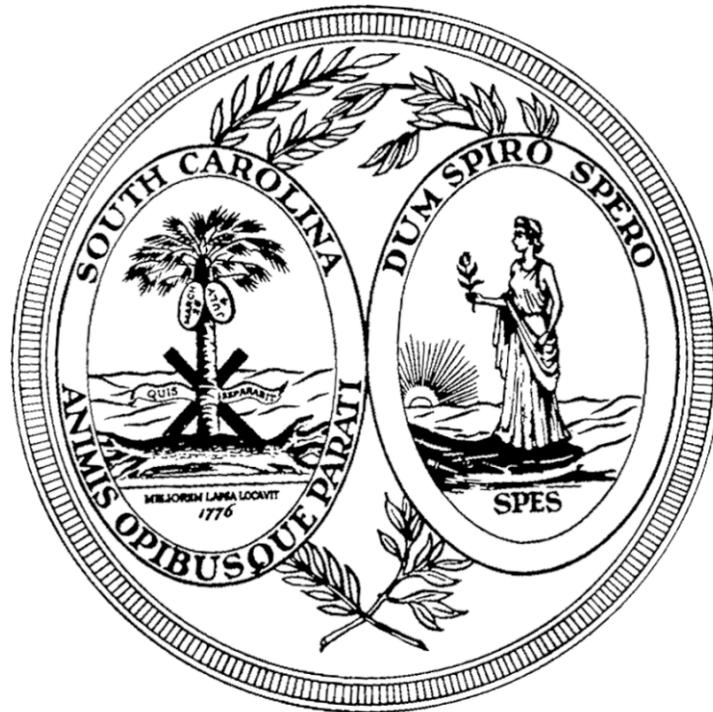


# STATE OF SOUTH CAROLINA

DEPARTMENT OF INSURANCE



AGENCY ACCOUNTABILITY REPORT

*FISCAL YEAR 2002-2003*

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## EXECUTIVE SUMMARY

### *Mission and Values*

The South Carolina Department of Insurance (Department) is charged with the protection of the insurance consumer, the public interest, and the insurance marketplace by ensuring the solvency of insurers; by enforcing and implementing the insurance laws of this State; and by regulating the insurance industry in an efficient, courteous, responsive, fair, and equitable manner. The Department accomplishes this mission through professional services, which include, but are not limited to, examinations and audits of insurance underwriters; consumer education, outreach and assistance; premium tax and fee collection on behalf of the State and its subdivisions; prior review and approval of certain insurance premium rates and insurance policy forms; and licensure of insurers and insurance-related individuals and entities. The Department was created by S.C. Code Ann. Section 38-3-10, *et seq.* (1976, as amended, and Supp. 1997). It is managed and operated by a director appointed by, and serving at the will of, the Governor upon the advice and consent of this State's Senate. Our mission is accomplished through the administration of several areas. The Department has established a series of guiding principles and values, among these, the highest priority is given to the following: integrity, accountability, concern regarding the issues that affect our stakeholders, professionalism, customer service, leadership, employee growth and development, open lines of communication with all stakeholders, and ultimately, a quality performance, providing the best service possible to our stakeholders.

### *Strategic Goals*

Guidance and direction for the Department is achieved through the development of a yearly strategic operating plan that incorporates the agency's five-year vision plan. The Department continues to strive toward the five-year goal of being recognized internationally as the model agency providing quality service through efficient, effective and equitable regulation of the insurance industry. Furthermore, the Department will be an organization: with satisfied customers; that has dedicated, courteous, knowledgeable, and professional employees; that maximizes the use of available resources for the benefit of its customer base; and that is committed to promoting a competitive market that offers insurance consumers a choice of various insurance coverages provided by a number of insurers. This past year, the Department made tremendous strides toward the achievement of these goals.

Ongoing priorities for the Department continue to include the effective regulation of the insurance industry through assuring insurance company solvency and compliance with related state laws and regulations, as well as, financial examinations and financial analysis audits to help reduce the number of insolvencies within the industry, thereby reducing the costs of insurance for South Carolinians. Consumer Services and Public Information also remain priorities for the Department as these areas have the highest public profile of all our program areas. The Policy Forms and Rates Program area ensures that forms, rules and rates used by all lines of insurance meet the statutory requirements.

*The Year in Review*

During fiscal year 2002-2003, the insurance industry continued to adjust to the effects of the Terrorists Attacks and the War on Iraq, the allegations of corporate accounting irregularities and the sluggish economy. While these events did not directly impact the insurance industry, they continue to have an indirect impact. While the market struggles to rebound, the nagging lack of consumer confidence resulting from issues surrounding the bankruptcy of Enron, WorldCom, and similar corporations coupled with the slow economy continues to affect the market. As U.S. markets harden and insurance coverages become more expensive or difficult to find, businesses attempt to find alternate methods of risk transfer or insurance. Captives represent an alternate risk transfer mechanism.

With the passage of Act No. 331 in 2000, the Department began the implementation of the Alternative Risk Transfer Services Division. The captive insurance legislation enables South Carolina to make available more options in the insurance marketplace to various industries. Captives are an alternate type of self-insurance vehicle that affords businesses some flexibility with their risk management strategies. Captives make perfect sense considering: (1) one of the principal reasons captives are formed is to address the insurance availability and affordability concerns of the parent; and (2) the industry for which most captives are formed is manufacturing.

The establishment of South Carolina as a domicile for captives continues to be a primary objective for the Director of Insurance, Mr. Ernst Csiszar. The captive law serves to complement the statutory structure already in place to attract industry to South Carolina. South Carolina's leaders

recognize the potential advantages of this legislation to our business community and its impact on the state's economic development efforts. Through these efforts, the captives industry has attracted a number of service providers to the state resulting in additional new jobs. As of June 30, 2003, the Department licensed 53 captive companies. There are also ten (10) captive management groups presently working in South Carolina, four (4) legal representatives assisting organizations with captives issues and three (3) financial services companies working in the captives market. Three captive conferences were held in South Carolina attracting participants from across the nation. The Department's website address [www.doi.state.sc.us](http://www.doi.state.sc.us) provides extensive information regarding the development and management of captives organizations and the captives market within the State of South Carolina.

Additionally, the Department has attempted to respond to the market availability issues in South Carolina by attracting new carriers to the market. Where possible, the Department has reviewed and improved its regulatory processes and increased its efforts to recruit insurers writing health and other insurance products to the South Carolina insurance market place. Thus, South Carolina's response to the hardening insurance market is to attract industry thereby increasing competition. It has been successfully demonstrated that increased competition within a market directly benefits consumers by enhancing the choice of insurance products available at affordable prices to the South Carolina consumer.

Current market pressures for uniformity in insurance regulation, and national treatment have required an intense review of the state's current "prior approval" approach to the review of forms and rates, including

endorsements. External pressures for a “speed to market” approach have been weighed against the agency’s responsibility to the consuming public to ensure that each insurer continues to legally and ethically transact its business in South Carolina and it’s contractual obligation or “promise to pay” is met. This review has resulted in the development, through the agency’s legislative agenda, toward file and use protocols with certification from insurers that their products comply with South Carolina laws. The Director has stressed the importance of continued market conduct review activities to ensure consumer confidence in the products entering South Carolina’s marketplace.

Additionally, the passage of H. 4752, Commercial Lines Deregulation in the 2002 Legislative Session created an additional mechanism to assist in making products accessible more quickly. The goal of these initiatives is to provide an efficient and responsive regulatory environment for insurers and insurance consumers.

*Significant Achievements During Fiscal Year 2002-03*

During 2001, the Department successfully completed its Third Round Accreditation. South Carolina was among the first states to achieve this distinction. Departments are accredited for 5 years. The standards set by the National Association of Insurance Commissioners (NAIC) Accreditation Program require that insurance departments meet certain minimum regulatory standards. The Department successfully demonstrated that it may contract for, the necessary resources, and has organizational and personnel practices necessary to effectively regulate its insurance industry. The scores received during the Third Round Accreditation Review rank the South

Carolina’s insurance regulatory processes among the best in the country. This recognition furthers the Department’s efforts toward achieving the five-year goal of being recognized internationally as a model agency providing quality service through efficient, effective and equitable regulation of the insurance industry.

Accordingly, this Department provides training and other forms of technical assistance to international insurance departments through the Commercial Law Development Program of the United States Department of Commerce and the NAIC. Members of the Department have participated technical assistance programs sponsored by the United States Agency for International Development (USAID). USAID is an independent agency that provides economic, development and humanitarian assistance around the world in support of the foreign policy goals of the United States. This past year, the Department provided training and/or technical insurance regulatory consulting services to the insurance regulatory authorities of Egypt, South Africa, Mexico and Japan. Department staff from the Financial Analysis, Market Conduct and Financial Examinations sections, and Office of General Counsel as well as the Department’s legislative liaison, and public information officer worked with the representatives to further develop their insurance regulatory practices and procedures.

The National Association of Insurance Commissioners (NAIC) plays an important role in assisting states in the efforts to regulate the insurance industry and protect consumer interests as found in their mission statement. The NAIC mission statement is to assist state insurance regulators, individually and collectively, in serving the

public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner consistent with the wishes of its members: protect the public interest; promote competitive markets; facilitate the fair and equitable treatment of insurance consumers; promote the reliability, solvency and financial solidity of insurance institutions; and support and improve state regulation on insurance. The Department has been and continues to be involved in the activities of the NAIC. This past December, the NAIC unanimously elected the incumbent to the Office of Vice-President of the organization. With officers serving one-year terms, the next election will take place during the Winter 2003 NAIC meeting. At this time, the incumbent will be considered for the Office of President of the NAIC.

The Director continues to serve as the Chairman of the Securitization Subgroup of the International Association of Insurance Supervisors (IAIS). The IAIS is the international counterpart to the National Association of Insurance Commissioners (NAIC). The goal of the subgroup is to establish securitized risk transfer mechanisms that can be applied to international insurance markets. As chairman, the Director serves as an observer for international insurance regulators at World Trade Organization (WTO) meetings worldwide and has provided expert testimony on securitization, protocols, special purpose reinsurance vehicles and other insurance-related issues for the WTO.

The Department is involved with the NAIC and the various committees and sub-groups, which include the NAIC International Insurance Relations Committee. The Director serves as chairman of the committee and has represented the United States at the requests of the US Department

of Commerce and the US Agency for International Development on several international trips during this fiscal year.

The Department also participates in the NAIC Small Face Amount Life Insurance Policies working group. The actions of the working group may ultimately result in the enhancement of thousands of insurance policies for South Carolina consumers over the next several years. The working group has completed a Disclosure Document, which provides additional information for consumers when selecting policies.

The Director continues to serve as co-chair for the Race-Based Pricing Working Group. The Working Group is charged with studying the effects of race-based pricing in the issuance of life insurance products in the United States, and determining the extent of the necessary corrections, both financially and through product enhancements, needed to make those affected by this practice in South Carolina and the rest of the country, whole again.

The NAIC President appointed the Director to chair the organization's Insurance Marketplace Standards Working Group. This group has been formed to study and determine what recognition, if any, should be given for various "best practices" organizations within the regulatory framework for life insurance companies.

Additionally, the Department serves on the following NAIC national committees dealing with insurance: Functional Regulation Working Group, Privacy Issues Working Group, Worker's Compensation Task Force, Information Resource Management Committee, Insurance Industry Liaison Committee, International Insurance Regulations Committee, Financial Regulation Standards and Accreditation

Committee, Government Affairs Task Force, Health Insurance and Annuities Committee, Health Insurance Task Force, Reinsurance Task Force, Special Insurance Issues Committee and the Consumer Participation Board of Trustees.

Nationally, states are experiencing problems in their health insurance markets. In 2000, the Department worked with members of the insurance industry and the small business chamber of commerce to review the status of the small group health insurance market. The report that resulted from this review focused on the Reform Initiatives of 1992, the Reform Efforts of 1994 and HIPAA Reform including but not limited to guaranteed issue, renewability and portability and rating. The report also explored recommendations to improve this segment of the market. One of the recommendations was to secure grant funding to develop the necessary initiatives to expand health insurance coverage and stabilize health insurance rates.

During April 2002, the Department submitted a proposal to the US Health and Human Services Administration for a State Planning Grant through their State Planning Grant Program. The proposal allowed for the expansion of the Department's efforts in 2000. The U.S. Department of Health and Human Services Administration awarded a \$1,100,000.00 planning grant to the Department in July 2002. The grant is studying the uninsured population so that state policy initiatives can be formulated to reduce the number of uninsured. One of the primary purposes of the grant is to expand access to health insurance coverage and to stabilize the insurance rates within the market so that those who are currently insured do not lose their insurance coverage. Because most persons obtain insurance through their employment, the project is

focusing on the small group health insurance market in South Carolina.

This past August, the Department co-hosted with the NAIC and the US HRSA a National Health Insurance Symposium. The three-day meeting was held in Charleston, South Carolina. The meeting provided an opportunity for interested individuals to gather from around the country and discuss the issues surrounding the availability and affordability of health care for small businesses. A Congressional Field Hearing was the highlight of the meeting. US Congressman DeMint of South Carolina and Congressman Akins of Missouri held the Hearing before the US House of Representatives Committee on Small Business, Subcommittee on Capitol Markets, Insurance, and Government Sponsored Enterprises. The topic of the hearing was entitled *The Rising Cost of Health Insurance for Small Businesses*. The Director along with four other individuals representing the medical profession, small businesses as well as others provided testimony for the hearing. The hearing was well attended and transcripts of the hearing as well as the three-day meeting are available.

The Department has applied to the US Health and Human Services Administration for Supplemental Funds to the State Planning Grant. If awarded, these funds will provide for the development and utilization of a communication plan so as to provide education and outreach to South Carolina communities and to receive information regarding their health insurance needs. The Department hopes to receive word regarding this request within the next several months.

South Carolina's process for licensing insurance agents and brokers was reformed to comply with the reciprocal licensing

provision of the Gramm-Leach-Bliley Act. The Single Model Producer Licensing law was signed in June 2002. To date forty-six (46) states have enacted legislation that provides for reciprocity and uniformity in the licensing process for agents so as to avoid federal pre-emption of the producer licensing process. H.4096, the Producer Model Law, was approved by the House and the Senate and subsequently signed into law, May 15, 2002. Both licensed insurance agents and consumers are benefiting from the changes resulting from this legislative initiative. Since its enactment, the Department has been conducting seminars across the state to educate producers on the requirements of the new law. Key provisions of this comprehensive legislation include: creation of a uniform application process; creation of uniform exemptions from producer licensing; establishment of uniform exemptions for completing pre-licensing education and examinations for licensed producers who apply for a non-resident license; establishment of uniform standards for license denials, non-renewals and revocations; establishment of uniform standards for commission sharing; and creation of an updated fee schedule for producer licenses, agency licenses and insurer appointments. The Department has become more efficient as a result of this initiative as paper transactions will be converted into telecommuting transmissions.

#### *Opportunities and Barriers*

Tremendous change is occurring within the insurance industry. Historically, the regulation of the business of insurance has fallen within the province of the states. However, with the convergence of the capital markets upon the insurance industry, and the globalization of insurance, the number of proposals calling for a federal regulator of insurance is increasing. Senator

Schumer introduced legislation in Congress calling for an optional federal charter for life and property and casualty insurers. Likewise, the American Council of Life Insurers and American Insurance Association have introduced legislation calling for an optional federal charter. Against this backdrop, states are attempting to try to preserve state regulation by streamlining processes and exploring ways to enter into cooperative interstate agreements governing certain aspects of insurance regulation.

South Carolina was the first state to initiate the ASSURE program (Alliance for Sound State Uniform Regulatory Efficiency) that was created by the NAIC to educate state and federal lawmakers, business leaders, and consumers about the advantages of state regulation and the problems associated with federal oversight of the insurance industry. This past April, a host of individuals from interested organizations met at the South Carolina State House to hold a meeting to the ASSURE program and what it means for South Carolinians.

South Carolina has been at the forefront of modernizing our regulatory system and making it more efficient to the benefit of consumers and insurers alike. Should state regulation be dissolved, it would undermine our system of consumer protections and fiscal oversight and, at the same time, cost the state jobs, taxes, fees and other revenues related to the industry.

The Department continues to work toward a more efficient and streamlined work process. The most significant barriers for the Department continue to be financial reductions in state appropriations and unfunded mandates. The reductions in funding and increases in responsibility have drained, and will continue to, drain already strained resources. The Department is doing

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South Carolina Department of Insurance Accountability Report 2002-2003  
**SECTION I-EXECUTIVE SUMMARY**

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more with less and trying to devise creative ways to manage its budget shortfalls while providing the necessary customer service and staying abreast of all of the developments within the industry. In these economic times, it is critical for the

Department to continue to further develop cost saving practices thereby increasing efficiency and effectiveness for our stakeholders.

South Carolina Department of Insurance Accountability Report 2002-2003  
Section II-Business Overview

**EMPLOYEES AND OPERATIONS**

The Department of Insurance operates four organizational Divisions: the Executive Division, the Alternative Risk Transfer Services Division, the Administrative Services Division and the Financial Services/Office of General Counsel Division. During fiscal year 2002-03, the

Department had eighty-eight (88) classified employees, three (3) unclassified employees, five (5) temporary employees, and three (3) temporary grant funded employees.

The organization operates out of the facility located in the Fontaine Business Park, 300 Arbor Lake Drive, Suite 1200, Columbia, South Carolina, 29223, and 145 King Street, Suite 311, Charleston, South Carolina, 29401.

Base Budget Expenditures and Appropriations

Major Budget Categories	01-02 Actual Expenditures		02-03 Actual Expenditures		03-04 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,971,159	\$3,032,669	\$4,239,667	\$2,953,562	\$3,990,230	\$2,714,730
Other Operating	\$2,448,488	\$858,264	\$2,181,322	\$510,952	\$1,619,108	\$386,527
Special Items	\$0	\$0	\$0	\$0	\$0	\$0
Permanent Improvements	\$0	\$0	\$0	\$0	\$0	\$0
Case Services	\$0	\$0	\$0	\$0	\$0	\$0
Distributions to Subdivisions	\$111,147	\$0	\$48,700	\$0	\$234,000	\$0
Fringe Benefits	\$1,045,795	\$805,105	\$1,118,565	\$817,646	\$1,007,880	\$723,390
Non-recurring	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$7,576,589</b>	<b>\$4,696,038</b>	<b>\$7,588,254</b>	<b>\$4,282,160</b>	<b>\$6,851,218</b>	<b>\$3,824,647</b>

Other Expenditures

Sources of Funds	01-02 Actual Expenditures	02-03 Actual Expenditures
Supplemental Bills	\$1,013,616	\$71,071
Capital Reserve Funds	\$0	\$0
Bonds	\$0	\$0

### **KEY CUSTOMERS AND KEY SERVICES PROVIDED**

The Department's key customers are the citizens of South Carolina, insurance consumers and the insurance marketplace.

The South Carolina Department of Insurance is a Regulatory Agency. Through the Administrative Division, the Office of Consumer Services provides assistance to consumers regarding insurance related issues, complaints and concerns. Also within the Administrative Division, the Office of Education reviews and approves sponsors, instructors and courses for both prelicensing and continuing education for insurers. The Department is responsible for the collection and deposit, into the State's General Fund, of premium taxes due from insurers and brokers. We administer licensing programs for agents, agency brokers, adjusters, appraisers, bail bondsmen, runners and surety bondsmen. The Department is also required to issue Third Party Administrator Licenses, and Premium Service Company and Utilization Review Company Licenses.

Our Financial Services Division provides market conduct exams of insurers, monitors the financial condition and operations of insurers and health maintenance organizations conducting business in S.C. and acts as a securities custodian for S.C. policyholders, enrollees and creditors of insurers, eligible surplus lines insurers and health maintenance organizations. The Financial Services Division is also responsible for the review of all policy forms and rates for compliance with S.C. laws and regulations for all companies writing insurance in S.C. Within the

Financial Services Division, the Office of General Counsel is charged with the review of summons and complaints served upon the Director of Insurance in his capacity as the agent for service of process for insurers transacting the business of insurance within S.C. and to accept service of pleadings that are served in accordance with S.C. law.

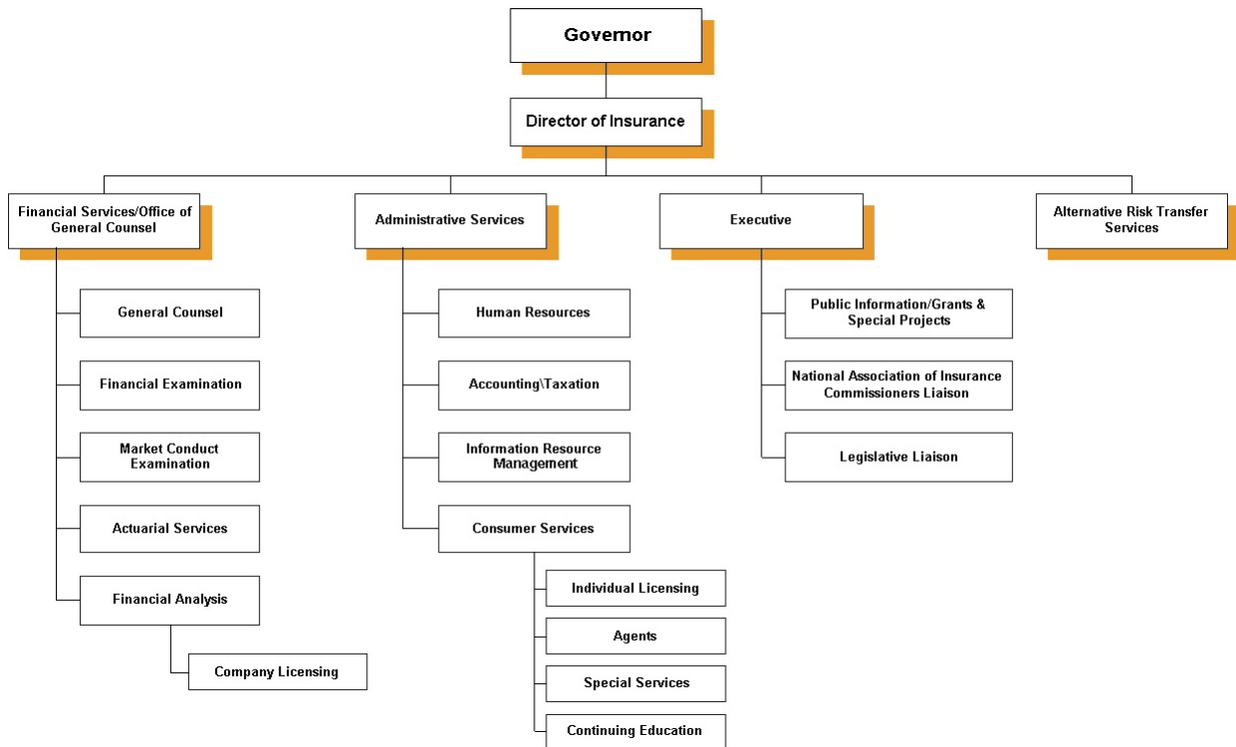
Through the Executive Division of the Department, assistance is provided to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations and the resolution of constituent matters.

### **KEY SUPPLIERS/VENDORS**

The Department works with a number of suppliers and vendors. The following is a listing of the businesses and organizations that we conduct business with on a regular basis: The South Carolina Budget and Control Board, Office of Information Resources for technology infrastructure, Central Supply, The South Carolina Department of Corrections Printing Division, Gateway Company, J.M. Grace Corporation, Kosi Office Systems, Minolta Corporation and Mac Paper Supply Company.

## ORGANIZATIONAL STRUCTURE

The S.C. Department of Insurance's organizational structure is outlined below.



## **CATEGORY 1 - LEADERSHIP**

The Department's organizational structure includes the Executive Staff of which the senior management consists of the Executive Director, the Deputy Director of Administrative Services and the Deputy Director of Financial Services and Office of General Counsel. The Executive Staff also includes three Executive Assistants to the Director, the Chief Life Actuary, the Senior Associate General Counsel and managers of each of the offices within the three organizational divisions. The senior management initiates an annual operating plan, which is based on the Department's five-year vision plan. The senior leadership works through the Office of Human Resources to encourage employee recognition and innovation. Continuing education and training is also encouraged through this office. The Department adheres to the State Government Ethics and Accountability Act regarding ethical behavior. We also utilize the services of the State Ethics Commission for filing Statements of Economic Interest and training opportunities.

Customer focus relates directly to the Department's mission as mandated by S.C. law as we are charged with the protection of the public interest and insurance consumers. Therefore, the senior leadership closely monitors the efficiency and accuracy of consumer and constituent inquiries and requests. Information gathered from area work logs determining numbers of consumer requests, etc. is reflected in Category 7. Periodic work sessions and staff meetings with the Executive Staff assist in the monitoring process. These meetings provide opportunities for suggestions and feedback from staff members.

There are several mechanisms used to address the current and potential impact on the public regarding products, programs and services. The most frequently used methods include news articles, interviews, press releases and public hearings that are closely monitored by the public information officer.

Organizational priorities for improvement are communicated through the Department's strategic plan, meetings and discussions with the Director and legislative directives. Office managers discuss these priorities with staff and receive feedback and communication regarding the establishment of practices and processes necessary to meet these goals and priorities.

The Department, senior management and staff members actively support and strengthen the community. Priorities for community involvement are established by the Director, senior management and individual staff member participation. The following is a listing of some of the organizations and activities supported by the Department and staff members: the National Association of Insurance Commissioners (NAIC) International Securitization Committee, the NAIC International Insurance Relations Committee, the NAIC Small Face Amount Working Group, the NAIC Suitability Committee, the S.C. Insurance Services Budget and Control Board Cost Containment Committee, the Governor's MAP Commission, the Workers' Compensation Advisory Task Force, the S.C. DHEC First Sounds Advisory Committee, the State Interagency Coordinating Council for BabyNet, a S.C. Early Intervention Program, FEMA Project Impact, Charleston County Community, and the Charleston Home Ownership Center.

## **CATEGORY 2 - STRATEGIC PLANNING**

The Department began the strategic planning process in 1998 as a method for improving its programs and services. All employees participated in the planning process through survey and discussion. This information provided opportunities to analyze an employee's individual duties and division responsibilities so as to efficiently streamline the Department's delivery of services. It also enabled the Department to plan with the future in mind, to set benchmarks, and to develop a long-range strategy that reflects the changing economic environment.

The Director and Executive Staff will continue the strategic planning process this upcoming fiscal year by incorporating the Malcolm Baldrige National Quality Award Criteria. Based on the present status of the state and national economy, the Department will continue to focus on strengthening and streamlining functions and procedures for a more efficient quality performance.

## **CATEGORY 3 - CUSTOMER FOCUS**

The Department of Insurance is a Regulatory and Cabinet Agency. The key customers and stakeholders are South Carolinians, the insurance industry, the Office of the Governor, Legislators and State Government Agencies.

Our key customers are identified through the Department's mission statement, which is derived from S.C. Code Ann. Section 38-3-10, et seq. (1976, as amended, and supp. 1997).

As defined within the Division Offices Business Process Plans (see Category 6 and 7), timely and accurate service is priority in that it directly impacts the customer.

The Director and Executive Staff consider communication and feedback from the customer and stakeholder an important tool for improving the Department's service capabilities. This is achieved through various mechanisms: public meetings, outreach events, advisory committees, public forums, customer surveys, an updated website and focus groups, which are utilized in gathering feedback and information regarding customer satisfaction.

## **CATEGORY 4 - INFORMATION AND ANALYSIS**

Day-to-day processes are in support of the Department's mission statement that is based on the statutory requirements found within S.C. Code Ann. Section 38-3-10, et seq. (1976, as amended and supp. 1997). Due to the many different services provided by the Department, each Division develops a business process plan based on state and federal mandates for the services and products produced within the Division. The business process plan is developed in concert with the Director, Deputy Directors and Office Managers. Each program area provides feedback to the Managers regarding the effectiveness of the processes.

The various Divisions within the Department maintain correspondence, data logs and monthly reports regarding response and follow-up as well as assignment completion times. The Finance Office within the Division of Administrative Services provides data reports for both the State Treasurer's Office and the Comptroller General regarding the status of financial

activities, including the collection of tax premiums.

The Office of General Counsel provides reports to the Deputy Director for Financial Services and the Director regarding the status of summons and complaints served upon the Department. The Office of Financial Examinations provides monthly reports regarding the financial status of companies writing insurance in S.C. as well as status reports regarding findings of market conduct examinations performed by Department financial examiners.

Ongoing analysis of the reports and information provided by the Department Divisions allows the Director and Executive Staff to monitor the status and health of the insurance market in S.C. This is a critical service for South Carolinians. The Market Assistance Program (MAP), within the Office of Consumer Services, collects data, which reveals the need to explore the status of the health insurance market and the importance of the Department's efforts to attract additional companies, which will offer property and casualty insurance products to South Carolinians. To that end, the Department has undertaken several special projects focusing on health insurance, primarily the small group health insurance market, and property and casualty insurance with an emphasis on coastal property initiatives.

The Department is a longstanding member of the National Association of Insurance Commissioners (NAIC). The NAIC is a voluntary organization of the chief insurance regulatory officials of the fifty (50) states, the District of Columbia and four US territories. The NAIC's mission is to protect consumers and help maintain the financial stability of the insurance industry. The collaboration and sharing of ideas between

other state insurance departments and the NAIC provides opportunities to utilize comparative data and information.

## **CATEGORY 5 - HUMAN RESOURCE FOCUS**

Employees of the Department of Insurance are provided opportunities to develop their skills and expertise through various programs and mechanisms. The standard Employee Performance Management System (EPMS) is utilized for a formal method of review. Standard process involves the development of a planning stage for each employee with the involvement of the employee and the manager.

Employees are encouraged to take advantage of training opportunities offered through various federal, state and private organizations. These include the Governor's Office, the State Budget and Control Board, the Federal Emergency Management Agency/National Flood Insurance Program, and the Institute for Business and Home Safety. The staff receives notification of these course offerings through the Department's Division of Administrative Services.

Additional mechanisms for involving the employees in the activities of the organization include Department-wide staff meetings, Department newsletters, and an intranet site for Department employees, as well as e-mail postings regarding employee news and achievements. Employees receive a S.C. Department of Insurance Policy and Procedure Manual and Orientation Packet prior to their first day on the job.

The Department, through the Division of Administrative Services, administers the

Recognition Achievement Program. This program recognizes an employee's achievements. An employee is recognized for their service and work each quarter. The Director has established an Employee Task Force consisting of representatives from each Division that meets to discuss and provide feedback regarding the staff's well being. This Task Force is also responsible for the planning of staff-wide holiday dinners and activities. The Director also organizes an Employee Appreciation Day and provides lunch for Department employees.

The Department provides a safe and healthy environment for its employees. As mentioned in last year's report, the Department moved to a new facility. The improved facility continues to offer a clean, fresh work environment in a pleasant park-like setting. Department employees that are interested also attend an aerobics/exercise class that takes place at the office after work hours. This past summer, the Department's grant funded Child Passenger Safety Awareness Program entitled, Held in Trust, held classes and provided information for Department staff regarding child safety seats and the proper installation of seats in vehicles.

Employees are involved in numerous community activities, which include the Annual Good Health Appeal, Harvest Hope Food Bank, Families Helping Families, the United Way and the First Ladies Annual Walk for Life Campaign.

## EXECUTIVE SERVICES

The Executive Division of the Department provides assistance to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations and the resolution of constituent matters.

### CATEGORY 6 & 7 - PROCESS MANAGEMENT AND BUSINESS RESULTS

#### LEGISLATIVE

#### GOAL

The legislative liaison provides assistance to the legislative and executive branches of government regarding the creation of new statutes and regulations, the amending of existing statutes and regulations, and the resolution of constituent matters.

#### BUSINESS PROCESS

Provide technical assistance in the drafting of proposed legislation. Such assistance is provided to the Director, legislators and to the legislative committee staff who have requested assistance from the Director. In addition, provide assistance requested by legislators and legislative staff in the handling of constituent matters.

#### PROCESS MEASURES

Bills and regulations on which the Department participated and testified include:

<u>Bills</u>	<u>Subject</u>
S.449	Building Code Council (Revises procedures/composition)
S.549	Abolishes claim against Second Injury Fund based on unknown condition- ***Amended to include three DOI initiatives (H.4005, H.4075 and H.4076)

H.4005	Expansion of Emergency Territory
H.4075	Captive may form as a Limited Liability Company
H.4076	Department Clean-up Bill

#### Regulations    Subject

69-64	Exempt Commercial Policies
69-65	S.C. Patients' Compensation Fund (withdrawn)
38-400 through 38-409	Motorist Insurance Identification Database Program (collaborated with Department of Public Safety)
38-600	Highway Patrol Wrecker (Collaborated with Department of Public Safety)

From August 27, 2002 through August 18, 2003, four hundred (400) constituent matters have been reviewed and resolved.

## **DIVISION OF ADMINISTRATIVE SERVICES**

The Division of Administrative Services provides assistance through the Consumer Services Section, Office of Education, the Taxation Section and the Special Services Section. These Sections are charged with the following responsibilities: to provide assistance to consumers regarding insurance related issues, complaints and concerns; the review and approval of sponsors, instructors and courses for both prelicensing and continuing education for insurers; the collection and deposit into the State's General Fund of premium taxes due from insurers and brokers; the administration of licensing programs for agents, agency brokers, adjusters, appraisers, bail bondsmen, runners and surety bondsmen; and the licensing of Third Party Administrators, Premium Service Companies and Utilization Review Companies.

### **TAXATION**

#### **GOAL**

The program area annually collects and deposits into the State's General Fund premium taxes due from insurers and brokers. A percentage of these funds are distributed to county governments.

#### **BUSINESS PROCESS**

Insurers' premium taxes are collected on a quarterly basis and deposited in the General Fund. Each of the 1,552 premium tax returns is audited beginning March 1. The total premium taxes collected are balanced to the general ledger by June 30. Fire taxes are collected from insurance companies writing in South Carolina by the Department and are then distributed by the State Treasurer to the counties on an annual basis.

Brokers' premium taxes are collected on a quarterly basis and deposited in the General Fund. Brokers report by January 30 a listing of premiums and taxes for the previous calendar year. The total premium taxes collected are balanced by June 30. Taxes collected in the amount of one (1%) percent of property premiums are then distributed by the State Treasurer to the counties on an annual basis.

#### **PROCESS MEASURES**

Premium taxes were collected and audits were completed from the four hundred forty-eight (448) fire insurance companies, and a listing of taxes for distribution to the counties was compiled. All taxes were balanced to the general ledger by June 27, 2003.

Brokers' premium taxes were collected and all Summaries of Transactions were reconciled by April 9, 2003 for the one hundred eight-five (185) brokers doing business in the State.

On a gross basis, the Department collected in excess of one hundred thirty-one (131) million dollars in insurer and broker premium taxes. Of this amount, approximately nine point five (9.5) million dollars was distributed to county governments, six point four (6.4) million dollars was transferred to the Department of Labor, Licensing and Regulation and three point eight (3.8) million dollars was drawn to cover insolvent self-insured workers' compensation claims. The remainder of these taxes was credited to the General Fund. Gross collections were up twelve (12) million dollars over the previous year and continued a trend of increases in collected insurance tax revenue.

## **CONSUMER SERVICES**

### **REQUESTS FOR ASSISTANCE**

#### **GOAL**

Consumer Service representatives respond and resolve consumer complaints/inquiries within fifteen days of receipt.

#### **BUSINESS PROCESS**

Consumer Service representatives respond and resolve consumer requests relating to insurance issues to include unfair sales and advertising, underwriting and claims handling practices.

#### **PROCESS MEASURES**

The Office of Consumer Services received three thousand six hundred thirty-nine (3,639) written complaints and fifty-three thousand five hundred twenty-four (53,524) telephone complaints and requests for assistance for fiscal year 2002-2003. Compared to the previous year written complaints are down two-point three percent (2.3%) while telephone request for assistance were down nine point five percent (9.5%). Approximately fifty-five percent (55%) of telephone requests for assistance were related to life, accident and health insurance issues while forty-five percent (45%) involved automobile and other property lines of insurance. Written complaints continued to be tracked in the same percentage manner.

More than Ninety-five percent (95%) of the written requests for assistance continue to be resolved within fifteen to twenty-one (15-21) days of receipt. Approximately ninety-eight percent (98%) of all telephone requests for assistance continue to be concluded within the same day of receipt.

## **CONSUMER INSURANCE EDUCATION**

#### **GOAL**

The Office of Consumer Services works to improve the consumers' knowledge and understanding of insurance products marketed in South Carolina.

#### **BUSINESS PROCESS**

The Office of Consumer Services increases the public's awareness through outreach activities that include speaking engagements and the distribution of educational brochures.

#### **PROCESS MEASURES**

During the 2002-2003 fiscal period, eight thousand five hundred sixty-eight (8,568) brochures regarding automobile, life, health, flood, home, business insurance and disaster insurance were distributed to the public. These efforts were achieved through collaboration with other state agencies as well as the South Carolina Wind and Hail Association, and the South Carolina Insurance News Service. The reduction in the number of brochures distributed was directly linked to the availability of funds. However, the Consumer Services staff has utilized the Department's website as an alternative to educate consumers and make referrals to them as needed. Consumers can download the respective brochures that relates to their specific concern. In addition, the Office of Consumer Services also completed forty-nine (49) speaking and outreach engagements, compared to forty-three (43) during the previous fiscal period.

## MARKET ASSISTANCE PROGRAM

### GOAL

The Market Assistance Program (MAP) was developed as a tool to assist consumers in locating hard-to-place coverage. Insurance providers that offer coverage for individuals with specific conditions and risks are listed in the MAP Directory, which is made available to the public through the Office of Consumer Services.

### BUSINESS PROCESS

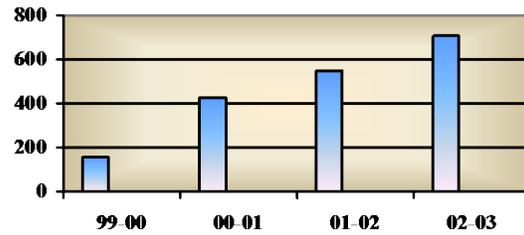
The Office of Consumer Services conducts an annual review of the available markets and updates the MAP Directory. In addition to this service, the Insurance Regulatory Analysts respond to requests for assistance in locating these providers.

### PROCESS MEASURES

The Office of Consumer Services responded to seven hundred eight (708) requests for market assistance this fiscal period. The number of requests increased by 29 percent (29%) from the 2001-2002 fiscal period. The two leading requests for assistance were related to consumer health insurance and homeowner's insurance coverages. In an effort to improve the market assistance services, the Department developed an online link to its database of insurers writing all lines of insurance in South Carolina. Consumers, producers, and insurers are all benefiting from this added service. Insurers and producers telephone numbers and businesses addresses are available for the public. Because of the Department website our market assistance efforts reach more stakeholders.

### TREND DATA

MARKET ASSISTANCE PROGRAM



## DISASTER RESPONSE

### GOAL

The Office of Consumer Services responds to consumer requests for assistance with insurance issues following a natural disaster.

### BUSINESS PROCESS

The Department of Insurance has in place an Emergency Response Plan that is initiated by the Director and is facilitated through the Director's Office. The Office of Consumer Services has a critical role in the plan. By providing constant telephone access for the public via local and toll-free numbers, the Office of Consumer Services is able to maintain communications with the insurance industry during a critical period.

### PROCESS MEASURES

During this past fiscal period (2002-2003), South Carolina was again spared major disasters and had relatively few storms and inland or coastal flooding warranting the Department's assistance. The Office of Consumer Services also responded to fewer requests from property owners for assistance involving storm related losses. However, the Department was able to review its response procedures and improve its preparedness in the event services are needed during the next fiscal period.

## **INDIVIDUAL LICENSING AND EDUCATION**

### **GOAL**

The Division of Licensing is charged by statute with the responsibility of accurately and efficiently issuing producer, agency, broker, adjuster, public adjuster, and appraiser licenses.

### **BUSINESS PROCESS**

The Division accurately and efficiently issues the aforementioned licenses within twenty-four to seventy-two (24-72) hours of receipt of properly completed licensing paperwork.

### **PROCESS MEASURES**

Approximately ninety-eight percent (98%) of all properly completed producer license applications submitted to the Department were issued within 24-72 hours of receipt. As of June 30, 2003, six thousand, nine hundred thirty-nine (6,939) agency licenses were in force. This is an increase of more than twelve and one-half percent (12.5%) from the 2001-2002 fiscal period. A total of three hundred seventy-six thousand, nine hundred forty-one (376,941) appointments for producers were in force as of June 30, 2003. Additionally, twenty-four thousand, eighty-two (24,082) new producer, agency, adjuster, appraiser, public insurance adjuster and broker licenses were issued this fiscal year. Thirty-nine (39) applications submitted by producers, adjusters, appraisers and brokers were denied because of a crime committed that would not allow licensure, and four thousand, seven hundred twelve (4,712) licensing packets were returned to applicants as being incomplete. Eighty-nine thousand, five hundred (89,500) individuals, sixteen thousand, four hundred sixty-seven (16,467) adjusters, nine hundred ninety-six (996) motor vehicle physical damage

appraisers, one hundred twenty-seven (127) public adjusters and one thousand, five hundred sixty-seven (1,567) brokers held licenses to transact insurance business in South Carolina during the fiscal period.

## **PRODUCER LICENSING LAW ADOPTED**

In addition, effective January 31, 2003, new producer licensing laws became effective in the state. These changes allowed South Carolina to be among 41 other states to adopt uniform standards in licensing producers. These new licensing laws will allow the Department to improve its response time in licensing producers and enhance the overall effectiveness of the Department's licensing program. The Department expects cost savings to be achieved with the enactment of this legislation.

## **SPECIAL SERVICES DIVISION**

### **GOAL**

The Division of Special Services is required to accurately and efficiently issue bail bondsmen, runners, and surety bondsmen licenses following a careful review of submitted applications. The Division is also required to process annual renewals of licenses and to collect appropriate fees.

### **BUSINESS PROCESS**

The Division administers the licensing of professional bail bondsmen and runners in accordance with state statute and maintains licensing records. Licenses are issued within ten (10) days following individual clearance from state and federal authorities.

### **PROCESS MEASURES**

During the 2002-2003 fiscal period, four hundred seventy-six (476) professional bail

bondsmen, runners and surety bondsmen were licensed by the Department within ten (10) days of receipt of the completed applications. License and renewal fees collected were sixty-four thousand, two hundred dollars (\$64,200) for bail bondsmen and runners. This represents more than a nine and one-half percent (9.5%) increase from the prior fiscal period.

### **THIRD PARTY ADMINISTRATOR LICENSES**

#### **GOAL**

The Division of Special Services issues via statute Third Party Administrator (TPA) Licenses.

#### **BUSINESS PROCESS**

The Division administers the licensing of TPA's in accordance with state statute. Licenses are issued within ten (10) days.

#### **PROCESS MEASURES**

During this fiscal period, two hundred thirty-four (234) TPA's were licensed. This represents approximately nine percent (9%) decrease from the prior fiscal period. On average, these licenses were issued within the projected ten-day period.

### **PREMIUM SERVICE COMPANY LICENSES**

#### **GOAL**

The Division of Special Services issues Premium Service Company Licenses and maintains records of the licenses as defined by statute.

#### **BUSINESS PROCESS**

The Division administers the licensing of Premium Service Companies in accordance with state statute. Licenses are issued after

statutory requirements are met by the applicant and the forms are reviewed and approved by the office of Special Service Division.

#### **PROCESS MEASURES**

During the 2002-2003 fiscal period, eighty (80) Premium Service Companies were licensed representing a nine percent (9%) decrease from the prior fiscal period of eighty-eight (88) companies. On average, these licenses were issued within a thirty-day period.

During the March 2003 annual renewal, seventy-five (75) renewal applications were processed with a ninety-five point seven percent (95.7%) renewal rate. In addition, the financial statements of all eighty-eight (88) Premium Service Companies were reviewed by March 31, 2003.

### **UTILIZATION REVIEW COMPANIES**

#### **GOAL**

Private Review Agent (Utilization Review Companies) Licenses and biennial renewals are issued by the Division of Agents Licensing as defined by state statute.

#### **BUSINESS PROCESS**

The Division administers the licensing of Utilization Review Companies in accordance with state statute.

#### **PROCESS MEASURES**

During the 2002-2003 fiscal period, eighty-four (84) utilization review companies were licensed. This represents an increase of sixteen (16) or twenty-three and one-half percent (23.5%) increase in the number of companies licensed to provide Utilization Review Services.

## **SERVICE CONTRACT PROVIDERS**

### **GOAL**

The Division issues Service Contract Providers licenses following careful review of applications and qualifications and maintains records of those licenses. It also processes annual renewals of licenses and collects the appropriate fees.

### **BUSINESS PROCESS**

The Division administers licensing of service contract providers in accordance with Chapter 78, of Title 38, of the South Carolina Code of Laws. Licenses are issued within fifteen days (15) after the applicant meets statutory requirements and the forms are reviewed and approved by the Special Services Division. Licensing records are accurately maintained for proper policing enforcement of the statute.

### **PERFORMANCE MEASURES**

As of June 30, 2003, one hundred sixty-four (164) Service Contract Providers were licensed by the Department of Insurance. License and renewal fees, scheduled for collection October 1, 2003, are projected to be approximately \$32,000.00.

## **EDUCATION**

### **GOAL**

The Division accurately and efficiently reviews and approves sponsors, instructors and courses for prelicensing and continuing education. The Division also administers the South Carolina Department of Insurance continuing education process and the examination process.

### **BUSINESS PROCESS**

The Division with the assistance of a review board as outlined in Chapter 43, Title 38,

Regulation 69-23 and 50 of the South Carolina Code of Laws administers the review and approval of sponsors, instructors and courses for continuing education. The Division is responsible for the continuing education program and ensuring that sponsors, instructors and proctors follow the requirements outlined in Chapter 43 and Regulation 69-50. The Division contracts with Experior Assessments to administer the Continuing Education Contract. The Division is responsible for over site of the contract.

The Department contracts with Experior Assessments to administer the twenty-four (24) insurance examinations. The Division is responsible for the over site of the state's insurance examinations and the proctoring process. The Department oversees and sponsors a yearly Examination Review Workshop, which includes Drake University, Experior Assessments and members of the South Carolina insurance industry.

The Division sponsors a yearly education meeting for prelicensing sponsors and members of the South insurance industry to provide them with updates in the licensing examination process.

### **PROCESS MEASURES**

During this fiscal period (2002-2003), one thousand two hundred twenty-two (1,222) continuing education courses were approved. Five hundred fifty-eight (558) continuing education instructors, forty-nine (49) continuing education proctors, and forty-two (42) continuing education sponsors were also approved.

In addition, eight (8) pre-licensing courses were renewed for life, accident and health insurance, two (2) new pre-licensing courses

for property and casualty insurance were approved and four (4) were renewed.

Seven thousand, four hundred eighty-five (7,485) insurance examinations with an overall pass rate of sixty-four percent (64%) were administered this fiscal period. This represents a one point seven percent (1.7%) decrease from the number of examinations administered during the prior fiscal period.

## **DIVISION OF FINANCIAL SERVICES**

The Division of Financial Services is charged with the following responsibilities: monitoring the financial solvency and trade practices of insurers transacting business within the State of South Carolina, including the approval of some of the rates charged and products sold; licensing insurers and health maintenance organizations; and enforcing the laws of the State of South Carolina. The following discussion highlights some of the accomplishments of the Division during the past fiscal year by section. The Division of Financial Services consists of the Financial and Market Conduct Examination Sections, the Financial Analysis Section, the Life, Accident and Health and Property and Casualty Sections and the Office of the General Counsel.

### **FINANCIAL EXAMINATIONS**

#### **GOAL**

Monitoring the solvency and trade practice of insurers are the primary regulatory responsibilities of an insurance department. This Department performs these functions through the Financial Examinations, Market Conduct Examinations and Financial Analysis Sections of the South Carolina Department of Insurance.

It is the goal of the Financial Examinations Section to perform financial examinations on each domestic insurer no less than once every five (5) years, and each domestic health maintenance organization no less than once every three (3) years in accordance with the requirements of South Carolina law. These examinations may be either comprehensive (full scope) or target examinations (limited scope). These examinations test for internal controls, management issues and the financial condition of the company. Most examinations performed by this Department are comprehensive examinations. Target financial examinations may be conducted more frequently than comprehensive examinations and often focus on a specific issue of regulatory concern. Target examinations supplement the regularly scheduled comprehensive examination.

### **BUSINESS PROCESS**

Financial examinations are conducted to detect as early as possible those insurers and health maintenance organizations which are considered to be financially troubled or which are in violation of state statutes or which are engaging in unlawful or improper marketing activities. Toward this end, the Financial Examinations Section works closely with the Financial Analysis and Market Conduct Examination Sections. Each Section reports any signs of potential financial trouble to this Section so that the appropriate financial examination may be conducted.

### **PROCESS MEASURES**

Financial examinations are scheduled based upon the financial performance of the company and the priority, which may be assigned by the Financial Analysis Section. Eight (8) financial examinations of insurers were commenced during the period from July 1, 2002 to June 30, 2003. Six (6) examinations were based on a one-year schedule, one (1) examination was based on a four-year schedule, and one (1) examination was based on a five-year schedule. In addition, three (3) organizational examinations were completed during this period.

An examination of two (2) priority companies was commenced during this period. No later than sixty (60) days following the completion of each examination, information was developed for timely, appropriate regulatory action where necessary. A copy of the examination report is forwarded to the Director and Office of General Counsel for institution of the appropriate administrative disciplinary action.

With the exception of the two (2) priority companies, the domestic insurers and health maintenance organizations examined were deemed to be in substantial compliance with South Carolina insurance or health maintenance organization's statutes, financially sound, and able to meet their obligations to its South Carolina policyholders or enrollees.

## **MARKET CONDUCT EXAMINATIONS**

### **GOAL**

The Market Conduct Examination Section audits the trade practices of insurers licensed to transact the business of insurance within the State of South Carolina. Market conduct examinations test the claims practices of the insurer or HMO and whether the insurer or HMO is utilizing approved rates and selling approved products. Moreover, this Section also checks for general compliance with the insurance laws of the State.

The Market Conduct Section follows a similar examination schedule as that followed by the Financial Examinations Section. The Department is required by statute to perform a comprehensive market conduct examination on each domestic insurer no less than once every five (5) years, and each domestic health maintenance

organization no less than once every three (3) years. Examinations of premium finance companies, bail bondsmen, third party administrators, agencies, agents, and any other entity conducting the business of insurance in South Carolina are also the responsibility of this examination Section, if necessary.

Target examinations may be performed from time to time on a specific market issue on all companies licensed in this state (both domestic and non-domestic), as conditions dictate. The target examinations conducted during the past fiscal year audited race-based pricing practices, claims practices and whether companies were complying with various provisions of South Carolina insurance laws.

### **BUSINESS PROCESS**

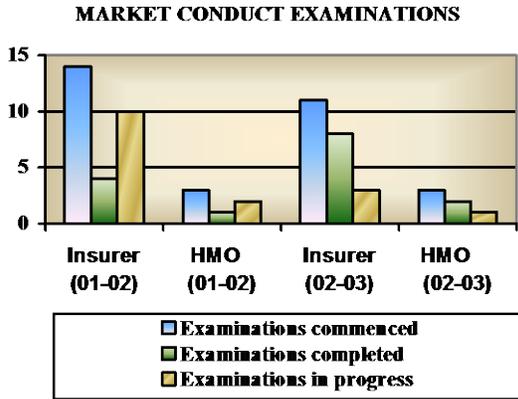
Market Conduct Examinations are conducted to detect as early as possible those insurers, health maintenance organizations and other entities conducting the business of insurance, which may be in financial trouble, in violation of state statutes, or engaging in improper marketing, claims, rating, or other trade practices.

### **PROCESS MEASURES**

Eleven (11) market conduct examinations of insurers were commenced during the period July 1, 2002 to June 30, 2003. Five (5) of these examinations were based on a five-year schedule and seven (7) were target examinations. Eight (8) examinations were completed during this time period.

Three (3) three-year exams commenced and two (2) were completed during this time period.

**TREND DATA**



Insurance departments are relying more on target examinations to audit the trade practices of insurers. Target examinations allow a department to focus its resources on the specific issue upon which it is receiving complaints about the insurer. These examinations supplement the regular examinations conducted by this Department. Additionally, there is a trend within the market to conduct more multi-state or zone examinations. This trend appears to be based upon the concerns raised by industry over the cost of market conduct examinations.

**FINANCIAL ANALYSIS**

**GOAL**

One of the primary objectives of solvency monitoring is to ensure that insurers and HMOs are in compliance with South Carolina insurance statutes and regulations and to take regulatory action, if deemed necessary, in order to protect their

policyholders or enrollees. Solvency monitoring involves financial examinations, but it also includes the detection of potentially troubled insurers and HMOs through regular financial analysis of their financial statements, which are required to be filed with this Department and with the NAIC by specified dates. South Carolina law requires annual statements to be filed by March 1 and quarterly statements to be filed by June 15, August 15, and November 15. Through the financial analysis function, this Department monitors indicators of excessive financial risk which may place an insurer or HMO in a hazardous financial condition and may trigger regulatory action including, but not limited to, suspension or revocation of the insurer's or HMO's certificate of authority or placing the insurer or HMO under administrative supervision, into rehabilitation, into conservation, or into liquidation.

South Carolina law requires this Department to monitor the financial condition and operations of insurers and HMOs licensed by and conducting business in this State. The Office of Financial Analysis monitors the solvency of insurers and HMOs through regular analysis of their financial statements and other available financial information. Their financial condition is monitored in order to detect, as early as possible, transactions involving significant financial risk, which may threaten their overall financial condition.

**BUSINESS PROCESS**

Within the guidelines of South Carolina insurance and HMO statutes, this Department analyzes financial and other available relevant information of all insurers and HMOs which have been licensed to conduct business in this State in order to ensure that each will be able to meet its

financial responsibilities and obligations to policyholders or enrollees.

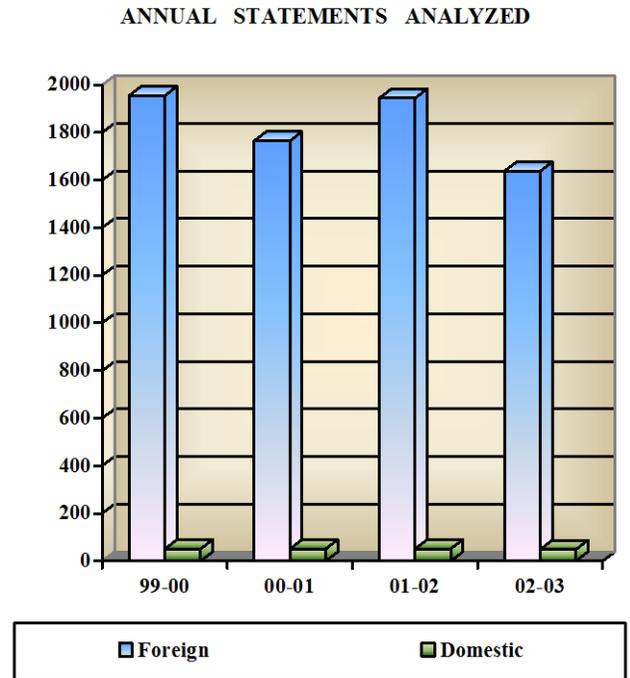
The annual statements of all domestic insurers and HMOs are analyzed between March 1 and May 1 each year. Annual statement information of all foreign insurers and HMOs is analyzed by August 1 each year. Regulatory action may be taken based upon the results of these analyses. If the Office of Financial Analysis determines that an insurer or HMO has entered into a transaction that poses a significant financial risk to its solvency, it will alert the Office of Financial Examinations and other appropriate Sections of this Department to ensure that the necessary regulatory action is taken for the protection of its South Carolina policyholders or enrollees.

### PROCESS MEASURES

Commencing March 1, 2003, the annual statements of forty-eight (48) domestic insurers and HMOs were reviewed by May 1, 2003. Annual statement information of one thousand, six hundred thirty-eight (1,638) foreign insurers and HMOs was reviewed by August 1, 2003.

Between July 1, 2002 and June 30, 2003, four (4) insurers were required to place an additional deposit with this Department for the protection of South Carolina policyholders; one (1) insurer voluntarily agreed to cease writing new business in South Carolina; the certificates of authority of nine (9) insurers were suspended by the Director; and the certificates of authority of four (4) insurers were revoked by the Director.

### TREND DATA



### SECURITIES CUSTODIAN

#### GOAL

Insurers and HMOs are required to place securities or other acceptable instruments on deposit with this Department for the protection of policyholders and enrollees. This Department is responsible for receiving, verifying, depositing, approving withdrawing of, and maintaining control of the securities.

#### BUSINESS PROCESS

This Department accurately maintains the deposits of insurers, HMOs, premium service companies, service contract providers, and third party administrators.

#### PROCESS MEASURES

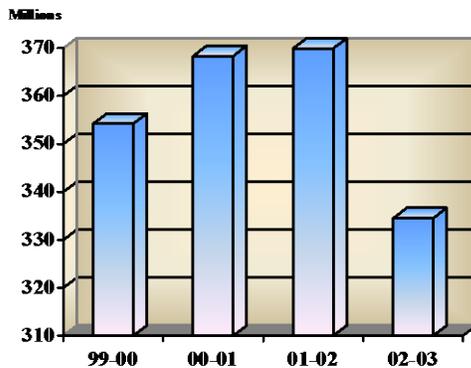
Deposits totaling three hundred thirty-four million, five hundred twenty-eight thousand,

three hundred twenty-two (\$334,528,322) dollars were held by the Director on behalf of one thousand, two hundred eighty-nine (1,289) licensed insurers, HMOs, premium service companies, service contract providers, and third party administrators as of June 30, 2003.

The type and market value of the securities placed on deposit were verified for compliance with South Carolina insurance statutes and regulations. Transactions to this Department's Company Securities System during the period from July 1, 2002 to June 30, 2003 totaled one thousand twenty-seven (1027) - five hundred (500) deposits and five hundred twenty-seven (527) withdrawals. Insurers with a net worth in excess of \$10 million are not required to maintain a deposit in South Carolina, but, instead, may place securities on deposit with their domiciliary, or another, insurance department.

### TREND DATA

SECURITIES DEPOSITS



## INSURER AND HMO LICENSING

### GOAL

The Office of Financial Analysis analyzes financial and other pertinent information submitted by insurers and HMOs applying to conduct business in this State in order to determine their compliance with South Carolina insurance statutes and regulations. These analyses provide information to this Department's Committee on Applications, which allows it to recommend to the Director whether or not an insurer or HMO should be issued a certificate of authority to transact business in this State. The Director makes the final decision to license or not to license an insurer or HMO.

### BUSINESS PROCESS

Through analysis, and within the guidelines of South Carolina insurance and HMO statutes, this Department reviews financial and other information submitted by insurers, and HMOs applying to conduct business in this State in order to ensure that each will be able to meet its financial responsibilities and obligations to policyholders or enrollees.

An insurer or HMO that submits a properly completed application and which complies with South Carolina insurance or HMO statutes should be licensed within sixty (60) days from receipt of its application. The Office of Financial Analysis analyzes the financial and other information contained within the application and prepares a memorandum to this Department's Committee on Applications. The Committee on Applications considers the information in the memorandum and votes to recommend or not recommend licensure of the applicant to the Director, who makes the final decision.

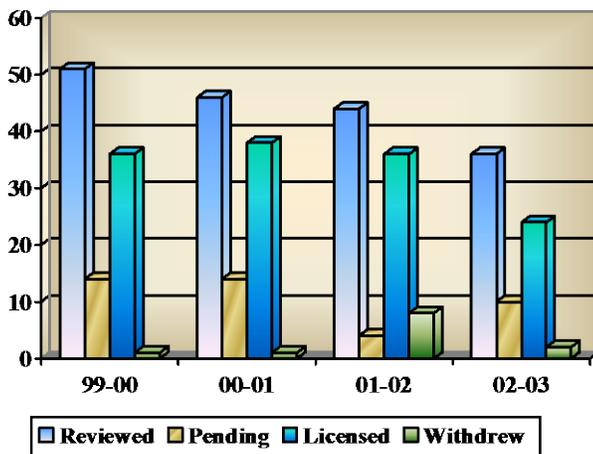
### PROCESS MEASURES

From July 1, 2002 to June 30, 2003, applications from thirty-six (36) insurers and HMOs were received, reviewed, and analyzed. Twenty-four (24) of the applications were deemed to be in compliance with South Carolina insurance or HMO statutes.

These insurers or HMOs were licensed, on average, within sixty (60) days from receipt of their applications. As of June 30, 2003, ten (10) applications were pending while this Department awaits receipt of either additional information or their 2003 Annual Statement due to their failure to be in compliance with South Carolina insurance or HMO statutes. Two (2) applications were withdrawn.

### TREND DATA

Applications Status



### MAINTAINING AND RESPONDING TO INQUIRIES REGARDING THIS DEPARTMENT'S HISTORICAL DATABASES

#### GOAL

The Office of Financial Analysis reviews transactions involving insurers, eligible surplus lines insurers, risk purchasing groups, HMOs, and other entities licensed by this Department so as to document those transactions on this Department's Company Licensing System and to respond to inquiries from the general public regarding historical information.

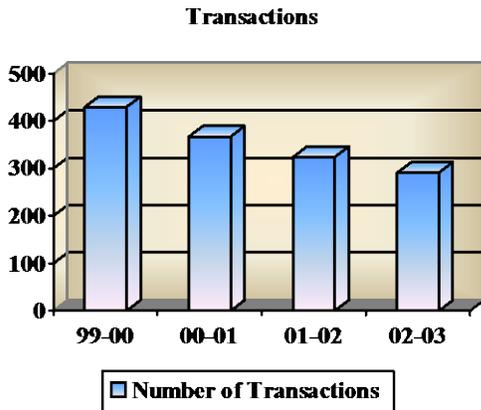
#### BUSINESS PROCESS

The Office accomplishes this process by requiring insurers, eligible surplus lines insurers, risk purchasing groups, HMOs, and other licensed entities to file appropriate documentation within thirty (30) days of the effective date of the transaction. The transaction is reviewed and recorded on the Company Licensing System within five (5) working days from date of receipt of the information.

#### PROCESS MEASURES

From July 1, 2002 to June 30, 2003, two hundred ninety-one (291) transactions were reviewed and recorded on this Department's databases. Approximately twelve thousand (12,000) telephone inquiries (1,000/month) requesting information found on this Department's Company Licensing System were responded to during this period.

## TREND DATA



## ASSIGNED RISK PLAN OF SOUTH CAROLINA

### GOAL

The Assigned Risk Plan (AAIP) was established by state statute as a mechanism to provide automobile insurance for the State's high-risk drivers. It replaced the South Carolina Associated Auto Insurance Plan as the residual market mechanism for auto insurance on March 1, 2003.

### BUSINESS PROCESS

The Department is charged with the responsibility of monitoring the activities of the Assigned Risk Plan, its board and auxiliary services, in order to assure its actions comply with state statutes.

### PROCESS MEASURES

This was the first full year of operation for the AAIP as the new automobile insurance residual market mechanism. To date less than one hundred (100) personal and commercial risks have been insured through this mechanism.

## POLICY FORMS REVIEW

### GOAL

The Department is charged with protection of the insurance-buying public by ensuring that policy forms are in compliance with the laws and regulations of South Carolina. Forms regulation is an integral part of monitoring the market conduct of insurers.

### BUSINESS PROCESS

These Sections review property, casualty, life, accident and health insurance policy forms to ensure that they are in compliance with the laws and regulations of South Carolina and that they do not contain provisions that are unfair, deceptive, ambiguous, misleading or unfairly discriminatory. Our objective is to perform accurate and thorough reviews and to complete these reviews within a reasonable review period. The length of time varies between thirty (30) and sixty (60) days depending on the type of policy form.

### PROCESS MEASURES

There are several performance measures for the review of policy forms: number of policy forms received, the number of forms approved, the number of forms received for information only, the number of forms disapproved, the number of forms pending and the average date of the forms on which the analysts are currently working. The Department utilizes checklists to review compliance with South Carolina statutory requirements.

For the Life, Accident and Health division during fiscal year 2002-03, the Division received four thousand, five hundred forty-eight (4,548) new filings. These forms were reviewed within an average of thirty (30) days.

During fiscal year 2002-03, the Property and Casualty Division received a total of nine thousand, five hundred twenty-six (9,526) new form, rule and rate filings. These filings were completed within an average of thirty (30) days.

## **POLICY RATES REVIEW**

### **GOAL**

These Sections are responsible for ensuring that benefits under Individual Accident and Health insurance policies are not unreasonable in relation to premiums charged and to ensure that rates for Property and Casualty insurance are neither excessive, inadequate nor unfairly discriminatory.

### **BUSINESS PROCESS**

The Sections review individual accident and health insurance rates and individual health maintenance organization rates to ensure that benefits provided in the policies are not unreasonable in relation to the premiums charged. Our objective is to perform accurate and thorough reviews and to complete these reviews within a reasonable period. The length of time varies between thirty (30) and ninety (90) days depending on the type of policy form. In addition to reviewing rates for new policy forms and requests for rate increases, several other duties are performed to ensure that benefits provided in the policies are not unreasonable in relation to the premium charged.

Within the Property and Casualty Section, a notice of filing is required when an insurer has written premium of two million (2,000,000) dollars, and an increase in a policyholder's rate is requested. The notice of filing is published in five newspapers of general statewide circulation. This notice provides the public with an opportunity to

request a public hearing on the rate change request. A public hearing is required, if requested, in accordance with South Carolina law.

### **PROCESS MEASURES**

There are several performance measures for the review of policy rate form filings: total number of rate filings reviewed, the number rate filings reviewed for new policy forms, the number of rate filings reviewed for rate increases requests, average date of the rate filings for new policy forms on which the analysts are currently working and the average date of filings for rate increases on which the analysts are currently working.

During fiscal year 2002-03, the Life, Accident and Health Division reviewed four hundred twenty-four (424) Accident & Health rate filings for existing products.

The measure for fiscal year 2002-03 indicates that a large number of reviews were performed in a timely fashion. This helps the consumer by ensuring that insurers are not charging rates that are unreasonable in relation to the benefits provided.

## **ASSISTANCE AND TRAINING**

### **GOAL**

These Sections provide technical assistance and training on Property, Casualty, Life, Accident and Health insurance issues to the Director of Insurance, to other divisions of the Department, and to consumers.

### **BUSINESS PROCESS**

These Sections train and assist volunteers in the I-Care program with respect to Medicare supplement insurance and other forms of health insurance, and provide general assistance to South Carolina consumers on

issues that cannot be handled by the Consumer Services Section of the Department. In addition, the Property and Casualty and Life, Accident and Health Sections conduct forums, seminars and other programs designed to educate members of the insurance industry on changes to laws, regulations and bulletins that affect the insurance industry.

#### **PROCESS MEASURES**

Members of these Sections participated in or conducted various presentations and workshops during the fiscal year.

### **CONSUMER ASSISTANCE**

#### **GOAL**

The Division provides accurate, timely, courteous and professional assistance to consumers with respect to technical issues and supports our Office of Consumer Services with respect to rating issues.

#### **BUSINESS PROCESS**

The Life, Accident and Health Section maintains an accurate consumer guide for Medicare supplement insurance that contains premium rates for all standardized plans of all insurers approved for sale in South Carolina and updates this guide quarterly. The Life, Accident and Health Section, as well as, the Property and Casualty Section also assists with technical consumer complaints and problems with respect to life, accident and health and property and casualty insurance in a courteous and timely fashion.

#### **PROCESS MEASURES**

The Medicare Supplement Premium Comparison Guide was updated and published on November 1, 2002 and May 1, 2003. From July 2002-June 2003, the Life,

Accident and Health Division processed approximately one hundred fifty-six (156) consumer complaints involving rating issues while the Property and Casualty Division processed two hundred twenty (220) consumer complaints involving rating issues.

### **FINANCIAL CONDITION AND RESIDUAL MARKETS**

#### **GOAL**

The Property and Casualty Section also provides technical expertise regarding actuarial principles involved in measuring the financial condition of insurers. The Chief Actuary also performed the supervision of Seibels Bruce Companies during the fiscal year.

#### **BUSINESS PROCESS**

The Property and Casualty Actuary assists in solvency monitoring by providing technical assistance on financial condition examinations through providing actuarial opinions on loss reserves, assessing company practices with regard to claims operations, and evaluating market conduct practices.

#### **PROCESS MEASURES**

Actuarial assistance was provided on the examinations of the following companies:

Consolidated American Insurance Company  
South Carolina Insurance Company  
Catawba Insurance Company  
Direct General Insurance Company  
South Carolina Insurance Reserve Fund

The time budgeted for the actuarial component of an examination may be constrained by the completion date scheduled for the examination. Effective financial condition examinations prevent

insurer insolvency. The actuarial analysis is a critical part of this process.

## **RESIDUAL MARKETS**

### **GOAL**

The Division represents the Department of Insurance on the boards of various mechanisms for residual markets in South Carolina and ensures their orderly operation.

### **BUSINESS PROCESS**

The Department is charged with supervision of several residual market mechanisms in order to ensure their adequate performance and solvency. Residual market mechanisms include the following:

South Carolina Associated Auto Insurers  
South Carolina Wind and Hail Underwriting Association  
South Carolina Reinsurance Facility  
South Carolina Medical Malpractice Joint Underwriting Association  
South Carolina Property and Casualty Guaranty Association  
South Carolina Life, Accident and Health Guaranty Association  
South Carolina Health Insurance Pool  
South Carolina Workers' Compensation Assigned Risk Plan  
South Carolina Small Employer Insurer Reinsurance Program

### **PROCESS MEASURES**

The staff attends many of the meetings held and participates in committee work. Each residual market mechanism performed adequately with staff involvement in all phases of their activities.

## **GENERAL COUNSEL**

The Office of General Counsel provides various forms of legal representation to the

South Carolina Department of Insurance. These activities include, but are not limited to: acceptance of service of process; drafting legal documents including bulletins, Requests for Proposals, contracts and legislation; representing the Department in both state and federal courts; providing advice and counsel to the various divisions and sections of the Department through training and technical assistance programs; providing advisory opinions to members of the general public on the South Carolina insurance laws; and initiating enforcement or administrative disciplinary action against persons charged with violating the insurance laws of the State of South Carolina. Highlighted below are some of the more significant activities of this office during fiscal year 2002-03. The Office of General Counsel has experienced a forty (40%) percent reduction in staff as a result of state budget cuts.

## **ACCEPTANCE OF SERVICE OF PROCESS**

### **GOAL**

The Office of the General Counsel is charged with the review of summons and complaints served upon the Director of Insurance in his capacity as the agent for service of process for insurers transacting the business of insurance within the State of South Carolina and to accept service if pleadings are served in accordance with South Carolina law.

### **BUSINESS PROCESS**

The Office accepts or rejects service of process on the same day the Office of General Counsel receives the summons and complaints.

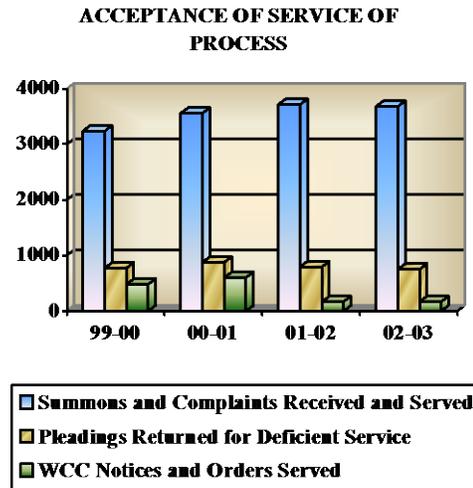
**PROCESS MEASURES**

During fiscal year 2002-03, the Office of General Counsel received approximately three thousand, six hundred eight-two (3,682) summons and complaints in civil actions to be served upon insurers transacting the business of insurance within the State of South Carolina. Additionally, the Office received and served five hundred twenty-one (521) pleadings from the South Carolina Workers' Compensation Commission. This represents an eight point three percent (8.3%) increase over the civil action pleadings processed during last fiscal year, when the Office of General Counsel successfully processed and served three thousand, seven hundred twelve (3,712) summons and complaints for civil actions and one hundred seventy-one (171) pleadings from the Workers' Compensation Commission. Seven hundred fifty-three (753) pleadings were initially returned to counsel for deficient service upon the Director of Insurance during fiscal year 2002-03. The number of returns decreased by five point five percent (5.5%) from seven hundred ninety-seven (797) during fiscal 2002-03. Thirty-six thousand, eight hundred twenty (\$36,820) dollars was collected in service of process fees for this fiscal year. This Office collected five thousand, two hundred ten dollars (\$5,210) in service of process fees for the Workers' Compensation Commission during the 2002-03 fiscal year compared to one thousand, seven hundred ten (\$1,710) dollars in 2002-03.

This service has a significant impact upon the resources of this Office. Approximately fifty percent (50%) of an employee's time is spent processing the documents received and contacting attorneys who have not properly served the documents upon the Department. The additional time spent contacting attorneys who have not properly

served the documents has contributed to the decrease in the number of returned pleadings.

**TREND DATA**



**RESPONDING TO REQUESTS FOR INFORMATION**

**GOAL**

The Office is required to respond to requests for information in accordance with the South Carolina Freedom of Information Act.

**BUSINESS PROCESS**

Staff responds to requests for information within fifteen (15) working days.

**PROCESS MEASURES**

During fiscal year 2002-03, it is estimated that the Office of General Counsel received at least one hundred fifty-five (155) requests for information under the Freedom of Information Act. The majority of these were requests for information regarding disciplinary actions taken against insurance agents. All indications are the amount of requests for information will increase. It is

estimated that each attorney handled at least two or three such requests per month.

This figure does not include oral requests for information or requests that are easily handled over the telephone in accordance with the provisions of the South Carolina Freedom of Information Act.

There is one staff member who is primarily responsible for responding to such requests. The Office continues to work on the development of a system which will enable the Office of General Counsel to better track the number of such requests received and the number of hours spent compiling information in response to such requests.

### **PROVIDING INTERPRETATIONS OF SOUTH CAROLINA INSURANCE LAWS**

#### **GOAL**

The Office of General Counsel provides interpretations of the South Carolina insurance laws to members of the Department, industry, general public and state government.

#### **BUSINESS PROCESS**

Staff responds to requests for interpretations of the South Carolina insurance laws within thirty (30) days receipt of the request.

#### **PROCESS MEASURES**

The Office of General Counsel responded to two hundred thirty-six (236) requests for interpretations of the South Carolina insurance laws. The great majority of these were requests by agents, agencies and insurers about whether a proposed action or business practice would constitute a violation of the South Carolina insurance laws. These interpretations are informal in

nature and do not constitute legal advice. It is anticipated that providing this service may prevent some insurers and agents from engaging in conduct that may be in violation of the South Carolina insurance laws. Requests for such opinions and consultations with counsel are increasing. Therefore, the caller is asked to place such requests for assistance in writing to the Office of General Counsel.

### **PROVIDING ADVICE AND COUNSEL ON THE LEGAL IMPLICATIONS OF PROPOSED ACTION OR POLICY**

#### **GOAL**

The Office of General Counsel provides advice and counsel to the supervisory staff of the South Carolina Department of Insurance on the legal implications of proposed action or policy.

#### **BUSINESS PROCESS**

The staff provides advice and counsel to the supervisory staff of the Department on matters such as policy development, license denials, appeals, insurer suspensions and market conduct examinations.

#### **PROCESS MEASURES**

The Office of General Counsel routinely receives requests for advice and opinions from the staff of the South Carolina Department of Insurance.

This service enables the Department to avoid some potential legal problems and ensures that the Department is operating in compliance with state and federal laws. The number of calls received by the Office of General Counsel appears to be on the rise.

## **ADMINISTRATIVE DISCIPLINARY PROCESS**

### **GOAL**

The Department is responsible for investigation of violations of the South Carolina insurance laws and to impose administrative disciplinary action where appropriate.

### **BUSINESS PROCESS**

The Office of General Counsel staff investigates allegations that the South Carolina insurance laws have been violated and imposes administrative disciplinary action where appropriate.

### **PROCESS MEASURES**

The Investigations Section of the Office of General Counsel opened three hundred forty-seven (347) investigation files during the past fiscal year. It closed three hundred seventy-six (376) investigation files. Seventy-four (74) of those actions resulted in administrative fines totaling one million, twelve thousand, three hundred forty-five (\$1,012,345.04) dollars and four cents; and forty-three (43) resulted in revocations. The Department did not issue any license suspensions this fiscal year. Ten (10) files were referred to the Insurance Fraud Division of the South Carolina Attorney General's Office for criminal investigation and prosecution.

## **ADMINISTER RECEIVERSHIPS ON BEHALF OF THE STATE OF SOUTH CAROLINA**

### **GOAL**

The Office of General Counsel monitors the insurers placed under suspension, in receivership, or liquidation and distributes the assets in accordance with South Carolina law.

## **BUSINESS PROCESS**

The staff was responsible for resolving five (5) pending receiverships held over from the previous fiscal year and reviewing the financial holdings and open receiverships for all revoked companies with deposits as ancillary receiverships as necessary for the protection of South Carolina policyholders.

## **PROCESS MEASURES**

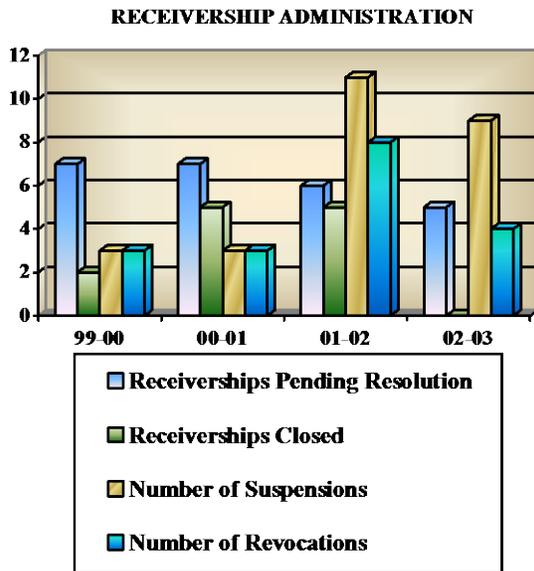
The Department placed one (1) company in Liquidation during the fiscal year; the Director suspended the licenses of nine (9) insurers, and revoked the licenses of four (4) insurers for being in a hazardous financial condition.

The new insolvency is South Carolina's first domestic company to be placed in liquidation since 1989. It is the first domestic life insurance company to become insolvent in 20 years. This has required extensive effort from the Department. In a domestic liquidation, the Department is responsible not only for the statutory deposit but for all assets of the company. The Department has consolidated the insurer's branch operations with the main office, sold real estate, mortgage investments and other non-liquid assets, and caused the company to modernize its operating system. Fortunately, the company's business is all in South Carolina. The Department's Financial Services Division has been monitoring the insurer closely for over ten years. Now, one employee travels to the insurer's home office about once a week for direct supervision.

The impact of the Office of General Counsel's efforts in this area is that more funds were made available to the Guaranty Association to minimize the number and amount of assessments that had to be made against member insurers.

South Carolina differs from most other states in the manner in which it handles receiverships. Estates are disposed of in accordance with Chapter 27 of the South Carolina Insurance Code and the provisions of Chapter 9, which deal with statutory deposits. However, most states require special rather than statutory deposits. According to the NAIC, the requirement of “special deposits” versus “statutory deposits” makes the process a little more streamlined and less cumbersome. A statutory deposit can only be used to pay the claims of South Carolina policyholders. Special deposits are used to pay the claims of all policyholders. Forty-five (45) of the fifty (50) states require special deposits. These states have also adopted the 1994 NAIC Model Act in this area.

**TREND DATA**



**REPRESENT THE SOUTH  
CAROLINA DEPARTMENT OF  
INSURANCE IN STATE AND  
FEDERAL PROCEEDINGS**

**GOAL**

The Office of General Counsel is responsible for minimizing the Department’s exposure to liability through effective legal representation.

**BUSINESS PROCESS**

The staff provides effective representation to the South Carolina Department of Insurance in actions filed by, or against, the Department. Counsel handles the defense of all matters not covered by the Department’s tort liability policy.

**PROCESS MEASURES**

The bulk of the litigation handled by attorneys within the Office of General Counsel is before the Administrative Law Judge Division. During the past fiscal year, attorneys in the Office of General Counsel represented the Department in five (5) matters before the ALJD: four (4) rate matters, and one (1) miscellaneous matter. In addition, the Office of General Counsel received nine (9) Administrative Disallowance of Subrogation by Insurer Petitions. Two civil matters were handled in addition to matters before the ALJD.

Additionally, during the past fiscal year, the Office of General Counsel lead or participated in the following special projects: 1) Department Study of the South Carolina Small Group Health Insurance Market; 2) Grant proposal to secure funding from the Health Resources Services Administration on “Expanding Health Insurance Coverage and Stabilizing Rates within the Small Group Market;” 3) Training sessions on South Carolina’s

privacy regulation and the privacy provisions of the Gramm-Leach-Bliley Act, as well as, other legislation affecting the business of insurance; 4) Examinations of rating and underwriting practices; 5) National committees involved in insurance regulation; and 6) Insurance regulatory consulting services and training to the insurance supervisory authorities of Egypt and Malaysia. These international consulting activities were sponsored or funded by the Commercial Law Development Program of the United States Department of Commerce and the National Association of Insurance Commissioners.

### **SPECIAL PROJECTS**

Special projects and activities of the Department as directed by the Director and Senior Management include:

#### **SINGLE MODEL PRODUCER LICENSING**

The Gramm-Leach-Bliley Act requires a majority of states to achieve uniformity or reciprocity in its licensing of producers. If the majority of states do not accomplish this by November 12, 2002, an organization called NARAB will assume the responsibility for licensing nonresident agents and brokers. The Department introduced the Single Model Producer Licensing Law to achieve reciprocity and to avoid the creation of NARAB. This past year legislation was passed creating the single model producer licensing law to take effect January 31, 2003. The Department has begun to implement the law during this fiscal year 2002-03.

### **FILE AND USE**

As a result of Gramm-Leach-Bliley (GLBA), Congress is being petitioned to make further changes within the insurance industry. Many insurers have asked Congress to consider a national charter, so they may be regulated by the federal government- a single regulator. Additionally, insurers want a filing system similar to that enjoyed by the national banks (e.g., use and file). National banks are not required to file products for approval in advance. They may market the product and file notice of the new product within thirty days. The South Carolina Department of Insurance introduced legislation, which was enacted in 2001, which will increase the speed in which an insurance product can be brought to market. This legislative initiative changed the process in which the Department approves products and eliminates administrative delays. Insurers may now file forms and use them if the Department does not disapprove the forms within thirty (30) days. The file and use provisions apply to forms only, not rates. These changes increase efficiency while preserving the Department's review function of all form filings.

### **SMALL GROUP HEALTH MARKET REPORT**

The Department worked with members of the industry and the small business chamber to review the status of the small group health market. This preliminary report (Report) addresses South Carolina's small group health insurance market, and this State's efforts to reform that segment of the insurance marketplace. The principal reforms reviewed by this preliminary report are: 1) the Reform Initiatives of 1992; 2) the Reform Efforts of 1994; and 3) HIPAA

Reform including, but not limited to, guaranteed issue, renewability and portability, and rating. This report also explores recommendations to improve this segment of the market.

In April 2002, the Department submitted a proposal to the US Health and Human Services Administration for a State Planning Grant. The proposal allowed for the expansion of the Department's efforts in reviewing the statutes of the small group health market. The US Health and Human Services Administration awarded a \$1,100,000.00 planning grant to the Department in July 2002. The grant has allowed for the further study of the uninsured population so that state policy initiatives can be formulated to reduce the number of uninsured by expanding access to health insurance coverage and to stabilize the insurance rates within the market so that those who are currently insured do not lose their insurance coverage. Since most obtain insurance through their employment, the project is focusing on the small group health insurance market in South Carolina. The Department continues to work toward obtaining and analyzing data so as to comply information necessary for the development of state policy initiatives.

This past August, the Department partnered with the NAIC and the US Department of Health and Human Services Health Resources and Services Administration (HRSA), through the grant, to host a National Health Care Symposium in Charleston, SC. The three-day event featured nationally known speakers discussing the status of healthcare in America and exploring what opportunities are available to solve the growing health care issues. The highlight of the meeting was a Congressional Field Hearing held by US Congressman DeMint and Akins, Chair

and Vice Chair of the Congress of the US House of Representatives Commission on Small Business Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises. The two-hour hearing focused on the issues surrounding health care for small businesses. Both the meeting and field hearing were very successful events. Tapes and transcripts of the meeting and hearing are available to the public.

### **HELD IN TRUST**

The South Carolina Department of Insurance through a grant from the South Carolina Department of Public Safety had offered an educational awareness program entitled, *Held in Trust* since 1999. This program provides educational and instructional information regarding the need for and proper installation of child safety seats. This is the first program available in South Carolina that specifically targets prenatal classes in hospitals throughout South Carolina. *Held in Trust* was initially offered at hospitals in Greenville, Spartanburg, Richland, and Charleston counties. Now it has expanded to target hospitals and patients in Lexington, Dorchester, and Pickens counties. The program is offered at no cost to the hospital or the class participant. Additionally, the program provides free informational brochures, handouts, and newborn items, including one (1) approved child safety seat per class.

Since the class schedule began in 1999, *Held in Trust* has instructed over four thousand (4000) people through one hundred seventy-seven (177) classes in fourteen (14) hospitals throughout the target counties and over ten (10) safety seat check-up events sponsored by *Held in Trust* in South

Carolina. At each class, a child safety seat is given away by random drawing along with promotional items and education brochures. The project coordinator also attends maternity fairs, health fairs, and car seat safety check-up events to promote the class and instruct parents and caregivers as to how to properly install a safety seat. Also, the project coordinator explains to parents and caregivers the importance of properly installed child safety seats. Since South Carolina has the third highest per mileage death rate in the nation, it is vital that all children are properly restrained while riding in a motor vehicle. The child passenger safety law in South Carolina has changed in the past two years (2) and *Held in Trust* has provided important life-saving information for many young South Carolinians.

#### **HURRICANE AWARENESS EXPO**

Due to budget constraints, the Department was unable to provide this outreach service.

#### **LOSS MITIGATION GRANT PROGRAM**

Recent legislation had a sunset date of June 30, 2002 regarding the availability of loss mitigation grant funds. The Department continues to oversee the outstanding grant projects award to local communities in their preparations, either through education or hands-on improvement projects, for making their community safer from the threat of natural disaster due to hurricane, flood, fire or earthquake.

#### **HEALTH RELATED ISSUES**

The Department is involved in a variety of health insurance issues. In particular, the team that drafted the enacted Health Carrier External Review Model Act was reconstituted to develop required notices and procedures to implement the Act.

The group continues to work out a non-legislative solution to prompt payment issues alleged by the hospitals and physicians.

The team also assisted in drafting legislation which allowed the S.C. Health Insurance Pool to expand coverage to disabled individuals under age sixty-five (65) and to ensure that the Pool remains an acceptable alternative mechanism under the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The bill passed last year. Additionally, the team worked on a portion of the Department's clean-up legislation, which pertained to the extension of liability by the prior carrier. This bill also passed last year. The Department implemented the changes made by the passing of this legislation.

The Department continues to review the issue of individual life insurance being sold via a group mechanism. We continue to review preemption issues related to the Department of Labor Claims Handling Regulation and are also working toward possible solutions. Finally, the Department is closely monitoring developments with respect to health insurance at the federal level, including the Patients Bill of Rights.