



DOUGLAS A. DUCEY
Governor

100 N. 15th Avenue, Suite 261
Phoenix, Arizona 85007-2630
<https://insurance.az.gov>

EVAN G. DANIELS
Director

MINUTES OF THE MEETING
OF THE BOARD OF DIRECTORS OF THE
ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND
MARCH 9, 2021

Pursuant to a Public Notice dated March 2, 2021, a meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on March 9, 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 & 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 |
| Lynette Evans | Assistant Arizona Attorney General |
| Liane Kido | Deputy Receiver, Arizona Department of Insurance and Financial Institutions |
| Tom O'Malley | Managing Director for Insurance, Wells Fargo Asset Management |
| 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.

Chairperson Begley announced that the meeting would be conducted in accordance with the Anti-Trust Compliance Policy adopted September 26, 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. INTRODUCTION OF NEW BOARD MEMBERS

The Chair recognized Executive Director Lori Nestor for the introduction of two new Board Members. Director Nestor introduced and welcomed Angela A. Doss, Senior Director, State Government Relations with Nationwide Insurance, and Insurance Producer Kathleen F. Oster to the Board.

ITEM #3. 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 September 15, 2020 were unanimously approved as previously circulated.

ITEM #4. REPORT CONCERNING DISCUSSIONS REGARDING THE ALLOCATION OF RECEIVERSHIP RECOVERIES.

The Chair advised that the Board would move to Executive Session for the purpose of receiving legal advice regarding this topic.

ITEM #5. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL CONCERNING ISSUES IN CONNECTION WITH ITEMS REFERENCED IN THE NOTICE AND AGENDA.

Upon a motion made by the Chair and seconded by Director Paul Matson, the Board voted unanimously to move into Executive Session at 9:08 a.m. to confer with legal counsel and the Public was excused. Assistant Attorney General Lynette Evans was present and provided legal advice to the Board regarding the status of discussions between APCIGF and the Special Fund of the Industrial Commission of Arizona (ICA) regarding the allocation of receivership recoveries. The matter was discussed in Executive Session until 9:46 a.m., at which time the Executive Session was adjourned by the Chair and the Public was invited to reenter the meeting.

Following Executive Session, a motion was made by the Chair and seconded by Secretary Noel Cole Young to approve the Memorandum of Understanding (MOU) discussed in executive session based on legal advice received that the MOU is necessary for the GF to carry out its responsibilities under the Act, and to direct Executive Director Nestor to sign the MOU on behalf of the Board. The motion passed unanimously.

ITEM #6. REPORT CONCERNING DETECTION AND PREVENTION OF INSOLVENCIES.

Executive Director Nestor advised the Chair there was no new activity to report.

ITEM #7. 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 #8. FINANCIAL REPORT AND ANY RELATED MATTERS.

- A.** The Chair recognized Executive Director Nestor, who introduced Tom O'Malley, Managing Director for Insurance for Wells Fargo Asset Management, for a report regarding the performance of the APCIGF investment portfolios through January 31, 2021. Mr. O'Malley reported that the most recent performance of both portfolios reflects the impact that the COVID-19 pandemic has had on the market and on short term treasury rates. The Property and Casualty Portfolio remains invested in treasuries and agencies, with treasury comprising nearly 80%. Its balance was slightly over \$36 million as of January 31, 2021, with credit quality high at AAA across the board. The Workers' Compensation Portfolio held slightly over \$175M at January 31, 2021, 85% of which was invested in treasuries. It demonstrated a purchase yield of 1% and maturity about 1 year. Mr. O'Malley indicated very recent observation of longer interest rates indicative of an economic pickup, however short interest rates aren't expected to increase greatly. The Federal Reserve has indicated intent to keep short rates low to support recovery during 2021.

In response to questions, Mr. O'Malley advised that he hadn't seen much in the way of an immunization strategy where other guaranty funds are concerned due to challenges in forecasting liability. He also hadn't seen many other guaranty funds demonstrate longer duration benchmarks, but both generally are a function of what each individual organization's liabilities are and their ability to predict the same. Mr. O'Malley also confirmed that Wells Fargo Asset Management (WFAM) is being purchased by 2 private equity firms, with closing anticipated within the second half of 2021. The new partners have committed over \$100 million to technology improvements and expressed a goal of creating as little disruption as possible with clients. Mr. O'Malley advised that individual contact with a request for affirmation of the change in control will be forthcoming for APCIGF. Director Matson expressed plans for a meeting of the APCIGF Investment Committee to discuss the purchase and APCIGF investment matters in the near future.

- B.** 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 January 31, 2021. Copies of the financial statements are attached as exhibits.

- C.** The Chair then recognized Executive Director Nestor for an update regarding the conversion of the APCIGF basis of accounting from modified cash to full accrual. Executive Director Nestor advised that the consulting CPA firm retained to assist, Eide Bailly, is running a bit behind on the accrual-basis APCIGF 2020 financial statements they are creating. She anticipated that the statements should be ready to share with the APCIGF Audit Committee within the next couple of weeks.

Ms. Nestor also advised the Board that the annual audit of APCIGF commenced on March 1, 2021, and completed, accrual-based financial statements from Eide Bailly will be provided to the auditors as soon as possible for their review. She further confirmed that both APCIGF and the Arizona Life & Disability Insurance Guaranty Fund were converted from cash to accrual, and as a result, will share the cost of the consulting CPA fee.

ITEM #9. CLAIMS ACTIVITY AND RELATED MATTERS.

The Chair recognized APCIGF Claims Manager, Christine Cohen, and Executive Director Nestor, who reported regarding claim related matters. Ms. Nestor advised that APCIGF had been activated by the insolvency of Gateway, American Service Insurance, and ACCC Insurance most recently. She further advised that the Pennsylvania Department of Insurance has recently filed for the liquidation of Bedivere Insurance as well, however account balances appear sufficient for all exposures presented at this time and no assessments were recommended.

A. Ms. Cohen reported that Gateway Insurance had presented significant exposures to the Auto Account, with several claims exposing the APCIGF limit (less the appropriate \$100 deductible). Gateway wrote medical transport and taxi policies with high limits of 500K/\$1M prior to liquidation, but those limits are now reduced to the APCIGF limits. She advised that American Service Insurance Company (ASI) had only presented 5 claims to APCIGF since insolvency. Its sister company, ACIC, was not licensed in Arizona, and its insolvency resulted in no exposure to the Auto account as a result.

Ms. Cohen further reported that Texas based ACCC Insurance became insolvent on December 30, 2020. The company sold non-standard auto insurance, had significant presence in Arizona, and that insolvency came very quickly and with little notice. Policies continued to be sold into December and remained in effect through January 30, 2021, resulting in an influx of active, new claims with additional being reported. She advised that APCIGF had opted to handle the claims in-house with current staff in light of pandemic workplace restrictions, despite limited capacity. Of the 371 claims presented, 85 had already been closed by February 28, 2021.

B. Ms. Cohen advised the Board that the largest exposure to the All Other Account remained from medical malpractice claims referred to APCIGF from the Capson Physicians Insurance insolvency. She explained that one of the claims had recently been settled, with 5 remaining open and litigated. Ms. Cohen advised that two (2) of the remaining files could present potential exposure to APCIGF limits.

C. Ms. Cohen further reported an increase in claim closures in the Workers' Compensation account, as several claimants previously covered had passed away from unrelated causes. She also indicated that a recently initiated settlement project further reduced the open claim count and eliminated the associated file handling costs of 7 claims.

D. Executive Director Nestor then presented information regarding the Roll Forward Actuarial evaluation of workers' compensation claims reserves, indicating that the study was done to bring liability estimates forward to the end of 2019 to assist with assessing exposure for CY2019. The Roll Forward study stated that outstanding workers'

compensation liabilities with IBNR as of December 31, 2019 were approximately \$122M. The Chair asked at what frequency such studies might need to be done going forward. Ms. Nestor shared plans to reduce the frequency to every other year in an effort to help reduce costs, if such reduction can be done. However, advice will be sought from CPA consultants before doing so, as this type of study does provide support for liability accruals.

ITEM #10. REPORT OF EXECUTIVE DIRECTOR.

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

- A.** Ms. Nestor requested that the Board to ratify her decision to pay 2021 annual membership dues to the National Conference of Insurance Guaranty Funds (NCIGF) in the amount of \$96,673.00. Upon a motion made by the Chair and seconded by Secretary Young, the Board unanimously ratified the payment to NCIGF.
- B.** Ms. Nestor then reported that the influx of ACCC Insurance claims had brought in-house claim handling to capacity and highlighted the need for a Claims Adjusting Contractor to assist APCIGF with claim handling. She reported that although APCIGF had held such contracts in the past, those had lapsed for some time. Ms. Nestor advised that the State Procurement Office has been engaged to assist with issuing a Request for Proposal (RFP) for claims handling services accordingly, which should be ready for publishing in the near future. She confirmed that Board members would likely be asked to participate on the 3 member evaluation and selection team for that contract.

ITEM #11. 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, September 14, 2021 at 9:00 a.m.**

ITEM #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 10:38 a.m.

Dated this 12th day of March, 2021.

Respectfully submitted,

Secretary

Approved:

Chair of the Board