



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

TUESDAY, SEPTEMBER 13, 2022

Pursuant to a Public Notice dated August 17, 2022, the Annual Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on September 13, 2022, at 9:08 a.m. in a hybrid live/virtual 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
Paul Matson, CFA, FCSI	Member
William P. Melchionni III	Member
Kathleen F. Oster	Member
Angela A. Doss, JD	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
Thomas O’Malley	Senior Vice President, Portfolio Specialist, Allspring Global Investments
Jennifer Wisely aka Jennifer R. Tewhill, CPA	Certified Public Accountant, John C. Todd II, P.C.
Kurt Regner	Assistant Director, DIFI Financial Affairs Division
Liane Kido	DIFI Deputy Receiver/Legal Analyst
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. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Director Angela A. Doss and seconded by Director Paul Matson, the minutes of the Meeting of the Board of Directors held March 8, 2022 were unanimously approved as previously circulated.

3. EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.

The Chair recognized Executive Director Lori Nestor who stated that she was not aware of any such matters requiring discussion. Executive Director Nestor then recognized DIFI Assistant Director Kurt Regner for additional confirmation, who reported no such matters of concern to discuss at this time. As a result, the Board did not enter into Executive Session for this purpose.

4. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair again recognized Executive Director Nestor, who reported that the Life and Disability and Property and Casualty Guaranty Funds had provided some funding for representatives of the DIFI Financial Affairs Division (FAD) to attend ongoing training for detection and prevention of insolvency. Ms. Nestor recognized Mr. Regner for more information. Mr. Regner reported that four FAD representatives attended a career-development seminar in July 2022 sponsored by the Society of Financial Examiners (SOFE). Presentations at the seminar were geared to enhance knowledge of aspects of insurance solvency regulation and the NAIC risk focus surveillance process. Sessions were also held that covered other regulatory topics such as risk governance, cyber security, examination, IT and many others. Mr. Regner indicated that the total cost of attendance was approximately \$10,384, and that APCIGF would pay half of that amount. He expressed his appreciation to the Board for making it possible for his staff to attend the seminar. The Chair stated that she believes that the money is well-spent as evidenced by the lack of new insolvencies to report, which would seem to indicate that such education has yielded improvements that have led to catching potential new insolvencies earlier.

5. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair stated that some preliminary work had been done to attempt to identify members that would be interested in serving as officers of the Board. She stated that her term on the Board officially expired in August 2022, and that she had asked that she not be nominated again because she is retiring from CopperPoint Insurance Companies in early 2023. She then presented the following list of names for nomination as officers:

- Director Noel Cole Young, to serve as Chair,
- Director Ronald E. Malpiedi to continue as Vice Chair,
- Director Kathleen F. Oster to serve as Secretary, and
- Director Doss to serve as Treasurer.

The Chair then opened the floor for any discussion. She further noted that the Board has received notice of the resignation of Vice Chair Malpiedi, to be effective after the March 2023 Board meeting. However, Mr. Malpiedi indicated continued willingness to serve as Vice Chair through the remainder of his term. There was no discussion or further nomination, and the Chair then moved to elect the presented officers. The motion was seconded by Vice Chair Malpiedi and passed unanimously.

The Chair then proposed the appointment of the following committees:

- Audit Committee: Director Doss, Director Malpiedi
- Investment Committee: Director William P. Melchionni III, Director Young, Director Matson
- Claim Committee: Director Oster, Director Sonya Bassaly

The Chair opened the floor for comments or changes. Hearing none, she then stated that these will be the 2023 committees for the Board.

6. FINANCIAL REPORTS AND ANY RELATED MATTERS

- a. **Report concerning the results of the independent financial audit for the year ended December 31, 2021.**

The Chair yielded the floor to Executive Director Nestor who noted that an unknown person had joined the meeting by telephone. Ms. Nestor requested that the person identify him or herself. The person identified herself as a member of the public.

Ms. Nestor then reported that the APCIGF annual audit was conducted by the CPA firm of John C. Todd. She introduced the senior Auditor, Jennifer Tewhill, who then presented an overview of

the audited financial statements. Ms. Tewhill noted that the Auditor's Report now implements auditing standards not previously used that change the appearance of the report. Each section of the report is now clearly labeled, and the "Opinion" section has been moved more prominently to the first page of the report. Ms. Tewhill reported that the audit was "clean", meaning that no problems were found with the presentation of the financial statements. Ms. Tewhill then referenced the "Management and Discussion and Analysis (MD&A)" section which provides financial highlights for the year including any upcoming items. She explained that the 2021 Financial Statements now provide comparative information in that section that wasn't previously available which provides a sense of any changes that have occurred year to year. Ms. Tewhill opened the floor for any questions from the Board; there were none. Ms. Tewhill then referred to the section of the audit report that addresses internal controls over financial reporting and compliance. She indicated that no issues with internal controls were cited and mentioned that those that were noted last year had been corrected. Ms. Tewhill then commented regarding the Letter to Governance that was issued to the Board to summarize the audit, noting that no disagreements with management were found during the course of the audit.

b. Review of the Performance of the APCIGF Investment Portfolios through August 31, 2022.

The Chair again recognized Executive Director Nestor, who introduced Mr. Tom O'Malley, SVP, Portfolio Specialist, Insurance Solutions, Allspring Global Investments, for a report regarding the performance of the APCIGF investment portfolios through August 31, 2022. Mr. O'Malley began by noting that this meeting was occurring on a volatile day in the market inclusive of the continuation of movement in interest rates. He then presented an overview of portfolio performance noting that the past year has experienced a very volatile market but more stability is expected in the coming year with a potentially more positive tone. The APCIGF portfolio summary shows the market value at approximately \$33 million with extremely high credit quality. Portfolio changes over time indicate the dramatic changes in interest rates since February of this year due the attempt by the Federal Government to curb inflation. Mr. O'Malley reported that the market value of the APCIGF Worker's Compensation portfolio was approximately \$176 million with "AAA" rated credit quality and slightly longer maturity investments at a little over 1 year. He indicated that increasing risks to the growth outlook of the U.S. economy resulting from concerns of potential recession could impact the portfolios. He indicated that employment remains strong despite initial signs of moderation, and that inflation is the biggest focus at present with a high level of underlying inflation expected to persist despite the Federal Government's significant resolve to fight it. The recently passed fiscal stimulus is expected to widen the deficit but have limited inflationary impact. Mr. O'Malley stated that

international global recession fears continue to increase due to the impact of the war between Russia and Ukraine on global economies. Markets awoke to the reality that “the Fed’s” resolve to fight inflation will likely result in rates being held higher for longer.

The Chair then opened the floor for any questions or discussion but there was none.

c. Review of the financial condition of APCIGF through August 31, 2022.

The Chair recognized Executive Director Nestor, who stated that a copy of APCIGF’s financial statement for the month of August demonstrating its current financial status was presented. She indicated that the three components of the financial statement (Balance Sheet, Profit & Loss YTD, Profit & Loss Year to Year Comparison) were prepared on the accrual basis of accounting, and illustrate assets, liabilities and equity as they are incurred. Ms. Nestor pointed out that the Profit & Loss YTD Comparison shows that APCIGF received approximately \$465 thousand in receivership distribution, the majority of which consisted of APCIGF’s portion of a draw-down of a deposit that DIFI was holding for the now insolvent Park Avenue/Imperial companies. She also noted an increase in Fund staff salaries due to a permanent, 10% increase in salary that was passed by the Arizona legislature for Arizona employees. Ms. Nestor noted finally that she expects a future increase in travel expenses due to an increase in in-person meetings following waning pandemic concerns. Executive Director Nestor then explained that a fourth and new report, a Schedule of Cash Balances by Fund, was also provided to give a more straightforward status of the cash balance in each of APCIGF accounts. This report was provided to supplement the more complex accrual-basis reporting of the financial statements. Executive Director Nestor indicated that the balances in the accounts as of the end of August were:

Auto Account	\$17,881,886.33
Workers’ Compensation Account	\$177,970,769.10
All Other Account	\$16,130,351.30
Administrative Account	\$2,325,144.06

Ms. Nestor opened the floor for any questions, and a short discussion followed regarding possible future assessment to replenish the Administrative Fund.

7. CLAIMS ACTIVITY THROUGH AUGUST 31, 2022 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 claims received from the ACCC and Western General insurance company insolvencies are continuing to close, with only 17 remaining from the more than 400 received. Many of the remaining, open claims are currently being litigated. She indicated that additional litigation is a possibility until the statute of limitations on claims that occurred prior to liquidation has run. Based on information currently known, Ms. Cohen reported that she doesn't anticipate an increase in auto claims in the near future.

b. **Other Account.**

Ms. Cohen reported that the claims received as a result of the insolvency of Capson Physicians Insurance comprised the majority of the recent claims activity and expense in this account. She indicated that the 13 Capson claims received have now been resolved and closed, and it seems that the receivership is working toward closing. Ms. Cohen indicated that she is not aware of additional exposure to this account at this time.

c. **Workers' Compensation Account.**

Ms. Cohen stated that the biggest change in claims activity in this account was the change in the "TPA" (Third Party Administrator) for Workers' Compensation ("WC") claims effective January 1, 2022. There were some initial problems with the migration, including issues with monthly reporting to receiverships, but those problems are being worked through. Ms. Cohen expects that the change to the new TPA will result in future cost savings in administration fees. She further stated that WC claims tend to be long in duration, however a number of claims have closed as a result of the natural aging and death of the injured worker as the APCIGF claims have aged. Ms. Cohen expects this trend to continue as claimants age. Currently, no new claims are anticipated or have been received by APCIGF.

The Chair opened the floor to questions. Director Malpiedi inquired as to the existence of APCIGF WC claims related to COVID-19. Ms. Cohen reported that there are none at this time. The Chair inquired about a possible claims audit in the future. Ms. Cohen reported that the APCIGF financial audit process does include an audit of claim documentation as part of their testing. She indicated that APCIGF doesn't currently have a contract with a claim auditor, and suggested that a cost/benefit analysis be done before one is procured and an audit is performed. Executive Director Nestor suggested that the new TPA be allowed a year to be established with APCIGF before engaging an auditor. If the Board is comfortable

with doing so, an auditor would then be engaged to conduct an audit of all APCIGF claims activity. The Chair suggested the involvement of the Claims Committee in that process.

8. REPORT OF EXECUTIVE DIRECTOR

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

a. Proposed amendments to the current APCIGF Plan of Operation.

Executive Director Nestor reported that several proposed updates to the *APCIGF Plan of Operation* (“the Plan”) were presented and discussed at the last board meeting. At that time it was agreed that the Arizona Attorney General (“AG”) should review the proposed changes to *the Plan*. Once approved by the AG, a red-lined version of that and the *APCIGF Travel Policy and Guidelines* (“Travel Policy”) would be provided to the Board for review. Such approval was obtained, and both *the Plan* and the proposed *Travel Policy* were provided to board members on August 18, 2022 for that purpose.

Ms. Nestor indicated that key updates regard 1) minor changes to allow APCIGF to operate in a virtual environment, 2) the number of votes required for the Board to take certain actions, 3) who can sign Guaranty Fund checks and limitations in dollar amounts, 4) the APCIGF “bar date”, and 5) the adoption of a policy in keeping with the State of Arizona’s *Conflict of Interest* policy.

Executive Director Nestor indicated that the AG was not able to find statutory support for the number of votes required in the current version of *the Plan* for certain actions, or for the recommended revision to a super majority vote. Instead, she found that statute allows for a quorum to determine the actions of a board. Therefore, it is recommended that *the Plan* be modified to reflect that the vote of a quorum be the actions of the Board, rather than the previously proposed super majority vote.

Ms. Nestor opened the floor for questions and discussion. Ms. Lynette Evans, Assistant Arizona Attorney General, commented that the Board should pursue a change to the law if it would like to require a super majority vote, as such a revision wouldn’t be consistent with statute. The Chair then indicated recalling that Director Young, who was absent from the meeting, had some opinions about this topic that he might like to discuss. She recommended that a decision regarding this item be deferred for discussion at the next meeting so that he might participate. Executive Director Nestor suggested that a special meeting of the Board for that purpose would be an option as well.

Executive Director Nestor then addressed a proposed revision to *the Plan* regarding who could sign APCIGF checks and in what amounts. It was previously proposed to add the Deputy Receiver as a signer on APCIGF checks to ensure sufficient availability for check signature, as the Deputy Receiver has a great deal of familiarity with the operations of APCIGF. The AG indicated concern that doing so had the potential to give the appearance of conflict, as the Deputy Receiver is in charge of distributions and proofs of claim for domestic receiverships in which APCIGF might have a proof of claim. That revision was therefore withdrawn, and the updated language maintained the current language in *the Plan*, leaving the DIFI Director and Deputy Director, APCIGF Executive Director and Board Members to act as signers. Ms. Nestor further advised that the current proposed revision also increases the dollar amount of checks that APCIGF Claims Manager is allowed to cosign from \$50,000 to \$150,000.

Ms. Nestor opened the floor for questions. The Chair inquired as to whether there have been past issues with finding available signers when needed. Ms. Nestor replied that hadn't been a recent issue, but recommended that at least two board members, potentially the Treasurer and the Chair, be granted signature authority to avoid that situation.

Executive Director Nestor stated that a further proposed change to *the Plan* regards the "bar date," which is a time limit in which claimants or creditors must file a claim with APCIGF in order for the claim to be valid. The proposed change, which quotes the current statute, allows for an 18-month period of time or the time limit established by the receiver, whichever is sooner.

Ms. Nestor indicated that a final recommended change, made at the request of the State of Arizona as part of a "Sunset Audit," suggests that both Arizona Guaranty Funds adopt a policy that they will conduct business in keeping with the State of Arizona's *Conflict of Interest* policy. The Life and Disability Fund has already adopted the wording of the proposed change in its *Plan*. The proposed change just officially states that the APCIGF will operate so. The Chair stated that the APCIGF Board has already been operating according to this policy. The Executive Director confirmed that it had, and that announcements regarding adherence with the policy have been made at the beginning of every meeting.

Vice Chair Malpiedi inquired as to whether there is a requirement in *the Plan* for wet signatures on checks as opposed to applying electronic signatures, to which Ms. Nestor stated there is none. The use of wet signatures has been standard operation, however, implementing future use of electronic signing of Fund checks could possibly be investigated.

It was decided that approval of the proposed *Plan* will be deferred to the next meeting of the Board when Director Young can participate.

b. Review and proposed addition to the APCIGF Travel Policy and Guidelines.

Executive Director Nestor advised that the only proposed change to the *Travel Policy* was the addition of a signature block for the purpose of indicating approval and the date of approval by the DIFI director. The Chair opened the floor for any discussion; there was none. The Chair then made a motion to approve the proposed *Travel Policy* that was seconded by Director Doss, and the motion was carried.

c. Status of change in claim handling contractor for Workers' Compensation claims.

The Chair commented that this item was previously addressed by Ms. Cohen in her report on claims activity.

d. Scheduling of claim handling audit.

The Chair commented that this item was previously addressed by Ms. Cohen in her report on claims activity.

9. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

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

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

It was decided that the next meetings of the Board of Directors will be held in 2023 on **Tuesday, March 14** with the annual meeting on **Tuesday, September 12**.

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 10:20 a.m.

MINUTES OF THE ANNUAL MEETING OF THE
APCIGF BOARD OF DIRECTORS
September 13, 2022

Dated this 13th day of September, 2022 and respectfully submitted,

APPROVED:

SARA M. BEGLEY, ESQ., CPCU

NOEL COLE YOUNG, ESQ.

CHAIR OF THE BOARD

SECRETARY