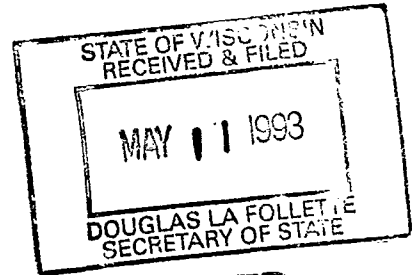


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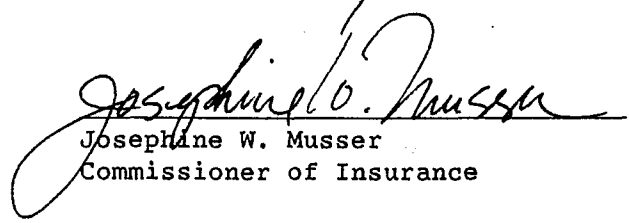
STATE OF WISCONSIN)
)
OFFICE OF THE COMMISSIONER OF INSURANCE)

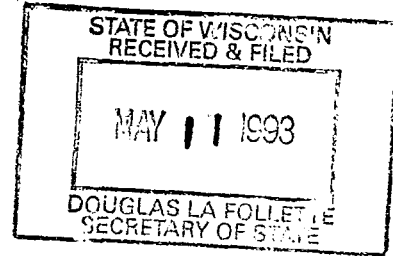
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Revisor of Statutes
Bureau

I, Josephine W. Musser, Commissioner of Insurance and custodian of the official records of this office, certify that the attached rule-making order affecting ss. Ins 6.73, 14.01, and 16.02 and ch. Ins 12; s. Ins 6.13; ss. Ins 6.50 (title), (1) and (2), 6.58 (title), (1), and (3) (intro.) and (a) 1 and 2, (4) (a), (b), (intro.) and 1 and (5) (a) and (b), 6.59 (title), (1), (2), (4) (a) and (c), (5) (a) and (8) (a) to (c) and (e) and (9) and ss. Ins 6.50 (2) (i) to (k), 6.58 (3) (a) 7, 11.02 (3), 26.04 (2) (e) and chs. Ins 40, 42, 45, 47, 50, 52, and 55, Wis. Adm. Code, relating to financial standards and reporting by insurers, insurance holding companies, managing general agents, producers controlling insurers, and reinsurance intermediaries, was issued by this office on May 10, 1993.

I further certify that I have compared this copy with the original on file in this office and that it is a true copy of the whole of the original.

Dated at Madison, Wisconsin, this 10 day of May 1993.


Josephine W. Musser
Commissioner of Insurance



ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE

REPEALING, REPEALING AND RECREATING, AMENDING, AND CREATING A RULE

To repeal s. Ins 6.73, 14.01, and 16.02 and ch. Ins 12; to repeal and recreate s. Ins 6.13; to amend s. Ins 6.50 (title), (1) and (2), 6.58 (title), (1), and (3) (intro.) and (a) 1 and 2, (4) (a), (b), (intro.) and 1 and (5) (a) and (b), 6.59 (title), (1), (2), (4) (a) and (c), (5) (a) and (8) (a) to (c) and (e) and (9) and to create Ins 6.50 (2) (i) to (k), 6.58 (3) (a) 7, 11.02 (3), 26.04 (2) (e) and chs. Ins 40, 42, 45, 47, 50, 52, and 55, relating to financial standards and reporting by insurers, insurance holding companies, managing general agents, producers controlling insurers, and reinsurance intermediaries.

ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 601.41 (3), 601.46, 620.03, 620.21, 620.22, 623.02, 623.03, 623.11, 623.21, 627.23, 628.03, 628.04, 628.49, and ch. 617, Stats.

Statutes Interpreted: ss. 601.42, 601.43, 601.44, 601.465, 611.66, 611.67, 611.72, 611.73, 618.21, 618.22, 618.23, 618.26, 628.02, 628.04, and chs. 617 and 645, Stats.

This rule is promulgated in order to revise the rules which regulate the financial condition of insurers, to reflect a review of the recommendations of certain National Association of Insurance Commissioners ("NAIC") model acts and regulations, and to consolidate and recodify many of the existing financial regulation rules. The Office of the Commissioner of Insurance ("Office") developed and drafted this rule as part of a comprehensive review of Wisconsin's laws and rules governing the financial condition of insurers in connection with the NAIC insurance regulatory accreditation program. The Wisconsin Office of the Commissioner of Insurance is an accredited insurance department under that program.

Under the NAIC accreditation program a state's insurance department may be accredited by the NAIC if the state meets requirements regarding financial regulation laws and rules and if the insurance department meets comprehensive standards regarding its capacity to conduct, and quality of, its financial examination and monitoring. The NAIC accreditation program gives recognition to the competence of the insurance departments which are accredited and is intended to encourage the insurance departments of the various states to attain the desired level of competence. In addition, insurers which are domiciled in, and under the primary jurisdiction of, an accredited state insurance department, such as Wisconsin's, may be more readily licensed and will be subject to less stringent requirements in the other states in which they operate than would otherwise be the case.

The principal objective of the office in developing this rule was to strengthen the financial regulation of insurers while at the same time taking into consideration the recommendations of the NAIC incorporated into the

accreditation program. For that reason this rule is not a photocopy adoption of the NAIC models.

The rule has significant differences from a number of the NAIC models which address the same subject matter. These differences reflect several factors: the Wisconsin legislature has followed a policy of delegating broad rulemaking and administrative discretion to the Office under general statutory standards, rather than prescribing every detail in the statutes, so many of the areas addressed by NAIC model laws are dealt with by rule in this state; the Office made an effort to improve the clarity of much of the language recommended by the NAIC models; and some of the provisions included in this rule are strengthened compared to the NAIC models. This analysis summarizes the more significant differences between this rule and the NAIC models.

The rule affects the following:

I. INSURANCE HOLDING COMPANY REGULATION

A. CHANGES

Holding companies which control insurance companies and transactions which benefit affiliates of insurance companies are regulated under s. 611.72 and ch. 617, Stats. This rule revises the standards adopted under those statutes to more closely conform to the NAIC Model Insurance Holding Company Act and Insurance Holding Company Regulation and to remove obsolete provisions. Significant changes include the following:

1. Acquisition of domestic insurers.

a. Persons seeking to acquire control of insurance companies organized under Wisconsin law (a "domestic insurer") are required to file additional information with the office. The form for the filing is specified as "form A," a form recommended by the NAIC. The additional information required by the rule is primarily information relating to the funding of, and activities related to, the acquisition.

b. Individuals who are partners in a partnership, or shareholders in a corporation, seeking to acquire a domestic insurer, are required to file information only if the commissioner specifically requires them to file the information.

c. An acquisition filing must be amended if any material change occurs.

d. Information contained in an acquisition filing may be kept confidential.

2. Insurance holding company registration.

a. All cost-sharing arrangements and consolidated tax allocation agreements are required to be disclosed in the registration statement which holding companies for domestic insurers are required to file annually.

b. Pledges of stock of a domestic insurer, a subsidiary, or a holding company are required to be disclosed in the registration statement.

c. An amended registration statement to report material changes during the year is no longer required. Instead these changes must be included in an annual filing. The first annual filing is required after December 31, 1993.

d. An insurer is still allowed to file on behalf of its holding company and an affiliate insurer, but the rule makes it clear that an omission by the filing insurer will constitute a violation by the holding company or affiliate even if it is unaware of the omission.

3. Standards for intercompany transactions.

a. Charges, fees, and allocation of revenue and expenses relating to intercompany transactions are required to be in accordance with industry accounting practices.

4. Prior approval of transactions with affiliates.

a. Loans to nonaffiliates are explicitly required to be reported and are subject to disapproval by the commissioner if they may indirectly benefit an affiliate.

b. Reinsurance agreements which involve as little as 5% of a domestic insurer's surplus are required to be reported and are subject to disapproval.

c. Insurers which are subject to specific orders requiring them to maintain certain capital levels are no longer also automatically held to more stringent requirements for reporting and obtaining approval of transactions with affiliates. The commissioner still may require more stringent control by specific order.

5. Other.

a. Persons attempting to acquire, directly or indirectly, a domestic insurer are subjected to the same registration, reporting, and transaction approval requirements as are affiliates of the domestic insurers.

b. An obsolete and superseded provision exempting acquisition of domestic insurers from filing and approval requirements under certain conditions is deleted. This provision is superseded by s. 611.72, Stats.

c. An obsolete and superseded provision governing extraordinary dividends is deleted. This subject is superseded by ss. 600.03 (19) and 617.225, Stats.

B. SIGNIFICANT DIFFERENCES BETWEEN THE RULE AND THE NAIC MODEL INSURANCE HOLDING COMPANY SYSTEM ACT AND REGULATION

1. A more stringent standard is imposed for materiality for the purpose of requiring prior reporting and approval of affiliated transactions. Generally the model defines materiality for this purpose as the lesser of 3% of admitted assets or 25% of surplus. The rule generally applies a standard of the lesser of 2% of admitted assets or 10% of surplus.

2. A group or series of related transactions are treated as a single transaction for the purpose of determining materiality. Unlike the model, this treatment applies regardless of whether the transactions are purposely done as a series of separate transactions to avoid the requirements of the rule.

3. Prior approval is required for any material transaction between a domestic insurer and an affiliate which is not in the ordinary course of business.

II. MANAGING GENERAL AGENTS

A. CHANGES

Firms or individuals which are managing general agents for domestic insurers and licensed nondomestic insurers are currently restricted in the functions they perform under ss. 611.67 and 618.22, Stats. Those provisions generally prevent an insurer from delegating excessive authority or responsibility to the managing general agent, but they do not impose licensing requirements or specific standards. The rule, adopted under ss. 611.67, 618.22, 628.02, 628.04 (5), and 628.49, Stats., adopts the NAIC Model Managing General Agents Act as additional specific substantive standards. The new provisions only apply to managing general agents that manage a portion of the business of an insurer, produce a significant volume of business, and either pay claims or negotiate reinsurance for the insurer.

1. Licensure

The managing general agents must be licensed in this state if they act as a managing general agent with respect to a risk located in this state or represent a domestic insurer. Application and renewal fees in the same amount as for insurance agents' licenses are imposed. The licensure requirement is effective immediately although a managing general agent may

obtain a temporary license effective only through December 31, 1993, without taking an examination.

2. Contract requirements

The managing general agents are required by the rule to enter into a written contract with certain terms included:

a. Authority for the insurer to terminate for cause and suspend the managing general agent.

b. Monthly financial reporting.

c. Standards for application of funds.

d. Recordkeeping requirements.

e. Restrictions on assignment of the contract.

f. Underwriting and premium volume restrictions.

g. Claim management restrictions.

h. Restrictions on profit sharing.

i. Limits on authority to bind reinsurance.

j. Restrictions on appointment of subagents and joint employment of the insurer's employes and directors.

3. Enforcement

A managing general agent is required by the rule to comply with the terms of the required contract and the contract is enforceable against the managing general agent as if it conformed to the rule if it does not have a required provision.

4. Examination

An insurer is required by the rule to examine its managing general agents and annually obtain an actuarial opinion regarding any loss reserves the managing general agent sets.

5. Reinsurance authority

An insurer is generally prohibited from delegating authority to a managing general agent to bind reinsurance.

6. Notice to commissioner.

An insurer is generally required to notify the commissioner of appointments or terminations of managing general agents. An insurer is required to submit a copy of the managing general agent's contract when it gives notice of an appointment of a managing general agent.

7. Conflicts of interest.

An insurer is generally prohibited from including any individual associated with a managing general agent on its board, unless the managing general agent is a wholly owned subsidiary and the commissioner approves.

B. SIGNIFICANT DIFFERENCES FROM THE NAIC MODEL MANAGING GENERAL AGENT ACT

1. This rule makes a violation of a required managing general agent contract a violation of the rule and conforms noncomplying contracts to the requirements of the rule. The model does not include such a provision.

2. The rule prohibits an insurer from knowingly permitting a person to act as a managing general agent for the insurer if the insurer knows the person is in violation of the rule. The model does not include a similar provision.

III. PRODUCER CONTROLLED PROPERTY OR CASUALTY INSURER

A. CHANGES

Chapter 617, Stats., and ch. Ins 12, Wis. Adm. Code, recodified as ch. Ins 40, Wis. Adm. Code, by this rule, currently regulate transactions between insurers and their affiliates. Relationships between insurers and insurance brokers are also regulated under ss. 611.66, 611.67 and 618.22. This rule adopts additional specific standards under ss. 611.67, 617.21 (1) (d), and 628.49, Stats. The standards address a particular type of

relationship between an insurer and an affiliate: a brokerage arrangement where an affiliate which is in the business of placing insurance risks for customers (a "broker") is a controlling affiliate ("controlling producer") of a licensed property or casualty insurer ("controlled insurer"). These "controlling producers" are, by this rule, made subject to certain specific standards which are not imposed under current law:

1. Minimum standards

A controlling producer contract with a controlled insurer is required to meet minimum standards, including:

- a. The right of the insurer to terminate and suspend for cause.
 - b. Financial reporting and recordkeeping requirements.
 - c. Standards for handling of funds.
 - d. Underwriting guidelines.
 - f. Limits on profit sharing.
 - g. Limits on premium volume.
 - h. No binding of reinsurance.
2. Provision for an audit committee.

A controlled insurer is required to have an audit committee composed of independent directors.

3. Reporting.

A controlled insurer is required to annually file an independent actuarial opinion regarding business placed by a controlling producer and information regarding commissions paid to the controlling producer.

4. Disclosure.

A controlling producer is required to disclose to a prospective insured its relationship to the insurer.

5. Excluded producers.

Brokers which control captive insurers or risk retention groups, which do relatively little business with a controlled insurer, or which are captive brokers compensated on a basis other than premium volume, are not subject to the rule.

B. SIGNIFICANT DIFFERENCES FROM THE NAIC MODEL BUSINESS
TRANSACTIONED WITH PRODUCER CONTROLLED PROPERTY OR CASUALTY
INSURER ACT

This rule makes a violation of a required controlling producer contract a violation of the rule and conforms noncomplying contracts to the requirements of the rule. The model does not include a similar provision.

IV. REINSURANCE INTERMEDIARY

A. CHANGES

Under current law and rules reinsurance intermediaries are not licensed and are not directly regulated. Under this rule reinsurance brokers and managers are required to obtain a reinsurance intermediary license and are subjected to specific standards:

1. Licensure.

Reinsurance intermediary firms are required to be licensed as of the effective date of the rule. A reinsurance intermediary-broker must be licensed if it places ceded reinsurance in this state and has an office here, or if it does business in this state and has an office outside this state unless it is licensed under a similar law in another state. A reinsurance intermediary-manager which has significant authority regarding assumed reinsurance of an insurer and acts as its agent must be licensed if it acts as a reinsurance intermediary-manager for a domestic insurer, or does business in this state with a licensed nondomestic insurer unless it is licensed under a similar law in another state. Individuals are not required to be licensed if they are included under the license of a reinsurance intermediary firm.

Reinsurance intermediaries are required to pay the same application and renewal fees as agents, but are not required to take an examination.

2. Minimum standards.

Reinsurance intermediaries are required to obtain authorization or enter into a contract which must meet certain standards:

- a. The insurer may terminate a reinsurance intermediary-broker at any time without cause or a manager for cause.
 - b. Financial reporting, recordkeeping, and examination requirements.
 - c. Standards for handling funds.
 - d. Disclosure requirements.
 - e. Underwriting standards.
 - f. Claim reporting and settlement standards.
 - g. Limits on profit sharing.
3. Prohibited conduct and duties of insurers.

An insurer is required to obtain an annual financial statement from a reinsurance intermediary, may not share its employes, and may not authorize the broker to bind ceded reinsurance.

A reinsurance intermediary-broker or manager is prohibited from binding cede retrocession reinsurance on behalf of an insurer except under very limited circumstances. Reinsurers are required to obtain annual financial statements prepared by a CPA firm of their reinsurance intermediary-managers and report termination of contracts to the commissioner, and are prohibited from appointing individuals associated with the manager to their boards.

B. SIGNIFICANT DIFFERENCES FROM THE NAIC MODEL REINSURANCE INTERMEDIARY ACT

1. Under the model a reinsurance intermediary-broker which has authority to bind ceded reinsurance is not subject to the act. This rule

applies to such a reinsurance intermediary-broker and prohibits the broker from binding ceded reinsurance for the insurer except under very limited circumstances.

2. This rule makes a violation of a required reinsurance intermediary contract a violation of the rule and conforms noncomplying contracts to the requirements of the rule. The model does not include a similar provision.

V. ANNUAL AUDITED FINANCIAL STATEMENTS

A. CHANGES

Licensed insurers, with limited exceptions, are currently required to annually submit audited financial reports and to meet certain standards related to those reports. The rule, adopted under s. 601.42 and 601.43, Stats., makes several changes in the current requirement:

1. Limited exemption for nondomestic insurers.

Nondomestic insurers are exempted from the audit-related standards if they are subject to similar standards in their domicile state and if they file copies of the required reports with the commissioner. The current rule does not include such an exemption.

2. Nature of reports.

A statement of cash flows is required rather than a statement of change in financial position. The notes to the financial statements must address the requirements of the NAIC annual statement instructions. Insurers may not substitute a report prepared according to generally accepted accounting principles ("GAAP") for the required report prepared in accordance with statutory accounting standards. The current rule permits such a substitution. A consolidated report is not permitted except under limited circumstances and with approval by the commissioner. Under the current rule consolidated reports may be submitted but the commissioner may and does require unconsolidated statements from most insurers.

3. Timing of the report. This rule requires the audited reports to be submitted by June 1, rather than June 30 under the current rule. The rule also deletes a requirement that town mutual insurers submit the audited report within 30 days of their annual meeting. The filing deadlines are changed for reports for calendar year 1993 and later.

4. Qualified auditor.

The grounds on which the commissioner may find an auditing firm unqualified are expanded and insurers are required to notify the commissioner within five days after their auditors resign or are dismissed, rather than 30 days after the successor auditor is selected under the current rule. In addition, the accountant partner responsible for the audit of an insurer is required to be rotated every seven years for at least a two-year period. Auditors are required to include a letter of qualification making certain representations with the audited financial statements.

B. SIGNIFICANT DIFFERENCES FROM THE NAIC MODEL RULE REQUIRING ANNUAL AUDITED FINANCIAL REPORTS

The rule exempts an insurer from the audit requirements based on premium volume only if the volume is less than \$100,000 a year, rather than less than \$1,000,000 as provided under the model. The exempt insurer must also have less than 1,000 Wisconsin policyholders.

VI. FINANCIAL STATEMENTS

The rule codifies financial reporting requirements under ss. 601.42, 601.43, 620.03, 620.21, 620.23, 623.03, 623.04, 623.21, 627.23, and ch. 645, Stats., but does not represent a significant change from existing requirements under ch. Ins 7, Wis. Adm. Code, or the practice of the commissioner. The requirements include annual filing of financial statements and actuarial certifications and filing with the NAIC. The rule does permit insurers to

recognize salvage or subrogation as an asset if otherwise permitted under the annual statement instructions.

VII. EXAMINATIONS REQUIRED

A. CHANGE

The rule leaves the scope, nature and frequency of the examination of insurers to the judgment of the office, but does include a directory provision to guide the commissioner that examinations be conducted every five years. After December 31, 1993, the examination reports from insurance departments of other states will be accepted only if the examination is conducted by a NAIC accredited state insurance department or under similar conditions.

The rule also clarifies that the state open record law applies to the office of the commissioner of insurance and that only records which are confidential, privileged or may be withheld under that law may be withheld from public inspection or subpoena. The rule clarifies the statutory privilege which applies to examination work papers and investigative material.

VIII. CREDIT FOR REINSURANCE

Licensed insurers may take credit (deducted from its liabilities or shown as an asset) for ceded reinsurance for the purpose of determining and reporting their financial condition only if the reinsurance and the reinsurer meet standards prescribed under existing law and rules. This rule, adopted under ss. 601.42, 601.43, 620.03, 620.21, 620.22, 623.02, 623.03, 623.04, 623.21, 627.23, and chs. 618 and 645, Stats., revises those standards to more closely conform to the NAIC Model Credit for Reinsurance Act and Credit for Reinsurance Regulation:

A. CHANGES

1. As is permitted under the current rule (s. Ins 6.73), if a reinsurer has capital and surplus of at least \$3 million and is licensed in

another state, but not Wisconsin, a licensed insurer may take credit for reinsurance ceded to a reinsurer. The rule adds other conditions:

a. For a ceding domestic insurer, the reinsurer must either have capital and surplus of at least \$20 million and be domiciled in a state which has standards for credit for reinsurance substantially similar to this state or the reinsurer must comply with filing requirements and be accredited by the commissioner.

b. For a ceding licensed nondomestic insurer, the reinsurer must have \$3 million in capital and surplus and the credit must be allowed by the insurer's domiciliary state.

2. Licensed insurers are permitted to take credit for reinsurance ceded to a reinsurer or group of reinsurers if the reinsurer or group establishes a common trust to secure all of the reinsurer's or group's assumed reinsurance with funds equal to all the reinsurer's or group's liabilities assumed in the United States and a required amount of trusteed surplus which varies from \$20 million to \$100 million depending on the nature of the reinsurers. Under current law a reinsurer must have a separate trust for each reinsurance contract.

3. The rule specifies in greater detail than under existing law, the form of any trust or letter of credit which may be established to secure a specific reinsurance contract and permit an insurer to take credit for the ceded reinsurance regardless of other standards.

B. SIGNIFICANT DIFFERENCES FROM NAIC MODEL LAW ON CREDIT FOR REINSURANCE AND MODEL CREDIT FOR REINSURANCE REGULATION

The rule combines into a single chapter in the rules both the NAIC Model Law and Regulation. Significant changes were made to improve the clarity of these models. Some of the significant substantive differences are:

1. Under the NAIC model Wisconsin would not regulate whether a nondomestic insurer may take credit for ceded reinsurance. The drafters of the models apparently contemplated that each state will accept the standards other states apply to their domestic insurers for permitting the insurer to take credit for reinsurance, even though they operate as licensed nondomestic insurers outside their state of domicile. The rule does not accept this approach. Rather, nondomestic insurers may take credit only under Wisconsin's rules, or under the laws of their state of domicile if the reinsurer has at least \$3 million in capital and surplus. The commissioner may affirmatively prohibit a nondomestic insurer from taking credit for reinsurance.

2. The rule makes it clear that reinsurer must continue to meet all the rule's standards, regardless of whether the reinsurer is and continues to be "accredited". The models do not include a similar provision.

3. The rule makes it clear that a ceding insurer may not take credit for any reinsurance ceded to a reinsurer whose reinsurance accreditation is revoked, regardless of when the reinsurance was ceded. The models do not include a similar provision.

4. The rule makes it clear that the standards for taking credit for reinsurance apply continuously and not just for the purpose of the date for which financial statements are prepared. The models do not include a similar provision.

5. The rule establishes a presumption that a reinsurer should not be accredited or recognized as acceptable for credit taken by a nondomestic insurer if the reinsurer has less than \$20 million in capital.

IX. LIFE AND HEALTH REINSURANCE AGREEMENTS

Under ch. Ins 7, Wis. Adm. Code, a ceding insurer may not take credit for reinsurance agreements which are structured so they do not truly transfer risk, based on the adopted annual statement instructions. The rule adopts the

NAIC Model Life and Health Reinsurance Agreement Act under ss. 601.42, 601.43, 620.02, 620.21, 620.22, 623.03, 623.04, 623.21, 627.23, and ch. 645, Stats.

The NAIC model provides detailed criteria for determining whether a life or health insurance reinsurance contract transfers risk and accordingly whether the ceding insurer may take credit for the reinsurance.

X. WISCONSIN INSURANCE SECURITY FUND

The Wisconsin Insurance Security Fund protects Wisconsin residents by paying their claims under policies issued by liquidated or insolvent insurance companies. This rule requires the Wisconsin Insurance Security Fund to annually file with the commissioner an audited financial statement. The rule codifies the existing practice of the Wisconsin Insurance Security Fund.

SECTION 1. Section Ins 6.13 is repealed and recreated to read:

Ins 6.13 OPEN RECORDS; PRIVILEGED OR CONFIDENTIAL RECORDS. (1)

Records of the office of the commissioner of insurance are subject to subch. II of ch. 19, Stats., and are open to inspection as required under subch. II of ch. 19, Stats.

(2) The office of the commissioner may withhold and retain as confidential any record which may be withheld and retained as confidential under subch. II of ch. 19, Stats., including, but not limited to, a record which may be withheld or which is privileged under any law or the rules of evidence, as attorney-work product under the rules of civil procedure, as attorney-client privileged material under s. 905.03, Stats., as a medical record under ss. 146.81 to 146.84, Stats., or as privileged under s. 601.465, Stats.

(3) The office, under s. 601.465, Stats., may refuse to disclose and prevent any person from disclosing, in response to a request for production, deposition, subpoena, or otherwise, information obtained from the National

Association of Insurance Commissioners or another state's insurance department under pledge of confidentiality or for the purpose of conducting an investigation or examination or obtained, produced or created in the course of an inquiry under s. 601.42, Stats., or examination under s. 601.43, Stats. This privilege applies to information obtained, produced or created before or after the effective date of s. 601.465, Stats., and regardless of whether an inquiry, investigation or examination has been concluded, except it does not apply to a document which is an adopted examination report.

SECTION 2. Section Ins 6.50 (title), (1) and (2) are amended to read:

Ins 6.50 (title) KINDS OF INDIVIDUAL INTERMEDIARY OR AGENT LICENSES.

(1) PURPOSE. This rule sets forth the kinds of individual intermediary-agents reinsurance intermediary and managing general agent licenses which may be issued.

(2) KINDS OF LICENSES. The following individual ~~intermediary-agent~~ licenses may be issued, each authorizing the solicitation of the kind ~~or kinds~~ of insurance or the function indicated:

SECTION 3. Section Ins 6.50 (2) (i) to (k) are created to read:

Ins 6.50 (2) (i) Reinsurance intermediary-broker-activities only as described in ch. Ins 47.

(j) Reinsurance intermediary-manager-activities only as described in ch. 47.

(k) Managing general agent-activities as defined in s. Ins 42.01 (3).

SECTION 4. Section Ins 6.58 (title), (1), (3) (intro.) and (3) (a) 1 and 2 are amended to read:

Ins 6.58 (title) LICENSING OF CORPORATIONS AND PARTNERSHIPS AS INSURANCE INTERMEDIARIES, REINSURANCE INTERMEDIARIES, OR MANAGING GENERAL AGENTS. (s. 628.04, Stats.) (1) PURPOSE. The purpose of this rule is to

establish procedures for licensure of corporations and partnerships as

insurance intermediaries, reinsurance intermediaries or managing general agents.

(3) PROCEDURE. Application for a permanent intermediary license, reinsurance intermediary license or managing general agent license for a corporation or partnership shall be made on application form 11-50 and filed with the commissioner of insurance.

1. A licensing fee of \$100.00 ~~as authorized by s. 601.31(1)-(1)-2,~~
Stats.;

2. Certification that the articles of incorporation or association include the intent, in good faith, to do business as an intermediary, reinsurance intermediary or managing general agent;

SECTION 5. Section Ins 6.58 (3) (a) 7 is created to read:

Ins 6.58 (3) (a) 7 Any bond, policy, designation or information required under s Ins. 47.02 (3) or (5).

SECTION 6. Section Ins 6.58 (4) (a), (b) (intro.) and 1, (5) (a) and (6) are amended to read:

Ins 6.58 (4) (a) For partners, directors or principal officers who are licensed at the time of application under sub. (4) as insurance intermediaries, reinsurance intermediaries or managing general agents, those standards as set in s. Ins 6.59 (5) shall apply in lieu of the standards set forth in this section.

(b) (intro.) For partners, directors or principal officers who are not licensed at the time of application under sub. (4) as insurance intermediaries, reinsurance intermediaries or managing general agents, the following criteria may be used in assessing trustworthiness and competence:

1. Criminal record. The conviction for crimes which are substantially related to insurance marketing.

(5) FEES. (a) Biennially, on or before January 1 of even numbered years, a regulation fee of \$10.00 for resident and \$30.00 for nonresident intermediaries, reinsurance intermediaries and managing general agents will be billed ~~as authorized by s. 601.31-(1)-(m), Stats.~~

(6) NOTIFICATION OF CHANGES. Each ~~intermediary~~ corporation or partnership licensed or applying for a license shall, within 30 days, notify the commissioner of insurance in writing of any change in its business mailing address, location of the business records, or a change in the name and address of the designated representative.

SECTION 7. Section Ins 6.59 (title), (1), (2), (4) (a) and (c), (5) (a) and (8) (a) to (c) and (e) are amended to read:

INS 6.59 LICENSING OF INDIVIDUALS AS AGENTS, REINSURANCE INTERMEDIARIES, OR MANAGING GENERAL AGENTS. (s. 628.04, Stats.) (1) PURPOSE. The purpose of this rule is to establish procedures for original licensure and license enlargement of an individual as an insurance agent, reinsurance intermediary or managing general agent.

(2) EXAMINATION. An examination is required of each resident applicant for each kind of agent license authority listed in s. Ins 6.50, except a reinsurance intermediary license. Each examination will test the applicant's basic knowledge of the kinds of insurance to be solicited or function to be performed and the applicant's basic understanding of the applicable laws and regulations.

(4) PROCEDURE. (a) Application. Application for a permanent agent, reinsurance intermediary or managing general agent license or an enlargement of authority shall be made on the form specified by the office of the commissioner of insurance and, The application form shall be filed with the testing vendor, except applicants for reinsurance intermediary licenses shall file the form with the commissioner. The testing vendor shall forward a copy

of the application to the office of the commissioner of insurance. A completed application consists of receipt by the office of the commissioner of insurance of the required forms and, if required, an original certificate of prelicensing education dated not more than one year prior to the test date or an original exemption form, and examination score report.

(c) Issuance of license. An applicant for an original license or a license enlargement who passes the written examination, if required, pays the fees, submits a satisfactory application, submits an original certificate of prelicensing education dated not more than one year prior to the test date, unless exempted by s. Ins 26.04 (2), and meets the standards of competence and trustworthiness as described in sub. (5) shall be issued an ~~agent~~ a license for those kinds of authority for which the applicant is qualified. Determination of the acceptance or rejection of a completed application shall be made within 60 business days.

(5) (a) Criminal record. The conviction for crimes which are substantially related to insurance ~~marketing~~ or reinsurance.

(8) (a) a licensed nonresident agent, reinsurance intermediary or managing general agent after becoming a Wisconsin resident, may retain authority under the nonresident agent license for a maximum of 60 days, at which time all authority granted under the nonresident license shall cease.

(b) A licensed resident agent, reinsurance intermediary or managing general agent after becoming a resident of another state, may retain authority under the resident ~~agent~~ license for a maximum of 60 days, at which time all authority granted under the resident license shall cease.

(c) If an agent, reinsurance intermediary or managing general agent changes residency status and becomes licensed under the new status, all authority granted by the license issued under the former status shall terminate on the date the new license is issued.

(e) A licensed nonresident agent, reinsurance intermediary or managing general agent, after becoming a resident of a state other than Wisconsin, may retain agent licensing authority under the nonresident agent license for a maximum of 60 days, at which time all authority granted under the nonresident license shall cease, unless a letter of certification from the new state of residence is provided to the commissioner.

SECTION 8. Section Ins 6.59 (9) is created to read:

Ins 6.59 (9) Notwithstanding any other provision of this section, an applicant for a managing general agent license may file an application with the commissioner for a temporary managing general agent license. The temporary license may be issued, if the applicant is otherwise qualified, without examination. A temporary license issued under this subsection terminates on December 31, 1993.

SECTION 9. Section Ins 6.73 is repealed.

SECTION 10. Section Ins 11.02 (3) is created to read:

Ins 11.02 (3) ANNUAL AUDITED FINANCIAL REPORTS. The board shall submit an audited financial report to the commissioner each year not later than 120 days after the insurance security fund's fiscal year.

SECTION 11. Chapter Ins 12 is repealed.

SECTION 12. Section Ins 14.01 is repealed.

SECTION 13. Section Ins 16.02 is repealed.

SECTION 14. Section Ins 26.04 (2) (e) is created to read:

Ins 26.04 (2) (e) An applicant for a reinsurance intermediary-broker, reinsurance intermediary-manager or managing general agent limited-line license.

SECTION 15. Chapter Ins 40 is created to read:

CHAPTER 40

INSURANCE HOLDING COMPANY SYSTEM REGULATION

SUBCHAPTER I

INSURANCE HOLDING COMPANY STANDARDS

Ins 40.01 DEFINITIONS. In this chapter, unless the context otherwise requires:

(1) "Acquiring person" means each person by whom or on whose behalf a merger or other acquisition of control is to be effected.

(2) "Affiliate" has the meaning provided under s. 600.03 (1), Stats.

(3) "Commissioner" means the commissioner of insurance of this state, the deputy commissioner, or the office of the commissioner of insurance of this state, as appropriate.

(4) "Control" has the meaning provided under s. 600.03 (13), Stats.

(5) "Executive officer" means chief executive officer, chief operating officer, chief financial officer, treasurer, secretary, controller, and any other individual performing functions corresponding to those performed by one of those positions under whatever title.

(6) "Insurance holding company system" means 2 or more persons who are affiliates, one or more of which is an insurer.

(7) "Insurer" has the meaning provided under s. 600.03 (27), Stats.

(8) "Policyholder surplus" means capital and surplus.

(9) "Security holder" means a person who owns any security of a person, including, but not limited to, common stock, preferred stock, debt obligations or any other security convertible into or evidencing the right to acquire stock or debt obligations.

(10) "State of domicile" means the state where an insurer is domiciled or, for an alien insurer, its port of entry state.

(11) "Subsidiary" of a person means a person which is controlled, directly or indirectly through one or more intermediaries, by the first person.

(12) "Ultimate controlling person" means a person which is not controlled by any other person.

(13) "Voting security" includes, but is not limited to, any security convertible into or evidencing a right to acquire a voting security.

Ins 40.02 ACQUISITION OF CONTROL OF OR MERGER WITH DOMESTIC INSURER.

(1) FILING REQUIREMENTS. (a) Except as provided under par. (b), no person, other than the insurer, may:

1. Make a tender offer for, request or invitation for, tenders of, or enter into any agreement to exchange securities for, seek to acquire, or acquire, in the open market or otherwise, any voting security of a domestic insurer if after the consummation of the offer, request, invitation, agreement or acquisition, the person would, directly or indirectly, or by conversion or by exercise of any right to acquire, be in control of the insurer; or

2. Enter into an agreement to merge with or otherwise to acquire or attempt to acquire control of a domestic insurer or any person having control of a domestic insurer.

(b) A person is not subject to par. (a), only if:

1. The person first files the information required under sub. (2) with the commissioner and sends a copy of the information to the domestic insurer; and

2. The offer, request, invitation, agreement or acquisition has been approved by the commissioner under s. 611.72, 611.73, 612.21, 612.22, 613.72, or 614.73, Stats., and s. 617.21, Stats.

(c) For purposes of this section "domestic insurer" includes any person having control of a domestic insurer. This section does not apply to a person who is a securities broker holding, in the usual and customary

securities broker's function, less than 20% of the voting securities of an insurer or of any person which controls an insurer.

(2) CONTENT OF STATEMENT. Except as provided under sub. (5), a person required to file under sub. (1) shall file the following information, using form A in the appendix to this chapter, in a sworn statement:

(a) For each acquiring person:

1. The acquiring person's name and address;

2. If the acquiring person is an individual, his or her principal occupation and all offices and positions held during the past 5 years, any conviction of crimes other than traffic violations not involving death or injury during the past 10 years and all relevant information regarding any occupational license or registration; and

3. If the acquiring person is not an individual, a report of the nature of its business operations during the past 5 years or for the lesser period that the acquiring person and any predecessors of the acquiring person have been in existence, if shorter, an informative description of the business intended to be done by the acquiring person and the acquiring person's subsidiaries, and a list of all individuals who are or who have been selected to become directors or executive officers of the acquiring person, or who perform or will perform functions similar to those positions. The list shall include for each individual the information required by subds. 1 and 2.

(b) The source, nature and amount of the consideration used or to be used in effecting the merger or other acquisition of control, a description of any transaction from which funds were or are to be obtained for that purpose, including any pledge of the insurer's stock, or the stock of any of its subsidiaries or affiliates which control the insurer, the criteria used in determining the nature and amount of consideration and the identity of persons furnishing the consideration.

(c) Fully audited financial information as to the earnings and financial condition of each acquiring person for the preceding 5 fiscal years of each acquiring person or for the period the acquiring person and any predecessors of the acquiring person have been in existence, if shorter, and similar unaudited information as of a date not earlier than 90 days prior to the filing of the statement.

(d) Any plans or proposals which any acquiring person is considering to liquidate, to sell assets of, or to merge or consolidate the insurer or to make any other material change in the insurer's business or corporate structure or management.

(e) The number of shares of any security which each acquiring person proposes to acquire; the terms of the offer, request, invitation, agreement or acquisition; and a statement as to the method by which the fairness of the proposal was determined.

(f) The amount of each class of any security which is beneficially owned or concerning which there is a right to acquire beneficial ownership by any acquiring person.

(g) A full description of any contracts, arrangements or understandings with respect to any security in which any acquiring person is involved, including, but not limited to, transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. The description shall identify the persons with whom the contracts, arrangements or understandings have been entered into.

(h) A description of the purchase of any security of the entity to be acquired during the 12 calendar months preceding the filing of the statement

by any acquiring person, including the dates of purchase, names of the purchasers and consideration paid or agreed to be paid.

(i) A description of any recommendations to purchase any security made during the 12 calendar months preceding the filing of the statement by any acquiring person, or by anyone at the suggestion of the acquiring person.

(j) Copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, or agreements to acquire or exchange any securities, and, if distributed, of additional soliciting material relating to those offers, requests, invitations or agreements.

(k) The term of any agreement, contract or understanding made with or proposed to be made with any broker-dealer as to solicitation of securities for tender, and the amount of any fees, commissions or other compensation to be paid to broker-dealers relating to the solicitation.

(3) PARTNERS AND STOCKHOLDERS. If the person required to file under sub. (1) is a partnership, limited partnership, syndicate or other group, the commissioner may require that the information required under sub. (2) be given with respect to each partner of the partnership or limited partnership, each member of the syndicate or group, and each person who controls the partner or member. If any partner, member or person is a corporation or the person required to file under sub. (1) is a corporation, the commissioner may require that the information required under sub. (2) be given with respect to the corporation, each officer and director of the corporation, and each person who is directly or indirectly the beneficial owner of more than 10% of the outstanding voting securities of the corporation.

(4) MATERIAL CHANGES. A person required to file under sub. (1) shall file an amendment to the filing if any material change occurs in the facts set forth in a statement previously filed with the commissioner. The person shall include in the amendment a description of the change and copies of all

documents and other material relevant to the change. The amendment shall be filed with the commissioner and sent to the insurer within 2 business days after the person learns of the change.

(5) ALTERNATIVE FILING MATERIALS. If any offer, request, invitation, agreement or acquisition is proposed to be made by means of a registration statement under the Securities Act of 1933 or in circumstances requiring the disclosure of information under the Securities Exchange Act of 1934, or under a state law requiring similar registration or disclosure, the person required to file information under sub. (1) may utilize those documents to furnish the information required to be filed under sub. (2).

Ins 40.03 REGISTRATION. (1) REGISTRATION. (a) Except as provided under par. (b), every insurer which is authorized to do business in this state and which is a member of an insurance holding company system, and every person having or attempting to acquire control of such an insurer, shall register with the commissioner.

(b) This subsection does not apply to a person, foreign insurer or alien insurer which is exempt from registration under s. 617.11 (2), Stats., unless otherwise ordered by the commissioner. An insurer may register on behalf of a person having or attempting to acquire control of the insurer or on behalf of an insurer which is an affiliate of the insurer. Lack of knowledge that an insurer has not registered on behalf of the person or affiliate or that the registration is incomplete or inaccurate is not a defense for the person or affiliate.

(2) TIME FOR FILING. Any person which is subject to registration under this section shall register within 15 days after it becomes subject to registration, and annually by June 1 of each subsequent year for the immediately preceding calendar year, unless the commissioner for good cause shown extends the time for registration, and then within the extended time.

(3) INFORMATION AND FORM REQUIRED. Every person subject to registration shall file the registration statement on the forms prescribed under s. Ins 40.15, and it shall contain the following information which is current on the date of filing:

(a) The capital structure, general financial condition, ownership and management of the insurer and any person having control of the insurer;

(b) The identity and relationship of every member of the insurance holding company system except affiliates whose total assets are less than the lesser of .5% of the total assets of the ultimate controlling person or \$10 million;

(c) The following agreements in force, and transactions currently outstanding or which have occurred during the immediately preceding calendar year between the insurer and its affiliates:

1. Loans, extensions of credit, other investments, or purchases, sales or exchanges of securities of the affiliates by the insurer or of the insurer by its affiliates;

2. Purchases, sales or exchange of assets;

3. Transactions not in the ordinary course of business;

4. Guarantees or undertakings for the benefit of an affiliate which result in an actual contingent exposure of the insurer's assets to liability, other than insurance contracts entered into in the ordinary course of the insurer's business;

5. All management agreements, exclusive agent agreements, service contracts and all cost-sharing arrangements;

6. Reinsurance agreements;

7. Dividends and other distributions to shareholders; and

8. Consolidated tax allocation agreements.

(d) Any pledge of the insurer's stock, including stock of any subsidiary or affiliate having control of the insurer, for a loan made to any member of the insurance holding company system;

(e) Other matters concerning transactions between registered insurers and any affiliates as may be included from time to time in any registration forms adopted or approved by the commissioner.

(4) SUMMARY OF REGISTRATION STATEMENT. All registration statements shall contain a summary on form C contained in the appendix to this chapter outlining all items in the current registration statement representing changes from the prior registration statement.

(5) MATERIALITY. No information need be disclosed on the registration statement required under this section if the information is not material for the purposes of this section. Any transaction related to a management, exclusive agency or similar agreement or which is a service contract or cost-sharing arrangement is a material transaction. Any other transaction subject to sub. (3) is a material transaction if it involves or exposes to risk in a single transaction or group or series of related transactions an amount which is more than .5% of the insurer's admitted assets as of the 31st day of December of the immediately preceding calendar year, unless the commissioner by order provides otherwise.

(6) AFFILIATE TO PROVIDE INFORMATION. A person within an insurance holding company system which includes an insurer subject to registration shall provide to the insurer any information which is reasonably necessary to enable the insurer to comply with this chapter and ch. 617, Stats. The person shall provide complete and accurate information.

(7) CONSOLIDATED FILING. The commissioner may require or allow 2 or more insurers which are affiliates subject to registration to file a consolidated registration statement.

Ins 40.04 STANDARDS FOR TRANSACTIONS WITHIN A HOLDING COMPANY

SYSTEM. (1) TRANSACTIONS WITHIN A HOLDING COMPANY SYSTEM. An insurer, or affiliate of an insurer, which is required to register under s. Ins 40.03 may not enter directly or indirectly into a transaction between the insurer and the affiliate unless the insurer and affiliate:

(a) Comply with s. 617.21 (1), Stats. and sub. (6);

(b) Expenses incurred and payment received for the transaction are allocated to the insurer in conformity with customary insurance accounting practices consistently applied; and

(c) The books, accounts and records of each party to the transaction clearly and accurately disclose the nature and details of the transaction including the accounting information which is necessary to support the reasonableness of the charges or fees to the respective parties.

(2) TRANSACTIONS REQUIRED TO BE REPORTED AND SUBJECT TO DISAPPROVAL.

A domestic insurer, and a person attempting to acquire control of a domestic insurer, or an affiliate of a domestic insurer, which directly or indirectly is involved in or benefits from, a transaction, shall report, under s. 617.21 (2), Stats., each of the following transactions to the commissioner in writing at least 30 days before the domestic insurer enters into the transaction, unless the commissioner in writing approves a shorter period:

(a) Sales, purchases, exchanges, loans, extensions of credit, guarantees, or investments involving the domestic insurer and an affiliate or a person attempting to acquire control of the domestic insurer if the transactions are equal to or exceed the lesser of 2% of the domestic insurer's admitted assets or 10% of policyholder surplus as of the 31st day of December of the immediately preceding calendar year;

(b) Loans or extensions of credit or guarantees to any person who is not an affiliate, where the domestic insurer makes loans, extensions of credit

or guarantees with the agreement or understanding that the proceeds of the transactions or benefit of the guarantees, in whole or in significant part, directly or indirectly, are to be used to make loans or extensions of credit to, to purchase assets of, or to make investments in, any affiliate of the domestic insurer making the loans, extensions of credit, or guarantee, or any person attempting to acquire control of the insurer, if the transactions are equal to or exceed the lesser of 2% of the domestic insurer's admitted assets or 10% of policyholder surplus as of the 31st day of December of the immediately preceding calendar year;

(c) Reinsurance agreements, or modifications to reinsurance agreements, which involve a domestic insurer and either an affiliate or a person attempting to acquire control of the domestic insurer in which the reinsurance premium or a change in the insurer's liabilities equals or exceeds 5% of the insurer's policyholder surplus, as of the 31st day of December of the immediately preceding calendar year, including, but not limited to, those agreements which may require as consideration the transfer of assets from an insurer to a nonaffiliate, if an agreement or understanding exists between the insurer and nonaffiliate that any portion of the assets will be transferred to one or more affiliates of the insurer;

(d) All management agreements, exclusive agency agreements, service contracts or cost-sharing arrangements which involve a domestic insurer and either an affiliate or a person attempting to acquire control of the domestic insurer;

(e) A transaction not in the ordinary course of business which involves a domestic insurer and either an affiliate of, or a person attempting to acquire control of, a domestic insurer and which involves or exposes to risk an amount equal to or exceeding the lesser of 2% of the domestic

insurer's admitted assets or 10% of policyholder surplus as of the 31st day of December of the immediately preceding calendar year; and

(f) Any material transactions which the commissioner requires to be reported by order.

(3) ILLEGAL TRANSACTIONS NOT AUTHORIZED. This section does not authorize or permit any transaction which would be otherwise contrary to law.

(4) GROUP OR SERIES OF RELATED TRANSACTIONS. For the purpose of applying sub. (2) a group or series of related transactions shall be treated as if they are a single transaction.

(5) SUBTERFUGE PROHIBITED. A domestic insurer, person attempting to acquire control of a domestic insurer, person having control of a domestic insurer or affiliate of a domestic insurer may not enter into transactions which are part of a group or series of transactions if the purpose of those separate transactions is to attempt to avoid a threshold amount under this chapter.

(6) DISAPPROVAL. Transactions subject to reporting under sub. (2) may be disapproved by the commissioner under s. 617.21 (3), Stats. No person may enter into or assent to a transaction that is disapproved by the commissioner or which is subject to reporting under sub. (2) but not reported.

(7) INSURER MAY REPORT ON BEHALF OF AFFILIATE OR PERSON ATTEMPTING TO ACQUIRE CONTROL. A domestic insurer may file a report under sub. (2) on behalf of its affiliate or of the person attempting to acquire control of the insurer. Lack of knowledge that an insurer has not reported on behalf of the affiliate or person or that the report is incomplete or inaccurate is not a defense for the affiliate or person attempting to acquire control of the insurer.

Ins 40.05 PRIVILEGED INFORMATION. The information required to be filed with the commissioner under s. Ins 40.02 is required under s. 601.42, Stats., and the commissioner may keep it confidential under s. 601.465, Stats.

SUBCHAPTER II

INSURANCE HOLDING COMPANY SYSTEMS-REPORTING FORMS

Ins 40.11 INSTRUCTIONS. (1) GENERAL. Forms A, B, C, and D contained in the appendix to this chapter are intended to be guides in the preparation of the statements required by subch. I of this chapter. They are not intended to be blank forms which are to be filled in. The statements filed shall contain the numbers and captions of all items, but the text of the items may be omitted provided the answers are prepared in such a manner as to indicate clearly the scope and coverage of the items. All instructions, whether appearing under the items of the form or elsewhere therein, are to be omitted. Unless expressly provided otherwise, if any item is inapplicable or the answer is in the negative, an appropriate statement to that effect shall be made.

(2) FILING FORMAT AND PROCEDURE. (a) One complete copy of each statement, including exhibits and all other papers and documents filed as a part of the statement, shall be filed with the commissioner. A copy of form C shall be filed in each state in which an insurer is authorized to do business, if the commissioner of that state has notified the insurer of its request in writing, in which case the insurer has 15 days from receipt of the notice to file such form. At least one of the copies shall be manually signed in the manner prescribed on the form. Unsigned copies shall be conformed. If the signature of any person is affixed pursuant to a power of attorney or other similar authority, a copy of the power of attorney or other authority shall also be filed with the statement.

(b) Statements shall be prepared on paper 8 1/2" x 11" in size and preferably bound at the top or the top left-hand corner. Exhibits and financial statements, unless specifically prepared for the filing, may be submitted in their original size. All copies of any statement, financial statements or exhibits shall be clear, easily readable and suitable for photocopying. Debits in credit categories and credits in debit categories shall be designated so as to be clearly distinguishable as such on photocopies. Statements shall be in the English language and monetary values shall be stated in United States currency. If any exhibit or other paper or document filed with the statement is in a foreign language, it shall be accompanied by a translation into the English language and any monetary value shown in a foreign currency shall be converted into United States currency.

Ins 40.12 FORMS-INCORPORATION BY REFERENCE, SUMMARIES AND OMISSIONS.

(1) INCORPORATION BY REFERENCE. Information required by any item of form A, form B or form D may be incorporated by reference in answer or partial answer to any other item. Information contained in any financial statement, annual report, proxy statement, statement filed with a governmental authority, or any other document may be incorporated by reference in answer or partial answer to any item of form A, form B or form D provided the document or paper is filed as an exhibit to the statement. Excerpts of documents may be filed as exhibits if the documents are extensive. Documents currently on file with the commissioner which were filed within 3 years need not be attached as exhibits. References to information contained in exhibits or in documents already on file shall clearly identify the material and shall specifically indicate that the material is to be incorporated by reference in answer to the item. Matter shall not be incorporated by reference in any case where the incorporation would render the statement incomplete, unclear or confusing.

(2) SUMMARY. Where an item requires a summary or outline of the provisions of any document, only a brief statement shall be made as to the pertinent provisions of the document. In addition to the statement, the summary or outline may incorporate by reference particular parts of any exhibit or document currently on file with the commissioner which was filed within 3 years and may be incorporated in its entirety by the reference. In any case where 2 or more documents required to be filed as exhibits are substantially identical in all material respects except as to the parties to the documents, the dates of execution, or other details, a copy of only one of the documents need be filed with a schedule identifying the omitted documents and setting forth the material details in which such documents differ from the documents, a copy of which is filed.

Ins 40.13 FORMS-INFORMATION UNKNOWN OR UNAVAILABLE AND EXTENSION OF TIME TO FURNISH. (1) UNKNOWN OR UNAVAILABLE INFORMATION. Information required to be submitted under this chapter need be given only insofar as it is known or reasonably available to the person filing the statement. If any required information is unknown or not reasonably available to the person filing, either because obtaining it would involve unreasonable effort or expense, or because it rests peculiarly within the knowledge of another person who is not an affiliate of the person filing, the information may be omitted, subject to the following conditions:

(a) The person filing shall give the information on the subject as it possesses or can acquire without unreasonable effort or expense, together with the sources of the information; and

(b) The person filing shall include a statement either showing that unreasonable effort or expense would be involved or indicating the absence of any affiliation with the person within whose knowledge the information rests and stating the result of a request made to the person for the information.

(2) EXTENSION. If it is impractical to furnish any required information, document or report at the time it is required to be filed, the person required to file may file with the commissioner a separate document:

- (a) Identifying the information, document or report in question;
- (b) Stating why the filing at the time required is impractical; and
- (c) Requesting an extension of time for filing the information, document or report to a specified date.

(3) TIME TO ALLOW. A request for extension shall be deemed granted unless the commissioner within 60 days after receipt of a complete request enters an order denying the request.

Ins 40.14 FORMS-ADDITIONAL INFORMATION AND EXHIBITS. (1)
SUPPLEMENTAL INFORMATION. In addition to the information expressly required to be included in form A, form B, form C and form D contained in the appendix to this chapter, the person required to file shall add the further material information, if any, which is necessary to make the information contained in the statements accompanying the forms not misleading. The person filing may also file such exhibits as it may desire in addition to those expressly required by the statement. Those exhibits shall be so marked as to indicate clearly the subject matters to which they refer.

(2) CHANGES. Changes to forms A, B, C or D shall be submitted as required under ss. Ins 40.02 (4), 40.04(2) and 40.13 (2) and shall include on the top of the cover page the phrase: "Change No. [insert number] to" and indicate the date of the change and not the date of the original filing.

Ins 40.15 REGISTRATION FORM. A person required to file a registration statement under this chapter shall furnish the required information on form B and on form C contained in the appendix to this chapter. An insurer shall file a copy of form C in each state in which the

insurer is authorized to do business, if requested by the commissioner of that state.

Ins 40.16 ALTERNATIVE AND CONSOLIDATED REGISTRATIONS. (1) FILING FOR AFFILIATE INSURER. If an authorized insurer files a registration statement on behalf of an insurer which is its affiliate and which is required to register under this chapter, the registration statement may include information which is not required by this chapter regarding any insurer in the insurance holding company system even if the insurer is not authorized to do business in this state. In lieu of filing a registration statement on form B, the authorized insurer may file a copy of the registration statement or similar report which it is required to file in its state of domicile, if:

(a) The statement or report contains substantially similar information required to be furnished on form B; and

(b) The filing insurer is the principal insurer in the insurance holding company system.

(2) PRINCIPAL INSURER STATEMENT. The question of whether the filing insurer is the principal insurer in the insurance holding company system is a question of fact. An insurer filing a registration statement or report in lieu of form B on behalf of an insurer which is its affiliate, shall set forth a brief statement of facts which will substantiate the filing insurer's claim that it, in fact, is the principal insurer in the insurance holding company system.

(3) UNAUTHORIZED INSURER. With the prior approval of the commissioner, an unauthorized insurer may follow any of the procedures which could be done by an authorized insurer under sub. (1).

Ins 40.17 TRANSACTIONS SUBJECT TO PRIOR NOTICE-NOTICE FILING. A person required to give notice of a proposed transaction under this chapter shall furnish the required information on form D.

Ins 40.18 EXTRAORDINARY DIVIDENDS AND OTHER DISTRIBUTIONS. Requests for approval of extraordinary dividends or any other extraordinary distribution to shareholders shall include the following:

(1) The amount of the proposed dividend;

(2) The date established for payment of the dividend;

(3) A statement as to whether the dividend is to be in cash or other property and, if in property, a description of the property, its cost, and its fair market value together with an explanation of the basis for valuation;

(4) A copy of the calculations determining that the proposed dividend is extraordinary. The calculations shall include the following information:

(a) The amounts, dates and form of payment of all dividends or distributions, including regular dividends but excluding distributions of the insurer's own securities, paid within the period of 12 consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the previous calendar year;

(b) Policyholder surplus as of the 31st day of December of the immediately preceding calendar year;

(c) If the insurer is a life insurer, the net income less realized capital gains for the previous calendar year;

(d) If the insurer is not a life insurer, the net income less realized capital gains for the previous calendar year and the 2 calendar years preceding that calendar year; and

(e) If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding 3 calendar years.

(5) A balance sheet and statement of income for the period intervening from the last annual statement filed with the commissioner and the

end of the month preceding the month in which the request for dividend approval is submitted.

(6) A brief statement as to the effect of the proposed dividend upon the insurer's policyholder surplus and the reasonableness of policyholder surplus in relation to the insurer's outstanding liabilities and the adequacy of policyholder surplus relative to the insurer's financial needs.

Ins 40.19 CONSENT TO JURISDICTION. Any person required to file consent to jurisdiction under s. 617.11 (5), Stats., shall do so using form E contained in the appendix to this chapter.

APPENDIX TO CHAPTER 40

FORM A

**STATEMENT REGARDING THE
ACQUISITION OF CONTROL OF OR MERGER WITH A DOMESTIC INSURER**
Filed with the Office of the Commissioner of Insurance, State of Wisconsin

Name of Domestic Insurer

By

Name of Acquiring Person (Applicant)

Filed with the insurance department of _____
(state of domicile of insurer being acquired)

Date: _____, _____

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

ITEM 1. INSURER AND METHOD OF ACQUISITION

State the name and address of the domestic insurer to which this application relates and briefly describe how control is to be acquired.

ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT

(a) State the name and address of the applicant seeking to acquire control over the insurer.

(b) If the applicant is not an individual, state the nature of its business operations for the past 5 years or for such lesser period as such person and any predecessors thereof shall have been in existence. Briefly describe the business intended to be done by the applicant and the applicant's subsidiaries.

(c) Furnish a chart or listing clearly presenting the identities of the interrelationships among the applicant and all affiliates of the applicant. No affiliate need be identified if its total assets are equal to less than .5% of the total assets of the ultimate controlling person of the applicant. Indicate in such chart or listing the percentage of voting securities of each such person which is owned or controlled by the applicant or by any other such person. If control of any person is maintained other than by the ownership or control of voting securities, indicate the basis of such control. As to each person specified in such chart or listing indicate the type of organization (e.g., corporation, trust, partnership) and the state of domicile. If court proceedings involving a reorganization or liquidation are pending with respect to any such person, indicate which person, and set forth the title of the court, nature of proceedings and the date when commenced.

ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT

State the following with respect to (1) the applicant if the applicant is an individual or (2) all persons who are directors, executive officers or owners of 10% or more of the voting securities of the applicant if the applicant is not an individual.

(a) Name and business address;

(b) Present principal business activity, occupation or employment including position and office held and the name, principal business and address of any corporation or other organization in which such employment is carried on;

(c) Material occupations, positions, offices or employment during the last 5 years, giving the starting and ending dates of each and the name, principal business and address of any business corporation or other organization in which each such occupation, position, office or employment was carried on; if any such occupation, position, office or employment required licensing by or registration with any federal, state or municipal governmental agency, indicate such fact, the current status of such licensing or registration, and an explanation of any surrender, revocation, suspension or disciplinary proceedings in connection with the license or registration whether pending or concluded.

(d) Whether or not such person has ever been convicted in a criminal proceeding (excluding traffic violations not involving death or injury) during the last 10 years and, if so, give the date, nature of conviction, name and location of court, and penalty imposed or other disposition of the case.

ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION

(a) Describe the nature, source and amount of funds or other considerations used, or to be used, in effecting the merger or other acquisition of control. If any part of the same is represented or is to be represented by funds or other consideration borrowed or otherwise obtained for the purpose of acquiring, holding or trading securities, furnish a description of the transaction, the names of the parties thereto, the relationship, if any, between the borrower and the lender, the amounts borrowed or to be borrowed, and copies of all agreements, promissory notes and security arrangements relating thereto.

(b) Explain the criteria used in determining the nature and amount of such consideration.

ITEM 5. APPLICANT'S FUTURE PLANS FOR THE INSURER

Describe any plans or proposals which the applicant may have to declare an extraordinary dividend, to liquidate the insurer, to sell the insurer's assets to or merge it with any person or persons or to make any other material change in its business operations or corporate structure or management.

ITEM 6. VOTING SECURITIES TO BE ACQUIRED

State the number of shares of the insurer's voting securities which the applicant, its affiliates and any person listed in Item 3 plan to acquire; and the terms of the offer, request, invitation, agreement or acquisition; and a statement as to the method by which the fairness of the proposal was arrived at.

ITEM 7. OWNERSHIP OF VOTING SECURITIES

State the amount of each class of any voting security of the insurer which is beneficially owned or concerning which there is a right to acquire beneficial ownership by the applicant, its affiliates or any person listed in Item 3.

ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER

Give a full description of any contracts, arrangements or understandings with respect to any voting security of the insurer in which the applicant, its affiliates or any person listed in Item 3 is involved, including but not limited to transfer of any of the securities, joint ventures, loan or option arrangements, puts or calls, guarantees of loans, guarantees against loss or guarantees of profits, division of losses or profits, or the giving or withholding of proxies. Such description shall identify the persons with whom the contracts, arrangements or understandings have been entered into.

ITEM 9. RECENT PURCHASES OF VOTING SECURITIES

Describe any purchases of any voting securities of the insurer by the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement. Include in the description the dates of purchase, the names of the purchasers, and the consideration paid or agreed to be paid therefor. State whether any shares so purchased are hypothecated.

ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE

Describe any recommendations to purchase any voting security of the insurer made by the applicant, its affiliates or any person listed in Item 3, or by anyone based upon interviews or at the suggestion of the applicant, its affiliates or any person listed in Item 3 during the 12 calendar months preceding the filing of this statement.

ITEM 11. AGREEMENTS WITH BROKER-DEALERS

Describe the terms of any agreement, contract or understanding made with any broker-dealer as to solicitation of voting securities of the insurer for tender and the amount of any fees, commissions or other compensation to be paid to broker-dealers with regard thereto.

ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS

(a) Attach financial statements and exhibits to this statement as an appendix, but list under this item the financial statements and exhibits so attached.

(b) The financial statements shall include the annual financial statements of the persons identified in Item 2(c) for the preceding 5 fiscal years (or for such lesser period as such applicant and its affiliates and any predecessors thereof shall have been in existence), and similar information covering the period from the end of such person's last fiscal year, if the information is available. The statements may be prepared either on an individual basis or, unless the commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.

The annual financial statements of the applicant shall be accompanied by the certificate of an independent public accountant to the effect that such statements present fairly the financial position of the applicant and the results of its operations for the person's last fiscal year, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the applicant is an insurer which is actively engaged in the business of insurance, the financial statements need not be certified, provided they are based on the annual statement of the person filed with the insurance department of the person's state of domicile and are in accordance with the requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of the state.

(c) File as exhibits copies of all tender offers for, requests or invitations for, tenders of, exchange offers for, and agreements to acquire or exchange any voting securities of the insurer and (if distributed) of additional soliciting material relating thereto, any proposed employment, consultation, advisory or management contracts concerning the insurer, annual reports to the stockholders of the insurer and the applicant for the last 2 fiscal years, and any additional documents or papers required by form A or ss. Ins 40.11 and 40.13, Wis. Adm. Code.

ITEM 13. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code,
_____ has caused this application to be duly signed on
its behalf in the city of _____ and state of _____
on the _____ day of _____, _____.

(SEAL)

Name of Applicant

BY _____

(Name) (Title)

Attest:

(Signature of Officer)

(Title)

The undersigned deposes and says that (s)he has duly executed the
attached application dated _____, _____, for and on behalf
of _____; that (s)he is the _____
(Name of Applicant) (Title of Officer)

of such company and that (s)he is authorized to execute and file such
instrument. Deponent further says that (s)he is familiar with the instrument
and the contents thereof, and that the facts therein set forth are true to the
best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

Subscribed and sworn to this
_____ day of _____, _____.

Notary Public
My commission expires on _____

FORM B

INSURANCE HOLDING COMPANY SYSTEM ANNUAL REGISTRATION STATEMENT

Filed with the Office of the Commissioner of Insurance, State of Wisconsin

By

Name of Registrant

On behalf of following insurers

Name:

Address:

Date: _____, _____

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

ITEM 1. IDENTITY AND CONTROL OF REGISTRANT

Furnish the exact name of each insurer registering or being registered (hereinafter called "the Registrant"), the home office address and principal executive offices of each; the date on which each registrant became part of the insurance holding company system; and the method(s) by which control of each registrant was acquired and is maintained.

ITEM 2. ORGANIZATIONAL CHART

Furnish a chart or listing clearly presenting the identities of and interrelationships among all affiliate persons within the insurance holding company system. No affiliate need be shown if the affiliate's total assets are equal to or less than .5% of the total assets of the ultimate controlling person within the insurance holding company system unless it has assets valued at or exceeding \$10,000,000. The chart or listing should show the percentage of each class of voting securities of each affiliate which is owned, directly or indirectly, by another affiliate. If control of any person within the system is maintained other than by the ownership or control of voting securities, indicate the basis of control. As to each person specified in the chart or listing indicate the type of organization (e.g., - corporation, trust, partnership) and the state of domicile.

ITEM 3. THE ULTIMATE CONTROLLING PERSON

As to the ultimate controlling person in the insurance holding company system furnish the following information:

- (a) Name;
- (b) Home office address;
- (c) Principal executive office address;
- (d) The organizational structure of the person, i.e., corporation, partnership, individual, trust, etc.;
- (e) The principal business of the person;
- (f) The name and address of any person who holds or owns 10% or more of any class of voting security, the class of such security, the number of shares held of record or known to be beneficially owned, and the percentage of class so held or owned;
- (g) If court proceedings involving a reorganization or liquidation are pending, indicate the title and location of the court, the nature of proceedings and the date when commenced.

ITEM 4. BIOGRAPHICAL INFORMATION

Furnish the following information for the directors and executive officers of the ultimate controlling person: the individual's name and address, his or her principal occupation and all offices and positions held during the past 5 years, and any conviction of crimes other than traffic violations not involving death or injury during the past 10 years.

ITEM 5. TRANSACTIONS AND AGREEMENTS

Briefly describe the following agreements in force, and transactions currently outstanding or which have occurred during the last calendar year between the registrant and its affiliates:

- (a) Loans, other investments, or purchases, sales or exchanges of securities of the affiliates by the Registrant or of the Registrant by its affiliates;
- (b) Purchases, sales, extensions of credit or exchanges of assets;
- (c) Transactions not in the ordinary course of business;
- (d) Guarantees or undertakings for the benefit of an affiliate which result in an actual contingent exposure of the Registrant's assets to liability, other than insurance contracts entered into in the ordinary course of the registrant's business;

(e) All management agreements, exclusive agency agreements, service contracts and all cost-sharing arrangements;

(f) Reinsurance agreements;

(g) Dividends and other distributions to shareholders;

(h) Consolidated tax allocation agreements; and

(i) Any pledge of the Registrant's stock or of the stock of any subsidiary or affiliate having control of the insurer, for a loan made to any member of the insurance holding company system.

No information need be disclosed if the information is not material according to s. Ins 40.03 (5), Wis. Adm. Code.

Sales, purchases, exchanges, loans or extensions of credit, investments or guarantees involving .5% or less of the registrant's admitted assets as of the 31st day of December next preceding shall not be deemed material.

Note: Commissioner may by order provide otherwise.

The description shall be in a manner as to permit the proper evaluation thereof by the commissioner, and shall include at least the following: the nature and purpose of the transaction, the nature and amounts of any payments or transfers of assets between the parties, the identity of all parties to the transaction, and relationship of the affiliates of the registrant.

ITEM 6. LITIGATION OR ADMINISTRATIVE PROCEEDINGS

Briefly describe any litigation or administrative proceedings of the following types, either then pending or concluded within the preceding fiscal year, to which the ultimate controlling person or any of its directors or executive officers is or was a party or of which the property of any such person is or was the subject; give the names of the parties and the court or agency in which the litigation or proceeding was held or is pending:

(a) Criminal prosecutions or administrative proceedings by any government agency or authority which may be relevant to the trustworthiness of any party thereto; and

(b) Proceedings which may have a material effect upon the solvency or capital structure of the ultimate controlling person including, but not necessarily limited to, bankruptcy, receivership or other corporate reorganizations.

ITEM 7. STATEMENT REGARDING GROUP OR SERIES OF TRANSACTIONS

Furnish a statement that transactions entered into since the filing of the prior year's annual registration statement are neither part of a group or series of related or like transactions nor made for the purpose of avoiding regulatory threshold amounts and the review that might otherwise occur. Groups or series of related transactions shall be treated as single transactions.

ITEM 8. FINANCIAL STATEMENTS AND EXHIBITS

(a) Attach financial statements and exhibits to this statement as an appendix, and list under this item the financial statements and exhibits so attached.

(b) The financial statements shall include the annual financial statements of the ultimate controlling person in the insurance holding company system as of the end of the person's immediately preceding fiscal year.

If at the time of the initial registration, the annual financial statements for the immediately preceding fiscal year are not available, annual statements for the previous fiscal year may be filed and similar financial information shall be filed for any subsequent period to the extent such information is available. Such financial statements may be prepared either on an individual basis or unless the commissioner otherwise requires, on a consolidated basis if consolidated statements are prepared in the usual course of business.

Unless the commissioner otherwise permits, the annual financial statements shall be accompanied by the certificate of an independent public accountant to the effect that the statements present fairly the financial position of the ultimate controlling person and the results of its operations for the year then ended, in conformity with generally accepted accounting principles or with requirements of insurance or other accounting principles prescribed or permitted under law. If the ultimate controlling person is an insurer which is actively engaged in the business of insurance, the annual financial statements need not be certified, provided they are based on the annual statement of the insurer filed with the insurance department of the insurer's state of domicile and are in accordance with requirements of insurance or other accounting principles prescribed or permitted under the law and regulations of that state.

(c) Exhibits shall include copies of the last annual reports to shareholders of the ultimate controlling person, proxy material used by the ultimate controlling person, and any additional documents or papers required by form B or ch. Ins 40, Wis. Adm. Code.

ITEM 9. FORM C REQUIRED

A form C, Summary of Registration Statement, must be prepared and filed with this form B.

ITEM 10. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, Registrant has caused this annual registration statement to be duly signed on its behalf in the city of _____ and state of _____ on the _____ day of _____, _____.

(SEAL) _____
Name of Registrant
BY _____
(Name) (Title)

Attest:

(Signature of Officer)

(Title)

The undersigned deposes and says that (s)he has duly executed the attached annual registration statement dated _____, _____, for and on behalf of _____; that (s)he is the _____ (Name of Registrant) _____ and that (s)he is authorized to _____ (Title of Officer)

execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)
(Type or print name beneath)

Subscribed and sworn to this _____ day of _____, _____.

Notary Public
My commission expires on _____

FORM C

SUMMARY OF REGISTRATION STATEMENT

Filed with the office of the commissioner of insurance, state of Wisconsin

By

Name of Registrant

On behalf of following insurers

Name:

Address:

Date: _____, _____

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

Furnish a brief description of all items in the annual registration statement, form B, which are required to be filed with this form, which represent changes from the prior year's annual registration statement. The description shall be in a manner as to permit the proper evaluation thereof by the commissioner and shall include specific references to item numbers in the annual registration statement and to the terms contained therein.

Changes occurring under Item 2 of form B insofar as changes in the percentage of each class of voting securities held by each affiliate is concerned, need only be described where such changes are ones which result in ownership or holdings of 10% or more of voting securities, loss or transfer of control, or acquisition or loss of partnership interest.

Changes occurring under Item 4 of form B need only be described where an individual is, for the first time, made a director or executive officer of the ultimate controlling person; a director or executive officer terminates his or her responsibilities with the ultimate controlling person; or in the event an individual is named president of the ultimate controlling person.

If a transaction disclosed on the immediately prior year's annual registration statement has been changed, the nature of such change shall be included. If a transaction disclosed on the prior year's annual registration statement has been effectuated, describe the mode of completion and any flow of funds between affiliates resulting from the transaction.

The insurer shall furnish a statement that transactions entered into since the filing of the immediately prior year's annual registration statement are not part of a group or series of like transactions or entered into for the purpose of avoiding reporting threshold amounts.

SIGNATURE

Signature and certification required as follows:

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, Registrant has caused this annual summary of the registration statement to be duly signed on its behalf of the city of _____ and State of _____ on the _____ day of _____, _____.

(SEAL) _____
Name of Registrant

BY _____
(Name) (Title)

Attest:

(Signature of Officer)

(Title)

The undersigned deposes and says that (s)he has duly executed the attached annual registration statement dated _____, _____, for and on behalf of _____; that (s)he is the
(Name of Registrant)

_____ of such Registrant and that (s)he is
(Title of Officer)

authorized to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

Subscribed and sworn to this
_____ day of _____, _____

Notary Public
My commission expires _____

FORM D

PRIOR NOTICE OF A TRANSACTION

Filed with the office of the commissioner of insurance, state of Wisconsin

By

Name of Registrant

On behalf of following insurers

Name:

Address:

Date: _____, _____

Name, title, address and telephone number of individual to whom notices and correspondence concerning this statement should be addressed:

ITEM 1. IDENTITY OF PARTIES TO TRANSACTION

Furnish the following information for each of the parties to the transaction covered under s. 617.21 (2), Stats., and s. Ins 40.04 (2), Wis. Adm. Code:

- (a) Name;
- (b) Home office address;
- (c) Principal executive office address;
- (d) The organizational structure, i.e., corporation, partnership, individual, trust, etc.;
- (e) A description of the nature of the parties' business operations;
- (f) Relationship, if any, of other parties to the transaction to the insurer filing the notice, including any ownership or debtor/creditor interest by any other parties to the transaction in the insurer seeking approval, or by the insurer filing the notice for the affiliates;
- (g) Where the transaction is with a non-affiliate, the name(s) of the affiliate(s) which will receive, in whole or in substantial part, the proceeds of the transaction.

ITEM 2. DESCRIPTION OF THE TRANSACTION

Furnish the following information for each transaction for which notice is being given:

(a) A statement as to whether notice is being given under s. Ins 40.04 (2) (a), (b), (c), (d), (e) or (f);

(b) A statement of the nature of the transaction; and

(c) The proposed effective date of the transaction.

ITEM 3. SALES, PURCHASES, EXCHANGES, LOANS, EXTENSIONS OF CREDIT, GUARANTEES OR INVESTMENTS

Furnish a brief description of the amount and source of funds, securities, property or other consideration for the sale, purchase, exchange, loan, extension of credit, guarantee, or investment. Describe any provision for purchase of the insurer filing notice, by any party to the transaction, or by any affiliate of the insurer filing notice. Give a description of the terms of any securities being received, if any, and a description of any other agreements relating to the transaction such as contracts or agreements for services, consulting agreements and the like. If the transaction involves other than cash, furnish a description of the consideration, its cost and its fair market value, together with an explanation of the basis for evaluation.

If the transaction involves a loan, extension of credit or a guarantee, furnish a description of the maximum amount which the insurer will be obligated to make available under such loan, extension of credit or guarantee, the date on which the credit or guarantee will terminate, and any provisions for the accrual of or deferral of interest.

If the transaction involves an investment, guarantee or other arrangement, state the time period during which the investment, guarantee or other arrangement will remain in effect, together with any provisions for extensions or renewals of such investments, guarantees or arrangements. Furnish a brief statement as to the effect of the transaction upon the insurer's policyholder surplus.

No notice need be given if the maximum amount which can at any time be outstanding or for which the insurer can be legally obligated under the loan, extension of credit or guarantee is less than (a) in the case of nonlife insurers, the lesser of 2% of the insurer's admitted assets or 10% of policyholder surplus or (b) in the case of life insurers, the lesser of 2% of the insurer's admitted assets or 10% of policyholder surplus, each as of the 31st day of December of the immediately preceding calendar year.

ITEM 4. LOANS, EXTENSIONS OF CREDIT, OR GUARANTEES TO OR FOR A NONAFFILIATE

If the transaction involves a loan, extension of credit, or guarantee to any person who is not an affiliate, furnish a brief description of the agreement or understanding whereby the proceeds of the proposed transaction, in whole or in substantial part, are to be used to make loans or extensions of credit to, to purchase the assets of, or to make investments in, any affiliate of the insurer making such loans, extensions of credit, or guarantee. Specify in what manner the proceeds are to be used to loan to, extend credit to, purchase assets of or make investments in any affiliate. Describe the amount and source of funds, securities, property or other consideration for the loan or extension of credit and, if the transaction is one involving consideration other than cash, describe its cost and its fair market value together with an explanation of the basis for evaluation. Furnish a brief statement as to the effect of the transaction upon the insurer's policyholder surplus.

No notice need be given if the loan or extension of credit is one which equals less than the lesser of 2% of the insurer's admitted assets or 10% of policyholder surplus as of the 31st day of December of the immediately preceding calendar year.

ITEM 5. REINSURANCE

If the transaction is a reinsurance agreement or modification thereto, as described by s. Ins 40.04 (2) (c), furnish a description of the known and estimated amount of liability to be ceded or assumed in each calendar year, the period of time during which the agreement will be in effect, and a statement whether an agreement or understanding exists between the insurer and nonaffiliate to the effect that any portion of the assets constituting the consideration for the agreement will be transferred to one or more of the insurer's affiliates. Furnish a brief description of the consideration involved in the transaction and a brief statement as to the effect of the transaction upon the insurer's policyholder surplus.

No notice need be given for reinsurance agreements or modifications thereto if the reinsurance premium or the change in the insurer's liabilities in connection with the reinsurance agreement or modification thereto is less than 5% of the insurer's policyholder surplus, as of the 31st day of December of the immediately preceding calendar year.

ITEM 6. MANAGEMENT AGREEMENTS, SERVICE AGREEMENTS AND COST-SHARING ARRANGEMENTS

For management and service agreements, furnish:

(a) A brief description of the managerial responsibilities, or services to be performed;

(b) A brief description of the agreement, including a statement of its duration, together with brief descriptions of the basis for compensation and the terms under which payment or compensation is to be made.

For cost-sharing arrangements, furnish:

(a) A brief description of the purpose of the agreement;

(b) A description of the period of time during which the agreement is to be in effect;

(c) A brief description of each party's expenses or costs covered by the agreement;

(d) A brief description of the accounting basis to be used in calculating each party's costs under the agreement.

ITEM 7. TRANSACTIONS NOT IN THE ORDINARY COURSE OF BUSINESS

Provide a brief but complete description of any transaction not in the ordinary course of business.

ITEM 8. OTHER TRANSACTIONS REPORTABLE UNDER AN ORDER

Provide a brief but complete description of any transaction reportable under an order.

ITEM 9. SIGNATURE AND CERTIFICATION

Signature and certification required as follows:

SIGNATURE

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code,
_____ has caused this notice to be duly signed on its behalf in
the city of _____ and state of _____ on
the _____ day of _____, _____.

(SEAL) _____
Name of Registrant

BY _____
(Name) (Title)

Attest:

(Signature of Officer)

(Title)

The undersigned deposes and says that (s)he has duly executed the attached notice dated _____, _____, for and on behalf of _____; and that (s)he is the

(Name of Registrant)

_____ and that (s)he is authorized

(Title of Officer)

to execute and file such instrument. Deponent further says that (s)he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his/her knowledge, information and belief.

(Signature)

(Type or print name beneath)

Subscribed and sworn to this
_____ day of _____, _____

Notary Public

My commission expires _____

FORM E
CONSENT TO JURISDICTION STATEMENT

Filed with the office of the commissioner of insurance, of the state of Wisconsin

BY

Name of Affiliate

On Behalf of the Following Insurers

Name	Address
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

Date: _____, 19____

Name, Title, Address and Telephone Number of Individual to Whom Notices and Correspondence Concerning this Statement Should be Addressed:

CONSENT TO JURISDICTION

The, (I), _____, an affiliate of _____,
(Affiliate) (Insurer)
an insurer authorized to do business in the state of Wisconsin, pursuant to
the requirements of ch. 617, Stats., do hereby consent to the jurisdiction of
the Commissioner of Insurance and the courts of the state of Wisconsin.

SIGNATURE

_____ has caused this statement to be duly
(Name of Affiliate)
signed on its behalf in the city of _____ and state of _____
on the _____ day of _____, 19____

(Name of Affiliate)

(SEAL)

BY _____
(Name)

(Title)

Attest:

(Signature of Officer)

(Title)

CERTIFICATION

The undersigned deposes and says that he or she has duly executed the attached statement dated _____, 19____, for and on behalf of _____ that he or she is the _____
(Name of Affiliate) (Title of Officer)
of such company, and that he or she is authorized to execute and file such instrument. Deponent further says that he or she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his or her knowledge and belief.

(Signature) _____

(Type or print name beneath) _____

Subscribed and sworn to this
_____ day of _____, _____

Notary Public
My commission expires _____

SECTION 16. Chapter Ins 42 is created to read:

CHAPTER 42

MANAGING GENERAL AGENTS

Ins 42.01 DEFINITIONS. In this chapter:

(1) "Actuary" means a person who is a member in good standing of the American Academy of Actuaries.

(2) "Insurer" means an insurer as defined under s. 600.03 (27), Stats., which has a certificate of authority under ch. 611, 612, 613, 614 or 618, Stats.

(3) (a) "Managing general agent" means any person not excluded under par. (b), including, but not limited to, a natural person, who, in or outside this state:

1. Manages all or part of the insurance business of an insurer or manages a separate division, department or underwriting office;

2. Acts as an agent for the insurer; and

3. With or without the authority, either separately or together with affiliates, directly or indirectly:

a. Produces and underwrites in any one quarter or year an amount of gross direct written premium equal to or more than 5% of the policyholder surplus as reported in the last annual statement of the insurer; and

b. Adjusts or pays claims in any one quarter or year in excess of 3% of the policyholder surplus as reported in the last annual statement of the insurer, or negotiates reinsurance on behalf of the insurer, or both.

(b) The following persons are not managing general agents:

1. A person who is not an intermediary under s. 628.02 (1) (b), Stats.;

2. An employe of the insurer;

3. A manager of the United States branch of an alien insurer;

4. An underwriting manager which, under a written contract, manages all or part of the insurance operations of the insurer, is under common control with the insurer, is subject to ch. 617, Stats., and ch. Ins 40, or the laws and rules of another state which are substantially similar to ch. 617, Stats., and ch. Ins 40, and whose compensation is not based on the volume of premiums written; and

5. The attorney-in-fact authorized by and acting for the subscribers of a reciprocal insurer or inter-insurance exchange under powers of attorney.

(4) "Policyholder surplus" means capital and surplus.

(5) "Underwrite" means the authority to accept or reject risk on behalf of the insurer.

Ins 42.02 LICENSURE REQUIRED. (1) No person, including, but not limited to, a natural person, may act as a managing general agent for an insurer with respect to a risk located in this state unless the person is licensed as a managing general agent under ss. 628.04 or 628.09, Stats.

(2) No person, including, but not limited to, a natural person, may act as a managing general agent representing an insurer domiciled in this state with respect to a risk located outside this state unless the person is licensed as a managing general agent under ss. 628.04 or 628.09, Stats.

(3) No insurer, and no officer or director of an insurer, may knowingly assent to or permit a person to act as a managing general agent for the insurer if the person fails to comply with this chapter.

(4) The commissioner may require a managing general agent to maintain a bond in an amount acceptable to the commissioner for the protection of each insurer for which the person acts as managing general agent.

(5) The commissioner may require a managing general agent to maintain an errors and omissions policy.

(6) The commissioner may refuse to issue, suspend, summarily suspend or revoke the license of a managing general agent for violation of ch. 600 to 645, Stats., any rule adopted under ch. 600 to 645, Stats., or on any grounds described in s. 628.10, Stats.

Ins 42.03 REQUIRED CONTRACT PROVISIONS. No person may act as a managing general agent for an insurer unless the person first enters into and subsequently complies with a written contract between the parties which sets forth the responsibilities of each party and, where both parties share responsibility for a particular function, specifies the division of the responsibilities, and which contains the following minimum provisions:

(1) The insurer may terminate the contract for cause upon written notice to the managing general agent. The insurer may suspend the underwriting authority of the managing general agent during the pendency of any dispute regarding the cause for termination.

(2) The managing general agent will render accounts to the insurer detailing all transactions and remit all funds due under the contract to the insurer on not less than a monthly basis.

(3) All funds collected for the account of an insurer will be held by the managing general agent in a fiduciary capacity in a financial institution which is a member of the federal reserve system. This account shall be used for all payments on behalf of the insurer. The managing general agent may retain no more than 3 months estimated claims payments and allocated loss adjustment expenses.

(4) The managing general agent will maintain separate records of business written by the managing general agent for the insurer. The insurer shall have access to, and the right to copy, all accounts and records related to its business in a form usable by the insurer and the commissioner shall have access to all books, bank accounts and records of the managing general

agent in a form usable by the commissioner. The managing general agent shall retain records according to ss. Ins 6.61 and 6.80.

(5) The managing general agent may not assign the contract in whole or in part.

(6) Appropriate underwriting guidelines including, but not limited to:

- (a) The maximum annual premium volume;
- (b) The basis of the rates to be charged;
- (c) The types of risks which may be written;
- (d) Maximum limits of liability;
- (e) Applicable exclusions;
- (f) Territorial limitations;
- (g) Policy cancellation provisions; and
- (h) The maximum policy period.

(7) The insurer may cancel or nonrenew any policy of insurance subject to the applicable laws and rules.

(8) If the contract permits the managing general agent to settle claims on behalf of the insurer:

(a) The managing general agent shall report all claims to the insurer in a timely manner.

(b) The managing general agent shall send a copy of the claim file to the insurer at its request or as soon as it becomes known that the claim:

1. Has equalled or exceeded or has the potential to equal or exceed an amount which is .5% of the insurer's policyholder surplus as of December 31 of the immediately preceding calendar year or exceeds the limit set by the insurer, whichever is less;
2. Involves a coverage dispute;
3. May exceed the managing general agent claims settlement authority;
4. Is open for more than 6 months; or

5. Is closed by payment of an amount equal to or greater than .5% of the insurer's policyholder surplus as of December 31 of the immediately preceding calendar year or an amount set by the insurer, whichever is less.

(9) All claim files will be the joint property of the insurer and managing general agent. However, upon an order of liquidation of the insurer the files shall become the sole property of the insurer or its estate. The contract may provide that the managing general agent may have reasonable access to and the right to copy the files on a timely basis.

(10) Any settlement authority granted to the managing general agent may be terminated for cause upon the insurer's written notice to the managing general agent or upon the termination of the contract. The insurer may suspend the settlement authority during the pendency of any dispute regarding the cause for termination.

(11) The managing general agent will timely transmit to the insurer appropriate data from electronic claims files.

(12) If the contract provides for a sharing of interim profits by the managing general agent, and the managing general agent has the authority to determine the amount of the interim profits by establishing loss reserves or controlling claim payments, or in any other manner, interim profits will not be paid to the managing general agent until one year after they are earned for property insurance business and 5 years after they are earned on casualty business and not until the profits have been verified as required under s. Ins 42.05.

(13) The managing general agent may not:

(a) Bind reinsurance or retrocessions on behalf of the insurer, except that the managing general agent may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines including, for both

reinsurance assumed and ceded, a list of reinsurers with which the automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules;

(b) Commit the insurer to participate in insurance or reinsurance syndicates;

(c) Appoint any subproducer without assuring that the subproducer is lawfully licensed to transact the type of insurance for which the subproducer is appointed;

(d) Without prior approval of the insurer, pay or commit the insurer to pay a claim over a specified amount, net of reinsurance, which shall not exceed 1% of the insurer's policyholder surplus as of December 31 of the last completed calendar year;

(e) Collect any payment from a reinsurer, or commit the insurer to any claim settlement with a reinsurer, without prior approval of the insurer. If prior approval is given, a report must be promptly forwarded to the insurer;

(f) Permit its subproducer to serve on the insurer's board of directors;

(g) Jointly employ an individual who is employed by the insurer; or

(h) Appoint a submanaging general agent.

Ins 42.035 APPLICABILITY. (1) A managing general agent functioning without a written contract on or after the effective date of this chapter [revisor inserts date] is deemed to be subject to terms consistent with s. Ins 42.03.

(2) A managing general agent which first enters into, amends or renews a contract on or after the effective date of this chapter [revisor inserts date] is subject to s. Ins 42.03.

(3) A managing general agent not otherwise subject to s. Ins 42.03 under sub. (1) or (2) is subject to s. Ins 42.03 after September 30, 1994.

Ins 42.04 EFFECT OF NONCOMPLIANCE ON CONTRACT TERMS. A contract between an insurer and a managing general agent that violates s. Ins 42.03 is enforceable against the managing general agent as if it conformed to s. Ins 42.03.

Ins 42.05 DUTIES OF INSURERS. (1) Each insurer shall have on file an independent financial examination of each managing general agent with which it has done business after the effective date of this chapter [revisor inserts date].

(2) If a managing general agent establishes loss reserves, the insurer shall annually obtain the opinion of an actuary attesting to the adequacy of loss reserves established for losses incurred and outstanding on business produced by the managing general agent. This is in addition to any required loss reserve certification required under s. Ins 50.30.

(3) An insurer shall at least semiannually conduct an on-site review of the underwriting and claims processing operations of its managing general agents.

(4) An insurer shall require that binding authority for all reinsurance contracts or participation in insurance or reinsurance syndicates shall rest with an officer of the insurer who is not associated with the managing general agent except the commissioner may give a written waiver of this subsection if the managing general agent is a wholly owned subsidiary of the insurer.

(5) Within 30 days of entering into or termination of a contract with a managing general agent, an insurer shall provide written notification of the appointment or termination to the commissioner. Notices of appointment of a managing general agent shall include a statement of duties which the applicant

is expected to perform on behalf of the insurer, the lines of insurance for which the applicant is to be authorized to act, a copy of the contract, and any other information the commissioner may request.

(6) An insurer shall review its books and records each quarter of the calendar year to determine if any producer has become a managing general agent. If the insurer determines that a producer has become a managing general agent, the insurer shall promptly notify the producer and the commissioner of the determination and the insurer and producer shall fully comply with this chapter within 30 days.

(7) An insurer shall not appoint to its board of directors an officer, director, employe, subproducer or controlling shareholder of its managing general agents except the commissioner may give a written waiver of this subsection if the managing general agent is a wholly owned subsidiary of the insurer.

Ins 42.06 EXAMINATION AUTHORITY. The acts of a managing general agent are acts of the insurer on whose behalf it is acting. A managing general agent may be examined as if it were the insurer.

Ins 42.07 ADDITIONAL RESTRICTIONS. This chapter is in addition to ss. 611.67 and 618.22, Stats.

SECTION 17. Chapter Ins 45 is created to read:

CHAPTER 45

BUSINESS TRANSACTED WITH PRODUCER CONTROLLED

PROPERTY OR CASUALTY INSURER

Ins 45.01 DEFINITIONS. In this chapter, unless the context otherwise requires:

(1) "Accredited state" means a state in which the insurance department or regulatory agency has qualified as meeting the minimum financial

regulatory standards promulgated and established from time to time by the National Association of Insurance Commissioners.

(2) "Control" has the meaning provided under s. 600.03 (13), Stats.

(3) "Controlled insurer" means a licensed insurer which is controlled, directly or indirectly, by a producer.

(4) "Controlling producer" means a producer who, directly or indirectly, controls an insurer.

(5) "Insurer" means an insurer licensed to transact property or casualty insurance business in this state. "Insurer" does not include, for the purposes of this chapter:

(a) A risk retention group as defined in s. 600.03 (41e);

(b) A residual market pool or joint underwriting authority or association; or

(c) An insurer owned by another organization and whose exclusive purpose is to insure risks of the parent organization and the parent organization's affiliates or, in the case of groups and associations, an insurer owned by the insureds whose exclusive purpose is to insure risks of member organizations or group members and their affiliates.

(6) "Policyholder surplus" means capital and surplus.

(7) "Producer" means an insurance broker as defined by s. 628.02 (3), Stats., or any other person who, for any compensation, commission or other thing of value, acts or aids in any manner in soliciting, negotiating or procuring the making of any insurance contract on behalf of an insured other than the person.

Ins 45.02 SCOPE. (1) This chapter applies only to insurers which are domiciled in this state or which are domiciled in a state that is not an accredited state or which does not have in effect a law which is substantially similar to this chapter.

(2) (a) Except as provided by par. (b), ss. Ins 45.03 to 45.06 apply only if, in any calendar year, the aggregate amount of gross written premium on business placed with a controlled insurer by a controlling producer is equal to or greater than 5% of the admitted assets of the controlled insurer, as reported in the controlled insurer's quarterly statement filed as of September 30 of the prior year.

(b) If both of the following are complied with, ss. Ins 45.03 to 45.06 do not apply:

1. The controlling producer:

a. Places insurance only with the controlled insurer, or only with the controlled insurer and a member of the controlled insurer's holding company system, or the controlled insurer's parent, affiliate or subsidiary and receives no compensation based upon the amount of premiums written in connection with the insurance; and

b. Accepts insurance placements only from nonaffiliated subproducers, and not directly from insureds; and

2. The controlled insurer, except for insurance business written through a residual market facility, accepts insurance business only from a controlling producer, a producer controlled by the controlled insurer, or a producer that is a subsidiary of the controlled insurer.

(3) This chapter is in addition to any other law or rule which may apply.

Ins 45.03 MINIMUM STANDARDS. A controlled insurer may not accept business from a controlling producer and a controlling producer may not place business with a controlled insurer unless there is a written contract between the controlling producer and the insurer specifying the responsibilities of each party, the contract is approved by the board of directors of the insurer,

the controlling producer complies with the contract and the contract contains at least all of the following minimum provisions:

(1) The controlled insurer may terminate the contract for cause, upon written notice to the controlling producer. The controlled insurer may suspend the authority of the controlling producer to write business during the pendency of any dispute regarding the cause for the termination.

(2) The controlling producer shall render accounts to the controlled insurer detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing to, the controlling producer.

(3) The controlling producer shall remit all funds due under the terms of the contract to the controlled insurer on at least a monthly basis and funds shall be due so that premiums or installments collected are required to be remitted no later than 90 days after the effective date of any policy placed with the controlled insurer under the contract;

(4) All funds collected for the controlled insurer's account shall be held by the controlling producer in a fiduciary capacity, in accounts in one or more financial institutions that are members of the Federal Reserve System, except the contract may provide that funds of a controlling producer not required to be licensed in this state may be maintained in compliance with the requirements of the controlling producer's state of domicile.

(5) The controlling producer shall maintain records of business written for the controlled insurer which are separate from the records of other business.

(6) The contract shall not be assigned in whole or in part by the controlling producer.

(7) The controlling producer shall obtain and adhere to the controlling insurer's written underwriting standards, rules, procedures,

manuals setting forth the rates to be charged, and the conditions for the acceptance or rejection of risks, rates and conditions and the standards, rules, procedures, rates and conditions shall be the same as those applicable to comparable business placed with the controlled insurer by a producer other than the controlling producer.

(8) The rates and terms of the controlling producer's commissions, charges or other fees and the purposes for those charges or fees. The rates of the commissions, charges and other fees shall be no greater than those applicable to comparable business placed with the controlled insurer by producers other than controlling producers. For purposes of this subsection and sub. (7) "comparable business" includes, but is not limited to, the same lines of insurance, same kinds of insurance, same kinds of risks, similar policy limits, and similar quality of business.

(9) If the contract provides that the controlling producer, on insurance business placed with the insurer, is to be compensated contingent upon the insurer's profits on that business, the contract shall also provide that the compensation shall not be determined and paid until at least 5 years after the premiums on liability insurance are earned and at least one year after the premiums are earned on any other insurance. The contract shall provide that the commissions may not be paid until the adequacy of the controlled insurer's reserves on remaining claims has been independently verified under s. Ins 45.06 (1).

(10) A limit on the controlling producer's writings in relation to the controlled insurer's policyholder surplus and total writings. The insurer may establish a different limit for each line or sub-line of business. The controlled insurer shall notify the controlling producer when the applicable limit is approached and shall not accept business from the controlling producer if the limit is reached. The controlling producer shall not place

business with the controlled insurer if it has been notified by the controlled insurer or knows or reasonably should know that the limit has been reached.

(11) The controlling producer may negotiate but may not bind reinsurance on behalf of the controlled insurer on business the controlling producer places with the controlled insurer, except that the controlling producer may bind facultative reinsurance contracts pursuant to obligatory facultative agreements if the contract with the controlled insurer contains underwriting guidelines including, for both reinsurance assumed and ceded, a list of reinsurers with which the automatic agreements are in effect, the coverages and amounts or percentages that may be reinsured and commission schedules.

Ins 45.04 APPLICABILITY; NONCOMPLIANCE. (1) (a) A controlling producer functioning without a written contract on or after the effective date of this chapter [revisor inserts date] is subject to s. Ins 45.03.

(b) A controlling producer which first enters into, amends or renews a contract on or after the effective date of this chapter [revisor inserts date] is subject to s. Ins 45.03.

(c) A controlling producer not otherwise subject to s. Ins 45.03 under par. (a) or (b) is subject to s. Ins 45.03 after September 30, 1994.

(2) A contract between a controlling producer and a controlled insurer which violates s. 45.03 is enforceable against the producer as if it conformed to s. 45.03.

Ins 45.05 AUDIT COMMITTEE. Every controlled insurer shall have an audit committee of the board of directors composed of independent directors. The audit committee shall annually meet with management, the insurer's independent certified public accountants, and an independent casualty actuary, or an independent loss reserve specialist approved by the commissioner, to, at a minimum, review the adequacy of the insurer's loss reserves.

Ins 45.06 REPORTING REQUIREMENTS. In addition to any loss reserve certification required under s. Ins 50.30, a controlled insurer shall annually, prior to April 1, file with the commissioner:

(1) An opinion of an independent casualty actuary or of an other independent loss reserve specialist who is acceptable to the commissioner, reporting loss ratios for each line of business written and attesting to the adequacy of loss reserves established for losses incurred and outstanding as of each calendar year-end on and after December 31, 1993, including incurred but not reported, on business placed by the producer; and

(2) A report of the amount of commissions paid to the producer, the percentage the amount represents of the net premiums written and comparable amounts and percentage paid to noncontrolling producers for placements of the same kinds of insurance, for calendar year 1993 and each subsequent immediately preceding calendar year.

Ins 45.07 DISCLOSURE. A controlling producer, prior to the effective date of the policy, shall deliver written notice to the prospective insured disclosing the relationship between the producer and the controlled insurer except that, if the business is placed through a subproducer who is not a controlling producer, the controlling producer shall retain in its records a signed statement from the subproducer that the subproducer is aware of the relationship between the insurer and the producer and a commitment that the subproducer has or will notify insureds of the relationship. The subproducer shall deliver the disclosure to prospective insureds.

SECTION 18. Chapter Ins 47 is created to read:

CHAPTER 47

REINSURANCE INTERMEDIARY REGULATION

Ins 47.01 DEFINITIONS. In this chapter:

(1) "Actuary" means a person who is a member in good standing of the American Academy of Actuaries.

(2) "Controlling person" means any person who directly or indirectly has the power to direct or cause to be directed, the management, control or activities of the reinsurance intermediary.

(3) "Insurer" means an insurer as defined under s. 600.03 (27), Stats., which has a certificate of authority under ch. 611, 612, 613, 614 or 618, Stats.

(4) "Policyholder surplus" means capital and surplus.

(5) "Reinsurer" means an insurer licensed in this state with the authority to assume reinsurance under ch. 627, Stats.

(6) "Reinsurance intermediary" means a reinsurance intermediary-broker or a reinsurance intermediary-manager.

(7) "Reinsurance intermediary-broker" means any person, other than an officer or employe of the ceding insurer, who solicits, negotiates or places reinsurance cessions or retrocessions on behalf of a ceding insurer.

(8) (a) "Reinsurance intermediary-manager" means any person not excluded under par. (b) who:

1. Has authority to bind, manages a separate division, department or underwriting office with responsibility for, or manages all or part of, assumed reinsurance business of a reinsurer; and

2. Acts as an agent for the reinsurer.

(b) "Reinsurance intermediary-manager" does not include:

1. An employe of the reinsurer;

2. A United States manager of the United States branch of an alien reinsurer;

3. An underwriting manager which, pursuant to contract, manages all or part of the reinsurance operations of the reinsurer, is under common control with the reinsurer, is subject to ch. 617, Stats., and ch. Ins 40, or the laws and rules of another state which are substantially similar to ch. 617, Stats., and ch. Ins 40, and whose compensation is not based on the volume of premiums written.

4. The manager of a group, association, pool or organization of insurers which engage in joint underwriting or joint reinsurance and who are subject to examination by the insurance commissioner of the state in which the manager's principal business office is located.

(9) "Qualified United States financial institution" means a financial institution that:

(a) Is organized or, in the case of a United States office of a foreign banking organization, licensed, under the laws of the United States or any state;

(b) Is regulated, supervised and examined by federal or state authorities having regulatory authority over financial institutions; and

(c) Has been determined by either the commissioner, or the securities valuation office of the National Association of Insurance Commissioners, to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner.

Ins 47.02 LICENSURE. (1) Except as provided by sub. (2):

(a) No person may act as a reinsurance intermediary-broker in this state if the reinsurance intermediary-broker maintains an office either directly or as a member or employe of a firm or association, or an officer, director or employe of a corporation:

1. In this state, unless the reinsurance intermediary-broker is a licensed reinsurance intermediary-broker in this state;

2. In another state, unless the reinsurance intermediary-broker is a licensed reinsurance intermediary-broker in this state or for that function in another state having a law or rule substantially similar to this chapter.

(b) Except as provided by sub. (2), no person may act as a reinsurance intermediary-manager:

1. For a reinsurer domiciled in this state, unless the person is a licensed reinsurance intermediary-manager in this state;

2. In this state, if the person maintains an office either directly or as a member or employe of a firm or association, or an officer, director or employe of a corporation in this state, unless the person is a licensed reinsurance intermediary-manager in this state; or

3. In another state for a nondomestic insurer, unless the person is a licensed reinsurance intermediary-manager in this state or for that function in another state having a law substantially similar to this chapter.

(2) This section does not apply to a natural person if:

(a) The natural person is named in the application or supplement to an application for a reinsurance intermediary license and the license designates the natural person as authorized to act under the license; and

(b) The natural person is a member or employe of a firm or association licensed as a reinsurance intermediary or is an officer, director or employe of a corporation licensed as an intermediary.

(3) The commissioner may require a reinsurance intermediary-manager required to be licensed under sub. (1) to:

(a) File a bond in an amount and from an insurer acceptable to the commissioner for the protection of the reinsurer; and

(b) Maintain an errors and omissions policy in an amount acceptable to the commissioner.

(4) The commissioner may issue a reinsurance intermediary license to any person who complies with the requirements of this chapter and ss. Ins 6.58 or 6.59.

(5) If the applicant for a reinsurance intermediary license is a nonresident, the applicant, as a condition precedent to receiving or holding a license, shall:

(a) Designate the commissioner as agent for service of process in the manner, and with the same legal effect, provided for by this chapter for designation of service of process upon unauthorized insurers; and

(b) Furnish the commissioner with the name and address of a resident of this state upon whom notices or orders of the commissioner or process affecting the nonresident reinsurance intermediary may be served.

(6) A nonresident reinsurance intermediary licensee shall promptly notify the commissioner in writing of every change in its designated agent for service of process, and the change is not effective until acknowledged by the commissioner.

(7) The commissioner may refuse to issue or revoke, suspend or summarily suspend, a reinsurance intermediary license if the applicant, anyone named on the application or supplement to the application, or any member, principal, officer or director of the applicant, is not trustworthy, or any controlling person is not trustworthy or any of them has given cause for revocation or suspension of a license, or has failed to comply with any prerequisite for the issuance of a reinsurance intermediary license.

(8) The commissioner may refuse to issue, suspend, summarily suspend or revoke the license of a reinsurance intermediary for violation of chs. 600

to 645, Stats., a rule adopted under ch. 600 to 645, Stats., or on any grounds described in s. 628.10, Stats.

(9) Licensed attorneys at law who act solely in their professional capacity as attorneys are exempt from this section.

Ins 47.03 REQUIRED CONTRACT PROVISIONS-REINSURANCE

INTERMEDIARY-BROKERS. No reinsurance intermediary-broker or insurer may enter into an agreement or arrangement after the effective date of this section [revisor inserts date] and after September 30, 1994, no reinsurance intermediary-broker may continue an agreement or arrangement, for the reinsurance intermediary-broker to represent the insurer as a reinsurance intermediary-broker unless the reinsurance intermediary-broker obtains written authorization from the insurer, the reinsurance intermediary-broker complies with the terms of the authorization, and the authorization specifies the responsibilities of each party, including, but not limited to, the following:

(1) The insurer may terminate the reinsurance intermediary-broker authority at any time.

(2) The reinsurance intermediary-broker will render accounts to the insurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing, to the reinsurance intermediary-broker, and remit all funds due to the insurer within 30 days of receipt.

(3) The reinsurance intermediary-broker will hold all funds collected for the insurer's account in a fiduciary capacity in a qualified United States financial institution.

(4) The reinsurance intermediary-broker will comply with s. Ins 47.04.

(5) The reinsurance intermediary-broker will comply with the written standards established by the insurer for the cession or retrocession of all risks.

(6) The reinsurance intermediary-broker will disclose to the insurer any relationship with any reinsurer to which business will be ceded or retroceded.

Ins 47.04 BOOKS AND RECORDS-REINSURANCE INTERMEDIARY-BROKERS. (1) A reinsurance intermediary-broker shall keep a complete record for each transaction for at least 10 years after expiration of each contract of reinsurance transacted by the reinsurance intermediary-broker, showing:

- (a) Type of contract, limits, underwriting restrictions, classes or risks and territory;
- (b) Period of coverage, including effective and expiration dates, cancellation provisions and notice required of cancellation;
- (c) Reporting and settlement requirements of balances;
- (d) Rate used to compute the reinsurance premium;
- (e) Names and addresses of assuming reinsurers;
- (f) Rates of all reinsurance commissions, including the commissions on any retrocessions handled by the reinsurance intermediary-broker;
- (g) Related correspondence and memoranda;
- (h) Proof of placement;
- (i) Details regarding retrocessions handled by the reinsurance intermediary-broker including the identity of retrocessionaries and percentage of each contract assumed or ceded;
- (j) Financial records, including but not limited to, premium and loss accounts; and
- (k) When the reinsurance intermediary-broker procures a reinsurance contract on behalf of a licensed ceding insurer:
 - 1. Directly from any assuming reinsurer, written evidence that the assuming reinsurer has agreed to assume the risk; or

2. If placed through a representative of the assuming reinsurer, other than an employe, written evidence that the reinsurer has delegated binding authority to the representative.

(2) A reinsurance intermediary-broker shall give each insurer it represents access to and the right to copy and audit all accounts and records maintained by the reinsurance intermediary-broker related to the insurer's business in a form usable by the insurer.

Ins 47.05 DUTIES OF INSURERS UTILIZING THE SERVICES OF A REINSURANCE INTERMEDIARY-BROKER; PROHIBITED FUNCTION. (1) An insurer may not use the services of any person to act as a reinsurance intermediary-broker on its behalf unless the person is licensed as required by this chapter.

(2) An insurer may not employ an individual who is employed by a reinsurance intermediary-broker with which it transacts business, unless the reinsurance intermediary-broker is under common control with the insurer and subject to ch. 617, Stats. and ch. Ins 40, or the laws and rules of another state which are determined by the commissioner to be substantially similar to ch. 617, Stats., and ch. Ins 40.

(3) An insurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary-broker with which it transacts business.

(4) A reinsurance intermediary-broker required to be licensed under this chapter may not bind, and an insurer may not give the reinsurance intermediary-broker authority to bind, ceded reinsurance on behalf of the insurer, except that the reinsurance intermediary-broker may bind ceded facultative reinsurance pursuant to obligatory facultative agreements if the contract with the insurer contains reinsurance underwriting guidelines for the retrocessions. The guidelines shall include a list of reinsurers with which the automatic agreements are in effect, and for each such reinsurer, the

coverages and amounts or percentages that may be reinsured, and commission schedules.

Ins 47.06 REQUIRED CONTRACT PROVISIONS--REINSURANCE

INTERMEDIARY-MANAGER. No reinsurance intermediary-manager or reinsurer may enter into an agreement or arrangement, or amend or renew an agreement or arrangement, after the effective date of this section [revisor inserts date] for the reinsurance intermediary-manager to represent the reinsurer, or continue an agreement or arrangement in effective on the effective date of this section [revisor inserts date] after September 30, 1994, unless the agreement or arrangement is a written contract which specifies the responsibilities of each party and complies with this section, the reinsurance intermediary-manager complies with the contract, and the contract is approved by the reinsurer's board of directors, is filed with the commissioner for approval at least 30 days before the reinsurer assumes or cedes business through the reinsurance intermediary-manager, and the commissioner approves the contract. The contract shall specify the responsibilities of the reinsurance intermediary-manager, including, but not limited to, the following:

(1) The reinsurer may terminate the contract for cause upon written notice to the reinsurance intermediary-manager. The reinsurer may immediately suspend the authority of the reinsurance intermediary-manager to assume or cede business during the pendency of any dispute regarding the cause for termination.

(2) The reinsurance intermediary-manager will render accounts to the reinsurer accurately detailing all material transactions, including information necessary to support all commissions, charges and other fees received by, or owing to the reinsurance intermediary-manager, and remit all funds due under the contract to the reinsurer on not less than a monthly basis.

(3) All funds collected for the reinsurer's account will be held by the reinsurance intermediary-manager in a fiduciary capacity in a qualified United States financial institution. The reinsurance intermediary-manager may retain no more than 3 months estimated claims payments and allocated loss adjustment expenses. The reinsurance intermediary-manager shall maintain a separate financial institution account for each reinsurer that it represents.

(4) For at least 10 years after expiration of each contract of reinsurance transacted by the reinsurance intermediary-manager, the reinsurance intermediary-manager will keep a complete record for each transaction showing:

(a) The type of contract, limits, underwriting restrictions, classes or risks and territory;

(b) Period of coverage, including effective and expiration dates, cancellation provisions and notice required of cancellation, and disposition of outstanding reserves on covered risks;

(c) Reporting and settlement requirements of balances;

(d) Rate used to compute the reinsurance premium;

(e) Names and addresses of reinsurers;

(f) Rates of all reinsurance commissions, including the commissions on any retrocessions handled by the reinsurance intermediary-manager;

(g) Related correspondence and memoranda;

(h) Proof of placement;

(i) Details regarding retrocessions handled by the reinsurance intermediary-manager, as permitted under s. Ins 47.08 (4), including the identity of retrocessionaires and percentage of each contract assumed or ceded;

(j) Financial records, including but not limited to, premium and loss accounts; and

(k) When the reinsurance intermediary-manager places a reinsurance contract on behalf of a ceding insurer:

1. Directly from any assuming reinsurer, written evidence that the assuming reinsurer has agreed to assume the risk; or

2. If placed through a representative of the assuming reinsurer, other than an employe, written evidence that the reinsurer has delegated binding authority to the representative.

(5) A reinsurance intermediary-manager shall give the reinsurer it represents access to and the right to copy and audit all accounts and records maintained by the reinsurance intermediary-manager related to the reinsurer's business in a form usable by the reinsurer.

(6) The contract may not be assigned in whole or in part by the reinsurance intermediary-manager.

(7) The reinsurance intermediary-manager will comply with the written underwriting and rating standards established by the insurer for the acceptance, rejection or cession of all risks.

(8) Rates, terms and purposes of commissions, charges and other fees which the reinsurance intermediary-manager may levy against the reinsurer.

(9) If the contract permits the reinsurance intermediary-manager to settle claims on behalf of the reinsurer:

(a) All claims will be reported to the reinsurer in a timely manner;

(b) A copy of the claim file will be sent to the reinsurer at its request or as soon as it becomes known that the claim:

1. Has the potential to exceed the lesser of an amount equal to 3% of the reinsurer's policyholder surplus as of the end of the immediately preceding calendar year or the limit set by the reinsurer;

2. Involves a coverage dispute;

3. May exceed the reinsurance intermediary-manager's claims settlement authority;

4. Is open for more than 6 months; or

5. Is closed by payment of an amount equal to or greater than the lesser of 1% of the reinsurer's policyholder surplus as of the end of the immediately preceding calendar year or an amount set by the reinsurer;

(c) All claim files will be the joint property of the reinsurer and reinsurance intermediary-manager, but upon an order of liquidation of the reinsurer the files shall become the sole property of the reinsurer or its estate and the reinsurance intermediary-manager shall have reasonable access to and the right to copy the files on a timely basis;

(d) Any settlement authority granted to the reinsurance intermediary-manager may be terminated for cause upon the reinsurer's written notice to the reinsurance intermediary-manager or upon the termination of the contract. The reinsurer may suspend the settlement authority during the pendency of the dispute regarding the cause of termination.

(10) If the contract provides for a sharing of interim profits by the reinsurance intermediary-manager, that the interim profits will not be paid until one year after the end of each underwriting period for property business and 5 years after the end of each underwriting period for casualty business, or a later period set by order of the commissioner for specified lines of insurance, and not until the adequacy of reserves on remaining claims has been verified pursuant to s. Ins 47.08 (3).

(11) The reinsurance intermediary-manager will annually provide the reinsurer with a statement of its financial condition prepared by an independent certified accountant.

(12) The reinsurer shall at least semiannually conduct an on-site review of the underwriting and claims processing operations of the reinsurance intermediary-manager.

(13) The reinsurance intermediary-manager will disclose to the reinsurer any relationship it has with any insurer prior to ceding or assuming any business with the insurer under the contract.

(14) Within the scope of its actual or apparent authority the acts of the reinsurance intermediary-manager are the acts of the reinsurer on whose behalf it is acting.

Ins 47.07 PROHIBITED ACTS. A reinsurance intermediary-manager may not:

(1) Cede retrocessions on behalf of the reinsurer, except that the reinsurance intermediary-manager may cede facultative retrocessions pursuant to obligatory facultative agreements if the contract with the reinsurer contains reinsurance underwriting guidelines for the retrocessions. The guidelines shall include a list of reinsurers with which the automatic agreements are in effect, and for each such reinsurer, the coverages and amounts or percentages that may be reinsured, and commission schedules.

(2) Commit the reinsurer to participate in reinsurance syndicates.

(3) Appoint any producer without assuring that the producer is lawfully licensed to transact the type of reinsurance for which the producer is appointed.

(4) Without prior approval of the reinsurer, pay or commit the reinsurer to pay a claim, net of retrocessions, that exceeds the lesser of an amount specified by the reinsurer or one percent of the reinsurer's policyholder surplus as of December 31 of the last complete calendar year.

(5) Collect any payment from a retrocessionaire or commit the reinsurer to any claim settlement with a retrocessionaire, without prior

approval of the reinsurer. If prior approval is given, the reinsurance intermediary-manager shall promptly forward a report to the reinsurer.

(6) Jointly employ an individual who is employed by the reinsurer unless such reinsurance intermediary-manager is under common control with the reinsurer and subject to ch. 617, Stats., and ch. Ins 40, or the laws and rules of another state which are substantially similar to ch. 617, Stats., and ch. Ins 40.

(7) Appoint a subreinsurance intermediary-manager.

Ins 47.08 DUTIES OF REINSURERS UTILIZING THE SERVICES OF A REINSURANCE INTERMEDIARY-MANAGER. (1) A reinsurer shall not engage the services of any person to act as a reinsurance intermediary-manager on its behalf unless the person is licensed as required by s. Ins 47.02.

(2) A reinsurer shall annually obtain a copy of statements of the financial condition of each reinsurance intermediary-manager which the reinsurer has engaged prepared by an independent certified accountant in a form acceptable to the commissioner.

(3) A reinsurer shall annually obtain the opinion of an actuary attesting to the adequacy of loss reserves established for losses incurred and outstanding on business produced by the reinsurance intermediary-manager if the reinsurance intermediary-manager establishes loss reserves. This opinion is in addition to any other required loss reserve certification required under s. Ins 50.30.

(4) A reinsurer shall require that binding authority for all retrocessional contracts or participation in reinsurance syndicates shall rest with an officer of the reinsurer who shall not be associated with the reinsurance intermediary-manager.

(5) Within 30 days of termination of a contract with a reinsurance intermediary-manager, the reinsurer shall provide written notification of the termination to the commissioner.

(6) A reinsurer may not appoint to its board of directors, any officer, director, employe, controlling shareholder or subproducer of its reinsurance intermediary-manager and no officer, director, employe, controlling shareholder, director or subproducer of its reinsurance intermediary-manager may accept appointment to or serve on the board of directors of the reinsurer. This subsection shall not apply to relationships governed by ch. 617, Stats., or, if applicable, ch. Ins 45 or a similar law of another state.

Ins 47.09 EFFECT OF NONCOMPLIANCE ON CONTRACT TERMS. A contract between a reinsurance intermediary and an insurer that violates s. Ins 47.03 or 47.06 is enforceable against the reinsurance intermediary as if it conformed to s. Ins 47.03 or 47.06.

Ins 47.10 EXAMINATION AUTHORITY. (1) A reinsurance intermediary may be examined by the commissioner. A reinsurance intermediary shall give the commissioner access to all books, financial institution accounts and records of the reinsurance intermediary in a form usable to the commissioner.

(2) A reinsurance intermediary-manager may be examined as if it were the reinsurer.

SECTION 19. Chapter Ins 50 is created to read:

CHAPTER 50

ANNUAL AUDITED FINANCIAL REPORTS, ANNUAL FINANCIAL STATEMENTS AND EXAMINATIONS

SUBCHAPTER I

ANNUAL AUDITED FINANCIAL REPORTS

Ins 50.01 DEFINITIONS. In this chapter:

(1) "Alien insurer" has the meaning provided under s. 600.03 (2), Stats.

(2) "Audited financial report" means a financial report prepared and conforming to s. Ins 50.06.

(3) "Executive officer" means any individual charged with the active management and control in an executive capacity of a person, whether incorporated or unincorporated and includes, but is not limited to, a chair of the board, president, vice president, treasurer, secretary, controller, and any individuals performing similar functions.

(4) "Foreign insurer" has the meaning provided under s. 600.01 (20), Stats.

(5) "Independent certified public accountant" means:

(a) An independent certified public accountant, or independent accounting firm, in good standing with the American Institute of Certified Public Accountants and in all states in which the accountant or firm is licensed, or required to be licensed, to practice; or

(b) For Canadian and British companies, a Canadian chartered or British chartered accountant.

(6) "Insurer" means an insurer licensed under s. 185.981 or ch. 611, 612, 613, 614 or 618, Stats., and the state life fund.

(7) "Policyholder surplus" means capital and surplus.

(8) "State of domicile" means the state where an insurer is domiciled or, for an alien insurer, its port of entry state.

(9) "Work papers" means records kept by the independent certified public accountant of the procedures followed, the tests performed, the information obtained, and the conclusions reached pertinent to the independent certified public accountant's examination of the financial statements of an insurer. "Work papers" include, but are not limited to, audit planning

documentation, audit guides, work programs, analyses, memoranda, letters of confirmation and representation, abstracts of company documents and schedules or commentaries prepared or obtained by the independent certified public accountant in the course of examination of the financial statements of an insurer or which support the opinion of the independent certified public accountant regarding the financial statements.

50.02 APPLICABILITY. Unless otherwise ordered by the commissioner, this subchapter applies to all insurers except:

(1) An insurer is not subject to this subchapter for a calendar year in which the insurer has:

(a) Direct premiums written in this state of less than \$100,000 and less than 1,000 policyholders or certificate holders of directly written policies in the state at the end of the calendar year; and

(b) Assumed premiums nationwide of less than \$1,000,000 under reinsurance contracts or treaties.

(2) A foreign or alien insurer is exempt from this chapter except for s. Ins 50.03 if:

(a) It complies with another state's requirement to submit audited financial reports and the other state's requirement is found by the commissioner, in writing, to be substantially similar to the requirements of this chapter; and

(b) It files audited financial reports with that state's commissioner of insurance or equivalent agency.

(3) An insurer licensed under ch. 612, Stats., if the insurer:

(a) Has direct total written premium for the calendar year, including premiums on nonproperty coverage, of less than \$300,000;

(b) Has a net of reinsurance premium to policyholder surplus ratio of less than 6 to 1 as of the December 31 of the year for which an audited financial report is otherwise required;

(c) Is not authorized under its articles of incorporation to do business in more than 4 counties;

(d) Does not engage in the writing of nonproperty coverage unless the nonproperty coverage is 100% reinsured;

(e) Does not engage in the interchange of reinsurance with other insurers licensed under ch. 612, Stats., except town mutual reinsurance corporations organized under s. 612.71, Stats., where the interchange reinsurance premiums exceed 20% of the annual net premiums written by the assuming insurer licensed under ch. 612, Stats.; and

(f) Does not own real estate, including, but not limited to, home office headquarters, whose cost or book value exceeds 10% of its total assets.

Ins 50.03 FILING BY EXEMPT FOREIGN AND ALIEN INSURERS. A foreign or alien insurer which is exempt from this subchapter under s. Ins 50.02 (2) shall:

(1) File a copy of the audited financial report, report on significant deficiencies in internal controls, and the accountant's letter of qualifications which are filed with the other state with the commissioner not later than the filing dates specified in ss. Ins 50.05, 50.12 and 50.13, respectively. Canadian insurers which are not subject to this subchapter under s. Ins 50.02 (2) shall submit to the commissioner accountants' reports as filed with the Canadian Dominion department of insurance not later than the filing dates specified in s. Ins 50.05.

(2) File with the commissioner a copy of any notification of adverse financial condition report filed with, or required to be filed with, the other state within the time specified in s. Ins 50.11.

Ins 50.04 AUTHORITY TO OBTAIN INFORMATION OR EXAMINE NOT RESTRICTED.

This subchapter does not limit the authority of the commissioner to require an insurer or any other person to provide information, or to conduct an examination of an insurers or any other person, under any other statute or rule.

Ins 50.05 FILING AND EXTENSIONS FOR FILING OF ANNUAL AUDITED FINANCIAL REPORTS. (1) An insurer shall:

(a) Annually obtain or cause an audit of the insurer by an independent certified public accountant; and

(b) File an audited financial report that complies with s. Ins 50.06 with the commissioner on or before June 1 for the immediately preceding calendar year.

(2) The commissioner may require an insurer to file the audited financial report earlier than the date specified under sub. (1) if the commissioner gives 90 days advance notice to the insurer.

(3) The commissioner may grant extensions of the filing date under sub. (1) for 31-day periods if the insurer and independent certified public accountant establish there is good cause for an extension. A request for extension shall be submitted in writing not less than 10 days prior to the due date in sufficient detail to permit the commissioner to make an informed decision with respect to the requested extension.

(4) An insurer may not retain an accountant or accounting firm to comply with sub. (1) or s. Ins 50.07 unless the accountant or accounting firm is an independent certified public accountant, regardless of whether the commissioner has issued a ruling under s. Ins. 50.08 (1). An insurer may not retain an accountant or accounting firm to comply with sub. (1) or s. Ins 50.07 if the commissioner under s. Ins 50.08 (1) rules that the

accountant or accounting firm is not qualified or if the accountant or accounting firm does not comply with s. Ins 50.08 (2).

Ins 50.06 CONTENTS OF ANNUAL AUDITED FINANCIAL REPORT. The annual audited financial report required under s. Ins 50.05 shall comply with all of the following:

(1) Report the financial position of the insurer as of the end of the most recent calendar year and the results of its operations, cash flows and changes in capital and surplus for the year then ended in conformity with statutory accounting practices prescribed, or otherwise permitted, by the department of insurance, or equivalent agency, of the state of domicile, or, for a domestic insurer, in conformity with accounting practices prescribed or permitted in annual statements filed with the commissioner, as provided under s. Ins 7.02.

(2) Include all of the following:

(a) The report of the independent certified public accountant.

(b) A balance sheet reporting admitted assets, liabilities, capital and surplus.

(c) A statement of operations.

(d) A statement of cash flows.

(e) A statement of changes in capital and surplus.

(f) Notes to financial statements. These notes shall be those required by the appropriate National Association of Insurance Commissioners' annual statement instructions and any other notes required by generally accepted accounting principles and shall also include:

1. A reconciliation of differences, if any, between the audited statutory financial statements and the annual statement required under subch. II of this chapter with a written description of the nature of these differences.

2. A summary of ownership and relationships of the insurer and all affiliates.

(3) Include financial statements prepared in a form and using language and groupings substantially the same as the relevant sections of the annual statement of the insurer filed with the commissioner. The financial statement shall be comparative, presenting the amounts as of December 31 of the current year and the amounts as of the immediately preceding December 31, except in the first year in which an insurer is required to file an audited financial report, the comparative data may be omitted.

Ins 50.07 DESIGNATION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT. (1)

An insurer shall, within 60 days after the insurer becomes subject to this subchapter:

(a) Provide the commissioner in writing the name and address of the independent certified public accountant retained to conduct the annual audit required by this subchapter.

(b) File with the commissioner a copy of the letter required to be obtained under sub. (3).

(2) Insurers not retaining an independent certified public accountant on the effective date of this rule shall register the name and address of their retained independent certified public accountant not less than 6 months before the date when the first audited financial report is to be filed.

(3) An insurer shall obtain a letter from the independent certified public accountant it retains to conduct the annual audit required by this subchapter. The letter shall state that the independent certified public accountant:

(a) Is aware of the provisions of the insurance code and the rules and regulations of the insurance department or equivalent agency of the state

of domicile of the insurer that relate to accounting and financial matters of insurers; and

(b) Will express an opinion on whether the financial statements conform to the statutory accounting practices prescribed or otherwise permitted by that department or equivalent agency and will specify exceptions as appropriate.

(4) If an independent certified public accountant for the immediately preceding filed audited financial report of an insurer is dismissed or resigns, the insurer shall comply with all of the following:

(a) The insurer shall within 5 business days notify the commissioner of the dismissal or resignation.

(b) The insurer shall within 15 business days furnish the commissioner with a letter which clearly states that there was no disagreement required to be disclosed under this paragraph or which describes any disagreement between the insurer and the independent certified public accountant in the 24 months preceding the dismissal or resignation, which:

1. Was on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure; and

2. Would require the independent certified public accountant to make reference to the subject matter of the disagreement in connection with the opinion required under s. Ins 50.06. The requirement to provide a description applies regardless of whether the disagreement was resolved or whether the former independent certified public accountant was satisfied with the resolution.

(c) The insurer shall within 15 business days furnish the commissioner with a letter from the independent certified public accountant addressed to the insurer stating whether the independent certified public

accountant agrees with the statements contained in the insurer's letter required under par. (b) and, if not, stating the reasons why not.

Ins 50.08 QUALIFICATIONS OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS. (1) The commissioner may rule that an accountant or accounting firm is not qualified for purposes of expressing an opinion on the financial statements in the annual audited financial report required under this subchapter and prohibit insurers from retaining the accountant or an accounting firm, and require insurers to replace the accountant or accounting firm, if the commissioner finds there is cause, including, but not limited to, a finding that the accountant or accounting firm:

(a) Is not in good standing with the American Institute of Certified Public Accountants and in all states in which the accountant or accounting firm is, or is required to be, licensed to practice, or, for a Canadian or British company, that it is not a chartered accountant;

(b) Has not conformed to the standards of the accounting profession as contained in the Code of Professional Ethics of the American Institute of Certified Public Accountants and Rules and Regulations and Code of Ethics and Rules of Professional Conduct of the Accounting Examining Board, or a similar code;

(c) Has been convicted of fraud, bribery, a violation of the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. ss. 1961 to 1968, or any dishonest conduct or practices under federal or state law;

(d) Has been found to have violated the insurance laws or rules of this state; or

(e) Has demonstrated a pattern or practice of failing to detect or disclose material information in financial reports.

(2) After December 31, 1994, no accounting firm partner or other person responsible for rendering a report required of an independent certified

public accountant may act in that capacity for more than seven consecutive years. Following any period of service such a person shall be disqualified from acting in that or a similar capacity for the same company or its insurance subsidiaries or affiliates for a period of 2 years. The commissioner may grant relief from the rotation requirement on the basis of unusual circumstances. Factors the commissioner may consider in determining if the relief should be granted include, but are not limited to:

- (a) Number of partners, expertise of the partners or the number of insurance clients in the currently registered firm;
- (b) Premium volume of the insurer; or
- (c) Number of jurisdictions in which the insurer transacts business.

Ins 50.09 CONSOLIDATED OR COMBINED AUDITS. An insurer may file audited consolidated or combined financial statements in lieu of separate annual audited financial statements required under this subchapter if the commissioner approves in writing and if the insurer is part of a group of insurers which utilizes a pooling or 100% reinsurance agreement that affects the solvency and integrity of the insurer's reserves and the insurer cedes all of its direct and assumed business to the pool. If the commissioner permits a consolidated report under this section the report shall include a columnar consolidating or combining work sheet, as follows:

- (1) Amounts shown on the consolidated or combined Audited Financial Report shall be shown on the work sheet.
- (2) Amounts for each insurer subject to this section shall be stated separately.
- (3) Noninsurance operations may be shown on the work sheet on a combined or individual basis.
- (4) Explanations of consolidating and eliminating entries shall be included.

(5) A reconciliation shall be included of any differences between the amounts shown in the individual insurer columns of the work sheet and comparable amounts shown on the annual statements of the insurers.

Ins 50.10 SCOPE OF EXAMINATION AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT. Financial statements furnished under s. Ins 50.06 shall be audited by an independent certified public accountant. The independent certified public accountant shall conduct the audit of the insurer's financial statements in accordance with generally accepted auditing standards. The independent certified public accountant may also give consideration to such other procedures illustrated in the financial condition examiner's handbook promulgated by the National Association of Insurance Commissioners as the independent certified public accountant deems necessary. The commissioner may require that an independent certified public accountant conduct additional procedures or provide additional reports.

Ins 50.11 NOTIFICATION OF ADVERSE FINANCIAL CONDITION. (1) An insurer shall require the independent certified public accountant to report, in writing and within 5 business days, to the board of directors of the insurer or its audit committee any determination by the independent certified public accountant that the insurer has materially misstated its financial condition as reported to the commissioner as of the balance sheet date currently under examination or that the insurer does not meet the minimum capital and surplus or compulsory surplus requirements.

(2) An insurer who receives a report required under sub. (1) shall forward a copy of the report to the commissioner within 5 business days of receipt of the report and shall provide the independent certified public accountant making the report with evidence that the report has been furnished to the commissioner.

(3) An independent certified public accountant shall furnish to the commissioner a copy of its report required under sub. (1) within 10 business days after it is furnished to the insurer under sub. (1) unless the independent certified public accountant receives evidence the insurer has provided it within the 10 business day period to the commissioner as required under sub. (2).

(4) An executive officer or director of an insurer which receives notice under sub. (1) shall report the notification in writing to the commissioner within 5 business days of the date the executive officer or director first acquires knowledge of the notification unless prior to that date the insurer complies with sub. (2).

Ins 50.12 REPORT OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROLS.

An insurer shall file with the commissioner within 60 days of the date an annual financial statement is filed, or is required under s. Ins 50.05 to be filed, a written report prepared by the independent certified public accountant describing any significant deficiencies in the insurer's internal control structure. SAS No. 60, Communication of Internal Control Structure Matters Noted in an Audit (AU Section 325 of the Professional Standards of the American Institute of Certified Public Accountants) requires an accountant to communicate significant deficiencies (known as "reportable conditions") noted during a financial statement audit to the appropriate parties within an entity. An insurer is not required to file a report under this section if the independent certified public accountant does not identify significant deficiencies. An insurer shall promptly file with the commissioner a description of remedial actions taken or proposed to correct significant deficiencies, if the actions are not described in the independent certified public accountant's report.

Ins 50.13 ACCOUNTANT'S LETTER OF QUALIFICATIONS. An accountant or accounting firm retained by an insurer to comply with this subchapter shall furnish the insurer, and the insurer shall obtain and include with the filing of the annual audited financial report required under s. Ins 50.05, a letter from the accountant or accounting firm stating:

(1) That the accountant or accounting firm is independent with respect to the insurer and conforms to the standards of his or her profession as contained in the Code of Professional Ethics and pronouncements of the American Institute of Certified Public Accountants and the Rules of Professional Conduct of the Board of Public Accountancy of this state, or similar code.

(2) The background and experience in general, and the experience in audits of insurers of the staff assigned to the engagement and whether each is an independent certified public accountant. This subchapter does not prohibit the accountant or accounting firm from utilizing such staff as he or she deems appropriate where use is consistent with the standards prescribed by generally accepted auditing standards.

(3) That the accountant or accounting firm understands that the annual audited financial report and his or her opinion on the annual audited financial report will be filed in compliance with this chapter and that the commissioner will be relying on this information in the monitoring and regulation of the financial position of insurers.

(4) That the accountant or accounting firm consents to the requirements of s. Ins 50.15 and that the accountant or accounting firm consents and agrees to make available work papers for review by the commissioner.

(5) A representation that the accountant or accounting firm is properly licensed by an appropriate state licensing authority and is a member in good standing in the American Institute of Certified Public Accountants.

(6) A representation that the accountant or accounting firm is an independent certified public accounting firm and that there are no grounds for disqualification of the accountant or accounting firm under s. Ins 50.08.

Ins 50.15 AVAILABILITY AND MAINTENANCE OF CPA WORK PAPERS. (1) An insurer shall require the accountant or accounting firm which conducts an audit or other procedure under this subchapter to make available for review all work papers and any communications related to the audit or procedure between the insurer and the accountant or accounting firm at the offices of the insurer or at a reasonable place designated by the commissioner. The insurer shall require that the accountant retain the audit work papers and communications until the commissioner has filed a report on examination covering the period of the audit but no longer than seven years from the date of the audit report.

(2) The commissioner may photocopy work papers and retain the copies. All working papers and communications obtained by the commissioner under this section may be treated by the commissioner as confidential under s. 601.465, Stats.

Ins 50.16 EXEMPTIONS. (1) The commissioner may grant an exemption from compliance with this subchapter if the commissioner finds that compliance would constitute a financial or organizational hardship upon the insurer.

(2) An exemption may be granted at any time and from time to time for a specified period.

Ins 50.17 CANADIAN AND BRITISH COMPANIES. (1) In the case of Canadian and British insurers, for the purpose of this subchapter the annual audited financial report shall be defined as the annual statement of total

business on the form filed by the insurers with their domiciliary supervisory authority duly audited by an independent chartered accountant.

(2) For Canadian and British insurers, the letter required in s. Ins 50.07 shall state that the accountant is aware of the requirements relating to the annual audited statement filed with the commissioner under s. Ins 50.05 and shall affirm that the opinion expressed is in conformity with those requirements.

SUBCHAPTER II

ANNUAL FINANCIAL STATEMENTS

Ins 50.20 INSURERS TO FILE ANNUAL FINANCIAL STATEMENTS. (1) An insurer shall file an annual financial statement with the commissioner. Except as otherwise required by law, rule, order or instruction of the commissioner, an insurer shall file the annual financial statement:

(a) On the National Association of Insurance Commissioners annual statement blank appropriate for the lines of business the insurer is authorized to write, except an insurer licensed under ch. 612, Stats., may file on the town mutual annual statement blank prescribed by the commissioner; and

(b) Prepared in accordance with the National Association of Insurance Commissioners annual statement instructions and the accounting practices or procedures prescribed or permitted by the applicable National Association of Insurance Commissioners accounting practices and procedures manual except an insurer licensed under ch. 612 shall prepare the statement as prescribed by the commissioner.

(2) Insurers shall file the annual statement required under sub. (1) by March 1, except insurers organized under ch. 612, Stats., shall file by February 15 and the commissioner may prescribe a different date for individual insurers.

Ins 50.25 INSURERS TO FILE WITH THE NATIONAL ASSOCIATION OF INSURANCE

COMMISSIONERS. (1) This section applies to all licensed insurers, except:

(a) Those categories of insurers whose annual or quarterly statements the National Association of Insurance Commissioners does not collect on the date filing is required, unless otherwise required by the commissioner;

(b) An insurer organized under ch. 612, Stats., unless otherwise ordered by the commissioner; and

(c) Insurers the commissioner exempts after finding an exemption is in the public interest.

(2) An insurer shall annually on or before March 1 file with the National Association of Insurance Commissioners a copy of the annual statement it is required to file under s. Ins 50.20 and any supplemental information which the commissioner requires to be included with the annual statement. The insurer shall include with the copy a signed jurat page and actuarial certificate and shall also file copies of any subsequent amendments or addendums filed with the commissioner with the National Association of Insurance Commissioners.

(3) An insurer shall file a quarterly financial statement with and in the form prescribed by the National Association of Insurance Commissioners within 45 days of the end of each quarter.

(4) An insurer shall file the information required under sub. (2) or (3) in the form of media prescribed by the National Association of Insurance Commissioners.

Ins 50.30 ACTUARIAL OPINION REQUIRED. An insurer shall file with the annual financial statement required under s. Ins 50.20 a statement of actuarial opinion from a qualified actuary in accordance with the National Association of Insurance Commissioners annual statement instructions.

SUBCHAPTER III

EXAMINATIONS

Ins 50.50 EXAMINATIONS. (1) The commissioner may determine the nature, scope and frequency of examinations under s. 601.43, Stats., except at a minimum every insurer licensed in this state shall be examined every 5 years, unless it is a limited service health organization, town mutual, a gift annuity licensee under ch. 615, Stats., motor club, warranty plan, or an insurer exempted under 610.49, 1981, Stats.

(2) Factors the commissioner may consider in determining the scheduling of an examination include, but are not limited to, results of financial statement analyses and ratios, changes in management or ownership, actuarial opinions, reports of independent certified public accountants, other criteria in the Examiners' Handbook adopted by the National Association of Insurance Commissioner, and the priority of conducting an examination of an insurer relative to other insurers.

(3) The commissioner may determine the nature and scope of an examination. An examination may, but need not, cover all aspects of the insurer's assets, condition, affairs and operations, and may involve or be supplemented by review of audit procedures performed by accountants. Examinations may include, but are not limited to, the following types of examinations:

(a) Compliance examinations which are a general review of the insurer's corporate affairs and insurance operations to determine compliance with chs. 600 to 646, Stats. A compliance examination may consist of review of an accountant's work papers or be supplemented by such a review.

(b) Targeted examinations are limited to a review of specified areas. Areas that may be targeted may include, but are not limited to, life

reserve valuations, claims analyses, organizational and capital changes, loss reserves or market conduct.

(c) Comprehensive examinations which are complete examinations of the condition and affairs of the insurer.

(4) After the commissioner issues an adopted examination report, the insurer examined shall promptly file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

(5) The office of the commissioner of insurance, under s. 601.465, Stats., may refuse to disclose and prevent any person from disclosing, in response to a request for production, deposition, subpoena, or otherwise, information obtained from the National Association of Insurance Commissioners or another insurance department under pledge of confidentiality or for the purpose of conducting an investigation or examination or obtained, produced or created in the course of an inquiry under s. 601.42, Stats., or examination under s. 601.43, Stats. This privilege applies to information obtained, produced or created before or after the effective date of s. 601.465, Stats., and regardless of whether an inquiry, investigation or examination has been concluded, except it does not apply to a document which is an adopted examination report. An adopted examination report is available for public inspection as required under s. 601.44 (6), Stats. The office or the commissioner may disclose the content of an examination report, preliminary examination report or results, or any matter relating a report or the results of an examination to further legal or regulatory action, or to the insurance department of any other state or country or to law enforcement officials of this or any other state or agency of the federal government, so long as the department, agency or office agrees in writing to hold it confidential.

Ins 50.55 EXAMINATION OF FOREIGN AND ALIEN INSURERS. (1) The commissioner may accept, under s Ins 50.50, an examination report on a licensed foreign or alien insurer which is prepared by the insurance department for the insurer's state of domicile until December 31, 1993. After December 31, 1993, an examination report from the insurance department of the insurer's state of domicile may only be accepted if:

(a) The insurance department is at the time of the examination accredited under the National Association of Insurance Commissioners' Financial Regulation Standards and Accreditation Program; or

(b) The examination is performed under the supervision of an accredited insurance department or with the participation of one or more examiners who are employed by an accredited state insurance department and who, after a review of the examination work papers and report, state under oath that the examination was performed in a manner consistent with the standards and procedures required by their insurance department.

(2) A foreign or alien insurer shall file written notice with the commissioner if it has not received an examination call for an examination which will be acceptable under this section for the determination of the financial condition of the insurer within 4 years after the date for which the last examination of the insurer examined the financial condition of the insurer.

SECTION 20. Chapter Ins 52 is created to read:

CHAPTER 52

CREDIT FOR REINSURANCE

Ins 52.01 DEFINITIONS. In this chapter, unless the context otherwise requires:

(1) "Policyholder surplus" means capital and surplus.

(2) "Qualified United States financial institution" means an institution that:

(a) Is organized or, in the case of a United States office of a foreign banking organization, licensed, under the laws of the United States or any state;

(b) Is regulated, supervised and examined by United States federal or state authorities having regulatory authority over banks and trust companies; and

(c) Has been determined by either the commissioner or equivalent official of the ceding insurer's state of domicile, or the Securities Valuation Office of the National Association of Insurance Commissioners, to meet such standards of financial condition and standing as are considered necessary and appropriate to regulate the quality of financial institutions whose letters of credit will be acceptable to the commissioner or equivalent official.

(3) "Qualified fiduciary United States financial institution" means an institution that:

(a) Is organized or, in the case of a United States branch or agency office of a foreign banking organization, licensed, under the laws of the United States or any state; and

(b) Is regulated, supervised and examined by United States federal or state authorities having regulatory authority over banks and trust companies.

Ins 52.02 CREDIT ALLOWED A LICENSED CEDING INSURER. Except as provided by s. Ins 52.04 and unless otherwise prohibited by the commissioner, a licensed insurer may take credit for ceded reinsurance as either an asset or a deduction from liability only if the reinsurer at all times complies with one or more of the following:

(1) The reinsurer is licensed as an insurer in this state.

(2) The reinsurer is accredited in this state by the commissioner at the time credit is claimed or taken and the reinsurer:

(a) Files with the commissioner evidence of its submission to this state's jurisdiction;

(b) Submits to this state's authority to examine its books and records;

(c) Files a properly executed Form AR-1 as evidence of its submission to this state's jurisdiction and to this state's authority to examine its books and records;

(d) Is licensed to transact insurance or reinsurance in at least one state, or in the case of a United States branch of an alien assuming insurer is entered through and licensed to transact insurance or reinsurance in at least one state;

(e) Files with the commissioner a certified copy of a letter or a certificate of authority or of compliance as evidence that it is licensed to transact insurance or reinsurance, or, in the case of a United States branch of an alien assuming insurer, is entered through and licensed to transact insurance or reinsurance, as required under par. (d);

(f) Files annually with the commissioner by March 1, or a later date approved in writing by the commissioner, a copy of its annual statement filed with the insurance department of its state of domicile or, in the case of an alien assuming insurer, with the state through which it is entered and in which it is licensed to transact insurance or reinsurance, and a copy of its most recent audited financial statement annually by June 1; and

(g) Unless otherwise specifically approved in writing by the commissioner, maintains policyholder surplus in an amount which is not less than \$3,000,000.

(3) The reinsurer is domiciled and licensed in, or in the case of a United States branch of an alien assuming insurer is entered through, a state which employs standards regarding credit for reinsurance which the commissioner determines equal or exceed the standards applicable under this chapter and the reinsurer or United States branch of an alien reinsurer:

(a) Submits to the authority of this state to examine its books and records;

(b) Files a form AR-1 with the commissioner to comply with par. (a);
and

(c) Complies with one or more of the following:

1. The reinsurer or United States branch assumes the reinsurance under pooling arrangements among insurers in the same holding company system;
or

2. The reinsurer maintains policyholder surplus in an amount not less than \$20,000,000.

(3m) The ceding insurer is an alien insurer or nondomestic insurer and the laws of the state of the ceding alien or nondomestic insurer's domicile or entry permit the alien or nondomestic insurer to take credit for the reinsurance. Unless credit is taken under provisions which are substantially similar to sub. (4) or (5) or s. Ins 52.04, credit may be taken under this subsection only if the reinsurer has at least \$3,000,000 in policyholder surplus. The commissioner may prohibit a licensed alien or nondomestic insurer from taking credit under this subsection.

(4) The reinsurer complies with all of the following:

(a) The reinsurer maintains a trust fund in a qualified fiduciary United States financial institution for the payment of the valid claims of its United States policyholders and ceding insurers, their assigns and successors in interest.

(b) The reinsurer reports annually, by March 1, or a later date which the commissioner approves in writing, to the commissioner information substantially the same as that required to be reported on the National Association of Insurance Commissioners Annual Statement form by licensed insurers to enable the commissioner to determine the sufficiency of the trust fund.

(c) The reinsurer maintains in a trust account funds equal to an amount that is not less than the assuming insurer's liabilities attributable to business written in the United States and, in addition, the reinsurer maintains a trusted surplus of not less than \$20,000,000.

(d) If the reinsurers are a group of individual unincorporated underwriters, the reinsurers maintains in a trusted account funds equal to an amount that is not less than the group's aggregate liabilities attributable to business written in the United States and, in addition, the group maintains a trusted surplus of which \$100,000,000 shall be held jointly for the benefit of United States ceding insurers of any member of the group and the group shall make available to the commissioner or equivalent official of the ceding licensed insurer's state of domicile or entry an annual certification of the solvency of each underwriter by the group's domiciliary regulator and its independent public accountants. For a domestic insurer, the certification shall be filed with the commissioner by June 1 unless otherwise approved in writing by the commissioner.

(e) The trust is established in a form approved by the commissioner or equivalent official of the ceding licensed insurer's state of domicile or entry. The trust instrument shall provide, and the trustees comply with, all of the following:

1. Contested claims shall be valid and enforceable out of funds in the trust if the claims remain unsatisfied 30 days after the entry of a final order of any court of competent jurisdiction in the United States.

2. Legal title to the assets of the trust is vested in the trustee of the trust for the benefit of the grantor's United States policyholders and ceding insurers, their assigns and successors in interest.

3. The trust and the assuming insurer are subject to examination as determined by the commissioner.

4. The trust shall remain in effect for as long as the assuming insurer, or any member or former member of a group of insurers, has outstanding obligations due under the reinsurance agreements subject to the trust.

5. No later than February 28 of each year, unless a later date is approved in writing by the commissioner or equivalent official of the ceding licensed insurer's state of domicile or entry, the trustees of the trust shall report to the commissioner or equivalent official of the ceding licensed insurer's state of domicile or entry in writing setting forth the balance in the trust and listing the trust's investments at the preceding year end, and shall certify the date of termination of the trust, if so planned, or certify that the trust shall not expire prior to the next following December 31.

6. No amendment to the trust may be effective unless reviewed and approved in writing and in advance by the commissioner or equivalent official of the ceding licensed insurer's state of domicile or entry.

(5) The reinsurance ceded to the reinsurer is with respect to the insurance of risks located in jurisdictions where the reinsurance by the reinsurer is required by applicable law or regulation of that jurisdiction. For the purpose of this subsection "jurisdiction" means a state, district or territory of the United States or any lawful national government.

Ins 52.025 REVOCATION OF ACCREDITATION. (1) The commissioner may revoke the accreditation of a reinsurer under s. Ins 52.02. If the accreditation of a reinsurer is revoked, a licensed insurer may not take credit for ceded reinsurance to the reinsurer under s. Ins 52.02 (2), (3) or (3m), regardless of when the reinsurance was ceded or the reinsurance contract executed. If a reinsurer does not comply with any provision of s. Ins 52.02 (2), (3), (3m), (4) or (5) an insurer may not take credit for reinsurance ceded to the reinsurer under s. Ins 52.02 (2), (3), (3m), (4) or (5), regardless of whether the reinsurer is or remains accredited and regardless of when the reinsurance was ceded or the reinsurance contract executed.

(2) For the purpose of accreditation under s. Ins 52.02 (2) or an order disallowing credit under s. Ins 52.02 (3m), it is presumed that a reinsurer should not be accredited or take credit if the reinsurer has a policyholder surplus of less than \$20,000,000.

Ins 52.03 INSOLVENCY CLAUSE AND JURISDICTION; FINANCIAL REINSURANCE DISALLOWED. (1) A ceding domestic insurer may not take credit for reinsurance, except as permitted by s. Ins 52.02 (5), unless the reinsurer in a written reinsurance agreement:

(a) Agrees that if the reinsurer fails to perform its obligations under the terms of the reinsurance agreement, the reinsurer, at the request of the ceding insurer, shall submit to the jurisdiction of any court of competent jurisdiction in any state of the United States, will comply with all requirements necessary to give the court jurisdiction, and will abide by the final decision of such court or of any appellate court in the event of an appeal.

(b) Designates the commissioner or a designated attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the ceding company.

(c) For reinsurance agreements effective on or after January 1, 1980, the agreement provides that the reinsurer assumes all credit risks of an intermediary relating to payments to an intermediary if the agreement by its terms requires payments to an intermediary.

(2) Subsection (1) does not effect the obligation of the parties to a reinsurance agreement to arbitrate their disputes, if the obligation is created in the agreement and complies with ch. 645, Stats.

(3) A ceding domestic insurer may not take credit for reinsurance unless the assuming insurer in the reinsurance contract:

(a) Undertakes to protect the ceding insurer from loss or liability on coverage the ceding insurer issues not only in form but in fact; and

(b) Includes a proper insolvency clause under s. 645.58 (1), Stats., or for an alien or nondomestic insurer includes an insolvency clause which guarantees payment of the liability of the reinsurer without diminution because of the insolvency of the ceding insurer.

Ins 52.04 REDUCTION FROM LIABILITY FOR REINSURANCE CEDED BY A LICENSED INSURER TO AN ASSUMING INSURER. Unless otherwise ordered by the commissioner, an insurer may take credit for a reduction in liability for reinsurance ceded to a reinsurer even if the credit is not permitted under s. Ins 52.02 in an amount not exceeding the lesser of the liabilities carried by the ceding insurer or the amount of funds held by or on behalf of the ceding insurer, but only if the funds are held in the United States and are security for the payment of obligations under the reinsurance contract and if the funds meet one of the following:

(1) Are included under a security arrangement and are subject to withdrawal solely by, and are under the exclusive control of, the ceding insurer, and the form of the funds and the security agreement are approved by

the commissioner or the equivalent official of the state of domicile or entry of the ceding insurer.

(2) Are unencumbered, are securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets or cash, are withheld by the ceding insurer, and are subject to withdrawal solely by, and are under the exclusive control of, the ceding insurer;

(3) Are securities listed by the Securities Valuation Office of the National Association of Insurance Commissioners and qualifying as admitted assets or cash, are held in a trust for the exclusive benefit of the ceding insurer and the ceding insurer, reinsurer, reinsurance contract and trust comply with s. Ins. 52.05; or

(4) Are available under a clean, irrevocable, unconditional and evergreen letter of credit which is issued or confirmed by a qualified United States institution and are subject to withdrawal solely by, and are under the exclusive control of, the ceding insurer and the letter of credit is in the possession of the ceding insurer and the ceding insurer, reinsurer and letter of credit comply with s. Ins 52.06. A letter of credit meeting applicable standards of issuer acceptability as of the date of issue or confirmation continues to meet those standards for the purpose of this subsection if after issuance or confirmation the financial institution fails to meet applicable standards of issuer acceptability. The letter of credit continues to be acceptable as funds until its expiration, extension, renewal, modification or amendment, whichever first occurs.

Ins 52.05 TRUST AGREEMENTS QUALIFYING FOR SECURITY (1) In this section:

(a) "Beneficiary" means the person for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law,

including, but not limited to, any liquidator, rehabilitator, receiver, or conservator.

(b) "Grantor" means the person that has established a trust, including, but not limited to, an unlicensed, unaccredited assuming insurer that establishes a trust.

(c) "Reinsurance obligations" means:

1. Reinsured losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer;
2. Reserves for reinsured losses reported and outstanding;
3. Reserves for reinsured losses incurred but not reported; and
4. Reserves for allocated reinsured loss expenses and unearned premiums.

(2) A ceding insurer may take credit under s. Ins 52.04 (3) only if:

(a) There is a written trust agreement between the beneficiary, the grantor and a trustee and the trustee is a qualified fiduciary United States financial institution.

(b) The trust agreement creates a trust account and all the assets are deposited in the trust account.

(c) The trustee holds all assets in the trust account at the trustee's office in the United States, except that a bank may apply for the permission of the commissioner or equivalent official of the ceding insurer's state of domicile or entry to use a foreign branch office of the bank as trustee for trust agreements established under this section. If the commissioner or equivalent official approves the use of a foreign branch office as trustee, then its use must be approved by the beneficiary in writing and the trust agreement must provide that the written notice described in par. (d) 1 must also be presentable, as a matter of legal right, at the trustee's principal office in the United States.

(d) The trust agreement provides that:

1. The beneficiary may withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;

2. No statement or document is required to be presented in order to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets;

3. It is not subject to any conditions or qualifications outside of the trust agreement; and

4. It does not contain references to any other agreements or documents except as provided under par. (k).

(e) The trust agreement is established for the sole benefit of the beneficiary.

(f) The trust agreement requires the trustee to:

1. Receive assets and hold all assets in a safe place;

2. Determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any of the assets, without consent or signature from the grantor or any other person;

3. Furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;

4. Notify the grantor and the beneficiary within 10 days, of any deposits to or withdrawals from the trust account;

5. Upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver physical custody of the assets to the beneficiary; and

6. Allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.

(g) The trust agreement provides that at least 30 days, but not more than 45 days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.

(h) The trust agreement provides that it is subject to and governed by the laws of the state in which the trust is established.

(i) The trust agreement prohibits invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the trustee.

(j) The trust agreement provides that the trustee is liable for its own negligence, willful misconduct or lack of good faith.

(k) Notwithstanding other provisions of this chapter, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, and where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may, notwithstanding any other conditions in this chapter, provide that the ceding insurer agrees to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, for the following purposes:

1. To pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;

2. To make payment to the assuming insurer of any amounts held in the trust account that exceed 102% of the actual amount required to fund the assuming insurer's reinsurance obligations under the specific reinsurance agreement; or

3. Where the ceding insurer has received notification of termination of the trust account and where the assuming insurer's entire reinsurance obligations under the specific reinsurance agreement remain unliquidated and undischarged 10 days prior to the termination date, to withdraw amounts equal to the reinsurance obligations and deposit those amounts in a separate account in the name of the ceding insurer in any qualified fiduciary United States financial institution apart from its general assets and in trust for the uses and purposes specified in subd. 1 and 2 which remain executory after the withdrawal and for any period after the termination date.

(1) Either the reinsurance agreement entered into in conjunction with the trust agreement or the trust agreement stipulates that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of one or more of the following:

1. United States legal tender cash;

2. Certificates of deposit issued by a United States bank and payable in United States legal tender issued by an institution that is not the parent, subsidiary or affiliate of either the grantor or the beneficiary; or

3. Investments which are admitted assets, permitted under ch. 620, Stats., and not excluded from the calculation of compulsory surplus, if the investments are issued by an institution that is not the parent, subsidiary or affiliate of either the grantor or the beneficiary.

(m) Any trust agreement provision which permits the trustee to resign only allows resignation to be effective not less than 90 days after receipt by the beneficiary and grantor of written notice of resignation and only after a

successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.

(n) Any trust agreement provision which permits the grantor to remove the trustee only allows removal to be effective not less than 90 days after receipt of notice of the removal by the trustee and beneficiary and only after a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.

(o) Any trust agreement provision which allows the grantor full and unqualified right to vote any shares of stock in the trust account and to receive from time to time payments of any dividends or interest upon any shares of stock or obligations included in the trust account requires the trustee to promptly on receipt forward dividends or interest to the grantor or promptly deposit dividends or interest in a separate account established in the grantor's name.

(p) Any trust agreement provision which gives the trustee authority to invest, or accept substitutions of, any funds in the account, requires the trustee to obtain the prior approval of the beneficiary for each investment or substitution, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions which the trustee determines are at least equal in market value to the assets withdrawn and that are consistent with the restrictions in par. (1).

(q) Any trust agreement provision which permits or requires the trustee, upon termination of the trust account, to deliver assets not withdrawn by the beneficiary to the grantor, also prohibits the trustee from delivering the assets until the beneficiary gives written approval.

(3) A trust agreement under s. Ins 52.04 (3) may permit the beneficiary to at any time designate a party to which all or part of the trust assets are to be transferred. The transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.

(4) A ceding insurer may take credit under s. Ins 52.04 (3) only if there is a written reinsurance agreement entered into in conjunction with a trust agreement which complies with sub. (2) and the reinsurance agreement:

(a) Requires the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifies what the agreement is to cover;

(b) Also contains the provision the trust agreement is required to have under sub. (2) (k), except the reinsurance agreement is not required to also have that provision if the reinsurance agreement covers only risks other than life, annuities or accident and health;

(c) Requires the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity;

(d) Requires that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent; and

(e) Stipulates that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in

interest by operation of law, including, but not limited to, by any liquidator, rehabilitator, receiver or conservator of the ceding insurer, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:

1. To reimburse the ceding insurer for the assuming insurer's share of premiums returned to the owners of policies reinsured under the reinsurance agreement because of cancellations of the policies;

2. To reimburse the ceding insurer for the assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement;

3. To fund an account with the ceding insurer in an amount at least equal to the deduction, for reinsurance ceded, from the ceding insurer liabilities for policies ceded under the agreement. The account shall include, but not be limited to, amounts for policy reserves, claims and losses incurred (including losses incurred but not reported), loss adjustment expenses and unearned premium reserves; and

4. To pay any other amounts the ceding insurer claims are due under the reinsurance agreement.

(f) If it gives the assuming insurer the right to seek to withdraw from the trust account all or any part of the trust assets, restricts that right by requiring:

1. The prior written approval by the ceding insurer which the reinsurance agreement may require the ceding insurer to not unreasonably or arbitrarily withhold; and

2. That withdrawal may be approved or permitted only if after the withdrawal the market value of the trust account is no less than 102% of the required amount or if the assuming insurer, at the time of withdrawal, replaces the withdrawn assets with other qualified assets having a market

value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount.

(g) Does not require the return of amounts withdrawn under the provision required under par. (e) except the reinsurance agreement may require the ceding insurer to return:

1. Any amount withdrawn in excess of the actual amounts required for par. (e) 1, 2, or 3, or in the case of par. (e) 4, any amounts that are subsequently determined not to be due; and

2. Interest payments, at a rate not in excess of the prime rate of interest, on the amounts held under par. (e) 3.

(h) If it permits the award of attorneys' fees or costs or interest at a rate other than provided under par. (g) 2, permits it only as the result of an award by any arbitration panel or court of competent jurisdiction and only of:

1. Interest at a rate different from that provided in par. (g) 2;
2. Court or arbitration costs;
3. Attorneys' fees; or
4. Any other reasonable expenses.

(5) The failure of any trust agreement to specifically identify the beneficiary shall not be construed to affect any actions or rights which the commissioner or equivalent official may take or possess pursuant to the provisions of the laws of the state of domicile or entry of the licensed insurer.

Ins 52.06 LETTERS OF CREDIT. (1) In this section "beneficiary" means the insurer for whose benefit the letter of credit has been established and any successor of the beneficiary by operation of law, including, but not limited to, a court-appointed domiciliary receiver, including, but not limited to, a conservator, rehabilitator or liquidator.

(2) A ceding insurer may take credit under s. Ins 52.04 (4) only if the letter of credit complies with all of the following:

(a) The letter of credit is clean, irrevocable and unconditional.

(b) The letter of credit contains an issue date and date of expiration and stipulates that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented.

(c) The letter of credit states that it is not subject to any condition or qualifications outside of the letter of credit.

(d) The letter of credit itself shall not contain reference to any other agreements, documents or entities, except as provided in sub. (3) (a) and (b).

(e) If the heading of the letter of credit includes a section which includes notations to provide a reference for the letter of credit, the section shall be boxed section and clearly marked to indicate that the information is for internal identification purposes only.

(f) The letter of credit states that the obligation of the qualified United States financial institution under the letter of credit is in no way contingent upon reimbursement.

(g) The term of the letter of credit is for at least one year and the letter of credit contains a clause which prevents the expiration of the letter of credit unless the issuer gives written notice to the ceding insurer. The "evergreen clause" shall provide for a period of no less than 30 days' notice to the ceding insurer prior to the expiration date for nonrenewal.

(h) The letter of credit states whether it is subject to and governed by the laws of this state or the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 400) and that

all drafts drawn under the letter of credit are presentable at an office in the United States of a qualified United States financial institution.

(i) If the letter of credit is made subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 400), the letter of credit specifically addresses and makes provision for an extension of time to draw against the letter of credit if any of the occurrences specified in Article 19 of Publication 400 occur.

(j) The letter of credit is issued or confirmed by a qualified United States financial institution authorized to issue letters of credit.

(k) If the letter of credit is issued by a financial institution which is not a qualified United States financial institution:

1. The issuing financial institution formally designates the confirming qualified United States financial institution as its agent for the receipt and payment of the drafts; and

2. The letter of credit "evergreen clause" under par. (g) requires the confirming qualified United States financial institution to give written notice to the ceding insurer at least 30 days prior to expiration date for nonrenewal.

(3) A ceding insurer may take credit under s. Ins 52.04 (4) only if there is a written reinsurance agreement in conjunction with the letter of credit and the reinsurance agreement:

- (a) Requires the assuming insurer to provide letters of credit to the ceding insurer, specifies what the letters of credit are to cover, and provides that the provisions required under this paragraph and par. (b) apply without diminution because of insolvency by either the ceding or assuming insurer.

- (b) Except as permitted under par. (d), stipulates that the assuming insurer and ceding insurer agree that the letter of credit provided by the

assuming insurer under the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and may be utilized by the ceding insurer or its successors in interest including, but not limited to, by any liquidator, rehabilitator, receiver or conservator of the ceding insurer, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for one or more of the following reasons:

1. To reimburse the ceding insurer for the assuming insurer's share of premiums returned to the owners of policies reinsured under the reinsurance agreement because of cancellations of the policies;

2. To reimburse the ceding insurer for the assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer under provisions of the policies reinsured under the reinsurance agreement;

3. To fund an account with the ceding insurer in an amount at least equal to the deduction, for reinsurance ceded, from the ceding insurer liabilities for policies ceded under the agreement. The account shall include, but not be limited to, amounts for policy reserves, claims and losses incurred (including losses incurred but not reported), loss adjustment expenses and unearned premium reserves; and

4. To pay any other amounts the ceding insurer claims are due under the reinsurance agreement.

(c) Does not require the return of amounts drawn under the letter of credit except the reinsurance agreement may require the ceding insurer to return:

1. Any amount withdrawn in excess of the actual amounts required for par. (b) 1, 2, or 3, or in the case of par. (b) 4, any amounts that are subsequently determined not to be due; and

2. Interest payments, at a rate not in excess of the prime rate of interest, on the amounts held under par. (b) 3.

(d) Requires a trust agreement to accomplish to the purpose of par. (b), instead of including that provision in the reinsurance agreement, and the trust agreement is incorporated in the reinsurance agreement or separately executed except a trust agreement may be used only if the reinsurance agreement covers risks other than life, annuities and health and if it is customary practice to provide a letter of credit for a specific purpose.

Ins 52.07 APPLICABILITY. (1) This chapter applies to determine whether credit may be taken for:

(a) Any reinsurance ceded under agreements entered into on or after the effective date of this chapter [revisor inserts date]; or

(b) Any reinsurance ceded if the reinsurance agreement is renewed by agreement on or after the effective date of this chapter [revisor inserts date].

(2) Section Ins 6.73 continues to apply for the purpose of determining whether credit may be taken for reinsurance which is not subject to this chapter under sub. (1).

(3) This chapter and ch. Ins 55 are in addition to and do not limit the commissioner's authority under ss. 618.21 (1) (a), 618.23 (1) (a), 618.26 (1) (a), 623.11, 623.12 or 623.21, or ch. 645 Stats., or s. Ins 14.02. Even if credit for reinsurance is permitted under this chapter and ch. Ins 55, the commissioner may under those provisions require a licensed insurer to exclude the effects of the credit for the purpose of determining compliance with security or compulsory surplus.

(4) Nothing in this chapter or ch. Ins 55 relieves an insurer or an officer or director of an insurer or an accountant or actuary from

responsibility under s. 627.23 (3), Stats., or fiduciary or professional responsibility, to assess the financial condition of a reinsurer.

Accreditation by the commissioner does not create a presumption that a reinsurer is in compliance with this chapter or that it is in sound financial condition and no reinsurer or officer, employe or agent of a reinsurer may make such a representation.

(5) This chapter does not limit or change the requirements for town mutual insurers under ss. 612.31 and 612.33, Stats. This chapter applies to the state life fund.

CERTIFICATE OF ASSUMING INSURER

I, _____, _____
(name of officer) (title of officer)

of _____, the assuming insurer
(name of assuming insurer)

under a reinsurance agreement(s) with one or more insurers domiciled in

_____, hereby certify that
(name of state)

_____ ("Assuming Insurer"):
(name of assuming insurer)

1. Submits to the jurisdiction of any court of competent jurisdiction in

(ceding insurer's state of domicile)
for the adjudication of any issues arising out of the reinsurance agreement(s), agrees to comply with all requirements necessary to give such court jurisdiction, and will abide by the final decision of such court or any appellate court in the event of an appeal. Nothing in this paragraph constitutes or should be understood to constitute a waiver of Assuming Insurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. This paragraph is not intended to conflict with or override the obligation of the parties to the reinsurance agreement(s) to arbitrate their disputes if such an obligation is created in the agreement(s).

2. Designates the Insurance Commissioner of _____
(ceding insurer's state of domicile)
as its lawful attorney upon whom may be served any lawful process in any action, suit or proceeding arising out of the reinsurance agreement(s) instituted by or on behalf of the ceding insurer.

3. Submits to the authority of the Insurance Commissioner of _____
(ceding insurer's state of domicile) to examine its books and records and agrees to bear the expense of any such examination.

4. Submits with this form a current list of insurers domiciled in _____
(ceding insurer's state of domicile) reinsured by Assuming Insurer and

undertakes to submit additions to or deletions from the list to the Insurance Commissioner at least once per calendar quarter.

Dated: _____

(name of assuming insurer)

BY: _____

(name of officer)

(title of officer)

SECTION 21. Chapter Ins 55 is created to read:

CHAPTER 55

LIFE AND HEALTH REINSURANCE AGREEMENTS

Ins 55.01 SCOPE. (1) This chapter applies only to:

(a) Domestic life and accident and health insurers;

(b) Licensed life and accident and health insurers which are not subject to a substantially similar rule or law in their state of domicile; and

(c) Licensed property and casualty insurers which are not subject to a substantially similar rule or law in their state of domicile with respect to their accident and health business.

(2) This rule does not apply to assumption reinsurance, yearly renewable term reinsurance or nonproportional reinsurance such as stop loss or catastrophe reinsurance.

Ins 55.02 ACCOUNTING REQUIREMENTS. (1) No insurer may, for reinsurance ceded, reduce any liability or establish any asset in any financial statement filed with the office of the commissioner of insurance if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:

(a) Renewal expense allowances provided, or to be provided, to the ceding insurer by the reinsurer in any accounting period, are not sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the

portion of the business reinsured, unless a liability is established for the present value of the shortfall using assumptions equal to the applicable statutory reserve basis on the business reinsured. Those expenses include commissions, premium taxes and direct expenses including, but not limited to, billing, valuation, claims and maintenance expected by the company at the time the business is reinsured.

(b) The ceding insurer can be deprived of surplus or assets at the reinsurer's option or automatically upon the occurrence of some event, such as the insolvency of the ceding insurer, other than termination of the reinsurance agreement by the reinsurer for nonpayment of reinsurance premiums or other amounts due, such as modified coinsurance reserve adjustments, interest and adjustments on funds withheld, and tax reimbursements.

(c) The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, other than offsetting experience refunds against current and prior years' losses under the agreement, or payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by the ceding insurer. Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement, including, but not limited to, a provision which provides that it is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels which forces the ceding company to prematurely terminate the reinsurance agreement.

(d) The ceding insurer must, at specific points in time scheduled in the agreement, terminate or automatically recapture all or part of the reinsurance ceded.

(e) The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies or the ceding insurer is required to pay reinsurance premiums, or other fees or charges, to a reinsurer which are greater than the direct premiums collected by the ceding company.

(f) The treaty does not transfer all of the significant risk inherent in the business being reinsured.

(g) 1. Except as provided by subd. 2, the credit quality, reinvestment, or disintermediation risk is significant for the business reinsured and the ceding company does not either transfer the underlying assets to the reinsurer or legally segregate such assets in a trust or escrow account or otherwise establish a mechanism satisfactory to the commissioner which legally segregates, by contract or contract provision, the underlying assets.

2. The assets supporting the reserves for classes of business which do not have a significant credit quality, reinvestment or disintermediation risk, for the following classes of business, may be held by the ceding company without segregation of the assets:

- a. Health Insurance - LTC/LTD
- b. Traditional Non-Par Permanent
- c. Traditional Par Permanent
- d. Adjustable Premium Permanent
- e. Indeterminate Premium Permanent
- f. Universal Life Fixed Premium (no dump-in premiums allowed)

3. The associated formula for determining the reserve interest rate adjustment must use a formula which reflects the ceding company's investment earnings and incorporates all realized and unrealized gains and losses

reflected in the statutory statement. The following is an acceptable formula:

$$\text{Rate} = \frac{2 (I + CG)}{X + Y - I - CG}$$

Where: I is the net investment income

CG is capital gains less capital losses

X is the current year cash and invested assets plus investment income due and accrued less borrowed money

Y is the same as X but for the prior year

(h) Settlements are made less frequently than quarterly or payments due from the reinsurer are not made in cash within 90 days of the settlement date.

(i) The ceding insurer is required to make representations or warranties not reasonably related to the business being reinsured.

(j) The ceding insurer is required to make representations or warranties about future performance of the business being reinsured.

(k) The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect, the expected potential liability to the ceding insurer remains basically unchanged.

(2) For the purpose of this chapter, the following table identifies for a representative sampling of products or type of business, the risks which are considered to be significant. If a product is not specifically included in the table, the risks for the product shall be determined to be significant in a manner consistent with this table. Risk categories are:

(a) Morbidity.

(b) Mortality.

(c) Lapse-This is the risk that a policy will voluntarily terminate prior to the recoupment of a statutory surplus strain experienced at issue of the policy.

(d) Credit Quality (C1)-This is the risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.

(e) Reinvestment (C3)-This is the risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.

(f) Disintermediation (C3)-This is the risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than the liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

TABLE + - Significant 0 - Insignificant

RISK CATEGORY

	a	b	c	d	e	f
Health Insurance - other than LTC/LTD*	+	0	+	0	0	0
Health Insurance - LTC/LTD*	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+
Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+

(dump-in premiums allowed)

*LTC = Long Term Care Insurance

LTD = Long Term Disability Insurance

(3) An insurer may, with the prior written approval of the commissioner, take reserve credit or establish an asset for ceded reinsurance which does not comply with sub. (1) or (2).

(4) An insurer which enters into a reinsurance agreement which involves the reinsurance of business issued prior to the effective date of the agreements, and any subsequent amendments to such a reinsurance agreement, shall file the agreement with the commissioner within 30 days from its date of its execution. An insurer shall include with the filing data detailing the financial impact of the transaction.

(5) A ceding insurer's actuary who signs the financial statement actuarial opinion with respect to valuation of reserves shall consider this chapter and any applicable actuarial standards of practice when determining the proper credit in financial statements filed with the commissioner. The actuary shall maintain adequate documentation and be prepared upon request to describe the actuarial work performed for inclusion in the financial statements and to demonstrate that the work conforms to this rule.

(6) An insurer shall, in the insurer's statutory financial statement, show:

(a) Any increase in surplus net of federal income tax resulting from arrangements described in sub. (4) separately as a surplus item (aggregate write-ins for gains and losses in surplus in the capital and surplus account; and

(b) Recognition of the surplus increase as income reflected on a net of tax basis in the "Reinsurance ceded" line, page 4 of the Annual Statement as earnings emerge from the business reinsured.

NOTE: The following is an example of the application of s. Ins 55.02 (6): On the last day of calendar year N, company XYZ pays a \$20 million initial commission and expense allowance to company ABC for reinsuring an existing block of business. Assuming a 34% tax rate, the net increase in surplus at inception is \$13.2 million (\$20 million - \$6.8 million) which is

reported on the "Aggregate write-ins for gains and losses in surplus" line in the Capital and Surplus account. \$6.8 million (34% of \$20 million) is reported as income on the "Commissions and expense allowances on reinsurance ceded" line of the Summary of Operations. At the end of year N+1 the business has earned \$4 million. ABC has paid \$.5 million in profit and risk charges in arrears for the year and has received a \$1 million experience refund. Company ABC's annual statement would report \$1.65 million (66% of (\$4 million - \$1 million - \$.5 million) up to a maximum of \$13.2 million) on the "Commissions and expense allowance on reinsurance ceded" line of the Summary of Operations, and -\$1.65 million on the "Aggregate write-ins for gains and losses in surplus" line of the capital and surplus account. The experience refund would be reported separately as a miscellaneous income item in the Summary of Operations.

Ins 55.03 WRITTEN AGREEMENTS. An insurer may not reduce any liability or establish any asset in any financial statement filed with the office of the commissioner of insurance, based on a reinsurance agreement or amendment to any agreement unless:

(1) The agreement, amendment or a binding letter of intent has been duly executed by all parties no later than the date for which the financial statement is reporting the financial condition of the insurer;

(2) If only a letter of intent has been executed, a reinsurance agreement or an amendment to a reinsurance agreement is to be executed within a reasonable period of time, not exceeding 90 days from the execution date of the letter of intent; and

(3) The reinsurance agreement or amendment provides that:

(a) The agreement or amendment constitutes the entire agreement between the parties with respect to the business being reinsured and that

there are no understandings between the parties other than as expressed in the agreement; and

(b) Any change or modification to the agreement or amendment is null and void unless made by amendment and signed by all parties.

Ins 55.04 EFFECT OF FAILURE TO COMPLY. No insurer may reduce any liability or establish or maintain an asset for the purpose of determining whether the insurer is in financially hazardous condition, establishing or representing the financial condition of the insurer, or for the purpose of meeting compulsory surplus or security surplus requirements if the insurer may not reduce the liability or establish or maintain the asset on its financial statement under this chapter.

Ins 55.05 APPLICABILITY. (1) This chapter applies to reinsurance agreements entered into prior to, on or after its effective date.

(2) An insurer shall reduce to zero by December 31, 1994, any reserve credits or assets established with respect to reinsurance agreements entered into prior to the effective date of this section [revisor inserts date] which, under the provisions of this chapter would not be entitled to recognition of the reserve credits or assets. Section Ins 6.73 and the annual statement instructions in effect prior to the effective date of this chapter [revisor inserts date] continue to apply to agreements entered into prior to the effective date of this chapter [revisor inserts date] until December 31, 1994.

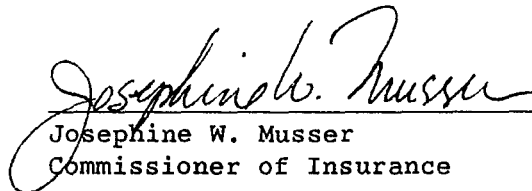
(3) This chapter is in addition to, and does not supersede other requirements, including, but not limited to, the requirements of ch. Ins 52.

SECTION 22. APPLICABILITY. (1) The treatment of s. Ins 16.02 and creation of subch. I of ch. Ins 50 first applies to financial reports for fiscal years ending on or after December 31, 1993.

(2) The treatment of ch. Ins 12 and the creation of ch. Ins 40 first applies on and after the effective date of those provisions except the treatment of annual registration requirements under ch. Ins 40 applies after December 31, 1993.

SECTION 23. EFFECTIVE DATE. This rule will take effect on the first day of the first month commencing after its publication.

Dated at Madison, Wisconsin, this 10 day of May 1993.



Josephine W. Musser
Commissioner of Insurance