

CHAPTER 623

ACCOUNTING AND RESERVES

623.02 Standards for accounting rules.
 623.03 Valuation of assets.
 623.04 Valuation of liabilities.
 623.06 Standard valuation law.

623.11 Amount of compulsory surplus.
 623.12 Amount of security surplus.
 623.15 Fraternal rates and reserves.
 623.21 Adjustment of reserves.

623.02 Standards for accounting rules.

When promulgating accounting rules, the commissioner shall consider recommendations made by the national association of insurance commissioners, generally accepted accounting principles both in the insurance industry and outside it, the requirements of the law and the needs of regulation, including detection of insolvency, and the needs for information of insureds, investors, and the public.

History: 1973 c. 293.

Note: The bill which created 623.02 to 623.04 and 623.21 was part of the revision of the insurance code and contained extensive explanatory notes which may be found in the bill drafting file in the Legislative Reference Bureau.

623.03 Valuation of assets. The commissioner shall promulgate rules for the valuation of assets to be reported on the statements submitted under s. 601.42 (1) (a) as well as for other purposes. He may specify that certain classes of assets shall be valued at zero or given a nominal value, and when necessary to achieve the purposes of this section, may specify different bases of valuation for different purposes.

History: 1973 c. 293.

623.04 Valuation of liabilities. The commissioner shall promulgate rules specifying the liabilities required to be reported by insurers in the financial statements submitted under s. 601.42 (1) (a) and the methods of valuing them. In the case of life insurance such methods shall be consistent with s. 623.06.

History: 1973 c. 293; 1977 c. 153 s. 6; 1977 c. 339 s. 44.

623.06 Standard valuation law. (1) The commissioner shall annually value, or cause to be valued, the reserve liabilities (hereinafter called reserves) for all outstanding life insurance policies and annuity and pure endowment contracts of every life insurance company doing business in this state, except that in the case of an alien company, such valuation shall be limited to its United States business, and may certify the amount of any such reserves, specifying the mortality table or tables, rate or rates of

interest and methods (net level premium method or other) used in the calculation of such reserves. In calculating such reserves, the commissioner may use group methods and approximate averages for fractions of a year or otherwise. In lieu of the valuation of the reserves herein required of any foreign or alien company, the commissioner may accept any valuation made, or caused to be made, by the insurance supervisory official of any state or other jurisdiction when such valuation complies with the minimum standard herein provided and if the official of such state or jurisdiction accepts as sufficient and valid for all legal purposes the certificate of valuation of the commissioner when such certificate states the valuation to have been made in a specified manner according to which the aggregate reserves would be at least as large as if they had been computed in the manner prescribed by the law of that state or jurisdiction.

(2) Except as provided in sub. (2a), the minimum standard for the valuation of all such policies and contracts issued prior to the effective date of this section [see sub. (8) and s. 632.43 (9)] shall be that provided by the laws in effect immediately prior to such date. Except as provided in sub. (2a), the minimum standard for the valuation of all such policies and contracts issued on or after the effective date of this section shall be the commissioner's reserve valuation methods defined in subs. (3) to (4m) and (7), with 3-1/2% interest, or in the case of policies and contracts, other than annuity and pure endowment contracts, issued on or after June 19, 1974, and prior to November 8, 1977, 4% interest, and for policies issued on or after November 8, 1977, 4.5% interest and the following tables:

(a) For all ordinary policies of life insurance issued on the standard basis, excluding any disability and accidental death benefits in such policies, the commissioner's 1941 standard ordinary mortality table for such policies issued before the operative date of s. 632.43 (6) (b) as defined therein, and the commissioner's 1958

standard ordinary mortality table for such policies issued on or after such operative date. For any category of such policies issued on female risks all modified net premiums and present values referred to in this section may be calculated according to an age not more than 6 years younger than the actual age of the insured.

(b) For all industrial life insurance policies issued on the standard basis, excluding any disability and accidental death benefits in such policies, the 1941 standard industrial mortality table for such policies issued prior to the operative date of s. 632.43 (6) (c), and the commissioners 1961 standard industrial mortality table for such policies issued on or after such operative date.

(c) For individual annuity and pure endowment contracts, excluding any disability and accidental death benefits in such policies—the 1937 standard annuity mortality table or, at the option of the company, the annuity mortality table for 1949, ultimate, or any modification of either of these tables approved by the commissioner.

(d) For group annuity and pure endowment contracts, excluding any disability and accidental death benefits in such policies—the group annuity mortality table for 1951, any modification of such table approved by the commissioner, or, at the option of the company, any of the tables or modifications of tables specified for individual annuity and pure endowment contracts.

(e) For total and permanent disability benefits in or supplementary to ordinary policies or contracts—for policies or contracts issued on or after January 1, 1966, the tables of Period 2 disablement rates and the 1930 to 1950 termination rates of the 1952 disability study of the society of actuaries, with due regard to the type of benefit; for policies or contracts issued on or after January 1, 1961 and prior to January 1, 1966, either such tables or, at the option of the company, the Class (3) disability table (1926); and for policies issued prior to January 1, 1961, the Class (3) disability table (1926). Any such table shall, for active lives, be combined with a mortality table permitted for calculating the reserves for life insurance policies.

(f) For accidental death benefits in or supplementary to policies—for policies issued on or after January 1, 1966, the 1959 accidental death benefits table; for policies issued on or after January 1, 1961 and prior to January 1, 1966, either such table or, at the option of the company, the intercompany double indemnity mortality table; and for policies issued prior to January 1, 1961, the intercompany double indemnity mortality table. Either table shall be combined with a mortality table permitted for

calculating the reserves for life insurance policies.

(g) For group life insurance, life insurance issued on the substandard basis and other special benefits, such tables as may be approved by the commissioner.

(2a) The minimum standard for the valuation of all individual annuity and pure endowment contracts issued on or after the operative date of this subsection, as defined in sub. (2b), and for all annuities and pure endowments purchased on or after such operative date under group annuity and pure endowment contracts, shall be the commissioners reserve valuation methods defined in subs. (3) to (4m) and the following tables and interest rates:

(a) For individual annuity and pure endowment contracts issued prior to November 8, 1977, excluding any disability and accidental death benefits in such contracts—the 1971 individual annuity mortality table, or any modification of this table approved by the commissioner, and 6% interest for single premium immediate annuity contracts, and 4% interest for all other individual annuity and pure endowment contracts.

(b) For individual single premium immediate annuity contracts issued on or after November 8, 1977, excluding any disability and accidental death benefits in such contracts, the 1971 individual annuity mortality table or any modification of the table approved by the commissioner, and 7.5% interest. For other individual annuity and pure endowment contracts issued on or after November 8, 1977, excluding any disability and accidental death benefits in such contracts—the 1971 individual annuity mortality table, or any modification of this table approved by the commissioner, and 5.5% interest for single premium deferred annuity and pure endowment contracts and 4.5% interest for all other such individual annuity and pure endowment contracts.

(c) For all annuities and pure endowments purchased prior to November 8, 1977, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits purchased under such contracts—the 1971 group annuity mortality table, or any modification of this table approved by the commissioner, and 6% interest.

(d) For all annuities and pure endowments purchased on or after November 8, 1977, under group annuity and pure endowment contracts, excluding any disability and accidental death benefits in such contracts—the 1971 group annuity mortality table, or any modification of this table approved by the commissioner, and 7.5% interest.

(2b) After June 19, 1974, any company may file with the commissioner a written notice of its election to comply with sub. (2a) after a specified date before January 1, 1979, which shall be the operative date of sub. (2a) for such company, but a company may elect a different operative date for individual annuity and pure endowment contracts from that elected for group annuity and pure endowment contracts. If a company makes no such election, the operative date of sub. (2a) for such company shall be January 1, 1979.

(3) Except as provided in subs. (4m) and (7), reserves according to the commissioner's reserve valuation method, for the life insurance and endowment benefits of policies providing for a uniform amount of insurance and requiring the payment of uniform premiums shall be the excess, if any, of the present value, at the date of valuation, of such future guaranteed benefits provided for by such policies, over the then present value of any future modified net premiums therefor. The modified net premiums for any such policy shall be such uniform percentage of the respective contract premiums for such benefits that the present value, at the date of issue of the policy, of all such modified net premiums shall be equal to the sum of the then present value of such benefits provided for by the policy and the excess of par. (a) over par. (b), as follows:

(a) A net level annual premium equal to the present value, at the date of issue, of such benefits provided for after the first policy year, divided by the present value, at the date of issue, of an annuity of one per annum payable on the first and each subsequent anniversary of such policy on which a premium falls due; provided, that such net level annual premium shall not exceed the net level annual premium on the 19-year premium whole life plan for insurance of the same amount at an age one year higher than the age at issue of such policy.

(b) A net one-year term premium for such benefits provided for in the first policy year.

(4) Reserves according to the commissioner's reserve valuation method for a) life insurance policies providing for a varying amount of insurance or requiring the payment of varying premiums, b) group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer, including a partnership or sole proprietorship, or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the federal internal revenue code, as amended, c) disability and accidental death

benefits in all policies and contracts, and d) all other benefits, except life insurance and endowment benefits in life insurance policies and benefits provided by all other annuity and pure endowment contracts, shall be calculated by a method consistent with the principles of sub. (3), except that any extra premiums charged because of impairments or special hazards shall be disregarded in the determination of modified net premiums.

(4m) This subsection applies to all annuity and pure endowment contracts other than group annuity and pure endowment contracts purchased under a retirement plan or plan of deferred compensation, established or maintained by an employer (including a partnership or sole proprietorship) or by an employee organization, or by both, other than a plan providing individual retirement accounts or individual retirement annuities under section 408 of the U.S. internal revenue code, as now or hereafter amended. Reserves according to the commissioner's annuity reserve method for benefits under annuity or pure endowment contracts, excluding any disability and accidental death benefits in such contracts, shall be the greatest of the respective excesses of the present values, at the date of valuation, of the future guaranteed benefits, including guaranteed nonforfeiture benefits, provided for by such contracts at the end of each respective contract year, over the present value, at the date of valuation, of any future valuation considerations derived from future gross considerations, required by the terms of such contract, that become payable prior to the end of such respective contract year. The future guaranteed benefits shall be determined by using the mortality table, if any, and the interest rate specified in such contracts for determining guaranteed benefits. The valuation considerations are the portions of the respective gross considerations applied under the terms of such contracts to determine nonforfeiture values.

(5) In no event shall a company's aggregate reserves for all life insurance policies, excluding disability and accidental death benefits, issued on or after the effective date of this section, be less than the aggregate reserves calculated in accordance with the method set forth in subs. (3) to (4m) and (7) and the mortality table or tables and rate or rates of interest used in calculating nonforfeiture benefits for such policies.

(6) Reserves for all policies and contracts issued prior to the effective date of this section may be calculated, at the option of the company, according to any standards which produce greater aggregate reserves for all such policies

and contracts than the minimum reserves required by the laws in effect immediately prior to such date. Reserves for any category of policies, contracts or benefits as established by the commissioner, issued on or after the effective date of this section, may be calculated, at the option of the company, according to any standards which produce greater aggregate reserves for such category than those calculated according to the minimum standard herein provided, but the rate or rates of interest used for policies and contracts, other than annuity and pure endowment contracts, shall not be higher than the corresponding rate or rates of interest used in calculating any nonforfeiture benefits provided for therein. Any such company which at any time has adopted any standard of valuation producing greater aggregate reserves than those calculated according to the minimum standard herein provided may, with the approval of the commissioner, adopt any lower standard of valuation, but not lower than the minimum herein provided.

(7) If in any contract year the gross premium charged by any life insurance company on any policy or contract is less than the valuation net premium for the policy or contract calculated by the method used in calculating the reserve thereon but using the minimum valuation standards of mortality and rate of interest, the minimum reserve required for such policy or contract shall be the greater of either the reserve calculated according to the mortality table, rate of interest, and method actually used for such policy or contract, or the reserve calculated by the method actually used for such policy or contract but using the minimum standards of mortality and rate of interest and replacing the valuation net premium by the actual gross premium in each contract year for which the valuation net premium exceeds the actual gross premium.

(8) This section shall become effective on the same date as does s. 632.43. The provisions of this section shall supersede all provisions of law inconsistent or in conflict therewith.

History: 1973 c. 303; 1977 c. 153 ss. 2, 4, 6; 1977 c. 273; 1977 c. 339 ss. 17, 44.

623.11 Amount of compulsory surplus.

(1) **DETERMINATION OF AMOUNT.** The commissioner shall, when necessary, determine the amount of compulsory surplus that an insurer is required to have in order not to be financially hazardous under s. 645.41 (4), as an amount that will provide reasonable security against contingencies affecting the insurer's financial position that are not fully covered by reserves or by reinsurance.

(a) *Types of contingencies.* The commissioner shall consider the risks of:

1. Increases in the frequency or severity of losses beyond the levels contemplated by the rates charged;

2. Increases in expenses beyond those contemplated by the rates charged;

3. Decreases in the value of or the return on invested assets below those planned on;

4. Changes in economic conditions that would make liquidity more important than contemplated and would force untimely sale of assets or prevent timely investments;

5. Currency devaluation to which the insurer may be subject; and

6. Any other contingencies the commissioner can identify which may affect the insurer's operations.

(b) *Controlling factors.* In his determination, the commissioner shall take into account the following factors:

1. The most reliable information available as to the magnitude of the various risks under par. (a);

2. The extent to which the risks in par. (a) are independent of each other or are related, and whether any dependency is direct or inverse;

3. The insurer's recent history of profits or losses;

4. The extent to which the insurer has provided protection against the contingencies in other ways than the establishment of surplus, including redundancy of premiums; adjustability of contracts under their terms; investment valuation reserves whether voluntary or mandatory; appropriate reinsurance; the use of conservative actuarial assumptions to provide a margin of security; reserve adjustments after rate increases for policies written at earlier and less adequate rates; contingency or catastrophe reserves; diversification of assets and underwriting risks;

5. Independent judgments of the soundness of the insurer's operations, as evidenced by the ratings of reliable professional financial reporting services; and

6. Any other relevant factors.

(2) **RULES.** The commissioner may, subject to adjustment to the circumstances of individual insurers in accordance with the factors in sub. (1) (b), establish by rule minimum ratios for the compulsory surplus in relation to any relevant variables, including the following:

(a) Amounts at risk;

(b) Premiums written or premiums earned;

(c) Liabilities;

(d) Equity investments of all or certain kinds in combination with any of the variables under pars. (a) to (c).

History: 1971 c. 260.

Note: Chap. 260, laws of 1971, which created this chapter of the statutes, contained notes explaining the revision. See the 1971 session law volume.

623.12 Amount of security surplus. The security surplus shall be set by the commissioner between 110% and 140% of the compulsory surplus. In setting the figure the commissioner may consider such factors as the size of the insurer, its recent experience, the volatility of the lines of insurance in which it engages and any other relevant factors.

History: 1971 c. 260.

623.15 Fraternal rates and reserves. (1) NONRESERVE FRATERNALS. A fraternal may be organized for the transaction of business on a plan set forth in the contract which provides for sufficient contributions by each member in each year to pay the member's share of the actual death claims of the year through advance payments graded according to any mortality table approved by the commissioner, without any reserve, or with such reserve as may accumulate from overpayments of individual members, in which case each member shall each year be

informed of the member's credit and of the cost of the member's insurance.

(2) RATES. Every fraternal shall collect regular premiums for each coverage it provides at adequate rates that are approved by the commissioner or conform to standards set in rules promulgated by the commissioner.

(3) RESERVES. The reserves of a fraternal are subject to the same requirements as those of ch. 611 insurers writing the same coverages except that the commissioner may authorize the use of suitable fraternal mortality tables or other appropriate tables instead of the tables used by ch. 611 insurers.

History: 1975 c. 373, 421.

Legislative Council Note, 1975: Sub (1) continues s 208.18 with a change from a specified mortality table to one approved by the commissioner. A nonreserve society can be perfectly sound actuarially and should be permitted if it is. The natural premium basis contemplated by this section is sound but not very attractive in the market.

Sub (2) continues in simplified form the provisions of s 208.15 (1) and (2).

Sub (3) much simplifies ss. 208.09 (2) (b) and (c) and 208.15 (4) and (5). [Bill 643-S]

623.21 Adjustment of reserves. The commissioner may order an insurer to adjust its reserves if they do not bear an appropriate relationship to its obligations.

History: 1973 c. 293.