

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,  
31 whether directly or through an intermediate subsidiary, has a  
32 board of directors composed in accordance with that  
33 subsection.

1       (5) Subsection (3) of this Section does not apply to a  
 2       domestic insurer if the ultimate controlling party of the  
 3       domestic insurer is a corporation whose equity securities or  
 4       equivalent instruments are listed on the New York Stock  
 5       Exchange.

6           (215 ILCS 5/187) (from Ch. 73, par. 799)  
 7           Sec. 187. Scope of Article.

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

28           (2) The word "company" as used in this Article includes  
 29       all of the corporations, associations, societies, orders,  
 30       firms, companies, partnerships, and individuals specified in  
 31       subsections subsection (1), (4), and (5) of this Section and  
 32       agents, managing general agents, brokers, premium finance  
 33       companies, insurance holding companies, and all other

1 non-risk bearing entities or persons engaged in any aspect of  
2 the business of insurance on behalf of an insurer against  
3 which a receivership proceeding has been or is being filed  
4 under this Article, including, but not limited to, entities  
5 or persons that provide management, administrative,  
6 accounting, data processing, marketing, underwriting, claims  
7 handling, or any other similar services to that insurer,  
8 whether or not those entities are licensed to engage in the  
9 business of insurance in Illinois, if the entity or person is  
10 an affiliate of that insurer ~~the word "assets" as used in~~  
11 ~~this article includes all deposits and funds of a special or~~  
12 ~~trust nature.~~

13 (3) The word "court" shall mean the court before which  
14 the conservation, rehabilitation, or liquidation proceeding  
15 of the company is pending, or the judge presiding in such  
16 proceedings.

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

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

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

26 (7) The words "receivership proceedings" mean any  
27 conservation, rehabilitation, liquidation, or ancillary  
28 receivership.

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

30 (215 ILCS 5/188) (from Ch. 73, par. 800)

31 Sec. 188. Grounds for rehabilitation and liquidation of a  
32 domestic company or an unauthorized foreign or alien company.  
33 Whenever any domestic company or any unauthorized foreign or



1 alien company:

2 1. is insolvent;

3 2. has failed or refused to submit its books,  
4 papers, accounts, records or affairs to the reasonable  
5 inspection or examination of the Director or his  
6 actuaries, supervisors, deputies, or examiners;

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

15 4. has failed or refused to observe an order of the  
16 Director to make good within the time prescribed by law  
17 any deficiency, whenever its capital and minimum required  
18 surplus, if a stock company, or its required surplus, if  
19 a company other than stock, has become impaired;

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

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

31 7. has violated its charter or any law of this  
32 State or has exceeded or is exceeding its corporate  
33 powers;

34 8. has an officer who has refused upon reasonable

1 demand to be examined under oath touching its affairs;

2 9. is found to be in such condition that it could  
3 not meet the requirements for organization and  
4 authorization as required by law, except as to the amount  
5 of the original surplus required of a stock company in  
6 Section 13, and except as to the amount of the surplus  
7 required of a mutual company in excess of the minimum  
8 surplus required by this Code to be maintained, or either  
9 an authorized control level event or a mandatory control  
10 level event as set forth in Article IIA exists;

11 10. has ceased for the period of one year to  
12 transact insurance business;

13 11. has commenced, or has attempted to commence,  
14 any voluntary liquidation or dissolution proceeding, or  
15 any proceeding to procure the appointment of a receiver,  
16 liquidator, rehabilitator, sequestrator, or a similar  
17 officer for itself;

18 12. is a party, whether plaintiff or defendant in  
19 any proceeding in which an application is made for the  
20 appointment of a receiver, custodian, liquidator,  
21 rehabilitator, sequestrator, or similar officer for such  
22 company or its property, or a receiver, custodian,  
23 liquidator, rehabilitator, sequestrator or similar  
24 officer, for such company or its property is appointed by  
25 any court, or such appointment is imminent;

26 13. consents by a majority of its directors,  
27 stockholders or members;

28 14. has not organized and obtained a certificate  
29 authorizing it to commence the transaction of its  
30 business within the period of time prescribed by the  
31 sections of this Code under which it is or proposes to be  
32 organized; or

33 15. has failed or refused to pay any valid final  
34 judgment within 30 days after the rendition thereof, or

1           whenever it appears to the Director that any person has  
 2           committed a violation of Article VIII 1/2 with the result  
 3           described in Section 131.26,

4           sufficient grounds shall be deemed to exist for the  
 5           commencement of rehabilitation or liquidation proceedings.

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

20          When, upon investigation, the Director finds that a  
 21          company is engaged in any aspect of the business of insurance  
 22          on behalf of or in association with any domestic insurance  
 23          company, against which a receivership proceeding has been or  
 24          is being filed under this Article, the-controlling-interest  
 25          ~~of-any-domestic-insurance-company-has-been-acquired-by~~  
 26          ~~another-corporation-and-that-the-purchasing-corporation-is~~  
 27          operating-the-acquired-company in a manner that which appears  
 28          to be detrimental to policyholders, creditors, members,  
 29          shareholders, or the interests--of--the--persons--insured,  
 30          ~~minority-shareholders-and-the-general~~ public, the Director  
 31          may ~~after--notice--and--hearing--under-Article-XXIV-issue-an~~  
 32          ~~order-stating-such--finding--and~~ report such case to the  
 33          Attorney General of this State, whose duty it is to apply  
 34          forthwith by complaint on relation of the Director in the

1 name of the People of the State of Illinois, as plaintiff, to  
2 the ~~Circuit--Court--of--Cook--County,~~ ~~the--Circuit-Court-of~~  
3 ~~Sangamon-County,~~ ~~or--the--circuit~~ court in which of the  
4 receivership proceeding is pending ~~county--in--which-such~~  
5 ~~acquired-or-controlled-company-has,~~ ~~or-last-had-its-principal~~  
6 ~~office,~~ for an order to appoint the Director as receiver to  
7 assume control of the assets and operation of the company  
8 pending a complete investigation and determination of the  
9 rights of the policyholders, creditors, members,  
10 shareholders, and the general public.  
11 (Source: P.A. 88-364; 89-97, eff. 7-7-95; 89-206, eff.  
12 7-21-95; 89-626, eff. 8-9-96.)

13 Section 10. The Health Maintenance Organization Act is  
14 amended by changing Section 3-1 and adding Section 2-10 as  
15 follows:

16 (215 ILCS 125/2-10 new)

17 Sec. 2-10. Directors.

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

30 (b) After June 30, 2002, not less than one-third of the  
31 directors of a domestic organization that is not a controlled  
32 insurer for purposes of Section 131.20b of the Illinois

1 Insurance Code must be persons who are not officers or  
2 employees of the organization. At least one of those persons  
3 must be included in any quorum for the transaction of  
4 business at any meeting of the board of directors or any  
5 committee thereof.

6 (215 ILCS 125/3-1) (from Ch. 111 1/2, par. 1407.3)

7 Sec. 3-1. Investment Regulations.

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

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

1 as collateral for the securing of any bond required for the  
2 business of the organization.

3 (c) No health maintenance organization shall pay any  
4 commission or brokerage for the purchase or sale of property  
5 whether real or personal, in excess of that usual and  
6 customary at the time and in the locality where such  
7 purchases or sales are made, and information regarding  
8 payments of commissions and brokerage shall be maintained.

9 (d) A health maintenance organization may not directly  
10 or indirectly, unless it has notified the Director in writing  
11 of its intention to enter into the transaction at least 30  
12 days prior thereto, or any shorter period as the Director may  
13 permit, and the Director has not disapproved it within that  
14 period:

15 (1) make a loan to or other investment in an  
16 officer or director of the organization or a person in  
17 which the officer or director has any direct or indirect  
18 financial interest;

19 (2) make a guarantee for the benefit of or in favor  
20 of an officer or director of the organization or a person  
21 in which the officer or director has any direct or  
22 indirect financial interest; or

23 (3) enter into an agreement for the purchase or  
24 sale of property from or to an officer or director of the  
25 organization or a person in which the officer or director  
26 has any direct or indirect financial interest.

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

1        This subsection does not apply to a transaction between  
 2        an organization and any of its subsidiaries or affiliates  
 3        that is entered into in compliance with Section 131.20a of  
 4        the Illinois Insurance Code, other than a transaction between  
 5        an insurer and its officer or director.

6        ~~No--such--Health-Maintenance-Organization--shall--knowingly~~  
 7        ~~invest--in--or--loan--upon--any--property,--directly--or--indirectly,~~  
 8        ~~whether--real--or--personal,--in--which--any--officer--or--director--of~~  
 9        ~~such--organization--has--a--financial--interest,--nor--shall--any~~  
 10        ~~such--organization--make--a--loan--of--any--kind--to--any--officer--or~~  
 11        ~~director--of--such--organization,--except--that--this--subsection~~  
 12        ~~shall--not--apply--in--circumstances--where--the--financial--interest~~  
 13        ~~of--such--officer--or--director--is--only--nominal,--trifling--or--so~~  
 14        ~~remote--as--not--to--give--rise--to--a--conflict--of--interest.--In--any~~  
 15        ~~case,--the--Director--may--approve--a--transaction--between--such~~  
 16        ~~organization--and--its--officers--or--directors--under--this~~  
 17        ~~subsection--if--he--is--satisfied--that--(i)--the--transaction--is~~  
 18        ~~entered--into--in--good--faith--for--the--advantage--and--benefit--of~~  
 19        ~~the--organization,--(ii)--the--amount--of--the--proposed--investment~~  
 20        ~~or--loan--does--not--violate--any--other--provision--of--this--Section~~  
 21        ~~nor--exceed--the--reasonable,--normal--value--of--the--property--or~~  
 22        ~~the--interest--which--the--organization--proposes--to--acquire,--and~~  
 23        ~~that--the--transaction--is--otherwise--fair--and--reasonable,--and~~  
 24        ~~(iii)--the--transaction--will--not--adversely--affect,--to--any~~  
 25        ~~substantial--degree,--the--liquidity--of--the--organization's~~  
 26        ~~investment--or--its--ability--thereafter--to--comply--with~~  
 27        ~~requirements--of--this--Act--or--the--payment--of--its--claims--and~~  
 28        ~~obligations.~~

29        (e) In applying the percentage limitations imposed by  
 30        this Section there shall be used as a base the total of all  
 31        assets which would be admitted by this Section without regard  
 32        to percentage limitations. All legal measurements used as a  
 33        base in the determination of all investment qualifications  
 34        shall consist of the amounts determined at the most recent

1 year end adjusted for subsequent acquisition and disposition  
2 of investments.

3 (f) Valuation of investments. Investments shall be  
4 valued in accordance with the published valuation standards  
5 of the National Association of Insurance Commissioners.  
6 Securities investments as to which the National Association  
7 of Insurance Commissioners has not published valuation  
8 standards in its Valuations of Securities manual or its  
9 successor publication shall be valued as follows:

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

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

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

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

34 (5) Any investment, including real property, not



1 purchased by the Health Maintenance Organization but acquired  
2 in satisfaction of a debt or otherwise shall be valued in  
3 accordance with the applicable procedures for that type of  
4 investment contained in this subsection. For purposes of  
5 applying the valuation procedures, the purchase price shall  
6 be deemed to be the market value at the time the investment  
7 is acquired or, in the case of any investment acquired in  
8 satisfaction of debt, the amount of the debt, including  
9 interest, taxes and expenses, whichever amount is less.

10 (6) The Director shall promulgate rules and regulations  
11 for determining and calculating values to be used in  
12 financial statements submitted to the Department for  
13 investments.

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

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

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

20 (3) "Bank or Trust Company" means any bank or trust  
21 company organized under the laws of the United States or any  
22 State thereof if said bank or trust company is regularly  
23 examined pursuant to such laws and said bank or trust company  
24 has the insurance protection afforded by an agency of the  
25 United States government.

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

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

34 (6) "Facility" means and includes real estate and any

1 and all forms of tangible personal property and services used  
2 constituting an operating unit.

3 (7) "Guaranteed or insured" means that the guarantor or  
4 insurer will perform or insure the obligation of the obligor  
5 or will purchase the obligation to the extent of the guaranty  
6 or insurance.

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

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

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

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

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

32 (13) "Unconditional" when used in connection with  
33 "obligation" means that nothing remains to be done or to  
34 occur to make the designated obligor liable on the

1 instrument, and that the legal holder shall have the status  
2 at least equal to that of general creditor of the obligor.

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

27 (1) Direct obligations of the United States for the  
28 payment of money, or obligations for the payment of money to  
29 the extent guaranteed or insured as to the payment of  
30 principal and interest by the United States.

31 (2) Direct obligations for the payment of money, issued  
32 by an agency or instrumentality of the United States, or  
33 obligations for the payment of money to the extent guaranteed  
34 or insured as to the payment of principal and interest by an

1 agency or instrumentality of the United States.

2 (3) Direct, general obligations of any state of the  
3 United States for the payment of money, or obligations for  
4 the payment of money to the extent guaranteed or insured as  
5 to the payment of principal and interest by any state of the  
6 United States, on the following conditions:

7 (i) Such state has the power to levy taxes for the  
8 prompt payment of the principal and interest of such  
9 obligations; and

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

13 (4) Direct, general obligations of any political  
14 subdivision of any state of the United States for the payment  
15 of money, or obligations for the payment of money to the  
16 extent guaranteed as to the payment of principal and interest  
17 by any political subdivision of any state of the United  
18 States, on the following conditions:

19 (i) The obligations are payable or guaranteed from ad  
20 valorem taxes;

21 (ii) Such political subdivision is not in default in the  
22 payment of principal or interest on any of its direct or  
23 guaranteed obligations;

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

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

30 (5) Anticipation obligations of any political  
31 subdivision of any state of the United States, including but  
32 not limited to bond anticipation notes, tax anticipation  
33 notes and construction anticipation notes, for the payment of  
34 money within 12 months from the issuance of the obligation,

1 on the following conditions:

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

4 (ii) Such political subdivision is not in default in the  
5 payment of the principal or interest on any of its direct  
6 general obligations or any obligation guaranteed by such  
7 political subdivision;

8 (iii) The anticipated funds must be specifically pledged  
9 to secure the obligation;

10 (iv) An organization shall not invest under this  
11 paragraph more than 2% of its admitted assets in the  
12 anticipation obligations issued by any one such political  
13 subdivision.

14 (6) Obligations of any state of the United States, a  
15 political subdivision thereof, or a public instrumentality of  
16 any one or more of the foregoing, for the payment of money,  
17 on the following conditions:

18 (i) The obligations are payable from revenues or  
19 earnings of a public utility of such state, political  
20 subdivision, or public instrumentality which are specifically  
21 pledged therefor;

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

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

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

34 (v) An organization shall not invest under this Section

1 more than 2% of its admitted assets in the revenue  
2 obligations issued in connection with any one facility.

3 (7) Obligations of any state of the United States, a  
4 political subdivision thereof, or a public instrumentality of  
5 any of the foregoing, for the payment of money, on the  
6 following conditions:

7 (i) The obligations are payable from revenues or  
8 earnings, excluding revenues or earnings from public  
9 utilities, specifically pledged therefor by such state,  
10 political subdivision or public instrumentality;

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

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

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

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

27 (8) Direct, unconditional obligations of a solvent  
28 business corporation for the payment of money, including  
29 obligations to pay rent for equipment used in its business or  
30 obligations for the payment of money to the extent guaranteed  
31 or insured as to the payment of principal and interest by any  
32 solvent business corporation, on the following conditions:

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

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

3 (iii) No such obligation, guarantee or insurance of the  
4 corporation has been in default as to principal or interest  
5 during the 5 years preceding the date of investment, but the  
6 corporation need not have had obligations guarantees or  
7 insurance outstanding during that period and need not have  
8 been in existence for that period, and obligations acquired  
9 under this paragraph may be newly issued;

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

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

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

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

25 (9) Direct, unconditional obligations for the payment of  
26 money issued or obligations for the payment of money to the  
27 extent guaranteed as to principal and interest by a solvent  
28 not for profit corporation, on the following conditions:

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

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

33 (iii) Revenues or other income from such assets and the  
34 services or commodities dispensed by the corporation shall be

1 pledged for the payment of the obligations or guarantees;

2 (iv) No such obligation or guarantee of the corporation  
3 has been in default as to principal or interest during the 5  
4 years next preceding the date of such investment, but the  
5 corporation need not have had obligations or guarantees  
6 outstanding during that period and obligations which are  
7 acquired under this paragraph may be newly issued;

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

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

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

16 (i) The bank, mutual savings bank or trust company shall  
17 be incorporated under the laws of the United States, or of  
18 any state of the United States;

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

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

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

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



1           (11) Preferred or guaranteed stocks issued or guaranteed  
2 by a solvent business corporation incorporated under the laws  
3 of the United States or any state of the United States, on  
4 the following conditions:

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

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

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

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

29           (12) Common stock issued by any solvent business  
30 corporation incorporated under the laws of the United States,  
31 or of any state of the United States, on the following  
32 conditions:

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

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

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

6           (13) Shares of common stock or units of beneficial  
7 interest issued by any solvent business corporation or trust  
8 incorporated or organized under the laws of the United  
9 States, or of any state of the United States, on the  
10 following conditions:

11           (i) If the issuing corporation or trust is advised by an  
12 investment advisor which is the organization or an affiliate  
13 of the organization, the issuing corporation or trust shall  
14 have net assets of \$100,000 or more, or if the issuing  
15 corporation or trust has an unaffiliated investment advisor,  
16 the issuing corporation or trust shall have net assets of  
17 \$10,000,000 or more;

18           (ii) The issuing corporation or trust is registered as  
19 an investment company with the Securities and Exchange  
20 Commission under the Investment Company Act of 1940, as  
21 amended;

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

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

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

32           (vi) An organization's investments in common stock  
33 funds, balanced funds or income funds when combined with its  
34 investments in common stocks made under paragraph (12) shall

1 not exceed the aggregate limitation provided by subparagraph  
2 (ii) of paragraph (12).

3 (14) Shares of, or accounts or deposits with savings and  
4 loan associations or building and loan associations, on the  
5 following conditions:

6 (i) The shares, accounts, or deposits, or investments in  
7 any form legally issuable shall be of a withdrawable type and  
8 issued by an association which has the insurance protection  
9 afforded by the Federal Savings and Loan Insurance  
10 Corporation; but nonwithdrawable accounts which are not  
11 eligible for insurance by the Federal Savings and Loan  
12 Insurance Corporation shall not be eligible for investment  
13 under this paragraph;

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

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

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

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

26 (15) Direct, unconditional obligations for the payment  
27 of money secured by the pledge of any investment which is  
28 authorized by any of the preceding paragraphs, on the  
29 following conditions:

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

32 (ii) The investment pledged shall have a fair market  
33 value which is at least 25% greater than the amount invested  
34 under this paragraph, except that a loan may be made up to

1 100% of the full fair market value of collateral that would  
2 qualify as an investment under paragraph (1) provided it  
3 qualifies under condition (i) of this paragraph; and

4 (iii) An organization's investment under this paragraph  
5 when added to its investment of the category of the  
6 collateral pledged shall not cause the sum to exceed the  
7 limits provided by the paragraph authorizing that category of  
8 investments.

9 (16) Real estate (including leasehold estates and  
10 leasehold improvements) for the convenient accommodation of  
11 the organization's business operations, including home  
12 office, branch office, medical facilities and field office  
13 operations, on the following conditions:

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

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

21 (iii) The greater of the admitted value of the asset as  
22 determined by subsection (f) or the organization's equity  
23 plus all encumbrances on such real estate owned by a company  
24 under this paragraph shall not exceed 20% of its admitted  
25 assets, except with the permission of the Director if he  
26 finds that such percentage of its admitted assets is  
27 insufficient to provide convenient accommodation for the  
28 company's business; provided, however, an organization that  
29 directly provides medical services may invest an additional  
30 20% of its admitted assets in such real estate, not requiring  
31 the permission of the Director.

32 (17) Any investments of any kind, in the complete  
33 discretion of the organization, without regard to any  
34 condition of, restriction in, or exclusion from paragraphs

1 (1) to (16), inclusive, and regardless of whether the same or  
2 a similar type of investment has been included in or omitted  
3 from any such paragraph, on the following condition:

4 (a) An organization shall not invest under this  
5 paragraph more than the lesser of (i) 10% of its admitted  
6 assets, or (ii) 50% of the amount by which its net worth  
7 exceeds the minimum requirements of a new health maintenance  
8 organization to qualify for a certificate of authority.

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

10 Section 99. Effective date. This Act takes effect upon  
11 becoming law.