VERMONT DEPARTMENT OF BANKING, INSURANCE AND SECURITIES

**REGULATION 93-3**

INVESTMENTS IN MEDIUM GRADE AND LOWER GRADE OBLIGATIONS

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## Section 1. Authority

This regulation is promulgated pursuant to the authority granted in 8 V.S.A. § 75.

## Section 2. Purposes

The purposes of this regulation are:

A. To protect the interests of the insurance-buying public by establishing limitations on the concentration of medium grade and lower grade obligations in which a domestic insurer can invest; and

B. To implement 8 V.S.A. § 3463 by regulating the acts and practices of domestic insurers with respect to the concentration of investments in medium grade and lower grade obligations.

## Section 3. Preamble

A. The Department of Banking, Insurance and Securities is concerned that changes in economic conditions and other market variables could adversely affect domestic insurers having a high concentration of these investments. Accordingly, the Department has concluded that a limitation on the percentage of total admitted assets that a domestic insurer may prudently invest in such obligations is reasonable, necessary and required in order to carry out the Department's responsibilities under relevant statutory law.

B. The Department understands that medium grade and lower grade obligations can have a place in a well-diversified portfolio. However, it is also understood that the special risks associated with these investments require a high degree of management even when they are held within an aggregate limit. While this regulation will leave all domestic insurers with authority to invest a substantial portion of their assets in medium grade and lower grade obligations, the prudent management of the attendant risks will remain an essential element of such investing.

**Section 4. Definitions**

As used in this regulation:

A. "Medium grade obligations" means obligations which are rated three by the Securities Valuation Office of the National Association of Insurance Commissioners.

B. "Lower grade obligations" means obligations which are rated four, five or six by the Securities Valuation Office of the National Association of Insurance Commissioners.

C. "Admitted assets" means the amount thereof as of the last day of the most recently concluded annual statement year, computed in the same manner as "admitted assets" in 8 V.S.A. chapter 101, subchapter 4.

D. "Aggregate amount" of medium grade and lower grade obligations means the aggregate statutory statement value thereof.

E. "Institution" means a corporation, a joint-stock company, an association, a trust, a business partnership, a business joint venture or similar entity.

**Section 5. Provisions**

A. No domestic insurer shall acquire, directly or indirectly, any medium grade or lower grade obligation of any institution if, after giving effect to any such acquisition, the aggregate amount of all medium grade and lower grade obligations then held by the domestic insurer would exceed twenty percent (20%) of its admitted assets provided that: no more than ten percent (10%) of its admitted assets consists of obligations rated four, five or six by the Securities Valuation Office; and no more than three percent (3%) of its admitted assets consists of obligations rated five or six by the Securities Valuation Office, and no more than one percent (1%) of its admitted assets consists of obligations rated six by the Securities Valuation Office. Attaining or exceeding the limit of any one category shall not preclude an insurer from acquiring obligations in other categories subject to the specific and multi-category limits.

B. No domestic insurer may invest more than an aggregate of one percent (1%) of its admitted assets in medium grade obligations issued, guaranteed or insured by any one institution nor may it invest more than one half of one percent (.5%) of its admitted assets in lower grade obligations issued, guaranteed or insured by any one institution. In no event, however, may a domestic insurer invest more than one percent (1%) of its admitted assets in any medium or lower grade obligations issued, guaranteed or insured by any one institution.

C. Nothing contained in this regulation shall prohibit a domestic insurer from acquiring any obligations which it has committed to acquire if the insurer would have been permitted to acquire that obligation pursuant to this regulation on the date on which such insurer committed to purchase that obligation.

D. Notwithstanding the foregoing, a domestic insurer may acquire an obligation of an institution in which the insurer already has one or more obligations, if the obligation is acquired in order to protect an investment previously made in the obligations of the institution; provided that all such acquired obligations shall not exceed one-half of one percent (.5%) of the insurer's admitted assets.

E. Nothing contained in this regulation shall prohibit a domestic insurer from acquiring an obligation as a result of a restructuring of a medium or lower grade obligation already held.

F. Nothing contained in this regulation shall require a domestic insurer to sell or otherwise dispose of any obligation legally acquired prior to the effective date of this regulation.

G. The Board of Directors of any insurance company which acquires or invests, directly or indirectly, more than two percent (2%) of its admitted assets in medium grade and lower grade obligations of any institution, shall adopt a written plan for the making of such investments. The plan, in addition to guidelines with respect to the quality of the issues invested in, shall contain diversification standards including, but not limited to, standards for issuer, industry, duration, liquidity and geographic location.

**Section 6. Effective Date**

This regulation shall take effect on June 3, 1993.