

## CHAPTER 612

## TOWN MUTUALS

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**612.01 Title, purposes and scope.** (1) **SHORT TITLE.** This chapter may be cited as the "Town Mutual Act".

(2) **PURPOSES.** The purposes of this chapter are:

(a) To preserve and encourage cooperative low-cost insurance;

(b) To establish a framework in which mutuality in its true sense can be preserved, and small mutual corporations can be kept viable;

(c) To preserve and strengthen the interest and control of the membership of town mutuals;

(d) To enable town mutuals to satisfy as many of the essential insurance needs of their members as is consistent with the other objectives of this code; and

(e) To provide financial guaranties sufficient to ensure the solidity of town mutuals, and to encourage them to develop adequate surpluses.

(3) **SCOPE.** Except as otherwise provided, this chapter applies to all corporations organized under this chapter or operating under ch. 202 on May 24, 1973.

**History:** 1973 c 22

**Cross reference:** See 610.43 for effective dates and transitional provisions as to town mutuals.

**Note:** Chap. 22, laws of 1973, which created this chapter of the statutes, contained notes explaining the revision. See the 1973 session law volume.

**612.02 Organization of town mutuals.** (1) **INCORPORATING MEMBERS.** A town mutual may be organized by 100 or more adult natural persons each of whom owns an interest in a separate insurable risk in the territory described in sub. (2) (c), and each of whom agrees to insure those risks in the town mutual, at least against damage by fire.

(2) **ARTICLES OF INCORPORATION.** The articles shall state:

(a) The name of the corporation which shall contain the words "Town Mutual";

(b) The address of the principal office, which may be designated as the residence or business office of the holder of a specified corporate office;

(c) The territory within which the corporation plans to operate which may not exceed 4 contiguous counties, except that the commissioner may authorize a broader territory aggregating no more than 8 contiguous counties if he finds there is a significant unsatisfied need in the added counties for the insurance provided by the town mutual;

(d) The types of insurance to be written which shall conform to s. 612.31;

(e) The number of directors and the manner of their selection and of their replacement if there are interim vacancies;

(f) The titles of the officers, their terms of office and the manner in which they are to be selected;

(g) The procedures and quorum requirements for the annual and special meetings and the voting rights of the members;

(h) The general conditions and procedures for levying assessments; and

(i) The procedures for amending the articles and for adopting and amending bylaws.

(3) **MODEL ARTICLES.** The commissioner shall promulgate model articles of incorporation which may be used by any town mutual.

(4) **APPLICATION FOR CERTIFICATE OF AUTHORITY.** The incorporating members shall

file with the commissioner an application for a certificate of authority which shall be signed by or on behalf of each incorporating member and shall include or have attached:

(a) The names and addresses of all incorporating members and, for the preceding 10 years, the names, all addresses and all occupations of all proposed directors and officers;

(b) The proposed articles which shall be signed by each incorporating member, and the proposed bylaws;

(c) The affidavit of 2 incorporating members stating that they are personally acquainted with all incorporating members and know them to be owners of property described under sub. (1) and to be the signers of the application and the articles;

(d) All agreements relating to the corporation to which any incorporating member or any proposed director or officer is a party;

(e) The amount and sources of the funds available for organization expenses and the proposed arrangements for reimbursement of incorporating members;

(f) The proposed compensation of directors and officers;

(g) The plan for conducting the insurance business including:

1. The types of insurance to be written;
2. The policy forms to be used initially;
3. The proposed methods for soliciting members;
4. The proposed methods for establishing premium rates and classifications for assessments; and

5. Any proposed reinsurance arrangements; and

(i) Such other relevant documents or information as the commissioner reasonably requires.

**(5) INITIAL SURPLUS.** (a) *Requirement.* The incorporating members shall pay in or procure an initial surplus in an amount at least as large as that specified by the commissioner. The amount he specifies shall be sufficient to permit the town mutual to commence business and to protect the members in case initial losses are unexpectedly high, but may not exceed \$100,000. The surplus may be provided by gifts or by contribution notes bearing interest at a rate approved by the commissioner and repayable under par. (c).

(b) *Factors determining amount of initial required surplus.* In determining the amount of initial required surplus, the commissioner shall consider all factors relevant to the financial needs of the corporation, including the matters specified in sub. (4) (e) and (g), the number of incorporating members, the nature of their properties and financial position and the general economic situation.

(c) *Repayment of contribution notes.* No payment on principal or interest on contribution notes may be made without approval of the commissioner. He shall approve if after payment there will remain surplus in an amount sufficient for the continuing needs of the corporation and to satisfy all other requirements of the law.

**(6) CERTIFICATE OF AUTHORITY.** The commissioner shall issue a certificate of authority if:

(a) He finds that all requirements of law have been met;

(b) He is satisfied that the proposed directors and officers are trustworthy and individually competent for the tasks assigned them and that collectively they have the competence and experience to administer the affairs of the proposed town mutual;

(c) He is satisfied that the total amount initially at risk and its distribution permit a sound insurance operation; and

(d) He is satisfied that the business plan is consistent with the interests of the members and of the public.

**(7) CONTENTS OF CERTIFICATE.** The certificate of authority shall specify the territories and types of insurance authorized and the surplus required under sub. (5).

**(8) EFFECT OF CERTIFICATE.** Upon issuance of the certificate of authority, the town mutual shall have legal existence.

*History:* 1973 c 22

*Cross reference:* As to the application of this section, see 610.43 (2).

**612.03 General powers and defense of ultra vires.** Section 181.04, except subs. (9), (12) and (13), and s. 181.05, except for sub. (3), apply to town mutuals. Section 181.04 (7) is subject to s. 612.35.

*History:* 1973 c 22.

**612.04 Amendments of articles, bylaws and business plan.** (1) **RIGHT TO AMEND ARTICLES AND MAKE AND AMEND BYLAWS.** Section 181.35 applies to town mutuals. A town mutual may make and amend bylaws as provided by the articles or, in the absence of any such provision, as the articles may be made or amended.

**(2) APPROVAL REQUIRED.** No change in the articles, bylaws or in the business plan shall become effective until approved by the commissioner, nor may a town mutual depart from its business plan except with the commissioner's approval. No change may be made inconsistent with s. 612.02 (2). Section 181.41 applies to town mutuals.

**(3) GROUNDS FOR DISAPPROVAL.** The commissioner shall approve the change unless he finds, after a hearing, that it would be:

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(a) Contrary to law; or

(b) Inconsistent with the interests of the members or of the public.

History: 1973 c. 22.

**612.10 Membership.** (1) **CREATION AND DURATION OF MEMBERSHIP.** Each policyholder is a member of the town mutual and has all the rights and duties of a member during the time his policy is in effect. The articles or bylaws may establish rules determining which of multiple policyholders on the same policy shall exercise voting rights or how such multiple policyholders may divide voting rights among them.

(2) **MORTGAGEE NOT A MEMBER.** A person having rights merely by reason of a mortgagee clause included in or attached to a policy does not thereby become a member.

History: 1973 c. 22.

**612.11 Meetings of members.** (1) **PLACE OF MEETINGS.** All meetings of members shall be held within the territorial limits of the town mutual, except under s. 612.21 (4).

(2) **NOTICE OF MEETING.** (a) *Annual meeting.* Notice of the time and place of the annual meeting shall be given to each member by printing it conspicuously on each policy or in any other reasonable manner that the commissioner approves. A change in time or place may be made by the board of directors by giving notice at least 10 days prior to the original date and 30 days prior to the new date, in the manner prescribed in s. 181.15 or in any other reasonable manner that the commissioner approves.

(b) *Special meetings.* Notice of special meetings shall be given to members at least 30 days prior to the date of the meeting, and shall state the proposed business to be brought before the meeting, in the manner prescribed in s. 181.15 or in any other reasonable manner that the commissioner approves.

(3) **COMMISSIONER'S RIGHT TO ATTEND.** The commissioner may attend any meeting of members.

History: 1973 c. 22.

**612.12 Voting rights of members.** (1) **MATTERS SUBJECT TO VOTE.** Members of town mutuals shall have the right to vote on the following matters:

(a) Election of directors;

(b) Amendment of articles;

(c) Merger, consolidation, transfer of business under s. 612.24, conversion and voluntary dissolution;

(d) Any decision by the town mutual to transact insurance for which reinsurance is required under s. 612.33 (2), unless such insurance is totally reinsured; and

(e) Other matters specified in the articles or bylaws.

(2) **SPECIAL NOTICES AND MAJORITIES.** No resolution on any of the matters specified in sub. (1) (c) or (d) is effective unless notice of the matter has been given as required for a special meeting under s. 612.11 (2) (b); nor unless it is approved by at least 25 members and by two-thirds of the members voting on the resolution.

(3) **NOMINATING PROCEDURES.** The articles or bylaws may provide for nominating committees, and for their procedures. Nominations from the floor may not be excluded.

(4) **VOTING PROCEDURES.** (a) *Allocation of votes.* Except under s. 612.10 (1), each member is entitled to one vote. No person may have more than one vote regardless of the number of policies issued to him.

(b) *Proxies.* No member may vote by proxy.

(c) *Mail voting.* The articles or bylaws may provide that votes may be cast by mail, and may prescribe the voting procedure. If voting by mail is authorized, a ballot shall be sent to each member at least 30 days before the meeting at which the decision is to be made, setting out the exact question to be voted upon. A vote signed by a member and delivered before the meeting in accordance with the prescribed voting procedure is equivalent to a vote at the meeting. No question on which there is voting by mail may be amended in any way at the meeting.

History: 1973 c. 22.

**612.13 Directors and officers.** (1) **NUMBER AND CLASSIFICATION.** Town mutuals shall have at least 5 directors divided into 3 classes as nearly equal in size as possible.

(2) **ELECTION.** At each annual meeting one class of directors shall be elected by and from among the members for a term of 3 years.

(3) **DUTIES.** The board shall manage the business and affairs of the corporation and shall not delegate its power or responsibility to any person except as specifically provided otherwise in this chapter.

(4) **ADJUSTMENT COMMITTEE.** The directors shall annually appoint from their own number an adjustment committee of at least 3 persons, to adjust or supervise the adjustment of losses under s. 612.53.

(5) **DIRECTORS' LIABILITY AND INDEMNIFICATION.** Directors who wilfully neglect or refuse for 30 days to perform their duties under s. 612.54 shall be jointly and severally liable to any person sustaining loss by their nonfeasance. Section 611.62 applies to town mutuals.

(6) **REMOVAL.** (a) *Directors.* A director 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.

The vote of two-thirds of the members of the town mutual present at a meeting called for the purpose may remove a director from office with or without cause.

(b) *Officers.* Section 181.26 applies to town mutuals.

History: 1973 c. 22.

**612.14 Reports.** The secretary and the treasurer shall present to the annual meeting written reports showing the condition of the town mutual on the previous December 31 and its activity during the preceding calendar year, including:

(1) The number of policies issued and in force by line of insurance;

(2) The aggregate amount insured by line of insurance;

(3) The amount of cash and other assets on hand;

(4) The amount received during the year from premiums, and the reserve for unearned premiums;

(5) The amounts received from each separate assessment;

(6) The amounts assessed but not collected;

(7) The amounts received from other sources;

(8) The amounts paid for losses;

(9) A detailed list of every item of expense, except that the report may summarize the expenses, if they are audited by a committee of members or by an independent person in a manner approved by the commissioner;

(10) The amount of losses incurred but not paid;

(11) Any other outstanding liabilities, including debit balances with spread loss organizations or other reinsurers; and

(12) Any other information required to be presented by the articles or bylaws or by the commissioner.

History: 1973 c. 22.

**612.15 Supervision of management changes.** (1) **ELECTIONS.** (a) *Report.* The name and residence of each person selected as a director or officer of a town mutual, and such pertinent biographical data and financial information as the commissioner may reasonably require by rule, shall be reported to the commissioner immediately after the selection.

(b) *Disapproval.* The commissioner, after a hearing called within 30 days after receipt of a report under par. (a), may disapprove any person selected who for any reason is unqualified to serve, who is not trustworthy or who lacks the competence and experience necessary to discharge his responsibilities.

(2) **REPORT OF REMOVAL.** Whenever the board or a member's meeting removes a director or officer under s. 612.13 (6) or otherwise before the expiration of his term, the board shall promptly report to the commissioner the removal and a statement of the reasons therefor.

(3) **REMOVAL BY COMMISSIONER.** If the commissioner finds, after a hearing, that a director or officer is for any reason unqualified to serve, is incompetent or untrustworthy, or has wilfully violated this code, a rule promulgated under s. 601.41 (3) or an order issued under s. 601.41 (4), and that thereby the interests of members or of the public are endangered, he shall by order remove the director or officer.

(4) **CHANGES OF PLACE OF OFFICE.** If the articles designate the residence or business address of a specified corporate officer as the place of the principal office of the town mutual, any change of such address shall be reported promptly to the commissioner.

History: 1973 c. 22.

**612.16 Exclusive agency and management contracts.** Sections 611.66 and 611.67 apply to town mutuals.

History: 1973 c. 22.

**612.18 Transactions in which directors and others are interested.** Section 611.60 applies to town mutuals.

History: 1973 c. 22.

**612.21 Merger and consolidation of town mutuals.** (1) **CONDITIONS FOR MERGER OR CONSOLIDATION.** Two or more town mutuals authorized to operate in all or part of the same or in contiguous territories not exceeding 8 counties altogether may merge into one of the constituent town mutuals, or may consolidate into a new town mutual, under the procedure provided in this section.

(2) **PLAN OF MERGER OR CONSOLIDATION.** The board of each participating town mutual shall adopt the same plan of merger or consolidation by resolution stating:

(a) The reasons for and the purposes of the proposed action;

(b) The proposed terms, conditions and procedures for and estimated expenses of implementing the merger or consolidation;

(c) The proposed name of the surviving or new town mutual and the location of its principal office; and

(d) The proposed articles and bylaws for the surviving or new town mutual.

(3) **APPROVAL BY COMMISSIONER.** Each of the participating town mutuals shall file with the commissioner for his approval a copy of the resolution and any explanatory statement

proposed to be issued to the members, together with so much of the information under s. 612.02 (4) for the surviving or new town mutual as he reasonably requires. The commissioner shall approve the plan unless he finds, after a hearing, that it would be contrary to the law, or that the surviving or new town mutual would not satisfy the requirements for a certificate of authority under s. 612.02 (6), or that the plan would be contrary to the interests of insureds or of the public.

(4) **APPROVAL BY MEMBERS.** After being approved by the commissioner under sub. (3), the plan shall be submitted for approval to the members of each participating town mutual in a special joint meeting to be held within the territorial limits of one of the participating town mutuals. The members of each town mutual shall vote separately.

(5) **ELECTION OF DIRECTORS.** After a plan of consolidation is approved, the joint meeting shall elect the directors of the new town mutual.

(6) **REPORTS TO COMMISSIONER.** Each participating town mutual shall file with the commissioner a copy of the resolution adopted under sub. (4), stating the number of members entitled to vote, the number of members voting and the number of votes cast in favor of the plan, stating separately in each case the mail votes and the votes cast in person. Any election of directors under sub. (5) shall also be reported to him.

(7) **CERTIFICATE OF AUTHORITY.** If the requirements of the law are met, the commissioner shall issue a certificate of authority to the surviving or new town mutual. Thereupon the nonsurviving town mutuals shall cease their legal existence, the corporate existence of any new town mutual shall begin, and any directors elected under sub. (5) shall take office. The surviving or new town mutuals shall have all the assets and be liable for all of the obligations of each of the participating town mutuals.

History: 1973 c. 22.

**612.22 Merger and consolidation of town mutuals into mutual insurance corporations.** (1) **CONDITIONS FOR MERGER OR CONSOLIDATION.** One or more town mutuals may merge or consolidate with a single domestic mutual under ch. 611. The surviving or new corporation shall be a mutual under ch. 611.

(2) **PLAN OF MERGER OR CONSOLIDATION.** The board of each participating corporation shall adopt the same plan of merger under s. 181.42 (2) or plan of consolidation under s. 181.43 (2), by resolution stating:

(a) The reasons for and the purposes of the proposed action;

(b) The proposed terms, conditions and procedures for and estimated expenses of implementing the merger or consolidation;

(c) The proposed name of the surviving or new corporation and the location of its principal office; and

(d) The proposed articles and bylaws for the surviving or new corporation.

(3) **APPROVAL BY COMMISSIONER.** Each of the participating corporations shall file with the commissioner for his approval a copy of the resolution and any explanatory material proposed to be issued to the members, together with so much of the information under s. 611.13 (2) for the surviving or new corporation as he reasonably requires. The commissioner shall approve the plan unless he finds, after a hearing, that it would be contrary to the law, or that the surviving or new corporation would not satisfy the requirements for a certificate of authority under s. 611.20, or that the plan would be contrary to the interest of insureds or of the public.

(4) **APPROVAL BY MEMBERS OF THE TOWN MUTUALS.** After being approved by the commissioner under sub. (3), the plan shall be submitted to the members of the participating town mutuals for their approval. The members of each shall vote separately.

(5) **ELECTION OF DIRECTORS.** A plan of consolidation shall contain a provision for prompt election of directors if the plan goes into effect. If the plan is approved by the members of each town mutual and by the board of the mutual, directors shall be elected promptly.

(6) **REPORTS TO COMMISSIONER.** Each participating town mutual shall file with the commissioner a copy of the resolution adopted under sub. (4), stating the number of members entitled to vote, the number of members voting and the number of votes cast in favor of the plan, stating separately in each case the mail votes and the votes cast in person. Any election of directors under sub. (5) shall also be reported to him.

(7) **CERTIFICATE OF AUTHORITY.** If the requirements of the law are met, the commissioner shall issue a certificate of authority to the surviving or new mutual in case of consolidation, and a letter confirming completion of the merger process in case of a merger. Thereupon the nonsurviving corporations shall cease their legal existence, the corporate existence of any new mutual shall begin, and the directors elected under sub. (5) shall take office. The surviving or new mutual shall have all the assets and be liable for all of the obligations of each of the participating corporations.

History: 1973 c. 22.

**612.23 Conversion of town mutuals into mutual insurance corporations.** One or more town mutuals may be converted into a single mutual insurance corporation under ch. 611, as follows:

(1) **CONVERSION PLAN.** The boards of the town mutuals shall adopt the same plan of conversion by resolution stating:

(a) The reasons for and the purposes of the proposed action;

(b) The proposed terms, conditions and procedures and the estimated expenses of implementing the conversion;

(c) The proposed name of the corporation; and

(d) The proposed articles and bylaws.

(2) **APPROVAL BY COMMISSIONER.** The town mutuals shall file with the commissioner for his approval the plan together with so much of the information under s. 611.13 (2) as the commissioner reasonably requires. The commissioner shall approve the plan unless he finds, after a hearing, that it would be contrary to the law, that the new mutual would not satisfy the requirements for a certificate of authority under s. 611.20 or that the plan would be contrary to the interests of insureds or of the public.

(3) **APPROVAL BY MEMBERS.** After being approved by the commissioner, the plan shall be submitted to the members of each town mutual for their approval.

(4) **ELECTION OF DIRECTORS.** A plan of conversion shall contain a provision for prompt election of directors if the plan goes into effect. If the plan is approved by the members of each town mutual, directors shall be elected promptly.

(5) **REPORTS TO COMMISSIONER.** Each town mutual shall file with the commissioner a copy of the resolution adopted under sub. (3), stating the number of members entitled to vote, the number of members voting and the number of votes cast in favor of the plan, stating separately in each case the mail votes and the votes cast in person.

(6) **CERTIFICATE OF AUTHORITY.** If the requirements of the law are met, the commissioner shall issue a certificate of authority to the new mutual. Thereupon the nonsurviving town mutuals shall cease their legal existence, the corporate existence of any new mutual shall begin, and the directors elected under sub. (4) shall take office. The new mutual shall have all the assets and be liable for all of the obligations of each of the participating town mutuals. The commissioner may grant a period not exceeding one year for adjustment to the requirements of ch. 611, specifying the extent to which particular provisions of ch. 611 shall not apply.

History: 1973 c. 22.

**612.24 Transfer of business.** (1) **APPROVAL BY MEMBERS.** No action by which a town mutual proposes to transfer to another person or to reinsure any part of its insurance business, other than in the normal and usual course of business, or to sell, lease, exchange, mortgage, pledge or otherwise dispose of all or substantially all of its assets, shall be effective unless approved by the members.

(2) **REPORT TO COMMISSIONER.** The town mutual shall file with the commissioner a copy of any resolution under sub. (1) not less than 30 days in advance of the date of the action proposed to be taken under the resolution, with a statement of the number of members entitled to vote, the number of members voting and the number voting to approve the transfer, stating separately mail votes and votes cast in person. The commissioner may defer the effective date for an additional period not exceeding 30 days by written notice to the town mutual before the expiration of the initial 30-day period.

(3) **DISAPPROVAL.** The commissioner may, within the 30-day period or its extension, prohibit the proposed action if it is contrary to law or to the interests of insureds or the public or if it will make possible the circumvention of any of the requirements of this code. He shall prohibit a transfer of all or substantially all of the business unless it is accompanied by a plan for voluntary dissolution under s. 612.25.

History: 1973 c. 22.

**612.25 Voluntary dissolution of town mutuals.** A town mutual may be dissolved in the following way:

(1) **PLAN FOR DISSOLUTION.** The board shall adopt a plan for dissolution stating:

(a) The reasons for the proposed action;

(b) The proposed terms, conditions and procedures for and estimated expenses of implementing the dissolution; and

(c) The financial condition of the town mutual, in such detail as the commissioner reasonably requires.

(2) **SUBMISSION TO COMMISSIONER.** The town mutual shall file with the commissioner the plan and any explanatory statement proposed to be issued to the members. The commissioner may require that any additional information reasonably necessary to enable the members to make a decision be added to the proposed explanatory statement.

(3) **APPROVAL BY MEMBERS AND COMMISSIONER.** The plan shall thereupon be submitted to the members. If the members adopt the plan, the corporation shall file with the commissioner for his approval a copy of the resolution of the members, stating the number of members entitled to vote, the number of members voting

and the number of votes cast in favor of the plan, stating separately the mail votes and the votes cast in person. The commissioner shall approve the plan unless he finds, after a hearing, that the town mutual is insolvent or may become insolvent in the process of dissolution unless it makes an assessment. If an assessment would be required, the commissioner shall institute proceedings under s. 645.41 (10).

(4) **IMPLEMENTATION OF PLAN.** When the plan has been completely implemented, that fact shall be reported to the commissioner and he shall certify that the town mutual no longer has a legal existence.

(5) **CONVERSION TO CHAPTER 645 LIQUIDATION.** If it appears at any time that the approved dissolution plan cannot be implemented according to its terms, or that there are grounds for involuntary liquidation, the commissioner may petition under s. 645.41 for liquidation of the town mutual.

History: 1973 c. 22

**612.31 Authorized business.** (1) **PROPERTY INSURANCE.** (a) *General.* Subject to other provisions of this section, a town mutual may insure a member against loss or damage from any cause to any property in which the member has an interest.

(b) *Extensions.* 1. Insurance authorized under par. (a) may include insurance against loss of use of or loss of income from property including interruption of business activity caused by loss or damage to the property.

2. Insurance authorized under par. (a) may include replacement cost coverage.

(2) **LIMITATIONS ON PROPERTY INSURANCE.** (a) *Windstorm and hail insurance.* 1. No town mutual may insure a member against loss to growing crops by windstorm or hail.

2. No town mutual may insure a member against loss to property by windstorm or hail unless approval of the members is obtained under s. 612.12.

3. A town mutual insuring a member against loss to property by windstorm or hail must obtain reinsurance under s. 612.33 (2) (a).

(b) *Burglary and plate glass.* A town mutual may insure a member against loss of property by burglary or theft or against the breakage of glass whether in a specified location or in transit but may do so only as a coverage supplemental to fire and extended coverage insurance on the property.

(c) *Limitations by rule.* The commissioner may by rule exclude any insurance authorized under sub. (1) or (3) if he finds that it cannot be successfully transacted by town mutuals without endangering the interests of insureds or the public.

(3) **NONPROPERTY INSURANCE.** Subject to the voting requirement of s. 612.12 (1) (d) and the reinsurance requirement of s. 612.33 (2), a town mutual may include any of the following as supplementary coverage to property insurance written under sub. (1):

(a) *Liability insurance.* Insurance against loss or damage for which the insured is liable caused by the sickness, personal injury or death of any other person or by loss or damage to the property of the other person.

(b) *Errors and omissions.* Insurance against loss, expense and liability resulting from errors, omissions or neglect in the performance of any official, vocational or professional service, except loss or damage covered by par. (a).

(c) *Medical payments and other supplemental insurance.* Insurance against loss, damage and expense, including loss of time, arising out of bodily injury to, or sickness, disease or death of the insured or another person, caused by accident, for which the insurer assumes an obligation to pay irrespective of the member's legal liability therefor.

(4) **EXCLUDED BUSINESS.** Town mutuals may not transact the following insurance business:

(a) Life insurance and annuities;

(b) Disability insurance except under sub. (3) (a) and (c);

(c) Liability insurance except under sub. (3) (a) and (b);

(d) Automobile liability insurance except under sub. (3) (a);

(e) Workmen's compensation insurance;

(f) Elevator liability or steam boiler liability insurance;

(g) Ocean marine insurance;

(h) Inland marine insurance except as a supplementary coverage to property in a fixed location insured under sub. (1);

(i) Fidelity or surety insurance;

(j) Credit insurance;

(k) Mortgage guaranty insurance;

(l) Title insurance;

(m) Assuming reinsurance, except under sub. (6); or

(n) Loss, damage or liability caused by nuclear reaction or nuclear radiation or radioactive contamination, whether directly or indirectly resulting from an insured peril under the policy.

(5) **WRITING OF PRO RATA INSURANCE.** Two or more town mutuals may together write an insurance policy with each town mutual severally assuming a pro rata share of the total coverage, if except for territorial limitations each participating town mutual has the power to write risks of the kind covered in the policy. One of the town mutuals that satisfies the territorial rules of s. 612.32 shall be designated by the

policy as the originating insurer responsible for collecting the premiums and adjusting the losses on behalf of all participants. The policyholder shall be liable to assessments in each insurer but shall have voting rights only in the originating insurer. Each policy shall contain a provision advising the policyholder that there are other participating insurers and of his right to obtain their names, addresses and extent of their participation. Pro rata insurance under this subsection is not reinsurance under sub. (4) (m) or s. 612.33 (1).

**(6) ASSUMING REINSURANCE.** One town mutual may assume reinsurance from another if:

(a) The commissioner approves the assuming reinsurer as one qualified to assume reinsurance;

(b) The commissioner approves the reinsurance contract in advance;

(c) The portion of the insurance contract assumed is, apart from territorial limitations, within the insuring authority of the reinsurer as determined by this chapter and any rules promulgated hereunder; and

(d) The ceding town mutual does not have voting rights in the reinsurer but pays the same advance premiums and is subject to assessment by the reinsurer on the same basis as members.

**(7) SPECIAL REQUIREMENTS.** The commissioner may, as a condition for transacting specified types of business, establish by rule special requirements concerning minimum surplus, the minimum number of members or insured risks, the operating territory, required reinsurance, and approval by a specified percentage of the members, so far as such requirements are necessary to protect the interests of insureds and the public.

**(8) LIMITATIONS ON RISKS.** Section 201.16 (1) applies to town mutuals.

History: 1973 c. 22.

**612.32 Territory.** No town mutual may insure any risks located outside the territory authorized in its articles, except:

**(1) REAL PROPERTY OUTSIDE TERRITORY.** Town mutuals may insure real property and contents owned by a member immediately adjoining and contiguous to land owned by the same member which is within the specified territory, and real property and contents used exclusively by the member and his family for recreational purposes. Recreational property may not be insured for a greater amount than 50% of the amount for which the member's dwelling and related buildings are insured.

**(2) TEMPORARY REMOVAL.** (a) *Farm property.* A town mutual may provide coverage for livestock, farm products, farm machinery and farm vehicles while temporarily located, for a period not exceeding 6 months, outside its

territory, subject to limitations in the policy or in the articles or bylaws with respect to the distance from the territory to which the property may be removed without suspension of the coverage.

(b) *Household property.* A town mutual may provide coverage for household goods and effects and other personal property while temporarily removed from the location stated in the policy, whether within or outside the town mutual's territory.

**(3) NONPROPERTY COVERAGE.** A town mutual may write nonproperty insurance under s. 612.31 (3) without regard to its territorial limits provided the coverage is included in a policy providing principally coverage under s. 612.31 (1) on property within its territory.

**(4) PRO RATA INSURANCE AND REINSURANCE.** Nothing in this section prevents a town mutual from participation in pro rata insurance or reinsurance under s. 612.31 (5) or (6).

History: 1973 c. 22.

**612.33 Reinsurance.** (1) **PERMITTED AND PROHIBITED REINSURANCE.** A town mutual may cede reinsurance only under s. 612.31 (6), or to an insurer authorized to do business in this state under s. 612.71 or ch. 611 or 618, or under arrangements which are approved in advance by the commissioner and are subject to such controls as he prescribes.

**(2) REQUIRED REINSURANCE.** (a) *Windstorm and hail insurance.* If a town mutual provides coverage against windstorm or hail, or other perils involving a similar potential for catastrophic losses, which are designated by the commissioner by rule, it shall obtain reinsurance for each such risk or else stop-loss reinsurance with an insurer authorized to do such business in this state, to an extent reasonably adequate to cover the risk of catastrophic losses. The commissioner may prescribe detailed requirements for such reinsurance by rule or by order.

(b) *Nonproperty insurance.* To the extent that a town mutual provides insurance under s. 612.31 (3), it shall obtain reinsurance of at least a 90% pro rata share of each risk with an insurer authorized to do such business in this state. The commissioner may permit a town mutual to retain a larger percentage if he finds that the interests of the members will not be endangered thereby, or may require it to reinsure a larger percentage if he finds that the interests of the members make it advisable.

(c) *Information for policyholder.* Each policy providing coverage reinsured under par. (a) or (b) where the reinsurance is specifically applicable to the policy shall contain a clause advising the policyholder of the existence of the reinsurance and of his right to obtain the name



and address of the reinsurer and the terms of the reinsurance.

(d) *Contents of reinsurance contract.* Each required reinsurance contract that is specifically applicable to particular direct policies shall contain the following provisions:

1. That any claimant who could maintain an action against the town mutual may maintain an action against the town mutual, the reinsurer, or both, and that the claimant may recover from the reinsurer in the same way that he could recover from the town mutual; and

2. That there shall be no diminution in the amount recoverable from the reinsurer under subd. 1 as a result of any delinquency proceedings pertaining to the town mutual, nor as a result of a breach of the reinsurance contract by the town mutual.

(e) *Approval of reinsurance contract.* Every reinsurance contract required under this subsection shall be on a form approved by the commissioner under s. 612.51. The commissioner shall approve the form unless he finds that it would be contrary to the law or to the interests of insureds or the public.

History: 1973 c. 22.

Cross reference: As to the applicability of sub. (1) of this section, see 610.43 (2) (c).

**612.34 Rates.** (1) **REGULATION OF ASSESSMENTS.** Town mutuals need not file information under ch. 625 about special assessments unless ordered to do so by rule or order of the commissioner.

(2) **CLASSIFICATIONS.** No classification plan for the purpose of determining premiums or assessment shares may be used unless it has been approved by the commissioner. The commissioner shall approve the plan unless he finds that it would be contrary to the law, including the standards of s. 625.11, or contrary to the interests of insureds or of the public.

(3) **MANDATORY ADVANCE PREMIUMS.** Notwithstanding members' liability for subsequent assessments under s. 612.54, town mutuals shall charge advance premiums expected to be adequate for any insurance for which they must obtain reinsurance under s. 612.33 (2) (b).

History: 1973 c. 22.

**612.35 Borrowing and repayment.** A town mutual may borrow money to pay losses or expenses, but before obtaining a loan which would bring its indebtedness, including debit balances from reinsurance arrangements under s. 612.33 (1) above 50% of its assets including assessments levied and collectible which are not overdue, it shall report the amount and purpose of the loan and all outstanding loans and debit balances to the commissioner. The commissioner

may thereupon order the town mutual to levy an assessment to repay its indebtedness, establish a surplus, or both, within a reasonable time not less than 60 days after notice.

History: 1973 c. 22.

**612.36 Investments.** Town mutuals are subject to ch. 620 but shall be restricted as provided in s. 620.03 (1) unless individually exempted by the commissioner under s. 620.03 (2). In applying the restrictions of ch. 620 all assets of town mutuals shall be treated as if they were required to satisfy the compulsory surplus requirement, except to the extent that the commissioner by rule determines otherwise.

History: 1973 c. 22.

Cross reference: As to the applicability of this section, see 610.43 (2) (c).

**612.51 Contract forms.** (1) **APPROVAL REQUIRED.** No town mutual may use any policy form, including a rider, endorsement or special clause, nor any application form, unless it has been approved by the commissioner. The commissioner shall approve the form unless he finds:

(a) That it is unjust, unfair, inequitable, unfairly discriminatory, misleading, deceptive, obscure or encourages misrepresentation or misunderstanding of the contract, including cases where the form:

1. Provides coverage or benefits that are too restricted to achieve the purposes for which the policy is designed;

2. Introduces variations from traditional forms that obscure or lessen competition;

3. Fails to attain a reasonable degree of readability, simplicity, conciseness and integration of supplementary with basic forms; or

4. Is misleading, deceptive or obscure because of its physical aspects such as format, typography, style, color, material or organization;

(b) That it provides coverage or benefits or contains other provisions that would endanger the solidity of the insurer;

(c) That in the case of the policy it fails to provide the exact name of the insurer and the full address of its home office; or

(d) That it violates a statute or a rule promulgated by the commissioner, or is otherwise contrary to law.

(2) **RULES.** The commissioner may by rule prescribe forms to be used for policies, applications or for particular clauses.

(3) **ARTICLES AND BYLAWS.** The articles and bylaws shall be attached to or clearly incorporated by reference in every policy issued by a town mutual. They may be incorporated by reference only if each new member is supplied a copy of them and each policy specifies how additional copies may be obtained.

**(4) LIMITED COVERAGE.** Recovery as to any or all items of personal property insured under a policy may be limited to a percentage of the value at the time of the loss, by a clearly expressed statement to that effect in that policy.

History: 1973 c 22.

Cross reference: As to the applicability of this section, see 610.43 (2) (c).

**612.52 Undertaking to pay premiums and assessments.** No town mutual may issue a policy unless the prospective member has signed an undertaking in which he agrees to pay the advance premiums for any insurance on his behalf and any assessment which may be levied upon him in accordance with the terms of the policy, the articles, the bylaws, the statutes, and the reasonable expenses of collecting from him the assessment and any reasonable penalties for nonpayment. The undertaking may provide that for such collection the member shall waive any exemptions otherwise applicable to the property covered by the policy.

History: 1973 c 22

**612.53 Loss adjustment.** (1) **RULES.** The commissioner may promulgate rules for loss adjustment procedures.

(2) **ADMINISTRATION OF OATHS BY SECRETARY.** The secretary of a town mutual may, without compensation, administer oaths and take acknowledgments necessary to adjust claims against the town mutual.

History: 1973 c 22

**612.54 Assessments.** (1) **CONDITIONS FOR LEVYING ASSESSMENTS.** (a) **Mandatory assessments.** The board of a town mutual shall levy an assessment whenever the amount of any loss or expense that is due exceeds the assets or whenever any required surplus is impaired.

(b) **Optional assessments.** The board may at any time levy assessments as provided in the articles, for the purpose of paying losses or expenses, repaying borrowed money or creating a reasonable surplus.

(2) **LIMITATIONS ON ASSESSABILITY.** The commissioner may by order authorize a town mutual to limit assessability of policies to a multiple of the advance premium if the town mutual's surplus and business practices satisfy him of its solidity even with the limited assessability.

(3) **CLASSIFICATION.** Assessments may be levied at the same rate on all members or according to a classification plan approved under s. 612.34 (2). Assessments other than for the purpose of creating a surplus may also be levied on persons whose membership has terminated within a period not exceeding 8 months prior to the date of the assessment.

**(4) NOTICE.** Notice of any assessment shall be sent by mail to each person subject to it, at least 30 days prior to the date it is payable. The notices shall state:

(a) The rate of the assessment and the class of business or coverage to which it applies;

(b) The reason for the assessment;

(c) The amount to be paid by the individual person;

(d) The date on which the assessment is due;

(e) The person to whom payment is to be made; and

(f) The consequences of failure to pay, as provided in sub. (5).

(5) **CONSEQUENCES OF DEFAULT.** (a) **Penalty.** Every person who fails to pay his assessment within the time specified in the notice under sub. (4) shall pay to the town mutual a penalty of 2% of the assessment for each week or part thereof during which the assessment remains unpaid, until the accumulated penalty equals 100% 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 mortgagee 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.

(6) **NOTICE TO MORTGAGEE.** If losses under any policy are payable to a mortgagee despite default on an assessment and the assessment on the policy is not paid within the time specified in the notice to the member, the secretary shall, within 30 days after the expiration of such time, give like notice to the mortgagee. If the mortgagee pays the assessment within 20 days from the date of notice, the policy shall continue in force, as to the mortgagee's interest only, until the expiration of its regular term, subject to subsequent assessments of which the mortgagee is notified, and to cancellation by either party.

History: 1973 c 22.

**612.61 Licensing of agents.** (1) **GENERAL EXEMPTION.** Except as otherwise provided in sub. (2), or by rule promulgated by the commissioner, persons engaged in soliciting

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insurance exclusively for town mutuals are exempt from the requirements of s. 209.04.

(2) **AGENTS SOLICITING INSURANCE REQUIRING REINSURANCE.** No person may solicit any application for a contract providing coverage of the kind specified in s. 612.33 (2) (b) unless he has first obtained a license to do so under s. 209.04. The license need be only for those coverages the town mutual is authorized to write and any examination of applicants shall be appropriately limited.

History: 1973 c. 22

**612.70 Waiver of notice and informal action.** Sections 181.70 and 181.72 apply to town mutuals.

History: 1973 c. 22

**612.71 Organization of reinsurance corporations.** (1) **TOWN MUTUAL REINSURANCE CORPORATIONS.** (a) *Organization.* Fifteen or more town mutuals which together carry fire insurance with face amounts aggregating at least \$200 million may, without complying with the requirements of ch. 611, organize a mutual reinsurance corporation under this chapter. The provisions of this chapter relating to town mutuals shall apply to the reinsurance corporation except as otherwise provided or implied by the context.

(b) *Termination.* Failure of a corporation organized under this section or already in existence on May 24, 1973 to continue compliance with the requirements of par. (a) is a ground for liquidation under s. 645.41.

(2) **MEMBERSHIP PERMITTED.** Any town mutual may apply for membership in any reinsurance corporation organized under this section.

(3) **AUTHORIZED BUSINESS.** A town mutual reinsurance corporation organized under sub. (1) or already in existence may not do any business except reinsurance for town mutuals and business incidental thereto. It may only reinsure business required to be reinsured under s. 612.33 (2) (b) if it satisfies the requirements of ch. 611 for a corporation doing such business.

History: 1973 c. 22

**612.81 Register of deeds.** No town mutual need file any corporate documents with any register of deeds for corporation law or regulatory purposes. All such documents held by registers of deeds on May 24, 1973 may be disposed of under s. 59.51 (14m).

History: 1973 c. 22