but never paid
- The CSI estimates that in the past 20 months, more than \$10,000,000 in restitution has been ordered but not yet paid



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Restitution Fund (cont.)

- The 2011 Legislature established a Securities Restitution Assistance Fund to help such victims
- Only two states in the nation have such a fund
- To qualify for assistance, a victim must have been ordered restitution but not paid
- Victims can receive up to \$25,000 or 25% of the money ordered but not paid, whichever is less
- Since the Securities Restitution Assistance Fund was established, approximately \$258,000 has been contributed to the Fund



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Restitution Fund (cont.)

- Part of more than \$3 million in additional class level notice fees could be used to protect investors harmed by fraud
- The CSI is considering requesting a Biennial Appropriation to transfer 5% of notice filing fees collected to the Securities Restitution Assistance Fund
- 5% transfer would divert approximately \$275,000 into the Fund annually



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Insurance Department

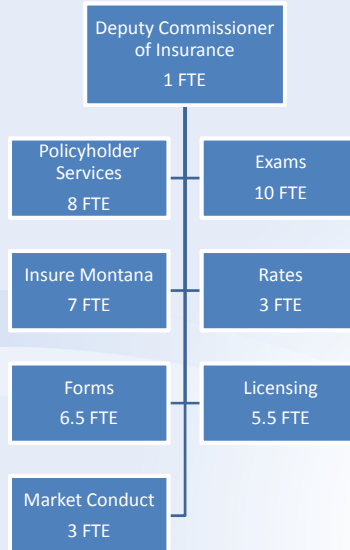
The CSI's Insurance Department:

- Enforces Montana's insurance laws to protect consumers
- Encourages growth in Montana's insurance industry through fair and efficient regulation
- Monitors Montana's insurance market with financial exams, market conduct exams, form approval, rate review, and licensing



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Insurance Department Structure



Insurance Department Revenue

- The CSI collects premium taxes from insurers for the general fund and the Healthy Montana Kids Plan

Fiscal Year:	FY 2010	FY 2011
General Fund Revenue	54,371,662.20	57,931,334.71
HMK Plan Revenue	9,423,290.63	9,960,209.10
Total Premium Tax	63,794,952.83	67,891,543.81



Policyholder Services

- The CSI has 8 full-time staff dedicated to resolving consumers' insurance problems
- In an average year, the Policyholder Services Bureau fields approximately 40,000 calls

Calendar Year:	2010	2011	2012 (YTD)
Complaints Closed	1,469	1421	395
Money recovered for policyholders	\$3,774,533.21	\$4,749,794.71	\$1,325,746.51



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Form Review

- The CSI reviews and approves all policy contracts and forms used in Montana
- Form review has become more efficient thanks to IT development

Fiscal Year:	FY 2010	FY 2011	FY 2012 (YTD)
Forms Reviewed	38,231	47,395	35,477*
Average Turnaround	11.6 days	15.9 days	13.7 days

*FY 2012 total projected to surpass FY 2011



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Market Conduct Exams

- The CSI conducts market conduct exams on all insurance companies in Montana every 3-5 years, depending on the nature of the company
- Exams verify compliance with Montana insurance laws
- Ensures a fair and level playing field for competition in Montana's insurance market



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Producer Licensing

- The CSI licenses all 56,199 insurance producers doing business in Montana
- Number of licensed producers shows steady growth

Calendar Year:	2010	2011	2012 (YTD)
New Resident producers	818	740	217
New Non-Resident Producers	10,676	10,383	3,276
Total New Producers:	11,494	11,123	3,493



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Company Licensing

- The CSI licenses all 1,500 insurance companies doing business in Montana
- Number of licensed companies remained steady throughout recession

Calendar Year:	2010	2011	2012 (YTD)
Life & Health Companies	489	474	471
Property & Casualty	831	827	829
Other*	181	183	200
Total Licensed Companies:	1,501	1,484	1,500

*Includes: Title, Fraternal, RRG, HSC, HMO, MEWA, Captive, and Farm Mutual companies



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Rates

- The CSI Reviews Rate Filings in nearly every line of insurance EXCEPT health insurance
- Rates are reviewed to prevent inadequate, unfair, or discriminatory rating practices
- The CSI rate bureau has three FTE to review all rates filed with the office

Fiscal Year:	FY 2010	FY 2011	FY 2012 (YTD)
Rates Reviewed	5,615	5,253	3,929



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Captive Insurance

- The CSI licenses and actively recruits new captive insurance business to Montana
- Growing captive industry contributed \$584,000 to general fund in FY 2011

Calendar Year:	2010	2011	2012
Licensed Captives*	46	57	83
% Growth over previous year	--	+19%	+31%

*As measured on Jan. 1 of each year



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Surplus Lines

- SB 331 (2011) allows the CSI to use rulemaking to enter into an interstate surplus lines compact
- The CSI will begin negotiated rulemaking when there is national consensus for one of the two existing options, NIMA and SLIMPAC
- The CSI will continue to work with industry until one national agreement is established



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Surplus Lines (cont.)

- Beginning in FY2011, the CSI administered stamping fees to reduce cost to companies and consumers
- Moving stamping office into CSI cut nearly \$300,000 in annual administration costs
- CSI administration and new, electronic submission have led to savings and growth in surplus lines



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Surplus Lines (cont.)

- Before CSI took over stamping, companies were charged a 1% stamping fee
- As of Jan. 1, 2012, the CSI charges .25% for paper filing and no fee for electronic filing

Fiscal Year:	FY 2009	FY 2010**	FY 2011
Surplus Lines Premium Tax	\$1,864,222.18	\$2,007,968.36	\$2,133,067.02
Surplus Lines Licenses	\$39,900.00	\$42,860.00	\$43,410.00
Stamping Fees*	\$644,497.00	\$491,430.14	\$440,137.31

*Approximate

**CSI began collecting fees in FY2010



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Health Insurance

- In Montana, an estimated **160,300** people are without medical coverage
- The high number of uninsured puts a strain on our healthcare system
- Costs continue to rise, insurance is less affordable to individuals and small businesses



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Insure Montana

- Two-part program designed to assist small businesses and their employees with the cost of health insurance
- Funded by a 2004 voter initiative and passed into law by the 2005 legislature
- Funded by tobacco tax revenue

Enrollment At a Glance	Lives Covered*	Businesses
Purchasing Pool	4,040	805
Tax Credit	4,033	711
Total	8,073	1,516

*Includes covered dependents



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Insure Montana – Purchasing Pool

- Provides an incentive payment to small businesses to reimburse a portion of the health insurance premium the business contributes to its employees
- The program also provides an assistance payment to employees to reimburse their out-of-pocket health insurance costs



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Insure Montana – Premiums

- Good experience has helped keep average rate increase since program start to 5.8%

Average Premium by Coverage Type	
Single	\$586.06
Employee/Child	\$713.19
Employee/Children	\$870.14
Employee/Spouse	\$1,154.12
Family/Child	\$1,288.01
Family/Children	\$1,472.21



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Insure Montana – Tax Credit

- Provides a refundable tax credit to small businesses for a portion of the health insurance premium the business contributes to its employees
- 40% of the Insure Montana funding is appropriated to the Tax Credit Program



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Insure Montana – Budget Reductions

- In 2011, the legislature cut 2.8 million from the Insure Montana Budget
- To compensate for this loss Insure Montana:
 - Reduced the value of the tax credit by 30% for all businesses
 - Reduced the size of the program through attrition
 - Increased program audits with a new FTE appropriated in 2011



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Insure Montana – Enrollment

Premium Assistance	
Businesses enrolled	805
Lives Covered	4,040 (including dependents)
Annual Budget	\$7,133,041
Monthly Payment per Business	\$291.94
Monthly Payment per Employee	\$147.49
Tax Credit	
Businesses enrolled	711
Lives Covered	4,033 (including dependents)
Annual Budget	\$2,625,723
Monthly Payment per Business	\$3,693



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CSI Study Initiatives

The CSI is studying the following state-based reforms:

- **Patient-Centered Medical Homes**- laying the groundwork for a patient-centered medical home program in Montana
- **Cancer Clinical Trials**- clarifying insurance coverage for routine care for patients who participate in clinical trials
- **Health Care Cost Database**- studying the creation of an all-payer, all-claims database that will improve health care delivery in Montana by creating transparency in data on health care costs and quality



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Patient-Centered Medical Homes

- A Patient-Centered Medical Home (PCMH) is a model of health care delivery that emphasizes primary health care, coordinated care and prevention
- In the PCMH model, insurers pay an incentive based on quality of care, rather than quantity



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PCMH Under DPHHS

- Began in the Fall of 2009 when Montana Medicaid was awarded a grant from the National Academy for State Health Policy (NASHP) to advance medical homes for Medicaid and CHIP participants
- A working group convened by DPHHS developed a definition for medical homes in Montana
- Stakeholders asked the CSI to take over leading the group as a neutral party who could address payment options, anti-trust laws, other state multi-payer initiatives and recognition processes



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PCMH Under the CSI

- In the fall of 2010, the CSI took the lead
- As chief insurance regulator, the CSI can bring private health insurance companies to the table
- The CSI met with domestic health insurance carriers to discuss the PCMH initiative and ask for their continued involvement
- The stakeholder group recommended recognition standards for practices in June 2011



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All-Payer, All-Claims Database

- An All-Payer, All-Claims Database (APCD) collects information on health care costs to identify potential savings & system disparities
- HB 573 (2011) requires the CSI to study building a APCD for Montana
- The APCD Advisory Council includes insurers, providers, consumers, businesses, researchers and policymakers
- Rep. Chuck Hunter chairs the Council



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Federal Health Insurance Reform

- The passage of the Affordable Care Act dramatically changed health insurance in Montana
- Immediate market reforms have changed the way the CSI protects health insurance consumers
 - New rights and benefits for consumers
 - Some state laws preempted



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Status of Grant Projects

- Consumer Assistance Grant: Completed
- Exchange Research Grant: Pending completion of research into Montana's insurance market
- Rate Review Grant: Pending completion of contracted rate analysis and market research



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Premium Rate Review in Montana

- Montana is one of only three states that lack any form of health insurance rate review authority
- Other lines of insurance (home, auto, etc.) are required to submit rates to the CSI for review before they take effect
- The CSI plans to bring legislation in 2013 to create effective rate review authority for Montana



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Premium Rate Review in Montana (cont.)

- HHS reviews rate increases that are more than 10% to determine if the rate is excessive, unjustified or unfairly discriminatory
- The findings are published on HealthCare.gov
- HHS cannot block the use of a rate increase that is determined to be “unreasonable”



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Affordable Insurance Exchange

- A health insurance exchange is an online market for consumers
- Gives consumers information to compare private insurance on apples-to-apples basis
- The Small Business Health Options Program (SHOP) exchange will be available for small businesses
- Premium subsidies for health insurance consumers and tax credits for small businesses will only be available through the exchange



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The CSI & the Federal Exchange

- Failure to pass legislation in 2011 means Montana will have a Federally Facilitated Exchange (FFE) on Jan. 1, 2014
- Existing research grant at CSI continues to collect valuable data on Montana market
- Upon conclusion of research, all data will be publicly available and shared with HHS
- The CSI continues to field questions from HHS about insurance in Montana



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Decision-making in the Federally Facilitated Insurance Exchange

- Montana will not make policy decisions on how to structure, implement, or improve the exchange
- Montana will not determine what health plans can be sold in the exchange
- Montana will not establish certification requirements for QHPs
- Montana will not manage outreach to enroll Montanans in the exchange
- Montana will not decide what the long-term funding mechanism will be for the exchange – including how and which users will be assessed



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Decision-making in the Federally Facilitated Insurance Exchange, cont.

- Montana will not make decisions about marketing and promoting the exchange
- Montana will not decide which issuers will be allowed to sell in the exchange
- Montana will not decide how health plans will be accredited and rated for quality inside the exchange
- Montana will not be able to guarantee a level playing field as it will not have sole authority over products sold inside and outside the exchange



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Transition to State-Based Exchange

- A state that does not have an approved state exchange by January 1, 2013 may seek approval to operate a state-based exchange after 2014
- States must work with HHS to develop a transition plan
- State must still build its own exchange technology and infrastructure – taking over federal infrastructure is not possible
- No grant funding will be available for start-up costs after January 1, 2014



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High Risk Pools

Montana has two high-risk pools:

- **Montana Comprehensive Health Association (MCHA)**
 - State-based
 - Funded by premiums and assessments on private health insurers in Montana
- **Montana Affordable Care Plan (MACP)**
 - Funded by HHS
 - Covers pre-existing conditions for eligible enrollees



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MCHA

- Administratively affiliated with the CSI
- The CSI can appoint members to the MCHA board
- The CSI reviews and approves rates set for the MCHA plan
- The MCHA plan is administered by Blue Cross, Blue Shield of Montana
- MCHA currently covers about 3,000 Montanans



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MACP

- The MACP is also administered by Blue Cross, Blue Shield of Montana
- The federal government (HHS) is responsible for funding the MACP
- Due to high need and medical loss ratio, HHS has committed to providing sustaining funds for 2012
- MACP currently covers 315 Montanans, though many have cycled through



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Questions?

800-332-6148

406-444-2040

www.csi.mt.gov

Montana State Auditor's Office

840 Helena Avenue

Helena, MT 59601



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Advisory Councils at CSI

- The Commissioner's office hosts two statutory advisory councils:
 - Advisory Council on Continuing Education for Insurance Licensees
 - Advisory Council on Risk Management Activities



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Continuing Education

- The Advisory Council on Continuing Education for Insurance Licensees:
 - Reviews course submissions
 - Recommends courses for the Commissioner's approval
- Council is made of industry experts dedicated to self-policing standards for continuing education
- The CSI needs the council to continue tradition of industry-regulator cooperation in education and licensing



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Risk Management Activities

- The Advisory Council on Risk Management Activities may be convened to address emergencies in Medical Liability Market
- Emergencies in Medical Liability Market are rare, but can have dire impact on medical providers and Montanans access to care
- The CSI needs the ability to convene industry experts as needed for this council



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Contact CSI

800-332-6148

406-444-2040

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