IS THE FOX GUARDING THE HEN HOUSE?:
CONFLICTS OF INTEREST THAT PERVADE THE ONE HUNDRED-YEAR HISTORY OF THE OKLAHOMA INSURANCE COMMISSION

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Although the Oklahoma Insurance Department Commissioner Kim Holland has recently created two new reforms to deal with misconduct in the wake of former Commissioner Carroll Fisher’s conviction, these reforms still fall short. These two policy changes focus on “things of values” and moonlighting, while well meaning, ignore several types of historical conflicts of interest—self dealing, influence peddling, post employment, and campaign finance—that historically pervade this state-wide office. Through a reconstruction of a timeline from the Daily Oklahoman archives and a more recent examination of data from the Oklahoma Ethics Commission and the National Institute on Money in State Politics’ Follow the Money (2008), a larger picture is drawn detailing conflicts of interest unacknowledged by the current Department’s reforms. With the spotlight on past conflicts of interest, it may be possible to foster a new understanding of needed policy reforms to deal with many potential conflicts of interest, keeping the current office holder from “conviction” in the public square if history unfortunately repeats itself yet again. However, some conflicts of interest are structural and need Constitutional changes to fix.
One state-wide elected official, Carroll Fisher will begin a new journey from a once respected state-wide elected official to now a three-year jail inmate for corruption charges as the former Oklahoma Insurance Commissioner. Even though Fisher is the only Oklahoma Insurance Commissioner to have been both impeached and convicted, allegations of misconduct in this office is commonplace.

In reaction to Fisher’s misconduct, Oklahoma’s Insurance Department Legislative Liaison Jennifer Burchett says in a person interview that the department is cleaning up its act with two new policies. First, employees “are required to avoid any action that creates the appearance of using state employment to obtain a private or inappropriate benefit for themselves or others,” according to a Department memo. Burchett explains “this means that employees can’t even accept a cup of coffee” from those they regulate. Second, Oklahoma Insurance Department employees cannot work outside the agency because it creates “a conflict of interest or a violation of state ethics provisions.”

Kim Holland, newly appointed by Governor Henry in the wake of Fisher’s impeachment, declared in the Oklahoman: “I plan to be an ambassador for this office, rather than one who shames the office.” Nevertheless, are Holland’s two reforms the necessary and sufficient way to deal with the Insurance Department’s corruption that seems to flourish in this state department, or does she need to do more? I find in this study that while it has become clear that the Oklahoma Insurance Department needs reform measures in the wake of the recent scandal with former Commissioner Fisher, approximately three-fourths of the Oklahoma Insurance Department’s history is mired in scandal. In this study, I specifically explore the varieties of conflict of interest that arise in the Department’s history in comparison to Holland’s current reforms.

BACKGROUND

Oklahoma’s founding fathers instituted the Oklahoma’s Insurance Department in the Oklahoma Constitution (Markwood 2005). Before statehood, insurance men arrived from out of state to set up shop in the new territory. The debate was whether to make the new insurance commissioner appointed or elected, which would beholden this office to
the people (Ibid). Oklahomans were suspicious of these out-of-state insurance men. In 1905, the *Daily Oklahoman*, it says that the insurance industry assumed that these companies are primarily benevolent institutions. The recent investigations have demonstrated conclusive enough that such is not the case. They are money making concerns, for the benefit of the clique that happens to be in control, and will continue to be. The need for regulation and oversight within the industry was clear even then.

The Oklahoma State Insurance Department, as the regulatory agency for the state’s insurance industry, collects premium taxes totaling almost $200 million annually, according to the Department’s 2005 annual report. These collections support the fire and police pension funds and the State Fire Marshal’s office, according to the report. The Department regulates 1,500 insurers within the state. The Department’s Consumer Assistance and Anti-Fraud Division received almost 40,000 inquiries in 2005, recouping more than $10.7 million to policyholders, according to the report.

According to the *Daily Oklahoman* archives, the Insurance Department began in 1907 and has had 14 commissioners since, two of which were interim positions. Of the 14, eight commissioners were appointed because the previous commissioner was either forced out of office, resigned, or died. Five of the eight commissioners, who were originally appointed, ran for office and were subsequently re-elected.

**LITERATURE REVIEW**

To answer the question of whether the current Insurance Commissioner Kim Holland’s reforms are likely to produce a less scandal-plagued office? It is important to examine the literature regarding conflict of interest and how it might apply to allegations found. Holland has two reforms she has implemented that fall into line with the conflict of interest literature, which divides conflict of interest into seven basic categories. Of the Kernaghan and Langford’s (2006) seven types of conflict of interest, Holland has implemented two in her office: 1) Accepting benefits and 2) Outside employment or moonlighting. The five other types of conflict of interest are not included, but are noted in Kernaghan and Langford’s (2006) types, including: 3) Self-dealing; 4) Using your employer’s property for private advantage; 5) Using confidential
information; 6) Influence peddling; and 7) Post employment. I describe each type of conflict of interest in more detail in the findings of this paper.

Warren (2006: 803) says allegations of misconduct are important venues for research because “corruption undermines the culture of democracy.” Warren (2006) argues that corruption, even perceived, makes citizens lose confidence and become cynical about the government. Ideally, public officials who hold administrative positions are acting impartially in the public interest. However, may respond to political pressures (Thompson 1995; Warren 2006).

**METHODOLOGY**

I conducted a historical analysis of the *Daily Oklahoman* archives and the *Oklahoma Almanac* to explore what kinds of conflicts of interest emerge in the Insurance Department’s history. Because the Oklahoma Insurance Department and the Oklahoma Department of Libraries do not contain a history, I reconstructed who the insurance commissioners were at the time. I searched the *Daily Oklahoman* from 1907—the inaugural year of the state’s first Insurance Commissioner T.J. McComb—to Kim Holland in 2007, Oklahoma’s current Insurance Commissioner. Governor Brad Henry originally appointed her before she won re-election two years later in 2006. Although this method of analysis falls short in acquiring a picture of its history more fully, the *Daily Oklahoman* is one of the few existing public records with the potential to be assembled for examination this state’s insurance department.

In an analysis of campaign finance, I utilized two electronic databases, beginning as far back as 2002. One was associated with the Oklahoma Ethics Commission and the second was the National Institute on Money in State Politics’ *Follow the Money* (2008). In this section, I trace specifically how much money candidates received and how much of it came from the insurance industry. Future research might focus on physical reports from the ethics commission prior to 2002.

**FINDINGS**

Of the 14 insurance commissioners to hold office since statehood in 1907, I find that eight Oklahoma commissioners have faced allegations
of misconduct (See Appendix I). Of these eight commissioners, one, Carroll Fisher was convicted, four resigned before action could be taken against them, one died in office, one was acquitted after his removal, and finally, one lost his re-election. This means that eight of 14, or 57 percent, of Oklahoma Insurance Commissioners have found themselves facing allegations of misconduct. When one considers that two of these Commissioners served in an interim capacity and in office for only a year, this percentage increases by removing the two said Interim Commissioners; the number becomes 8 of 12, which is 66 percent. This is startling, especially when one considers the additional fact that 8 of eleven or 72 percent of the elected Oklahoma Commissioners before Kim Holland have had their offices tainted with allegations of misconduct.

In the context of the last 100 years, 63 years were under the auspices of Insurance Commissioners with scandal-plagued tenures. This means that 27 years of state history had commissioners who did not possess tenures mired in conflicts of interest that are apparent from doing this historical research.

In an analysis of all 14 Oklahoma Insurance Commissioners, Holland’s reform regarding accepting benefits, or what her memo calls, “things of value” is on target. I found three instances making the news in the *Daily Oklahoman* that insurance commissioners are specifically receiving “things of value.” The most glaring example is former Commissioner Carroll Fisher who received more than $20,000 in furniture. A lesser known example involves the U.S. District Court forcing former Commissioner Gerald Grimes to give back $130,000 in campaign funds from an uninsured insurance company.

I did not find instances of Holland’s second reform dealing with employee moonlighting other than during the current Insurance Commissioner’s term in 2005. From the *Daily Oklahoman* and in an interview with Burchett, it appears like she has dealt with this form of conflict of interest in accordance with her policy memos.

Although these two Oklahoma Insurance Department policy reforms are positive steps toward fixing the department’s less than ethical reputation, these reforms fall short. Consider, for example, the simple fact that former Commissioner Carroll Fisher was impeached by the state legislature and subsequently resigned for embezzling. Holland’s reforms do not respond to embezzling either. Specifically, the state impeached Fisher for placing a $1,000 of campaign contributions into
his own personal account – in essence defined as self-dealing (McDonald 2007; Kernaghan and Langford 2006).

McDonald (2007) describes “self-dealing,” in this case, as a government employee who uses his or her official position to secure something for him or herself of his or her family (See also Stark 2000). The Blue Book, published annually by the Council on Governmental Ethics Laws, defines conflict of interest for the Oklahoma Ethics Commission in regard to self dealing as:

Public members may not participate in the discussion, vote on, influence or attempt to influence official action they, their immediate family members, or entities they are associated with have a pecuniary interest or reasonably foreseeable benefit from (including detriment to) a competitor.11

I find seven instances where self-dealing appeared in the history of the Oklahoma Insurance Department. For instance, E.W. Hardin also deposited state money into his personal account in the early 1920s; he resigned during a state house investigating committee.12 Additionally, in 1971, the state senate investigated former Commissioner Joe Hunt, accusing him of arranging a second mortgage loan from the company his wife was involved with.13 In another instance, former Commissioner Cathy Weatherford allegedly approved a Tulsa insurance company sale in order to facilitate the $200,000 in commissions that would go to her father.14

In addition to self-dealing, I found six instances of influence peddling, what McDonald (2007) describes, in this case, as the commissioner using his or her influence in office to unfairly benefit someone else. For instance, in 1915, former Commissioner A.L. Welch was accused of attempting to force a company to furnish a bond to secure support for a campaign. He also allegedly refused to license certain insurance companies until they employed a friend.15 Mr. Welch resigned before an impending impeachment hearing. The former allegation deals with influence peddling and the latter involved both influence peddling and self-dealing as he used his influence to get a job for a personal friend. In a more recent example, the Oklahoma Ethics Commission chastised former Commissioner Carroll Fisher for using his position to acquire private employment documents on his 2002 election opponent.16
In a third form of conflict of interest that Holland’s office does not address, but is found abundant in the history of the state’s insurance department, is that of Post Employment (McDonald 2007; Kernaghan and Langford 2006). Post employment, according to these authors, occurs when a regulator leaves a job; and then obtains a new job from same area the person was formerly regulating. This type of conflict of interest may be the most difficult one to expose because it is structurally embedded in the Oklahoma Constitution. Article six, section 22 of the Oklahoma Constitution specifies that the “Insurance Commissioner shall be at least twenty-five years of age and well versed in insurance matters.”17 Because of this Constitutional and legislative requirement, all of the former commissioners as well as the current commissioner come from the insurance industry in some capacity. In this regard, Holland is typical of the previous Insurance Commissioners in Oklahoma’s past. She comes from the insurance industry. For example, she worked for 20 years with the Team Insurance Group, once known as the Quarles Group. According Oklahoma Statute 36; section 302 requires the Commissioner to have had “at least five years’ experience in the insurance industry in administration, sales, servicing or regulation.” Seven of the last 12 commissioners returned to the insurance industry. Although the Daily Oklahoman may not have followed every commissioner’s career, there is definitely a “revolving door” between the insurance industry and the Insurance Department in which the post employment conflict of interest problem may arise.

A fourth type of conflict of interest not mentioned by Kernaghan and John Langford (2006) or McDonald (2007), but which is prominent in this office is campaign finance, which can create an appearance of impropriety. The state convicted former Commissioner Carroll Fisher for perjury for not disclosing that he placed $1,000 in campaign money in his own account without reporting it to the ethics commission, according to the final report for the state House of Representatives.18 Fisher’s two impeachment charges carrying the most weight had to do with campaign finance, in addition to one of Holland’s reforms dealing with receiving “things of value.” Additionally, beyond the Oklahoma State House of Representatives report, Fisher faces charges of illegally receiving $25,000 in campaign contributions from Texas business man Gene Phillips. Holland’s two reforms do not speak to campaign finance questions. This may be connected to her receiving nearly one-third of
her re-election campaign contributions from the same industry she regulates – insurance. This article that chastised Holland for the insurance industry’s largess, says she is sending mixed signals when she asserts that her employees could not accept “even a cup of coffee” from insurance agency representatives. According to Money in State Politics, she accepted $159,447 in state contributions from the Finance, Insurance, and Real Estate interests; thirteen of her top 20 contributors were from this industry and gave $5,000 or more to her campaign. Her opponent in the 2006 race raised approximately 1.5% of his $222,570 in total campaign funds from the same monied-interests. In 2004, Carroll Fisher did not raise nearly as much money, but nearly 38% of his $56,305 total campaign money came from these same monied-interests. Fisher raised $367,178 for his 2002 race and more than 50% came from the Finance, Insurance, and Real Estate interests.

The literature is underwhelming in regard to whether lobbyists influence public officials, particularly on the state level. The “Chicago” model of economic regulation, which has focused almost solely on legislators in the literature, contends that interest groups contributing to political campaigns do so with the expectation that they may see some return on their investment, specifically policy outcomes (Box-Steffensmeier and Dow 1992; Denzau and Munger 1986). Although most focus on candidate contributions and lobbyist influence is focused on the federal level and little on the state level, the state level is important to examine because of the lack of resources states have in enforcing the few existing regulations they do have (Malbin and Gais 1998). For example, in Oklahoma, the state’s Ethics Commission Executive Director Marilyn Hughes notes that her office is understaffed and underfunded. For instance, the son of Gene Phillips, who is the head of May Trust, which owns many insurance firms, recently won approval of a key bill in the Oklahoma State House of Representatives out of committee. The bill allows Texas insurance firms to employ in commercial real estate contracts. However, it was Brad’s Phillips father who is the same person who gave Carroll Fisher $25,000 in contributions and $20,000 in furniture in exchange for preferential treatment, according to the House impeachment report. Even if a campaign contributor from the insurance industry does not break a law, the appearance of a quid pro quo might bring this to mind for voters.
CONCLUSIONS

This study was conducted with the explicit intention to foster understanding and potentially reform if need be to improve the state’s insurance department. In this case, reforms can take shape in many ways. First, the commissioner can create policy memos that reflect the past conflicts of interest that pervade this office, including, self-dealing, influence peddling, post employment, and campaign finance irregularities. Self-dealing and influence peddling are two forms of conflict of interest that should hold stiff penalties beyond being forced from office or otherwise resigning. Post employment is difficult to detect because it is muddied through the Oklahoma Constitution in Article six, stipulating that an Oklahoma Insurance Commissioner be “well versed in insurance matters.” In addition, Oklahoma Statute 36 actually requires the Commissioner to have had “at least five years’ experience in the insurance industry.” It is not surprising then that because of this structural requirement, it is natural to observe a cozy relationship between the commissioner and those he or she regulates due to a previous prior working relationship. In addition, it makes sense that these commissioners would go back into the same field they once occupied and later regulated in order to make a living. More specifically, it is a conflict of interest if a public official appears to utilize contacts or information obtained while in office to benefit him or herself to secure his or her future financial security through their state service (Kernaghan and Langford 2006). Although at the time of statehood it is thought that a governor’s appointment of such an office might help buffer it from the industry, history shows that, eight of the 14 commissioners, including Holland herself, were initially appointed. Five of these appointed commissioners later ran for election and subsequently won. Appointment to this office does not seem to have the effect of necessarily keeping commissioners ethical.

Additionally, with Oklahoma’s deep populist roots, this might be a hard sell to the public. Populism resonates with Oklahoma residents, our states’ founding fathers of the Oklahoma Constitution originally feared a concentrated power in the Governor’s administration so his cabinet was widely elected, not appointed. Only 17 members of the executive
branch are elected in this pluralistic system, with the number down to only 11 today (Faltyn 2005).

Campaign financing can create, at the very least, a conflict of interest in the mind of voters with some insignificant results on whether campaign money influences office holders. To engender additional trust in this department, is it possible to either construct the office as appointive or perhaps Holland herself might publicly self-reform by claiming she will only accept, say, 10 percent or less from the insurance industry? A third option is to follow New Mexico’s lead. New Mexico in 2003 passed the Voter Action Act, which is a voluntary public financing law for candidates who campaign for a seat on the Public Regulation Commission, according to the New Mexico Governor’s taskforce report. The office is responsible for oversight of state public utilities. Similar to the full-public finance laws in Arizona and Maine, the report states that candidates who raise a threshold amount of one-fourth of one percent of the number of votes cast of all governor candidates in the last general election may receive full public funding for their campaigns if the candidates agree not to accept additional private donations. This public financing system is funded, the report continues, by a surcharge on the companies regulated by the commission in an amount equal to the average of contested commission elections for the four previous election cycles. In 2007, New Mexico added public financing for candidates for judgeships on the Court of Appeals and Supreme Court of New Mexico.

NOTES

3 Burchett, Jennifer. Telephone Interview. 9/21/07.


Oklahoma Ethics Commission for your use from the Blue Book, which is published annually by the Council on Governmental Ethics Laws.


Oklahoma State Constitution, Article 6, section 23: “Commissioner - Election - Term of office - Qualifications.” However, the Oklahoma Almanac for many years says at the bottom of the State Insurance Commissioner entry that the qualifications are actually 10 years of experience in the insurance business in addition to being 25 years old.


Marilyn Hughes Executive Director, personal interview. 9/12/07.


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## Appendix I (Reconstructed from the Daily Oklahoman)

<table>
<thead>
<tr>
<th>Commissioner</th>
<th>Year</th>
<th>Allegations</th>
<th>How Left Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>T.J. McComb</td>
<td>1907-1909</td>
<td>None</td>
<td>Resigned for a better job within the industry</td>
</tr>
<tr>
<td>Miles Lasater</td>
<td>1909-1910</td>
<td>None</td>
<td>Interim</td>
</tr>
<tr>
<td>Perry Ballard</td>
<td>1910-1913</td>
<td>Bribery; graft in office; accused of taking $200 from an insurance company for issuing a charter and receiving a $10,000 insurance policy from a company with the first year's premiums paid.</td>
<td>Impeached; found not guilty of bribery</td>
</tr>
<tr>
<td>A.L. Welch</td>
<td>1913-1921</td>
<td>Charges against him included having an excess number of employees, putting state funds in a Purcell bank and allowing the bank to draw interest on the money. Attempted to force a company to furnish a bond to secure support for a campaign, refused to license certain insurance companies until after they employed his friend.</td>
<td>Elected; resigned before impeachment; acquitted in senate</td>
</tr>
<tr>
<td>E.W. Hardin</td>
<td>1921-1924</td>
<td>appointed; better business offer while being probed by the house investigating committee; deposited money in personal accounts</td>
<td>Faced allegations of misconduct, investigated by the house investigating committee; soon after resigned as office probed 1/3</td>
</tr>
<tr>
<td>F.E. Young</td>
<td>1924-1925</td>
<td>None</td>
<td>Interim</td>
</tr>
<tr>
<td>Jess Read</td>
<td>1925-1946</td>
<td>None</td>
<td>Died in office</td>
</tr>
<tr>
<td>Donald Dickey</td>
<td>1946-1954</td>
<td>None</td>
<td>Did not run again</td>
</tr>
<tr>
<td>Joe B. Hunt</td>
<td>1954-1975</td>
<td>Senate investigating committee; investigate personal relationships to insurance companies he regulates; cleared of wrongdoing. Also, $7,800 2nd mortgage loan from the company made by his wife, connected to receivership.</td>
<td>Died in office 2/9/75</td>
</tr>
<tr>
<td>Gerald Grimes</td>
<td>1975-1991</td>
<td>Appointed; U.S. District Court forces Grimes to return $30,000 in campaign funds (10a); Helped his campaign manager's plan to regulate Pre-paid legal services, etc. even though his manager Angela Ales, represented the group. Appearance of a conflict of interest</td>
<td>Resigned</td>
</tr>
<tr>
<td>Cathy Weatherford</td>
<td>1991-1994</td>
<td>Controversy as given position as a chief fundraiser for Walters; sold insurance firm to give father $200,000 in commissions; lawsuits filed against her.</td>
<td>Resigned</td>
</tr>
<tr>
<td>John P. Crawford</td>
<td>1994-1998</td>
<td>Connected to $150,000 computer software contract with American Standard (his son); blocks audit; favors to abstract companies; received large donations from abstract companies.</td>
<td>Lost election; cleared of wrongdoing</td>
</tr>
<tr>
<td>Carroll Fisher</td>
<td>1998-2004</td>
<td>Indictment on several felony charges. Fisher resigned after being impeached by the House to avoid a Senate trial. Allegations $20k in furniture; $23k bribery; operated a charity illegally, used office to get info on a 2002 opponent says gifts did not affect him.</td>
<td>Impeached; convicted (7a)</td>
</tr>
</tbody>
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REFERENCES


