

991044

1998 Performance Report

January, 1999

Department of Commerce

Mission and Vision

Minnesota Statutes provide the Department of Commerce responsibility for regulation of financial services industries. This mission of the department is *to serve the citizens of Minnesota by; enforcing state laws and safeguarding consumer rights and investments, resolving conflicts between consumers and industry and enhancing the stability and strenght of the regulated industries.*

The major goals of the department are:

- ◆ To review issues of financial solvency to assure consumer protection against financial failure.
- ◆ To assure compliance for investment opportunities and insurance products.
- ◆ To assure policyholder and investor protection and understanding.
- ◆ To enforce statutes and rules regarding regulated industry transactions.
- ◆ To assure practioners in regulated industries meet minimum competency standards.
- ◆ To provide a reimbursement method for cost incurred for clean-up of leaking petroleum storage tanks.
- ◆ To return abandoned property to rightful owner or heir.

Department Functions

The Department of Commerce is responsible to administer and enforce more than 60 chapters of Minnesota Statutes that regulate banking and investments, insurance, securities, collections, cosmetology, real estate, mortgage lending, residential building contractors, and other small industries in Minnesota. In addition, the department has responsibility for providing staff to administer the petroleum tank release clean-up fund and to ensure the uniform disposition of unclaimed and abandoned property.

To achieve the departments goals the following functions are performed.

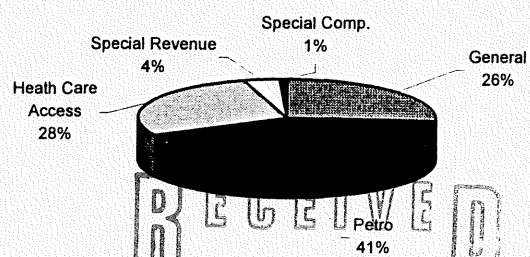
- ⇒ Conducts periodic examinations of institutions to ensure consumer trust and confidence in financial condition.
- ⇒ Investigates consumer complaints and enforce applicable statutes.
- ⇒ Controls the licensing of individuals and companies to ensure licensed entities meet minimum standards of expertise.
- ⇒ Monitors rates charged for regulated industry products and changing market conditions.
- ⇒ Regulates trade practices.
- ⇒ Processing reimbursement applications for petroleum leak cleanup cost.
- ⇒ Maintains records regarding abandoned property and attempt to return property to rightful owner or heir.

1998 Financial Information

Fiscal Year 1998 expenditures for the department equal \$53.9 million which supported the work of 246.2 full time equivalent employees.

The following charts provide information reagrding de-

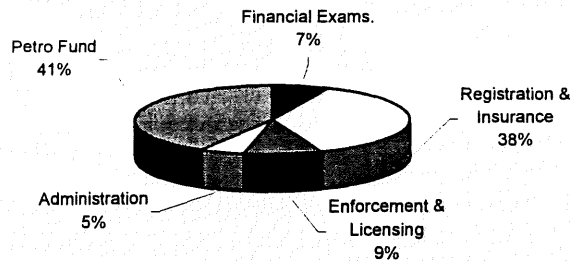
1998 Expenditures by Fund



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LEGISLATIVE REFERENCE LIBRARY
STATE OFFICE BUILDING

1998 Spending By Program

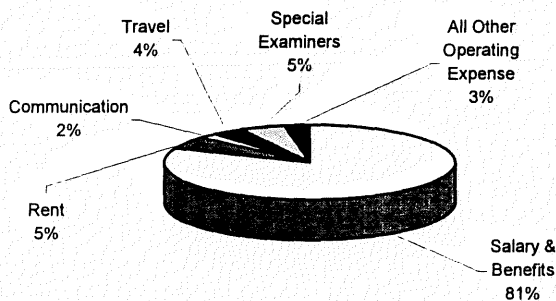


Expenditures for the department include dollars for operations, as well as, dollars for payments of claims. Claims are paid for the reimbursement of petroleum tank leak clean-up cost and recoveries for real estate and building contractors. The recovery funds provide reimbursement to individuals who have been harmed by the actions of a licensed entity. It is an attempt to reimburse the aggrieved person for some of the financial loss experienced because of the business transaction.

Of the \$53.9 million 1998 expenditures, \$22.5 million was paid for claims reimbursements, \$15 million was paid to MCHA from the Health Care Access Fund to provide relief for the deficit and \$16.4 million was used to fund agency operations.

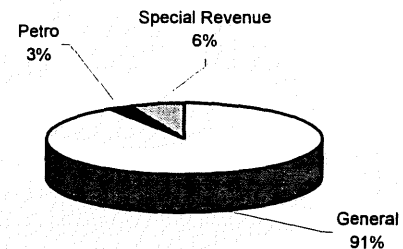
The following chart shows the major spending categories for operations expenditures.

1998 Expenditure by Category

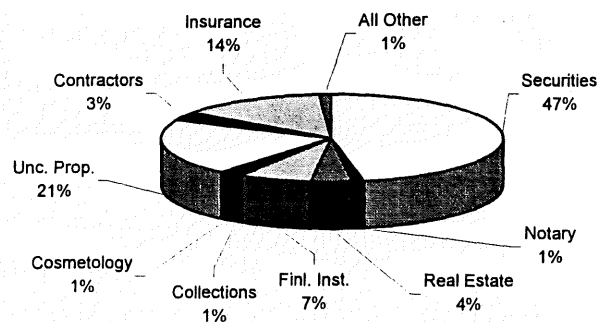


The department also collects revenue related to regulatory operations. Funds collected are deposited to the general fund and three special revenue funds. Fiscal Year 1998 receipts total \$59.7 million. The breakdown by fund and industry are shown in the next two charts.

1998 Revenue by Fund



1998 Revenue by Industry



Organization

The department is organized in five program areas as follows:

- ◆ Financial Examinations
- ◆ Registration and Insurance
- ◆ Petroleum Tank Release Clean-up Fund
- ◆ Administrative Services
- ◆ Enforcement and Licensing

Organization (Continued)

The **Financial Examinations Division** exists to charter, license, examine and regulate banks, credit unions, trust companies and various other providers of financial services to Minnesota consumers and business. A safe, sound and competitive banking and financial services industry is important to the economy and to assure that financial services are available at reasonable cost. The division also resolves customer complaints involving regulated industries.

The **Registration and Insurance Division** exists to maintain strong and healthy investment opportunities and insurance products for the citizens of the state. The division carries out compliance review of all investment offerings and insurance policy contracts sold in Minnesota, a review of rates charged for insurance products sold to individuals, authorizing insurance companies to do business in Minnesota, and review of solvency of insurance companies.

The **Petroleum Tank Release Clean-up Fund Division** is responsible for the reimbursement to tank owners for the cost of clean-up of petroleum releases from underground and aboveground storage tanks. The program currently sunsets June 30, 2005.

The **Administrative Services Division** provides for the administration of all department functions. The division sets priorities for the department and provides management consistency.

The **Enforcement and Licensing Division** provides for policyholder, investor and consumer protection. In addition, the division issues licenses to entities to do business in regulated industries. The division also administers the Uniformed Unclaimed Property laws and is responsible for the tracking and return of abandoned property to the

Our Customers

The Department of Commerce serves a variety of customers. Our primary customer is the consumer doing business with a regulated industry. The department also serves the regulated businesses that need to apply statutes and rules to their business practices. Those who wish to become licensed in a regulated profession would also be a department customer.

Almost every citizen of the state is somehow affected by a transaction with one of the department regulated industries. As a result, the department serves all Minnesotans. As most industries are in business at a national level, our customers can also include people outside the territorial

boundries of the State of Minnesota.

The department interacts with federal and other state regulators as well to assure compliance with all applicable provisions of law. There are many multi-jurisdictional issues that face the department. Some of our customers will include other law enforcement entities.

Major Accomplishments

- ◇ While the banking system at all levels continues to experience mergers and consolidation, Minnesota continues to have a large number of locally owned and managed community banks and credit unions which offer numerous alternatives to our businesses and consumers. Competition between banks, credit unions and other lenders is keen, particularly in the metropolitan area and more populous cities in greater Minnesota. Since 1990, 13 new state bank charters have been approved and more are anticipated.
- ◇ The department has participated extensively over the last two years in recovery efforts relating to natural disasters. Floods in the Red and Minnesota River Valleys and Tornado's in the spring of 1998 have presented many challenges for the department to help the citizens recover. Particular effort has been focused on community involvement to assist citizens dealing with insurance claims and building contractor issues.
- ◇ Changes in the Petrofund reimbursement law has allowed additional financial assistance for tank removal for small business owners and small gasoline retailers furthering the department's effort to assist clean-up of the environment.
- ◇ Efforts of the enforcement division has returned \$5.4 million to Minnesota Consumers. Fines collected on violations exceeded \$1.9 million for FY 1997 & 1998.
- ◇ Regulated financial institutions have been examined for compliance with Y2K. All state chartered banks and credit unions have been reviewed and are on pace for Y2K readiness.
- ◇ \$10.2 million of abandoned or unclaimed property was returned to the rightful owner or heir.
- ◇ Significant improvements were made in automated technology to provide data access to all users within the department and sources outside the department. Use of the agency Web-site as a point of information has expanded. Forms for business transactions with the department are now available on the Web-site.
- ◇ Accreditation by CSBS for the banking and NAIC for the insurance area has been re-approved.

Summary: Performance Measures

The following information highlights the department's performance measures. One of the difficulties we have experienced in creating effective measures is an inability to measure some of the effectiveness of department functions. Many of the areas of regulatory responsibility do not fit neatly into quantitative measures. While we can count many things, it is difficult to report some of the success of divisions in this format. For example, the effectiveness of solvency regulation for companies is not always something understood by simply indicating the number of companies in financial difficulty. The effectiveness of the function is not directly measured by insolvencies but by efforts to protect against insolvency. While we have found that some measures are good indicators of performance, we have experience that some of the better measures of the agency performance are not things that can be reduced to information to include in this report.

Department Goals

Measures

Highlights

1. To ensure financial solvency, safety and soundness of banks, credit unions, insurance companies and other financial institutions providing protection against financial failure and losses to consumers.	Percentage of banks, credit unions and consumer credit companies with strong CAMEL or CRS ratings.	96% of state banks and credit unions are in the top two CAMEL rating categories.
	Continued maintenance of accreditation from Conference of State Bank Supervisors and National Association of insurance Commissioners.	Both organizations have reviewed the examination functions of the divisions and approved re-accreditation unconditionally.
2. To assure compliance for investment opportunities and insurance productions and to assure policyholder and investor protection and understanding.	Percentage of registrations initially filed that do not meet disclosure requirements.	This measure holds steady with 31% of the registration filings initially deficient.
	Percentage of insurance policy form or rate filings amended after initial review.	92% of filings submitted to the department require follow-up with the company to assure compliance.
3. To enforce statutes and rules regarding regulated industry transactions.	Percentage of calls responded to by CRT members rather than formal investigation files.	93% of FY 98 calls to the CRT were resolved without further investigation, up from 92% the previous year.
	Number of files closed within established guidelines.	Increases in the % of cases resolved timely have risen from 78% average in FY 96 to 82% for FY 98.
4. To assure practioners in regulated industries meet competency standards for new and continued licensure.	Perceñt of license applications processed in 30 days.	Overall, 85% of all applications for license/authority submitted of varing types are processed in 30 days.
5. To return abandoned or unclaimed proerty to the rightful owner or heir.	Percentage of reported property returned.	The amount of property returned compared to reported averages 28%. (96-27.9, 97-26.3, 98-29.8)

Statistical Information

<u>Measure</u>	<u>1995-96</u>	<u>1997-98</u>
Financial Examinations		
No. of institutions by CAMEL rating 1-2	530	492
CAMEL rating 3	21	19
CAMEL rating 4-5	2	2
Number of banks	405	375
New bank charters approved	1	3
Bank branch offices	310	322
Nonbank ATM terminals	n/a	410
Number of credit unions	148	138
Total assets of banks (billions)	\$17.9	\$19.2
Total assets of credit unions (billions)	\$2.2	\$2.4
Number of examiners	42	37
Number of year 2000 examinations	0	135
Number of bank examinations completed	164	87
Number of credit union examinations completed	94	80
Examination hourly rate	\$35.60	\$36.80
Number of consumer credit companies with CRS rating 1-2	187	130
Number of consumer credit companies with CRS 3-4	21	21
Number of bank applications processed	330	345
Number of credit union applications processed	72	113
Bank mergers approved	7	3
Bank branches approved	37	46
Consumer complaints resolved	248	292
Consumer compliance examinations	102	151
Registration and Insurance		
Number of common stock filings	121	103
Number of mutual fund/unit investment trust filings	532	871
Number of limited partnership filings	25	28
Number of debt and preferred stock filings	43	42
Number of bond filings	179	180
Number of notifications	80	67
Number of exemptions	482	721
Number of franchise filings	192	185
Number of sub-divided land filings	49	44
Number of camping club membership filings	0	0
Number of securities annual reports filed	2,168	2,577
Number of franchise annual reports filed	569	642
Number of sub-divided land annual reports filed	72	85
Number of camping club memberships	0	0
Number of securities amendments filed	2541	3,474
Number of franchise amendments filed	551	648
Number of investment offering filings reviewed	7,602	9,682
Number of broker dealer applications received	225	265
Number of securities agent license applications received	22,628	17,548
Number of investment advisor applications received	136	136

Statistical Information

Measure

1995-96

1997-98

Registration and Insurance (continued)

Number of self insurance licenses issued	22,628	17,548
Number of filings approved	29,656	26,472
Number of life and helath filings	4,923	4,295
Number of property casualty filings	3,558	3,693
Number of workers compensation filings	850	773
Number of workers compensation self insurance applications received	118	94
Number of auto self insurance applications received	1	3
Number of third party administrator applications received	140	139
Number of self insurance licenses issued	156	158
Number of form and rate filings approved	8,423	7,988
Number of employee leasing registrations	n/a	50
Number of domestic insurance companies	207	197
Number of foreign insurance companies	1,217	1,410
Number of on-site examinations completed	47	37
Number of desk auditors	11	10
Number of field examiners	12	10
Number of insurance company applications processed	155	107

Petroleum Tank Release Clean-up Fund

Applications for reimbursement received	3,898	3,744
Applications for reimbursement processed	4,000	3,976
Fund balance at closing (dollars in million)	\$21.2	\$39.2
Average claim per clean-up site (dollars in thousands)	\$41	\$39
Number of investigations	25	26
Complaints filed	25	26
Average claim processing time	8	5
Number of claims review staff	22	21
Number of administrative actions	4	0
Number of applications in backlog		375

Enforcement and Licensing

Number of investigation and inquiry files opened	15,744	16,730
Number of investigation and inquiry files closed	15,619	16,570
Number of administrative actions taken	1,025	1,156
Amount of unclaimed property (dollars in thousands) remitted	\$34,108	\$37,347
Amount returned to owners (dollars in thousands)	\$10,316	\$10,216
Number of phone calls - enforcement	125,890	133,398
Number of phone calls - licensing	327,027	294,707

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Fax	651.296.8591
Insurance Examinations	651.297.7161
Fax	651.296.9434
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