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Performance Report

Department of Commerce

1995

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**Agency Performance Report
1996
Executive Summary
Commerce Department**

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Agency Mission:

The mission of the Minnesota Department of Commerce is to serve the citizens of Minnesota by: enforcing state laws and safeguarding consumers' rights and investments; resolving conflicts between consumers and industry; enhancing the stability and strength of financial and other regulated industries.

Goals and Objectives

Financial Examinations

Goal 1: To assure financial solvency and compliant conduct of financial institutions and other consumer financial service companies.

Objective 1: To prevent the financial condition of institutions from deteriorating.

Goal 2: To approve only those applications meeting the standards and requirements established by law and rule for charters and initial and renewal licenses.

Objective 1: To process qualified applications for initial/renewal charters and licenses without delay caused by returning incomplete filings.

Registration and Insurance

Goal 1: To assure financial solvency of insurance companies

Objective 1: To maintain National Association of Insurance Commissioners accreditation.

Goal 2: To assure insurance products and investment offerings sold in Minnesota comply with requirements of fairness, disclosure, clarity and reasonableness as set forth in statute, rule and regulation.

Objective 1: To assure fairness, full disclosure, readability and reasonable/non-discriminatory rates for investment and insurance products sold in Minnesota.

Goal 3: Determining whether the applicants qualifications are in compliance with the requirements for initial and renewal licenses.

76% of the programs clientele indicate they are satisfied with services received by program staff.

Description of Services

Financial Examinations

The program exists to perform examinations of banks, trust companies, thrift companies, credit unions and consumer lending/financial services companies to monitor the financial solvency and assure compliance with Minnesota Statutes and Rules. The program also determines qualifications of applicants for business licenses and charters.

Financial condition have improved and there is growth in high quality loan assets. Changes will be taking place in this area as a result of changes in interstate banking and branching laws which will expand authority from beyond a regional system to a national system.

Registration and Insurance

The program exists to assure that insurance companies doing business in Minnesota are in good financial condition, that investment and insurance products sold in Minnesota meet minimum requirements of fairness and disclosure and to license securities broker dealers, agents, investment advisors, insurance companies and approve authority to self insure.

Petroleum Tank Release Cleanup Fund

The program exists to encourage tank owners that have experienced petroleum leaks to clean up the land in an effort to protect the environment. Costs incurred are reimbursed through fees charged on wholesale petroleum products.

Enforcement and Licensing

The program exists to ensure policyholder, investor and consumer protection, to increase consumer awareness, to license qualified individuals to do business and to return abandoned and unclaimed property to the rightful owners or heirs. The focus is to protect the rights and interests of Minnesota consumers.

AGENCY PERFORMANCE REPORT

1996

COMMERCE DEPT

Final Format Prepared : November 27, 1996

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AGENCY : COMMERCE DEPT**MISSION**

The mission of the Minnesota Department of Commerce is to serve the citizens of Minnesota by: enforcing state laws and safeguarding consumers' rights and investments; resolving conflicts between consumers and industry; enhancing the stability and strength of financial and other regulated industries.

GOALS

- To ensure consumer trust and confidence in banks, thrift institutions, insurance companies, credit unions and other financial institutions.

- To ensure the investor, borrowing consumer, policy holders and depositors have safe, sound and solvent financial institutions.

- To investigate complaints from the general public to determine whether the activities constitute violations of law and to take appropriate administrative disciplinary action.

- To assure the general public that persons engaged in the sale of financial services and products meet minimum standards of expertise and moral character.

- To constantly monitor rapidly changing market conditions and practices.

- To administer state laws affecting investment offerings and insurance products through the review of filings to ensure they are not inadequate or unfairly discriminatory and product prices are not excessive.

- To assure that the cost of clean up of leaking underground storage tanks are reimbursed pursuant to the petroleum tank release clean-up fund statutes and rules.

The Department of Commerce is responsible for administering and enforcing more than 60 chapters of Minnesota Statutes that regulate banking and investments, insurance, securities, collection agencies, cosmetologists, real estate agents, residential building contractors and other small industries in Minnesota. In order to fulfill the statutory responsibilities, the department conducts periodic examinations of financial institutions, controls the licensing of individuals and companies, monitors price competition in the insurance industry, investigates consumer complaints and regulates trade practices.

In addition, the department has responsibility for providing staff to administer the petroleum tank release cleanup fund and to ensure the uniform disposition of unclaimed and abandoned property.

The department is organized into five programmatic areas: 1) financial examinations; 2) registration and insurance; 3) petroleum tank release cleanup fund; 4) administrative services and 5) enforcement and licensing. Services are provided through a variety of direct activities of operational programs designed to create a positive environment for business and consumers.

WAYS TO IMPROVE PROGRAM OUTCOMES

One of the most significant ways to improve on outcomes includes the continuing improvement of our automated communication systems. Currently we have a structure in place that has allowed significant changes in the way we do business. Continuing the theme of improvements and enhancements in our automated processes will continue to improve response time to our clients.

EMPLOYEE PARTICIPATION

The Department had various levels of employee participation in gathering information for this report. All bargaining units participated and assisted managers in presenting outcomes and planning goals.

Date : November 27, 1996

Agency Expenditure Summary

F.Y. 1996

NAME	(in thousands \$)	% of \$	FTE	% of FTE
AGENCY: COMMERCE DEPT	\$45,649	100.0%	252	100.0%
PROGRAM: FINANCIAL EXAMINATIONS	\$3,558	7.8%	61	24.1%
PROGRAM: REGISTRATION & INSURANCE	\$4,162	9.1%	74	29.3%
PROGRAM: PETROLEUM TANK CLEANUP FUND	\$31,228	68.4%	17	6.6%
PROGRAM: ENFORCEMENT & LICENSING	\$4,139	9.1%	72	28.6%

Agency : COMMERCE DEPT

Program : FINANCIAL EXAMINATIONS

EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$3,558	7.79%
From Special Revenue Funds	\$58	
General	\$3,500	
Number of FTE Staff:	61	24.10%

GOALS :

- To assure financial solvency and compliant conduct of financial institutions and other consumer financial services companies. (M.S. 46.04)
- To approve only those applications meeting the standards and requirements established by law and rule for charters and initial and renewal licenses. (M.S. 46)

DESCRIPTION OF SERVICES :

The purpose of this program is to perform periodic examinations of banks, trust companies, thrift companies, credit unions and consumer lending/financial services companies to monitor the financial solvency and assure compliance with Minnesota Statutes and Rules. The program also must determine the qualifications of applicants and issue charters, licenses or approvals for qualified business' in Minnesota.

SAFETY AND SOUNDNESS

Examinations are performed on over 400 state chartered financial institutions aggregating over \$20 billion in assets. Examiners produce reports containing key indicators of financial health with which we identify and monitor the movement and direction of the industries condition. If necessary we have authority to intervene to require prompt remedial action through the financial institution's board of directors. These examinations are different from an audit in both scope and responsibility to require remedial action under the law.

All depository institutions are insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA). Examination efficiencies are possible under an alternate examination program with the FDIC. Such a program is currently being negotiated with the NCUA. Banks and credit unions are also chartered as national banks or federal credit unions in Minnesota (Dual Chartering System).

The program performs periodic examinations and investigates complaints relating to the consumer credit and financial service industry. Over 900 individuals and corporations provide consumer lending and other credit related services throughout the state. The state is the primary regulator and there is no dual licensing system under the federal government.

Through the examination process, we identify overcharges and unfair dealings with consumers. These are regularly remedied by requiring reimbursement, correction and reinstatement of a consumer's rights and privileges. Serious or uncorrected problems can result in a loss of a license. Since 1995, consumer credit is regulated for all licensees and financial institutions under the Minnesota Consumer Credit Uniform Code. (M.S. 47.59)

APPLICATION ACTIVITIES

The program reviews applications for charter and license. Applicants must demonstrate a high standard of character and financial integrity with evidence that a proposed institution or licensed operation will be properly and safely managed. Compliance with statute and rule is also required.

BACKGROUND INFORMATION :

MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)

Type	Based	Measure	1994-95	1995-96
A	FY	No. of institutions by CAMEL rating 1-2	530	523
A	FY	CAMEL rating 3	34	21
A	FY	CAMEL rating 4-5	1	2
A	FY	Number of banks	405	395
A	FY	Number of credit unions	157	148
A	FY	Number of thrift companies	3	3
A	FY	Total assets banks (billions)	\$17.9	\$18.8
A	FY	Total assets credit unions (billions)	\$2.2	\$2.2
A	FY	Total assets thrift companies (billions)	\$.1	\$.1
W	FY	Number of examiners	45	42
W	FY	% of 1-2 rated institutions examined annually	48%	45%
W	FY	% of 3 rated institutions examined in nine months to one year	38	81
W	FY	Number of bank examinations completed	183	164
W	FY	Number of credit union examinations completed	95	94
W	FY	Number of thrift company examinations completed	1	2
UC	FY	Average examination hours billed per \$1 million of assets 1-2 Rated	6.26	6.33

COMMERCE DEPT**1996 Agency Performance Report**

W	FY	% of bank examinations completed within 35 days of exit (55 days until April 1995)	98	99
UC	FY	Examination hourly rate	\$34.75	\$35.60
A	FY	Number of consumer credit companies with CRS rating 1-2	210	187
A	FY	Number of consumer credit companies with CRS rating 3	5	21
A	FY	Number of consumer credit licensees	125	143
A	FY	Number of consumer credit locations	252	255
W	FY	Number of examiners	2	2
W	FY	% of credit union or consumer credit examinations completed within 30 days of exit	21.43	37.08
W	FY	Number of bank applications processed	282	330
W	FY	Number of credit union applications processed	72	72
W	FY	Number of thrift company applications processed	19	22
W	FY	Number of consumer credit applications processed	87	100
W	FY	Number of licenses renewed	117	126
W	FY	Number of licenses issued	27	35
A	FY	% of bank applications and notices processed in one week	34	33
A	FY	% of credit union applications and notices processed in one week	2	2
A	FY	% of consumer credit applications and notices processed in one week	2	2

PROGRAM DRIVERS :**FINANCIAL INSTITUTION PERFORMANCE**

Between 1993 through 1996, financial institutions have experienced historically high levels of earnings. This is complemented by a growing volume of high quality loan assets. These have exceeded historical benchmarks of one percent return on total or average assets. Accumulated reserves for loan losses are at satisfactory levels. Early in this time frame, stress from new and unconventional investments that contained wagers on market interest rates movements (derivatives) caused some losses. These losses have been diminished by improvements in management practices and by historically high loan-to-deposit ratios (70% or higher). This report will show that state banks, thrifts and credit unions are experiencing the highest level of regulator rating under the CAMEL uniform bank rating system since established in 1979. Efficiencies will also be objectives for state regulators under interstate cooperative supervisory agreements. Minnesota and 30 other states have entered into such agreements.

Because of this improved financial condition, examinations go smoother, take less time and resources to complete and pursue corrective action. The current financial situation should continue. Reductions in examination staff should not present a problem.

INDUSTRY CONSOLIDATION

The pursuit of efficiencies by creating larger sized organizations has prompted a massive consolidation, especially in larger regional and money center banks throughout the United States. In Minnesota, which historically has been

one of the five states with the largest number of individual banks and credit unions, we have seen the effect of consolidation. The number of institutions has declined as a result of mergers and acquisitions. This trend will likely accelerate when nationwide interstate banking permits mergers and branching across state lines in June of 1997. It is anticipated, Minnesota will continue to be a large provider of locally owned and influenced community banks and branches which have supported 700 banking locations covering all of Minnesota's 87 counties.

State credit unions, historically existing in large numbers in Minnesota, have also declined in number. The decrease in number has contributed to the growth in size and complexity. A broader scale of services is also being provided to credit union members. The only force which may accelerate the decline in number of state credit unions is solicitation by the NCUA of state credit unions to convert to federal charter.

CONSUMER PROTECTION

The nonfinancial institution consumer lenders, such as regulated lenders and industrial loan companies, operate under the Minnesota Consumer Credit Uniform Code and are a reliable and competitively priced source of credit. These companies exhibit a high level of compliance as indicated by examination and complaint resolution results.

The consumer credit industry has become a more regional and national based industry. Those located in Minnesota require examination and regulation which is carried out through electronic data transmission. Other states generally cooperate on examinations of this regional/national industry. The scope of issues reviewed has expanded from simply a loan industry to other, more flexible, credit arrangements, (i.e. home equity, revolving credit lines, credit cards and retail sales contracts). These largely computer based lenders manage the fundamental terms and conditions for compliance and continue to find Minnesota a high credit quality state to operate in.

DEMAND FOR APPLICATION SERVICES

Improved financial condition and superior earnings of financial institutions have increased expansion in terms of branching, remote electronic service terminals, banking house expansion and non bank service approvals. This places demands on application and approval services of this program. Streamlining, simplification and technical enhancements in internal operating procedures are necessary to be responsive with the same level of resources.

With the increased involvement in interstate bank ownership and branching, "home states" become the single point of contact for all of the structural application approval involving many "host state" branch locations. Relationships with federal regulators and host state supervisors will place processing burdens on Minnesota.

Goal 1 : To assure financial solvency and compliant conduct of financial institutions and other consumer financial services companies.

Objective 1 : To prevent the financial condition of institutions from deteriorating.

Measure 1 : Percentage of banks and credit unions with CAMEL ratings of 3 improving to 1 or 2 and percentage of consumer credit companies with CRS rating of 3 improving to 1 or 2.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Improving to CAMEL 2 or 1						
Actual	51%	42%	43%	34%		
Target			38%	38%	38%	38%
CRS 2 or 1						
Actual	11%	7%	50%	13%		
Target			28%	28%	28%	28%

DEFINITION :

Examinations of banks and credit unions are required by law on an annual or 18 month basis depending upon the classification of the institution by size and the CAMEL rating. The CAMEL rating is a uniform bank rating system that stands for Capital adequacy, Asset quality, Management capability, Earnings performance and prospects and Liquidity resources and funds management. Each area is the focus of specific and objective financial factors such as capital to asset ratios and subjective appraisal of management's training, experience and results.

The program relies on a uniform performance rating system termed the Consumer Rating System (CRS). Again the scale is 1 to 5. The performance of licensees, including the absence or rare inadvertent noncompliance with lawful changes or procedural rules, would result in a CRS of 1. Poor attention to detail of compliance and frequent evidence of overcharges or procedural noncompliance would earn a licensee a CRS of 3. Even with a rating of 3, there would not be a threat to continued licensing unless no action was taken to correct findings. Repetitive and severe noncompliance would require formal action such as an administrative order to produce compliance.

RATIONALE :

These ratings are used as a measure of meeting the solvency objective and full consumer compliance. A CAMEL composite rating of 1 is considered the best while a rating of 5 would be considered the worst. (An institution with a rating of 5 would generally be in liquidation or ready to be closed.) After each element is developed, the composite rating is calculated on a 1 to 5 scale and assigned to the institution. The program would have minimal involvement (focusing the least amount of resources except for procedural development resources) on composite rated 1 or 2 institutions, supervisory concern would be shown where there is a trend to decline in a composite 3 institution which could lead to probable failure and liquidation and a composite 5. Most of the resources of the program focus on 1 and 2 rated institutions which constitute over 300 of our clientele. Well thought out case-by-case development of action plans to achieve higher level of CAMEL index factors have been found to be a significant factor in directing management's success.

Consumer credit and financial services examinations are not always required in a specific time frame. The scope of the consumer credit examination is not as complex in comparison to the safety and soundness examinations required for banks and credit unions. Consumer credit companies are those Minnesota operations of local, regional or national organizations that provide loans and other credit-related services through licensed locations. The loans are made at regulated interest rates and charged to those not qualifying or not able to do business with other lenders. Regular examination schedules are maintained by modified by incidence of complaints, management change or rapid changes in business activity reported to the program.

DATA SOURCE :

The data collected for these measures comes from the examination reports of financial condition of banks, credit unions and consumer credit companies maintained by the Department. The data involved in examination of an institution and the establishment of the CAMEL/CRS rating is confidential.

DISCUSSION OF PAST PERFORMANCE :

Minnesota banks, like those throughout the United States, are experiencing the aftermath of the 1980's which produced high numbers of problem institutions (4 and 5 ratings). Since 1990, the frequency of problem institutions has declined allowing more time for the program to focus efforts on CAMEL 3 rated institutions (the most frequent problem rating over the past 15 years). An earlier intervention plan can be developed and implemented to assist the institutions in turning ratings from 3 to 2 or 1 instead of 4 or 5.

In the past, the effectiveness of consumer credit examinations has been measured by the number of examinations and the number/relative dollar value of corrections and refunds. Automated system operations greatly improved the ability of examination findings to be translated into system-wide corrections and program outcomes. This has also greatly improved the responsiveness of licensees and the ability of the program to affect compliant behavior.

FY 1996 performance in consumer compliance was dramatically adverse and far short of a positive outcome target. Most of this is attributed to law changes which occurred in FY 1996 with the introduction of the Consumer Credit Uniform Code. The result was some unusual shakeout of understanding on the part of the industry. Bank and credit union performance has fallen below targets. As the number of CAMEL 3 rated institutions falls (total down 38 percent from 1995 to 1996), the time frame to see results exceeds one 12 month period because examinations are the only basis on which to be added or deleted from list.

PLAN TO ACHIEVE TARGETS :

The single most important issue in achieving the targets is to compress the cycle between examinations for CAMEL/CRS rated 3 institutions. This effort will offer Boards of Directors and Officers and Officials of the institutions more frequent benefit of examination information to implement necessary improvements in the condition of their institution.

The program is developing new examination techniques to divide the examination process into computer assigned modules that will provide both on and off site review ability. The examination program currently under development and those of the FRB and FDIC will create the modules for the examination report and development of the CAMEL/CRS rating. This will decrease the time needed for on-site information gathering and provide review staff information to analyze problem areas sooner.

The results achieved show positive trends in safety and soundness were experienced and the program outcome is on track to reduce the adverse shift from CAMEL 3. Compliance results are also satisfactory.

OTHER FACTORS AFFECTING PERFORMANCE :

The cooperation of the financial institutions is key to the success of achieving this objective. The average size of a Minnesota bank is approximately \$45 million in total assets. It is imperative upon the program to develop systems to examine institutions of all sizes. The time in which review of 3 rated institutions can be completed can have an impact on the ability to assess potential problem areas and recommend solutions. The banks, credit unions and licensees must be supportive in efforts to improve financial condition for the measures to show success. Economic indicators can also affect the success or failure of the program's effort. In rural areas where banking is directly impacted by crops and growing seasons, changes in Federal farm policy may create some uncertainty in marginal operations for weather related but uninsured losses.

Goal 1 : To assure financial solvency and compliant conduct of financial institutions and other consumer financial services companies.

Objective 1 : To prevent the financial condition of institutions from deteriorating.

Measure 2 : Percentage of banks and credit unions with CAMEL ratings of 3 declining to 4 or 5 and percentage of consumer credit companies with CRS ratings of 2 declining to 3.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
CAMEL 3 to 4 or 5						
Actual	2%	0%	5%	7%		
Target			5%	5%	5%	5%
CRS 3 to 4 or 5						
Actual	1.5%	1%	0%	0%		
Target			5%	5%	5%	5%

DEFINITION :

The CAMEL rating is a uniform bank rating system that stands for Capital adequacy, Asset quality, Management capability, Earnings performance and prospects and Liquidity resources and funds management. Each area is the focus of specific and objective financial factors such as capital to asset ratios and subjective appraisal of management's training, experience and results.

The program relies on a uniform performance rating system termed the Consumer Rating System (CRS). Again the scale is 1 to 5. The performance of licensees, including the absence or rare inadvertent noncompliance with lawful changes or procedural rules, would result in a CRS of 1. Poor attention to detail of compliance and frequent evidence of overcharges or procedural noncompliance would earn a licensee a CRS of 3. Even with a rating of 3, there would not be a threat to continued licensing unless no action was taken to correct findings. Repetitive and severe noncompliance would require formal action such as an administrative order to produce compliance.

RATIONALE :

As a measure of meeting the solvency objective and full consumer compliance, this is the historical focus. For decades, "problem lists" have been compiled. Memoranda of understanding or cease and desist orders could be developed for institutions on problem lists. If not successful, conditions could deteriorate to the point institutions have to be closed or licenses suspended or revoked. Early detection of the elements of failures are required at the CAMEL 3 level. Even if the momentum of economics, management or other factors result in further deterioration to CAMEL 4 or 5 ratings, early detection is critical for consumer protection.

DATA SOURCE :

The data collected for these measures comes from the examination reports of financial condition of banks, credit unions and consumer credit companies maintained by the Department. The data involved in examination of an institution and the establishment of the CAMEL/CRS rating is confidential.

DISCUSSION OF PAST PERFORMANCE :

Outcomes of the 1980's discussed under measure 1 are applicable here except to conclude that the time frames for remedial action efficiencies at the CAMEL 4 or 5 rating levels are far more critical than that under measure 1. Examinations of deteriorating institutions and licensees are more frequent (6 to 9 month intervals) and require management changes as opposed to redirection of existing management. During a fiscal year, the percentage of institutions deteriorating from a 3 to 4 or 5 rating requires a rapid response.

PLAN TO ACHIEVE TARGETS :

The same monitoring and identification system is utilized as in measure 1. The off site capability of the data assembly electronically is more beneficial and supports target achievement in the future. Larger, more complex institutions and multi-branch licensees present complementary data systems available to the program. Modeling of information requests on a more frequent basis should enable testing to identify deterioration on a more prospective basis.

OTHER FACTORS AFFECTING PERFORMANCE :

The overall factors of the economy much more dramatically affect weak institutions. Scarcity of alternative management resources and general stress can mean difficulties for the 4 or 5 rated institutions. This means the standards to be achieved in a problem or remedial context are more stringent. For example, a 6% capital level of protection may support a 1, 2 or even 3 rated institution while 8 to 9 percent is the target for the 4 rated institution.

- Goal 2** : To approve only those applications meeting the standards and requirements established by law and rule for charters and initial and renewal licenses.
- Objective 1** : To process qualified applications for initial/renewal charters and licenses without delay caused by returning incomplete filings.
- Measure 1** : Percentage of applications deemed incomplete and returned for further information.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Structured applications						
Actual	80%	80%	80%	80%		
Target					50%	30%
Other license authorities						
Actual	20%	20%	20%	20%		
Target					10%	10%

DEFINITION :

Charters, mergers, branches and relocations are some of the structural applications. Charters are issued to create financial institutions or add to their existing corporate powers and include depository institutions such as banks, credit unions, thrift companies, savings banks or savings institutions. Federal charters are issued in similar fashion for all but the thrift companies. Licenses or authorization of special powers may be issued to existing financial institutions, business corporations or other "persons" such as individuals, partnerships, etc. Chartering where deposits are accepted requires federal insurance of accounts be approved by the Federal Deposit Insurance Corporation or the National Credit Union Administration.

Some of the licenses or authorities include electronic financial terminals, general insurance, annuity products or securities sales (none include underwriting or floatation). These powers are either directly authorized by state law or by reference to federal law to create parity between state and federal charters.

RATIONALE :

To protect depositors and borrowers, anyone seeking to become chartered or licensed to do business in Minnesota must first go through an application procedure. The requirements for each kind of charter/license is clearly defined in Minnesota Statute and address issues including capital to start the business, experience and background checks on the management involved in the business, financial integrity and other technical issues relating to the qualifications of the entity to do business by Minnesota standards.

In addition to the initial license process, companies must continue to meet the established standards to maintain the license. Criteria are also established for a business to continue to be licensed in Minnesota and the program annually reviews this information. When conditions are in compliance with statute, regulation and rule, the renewal license is approved.

These procedures allow the program to assess the standards for licensing and the renewal process and determine whether they are effective tools in providing Minnesotans with safe and sound financial institutions. It also allows for achievement of goals relating to both the solvency of companies as well as the assurance that applicants are well qualified to be entrusted with the assets of those who would use the services provided by the institution.

DATA SOURCE :

The data sources for these measures are maintained within division records. Information systems exist that track status of applications as well as systems designed to track complaint information.

DISCUSSION OF PAST PERFORMANCE :

The program has experienced varying trends in license activity that generally relate to the state of the general economy and performance of individual industries and institutions. The process for handling application materials has been manual. Each industry has a set of forms requesting the detailed information necessary to review the application material. Processing the requests for applications and information has been time consuming. Forms and information materials are sent to the interested party to be completed and submitted to the agency along with the appropriate fee for the transaction.

PLAN TO ACHIEVE TARGETS :

The main component of the plan to achieve the target is to improve on the application process "system" to make the information on requirements and submission of documents easier for those interested in a license or charter in Minnesota. The main focus of this effort will be in the implementation of standardized forms for all similar transactions. The plan is to eliminate the need to continually return forms for completion, additional information or omissions. Interstate activities falling to "home state" supervisors should be alleviated to some degree by development of common or universal format for forms and procedures among the parties. Legislation will be submitted to permit acceptance of formal applications in electronic format.

OTHER FACTORS AFFECTING PERFORMANCE :

The variety of charters and licenses has historically been a factor in credit allocation and capital formation. Credit standards for bank customers, subsidized home ownership loans and interest rates at higher levels for small, riskier loans were the standard. The complexity of these licenses and charters has already begun to shift to a broader range of services and risks in fewer types of institutions. A single depository financial institution charter incorporating banks, thrifts, savings institutions and savings banks will emerge and legislation at the state level should be considered to implement this change by FY 1998.

Licensed consumer lenders and other financial institutions already enjoy a single uniform lending law, and there is reason to expect the industrial loan companies and regulated lender laws to be combined. The simplification of the Minnesota Consumer Credit Uniform Code. A reduction from five to two types of organizations will allow additional efficiencies.

Agency : COMMERCE DEPT
 Program : REGISTRATION & INSURANCE

EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$4,162	9.12%
From Special Revenue Funds	\$411	
General	\$3,751	
Number of FTE Staff:	74	29.34%

GOALS :

- To assure financial solvency of insurance companies. (M.S. 60A.031, Subd. 1)
- To assure insurance products and investments offerings sold in Minnesota comply with requirements of fairness, disclosure, clarity and reasonableness as set forth in statute, rule and regulation. (M.S. 80A - M.S. 80C - M.S. 83)
- Determining whether the applicants qualifications are in compliance with the requirements for initial and renewal licenses. (M.S. 60A - M.S. 79A.03 - M.S. 79A.21 - M.S. 80A - M.S. 80C)

DESCRIPTION OF SERVICES :

The program exists to assure that insurance companies (foreign, domestic, self insurance) doing business in Minnesota are in good financial condition, that investment and insurance products sold in Minnesota meet minimum requirements of fairness and disclosure (should be able to be understood by the average person) and to license securities broker dealers, agents, investment advisors, insurance companies and approve self insurance authority.

On-site examinations and internal "desk audit" reviews are conducted to discover the financial condition of insurance companies doing business in Minnesota. The examinations cover compliance with statutes, accuracy of financial reporting and company solvency. The on-site comprehensive examination provides the opportunity to examine the operations of a company, perform detailed review of compliance and examine the documents and assumptions that are reported in the annual statements. On-site targeted examinations focus on a specific problem which has been identified by various methods of reporting. Desk audits provide a quarterly and annual review of information relating to financial condition. Audit staff also identify trends or highlight potential problem areas so the program can take a proactive approach to addressing the financial health of the insurance industry.

The program also reviews filings related to investment offerings and insurance policy contracts sold in Minnesota.

All of the investment instruments are required to meet fairness and disclosure standards established by statute. Merit standards are applied to most types of securities registrations. Franchise agreements are reviewed for disclosure and fairness. Subdivided land and camping clubs are reviewed for full and fair disclosure, fraud, misrepresentations and unfair practices. Insurance policy form, rates and contracts are reviewed to assure they are reasonable, nondiscriminatory and fair. Rates are reviewed to assure they are not excessive. Contracts are reviewed to assure they are not misleading and that the benefits identified are truly received.

Finally, the program is responsible to review applications and approve or deny licenses for securities broker dealers, agents, investment advisors and employers wanting to self insure their liability for workers compensation and auto insurance. All individuals wanting to be involved in the sale of securities must receive a license. Those who want to give investment advise must receive a license. Companies looking to self insure must demonstrate financial ability to assume the risks involved.

BACKGROUND INFORMATION :

MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)

<u>Type</u>	<u>Based</u>	<u>Measure</u>	<u>1994-95</u>	<u>1995-96</u>
A	FY	Number of common stock filings	124	132
A	FY	Number of mutual fund/unit investment trust filings	522	473
A	FY	Number of limited partnership filings	34	26
A	FY	Number of debt and preferred stock filings	49	48
A	FY	Number of bond filings	71	125
A	FY	Number of notifications	90	97
A	FY	Number of exemptions	605	553
A	FY	Number of franchise filings	181	210
A	FY	Number of sub-divided land filings	24	34
A	FY	Number of camping club membership filings	2	1
A	FY	Number of securities annual reports filed	2173	2146
A	FY	Number of franchise annual reports filed	524	568
A	FY	Number of sub-divided land annual reports filed	63	85
A	FY	Number of camping club memberships	0	3
A	FY	Number of securities amendments filed	1988	2329
A	FY	Number of franchise amendments filed	420	563
W	FY	Number of investment offering filings received	6552	7328
A	FY	Number of broker dealer applications received	172	214
A	FY	Number of securities agent license applications received	17688	17365
A	FY	Number of investment advisor applications received	125	155
W	FY	Number of licenses issued	17688	17329
W	FY	Number of filings approved	22288	22157

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A	FY	Number of life and health filings	4785	4928
A	FY	Number of property casualty filings	5394	2633
A	FY	Number of workers compensation filings	529	836
A	FY	Number of workers compensation self insurance applications received	57	81
A	FY	Number of auto self insurance applications received	1	2
A	FY	Number of third party administrator applications received	104	109
W	FY	Number of self insurance licenses issued	162	192
W	FY	Number of form and rate filings approved	10708	8397
A	FY	Number of domestic insurance companies	207	207
A	FY	Number of foreign insurance companies	1221	1217
W		Number of on-site examinations completed	23	24
W	FY	Number of desk auditors	11	11
W	FY	Number of field examiners	12	12
	FY	Number of applications processed	87	68
W	FY	Number of licenses issued	24	23

PROGRAM DRIVERS :

The economy is a major driver of activities for this program. Interest rate changes, the real estate market and overall economic activity have a direct impact on the solvency of an insurance company. Changes in the interest rates and the real estate market can have significant direct impact on the market value of insurance company holdings. In some cases such decreases in market value can cause previously financially strong companies to weaken, and in the extreme, require regulatory intervention.

When the nation experiences positive economic trends, we see increases in interested individuals entering the sales or advisory market place. This has a direct impact on the volume of applications to license individuals to do business in the securities area. There would also be a direct affect on the development of new franchise opportunities and securities offerings as people tend to have more income available to invest during positive economic times.

Market availability and rates for insurance affect the self insurance activity. Employers are finding it increasingly attractive and more economical to self insure because of their ability to control risks. Self insurance may be financially advantageous in situations where the employer has a large number of employees. They can minimize their workers compensation cost per employee by effective programs to control risk exposure.

By law, insurance coverage such as automobile and workers' compensation are required. Accordingly, residual markets (assigned risk pools) must be available for those who are unable to obtain coverage in the voluntary market. Therefore, decreases or depopulation of assigned risk pools indicate competition in the marketplace and a broader availability of coverage in the voluntary market.

Health insurance reform is ongoing and has an impact on the outcome of this program. The enactment of federal health insurance reform legislation will have an effect on the insurance regulatory aspects of the program's operation. The legislation requires, in part, that insurers guarantee the availability of certain group and individual insurance products are renewable. In addition, the federal legislation requires that states either implement the mechanisms set forth in the legislation or develop an alternative mechanism to achieve the bill's goals.

Traditionally, states have had almost exclusive authority for regulation of the insurance industry. However, under the current federal regulation it is conceivable that if a state fails substantially to enforce a provision of the bill, the Secretary of Health & Human Services will enforce the provisions since they have the authority to assess civil penalties to states for each day of noncompliance.

Benefits mandated by state legislation continue to have a significant impact on insurance regulation. During this past session, legislation was enacted which requires mandated coverage for maternity post partum care, prostate cancer screening and lymes disease testing to name a few. To comply with the legislative requirements, insurers must file amendments to their policies to demonstrate benefits availability.

The aging population will also have significant impact on the insurance regulatory program. As life expectancy continues to increase so does the number of people reaching age 65 and older. This produces the need for additional insurance products designed to meet the needs of this older population yet still comply with state and federal regulations. Medicare supplement and long term care insurance are two specific insurance products with a targeted senior population.

As state and federal regulations mandate that certain insurance products be made available for individuals and businesses, insurers will need to develop, price and market those products. These activities also affect the solvency of companies and the regulation of products.

Goal 1 : To assure financial solvency of insurance companies.

Objective 1 : To maintain National Association of Insurance Commissioners accreditation

Measure 1 : Approval of re-accreditation

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Completion of re-accreditation review						
Actual	yes	yes	yes	yes		
Target					yes	yes
NAIC approval of re-accreditation						
Actual	yes	yes	yes	yes		
Target					yes	yes

DEFINITION :

In 1989, the NAIC instituted its accreditation process. As part of the accreditation process the NAIC determined statutes, financial examination procedures and personnel policies needed for insurance departments to properly regulate solvency. Meeting these standards is necessary for an insurance department to obtain accreditation. If a state receives an unconditional accreditation the NAIC performs an on-site review every five years. If accreditation is conditional, annual on-site reviews will be performed until the state either receives an unconditional accreditation or has its accreditation revoked. In years where a state is not scheduled to have an on-site review it must complete a lengthy questionnaire regarding its statutes, examination procedures and personnel policies. If the questionnaire indicates a deterioration in solvency regulation has taken place, an on-site review could be scheduled or accreditation revoked.

The NAIC's accreditation review teams are usually made up of five individuals plus a representative of the NAIC. These individuals are ex-auditors, former insurance company chief financial officers and ex-regulators. Typically team members have over 20 years experience in the insurance industry. Their review is split into three sections and lasts five days.

The sections are:

- 1.) **Laws** - A detailed review of a state's insurance laws is performed. A determination is made as to whether the state has adopted the laws necessary to adequately regulate solvency.
- 2.) **Examination Procedures** - A detailed review of the policies and procedures followed by the Department is performed. In addition, the accreditation team performs a detailed analysis of a sample examination report, examination work papers and desk audit files. This review is to determine whether the state has policies and procedures in place to properly regulate solvency and whether these policies, procedures and state statutes are being followed on a consistent basis. This portion of the review takes the five member team, three days to complete.
- 3.) **Personnel Policies** - Review of the department's personnel policies is performed. This portion of the review focuses on whether the department can hire and retain competent examiners, provide adequate continuing education and give the examiners sufficient performance feedback.

RATIONALE :

The ultimate goal of solvency regulation is to minimize policyholder losses and promote the safe and sound operation of the insurance industry. However, these goals are virtually un-measurable. The most appropriate surrogate for measuring the quality of solvency regulation is the attainment of NAIC accreditation.

While losses to policyholders are virtually impossible to measure and the number of troubled companies and insolvency's are significantly impacted by the factors described above, the NAIC's accreditation team's review specifically addresses the quality, quantity and timeliness of the Department's solvency regulation. NAIC accreditation means the Department has in place and is consistently following the policies and procedures that will keep policyholders losses to a minimum.

DATA SOURCE :

NAIC records and reports.

DISCUSSION OF PAST PERFORMANCE :

During 1992 and 1993, the department obtained a conditional accreditation requiring re-review of its examination procedures after a period of one year. During 1994, the department was able to demonstrate significant improvement in the areas of concern allowing approval of an unconditional accreditation.

The solvency program in its current form is relatively new. In the early 1990's the Legislature passed sweeping changes to Minnesota's solvency statutes. The insurance industry, the department and the Legislature worked together to implement these protective measures to provide the consumers and policyholders with the greatest protections possible in the area of financial solvency.

Prior to the development of the desk audit function, the majority of the solvency efforts evolved around the on-site examinations and cursory reviews of annual statement information. During this time, information and data reviewed during solvency analysis could have been as old as three years (the last on-site examination). Tools available were limited as far as statutory authority, examiner resources and automated data processing functions were concerned. During 1991 and subsequent years, the department adopted the appropriate statutes, increased examiners and created the necessary data processing resources to increase this regulatory effectiveness. We now have the resources in place to be a proactive financial regulator, intervening on behalf of policyholders early in order to reduce losses. The Supervisory Action Review Committee (SARC) meets regularly to review the audit results of companies that may have potential problems. Through review analysis and SARC decisions, the program is able to identify early warning signals of potential problems and work with the company to turn the problems into solutions.

PLAN TO ACHIEVE TARGETS :

The most important aspect of achieving targets, objectives and goals for this program is to stay current with changes in the environment that insurance companies operate and new regulatory tools. The ability to continue to receive NAIC accreditation is dependent upon adopting the statutes, maintaining the appropriate examination staff and utilizing new data processing techniques to identify, react to and take appropriate action on a timely basis.

OTHER FACTORS AFFECTING PERFORMANCE :

Cooperation with the insurance industry is very important to the success of this objective. The industry is very concerned about maintaining its financial health. They have been very cooperative in creating the solvency laws as they are today.

This is necessary as the program looks to directing efforts to assisting companies with potential problems to turn those problems into effective solutions. The companies must be willing to work with the program to achieve results and provide the necessary information to succeed in the analysis of financial condition.

Involvement with the NAIC is necessary for continued accreditation. The involvement allows department staff to remain up to date on developments within the insurance industry.

- Goal 2** : To assure insurance products and investments offerings sold in Minnesota comply with requirements of fairness, disclosure, clarity and reasonableness as set forth in statute, rule and regulation.
- Objective 1** : To assure fairness, full disclosure, readability and reasonable/non-discriminatory rates for investment and insurance products sold in Minnesota
- Measure 1** : Percentage of registrations initially filed that do not meet disclosure requirements to be considered

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
% of deficient registrations						
Actual	26.1%	42%	31.6%	21.7%		
Target					32%	

DEFINITION :

The measure is part of the extensive review of documents submitted to be sold in Minnesota. All registrations have a basic requirement for completeness. They must contain a complete set of documents and information for analysis to provide the investing consumer protection. For a filing to be considered complete, the official statement must include the offering circular, financial statement, use of proceeds, existing shareholder information, prospectus, information on management, company business plan, historical information on the company, risk factor section and legal opinion.

In this area, it is difficult to measure whether or not the objectives are being achieved. There is no information or data that would indicate what would happen in the marketplace if investment offerings were not registered and reviewed by state agencies. All states govern the practice of securities and investment offerings. Without this practice the general assumption is that investment products would be sold in the marketplace that are less than advertised or may not provide the consumer what they thought they were buying.

RATIONALE :

This is an area that is extremely difficult to measure. No one can identify what the outcome would be if there were no registration requirements. Certain assumptions could be made about the quality and protections that would be there for the consumer if the offerings were not reviewed. One could easily assume that if the program did not review the offering some or all of the investment opportunities may not be as described to the client. A measure of effectiveness could be an after the fact measure of the number of actions taken against unregistered securities. However, there is no information tracking this kind of data and the knowledge to be gained does not justify the expense to develop the system.

The fact that there are deficiencies and that the department has an impact on those filings by either bringing them into compliance or denying their sale in Minnesota has the affect of supporting the need for the compliance review.

DATA SOURCE :

Data is maintained in the department's registration filing database.

DISCUSSION OF PAST PERFORMANCE :

The program has been relatively successful in this area. The ability to work with issuers to bring offerings into compliance has been established throughout the years. There is a practice of "withdrawing" an offering when the issuer feels it is not worth the effort necessary to bring a matter into compliance. This does not always mean the offering would have been a terrible risk. In most cases, it is better for the Minnesota consumer that these non-compliant offerings are withdrawn as they may have been purchased by individuals who could have lost significant amounts of money.

PLAN TO ACHIEVE TARGETS :

The plan is to provide the ability to review the documents and achieve compliance through negotiations with issuers. Systems have been developed to maintain filing information and data that will provide a great deal of assistance to the staff in determining whether or not they meet their targets and goals.

OTHER FACTORS AFFECTING PERFORMANCE :

One of the major factors that affect performance is the interest of the issuer to have their offerings in compliance with the agency statutes and rules. They must be willing to work with the program staff to eliminate deficiencies and have the investment approved for sale in Minnesota.

Economy also has an impact on the objectives. When the economy is good, people have money to invest. This will also stimulate new investment initiatives for review. In an adverse economic condition, issuers are much more creative in the development of products to attempt to make the much needed capital to continue their business activities. Often times, these products will be riskier investments to the buyer or may not actually produce the investment return advertised.

National regulatory activities play a role in the performance of this objective. The SEC creates and changes its rules and regulations which has a direct affect on all state regulators. The SEC is a regulatory agency that has input into securities offerings sold in any state. The dual regulator system is the best available to protect consumers. Congressional action affects the activities of the SEC and thereby, affects the activities of states.

Goal 2 : To assure insurance products and investments offerings sold in Minnesota comply with requirements of fairness, disclosure, clarity and reasonableness as set forth in statute, rule and regulation.

Objective 1 : To assure fairness, full disclosure, readability and reasonable/non-discriminatory rates for investment and insurance products sold in Minnesota

Measure 2 : Percentage of insurance policy form or rate filings amended after initial review

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
% of filings changed/amended						
Actual			93.9%	91.4%	e%	
Target					92.1%	

DEFINITION :

All policy form and rate filings for insurance products sold in Minnesota must first be reviewed by policy analysts for compliance with statutes and rules governing the product line. A filing includes all related documents to the transaction and actual contract language that will be sold as an insurance product. A rate filing includes the financial calculation that demonstrates the reasonableness of the rate or need for the rate increase.

RATIONALE :

It is extremely difficult to measure the success or effectiveness of the review process. The review provides that the insurance product sold will be fairly priced, provide benefits stated in contracts and be of a form consistent with requirements of statute. This is an area that is a major responsibility of the department but is one that is very difficult to measure true success. We will never have information or data that would measure results if the functions were not performed. In comparison, we will never have data that could suggest what could happen if we did not do the best job. Generally the issues affecting this area are much more complex than was a rate or filing approved. The issues measuring results will generally include possibilities of unlicensed activities, marketing practices, actual salesperson activities, etc. The only measurable data available is presented here.

DATA SOURCE :

Agency database relating to policy form and rate filings.

DISCUSSION OF PAST PERFORMANCE :

The ability to work with insurance companies to bring items into compliance has been established throughout the years. The goal has been to assure that the products sold in Minnesota will provide the purchaser with the benefits described and that they will be there if or when the purchaser really needs the benefit. Also, the program is able to determine that the market exists for individuals to purchase the coverage they need for automobile, home, health care or life and that the rates they must pay for this coverage is available in a competitive market place.

This function has been in place for as long as insurance has been regulated. It serves a very valuable purpose in the protection of the consumer in making sure that products are in compliance and making sure that all aspects of the product are disclosed. This allows for informed consumers to make knowledgeable decisions when investing money into an insurance product.

PLAN TO ACHIEVE TARGETS :

The plan is affected by the ability to review the documents and achieve compliance through negotiations with insurance companies. Many of the review processes have time frames for action prescribed in statute. It is essential for the program that these review time frames are met. The implementation of computer assisted review techniques has allowed the division to track and maintain information and data on filing status and activity that will be a factor in achieving the targets.

OTHER FACTORS AFFECTING PERFORMANCE :

Again, a clear factor affecting performance is the companies desire to have their product comply with regulations. They must be willing to work with program staff to eliminate deficiencies and have the product approved for sale in Minnesota.

Economy is also a factor for this measure, similar to the investment offerings measure. National events affect the performance of this measure. Insurance is not regulated by an agency of the federal government. However, the NAIC does share information at a national level regarding insurance regulation and activities. The NAIC creates models for insurance laws to be enacted and for application of certain regulatory policy standards nationwide.

Congressional action and action of the state legislature, particularly the recent action relating to health care has a significant affect on this measures performance. Health care reform and changes relating to life, property casualty and workers compensation insurance has and will have an affect on what happens in this area.

- Goal 3** : Determining whether the applicants qualifications are in compliance with the requirements for initial and renewal licenses.
- Objective 1** : To process qualified applications for initial/renewal licenses and approve authority to self insure.
- Measure 1** : Percentage of applicants who initially are unqualified and ultimately produce the required information to receive licensure.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Securities Broker Dealer and Investment Advisors						
Actual	3.87%	2.81%	68%	89.9%		
Target					75%	
Automobile Self Insurance						
Actual	27%	26%	100%	100%		
Target					100%	
Workers Compensation Self Insurance						
Actual	64%	35%	93.4%	92%		
Target					92%	
Third Party Administrators						
Actual	43%	44%	94%	93.8%		
Target					96%	

DEFINITION :

Any entity that wants to become licensed to do business in Minnesota must first go through an application procedure to receive authorization to conduct that business. The requirements for each kind of license is clearly defined in Minnesota Statutes and addresses issues related qualifications of a particular individual or business to meet the standards for that particular license type. In addition to the initial license process, individuals and companies upon receiving the license, must continue to meet the established standards to maintain the license. Criteria is also established to continue to be licensed in Minnesota and the program reviews this information to assure, to its satisfaction, that the conditions for ongoing licensed activity exists. When the conditions are in compliance with statute, regulation and rule, the renewal license is approved and issued.

RATIONALE :

The measures allow the program to assess the standards for licensing and the renewal process and determine whether they are effective tools in providing Minnesotan's with access to qualified individuals with which to do business. It also allows for achievement of the goal of assurance that applicants are well qualified to be entrusted with the assets of those who would use the services provided by them.

DATA SOURCE :

The data for these measures are maintained within program records. Information systems exist that track status of applications.

DISCUSSION OF PAST PERFORMANCE :

The program history in this area has been to maintain application and license files either manually, with systems designed to remind processors of follow up dates, renewal dates and future correspondence dates or through simple automated systems. The program has experienced varying trends in license activity that generally relates to activities in the economy.

The process for handling application materials has been a complicated one in the past. Each area has a set of forms requesting the detailed information necessary to review the application material. The appropriate forms for the various requests for activity in a given industry license must be completed before a transaction can occur. The forms and information materials are sent to the interested party to be completed and submitted to the agency along with the appropriate fee for the transaction. The function has been very time consuming both for the applicant as well as for the program staff.

The work relating to assuring companies have the financial means to comply with self insurance requirements has been an area that has presented many challenges. The department has financial evaluation resources and also uses the services of outside accountants to review financial opinions on self insurance licensees. This area has particularly presented challenges in valuing assets and assuring the solvency and ability to pay claims against entities that may be approved to self insure.

PLAN TO ACHIEVE TARGETS :

The main component of the plan to achieve the target is to improve the application process "system" to make the information on requirements and submission of documents easier for those interested in a license in Minnesota. The plan is to eliminate the need to continually return forms for completion, additional information or omissions. This will allow service to be more responsive to the demands for issuance of licenses in a prompt manner.

There will always be ongoing review of license requirements to assure that they are not excessively burdensome on the entity while assuring consumer protections for qualified individuals doing business in the securities/investment area or self insuring.

OTHER FACTORS AFFECTING PERFORMANCE :

Economic expansion/decline is a primary factor in the performance as it relates to this objective. If market conditions exist to support business development and expansion, application activity will increase if they do not, the activity may decline.

The availability of insurance and the cost to a business will directly affect the activity in the self insurance area. Larger companies who find it more affordable to self insure their auto and workers compensation liability are demonstrating an interest in the self insurance area to provide a more effective less costly method of meeting the business insurance mandates.

Agency : COMMERCE DEPT
 Program : PETROLEUM TANK CLEANUP FUND

EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$31,228	68.41%
From Special Revenue Funds	\$31,228	
Number of FTE Staff:	17	6.64%

GOALS :

- To provide a reimbursement method for cost incurred for clean up of leaking petroleum tanks and to assure costs reimbursed are reasonable, not excessive and in compliance. (M.S. 115C)
- To eliminate the backlog of applications for reimbursement. (Laws of 1993, Chapter 341, Section 6 and 24)

DESCRIPTION OF SERVICES :

The purpose of this program is to encourage tank owners that have experienced petroleum leaks to clean up the land in an effort to protect the environment from the damage that is done when a petroleum leak occurs. The incentive provided is that the petroleum tank release clean up fund (petro fund) will provide reimbursement of costs on all sites with plans for clean up approved by the Minnesota Pollution Control Agency (MPCA). The site must meet requirements of the MPCA for clean up to provide the needed environmental protection. Tank owners must meet the requirements of MPCA's clean up program and then may apply to the Petro Fund Board for reimbursement of costs. Tank owners and operators do not have to wait until their clean up is complete to submit a reimbursement application. They can request reimbursement at various stages of the project. The program reviews the applications for reimbursement and then approves and issues payments to tank owners/operators and assignees.

BACKGROUND INFORMATION :

MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)

<u>Type</u>	<u>Based</u>	<u>Measure</u>	<u>1994-95</u>	<u>1995-96</u>
W	FY	Applications for reimbursement received	1891	2007
W	FY	Applications for reimbursement processed	2100	1900
OD	FY	Fund balance at closing (million dollars)	\$42.2	\$21.2
UC	FY	Average claim per clean up site (dollars in thousands)	\$38	\$41
W	FY	Number of investigations	8	17
A	FY	Complaints filed	8	17
E	FY	Average claim processing time (months)	4	4
W	FY	Number of claims review staff	11	11
	FY	Number of administrative actions	3	1
W	FY	Number of applications in backlog	650	550

PROGRAM DRIVERS :

The actions of the Federal Environmental Protection Agency (EPA) and the MPCA will significantly affect the actions and outcomes of this program. Every application presented to the Petro Fund is the result of a site action taken by the MPCA. Guidelines for certification of clean up of a site comes from EPA and MPCA standards. The EPA mandates tank owners have a program of financial support for clean up of leaks. Additionally, the EPA has established requirements that all tank owners close, replace or upgrade tanks by December 22, 1998. This mandate has had the greatest affect on the activities of this program. The Petro Fund is scheduled to sunset June 30, 2000. There could be additional activity just prior to the federal mandate for tank removal.

Goal 1 : To provide a reimbursement method for cost incurred for clean up of leaking petroleum tanks and to assure costs reimbursed are reasonable, not excessive and in compliance.

Objective 1 : To process claims and payments to reimburse tank owners/operators who have experienced leaks of petroleum from storage tanks

Measure 1 : Average processing time from receipt of application to payment

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Processing time (months) application complete no deficiency						
Actual	11	6	5	4		
Target					2	2

DEFINITION :

The amount of time for an application to be processed will be defined in terms of the difference between the application date and the date the application is approved for payment. Chapter 115C of Minnesota Statutes permits an applicant 60 days to appeal a reimbursement determination. However, if a claim is not appealed, payment can be made within 30 days.

RATIONALE :

The most important measure in processing claims and getting the payments to the tank owners to reimburse them for their out of pocket expenses is the time it takes from when they make application for reimbursement to the day they receive their check in the mail. This is the single most important item to the clientele of this program. The tank owners/operators will have incurred a significant expense when they make an application to the Petro Fund for reimbursement. Generally, the money comes in the form of a bank loan to the owner/operator business. This is a debt of the business that must be repaid. Therefore, owners/operators are very interested in the amount of time their application takes to process before they are able to see the reimbursement check.

DATA SOURCE :

The data will be the records of the claims activity maintained by the program in an electronic claims database.

DISCUSSION OF PAST PERFORMANCE :

The petro fund was established in 1987 and funded by a \$.01 per gallon fee on wholesale petroleum products. A substantial backlog of applications was created because of the volume when this program was implemented. The fund was created to fill a void that the environmental insurance market had left. No independent insurer wanted to write business in this product line because of loss experience. Tank owners would never have been able to afford rates for insurance when the loss ratios were so high. The policy would have put many tank owners out of business simply because they could not afford the insurance or they would have gone uninsured and gone out of business if they experienced a leak because they could not afford the cost to clean up the site.

The number of claims payments requested were so large that the fee could not keep up with the claims volume. A significant fund balance deficit occurred as a result of this activity. Applicants were forced to wait until resources were received before they could receive their payments. Payments waiting would be paid on funds available, first come first serve, basis. The Legislature increased the fee for this fund to \$.02 per gallon.

In 1993, the Legislative Auditors Office, did a program evaluation and found major problems with the fund. The report prompted Legislative action in 1993 to add staff and impose mandates on the program to eliminate application backlogs and fund deficits. The Legislature also directed the board to implement a fee schedule of cost criteria for evaluating reasonable costs for reimbursement. The changes in law have improved the performance of the program.

PLAN TO ACHIEVE TARGETS :

Several changes have been made to policies and procedures of the petro fund staff that will affect the ability to achieve the targets and goals. The staff has been increased to reduce in the backlog of claims and to review current applications in a timely fashion.

Cost schedules exist that are guidelines for contractors and responsible parties. Registration and certification of clean up contractors allows owners and operators access to companies that are reliable. Other the efforts of the program, (i.e. directors approval of uncontested claim reimbursements rather than waiting for and presenting each item to the board itself for approval) assist in moving applications through the approval and payment process.

An increase in public awareness of the requirements for petro fund reimbursement, application procedures and approved cost will help those applying for reimbursement to submit complete, accurate and detailed applications for initial review and reduce the processing time because of insufficient information. Other consumer outreach presentations have been performed at various locations throughout the state. Additional presentations will be done as needed or requested from affected parties. A state wide assistance hot line number is available which allows tank owners or any other parties to receive information or assistance.

OTHER FACTORS AFFECTING PERFORMANCE :

A major affect on the achievement of the targets for this objective is the federal mandate that all tank owners close, replace or upgrade their tanks by December 22, 1998. This single item will have a major impact on the ability to affect the desired performance. The applications that will come in between now and the federal deadline are an unknown number. It is important for the fund to handle the claims as quickly as possible to be able to address the applications before them, assure compliance with cost control measures and provide the required reimbursement so the business owner will not be adversely affected.

Goal 2 : To eliminate the backlog of applications for reimbursement.

Objective 1 : To reduce steadily the claims backlog

Measure 1 : Size of current application backlog

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Number of claims to be paid older than 45 days						
Actual	1006	942	662	405		
Target					150	100
% of total claims						
Actual	57%	55%	35%	20%		

DEFINITION :

The application backlog is the number of applications not reviewed, approved and paid within the time frame established in statute.

RATIONALE :

Once the objective of eliminating the backlog is achieved, the program maintains the ability to remain current and can replace the goal and objective. Unless claims processing achieves a current level, the program is not going to be able to effectively evaluate the overall needs. To date, focus and attention has primarily been spent on these issues rather than the overall public good of clean up of the environment, which is also an overall program objective.

DATA SOURCE :

The data to determine whether or not the program achieves its objectives will be identified within the tracking systems implemented for tracking claims data.

DISCUSSION OF PAST PERFORMANCE :

The fund was established in 1987. As the number of claims increased, the funds paid claims at a high rate and soon depleted the funds raised from the fee. Claims payments were continuously delayed until money was available to pay them. The program was significantly under staffed when the program was created and a substantial backlog of applications was created. The Legislature increased the fees for this fund and added staff with the intent of reducing the backlog of applications.

PLAN TO ACHIEVE TARGETS :

The most important aspect of achieving performance in this area is the addition of temporary claims processing staff. The amount of money raised by changing the fee has allowed the program to pay claims as they are approved.

OTHER FACTORS AFFECTING PERFORMANCE :

The only factor affecting performance in this area is the volume of incoming applications. The current plan assumes a stable, steady flow of applications. Changes to increase the flow of applications could significantly impact the ability to achieve the targets set forth.

Agency : COMMERCE DEPT

Program : ENFORCEMENT & LICENSING

EXPENDITURES AND STAFFING :

	<u>(\$ in Thousands)</u>	<u>Percent of Department</u>
Total Expenditure	\$4,139	9.07%
From Special Revenue Funds	\$882	
General	\$3,257	
Number of FTE Staff:	72	28.63%

GOALS :

- To resolve conflicts between consumers and licensed individuals/entities in a timely manner. (M.S. 45.011 - M.S. 45.027)
- To promote a greater understanding of consumer and industry rights and obligations. (M.S. 45.011)
- To provide oversight of regulated industries by maintaining a responsive and efficient program for the issuance and renewal of licenses. (M.S. 45.011)

DESCRIPTION OF SERVICES :

The Enforcement and Licensing program exists to ensure policyholder, investor and consumer protection, to increase consumer awareness, to license qualified individuals to do business and to return abandoned and unclaimed property to the rightful owners or heirs. The program deals with all of the areas of regulatory responsibility within the department's scope of authority. The industries include; insurance, real estate, securities, franchises, appraisers, residential building contractors, roofers, residential remodeling contractors, mobile home installers and manufacturers, cosmetology, currency exchanges, debt collectors, notaries public, banking and consumer finance companies.

Enforcement concentrates on consumer complaints investigation and determining if violations may or may not have occurred. The primary focus of the program is the resolution of conflicts between consumers and the regulated industries. The program provides Minnesota consumers assurance that those who operate in the regulated businesses do so in a manner that is consistent with the requirements identified in statute and rule.

The licensing effort is responsible for processing and authorizing license applications which assure qualified, competent individuals are doing business in regulated areas. License examinations are administered through contracts with testing services. Education program content and education coordinator qualifications are approved

for initial and continuing education programs for licensees. Reports of unclaimed or abandoned property are received and efforts undertaken to locate and return property to the rightful owners and heirs.

BACKGROUND INFORMATION :

MEASURE TYPES: ACTIVITIES (A), EFFICIENCY (E), OUTPUT (O), OUTCOMES (OC), OTHER DATA (OD), UNIT COSTS (UC), WORKLOAD (W)

DATA BASED ON: CALENDAR YEAR (CY), FISCAL YEAR (FY), FEDERAL FISCAL YEAR (FFY), BIENNIUM YEARS (BY)

<u>Type</u>	<u>Based</u>	<u>Measure</u>	<u>1994-95</u>	<u>1995-96</u>
A	FY	Number of investigation and inquiry files opened.	8,408	7,336
A	FY	Number of investigation and inquiry files closed.	8,493	7,126
	FY	Number of administrative actions taken.	551	474
W		Number of Unclaimed Property holder reports filed.	2,574	2,365
A	FY	Amount of Unclaimed Property (\$ in thousands)	18,096	15,560
W	CY	Number of phone calls received by enforcement	63,006	62,884
W	CY	Number of phone calls received by licensing	167,253	159,774

PROGRAM DRIVERS :

Changes in the national economy can have an effect on this program. Economic changes can require shifting of resources to address issues affected by the economic change. In addition, the number of consumer questions are controlled by the economy and may require resources to meet consumer concerns resulting from economic changes.

Statutory changes which mandate establishment of additional enforcement and/or licensing programs may significantly impact the divisions available resources. The need to reallocate resources to inform affected industries, enforce statutory changes and create infrastructures to comply with any new or additional licensing requirements may affect resources available to attain program goals.

Goal 1 : To resolve conflicts between consumers and licensed individuals/entities in a timely manner.

Objective 1 : To achieve an annual two percent increase in the number of telephone complaints which are informally resolved.

Measure 1 : Percentage of calls answered by the CRT and not transferred to an investigator.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
% of informal complaints resolved						
Target						25

DEFINITION :

The Consumer Response Team (CRT) consists of Department staff who have the primary obligation of assisting consumers and industry in the informal resolution of complaints and questions. If a consumer or licensee has a question relating to the regulated industries, they are directed to the CRT. The CRT assists the complainant or caller in understanding the issue and applicable law. In some instances, the CRT will contact the licensee on behalf of the consumer to clarify actions, assist in interpreting the applicable law or to provide additional information which may modify a previous decision by the licensee.

RATIONALE :

Annually, the CRT receives more than 60,000 phone calls relating to insurance, building contractors, real estate, collection agencies, currency exchanges, securities, cosmetology and continuing education. These calls raise issues or concerns which the CRT seeks to find some informal resolution. An informal resolution is not limited to an outcome which is in the favor of the complainant or caller, but which reflects a proper application of the law based on the circumstances and the appropriate authority of the Department.

The measure reflects the percentage of complaints that can be resolved promptly and informally, thus eliminating the need to dedicate additional resources to open an investigation file. The program has been able to effectively mediate matters between consumers and industry using this forum. The resolution can generally close the matter within a day versus a formal complaint which takes a greater amount of time because of processing requirements.

DATA SOURCE :

The data sources that will be used to evaluate outcomes will come from the program case management system.

DISCUSSION OF PAST PERFORMANCE :

Prior to establishing the CRT, consumers should have to write a letter of complaint to the Department to generate an action. The CRT has handled that workload in minimal response time (sometimes as little as same day response) which has been instrumental in achieving goals of customer service and satisfaction.

PLAN TO ACHIEVE TARGETS :

The main tool necessary to achieve targets is to have working relationships with industry to support informal resolution of complaints. Rules and regulations are in place to protect consumers interest in dealing with the majority of the regulated industries. The industries willingness to work with program staff is the only true way to be effective in this area.

Improvement in technological tools available to staff to address questions and concerns are also important to achieving targets. Computer aids are available and allow for faster response to consumer questions. Automated systems provide everyone in the program with information that assist in identifying information necessary to assist callers.

OTHER FACTORS AFFECTING PERFORMANCE :

Consumers and education of consumers using the services of the industries through a variety of methods, have an impact on performance. More informed and knowledgeable consumers have the ability to make complete decisions about their interests. This same group will demand higher service of the program as they are more aware of their rights and protections by law. They come forward with more inquiries, questions about business practices and complaints about treatment they received from licensees.

Cooperation from regulated industries also affects performance. If the industries are not willing to work with the program to produce results, there is no way to be effective.

- Goal 1** : To resolve conflicts between consumers and licensed individuals/entities in a timely manner.
- Objective 2** : To annually improve by two percent the number of inquiry files closed within 40 days and investigative files closed within 120 days.
- Measure 1** : Two percent increase annually in the number of files closed in a timely manner.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Total inquiry files opened						
Actual	3958	3531	3040	2591		
% closed in 40 days						
Actual	82%	90%	86%	87%		
Target					89%	91%
Total investigative files opened						
Actual	5801	5635	5316	4739		
% closed in 120 days						
Actual	79%	79%	78%	68%		
Target					70%	72%

DEFINITION :

Inquiry files are used to address questions or disputes between consumers, licensees and the industry as a whole. Through an inquiry file, the staff assists in providing accurate responses to questions and acquiring adequate documentation which can more fully clarify an action by a licensee. In addition, a licensee can be asked to reconsider their action in light of additional facts or review by the Department.

Investigation files are used to address actions by licensees which appear to be in violation of Minnesota law. This can lead to remedial action by a licensee, an action by the Department or the conclusion that no violation has taken place. Administrative actions which result from the investigation may include the issuing of an order, civil fines or warning letters.

RATIONALE :

The use of this measure allows the program to demonstrate an ability to address consumer and industry issues and concerns within established time frames. The time frames are guidelines to provide feedback and/or response to consumers relating to their particular issue in sufficient time to allow them remedies or advise them that no violation has occurred and therefore, there is no resolution to their particular complaint.

The reason for using this measure is that it provides management with a tool for determining trends within the programs investigation functions. There can be many reasons why cases are or are not addressed within the established time frames. The most important outcome of this measure is that it can be used to demonstrate effective resource allocation, work behavior patterns, industry trends and/or productivity issues.

The rationale for this type of measure is to provide a standard by which the program can measure the responsiveness to clients. While these targets are used as benchmarks, they are not necessarily indicators of success or failure. They are simply guidelines established over time to indicate a measure of success.

DATA SOURCE :

Case management file system.

DISCUSSION OF PAST PERFORMANCE :

Many issues have affected the performance of this measure over the past years. Additional regulatory responsibilities have been added which requires a certain amount of training time before the program can effectively produce measurable results. Staff has to develop new regulatory requirements and develop programs to inform clients and administer new regulations. Because regulatory policy changes can be dictated and various governmental levels (local, state and federal) are involved, there is a constant process of training which must occur to keep abreast of current requirements.

Creative and complicated products have evolved within the industries regulated. Many cases have become so complex in the scope of the product and the application of regulatory requirements that a significant amount of time has been added to the time it takes to thoroughly investigate a particular complaint. Program experience has demonstrated major changes in the scope of cases from being simple, individual issues to national, class action complaints impacting hundreds and thousands of investors and individual consumers.

Improvements in case management systems has allowed for a more sophisticated matching of consumer complaints with similar circumstances involving same respondents. This allows for combining of issues from smaller complaints to pattern and practice issues that may involve two or more consumers. Patterns and trends are readily identified in tracking systems that are called to the attention of those administering the investigation program. They are better able to consolidate issues, however, this has the affect of producing more complicated investigations that may expand beyond established time frames.

The cross over we have seen in industries has also made application of statutes and rules more complicated in day to day activities. The past produced many single item, single industry transactions that would deal with issues confined within that industry. Current experience demonstrates many issues crossing over industry lines, securities issues complicated by insurance issues leading into banking and lending issues, etc. The ability to develop the technical skill of an investigator to address the many and diverse issues that are arising from cross industry transactions takes a lot more time to develop.

PLAN TO ACHIEVE TARGETS :

Supervisors continue to monitor case management information and meet with investigators to discuss files that are not within the targeted time frames. However, quality is also an important part of the investigation as well as an investigation completed in a timely fashion. While it is important to meet this objective, it is not the intent of the program to attain it in lieu of a high quality job.

Continued development of highly trained investigators familiar with the specific application of statutes and rules and the interaction of the various industries is key to achieving targets. As well, keeping abreast of changes in industry practices to identify issues that may affect consumers and following up with staff to develop the awareness for these issues is important.

Another part of the plan is to review the targets to determine their viability in today's market conditions. In particular, the measure should reflect the time the program devotes to the investigation and not be prolonged by time spent by "other" regulatory bodies conducting simultaneous or post program work on a given case. If a federal regulatory authority is also working on a particular case, the case remains open in our case management system until all parties are ready to act. This may have the affect of distorting reporting in a case management system. Likewise, if a case is referred to the Attorney General or County Attorney for prosecution, it is not closed until their work is complete. This also distorts our reporting. The program must have the flexibility within this target to ultimately achieve the goals and objectives relating to consumer protection without having to worry about a sloppy job on an investigation because of a requirement to close files within a given time frame. The targets are only to be used as guidelines and should not be considered the key factor to successful performance. The best factor is unmeasurable and that is the ability to best represent and protect Minnesota consumers interest in transactions with regulated industries.

OTHER FACTORS AFFECTING PERFORMANCE :

The activities of the federal regulators and state legislature have an impact on the performance objectives in that changes to regulatory responsibilities come in the form of new laws, new industries to regulate and new requirements/restrictions on current regulated industries. Many times these actions will require a refocus of priorities and services provided, as well as, significant development and training time. The need to reallocate resources to provide information to industries, inform affected licensees, enforce statute changes and create structures to comply with new or additional requirements significantly affect performance outcomes.

More knowledgeable consumers have the ability to make informed decisions about their investments. However, this same group will demand a higher level of service as they are more aware of their rights and protections by law. They come forward with more inquiries, questions about business practices and complaints about treatment they receive from licensees.

Work of the Attorney General's Office or county attorney after the program investigation is complete affects performance. Files are not considered closed if they are referred to the Attorney General for action. This can mean additional time, months in some cases, before the division file is closed. This clearly limits the amount of control the program has in the achievement of this objective in regard to these particular cases.

Goal 1 : To resolve conflicts between consumers and licensed individuals/entities in a timely manner.

Objective 3 : To maintain or exceed an 80% overall satisfaction rating of services provided by the program and reduce dissatisfaction to less than 10%.

Measure 1 : Percentage of those satisfied or very satisfied (and dissatisfied or very dissatisfied) with overall service provided by the program.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Satisfied						
Actual				76%		
Target					80%	80%
Dissatisfied						
Actual				14%		
Target					10%	10%

DEFINITION :

Customer service and/or satisfaction is defined as the way our client (consumers and industry representatives) feel they have been treated in their interaction with staff of the program no matter what the outcome of their issue is. It is important for the program client to feel that they have received the attention their issue deserves, even if the outcome may not be as they had hoped. The way to define this measure is by conducting surveys of clients as they interact with program staff to identify weakness as well as strength and use the information as tools for developing the necessary skills to accomplish performance objectives.

RATIONALE :

The rationale for such a measure is clearly the fact that the majority of the programs efforts are centered around interaction with people, either consumers, licensees or representatives of regulated industries. To be effective in this interaction, it is important to demonstrate knowledge of the subject matter and the ability to address the concerns brought forward.

The results of customer satisfaction surveys can identify strengths and weakness in training programs, knowledge level of staff and ability to interact with vast varieties of individuals. This information is critical to a program that relies on interaction for results.

DATA SOURCE :

Customer satisfaction will be measured by conducting surveys of both consumers and licensees.

DISCUSSION OF PAST PERFORMANCE :

In the first survey conducted by the program in FY 1996 had a largely favorable response to quality of service questions. These included the questions regarding overall service. They cited courtesy, knowledge and professionalism of the investigators responsible for their cases. Respondent were also able to make comments about current service and suggest other service ideas.

PLAN TO ACHIEVE TARGETS :

A continuation of the practice of surveying clients for feedback, analysis of feedback and focus on issues that arise from responses is the most effective way to achieve targets. The program will continue to solicit input from clients regarding the way their issues were handled by program staff. Survey results are analyzed for specific issues and program management responds directly to issues that do not demonstrate effective results in achieving targets. The ability to maintain the appropriate balance with regard to the survey analysis is critical. When negative ratings are achieved, those issues will be reviewed by management staff to determine the validity of the issue. If problems exist in staff knowledge or ability to handle a specific issue, a training program is designed to address the problem area to assure staff the ability to successfully interact with clients.

Survey results are shared with staff to provide the kind of direct feedback necessary to measure success in performance. Recognition is provided for positive results, direction is provided for less than positive results. Overall success is measured by the level of satisfaction.

OTHER FACTORS AFFECTING PERFORMANCE :

The most obvious factor is the attitude of the client. Not every case can be resolved to the satisfaction of a given individual. Particularly when the individual has an opinion that a violation has occurred and an investigation reveals the licensee did not do anything wrong. An unsuccessful resolution to a case can cloud an individuals opinion on the way their issues were handled. However, checks and balances are in place to assure findings are not totally skewed by this fact.

Goal 2 : To promote a greater understanding of consumer and industry rights and obligations.

Objective 1 : To annually publish at least two brochures concerning different consumer topics related to the regulated industries and make them available to the public.

Measure 1 : Number of brochures published.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Number of brochures						
Actual				2		
Target					2	2

DEFINITION :

Published consumer information relating to regulated industry business practices, how to interact with regulated industry representatives and consumer rights and industry obligations are an effective tool in providing consumers the knowledge they need to transact their specific business. Brochures provide a brief summary of the basic information in a readable format that can immediately provide an interested party key facts necessary for making informed decisions.

RATIONALE :

Consumer oriented brochures provide a guide to various products, choosing a professional in a regulated industry and other related topics. This information can be used by the consumer to understand what the regulatory requirements are and how they can use this information to protect themselves. Providing information to help consumers make informed decisions can lessen the number of enforcement complaint's. By providing this information to the consumer before a problem occurs they have an opportunity to know their options, rights and how to avoid problems. In the event a problem does occur, it is beneficial for the consumer to understand their rights under the law and what to do if they discover a problem.

DATA SOURCE :

Number of consumer brochures.

DISCUSSION OF PAST PERFORMANCE :

Consumer brochures were being produced irregularly by various staff members on a "time permitting" basis. This meant that publications were not always a priority. Funding and staff resources to develop, design and produce the information was limited and inconsistent. Issues were chosen on a hottest topic of the day method rather than based on a demonstrated need for consumer information. Many times the information was put together quickly to provide a "handout" for a meeting or speaking engagement so the material would not be as well thought out or presented in the most understandable format. Overall, this was an area that laced specific attention to detail and was handled as a low priority.

PLAN TO ACHIEVE TARGETS :

Recently, the program has placed new emphasis on consumer information. Efforts have been underway to update and publish new brochures that are in demand from consumers or industry organizations. There are several publications that are designed to provide relatively new information to consumers. These publications are being reviewed because they may not have the same level of public awareness as other topics. The plan includes review of all current material and content, establish a priority list to determine levels of importance and topic material and undertake the effort necessary to provide updated information.

Ongoing development of "topics" will be reviewed. Suggestions will be evaluated from all sources, consumer calls, industry groups, consumer groups, legislative changes, etc. Increasing understanding of the need to provide information to consumers and the value of public policy focusing on consumer awareness is a critical success factor for this plan.

OTHER FACTORS AFFECTING PERFORMANCE :

Available funding is the most significant factor that affects the performance of this measure. Also, other methods of providing information to consumers may dictate a change from brochures to shorter bulletins, public service announcements over radio or TV or information available on the Internet. However, the importance of consumer awareness and its relationship to the program goals and objectives will require continuation of the information effort. Only the format of the information provided may be subject to change.

Goal 2 : To promote a greater understanding of consumer and industry rights and obligations.
Objective 2 : To annually increase by two the number of presentations made to industry and consumer groups by division staff.

Measure 1 : Number of presentations made by staff to industry and consumer groups.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Number of presentations						
Target					10	12

DEFINITION :

Program staff are requested to present information relating to regulatory policy, issues and information relating to the agency on a regular basis. Presentations are designed on a case by case basis to meet the need of the organization requesting the appearance and/or to address the issues of the presentation forum. Presentations can be made to industry groups, consumer groups or a mixture of people who have issues that relate to regulatory responsibilities. Presentations are used to provide information of value to the listening audience to provide them knowledge and assistance with their business issues that bring them to the agency.

RATIONALE :

For licensees in the regulated industries to operate in the marketplace effectively and within the law, they must be aware of the regulations and expectations from the department. Presentations for licensees can provide them valuable information they need to understand the operations of the agency and how their business transaction are handled.

These presentations allow for points of law and other matters to be clarified. There is room for questions to be asked and answers given in an immediate and personal way that provides for free flow of information and easier, more informed future business transactions. A greater understanding of laws and regulations by licensees may impact the number of complaints filed.

Presentations to consumer and public groups that may not have regular business with the agency provides an instructional "how to" format to provide information and knowledge to consumers who may have business transactions with regulated industries. Everyone in Minnesota will probably encounter an insurance agent some time in their life. Likewise a bank, perhaps a real estate agent, many see cosmetologists, some will do business with securities brokers, some may use the services of an investment advisor, some may build homes and have to deal with residential building contractors. All of these industries provide regular service to Minnesota consumers. The more information those consumers have when they enter that future business transaction, the more likely they are to find satisfaction in the outcome of the transaction. Providing presentations to consumer groups gives them the opportunity to have advanced knowledge and information that will be very useful to them as they transact business with members of a regulated industry. They will also have a knowledge that can provide them the ability to ask questions about their investments, shop around for the best insurance prices, know what markets exist and how to find them and to know if or when their rights may have been violated.

Providing information to consumers and industry also assists in developing positive working relationships for all parties.

DATA SOURCE :

A system for recording the specifics of division presentations and other contact with industry organizations will be used for this measure.

DISCUSSION OF PAST PERFORMANCE :

Program staff have historically made presentations to industry and consumer groups in both formal and informal settings. They have usually come at the request of the groups. No records have been kept as to how many and to what groups.

PLAN TO ACHIEVE TARGETS :

The most important aspect of the plan is to be proactive in making staff available for presentations. Relationships are being developed with organization contact people to learn about opportunities to make appearances. Every effort will be made to respond to all requests for presentations.

OTHER FACTORS AFFECTING PERFORMANCE :

Industry organization cooperation is crucial. Success depends on industry organizations and consumer groups that serve their own members and licensees. If the forums are not welcomed or available, success for this measure can not be achieved.

Goal 3 : To provide oversight of regulated industries by maintaining a responsive and efficient program for the issuance and renewal of licenses.

Objective 1 : To annually increase by 2% the number of initial license applications and untimely license renewals processed within 30 days.

Measure 1 : The number of license applications processed within 30 days.

	<u>F.Y.1993</u>	<u>F.Y.1994</u>	<u>F.Y.1995</u>	<u>F.Y.1996</u>	<u>F.Y.1997</u>	<u>F.Y.1998</u>
Number of applications processed in 30 days.						
Target					85	87
Number of renewals processed in 30 days.						

DEFINITION :

Any individual or entity that wants to become licensed to do business in one of the agency regulated fields must first go through an application procedure to receive a license. The requirement for each kind of license is clearly defined in Minnesota Statutes and addresses issues relating to qualifications of a particular individual or business entity to meet the standards for that particular license type. In addition to the initial license process, individuals and companies must continue to meet the established standards to maintain the license. Criteria is established to continue to be licensed and the program is responsible to assure that the conditions for ongoing licensed activity exist. It is necessary that renewal authority is received and processed timely to assure continuation of authority for business transactions.

RATIONALE :

The measure provides an assessment of the standards for licensing and the renewal process to determine whether they are effective tools in providing consumers access to qualified individuals to do business with. It also allows for achievement of the goal of assuring the public that persons engaged in the sale of financial services and products meet minimum standards of expertise and moral character. The program is responsible to determine individuals licensed have the appropriate education and knowledge to transact business and/or represent regulated industries in business transactions with consumers. The application and renewal requirements produce the documents necessary to assess these qualifications and assure the public that licensed individuals possess the prescribed minimum standards to do business in a regulated industry.

DATA SOURCE :

Licensing data base.