

# Montana State Legislature

**Exhibit Number: 7**

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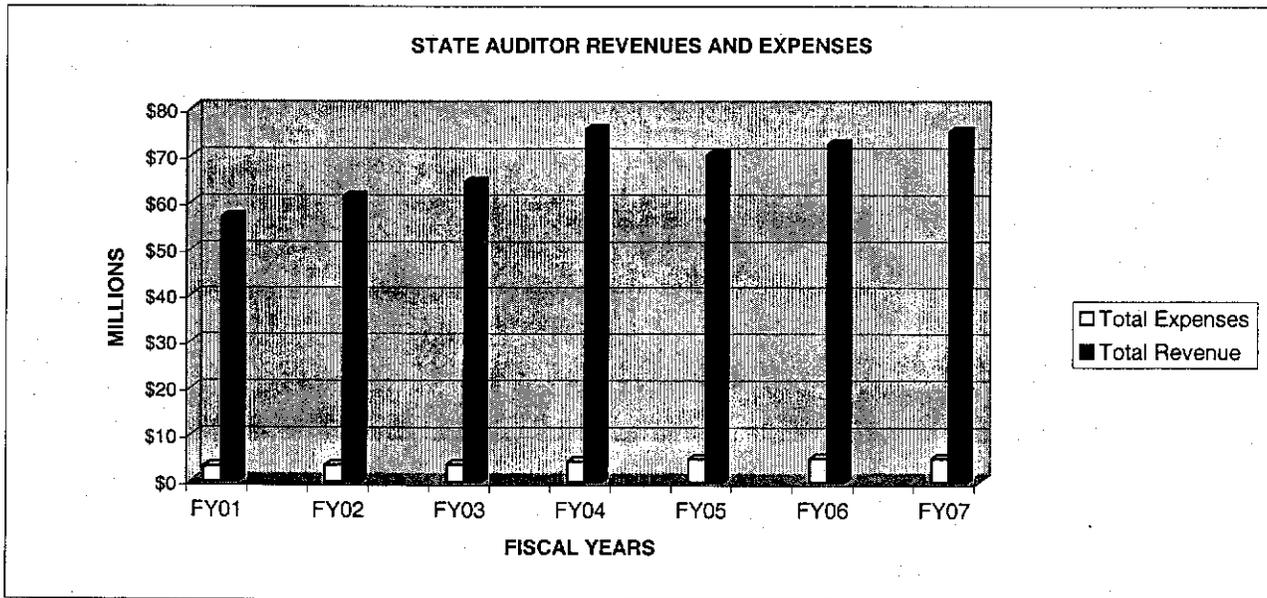
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STATE AUDITOR'S OFFICE  
 COMPARATIVE BUDGET DATA  
 GENERAL GOVERNMENT AND TRANSPORTATION  
 APPROPRIATIONS SUBCOMMITTEE  
 JANUARY 31, 2005

	Actual FY01	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Requested FY06	Requested FY07
FTE	67.00	68.50	69.50	71.50	71.50	73.50	73.50
Personal Services	\$2,616,974	\$2,715,795	\$2,950,905	\$3,102,594	\$3,237,025	\$3,433,961	\$3,432,655
Operating Expenses	\$761,290	\$956,431	\$869,278	\$808,167	\$1,101,432	\$1,084,364	\$1,114,759
Equipment	\$7,357	\$0	\$0	\$0	\$0	\$0	\$0
To Local Entities	\$0			\$573,215	\$659,600	\$573,215	573215
<b>Total Expenses</b>	<b>\$3,385,621</b>	<b>\$3,672,226</b>	<b>\$3,820,183</b>	<b>\$4,483,976</b>	<b>\$4,998,057</b>	<b>\$5,091,540</b>	<b>\$5,120,629</b>
General Fund	\$365,106	\$334,795	\$321,943	\$0	\$0	\$0	\$0
State Special	\$3,020,515	\$3,337,431	\$3,455,200	\$4,463,618	\$4,998,057	\$5,091,540	\$5,120,629
Federal Special	\$0	\$0	\$43,040	\$20,358	\$0	\$0	\$0
<b>Total Funding</b>	<b>\$3,385,621</b>	<b>\$3,672,226</b>	<b>\$3,820,183</b>	<b>\$4,483,976</b>	<b>\$4,998,057</b>	<b>\$5,091,540</b>	<b>\$5,120,629</b>
<b>Total Revenue</b>	<b>\$56,997,964</b>	<b>\$61,456,421</b>	<b>\$64,560,629</b>	<b>\$75,819,049</b>	<b>\$70,231,782</b>	<b>\$72,603,237</b>	<b>\$75,302,545</b>

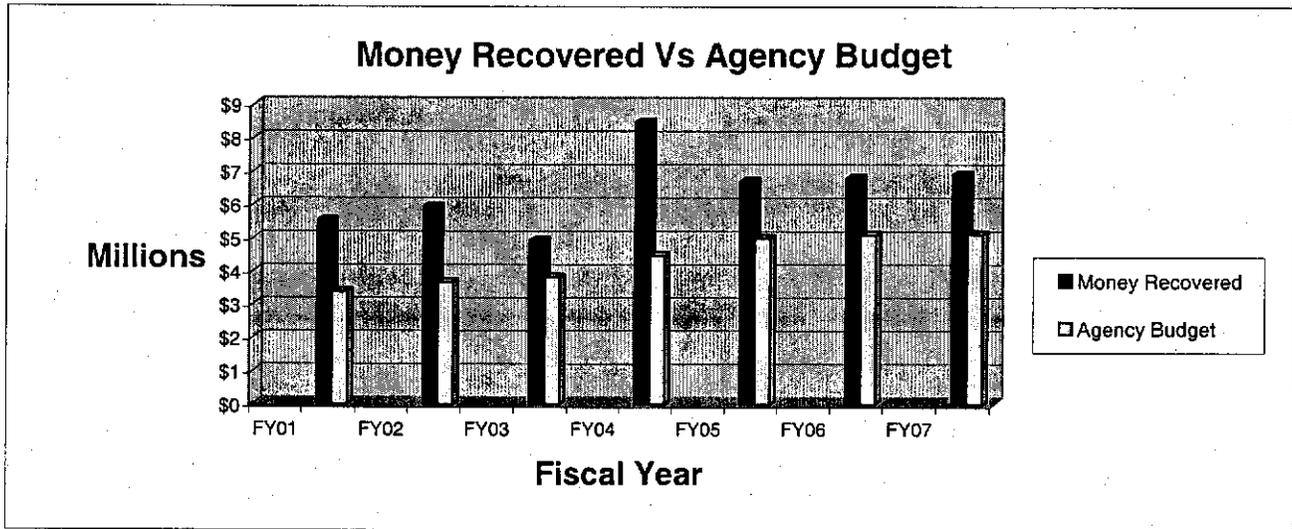
  

	FY01	FY02	FY03	FY04	FY05	FY06	FY07
Total Expenses	\$3,385,621	\$3,672,226	\$3,820,183	\$4,483,976	\$4,998,057	\$5,091,540	\$5,120,629
Total Revenue	\$56,997,964	\$61,456,421	\$64,560,629	\$75,819,049	\$70,231,782	\$72,603,237	\$75,302,545



**RECOVERIES TO POLICYHOLDERS & COMPANIES VS AGENCY BUDGET**

	Actual FY01	Actual FY02	Actual FY03	Actual FY04	Estimated FY05	Estimated FY06	Estimated FY07
Investigations	\$48,000	\$25,000	\$68,000	\$509,469	\$50,000	\$50,000	\$50,000
PHS	\$4,240,816	\$4,822,232	\$4,114,841	\$5,393,484	\$5,400,000	\$5,500,000	\$5,600,000
Securities	\$1,247,000	\$1,103,105	\$754,211	\$2,579,288	\$1,250,000	\$1,250,000	\$1,250,000
<b>Total</b>	<b>\$5,535,816</b>	<b>\$5,950,337</b>	<b>\$4,937,052</b>	<b>\$8,482,241</b>	<b>\$6,700,000</b>	<b>\$6,800,000</b>	<b>\$6,900,000</b>
<b>Agency Budget</b>	<b>\$3,385,621</b>	<b>\$3,672,226</b>	<b>\$3,820,183</b>	<b>\$4,483,976</b>	<b>\$4,998,057</b>	<b>\$5,091,540</b>	<b>\$5,120,629</b>



## COMPARATIVE DATA FOR INSURANCE DEPARTMENTS

Montanans spent \$2.744 billion on insurance in 2003. That compares with \$1.385 billion estimated to be collected in state general fund taxes and fees in fiscal year 2005. Insurance has a bigger impact on Montana taxpayers than Montana tax policies.

A total of 10,224 people work as insurance agents in Montana and an additional 29,672 out-of-state agents sell insurance in Montana.

Montana spends less on insurance regulation than most other states - ranked 47th. Only three states spend less and have fewer FTEs than Montana (South Dakota, North Dakota and Wyoming). Montana collects more revenue from the insurance industry on a per capita basis than most states.

### Ranking Among All States

Data for comparison is taken from a report published annually by the National Association of Insurance Commissioners (NAIC). That report details expenditures, revenues and regulatory actions by state. Numbers in the NAIC report do not exactly match the states' budgeting numbers because the basis of the NAIC report is different than the state budget system. The report is consistent for all states and therefore allows meaningful comparison. All data is for 2003 except for budget and FTE data, which is fiscal year 2005. Rankings include all 50 states.

#### Data for Montana:

		<u>Rank</u>
Insurance Budget	\$ 3,656,435	47th
Insurance FTE	48.50	46th
Insurance Revenue	\$ 54,822,160	46th
Insurance Agents	39,896	38th
Premium Paid	\$ 2,744,292,039	47th

Comparison with surrounding states:

Budget and FTEs

Montana has the fourth lowest total budget compared with most surrounding states.

<u>State</u>	<u>Population Est. 2003</u>	<u>Budget</u>	<u>Budget/Capita</u>
Montana	926,865	\$3,656,435	\$3.94
Idaho	1,393,262	\$6,251,200	\$4.49
Nevada	2,334,771	\$7,096,362	\$3.04
North Dakota	634,366	\$3,197,206	\$5.04
South Dakota	770,883	\$1,800,000	\$2.33
Utah	2,389,039	\$6,273,900	\$2.63
Wyoming	506,529	\$1,863,957	\$3.68

Premiums and Revenues Collected

Montanans pay \$2.744 billion in insurance premiums, more than they pay in state taxes and fees per year. Montana ranks 47th in premiums collected.

<u>State</u>	<u>Premiums</u>	<u>Revenues</u>	<u>Revenues/Capita</u>
Montana	\$2,744,292,039	\$ 54,822,160	\$59.15
Idaho	\$4,905,700,462	\$ 79,283,200	\$56.90
Nevada	\$9,667,915,444	\$186,652,282	\$79.94
North Dakota	\$2,752,852,950	\$ 39,182,658	\$61.77
South Dakota	\$3,024,327,673	\$ 63,074,045	\$81.82
Utah	\$7,941,913,880	\$122,155,175	\$51.13
Wyoming	\$1,646,907,059	\$ 23,826,670	\$47.04

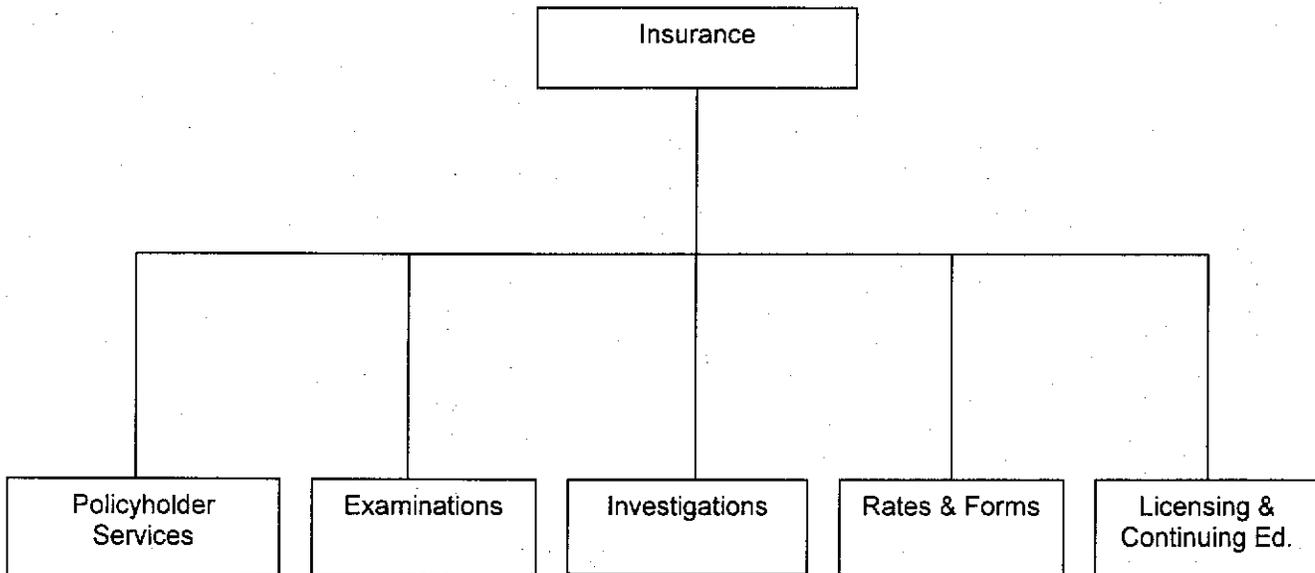
Agents and Companies

Montana has more insurance producers (agents) than most surrounding states and more resident agents per capita. The number of companies doing business in each of the states is similar because a large number of companies are national and conduct business in all states.

<u>State</u>	<u>Agents</u>	<u>Resident Agents</u>	<u>Resident Agents/1000 Residents</u>
Montana	39,896	10,224	11.03
Idaho	33,456	7,490	4.82
Nevada	48,065	13,778	5.90
North Dakota	28,855	5,983	9.44
South Dakota	32,645	8,470	10.99
Utah	46,507	17,751	7.43
Wyoming	21,658	2,618	5.16

## INSURANCE

The Insurance Division regulates the insurance industry in Montana for the protection of Montana consumers. The Examinations Bureau is responsible for monitoring the financial solvency of insurance companies, collecting premium taxes and company fees, and auditing insurance company annual statements. The Rates and Forms Bureau is responsible for reviewing form filings and rate filings to ensure compliance with the applicable insurance code. The Investigations Bureau investigates insurance code and rule violations, including possible criminal violations, and recommends cases for prosecution to county attorneys. The Licensing Bureau is responsible for licensing and providing continuing education to insurance agents, agencies, and adjusters. The Policyholder Services Bureau is responsible for resolving insurance consumer inquiries and complaints involving agents, coverage and companies.



### Examinations

Examinations licenses insurers, insurance company administrators (which handle premium payments and claim settlements on behalf of insurers), as well as a number of insurance entities such as premium finance companies and motor clubs. It also processes the annual renewals of the licenses. Examinations determines the qualifications of surplus lines insurers, which write property-casualty risks that authorized insurers will not accept.

The financial statements of domestic insurers (companies that are incorporated in Montana) are carefully reviewed to discover actual or potential problems. Periodically, at least every five years, the books and records of each domestic insurer are examined to confirm that the reports they submit are accurate. When insurers no longer meet the requirements for a certificate of authority in Montana, they are either suspended or revoked. Also, any transfers of a block of policies from one insurer to another must be approved before it can become effective.

When insurers wish to change their names, the lines of insurance they may transact, or make certain corporate changes, their certificates of authority must be amended to reflect the changes. Proposed changes in the securities insurers have deposited with the office, as required by law, must be reviewed to ensure that the deposit will still comply after the proposed change. Frequently, Montana insurance consumers and insurance industry representatives call or write to obtain information about insurers or about insurance laws or rules or office policies and procedures. When requested, or when a written record is desirable, responses are provided in writing.

**EXAMINATIONS  
GENERAL FUND REVENUE TABLE**

Premium Taxes	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Projected	FY06 Projected	FY07 Projected
Gross Taxes	\$ 41,611,599	\$ 46,359,036	\$ 52,945,713	\$ 55,805,953	\$ 58,478,000	\$ 60,170,000	\$ 61,418,000
MLHIGA Offsets (1)	\$ (586,625)	\$ (258,922)	\$ (374,237)	\$ (368,236)	\$ (218,000)	\$ (165,000)	\$ (165,000)
MCHA Offsets (2)	\$ (274,444)	\$ (481,084)	\$ (1,088,779)	\$ (793,201)	\$ (910,000)	\$ (955,000)	\$ (1,003,000)
Refunds	\$ (326,014)	\$ (512,557)	\$ (706,745)	\$ (286,707)	\$ (400,000)	\$ (475,000)	\$ (475,000)
PERD Payments (3)	\$ (13,906,843)	\$ (13,537,878)	\$ (14,572,298)	\$ (14,756,795)	\$ (15,560,227)	\$ (17,655,045)	\$ (18,816,125)
General Fund	\$ 26,517,673	\$ 31,568,595	\$ 36,203,654	\$ 39,601,014	\$ 41,389,773	\$ 40,919,955	\$ 40,958,875

1. Montana Life and Health Insurance Guarantee Association (MLHIGA).
2. Montana Comprehensive Health Association (MCHA).
3. Starting in FY98, Public Employees Retirement Division (PERD) payments are made directly from the General Fund. Prior to FY98, PERD Payments were a State Special Revenue, funded from Premium Taxes. To show consistency, we have continued to display PERD Payments in this table.

## EXAMINATIONS ACTIVITY STATISTICS TABLE

	FY01 Actual	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Proj.	FY06 Proj.	FY07 Proj.
<b>Licensing Oversight Processing Renewals:</b>							
Insurers	1,395*	1,400*	1,382*	1,381*	1,390*	1,400*	1,410*
Insurance Company Administrators	160	170	182	182	205	215	220
Surplus Lines Insurers	158	152	152	151	156	158	158
Other Insurance Entities	332**	326**	319**	314**	319**	325**	330**
<b>Review of New Applications:</b>							
Insurers	22	22	32	33	30	25	25
Administrators	15	27	16	20	30	30	33
Other Insurance Entities	8	9	12	13	12	15	15
<b>Financial Oversight</b>							
Financial Review of Domestic Insurers	30	31	32	36	45	60	75
Oversight of Domestic Insurer Exams	9	4	6	4	12	11	12
Issuing Suspension & Revocation Orders	7	8	0	12	3	3	3
Reviewing Bulk Reinsurance Transfers	20	16	14	5	10	10	10
<b>Administrative Oversight</b>							
Processing License Amendments	94	95	65	89	95	100	100
Review Security Deposit Transactions	21	20	22	25	25	25	25
Responding to Telephone Inquiries	4,100	4,125	4,150	4,200	4,225	4,250	4,275
Preparing Written Responses to Inquiries	1,400	1,400	1,435	1,450	1,475	1,485	1,490

\* Adjusted to include Risk Retention Groups (RRG) and Captive Insurers (CA)

\*\* Adjusted to include Purchasing Groups (PG)

**Rates & Forms:**

Rates & Forms review the policy forms and premium rates charged by insurers intended for use in Montana to ensure compliance with the law. A variety of other insurer materials are reviewed for legal compliance. In connection with these activities, Rates & Forms informs insurers about problems with the forms and rates they have submitted to bring insurers' submissions into compliance with Montana law. The staff also must ensure compliance to numerous laws, as well as implement updates to the Montana Code Annotated and Administrative Rules.

Frequently, Montana insurance consumers and insurance industry representatives call, write or visit Rates & Forms to obtain information about approved forms or rates or about insurance laws, rules, or office procedures. We provide the necessary assistance as required.

Rates & Forms also participates in the financial examination of insurers. The examinations by Rates & Forms generally involve, but are not limited to, the analysis of reserve and rate adequacy of insurers.

**RATES & FORMS  
WORK LOAD TABLE**

Product Oversight	FY01- Actual	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Projected	FY06 Projected	FY07 Projected
Number of Policy Forms Reviewed	29,959	38,221	35,375	38,052	39,100	39,100	37,100
Exempt Forms	2,220	2,240	2,270	2,290	2,310	2,310	2,310
Preparation of Letters	9,600	9,690	9,840	9,940	10,040	10,040	10,040
Responding to Telephone & E-mail Inquiries	4,450	4,500	4,570	4,620	4,670	4,670	4,670
Review of Rate Filings	3,815	3,585	3,941	3,844	4,033	4,110	4,180

**Insurance Investigations:**

Investigators for the Montana Department of Insurance, Insurance Investigations Bureau are criminal investigators who receive and review both criminal and civil complaints alleging suspected violations of the Montana Insurance Code and Criminal Code.

One supervisor and six investigators are dedicated professional classified civil servants who are required to demonstrate sound, mature judgment and flexibility daily. They prepare criminal and civil investigations of financial fraud, embezzlements, misapplication of funds, arson for profit, insurance fraud, deceptive practices, elder abuse, improper accounting practices, worker compensation (non state fund) fraud, and other crimes. The investigations staff also responds

to requests for assistance from other state and federal law enforcement and regulatory agencies. A secondary function of the investigators is to serve court orders and enforce court judgments on insurance concerns. The investigators are required to travel thousands of miles each year and stay away from home for extended periods of time while conducting these investigations. The investigators also conduct state wide unannounced on-site inspections at an insurance agent's office. These examinations are primarily directed at administrative infractions in the areas of licensing, trust accounts, deceptive advertising, and unfair trade practices.

The investigative workload continues to increase as a consequence of our successful prosecutorial efforts around the state and uncompromising attentiveness to assistance requests from other criminal justice agencies. We are positively perceived as an investigations component of the state that individuals, criminal justice agencies and insurance companies can turn to when they need help on a criminal matter and expect a resolution of their complaint or request for assistance.

All administrative fines from the Investigations Bureau are turned into the general fund.

### INVESTIGATIONS TABLE

	FY 01 Actual	FY02 Actual	FY03 Actual	FY04 Actual	FY05 Projected	FY06 Projected	FY07 Projected
New Investigations	101	120	198	136	115	115	115
Fines	\$ 94,050	\$ 79,210	\$116,450	\$ 215,976	\$ 50,000	\$ 50,000	\$ 50,000
Recoveries to Policyholders and Ins. Companies	\$ 48,000	\$ 25,000	\$ 68,000	\$ 509,469	\$ 50,000	\$ 50,000	\$ 50,000
Administrative Actions	9	11	41	31	25	25	25
Criminal Actions	20	21	38	28	20	20	20
Insurance Producer Examinations	5	17	62	38	50	50	50

## Captive Insurance

During the 2001 Legislative Session, Senate Bill 373 allowed for a captive insurance industry in the state of Montana. Simply stated, a Captive Insurance Company is a subsidiary company established primarily to insure the risks of the parent company and its affiliates. Currently, there are 10 captive insurance companies formed in Montana to license rural hospitals, nursing homes, fuel stations, commercial trucking firms, an investment firm, a medical professional firm, a construction company, and attorneys. Two captive management firms also opened for business, with a third captive management company preparing to open for business in the very near future.

## Insurance Licensing and Continuing Education

Insurance Licensing is responsible for licensing insurance producers, adjusters, motor club representatives, surplus lines agents, managing general agents, consultants and rental vehicle entities, both resident and non-resident (agents and agencies). Licensing also operates the continuing education program.

The number of insurance producers increases more rapidly each year. During FY2004, this office issued nearly 9,000 new licenses. This is a fluctuating number and the number of current licensees does not reflect the number of terminations that will take place in FY 2005-2006.

On August 1, 2004, 3,315 resident and 9,765 non-resident insurance producer licenses were lapsed for non-compliance with continuing education and renewal requirements. To date, approximately 500 of these licensees have reinstated the lapsed license. The license of those persons who do not reinstate by August 1, 2005, will terminate.

Resident licensees have declined over the past biennium. The current numbers reflect an estimated 5 to 1 ratio in the numbers of non-resident to resident licensees. That disparity continues in the early months of FY 2005.

Consultant licenses and renewals remain steady and a large increase in licenses is not anticipated. Beginning July 2003 a consultant examination became available through Promissor. This new exam will provide access for non-resident consultant applicants to the licensing examination at testing sites across the country.

Motor Club representative licenses and renewals do increase each year, but are offset by the number of terminations filed each year. This is a number that should be reported along with other license terminations.

Adjuster licensees are expected to increase in number because of increased industry emphasis in these areas. Surplus Lines licenses are steady.

Continuing education sponsoring organizations submit courses for review and approval before offering these courses. The organizations may renew the courses every two years. Continuing education course approval fees declined after 12/24/2002. Montana statute reduced fees that are collected for course renewals. Approximately one half of course submissions fees previously were collected for renewals.