

2002 Annual Report

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Ohio Department of Insurance Overview

The Ohio Department of Insurance is the state's largest consumer protection agency. The Department has been in existence since 1872 and is a non-general revenue fund agency that employs nearly 275 people and consists of nine offices.

The mission of the Department is to provide consumer protection through fair but vigilant regulation while promoting a competitive environment for insurance providers. The Department licenses approximately 1,800 insurance companies, nearly 166,000 agents, and more than 11,000 insurance agencies and monitors the financial solvency of the Ohio insurance industry.

The Director of the Department (also referred to as "the Superintendent") is appointed by the Governor and also serves as the state's insurance liquidator. A Deputy Director, Executive Office staff, and Assistant Directors representing each division support the Director's oversight responsibilities.

The Department's nine divisions are:

- **Executive Office:** Charged with overseeing the operations of the entire Department.
- **Office of Consumer Services:** Provides direct service to Ohio insurance consumers.
- **Office of Investigative and Licensing Services:** Closely watches and investigates the business practices of insurance companies, agents and agencies.
- **Office of Property and Casualty Services:** Reviews rates, policies, products and other pertinent material filed by insurance companies.
- **Office of Life and Health Services:** Reviews rates, policies, products and other pertinent material filed by insurance companies.
- **Office of Financial Regulation Services:** Monitors the financial solvency of insurance companies licensed in the State of Ohio.
- **Office of Information and Technology Services:** Assists the Department in achieving its regular oversight responsibilities through technology.
- **Office of Legal Services:** Handles regulatory transactions and provides legal assistance to other divisions in the agency.
- **Office of General Services:** Administers several programs that benefit the health, safety and security of Department employees.

Contact Information:

- Department Operator: 614-644-2658
- Consumer Hotline: 1-800-686-1526
- Senior Hotline (OSHIIP): 1-800-686-1578
- Fraud Hotline: 1-800-686-1527
- Web site: www.ohioinsurance.gov



Accredited by the National Association of Insurance Commissioners (NAIC)

Consumer Hotline: 1-800-686-1526

Fraud Hotline: 1-800-686-1527

OSHIIP Hotline: 1-800-686-1578

The Executive Office

The Office of the Director is charged with overseeing the operations of the entire Department. Working as a team, the Director, Deputy Director, Policy and Legislation Division and Communications Division serve as the Department's official link among federal, state and local governments, insurance companies and agents, the media and Ohio insurance consumers.

Policy and Legislation Division:

The Policy and Legislation Division develops the Department's policy on all insurance matters and represents the Department before the Ohio General Assembly.

The Policy and Legislation staff works regularly with state and federal government officials, insurers, insurance trade groups, agent trade groups, other professional interest groups and consumers to ensure that state insurance laws and regulations promote a healthy and fair insurance market in Ohio.

Together with the Director, the Policy and Legislation staff prioritizes the Department's legislative agenda, determining priority issues based on the number of stakeholders, impact on the insurance industry and consumers and the urgency of the legislation. This can include drafting insurance-related legislation, writing rules to implement the Department's regulatory authority and coordinating policy initiatives with other state departments of insurance.

2002 Accomplishments:

- An analysis of data from May 1, 2000 to December 31, 2002 shows more than \$3 million in previously denied insurance benefits were paid to Ohio consumers. In 2000, Governor Taft's Patient Protection Act created an independent external review appeals process for health insurance consumers who believe their claim was unfairly denied by their HMO.
- The Department lowered credit life and disability rates saving consumers \$35 million.

Communications Division:

The Communications Division directs and coordinates all aspects of the Department's internal and external communications efforts.

The communications staff manages relationships with the local, regional, national and trade media; writes and distributes news releases, columns and consumer alerts; prepares speeches and presentations; oversees the content and design of the Department's award-winning web site and publications; coordinates community outreach efforts; and educates the general public, major stakeholders and opinion leaders about the Department's services and activities.

Office of Financial Regulation Services Background and Accomplishments

The Office of Financial Regulation Services monitors the financial solvency of insurance companies licensed in the State of Ohio. The National Association of Insurance Commissioners accredits the Department, which regulates nearly 1,800 insurance companies.

Financial Regulation Services reviews financial statements of every company licensed in Ohio and oversees complex transactions that can include billions of dollars in managed assets to ensure that insurance companies have enough money to pay claims filed by consumers.

The office closely monitors the financial condition of insurance companies doing business in Ohio by conducting in-house audits of financial statements and all other supplemental filings made by insurers. Financial Regulation Services also monitors insurers' statutory and solvency compliance on an ongoing basis and conducts periodic on-site field examinations.

The Department, by statute, examines insurers as often as the Director deems appropriate and requires that each insurer be examined at least once every five years. Financial Regulation Services also calculates and certifies domestic insurer's premium and franchise tax, foreign insurers premium tax, retaliatory tax and fire marshal tax owed to the state.

The Supervision and Rehabilitation of Insurance Companies:

Ohio law requires Ohio domiciled insurance companies to file audited annual financial statements and unaudited quarterly financial statements with Financial Regulation Services. The law also requires Ohio domiciled companies to maintain minimum financial reserves.

The Department can place insurance companies experiencing financial difficulty under supervision. During supervision, the Director appoints a supervisor to oversee the financial affairs of the business, which is confidential under state law.

If the financial condition of an insurer becomes financially hazardous to its policyholders, creditors, or the public, the Director may publicly petition a court to place the company into rehabilitation. If the court places the company in rehabilitation, the Director is appointed rehabilitator. The rehabilitator is granted full control of the company and its assets and administers the company subject to review of the court. Generally, rehabilitation is sought with the goal of reforming and revitalizing the insurer.

If efforts to rehabilitate an insurer are not successful, the Director may petition the court for a liquidation order, which, if granted, results in the assets of the company being sold, and the proceeds of the sale being distributed to the company's policyholders and other creditors, according to priorities outlined by state law.

2002 Accomplishments:

- Developed a policy to eliminate all paper financial statements for all property and casualty and life insurers by 2003. The changes reduced paper filings by more than 80 percent in 2002, cutting the number of required paper filings by nearly 7,500 – saving more than 350,000 pieces of paper. The effort led to the Department being named a finalist for the 2002 Ecom-Ohio Pioneer Award.

Guaranty Associations Protect Ohio Policyholders:

The Ohio Insurance Guaranty Association, an organization of property and casualty insurers, and the Ohio Life and Health Insurance Guaranty Association were created by statute and are funded by assessments on Ohio-licensed insurance companies. If an insurer becomes insolvent and ordered to be liquidated by a court, these accumulated funds are used to pay the covered claims of the insolvent company owed to Ohio policyholders, subject to the limitations and conditions of Ohio Law.

The guaranty associations represent the insurance industry's response to the public's need for safety and confidence in insurance products.

Contact Information:

The Ohio Insurance Guaranty Association/
The Ohio Life and Health insurance Guaranty Association
1840 McKenzie Drive
Columbus, Ohio 43220
614-442-6601

Ohio Liquidation Office:

The process of liquidating an insurance company begins when, upon request of the Insurance Director, the court orders a company to be liquidated. Under the Ohio insurance statutes, the Director is appointed as the Liquidator and charged with liquidating the assets of the insolvent insurer to maximize the ultimate distribution of those assets to policyholders and creditors. Those efforts include protecting and liquidating assets such as bank accounts, stocks and bonds, collateral, letters of credit, receivables, earned premiums, reinsurance, physical assets (desks, chairs and computers) and real estate holdings. Often this is also accomplished through preference recoveries, reinsurance commutations and, when appropriate, lawsuits against company officers and trustees.

Once the assets have been collected, the Liquidation Office reviews the claims of both policyholders and other creditors to determine the appropriateness and the amount of those claims. Once claims are reviewed, creditors are paid according to the priorities in Ohio's liquidation statutes.

According to the statutes, the liquidation office pays administrative expenses associated with running the company first, policyholder claims including guaranty funds next followed by claims of the federal government, claims of employees of the insurance company and claims from general creditors.

The administration of all Ohio domestic insurance company liquidations is done through the Ohio Liquidation Office. The Chief Deputy Liquidator, who is appointed by the Director, manages the Liquidation Office. The Liquidation Office's operations are primarily funded by the assets of the insolvent companies as administrative expenses of the companies' liquidations.

Office of Investigative and Licensing Services Background and Accomplishments

The Office of Investigative and Licensing Services, which is comprised of the Licensing, Fraud and Enforcement and Market Conduct Divisions, makes sure that insurance agents, agencies and companies follow proper business practices.

Licensing Division:

The Licensing Division issues licenses to insurance agents (and monitors their continuing education hours), insurance agencies, managing general agents, third-party administrators, reinsurance intermediaries, public insurance adjusters, viatical settlement providers and brokers and surety bail bond agents. It also processes insurance company appointments of authorized agents.

Ohio was one of the first states to offer an Internet agent testing and licensing system which allows applicants to submit applications on-line, complete fingerprinting and the background check electronically and receive a license within a few weeks.

The agent appointment process can also be completed on-line allowing insurance companies to appoint an agent on a same-day basis. Also, agents can track their continuing education credits and status through the Department's web site.

Services Provided to Agents:

- Incorporated an on-line Agent Locator on the Department web site to verify the current license authority and active appointments of Ohio agents. The Agent Locator allows web users to search for an agent or agency by name, city and zip code.
- Potential resident and non-resident insurance agents can apply on-line for a license on the Department's web site. Agents can also check the status of their electronic application on-line.

2002 Accomplishments:

- Governor Taft signed legislation streamlining the agent licensing process for non-resident agents and making Ohio's agent licensing laws consistent and reciprocal with the laws of other states.

Fraud and Enforcement Division:

The mission of the Fraud and Enforcement Division is to detect, prevent, investigate and assist in the prosecution of consumer and provider fraud relating to the business of insurance. The division investigates allegations of agent misconduct and scrutinizes applicants for agent licenses.

The Department frequently refers cases to local and federal law enforcement for criminal investigation. Types of insurance fraud include arson, staged accidents, medical billing, forgery, faked deaths, home owner/renter fraud, falsified disability, inflated claims and viatical fraud. Insurance agents are investigated for various types of misconduct such as misappropriation of premiums and misrepresentation. Agents who engage in such acts may lose their licenses or face other sanctions.

Insurance fraud costs Ohio consumers millions of dollars each year and leads to increased insurance premiums.

2002 Accomplishments:

- The Fraud Unit received nearly 1,200 fraud referrals with a total claim value of more than \$13 million.
- The Enforcement Unit, which monitors agent fraud, opened approximately 730 cases and referred nearly 340 for administrative action.
- Ajay Chawla was sentenced to one year in jail and handed a \$1,500 fine for attempting to file a fraudulent life insurance claim following the terrorist attack on the World Trade Center in September 2001. Investigators from the Department helped coordinate the investigation that led to Chawla's indictment and they also testified at his trial.

Market Conduct Division:

The Market Conduct Division monitors insurers' compliance with Ohio insurance laws and regulations by examining those companies' business practices such as underwriting, marketing and claims handling.

2002 Accomplishments:

- Ohio joined Nebraska, Kansas, Iowa, South Dakota and North Dakota in signing a cooperation agreement for comprehensive market conduct examinations, which is intended to increase the effectiveness of state market conduct programs and reduce redundancy in staff and resources through enhanced cooperation among the participating states.

Office of Property and Casualty Services Background and Accomplishments

The Office of Property & Casualty Services is responsible for the review of policy forms, endorsements, manual rules and rates for products marketed to Ohio consumers by Ohio licensed property and casualty companies.

Products reviewed include commercial lines (e.g. insurance for businesses – auto, general liability, professional liability including medical malpractice, property, crime, fidelity and surety) and personal lines (e.g. insurance for individuals and families – auto and homeowners). The office also reviews title insurance and home warranty products, risk purchasing and risk retention group registrations and notification forms and surplus lines quarterly reports.

Rates, by law, cannot be excessive, inadequate or unfairly discriminatory and consumers must be able to understand the policy language. Actuarial standards of practice are used to determine whether rates are in compliance.

2002 Property and Casualty Accomplishments:

- Received 10,503 product filings in 2002. Turn around time averaged 18 days from date of receipt to final action including correspondence to and from the insurance company.
- The Medical Assistance Program (MCAP) was implemented to assist medical providers in obtaining medical malpractice liability insurance coverage and help alleviate coverage availability problems in Ohio.
- Launched the Property & Casualty Product Requirements Locator, a national searchable database of regulatory review requirements that offers insurers guidance in developing insurance products that are compliant with state laws.
- Worked closely with the Department's Office of Legal Services and the Ohio Attorney General's Office in having class actions lawsuits dropped that would have increased costs to Ohio consumers by more than \$400 million.
- Ohio ranked 15th and 3rd nationally for the least expensive private passenger auto and homeowners premiums, respectively.

Offices of Life and Health Services Background and Accomplishments

The Office of Life and Health Services is charged by statute to review the contractual provisions of all Ohio-licensed life and health and accident policies to ensure they are in compliance with Ohio and Federal laws. There are over 1,200 insurance companies licensed to offer life and health insurance in the State of Ohio. Along with policy and rate review, the office also licenses multiple employer trusts, alliances and health insuring corporations and accredits independent review organizations.

The office verifies that rates are actuarially sound, values the reserve liabilities for domestic life insurance companies, ensures that contracts adhere to state and federal laws and regulations and provides guidance to the industry and legislature on life and health insurance issues.

The Managed Care Division is responsible for licensing and monitoring the activities of all health insuring corporations – also known as HMOs – operating in Ohio. It reviews rates, contracts and certificates of authority, major modifications and other pertinent filings submitted by HMOs. HMOs include managed health care programs for the Medicaid population and for state employees.

2002 Life and Health Accomplishments:

- Analyzed more than 11,097 product filings.

Office of Consumer Services Background and Accomplishments

The Office of Consumer Services provides direct services to Ohio insurance consumers by answering questions, investigating complaints, organizing and coordinating a statewide counseling service for senior consumers and distributing educational material. The Office of Consumer Services includes both the Consumer Service Division and the Ohio Senior Health Insurance Information Program (OSHIIP).

Consumer Services Division:

Consumer Services representatives assist Ohio insurance consumers on the phone, through Internet communications, written correspondence, meeting one-on-one and through community outreach activities. The activities include counseling victims at disaster assistance sites, meeting with insurance industry professionals and participating in insurance fairs across the state. Representatives respond to inquiries regarding a wide variety of insurance matters and investigate insurance complaints against companies and agents.

2002 Accomplishments:

- The Consumer Services Division and OSHIIP saved insurance consumers more than \$9 million by assisting in such actions as the adjustment of inadequate claims settlement offers, reversal of claims previously denied and refunds of premium payments; responded to approximately 180,000 phone calls and received 11,000 written complaints and 5,600 on-line inquiries and complaints.
- The Department was the first to launch the Expedited Complaint Handling Option (ECHO), which allows the Department to more efficiently share complaint information with insurers for faster resolutions.

Ohio Senior Health Insurance Information Program (OSHIIP):

OSHIIP, funded in part by state funds and by a grant from the Centers for Medicare and Medicare Services (CMS), was founded in 1992 to provide Medicare beneficiaries with free, objective health insurance information and one-on-one counseling. OSHIIP's speaker's bureau, hotline experts and approximately 800 trained volunteers educate consumers about Medicare, Medicare+Choice options, Medicaid, Medicare supplements, long-term care insurance and other health insurance matters.

2002 Accomplishments:

- OSHIIP celebrated its 10th anniversary with monthly events in 12 different regions of the state and by recognizing local OSHIIP volunteers for their outstanding service to the program, and other local officials and those who have benefited from the efforts of OSHIIP.
- Educated nearly 574,000 consumers at statewide educational events.
- OSHIIP's "It's Your Choice at the Medicare & You Café" educational video and its 10th Anniversary calendar/planner, which features useful information about the Medicare program, won merit awards in their respective categories from the 2002 National Mature Media Awards Program. More than 1,110 entries were submitted in 31 different categories.
- Since 1992, OSHIIP has saved insurance consumers nearly \$4 million, counseled more than 248,000 people, distributed more than 862,000 publications and established more than 250 information sites.

Office of Legal Services Background

The Office of Legal Services handles regulatory transactions, administers public hearings on agent and company license and enforcement issues, and provides legal assistance to other divisions in the Department.

Legal staff members review corporate transactions filed with the Department, including changes of control, mergers, re-domestications, demutualizations and the investment activities of domestic insurance companies.

Support services to other departmental divisions include helping draft proposed statutes, amendments, rules and bulletins; providing legal advice on human resource issues; evaluating contract compliance; formulating departmental policies; administering public hearings; and drafting consent agreements, reports and recommendations and orders for the Director's approval.

Office of General Services Background

The Office of General Services is comprised of three divisions: Fiscal Operations, Human Resources and Resource Management.

General Services administers several programs that benefit the health, safety and security of Department employees. Overall administrative services are provided in the areas of security systems operation and maintenance and the continual development of the internal auditing control program.

The Fiscal Operations Division provides accounting and budgeting services. The division prepares the Department's budget, manages revenue, monitors expenses and payroll, administers grants and workflow for purchases and travel reimbursements and deposits securities. In addition, this division is responsible for the Department's inventory control, fleet management and mail operations.

The Human Resources Division directs and coordinates all personnel and labor relations activities. The successful performance of these duties attracts, develops and retains quality personnel in a positive work environment that contributes to more effective and efficient departmental operations. Activities include recruiting, selecting, hiring and training employees, EEO/AA programs, overseeing payroll processing and benefits for Department employees, administering the collective bargaining agreement, responding to grievances, mediating and arbitrating disputes and developing human resource policy.

The Resource Management Division performs services that promote efficiency and employee productivity within the Department. The division is responsible for facility maintenance and for providing space planning and reconfiguration assistance. The division also administers the telecommunications system, manages the records retention program and purchases non-computer related equipment.

Office of Information and Technology Background and Accomplishments

The Office of Information and Technology Services (OITS) assists the Department in achieving its regulatory oversight responsibilities through the application of technology. OITS designs, implements and maintains computer programs and applications and provides the Department's technology infrastructure. The OITS produces a web site that is friendly to both consumers and industry.

Internet Services:

Awarded an "A" rating from the Consumer Federation of America, the Department's web site offers consumers, insurers and agents the luxury of online services 24-hours a day.

- The Department's web address www.ohioinsurance.gov is recognizable and easy to remember. More than 24 consumer guides and brochures are available on the web site.
- Visitors to the site can file complaints and track the complaint status online. Visitors can also access company premium information and complaint ratios for comparison-shopping.
- The site features an agent locator application to allow consumers to search for agents/ agencies by name, city and zip code. It is also a way to verify that an agent is licensed to sell insurance in Ohio.
- The site also includes a listing of all Health Insuring Corporations (HIC) authorized in Ohio and a county by-county breakdown, which updates instantaneously when there is a change.
- Financial information on Ohio licensed insurance companies is provided.
- Insurance companies and insurers can complete their required regulatory paperwork via the Department's web site. The web site contains more than 130 Microsoft Word and PDF forms, which make the regulatory paperwork requirement process effective and efficient. Many of the forms are automated, allowing information to be directly sent to the Department.
- The web site was upgraded to meet international standards for accessibility by disabled users. The upgrade earned an "A" rating from Bobby, a comprehensive web site accessibility software tool designed to expose barriers to accessibility and encourage compliance with existing accessibility guidelines.

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