

authorizing resolutions or ordinance of the governing body of the unit require that during the life of the evidence of indebtedness the rates, fees, tolls or charges together with any other revenues pledged shall at all times produce revenues sufficient to pay all expenses of operation and maintenance, interest as promised and the principal sum when due; or

4. They are evidences of indebtedness of public utilities in the United States or Canada and are either adequately secured by mortgage, pledge or other collateral, or have had net earnings available for fixed charges that for the previous 3 fiscal years have averaged per year not less than $1\frac{1}{2}$ times the average annual fixed charges; or

5. They are evidences of indebtedness of a United States or Canadian private corporation, and they are either adequately secured by mortgage, pledge or other collateral, or are issued by a corporation which has had net earnings available for fixed charges that have averaged for the previous 5 years and equalled for each of the previous 2 years an annual amount which exceeded average annual fixed charges by at least 50%, or 25% in the case of corporations engaged primarily in wholesale or retail merchandising, installment, commercial and consumer financing, factoring or small loan business.

(b) *Equipment securities.* In equipment securities or in certificates of an equipment trust under subsection (8) (b) of this rule unless the obligor's net earnings have averaged at least 2 times its average annual fixed charges for the previous 3 years.

(c) *Real estate loans.* In real estate loans:

1. On the security of encumbered property, but property shall not be deemed encumbered because of unpaid but not delinquent assessments and taxes, mineral, oil or timber rights, easements for public highways, private roads, railroads, telegraph, telephone, electric light and power lines, drains, sewers or other similar easements, liens for service and maintenance of water rights when not delinquent, party wall agreements, building restrictions, or other restrictive covenants or conditions, with or without a reversionary clause, or leases under which rents or profits are reserved to the owner;

2. In excess of $\frac{1}{2}$ of the fair market value, including buildings covered by the mortgage. If the value of buildings constitute part of the security, the buildings must be insured adequately to protect the insurer's security interest. The $\frac{1}{2}$ limitation shall not apply to any loan fully insured by a federal insurance corporation; nor

3. On the security of a leasehold interest in real property unless it is unencumbered except by rentals owed to the owner of the fee, has at least 25 years yet to run, and then for no more than 50% of the fair market value of the leasehold less the present value of all rentals due upon it to the owner of the fee.

(d) *Preferred shares.* In preferred shares unless the issuing company has had, disregarding fixed charges on indebtedness and dividend requirements on preferred stock for the retirement of which provision has been made at the date of the investment, net earnings:

1. Available for fixed charges and dividends that during the previous 5 fiscal years have averaged not less than twice the sum of the fixed charges, maximum contingent interest and preferred dividend requirements of the issuing company; or

2. Available for fixed charges and dividends that for each of the

previous 3 fiscal years have been not less than 1½ times the sum of the fixed charges, maximum contingent interest and preferred dividend requirements of the issuing company; or

3. Available to meet preferred dividend requirements of the previous 5 years, after allowance for fixed charges and federal and state income taxes, that have averaged not less than 3 times the preferred dividend requirements.

(e) *Common stock.* In common stock except:

1. In accordance with a plan of acquisition proposed by the insurer and approved by the commissioner; and

2. In common stocks which are authorized securities for NASDAQ, the automated quotation system of the National Association of Securities Dealers.

(f) *Real property.* In any investment under section 620.22 (4) or (5), Wis. Stats., except with prior written approval of the commissioner.

(g) *Limitations on amount of investment.* More than 3% of assets in any single issue of a security to which this rule is applicable unless it obtains the prior approval of the commissioner except that such limitations shall not be applicable to securities of the government of the United States or its instrumentalities or securities guaranteed by the full faith and credit of the United States (and except that such limitation shall be 10% as to the securities of any state, governmental unit therein, or instrumentality thereof).

(6) TOWN MUTUAL INSURANCE COMPANIES. (a) Town mutual insurance companies authorized to operate under the provisions of chapter 202, Wis. Stats., shall be considered restricted insurers and shall be subject to the restrictions of section 620.03 (1), Wis. Stats., except as provided in section 620.03 (2), Wis. Stats., or in subsection (6) (b) of this rule.

(b) A town mutual insurance company may invest up to 50% of its assets in shares in mutual funds provided the assets of such mutual funds are invested only in accordance with subsection (4) and subsection (5) (a) through (f) of this rule and provided that such mutual fund shall:

1. Invest no more than 5% of its aggregate assets and securities in any one issuer, excepting securities of the United States government,

2. Own no more than 10% of the securities of any one issuer,

3. Submit quarterly statements to the commissioner in such detail as he requests,

4. Be audited annually by a certified public accountant acceptable to the commissioner.

(c) A town mutual insurance company may invest up to 75% of its assets in any common trust fund of which a Wisconsin state bank or trust company serves as trustees but only so long as such bank, in the administration of said common trust fund complies with the following conditions:

1. The fund shall be administered in compliance with applicable Wisconsin banking statutes and any rules and regulations promulgated by the commissioner of banking,

2. The bank shall furnish to the commissioner of insurance a copy of the plan establishing the common trust fund and shall promptly furnish the commissioner with copies of all amendments to such plan,

3. Notwithstanding the scope of any investment powers granted to the bank as trustees of such fund, the bank as trustee shall invest the assets of the fund only in:

a. Commercial paper rated "prime 1" by Moody's Investors Service, Inc., or "A-1" by Standard & Poor's Corporation or "F-1" by Fitch Investor Service, Inc.;

b. Prime banker's acceptances;

c. Certificates of deposits issued by banks;

d. Obligations of the United States government or any of its instrumentalities;

e. Bank repurchase agreements, if fully collateralized by obligations of the United States government or any of its instrumentalities.

4. The maturity date of each of the investments listed in subdivision 3 of this paragraph shall not exceed 91 days,

5. All income received by the fund shall be distributed monthly by the banks as trustee and there shall be no accumulation or reinvestment of such income by the bank,

6. The bank shall furnish monthly reports to each insurer-investor stating the value of such investor's participation in such common trust fund and the amount of income distributed to each insurer for such month,

7. The bank shall furnish annually to the commissioner an audited year-end financial statement of the common trust fund,

8. The common trust fund shall be subject to examination by the commissioner of banking.

(7) BONDS PERMISSIBLE. Bonds permissible under section 620.22 (1), Wis. Stats., include:

(a) Direct obligations of the United States or Canada, or of other governmental units therein;

(b) Obligations payable from and adequately secured by specifically pledged revenues of such governmental units or their instrumentalities, including corporations owned by or operated for such units; and

(c) Evidences of indebtedness of any solvent corporation of the United States or Canada.

(8) ADDITIONAL AUTHORIZED INVESTMENTS. An insurer may, in addition to investments authorized by section 620.22 (1) to (6), Wis. Stats., invest its assets in the following classes of investments, up to the limits stated, and in the case of insurers that are subject to special restrictions under section 620.03, Wis. Stats., in accordance with any other rules made applicable to them:

(a) Mortgage bonds of farm loan banks authorized under the federal farm loan act, and debentures issued by the banks for cooperatives established pursuant to the farm credit act of 1933, as amended;

(b) Equipment securities or certificates of any equipment trust evidencing rights to receive partial payments agreed to be made upon any contract of leasing or conditional sale—not exceeding 10% of assets;

(c) The purchase and ownership of machinery or equipment, which is or will become subject to contracts for sale or use under which contractual payments may reasonably be expected to return the principal of and provide earnings on the investment within the anticipated useful life of the property which shall be not less than 5 years—not exceeding 3% of assets;

(d) Loans upon the collateral security of any securities that the insurer could lawfully purchase, but not exceeding 90% of the market value of the securities up to an amount which, together with like securities owned, does not exceed the limits on the purchase of such securities;

(e) Evidences of indebtedness not otherwise authorized of the kind which if held by a bank would be eligible for discount, rediscount, purchase or sale by federal reserve banks or other government agencies having similar powers and functions—not exceeding 1% of assets;

(f) Shares of savings and loan associations to the extent that they are insured or guaranteed by the United States government or any agency thereof;

(g) The cash surrender values of life insurance policies of companies authorized to do business in Wisconsin;

(h) For a company authorized to transact a credit insurance business, the claims and demands that it has guaranteed;

(i) For a company authorized to transact a title insurance business, materials and plant necessary for the convenient transaction of business—not exceeding 50% of minimum capital or 5% of assets, whichever is greater;

(j) Direct obligations of foreign government—not exceeding 1% of assets;

(k) Loans, securities or investments in countries other than the United States and Canada which are of substantially the same kinds, classes and investment grades as those eligible for investment under chapter 620, Wis. Stats., and supplementary rules, but the aggregate of such investments shall not exceed 2% of the company's assets;

(l) Direct obligations of the international bank for reconstruction and development, the inter-American development bank and the Asian development bank—not exceeding 2% of assets;

(m) For an insurer doing business in a foreign country, the assets needed to meet its obligations in the foreign country in the kinds of securities within the foreign country that would be permissible investments if made in this state; and

(n) Shares of investment companies or investment trusts registered under the federal investment company act of 1940, as amended—regarded as part of the common stock portfolio of the insurer.

(9) CHANGES IN QUALIFICATION OF INVESTMENTS. Any investment originally made under section 620.22 (8), Wis. Stats., may thereafter be considered as falling within any other class of investment for which it subsequently qualifies.

(10) VALUATION. (a) *General.* Security valuations contained in "Valuations of Securities", issued by the Committee on Valuation of Securities of the National Association of Insurance Commissioners, will be followed in implementing this chapter.

(b) *Insurance policies.* Insurance policies purchased under subsection (8) (g) of this rule will be valued at their cash surrender value.

(c) *Claims and demands guaranteed by insurer.* When an insurer authorized to sell credit insurance purchases, under subsection (8)

(h) of this rule, claims and demands it has guaranteed, it shall value them at face value or at cost, whichever is less, and shall set up a

separate and adequate "loss reserve for guaranteed claims purchased" in an amount satisfactory to the commissioner.

History: Cr. emerg. eff. 5-2-72; cr. Register, July, 1972, No. 199, eff. 8-1-72; am. (5) (a) 1., Register, October, 1974, No. 226, eff. 11-1-74; R. and recr. (5) (g), cr. (6) (c), Register, December, 1974, No. 228, eff. 1-1-75.

Ins 6.25 Joint underwriting and joint reinsurance associations. (1) **PURPOSE.** This rule, pursuant to section 625.04, Wis. Stats., is intended to encourage an active, economical and efficient insurance market; to provide for the regulation of marketing practices; and to exempt certain insurers and organizations from the provisions of section 625.33, Wis. Stats., with respect to joint underwriting or joint reinsurance.

(2) **SCOPE.** This rule shall apply to joint underwriting and joint reinsurance involving the insurance of risks associated with:

- (a) Nuclear energy
- (b) Commercial aircraft
- (c) Aircraft products liability
- (d) Crude oil production and processing
- (e) Municipal bonds

(3) **PERSONS EXEMPTED.** If any of the following joint underwriting associations and joint reinsurance associations is licensed as a rate service organization under section 625.32, Wis. Stats., each insurer-member thereof shall be exempted from the provisions of section 625.33, Wis. Stats., with respect to agreements between or among insurer-members to adhere to certain rates and rules in providing insurance or reinsurance as members of such association:

- (a) Aircraft Products Insurance Association
- (b) Factory Insurance Association
- (c) Mutual Atomic Energy Liability Underwriters
- (d) Mutual Atomic Energy Reinsurance Pool
- (e) Nuclear Energy Liability Insurance Association
- (f) Nuclear Energy Property Insurance Association
- (g) Oil Insurance Association
- (h) Municipal Bond Insurance Association

(4) **LIMITATION ON MEMBERSHIP DISCIPLINARY ACTION.** No person shall impose any penalty or other adverse consequence for failure of any insurer to adhere to the rates or rules of any joint underwriting association or joint reinsurance association of which such insurer is a member, except termination of or expulsion of such insurer from membership in such association.

(5) **PENALTY.** Violations of this rule shall be subject to section 601.64, Wis. Stats.

History: Cr. Register, September, 1973, No. 213, eff. 10-1-73; am. (2) and (3), Register, August, 1974, No. 224, eff. 9-1-74.

Ins 6.30 Instructions for uniform classifications of expenses of fire and marine and casualty and surety insurers. For the purpose of establishing uniformity in classifications of expenses of fire and marine and casualty and surety insurers recorded in statements and reports filed with and statistics reported to the commissioner of insurance, all such insurers shall observe the instructions set forth below. These instructions shall not apply to single line accident and health insur-

ance companies, assessment accident and health associations, hospital and medical service or indemnity organizations, single line title insurance companies, or town mutual insurance companies.

(1) PART I. (a) LIST OF OPERATING EXPENSE CLASSIFICATIONS FOR ANNUAL STATEMENT PURPOSES FOR FIRE AND MARINE AND CASUALTY AND SURETY INSURERS.

1. Claim Adjustment Services:
 - a. Direct
 - b. Reinsurance Assumed
 - c. Reinsurance Ceded
2. Commission and Brokerage:
 - a. Direct
 - b. Reinsurance Assumed
 - c. Reinsurance Ceded
 - d. Contingent-Net
 - e. Policy and Membership Fees
3. Allowances to Managers and Agents
4. Advertising
5. Boards, Bureaus and Associations
6. Surveys and Underwriting Reports
7. Audit of Assureds' Records
8. Salaries
9. Employee Relations and Welfare
10. Insurance
11. Directors' Fees
12. Travel and Travel Items
13. Rent and Rent Items
14. Equipment
15. Printing and Stationery
16. Postage, Telephone and Telegraph, Exchange and Express
17. Legal and Auditing
18. Taxes, Licenses and Fees:
 - a. State and Local Insurance Taxes
 - b. Insurance Department Licenses and Fees
 - c. Payroll Taxes
 - d. All Other (excluding Federal and Foreign Income and Real Estate)
19. Real Estate Expenses
20. Real Estate Taxes
21. Miscellaneous

(b) INSTRUCTIONS RELATING TO OPERATING EXPENSE CLASSIFICATIONS.

1. Claim Adjustment Services
 - a. Direct

Include the following expenses when in connection with the investigation and adjustment of policy claims:

Independent Adjusters: Fees and expenses of independent adjusters or settling agents.

Legal: Fees and expenses of lawyers for legal services in the defense, trial, or appeal of suits, or for other legal services.

Bonds: Premium costs of bonds.

Appeal Costs and Expenses: Appeal bond premiums; charges for Register, December, 1974, No. 228

printing records; charges for printing briefs; court fees incidental to appeals.

General Court Costs and Fees: Entry fees and other court costs, and other fees not includable in Losses. Note: Interest and costs assessed as part of or subsequent to judgment are includable in Losses.

Medical Testimony: Fees and expenses of medical witnesses for attendance or testimony at trials or hearings ("Medical" includes physicians, surgeons, chiropractors, chiropodists, dentists, osteopaths, veterinarians, and hospital representatives).

Expert Witnesses: Fees and expenses of expert witnesses for attendance or testimony at trials or hearings.

Lay Witnesses: Fees and expenses of lay witnesses for attendance or testimony at trials or hearings.

Service of Process: Constables', sheriffs' and other fees and expenses for service of process, including subpoenas.

Transcripts of Testimony: Stenographers' fees and fees for transcripts of testimony.

Medical Examinations: Fees for medical examinations, fees for performing autopsies, fees for impartial examination, x-rays, etc., for the purpose of trial and determining questions of liability. This does not include fees for medical examinations, x-rays, etc., made to determine necessary treatment, or made solely to determine the extent or continuation of disability, or first aid charges, as such fees and charges are includable in Losses.

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