

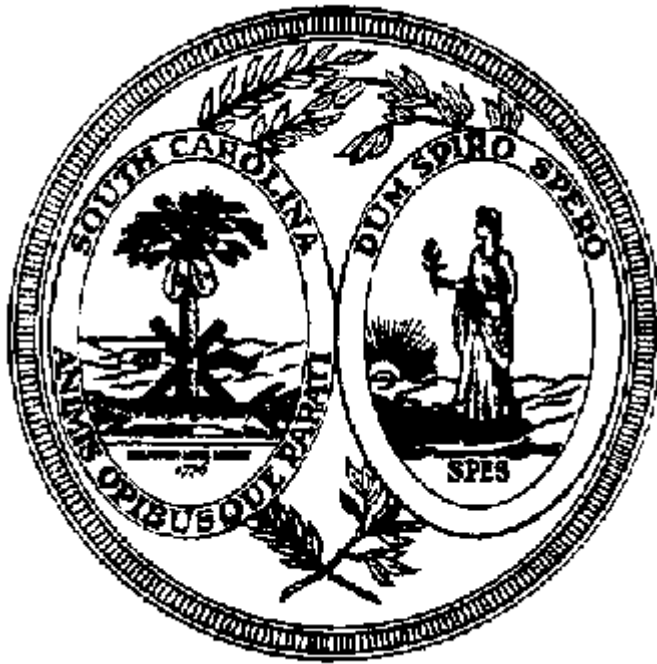
# SCSL Digital Collections

## AGENCY ACCOUNTABILITY REPORT FISCAL YEAR 2000-2001

Item Type	Text
Publisher	South Carolina State Library
Rights	Copyright status undetermined. For more information contact, South Carolina State Library, 1500 Senate Street, Columbia, South Carolina 29201.
Download date	2024-10-14 09:25:44
Link to Item	<a href="http://hdl.handle.net/10827/19821">http://hdl.handle.net/10827/19821</a>

# STATE OF SOUTH CAROLINA

*DEPARTMENT OF INSURANCE*



**AGENCY ACCOUNTABILITY REPORT**

*FISCAL YEAR 2000-2001*

## TABLE OF CONTENTS

### **Section I -Executive Summary**

Major Achievements page 2

### **Section II- Business Overview**

Number of Employees, Business Location page 5

Expenditures/Appropriations Chart page 5

Key Customers page 6

Key Suppliers page 6

Description of Products and Services page 6

Organizational Structure page 7

### **Section III- Elements of Malcolm Baldrige Award Criteria**

Category 1-Leadership page 8

Category 2-Strategic Planning page 9

Category 3-Customer Focus page 9

Category 4-Information and Analysis page 9

Category 5-Human Resource Focus page 10

Category 6-Process Management page 12-32

Category 7-Business Results page 12-32

## EXECUTIVE SUMMARY

The State of 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 of Insurance 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 of 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, which we have included in Category 7, page 11. 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.

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's five-year goal is to be recognized internationally as the model agency providing quality service through efficient, effective and equitable regulation of the insurance industry. 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.

Ongoing priorities for the Department include insurer solvency, the regulation of the insurance industry in assuring insurance company solvency and compliance with related state laws and regulations, 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. The Department continues to make Consumer Services and Public Information a priority as it has 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 remaining program areas are considered critical to the mission of the Department, however their impact on consumers is less direct than the other program areas. The Individual and Company Licensing Program, and Taxation Program make up these areas.

The Division of Administrative Services provides management and operations support for the Department. The functions of this program include human resources, fiscal operations and information resources.

The Office of General Counsel within the Division of Financial Services/General Counsel provides representation for the Department in legal actions filed by it or against it and investigates possible violations of state insurance laws.

The Department has successfully accomplished the following activities and projects this past fiscal year 2000-01: As a participant in the National Association of Insurance Commissioners (NAIC) Accreditation Program, adopted in 1990, the Department underwent its third five-year review in April 2001.

The program is designed to improve the quality of regulation and, as a result, strengthens consumers' and fellow regulators' confidence in an insurance department's abilities. The standards require that insurance departments have adequate statutory and administrative authority to regulate an insurer's corporate and financial affairs. They also have to demonstrate that they have the necessary resources to carry out that authority, and that the insurance departments have in place organizational and personnel practices designed for effective regulation.

The Accreditation Program involves a rigorous review of the various states insurance departments by an independent review team. The program mandates a full on-site re-examination and re-accreditation every five years and requires interim annual reviews to ensure compliance with the standards.

The Department received exemplary scores, the highest scores ever received by the agency. The scores were the highest of any other state in the nation for a third round accreditation review.

We also implemented a new program area this fiscal year based upon SC Act No. 331, Captive Insurance Law which passed in June 2000. The captive insurance legislation enables South Carolina make available more options in the insurance marketplace to various industries. This legislation also ensures a continued steady growth for this vital component of the economy. Captive insurance companies are usually established to transfer risk. Companies and groups in all types of businesses can create captives to insure themselves against liability claims particular to their business. The program area entitled Alternative Risk Transfer Services provides easy access for companies to form captives and to develop other alternative risk markets and vehicles in the state. As of June 30, 2001, SC has licensed and domesticated ten (10) captive insurers now writing risks throughout the country.

For the past twelve (12) years, the South Carolina Department of Insurance has been housed in the upper two floors of the 1612 Marion Street building. This space was no longer functional. Individuals were working two and three to an office while some occupied former closet space. Due to even the lack of proper storage facilities, files had to be stacked in hallways. This not only made it difficult to work efficiently but also created an unsafe work environment. This past June, the Department moved to a new facility located in the Fontaine Business Park. The new location is in a park-like setting and is more accessible for our stakeholders via mass transportation. In planning, we utilized a more open work environment, creating cubicle office space areas. The move to the more modern facility has resulted in improved employee morale and an environment more conducive to efficient work patterns.

The most significant barriers for the Department are the reductions in state appropriations and unfunded mandates. The reductions in funding and increases in responsibility will drain strained resources. It is critical for the Department to further develop cost saving practices thereby increasing efficiency and effectiveness for our stakeholders.

## EMPLOYEES AND OPERATIONS

The Department of Insurance operates three organizational Divisions; the Executive Division, Administrative Services Division and the Financial Services/Office of General Counsel Division. During fiscal year 2000-01, the Department had ninety-three (93)

classified employees, three (3) unclassified employees, four (4) temporary employees, and one (1) temporary grant funded employee.

The organization operates out of the facility located in the Fontaine Business Park, 300 Arbor Lake Drive, Suite 1200, Columbia, SC.

## EXPENDITURES APPROPRIATIONS CHART

### Base Budget Expenditures and Appropriations

Major Budget Categories	99-00 Actual Expenditures		00-01 Actual Expenditures		01-02 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,487,583	\$2,869,593	\$3,947,597	\$3,047,382	\$4,045,499	\$3,212,499
Other Operating	\$1,513,027	\$1,255,618	\$2,314,213	\$1,685,266	\$1,832,838	\$949,838
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	\$75,972	\$0	\$234,266	\$0	\$100,000	\$0
Fringe Benefits	\$832,735	\$702,829	\$998,569	\$791,588	\$927,737	\$727,737
Non-recurring	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$5,909,317</b>	<b>\$4,828,040</b>	<b>\$7,494,645</b>	<b>\$5,524,236</b>	<b>\$6,906,074</b>	<b>\$4,890,074</b>

### Other Expenditures

Sources of Funds	99-00 Actual Expenditures	00-01 Actual Expenditures
Supplemental Bills	\$2,111,731	\$153,158
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 SC and acts as a securities custodian for SC 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 SC laws and regulations for all companies writing insurance in SC. 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 SC and to accept service of pleadings are served in accordance with SC 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.

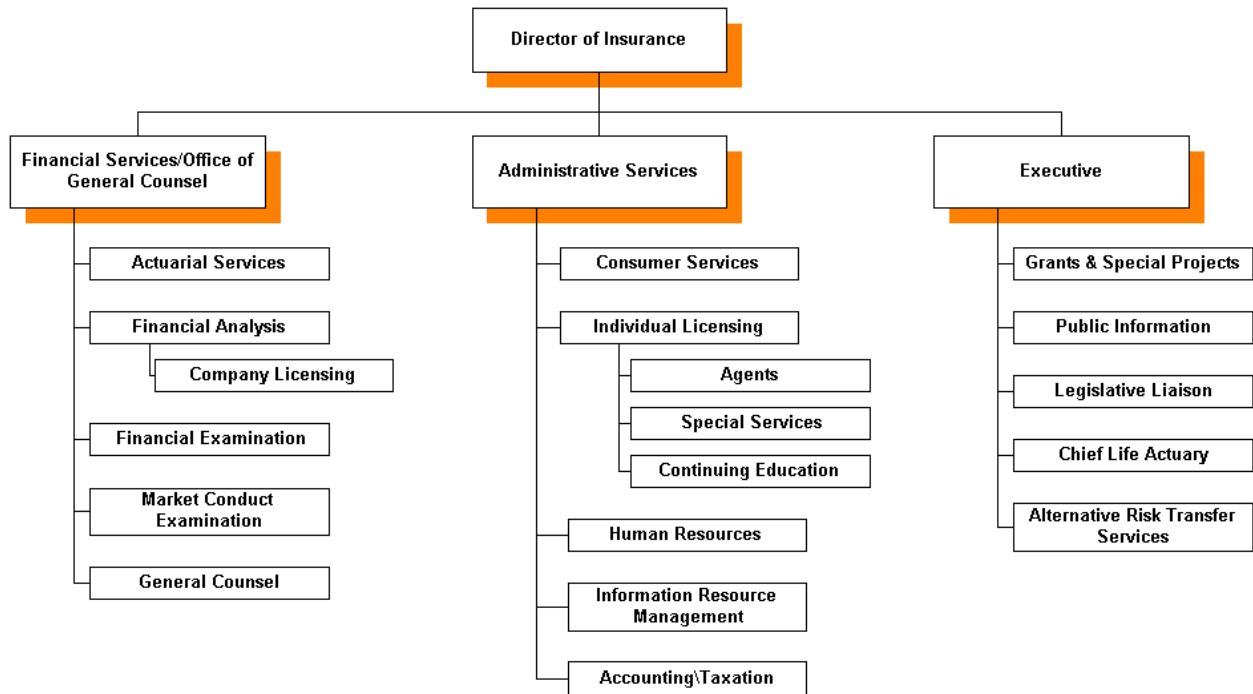
## **KEY SUPPLIERS/VENDORS**

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, Xerox Corporation, Minolta Corporation and Expedex Paper Supply Company.



## ORGANIZATIONAL STRUCTURE

The SC 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, the Deputy Director of Financial Services and Office of General Counsel. The Executive Staff also includes two Executive Assistants to the Director, the Chief Life Actuary, the Public Information Officer, the Senior Associate General Counsel and managers of each of the offices within the three organizational divisions. The senior management initiates, based on the strategic plan, an annual operating plan. These efforts coordinate with 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 SC 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 inquires 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 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 SC Insurance Services Budget and Control Board Cost Containment Committee, the Governor's Workers Compensation Advisory Task Force, the SC DHEC First Sounds Advisory Committee, the State Interagency Coordinating Council for BabyNet, a SC 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 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 develop a long-range strategy that reflects the changing economic environment.

The Director and Executive Staff plan to continue the strategic planning process this upcoming fiscal year incorporating the Malcolm Baldrige National Quality Award Criteria. Based on the present status of the state and national economy, the Department will 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 SC Code Ann. Sect. 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 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 the SC Code Ann 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 Treasurers Office and the Comptroller General regarding the status of financial activities to include 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 SC 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 SC. This is a critical service for South Carolinians. For example, within the Office of Consumer Services, the Market Assistance Program's (MAP), data collection indicates a need to explore the status of the health insurance market. To that end, the Department has established several special projects (see Category 7, pg. 13) focusing on health insurance issues and the market in South Carolina.

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 Association'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 department 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, an intranet site for Department employees, as well as e-mail postings regarding employee news and achievements. Employees receive a SC 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 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. As a part of Employee Appreciation Day, an employee car wash is also held.

The Department provides a safe and healthy environment for its employees. As mentioned earlier in the Report, the Department recently moved to a new facility. The improved facility offers a clean, fresh work environment in a pleasant park-like setting. Employees of the Department are also invited to attend an aerobics/exercise class that takes place at the office after work hours.

We are involved in numerous community activities to include the Annual Good Health Appeal, the Salvation Army Holiday Kettle Drive, Families Helping Families, the United Way and the First Ladies Annual Walk for Life Campaign.

## EXECUTIVE SERVICES

### 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

Technical assistance in the drafting of proposed legislation is provided. Such assistance is provided to the Director, legislators and to the legislative committee staff who have requested assistance from the Director and Department. In addition, assistance is provided upon request 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.537	Reinsurance Captives
H.3822	Licensing of Car Rental Companies
H.3880	SC Reinsurance Facility/Recoupment Charges
H.3974	Department Clean-Up Bill
H.4096	Producer Licensing

<u>Regulations</u>	<u>Subject</u>
--------------------	----------------

69-1	Adjustment of Claims Under Unusual Circumstances
69-37	Annuity Mortality Tables
69-50	Continuing Education
69-56	Wind/Hail Deductible
69-57	Valuation of Life Insurance Policies
69-58	Privacy of Consumer Financial and Health Information
69-60	Captive Insurance Companies
69-61	Service Contracts
69-63	S.C. Reinsurance Facility Recoupment

From October 2000 to July 2001, three hundred and two (302) Constituent Matters have been reviewed and resolved.

## **DIVISION OF ADMINISTRATIVE SERVICES**

### **TAXATION**

#### **GOAL**

The program area annually collects and deposits into the State's General Fund premium taxes due from insurers and brokers in a timely manner. 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 1,559 premium tax returns is to be 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 1% of property premiums are then distributed by the State Treasurer to the counties on an annual basis.

#### **PROCESS MEASURES**

Premium taxes were collected, audits were completed from the 414 fire insurance companies and a listing of taxes for distribution to the counties was compiled. All taxes were balanced to the general ledger by July 29, 2001.

Brokers' premium taxes were collected and all Summaries of Transactions were doing business in the State.

The Department collected over one hundred and three (103) million in insurer and broker premium taxes of which approximately seven (7) million was distributed to county governments with the balance retained in the General Fund. This represented an increase of one (1) million over the previous year and continued a trend of increases in collected revenue which began in FY 1992-93.

### **CONSUMER SERVICES AND PUBLIC INFORMATION**

#### **REQUESTS FOR ASSISTANCE**

##### **GOAL**

Consumer Service Representatives respond and resolve consumer complaints/inquiries within thirty 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 four thousand, one hundred and twenty (4,120) written complaints and fifty-six thousand, one hundred and twenty-five (56,125) telephone inquiries for fiscal year 2000-01. Approximately fifty-five percent (55%) of these complaints and inquiries were related to life, accident and health insurance issues while forty-five (45%) involved automobile and other property lines of insurance.

Ninety-five percent (95%) of the written requests for assistance were resolved within fifteen to twenty-one (15-21) days of receipt. Approximately ninety-eight percent



(98%) of all telephone inquiries were 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

This fiscal year over one hundred and twenty-four thousand, five hundred and sixty-nine (124,569) brochures regarding automobile insurance and disaster related information for property owners were distributed to the public. These efforts were increased through the collaboration with other state agencies as well as the South Carolina Insurance News Service. The Office of Consumer Services also completed fifty-one (51) speaking and outreach engagements.

## 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.

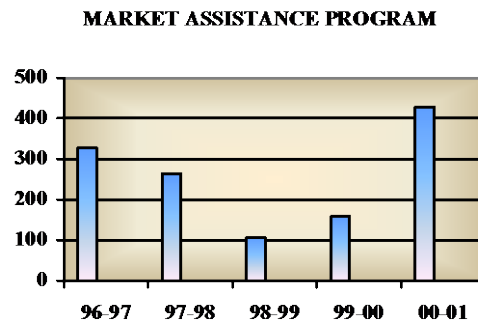
### BUSINESS PROCESS

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 four hundred and twenty-nine (429) requests for assistance this fiscal year. The number of requests increased by one hundred and seventy-one percent (171%) from last fiscal year. The majority of the requests were related to health insurance coverage for consumers with preexisting conditions.

### TREND DATA



## 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 the toll-free number, the Office of Consumer Services maintains communications.

### **PROCESS MEASURES**

This past fiscal year South Carolina was spared during the Hurricane Season and had relatively few hail storms and inland or coastal flooding. The Office of Consumer Services responded to requests from property owners for assistance with insurance issues surrounding these events.

## **INDIVIDUAL LICENSING AND EDUCATION**

### **GOAL**

The Division of Licensing is charged via statute with the responsibility of accurately and efficiently issuing agent, agency, broker, 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 license applications submitted were issued within 24-72 hours of receipt. As of June 30, 2000, four thousand eight hundred and forty-three (4,843) agency licenses were in force. This is an increase of twenty-four (24%) from last year. This increase is a reflection of the recent changes in the state's automobile insurance laws, attracting over one hundred (100) new insurers to the state. A total of three hundred and forty-one thousand, forty-nine (341,049) appointments for agents, brokers adjusters and appraisers were in force as of June 30, 2001. Additionally,

twenty-three thousand, four hundred and forty-four (23,444) new agent, agency, adjuster appraiser public insurance adjuster and broker appointments were issued this fiscal year. Ninety-six (96) applications submitted by agents, adjusters, appraisers and brokers were denied and four thousand, nine hundred and sixteen (4,916) licensing packets were returned as being incomplete. Fifty-nine thousand, eight hundred and sixty-three (59,863) individuals, ten thousand, one hundred and thirteen (10,113) adjusters, one thousand, one hundred and ninety-six (1,196) motor vehicle physical damage appraisers, ninety-seven (97) public adjusters and one thousand, four hundred and nine (1,409) brokers held licenses to transact insurance business in South Carolina this fiscal year.

## **OTHER LICENSING AND RENEWAL FEES**

### **GOAL**

The Division of Agents Licensing 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**

This past fiscal year four hundred and seventy-five (475) 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 were fifty-one thousand, eight hundred dollars (\$51,800) for bail bondsmen and runners. This represents a two percent (2%) increase from last year. There is no fee required for the licensing of surety bondsmen.

### **THIRD PARTY ADMINISTRATOR LICENSES**

#### **GOAL**

The Division of Agents Licensing 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**

This fiscal year two hundred and fifteen (215) TPA's were licensed. This represents a fifteen percent (15%) decrease from the prior year. On average, these licenses were issued within the projected ten-day period.

### **PREMIUM SERVICE COMPANY LICENSES**

#### **GOAL**

The Division of Agents Licensing 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 Actuarial Services.

### **PROCESS MEASURES**

Eighty-three (83) Premium Service Companies were licensed representing a fourteen percent (14%) increase over the prior year. On average, these licenses were issued within the thirty (30) day period.

During the March 2001 annual renewal, seventy-six (76) renewals were processed with a ninety-two percent (92%) renewal rate. The financial statements of all eighty-three (83) Premium Service Companies were reviewed by March 27, 2001.

### **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**

One hundred and twenty-three (123) utilization review companies were licensed this fiscal year. There has been a forty percent (40%) increase in the number of companies licensed since fiscal year 2000-01.

### **EDUCATION**

#### **GOAL**

The Division accurately and efficiently reviews and approves sponsors, instructors and courses for preclicensing and continuing education. The Division also administers the South Carolina Department of Insurance 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 Department contracts with six (6) technical colleges throughout South Carolina 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

### **PROCESS MEASURES**

Nine hundred and thirty-one (931) new and one hundred and sixty (160) renewal continuing education courses were approved. Six hundred and nineteen (619) continuing education instructors and thirty-three (33) continuing education sponsors were also approved.

In addition, ten (10) pre-licensing courses for life , accident and health insurance , six (6) pre-licensing courses for property and casualty insurance and two (2) pre-licensing courses for bail bondsmen were approved.

Seven thousand, three hundred and seventy-eight (7,378) insurance examinations with an overall pass rate of eighty-one (81%) were administered this fiscal year. This represents a three percent (3%) decrease from the number of examinations given last fiscal year.

**DIVISION OF FINANCIAL SERVICES**

**FINANCIAL EXAMINATIONS**

**GOALS**

The Department is required by statute perform a full scope market conduct examinations on each domestic insurer no less than once every five years, and each domestic health maintenance organization no less than once every three years.

Target examinations are required from time to time on all companies licensed in this state (both domestic and non-domestic) as conditions dictate. The Department is responsible for conducting these as well.

**BUSINESS PROCESS**

Financial Examinations are conducted to detect as early as possible those insurers and health maintenance organizations which are in financial trouble or which are in violation of state statutes or engaging in unlawful or improper marketing activities.

**PROCESS MEASURES**

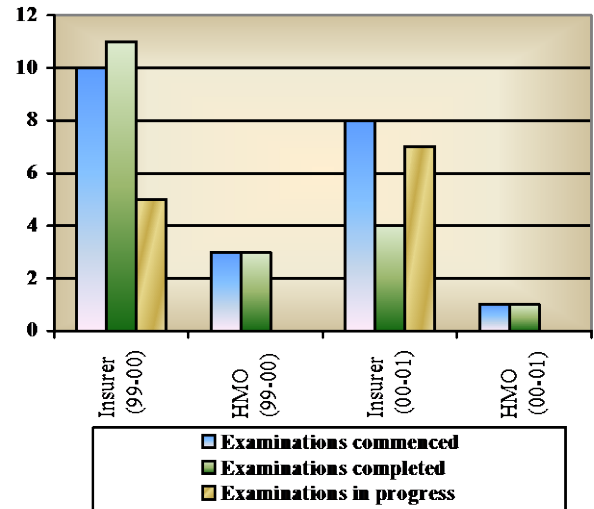
Eight (8) examinations of insurers were commenced during the period July 1, 2000 to June 30, 2001. Two (2) of these examinations were based on a five-year schedule and six (6) were target examinations.

One (1) target examination of a health maintenance organization was commenced and completed during the period July 1, 2000 to June 30, 2001.

Four (4) examinations of agencies were commenced and completed. Information was developed for timely, appropriate regulatory action where necessary within sixty (60) days following completion of an examination of an insurer or a health maintenance organization.

**TREND DATA**

**MARKET CONDUCT EXAMINATIONS**



**FINANCIAL ANALYSIS**

**GOAL**

The Department is required to monitor the financial condition and operations of insurers, eligible surplus lines insurers, and health maintenance organizations conducting business in this State which have been licensed or approved by this Department under the provisions of the South Carolina insurance and health maintenance organization statutes.

**BUSINESS PROCESS**

Within the guidelines of South Carolina insurance and health maintenance organization statutes, the Department analysis financial and other information available, of all insurers, eligible surplus lines insurers, and health maintenance organizations which have been licensed or approved by this Department to conduct business in this State in order to ensure that each will be able to meet its financial responsibilities and obligations to policyholders, enrollees, and creditors.

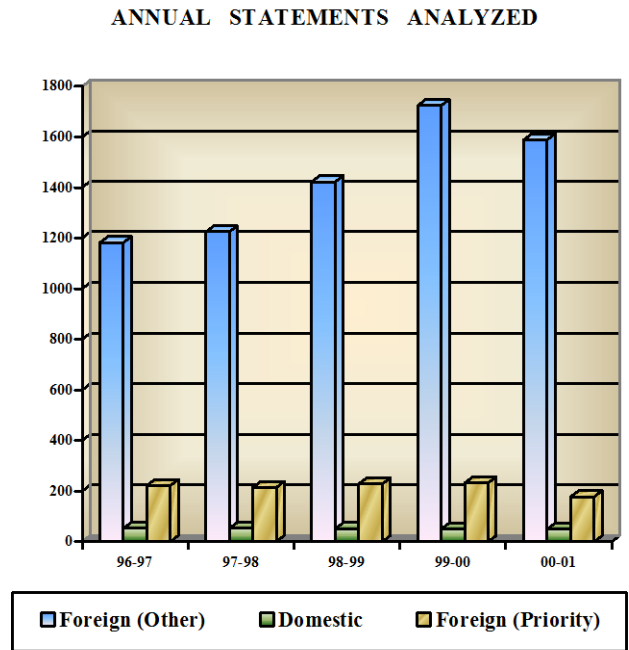
Annually, beginning March 1, the financial statements of 1) all domestic insurers and health maintenance organizations are reviewed by April 1 each year; 2) all foreign priority insurers and health maintenance organizations are reviewed by June 1 each year; and 3) all remaining insurers and health maintenance organizations are reviewed by September 15 each year.

**PROCESS MEASURES**

Commencing March 1, 2001, the financial statements of: 1) fifty (50) domestic insurers and health maintenance organizations were reviewed by April 1, 2001; 2) one hundred and seventy-eight (178) foreign priority insurers, eligible surplus lines insurers, and health maintenance organizations were reviewed by June 1, 2001; and 3) one thousand, five hundred and eighty-eight (1,588) remaining insurers, eligible surplus lines insurers, and health maintenance organizations were reviewed by September 15, 2001.

Between July 1, 2000 and June 30, 2001, seven (7) insurers were requested to, and did, place an additional deposit with this Department for the protection of South Carolina policyholders; eight (8) insurers voluntarily agreed to cease writing new business in South Carolina; the certificates of authority of five (5) insurers were suspended by the Director of Insurance; and the certificates of authority of two (2) insurers were revoked by the Director of Insurance.

**TREND DATA**



**SECURITIES CUSTODIAN**

**GOAL**

The Department is responsible for receiving, verifying, depositing, withdrawing, and maintaining control of all securities on deposit with this Department for the protection of the South Carolina policyholders, enrollees, and creditors of insurers, eligible surplus lines insurers, and health maintenance organizations conducting business in this State.

**BUSINESS PROCESS**

The Department accurately maintains the deposits of domestic and foreign insurers, domestic and foreign health maintenance organizations, eligible surplus lines insurers, premium service companies, and third party administrators.

**PROCESS MEASURES**

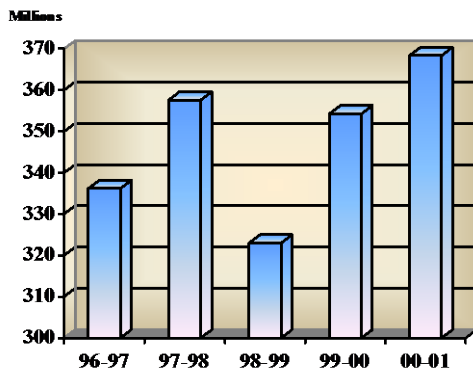
Deposits totaling three hundred and sixty-eight million, three hundred and forty-six

thousand, one hundred and fifty-seven (\$368,346,157) were held by the Director of Insurance on behalf of one thousand, two hundred and thirty-two (1,232) licensed insurers, eligible surplus lines insurers, health maintenance organizations, premium service companies, service contract providers and third party administrators as of June 30, 2001.

The type and market values of the securities placed by each entity was verified for compliance with South Carolina insurance statutes and regulations. Transactions to the Department's Company Securities System during the period from July 1, 2000 to June 30, 2001 totaled nine hundred and eight (908) - five hundred and sixty (560) deposits and three hundred and forty-eight (348) withdrawals.

#### TREND DATA

SECURITIES DEPOSITS



### INSURER AND HEALTH MAINTENANCE ORGANIZATION LICENSING

#### GOAL

The Division reviews financial and other pertinent information submitted by insurers, eligible surplus lines insurers, and health maintenance organizations applying to

conduct business in this State in order to determine compliance with South Carolina insurance and health maintenance organization statutes.

#### BUSINESS PROCESS

Through analysis, within the guidelines of South Carolina insurance and health maintenance organization statutes, the Department reviews financial and other information submitted by insurers, eligible surplus lines insurers, and health maintenance organizations 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, enrollees, and creditors.

All insurers, eligible surplus lines insurers, and health maintenance organizations that submit properly completed applications and which comply with South Carolina insurance and health maintenance organization statutes should be licensed within sixty days from receipt of the application.

#### PROCESS MEASURES

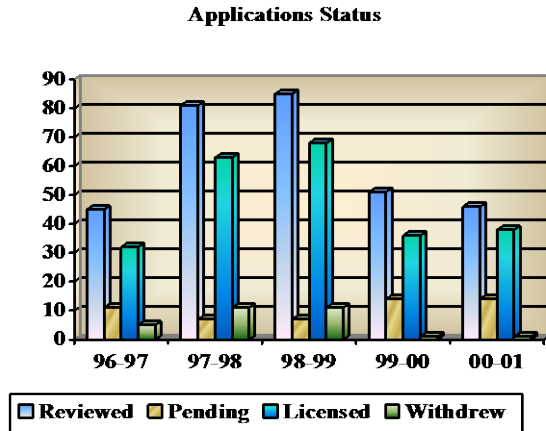
From July 1, 2000 to June 30, 2001, applications from forty-six (46) insurers, eligible surplus lines insurers, and health maintenance organizations were received, reviewed, and analyzed. Thirty-eight (38) of the applications were deemed to be in compliance with South Carolina insurance, eligible surplus lines insurer, and health maintenance organization statutes.

These insurers were licensed or approved, on the average, within sixty (60) days from the receipt of the application. As of June 30, 2001, fourteen (14) of the applications remained pending and one (1) was withdrawn due to its failure to be in



compliance with South Carolina insurance statutes.

**TREND DATA**



**MAINTAINING AND RESPONDING TO INQUIRIES REGARDING THE DEPARTMENT'S HISTORICAL DATABASES**

**GOAL**

This Division reviews transactions involving insurers, eligible surplus lines insurers, risk purchasing groups, health maintenance organizations, and other entities licensed in this State by this Department so as to document those transactions on the Department's Company Licensing System and to respond to inquiries regarding historical information.

**BUSINESS PROCESS**

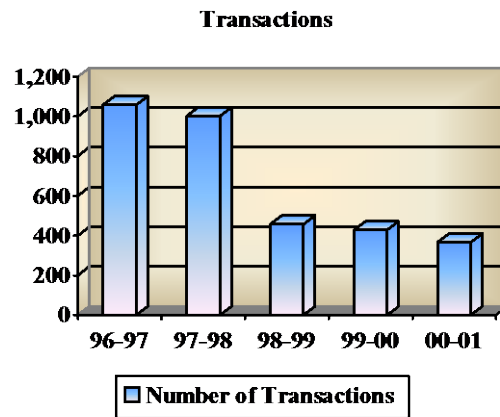
The Division accomplishes these reviews by receiving information regarding insurers, eligible surplus lines insurers, risk purchasing groups, health maintenance organizations, and other licensed entities' transactions within thirty (30) days of their effective dates, and to review and record the

transactions within five (5) working days from date of receipt of the information.

**PROCESS MEASURES**

From July 1, 2000 to June 30, 2001, three hundred and sixty-seven (367) transactions were reviewed and recorded on the Department's databases. Approximately fifteen thousand (15,000) telephone inquiries (1,250/month) requesting information regarding the Department's Company Licensing System were responded to during the period.

**TREND DATA**



**SOUTH CAROLINA REINSURANCE FACILITY**

**GOAL**

The South Carolina Reinsurance Facility (SCRF), a non-profit unincorporated legal entity provides reinsurance, at the option of the ceding automobile insurer, the risk covered under any policy of automobile insurance. However, these cessions must be confined to quota share reinsurance of either a one hundred percent (100%) quota share of the risk or to any other quota share reinsurance the Department may permit.

**BUSINESS PROCESS**

The Department is charged with responsibility of monitoring the activities of the SCRF to ensure its compliance with state statutes through the attendance and oversight of all operating committee and sub-committee meetings.

#### **PROCESS MEASURES**

Currently the Facility's policy in force count shows fewer than twenty-five thousand (25,000) policies in force. It is anticipated that by the end of fiscal year 2000-01, there will be fewer than five thousand (5,000) policies in the SCRF.

### **SC ASSOCIATED AUTO INSURANCE PLAN**

#### **GOAL**

The South Carolina Associated Auto Insurance Plan (SCAAIP) was established by state statute as a mechanism to provide automobile insurance for the state's high-risk drivers.

#### **BUSINESS PROCESS**

The Department is charged with the responsibility to monitor the activities of the SCAAIP, its board and auxiliary services, in order to assure its actions comply with the state statute.

#### **PROCESS MEASURES**

This was the second full year of operation for the SCAAIP as the new automobile insurance residual market mechanism. To date less than five hundred (500) personal and commercial risks have been insured through this mechanism. It was anticipated that several hundred thousands auto risks would have normally been insured through the SCRF. This low number of actual insured risks demonstrates the effectiveness of the recent reform in the regulations of automobile insurance.

### **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.

#### **BUSINESS PROCESS**

The Division reviews 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 length of time. 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.

For the Life, Accident and Health division, during fiscal year 2000-01 the division received four thousand, nine hundred and twenty-eight (4,928) new filings. At the end of fiscal year 2000-01, the policy forms analysts, on average, were beginning the review of forms received thirty (30) days prior to the end of the year.

During fiscal year 2000-01, the Property and Casualty Division received a total of seven



thousand, two hundred and fifty-three (7,253) new form, and rule and rate filings. At the end of fiscal year 2000-01, the forms and rates analysts, on average, were beginning the review of form; rule and rate filings received thirty (30) days prior to the end of the year.

## **POLICY RATES REVIEW**

### **GOAL**

The Division is 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 Division reviews 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 length of time. 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.

The Property and Casualty Division, a notice of filing is required when the written premium is two million dollars (\$2,000,000), and an increase in a policyholder's rate. The notice of filing is published in statewide newspapers. A

public hearing is required when someone intervenes on the notice of filing.

### **PROCESS MEASURES**

There are several performance measures for the review of policy forms: 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 2000-01, the Life, Accident and Health Division reviewed eight thousand and forty-six (8046) rate filings. Of those filings, four thousand, nine hundred and forty-four (4944) were rate filings for new forms. Three thousand, five hundred and seventy-nine (3579) were approved while seven hundred and ninety-six (796) were disapproved. Four hundred and fifty-nine (459) Accident & Health rate filings were reviewed for existing products. One hundred and seventy-one (171) were reviewed for new or proposed products.

The measure for fiscal year 2000 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**

The Division provides 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**

The Division trains and assists volunteers in the I-Care program with respect to Medicare supplement insurance and other forms of health insurance. Educate and inform members of the insurance industry of changes to laws, regulations and bulletins that affect the insurance industry.

### **PROCESS MEASURES**

The following presentations and workshops were presented:

Three (3) I-Care presentations to Senior Citizen Groups.

A presentation to the National Association of Insurance Compliance Professional (AICP) entitled South Carolina Form Filings and Procedures.

A presentation to the 2000 Governor's Housing Forum regarding Mortgage Life and Disability Insurance.

### **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**

Maintain 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 update this guide quarterly.

Assist with technical consumer complaints and problems with respect to life, accident

and health insurance in a courteous and timely fashion.

Assist with technical consumer complaints and problems with respect to 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, 2000 and June 16, 2001.

The Life, Accident and Health Division processed approximately one hundred and ten (110) consumer complaints involving rating issues while the Property and Casualty Division processed fifty-four (54) consumer complaints involving rating issues.

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

#### **GOAL**

The Division provides technical expertise regarding actuarial principles involved in measuring the financial condition of insurers.

#### **BUSINESS PROCESS**

The Division assists in financial condition examinations by providing actuarial opinions on loss reserves, assessing company practices with regard to claims operations, and evaluating market conduct practices.

#### **PROCESS MEASURES**

Insurers where examinations were completed include:

South Carolina Insurance Company  
Catawba Insurance Company

South Carolina Farm Bureau Insurance Company  
Capital City Insurance Company

Financial condition exams are scheduled months in advance. For most companies, the actuarial work requires fifteen (15) to forty (40) hours of work. For troubled companies, the actuarial work becomes very involved and can take a lengthy period of time. The time allowed is constrained by the completion date scheduled for the examination. Effective financial condition examinations prevent insurer insolvency. This protects the policyholders from default and citizens from paying for insolvencies.

### **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 has attended many of the meetings held as well as participated in committee work. Each residual market mechanism performed adequately with staff involvement in all phases of their activities.

### **GENERAL COUNSEL**

#### **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.

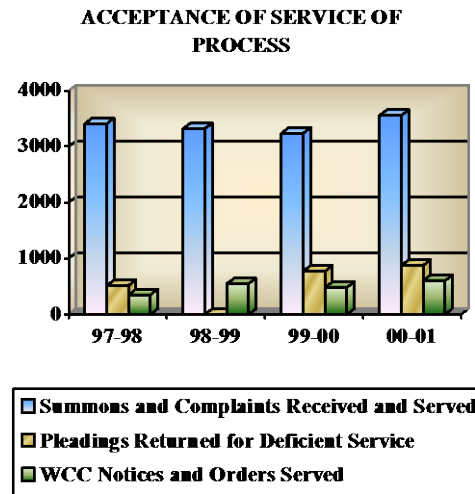
##### **PROCESS MEASURES**

During fiscal year 2000-01, the Office of General Counsel received approximately three thousand, five hundred and fifty-five (3,555) 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 six hundred and one (601) pleadings from the South Carolina Workers Compensation Commission. This represents an 11.7% increase over the civil action pleadings

processed during last fiscal year, when the Office of General Counsel successfully processed and served three thousand, three hundred and twenty-six (3,326) summons and complaints for civil actions and four hundred and eighty-four (484) pleadings from the Workers Compensation Commission. Eight hundred and seventy-six (876) pleadings were initially returned to counsel for deficient service upon the Director of Insurance during fiscal year 2000-01. The number of returns increased by just over thirteen percent (13%) from seven hundred and seventy-four (774) during fiscal 2000-01. Forty-one thousand, three hundred and sixty dollars (\$41,360) was collected in service of process fees for this fiscal year. This Office collected six thousand and ten dollars (\$6,010) in service of process fees for the Workers Compensation Commission during the 2000-01 fiscal year compared to four thousand, eight hundred and forty dollars (\$4,840) in 2000-01.

This service has a significant impact upon the resources of this Office. Approximately forty percent (40%) 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 2000-01, it is estimated that the Office of General Counsel received at least one hundred and forty-seven (147) 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.

There is one staff member who is primarily responsible for responding, although the total number of requests received during each fiscal year is an estimate. The Office is developing 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 days' receipt of the request.

#### **PROCESS MEASURES**

The Office of General Counsel responded to one hundred and twenty (120) 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.

There are no accurate numbers available to reflect the total number of requests responded to during this past fiscal year. The Office is in the process of implementing a project tracking system to enable us to keep better track of work handled by the Office of General Counsel.

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 impose administrative disciplinary action where appropriate.

### **PROCESS MEASURES**

The Investigations Section of the Office of General Counsel opened one thousand and ninety-eight (1098) investigation files during the past fiscal year. It closed one thousand and two (1002) investigation files. Three hundred ninety-seven (397) of those actions resulted in administrative fines totaling one hundred and eighty-two thousand, six hundred and sixty dollars (\$182,660); and twenty-nine (29) resulted in revocations. The Department did not give any license suspensions this fiscal year. Twelve (12) 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 to distribute the assets in accordance with South Carolina law.

## **BUSINESS PROCESS**

The staff is responsible for resolving five (5) pending receiverships held over from the previous fiscal year and to review the financial holdings and open receiverships for all revoked companies with deposits as ancillary receiverships.

## **PROCESS MEASURES**

Seven (7) receivership estates were open at the beginning of the 2000-01 fiscal year. The Department placed five (5) liquidations in Ancillary Receivership during the fiscal year; the Director suspended the licenses of three (3) insurers, and revoked the licenses of three (3) insurers.

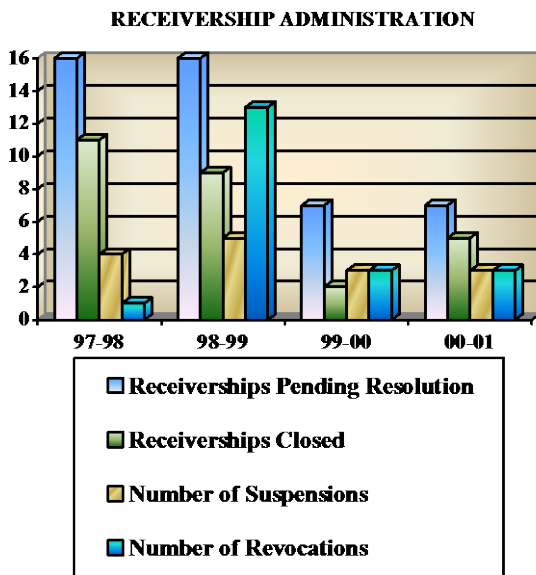
Five (5) of those twelve (12) estates were successfully closed during the 2000-01 fiscal year. The impact of the Office of General Counsel's efforts in this area is that more funds were made available to the Guaranty Associations to minimize the number and amount of assessments that had to be made against member insurers.

Ninety-four percent (94%) of thirty-two (32) receivership files open as of August 1996 are now closed (10% of these were closed in fiscal year 2000-01).

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. The Office of General Counsel is still considering the advantages and disadvantages of South Carolina adopting at least a portion of the 1994 Model Act.

**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.

**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 thirty-six (36) matters before the ALJD. Additionally, the Office of General Counsel represented the Department in one (1) civil court action; referred twelve (12) matters to the South Carolina Office of the Attorney General for criminal investigation and prosecution; received and resolved forty-five (45) Administrative Collection of Final Judgments Against Insurer Petitions; and received six (6) Administrative Disallowance of Subrogation by Insurer Petitions.

**SPECIAL PROJECTS**

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

**IMPLEMENTATION OF THE GRAMM-LEACH-BLILEY ACT**

The Gramm-Leach-Bliley Act, enacted in November 1999, by the United States Congress broke down the barriers that had traditionally separated insurance, securities and banking. Companies are permitted by the legislation to form financial holding company structures which may engage in a variety of financial activities. GLBA also introduces the concept of functional regulation. Under the functional regulation concept, banking, insurance and securities are still regulated by the traditional regulator (e.g., insurance is regulated by the states,

national banks by the Office of the Comptroller of the Currency, savings and loan institutions by the Office of Thrift Supervision and securities by the Securities Exchange Commission), but GLBA requires state and federal regulators to coordinate their regulatory efforts. GLBA prescribes new rules, which change the way the insurance industry is regulated. States are required to offer greater protection than that provided by the provisions of GLBA to prevent preemption of state legislation. Consequently, states have had to introduce legislation to preserve their ability to regulate the business of insurance.

### **PRIVACY REGULATION**

Title V of the GLBA protects the privacy of nonpublic consumer personal information. In order to avoid preemption and other enforcement issues, the South Carolina Department of Insurance promulgated a regulation protecting the privacy of nonpublic consumer financial information. That regulation was final in July 2001. The Department also conducted briefings on both the state and federal privacy regulations for members of the South Carolina industry.

### **SINGLE MODEL PRODUCER LICENSING**

GLBA requires states 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 SCDI introduced the Single Model Producer Licensing Law to achieve reciprocity and to avoid the creation of NARAB.

### **FILE AND USE**

As a result of GLBA, Congress is being petitioned to make further changes within the insurance industry. Many insurers have asked Congress to consider a national charter, so that 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 allows insurers to file and they may use them if they are not disapproved by the Department within thirty (30) days. The file and use provisions apply to forms not rates.

### **CODIFICATION**

The NAIC developed uniform accounting practices and procedures. The SCDI worked with the industry on comparing the NAIC accounting practices and procedures with its South Carolina law to determine if any inconsistencies exist. The inconsistencies will be corrected through of legislation. This process was commonly referred to as "Codification." The new accounting practices and procedures are effective January 1, 2001. All insurers transacting business within the state are required to comply with the new accounting standards and procedures. This Department is attempting to coordinate its efforts with that of this state's domestic industry.

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

The SCDI 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.

### **HELD IN TRUST**

The South Carolina Department of Insurance through a grant from the South Carolina Department of Public Safety has 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. As the *first* program available in South Carolina that specifically targets prenatal classes in hospitals throughout South Carolina, *Held in Trust* was incorporated at the program's initial target hospitals in Greenville, Spartanburg, Charleston and Richland counties. The program is offered at no charge to the hospital and class participants. Additionally, the program provides free informational brochures and infant items, including one (1) approved child safety seat per class.

Since the class schedule began, *Held in Trust* has instructed over twelve hundred (1200) people through fifty-three (53) classes held in ten (10) hospitals throughout the target counties and safety seat clinics throughout South Carolina. At each class, a

child safety seat is given away by random drawing along with promotional items and educational brochures. The project coordinator also attends maternity and health fairs, and car seat safety clinics to promote the class and instruct parents and care givers as to how to properly install a safety seat as well as explain the importance of properly installed safety seats. Since only fifteen (15%) of South Carolinians know how to install their safety seats properly and South Carolina now has a new law requiring children be restrained in child safety seat, *Held in Trust* will continue throughout this next year to make sure that the awareness increases.

### **HURRICANE AWARENESS EXPO**

The South Carolina Department of Insurance has partnered with Home Depot Inc. for the past three years to organize and host seven Hurricane Awareness Expositions. The Expos have been held at various Home Depot locations in Bluffton, Myrtle Beach, and Charleston, South Carolina. These free outdoor events offer the public an opportunity to meet with representatives from state, federal and local agencies to include FEMA and US Army Corps. Of Engineers, home preparedness equipment vendors and insurance companies to discuss methods and strategies for protecting their homes against threats of natural disaster. This forum also offers individuals the opportunity to discuss insurance coverage issues. These events have been extremely successful; averaging approximately two thousand, five hundred (2500) attendees per event. The Home Depot has asked that we work together to organize events for next year's upcoming hurricane season.

**LOSS MITIGATION GRANT PROGRAM**

The Department is responsible for the oversight of this grant program as mandated by state statute. With input from the Advisory Committee to the Director of Insurance and the South Carolina Building Codes Council, the Department has awarded over four hundred thousand dollars (\$400,000) in grant funds to units of local governments in South Carolina. These awards are for projects that assist 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, 1) the team that drafted the recently enacted Health Carrier External Review Model Act has been reconstituted to develop required notices and procedures to implement the Act. Draft amendments have been developed for the SC Health Insurance Pool to expand coverage to disabled individuals under age sixty-five (65) and to ensure that the Health Insurance Pool remains an Acceptable Alternative Mechanism under the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

A team has been formed to attempt to work out a non-legislative solution to prompt payment issues alleged by the hospitals and physicians. We are also addressing a variety of issues related to HIPAA including the implementation of technical corrections via this year's Department clean-up legislation, addressing an issue related to extension of liability by the prior carrier, reviewing the

interim rules related to nondiscrimination, and reviewing the final rules related to Privacy of Health Information.

The Department has formed a team to review the issue of individual life insurance being sold via a group mechanism. We have also formed a team to review preemption issues related to the Department of Labor Claims Handling Regulation. Finally, the Department is closely monitoring developments with respect to health insurance at the federal level, including the Patients Bill of Rights.