



forms of town mutuals should be similar to like forms of insurers subject to chs. 631 and 632, Stats.

(7) **MORTGAGEE CLAUSE.** If a loss under a policy issued by a town mutual insurer is payable to a mortgagee who is not an insured, the mortgagee clause may provide:

(a) For payment by the insurer despite policy defense; or

(b) That the mortgagee is not liable for any premium or assessment, regardless of whether coverage has been extended after payment of a premium or assessment by the mortgagee.

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), Register, September, 1976, No. 249, eff. 10-1-76; am. (3), r. and recr. (4) and (5), cr. (6), Register, April, 1982, No. 316, eff. 5-1-82; cr. (7), Register, May, 1986, No. 365, eff. 6-1-86.

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.

(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

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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 employe dishonesty. The bond shall cover all fraudulent or dishonest acts, including larceny, theft, embezzlement, forgery, misappropriation, wrongful abstraction or willful application, committed by employes acting alone or in collusion. The bond shall cover all officers, directors and employes 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

History: Cr. Register, August, 1974, No. 224, eff. 9-1-74; reprinted to correct error, Register, March, 1980, No. 291; am. (3)(e), Register, April, 1982, No. 316, eff. 5-1-82.

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.** (a) Any town mutual insurer that writes any portion of a risk covered by nonproperty insurance shall maintain a surplus of not less than \$50,000.

(b) If a town mutual insurer retains any portion of a risk covered by nonproperty insurance, the town mutual shall obtain reinsurance on that nonproperty business with an insurer authorized to do business in this state. The maximum aggregate liability for incurred losses on nonproperty coverage retained by a town mutual insurer for any calendar year or contract year may not exceed the lesser of \$200,000 or 20% of its surplus as of the preceding December 31.

(c) A town mutual may retain nonproperty insurance coverage not to exceed a proportional share of each limit of liability as shown in the following schedule:

<u>Surplus as of the Preceding December 31</u>	<u>Proportional Share of each Limit of Liability Retained</u>
\$1,000,000 or greater	15%
\$ 800,000 to \$999,999	12%
\$ 600,000 to \$799,999	9%
\$ 400,000 to \$599,999	6%
\$ 200,000 to \$399,999	3%
Under \$200,000	0%

(4) **PROPERTY INSURANCE.** Any town mutual insurer that writes property insurance shall maintain a surplus of the greater of \$50,000 or 20% of the net written premiums and assessments in the 12-month period ending on or not more than 60 days before the date as of which the calculation is made. Every town mutual shall achieve and maintain this minimum surplus by December 31, 1987.

(5) **PROPERTY AND NONPROPERTY INSURANCE.** Any town mutual insurer that writes nonproperty insurance and property insurance shall meet the requirements of subs. (3) and (4).

(6) **INDIVIDUAL CIRCUMSTANCES.** The commissioner may take into consideration the experience, management and any other significant information about an individual town mutual insurer in determining whether to approve or disapprove town mutual property and nonproperty reinsurance and in setting of minimum surplus requirements.

History: Cr. Register, December, 1974, No. 228, eff. 1-1-75; cr. (4) to (6), Register, July, 1984, No. 343, eff. 8-1-84; am. (3) and (5), r. and recr. (6), cr. (3) (b) and (c), Register, December, 1984, No. 348, eff. 1-1-85.

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.** The financial statements of town mutuals which charge advance premiums shall show as a liability an unearned premium reserve. The unearned premium reserve must be calculated on all advance premiums, on the original or full-term premium basis, plus all advance premiums on reinsurance assumed from other town mutual insurers, less advance premiums on risks assumed by other insurers under reinsurance contract. The minimum unearned premium reserves shall be calculated on the premiums in force as follows:

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

Register, December, 1984, No. 348