



Illinois Department of Insurance

PAT QUINN
Governor

ANDREW BORON
Director

TO: ALL ILLINOIS DOMESTIC INSURANCE COMPANIES AND ALL ILLINOIS
DOMESTIC HEALTH MAINTENANCE ORGANIZATIONS

FROM: ANDREW BORON, DIRECTOR OF INSURANCE *AB*

DATE: SEPTEMBER 23, 2013

RE: COMPANY BULLETIN 2013 - 13

COMPOSITION OF THE BOARD OF DIRECTORS – DOMESTIC
INSURERS COMPLIANCE WITH 215 ILCS 5/10(2) and 215 ILCS 5/131.20b;
DOMESTIC HEALTH MAINTENANCE ORGANIZATIONS (HMOs)
COMPLIANCE WITH 215 ILCS 125/2-10; COMPANY BY-LAWS

The purpose of this bulletin is to remind domestic insurance companies and HMOs of the Illinois Insurance Code's corporate governance requirement that there be outside directors serving on their boards of directors. All Illinois domiciled stock insurance companies that are **not** part of an insurance holding company system, should be in compliance with the following requirement:

“After June 30, 2002, at least 20%, but not less than one, of the directors of a company that is not subject to Section 131.20b shall be persons who are not officers or employees of the company.”

215 ILCS 5/10(2).

Illinois domestic mutual companies are subject to an identical requirement. See 215 ILCS 5/40(2).

The outside director requirement is more robust for a domestic insurer that is a member of an insurance holding company system. Subject to certain limited exceptions, all Illinois domiciled insurance companies, that are part of an insurance holding company system, shall be in compliance with the following requirement:

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

215 ILCS 5/131.20b(3).

The exceptions to 215 ILCS 5/131.20b(3) apply where the entity controlling the domestic insurer, directly or through an intermediate subsidiary, has a board in compliance with the requirement, or where the ultimate controlling party of the domestic insurer is a corporation whose equity securities are traded on the New York Stock Exchange. 215 ILCS 5/131.20b(4) and (5).

Similarly, all Illinois domiciled HMOs should be in compliance with the following requirement:

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

215 ILCS 125/2-10.

To implement these provisions, all Illinois domestic insurers and domestic HMOs are required to include the applicable outside director provisions within their company's by-laws. If the by-laws of the domestic insurance company or domestic HMO do not currently include one of the above applicable provisions, then the company or HMO will need to amend its by-laws and adopt the provision at its next board meeting. Once adopted, companies will submit their Amended and Restated By-Laws that include the required language to the Corporate Regulatory Section of the Department.

If your company is not in compliance with the above requirements, please provide notification to the Department by October 31, 2013, of your company's plan to come into compliance by December 31, 2013.

If the company or HMO is already in compliance with these statutes, or is exempt pursuant to 215 ILCS 5/131.20b(4) or (5), then the company or HMO should provide confirmation of compliance, including an electronic copy of its by-laws, **via email, by close of business October 15, 2013, to either of the following addresses:**

Domestic Property & Casualty Insurers:

Marcy.Savage@illinois.gov

Domestic Life, Accident & Health Insurers, or Domestic HMOs:

Amy.Stuart@illinois.gov