

# Department of Insurance

---

- FY 2002 Executive recommended appropriations increase of 4.0% over FY 2001 estimated expenditures
- Executive recommended appropriations increase of 9.8% in FY 2003 for upgrading the agency's computer system

## OVERVIEW

The Department of Insurance (ODI) is responsible for reviewing life, accident, health, managed care, property and casualty insurance policies, forms and rates and ensuring that services and benefits offered by insurance companies are consistent with their advertised policies and delivered in an equitable manner. The Department also examines the financial records of insurers, and investigates insurance fraud and consumer complaints.

The Department is a cabinet level agency with more than 260 employees and expenditures of approximately \$25.5 million annually. The Department is divided into five separate programs: Financial Regulation Services, Investigative and Licensing Services, Policy and Rate Filing Services, Consumer Services, and Administration.

ODI has the responsibility for regulating all Ohio Insurance activity including:

- licensing of agencies and individuals who engage in the practice of developing, offering for sale and administering accident, health, life, casualty, and property insurance;
- investigation of misconduct by agents or agencies and the determination of minimum standards of conduct;
- detecting and preventing consumer and provider fraud;
- conducting compliance reviews and on-site investigations to assess market conduct.

In addition, the Department's Office of Financial Regulation Services is responsible for monitoring the financial solvency of insurance companies licensed in Ohio. All insurance products and services also are subject to the Department's policy and rate filing regulations. The last function of the Department of Insurance is the provision of direct services to consumers such as information, education, and counseling services for Ohio's senior population (OSHIIP).

In 2000, the Department licensed and regulated nearly 1,800 insurance companies operating in the state. It is responsible for regulating the financial condition of the 309 domestic (based and licensed to do business in Ohio), the 1,573 foreign (based in another state but licensed to do business in Ohio) insurance

companies. The Department also annually licenses approximately 11,000 agents, and regulates approximately 145,000 agents, and 7,800 agencies. They also conducted 87 financial examinations of domestic and foreign insurance companies.

Amended Substitute Senate Bill 154 of the 122<sup>nd</sup> General Assembly changed the licensing statute for insurance agents. Two key elements of this legislation were the elimination of the residency requirement for insurance agents, potentially expanding the pool of agents, and related appointments, and the separation of licenses and appointments.

The Executive's funding recommendations are \$27,615,790 for FY 2002 and \$30,316,091 for FY 2003. The amounts represent an increase of 4.0 percent in FY 2002 from FY 2001 estimated spending levels, and an increase of 9.8 percent in FY 2003. The Department of Insurance did not propose any fee increases. Thus, the extra funding for FY 2002 and 2003 comes from the available cash reserves in their various funds.

## ADDITIONAL FACTS AND FIGURES

### Technology-Based Initiatives

Early in 2000, the Department unveiled an online agent licensing application process that reduced the licensing procedure from a four- to six-month process to seven to 10 business days. Insurance companies also can appoint an agent by using the Department's new Internet appointment process.

### Staff Levels

The Executive recommended appropriation levels would maintain the current staff of 282 full-time employees. At 282 staff, ODI believes it will continue to be understaffed in a number of areas, including:

- **Financial Regulation Office.** Through restructuring (i.e. moving personnel from one responsibility to a new priority responsibility) and adding staff in FY 2001, ODI has reduced the company-to-financial analyst ratio from 150 to 1 down to 25 to 1, which is in the upper range recommended by the National Association of Insurance Commissioners Accreditation Department.
- **Market Conduct Division.** There are 1,787 insurers admitted to do business in Ohio, and ODI has 9 compliance examiners to examine and monitor their non-financial practices, representing a company-to-examiner ratio of 198 to 1.
- **Consumer Services Office.** In FY 2000, ODI responded to 93,214 calls and provided assistance to 8,506 consumers who either wrote to or visited the Department. The Executive recommended appropriation levels will fund a total of 39 full-time employees in FY 2002 and 38 full-time employees in FY 2003 in the Consumer Services Office.
- **Fraud Division.** The current case referral to investigator ratio is 162 to 1, with six investigators.

### Current and Ongoing Challenges

A number of state or federal legislative measures, recurring responsibilities and the changing role and activities of the ODI will be factors affecting ODI in the next biennium. The following states some of the major regulations:

- **House Bill 4.** House Bill 4 of 123<sup>rd</sup> General Assembly became effective May 1, 2000. Under this bill, ODI is responsible for administering external reviews conducted by independent review organizations when a patient appeals an insurer's denial of payment. The current caseloads of both external review and contract disputes average 15 per month. This number is likely to increase. Handling, review and resolution of these filings has demanded more labor from ODI's Consumer Services, Managed Care and Legal divisions.
- **Prompt Payment of Health Bill.** Increased attention to health claim prompt payment issues has been necessary and ODI committed more efforts towards this in 2000. The magnitude and complexity of these issues have presented new challenges for ODI's Market Conduct Division.
- **Federal Financial Services Modernization Act of 1999.** The Gramm-Leach-Bliley ("GLB") Financial Services Modernization Act has permitted the formation of financial holding companies and convergence of banking, securities and insurance under one corporate organization. GLB has totally restructured the financial services industry. Although GLB has continued the role of the states as the functional regulators for the insurance industry, state insurance regulators are now required to implement a new multi-state licensing system, coordinate examination of financial holding companies with the Federal Reserve, implement functional regulation by working with the Office of the Controller of Currency to share information relevant to each agency's responsibilities, and enforce new privacy regulations.

## ANALYSIS OF EXECUTIVE PROPOSAL

### INSURANCE

---

**Purpose** The Department reviews life, accident, health, managed care, property and casualty insurance policies, and forms and rates to ensure fair and equitable practice.

The following table shows the line items that are used to fund the Department, as well as the Governor's recommended funding levels.

Fund	ALI	Title	FY 2002	FY 2003
3U5	820-602	OSHIIP Operating Grant	\$400,000	\$400,000
554	820-601	Operating Expenses - OSHIIP	\$543,101	\$601,773
554	820-606	Operating Expenses	\$20,090,984	\$22,350,783
555	820-605	Examination	\$6,581,705	\$6,963,535
<b>Total funding: INSURANCE</b>			<b>\$27,615,790</b>	<b>\$30,316,091</b>

Within the Department of Insurance this analysis will focus on:

- **Operating Expenses**
- **Examination**
- **Ohio Statewide Health Insurance Information Program (OSHIIP)**

#### OPERATING EXPENSES

**Program Description:** These moneys fund the general internal operating expenses for ODI, with the exception of the OSHIIP and agency financial examination programs.

**Funding Source:** SSR: fees and fines

**Line Items:** 820-606

**Implication of the Executive Recommendation:** The executive recommends total appropriation authority of \$20.1 million in FY 2002 and \$22.4 million in FY 2003 in line item 820-606, Operating Expenses. The amounts represent an increase of 2.0 percent in FY 2002 from FY 2001 estimated spending levels, and an increase of 11.4 percent in FY 2003.

This FY 2002 executive recommended appropriations will allow ODI to fund the following activities that were included in the Department's supplemental budget request that was submitted to the Office of Budget and Management:

- \$100,100 for Cosmos maintenance and support agreement,
- \$92,434 for network and software licenses,
- \$34,100 for Uninterrupted Power System replacement,
- \$177,625 for replacement of desktops, laptops, printer, and scanners.

The FY 2003 executive recommended appropriations will allow ODI to fund the following activities that were included in the Department's supplemental budget request that was submitted to the Office of Budget and Management:

- \$100,100 for Cosmos maintenance and support agreement,
- \$64,750 for network and software licenses,
- \$250,000 for purchase of personal services,
- \$250,000 for Cosmos enhancements,
- \$782,000 for replacement of desktops, laptops, printer, and scanners,
- \$94,677 for technology for compliance of Gramm-Leach-Bliley Act.

## **EXAMINATION**

**Program Description:** The Department is responsible for overseeing the financial solvency status of insurance companies licensed in Ohio. They conduct triennial on-site examinations and monitor annual quarterly and monthly financial statements.

**Funding Source:** SSR: insurance company fees

**Line Items:** 820-605

**Implication of the Executive Recommendation:** The executive recommends an 8.1 percent increase for FY 2002 and a 5.8 percent increase in FY 2003.

**Temporary Law:**

### **Market Conduct Examination**

When conducting a market conduct examination of any insurer doing business in this state, the Superintendent of Insurance may assess the costs of the examination against the insurer. The superintendent may enter into consent agreements to impose administrative assessments or fines for conduct discovered that may be violations of statutes or regulations administered by the superintendent. All costs, assessments, or fines collected must be deposited to the credit of the Department of Insurance Operating Fund (Fund 554).

### **Examinations of Domestic Fraternal Benefit Societies**

The Superintendent of Insurance may transfer funds from the Department of Insurance Operating Fund (Fund 554) to the Superintendent's Examination Fund (Fund 555) only for the expenses incurred in examining domestic fraternal benefit societies as required by section 3921.28 of the Revised Code.

## **OHIO STATEWIDE HEALTH INSURANCE INFORMATION PROGRAM (OSHIIP)**

**Program Description:** The Department provides the Ohio Statewide Health Insurance Information Program (OSHIIP) to assist seniors with making informed decisions regarding health insurance issues.

**Funding Source:** SSR: insurance agent fees, federal funds

**Line Items:** 820-601, 820-602

**Implication of the Executive Recommendation:** This program is rather small, but receives a

\$352,917 appropriation increase in FY 2002 and a \$58,672 appropriation increase in FY 2003 in line item 820-601. This appropriation level will allow the program to maintain current staffing levels, continue reimbursement to the volunteer coordinators, maintain printing of current publications, and to lease a copier.

## PERMANENT AND TEMPORARY LAW

This section describes permanent and temporary law provisions contained in the executive budget that will affect the Department of Insurance's activities and spending decisions during the next biennium.

### **Permanent Law Provisions**

There are no permanent law provisions with fiscal effects on this agency.

#### **Temporary Law Provisions** (Section 57 of the bill)

**Market Conduct Examination:** When conducting a market conduct examination of any insurer doing business in this state, the Superintendent of Insurance may assess the costs of the examination against the insurer. The superintendent may enter into consent agreements to impose administrative assessments or fines for conduct discovered that might be violations of statutes or regulations administered by the superintendent. All costs, assessments, or fines collected must be deposited to the credit of the Department of Insurance Operating Fund (Fund 554).

**Examinations of Domestic Fraternal Benefit Societies:** The Superintendent of Insurance may transfer funds from the Department of Insurance Operating Fund (Fund 554) to the Superintendent's Examination Fund (Fund 555) only for the expenses incurred in examining domestic fraternal benefit societies as required by section 3921.28 of the Revised Code.

## REQUESTS NOT FUNDED

The Department of Insurance proposed some changes to the Office of Financial Regulation Service (OFRS). The Department requested additional funding of \$434,456 in FY 2002 and \$539,180 in FY 2003 to support four staff positions in FY 2002 and six staff positions in FY 2003, plus consultants for FY 2002 and training, travel and computer equipment for both FY 2002 and FY 2003.

The primary need for additional funding is related to the restructuring of the OFRS that began during FY2001. The restructuring is being done to increase the in-house staff responsible for the review of financial information on the insurers licensed to do business in the State of Ohio. This request is primarily to improve existing activities, rather than to maintain current service levels.

The Executive's recommendation did not fund this proposal.

## LSC Budget Spreadsheet by Line Item, FY 2002 - FY 2003

<i>Fund ALI ALI Title</i>	<i>Revised Estimated 2001</i>	<i>As Introduced 2002</i>	<i>House Sub Bill 2002</i>	<i>% Change Est. 2001 to House 2002</i>	<i>As Introduced 2003</i>	<i>House Sub Bill 2003</i>	<i>% Change House 2002 to House 2003</i>
<b><i>INS Insurance, Department of</i></b>							
3U5 820-602 OSHIIP Operating Grant	\$561,167	\$ 400,000	\$ 400,000	-28.7%	\$ 400,000	\$ 400,000	0.0%
<b>Federal Special Revenue Fund Group Total</b>	<b>\$ 561,167</b>	<b>\$ 400,000</b>	<b>\$ 400,000</b>	<b>-28.7%</b>	<b>\$ 400,000</b>	<b>\$ 400,000</b>	<b>0.0%</b>
554 820-601 Operating Expenses-OSHIIP	\$190,184	\$ 543,101	\$ 543,101	185.6%	\$ 601,773	\$ 601,773	10.8%
554 820-606 Operating Expenses	\$19,699,731	\$ 20,090,984	\$ 20,090,984	2.0%	\$ 22,350,783	\$ 22,350,783	11.2%
555 820-605 Examination	\$6,090,979	\$ 6,581,705	\$ 6,581,705	8.1%	\$ 6,963,535	\$ 6,963,535	5.8%
<b>State Special Revenue Fund Group Total</b>	<b>\$ 25,980,894</b>	<b>\$ 27,215,790</b>	<b>\$ 27,215,790</b>	<b>4.8%</b>	<b>\$ 29,916,091</b>	<b>\$ 29,916,091</b>	<b>9.9%</b>
<b><i>Total All Budget Fund Groups</i></b>							
	<b>\$ 26,542,061</b>	<b>\$ 27,615,790</b>	<b>\$ 27,615,790</b>	<b>4.0%</b>	<b>\$ 30,316,091</b>	<b>\$ 30,316,091</b>	<b>9.8%</b>

## Federal Special Revenue Fund Group

### 3U5 820-602 OSHIIP Operating Grant

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$0	\$0	\$323,274	\$561,167	\$400,000	\$400,000
	N/A	N/A	73.6%	-28.7%	0.0%

**Source:** FED: Federal Special Revenue Fund Group: CFDA 93.779, a grant awarded from the Health Care Finance Administration (HCFA)

**Legal Basis:** Created by the Controlling Board (INS 003) in December 6, 1999

**Purpose:** Previously, OSHIIP was a joint venture with the Ohio Department of Aging (ODA). ODA was the recipient of the federal grant award and OSHIIP would be reimbursed for its expenses via Intrastate Transfer Voucher (ISTV). Now, OSHIIP has been awarded the federal grant directly from the Health Care Finance Administration (HCFA). Thus, instead of commingling the grant funds with the Ohio Department of Insurance's Operating Fund 554, the Fund 3U5 and line item 820-602 was created to deposit the grant funds.

## State Special Revenue Fund Group

### 554 820-601 Operating Expenses-OSHIIP

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$0	\$418,193	\$440,285	\$190,184	\$543,101	\$601,773
	N/A	5.3%	-56.8%	185.6%	10.8%

**Source:** SSR: CFDA 93.779, Health Care Financing Research, Demonstrations, and Fund 554 (insurance agents fees)

**Legal Basis:** The program was established by executive order in 1992. The line item was created by Controlling Board action on September 14, 1998.

**Purpose:** The Ohio Senior Health Insurance Information Program educates and counsels senior citizens on Medicare and other health insurance concerns, utilizing staff who in addition to actually counseling and conducting educational seminars provide telephone assistance. This program serves an eligible population of 1.4 million elderly Ohioans. These staff assemble and publish insurance information brochures, and recruit and train volunteers who serve as counselors at the county level. Previously, the program received federal funding through an interagency agreement with the Ohio Department of Aging (\$413,691 in FFY 1999) and the department's operating fund. Beginning in FY 2000, these funds were appropriated in Fund 3U5, ALI 820-602, OSHIIP Operating Grant.

The OSHIIP operating line item, which was created by Controlling board action on September 14th, 1998, was previously funded in Fund 554, Insurance Operating, along with the federal grants.

Line item 820-606, Operating Expenses-OSHIIP, is partially funded by Fund 554, Insurance Operating.

**554 820-606 Operating Expenses**

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$15,893,861	\$16,879,187	\$17,104,654	\$19,699,731	<b>\$20,090,984</b>	<b>\$22,350,783</b>
	6.2%	1.3%	15.2%	<b>2.0%</b>	<b>11.2%</b>

**Source:** SSR: Various fees

**Legal Basis:** ORC 3901.021 (originally established by Am. Sub. H.B. 694 of the 114th G.A.)

**Purpose:** This appropriation line item became effective November 15, 1981. The fund receives up to \$15 of the \$20 fee assessed for the licensing of insurance agents, charges for continuing education of insurance agents, and fees for a variety of services or transactions performed by the Department for the regulation of insurance companies. These fees were first temporarily authorized by Am. Sub. H.B. 152 of the 120th G.A., which enacted Section 3901.043 of the Revised Code, and are now permanently authorized by Am. Sub. H.B. 117 of the 121st G.A. The remaining \$5 of the agent licensing fee is deposited in the GRF. In addition, Sub. S.B. 375 of the 120th G.A., effective January 1st 1994, established the Insurance Agent Continuing Education program for which fees are charged and used to administer the program.

**555 820-605 Examination**

1998	1999	2000	2001 Estimate	2002 Executive Proposal	2003 Executive Proposal
\$4,774,696	\$4,758,265	\$5,081,718	\$6,090,979	<b>\$6,581,705</b>	<b>\$6,963,535</b>
	-0.3%	6.8%	19.9%	<b>8.1%</b>	<b>5.8%</b>

**Source:** SSR: insurance company fees

**Legal Basis:** ORC 3901.071 (originally established by Am. Sub. H.B. 1267 of the 111th G.A.)

**Purpose:** This line item receives payments from insurance companies for the services of state examiners. The receipts are used to pay the salaries and fringe benefits of the examiners. This line item became effective May 21, 1976.

As Introduced\*

In House Finance and Appropriations

---

**Temporary Law Changes****Subject: Market Conduct Examination****Section: 61**

Allows the Superintendent of Insurance to assess the costs of the examination against the insurer when conducting a market conduct examination of any insurer doing business in this state. The superintendent may enter into consent agreements to impose administrative assessments or fines for conduct discovered that might be violations of statutes or regulations administered by the superintendent. All costs, assessments, or fines collected must be deposited to the credit of the Department of Insurance Operating Fund (Fund 554).

**Section: 61**

No change.

---

**Subject: Examinations of Domestic Fraternal Benefit Societies****Section: 61**

Allows the Superintendent of Insurance to transfer funds from the Department of Insurance Operating Fund (Fund 554) to the Superintendent's Examination Fund (Fund 555) only for the expenses incurred in examining domestic fraternal benefit societies as required by section 3921.28 of the Revised Code.

**Section: 61**

No change.