

CR 86-209

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STATE OF WISCONSIN
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DOUGLAS LA FOLLETTE
SECRETARY OF STATE

STATE OF WISCONSIN)
OFFICE OF THE COMMISSIONER OF INSURANCE)

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETINGS:

I, Randy Blumer, Deputy Commissioner of Insurance and custodian of the official records of said office, do hereby certify that the annexed order renumbering, amending and creating a rule relating to investments of insurance companies was issued by this office on March 17, 1987.

I further certify that said copy has been compared by me with the original on file in this office and that the same is a true copy thereof, and of the whole of such original.

IN TESTIMONY WHEREOF, I have hereunto subscribed my name in the City of Madison, State of Wisconsin, this 17th day of March, 1987.



Randy Blumer
Deputy Commissioner of Insurance

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STATE OF WISCONSIN
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DOUGLAS LA FOLLETTE
SECRETARY OF STATE

ORDER OF THE COMMISSIONER OF INSURANCE

RENUMBERING, AMENDING AND CREATING A RULE

To renumber Ins 6.20 (3) (a) to (e); to amend Ins 6.20 (4) and Ins 6.20 (8) (n); and to create Ins 6.20 (3) (a) to (d) and (i), Ins 6.20 (4) (c) and Ins 6.20 (8) (o) relating to investments of insurance companies.

ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE

The principal focus of the chapter regulating investments of insurance companies is to provide certain criteria for determining the solidity of an insurer. It says that investments falling outside certain broad categories or exceeding certain limitations shall not be counted in determining whether an insurer meets Wisconsin's test of solidity.

Presently, the insurance industry, as a financial industry, is finding it necessary to become more sophisticated in its financial transactions. Interest rates on long-term financial obligations must be matched by earnings whether or not interim interest rates decline. In some instances it is necessary for an insurer to maximize its earnings at the lowest possible cost. In recent years the use of financial futures contracts and financial options contracts have developed as a way of achieving the results necessary.

The law generally assumes that the commissioner will not interfere with experienced investment management of most insurers; however, in any area which has the potential of presenting hazardous or dangerous results, guidelines should be developed. In addition, in those cases where the financial condition of an insurer demands special watchfulness, the commissioner should be empowered to protect insureds and the public. In such cases, stringent rules and close control are needed.

The section is being amended to provide definitions of the financial instruments which will be specifically permitted and restricted by the amendments, to prohibit investment in these instruments by restricted insurers unless specifically permitted by the commissioner and to provide guidelines for investments in these instruments by other insurers.

Pursuant to the authority vested in the commissioner of insurance by ss. 601.41 (3), 620.03 and 620.22 (8), Stats., the commissioner hereby renumbers, amends and creates a rule implementing and interpreting ch. 620, Stats., as follows:

SECTION 1. Ins 6.20 (3) (a) to (d) are renumbered to be Ins 6.20 (3) (e) to (h).

SECTION 2. Ins 6.20 (3) (a) to (d) are created to read:

Ins 6.20 (3) (a) "Call option" means an option contract under which the holder of the option contract has the right, in accordance with the terms of the contract, to purchase, or to make a cash settlement in lieu thereof, the amount of the underlying financial instrument covered by the option contract.

(b) "Financial futures contract" means an exchange-traded agreement to make or take delivery, or to make cash settlement in lieu thereof, of a specified amount of financial instruments on or before a specified date or

period of time, under terms and conditions regulated by the commodity futures trading commission.

(c) "Financial instrument" means a security, currency, or index of a group of securities or currencies.

(d) "Financial options contract" means options on a financial futures contract and any other option contract for a financial instrument which is traded on an exchange, board of trade, or an over-the-counter market regulated under the laws of the United States.

SECTION 3. Ins 6.20 (3) (e) is renumbered to be Ins 6.20 (3) (j).

SECTION 4. Ins 6.20 (3) (i) is created to read:

Ins 6.20 (3) (i) "Put option" means an option contract under which the holder of the contract has the right, in accordance with the terms of the contract, to sell, or to make a cash settlement in lieu thereof, the amount of the underlying financial instrument covered by the put option contract.

SECTION 5. Ins 6.20 (4) (a) and (b) are amended to read:

Ins 6.20 (4) (a) Any securities of an issuer who has defaulted on any payment on any debt security within the previous 5 years; ~~or~~

(b) Any asset under s. 620.22 (8), Stats., or

SECTION 6. Ins 6.20 (4) (c) is created to read:

Ins 6.20 (4) (c) Any financial futures contract or financial options contract.

SECTION 7. Ins 6.20 (8) (n) is amended to read:

Ins 6.20 (8) (n) Shares of investment companies or investment trusts registered under the Federal Investment Company Act of 1940, 15 U.S.C. s. 80a-1 et seq., as amended--regarded as part of the common stock portfolio of the insurer; and

SECTION 8. Ins 6.20 (8) (o) is created to read:

Ins 6.20 (8) (o) Financial futures contracts and financial options contracts, provided that

1. Such contracts shall be entered into to protect the investment portfolio of an insurer against the risk of changing asset values or interest rates, to enhance its liquidity, to aid in cash flow management, as a substitute for cash market transactions, and for any other purpose consistent with the investment objectives for the assets of insurers stated in s. 620.01, Stats.;

2. The aggregate market value of all financial futures contracts outstanding may not exceed 10% of the insurer's admitted assets;

3. An insurer may purchase put options or sell call options only with regard to financial futures contracts or financial instruments owned by, or which may be obtained through exercise of warrants or conversion rights held by the insurer;

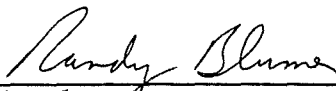
4. An insurer may purchase call options or sell put options on financial futures contracts or financial instruments only if the amount of the instrument which may be acquired upon exercise of the option, when aggregated with current holdings, would be an authorized investment under s. 620.22 (1) to (7), Stats. or this subsection, and would not exceed the limitations specified in s. 620.23, Stats. or this section;

5. The board of directors or its authorized committee shall first approve the insurer's plan relating to such investments, which plan must contain specific policy objectives and strategies, establish aggregate maximum limits in such investments and internal control procedures, and identify the duties, expertise and limits of authority of personnel authorized by the board of directors to engage in such transactions on behalf of the insurer; and

6. A copy of the insurer's plan shall be filed with the commissioner 30 days prior to its effective date. The commissioner may disapprove the plan within the 30-day period.

This rule shall become effective on the first day of the month following its publication in the Wisconsin Administrative Register as provided in s. 227.22 (2) (intro.), Stats.

Dated at Madison, Wisconsin, this 17th day of March, 1987.



Randy Blume
Deputy Commissioner of Insurance



The State of Wisconsin
Office of the Commissioner of Insurance

Thomas P. Fox
Commissioner
(608) 266-3585

DATE: March 17, 1987
TO: Gary Poulson
FROM: Mary Grossman, Director
Office of Policy Analysis
SUBJECT: Ins 6.20, Clearinghouse Number 86-209

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Enclosed are two copies of an Order of the Commissioner of Insurance renumbering, amending and creating rule number Ins 6.20 relating to investments of insurance companies.

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Enclosure
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