

UAHU NORTH 2019

APRIL 15, 2019

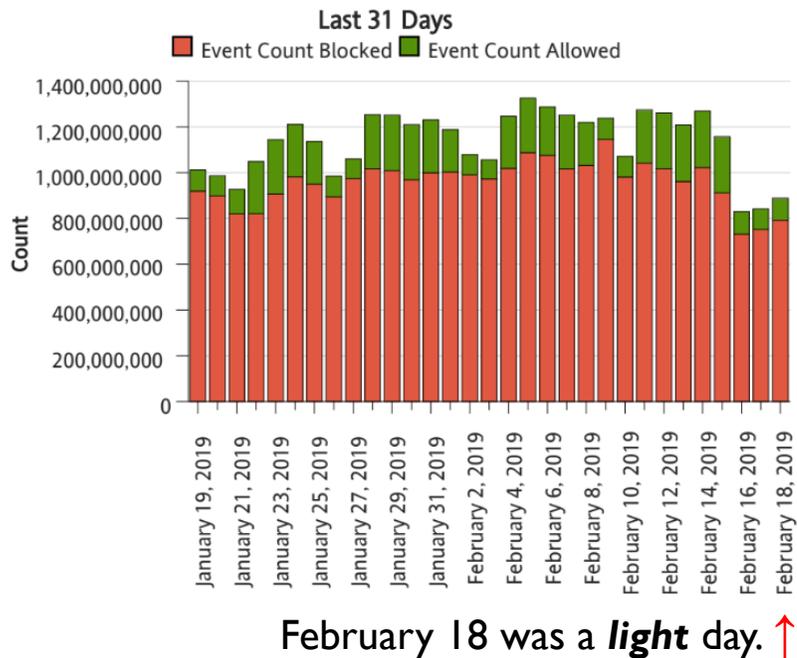
TODD E. KISER
INSURANCE COMMISSIONER



CYBERSECURITY UPDATE



CYBERSECURITY & THE STATE: A TYPICAL DAY



- 889,289,610 attempts to access the State network on Feb. 18, 2019
 - 792,663,815 blocked by primary firewall
 - 96,625,530 blocked by secondary firewall
 - 265 not blocked
- 37 million attempts every hour on average



CYBERCRIME & INDEPENDENT AGENTS

Insurance agencies handle sensitive personal and financial information every day. This makes them a significant target.

Protecting this information for your customers must be a priority.

- 61% of cyberattacks hit smaller businesses in 2017.
 - (Verizon)
- Cyberattacks cost small businesses between \$84,000 and \$148,000 on average.
 - (PwC)
- 60% of small businesses shutter within 6 months after suffering a cyber attack
 - (Champlain College)

WIRE TRANSFER FRAUD



- Scammers have started hitting people where they live — right when they're buying a home.
- Agents who use unsecured email providers (Gmail, Yahoo, Hotmail, etc.) are most at risk.
- Scammers watch a transaction through the email thread, then strike when money changes hands.
- They use the agent's email address or a spoofed account to send alternate wire transfer instructions.
- Money is wired into the scammer's account — often out of the country — and cannot be regained.

RANSOMWARE & MALWARE



- Software that is hostile, intrusive or malicious.
- Viruses, Trojan horses, spyware, etc.
- Ransomware
 - Threatens to publish or lock access to data unless a ransom is paid
 - Victims include:
 - UK's National Health Service — \$92 million (WannaCry)
 - FedEx — \$300 million, est. (NotPetya)
 - Merck — \$310 million (NotPetya)
 - Atlanta, GA — up to \$17 million, projected (SamSam)
 - 14 hospitals in 2016 alone

INNOVATORS IN INDUSTRY



DISRUPTIVE INNOVATION



“If I had asked people what they wanted, they would have said faster horses.”

— Henry Ford

DISRUPTIVE INNOVATION



The electric lightbulb did not come from the continuous improvement of the candle.

INSURANCE INNOVATORS

COVERHOUND®

- Focus is shifting from making sales to making relationships.
- Instant purchases on mobile vs. traditional method — more like shopping online.
- Comparison shopping can mean savings for price-sensitive consumers.



BIG DATA



BIG DATA IS WATCHING



On average, every mobile device in this room is polled **every 17 seconds.**

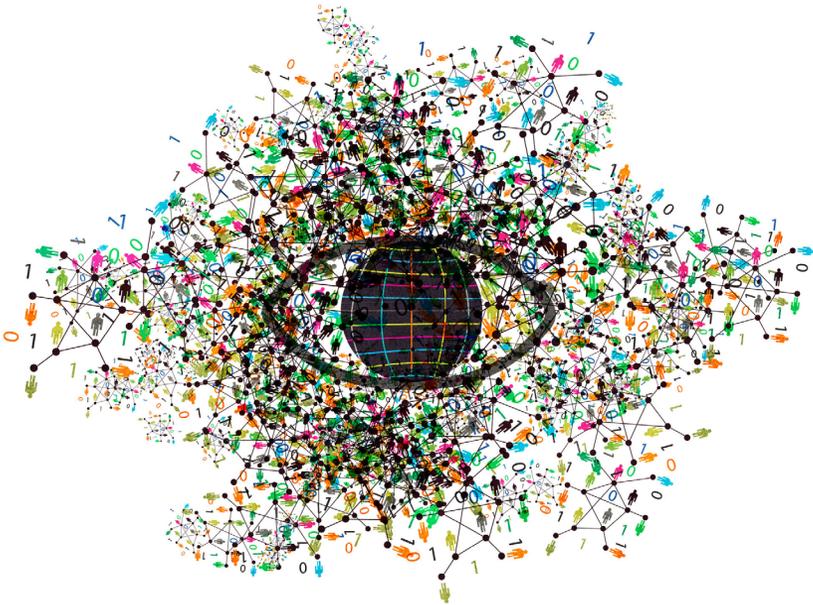
APPS SEND USER SECRETS TO FACEBOOK



- Smartphone users share personal data with their apps:
 - Health & fitness data
 - Shopping history & habits
 - Location & relationship info
- That data is often shared with Facebook, even if the user has no other connection with Facebook.
- This is being done in least 11 popular apps that have been installed tens of millions times.

(Wall Street Journal, Feb. 23-24, 2019)

BIG DATA IN INSURANCE



- The digital revolution has allowed for the collection and storage of large and diverse amounts of information.
- Big data refers to unstructured and/or structured data being used to influence underwriting, rating, pricing, forms, marketing and claims handling.
 - Structured: Data in tables and defined fields.
 - Unstructured: Other data including social media, reports, interviews, etc.
- Predictive analytics allows insurers to use big data to forecast future events.

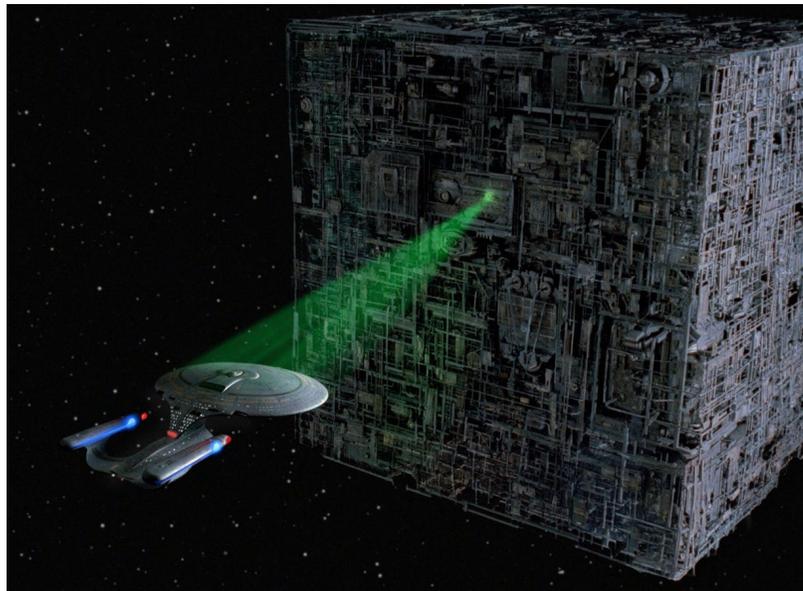
BIG DATA: POSITIVES

Insurers can use big data to:

- More accurately underwrite, price risk, and incentivize risk reduction.
- Improve solvency by being able to more accurately assess risk.
- Enrich customer experience by quickly resolving service issues.
- Create operating efficiencies by streamlining the application process.
- Facilitate better claims processing using machine learning algorithms.
- Reduce fraud through better identification techniques.



BIG DATA: NEGATIVES



Concerns about big data include:

- Collection of sensitive consumer information may invade privacy or be potentially discriminatory.
- Lack of transparency and potential for bias in the algorithms used to synthesize big data.
- Insufficient regulatory resources for reviewing complex rate filings.
- Data complexity and volume may present hurdles for smaller insurers.
- Highly individualized rates that lose the benefit of risk pooling.
- Cyberthreats to stored data.

THE UTAH MARKET





UTAH AGENTS ARE LICENSED TO SELL

140,045

Individuals licensed to sell insurance in Utah

- 25,804 resident licensees
- 114,241 nonresident licensees

- **57,286 individuals** are licensed to sell Accident & Health.
 - 12,738 are resident
 - 44,547 are nonresident

Utah has seen a 41.5% increase in licensed agents over the past five years.



2600+ COMPANIES CAN'T BE WRONG

2,656

Regulated entities in Utah

- 1,967 insurers
 - 689 other organizations
- **101 are health-specific entities.**
 - 31 are resident
 - 70 are nonresident
 - There are also 275 professional employer organizations (PEO) that often offer fully insured health plans to their members, but not all do so.



INSURANCE IN UTAH IS A PREMIUM BUSINESS

**\$16.6
billion**

Premium earned in 2017

- **\$8,720,576,304 — total Accident & Health**
- \$1,995,317,185 — total Annuities
- \$1,487,196,255 — total Life Insurance
- \$4,462,301,391 — total Property Insurance

Utah has seen a nearly 20% increase in premium volume from 2013 to 2017.

MEDICAID EXPANSION



HOW IT WORKS IN UTAH



- Expansion took effect on April 1, 2019.
- The Department of Health (DOH) is heading up the state's implementation of Medicaid Expansion.
- The UID will provide advice and expertise to the DOH regarding Expansion's impact on insurance matters at the DOH's request.
- While the UID is involved in some Medicaid Expansion matters with the DOH, specific questions about how Expansion will work are best answered by the DOH.

ASSOCIATION HEALTH PLANS





ASSOCIATION HEALTH PLANS TIMELINE

- **June 21, 2018** → The US Department of Labor issued its association health plan (AHP) rule.
- **December 11, 2018** → The UID issues Bulletin 2018-5, which provides details about the requirements for different types of AHPs, etc.
- **March 28, 2019** → A judge with the US District Court rejects the Department of Labor's AHP expansion plans.
- **Future:**
 - Waiting to see if the DOL will file an appeal.
 - Waiting to see whether the district court judge will stay the ruling.
 - The UID expects that both of the above will happen.



SELF-FUNDED MEWAs

- MEWA = Multiple Employer Welfare Arrangement
- In Utah, MEWAs are considered to be the business of insurance and therefore must obtain a certificate of authority as an admitted insurer.
- To create a MEWA, an association must meet several requirements including financial solvency verification and the aforementioned CofA.
 - **The result is that, after meeting the requirements, the MEWA is a fully licensed health insurer.**
 - Health insurers are required to offer coverage to all members of the group regardless of any health factors.



MEWAs CAN BE DONE IN UTAH


State of Utah
GARY R. HERBERT
Governor
SPENCER J. COX
Lieutenant Governor

Insurance Department
TODD E. KISER
Insurance Commissioner

BULLETIN 2018-5

To: Health Insurers, Health Insurance Producers, and Third-Party Administrators
From: Todd E. Kiser, Utah Insurance Commissioner
Date: December 11, 2018
Subject: Association Health Plans

On June 21, 2018, the U.S. Department of Labor (DOL) issued its final Association Health Plan (AHP) rule¹ which provides additional flexibility for a group or association of employers to establish a group health plan as an employer welfare benefit plan under the Employee Retirement Income Security Act (ERISA). Under ERISA, an AHP is both a group health plan and a Multiple Employer Welfare Arrangement (MEWA)². No health care coverage provided through a MEWA, including an AHP, is preempted from state regulation³.

This Bulletin reminds health insurers, health insurance producers and third-party administrators of existing Utah statutory requirements related to health care coverage offered through an AHP.

1. Self-funded AHPs.
A self-funded or level-funded AHP offering health care coverage in Utah is considered the business of insurance and required to be an admitted insurer in Utah, Utah Code § 31A-1-301. Information regarding the process to obtain a certificate of authority is available on the Utah Insurance Department's (Department) website⁴. An admitted insurer is prohibited from constituting or controlling an AHP⁵.

2. Authorization Required.
An AHP must be a valid association group authorized by the Commissioner and in compliance with § 31A-22-701. An AHP may contain more than one valid association. A valid association:
a. Purchases health care coverage on behalf of its members;
b. is formed and maintained in good faith for purposes other than obtaining insurance;
c. has been actively in existence for at least five years;
d. has a constitution and bylaws;
e. has a shared or common purpose that is not primarily a business or customer relationship;

¹ <https://www.federalregister.gov/documents/2018/06/21/2018-12992/definition-of-employer-under-section-35-of-erisa-association-health-plans>
² <https://www.dol.gov/sites/default/files/ebsa/about-elsa/our-activities/resource-center/publications/compliance-assistance-publication-ahp.pdf>
³ ERISA section 514(b)
⁴ <https://insurance.utah.gov/licensing/insurers/company-licensing>
⁵ See Federal Register link above.

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- MEWAs can work with an established insurance company to offer a fully insured product to an association
- Any association that uses a MEWA must exist primarily for purposes other than obtaining insurance.
- See UID Bulletin 2018-5 for more information about MEWAs:
<https://insurance.utah.gov/consumer/legal-resources/bulletins>

FRAUD DIVISION ACTIVITIES



FRAUD DIVISION MAKEUP



- 11 law enforcement investigators
- 3 contracted Attorneys General
- 3 civilian staff



FRAUD DIVISION: BY THE NUMBERS (2018)

1079

total referrals received

34%

increase over the annual
average of 800 referrals

- 136 — total cases closed through prosecution
- 83 — total defendants charged
- \$665,791 — victim restitution ordered
- \$574,777 — victim restitution collected
- \$148,275 — Fraud Division investigation costs ordered

BARBER TRUCKING



- Joint investigation with the Federal Motor Carrier Division.
- Defendants created “shell” trucking companies under newly employed drivers’ names without their knowledge.
- Obtained single-truck insurance policies, but added dozens more trucks to policies.
- Filed dozens of accident claims, then moved one truck to a new company policy, followed by the others. This allowed them to avoid paying premiums on more than one truck.
- **\$1,324,399** lost in premiums and claims.
- **Result:** Defendants sentenced to federal prison and ordered to pay full amount in victim restitution to the defrauded insurer.

BAIL BOND COMPANY



- Bail bond company owner accepted cash from customers to post bail.
- The company did not return a portion of the money due to clients after they met the court's requirements.
- Instead, the company moved money out of a trust account and converted it to personal use funds.
- 120 victims.
- \$250,000+ in posted bond money stolen.
- Case is awaiting trial.

CHIROPRACTOR RING



- Four chiropractors purchased supplemental insurance policies to pay for chiropractic care.
- Provided paid plans to employees and family members and had them submit claims for treatment that did not happen.
- 6 people charged (to date)
- 1,073 separate injury claims
- 3,857 treatments
- \$200,000 paid by insurance
- Court cases pending against charged defendants, with possibility of more to come.