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(b) Expenses shall be recorded and reported in accordance with the uniform classification of expenses for fire and marine and casualty and surety insurance.

(c) The unearned premium reserve shall be computed in accordance with section 201.18 (1), Wis. Stats.

(d) The case basis method shall be used to determine the loss reserve, which shall include a reserve for claims reported and unpaid and a reserve for claims incurred but not reported.

(e) A contingency reserve composed of a contribution from earned premium equal to the contingency factor permitted in the rate formula shall be established and reported in the financial statement as a liability.

(4) CONTINGENCY RESERVE. (a) The reserve established in paragraph (e) of subsection (3) shall be maintained indefinitely for the purpose of protecting against the effect of adverse economic cycles.

(b) Subject to the approval of the commissioner, the reserve shall be available only for loss payments when the incurred losses in any one year exceed the rate formula expected losses by 10% of the corresponding earned premiums.

(c) The contingency factor in the rate formula shall be 30% of the premiums earned until the contingency reserve becomes equal to 5 times the current premiums in force. At such time the appropriate modification shall be made in the contingency factor and rate formula.

(5) RATE MAKING. (a) Mortgage guaranty insurance shall be subject to the provisions of sections 204.37 to 204.54 inclusive, Wis. Stats.

(b) The rate formula shall contemplate losses, expenses, contingency reserve, 2½% of premium for profit, and any other relevant factors.

(c) All policy forms and endorsements shall be filed with and be subject to the approval of the commissioner of insurance. The mortgage insurance policy shall provide that the borrower shall not be liable to the insurance company for any deficiency arising from a foreclosure sale.

History: Cr. Register, March, 1957, No. 15, eff. 4-1-57.

Ins 3.12 Membership fees and policy fees. (1) PURPOSE. This rule is intended to implement and interpret section 204.405, Wis. Stats., consistent with the purpose and scope of the applicable insurance statutes.

(2) DEFINITION. (a) Automobile coverage means the insurance against any loss, expense, and liability resulting from the ownership, maintenance, or use of any automobile or other vehicle except aircraft.

(b) Initial membership fee is the fee charged for any automobile coverage for membership in an insurance company at the time the policyholder first procures insurance from the insurance company.

(c) Policy fee is the fee charged for issuing an insurance policy.

(3) ACCOUNTING. Every initial membership fee, policy fee, or other similar charge for any automobile coverage shall be considered as additional premium for the first policy term subsequent to the collec-

tion or payment thereof: (a) For all annual statement purposes, including all summaries, tabulations, schedules, and exhibits;

(b) For recording and reporting in accordance with the uniform classification of expense for fire, marine, and casualty and surety insurance;

(c) For tax purposes;

(d) And shall be subject to all statutory requirements for reserves and financial statements;

(e) And reasonable allocation consistent with the company's method of operation for renewal business shall be made to each coverage for which there is a premium charge contained in the policy.

(4) **INSURANCE RATES AND PREMIUM CHARGES.** (a) Every initial membership fee, policy fee, or other similar charge for any automobile coverage shall be considered as additional premium for the first policy term subsequent to the collection or payment thereof and:

1. Shall be reasonable, equitable, and consistent with the company's method of operation;

2. Shall not discriminate unfairly between risks or classes;

3. Reasonable allocation shall be made to each coverage in accordance with the statistical plans applicable for the specific coverages contained in the policy;

4. In event of cancellation within the first policy term, shall be subject to return to at least the same extent as premium;

5. The conditions applicable to such fees shall be stated in the policy.

(b) Each and every consideration for the policy, including initial membership fee, policy fee, or other similar charge, and the premium, must be stated in the policy.

(c) With respect to the same kind or class of automobile coverage, an insurer may operate only on a plan which is limited to the use of the conventional premium method or to the use of an initial membership fee or policy fee or other similar charge.

(d) No policy fee or other similar charge shall be charged for renewal or extension of an insurance policy by endorsement or certificate.

History: Cr. Register, February, 1958, No. 26, eff. 3-1-58.