

IIA Of IL, Producer's Bond Coverage and Claim Analysis

1. This is a fiduciary bond and not a fidelity bond or commercial crime bond. A fidelity bond or commercial crime bond would provide coverage for employee and/or producer theft of the agency and/or insured's money. Sometimes limited coverage may also be found in the agency's business owners policy or errors and omissions policy.
2. Insurance producers must have the bond if they directly or indirectly place insurance coverage with an insurer with which the producer does not have a contract with that insurer, e.g. a MGA or Excess and Surplus Lines Carrier.
3. Licensed CSRs are considered producers. CSRs most likely would not have contracts with insurance companies.
4. The \$15 cost of the bond is very inexpensive. Why chance a license revocation or a fine from the department of insurance and have a permanent mark on the record when \$15 would have put them in compliance?
5. The amount required by statute is \$2,500 or 5% of the premiums brokered in the previous calendar year, whichever is greater, but not to exceed \$50,000 total aggregate liability. (The IIA program covers both the producer and the agency for the total of \$50,000, therefore, there is no need to compute what 5% of the previous year's brokered premiums are.)
6. In 1999, the IIA of IL was successful in passing legislation that allowed the association to provide our members with the required producer bond and agency bond.
7. The Principal under this bond is the IIA and Its Members (the producers and agencies). The bond Principals are never able to collect under the bond. They are not injured parties "entitled thereto of funds". Only the Obligee may collect under the bond. By statute, the Obligee is the State of IL and payable to any party injured under the terms of the bond. The injured party may be a company or an insured.
8. The bond shall be conditioned upon full accounting and due payment to the person or company entitled thereto, of funds coming into the insurance producer's possession as an incident to insurance transactions under the license or surplus line insurance transactions as a surplus line producer.
9. Here are examples of when and who a payment under the bond may be made:
 - #1 - If a person (client) pays the producer money for a policy with an insurance company that the producer and/or agency is NOT contracted with, then the producer is to keep an accounting of that transaction and send the premium to the company. If the money never makes it to the insurance company, then the insurance company may make a claim on the bond.
 - #2 - If the insurance company that the producer and/or agency is NOT contracted with, sends a return premium to the producer for a client, the producer is supposed to keep records of the transaction and deliver the return premium to the client. If the money never makes it to the insured, then the insured may make a claim on the bond.

In both examples, the producer is in a fiduciary position while handling these funds. **These funds are entitled** to either the client or the company depending on the situation. Again, if the funds do not make it to the entitled client or company, then the bond would pay the entitled party.

IL Statute Regarding The Producer's Bond

(215 ILCS 5/500-130)

(Section scheduled to be repealed on January 1, 2017)

Sec. 500-130. Bond required of insurance producers.

(a) An insurance producer who places insurance either directly or indirectly with an insurer with which the insurance producer does not have an agent contact must maintain in force while licensed a bond in favor of the people of the State of Illinois executed by an authorized surety company and payable to any party injured under the terms of the bond. The bond shall be continuous in form and in the amount of \$2,500 or 5% of the premiums brokered in the previous calendar year, whichever is greater, but not to exceed \$50,000 total aggregate liability. The bond shall be conditioned upon full accounting and due payment to the person or company entitled thereto, of funds coming into the insurance producer's possession as an incident to insurance transactions under the license or surplus line insurance transactions under the license as a surplus line producer.

(b) Authorized insurance producers of a business entity may meet the requirements of this Section with a bond in the name of the business entity, continuous in form, and in the amounts set forth in subsection (a) of this Section. Insurance producers may meet the requirements of this Section with a bond in the name of an association. An individual producer remains responsible for assuring that a producer bond is in effect and is for the correct amount. The association must have been in existence for 5 years, have common membership, and been formed for a purpose other than obtaining a bond.

(c) The surety may cancel the bond and be released from further liability thereunder upon 30 days' written notice in advance to the principal. The cancellation does not affect any liability incurred or accrued under the bond before the termination of the 30-day period.

(d) The producer's license may be revoked if the producer acts without a bond that is required under this Section.

(e) If a party injured under the terms of the bond requests the producer to provide the name of the surety and the bond number, the producer must provide the information within 3 working days after receiving the request.

(f) An association may meet the requirements of this Section for all of its members with a bond in the name of the association that is continuous in form and in the amounts set forth in subsection (a) of this Section.

(Source: P.A. 92-386, eff. 1-1-02.)

KNOW ALL MEN BY THESE PRESENTS, that we, PROFESSIONAL INDEPENDENT INSURANCE AGENTS OF ILLINOIS (PIIAI), located in Springfield, IL, an Association of Insurance Producers, as Principal and U.S. INSURANCE COMPANY OF AMERICA, a Company duly authorized to transact surety business in the State of Illinois, as Surety, are held and firmly bound unto the People of the State of Illinois and payable to any party injured under the terms and conditions of this bond, the full and penal sum of Fifty Thousand and No/100 (\$50,000.00) Dollars in lawful money of the United States of America for any one member producer or member registered firm during the term of this obligation, for the payment of which, well and truly to be made, we bind ourselves, our heirs, executors, administrators, successors and assigns, jointly and severally, firmly by these presents.

THE CONDITION OF THIS OBLIGATION IS SUCH that the above bounded Principal's members are now or about to become licensed/registered to engage or continue in the business of an Insurance Producer/Registered Firm, as provided by the Illinois Code, as amended.

NOW THEREFORE, if the said Principal or its covered members shall, while this bond is in force and effect make a full accounting and due payment to the person or company entitled thereto of funds coming into his/her/its possession as an incident to insurance transactions, and shall comply with all the provisions of Section 508.2 of Illinois Insurance Code, as amended; then this obligation shall be null and void; otherwise to remain in full force and effect.

PROVIDED, HOWEVER, that this bond shall be continuous in form and may be terminated by the surety, upon its giving thirty (30) days written notice of its intention of termination.

IN WITNESS WHEREOF, the said Principal has hereunto set his hand and seal, and the said Surety has caused these presents to be signed by its duly authorized officers and its corporate seal to be hereto affixed this 1st day of October, 2008.

PROFESSIONAL INDEPENDENT
INSURANCE AGENTS OF ILLINOIS

By: _____

U.S. INSURANCE COMPANY OF AMERICA

By: 

Albert R. Klunick



President