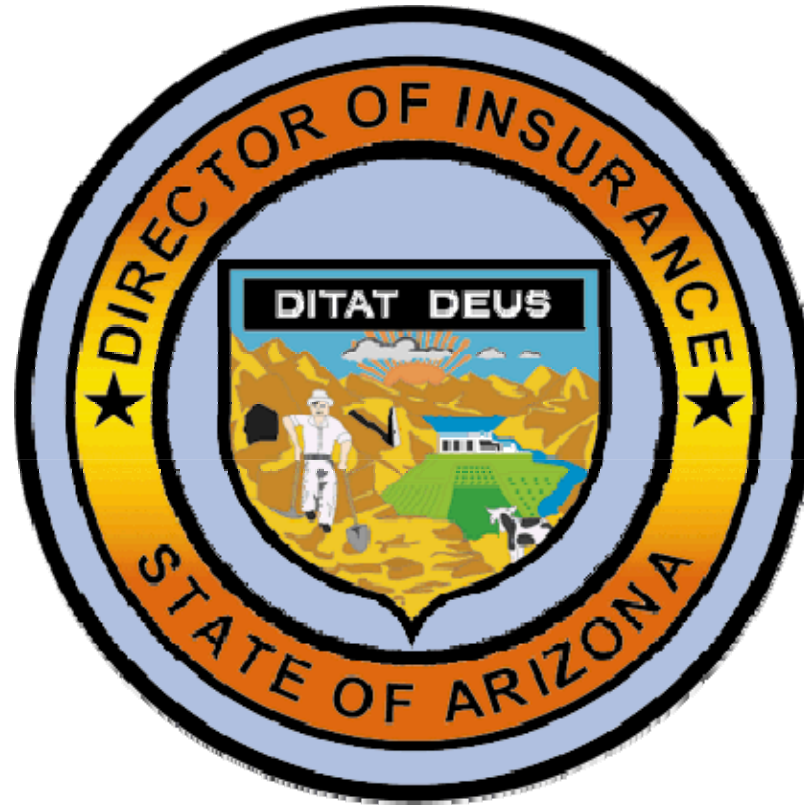


2011 Annual Filing Training Session



January 18, 2012
Stephanie Lefkowski, Chief Analyst
Captive Insurance Division

Agenda

- I. Insurance Holding Company Systems
 - A. Introduction to the Act
 - B. Holding Company Act Filings

- II. Recommended Corporate Governance Standards
 - A. General Corporate Governance Standards
 - B. Governance Standards For Risk Retention Groups as modified by the Department
 - 1. Developments
 - 2. Standards

- III. Interactive Forum

Introduction to the Act

- ARS § 20-1098.15 F
- ARS § 20-481 et seq.
- AAC Title 20, Chapter 6, Article 14
- Important Definitions
 - Holding Company Act
 - Insurance Holding Company System
 - Affiliate
 - Control and Controlling
- Confidentiality
 - ARS § 20-1098.23
 - ARS § 20-481.21
- Penalties
 - ARS § 20-481.26

Holding Company Act Filings

- Amendment to Form B
- Annual Registration Statement Filing - Form B
- Summary Registration - Form C
- Change to Form B or Form C
- Prior Notice and Approval of Material Transactions - Form D
- Statement Regarding the Acquisition of Control of, or Merger with, a Domestic Insurer - Form A

Important Links:

Outline for Compliance with Insurance Holding Company Systems

Reporting Requirements <http://www.azinsurance.gov/forms/E185.pdf>

Landing page for Miscellaneous Forms

http://www.azinsurance.gov/corp_misc.html

Annual Registration Statement – Amendment to Form B

The Amendment serves to disclose actual events of material changes that have occurred since the previous Annual Form B Filing.

- Due fifteen days after the end of each calendar year
- ARS § 20-481.13 A
- AAC R20-6-1403 B
- AAC Title 20, Chapter 6, Article 14 Appendices B and E

Important Links:

Instructions for the Completion of Form B – Annual Registration Statement <http://www.azinsurance.gov/forms/E185B.pdf>

Annual Registration Statement - Form B

- Due by March 31 of each year
- ARS § 20-481.09 through § 20-481.11
- AAC R20-6-1403
- AAC Title 20, Chapter 6, Article 14 Appendices B and E
- Requires disclosure of all agreements in force and material transactions currently outstanding or which have occurred during the last calendar year between the RRG and its affiliates
- Materiality threshold for Form B disclosure is ½ of 1% of total admitted assets as of the prior year end

Important Links:

Instructions for the Completion of Form B – Annual Registration Statement
<http://www.azinsurance.gov/forms/E185B.pdf>

Summary Registration - Form C

- Due by March 31 of each year
- ARS § 20-481.10 B
- AAC R20-6-1404
- AAC Title 20, Chapter 6, Article 14 Appendices C and E

Important Links:

Instructions for the Completion of Form C - Summary of Registration Statement

<http://www.azinsurance.gov/forms/E185C.pdf>

Annual Registration Statement – Change to Form B or Change to Form C

The Change filing serves to correct incomplete or incorrect disclosure statements or exhibits within a previously filed Form B or Form C.

Important Links:

Instruction for a Change to Form B Registration Statement
<http://www.azinsurance.gov/forms/E185CHB.pdf>

Instructions for a Change to Form C Summary of Registration Statement
<http://www.azinsurance.gov/forms/E185CHC.pdf>

Prior Notice of a Transaction - Standards

ARS § 20-481.12

- Due 30 days prior to entering into transaction
- Fair and reasonable terms
- Reasonable charges or fees
- Expenses incurred and payments received conform with insurance accounting practices
- Clearly and accurately disclosure of the nature and details supporting reasonableness of charges
- Adequate surplus following transaction

Prior Notice of a Transaction - Form D

- ARS § 20-481.12
- AAC R20-6-1407
- AAC Title 20, Chapter 6, Article 14 Appendices D and E

Important Links:

Instructions for the Completion of Form D - Prior Notice of a Transaction

<http://www.azinsurance.gov/forms/E185D.pdf>

Statement Regarding the Acquisition of Control of, or Merger with, a Domestic Insurer - Form A

- ARS § 20-481.02 through § 20-481.07
- AAC R20-6-1402
- AAC Title 20, Chapter 6, Article 14 Appendices A and E

Important Links:

Instructions for the Completion of Form A - Statement Regarding the Acquisition of Control of, or Merger with, a Domestic Insurer

http://www.azinsurance.gov/forms/E184_20101109.pdf

Holding Company Act – General Links

Bulletin

<http://www.id.state.az.us/bulletin/2010-03.pdf>

Reference Guide

<http://www.id.state.az.us/captives/captives-ref.html>

ARS Title 20

<http://www.azleg.state.az.us/ArizonaRevisedStatutes.asp?Title=20>

AAC Title 20, Chapter 6, Article 14

http://www.azsos.gov/public_services/Title_20/20-06.htm#ARTICLE_14

*Landing Page for Miscellaneous Forms

http://www.azinsurance.gov/corp_misc.html

Outline for Compliance with Insurance Holding Company Systems Reporting Requirements*

<http://www.azinsurance.gov/forms/E185.pdf>

Holding Company Act – Specific Links

Instructions for the Completion of the Form B Registration Statement*

<http://www.azinsurance.gov/forms/E185B.pdf>

Instructions for the Completion of Form C - Summary of Registration Statement* <http://www.azinsurance.gov/forms/E185C.pdf>

Instruction for a Change to Form B – Annual Registration Statement*

<http://www.azinsurance.gov/forms/E185CHB.pdf>

Instructions for a Change to Form C - Summary of Registration Statement*

<http://www.azinsurance.gov/forms/E185CHC.pdf>

Instructions for the Completion of Form D - Prior Notice of a Transaction*

<http://www.azinsurance.gov/forms/E185D.pdf>

Instruction for Approval of Extraordinary Dividends and Other Distributions*

<http://www.azinsurance.gov/forms/E185XD.pdf>

Instructions for the Completion of Form A - Statement Regarding the Acquisition of Control of, or Merger with, a Domestic Insurer*

http://www.azinsurance.gov/forms/E184_20101109.pdf

Insurance Holding Company Systems

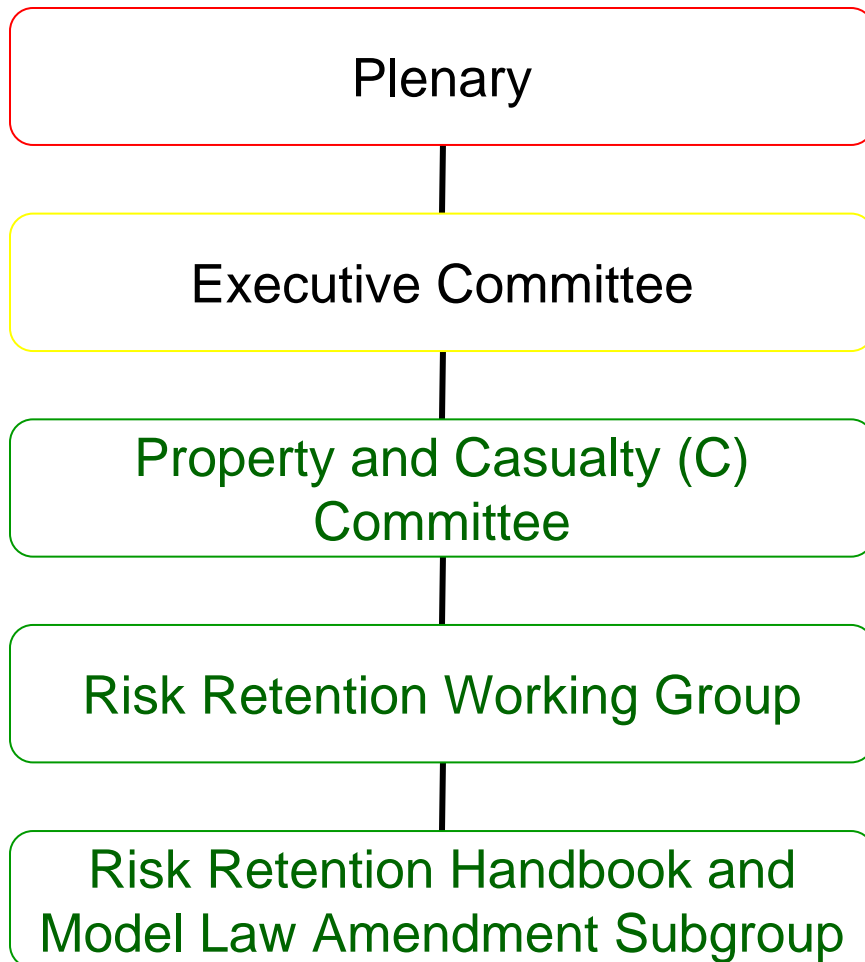


Introduction to the Holding Company Act
Holding Company Act Filings

General Corporate Governance Standards

- Directors and Officers
- Biographical Affidavits
- Qualifications
- D&O
- Conflict of Interest Statements
- Service Provider Contracts and Agreements

Governance Standards For Risk Retention Groups



Developments

- Currently being incorporated into NAIC Model Risk Retention Act
- Once model revised, standards may be considered for accreditation standards
- Possible expansion of LRRRA in Congress to include Governance Standards

Governance Standards For Risk Retention Groups

1. Independent Directors
2. Service Provider Contracts and Agreements*
3. Written Charter
4. Audit Committee
5. Governance Standards
6. Business Conduct and Ethics
7. Reporting Non-Compliance
8. Enforcement

*The Department has modified the provisions under Service Provider Contracts in the NAIC Governance Standards For Risk Retention Groups.

Governance Standards For RRGs – Written Charter

- A. assure that all owner/insureds receive evidence of ownership interest
- B. develop governance standards
- C. oversee evaluation of management
- D. review and approve the amount to be paid for all material service providers
- E. review and approve, at least annually
 - i. goals and objectives relevant to the fees for service providers
 - ii. the service providers' performance in light of those goals and objectives
 - iii. the continued engagement of material service providers

Governance Standards For RRGs – Audit Committee

Written Charter:

- A. Oversight of integrity of financial statements, legal/regulatory compliance, qualifications, independence and performance of the independent auditor and actuary, and service providers
- B. Discuss risk assessment and risk management policies
- C. Discuss annual and quarterly financial statements and audit with management and independent auditor
- D. Meet periodically with management and independent auditor
- E. Review audit problems or difficulties and management's response with independent auditor
- F. Be involved in selection of independent auditor and require audit rotation
- G. Report regularly to the board of directors

Governance Standards For RRGs – Governance Standards

- A. process by which directors are elected by owner/insureds
- B. director qualification standards
- C. director responsibilities
- D. director access to management and, as necessary and appropriate, independent advisors
- E. director compensation
- F. director orientation and continuing education
- G. management succession
- H. annual performance evaluation of board

**Governance Standards For RRGs –
Governance Standards –
Director Qualification Standards**

Governance Standards For RRGs – Governance Standards – Director Qualification Standards

- Adequate expertise, experience and character
- Independence
- Honesty, Integrity
- Conduct business in an ethical manner
- Diligence
- Time and energy commitment to fulfill responsibilities
- Relevant business and industry knowledge
- Relevant education, training, qualifications, and credentials
- Duty of Care
- Duty of Loyalty

**Governance Standards For RRGs –
Governance Standards –
Director Responsibilities**

Governance Standards For RRGs – Governance Standards – Director Responsibilities

- Act collectively, not individually
- Appoint Officers
- Exercise good, sound business judgment
- Act in the best interests of captive and its members
- Approve or disapprove corporate philosophy and mission
- Develop and adopt written policies related to governance, operations, etc.
- Formulate, review and approve or disapprove strategic business plan
- Establish and enforce code of conduct
- Disclose potential conflicts of interest
- Establish business objectives and budgets
- Identify, monitor and manage risks the captive faces
- Ensure ethical behavior and compliance with laws and regulations, auditing/accounting/reserving principles, and governing documents
- Maintain industry knowledge
- Safeguard assets
- Review and approve or disapprove material transactions
- Ensure accurate disclosure in financial statements
- Oversee operating results
- Follow up on audit control deficiencies or exam findings
- Establish appropriate committees
- Succession planning to ensure continuity of operations
- Self assessment

Governance Standards For RRGs – Business Conduct and Ethics

- A. conflicts of interest
- B. corporate opportunities
- C. confidentiality
- D. fair dealing
- E. protection and proper use of assets
- F. compliance with all applicable laws, rules and regulations
- G. require reporting of any illegal or unethical behavior which affects the operation of the captive

Corporate Governance – Important Links

*Landing Page for Reference Guide

<http://www.id.state.az.us/captives/captives-ref.html>

Reference Guide for Risk Retention Group Captives*

http://www.id.state.az.us/captives/Cap_112_RRG_Reference_Guide_2010_1129_final.pdf

Reference Guide Captives Other Than Risk Retention Groups*

http://www.id.state.az.us/captives/Cap_112-nonRRG-Reference_Guide_2011.pdf

Corporate Governance Standards



General Corporate Governance Standards
Governance Standards For Risk Retention Groups as
modified by the Department

Interactive Forum

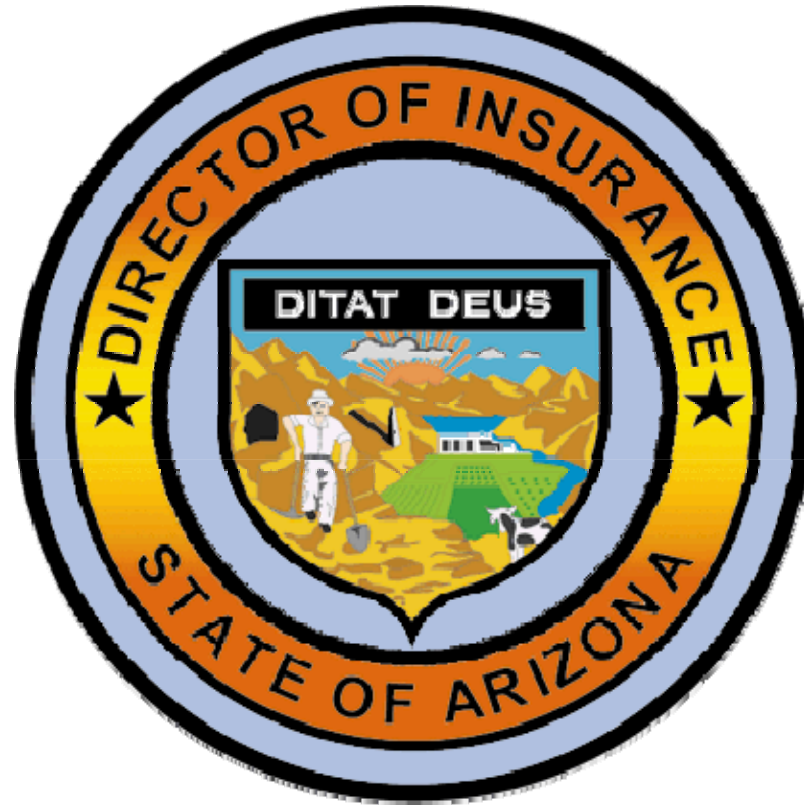
- Advance topics
- Other topics



Reminders for Complete Filings

- MD&A
- Actuarial Opinion, Exhibit A and Exhibit B
- Actuarial Opinion Summary
- Audited Financial Report Letter of Qualification

2011 Annual Filing Training Session



The End