Illinois Department of Insurance April 15, 2000

Annual Report to the Illinois General Assembly on Insurance Cost Containment

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I. PURPOSE OF THE REPORT ON COST CONTAINMENT

The Illinois Insurance Cost Containment Act (Article XLII, 215 ILCS 5/1202-d) was enacted in 1986 in response to the public's concern about the availability and affordability of commercial liability insurance. That crisis was short-lived and the market has remained generally soft during the last decade. There are, however, some rumblings in the industry that the marketplace may be experiencing some hardening.

The Act requires the Director of Insurance to submit an annual report to the General Assembly by April 15th containing his analysis of the Illinois insurance market and his recommendation of the most appropriate and comprehensive cost containment system for the state.

II. DIRECT PREMIUMS WRITTEN AND LOSS RATIOS BY STATE

Figure 1 shows a breakdown of total direct premium written (DPW) and loss ratios of selected states from 1994 through 1998. The direct pure loss ratio, shown in this table, is calculated by dividing losses by direct earned premium.

This table shows that the $13.4 billion property/casualty premiums written in Illinois in 1998 represent 4.5% of the nationwide total and that property/casualty losses in Illinois have averaged 64.2% of earned premium during the five years. Columns 4 through 8 provide the percent of direct written premiums reported by each of the specified states for 1994 through 1998. Columns 9 through 13 provide the loss ratio experienced by each of the specified states for 1994 through 1998. Column 14 provides the five-year average (1994 - 1998) loss ratios for each of the specified states.

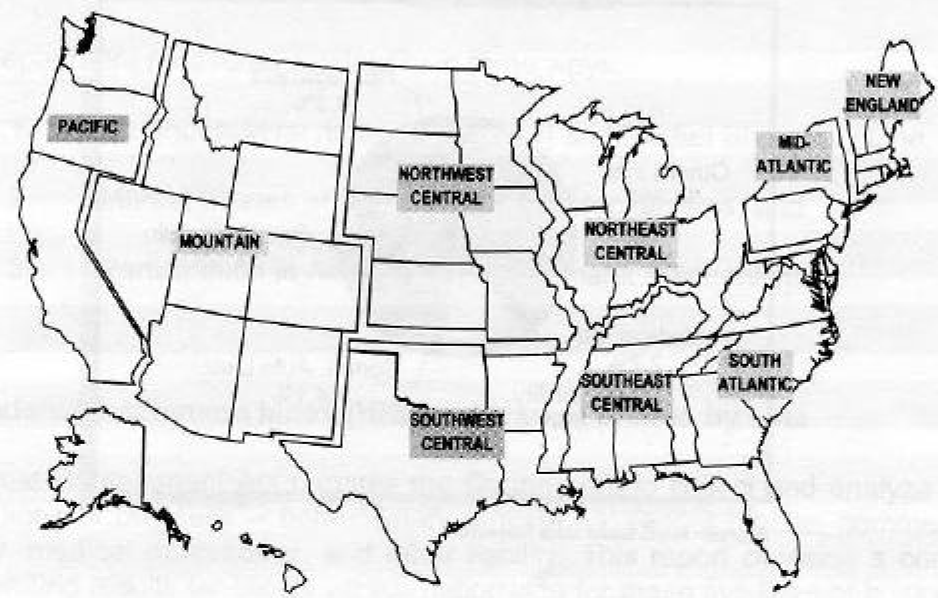
Figure 1
State Distribution and Loss Experience (2499 Companies)
(1994 - 1998)

			% of Direct Premium Written					Loss Ratios					
Rank	**State**	**1998 DPW**	**1998**	**1997**	**1996**	**1995**	**1994**	**1998**	**1997**	**1996**	**1995**	**1994**	**5 Yr. Avg.**
1	CA	36,120	12.1	12.1	11.9	11.9	12.8	62.9	57.8	59.2	66.4	87.8	66.7
2	NY	21,495	7.5	7.6	7.7	7.8	7.7	61.2	66.6	61.6	68.5	71.8	65.8
3	TX	20,103	6.7	6.7	6.7	6.6	6.6	63.8	56.9	66.5	76.2	65.8	65.6
4	FL	18,747	6.3	6.1	6.0	5.6	5.3	56.1	54.0	59.0	69.7	59.3	59.3
5	IL	13,403	4.5	4.5	4.5	4.5	4.5	65.2	58.2	67.4	64.6	65.6	64.2
6	PA	12,595	4.2	4.3	4.5	4.6	4.8	64.4	66.4	73.4	66.9	77.2	69.7
7	NJ	11,481	3.8	3.9	4.0	4.0	3.9	63.3	65.5	68.7	69.4	74.6	68.2
8	OH	10,906	3.6	3.5	3.4	3.4	3.2	63.2	67.2	69.9	66.1	66.4	66.5
9	MI	10,441	3.5	3.4	3.5	3.6	3.6	74.5	65.5	65.8	63.2	68.4	67.5
10	GA	7,700	2.6	2.6	2.5	2.4	2.4	64.9	57.9	60.7	73.3	63.0	63.8
11	MA	7,316	2.4	2.5	2.6	2.7	2.9	63.5	55.5	60.4	52.4	56.7	57.7
12	NC	7,109	2.4	2.3	2.3	2.2	2.1	68.2	60.7	94.9	61.0	62.7	69.6
13	IN	6,275	2.1	2.1	2.1	2.2	2.1	65.6	67.0	73.9	66.2	67.9	68.1
14	VA	5,957	2.0	2.0	2.0	2.0	2.0	61.0	57.9	66.1	59.9	61.8	61.3
15	MN	5,579	1.9	1.8	1.8	1.8	1.8	99.7	65.8	61.1	57.8	64.3	70.4
16	MO	5,425	1.8	1.8	1.8	1.9	1.9	62.3	57.3	60.8	64.8	63.5	61.7
17	WI	5,374	1.8	1.8	1.8	1.8	1.8	63.3	57.7	58.6	59.4	61.3	60.1
18	WA	5,320	1.8	1.8	1.7	1.7	1.7	63.7	69.4	69.9	60.7	59.4	64.7
19	TN	5,179	1.7	1.7	1.7	1.7	1.6	71.5	61.3	61.9	65.2	62.9	64.6
20	MD	5,160	1.7	1.8	1.8	1.8	1.8	57.6	57.9	65.4	62.1	64.4	61.4
	All Other	76,188	25.5	25.7	25.9	26.1	25.5	67.0	60.0	65.5	63.9	61.1	63.6
	ALL	298,881	100	100	100	100	100	65.3	60.2	65.6	65.2	67.6	64.7

Source: Best's Aggregates & Averages - Property/Casualty, 1999 Edition

Figure 2 shows a map of direct premiums written and loss ratios by regions of the United States. In the continental United States, the Southeast Central Region exhibited the highest 1998 loss ratio (79.9) and the highest five-year average loss ratio (70.3). Note that the Northeast Central region, which includes Illinois, reported 15.6 percent of the total US written premium making it the third largest writer of the ten regions. This region experienced a loss ratio for 1998 of 68.0 and a five-year average loss ratio of 66.6. The small difference between the 1998 and five-year average loss ratios indicates that this region has low volatility from year to year. Among the ten regions, the Northeast Central had the fourth highest loss ratio for 1998 and the fifth highest five-year average loss ratio.

Figure 2
Distribution of Direct Premiums Written and Loss Ratios by Regions
(1994 - 1998)

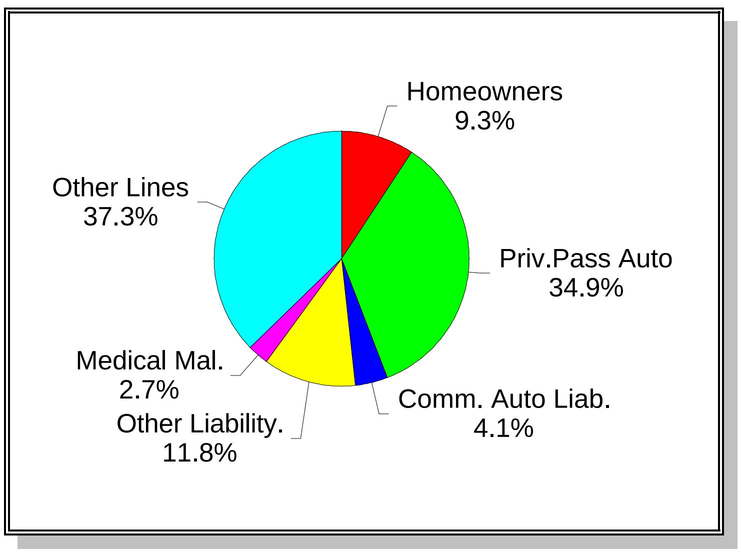


	Pacific	Mountain	Northwest Central	Southwest Central	Northeast Central	Southeast Central	Mid-Atlantic	South Atlantic	New England	Other	Total All Regions
% Total 1998 DPW	15.4	5.6	6.8	10.3	15.6	5.1	15.7	17.6	5.4	2.5	100.0
Dir Loss Ratio - 1998*	63.5	64.2	74.9	66.5	68.0	79.9	66.4	63.5	62.7	80.3	67.0
Dir Loss Ratio- 5 Year Avg.*	66.8	63.5	66.6	66.9	66.6	70.3	68.2	63.8	59.8	61.1	65.9

Source: Best's Aggregates & Averages-Property/Casualty

Figure 3 illustrates the distribution of property/casualty premium written by line of business during 1998 in Illinois. As the chart shows, personal-lines insurance (homeowners and private passenger automobile) make up the largest portion of the property/casualty market (44.2%). Private passenger automobile (34.9%), including both the liability and physical damage component, is the single largest line of insurance. Cost Containment data are reported to the Department pursuant to Cost Containment Data and Reporting Requirements (Part 4203) for private passenger automobile (liability and physical damage separately), homeowners (including residential fire), commercial automobile liability, and specified insurance classes from the medical malpractice and other liability lines.

Figure 3
Percent by Line of All Property/Casualty Premiums Written in Illinois (1998)



Source: NAIC State Data Network

III. ANALYSIS OF THE MARKETPLACE

From both a consumer's and a regulator's standpoint, insurance regulation should serve three functions: ensuring that coverage is available, ensuring that coverage is offered at a reasonable price, and ensuring that coverage is available from reliable insurers.

The Cost Containment Act requires the Department to analyze the marketplace each year to ensure that these functions are being met, and recommend changes that may be needed to correct market problems.

The Department measures the overall competition of the Illinois marketplace by looking at three elements: availability, profitability, and reliability.

AVAILABILITY

The Department measures availability in three ways:

1. Herfindahl/Hirschman Index (HHI) and Market Shares by Line;

2. Market Shares of Residual Market Mechanisms; and

3. Participation in Alternative Risk Transfer Mechanisms.

Herfindahl/Hirschmann Index (HHI) and Market Shares by Line

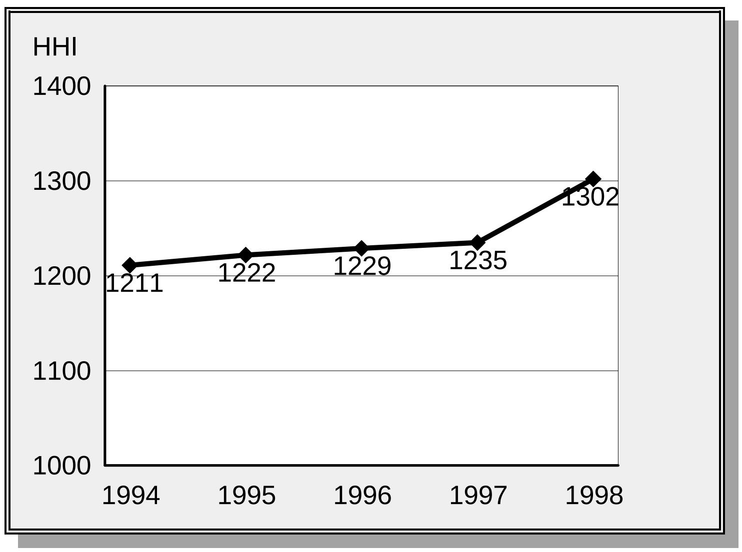
The Cost Containment Act requires the Department to collect and analyze data in five major lines of business -- homeowners, private passenger mobile, commercial mobile liability, medical malpractice, and other liability. This report contains a comparison of underwriting results for Illinois versus nationwide for these five lines of business, and an analysis of market concentration and market share in the State of Illinois. Market concentration is determined using an economic measure known as the Herfindahl/Hirschmann Index (HHI). The HHI is the summation of the squares of each company's market share. Generally, an HHI of 1800 or above is an indication that the market may be too highly concentrated and may be approaching anti-competitive behavior.

Homeowners HHI

Figure 4 provides a graph of the HHI for Illinois homeowners insurance from 1994 through 1998.

The market for homeowners coverage has become slightly more concentrated during the past five years. (A higher HHI implies that fewer companies are controlling a greater proportion of the market.) The HHI for the homeowners market, however, is still below the threshold of 1800.

Figure 4
Illinois Market Concentration - Homeowners
(1994 - 1998)



The top ten Illinois homeowners writers (including residential fire) and their market shares for 1998 are:

State Farm Fire and Casualty	31.5%
Allstate Insurance Company	13.2%
Country Mutual Insurance Company	6.3%
Illinois Farmers Insurance Company	6.2%
American Family Mutual Insurance Company	5.0%
Economy Preferred Insurance Company	3.5%
Economy Fire and Casualty Insurance Company	2.0%
Safeco Insurance Company of Illinois	2.0%
State Farm General Insurance Co	1.2%
National Ben Franklin Insurance Co of Illinois	1.0%
Total	71.9%

Homeowners data are collected pursuant to Cost Containment Data and Reporting Requirements (Part 4203). For this report, cost containment data are summarized for the entire State of Illinois, the City of Chicago, and downstate Illinois. State Farm Fire & Casualty Company and Allstate Insurance Company continue to rank one and two, respectively, in all three areas. Most insurers who write in downstate Illinois also have a presence in the City of Chicago. There were 193 insurers reporting homeowners business for the entire state and 178 companies reporting premium in the City of Chicago. This business represents homeowners' multi-peril coverage written in HO-1, HO-2, HO-3, and HO-5 policies.

The top ten writers* in the *homeowners (statewide including Chicago)* market are:

State Farm Fire & Casualty Company
Allstate Insurance Company
Illinois Farmers Insurance Company
Country Mutual Insurance Company
American Family Mutual Insurance Company
Economy Preferred Insurance Company
Safeco Insurance Company of Illinois
Economy Fire & Casualty Company
State Farm General Insurance Company
West American Insurance Company

*The top ten writers will not match the top ten writers on page 6 because this list excludes residential fire.

The top ten writers* in the *homeowners (downstate only)* market are:

State Farm Fire & Casualty Company
Allstate Insurance Company
Illinois Farmers Insurance Company
Country Mutual Insurance Company
American Family Mutual Insurance Company
Economy Preferred Insurance Company
Safeco Insurance Company of Illinois
Economy Fire & Casualty Company
West American Insurance Company
State Farm General Insurance Company

*The top ten writers will not match the top ten writers on page 6 because this list excludes residential fire.

The top ten writers* in the *homeowners (Chicago only)* market are:

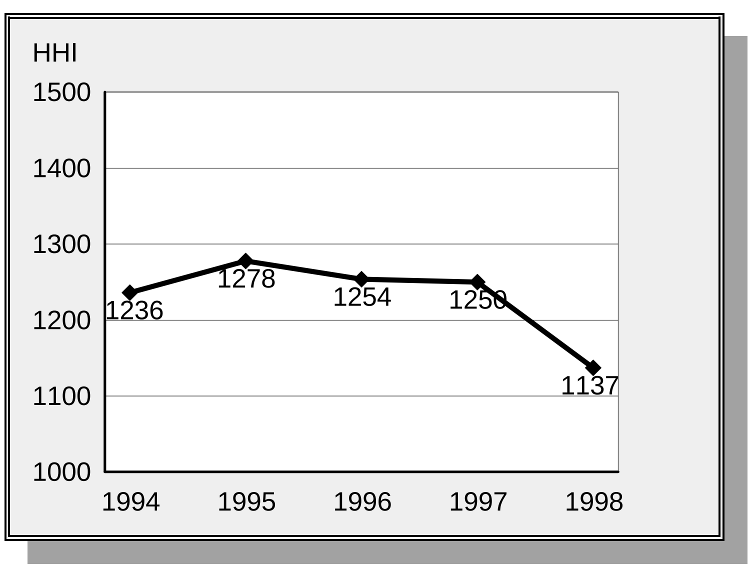
State Farm Fire & Casualty Company
Allstate Insurance Company
Illinois Farmers Insurance Company
American Family Mutual Insurance Company
Safeco Insurance Company of Illinois
State Farm General Insurance Company
Economy Fire & Casualty Company
Vigilant Insurance Company
Economy Preferred Insurance Company
American States Preferred Insurance Company

*The top ten writers will not match the top ten writers on page 6 because this list excludes residential fire.

Private Passenger mobile HHI

Figure 5 provides a graph of the HHI for Illinois private passenger mobile insurance (includes liability and physical damage) from 1994 through 1998. It suggests that market concentration for private passenger coverage has declined slightly during the past five years.

Figure 5
Illinois Market Concentration - Private Passenger Automobile
(1994 - 1998)



The top ten Illinois private passenger automobile writers and their market shares for 1998 are:

State Farm Mutual Auto Insurance Co.	30.1%
Allstate Insurance Co.	10.9%
Country Mutual Insurance Co.	6.3%
Illinois Farmers Insurance Co.	5.0%
American Family Mutual Insurance Co.	4.2%
Economy Preferred Insurance Co.	1.9%
American Ambassador Casualty Co.	1.6%
Economy Fire and Casualty Co.	1.4%
Valor Insurance Co.	1.3%
Allstate Indemnity Co.	1.3%
Total	64.0%

Cost Containment data are collected for the private passenger automobile line of insurance. For this report, the liability component will be presented for the entire State of Illinois, the City of Chicago, and downstate Illinois. State Farm Mutual Insurance Company and Allstate Insurance Company rank one and two, respectively, in each of the areas. In contrast to the homeowner line, the City of Chicago automobile market includes several automobile insurers that write exclusively in Chicago.

There were 221 insurers which filed private passenger automobile liability insurance data via the Cost Containment Data and Reporting Requirements (Part 4203). Of these, 192 insurers reported written premium in the City of Chicago.

The top ten writers in the *private passenger automobile liability (statewide including Chicago)* market are:

State Farm Mutual Automobile Insurance Company
Allstate Insurance Company
Country Mutual Insurance Company
Illinois Farmers Insurance Company
American Family Mutual Insurance Company
Economy Preferred Insurance Company
Economy Fire & Casualty Company
Safeway Insurance Company
State Farm Fire & Casualty Company
Mid Century Insurance Company

The top ten writers in the *private passenger automobile liability (downstate Illinois)* market are:

State Farm Mutual Automobile Insurance Company
Allstate Insurance Company
Country Mutual Insurance Company
Illinois Farmers Insurance Company
American Family Mutual Insurance Company
Economy Fire & Casualty Company
Economy Preferred Insurance Company
State Farm Fire & Casualty Company
Mid Century Insurance Company
West American Insurance Company

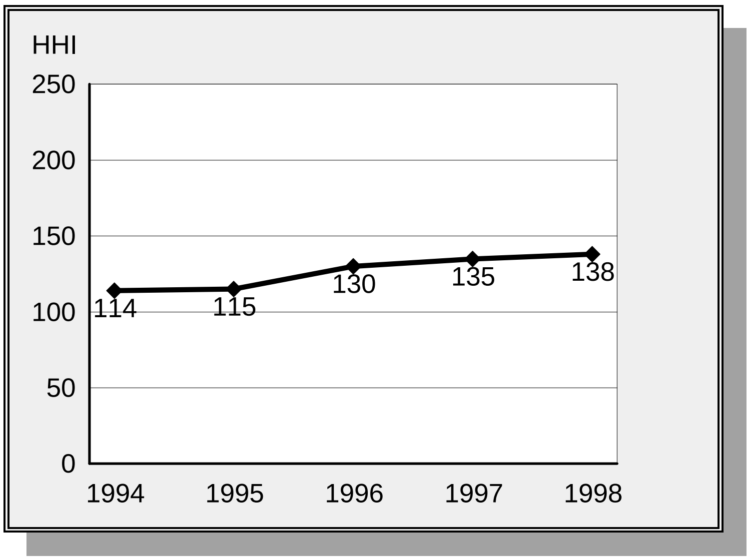
The top ten writers in the *private passenger automobile liability (Chicago only)* market are:

State Farm Mutual Automobile Insurance Company
Allstate Insurance Company
Universal Casualty Insurance
Safeway Insurance Company
American Family Mutual Insurance Company
American Service Insurance Company
Illinois Farmers Insurance Company
GEICO General Insurance Company
Founders Insurance Company
State Farm Fire & Casualty Company

Commercial Automobile Liability HHI

Figure 6 provides a graph of the HHI for Illinois commercial automobile liability from 1994 through 1998. The HHI suggests that the market concentration in Illinois for commercial automobile liability insurance is very low (very competitive).

Figure 6
Illinois Market Concentration - Commercial Automobile Liability
(1994 - 1998)



The top ten Illinois commercial automobile liability writers and their market shares for 1998 are:

American Country Insurance Co.	5.8%
State Farm Mutual Auto Insurance Co.	3.5%
Great West Casualty Co.	3.5%
Transportation Insurance Co.	2.7%
Liberty Mutual Fire Insurance Co.	2.6%
Cincinnati Insurance Co.	2.1%
Transguard Insurance Co. of America	2.0%
Federal Insurance Co.	2.0%
Northland Insurance Co.	2.0%
Pekin Insurance Co.	1.8%
Total	28%

Pursuant to Cost Containment Data and Reporting Requirements (Part 4203), data are collected for specified classes of commercial automobile liability insurance through the Cost Containment filings. Two classes are of particular interest: *taxis and public livery* and *other excluding taxis and public livery.*

American Country Insurance Company exhibits a large share of the *taxis and public livery* class of commercial automobile liability insurance. Fifty-three other companies compete for the remaining market share in this class. The Department carefully monitors this market due to American Country Insurance Company's significant market share in this class. American Country Insurance Company insures the two largest taxi cab firms in Chicago and the State. This is a unique and specialized market and the insurance marketplace can be volatile. Because this is such a specialized market, the concentration of business is not alarming. The top five admitted writers in this market are:

American Country Insurance Company
Lancer Insurance Company
Reliance National Indemnity Company
Delta Casualty Company
St. Paul Mercury Insurance Company

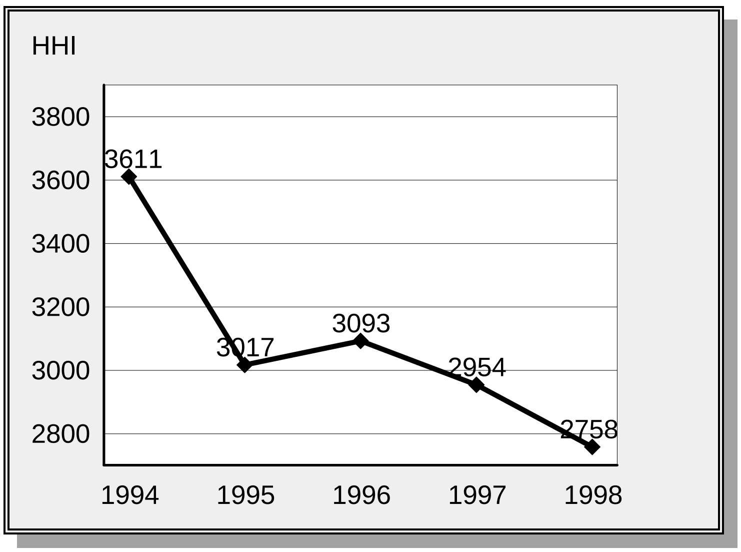
The remaining classes of commercial automobile liability insurance represent a very competitive insurance market. These classes represent the fleet and non-fleet combined trucks, tractors, and trailers classes in this line. Two hundred and fifty-nine companies reported positive written premium, with 56 companies writing in excess of $1 million in premium. The surplus line market wrote 33 policies and $1.7 million for this coverage which places them among the top 50 writers. The top writers in this market are:

State Farm Mutual Automobile Insurance Company
Country Mutual Insurance Company
Transportation Insurance Company
Northland Insurance Company
General Casualty Company of Illinois
American States Insurance Company
Auto Owners Insurance Company
Great West Casualty Company
CGU Insurance Company of Illinois
Pekin Insurance Company

Medical Malpractice HHI

Figure 7 provides a graph for the HHI for Illinois medical malpractice coverage from 1994 through 1998. Note that since 1994, the HHI has declined by 853 points (23.6.%). As is the case for most other states, the largest writer in Illinois of medical malpractice coverage is a physician-affiliated exchange. In Illinois, that provider is the Illinois State Medical Interinsurance Exchange, which wrote 51% of the medical malpractice coverage in 1998. The second largest medical malpractice insurer, by direct written premium, was American Continental Insurance Company, which wrote only 6.8% of the business.

Figure 7
Illinois Market Concentration - Medical Malpractice (1994 - 1998)



The top ten Illinois medical malpractice writers and their market shares for 1998 are:

Illinois State Medical Interinsurance Exchange	51.1%
American Continental Insurance Co.	6.8%
Pronational Insurance Co.	5.5%
Health Care Indemnity Inc.	4.1%
Doctors Co and Interinsurance Exchange	3.8%
Frontier Insurance Co.	3.3%
RML Insurance Co.	2.4%
St. Paul Fire & Marine Insurance Co.	2.3%
Continental Casualty Co.	2.1%
Phico Insurance Co.	2.1%
Total	83.5%

There were 34 admitted carriers who reported the medical malpractice classes that the Department collects. As aforementioned, this line was dominated by one carrier, the Illinois State Medical Interinsurance Exchange. The surplus lines market accounted for $3.4 million in premium, which ranks it among the top 15 writers. This report breaks down medical malpractice liability into four different class groups. The first two groups, *medical non-surgery* and *physicians, surgeons and dentists - either not specifically listed or written within programs not using one of the exposure bases that the Department specifically collects*, represent the majority of medical malpractice business reported. Two other reported coverages include *dentists and oral surgery* and *medical-surgery*. These markets have remained stable throughout the past decade and indicate that there are no significant problems at this time. They are, however, one of the few insurance coverages that the Department reviews under an applicable rating law.

The top ten writers in the *medical non-surgery* market are:

Illinois State Medical Interinsurance Exchange
Doctors' Company
Pronational Casualty Company
Continental Casualty Company
Frontier Insurance Company
Illinois National Insurance Company
Cincinnati Insurance Company
St. Paul Medical Liability Insurance Company
Medical Protective Company
Paco Assurance Company, Inc.

The top ten writers in the *physicians, surgeons, and dentists - either not specifically listed or written within programs not using one of the exposure bases that the Department specifically collects* market are:

Illinois State Medical Interinsurance Exchange
Pronational Casualty Company
Frontier Insurance Company
Doctors' Company
Illinois National Insurance Company
Cincinnati Insurance Company
Continental Casualty Company
Paco Assurance Company, Inc.
St. Paul Medical Liability Insurance Company
American Casualty Company of Reading, Pa.

The top five writers in the *dentists and oral surgery* market are:

Medical Protective Company
Continental Casualty Company
Aaoms National Insurance Company, RRG
St. Paul Insurance Company of Illinois
National Fire Insurance Company of Hartford

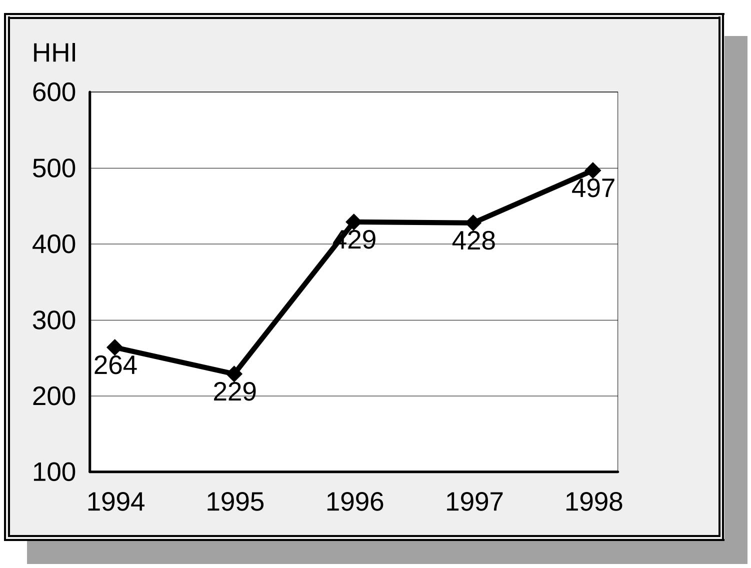
The top five writers in the *medical-surgery classes* market are:

Illinois State Medical Interinsurance Exchange
Pronational Casualty Company
Continental Casualty Company
St. Paul Medical Liability Insurance Company
Frontier Insurance Company

Other Liability HHI

Figure 8 provides a graph of the HHI for Illinois other liability insurance from 1994 through 1998. The figure indicates that the market for other liability insurance in Illinois is very competitive.

Figure 8
Illinois Market Concentration - Other Liability
(1994 - 1998)



The top ten Illinois other liability writers and their market shares for 1998 are:

Illinois National Insurance Co.	16.8%
Zurich American Insurance Co. of Illinois	7.8%
National Union Fire Ins. Co. Of Pittsburgh	7.7%
Federal Insurance Co.	4.6%
Liberty Insurance Co. Of America	4.4%
American Zurich Insurance Co.	3.4%
Continental Casualty Co.	2.8%
Underwriters at Lloyds London	2.6%
State Farm Fire and Casualty	1.8%
Reliance Insurance Co.	1.4%
Total	53.3%

In addition to the top ten writers for the entire other liability line, this section also contains information for four specific classes that were mentioned in the Cost Containment Act: *liquor liability*, *lawyers' professional liability*, *day-care liability*, and *home day-care liability*.

From 1998 to 1999, there were changes in the magnitude of the market shares of the top five in the *liquor liability* market but not in their ranking. Each of the five companies wrote in excess of $1 million in premium. The Department has detected no drastic price increases or availability issues. In 1999 the surplus lines market wrote only 18 policies of liquor liability insurance, down eight policies from 1998. The admitted market had more than 90 companies which wrote this coverage.

Illinois Casualty Company
Continental Casualty Company
Underwriters at Lloyds London
First Financial Insurance Company
Founders Insurance Company
Springfield Fire and Casualty Company
Constitutional Casualty Company

Continental Casualty Company continues to be the top writer of *lawyers' professional liability* writing in excess of $11.8 million in direct written premium, followed by Underwriters at Lloyds London which wrote in excess of $8.6 million. Coregis Insurance Company, Deerfield Insurance Company, National Casualty Company, and National Union Fire Insurance Company of Pittsburg each write in excess of $1 million in premium.

Evanston Insurance Company and General Insurance Company of America each write more than $500,000 in premium. In 1999 the surplus lines market wrote only 63 policies and $1.9 million in premium. The *lawyers professional liability* market is a small, but active market where twenty-two companies write the coverage in Illinois.

Continental Casualty Company
Underwriters at Lloyd's London
Coreigis Insurance Company
Deerfield Insurance Company
National Casualty Company
National Union Fire Insurance Co of Pittsburg
Evanston Insurance Company
General Insurance Company of America

In 1999, sixty-five admitted insurers of *day-care liability* reported data for Illinois. The surplus lines market, however, wrote the majority of coverage with 428 policies and almost $500,000 in premium. The top ten admitted writers are:

Markel Insurance Company
NonProfits Insurance Association Inter-Insurance Exchange
Church Mutual Insurance Company
Frontier Insurance Company
Monroe Guaranty Insurance Company
Carolina Casualty Insurance Company
St. Paul Fire & Marine Insurance Company
Guideone Mutual Insurance Company
Twin City Fire Insurance Company
Ace Insurance Company of Illinois

In 1999, 27 admitted insurers of *home day-care liability* reported data for Illinois. This is down slightly from the previous period. The ranking of the top five carriers were unchanged from the Cost Containment Report that was submitted on April 15, 1999.

State Farm Fire and Casualty Company
West Bend Mutual Insurance Company
Allstate Insurance Company
Country Mutual Insurance Company
State Farm General Insurance Company

Market Shares of Residual Market Mechanisms

States establish residual market mechanisms to provide coverage for consumers who are unable to buy coverage in the voluntary market. If a marketplace does not function well, there will be an inordinate number of consumers in residual market programs. This is because insurers will tighten their underwriting standards, charge prices that are higher than what consumers can get in the residual market program, or stop writing business altogether in states where market problems persist.

Illinois residual market mechanisms provide essential insurance coverage for the hard-to-place risk, at rate levels approved by the Department. Illinois has residual market mechanisms for three lines of insurance: property, automobile, and workers' compensation.

Property - The Illinois FAIR Plan Association (FAIR Plan)

Fire and homeowners insurance are placed directly through the FAIR Plan. Both dwelling and commercial insurance are available. Insurance companies share in the FAIR Plan's profits or losses in proportion to their voluntary market shares.

Figure 9, on page 19, shows the FAIR Plan's dwelling and homeowners written premiums as a percent of total Illinois dwelling and homeowners written premiums for 1994 through 1998.

As the chart shows, homeowners insurance is widely available in the voluntary marketplace. A very small percentage of Illinois consumers (ranging from .43 to .49 percent from 1994 through 1998) bought their insurance through the FAIR Plan. In addition, unlike in many other states, Illinois consumers are not at a coverage disadvantage when they buy insurance from the FAIR Plan.

In many states, property residual market programs only offer dwelling fire or basic homeowners policies. Illinois has one of the most, if not the most, progressive FAIR Plans in the nation. Through the Plan, Illinois consumers can buy virtually the same coverages that are available in the voluntary marketplace, including guaranteed replacement cost, sewer back-up, earthquake, and building ordinance and law endorsements. The prices are also very competitive compared to the voluntary market.

Figure 9
Written Premiums for Illinois FAIR Plan
(1994 - 1998)

	Amount of Written Premiums	As % of Total Written Premiums
1994	$4,303,000	0.43
1995	$5,219,000	0.49
1996	$5,336,000	0.48
1997	$5,408,000	0.47
1998	$5,108,000	0.43

Source: Illinois FAIR Plan

Automobile - The Illinois Automobile Insurance Plan (Auto Plan)

Private passenger automobile risks are assigned to companies on a rotational basis in proportion to their voluntary market shares. Assignments stay with the company and are not shared with other writers. Commercial automobile risks are placed through servicing companies. Losses are then divided among the voluntary writers of commercial automobile insurance in proportion to their shares of the voluntary business.

Figure 10 compares the 1994 through 1998 market shares for the Illinois Automobile Insurance Plan compared to nationwide data. The percent of written car-years is derived by dividing the number of written car-years insured through the residual market by the total number of written car-years insured through the voluntary market. Note that Illinois has had a much smaller percentage of automobiles in the residual market than the nationwide composite throughout the years.

In addition, the number of insured written car-years in the Illinois Automobile Insurance Plan has dropped from 8,847 in 1994 to 3,474 in 1997 and to 2,354 in 1998. This downward trend reinforces the fact that automobile insurance in Illinois is extremely competitive in the voluntary market.

Figure 10
Percent of Automobiles in Illinois Assigned Risk Plan and the United States Composite Automobile Residual Market
(1994 - 1998)

	1994	1995	1996	1997	1998
Illinois	0.13	0.09	0.06	0.04	0.03
Nationwide	4.00	3.60	2.90	2.50	2.26

Source: AIPSO Facts 1998 (based on liability car-years)

Workers' Compensation - The Illinois Workers' Compensation Assigned Risk Pool

Several insurers act as servicing carriers for the Illinois Workers' Compensation Assigned Risk Pool. Losses are divided among the voluntary writers of workers' compensation in proportion to their shares of the voluntary business.

Figure 11 shows the percent of Illinois workers' compensation premiums written through the Workers' Compensation Pool from 1994 through 1998. The chart shows a clear downward trend in the amount of business being written in the residual market. In 1998, only 2.8% of the $1.49 billion of Illinois direct premiums written for workers' compensation was written through the Workers' Compensation Pool.

Figure 11
Percent of Workers' Compensation Written Through Pool
(1994 - 1998)

	1994	1995	1996	1997	1998
Percent of Total	10.8	7.8	5.2	4.3	2.8

Source: National Council on Compensation Insurance (NCCI)

Participation in Alternative Risk Transfer Mechanisms

Traditionally, the level of participation in alternative markets is an indicator of how well the admitted market is doing at providing coverage at prices consumers perceive to be reasonable. Therefore, if we are to assess the insurance marketplace in terms of availability, we must look at the level of activity in these alternative markets.

One problem with the non-admitted market is that there are few means by which it can be monitored. How many risks are being placed there? How much premium is being written? Because of the Department's limited authority over many of the alternative mechanisms, these and many other questions simply cannot be answered and a complete picture of this aspect of the insurance marketplace is unattainable. This problem has become more prevalent as the size of the transfer of risk alternative markets continues to grow.

Surplus lines refers to insurance written by a non-admitted (unlicensed) insurer through a licensed surplus lines producer. The licensed producer must exercise due diligence in protecting the insured since the Department has no jurisdiction over unlicensed companies and the Illinois Insurance Guaranty Fund provides no protection for the consumer. Thus, it is the producer and not the Department who must determine the company's financial stability and standards of management prior to submitting the risk.

Figure 12 shows the number of surplus lines policies written in Illinois from 1995 through 1998. Note that private passenger automobile (PPA) liability and private passenger automobile physical damage have increased during the five-year period while homeowners, commercial automobile liability, medical malpractice, and other liability have exhibited decreases.

Figure 12
Change in Surplus Lines Written Premium
(1995 - 1998)

Line of Business	1995 Illinois Policy Count	1996 Illinois Policy Count	1997 Illinois Policy Count	1998 Illinois Policy Count
Homeowners	2,079	1,377	626	669
PPA Liability	822	908	1,016	933
PPA Physical Damage	6,742	8,769	9,590	10,162
Commercial Auto Liability	96	51	47	52
Medical Malpractice	834	776	703	548
Other Liability	13,188	12,769	13,223	11,526

Source: Surplus Line Association

INEX (previously the Illinois Insurance Exchange) provides a market for direct insurance and reinsurance. It is comprised of syndicates which underwrite and insure risks, and brokers who are authorized to place business with those syndicates. Fashioned after Lloyd's of London, INEX serves as a facility, recordkeeper and regulator for the operations of its members. INEX submits an annual financial statement to the Department reflecting both its combined financial position and the financial position of each individual syndicate.

Insurance Pools are groups that join for the purpose of sharing certain risks on an agreed-upon basis. Participants may consolidate their risk exposures without being subject to the same regulatory requirements as admitted insurers. Pools organized under the following Acts are allowed in Illinois:

> *The Workers' Compensation Act* allows entities that are members of a trade association, or that have similar risk characteristics, to form a risk-sharing pool. Each pool must submit annual financial statements, CPA audit reports, and actuarial opinions to the Department.
>
> *The Religious and Charitable Risk Pooling Trust Act* permits entities having an IRS 501c(3) exemption (a non-profit entity), or hospitals owned and operated by a unit of local government, to form a trust to pool their risks. These trust funds can only operate with prior approval of the Director of Insurance. The trusts must make

annual CPA audit reports to the Department and are subject to examination by the Director.

The Intergovernmental Cooperation Act enables units of local government to enter into a pooling arrangement with other similar entities for the purpose of risk-sharing. These pooling arrangements are not regulated by the Department; however, they must register with the Department and file annual audited financial statements.

Risk Retention and Purchasing Groups are allowed under the Federal Liability Risk Retention Act of 1986. This Act eliminated barriers to group self-insurance programs by allowing them to buy group liability insurance.

Captive Insurance Companies may be formed by a company to insure its own risks and exposures, by an association to insure its member organizations, or by industrial insured groups. Illinois captives are regulated by the Department, are required to file certain financial information with the Department, and are subject to examination by the Director.

Self-insurance occurs when individuals or businesses retain their own risks. Entities that self-insure are under no obligation to report premiums, losses, or expenses to any statistical or regulatory body.

PROFITABILITY

In monitoring competition in general, and price performance in particular, the Department does not examine individual insurer prices for appropriateness. To do so is virtually impossible. Instead, it monitors the effectiveness of competition, examining the pattern of profits throughout the market.

In examining profitability, the Director must balance the seemingly divergent concerns of consumers and insurers. To protect consumers, rates must not be excessive. There is a fine line between rates that are excessive and rates that are inadequate, especially since insurance policies must be priced long before the results of the pricing decisions are known.

The Department must also be concerned about the long-term viability of the insurance marketplace, including the financial viability of the companies that insures consumers.

This section includes two discussions about profitability:

1. Property/casualty insurance industry compared to noninsurance industries and

2. Illinois-specific underwriting results compared to countrywide results.

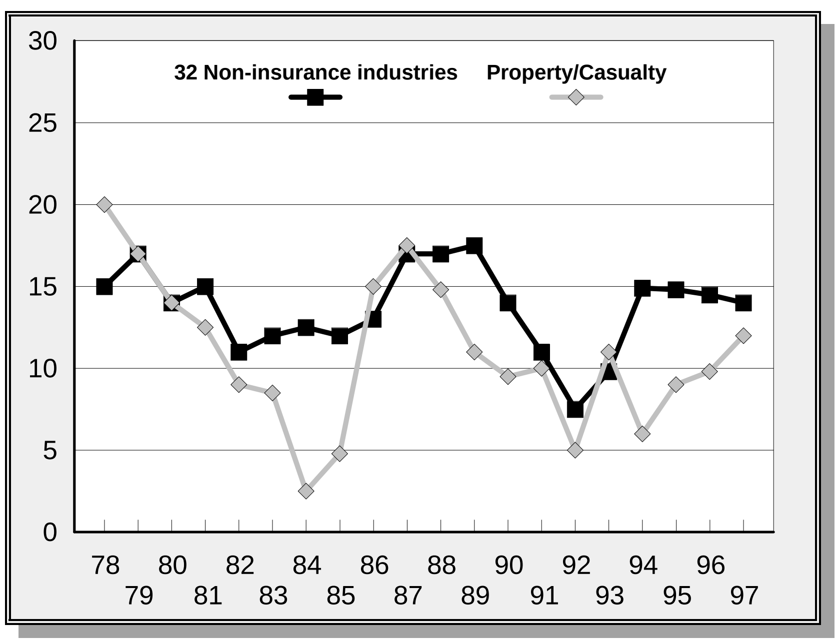
Property/Casualty Industry Profitibality Compared to Noninsurance Industries

As in the 1999 Report, the Department used Standard & Poor's Compustat data taken from an Insurance Services Office (ISO) report, "Insurer Financial Results." The ISO report compares the Generally Accepted Accounting Principles (GAAP) rates of return on average net worth (RONW) for the property/casualty industry with the GAAP return on net worth for Compustat's composite of 32 noninsurance industries.

Insurance profits tend to be cyclical in nature, showing peaks and valleys over a period of time. Therefore, it is important to compare profitability over a time span that covers at least one complete insurance cycle, generally a period of eight to ten years. Note that in recent years profits for property/casualty industry have generally been less than profits for the 32 noninsurance industries.

Figure 13 shows the comparison, which spans two underwriting cycles.

Figure 13
Comparison of Property/Casualty Industry
With 32 Other Industries
(1978 - 1997)



The property/casualty insurance industry's return on average net worth was lower than the rate of return for 76 other industries in fourteen out of twenty years during the two insurance cycles from 1978 to 1997. The findings were similar when ISO compared insurers' results to those of 154 non-insurance industries during the underwriting cycle from 1988 to 1997.

Source: Copyright Insurance Services Office, Inc. (1999). Used with permission.

Illinois-Specific Underwriting Results Compared to Countrywide Results

For each of the coverages listed below, this section contains:

- Combined underwriting results for business written in Illinois and business written countrywide and
- A five-year trend for Illinois losses as a percent of premiums earned, compared to the five-year trend for countrywide losses.

Homeowners

Figure 14 shows a comparison of the underwriting results of homeowners insurance written in Illinois with that written nationwide during 1998. The loss percentage and expenses percentage in Illinois were slightly higher than those experienced countrywide.

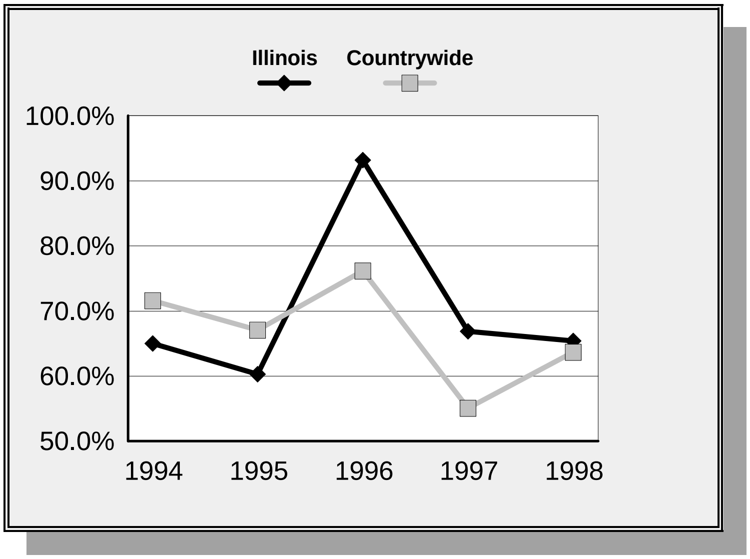
Figure 14
Homeowner's Underwriting Results
(1998)

Homeowners ($ mil) 1998	**Illinois***	**Countrywide****
Direct written premiums	$1,221,990	$30,889,467
Direct earned premiums	$1,183,476	$29,915,473
Expenses (*% earned premium*)		
Losses incurred	65.4%	63.7%
Alloc. loss adj. expenses	3.1%	2.1%
Comm./brokerage	14.8%	14.5%
Taxes, licenses & fees	1.5%	2.5%

* Source: NAIC State Data Network, 1998 Illinois State Page Exhibit, Aggregate Totals of 243 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 1999, Insurance Expense Exhibit Part III, Aggregate Totals of 2406 Property/Casualty Companies.

Figure 15 shows the five-year trend for loss percentages for the Illinois and countrywide homeowners line.

Figure 15
Homeowners Losses as a % of Premiums Earned
(1994 - 1998)



Private Passenger Automobile

Figure 16 shows a comparison of the underwriting results of private passenger automobile insurance written in Illinois with automobile insurance written countrywide during 1998. The loss and expenses percentages for the automobile insurance market in Illinois were slightly less than the countrywide percentages, except for commission/brokerage expenses.

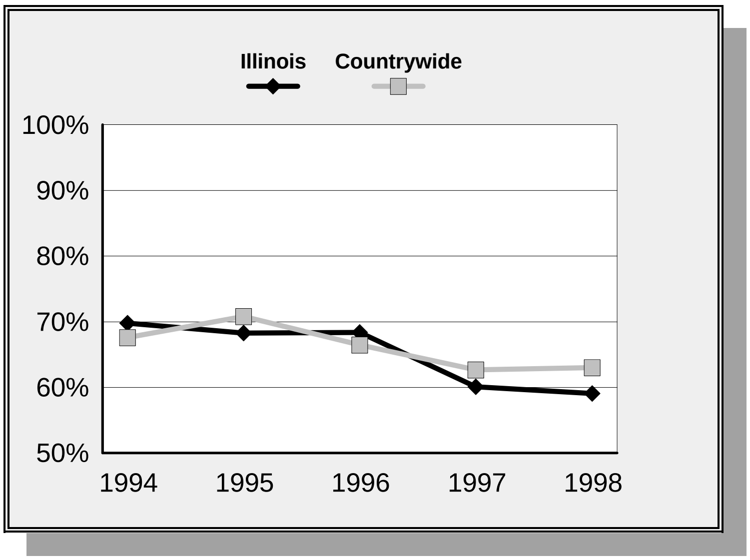
Figure 16
Private Passenger Automobile Underwriting Results (1998)

Private Passenger Automobile ($ mil) 1998	**Illinois***	**Countrywide****
Direct written premiums	$4,592,100	$118,758,268
Direct earned premiums	$4,547,735	$117,301,693
Expenses (*% earned premium)*		
Losses incurred	59.1%	63.0%
Alloc. loss adj. expenses	2.8%	3.0%
Comm./brokerage	10.4%	9.5%
Taxes, licenses & fees	1.2%	2.2%

* Source: NAIC State Data Network, 1998 Illinois State Page Exhibit, Aggregate Totals of 312 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 1999, Insurance Expense Exhibit Part III, Aggregate Totals of 2406 Property/Casualty Companies.

Figure 17 shows the five-year trend for loss percentages in the private passenger automobile line for Illinois and countrywide. As the chart shows, the Illinois private passenger automobile loss percentages have been comparable to the countrywide loss percentages during the past five years.

Figure 17
Private Passenger Auto Losses as a % of Premiums Earned (1994 - 1998)



Commercial Automobile Liability

Figure 18 shows that the loss percentages and loss adjustment expenses percentage in Illinois for the commercial automobile liability line were higher than those countrywide.

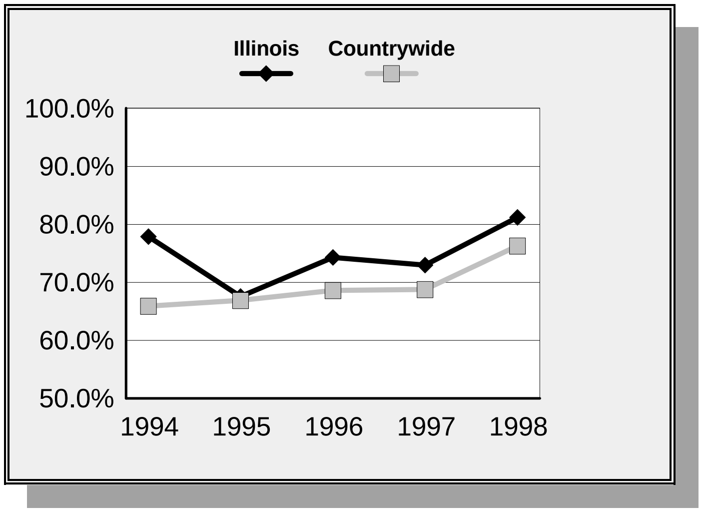
Figure 18
Commercial Automobile Liability Underwriting Results (1998)

Commercial Automobile Liability ($ mil) 1998	**Illinois***	**Countrywide****
Direct written premiums	$539,173	$13,585,116
Direct earned premiums	$540,817	$13,621,037
Expenses (*% earned premiums)*		
Losses incurred	81.2%	76.3%
Alloc. loss adj. expenses	6.7%	5.5%
Comm./brokerage	13.2%	14.4%
Taxes, licenses & fees	1.7%	2.5%

* Source: NAIC State Data Network, 1998 Illinois State Page Exhibit, Aggregate Totals of 336 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 1999, Insurance Expense Exhibit Part III, Aggregate Totals of 2406 Property/Casualty Companies.

Figure 19 compares the five-year trend for loss percentage for Illinois and countrywide commercial automobile liability. Note that Illinois loss percentages have been higher than countrywide figures since 1994 with the greatest disparity occurring in 1994.

Figure 19
Commercial Auto Liability Losses as a % of Premiums Earned (1994 - 1998)



Medical Malpractice

Figure 20 shows the loss percentages and expenses percentages for the medical malpractice market for Illinois and countrywide for 1998. The loss percentage and loss adjustment expenses percentage in Illinois for this line were significantly higher than the aggregate countrywide figures.

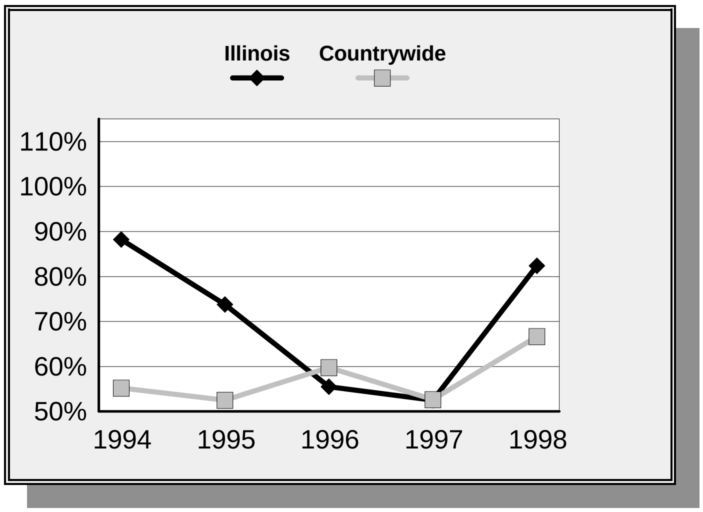
Figure 20
Medical Malpractice Underwriting Results (1998)

Medical Malpractice ($ mil) 1998	**Illinois***	**Countrywide****
Direct written premiums	$351,754	$6,058,554
Direct earned premiums	$350,754	$6,051,739
Expenses (*% earned premiums*)		
Losses incurred	82.4%	66.7%
Alloc. loss adj. expenses	31.4%	24.8%
Comm./brokerage	5.5%	6.2%
Taxes, licenses & fees	1.1%	2.4%

* Source: NAIC State Data Network, 1998 Illinois State Page Exhibit, Aggregate Totals of 63 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 1999, Insurance Expense Exhibit Part III, Aggregate Totals of 2406 Property/Casualty Companies.

Figure 21 compares the five-year loss percentages trend for Illinois and countrywide medical malpractice insurance. Note that Illinois' loss percentages have been significantly higher in three of the last five years.

Figure 21
Medical Malpractice Losses as a % of Premiums Earned (1994 - 1998)



Other Liability

Figure 22 compares the underwriting results between Illinois and countrywide for the other liability line of business. As with medical malpractice, the Illinois loss and loss adjustment expense percentages were considerably higher than the countrywide percentages.

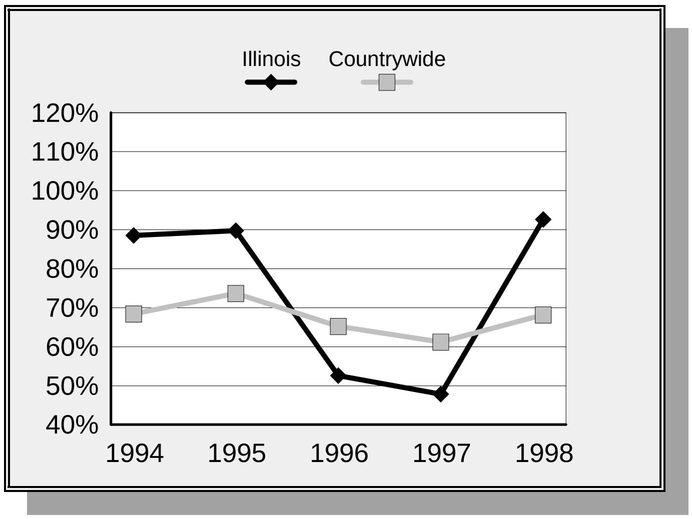
Figure 22
Other Liability Underwriting Results (1998)

Other Liability ($ mil) 1998	**Illinois***	**Countrywide****
Direct written premiums	$1,544,562	$24,233,166
Direct earned premiums	$1,592,795	$23,439,187
Expenses (*% earned premium*)		
Losses incurred	92.6%	68.2%
Alloc. loss adj. expenses	12.5%	11.5%
Comm./brokerage	8.7%	13.7%
Taxes, licenses & fees	1.7%	2.2%

* Source: NAIC State Data Network, 1998 Illinois State Page Exhibit, Aggregate Totals of 434 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 1999, Insurance Expense Exhibit Part III, Aggregate Totals of 2406 Property/Casualty Companies.

Figure 23 compares the five-year trend for loss percentages for Illinois and countrywide other liability insurance. Illinois losses, as a percent of earned premium, were greater than countrywide losses from 1994 to 1995 and 1998, while Illinois' loss percentages were less than the national average for this line in 1996 and 1997. From 1997 to 1998, the loss percentage increased by more than 40 points.

Figure 23
Other Liability Losses as a % of Premiums Earned
(1994 - 1998)



RELIABILITY

In determining whether the overall marketplace is viable, the Department must consider:

1. Profitability and
2. Financial Solvency Regulation

Businesses that provide a financial service must be financially sound. An insurance contract has little value to the insured if there is no guarantee that the insurance company will have the money to pay claims when needed.

As discussed earlier, the Department must balance the seemingly divergent concerns of consumers and insurers. While we must ensure that consumers are able to buy insurance at a reasonable price, we must also ensure the overall viability of the marketplace.

One measure of a company's financial performance is its profitability. Does it generate enough profit to survive? Any business must be profitable to succeed. Over the long run, it must take in more money than it pays out. In a given month or year, its costs may exceed its income, requiring it to pay some of those costs with previously accumulated funds. If the pattern continues, however, the accumulated funds will eventually run out and the business will collapse. Thus an insurance company must manage its income and expenses to assure the profitability on which its survival depends.

A company that can offer insurance coverage at competitive prices and reap adequate profits as an ongoing concern is considered to be financially viable. When the majority of insurers in the market are competitive and profitable, the market is considered to be financially strong.

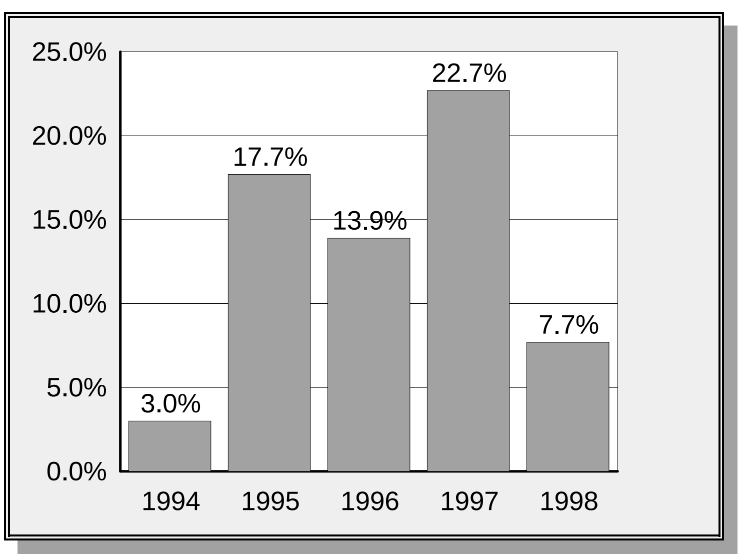
Profitability

Change in Policyholders' Surplus

One measure of overall profitability is the *Change in Policyholders' Surplus* from one year to the next. Policyholders' Surplus is made up of: 1) underwriting gains or losses; 2) investment gains or losses; and 3) net contributed capital and other surplus changes.

Figure 24 shows the percent change in annual surplus for all Illinois-licensed property/casualty insurers for the past five years. As the figure shows, 1998 is the first year since 1994 that the percent change in surplus fell below 10%.

Figure 24
Percent Change in Policyholders' Surplus
(1994 - 1998)



Source: NAIC State Data Network

Underwriting Gains/Losses

Figure 25 shows the aggregate *Underwriting Gain/Loss* for Illinois-licensed insurers from 1994 to 1998. As the table shows, underwriting losses decreased from 1994 to 1997, and then dramatically increased in 1998. The larger underwriting loss is a factor contributing to the smaller growth in surplus in 1998.

Figure 25
Aggregate Net Underwriting Gain/(Loss) (In millions)
(1994 - 1998)

	1994	1995	1996	1997	1998
Premiums earned	$205,997	$214,558	$222,460	$228,209	$231,208
Losses incurred	141,425	141,864	145,286	137,686	146,238
Loss expenses incurred	26,708	28,364	28,833	28,492	30,485
Other underwriting expenses incurred	55,542	58,177	60,805	63,676	65,678
Dividends to policyholders	2,217	2,499	1,947	3,443	3,412
Net underwriting gain/(loss)	($19,895)	($16,346)	($14,411)	($5,088)	($14,605)

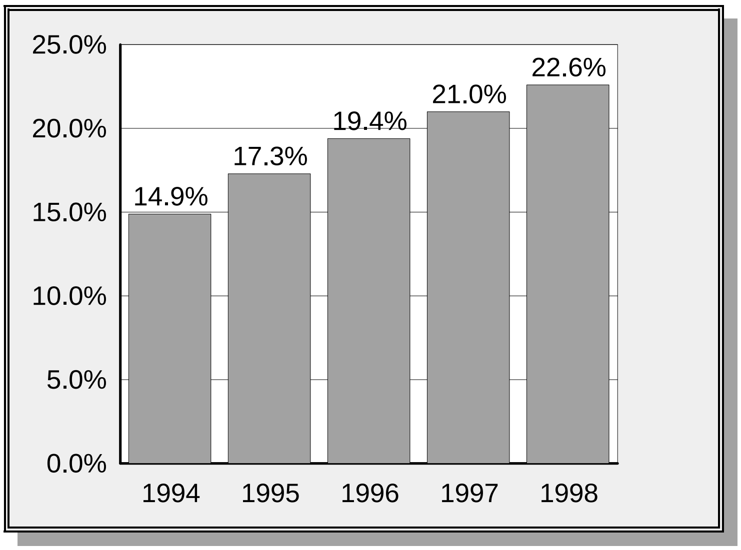
Source: NAIC State Data Network

Net Investment Income Ratio

One component of surplus is income derived from investments. The *Net Investment Income Ratio* measures income from invested assets relative to earned premiums. It is calculated by dividing net investment income (income from invested assets less investment expenses and depreciation on real estate) by earned premium.

Figure 26 shows the *Net Investment Income Ratio* for Illinois licensed property/casualty industry combined during the five year period. This ratio has risen from 14.9 in 1994 to 22.6 in 1998.

Figure 26
Net Investment Income Ratio
(1994 - 1998)



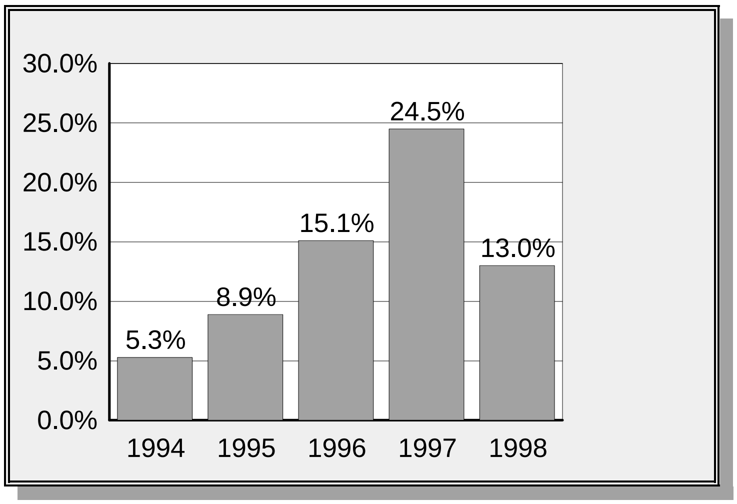
Source: NAIC State Data Network

Return on Policyholders' Surplus

Another measure of overall profitability is the *Return on Policyholders' Surplus*. This percentage is calculated by dividing the sum of all operating income after taxes, plus realized and unrealized capital gains, by the average of the prior and current year-end surplus. It is then converted to a percentage.

Figure 27 shows the aggregate *Return on Policyholders' Surplus* from 1994 through 1998 for the Illinois-licensed property/casualty industry combined. From 1997 to 1998, the return on policyholder surplus dropped from 24.5% to 13.0%. The 1998 rate is the lowest since 1995. This can be primarily attributed to the larger net underwriting loss in 1998.

Figure 27
Return on Policyholders' Surplus
(1994 - 1998)



Source: NAIC State Data Network

Financial Solvency Regulation

While the Department cannot ensure that Illinois-licensed insurers are profitable, we must ensure that they are financially sound. The Department monitors the financial solvency and strength of Illinois-licensed insurers in several ways:

- maintaining a staff of trained accountants and specialists who identify companies developing financial difficulties so that the Department can step in to minimize potential losses to Illinois policyholders.
- working closely with insurance companies with identified financial difficulties to minimize potential risk to policyholders while attempting to resolve manageable problems or determining the need for rehabilitation or liquidation.
- employing field examiners for on-site evaluation of insurance company financial records.
- reviewing operations and compliance issues through scheduled, targeted, and special exams of known or suspected problems.

- maintaining a staff of actuaries who monitor the adequacy of loss reserves, cash flow testing, and proper valuation of assets.
- licensing and registering the many types of insurers, surplus lines producers, and risk sharing pools authorized by the Illinois Insurance Code and related Acts.
- investigating unauthorized organizations or individuals thought to be conducting illegal insurance operations and taking regulatory action to remove them from the market to protect consumers from fraudulent activities.

IV. COST CONTAINMENT ISSUES

The following cost containment issues will require the Department's future attention:

The Glass-Steagall Act Repealed

In August 1929, there were 33,000 American banking institutions. During the four years following the Wall Street crash in late 1929, one-third of the total, failed. Very few families were spared from the panic of these four gray years of American history. Some citizens blamed the economic crisis on poor management by bankers. Others blamed the leading politicians and Congress for inaction. Many citizens, including some prominent lawmakers, concluded that the failed banks had been speculating in the stock market. Congress, reacting to the criticisms directed toward it, felt compelled to take action. Thus, in 1933, Congress made sure that banks would never be allowed to speculate on Wall Street again by passing the Glass-Steagall Act which prohibited banks from underwriting stocks and bonds. This Act was probably the most significant legislation relating to banking that Congress had ever passed. Twenty-three years later, Congress passed the Bank Holding Company Act (1956) which further restricted banking activities.

In the decade of the 1990’s, banking reform was still a hot issue for many in the United States Congress. The sentiment in Congress this time, however, was a little different. Many legislators had concluded that the earlier reforms may have gone too far in their restrictions. In 1994, Congress overturned laws that restricted banks from operating branches in other states. Regulators began to relax some of the restrictions of Glass-Steagall by allowing banks to conduct limited securities business. The greatest event which tested the power of Glass-Steagall Act, however, occurred in 1998 as Citibank and Travelers, an insurance-and-stockbroking firm, merged.

In October of 1999, a major obstacle to reform was overcome when the Federal Reserve and the U.S. Treasury reached a truce in their regulatory disagreements. They agreed to keep insurance activities within affiliates of bank holding companies, thus ensuring that oversight of these activities would remain with state insurance regulators. This eased insurers’ concerns that banks, which had been encroaching on insurance activities over the years, would be able to create insurance products that weren’t subject to the same regulations and protections as insurance companies.

Legislators claimed that the repeal of Glass-Steagall would save consumers of financial services about $15 billion a year. Cynics, however, were concerned that the repeal was a dangerous precedent. America’s financial institutions, they warned, especially its banks had collapsed in droves whenever the economy worsened. Texas banks failed after the oil-price collapse in 1986. New England banks collapsed as the property market experienced a significant downturn. Many American banks came perilously close to impairment during the Latin American debt crisis.

Japanese banks recently proved that size, in itself, is not adequate protection. Will diversity be adequate -- or will the next group of failed banks now cause insurers to also fail? Congress will be paying close attention as will the banking and insurance industries, their state regulators, and their consumers.

Catastrophic Events - 1998 and 1999

The Property Claim Services (PCS) unit of Insurance Services Office (ISO) considers events that cause more than $25 million in insured losses and affect a significant number of policyholders to be a catastrophic event. Insured losses span a wide range of catastrophes including weather-related events, to man-made disasters such as riots and satellite failures. Outside the United States, natural disaster losses are less likely to be insured.

The most devastating catastrophe of 1999 was a magnitude 7.4 earthquake in Turkey in August which killed 17,000 people and caused an estimated $3 billion in insured losses. Turkey continued to be rocked by aftershocks, including a 7.2 - magnitude quake in November. A report by EQE International, Inc. (a risk management consulting firm) cited World Bank statistics that estimated that only 15% of the residences in the Istanbul urban area have quake insurance, with as little as 2% in other areas of the country. The World Bank noted that Turkey's domestic insurers had insufficient expertise and capital to adequately protect their policyholders, citing that their estimated total accumulated industry earthquake reserves were only $27 million at the end of 1998. The second-most costly catastrophe in 1999 was Typhoon Bart, which caused $2 billion in insured losses when it hit Japan in September.

In 1998, 37 catastrophe's resulted in $10.07 billion in insured losses for the United States. According to Insurance Services Office Inc.'s Property Claim Services unit, the U.S. experienced 99 catastrophic events through the first nine months of 1999 with insured losses of $7.4 billion. The costliest U.S. catastrophes in 1999 was a series of four January storms that hit New York, Pennsylvania, New Jersey and the South, leaving $1.75 billion in insured losses in their wake; a series of tornadoes and storms that barreled through Oklahoma and 17 other states in May, causing $1.5 billion in insured property damage; and September's Hurricane Floyd producing $1.8 billion in insured losses.

Figure 28, on page 37, compares insured losses from U.S. Catastrophes from 1990 to 1999 in 1998 dollars. The insured losses of $10.07 billion for 1998 were the largest since 1994 but were pale in comparison with the 1992 and 1994 losses of $26.7 and $18.7 billion dollars respectively. Note that the Property Claim Services unit considered $5 million as the standard for catastrophic losses through 1996. In 1997, the standard for a catastrophic event was raised to $25 million. The worst year on record was 1992 when $26.7 billion of losses were recorded. Hurricanes Andrew and Iniki contributed about 75 percent ($18.0 and $1.9 billion respectively). The 1994 Northridge earthquake is the second greatest catastrophic event in U.S. history with insured damage of $13.7 billion which represents about 73 percent of the losses during that year.

Figure 28
Comparison of Insured Losses for U. S. Catastrophes
(1990 - 1999)

Year	Losses
1990	$3,523.00
1991	$5,652.00
1992	$26,686.00
1993	$6,435.00
1994	$18,709.00
1995	$8,752.00
1996	$7,662.00
1997	$2,640.00
1998	$10,070.00
1999 [1]	$7,400.00

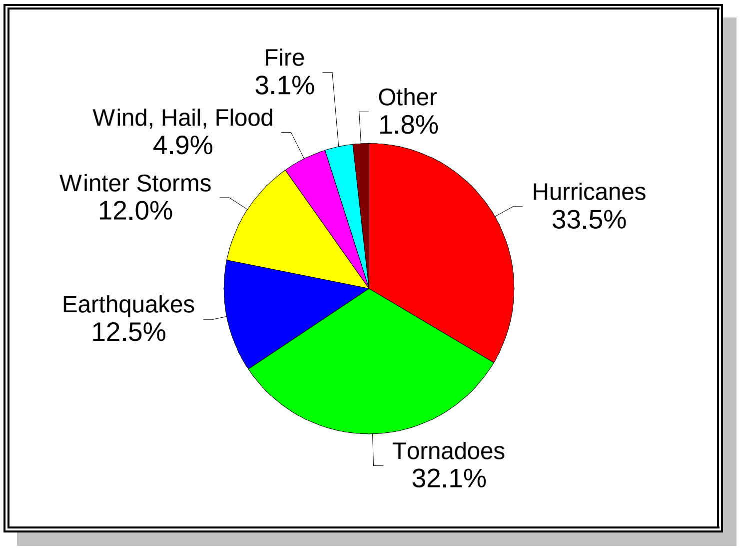
[1]through September 30, 1999
Source: The Insurance Information Institute Fact Book 2000

Again, catastrophes, by definition, are events that cause at least $5 million (1979 - 1996) or $25 million (1997 and 1998) of insured losses. **Figure 29**, on page 38, provides a breakdown of the types of events contributing to catastrophic losses from 1979 through 1998. It is interesting that hurricanes and tornados account for two of every three dollars of insured losses expended on catastrophic losses in the United States.

In Illinois, tornadoes and other wind and weather related events caused a majority of the catastrophic losses. If we consider only those events with a $10,000 or greater property damage loss, there were 50 events which resulted in $9.5 million in property damage losses in 1997. In 1998, there were 104 events and $33.7 million in property damage losses and $4.6 million in crop damage. For 1999, there were 120 events through September 27, 1999 which accounted for $31.8 million in property damage, 2 deaths, 28 injuries, and $54 million in crop damage. The tornadoes occurring on April 8, 1999, in the Illinois cities of Warsaw, Hamilton, and Ashland were the most destructive causing $5 million, $10 million, and $1.8 million in property damage losses respectively. The August storms in Cass, Morgan, Schuyler, and Logan counties are to blame for the large crop losses in 1999.

There has been much discussion regarding who should pay for catastrophes. Many insurers have become convinced that the industry simply lacks the capacity to insure against disasters and want government to play a larger role. Of course, neither insurance regulators nor the industry can prevent natural catastrophes. However, as regulators, the Department must monitor the financial solvency of insurers and must monitor the effects of large catastrophes on the overall viability of the Illinois marketplace.

Figure 29
Inflation-Adjusted Percentage of Catastrophic Losses By Cause
(1979 -- 1998)



Source: The Insurance Information Institute Fact Book 2000

Progress has been made in this area. In an effort to increase capacity for the financing of catastrophe risks and to spread these risks across broader markets, regulators and insurers have developed methods for securing insurance risks, thus creating opportunities for investors in the capital markets to participate in the financing of catastrophe exposures. The Illinois legislature passed legislation to allow insurers to offer debt securities directly to the capital markets through protected cell arrangements that allow investors to finance specified insurance risks. Efforts are continuing to enhance capacity through the development of on-shore special purpose reinsurance vehicles and through efforts to pass federal legislation authorizing insurers to fund catastrophe reserves.

V. CONCLUSION AND RECOMMENDATION

Overall, the Illinois property/casualty industry can be described as generally stable and viable during 1998. Results for business written in Illinois were not quite as good in 1998 they were in the previous year. The 1998 change in surplus remained positive but its magnitude was less than the 1997 change. For the most part, Illinois insurers and consumers shared a success story. Insurers were generally profitable, less than 1997, while most Illinois customers experienced little difficulty in obtaining coverages that they desired. Similar to the country-wide marketplace, the Illinois market continued to be generally soft, particularly in the personal lines, -- marked by keen competition. The degree of competition was validated by the results of accepted economic measures of competition such as concentration ratios and the Herfindahl-Hirschman Index (HHI) reported herein. Two insurers control a large percentage of the personal lines business and the competition is keen for the remaining share. Note, however, that the HHI for the homeowners (1302) and automobile lines (1137) are generally higher than the commercial line but not approaching the threshold of 1800 that suggests being too concentrated. In addition, by pure economic standards, the Illinois market is a good example of *working competition*. Any potential for anti-competitive behavior is generally offset by the ease of entry and exit into and out of the marketplace and the large number of other insurers competing for the remaining market share. Also, the lack of increased market share exhibited by the alternative mechanisms, as reported by the Fair Plan, Automobile Insurance Plan Insurance Office (AIPSO), Surplus Lines Association, Workers' Compensation Assigned Risk Program, and others suggest that the Illinois admitted market does its job extremely well - providing insurance to almost everyone that requests it.

The commercial lines are less capital intensive and less concentrated than the personal lines. Measures of concentration suggest that, generally, all commercial lines (excepting medical malpractice) are extremely competitive, with the top writers in many markets controlling a significant portion of that market. The medical malpractice line is the only line of insurance that exceeds the threshold of being too concentrated. The Illinois State Medical Interinsurance Exchange writes 51 percent of the business in this line contributing 2611 points to the total HHI of 2758. The Department's research has found that, 1) it is not uncommon for an exchange to dominate this market in a given state and, 2) the Illinois State Medical Interinsurance Exchange does a very good job of providing much needed coverage to the medical community. Nevertheless, the Department will continue to monitor this line.

History suggests that the majority of Illinois insurers are knowledgeable, focused, and adaptable - all traits that benefit the consumers. Smart insurers should always know their market and be on the alert for signals suggesting market turnarounds. Flexibility, adaptability, technology, and knowledge may be the key words for insurers in the new millennium. Insurers that add value responsibly, use information properly, and exercise good management skills will succeed in any type of market. Insurers taking advantage of technological changes and using innovative approaches in marketing their products will have a definite advantage.

The Hardening Future Market

This past year has shown the Department a change or "hardening" of market pricing. Loss ratios have begun to increase and investment income has begun to decline. In spite of these negatives, heretofore, capital has always been available. During the past year, profit reports for publicly owned insurance companies have continued to decline, some being much worse than anticipated.

Price increases will probably be felt first in the middle commercial lines insurance markets. The industry is reporting that new renewal prices are rising compared to the last reporting periods, some by as much as 20% with many in the 10% - 15% range. Some insurance buyers with poor loss histories are already beginning to find insurance coverage difficult to obtain in their preferred markets.

In the current literature and through discussions with producers and insurers within the State and particularly in the Chicago and metropolitan area, the re-underwriting of accounts and increases in prices are being characterized as a market correction. The market, however, is not near panic, nor is it overreacting. Nevertheless, prices are increasing and Illinois insureds will have to allot additional money for insurance beginning with the year 2000. The pricing and premium increases appear to be based on an underwriting of the customer account; those with the better loss histories, thus far, receiving little or no premium increase.

So long as this correction is controlled and based on sound underwriting standards, Illinois should continue to experience a viable and competitive market place with adequate availability for consumers.

The Department recommends no changes to the current regulatory environment. Departmental analysis indicates that the current "open competition" insurance environment in Illinois is working well. Detractors of "open competition" not only fail to offer proof (or valid statistical data) supporting their alternative hypotheses, but they also fail to address the two major disadvantages of rate approval environments: they require a larger regulatory staff; and they experience inherent delays which can result in rate inadequacies.

An open "competition" regulatory environment should not imply that the Illinois Department of Insurance is not proactive in its regulatory practices. The Department will continue to identify problems and formulate regulatory solutions. The favorable 1998 market results reported within only reinforce the belief that the "open competition" environment in Illinois allows most insurers to realize positive financial results and provides most Illinois citizens with insurance that is generally affordable and accessible.

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APPENDIX A - Consolidated Assets for Illinois-Licensed Insurers

ASSETS	1998	1997
1. Bonds (less $.......liability for asset transfers with put options)	427,575,486,977	425,910,721,889
2. Stocks:		
2.1 Preferred Stocks	10,034,841,751	10,931,815,064
2.2 Common stocks	226,174,860,039	205,829,446,561
3. Mortgage loans on real estate:		
3.1 First liens	1,688,343,850	1,935,332,341
3.2 Other than first liens	36,415,378	54,458,418
4. Real estate:		
4.1 Properties occupied by the company (less $.......encumbrances)	6,666,508,533	6,460,562,229
4.2 Other properties (less $.......encumbrances)	862,122,639	1,320,170,970
5. Cash and short-term investments	35,398,909,584	30,888,912,287
6. Other invested assets	16,523,566,136	14,061,711,403
7. Receivable for securities	976,713,643	998,883,945
8. Aggregate write-ins for invested assets	978,374,154	871,737,068
9. Subtotals, cash and invested assets (Lines 1 to 8)	726,916,142,669	699,263,752,175
10. Agents' balances or uncollected premiums (net as to commissions and dividends):		
10.1 Premiums and agents' balances in course of collection (after deducting ceded reinsurance balances payable of ($.......)	16,632,233,583	15,693,461,650
10.2 Premiums and agents' balances and installments booked but deferred and not yet due (after deducting ceded reinsurance balances payable of $.....) (including $.......earned but unbilled premiums)	32,444,554,756	32,340,766,878
10.3 Accrued retrospective premiums (after deducting ceded reinsurance balances payable of $.......)	4,228,387,628	4,554,370,885
11. Funds held by or deposited with reinsured companies	3,926,201,931	3,394,173,029
12. Bills receivable, taken for premiums	506,208,787	490,333,487
13. Reinsurance recoverable on loss and loss adjustment expense payments	9,683,671,032	8,995,778,226
14. Federal income tax recoverable and interest thereon	1,613,036,931	1,038,806,523
14A. Guaranty funds receivable or on deposit	129,954,530	145,428,578
15. Electronic data processing equipment	2,336,204,703	2,103,605,145
16. Interest, dividends and real estate income due and accrued	7,089,912,556	7,217,875,049
17. Receivable from parent, subsidiaries and affiliates	7,098,356,087	5,260,276,087
18. Equities and deposits in pools and associations	1,985,416,433	1,932,540,748
19. Amounts receivable relating to uninsured accident and health plans	24,208,701	14,380,077
20. Other assets non-admitted	1,727,338	(967,170)
21. Aggregate write-ins for other than invested assets	7,861,035,699	7,092,973,763
22. TOTALS (Lines 9 through 21)	822,477,253,358	789,537,555,280

APPENDIX B - Combined Liabilities, Surplus and Other Funds for All Illinois-Licensed Insurers

LIABILITIES, SURPLUS AND OTHER FUNDS	1998	1997
1. Losses	258,892,027,421	259,692,705,776
1A. Reinsurance payable on paid loss and loss adjustment expenses	3,122,518,052	3,562,920,141
2. Loss adjustment expenses	54,313,294,763	54,785,631,221
3. Contingent commissions and other similar charges	2,189,111,233	2,248,132,330
4. Other expenses (excluding taxes, licenses and fees).	8,178,926,932	7,570,696,994
5. Taxes, licenses and fees (excluding federal and foreign income taxes) .	2,314,862,532	2,328,434,514
6. Federal and foreign income taxes (excluding deferred taxes)	1,985,722,362	2,232,334,083
7. Borrowed money	1,605,307,776	588,727,748
8. Interest, including $.......on borrowed money	53,808,420	35,830,036
9. Unearned premiums (after deducting ceded		
reinsurance unearned premiums of $.......).	97,967,232,290	94,849,299,069
10. Dividends declared and unpaid:		
(a) Stockholders	387,394,927	446,424,090
(b) Policyholders	994,039,496	1,619,584,157
11. Funds held by company under reinsurance treaties	8,531,451,644	7,838,848,832
12. Amounts withheld or retained by company for account of others	4,456,191,903	4,638,655,255
13. Remittances and items not allocated	1,568,948,515	1,085,356,653
14. Provision for reinsurance	3,635,618,631	3,494,706,120
15. Excess of statutory reserves over statement reserves	932,834,740	964,523,341
16. Net adjustments in assets and liabilities due to foreign exchange rates . .	719,611,651	662,294,910
17. Drafts outstanding	3,855,084,121	3,507,017,478
18. Payable to parent, subsidiaries and affiliates	6,586,395,554	3,469,724,404
19. Payable for securities	1,828,805,323	2,172,790,715
20. Liability for amounts held under uninsured accident and health plans . . .	4,638,646	5,034,957
21. Capital notes $.......and interest theron $.	0	0
22. Aggregate write-ins for liabilities	29,639,368,379	26,657,144,428
23. Total liabilities (Lines 1 through 22).	493,763,195,271	484,456,797,273
24. Aggregate write-ins for special surplus funds	30,678,209,426	25,998,069,593
25A. Common capital stock	3,839,350,580	3,795,261,390
25B. Preferred capital stock	1,379,020,455	1,413,320,488
25C. Aggregate write-ins for other than special surplus funds	117,019,567	121,222,960
26A. Surplus notes	4,651,415,011	4,662,223,286
26B. Gross paid in and contributed surplus	84,096,866,807	80,762,847,802
26C. Unassigned funds (surplus).	204,397,665,005	188,762,320,359
26D. Less treasury stock, at cost:		
(1)...shares common (value included in Line 25A $.....).	418,671,913	411,152,282
(2)...shares preferred (value included in Line 25B $.....)	26,816,848	23,355,557
27. Surplus as regards policyholders (Lines 24 to 26C, loss Line 26D)	328,714,058,089	305,080,658,047
28. TOTALS	822,477,253,366	789,537,555,318

APPENDIX C - Combined Underwriting and Investment Exhibit for All Illinois-Licensed Insurers

	UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME	1998	1997
	UNDERWRITING INCOME		
1	Premiums earned	231,208,279,486	228,270,174,996
	DEDUCTIONS		
2	Losses incurred	146,237,968,562	137,711,374,448
3	Loss expenses incurred	30,485,006,066	28,510,382,099
4	Other underwriting expenses incurred	65,678,250,437	63,676,878,835
5	Aggregate write-ins for underwriting deductions	445,645,476	367,554,765
6	Total underwriting deductions (Lines 2 through 5)	242,846,870,530	230,266,190,155
7	Net underwriting gain or (loss)(Line 1 minus 6)	(11,638,591,048)	(1,996,015,143)
	INVESTMENT INCOME		
8	Net investment income earned	35,742,713,288	38,707,734,008
9	Net realized capital gains or (losses)	16,596,034,117	9,204,573,774
9A	Net investment gain or (loss)(Line 8+9)	52,338,747,403	47,912,307,783
	OTHER INCOME		
10	Net gain or (loss) from agents' or premium balances charged off (amount recovered $.......amount charged off $.......)	(478,309,395)	(514,521,693)
11	Finance and service charges not included in premiums	1,118,318,921	926,551,036
12	Aggregate write-ins for miscellaneous income	(568,309,565)	(657,896,518)
13	Total other income (Lines 10 through 12)	71,699,949	(245,867,174)
14	Net income before dividends to policyholders and before federal foreign income taxes (Lines 7+9A+13)	40,771,856,302	45,670,425,461
14A	Dividends to policyholders	3,412,137,851	3,443,821,876
14B	Net income after dividends to policyholders but before federal and foreign income taxes (Line 14 minus 14A)	37,359,718,449	42,226,603,590
15	Federal and foreing income taxes incurred	8,707,546,510	7,627,083,091
16	Net income (Line 14B minus 15)(to Line 18)	28,652,171,939	34,599,520,498
	CAPITAL AND SURPLUS ACCOUNT		
17	Surplus as regards policyholders, December 31 previous year	305,080,758,055	248,587,070,623
	GAINS AND (LOSSES) IN SURPLUS		
18	Net income (from Line 16)	28,652,171,939	34,599,520,498
19	Net unrealized capital gains or (losses)	12,483,240,392	33,182,005,715
20	Change in non-admitted assets	(787,403,021)	(1,515,218,466)
21	Change in provision for reinsurance	(143,319,141)	(225,689,932)
22	Change in foreign exchange adjustment	(80,348,941)	(89,765,039)
23	Change in excess of statutory reserves over statement reserves	31,688,603	(135,135,872)
23A	Change in surplus notes	(91,565,901)	925,272,018
24	Capital changes:		
	(a) Paid in	40,065,631	67,289,020
	(b) Transferred from surplus (Stock Dividend)	23,450,000	18,453,883
	(c) Transferred to surplus	(24,726,439)	(23,436,401)
25	Surplus adjustments:		
	(a)Paid in	3,883,956,938	7,046,393,351
	(b)Transferred to capital (Stock Dividend)	(21,000,000)	(18,869,287)
	(c) Transferred from capital	(4,408,533)	102,484,251
26	Net remittances from or (to) Home Office	(534,516,854)	1,280,211
27	Dividends to stockholders (cash)	(14,747,277,241)	(13,343,076,970)
28	Change in treasury stock	(10,980,922)	(126,640,873)
29	Extraordinary amounts of taxes for prior years	(104,698,935)	(8,518,033)
30	Aggregate write-ins for gains and losses in surplus	(4,931,027,502)	(3,962,660,662)
31	Change in surplus as regards policyholders for the year	23,633,300,085	56,493,687,419
32	Surplus as regards policyholders, December 31 current year	328,714,058,139	305,080,758,053

APPENDIX D - Combined Cash Flow for All Illinois-Licensed Insurers

	CASH FLOW	**1998**	**1997**
	CASH FROM OPERATIONS		
1.	Premiums collected net of reinsurance	233,385,659,334	229,085,341,418
2.	Loss and loss adj. expenses paid (net of salvage and subrogation)	179,345,217,587	167,365,442,984
3.	Underwriting expenses paid	65,087,543,746	62,297,701,434
4.	Other underwriting income (expenses)	300,806,823	(410,517,429)
5.	Cash from underwriting	(10,746,123,180)	(523,574,779)
6.	Net investment income	36,417,165,975	39,369,768,343
7.	Other income (expenses)		
	7.1 Agents' balances charged off	(478,309,391)	(514,924,464)
	7.2 Net funds held under reinsurance treaties	456,878,537	310,694,328
	7.3 Net amount withheld or retained for account of others	(206,696,156)	267,073,842
	7.4 Aggregate write-ins for miscellaneous items	511,557,177	63,416,095
	7.5 Total other income (Lines 7.1 to 7.4)	283,430,169	126,259,797
8.	Dividends to policyholders on direct business, less $.......dividends on reinsurance assumed or ceded (net)	4,074,938,317	2,779,460,437
9.	Federal and foreign income taxes (paid) recovered	(8,942,550,867)	(7,090,246,000)
10.	Net cash from operations (Line 5 plus Line 6 plus Line 7.5 minus Line 8 plus Line	12,936,983,789	29,102,746,929
	CASH FROM INVESTMENTS		
11.	Proceeds from investments sold, matured or repaid		
	11.1 Bonds	230,109,110,531	226,478,736,086
	11.2 Stocks	72,381,420,164	56,684,729,419
	11.3 Mortgage loans	644,930,898	621,830,540
	11.4 Real estate	1,269,596,559	917,044,411
	11.5 Other invested assets	13,205,269,165	9,762,518,070
	11.6 Net gains or (losses) on cash and short-term investments	(20,511,419)	(2,736,449)
	11.7 Miscellaneous proceeds	1,371,600,645	1,060,809,076
	11.8 Total investment precedes (Lines 11.1 thru 11.7)	318,961,416,537	295,522,931,155
12.	Cost of investments acquired (long-term only):		
	12.1 Bonds	228,641,106,344	243,336,846,223
	12.2 Stocks	67,321,774,619	63,129,464,972
	12.3 Mortgage loans	350,290,352	339,349,443
	12.4 Real estate	1,358,297,162	1,115,595,284
	12.5 Other invested assets	13,756,800,547	9,784,495,685
	12.6 Miscellaneous applications	2,283,906,428	632,708,615
	12.7 Total investments acquired (lines 12.1 thru 12.7)	313,712,175,450	318,338,460,218
13.	Net Cash from investments (Line 11.8 minus 12/7)	5,249,241,084	(22,815,529,068)
	CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
14.	Cash provided:		
	14.1 Surplus notes, capital and surplus paid in	4,109,930,673	8,243,459,292
	14.2 Capital notes $.......less amounts repaid $.......	2,305,911	8,856,154
	14.3 Net transfers from affiliates	5,412,829,355	2,325,777,606
	14.4 Borrowed funds received	2,200,992,678	761,679,189
	14.5 Other cash provided	4,379,518,878	3,426,938,781
	14.6 Total (Lines 14.1 to 14.5)	16,105,250,533	14,766,711,024
15.	Cash applied:		
15.1	15.1 Dividends to stockholders paid	14,853,306,415	13,302,263,480
15.2	15.2 Net transfers to affiliates	4,211,960,805	2,620,402,543
15.3	15.3 Borrowed funds repaid	1,348,302,831	562,366,424
15.4	15.4 Other applications	9,376,289,765	4,937,790,161
15.5	15.5 Total (Lines 15.1 thru 15.4)	29,789,859,812	21,422,822,606
16.	Net cash from financing and miscellaneous sources (Line 14.6 minus Line 15.5) . .	(13,684,609,275)	(6,656,111,588)
	RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS		
17.	Net change in cash and short-term investments (Line 10 plus Line 13 plus Line 16)	4,501,615,588	(368,893,709)
18.	Cash and short-term investments:		
	18.1 Beginning of year	30,884,792,191	31,250,636,929
	18.2 End of year (Line 17 plus Line 18.1)	35,386,407,775	30,881,743,227

Appendix E - Combined Exhibit of Premiums and Losses in the State of Illinois for All Illinois-Licensed Insurers

EXHIBIT OF PREMIUMS AND LOSSES BUSINESS IN THE STATE OF **ILLINOIS** DURING THE YEAR **1998**

1	Gross Premiums, Including Policy and Membership Fees, Less Return Premiums		4	5	6	7	8	9	10	11	12	13
	2	3										
Line of Business	Direct Premiums Written	Direct Premiums Earned	Dividends Paid or Credited to Policyholders on Direct Business	Direct Unearned Premium Reserves	Direct Losses Paid (deducting salvage)	Direct Losses Incurred	Direct Losses Unpaid	Direct Allocated Loss Adjustment Expense Paid	Direct Allocated Loss Adjustment Expense Incurred	Direct Allocated Loss Adjustment Expense Unpaid	Commissions and Brokerage Expenses	Taxes, Licenses and Fees
1. Fire	151,190,495	149,513,671	599,954	65,778,044	78,354,387	87,933,425	70,613,366	2,472,588	1,884,395	3,605,522	18,815,448	4,406,399
2.1 Allied lines	123,774,857	123,003,847	6,086,566	35,232,942	88,769,380	105,649,311	56,935,642	2,037,550	1,987,317	2,737,516	20,990,480	2,020,198
2.2 Multiple peril crop	92,857,668	92,875,949	0	595,397	31,830,862	39,872,185	14,917,818	163,390	160,843	3,678	12,995,626	522,366
2.3 Federal flood	14,146,802	13,211,291	0	6,949,856	953,623	243,760	1,119,879	57,888	61,649	16,266	1,610,830	131,615
3. Farmowners multiple peril	76,194,072	75,704,219	259,663	30,758,351	59,273,264	61,783,368	28,285,630	1,358,054	1,449,681	4,314,954	12,066,078	464,581
4. Homeowners multiple peril	1,221,990,002	1,183,475,668	2,336,766	648,448,838	763,455,429	773,990,816	373,131,359	21,258,319	15,676,258	53,985,794	175,395,311	17,637,366
5.1 Commercial multiple peril (non-liability portion)	527,102,219	526,011,487	600,221	249,921,626	340,888,667	335,652,888	249,282,030	13,382,804	12,126,733	35,818,909	88,584,785	10,209,188
5.2 Commercial multiple peril (liability portion)	401,492,543	393,691,026	131,147	180,704,860	251,684,591	224,019,449	854,564,023	78,872,922	57,151,675	275,835,848	67,534,551	6,971,097
6. Mortgage guaranty	139,521,949	145,281,662	0	18,034,613	26,065,568	50,824,600	218,492,116	543,798	912,800	984,915	1,070,490	3,130,131
8. Ocean marine	55,667,993	54,776,930	109,519	14,855,917	40,304,545	46,767,635	52,586,790	2,114,201	2,641,607	4,005,125	8,917,824	1,135,937
9. Inland marine	323,233,736	307,845,294	695,451	147,027,624	144,427,511	144,415,195	101,415,405	5,382,792	4,987,066	5,828,595	54,679,315	6,454,950
10. Financial guaranty	54,170,931	39,059,137	0	233,290,386	(22,424,018)	(27,284,357)	11,129,952	73,581	32,488	455,010	194	3,299,249
11. Medical malpractice	351,754,297	350,754,273	624,406	97,929,350	273,754,657	289,178,133	1,228,516,324	83,443,284	110,257,579	350,728,814	19,229,824	3,721,448
12. Earthquake	20,686,530	20,332,327	90,690	10,878,948	5,659	(320,112)	548,050	6,751	(32,398)	110,429	2,827,991	289,132
13. Group accident and health	274,481,366	257,774,622	0	45,536,656	194,869,730	223,619,234	143,924,798	1,821,883	1,846,583	746,559	40,507,340	4,219,189
14. Credit A & H (group and individual)	20,240,481	21,520,773	0	5,425,217	3,705,716	3,567,845	3,640,464	10,348	5,096	17,351	9,915,976	322,557
15.1 Collectively renewable A & H	574,198	501,927	0	551,553	492,255	337,246	209,181	0	0	0	(380,287)	13,158
15.2 Non-cancelable A & H	121,980	155,501	0	914,466	32,344	20,880	198,126	0	0	0	15,856	3,263
15.3 Guaranteed renewable A & H	36,879,822	24,621,856	0	67,469,588	19,145,396	21,209,380	22,817,160	148,546	136,097	123,469	3,486,010	189,775
15.4 Non-renewable for stated reasons only . .	60,954,407	61,401,631	4,937	17,089,635	45,217,687	40,371,759	34,345,630	2,009,927	2,047,983	864,242	5,354,504	324,011
15.5 Other accident only	10,222,631	9,420,670	0	3,152,077	3,434,006	3,532,934	2,762,163	414	(43,094)	15,237	6,222,022	172,444
15.6 All other A & H	39,880,071	40,595,835	0	4,564,800	9,347,732	11,799,528	11,308,168	98,366	(81,728)	216,804	14,853,099	686,558
15.7 Federal employees health benefits program premium	0	0	0	0	16,836	21,606	0	0	0	0	0	1,063
16. Workers' compensation	1,486,074,917	1,457,614,292	58,569,239	356,292,720	1,131,824,501	878,239,161	3,231,629,459	81,352,988	63,110,020	287,511,627	123,009,266	28,459,635
17. Other liability	1,544,562,313	1,592,794,967	1,146,963	761,374,909	810,535,161	1,475,235,064	4,513,915,773	145,976,717	198,801,943	1,004,639,790	138,727,420	26,337,513
18. Products liability	83,051,288	84,810,757	193,486	25,722,039	116,781,180	48,052,506	645,921,228	49,787,981	29,701,651	251,613,642	8,077,172	1,721,116
19.1 Private passenger auto no-fault (personal injury protection)	25,781,714	26,957,387	15,671	5,768,766	17,718,706	19,312,650	20,215,008	815,625	266,630	756,538	3,552,068	233,318
19.2 Other private passenger auto liability . . .	2,533,986,931	2,520,716,647	103,187,954	741,651,191	1,560,790,764	1,489,874,868	2,217,840,396	119,751,290	127,351,987	313,012,968	270,919,668	30,009,507
19.3 Commercial auto no-fault (personal injury protection)	3,119,345	3,279,592	3,583	1,094,182	1,929,331	2,405,376	2,770,417	131,862	94,759	256,023	599,853	61,053
19.4 Other commercial auto liability	539,172,734	540,816,706	2,729,919	219,244,305	417,417,304	438,941,660	866,157,459	45,709,272	36,340,875	114,234,310	71,467,261	8,959,511
21.1 Private passenger auto physical damage	2,032,331,547	2,000,060,713	82,011,499	594,901,959	1,252,043,516	1,249,091,447	113,630,864	8,668,013	5,012,274	7,757,993	211,807,329	23,992,899
21.2 Commercial auto physical damage	252,826,689	247,971,271	1,710,741	91,464,123	172,546,928	177,092,322	42,151,742	4,871,042	4,346,715	3,555,049	30,392,135	4,187,376
22. Aircraft (all perils)	50,961,032	50,337,236	0	16,175,370	17,355,597	32,851,420	55,661,026	3,764,092	8,379,115	9,220,596	5,551,725	1,383,178
23. Fidelity	46,918,450	48,238,139	20,259	31,020,092	38,552,500	31,655,019	42,201,879	1,503,911	247,328	5,614,997	6,816,268	958,357
24. Surety	115,022,891	109,645,165	64	62,875,627	(33,968,974)	(35,610,592)	104,255,829	4,082,806	6,484,168	42,206,199	31,955,369	4,917,947
26. Burglary and theft	5,195,042	5,458,274	26,374	2,618,685	587,690	(128,699)	3,770,857	44,002	53,924	253,601	784,424	113,975
27. Boiler and machinery	34,149,398	35,433,282	1,411	16,383,567	19,417,957	19,549,540	14,477,320	380,222	445,446	592,914	3,951,075	605,318
28. Credit	18,552,497	20,490,518	0	8,907,045	4,438,107	3,933,258	6,161,990	73,803	111,112	208,917	3,060,548	317,816
31. Aggregate write-ins for other lines of business	400,324,364	271,402,784	174,013	505,147,005	202,266,148	201,864,360	115,162,280	978,469	660,528	2,160,220	8,784,258	4,014,614
32. TOTALS	13,169,170,203	12,907,557,319	261,330,498	5,325,752,315	8,083,842,233	8,469,566,047	15,476,667,611	683,149,479	694,617,097	2,784,010,415	1,484,149,088	202,598,792

Appendix F - Combined Insurance Expense Exhibit -Part III for All Illinois-Licensed Insurers

INSURANCE EXPENSE EXHIBIT FOR THE YEAR 1998 OF THE

PART III--ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN (000 OMITTED)

	PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS, AND PERCENTAGES TO PREMIUMS EARNED FOR DIRECT BUSINESS WRITTEN	1 Premiums Written	2 Premiums Earned	3 Dividends to Policyholders	4 Incurred Loss	5 Allocated Loss Adjustment Expenses Incurred	6 Unallocated Loss Adjustment Expenses Incurred	7 Unpaid Losses	8 Allocated Loss Adjustment Expenses Unpaid	9 Unallocated Loss Adjustment Expenses Unpaid	10 Unearned Premium Reserves	11 Agents' Balances
1	Fire	3,759,986	3,755,092	13,702	2,344,559	75,249	118,258	1,912,102	105,062	54,099	1,892,999	1,020,966
2.1	Allied Lines	2,239,524	2,252,893	15,290	2,337,565	51,790	131,687	1,529,667	60,395	35,996	826,383	577,491
2.2	Multiple Peril Crop	1,469,219	1,469,140	0	1,401,733	2,919	14,307	462,916	36	1,609	8,270	205,039
2.3	Federal Flood	1,053,904	995,226	0	654,709	21,029	26,728	159,595	4,746	7,956	590,975	86,530
3	Farmowners Multiple Peril	766,432	747,653	14,614	568,513	24,502	59,406	265,283	42,209	20,969	359,491	128,878
4	Homeowners Multiple Peril	23,673,550	23,069,750	188,572	14,939,317	457,109	2,392,365	6,577,352	1,083,557	655,817	12,615,016	3,891,266
5.1	Commercial Multiple Peril (Non-Liability Portion) . .	9,966,635	9,984,377	14,099	7,044,514	310,182	555,237	4,133,053	695,739	282,804	4,745,648	2,354,719
5.2	Commercial Multiple Peril (Liability Portion)	8,121,009	7,910,565	6,557	5,297,079	1,503,385	553,189	16,283,549	5,941,481	817,377	3,596,720	1,967,665
6	Mortgage Guaranty	3,017,579	3,100,399	0	1,265,022	15,987	42,286	3,928,693	21,170	26,672	575,120	138,068
8	Ocean Marine	1,950,762	1,935,687	4,255	1,289,249	90,849	65,630	1,896,364	145,670	42,137	586,550	556,478
9	Inland Marine	6,288,766	6,221,870	24,328	3,302,440	83,721	225,172	2,184,344	149,238	75,559	2,833,054	1,779,324
10	Financial Guaranty	1,465,683	968,435	0	44,738	12,106	1,615	384,384	13,886	30,384	5,909,118	(19,948)
11	Medical Malpractice	3,355,371	3,381,459	14,778	2,509,316	864,942	211,164	9,580,363	2,823,887	307,111	1,503,225	758,986
12	Earthquake	620,876	641,970	7,786	62,069	38,699	28,076	227,697	44,613	16,603	316,023	163,253
13	Group A&H	4,285,789	4,210,039	172	3,101,037	65,034	132,304	2,195,127	22,424	48,850	435,392	682,759
14	Credit A&H	421,678	433,858	0	83,178	(66)	6,652	74,553	214	3,167	94,065	32,268
15	Other A&H	3,004,368	2,801,566	52	1,321,347	31,549	82,080	1,193,677	46,912	40,722	1,490,251	1,010,217
16	Workers'Compensation	22,028,498	21,809,954	1,026,151	14,829,602	1,482,085	1,997,502	59,830,844	5,261,825	2,663,375	3,606,682	6,651,610
17	Other Liability	19,311,113	18,712,956	32,015	13,315,099	2,350,599	1,632,234	57,701,192	14,460,828	2,442,514	9,753,857	7,124,256
18	Products Liability	1,512,516	1,474,186	6,426	1,400,875	415,854	219,403	9,958,249	3,497,211	398,982	578,763	347,210
19.1	19.2 Private Passenger Auto Liability	53,125,874	53,081,962	1,143,399	33,191,968	2,535,058	5,707,493	48,457,251	6,348,625	3,874,249	16,281,155	8,610,437
19.3	19.4 Commercial Auto Liability	11,429,998	11,497,235	41,828	9,031,076	651,778	847,741	17,305,632	2,251,326	782,321	4,676,546	3,095,090
21.1	Private Passenger Auto Physical Damage	35,501,165	34,691,693	777,203	21,815,122	143,098	3,454,357	2,011,457	140,828	506,424	10,910,293	5,595,755
21.2	Commercial Auto Physical Damage	4,386,329	4,347,523	14,891	3,016,064	48,322	298,967	543,738	73,358	64,216	1,769,581	984,737
22	Aircraft (all perils)	1,363,789	1,399,465	0	1,273,263	93,893	28,366	1,971,631	179,632	24,116	441,026	574,562
23	Fidelity	812,787	813,252	556	447,386	17,114	48,925	856,347	117,925	43,416	532,317	261,812
24	Surety	2,700,807	2,637,981	14,609	663,684	117,094	86,670	1,489,441	308,687	84,800	1,487,296	670,932
26	Burglary and Theft	112,241	116,069	559	25,795	1,286	2,992	31,912	3,065	1,714	58,835	34,271
27	Boiler and Machinery	713,985	735,988	105	377,291	16,791	17,392	342,397	13,212	9,988	343,736	182,429
28	Credit	446,326	418,130	0	160,769	6,957	2,737	144,264	9,445	1,586	238,045	61,259
29	International	29,857	23,775	0	1,804	970	3,486	65,906	2,925	388	6,119	31,884
31	Aggregate write-ins for Other Lines of Business .	2,666,065	2,058,668	3,372	1,578,320	2,802	46,779	3,027,281	75,136	41,234	3,560,371	142,531
32	TOTALS (Lines 1 through 31)	231,602,503	227,698,802	3,365,325	148,694,492	11,532,709	19,041,207	256,726,275	43,945,305	13,407,144	92,622,920	49,702,745

INSURANCE EXPENSE EXHIBIT FOR THE YEAR 1998 OF THE

PART III - ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN (continued)
(000 omitted)

PREMIUM, LOSSES, EXPENSES, AND RESERVES FOR DIRECT BUSINESS WRITTEN	12 Commercial and Brokerage Expenses Incurred	13 Taxes, Licenses & Fees Incurred	14 Other Acquisitions, Field Supervision, and Collection Expenses Incurred	15 General Expenses Incurred	16 Other Income Less Other Expenses	17 Pre-Tax Profit or Loss Excluding All Investment Gain (Columns 2-(3thru 6)-(12 thru 15)+16)
1 Fire	520,684	108,004	315,970	314,523	(13,261)	(69,148)
2.1 Allied LInes	326,639	55,777	151,878	121,874	(8,998)	(948,613)
2.2 Multiple Peril Crop	164,186	2,013	21,240	25,131	8,262	(154,124)
2.3 Federal Flood	156,831	19,339	52,551	9,911	(2,043)	52,092
3 Farmowners Multiple Peril	133,078	17,785	53,515	52,097	1,651	(174,210)
4 Homeowners Multiple Peril	3,250,846	617,711	1,973,584	1,307,334	41,454	(2,015,630)
5.1 Commercial Multiple Peril (Non-Liability Portion)	1,678,742	279,327	677,037	752,476	(47,643)	(1,374,888)
5.2 Commercial Multiple Peril (Liability Portion)	1,392,592	217,412	577,559	630,050	(16,611)	(2,283,872)
6 Mortgage Guaranty	11,228	73,901	385,405	291,904	3,415	1,018,079
8 Ocean Marine	333,139	36,188	103,012	124,597	(8,723)	(119,956)
9 Inland Marine	1,020,143	168,396	446,029	417,266	(17,319)	517,075
10 Financial Guaranty	490	35,567	170,618	130,095	155,803	729,011
11 Medical Malpractice	280,841	84,096	102,068	259,642	(6,971)	(952,344)
12 Earthquake	77,463	14,777	56,508	45,194	(1,893)	309,729
13 Group A&H	663,646	91,824	155,554	328,363	16,549	(311,340)
14 Credit A&H	210,246	10,619	10,036	42,725	481	70,949
15 Other A&H	690,520	45,777	169,844	142,688	9,629	327,334
16 Workers Compensation	1,745,723	961,231	1,236,343	1,739,447	(121,933)	(3,330,065)
17 Other Liability	2,468,396	469,561	1,026,020	1,180,620	(56,740)	(3,818,328)
18 Products Liability	157,066	24,125	100,324	133,427	(36,839)	(1,020,160)
19.1 19.2 Private Passenger Auto Liability	4,891,975	1,231,641	3,923,711	2,557,765	160,561	(1,940,473)
19.3 19.4 Commercial Auto Liability	1,636,465	299,793	708,186	821,306	20,003	(2,520,940)
21.1 Private Passenger Auto Physical Damage	3,186,687	793,063	2,621,126	1,600,096	102,288	403,228
21.2 Commercial Auto Physical Damage	609,688	106,604	294,560	296,112	(4,096)	(341,782)
22 Aircraft (all perils).	167,355	28,955	37,873	51,652	10,861	(271,048)
23 Fidelity	105,859	21,130	76,804	84,036	(1,027)	10,404
24 Surety	775,256	78,041	315,257	243,325	4,066	348,094
26 Burglary and Theft	16,979	2,941	9,889	7,028	(224)	48,370
27 Boiler and Machinery	77,351	21,112	72,291	137,833	(2,013)	13,811
28 Credit	89,968	11,291	35,402	48,313	6,759	69,450
29 International	3,201	373	159	(3,505)	(899)	16,384
31 Aggregate write-ins for Ohter Lines of Business	221,356	53,859	55,573	185,128	11,120	(77,401)
32 TOTAL (Lines 1 through 31)	27,064,679	5,982,252	15,935,916	14,078,467	205,688	(17,790,338)

Requests for copies of this report or questions regarding any information contained in this report should be directed to the Cost Containment Section, Illinois Department of Insurance, 320 W. Washington, Springfield, Il 62767-0001. Phone (217) 785-2228; Fax (217) 782-2244. Printed by the authority of the State of Illinois.

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