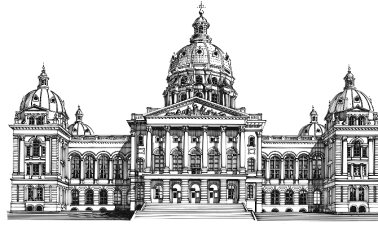

Iowa Legislative Fiscal Bureau

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State Capitol
Des Moines, IA 50319
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Insurance Division Accreditation

ISSUE

Review the funding and staffing levels of the Insurance Division of the Department of Commerce as it relates to accreditation requirements of the National Association of Insurance Commissioners (NAIC).

AFFECTED AGENCIES

Insurance Division of the Department of Commerce

CODE AUTHORITY

Chapters 505-523F, Code of Iowa

BACKGROUND

During the 1992 Legislative Session, the Insurance Division requested an additional \$200,000 from the General Fund (a net request of \$4.3 million) for FY 1993 to fully fund authorized, but vacant FTE positions in response to a critical review from the NAIC during accreditation. One of the NAIC's accreditation standards is a requirement that a minimum of 5% of insurance revenues be dedicated to regulation (i.e. appropriated to the Insurance Division). During FY 1992, the Insurance Division collected and transferred \$97.0 million in premium tax to the General Fund. The Division's estimated net appropriation for FY 1992 was \$4.1 million or 4.2% of premium tax revenue generated. The Division also collected \$7.7 million in fine, fee and exam revenue for total revenues of \$104.7 million for FY 1992, of which the estimated appropriation to the Division represents 3.9%. The Insurance Division was historically funded from a revolving fund, but beginning with FY 1992 is funded from the General Fund.

Iowa is currently 1 of 9 states accredited nationally. According to the Division, accreditation is necessary for Iowa domestic insurers to write business outside the State and for continued insurance economic development.

During the 1992 Legislative Session, legislators were forced to weigh the impact of not staffing the Division at the requested level and jeopardizing accreditation against the limited resources of the State budget. They questioned the rationale of the NAIC to make such a staffing demand without recognizing already successful solvency regulators. A memo from the Division states "Iowa was accredited with the caveat that we increase the number of middle managers and financial analysts to double check the work of field personnel and reduce the burden on the Division's senior managers." This is contrary to a recommendation by the Fisher Committee that middle management positions be eliminated where possible.

Some legislators also questioned the true necessity of accreditation by the NAIC. While it is a national association of all 50 insurance commissioners, it is supported by assessments against insurance companies and dues from its members, making it subject to industry pressures. While it is a highly respected entity, its recommendations do not carry the force of a federal law or mandate. Also, if Iowa is a healthy insurance climate, the NAIC may deem it worthy of renewed accreditation without additional staffing.

The Regulation Appropriations Subcommittee, in an effort to meet their target spending level, voted to eliminate 5 of 10 vacant funded positions the Division had at that time. Most of the positions had been vacant for at least 8 months. The Subcommittee left 5 vacant positions and included intent language that allows the Division to expend additional money for personnel if necessary for the purpose of meeting accreditation and other concerns.

CURRENT SITUATION

Instead of the requested \$200,000 increase for FY 1993, the Insurance Division's budget request was reduced by \$216,000. The net FY 1993 appropriation to the Division for FY 1993 is \$4.1 million, the same level of funding as FY 1992.

The Division has recently (late August) been evaluated by the NAIC to determine if their accreditation should be renewed. Results of the evaluation have not yet been released.

ALTERNATIVES

The Legislature may wish to address the following questions:

- To what degree is accreditation of the Insurance Division a priority?
- Should appropriations to the Insurance Division (and arguably some other Divisions and State agencies) be exempt from across-the-board reductions or budget scrutiny because they are self-supporting and raise revenues far in excess of regulatory costs?
- Should the Division's appropriation represent a fixed percent of revenues generated, as proposed by the NAIC and other groups?

BUDGET IMPACT

To restore the Division's budget to the original FY 1992 level, plus \$200,000 would require a supplemental appropriation of \$416,000 from the General Fund.

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