

Budget and Resources

The Administrative Services Division provides staff support for information technology, personnel management, record and mail services, word processing, and all fiscal operations, including development and administration of the agency's budget. The Department is funded from three sources.

More than 96% of Department appropriations comes from the Insurance Financial Regulation Fund and the Insurance Producer Administration Fund which are funded by various taxes and fees collected from insurance companies and producers. The balance of our appropriation comes from the General Revenue Fund (GRF). In addition, our Senior Health Insurance Program (SHIP) receives funding from a federal grant.

For FY 2002, the Department's appropriation was \$33,600,000. Of that total, \$492,600 was allocated from the GRF, while federal funds for SHIP contributed \$700,000. Revenue collections for the year totaled \$311,949,336, of which \$272,433,109 was deposited into the General Revenue Fund.

As of June 30, 2002, the Department had \$16,128,037 in net accounts receivable on the books from 2,383 accounts. Of that amount, \$2,199,199 was from privilege tax litigation cases involving the 1997 Supreme Court decision that the tax was unconstitutional. Another \$11,874,043 came from annual financial regulation fee billings under 19 days old. Thus, the total of \$2,054,795 more accurately reflects the Department's accounts receivable.

The Department sends a past due letter on accounts receivable over 30 days. After 60 days, the originator of the accounts receivable is requested to assist in the collection. After 75 days, a request is made to initiate regulatory action against the insurance company or individual licensee. If an account is outstanding after 90 days, the account is submitted to the Comptroller's Offset System. After 180 days, the account is reported to the Debt Collection Board and submitted to a collection agency.

Department Staff

Administrative	43
Consumer	134
Financial/Corporate	139
Pension	13
Staff	31
EDP	<u>23</u>
Total:	383

Securities Deposited by Insurance Companies for FY 2002

Domestic Stock Life	77	\$216,672,000.00
(Special Policy Fund)	3	970,000.00
Domestic Mutual Life	6	11,850,000.00
Domestic Assessment Life	2	430,000.00
Domestic Stock Property & Casualty	176	394,575,000.00
Domestic Mutual Property & Casualty	17	40,817,000.00
Domestic Inter-Insurance Exchange	3	5,525,000.00
Inex Insurance Exchange	1	2,505,000.00
Burials	2	16,000.00
Bond Certificates	26	1,134,000.00
Health Maintenance Organizations	23	14,187,000.00
Limited Health Service Organizations	10	882,000.00
Total:	346	689,563,000.00
Foreign Workers Compensation	41	474,476,000.00
Foreign & Alien	23	40,220,000.00
Service Contract Providers	10	263,000.00
Mutual Trust Holding	2	3,050,000.00
Total on Deposit June 30, 2002	422	\$1,207,572,000.00

Comparative Statement of Taxes & Fees Collected Period Ending June 30, 2002

Taxes & Fees	FY 2002	FY 2001
1st Quarter Privilege Tax	\$28,358,594.12	\$26,329,507.41
2nd Quarter Privilege Tax	30,854,692.76	27,398,909.81
3rd Quarter Privilege Tax	28,001,279.04	26,703,511.82
4th Quarter Privilege Tax	31,502,293.65	26,828,306.44
1st Quarter Retaliatory Tax	22,417,554.76	22,280,108.42
2nd Quarter Retaliatory Tax	24,330,835.48	22,994,967.05
3rd Quarter Retaliatory Tax	23,821,316.19	19,798,613.45
4th Quarter Retaliatory Tax	24,480,976.05	19,494,353.52
Final Privilege Tax	32,448,130.74	33,084,492.62
Final Retaliatory Tax	15,994,247.03	21,624,092.21
Surplus Line Tax	9,007,286.62	6,910,507.96
Group Privilege Tax	0.00	0.00
Fines & Penalties	923,500.09	1,069,376.59
Interest	291,914.90	229,225.42
Miscellaneous	<u>487.37</u>	<u>4,625.76</u>
Subtotal for General Revenue Fund	\$272,433,108.80	\$254,750,598.48
Producer Licenses	10,960,792.16	12,464,421.09
Producer Reinstatement Fee	373,930.00	362,285.00
Producer Appointment Fee	479,650.00	544,025.00
Producer Provider Education	261,405.00	273,430.00
Producer Market Conduct Exams	607,521.25	513,776.25
Producer Fines & Penalty	144.75	0.00
Producer Market Conduct Travel	154,287.91	76,487.86
Producer Miscellaneous	<u>47,209.00</u>	<u>39,676.99</u>
Subtotal for Insurance Producer Fund	\$12,884,940.07	\$14,274,102.19
Fire Marshal Tax (Company)	13,531,340.18	11,968,129.58
Fire Marshal Tax (Surplus Lines)	<u>396,496.00</u>	<u>300,797.00</u>
Subtotal for Fire Prevention Fund	\$13,927,836.18	\$12,268,926.58
L/A&H:		
Annual Statement Filing	72,000.00	74,275.00
Corporate Documents	82,830.00	74,451.00
Certificate Fees	129,902.00	124,260.00
Policy Form Filings	288,397.00	272,050.00
Miscellaneous	35,740.54	24,781.00
Domestic Financial Regulation Fee	1,111,900.00	1,555,700.00
Foreign Financial Regulation Fee	2,024,700.00	2,581,200.00
P&C:		
Cost Containment	2,000,000.00	0.00
Annual Statement Filing	105,850.00	106,275.00
Surplus Lines Licenses	100,400.00	98,200.00
Corporate Documents	141,165.00	207,120.00
Certificate Fees	199,469.00	203,879.00
Policy Form Filings	568,887.24	571,624.76
Fines & Penalties	0.00	0.00
RCPT, etc.	9,188.88	76,237.50
Miscellaneous	15,694.95	16,491.06
Domestic Financial Regulation Fee	2,092,028.00	2,527,900.00
Foreign Financial Regulation Fee	2,229,200.00	3,361,900.00
Financial Exam Travel	<u>601,019.43</u>	<u>350,121.73</u>
Subtotal for Insurance Financial Regulation Fund	\$11,808,372.04	\$12,226,466.05
Public Pension Fees	523,062.56	524,110.52
Public Pension Fines	<u>155.55</u>	<u>0.00</u>
Subtotal for Public Pension Fund	\$523,218.11	\$524,110.52
W.C. Pool Fees	371,860.43	0.00
Subtotal for W.C. Pool Fund	<u>371,860.43</u>	<u>0.00</u>
Total for All Funds	<u>\$311,949,335.63</u>	<u>\$294,044,203.82</u>

FY 02 Appropriations and Disbursements—July 1, 2001—June 30, 2002

General Revenue Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$356,200.00	\$0.00	\$292,550.05	\$63,649.95
Retirement—Employee	14,300.00	0.00	11,711.13	2,588.87
Retirement	37,100.00	0.00	29,395.35	7,704.65
Social Security	27,200.00	0.00	21,721.99	5,478.01
Travel	34,200.00	0.00	13,099.56	21,100.44
Printing	10,500.00	10,000.00	0.00	500.00
Equipment	5,000.00	0.00	0.00	5,000.00
Telecommunications	<u>8,100.00</u>	<u>0.00</u>	<u>6,396.59</u>	<u>1,703.41</u>
Total	<u>\$492,600.00</u>	<u>\$10,000.00</u>	<u>\$374,874.67</u>	<u>\$107,725.33</u>

Public Pension Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$362,200.00	\$0.00	\$304,755.76	\$57,444.24
Retirement—Employee	14,500.00	0.00	12,192.44	2,307.56
Retirement	37,700.00	0.00	30,603.86	7,096.14
Social Security	27,700.00	0.00	22,584.52	5,115.48
Group Insurance	67,200.00	0.00	59,798.82	7,401.18
Contractual	23,655.00	0.00	23,654.27	.73
Travel	19,245.00	0.00	19,214.86	30.14
Equipment	7,600.00	0.00	510.21	7,089.79
Telecommunications	<u>1,000.00</u>	<u>0.00</u>	<u>974.47</u>	<u>25.53</u>
Total	<u>\$560,800.00</u>	<u>\$0.00</u>	<u>\$474,289.21</u>	<u>\$86,510.79</u>

FY 02 Appropriations and Disbursements—July 1, 2001—June 30, 2002

Insurance Producers Administration Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$7,412,600.00	\$0.00	\$7,153,021.65	\$259,578.35
Retirement—Employee	287,600.00	0.00	279,885.74	7,714.26
Retirement	738,900.00	0.00	722,138.49	16,761.51
Social Security	537,000.00	0.00	518,988.54	18,011.46
Group Insurance	1,436,800.00	0.00	1,378,434.67	58,365.33
Contractual	1,659,900.00	0.00	1,496,546.10	163,353.90
Travel	392,300.00	0.00	328,346.37	63,953.63
Commodities	57,700.00	0.00	39,145.16	18,554.84
Printing	119,800.00	0.00	58,629.00	61,171.00
Equipment	277,700.00	0.00	101,146.02	176,553.98
Telecommunications	239,400.00	0.00	190,054.39	49,345.61
Automotive Equipment	10,900.00	0.00	10,616.30	283.70
Lump Sum	323,500.00	0.00	307,078.91	16,421.09
Refund	<u>87,300.00</u>	<u>0.00</u>	<u>84,680.00</u>	<u>2,620.00</u>
Total	<u>\$13,581,400.00</u>	<u>\$0.00</u>	<u>\$12,668,711.34</u>	<u>\$912,688.66</u>

Insurance Financial Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$10,575,100.00	\$0.00	\$9,883,753.38	\$691,346.62
Retirement—Employee	422,800.00	0.00	380,973.55	41,826.45
Retirement	1,096,100.00	0.00	993,083.15	103,016.85
Social Security	800,500.00	0.00	722,229.34	78,270.66
Group Insurance	1,856,400.00	0.00	1,640,824.15	215,575.85
Contractual	2,091,700.00	0.00	1,668,728.63	422,971.37
Travel	846,800.00	0.00	810,293.00	36,507.00
Commodities	40,100.00	0.00	36,298.21	3,801.79
Printing	51,500.00	0.00	19,634.86	31,865.14
Equipment	243,000.00	0.00	227,190.66	15,809.34
Telecommunications	171,500.00	0.00	144,964.60	26,535.40
Automotive Equipment	7,300.00	0.00	6,929.87	370.13
Refund	<u>100,000.00</u>	<u>0.00</u>	<u>468.00</u>	<u>99,532.00</u>
Total	<u>\$18,302,800.00</u>	<u>\$0.00</u>	<u>\$16,535,371.40</u>	<u>\$1,767,428.60</u>

FY 02 Appropriations and Disbursements—July 1, 2001—June 30, 2002

Combined Funds

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$18,706,100.00	\$0.00	\$17,634,080.84	\$1,072,019.16
Retirement—Employee	739,200.00	0.00	684,762.86	54,437.14
Retirement	1,909,800.00	0.00	1,775,220.85	134,579.15
Social Security	1,392,400.00	0.00	1,285,524.39	106,875.61
Group Insurance	3,360,400.00	0.00	3,079,057.64	281,342.36
Contractual	3,775,255.00	0.00	3,188,929.00	586,326.00
Travel	1,292,545.00	0.00	1,170,953.79	121,591.21
Commodities	97,800.00	0.00	75,443.37	22,356.63
Printing	181,800.00	10,000.00	78,263.86	93,536.14
Equipment	533,300.00	0.00	328,846.89	204,453.11
Telecommunications	420,000.00	0.00	342,390.05	77,609.95
Automotive Equipment	18,200.00	0.00	17,546.17	653.83
Lump Sum	323,500.00	0.00	307,078.91	16,421.09
Refund	<u>187,300.00</u>	<u>0.00</u>	<u>85,148.00</u>	<u>102,152.00</u>
Total	<u>\$32,937,600.00</u>	<u>\$10,000.00</u>	<u>\$30,053,246.62</u>	<u>\$2,874,353.38</u>

Tax Refund Fund

(established for the deposit and expenditure of funds needed to pay tax refunds due)

Standard Accounts:	Appropriations	Disbursements
Refund	<u>\$6,000,000.00</u>	<u>\$2,117,542.41</u>
Total	<u>\$6,000,000.00</u>	<u>\$2,117,542.41</u>

Senior Health Insurance Plan

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$700,000.00</u>	<u>\$438,393.01</u>
Total	<u>\$700,000.00</u>	<u>\$438,393.01</u>

Department of Insurance Federal Trust Fund

(Federal grant to address access to health insurance)

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$1,427,322.70</u>	<u>\$472,562.15</u>
Total	<u>\$1,427,322.70</u>	<u>\$472,562.15</u>

Group Self—Insurers Workers' Compensation

(Expenses related to claims of insolvent workers' compensation self—insurance pools)

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$10,000,000.00</u>	<u>\$906,555.76</u>
Total	<u>\$10,000,000.00</u>	<u>\$906,555.76</u>

Consumer Market Division

The Consumer Market Division oversees the Department's consumer protection and education programs, licenses and regulates the activities of insurance producers, and monitors the marketplace operations of insurance companies through policy analysis, complaint investigation and periodic on-site examinations.

Consumer Services and Education Programs

During 2002, the **Consumer Services Section** made significant technological strides in the way it communicates with consumers and insurers. Our **electronic complaint project** pilot program, in which consumer complaints received via e-mail are electronically transmitted to participating insurers, significantly decreased paperwork and turnaround time to process the complaints. We now operate on a virtually paperless basis, viewing and working complaint files electronically. Staff members estimate that electronic submissions speed up the complaint handling process by at least five days. The Division continues to utilize the electronic group mailbox, which encourages companies to respond to their complaints via e-mail. We are currently working with numerous companies to protect confidential consumer complaint information transmitted via e-mail by utilizing encryption software. We hope to persuade more companies to join us in using encryption in the near future. In addition, we have implemented an electronic reconciliation of complaints program with the insurance companies that will allow for a much more detailed and comprehensive reporting of complaints to the public.

Another facet of the Consumer Market Division's use of technology is our website, in which consumers can easily communicate their complaint to us, or quickly locate information to help assist them regarding insurance. Our **consumer fact sheets** are instrumental in providing needed information to the public. At the click of a button on our website, a consumer can access 53 fact sheets, 43 of which were either created or revised in 2002. These fact sheets educate consumers on a wide range of insurance issues such as health insurance continuation rights (COBRA), health insurance for small employers, how to find help if a consumer is under the age of 65 and losing Medicare HMO coverage, facts about buying insurance, homeowner's insurance, infertility treatment coverage, and many more issues. We now operate a toll-free consumer assistance hotline enabling consumers to easily reach our analysts with questions or complaints about their insurance companies.

Consumer Complaints by Reason

	Insurance Companies	HMO's
Underwriting	2,141	19
Marketing and Sales	216	2
Claim Handling	8,347	1,262
Policyholder Service	1,310	16
Not Categorized	<u>2</u>	<u>3</u>
Subtotal	12,016	1,302
Total Complaints:	13,318	

Consumer Complaints by Line of Coverage

Auto	3,885
Group A&H	3,669
Individual A&H	1,343
Homeowners	1,462
Individual Life	813
Individual Annuity	127
Group Credit A&H	53
HMOs	1,299
All Other Coverage	<u>664</u>
Subtotal	13,315
Not Categorized	<u>3</u>
Total	<u>13,318</u>

Consumer Outreach Activities

High School Presentations:	248
Senior Center Presentations:	361
Radio Shows:	199
(estimated audience of 2,301,000)	
Other Presentations:	10

Market Conduct Programs

In establishing a schedule of examinations, the **Market Conduct Section** evaluates information gleaned from insurer market conduct annual statements, specifically data regarding automobile claims, homeowner coverages, and zip code tracking of company producers by business address. An analysis of these market conduct annual statements enables us to prioritize personal lines carriers for targeted examinations. This analysis, in conjunction with our review of consumer complaints, gives us the opportunity to respond more quickly to the ever-changing marketplace.

Market conduct examinations directed at health maintenance organizations (HMOs) emphasized both their compliance with rules and regulations, and accurate and timely payment of claims. Market conduct staff continued to be active on various NAIC working groups designed to address uniformity in market conduct examinations with respect to data calls, examiner qualifications and examination procedures. The federal Gramm-Leach-Bliley Act (GLBA) is driving this ongoing effort. Market Conduct staff also participated in the Inter-agency efforts of the Banking, Insurance, and Securities Regulators, an entity organized under the auspices of GLBA to develop and implement uniform regulatory methods and procedures across the banking, insurance, and securities industries.

Completed Market Conduct Examinations

Examinations	31
Corrective orders issued	22
Premium overcharges returned to Illinois policyholders	\$18,164
Additional claim payments made	\$38,890
Civil forfeitures levied (16 insurers)	\$615,000

Life, Accident and Health Compliance

During the year 2002, the **Office of Consumer Health Insurance (OCHI)** received 18,191 calls from 1,083 different zip codes in Illinois. The three most frequently addressed topics were: claims (2,358), group insurance (1,631), and individual insurance (1,296). OCHI continued to distribute informational brochures to numerous entities throughout the state that could provide the brochures to their stakeholders.

Beginning January 1, 2002, OCHI's responsibilities were expanded to include incorporation of the new **Uninsured Ombudsman Program** created by P.A. 92-0331. The Program was enacted to provide assistance and education to uninsured individuals regarding health insurance benefits, options and rights under state and federal law. This is done through direct contact with individuals over the OCHI/Ombudsman toll-free line as well as making contact with entities throughout the state that may have contact with the uninsured population, including township officials and county and local health departments. In order to best provide these services to the uninsured population, OCHI began collecting information on resources from around the state that, while not necessarily providing insurance, might be able to provide health care options for persons seeking treatment. The program will continue to collect and store this information in a database, accessible by staff, to help guide uninsured individuals.

On July 1, 2002, the **Utilization Review Unit** began processing utilization review organization (URO) renewals that became due as the two-year registration cycle for UROs became effective. At year's end, there were 180 UROs registered with the Department.

Policy Filing Issues

During 2002, the Department received hundreds of submissions for mold exclusions or limitations. The Department issued a bulletin advising companies when exclusions or limitations would be accepted and the language that companies must include as a minimum standard for their mold exclusions or limitations. To assist Illinois consumers in becoming better informed about mold issues, the Department also developed and posted on our website a fact sheet entitled "Mold Facts and Homeowners Insurance."

The Department continues to work on initiatives aimed at moving accepted insurance products to market as quickly as possible.

In November, the federal Terrorism Risk Insurance Act of 2002 (TRIA) was passed. The Department of Insurance worked with other regulators and the industry to understand the implications and requirements for the TRIA.

Product Filings

L/AH forms approved	22,793
L/AH informational filings	1,653
L/AH rate filings	848
HMO forms approved	964
HMO information filings	136
PPA applications approved/renewed	113
PC forms reviewed	34,749
PC rate filings reviewed	4,410

Producer Licensing and Regulation

The **Producer Licensing Unit** is responsible for developing and administering licensing examinations required of prospective insurance producers and public adjusters. This responsibility is performed through a test administrator, which has established test sites throughout the state. The examinations are given by computer and electronically graded immediately upon completion. For candidates who pass the examination, an instant application is provided at the test site.

The Licensing Unit has implemented a project that allows education providers to submit their rosters of students who completed courses to the Department via the Internet. Currently, 90% of the education providers are utilizing this service and have been able to more quickly submit completed courses to the Department, saving everyone involved time and money.

In addition, the licensing staff reviews and processes new and renewal applications and issues licenses online on a daily basis.

In 2002, Illinois was one of 32 states to comply with the federal Gramm-Leach-Bliley requirements for reciprocity and uniformity in the licensing of non-resident insurance producers. Illinois' compliance with this federal law was a key factor in deterring a federal licensing organization that threatened the existence of state licensing of producers.

Licenses Issued

Producers Licensed	64,493
Business Entities Licensed	9,629
Examinations	21,116
Temporary Licenses	1,431
Limited Representatives	13,017
Premium Finance Licenses	248
Public Adjuster Licenses	185
Third Party Administrators	479
Certifications/Clearances	44,176
Education Providers	335
Courses Approved	4,434

The **Producer Regulatory Unit** conducts fiduciary financial examinations of licensed insurance producers and investigates their marketing activities and methods. Such examinations or investigations may result in the issuance of a Director's Order to the producer.

Regulatory Actions

Financial examinations	203	Results:	
Investigations	191	Revocations/surrenders	99
Total	394	Stipulation & Consent orders	19
		Civil forfeitures	\$118,000

Senior Health Insurance Program

The **Senior Health Insurance Program (SHIP)** is a free counseling program for Medicare beneficiaries and their caregivers who have questions or problems with health insurance issues such as Medicare, Medicare supplement insurance, Medicare health plans and long-term care insurance.

During 2002, SHIP staff and counselors held 25 educational meetings statewide to assist thousands of Medicare beneficiaries affected by the **Medicare HMO withdrawals** in Illinois. SHIP staff also counseled beneficiaries about their insurance options as large groups of physicians withdrew from Medicare HMOs. Many employers, including some Illinois steel companies that have closed their doors, announced they are dropping their retirees' secondary insurance coverage. SHIP advocated for those retirees through educational seminars and by staffing information booths at health fairs and other state agencies throughout Illinois.

SHIP continued to provide a strong presence in the Hispanic community by counseling and educating the Hispanic population in Cook County on all aspects of Medicare and health insurance. A bilingual operator is on staff to assist Hispanic callers on the SHIP toll-free line. In 2002, a bilingual educational specialist was brought on staff to provide front-line assistance to Hispanic senior groups and other Medicare beneficiaries.

SHIP launched an aggressive outreach effort to libraries statewide to publicize SHIP services and educate library staff and seniors on how to navigate Medicare's website. SHIP also expanded the features and options available through our SHIP website.

Emerging issues impacting Medicare consumers include prescription drug coverage, Medicare supplement rights and guarantees, long-term care insurance, ongoing changes to the Medicare program, and a new Medicare+Choice Preferred Provider Option (PPO). The Medicare PPO, available in early 2003, provides more Medicare health plan coverage choices throughout several counties in Illinois.

SHIP continues to provide updated informational guides to tens of thousands of Medicare beneficiaries and their caregivers. Two of the primary publications are SHIP's Prescription Drug Information Guide, a resource for beneficiaries who need information on purchasing low-cost or no-cost prescription drugs, and SHIP's Medicare Supplement Premium Comparison Guide. Both of these publications are also available online via the Department's website.

SHIP Activities in 2002

Volunteer hours	11,789
One-on-one counseling sessions	13,734
Educational presentations	349
People reached through community, educational and media presentations	537,970
800 line calls per month	1,825
Savings to Medicare beneficiaries	\$1,733,267

Financial–Corporate Regulatory Division

The Financial–Corporate Regulatory Division is responsible for analyzing and monitoring the financial condition of insurance companies, health maintenance organizations, and all other regulated insurance risk bearing entities, conducting on-site financial examinations, and intervening when developing problems are identified. The Division licenses authorized insurers in the state and investigates and takes action against unauthorized companies illegally conducting the business of insurance.

The Division is intricately involved in oversight of the management operations of Illinois insurers because by law many corporate transactions, such as entering reinsurance agreements, paying dividends, and transacting business with affiliates, require the prior approval of the Department.

Financial Analysis

During the year, representatives from the Illinois Department remained active in the **NAIC** Financial Regulation Standards and Accreditation Committee as well as the following NAIC Working Groups: National Treatment & Coordination, Health Entities, Financial Analysis, NAIC/AICPA, Custodial Assets, Rating Agency, Emerging Accounting Issues, Statutory Accounting Principles, Multistate Surplus Lines Bond, Insurance Securitization, Insurance Holding Company, Risk Assessment, and International Accounting Standards. In each of these groups, representatives from the Financial–Corporate Regulatory Division assumed leadership roles.

Over the last two years, the Financial and Examination Sections have been attempting to develop a risk based approach to financial analysis and examination called the **Risk Assessment Pilot Program**. An outside advisor, whose services are paid for by the domestic insurer, has been contracted on an engagement-by-engagement basis to assist the Department with the development of this concept. If the pilot program proves to be successful, it could result in process improvements that will focus financial analysis and examination on higher risk conditions that may impact the financial condition of the company, shorten the time period required to complete examinations, and improve the Department's understanding of regulated, domestic insurers. The pilot program is currently set to expire in June of 2004. A report evaluating the potential of this change in procedure will be issued at that date.

The Financial Analysis Section continued to review its procedures in anticipation of the NAIC Accreditation Review scheduled for July of 2003. Our financial analysis procedures have been reviewed to insure that they match up directly with the guidelines provided by the NAIC. In response to the Department's needs and review comments provided in the last Accreditation Review, each company analysis now includes a written narrative. This narrative includes a basic risk assessment and, when fully developed, will include a risk profile for that entity.

During 2002, the Department identified several companies with financial conditions that required greater regulatory oversight. In response, the Department's Financial Regulation staff attended frequent meetings, both in person and by teleconference, with company personnel including legal, financial and actuarial advisors. In addition, Department personnel, in conjunction with the Department's own external advisors, reviewed company analytical data, participated in conference calls with other state regulators, and monitored the companies' daily operations often through on-site visits. The Department took these actions to determine the appropriate regulatory response to a company's financial condition, including the possible suspension or liquidation of the company in question. This level of activity is significantly higher than in recent years and will continue as necessary while the industry recovers from the recent economic slowdown and the effects of the events of September 11, 2001.

Actuarial Analysis

The **Life Actuarial Section** reviews actuarial opinions dealing with reserve adequacy and, on a sample basis, the actuarial memorandums that document the work supporting the actuarial opinions. X-factor opinions are also reviewed, and testing is done on a sample basis to assess the appropriateness of the X-factors. Used in the calculation of reserves for some types of life insurance products, X-factors are unique in that they allow companies to depart from tabular mortality assumptions if experience supports such a departure. In prior years, the Section had developed an X-factor review process using Monte Carlo Simulation. In 2002 that procedure was improved upon, and an additional Bayesian approach was developed.

The most significant undertaking on the health side in 2002 was the implementation of changes to the Long-Term Care (LTC) regulation, which removed the loss ratio requirements as the basis for regulation and instead made premium rate adequacy the fundamental factor in regulating LTC rates. This required the development of new procedures, criteria, and analytical tools for analyzing LTC rates for policy approval. This process will continue through 2003 and beyond.

In the investment area, credit risk was a major issue in 2002. Several computer programs developed in 2002 have resulted in better monitoring of companies' exposure to credit risk. Examples include monitoring market values of companies' below-investment-grade bond holdings, tracking companies' exposures to specific "at risk" issuers, and updating internal Department databases of companies' portfolios with buy/sell information provided in quarterly filings. Reviewing companies' bond impairment processes was also a focus in 2002.

During 2002, the Life Actuarial Section assisted the Public Pension Division of the Department with its new Internet annual statement filing system. This system will be used by Illinois public pension funds in filing their financial data, with additional data to be filed by the downstate and suburban police and fire pension funds regarding the participants in those funds. The new system will allow the Division to receive the data more efficiently and with greater accuracy. The system will also provide a platform for the Division to produce its Biennial Report to the Illinois Legislature, tax levy reports for the downstate police and fire pension funds, as well as other annual and ad hoc reports, in a more effective, timely manner.

Finally, the Section began a project that will result in improved sharing of information both within the Section and with the Life and Health Financial Regulation Unit. A database was created that will contain much of the Section's future work product. Designated areas of the database will be available to financial analysts, allowing them easy access to reviews, analyses, and conclusions with regard to many actuarial items.

Life Actuarial Reviews—Actuarial Opinions

Valuation (Reserve) Law Compliance	115
Mortality Assumption Specific (X factors)	17
Equity Indexed Annuity	5
Small Employee Group Health	59

Actuarial Memorandums

General	14
Mortality Assumption Specific	6

Other

Narrative Reports (annual and quarterly)	100
Actuarial Balance Sheets and Tax Levies for Public Pension Plans	592
Cost Estimates for Benefit Transfers under the Police Portability Legislation	22
Medicare Supplement, Long Term Care, Credit Life, and HMO Rate Filings	499
A&H Claim Reserve Adequacy Analysis/Expanded Financial Monitoring	37

The **Casualty Actuarial Section** contributes to the Department's overall responsibility of maintaining a solvent insurance industry by monitoring the adequacy of loss reserves carried by property and casualty insurance companies. To fully monitor the reserves held by companies, the Section reviews actuarial opinions regarding the adequacy of the companies' carried loss reserves, performs loss reserve analyses on annual statement loss data, reviews work papers supporting the actuarial opinions and participates in on-site financial examinations of insurance companies.

In addition to loss reserve analyses, the Casualty Actuarial staff reviews all rate filings of the Illinois FAIR Plan, the Illinois Automobile Insurance Plan and the Illinois Mine Subsidence Insurance Fund, as well as all medical malpractice rate filings. The staff evaluates all dividend notifications; reviews tabular and non-tabular discounting; performs technical analyses of reinsurance agreements for transfer of risk; and monitors carried asbestos and environmental reserve amounts. This Section also oversees production of the Illinois Property and Casualty Insurance Company Market Share Report. In 2002, the Section spent a considerable amount of time on special projects, such as:

- monitoring medical malpractice insurance issues and medical malpractice closed claims data;
- participating on the Casualty Actuarial Society's Committee on Professionalism Education and Committee on Reserves;
- participating in National Association of Insurance Commissioners' projects dealing with Statement of Actuarial Opinion requirements, implementation of federal Terrorism Risk Insurance Act, and risk-based capital requirements.

Casualty Actuarial Reviews

Domestic Actuarial Opinions	180
Foreign Actuarial Opinions	798
Financial Examinations	23
First Level Loss Reserve Analyses—domestic companies	134
Tabular Discounting—domestic companies	4
Salvage and Subrogation Amounts—domestic companies	21
Asbestos and Environmental Reserve Amounts—domestic companies	25

Financial Examination

Illinois law requires the Department to examine the financial condition of insurance companies licensed to do business in Illinois, not less than once every five years. On-site financial examinations of companies provide for a detailed review of: financial condition; compliance with Illinois laws and regulations; and reliability of financial statements filed with the Department. The information obtained in examinations may be the basis for timely, appropriate regulatory action.

During 2002, the Financial Examination Section organized and presented educational seminars in April and October which provided up to 32 hours of continuing education credits for the Department's financial examination staff and staff from other Midwest state insurance departments. Those seminars featured sessions on subjects such as changes to the NAIC Financial Examiners Handbook, NAIC SVO Purposes and Procedures Manual Training, the NAIC Risk Assessment Working Group, the use of special purpose vehicles and other "off balance sheet" financing, Illinois premium tax laws, and implications of the federal Sarbanes-Oxley legislation.

Examiners also participated in and helped plan the National Society of Financial Examiners Career Development Seminar, as well as seminars hosted by the Illinois CPA Society. In a continuing information exchange with international insurance regulators, staff members also participated in a one-day discussion of examination procedures, processes, and programs with insurance regulators from China.

Due to staff shortages and increasing workloads, the Department has sought outside support services to temporarily assist in the financial examination of Illinois domestic companies whose books, records and operations are located outside of Illinois. The Financial Examination Section very actively recruited candidates from Illinois colleges and universities to fill staff vacancies.

The Department continued with targeted examinations and reviews of issues surrounding unpaid death claims on individuals who purchased multiple industrial and monthly debit ordinary insurance policies. The information obtained from those examinations and reviews was considered in drafting language for a new regulation on claim processing standards and methodology.

2002 Completed Financial Examinations

Property & Casualty		Life, Accident & Health	
Comprehensive	78	Comprehensive	39
Compliance/Target	<u>5</u>	Compliance/Target	4
Total	83	Actuarial Examination	27
		Actuarial Valuation	<u>8</u>
		Total	77

Corporate Regulation

The Corporate Regulation Section is responsible for the incorporation, formation, licensing and registration of insurance entities and approval of other corporate transactions. In 2002, 738 life, accident and health and 1,128 property and casualty insurance companies were licensed in Illinois. Other licensed entities include:

- 424 purchasing groups (organized to purchase commercial liability insurance for their members);
- 50 foreign registered risk retention groups (insurance companies organized to write only commercial liability insurance on behalf of their owner-members);
- 37 reinsurance intermediaries;
- 40 self-insured auto fleets; and
- 160 companies registered under the Service Contract Act.

As of December 31, 2002, 535 resident surplus lines producers were licensed. Those individuals may, under limited circumstances, negotiate insurance contracts with unauthorized insurers not protected by the Illinois Insurance Guaranty Fund. Pursuant to statutory authority, the Director declared 113 unauthorized insurers ineligible to use resident surplus lines producers during the year.

Although Illinois law prohibits individuals or organizations from sharing risks without authorization to transact the business of insurance, two types of risk-bearing entities are permitted by statute. At the end of 2002, 9 religious and charitable risk pooling trusts, and 10 group workers compensation pools, were operating in Illinois.

Licensed Property and Casualty Insurance Companies

	Domestic	Foreign	Alien	Total
Stock	166	706	6	878
Stock Captive:				
Pure	3	0	0	3
Association	0	0	0	0
Industrial Insured	1	0	0	1
Stock Risk Retention Group	1	0	0	1
Stock Surplus Line	5	0	0	5
Mutual	17	75	0	92
Mutual Risk Retention Group	1	0	0	1
Reciprocal	3	17	0	20
INEX Insurance Exchange:	1	0	0	1
Syndicates	1	0	0	1
Limited Syndicates	1	0	0	1
Lloyd's	0	0	1	1
Farm Mutuals	101	0	0	101
Accredited Reinsurers	<u>0</u>	<u>14</u>	<u>8</u>	<u>22</u>
Total	<u>301</u>	<u>812</u>	<u>15</u>	<u>1,128</u>

Licensed Life, Accident and Health Insurance Companies

	Domestic	Foreign	Alien	Total
Stock Legal Reserve Life	72	495	6	573
Mutual Legal Reserve Life	6	37	0	43
Assessment Legal Reserve Life	2	0	0	2
Mutual Benefit Association	0	0	0	0
Burial Societies	2	0	0	2
Fraternal Benefit Societies	18	54	1	73
Voluntary Health Service Plans	8	0	0	8
Vision Service Plan	0	0	0	0
Dental Service Plan	1	0	0	1
Health Maintenance Organizations*	10	12	0	22
Limited Health Service Organizations	8	1	0	9
Accredited Reinsurer	0	3	0	3
Mutual Holding Company	<u>2</u>	<u>0</u>	<u>0</u>	<u>2</u>
Total	<u>129</u>	<u>602</u>	<u>7</u>	<u>738</u>

*Includes 21 for-profit corporations, and one (1) voluntary health service plan corporation. Nine (9) legal reserve life companies also offer an HMO plan as a line of business; however, no company is counted more than once in the above classifications.

Pension Fund Regulation

As in the past, the number of public pension funds, as well as pension fund members, trustees, and beneficiaries, increased in 2002. These increases were accompanied by a growth in the number of compliance audits, electronic filings, advisory services, statistical services, and communications with individual pension funds. The Division maintains records documenting the membership, trustees, officers, size and growth of public pension funds within the state of Illinois. The total number of funds as of December 2, 2002, was 625 police, firefighter and large funds with over 3,700 trustees. The total number of fund participants increased to 610,223, and a total of \$5,785,730,328 in benefits was paid to 302,042 beneficiaries in 2002.

A major responsibility of the Pension Division is to conduct on-site and automated compliance audits. The 610 police and firefighter pension funds range from 1 or 2 participants to over 500 participants. The Pension Division Compliance Section was able to accomplish 52 audits with 336 findings in the year 2002.

There were nine workshops and seminars offered to the downstate police and firefighter pension funds and numerous meetings with several pension fund organizations and large pension funds, designed to improve operations for all public pension funds in the state. The Pension Division, in conjunction with the Illinois Municipal League, hosted a seminar for elected, local government officials as well as for the trustees and participants of downstate police and fire pension funds. The Pension Division staff submitted five articles to public pension organization newsletters and sent out a statewide mailing to clarify a frequent miscalculation involving widows' pension increases.

In addition to calculating tax levies for the police and firefighter pension funds, the Division performed 15 complicated calculations for police portability and answered numerous questions on this benefit. The Division supplied historical tax levy calculations to local municipalities upon request and provided the Pension Laws Commission and the General Assembly with pension calculations. The Division also prepared 15 calculations for potential new funds to provide the municipalities with real cost data for their future employee pension fund.

The Division handled over 5,000 phone calls including inquiries from police and firefighter pension funds, investment fund managers, professional pension organizations, and members of the state legislature. The Division answered over 90 letters requesting an opinion from the Division to settle questions arising from the operation of pension funds. Staff responded to over 900 written inquiries from different individuals and groups. The Division made 45 pension calculations for small pension funds with retiring members.

This is the fourth year the Pension Division received electronically-filed pension fund annual statements from all 625 public pension funds. This project is currently being updated with a new database and interface application to help serve the public pension funds better. The Division, in conjunction with the Illinois Department of Insurance's EDP Section, continued developing a new Internet filing system that is expected to be used in 2003 by all public pension funds to file their annual statements. A side benefit to this new system was the creation of a Division Internet website. On this site, a new benefit calculator has been posted, available for downloading by the individual funds to help them calculate pension benefits for their members. This site also posted upcoming events the Pension Division attended, news from the Pension Division, references for public pension laws, rules, and legislation along with public pension Frequently Asked Questions.

Pension Funds

Downstate Police Funds	338	\$4,247,846,406
Downstate Firefighter Funds	<u>272</u>	\$3,395,154,498
	610	Assets of \$ 7,643,000,904
Large funds	<u>15</u>	Assets of \$ 98,043,526,436
Total funds	625	\$105,686,527,340
Fund Trustees	3752	
Fund Participants	610,223	
Total Benefits Paid to Beneficiaries		\$5,785,730,328

Legal Division

A small segment of the insurance marketplace in Illinois is comprised of **Group Workers Compensation Pools**. These entities were originally authorized as self-insurers under the Workers' Compensation and Occupational Disease statutes of the early 1980's. Since January of 2001, they have been subject to regulation under many of the laws applied to mutual insurance, with some notable exceptions such as those mandating surplus requirements. In the event of the insolvency of a pool, the legislation provided for an insolvency fund and assessment mechanism to cover claims obligations of the insolvent pools. Four of these pools were placed in receivership as a result of financial problems and have been ordered liquidated. The insolvency fund was insufficient to cover the estimated \$15 million in unpaid claims. Two suits and 32 administrative hearings have been commenced to resolve disputes arising from the four insolvencies and the resulting assessments.

The Department achieved a significant settlement of certain **tax litigation** in 2002. In 1993 a number of foreign and alien insurers filed tax protest suits to challenge the Illinois Premium Tax and the Illinois Retaliatory Tax as unconstitutional. In the consolidated actions of *Milwaukee-Safeguard, et al.*, v. *Selcke*, the Illinois Supreme Court, in 1997, struck down the Illinois Premium Tax statute as unconstitutional on its face, under the Classification Clause of the Illinois Constitution. The ruling did not finally effect Retaliatory Tax collections and did not resolve a number of other issues, including the Plaintiffs right to a refund of the protested taxes, which were remanded to the trial court for decision. Based largely upon subsequent favorable rulings on the State's claims under the Illinois Windfall doctrine, the *Milwaukee-Safeguard* plaintiffs and remaining Cook County plaintiffs agreed to a settlement in which the state retained a substantial portion of the approximate \$70 million held in the protest account for the Cook County Plaintiffs.

The \$16.8 million still held in the Protest Account arises from similar suits which were pending in Sangamon County during the course of litigation in *Milwaukee-Safeguard*. Settlement with these Plaintiffs could not be obtained in 2002 and the litigation continues.

Other litigation included the continued defense of a variety of administrative review actions, including the appeal of orders concerning obligations of the Illinois Health Maintenance Organization Guaranty Association for unpaid medical provider claims arising from the insolvency of MedCare HMO.

The year 2002 also saw: a successful resolution of global negotiations for settlement of Holocaust claims against various European insurers having U.S. affiliates; a \$33 million settlement of claims for race-based underwriting against affiliated Illinois, Missouri and Louisiana companies; the continued development of model regulations concerning mold coverage, terrorism coverage, and small face value policies; continued assistance in connection with a major examination of a national brokerage firm; and preparations for the recodification of Department Regulations.

Legal Activities

Administrative hearings scheduled	149
Freedom of Information Act requests processed	293
Opinions issued	55
Legislation reviewed	420
Regulatory files/miscellaneous matters reviewed	260
Rules adopted	21
Subpoenas processed	27
Litigation files opened	4