December 1, 2013

Governor Susanna Martinez
Office of the Governor
490 Old Santa Fe Trail, Room 400
Santa Fe, NM 87501

Representative W. Ken Martinez
Speaker of the House
490 Old Santa Fe Trail, Room 104
Santa Fe, NM 87501

Senator Mary Kay Papen
President Pro Tempore
490 Old Santa Fe Trail, Room 105
Santa Fe, NM 87501

Chris Krahling, Chair
Insurance Nominating Committee
c/o Legislative Council Service
490 Old Santa Fe Trail
Santa Fe, NM 87501

Dear Governor Martinez, Speaker Martinez, President Pro Temp Papen and Mr. Krahling:

I am pleased to present to you the first Annual Report of the Office of Superintendent of Insurance. Please do not hesitate to contact me if you have any questions regarding this report or any aspect of our operations or strategic plans.

Sincerely,

John G. Franchini
Superintendent of Insurance
INTRODUCTION

The Office of Superintendent of Insurance (OSI) was created on July 1, 2013 pursuant to the passage of Constitutional Amendment 4 during the 2012 General Election and the subsequent enactment of House Bill 45 (Laws of 2013, Chapter 74) from the 1st Session of the 51st Legislature. These actions removed the insurance regulatory function from the Public Regulation Commission (where it was housed as the "Insurance Division") and placed it in a newly-created adjunct state agency entitled the "Office of Superintendent of Insurance." The enabling legislation also created an Insurance Nominating Committee to appoint the Superintendent of Insurance.

The staff and physical location of the OSI have remained essentially the same as they were while in the Insurance Division of the PRC. The incumbent Superintendent of Insurance under the PRC, John Franchini, was subsequently appointed by the Insurance Nominating Committee to retain his role as Superintendent.

In addition to executing the insurance regulatory duties imposed on him by the Insurance Code, the Superintendent is also charged with organizing and managing the OSI and directing and supervising its activities. The Superintendent is required to annually report to the Governor, the Legislature and the Insurance Nominating Committee, by no later than December 1, on the activities of the OSI during the previous fiscal year.

AGENCY MISSION

The mission of the OSI is to provide consumers with convenient access to reliable insurance products which are underwritten by dependable and financially sound companies. The OSI strives to ensure that these companies have a proven history of fair and reasonable rates and are represented by trustworthy and qualified agents. The OSI is committed to consumer protection and to the deterrence and prosecution of insurance fraud.

AGENCY VISION

As a newly-created agency, the OSI envisions revising its organizational structure to improve its functionality and to attract and retain qualified insurance regulatory professionals. The OSI also plans to replace its legacy IT system with a system promulgated by the National Association of Insurance Commissioners and used by most other state insurance departments. Lastly, the OSI plans to fully convert to paperless on-line processes for insurance agents and other licensees to obtain and renew their insurance licenses.
AGENCY DESCRIPTION

Employees and Facilities

The OSI has 96 full-time equivalent (FTE) positions authorized by the General Appropriations Act plus an additional 8 FTE authorized through federal grants. All staff are housed in the old PERA Building in Santa Fe. Eleven of the 96 FTEs are currently GOVEX positions. The OSI is in the process of converting all but four of these GOVEX positions to classified positions in order to comply with DFA directive and state practice not to have more than 4 exempt positions in executive agencies unless otherwise authorized.

Revenues

The OSI collects approximately $200 million in annual revenues, 90% of which are from premium taxes and surtaxes levied on insurance companies that write policies in New Mexico. Most of the remaining revenues are derived from annual licensing fees levied on insurance agents, insurance carriers and other insurance licensees. Approximately 95% of collected revenues are transferred to the general fund, the fire protection fund, the law enforcement protection fund and the Carrie Tingley fund as well as used to fund the operations of the OSI.

The following OSI operations have dedicated funding or are funded from other sources:

1. Patient’s Compensation Fund (PCF), which is funded by approximately $10 million of annual surcharges levied on health care providers who obtain medical malpractice coverage from the PCF. These funds pay judgments and settlements rendered on behalf of medically injured patients as well as the PCF’s operating expenses, which include the OSI’s one dedicated PCF FTE as well as contracted professional services and OSI resources used in relation to the PCF.

2. Insurance Fraud Fund, which is funded by a small portion of the premium taxes levied on insurers. This fund pays for the operations of the OSI’s Insurance Fraud Bureau.

3. Title Maintenance Fund, which is funded by assessments levied on title insurers. This fund pays for the OSI’s Title Insurance Bureau.

In addition to the above three separate sources of funding, the OSI has been awarded over $4 million in federal grants to implement aspects of the Affordable Care Act in New Mexico.
### Revenue Processed
**Fiscal Years 2010 - 2013**

<table>
<thead>
<tr>
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<th>FY 13</th>
<th>FY 12</th>
<th>FY 11</th>
<th>FY 10</th>
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<td>Licenses, Renewals &amp; Appointments</td>
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<td>$19,112,366.71</td>
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<td>$16,243,529.85</td>
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<td>Premium Taxes</td>
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<tr>
<td>Fines &amp; Penalties</td>
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<td>Surplus Line Taxes</td>
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<td>Insurance Premium Surtax</td>
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<td>$32,686,568.82</td>
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<td>Assessments</td>
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<td>$810,861.95</td>
<td>$1,365,835.97</td>
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<td>Patient's Compensation Fund</td>
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<td>$12,188,092.37</td>
<td>$10,855,690.27</td>
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<td>Continuing Education</td>
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<td>$98,563.60</td>
<td>$106,418.10</td>
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<td>Deductions</td>
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<td>($499,326.16)</td>
<td>($3,038,003.51)</td>
<td>($3,528,756.34)</td>
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<td>Miscellaneous</td>
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<td>$55,113.67</td>
<td>$23,389.38</td>
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<td><strong>Grand Total</strong></td>
<td><strong>$207,287,634.46</strong></td>
<td><strong>$227,285,073.70</strong></td>
<td><strong>$233,843,550.10</strong></td>
<td><strong>$242,386,615.26</strong></td>
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</table>
Organizational Units

Company Licensing

The Company Licensing Bureau licenses insurance companies and other risk-bearing insurance entities. Pursuant to this, the bureau receives, reviews and renders determinations on applications from insurance companies that want to enter the New Mexico insurance market. The bureau oversees almost $500 million in insurance company deposits held with Century Bank and the State Treasurer’s Office for the protection of New Mexico policyholders. The bureau also reviews and processes documentation submitted by insurance companies for acquisitions, re-domestications, mergers and name changes. Lastly, the bureau is responsible for the collection of premium taxes and policy filings from surplus lines brokers.

- Active insurance companies and insurance related companies: 1,477
- Total Securities Held with Custodial Bank: $448,802,000
- Total Surety Bonds Held with State Treasurer: $18,440,000

Producer (Agent) Licensing

The Agent Licensing Bureau licenses approximately 100,000 insurance professionals, as well as non-risk-bearing insurance entities. This includes insurance agents, agencies, brokers, adjusters, third party administrators, consultants, bail bondsmen, solicitors and motor clubs, as well as limited license insurance vendors such as cell phone sales agents and travel agents. To protect consumers, the bureau determines the qualifications and eligibility of applicants; approves pre-licensing and continuing education courses; tracks continuing education credits; and processes license applications, renewals and the appointment of agents by insurance companies.

- Total Active Licenses in New Mexico: 118,327
- Number of Company Appointments: 150,144
- Number of Appointment Cancellations: 135,526
- Number of Continuing Education Transactions: 4,906
- Number of Renewals: 590,519
- Number of Business Entity Licenses Issued: 1,407
- Number of Producer Licenses Issued: 28,021
- Number of Affiliation Transactions: 14,188
Examinations

The Examinations Bureau reviews all insurance company financial statements filed with the OSI. The bureau also conducts periodic financial and market conduct examinations, as well as ad hoc specialized examinations, of insurance companies. The Chief Examiner coordinates an internal solvency review team, consisting of financial analysts and actuaries, to review annual and quarterly financial statements filed by insurance companies domiciled in New Mexico and elsewhere and to plan examination activity.

➢ There are 23 are domestic insurance companies that receive periodic examinations. These exams are conducted every 5 years except in the case of Health Maintenance Organizations (HMO) which are examined every 3 years. A domestic insurance company is a company is incorporated in New Mexico.

➢ These same domestic company’s financial filings and supplemental filings are analyzed and reviewed by Certified Analysts and then by a Certified Supervisor at each of the 3 quarters of the year and at yearend.

➢ Number of Examinations Completed and Adopted: 9

Life & Health Product Filings

The Life & Health Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to health, life, annuities, long-term care, Medicare supplement and credit life and disability. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and based on OSI policies and procedures. As a member of the Interstate Insurance Compact, New Mexico participates in multi-state reviews of many life and annuity product filings.

➢ Total Types of Insurance Filed: 3,451  (Life 1,215; Health 869; Annuity 465; Medicare Supplement 445; Long Term Care 400; Other 57)

Property/Casualty Product Filings

The Property/Casualty Product Filing Bureau reviews and renders determinations on the rates and coverage provisions filed by insurance companies for products pertaining to automobile, homeowners, workers’ compensation, medical malpractice and assorted other products. The bureau approves or disapproves such filings where required, based on their compliance with insurance statutes, regulations and bulletins and with OSI policies and procedures.
Consumer Assistance

The Consumer Assistance Bureau receives, processes, tracks and resolves complaints and inquiries from consumers about insurance rates and handles claims for all insurance products, other than those involving managed health care. The bureau alerts the Investigations Bureau of situations where a complaint reveals a potential violation of insurance statutes and regulations by an insurance company or other insurance licensee.

- Life and Health Complaints: 129; Property and Casualty: 397; Other: 36

Managed Health Care

The Managed Health Care Bureau administers and enforces New Mexico’s Patient Protection Act and related regulations. The bureau handles complaints and inquiries from managed health care consumers and conducts over 100 outreach presentations throughout the state to inform consumers and health care providers of their rights under the Patient Protection Act. The bureau reviews external grievance appeals, proposes rule amendments and also takes appropriate enforcement actions where merited.

Investigations

The Investigations Bureau investigates concerns arising from consumer complaints and other sources to determine whether a licensed insurance company or agent has violated insurance statutes or regulations and takes appropriate enforcement actions where merited.

- Number of Investigations: 108

Insurance Fraud

The Insurance Fraud Bureau investigates and prosecutes through state district courts insurance fraud committed by insurance policyholders and applicants, medical providers, third party claimants and other perpetrators of white-collar insurance crimes. The bureau collaborates with state, local and federal law enforcement and regulatory agencies in these efforts.

Title Insurance

The Title Insurance Bureau regulates title insurance through rate-making and rule-making hearings and through periodic on-site inspections of the more than 100 title plants that exist throughout the state. The bureau investigates allegations of escrow theft and other infractions by title agents and insurers and coordinates with the Investigation and Fraud Bureaus for appropriate enforcement actions.
Workers’ Compensation

The Workers’ Compensation Bureau monitors the New Mexico Workers’ Compensation Assigned Risk Pool, handles complaints by employers regarding their workers’ compensation class code assignments and premiums, oversees the Safety Bonus Program, and represents the OSI in other matters relating to Workers’ Compensation coverage written through insurance companies.

➢ Formal Complaints: 20; Workers’ Compensation Inquiries: 239; Appeal Board Hearings: 6

Financial Audit

The Financial Audit Bureau is responsible for processing, auditing and collecting premium tax filings and revenue for all insurers (approximately 1,600) who write insurance premiums in the State of New Mexico including life, health, property, casualty, vehicle and bail bonding companies.

Affordable Care Act Programs

The OSI has received grants under the Affordable Care Act to help OSI enhance its health rate review process and to assist consumers with understanding their health care options. These grants have allowed the OSI to hire additional staff and actuarial consultants and to develop the www.nmhealthratereview.com website that provides consumers with information and feedback opportunities on health rate filings.

Patient’s Compensation Fund

While its primary function is the regulation of insurance, the OSI also administers the Patient’s Compensation Fund (PCF), which is a medical malpractice insurance risk-assuming function mandated by the Medical Malpractice Act. The day-to-day functions of the PCF are currently handled by one dedicated FTE, one contracted claim settlement expert and the part-time involvement of the Property/Casualty Actuary and the General Counsel. As part of its proposed reorganization, the OSI envisions creating the position of PCF Director in order to put this important function on a more stable and dedicated footing.
INITIATIVES

As mentioned in its Vision Statement, the OSI currently has the following broad initiatives:

Initiative 1: Revise the organizational structure inherited from the PRC’s Insurance Division to improve OSI’s functional and managerial structure.

The OSI’s proposed organizational chart is displayed on the next page.

Initiative 2: Replace the Agency’s dysfunctional legacy system (IDEAL) with the fully functional system promulgated by the National Association of Insurance Commissioners (SBS).

Initiative 3: Fully implement on-line application and renewal of licenses for insurance agents and other individual and small business licensees.
Performance Measures

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<th>Measure #</th>
<th>Type</th>
<th>FY11: Actual</th>
<th>FY11: Request</th>
<th>FY12: Actual</th>
<th>FY12: Request</th>
<th>FY13: Actual</th>
<th>FY13: Request</th>
<th>FY14: Target</th>
<th>FY15: Target</th>
<th>FY16: Target</th>
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