

## CHAPTER 623

## ACCOUNTING AND RESERVES

623.11 Amount of compulsory surplus.

623.12 Amount of security surplus.

**623.11 Amount of compulsory surplus.**

(1) **DETERMINATION OF AMOUNT.** The commissioner shall, when necessary, determine the amount of compulsory surplus that an insurer is required to have in order not to be financially hazardous under s. 645.41 (4), as an amount that will provide reasonable security against contingencies affecting the insurer's financial position that are not fully covered by reserves or by reinsurance.

(a) *Types of contingencies.* The commissioner shall consider the risks of:

1. Increases in the frequency or severity of losses beyond the levels contemplated by the rates charged;

2. Increases in expenses beyond those contemplated by the rates charged;

3. Decreases in the value of or the return on invested assets below those planned on;

4. Changes in economic conditions that would make liquidity more important than contemplated and would force untimely sale of assets or prevent timely investments;

5. Currency devaluation to which the insurer may be subject; and

6. Any other contingencies the commissioner can identify which may affect the insurer's operations.

(b) *Controlling factors.* In his determination, the commissioner shall take into account the following factors:

1. The most reliable information available as to the magnitude of the various risks under par. (a);

2. The extent to which the risks in par. (a) are independent of each other or are related, and whether any dependency is direct or inverse;

3. The insurer's recent history of profits or losses;

4. The extent to which the insurer has provided protection against the contingencies in

other ways than the establishment of surplus, including redundancy of premiums; adjustability of contracts under their terms; investment valuation reserves whether voluntary or mandatory; appropriate reinsurance; the use of conservative actuarial assumptions to provide a margin of security; reserve adjustments after rate increases for policies written at earlier and less adequate rates; contingency or catastrophe reserves; diversification of assets and underwriting risks;

5. Independent judgments of the soundness of the insurer's operations, as evidenced by the ratings of reliable professional financial reporting services; and

6. Any other relevant factors.

(2) **RULES.** The commissioner may, subject to adjustment to the circumstances of individual insurers in accordance with the factors in sub. (1) (b), establish by rule minimum ratios for the compulsory surplus in relation to any relevant variables, including the following:

(a) Amounts at risk;

(b) Premiums written or premiums earned;

(c) Liabilities;

(d) Equity investments of all or certain kinds in combination with any of the variables under pars. (a) to (c).

**History:** 1971 c. 260.

**Note:** Chap. 260, laws of 1971, which created this chapter of the statutes, contained notes explaining the revision. See the 1971 session law volume.

**623.12 Amount of security surplus.**

The security surplus shall be set by the commissioner between 110% and 140% of the compulsory surplus. In setting the figure the commissioner may consider such factors as the size of the insurer, its recent experience, the volatility of the lines of insurance in which it engages and any other relevant factors.

**History:** 1971 c. 260.