

Illinois Insurance

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Shapo advises industry of compliance obligations under President's Executive Order

Director Nat Shapo has issued the following company bulletin to all Illinois insurance companies:

(CB #2001-07) Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism

In response to the terrorist attacks of September 11, 2001, President Bush issued an Executive Order, effective September 24, 2001, which provides that property and interests in property of those persons and entities listed in the Annex to the Executive Order (a copy of the list is attached to this Bulletin) that are either in the United States or that come into the United States are blocked. Further, the making or receiving of any contribution of funds, goods, or services to or for the benefit of those persons or entities listed in the Annex to the Order or otherwise determined to be subject to the Order is prohibited.

The purpose of this Bulletin is to advise all insurers and licensees to become familiar with their obligations under the Executive Order. All insurers and licensees should review their records for any information that may be relevant to the Executive Order. Insurers and licensees should also review the United States Department of the Treasury, Office of Foreign Assets Control (OFAC), website www.treas.gov/ofac, which will provide additional updated information regard-

ing these requirements. Companies should check the OFAC website regularly for updates to the list of persons and entities subject to this Order. Questions regarding the Executive Order should be directed to the Office of Foreign Assets Control. Individuals and entities found to have violated this Executive Order may be subject to sanctions administered by OFAC.

OFAC has developed a brochure specifically addressing the insurance industry's obligations with respect to programs blocking assets and prohibiting transactions with listed individuals and entities. The brochure can be obtained from the OFAC website at www.treas.gov/ofac/t11facin.pdf. In this insurance publication, OFAC

warns that it is critical that the insurance industry gain a better understanding of the economic sanctions and embargo programs of the United States. These programs are a front line defense against foreign threats to our national safety, economy, and security.

All U.S. insurance companies, U.S. citizens, and permanent resident aliens who are employees, officers, or directors of U.S. or foreign insurance companies need to be aware that they may be held accountable for sanctions violations under the authority granted to OFAC. Criminal violations of the statutes administered by OFAC can result in corporate and personal fines of up to \$1 million and 12 years in jail. OFAC also has authority to impose civil penalties.

Order (cont'd on page 2)

Our thoughts and prayers continue to be with those who were victimized by the criminal terrorist attacks against the United States on September 11, 2001. The regulatory community mourns the loss of former New York Superintendent Neil Levin. We salute the men and women who have worked so tirelessly to provide medical care and rescue and recovery assistance.

We pledge our commitment to work closely with the regulatory and insurance communities to ensure that the claims of affected policyholders are settled fairly and as swiftly as possible. We commend the industry for its commitment to these goals.

**Director Nat Shapo and Staff
Illinois Department of Insurance**

Order (cont'd from page 1)

According to OFAC's authority, U.S. underwriters, brokers, agents, primary insurers, reinsurers, and U.S. citizen employees of foreign firms in the insurance industry are prohibited from engaging in transactions not licensed by OFAC that in any way involve listed individuals or entities. Specifically, OFAC declares that all property, including insurance contracts, in which there is a direct or indirect interest of any listed individual or entity is considered blocked or "frozen." Premium payments, policy loan interest payments, and repayments of poli-

cy loans related to blocked insurance contracts must be credited to an interest bearing blocked account established on the books of a U.S. financial institution. Proceeds due under blocked policies may not be set-off against past due policy receivables or other claims and must also be paid into an interest bearing blocked account. Rights in blocked policies may not be transferred without authorization from OFAC—changing a beneficiary or assigning or pledging an insured's interest under a blocked policy would be considered illegal transfers involv-

ing blocked property under OFAC jurisdiction. Blocked policies and policy payments must be reported within 10 days to OFAC's Compliance Programs Division by fax at 202/622-1657.

Insurers and licensees reporting information to federal authorities should also notify the Illinois Department of Insurance (Attn: Cynthia J. Lamar at 100 West Randolph Street, Suite 15-100, Chicago, Illinois, 60601 by e-mail at Cindy_Lamar@ins.state.il.us).

Note: the Annex to the Executive Order is on p. 12.♦

Staff announcements

Heisler retires; Hessler appointed

Veteran staff member **Robert F. Heisler** retired on September 1, 2001, after 31 years of service to the Illinois Department of Insurance. Bob began his career as a Field Rate Examiner in 1970, and served the Department in a number of supervisory positions including Examiner-in-Charge, Chief Examiner of the Property and Casualty Market Conduct Examination Unit, Technical Supervisor of the Consumer Services Section, and Assistant Deputy Director of the Property and

Casualty Compliance Section. He also served on temporary assignment as Acting Assistant Deputy Director of both the Producer Section and the Cost Containment Section. In 1999, he was named Deputy Director of the Consumer Market Division.

A Certified Insurance Examiner and charter member of the Insurance Regulatory Examiners Society (IRES), Bob has been one of Illinois' most active participants in the National Association of Insurance Commissioners. He

served on a variety of NAIC Task Forces, including those drafting the NAIC Fair Claims Practices Act, Market Conduct Examination Handbook and the Improper Termination Act, and has chaired numerous NAIC property and casualty workshops.

Bob has also been instrumental in the promulgation of numerous Illinois regulations, such as those dealing with improper claims practices, credit property insurance, medical malpractice, and the worker's compensation assigned risk plan.

In announcing Bob's retirement, Director Nat Shapo commended his dedicated service to the people of Illinois and offered his personal thanks for the countless contributions Bob has made to insurance regulation. Bob's quick wit, amiable personality, and valued expertise will be greatly missed by his colleagues in the Illinois Department.

Director Shapo has named **Michael W. Hessler** as the new head of the Consumer Market Division. Mike joined the Illinois Department in 1976 as a Market Conduct Examiner and has previously worked in the Policy Evaluation Section and as a Supervisor in the Property and Casualty Consumer Services Section. Prior to his appointment, he served as Assistant Deputy Director of the Market Conduct Section.

Mike has chaired the Examiners Handbook Working Group at the NAIC since 1994 and serves on various

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task forces and working groups in both the property and casualty and life, accident and health areas. He has been on the faculty of the NAIC “new staff school” for ten years, and is a founding member, former vice-president and current board member of IRES.

Another long-time staff member, **Les Jenkins**, retired on September 28, 2001. Les entered state service as a Field Rate Examiner in 1973, and since 1985 has supervised the Producer Regulatory Unit. His successor had not yet been named at press time.

In other staff announcements, **Ginny Godek**, L/A&H Financial Examination Section, and **Craig Hil-lyer**, Market Conduct Section, both earned their Health Insurance Associate (HIA) designations from the Health Insurance Association of America. ♦

Variable contract rule clarified

-by *Chuck Budinger, L/A&H Compliance Section*

The Department’s administrative regulation (50 Ill. Adm. Code 1451) concerning variable contracts was amended effective March 5, 2001. In addition to making various typographical corrections and clarifying standards, the Department eliminated the requirement to file a prospectus applicable to variable contracts issued in Illinois as had been previously required by Section 1451.50(b).

The Department also added the following language to Section 1451.50(d): *“Companies filing variable contracts shall include a certification by an officer of the company affirming that they will not sell the product subsequent to the Director’s approval unless the Securities and Exchange Commission has provided an effective date for any securities registration required by federal law.”*

When the Department’s final adoption of the amendments to Part 1451 was published in the March 23, 2001, *Illinois Register*; the response to item #15 of the Notice page was inaccurate. The Notice indicated that Section 1451.50(d) required insurers to notify the Department of the effective date and file number that the Securities and Exchange Commission had assigned the applicable variable contract before the Department could approve such contract. That statement is incorrect and also appeared in the June 2001 issue of *Illinois Insurance*.

Please be guided by the actual text of Section 1451.50(d) rather than by the erroneous Notice in the *Illinois Register*, and the summary in our June newsletter. ♦

Illinois regulators support insurance industry education on urban markets

The Illinois Department of Insurance is working with a nonprofit insurance industry group, **The Urban Insurance Partners Institute (UIPI)**, to educate insurers about urban markets. UIPI will hold a national workshop on writing business successfully in urban areas on November 14-15 in Chicago.

The first-of-its-kind seminar, *Urban Insurance Advantage* will help insurers gain the tools necessary to compete effectively in urban areas. The workshop is designed to benefit companies of all sizes, as well as brokers and agents who want to write urban business. A major co-sponsor is Local Initiatives Support Corporation, a not-for-profit dedicated to rebuilding communities.

UIPI is working to secure continuing education credits for agents and attorneys who attend the workshop.

Urban affairs leaders, insurance company officials, legal experts and business innovators will lead the discussions. Department staff will also participate. The workshop will cover a variety of topics, including model urban programs and the latest developments affecting urban business such as investments as strategic tools; tax credit law; agent recruitment and

retention; multi-cultural marketing; legal issues; community partnerships; grass-roots marketing; regulations; and technology.

UIPI is working to secure continuing education credits for agents and attorneys who attend the workshop. Companies and individuals interested in finding out more about the educational gathering, to be held at Hotel Allegro, should contact the Urban Insurance Partners Institute at (773) 880-8780 or visit www.uipi.org.

Funded by insurers, reinsurers and national trade associations, UIPI is the only insurance industry organization devoted solely to urban affairs. The institute also educates consumers about insurance through homeowners insurance education sessions in a number of cities. ♦

Summary of 2001 Insurance Legislation

Following is a synopsis of the insurance-related bills passed by the Illinois General Assembly during the Spring 2001 session. The complete text of these laws can be found at www.legis.state.il.us.

House Bills

HB 153 (PA 92-0099)—effective 7/20/01—amends 215 ILCS 150/2, 150/6, and 150/15 of the Religious and Charitable Risk Pooling and Trust Act to authorize organizations exempt from taxation under paragraph (2) of subsection (c) of Section 501 of the Internal Revenue Code to be a beneficiary under a risk pooling trust.

HB 1040 (PA 92-0135)—effective 1/1/02—amends the Health Maintenance Organization (HMO) Act to authorize an HMO to offer **point-of-service (POS) benefits** and to establish capital requirements on a sliding scale basis. Specifically, an HMO that offers a POS product must maintain minimum net worth not less than:

- the greater of 300% of the authorized risk based capital requirements (in accordance with Article IIA of the Illinois Insurance Code); or
- \$3.5 million if the HMO's annual projected out-of-plan claims are less than \$500,000; or
- \$4.5 million if the HMO's annual projected out-of-plan claims are equal to or greater than \$500,000 but less than \$1 million; or
- \$6 million if the HMO's annual projected out-of-plan claims are \$1 million or greater.

This sliding scale will ensure that an HMO maintains the appropriate net worth as it offers more POS benefits. In an HMO, generally the costs of providing service are known because the HMO negotiates the fees with "contracted" providers. However, for out-of-plan services the costs are paid based upon the "usual and customary" charges in that locale. House Bill 1040 makes other changes.

HB 1041 (PA 92-0458)—effective 8/22/01—amends the Illinois Vehicle Code with regard to **driver licenses**. This legislation provides that out-of-state offenses are taken into account when determining whether a suspended or revoked license is subject to a \$250 reinstatement fee.

House Bill 1041 requires the Secretary of State to maintain records relative to dispositions of court supervision. This legislation also amends the Unified Code of Corrections to provide that a defendant placed on court supervision for failure to show proof of insurance must maintain proof of insurance after the supervision has been revoked.

House Bill 1041 extends from 30 days to 45 days the time which an insurance company has to respond to a request by the Secretary of State for information regarding whether a driver is covered by liability insurance. The bill amends the Illinois Vehicle Code to remove the requirement that a licensed vehicle dealer that offers, provides, or sells in-house and/or self-insured extended warranties or service contracts, other than those of the vehicle manufacturer, must retain adequate reserves or insurance for the protection of the purchasing consumer.

HB 1901 (PA 92-0106)—effective 1/1/02—creates the Uniform Health Care Service Benefits Information Card Act to require health benefit plans (that provide coverage for health care services including prescription drugs or devices) to issue **uniform health care benefit information cards** (or other technology). House Bill 1901 mandates that the health benefit plan include the following specific information on the card: the processor control number (if required), group number, card issuer identifier, cardholder ID number and the cardholder name.

The requirements of this Act are applicable to both individual and group health benefit plans written by insurers, health maintenance organizations, voluntary health services plans and multiple employer welfare arrangements, as well as administrators of these plans. House Bill 1901

would also be applicable to administrators of self-insured and state administered plans.

HB 2380 (PA 92-0479)—effective 1/1/02—amends the Public Construction Bond Act, the Counties Code, and the Illinois Municipal Code to provide that a builder or developer may not be required by a county or municipality to post an irrevocable letter of credit, surety bond, or letter of commitment by a bank to guarantee a project's completion if the developer or builder already has such a bond on file with a county or municipality. This legislation requires a county or municipality to accept **surety instruments** from a surety insurance company that is authorized by the Department of Insurance to sell sureties.

House Bill 2380 exempts a municipality or county with a population of 1,000,000 or more from the requirement that a municipality must approve and deem sufficient a surety or insurance company authorized by the Department of Insurance. House Bill 2380 also preempts home rule.

HB 2419 (PA 92-0480)—effective 10/1/01—amends the Illinois Insurance Code to provide that for policies of personal lines property and casualty insurance (automobile, fire and homeowners), but excluding fidelity and surety insurance, an insurance company authorized to do business in Illinois may not refuse to issue or renew a policy of insurance solely on the basis of a **credit report**.

House Bill 2419 defines "credit report" as a collection of data regarding a consumer's credit history, credit capacity, or credit worthiness that has been assembled or evaluated by a consumer reporting agency defined in the federal Fair Credit Reporting Act.

House Bill 2419 further provides that if a credit report is used in conjunction with other criteria to underwrite an application or renewal of a policy of insurance, it may not include or be based upon race, income, gender, religion, or national origin of the applicant or insured.

House Bill 2419 specifically requires the insurer to provide the

applicant or policyholder with notice of the underwriting decision if it is determined in conjunction with a credit report. Compliance with the notification requirements of the federal Fair Credit Reporting Act shall be considered compliance with the notification requirements of House Bill 2419.

HB 2554 (PA 92-0139)—effective 7/24/01—amends Section 215 ILCS 5/224(1) of the Illinois Insurance Code to indicate that **interest** shall accrue on proceeds **payable** because of the **death of the insured** at the rate of 9% per year on the total amount payable or face amount unless payment is made within 15 days from the date of receipt by the company of due proof of loss. Currently, the statute indicates that interest shall accrue at 6% annually.

House Bill 2554 also amends Section 215 ILCS 5/357.9a of the Illinois Insurance Code to indicate that **interest** shall be **payable** at the rate of 9% per year from the 30th day after receipt of proof of loss to the date of late payment for loss-of-time (**disability**) coverage under accident and health insurance. Currently, the statute indicates that interest shall accrue at 8% annually.

HB 2556 (PA 92-0140)—effective 7/24/01—is an initiative of the Department of Insurance to **strengthen the corporate governance** of insurance companies and health maintenance organizations, including a requirement for a certain number of outside board of directors and stipulation of rules for the handling of cash and assets between companies.

House Bill 2556 prohibits privately held HMOs from making loans to company officers or directors, or to any other person with financial interest, to the HMO without Department approval. According to this change, an officer or director would not have financial interest by reason of an interest that is held through the ownership of equity interests representing less than 2% of all outstanding equity interests issued by a person party to the transaction, or solely by reason of that individual's position as a director or officer of a person that is party to the transaction.

House Bill 2556 also amends the provisions of law that regulate companies formed under the insurance **holding company system**. Current law requires prior notification (to the Department) of certain transactions between a domestic insurance company and any person in its holding company system. The new law requires prior notification for transactions involving the transfer of assets from or liabilities to a domestic insurance company that is not eligible to declare and pay a dividend or other distribution pursuant to the provisions of 215 ILCS 5/27.

House Bill 2556 also amends Article XIII, Rehabilitation, Liquidation, Conservation and Dissolution of Companies, to expand the definition of "company" to include, but not limit it to, entities or persons which provide management, administrative, accounting, data processing, marketing, underwriting, claims handling or any other similar services to that insurer, regardless of whether the person is licensed to engage in the business of insurance in Illinois, if such entity or person is an affiliate of that insurer.

The new law also provides that when the Director finds a "company" is engaged in any aspect of insurance business on behalf of or in association with any domestic insurance company in receivership in a manner that is harmful to policyholders, creditors, members, shareholders or the public, the Director may report the case to the Illinois Attorney General. It is the obligation of the Attorney General to apply for an order with the court to name the Director as receiver to assume control of the assets and operation of the company pending a complete investigation and determination of the rights of the harmed parties.

HB 2994 (PA 92-0386)—effective 1/1/02—replaces the current **producer licensing law** in the Illinois Insurance Code with a new licensing law modeled after the National Association of Insurance Commissioners (NAIC) model, while maintaining portions of Illinois' law not addressed by the NAIC model. Among the key provisions of the Illinois law are:

- Provides for reciprocity in the licensure of nonresidents by permit-

ting them to obtain an Illinois license if they are currently licensed as a resident (in good standing) in their own state, have paid the required fees for licensure in Illinois, and have provided Illinois with a copy of their application for a license in their home state; and if their home state reciprocally grants nonresident licenses to residents of Illinois.

- Exempts persons who are currently licensed in another state from having to take an Illinois examination and meeting pre-licensing education requirements.

- Authorizes the Director to waive any requirements for nonresident license applicants who have a valid license from their home state if their home state awards nonresident licenses to Illinois residents on the same basis.

The need for a multistate uniform and reciprocal system in producer licensing originated out of the federal Gramm-Leach-Bliley Act (GLBA) which seeks to enhance competition in the financial services industry by providing a framework for the affiliation of banks, securities firms, insurance companies, and other financial service providers, and to provide state flexibility in multistate insurance licensing reforms.

GLBA requires a minimum of 29 states to enact, by November 2002, either uniform agent licensing laws and regulations or reciprocity laws and regulations governing the licensure of non-resident agents or face national licensing standards established by a newly created National Association of Registered Agents and Brokers (NARAB). At enactment of the Illinois law, 35 states had passed laws designed to satisfy the GLBA requirements.

House Bill 2994 requires that a **surplus lines producer** must complete a prelicensing course of study in lieu of passing a written examination. This legislation also provides that the submission of insurance contract information by surplus line producers and the countersignature by the Surplus Line Association of Illinois may be performed electronically. The legislation

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Legislation (cont'd from p. 5)

requires that each surplus line producer must maintain electronic or paper copies of surplus line insurance contracts which shall be open at all times for inspection by the Director and the Surplus Line Association of Illinois.

HB 3004 (PA 92-0153)—effective 7/25/01—is an initiative of the Comprehensive Health Insurance Plan (CHIP) that extends to 90 days (from 63 days) the number of days in which an individual may apply for **HIPAA CHIP**. House Bill 3004 also provides that a federally eligible individual is not deemed ineligible simply because they are eligible for coverage under part A or part B of Medicare if the eligibility is not due to age.

HB 3179 (PA 92-0296)—effective 1/1/02—amends the Consumer Fraud and Deceptive Business Practices Act to prohibit the marketing and sale of discount programs which do not meet the standards of the Act. This legislation requires that a **cash-discount card** must expressly provide in bold and prominent type that the discounts being offered are not insurance. The discounts offered must be specifically authorized by a contract with each health care provider listed in conjunction with the card. The associated discounts cannot be misleading, deceptive, or fraudulent regardless of the literal wording that is used on the card.

Senate Bills

SB 42 (PA 92-0430)—effective 8/17/01—amends the Genetic Information Privacy Act to prohibit insurers and employers from using information derived from **genetic tests**, regardless of the source of the information, for nontherapeutic purposes in connection with a policy of accident and health insurance.

SB 319 (PA 92-0182)—effective 7/27/01—amends the Illinois Insurance Code (215 ILCS 5/370c) to require reimbursement by insurance companies for services performed by **licensed clinical professional counselors**.

Current law provides that each insured covered for mental, emotional, or nervous disorders or conditions shall be free to select a physician licensed to practice medicine in all its branches, a licensed clinical psychologist, or a licensed clinical social worker of their choice for treatment of these disorders; and the insurer is required to pay the coverage for these services if the condition is covered under the policy.

SB 333 (PA 92-0005)—effective 6/1/01—establishes a new section under Article XXXI of the Illinois Insurance Code to define “expirations” to be mutually and exclusively owned by the insured and the registered firm (which includes sole proprietorship). Under Senate Bill 333, **expirations** include all information related to an insurance policy including, but not limited to, the name and address of the insured, the location and description of the property insured, the value of the insurance policy, the date of expiration, the premiums, limits, terms, and coverage of the insurance policy, and any other confidential information compiled by an insurance producer or furnished by the insured to the insurer or agent, contractor, or representative of the insurer.

Exemptions to Senate Bill 333 include:

- life and health insurance policies;
- when the insured requests that the insurance company renew the policy or when the insured requests that another registered firm obtain quotes for insurance from another insurance company;
- the Illinois Fair Plan, the Illinois Automobile Insurance Plan, or the Illinois Assigned Risk Plan for workers' compensation coverage;
- an insurance producer who is a “captive” agent: i.e., employed by and has agreed to act exclusively for one company or group of affiliated insurance companies, or a producer who submits to the company or affiliated companies that are organized to transact business as a reciprocal company, every request or application for insurance underwritten by the company or group of companies.

- when the registered firm is in default for non-payment of premiums under contract with the insurer or is guilty of conversion of the insured's or insurer's premium or has had his license revoked by or surrendered to the Illinois Department of Insurance.

SB 461 (PA 92-0307)—effective 8/9/01—amends the Early Intervention Services Systems Act, Specialized Care for Children Act, Children's Health Insurance Program Act, and the Illinois Public Aid Code to provide that an **application for early intervention services** acts as an application for various services offered under these Acts. This legislation defines “qualified person” for the purpose of rendering early intervention services and would require the Department of Human Services as the lead agency to develop rules for credentialing providers.

Senate Bill 461 requires families to utilize their insurance coverage for early intervention services for dependents before seeking services from the state supported early intervention system. This legislation allows for certain exemptions in the use of a family's insurance coverage.

Senate Bill 461 provides that the system of payment for early intervention services be structured on a sliding scale based on family income. A family's coverage or lack of coverage under public or private insurance shall not be a factor in determining the amount of the fee. Senate Bill 461 makes other changes.

SB 463 (PA 92-0065)—effective 7/12/01—amends Article XIII, Rehabilitation, Liquidation, Conservation and Dissolution of Companies in 215 ILCS 5/205, Priority of Distribution of General Assets, to clarify the **treatment and priority of claims** that are subject to separate accounts in a receivership proceeding. This legislation provides that in receivership, the Director as Receiver, is obligated to consider an insurer's separate account assets as being subject only to those liabilities incurred as a result of the insurer's separate account business.

SB 864 (PA 92-0124)—effective 7/12/01—is a Department of Insurance initiative to authorize the crea-

tion of **Special Purpose Reinsurance Vehicles (SPRVs)** to facilitate the securitization of risk in Illinois under the regulatory oversight of the Department. Investors in fully funded insurance securitization transactions provide funds to the SPRV to secure the maximum possible exposure under a contract with a ceding insurer.

The Department of Insurance will be required to give prior written approval to an insurer's SPRV plan of operation. Senate Bill 864 provides the Department with rulemaking authority to implement the provisions of the Act and makes other changes.

SB 865 (PA 92-0074)—effective 7/12/01—is a Department of Insurance initiative that amends the **Protected Cell Companies** Article of the Insurance Code to adopt final revisions to the NAIC model act made subsequent to the enactment of the Illinois law.

Senate Bill 865 amends the purpose section of the current law to clarify that the transactions made are fully funded and defines "fully funded" to mean the assets of the protected cell must meet or exceed the maximum possible exposure to the protected cell. The bill defines "non-indemnity trigger" as a transaction term by which relief of the issuer's obligation to repay investors is triggered solely by some event or condition other than the individual protected cell company incurring a specified level of losses under its insurance or reinsurance contracts.

Senate Bill 865 also amends Article V ½ of the Insurance Code regarding Insurance Exchanges to address changes needed to facilitate future insurance securitization transactions through the INEX. The new law defines a "special purpose limited syndicate" as an entity formed for the purposes of participating in the securitization of insurance or reinsurance risk in accordance with rules of the exchange. The special purpose limited syndicate must have \$5,000 minimum capitalization.

SB 866 (PA 92-0048)—effective 7/3/01—amends the Insurance Code and the Health Maintenance Organization (HMO) Act to incorporate requirements of the federal **Women's**

Health and Cancer Rights Act of 1998 regarding reconstruction, symmetry, and prostheses for policies and plans which provide medical and surgical benefits for mastectomies.

SB 867 (PA 92-0148)—effective 7/24/01—is a Department of Insurance initiative that amends the **Long Term Care** Article of the Illinois Insurance Code to define "qualified long-term care insurance contracts" or "federally tax qualified long term care insurance contracts" to mean an individual or group insurance contract that meets the requirements of Section 7702(b) of the Internal Revenue Code of 1986.

Senate Bill 867 defines "qualified long-term care insurance contract" or "federally tax-qualified long-term care insurance contract" to mean the portion of a life insurance contract that provides long-term care insurance coverage by rider or as part of the contract and that satisfies the requirements of Sections 7702B(b) and 7702B(e) of the Internal Revenue Code of 1986, as amended.

SB 869 (PA 92-00399)—effective 8/16/01—is a Department of Insurance initiative that amends the Illinois Insurance Code to **prohibit discrimination** on the basis of race, color, religion or national origin in the conduct of life and health insurance business. This legislation makes such discrimination a violation of the Unfair Methods of Competition and Unfair and Deceptive Acts and Practices Article of the Illinois Insurance Code. Senate Bill 869 provides that the remedies and protections provided by this legislation for life and health insurance do not limit remedies that are available under other provisions of the Illinois Insurance Code.

SB 870 (PA 92-0075)—effective 7/12/01—is a Department of Insurance initiative that amends various sections of the Insurance Code to provide the Department with the statutory standards to **release security deposits** when insurance companies wish to voluntarily dissolve and cease to engage in the business of insurance in Illinois. Under this legislation, the Department may release deposits upon: order of the

court or upon certification by the insurance company that they have no outstanding creditors or policyholders/enrollees or policy obligations prior to the Department releasing the security deposit; receipt of lawful resolution from the board of directors surrendering articles of incorporation for administrative dissolution by the Director; and receipt of addresses of the final officers and directors of the company and a plan of dissolution approved by the Director.

SB 879 (PA 92-0233)—effective 1/1/02—is an initiative of the Department of Insurance and the Illinois **Insurance Fraud** Task Force to extend the requirements for reporting potential fraud to the Department to all lines of insurance and to application and premium fraud. The law grants the Director of Insurance with rulemaking authority to establish the reporting requirements for application and premium fraud information.

Senate Bill 879 also creates the Illinois Insurance Claims Fraud Prevention Act (**Whistleblower Act**) to make it unlawful, except where otherwise permitted by law, to offer or pay to induce a person to procure clients or patients to obtain services or benefits under a contract of insurance or that will be the basis for a claim against an insured or the insurer. This legislation provides specific civil (monetary) penalties for violations of the Act—defendants could be fined \$5,000 to \$10,000 and assessed up to three times the amount of each claim for compensation under an insurance contract. In addition to the penalties enumerated in the Act, the court would not be precluded from providing other equitable relief. Further, Senate Bill 879 does not prevent a criminal prosecution for the same conduct.

Senate Bill 879 provides a monetary incentive to insurance companies, individuals, and local states' attorneys and the Attorney General to bring a civil suit against persons who seek to defraud insurance companies. The law provides protections and recompense to any employee who is discharged or otherwise discriminated against by an employer because of lawful acts performed in seeking action under this Act. Under Senate Bill 879, those

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Legislation (cont'd from p. 7)

bringing the action, including the state, share a percentage of the proceeds from the civil action.

SB 935 (PA 92-0440)—effective 8/17/01—amends the Illinois Insurance Code, State Employees Group Insurance Act, Preferred Provider and Third Party Administrator sections of the Insurance Code, the Comprehensive Health Insurance Plan Act, HMO Act, Limited Health Service Organization Act, and the Voluntary Health Services Plan Act to require companies to notify their insureds of changes to a **drug formulary**. Senate Bill 935 permits companies to post the changes on their websites in order to comply with this notification requirement.

SB 941 (PA 92-0077)—effective 7/12/01—amends the Illinois Insurance Code to increase from 1% to 2%, beginning January 1, 2002, the amount a member property and casualty company may be assessed on the company's net direct written premium for payment of the obligations of the **Illinois Property and Casualty Insurance Guaranty Fund**. The 2% maximum shall apply regardless of the date of any insolvency that gives rise to the need for the assessment. Senate Bill 941 makes other specific changes.

SB 943 (PA 92-0125)—effective 7/20/01—amends the Illinois Insurance Code with respect to premium reductions in **automobile insurance** for vehicles equipped with **anti-theft mechanisms** or devices by deleting the language that the rules promulgated shall include procedures for affidavit certification to insurers that anti-theft mechanisms and devices have been installed in insured vehicles.

SB 962 (PA 92-0002)—effective 5/1/01—amends the **Comprehensive Health Insurance Plan Act** to waive the six-month preexisting condition limitation under "traditional" CHIP, when an individual previously covered under an individual accident and health insurance policy loses coverage as a result of the insurer's insolvency.

Specifically, Senate Bill 962 provides for a waiver of the preexisting condition exclusions for an eligible

person who has satisfied similar exclusions under a prior individual policy of health insurance that was terminated due to the insolvency of the insurer and who has applied for coverage with ICHIP within 63 days following the termination.

SB 1019 (PA 92-0126)—effective 1/1/02—amends the Employee Benefit Contribution Act to require an employer who has agreed to make payment to an **employee health insurance** plan to provide written notification directly to its employees of any failure to make payments if such failure may result in the loss of insurance coverage.

Previously, such notice was required to be posted in a conspicuous location at the place of employment. Senate Bill 1019 removes the Department of Insurance as the agency required to monitor the places of employment for compliance.

SB 1046 (Amendatory Veto)—effective 8/3/01—amends the Condominium Property Act to replace provisions concerning **insurance for condominium associations** and risk pooling trust funds for condominium associations or common interest community associations. This legislation requires that a condominium association maintain property insurance, general liability insurance, and fidelity bond and liability coverage for directors and officers.

Senate Bill 1046 requires condominium association unit owners to obtain insurance coverage. The Director of Insurance shall adopt reasonable rules pertaining to the standards of coverage and administration of risk pooling trust funds. Senate Bill 1046 makes other changes.

SB 1254 (PA 92-0130)—effective 7/20/01—amends the Illinois Insurance Code, the Health Maintenance Organization Act, and the Voluntary Services Act to require individual and group policies with maternity coverage to provide coverage for **prenatal HIV testing** ordered by an attending physician, physician assistant, or an advance practice registered nurse.

SB 1341 (PA 92-0185)—effective 7/7/02—amends the Illinois Insurance Code to **require** insurers to provide **coverage** on a group basis, to employers with greater than 50 employees, for **serious mental illness** on the same basis as other illnesses and diseases. The coverage must provide the same durational limits, amount limits, deductible and co-insurance amounts as is provided for other illnesses and diseases.

The definition of serious mental illness specifically limits the conditions covered under the Act to psychiatric illnesses defined in the most current edition of the Diagnostic and Statistical Manual (DSM) published by the American Psychiatric Association. These illnesses are schizophrenia, paranoid and other psychotic disorders, bipolar disorders (hypomanic, manic, depressive and mixed), major depressive disorders (single episode or recurrent), schizoaffective disorders (bipolar or depressive), pervasive developmental disorders, obsessive-compulsive disorders, depression in childhood and adolescence, and panic disorder.

Senate Bill 1341 also amends the Civil Administrative Code by adding Section 20 ILCS 1405/1405-30 to require the Department of Insurance to conduct an analysis and study for the years 2002, 2003, and 2004, of the costs and benefits derived from the implementation of Senate Bill 1341. The study shall include the results of treatments to patients, any improvements in care, and improvement to a patient's quality of life. This report is required to be filed with the General Assembly and the Governor on or before March 1, 2005.

SB 1505 (PA 92-0331)—effective 1/1/02—amends the Civil Administrative Code of Illinois to establish an **ombudsman program for the uninsured** within the Department of Insurance to provide assistance and education for uninsured individuals regarding health insurance benefit options, and rights under state and federal law. This legislation allows the Department to recruit and train volunteers to provide one-on-one counseling on health insurance matters. ♦

Department rules review

The full text of Department rules is printed in the *Illinois Register* published weekly by the Illinois Secretary of State's Index Department, 111 E. Monroe St., Springfield, IL 62756. Subscriptions are available from that source for an annual fee of \$290. Issue numbers and a Department contact person are listed below after each rule summary.

Copies of rules are also available upon written request to the Department of Insurance at a \$1 per page charge. Some rules are posted on the Department's website at www.state.il.us/ins/industryinfo.htm. Adopted rules are codified in Title 50 of the Illinois Administrative Code.

Rule 2003 (Definitions of the Terms "Noncancellable," "Noncancellable and

Guaranteed Renewable" and "Guaranteed Renewable") was amended effective July 30, 2001, to address the changes in law resulting from the adoption of the Illinois Health Insurance Portability and Accountability Act (HIPAA) [215 ILCS 97] and to clarify the difference between advertising a product as guaranteed renewable versus the treatment given under HIPAA. (Vol. 25, #32; Bill McAndrew).

Rule 2019 (Minimum Benefit Standards for Diabetes Coverage) was adopted effective August 31, 2001, to address confusion on how to interpret coverage for durable medical equipment and pharmaceuticals/supplies under Section 356w of the Illinois Insurance Code. This new rule will clarify coverage concerns related to the

same coverage, deductible, copayments and coinsurance for durable medical equipment and pharmaceuticals/supplies. (Vol. 25, #37; Yvonne Clearwater).

Rule 5425 (Managed Care Dental Plans) was adopted effective August 31, 2001, to implement the Dental Care Patient Protection Act. The rule sets forth guidelines for the formation of an advisory committee; requires the filing and approval of a summary description and grievance procedure for managed care dental plans; and also identifies the point of service plan filing requirements. (Vol. 25, #37; Dave Grant). ♦

Receivership actions taken

Associated Physicians Insurance Company (APIC), Oak Brook, Illinois, was declared insolvent and placed into liquidation on August 16, 2001, by the Circuit Court of Cook County. The Agreed Order was granted in response to a petition filed by Director Nat Shapo, based on the Insurance Department's finding that the company's policyholders surplus was impaired in excess of \$1 million.

APIC has been in run off since January 1995, and has not written new business since that time. The company began operations in 1987 and is a wholly owned subsidiary of Associated Physicians Capital, Incorporated, an Illinois holding company based in Oak Brook. The company is licensed in nine states; however, it was concentrating its business writings primarily in Illinois when it entered run off.

The covered claims of Illinois residents will be protected by the Illinois Property and Casualty Guaranty Fund.

On September 12, 2001, Director Shapo obtained an Order of Conservation against **United Capitol Insur-**

ance Company following the Department's determination that the company was insolvent by more than \$1 million. The order was originally confidential pursuant to statute; however, the confidentiality order was lifted on September 17, 2001.

United Capitol is a wholly owned subsidiary of United Capitol Holding Company Incorporated, a Delaware insurance holding corporation, which is in turn wholly owned by Frontier Insurance Company of Rock Hill, New York. Frontier was placed into rehabilitation by the New York Department of Insurance on August 27, 2001. Both companies are members of the Frontier Insurance Group.

United Capitol was originally incorporated in February 1981 as the Great Southwest Surplus Lines Insurance Company. The current name was adopted in June 1986, and the company was acquired by the Frontier Insurance Group through its subsidiary Frontier Insurance Company in May 1996. The company is licensed in three states (Arizona, Illinois, and Wisconsin), but operated on a surplus

lines or nonadmitted basis in Washington, D.C., Puerto Rico, the U.S. Virgin Islands and all other states. At December 31, 2000, the company reported earned premium of \$51 million.

The Conservation Order allows the Director to conserve the assets of the company for the protection of its claimants and creditors, pending further recommendations to the supervising court. The order also contains an injunction prohibiting suits against the company outside of the conservation proceedings, as well as a moratorium on the payment of claims and loss adjustment expenses.

Receivership proceedings are being handled by the Office of the Special Deputy Receiver representing the Director of Insurance, 222 Merchandise Mart Plaza, Suite 1450, Chicago, Illinois 60654; (312) 836-9500. ♦

Producer regulatory action

(Copies of regulatory orders are available upon written request to the Producer Regulatory Unit, for \$1/page. The number of pages are indicated in parentheses following the effective date.)

Revocation of Producer License

Eric F. Pickett
11201 S. Langley 1G
Chicago, IL 60628
Effective 07/23/01 (3)

Helen D. Starks
4407 Standish Dr.
Fort Wayne, IN 46806
Effective 08/24/01 (2)

Mitchell D. Wilson
8050 S. Wabash
Chicago, IL 60619
Effective 07/19/01 (9)

Suspension of Producer License

George A. Hubbard
17615 S. Stone Bridge
Hazel Crest, IL 60429
Effective 08/10/01 (8)

Michael Menconi
3039 Timberhill Ct.
Aurora, IL 60504
Effective 08/13/01 (2)

Richard E. Saunders
12 Tower Ln.
Glen Carbon, IL 62034
Effective 08/06/01 (2)

Voluntary Revocation of Producer License

Gerald W. Apple
313 Gladys
Godfrey, IL 62035
Effective 07/13/01 (1)

William W. Hendricks
203 Gillespie St.
Gillespie, IL 62033
Effective 08/13/01 (1)

Miranda Insurance Agency, Inc.
2421 N. Milwaukee Ave.
Chicago, IL 60647
Effective 08/06/01 (2)

Stipulation and Consent Order—Civil Forfeiture Paid

G.F. Mann Agency Ltd.
931 W. 75th St., Ste 137-310
Naperville, IL 60505
Effective 06/27/01 (4)

Havana Insurance Agency, Inc.
400 W. Main St.
Havana, IL 62644
Effective 07/20/01 (4)

Gretchen McAlinden
270 Main St.
Glen Ellyn, IL 60137
Effective 07/09/01 (5)

Jack T. Mann
2746 Leyland Ave.
Aurora, IL 60504
Effective 06/27/01 (4)

Judson H. Mann
1716 Wild Rose Ct.
Naperville, IL 60565
Effective 06/27/01 (4)

Medical Underwriting Service
Agency
150 E. 22nd St.
Lombard, IL 60148
Effective 07/09/01 (5)

Norman-Spencer International Inc.
150 E. 22nd St.
Lombard, IL 60148
Effective 06/18/01 (5)

Michael D. Snedeker
812 White Eagle Dr.
Havana, IL 62644
Effective 07/20/01 (4)

Karen M. Snedeker
812 White Eagle Dr.
Havana, IL 62644
Effective 07/20/01 (4)

Edward B. Spencer
501 Parkview
Elmhurst, IL 60126
Effective 07/09/01 (5)

Richard A. Velpel
1418 W. Glen Ave., Apt. 402
Peoria, IL 61614
Effective 08/13/01 (5)

Richard Velpel Insurance Agency
416 Main St., Ste 600
Peoria, IL 61602
Effective 08/13/01 (5)

Suspension Rescinded

David Torres
10520 Richcove Dr., Apt. 13 B
Chicago Ridge, IL 60415
Effective 04/23/01 to 07/13/01 (2)

Nilsa M. Miranda
2421 N. Milwaukee Ave.
Chicago, IL 60647
Effective 08/06/01 (2)

Peggy A. Slavens
820 Oakwood Rd.
East Peoria, IL 61611
Effective 08/13/01 (1)

Brian D. Smithson
1105 E. Harris Ave.
Greenville, IL 62246
Effective 08/28/01 (1)

James S. Sterling
101 North Wacker Drive, #CM-231
Chicago, IL 60606
Incorrectly listed under
“Revocations” in the June 2001
issue. We regret the error.

Denial of Producer License

Louis V. D’Amico
14728 S. Trumbull
Midlothian, IL 60455
Effective 08/24/01 (3)

Charla Earls
8801 S. Constance
Chicago, IL 60617
Effective 07/05/01 (4)

Charles Soldner
2011 W. Main
Salem, IL 62881
Effective 07/13/01 (10)♦

Hearings

Scheduled Hearings:

James Scott Wood
Hearing No. 3862
Revocation of licensing authority
9/26/01

T.T.C. Illinois, Inc.
Hearing No. 3867
Registration as an employee leasing
company 9/27/01

First Nonprofit Mutual Insurance Co.
Hearing No. 3868
Demutualization 10/2/01

Harold Harris
Guideone Insurance Company
Hearing No. 3866
Nonrenewal 10/4/01

Valor Insurance Company
Warrior Insurance Group, Inc.
Hearing No. 3847
Failure to file annual statement
10/10/01

Robert McCoy
Allstate Indemnity Company
Hearing No. 3865
Cancellation 10/17/01

Rafael Zuniga, Jr.
Hearing No. 3869
Revocation of licensing authority
10/25/01

Settled Without Hearing:

Accelerated Benefits Corp.
Hearing No. 3859
Dismissed 9/11/01

John Newby
Safeco Insurance Company of IL
Hearing No. 3857
Dismissed 8/6/01

Stanley & Sandra Lewis
West American Insurance Company
Hearing No. 3852
Dismissed 7/25/01

Completed Hearings:

Douglas J. Aller
Hearing No. 3835
Licensing authority suspended until
compliance with Director's Order 9/12/01

George A. Hubbard
Hearing No. 3832
Licensing authority suspended until
compliance with Sec. 505.2 of Code

Gary D. Pickett
Hearing No. 3816
Order of suspension rescinded 8/10/01

R.F.M.S. Inc.
Medmarc Casualty Insurance Co.
Hearing No. 3849
Cancellation rescinded; policy in effect
8/31/01 ♦

Exam reports filed

Market Conduct

Harmony Health Plan of IL, Inc.
8/07/01
Government Employees Insurance Co.
8/22/01
Principal Life Insurance Company
8/24/01
Travelers Group
9/05/01

Financial

American Ambassador Casualty Co.
8/21/01
Argonaut Midwest Insurance Company
08/21/01
Chicago Midwest Meat Association
8/21/01
Comprehensive Ensurers Market
Insurance Company
7/06/01
Consolidated Construction Safety Fund
of Illinois
8/21/01
Construction Employers' Risk
Management Association
8/23/01
HIH America Compensation & Liability
Insurance Company of Illinois
7/12/01
Midwest Insurance Company
8/01/01
Rush Prudential HMO, Inc., now known
as UNICARE Health Plans of the
Midwest, Inc.
9/07/01
Rush Prudential Insurance
Company, now known as UNICARE
Health Insurance Company of the
Midwest
9/07/01 ♦

Company action

New Companies

Allstate North American
Insurance Company, IL, 8/01/01
Podiatry Insurance Company of
America (Risk Retention Group), A
Mutual Company, IL, 8/01/01
Senior Citizens Mutual
Insurance Company, FL, 7/02/01

Terminations

Amwest Surety Insurance
Company, CA, certificate of
authority revoked 8/15/01
Associated Physicians
Insurance Company, IL, declared
insolvent and placed in liquidation
8/16/01
Sable Insurance Company, CA,
placed in liquidation 7/17/01

Suspensions

Central National Insurance
Company of Omaha, NE,
7/01/01— 6/30/03
Frontier Insurance Company, NY,
10/01/01— 9/30/03
Pennsylvania Casualty
Company, PA, 10/1/01-6/30/03
Penn Treaty Network America
Insurance Company, PA,
9/26/01-9/26/03
PHICO Insurance Company, PA,
placed in rehabilitation 8/16/01; IL
certificate of authority suspended
10/1/01-6/30/03
Reliance Insurance Company, PA,
placed in liquidation 10/03/01; IL
certificate of authority
suspended 6/15/01—5/30/03

Market Conduct Fines

The following entities were issued
Stipulation and Consent Orders and fined
for Insurance Code violations and/or
improper claims practices cited in their
Illinois market conduct examinations:

Harmony Health Plan of IL, Inc.,
IL, 3/30/01; \$30,000
Government Employees Insurance
Company, DC, 8/22/01; \$35,000
Travelers Group, CT, 9/05/01;
\$25,000 ♦

Annex to Executive Order

Al Qaida/Islamic Army	Shaykh Sai'id (aka, Mustafa Muhammad Ahmad)
Abu Sayyaf Group	Abu Hafs the Mauritanian (aka, Mahfouz Ould al-Walid, Khalid Al-Shanqiti)
Armed Islamic Group (GIA)	Ibn Al-Shaykh al-Libi
Harakat ul-Mujahidin (HUM)	Abu Zubaydah (aka, Zayn al-Abidin Muhammad Husayn, Tariq)
Al-Jihad (Egyptian Islamic Jihad)	Abd al-Hadi al-Iraqi (aka, Abu Abdallah)
Islamic Movement of Uzbekistan (IMU)	Ayman al-Zawahiri
Asbat al-Ansar	Thirwat Salah Shihata
Salafist Group for Call and Combat (GSPC)	Tariq Anwar al-Sayyid Ahmad (aka, Fathi, Amr al-Fatih)
Libyan Islamic Fighting Group	Muhammad Salah (aka, Nasr Fahmi Nasr Hasanayn)
Al-Itihaad al-Islamiya (AIAI)	Makhtab Al-Khidamat/Al Kifah
Islamic Army of Aden	Wafa Humanitarian Organization
Usama bin Laden	Al Rashid Trust
Muhammad Atif (aka, Subhi Abu Sitta, Abu Hafs Al Masri)	Mamoun Darkazanli Import-Export Company
Sayf al-Adl	

Note: This list is updated frequently. Industry representatives should regularly check the OFAC website at www.treas.gov/ofac for additional names.

Illinois Department of Insurance
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