

1 AN ACT concerning insurers.

2 Be it enacted by the People of the State of Illinois,
3 represented in the General Assembly:

4 Section 5. The Illinois Insurance Code is amended by
5 changing Sections 10, 40, 131.20a, 187, and 188 and adding
6 Section 131.20b as follows:

7 (215 ILCS 5/10) (from Ch. 73, par. 622)

8 Sec. 10. Directors.

9 (1) After the date of incorporation, as determined by
10 Section 18, and until the first meeting of shareholders, the
11 incorporators shall have the powers and perform the duties
12 ordinarily possessed and exercised by a board of directors.

13 (2) Upon the issuance of a certificate of authority to a
14 company organized under this article, the corporate powers
15 shall be exercised by, and its business and affairs shall be
16 under the control of, a board of directors composed of not
17 less than 3 nor more than 21 natural persons who are
18 shareholders, except where the Company is a wholly owned
19 subsidiary, and who are at least 18 years of age and at least
20 3 of whom are residents and citizens of this State. After
21 June 30, 2002, at least 20%, but not less than one, of the
22 directors of a company that is not subject to Section 131.20b
23 shall be persons who are not officers or employees of the
24 company. A person convicted of a felony may not be a
25 director, and all directors shall be of good character and
26 known professional, administrative, or business ability, such
27 business ability to include a practical knowledge of
28 insurance, finance, or investment. The first board of
29 directors shall be elected at the first meeting of
30 shareholders, and, except as provided in subsection (3)
31 below, all directors shall be elected annually thereafter.

1 (3) If the board of directors consists of 6 or more
2 members, in lieu of electing the membership of the whole
3 board of directors annually, the articles of incorporation
4 may provide that the directors shall be divided into two or
5 three classes, each class to be as nearly equal in number as
6 is possible. The term of office of directors of the first
7 class shall expire at the first annual meeting of
8 shareholders after their election, that of the second class
9 shall expire at the second annual meeting after their
10 election, and that of the third class, if any, shall expire
11 at the third annual meeting after their election. At each
12 annual meeting after such classification, a number of
13 directors equal to the number of directors in the class whose
14 terms expire at the time of such meeting shall be elected to
15 hold office until the second succeeding annual meeting, if
16 there are two classes, or until the third succeeding annual
17 meeting, if there are three classes.

18 (4) In all elections for directors every shareholder of
19 common shares has the right to vote, in person or by proxy,
20 for the number of common shares owned by him, for as many
21 persons as there are directors to be elected, or to cumulate
22 his shares, and give one candidate as many votes as the
23 number of directors multiplied by the number of his shares
24 equals, or to distribute them on the same principle among as
25 many candidates as he thinks fit, and directors shall not be
26 elected in any other manner.

27 (5) Meetings of the board of directors, regular or
28 special, may be held either within or without the State.
29 Meetings of the board of directors shall be upon such notice
30 as the by-laws may prescribe. Attendance of a director at any
31 meeting shall constitute a waiver of notice of such meeting
32 except where a director attends the meeting for the express
33 purpose of objecting to the transaction of any business
34 because the meeting is not lawfully called or convened.

1 Neither the business to be transacted at, nor the purpose of,
2 any regular or special meeting of the board of directors need
3 be specified in the notice or waiver of notice of such
4 meeting, unless expressly otherwise provided by this Code.
5 Unless specifically prohibited by the articles of
6 incorporation or by-laws, members of the board of directors
7 or of any committee of the board of directors may participate
8 in and act at any meeting of such board or committee through
9 the use of a conference telephone or other communications
10 equipment by means of which all persons participating in the
11 meeting can hear each other. Participation in such meeting
12 shall constitute attendance and presence in person at the
13 meeting of the person or persons so participating. Unless
14 specifically prohibited by the articles of incorporation or
15 by-laws, members of the board of directors or of any
16 committee of the board of directors may take action without a
17 meeting, if a consent in writing setting forth the action so
18 taken shall be signed by all of the directors entitled to
19 vote with respect to the subject matter thereof, or by all of
20 the members of such committee, as the case may be. The
21 consent shall be evidenced by one or more written approvals,
22 each of which sets forth the action taken and bears the
23 signature of one or more directors or committee members. All
24 approvals evidencing the consent shall be filed in the
25 company's corporate records. The action taken shall be
26 effective when all of the directors, or members of the
27 committee, have approved the consent unless the consent
28 specifies a different effective date.

29 (6) If the number of directors provided for in the
30 articles of incorporation be indefinite, the number of
31 directors to be elected, within the minimum and maximum
32 limits set forth in paragraph (2), shall be as provided in
33 the by-laws. The number of directors may be increased or
34 decreased from time to time by amendment to the by-laws. The

1 by-laws may establish a variable range for the size of the
2 board by prescribing a minimum and maximum number of
3 directors. The maximum may not exceed the minimum by more
4 than 5. If a variable range is established, the number of
5 directors may be fixed or changed from time to time, within
6 the minimum and maximum, by the directors or the shareholders
7 without further amendment to the by-laws.

8 (7) (a) A company may indemnify any person who was or is
9 a party or is threatened to be made a party to any
10 threatened, pending or completed action, suit or proceeding,
11 whether civil, criminal, administrative or investigative
12 (other than an action by or in the right of the company) by
13 reason of the fact that he or she is or was a director,
14 officer, employee or agent, against expenses (including
15 attorneys' fees), judgments, fines and amounts paid in
16 settlement actually and reasonably incurred by such person in
17 connection with such action, suit or proceeding, if such
18 person acted in good faith and in a manner he or she
19 reasonably believed to be in, or not opposed to the best
20 interests of the company, and, with respect to any criminal
21 action or proceeding, had no reasonable cause to believe his
22 or her conduct was unlawful. The termination of any action,
23 suit or proceeding by judgment, order, settlement,
24 conviction, or upon a plea of nolo contendere or its
25 equivalent, shall not, of itself, create a presumption that
26 the person did not act in good faith and in a manner which he
27 or she reasonably believed to be in or not opposed to the
28 best interest of the company or, with respect to any criminal
29 action or proceeding, that the person had reasonable cause to
30 believe that his or her conduct was unlawful.

31 (b) A company may indemnify any person who was or is a
32 party, or is threatened to be made a party to any threatened,
33 pending or completed action or suit by or in the right of the
34 company to procure a judgment in its favor by reason of the

1 fact that such person is or was a director, officer, employee
2 or agent of the company, or is or was serving at the request
3 of the company as a director, officer, employee or agent of
4 another company, partnership, joint venture, trust or other
5 enterprise, against expenses (including attorneys' fees)
6 actually and reasonably incurred by such person in connection
7 with the defense or settlement of such action or suit, if
8 such person acted in good faith and in a manner he or she
9 reasonably believed to be in, or not opposed to the best
10 interests of the company, provided that no indemnification
11 shall be made in respect of any claim, issue or matter as to
12 which such person shall have been adjudged to be liable for
13 negligence or misconduct in the performance of his or her
14 duty to the company, unless, and only to the extent that the
15 court in which such action or suit was brought shall
16 determine upon application that, despite the adjudication of
17 liability, but in view of all the circumstances of the case,
18 such person is fairly and reasonably entitled to
19 indemnification for such expenses as the court shall deem
20 proper.

21 (c) To the extent that a director, officer, employee or
22 agent of a company has been successful, on the merits or
23 otherwise, in the defense of any action, suit or proceeding
24 referred to in subsections (a) and (b), or in defense of any
25 claim, issue or matter therein, such person shall be
26 indemnified against expenses (including attorneys' fees)
27 actually and reasonably incurred by such person in connection
28 therewith.

29 (d) Any indemnification under subsections (a) and (b)
30 (unless ordered by a court) shall be made by the company only
31 as authorized in the specific case, upon a determination that
32 indemnification of the director, officer, employee or agent
33 is proper in the circumstances because he or she has met the
34 applicable standard of conduct set forth in subsections (a)

1 or (b). Such determination shall be made (1) by the board of
2 directors by a majority vote of a quorum consisting of
3 directors who were not parties to such action, suit or
4 proceeding, or (2) if such a quorum is not obtainable, or
5 even if obtainable, if a quorum of disinterested directors so
6 directs, by independent legal counsel in a written opinion,
7 or (3) by the shareholders.

8 (e) Expenses incurred in defending a civil or criminal
9 action, suit or proceeding may be paid by the company in
10 advance of the final disposition of such action, suit or
11 proceeding, as authorized by the board of directors in the
12 specific case, upon receipt of an undertaking by or on behalf
13 of the director, officer, employee or agent to repay such
14 amount, unless it shall ultimately be determined that he or
15 she is entitled to be indemnified by the company as
16 authorized in this Section.

17 (f) The indemnification provided by this Section shall
18 not be deemed exclusive of any other rights to which those
19 seeking indemnification may be entitled under any by-law,
20 agreement, vote of shareholders or disinterested directors,
21 or otherwise, both as to action in his or her official
22 capacity and as to action in another capacity while holding
23 such office, and shall continue as to a person who has ceased
24 to be a director, officer, employee or agent, and shall inure
25 to the benefit of the heirs, executors and administrators of
26 such a person.

27 (g) A company may purchase and maintain insurance on
28 behalf of any person who is or was a director, officer,
29 employee or agent of the company, or who is or was serving at
30 the request of the company as a director, officer, employee
31 or agent of another company, partnership, joint venture,
32 trust or other enterprise, against any liability asserted
33 against such person and incurred by such person in any such
34 capacity, or arising out of his or her status as such,

1 whether or not the company would have the power to indemnify
2 such person against such liability under the provisions of
3 this Section.

4 (h) If a company has paid indemnification or has
5 advanced expenses to a director, officer, employee or agent,
6 the company shall report the indemnification or advance in
7 writing to the shareholders with or before the notice of the
8 next shareholders meeting.

9 (i) For purposes of this Section, references to "the
10 company" shall include, in addition to the surviving company,
11 any merging company (including any company having merged with
12 a merging company) absorbed in a merger which, if its
13 separate existence had continued, would have had the power
14 and authority to indemnify its directors, officers, and
15 employees or agents, so that any person who was a director,
16 officer, employee or agent of such merging company, or was
17 serving at the request of such merging company as a director,
18 officer, employee or agent of another company, partnership,
19 joint venture, trust or other enterprise, shall stand in the
20 same position under the provisions of this Section with
21 respect to the surviving company as such person would have
22 with respect to such merging company if its separate
23 existence had continued.

24 (j) For purposes of this Section, references to "other
25 enterprises" shall include employee benefit plans; references
26 to "fines" shall include any excise taxes assessed on a
27 person with respect to any employee benefit plan; and
28 references to "serving at the request of the company" shall
29 include any service as a director, officer, employee or agent
30 of the company which imposes duties on, or involves services
31 by such director, officer, employee, or agent with respect to
32 any employee benefit plan, its participants, or
33 beneficiaries. A person who acted in good faith and in a
34 manner he or she reasonably believed to be in the best

1 interests of the participants and beneficiaries of any
2 employee benefit plan shall be deemed to have acted in a
3 manner "not opposed to the best interest of the company" as
4 referred to in this Section.

5 (Source: P.A. 88-648, eff. 9-16-94.)

6 (215 ILCS 5/40) (from Ch. 73, par. 652)

7 Sec. 40. Directors or trustees.

8 (1) After the date of incorporation, as determined by
9 Section 48, and until the first meeting of the members, the
10 incorporators shall have the powers and perform the duties
11 ordinarily possessed and exercised by a board of directors.

12 (2) Upon the issuance of a certificate of authority to a
13 company organized under this Article, the corporate powers
14 shall be exercised by, and its business and affairs shall be
15 under the control of, a board of directors or trustees
16 composed of not less than 3 nor more than 21 natural persons
17 who are members and who are at least 18 years of age and at
18 least 3 of whom are residents and citizens of this State.
19 After June 30, 2002, at least 20%, but not less than one, of
20 the directors of a company that is not subject to Section
21 131.20b shall be persons who are not officers or employees of
22 the company. A person convicted of a felony may not be a
23 director, and all directors shall be of good character and
24 known professional, administrative, or business ability, such
25 business ability to include a practical knowledge of
26 insurance, finance, or investment. The first board of
27 directors or trustees shall be elected at the first meeting
28 of the members, and all directors or trustees shall be
29 elected annually thereafter, except only as provided in
30 subsection (3).

31 (3) The articles of incorporation may provide for the
32 division of the board into classes, as nearly equal in number
33 as possible, and fix the term of office for each class, but

1 no term shall be for more than 3 years.

2 (4) Meetings of the board of directors or trustees,
3 regular or special, may be held either within or without the
4 State. Meetings of the board of directors or trustees shall
5 be upon such notice as the by-laws may prescribe. Attendance
6 of a director or trustee at any meeting shall constitute a
7 waiver of notice of such meeting except where a director or
8 trustee attends the meeting for the express purpose of
9 objecting to the transaction of any business because the
10 meeting is not lawfully called or convened. Neither the
11 business to be transacted at, nor the purpose of, any regular
12 or special meeting of the board of directors or trustees need
13 be specified in the notice or waiver of notice of such
14 meeting, unless expressly otherwise provided by this Code.
15 Unless specifically prohibited by the articles of
16 incorporation or by-laws, members of the board of directors
17 or of any committee of the board of directors may participate
18 in and act at any meeting of such board or committee through
19 the use of a conference telephone or other communications
20 equipment by means of which all persons participating in the
21 meeting can hear each other. Participation in such meeting
22 shall constitute attendance and presence in person at the
23 meeting of the person or persons so participating. Unless
24 specifically prohibited by the articles of incorporation or
25 by-laws, members of the board of directors or of any
26 committee of the board of directors may take action without a
27 meeting, if a consent in writing setting forth the action so
28 taken shall be signed by all of the directors entitled to
29 vote with respect to the subject matter thereof, or by all of
30 the members of such committee, as the case may be. The
31 consent shall be evidenced by one or more written approvals,
32 each of which sets forth the action taken and bears the
33 signature of one or more directors or committee members. All
34 approvals evidencing the consent shall be filed in the

1 company's corporate records. The action taken shall be
2 effective when all of the directors, or members of the
3 committee, have approved the consent unless the consent
4 specifies a different effective date.

5 (5) A company may indemnify any person in conformance
6 with subsection (7) of Section 10.

7 (Source: P.A. 86-632.)

8 (215 ILCS 5/131.20a) (from Ch. 73, par. 743.20a)

9 Sec. 131.20a. Prior notification of transactions;
10 dividends and distributions.

11 (1) (a) The following transactions between a domestic
12 company and any person in its holding company system may not
13 be entered into unless the company has notified the Director
14 in writing of its intention to enter into such transaction at
15 least 30 days prior thereto, or such shorter period as the
16 Director may permit, and the Director has not disapproved it
17 within such period:

18 (i) Sales, purchases, exchanges of assets, loans or
19 extensions of credit, guarantees, investments, or any
20 other transaction (A) that involves involving the
21 transfer of assets from or liabilities to a company equal
22 to or exceeding the lesser of 3% of the company's
23 admitted assets or 25% of its surplus as regards
24 policyholders as of the 31st day of December next
25 preceding or (B) that is proposed when the domestic
26 company is not eligible to declare and pay a dividend or
27 other distribution pursuant to the provisions of Section
28 27.

29 (ii) Loans or extensions of credit to any person
30 that is not an affiliate (A) that which involve the
31 lesser of 3% of the company's admitted assets or 25% of
32 the company's surplus, each as of the 31st day of
33 December next preceding, made with the agreement or

1 understanding that the proceeds of such transactions, in
2 whole or in substantial part, are to be used to make
3 loans or extensions of credit to, to purchase assets of,
4 or to make investments in, any affiliate of the company
5 making such loans or extensions of credit or (B) that are
6 proposed when the domestic company is not eligible to
7 declare and pay a dividend or other distribution pursuant
8 to the provisions of Section 27.

9 (iii) Reinsurance agreements or modifications
10 thereto, including those agreements that may require as
11 consideration the transfer of assets from an insurer to a
12 nonaffiliate, if an agreement or understanding exists
13 between the insurer and nonaffiliate that any portion of
14 those assets will be transferred to one or more
15 affiliates of the insurer.

16 (iv) All management agreements, service contracts,
17 cost-sharing arrangements, and any other contracts
18 providing for the rendering of services on a regular
19 systematic basis.

20 (v) Any series of the previously described
21 transactions that are substantially similar to each
22 other, that take place within any 180 day period, and
23 that in total are equal to or exceed the lesser of 3% of
24 the domestic insurer's admitted assets or 25% of its
25 policyholders surplus, as of the 31st day of the December
26 next preceding.

27 (vi) Any other material transaction that the
28 Director by rule determines might render the company's
29 surplus as regards policyholders unreasonable in relation
30 to the company's outstanding liabilities and inadequate
31 to its financial needs or may otherwise adversely affect
32 the interests of the company's policyholders or
33 shareholders.

34 Nothing herein contained shall be deemed to authorize or

1 permit any transactions that, in the case of an insurer not a
2 member of the same holding company system, would be otherwise
3 contrary to law.

4 (b) Any transaction or contract otherwise described in
5 paragraph (a) of this subsection that is between a domestic
6 insurer and any person that is not its affiliate and that
7 precedes or follows within 180 days or is concurrent with a
8 similar transaction between that nonaffiliate and an
9 affiliate of the domestic company and that involves amounts
10 that are equal to or exceed the lesser of 3% of the domestic
11 insurer's admitted assets or 25% of its surplus as regards
12 policyholders at the end of the prior year may not be entered
13 into unless the company has notified the Director in writing
14 of its intention to enter into the transaction at least 30
15 days prior thereto or such shorter period as the Director may
16 permit, and the Director has not disapproved it within such
17 period.

18 (c) A company may not enter into transactions which are
19 part of a plan or series of like transactions with any person
20 within the holding company system if the purpose of those
21 separate transactions is to avoid the statutory threshold
22 amount and thus avoid the review that would occur otherwise.
23 If the Director determines that such separate transactions
24 were entered into for such purpose, he may exercise his
25 authority under subsection (2) of Section 131.24.

26 (d) The Director, in reviewing transactions pursuant to
27 paragraph (a), shall consider whether the transactions comply
28 with the standards set forth in Section 131.20 and whether
29 they may adversely affect the interests of policyholders.

30 (e) The Director shall be notified within 30 days of any
31 investment of the domestic insurer in any one corporation if
32 the total investment in that corporation by the insurance
33 holding company system exceeds 10% of that corporation's
34 voting securities.

1 (f) Except for those transactions subject to approval
2 under other Sections of this Code, any such transaction or
3 agreements which are not disapproved by the Director may be
4 effective as of the date set forth in the notice required
5 under this Section.

6 (g) If a domestic insurer enters into a transaction
7 described in this subsection without having given the
8 required notification, the Director may cause the insurer to
9 pay a civil forfeiture of not more than \$250,000. Each
10 transaction so entered shall be considered a separate
11 offense.

12 (2) No domestic company subject to registration under
13 Section 131.13 may pay any extraordinary dividend or make any
14 other extraordinary distribution to its securityholders
15 until: (a) 30 days after the Director has received notice of
16 the declaration thereof and has not within such period
17 disapproved the payment, or (b) the Director approves such
18 payment within the 30-day period. For purposes of this
19 subsection, an extraordinary dividend or distribution is any
20 dividend or distribution of cash or other property whose fair
21 market value, together with that of other dividends or
22 distributions, made within the period of 12 consecutive
23 months ending on the date on which the proposed dividend is
24 scheduled for payment or distribution exceeds the greater of:
25 (a) 10% of the company's surplus as regards policyholders as
26 of the 31st day of December next preceding, or (b) the net
27 income of the company for the 12-month period ending the 31st
28 day of December next preceding, but does not include pro rata
29 distributions of any class of the company's own securities.

30 Notwithstanding any other provision of law, the company
31 may declare an extraordinary dividend or distribution which
32 is conditional upon the Director's approval, and such a
33 declaration confers no rights upon security holders until:
34 (a) the Director has approved the payment of the dividend or

1 distribution, or (b) the Director has not disapproved the
2 payment within the 30-day period referred to above.

3 (Source: P.A. 90-655, eff. 7-30-98.)

4 (215 ILCS 5/131.20b new)

5 Sec. 131.20b. Controlled insurers; management;
6 directors.

7 (1) Notwithstanding the control of a domestic insurer by
8 any person, the officers and directors of the insurer shall
9 not thereby be relieved of any obligation or liability to
10 which they would otherwise be subject by law, and the insurer
11 shall be managed so as to assure its separate operating
12 identity consistent with Article VIII 1/2 of this Code.

13 (2) Nothing in this Section shall preclude a domestic
14 insurer from having or sharing a common management or a
15 cooperative or joint use of personnel, property, or services
16 with one or more affiliated persons under arrangements
17 meeting the standards and requirements of Sections 131.20 and
18 131.20a.

19 (3) After June 30, 2002, not less than one-third of the
20 directors of a domestic insurer that is a member of an
21 insurance holding company system shall be persons who are not
22 officers or employees of the insurer or of any entity
23 controlling, controlled by, or under common control with the
24 insurer and who are not beneficial owners of a controlling
25 interest in the voting stock of the insurer or any such
26 entity. At least one such person shall be included in any
27 quorum for the transaction of business at any meeting of the
28 board of directors or any committee thereof.

29 (4) Subsection (3) of this Section does not apply to a
30 domestic insurer if the entity controlling the insurer has a
31 board of directors composed in accordance with that
32 subsection.

1 (215 ILCS 5/187) (from Ch. 73, par. 799)

2 Sec. 187. Scope of Article.

3 (1) This Article shall apply to every corporation,
4 association, society, order, firm, company, partnership,
5 individual, and aggregation of individuals to which any
6 Article of this Code is applicable, or which is subject to
7 examination, visitation or supervision by the Director under
8 any provision of this Code or under any law of this State, or
9 which is engaging in or proposing or attempting to engage in
10 or is representing that it is doing an insurance or surety
11 business, or is undertaking or proposing or attempting to
12 undertake to provide or arrange for health care services as a
13 health care plan as defined in subsection (7) of Section 1-2
14 of the Health Maintenance Organization Act, including the
15 exchanging of reciprocal or inter-insurance contracts between
16 individuals, partnerships and corporations in this State, or
17 which is in the process of organization for the purpose of
18 doing or attempting or intending to do such business,
19 anything as to any such corporation, association, society,
20 order, firm, company, partnership, individual or aggregation
21 of individuals provided in this Code or elsewhere in the laws
22 of this State to the contrary notwithstanding.

23 (2) The word "company" as used in this Article includes
24 all of the corporations, associations, societies, orders,
25 firms, companies, partnerships, and individuals specified in
26 subsections subsection (1), (4), and (5) of this Section and
27 agents, managing general agents, brokers, premium finance
28 companies, insurance holding companies, and all other
29 non-risk bearing entities or persons engaged in any aspect of
30 the business of insurance on behalf of an insurer against
31 which a receivership proceeding has been or is being filed
32 under this Article, including, but not limited to, entities
33 or persons that provide management, administrative,
34 accounting, data processing, marketing, underwriting, claims

1 handling, or any other similar services to that insurer,
 2 whether or not those entities are licensed to engage in the
 3 business of insurance in Illinois, if the entity or person is
 4 an affiliate of that insurer the-word-"assets"-as-used-in
 5 this-article-includes-all-deposits-and-funds-of-a-special--or
 6 trust-nature.

7 (3) The word "court" shall mean the court before which
 8 the conservation, rehabilitation, or liquidation proceeding
 9 of the company is pending, or the judge presiding in such
 10 proceedings.

11 (4) The word "affiliate" as used in this Article means a
 12 person that directly, or indirectly through one or more
 13 intermediaries, controls, is controlled by, or is under
 14 common control with, the person specified.

15 (5) The word "person" as used in this Article means an
 16 individual, an aggregation of individuals, a partnership, or
 17 a corporation.

18 (6) The word "assets" as used in this Article includes
 19 all deposits and funds of a special or trust nature.

20 (7) The words "receivership proceedings" mean any
 21 conservation, rehabilitation, liquidation, or ancillary
 22 receivership.

23 (Source: P.A. 87-1012.)

24 (215 ILCS 5/188) (from Ch. 73, par. 800)

25 Sec. 188. Grounds for rehabilitation and liquidation of a
 26 domestic company or an unauthorized foreign or alien company.
 27 Whenever any domestic company or any unauthorized foreign or
 28 alien company:

- 29 1. is insolvent;
- 30 2. has failed or refused to submit its books,
 31 papers, accounts, records or affairs to the reasonable
 32 inspection or examination of the Director or his
 33 actuaries, supervisors, deputies, or examiners;

1 3. has concealed, removed, altered, destroyed or
2 failed to establish and maintain books, records,
3 documents, accounts, vouchers and other pertinent
4 material adequate for the determination of its financial
5 condition by examination under Sections 132 through 132.7
6 or has failed to properly administer claims and to
7 maintain claims records which are adequate for the
8 determination of its outstanding claims liability;

9 4. has failed or refused to observe an order of the
10 Director to make good within the time prescribed by law
11 any deficiency, whenever its capital and minimum required
12 surplus, if a stock company, or its required surplus, if
13 a company other than stock, has become impaired;

14 5. has, by articles of consolidation, contract of
15 reinsurance or otherwise, transferred or attempted to
16 transfer its entire property or business not in
17 conformity with this Code, or entered into any
18 transaction the effect of which is to merge substantially
19 its entire property or business in any other company
20 without having first obtained the written approval of the
21 Director under this Code;

22 6. is found to be in such condition that its
23 further transaction of business would be hazardous to its
24 policyholders, or to its creditors, or to the public;

25 7. has violated its charter or any law of this
26 State or has exceeded or is exceeding its corporate
27 powers;

28 8. has an officer who has refused upon reasonable
29 demand to be examined under oath touching its affairs;

30 9. is found to be in such condition that it could
31 not meet the requirements for organization and
32 authorization as required by law, except as to the amount
33 of the original surplus required of a stock company in
34 Section 13, and except as to the amount of the surplus

1 required of a mutual company in excess of the minimum
2 surplus required by this Code to be maintained, or either
3 an authorized control level event or a mandatory control
4 level event as set forth in Article IIA exists;

5 10. has ceased for the period of one year to
6 transact insurance business;

7 11. has commenced, or has attempted to commence,
8 any voluntary liquidation or dissolution proceeding, or
9 any proceeding to procure the appointment of a receiver,
10 liquidator, rehabilitator, sequestrator, or a similar
11 officer for itself;

12 12. is a party, whether plaintiff or defendant in
13 any proceeding in which an application is made for the
14 appointment of a receiver, custodian, liquidator,
15 rehabilitator, sequestrator, or similar officer for such
16 company or its property, or a receiver, custodian,
17 liquidator, rehabilitator, sequestrator or similar
18 officer, for such company or its property is appointed by
19 any court, or such appointment is imminent;

20 13. consents by a majority of its directors,
21 stockholders or members;

22 14. has not organized and obtained a certificate
23 authorizing it to commence the transaction of its
24 business within the period of time prescribed by the
25 sections of this Code under which it is or proposes to be
26 organized; or

27 15. has failed or refused to pay any valid final
28 judgment within 30 days after the rendition thereof, or
29 whenever it appears to the Director that any person has
30 committed a violation of Article VIII 1/2 with the result
31 described in Section 131.26,
32 sufficient grounds shall be deemed to exist for the
33 commencement of rehabilitation or liquidation proceedings.

34 With respect to a domestic company, the Director must

1 report, and with respect to an unauthorized foreign or alien
 2 company, the Director may report any such case to the
 3 Attorney General of this State whose duty it shall be to
 4 apply forthwith by complaint on relation of the Director in
 5 the name of the People of the State of Illinois, as
 6 plaintiff, to the Circuit Court of Cook County, the Circuit
 7 Court of Sangamon County, or the circuit court of the county
 8 in which such company has, or last had its principal office,
 9 for an order to rehabilitate or liquidate the defendant
 10 company as provided in this Article, and for such other
 11 relief as the nature of the case and the interests of its
 12 policyholders, creditors, members, stockholders or the public
 13 may require.

14 When, upon investigation, the Director finds that a
 15 company is engaged in any aspect of the business of insurance
 16 on behalf of or in association with any domestic insurance
 17 company, against which a receivership proceeding has been or
 18 is being filed under this Article, ~~the controlling interest~~
 19 ~~of any domestic insurance company has been acquired by~~
 20 ~~another corporation and that the purchasing corporation is~~
 21 ~~operating the acquired company~~ in a manner that which appears
 22 to be detrimental to policyholders, creditors, members,
 23 shareholders, or the interests ~~of the persons insured,~~
 24 ~~minority shareholders and the general public,~~ the Director
 25 may ~~after notice and hearing under Article XXIV issue an~~
 26 ~~order stating such finding and~~ report such case to the
 27 Attorney General of this State, whose duty it is to apply
 28 forthwith by complaint on relation of the Director in the
 29 name of the People of the State of Illinois, as plaintiff, to
 30 the ~~Circuit Court of Cook County, the Circuit Court of~~
 31 ~~Sangamon County, or the circuit court~~ in which of the
 32 receivership proceeding is pending ~~county in which such~~
 33 ~~acquired or controlled company has, or last had its principal~~
 34 ~~office,~~ for an order to appoint the Director as receiver to

1 assume control of the assets and operation of the company
2 pending a complete investigation and determination of the
3 rights of the policyholders, creditors, members,
4 shareholders, and the general public.

5 (Source: P.A. 88-364; 89-97, eff. 7-7-95; 89-206, eff.
6 7-21-95; 89-626, eff. 8-9-96.)

7 Section 10. The Health Maintenance Organization Act is
8 amended by changing Section 3-1 and adding Section 2-10 as
9 follows:

10 (215 ILCS 125/2-10 new)

11 Sec. 2-10. Directors.

12 (a) After June 30, 2002, the corporate powers for
13 domestic organizations issued a certificate of authority
14 under this Act must be exercised by, and its business and
15 affairs must be under the control of, a board of directors
16 composed of not less than 3 nor more than 21 natural persons
17 who are at least 18 years of age. At least 3 of the
18 directors must be residents and citizens of this State. A
19 person convicted of a felony may not be a director. A
20 director must be of good character and known professional,
21 administrative, or business ability. The requisite ability
22 must include a practical knowledge of managed health care,
23 insurance, finance, or investment.

24 (b) After June 30, 2002, not less than one-third of the
25 directors of a domestic organization that is not a controlled
26 insurer for purposes of Section 131.20b of the Illinois
27 Insurance Code must be persons who are not officers or
28 employees of the organization. At least one of those persons
29 must be included in any quorum for the transaction of
30 business at any meeting of the board of directors or any
31 committee thereof.

1 (215 ILCS 125/3-1) (from Ch. 111 1/2, par. 1407.3)

2 Sec. 3-1. Investment Regulations.

3 (a) Any health maintenance organization may invest its
4 funds as provided in this Section and not otherwise. A
5 health maintenance organization that is organized as an
6 insurance company may also acquire the investment assets
7 authorized for an insurance company pursuant to the laws
8 applicable to an insurance company in the organization's
9 state of domicile. Notwithstanding the provisions of this
10 Section, the Director may, after notice and hearing, order an
11 organization to limit or withdraw from certain investments,
12 or discontinue certain investment practices, to the extent
13 the Director finds that such investments or investment
14 practices are hazardous to the financial condition of the
15 organization.

16 (b) No investment or loan shall be made or engaged in by
17 any health maintenance organization unless the same have been
18 authorized or ratified by the board of directors or by a
19 committee thereof charged with the duty of supervising
20 investments and loans. Nothing contained in this subsection
21 shall prevent the board of directors of any such organization
22 from depositing any of its securities with a committee
23 appointed for the purpose of protecting the interest of
24 security holders or with the authorities of any state where
25 it is necessary to do so in order to secure permission to
26 transact its appropriate business therein, and nothing
27 contained in this subsection shall prevent the board of
28 directors of such organization from depositing any securities
29 as collateral for the securing of any bond required for the
30 business of the organization.

31 (c) No health maintenance organization shall pay any
32 commission or brokerage for the purchase or sale of property
33 whether real or personal, in excess of that usual and
34 customary at the time and in the locality where such

1 purchases or sales are made, and information regarding
2 payments of commissions and brokerage shall be maintained.

3 (d) A health maintenance organization may not directly
4 or indirectly, unless it has notified the Director in writing
5 of its intention to enter into the transaction at least 30
6 days prior thereto, or any shorter period as the Director may
7 permit, and the Director has not disapproved it within that
8 period:

9 (1) make a loan to or other investment in an
10 officer or director of the organization or a person in
11 which the officer or director has any direct or indirect
12 financial interest;

13 (2) make a guarantee for the benefit of or in favor
14 of an officer or director of the organization or a person
15 in which the officer or director has any direct or
16 indirect financial interest; or

17 (3) enter into an agreement for the purchase or
18 sale of property from or to an officer or director of the
19 organization or a person in which the officer or director
20 has any direct or indirect financial interest.

21 For the purposes of this Section, an officer or director
22 shall not be deemed to have a financial interest by reason of
23 an interest that is held directly or indirectly through the
24 ownership of equity interests representing less than 2% of
25 all outstanding equity interests issued by a person that is a
26 party to the transaction, or solely by reason of that
27 individual's position as a director or officer of a person
28 that is a party to the transaction.

29 This subsection does not apply to a transaction between
30 an organization and any of its subsidiaries or affiliates
31 that is entered into in compliance with Section 131.20a of
32 the Illinois Insurance Code, other than a transaction between
33 an insurer and its officer or director.

34 ~~No--such--Health-Maintenance-Organization--shall--knowingly~~

1 invest-in-or-loan-upon-any-property,--directly-or--indirectly,
2 whether-real-or-personal,--in-which-any-officer-or-director-of
3 such--organization--has--a--financial-interest,--nor-shall-any
4 such-organization-make-a-loan-of-any-kind-to-any--officer--or
5 director--of--such--organization,--except-that-this-subsection
6 shall-not-apply-in-circumstances-where-the-financial-interest
7 of-such-officer-or-director-is-only-nominal,--trifling--or--so
8 remote-as-not-to-give-rise-to-a-conflict-of-interest.--In-any
9 case,--the--Director--may--approve-a-transaction-between-such
10 organization--and--its--officers--or--directors--under---this
11 subsection--if--he--is--satisfied-that-(i)-the-transaction-is
12 entered-into-in-good-faith-for-the-advantage-and--benefit--of
13 the--organization,--(ii)-the-amount-of-the-proposed-investment
14 or-loan-does-not-violate-any-other-provision-of-this--Section
15 nor--exceed--the--reasonable,--normal-value-of-the-property-or
16 the-interest-which-the-organization-proposes-to-acquire,--and
17 that--the--transaction--is-otherwise-fair-and-reasonable,--and
18 (iii)-the-transaction--will--not--adversely--affect,--to--any
19 substantial--degree,--the--liquidity--of--the--organization's
20 investment---or---its---ability--thereafter--to--comply--with
21 requirements-of-this-Act-or-the-payment--of--its--claims--and
22 obligations.

23 (e) In applying the percentage limitations imposed by
24 this Section there shall be used as a base the total of all
25 assets which would be admitted by this Section without regard
26 to percentage limitations. All legal measurements used as a
27 base in the determination of all investment qualifications
28 shall consist of the amounts determined at the most recent
29 year end adjusted for subsequent acquisition and disposition
30 of investments.

31 (f) Valuation of investments. Investments shall be
32 valued in accordance with the published valuation standards
33 of the National Association of Insurance Commissioners.
34 Securities investments as to which the National Association

1 of Insurance Commissioners has not published valuation
2 standards in its Valuations of Securities manual or its
3 successor publication shall be valued as follows:

4 (1) All obligations having a fixed term and rate shall,
5 if not in default as to principal or interest, be valued as
6 follows: if purchased at par, at the par value; if purchased
7 above or below par, on the basis of the purchase price
8 adjusted so as to bring the value to par at maturity and so
9 as to yield in the meantime the effective rate of interest at
10 which the purchase was made;

11 (2) Common, preferred or guaranteed stocks shall be
12 valued at market value.

13 (3) Other security investments shall be valued in
14 accordance with regulations promulgated by the Director
15 pursuant to paragraph (6) of this subsection.

16 (4) Other investments, including real property, shall be
17 valued in accordance with regulations promulgated by the
18 Director pursuant to paragraph (6) of this subsection, but in
19 no event shall such other investments be valued at more than
20 the purchase price. The purchase price for real property
21 includes capitalized permanent improvements, less
22 depreciation spread evenly over the life of the property or,
23 at the option of the company, less depreciation computed on
24 any basis permitted under the Internal Revenue Code and
25 regulations thereunder. Such investments that have been
26 affected by permanent declines in value shall be valued at
27 not more than market value.

28 (5) Any investment, including real property, not
29 purchased by the Health Maintenance Organization but acquired
30 in satisfaction of a debt or otherwise shall be valued in
31 accordance with the applicable procedures for that type of
32 investment contained in this subsection. For purposes of
33 applying the valuation procedures, the purchase price shall
34 be deemed to be the market value at the time the investment

1 is acquired or, in the case of any investment acquired in
2 satisfaction of debt, the amount of the debt, including
3 interest, taxes and expenses, whichever amount is less.

4 (6) The Director shall promulgate rules and regulations
5 for determining and calculating values to be used in
6 financial statements submitted to the Department for
7 investments.

8 (g) Definitions. As used in this Section, unless the
9 context otherwise requires.

10 (1) "Business Corporation" means corporations organized
11 for other than not for profit purposes.

12 (2) "Business Entity" includes sole proprietorships,
13 corporations, associations, partnerships and business trusts.

14 (3) "Bank or Trust Company" means any bank or trust
15 company organized under the laws of the United States or any
16 State thereof if said bank or trust company is regularly
17 examined pursuant to such laws and said bank or trust company
18 has the insurance protection afforded by an agency of the
19 United States government.

20 (4) "Capital" means capital stock paid-up, if any, and
21 its use in a provision does not imply that a non-profit
22 Health Maintenance Organization without stated capital stock
23 is excluded from the provision. The capital of such an
24 organization will be zero.

25 (5) "Direct" when used in connection with "obligation"
26 means that the designated obligor shall be primarily liable
27 on the instrument representing the obligation.

28 (6) "Facility" means and includes real estate and any
29 and all forms of tangible personal property and services used
30 constituting an operating unit.

31 (7) "Guaranteed or insured" means that the guarantor or
32 insurer will perform or insure the obligation of the obligor
33 or will purchase the obligation to the extent of the guaranty
34 or insurance.

1 (8) "Mortgage" shall include a trust deed or other lien
2 on real property securing an obligation for the payment of
3 money.

4 (9) "Servicer" means a business entity that has a
5 contractual obligation to service a pool of mortgage loans.
6 The service provided shall include, but is not limited to,
7 collection of principal and interest, keeping the accounts
8 current, maintaining or confirming in force hazard insurance
9 and tax status and providing supportive accounting services.

10 (10) "Single credit risk" means the direct, guaranteed
11 or insured obligations of any one business entity including
12 affiliates thereof.

13 (11) "Surplus" means the amount properly shown as total
14 net worth on a company's balance sheet, plus all voluntary
15 reserves, but not including capital paid-up.

16 (12) "Tangible net worth" means the par value of all
17 issued and outstanding capital stock of a corporation (or in
18 the case of shares having no par value, the stated value) and
19 the amounts of all surplus accounts less the sum of (a) such
20 intangible assets as deferred charges, organization and
21 development expense, discount and expense incurred in
22 securing capital, good will, trade-marks, trade-names and
23 patents, (b) leasehold improvements, and (c) any reserves
24 carried by the corporation and not otherwise deducted from
25 assets.

26 (13) "Unconditional" when used in connection with
27 "obligation" means that nothing remains to be done or to
28 occur to make the designated obligor liable on the
29 instrument, and that the legal holder shall have the status
30 at least equal to that of general creditor of the obligor.

31 (h) Authorized investments. Any Health Maintenance
32 Organization, except those organized as an insurance company,
33 may acquire the assets set forth in paragraphs 1 through 17,
34 inclusive. A Health Maintenance Organization that is

1 organized as an insurance company may acquire the investment
2 assets authorized for an insurance company pursuant to the
3 laws applicable to an insurance company in the organization's
4 state of domicile. Any restriction, exclusion or provision
5 appearing in any paragraph shall apply only with respect to
6 the authorization of the particular paragraph in which it
7 appears and shall not constitute a general prohibition and
8 shall not be applicable to any other paragraph. The
9 qualifications or disqualifications of an investment under
10 one paragraph shall not prevent its qualification in whole or
11 in part under another paragraph, and an investment authorized
12 by more than one paragraph may be held under whichever
13 authorizing paragraph the organization elects. An investment
14 which qualified under any paragraph at the time it was
15 acquired or entered into by an organization shall continue to
16 be qualified under that paragraph. An investment in whole or
17 in part may be transferred from time to time, at the election
18 of the organization, to the authority of any paragraph under
19 which it qualifies, whether originally qualifying thereunder
20 or not.

21 (1) Direct obligations of the United States for the
22 payment of money, or obligations for the payment of money to
23 the extent guaranteed or insured as to the payment of
24 principal and interest by the United States.

25 (2) Direct obligations for the payment of money, issued
26 by an agency or instrumentality of the United States, or
27 obligations for the payment of money to the extent guaranteed
28 or insured as to the payment of principal and interest by an
29 agency or instrumentality of the United States.

30 (3) Direct, general obligations of any state of the
31 United States for the payment of money, or obligations for
32 the payment of money to the extent guaranteed or insured as
33 to the payment of principal and interest by any state of the
34 United States, on the following conditions:

1 (i) Such state has the power to levy taxes for the
2 prompt payment of the principal and interest of such
3 obligations; and

4 (ii) Such state shall not be in default in the payment
5 of principal or interest on any of its direct, guaranteed or
6 insured obligations at the date of such investment.

7 (4) Direct, general obligations of any political
8 subdivision of any state of the United States for the payment
9 of money, or obligations for the payment of money to the
10 extent guaranteed as to the payment of principal and interest
11 by any political subdivision of any state of the United
12 States, on the following conditions:

13 (i) The obligations are payable or guaranteed from ad
14 valorem taxes;

15 (ii) Such political subdivision is not in default in the
16 payment of principal or interest on any of its direct or
17 guaranteed obligations;

18 (iii) No investment shall be made under this paragraph
19 in obligations which are secured only by special assessments
20 for local improvements; and

21 (iv) An organization shall not invest under this
22 paragraph more than 2% of its admitted assets in obligations
23 issued or guaranteed by any one such political subdivision.

24 (5) Anticipation obligations of any political
25 subdivision of any state of the United States, including but
26 not limited to bond anticipation notes, tax anticipation
27 notes and construction anticipation notes, for the payment of
28 money within 12 months from the issuance of the obligation,
29 on the following conditions:

30 (i) Such anticipation notes must be a direct obligation
31 of the issuer under conditions set forth in paragraph 4;

32 (ii) Such political subdivision is not in default in the
33 payment of the principal or interest on any of its direct
34 general obligations or any obligation guaranteed by such

1 political subdivision;

2 (iii) The anticipated funds must be specifically pledged
3 to secure the obligation;

4 (iv) An organization shall not invest under this
5 paragraph more than 2% of its admitted assets in the
6 anticipation obligations issued by any one such political
7 subdivision.

8 (6) Obligations of any state of the United States, a
9 political subdivision thereof, or a public instrumentality of
10 any one or more of the foregoing, for the payment of money,
11 on the following conditions:

12 (i) The obligations are payable from revenues or
13 earnings of a public utility of such state, political
14 subdivision, or public instrumentality which are specifically
15 pledged therefor;

16 (ii) The law under which the obligations are issued
17 requires such rates for service shall be charged and
18 collected at all times that they will produce sufficient
19 revenue or earnings together with any other revenues or
20 moneys pledged to pay all operating and maintenance charges
21 of the public utility and all principal and interest on such
22 obligations;

23 (iii) No prior or parity obligations payable from the
24 revenues or earnings of that public utility are in default at
25 the date of such investment;

26 (iv) An organization shall not invest more than 20% of
27 its admitted assets under this paragraph; and

28 (v) An organization shall not invest under this Section
29 more than 2% of its admitted assets in the revenue
30 obligations issued in connection with any one facility.

31 (7) Obligations of any state of the United States, a
32 political subdivision thereof, or a public instrumentality of
33 any of the foregoing, for the payment of money, on the
34 following conditions:

1 (i) The obligations are payable from revenues or
2 earnings, excluding revenues or earnings from public
3 utilities, specifically pledged therefor by such state,
4 political subdivision or public instrumentality;

5 (ii) No prior or parity obligation of the same issuer
6 payable from revenues or earnings from the same source has
7 been in default as to principal or interest during the 5
8 years next preceding the date of such investment, but such
9 issuer need not have been in existence for that period, and
10 obligations acquired under this paragraph may be newly
11 issued;

12 (iii) An organization shall not invest in excess of 20%
13 of its admitted assets under this paragraph; and

14 (iv) An organization shall not invest under this
15 paragraph more than 2% of its admitted assets in the revenue
16 obligations issued in connection with any one facility;

17 (v) An organization shall not invest under this
18 paragraph more than 2% of its admitted assets in revenue
19 obligations payable from revenue or earning sources which are
20 the contractual responsibility of any one single credit risk.

21 (8) Direct, unconditional obligations of a solvent
22 business corporation for the payment of money, including
23 obligations to pay rent for equipment used in its business or
24 obligations for the payment of money to the extent guaranteed
25 or insured as to the payment of principal and interest by any
26 solvent business corporation, on the following conditions:

27 (i) The corporation shall be incorporated under the laws
28 of the United States or any state of the United States;

29 (ii) The corporation shall have tangible net worth of
30 not less than \$1,000,000;

31 (iii) No such obligation, guarantee or insurance of the
32 corporation has been in default as to principal or interest
33 during the 5 years preceding the date of investment, but the
34 corporation need not have had obligations guarantees or

1 insurance outstanding during that period and need not have
2 been in existence for that period, and obligations acquired
3 under this paragraph may be newly issued;

4 (iv) An organization shall not invest more than 2% of
5 its admitted assets in obligations issued, guaranteed or
6 insured by any one such corporation;

7 (v) An organization may invest under this paragraph up
8 to an additional 2% of its admitted assets in obligations
9 which (i) are issued, guaranteed or insured by any one or
10 more such corporations, each having a tangible net worth of
11 not less than \$25,000,000 and (ii) mature within 12 months
12 from the date of acquisition;

13 (vi) An organization may invest not more than 1/2 of 1%
14 of its admitted assets in such obligations of corporations
15 which do not meet the condition of subparagraph (ii) of this
16 paragraph; and

17 (vii) An organization shall not invest more than 75% of
18 its admitted assets under this paragraph.

19 (9) Direct, unconditional obligations for the payment of
20 money issued or obligations for the payment of money to the
21 extent guaranteed as to principal and interest by a solvent
22 not for profit corporation, on the following conditions:

23 (i) The corporation shall be incorporated under the laws
24 of the United States or of any state of the United States;

25 (ii) The corporation shall have been in existence for at
26 least 5 years and shall have assets of at least \$2,000,000;

27 (iii) Revenues or other income from such assets and the
28 services or commodities dispensed by the corporation shall be
29 pledged for the payment of the obligations or guarantees;

30 (iv) No such obligation or guarantee of the corporation
31 has been in default as to principal or interest during the 5
32 years next preceding the date of such investment, but the
33 corporation need not have had obligations or guarantees
34 outstanding during that period and obligations which are

1 acquired under this paragraph may be newly issued;

2 (v) An organization shall not invest more than 15% of
3 its admitted assets under this paragraph; and

4 (vi) An organization shall not invest under this
5 paragraph more than 2% of its admitted assets in the
6 obligations issued or guaranteed by any one such corporation.

7 (10) Direct, unconditional nondemand obligations for the
8 payment of money issued by a solvent bank, mutual savings
9 bank or trust company on the following conditions:

10 (i) The bank, mutual savings bank or trust company shall
11 be incorporated under the laws of the United States, or of
12 any state of the United States;

13 (ii) The bank, mutual savings bank or trust company
14 shall have tangible net worth of not less than \$1,000,000;

15 (iii) Such obligations must be of the type which are
16 insured by an agency of the United States or have a maturity
17 of no more than 1 day;

18 (iv) An organization shall not invest under this
19 paragraph more than the amount which is fully insured by an
20 agency of the United States plus 2% of its admitted assets in
21 nondemand obligations issued by any one such financial
22 institution; and

23 (v) An organization may invest under this paragraph up
24 to an additional 8% of its admitted assets in nondemand
25 obligations which (1) are issued by any such banks, mutual
26 savings banks or trust companies, each having a tangible net
27 worth of not less than \$25,000,000 and (2) mature within 12
28 months from the date of acquisition.

29 (11) Preferred or guaranteed stocks issued or guaranteed
30 by a solvent business corporation incorporated under the laws
31 of the United States or any state of the United States, on
32 the following conditions:

33 (i) The corporation shall have tangible net worth of not
34 less than \$1,000,000;

1 (ii) If such stocks have been outstanding prior to
2 purchase, an organization shall not invest under this
3 paragraph in such stock if prescribed current or cumulative
4 dividends are in arrears;

5 (iii) An organization shall not invest more than 33 1/3%
6 of its admitted assets under this paragraph and an
7 organization shall not invest more than 15% of its admitted
8 assets under this paragraph in stocks which, at the time of
9 purchase, are not Sinking Fund Stocks. An issue of preferred
10 or guaranteed stock shall be a Sinking Fund Stock when (1)
11 such issue is subject to a 100% mandatory sinking fund or
12 similar arrangement which will provide for the redemption of
13 the entire issue over a period not longer than 40 years from
14 the date of purchase; (2) annual mandatory sinking fund
15 installments on each issue commence not more than 10 years
16 from the date of issue; and (3) each annual sinking fund
17 installment provides for the purchase or redemption of at
18 least 2 1/2% of the original number of shares of such issue;
19 and

20 (iv) An organization shall not invest under this
21 paragraph more than 2% of its admitted assets in the
22 preferred or guaranteed stocks of any one such corporation.

23 (12) Common stock issued by any solvent business
24 corporation incorporated under the laws of the United States,
25 or of any state of the United States, on the following
26 conditions:

27 (i) The issuing corporation must have tangible net worth
28 of \$1,000,000 or more;

29 (ii) An organization may not invest more than an amount
30 equal to its net worth under this paragraph; and

31 (iii) An organization may not invest under this
32 paragraph an amount equal to more than 10% of its net worth
33 in the common stock of any one corporation.

34 (13) Shares of common stock or units of beneficial

1 interest issued by any solvent business corporation or trust
2 incorporated or organized under the laws of the United
3 States, or of any state of the United States, on the
4 following conditions:

5 (i) If the issuing corporation or trust is advised by an
6 investment advisor which is the organization or an affiliate
7 of the organization, the issuing corporation or trust shall
8 have net assets of \$100,000 or more, or if the issuing
9 corporation or trust has an unaffiliated investment advisor,
10 the issuing corporation or trust shall have net assets of
11 \$10,000,000 or more;

12 (ii) The issuing corporation or trust is registered as
13 an investment company with the Securities and Exchange
14 Commission under the Investment Company Act of 1940, as
15 amended;

16 (iii) An organization shall not invest under this
17 paragraph more than the greater of \$100,000 or 10% of its
18 admitted assets in any one bond fund, municipal bond fund or
19 money market fund;

20 (iv) An organization shall not invest under this
21 paragraph more than 10% of its net worth in any one common
22 stock fund, balanced fund or income fund;

23 (v) An organization shall not invest more than 50% of
24 its admitted assets in bond funds, municipal bond funds and
25 money market funds under this paragraph; and

26 (vi) An organization's investments in common stock
27 funds, balanced funds or income funds when combined with its
28 investments in common stocks made under paragraph (12) shall
29 not exceed the aggregate limitation provided by subparagraph
30 (ii) of paragraph (12).

31 (14) Shares of, or accounts or deposits with savings and
32 loan associations or building and loan associations, on the
33 following conditions:

34 (i) The shares, accounts, or deposits, or investments in

1 any form legally issuable shall be of a withdrawable type and
2 issued by an association which has the insurance protection
3 afforded by the Federal Savings and Loan Insurance
4 Corporation; but nonwithdrawable accounts which are not
5 eligible for insurance by the Federal Savings and Loan
6 Insurance Corporation shall not be eligible for investment
7 under this paragraph;

8 (ii) The association shall have tangible net worth of
9 not less than \$1,000,000;

10 (iii) The investment shall be in the name of and owned
11 by the organization, unless the account is under a
12 trusteeship with the organization named as the beneficiary;

13 (iv) An organization shall not invest more than 50% of
14 its admitted assets under this paragraph; and

15 (v) Under this paragraph, an organization shall not
16 invest in any one such association an amount in excess of 2%
17 of its admitted assets or an amount which is fully insured by
18 the Federal Savings and Loan Insurance Corporation, whichever
19 is greater.

20 (15) Direct, unconditional obligations for the payment
21 of money secured by the pledge of any investment which is
22 authorized by any of the preceding paragraphs, on the
23 following conditions:

24 (i) The investment pledged shall by its terms be legally
25 assignable and shall be validly assigned to the organization;

26 (ii) The investment pledged shall have a fair market
27 value which is at least 25% greater than the amount invested
28 under this paragraph, except that a loan may be made up to
29 100% of the full fair market value of collateral that would
30 qualify as an investment under paragraph (1) provided it
31 qualifies under condition (i) of this paragraph; and

32 (iii) An organization's investment under this paragraph
33 when added to its investment of the category of the
34 collateral pledged shall not cause the sum to exceed the

1 limits provided by the paragraph authorizing that category of
2 investments.

3 (16) Real estate (including leasehold estates and
4 leasehold improvements) for the convenient accommodation of
5 the organization's business operations, including home
6 office, branch office, medical facilities and field office
7 operations, on the following conditions:

8 (i) Any parcel of real estate acquired under this
9 paragraph may include excess space for rent to others, if it
10 is reasonably anticipated that such excess will be required
11 by the organization for expansion or if the excess is
12 reasonably required in order to have one or more buildings
13 that will function as an economic unit;

14 (ii) Such real estate may be subject to a mortgage; and

15 (iii) The greater of the admitted value of the asset as
16 determined by subsection (f) or the organization's equity
17 plus all encumbrances on such real estate owned by a company
18 under this paragraph shall not exceed 20% of its admitted
19 assets, except with the permission of the Director if he
20 finds that such percentage of its admitted assets is
21 insufficient to provide convenient accommodation for the
22 company's business; provided, however, an organization that
23 directly provides medical services may invest an additional
24 20% of its admitted assets in such real estate, not requiring
25 the permission of the Director.

26 (17) Any investments of any kind, in the complete
27 discretion of the organization, without regard to any
28 condition of, restriction in, or exclusion from paragraphs
29 (1) to (16), inclusive, and regardless of whether the same or
30 a similar type of investment has been included in or omitted
31 from any such paragraph, on the following condition:

32 (a) An organization shall not invest under this
33 paragraph more than the lesser of (i) 10% of its admitted
34 assets, or (ii) 50% of the amount by which its net worth

1 exceeds the minimum requirements of a new health maintenance
2 organization to qualify for a certificate of authority.
3 (Source: P.A. 90-655, eff. 7-30-98.)

4 Section 99. Effective date. This Act takes effect upon
5 becoming law.