

**FORTY-FIFTH ANNUAL REPORT
OF THE
ILLINOIS INSURANCE GUARANTY FUND
TO ITS MEMBER COMPANIES**

The Illinois Insurance Guaranty Fund (IIGF) was established by the Illinois General Assembly in 1971. Since then, for forty-five years, IIGF has been protecting Illinois resident insureds and claimants from loss resulting from property and casualty insurance company insolvencies.

This report will summarize the principal activities of IIGF during the calendar year ending December 31, 2015, and address key events to this point in the current year. IIGF's 2015 audited financial report prepared by KPMG provides more extensive financial information, and a copy was duly filed with the Illinois Department of Insurance on April 30, 2016 as required by statute, with copies also available to member companies upon request.

GENERAL COMMENTS

In 2015 and early 2016, the following new insolvencies were accepted by IIGF:

- **Interstate Bankers Casualty Company** was an Illinois Auto carrier ordered into liquidation in August 2015. IIGF has handled roughly 3,000 claims in this insolvency to date, of which more than 70% have already been closed.

- **Lincoln General Insurance Company**, domiciled in Pennsylvania, was accepted in November 2015 after a lengthy run-off. Illinois has minimal exposure, with a total of four claims opened to date.

- **Affirmative Insurance Company**, domiciled in Illinois, was ordered into liquidation in March of this year. IIGF's exposure is limited to Auto claims, although the company did write other property coverage elsewhere. The Fund has opened more than 400 claims to date.

- **Lumbermens Underwriters Alliance**, a Missouri casualty carrier, was just recently ordered into liquidation in May. IIGF expects to receive 70-100 Workers' Compensation claims, but we are very early in the process of gathering information. A large proportion of the Illinois claims are likely to be under high-deductible Workers' Compensation policies.

At the September 18, 2015 Board meeting, the Board approved an off-cycle \$10,000,000 abatement of uncalled assessment funds related to the Freestone Insurance Company insolvency. Compared to claim count and reserve figures reported to IIGF pre-liquidation, IIGF's actual exposure proved to be significantly lower.

In the Auto account, assessments related to Interstate Bankers and Lincoln General were largely offset by abatements of previous assessments, resulting in a net new assessment of \$695,000. A net call of \$5,839,068 in previously uncalled assessments was approved and relates mainly to claim payments in Interstate Bankers and the 2013 Ullico insolvency.

A net abatement of \$4,246,595 was approved in the Other account, and this figure does not include the \$10 million previously abated in relation to the 2014 Freestone insolvency. The abatements deal with three older estates, accepted between 2003 and 2009. A net call of \$1,159,034 was approved and will largely fund ongoing payments in the insolvencies of Lumbermens Mutual Casualty and Professional Liability Insurance Company.

No Early Access or other distribution of estate funds has been received from any of the new estates to date.

An additional, small call or refund action may be presented for approval at the September Board meeting as IIGF incorporates a new accounting procedure for uncollectable accounts. Current planning may be affected further if additional new estates were to be accepted for coverage or if there is a significant deterioration in IIGF's ability to fund claims in the absence of any supplementary Early Access funding to support its operations.

SUMMARY OF 2015 OPERATIONS

A total of 853 claims were closed in 2015 compared to 883 claims closed in 2014. Total open claims at December 31, 2015, stood at 3,512, up sharply from 1,249 open claims at the prior year-end. Claim reserves at December 31, 2015, were approximately \$9,029,055 for the Auto Account and \$125,787,210 for the Other Account, which includes Workers' Compensation.

Advances against expenses and claims costs from liquidators and ancillary receivers of insolvent estates in the amount of \$9,373,482 were received for the 2015 year. This was a decrease of \$8,389,981 from the \$17,763,463 received in 2014.

ELECTION OF DIRECTORS AND OFFICERS

IIGF's Board of Directors consists of ten members. Nine are elected by the member companies to serve three-year terms, which are staggered to provide for the election of three members each year. At the June 26, 2015, Annual Meeting of Member companies, John R. Mathews, Counsel, Government Relations Law and Regulation, Allstate Insurance Company, Stacie A. Graham, Regional Vice President, Liberty Mutual Group, and Joyce Hall Mellinger, Senior Vice President & Associate General Counsel, Zurich North America, were elected Directors. All three elections were approved by Illinois Director of Insurance Anne Melissa Dowling as required by the statute.

At the organizational meeting of the Board of Directors which followed the Annual Meeting of Member Companies, Brad Roeber, John R. Mathews and Randy Seiner were elected to the

offices of Chairman, Vice Chairman and Secretary, respectively. Beginning in 2014, one additional Board member is appointed by the Director of Insurance. This seat is occupied by Julian Coleman, Jr., CPA, of Horwich Coleman Levin, LLC.

OPERATIONAL MATTERS

IIGF relocated its offices in August of 2015 after fifteen years on La Salle Street in downtown Chicago. The new office space in the West Loop is smaller and more efficient, reflecting the ongoing shift away from a paper-reliant workplace.

This was a busy year for IIGF, with new insolvencies adding to the volume already absorbed through the large companies received in 2013 and 2014. At peak, IIGF's headcount swelled to twenty-one, including four temporary staff brought in to adjust claims. More than 1,500 claims have been closed since year-end, and staffing levels have begun to trend back downward.

Management and the Board of Directors have been focused in the past year on Information Security and risk management at IIGF. Numerous improvements have been made to the Fund's technology infrastructure, and policies have been updated to reflect changing realities. In 2016, IIGF will undergo an outside gap analysis of its IT security measures.

CONCLUDING COMMENTS

Our thanks go to the entire staff of IIGF for their efforts in carrying out the work of the Fund on our behalf. Further thanks go to the firm of Locke Lord, which has provided legal counsel to IIGF since the inception of operations in 1971. Their capable and highly effective representation of IIGF has greatly contributed to IIGF's successful operations over the years.

Respectfully,



Brad Roeber
Chairman
Illinois Insurance Guaranty Fund