

CR 85-177

STATE OF WISCONSIN  
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JAN 28 1986

DOUGLAS LA FOLLETTE  
SECRETARY OF STATE

STATE OF WISCONSIN )  
OFFICE OF THE COMMISSIONER OF INSURANCE )

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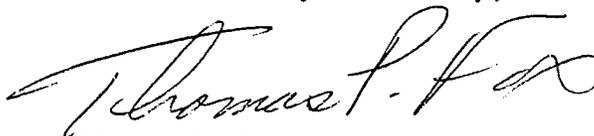
JAN 28 1986  
9:45 am  
Revisor of Statutes  
Bureau

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Thomas P. Fox, Commissioner of Insurance and custodian of the official records of said office, do hereby certify that the annexed order amending a rule relating to municipal bond insurance was issued by this office on January 27, 1986.

I further certify that said copy has been compared by me with the original on file in this office and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name in the City of Madison, State of Wisconsin, this 27th day of January, 1986.



Thomas P. Fox  
Commissioner of Insurance

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ORDER OF THE COMMISSIONER OF INSURANCE

AMENDING A RULE

To amend Ins 3.08 (3) (d), (5) (c), and (9) (c) relating to municipal bond insurance.

ANALYSIS BY THE COMMISSIONER OF INSURANCE

The purpose of these amendments is to clarify and strengthen certain provisions of the existing rule. This rule exclusively applies to municipal bond insurers and would have no effect on small businesses, as per s. 227.016 (1).

The Commissioner amends s. Ins 3.08 (3) (d) to eliminate the incorporation of Federal income tax law in the definition of "Municipal bonds." The amendment will allow the rule to be unaffected by future changes in Federal income tax law.

Section Ins 3.08 (5) (c) requires that the cumulative net liability as defined in section Ins 3.08 (3) (c) cannot exceed the sum of capital and surplus, contingency reserve and fifty per cent of the unearned premium. The

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purpose of this requirement is to establish reasonable limits on the amount of risk retained in relation to certain measures of the insured's financial strength. As the amount of in force municipal bond insurance increases, the insurer's liabilities increase including the unearned premium. This increase in unearned premium results in an increase of the maximum allowable limit of the cumulative net liability. Therefore, as an insurer's liabilities increase so does the maximum amount of cumulative net liability. The amendment of s. Ins 3.08 (5) (c) to exclude the unearned premium from this calculation will allow the establishment of more appropriate levels for the maximum amount of cumulative net liability.

The amendment to s. Ins 3.08 (9) (c) is for the purpose of allowing the withdrawal of the contingency reserve on an incurred basis rather than on the current paid claim basis. Due to the nature of municipal bond insurance up to twenty years could elapse between the notice of default and claim payment. During this period, adequate case basis reserves must be maintained pursuant to s. Ins 3.08 (7) (c). Since the contingency reserve is released only when claim payments exceed 35% of the earned premiums, the insurer must maintain both the contingency reserve and the case basis reserve until the claim is paid.

This rule interprets and implements financial reporting standards under s. 601.42, Stats., standards for accounting rules under s. 623.02, Stats., and valuation of liabilities under s. 623.04, Stats.

Pursuant to the authority vested in the Commissioner of Insurance by s. 601.41 (3), Stats., the Commissioner hereby amends a rule implementing and interpreting ss. 601.42, 623.02 and 623.04, Stats., as follows:

SECTION 1. Ins 3.08 (3) (d) is amended to read:

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(d) "Municipal bonds" means securities, ~~including revenue obligations, the interest on which is exempt from Federal income tax, including those~~ which are issued by or on behalf of or are paid or guaranteed by:

1. Any state, territory or possession of the United States of America;
2. Any political subdivision of any such state, territory or possession; or
3. Any agency, authority or corporate or other instrumentality of any one or more of the foregoing, or which are guaranteed by any of the foregoing.

SECTION 2. Ins 3.08 (5) (c) is amended to read:

(c) A municipal bond insurer may not have outstanding cumulative net liability, under in-force policies of municipal bond insurance, in an amount which exceeds the sum of:

1. Its capital and surplus, plus
2. The contingency reserve under sub. (9) plus.
3. ~~Fifty percent of the unearned premiums on the stated class of business.~~

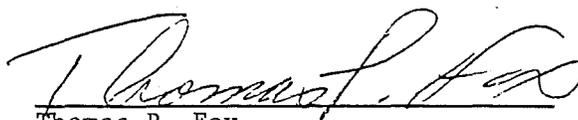
SECTION 3. Ins 3.08 (9) (c) is amended to read:

(c) Subject to the approval of the commissioner, withdrawals may be made from the contingency reserve in any year in which the actual ~~paid~~ incurred losses on municipal bond insurance policies exceed 35% of the earned premiums on municipal bonds insurance policies except as provided under sub. (12).

This rule shall become effective on the first day of the month following its publication in the Wisconsin Administrative Register as provided in s. 227.026 (1) (intro), Stats.

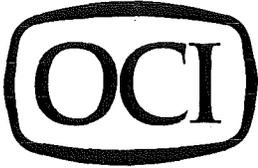
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Dated at Madison, Wisconsin, this 27th day of January, 1986.

A handwritten signature in cursive script, appearing to read "Thomas P. Fox". The signature is written in dark ink and is positioned above a horizontal line.

Thomas P. Fox  
Commissioner of Insurance

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The State of Wisconsin  
Office of the Commissioner of Insurance

Thomas P. Fox  
Commissioner  
(608) 266-3585

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DATE: January 27, 1986  
TO: Gary Poulson  
FROM: M. E. Van Cleave  
Assistant Deputy Commissioner of Insurance  
SUBJECT: Ins 3.08, Clearinghouse No. 85-177

Enclosed are two copies of an Order of the Commissioner of Insurance amending Administrative Rule Ins 3.08, Clearinghouse No. 85-177 relating to municipal bond insurance.

MEV:LH:mle  
Enclosure  
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