



**Date:** October 26, 2020  
**To:** All Town Mutual Insurers, Agents and Interested Parties  
**From:** Mark V. Afable, Commissioner of Insurance  
**Subject:** Town Mutual Insurers Revised Investment Rules

The Office of the Commissioner of Insurance has promulgated Wis. Admin. Code § Ins 6.20 (6), regulating investment rules for town mutual insurers. This bulletin highlights the most significant changes to the investment rules for town mutual insurers including the following:

- Expanding the types of investments permitted towards the minimum expected assets threshold (i.e., Type 1 investments).
- Establishing the minimum amount of assets required to invest in Type 2 Investments.
- Removing the aggregate limits on investments in common stock and mutual funds.
- Discontinuing the use of Morningstar ratings on mutual funds.
- Establishing minimum requirements for contractual arrangements with investment advisors.

More specifically, the following changes were made to Wis. Admin. Code, § Ins 6.20 as they pertain to town mutual insurers.

- The list of Type 1 investments permitted for town mutual was revised by adding the following categories:
  - Shares of no-load bonds mutual funds with at least 80% being invested in governmental or investment-grade bonds, average maturity of eight years, and an expense ratio of 1.2% or less.
  - Shares of exchange-traded funds with at least 80% being invested in governmental or investment-grade bonds, average maturity of eight years, and an expense ratio of 1.2% or less.

A new minimum asset requirement was established for town mutuals to invest in Type 2 assets as follows:

- A town mutual insurer may invest in assets listed under s. Ins 6.20 (d) (Type 2 Investments), only if, on December 31 of the preceding year, assets were in an amount at least equal to the sum of its liabilities plus the greater of the following:
  - 100% of the net written premiums for the 12-month period ending December 31
  - 33% of the direct written premiums for the 12-month period ending December 31
  - \$300,000
- Limitations and requirements for investments contained in Wis. Admin. Code § Ins 6.20 (6) (d) were amended as follows:

- Aggregate limitations on investments in common or preferred stock and stock mutual and exchange-traded funds were removed.
- The Morningstar rating requirement for mutual funds was removed.
- A requirement for the investment in shares of exchange-traded funds and no-load mutual funds to have an expense ratio of 1.2% or less was added.
- The requirements for holding Type 2 investments for town mutuals that no longer qualify were changed as follows:
  - A town mutual insurer that holds Type 2 investments but no longer meets the minimum asset test, may continue to hold such investments so long as the town mutual insurer holds investments in an amount that is no less than the sum of its liabilities plus the greatest of any of the following:
    - 75% of the net written premiums and assessments for the 12-month period ending December 31.
    - 33% of the direct written premiums and assessments for the 12-month period ending December 31.
    - \$300,000.
- A new requirement was added that a town mutual insurer that utilizes the services of an investment advisor must have a written agreement. Such an agreement shall include certain provisions and indicate whether the investment advisor is or is not acting as a fiduciary with respect to the town mutual insurer.
- A new provision was created to allow town mutual insurers to hold their investments in mutual funds in the direct custody of the town mutual insurer, either in book entry form with mutual fund's registrar and transfer agent or in certificate form.

A copy of the administrative rule can be found at <https://oci.wi.gov/Documents/Regulation/0202fn20.pdf>

Any questions concerning this bulletin may be directed to Amy Malm, Administrator for the Division of Financial Regulation, by email at [amy.malm@wisconsin.gov](mailto:amy.malm@wisconsin.gov).