

# Illinois Insurance

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## Shapo seeks Congressional support for continued insurance coverage against terrorism

*Following is the text of Director Shapo's November 16, 2001, letter to the Illinois Congressional delegation urging a swift federal solution to avert insurance market disruptions caused by terrorism exclusions. The "Guiding Principles" adopted by the National Association of Insurance Commissioners and referenced in the Director's letter are outlined on page 3.*

*It is important to note that at press time, the U.S. House of Representatives had passed HR 3357, the "Terrorism Risk Protection Act" by a vote of 227 to 193. Legislation has also been introduced in the Senate.*

As Illinois' chief insurance regulator, I am writing to convey the urgent need for federal action to ensure the nation's insurance buying public has coverage against the risk of future terrorist acts.

The new and enormous risk of future terrorism losses since the September 11th attacks is directly impacting the insurance industry. The industry is strong and well capitalized, and thus is able to pay claims without delay on the September 11th losses, but it cannot withstand multiple terrorist attacks, nor the uncertainty created by the current situation.

Recent developments in the industry and here in Illinois cause me great concern that, barring quick federal action, significant dislocation will occur in the insurance market, with ripple effects throughout the economy.

As you may know, most reinsurance contract renewals are now being renegotiated for an effective date of

January 1, 2002. These new reinsurance contracts are not providing coverage for terrorism risks because of the unlimited potential for losses due to terrorist acts the industry faces, absent federal intervention. This has been well documented and publicized, and the property/casualty industry at-large anticipates that federal intervention will in fact facilitate this renewal process.

What has not been widely reported is that, in order to protect against the possibility that a federal solution may not be forthcoming, insurers are now issuing notices of non-renewal and cancellation and filing across-the-board property/casualty exclusions for terrorist risk with state insurance regulators. In at least one instance, a

workers' compensation carrier has issued a non-renewal notice because by law the insurer could not exclude terrorism from the contract.

As you can appreciate, these policy exclusions hold real consequences for the insurance buying public in communities untouched by terrorist attacks and related losses. This is occurring nationally, and state regulators are considering ways to ensure consumers remain protected without requiring insurers to assume unmanageable risks. But only swift action by the federal government can add certainty and stability to this situation, and thus avert enormous market disruption in Illinois.

**support (cont'd on page 2)**

## NAIC elects Illinois Director to national post

Illinois Director of Insurance Nat Shapo was elected secretary-treasurer of the National Association of Insurance Commissioners (NAIC) on December 9 at the association's Winter National Meeting in Chicago. He will serve as a national officer for 2002 with incoming president and Iowa Commissioner Terri Vaughan and vice president and Arkansas Commissioner Mike Pickens.

As chairman of the Midwestern Zone for the past two years, Shapo has

been a member of the NAIC Executive Committee and has represented the NAIC on a number of issues. He has been a leader in regulatory financial modernization efforts, consulting with Congress and federal bank regulators on the Gramm-Leach-Bliley Act and helping to draft the NAIC's Statement of Intent for the Future of Insurance Regulation. He co-chairs the NAIC's Functional Regulation Working Group which negotiates jurisdictional issues

**NAIC (cont'd on page 2)**

**NAIC** (cont'd from page 1)

with federal bank regulators, and chairs the International Holocaust Task Force which seeks fair settlements for unpaid Holocaust-era insurance policies.

Director Shapo issued the following statement after the election: "I am honored to accept this position and look forward to serving with and supporting my fellow officers. We are ready to face our toughest challenges as regulators. State insurance regulation is the best system for consumers, and I am committed to working with our membership to make state regulation more efficient and responsive. I believe we can continue to develop a state-based system of national regulation that promotes competition and protects consumers."

Congratulations, Director Shapo. Your staff is proud of your commitment to consumer protection and state-based regulation. We look forward to working with you to meet those goals and to keep Illinois in the forefront of insurance regulation. ♦

**support** (cont'd from page 1)

The impact of these exclusions will be felt in the City of Chicago as well as in downstate communities. In the city, owners of property at high risk for terrorism losses will find it difficult to obtain insurance coverage. Across the state, we expect lenders will be unwilling to lend for high-profile construction projects without terrorism coverage. And we expect airports to be threatened with closure due to the lack of coverage. We are also hearing from some insurers in the state that may find their viability threatened if solutions to the loss of terrorism coverage are not forthcoming. The loss of these business activities will have severe secondary effects on the state economy.

I am also concerned that the lack of terrorism coverage is going to exacerbate an already tight workers' compensation market in Illinois, where both availability and affordability are becoming problematic. Employers, by law, must provide this coverage for their employees, but without terrorism reinsurance coverage, we expect the workers compensation insurers to significantly cut back on providing this coverage.

On a national level, insurance regulators are working through the National Association of Insurance Com-

missioners (NAIC) to help the Congress on elements of this federal terrorism insurance plan. As a first step, we developed the attached *19 Guiding Principles for Federal Legislation*. These principles form the parameters for federal legislation while relying on the proven strength of our state regulatory structure. For instance, we agree the federal government's role should be well defined and limited based on one national definition of "terrorism."

With respect to the structure of the various proposals, it is my understanding the legislation may establish an industry aggregate deductible below which the federal government does not provide assistance. While I understand why an industry aggregate loss is desirable, I believe it should be tailored to provide a company-specific cap. As you can appreciate, there are about 2400 property/casualty insurers in the nation, about 1100 in Illinois. These companies have different profiles, risk exposures, and capacities. Establishing a per company cap or some other stop-loss mechanism would give the industry a degree of certainty for its exposure and help them re-enter this market, thus allowing the federal government's exposure to gradually recede.

Given the developing, significant market disruptions, I urge you to act this year. And while you work toward a final resolution of the issue, I urge you and your colleagues to keep lending assurances to the marketplace and our nation's insurance consumers that you will not adjourn without passing a federal terrorism insurance bill. Thank you for your consideration. ♦

**Staff announcements**

Congratulations to **Mike Teer** on his appointment as Supervisor of the Producer Regulatory Unit. Mike joined the Illinois Department in 1985, and has been a member of the Producer Regulatory staff since 1996. ♦

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*On October 15, 2001, the National Association of Insurance Commissioners adopted 19 governing principles drafted by the Catastrophe Insurance Working Group to assist state insurance regulators in evaluating possible federal terrorism insurance legislation.*

## **Guiding Principles for Federal Legislation Related to Property and Casualty Insurance Coverage for Losses Caused by Terrorism**

The insurance industry has repeatedly encountered new, unexpected, and severe risks in the past and has always, given reasonable time and experience, been able to develop creative ways to price its products. However, certain events may exceed the capacity and willingness of the property and casualty insurance industry to provide future coverage for terrorism exposures. State insurance regulators recognize that federal legislation is urgently needed to provide a federal backstop to buttress the ability of the property and casualty insurance industry to protect Americans from financial losses associated with terrorism, while at the same time safeguarding insurer solvency so that insurance companies can continue to meet all of their other claims obligations. Outlined below are the governing principles and essential elements of any federal disaster insurance legislation that state insurance regulators support.

The National Association of Insurance Commissioners (NAIC) urges Congress to take immediate action to enact legislation consistent with these principles. For purposes of this document, the use of the word "terrorism" includes the war risk for workers' compensation that insurers are required to provide coverage for as a result of statutory provisions contained in state workers' compensation laws.

### **A. The Role of a Federal Government Program**

1. Federal legislation in this area should "sunset" at a date certain of limited duration after enactment in order to allow a reevaluation of the need for and design of the program.

2. To take advantage of the substantial experience of state-based insurance regulation, the expertise of the NAIC should be made available to any federal program in this area and consideration should be given to including

representatives of the NAIC as members of the governing body of such a program.

### **B. The Content of a Federal Program**

3. Federal legislation should supplement but not replace other private and public insurance mechanisms where those mechanisms can provide coverage more efficiently.

4. Federal legislation should include clear and non-ambiguous definitions of terrorism to be applied to all policies nationwide.

5. Rates should consider all reasonable factors that can be feasibly measured and supported by theoretical and empirical analysis, including relative risk.

6. Federal legislation should encourage loss reduction and hazard mitigation efforts.

7. State residual market mechanisms and other pooling mechanisms providing coverage should be allowed to participate in any program established by federal legislation but in such a way as to not create incentives for business to be placed in those residual markets.

8. Federal legislation should recognize that terrorism exposures subject insurers to potential "adverse selection," i.e., entities with lower risk are less likely to voluntarily purchase coverage, while those with greater risk are more likely to purchase coverage. If possible, the federal program should encourage the inclusion of both low-risk and high-risk entities to promote greater risk spreading in a way that does not subject risk-bearing entities, including the federal government, to adverse selection.

9. Federal legislation should address coverage and cost for all risks exposed to terrorism, regardless of geographic, demographic or other classification, such as "more-at-risk" or "less-at-risk."

10. There should be a safety net protection, within reasonable limits, for any private program created by federal legislation in the event of the insolvency of the program or its participants.

11. Tax law changes should be encouraged to avoid penalties on and encourage the accumulation of reserves for the portion of terrorism losses insurable in the private marketplace.

12. Federal legislation should not unnecessarily preempt state authority.

### **C. Participation in the Program**

13. Federal legislation should encourage individuals and businesses to maintain private coverage for terrorism exposure.

14. Federal legislation should promote or encourage awareness that coverage is available for any property and/or casualty risk that meets reasonable standards of insurability.

15. Federal legislation should encourage or mandate that eligible entities participate in the program or run the risk of losing access to federal disaster assistance.

### **D. Administration of the Program**

16. There should be an appropriate balance of the different private and public interests in the governance of regulatory oversight over the program.

**principles** (cont'd on page 6)

## United Capitol Insurance Company liquidated

The Cook County Circuit Court issued United Capitol Insurance Company an Order of Liquidation with a finding of insolvency on November 14, 2001, following the Illinois Department's determination that the company was insolvent by more than \$2.5 million. The company previously had been under an Order of Conservation dated September 12, 2001, which allowed the Director to conserve the assets of the company for the protection of claimants and creditors, pending further recommendations to the supervising court.

United Capitol was licensed in Arizona, Illinois and Wisconsin, but op-

erated on a surplus lines or a non-admitted basis in Washington, D.C., Puerto Rico, the U.S. Virgin Islands and all other states. At December 31, 1999, and December 31, 2000, the company reported earned premiums of \$107 million and \$51 million, respectively, but had been in a runoff mode since approximately March 2000.

Any remaining business currently active in a state in which the company was licensed will be canceled thirty one (31) days from the date of the entry of the Order of Liquidation, the policy's expiration date, or when canceled by the named insured, whichever

occurs first. Other active policies in any other jurisdiction were canceled upon entry of the Order of Liquidation.

The Illinois Insurance Guaranty Fund will be responsible for the covered claims of United Capitol's Illinois policyholders. The Order of Liquidation contains an injunction prohibiting suits against United Capitol outside of the liquidation proceedings. Liquidation proceedings are handled on behalf of the Director of Insurance by the Office of the Special Deputy Receiver, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654, (312) 836-9500. ♦

## Exam reports filed

### Market Conduct

Safeco Insurance of Illinois  
09/28/01  
Peoples Benefit Life Insurance Co.  
10/17/01  
United Equitable/  
American Heartland  
10/29/01  
Guardian Life Insurance Company  
of America  
10/30/01  
Selective Insurance Company of  
America  
10/31/01  
IDS Life Insurance Company  
11/28/01

### Financial

Associated Beer Distributors of  
Illinois Risk Management Assoc.  
10/24/01  
Calhoun County Mutual County  
Fire Insurance Company  
10/15/01  
Denver Mutual Insurance Company  
10/15/01  
Employees Life Company (Mutual)  
11/06/01  
First Commonwealth Health  
Services Corporation  
10/02/01  
First Commonwealth Insurance Co.  
10/02/01  
First Commonwealth Limited  
Health Services Corporation  
10/02/01

Illinois EMCASCO Insurance Co.  
10/24/01  
Iuka Mutual Insurance Company  
10/17/01  
Liberty Insurance Company of  
America  
10/17/01  
Life Assurance Company of America  
11/01/01  
Millers Mutual Insurance Company  
09/18/01  
Mosquito Mutual Insurance Co.  
10/15/01  
Mt. Hawley Insurance Company  
10/31/01  
Mt. Pleasant Mutual Insurance Co.  
10/17/01  
Reliance Insurance Company of IL  
10/31/01  
RLI Insurance Company  
11/07/01  
Royal Neighbors of America  
10/26/01  
Travelers Casualty and Surety  
Company of Illinois  
09/18/01  
Travelers Indemnity Company of  
Illinois, The  
09/18/01  
Travelers Property Casualty  
Insurance Company of Illinois  
09/18/01  
Washington National Insurance Co.  
11/08/01 ♦

## Company action

### New Companies

General Fire & Casualty Company,  
ID, 10/10/01  
NAU Country Insurance Company,  
MN, 9/26/01  
Sumitomo Marine & Fire Insurance  
Company of America, NY, 10/17/01

### Terminations

Reliance Insurance Company, PA,  
declared insolvent and placed in  
liquidation 10/03/01  
Far West Insurance Company, NE,  
declared insolvent and placed in  
liquidation 11/09/01  
United Capitol Insurance Company,  
IL, declared insolvent and placed in  
liquidation 11/14/01

### Suspensions

Frontier Insurance Company, NY,  
10/01/01-9/30/03

### Market Conduct Fines

The following entities were issued Stipulation and Consent Orders and fined for Insurance Code violations and/or improper claims practices cited in their Illinois market conduct examinations:

Guardian Life Insurance Company  
of America, NY, 10/30/01; \$20,000  
IDS Life Insurance Company, MN,  
11/02/01; \$20,000  
Peoples Benefit Life Insurance  
Company, IA, 10/17/01; \$10,000 ♦

## Producer regulatory action

*(Copies of regulatory orders are available upon written request to the Producer Regulatory Unit, for \$1/page. The number of pages are indicated in parentheses following the effective date.)*

### Denial of Producer License

Ronald Bressler  
830 Corey Lane  
Wheeling, IL 60090  
Effective 09/21/01 (2)

Margaret L. Crogan  
160 South 11th, #1  
Blair, NE 68008  
Effective 09/21/01 (7)

Steven M. Levin  
905 Rockland Road  
Lake Bluff, IL 60044  
Effective 10/09/01 (3)

Darnell E. Lauderdale  
Rural Route 3, Box 132  
Wolf Lake, IL 62998  
Effective 10/09/01 (4)

Jonathan Myers  
6309 Forest Hills Road  
Loves Park, IL 61114  
Effective 10/26/01 (3)

Patrick L. Thomas  
1104 West 78th Street, Apt. #2  
Chicago, IL 60620  
Effective 10/19/01 (2)

Wolf Lake Insurance Agency  
Rural Route 3, Box 132  
Wolf Lake, IL 62998  
Effective 10/09/01 (4)

### Revocation of Producer License

David Brewer  
Rural Route 2  
Prairie Du Rocher, IL 62277  
Effective 10/30/01 (9)

Henry R. Mosley  
10521 Camille Court  
Indianapolis, IN 46286  
Effective 10/15/01 (2)

Daniel L. Robinson  
12792 East Highway 148  
Mt. Vernon, IL 62864  
Effective 10/31/01 (9)

David K. Uchman  
10828 South Lawndale Avenue  
Chicago, IL 60655  
Effective 09/10/01 (3)

### Suspension of Producer License

Douglas J. Aller  
165 North Taylor Avenue  
Oak Park, IL 60302  
Effective 09/12/01 (9)

Aller Insurance Inc.  
2212 East 12th Street, Suite 228  
Davenport, IA 52803  
Effective 09/12/01 (9)

James S. Hayles  
13152 South Cicero, Suite 208  
Crestwood, IL 60445  
Effective 10/30/01 (9)

Robert W. Henning III  
1304 West John Gwynn Avenue  
Peoria, IL 61605  
Effective 09/12/01 (2)

Richard B. Meyer  
3200 North Lake Shore Dr., Ste. 708  
Chicago, IL 60657  
Effective 10/09/01 (2)

### Stipulation and Consent Order—Civil Forfeiture Paid

Burton S. Arnow  
851 West Dundee Road  
Wheeling, IL 60090  
Effective 10/09/01 (3)

Cooper Hill Financial Corp.  
851 West Dundee Road  
Wheeling, IL 60090  
Effective 10/09/01 (3)

Robert A. Cowan Jr.  
2329 Makemfe Drive  
Springfield, IL 62704  
Effective 09/19/01 (3)

Paul K. Ferstein  
1578 Colorado Lane  
Elk Grove Village, IL 60007  
Effective 08/21/01 (3)

John B. Griffith  
14730 North Court Six  
Effingham, IL 62401  
Effective 09/07/01 (4)

Griffith Insurance  
2 Main Street  
P.O. Box 153  
Altamont, IL 62411  
Effective 09/07/01 (4)

### Voluntary Revocation of Producer License

James D. Morgan  
8158 South Chappel  
Chicago, IL 60617  
Effective 09/26/01 (1)

James Morgan Insurance  
& Real Estate  
538 East 61st  
Chicago, IL 60637  
Effective 09/26/01 (1)

Marion M. Patterson  
12104 Patterson Road  
Durand, IL 61024  
Effective 09/12/01 (1)

Mary Kulon  
4540 South St. Louis  
Chicago, IL 60632  
Effective 09/21/01 (3)

Michael G. Linder  
2958 East Timberline Court  
Crete, IL 60417  
Effective 09/12/01 (3)

Maritza O. Ortega Ordonez  
1025 West Hollywood, Apt. 518  
Chicago, IL 60660  
Effective 09/21/01 (3)

George A. Weed  
120 Cardinal Drive, Box 727  
Benton, IL 62812  
Effective 09/12/01 (4)

Dell C. Williams  
148 North Mayfield, Apt. 107  
Chicago, IL 60644  
Effective 09/27/01 (3)♦

## Hearings

### Scheduled Hearings:

Dental Care of America, Inc.  
Hearing No. 3878  
Risk based capital requirement  
violation 12/4/01

David M. Schlessinger  
Hearing No. 3875  
Restoration of licensing authority  
12/4/01

Scott A. Garland  
Hearing No. 3877  
Suspension of licensing authority  
12/9/01

Michael D. Carter  
Hearing No. 3879  
Request for license 12/19/01

CNA Commercial Insurance Company  
Ameri-Clean  
Hearing No. 3880  
Cancellation of policies 12/20/01

### Settled Without Hearing:

IGF Insurance Company  
Hearing No. 3853  
Stipulation and consent order 10/17/01

Superior Insurance Company  
Hearing No. 3854  
Stipulation and consent order 10/17/01

Valor Insurance Company  
Warrior Ins. Group, Inc.  
Hearing No. 3847  
Stipulation and consent order 10/9/01

Guideone Mutual Insurance Company  
Harold Harris  
Hearing No. 3866  
Dismissed 10/9/01

### Completed Hearings:

State Farm Fire & Casualty Company  
Carol Wardell  
Hearing No. 3871  
Policy reinstated; cancellation not  
effective 11/21/01

Ronald Herbert Engler  
Hearing No. 3846  
License suspended until compliance  
with Section 505.2 11/8/01

David Brewer  
Hearing No. 3851  
Licensing authority revoked 10/30/01

James S. Hayles  
Hearing No. 3725  
Licensing authority suspended 10/30/01

Daniel L. Robinson  
Hearing No. 3861  
Licensing authority revoked 10/31/01

Illinois State Medical  
Inter-Insurance Exchange  
Hearing No. 3864  
Plan of reorganization of ISMIE  
approved 10/29/01

Allstate Indemnity Company  
Robert McCoy  
Hearing No. 3865  
Cancellation effective 10/25/01

Scott A. Carr  
Hearing No. 3855  
Order of revocation rescinded 10/29/01 ♦

### principles (cont'd from p. 3)

17. Federal legislation should recognize the expertise of the states in insurance regulation with respect to such areas as licensing insurers, solvency surveillance, oversight of rates and forms in most jurisdictions, licensing producers, assisting policyholders and consumers during the claim settlement process and performing market conduct examinations.

18. To more efficiently achieve the objectives of any federal terrorism program, there should be coordination of state and federal regulatory responsibilities.

19. Jurisdiction over insurer claim settlement practices should remain with the states. ♦

**Illinois Department of Insurance**  
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