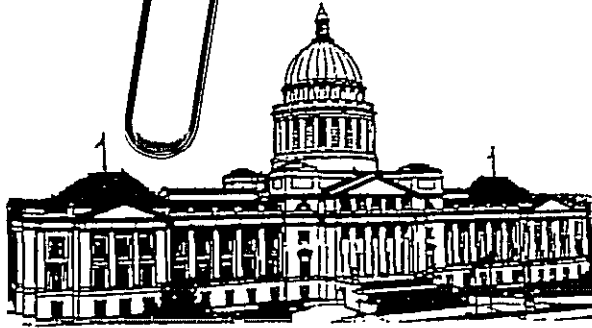


Transmittal Sheet



W. J. "Bill" McCuen
Secretary of State
State Capitol Rm. 010
Little Rock, Arkansas 72201-1094

For Office Use Only: Effective Date 8/1/94 Code Number 054.00.94--006

Name of Agency ARKANSAS INSURANCE DEPARTMENT
Department Legal Division
Contact Person Jean Langford

Statutory Authority for Promulgating Rules _____

Re: Rule & Regulation 36: "Investments in Medium Grade..."; Rule & Regulation 60: "Accelerated Intended Effective Date Benefits..."; Rule & Regulation 61: "Insurer Reports... Act 166..."; Rule & Regulation 62: "Reserves for Funeral Expense..."

- Emergency Legal Notice Published 10/11-26/93
- 20 Days After Filing Final Date for Public Comment 12/3/93
- Other Filed With Legislative Council 10/4/93
- Reviewed by Legislative Council 11/4/93
- Adopted by State Agency _____

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W. J. "BILL" MCCUEN
SECRETARY OF STATE
LITTLE ROCK, ARKANSAS

CERTIFICATION OF AUTHORIZED OFFICER

I hereby Certify That The Attached Rules Were Adopted In Compliance with Act 434 of 1967 As Amended.

Jean Langford
Signature

Chief Counsel
Title

7-26-94
Date

1 RULE AND REGULATION 36
2 INVESTMENTS IN MEDIUM GRADE AND LOWER GRADE
3 OBLIGATIONS FOR DOMESTIC ARKANSAS INSURERS

4 Table of Contents

5 Section 1. Purpose
6 Section 2. Authority & Scope
7 Section 3. Effective Date
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9 Section 5. Provisions
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11 SECTION 1. PURPOSE. The purposes of this Regulation include protecting
12 the interests of the Arkansas insurance-buying public by establishing
13 limitations on the concentration of medium grade and lower grade
14 obligations in which a domestic Arkansas insurer and others can invest; and
15 implementing Ark. Code Ann. §§23-63-801, et seq. in pertinent part, by
16 specifying certain allowable investments of domestic Arkansas insurers and
17 others as to investments in medium and lower grade obligations.

18 The Rule and Regulation is necessary to avoid undesirable results when
19 market conditions and other market variables adversely affect domestic
20 insurers having a high concentration of these investments. Accordingly, a
21 limitation on the percentage of total admitted assets that a domestic
22 insurer may prudently invest in such obligations is reasonable, necessary
23 and required in order to carry out the Department's solvency
24 responsibilities under the Insurance Code. While this Regulation will
25 leave all affected domestic insurers and others with authority to invest a
26 substantial portion of their assets in medium grade and lower grade
27 obligations, the prudent management of the attendant risks will remain an
28 essential element of such investing.

29 SECTION 2. AUTHORITY AND SCOPE. The Commissioner is promulgating this Rule
30 pursuant to his authority under Ark. Code Ann. §23-61-108; §§23-63-601, et
31 seq. as to insurer assets generally; §§23-63-801, et seq. as to insurer
32 investments generally; and including but not limited to the following types
33 of domestic insurers or corporations: §§23-70-101, et seq. as to reciprocal
34 insurers; §§23-71-101, et seq. as to stipulated premium plan insurers;
35 §§23-72-101, et seq. as to mutual assessment life and disability insurers;
36 §§23-73-101, et seq. as to farmers' mutual aid associations; §23-75-113, as
37 to hospital and medical service corporations; §23-76-117 and §23-76-125, as
38 to health maintenance organizations; §§23-94-101, et seq. as to risk
39 retention groups; §§25-15-201, et seq. under the Administrative Procedure
40 Act, and other applicable laws or rules. This Rule is intended to apply to
41 authorized domestic insurers holding an Arkansas Certificate of
42 Authority, including domestic stock and mutual insurers, domestic risk
43 retention groups, domestic hospital and medical service corporations,
44 domestic health maintenance organizations, domestic farmers' mutual aid
45 associations, and domestic reciprocal and stipulated premium plan
46 insurers.

47 This Rule is not intended to apply to foreign farmers' mutual aid
48 associations; domestic or foreign fraternal benefit societies; foreign
49 reciprocal or stipulated premium plan insurers; foreign or alien insurers;
50 foreign or alien hospital or medical service corporations; foreign or alien

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1 health maintenance organizations; or foreign or alien risk retention
2 groups.

3 SECTION 3. EFFECTIVE DATE. The effective date of this Rule and Regulation
4 shall be August 1, 1994, after filing with the Arkansas Secretary of State
5 and the Arkansas State Library, pursuant to Ark. Code Ann. §§25-15-201, et
6 seq., as amended by Act 1106 of 1993.

7 SECTION 4. DEFINITIONS. As used in this Regulation:

8 A. "Medium grade obligations" means obligations which are rated three
9 (3) by the Securities Valuation Office of the National Association of
10 Insurance Commissioners ("NAIC").

11 B. "Lower grade obligations" means obligations which are rated four
12 (4), five (5) or six (6) by the Securities Valuation Office of the NAIC.

13 C. "Admitted assets" means the amount thereof as of the last day of
14 the most recently concluded annual statement year, computed in the same
15 manner as "admitted assets" in Ark. Code Ann. §§23-63-601, et seq., as
16 reported in the insurer's annual statement, per the NAIC convention blank.

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

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

22 SECTION 5. PROVISIONS. A. On and after the effective date of this Rule,
23 no domestic insurer shall acquire, directly or indirectly, any medium grade
24 or lower grade obligation of any institution if, after giving effect to any
25 such acquisition, the aggregate amount of all medium grade and lower grade
26 obligations then held by the domestic insurer would exceed twenty percent
27 (20%) of its admitted assets, provided that:

28 (1) no more than ten percent (10%) of its admitted assets consists
29 of obligations rated four (4), five (5) or six (6) by the Securities
30 Valuation Office; and

31 (2) no more than three percent (3%) of its admitted assets
32 consists of obligations rated five (5) or six (6) by the Securities
33 Valuation Office; and

34 (3) no more than one percent (1%) of its admitted assets consists
35 of obligations rated six (6) by the Securities Valuation Office. Attaining
36 or exceeding the limit of any one (1) category shall not preclude an
37 insurer from acquiring obligations in other categories subject to the
38 specific and multi-category limits.

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

47 C. Nothing contained in this Regulation shall prohibit a domestic
48 insurer from acquiring any obligations which it has committed to acquire if
49 the insurer would have been permitted to acquire that obligation pursuant

1 to this Regulation on the date on which such insurer committed to purchase
2 that obligation.

3 D. Notwithstanding the foregoing, a domestic insurer may acquire an
4 obligation of an institution in which the insurer already has one or more
5 obligations, if the obligation is acquired in order to protect an
6 investment previously made in the obligations of the institution; provided
7 that all such acquired obligations shall not exceed one-half of one percent
8 (.5%) of the insurer's admitted assets.

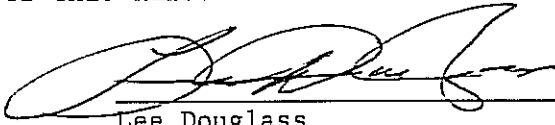
9 E. Nothing contained in this Regulation shall prohibit a domestic
10 insurer from acquiring an obligation as a result of a restructuring of a
11 medium or lower grade obligation already held.

12 F. Nothing contained in this Regulation shall require a domestic
13 insurer to sell or otherwise dispose of any obligation legally acquired
14 prior to the effective date of this Regulation although insurers are
15 encouraged to gradually replace such securities until full compliance with
16 this Rule and Regulation is met.

17 G. The Board of Directors of any domestic insurance company which
18 acquires or invests, directly or indirectly, more than two percent (2%) of
19 its admitted assets in medium grade and lower grade obligations of any
20 institution, shall adopt a written plan for the making of such
21 investments. The plan, in addition to guidelines with respect to the
22 quality of the issues invested in, shall contain diversification standards
23 including, but not limited to, standards for issuer, industry, duration,
24 liquidity and geographic location. Domestic insurers shall file such plans
25 with the Commissioner within one hundred and twenty (120) days after the
26 effective date of this Rule, absent obtaining an extension from the
27 Commissioner for good cause shown; and shall promptly file any amendments
28 to the plan subsequent to this initial filing.

29 SECTION 6. SEVERABILITY. Any section or provision of this Rule held by a
30 court to be invalid or unconstitutional will not affect the validity of any
31 other section or provision of this Rule.

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Lee Douglass
Insurance Commissioner
State of Arkansas
7-21-94

Date