



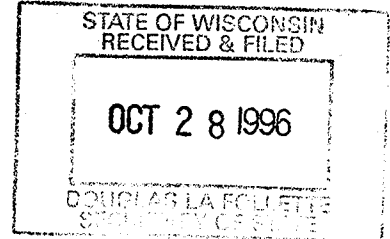
State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tommy G. Thompson
Governor

Josephine W. Musser
Commissioner

121 East Wilson Street
P.O. Box 7873
Madison, Wisconsin 53707-7873
(608) 266-3585

http://badger.state.wi.us/agencies/oci/oci_home.htm



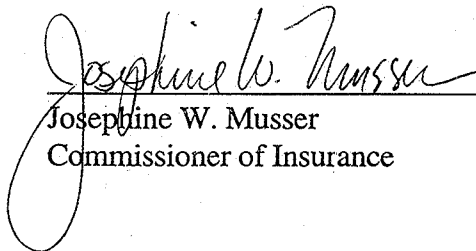
STATE OF WISCONSIN
OFFICE OF THE COMMISSIONER OF INSURANCE

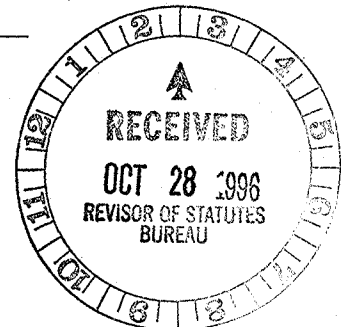
SS

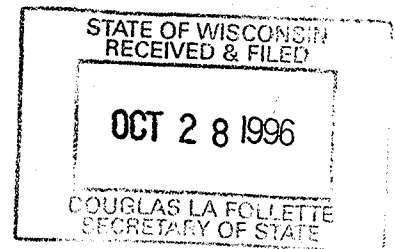
I, Josephine W. Musser, Commissioner of Insurance and custodian of the official records, certify that the annexed rule affecting Section Ins 6.20, Wis. Adm. Code, relating to investments by town mutual insurers, is duly approved and adopted by this Office on October 24, 1996.

I further certify that I have compared this copy with the original on file in this Office and that it is a true copy of the original, and the whole of the original.

IN TESTIMONY WHEREOF, I have hereunto set my hand at 121 East Wilson Street, Madison, Wisconsin, on October 24, 1996.


Josephine W. Musser
Commissioner of Insurance





ORDER OF THE OFFICE OF THE COMMISSIONER OF INSURANCE

AMENDING, RENUMBERING, REPEALING AND RECREATING AND CREATING A RULE

To amend Ins 6.20 (5) (title) and (intro.), and (6) (a); to renumber Ins 6.20 (2) (f) to (j); to repeal and recreate Ins 6.20 (5) (g) and (6) (b) and (c) and to create s. Ins 6.20 (2) (f) and (1) and (6) (d) to (f), Wis. Adm. Code, relating to investments by town mutual insurers.

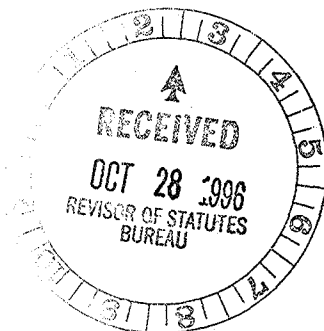
ANALYSIS PREPARED BY THE OFFICE OF THE COMMISSIONER OF INSURANCE

Statutory authority: ss. 601.41 (3), 601.42, , Stats.

Statutes interpreted: ss. 612.36 and 620.03 (3), Stats.

This proposed rule revises the rule governing the town mutual insurer investments. The proposed rule will allow town mutual insurers greater flexibility in making investments. The proposed rule requires town mutuals to invest most assets in bonds, preferred stock and certain other investments which are rated BBB or are investments which are relatively low risk investments. These investments are referred to as "Type 1" investments in the attached chart. (See Attachment)

The proposed rule permits town mutual insurers to invest in certain other specified investments which are higher risk. These investments are referred to as "Type 2". A town mutual insurer may invest in Type 2 investments only if it already has Type 1 investments in an amount equal to its liabilities plus the greater of \$300,000, 33% of gross premiums or 50% of net premiums.



The proposed rule also requires a town mutual insurer board to establish an investment plan.

SECTION 1. Sections Ins 6.20((3)(f), (g), (h), (i) and (j) are renumbered 6.20 (3)(g), (h), (i), (j) and (k).

SECTION 2. Sections Ins 6.20(3)(f) and (l) are created to read:

INS 6.20 (3)(f) "Money market mutual fund" means a fund that meets the conditions of 17 Code of Federal Regulations Par. 270.2a-7, under the Investment Company Act of 1940 (15 U.S.C. s. 80a-1 et seq.), as amended or renumbered.

(1) "Repurchase transaction" means a transaction in which an insurer purchases securities from a business entity which is obligated to repurchase the purchased securities or equivalent securities from the insurer at a specified price, either within a specified period or upon demand.

SECTION 3. Section Ins 6.20 (5) (title) and (intro.) are amended to read:

INS 6.20 (5) (title) SPECIAL LIMITATIONS ON RESTRICTED INSURERS OTHER THAN TOWN MUTUALS. ~~No~~ An insurer which is restricted under s. 620.03, Stats., and which is not a town mutual, shall not invest:

SECTION 4. Section 6.20 (5) (g) is repealed and recreated to read:

INS 6.20 (5)(g) Limitations on amount of investment. 1. Except as permitted under subd. 2, more than 3% of assets in securities of any single issuer unless it obtains the prior written permission of the commissioner or unless the investment is in securities of the government of the United States or its instrumentalities or in securities guaranteed by the full faith and credit of the United States; or

2. More than 10% of assets in the securities of one state, of one instrumentality of a state, or of one governmental unit of a state.

SECTION 5. Section Ins 6.20 (6) (a) is amended to read:

INS 6.20 (6)(a) Town mutual insurance companies authorized to operate under the provisions of ch. 612, Stats., ~~shall be considered~~ are restricted insurers and ~~shall be~~ are subject to the restrictions of ~~s. ss. 612.36 and 620.03 (1), except as provided in s. 620.03 (2), Stats., or in par. (b) Stats., sub. (4) and other applicable provisions of this section.~~ The commissioner may grant exemptions under s. 620.03 (2), Stats.

SECTION 6. Section Ins 6.20 (6) (b) and (c) are repealed and recreated to read:

INS 6.20 (6)(b) Permitted Investments. Except as permitted by pars. (c), (d) and (e) a town mutual insurer may only invest in one or more of the following:

1. Treasury bonds, treasury notes, treasury bills or any other direct obligations of the United States Government or agencies or instrumentalities of the United States Government with a final maturity 15 years or less, except that no part of the amount determined under this paragraph shall be invested in zero coupon bonds or collateralized mortgage obligations;

2. Demand deposit, interest bearing accounts and certificates of deposit in financial institutions, including banks, savings and loan associations and credit unions, except that the amount of an insurer's investment with each such financial institution shall be limited to the total amount eligible for insurance under the financial institution's depositor insurance program;

3. Bonds of any United States or Canadian corporation that at the time of purchase have a "BBB" or better rating from Standard and Poor's Corporation or Moody's Investment Service or bonds rated "1" by the National Association of Insurance Commissioners Securities Valuation Office, except that no part of the amount determined under this paragraph shall be invested in zero coupon bonds, collateralized mortgage obligations, payment in kind bonds or bonds with a final maturity of more than 15 years;

4. Bonds of any United States municipality that at the time of purchase have a "BBB" or better rating from Standard & Poors Corporation or Moody's Investment Service or bonds rated "1" by the National Association of Insurance Commissioners Securities Valuation Office with a final maturity of 15 years or less, except that no amount shall be invested in zero coupon bonds;

5. No more than an aggregate of 10% of assets in preferred stock of any United States or Canadian corporation that at the time of purchase has a "BBB" or better rating from Standard and Poor's Corporation or Moody's Investment Service or preferred stock rated "1" by the National Association of Insurance Commissioners Securities Valuation Office; or

6. No more than an aggregate of 10% of assets in money market mutual funds.

(c) A town mutual insurer may invest in assets permitted under par. (d) only if on December 31 of the preceding year its assets invested in accordance with par. (b) are an amount at least equal to the sum of its liabilities plus the greater of:

1. 50% of the net written premiums and assessments for the 12-month period ending December 31;

from Morningstar Mutual Funds Inc. A town mutual insurer shall not exceed 10% of assets in any single family of mutual funds.

4. Any subsidiaries formed to provide services ancillary to the town mutual insurer's insurance operations. Subsidiaries are considered ancillary subsidiaries if they are engaged principally in insurance-related activities such as acting as an insurance agent or providing claims adjusting services. A town mutual insurer may invest in a subsidiary only with the prior written approval of the commissioner and the investment may not exceed the amount approved by the commissioner or 10% of assets, whichever is less.

5. Any mutual fund not included in par. (b) or this paragraph that has a minimum four-star rating from Morningstar Mutual Funds Inc. Total investment under this paragraph shall not exceed 10% of assets in any single family of mutual funds and 25% of assets in aggregate.

6. Real property needed for the convenient transaction of the insurer's business, provided that the insurer obtains the prior written approval of the commissioner.

7. Real estate loans on property meeting the requirements of sub. (5) (c) and investment in real estate partnerships. Any investment in real estate partnerships shall be with the prior approval of the commissioner.

8. Collateralized mortgage obligations or tranche bonds whose principal repayment is divided into multiple categories of preferential repayment classes, with final maturities of not more than 20 years for the entire mortgage obligation. Such investments shall not exceed 3% of assets in any single issue or 10% of assets in the aggregate.

2. 33% of the gross written premiums and assessments for the 12-month period ending December 31; or

3. \$300,000.

SECTION 7. Sections Ins 6.20 (6) (d) to (h) are created to read:

INS 6.20 (6) (d) A town mutual insurer may invest assets in excess of the amount determined under par. (c) in one or more of the following:

1. Unrated bonds of a Wisconsin municipality or political subdivision not included in par. (b). Any bonds purchased under this subdivision must be direct obligations of the municipality or political subdivision, and no investment shall be made in unrated industrial revenue or industrial development bonds. Such investments shall not exceed 3% of assets in any single issue or 10% of assets in a single issuer or its affiliates;

2. Bonds with a final maturity of more than 15 years that would otherwise be classified within par. (b) 1, 3 or 4.

3. An aggregate of no more than 25% of the insurer's assets in one or more of the following:

a. Stock which is either common stock or preferred stock of a licensed insurance company domiciled in this state which reinsured town mutual insurers in this state at the time it converted from a mutual insurance corporation to a stock insurance corporation.

b. Common or preferred stock or convertible securities of any United States, Canadian or foreign corporation not included in par. (b) that are traded on a federally regulated securities exchange.

c. Any mutual fund that invests in common or preferred stock or convertible securities of any United States, Canadian or foreign corporation not included in par. (b) that has a minimum four-star rating

9. Investments not otherwise permitted by this paragraph, and not specifically prohibited by statute or rule, to the extent of not more than 5% of the insurer's assets.

(e) Town mutual insurer reinsurer stock; grandfather provision. A town mutual insurer is not required to divest stock described in par. (d) 3 a which is held by the town mutual insurer on December 31, 1995. Any such stock:

1. Is an authorized investment;
2. Is not an asset invested in accordance with par. (b) for the purpose of determining under par. (c) whether an investment is authorized under par. (d); and
3. Shall be included for the purpose of determining compliance with the aggregate limit under par. (d) 3. The town mutual insurer is required under par. (f) to divest itself of any other investments which otherwise qualify under par. (d) 3 until it is in compliance or until the only investment qualifying under par. (d) 3 is the stock held on December 31, 1995.

(f) Limitations on amount of investment. A town mutual insurer may not invest:

1. Except as permitted under subd. 2, more than 3% of assets in securities of any single issuer unless it obtains the prior written permission of the commissioner or unless the investment is in securities of the government of the United States or its instrumentalities or in securities guaranteed by the full faith and credit of the United States; or
2. More than 10% of assets in the securities of one state, of one instrumentality of a state, or of one governmental unit of a state.

(g) Transition and divestment. Except as provided under par. (e), a town mutual insurer shall divest any investment which does not meet the requirements of par. (b) to (f) due to decline in the rating of a bond or mutual fund, the insurer's size, limitations on investments or any other reason, within three years of its noncompliance, unless otherwise permitted or required by the commissioner. In addition, the commissioner may permit a longer period for divestment by approving a plan for transition to compliance with this rule as adopted on the effective date of this rule (1996).

(i) Authorization of investments by the board of directors. 1. The board of directors of a town mutual shall adopt a written plan for acquiring and holding investments and for engaging in investment practices which specifies guidelines as to the quality, maturity, diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs and the amount of its surplus. The board shall review and assess the company's technical and administrative capabilities and expertise with regard to investments before adopting a written plan concerning any investment strategy or investment practice. The board shall give due consideration to all commissions and expenses associated with each investment, and the effect of such costs on anticipated returns and on liquidity.

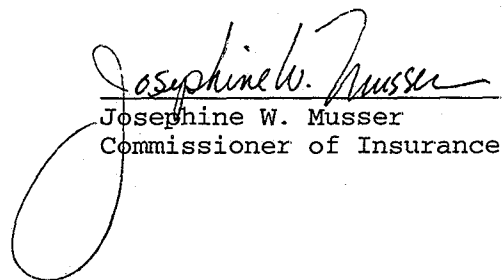
2. All investments acquired and held under this section shall be acquired and held under the supervision and direction of the board of directors of the town mutual insurer. The town mutual insurer board of directors shall require that all investments be authorized or approved by

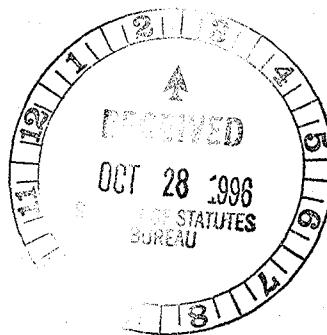
the board or a committee of the board charged with the responsibility to supervise and direct its investments in accordance with delegations, standards, limitations, and investment objectives prescribed by the board.

3. For all mutual funds held by a town mutual insurer, the insurer shall maintain in its records the fund's prospectus and latest issued annual financial statement.

SECTION 8. This rule will take effect on the first day of the month commencing after the date of its publication, as provided in s. 227.22 (2), Stats.

Dated at Madison, Wisconsin, this 24th day of October, 1996.


Josephine W. Musser
Commissioner of Insurance



LRB or Bill No./Adm. Rule No

Amendment No. if Applicable

FISCAL ESTIMATE
DOA-2048 N(R10/94)

- ORIGINAL
- CORRECTED
- UPDATED
- SUPPLEMENTAL

Subject

Town Mutual Insured Investments

Fiscal Effect

State: No State Fiscal Effect

Check columns below only if bill makes a direct appropriation or affects a sum sufficient appropriation.

Increase Costs - May be possible to Absorb Within Agency's Budget Yes No

- Increase Existing Appropriation
- Decrease Existing Appropriation
- Create New Appropriation
- Increase Existing Revenues
- Decrease Existing Revenues

Decrease Costs

Local: No local government costs

- 1. Increase Costs
 - Permissive
 - Mandatory
- 2. Decrease Costs
 - Permissive
 - Mandatory

- 3. Increase Revenues
 - Permissive
 - Mandatory
- 4. Decrease Revenues
 - Permissive
 - Mandatory

5. Types of Local Governmental Units Affected:
- Towns
 - Villages
 - Cities
 - Counties
 - Others _____
 - School Districts
 - WTCS Districts

Fund Sources Affected

- GPR
- FED
- PRO
- PRS
- SEG
- SEG-S

Affected Ch. 20 Appropriations

Assumptions Used in Arriving at Fiscal Estimate

Long-Range Fiscal Implications

Agency/Prepared by: (Name & Phone No.)

Authorized Signature/Telephone No.

Date

Fred Nepple 266-7726

Fred Nepple 266-7726

3/4/96

FISCAL ESTIMATE WORKSHEET

1995 Session

Detailed Estimate of Annual Fiscal Effect
DOA-2047 (R10/94)

ORIGINAL UPDATED
 CORRECTED SUPPLEMENTAL

LRB or Bill No./Adm. Rule No. Amendment No.

Subject: Town Mutual Insured Investments

I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

II. Annualized Costs:	Annualized Fiscal impact on State funds from:	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	\$	\$ -
(FTE Position Changes)	(FTE)	(- FTE)
State Operations - Other Costs		-
Local Assistance		-
Aids to Individuals or Organizations		-
TOTAL State Costs by Category	\$	\$ -

B. State Costs by Source of Funds	Increased Costs	Decreased Costs
	GPR	\$
FED		-
PRO/PRS		-
SEG/SEG-S		-

III. State Revenues -	Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)	Increased Rev.	Decreased Rev.
		GPR Taxes	\$
GPR Earned		-	
FED		-	
PRO/PRS		-	
SEG/SEG-S		-	
TOTAL State Revenues	\$	\$ -	

NET ANNUALIZED FISCAL IMPACT

	STATE	LOCAL
NET CHANGE IN COSTS	\$ _____	\$ _____
NET CHANGE IN REVENUES	\$ _____	\$ _____

Agency/Prepared by: (Name & Phone No.) Fred Nepple 266-7726 Authorized Signature/Telephone No. Fred Nepple 266-7726 Date 3/14/96