

Difference the Demotech



Serious About Solvency[®]

Spring 2015 / Vol.1, No.1

LEGACY OF LONGEVITY

From today's cutting edge to the industry's roots, our special feature highlights companies who have lasted over a *century*



What's Changing the Automobile Insurance Industry?

Cutting Edge Technology for Actuaries

Comprehensive Catastrophe Planning



Changing Regulatory Landscape

Gauging the Impact of the Corporate Governance Annual Disclosure Model Act and Regulation

Insurance company executives—controlling owners, directors and officers—are used to the scrutiny and standards of fiduciary care that may apply to their positions. The standards that apply can be complicated for insurer senior management, who also have responsibilities related to their shareholders as well as obligations to the policyholders of the company. As part of its overall solvency modernization initiative, the National Association of Insurance Commissioners (NAIC) has been studying the states' general corporate fiduciary standards and working on model corporate governance disclosures that will apply to insurers and/or their holding companies. These disclosure standards create additional levels of review and possible oversight by the states as they are adopted in the years to come.

On November 14, 2014, the NAIC's Executive Committee/Plenary

and practices in an annual filing. The annual filing is meant to provide the insurance commissioner an understanding of the insurer's corporate governance framework. According to the NAIC, states are expected to start requiring disclosures at the beginning of 2016, with all states and territories on board by 2019. In fact, legislation has already been introduced in Indiana to adopt components of the Acts.

Filing Requirements

Under the Acts, an insurer must submit a Corporate Governance Annual Disclosure (CGAD) no later than June 1 of each calendar year. Alternatively, if an insurer is a part of a holding company, then the holding company may submit a CGAD as an insurance group. The insurance group must submit the CGAD to the commissioner of the lead state, as determined by the

disclosures should be made, the insurer or insurance group must decide which category of reporting it will use: (1) the level at which the insurer or the insurance group's risk appetite is determined; (2) the level at which the earnings, capital, liquidity, operations, and reputation of the insurer is overseen; or (3) the level at which legal liability for failure of general corporate governance duties would be placed. Interestingly, once insurers and their groups determine the corporate level at which they will disclose, all subsequent filings must be at the same level or any changes must be adequately explained. This highlights the need for a measured analysis of the proper level for insurer or holding company disclosure, with the understanding that any changes are likely to invite further review of the rationale for the change and any underlying issues that may apply.

The CGAD is required to address the following information: (1) the insurer's corporate governance framework and structure; (2) the policies and practices of its board of directors and significant committees, including information regarding board member qualifications and independence; (3) the policies and practices directing senior management, including information regarding significant compensation programs; and (4) the processes by which the board of directors, its committees and senior management ensure an appropriate level of oversight of the critical risk areas impacting the insurer's business activities.

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voted to adopt the Corporate Governance Annual Disclosure Model Act and the Corporate Governance Annual Disclosure Model Regulation (collectively, the "Acts"). The Acts require the insurer or its holding company to provide its domiciliary insurance commissioner with a detailed summary of the insurer or insurance group's corporate governance structure, policies,


NAIC's Financial Analysis Handbook.

Depending on how the insurer or insurance group has structured its system of corporate governance, disclosures may be needed at the ultimate controlling party level, an intermediate holding company level and/or the individual legal entity level. In order to determine what

ject to discovery or be admissible in evidence in any private civil action.

While most states' laws will likely follow the model law regarding confidentiality, there can be variations. The Florida Office of Insurance Regulation, as an example, has raised some previously advanced constitutionality concerns related to broad-based confidentiality of governance filings. Thus, it will be important to assure that any insurer making a filing has a firm understanding of the possible scenarios where information in the filing may be subject to disclosure based on any state's public records laws or some provision of law that may permit discovery in a lawsuit.

In view of, and partially in response to, the ongoing evolution of a federal presence in insurance and the growing international influence on certain policies adopted in the U.S, the NAIC and states continue to implement initiatives intended to modernize state-based insurance regulation. The recent adoption of

the Corporate Governance Annual Disclosure Model Act and Regulation provide more transparency for regulators to better understand and assess risk tolerances and mitigation initiatives that may exist with insurers and within their holding company groups. Taken with already broadly adopted changes in insurance holding company disclosure laws and evolving enterprise risk assessments insurers will need to file, corporate governance disclosures will serve to provide another portal for regulatory scrutiny of insurers and their holding groups. 

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CONTINUED FROM PAGE 20 **Maintaining Liquidity in Today's Market**

fords mid-size insurance companies the opportunity to enhance portfolio income given they have the ability to implement those ideas in the secondary market.

The new issue corporate bond market has been very robust and is also a good outlet to source attractive bonds. Insurers who lack the scale to access new issues bonds can look to a third party asset manager who actively participates in the market.

As an insurance company in this market, being the right size buyer of fixed income securities is crucial. In these challenging times of low prevailing interest rates, the ability to access and apply as many ideas as possible is essential to maximizing income. Reduced dealer inventories make it challenging for the largest investors to act on opportunities

outside of the largest issuers which significantly inhibits the investment universe. Being too small on the other hand can limit access to the new issue market or the full universe of securities available in the fixed income market. Mid-sized insurers and investment managers that can actively implement their strategies in both the new issue and secondary markets have a significant advantage when attempting to enhance investment income. 

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AAM is a premier manager of insurance assets and has survived multiple market cycles with a 30+ year track record of working exclusively with insurance companies.

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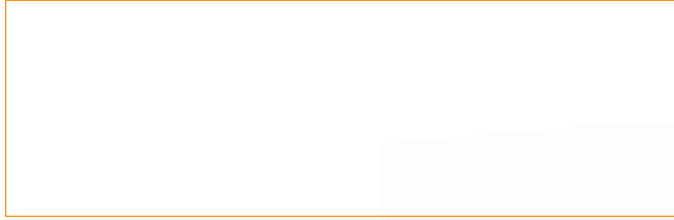


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