Ways and Means

Transportation & Regulatory Subcommittee

FY 2024 Budget Hearing

Blatt Building Room 318

SOUTH CAROLINA DEPARTMENT of INSURANCE

SC Department of Insurance Budget Presentation

January 17, 2023

1.5 hours after adjournment

Key Officials in the DOI

Acting Director Michael Wise: mwise@doi.sc.gov

Deputy Director of Actuarial and Market Services: Michael Wise: mwise@doi.sc.gov

Deputy Director of Financial Regulation and Solvency Dan Morris: dmorris@doi.sc.gov

Deputy Director of Licensing and Consumers Services Diane Cooper: dcooper@doi.sc.gov

Deputy Director of Legal, Legislative and External Affairs Gwen McGriff: gmcgriff@doi.sc.gov

Deputy Director of Insurance Fraud Joshua Underwood: junderwood@doi.sc.gov

Asst. to the Director Melissa Manning: mmanning@doi.sc.gov

Deputy Director of Administration Tommy Watson: twatson@doi.sc.gov

Legislative Liaison Julian Barton: jbarton@doi.sc.gov

HR Manager Grace Godwin: ggodwin@doi.sc.gov

Public Information Coordinator Katie Geer: kgeer@doi.sc.gov

http://doi.sc.gov/

About SCDOI

Organization

The Department of Insurance is an agency of the Governor's Cabinet and is managed and operated by the Director who is appointed by, and serves at the will of, the Governor upon the advice and consent of the SC Senate.

SCDOI Leadership

Michael Wise	Acting Agency Director
Diane Cooper	Deputy Director, Licensing & Consumer Services
Gwen Fuller-McGriff	Deputy Director, Legal, Legislative, & External Affairs
Dan Morris	Deputy Director, Financial Regulation & Solvency
Tommy Watson	Deputy Director, Administration
Michael Wise	Deputy Director, Actuarial & Market Services

Mission

The mission of the State of South Carolina Department of Insurance (SCDOI) is to protect the insurance consumers, 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.

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Division Contacts

Licensing & Consumer Services

Consumer Services	803-737-6180 800-768-3467 Email
Individual and Agency Licensing	803-737-6095 Email
Specialty Licensing ∘ Bail Bondsmen, Premium Service Companies ∘ Private Review Agents, Service Contract Providers, TPAs	803-737-6181 Email
Continuing Education	803-737-6223 Email

Actuarial & Market Services

Rates, Rules, and Form Filings ∘ Life, Accident and Health ∘ Property and Casualty ∘ Actuarial Services	803-737-6230 LA&H Email P&C Email

#

Financial Regulation & Solvency

Captives Licensing	843-577-3415 Email
Captives Financial Analysis, including SPFCs	803-737-6220 Email
Company Licensing	803-737-6221 Email
Traditional Financial Analysis	803-737-6188 Email
Financial Examinations (Captives and Traditional Companies)	803-737-6116 Email

Market Regulation & Public Information

Public Information & Media	803-737-5913 Email
Pharmacy Benefit Manager Oversight	803-734-0398 Email
Volkswagen Environmental Mitigation Trust	803-737-2420 Email

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Administration

Human Resources	803-737-6119 Email
Budget and Finance	803-737-6141 Email
SC Safe Home	803-737-6087 Email
Information Resource Management	803-737-6138 Help Desk
Premium Taxation and Audits	803-737-4910 Email

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Legal, Legislative & External Affairs

Freedom of Information Act and Service of Process	803-737-6153 Email
Subrogation	803-737-6158 Email
Investigations	803-737-6092 Email
Cybersecurity Event Reporting	803-737-6204 Email
Legislative Affairs	803-737-6124 Email

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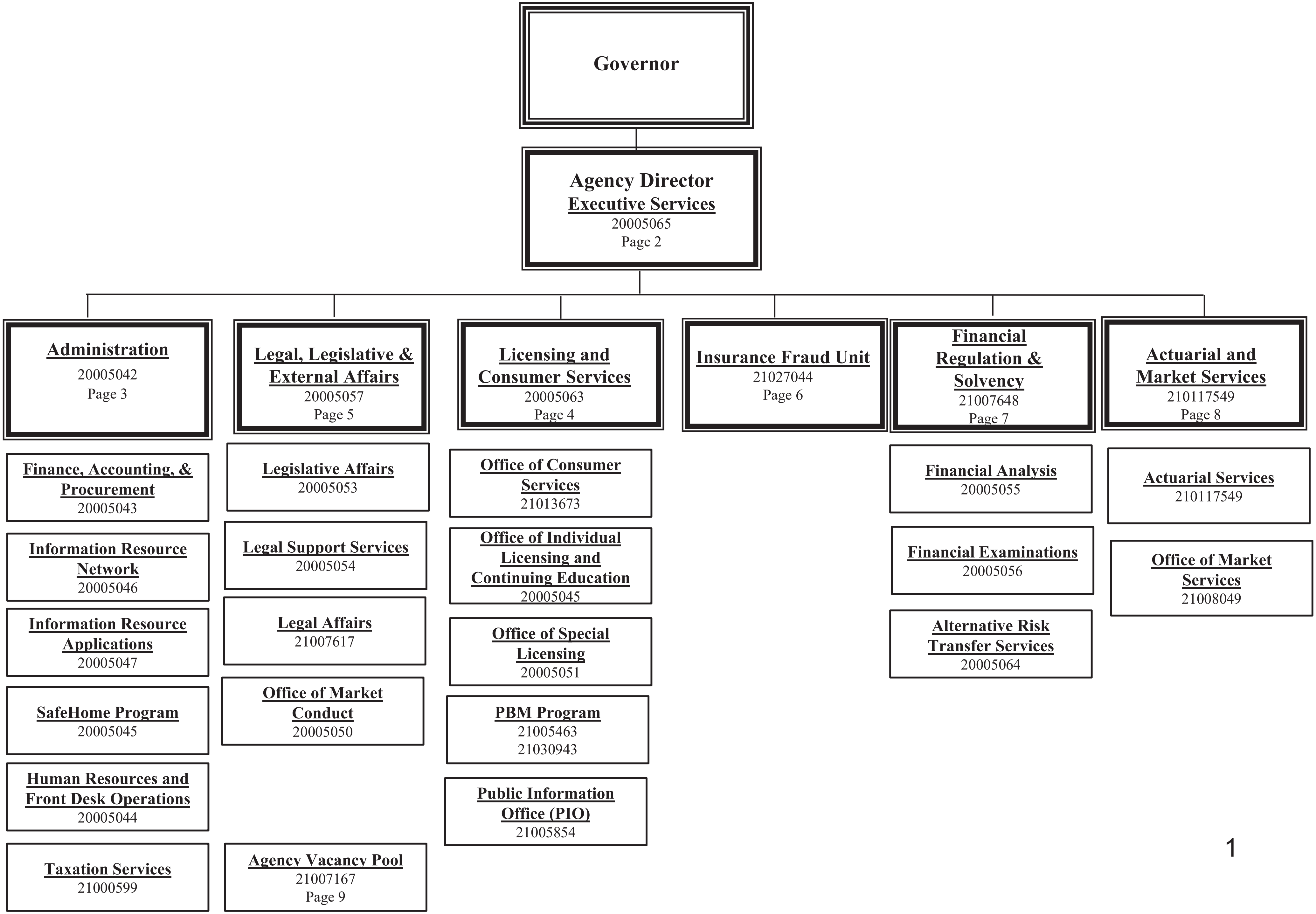
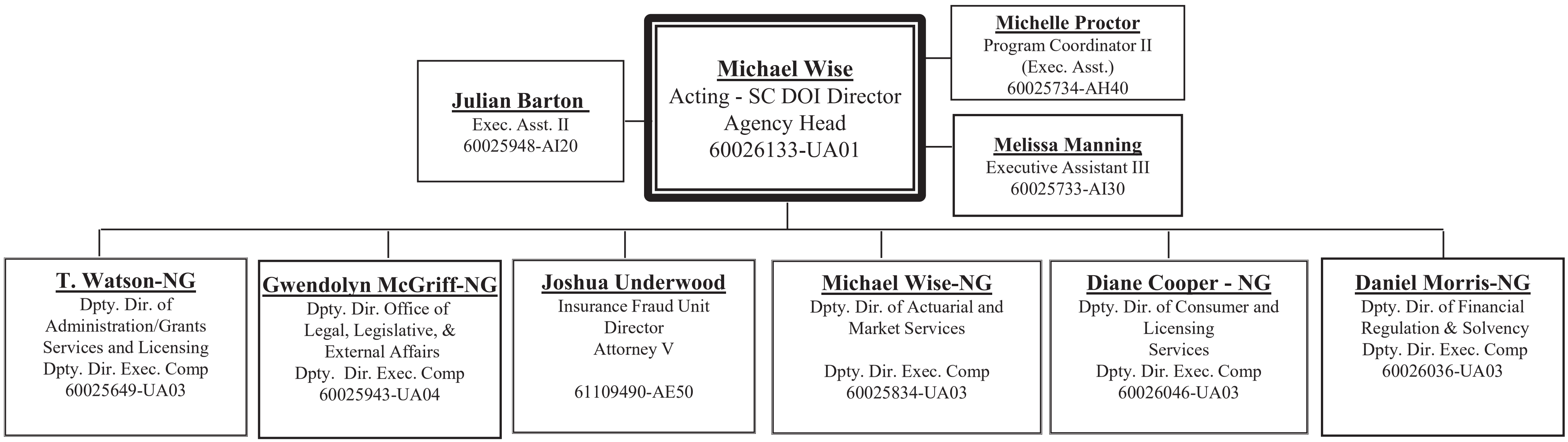
South Carolina Department of Insurance
Organizational Chart



South Carolina Department of Insurance
Executive Services



South Carolina Department of Insurance
Division of Administration

T. Watson-NG
Dpty. Dir. of
Administration/Grants Services
Dpty. Dir. Exec. Comp
60025649-UA03

Grace Godwin
HR Director I
60025842-AG20

Jamella Williams-NG
HR Manager I
60025743-AG12

Sabrina Gilchrist
Front Desk Switchboard
Admin. Spec. I
60025728-AA25

Angela Jones
HR Assistant
60025726-AA25
4/1/2022

Vacant
Administrative Spec.
60026035
AA50

Mia Mills
Payables/Payroll Acct
Senior Accountant/
Fiscal Analyst
60025741-AN07

Cathy Hundley-NG
Acct/Receivables Analyst
Accountant Fiscal Analyst
60025932-AN05

Ronnie Jefferson
Procurement Spec. II
60026026-AC20

Agency Vacancy Pool
(Page 8)

Sharon Waddell
Premium Taxation
Manager
Audits Manager I
60025740-AD15

Vacant
Professional Auditor
60025742-AN19

Desmond Haygood
Professional Auditor
60025925-AN19

Kanekia Thomas
Taxation
Apple One

Wakenna Dowell
Taxation
Apple One

Ann Roberson
SafeHome Program Manager
Program Manager I
60025735-AH45

Vacant
Program Coordinator. I
60025648-AH35

De'bograh "Nicki" Palmer
Program Coord. I
61089632-AH35

Joseph Javier
IT Manager I
60025738-AM55

Leland Todd Shirey
Systems
ProgrammerApplication/
Developer III
60025833-AM10

Derrick Brown
IT Technical Service/
Central Files
IT Manager I
60025736-AM55

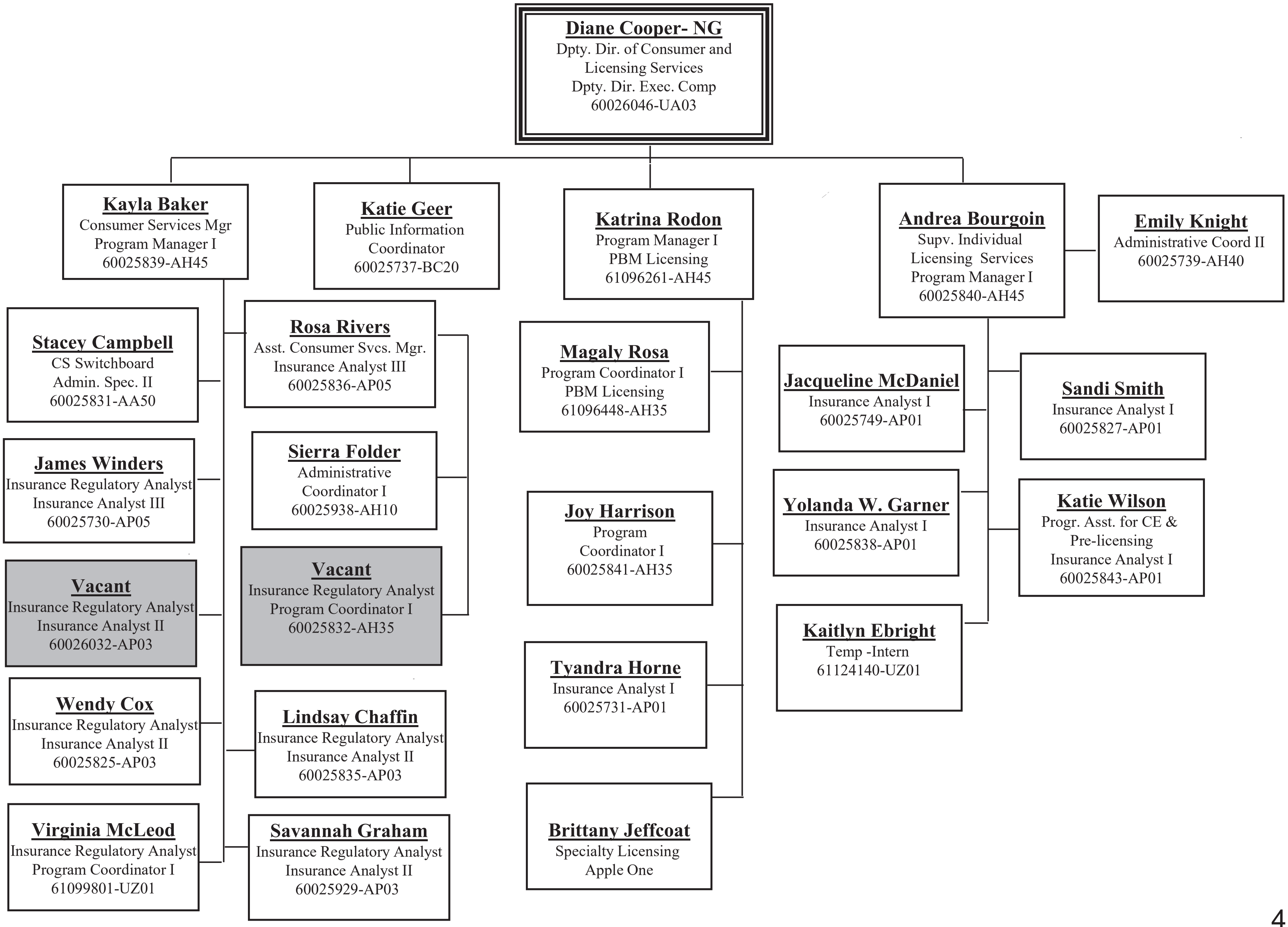
Vacant
Endpoint Technician I
60026039-AM65

Andrew Rutland
Endpoint Technician I
60025928-AM65

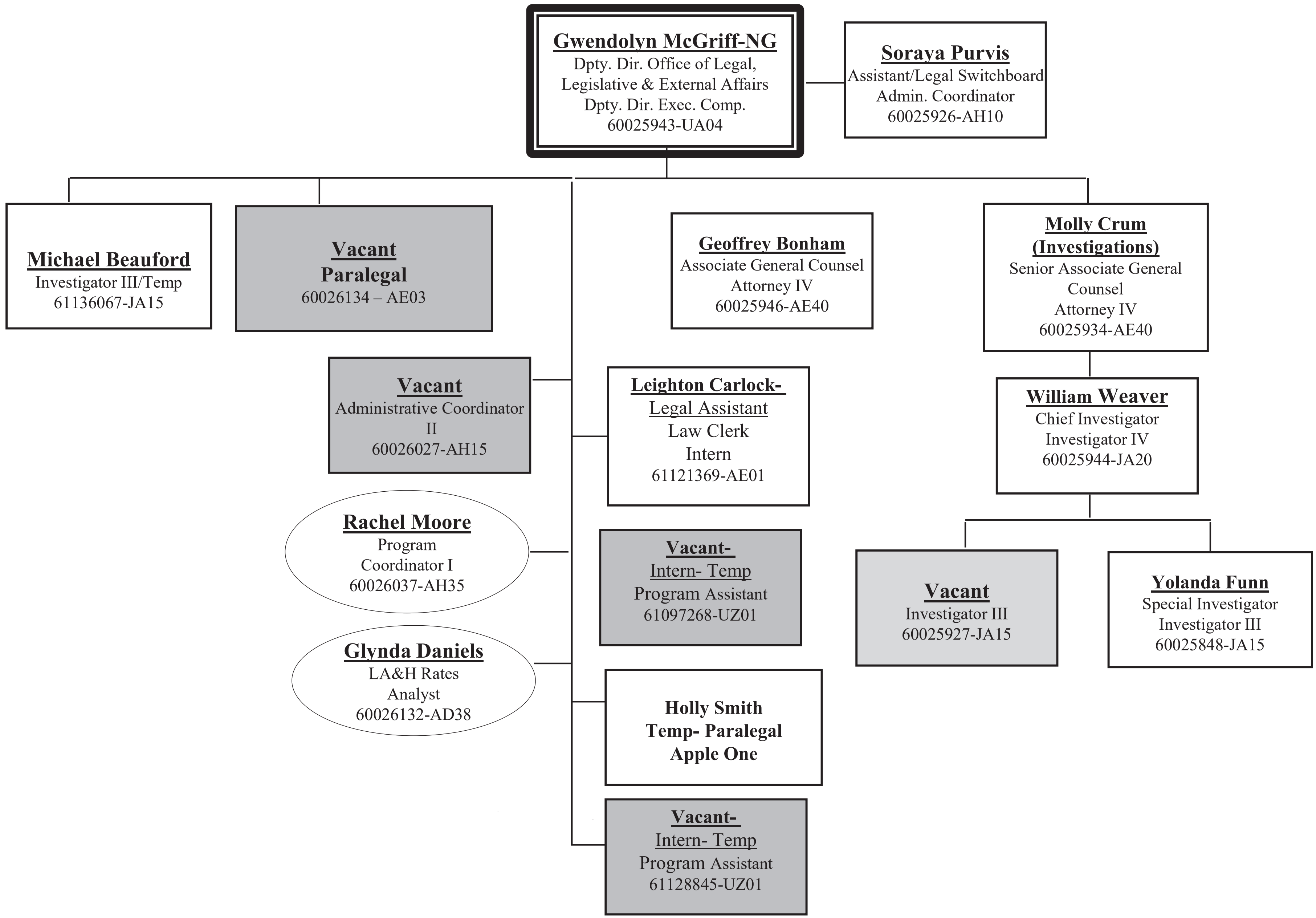
Gregg Hamby
Senior Endpoint Technician
61107470-AM68

Keerthana Guzzalarmudi
Intern - Temp
Program Assistant
6110635-UZ01

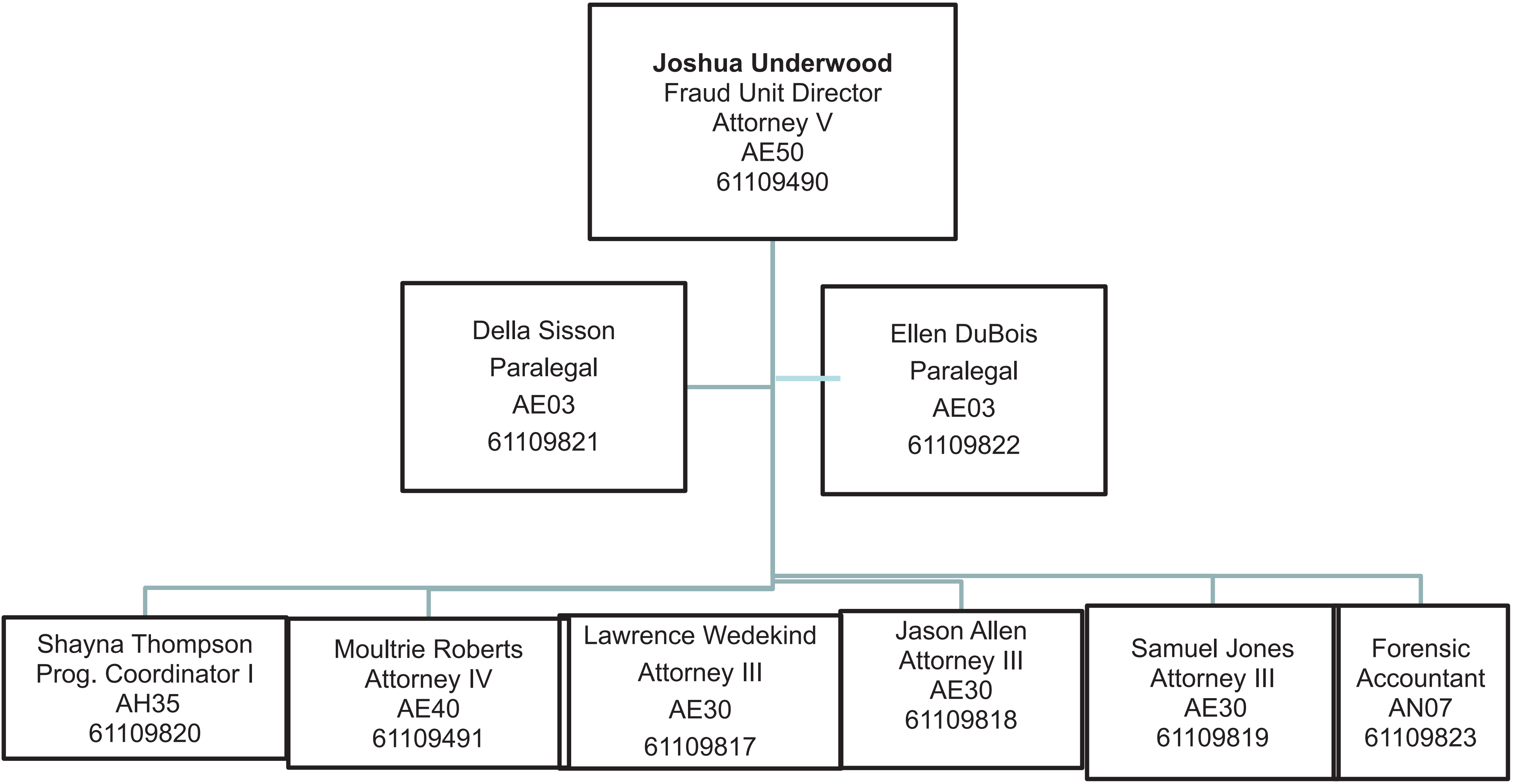
South Carolina Department of Insurance
Division of Licensing and Consumer Services



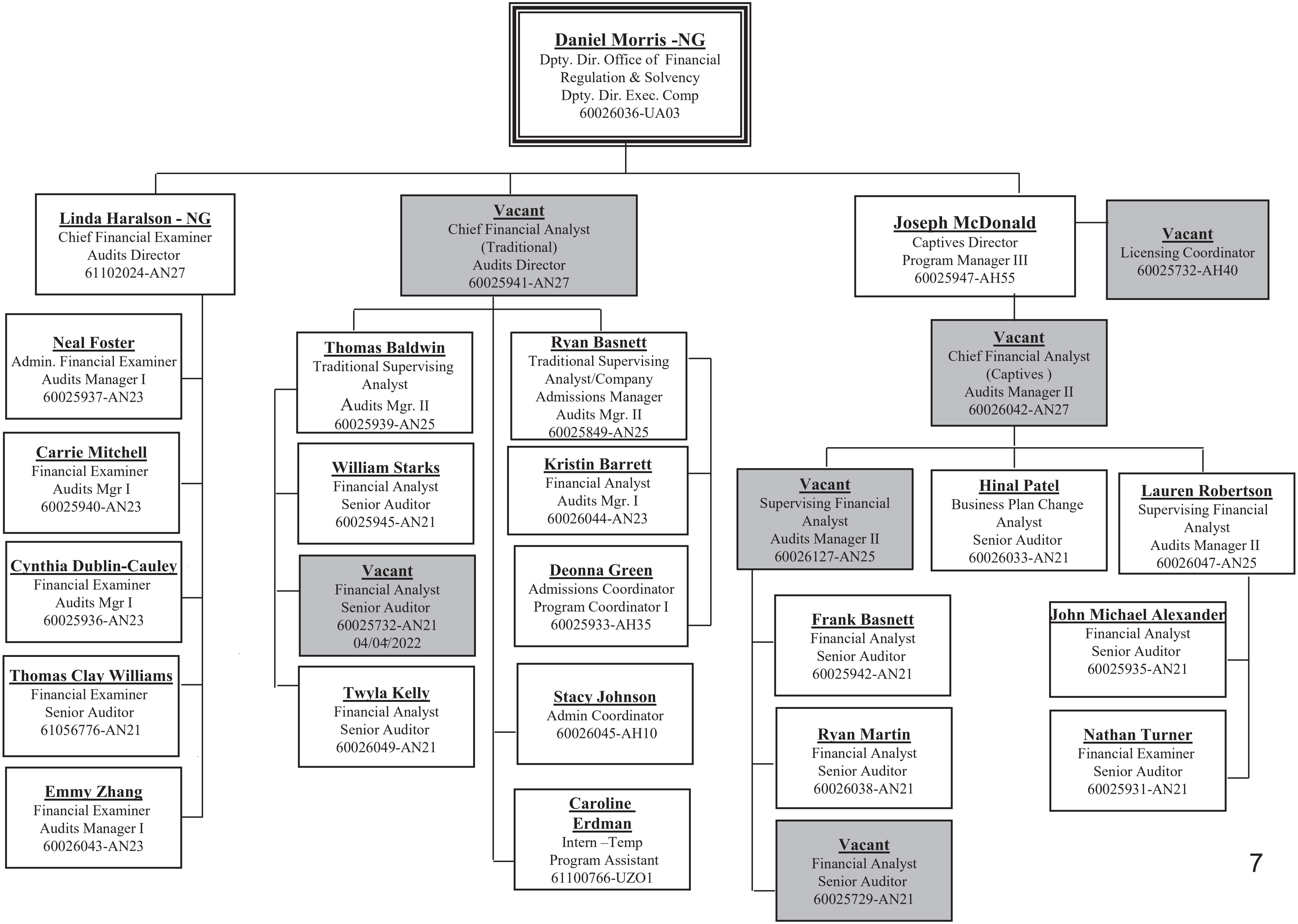
South Carolina Department of Insurance
Office of Legal, Legislative & External Affairs



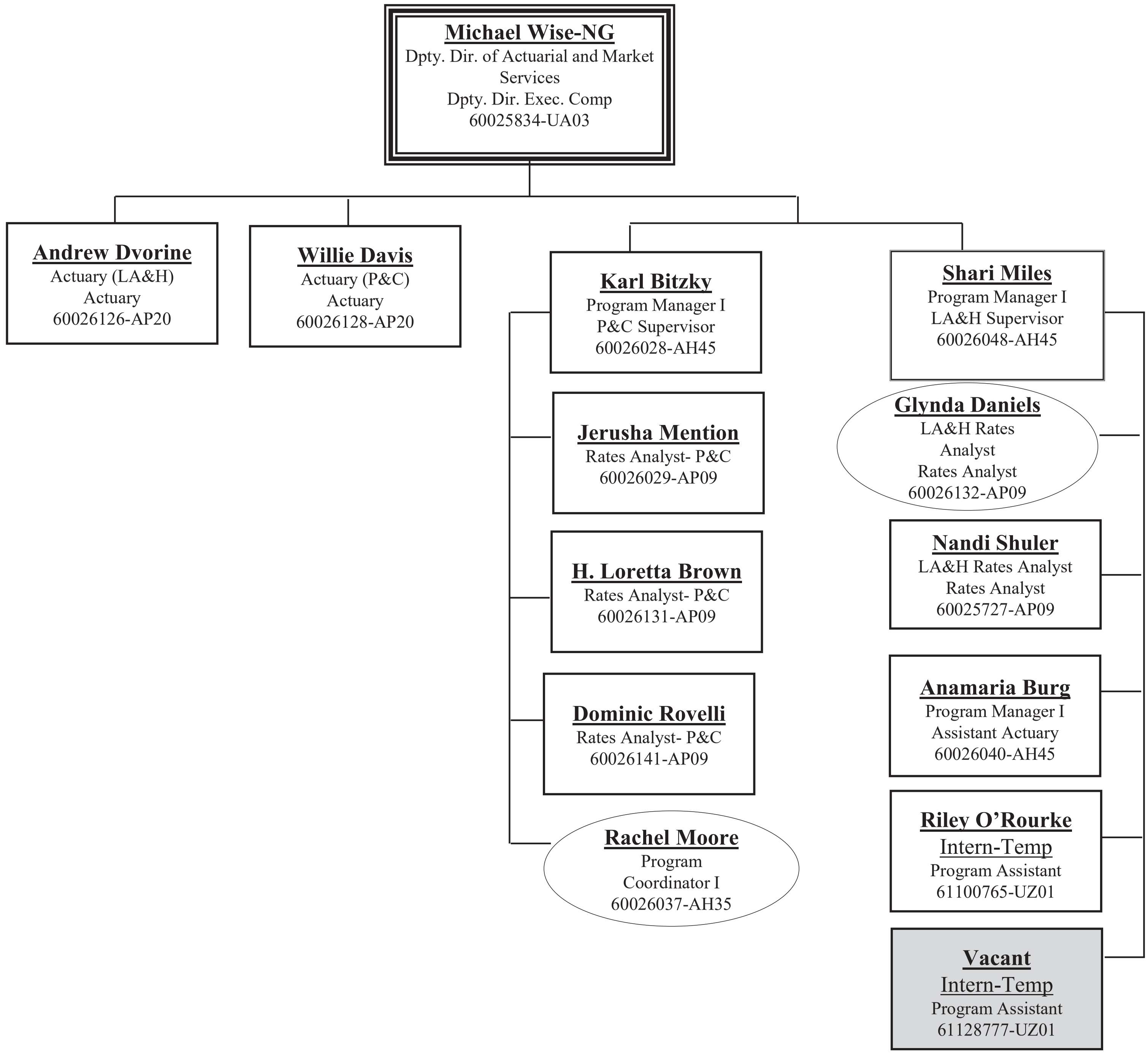
South Carolina Department of Insurance
Fraud Division



South Carolina Department of Insurance
Division of Financial Regulation & Solvency



South Carolina Department of Insurance
Division of Actuarial and Market Services



R200: SC Department of Insurance

Authorized FTE Base

Authorized Total FTE	Authorized State FTE	Authorized Federal FTE	Authorized Other FTE
106	47.3		58.7

Currently vacant positions: **22**

AGENCY'S DISCUSSION AND ANALYSIS
Key Strategic Challenges

Much of the work of the Department is influenced by changes in financial markets at the national and international level. Summarized below are the key challenges facing insurance regulation in South Carolina.

Challenge: Increased Federal Involvement in Insurance Regulation

The federal government's role in insurance regulation is increasing. Examples of the heightened federal involvement in insurance regulatory activities include the enactment of the Patient Protection and Affordable Care Act (ACA) and proposals to repeal and replace it, the Wall Street Reform and Consumer Protection Act (commonly referred to as Dodd-Frank), which created the Federal Insurance Office (FIO) within the United States Department of Treasury. FIO continues have a significant impact on U.S. insurance markets and its regulation.

The Federal Insurance Office (FIO) was established by Title V of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank). The FIO is housed within the U.S. Department of the Treasury and is headed by a director who is appointed by the secretary of the Treasury. The office provides expertise on insurance matters to the Treasury Department and other federal agencies and engages in international discussions relating to insurance. The FIO's current charges are: monitoring all aspects of the insurance industry except long term care and health insurance; monitoring the extent to which underserved communities have access to affordable insurance

The FIO also plays a role in authorizing the resolution of **troubled companies** that pose a risk to the financial stability of the United States. Accordingly, the FIO is tasked with assisting the secretary of the Treasury in negotiating **covered agreements**. Covered agreements are international agreements that provides stand-by authority for the United States Department of the Treasury and the Office of the United States Trade Representatives to address situations where state insurance laws treat non-US insurers differently as it related to reinsurance collateral requirements.. The United States was required to make revisions to credit for reinsurance statutes prior to September 1, 2022 or face potential federal preemption in this area by the Federal Insurance Office. South Carolina's amendment to the credit for reinsurance statute were effective by the established deadline.

FIO monitors the risk to the financial system posed by insurance and other financial sectors. There is concern that recent insured losses may pose a risk for the health of the financial services industry. Through its market surveillance, the FIO is also authorized to receive and collect data and information on the insurance industry and can enter into information sharing agreements with state regulators. The FIO submitted requests for information on climate-related financial risks and the insurance. Mitigation and availability of insurance are included in the topics address by the request. The Federal Insurance Office ("FIO") sent emails to insurance regulators in all 50 states asking if they gathered data regarding insurance coverage, losses and liabilities for every zip code in their state for the past five years. While the emails did not request the data, states were expected to indicate if they are able to provide such data in the future. The FIO plans to analyze the risk that insurers face from potentially paying a rising number of claims in disaster-prone areas. The data each state provides would identify the impact of climate change on protection gaps and insurance availability, particularly in at-risk markets.

The House Financial Services and General Government Fiscal Year 2023 appropriations bill contained several FIO directives including a report on the effect of wildfire risk on the insurance sector and how to ensure the availability and affordability of property insurance. Property damage exclusions is a focus of the investigative directives from Congress. There is concern from some industry groups that these "investigations" are an attempt to expand the authority of the FIO to the detriment of the state based regulatory system.

The FIO also published a Request for Information on May 27, 2021 seeking public comment on non-driving related factors in personal auto insurance underwriting and pricing such as the use of credit scoring and is analyzing data from 19 submissions. This request appears to be aimed at assessing the role of nondriving related factors in insurance pricing.

Data Privacy and Cyber Security

With the expansion of customer service portals, edata privacy and cybersecurity are two additional issues that are garnering significant attention at the federal level. Congress has introduced the American Data Privacy and Protection Act (ADPPA) which recently passed a House committee. This legislation, if enacted, would create a national standard for privacy and in effect would preempt state enacted insurance privacy statutes such as the Data Insurance Privacy Act enacted in 2018 by the South Carolina General Assembly. The bill would apply to most entities and would cover data that "identifies or is linked or reasonably linkable" to an individual. Companies would be required to make disclosures about whether the data collected is accessible to China, Russia, Iran or North Korea. Consumers would have the right to access, correct and delete their data and an opportunity to object before data is transferred to a third party. Large data holders would be required to conduct algorithm assessments to ensure the data does not discriminate on the basis of race, sex, gender or sexual orientation. Individuals would have a private right of action and could sue entities for damages. The bill would preempt state laws that cover the same topic areas as the bill and data breach notification laws.

Summarized below are highlights of other federal bills that may affect the business of insurance

Issue	Summary	Notes
No Surprises Act	The Departments of Health and Human Services, Labor, and the Treasury finalized a rule on the independent dispute resolution process under the No Surprises Act. The rule provides revised guidance for entities making arbitration decisions and imposes new requirements on issuers to provide information on how they calculate the qualified payment amount.	While the No Surprises Act has been in effect since January 1, the revised rules on the IDR process become effective around the end of October 2022.
ACA enhanced subsidies	The bill extends for three years the enhanced subsidies for ACA coverage originally passed under the American Rescue Plan Act. It requires Medicare to negotiate prices for a certain number of drugs each year, but does not extend the negotiated prices to private insurance plans. It caps consumer cost sharing in Medicare Part D at $2,000 per year.	
FTC Data Security Rulemaking	the Federal Trade Commission (FTC), on a split party vote, approved an Advanced Notice of Proposed Rulemaking (ANPR) that focuses on potential new rules and requirements that could apply to entities engaged in targeted advertising or other forms of personal information gathering and sharing. Specifically, the FTC invites comment on whether it should implement new trade regulation rules or other regulatory alternatives concerning the ways in which companies (1) collect, aggregate, protect, use, analyze, and retain consumer data, as well as (2) transfer, share, sell, or otherwise monetize that data in ways that are unfair or deceptive.	

National Flood Insurance	Legislation to reauthorize the NFIP for one year (until Sept. 30, 2023) has been introduced. In addition, Cassidy called for Risk Rating 2.0 to be rolled back. This contrasts with the 10-year reauthorization and 17-point reform plan FEMA has called for.	Current extension will expire on September 30, 2022
DOL Fiduciary Rule	The Office of Information and Regulatory Affairs, under OMB (https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202204&RIN=1210-AC02), posted that the DOL will unveil a new notice of proposed rule-making regarding the fiduciary rule for retirement advice in December of this year. The DOL's definition of fiduciary requires that retirement advisors act in the best interest of their clients and put their clients' interest above their own. As a reminder, the Fiduciary Rule was originally proposed and finalized under the Obama Administration. In 2018, the U.S. Court of Appeals for the Fifth Circuit vacated the original fiduciary rule for retirement advice. The Trump administration released its own proposal in 2020. That rule included exemptions to fiduciary conduct as long as providers adhered to "impartial conduct standards" modeled after SEC's Regulation Best Interest. The Trump Administration rule was set to go into effect in 2021, but the Biden administration delayed enforcement through 2022.	

What follows is a summary of the impact of these internal and external factors on the various divisions of the Department.

Actuarial and Market Services

Personnel changes continue to present strategic challenges and opportunities for the Actuarial and Market Services Division. The more tenured employees continue to leverage this opportunity to showcase ways that they can contribute to the Division and have taken on training and mentoring of new staff. The Division has also looked internally to further the knowledge base of all employees within the Office of Market Services Division.

Because of the limited control we have over the workload itself, we strive to focus on the areas that are within our control with a continual focus on areas for improvement in our processes. For example, the total turnaround time for insurer rate, rule, and form filings is impacted by the quality of each filing at submission, the number of times we must request additional information, support, or clarification from an insurer, and how quickly an insurer provides such information. As the aforementioned items are only minimally within our control, we have sought to emphasize the state's review time as this is entirely based upon how long it takes our staff to review a filing after submission and after a company responds to any follow-up inquiries we may have. Of course, we also understand that the total turnaround time directly impacts speed to market initiatives, so we try to balance the two metrics in our focus. Conducting business during the pandemic was an adjustment for the Department as well as its regulated entities. It initially caused delays in the submission of responses from insurers to Department questions as their staff adapted to working remotely. As the year progressed, insurers made changes to their internal processes, diminishing the delays.

To provide greater transparency for consumers, we continue to leverage SERFF Public Access, a no-cost, Internet-based solution for viewing public insurance company rate, rule, and form filings from anywhere at any time. Consumers simply click a link on our website to begin searching for filings and are then able to download the entirety of the filing or select a subset of the filing to review in more detail.

We continue our efforts to enhance our market analysis efforts, which are critical to monitoring insurer trade practices and identifying emerging trends in the market or in a specific insurance carrier/group.

As we strive to focus on ways to improve what is within our control, we continue to emphasize regular updates to our exhibits and filing/reporting resources that we provide to companies to assist them in preparing and submitting a quality filing/report at initial submission. Our goal for Actuarial and Market Services is to provide insurance carriers with as much pertinent and useful information as we can up front to assist them in complying with South Carolina's insurance laws.

Our division has also encountered additional challenges with the property and casualty marketplace following the pandemic. For automobile insurance, the mandatory shutdowns and increased numbers of work from home programs have created difficulty for insurers attempting to accurately price for future exposure. Supply chain shortages and inflation have also impacted costs and led to significant increases in private passenger automobile insurance rates. Insurers also have several different methodologies for evaluating experience post-COVID to attempt to normalize the data. Even though we do not approve methodologies, we must evaluate each insurer's proposal to ensure there is not an omission of data or failure to account for elements of the historical patterns.

The coastal property market in South Carolina has also experienced instability, primarily caused by increasing reinsurance costs contributing to the insolvency of several insurance carriers. We have been responsible for facilitating an orderly cessation of business operations for five insurers and assist other insurers in their plans to absorb some of that business. We have licensed new insurers to the state and provided guidance to current insurers throughout this difficult time. We are also committed to maintaining a stable residual market that can serve the needs of the consumers in South Carolina while not experiencing excessive growth.

The Department was designated as the lead agency for administering South Carolina's approximately $34 million allocation as a beneficiary under the Volkswagen Environmental Mitigation Trust. On December 6, 2018, the Department finalized the State's Beneficiary Mitigation Plan detailing the state's overall goal for the use of the funds and the categories of eligible mitigation actions the state anticipates to-be appropriate to achieve these goals, among other things. The Department issued a request for applications on March 18, 2019 in order to award up to $10 million in funding under the state's allocation. Approximately $9.33 million in funding was awarded on July 30, 2019 to replace school and transit buses. The Department issued a second request for applications in December 2020 seeking to award up to $24,622,804 in funding (the remaining balance under the state's $34 million allocation). Approximately $24.54 million in funding was awarded on April 13, 2021 to replace school and transit buses. Additional details relating to the awards are available on the www.doi.sc.gov/vwsettlement webpage.

Consumers, Licensing Services and Public Information

Personnel changes have historically presented strategic challenges and opportunities for the Licensing and Consumer Services Division. Last year, three new insurance regulatory analysts and an administrative coordinator were brought on board in the Office of Consumer Services with a combined forty-years of experience in the insurance industry. The depth of talent grew considerably, leading to greater efficiencies and service to consumers. In the coming year, retention becomes the focus as some staff becomes eligible for retirement and others seek promotions within the Department. Knowledge transfer has been a key focus this year to ensure a solid succession plan. The Division continues to further the knowledge base of all employees within the Licensing and Consumer Services Division. All Consumer Services analysts are currently involved in professional development programs.

Many of the duties and responsibilities of the Licensing and Consumer Services Division are dependent upon external factors; the number of consumer calls, consumer complaints, and licensing applications that Division staff must process is directly correlated to how many consumers contact us for assistance. As a result, it can be challenging from a strategic planning perspective to manage resources effectively while ensuring an efficient turnaround of consumer submissions.

Because of the limited control we have over the workload itself, we strive to focus on the areas that are within our control with a continual focus on areas for improvement in our processes. For example, the total turnaround time for complaint resolution depends on how timely and thoroughly companies respond to consumer complaints. Process and technological improvements implemented over the past several years have resulted in continued improvement in complaint turnaround time while simultaneously improving the quality of complaint files.

Content on our website is updated continuously and now includes complaint summary information for carriers doing business in the state by line of business. Frequently asked questions are also posted and updated on a regular basis.

The Licensing & CE Division continues to work with the NAIC and the National Insurance Producer Registry (NIPR) to modernize and streamline our processes and take steps to improve uniformity and reciprocity with regards to producer licensing. The Licensing & CE Division has updated laws, regulations, and business rules to meet technical best practices recommended by NIPR to obtain uniformity with other states and substantially lessen the complexity of the licensing process for our end users (i.e. producers).

The agency continues to work toward increasing efficiency and accountability for employees. The newly implemented SEGRA call center software provides excellent oversight of agent availability and call monitoring. The new system includes a call center function and provides in-depth reporting functionality. This has proven extremely beneficial even with employees now back in the office. Management can easily ensure telephone coverage and monitor calls for quality assurance and training purposes, resulting in better service for consumers.

The licensing office was further reorganized to increase efficiency and productivity of the staff. Our offices of specialty licensing and Pharmacy Benefit Manager Oversight were merged in an effort to leverage resources and provide growth paths for talented resources. This unit will continue to build out as our regulatory authority over PBMs potentially increases with upcoming legislative efforts. We will continue to tweak these assignments to maximize operational quality, service efficiency, and Departmental productivity, with increased attention to knowledge transfer and the addition of promotable staff to back up existing management.

Financial Regulations & Solvency

The key strategic challenges confronting the Financial Regulation & Solvency Division involve our ability to effectively regulate the financial solvency of our domestic industry and maintain our NAIC accreditation, license and monitor non-domestic companies writing South Carolina business, implement new regulatory standards in response to legislative changes, respond to systemic financial crises impacting insurers that are members of a holding company system, and grow the domestic captive insurance industry.

The NAIC Accreditation Program was established to develop and maintain standards to promote effective insurance company financial solvency regulation. The purpose of the accreditation program is for state insurance departments to meet baseline standards of solvency regulation, particularly with respect to regulation of multi-state insurers. NAIC accreditation allows non-domestic states to rely on the accredited domestic regulator to fulfill a baseline level of effective financial regulatory oversight. This creates substantial efficiencies for insurance regulators, who are then able to coordinate and rely on each other's work. It also creates far greater efficiencies for insurance companies licensed in accredited states, which are then not subject to financial examinations or other financial oversight by multiple jurisdictions. All fifty states, the District of Columbia, and the U.S. Virgin Islands are currently accredited.

For a state to remain accredited, an accreditation review must be performed at least once every five years with interim annual reviews. The SCDOI completed their last full review in November of 2021 and was reaccredited for another five years. This review entailed a full review of laws and regulations, the financial analysis and financial examinations functions, department oversight, organizational and personnel practices, primary licensing, redomestications, and change of control of domestic insurers to assist in determining our compliance with the accreditation standards.

In addition to licensing domestic insurers and ensuring they remain solvent, the Department is also responsible for taking regulatory action when deemed necessary. Regulatory actions may include administrative supervision, rehabilitation, and/or liquidation, and Department staff may be called upon to serve in any of these capacities. We also have an obligation to ensure that non-domestic entities writing business here are fully able to pay claims when due. While placing a certain amount of reliance on other states pursuant to the accreditation program described above, we also occasionally place restrictions on companies prior to licensing them so we must continually monitor their compliance with said restrictions and take any action, if necessary, usually in conjunction with their domestic state.

The increasing globalization and interconnectedness of financial services firms with other, non-financial firms, has given rise in recent years to systemic risks of a potentially international nature. In response, U.S. insurance regulators continue to reevaluate their group supervisory framework and pay close attention to the risks that are created by activities going on outside of those entities as well as the reputational and contagion issues that could exist. South Carolina, as well as all other U.S. jurisdictions, continues to work to understand the effects of the international discussions on insurance regulation and supervisory standard-setting on the U.S. regulated industry. The Department is actively following these international discussions through the efforts of several different working groups created by the NAIC.

South Carolina is also recognized as a leading onshore domicile for captive insurance companies and another key challenge for our division involves growing the domestic industry, maintaining our stellar reputation as a domicile of choice for operating companies that generally do business on a national or global scale, and regulating these entities for solvency. We routinely exhibit at industry conferences, partner with service providers based in South Carolina to license new companies, work with the legislature to keep our statutes competitive with other states, and generally play our part in bringing value to captive owners so that they continue to make a material economic impact in the state.

The Department's ability to recruit and retain competent and qualified staff continues to be a challenge for the agency. During the past rating period, the Financial Regulation Division has continued to reorganize to enable the Department to meet these new regulatory challenges. Additional reorganization and effective succession planning will continue to be necessary as members of the Division retire or transition to other opportunities. To address these concerns, the Division has hired interns, permitted other employees within the agency to job shadow, and mentored employees who may have an interest in financial regulation to ensure a qualified pool of financial regulators.

Office of General Counsel, Compliance and Enforcement

The Office of General Counsel provides legal services and advice to the Department of Insurance. The Office provides a variety of legal services including compliance and enforcement, FOIA, Service of Process and advice and counsel to all areas of the Department. It also reviews or drafts rules, orders, bulletins and provides legal support for legislative issues (when needed) and litigation and subpoenas involving the agency.

Fulfilling the Office's core legal and market regulatory responsibilities, hiring staff and implementing succession strategies are the OGC's priorities this fiscal year. The Office of General Counsel is in a state of transition due to staff retirements, resignations, and an employee reassignment. There has been an 80% turnover in staff since 2017.

This transition is an opportunity for the office to rebuild its staff and improve processes and procedures, but it also presents a challenge to recruit employees during the Great Resignation era with the experience and training needed to be effective in the position within 180 days of employment. Accordingly, the Office is focused on developing and finding training opportunities unique to the work of this Department.

Effective FY 2018-19, all SCDOI employees were also required to assist with the development of knowledge transfer plans (KTPs) to minimize the loss of institutional knowledge upon the employee's separation from the Department. In addition, the Office of General Counsel is in the process of developing detailed procedures for the core legal responsibilities of the office for each position assigned to this office. These procedures will be housed in paper and electronic formats on the OGC SharePoint site as well as the OGC's HighQ file management site that is being customized for the Office's use. It is envisioned that the OGC will transition to the HighQ document management system by the end of this 2022 calendar year.

The highlights for the past fiscal year include:
- Drafted or reviewed 11 insurance regulatory bulletins; recommended the withdrawal of 7 bulletins;
- Reviewed 2 mergers and acquisitions for legal sufficiency and drafted the respective orders;
- Represented in the Department in 5 civil litigation matters including an action with significant implications for state-based insurance regulation;
- Processed 52 FOIA requests;
- Handled 4864 Requests for Service of Process;
- Represented or advised the Department in 8 insurance company receivership matters;
- Updated training and developed an Employee Training Series for SCDOI employees and supervisors on various topics; and
- Updated policies and procedures, checklists and other templates aimed at improving the efficiency of the legal function at the Department and the office's transition to another document management platform.

The foregoing is not an exhaustive list.

Compliance and Enforcement

The Department enforces the insurance laws of the State of South Carolina. It is responsible for investigating, examining and resolving cases involving insurance companies, health maintenance organizations (HMOs), producers, agencies, other licensees and applicants. Violations are resolved through consent order, voluntary compliance and through the imposition of administrative disciplinary actions. The Compliance and Enforcement functions consist of Investigations and market regulatory oversight.

Investigations

The Investigations Unit within the Office of General Counsel receives referrals from business units throughout the agency and complaints from external stakeholders. It reviews, investigates or assists with issues related to statutory violations; unauthorized transaction of insurance business; unfair methods of competition; unfair or deceptive acts or practices in the insurance business; unfair claims settlement practices; and disaster-related claims handling.

Following an investigation, the Office of General Counsel may bring disciplinary actions that result in administrative penalties; license revocations and suspensions; monitored agent probations; or administrative penalties. Cases involving fraud are being referred to the Insurance Fraud Unit of the Attorney General's Office for review and prosecution until the Insurance Fraud Unit within the South Carolina Department of Insurance is established. Set forth below are some of the highlights of the Department's enforcement activities this past fiscal year:

Investigations Files Opened	468
Investigation Files Closed	392
License Suspensions	0
License Probation	2
Warning Letters	128
License Revocations	71
AG Referrals	2
Cease and Desist Letters	3

Market Regulation

Market regulation refers to regulatory oversight that primarily focuses on regulated entities' compliance with insurance laws and regulations other than those related to financial solvency. Market regulation complements financial solvency regulation. For example, problems spotted during a market conduct review may be a precursor to financial solvency concerns or vice versa. Market regulation also evaluates companies' fulfillment of contractual obligations to their policyholders and claimants. Staff members (2 employees) perform a combination of in-house reviews and on-site, targeted examinations of company submissions, records and operations in order to execute these responsibilities. They also coordinate multi-state examinations through the National Association of Insurance Commissioners (NAIC).

During the past fiscal year, market regulation staff accomplished the following:

- Completed 51 level 1 reviews of insurer market conduct covering 225 lines of business;
- Opened file and reviewed 22 complaints/referrals to determine whether there were market conduct related violations of the South Carolina insurance laws; and
- Participated in 5 market conduct examinations.

Insurance Fraud Division

The Insurance Fraud Division was established by the Omnibus Insurance Fraud and Reporting Immunity Act in 1994. This Act created the Division within the Office of the Attorney General to prosecute insurance fraud throughout the State. The Act further requires the South Carolina Law Enforcement Division (SLED) to investigate allegations of insurance fraud. In 2021, the Office of the Attorney General, SLED, and the Department of Insurance entered into a Memorandum of Understanding to relocate the Insurance Fraud Division to the Department of Insurance.

The first challenge faced by the Department is the building of this new Insurance Fraud Division. Shortly after entering the MOU, the Department was able to acquire additional office space to house the new employees of the Division as well as the SLED agents assigned to investigate insurance fraud. Although the Insurance Fraud Division moved from the Attorney General's Office to the Department of Insurance, the AG employees of the Division remained with that office. The new Director of the Insurance Fraud Division joined the Department of Insurance in September 2021. Despite a competitive job market coming out of the Covid-19 pandemic, three additional prosecutors and two paralegals were hired and joined the Division by January 2022. An additional prosecutor is expected to be hired and start in the fall of 2022. To further demonstrate the dynamic employment market and competition with the private sector and non-state agencies, one of the original prosecutors hired in late 2021 will be leaving the Department to work for a local agency with a very flexible work schedule. This will create an additional attorney vacancy to be filled in the fall of 2022.

A challenge that accompanied the transition is the vast backlog of cases dating back several years. This backlog includes cases at the prosecution stage and a large number of cases classified as under investigation. While the Attorney General's Office retained some of the cases at the prosecution stage, many of the cases came to the Department of Insurance. The new insurance fraud prosecutors have already been going to court and resolving some of these older cases by guilty pleas. Some of the cases pending investigation have been re-examined and declined because they lack prosecutorial merit.

This backlog has presented particular challenges for over three reasons. First, the networks and systems of all 3 agencies are not compatible which makes the transfer of the files very cumbersome and time consuming. Second, flow of new complaints has not slowed. This requires a tenuous balance of addressing backlog cases while preventing new cases from becoming part of the backlog. Third, there was no case management system accompanying the backlog of cases nor was there an existing case management system capable of the backlog or new insurance fraud cases in existence at the Department of Insurance.

To address these challenges, the Department of Insurance is developing a new case management system (HighQ) to track and dispose of cases while recording important reporting and trend data at the same time much more efficiently. This new system will also aid in the transfer of files between the Insurance Fraud Division and the assigned SLED agents who will have limited access to the new system. Once this new case management system is fully in place and the Division if fully staffed, we expect to be able to better address new cases and the backlog at the same time.

Challenge: Cybersecurity and Insurance Regulation in a Digital World

The insurance sector is rapidly shifting to digital platforms or technology and is becoming increasingly reliant on digital technologies for internal operations and customer service. Digital technologies such as social media, mobile telephone applications and data analytics are changing the way consumers interact with insurance companies and driving the industry toward more technological or digital initiatives that make their business more efficient and cost effective.

The increased use of this technology and artificial intelligence means that insurers are prime targets for data/information security breaches. State and federal governments are enacting laws to protect consumer information from hackers and from being sold without the consumer's consent. This technological reliance also brings additional regulatory challenges involving potential unfair discrimination. The NAIC Big Data and Artificial

Intelligence (H) Working Group is charged with reviewing existing regulatory frameworks used to oversee the insurers' use of consumer and non-insurance data.

This Department continues to monitor cybersecurity in the insurance sector closely. In addition, regulators work with insurers to resolve immediate concerns when a data breach occurs at an insurance company. State insurance regulators are also in the unique position of regulating and monitoring the solvency and market activities of insurance carriers underwriting cybersecurity policies.

South Carolina enacted and implemented the first Insurance Data Security Act (modeled on federal law). The reporting requirements went into effect in January 2019 and licensees that are not exempt from the Act were required to have an information security program in place by July 1, 2019. The Department has received 139 notifications to date with 72 of those notices in the past fiscal year. The majority of these notices appear to involve actions by third party vendors.

Congress is considering federal bills that may preempt state laws in this area such as the American Data Privacy and Protection Act (ADPPA). This legislation, if enacted, may preempt state enacted insurance privacy statutes such as the Data Insurance Privacy Act enacted in 2018 by the South Carolina General Assembly and state breach notification laws. Some members of industry are supporting federal legislation. A federal framework will impact that states' ability to protect the personal data of its consumers.

Challenge: Workforce Planning and Capacity

Our agency's workforce risks are not unlike many other organizations when it comes to an increasing number of retirement eligible employees and the potential loss of their expertise and institutional knowledge. Starting with FY20, we have taken more proactive steps toward improving our Workforce Plan. Every employee now completes an Individual Development Plan (IDP) and the "most urgent" positions held by employees will also complete a Knowledge Transfer Plan (KTP). Both are incorporated into the annual performance review process. These documents will capture our most "critical" tasks and establish yearly objectives to document and cross-train others to minimize the number of tasks where institutional and expertise is limited to only a few "key" employees. We are considering hiring a consultant to review our plan and processes. No other agencies appear to have a model like ours to follow.

All managers were required to have an objective, starting with their FY20 Planning Stage that addresses Workforce Planning performance measures.

Moreover, Department employees are also being encouraged to take courses to obtain insurance related designations and certifications to enhance their insurance knowledge and otherwise prepare them for advancement opportunities as they become available within the organization. Employees are being cross-trained, mentored and allowed to shadow employees in positions in which they may have an interest. While no guarantees of promotions or employment are made, these efforts help the Department in the event of an unexpected absence and help prepare the employee should an opportunity become available. Because of these collective efforts, the Department has been able to recruit applicants as well as retain and promote employees with significant insurance knowledge into positions at the Department.

The foregoing discussion summarizes the internal and external factors that impact this agency. It is within this environment that the Department attempts to regulate the South Carolina insurance marketplace. Senior leadership reviews market performance and other regulatory challenges annually. From this, the Department develops its goals and objectives and legislative and other policy recommendations.

Summarized below are the Department's significant achievements during the fiscal year ending June 30, 2022:
Collected $303,881,164 in revenue from taxes, fees, assessment and fines, etc.
Reviewed and analyzed 9,274 rate, rule and form filings. 6,693 were related to property and casualty insurance products and the remaining 2,581 were related to life, accident and health insurance products. The Department's Office of Consumer Services resolved 2,924 complaints during the fiscal year. Reviewed the South Carolina Code of Laws, Title 38 to determine what, if any, laws that are unnecessary and issued 10 bulletins clarifying issues related to the implementation of South Carolina insurance laws. Implemented a more robust outreach plan which consists of an enhanced website, additional community events, and enhanced market assistance activities in the communities affected by various disasters or other natural events. Enhanced the quality and efficiency of the services provided to stakeholders by automating processes and upgrading technology to enable the Department to be more responsive and to secure the data maintained by the agency.

Risk Assessment and Mitigation Strategies:

The mission of the Department is to protect consumers by regulating the insurance industry, promoting a stable and competitive insurance market and enforcing the insurance laws of the state. The Department regulates the industry to assure consumers that insurers transacting business in this state will fulfill their policyholder obligations, i.e., provide the benefits contracted for under the policy. Solvency and market regulation are among the most important consumer protection functions performed by the Department. Market regulation and surveillance activities must also include initiatives to protect consumer information.

Data security and privacy continue to be a significant risk factors for most organizations. The more data the Department retains the greater the risk exposure. Emerging data sources such as social media, Office 365, G-mail and cloud-based collaboration applications are targets for hackers.

The other significant data risk exposure comes through remote working arrangements. While the Department can monitor the use of its systems, it is difficult to monitor other intentional or inadvertent disclosures of confidential information while employees are working from an alternate location.

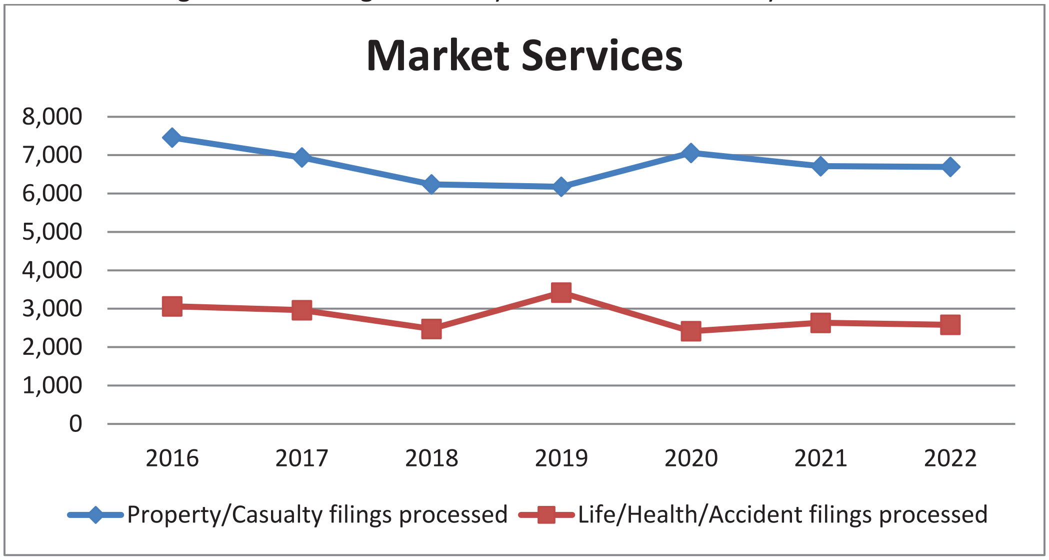
The Department attempts to minimize its risk exposure by limiting the amount of PII its collects and maintains, destroying unnecessary files in accordance with state record retention requirements, conducting phishing campaigns, limiting employee access to data (least privilege) and regularly requiring employees participate in KnowB4 training modules. Compliance with Department data security requirements are also included in employee performance appraisals.

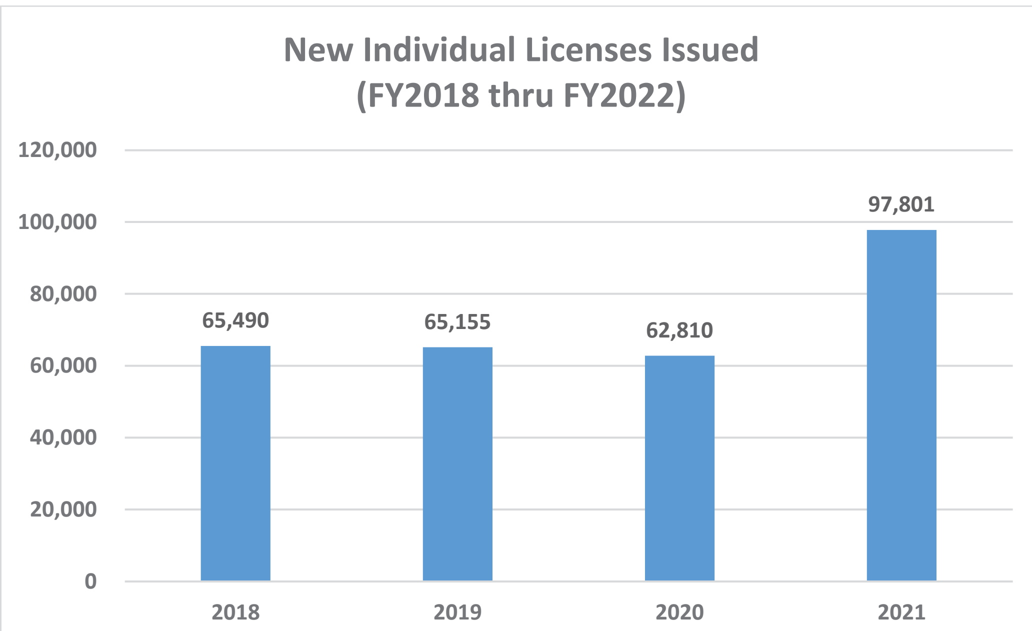
Over the course of the next fiscal year, the Department will continue its efforts to review and update the Department's data security and privacy policies and procedures as well as its record retention policies and processes and to implement an employee training series that will include training on these topics.

Legislatures can help mitigate the risk by:

- Appropriating sufficient funds or providing a dedicated funding source to ensure the Department to enable the Department to attract and retain adequate and competent personnel; and

- Review and enact laws periodically to ensure that they protect the insurance-buying public from improper market practices and are compatible with new electronic delivery platforms and artificial intelligence technologies used by the insurance industry.





Using the Accountability Report to Improve Organizational Performance

The Department uses the Accountability Report to annually evaluate and critique the progress of the agency's strategic plan. The Report is also used to initiate discussion about potential changes or additions to the current year's action plan. Through this process, the performance measures are accurately linked to larger, strategic goals in such a way that promotes the Department's transparency, efficiency, and effectiveness and commitment to its stakeholders.

Expenditures/ Appropriations Chart

Base Budget Expenditures and Appropriations

MAJOR BUDGET CATEGORIES	FY 21-22 ACTUAL EXPENDITURES	
	Total Funds	General Funds
Personal Service	$ 5,919,383	$3,329,269
Other Operating	$ 4,247,352	$1,314,223
Special Items		
Permanent Improvements		
Case Services		
Distributions to Subdivisions	$ 2,154,215	
Fringe Benefits	$ 2,289,480	$1,276,288
Non-recurring		
Total	$14,610,430	$5,919,780

MAJOR BUDGET CATEGORIES	FY 22-23 APPROPRIATIONS ACT		
	Total Funds	General Funds	Actuals (YTD_ 12-16-22)
Personal Service	$ 7,898,862	$3,790,277	$3,165,702
Other Operating	$ 8,340,185	$1,610,549	$2,078,954
Special Items			
Permanent Improvements			
Case Services			
Distributions to Subdivisions	$ 2,155,000		$2,153,551
Fringe Benefits	$ 2,718,567	$1,442,034	$1,182,743
Non-recurring			
Total	$21,112,614	$6,842,860	$8,580,950

Major Program Areas Chart

Program Number and Title	Major Program Area Purpose	FY 21-22 Budget Expenditures
Administration	Administration: Office of General Counsel, Information Resource Management(IRM), Executive Services	**State**: 1,697,537 **Federal:** **Other**: 589,497 **Total:** 2,287,034 **% of Total Budget:** 15%
Solvency	Solvency: Financial Examination, Market Conduct Examinations, Financial Analysis, Securities, Securities Custodian and Historical Databases	**State:** 391,477 **Federal:** **Other:** 964,715 **Total:** 1,356,192 **% of Total Budget** 9%
Licensing	Licensing: Individual Licensing, Companies, Insurer/HMO Licensing, Education, Special Services Division, Third Party Administration Licenses, Utilization Review and Service Contract Providers	**State:** 260,625 **Federal:** **Other**: 500,019 **Total:** 760,644 **% of Total** Budget 5%
Captives	Captives & ARTS MKT SVC's	**State:** **Federal:** **Other:** 1,054,780 **Total:** 1,054,780 **% of Total Budget** 7%
Policy	Policy Forms and Rates: Review Financial Condition and Residual Markets, Consumer Assistance	**State**: 874,888 **Federal:** **Other:** 271,386 **Total:** 1,146,274 **% of Total Budget** 8%
Safe Homes	Hurricane Mitigation	**State:** **Federal:** **Other:** 1,632,302 **Total:** 1,632,302 **% of Total Budget** 12%
Fringe Benefits	Employer Fringe Benefits	**State:** 1,276,288 **Federal:** **Other:** 1,013,192 **Total:** 2,289,480 **% of Total Budget** 16%

Remainder of Expenditures **(Consumers, Taxation, Fraud & Uninsured Motorist)**	**State:** 1,418,965 **Federal:** **Other:** 2,664,759 **Total**: 4,083,724 **% of Total Budget** 28%

Carry forward information $330,502.50

The Department of Insurance did have some carry forward from fiscal year 2022 into fiscal year 2023. This was because the new Fraud Division (started 7/1/2021) took a little while to get fully staffed up.

Doc. Date	Doc Year	Entry Docu	Line	Version	Doc. Type	Process	Created on	Year	Budget Type	Fund	Funds Ctr	Cmmt Item	Functional Area	Grant	Funded Program	Amount LC	Curr
08/17/2022	2023	1000858653	000106	0	CFGF	Carry For. Recv	08/17/2022	2023	Carryforward Gen Fund	10010000	R2000000	561000	0000000000000000	NOT RELEVANT	8900.000000X000	330,502.50	USD

FY 23-24 Prioritized Budget Request Summary													
SC Department of Insurance													
BUDGET REQUESTS				FUNDING					FTEs				
Priority	Request Type (recurring, non-recurring, capital)	Request Title	Brief Description	General - Recurring	General - Nonrecurring	Other	Federal	Total	State	Other	Federal	Total
1	NO REQUEST							0				0.00
2								0				0.00
3								0				0.00
4								0				0.00
5								0				0.00
6								0				0.00
7								0				0.00
8								0				0.00
9								0				0.00
10								0				0.00
11								0				0.00
12								0				0.00
13								0				0.00
14								0				0.00
15								0				0.00
16								0				0.00
17								0				0.00
18								0				0.00
19								0				0.00
20								0				0.00
TOTAL BUDGET REQUESTS				$ -	$ -	$ -	$ -	$ -	0.00	0.00	0.00	0.00

Agency Name:	Department Of Insurance		
Agency Code:	R200	Section:	78

Fiscal Year FY 2023-2024
Agency Budget Plan

FORM A - BUDGET PLAN SUMMARY

OPERATING REQUESTS (FORM B1)	For FY 2023-2024, my agency is (mark "X"):	
		Requesting General Fund Appropriations.
		Requesting Federal/Other Authorization.
	X	Not requesting any changes.

NON-RECURRING REQUESTS (FORM B2)	For FY 2023-2024, my agency is (mark "X"):	
		Requesting Non-Recurring Appropriations.
		Requesting Non-Recurring Federal/Other Authorization.
	X	Not requesting any changes.

CAPITAL REQUESTS (FORM C)	For FY 2023-2024, my agency is (mark "X"):	
		Requesting funding for Capital Projects.
	X	Not requesting any changes.

PROVISOS (FORM D)	For FY 2023-2024, my agency is (mark "X"):	
		Requesting a new proviso and/or substantive changes to existing provisos.
		Only requesting technical proviso changes (such as date references).
	X	Not requesting any proviso changes.

Please identify your agency's preferred contacts for this year's budget process.

	Name	***Phone***	***Email***
PRIMARY CONTACT:	Tom Watson	(803) 737-6141	twatson@doi.sc.gov
SECONDARY CONTACT:	Mia Mills	(803) 737-6111	mmills@doi.sc.gov

I have reviewed and approved the enclosed FY 2023-2024 Agency Budget Plan, which is complete and accurate to the extent of my knowledge.

	Agency Director	***Board or Commission Chair***
***SIGN/DATE*:**		
***TYPE/PRINT NAME*:**		

This form must be signed by the agency head – not a delegate.

Agency Name:	Department Of Insurance
Agency Code:	R200
Section:	78

BUDGET REQUESTS			FUNDING					FTES				
Priority	Request Type	Request Title	State	Federal	Earmarked	Restricted	Total	State	Federal	Earmarked	Restricted	Total
TOTALS			0	0	0	0	0	0.00	0.00	0.00	0.00	0.00

Agency Name:	Department Of Insurance		
Agency Code:	R200	Section:	78

FORM E – AGENCY COST SAVINGS AND GENERAL FUND REDUCTION CONTINGENCY PLAN

TITLE	Agency Cost Savings and General Fund Reduction Contingency Plan (3% reduction of fiscal year 2023-2024 Recurring General Fund Appropriations based upon guidelines provided)
AMOUNT	$187,508 *What is the General Fund 3% reduction amount? This amount should correspond to the reduction spreadsheet prepared by EBO.*
ASSOCIATED FTE REDUCTIONS	None expected *How many FTEs would be reduced in association with this General Fund reduction?*
PROGRAM / ACTIVITY IMPACT	Almost all programs would be impacted by this "proposed" reduction. The Agency would attempt to reduce some of its operating costs in order to meet the mandated reduction. *What programs or activities are supported by the General Funds identified?*
SUMMARY	To accomplish this reduction, we would have to postpone some of our planned IT initiatives; omit our normal advertising campaigns for flood and other disasters; and reduce contract labor. We continue to strive towards increasing our infrastructure as it relates to security and privacy. We continue to implement recommendations provided by the SC Dept. of Administration's Division of Technology (DTO). We also provide critical information to SC citizens regarding protection during disasters.

Please provide a detailed summary of service delivery impact caused by a reduction in General Fund Appropriations and provide the method of calculation for anticipated reductions. Agencies should prioritize reduction in expenditures that have the least significant impact on service delivery.

AGENCY COST SAVINGS PLANS	We analyze and project all of our major expenditures each fiscal year. This allows us to plan and adjust accordingly to ensure that we are maintaining effectiveness and efficiencies.

What measures does the agency plan to implement to reduce its costs and operating expenses by more than $50,000? Provide a summary of the measures taken and the estimated amount of savings. How does the agency plan to repurpose the savings?

Agency Name:	Department Of Insurance		
Agency Code:	R200	Section:	78

FORM F – REDUCING COST AND BURDEN TO BUSINESSES AND CITIZENS

TITLE	SCDOI's Efforts to Reduce Cost and Burden to Businesses and Citizens
	Provide a brief, descriptive title for this request.
EXPECTED SAVINGS TO BUSINESSES AND CITIZENS	The Agency routinely reviews all of its regulations to ensure that only minimal requirements are stipulated to carry out Title 38 and other insurance related laws. The savings is not readily quantifiable.
	What is the expected savings to South Carolina's businesses and citizens that is generated by this proposal? The savings could be related to time or money.
FACTORS ASSOCIATED WITH THE REQUEST	**Mark "X" for all that apply:** X Repeal or revision of regulations. Reduction of agency fees or fines to businesses or citizens. X Greater efficiency in agency services or reduction in compliance burden. Other
METHOD OF CALCULATION	N/A
	Describe the method of calculation for determining the expected cost or time savings to businesses or citizens.
REDUCTION OF FEES OR FINES	We annually maintain and update a list of the fines and fees for the previous fiscal year and the associated statute. However, no immediate reductions are planned at this time.
	Which fees or fines does the agency intend to reduce? What was the fine or fee revenue for the previous fiscal year? What was the associated program expenditure for the previous fiscal year? What is the enabling authority for the issuance of the fee or fine?
REDUCTION OF REGULATION	The Department completed its review of regulations within the past few months. Noted by each regulation is the action the Department proposes to take over the next five years if any. This analysis can and will be made available upon request.
	Which regulations does the agency intend to amend or delete? What is the enabling authority for the regulation?
SUMMARY	The South Carolina Department of Insurance is committed to designing and maintaining an insurance regulatory system that protects the public interest without imposing unnecessary costs on its licensees. Accordingly, the agency routinely reviews its processes, procedures and regulatory framework to automate processes that can be automated and to determine which regulations should be modified, streamlined or repealed. It recently completed its annual yearly review. The purpose of the review is to make regulation more effective or less burdensome in achieving regulatory objectives. Modifying regulations to comply with applicable law ensures that our consumers are afforded the protections intended by the legislature. Repealing unnecessary regulations may reduce the costs to licensees which may enable the licensee to provide coverage to the citizens of this state at a reasonable cost.

Provide an explanation of the proposal and its positive results on businesses or citizens. How will the request affect agency operations?

Transportation and Regulatory Subcommittee Proviso Request Summary						
FY 22-23 Proviso #	Renumbered FY 23-24 Proviso #	Proviso Title	Short Summary	FY of Proviso Introduction/ # of years in budget	Recommended Action	Proviso Language
78.1	78.1	Examiners Travel/Subsistence Reimbursement	(INS: Examiners Travel/Subsistence Reimbursement) Notwithstanding the limitations in this act as to amounts payable or reimbursable for lodging, meals, and travel, the Department of Insurance is authorized to reimburse department examiners in accordance with guidelines established by the National Association of Insurance Commissioners only when the State is reimbursed by an insurance company for the travel and subsistence expenses of Insurance Department examiners pursuant to Section 38-13-10 of the 1976 Code.		KEEP	
78.2	78.2	Reimbursement Carry Forward	(INS: Reimbursement Carry Forward) Reimbursements received for Data Processing Services, Revenue, Miscellaneous Revenue and Sale of Listings and Labels shall be retained for use by the department. These funds may be carried forward in the current fiscal year.		KEEP	
78.3	78.3	Fees for Licenses	(INS: Fees for Licenses) The Department of Insurance shall be authorized to charge a twenty-five dollar initial producer license fee; a twenty-five dollar biennial producer license renewal fee; and a two hundred- fifty dollar penalty fee for late appointment renewals. The director shall specify the time and manner of payment of these fees. These fees shall be retained by the department for the administration of Title 38.		KEEP	