



## Financial Affairs Division

### Arizona Department of Insurance

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## INSTRUCTIONS FOR APPROVAL OF EXTRAORDINARY DIVIDENDS AND OTHER DISTRIBUTIONS

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A.R.S. § 20-481.19 and A.A.C. R20-6-1409

**Requests for approval of extraordinary dividends or any other extraordinary distribution to shareholders shall include the following:**

1. The amount of the proposed dividend;
2. The date established for payment of the dividend;
3. A statement as to whether the dividend is to be in cash or other property and, if in property, a description thereof, its cost, and its fair market value together with an explanation of the basis for valuation;
4. A copy of the calculations determining that the proposed dividend is extraordinary, including:
  - a. The amounts, dates and form of payment of all dividends or distributions, including regular dividends but excluding distributions of the insurer's own securities, paid within the period of 12 consecutive months ending on the date fixed for payment of the proposed dividend for which approval is sought and commencing on the day after the same day of the same month in the last preceding year;
  - b. Surplus as regards policyholders, total capital and surplus, as of the 31st day of December next preceding;
  - c. If the insurer is a life insurer, the net gain from operations, excluding net realized capital gains and including net realized capital losses, for the 12 month period ending the 31st day of December next preceding;
  - d. If the insurer is not a life insurer, the net income, net realized capital gains for the 12 month period ending the 31st day of December next preceding and the 2 preceding 12 month periods; and
  - e. If the insurer is not a life insurer, the dividends paid to stockholders excluding distributions of the insurer's own securities in the preceding 2 calendar years.
5. A balance sheet and statement of income for the period intervening from the last annual statement filed with the Director and the end of the month preceding the month in which the request for dividend approval is submitted; and
6. A brief statement as to the effect of the proposed dividend upon the insurer's surplus and the reasonableness of surplus in relation to the insurer's outstanding liabilities and the adequacy of surplus relative to the insurer's financial needs.

**Each registered insurer shall report to the Director all dividends and other distributions to shareholders within 5 business days following the declaration thereof and at least 10 business days before payment of the dividend or distribution, including the same information required by Item 4.a through Item 4.e above.**

**No insurer subject to registration under A.R.S. § 20-481.09 shall pay an extraordinary dividend or make any other extraordinary distribution to its shareholders until thirty days after the Director has received notice of the declaration thereof and has not within such period disapproved such payment, or the Director shall have approved such payment.**

### **Adequacy of Surplus**

The factors set forth in A.R.S. §§ 20-481.01(F) and 20-481.24 are not intended to be an exhaustive list. In determining the adequacy and reasonableness of an insurer's surplus no single factor is necessarily controlling. The Director instead will consider the net effect of all of these factors plus other factors bearing on the financial condition of the insurer. In comparing the surplus maintained by other insurers, the Director will consider the extent to which each of these factors varies from company to company and in determining the quality and liquidity of investments in subsidiaries, the Director will consider the individual subsidiary and may discount or disallow its valuation to the extent that the individual investments so warrant.