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**EVAN G. DANIELS**  
Director

**MINUTES OF THE ANNUAL MEETING AND EXECUTIVE SESSION**  
**OF THE BOARD OF DIRECTORS OF THE**  
**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**  
**SEPTEMBER 15, 2020**

Pursuant to a Public Notice dated September 8, 2020, the annual meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on September 15, 2020, at 9:04 a.m. in a virtual video conference format using Google Meet.

A quorum was present. The meeting was called to order by Sara M. Begley, Chair.

Present at the meeting were the following members of the Board of Directors of the Fund:

Sara M. Begley, Esq., CPCU	Chair
Ronald E. Malpiedi	Vice Chair & Treasurer
Noel Cole Young, Esq.	Secretary
Paul Matson, CFA, FCSI	Member
William P. Melchionni III	Member
Jason P. Smith, CPCU, CLU, FLMI	Member

Also present at the meeting were:

Evan G. Daniels	DIFI Director
Ryan Talamante, Esq.	Van Cott & Talamante
Lynette Evans	Assistant AZ Attorney General
Kurt Regner	DIFI Financial Affairs Division
Jennifer Tewhill	John C. Todd II, P.C.
Tom O'Malley	Wells Fargo Bank
Marie Souza	APCIGF Controller
Christine Cohen	APCIGF Claims Manager
Lori D. Nestor	APCIGF Executive Director

The following matters were discussed, considered and decided at the meeting:

**ITEM #1. ANNOUNCEMENT CONCERNING ANTI-TRUST COMPLIANCE POLICY AND CONFLICTS OF INTEREST.**

Sara M. Begley, Chair of the Board, announced the meeting would be conducted in accordance with the Anti-Trust Compliance Policy adopted September 20, 2006 by the APCIGF Board of Directors. The Chair also announced the meeting would be conducted in compliance with Arizona law (A.R.S. §§ 38-501 - 38-511) concerning the disclosure of conflicts of interest with regard to any matter before the Board of Directors for consideration.

**ITEM #2. APPROVAL OF PREVIOUS MINUTES**

Upon a motion made by Vice Chair Ron Malpiedi and seconded by Director Bill Melchionni, the minutes of the Meeting of the Board of Directors held March 10, 2020 were unanimously approved as previously circulated.

**ITEM #3. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL CONCERNING ISSUES IN CONNECTION WITH ITEMS REFERENCED IN THE NOTICE AND AGENDA.**

Upon a motion made by Vice Chair Malpiedi and duly seconded by Secretary Noel Young, the Board voted unanimously to move into Executive Session at 9:06 a.m. to confer with legal counsel. Counsel for APCIGF, Ryan Talamante, was present and provided legal advice to the Board regarding issues between APCIGF and the Special Fund of the Industrial Commission of Arizona (ICA) concerning the allocation of receivership recoveries. Upon a motion made by Vice Chair Malpiedi and seconded by Secretary Young, the Board voted unanimously to adjourn the Executive Session at 10:03 a.m. and the public was invited to rejoin the virtual meeting.

Following Executive Session, a motion was made by Vice Chair Malpiedi and seconded by Secretary Young that counsel would proceed as discussed in the executive session. The motion passed unanimously.

**ITEM #4. REPORT CONCERNING DETECTION AND PREVENTION OF INSOLVENCIES.**

The Chair recognized Kurt Regner, Assistant Director of the DIFI Financial Affairs Division (FAD), who gave a report concerning the detection and prevention of insolvencies. Mr. Regner indicated that APCIGF has provided financial assistance to FAD for the continuing education of its examiners and analysts in the past. This continuing education is critical to DIFI for maintaining its accreditation by the NAIC, and is essential to its ability to detect insolvency and thereby avert exposure to APCIGF and its members. FAD professional staff have typically attended the Society of Financial Examiners (SOFE) Career Development Seminar, and the cost to attend is generally shared between APCIGF and the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF). Mr. Regner reported that APCIGF's cost for 3 examiners to attend the virtual seminar this year was \$1,112.50, and attendance had been approved by Executive Director Lori Nestor. Executive Director Nestor then asked that the board ratify her decision to pay the SOFE registration costs, and the Board did so unanimously.

Mr. Regner further reported that FAD has increased their ongoing financial surveillance efforts in response to the Coronavirus pandemic. Response to a questionnaire sent to all domestic carriers indicates that all have been impacted in some way, whether financially or otherwise. Although the ultimate impact of the pandemic is unknown, there are no solvency concerns at this time.

**ITEM #5. EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.**

There being nothing to report with respect to the financial condition of member insurers, the Chair did not call the Board into Executive Session for that purpose.

**ITEM #6. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES.**

Having recently elected officers and appointed standing committees at the Meeting of the Board of Directors on March 10, 2020, the Chair elected to defer this item at this time. The Chair also indicated that Executive Director Nestor continues to work with the Director and the Governor's Office to fill vacancies on the Board.

**ITEM #7. FINANCIAL REPORT AND ANY RELATED MATTERS.**

- A. The Chair recognized Executive Director Nestor, who introduced Jennifer Tewhill of the auditing firm of John C. Todd II, P.C. Ms. Tewhill reported regarding the results of the independent financial audit of the APCIGF financial statement for the year ending December 31, 2019. She indicated that the audit resulted in a clean opinion. Director Matson asked about reference to "the District" on page 15 of the Independent Financial Report, and Ms. Tewhill clarified that the report should refer to the "The Fund" there instead. She clarified that the information in those paragraphs does pertain to the APCIGF audit. Director Matson asked that future reports also

specify which rates mentioned there are employer contribution rates and which are ACR rates for rehired employees.

Ms. Tewhill advised that the Report on Internal Controls over Financial Reporting & Compliance presented two material weaknesses in internal control that likely resulted from the recent change in the Executive Director position. During the time period audited, workers' compensation check registers were not always reviewed or maintained as they normally were, and the Executive Director's check log was not maintained. Vice Chair Malpiedi asked whether testing of the transactions was done as part of their study. Ms. Tewhill confirmed that it was, and no discrepancies were found. She explained that there was no concern of fraud or inappropriate payments, but that the processes simply fell through the cracks during the change in Executive Directors. No other deficiencies were identified, and no difficulties or disagreements with management were encountered.

- B.** Executive Director Nestor then recognized Tom O'Malley of Wells Fargo Asset Management who presented reports on the performance of the APCIGF investment portfolios through August 30, 2020. Mr. O'Malley reported that 2020 has been incredibly volatile where interest rates are concerned and the performance of both portfolios reflects lower performance than normal as a result. Credit quality remains high at AAA, but rates were driven down in or around March by the dramatic response of the stock market and Federal Reserve to the Coronavirus pandemic. Mr. O'Malley indicated that the results of the pandemic's impact are anticipated to continue through late 2021 or into 2022, with only modest change in treasury rates anticipated over the next 5 years. The Chair asked whether Mr. O'Malley recommended doing anything differently. He suggested additional communication to discuss short term liabilities and any potential adjustments where appropriate.

- C. The Chair again recognized Executive Director Nestor, who discussed the financial condition of APCIGF and presented a Balance Sheet, Profit & Loss YTD Comparison and Budget Performance statement as of July 31, 2020. Copies of the financial statements are attached as exhibits.
- D. The Chair then recognized Ms. Nestor who advised that the Arizona Auditor General reported no negative or reportable findings as a result of their review of APCIGF's financial statements with respect to the State of Arizona's FY19 CAFR.

#### **ITEM #8. CLAIMS ACTIVITY AND RELATED MATTERS.**

The Chair recognized APCIGF Claims Manager, Christine Cohen, who reported regarding claims activity through August 30, 2020. Claim reports for each of the three accounts are attached.

**A.** The Chair recognized APCIGF Claims Manager, Christine Cohen, who reported that the largest change to the Auto Account resulted from the insolvency of Gateway Insurance Company in June, 2020. Approximately 56 claims were referred to APCIGF as a result, 16 of which are in litigation. Ms. Cohen further advised that Gateway affiliated companies American Service Insurance Company (ASI) and American Country Insurance Company (ACIC) were also declared insolvent in August 2020. ACIC was not licensed in Arizona, but ASI was. Three were referred to APCIGF as a result of that insolvency.

**B.** Ms. Cohen reported that the largest exposure to the All Other Account arises from medical malpractice claims referred to APCIGF from the Capson Physicians Insurance insolvency. She explained that 2 of the remaining files could present potential exposure to APCIGF limits, but that most of the claims should be resolved by 2021.

**C.** Ms. Cohen reported that claims covered by the Workers' Compensation Account continue to be processed by Integrion Group on behalf of APCIGF. She indicated that

she believes current reserves are adequate, but implementation of process improvements may result in some necessary reserve adjustments.

**D.** Ms. Cohen then reported that APCIGF was unable to renew a contract for claim software with Lightspeed Data Solutions due to complications with the State Procurement Department. She advised that APCIGF is examining its needs and reviewing software alternatives in the marketplace as a result, as the recent pandemic has emphasized the need for modern systems. Executive Director Nestor confirmed that APCIGF continues to pay Lightspeed monthly, but a contract will be needed in the near future. The Chair asked whether staff is coordinating with the NCIGF in these efforts. Executive Director Nestor confirmed that such coordination will continue to be undertaken so that APCIGF ensures the ability to remain active in and communicate with the Guaranty Fund community effectively.

**ITEM #9. REPORT OF EXECUTIVE DIRECTOR.**

**A.** The Board recognized Executive Director Nestor who provided an update regarding changes to the APCGIF basis of accounting from modified cash to full accrual. She reported that additional bids for CPA help were sought following the last APCIGF meeting, with Eide Bailly remaining the most economical bidder. Eide Bailly was retained to assist with the conversion as a result, and it is anticipated that work will conclude once the December 31, 2020 financial statements are completed and APCIGF staff is trained. The Chair asked for information regarding the cost of the conversion. Executive Dir Nestor advised that interim billing had not yet been received, however, the total amount proposed by Eide Bailly was \$35,000.

Ms. Nestor also reported that APCIGF has been reclassified to a GASB Component Unit of DIFI rather than primary state government. As a result, APCIGF and ALDIGF

will remain on a calendar year basis rather than converting to primary government's June 30 fiscal year in support of the calendar year financial reporting required by ALDIGF statutes.

- B.** Having previously discussed the issues between APCIGF and the Special Fund of the Industrial Commission of Arizona concerning the allocation of receivership recoveries, the Chair indicated no need for further discussion. Claims Manager Cohen commented that this continuing dispute appears to be having an impact on 2 other areas of business between APCIGF and the ICA as well.

**ITEM #10. DETERMINATION OF THE DATE, TIME AND PLACE OF FUTURE BOARD MEETINGS**

The Board recognized Executive Director Nestor, who indicated that the next meeting of the Board of Directors will be held on **Tuesday, March 9, 2021 at 9:00 a.m.**, subject to any potential conflicts reported back by board members.

**ITEM #11. CALL TO THE PUBLIC.**

The Chair made a call to the Public, to which there was no response.

There being no further business to come before the Board, without objection the meeting was adjourned at 11:10 a.m.

Dated this 18th day of September, 2020.

Respectfully submitted,

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Secretary

Approved:

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Chair of the Board