

Chapter Ins 13

TOWN MUTUAL INSURANCE

Ins 13.01	Other rules applicable to town mutual insurers	Ins 13.05	Accounting records, accounting controls and reports
Ins 13.02	Definitions, usages, synonyms and abbreviations	Ins 13.06	Surplus requirements
Ins 13.03	Organization of town mutuals	Ins 13.08	Valuation of liabilities
Ins 13.04	Undertaking form, contract forms and notice of assessment form	Ins 13.09	Reinsurance

Ins 13.01 Other rules applicable to town mutual insurers. (1) OTHER RULES APPLICABLE TO TOWN MUTUAL INSURERS. The following captioned rules of the commissioner of insurance are applicable to town mutual insurers.

- (a) **Ins 4.03. Policy, inspection and similar fees.**
- (c) **Ins 6.11. Insurance claim settlement practices.**
- (d) **Ins 6.20. Investments of insurance companies.**
- (e) **Ins 6.52. Biographical data relating to company officers and directors.**
- (f) **Chapter Ins 5. Rules of procedure for hearings.**
- (g) **Chapter Ins 7. Forms.**

History: Cr. Register, August, 1974, No. 224, eff. 9-1-74, emerg. r. (1) (b) eff. 6-22-76; r. (1) (b), Register, September, 1976, no. 249, eff. 12-1-76.

Ins 13.02 Definitions, usages, synonyms and abbreviations. (1) "Admitted assets" as used in this chapter includes the total of ledger assets, plus the total of nonledger assets, less the total assets not admitted as determined in the annual report filed with the office of the commissioner of insurance.

(2) "Gross income" as used in this chapter includes premiums written and assessments collected on direct business and from reinsurance assumed, policy and membership fees, interest and dividend income from investments, gains on investments, rental income from real estate investments and miscellaneous income.

History: Cr. Register, August, 1974, No. 224, eff. 9-1-74.

Ins 13.03 Organization of town mutuals. (1) **PURPOSE.** This rule is promulgated to implement, interpret and set forth procedural requirements necessary to carry out the purpose and provisions of s. 612.02, Stats.

(2) **SCOPE.** This rule shall apply to all town mutual insurers organized or operating under ch. 612, Stats.

(3) **MODEL ARTICLES.** Town mutual insurers may adopt articles of incorporation with provisions as follows:

ARTICLES OF INCORPORATION

Article I. The name of this corporation is _____ Insurance Company, and the principal office for the transaction of business is located at _____, county of _____, (or: at the residence or the business office of the _____ (a specified officer of the company)) state of Wisconsin.

Article II. (1) The business of the corporation is:

- (a) Fire and extended coverage insurance, including (excluding) windstorm and hail;
- (b) Other property insurance customarily provided with fire insurance, to the extent authorized by statute or rule;
- (c) Non-property insurance customarily provided with fire and extended coverage insurance to the extent authorized by statute or rule.

(2) The corporation may insure any property located within the territory specified in the articles, but not elsewhere except as authorized by statute.

(3) The corporation may do business in all of the towns, villages and cities within the county (ies) of _____ (not more than 4 unless specifically authorized by the commissioner or unless the articles result from a merger in which case the maximum is 8), but not elsewhere except as authorized by statute.

Article III. The corporation shall be managed by a board of directors consisting of _____ (not less than 5) members divided into 3 classes. One class shall be elected at each annual meeting for a term of 3 years. The directors shall have such rights, powers and duties as are prescribed by statute, these articles, or the bylaws. Vacancies in the board may be filled by the directors for the interim to the next annual meeting. At that time, a director shall be chosen for the unexpired term. Directors may be removed from office for cause by an affirmative vote of a majority of the full board at a meeting of the board called for that purpose.

Article IV. The officers of the corporation shall consist of a president, vice president, secretary and treasurer. These officers shall be chosen by the board of directors from among its members immediately after the annual meeting of the corporation and they shall hold office for one year or until their successors are duly elected and qualified, or until removed by the board, which may remove them without cause subject to any contract rights to compensation.

Article V. The annual meeting of the corporation for the election of directors and such other business as may properly come before the meeting shall be held in _____ Wisconsin, on the _____ in _____ of each year at _____ o'clock _____ M., or at such other time and place within the corporation's territorial limits as may be determined by the board provided they shall give notice thereof by mail to all members at least 10 days prior to the date set by this article for the meeting and at least 30 days prior to the new date of the meeting. Special meetings of the corporation may be called by the board, (and shall be called by the president or secretary upon the written petition of 25 members) provided at least 30 days' notice thereof, reciting the proposed business to be taken up, shall be given by mail to each member. At

all meetings of the corporation, 10 members shall constitute a quorum and each member shall have one vote. No member shall vote by proxy.

Article VI. These articles may be amended at any annual or duly called and noticed special meeting by a resolution adopted by two-thirds of the votes cast on the question, subject to approval by the commissioner under s. 612.04 (2). Dissolution of the corporation may be effected by a resolution under ss. 612 (2) and 612.25.

Article VII. The members of the board, by a majority of the votes cast on the question, may make and amend bylaws not inconsistent with the statutes, these articles or with the provisions or conditions of any existing policy. Any bylaw made or amended by the board shall be subject to repeal or amendment by the members by a majority of the votes cast on the question at an annual or special meeting.

Article VIII. Any assessment shall be levied in accordance with s. 612.54 (1) through (3). Notice of any assessment shall be subject to s. 612.54 (4). Consequences of default and failure to pay an assessment shall be as specified in s. 612.54 (5).

History: Cr. Register, August, 1974, No. 224, eff. 9-1-74.

Ins 13.04 Undertaking form, contract forms and notice of assessment form. (1) **PURPOSES.** This rule is promulgated to implement, and set forth procedural requirements necessary to carry out the purpose and provisions of ss. 612.51, 612.52 and 612.54, Stats.

(2) **SCOPE.** This rule shall apply to all corporations organized or operating under ch. 612, Stats.

(3) **UNDERTAKING.** The undertaking to be signed by all prospective members shall be in form and substance substantially as follows, and may be a part of the application:

UNDERTAKING

I, _____ of _____, in consideration of insurance on my buildings and personal property, insured to myself, my heirs and assigns by the _____ Insurance Company, bind myself, and to the extent of their interest in the property my heirs and assigns, to pay to the company the premiums for such insurance and, within the period of time stated in the notice of assessment, my share of all legal assessments, if any, levied by the company, together with all legal costs and charges incurred in legal proceedings to collect any assessment levied upon me and statutory penalties for nonpayment, according to the statutes and the terms and conditions in the policy and any renewals thereof or of the insurance thereunder. My property covered by the insurance, both personal and real, shall be liable for that share, waiving all exemptions.

Dated this _____ day of _____, 19 _____

Witness _____

Agent

Applicants

(4) STANDARD TOWN MUTUAL POLICY. (a) *Standard policy compulsory.* No town mutual insurance company shall issue, use or deliver for use any policy unless it shall conform to all the provisions, agreements and conditions of the Standard Town Mutual Policy which follows.

(First page of Policy)

STANDARD TOWN MUTUAL POLICY

No. _____ Mutual Company

(Space for insertion of name of company or companies issuing the policy and other matter permitted to be stated at the head of the policy.)

(Space for listing amounts of insurance, rates and premiums for the basic coverages insured under the standard town mutual form of policy and for additional coverages or perils insured under endorsements attached.)

(Space for the description of property and amounts of insurance on dwelling, contents, stock, etc.)

IN CONSIDERATION OF THE PROVISIONS AND STIPULATIONS HEREIN OR ADDED HERETO and of the premium above specified, this company, for the term of years specified above from inception date shown above at noon (Standard Time) to expiration date shown above at noon (Standard Time) at location of property involved, to an amount not exceeding the amount (s) above specified, does insure the insured named above and legal representatives, to the extent of the actual cash value of the property at the time of loss, but not exceeding the amount which it would cost to repair or replace the property with material of like kind and quality within a reasonable time after such loss, without allowance for any increased cost of repair or reconstruction by reason of any ordinance or law regulating construction or repair, and without compensation for loss resulting from interruption of business or manufacture, nor in any event for more than the interest of the insured, against all DIRECT LOSS BY FIRE, LIGHTNING AND BY REMOVAL FROM PREMISES ENDANGERED BY THE PERILS INSURED AGAINST IN THIS POLICY, EXCEPT AS HEREINAFTER PROVIDED, to the property described hereinafter while located or contained as described in this policy, or pro rata for 5 days at each proper place to which any of the property shall necessarily be removed for preservation from the perils insured against in this policy, but not elsewhere.

Assignment of this policy shall not be valid except with the written consent of this Company.

This policy is made and accepted subject to the foregoing provisions and stipulations and those herein stated, which are hereby made a part of this policy, together with such other provisions, stipulations and agreements as may be added hereto, as provided in this policy.

IN WITNESS WHEREOF, this Company has executed and attested these presents this _____ day of _____, 19 _____. This policy shall not be valid until countersigned by the duly authorized officers of the Company.

Attest: _____, Secretary _____, President

(Second page of Policy)

(The second page of the policy shall include line 1 through line 165 of the Standard fire policy from subsection 203.01 (1) Ins 6.71).

(The location in the policy of the following clauses, articles of incorporation, and bylaws and notice of annual meeting is optional.)

(The four following clauses are to be included with the Standard Town Mutual Policy *only* when no additional coverage endorsements are attached.)

CLAUSES

Work and materials clause: Permission granted for such use of the premises as is usual or incidental in the business, as conducted therein, and to keep and use all articles and materials usual or incidental to such business, in such quantities as the exigencies of the business require.

Alterations and repairs clause: Permission granted to make addition, alterations, and improvements and repairs to any building described in this policy.

Electrical apparatus clause: If electrical appliances or devices (including wiring) are covered under this policy, this company shall not be liable for any electrical injury or disturbance to the said electrical appliances or devices (including wiring) caused by electrical currents artificially generated unless fire ensues, and if fire does ensue this company shall be liable only for its proportion of loss caused by such ensuing fire.

Machinery, live stock and farm products off premises clause: Any insurance under this policy on farm machinery, implements, tools, vehicles, live stock and farm products is extended to cover while on or temporarily off the premises.

ARTICLES OF INCORPORATION

BYLAWS

It is hereby mutually understood and agreed by and between this company and the insured, that this policy is made and accepted with reference to the Articles of Incorporation and Bylaws, which are hereby declared to be part of this contract. This provision applies whether or not the Articles of Incorporation and Bylaws are included in this policy.

(Space for printing Articles of Incorporation and Bylaws or for a statement describing a means of obtaining additional copies of the Articles of Incorporation and Bylaws or informing the insured that same are attached.)

NOTICE

The insured is notified that by virtue of this Policy he is a member of the _____ Insurance Company, of _____ County, Wisconsin, and that the annual meetings of said company are held in _____ County, Wisconsin, on the (date) in (month) of each year at _____ o'clock _____ M.

(End of Policy)

(b) *Permissible variations.* Subject to the approval of the commissioner, the provisions of the standard town mutual policy may be so arranged in the policy as to provide for convenience in its preparation and issuance, provided that the insuring provisions and contract conditions of the standard policy shall not be altered or amended in any manner. Blank spaces may be changed or altered, spaces may be provided for the listing of rates and premiums for coverages insured under the policy or by riders or endorsements attached to or printed thereon and spaces may be utilized for reference to forms and for listing the amount of insurance, provisions as to coinsurance, provisions as to mortgage clause, descriptions and locations of the insured property and other matters advisable and necessary to indicate a delineation of the insurance effective under the contract, and other data as may be included for duplication of daily reports for office records.

(c) *Forms and endorsements.* Subject to the approval of the commissioner, riders and endorsements may be attached to the standard town mutual policy to include perils in addition to fire and lightning and for other necessary purposes. Except when in contradiction with chapter 612, Wisconsin Statutes, the contracts, endorsements and other forms of town mutuals should be similar to like forms of insurers subject to chapters 631 and 632, Wis. Stats.

(5) NOTICE OF ASSESSMENT. The following form for notice of assessment may be used:

_____ Insurance Company
 _____, Wisconsin
 _____, 19____

(Policyholder) _____
 _____, Wisconsin

YOU ARE HEREBY NOTIFIED that the Board of Directors of this Company at a meeting on _____, 19____, voted to levy an assessment for the purpose of paying incurred losses and expenses, repaying borrowed money and creating and maintaining a reasonable surplus, at rates on the dollar of insurance on property and coverages as specified below on all risks subject to this assessment in force on _____, 19____, to be paid on or before _____, 19____.

_____ mills on _____ property for fire coverage	\$ _____
_____ mills on _____ property for extended coverage	\$ _____
_____ mills on _____ property for _____	\$ _____

On Policy Number _____ Total Assessment Due \$ _____

Your share of the assessment under policy number shown above at the rates specified above is the Total Assessment Due shown above and must be paid on or before _____, 19____, to _____, Treasurer, at _____, Wisconsin. If it is not paid within the time prescribed, the following consequences will result, as provided in s. 612.54 (5), Wisconsin Statutes:

Consequences of default. (a) *Penalty.* Every person who fails to pay his assessment within the time specified in the notice shall pay to the town mutual a penalty of 2 percent of the assessment for each week or part thereof during which the assessment remains unpaid, until the accumulated penalty equals 100 percent of the assessment. Thereafter, the amount of the assessment and accumulated penalty shall bear interest at the legal rate.

(b) *Termination of coverage.* If, at the time of a loss, any assessment, any part of which is to cover losses or expenses already incurred under the same policy or under a previous policy covering the same property and the same insureds has remained unpaid in any part for 30 days after it is due, the loss shall not be paid except to a mortgagee under a mortgage clause that provides for payment despite policy defenses. The policy shall also terminate after the loss. This paragraph shall apply only to any assessment some part of which is to cover incurred losses or expenses.

(c) *Enforcement.* An assessment shall constitute a personal obligation of each member and payment may be enforced by appropriate action.

_____, Secretary

History: Cr. Register, August, 1974, No. 224, eff. 9-1-74; emerg. am. (4) (a) and (c), eff. 6-22-76; am. (4) (a) and (c), Registrar, September, 1976, No. 249, eff. 10-1-76.

Ins 13.05 Accounting records, accounting controls and reports.

(1) **PURPOSE.** This rule is intended to implement and interpret s. 601.41, Stats., for the purpose of setting minimum standard and techniques for accounting and reporting of data relating to company financial transactions and other operations.

(2) **SCOPE.** This rule shall apply to all town mutual insurers organized or operating under ch. 612, Stats.

(3) **ACCOUNTING RECORDS.** The following journals, ledgers and subsidiary records or similar records from which the data indicated may be obtained shall be maintained:

(a) **Policy Register:** A columnar register or other records which shall contain the policy number, policyholder's name and address, location of risk (city, village, or township and section(s)), effective date of policy, term of policy, risk in force, amount of risk in force reinsured, premium amount, policy fee, reinsurance premium, and provision for miscellaneous data.

(b) **Cash Receipts Journal:** A multi-columnar form which shall contain columnar headings for the date, identification, amount received, a separate column for each of the principal types of income of the company, and a column for miscellaneous receipts. All cash received by the company must be recorded on such a form.

(c) **Cash Disbursements Journal:** A multi-columnar form which shall contain column headings for the date, payee, check number, amount of check, a separate column for each of the principal types of expenses of the company, and a column for miscellaneous disbursements.

(d) **General Journal:** A columnar form for recording entries for all transactions affecting ledger items, which are not recorded in the cash receipts journal or cash disbursements journal. There shall be provision for recording the date of the transaction, an explanation of the transaction, the ledger account affected by the transaction, and the amount of the transaction.

(e) **General Ledger:** A columnar form which shall have a sheet for each ledger asset and ledger liability as well as the income and expense items of the company. There shall be provision on each sheet for an account title and/or number, a date for each transaction, a description or

identification, debit amounts, credit amounts and an account balance. Maintaining a general ledger shall be optional unless otherwise ordered by the commissioner.

(f) **Loss Claim Register:** A columnar form for recording all claims filed with the company. It shall list all claims in claim number order and contain the claimant's and policyholder's name, policy number, date of loss, date that loss was reported to the company, cause of the loss, estimated amount of the loss, and the date the claim was settled and the amount of loss payments, if any. Claims closed without payment should be so noted.

(4) **ACCOUNTING CONTROLS.** The following minimum controls of records and data handling should be carried out:

(a) **Cash Receipts:** All cash receipts must be recorded on a cash received record. The cash receipts and cash funds of the company shall at all times be kept separate and distinct from any personal, agency funds or other funds. All cash received must be deposited in the bank intact, in the company's name, and at no time may the cash on hand consist of any cash items such as small bills or NSF checks held for future deposits. A duplicate deposit ticket must be retained in the company's office for each deposit. All checks in payment of premiums or received by the company for other purposes shall be endorsed for deposit immediately upon receipt. All cash receipts shall be deposited at least weekly. All cash deposits shall be prepared and made, whenever possible, by some individual other than the one who records the receipts or reconciles the bank accounts.

(b) **Cash Disbursements:** All disbursements except those made from the petty cash fund must be made by check. All checks issued by the company shall be recorded in chronological and numerical order in a cash disbursements record. Each disbursement shall be supported and explained in the records of the company. All checks used for disbursements shall be pre-numbered and properly accounted for. All checks shall be mailed or delivered immediately after being signed. All disbursements over a specified amount shall be approved by more than one officer of the company. Whenever possible, a person other than the person maintaining the company's cash disbursement record or reconciling the bank accounts, shall sign the checks.

(c) **Petty Cash Fund:** A petty cash fund may be maintained for the payment of small bills or for making change, each disbursement must be supported by a signed voucher or receipted invoice and at any time the total of the cash, checks and paid vouchers in the fund shall exactly equal the total of the fund as originally set up. The petty cash fund shall be reimbursed at regular intervals and always on the last business day of each year.

(d) **Reconciliation of Bank Accounts:** Bank statements shall be obtained from each of the banks in which the company maintains checking accounts at the end of each calendar month. The balance appearing on the bank statement shall be reconciled with the cash balance appearing on the company's records at the end of each month. Whenever possible, bank reconciliations should be made or reviewed by an individual other than the individuals preparing and making bank deposits, recording income and disbursements and individuals signing company checks.

(e) **Loss Claims:** All claims reported to the company shall be assigned a claim number when reported. Claims in excess of a specified amount shall be approved by more than one officer or director. All claims shall be adequately documented so that amounts for settlement and coverage can be verified. The claim file shall contain the reason for denial when the payment of the claim is denied.

General Internal Controls: Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or other responsible individuals associated with the company. Company accounting records shall be maintained in such detail that verification can be made to source documents supporting each transaction.

(5) **FINANCIAL STATEMENTS.** Financial statements shall be prepared by the secretary and treasurer of the company showing the financial condition of the company as of December 31, of each year or whenever requested by the commissioner. The report shall be prepared as prescribed by the commissioner.

(6) **FIDELITY BOND REQUIREMENTS.** All insurers subject to this rule shall procure and maintain in force a fidelity bond or honesty insurance as a guaranty against financial loss caused by employee dishonesty. The bond shall cover all fraudulent or dishonest acts, including larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction or willful application, committed by employees acting alone or in collusion. The bond shall cover all officers, directors and employees having direct access to the company's assets and with responsibility for the handling and processing of income of the company and disbursements of the company. The minimum amount of the bond shall be determined on the basis of the total admitted assets, plus gross income of the company as set forth in the following schedule:

<i>Total Admitted Assets Plus Gross Income</i>		<i>Minimum Amount of Bond</i>
\$ 0-\$	300,000	\$10,000
300,000-	400,000	13,000
400,000-	500,000	17,000
500,000-	600,000	20,000
600,000-	700,000	23,000
700,000-	800,000	27,000
800,000-	900,000	30,000
900,000-	1,000,000	33,000
1,000,000-	1,100,000	37,000
1,100,000-	1,200,000	40,000
1,200,000-	1,300,000	43,000
1,300,000-	1,400,000	47,000
1,400,000-	1,500,000	50,000
1,500,000-	2,000,000	60,000
2,000,000-	2,500,000	75,000
2,500,000-	3,000,000	90,000

Ins 13.06 Surplus requirements. (1) **PURPOSE.** This rule implements and interprets ss. 612.31 and 612.33, Stats., for the purpose of setting minimum surplus requirements as a condition for the transaction of specified types of business.

(2) **SCOPE.** This rule shall apply to all town mutual insurers subject to ch. 612, Stats.

(3) **NONPROPERTY INSURANCE.** Any town mutual insurer that retains any portion of a risk covering nonproperty insurance must maintain a surplus of not less than \$50,000.

History: Cr. Register, December, 1974, No. 228, eff. 1-1-75.

Ins 13.08 Valuation of liabilities. (1) **PURPOSE.** This rule implements and interprets s. 623.04, Stats., for the purpose of determining liabilities for financial statements filed with the commissioner.

(2) **SCOPE.** This rule shall apply to all town mutual insurers subject to ch. 612, Stats.

(3) **UNEARNED PREMIUM RESERVE.** All financial statements of town mutuals shall show as a liability an unearned premium reserve. The unearned premium reserve must be calculated on all advance premiums including policy or membership fees on policies issued to policyholders plus all advance premium on reinsurance assumed from other town mutual insurers, less advance premiums on risks assumed by other insurers under reinsurance contracts. The minimum unearned premium reserve shall be calculated on the premiums in force as follows:

(a) One year policies or policies on which premiums are paid annually.

1. 50% of the net advanced premium.

(b) Two year policies on which the entire premium is paid in advance.

1. 75% on policies in first year of term.

2. 25% on policies in second year of term.

(c) Three year policies on which entire premium is paid in advance.

1. 83% on policies in first year of term.

2. 50% on policies in second year of term.

3. 17% on policies in third year of term.

(d) Four year policies on which the entire premium is paid in advance.

1. 87.5% on policies in first year of term.

2. 62.5% on policies in second year of term.

3. 37.5% on policies in third year of term.

4. 12.5% on policies in fourth year of term.

(e) Five year policies on which the entire premium is paid in advance.

1. 90% on policies in first year of term.

2. 70% on policies in second year of term.

3. 50% on policies in third year of term.
4. 30% on policies in fourth year of term.
5. 10% on policies in fifth year of term.

(4) The unearned premium reserve shall be the sum of the amounts as calculated above. Any other method of calculating the unearned premium reserve must be approved by the commissioner.

History: Cr. Register, December, 1974, No. 228, eff. 1-1-75.

Ins 13.09 Reinsurance. (1) **PURPOSE.** This rule implements and interprets s. 612.33, Stats., for the purpose of setting rules or guidelines for permitted and prohibited reinsurance and required reinsurance.

(2) **SCOPE.** This rule shall apply to all town mutual insurers subject to ch. 612, Stats.

(3) **REQUIRED REINSURANCE.** (a) Reinsurance of windstorm and hail insurance. Any town mutual which provides coverage against windstorm or hail shall obtain reinsurance providing either of the following:

1. At least a 90% pro rata share of the liability assumed on any such insurance contract; or
2. All liability for incurred ultimate net losses in the aggregate during any calendar year in excess of 3 mills on the average net insurance in force during the calendar year against windstorm or hail.

(b) Reinsurance of nonproperty insurance. Any town mutual which provides nonproperty insurance coverage shall obtain reinsurance as required by s. 612.33 (2) (b), Stats.

History: Cr. Register, December, 1974, No. 228, eff. 1-1-75.