



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 10, 2024

Pursuant to a Public Notice dated August 22, 2024, the Annual Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on September 10, 2024, at 9:34 a.m. in a hybrid virtual and live conference format using Google Meet. Noel Cole Young, 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:

Noel Cole Young, Esq.	Chair
William P. Melchionni III	Vice Chair
Angela Doss, JD	Treasurer
Kathleen F. Oster	Secretary
John Draftz	Director
Kevin M. Kinross	Director

Also present at the meeting were:

Zach Howard	Assistant Arizona Attorney General
Rob Absey	Head of Insurance Solutions, Allspring Global Investments
Dean Meddaugh, CFA	Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Jeff Weaver, CFA	Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Jennifer R. Tewhill, CPA	Certified Public Accountant, John C. Todd II, P.C.
David Lee	Chief Financial Examiner, DIFI Financial Affairs Division
Liane Kido	Deputy Receiver, DIFI
Lori D. Nestor	APCIGF Executive Director
Stephanie Martinez	APCIGF Claims Manager

Maria Souza	APCIGF Controller
Sharyn Kerr	APCIGF Administrative Support Specialist
Nelson Husser, CPCU, CLU, FFSI	Underwriting Team Manager, State Farm
Michele Balady	Vice President, Government Relations, Travelers
Victoria Stewart	State Legislative Affairs Director, Farmers Insurance

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

1. ANNOUNCEMENT CONCERNING ALDIGF’S ANTI-TRUST POLICY AND CONFLICT OF INTEREST COMPLIANCE

The Chair announced that the meeting would be conducted in accordance with the Fund’s Anti-Trust Policy and in compliance with Arizona law concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

2. INTRODUCTION OF NEW GUARANTY FUND STAFF AND BOARD MEMBERS

The Chair recognized Executive Director Lori Nestor for the introduction of one new APCIGF Staff member. Ms. Nestor introduced and welcomed the new Guaranty Funds Claims Manager, Ms. Stephanie Martinez. Stephanie joined the Guaranty Funds team on May 28, 2024. Ms. Nestor then introduced new Board member, John Draftz, who replaces former Board member Paul Matson. Director Draftz is the Director of Risk, Insurance and Claims for Arizona Public Service (APS) and comes to the Board with nearly 15 years of prior experience with the Arizona Guaranty Funds.

Ms. Nestor also introduced three pending Board members present at the meeting: Mr. Nelson Husser with State Farm Insurance, Ms. Victoria Stewart with Farmers Insurance, and Ms. Michele Balady with Travelers. They and a fourth pending member have completed their applications, and the Arizona Office of Boards and Commissions is processing their appointments.

3. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Treasurer, Angela Doss, and seconded by Secretary, Kathleen Oster, the minutes of the Meeting of the Board of Directors held March 12, 2024 were unanimously approved as previously circulated.

4. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair opened the floor for discussion and introduced the current standing officers to make up the Executive Committee.

ChairNoel Cole Young, Esq.
Vice ChairWilliam P. Melchionni III
TreasurerAngela Doss, JD
SecretaryKathleen F. Oster

There was no discussion of the proposed Executive Committee. A motion was made by Director Draftz to recommend that standing officers be reappointed for another year. The motion was seconded by Treasurer Doss and passed unanimously.

Without objection and by unanimous consent, the Chair appointed members of the following standing committees of the APCIGF Board of Directors.

Claims Committee:	John Draftz
.....	Angela Doss
.....	Kathleen Oster
Investment Committee:	Athan Shinas
.....	William Melchionni
.....	Noel Cole Young
Internal Audit Committee: ...	Kevin Kinross
.....	Athan Shinas
.....	Angela Doss

5. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. Report concerning the results of the independent financial audit for the year ended December 31, 2023;

The Chair recognized Executive Director Nestor who stated that an annual audit was conducted of the APCIGF 2023 financials by the CPA firm of John C. Todd II, P.C. Ms. Nestor then recognized Ms. Jennifer Tewhill of John C. Todd, who began an overview of the audit with the

Auditor's Report which indicated a clean report and no issues with financial reporting or the fairness of the financial statements. Ms. Tewhill then referenced the Management Discussion and Analysis section of the report in which the Fund provided a narrative of the financial statement that included any key past and upcoming developments and provided a condensed, comparative presentation of activity from 2022 – 2023. She indicated that the biggest development for the Fund was the new insolvencies that affected liabilities at the end of 2023. Ms. Tewhill then went on to review the financial statements, noting nothing unusually noteworthy or unexpected other than the addition of new claims. As for The Report on Internal Control of Financial Reporting, Ms. Tewhill described one finding. She indicated that it was a repeat instance of the prior year's finding involving an issue with documentation of the approval process. However, she explained that only one such incident occurred in 2023, so improvement had taken place and hopefully would continue with no further issues in the 2024 audit to report. Ms. Nestor stated that corrective action had taken place and Fund staff was working to ensure that this problem doesn't happen again. Ms. Tewhill then went on to state that the firm had issued a letter to those charged with governance noting that there were no disagreements with management encountered with regard to obtaining information to conduct the audit. No discussion or questions followed.

b. Review of the Performance of the APCIGF Investment Portfolios through July 31, 2024.

The Chair introduced Mr. Rob Absey of Allspring Global Investments, for a report regarding the performance of the APCIGF investment portfolios through July 31, 2024. Mr. Absey introduced Mr. Dean Meddaugh, present in person, and Mr. Jeff Weaver, present online. Mr. Absey provided an overview of the history of Allspring Global Investments and the services and products provided by the firm.

Mr. Absey then recognized Mr. Weaver who provided an overview of the Executive Summary noting that interest rates were coming down, with short term rates significantly decreasing in reaction to the Fed feeling comfortable in achieving their 2% target for inflation and a cooling in the employment rate. He indicated that the Fed was expected to cut the rate by 25 basis points at their September 18 meeting with likely additional cuts in November and December. He then provided a summary of "The Big Six" economic factors, indicating better than expected growth in the economy, cooling but not alarming employment, and inflation that was trending down. Large fiscal deficits were expected to persist independent of which political party is in office. International central banks were beginning to decrease rates except Japan where rates continue to rise.

Mr. Weaver then recognized Mr. Meddaugh who provided a summary of asset class returns, noting that longer duration investments had recently outperformed the 1-3 year treasury and 3-6 month T-bill investments pertinent to these portfolios. Shorter duration yields had been better year to date, but he indicated a pivot in the market in anticipation of lower yield, so longer duration was currently outperforming. When comparing yield ranges by asset class, however, Mr. Weaver indicated that lower yields still appeared attractive despite being at the lower end of the ranges. Allspring anticipated that they would continue to perform well despite rates continuing to come down.

Mr. Weaver then provided an overview of portfolio performance. He indicated that the Property & Casualty portfolio had a duration of about 1 year with a year-to-date yield of approximately 4.36%. Allspring continued to position this portfolio to handle liquidity needs when they occur while extending duration where they could to take advantage of the anticipated better yields associated with longer duration. Mr. Weaver indicated that they feel confident that yields will remain around 4-4.5% for the next year. However, as rates decline, the portfolio's reinvestments would be at a bit lower yield. Mr. Weaver reported that the Workers' Compensation portfolio had a two-year maximum maturity, with current duration of around 1 year and a one year book yield of 3.76%. He acknowledged current liquidity needs, with some forthcoming in October, totaling approximately \$3 million. However, he advised that reinvestments had already been extended to 1.5 years to attempt to benefit the portfolio with better income from longer duration over the next couple years.

c. Review of the financial condition of APCIGF through July 31, 2024.

The Chair recognized Executive Director Nestor, who stated that the financial statements through July 31, 2024 were provided to the board members prior to the meeting and included a Balance Sheet, a Profit and Loss Year-to-Date Comparison, a Profit and Loss Year-to-Year Comparison, and a Schedule of Balances in the Accounts on a Cash Basis. She explained that the first three reports were created on an accrual basis (the basis of accounting for the APCIGF) and the Schedule of Cash Balances was created on a cash basis which provided a more accurate view of balances in each of the accounts. Ms. Nestor then pointed out that investment returns made up the biggest portion of income for the Fund so far in 2024. Receivership distributions were slightly less than in 2023, something that was outside of the control of APCIGF and varied depending on where the receiver for the insolvent company was as far as distributions to claimants in the estate. It is never known when distributions will be received by the Fund. She also mentioned that claims expenses were significantly lower this year, as the insolvency of

Mutual Aid Exchange (“MAX”) in August 2023 presented about \$1.5 million in unearned premium claims to the Fund.

Ms. Nestor then presented the Schedule of Cash Balances by Fund which illustrated how much cash was in each of the APCIGF accounts: Auto, Other, Administrative, and Worker’s Comp. The balances in the accounts as of July 31, 2024 were:

Auto Account	\$18,437,020.19
All Other Account	\$10,485,952.35
Administrative Account	\$3,810,921.35
Workers’ Compensation Account	\$180,171,310.70

Ms. Nestor explained that the Workers’ Compensation surplus may appear to be out of skew with the other accounts. However, the reason it was so much larger was because the Guaranty Fund hasn’t always handled Workers’ Compensation claims of insolvent carriers in Arizona, and the law changed in 2015. At that time, all claims that were previously handled by the Industrial Commission of Arizona were transferred to the Fund along with the money to pay them.

6. CLAIMS ACTIVITY THROUGH JULY 31, 2024 AND ANY RELATED MATTERS

The Chair recognized APCIGF Claims Manager, Stephanie Martinez, who reported regarding claim related matters.

a. Auto Account.

Ms. Martinez stated that activity in this account had been minimal with currently four open claims, one involving collection via the Attorney General’s Office and the others in ongoing litigation and near resolution. She indicated that there were no unexpected exposures for this account.

b. Other Account.

Ms. Martinez reported that this account included the MAX insolvency and currently had 15 open claims. Of the 4700 MAX unearned premium refunds, 458 checks remained uncashed by policyholders. She stated that Fund staff was working to contact these policyholders and get the checks cashed to avoid the money being sent to Arizona unclaimed property.

c. Workers’ Compensation Account.

A new insolvency occurred in November 2023. Arrowood Indemnity Company became insolvent at that time and presented 21 claims to the Fund. Ms. Martinez indicated that, as of July 31, 2024, current reserves from that insolvency were \$2,053,525.98. She indicated no concerns for funding for this insolvency. Ms. Martinez further explained that the Arrowood receiver paid claims through April 1, 2024, and that Fund staff was working with the receiver to refund those prepayments up to April 1. Overall, she indicated that there were 479 open claims in this account with reserves of \$71,956,080.

d. Any claims appeals

There were no claims appeals to report.

7. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair recognized Executive Director Nestor who introduced Mr. David Lee, Chief Financial Examiner for the Financial Affairs Division (“FAD”) of the Department of Insurance and Financial Institutions (“DIFI”). Mr. Kurt Regner, who usually provides this report, was not able to attend. Mr. Lee stated that the APCIGF historically has supported the annual attendance of FAD staff at an educational, career development seminar held by the Society of Financial Examiners (“SOFE”). This year the seminar took place in Oklahoma City the last week of July, and three FAD members attended. Mr. Lee stated for those who may not be familiar with this professional program or this organization, that it is generally recognized as the premier, annual, educational event that focuses specifically on insurance, financial regulation, and solvency prevention and detection. The training this year exposed attendees to the latest developments, current issues and new solutions in solvency regulation of insurance companies. Topics included group supervision and solvency modernization initiatives that are taking place at the NAIC and constantly emerging cybersecurity risks, all presented through the lens of how these things potentially impact solvency. FAD staff extended thanks to the Board for its continued support of this very beneficial training. Mr. Lee was an attendee at the training and he inquired whether there were any questions, to which there were none.

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

Executive Director Nestor stated that it wasn’t necessary to move into Executive Session as the Financial Affairs Division (“FAD”) of DIFI had conveyed that they knew of no companies of such concern that they felt a potential impact to the Guaranty Fund. Mr. Lee, of DIFI’s FAD confirmed that to be true.

9. REPORT OF EXECUTIVE DIRECTOR

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

a. The status of the Financial Services contract and change in banking.

Ms. Nestor reported that the financial services contract that was in place for both the Arizona Guaranty Funds expired in 2023 and a Request for Procurement (“RFP”) process was begun. Contracts were awarded on July 2, 2024 to Allspring Global Investments as the Funds’ investment manager, and to Principal Financial Group, as custodian. State Procurement was unable to negotiate a successful contract with the Funds’ current banking partner, Wells Fargo, in part due to changes in cybersecurity requirements that had influenced the RFP process. State Procurement suggested that the Funds utilize the State of Arizona’s contract with JPMorgan Chase (“Chase”) instead. Chase offered to extend services to the Funds via the State’s pricing. Ms. Nestor stated that she had made it clear that the Funds’ accounts are to be and must remain totally separate from the State’s Treasury Department. Efforts were currently underway to move the Funds’ bank accounts from Wells Fargo to Chase with a continued reminder that the accounts are to be in no way combined with the State’s accounts.

b. Necessity of any amendments to the Plan of Operation in keeping with Article 3.E (1) of the current Plan of Operation.

Ms. Nestor advised that the APCIGF Plan of Operation (“the Plan”) requires that at the annual meeting, the Board revisit whether there are any necessary amendments to the Plan. Ms. Nestor stated that after a discussion with the Chair, no such amendments were recommended at this time. There was no further discussion.

c. Ratify APCIGF funding for the attendance of financial examiners at the SOFE Career Development Seminar held on July 28 – August 1, 2024.

Ms. Nestor requested that the Board consider ratifying her decision to support the continuing education of the FAD examiners. She indicated that she had previously approved both of the Guaranty Funds supporting FAD’s attendance at the career development seminar as had been done in the past. She explained that the cost was split between APCIGF and the Arizona Life & Disability Insurance Guaranty Fund. Ms. Nestor stated that she believed it to be worthwhile to APCIGF to support FAD’s ability to detect and prevent insolvency. She asked that the board ratify her decision to do so if there were no questions. A motion was made by the Chair with second by Vice Chair Melchionni, and the motion carried.

d. Discussion of possible claims software update.

Ms. Nestor reported that this topic was discussed a couple of years ago. She stated that the Fund's current in-house claim system was now 24 years old and built on an old platform that does not support Web access. It does currently meet basic needs, is Guaranty Fund specific, and due to the relatively low claim volume, Fund staff was able to make it work. However, Ms. Nestor stated that she was concerned about the longevity of the company and thought it wise to make a change in claims systems. She stated, however, that she did not recommend that the Fund use a system that isn't already UDS compliant. Ms. Nestor explained that UDS is the communication system that guaranty funds use to communicate with receivers, and APCIGF has had bad experience with third-party administrators who don't have UDS compliant systems trying to build that capability. She indicated that she may not have the opportunity to oversee the switch due to her plans to retire in November of 2024, but she wanted to ensure that this Board, DIFI, and her successor were all aware of the imperative need for UDS and that there were a couple of options out there. Ms. Nestor explained that another system that was designed specifically for guaranty funds exists, and that there were other guaranty funds using that system. She also mentioned that the National Conference of Insurance Guarantee Funds (NCIGF) was working on a solution that would be created for, owned by, and maintained by member guaranty funds. When asked for a recommendation, Ms. Nestor explained that there were pros and cons to both. She indicated that the existing system appeared user-friendly, is intuitive, and was part of a purchasing group of 10 or 12 other guaranty funds who regularly share knowledge and resources. If the NCIGF built a system supported by and for guaranty funds that would be a great solution, but their timeline was unknown. The Chair inquired if a possibility of having to switch systems more than once would be probable to which Ms. Nestor replied that shouldn't happen if the Fund switched to the NCIGF system, but Ms. Nestor stated that she didn't believe switching more than once should be a problem if necessary. However, Secretary Oster cautioned that cost needs to be considered as data migration can be costly. The Board members present stated that switching now with a low claims inventory would be advisable. Ms. Nestor indicated a possible estimated cost of \$200,000 – 250,000, and indicated that a consultant would be required. Chair Young stated that he would be in favor of switching to a newer system, that the Fund doesn't need the Board's approval to implement the change, and that he favored moving forward before Ms. Nestor retires.

e. Upcoming NCIGF meeting.

Ms. Nestor reported that the NCIGF Fall Workshop would be held November 13 – 14 in Savannah, Georgia. Scheduled topics would cover present and historical information pertinent to

guaranty funds, special investigations, AI, and crisis communication. APCIGF Board members were welcome to attend.

10. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

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

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

It was decided that the next meetings of the Board of Directors would be held on Tuesday, March 11, 2025, 10:00 a.m., and Tuesday, September 9, 2025, 10:00 a.m.

12. 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 10:48 a.m.

Dated this 10th day of September, 2024 and respectfully submitted,

APPROVED:

NOEL COLE YOUNG, ESQ.

KATHLEEN F. OSTER

CHAIR OF THE BOARD

SECRETARY