**Section 205.40 Requirements**

a) Any direct insurer issuing contracts insuring municipal bonds must:

1) be authorized to write the kinds of business defined in Class 2(g) and 2(h) of Section 4 of the Illinois Insurance Code (Ill. Rev. Stat. 1985, ch. 73, par. 616), and

2) have a policyholders' surplus and contingency reserve of not less than $50,000,000 as shown by its last annual statement on file with the Director.

b) Any insurer issuing contracts insuring municipal bonds shall establish a contingency reserve which shall consist of allocations of sums representing fifty percent (50%) of the earned premiums on policies insuring municipal bonds. Allocations to such reserve made during each calendar year shall be maintained for a period of at least 240 months, except that withdrawals may be made by the company in any year and to the extent that the actual incurred losses on policies insuring municipal bonds exceed thirty-five percent (35%) of the earned premiums thereon or, notwithstanding the foregoing, withdrawals may be made by the company in any year and to the extent that the contingency reserve equals or exceeds one half of one percent (½%) of the cumulative net liability. No such release shall be made without written notice to the Director.