

Chapter 21

Fraternal and Small Mutuals

Fraternal Benefit Societies

A fraternal benefit society is a membership organization that is legally required to: 1) offer life, health and related insurance products to its members; 2) be not-for-profit; and 3) carry out charitable and other programs for the benefit of its members and the public. It must be composed of members having a common bond and be organized into lodges or chapters; i.e., local membership groups. A fraternal benefit society exists solely for the benefit of its members and their beneficiaries. Fraternal benefit societies must have a representative form of governance.

Federal law allows a fraternal to offer life and health insurance products. Section 501(c)(8) of the Internal Revenue Code (IRC) defines a fraternal beneficiary society as:

- (a) a nonprofit mutual aid organization;
- (b) operating under the lodge system or for the exclusive benefit of the members of a fraternity itself operating under the lodge system; and
- (c) providing for the payment of life, sick, accident or other benefits to the members of such society, order or association, or their dependents.

Fraternal benefit societies: 1) offer insurance products; 2) are chartered and licensed according to state insurance laws; and 3) are regulated and examined by state insurance departments. Individuals who sell, solicit or negotiate insurance products for a fraternal benefit society are required to obtain a state insurance producer license.

The NAIC has adopted the *Uniform Fraternal Code* (#675). However, this model is not widely in use. At this writing, 45 states had adopted a version of Model #675 as drafted by the National Fraternal Congress of America (NFCA). Both the NAIC model and the NFCA model contain a section about producer licensing that pre-dates the *Producer Licensing Model Act* (#218). States should check the fraternal law that has been adopted in their state and update it to reference Model #218.

Small Mutual Insurers

Small mutual insurers are risk-bearing entities that historically formed around common interests of farmers, householders, and ethnic and religious groups. Small mutuals, commonly known as farm mutuals, may also be called “town,” “county” or “state” mutuals.

Small mutuals provide, with only a few exceptions, property insurance for homes, farmsteads, crops, and some small businesses. They do not, except for the legal liability associated with those risks, write casualty insurance. In some states, small mutuals are allowed to offer liability coverage through an affiliation with an insurer. State laws usually limit small mutuals to either a certain premium volume, geographic area or both. Most states also impose a lighter regulatory burden than that applied to larger mutual and investor-owned insurers.

Mutual insurers are owned and operated by the policyholders. Unlike a stock company, a mutual policyholder has an indivisible interest in the enterprise that, in general, cannot be bought or sold like a share of stock. Policyholders are often referred to as “members.” In some cases, a dividend or return of premium is paid when the mutual’s board of directors judges that it has sufficient capital. Members of the board are also policyholders.

Individuals who sell products for small mutuals should be licensed as producers, as outlined in Model #218 and the Uniform Licensing Standards (ULS).