Illinois Department of Insurance **April 15, 2002**

Annual Report to the Illinois General Assembly on Insurance Cost Containment

George H. Ryan, Governor Nathaniel S. Shapo, Director

April 15, 2002

To the Honorable Members of the 92nd General Assembly:

The Illinois Insurance Cost Containment 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 (Article XLII, 215 ILCS 5/1202d).

In accordance with the requirement of Section 1202 of the Illinois Insurance Code, I am pleased to submit the Annual Report to the General Assembly on Insurance Cost Containment for 2002. It contains significant information on both a nationwide and Illinois basis regarding the underwriting results for the property and casualty insurance industry for the year 2000.

I should report that the property and casualty insurance industry has experienced significant negative changes during the last two years such as the severe hardening of some markets and the lingering effects of September 11, 2001. Due to the critical nature of these problems, I have asked staff to provide a supplement to this report which would include 2001 and later data and information. This supplement should be ready for publishing in the next two to three weeks.

Sincerely,

Nathaniel S. Shapo
Director

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I. PURPOSE OF THE REPORT ON COST CONTAINMENT

The Illinois Insurance Cost Containment Act (Article XLII, 215 ILCS 5/1202d) 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.

The law was enacted in 1986 in response to the public's growing concern about the availability and affordability of property and liability insurance. It mandated that a uniform system be created for the collection, analysis and distribution of insurance cost data. Its expressed intent was to permit and encourage competition among companies on a sound financial basis to the fullest extent possible and to establish a mechanism to ensure the provision of adequate insurance at reasonable rates to the citizens of Illinois.

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 1996 through 2000. The direct pure loss ratio, shown in this table, is calculated by dividing losses by direct earned premium.

This table shows that the $14.9 billion property/casualty premiums written in Illinois in 2000 represent 4.7% of the nationwide total and that property/casualty losses in Illinois have averaged 66.7% 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 1996 through 2000. Columns 9 through 13 provide the loss ratio experienced by each of the specified states for 1996 through 2000. The loss ratio for Illinois spiked to 74.8 in 2000 from 67.0 in 1999. Column 14 provides the five-year average (1996 - 2000) loss ratios for each of the specified states.

Figure 1
State Distribution and Loss Experience (2480 Companies)
(1996 - 2000)

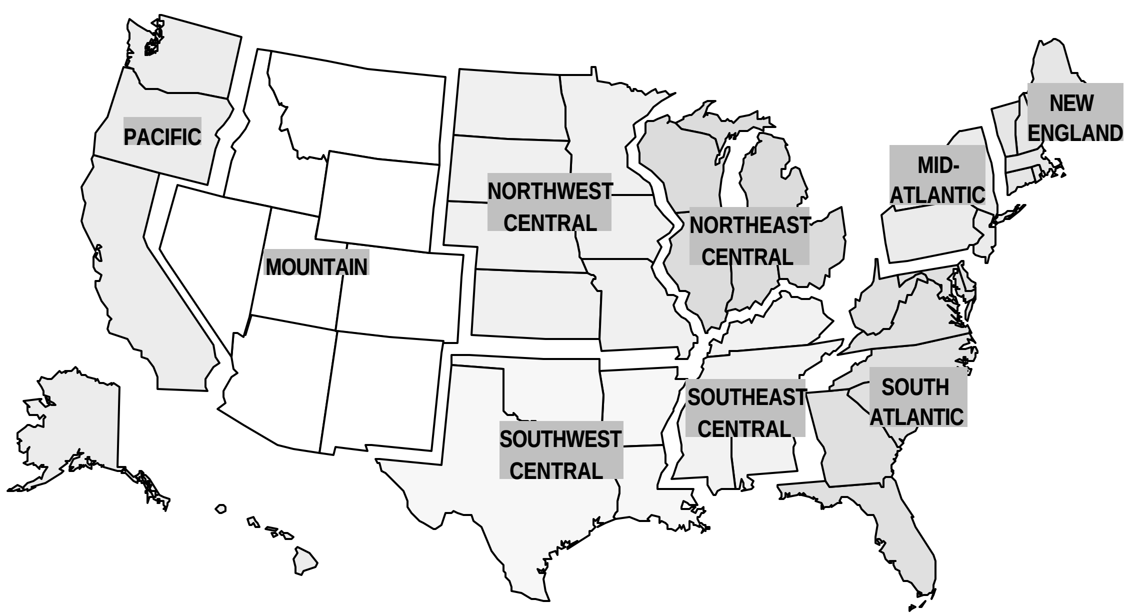
			% of Direct Premium Written					Loss Ratios					
Rank	**State**	**2000 DPW** (000,000's) omitted	**2000**	**1999**	**1998**	**1997**	**1996**	**2000**	**1999**	**1998**	**1997**	**1996**	**5 Yr. Avg.**
1	CA	36,313	11.4	11.2	11.5	11.6	11.4	68.9	60.4	61.0	56.2	58.4	61.1
2	NY	22,583	7.1	7.1	7.6	7.4	7.5	68.7	62.8	66.4	62.4	68.0	65.7
3	TX	21,320	6.7	6.7	6.8	6.8	6.8	78.7	66.3	63.9	56.6	66.4	66.6
4	FL	20,663	6.5	6.4	6.3	6.1	5.9	63.3	60.0	55.7	54.5	58.7	58.6
5	IL	14,883	4.7	4.7	4.5	4.6	4.6	74.8	67.0	65.3	58.1	67.5	66.7
6	PA	13,059	4.1	4.2	4.2	4.3	4.5	73.3	74.3	64.3	66.0	72.0	70.0
7	OH	12,050	3.8	3.8	3.7	3.6	3.5	77.0	71.5	63.3	67.3	70.0	70.0
8	MI	11,872	3.7	3.8	3.6	3.5	3.6	75.9	81.9	74.8	65.5	65.7	73.0
9	NJ	11,504	3.6	3.7	3.9	4.0	4.0	65.5	63.2	63.4	65.4	68.9	65.3
10	GA	8,621	2.7	2.7	2.6	2.6	2.6	67.0	63.9	65.1	57.9	60.7	63.1
11	MA	8,315	2.6	2.5	2.5	2.5	2.6	59.3	58.1	63.9	55.5	60.1	59.4
12	NC	7,788	2.4	2.5	2.4	2.4	2.3	66.1	77.5	68.2	60.9	95.1	73.1
13	IN	6,931	2.2	2.2	2.1	2.1	2.2	70.3	71.5	65.7	66.9	74.1	69.7
14	VA	6,523	2.0	2.0	2.0	2.0	2.0	71.7	73.8	61.2	58.0	66.3	66.4
15	MN	6,011	1.9	1.9	1.9	1.8	1.8	75.1	70.6	100.2	65.4	61.1	74.8
16	MO	5,946	1.9	1.9	1.8	1.8	1.9	66.4	64.1	62.0	57.0	60.7	62.2
17	WA	5,855	1.8	1.8	1.8	1.8	1.7	66.6	68.5	64.0	69.6	70.3	67.7
18	WI	5,698	1.8	1.9	1.8	1.8	1.8	76.4	62.8	63.5	57.9	58.8	64.2
19	TN	5,598	1.8	1.8	1.8	1.7	1.8	69.5	68.2	71.0	61.9	61.9	66.7
20	CO	5,583	1.8	1.7	1.6	1.5	1.5	64.3	67.6	61.9	52.4	71.3	63.6
	All other	81,770	25.6	25.6	25.5	25.8	26.0	67.0	67.5	66.6	60.0	64.9	65.3
	Countrywide	318,888	100.0	100.0	100.0	100.0	100.0	69.4	66.7	65.2	60.1	65.5	65.5

Source: Best's Aggregates & Averages - Property/Casualty, 2001 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 Southwest Central Region exhibited the highest loss ratio (77.8) in 2000 while the Southeast Central Region had the highest five-year average loss ratio (71.1). Note that the Northeast Central region, which includes Illinois, reported 16.1% of the total US written premium making it the second largest writer of the ten regions. This region showed a five-year average loss ratio of 70.0.

Figure 2
Distribution of Direct Premiums Written and Loss Ratios by Regions
(1996 - 2000)

Distribution of Direct Premiums Written and Loss Ratios by Region

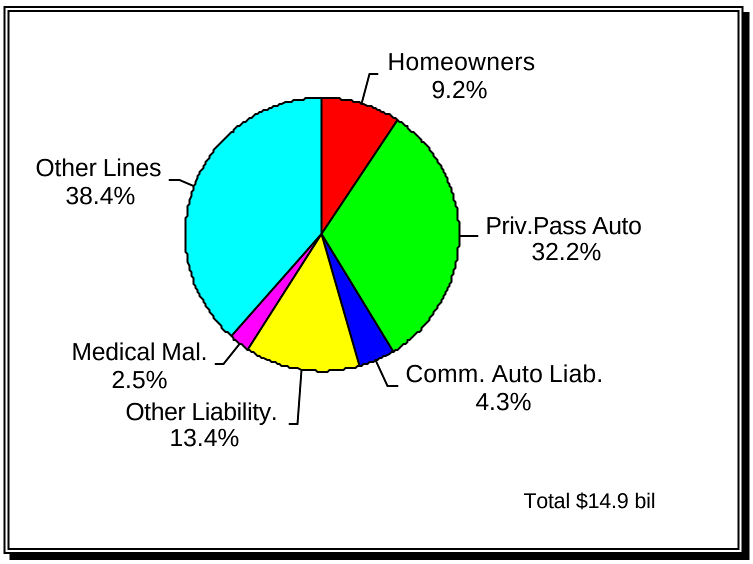


	Pacific	Mountain	Northwest Central	Southwest Central	Northeast Central	Southeast Central	Mid-Atlantic	South Atlantic	New England	Other	Total All Regions
Percent of Total DPW	15.0	5.9	6.9	10.1	16.1	5.2	14.8	18.0	5.5	2.6	100.0
Direct Loss Ratio-2000	69.7	69.1	70.4	77.8	76.1	70.3	70.5	69.2	62.7	50.3	70.7
Direct Loss Ratio-5 Year Avg	66.3	65.5	68.9	69.0	70.0	71.1	68.0	65.4	61.5	60.5	66.8

Figure 3 illustrates the distribution of property/casualty premium written by line of business during 2000 in Illinois. As the chart shows, personal-lines insurance

(homeowners and private passenger automobile) makes up the largest portion of the property/casualty market, 41.4%, of the total $14.9 billion. Private passenger automobile (32.2%), 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 Title 50, Chapter I, Subchapter iii, Part 4203-"The Cost Containment Data and Reporting Requirements" for the following lines of business: 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
(2000)



Source: NAIC State Data Network

III. ANALYSIS OF THE MARKETPLACE

From both a consumer's and a regulator's standpoint, insurance regulation should provide an environment where:

- coverage is available,
- coverage is offered at a reasonable price, and
- coverage is available from reliable insurers.

The Cost Containment Act requires the Department to analyze the marketplace each year and to 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.

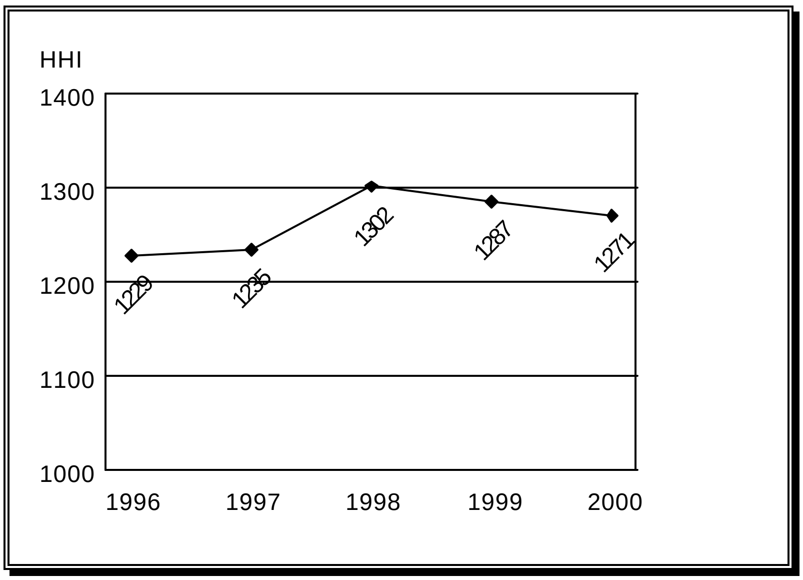
Herfindahl/Hirschmann Index (HHI) and Market Shares by Line

The Cost Containment Act requires the Department to collect and analyze data in five major lines of business -- homeowners, private passenger automobile, commercial automobile 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 1996 through 2000. After reaching a peak of 1302 in 1998, the homeowners HHI has dropped the past two years to 1271.

Figure 4
Illinois Market Concentration - Homeowners (1996-2000)



The top ten Illinois homeowners writers (including residential fire) and their market shares for 2000 are:

State Farm Fire and Casualty Co	29.9%
Allstate Insurance Company	12.9%
Illinois Farmers Insurance Co	6.9%
Country Mutual Insurance Co	6.4%
American Family Mutual Insurance Co	5.2%
Economy Preferred Insurance Co	3.2%
Safeco Insurance Co of IL	2.8%
Economy Fire & Casualty Co	1.7%
West American Insurance Co	1.6%
Travelers Property & Casualty Insurance Co of IL	1.3%
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 in three categories 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 categories. Most insurers who write in downstate Illinois also have a presence in the City of Chicago. There were 205 insurers reporting homeowners business throughout the state and 182 companies reporting premium in the City of Chicago. This business represents homeowners' multi-peril coverage written in HO-1, HO-2, HO-3, HO-5 and HO-8 policies.

On a statewide basis State Farm Fire & Casualty Company ranked first in condominium and renters insurance followed by Allstate Insurance Company.

State Farm General Insurance Company wrote the largest amount of mobile home coverage followed by Allstate Insurance Company, Country Mutual Insurance Company, Progressive Casualty Insurance Company and Pekin Insurance Company respectively.

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
West American Insurance Company
Travelers Property & Casualty Insurance Co of IL

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

State Farm Fire & Casualty Company
Allstate Insurance Company
Country Mutual Insurance Company
Illinois Farmers Insurance Company
American Family Mutual Insurance Company
Economy Preferred Insurance Company
Safeco Insurance Company of Illinois
West American Insurance Company
Economy Fire & Casualty Company
Travelers Property & Casualty Insurance Co of IL

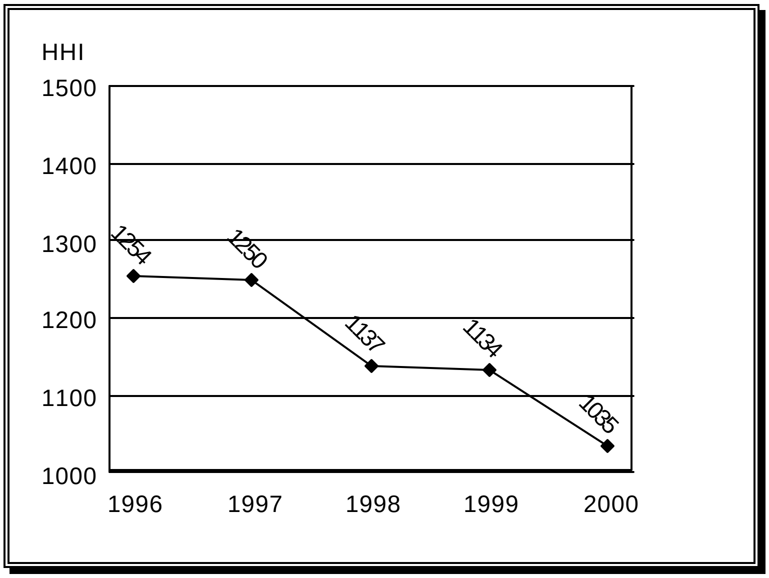
The top ten writers in the homeowners (Chicago only) market are:

State Farm Fire & Casualty Company
Allstate Insurance Company
American Family Mutual Insurance Company
Illinois Farmers Insurance Company
Safeco Insurance Company of Illinois
Travelers Property & Casualty Insurance Co of IL
Economy Preferred Insurance Co
Economy Fire & Casualty Company
Vigilant Insurance Company
Great Northern Insurance Company

Private Passenger Automobile HHI

Figure 5 provides a graph of the HHI for Illinois private passenger automobile insurance (including liability and physical damage) from 1996 through 2000. It suggests that market concentration for private passenger coverage has exhibited a downward trend since 1997.

Figure 5
Illinois Market Concentration - Private Passenger Automobile (1996-2000)



The top ten Illinois private passenger automobile writers, liability and physical damage coverage combined, and their market shares for 2000 are:

State Farm Mutual Auto Insurance Co	29.2%
Allstate Insurance Co	10.2%
Country Mutual Insurance Co	6.4%
Illinois Farmers Insurance Co	5.2%
American Family Mutual Insurance Co	4.4%
Economy Preferred Insurance Co	1.6%
American Ambassador Casualty Co	1.4%
Allstate Indemnity Co	1.4%
GEICO General Insurance Co	1.3%
Valor Insurance Co	1.3%
Total	62.4%

Cost Containment data are collected for the private passenger automobile line of insurance. For this report, the liability component will be presented separately 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 homeowners line, the City of Chicago automobile market includes several automobile insurers that write exclusively in Chicago.

There were 279 insurers that filed private passenger automobile liability insurance data via the Cost Containment Data and Reporting Requirements (Part 4203). Of these, 250 insurers reported written premium in the City of Chicago which is 32 more companies than reported in 1999.

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
Mid Century Insurance Company
American Ambassador Casualty Company
Valor Insurance Company
Universal Casualty 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 Preferred Insurance Company
Mid Century Insurance Company
West American Insurance Company
SAFECO Insurance Company of America
Allstate Indemnity Company

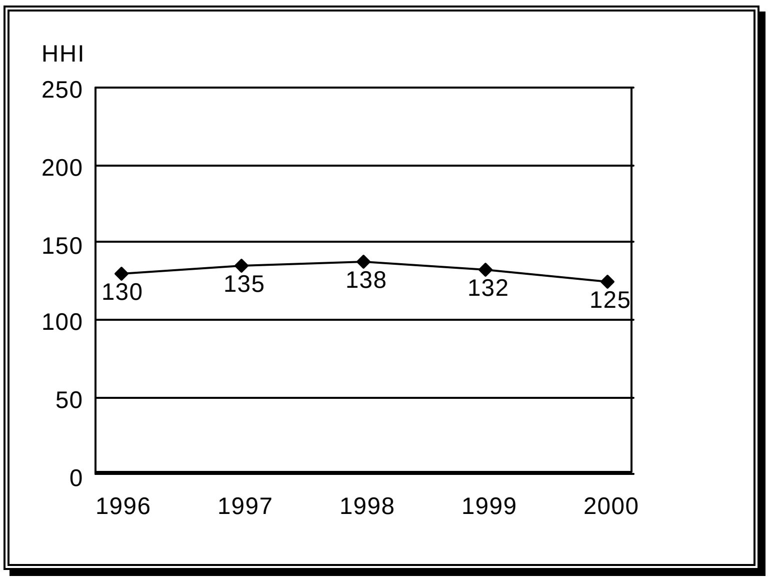
The top ten writers in the private passenger automobile liability (Chicago only) market are:

State Farm Mutual Automobile Insurance Company
Allstate Insurance Company
American Ambassador Casualty Company
Universal Casualty Insurance
American Family Mutual Insurance Company
Illinois Farmers Insurance Company
Valor Insurance Company
GEICO General Insurance Co
Founders Insurance Co
American Service Insurance Company

Commercial Automobile Liability HHI

Figure 6 provides a graph of the HHI for Illinois commercial automobile liability from 1996 through 2000. 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 (1996-2000)



The top ten Illinois commercial automobile liability writers and their market shares for 2000 are:

American Country Insurance Co	9.7%
Transguard Ins Co of America Inc	7.2%
Cincinnati Insurance Co	3.6%
State Farm Mutual Automobile Ins Co	2.5%
Northland Insurance Co	2.4%
Lancer Insurance Company	2.2%
General Casualty Company of IL	2.2%
Country Mutual Insurance Co	2.2%
North Pointe Insurance Co of IL	2.0%
Auto Owners Insurance Company	1.9%
Total	35.9%

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. Sixty-nine other companies compete for the remaining market share in this class, 15 more companies than reported in 1999. 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 of Illinois. 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
North Pointe Insurance Co of IL
American Service Insurance Co Inc
Gulf Insurance Company

The other classes of commercial automobile liability insurance collected represent the fleet and non-fleet combined trucks, tractors, and trailers classes in this line. These classes remain very competitive in Illinois. Three hundred and ninety-two companies reported positive written premium, with 67 companies writing in excess of $1 million in premium. The surplus line market wrote 51 policies and $.3 million for this coverage.

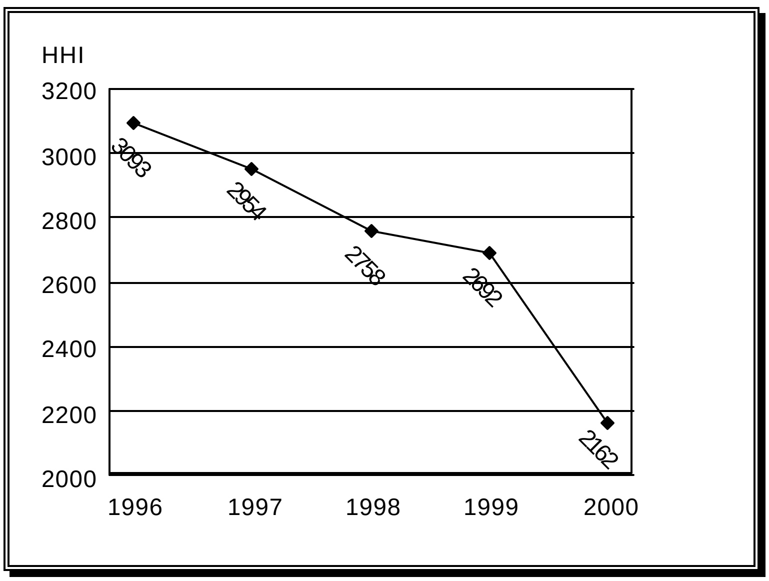
The top writers in this market are:

Transguard Ins Co of America Inc
Cincinnati Insurance Company
State Farm Mutual Automobile Insurance Company
Northland Insurance Company
General Casualty Company of IL
Country Mutual Insurance Company
Auto Owners Insurance Company
West Bend Mutual Insurance Company
Great West Casualty Company
Westfield Insurance Company

Medical Malpractice HHI

Figure 7 provides a graph for the HHI for Illinois medical malpractice coverage from 1996 through 2000. 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 ISMIE Mutual Insurance Company, which wrote 66.6% of the medical malpractice coverage in 2000. The second largest medical malpractice insurer, by direct written premium, was Pronational Insurance Company, which wrote only 7.2% of the business. Although the market is highly concentrated, with an HHI well above the 1800 level, the index has dropped significantly since 1996, as the chart shows.

Figure 7
Illinois Market Concentration - Medical Malpractice (1996-2000)



The top ten Illinois medical malpractice writers and their market shares for 2000 are:

ISMIE Mutural Insurance Company	66.6%
Pronational Insurance Co	7.2%
APSpecialty Insurance Corp	5.9%
Doctors' Company	2.8%
Physicians Insurance Company of WI Inc	2.3%
Continental Casualty Co	1.9%
Medical Protective Company	1.8%
Lawrenceville Property & Casualty Co	1.8%
Chicago Insurance Company	1.4%
Executive Risk Indemnity Inc	0.9%
Total	92.6%

There were 41 admitted carriers who reported the medical malpractice classes that the Department collects. As aforementioned, this line was dominated by one carrier, the ISMIE Mutual Insurance Company, previously the Illinois State Medical Interinsurance Exchange. The surplus lines market accounted for $4.3 million of medical malpractice premium for comparable classes. 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:

ISMIE Mutual Insurance Company
APSpecialty Insurance Corp
Pronational Insurance Company
Doctors' Company
American Continental Insurance Company
Continental Casualty Company
Medical Protective Company
St. Paul Medical Liability Insurance Company
Chicago Insurance Company
Frontier Insurance Company

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:

ISMIE Mutual Insurance Company
Pronational Insurance Company
APSpecialty Insurance Corp
Physicians Insurance Company of WI Inc
Lawrenceville Property & Casualty Co
Doctors' Company
Executive Risk Indemnity Inc
PACO Assurance Company Inc
Continental Casualty Company
Chicago Insurance Company

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

Medical Protective Company
National Fire Insurance Company of Hartford
Continental Casualty Company
Firemans Fund Insurance Company
Aaoms National Insurance Company, RRG

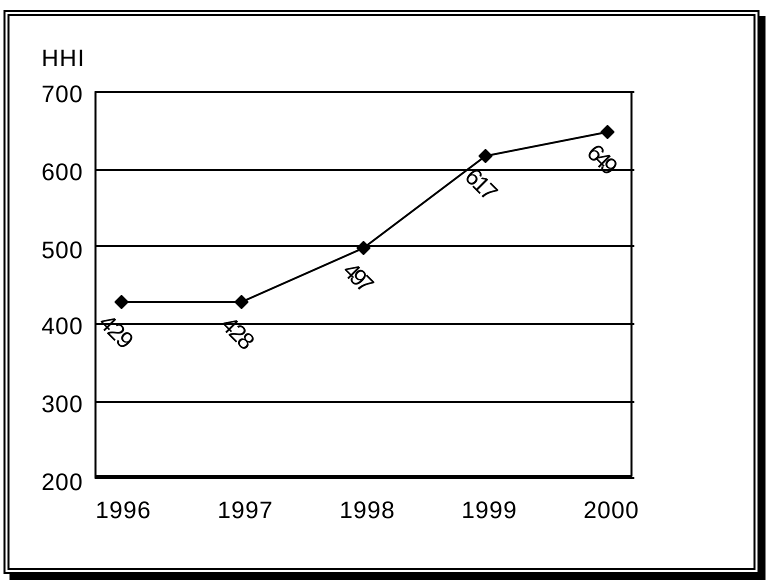
The top five writers in the *medical-surgery* classes market are:

ISMIE Mutual Insurance Company
APSpecialty Insurance Corporation
Doctors' Company
Medical Protective Company
Pronational Insurance Company

Other Liability HHI

Figure 8 provides a graph of the HHI for Illinois other liability insurance from 1996 through 2000. The figure indicates that the market for other liability insurance in Illinois has become more concentrated but continues to be very competitive.

Figure 8
Illinois Market Concentration - Other Liability
(1996 - 2000)



The top ten Illinois other liability writers and their market shares for 2000 are:

Underwriters at Lloyds London	23.7%
Continental Casualty Co	20.1%
Illinois State Bar Assn Mutual Ins Co	13.9%
Great American Insurance Co of NY	6.8%
Illinois Casualty Company	6.6%
Chicago Insurance Company	3.7%
Executive Risk Indemnity Inc	3.2%
National Union Fire Insurance Co of Pittsburgh	2.3%
First Financial Insurance Company	2.2%
Constitutional Casualty Company	1.5%
Total	84.0%

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.

In 2000 there were four companies writing more than $1 million in premium in the liquor liability market. We listed five companies which wrote in excess of $1 million in premium in 1998. In 1999 we listed seven. However, even with these changes the Department has detected no drastic price increases or availability issues. In 2000, the surplus lines market wrote only 21 policies of liquor liability insurance. The liquor liability market in Illinois is strong, viable and competitive.

Underwriters at Lloyds London
Illinois Casualty Company
Continental Casualty Company
First Financial Insurance Company
Constitutional Casualty Company
Great American Alliance Insurance Company
Springfield Fire and Casualty Company

Continental Casualty Company was 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 $10.3 million. Illinois State Bar Assn. Mutual Insurance Company wrote approximately $9.3 million. The middle four companies each wrote in excess of $1 million in premium. The remaining three companies each wrote more than $500,000 in premium. In 2000, the surplus lines market wrote only 60 policies and $1.9 million in premium. The lawyers professional liability market is dominated by a few companies, and is one of the markets watched closely by the Department.

Continental Casualty Company
Underwriters at Lloyds London
Illinois State Bar Assn. Mutual Ins Co
Great American Insurance Co of NY
Chicago Insurance Company
Executive Risk Indemnity Inc
National Union Fire Insurance Co of Pittsburgh
Great American Insurance Company
General Insurance Company of America
National Casualty Company

In 2000, eighty-five admitted insurers reported day-care liability data for Illinois. The surplus lines market wrote 381 policies and almost $440,000 in premium. The top four admitted writers are:

NonProfits Insurance Assn An Inter-Insurance Exchange
Church Mutual Insurance Company
Frontier Insurance Company
West Bend Mutual Insurance Company

In 2000, 20 admitted insurers of *home day-care liability* reported data for Illinois. This is again down slightly from the previous period. State Farm Fire and Casualty Company remained number one.

State Farm Fire & Casualty Company
Country Mutual Insurance Company
Economy Preferred Insurance Company
Shelter Mutual Insurance Company
Allstate Indemnity 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 20, shows the FAIR Plan's dwelling and homeowners written premiums as a percent of total Illinois dwelling and homeowners written premiums for 1996 through 2000.

As the chart shows, homeowners insurance is widely available in the voluntary marketplace. A very small percentage of Illinois consumers (ranging from .22 to .48 percent from 1996 through 2000) 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
(1996-2000)

	Amount of Written Premiums	As % of Total Written Premiums
1996	$5,336,000	0.48
1997	$5,408,000	0.47
1998	$5,108,000	0.43
1999	$4,945,000	0.39
2000	$4,739,000	0.22

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 1996 through 2000 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 dropped from 3,719 in 1996 to 2,315 in 2000. 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
(1996-2000)

	1996	1997	1998	1999	2000
Illinois	0.06	0.04	0.03	0.03	0.03
Nationwide	2.93	2.46	2.10	1.52	1.42

Source: AIPSO Facts 2001 (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. **Figures 11.a, 11.b** and **11.c** show data for the Assigned Risk Pool.

Figure 11.a shows the percent of Illinois workers' compensation premiums written through the Workers' Compensation Pool from 1996 through 2000. The chart shows the amount of business being written in the residual market. During 2000, only 3.5% of Illinois direct premiums written for workers' compensation was written through the Workers' Compensation Pool.

Figure 11.a
Percent of Illinois Workers' Compensation Written Through Pool (1996-2000)

	1996	1997	1998	1999	2000
Percent of Total	5.2	4.3	2.8	2.5	3.5

Source: National Council on Compensation Insurance (NCCI)

Each insurer participating in the Plan that removes an employer is eligible for a take-out credit. **Figure 11.b** shows the 2000 Illinois take-out credit results for the pool. Take-out credit results for 2000 show a decrease from the 1999 results in both policies and dollars. Polices are down by almost 25% and the dollars have decreased approximately 35%.

Figure 11.b
2000 Illinois Take-Out Credit Results

Total Number of Policies	Approved Credit
1,067	$2,556,252

Source: National Council on Compensation Insurance (NCCI)

Figure 11.c shows the total premium in Illinois for the top ten class codes in the residual market for calendar year 2000 based on written premium.

Figure 11.c
Illinois Residual Market Top Ten Classification Codes
Calendar Year 2000

Rank	Code	Description	Total State Premium	% of Premium
1	4484	Plastics Manufacturing	$3,289,274	5.5%
2	5645	Carpentry Detached	$2,633,658	4.4%
3	5551	Roofing	$2,477,074	4.2%
4	8861	Charitable Organizations	$1,596,885	2.7%
5	7228	Trucking, Local Hauling Only	$1,436,934	2.4%
6	5538	Sheet Metal Work	$1,427,298	2.4%
7	8018	Store, Wholesale NOC	$1,166,255	2.0%
8	9014	Buildings, Operation by Contractor	$1,133,868	1.9%
9	7229	Trucking, Long Distance Hauling	$1,112,353	1.9%
10	8868	College Professional Employees	$1,105,091	1.9%

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 policies written in Illinois from 1996 to 2000 through surplus lines producers for homeowners, private passenger auto liability and physical damage, commercial auto liability, medical malpractice and general liability coverage. The large increase in the Homeowner policy count in 2000 is because Mount Vernon

Fire Insurance Co. and Safeco Surplus Lines Insurance Co. brought new program business into the surplus market.

Figure 12
Surplus Lines - Number of primary and excess policies written in Illinois
(1996 - 2000)

Line of Business	1996 Illinois Policy Count	1997 Illinois Policy Count	1998 Illinois Policy Count	1999 Illinois Policy Count	2000 Illinois Policy Count
Homeowners	1,377	626	669	987	1,955
PPA Liability	908	1,016	933	718	475
PPA Physical Damage	8,769	9,590	10,162	7,797	5,531
Commercial Auto Liability	96	47	52	33	51
Medical Malpractice	776	703	548	494	451
Other Liability	12,769	13,223	11,526	11,108	12,078

Source: Surplus Lines Association of Illinois

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 and are subject to examination by the Director.
>
> *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. At the end of year 2000, there were 47 foreign registered risk retention companies, only 2 Illinois domiciled risk retention companies, and 441 risk purchasing groups.

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 insure consumers.

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 2000. As figure 14 shows, the Illinois loss percentage for the year was quite a bit higher than the nationwide loss ratio, but loss expenses and taxes were similar to nationwide results. Note that there were a number of weather-related events occurring in Illinois in 2000 which significantly contributed to the losses in the homeowners line. A number of these events may not have met the threshold for being characterized as a catastrophe; nevertheless, they accounted for a large portion of the Illinois homeowner losses in 2000.

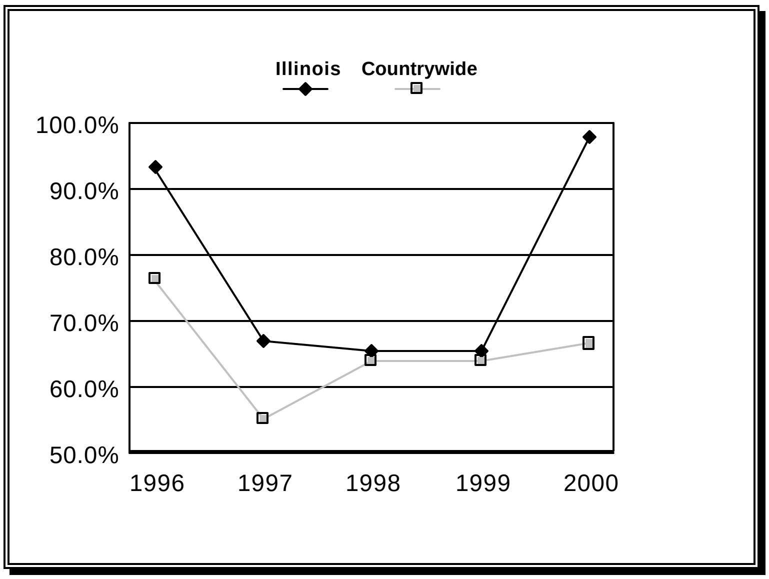
Figure 14
Homeowner's Underwriting Results
(2000)

Direct written premiums	$1,319,343	$34,637,795
Direct earned premiums	$1,292,333	$33,824,921
Expenses (*% earned premium*)		
Incurred loss	97.8%	66.4%
Def. & cost cont. exp. incurred	2.1%	2.1%
Comm./brokerage	14.7%	14.5%

* Source: NAIC State Data Network, 2000 Illinois State Page Exhibit, Aggregate Totals of 248 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 2418 Property/Casualty Companies.

Figure 15 compares the five-year trend for loss percentages in Illinois and countrywide in the homeowners line of business. As the chart shows, homeowners losses in Illinois as a percent of earned premium were significantly higher than nationwide losses during 1996 and 1997, mirrored the nationwide homeowners losses in 1998 and 1999, and were significantly higher than the nationwide figure again in 2000.

Figure 15
Homeowners Losses as a % of Premiums Earned (1996-2000)



Private Passenger Automobile

Figure 16, on the following page, compares the underwriting results of private passenger automobile insurance written in Illinois with that written countrywide during 2000. The aggregate underwriting results in Illinois in the private passenger auto line of business were comparable with the results nationwide.

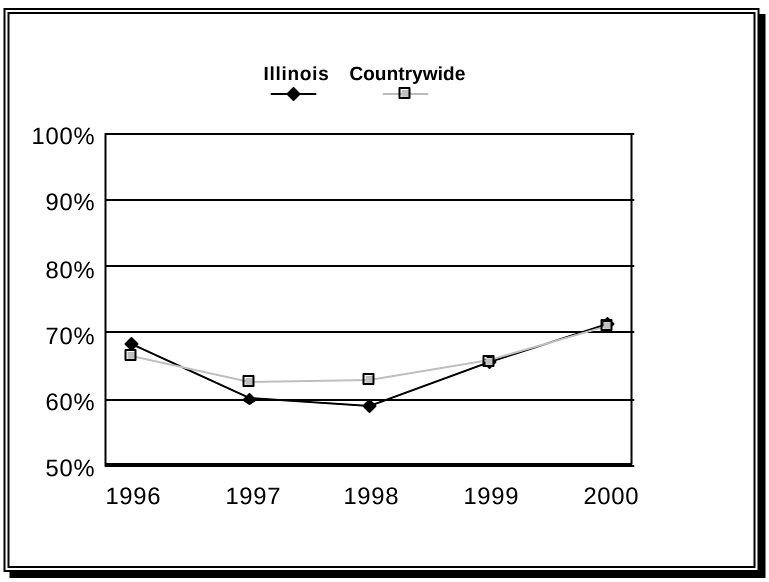
Figure 16
Private Passenger Automobile Underwriting Results (2000)

Private Passenger Automobile	**Illinois***	**Countrywide****
Direct written premiums	$4,609,124	$122,040,906
Direct earned premiums	$4,636,409	$121,596,317
Expenses (*% earned premium)*		
Incurred losses	71.3%	71.1%
Def. & cost cont. exp. incurred	3.2%	3.0%
Comm./brokerage	10.6%	9.4%

* Source: NAIC State Data Network, 2000 Illinois State Page Exhibit, Aggregate Totals of 326 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 2418 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 (1996-2000)



Commercial Automobile Liability

Figure 18 shows that the loss and loss expense percentages in Illinois in the commercial automobile liability line during 2000 were similar to those countrywide.

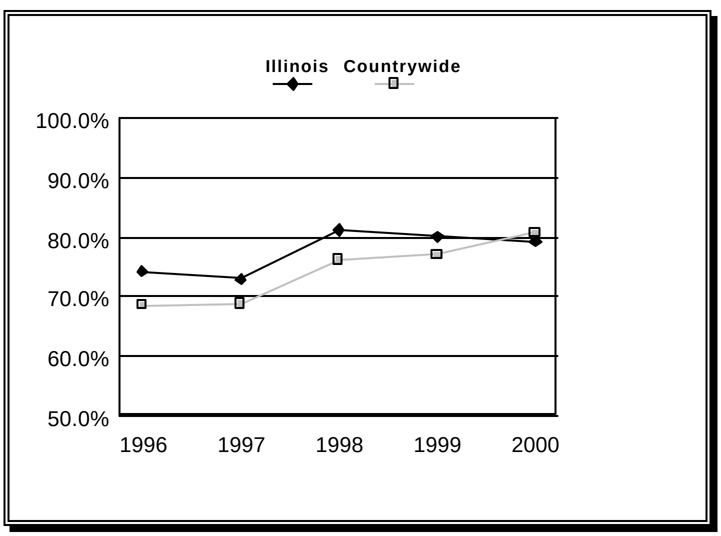
Figure 18
Commercial Automobile Liability Underwriting Results (2000)

Commercial Automobile Liability		
Direct written premiums	$626,136	$15,001,846
Direct earned premiums	$605,902	$14,489,854
Expenses (*% earned premiums)*		
Incurred losses	79.3%	80.8%
Def. & cost cont. exp. incurred	8.1%	7.3%
Comm./brokerage	13.7%	14.7%

* Source: NAIC State Data Network, 2000 Illinois State Page Exhibit, Aggregate Totals of 357 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 2418 Property/Casualty Companies.

Figure 19 compares the five-year trend for loss percentage for Illinois and countrywide commercial automobile liability. The trend over the past five years in loss percentages in Illinois has been similar to those countrywide.

Figure 19
Commercial Auto Liability Losses as a % of Premiums Earned (1996-2000)



Medical Malpractice

Figure 20 shows the loss percentages and expenses percentages for the medical malpractice market for Illinois and countrywide for 2000. The loss percentage in Illinois for this line was significantly higher than the aggregate countrywide figures. This is due a significant increase in litigation in Illinois.

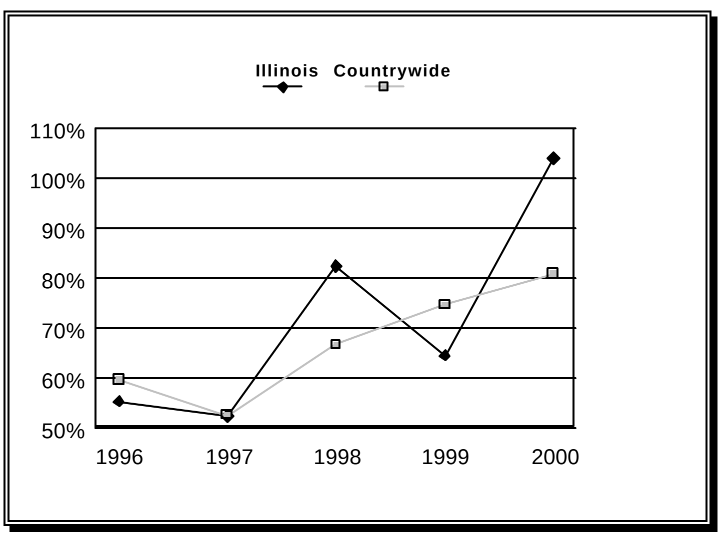
Figure 20
Medical Malpractice Underwriting Results (2000)

Medical Malpractice ($000 omitted)	**Illinois***	**Countrywide****
Direct written premiums	$360,873	$6,299,002
Direct earned premiums	$365,821	$6,254,398
Expenses (*% earned premiums*)		
Incurred losses	104.0%	80.9%
Def. & cost cont. exp. incurred	20.9%	26.1%
Comm./brokerage	6.4%	6.4%
[illegible]	[illegible]	[illegible]

* Source: NAIC State Data Network, 2000 Illinois State Page Exhibit, Aggregate Totals of 76 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 2418 Property/Casualty Companies.

Figure 21 compares the five-year loss percentages trend for Illinois and countrywide medical malpractice insurance. Underwriting losses have been significantly more volatile from year to year in Illinois than nationwide aggregate loss percentages over the past five years.

Figure 21
Medical Malpractice Losses as a % of Premiums Earned (1996-2000)



Other Liability

Figure 22 compares the underwriting results between Illinois and countrywide for the other liability line of business. The Illinois loss percentage was similar to the countrywide percentage in 2000, however, other expenses, such as defense and commission/brokerage, were significantly lower.

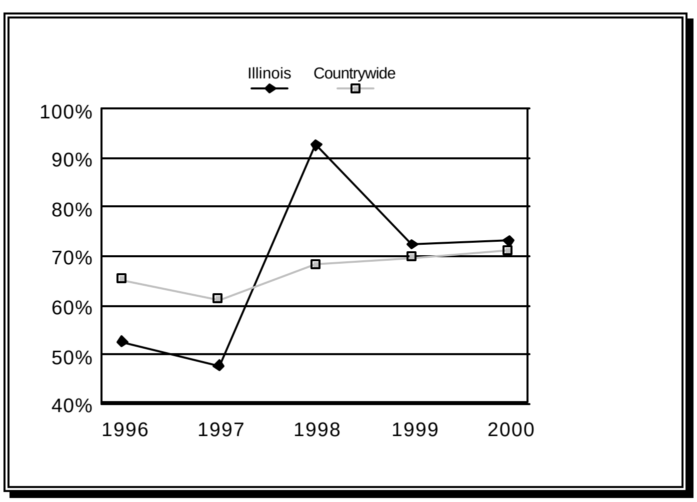
Figure 22
Other Liability Underwriting Results (2000)

Other Liability ($000 omitted)	[illegible]	[illegible]
Direct written premiums	$1,918,829	$25,966,325
Direct earned premiums	$1,707,121	$24,260,729
Expenses (*% earned premium*)		
Incurred losses	73.1%	71.0%
Def. & cost cont. exp. incurred	6.2%	13.6%
Comm./brokerage	9.3%	14.6%
[illegible]		

* Source: NAIC State Data Network, 2000 Illinois State Page Exhibit, Aggregate Totals of 453 Property/Casualty Companies.
**Source: Best's Aggregates & Averages 2001, Insurance Expense Exhibit Part III, Aggregate Totals of 2418 Property/Casualty Companies.

Figure 23 compares the five-year trend for loss percentages for Illinois and countrywide for other liability insurance. Compared to nationwide losses, Illinois losses, as a percent of earned premium, have been more volatile over the past five years. It is notable, however, that the 1999 and 2000 loss percentages for the Illinois other liability line mirror the countrywide loss percentages.

Figure 23
Other Liability Losses as a % of Premiums Earned (1996-2000)



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. It must generate enough profit to survive and succeed. In a given month, if expenses exceed income, they must be paid from the reserve fund. If the trend continues, reserve funds run out causing the business to collapse. Therefore, it is imperative that insurance companies manage income and expenses to assure profitability and survival.

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.

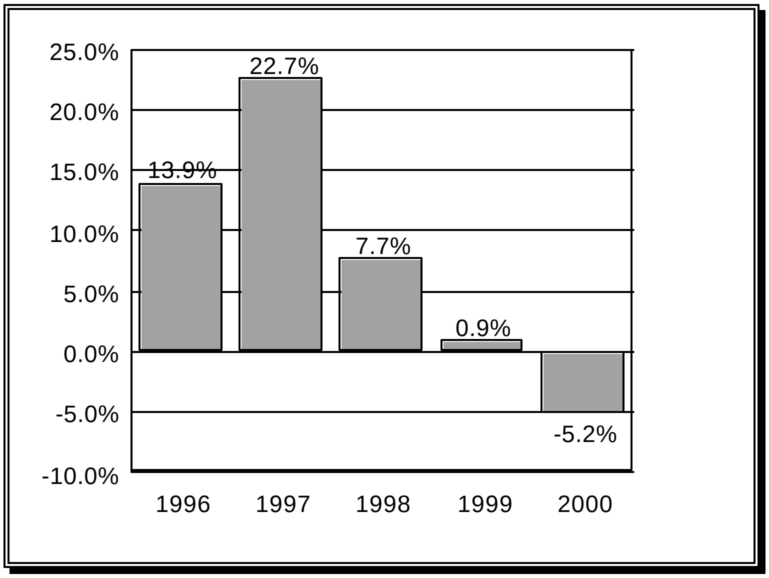
Profitability

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, on the following page, shows the percent change in policyholders' surplus for the Illinois-licensed property/casualty industry over the past five years. As the chart shows, the industry actually showed a loss of surplus from year-end 1999 to 2000, following recent years of strong surplus growth. Not since 1984, when surplus declined by 2.7 percent, has there been negative surplus growth. The 2000 surplus decline was due mainly to large unrealized capital losses.

Figure 24
Percent Change in Policyholders' Surplus (1996-2000)



Source: NAIC State Data Network

Although Illinois-licensed insurers experienced an increase in net investment gains (the sum of net investment income earned and realized capital gains) of $3.0 billion from the 1999 figure, unrealized capital losses amounted to $20.1 billion in the year 2000. **Figure 25** shows net investment income earned, net income, unrealized capital gains/losses and policyholders' surplus for the past five years.

Figure 25
Net Investment Income Earned, Net Income, Unrealized Capital Gains/Losses and Policyholders' Surplus 1996-2000 (in millions)

	1996	**1997**	**1998**	**1999**	**2000**
Net Investment Income Earned	$40,958	$47,848	$52,339	$48,420	$51,060
Net Income	21,776	34,531	28,652	22,797	21,231
Unrealized Capital Gains/Losses	13,303	33,174	12,483	789	**(20,077)**
Policyholders' Surplus	247,846	304,706	328,714	331,304	312,966

Underwriting Gains/Losses

Figure 26 shows the aggregate *Underwriting Gain/Loss* for Illinois-licensed insurers from 1996 to 2000. As the table shows, net underwriting losses decreased from 1996 to 1997, and then dramatically increased in 1998, 1999 and 2000. While premium grew 6.8 percent from 1997 to 2000, losses, loss expenses and other underwriting expenses increased 16.2 percent during that time.

Figure 26
Aggregate Net Underwriting Gain/(Loss) (in millions)
(1996 - 2000)

	1996	**1997**	**1998**	**1999**	**2000**
Premiums earned	$222,460	$228,209	$231,208	$234,928	$243,787
Losses incurred	145,286	137,686	146,238	153,860	166,963
Loss expenses incurred	28,833	28,492	30,485	31,454	30,939
Other underwriting expenses incurred	60,805	63,676	65,678	67,654	69,109
Dividends to policyholders	1,947	3,443	3,412	1,835	2,371
Net underwriting gain/(loss)	($14,411)	($5,088)	($14,605)	($19,875)	($25,595)

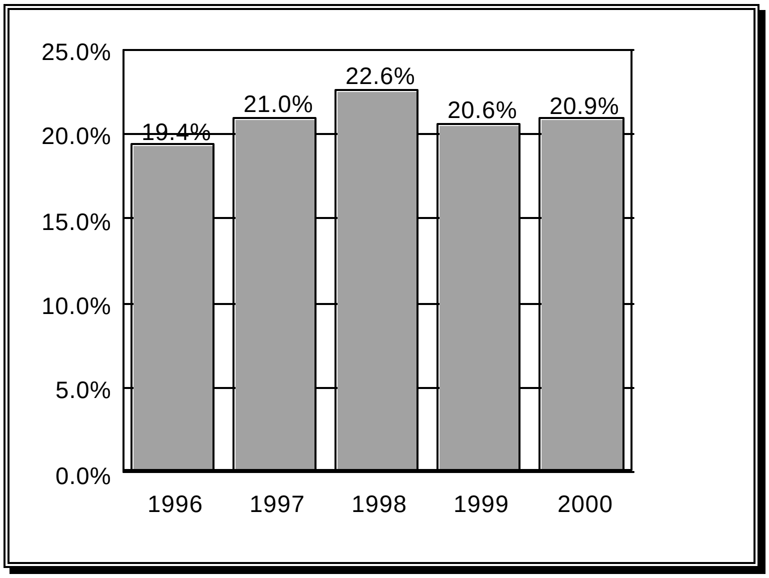
Source: NAIC State Data Network

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 27, on the following page, shows the *Net Investment Income Ratio* for Illinois licensed property/casualty industry combined during the five year period. This ratio hit a five-year high of 22.6 percent in 1998, and has remained above the 20 percent mark during 1999 and 2000.

Figure 27
Net Investment Income Ratio
(1996-2000)



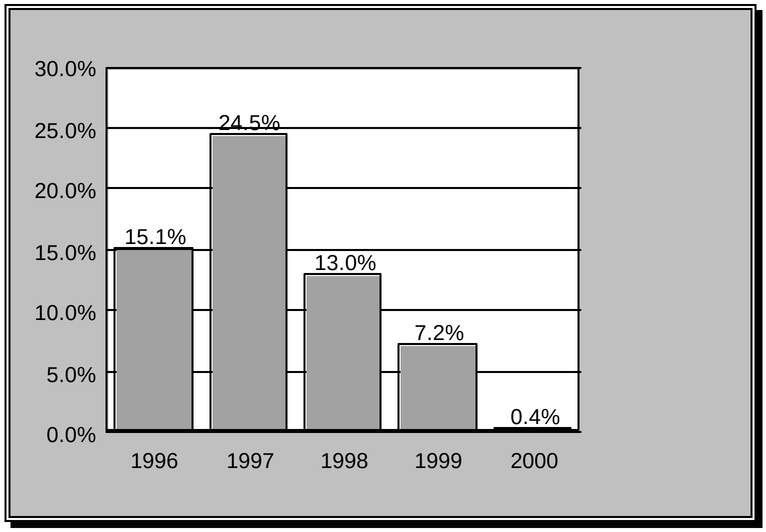
Source: NAIC State Data Network

Return on Policyholders' Surplus

Another measure of overall profitability is the *Return on Policyholders' Surplus*. It is the sum of net income after dividends and taxes and unrealized capital gains divided by the average of the current year and prior year's policyholders' surplus.

Figure 28, on the following page, shows the aggregate *Return on Policyholders' Surplus* from 1996 through 2000 for the Illinois-licensed property/casualty industry combined. As Figure 27 shows, Return on Policyholders' Surplus has declined sharply since 1997.

Figure 28
Return on Policyholders' Surplus
(1996 - 2000)



Source: NAIC State Data Network

Financial Solvency Regulation

Although the Department cannot guarantee that Illinois-licensed insurers are profitable, we do continually monitor the financial solvency and strength of Illinois-licensed insurers in several ways including:

- 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 determine 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

Catastrophic Events - 2000

Since 1997, the Property Claim Services (PCS) Unit of Insurance Services Office (ISO) has considered events that cause more than **$25 million** in insured losses to be a catastrophic event. Prior to 1997, the threshold was **$5 million**. Insured losses span a wide range of catastrophes from 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.

Using the current standards for catastrophic losses, the total catastrophic losses in the United States declined from $8.3 billion in 1999 to $4.3 billion in 2000. The 1999 and 2000 insured losses were relatively small when compared to the 1992 and 1994 losses of $27.3 and $19.1 billion dollars, respectively. **Figure 28** compares insured losses from U.S. catastrophes from 1990 to 2000.

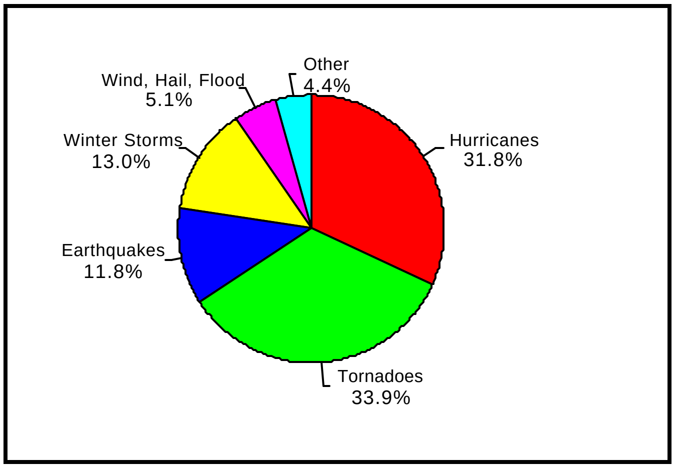
Figure 28
Comparison of Insured Losses for U. S. Catastrophes
(1990 - 2000) $ millions

Year	Losses
1990	$3,601
1991	$5,777
1992	$27,276
1993	$6,578
1994	$19,122
1995	$9,084
1996	$7,831
1997	$2,699
1998	$10,292
1999	$8,321
2000	$4,300

Source: The Insurance Information Institute Fact Book 2002

Figure 29 provides a breakdown of the types of events contributing to catastrophic losses from 1979 through 2000 in the United States. It is notable that hurricanes and tornados account for two of every three dollars of insured catastrophic losses in the United States. For perspective, hail and wind account for eight of every ten dollars expended on catastrophic losses in Illinois.

Figure 29
Catastrophic Losses By Cause
(1980 -- 2000)



Source: The Insurance Information Institute Fact Book 2002

The National Climate Data Center (NCDI) maintains a database of all weather-related events occurring in the United States by state. The NCDI makes no distinction between insured and uninsured property damage. The organization reported that, in Illinois, there were 1,147 weather related events causing more than $22.1 million of property damage and $815,000 of crop damage in 2000. Eighty-nine of the 1,147 events caused damage exceeding $10,000 each. Nine deaths and 37 injuries were associated with these events. Thus, the catastrophic losses contributed to the increase in the loss ratio for the homeowners line.

The top three perils were hail, wind, and flooding which accounted for 58, 23, and 13 percent respectively of the property damage in Illinois. Notable losses were $7 million in Goreville (hail), $4 million in Indianola (hail), $1.1 million in McLean County (wind), and two $1 million losses in Robinson (flash floods).

Who should pay for catastrophes? In recent years, this has been a frequently debated issue. Many insurers are convinced that the industry simply lacks the capacity to insure against disasters and want government to play a larger role.

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 recently 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.

Neither insurance regulators nor the industry can prevent natural catastrophes. The Department, nevertheless, will continue to monitor the financial solvency of individual insurers and will continue to monitor the effects of large catastrophes on the overall viability of the Illinois marketplace.

V. Analysis of Market Ending 12/31/2000

Although the Illinois property/casualty industry was very competitive in most lines, there were several issues that should be addressed. Illinois written premiums grew by 5.2 percent in 2000 which was somewhat smaller than the 5.6 percent growth rate of 1999. The 2000 Illinois loss ratio was significantly higher than the ratio for 1999 (74.8 compared to 67.0). In comparison, the countrywide (all lines) premium growth rate from 1999 to 2000 was 5.0 percent and the 1999 and 2000 loss ratios were 69.4 and 66.7, respectively. The Illinois policyholders' surplus declined by 5.2 percent in 2000. The last time the change in surplus was in negative territory was 1984 (-2.7 percent). The 2000 net underwriting gain was $25.6 billion as compared to $19.9 billion in 1999, an increase of 28.8 percent. Investment income ratios have been static since 1996 ranging from 19.4 in 1996 to 22.6 in 1998. The net investment ratio was 20.9 in 2000. Finally, the return on policyholders' surplus in 2000 was only .4 percent, the lowest in the last ten years. Just three years ago (1997), the return was 24.5. Since 1997, the net return on policyholders' surplus has dropped from 24.5 percent to 13.0 percent in 1998, to 7.2 percent in 1999, and to its current .4 percent in 2000.

Catastrophic losses were down in Illinois in 2000 by more than 30 percent. During 2000, there were 1,147 weather-related events, including 89 events with losses exceeding $10,000. The weather-related events exhibited total losses of $22.1 million which compares very favorably with the $31.8 million of 1999. In the United States, the losses declined by 48 percent from $8.3 billion in 1999 to $4.3 billion in 2000. Thus, in this regard, both Illinois and national insurers had a relatively good year. We should, however, note that weather-related events did contribute to the 2000 homeowners loss ratio.

In the personal lines, Illinois written premiums increased by 5.0 and 1.1 percent, respectively, in the homeowners and automobile (combined) line. In comparison, the countrywide growth rates for homeowners and automobile (combined) written premium were 6.6 percent and 1.6 percent, respectively. The Illinois loss ratios for 2000 were 97.8 for homeowners and 71.3 for automobile (combined). The corresponding countrywide ratios were 66.4 and 71.1, respectively.

The homeowners loss ratio of 97.8 for 2000 was troubling. After further analysis, the Illinois Department of Insurance discovered that all of the top twenty Illinois homeowners insurers' loss ratios increased from 1999 to 2000. In fact seventeen of the top twenty insurers experienced increases exceeding 10 percent. We found that the loss ratio of 97.8 did not result from two or three large insurers suffering a very bad year. Further, the Department found that insurers in adjacent states, such as Minnesota (131.9) and Wisconsin (121.3), had even worse loss experience. With this knowledge, we contacted several Illinois insurers for a specific explanation. Several insurers reported that a very severe hail storm in northern Illinois and the Chicago metro area on May 18, 2000 could explain much of their loss increases. In fact, one prominent insurer shared that its incurred losses from storm damages in 2000 were six times greater than in 1999 and that the number of claims in May 2000 were seven times greater than the number of claims in May 1999. Further, catastrophic losses have continued to be a factor in the rise of claims costs. The large number of non-catastrophic events, not meeting the threshold set by Property Claims Services, can add significantly to the total losses. Home construction and restoration costs are accelerating. Liability claims continue to increase in this line, accounting for more than ten percent of the total losses. Similar to nationwide, Illinois insurers have experienced an increase in frequency and severity of claims during the last few years. Nevertheless, since most insurers spread catastrophic losses over a ten-year period, these insurers suggest that the likely price increases in homeowners premiums in the coming years will, generally, be gradual. The Department will keep a watchful eye on this situation.

Competition remains keen in the majority of markets. The degree of competition can be validated by the results of accepted economic measures of competition such as concentration ratios and the Herfindahl-Hirschman Index (HHI) reported herein. As expected, two insurers control a large percentage of the personal lines business. However, the strong competition for the remaining share certainly offsets any potential anti-competitive posturing by the top two writers. The Herfindahl-Hirschman Indices (HHI) for the homeowners (1271) and automobile lines (1035) are generally higher than the indices for the commercial lines but they are certainly not approaching the threshold of 1800 that triggers the need for further investigation. Additionally, 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 market share. Further, the continued small market shares exhibited by the alternative mechanisms, as reported by the Fair Plan, Automobile Insurance Plan Insurance Office (AIPSO), Surplus Lines Association, Workers' Compensation Assigned Risk Pool 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 in Illinois are less capital intensive and less concentrated than the personal lines. Measures of concentration suggest that, generally, all commercial lines (except medical malpractice) are extremely competitive. The medical malpractice line is the only line of insurance that exceeds the threshold of being too concentrated. As in previous years, ISMIE Mutual Insurance Company (formerly the Illinois State Medical Interinsurance Exchange) wrote a high percentage of the business in this line (66.6 percent). The HHI in this line, however, is on a steep downward trend as it has declined by more than 30 percent from 3093 in 1996 to 2162 in 2000. ISMIE Mutual Insurance Company provides much needed coverage to the medical community. This is a line that the Department continues to closely monitor.

Anecdotal evidence and hard data suggest that some Illinois customers are beginning to experience difficulty in obtaining coverages that they desire as certain markets may be described as *hardening*. In other words, availability may be an issue in some markets as consumers find it more difficult to obtain desired coverage at a price they are willing to pay. As a result, some consumers may be searching for an alternative solution or alternative market. Currently, this is more true for commercial lines but concerns are also being expressed in the personal lines area. In 2000, price increases were felt in the commercial lines insurance markets. The industry is reporting that renewal premiums are continuing to rise. Some insurance buyers with poor loss histories are already beginning to find insurance coverage more difficult to obtain in their preferred markets. Examples are workers' compensation insurance and medical malpractice coverage for nursing homes.

Although there may be some uneasiness among some of the participants in the Illinois marketplace, the property/casualty industry has proven that it can adjust to market changes and remain relatively efficient and financially stable. For this reason, the Department recommends no changes to the current regulatory environment. The Department maintains its position that a market governed by "open competition" will result in the most efficient system of insurance cost containment.

The Department will continue to identify problems and formulate regulatory solutions. Even though the financial results are not as good as they have been in the past, Illinois insurers continue to provide Illinois citizens with insurance that is relatively affordable and accessible. The Department has identified *hardening* insurance markets in this report. The vast majority of Illinois insurers and consumers, as in the past, will adjust to the changing marketplace. The Department will continue to vigilantly monitor these *hardening* insurance markets.

Update to Annual Report for 2002

The Illinois General Assembly, through the Cost Containment Act of 1986 (Article XLII, 215 ILCS 5/1202d), requires the Illinois Director of Insurance to submit an **Annual Report to the Illinois General Assembly on Cost Containment** by April 15th of each year. Traditionally, we have used the most complete Annual Statement data, which at this point is two years old. This means that this **Annual Report to the Illinois General Assembly on Insurance Cost Containment** for 2002 describes the Illinois insurance markets as of December 31, 2000.

Due to dramatic changes in the property and casualty markets in 2001 and the first quarter of 2002, the Department finds it necessary to provide updated information to the General Assembly. The events of September 11, 2001 and related terrorist coverage provisions have and will have a lingering effect on the insurance markets, particularly the commercial lines. The General Assembly needs to be aware of the severe hardening of the homeowners and commercial lines insurance markets. The information will be contained in a supplement to this report that should be released in the next two to three weeks. The supplement will provide more current information on the Illinois insurance markets.

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APPENDIX A - Consolidated Assets of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2000

	Assets	Ledger Assets Current Year	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets Current Year	Net Admitted Assets Prior Year
01	Bonds (less $(1) liability for asset transfers with put options)	412,830,000,000	-121,532,527	1,522,357,671	411,186,000,000	418,569,000,000
02.1	Preferred stocks (stocks)	9,229,762,401	-46,314,052	433,054,196	8,750,394,154	8,083,845,869
02.2	Common stocks (stocks)	129,088,000,000	99,191,096,216	4,120,956,870	224,158,000,000	237,517,000,000
03.1	First liens (mortgage loans on real estate)	1,250,900,829	0	5,606,976	1,245,293,853	1,565,355,974
03.2	Other than first liens (mortgage loans on real estate)	81,803,866	0	334,564	81,469,302	59,936,712
04.1	Properties occupied by the company (less $(1) encumbrances) (real estate)	7,375,880,410	9,944,451	23,882,069	7,361,942,792	7,148,666,997
04.2	Other properties (less $(1) encumbrances) (real estate)	880,351,993	-4,973,055	5,230,968	870,147,970	848,926,638
05	Cash ($(1)) and short-term investments ($(2))	30,776,762,216	0	75,600	30,776,686,616	23,424,775,780
06	Other invested assets	25,761,630,048	3,015,384,768	234,476,532	28,542,538,285	26,297,958,714
07	Receivable for securities	2,754,968,136	130,000	724,444	2,754,373,692	1,552,201,906
08	Aggregate write-ins for invested assets	1,764,440,182	655,945,387	36,944,389	2,383,441,180	894,141,044
09	Subtotals, cash and invested assets	621,794,000,000	102,700,000,000	6,383,644,279	718,110,000,000	725,962,000,000
10.1	Premiums and agents' balances in course of collection (after deducting ceded reinsurance balances payable of $(1))	18,541,390,083	-8,944,490	2,114,436,935	16,418,008,658	16,467,968,466
10.2	Premiums, agents' balances and installments booked but deferred and not yet due (after deducting ceded reinsurance balances payable of $(1)) (including $(2) earned but unbilled premium)	35,677,109,492	266,570	656,824,944	35,020,551,120	33,159,065,891
10.3	Accrued retrospective premiums (after deducting ceded reinsurance balances payable of $(1))	822,989,723	3,141,634,866	275,974,629	3,688,649,956	3,863,537,674
11	Funds held by or deposited with reinsured companies	6,192,572,616	0	46,056,341	6,146,516,275	5,237,289,769
12	Bills receivable, taken for premiums	466,471,434	0	42,622,502	423,848,932	448,363,905
13	Reinsurance recoverables on loss and loss adjustment expense payments	13,683,069,749	9,654,713	21,350,475	13,671,373,991	11,999,345,602
14	Federal income tax recoverable and interest thereon	1,150,211,746	1,046,630,464	319,699,479	1,877,142,731	1,766,650,862
14A	Guaranty funds receivable or on deposit	139,176,045	712,153	4,840,160	135,048,038	154,254,938
15	Electronic data processing equipment	2,573,844,359	0	617,434,607	1,956,409,748	2,264,156,812
16	Interest, dividends and real estate income due and accrued	491,399,263	6,281,855,273	538,406	6,772,716,131	6,908,436,096
17	Receivable from parent, subsidiaries and affiliates	6,849,204,993	18,757,462	441,403,246	6,426,559,207	6,986,855,788
18	Equities and deposits in pools and associations	1,676,797,755	9,918,441	56,739,329	1,629,976,868	1,767,877,285
19	Amounts receivable relating to uninsured accident and health plans	56,595,462	1,724,102	2,823,333	55,496,231	47,103,590
20	Other assets nonadmitted	2,560,124,047	220	2,548,342,915	11,781,352	671,311
21	Aggregate write-ins for other than invested assets	13,391,555,999	1,058,464,949	3,651,735,180	10,798,285,768	8,531,355,039
22	Totals	726,067,000,000	114,260,000,000	17,184,466,770	823,142,000,000	825,565,000,000

APPENDIX B – Consolidated Liabilities, Surplus and Other Funds of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2000

	Liabilities Surplus and Other Funds	2000	1999
1	Losses	251,683,249,965	253,759,971,543
01A	Reinsurance payable on paid losses and loss adjustment expenses	4,314,560,428	3,898,382,213
2	Loss adjustment expenses	53,187,241,218	54,010,624,483
3	Contingent commissions and other similar charges	1,771,785,065	2,180,372,046
4	Other expenses (excluding taxes, licenses and fees)	9,280,645,232	8,957,395,651
5	Taxes, licenses and fees (excluding federal and foreign income taxes)	2,426,389,252	2,352,322,264
6	Federal and foreign income taxes (excluding deferred taxes)	2,288,211,069	2,438,044,769
7	Borrowed money	2,900,258,602	2,449,408,793
8	Interest including $(1) on borrowed money	77,898,592	52,705,823
9	Unearned premiums (after deducting ceded reinsurance unearned premiums of $(1))	103,622,991,305	99,671,962,189
10A	Stockholders (dividends declared and unpaid)	1,609,663,467	224,496,362
10B	Policyholders (dividends declared and unpaid)	876,133,684	729,552,312
11	Funds held by company under reinsurance treaties	13,173,803,664	9,131,909,302
12	Amounts withheld or retained by company for account of others	3,665,036,394	3,978,116,994
13	Remittances and items not allocated	1,300,722,351	1,479,937,114
14	Provision for reinsurance	4,860,553,740	4,342,071,634
15	Excess of statutory reserves over statement reserves	470,595,329	720,801,933
16	Net adjustments in assets and liabilities due to foreign exchange rates	648,595,284	579,059,699
17	Drafts outstanding	4,409,212,129	3,847,635,996
18	Payable to parent, subsidiaries and affiliates	4,383,189,628	5,374,799,506
19	Payable for securities	2,784,006,872	1,914,833,229
20	Liability for amounts held under uninsured accident and health plans	2,847,887	2,597,880
21	Capital notes $(1) and interest thereon $(2)		
22	Aggregate write-ins for liabilities	40,439,317,300	33,272,082,180
23	Total liabilities	510,176,908,421	495,369,083,913
24	Aggregate write-ins for special surplus funds	33,313,994,646	34,735,904,734
25A	Common capital stock	3,853,894,918	3,792,565,190
25B	Preferred capital stock	1,681,585,216	1,682,585,966
25C	Aggregate write-ins for other than special surplus funds	127,163,325	117,505,784
26A	Surplus notes	5,329,428,508	4,504,581,964
26B	Gross paid in and contributed surplus	91,204,188,781	87,543,352,175
26C	Unassigned funds (surplus)	178,405,099,021	198,828,334,039
26D1	(1)Shares common (value included in common capital stock $(2)) (less treasury stock at cost)	942,628,997	1,003,494,500
26D2	(1)Shares preferred (value included in preferred capital stock $(2)) (less treasury stock at cost)	7,146,867	6,438,771
27	Surplus as regards policyholders	312,965,578,560	330,194,896,579
28	Totals	823,142,486,974	825,563,980,500

APPENDIX C - Consolidated Underwriting & Investment Exhibit of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2000

	Underwriting and Investment Exhibit	2000	1999
01	Premiums earned	243,787,069,155	232,705,012,725
02	Losses incurred	166,962,912,967	152,070,873,804
03	Loss expenses incurred	30,939,010,707	30,934,763,030
04	Other underwriting expenses incurred	69,109,484,383	66,770,117,508
05	Aggregate write-ins for underwriting deductions	354,192,834	241,405,121
06	Total underwriting deductions	267,365,600,884	250,017,159,460
07	Net underwriting gain or (loss)	(23,578,531,731)	(17,312,146,724)
08	Net investment income earned	37,245,448,576	35,939,470,330
09	Net realized capital gains or (losses)	13,814,721,457	12,073,752,393
09A	Net investment gain or (loss)	51,060,170,027	48,013,222,734
10	Net gain/(loss) from agents' or premium balances charged off (amount recovered $(1) amount charged off $(2))	(500,911,338)	(460,915,473)
11	Finance and service charges not included in premiums	1,262,870,001	1,192,197,364
12	Aggregate write-ins for miscellaneous income	(772,775,559)	(1,813,644,747)
13	Total other income	(10,816,896)	(1,082,362,857)
14	Net income before dividends to policyholders and before federal and foreign income taxes	27,470,821,398	29,618,713,145
14A	Dividends to policyholders	2,370,850,339	1,824,812,257
14B	Net income, after dividends to policyholders but before federal and foreign income taxes	25,099,971,064	27,793,900,887
15	Federal and foreign income taxes incurred	3,868,572,264	4,426,314,901
16	Net income	21,231,398,710	23,367,585,984
17	Surplus as regards policyholders, December 31 prior year	330,194,896,614	326,314,437,926
18	Net income	21,231,398,710	23,367,585,984
19	Net unrealized capital gains or (losses)	(20,077,276,910)	941,172,131
20	Change in nonadmitted assets	(1,564,853,648)	(2,059,884,975)
21	Change in provision for reinsurance	(520,466,372)	(723,802,851)
22	Change in foreign exchange adjustment	(42,334,756)	41,509,759
23	Change in excess of statutory reserves over statement reserves	250,206,600	177,038,044
23A	Change in surplus notes	824,267,713	(147,769,974)
24A	Capital changes paid in	1,308,284,450	321,587,075
24B	Capital changes transferred from surplus (stock dividend)	14,298,580	8,910,180
24C	Capital changes transferred to surplus	20,507,292	(161,158,917)
25A	Surplus adjustments paid in	2,700,735,076	5,788,688,152
25B	Surplus adjustments transferred to capital (stock dividend)	(399,263,635)	(6,910,180)
25C	Surplus adjustments transferred from capital	(93,281,334)	(7,576,220)
26	Net remittances from or (to) home office	(47,130,325)	(20,326,574)
27	Dividends to stockholders (cash)	(18,132,798,378)	(19,041,105,087)
28	Change in treasury stock	60,157,407	(564,444,510)
29	Extraordinary amounts of taxes for prior years	(27,907,590)	(14,646,465)
30	Aggregate write-ins for gains and losses in surplus	(2,733,860,768)	(4,018,406,875)
31	Change in surplus as regards policyholders for the year	(17,229,317,801)	3,880,458,688
32	Surplus as regards policyholders, December 31 current year	312,965,578,779	330,194,896,621

APPENDIX D - Consolidated Cash Flow of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2000

Line		2000	1999
1	Premiums collected net of reinsurance	245,557,270,390	234,051,694,278
2	Loss and loss adjustment expenses paid (net of salvage and subrogation)	201,676,715,044	187,204,346,033
3	Underwriting expenses paid	69,146,934,566	65,993,685,299
4	Other underwriting income (expenses)	1,533,808,591	334,936,000
5	Cash from underwriting	(23,732,570,622)	(18,811,401,047)
6	Net investment income	37,506,153,824	36,786,708,465
7.1	Agents' balances charged off (other income-expenses)	(500,911,431)	(460,898,771)
7.2	Net funds held under reinsurance treaties (other income-expenses)	3,150,666,188	(20,106,301)
7.3	Net amount withheld or retained for account of others (other income-expenses)	(319,749,506)	(351,449,446)
7.4	Aggregate write-ins for miscellaneous items (other income-expenses)	550,786,167	(490,368,456)
7.5	Total other income (other income-expenses)	2,880,791,424	(1,322,822,978)
8	Dividends to policyholders on direct business, less $(1) dividends on reinsurance assumed or ceded (net)	2,552,400,791	1,973,014,023
9	Federal and foreign income taxes (paid) recovered	(4,338,480,139)	(4,865,442,873)
10	Net cash from operations	9,763,493,702	9,814,027,538
11.1	Bonds (proceeds from investments sold,matured or repaid)	202,680,399,793	224,971,436,754
11.2	Stocks (proceeds from investments sold, matured or repaid)	77,578,382,246	73,125,185,671
11.3	Mortgage loans (proceeds from investments sold, matured or repaid)	597,201,173	385,798,549
11.4	Real estate (proceeds from investments sold, matured or repaid)	524,481,332	686,672,917
11.5	Other invested assets (proceeds from investments sold, matured or repaid)	20,671,041,314	12,900,684,729
11.6	Net gains or (losses) on cash and short-term investments (proceeds from investments sold, matured or repaid)	5,153,439	(3,859,292)
11.7	Miscellaneous proceeds (proceeds from investments sold, matured or repaid)	847,436,706	1,510,643,860
11.8	Total investment proceeds (proceeds from investments sold, matured or repaid)	302,904,096,000	313,576,563,186
12.1	Bonds (cost of investments acquired - long-term only)	197,155,516,344	219,507,374,138
12.2	Stocks (cost of investments acquired - long-term only)	72,847,252,019	70,225,383,878
12.3	Mortgage loans (cost of investments acquired - long-term only)	270,629,929	259,888,763
12.4	Real estate (cost of investments acquired - long-term only)	1,044,271,508	1,515,144,800
12.5	Other invested assets (cost of investments acquired - long-term only)	21,516,703,218	21,330,264,007
12.6	Miscellaneous applications (cost of investments acquired - long-term only)	1,214,847,218	2,235,913,491
12.7	Total investments acquired (cost of investments acquired - long-term only)	294,049,220,226	315,073,969,083
13	Net cash from investments	8,854,875,778	(1,497,405,901)
14.1	Surplus notes, capital and surplus paid in (cash provided)	5,602,337,915	4,587,900,510
14.2	Capital notes $(1) less amounts repaid $(2) (cash provided)		
14.3	Net transfers from affiliates (cash provided)	5,054,719,021	5,854,423,763
14.4	Borrowed funds received (cash provided)	2,733,913,328	2,340,013,708
14.5	Other cash provided (cash provided)	11,171,365,926	7,091,366,827
14.6	Total cash provided (cash provided)	24,562,336,185	19,873,704,805
15.1	Dividends to stockholders paid (cash applied)	17,750,612,022	19,214,653,648
15.2	Net transfers to affiliates (cash applied)	5,307,092,666	7,710,319,513
15.3	Borrowed funds repaid (cash applied)	2,234,671,621	1,317,281,671
15.4	Other applications (cash applied)	10,527,360,267	11,265,469,803
15.5	Total cash applied (cash applied)	35,819,736,578	39,507,724,634
16	Net cash from financing and miscellaneous sources	(11,257,400,394)	(19,634,019,820)
17	Net change in cash and short-term investments	7,360,969,087	(11,317,397,604)
18.1	Beginning of year (cash and short-term investments)	23,416,490,393	34,733,888,342
18.2	End of year (cash and short-term investments)	30,777,459,491	23,416,490,739

Appendix E - Consolidated Exhibit of Premiums and Losses in the State of Illinois for All Illinois-licensed Property/Casualty Insurers in the Year 2000

	Line of Business	1 Direct Premiums Written	2 Direct Premiums Earned	3 Dividends Paid or Credited to Policy-holders' On Direct Business	4 Direct Unearned Premium Reserves	5 Direct Losses Paid (deducting salvage)	6 Direct Losses Incurred	7 Direct Losses Unpaid	8 Direct Defense And Cost Containment Expense Paid	9 Direct Defense And Cost Containment Expense Incurred	10 Direct Defense And Cost Containment Expense Unpaid	11 Commission & Brokerage Expenses	12 Taxes Licenses & Fees
1	Fire	149,307,633	148,256,622	191,972	64,968,986	107,448,563	92,967,678	61,204,746	1,810,111	1,644,852	2,867,904	20,683,124	3,079,251
2.1	Allied lines	142,196,084	145,495,295	3,467,654	43,676,108	115,037,832	114,429,017	49,861,199	1,884,707	1,947,099	2,491,481	23,275,871	2,800,444
2.2	Multiple peril crop	144,330,097	144,379,206		184,277	56,480,768	56,983,389	34,883,149	113,652	117,252	4,178	19,252,353	919,350
2.3	Federal flood	14,557,282	14,774,282		7,596,082	1,259,975	1,243,646	579,949	118,533	116,814	3,067	1,567,861	279,544
3	Farmowners multiple peril	78,518,494	78,140,333		30,985,837	50,863,111	52,146,185	23,495,223	900,208	1,033,200	3,412,214	12,263,324	526,121
4	Homeowners multiple peril	1,319,343,491	1,292,332,909	1,255,726	696,576,782	1,089,862,182	1,263,503,799	514,669,120	23,607,690	27,727,421	55,484,947	189,823,831	14,331,413
5.1	Commercial multi-peril (non-liability portion)	577,208,383	561,069,090	228,302	274,187,967	394,186,604	325,805,000	261,051,044	13,907,282	14,676,246	32,865,414	96,677,792	9,574,852
5.2	Commercial multiple peril (liability portion)	408,123,500	404,638,625	161,935	174,008,984	228,368,788	265,143,791	825,712,257	79,279,981	74,493,322	265,778,551	68,603,110	5,887,818
6	Mortgage guaranty	178,170,851	178,169,053		15,821,858	24,995,151	51,689,951	265,333,019	566,475	1,059,608	1,787,919	912,217	3,823,565
8	Ocean marine	54,121,689	76,659,551	55,291	(8,139,795)	28,141,692	29,551,494	50,581,173	2,937,419	4,484,013	5,665,390	9,221,146	872,257
9	Inland marine	346,737,275	351,850,232	387,853	172,034,933	129,653,793	127,838,024	92,755,803	5,447,220	5,493,342	6,547,294	61,404,061	5,699,605
10	Financial guaranty	59,586,989	56,051,052		251,849,334	1,500,606	4,428,829	15,891,293	9,674	(160,691)	259,796	25,810	1,579,188
11	Medical malpractice	360,872,914	365,821,115	617,261	87,414,874	323,169,244	380,554,101	1,234,208,936	87,060,402	76,601,692	308,981,972	23,305,338	2,988,149
12	Earthquake	26,837,079	25,788,149	34,011	12,859,949	477,664	1,184,230	1,599,890	1,495	28,849	115,315	3,765,280	383,502
13	Group accident and health	278,795,442	262,676,804		74,041,315	235,977,426	213,382,214	183,495,619	1,413,703	1,825,221	1,390,298	62,606,902	3,799,521
14	Credit A&H (group and individual)	50,620,638	50,969,870		6,369,374	5,773,491	4,523,836	6,643,331	3,003	(2,523)	16,231	19,297,275	373,753
15.1	Collectively renewable A&H	49,010	74,531		482,650	35,114	(107,288)	14,343				89	1,316
15.2	Non-cancelable A&H	117,747	150,054		849,318	31,206	(2,786)	165,719				35,038	1,268
15.3	Guaranteed renewable A&H	52,965,966	23,842,964		108,541,413	20,659,813	33,123,619	36,105,704	44,899	53,710	141,378	15,884,273	(126,848)
15.4	Non-renewable for stated reasons only	55,796,517	58,522,509	4,250	14,011,444	49,012,803	50,028,452	37,224,204	792,911	847,399	693,919	4,491,845	1,002,627
15.5	Other accident only	14,321,965	10,159,339		4,616,901	4,356,068	1,367,161	899,425	18,788	18,895	10,422	2,393,210	225,969
15.6	All other A&H	14,792,358	15,539,761		1,937,228	11,122,034	7,433,357	5,915,773	73,351	151,436	322,097	2,367,809	177,646
15.7	Federal employees health benefits program	18,186,977	18,186,977			(1,562,189)	5,678,316	7,240,505					
16	Workers' compensation	1,636,712,315	1,537,222,780	34,933,415	493,636,118	1,220,138,006	1,440,705,973	3,350,086,648	104,371,865	110,822,069	324,880,380	134,978,324	29,774,324
17	Other liability	1,918,829,322	1,707,121,426	886,384	1,059,687,868	1,417,664,213	1,247,431,114	4,386,556,540	160,289,741	105,943,325	911,001,586	159,586,353	28,297,156
18	Products liability	91,978,370	89,850,617	5,636	28,572,779	146,175,602	76,852,727	585,538,108	41,050,618	25,623,747	222,662,393	9,626,949	1,668,839
19.1	Private passenger auto no-fault (pip)	3,188,625	3,329,535	14,551	729,163	8,510,638	13,177,350	8,052,135	271,620	301,077	279,749	(346,640)	9,592
19.2	Other private passenger auto liability	2,450,315,898	2,476,204,247	19,877,023	725,702,998	1,708,069,184	1,685,941,099	2,110,507,272	130,624,508	137,076,306	313,090,873	266,488,020	14,983,122
19.3	Commercial auto no-fault (pip)	(3,010,975)	211,200	105	26,058	120,032	(3,902,676)	737,206	3,919	(489,942)	57,777	28,174	(79,411)
19.4	Other commercial auto liability	626,136,002	605,901,577	913,700	240,147,033	411,842,624	480,196,202	927,380,570	42,045,593	48,789,979	113,696,841	82,828,025	9,214,649
21.1	Private passenger auto physical damage	2,158,808,181	2,160,205,025	18,225,287	631,572,574	1,582,720,782	1,622,032,474	161,162,303	11,266,167	12,559,103	10,067,288	223,119,045	12,331,976
21.2	Commercial auto physical damage	285,531,824	274,678,528	609,222	104,997,922	191,092,811	201,103,792	49,459,860	3,640,789	4,085,977	4,213,256	36,623,646	4,309,097
22	Aircraft (all perils)	52,432,322	49,006,775		23,489,652	29,763,425	48,987,986	72,521,472	5,385,002	8,671,250	11,994,482	6,157,908	887,054
23	Fidelity	42,333,346	42,610,898	976	29,609,808	23,143,861	30,396,177	45,453,334	879,420	(20,436)	4,073,858	6,292,699	861,328
24	Surety	138,587,014	130,840,766	4,548	75,397,679	13,891,215	4,816,897	33,786,026	3,145,091	152,834	13,400,332	39,097,317	2,808,278
26	Burglary and theft	4,914,926	4,708,595	13,955	2,702,995	1,090,139	756,858	2,879,545	65,695	50,964	242,009	793,118	92,920
27	Boiler and machinery	40,022,805	40,331,838	447	17,548,019	6,082,125	13,020,134	14,350,599	262,349	417,078	627,495	4,490,667	730,268
28	Credit	45,071,698	37,752,513		18,418,110	9,427,109	11,114,320	5,379,502	381,368	603,173	347,491	15,780,630	426,263
31	Aggregate write-ins for other lines of business	501,765,610	410,346,195	(217,081)	787,298,797	323,583,655	321,250,270	111,820,737	2,645,538	2,838,159	3,061,636	9,500,262	5,984,029
32	Totals	14,339,175,656	13,853,870,814	81,672,422	6,274,413,372	9,970,167,148	10,276,776,716	15,575,203,274	726,320,777	669,581,805	2,622,537,230	1,632,902,055	170,499,791

APPENDIX F - Consolidated Insurance Expense Exhibit-Part III for all Illinois-licensed Property/Casualty Insurers (000's omitted)

	PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS FOR DIRECT BUSINESS WRITTEN	Premiums Written	Premiums Earned	Dividends To Policyholders	Incurred Loss	Defense and Cost Containment Expenses Incurred	Adjusting and Other Expenses Incurred	Unpaid Losses	Defense and Cost Containment Expenses Unpaid	Adjusting and Other expenses Unpaid
1	Fire	4,076,813	3,528,651	5,195	2,066,916	70,768	144,915	1,827,422	86,771	75,694
2.1	Allied lines	2,516,128	2,728,732	3,939	1,955,638	57,712	118,071	1,523,805	68,835	41,898
2.2	Multiple peril crop	2,020,885	2,021,576		2,041,621	3,962	32,344	622,191	97	2,437
2.3	Federal flood	1,142,918	1,184,564		232,498	11,377	17,731	67,019	1,658	8,852
3	Farmowners multiple peril	812,340	802,228		555,387	15,847	56,219	284,148	49,128	27,054
4	Homeowners multiple peril	25,412,977	24,961,733	92,243	16,739,485	500,431	2,220,885	7,130,353	1,043,340	834,506
5.1	Commercial multiple peril (non-liability portion)	10,844,550	10,477,566	5,675	7,220,031	308,106	495,398	5,094,695	746,292	351,996
5.2	Commercial multiple peril (liability portion)	7,789,758	7,787,332	3,027	4,836,989	1,321,350	474,643	15,575,653	5,243,372	913,030
6	Mortgage guaranty	3,688,151	3,673,292		839,446	43,982	52,212	4,594,862	28,299	38,935
8	Ocean marine	1,962,334	1,943,476	2,410	1,272,540	92,227	58,692	1,741,358	159,144	46,829
9	Inland marine	7,032,102	6,775,344	9,262	3,006,935	122,770	223,752	2,182,451	153,068	121,999
10	Financial guaranty	1,568,818	1,148,199		101,663	8,481	1,031	448,450	11,258	5,997
11	Medical malpractice	3,207,765	3,238,515	19,595	2,622,675	725,136	171,384	9,430,561	2,607,777	369,976
12	Earthquake	690,550	687,287	2,102	213,269	44,286	23,102	131,454	54,469	14,569
13	Group A & H	5,166,549	5,055,361	140	4,216,804	27,862	134,001	2,740,768	15,398	52,709
14	Credit A & H	983,306	992,585		95,382	64	3,642	129,677	188	7,001
15	Other A & H	3,657,613	3,512,677	44	2,151,290	21,692	85,368	1,554,869	22,144	68,773
16	Workers' compensation	24,031,978	22,710,808	896,960	17,962,683	1,469,038	1,702,597	59,086,778	5,311,108	18,070,349
17	Other liability	19,518,148	18,774,069	32,099	13,155,779	2,380,018	995,462	54,109,827	12,720,318	2,749,502
18	Products liability	1,506,132	1,490,581	858	1,418,464	440,250	156,601	8,265,807	2,944,324	386,114
19.1	Private passenger auto liability	52,110,088	52,368,368	713,202	38,980,517	2,631,243	5,459,624	48,979,722	6,609,951	4,125,559
19.3	Commercial auto liability	12,420,218	12,084,287	26,977	9,871,834	906,645	744,938	17,330,491	2,101,519	855,947
21.1	Private passenger auto physical damage	41,847,093	41,637,986	545,844	27,273,635	154,239	4,142,552	2,613,922	182,858	803,328
21.2	Commercial auto physical damage	4,859,517	4,744,689	17,123	3,333,767	57,713	314,504	656,112	84,847	67,650
22	Aircraft (all perils)	1,408,599	1,342,606		954,070	105,317	28,948	1,667,521	187,808	85,719
23	Fidelity	896,725	857,083	227	501,571	11,974	41,889	839,686	86,770	52,164
24	Surety	2,958,253	2,783,586	17,840	1,128,310	159,890	96,331	1,513,916	286,261	109,894
26	Burglary and theft	107,436	100,344	98	24,448	4,151	2,832	30,325	3,521	1,658
27	Boiler and machinery	749,397	714,396	125	404,041	7,337	27,534	387,502	11,372	23,582
28	Credit	464,032	429,982		165,463	3,748	6,241	93,776	3,225	1,344
29	International	19,938	19,091		15,504	(1,124)	1,776	61,405	1,279	277
31	Aggregate write-ins for other lines of business	3,550,235	2,810,388	2,452	1,800,824	13,645	58,517	2,566,071	73,907	52,486
32	Total	249,021,373	243,387,389	2,397,442	167,159,450	11,720,150	18,129,939	253,282,800	40,900,326	30,367,860

APPENDIX F - Consolidated Insurance Expense Exhibit-Part III for all Illinois-licensed Property/Casualty Insurers (continued)

(000's omitted)

	PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS FOR DIRECT BUSINESS WRITTEN	Unearned Premium Reserves	Agents' Balances	Commission And Brokerage Expenses Incurred	Taxes, Licenses & Fees	Other Acquisitions, Field Supervision And Collection Expenses Incurred	General Expenses Incurred	Other Income Less Other Expenses	Pre-Tax Profit Or Loss Excluding All Investment
1	Fire	1,947,170	847,658	502,592	84,193	225,438	218,577	(27,275)	182,815
2.1	Allied lines	1,102,791	698,604	358,994	62,324	177,189	195,323	(8,661)	(209,134)
2.2	Multiple peril crop	8,647	66,599	154,448	3,120	26,607	47,246	(22,301)	(310,077)
2.3	Federal flood	643,446	93,921	159,744	21,447	62,934	1,567	(1,461)	675,815
3	Farmowners multiple peril	377,374	157,069	136,106	15,296	56,699	50,259	(1,947)	(85,535)
4	Homeowners multiple peril	13,469,146	4,589,702	3,479,695	619,718	2,290,308	1,342,785	(13,740)	(2,337,538)
5.1	Commercial multiple peril (non-liability portion)	5,151,221	2,621,199	1,822,059	298,603	708,593	796,969	110,712	(1,067,152)
5.2	Commercial multiple peril (liability portion)	3,334,078	1,978,208	1,339,876	189,076	489,994	553,033	142,574	(1,278,102)
6	Mortgage guaranty	543,565	155,677	9,465	91,558	271,682	397,495	(54,892)	1,912,559
8	Ocean marine	614,840	502,867	337,978	28,522	100,418	121,910	(28,004)	(99,237)
9	Inland marine	3,368,140	1,623,625	1,122,589	170,029	421,643	428,561	(95,038)	1,174,748
10	Financial guaranty	6,750,768	(22,150)	979	43,394	162,499	201,859	(744)	627,547
11	Medical malpractice	1,395,702	683,687	272,262	67,894	105,651	223,577	26,811	(942,856)
12	Earthquake	337,559	151,582	84,796	14,510	70,830	41,240	(1,015)	192,139
13	Group A & H	515,958	719,774	661,558	83,579	180,195	323,375	400	(571,763)
14	Credit A & H	140,322	21,398	373,113	24,193	25,238	110,218	902	361,639
15	Other A & H	1,792,343	377,631	539,579	37,024	153,065	221,245	(17,873)	285,486
16	Workers' compensation	4,932,162	6,731,129	2,032,350	1,005,992	1,226,735	1,665,301	(78,654)	(5,329,497)
17	Other liability	10,661,757	5,073,185	2,629,679	450,023	1,057,419	1,249,880	(115,021)	(3,291,307)
18	Products liability	567,868	336,135	169,213	33,568	92,214	128,704	141	(949,150)
19.1	Private passenger auto liability	15,997,942	9,086,851	4,745,253	1,132,594	4,092,794	2,805,123	12,580	(8,179,430)
19.3	Commercial auto liability	4,827,693	3,291,213	1,736,777	315,082	702,480	867,419	115,349	(2,972,528)
21.1	Private passenger auto physical damage	13,422,318	6,912,746	4,328,106	854,315	3,035,389	3,442,885	(26,503)	(1,188,577)
21.2	Commercial auto physical damage	1,965,253	1,120,900	675,263	119,297	321,121	352,994	19,753	(427,322)
22	Aircraft (all perils)	534,914	418,508	171,310	26,470	35,467	54,652	(36,746)	(70,374)
23	Fidelity	524,270	234,805	103,672	18,949	84,141	80,320	(12,057)	2,282
24	Surety	1,677,459	479,721	829,216	78,183	340,596	255,499	6,328	(115,955)
26	Burglary and theft	59,696	25,294	15,623	2,653	8,388	6,559	(3,795)	31,788
27	Boiler and machinery	341,804	198,062	76,106	17,449	36,415	90,527	(13,389)	41,465
28	Credit	243,456	66,556	117,602	11,420	35,638	53,667	5,548	41,745
29	International	7,421	1,621	1,062	230	224	2,940	(2,013)	(3,533)
31	Aggregate write-ins for other lines of business	5,219,444	186,740	274,794	67,046	67,027	175,179	(8,245)	342,653
32	Total	102,476,526	49,430,498	29,261,885	5,987,805	16,665,050	16,508,119	(128,284)	(23,556,405)

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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