STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
DOA-2050 (C04/2012)

DIVISION OF EXECUTIVE BUDGET AND FINANCE
101 EAST WILSON STREET, 10TH FLOOR
P.O. BOX 7864
MADISON, WI 53707-7864
FAX: (608) 267-0372

EXISTING ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis

1. Type of Estimate and Analysis

☐ Repeal ☒ Modification

2. Administrative Rule Chapter, Title and Number

145 Ch Ins 2 Life Insurance, s. Ins 2.02 and 2.04; Ch. Ins 6 General, s. Ins 6.20

3. Date Rule promulgated and/or revised; Date of most recent Evaluation

Sections Ins 2.02 and 2.04 were last revised in 1979, s. Ins 6.20 was last revised in 1997

4. Plain Language Analysis of the Rule, its Impact on the Policy Problem that Justified its Creation and Changes in Technology, Economic Conditions or Other Factors Since Promulgation that alter the need for or effectiveness of the Rule.

The objective for ss. Ins 2.20 and 2.04 are to repeal out-dated regulations.

The objectives for s. Ins 6.20 are to modernize the rules and requirements regarding the permissible investments that may be counted toward compulsory and security surplus and will more closely align the regulation with the requirements of the National Association of Insurance Commissioners (NAIC) Derviative Instrument Model Regulation, as well as the regulations of other states, and modernize investment practices and investment regulations while eliminating the need to revise the rule frequently as financial products experience innovations. The proposed rule uses broader terms to permit more timeless and consistent regulation both in Wisconsin and across states for insurers that operate in multiple states. The proposed changes would also revise the amount or percentage of admitted assets which an insurer may invest in foreign assets for purposes of compulsory and security surplus. The current restrictions have not changed since 1996 and the proposed changes would allow a greater amount of investment in foreign investments while balancing risk especially for smaller insurers.

The proposed rule addresses issues currently faced by town mutuals that are experiencing reduced access to investment custody services at high annual fees in relation to the investment. Town mutual insurance companies will have the option to hold a diversified portfolio of mutual funds instead of individual bonds and stocks. Moreover, once a town mutual insurer has achieved a specified threshold of low risk assets, there would be no further limits on the town mutual insurer's equity holdings. In addition, the use of Morningstar ratings on mutual funds, which were intended to stand in for qualitative measures, are removed in favor of maximum expense ratios that have been set at reasonable levels while still allowing for active investment strategies.

5. Describe the Rule's Enforcement Provisions and Mechanisms

The rule interprets ss. 620.01, 620.03, and 620.21 to 620.23, Stats., and are enforced by s. 601.41 (4) and 601.64, Stats.

6. Repealing or Modifying the Rule Will Impact the Following (Check All That Apply)

☐ State's Economy

☐ Local Government Units

☐ Specific Businesses/Sectors

☐ Public Utility Rate Payers

☒ Small Businesses

7. Summary of the Impacts, including Compliance Costs, identifying any Unnecessary Burdens the Rule places on the ability of Small Business to conduct their Affairs.

This rule will have a beneficial effect on small businesses, specifically, approximately 54 town mutual insurance companies by saving potentially $6,000.00 to $10,000.00 in custody fees per year by being permitted to invest in a diversifed pool of mutual funds. For such small insurers, investing in mutual funds can offer lower investment overhead costs and better price execution than they can achieve on their own.

For large companies, the rule will not change the regulation of derivative instruments; it simply updates the definition of the investment types. The rule change also increases the amount of foreign investments that may be counted towards the satisfaction of compulsory and security surplus requirements but only applies to insurers with $500 million or more in admitted assets.

8. List of Small Businesses, Organizations and Members of the Public that commented on the Rule and its Enforcement and a Summary of their Comments.

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
DOA-2050 (C04/2012)

DIVISION OF EXECUTIVE BUDGET AND FINANCE
101 EAST WILSON STREET, 10TH FLOOR
P.O. BOX 7864
MADISON, WI 53707-7864
FAX: (608) 267-0372

EXISTING ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis

The request for comment on the proposed rule was sent to 50 organizations and individuals. Additionally the OCI posted the Request for Comment on its public website. The OCI received eight comments on the rule primarily from Town Mutual insurers and their investment advisors and from the Wisconsin Council of Life Insurers. The comments contained some similar requests to increase limitations on Type 1 preferred stock, permit non-bank custodians to hold investments and either eliminate the internal expense ratio as a criterion for funds or increase the expense ratio as the proposed limit of 50-basis points is too restrictive. The OCI has revised the rule to increase the the expense ratio limit to 75-basis points.

9. Did the Agency consider any of the following Rule Modifications to reduce the Impact of the Rule on Small Businesses in lieu of repeal?

☐ Less Stringent Compliance or Reporting Requirements
☐ Less Stringent Schedules or Deadlines for Compliance or Reporting
☐ Consolidation or Simplification of Reporting Requirements
☐ Establishment of performance standards in lieu of Design or Operational Standards
☐ Exemption of Small Businesses from some or all requirements
☒ Other, describe: The rules change minimum necessary to retain financial regulatory oversight, financial solvency and consistentcy with regulation across states.

10. Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEG-S

11. Chapter 20, Stats. Appropriations Affected
None

12. Fiscal Effect of Repealing or Modifying the Rule
☐ No Fiscal Effect
☒ Indeterminate
☐ Increase Existing Revenues
☐ Decrease Existing Revenues
☐ Increase Costs
☐ Could Absorb Within Agency's Budget
☐ Decrease Cost

13. Summary of Costs and Benefits of Repealing or Modifying the Rule
While town mutual insurance companies are not precluded from using traditional investment custody accounts, the smaller town mutual insurers could save between $6,000 to $10,000 per year by investing in a diversified pool of mutual funds instead of managing individual bond and stock positions. Prudent diversification of individual bond positions typically does not allow for buying $100,000 round lots for bonds, thereby precluding town mutual insurers from getting optimal prices on their trade executions. OCI based the definition of derivative instruments on the model definition developed by the NAIC. The foreign investment limits were set after consultation with the insurance industry and a comprehensive review of the current foreign investment holdings of Wisconsin insurers and their capacity for further foreign investment. Larger insurers will find the guidelines consistent with NAIC and other states without increased costs for implementation.

14. Did the Agency prepare a Cost Benefit Analysis (if Yes, attach to form)
☐ Yes ☒ No

15. Long Range Implications of Repealing or Modifying the Rule
In the long term, the proposed rule will allow greater flexibility with financial derivative instruments and other financial investment options optimizing financial returns while limiting financial risk to ensure Wisconsin insurers remain solvent.

16. Compare With Approaches Being Used by Federal Government
There is no comparable federal regulation.

17. Compare With Approaches Being Used by Neighboring States (Illinois, Iowa, Michigan and Minnesota)
As the proposed changes are built from an NAIC model, all neighboring states have similar provisions for derivative instruments. Each state uniquely regulates town mutuals in accordance with state statutory authority. Wisconsin is substantially more permisive in its current investment laws and rules than Illinois, Iowa or Minnesota. Michigan does not have an equivilent class of insurers.

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
DOA-2050 (C04/2012)

DIVISION OF EXECUTIVE BUDGET AND FINANCE
101 EAST WILSON STREET, 10TH FLOOR
P.O. BOX 7864
MADISON, WI 53707-7864
FAX: (608) 267-0372

EXISTING ADMINISTRATIVE RULES
Fiscal Estimate & Economic Impact Analysis

18. Contact Name	19. Contact Phone Number
Julie E. Walsh	608-264-8101

This document can be made available in alternate formats to individuals with disabilities upon request.