

THE REGULATOR™

INSURANCE REGULATORY EXAMINERS SOCIETY

New consumer unit

Indiana rebounds from national media inquiry

by Scott Hooper
special to THE REGULATOR

As public officials, insurance commissioners are accustomed to being in the public eye.

But rarely does the media attention reach the level of intensity experienced several months ago by Indiana's Sally McCarty and her staff: a negative article on the front page of the *Wall Street Journal*.

Reporter Scott Paltrow knocked the department's "tiny budget" and its "dilapidated" offices, aired allegations that Indiana regulators fail to protect consumers and said that, in general, state-by-state regulation of insurance results in too tight a bond between regulators and the industry they regulate.

Yet McCarty says that for the most part, the impact of the Jan. 14 article — at least in-state — has been positive.

Getting people's attention

"What the article did for us was get a lot of people paying a lot of attention to our situation, and that has been more positive than negative," McCarty said.

"Some of the ideas that I had for the department, as a new commissioner, I've been able to make into reality at a much faster pace because of that article. And one of them is a new Consumer Protection Unit that we started up in late June."

While the article certainly gave the Indiana Department of Insurance a black eye, much of its criticism was dated. Worst of all, though, McCarty and her department weren't the Journal's intended target.

"It's no secret that Scott Paltrow is a big proponent of federal regulation of insurance," McCarty said of the Journal's reporter.

"He reviewed the 1995 NAIC surveys of the state departments and found that in 1995 the Indiana department had not conducted any market conduct exams. And given the size of our market [sixth



Commissioner
McCarty

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Last-minute news about 1998 CDS

- The IRES registration center will open up at 2 p.m. Sunday. You can pick up your program packets then.

Chicago

- Board of Directors meets Sunday at 4 p.m. in room York 1,2,3. IRES members welcome.
- Sunday night welcome reception/dance starts at 6:30 p.m. in the Regency Ballroom.
- Registration/check-in re-opens 7 a.m. Monday
- Ballots for IRES Board of Directors must be turned in by 4 pm Monday.
- For other last-minute details on the CDS, check the Society's web site: www.go-ires.org



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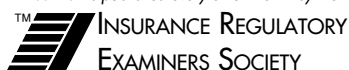
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President's Forum

Christel L. Szczesniak, CIE

*It was a good year,
but IRES still needs
more participation*

When I took over last summer in Charlotte as president of IRES — has it been a year already? — I announced three themes for the coming year: Communication, Education and Participation.

All three of those themes of course come together in The Society's annual Career Development Seminar, and as measured by CDS we've done a superb job on all three of my themes.

Education? I sincerely believe that the CDS next month in Oak Brook, Ill., will be the best one ever.

Communication? We've done a better-than-ever job of letting members and nonmembers alike know about the CDS, with excellent mailings and a new and effective Web site.

Participation? Well, if the program is educationally sound and the communication does its job, I would expect to hear that more people than ever before have signed up to attend. At this writing, our CDS headquarters hotel was completely out of rooms. We must be doing something right.

But IRES alone can only do so much.

The Society does a wonderful job of providing services to its members. But it can only keep on doing that job if it gets support from each of you.

No, I don't just mean signing up to come to the CDS. As important as that is, there's more to being a full-fledged member of IRES than coming to the CDS. How about offering to speak or lead a panel at next year's CDS?

The same is true across the board.

Getting your AIE and CIE is important, but then you need to give something back to your profession

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MEET YOUR BOARD MEMBERS*

Paul J. Bicca, CIE
IRES Board of Directors

A regulator for 11 years, currently serves as Chief of Consumer Services, Vermont Department of Banking Insurance & Securities

If I weren't a regulator, I'd be: "Doing something else to make the world a little better."

The biggest issue facing insurance regulation today: "The exponentially increasing complexity of insurance products. Consumers who are used to older, straightforward products are buying newer products they don't understand."

My proudest accomplishment: "Being the first member of any generation of my family to graduate from college."

Family: "I live on a river in the woods with my wife Stacey. After 17 years as a Social Security hearing officer, she now works as editor of a national insurance consumer newsletter."

Hobbies: Playing softball and golf, learning to sculpt.

Favorite quote: "You gain strength, courage and confidence by every experience in which you stop to look fear in the face. You must do things you think you cannot do."
— Eleanor Roosevelt

John A. Hartley, CIE, AIC
IRES Board of Directors

A regulator for 20 years, currently serves as market conduct examiner, Oklahoma Insurance Department

If I weren't a regulator, I'd be: "... a retired regulator."

The biggest issue facing insurance regulation today: Federal intervention into the insurance industry.

My proudest accomplishment: "Raising a family and serving my country."

If I could do one thing over, it would be: "Spend more time with my family when the kids were little."

Family: "Married to Jean for 26 years, four children, six grandchildren and another due about now."

Hobbies: Sport fishing, quail hunting, Civil War re-enactor.

Favorite quote: "Hit the ball over the fence and you can take your time going around the bases."

**More Board profiles on page 9*

Media probe actually helped, commissioner says

continued from page 1

highest number of companies of all the states, and second in terms of foreign companies], he thought that was curious.

“I think he had the article in mind and picked us as a likely candidate.”

By the time Paltrow arrived to interview

A Matter of Policy

How a State Becomes Popular With Insurers —But Not Consumers

Indiana's Regulators Have Little Budget or Clout; Conflicts at the Capitol

A Bad Pitch to Mr. Miracle

By SCOT J. PALTROW

Staff Reporter of THE WALL STREET JOURNAL
INDIANAPOLIS — To grasp where the Indiana Insurance Department ranks in this state's government, drive west from downtown Indianapolis along Washington Street.

On the right sprawls a six-year-old state office complex, occupying nearly six blocks and rivaling in grandeur many federal buildings in Washington. It houses nearly all state agencies, from the Finance Department to the Office of Barber Examiners, in spacious quarters surrounding atriums, wide hallways and a landscaped courtyard with fountains.

Directly across the street, between a bar and a dusty parking lot, sits a small, dilapidated structure, built in 1919 as home to a department store. It houses the Insurance Department.

Sally McCarty, who last July became the agency's fifth commissioner in six years, says the shabby entryway, the single slow elevator and the windowless warren of offices “don't give you a positive image of the Department of Insurance or state government.” Even a frequent adversary, Stephen A. Williams, president of the Indiana Insurance Institute, the lobbying arm of Indiana's property and casualty insurers, calls the department's headquarters “a hellhole.”

A Gold Mine

The problem isn't that the department is a money loser. In fact, it is a profit center.

The January 14 Wall Street Journal article on the Indiana Insurance Department

McCarty, then acting commissioner, the situation reflected in the NAIC data had already changed. Unfortunately, many of the other people who had been running the show had left, making it tough to respond to specific criticisms.

“Most of our senior staff had gone on to other positions, and we were going through a transition,” McCarty said. “So a lot of what he was talking about were things that happened in the past and were difficult to respond to.”

“And many of the facts were there: The statistics he found were accurate, so that was kind of a difficult situation for us.”

Besides, as

McCarty knows first hand, sometimes the good news has a hard time slipping past the bad.

Last year, for instance, after the overworked Consumer Services Division handled 5,200 com-

plaints and retrieved \$3 million for consumers, the department put out a news release. And not a single TV station or newspaper ran it.

Consumer protection

Even before the Journal interview, back when McCarty was deputy commissioner, she'd seen a need to upgrade and expand Consumer Services — to take a second look at tough cases, to work more closely with unresponsive companies and, perhaps most of all, to have the time to sit back and spot trends before it's too late.

It's embarrassing when a reporter uncovers and publicizes some unresolved issue. But it's doubly embarrassing when the department realizes it hasn't got the staff to do the same thing itself.

“We have no one person here who could do [the research that the newspaper did],” McCarty said. “But that's what we're going to have.”

The department has two investigators on staff already, mainly to do agent investigations, and they're adding a third investigator to look into potential problems before the press or anybody else has to.

“And then we're adding a Chief of Investigations,” McCarty added, “an attorney who will handle any kind of administrative litigation that arises from the investigations. Plus there will be a new clerical person, of course.”

“The Chief of Consumer Protection will oversee that whole division, reporting to me. It's currently called the Enforcement Division, but we're combining that with our existing Consumer Services Division and our Company Services Division, which reviews forms, policies and rates, which are another source of violations. And we're calling that whole unit the Consumer Protection Unit.”

Heading the new unit is Colleen McNenny, Indiana's former utility consumer counselor, who has a reputation as an aggressive protector of consumer rights.

Market conduct

Although financial exams sometimes include market-conduct issues, in the past whenever the Indiana department felt the need to do a full-blown market conduct exam, they'd contract with a law firm

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Indiana lessons from news media investigation

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— which often ended up subcontracting claims review or other parts of the exam.

Starting last month, the department has switched to consulting firms that specialize in such exams.

“We don’t have per se a market conduct examiner staff,” McCarty said. “We’ll probably be able to do a lot more of the legwork than we ever could before, with our new enforcement unit, and we have also bought ACL (a sophisticated computer program for conducting insurer exams), which will help us do a lot of those functions in-house.”

“But for actual focused-in on-site exams, we’ll probably contract out.”

Indiana isn’t new to outsourcing examiners. Some 30-40% of financial exams also are contracted out — mainly because the department has a hard time recruiting and retaining examiners.

“I’m not sure if other states are experiencing this,” McCarty said, “but we have an extremely excellent job market right now, and people with a CPA and an accounting degree can go out and earn a lot more than we’re able to offer them.”

“We’re just fortunate that some people are interested in working for government, or start out here and want to get their experience here, but we’ve lost an awful lot of people to private accounting firms.”

At least in part because of that Journal article, the state personnel department reviewed the salary situation and approved a 29.6% recruitment differential — up from 19.5% — that allows the department to go further out of grade to get and keep good examiners.

Budget woes continue

One thing that hasn’t changed since the article came out is the department’s minuscule budget. Paltrow made much of the fact that, though insurance regulation brings in \$140 million a year, the department’s budget is only \$4 million

“All the changes I’m describing we’ve done within our current budget,” McCarty said.

“Indiana’s a conservative state and, as much as they want us to protect their rights, our people don’t

want to see big tax increases. So we have learned to live within the budget we have. We do have some supplemental funds that will be available if we need them, in a dedicated fund, but there are lots of things we can cut down on that are not as necessary to consumer protection as some of the things we are adding.

“Smaller and smarter is what we are looking at.”

Contractors help accomplish that, since the cost of their services is covered by the fee charged to the companies.

McCarty is also counting on computerized data management to reduce staff needs in some areas, such as agent licensing. And if ACL allows more work to be done in advance, that could cut examiners’ travel costs.

When it came to shuffling positions, in essence moving people from an existing position to new, higher-priority positions, the Journal article probably helped.

Basically, McCarty said, the governor told the state’s personnel and budget people to work it out — and they did. “We did it in pretty short order too,” she added.

Managed care

“What the article did for us was get a lot of people paying a lot of attention to our situation, and that has been more positive than negative. . . . Some of the ideas that I had for the department I’ve been able to make into reality at a much faster pace because of that article.”

— Indiana Insurance Commissioner Sally McCarty

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The costly trilogy of insurance fraud

Learning to recognize the many faces of fraud

by William C. Creel

Deputy Commissioner and Director of Investigations
North Carolina Department of Insurance

Like the title character in the classic movie *The Three Faces of Eve*, insurance fraud also is three different characters in one. Joanne Woodward won an Academy Award for her portrayal of Eve, the victim of multiple personality disorder. The 1957 landmark film increased public awareness of psychotherapy, just as fraud fighters are experiencing an era of heightened public awareness of deleterious insurance frauds.

Insurance fraud has three distinctive faces — claims fraud, producer fraud and internal fraud. These frauds are costing insurance companies and consumers billions of dollars annually. Let's examine insurance fraud from this multifaceted perspective.

Claims fraud is most familiar to us because of our awareness of exaggerated property and casualty claims, staged accidents and professional slip-and-fall artists trying to make a fast buck. Expert car crashers and workers' compensation malingerers fill the news shows with performances worthy of Academy Awards, all in pursuit of undeserved claims payments.

Conspiracies among attorneys, medical providers, and cappers have become commonplace. A Conning & Company insurance research study places the cost of claims fraud at a staggering \$120 billion a year.¹ Can you believe property and casualty fraud schemes account for only 17% of insurance claims fraud, while health care related frauds represent almost 80% of the total? That amounts to \$95 billion a



William C. Creel

Mr. Creel chairs the NAIC Antifraud Task Force

year! The remaining 3% is life and disability insurance fraud. Yet most state fraud bureaus and company special investigative units focus their resources on false claims filed against auto and homeowners policies.

Perhaps the reason is the sheer volume of inflated claims resulting from fender benders, "whiplash" and homeowner losses. Another factor may be the ease by which unscrupulous medical providers bill and receive reimbursement for services not rendered, upcoding, and unbundling procedure codes.

Regardless of the reason, health care fraud is having a substantially negative effect on the trillion-dollar health care industry. Presenting an even more bleak picture is a 1996 U.S. Government Accounting Office report² estimating 10% of all health care expenditures may be lost to fraud and abuse.

The majority of cases reported to insurance department fraud bureaus involve claims fraud. Most referrals allege individual policyholder exaggeration or material misrepresentation of facts concerning the loss. From the prosecutor's point of view, these cases have little jury appeal because of the relatively small monetary losses per claim. Also, the perceived titanic stature of insurance companies makes them unsympathetic victims.

As more investigative agencies focus on health care fraud, they observe changes in the patterns of fraud and abuse. Attention has shifted from individual practitioners overstating the scope of services rendered. Now, investigative emphasis targets the complex and calculated fraud schemes conceived by institutional and corporate providers.

Some health care providers are more concerned with the bottom line than with patient care. Federal, state and local investigative agencies are forming task forces directed at major health care provider frauds. Their successes are evident and measured by convictions, monetary recoveries and sanctions against multinational medical providers.

Ironically, the tried and true investigative axiom remains the same in these investigations as in efforts

aimed at individual providers — follow the money.

The effort to combat insurance claims fraud has been enhanced recently in several ways. The National Association of Insurance Commissioners (NAIC) External Claims Fraud Working Group developed a universal reporting form to be used by all insurance companies to report suspicious claims. The form is accepted by every state bureau, making fraud reporting much more convenient for the insurers.

The working group is currently developing an electronic reporting model that allows easier and more efficient reporting to fraud bureaus. The National Insurance Crime Bureau (NICB) and the Insurance Services Office (ISO) entered into an agreement to construct an “all claims” database. This database will be a tremendous resource for fraud bureaus and other agencies investigating insurance claims fraud. The project is expected to be completed and on-line by fall, 1999.

Producer frauds are the second type of insurance crime. Producer frauds typically involve licensed insurance agents, brokers and adjusters. Embezzlement of insurance premiums is the most common offense. Illegal schemes to generate commissions are also a favorite among the relatively small number of dishonest insurance producers overcome by greed. Occasionally, a new or unique scheme will surface.

A recent case involved an agent who perused company files until he located a local policyholder with the same surname as his own. A forgery to the policy surrender forms caused a check to be issued. A quick telephone call to the policyholder citing a computer malfunction explained the reason a check was in the mail. Forewarned, the policyholder did not even open the envelope before calling the agent to pick up the allegedly errant check. Forging an endorsement and depositing the check into his personal account completed the scam and netted the agent \$72,000. His subsequent conviction netted him a 10-year active jail term.

Fortunately, state insurance fraud bureaus have a

better handle on this facet of fraud. In most jurisdictions, criminal investigators successfully investigate and support prosecution of the licensed producers who steal premium dollars. Statistically, some fraud bureaus obtain 50% or more of their convictions from producer fraud cases. Why the disproportionate number of convictions of insurance producers as compared to the multitude of claimant fraud cases?

I believe the answer is twofold. First, insurance departments provide the licensing necessary for an individual to become an agent, adjuster or broker. For that reason, a department’s investigative arm has a responsibility to all insurance consumers to protect them from fraudulent acts by the licensees.

Also, criminal prosecutors tend to favor cases involving illegal activities of individuals in a position of trust. Insurance producers fit that profile because of

the trust by companies that appoint them, and by the policyholders who entrust their premium dollars to them.

The third category of insurance crime is internal frauds. Internal frauds include a variety of schemes and devices used to steal from individuals and companies. Sometimes licensed insurance companies misrepresent the insurance products they sell. A few well-publicized cases have resulted in enormous monetary penalties to formerly respected companies. Close scrutiny and effective regulatory examinations deter crimes involving product misrepresentation. Thus, insurance fraud bureaus initiate relatively few criminal investigations targeting licensed insurance companies.

More often, insurance fraud bureaus pursue unauthorized entities. These individuals or groups purport to be insurance companies but are not licensed or admitted in any jurisdiction. They recruit both licensed and unlicensed agents to sell their worthless policies, frequently at very attractive commission rates. By the time policyholders report losses and complain to regulators about nonpayment of claims, the perpetrators have vanished.



Can you believe property and casualty fraud schemes account for only 17% of insurance claims fraud, while health care related frauds represent almost 80% of the total? That amounts to \$95 billion a year!



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States and the NAIC attack the three faces of fraud

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Many of the swindlers are known by insurance departments in several states. Regulators often chase the “usual suspects” from state to state, and have more success with civil remedies rather than criminal prosecutions. These putative insurers fully understand the jurisdictional disadvantages faced by state regulators and criminal investigators.

The NAIC’s Unauthorized Entities Working Group recently completed work on the *Unauthorized Entities Manual*. The publication has been adopted by the NAIC and soon will be available. The manual provides guidance to insurance regulators and a resource for early detection of the unauthorized business of insurance. The manual is specifically intended for insurance department staff, regulatory agencies charged with enforcement of existing statutes on unauthorized insurers and prosecutors pursuing criminal cases involving illegal unauthorized insurance.

The NAIC’s assistance to regulators does not stop there, however. The Special Activities Database (SAD) enhancements facilitate the exchange of information among state insurance departments. The new version, known as SAD Plus, is now in operation.

Another example of internal fraud involves dishonesty by persons inside insurance companies. Typically, these crimes are embezzlement or financial schemes aimed at company assets. This type of internal fraud also includes false financial statements or other documentation used to misrepresent the solvency of an insurer.

Crimes of this nature attack the stability of the insurance industry. Recognizing this problem, Congress enacted the Violent Crime Control and Law Enforcement Act of 1994, a federal law creating specific insurance fraud statutes. Title 18, United States Code, Section 1033, entitled “*Crimes by or affecting persons engaged in the business of insurance whose activities affect interstate commerce,*” is the first federal insurance fraud statute. The law specifies as federal crimes acts of embezzlement, misappropriation of funds, making false statements in reports and making false entries in books and records.

Also included are the illegal acts of threatening, obstructing or corruptly influencing the proper administration of insurance regulation.

For regulators, probably the most interesting provision is the subsection which establishes a federal

crime for engaging in the business of insurance if one has been convicted of a criminal felony involving dishonesty or breach of trust. This means that a conviction in a person’s past may disqualify that person from working for an insurance company or an insurance regulatory agency. To be exempted from this provision, prohibited individuals must apply to and receive a waiver from an insurance regulatory official authorized to regulate an insurer.

Obviously, 18 USC 1033 generated an abundance of questions from the insurance industry. In the absence of written federal regulations to answer the questions, the NAIC created *Guidelines for State Insurance Regulators to the Violent Crime Control and Law Enforcement Act of 1994*.

The guidelines, which were adopted at the NAIC’s Spring National Meeting in March 1998, are the work product of the Federal/State Coordinating Working Group. This group spent more than 18 months identifying issues, resolving questions, defining terms and establishing procedures for insurance commissioners to consider when granting waivers.

The guidelines offer a model for consistent treatment of barred individuals in any state jurisdiction. The document may be the most significant product in recent years from the working groups representing the NAIC’s Antifraud Task Force.

This brief summary of insurance-related crimes categorizes the broad types of insurance fraud, identifies some of the common fraud schemes and highlights activities aimed at fighting fraud. The agencies and individuals investigating insurance fraud confront the three faces of fraud everyday.

Since awareness is a critical element to successful insurance regulation, I hope this information focuses attention on the significant problems caused by criminal activities in the business of insurance. ■

¹*Insurance Fraud — The Quiet Catastrophe, 1996*, Conning Insurance Research & Publications, Strategic Study Series, p.8.

²*Health Care Fraud, Information-Sharing Proposals to Improve Enforcement Efforts*, United States General Accounting Office, May 1996, Report to the Ranking Minority Member, Subcommittee on National Security, International Affairs and Criminal Justice, House Committee on Government Reform and Oversight, p. 12

MEET YOUR BOARD MEMBERS

L. David Blair, CIC

IRES Board of Directors

A regulator for nearly 7 years, currently assistant director, Ohio Department of Insurance.

If I weren't a regulator, I'd be: "... a golfing, motorcycling and fishing beach bum on the Alabama Gulf coast" (the Redneck Riviera).

The biggest issue facing insurance regulation today: "The blending of state insurance regulation into the global marketplace."

My proudest accomplishment: "Leading the drafting of Ohio's new insurance agent licensing statute."

If I could do one thing over, it would be: "Learn to play golf at a younger age and be much kinder to my body."

Family: "Shirley and I have been married for more than 27 years. We have a 19-year-old son, Kenny."

Hobbies: Golf, fishing, hunting, beach combing, motorcycling and surfing channels on the Internet.

Favorite quote: "When you encounter a problem, create a procedure to solve it and it's no longer a problem." — Frank Sullivan

Most recent book read: *Executive Order* by Tom Clancy

Howard L. Magill, CIE

IRES Board of Directors

A regulator for nearly 21 years, currently director of life-health filings at the Tennessee Department of Insurance

If I weren't a regulator, I'd be: "... living in Nebraska and attending all the Nebraska football games -- GO BIG RED!"

The biggest issue facing insurance regulation today: "The rising cost of individual health insurance policies. The issue is especially critical for those who don't qualify for Medicaid and yet haven't reached Medicare age. They are being priced out of the marketplace."

My proudest accomplishment: "Laying the groundwork for the establishment of the Senior Citizen's Assistance Office in the Tennessee Department."

If I could do one thing over, it would be: "to take up golf when I was five (like Tiger Woods) and not wait until age 45."

Family: "Married for over 33 years to Carolyn. Have two grown daughters, Julie, age 30, and Melanie, age 26. Of course, I married extremely young!"

Favorite quote: Either, "He's wrapped too tight" or "90% attitude, 10% ability."

Most recent book read: *The Tennessee Law Book* (over and over)

Indiana survives Wall Street Journal probe

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Ironically, considering her experience with the *Wall Street Journal*, McCarty holds a journalism degree. She got involved with insurance issues through 10 years in the HMO industry, followed by four years heading up Indiana's credentialing agency for health professionals.

She moved over to the Department of Insurance as health deputy just as managed care was becoming a bigger and bigger issue in the state. While her mandate is far broader today, HMOs are still an area of interest.

For instance, although managed care gets all the attention — including a sweeping patient-protection bill that came out of the last session of the Indiana Legislature — indemnity insurers continue to generate roughly twice as many complaints as managed-care plans.

“What we're creating is two-tier protection,” McCarty said.

“People who are in HMOs are going to have all of this overkill, which I hope won't result in premiums going so high that they lose the benefit of being in an HMO. And all the people who are in the plans with the worst track records are having none of those protections.”

Speaking of health insurance, McCarty is especially proud of her department's new seniors health insurance information program. If nothing else, it's a switch from the regulator's typical reactive mode into something a little more proactive. “It's different from everything else we do,” she said. “That's kind of a breath of fresh air.”

State by state

But what about the issue that apparently started the *Journal* on its quest for a really rotten state insurance department to expose to the light of day?

McCarty isn't the only regulator to wonder what the fuss is about. After all, why assume that the theoretical new federal insurance regulator would

pattern itself after the best of the states? And where does anyone get the idea that members of Congress are less prone than state legislators to being in the companies' hip pockets, as the *Journal* alleges?

Sure, state-by-state regulations leads to differences in the way insurance is regulated from place to place. What of it?

“Each state may need to do it differently,” McCarty said. “Each state has a different culture. Each state has different expectations from their consumers. I'm not sure that we need to be identical.”

Besides, she added, despite what you may have read in the *Wall Street Journal*, things are going pretty well in her state.

“The Indiana insurance market is healthy and thriving, and premiums are low

because we do have a very competitive, healthy market, and there are not a lot of abuses that we can see.

“There are some problems, and we're going to address those, but we're not really as bad off as Mr. Paltrow may make us appear to be. That's the message I'd like to get out, if I get any message out.”

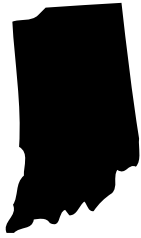


Each state may need to do it differently, McCarty said. Each state has a different culture. Each state has different expectations from their consumers. I'm not sure that we need to be identical.



IRES Career Development Seminars

- 1998 — Oak Brook, Ill. (Chicago). Aug. 2-4 Hyatt Regency
- 1999 — Las Vegas. Aug. 1-3 Bally's
- 2000 — New Orleans. July 30-Aug. 1 Hyatt Regency
- 2001 — Baltimore. Dates and hotel to be announced.



Indiana Insurance Department

- *Market conduct exams handled by:* Consumer Protection Division
- *Size of staff:* 6 in division, 85 in department
- *Domestic/total companies:* 210/1,882
- *Use of contract examiners:* Occasionally in financial exams, commonly in market conduct
- *Confidentiality:* Final, signed exam report is part of the public record
- *Contact:* Colleen McNenny, chief, Consumer Protection Division:
317-232-3585 • E-mail: cmcnenny@state.in.us/idoi

It couldn't happen to *me*. Or could it?

If there's one thing most public officials dread, it's that phone call from *60 Minutes* or, or as was the case for the Indiana Department of Insurance, from a reporter with the *Wall Street Journal*.

Not that your department has anything to hide — it's just that if a reporter or TV news person wants to make you look bad, they can probably find something to justify the notion.

"I venture to guess that you could walk into any department in the country and sit down for three or four days like he did and find some really big problems" said Sally McCarty, Indiana's Commissioner of Insurance.

What can other states learn from Indiana's experience? Media relations professionals with whom we spoke offer these tips:

Be open. Even though there was a good chance reporter Scott Paltrow of the *Journal* intended to make the department look bad, McCarty was right in sitting down and talking with him.

In a court of law, silence doesn't imply guilt. In the court of public opinion, silence — or, worse yet, "No comment" — is a sure sign of guilty-as-charged.

Look for the hidden agenda. In this case, the reporter had clearly singled out Indiana as a bad example of state regulation, by some measure or another. It can be hard to fight back against an ephemeral issue like that, but it's often possible to word your responses in a way that will soften the impact.

Said one crisis manager: "One of my clients faced a situation similar to the one Indiana went through — a national newspaper, a strongly negative agenda — and we were able to rebut the preconceived idea so effectively that they ended up dropping the story altogether."

Think it through. Even someone who's experienced in thinking on their feet can have trouble if they haven't taken a good, hard, objective look at the questions that might be asked — and practiced answering in a way that's appropriate for the medium (TV and print expect very different things, for instance).

Your best bet is to call in a pro. And if the department's own public affairs person hasn't had a lot of experience with high level adversarial interviews, consider contacting a consultant for advice.

Stay focused. Be cordial, but remember that a news interview isn't a social situation.

Practice what politicians call "message discipline": Know in advance what message you want to get across, then make sure not to send conflicting or competing messages. (Remember, too, that TV calls for exceptionally short, pithy responses.)

Be honest. You have a right to say "I don't know" on occasion. If you're asked for specific information that's not at your fingertips, don't speculate; tell the reporter you'll have someone look that up, and then see that they do.



Code of Professional Conduct and Ethics

Adopted by IRES Board, July 9, 1990

Section I - Principles

Preamble

Membership in the Insurance Regulatory Examiners Society (IRES) is voluntary. By accepting membership and the privilege of using designations bestowed by the Society, members assume an obligation of self-discipline above and beyond the requirements of laws and regulations.

Article I - Responsibilities

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgements in all their activities. Members have a continuing responsibility to cooperate with each other and other regulatory societies to improve the art of regulation of the insurance industry within the framework of regulatory laws and regulations. The collective efforts of all members are required to maintain and enhance the traditions of the regulatory profession.

Article II - The Public Interest

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to excellence in the performance of their regulatory duties.

Article III - Integrity

To maintain and broaden public confidence, members should perform all regulatory responsibilities with the highest sense of integrity. Integrity is an element of character fundamental to professional recognition. It is the quality from which the public

trust derives and the benchmark against which a member must ultimately test all decisions. Integrity requires a member to be, among other things, honest and candid within the constraints of statutory confidentiality. Service and public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit and subordination of principle. Integrity also requires a member to observe the principles of objectivity and independence and due care.

Article IV - Objectivity and Independence

A member should maintain objectivity and be free of conflicts of interest in fact and in appearance in discharging regulatory responsibilities. Objectivity is a state of mind, a quality that lends value to a member's performance. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflict of interest. Independence precludes relationships that may appear to impair a member's objectivity in the performance of regulatory duties.

Article V - Due Care

A member should observe the profession's statutory, technical, legal and ethical standards promulgated by their regulatory authorities, strive continually to improve competence and the quality of their services, and discharge professional responsibility to the best of the member's ability. The quest of excellence is the essence of due care. Due care requires members to discharge their regulatory responsibilities with competence and diligence.

www.go-ires.org

IRES web site keeps adding info, features

If you haven't checked out the IRES Web site lately, you've been missing something.

For instance, you know how when you arrive for CDS, the final program contains all kinds of new information. Things like speaker changes, additions to panels, and of course speakers' names and room assignments.

Well, as soon as that information becomes available, it now goes up on the Web site (just click on the CDS button on the home page).

We've recently added a couple of changes to the Commissioners' Roundtable, and by the time you read this, the speakers and room assignments should be posted as well.

On top of that, we've made it easier still for members to send messages to the Society's leadership.

If you'd like to send an E-mail to every member of the Executive Committee, for instance, or to all those involved in planning the Market Conduct Section of the CDS, all it takes is one click on the mouse. (Board committees are on the About IRES page, while CDS section chairs and volunteers are on the CDS page.)

Plus we've added a new page of personals — promotions, professional honors, even job postings. Click on the button on the Membership page to check it out (and click on any of the E-mail links scattered throughout the site to send us material to post to that page).

Our aim in all this is to make the information our members need readily available. So if you have any ideas for what you'd like to see on our Web site, please pass them along.

President's column

continued from page 2

by helping support the accreditation program.

We have a great newsletter. When's the last time you called up and offered to write an article for *The Regulator*?

No matter how good the Board and the staff may be, they can never produce anything but a really well-run top-down organization. What has made IRES so effective in the past is the degree to which it's been a bottom-up organization, with strong leadership from you, the members.

So my parting word to you is: PARTICIPATE.

There are many opportunities to take part in the activities of your professional society. Some are big and some are small, some involve a short-term project, while others last all year.

So participate. Help make IRES the best it can be. In the process, you'll help yourself too.

PARTICIPATE.

C.E. News

Updates and other tidbits from the National IRES Continuing Education program, the CE program for persons holding AIE and CIE designations.

The 1998 NICE Manual Update is scheduled to be mailed in July. The basic change represents a shift from the initial 3-year 45 hour reporting program, which ends September 1, 1998, to an annual 15-hour reporting program. If you do not receive your update, please notify the IRES CE office.

Is your current address and telephone number on file with IRES? Please notify the IRES office in writing or by fax of any changes.

Joy Moore, NICE Program Coordinator, will be available at the CDS to answer any questions you may have regarding your continuing education credits.

N · I · C · E

How to get around Oak Brook and Chicago

Chicago

The site of this year's CDS is just west of Chicago, accessible to just about everywhere. But it does take some practice to negotiate the spaghetti bowl of Chicago area highways. Here are a few tips to get to the hotel (if you're driving in, or flying and renting a car) and to get around once you're there.

From O'Hare International (or from Wisconsin, Minnesota and points west via I-90 and the Tri-State) — Take I-294 south to I-88 west. Pay one toll on I-88, then exit just past the toll booth onto Cermak Road. Go straight at the bottom of the ramp, and three blocks later you'll see the hotel on the right.

From Midway Airport — Take I-55 west to I-294 north, then exit onto I-88 west. Exit onto Cermak Road after the toll booth, go straight for three blocks.

To and from Chicago's Loop — From downtown, take the Congress Expressway (aka I-290 or the Eisenhower Expressway) west to I-88. Again, exit onto Cermak Road after the toll booth, go straight for three blocks, and the hotel will be on your right.

To get downtown, simply reverse the steps (the IRES registration desk can fill you in on the details, such as which exit to take to get to your specific destination).

From the southwest via I-55 — Take I-355 north, exit onto I-88 east. From I-88 (the East-West Tollway), exit onto Midwest Road, turn right at the first light, then right again onto 22nd Street. Stay on 22nd for five lights to Spring Road. Turn left and

look for the hotel on the right after three blocks.

From the north or south via Route 83 — If you come in from the north via Route 83 (Kingery Highway), you'll want to turn left at 16th; continue for half a mile, and the hotel will be on your left. Coming from the south on Kingery, turn right at the light at 22nd Street, go three lights to Spring Road, then turn left and look for the hotel on the right after three blocks.

Not to worry if you don't plan to drive your own car or bring a rental — public transportation is plentiful in Oak Brook.

If you'd like to check out one of the many fine restaurants in the immediate area of the hotel, the Hyatt's shuttle will get you there for free.

If you prefer to wine and dine in the Loop, you have a choice: take a cab or limo from the hotel (pricey but handy) or take the train, like the locals do.

Taxis are just about always sitting out front of the hotel. Or check with the hotel to arrange for a pickup.

The hotel shuttle will be glad to drop you off at the Hinsdale train station (either free or for a modest charge, depending on the time of day). The train itself is really inexpensive, and of course you'll need a taxi at the other end of the trip to get to your destination.

Attention Regulators: Don't forget that the NAIC will conduct computer training Aug. 2-3 (Sun-Mon) during the IRES Career Development Seminar. Classes will start at 10 am on Sunday and run most of the day, and then start again on Monday morning. There will be training on the market conduct examiners handbook, the NAIC Complaints Database, the Exam Tracking System, the SAD database and more.

IRES 1998 Career Development Seminar

AUGUST 2-4, 1998 OAK BROOK, ILL. (CHICAGO)
HYATT REGENCY OAK BROOK

Official Registration Form

Fill out and mail to The Insurance Regulatory Examiners Society
130 N. Cherry, Suite 202 Olathe, KS 66061

Yes! Sign me up for the 1998 IRES Career Development Seminar. My check payable to IRES is enclosed.

Name _____

Title _____ First name for Badge _____

Insurance department or organization _____

Your mailing address _____ Indicate: Home Business

City, State, ZIP _____

Area code and phone _____ \$ _____ Amount enclosed

List professional designations that you would like shown on your name badge

Hotel Rooms: You must book your hotel room directly with the Hyatt Regency in Oak Brook. The

Hotel SOLD OUT. Call for information on alternative hotel locations.

convention rate is available until July 3, 1998 and on a space-available basis thereafter.

CANCELLATIONS AND REFUNDS

Your registration fee can be refunded if we receive written notice before July 3, 1998. No refunds will be given after that date. However, your registration fee may be transferred to another qualifying registrant. Refund checks will be processed after Aug. 20, 1998.



Seminar Fees

(includes lunch, cont. breakfast and snack breaks for both days)

Check box that applies

- IRES Member (regulator) \$190
 Industry Sustaining Member ... \$345
 Non-Member Regulator \$290
 Retired IRES Member \$85
 Industry, Non-Sustaining Member \$550
 Spouse/guest meal fee \$60

Spouse/Guest name _____

If registering after July 3, add \$40.00. No registration is guaranteed until payment is received by IRES.

SPECIAL NEEDS: If you have special needs addressed by the Americans with Disabilities Act, please notify us at 913-768-4700 at least five working days before the seminar. The Hyatt Regency's facilities comply with all ADA requirements.

SPECIAL DIETS: If you have special dietary needs, please circle: Diabetic No Low salt Vegetarian

Seating for all events is limited. IRES reserves the right to decline registration for late registrants due to seating limitations.

**Call for more details:
913-768-4700. Or see IRES
web site: www.go-ires.org**



BULLETIN BOARD

√ Welcome to these new IRES regulator members: Barbara Belling, WI; Diane Dambach, WI; Pam Ellefson, WI; Laura Iliff, WI; Jane M. Kovacik, WI; Victor Mukherjee, AIE, NY; Ashley T. Natysin, WI; Rhonda Peterson, WI; Mark J. Reinholz, WI; Nestor J. Romero, multi-state examiner; Jeffrey Sanford, WI; Sheila W. Sullivan, CT; Norman J. Wirtz, WI; Angela Yoakum, OH; Marcia L. Zimmer, WI; Linda Nemes, DE.

Insurance Financial & Market Conduct

Examiners Arthur Andersen LLP, a leading international professional services firm, is seeking experienced insurance examiners to perform financial and market conduct examinations of insurance companies. The position requires travel and no relocation is necessary. Requirements include a Bachelors degree, Accredited/Certified Financial or Insurance Examiner designation and three plus years of financial or market conduct examination and public accounting or other insurance audit experience. CPA designation desirable. Significant opportunity for advancement. Salary commensurate with experience. Please submit your resume along with salary history and

requirements to: Arthur Andersen, LLP, Director of Human Resources, One Financial Plaza, Hartford, CT 06103. We are an Equal Opportunity/Affirmative Action Employer.

Insurance Consulting and Examinations, Inc., (ICE) has positions available for market conduct and financial examiner/consultants. ICE provides exam/consulting services to insurance regulators and the private industry. Applicants should have experience in state regulatory exams. Pay will be commensurate with skills and experience. Contact: Dale H. Hazlett or Jeannine Dashiell at 13620 Lincoln Way, Suite 275, Auburn, CA 95603, Phone (530) 887-7433, Fax (530) 887-7434 or e-mail us at iceinc@primenet.com.

Coming up in our next issue:

- √ Reports and pictures from the 1998 Career Development Seminar in Chicago
- √ How to avoid a “bad” market conduct report
- √ Recipients of the 1998 President’s Award and other annual IRES awards and member achievements