

Administrative Services

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 98% of our appropriation 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 99, the Department's appropriation was \$25.9 million. Of that total, only \$409,000 was allocated from the GRF, while federal funds for SHIP contributed \$500,000.

The audited and adjusted revenue collections for the year totaled \$244,858,706, \$205,750,813 of which were deposited into the GRF. As of June 30, 1999, the Department had \$8,932,000 in net accounts receivable on the books from 1,590 accounts. Of those, 62 were privilege tax litigation cases totaling over \$3,333,000 in 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.

For all of 1999, several year 2000 conversion projects were in progress and successfully implemented prior to the Y2K deadline date. The Department experienced no disruption in data processing services during this critical time period, and is aware of no negative or lasting affects from Y2K among regulated entities.



Key punch cards for data and program code storage were "state of the art" in the 1970s.

Department Staff	
Administrative	37
Consumer	128
Financial/Corporate	129
Pension	13
Staff	28
EDP	<u>23</u>
	358

DOI Archives

In 1926, the Department operated with an appropriation of \$1.68 million, an amount that was trimmed to \$516,829 during the midst of the Great Depression.

Quarterly payments of the privilege tax were first established in 1968.

Comparative Statement of Taxes and Fees Collected
Period Ending June 30, 1999

Taxes Fees	FY 99	FY 98
1st Quarter Privilege Tax	\$ 17,266,605.49	\$ 21,695,191.38
2nd Quarter Privilege Tax	18,687,533.28	16,958,887.57
3rd Quarter Privilege Tax	19,938,430.16	26,989,038.14
4th Quarter Privilege Tax	24,842,321.31	29,318,331.23
1st Quarter Retaliatory Tax	11,132,745.46	
2nd Quarter Retaliatory Tax	31,494,885.08	
3rd Quarter Retaliatory Tax	19,866,062.44	
4th Quarter Retaliatory Tax	22,715,941.44	
Final Privilege Tax	24,808,209.86	713,405.61
Final Retaliatory Tax	12,130,735.04	31,091,084.76
Surplus Line Tax	7,411,588.42	8,194,612.25
Risk Group Tax	189,131.70	1,033,182.46
Valuation of Reserve Fee	0.00	30,171,949.41
Pension Annual Statement	509,211.18	0.00
Fines & Penalties	1,274,662.15	1,564,916.41
Interest	22,055.33	89,970.67
Miscellaneous	<u>4,254.73</u>	<u>8,041.36</u>
Subtotal for General Revenue Fund	212,294,373.07	167,828,611.25
Producer Licenses	8,308,549.49	7,896,904.69
Producer Reinstatement Fee	474,960.00	438,765.00
Producer Appointment Fee	485,275.00	388,683.73
Producer Provider Education	264,375.00	259,335.00
Producer Market Conduct Exams	690,010.75	545,974.00
Producer Fines Penalty	700.00	
Producer Market Conduct Travel	211,925.93	113,960.82
Producer Miscellaneous	<u>25,862.13</u>	<u>20,713.66</u>
Subtotal for Insurance Producer Fund	10,461,658.30	9,664,336.90
Fire Marshal Tax (Company)	11,075,771.31	10,459,851.11
Fire Marshal Tax (Surplus Lines)	<u>310,258.94</u>	<u>304,972.91</u>
Subtotal for Fire Prevention Fund	11,386,030.25	10,764,824.02
LAH:		
Annual Statement Filing	78,475.00	79,625.00
Corporate Documents	91,256.00	87,860.00
Certificate Fees	146,540.00	141,436.00
Policy Form Filings	324,500.00	349,670.00
Miscellaneous	36,019.46	39,120.02
Domestic Financial Regulation Fee	1,321,570.00	1,554,840.00
Foreign Financial Regulation Fee	2,229,500.00	3,948,900.00
PC:		
Cost Containment	0.00	288.00
Annual Statement Filing	104,375.00	100,750.00
Surplus Lines Licenses	93,060.00	101,550.00
Corporate Documents	195,625.00	189,654.00
Certificate Fees	219,549.00	160,212.00
Policy Form Filings	785,175.00	714,840.00
RCPT, etc.	125,858.00	16,194.50
Miscellaneous	31,605.20	71,601.94
Domestic Financial Regulation Fee	1,773,530.00	2,426,560.00
Foreign Financial Regulation Fee	2,037,200.00	4,154,800.00
Financial Exam Travel	<u>476,144.69</u>	<u>439,985.36</u>
Subtotal for Insurance Financial Regulation Fund	10,069,982.35	14,577,886.82
Total for All Funds	<u>\$244,212,043.97</u>	<u>\$202,835,658.99</u>

Securities Deposited by Insurance Companies for FY 99

Domestic Stock Life	82	\$197,144,000.00
(Special Policy Fund)	3	910,000.00
Domestic Mutual Life	8	14,930,000.00
(Special Policy Fund)	1	70,000.00
Domestic Assessment Life	2	430,000.00
Domestic Stock Property Casualty	173	365,615,176.00
Domestic Mutual Property Casualty	15	39,457,000.00
Domestic Inter–Insurance Exchange	4	6,950,000.00
INEX Insurance Exchange	1	2,500,000.00
Burials	2	16,000.00
Bond Certificates	24	1,009,514.00
Mutual Benefit Association	1	75,000.00
Health Maintenance Organizations	33	11,938,000.00
Limited Health Service Organizations	9	807,000.00
Total:	358	641,851,690.00
Foreign Workers Compensation	43	537,544,000.00
Foreign Alien	25	38,565,000.00
Service Contract Providers	13	420,000.00
Total on Deposit June 30, 1999	439	1,218,380,690.00

DOI Archives

In FY 1927, securities on deposit with the Department totalled \$37.2 million. In FY 1999, for the first time in the Department's history, securities have exceeded the billion dollar mark.

**FY 99 Appropriations and Disbursements
July 1, 1998—June 30, 1999**

General Revenue Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$296,300.00	\$0.00	\$284,528.50	\$11,771.50
Retirement—Employee	11,900.00	0.00	11,396.71	503.29
Retirement	28,500.00	0.00	27,146.66	1,353.34
Social Security	22,600.00	0.00	21,232.00	1,368.00
Travel	\$31,200.00	0.00	20,790.52	10,409.48
Printing	\$10,500.00	0.00	4,273.00	6,227.00
Telecommunications	8,000.00	0.00	7,195.21	804.79
Total	<u>\$409,000.00</u>	<u>\$0.00</u>	<u>\$376,562.60</u>	<u>\$32,437.40</u>

Insurance Producers Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$6,248,300.00	\$0.00	\$6,034,478.41	\$213,821.59
Retirement—Employee	250,000.00	0.00	237,434.16	12,565.84
Retirement	599,800.00	0.00	575,709.62	24,090.38
Social Security	467,700.00	0.00	440,801.67	26,898.33
Group Insurance	910,100.00	0.00	826,183.27	83,916.73
Contractual Services	1,032,600.00	0.00	881,358.91	151,241.09
Travel	\$335,000.00	0.00	332,351.74	2,648.26
Commodities	\$56,000.00	0.00	51,483.10	4,516.90
Printing	\$52,000.00	0.00	46,928.92	5,071.08
Equipment	\$247,300.00	0.00	229,182.00	18,118.00
Telecommunications	177,000.00	0.00	159,656.11	17,343.89
Automotive Equipment	10,600.00	0.00	8,816.55	1,783.45
Lump Sum	323,500.00	0.00	0.00	323,500.00
Refund	50,000.00	0.00	49,150.00	850.00
Total	<u>\$10,759,900.00</u>	<u>\$0.00</u>	<u>\$9,873,534.46</u>	<u>\$886,365.54</u>

Insurance Financial Regulation Fund

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$8,545,000.00	\$0.00	\$8,226,991.85	\$318,008.15
Retirement—Employee	341,800.00	0.00	323,990.06	17,809.94
Retirement	820,300.00	0.00	784,722.75	35,577.25
Social Security	645,100.00	0.00	588,118.01	56,981.99
Group Insurance	1,095,900.00	0.00	1,020,500.59	75,399.41
Contractual Services	1,237,200.00	0.00	1,111,575.65	125,624.35
Travel	625,000.00	0.00	605,325.26	19,674.74
Commodities	68,000.00	0.00	56,311.70	11,688.30
Printing	50,000.00	0.00	44,084.33	5,915.67
Equipment	204,100.00	0.00	147,380.74	56,719.26
Telecommunications	150,000.00	<u>0.00</u>	135,247.50	14,752.50
Automotive Equipment	7,100.00	<u>0.00</u>	3,910.54	3,189.46
Refunds	<u>100,000.00</u>	<u>0.00</u>	<u>1,755.55</u>	<u>98,244.45</u>
Total	<u>\$13,889,500.00</u>	<u>\$0.00</u>	<u>\$13,049,914.53</u>	<u>\$839,585.47</u>

Senior Health Insurance Plan

Standard Accounts:	Appropriations	Disbursements
Lump Sum	<u>\$500,000.00</u>	<u>\$339,043.00</u>
Total	<u>\$500,000.00</u>	<u>\$339,043.00</u>

Combined Funds

Standard Accounts:	Appropriations	Reserve	Disbursements	Unexpended Appropriations
Personal Services	\$15,309,800.00	\$0.00	\$14,750,728.55	\$559,071.45
Retirement—Employee	612,500.00	0.00	580,871.25	31,628.75
Retirement	1,469,700.00	0.00	1,407,098.47	62,601.53
Social Security	1,152,200.00	0.00	1,065,469.95	86,730.05
Group Insurance	2,039,400.00	0.00	1,872,795.34	166,604.66
Contractual Services	2,269,800.00	0.00	1,992,934.56	276,865.44
Travel	1,006,900.00	0.00	971,206.51	35,693.49
Commodities	124,000.00	0.00	107,794.80	16,205.20
Printing	112,500.00	0.00	95,286.25	17,213.75
Equipment	457,400.00	0.00	377,569.12	79,830.88
Telecommunications	336,000.00	0.00	302,897.40	33,102.60
Automotive Equipment	17,700.00	0.00	12,727.09	4,972.91
Lump Sum	823,500.00	0.00	339,042.67	484,457.33
Refunds	<u>150,000.00</u>	<u>0.00</u>	<u>50,905.55</u>	<u>99,094.45</u>
Total	<u>\$25,881,400.00</u>	<u>\$0.00</u>	<u>\$23,927,327.51</u>	<u>\$1,954,072.49</u>

Consumer Protection

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.

During 1999, the Producer Licensing Unit geared up to implement new legislation (PA 91-234) allowing **producer licenses** to be issued for two years rather than for one year, beginning January 1, 2000. The Unit also made progress on two technology-driven initiatives: a program to allow the public and producers to access the **licensing data base** through the Internet and a project to enable **education providers** to submit their rosters of students who completed courses to the Department through the Internet.

On-line access to licensing information will provide a convenient way for interested parties to determine a producer's current licensing status, while on-line submission of student rosters will save education providers time and money and allow the Department to receive the data more quickly.

The **Managed Care Reform and Patient Rights Act** (PA 91-0617) enacted in 1999 and effective January 1, 2000, brings many changes to the managed care market. The Act includes several provisions dealing with consumers' ability to access health care services, including: disclosure



Electronic testing for producers was introduced in October 1984 with the "KEYWAY" answer pad.

of information; transitional services; external independent review of complaints; reporting of complaints to the Department of Insurance; referral procedures; and emergency services.

The Act also requires the Department of Insurance to establish the **Office of Consumer Health Insurance** to provide consumers information and assistance about their health insurance coverage. Consumers will be able to call the Office toll free beginning January 1, 2000.

DOI Archives

In 1932, the Department raised licensing fees for agents and brokers from \$.50 to \$2. The only "qualification" for obtaining a license was filing an application and paying the fee.

In 1957, the Director was given authority to suspend an agent or broker license and to assess a cash penalty for regulatory infractions. In 1963, the Department began field investigations of possible Insurance Code violations by companies, agents or brokers.

In 1975, Illinois became the first state to use an independent testing service to administer licensing examinations.

Agent and broker licenses were replaced with "producer" licenses in 1983. That same year, the Department established continuing education requirements.

Other important health insurance measures enacted during the year include the **Small Employer Health Insurance Rating Act** (PA 91–510) and **prompt pay standards** for accident and health insurance claims (PA 91–605). The former provides fairness in the small group marketplace by reducing the amount of premium increases charged to a small employer group when employees develop costly medical conditions and restricting the amount a small group carrier can increase rates for a group due to its claim experience. The latter provides incentives for insurance companies to pay claims promptly after receipt of due proof of loss.

A consumer issue of national concern in 1999 was a class action lawsuit against State Farm Insurance Company over the use of **non–oem** (original equipment manufacturer) **parts** in auto repairs. The insurance company is filing an appeal of the lower court's decision. This legal activity has prompted many insurance companies to cease the use of non–oem parts until a decision is rendered by the Illinois Supreme Court, and could ultimately impact Illinois insurance regulations.

During 1999, the Department responded to thousands of general inquiries about insurance companies and products and investigated and closed 14,867 complaints. Consumers again took advantage of filing complaints on–line and those numbers continue to increase each year. In addition, the Department is moving forward with a plan to utilize e–mail in corresponding with insurance companies to provide more efficient service to consumers. Consumers who file complaints on–line will also be given an option to receive an e–mail response from the Department to expedite the handling of their complaint.



Consumer complaint analysts in the 1970s.

DOI Archives

The Department first began monitoring health care cost containment in 1977.

The Illinois Automobile Assigned Risk Plan was created in 1940 to provide coverage for persons unable to obtain automobile bodily injury liability insurance. In 1971, participation by all companies authorized to write that line of insurance became mandatory.

In 1968, the Department, in conjunction with the U.S. Department of Housing and Urban Development and the insurance industry, developed a plan (the Illinois Property Insurance Placement Facility) to provide coverage for property owners in urban areas where the voluntary market was unwilling or unable to provide adequate insurance protection. The Facility was reorganized in 1971 and the name was changed to the Illinois FAIR Plan Association.

Following a 1977 special investigation into allegations of homeowners insurance redlining in urban areas, legislation was enacted in 1978 to prohibit geographic discrimination in the sale of homeowners insurance and to require insurers to report cancellations and non–renewals by zip code. In 1993, the Department headed an Urban Insurance Issues Task Force to examine the availability of homeowners insurance. That effort resulted in enhancements to FAIR Plan coverage in 1994 and development of a comprehensive homeowners insurance counseling program in 1995.

The Department began investigating policyholder complaints in 1928; however, lacking any statutory authority to settle claims, the goal was to bring about an understanding between insurance companies and individuals. When a company disputed a claim, the policyholder's only recourse was to file suit.

In 1972, Illinois became the first state to adopt the NAIC's Uniform Complaint Handling program.

Complaint ratios for auto insurance were first released in 1977; for life, accident and health companies in 1981; and for HMOs in 1991.

In establishing its schedule of examinations, the Market Conduct Section evaluates information gleaned from insurer market conduct annual statements on automobile claims, homeowners coverages, and zip code tracking of company producers by business address. These claim statements allow us to prioritize personal lines carriers for target examinations and respond more quickly to the changing marketplace, as evidenced by the fact that 75% of the exams conducted in 1999 were targeted.

During 1999, the alternative dispute resolution (ADR) process developed to settle marketing abuse claims against Prudential Insurance Company of America entered the final scoring phase to determine the amount of relief available to Prudential's policyholders. Two Illinois market conduct experts have participated on the state regulator oversight panel to monitor the claims of the 90,422 Illinois policyholders participating in the settlement. Of that total, 60,581 chose the alternative dispute resolution process and 20,841 chose basic claim relief. The claims process will continue through 2000, with most refunds concluded by mid-year.

The Market Conduct Section appointed a task force to review the way examination reports are written. Currently, reports are written by exception which presents company operations in a negative light. The goal of the task force is to provide a more positive overview of the examination results.

Company compliance with Illinois insurance statutes and regulations, as well as with their own internal procedures, improved greatly in 1999. Market conduct examinations noted dramatic decreases in rating overcharges and claim underpayments, resulting in the assessment of fewer civil forfeitures against companies. Examination priorities continued to center around the Chicago non-standard auto market and the managed care market.



The "Rating Division" was the precursor to today's Market Conduct operations.

DOI Archives

In 1937, the Department established a Rating Branch to ensure rates charged by fire and motor vehicle insurers were just, reasonable, nondiscriminatory and non-preferential. In 1947, the Department was given statutory authority to regulate rates for fire and allied lines; and in 1970, the Open Competition Rating Law was enacted for all property and casualty lines except workers compensation and the Assigned Risk Plan. A workers compensation open competition rating law became effective in 1983.

In 1967, the Director was authorized to suspend a company's certificate of authority for 30 days upon a determination that the company engaged in improper claims practices of unreasonable delay or refusal to pay or settle claims.

Rate examinations were introduced to investigate indications of consumer mistreatment, market availability problems and unfair claims settlement practices in 1970. The following year, the Improper Claim Practices Rule (Rule 9.19) was promulgated.

Auto insurers were first required to file market conduct annual statements in 1990. The mandate was extended to homeowners insurers in 1993.

Among the regulatory issues facing the Consumer Division in the coming year are new federal requirements for reciprocity and uniformity in the licensing of non-resident insurance producers; the expansion of the viatical settlement market to senior citizens and other healthy individuals; the insurance industry's increasing use of the Internet to advertise and sell insurance products; and the impact of federal laws and regulations on the Illinois health insurance market. Of specific concern are the possible passage of a Patients Rights Law to regulate managed care plans (including enrollees' rights to sue such plans) and the Department of Health and Human Services' anticipated regulation relating to the privacy of patient information.

Consumer Division Statistics

Consumer Complaints by Line of Coverage

Auto	3,601	(24%)
Group A&H	2,806	(19%)
HMOs	1,629	(11%)
Individual A&H	1,139	(8%)
Homeowners	851	(5%)
Individual Life	986	(6%)
Group Credit A&H	111	(1%)
Individual Annuity	122	(1%)
All Other Coverages	555	(4%)
Not Categorized	<u>3,067</u>	<u>(21%)</u>
Total	14,867	(100%)

Consumer Complaints by Reason

	Insurance Companies	HMOs
Underwriting	1,433	43
Marketing and Sales	390	3
Claim Handling	7,059	1,544
Policyholder Service	<u>1,290</u>	<u>38</u>
Total	10,172	1,628

Consumer Outreach Presentations

At high schools

86 schools; 1600 students

For community groups

355 with 12,000 consumers

Radio shows

178 with an audience of 1.2 million



Consumer Outreach targets auto insurance education for high school students.

DOI Archives

In 1981, Illinois became the first state to enact a privacy law to protect the confidentiality of insurance transactions.

The Department began regulating viatical settlement companies in 1996.

Producer Licensing

Producer licenses new	23,026
Renewal	<u>82,427</u>
Total	105,453

Firm registrations new	1,831
Renewal	<u>8,770</u>
Total	10,601

Examinations	19,816
Temporary licenses	709
Limited representations	8,550
Premium finance licenses	305
Public adjusters	190
Third party administrators	435
Certifications/clearances	79,760
Education providers	413
Courses	5,280

Producer Regulation

Financial examinations	147
Investigations	306
Total	453

Results:

Revocations/surrenders	53
Stipulation consent orders	64
Civil forfeitures	\$132,000

Market Conduct Examinations

Examinations	36
Premium overcharges returned to Illinois policyholders	\$13,920
Additional claim payments made	\$117,903
Civil forfeitures levied (17 insurers)	\$282,500
Corrective orders issued	19

Product Filings

PC form filings	44,689
PC rate filings	2,451
L/AH forms approved	18,403
L/AH informational forms	2,685
L/AH rate filings	756
HMO forms approved	950
HMO informational forms	152
PPA applications approved/renewed	115

Senior Health Insurance Program

The Senior Health Insurance Program (SHIP) is a free counseling program for Medicare beneficiaries across the state who have questions or problems about insurance issues facing seniors—Medicare, Medicare supplement insurance and long term care insurance.

During 1999, SHIP staff and counselors continued to focus on educating Medicare beneficiaries and senior service providers about the changes to Medicare and Medicare supplement insurance made by the Balanced Budget Act of 1997. SHIP staff and counselors also counseled thousands of Medicare beneficiaries affected by the Medicare HMO pullouts in Illinois.

SHIP partnered with the State Employees Retirement System to teach retirees about SHIP and Medicare in 26 workshops across Illinois. Finally, SHIP provided education on the changes to Medicare to underserved populations, including ethnic, disabled, and low literacy beneficiaries. Consumer demand for more information prompted SHIP to expand its “Senior Health Insurance Information” page on the Department’s website.

Emerging issues impacting Medicare consumers include two new high deductible Medicare supplement plans F and J, prescription drug coverage for Medicare beneficiaries, and the Medicare cost-sharing program. SHIP staff continue to outreach to beneficiaries and their caregivers on these important healthcare issues.

SHIP Statistics

- Volunteer hours 20,300
- One-on-one counseling sessions 20,000
- People reached through community, educational and media presentations 200,000
- 800 line calls per month 3,000
- Savings to Medicare beneficiaries \$1,267,000



SHIP services are available to anyone of any age who needs assistance with Medicare or related insurance for themselves or a family member.

DOI Archives

The Senior Health Insurance Program was established in 1988.

Illinois SHIP was awarded its first federal grant from the Health Care Financing Administration in December 1992.

In 1997, SHIP received HCFA’s Medicare Beneficiary Services’ Certificate of Merit for “sustained achievement and excellence in providing insurance counseling and assistance to the citizens of Illinois.”

Financial Regulation

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.

A major Division endeavor during 1999 was assuring that the computer systems of Illinois domestic insurers were properly prepared for potential Year 2000 or **Y2K** problems. The Financial Analysis staff prepared and mailed “mini–exams” on Y2K preparedness and followed–up in writing or by

telephone interviews with nearly all companies, except for some very small insurers that had little reliance on computer systems. Department financial examiners conducted further on–site compliance examinations and interviews and reviewed documentation and evaluation information. This work had a positive influence on the preparation activities of a number of companies. As a result of both the Department’s efforts and that of the insurance industry, there were no known significant disruptions to insurance consumers due to Y2K.

Key financial regulatory legislative measures enacted in 1999 included PA 91–549 and PA 90–810. The first law applies **risk based capital standards** to dental service plans, health maintenance organizations, limited health service organizations, and voluntary health services organizations, effective August 14, and applies recently revised **accounting practices and procedures** to Illinois insurers, effective January 1, 2001. The revised accounting guidance is the product of many years of work by insurance regulators from across the U.S., along with concerted efforts from the industry itself and numerous interested parties.

DOI Archives

In 1927, the Department took a first step toward “automation” by establishing an index card system to capture corporate information and licensing status of all companies operating in Illinois. That system still exists as a “fail–safe” backup to today’s sophisticated data bases.

The Uniform Unauthorized Insurance Bill was enacted in 1949 to control the operations of mail order companies trying to escape Illinois insurance regulations.

In 1964, statutory provisions for emergency by–laws and continuation of company management were set forth “in preparedness for nuclear attack.”

The first comprehensive revision to the Investment Article in nearly 50 years was signed into law in 1983, allowing the Director to order a domestic company, after hearing, to modify investment practices that endanger the solvency of the company.

The Department’s 1985 legislative solvency package included an increase in minimum capital and surplus requirements, authority to issue corrective orders and establishment of the Insurance Financial Regulation Fund.



Analysis of annual financial statements is critical to solvency monitoring.

Effective January 6, 1999, PA 90–810 provides for the conversion of a mutual insurer to a stock insurer through the formation of a mutual holding company which retains ownership control of the stock insurer. Two such conversions occurred during the year in the first application of the new law which is expected to provide a more flexible organizational structure for the companies and greater ability to compete in the marketplace.

Beginning late in 1999, the Casualty Actuarial Section began traveling to selected domestic companies' financial examination sites and performing on-site reviews to supplement loss and loss adjustment expense reserve analyses performed in the Springfield office. Although monitoring the reserve levels of domestic companies from the Springfield office has been successful, on-site analysis adds to our understanding of the dynamics within the companies. The on-site review includes conversations with various management personnel as well as discussions regarding the availability, accuracy, and structure of the data. The findings and conclusions from the on-site reviews are integrated with analyses performed in the Springfield office to form a complete view of the adequacy of loss and loss adjustment expense reserves.

On the life insurance side, the Life Actuarial Section contributes to the Department's overall responsibility of maintaining a solvent insurance industry by reviewing actuarial opinions dealing with the adequacy of reserves and reviewing, on a sample basis, actuarial memorandums that document the work behind the actuarial opinion. The Section also reviews compliance with certain sections of the Investment Article, most notably the requirement that the Board of Directors of each domestic insurance company adopt written investment guidelines and a formal program for the use of derivative instruments for hedging purposes.

DOI Archives

The Standard Non-Forfeiture and Valuation Law became mandatory in 1948.

In 1971, the Department implemented "Regulation for Solidity," a series of 15 equations designed to provide early warning of company financial problems and avert insolvencies.

In 1975, Illinois became the first state to require that the annual financial statements of domestic insurers be audited by an independent CPA. That same year, we published the "Inventory of Statutory Accounting Practices."

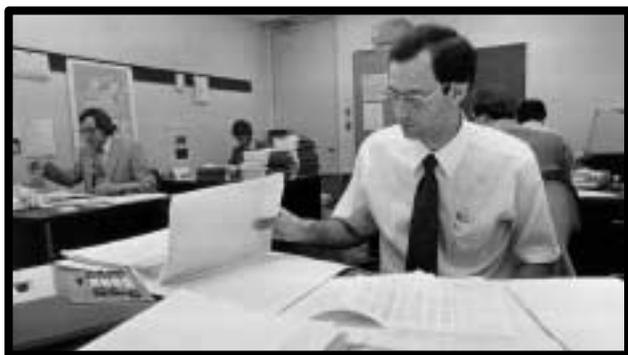
In 1991, Illinois became one of the first four states to receive NAIC Accreditation for meeting financial regulation standards.

Risk based capital requirements were established for life, accident and health companies in 1993 and for property and casualty companies in 1995.

Starting in 1998 but with increased emphasis during 1999, the Life Actuarial staff assisted the Life Financial Analysis Unit in preparing narrative reports on selected domestic life insurers that provide an evaluation of the insurer from an actuarial perspective. This work product is also integrated into the work of the Life Financial Examination Section.

Life Actuarial staff also assist other areas of the Department. For example, the Section reviews innovative and complex policy forms, including equity indexed products, and rate filings for Medicare supplement, long-term care and credit life insurance submitted to the Life/Accident and Health Compliance Section; provide actuarial analysis of public pension funds for the Pension Division; and provide advice to the Consumer Services Section on complaints filed by consumers.

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 determine a company's financial solvency, compliance with insurance laws and regulations, and reliability of financial statements filed with the Department and develop the information needed for timely, appropriate regulatory action.



Financial examiners perform on-site analysis of a company's financial condition.

Staff training is important to ensure that examiners keep pace with new technological developments that will enhance our examination process. During the past year, written procedures were developed to guide field examiners in remote access to the State of Illinois Data Center from their personal computers as well as in uploading electronic files they acquire from insurance companies directly into mainframe computers located at the state's Data Center. In addition, a number of educational seminars were conducted throughout the year, enabling examiners to earn the continuing education credits necessary to maintain professional designations such as CFE, AFE or CPA.

Special projects during 1999 included completion of the conversion to electronic mail for examination questionnaires, general logistical instructions and data processing requirements transmitted directly to companies, and formation of a committee to prepare a statistical sampling guide and syllabus for statistical sampling training integrated with ACL applications. The procedures will be implemented into the examination process during the year 2000.

Financial Division Statistics

Financial Examinations Conducted

Property and Casualty		Life, Accident and Health	
Comprehensive	73	Comprehensive	18
Compliance	8	Compliance, target and Special	8
Target	4	Actuarial Examination	12
Y2K Compliance	71	Actuarial Valuation	13
		Y2K Compliance	37

DOI Archives

NAIC company examinations were introduced in 1938 to eliminate the possibility of companies undergoing separate audits by each state in which they sell insurance.

Licensed Property and Casualty Insurance Companies

	Domestic	Foreign	Alien	Total
Stock	173	705	10	888
Stock Captive				
Pure	3			3
Association	1			1
Industrial Insured	1			1
Stock Risk Retention Group	1			1
Stock Surplus Line	3			3
Mutual	15	75		90
Mutual Risk Retention Group	1			1
Reciprocal	4	18		22
INEX Insurance Exchange	1			1
Syndicates	10			10
Limited Syndicates	0	0		0
Lloyd's	0		1	1
Farm Mutuals	112			112
Accredited Reinsurers	<u>0</u>	<u>14</u>	<u>9</u>	<u>23</u>
Total	<u>325</u>	<u>812</u>	<u>20</u>	<u>1,157</u>

Licensed Life, Accident and Health Insurance Companies

	Domestic	Foreign	Alien	Total
Stock Legal Reserve Life	80	516	5	601
Mutual Legal Reserve Life	7	51	1	59
Assessment Legal Reserve Life	2	0	0	2
Mutual Benefit Association	1	0	0	1
Burial Societies	2	0	0	2
Fraternal Benefit Societies	20	59	1	80
Voluntary Health Service Plans	11	0	0	11
Vision Service Plan	0	0	0	0
Dental Service Plan	1	0	0	1
Health Maintenance Organizations*	14	14	0	28
Limited Health Service Organizations	8	1	0	9
Accredited Reinsurer	0	3	0	3
Mutual Holding Company	<u>1</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	<u>147</u>	<u>644</u>	<u>7</u>	<u>798</u>

*Includes 3 general not-for-profit corporations, 24 for-profit corporations, and 1 voluntary health service plan corporation. Twelve (12) 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.

DOI Archives

The Voluntary Health Services Corporation Act was adopted in 1951 to permit organization of companies to provide complete health coverage, including hospital, medical, dental, nursing, and other services. The new law marked the birth of managed care in Illinois.

Other Licensed Entities

Reinsurance intermediaries	49
Religious and charitable risk pooling trusts	11
Group workers compensation self-insured pools	26
Service companies for group workers compensation pools	32
Self-insured auto fleets	44
Resident surplus lines producers	479

Registered Entities

Purchasing groups (organized to purchase commercial liability insurance for the members)	445
Foreign registered risk retention groups (insurance companies organized to write only commercial liability insurance on behalf of their owner—members)	49

Life Actuarial Reviews

Actuarial opinions	105
Actuarial memorandums	approximately 15
Narrative reports (annual and quarterly)	100
Actuarial balance sheets and tax levies for public pension plans	27
Cost estimates for benefit transfers under the police portability legislation	approximately 14
Medicare supplement, long term care and credit life rate filings	approximately 175
A&H claim reserve adequacy analysis	54

Casualty Actuarial Reviews

Domestic actuarial opinions	approximately 185
Foreign actuarial opinions	approximately 825
Risk-based capital reports	approximately 5
First level loss reserve analyses— domestic companies	approximately 150
Tabular discounting—domestic companies	approximately 30
Salvage subrogation amounts— domestic companies	approximately 90

DOI Archives

Legislation allowing the formation of alternative mechanisms such as risk retention and purchasing groups and captive insurance companies was enacted in 1987.

Public Pensions

The Public Pension Division regulates the suburban and downstate police and firefighter pension systems and collects vital information from those funds, as well as from the large state, Cook County and Chicago pension systems, including the Illinois Municipal Retirement System. The Division's field examinations of pension fund documents and desk audits of annual statements are the principal processes under which the state is able to protect the accrued pension benefits of active and retired public employees. The Division also ensures that the investments of Illinois' public pension systems are in compliance with the law.

The Pension Division's Advisory Service Committee provides feedback and communications concerning pension issues facing pension boards. Membership includes all fire, police, municipal organizations and individual trustees who do not represent any organization. Through the Advisory Service Program, the Division participates in workshops, seminars and conferences of various organizations that represent trustees and participants to clarify pension issues; prepares the trustee handbook; maintains a toll-free number exclusively for use by trustees; provides updates on legislation, annual statement issues and other information through mass mailings; and provides suggested tax levies for most downstate police and fire pension funds.

The Division also conducts examinations of public pension funds and, in consultation with the pension fund being examined, may retain attorneys, independent actuaries, independent certified public accounts, and other professionals and specialists as examiners. For the coming fiscal year, the Division plans to identify a Chicago or Cook County pension fund to coordinate compliance items to be filed as part of their annual financial audit.

Public Pensions Statistics

Suburban and downstate police funds	320
Suburban and downstate fire funds	264
Trustees	3,712
Aggregate net assets	\$5.55 billion
Large pension funds (state financed, Cook County, Chicago and IMRF)	15
Aggregate net assets	\$75.8 billion



Public Pension Division staff in the 1970s.

DOI Archives

The Department was first empowered to examine, audit and report on public pension funds in 1927. The Public Employee Pension Fund Division was formally created in 1949.

In 1961, 25 municipalities established police and fire pension funds due to increased populations reported in the 1960 Federal Census.

Legal Activities

The Legal Division provides a variety of legal services to the regulatory units of the Department, arranges and conducts formal hearings, conducts the rulemaking process, drafts contracts, and advises other areas of the Department on legal issues which arise in the course of their work.

The Legal Division staff normally do not represent the agency in matters before the courts, but act as liaisons with the Attorney General's staff and outside counsel on litigation in which the Department has an interest. The Legal Division responds to external inquiries from the Office of the Special Deputy Receiver, other agencies of government and the general public as needed.

NAIC Activity

Legal staff participation at the NAIC level increased over the past year including providing assistance to the Insurance Securitization Working Group, the International Commission on Holocaust Era Insurance Claims and chairing a working group amending model laws pertaining to the sharing of confidential information among regulators. Additionally, legal staff assisted the Director and the NAIC in drafting and lobbying for amendments to HR 10, the U.S. House version of the Financial Services Modernization Act.

On June 15, 1999, a Circuit Court decision was issued finding that the state retaliatory tax was unconstitutional. The Department has requested a reconsideration of that decision but several companies filed actions seeking refunds of retaliatory taxes previously paid. Those suits are currently pending.

Legal Statistics

Administrative Hearings Scheduled	60
Freedom of Information Requests Processed	270
Illinois Life Health Guaranty Association	
Assessment Appeals	0
Legislative Files (Amendments) Reviewed	657
Opinions Issued	73
Regulatory Files Reviewed	296
Rules Assigned	39
Rules Promulgated/Adopted	16
Subpoenas Processed	34

DOI Archives

Following the U.S. Supreme Court's 1944 decision that Congress has the power to regulate insurance (The U.S. v. South-Eastern Underwriters Association), several foreign insurers paid their taxes and fees under protest.