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FILED 

NOV 25 2013

Department of Insurance
State of Idaho

Attorneys for Department of Insurance

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE
OF THE STATE OF IDAHO**

In the Matter of:

IDAHO STATE INSURANCE FUND

Certificate of Authority No. 1924
NAIC No. 36129

Docket No. 18-2902-13

**ORDER ADOPTING REPORT OF
LIMITED MARKET CONDUCT
EXAMINATION AS OF
DECEMBER 31, 2011**

The State of Idaho, Department of Insurance (Department), having conducted a limited market conduct examination of the affairs, transactions, accounts, and records, of the Idaho State Insurance Fund (State Fund), in accordance with Idaho Code § 41-219(1), hereby alleges the following facts that constitute a basis for the issuance of an order, pursuant to Idaho Code § 41-227(5)(a), adopting the Report of Limited Market Conduct Examination of the Idaho State Insurance Fund as of December 31, 2011 (Report), as filed.

FINDINGS OF FACT

1. For purposes of regulation, the State Fund is deemed to be an Idaho-domiciled mutual insurance company, pursuant to Idaho Code § 72-901(4), and is authorized to transact workers' compensation insurance in Idaho under Certificate of Authority No. 1924.

2. The Department completed a market conduct examination of the State Fund pursuant to Idaho Code § 41-219(1) on October 25, 2013. The Department's findings are set forth in the Report. The Report covered the time period between January 1, 2007 and December 31, 2011.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on October 25, 2013, and a copy of such verified Report was transmitted to the State Fund on October 26, 2013. A copy of the verified Report is attached hereto as Exhibit A.

4. On November 15, 2013, the Department received a Waiver signed by James M. Alcorn, Manager of the State Fund. By execution of such Waiver, a copy of which is attached hereto as Exhibit B, the State Fund acknowledged receipt of the Report, waived the right to examine the Report for up to thirty (30) days and consented to the immediate entry of a final order by the Director of the Department (Director) adopting the Report without any modifications. Such Waiver also included the State Fund's agreement to waive other statutory rights, to include waiver of the right to make a written submission or rebuttal to the Report; and waiver of rights to request a hearing and to seek reconsideration or appeal from the Director's final order.

5. No written submissions or rebuttals, pursuant to Idaho Code § 41-227(4), with respect to any matters contained in the Report were submitted to the Department by the State Fund.

CONCLUSIONS OF LAW

6. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written submissions or rebuttals, the director shall fully

consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections.

7. Having fully considered the Report, the Director concludes that the State Fund is in compliance with the provisions of title 41, Idaho Code, applicable to the State Fund's market conduct, pursuant to Idaho Code § 72-901(4).

ORDER

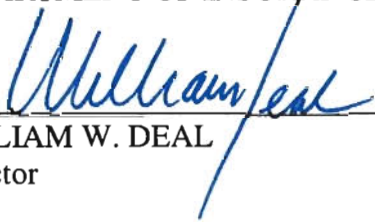
NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED that the Report of Limited Market Conduct Examination of the Idaho State Insurance Fund as of December 31, 2011, is hereby ADOPTED as filed, pursuant to Idaho Code § 41-227(5)(a), and a copy of this Order with all exhibits referenced herein, including the adopted Report, is hereby transmitted to the governor of the state of Idaho, in accordance with Idaho Code § 72-914.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in chapter 3, title 9, Idaho Code.

IT IS SO ORDERED.

DATED this 25TH day of November, 2013.

STATE OF IDAHO
DEPARTMENT OF INSURANCE



WILLIAM W. DEAL
Director

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 25th day of November, 2013, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF LIMITED MARKET CONDUCT EXAMINATION AS OF DECEMBER 31, 2011 to be served upon the following by the designated means:

Idaho State Insurance Fund
Attn: James M. Alcorn, Manager
1215 West State Street
Boise, ID 83720-0044
JamesM.Alcorn@idahosif.org

- first class mail
- certified mail
- hand delivery
- email

The Honorable C.L. "Butch" Otter
Governor, State of Idaho
Idaho Statehouse
Boise, ID 83720

- first class mail
- certified mail
- hand delivery
- email
- Statehouse Mail

Georgia Siehl, CPA, CFE
Bureau Chief/Chief Examiner
Idaho Department of Insurance
700 W. State Street, 3rd Floor
Boise, ID 83720-0043
georgia.siehl@doi.idaho.gov

- first class mail
- certified mail
- hand delivery
- email



Teresa Jones
Assistant to the Director

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF LIMITED MARKET CONDUCT EXAMINATION

Of

IDAHO STATE INSURANCE FUND

NAIC Company Code number: 36129

Located At:
1215 WEST STATE STREET
BOISE, ID 83702

As of

DECEMBER 31, 2011

EXHIBIT

A

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State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

Boise, Idaho
October 25, 2013

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
P. O. Box 83720
Boise, Idaho 83720-0043

Dear Director:

Pursuant to your instructions, in compliance with Sections 41-219(1) and 72-914, Idaho Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted a limited-scope Market Conduct Examination as of December 31, 2011, of:

Idaho State Insurance Fund
1215 West State Street
Boise, Idaho 83702

hereinafter referred to as the "the State Fund," at its offices in Boise, Idaho.

The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This was a limited-scope market conduct examination covering the period January 1, 2007 through December 31, 2011. The approach utilized for this exam was by exception, whereas only exceptions or errors were noted in this report. Comments regarding additional practices, procedures and files subject to review during the examination were omitted from the report if no improprieties were identified. The examination was conducted at the State Fund headquarters in Boise, Idaho by examiners from the State of Idaho. The examination was conducted pursuant to Section 41-219(1), Idaho Code, and in accordance with the National Association of Insurance Commissioners (NAIC) *Market Regulation Handbook* (2013 Edition, Volumes I & II).

The examination consisted of a review of the State Fund's:

- Complaint register and sample complaints filed with the Department of Insurance and complaints filed directly with the State Fund;
- Claim department staffing, authority levels and processes;
- Underwriting and premium calculations;
- Underwriting practices and procedures regarding cancellations and proof of mailing to ensure compliance required by Idaho Code §41-1842.
- Advertising and marketing;
- Producer/agent licensure and appointments;
- Fraud procedures and reporting guidelines;
- Privacy practices.

A benchmark sample error rate of 10% for trade practices was utilized, as specified by the NAIC *Market Regulation Handbook*.¹ Error rates exceeding this threshold are presumed to indicate a general business practice. In some cases, however, each instance of a commission of an act may constitute a separate and distinct violation of Idaho law.

In addition to the Report of Examination, a confidential Management Letter was issued to the State Fund by the Department which covered items that were not included in the Report, due to the materiality threshold and/or items that were related to proprietary/operational issues.

¹ See 2013 NAIC *Market Regulation Handbook*, Volume I, page 186, fourth paragraph.

PRIOR EXAMINATION

A prior limited-scope market conduct examination, in combination with full-scope financial examination, was conducted by the Idaho Department of Insurance covering the period January 1, 2002 through December 31, 2006.

A review was made to ascertain what action was taken by the State Fund with regard to comments and recommendations made by the Department in the prior examination report. Unless otherwise mentioned in the *Comments and Recommendations* section of this report, the prior report exceptions were adequately addressed by the State Fund.

HISTORY AND DESCRIPTION

General

The State Fund was established by an act of the legislature of the State of Idaho and was approved on March 16, 1917, in conjunction with the passage of the “Workmen’s Compensation Act”, which became effective on January 1, 1918, pursuant to Idaho Code, Title 72, Chapter 9. The State Fund Manager’s office was organized effective July 1, 1917, in preparation for the establishment of the Workers’ Compensation Act. The State Fund was incorporated/organized on December 31, 1917 and commenced business on January 1, 1918. Under Section 41-902, Idaho Code, the Board of Directors appoints a manager of the State Insurance Fund.

The State Fund was founded for the purpose of providing Idaho employers a reliable source of workers’ compensation insurance protection at low cost. Workers’ compensation coverage generally provides compensation for injuries sustained by the employees that are work related, including bodily injury, accidental death, occupational disabilities and disease.

On April 3, 1998, legislation was enacted relating to the State Fund by amending Title 72, and to provide application of the Idaho Insurance Code, Title 41 for the purpose of regulation. The State Fund is an independent body corporate politic. For purposes of regulation, the State Fund is deemed to be a mutual insurer. The State Fund operates under Certificate of Authority No. 1924, which was issued on April 3, 1998.

In accordance with Section 72-301(1), Idaho Code, every public employer must be insured through the State Fund unless the employer elects to be self-insured. Private employers must also purchase insurance from the State Fund, from private carriers or be self-insured. The State Fund is operated exclusively from insurance premiums received from policyholders, is not tax supported, and the State of Idaho is not liable for any of its indebtedness. Pursuant to Section 72-912, Idaho Code, invested assets of the State Fund are managed by the Idaho Endowment Fund Investment Board, with the direction and approval of the State Fund Manager.

The State Fund is not subject to federal income taxes or state and local property taxes. However, the State Fund is required to pay premium taxes to the Idaho Department of Insurance, pursuant to Section 41-402, Idaho Code. Under Section 72-523, Idaho Code,

the State Fund also pays a 2.5 percent premium tax to the Idaho Industrial Commission. Effective January 1, 2012, the tax rate will be 2 percent. Section 72-523, Idaho Code, allows a credit on the Idaho Department of Insurance Premium Tax Return for the taxes paid to the Idaho Industrial Commission. During the examination period, the premium tax credit was equal to 1.3 percent of net written premiums. Starting in 2012, the premium tax credit will be 50 percent of the tax paid to the Industrial Commission or a minimum of \$75.

The State Fund is exempt from the Idaho Insurance Guaranty Association under Section 41-3603(9), Idaho Code.

TERRITORY AND PLAN OF OPERATION

The State Fund is authorized to write workers' compensation insurance only, pursuant to Certificate of Authority No. 1924. The State Fund is licensed only in the State of Idaho. Section 72-301, Idaho Code requires every public employer and/or governmental entity (unless self-insured) to be insured with the State Fund. The State Fund also insures employers from the private sector, if the underwriting criteria are acceptable.

Effective January 1, 1997, Idaho agricultural workers, previously exempt from the workers' compensation law, were required to maintain coverage.

The State Fund operates from its main administrative office located in Boise, Idaho, and has five field offices located in Coeur d'Alene, Idaho Falls, Lewiston, Pocatello, and Twin Falls.

The State Fund utilizes independent producers and agencies to produce business on its behalf. According to the Idaho Department of Insurance, as of April 3, 2013, there were approximately 512 licensed and appointed producers and agencies.

EXECUTIVE SUMMARY

This limited-scope market conduct examination included tests of policies that were:

- issued,
- renewed,
- cancelled,
- non-renewed or
- declined

In conjunction with the review of the above policy areas, the State Fund's general practices and procedures relating to rating, underwriting, advertising and marketing, and risk selection were scrutinized.

In summary, there were no exceptions or errors noted during the exam.

The undersigned acknowledges the assistance and cooperation of the State Fund's Manager, department heads, and employees in conducting the examination. In addition to the undersigned, Arlene Barrie of the Idaho Department of Insurance participated in the examination.

Respectfully submitted,

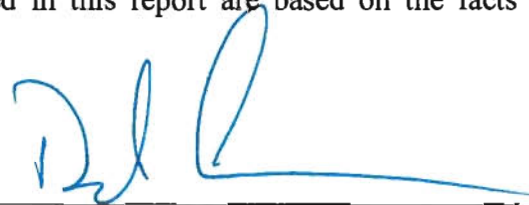


Dale Freeman, CIE
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

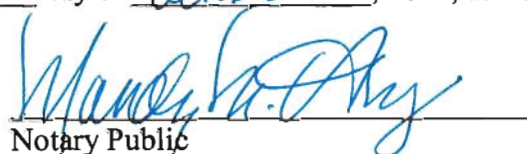
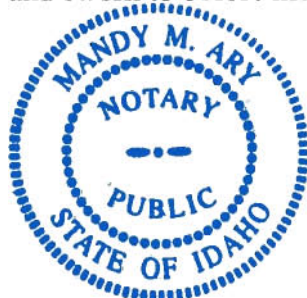
State of Idaho
County of Ada

Dale Freeman being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the Market Conduct affairs of *Idaho State Insurance Fund* for the period from January 1, 2007 through December 31, 2011, that the information contained in the Report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.



Dale Freeman, CIE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 25th day of October, 2013, at Boise, Idaho.



Notary Public

My Commission expires 7/24/2018

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Market Conduct Report of Examination as of December 31, 2011, of:

**IDAHO STATE INSURANCE FUND
1215 WEST STATE STREET
BOISE, IDAHO 83720**

By executing this Waiver, the Fund hereby acknowledges receipt of the above-described examination report, verified as of the 25th day of October, 2013 and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Fund also hereby waives:

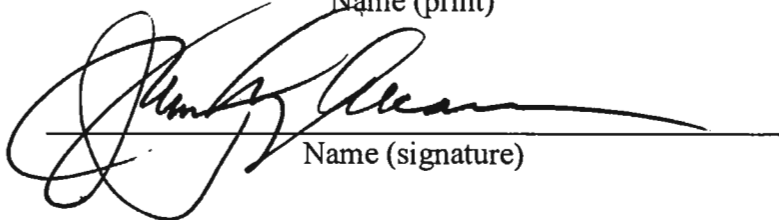
1. its right to examine the report for up to thirty (30) days as provided in Idaho Code section 41-227(4),
2. its right to make a written submission or rebuttal to the report prior to entry of a final order as provided in Idaho Code section 41-227(4) and (5),
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 12th day of November, 2013

IDAHO STATE INSURANCE FUND

James M. Alcorn

Name (print)



Name (signature)

Manager

Title

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EXHIBIT

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