

# Administrative Services

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

More than 97% of our appropriation comes from the Insurance Financial Regulation Fund, the Insurance Producer Administration Fund, and the Public Pension Regulation Fund, which are funded by various taxes and fees collected from insurance companies and producers, public employee pension funds and retirement systems in the state. 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 2003, the Division's appropriation was \$36,046,000. Of that total, \$287,000 was allocated from the GRF, while federal funds for SHIP contributed \$700,000. Revenue collections for the year totaled \$369,790,118, of which \$314,640,004 was deposited into the General Revenue Fund.

As of June 30, 2003, the Division of Insurance had \$10,042,330 in net accounts receivable on the books from 1,337 accounts. Of those, \$570,952 was from privilege tax litigation cases involving the 1997 Supreme Court decision that the tax was unconstitutional. Another \$4,246,300 came from annual financial regulation fee billings under 25 days old, and \$753,322 in liquidation proceedings. Thus, a total of \$4,471,756 more accurately reflects the Division's accounts receivable.

The Division of Insurance 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.

## Division Staff 2003

Administrative	42
Consumer	131
Financial/Corporate	148
Pension	11
Staff	29
EDP	<u>22</u>
<b>Total:</b>	<b>383</b>

## Securities Deposited by Insurance Companies for FY 2003

Domestic Stock Life	71	\$198,910,000.00
(Special Policy Fund)	2	630,000.00
Domestic Mutual Life	5	9,850,000.00
Domestic Assessment Life	2	430,000.00
Domestic Stock Property & Casualty	171	375,061,000.00
Domestic Mutual Property & Casualty	15	36,835,000.00
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	1,133,000.00
Health Maintenance Organizations	22	13,882,000.00
Limited Health Service Organizations	10	1,072,000.00
<b>Total:</b>	<b>330</b>	<b>645,849,000.00</b>
Foreign Workers Compensation	37	449,386,000.00
Foreign & Alien	28	61,640,000.00
Service Contract Providers	11	293,000.00
Mutual Trust Holding	4	6,050,000.00
<b>Total on Deposit June 30, 2003</b>	<b>410</b>	<b>\$1,163,218,000.00</b>

Comparative Statement of Taxes & Fees Collected Period Ending June 30, 2003

<b>Taxes &amp; Fees</b>	<b>FY 2003</b>	<b>FY 2002</b>
1st Quarter Privilege Tax	\$31,677,742.43	\$28,358,594.12
2nd Quarter Privilege Tax	33,609,787.12	30,854,692.76
3rd Quarter Privilege Tax	32,293,837.86	28,001,279.04
4th Quarter Privilege Tax	35,006,016.33	31,502,293.65
1st Quarter Retaliatory Tax	24,779,290.04	22,417,554.76
2nd Quarter Retaliatory Tax	28,906,524.53	24,330,835.48
3rd Quarter Retaliatory Tax	25,624,445.11	23,821,316.19
4th Quarter Retaliatory Tax	27,499,819.25	24,480,976.05
Final Privilege Tax	36,518,018.50	32,448,130.74
Final Retaliatory Tax	21,686,919.76	15,994,247.03
Surplus Line Tax	15,559,093.49	9,007,286.62
Fines & Penalties	1,003,925.54	923,500.09
Interest	474,244.62	291,914.90
Miscellaneous	<u>340.00</u>	<u>487.37</u>
<b>Subtotal for General Revenue Fund</b>	<b>\$314,640,004.58</b>	<b>\$272,433,108.80</b>
Producer Licenses	12,112,695.00	10,960,792.16
Producer Reinstatement Fee	611,765.00	373,930.00
Producer Appointment Fee	562,000.00	479,650.00
Producer Provider Education	255,675.00	261,405.00
Producer Market Conduct Exams	471,768.50	607,521.25
Producer Fines & Penalty	0.00	144.75
Producer Market Conduct Travel	112,050.54	154,287.91
Producer Miscellaneous	31,180.28	47,209.00
<b>Subtotal for Insurance Producer Fund</b>	<b>\$14,157,134.32</b>	<b>\$12,884,940.07</b>
Fire Marshal Tax (Company)	15,800,504.42	13,531,340.18
Fire Marshal Tax (Surplus Lines)	668,606.02	396,496.00
<b>Subtotal for Fire Prevention Fund</b>	<b>\$16,469,110.44</b>	<b>\$13,927,836.18</b>
<b>L/A&amp;H:</b>		
Annual Statement Filing Fee	69,400.00	72,000.00
Corporate Documents	72,625.00	82,830.00
Certificate Fees	110,782.00	129,902.00
Policy Form Filings	315,735.00	288,397.00
Miscellaneous	51,104.48	35,740.54
Domestic Financial Regulation Fee	2,954,800.00	1,111,900.00
Foreign Financial Regulation Fee	6,037,300.00	2,024,700.00
<b>P&amp;C:</b>		
Cost Containment	2,000,000.00	2,000,000.00
Annual Statement Filing Fee	104,225.00	105,850.00
Surplus Lines Licenses	112,900.00	100,400.00
Corporate Documents	178,035.00	141,165.00
Certificate Fees	195,767.00	199,469.00
Policy Form Filings	631,346.00	568,887.24
RCPT, etc.	3,883.04	9,188.88
Miscellaneous	18,467.90	15,694.95
Domestic Financial Regulation Fee	4,316,100.00	2,092,028.00
Foreign Financial Regulation Fee	5,976,500.00	2,229,200.00
Financial Exam Travel	<u>758,256.32</u>	<u>601,019.43</u>
<b>Subtotal for Insurance Financial Regulation Fund</b>	<b>\$23,907,226.74</b>	<b>\$11,808,372.04</b>
Public Pension Fees	452,265.43	523,062.56
Public Pension Fines	<u>0.00</u>	<u>155.55</u>
<b>Subtotal for Public Pension Fund</b>	<b>\$452,265.43</b>	<b>\$523,218.11</b>
W.C. Pool Fees	164,376.92	371,860.43
<b>Subtotal for W.C. Pool Fund</b>	<u>164,376.92</u>	<u>371,860.43</u>
<b>Total for All Funds</b>	<b><u>\$369,790,118.43</u></b>	<b><u>\$311,949,335.63</u></b>

FY 03 Appropriations and Disbursements—July 1, 2002—June 30, 2003

General Revenue Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$186,600.00	\$0.00	\$148,644.61	\$37,955.39
Retirement-Employee	7,500.00	0.00	5,888.94	1,611.06
Retirement	19,800.00	0.00	15,359.56	4,440.44
Social Security	14,300.00	0.00	11,018.60	3,281.40
Travel	26,200.00	0.00	9,861.48	16,338.52
Printing	10,500.00	5,560.00	102.00	4,838.00
Equipment	5,000.00	5,000.00	0.00	0.00
Telecommunications	<u>8,100.00</u>	<u>0.00</u>	<u>5,905.80</u>	<u>2,194.20</u>
<b>Total</b>	<b><u>\$278,000.00</u></b>	<b><u>\$10,560.00</u></b>	<b><u>\$196,780.99</u></b>	<b><u>\$70,659.01</u></b>

Public Pension Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$549,000.00	\$0.00	\$451,430.39	\$97,569.61
Retirement-Employee	22,000.00	0.00	16,598.30	5,401.70
Retirement	58,200.00	0.00	46,651.81	11,548.19
Social Security	42,000.00	0.00	33,392.21	8,607.79
Group Insurance	107,000.00	0.00	82,166.20	24,833.80
Contractual	20,600.00	17,000.00	1,229.00	2,371.00
Travel	27,600.00	0.00	26,231.09	1,368.91
Equipment	10,300.00	10,000.00	0.00	300.00
Telecommunications	<u>1,000.00</u>	<u>0.00</u>	<u>797.33</u>	<u>202.67</u>
<b>Total</b>	<b><u>\$837,700.00</u></b>	<b><u>\$27,000.00</u></b>	<b><u>\$658,496.33</u></b>	<b><u>\$152,203.67</u></b>

FY 03 Appropriations and Disbursements—July 1, 2002—June 30, 2003

Insurance Producers Administration Fund

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriations</b>
Personal Services	\$7,888,900.00	\$0.00	\$7,062,978.56	\$825,921.44
Retirement-Employee	315,500.00	0.00	265,703.53	49,796.47
Retirement	836,200.00	0.00	729,262.01	106,937.99
Social Security	603,500.00	0.00	512,884.82	90,615.18
Group Insurance	1,646,100.00	0.00	1,289,838.05	356,261.95
Contractual	1,966,900.00	200,000.00	1,493,332.96	273,567.04
Travel	392,300.00	20,000.00	295,036.53	77,263.47
Commodities	57,700.00	20,000.00	30,731.98	6,968.02
Printing	119,800.00	25,000.00	64,913.16	29,886.84
Equipment	287,700.00	151,000.00	30,168.10	106,531.90
Telecommunications	239,400.00	0.00	203,167.73	36,232.27
Automotive Equipment	10,900.00	0.00	7,726.47	3,173.53
Lump Sum	323,500.00	275,000.00	0.00	48,500.00
Refund	<u>95,300.00</u>	<u>0.00</u>	<u>92,325.00</u>	<u>2,975.00</u>
<b>Total</b>	<b><u>\$14,783,700.00</u></b>	<b><u>\$691,000.00</u></b>	<b><u>\$12,078,068.90</u></b>	<b><u>\$2,014,631.10</u></b>

Insurance Financial Regulation Fund

<b>Standard Accounts:</b>	<b>Appropriations</b>	<b>Reserve</b>	<b>Disbursements</b>	<b>Unexpended Appropriations</b>
Personal Services	\$11,299,900.00	\$0.00	\$10,345,091.45	\$954,808.55
Retirement-Employee	452,000.00	0.00	379,007.13	72,992.87
Retirement	1,197,900.00	0.00	1,068,985.03	128,914.97
Social Security	864,600.00	0.00	754,993.38	109,606.62
Group Insurance	2,055,300.00	0.00	1,609,053.44	446,246.56
Contractual	2,156,700.00	300,000.00	1,443,937.75	412,762.25
Travel	846,800.00	0.00	771,916.40	74,883.60
Commodities	70,100.00	26,000.00	36,092.43	8,007.57
Printing	51,500.00	33,000.00	7,704.40	10,795.60
Equipment	173,000.00	113,000.00	5,811.92	54,188.08
Telecommunications	171,500.00	0.00	140,014.42	31,485.58
Automotive Equipment	7,300.00	0.00	6,731.34	568.66
Refund	<u>100,000.00</u>	<u>75,000.00</u>	<u>500.00</u>	<u>24,500.00</u>
<b>Total</b>	<b><u>\$19,446,600.00</u></b>	<b><u>\$547,000.00</u></b>	<b><u>\$16,569,839.09</u></b>	<b><u>\$2,329,760.91</u></b>

FY 03 Appropriations and Disbursements—July 1, 2002—June 30, 2003

Combined Funds

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$19,924,400.00	\$0.00	\$18,008,145.01	\$1,916,254.99
Retirement-Employee	797,000.00	0.00	667,197.90	129,802.10
Retirement	2,112,100.00	0.00	1,860,258.41	251,841.59
Social Security	1,524,400.00	0.00	1,312,289.01	212,110.99
Group Insurance	3,808,400.00	0.00	2,981,057.69	827,342.31
Contractual	4,144,200.00	517,000.00	2,938,499.71	688,700.29
Travel	1,292,900.00	20,000.00	1,103,045.50	169,854.50
Commodities	127,800.00	46,000.00	66,824.41	14,975.59
Printing	181,800.00	63,560.00	72,719.56	45,520.44
Equipment	476,000.00	279,000.00	35,980.02	161,019.98
Telecommunications	420,000.00	0.00	349,885.28	70,114.72
Automotive Equipment	18,200.00	0.00	14,457.81	3,742.19
Lump Sum	323,500.00	275,000.00	0.00	48,500.00
Refund	<u>195,300.00</u>	<u>75,000.00</u>	<u>92,825.00</u>	<u>27,475.00</u>
<b>Total</b>	<b><u>\$35,346,000.00</u></b>	<b><u>\$1,275,560.00</u></b>	<b><u>\$29,503,185.31</u></b>	<b><u>\$4,567,254.69</u></b>

Tax Refund Fund

Standard Accounts:	Appropriations	Disbursements
Refund	<u>\$2,500,000.00</u>	<u>\$2,494,247.19</u>
<b>Total</b>	<b><u>\$2,500,000.00</u></b>	<b><u>\$2,494,247.19</u></b>

Senior Health Insurance Plan

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$700,000.00</u>	<u>\$367,847.23</u>
<b>Total</b>	<b><u>\$700,000.00</u></b>	<b><u>\$367,847.23</u></b>

Division of Insurance Federal Trust Fund

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$350,000.00</u>	<u>\$208,829.53</u>
<b>Total</b>	<b><u>\$350,000.00</u></b>	<b><u>\$208,829.53</u></b>

Group Self--Insurers Workers' Compensation

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$5,000,000.00</u>	<u>\$87,000.00</u>
<b>Total</b>	<b><u>\$5,000,000.00</u></b>	<b><u>\$87,000.00</u></b>

# Consumer Market

The **Consumer Market Section** oversees the Division'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 2003, the **Consumer Services Unit** continued significant technological strides in the way it communicates with consumers, insurers, producers and other licensed entities. The operation of our **electronic complaint database**, in which consumer complaints are received via e-mail, paper, or by fax server, and are electronically transmitted to participating licensees, significantly decreases paper files and turnaround time in processing a consumer complaint. Our Unit now operates virtually paperless, viewing and working complaint files electronically. Staff members can attest that electronic transmissions speed up the complaint handling process by at least five days. The Unit continues to utilize the electronic group mailbox, which encourages licensees to respond to their complaints via e-mail or a fax server that converts the transmission to an e-mail. We are continuing to work with numerous insurance companies to protect confidential complaint information transmitted via e-mail by utilizing encryption software. We will encourage more insurance companies throughout the forthcoming year to join us in using encryption. In addition, the reconciliation of consumer complaints due to the electronic format is allowing for more detailed and comprehensive availability of complaint data to the public.

The Division continues to use technology in our website by providing accurate up-to-date consumer fact sheets that provide consumers with information regarding numerous insurance topics. The Division also has a toll-free consumer assistance hotline enabling consumers to easily reach our analysts with questions or complaints about their insurance companies. The Division also provides proactive consumer assistance to those consumers that send e-mails to the Director asking either a question or asking for assistance on an insurance matter. Most of these e-mails receive a written response within 24 hours of receipt by the Division of Insurance.

The Division will also post on our website information regarding those insurance companies and/or prior affiliates that insured slaves during the slavery era as an aid for those consumers desiring to trace genealogical records. This posting was required by Public Act 93-033 (Section 155.30 Illinois Insurance Code-Slavery Era Policies).

The Division continued an active presence in Consumer Outreach, utilizing local radio talk shows for distribution of insurance information. In addition, there were four disaster-related sites at which Division staff were present for face-to-face consultations with consumers on insurance related questions. The Division also operated an informational booth at the Illinois State Fair that provided one-on-one assistance to consumers and other consumer handouts.

## Consumer Complaints by Reason

	Insurance Companies	HMO's
Underwriting	2,331	17
Marketing and Sales	243	0
Claim Handling	8,309	1,114
Policyholder Service	<u>879</u>	<u>54</u>
Subtotal	11,762	1,185
<b>Total Complaints:</b>	<b><u>12,947</u></b>	

## Consumer Complaints by Line of Coverage

Auto	4,227
Group A&H	3,089
Individual A&H	1,223
Homeowners	1,692
Individual Life	723
Individual Annuity	121
Group Credit A&H	43
HMOs	1,185
All Other Coverage	<u>644</u>
<b>Total</b>	<b><u>12,947</u></b>

## Consumer Outreach Activities

High School Presentations:	108
Radio Shows:	232
(estimated audience of 2,833,000)	
Other Presentations:	11

During the year 2003, the **Office of Consumer Health Insurance (OCHI)** received 18,349 calls from 1,095 different zip codes in Illinois. The three most frequently addressed topics were: group insurance (2,744); claims (2,658); and individual insurance (1,957). 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.



In 2003, OCHI and the Ombudsman Program, in cooperation with other DOI personnel, completed the creation of a database that contains the information compiled from prior research about the various local, state, federal and other programs to assist the insured. The purpose of the database is to make information more easily retrievable by the OCHI staff in order to provide prompt assistance to uninsured consumers seeking assistance for medical, dental, mental health, vision, prescription and other health care needs.

For calendar year 2003, the Ombudsman Program provided assistance to 530 uninsured consumers informing them of programs that might be helpful and accessible in their region of the state. The Program has also participated in various health fairs around the state. We anticipate an increased participation in future health fairs and consumer programs throughout the state.

### Market Conduct Programs

In establishing a schedule of examinations, the **Market Conduct Unit** evaluates information gleaned from insurer market conduct annual statements, specifically data regarding paid and denied claims, payment medians, and zip code tracking of company producers by business address. A market analysis of this annual statement data enables us to prioritize companies for scheduling target examinations. Market 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 payments to their members. 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 is driving this ongoing effort. Market Conduct staff also participated in the Inter Agency of 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	25
Premium overcharges returned to Illinois policyholders	\$18,400
Additional claim payments made	\$90,780
Civil forfeitures levied (10 insurers)	\$178,500

### Life, Accident and Health Compliance

During 2003, the **HMO Area** of the **LAH Compliance Unit** continued to address the problem of unregistered preferred provider administrators that sell **discount programs**. These programs take many forms, but the most common are those providing health care services including: hospital, medical, pharmaceutical, dental or vision care. Individuals pay a fee to be members of a discount plan and, in turn, they are afforded access to a network of providers. The consumer then pays the provider, based upon the network's negotiated discounted rate schedule. There is no insurance coverage and traditional provisions for coordinating benefits

have no application. Any payment is made directly by the consumer to the provider and represents payment in full for the services provided.

The Illinois Insurance Code defines preferred provider program administrators (PPAs) as including health care discount plans. Specific to discount programs, a PPA includes any person, partnership or corporation that arranges, contracts with, or administers contracts with a provider whereby beneficiaries are provided an incentive to use the services of such provider. The Act goes on to define "beneficiaries" as individuals entitled to reimbursement for expenses of or the discount of provider fees for health care services under a program where the beneficiary has an incentive to utilize the services of a provider, which has entered into an agreement or arrangement with an administrator (215 ILCS 5/370 (g)).

As the number of complaints relating to these plans grew in 2003, the Division's range of regulatory actions went from educating these plans on their obligation to register, to issuing orders prohibiting the continued functioning of programs unless and until they became properly registered. We believe that, given current economic conditions and pressures affecting the health insurance marketplace, these programs will continue to multiply. As such, the Division will likely have to assert its oversight of this industry more aggressively in 2004.

P.A. 91-0406, effective January 1, 2000, required all insurers and Health Maintenance Organizations (HMOs) with authority to issue accident and health insurance to offer coverage for certain cancer clinical trials (215 ILCS 5/356y). Coverage for routine patient care costs was to be provided to applicants and policyholders on a "must offer" basis. Purchased coverage would be available to insureds when medically appropriate and when the insured or member had a terminal condition related to cancer that was considered life threatening. Covered individuals also had to participate in an approved cancer research trial in order to obtain coverage. Coverage applied to both group and individual products and was limited to \$10,000 annually. The Act required the Division of Insurance to conduct an analysis and report of the costs and any benefits that may be derived from the implementation of the requirements for investigational cancer treatment as required by the Act.

To that end, the Division conducted a survey of companies and a data review of prior studies in an attempt to come to conclusions as required by the Act (**Investigational Cancer Treatments Coverage Report**). However, despite the Division's attempt to assess the costs and effects of coverage as mandated in Public Act 91-0406, the information obtained from insurers and other resources did not produce enough significant data to reach conclusions on the cost or benefits derived by enactment of this legislation. A copy of this report is available on the Division's website at: [www.ins.state.il.us/Reports/Report\\_Links.htm](http://www.ins.state.il.us/Reports/Report_Links.htm).

In 2003, the Division continued to enforce the requirements of HIPAA for market and product withdrawals (**Health Insurance Marketplace Contraction**) as the number of companies exiting the health insurance markets has continued to grow. In the last year, this trend was most clearly exemplified by the withdrawal of products by three major health insurance writers: Right Choice (beginning 12/31/2002), Mutual of Omaha Insurance Company, and Country Life Insurance Company. The Division continues to work closely with companies taking advantage of their rights under HIPAA so that insureds of these companies are accorded their rights.

## Property and Casualty Compliance

The **Property and Casualty Compliance Area** is responsible for the review of all commercial lines coverage forms and rates that are required to be filed for compliance with Illinois Statutes and Regulations. As a result of the Terrorism Risk Insurance Act 2002 (TRIA), all property and casualty commercial insurance companies were required to file disclosure notices and coverage forms for all commercial lines of coverage as well as those rates that are required to be filed addressing terrorism. A bulletin was issued by the Division on March 14, 2003, ad-

addressing TRIA. The intent of this bulletin was to advise property and casualty insurers of certain provisions of the Act and how it affects property and casualty rate and form filings in Illinois. The Property and Casualty Compliance Area received hundreds of filings during 2003 as a result of TRIA.

Additionally, the Property and Casualty Compliance Area is responsible for the review of all personal lines coverage forms and rates that are required to be filed for compliance with Illinois Statutes and Regulations. The Division issued a bulletin on September 29, 2003, addressing the new credit legislation affecting personal lines coverage. This bulletin was designed to give industry guidance on how the Division will interpret and enforce the provisions of HB1640 and insurance scoring provisions of HB3661. The Property and Casualty Compliance Area received hundreds of filings during 2003 as a result of the insurance scoring legislation.

In 2003, the Property and Casualty Compliance Area implemented the electronic submission of rate and rule filings. Also in 2003, the Property and Casualty Compliance Area revised/updated the Property and Casualty Review Requirements Checklists to include standard language and links to the appropriate statutes, regulations, etc., to allow companies the ability to bring their policy forms into compliance prior to submitting them to the Division.

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

#### Product Filings

L/AH forms approved	22,029
L/AH informational filings	1,162
L/AH rate filings	728
HMO forms approved	676
HMO informational filings	96
PPA applications approved/renewed	136
PC forms reviewed	43,799
PC rate filings reviewed	3,893

#### Producer Licensing and Regulation

The **Licensing Area** 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.

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

## Licenses Issued

Producers Licensed	141,583
Business Entities Licensed	12,427
Examinations	20,071
Temporary Licenses	1,366
Limited Representatives	13,523
Premium Finance Licenses	267
Public Adjuster Licenses	216
Third Party Administrators	503
Certifications/Clearances	26,066
Education Providers	310
Courses Approved	4,958

The **Producer Regulatory Area** 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	222	<b>Results:</b>	
Investigations	191	Revocations/surrenders	110
<b>Total</b>	<b>351</b>	Stipulation & Consent orders	38
		Civil forfeitures	\$136,250

The Licensing Area has implemented a project that allows education providers to submit their rosters of students who completed courses to the Division 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 Division, saving everyone involved time and money.

The Licensing Area is now participating with the NAIC's electronic Non-Resident Licensing project. New non-resident licensees may access this Internet based on-line application that is designed to accelerate the licensing process between the states.

## 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, long-term care insurance, and prescription drug coverage.

During 2003, SHIP staff and trained volunteer counselors were able to reach more than 1 million Medicare beneficiaries and their caregivers through public presentations, health fairs, cable television, radio, and the Internet.

SHIP continued to maintain a 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 assists Hispanic callers statewide on the SHIP toll-free telephone line. Also, a bilingual educational specialist provides front-line assistance to Hispanic senior groups and other Medicare beneficiaries.

Emerging issues for Medicare beneficiaries include increased options for prescription drug coverage, such as the Illinois Rx Buying Club, Illinois SeniorCare, and the Medicare-approved drug discount cards; changes to long term care insurance; and on-going developments in the Medicare program.

SHIP continues to provide up-to-date informational guides to thousands of Medicare beneficiaries and their caregivers. Two key publications are the *Prescription Drug Information Guide*, a resource for beneficiaries who need information on purchasing low-cost or no-cost prescription drugs, and the *Medicare Supplement Premium Comparison Guide*. Both publications are available on-line at the Division's website.

SHIP Activities in 2003

Volunteer hours	13,000
One-on-one counseling sessions	15,000
Educational presentations	341
800-line calls	16,000
Savings to Medicare beneficiaries	\$2,565,000

# Financial – Corporate Regulation

The **Financial-Corporate Regulatory Section** 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 Section licenses authorized insurers in the state and investigates and takes action against unauthorized companies illegally conducting the business of insurance.

The Section 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 Division of Insurance.

## Financial Regulation Unit

**Accreditation review:** The highlight of 2003 for the Financial Regulation Unit was that this Unit successfully met all the requirements of the NAIC's Accreditation Review process and achieved a passing score. This Unit-wide effort contributed to the Division's overall success in the accreditation process. The Financial Regulation Unit will continue to review its procedures for further improvements that will enhance the Unit's performance during future accreditation reviews. Analysis procedures will continue to be reviewed to ensure that they meet the accreditation standards established by the NAIC. The Unit will also develop appropriate responses to review team comments provided during the 2003 evaluation.

**More with less:** During the year, the Financial Regulation Unit identified process alternatives that allowed it to compensate for the loss of staff due to retirements at year-end 2002. The Unit, having lost two of its most senior supervisors, is functioning with acting supervisors. The Unit's employees have assumed additional responsibilities within the constraints of their job descriptions. The number of companies assigned to each analyst has reached the maximum number recommended by the NAIC Accreditation Guidelines and exceeds the number that is optimal. The Unit has been able to meet the expectations assigned to the Unit, primarily that analytical reviews be completed within the completion and review guidelines established by the NAIC and that reportable transactions filed with the Division have been reviewed and submitted for management sign-off within required statutory time frames. The other strategy that has been used to keep up with the work is to better prioritize tasks. The Unit continues to receive and react to special handling requests from the Division's various constituencies.

**NAIC involvement:** During the year, Unit representatives remained active at the national level in a number of NAIC initiatives, including: The National Treatment & Coordination, Financial Regulations Standards, Blanks, Health Entities, Financial Analysis, NAIC/AICPA, Custodial Assets, Rating Agency, Emerging Accounting Issues, Statutory Accounting Principles, Multi-State Surplus Lines, Insurance Securitization, Insurance Holding Company, Risk Assessment and International Accounting Standards Working Groups.

**Efforts related to higher risk companies:** The Unit continues to work closely with several entities with weak or hazardous financial conditions. In these instances, Unit staff are required to invest more resources, as a more continuous regulatory role is required. For these companies, the Financial Regulation Unit staff is required to have more contact with company personnel. This contact can take the form of face-to-face meetings, frequent teleconference meetings with company personnel and their legal, financial and actuarial advisors, and detailed review of expanded analytical data required by these situations. In many cases, the staff is also required to participate in national telephone conference calls with other insurance regulators.

**Complexity of transactions:** Along with the matters described above, the transactions brought before the Unit for review, analysis and action recommendations have become increasingly complicated with the underlying activity frequently needing an immediate response. The staff has reacted well to this environment.

## Casualty Actuarial Unit

The **Casualty Actuarial Unit** continues to contribute to the Division's overall responsibility of maintaining a solvent insurance industry by performing actuarial analyses of insurance companies. Actuarial analyses include reviewing statements of actuarial opinion regarding the adequacy of the companies' carried loss reserves; performing loss reserve analyses on annual statement loss data; reviewing work papers supporting the actuarial opinions; and participating in on-site financial examinations of insurance companies.

As part of the actuarial staff's involvement of regulating for financial solvency, this Unit 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 year a new catastrophe management survey was developed, which was sent to all domestic insurers. The survey provides the Division with a better understanding of companies' exposures to catastrophes and how they are managing them.

The Casualty Actuarial staff also participated in several NAIC initiatives, especially the work done on improving the Statement of Actuarial Opinion filing requirements. This year the NAIC drafted a model law, which includes a new requirement for companies to file a summary document. This document will provide information more quickly, in a confidential format, regarding the strength of loss reserves. It is expected that this law will become a NAIC Accreditation Standard in coming years.

In addition, the duties of the Casualty Actuarial staff have expanded over time to provide technical analysis to support the Division's role in other areas as well. These duties include reviews of all medical malpractice rate filings and all rate filings of the Illinois FAIR Plan, the Illinois Automobile Insurance Plan and the Illinois Mine Subsidence Insurance Fund. This Unit also oversees production of the Illinois Property and Casualty Insurance Company Market Share Report.

This year, the Unit has spent a considerable amount of time monitoring medical malpractice insurance issues and medical malpractice claims data. The staff has also participated on the Casualty Actuarial Society's Committee on Professionalism Education and Committee on Reserves.

Domestic Actuarial Opinions	169
Foreign Actuarial Opinions	814
Financial Examinations	34
First Level Loss Reserve Analyses—domestic companies	120
Tabular Discounting—domestic companies	3
Salvage and Subrogation Amounts—domestic companies	18
Asbestos and Environmental Reserve Amounts—domestic companies	25

## Life Actuarial Unit

The **Life Actuarial Unit** reviews actuarial opinions dealing with reserve adequacy and, on a sample basis, the actuarial memorandums that document the work supporting the actuarial opinions. In 2003, the Unit laid the groundwork needed to adopt the 2001 CSO Model Regulation as an Illinois regulation. The process included determining the best way to incorporate the model regulation with current regulation and cross-referencing and responding to actuarial inquiries from companies. This Unit also supports the Complaints and Examination Unit and was an active participant in the NAIC's Life & Health Actuarial Task Force.

A major issue on the health side in 2003 was the adequacy of premium rates and reserves for Long-Term Care insurance. In addition to the 2002 changes in the 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, the Life Actuarial Unit continued to work with the NAIC's Capital Adequacy Task Force (CATF) on changes to the Life RBC and Health RBC formulas to increase RBC requirements for this type of insurance. It is expected that these changes will be adopted by the CATF during 2004. The Life Actuarial Unit also continued to be involved in the efforts of the NAIC's Life and Health Actuarial Task Force to improve reserving requirements and methods for LTC insurance.

In the investment area, this Unit continued to enhance the ability to monitor credit risk, primarily through enhancements made to the internally developed investment program. This Unit also rejoined the Valuation of Securities Task Force. This task force is very instrumental in shaping the future of the Securities Valuation Office. The Unit also assisted examiners and analysts on both Life and P&C with investment issues.

During 2003, the Life Actuarial Unit assisted the Public Pension Unit of the Division of Insurance with its new Internet annual statement filing system. This system is 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 allows the Unit to receive the data more efficiently and with greater accuracy. The system also provides a platform for the Unit 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, development was completed in 2003 on a database to improve the sharing of information both within the Unit and with the Life and Health Financial Regulation Unit. The Unit's narratives and work highlights are contained in the database, and designated areas of the database are available to financial analysts, allowing them easy access to reviews, analyses, and conclusions with regard to many actuarial items. The database also contains easy access to companies' financial information.



## Life Actuarial Reviews (Approximate)—Actuarial Opinions

Valuation (Reserve) Law Compliance	109
Mortality Assumption Specific (X factors)	17
Equity Indexed Annuity and Equity Indexed Universal Life	5
Small Employer Group Health	57

## Other

Narrative Reports (annual and quarterly)	20
Actuarial Balance Sheets and Tax Levies for Public Pension Plans	485
Cost Estimates for Benefit Transfers under the Police Portability Legislation	19
Medicare Supplement, Long Term Care, and Credit Life	312
A&H Claim Reserve Adequacy Analysis/Expanded Financial Monitoring	34
Medicare Supplement Refund Calculations	84
RBC Calculations (HMO and Dual)	27
Actuarial Memorandums	5

## Financial Examination

On January 1, 2003, the **Financial Examination Unit** of the Division was restructured when the Life, Accident & Health Financial Examination Unit and the Property & Casualty Financial Examination Unit were merged into one Unit.

Illinois law requires examination of 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 the company's financial condition, compliance with Illinois laws and regulations, and the reliability of financial statements. The information obtained in examinations may be the basis for timely, appropriate regulatory action.

The Financial Examination Unit completed a fully risk-based examination on one company group and started a risk-based examination on another company group in the past year. The Financial Examination Unit is working more closely with the Financial Analysis Unit to evolve and to meet the requirement to regulate the fast-changing and increasingly more complex insurance industry in a more forward-looking manner such as risk-based examinations.

The Financial Examination Unit has begun the process of purchasing and implementing into the examination process the electronic work paper software known as "Teammate." This is the software used throughout most of the country by insurance regulators and should increase efficiency and effectiveness of examinations, as well as the communication with the Analysis Units. The Unit also utilized outside support services to temporarily assist in the financial examination of Illinois domestic companies whose books, records and operations are located outside of Illinois.

During 2003, the Financial Examination Unit organized and presented various educational seminars, which provided up to 37 hours of continuing education credits for the Division's financial examination staff and staff from other Midwest state insurance departments. These seminars featured sessions on subjects such as terrorism insurance, reinsurance audits, the NAIC Risk Assessment Working Group, the implications of Sarbanes-Oxley, measuring and managing risk on examinations, and NAIC SVO changes. The paramount emphasis of these seminars was to develop a risk assessment approach to planning and conducting examinations.

This Unit regularly participates and takes a leadership role in planning and attending the Society of Financial Examiners Career Development Seminar, as well as seminars hosted by the Illinois CPA Society. One of our examiners served as President of the Society of Financial Examiners, which is an organization that represents the interest of over 1,600 financial examiners in all 50 states.

The Unit continued with targeted examinations of selected companies regarding the issue of unpaid death claims on individuals with multiple policies. These examinations evolved along with the regulation requiring companies to search for unpaid policies. The examinations are expected to conclude in 2004.

In addition to performing financial examinations, this Unit annually values the life insurance in force of domestic companies. Reserve liabilities associated with these in-force amounts are certified as meeting applicable minimum standards.

#### 2003 Completed Financial Examinations

Property & Casualty		Life, Accident & Health	
Comprehensive	78	Comprehensive	52
Compliance/Target	<u>5</u>	Compliance/Target	6
<b>Total</b>	<b>83</b>	Actuarial Valuation	<u>49</u>
		<b>Total</b>	<b>107</b>

#### Corporate Regulation Unit

The Corporate Regulation Unit is responsible for the incorporation, formation, licensing and registration of insurance entities and approval of other corporate transactions. In 2003, 710 life, accident and health and 1,133 property and casualty insurance companies were licensed in Illinois. Other licensed entities include:

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

As of December 31, 2003, 538 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, 113 unauthorized insurers have been declared ineligible for use by resident surplus lines producers for good cause.

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 2003, 9 religious and charitable risk pooling trusts and 10 group workers compensation pools were operating in Illinois. Seventeen companies were licensed as service companies to provide services to the group workers compensation pools.

Licensed Property and Casualty Insurance Companies

	Domestic	Foreign	Alien	Total
Stock	164	725	6	895
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	4	0	0	4
Mutual	16	76	0	92
Mutual Risk Retention Group	1	0	0	1
Reciprocal	3	16	0	19
INEX Insurance Exchange:				
Syndicates	1	0	0	1
Limited Syndicates	1	0	0	1
Lloyd's	0	0	1	1
Farm Mutuals	88	0	0	88
Accredited Reinsurers	0	14	8	22
Mutual Holding Company	<u>0</u>	<u>2</u>	<u>0</u>	<u>2</u>
<b>Total</b>	<b>283</b>	<b>833</b>	<b>15</b>	<b>1,131</b>

Licensed Life, Accident and Health Insurance Companies

	Domestic	Foreign	Alien	Total
Stock Legal Reserve Life	65	477	6	548
Mutual Legal Reserve Life	6	35	0	41
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	53	1	72
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	9	0	0	9
Accredited Reinsurer	0	3	0	3
Mutual Holding Company	<u>2</u>	<u>0</u>	<u>0</u>	<u>2</u>
<b>Total</b>	<b>123</b>	<b>580</b>	<b>7</b>	<b>710</b>

\*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.

As in previous years, in 2003 there was an increase in the number of public pension funds, members, the number of trustees, assets, and beneficiaries. The Pension Unit experienced expansions of its compliance audits, electronic filings, advisory services, statistical services, and communications with the various pension funds during 2003.

The Unit maintains records involving the membership, trustees, officers, size and growth of public pension funds within the State of Illinois. The total number of funds now is 633 police, firefighter and large funds. These funds include over 3,800 trustees. The assets have increased to nearly \$98 billion. The total number of participants has increased to 622,020, and total benefits paid were over \$6 billion to 307,731 beneficiaries.

A major responsibility of the Pension Unit is to conduct on-site and automated compliance audits. The police and firefighter pension funds range from very small (1 or 2 participants) to very large (500+ participants). The Pension Unit Compliance Area was able to accomplish 80 exams, which is the highest number of completed exams since 1994, which had 79 exams. The examinations included several of the largest funds in the state, and yielded over 100 findings.

This is the fifth year the Unit received electronically filed pension fund annual statements from all 633 public pension funds. This project is currently being updated with a new database and interface application by outside consultants to help serve the public pension funds better.

There were eight workshops and seminars offered to the downstate police and firefighter pension funds, members, trustees and officers. In addition, there were twenty meetings with the different pension fund organizations and large pension funds, with the benefit being the improvement of operations for all public pension funds in the state. Pension staff traveled over 10,250 miles to accomplish these goals. The Unit also submitted three articles to the nine public pension organization's newsletters.

The Unit performs an actuarial study and calculates tax levies for the police and firefighter pension funds. This information is sent to all funds for use with their local municipalities. The Unit performed a number of complicated calculations for police portability along with answering questions on this benefit. Historical tax levy calculations are supplied to local municipalities upon request, as well as calculations for the legislature and Pension Laws Commission. The Unit also supplied nine calculations to potential new funds to assist municipalities with real cost data for their future employee pension fund.

The Unit handled over 6,000 phone calls, including inquiries from police and firefighter pension funds needing assistance with the operation of their respective funds; investment fund managers requesting information regarding investments; professional pension organizations; and members of the state legislature. The Unit answered 185 letters requesting an opinion to settle questions arising from the operation of their pension fund. There were over 900 written inquiries from different individuals and groups within the pension arena that were assigned to staff for responses. The Unit also made over 150 pension calculations for the smaller funds for retiring members.

# Legal

In the spring of 2003, the General Assembly passed and the Governor signed legislation providing for a surcharge on employer's Workers Compensation expenditures. Aspects of that legislation were challenged in the fall of 2003. A group of surplus lines insurance agents are contending that collection of the surcharge on business written before but whose reporting and payment occurred after the effective date of the law is retroactive in violation of the Illinois constitution of 1970. This suit, involving an excess of \$2 million in surcharge paid under protest, is pending in the Circuit Court of Cook County.

The Division of Insurance achieved a significant settlement of certain **tax litigation** in 2003. 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 taxes protested, which were remanded to the trial court for decision. In 2002, 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 approximately \$70 million held in the protest account for the Cook County Plaintiffs. An additional \$7 million was released from the Protest Account as the result of the settlement of similar suits that were pending in Sangamon County. Several remaining Sangamon County cases are currently on appeal.

In an effort to manage the Section's workload more efficiently, the Legal Section has developed and implemented an electronic docket system for the management and tracking of its workload. This system enhances the Section's ability to track assignments, balance its workload among attorneys and staff, and improve assignment turnaround and overall productivity. The system's reporting functions provide a contemporaneous picture of the Legal Section's activity.

## Legal Activities

Administrative hearings scheduled	104
Freedom of Information Act requests processed	238
Opinions issued	167
Legislation reviewed	560
Regulatory files reviewed	303
Rules adopted	6
Subpoenas processed	35
New litigation	26