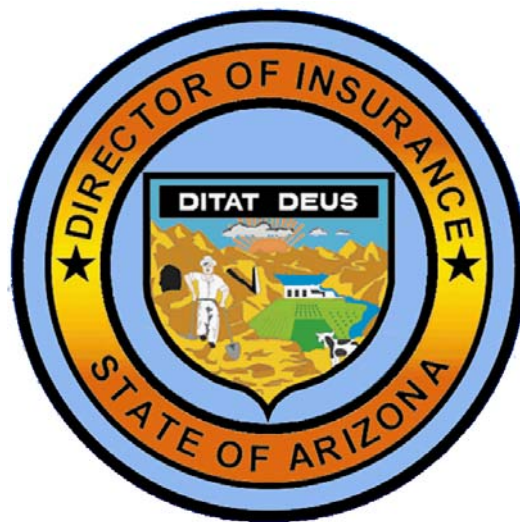


# **FIVE YEAR STRATEGIC PLAN FY 2015 - FY 2019**

Arizona Department  
of Insurance



Germaine L. Marks  
Director

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# Executive Summary

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The ADI is Arizona's state government agency dedicated to overseeing the financial solvency of insurance companies and protecting insurance consumers through administering insurance laws, responding to the needs of insurance purchasers, and stimulating the insurance market by encouraging competition. ADI was established as an independent agency in 1954. Continued positive economic development of the insurance market through insurers and licensed insurance professionals depends upon Arizona insurance consumers having confidence in the industry's strength.

## Mission

*The mission of the Arizona Department of Insurance ("ADI") is **to promote a strong insurance marketplace through consumer protection, sound financial regulation, and economic development.***

This statement recognizes that ADI's objectives and responsibilities are intertwined. ADI can not adequately protect consumers without providing sound financial regulation of the insurers doing business in Arizona. Similarly, the continued positive economic development of the insurance market through insurers and licensed insurance professionals depends upon Arizona insurance consumers having confidence in the industry's strength. ADI provides a vital connection among all of those interests for the benefit of all Arizonans.

## Vision

ADI's vision is *to set a standard of excellence for insurance regulation through quality leadership, experience and innovation.* We will use technology, best practices, innovative ideas and courteous staff to make that vision a reality.

## Principles

- *Professionalism* – All employees treat our customers, and each other, with respect and courtesy
- *Quality* – Our customer-focused service relies on effective communication, accountability, and dedication to continually learning
- *Leadership* – We encourage recognition of needs and problems while empowering people to effect change.
- *Efficiency* - We are committed to minimizing waste of resources and effort.

## Strategic Issues

ADI's strategic issues and corresponding strategies are congruous with Governor Brewer's *Four Cornerstones of Reform*.

- 1 **Renewed Federalism - State-based Insurance Regulation.** One of the most critical issues facing Arizona and all other states is the modernization and preservation of state-based insurance regulation. State officials have successfully regulated the insurance industry for nearly 150 years, promoting the public interest, ensuring competitive markets, facilitating fair and equitable consumer protections, and maintaining the financial strength and solvency of the insurance industry.

**Strategy 1.1** Work cooperatively with industry and consumer groups, the ADI, and other state insurance regulators to continuously improve the efficiency and effectiveness of state-based regulatory system to foster a sound, competitive, and market-responsive insurance industry, both nationally and globally.

**Strategy 1.2** Work with Arizona policymakers and insurance industry representatives to propose and enact legislation that makes Arizona laws consistent with standards developed with other state insurance regulators through the NAIC.

**Strategy 1.3** Effectively direct and manage ADOI's resources to ensure ADOI continues to meet NAIC accreditation standards, and continues to satisfy the needs and expectations of its customers and stakeholders.

**2. Economic Competitiveness - A Vibrant, Competitive, and Financially Sound Insurance Industry.**

Arizona's economy and citizens benefit from conditions that attract insurance business in Arizona and from other appropriate measures designed to increase competition, keep insurance prices down, make a wide array of insurance products and services available to individuals and businesses, and encourage investment in related business products, which generate tax revenue.

**Strategy 2.1** Administer solvency oversight responsibilities with resources and practices that meet or exceed NAIC accreditation standards.

**Strategy 2.2** Enforce Arizona insurance laws in a reasonable and consistent manner that promotes fair and strong competition among industry participants, and that minimizes bureaucracy and red tape.

**Strategy 2.3** Vigorously investigate, prosecute and otherwise deter insurance fraud.

**3. Modernizing State Government - Operational Efficiency and Effectiveness.** Like any other enterprise, ADOI must keep equipment, software and systems up-to-date, must train employees on new insurance laws, products and approaches, and should encourage innovation, in order to provide better service at lower costs.

**Strategy 3.1** Continue to update technology systems and to automate processes to allow ADOI to manage a growing workload while minimizing resource requirements.

**Strategy 3.2** Actively engage employees in ADOI's mission by demonstrating ADOI's commitment to them.

**Strategy 3.3** Cross train employees where practicable to reduce risks associated with employee attrition.

**Strategy 3.4** Regularly communicate with customers, stakeholders, and policymakers concerning ways to improve the efficiency, effectiveness and focus of insurance industry oversight.

**4. Education Reform –Industry Competency, and Consumer Education and Awareness.** Education is important to ensure that Arizonans are being served by insurance professionals who have sufficient knowledge and understanding of insurance and financial instruments, and to help Arizonans make informed insurance-related decisions.

**Strategy 4.1** Routinely evaluate the quality of pre-license examinations and the availability of insurance continuing education opportunities.

**Strategy 4.2** Continually improve ADOI's internet web site, publications, and other resources to inform and educate Arizona's insurance industry and insurance consumers.

**Strategy 4.3** Provide insurance policyholders affected by catastrophes with literature and assistance with filing claims.

# Who We Are

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## Mission Statement

*The mission of the Arizona Department of Insurance (“ADOI”) is **to promote a strong insurance marketplace through consumer protection, sound financial regulation, and economic development.***

This statement recognizes that ADOI’s objectives and responsibilities are intertwined. ADOI can not adequately protect consumers without providing sound financial regulation of the insurers doing business in Arizona. Similarly, the continued positive economic development of the insurance market through insurers and licensed insurance professionals depends upon Arizona insurance consumers having confidence in the industry’s strength. ADOI provides a vital connection among all of those interests for the benefit of all Arizonans.

## Description

The ADOI is Arizona’s state government agency dedicated to overseeing the financial solvency of insurance companies and protecting insurance consumers through administering insurance laws, responding to the needs of insurance purchasers, and stimulating the insurance market by encouraging competition. ADOI was established as an independent agency in 1954. Continued positive economic development of the insurance market through insurers and licensed insurance professionals depends upon Arizona insurance consumers having confidence in the industry’s strength. The ADOI

- licenses insurance companies (“insurers”), insurance professionals (such as insurance producers, adjusters, surplus lines brokers), and a variety of other insurance-related entities, ensuring that only individuals and business entities that meet qualifications established in Arizona law are allowed to engage in insurance business in Arizona;
- monitors and promotes the financial soundness of insurers operating in Arizona and makes sure that insurers deliver on the promises they make in their insurance contracts with consumers;
- protects insurance consumers against unfair and illegal marketing, underwriting, and claims handling;
- assists consumers with insurance-related questions and problems;
- investigates insurance fraud (which inflates the cost of insurance);
- oversees the development of the captive insurance industry; and,
- annually collects over \$400 million in insurance premium taxes, license fees, and other revenues that benefit the General Fund.

## Programs

The ADOI achieves its agency mission by fulfilling the following program missions:

**Policy and Administration** provides leadership, direction, coordination, and support, enabling ADOI to achieve its overall mission.

**Solvency Regulation** oversees and promotes the ability of authorized insurers to perform their financial obligations under insurance policies. Solvency Regulation includes the following subprograms:

- ***Financial Condition and Soundness Oversight*** detects and deters insurer financial deficiencies and unsound practices as early as possible.
- ***Insolvency Administration*** minimizes the impact of insurer insolvencies on Arizona residents.

**Consumer Support** assists, informs, and protects Arizona insurance consumers. Consumer Support includes the following subprograms:

- ***Consumer Assistance and Information*** provides insurance-related information and assistance to enable Arizona consumers to make informed decisions and to help consumers receive the services and benefits to which they are entitled under the law and in accordance with their policies.
- ***Market Practices Oversight*** protects Arizona insurance consumers from unfair and illegal market practices and oversees insurer compliance with Arizona laws, including those that promote effective health service delivery systems.

**Fraud Investigation and Deterrence** deters, investigates and facilitates convictions for insurance fraud.

**Licensing** provides efficient, effective and quality insurance licensing services and restricts license issuance and renewal to qualified candidates. Licensing includes the following subprograms:

- ***Insurance Professional Licensing*** provides efficient, effective and quality licensing services to insurance producers and other insurance-related service providers and restricts license issuance and renewal to qualified applicants.
- ***Insurer Licensing*** provides efficient, effective, and quality licensing services to insurers and other insurance risk bearing entities and restricts license issuance to qualified applicants.

**Premium Tax Collection and Analysis** collects, efficiently deposits, and accurately forecasts insurance premium tax revenues.

**Captive Insurance** provides a regulatory environment that enables development of the domestic captive insurance industry, and oversees the soundness of domestic captive insurers.

## Divisions

The ADOI's operations are administered through the following divisions:

**Office of the Director** provides leadership, direction, coordination and support, enabling ADOI to achieve its overall mission. The Office develops the agency's operational policies and coordinates and directs the activities of the agency's divisions and boards; provides technical support, advice and a variety of reports to the Governor's Office, state legislators and the U.S. Congressional delegation; develops, recommends, and implements insurance-related legislation, rules and substantive policy statements; participates as a member of the National Association of Insurance Commissioners (NAIC); coordinates interaction with the agency's major customers and stakeholders, including consumers, licensees, industry, elected officials, other state and federal agencies, and the media; oversees the preparation, publication and distribution of consumer-oriented literature, statutorily required reports, and the agency web site; participates in consumer outreach events and industry speaking engagements; coordinates legal representation of the agency by the Attorney General's Office and

renders ultimate decisions in administrative proceedings necessary to enforce and administer the Insurance Code.

**Financial Affairs Division** oversees regulation of licensed insurers, identifies insurers engaged in unsound financial practices and requires those companies to take corrective actions so that they comply with regulatory standards. The Division is comprised of three sections: **Financial Surveillance**, which is responsible for analyzing mandatory insurer financial filings; **Examinations**, which is responsible for periodic on-site full-scope financial examinations of insurers; and **Compliance**, which is responsible for statutory deposit administration, maintenance of public records and administrative support for the Division. The Division evaluates insurer license applications; analyzes periodic financial filings and data from other regulatory and public sources for quantitative and qualitative information; conducts on-site and in-house audits (“examinations”) of insurer financial records and works with insurers to correct deficiencies; reviews and renders decisions on insurer acquisitions, mergers and withdrawals; and, enforces trust deposits requirements, including monitoring a \$3.2 billion portfolio of securities held by the Arizona State Treasurer as well as deposits held in other jurisdictions for fulfillment of Arizona requirements.

**Captive Insurance Division** provides a regulatory environment that enables development of the domestic captive insurance industry, and oversees the soundness of domestic captive insurers. The ADOI established the Captive Insurance Division in response to 2002 legislation that created an alternative mechanism to traditional insurance that enables companies to control and customize their costs and coverage in a manner that is more responsive to their financial objectives. The Division licenses captive insurers, evaluates changes to captive insurer business plans, and analyzes periodic financial filings for quantitative and qualitative information.

**Receivership Division** maximizes the ability of insolvent insurance companies to pay valid creditor claims. The Division oversees the rehabilitation or liquidation of insolvent insurers, subject to court oversight; coordinates activities of special deputy receivers, attorneys, accountants, and other professionals who administer day-to-day affairs of the insolvent insurers’ estates, including collection and liquidation of assets and payments to claimants and creditors; and, coordinates with the Insurance Guaranty Funds Office (described below) to satisfy outstanding claim obligations to Arizonans and to assist Arizonans affected by insurance receiverships located in other states.

**Insurance Guaranty Funds Office** administers the Arizona Life and Disability Insurance Guaranty Fund and the Arizona Property and Casualty Insurance Guaranty Fund (collectively, “the Funds”), which serve as a safety net to protect insurance consumers from financial loss in the event that an authorized insurance company becomes insolvent. The Funds investigate, adjudicate, and pay the claims of Arizona insureds and claimants and provide other benefits to insureds in accordance with insurance contracts, subject to legal limits and exclusions; coordinate with other states to administer multi-state guaranty fund activities; and, levy assessments on member insurers to pay for Fund obligations (for which the member insurer receives a certificate of contribution, entitling the insurer to a credit to offset its Arizona premium tax obligation).

**Consumer Affairs Division** assists, informs and protects Arizona insurance consumers. The Division is comprised of three sections: **Consumer Services**, which renders assistance to insurance consumers; **Market Oversight**, which evaluates insurer conduct; and, **Health Care Appeals**, which administers the last stage of Arizona’s health care appeals process.

- The **Consumer Services Section** provides a full range of consumer information and assistance in response to written, telephonic, and walk-in requests; investigates and resolves complaints involving every kind of insurance; examines insurer records to ensure compliance with laws governing marketing, underwriting, and claim-settlement practices; coordinates with other state and federal government

agencies to resolve matters involving public benefits programs; assists with insurance-related education and outreach; helps Arizona businesses and individuals locate difficult-to-find liability insurance.

- The **Market Oversight Section** uses a wide range of research, analysis, and examination tools to evaluate insurer marketing, rating, underwriting, claims settlement practices, cancellation/non-renewal, and other conduct in the marketplace, to identify questionable market conduct, and to determine the most appropriate response. Market Oversight also conducts ongoing thorough and efficient market analysis utilizing surveys and reports. We emphasize coordinating technology, interstate cooperation and intra-agency communication to enhance the effectiveness of the Division's examination efforts.
- The **Health Care Appeals Section** administers 1997 legislation creating a uniform process for Arizona health insurance consumers to appeal insurer claim denials or requests for services. The final step in the appeal process affords the insured an unbiased, independent, external level of review administered by the ADOI.

**Investigations Division** investigates potential violations of Arizona insurance laws. The Division consists of the Administrative Enforcement Section and the Insurance Fraud Unit.

- **Administrative Enforcement Section** *investigates allegations of insurance code violations by insurers and insurance professionals, and unlicensed insurance activity.* The Section interviews witnesses, collects evidence, organizes case files and resolves the cases via consent orders or refers apparent violations to the Arizona Attorney General's Office for administrative action.
- **Insurance Fraud Unit** *deters, investigates and facilitates conviction for insurance fraud.* The Unit, staffed with certified Arizona peace officers, receives insurer referrals of cases of suspected insurance fraud, coordinates with other law enforcement agencies, conducts undercover investigations, interviews witnesses, collects evidence, organizes case files, and refers apparent violations for prosecution by the Arizona Attorney General or by a county attorney.

**Property and Casualty Division** *ensures that property and casualty insurance policies, contracts and related forms comply with Arizona law, and that rates for certain categories of property and casualty insurance are not excessive, inadequate or unfairly discriminatory.* The Division reviews form and rate filings for compliance; registers foreign risk purchasing groups and foreign risk retention groups; determines categories of insurance coverage not readily procurable from authorized insurers; and, issues permits to service companies and reviews service company and motor vehicle service contract program forms. The Division also conducts surveys and market studies to evaluate the competitiveness and health of various property and casualty markets by compiling and analyzing survey responses and evaluating the results.

**Life and Health Division** *ensures that life and disability (a.k.a. health insurance) policies, contracts, advertising, and related forms comply with Arizona law, and that rates for certain categories of insurance are not excessive, inadequate or unfairly discriminatory.* Disability insurers include health, medical, dental and optometric service corporations (HMDOs) and non-profit service corporations. The Division oversees managed care provider education, complaint resolution, corrective action enforcement and compliance examinations for timely pay and HMO service delivery; and, the Division licenses third-party administrators and utilization review agents. The Division was responsible for much of ADOI's participation in all activities related to the implementation of federal health care reform, including providing consultation and assistance toward implementing the federally facilitated exchange. ADOI received a federal grant to assess and improve the effectiveness of its rate review as well as increase the transparency of rate regulation to consumers and other stakeholders.



**Administrative Services Division** consists of the Business Services Section and the Insurance Professional Licensing Section.

- ***Business Services Section*** *procures, provides, and pays for the goods and services needed to support efficient and effective agency operations, and assesses and fully collects taxes, fees, assessments, and other revenues prescribed by Arizona law.* The Section coordinates human resources, including employee recruitment, employment, orientation, training, and benefits issues; procures supplies, equipment, and services that the ADOI needs to support efficient and effective operations; administers employee payroll and pays contractors, vendors, and employees; deposits, records and audits over \$400 million annually in taxes, fees, and assessments; maintains and reconciles accounting records, and plans expenditures and cash flows for eleven different funds; distributes and posts mail; coordinates office space planning and facilities issues; and, oversees the Department's loss control program.
- ***Insurance Professional Licensing Section*** *provides efficient, effective and quality insurance licensing services to producers and other insurance-related service providers.* The Section reviews and analyzes applications for professional-services licensure, maintains and accesses agency-specific and national licensing databases, obtains criminal history information on certain applicants, maintains electronic and physical license files, and administers contracts for pre-license examination services and insurance continuing education administration.

**Information Services Division** *provides voice and data infrastructure, systems, equipment, and expertise to support ADOI operations.*

# Where We Are

## Customer and Stakeholder Identification

Since everything we do is directed toward satisfying the needs and expectations of our customers and stakeholders, our approach to building our Strategic Plan began with identifying our customers and stakeholders, and determining their needs and expectations, which we show in **Exhibit 1**.

**Exhibit 1: Customers and stakeholders, and their needs and expectations**

Customer/ Stakeholder	Program	Needs/Expectations
Arizona citizens and businesses	All programs ( <i>esp. Policy and Administration</i> )	Efficient and effective execution of the agency’s mission, including a sound, competitive and safe insurance industry
	Solvency Regulation	<p>Ability of insurers (or insurer estate or guaranty fund) to promptly pay claims and other obligations</p> <p>Avoidance of insurer insolvency costs, which are ultimately borne, directly or indirectly by Arizona taxpayers.</p>
	Consumer Support	<p>Investigation, examination and oversight of the insurance industry and protection against unlawful practices by companies and individuals</p> <p>Ability to purchase affordable insurance that provides coverage and access to related services throughout Arizona</p> <p>Expert and prompt assistance and resources for finding insurance, making insurance decisions and resolving problems in all lines of insurance including personal auto, homeowner’s, life and health insurance, and commercial/business-related insurance</p> <p>Prompt assistance from employees well-versed in resolving insurance problems and answering questions including help finding insurance of all kinds and informing consumers about their rights and obligations when purchasing insurance and settling claims</p> <p>Publications in response to emergency situations such as wildfires and floods, as well as materials to meet everyday insurance needs including publications that compare insurance premiums for auto, home and Medicare Supplement plans</p> <p>Being kept apprised of the status of outstanding inquiries and requests for assistance</p> <p>Ability to file appeals on decisions that impact the premium owed on workers compensation insurance and whether a claim should be paid on health insurance</p>

**Exhibit 1: Customers and stakeholders, and their needs and expectations**

Customer/ Stakeholder	Program	Needs/Expectations
	Fraud Investigation and Deterrence	Affordable insurance (premiums not inflated by the effects of insurance fraud)
	Licensing	Solvent insurers Competent, knowledgeable, and trustworthy insurance professionals Access to up-to-date information concerning licensees Collection and deposit of fees that recoup agency operating costs, thereby eliminating ADOL's fiscal impact on the general public
	Premium Tax Collection and Analysis	Collection of taxes
	Captive Insurance	Interest in managing risk and controlling losses rather than procuring insurance Economic development Ability of captive insurer to meet its obligations
<b>Public, press, media</b>	All programs ( <i>esp. Policy and Administration</i> )	Ability to promptly view, receive copies, or receive electronic public records Ability to receive output from custom queries on ADOL-maintained data Prompt access to knowledgeable employees
<b>Policymakers (Governor's Office and Legislature)</b>	Policy and Administration	Knowledge and expertise in insurance, insurance regulation, and other insurance-related matters Timely responses (statistics, reports, surveys) to requests for information and research the ADOL maintains on a variety of issues Efficient and effective execution of the agency's mission, including a sound, competitive, and safe insurance industry An attractive environment for business (economic growth) Satisfied agency customers
	Solvency Regulation	Minimized potential for insurer insolvencies and resulting adverse effects
	Premium Tax Collection and Analysis	Timely and accurate tax forecasts
	All programs	Excellent service to constituents

**Exhibit 1: Customers and stakeholders, and their needs and expectations**

Customer/ Stakeholder	Program	Needs/Expectations
		Approach to administering Arizona laws that promotes competition, economic development, and efficiency
<b>Arizona risk management agencies</b> ( <i>Risk Management Office; Attorney General; Auditor General; Division of Emergency Management; Strategic Enterprise Technology Office; ADOA Human Resources</i> )	All programs ( <i>esp. Policy and Administration</i> )	Systems, controls, policies, procedures, and practices that provide internal controls, identify and eliminate hazards and otherwise minimize risk, and effectively execute ADOI’s mission  Consistent, well-documented practices and decisions that properly administer Arizona law
<b>Attorney General</b>	Solvency Regulation	Promptly, competently administered, well-documented, informative, and low-cost examinations and analyses
	Consumer Support; Fraud Investigation and Deterrence	Thoroughly conducted investigations and well-organized evidence and documentation that support proposed administrative actions and criminal prosecutions  Competent, well-informed, and professional testimony from ADOI employees and contractors
	Licensing; Premium Tax Collection and Analysis; Captive Insurance	Legally defensible practices and determinations
<b>Insurance companies</b>	Policy and Administration	Input on policy
	Solvency Regulation	Promptly, competently administered, well-documented, informative, minimally invasive, and low-cost examinations and analyses
	Consumer Support	Fair, targeted, and efficient inquiries, investigations, and examinations/audits  Level playing field in which to compete  Readily understood and efficiently administered systems and

**Exhibit 1: Customers and stakeholders, and their needs and expectations**

Customer/ Stakeholder	Program	Needs/Expectations
		procedures for filing rates, forms, advertising, and other requirements, that present minimal barriers to conducting business
	Fraud Investigation and Deterrence	Prompt investigation and effective prosecution of referred cases Being kept apprised of the status and dispositions of cases referred Insurance fraud deterrence Restitution for fraud losses
	Licensing	Competent, knowledgeable and trustworthy insurance professionals who will not expose the insurer to liability associated with misrepresenting insurance products or misappropriating monies A diverse population of licensed professionals to serve Arizona’s diverse population and to otherwise support insurer and brokerage diversity goals
<b>Insurance professionals</b> <i>(producers, adjusters, etc.)</i> <b>and insurance companies</b>	Licensing	Easy-to-complete, easy-to-understand and easy-to-fulfill license requirements Educational resources to promote insurance education and to help prepare for the insurance license exam Timely and fair administration of license examinations Fair and reasonable licensing decisions Consistent requirements from state to state (for professionals licensed in multiple states) Low license-related fees/costs Prompt and courteous service
<b>Other insurance regulators and the National Association of Insurance Commissioners (NAIC)</b>	All programs	Input (knowledge and expertise) by correspondence, in meetings/conferences, etc. toward making insurance regulation as efficient and effective as possible Consistent approach to regulation (including similar laws and policies)
	Solvency Regulation	Competent, reliable, and responsive oversight of Arizona’s domestic insurers (that meet accreditation standards) Timely information about potential issues or problems Coordination of examination efforts

**Exhibit 1: Customers and stakeholders, and their needs and expectations**

Customer/ Stakeholder	Program	Needs/Expectations
	Consumer Support	Timely reports of complaints, investigation results, and administrative actions
	Licensing	Uniform standards and competent administration of licensing Accurate licensing data to support coordinated multi-state licensing activities Participation in task forces, working groups and projects facilitating efficient and effective multi-state licensing and oversight
	Premium Tax Collection and Analysis	Timely and up-to-date information concerning taxes, fees, assessments, and other obligations levied by Arizona
<b>Various law-enforcement agencies</b>	Fraud Investigation and Deterrence	Assistance with and coordination on investigations Participation in, and consultation with, multi-agency and multi-state task forces
<b>ADOI employees</b>	Policy and Administration	Security and satisfaction in employment, salary, and benefits Safe, clean, comfortable, and respectful workplace Interesting work activities Being informed about job expectations, ADOI events, opportunities for advancement Materials and equipment (esp. computer-related) that help fulfill job responsibilities efficiently and effectively Recognition for exceptional performance A sense that their job is important to the ADOI Training and development opportunities Ability to have input valued and ability to try new approaches Prompt and correct answers to questions Caring and understanding supervisors
<b>Vendors</b>	Policy and Administration	Timely payment of invoices Unambiguous purchase/job orders Ability to win contract/job awards

## Internal/External Assessment

We evaluated how our agency satisfies the needs and expectations of our customers and stakeholders, strengths and weaknesses in our methods, and opportunities and threats presented by our operating environment.

### Our Internal Assessment

The ADOI has developed and maintained ***an excellent reputation with customers and stakeholders***. The insurance industry recognizes and appreciates the quality of services ADOI delivers, and the expertise ADOI brings to the table. ADOI benefits from stakeholders and customers including ADOI in discussions about proposed legislation, and from industry feedback that we use to respond to the needs of our customers.

The ADOI has ***experienced, knowledgeable employees*** who deliver excellent service to agency customers and stakeholders.

- *ADOI employees demonstrate their willingness and ability to assume new or changed responsibilities.*
- *ADOI management successfully oversees seamless transitions upon the departure of key personnel. As of June 30, 2013, 34% of ADOI's 92 employees had 15 or more years experience with ADOI. The vast majority of these employees are in managerial, professional or technical positions in which considerable knowledge is developed on the job.*
- *However, 19% of ADOI's employees are currently eligible for retirement, and an additional 22% will be eligible for retirement within five years. Consequently, it is crucial for ADOI to be able to retain and develop employees who can provide the continuity of knowledge and ability required to deliver competent and efficient service.*
- *Employee satisfaction surveys suggest that employees want to be able to satisfy customer needs and expectations but some feel overwhelmed with workloads and believe additional employees are needed.*

The ADOI interfaces with externally hosted systems to deliver ***online licensing, rate and form filings, and tax-remittance services*** to customers.

- License applications that meet Arizona license or renewal requirements automatically update ADOI's license records in real time, requiring virtually no employee involvement and resulting in the applicant being immediately able to act under their license. However, current laws prevent the Arizona Department of Public Safety (ADPS) from receiving applicant fingerprints electronically from ADOI or from vendors with whom ADOI contracts, which requires applicants to submit physical fingerprint cards to the ADOI with fingerprint card processing fees, requires ADOI to transfer fingerprint cards and fees to the ADPS, and requires ADPS to scan the fingerprint cards in the Automated Fingerprint Identification System. ADOI is contemplating legislation that would eliminate the requirement for fingerprint processing by DPS, and that would allow ADOI to use a state-contracted investigative research vendor to conduct background investigations on applicants.
- The System for Electronic Rate and Form Filings (SERFF) helps insurers fulfill Arizona rate and form filing requirements, allows work to flow electronically among ADOI employees, and facilitates communication between ADOI and insurers about filings. Recent enhancements now allow health insurers to use SERFF to file information that states need in order to evaluate health benefit plans and products for health insurance exchanges, and to determine compliance with the Patient Protection and Affordability Care Act.

- Fees, taxes, and assessment paid online through the Online Premium Taxes for Insurance (OPTins) system are immediately deposited into the State's bank account, maximizing the interest earned on receipts.

**Arizona's insurance laws provide ADOI the authority, resources, and flexibility to achieve its mission without burdening Arizona taxpayers.** ADOI recoups its General Fund appropriation through a fee schedule that charges the insurance industry licensing and other fees. ADOI recoups costs of providing other services (examinations/audits, final adjudication of health care appeals, insurance fraud investigation, etc.) through invoices and assessments paid by the insurance industry. During the past several years, policymakers have enacted session law suspending changes to ADOI's General Fund fee schedule because revenues have exceeded the statute-prescribed maximum, and the fee-schedule law would require significant reductions to fees (and General Fund revenues).

**Arizona's oversight of insurer solvency continues to meet NAIC accreditation requirements.** The NAIC Accreditation Program maintains standards that promote sound oversight of insurer solvency. State insurance departments must meet baseline standards, must undergo annual interim reviews, and every five years must undergo a full on-site accreditation review. During the latter part of Fiscal Year 2013, the NAIC performed its full five-year accreditation review of ADOI and found no significant deficiency in ADOI's oversight of insurer solvency.

**Arizona's insurance laws and rules are not entirely consistent with national model acts, model regulations and uniformity guidelines.**

- The NAIC created the Interstate Insurance Product Regulation Commission in 2006 with an interstate compact among 27 member states. The Commission provides states with the ability to collectively use their expertise to develop uniform national product standards, affording a high level of protection to consumers of life insurance, annuities, disability income, and long-term care insurance products. The Compact's goal is to enhance the speed and efficiency of regulatory decisions based on strong product standards. While Arizona has an outstanding reputation for ensuring quality insurance products quickly reach the marketplace, we are now one of only five states that are not Compact members and three of those five have enabling legislation pending. ADOI is reevaluating the merits of Arizona becoming a participating member.

The **ADOI's technology architecture** is comprised of an IBM iSeries midrange computing system, a combination of personal computer network systems, a voice over IP telephone system that shares resources with the PC network, and externally hosted applications. Strengths and weaknesses of ADOI's system include the following:

- Employees with intermediate to advanced technical knowledge and skills to create spreadsheets and databases to manage, query, and report information.
- ADOI's version of the Cisco Internet Protocol Call Center (IPCC) software, which answers, queues and routes calls to the Licensing Section and Consumer Affairs Division employees, will not work on a computer with a Windows 7 operating system, and requires an old version of Internet Explorer (6.0 or older) in order to install the software. Until IPCC software is upgraded or replaced, employees in the Licensing Section and Consumer Affairs Division will not be able to have their computers replaced or upgraded to the Windows 7 operating system.
- ADOI's voice/data switches are outdated, and replacement equipment is not readily available, exposing ADOI to the risk of prolonged outage if current equipment fails.



- Most of ADOL's principal databases were programmed in RPG/400 in the late 1980s and early 1990s. Programming in RPG requires uncommon, specialized knowledge. Some of ADOL's RPG databases do not meet ADOL's current information management needs and would be extremely time consuming to modify.
- ADOL has neither fully implemented nor tested disaster recovery measures.
- ADOL is evaluating *State Based Systems ("SBS")*, a suite of web-based modules developed and hosted by the NAIC that could provide ADOL with more robust, secure, supportable and resilient applications for processing license and renewal applications, maintaining insurer charter information, managing consumer inquiries and complaints, tracking investigations and enforcement actions, managing financial and market conduct examinations, and facilitating other ADOL activities. The NAIC would implement SBS at no cost to Arizona and without additional cost to the insurance industry, which already pays for NAIC services when electing to submit filings electronically.

**Records management** is almost exclusively paper based. The Licensing Section now manages over 180,000 paper files, housed in three different rooms on two different floors. The number of files expands as the licensee population grows, and each license file expands with each license renewal application or correspondence involving the licensee. The Consumer Affairs Division, which receives an average of 6,000 complaints each year, also has file management issues. Complaint files can be voluminous and ADOL must keep them for six years after a complaint file is closed. In order to respond to public records requests, employees must redact nonpublic information, including personal health information, which is an extremely time-consuming project depending on the nature of the document. An electronic records management system would be invaluable to ADOL's increased efficiency.

### **Our External Assessment**

A variety of current and changing external forces influence the ADOL's ability to fulfill our mission and satisfy our customers' and stakeholders' needs and expectations.

**Economic conditions**, both state and national, impact the ADOL in a variety of ways, and can present both opportunities and threats.

- During hard economic times, more people explore becoming insurance professionals because of the relatively low barriers to entry (absence of minimum education requirements other than passing a pre-license exam, and low license fees). This is an opportunity to expand the number of insurance professionals available to serve Arizona consumer, and a challenge to process an increased volume of license applications so people who are qualified can promptly begin working under insurance licenses.
- State agencies, including ADOL, may find it easier to attract and retain quality employees during an economic downturn when people who might not otherwise consider state employment due to lower salaries may consider it.
- The insurance industry sees a significant increase in insurance fraud in all areas of insurance. Insurers make more referrals to our Fraud Unit, which requires us to make difficult decisions about which cases to pursue given the Unit's limited resources.

**The National Association of Insurance Commissioner (NAIC)** provides opportunities for effective and efficient state insurance regulation.

- The NAIC drafts model legislation, model regulations, and uniform guidelines, processes, and best practices with input from all state regulators that improve the consistency, uniformity, efficiency, and quality of regulation. ADOL has the opportunity to participate in formulating new regulatory approaches, such as insurer group supervision and supervisory colleges, which evaluate multi-entity corporate systems holistically and include international entities.

- The NAIC and its affiliates also develop products and services that facilitate regulatory transactions and information sharing among states and with the insurance industry. It also creates shared resources to which states and their customers and stakeholders have access.
- The NAIC offers continuing education programs for all areas of insurance regulation that allow our employees to expand their expertise in certain areas or to learn about new areas.
- The NAIC's Accreditation Program develops and maintains standards to promote sound insurance company financial solvency regulation. The program evaluates whether our financial analysis and examination processes are effective and efficient. The ADOL's continued accreditation is an opportunity to show that Arizona has a strong economic environment in which insurers should want to do business and it also provides crucial safeguards to consumers. Losing the NAIC accreditation would pose a serious threat to the viability of Arizona as a strong regulatory and economic environment for insurance business.

**Federal legislation** can expand or limit the state's powers to regulate insurance; impose or remove requirements or restrictions on Arizona and its agencies, including ADOL; create or resolve conflicts or inconsistencies with other (federal and state) laws; provide for resources and standards promoting uniformity among state insurance departments; increase or reduce bureaucracy on states and their customers and stakeholders. Recent examples include:

- *The Federal Insurance Office (FIO)* was established as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The FIO's authority extends to all lines of insurance except health insurance, most long-term care insurance and crop insurance. Although the FIO is not a federal regulator, it has broad powers to receive and collect data from insurers, including subpoena powers, as well as the authority to enter information sharing agreements. In July 2013, the FIO submitted a report to Congress on its assessment of state insurance regulation. The report highlighted achievements of state regulators in improving financial solvency oversight and reducing the number and magnitude of insolvencies. The report, in part, describes the applicability of federal reserve oversight to insurers that are owned by bank holding companies (BHCs) and savings and loan holding companies (SLHCs); the ability of the FIO to place insurers into receivership under certain conditions; and, the FIO's representation of the U.S. in the International Association of Insurance Supervisors (IAIS).
- The ten-member *Federal Stability Oversight Council (FSOC)*, also established as part of Dodd-Frank, will have a critical role in the regulation of the U.S. financial system, particularly regarding institutions that present systemic risk to our economy. The FSOC legislation requires the President to appoint, as one of the ten voting members, a person "having insurance expertise," and state regulators are urging the appointment of a person with insurance regulatory experience rather than an insurance industry representative. The FSOC currently has five non-voting members and one of those non-voting members is a state insurance regulator selected by other state regulators through the NAIC. FSOC recently made its initial designation of three insurers as systemically important financial institutions (SIFIs). The impact to those insurers and the market were those designations to become final is unknown.
- *National Association of Registered Agents and Brokers (NARAB)*. The lack of uniformity/reciprocity referenced above has precipitated two rounds of NARAB legislation. Most recently, "NARAB II" legislation is pending in both houses of Congress and it establishes an optional federal licensing clearinghouse for producers who become members. Insurance producers would still need a license in their home state (residence), but a single non-resident application would allow the producer to do business in all states. The NARAB member would be subject to only one set of licensing and continuing education standards. Currently, insurance producers must comply with different licensing requirements in every state. Although most states have substantially similar requirements, states continue to differ in some material respects that

are burdensome to insurance producers. The Senate version of the bill calls for significant state insurance regulator membership on the NARAB board and both Senate and House bills expressly preserve state regulatory authority over consumer protection, market conduct, unfair trade practices, and disciplinary matters.

- *The Patient Protection and Affordable Care Act (PPACA)* expands the ADOI's responsibilities by involving the agency in evaluating and potentially implementing certain aspects of either a state-based or federally-facilitated health insurance exchange. The ADOI's Life and Health Division, Consumer Affairs Division and the Fraud Unit will likely all see a significant impact and increased workload related to PPACA. PPACA also presented the opportunity for the ADOI to receive a federal grant to assess and improve the effectiveness of its rate review as well as increase the transparency of rate regulation to consumers and other stakeholders. Much of the work the ADOI has done to date with the Governor's Office of Health Insurance Exchange was also facilitated by federal grant funds awarded to the Governor's Office.
- International economic and financial standards, such as those promulgated by the Financial Stability Board, may influence the nature and scope of federal involvement in insurance regulation, particularly as it relates to large insurers operating globally.
- Future federal legislative proposals may include a renewed push from the industry for an *Optional Federal Charter (OFC)*, allowing insurers to choose whether to be state or federally regulated (similar to the current optional state/federal banking charter). State regulators oppose the OFC proposal because it could confuse and disrupt insurance markets and affect long-standing protections for insurance consumers. In fact, the state-based system of monitoring insurance financial solvency has kept insurance companies stable, protecting policyholders during the recent financial turmoil much better than many other financial institutions, and state regulators are working to preserve state-based regulation (and state insurance premium tax revenues) in light of this recent federal legislative insurance activity.

**State legislation** can expand or limit ADOI's customer base or ADOI's scope of responsibilities; create or resolve conflicts or inconsistencies with other (federal and state) laws; impact Arizona's ability to remain its NAIC accreditation for sound insurance company financial solvency regulation; and affect ADOI's success at meeting the needs and expectations of its customers and stakeholders.

- *State Personnel Reform.* Significant personnel reform legislation became effective September 29, 2012. Personnel reform presents an opportunity to address internal weaknesses, including an increasing number of employees approaching retirement eligibility and the current inability to reward superior employees. Personnel reform can aid us in recruiting and retaining outstanding employees and competing with the private sector for professional and technical employees requiring specialized knowledge, skills and abilities. A system that makes it easier to quickly hire people, allows us to reward top performers as they gain knowledge, skills and abilities, and encourages supervisors to effectively manage their employees is a significant opportunity.

**The Department of Administration** can provide resources to help agencies operate more efficiently and effectively; impact our abilities to recruit, hire and retain employees, and to procure goods and services to support our operations.

- *State Personnel Reform.* The Department of Administration promulgates personnel rules; develops and administers personnel systems, policies, procedures, and forms; and renders decisions on certain personnel actions. The Department of Administration can impact our ability to quickly hire people, to reward top performers as they gain knowledge, skills and abilities, and to encourage supervisors to effectively manage their employees.
- *Hiring Limitations.* Effective August 8, 2011, the ADOI has a prescribed maximum workforce size of 95 employees. In order to increase our workforce size beyond 95 employees, the ADOI must provide

justification and receive approval from the Arizona Department of Administration for each new hire. While the ADOI appreciates the objectives of maximizing our existing resources and the overall goal of maintaining lean government, this has hindered our ability to fill existing vacancies that would help ADOI better serve customers and fulfill its mission. The policy applies even where the funding is available from non-appropriated special revenue sources, such as federal grants.

- *Enterprise Resource Planning.* The Department of Administration is in the initial stages of procuring an enterprise resource planning (ERP) system, which will change the way state agencies process business transactions. This may affect how agencies process accounting transactions, plan and budget funding, prepare reports and queries, process payroll and personnel transactions, procure and purchase goods, and services, manage inventory and assets, etc.
- *ProcureAZ.* The State's electronic procurement system has increased the difficulty and complexity associated with ordering and paying for goods and services. In some cases (esp. for "punchouts"), the system is very unforgiving of errors, requiring entire requisitions to be canceled and reentered if an invalid accounting code is entered. Contract documents are not always organized in a manner that facilitates locating detailed information concerning products and services on state contract. At times, the system operates extremely slowly. Many agencies are not able to use features that may facilitate agency-level procurement activity (requests for quotations, etc.)

**Evolving technology resources** offer opportunities for ADOI to deliver even more efficient, high-quality services to customers.

- *Telecommunications.* The State of Arizona has issued a contract to CenturyLink to manage state voice and data systems. This may enable the ADOI to upgrade its voice/data system to provide increased functionality and to support current computer operating systems. The convergence of voice and data systems could allow ADOI's Consumer Assistance staff to have information appear on their computer screens when they receive a call from a consumer who has previously called or submitted information, and to enter information from consumer calls for use in responding to requests for assistance or completing investigations.
- *Web portal.* Arizona has contracted with a new set of vendors to operate the State Web Portal. ADOI currently has two significant applications that reside on the portal: *IPLUS (Insurance Professional License Update System)*, and *License Search*. *IPLUS* allows an individual insurance professional to report updated address and telephone information and to renew licenses online (including paying license renewal fees). *License Search* allows the public to view up-to-date (real-time) license records for insurance companies and insurance professionals. ADOI looks forward to working with the new vendors to transition existing web portal services and to develop new services, such as one to facilitate premium tax reporting and payment.
- *Mature automation contracts.* Over the past several years, Arizona state government's contracted vendors have successfully implemented a variety of efficient, easy-to-use online systems, providing the opportunity for ADOI to confidently initiate projects to restructure its information systems and deliver more of its services online. Examples of projects ADOI would like to initiate include:
  - Developing a system to allow insurance consumers to request assistance using an online form that routes requests to employees based on their knowledge set and that automatically enters information into ADOI databases.
  - Improving investigation systems to better record and organize case information (witness statements, correspondence and other evidence), to track and report on the status and dispositions of cases; and, to make case information and case management capabilities remotely accessible on computers and hand-held devices.

- Developing a system to allow insurance companies to submit health care appeals electronically. Healthcare appeal files may contain hundreds of pages, so the ability to receive and store these files electronically would directly address efficiency and records management concerns.
- Creating an interface with the existing NAIC online tax reporting and payment to allow electronically submitted information to be appended into ADOI databases, eliminating data entry work and allowing auditors to focus on auditing work.

# Where We Want To Be

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## Vision

ADOI's vision is *to set a standard of excellence for insurance regulation through quality leadership, experience and innovation*. We will use technology, best practices, innovative ideas and courteous staff to make that vision a reality.

## Principles

- *Professionalism* – All employees treat our customers, and each other, with respect and courtesy
- *Quality* – Our customer-focused service relies on effective communication, accountability, and dedication to continually learning
- *Leadership* – We encourage recognition of needs and problems while empowering people to effect change.
- *Efficiency* - We are committed to minimizing waste of resources and effort.

## Strategic Issues

ADOI's strategic issues are congruous with Governor Brewer's *Four Cornerstones of Reform*.

### 1. Renewed Federalism - State-based Insurance Regulation

One of the most critical issues facing Arizona and all other states is the modernization and preservation of state-based insurance regulation. State officials have successfully regulated the insurance industry for nearly 150 years, promoting the public interest, ensuring competitive markets, facilitating fair and equitable consumer protections, and maintaining the financial strength and solvency of the insurance industry. States coordinate their efforts through the NAIC to regulate multi-state insurers, insurance enterprises, products and issues. The NAIC and its affiliates develop model laws and regulations, along with numerous products and services that facilitate regulatory transactions and information sharing among states and the insurance industry. State insurance departments are better equipped than the federal government to handle individual consumer complaints, local insurance market fluctuations, and the investigation and prosecution of insurance law violations through the appropriate law enforcement offices, such as the Arizona Attorney General's Office, and appropriate judicial forums, including the Arizona Office of Administrative Hearings and state superior courts.

**Strategy 1.1** *Work cooperatively with industry and consumer groups, the ADOI, and other state insurance regulators to continuously improve the efficiency and effectiveness of state-based regulatory system to foster a sound, competitive, and market-responsive insurance industry, both nationally and globally.* Through NAIC participation, state insurance regulators and insurance industry constituents collaborate on ways to improve regulatory efficiency and quality while minimizing barriers to business. The expanding global focus of many major insurers requires state regulators to work to strengthen the international insurance regulatory system. These activities include participating in a dialogue with international regulators and having a voice in decisions about the regulatory system in the European Union and beyond.

**Strategy 1.2** *Work with Arizona policymakers and insurance industry representatives to propose and enact legislation that makes Arizona laws consistent with standards developed with other state insurance regulators through the NAIC.* The ADOI shall continue to render assistance to policymakers and industry constituencies to identify and propose ways to make Arizona laws as responsive as possible to the needs and expectations of its customers and stakeholders. We will

work to accomplish this in ways that minimize costs to the insurance industry, which are ultimately borne by insurance consumers.

**Strategy 1.3** *Effectively direct and manage ADOI's resources to ensure ADOI continues to meet NAIC accreditation standards, and continues to satisfy the needs and expectations of its customers and stakeholders.* NAIC accreditation is vital to preserving state-based regulation because it means that state regulators have the laws, personnel, funding, procedures, and practices needed to effectively regulate the insurance industry's financial solvency.

## **2. Economic Competitiveness - A Vibrant, Competitive, and Financially Sound Insurance Industry**

Arizona's economy and citizens benefit from conditions that attract insurance business in Arizona and from other appropriate measures designed to increase competition, keep insurance prices down, make a wide array of insurance products and services available to individuals and businesses, and encourage investment in related business products, which generate tax revenue.

**Strategy 2.1** *Administer solvency oversight responsibilities with resources and practices that meet or exceed NAIC accreditation standards.* If the ADOI lost its NAIC accreditation, Arizona-domiciled insurers would be subject to increased direct regulation and oversight by other states, in turn leading to Arizona insurers relocating to other states.

**Strategy 2.2** *Enforce Arizona insurance laws in a reasonable and consistent manner that promotes fair and strong competition among industry participants, and that minimizes bureaucracy and red tape.* ADOI shall continue to solicit ideas for improvement through customer satisfaction surveys, shall evaluate the systems and approaches employed by other insurance regulators and other state agencies. ADOI will use that information to make systematic and procedural changes so that licensing and other requirements are easier to fulfill. To the extent appropriate and consistent with statewide objectives, ADOI shall apply for and use federal grants to improve its ability to review health insurance rates, to render decisions on whether requested rate increases are excessive, and to make its rate filing evaluation process transparent to the public.

**Strategy 2.3** *Vigorously investigate, prosecute and otherwise deter insurance fraud.* All Arizona insurance consumers pay for insurance fraud because insurers recover claims costs, whether legitimate or fraudulent, through premiums charged to insurance consumers. Basically, insurance fraud results in money flowing from insurance consumers into the pockets of thieves, instead of for goods and services that would benefit legitimate businesses and boost our economy. Insurance fraud prosecution often results in restitution awarded to the defrauded insurers, which reduces their bottom-line costs that are passed on to consumers. Publicity concerning insurance fraud prosecutions and convictions deters would-be perpetrators from committing insurance fraud.

## **3. Modernizing State Government - Operational Efficiency and Effectiveness**

Like any other enterprise, ADOI must keep equipment, software and systems up-to-date, must train employees on new insurance laws, products and approaches, and should encourage innovation, in order to provide better service at lower costs.

**Strategy 3.1** *Continue to update technology systems and to automate processes to allow ADOI to manage a growing workload while minimizing resource requirements.*

**Strategy 3.2** *Actively engage employees in ADOI's mission by demonstrating ADOI's commitment to them.* This includes holding agency-wide town hall meetings; routinely sending informative email about agency issues (such as personnel reform); recognizing, communicating about, and resolving employee concerns as soon as possible; promptly recognizing employees for superior performance.

**Strategy 3.3** *Cross train employees where practicable to reduce risks associated with employee attrition.*

**4. Education Reform –Industry Competency, and Consumer Education and Awareness.**

Governor Brewer has prioritized Education Reform as one of her *Four Cornerstones*. The focus of this cornerstone is on delivering education to provide for an educated, skilled workforce that will contribute to Arizona’s economy. Education is also important to ensure that Arizonans are being served by insurance professionals who have sufficient knowledge and understanding of insurance and financial instruments, and to help Arizonans make informed insurance-related decisions.

- Strategy 4.1** *Routinely evaluate the quality of pre-license examinations and the availability of insurance continuing education opportunities.*
- Strategy 4.2** *Continually improve ADOL’s internet web site, publications, and other resources to inform and educate Arizona’s insurance industry and insurance consumers.*
- Strategy 4.3** *Provide insurance policyholders affected by catastrophes with literature and assistance with filing claims.*
- Strategy 4.4** *Research and publish information to help insurance companies and others timely and fully pay taxes, fees and assessments owed to the State.*

**Resource Assumptions**

The resource assumptions summarized in **Exhibit 2** are subject to change based on legislative changes (all funding categories), changes to claims paid by the Arizona Guaranty Funds (non-appropriated funds) and the award of additional federal grants (federal funds). General Fund figures assume approval of budget decision packages.

**Exhibit 2: Summary of Assumed Resources**

	<b>FY 2014 Appropriation</b>	<b>FY 2015 Budget Request</b>	<b>FY 2016 Estimated</b>	<b>FY 2017 Estimate</b>	<b>FY 2018 Estimate</b>
<b>Full-time-equivalent (FTE) Positions</b>	136.4	131.4	131.4	131.4	131.4
<b>General Fund</b>	\$5,364,900	\$6,532,800	\$6,583,100	\$6,583,100	\$6,583,100
<b>Other Appropriated Funds</b>	0	0	0	0	0
<b>Non-appropriated Funds</b>	7,423,000	7,423,000	7,423,000	7,423,000	7,423,000
<b>Federal Funds</b>	1,794,900	293,700	0	0	0
<b>Total Agency Funds</b>	<b>\$14,582,800</b>	<b>\$14,249,500</b>	<b>\$14,006,100</b>	<b>\$14,006,100</b>	<b>\$14,006,100</b>