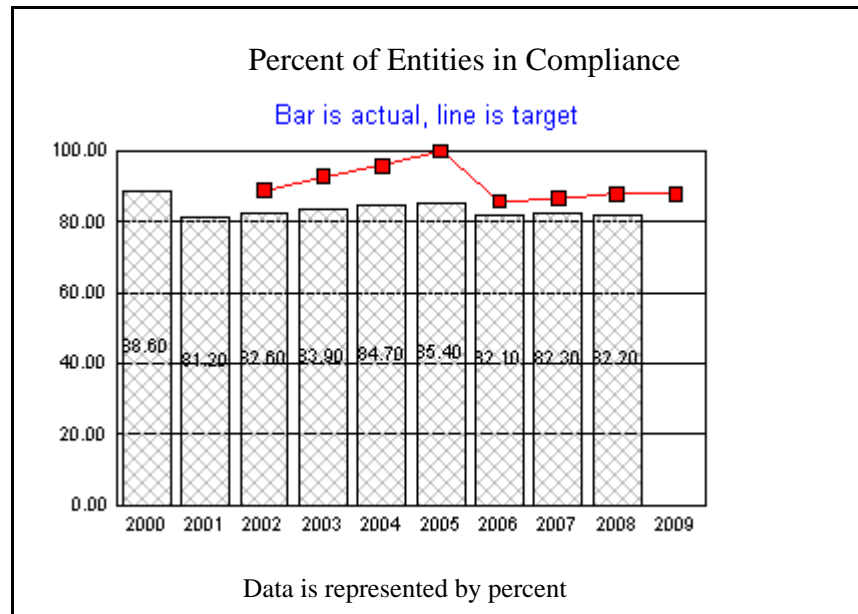


KPM #1	REGULATORY CONDITION – Percent of regulated entities operating at desirable levels of acceptability or soundness.	2000
Goal	DCBS Goal #1: Protect consumers and workers in Oregon.	
Oregon Context	Oregon Benchmark #9: Oregon’s national rank in the cost of doing business.	
Data Source	DFCS data systems, WCD Claims Information System, and WCD Field Audit Unit Quarterly Claims Processing Performance Audit data.	
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1. OUR STRATEGY

Achieve efficient, effective regulation through risk-based and for-cause examinations of financial entities and quarterly review of workers’

compensation insurers. Risk-based exams of financial entities target companies and operations within a company where there is a high risk for noncompliance, such as new business, operations most affected by the economy, or areas that may harm consumers. The department also conducts “for-cause” exams of financial entities when it has received a complaint or other indication that there may be a problem at a particular business. Our strategy is to maximize the number of regulated entities that perform at or above desired levels in several regulatory areas to achieve increased protections for workers and consumers.

2. ABOUT THE TARGETS

This measure is a composite of the performance of mortgage lenders, banks and trusts, credit unions, consumer finance companies, and pawnbrokers regulated by the Division of Finance and Corporate Securities (DFCS) as well as workers’ compensation insurers regulated by the Workers’ Compensation Division (WCD). It shows the percentage of entities examined by DFCS and workers’ compensation insurers audited in the Quarterly Claims Processing Audit that operate at or above desirable levels of performance or soundness, defined in accordance with relevant regulatory criteria.

Because of the effect of the economy on this measure and our focus on risk-based and for-cause examinations of financial entities, a 100 percent compliance target is not feasible. Targeting steady improvement in the 80 percent range is a more realistic expectation; we established aggressive targets of 87.5 percent for 2008 and 88 percent for 2009.

For 2010, we have proposed that this measure be split into two separate measures – one measure focusing only on financial services and the other focusing only on workers’ compensation. While the performance of these entities can be seen as proxies for consumer protection outcomes, there are enough differences in the desired outcomes, as well as in how the entities operate and are regulated, to make interpreting the results of a combined measure difficult.

3. HOW WE ARE DOING

For 2008, we found that 82.2 percent of regulated entities were operating at or above desirable levels of acceptability or soundness, which falls below our targeted value of 87.5 percent. Many financial entities have been negatively impacted by the state of the economy, leading to a decrease in the percent of financial entities operating at acceptable levels. However, the percent of workers’ compensation insurers operating at or above desirable levels has increased by 2 percentage points since 2007 as insurers improve their performance to meet WCD’s 2006 increase in the standards for timely first benefit delivery and acceptance/denial decisions.

4. HOW WE COMPARE

Limited comparison data is available. Nationally, 79 percent of credit unions examined by the National Credit Union Administration (NCUA) were rated “satisfactory or better” as of June 30, 2008, while 100 percent of Oregon credit unions examined by DFCS were found to be “satisfactory or better” using an identical rating system, indicating the strength of Oregon’s credit unions. Additionally, as of June 30, 2008 88.8 percent of the banks in the San Francisco FDIC region had been rated as “satisfactory or better,” while 84.6 percent of Oregon banks and trusts examined by DFCS had been given a rating of “satisfactory or better” using the same rating system (there are 35 banks in Oregon and only 4 trusts, since the number of banks is significantly greater than the number of trusts we may compare banks / trusts in Oregon to banks in the San Francisco region). While Oregon’s ratings are only slightly below those from the San Francisco region, Oregon’s banks have historically performed well above banks in other jurisdictions. This decrease in the percent of banks operating at or above satisfactory levels relative to the San Francisco region is likely due to the economic slowdown and banks’ heavy investment in real estate loans. In 2009, we will continue to closely monitor the performance of our banks and trusts as well as those in other jurisdictions.

For workers’ compensation insurers, no direct comparisons are currently available for other jurisdictions because regulation is not done in the same or similar enough manner.

5. FACTORS AFFECTING RESULTS

Results for regulated financial entities can depend on variables such as the state of the economy and changes in an industry. The performance of banks, for example, has suffered because of the downturn in the real estate market. In mortgage lending, DFCS has seen increasing number of complaints about lenders. As a result, it added staff so it could conduct more risk-based and for-cause exams in that industry. This initially pushed down the compliance rate but should ultimately lead to higher-level compliance by those entities, resulting in increased protections for consumers.

The department’s approach to regulation also affects results. For example, because pawnbroker examinations are conducted on a for-cause basis the data may not reflect the performance of all pawnbrokers. Further, examinations of financial entities target operations within a company where there is a high risk for noncompliance, which can impact results. Focusing on areas of greater risk is a more effective use of scarce resources and provides greater protection to Oregonians. The department expects risk-based examination will result in greater compliance in the future as financial entities adjust their performance to be in compliance with laws and regulations.

In 2006, the Workers’ Compensation Division increased its performance standards for insurers, requiring them to provide timely first benefit payments and acceptance/denial decisions 90 percent of the time instead of the former standard of 80 percent. This change initially pushed down compliance levels; however, companies are now performing at higher levels. The division also expects targeted enforcement to improve insurer compliance by putting more focus on poorer performers. For example, in 2007 the department levied a \$5 million penalty for a number of

compliance violations against one of the largest groups of workers' compensation insurers. As part of the penalty agreement, the department has been working with the insurer group and has seen significant improvement in its overall workers' compensation claims performance.

6. WHAT NEEDS TO BE DONE

The department will continue to focus on risk-based and for-cause exams and audits in order to identify common problems and provide education for specific entities or industry segments.

In an effort to provide better protections for consumers obtaining mortgage loans, DFCS has submitted a Policy Option Package for additional mortgage lending staff. With the additional staff, DFCS will be able to develop and maintain a more-frequent examination cycle to identify problems in a timely manner and protect borrowers. We expect this to lead to increased compliance and performance of mortgage lending companies.

Oregon's 35 state-chartered banks have performed well in recent years, outpacing their national counterparts in profitability and asset quality. But with heavy concentrations of real estate construction and development loans, the Oregon banks have also begun to feel the effects of the current economic environment. To respond to the changing condition of Oregon's banks and to assist in protecting their safety and soundness, the Division of Finance and Corporate Securities has received approval from the September 2008 Legislative Emergency Board for five additional permanent positions to increase the frequency and scope of bank examinations.

WCD will closely monitor data to determine the effect of increasing the performance thresholds on insurers and the workers' compensation system. WCD will continue to assist insurers by facilitating performance improvement through ongoing monitoring and additional regulatory oversight, education, and consultation services to the industry. Additionally, WCD is considering a significant change to its audit process that will include using a more risk-based approach. We believe a more risk-based approach will ultimately lead to greater protection for injured workers because under-performing insurers will be targeted. This more focused approach will also use audit resources more efficiently.

7. ABOUT THE DATA

Data is reported for the Oregon fiscal year (July 1 – June 30). Financial data is derived from examination results of banks, credit unions, mortgage lenders, consumer finance companies, and pawnbrokers based on an established rating system within each program and is reported annually. Data for the workers' compensation insurers comes from the claims information database and includes results of the Quarterly Claims Processing Performance audit. In the QCPP audit, insurers are issued a penalty if they fail to meet any of the following standards: at least 90 percent of first payments to injured workers are made in a timely manner, at least 90 percent of acceptance/denial decisions of workers' compensation claims are made in a timely manner, and at least 80 percent of first claim reports by insurers are filed in a timely manner. Data is self-reported by insurers and

verified for accuracy by WCD. Results for the two entity types are combined into the overall regulatory condition using the number of full-time employees allocated to each division/program as weights. Please contact DCBS for more detailed information on the regulatory condition of workers' compensation insurers, banks and trusts, credit unions, mortgage lenders, pawnbrokers, and consumer finance companies. Note, DCBS reports final values to 1 decimal place. The automated annual report system shows a 0 as the second decimal place, which is a placeholder for measures that may require a second decimal place.