

1 AN ACT concerning regulation.

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 121-2.08, 412, 445, 445.1, and 445.4 as  
6 follows:

7 (215 ILCS 5/121-2.08) (from Ch. 73, par. 733-2.08)

8 Sec. 121-2.08. Transactions in this State involving  
9 contracts of insurance independently procured directly from an  
10 unauthorized insurer by ~~issued to one or more~~ industrial  
11 insureds.

12 (a) As used in this Section:

13 "Exempt commercial purchaser" means exempt commercial  
14 purchaser as the term is defined in subsection (1) of Section  
15 445 of this Code.

16 "Home state" means home state as the term is defined in  
17 subsection (1) of Section 445 of this Code.

18 "Industrial ~~For purposes of this Section~~ "industrial  
19 insured" means ~~is~~ an insured:

20 (i) that ~~(a) which~~ procures the insurance of any risk  
21 or risks of the kinds specified in Classes 2 and 3 of  
22 Section 4 of this Code ~~other than life and annuity~~  
23 ~~contracts~~ by use of the services of a full-time ~~full-time~~

1        employee who is a qualified risk manager acting as an  
2        insurance manager or buyer or the services of a regularly  
3        and continuously retained ~~qualified insurance~~ consultant  
4        who is a qualified risk manager;

5        (ii) that procures the insurance directly from an  
6        unauthorized insurer without the services of an  
7        intermediary insurance producer ~~(b) whose aggregate annual~~  
8        ~~premiums for insurance on all risks, except for life and~~  
9        ~~accident and health insurance, total at least \$100,000; and~~

10        (iii) that is an exempt commercial purchaser whose home  
11        state is Illinois ~~(c) which either (i) has at least 25 full~~  
12        ~~time employees, (ii) has gross assets in excess of~~  
13        ~~\$3,000,000, or (iii) has annual gross revenues in excess of~~  
14        ~~\$5,000,000.~~

15        "Insurance producer" means insurance producer as the term  
16        is defined in Section 500-10 of this Code.

17        "Qualified risk manager" means qualified risk manager as  
18        the term is defined in subsection (1) of Section 445 of this  
19        Code.

20        "Unauthorized insurer" means unauthorized insurer as the  
21        term is defined in subsection (1) of Section 445 of this Code.

22        (b) For contracts of insurance effective January 1, 2015 or  
23        later, within 90 days after the effective date of each contract  
24        of insurance issued under this Section, the insured shall file  
25        a report with the Director by submitting the report to the  
26        Surplus Line Association of Illinois in writing or in a

1 computer readable format and provide information as designated  
2 by the Surplus Line Association of Illinois. The information in  
3 the report shall be substantially similar to that required for  
4 surplus line submissions as described in subsection (5) of  
5 Section 445 of this Code. Where applicable, the report shall  
6 satisfy, with respect to the subject insurance, the reporting  
7 requirement of Section 12 of the Fire Investigation Act.

8 (c) For contracts of insurance effective January 1, 2015 or  
9 later, within 30 days after filing the report, the insured  
10 shall pay to the Director for the use and benefit of the State  
11 a sum equal to the gross premium of the contract of insurance  
12 multiplied by the surplus line tax rate, as described in  
13 paragraph (3) of subsection (a) of Section 445 of this Code,  
14 and shall pay the fire marshal tax that would otherwise be due  
15 annually in March for insurance subject to tax under Section 12  
16 of the Fire Investigation Act. For contracts of insurance  
17 effective January 1, 2015 or later, within 30 days after filing  
18 the report, the insured shall pay to the Surplus Line  
19 Association of Illinois a countersigning fee that shall be  
20 assessed at the same rate charged to members pursuant to  
21 subsection (4) of Section 445.1 of this Code.

22 (d) For contracts of insurance effective January 1, 2015 or  
23 later, the insured shall withhold the amount of the taxes and  
24 countersignature fee from the amount of premium charged by and  
25 otherwise payable to the insurer for the insurance. If the  
26 insured fails to withhold the tax and countersignature fee from

1 the premium, then the insured shall be liable for the amounts  
2 thereof and shall pay the amounts as prescribed in subsection  
3 (c) of this Section.

4 (Source: P.A. 90-794, eff. 8-14-98.)

5 (215 ILCS 5/412) (from Ch. 73, par. 1024)

6 Sec. 412. Refunds; penalties; collection.

7 (1)(a) Whenever it appears to the satisfaction of the  
8 Director that because of some mistake of fact, error in  
9 calculation, or erroneous interpretation of a statute of this  
10 or any other state, any authorized company, surplus line  
11 producer, or industrial insured has paid to him, pursuant to  
12 any provision of law, taxes, fees, or other charges in excess  
13 of the amount legally chargeable against it, during the 6 year  
14 period immediately preceding the discovery of such  
15 overpayment, he shall have power to refund to such company,  
16 surplus line producer, or industrial insured the amount of the  
17 excess or excesses by applying the amount or amounts thereof  
18 toward the payment of taxes, fees, or other charges already  
19 due, or which may thereafter become due from that company until  
20 such excess or excesses have been fully refunded, or upon a  
21 written request from the authorized company, surplus line  
22 producer, or industrial insured, the Director shall provide a  
23 cash refund within 120 days after receipt of the written  
24 request if all necessary information has been filed with the  
25 Department in order for it to perform an audit of the tax

1 report for the transaction or period or annual return for the  
2 year in which the overpayment occurred or within 120 days after  
3 the date the Department receives all the necessary information  
4 to perform such audit. The Director shall not provide a cash  
5 refund if there are insufficient funds in the Insurance Premium  
6 Tax Refund Fund to provide a cash refund, if the amount of the  
7 overpayment is less than \$100, or if the amount of the  
8 overpayment can be fully offset against the taxpayer's  
9 estimated liability for the year following the year of the cash  
10 refund request. Any cash refund shall be paid from the  
11 Insurance Premium Tax Refund Fund, a special fund hereby  
12 created in the State treasury.

13 (b) Beginning January 1, 2000 and thereafter, the  
14 Department shall deposit a percentage of the amounts collected  
15 under Sections 409, 444, and 444.1 of this Code into the  
16 Insurance Premium Tax Refund Fund. The percentage deposited  
17 into the Insurance Premium Tax Refund Fund shall be the annual  
18 percentage. The annual percentage shall be calculated as a  
19 fraction, the numerator of which shall be the amount of cash  
20 refunds approved by the Director for payment and paid during  
21 the preceding calendar year as a result of overpayment of tax  
22 liability under Sections 121-2.08, 409, 444, ~~and~~ 444.1, and 445  
23 of this Code and the denominator of which shall be the amounts  
24 collected pursuant to Sections 121-2.08, 409, 444, ~~and~~ 444.1,  
25 and 445 of this Code during the preceding calendar year.  
26 However, if there were no cash refunds paid in a preceding

1 calendar year, the Department shall deposit 5% of the amount  
2 collected in that preceding calendar year pursuant to Sections  
3 121-2.08, 409, 444, ~~and 444.1~~, and 445 of this Code into the  
4 Insurance Premium Tax Refund Fund instead of an amount  
5 calculated by using the annual percentage.

6 (c) Beginning July 1, 1999, moneys in the Insurance Premium  
7 Tax Refund Fund shall be expended exclusively for the purpose  
8 of paying cash refunds resulting from overpayment of tax  
9 liability under Sections 121-2.08, 409, 444, ~~and 444.1~~, and 445  
10 of this Code as determined by the Director pursuant to  
11 subsection 1(a) of this Section. Cash refunds made in  
12 accordance with this Section may be made from the Insurance  
13 Premium Tax Refund Fund only to the extent that amounts have  
14 been deposited and retained in the Insurance Premium Tax Refund  
15 Fund.

16 (d) This Section shall constitute an irrevocable and  
17 continuing appropriation from the Insurance Premium Tax Refund  
18 Fund for the purpose of paying cash refunds pursuant to the  
19 provisions of this Section.

20 (2) (a) When any insurance company ~~or any surplus line~~  
21 ~~producer~~ fails to file any tax return required under Sections  
22 408.1, 409, 444, and 444.1 ~~and 445~~ of this Code or Section 12  
23 of the Fire Investigation Act on the date prescribed, including  
24 any extensions, there shall be added as a penalty \$400 or 10%  
25 of the amount of such tax, whichever is greater, for each month  
26 or part of a month of failure to file, the entire penalty not

1 to exceed \$2,000 or 50% of the tax due, whichever is greater.

2 (b) When any industrial insured or surplus line producer  
3 fails to file any tax return or report required under Sections  
4 121-2.08 and 445 of this Code or Section 12 of the Fire  
5 Investigation Act on the date prescribed, including any  
6 extensions, there shall be added:

7 (i) as a late fee, if the return or report is received  
8 at least one day but not more than 7 days after the  
9 prescribed due date, \$400 or 10% of the tax due, whichever  
10 is greater, the entire fee not to exceed \$1,000;

11 (ii) as a late fee, if the return or report is received  
12 at least 8 days but not more than 14 days after the  
13 prescribed due date, \$400 or 10% of the tax due, whichever  
14 is greater, the entire fee not to exceed \$1,500;

15 (iii) as a late fee, if the return or report is  
16 received at least 15 days but not more than 21 days after  
17 the prescribed due date, \$400 or 10% of the tax due,  
18 whichever is greater, the entire fee not to exceed \$2,000;

19 or

20 (iv) as a penalty, if the return or report is received  
21 more than 21 days after the prescribed due date, \$400 or  
22 10% of the tax due, whichever is greater, for each month or  
23 part of a month of failure to file, the entire penalty not  
24 to exceed \$2,000 or 50% of the tax due, whichever is  
25 greater.

26 A tax return or report shall be deemed received as of the

1 date mailed as evidenced by a postmark, proof of mailing on a  
2 recognized United States Postal Service form or a form  
3 acceptable to the United States Postal Service or other  
4 commercial mail delivery service, or other evidence acceptable  
5 to the Director.

6 (3) (a) When any insurance company ~~or any surplus line~~  
7 ~~producer~~ fails to pay the full amount due under the provisions  
8 of this Section, Sections 408.1, 409, 444, or 444.1 ~~or 445~~ of  
9 this Code, or Section 12 of the Fire Investigation Act, there  
10 shall be added to the amount due as a penalty an amount equal  
11 to 10% of the deficiency.

12 (a-5) When any industrial insured or surplus line producer  
13 fails to pay the full amount due under the provisions of this  
14 Section, Sections 121-2.08 or 445 of this Code, or Section 12  
15 of the Fire Investigation Act on the date prescribed, there  
16 shall be added:

17 (i) as a late fee, if the payment is received at least  
18 one day but not more than 7 days after the prescribed due  
19 date, 10% of the tax due, the entire fee not to exceed  
20 \$1,000;

21 (ii) as a late fee, if the payment is received at least  
22 8 days but not more than 14 days after the prescribed due  
23 date, 10% of the tax due, the entire fee not to exceed  
24 \$1,500;

25 (iii) as a late fee, if the payment is received at  
26 least 15 days but not more than 21 days after the



1 prescribed due date, 10% of the tax due, the entire fee not  
2 to exceed \$2,000; or

3 (iv) as a penalty, if the return or report is received  
4 more than 21 days after the prescribed due date, 10% of the  
5 tax due.

6 A tax payment shall be deemed received as of the date  
7 mailed as evidenced by a postmark, proof of mailing on a  
8 recognized United States Postal Service form or a form  
9 acceptable to the United States Postal Service or other  
10 commercial mail delivery service, or other evidence acceptable  
11 to the Director.

12 (b) If such failure to pay is determined by the Director to  
13 be wilful, after a hearing under Sections 402 and 403, there  
14 shall be added to the tax as a penalty an amount equal to the  
15 greater of 50% of the deficiency or 10% of the amount due and  
16 unpaid for each month or part of a month that the deficiency  
17 remains unpaid commencing with the date that the amount becomes  
18 due. Such amount shall be in lieu of any determined under  
19 paragraph (a) or (a-5).

20 (4) Any insurance company, industrial insured, or ~~any~~  
21 surplus line producer that ~~which~~ fails to pay the full amount  
22 due under this Section or Sections 121-2.08, 408.1, 409, 444,  
23 444.1, or 445 of this Code, or Section 12 of the Fire  
24 Investigation Act is liable, in addition to the tax and any  
25 late fees and penalties, for interest on such deficiency at the  
26 rate of 12% per annum, or at such higher adjusted rates as are

1 or may be established under subsection (b) of Section 6621 of  
2 the Internal Revenue Code, from the date that payment of any  
3 such tax was due, determined without regard to any extensions,  
4 to the date of payment of such amount.

5 (5) The Director, through the Attorney General, may  
6 institute an action in the name of the People of the State of  
7 Illinois, in any court of competent jurisdiction, for the  
8 recovery of the amount of such taxes, fees, and penalties due,  
9 and prosecute the same to final judgment, and take such steps  
10 as are necessary to collect the same.

11 (6) In the event that the certificate of authority of a  
12 foreign or alien company is revoked for any cause or the  
13 company withdraws from this State prior to the renewal date of  
14 the certificate of authority as provided in Section 114, the  
15 company may recover the amount of any such tax paid in advance.  
16 Except as provided in this subsection, no revocation or  
17 withdrawal excuses payment of or constitutes grounds for the  
18 recovery of any taxes or penalties imposed by this Code.

19 (7) When an insurance company or domestic affiliated group  
20 fails to pay the full amount of any fee of \$200 or more due  
21 under Section 408 of this Code, there shall be added to the  
22 amount due as a penalty the greater of \$100 or an amount equal  
23 to 10% of the deficiency for each month or part of a month that  
24 the deficiency remains unpaid.

25 (8) The Department shall have a lien for the taxes, fees,  
26 charges, fines, penalties, interest, other charges, or any

1 portion thereof, imposed or assessed pursuant to this Code,  
2 upon all the real and personal property of any company or  
3 person to whom the assessment or final order has been issued or  
4 whenever a tax return is filed without payment of the tax or  
5 penalty shown therein to be due, including all such property of  
6 the company or person acquired after receipt of the assessment,  
7 issuance of the order, or filing of the return. The company or  
8 person is liable for the filing fee incurred by the Department  
9 for filing the lien and the filing fee incurred by the  
10 Department to file the release of that lien. The filing fees  
11 shall be paid to the Department in addition to payment of the  
12 tax, fee, charge, fine, penalty, interest, other charges, or  
13 any portion thereof, included in the amount of the lien.  
14 However, where the lien arises because of the issuance of a  
15 final order of the Director or tax assessment by the  
16 Department, the lien shall not attach and the notice referred  
17 to in this Section shall not be filed until all administrative  
18 proceedings or proceedings in court for review of the final  
19 order or assessment have terminated or the time for the taking  
20 thereof has expired without such proceedings being instituted.

21       Upon the granting of Department review after a lien has  
22 attached, the lien shall remain in full force except to the  
23 extent to which the final assessment may be reduced by a  
24 revised final assessment following the rehearing or review. The  
25 lien created by the issuance of a final assessment shall  
26 terminate, unless a notice of lien is filed, within 3 years

1 after the date all proceedings in court for the review of the  
2 final assessment have terminated or the time for the taking  
3 thereof has expired without such proceedings being instituted,  
4 or (in the case of a revised final assessment issued pursuant  
5 to a rehearing or review by the Department) within 3 years  
6 after the date all proceedings in court for the review of such  
7 revised final assessment have terminated or the time for the  
8 taking thereof has expired without such proceedings being  
9 instituted. Where the lien results from the filing of a tax  
10 return without payment of the tax or penalty shown therein to  
11 be due, the lien shall terminate, unless a notice of lien is  
12 filed, within 3 years after the date when the return is filed  
13 with the Department.

14 The time limitation period on the Department's right to  
15 file a notice of lien shall not run during any period of time  
16 in which the order of any court has the effect of enjoining or  
17 restraining the Department from filing such notice of lien. If  
18 the Department finds that a company or person is about to  
19 depart from the State, to conceal himself or his property, or  
20 to do any other act tending to prejudice or to render wholly or  
21 partly ineffectual proceedings to collect the amount due and  
22 owing to the Department unless such proceedings are brought  
23 without delay, or if the Department finds that the collection  
24 of the amount due from any company or person will be  
25 jeopardized by delay, the Department shall give the company or  
26 person notice of such findings and shall make demand for

1 immediate return and payment of the amount, whereupon the  
2 amount shall become immediately due and payable. If the company  
3 or person, within 5 days after the notice (or within such  
4 extension of time as the Department may grant), does not comply  
5 with the notice or show to the Department that the findings in  
6 the notice are erroneous, the Department may file a notice of  
7 jeopardy assessment lien in the office of the recorder of the  
8 county in which any property of the company or person may be  
9 located and shall notify the company or person of the filing.  
10 The jeopardy assessment lien shall have the same scope and  
11 effect as the statutory lien provided for in this Section. If  
12 the company or person believes that the company or person does  
13 not owe some or all of the tax for which the jeopardy  
14 assessment lien against the company or person has been filed,  
15 or that no jeopardy to the revenue in fact exists, the company  
16 or person may protest within 20 days after being notified by  
17 the Department of the filing of the jeopardy assessment lien  
18 and request a hearing, whereupon the Department shall hold a  
19 hearing in conformity with the provisions of this Code and,  
20 pursuant thereto, shall notify the company or person of its  
21 findings as to whether or not the jeopardy assessment lien will  
22 be released. If not, and if the company or person is aggrieved  
23 by this decision, the company or person may file an action for  
24 judicial review of the final determination of the Department in  
25 accordance with the Administrative Review Law. If, pursuant to  
26 such hearing (or after an independent determination of the

1 facts by the Department without a hearing), the Department  
2 determines that some or all of the amount due covered by the  
3 jeopardy assessment lien is not owed by the company or person,  
4 or that no jeopardy to the revenue exists, or if on judicial  
5 review the final judgment of the court is that the company or  
6 person does not owe some or all of the amount due covered by  
7 the jeopardy assessment lien against them, or that no jeopardy  
8 to the revenue exists, the Department shall release its  
9 jeopardy assessment lien to the extent of such finding of  
10 nonliability for the amount, or to the extent of such finding  
11 of no jeopardy to the revenue. The Department shall also  
12 release its jeopardy assessment lien against the company or  
13 person whenever the amount due and owing covered by the lien,  
14 plus any interest which may be due, are paid and the company or  
15 person has paid the Department in cash or by guaranteed  
16 remittance an amount representing the filing fee for the lien  
17 and the filing fee for the release of that lien. The Department  
18 shall file that release of lien with the recorder of the county  
19 where that lien was filed.

20 Nothing in this Section shall be construed to give the  
21 Department a preference over the rights of any bona fide  
22 purchaser, holder of a security interest, mechanics  
23 lienholder, mortgagee, or judgment lien creditor arising prior  
24 to the filing of a regular notice of lien or a notice of  
25 jeopardy assessment lien in the office of the recorder in the  
26 county in which the property subject to the lien is located.

1 For purposes of this Section, "bona fide" shall not include any  
2 mortgage of real or personal property or any other credit  
3 transaction that results in the mortgagee or the holder of the  
4 security acting as trustee for unsecured creditors of the  
5 company or person mentioned in the notice of lien who executed  
6 such chattel or real property mortgage or the document  
7 evidencing such credit transaction. The lien shall be inferior  
8 to the lien of general taxes, special assessments, and special  
9 taxes levied by any political subdivision of this State. In  
10 case title to land to be affected by the notice of lien or  
11 notice of jeopardy assessment lien is registered under the  
12 provisions of the Registered Titles (Torrens) Act, such notice  
13 shall be filed in the office of the Registrar of Titles of the  
14 county within which the property subject to the lien is  
15 situated and shall be entered upon the register of titles as a  
16 memorial or charge upon each folium of the register of titles  
17 affected by such notice, and the Department shall not have a  
18 preference over the rights of any bona fide purchaser,  
19 mortgagee, judgment creditor, or other lienholder arising  
20 prior to the registration of such notice. The regular lien or  
21 jeopardy assessment lien shall not be effective against any  
22 purchaser with respect to any item in a retailer's stock in  
23 trade purchased from the retailer in the usual course of the  
24 retailer's business.

25 (Source: P.A. 98-158, eff. 8-2-13.)

1 (215 ILCS 5/445) (from Ch. 73, par. 1057)

2 Sec. 445. Surplus line.

3 (1) Definitions. For the purposes of this Section:

4 "Affiliate" means, with respect to an insured, any entity  
5 that controls, is controlled by, or is under common control  
6 with the insured. For the purpose of this definition, an entity  
7 has control over another entity if:

8 (A) the entity directly or indirectly or acting through  
9 one or more other persons owns, controls, or has the power  
10 to vote 25% or more of any class of voting securities of  
11 the other entity; or

12 (B) the entity controls in any manner the election of a  
13 majority of the directors or trustees of the other entity.

14 "Affiliated group" means any group of entities that are all  
15 affiliated.

16 "Authorized insurer" means an insurer that holds a  
17 certificate of authority issued by the Director but, for the  
18 purposes of this Section, does not include a domestic surplus  
19 line insurer as defined in Section 445a or any residual market  
20 mechanism.

21 "Exempt commercial purchaser" means any person purchasing  
22 commercial insurance that, at the time of placement, meets the  
23 following requirements:

24 (A) The person employs or retains a qualified risk  
25 manager to negotiate insurance coverage.

26 (B) The person has paid aggregate nationwide



1 commercial property and casualty insurance premiums in  
2 excess of \$100,000 in the immediately preceding 12 months.

3 (C) The person meets at least one of the following  
4 criteria:

5 (I) The person possesses a net worth in excess of  
6 \$20,000,000, as such amount is adjusted pursuant to the  
7 provision in this definition concerning percentage  
8 change.

9 (II) The person generates annual revenues in  
10 excess of \$50,000,000, as such amount is adjusted  
11 pursuant to the provision in this definition  
12 concerning percentage change.

13 (III) The person employs more than 500 full-time or  
14 full-time equivalent employees per individual insured  
15 or is a member of an affiliated group employing more  
16 than 1,000 employees in the aggregate.

17 (IV) The person is a not-for-profit organization  
18 or public entity generating annual budgeted  
19 expenditures of at least \$30,000,000, as such amount is  
20 adjusted pursuant to the provision in this definition  
21 concerning percentage change.

22 (V) The person is a municipality with a population  
23 in excess of 50,000 persons.

24 Effective on January 1, 2015 and each fifth January 1  
25 occurring thereafter, the amounts in subitems (I), (II), and  
26 (IV) of item (C) of this definition shall be adjusted to

1 reflect the percentage change for such 5-year period in the  
2 Consumer Price Index for All Urban Consumers published by the  
3 Bureau of Labor Statistics of the Department of Labor.

4 "Home state" means the following:

5 (A) With respect to an insured, except as provided in  
6 item (B) of this definition:

7 (I) the state in which an insured maintains its  
8 principal place of business or, in the case of an  
9 individual, the individual's principal residence; or

10 (II) if 100% of the insured risk is located out of  
11 the state referred to in subitem (I), the state to  
12 which the greatest percentage of the insured's taxable  
13 premium for that insurance contract is allocated.

14 (B) If more than one insured from an affiliated group  
15 are named insureds on a single surplus line insurance  
16 contract, then "home state" means the home state, as  
17 determined pursuant to item (A) of this definition, of the  
18 member of the affiliated group that has the largest  
19 percentage of premium attributed to it under such insurance  
20 contract.

21 If more than one insured from a group that is not  
22 affiliated are named insureds on a single surplus line  
23 insurance contract, then:

24 (I) if individual group members pay 100% of the  
25 premium for the insurance from their own funds, "home  
26 state" means the home state, as determined pursuant to

1 item (A) of this definition, of each individual group  
2 member; each individual group member's coverage under  
3 the surplus line insurance contract shall be treated as  
4 a separate surplus line contract for the purposes of  
5 this Section;

6 (II) otherwise, "home state" means the home state,  
7 as determined pursuant to item (A) of this definition,  
8 of the group.

9 Nothing in this definition shall be construed to alter the  
10 terms of the surplus line insurance contract.

11 "Multi-State risk" means a risk with insured exposures in  
12 more than one State.

13 "NAIC" means the National Association of Insurance  
14 Commissioners or any successor entity.

15 "Qualified risk manager" means, with respect to a  
16 policyholder of commercial insurance, a person who meets all of  
17 the following requirements:

18 (A) The person is an employee of, or third-party  
19 consultant retained by, the commercial policyholder.

20 (B) The person provides skilled services in loss  
21 prevention, loss reduction, or risk and insurance coverage  
22 analysis, and purchase of insurance.

23 (C) With regard to the person:

24 (I) the person has:

25 (a) a bachelor's degree or higher from an  
26 accredited college or university in risk

1 management, business administration, finance,  
2 economics, or any other field determined by the  
3 Director or his designee to demonstrate minimum  
4 competence in risk management; and

5 (b) the following:

6 (i) three years of experience in risk  
7 financing, claims administration, loss  
8 prevention, risk and insurance analysis, or  
9 purchasing commercial lines of insurance; or

10 (ii) alternatively has:

11 (AA) a designation as a Chartered  
12 Property and Casualty Underwriter (in this  
13 subparagraph (ii) referred to as "CPCU")  
14 issued by the American Institute for  
15 CPCU/Insurance Institute of America;

16 (BB) a designation as an Associate in  
17 Risk Management (ARM) issued by the  
18 American Institute for CPCU/Insurance  
19 Institute of America;

20 (CC) a designation as Certified Risk  
21 Manager (CRM) issued by the National  
22 Alliance for Insurance Education &  
23 Research;

24 (DD) a designation as a RIMS Fellow  
25 (RF) issued by the Global Risk Management  
26 Institute; or

1 (EE) any other designation,  
2 certification, or license determined by  
3 the Director or his designee to  
4 demonstrate minimum competency in risk  
5 management;

6 (II) the person has:

7 (a) at least 7 years of experience in risk  
8 financing, claims administration, loss prevention,  
9 risk and insurance coverage analysis, or  
10 purchasing commercial lines of insurance; and

11 (b) has any one of the designations specified  
12 in subparagraph (ii) of paragraph (b);

13 (III) the person has at least 10 years of  
14 experience in risk financing, claims administration,  
15 loss prevention, risk and insurance coverage analysis,  
16 or purchasing commercial lines of insurance; or

17 (IV) the person has a graduate degree from an  
18 accredited college or university in risk management,  
19 business administration, finance, economics, or any  
20 other field determined by the Director or his or her  
21 designee to demonstrate minimum competence in risk  
22 management.

23 "Residual market mechanism" means an association,  
24 organization, or other entity described in Article XXXIII of  
25 this Code or Section 7-501 of the Illinois Vehicle Code or any  
26 similar association, organization, or other entity.

1 "State" means any state of the United States, the District  
2 of Columbia, the Commonwealth of Puerto Rico, Guam, the  
3 Northern Mariana Islands, the Virgin Islands, and American  
4 Samoa.

5 "Surplus line insurance" means insurance on a risk:

6 (A) of the kinds specified in Classes 2 and 3 of  
7 Section 4 of this Code; and

8 (B) that is procured from an unauthorized insurer after  
9 the insurance producer representing the insured or the  
10 surplus line producer is unable, after diligent effort, to  
11 procure the insurance from authorized insurers; and

12 (C) where Illinois is the home state of the insured,  
13 for policies effective, renewed or extended on July 21,  
14 2011 or later and for multiyear policies upon the policy  
15 anniversary that falls on or after July 21, 2011; and

16 (D) that is located in Illinois, for policies effective  
17 prior to July 21, 2011.

18 "Unauthorized insurer" means an insurer that does not hold  
19 a valid certificate of authority issued by the Director but,  
20 for the purposes of this Section, shall also include a domestic  
21 surplus line insurer as defined in Section 445a.

22 (1.5) Procuring surplus line insurance; surplus line  
23 insurer requirements.

24 (a) Insurance producers may procure surplus line  
25 insurance only if licensed as a surplus line producer under  
26 this Section.

1           (b) Licensed surplus line producers may procure  
2 surplus line insurance from an unauthorized insurer  
3 domiciled in the United States only if the insurer:

4           (i) is permitted in its domiciliary jurisdiction  
5 to write the type of insurance involved; and

6           (ii) has, based upon information available to the  
7 surplus line producer, a policyholders surplus of not  
8 less than \$15,000,000 determined in accordance with  
9 the laws of its domiciliary jurisdiction; and

10           (iii) has standards of solvency and management  
11 that are adequate for the protection of policyholders.

12           Where an unauthorized insurer does not meet the  
13 standards set forth in (ii) and (iii) above, a surplus line  
14 producer may, if necessary, procure insurance from that  
15 insurer only if prior written warning of such fact or  
16 condition is given to the insured by the insurance producer  
17 or surplus line producer.

18           (c) Licensed surplus line producers may procure  
19 surplus line insurance from an unauthorized insurer  
20 domiciled outside of the United States only if the insurer  
21 meets the standards for unauthorized insurers domiciled in  
22 the United States in paragraph (b) of this subsection (1.5)  
23 or is listed on the Quarterly Listing of Alien Insurers  
24 maintained by the International Insurers Department of the  
25 NAIC. The Director shall make the Quarterly Listing of  
26 Alien Insurers available to surplus line producers without

1 charge.

2 (d) Insurance producers shall not procure from an  
3 unauthorized insurer an insurance policy:

4 (i) that is designed to satisfy the proof of  
5 financial responsibility and insurance requirements in  
6 any Illinois law where the law requires that the proof  
7 of insurance is issued by an authorized insurer or  
8 residual market mechanism;

9 (ii) that covers the risk of accidental injury to  
10 employees arising out of and in the course of  
11 employment according to the provisions of the Workers'  
12 Compensation Act; or

13 (iii) that insures any Illinois personal lines  
14 risk, as defined in subsection (a), (b), or (c) of  
15 Section 143.13 of this Code, that is eligible for  
16 residual market mechanism coverage, unless the insured  
17 or prospective insured requests limits of liability  
18 greater than the limits provided by the residual market  
19 mechanism. In the course of making a diligent effort to  
20 procure insurance from authorized insurers, an  
21 insurance producer shall not be required to submit a  
22 risk to a residual market mechanism when the risk is  
23 not eligible for coverage or exceeds the limits  
24 available in the residual market mechanism.

25 Where there is an insurance policy issued by an  
26 authorized insurer or residual market mechanism insuring a



1 risk described in item (i), (ii), or (iii) above, nothing  
2 in this paragraph shall be construed to prohibit a surplus  
3 line producer from procuring from an unauthorized insurer a  
4 policy insuring the risk on an excess or umbrella basis  
5 where the excess or umbrella policy is written over one or  
6 more underlying policies.

7 (e) Licensed surplus line producers may procure  
8 surplus line insurance from an unauthorized insurer for an  
9 exempt commercial purchaser without making the required  
10 diligent effort to procure the insurance from authorized  
11 insurers if:

12 (i) the producer has disclosed to the exempt  
13 commercial purchaser that such insurance may or may not  
14 be available from authorized insurers that may provide  
15 greater protection with more regulatory oversight; and

16 (ii) the exempt commercial purchaser has  
17 subsequently in writing requested the producer to  
18 procure such insurance from an unauthorized insurer.

19 (2) Surplus line producer; license. Any licensed producer  
20 who is a resident of this State, or any nonresident who  
21 qualifies under Section 500-40, may be licensed as a surplus  
22 line producer upon payment of an annual license fee of \$400.

23 A surplus line producer so licensed shall keep a separate  
24 account of the business transacted thereunder for 7 years from  
25 the policy effective date which shall be open at all times to  
26 the inspection of the Director or his representative.

1 No later than July 21, 2012, the State of Illinois shall  
2 participate in the national insurance producer database of the  
3 NAIC, or any other equivalent uniform national database, for  
4 the licensure of surplus line producers and the renewal of such  
5 licenses.

6 (3) Taxes and reports.

7 (a) Surplus line tax and penalty for late payment. The  
8 surplus line tax rate for a surplus line insurance policy  
9 or contract is determined as follows:

10 (i) 3% for policies or contracts with an effective  
11 date prior to July 1, 2003;

12 (ii) 3.5% for policies or contracts with an  
13 effective date of July 1, 2003 or later.

14 A surplus line producer shall file with the Director on  
15 or before February 1 and August 1 of each year a report in  
16 the form prescribed by the Director on all surplus line  
17 insurance procured from unauthorized insurers and  
18 submitted to the Surplus Line Association of Illinois  
19 during the preceding 6 month period ending December 31 or  
20 June 30 respectively, and on the filing of such report  
21 shall pay to the Director for the use and benefit of the  
22 State a sum equal to the surplus line tax rate multiplied  
23 by the gross premiums less returned premiums upon all  
24 surplus line insurance submitted to the Surplus Line  
25 Association of Illinois during the preceding 6 months.

26 Any surplus line producer who fails to pay the full

1 amount due under this subsection is liable, in addition to  
2 the amount due, for such late fee, penalty, and interest  
3 charges as are provided for under Section 412 of this Code.  
4 The Director, through the Attorney General, may institute  
5 an action in the name of the People of the State of  
6 Illinois, in any court of competent jurisdiction, for the  
7 recovery of the amount of such taxes, late fees, interest,  
8 and penalties due, and prosecute the same to final  
9 judgment, and take such steps as are necessary to collect  
10 the same.

11 (b) Fire Marshal Tax. Each surplus line producer shall  
12 file with the Director on or before March 31 of each year a  
13 report in the form prescribed by the Director on all fire  
14 insurance procured from unauthorized insurers and  
15 submitted to the Surplus Line Association of Illinois  
16 subject to tax under Section 12 of the Fire Investigation  
17 Act and shall pay to the Director the fire marshal tax  
18 required thereunder.

19 (c) Taxes and fees charged to insured. The taxes  
20 imposed under this subsection and the countersigning fees  
21 charged by the Surplus Line Association of Illinois may be  
22 charged to and collected from surplus line insureds.

23 (4) (Blank).

24 (5) Submission of documents to Surplus Line Association of  
25 Illinois. A surplus line producer shall submit every insurance  
26 contract issued under his or her license to the Surplus Line

1 Association of Illinois for recording and countersignature.  
2 The submission and countersignature may be effected through  
3 electronic means. The submission shall set forth:

4 (a) the name of the insured;

5 (b) the description and location of the insured  
6 property or risk;

7 (c) the amount insured;

8 (d) the gross premiums charged or returned;

9 (e) the name of the unauthorized insurer from whom  
10 coverage has been procured;

11 (f) the kind or kinds of insurance procured; and

12 (g) amount of premium subject to tax required by  
13 Section 12 of the Fire Investigation Act.

14 Proposals, endorsements, and other documents which are  
15 incidental to the insurance but which do not affect the premium  
16 charged are exempted from filing and countersignature.

17 The submission of insuring contracts to the Surplus Line  
18 Association of Illinois constitutes a certification by the  
19 surplus line producer or by the insurance producer who  
20 presented the risk to the surplus line producer for placement  
21 as a surplus line risk that after diligent effort the required  
22 insurance could not be procured from authorized insurers and  
23 that such procurement was otherwise in accordance with the  
24 surplus line law.

25 (6) Countersignature required. It shall be unlawful for an  
26 insurance producer to deliver any unauthorized insurer

1 contract unless such insurance contract is countersigned by the  
2 Surplus Line Association of Illinois.

3 (7) Inspection of records. A surplus line producer shall  
4 maintain separate records of the business transacted under his  
5 or her license for 7 years from the policy effective date,  
6 including complete copies of surplus line insurance contracts  
7 maintained on paper or by electronic means, which records shall  
8 be open at all times for inspection by the Director and by the  
9 Surplus Line Association of Illinois.

10 (8) Violations and penalties. The Director may suspend or  
11 revoke or refuse to renew a surplus line producer license for  
12 any violation of this Code. In addition to or in lieu of  
13 suspension or revocation, the Director may subject a surplus  
14 line producer to a civil penalty of up to \$2,000 for each cause  
15 for suspension or revocation. Such penalty is enforceable under  
16 subsection (5) of Section 403A of this Code.

17 (9) Director may declare insurer ineligible. If the  
18 Director determines that the further assumption of risks might  
19 be hazardous to the policyholders of an unauthorized insurer,  
20 the Director may order the Surplus Line Association of Illinois  
21 not to countersign insurance contracts evidencing insurance in  
22 such insurer and order surplus line producers to cease  
23 procuring insurance from such insurer.

24 (10) Service of process upon Director. Insurance contracts  
25 delivered under this Section from unauthorized insurers, other  
26 than domestic surplus line insurers as defined in Section 445a,

1 shall contain a provision designating the Director and his  
2 successors in office the true and lawful attorney of the  
3 insurer upon whom may be served all lawful process in any  
4 action, suit or proceeding arising out of such insurance.  
5 Service of process made upon the Director to be valid hereunder  
6 must state the name of the insured, the name of the  
7 unauthorized insurer and identify the contract of insurance.  
8 The Director at his option is authorized to forward a copy of  
9 the process to the Surplus Line Association of Illinois for  
10 delivery to the unauthorized insurer or the Director may  
11 deliver the process to the unauthorized insurer by other means  
12 which he considers to be reasonably prompt and certain.

13 (10.5) Insurance contracts delivered under this Section  
14 from unauthorized insurers, other than domestic surplus line  
15 insurers as defined in Section 445a, shall have stamped or  
16 imprinted on the first page thereof in not less than 12-pt.  
17 bold face type the following legend: "Notice to Policyholder:  
18 This contract is issued, pursuant to Section 445 of the  
19 Illinois Insurance Code, by a company not authorized and  
20 licensed to transact business in Illinois and as such is not  
21 covered by the Illinois Insurance Guaranty Fund." Insurance  
22 contracts delivered under this Section from domestic surplus  
23 line insurers as defined in Section 445a shall have stamped or  
24 imprinted on the first page thereof in not less than 12-pt.  
25 bold face type the following legend: "Notice to Policyholder:  
26 This contract is issued by a domestic surplus line insurer, as

1 defined in Section 445a of the Illinois Insurance Code,  
2 pursuant to Section 445, and as such is not covered by the  
3 Illinois Insurance Guaranty Fund."

4 (11) The Illinois Surplus Line law does not apply to  
5 insurance of property and operations of railroads or aircraft  
6 engaged in interstate or foreign commerce, insurance of  
7 vessels, crafts or hulls, cargoes, marine builder's risks,  
8 marine protection and indemnity, or other risks including  
9 strikes and war risks insured under ocean or wet marine forms  
10 of policies.

11 (12) Surplus line insurance procured under this Section,  
12 including insurance procured from a domestic surplus line  
13 insurer, is not subject to the provisions of the Illinois  
14 Insurance Code other than Sections 123, 123.1, 401, 401.1, 402,  
15 403, 403A, 408, 412, 445, 445.1, 445.2, 445.3, 445.4, and all  
16 of the provisions of Article XXXI to the extent that the  
17 provisions of Article XXXI are not inconsistent with the terms  
18 of this Act.

19 (Source: P.A. 97-955, eff. 8-14-12.)

20 (215 ILCS 5/445.1) (from Ch. 73, par. 1057.1)

21 Sec. 445.1. Surplus Line Association of Illinois. There is  
22 hereby created a non-profit association to be known as the  
23 Surplus Line Association of Illinois. All surplus line  
24 producers shall be and must remain individual members of the  
25 Association as a condition of their holding a license as a

1 surplus line producer in this State. The Association must  
2 perform its functions under the plan of operation established  
3 and approved under Section 445.3 and must exercise its powers  
4 through a board of directors established under Section 445.2 of  
5 this Code. The Association shall be supervised by the Director  
6 and is subject to the applicable provisions of the Illinois  
7 Insurance Code. The Association shall be authorized and have  
8 the duty to:

9 (1) receive, record and countersign all surplus line  
10 insurance contracts which surplus line producers are required  
11 to file with the Association under subsection (5) of Section  
12 445;

13 (2) prepare monthly reports for the Director on surplus  
14 line insurance procured by its members during the preceding  
15 month in such form and providing such information as the  
16 Director may prescribe;

17 (3) prepare and deliver to the Director and, at the  
18 discretion of the Director, to each licensee ~~and to the~~  
19 ~~Director~~ the reports of surplus line business prescribed in  
20 subsection (3) of Section 445;

21 (4) assess its members for costs of operations in  
22 accordance with a schedule adopted by the Board of Directors of  
23 the Association and approved by the Director;

24 (5) employ and retain such persons as are necessary to  
25 carry out the duties of the Association;

26 (6) borrow money as necessary to effect the purposes of the



1 Association;

2 (7) enter contracts as necessary to effect the purposes of  
3 the Association;

4 (8) perform such other acts as will facilitate and  
5 encourage compliance by its members with the surplus line law  
6 of this State and rules promulgated thereunder; and

7 (9) provide such other services to its members as are  
8 incidental or related to the purposes of the Association.  
9 Nothing in this Act shall be construed as giving the  
10 Association any discretionary authority to enforce this Act or  
11 to withhold countersignature of insurance contracts which meet  
12 the requirements of subsection (5) of Section 445.

13 (Source: P.A. 83-1300.)

14 (215 ILCS 5/445.4) (from Ch. 73, par. 1057.4)

15 Sec. 445.4. Examination. The Director shall, at such times  
16 as he deems necessary, make or cause to be made an examination  
17 of the Association. The reasonable cost of any such examination  
18 shall be paid by the Association upon presentation to it by the  
19 Director of a detailed account of such cost. During the course  
20 of such examination, the directors, officers, members, agents  
21 and employees of the Association may be examined under oath  
22 regarding the operation of the Association and shall make  
23 available all books, records, accounts, documents and  
24 agreements pertaining thereto. The Director shall furnish a  
25 copy of the examination report to the Association. Within 20

1 days after receipt of the report, the Association may request a  
2 hearing on the report or any facts or recommendations therein.  
3 If the Director finds the Association or any of its members to  
4 be in violation of this Act, he may issue an order requiring  
5 discontinuance of such violation. The Association shall  
6 annually provide for an independent financial audit of the  
7 books and records of the Association by a certified public  
8 accountant and shall provide a copy of the audit report to the  
9 Director.

10 (Source: P.A. 83-1300.)