

Ways and Means
Transportation & Regulatory Subcommittee
FY 2023 Budget Hearing
Blatt Building Room 318



SC Department of Insurance Budget Presentation

January 11, 2022

1.5 hours after adjournment

Key Officials in the DOI

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Deputy Director of Financial Regulation and Solvency Dan Morris: dmorris@doi.sc.gov (803) 737-6039

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HR Manager Grace Godwin: ggodwin@doi.sc.gov (803) 737-6119

PIO Officer Katie Geer: kgeer@doi.sc.gov (803) 737-5913

<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

Raymond G. Farmer	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 <ul style="list-style-type: none">◦ 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 <ul style="list-style-type: none">◦ Life, Accident and Health◦ Property and Casualty◦ Actuarial Services	803-737-6230 LA&H Email P&C Email
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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

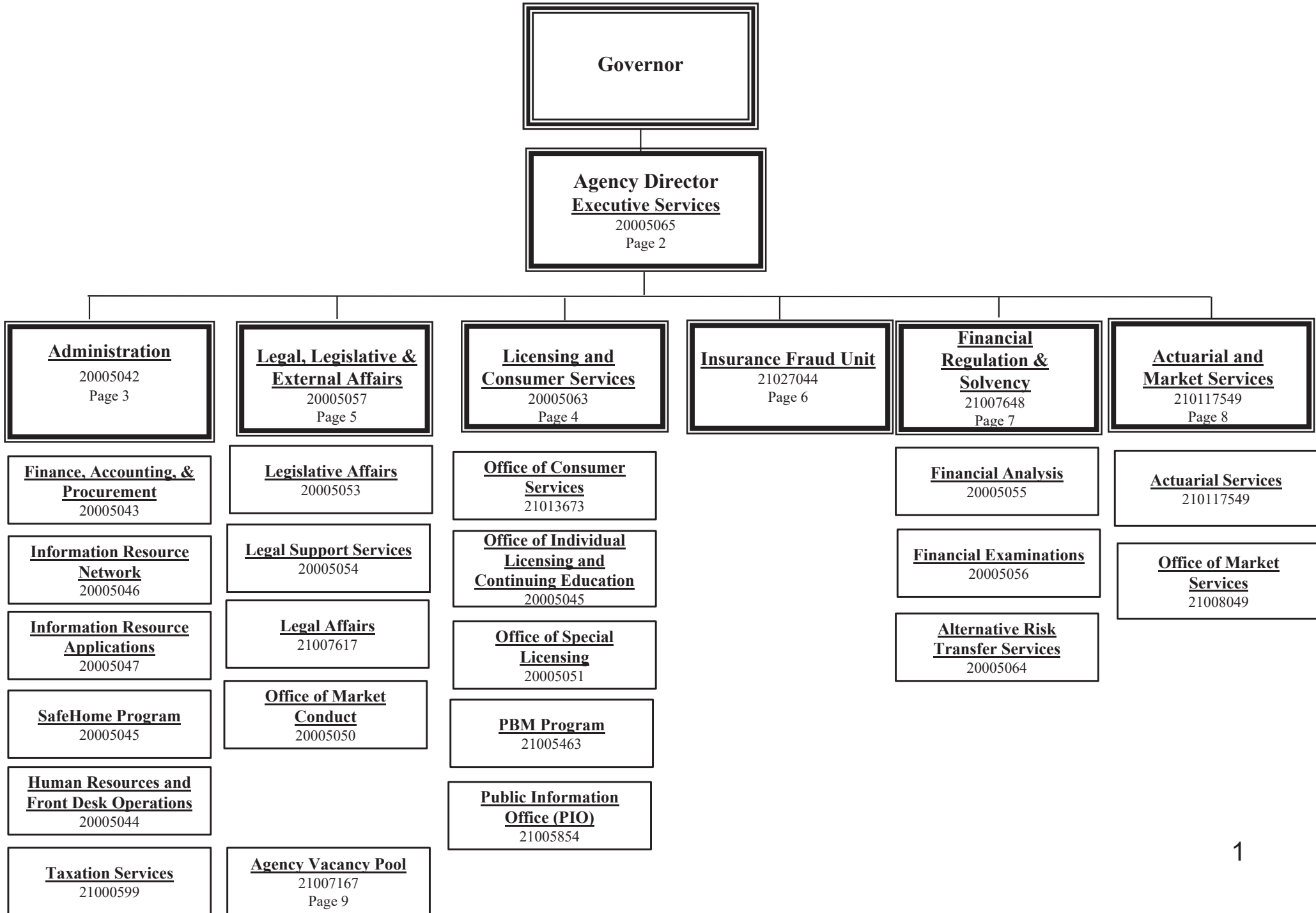
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Legal, Legislative & External Affairs

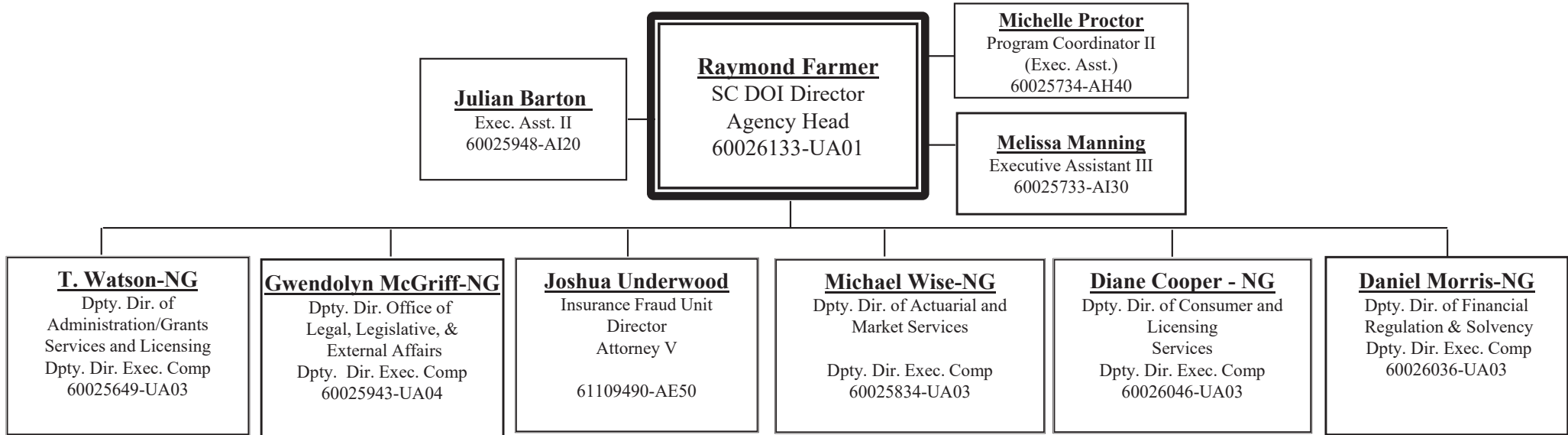
Freedom of Information Act and Service of Process	803-737-6153 Email
Subrogation	803-737-6158 Email
Investigations	803-737-6092 Email
Cybersecurity Event Reporting	803-737-6204 Email
Legislative Affairs	803-737-6124 Email

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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**

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Dpty. Dir. Exec. Comp
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60025743-AG12

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Admin. Spec. I
60025728-AA25

Chava Maldonado
HR Assistant
60025726-AA25
7/2/2021

Mia Mills
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Senior Accountant/
Fiscal Analyst
60025741-AN07

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

Daniel Ashley
Procurement Spec. II
60026026-AC20

Agency Vacancy Pool
(Page 8)

Sharon Waddell
Premium Taxation
Manager
Audits Manager I
60025740-AD15

Dorothy Williams
Taxation Auditor
Professional Auditor
60025742-AN19

Desmond Haygood
Taxation Auditor
Professional Auditor
60025925-AN19

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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
Programmer/Developer
III
60025833-AM10

Angela Jones
Temp-
Apple One

Vacant
Intern - Temp
Program Assistant
6110635-UZ01

Derrick Brown
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Central Files
IT Manager I
60025736-AM55

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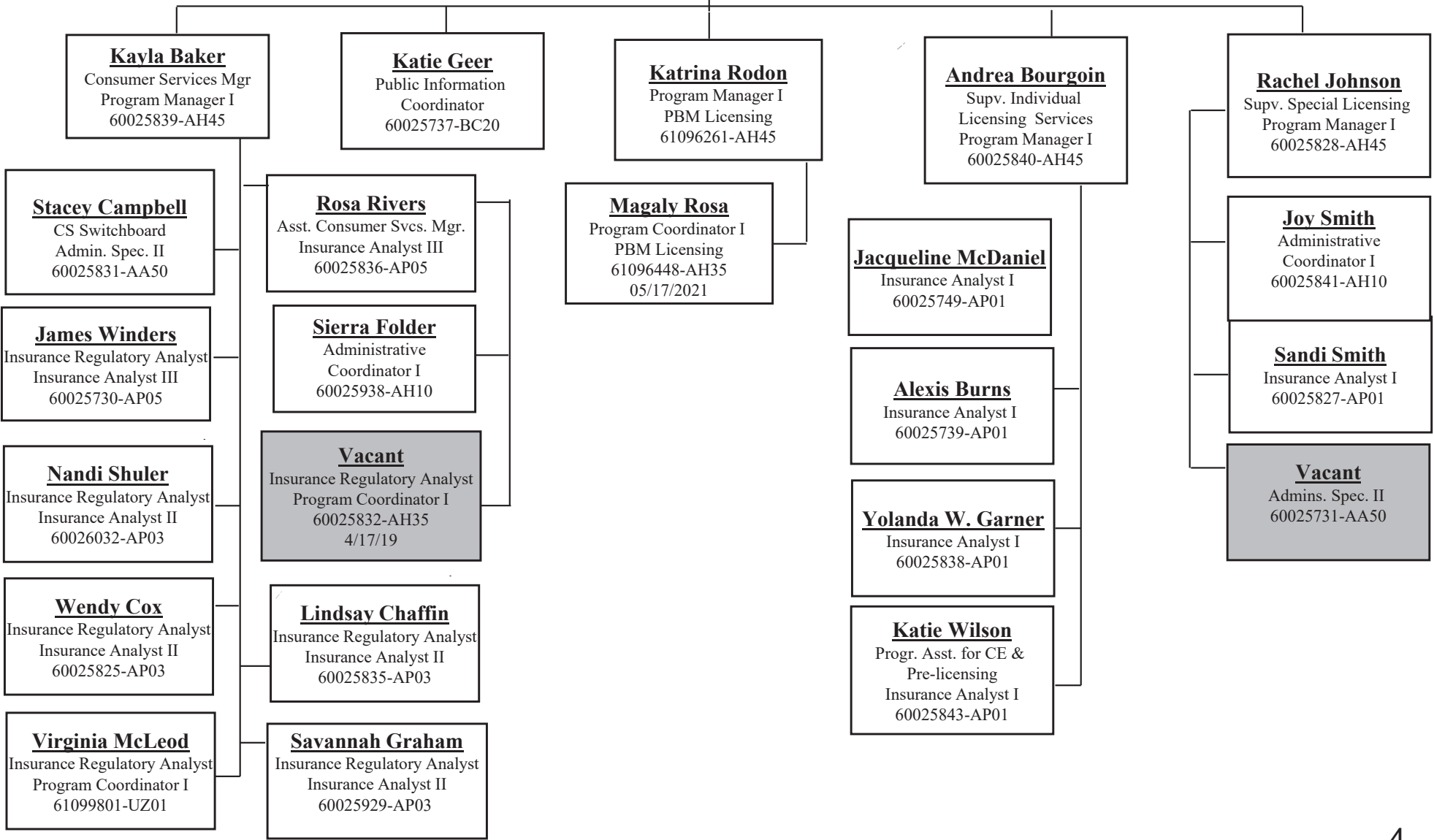
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Andrew Rutland
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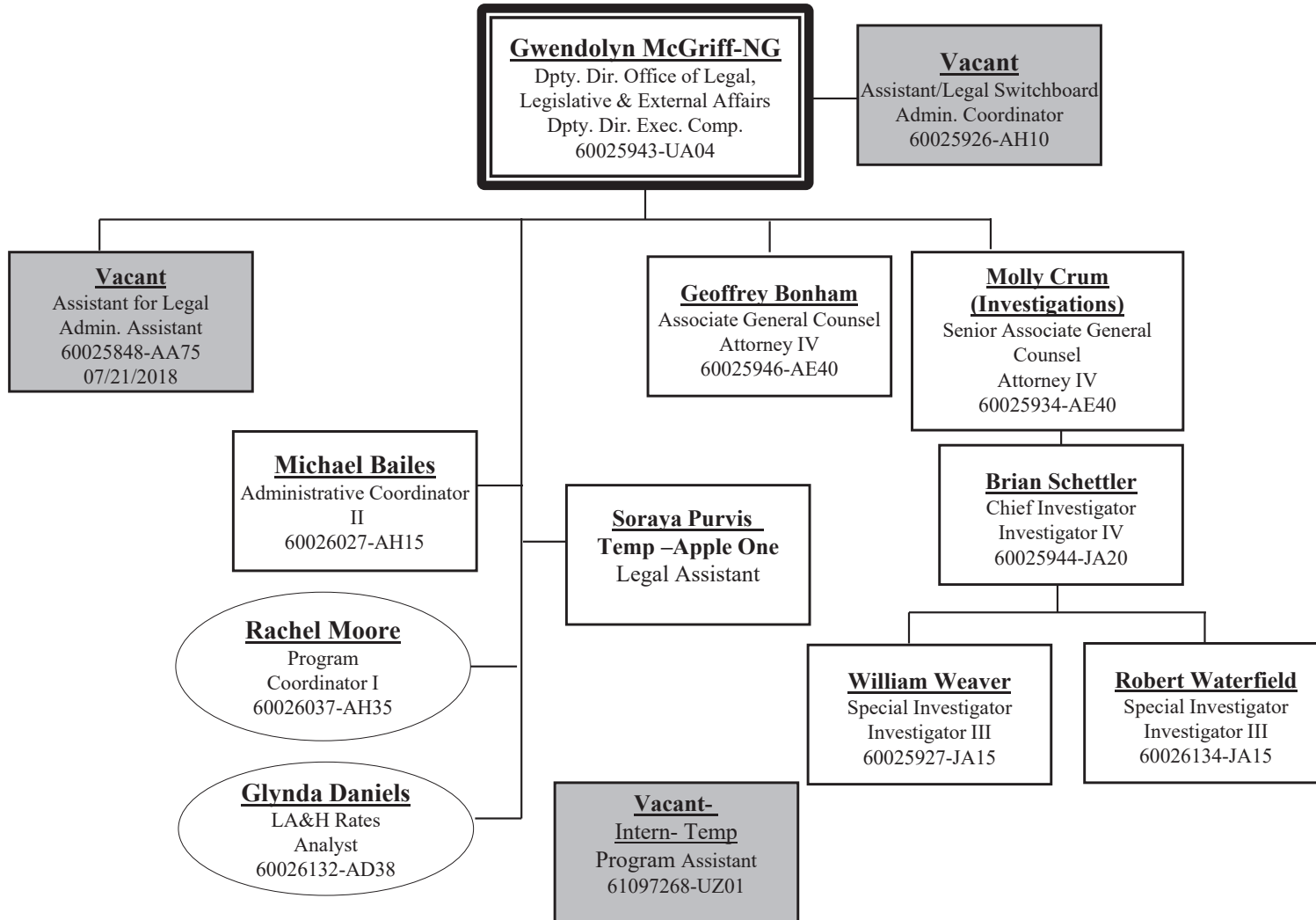
Gregg Hamby
Senior IT Consultant I
61107470-AM68

South Carolina Department of Insurance Division of Licensing and Consumer Services

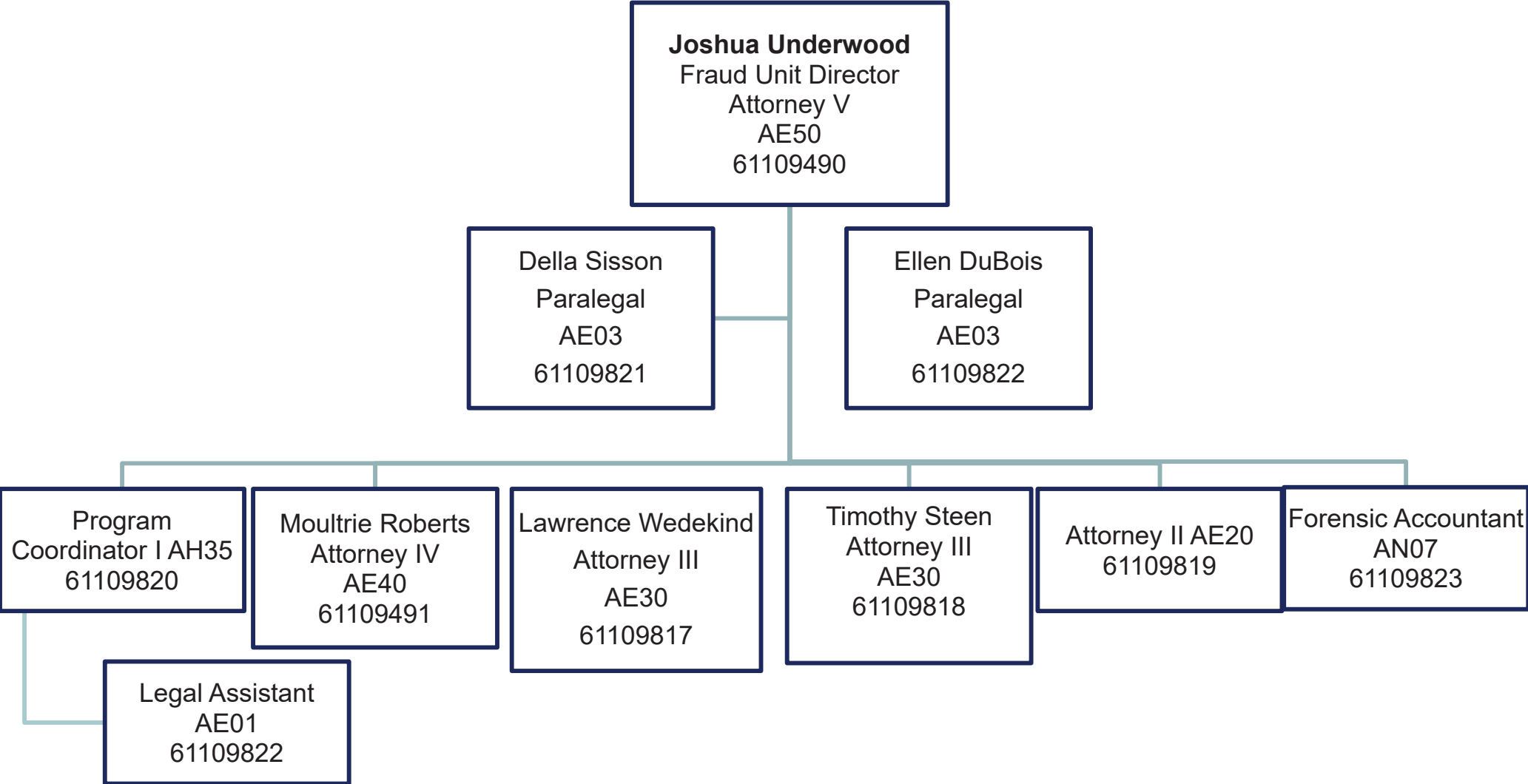
Diane Cooper- NG
Dpty. Dir. of Consumer and
Licensing Services
Dpty. Dir. Exec. Comp
60026046-UA03



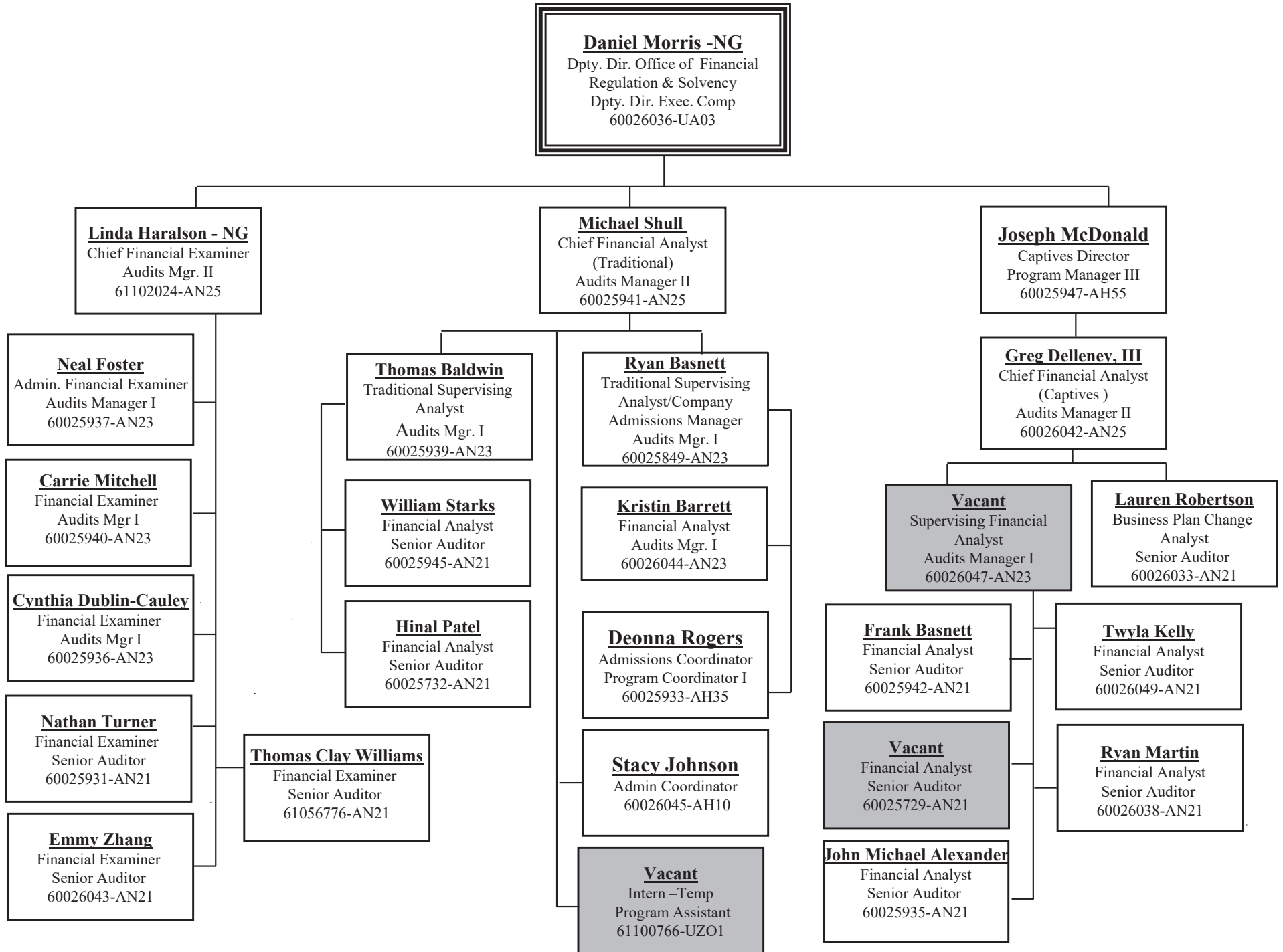
**South Carolina Department of Insurance
Office of Legal, Legislative & External Affairs**



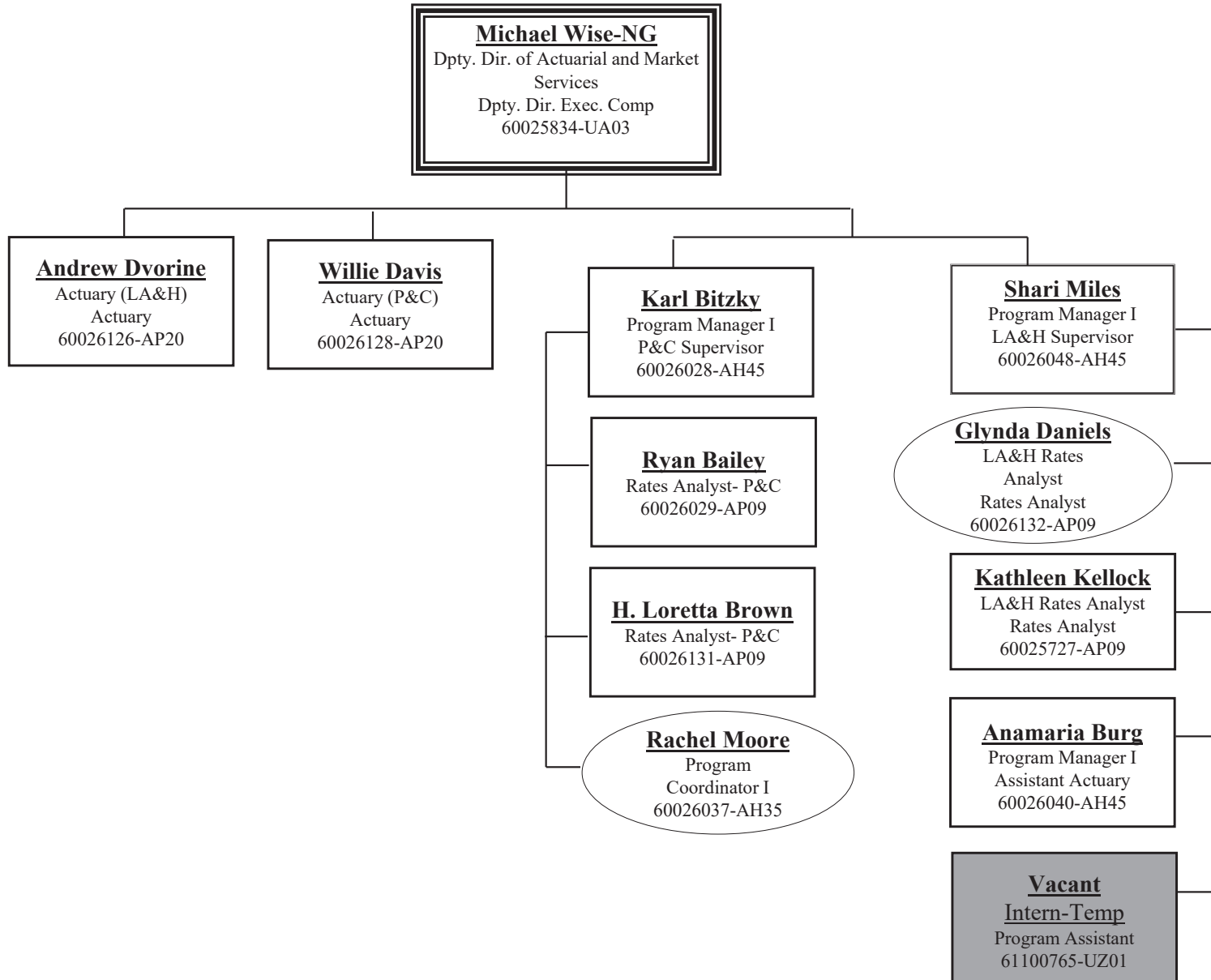
South Carolina Department of Insurance
Fraud Division



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: 20

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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, and most recently, National Association of Registered Agents and Brokers (NARAB II). These Acts have, and will continue to have, a significant impact on U.S. insurance markets and their regulation.

In 2017, the United States Treasury Department (Treasury), the Office of U.S. Trade Representative (USTR) and the European Union (EU) announced they had signed a covered agreement. A covered agreement provides stand-by authority for the Treasury and the USTR to address areas where insurance laws may treat non-US insurers differently than U.S. insurers. Covered agreements could directly impact reinsurance collateral requirements because they may preempt state law. This is important for states with coastal property exposure, like South Carolina, where reinsurance plays a critical role in ensuring the ability of insurers to pay claims after a catastrophe. To avoid pre-emption, states must enact statutory changes that make their reinsurance laws consistent with provisions of covered agreements with the European Union and the United Kingdom. States must comply with the provisions in the covered agreements within five years or face potential preemption.

Additionally, Congress is considering federal data security bills that would mandate uniform national standards in the area of data security. These bills would preempt state insurance laws that protect the privacy of information handled by insurers and may threaten the authority of the states to regulate the business of insurance. The state insurance regulators—led by Director Farmer—have developed their own model data security act. South Carolina passed this important law in the 2018 session and now other states are pursuing it as well. It is hoped that as a majority of states pass the data security model the need for congressional action may diminish.

While the aforementioned legislation and issues, like the covered agreement, originate at the federal level, they impact state laws and regulations. Often the legislation necessary to implement federal initiatives such as these must occur at the state level. Accordingly, states must promulgate or amend legislation to preserve its ability to regulate or prevent preemption. Federal legislation often establishes the minimum level of protection that may be afforded. While it recognizes that states are the primary regulators of insurance, it also establishes the standards with which all insurers must comply. States are charged with enforcement, but if the state does not enforce the provisions of the law, the federal government will effectively preempt state law. The challenge for state and federal regulators is to effectively collaborate and communicate in the performance of their regulatory roles.

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

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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.

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 and Licensing Services

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Personnel changes have historically presented strategic challenges and opportunities for the Licensing and Consumer Services Division. This 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 has grown considerably, leading to greater efficiencies and service to consumers. 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. Additionally, as employees have promoted out of the area, structural/organization changes have been made within the Division to allow for growth at all levels within the Division itself.

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.

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.

Regulatory challenges facing the Licensing & CE Division have involved streamlining the producer-licensing process and achieving licensing uniformity and reciprocity with other states in the U.S. State insurance departments oversee producer activities as part of a comprehensive regulatory framework designed to protect insurance consumer interests in insurance transactions. However, each state traditionally had its own licensing requirements and a producer licensed in one state generally had to meet the separate non-resident licensing requirements in other states to sell, solicit or negotiate insurance in such other states. The Licensing & CE Division is now paperless, and has continued 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).

As of August 2020, applicants for licensure were able to register for remote testing, greatly enhancing procedures and allowing additional capacity since many testing centers were either closed or limiting the number of available seats for social distancing purposes. South Carolina was one of the first states to offer this option and since its inception, we had over 2,000 individuals use remote testing as their preferred testing method. Testing integrity is maintained by ensuring test takers meet certain system requirements for such things as internal memory, systems version, camera pixels and internet speed. Proctors require the test taker to scan the entire room via webcam and visually monitor the candidate during the entire exam. The Department will continue to offer this option.

The agency also worked toward increasing efficiency and accountability for employees working remotely due to the pandemic. A new telephone system was implemented to allow oversight of agent availability and call monitoring. The new system includes a call center function and provides in-depth reporting functionality. This

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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 also reorganized to increase efficiency and productivity of the staff. Employees have been assigned regular duties in accordance with their individual skill sets and strengths for a true team approach, rather than all individuals performing the same tasks. We will continue to tweak these assignments to maximize operational quality, service efficiency, and Departmental productivity.

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's next full review is scheduled for November of 2021. This review will entail 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 a state's 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

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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.

Legal, Legislative & External Affairs

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 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:

Investigation Files Opened	321
Investigation Files Closed	279
License Suspensions	0
License Probation	7
Warning Letters	38
License Revocations	56

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AG Referrals	2
FOIA Requests	126
Service of Process	4496

The increased federal involvement in insurance has led to a bifurcated enforcement process and issues about the state’s ability to enforce federal laws that impact insurance. Department employees must become experts on federal and state requirements to effectively protect South Carolina consumers. Recent federal laws affecting insurance appear to rely on the states to enforce certain federal provisions.

During this past fiscal year, the Director recommended the following changes to the South Carolina insurance laws:

Recommendation	
H.3586	Proposes the amendment of the provisions of Section 38-55-510 <i>et seq.</i> Transfer the Insurance Fraud Division to the South Carolina Department of Insurance, adequately fund the Division and authorize the SCDOI to investigate and prosecute insurance fraud cases. Indictments would be reviewed and approved by the South Carolina Attorney General’s Office.
H.3535	SCDOI Procedures Bill
Proviso 78.4	Insurance Fraud Proviso
Regulations	
69-53	This regulation outlines the requirements for companies to take credit for reinsurance when ceded to a Reciprocal Jurisdiction and is the regulation backing the 2019 revisions to Model 785 which were added to our statute (Chapter 9) during the previous legislative session. This is an accreditation standard. This regulation will be based on NAIC model #786.
69-84	This is a new regulation that codifies Actuarial Guidance #48 (AG 48) for term and universal life insurance policies with secondary guarantees. This is a new accreditation standard. This regulation will be based on NAIC model #787.

The legislative changes recommended above were to enable the SCDOI to maintain its accreditation by modifying its credit for reinsurance laws to comply with national standards concerning covered agreements; and to enhance the state’s ability to combat insurance fraud.

The South Carolina General Assembly considered S. 881 and S882 during the September 2020 Session. These bills were recommended to bring South Carolina laws into compliance with international standards concerning reinsurance and covered agreements. It is an accreditation requirement. The amendments proposed comply with NAIC solvency requirements and provide reciprocal jurisdiction status for qualified jurisdictions that meet certain credit for reinsurance requirements. If these changes are not made by the states by September 2022, there could be federal preemption of state regulation in this area by the Federal Insurance Office.

Insurance Fraud

Insurance fraud is a multi-billion-dollar industry that directly affects the financial solvency of companies, the financial stability of policyholders and the cost and availability of the insurance products in the South Carolina

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marketplace. During the past legislative session, the Director proposed legislation to transfer the responsibility for investigating and prosecuting insurance fraud to the South Carolina Department of Insurance (Department). The legislation did not pass; however, the agencies tasked with the regulation of insurance and the investigation and prosecution of insurance fraud have entered into a memorandum of understanding (MOU) aimed at enhancing the state’s investigation, prosecution and prevention of insurance fraud.

This initiative is the result of the cooperation between the Office of the South Carolina Attorney General, the State Law Enforcement Division (SLED) and the South Carolina Department of Insurance. Effective July 1, 2021, the South Carolina General Assembly appropriated money to fund a new Insurance Fraud Unit within the Department. The Department, SLED and the Attorney General’s Office are preparing for the transition of responsibilities.

Under this enforcement model, the Attorney General’s Office will designate certain attorneys hired by the South Carolina Department of Insurance as special attorneys general to prosecute insurance fraud. SLED will continue to investigate fraud cases and present indictments to the Attorney General’s Office for approval. Additionally, the Department will prepare a public awareness campaign designed to prevent and combat fraud. It will make insurance fraud investigation, prosecution and prevention a priority for the Department.

Challenge: Cybersecurity and Insurance Regulation in a Digital World

The insurance sector is rapidly shifting to digital platforms or technology. 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. It is also argued these digital technologies enable companies to better respond to customer trends and buying patterns. The Internet of Things is one of the fastest emerging gateways to customer data and behavioral information. Telematic devices in vehicles, other devices in home appliances, smart watches, and sensors in other consumer products are gathering data and may transform the way insurers do business.

Artificial intelligence is technology that enables computers to accomplish tasks that were typically performed by humans. Recent advances in AI include self-driving cars, drones, robotics, legged locomotion, autonomous planning and scheduling, machine translation, speech recognition, recommendations, game playing, imaging understanding, medicine, and climate science. The umbrella term “artificial intelligence” means different things depending on the user. Academics and technologists may use the term “AI” when referring to machine learning algorithms, deep learning, neural networks, and/or generative adversarial networks. AI has revolutionized almost every aspect of our lives and is transforming financial services including **insurance** company operations such as claims handling, underwriting, marketing, distribution, and sales. Many insurers are using chatbots to assist with customer service operations

The increased use of artificial intelligence brings additional regulatory challenges including data privacy and issues involving potential unfair discrimination. The NAIC formed the Innovation and Technology (EX) Task Force to explore technological developments within the insurance industry including the use of artificial intelligence. During the past fiscal year, the National Association of Insurance Commissioners adopted guidelines related to the use of artificial intelligence by insurers. These principles require:

- Fair and equitable treatment;
- Accountability;
- Compliance with state laws and regulations;
- Transparency;

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- Security; and
- A robust platform.

This Department and state insurance regulators continue 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.

This new innovation to the insurance industry also brings with it increased risks and has challenged the **insurance** industry, especially when trying to evaluate the new cyber-related risks. The cyber peril for the insurance industry is real and presents an underwriting challenge. Hackers have arisen globally from nation states, cyber militias, criminal cartels, independent organizations, terrorist groups, and talented private individuals. They take advantage of unwary users, disgruntled employees, errors and faults in the software code, software obsolescence, technology maturity, and manufacturers' inattention to **cybersecurity**. Insurance company data is a prime target of these groups.

Cybersecurity is essential for effectively securing data needed to treat patients, maintain their access to critical health services and the security of personal identifying information. Targeted attacks continue. During the pandemic, insurers, remote workers and legacy VPNs were frequent targets of hackers.

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 eighty (80) notifications to date. The majority of these notices involve actions by third party vendors.

Congress is considering federal bills that may preempt state laws in this area. Some members of industry are supporting federal legislation. A federal framework will impact that states' ability to protect the personal data of its consumers. President Biden signed an Executive Order to improve the nation's cybersecurity and protect federal government networks. Recent cybersecurity incidents such as SolarWinds, Microsoft Exchange, and the Colonial Pipeline incident are a sobering reminder that U.S. public and private sector entities increasingly face sophisticated malicious cyber activity from both nation-state actors and cyber criminals. It has also been recommended that Congress update the Federal Information Security Modernization Act of 2014 "to reflect current cybersecurity best practices" and require federal agencies and contractors notify CISA of certain cyber incidents.

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 and 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-

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train others to minimize the number of tasks where institutional and expertise is limited to only a few “key” employees.

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, 2021: Collected \$341,600,315 in revenue from taxes, fees, assessment and fines, etc. This includes \$59,416,327 from Consumer Choice Liquidation.

Reviewed and analyzed 9,473 rate, rule and form filings. 7,059 were related to property and casualty insurance products and the remaining 2,414 were related to life, accident and health insurance products. The Department’s Office of Consumer Services resolved 3,471 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 14 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.

To protect consumers from insurer insolvencies, most states have enacted laws establishing guaranty associations. Insurance guaranty associations ensure that policyholders will receive some of the benefits contracted for under the policy (e.g.: life, health and annuity policyholders are protected up to \$300,000 for a covered claim).

Legislatures can help mitigate the risk by:

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- Appropriating sufficient funds or providing a dedicated funding source to ensure the Department is adequately staffed with competent personnel;
- 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.

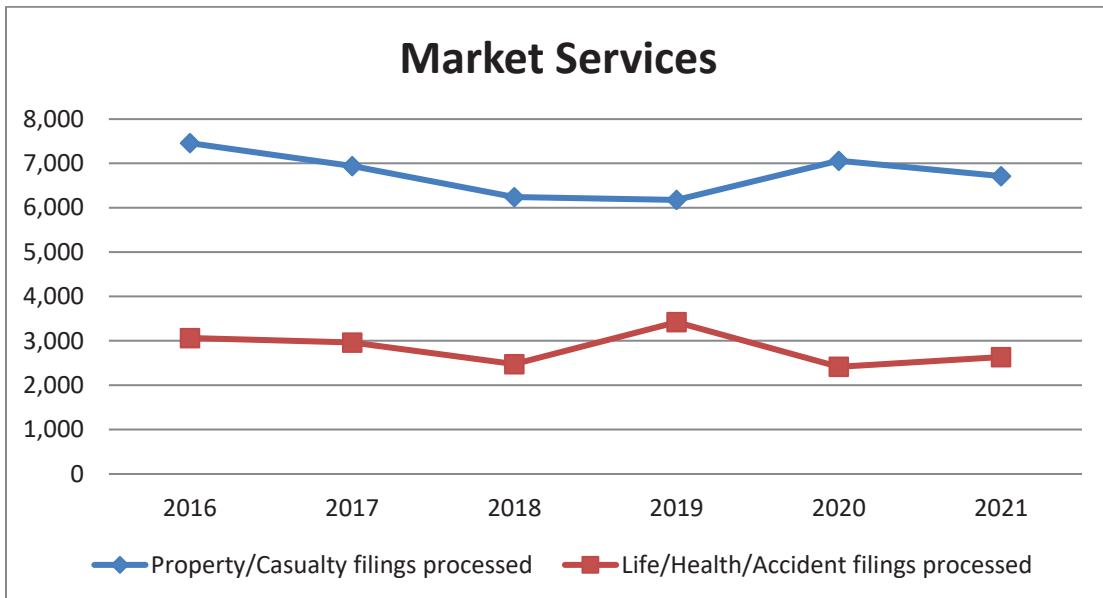
COVID-19 Risk Assessment and Mitigation Strategies

The impact of the spread of coronavirus COVID-19 has required agencies to assess its disaster recovery and business continuity plans, resilience, level of exposure, and potential liability risks. Set forth below is a summary of the Department’s business risks and the strategies used to address them.

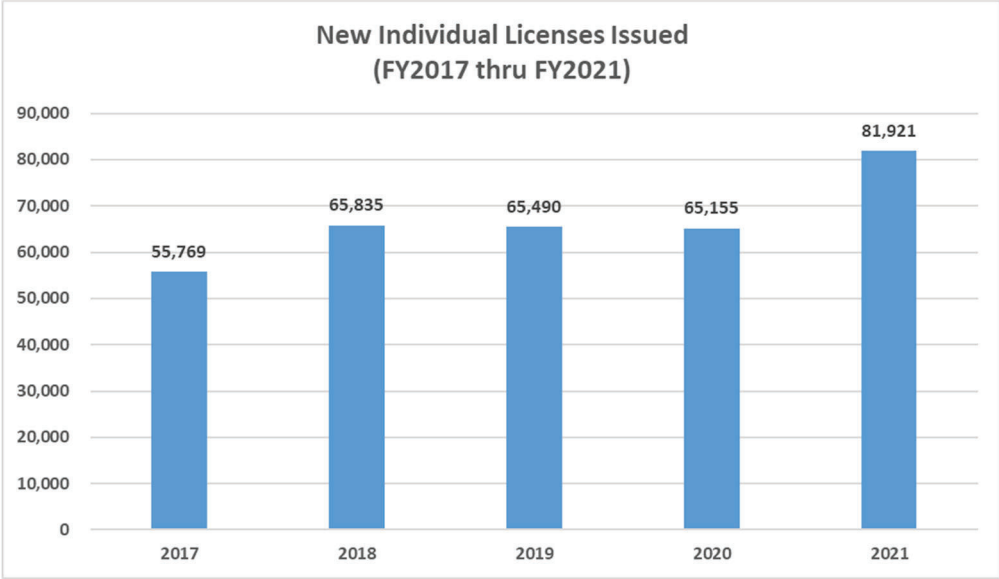
Risk Exposure	Mitigation Strategy
Business Continuity	<ul style="list-style-type: none"> • Identified essential employees and critical agency functions required to maintain business operations <ul style="list-style-type: none"> ○ Determined which positions were necessary to ensure the continuity of the Department’s operation ○ Determined which critical functions could be performed remotely ○ Developed back-up strategies • Trained and prepared the workforce to work remotely when state offices are closed <ul style="list-style-type: none"> ○ Established telecommuting policies; flexible (e.g., staggered work) schedules during Phase II ○ Equipped staff to work remotely • Developed an emergency communications strategy to keep employees informed and connected with the worksite by using email and telephone communications as well as electronic meeting platforms • Enhanced communications and information technology resources to enable telecommuting and remote computer access
Risk of Spread in the Workplace	<ul style="list-style-type: none"> • Developed and disseminated materials concerning COVID-19 (e.g., signs and symptoms, modes of transmission) personal and family protection strategies (e.g., wearing masks, social distancing, coughing and sneezing etiquette) • Developed a SharePoint Page for communicating information to employees related to the Coronavirus • Posted the Department’s Plans for Returning to the Workplace and FAQs for supervisors and employees • Contracted with vendors to deep-clean the workplace twice during Phase I and during Phase II • Hired a temporary employee to clean high-touch areas of the Department three times a day • Fog the worksite weekly with antibacterial spray • Require employees who are ill and not feeling well to stay home • Provide PPE to employees • Require visitors to wear masks

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	<ul style="list-style-type: none"> • Limit in person meetings
Legal Liability	<ul style="list-style-type: none"> • Follow CDC, state and local guidance • Adopt and enforce social distancing policies • Implement self-monitoring and certification procedures for employees entering the workplace • Required face masks for visitors or provide PPE • Use plexiglass screens in conference rooms • Developed presentations and other training materials for supervisors and managers on the applicable laws • Established a centralized system for handling questions related to leave, requests for accommodation and other employee-related issues to prevent employee complaints and ensure consistent application of Department policy
Cyber risk	<ul style="list-style-type: none"> • Reminded employees of the risks associated with opening attachments and links from untrusted sources • Implementation of Knowbe4 Training and assessments • Privacy trainings for program units • Updated anti-virus and monitoring tools • Use of VPN and multi-factor authentication



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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 20-21 ACTUAL EXPENDITURES	
	Total Funds	General Funds
Personal Service	\$ 5,521,594	\$2,894,757
Other Operating	\$ 3,778,555	\$ 552,386
Special Items		
Permanent Improvements		
Case Services		
Distributions to Subdivisions	\$ 1,999,272	
Fringe Benefits	\$ 2,076,942	\$1,081,966
Non-recurring		
Total	\$13,376,363	\$4,529,109

MAJOR BUDGET CATEGORIES	FY 21-22 APPROPRIATIONS ACT		
	Total Funds	General Funds	Actuals (YTD 12-31-21)
Personal Service	\$ 7,293,931	\$3,468,346	\$2,885,161
Other Operating	\$ 7,983,022	\$1,462,386	\$2,114,190
Special Items			
Permanent Improvements			
Case Services			
Distributions to Subdivisions	\$ 2,155,000		\$2,154,215
Fringe Benefits	\$ 2,849,084	\$1,319,551	\$1,093,993
Non-recurring			
Total	\$20,281,037	\$6,250,283	\$8,247,559

Major Program Areas Chart

Program Number and Title	Major Program Area Purpose	FY 20-21 Budget Expenditures
Administration	Administration: Office of General Counsel, Information Resource Management(IRM), Executive Services	State: 1,702,922 Federal: Other: 580,764 Total: 2,283,686 % of Total Budget: 17%
Solvency	Solvency: Financial Examination, Market Conduct Examinations, Financial Analysis, Securities, Securities Custodian and Historical Databases	State: 344,041 Federal: Other: 794,865 Total: 1,138,906 % of Total Budget 8%
Licensing	Licensing: Individual Licensing, Companies, Insurer/HMO Licensing, Education, Special Services Division, Third Party Administration Licenses, Utilization Review and Service Contract Providers	State: 118,909 Federal: Other: 430,581 Total: 549,490 % of Total Budget 4%
Captives	Captives & ARTS MKT SVC's	State: Federal: Other: 947,354 Total: 947,354 % of Total Budget 7%
Policy	Policy Forms and Rates: Review Financial Condition and Residual Markets, Consumer Assistance	State: 988,559 Federal: Other: 495,212 Total: 1,483,771 % of Total Budget 11%
Safe Homes	Hurricane Mitigation	State: Federal: Other: 2,141,027 Total: 2,141,027 % of Total Budget 16%
Fringe Benefits	Employer Fringe Benefits	State: 1,081,966 Federal: Other: 994,976 Total: 2,076,942 % of Total Budget 16%

Remainder of Expenditures (Consumers, Taxation & Uninsured Motorist)	State: 292,712 Federal: Other: 2,462,475 Total: 2,755,187 % of Total Budget 21%
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Carry forward information

The Department of Insurance did not have any carry forward from fiscal year 2021 into fiscal year 2022

FY 22-23 Prioritized Budget Request Summary

Agency Name

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											
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 2022-2023
 Agency Budget Plan**

FORM A - BUDGET PLAN SUMMARY

**OPERATING
 REQUESTS
 (FORM B1)**

For FY 2022-2023, my agency is (mark "X"):	
<input type="checkbox"/>	Requesting General Fund Appropriations.
<input type="checkbox"/>	Requesting Federal/Other Authorization.
<input checked="" type="checkbox"/>	Not requesting any changes.

**NON-RECURRING
 REQUESTS
 (FORM B2)**

For FY 2022-2023, my agency is (mark "X"):	
<input type="checkbox"/>	Requesting Non-Recurring Appropriations.
<input type="checkbox"/>	Requesting Non-Recurring Federal/Other Authorization.
<input checked="" type="checkbox"/>	Not requesting any changes.

**CAPITAL
 REQUESTS
 (FORM C)**

For FY 2022-2023, my agency is (mark "X"):	
<input type="checkbox"/>	Requesting funding for Capital Projects.
<input checked="" type="checkbox"/>	Not requesting any changes.

**PROVISOS
 (FORM D)**

For FY 2022-2023, my agency is (mark "X"):	
<input type="checkbox"/>	Requesting a new proviso and/or substantive changes to existing provisos.
<input type="checkbox"/>	Only requesting technical proviso changes (such as date references).
<input checked="" type="checkbox"/>	Not requesting any proviso changes.

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

**PRIMARY
 CONTACT:
 SECONDARY
 CONTACT:**

<i>Name</i>	<i>Phone</i>	<i>Email</i>
Tom Watson	(803) 737-6141	twatson@doi.sc.gov
Mia Mills	(803) 737-6111	mmills@doi.sc.gov

I have reviewed and approved the enclosed FY 2022-2023 Agency Budget Plan, which is complete and accurate to the extent of my knowledge.

SIGN/DATE: *Raymond G. Farmer* **9/9/2021**
TYPE/PRINT NAME: *Raymond G. Farmer*

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

<u>Agency Name:</u>	<u>Department Of Insurance</u>
<u>Agency Code:</u>	R200
<u>Section:</u>	78

<u>BUDGET REQUESTS</u>			<u>FUNDING</u>					<u>FTES</u>				
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

**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 2022-2023 Recurring General Fund Appropriations based upon guidelines provided)

AMOUNT

\$183,873

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?

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:	
<input checked="" type="checkbox"/>	Repeal or revision of regulations.
<input type="checkbox"/>	Reduction of agency fees or fines to businesses or citizens.
<input checked="" type="checkbox"/>	Greater efficiency in agency services or reduction in compliance burden.
<input type="checkbox"/>	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?

