

Department of Insurance

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- The agency receives no GRF funding
- Fee changes in H.B. 66 are approximately revenue neutral for both Department of Insurance Operating Fund and GRF

OVERVIEW

Duties and Responsibilities

The Ohio Department of Insurance (ODI) regulates the business of insurance in Ohio. Its mission is to protect Ohio consumers through financial solvency regulation, market conduct regulation, and consumer education. To carry out this mission it licenses insurance agents and agencies, investigates allegations of misconduct by insurance agents or agencies, investigates allegations of consumer and provider fraud, investigates consumer complaints, and monitors the financial solvency and market conduct of insurance companies. The Department reviews insurance policies and forms used by insurance companies and the premiums they charge customers in the life, accident, health, managed care, and property and casualty insurance lines. It also administers the domestic and foreign insurance taxes, which in FY 2005 raised just over \$414 million (combined) for the General Revenue Fund (GRF).

Agency in Brief

Agency In Brief					
Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2006	2007	2006	2007	
263	\$31.99 million	\$32.12 million	\$0	\$0	Am. Sub. H.B. 66

*Employee count obtained from the Department of Administrative Services payroll reports as of June 2005.

The Department of Insurance is a cabinet level agency. Its activities are organized into six distinct program series, which are: Investigative and Licensing Services, Financial Regulation, Policy and Rate Filing Regulation Services, Consumer Services, Medical Malpractice, and Program Management.

The Department receives no budgetary resources from the GRF. Funding for the Department is derived primarily from the fees that accompany appointments of insurance agents by insurance companies. The Department receives up to \$15 of this \$20 fee with the remaining revenue deposited into the GRF. This primary revenue source is supplemented by company filing fees, various smaller fees, and a federal grant that funds the Ohio Senior Health Insurance Information Program (OSHIIP). The agency's FY 2005 expenditures were \$26.35 million.

The Department licensed and regulated approximately 1,740 insurance companies operating in the state in 2004, of which approximately 275 are "domestic" insurance companies, i.e., companies based and licensed to do business in Ohio. The other nearly 1,500 insurance companies regulated by the

Department, those based in another state but licensed to do business in Ohio, are referred to as "foreign" insurance companies. The Department also annually licenses and regulates over 180,000 insurance agents and more than 13,000 agencies.

Summary of FYs 2006-2007 Budget Issues

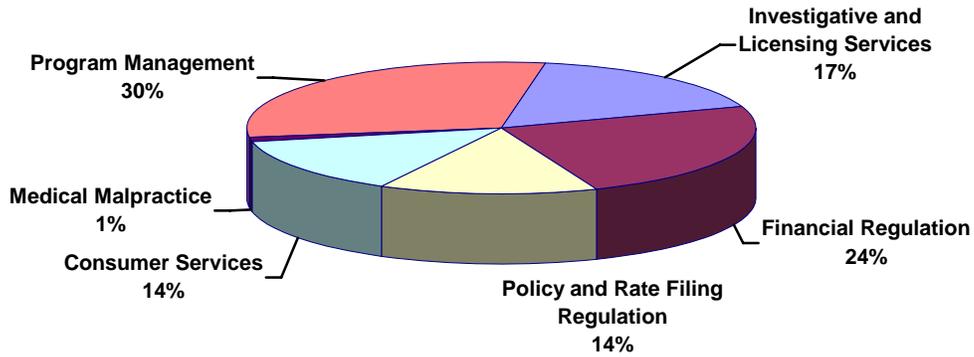
The enacted budget includes appropriations of \$31,993,567 for FY 2006 and \$32,123,567 for FY 2007. These amounts represent an increase of 21.4% in FY 2006 compared to FY 2005 expenditures and an increase of 0.4% in FY 2007. Of the approximately \$5.6 million increase from FY 2005 to FY 2006, about \$4.2 million, or 75%, is in appropriation item 820-606, Operating Expenses. An additional approximately \$525,000, or slightly over 9%, is attributable to an increase in the federal grant that funds the Ohio Senior Health Insurance Information Program (OSHIIP, described below). The increase in federal funding is to provide support for disseminating information about the new Medicare Part D pharmaceutical benefit, and to help seniors to make choices related to it.

Am. Sub. H.B. 66 (H.B. 66) made a handful of changes to the fees that finance the Department's budget. It eliminated the requirement that the Superintendent of Insurance issue annually to every foreign insurer with one or more agencies in Ohio a certificate of compliance, and that the certificate of compliance be published in a newspaper in each county where the insurer has an agency. The elimination of this requirement will reduce fee revenue for the Department of Insurance Operating Fund (Fund 554) by approximately \$600,000 per fiscal year and will reduce revenue to the GRF by approximately \$250,000 per year. The revenue loss to Fund 554 was made up by increasing the fee for a certificate of compliance from \$20 to \$60, and by increasing the fee for a certificate of authority from \$5 per year to \$175 and the fee for filing an annual statement from \$25 to \$175. The net effect of all the fee changes in the enacted budget is approximately revenue neutral. The Department estimates that revenue to Fund 554 would on net increase by about \$8,000 per year, and that GRF revenue will increase by about \$5,000. The enacted budget also permits other revenues, such as registration fees from Department sponsored seminars or conferences and private grants, to be deposited into the state treasury to the credit of Fund 554; this essentially codifies existing practice.

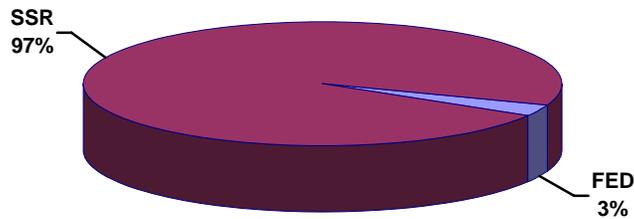
Prior to enactment of H.B. 66, companies who purchased insurance from an unauthorized insurer or surplus lines insurer were required to report but not pay a tax, 5% of the gross premium, if they issued an insurance contract to an "employer insured," which is defined in section 3905.36 of the Revised Code. The enacted budget eliminates the exemption whereby these companies report, but do not pay, the tax; with the elimination of the exemption, these companies will begin to pay the tax. Professional or medical liability insurance procured by a hospital organized under Ohio law will remain exempt from the tax. This provision will increase revenue to the GRF by \$6.5 million to \$11.8 million per year, depending on market conditions.

The following charts show biennial appropriations to the Department of Insurance by Program Series and by Fund Group.

Total Budget by Program Series



Total Budget by Fund Group



ANALYSIS OF THE ENACTED BUDGET

Program Series 1

Investigative and Licensing Services

Purpose: To investigate inappropriate market conduct by insurance companies and agents, license insurance agents, and investigate insurance-related fraud.

The following table shows the line items that are used to fund the Investigative and Licensing Services program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
554	820-606	Operating Expenses	\$5,335,574	\$5,446,432
State Special Revenue Fund Subtotal			\$5,335,574	\$5,446,432
Total Funding: Investigative and Licensing Services program series			\$5,335,574	\$5,446,432

This analysis focuses on the following specific programs within the Investigative and Licensing Services program series:

- **Program 1: Market Conduct**
- **Program 2: Licensing**
- **Program 3: Fraud Investigation and Enforcement**

Program 1: Market Conduct

Program Description: The Market Conduct Division identifies inappropriate market practices by insurance companies, imposes penalties, and takes corrective actions. This program also houses the Department's provider complaint and prompt payment program for healthcare claims.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service and permits an enhanced ability to analyze the market.

Temporary and Permanent Law Provisions: Market Conduct Examination (Section 206.63). Permits the Superintendent of Insurance to assess the costs of market conduct examinations on the insurer that was examined. All assessments collected are to be deposited into the Department of Insurance Operating Fund (Fund 554).

Program 2: Licensing

Program Description: The Licensing Division licenses individuals and organizations other than insurance companies to sell, distribute, and service insurance products. This division administers the professional education program required for obtaining a license from the Department.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service.

Program 3: Fraud Investigation and Enforcement

Program Description: This division investigates insurance-related fraud committed by consumers, medical providers, or others, and investigates allegations of misconduct by insurance agents and other licensees. During 2004 the division received slightly over 1,250 referrals about possible instances of insurance fraud.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service. One of the Department's goals is to increase the number of fraud and enforcement cases investigated. The enacted budget provides funding to increase the number of staff employed in this program, but the higher staffing level would remain below the current authorized staffing level.

Program Series 2

Financial Regulation

Purpose: To monitor the financial solvency of insurance companies operating in Ohio.

The following table shows the line items that are used to fund the Financial Regulation program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
555	820-605	Examination	\$7,639,581	\$7,639,581
State Special Revenue Fund Subtotal			\$7,639,581	\$7,639,581
Total Funding: Financial Regulation program series			\$7,639,581	\$7,639,581

This analysis focuses on the following specific program within the Financial Regulation program series.

Program 1: Financial Regulation Services

Program Description: The Financial Regulation Services program monitors the financial solvency of the approximately 275 insurance companies headquartered in Ohio to ensure they are able to pay claims when due. This program also monitors approximately 1,500 insurance companies headquartered in other states, in cooperation with other state insurance departments and the NAIC.

Funding Source: SSR: insurance company fees

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service.

Temporary and Permanent Law Provisions: Examinations of Domestic Fraternal Benefit Societies (Section 206.63). Permits the Director of Budget and Management, at the request of the Superintendent of Insurance, to transfer funds from the Department of Insurance Operating Fund (Fund 554) to the Superintendent's Examination Fund (Fund 555) for expenses incurred in examining domestic fraternal benefit societies.

Program Series 3

Policy and Rate Filing Regulation

Purpose: To review all rates and policies issued by property and casualty insurers and by life and health insurers operating in Ohio and license and monitor the activities of all health insuring corporations operating in Ohio.

The following table shows the line items that are used to fund the Policy and Rate Filing Regulation program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
554	820-606	Operating Expenses	\$4,489,164	\$4,537,637
State Special Revenue Fund Subtotal			\$4,489,164	\$4,537,637
Total Funding: Policy and Rate Filing Regulation			\$4,489,164	\$4,537,637

This analysis focuses on the following specific programs within the Policy and Rate Filing Regulation program series:

- **Program 1: Property and Casualty**
- **Program 2: Life and Health**

Program 1: Property and Casualty

Program Description: This program reviews documents related to the sale of property and casualty insurance products to Ohio consumers for compliance with Ohio laws. Such documents include policy forms, endorsements, manual rules, and rates. This program received 10,054 product filings for review in 2003.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service.

Program 2: Life and Health

Program Description: This program reviews documents related to the sale of life and health insurance products to Ohio consumers for compliance with Ohio laws. The actuarial staff analyzes over 800 accident and health premium adjustments each year. The managed care staff within this program licenses and monitors the activities of health insuring corporations that operate in Ohio, and monitors their financial solvency.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service and permits an enhanced ability to evaluate the sufficiency of life insurers' methodologies for setting reserve levels.

Program Series 4

Consumer Services

Purpose: To respond to consumer inquiries, investigate consumer complaints, and conduct educational outreach activities.

The following table shows the line items that are used to fund the Consumer Services program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
554	820-601	Operating Expenses--OSHIIP	\$564,754	\$571,772
554	820-606	Operating Expenses	\$2,810,595	\$2,840,978
State Special Revenue Fund Subtotal			\$3,375,349	\$3,412,750
Federal Special Revenue Fund				
3U5	820-602	OSHIIP Operating Grant	\$1,080,000	\$1,080,000
Federal Special Revenue Fund Subtotal			\$1,080,000	\$1,080,000
Total Funding: Consumer Services			\$4,455,349	\$4,492,750

This analysis focuses on the following specific programs within the Consumer Services program series:

- **Program 1: Consumer Services**
- **Program 2: Ohio Senior Health Insurance Information Program**

Program 1: Consumer Services

Program Description: This program responds to insurance-related inquiries from insurance customers, investigates consumer complaints related to insurance, and educates Ohio consumers about insurance issues. During FY 2004 the program responded to over 125,000 telephone calls and 10,800 written complaints from consumers. As a result of departmental efforts, Ohio consumers recovered approximately \$6.8 million.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service.

Program 2: OSHIIP

Program Description: This program educates Ohio Medicare beneficiaries and their families about health insurance-related issues for seniors. In addition to distributing free brochures and other

written educational material, the program operates a toll-free hotline. Since its inception in 1992 this program has counseled more than 248,000 people, distributed 862,000 publications, and saved Ohio consumers approximately \$3.6 million.

The enacted budget increased funding for this line, as compared with the agency's budget request, due to the receipt of a larger federal grant than anticipated when the request was submitted. The increased grant was provided to allow enhanced service under this program to help inform seniors about their options with the introduction of the new Medicare Part D drug program.

Funding Source: SSR: fees and fines, federal grant

Implication of the Enacted Budget: The enacted budget will permit greater service levels in educating seniors about their health care options. This enhancement of service levels will be needed due to the complexity of the new Medicare Part D drug program and the desire to help seniors understand how it may affect their insurance needs.

Program Series 5

Medical Malpractice

Purpose: To respond to the medical liability and liquidation provisions of Sub. H.B. 282 of the 125th General Assembly.

The following table shows the line items that are used to fund the Medical Malpractice program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
State Special Revenue Fund				
554	820-606	Operating Expenses	\$300,000	\$485,000
State Special Revenue Fund Subtotal			\$300,000	\$485,000
Total Funding: Medical Malpractice			\$300,000	\$485,000

This analysis focuses on the following specific program within the Medical Malpractice program series.

Program 1: Medical Malpractice

Program Description: In response to growing concerns about the stability of the market for medical malpractice insurance in Ohio, the 125th General Assembly passed Sub. H.B. 282. H.B. 282 permitted the Superintendent of Insurance to create a Medical Liability Underwriting Association (MLUA) to support the market under conditions specified in the bill.¹³ The MLUA would essentially be an insurance company created by action of the state for the specific purpose of ensuring access to medical

¹³ Before establishing the MLUA the Superintendent must determine both that a "substantial number" of medical providers have been unable to obtain medical malpractice coverage from an existing insurer, and that the lack of insurance coverage threatens the availability of health care for "any group of individuals in this state."

malpractice insurance coverage for Ohio medical providers. The Superintendent has not determined that establishment of the MLUA is necessary as of September 2005.

If it were to be established, the MLUA would be required to produce a plan of operation within 45 days. This program will engage in activities preparatory to creation of the MLUA, including drafting a potential plan of operation. If the MLUA is established it will be funded by the Medical Liability Fund that was also established by H.B. 282 for the purpose of "funding the medical liability underwriting association that is created in accordance with sections 3929.62 to 3929.70 of the Revised Code or for funding another medical malpractice initiative with the approval of the general assembly." The fund received one-time funding, which was the balance of custodial funds that funded the Joint Underwriting Association (JUA). Like the MLUA, the JUA was essentially an insurance company, created by the state in 1975, to ensure that medical providers would have access to medical malpractice insurance coverage. The JUA was dissolved in 1997 by the Superintendent of Insurance with the authorization of the General Assembly, because the Superintendent determined that malpractice insurance was generally available to providers in the market. The money in the Medical Liability Fund derives from premiums paid to the JUA when it was operating.

The money in the Medical Liability Fund can be spent only if the Superintendent of Insurance establishes the MLUA by rule or with the approval of the General Assembly. Because the enacted budget did not include an appropriation from the Medical Liability Fund, it effectively would require the Department to go before the Controlling Board to establish an appropriation from the fund after FY 2005. The preparatory work conducted by this program is therefore funded by Fund 554 until such time as it may legally be possible to fund it from the Medical Liability Fund.

Funding Source: SSR: fees and fines

Implication of the Enacted Budget: The enacted budget will permit hiring of one full-time staff member to plan and prepare for the establishment of the MLUA should its establishment prove necessary.

Program Series 6**Program Management**

Purpose: To support the activities of all Department divisions and employees.

The following table shows the line items that are used to fund the Program Management program series, as well as the appropriations that fund that series.

Fund	ALI	Title	FY 2006	FY 2007
Federal Special Revenue Fund				
3AV	820-604	Federal Grant – Special Project	\$55,000	\$0
Federal Special Revenue Fund Subtotal			\$55,000	\$0
State Special Revenue Fund				
554	820-606	Operating Expenses	\$9,718,899	\$9,522,167
State Special Revenue Fund Subtotal			\$9,718,899	\$9,522,167
Total Funding: Program Management			\$9,773,899	\$9,522,167

This analysis focuses on the following specific program within the Program Management program series.

Program 1: Program Management

Program Description: This program supports the Department's mission by providing management and support services to the other programs. It includes the offices of General Services, Legal Services, Executive Services, and Information and Technology Services. The Office of General Services includes the divisions of Fiscal Operations and Human Resources.

Funding Sources: FSR: federal grants, SSR: fees and fines

Implication of the Enacted Budget: The enacted budget provides sufficient funding to continue the program at its current level of service.