



Arizona Property & Casualty Insurance Guaranty Fund

Arizona Department of Insurance and Financial Institutions

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**MINUTES OF THE ANNUAL MEETING OF THE BOARD OF DIRECTORS
OF THE
ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**

TUESDAY, SEPTEMBER 14, 2021

Pursuant to a Public Notice dated September 9, 2021, the Annual Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on September 14, 2021, at 9:05 a.m. in a virtual video conference format using Google Meet. Sara M. Begley, Esq., Chair of the Board, determined that a quorum was present and called the meeting to order.

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

Sara M. Begley, Esq., CPCU	Chair
Ronald E. Malpiedi	Vice Chair and Treasurer
Noel Cole Young, Esq.	Secretary
Paul Matson, CFA, FCSI	Member
William P. Melchionni III	Member
Kathleen F. Oster	Member
Angela A. Doss	Member

Also present at the meeting were:

Evan G. Daniels	Director, Arizona Department of Insurance and Financial Institutions (DIFI)
Lynette Evans	Assistant Arizona Attorney General
Tom O’Malley	Managing Director for Insurance, Wells Fargo Asset Management
Jennifer Wisely aka Jennifer R. Tewhill, CPA	Certified Public Accountant, John C. Todd II, P.C.
Kurt Regner	Assistant Director, DIFI Financial Affairs Division
Lori D. Nestor	APCIGF Executive Director
Christine Cohen	APCIGF Claims Manager
Maria Souza	APCIGF Controller
Sharyn Kerr	APCIGF Administrative Support Specialist

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

1. ANNOUNCEMENT CONCERNING ANTI-TRUST COMPLIANCE

The Chair announced that the Meeting would be conducted in accordance with the Anti-Trust Compliance Policy adopted by the Board of Directors and in compliance with Arizona law (A.R.S. §§ 38-501 to 38-511) concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

2. ITEM 9.E. APCIGF/DIFI ADMINISTRATIVE AND TECHNOLOGY COST ALLOCATION

(This appears as Item 9.e. on the Notice & Agenda dated September 9, 2021, but was presented here).

The Chair recognized Department of Insurance and Financial Institutions (DIFI) Director Evan Daniels, who addressed the Board and requested that APCIGF provide funding in the amount of \$20,000 annually in support of the Administrative and Information Technology services provided to APCIGF by DIFI. He explained that both DIFI divisions provide valuable services to APCIGF and its staff, and that APCIGF would need to procure such services elsewhere in the absence of such provision. A discussion ensued, and the Chair then moved to approve the allocation of \$20,000 annually as requested. The motion was seconded by Director William Melchionni and passed unanimously. It was determined that the payment would be presented as a separate line item on the financials to facilitate tracking.

3. INTRODUCTION OF NEW GUARANTY FUND STAFF MEMBER

The Chair recognized Executive Director Lori Nestor for the introduction of one new APCIGF Staff member. Director Nestor introduced and welcomed Sharyn Kerr, Administrative Support Specialist.

4. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by the Chair and seconded by Vice Chair and Treasurer Ron Malpiedi, the minutes of the Meeting of the Board of Directors held March 9, 2021 were unanimously approved as previously circulated.

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.

6. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair recognized Kurt Regner, Assistant Director of the DIFI Financial Affairs Division (FAD), who advised the Board that Executive Director Nestor had approved payment for three members of FAD staff to attend the annual Society of Financial Examiners (SOFE) Career Development Seminar in 2021. He explained that the seminar provides continuing education in current insurance examination processes and procedures, and that the cost has been shared between APCIGF and the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF) in support of the detection and prevention of insolvencies in the past. Mr. Regner indicated that APCIGF's cost in 2021 was \$1037.50.

Mr. Regner further addressed the Board to explain that part of FAD's responsibility in Arizona is to monitor the solvency of insurance companies both foreign and domestic using their education and tools. Their goal in doing so is to prevent an insolvency through early intervention. Mr. Regner described what tools FAD uses to perform exams, and what actions FAD may take should intervention to prevent insolvency be necessary. The Chair reiterated that intervention and prevention is much preferred to an insolvency that would necessitate guaranty fund involvement, thereby confirming that supporting these efforts is in the guaranty fund community's best interest.

Executive Director Nestor asked that the board ratify her decision to pay the SOFE registration costs, and the Board did so unanimously.

7. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair opened the floor for discussion and introduced the current standing officers.

ChairSara M. Begley, Esq., CPCU

Vice Chair/TreasurerRonald E. Malpeidi

SecretaryNoel Cole Young, Esq.

The Chair indicated that current officers were in agreement to serve an additional term if so elected, however, the Board would also welcome nominations if anyone would like to become an officer @ this time. She further recommended that the Board engage in some sort of succession planning to provide the opportunity for other members to become officers if they so desire, as the current officers have served for some time. Interested members should reach out in the next couple of months.

A motion was made by Director Paul Matson to recommend that standing officers be reappointed for another year. The motion was seconded by Director Melchionni and passed unanimously. The Chair advised that she would reach out to each Member to establish committee membership in the near future.

8. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. Report Concerning the Results of the Independent Financial Audit for Year Ended December 31, 2020.

The Chair recognized Executive Director Nestor, who reported that the conversion of the APCIGF basis of accounting from modified cash to accrual was completed at the end of March 2021. She introduced Jennifer Tewhill of auditing firm John C. Todd II, P.C., who addressed the Board regarding the independent financial audit of the resulting APCIGF Financial Statements for the year ending December 31, 2020. Ms. Tewhill reported that the financial statements on a full accrual basis would include 3 statements where only 1 was present before – a Statement of Net Position, a Statement of Revenues and Expenses, and a Statement of Cash Flows. She advised that APCIGF had an increase in cash flow as of the end of 2020, and indicated that the audit was a clean one.

Ms. Tewhill advised that the Report on Internal Controls over Financial Reporting & Compliance completed by their firm presented one finding in worker's compensation disbursement approval in that the Integrion check log for one month could not be found to be verified, and that a workers' compensation claimant was found to have been paid incorrectly. Ms. Tewhill advised that they did not anticipate either to be repeated going forward. No other deficiencies were identified, and no difficulties or disagreements with management were encountered.

b. Review of the Performance of the APCIGF Investment Portfolios Through August 31, 2021.

The Chair again recognized Executive Director Nestor, who introduced Tom O'Malley, Managing Director, Insurance for Wells Fargo Asset Management, for a report regarding the performance of the APCIGF investment portfolios through August 31, 2021. Mr. O'Malley began his report by reminding the Board that Wells Fargo Asset Management is being acquired by 2 private equity firms. The target closing date for the purchase is October 1, 2021, after which WFAM will be known as Allspring Global Investments.

Mr. O'Malley reported that the performance of both investment portfolios continues to reflect the impact that the COVID-19 pandemic has had on the market and on short term treasury rates. Total rates of return have been very low in the current compressed atmosphere. Although the Property and Casualty Portfolio remains invested in treasuries and agencies, WFAM did take the opportunity to reinvest in slightly longer maturities with good result. Its balance was approximately \$35 million as of August 31, 2021, with credit quality high at AAA across the board. The Workers' Compensation Portfolio was approximately \$186M at August 31, 2021, with an earning rate of 41 basis points. Mr. O'Malley indicated that although GDP is demonstrating accelerated growth, it is anticipated that short rates will continue well into 2022 as the recovery from COVID continues to be protracted.

c. Recommendation for Modification of the Investment Committee Meeting Frequency in the APCIGF Investment Policies.

The Chair recognized Director Matson, who shared the APCIGF Investment Committee's recommendation to change the required frequency of its meetings currently indicated in the APCIGF Investment Policies from quarterly to annual, or more frequently as requested by the investment committee chair, or an investment committee member, or the APCIGF board chair. The Chair made a motion to revise the policies as requested, which was seconded by Director Kathleen Oster. There being no objection, the motion was carried.

d. Review of the financial condition of APCIGF through July 31, 2021.

The Chair recognized Executive Director Nestor, who advised the Board that challenges in the creation of July 31, 2021 Financials had been encountered relative to the adjusting journal entries associated with the conversion from a cash to accrual basis. As a result, the financial condition of APCIGF as of June 30, 2021 was presented via a Balance Sheet, Profit & Loss YTD Comparison and Budget Performance statement.

Executive Director Nestor further explained that the Memorandum of Understanding between APCIGF and the Industrial Commission of Arizona (ICA), as discussed at the APCIGF Board Meeting on March 9, 2021, had been signed in March, 2021. Thereafter, the estate distributions held in the Escrow Account had been dispersed to APCIGF and the ICA accordingly in April of 2021, and appear on the Profit & Loss statements. She further reported that workers' compensation claim payments appear to be trending down as a result of better oversight of claim handling, as well as declining claim numbers due to the passing of injured workers. Director Matson posed a question regarding changes in the difference between workers' compensation

assets and workers' compensation liabilities. Ms. Nestor advised that information regarding that question and revised Financial Statements for July 31, 2021 would be provided. Copies of the June 30, 2021 financial statements are attached as exhibits.

9. CLAIMS ACTIVITY THROUGH AUGUST 31, 2021 AND ANY RELATED MATTERS

The Chair recognized APCIGF Claims Manager, Christine Cohen, who reported regarding claim related matters.

a. Auto Account.

Ms. Cohen reported that the bulk of the claims activity in the Auto Account resulted from the insolvency of ACCC Insurance. She advised that approximately 400 claims related to ACCC had been received, with approximately 60 remaining to close. She indicated that ACCC was a "surprise" insolvency with a short rehabilitation period. Ms. Cohen further reported that the total of unearned premium claims paid to date as a result of that insolvency was approximately \$57,000.

b. Other Account.

Ms. Cohen advised the Board that most of the activity in the All Other Account continued to be around medical malpractice claims referred to APCIGF as a result of the insolvency of Capson Physicians Insurance. She explained that one of the remaining claims could present exposure to APCIGF limits, and that additional attempts are being made to resolve Capson unearned premium claims. Ms. Cohen advised the Board that the insolvency of Bedivere insurance does not appear to present much exposure to APCIGF, if any.

c. Workers' Compensation Account.

Claims are trending down due to the unrelated demise of older claimants. In light of the number of claims closed for that reason in the last 20 months, a continuing decline is expected.

Ms. Cohen further addressed the Board to describe the additional measures undertaken by the Fund's internal claims department to oversee the handling of Workers' Compensation claims. She explained that trends such as overpayments, missing required forms and inaccurate APCIGF billing were identified. The Chair asked whether a claims audit was called for at this time. Exec Dir Nestor advised that the APCIGF claims contractor would be changing in the near future. She recommended postponing an audit at this time as a result.

Further discussion ensued, and it was determined that claims contractor contracts will be reviewed for indemnity language, overpayments will be pursued accordingly, and APCIGF will ensure that its claims contractor utilizes a master death list database used by other insurers to avoid overpayments to injured workers who have passed away.

10. REPORT OF EXECUTIVE DIRECTOR

The Chair recognized Executive Director Nestor, who reported on the following matters:

a. Possible Change in the Number of Votes Required to Take Certain Actions.

Executive Director Nestor reported that filling vacant seats on the APCIGF Board continues to be a challenge. With the resignation of Director Jason Smith, the Board has only seven (7) of its eleven (11) members, yet the APCIGF Plan of Operation (Plan) currently requires a vote of eight (8) members to call an assessment, make a refund, borrow money or modify the Plan. Although the current 7 members in attendance were unable to modify the Plan at this time, it was Ms. Nestor's recommendation that a change to the number of votes required for these actions be considered. Discussion ensued, and it was decided that the Board would revisit a possible super majority vote, or vote of 2/3 of the current sitting members, when modification is again possible.

b. Claims Auditing.

Ms. Nestor advised that the APCIGF Plan of Operation calls for an annual claims audit. She reported that, although actuarial studies have been done in the past few years, an independent claims audit has not. Ms. Nestor suggested that auditing resume, and advised that procurement of a contract may be required in order to perform an audit. Director Oster recommended that the insurance broker for the State of Arizona may have auditors available to assist or perform an audit, which may negate the need for procurement of a contract.

c. Potential Change in APCIGF Claim Software System.

Executive Director Nestor reported that the current claims software, Lightspeed, is out of date. She presented alternative software systems, including Origami software which is available through the State of Arizona Risk Management division, for the Board's information. Following discussion, it was determined that this will be a management decision with no further need for Board involvement.

d. The Adoption of a Permanent Virtual Office Environment.

Executive Director Nestor advised the Board that the Department of Insurance and Financial Institutions (DIFI) recently reduced its office space and migrated to a virtual office environment. She indicated that all DIFI employees, including APCIGF staff, are now working virtually. Ms. Nestor confirmed that APCIGF records are being converted to digital records, but functions such as printing and mailing paper checks still takes place in the office via one dedicated work space.

e. Request for Proposal for Claim Adjusting Services.

Ms. Nestor reported to the Board that a decision was made to award a contract for the claims handling of workers' compensation, and backup claim handling of auto and all other claims, to Crawford & Company. Transition planning will begin in the next few weeks. The current contract for claims handling with Integrion will expire at the end of this year.

11. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

It was decided and agreed that an Executive Session was not necessary at this time.

12. DETERMINATION OF THE DATE, TIME AND PLACE OF FUTURE MEETINGS

It was decided that the next meeting of the Board of Directors will be held on **Tuesday, March 8, 2022 at 9:00 a.m.**, and that the Annual Meeting will be held on **Tuesday, September 13, 2022.**

A discussion followed regarding continuing virtual meetings combined with in-person or "hybrid" meetings. The preference is that the March 2022 meeting be "hybrid" depending on circumstances of the COVID-19 pandemic.

13. CALL TO THE PUBLIC

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

MINUTES OF THE MEETING OF THE
APCIGF BOARD OF DIRECTORS
September 14, 2021

There being no further business to come before the Board, without objection the meeting was adjourned at 10:58 a.m.

Dated this 17th day of September, 2021 and respectfully submitted,

APPROVED:

NOEL COLE YOUNG, ESQ.

SARA M. BEGLEY, ESQ., CPCU

SECRETARY

CHAIR OF THE BOARD