

2006 Annual Report to the Illinois General Assembly on Insurance Cost Containment



Rod R. Blagojevich, Governor

Dean Martinez, Acting Secretary
Michael T. McRaith, Director of Insurance



Illinois Department of Financial and Professional Regulation

Division of Insurance

ROD R. BLAGOJEVICH
Governor

DEAN MARTINEZ
Acting Secretary

Michael T. McRaith
Director
Division of Insurance

April 15, 2006

To the Honorable Members of the 95th 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 an analysis of the Illinois insurance market and a recommendation of the most appropriate and comprehensive cost containment system for the state (Article XLII, 215 ILCS 5/1202d).

In accordance with Section 1202 of the Illinois Insurance Code, I am pleased to submit the Annual Report to the General Assembly on Insurance Cost Containment for 2006. This Report contains national and Illinois-specific information regarding the underwriting results for the property and casualty industry for the year 2004.

In the first years of this decade, the property and casualty insurance industry experienced a hardening of some markets, a trend that continued through 2004. The Division's supplement to this Report, containing 2005 financial and underwriting information, will be ready for publication in mid-June.

Sincerely,

Michael T. McRaith
Director of Insurance

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PURPOSE OF THIS REPORT

The Division of Insurance is required by statute to submit an Annual Report to the Illinois General Assembly on Insurance Cost Containment by April 15th of each year containing an analysis of the Illinois insurance market and a 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.

DIRECT PREMIUMS WRITTEN AND LOSS RATIOS BY STATE

Figure 1 shows a breakdown of total direct premium written (DPW) and losses incurred for the property/casualty industry by state from 2000 through 2004.

Direct written premium in Illinois totaled \$21.2 billion in 2004, representing 4.5 percent of total written premium nationwide. Property/casualty losses in Illinois, as a percent of direct earned premium, accounted for 62.1 percent in 2004, a decrease of 8 percent from the previous year.

Figure 1

Total US Property/Casualty Industry
(\$ In Millions)

State Distribution and Loss Experience

Rank	State	\$ 2004 DPW	% of Total DPW					*Direct Pure Loss Ratio (%)					5 Yr. Avg.
			2004	2003	2002	2001	2000	2004	2003	2002	2001	2000	
1	California	65,046	13.9	13.3	12.7	12.3	11.9	53.4	62.9	72.0	70.3	69.5	65.6
2	New York	34,905	7.5	7.2	7.1	7.0	7.0	62.1	60.4	70.5	138.3	68.5	80.0
3	Florida	32,371	6.9	6.5	6.5	6.5	6.4	115.2	52.2	61.3	64.0	63.1	71.2
4	Texas	32,328	6.9	7.0	7.1	6.9	6.7	49.5	62.8	78.5	96.4	78.6	73.2
5	Illinois	21,223	4.5	4.7	4.6	4.5	4.6	62.1	70.1	75.2	81.1	74.9	72.7
6	Penn.	19,261	4.1	4.0	4.0	4.1	4.1	63.5	66.9	76.0	75.3	73.6	71.1
7	New Jersey	16,979	3.6	3.4	3.5	3.5	3.6	60.4	61.1	67.1	68.5	65.5	64.5
8	Michigan	16,229	3.5	3.4	3.6	3.6	3.7	61.6	70.6	75.5	83.9	75.8	73.5
9	Ohio	13,902	3.0	3.6	4.0	3.8	3.7	53.6	65.6	74.7	76.1	76.9	69.4
10	Georgia	12,609	2.7	2.6	2.6	2.7	2.7	62.4	64.1	63.2	68.7	66.9	65.1
11	Mass.	11,849	2.5	2.4	2.5	2.5	2.6	55.6	59.5	59.7	66.6	59.3	60.1
12	N. Carolina	10,636	2.3	2.3	2.3	2.4	2.4	59.3	61.4	60.5	63.5	66.0	62.1
13	Indiana	10,121	2.2	2.1	2.1	2.2	2.1	58.1	59.2	66.7	70.5	70.3	65.0
14	Virginia	9,886	2.1	2.0	2.0	2.1	2.0	53.5	73.6	61.0	63.6	71.7	64.7
15	Minnesota	8,737	1.9	1.8	1.8	1.8	1.9	51.8	65.8	62.9	84.3	75.4	68.0
16	Missouri	8,712	1.9	1.8	1.8	1.8	1.8	57.8	64.9	67.1	85.1	66.4	68.3
17	Maryland	8,586	1.8	1.7	1.7	1.7	1.7	57.4	71.5	73.2	72.5	69.3	68.8
18	Washington	8,400	1.8	1.7	1.7	1.8	1.8	53.7	56.0	61.4	77.3	66.6	63.0
19	Colorado	8,090	1.7	1.7	n/a	n/a	n/a	60.1	62.1	n/a	n/a	n/a	61.1
20	Tennessee	7,945	1.7	1.6	1.7	1.7	1.7	57.9	76.5	67.0	70.6	69.5	68.3
	All other	<u>108,840</u>	<u>23.3</u>	<u>22.2</u>	<u>25.3</u>	<u>25.7</u>	<u>25.8</u>	<u>62.3</u>	<u>60.0</u>	<u>66.2</u>	<u>73.4</u>	<u>67.0</u>	<u>65.8</u>
	Total	<u>466,665</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>61.0</u>	<u>62.1</u>	<u>68.8</u>	<u>78.8</u>	<u>69.5</u>	<u>68.0</u>

* Direct Pure Loss Ratio is calculated by dividing losses incurred by direct earned premium.

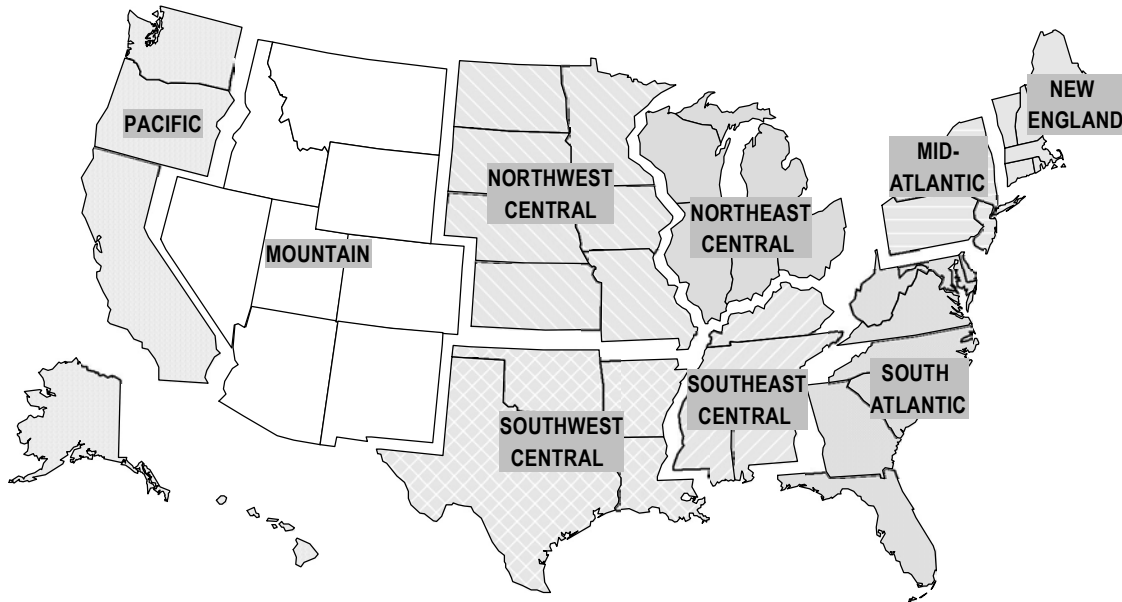
Source: 2003 & 2004 data: NAIC State Data Network; aggregate 2003 & 2004 Schedule T for all property/casualty insurers. Data for years 2000 through 2002 from Best's Aggregates & Averages-Property/Casualty, United States and Canada, Supplement, 2003 Edition.

Figure 2 shows total direct written premiums and losses for the property/casualty market for ten regions of the United States during 2004 and the average over the last five years.

Figure 2

Distribution of Direct Premiums Written and Loss Ratios by Region

DIRECT PREMIUMS WRITTEN AND LOSS RATIOS BY STATE



	Pacific	Mountain	Northwest Central	Southwest Central	Northeast Central	Southeast Central	Mid-Atlantic	South Atlantic	New England	Other*	Total All Regions
Percent Total 2004 DPW	17.0%	6.0%	6.6%	10.0%	14.4%	4.8%	14.8%	17.5%	5.4%	3.1%	100.0%
Direct Loss Ratio – 2004	53.5%	57.3%	54.1%	51.7%	59.0%	65.3%	62.1%	80.0%	53.6%	43.2%	60.6%
Direct Loss Ratio – 5 Yr Avg	65.0%	65.1%	67.6%	71.7%	70.6%	70.5%	74.2%	66.4%	61.1%	53.2%	68.4%

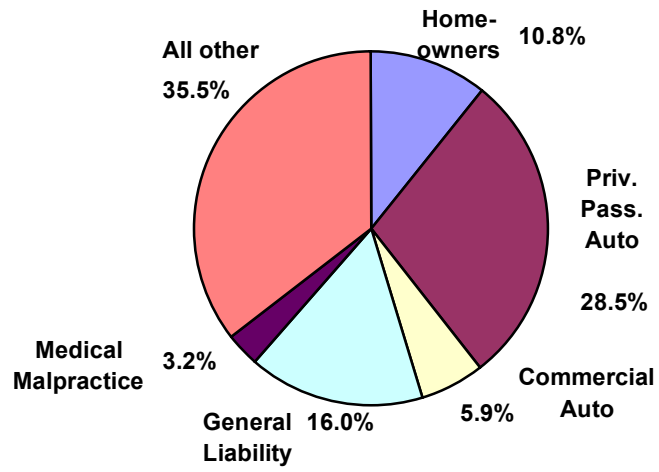
*The "other" region includes American Samoa and Guam, Puerto Rico and the U.S. Virgin Islands and Canada.

The South Atlantic region experienced the highest combined direct loss ratio (losses incurred divided by earned premium) in 2004, due mainly to four hurricanes and one tropical storm that made landfall in the state of Florida. It marked the first time since record keeping began in 1851 that four hurricanes hit one state in a single year. The 2004 hurricane season (June 1 through November 30) saw 15 named storms, nine of these becoming hurricanes. Of those nine hurricanes, six were considered "major" with sustained winds at 110 mph or more. The 2005 hurricane season was even worse, with 26 named storms, 14 developing into hurricanes, exceeding the 1969 record by two.

Figure 3 illustrates the distribution of property/casualty premium written by line of business during 2004 in Illinois. As the chart shows, personal-lines insurance (homeowners and private passenger automobile) makes up the largest portion of the property/casualty market. Private passenger automobile (28.5 percent), including both the liability and physical damage component, is the single largest line of insurance. Cost Containment data are reported to the Division pursuant to Illinois Administrative Code 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 (2004)

DIRECT PREMIUMS WRITTEN AND LOSS RATIOS BY STATE



Source: NAIC State Data Network

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.
- Coverage is available from reliable insurers.

The Cost Containment Act requires the Division to analyze the marketplace each year and to recommend changes that may be needed to correct market problems.

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

Availability

The Division measures availability in three ways:

1. Herfindahl/Hirschman Index (HHI) and Market Shares by Line.
2. Market Shares of Residual Market Mechanisms.
3. Participation in Alternative Risk Transfer Mechanisms.

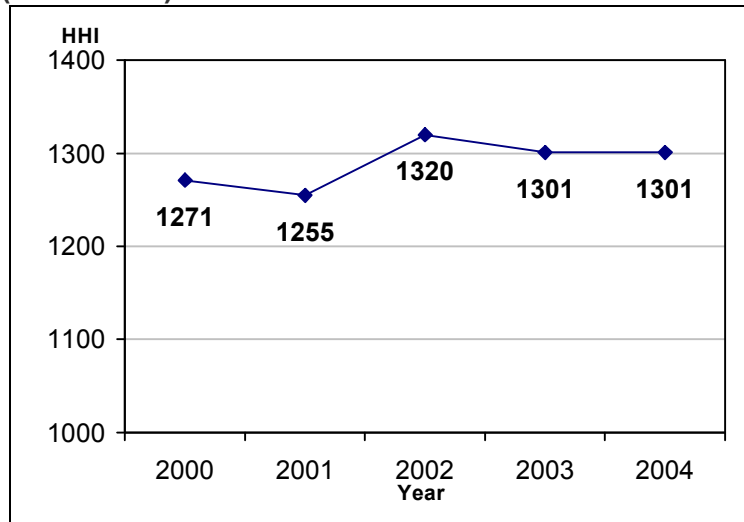
Herfindahl/Hirschmann Index (HHI) and Market Shares by Line

The Cost Containment Act requires the Division 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 2000 through 2004. Concentration in the homeowners market in Illinois has been relatively stable over the past five years.

Figure 4

Illinois Market Concentration - Homeowners
(2000-2004)



The top ten Illinois homeowners' writers (including residential fire) and their market shares for 2004 and 2003 are shown in Figures 5 and 6.

Figure 5
Top 10 Homeowners Insurers in Illinois – 2004

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Fire And Cas Co	\$703,822	\$680,223	32.3%	47.3%	1.1%	13.1%	1.8%
Allstate Ins Co	177,756	182,866	8.2%	37.3%	1.6%	11.7%	1.9%
Country Mut Ins Co	156,047	145,269	7.2%	48.5%	1.1%	14.7%	2.1%
American Family Mut Ins Co	137,481	128,229	6.3%	52.3%	0.0%	12.1%	1.9%
Allstate Ind Co	137,403	113,250	6.3%	56.5%	1.1%	14.1%	1.3%
Illinois Farmers Ins Co	126,093	125,067	5.8%	42.8%	2.7%	16.8%	1.8%
Economy Premier Assur Co	41,458	44,770	1.9%	38.9%	0.3%	17.2%	1.3%
Travelers Personal Ins Co	37,731	36,357	1.7%	32.5%	1.7%	17.8%	3.6%
Liberty Mut Fire Ins Co	29,221	19,108	1.3%	43.9%	3.1%	8.5%	4.2%
Auto-Owners Ins Co	24,019	22,603	1.1%	61.1%	0.3%	20.2%	1.2%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

Figure 6
Top 10 Homeowners Insurers in Illinois – 2003

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
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ANALYSIS OF THE MARKETPLACE

State Farm Fire And Casualty Co	\$649,339	\$604,384	32.4%	62.5%	1.1%	13.3%	2.8%
Allstate Ins Co	185,581	185,919	9.3%	53.8%	1.5%	11.4%	1.6%
Country Mutual Ins Co	133,703	120,487	6.7%	65.9%	1.5%	14.9%	3.4%
Illinois Farmers Ins Co	121,543	121,251	6.1%	46.4%	1.9%	16.2%	2.9%
American Family Mutual Ins Co	117,795	105,168	5.9%	66.0%	2.1%	14.7%	2.8%
Allstate Indemnity Co	92,765	72,148	4.6%	72.5%	1.5%	14.8%	1.8%
Economy Premier Assurance Co	47,362	47,367	2.4%	45.6%	0.4%	17.0%	1.1%
Travelers Prop & Cas Ins Co of IL	34,717	30,480	1.7%	45.0%	1.9%	16.2%	4.3%
Auto-Owners Ins Co	21,462	18,764	1.1%	96.8%	-0.8%	20.3%	3.3%
Nationwide Mutual Fire Ins Co	21,080	19,342	1.1%	82.5%	1.7%	13.8%	-0.3%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

The top ten Illinois homeowners' writers (including residential fire) and their market shares for 2004 are:

State Farm Fire & Casualty Company	24.0%
Illinois Farmers Insurance Company	9.9%
Allstate Insurance Company	6.6%
Country Mutual Insurance Company	5.4%
American Family Mutual Insurance Company	4.9%
Allstate Indemnity Company	4.9%
Economy Premier Assurance Company	3.4%
Travelers Personal Insurance Company	2.5%
Auto Owners Insurance Company	1.7%
The Farmers Automobile Insurance Assoc.	1.7%
Total	65.0%

Homeowners' data are collected pursuant to Cost Containment Data and Reporting Requirements (Part 4203). Again this year, cost containment data for homeowners' are summarized for the entire State of Illinois, the City of Chicago, and downstate Illinois. State Farm Fire & Casualty Company continues to rank first in all three categories. Most insurers that write in downstate Illinois also have a presence in the City of Chicago. There were 179 insurers reporting homeowners' business throughout the state and 166 companies reporting direct written 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 Illinois Farmers Insurance Company, Allstate Indemnity Company and Allstate Insurance Company. There were 156 other companies also writing this coverage in Illinois.

State Farm Fire & Casualty Company wrote the largest amount of mobile home coverage followed by Progressive Casualty Insurance Company, Pekin Insurance Company, Allstate Insurance Company, Auto Owners Insurance Company, and Country Mutual Insurance Company.

The top ten writers in the entire State of Illinois homeowners' market are:

State Farm Fire & Casualty Co.
Illinois Farmers Insurance Co.
Allstate Insurance Co.
Country Mutual Insurance Co.
Economy Premier Assurance Co.
Travelers Personal Insurance Co.
Auto Owners Insurance Co.
The Farmers Automobile Insurance Assoc.

The top ten writers in the downstate homeowners' market are:

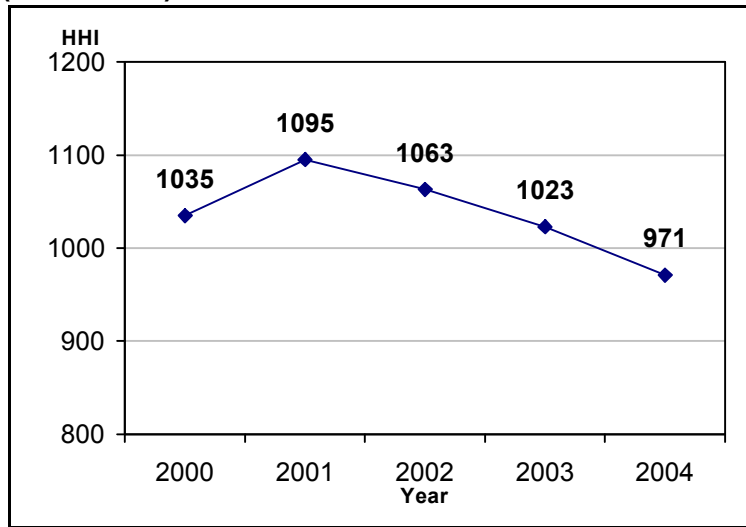
State Farm Fire & Casualty Co
Country Mutual Insurance Co
Illinois Farmers Insurance Co
American Family Mutual Insurance Co
Auto Owners Insurance Co
The Farmers Automobile Insurance Assoc
Economy Premier Assurance Co
The Cincinnati Insurance Co
Allstate Insurance Co
Pekin Insurance Co

The top ten writers in the City of Chicago homeowners' market are:

State Farm Fire & Casualty Co
Allstate Insurance Co
Illinois Farmers Insurance Co
Allstate Indemnity Co
American Family Mutual Ins Co
Travelers Personal Insurance Co
Economy Premier Assurance
Great Northern Insurance Co
Economy Fire & Casualty Co
Vigilant Insurance Co

Private Passenger Automobile HHI

Figure 7 provides a graph of the HHI for Illinois private passenger automobile insurance (including liability and physical damage) from 2000 through 2004. It suggests that market concentration for private passenger coverage has generally exhibited a downward trend since 2001.

Figure 7**Illinois Market Concentration - Private Passenger Automobile (2000-2004)**

The top ten Illinois private passenger automobile writers (liability and physical damage coverage combined) and their market shares for 2004 and 2003 are shown in **Figures 8 and 9**.

Figure 8**Top 10 Private Passenger Auto Insurers in Illinois – 2004**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Mut Auto Ins Co	\$1,612,335	\$1,633,866	28.1%	60.2%	3.0%	7.3%	0.9%
Allstate Ins Co	403,269	406,759	7.0%	49.2%	2.3%	12.0%	2.2%
Country Mut Ins Co	338,201	337,535	5.9%	56.9%	1.6%	9.7%	1.4%
American Family Mut Ins Co	263,693	261,289	4.6%	62.9%	4.3%	7.9%	1.2%
Allstate Prop & Cas Ins Co	254,772	240,171	4.4%	63.5%	2.9%	12.7%	0.7%
Illinois Farmers Ins Co	246,289	244,887	4.3%	59.4%	4.8%	11.0%	0.2%
State Farm Fire And Cas Co	133,925	139,846	2.3%	65.4%	3.0%	9.6%	1.1%
Progressive Universal Ins Co	107,131	101,018	1.9%	52.9%	1.2%	10.0%	2.1%
Country Pref Ins Co	94,973	89,526	1.7%	54.3%	1.6%	11.2%	0.5%
Affirmative Ins Co	74,231	80,222	1.3%	52.6%	0.0%	38.5%	0.5%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

Figure 9
Top 10 Private Passenger Auto Insurers in Illinois – 2003

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Mutual Auto Ins Co	\$1,656,236	\$1,646,283	29.2%	67.0%	2.6%	7.3%	1.2%
Allstate Insurance Co	415,822	415,997	7.3%	60.8%	2.6%	11.9%	1.4%
Country Mutual Insurance Co	329,924	325,198	5.8%	59.8%	1.7%	9.8%	1.8%
American Family Mutual Ins Co	253,433	249,102	4.5%	72.6%	4.3%	8.6%	2.0%
Illinois Farmers Insurance Co	251,111	254,323	4.4%	53.4%	4.4%	11.5%	2.3%
Allstate Prop. & Casualty Ins Co	191,681	176,321	3.4%	76.2%	4.0%	12.4%	1.4%
State Farm Fire And Casualty Co	144,692	140,699	2.6%	82.7%	2.7%	9.8%	1.2%
Affirmative Insurance Co	83,921	85,066	1.5%	51.8%	0.0%	38.0%	0.5%
Progressive Universal Ins Co of IL	71,558	58,165	1.3%	53.8%	1.5%	11.2%	2.1%
Country Preferred Insurance Co	70,550	63,995	1.2%	60.9%	1.7%	12.3%	1.3%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

The top ten Illinois private passenger automobile writers (liability and physical damage coverage combined) and their market shares for 2004 are:

State Farm Mutual Auto Ins Company	28.5%
Allstate Insurance Company	7.1%
Country Mutual Ins Company	6.0%
American Family Mutual Ins Company	4.5%
Allstate Prop & Casualty Ins Company	4.3%
Illinois Farmers Insurance Co	4.2%
State Farm Fire & Casualty Company	2.4%
Progressive Universal Insurance Co	1.9%
Country Preferred Insurance Company	1.7%
Affirmative Insurance Co	1.3%
Total	61.9%

In the following paragraphs, only the liability component will be presented for the entire State of Illinois, the City of Chicago, and downstate Illinois. State Farm Mutual Insurance Company and Country Mutual Insurance Company rank one and two.

There were 254 insurers that filed private passenger automobile liability insurance data in accordance with the Cost Containment Data and Reporting Requirements (Part 4203). Of these, 225 insurers reported written premium in the City of Chicago. For comparison, there were 243 companies that filed data in 2003, and 249 that filed data in 2002.

The top ten writers in the entire State of Illinois private passenger automobile liability market are:

State Farm Mutual Automobile Insurance Company
Country Mutual Insurance Company
Allstate Insurance Company
American Family Mutual Insurance Company
Illinois Farmers Insurance Company
Allstate Property & Casualty Company
State Farm Fire & Casualty Company
Progressive Universal Insurance Company
Country Preferred Insurance Company
Affirmative Insurance Company

The top ten writers in the downstate private passenger automobile liability market are:

State Farm Mutual Automobile Insurance Company
Country Mutual Insurance Company
American Family Mutual Insurance Company
Progressive Universal Ins Co
Allstate Insurance Company
The Farmers Automobile Insurance Assoc
Illinois Farmers Insurance Co
Country Preferred Insurance Company
State Farm Fire & Casualty Company
Allstate Property & Casualty Insurance Co.

The top ten writers in the City of Chicago private passenger automobile liability market are:

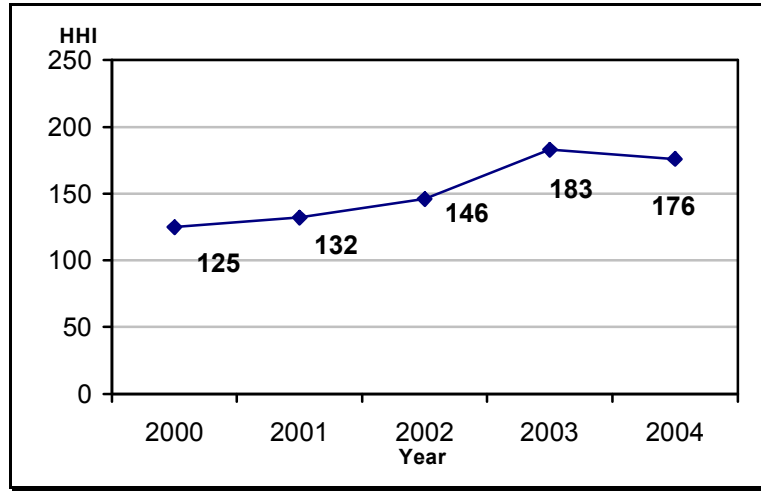
State Farm Mutual Automobile Insurance Company
Allstate Insurance Company
Allstate Property & Casualty Insurance Company
United Automobile Insurance Company
Safeway Insurance Company
American Family Mutual Insurance Company
State Farm Fire & Casualty Insurance Company
Affirmative Insurance Company
Geico General Insurance Company
Illinois Farmers Insurance Company

Commercial Automobile Liability HHI

Figure 10 provides a graph of the HHI for Illinois commercial automobile liability from 2000 through 2004. The HHI suggests that the market concentration in Illinois for commercial automobile liability insurance is very low (very competitive).

Figure 10

Illinois Market Concentration - Commercial Automobile Liability (2000-2004)



The top ten Illinois commercial automobile liability writers for 2004 and 2003 are shown in Figures 11 and 12.

Figure 11
Top 10 Commercial Auto Insurers in Illinois - 2004

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Transguard Ins Co Of Amer Inc	\$52,016	\$47,883	5.8%	41.1%	-0.1%	23.9%	1.3%
American Country Ins Co	34,140	33,110	3.8%	66.3%	14.5%	3.5%	1.9%
Zurich American Ins Co	27,903	28,999	3.1%	25.3%	5.1%	11.2%	3.1%
Great West Cas Co	27,573	26,928	3.1%	52.3%	10.7%	12.1%	1.8%
State Farm Mut Auto Ins Co	26,713	26,489	3.0%	46.4%	2.6%	9.0%	1.4%
Cincinnati Ins Co	25,654	26,101	2.9%	42.5%	6.9%	20.2%	1.7%
Illinois Natl Ins Co	24,849	23,692	2.8%	12.1%	2.1%	6.3%	3.4%
Lincoln General Ins Co	24,627	25,112	2.7%	118.9%	4.6%	18.7%	3.3%
Northland Ins Co	23,691	25,526	2.6%	73.2%	8.0%	19.1%	2.8%
St Paul Fire & Marine Ins Co	22,834	25,178	2.5%	53.4%	6.1%	13.4%	1.8%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

Figure 12
Top 10 Commercial Auto Insurers in Illinois - 2003

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
American Home Assur Co	\$57,657,238	\$12,414,409	6.2%	53.7%	3.8%	1.9%	14.7%
Transguard Ins Co of Amer Inc	40,667,243	38,100,857	4.4%	31.1%	1.3%	23.3%	2.5%
Zurich American Ins Co	32,905,210	28,860,272	3.5%	46.5%	6.7%	11.9%	4.1%
American Country Ins Co	29,721,398	28,916,551	3.2%	83.7%	14.7%	2.8%	4.8%
St Paul Fire & Marine Ins Co	28,302,729	27,948,338	3.0%	58.6%	6.8%	14.5%	3.4%
Northland Ins Co	27,168,483	25,563,027	2.9%	79.0%	9.5%	18.7%	1.1%
Cincinnati Ins Co	26,326,665	25,249,350	2.8%	67.2%	1.2%	17.1%	1.6%
Great West Cas Co	25,753,393	24,368,126	2.8%	84.0%	11.1%	11.9%	1.8%
State Farm Mut Auto Ins Co	25,401,316	24,568,225	2.7%	59.5%	2.3%	8.6%	1.4%
American Service Ins Co Inc	24,270,724	21,996,156	2.6%	42.6%	7.2%	12.4%	2.2%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

The top ten Illinois commercial automobile liability writers for 2004 are:

Transguard Insurance Company of America Inc.	10.6%
American Country Insurance Company	7.0%
American Service Insurance Company Inc	4.4%
Cincinnati Insurance Company	4.0%
Northland Insurance Company	3.8%
Occidental Fire & Casualty Company Of NC	3.5%
Progressive Premier Ins Co of Illinois	3.3%
Lincoln General Insurance Company	3.0%
West Bend Mutual Insurance Co	3.0%
Canal Insurance Company	2.6%
Total	45.2%

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 groups of particular interest are: taxis and public livery and other (excluding taxis and public livery).

American Country Insurance Company exhibits a large share of the taxis and public livery class of commercial automobile liability insurance. Fifty four other companies compete for the remaining market share in this class, seven more companies than reported in 2003. 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 taxicab 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
American Service Insurance Company Inc.
Lancer Insurance Company
Sentry Select Insurance Company
Rockford Mutual Insurance Co

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. A total of 239 companies reported positive written premium in 2004, with 83 companies writing in excess of \$1 million in premium, a increase of 3 companies over 2003. The surplus line market wrote 55 policies and \$2,636,586 in premium for this coverage. This represents an increase of 33 policies from 2003.

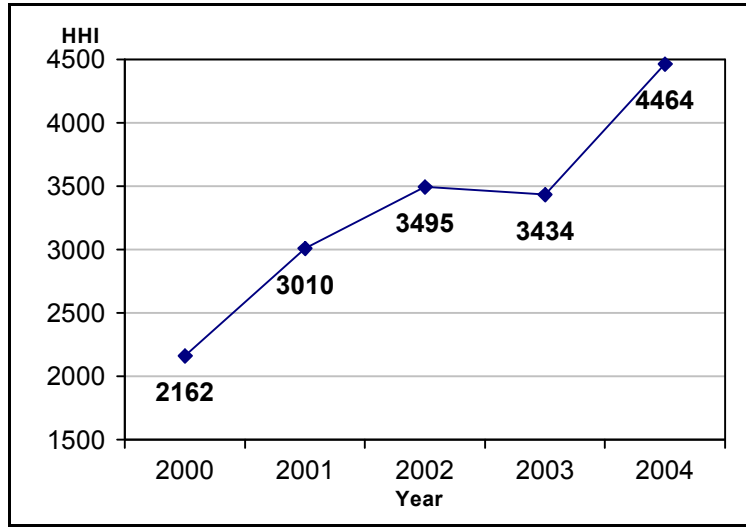
The top writers in this market are:

Transguard Insurance Company of America Inc.
The Cincinnati Insurance Company
Northland Insurance Company
Occidental Fire & Casualty Company Of NC
Progressive Premier Insurance Co of Illinois
Lincoln General Insurance Company
West Bend Mutual Insurance Co
Canal Insurance Company
Country Mutual Insurance Company
Acuity a Mutual Insurance Company

Medical Malpractice HHI

Figure 13 provides a graph of the HHI for Illinois medical malpractice coverage from 2000 through 2004. 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 65.9 percent of the medical malpractice coverage in 2004. The second largest medical malpractice insurer, by direct written premium, was American Physicians Assurance Corp., which wrote only 8.7 percent of the business. As the chart shows, the market is highly concentrated, with an HHI well above the 1800 level.

Figure 13 Illinois Market Concentration - Medical Malpractice (2000-2004)



While the HHI index was at 4464, Illinois does have companies providing coverage, although expensive, to the medical profession.

Figures 14 and 15 show the top ten Illinois medical malpractice writers and their market shares for 2004 and 2003.

Figure 14
Top 10 Medical Malpractice Insurers in Illinois – 2004

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
ISMIE Mut Ins Co	\$420,474	\$411,371	65.9%	64.7%	23.1%	4.4%	1.0%
American Physicians Assur Corp	55,439	54,560	8.7%	90.1%	25.0%	8.5%	1.8%
Medical Protective Co	27,096	30,701	4.2%	68.6%	27.9%	5.2%	1.2%
Pronational Ins Co	25,748	22,979	4.0%	27.6%	19.9%	12.3%	1.5%
Medical Alliance Ins Co	12,417	2,483	1.9%	200.4%	55.7%	2.4%	6.8%
Professional Liab Ins Co Of Amer	12,080	4,311	1.9%	3.5%	4.4%	2.8%	5.6%
Doctors Co An Interins Exchn	7,950	8,068	1.2%	82.2%	35.8%	7.4%	5.1%
NCMIC Ins Co	7,892	7,208	1.2%	58.4%	12.9%	8.1%	0.9%
Physicians Ins Co Of WI	7,464	8,803	1.2%	36.1%	44.2%	10.9%	-0.5%
Chicago Ins Co	6,333	6,667	1.0%	223.1%	24.4%	21.8%	0.7%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

Figure 15
Top 10 Medical Malpractice Insurers in Illinois – 2003

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
ISMIE Mutual Insurance Co	\$360,772	\$341,840	56.2%	77.4%	24.4%	4.9%	1.6%
American Physicians Assurance	\$94,063	\$85,465	14.7%	84.0%	18.1%	5.3%	0.6%
Medical Protective Co	\$30,313	\$24,269	4.7%	57.0%	21.8%	8.8%	2.8%
Pronational Insurance Co	\$21,888	\$20,772	3.4%	67.4%	45.2%	8.2%	2.9%
Essex Insurance Co	\$15,960	\$14,252	2.5%	56.2%	13.2%	0.0%	0.0%
ISMIE Indemnity Co	\$14,729	\$9,050	2.3%	106.6%	23.8%	0.0%	1.5%
Physicians Insurance Co of WI	\$11,575	\$12,897	1.8%	177.6%	74.5%	10.5%	3.5%
TIG Insurance Co	\$10,863	\$9,804	1.7%	64.2%	38.2%	8.4%	2.7%
Zurich American Insurance Co	\$9,050	\$9,589	1.4%	56.1%	6.6%	0.1%	4.5%
Chicago Insurance Co	\$7,660	\$7,443	1.2%	183.7%	15.4%	15.7%	1.0%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

The top ten Illinois medical malpractice writers (surgical/non-surgical classes only) and their market shares for 2004 are:

ISMIE Mutual Insurance Company	72.3%
American Physicians Assurance Corp	9.3%
Medical Alliance Insurance Co	4.3%
Pronational Insurance Co	3.7%
The Medical Protective Co	3.3%
The Doctors' Company	1.3%
Professional Liability Ins Co of America	1.2%
Physicians Insurance Co of WI Inc	1.1%
National Union Fire Ins Co of Pittsburgh	0.7%
NCMIC Insurance Company	0.6%
Total	97.8%

Note: The differences between the market shares shown in this table and that mentioned on the previous page is due to the fact that the market share on the previous page is based on the total medical malpractice premiums written in the Illinois, whereas the above percentages are based on the surgical/non-surgical classes only – MDs, ODs and Dentists.)

There were 37 admitted carriers who reported the medical malpractice classes that the Department collects, one less than in 2003. Further, only eight companies had greater than 1% of the market as opposed to six companies in 2003. Also, the top two insurers lost 3.2% of the market share based upon premiums written.

This report breaks down medical malpractice liability into four different class groups. The first two groups, medical non-surgery and physicians, surgeons and dentists – not otherwise classified, represent the majority of medical malpractice business reported. The two other covered groups are dentists and oral surgery and medical-surgery. Under 215 ILCS 5/155.18,

every company writing medical malpractice insurance shall file rates and rating schedules with the Director at least annually and when ever there is a change. The surplus lines market accounted for \$24.7 million of medical malpractice premium for classes comparable to the four reported groups, a \$10.6 million increase.

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

- ISMIE Mutual Insurance Company
- Medical Alliance Insurance Company
- American Physicians Assurance Corp.
- Pronational Insurance Company
- The Medical Protective Company
- Professional Liability Insurance Co. of America
- NCMIC Insurance Company
- Professional Solutions Insurance Company
- The Doctors' Company
- St. Paul Fire & Marine Insurance Company

Here again we had three new companies making it into the top ten replacing Interstate Fire & Casualty Co., Markel Insurance Co. and OHIC Insurance Co.

The top ten writers in the physicians, surgeons, and dentists – not otherwise classified market are:

- ISMIE Mutual Insurance Company
- American Physicians Assurance Corporation
- Pronational Insurance Company
- Medical Protective Company The
- Physicians Insurance Company of WI Inc.
- Medical Alliance Insurance Co
- The Doctors' Company
- National Union Fire Insurance Co Of Pitt
- NCMIC Insurance Company
- Professional Solutions Insurance Co

This group of companies also experienced change. Chicago Insurance Co., Continental Casualty and Cincinnati Insurance Co. were replaced by Medical Alliance Insurance Co., NCMIC Insurance Co. and Professional Solutions Insurance Co.

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

- The Medical Protective Co
- OMS National Insurance Co, RRG
- The American Insurance Co
- Continental Casualty Co
- Ace American Insurance Co

Within this group The Medical Protective Company replaced American Insurance Company as the number one writer.

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

- ISMIE Mutual Insurance Company
- American Physicians Assurance Corporation
- Medical Alliance Insurance Co
- Professional Liability Insurance Co of America
- The Medical Protective Company

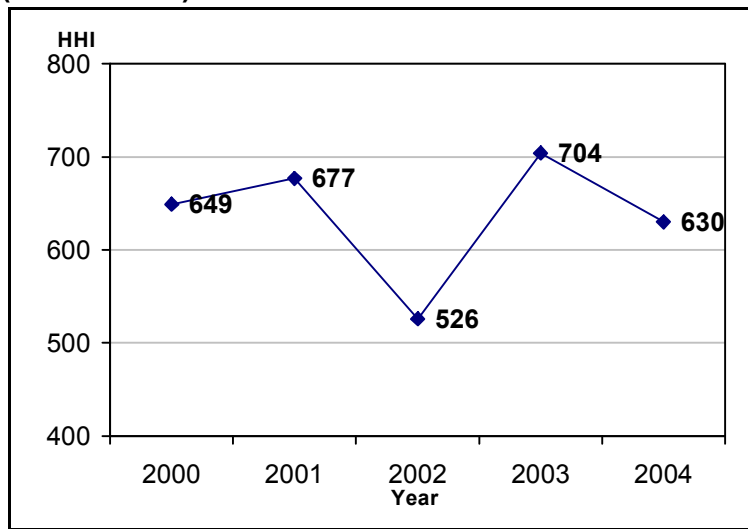
Within the top five companies writing the medical-surgery classes Medical Alliance Insurance Co. and Professional Liability Ins. Co. of American replaced Pronational Insurance Co. and The Doctors' Company.

Other Liability HHI

Figure 16 provides a graph of the HHI for Illinois other liability insurance from 2000 through 2004. The figure indicates that the market for other liability insurance in Illinois continues to be very competitive.

Figure 16

Illinois Market Concentration - Other Liability (2000 - 2004)



Figures 17 and 18 show the top ten Illinois other liability writers and their market shares for 2004 and 2003.

Figure 17
Top 10 General Liability Insurers in Illinois – 2004

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
Illinois Natl Ins Co	\$643,924	\$593,705	20.0%	88.1%	9.5%	1.2%	3.5%
Zurich American Ins Co	248,900	327,464	7.7%	102.4%	18.6%	6.6%	2.6%
Zurich American Ins Co Of IL	245,669	314,795	7.6%	91.6%	17.8%	0.4%	0.4%
New Hampshire Ins Co	158,475	137,559	4.9%	162.7%	3.6%	0.1%	3.7%
Federal Ins Co	141,733	133,786	4.4%	88.9%	26.8%	10.5%	2.9%
Liberty Ins Co Of Amer	132,277	125,777	4.1%	100.6%	9.3%	0.0%	0.8%
National Union Fire Ins Co Of Pitts	126,059	129,196	3.9%	62.3%	16.7%	6.5%	3.1%
Continental Cas Co	63,381	57,059	2.0%	-307.9%	-96.7%	17.0%	7.9%
St Paul Fire & Marine Ins Co	55,349	59,357	1.7%	70.7%	39.4%	15.4%	1.8%
American Home Assur Co	55,178	45,550	1.7%	70.2%	6.1%	5.8%	3.9%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

Figure 18
Top 10 General Liability Insurers in Illinois – 2003

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
Illinois Natl Ins Co	\$672,634,514	\$570,403,266	22.2%	113.4%	3.5%	0.9%	3.9%
Zurich American Ins Co	260,204,301	248,043,858	8.6%	99.3%	16.6%	7.4%	3.8%
Zurich American Ins Co of IL	219,085,818	215,743,962	7.2%	103.5%	18.3%	0.3%	0.5%
Federal Ins Co	130,249,972	117,194,719	4.3%	28.1%	12.3%	11.2%	3.2%
New Hampshire Ins Co	112,763,663	86,272,681	3.7%	155.4%	-5.2%	0.0%	4.5%
Liberty Ins Co of Amer	110,291,574	105,526,006	3.6%	130.3%	11.0%	0.0%	0.8%
National Union Fire Ins Co of Pitts	87,368,282	88,057,355	2.9%	96.6%	18.3%	6.7%	4.2%
St Paul Fire & Marine Ins Co	64,220,497	61,474,970	2.1%	40.9%	20.7%	15.2%	3.5%
Ace American Ins Co	57,526,585	44,671,321	1.9%	13.2%	8.5%	3.7%	2.1%
Underwriters At Lloyds London	45,174,648	45,639,107	1.5%	117.3%	48.9%	17.9%	-1.9%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

The top ten Illinois other liability writers and their market shares for 2004 are:

Underwriters at Lloyds London	23.7%
Continental Casualty Company	15.1%
Illinois State Bar Assoc Mutual Ins Co	15.0%
Illinois Casualty Company	6.2%
Chicago Insurance Company	5.5%

Executive Risk Indemnity Inc	4.7%
Great American Insurance Co	3.7%
Interstate Fire & Casualty Co	3.4%
American Guarantee & Liability Ins Co	2.7%
General Star National Insurance Co	2.6%
Total	82.6%

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 2004, as in 2003, 2002 and 2001, the five same companies wrote more than \$1 million in premium in the liquor liability market. In 2000, four companies reported premium in excess of \$1 million. In 1999 there were seven. However, even with these changes the Department has detected no drastic price increases or availability issues. In 2004, the surplus lines market wrote 13 policies of liquor liability insurance. The average premium for these 13 policies was \$2,634. The liquor liability market in Illinois appears to be strong, viable and competitive.

The top 5 writers in the liquor liability market are:

- Illinois Casualty Company
- Underwriters at Lloyds London
- Continental Casualty Company
- Springfield Fire and Casualty Company
- Constitutional Casualty Company

In 2004, Underwriters at Lloyds London was the top writer of lawyers' professional liability insurance, writing in excess of \$19.3 million of direct written premium. The Illinois State Bar wrote approximately \$15.3 million and Continental Casualty Company followed with premium in excess of \$13.4 million. The next nine companies each wrote in excess of \$1 million in premium. Further the premiums increased sharply. In 2004, the surplus lines market wrote only 122 policies and \$5,823,034 in premium. There were 15 policies more than in 2003. The lawyers professional liability market is dominated by a few companies and is one of the markets watched closely by the Department.

The top 10 writers of lawyers' professional liability insurance are:

- Underwriters at Lloyds London
- Illinois State Bar Assoc Mutual Ins Co
- Continental Casualty Company
- Chicago Insurance Company
- Executive Risk Indemnity Inc
- Great American Insurance Co
- Interstate Fire & Casualty Co
- American Guarantee & Liability Ins Co
- General Star National Insurance Co

Medmarc Casualty Insurance Co

In 2004, fifty one admitted insurers reported day-care liability data for Illinois. This is 3 more than in 2003. The surplus lines market wrote 295 policies and just over \$486 thousand in day-care liability premium during 2004. This was 32 less policies from the surplus lines market than in 2003.

The top four admitted writers of day-care liability insurance are:

West Bend Mutual Insurance Company
Philadelphia Indemnity Insurance Company
Capitol Indemnity Corporation
Riverport Insurance Company

In 2004, twenty two admitted insurers of home day-care liability reported data for Illinois.

The top five admitted writers of home day-care liability insurance are:

State Farm Fire & Casualty Company
Country Mutual Insurance Company
Allstate Insurance Company
Allstate Indemnity Company
Shelter Mutual Insurance Company

Market Shares of Residual Market Mechanisms

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

Illinois residual market mechanisms provide essential insurance coverage for the hard-to-place risk, at rate levels approved by the Division. 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 and losses in proportion to their voluntary market shares.

In Illinois, property insurance is widely available in the voluntary marketplace and only a very small percentage of consumers obtained coverage through the FAIR Plan. In addition, Illinois

consumers are not at a coverage disadvantage when they buy insurance from the FAIR Plan, as is the case in many other states. In these other states, property residual market programs offer only dwelling fire or basic homeowners' policies. Illinois has one of the most progressive FAIR Plans in the nation. Through the FAIR 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.

Figure 19 shows the amount of dwelling and homeowners' written premium that the FAIR Plan made up as a percent of all dwelling and homeowners' premium written in Illinois from 2000 through 2004.

Figure 19

**Written Premiums for Illinois FAIR Plan
(2000-2004)**

	Amount of Written Premiums	As % of Total Written Premiums
2000	\$4,739,000	0.22%
2001	\$4,962,000	0.20%
2002	\$7,104,000	0.20%
2003	\$9,800,000	0.49%
2004	\$11,030,119	0.52%

Source: Premium amounts provided by Illinois FAIR Plan

Automobile - The Illinois Automobile Insurance Plan (Auto Plan)

Private passenger automobile risks are assigned to private passenger automobile insurers 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 divided among the voluntary writers of commercial automobile insurance in proportion to their share of the voluntary business.

Figure 20 shows the 1999 through 2003 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.

In addition, the percent of insured automobiles in the Illinois Automobile Insurance Plan remained at three tenths of a percent of the total market from 1999 through 2001 and has gradually increased since then. This figure reinforces the fact that automobile insurance in Illinois is extremely competitive in the voluntary market.

Figure 20

Percent of Automobiles in Illinois Assigned Risk Plan and the United States Composite Automobile Residual Market (1999-2003)

	1999	2000	2001	2002	2003
Illinois	0.03%	0.03%	0.03%	0.05%	0.06%
Nationwide	1.52%	1.42%	0.43%	0.52%	0.54%

Source: AIPSO Facts 2003 (based on liability car-years). 2004 data is not available at this time.

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

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

Figure 21 shows the percent of Illinois workers' compensation premiums written through the Pool from 2000 through 2004. The chart shows the amount of business being written in the residual market. During 2004, only 6.7 percent of Illinois direct premiums written for workers' compensation were written through the Pool.

The numbers illustrated in Figure 21 are from the NCCI and may not reconcile with numbers found in previous reports.

Figure 21 Percent of Illinois Workers' Compensation Written Through the Pool (2001-2004)

	2001	2002	2003	2004
Percent of Total	4.2	6.8	8.6	6.7

Source: National Council on Compensation Insurance (NCCI)

Each insurer participating in the Pool that removes an employer is eligible for a take-out credit. **Figure 22** shows the Illinois take-out credit results for the pool for 2004. Last year, the NCCI changed the method of reporting. The system has been automated and both the accuracy and volume of company submissions have been greatly improved.

Figure 22

2004 Illinois Take-Out Credit Results

Year	Total Number of Policies Approved	Approved Credit
2004	5391	\$100,233,135

Source: National Council on Compensation Insurance (NCCI)

Figure 23 shows the total premium in Illinois for the top ten class codes in the residual market for calendar year 2004 based on written premium.

Figure 23
Illinois Residual Market Top Ten Classification Codes by Premium Volume
Calendar Year 2004

Rank	Code	Description	Total State Premium	% of Premium
1	8861	Charitable or Welfare - Professional Employees and Clerical	\$9,280,839	5.0%
2	5645	Carpentry-Detached One or Two Family Dwellings	\$8,368,449	4.5%
3	5551	Roofing-All Kinds	\$7,251,909	3.9%
4	7229	Trucking-Long Distance Hauling	\$5,249,972	2.8%
5	7228	Trucking-Local Hauling Only	\$4,366,810	2.4%
6	9014	Buildings-Operation by Contractors	\$3,650,968	2.0%
7	5606	Contractor-Executive Supervisor or Construction Superintendent 1	\$3,185,708	1.7%
8	8835	Nursing-Home Health Public and Traveling-All Employees	\$3,106,911	1.7%
9	8868	College: Professional Employees	\$3,035,803	1.6%
10	9014	Buildings-Operation by Owner or Lessee	\$2,955,343	1.6%

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. Because of the Division's limited authority over many of the alternative mechanisms, the number of risks placed and the amount of premium written cannot be assessed 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 Division 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 Division who must determine the company's financial stability and standards of management prior to submitting the risk.

Figure 25 shows the number of policies written in Illinois from 2000 to 2004 through surplus lines producers for homeowners', private passenger auto liability and physical damage, commercial auto liability, medical malpractice and general liability coverage. Of the 752 policies for medical malpractice, 352 are specifically for doctors and dentists. (The term "general

liability” used in this section equates closely to the term “other liability” used in other areas of this report).

Figure 25

Surplus Lines - Number of primary and excess policies written in Illinois (2000 - 2004)

Line of Business	2000 Illinois Policy Count	2001 Illinois Policy Count	2002 Illinois Policy Count	2003 Illinois Policy Count	2004 Illinois Policy Count
Homeowners'	1,955	1,126	1,181	1,340	860
PPA Liability	475	430	426	410	293
PPA Physical Damage	5,531	7,993	9,063	7,210	9,074
Commercial Auto Liability	51	45	40	22	55
Medical Malpractice	451	532	548	701	752
General Liability	12,078	13,825	16,812	20,857	25,310

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 facilitator, record keeper and regulator for the operations of its members. INEX submits an annual financial statement to the Division reflecting both its combined financial position and the financial position of each individual syndicate.

Insurance Pools are groups that join together 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 Division 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 Division 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 Division, however, they must register with the Division 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 2004, there were 79 foreign registered risk retention companies, only one Illinois domiciled risk retention companies, and 413 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 Division, are required to file certain financial information with the Division, 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 association or regulatory body.

Profitability

In monitoring competition in general, and price performance in particular, the Division 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 Division 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;
- a five-year trend for Illinois losses as a percent of premiums earned, compared to the five-year trend for countrywide losses.

Personal Lines Insurance

Figure 26 shows the percentage change in the Consumer Price Index between 2003 and 2004 for homeowners and automobile insurance - the personal lines of insurance coverage - and the overall index.

Figure 26

**Consumer Price Index
for Household and Automobile Insurance**

	2003	2004	% chg.
All items	184.0	188.9	2.7%
Household Insurance	114.8	116.2	1.2%
Motor Vehicle Insurance	314.4	323.2	2.8%

Source: U.S. Department of Labor. Bureau of Labor Statistics

In **Figures 27** through **30** the “countrywide” figures are the aggregate amounts for Illinois-licensed insurers’ nationwide underwriting results. This data comes from the Insurance Expense Exhibit Part III.

Figure 27 shows a comparison of the underwriting results of homeowners insurance written in Illinois with that written nationwide during 2004. As **Figure 27** shows, incurred losses in Illinois for the year were much lower than the nationwide loss ratio, while defense and cost containment expenses incurred were also less than the nationwide figure.

Figure 27

Homeowners’ Underwriting Results (2004)

Homeowners (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	2,176,115	39,700,120
Direct earned premiums	2,093,634	37,838,389
Expenses (% earned premium)		
Incurred losses	45.4%	62.3%
Def. & cost cont. exp. incurred	1.4%	1.8%
Comm./brokerage	14.5%	14.4%
Taxes, licenses & fees	2.0%	2.6%

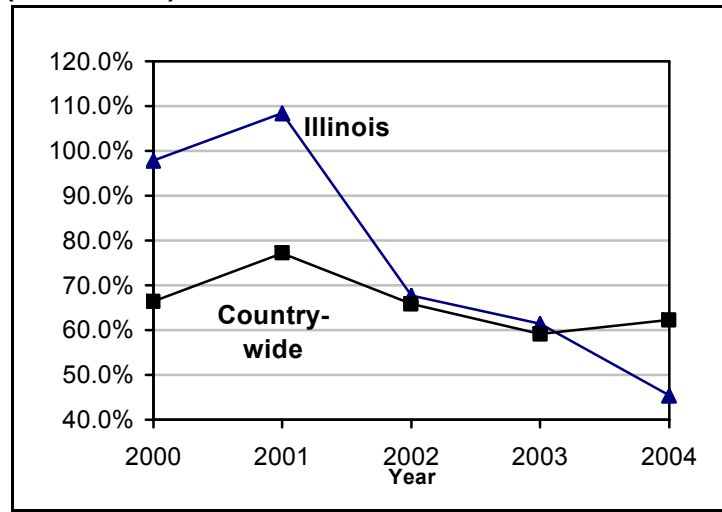
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit.

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III, Illinois-licensed insurers.

Figure 28 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, dropped below nationwide losses during 2004.

Figure 28

Homeowners Losses as a % of Premiums Earned (2000-2004)



Private Passenger Automobile

Figure 29 compares the underwriting results of private passenger automobile insurance written in Illinois with that written countrywide during 2004. Losses incurred in the private passenger automobile line of business were slightly better than nationwide losses.

Figure 29

Private Passenger Auto Underwriting Results (2004)

Private Passenger Auto (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	5,727,788	117,997,137
Direct earned premiums	5,733,714	117,224,060
Expenses (% earned premium)		
Incurred losses	57.2%	59.0%
Def. & cost cont. exp. incurred	3.3%	2.7%
Comm./brokerage	10.7%	8.9%
Taxes, licenses & fees	1.4%	2.1%

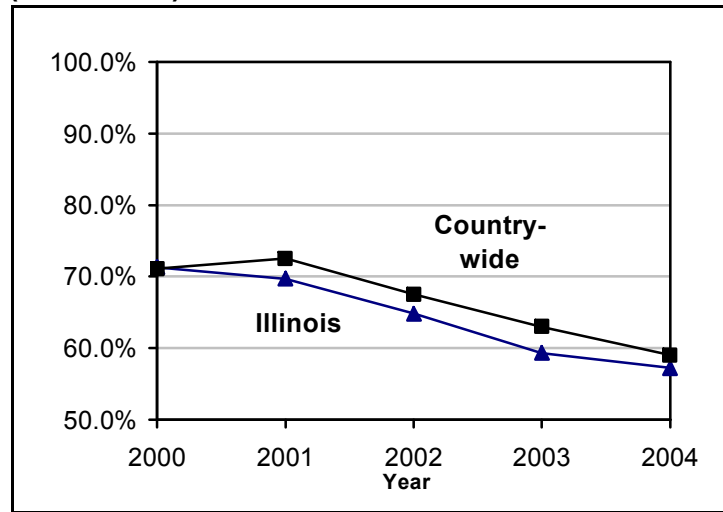
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit.

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III Illinois-licensed insurers.

Figure 30 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 trended close to countrywide loss percentages over the past five years.

Figure 30

Private Passenger Auto Losses as a % of Premiums Earned (2000-2004)



Commercial Automobile Liability

Figure 31 shows the underwriting results in the commercial automobile liability line during 2004 were similar to those countrywide.

Figure 31

Commercial Automobile Liability Underwriting Results (2004)

Commercial Auto Liability (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	865,014	16,896,936
Direct earned premiums	901,728	16,650,393
Expenses (% earned premium)		
Incurred losses	56.0%	56.9%
Def. & cost cont. exp. incurred	6.8%	6.3%
Comm./brokerage	13.7%	13.9%
Taxes, licenses & fees	2.1%	2.7%

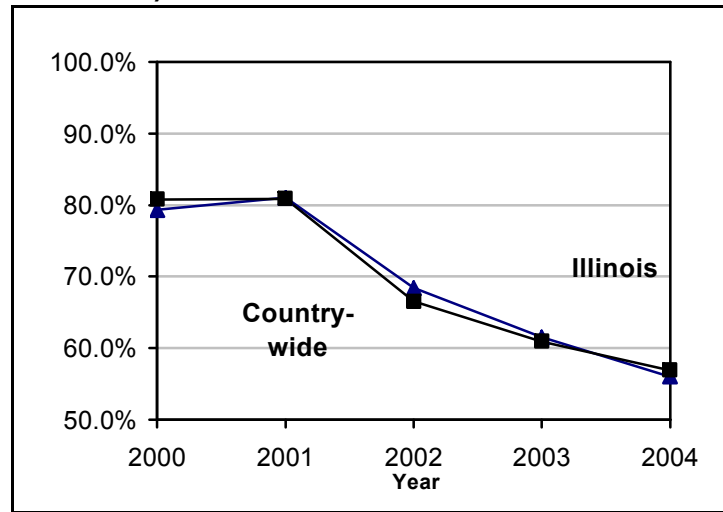
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit.

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III Illinois-licensed insurers.

Figure 32 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 very similar to losses countrywide.

Figure 32

Commercial Auto Liability Losses as a % of Premiums Earned (2000-2004)



Medical Malpractice

Figure 33 shows the underwriting results for the medical malpractice market in Illinois and countrywide for 2004. Although medical malpractice losses in Illinois remained greater than losses countrywide, the loss ratio continues to improve.

Figure 33

Medical Malpractice Underwriting Results (2004)

Medical Malpractice (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	637,643	5,426,995
Direct earned premiums	620,132	5,414,218
Expenses (% earned premium)		
Incurred losses	88.6%	57.5%
Def. & cost cont. exp. incurred	22.7%	26.0%
Comm./brokerage	6.2%	7.5%
Taxes, licenses & fees	1.2%	1.8%

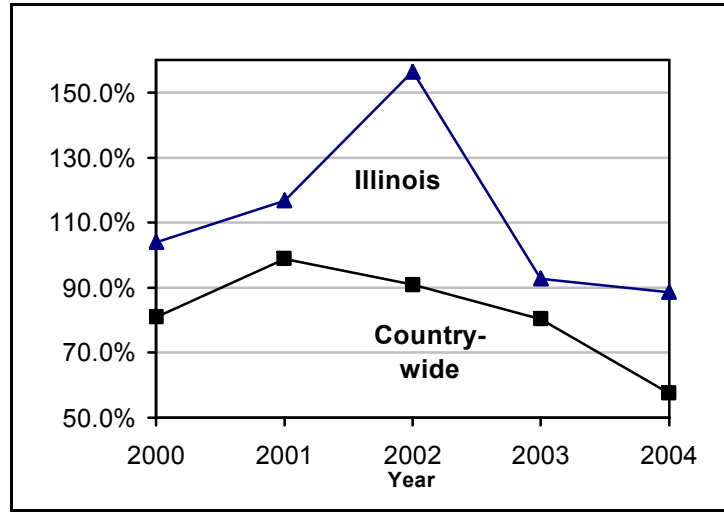
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III, Illinois-licensed insurers.

Figure 34 compares the five-year loss percentages trend for Illinois and countrywide medical malpractice insurance. After soaring to over 150% of earned premium in 2002, losses in Illinois dropped to below 90 percent, but still trail nationwide losses by approximately 31%.

Figure 34

Medical Malpractice Losses as a % of Premiums Earned (2000-2004)



Other Liability

Figure 35 compares the underwriting results between Illinois and countrywide for the other liability line of business.

Figure 35

General Liability Underwriting Results (2004)

Other Liability (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	3,215,190	30,289,214
Direct earned premiums	3,255,960	29,600,840
Expenses (% earned premium)		
Incurred losses	86.5%	73.2%
Def. & cost cont. exp. incurred	13.3%	17.6%
Comm./brokerage	7.3%	13.7%
Taxes, licenses & fees	2.3%	2.3%

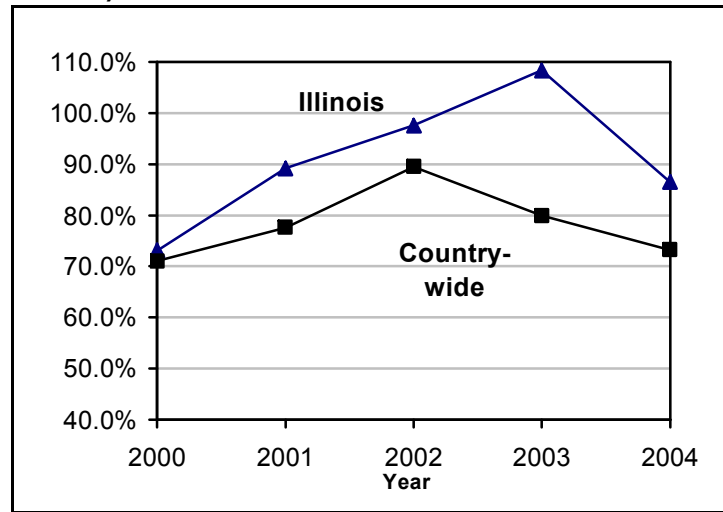
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III, Illinois-licensed insurers.

Figure 36 compares the five-year trend for loss percentages for Illinois and countrywide for other liability insurance. While losses in Illinois increased steadily between 2000 and 2003, last year saw a significant decline, bringing them closer to the nationwide level.

Figure 36

**Other Liability Losses as a % of Premiums Earned
(2000-2004)**



Workers Compensation

In order to slow the growth in workers' compensation claims costs during the last part of the 1980's, many states passed new laws that made it easier to manage medical costs and oversee the treatment plan and the return-to-work process. Larger deductibles, which made employers more concerned about safety, along with better fraud prevention also helped hold claim costs down.

However, from 1997 to 2000, workers' compensation losses rose dramatically before retreating in 2001. Liberty Mutual conducted a study that found that rising claim costs had been driven by a widening definition of workplace injuries, more expensive medical treatments and a growing number of visits to medical practitioners.¹ But while claim costs had risen, the number or frequency of claims has been declining, 38% since 1990.

On 20 July 2005 the Governor signed into law HB2137. Public Act 94-0277 revamped the Workers' Compensation Law in Illinois. The new law provides increased benefits (the first increase in these benefits in years), set standards for payments for accidental injuries and medical expenses, creates a Workers' Compensation Medical Fee Advisory Board, requires utilization review programs for workers' compensation services, and requires the Division of Insurance to establish a fraud and insurance non-compliance unit to investigate workers' compensation fraud. Among the other changes made were changes to the Illinois Workers' Compensation Commission, changes to the procedures in contested cases, and others.

¹ Insurance Information Institute.

Figure 37 shows a comparison of the underwriting results in 2004 in the workers compensation line of business between Illinois and the nation.

Figure 37

Workers Compensation Underwriting Results (2004)

Workers Compensation (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	2,436,090	28,500,132
Direct earned premiums	2,394,821	28,310,612
Expenses (% earned premium)		
Incurred losses	69.6%	68.7%
Def. & cost cont. exp. incurred	6.6%	7.2%
Comm./brokerage	8.1%	8.0%
Taxes, licenses & fees	2.9%	4.3%

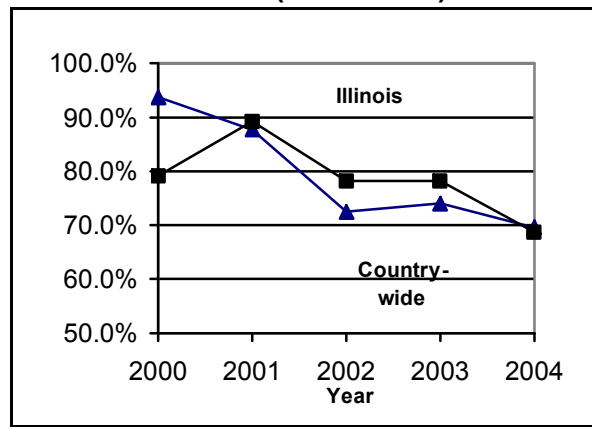
*Source: NAIC State Data Network, 2004 Illinois State Page Exhibit

**Source: NAIC State Data Network 2004 Insurance Expense Exhibit Part III, Illinois-licensed insurers.

Figure 38 shows workers' compensation losses as a percent of earned premium for the years 2000 through 2004. As mentioned previously, since peaking in 2000 to above 90% of earned premium, workers compensation losses have declined almost 20 points by 2002 and have continued to trend downward since.

Figure38

Workers' Compensation Losses as a % of Premiums Earned (2000-2004)



Reliability

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

- Profitability.
- 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 Division 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

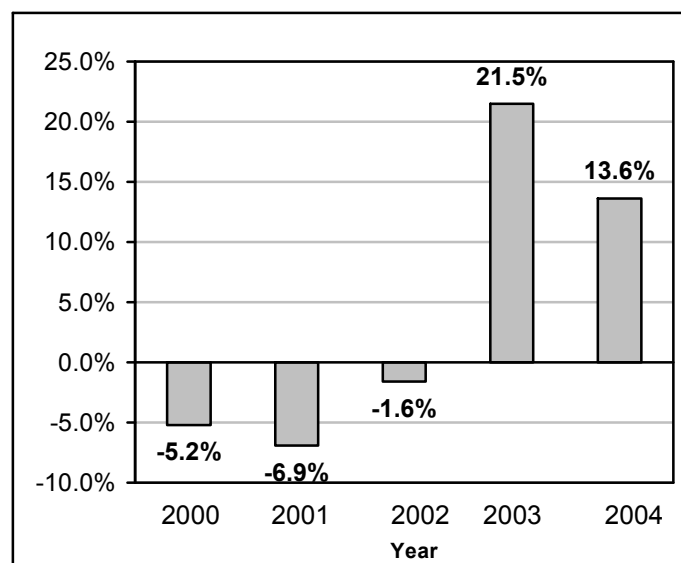
Change in Policyholders Surplus

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 39 shows the percent change in policyholders' surplus for the Illinois-licensed property/casualty industry as a whole over the past five years. After three consecutive years of negative growth, the industry's surplus increased the last two years.

Figure 39

Percent Change in Policyholders' Surplus (2000-2004)



Source: NAIC State Data Network

Figure 40 shows income from investments, net income, unrealized capital gains/losses and policyholders' surplus from 2000 to 2004. The property/casualty industry has experienced significant increases in net income and unrealized capital gains since 2002.

Figure 40
Net Investment Income Earned, Net Income, Unrealized Capital Gains/Losses and Policyholders' Surplus 2000-2004 (in millions)

	2000	2001	2002	2003	2004
Net Investment gain	\$51,060	\$51,573	\$39,995	\$40,893	\$44,952
Net Income	21,231	(3,971)	11,485	27,199	36,488
Unrealized Capital Gains/Losses	(20,077)	(19,755)	(26,485)	30,624	17,189
Policyholders' Surplus	312,966	299,868	295,137	365,589	408,140

Source: NAIC State Data Network

Underwriting Gains/Losses

Figure 41 shows the aggregate underwriting gain/loss for Illinois-licensed insurers from 2000-2004. The industry experienced an underwriting gain in 2004. Earned premium increased 6 percent from 2003 to 2004, while losses and loss expenses increased by 3.4 percent.

Figure 41
Aggregate Net Underwriting Gain/(Loss) (in millions)
(2000-2004)

	2000	2001	2002	2003	2004
Premiums earned	\$243,787	\$260,142	\$290,397	\$325,159	\$344,724
Losses incurred	166,963	197,360	198,964	200,092	206,102
Loss expenses incurred	30,939	33,844	36,981	41,892	44,217
Other underwriting expenses incurred	69,109	72,730	79,362	85,604	88,666
Dividends to policyholders	<u>2,371</u>	<u>1,203</u>	<u>1,121</u>	<u>1,197</u>	<u>978</u>
Net underwriting gain/loss	<u>(\$25,595)</u>	<u>(\$44,995)</u>	<u>(\$26,031)</u>	<u>(\$3,626)</u>	<u>4,761</u>

Source: NAIC State Data Network

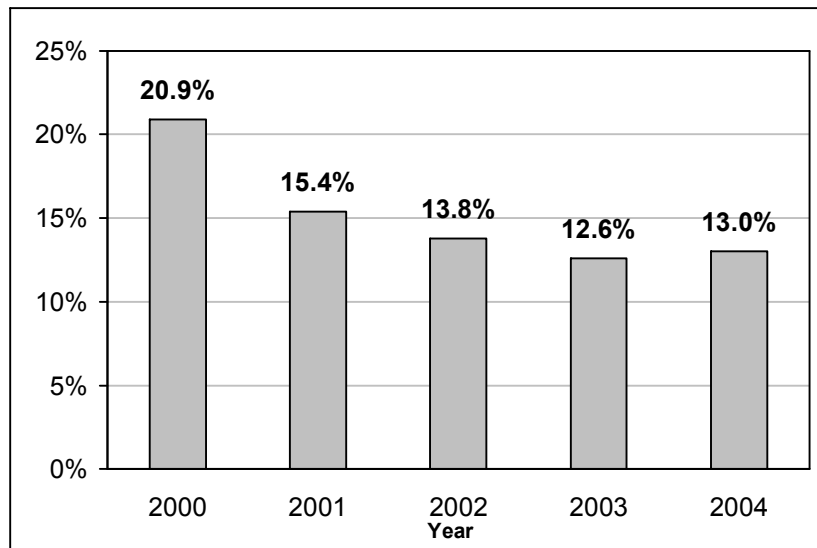
Net Investment Income Ratio

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 42 shows the net investment income ratio for Illinois-licensed property/casualty insurers during the most recent five-year period. This ratio shows the investment income component of overall profitability.

Figure 42

Net Investment Income Ratio (2000-2004)



Source: NAIC State Data Network

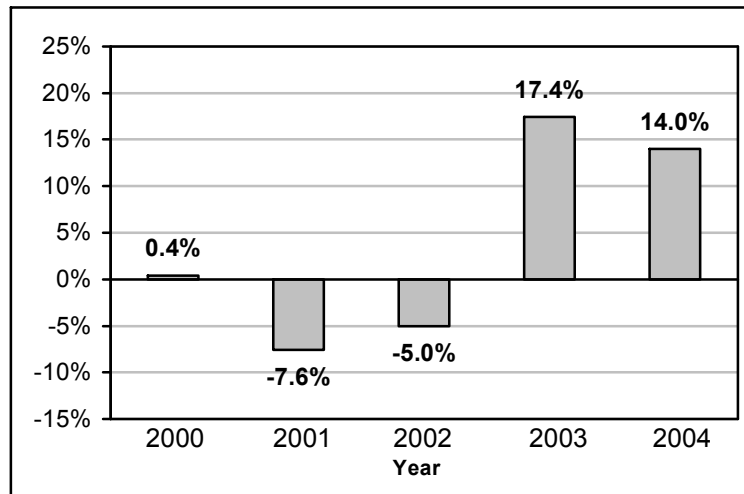
Return on Policyholders' Surplus

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 43 shows the aggregate return on policyholders' surplus from 2000 through 2004 for the Illinois-licensed property/casualty industry combined. After three years of declining returns, two of which were negative, the industry was able to produce a 17.4 percent return on policyholder surplus in 2003 and a return of 14 percent for 2004.

Figure 43

Return on Policyholders' Surplus (2000-2004)



Source: NAIC State Data Network

Financial Solvency Regulation

Although the Division cannot guarantee that Illinois-licensed insurers are profitable, we 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 Division 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.

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APPENDIX A – Consolidated Assets of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2004

ASSETS

	Current year			Prior year
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets	4 Net Admitted Assets
1 Bonds	572,936,797,411	86,510,174	572,850,287,237	514,760,060,327
2.1 Preferred stocks (stocks)	13,722,847,294	6,320,882	13,716,526,411	13,581,182,807
2.2 Common stocks (stocks)	252,546,506,728	784,111,392	251,762,395,336	227,140,316,008
3.1 First liens - mortgage loans on real estate	1,953,212,977	209,853	1,953,003,124	1,623,374,209
3.2 Other than first liens - mortgage loans on real estate	49,989,594	2,025,000	47,964,594	45,856,084
4.1 Properties occupied by the company (less \$(1) encumbrances) (real estate)	6,570,261,459	211,444	6,570,050,015	6,600,694,175
4.2 Properties held for the production of income (less \$(1) encumbrances) (real estate)	961,290,397	3,063,365	958,227,032	898,256,821
4.3 Properties held for sale (less \$(1) encumbrances) (real estate)	458,516,212	15,095,126	443,421,086	453,857,845
5 Cash \$(1), cash equivalents \$(2) and short-term investments \$(3)	71,698,929,838	74,930,180	71,623,999,658	71,975,389,160
6 Contract loans (including \$(1) premium notes)	303,579	303,579	0	0
7 Other invested assets	33,939,626,479	1,000,287,216	32,939,339,260	30,836,635,053
8 Receivable for securities	1,259,830,284	1,369,909	1,258,460,376	2,712,062,198
9 Aggregate write-ins for invested assets	5,825,083,193	3,792,553,678	2,032,529,515	859,280,800
10 Subtotals, cash and invested assets	961,923,195,442	5,766,991,799	956,156,203,642	871,486,965,485
11 Investment income due and accrued	7,543,524,161	5,793,267	7,537,730,892	7,153,754,761
12.1 Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	34,524,758,624	1,945,089,022	32,579,669,596	31,640,961,715
12.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$(1) earned but unbilled premiums) (premiums and considerations)	52,216,243,739	285,504,977	51,930,738,768	51,143,503,703
12.3 Accrued retrospective premiums (premiums and considerations)	3,751,735,369	257,533,270	3,494,202,098	3,516,318,123
13.1 Amounts recoverable from reinsurers (reinsurance)	22,620,083,895	18,338,796	22,601,745,099	21,850,508,398
13.2 Funds held by or deposited with reinsured companies	11,206,955,547	25,547,766	11,181,407,782	11,281,622,134
13.3 Other amounts receivable under reinsurance contracts	847,341,680	0	847,341,680	500,809,346
14 Amounts receivable relating to uninsured plans	55,847,668	4,491,804	51,355,864	38,136,900
15.1 Current federal and foreign income tax recoverable and interest thereon	2,605,082,479	100,130,097	2,504,952,382	2,620,033,694
15.2 Net deferred tax asset	33,458,198,535	18,831,056,109	14,627,142,426	13,752,970,089
16 Guaranty funds receivable or on deposit	774,155,286	7,091,279	767,064,007	688,425,482
17 Electronic data processing equipment and software	2,908,808,182	1,653,968,754	1,254,839,423	1,396,799,006
18 Furniture and equipment, including health care delivery assets \$(1))	1,929,301,437	1,926,011,692	3,289,746	2,374,775
19 Net adjustment in assets and liabilities due to foreign exchange rates	24,848,066	0	24,848,066	32,345,511
20 Receivables from parent, subsidiaries and affiliates	13,551,357,185	306,731,093	13,244,626,092	9,872,576,697
21 Health care \$(1)) and other amounts receivable	206,601,682	15,990,794	190,610,888	26,761,785
22 Other assets nonadmitted	1,788,922,969	1,788,821,350	101,619	3,790,890
23 Aggregate write-ins for other than invested assets	22,022,518,295	6,203,355,064	15,819,163,231	15,102,354,329
24 Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	1,173,959,480,222	39,142,446,922	1,134,817,033,297	1,042,111,012,808
25 From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0	24,570,966
26 Totals	1,173,959,480,222	39,142,446,922	1,134,817,033,297	1,042,135,583,774

APPENDIX B – Consolidated Liabilities, Surplus and Other Funds of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2004

LIABILITIES, SURPLUS AND OTHER FUNDS		1	2
		Current Year	Prior Year
1	Losses	325,551,468,191	301,501,573,649
2	Reinsurance payable on paid losses and loss adjustment expenses	9,595,391,001	9,075,634,985
3	Loss adjustment expenses	65,917,551,124	59,709,776,508
4	Commissions payable, contingent commissions and other similar charges	4,542,538,670	3,777,483,502
5	Other expenses (excluding taxes, licenses and fees)	17,898,464,798	16,425,980,177
6	Taxes, licenses and fees (excluding federal and foreign income taxes)	4,609,195,858	4,523,609,455
7.1	Current federal and foreign income taxes (including \$(1) on realized capital gains (losses))	4,010,915,120	3,165,852,481
7.2	Net deferred tax liability	11,936,403,953	10,126,275,260
8	Borrowed money \$(1) and interest thereon \$(2)	2,151,797,245	2,140,109,827
9	Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$(1) and including warranty reserves of \$(2))	154,867,816,376	146,126,596,021
10	Advance premium	4,610,453,882	4,347,328,058
11.1	Stockholders (dividends declared and unpaid)	342,496,470	429,718,614
11.2	Policyholders (dividends declared and unpaid)	355,585,871	363,598,555
12	Ceded reinsurance premiums payable (net of ceding commissions)	19,766,898,381	18,967,284,788
13	Funds held by company under reinsurance treaties	32,274,147,522	33,517,186,258
14	Amounts withheld or retained by company for account of others	7,656,291,393	6,021,104,320
15	Remittances and items not allocated	1,796,757,824	1,455,929,964
16	Provision for reinsurance	5,282,954,159	5,414,370,074
17	Net adjustments in assets and liabilities due to foreign exchange rates	581,435,299	639,669,463
18	Drafts outstanding	3,539,102,454	3,531,664,920
19	Payable to parent, subsidiaries and affiliates	9,307,685,640	7,479,880,565
20	Payable for securities	3,364,399,483	6,760,258,523
21	Liability for amounts held under uninsured accident and health plans	1,212,708	1,099,349
22	Capital notes \$(1) and interest thereon \$(2)	0	0
23	Aggregate write-ins for liabilities	36,716,317,694	37,288,000,257
24	Total liabilities excluding protected cell liabilities	726,677,281,072	682,789,985,573
25	Protected cell liabilities	0	0
26	Total liabilities	726,677,281,072	682,789,985,573
27	Aggregate write-ins for special surplus funds	37,251,000,986	32,195,588,114
28	Common capital stock	4,767,778,475	4,717,269,569
29	Preferred capital stock	1,621,464,307	1,620,388,107
30	Aggregate write-ins for other than special surplus funds	127,892,792	193,553,926
31	Surplus notes	10,789,850,205	9,119,343,123
32	Gross paid in and contributed surplus	148,132,578,703	139,122,554,231
33	Unassigned funds (surplus)	207,380,191,163	173,372,727,683
34.1	(1) Shares common (value included in common capital stock \$(2)) (less treasury stock at cost)	1,924,823,025	987,743,551
34.2	(2) Shares preferred (value included in preferred capital stock \$(2)) (less treasury stock at cost)	6,181,421	4,338,220
35	Surplus as regards policyholders	408,139,752,197	359,349,342,989
36	Totals	1,134,817,033,265	1,042,139,328,552

APPENDIX C – Consolidated Underwriting and Investment Exhibit of Illinois-licensed Property/Casualty Insurers for the year ending December 31, 2004

UNDERWRITING AND INVESTMENT EXHIBIT STATEMENT OF INCOME		1 Current Year	2 Prior Year
UNDERWRITING INCOME			
1	Premiums earned	344,724,384,655	321,037,585,230
DEDUCTIONS			
2	Losses incurred	206,101,578,378	197,531,276,663
3	Loss expenses incurred	44,217,422,439	41,243,520,129
4	Other underwriting expenses incurred	88,665,833,398	84,267,888,528
5	Aggregate write-ins for underwriting deductions	185,266,105	369,617,250
6	Total underwriting deductions	339,170,100,325	323,412,302,570
7	Net income of protected cells	0	0
8	Net underwriting gain (loss)	5,554,284,345	-2,374,717,337
INVESTMENT INCOME			
9	Net investment income earned	36,895,818,935	35,371,354,706
10	Net realized capital gains (losses)	8,056,530,059	4,922,934,101
11	Net investment gain (loss)	44,952,348,992	40,294,288,806
OTHER INCOME			
12	Net gain (loss) from agents' or premium balances charged off (amount recovered \$(1) amount charged off \$(2))	-857,727,746	-802,466,053
13	Finance and service charges not included in premiums	1,768,761,390	1,678,622,863
14	Aggregate write-ins for miscellaneous income	-1,669,800,365	-2,057,292,419
15	Total other income	-758,766,725	-1,181,135,615
16	Net income before dividends to policyholders and before federal and foreign income taxes	49,747,866,615	36,738,435,850
17	Dividends to policyholders	978,195,213	1,153,001,177
18	Net income, after dividends to policyholders but before federal and foreign income taxes	48,769,671,400	35,585,434,666
19	Federal and foreign income taxes incurred	12,281,405,724	8,515,249,354
20	Net income	36,488,265,675	27,070,185,320
CAPITAL AND SURPLUS ACCOUNT			
21	Surplus as regards policyholders, December 31 prior year	359,349,343,044	295,283,191,265
GAINS AND (LOSSES) IN SURPLUS			
22	Net income	36,488,265,675	27,070,185,320
23	Net unrealized capital gains or (losses)	17,188,943,520	30,058,619,714
24	Change in net unrealized foreign exchange capital gain (loss)	-57,288,708	365,655,822
25	Change in net deferred income tax	158,460,679	2,889,135,079
26	Change in nonadmitted assets	1,019,286,131	-19,141,701
27	Change in provision for reinsurance	137,353,199	241,866,778
28	Change in surplus notes	1,673,319,583	1,264,108,469
29	Surplus (contributed to) withdrawn from protected cells	0	0
30	Cumulative effect of changes in accounting principles	54,085,441	159,917
31.1	Capital changes paid in	10,414,227	810,595,553
31.2	Capital changes transferred from surplus (stock dividend)	46,853,474	31,354,500
31.3	Capital changes transferred to surplus	-8,182,596	515,213,263
32.1	Surplus adjustments paid in	9,349,012,841	14,072,686,570
32.2	Surplus adjustments transferred to capital (stock dividend)	-125,318,100	-494,997,241
32.3	Surplus adjustments transferred from capital	14,772,238	-620,078,301
33	Net remittances from or (to) home office	222,198,909	9,199,652
34	Dividends to stockholders	-15,918,070,473	-11,409,248,278
35	Change in treasury stock	-938,922,675	6,642,960
36	Aggregate write-ins for gains and losses in surplus	-524,774,156	-725,806,317
37	Change in surplus as regards policyholders for the year	48,790,409,217	64,066,151,771
38	Surplus as regards policyholders, December 31 current year	408,139,752,255	359,349,343,041

**APPENDIX D – Consolidated Exhibit of Premiums and Losses in the State of Illinois for All Illinois-licensed Property/Casualty Insurers
During 2004**

**EXHIBIT OF PREMIUMS AND LOSSES
BUSINESS IN THE STATE OF ILLINOIS DURING THE YEAR 2004**

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 And Fees
1 Fire	238,554,570	242,689,609	162,055	112,238,424	91,508,701	58,197,222	78,904,077	1,806,268	826,916	4,137,756	30,959,739	7,128,473
2 Allied lines	223,694,196	219,419,766	75,974	91,654,103	73,960,265	79,610,070	77,122,385	2,288,850	2,007,292	3,439,460	30,228,731	5,432,410
2 Multiple peril crop	279,582,894	283,074,680	0	2,931,446	105,942,390	116,009,160	48,486,570	661,747	16,713,696	17,797,606	30,304,762	1,183,407
2 Federal flood	18,937,584	18,104,574	0	9,773,171	1,651,820	1,701,050	335,787	53,481	51,451	6,148	2,705,358	219,045
3 Farmowners multiple peril	93,136,327	91,343,371	0	36,888,221	50,407,387	50,715,463	24,439,423	1,127,455	270,946	3,131,792	14,431,068	1,905,280
4 Homeowners multiple peril	2,176,115,108	2,093,633,599	2,195,180	1,136,942,684	967,165,593	949,516,247	477,297,109	27,158,348	29,863,587	64,436,589	302,501,396	41,197,668
5 Commercial multiple peril (non-liability portion)	868,066,807	854,397,183	245,814	419,883,456	320,758,874	337,758,927	323,172,424	14,056,719	14,165,930	43,100,472	139,225,406	19,667,776
5 Commercial multiple peril (liability portion)	561,866,845	547,206,881	190,021	261,811,525	271,431,388	267,948,646	975,362,623	98,194,704	79,225,493	326,989,349	94,261,438	11,103,103
6 Mortgage guaranty	240,328,175	241,585,664	0	23,326,067	66,679,538	97,491,253	402,346,166	1,062,538	938,937	3,604,609	653,253	6,109,036
8 Ocean marine	80,265,765	81,495,015	39,846	22,295,737	25,503,902	-10,017,806	44,621,195	1,551,589	-5,839,538	3,940,684	11,679,088	2,155,720
9 Inland marine	446,362,856	455,740,843	417,119	187,365,920	152,280,589	145,729,061	128,796,584	4,562,833	4,723,859	6,843,957	71,994,656	10,193,452
10 Financial guaranty	87,210,756	72,021,934	0	383,282,208	-7,378,004	-2,439,593	31,085,563	1,976	13,868	11,893	10,476	1,537,057
11 Medical malpractice	637,642,932	620,132,169	465,607	232,043,781	423,165,942	549,488,838	1,666,059,851	121,376,724	140,812,891	394,727,176	38,525,040	7,666,845
12 Earthquake	35,616,483	34,253,122	51,785	17,346,466	56,253	776,824	1,713,016	36,343	222,243	175,787	4,475,935	815,551
13 Group accident and health	313,514,393	294,021,140	0	111,227,503	249,073,079	330,569,197	255,538,595	1,617,593	2,207,449	901,941	65,474,689	3,483,469
14 Credit A&H (group and individual)	22,630,704	22,810,831	0	2,848,277	2,469,339	1,523,121	2,582,850	2,151	5,108	24,940	7,712,902	686,330
15 Collectively renewable A&H	-2,579	350,933	0	135	0	-2,031,473	274,604	0	0	0	19	114,329
15 Non-cancelable A&H	2,392	34,504	0	557,332	1,671	5,379	23,521	0	-1,003	2,009	63	2
15 Guaranteed renewable A&H	65,074,334	4,686,534	0	241,817,006	28,249,269	31,458,781	57,533,007	13,094	39,463	175,977	5,304,016	1,639,673
15 Non-renewable for stated reasons only	46,539,119	46,915,213	3,371	10,970,642	43,555,651	40,725,135	30,473,203	368,710	378,083	679,496	2,900,618	312,313
16 Other accident only	24,125,961	24,561,869	1,513,377	659,247	6,854,474	6,609,882	3,293,430	-46,194	-58,076	-2,044	3,312,259	155,300
16 All other A&H	7,755,144	7,597,535	0	1,699,689	5,571,620	2,281,457	6,012,091	38,848	-740,938	92,910	831,502	102,535
16 Federal employees health benefits program	0	0	0	0	0	0	0	0	0	0	-1	0
16 Workers' compensation	2,436,090,463	2,394,820,955	4,868,697	854,459,861	1,274,106,587	1,666,299,281	4,173,224,939	100,164,962	158,140,680	378,371,856	194,443,066	69,343,399
17 Other liability	3,215,190,007	3,255,960,479	422,188	1,499,715,211	1,906,767,222	2,817,894,611	7,641,613,963	321,389,510	431,920,274	1,250,456,782	237,990,333	76,285,390
18 Products liability	139,290,009	141,921,323	-759,366	49,290,809	118,564,430	125,083,686	887,008,876	81,992,128	-70,832,906	295,447,535	14,723,843	3,995,212
19 Private passenger auto no-fault	14,877,079	14,217,368	14,576	4,843,540	10,036,096	22,756,828	27,102,766	1,201,243	3,122,202	3,040,658	3,800,046	307,265
19 Other private passenger auto liability	3,100,455,881	3,091,872,341	4,158,717	902,824,558	1,850,816,976	1,942,400,781	2,431,401,078	140,650,204	178,768,443	375,000,255	339,237,193	43,091,314
19 Commercial auto no-fault	84,754	83,344	0	12,106	207,367	-3,223,394	1,027,461	68,660	-385,121	114,710	-25,530	-3,791
19 Other commercial auto liability	865,014,186	901,728,389	147,743	376,071,172	465,701,056	505,078,224	1,115,444,386	54,743,292	61,393,676	129,912,728	123,542,788	19,133,790
21 Private passenger auto physical damage	2,627,332,456	2,641,842,123	3,756,418	743,027,989	1,372,197,937	1,373,942,734	137,603,509	12,463,438	14,138,879	12,392,940	280,046,030	38,547,586
21 Commercial auto physical damage	330,382,083	332,102,384	6,795,241	139,332,128	151,441,235	133,105,833	36,466,497	2,107,843	1,995,949	3,873,186	45,174,843	6,185,819
22 Aircraft (all perils)	89,335,665	101,957,339	946	24,830,607	43,842,825	11,209,827	812,071,676	7,021,076	-3,260,398	78,786,624	8,268,602	1,564,365
23 Fidelity	100,832,202	90,862,133	1,093	49,870,265	20,208,698	23,886,795	67,959,042	2,645,435	3,972,711	7,876,046	8,005,253	3,345,570
24 Surety	150,923,984	155,928,953	63	87,695,423	17,379,029	32,598,842	71,134,980	6,832,767	8,036,565	10,006,412	35,985,686	3,906,095
26 Burglary and theft	6,533,038	6,575,837	12,562	3,067,191	553,110	1,053,432	3,655,873	22,971	113,238	305,272	958,478	185,407
27 Boiler and machinery	51,422,134	54,000,383	1,406	24,283,152	7,304,590	10,000,008	16,268,288	217,631	179,348	689,904	5,887,736	1,285,822
28 Credit	36,425,156	32,989,581	0	10,788,130	10,313,724	15,200,062	14,196,289	14,739	42,474	360,006	4,440,335	1,070,724
33 Aggregate write-ins for other lines of business	460,185,183	458,789,065	12,100,088	806,192,133	216,275,639	230,033,549	201,203,686	6,723,779	7,237,851	3,231,088	13,857,680	4,581,012
34 Totals	20,091,395,028	19,931,728,959	36,880,524	8,883,867,297	10,344,626,255	11,960,947,940	22,272,857,387	1,014,193,430	1,080,411,512	3,424,084,507	2,173,828,771	395,633,739

APPENDIX E – Consolidated Insurance Expense Exhibit Part III for all Illinois-licensed Property/Casualty Insurers for 2004

PART III – ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN
 (\$'000 omitted)

PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS FOR DIRECT BUSINESS WRITTEN	Premiums Written	Premiums Earned	Dividends To Policy- Holders	Incurred Loss	Defense And Cost Containment Expenses Incurred	Adjustment and Other Expenses Incurred	Unpaid Losses	Defense And Cost Containment Expenses Unpaid	Adjustment and Other Expenses Unpaid	Unearned Premium Reserves	Agents' Balances
1 Fire	5,419,161	5,509,930	6,875	1,659,945	61,909	155,634	2,801,745	151,939	105,075	2,553,863	934,172
2 Allied lines	4,930,327	4,874,531	8,299	3,418,662	136,754	179,801	4,274,307	196,830	76,581	2,111,441	825,808
2 Multiple peril crop	3,962,325	3,937,155	0	2,861,469	48,468	20,314	886,547	54,900	6,018	218,068	911,418
2 Federal flood	1,417,377	1,386,178	0	1,442,939	40,447	21,393	567,947	18,071	14,757	754,072	133,192
3 Farmowners multiple peril	1,138,179	1,114,165	0	590,636	19,105	66,843	391,620	51,828	31,106	535,274	231,634
4 Homeowners multiple peril	39,700,120	37,838,389	134,673	23,571,246	698,784	3,021,882	11,014,735	1,352,256	1,270,726	20,876,562	7,110,442
5 Commercial multiple peril (non-liability portion)	16,256,337	15,979,075	6,445	8,934,081	794,058	675,942	8,274,096	1,363,489	485,262	7,827,425	3,368,593
5 Commercial multiple peril (liability portion)	10,665,744	10,432,282	4,232	5,184,385	2,037,462	626,136	16,915,710	5,944,474	906,921	4,927,564	2,493,162
6 Mortgage guaranty	4,941,341	4,953,265	0	1,946,479	29,706	39,628	6,937,096	68,610	41,105	558,526	344,557
8 Ocean marine	2,464,245	2,476,763	2,316	1,434,572	101,532	107,380	2,321,971	174,823	66,637	855,666	367,054
9 Inland marine	9,087,727	9,064,935	12,902	4,189,900	141,121	348,251	2,610,523	183,450	162,418	3,770,613	1,514,352
10 Financial guaranty	3,515,557	2,374,977	0	304,107	42,987	6,139	637,417	5,531	2,682	11,278,954	76,239
11 Medical malpractice	5,426,995	5,414,218	8,714	3,110,545	1,408,779	256,315	12,169,946	3,592,480	750,941	2,167,556	994,965
12 Earthquake	1,064,821	1,039,845	2,174	172,411	13,216	12,227	337,475	32,821	19,133	519,329	174,950
13 Group A & H	5,273,802	5,104,108	5	3,827,562	31,125	216,144	2,501,633	21,759	136,619	1,065,139	787,007
14 Credit A & H	575,449	590,097	0	63,989	151	-603	72,571	594	4,436	75,572	45,735
15 Other A & H	2,150,708	1,651,582	1,862	1,293,448	5,170	72,394	1,398,082	10,162	93,140	3,270,172	399,364
16 Workers' compensation	28,500,132	28,310,612	460,267	19,440,375	2,035,681	1,872,621	66,986,900	5,337,714	2,857,766	7,127,097	6,231,487
17 Other liability	30,289,214	29,600,840	15,053	21,657,654	5,218,054	1,310,873	68,732,774	13,960,657	2,255,404	13,552,974	5,683,124
18 Products liability	3,004,052	2,822,821	-449	2,997,308	1,356,265	263,083	13,150,653	4,369,689	468,692	1,265,781	609,006
19 Private passenger auto liability	69,562,154	68,984,438	247,771	43,394,672	2,942,159	6,554,119	58,391,589	7,656,106	4,609,683	20,704,866	12,041,434
19 Commercial auto liability	16,896,936	16,650,393	5,396	9,478,999	1,046,732	931,933	20,477,768	2,361,760	928,978	7,193,711	4,099,220
21 Private passenger auto physical damage	48,434,983	48,239,622	188,798	25,794,147	178,250	4,494,397	2,433,072	210,942	1,069,388	14,322,128	8,244,519
21 Commercial auto physical damage	6,068,296	6,035,971	8,014	2,836,916	53,366	368,344	715,497	78,167	96,074	2,620,717	1,370,580
22 Aircraft (all perils)	1,585,236	1,764,468	1	668,580	33,295	25,405	2,847,714	283,921	25,335	591,015	307,728
23 Fidelity	1,045,803	1,033,121	160	492,574	38,203	35,119	913,614	90,637	30,747	570,223	196,867
24 Surety	3,693,230	3,585,993	28,937	2,256,686	366,859	150,160	2,584,089	395,187	109,169	2,104,505	557,120
26 Burglary and theft	111,619	106,029	29	28,378	1,748	2,997	38,877	4,061	958	53,338	19,443
27 Boiler and machinery	1,070,009	1,094,844	40	267,569	9,245	21,763	403,992	19,735	16,357	513,784	177,823
28 Credit	899,467	737,820	723	358,144	3,888	8,564	282,491	5,850	1,680	561,442	100,411
29 International	62,417	71,570	0	-14,219	901	15,859	72,557	1,415	178	22,911	784
33 Aggregate write-ins for other lines of business	4,074,858	3,993,477	15,846	3,158,083	31,097	70,034	3,712,567	65,184	54,121	7,462,471	198,223
34 Total	333,288,615	326,773,539	1,159,082	196,822,201	18,926,500	21,951,063	315,857,562	48,065,096	16,698,112	142,032,757	60,550,436

APPENDIX E (continued) – Consolidated Insurance Expense Exhibit Part III for all Illinois-licensed Property/Casualty Insurers for 2004
PART III – ALLOCATION TO LINES OF DIRECT BUSINESS WRITTEN
(\$000 omitted)

PREMIUMS, LOSSES, EXPENSES, RESERVES AND PROFITS FOR DIRECT BUSINESS WRITTEN		Commission And Brokerage Expenses Incurred	Taxes, Licenses and Fees Incurred	Other Acquisitions, Field Supervision and Collection Expenses Incurred	General Expenses Incurred	Other Income Less Other Expenses	Pre-tax Profit or Loss Excluding all Investment Gain
1	Fire	674,829	151,548	283,311	349,886	-1,769	2,164,206
2.1	Allied lines	631,836	121,007	272,231	383,521	-8,166	-285,722
2.2	Multiple peril crop	242,381	3,665	-29,304	51,998	-23,546	714,621
2.3	Federal flood	239,667	32,020	14,935	-7,139	4,765	-393,319
3	Farmowners multiple peril	205,618	26,415	79,034	60,987	13,287	78,817
4	Homeowners multiple peril	5,439,624	986,283	3,024,790	1,767,979	214,435	-592,416
5.1	Commercial multiple peril (non-liability portion)	2,672,098	406,566	948,329	905,489	6,081	642,139
5.2	Commercial multiple peril (liability portion)	1,865,435	262,425	613,507	597,390	-15,728	-774,426
6	Mortgage guaranty	6,150	109,870	308,708	607,203	-13,102	1,892,424
8	Ocean marine	415,655	40,426	88,355	137,579	-44,564	104,397
9	Inland marine	1,470,551	232,012	465,593	423,780	-77,277	1,703,590
10	Financial guaranty	1,168	70,667	360,964	320,435	18,092	1,286,598
11	Medical malpractice	405,079	96,583	106,712	262,511	6,438	-234,566
12	Earthquake	126,310	23,753	55,026	50,526	1,974	586,158
13	Group A & H	483,114	57,895	144,599	248,545	-40,068	55,044
14	Credit A & H	175,491	18,855	17,049	60,032	3,563	258,696
15	Other A & H	205,099	34,121	81,836	84,185	-19,347	-145,882
16	Workers' compensation	2,253,534	1,213,485	1,340,537	1,539,091	-270,480	-2,115,458
17	Other liability	4,052,266	674,219	1,356,090	1,546,728	-136,898	-6,366,977
18	Products liability	336,068	64,097	137,507	151,975	-6,984	-2,490,026
19.1	Private passenger auto liability	6,116,643	1,655,974	4,986,509	3,274,416	511,058	323,245
19.3	Commercial auto liability	2,318,180	454,716	862,381	941,124	22,892	633,813
21.1	Private passenger auto physical damage	4,298,746	1,151,159	3,500,598	2,222,301	361,411	6,772,646
21.2	Commercial auto physical damage	832,157	152,248	355,595	346,493	5,127	1,087,942
22	Aircraft (all perils)	212,320	26,114	26,065	52,498	-12,880	707,310
23	Fidelity	125,894	24,165	95,976	67,257	-961	152,800
24	Surety	909,468	109,977	371,351	265,059	5,267	-867,216
26	Burglary and theft	15,945	2,782	9,627	5,529	219	39,206
27	Boiler and machinery	104,656	28,696	105,116	117,622	-4,242	435,901
28	Credit	227,274	23,909	26,001	64,732	19,659	44,245
29	International	2,451	1,407	526	4,124	-898	59,623
33	Aggregate write-ins for other lines of business	433,017	82,068	67,523	188,159	9,529	-42,819
34	Total	37,498,744	8,339,153	20,077,126	17,092,009	526,893	5,434,587