

STATE OF CALIFORNIA  
DEPARTMENT OF INSURANCE  
45 FREMONT STREET  
SAN FRANCISCO, CA 94105

NOTICE

June 1, 2017

**TO: All California Domiciled Insurers**

**SUBJECT: CORPORATE GOVERNANCE ANNUAL DISCLOSURE (“CGAD”)**

This is to provide notice to all California domiciled insurers that the CGAD filing is due June 1<sup>st</sup> pursuant to the provision of the California Insurance Code Section (“CICS”) 936.3(a). The filing will be submitted in encrypted .PDF format to [Debbie.Sells@insurance.ca.gov](mailto:Debbie.Sells@insurance.ca.gov) with the signature page be sent through regular mail to:

*California Department of Insurance  
Financial Analysis Division, Financial Records Unit - CGAD  
300 South Spring Street, South Tower, 13th Floor  
Los Angeles, CA 90013*

**Filing Procedures**

- CICS 936.3(a) An insurer or the insurer group of which the insurer is a member, no later than June 1st of each year, submits to the commissioner a CGAD that contains the information described in CICS 936.5. Notwithstanding any request from the commissioner made pursuant to CICS 936.3(c), if an insurer is a member of an insurer group, the insurer submits the disclosure report to the commissioner of the lead state for the insurer group, in accordance with the laws of the lead state, as determined by the procedures in the most recent Financial Analysis Handbook adopted by the NAIC.
- CICS 936.3(b) The CGAD shall include a signature of the insurer or insurer group’s chief executive officer or corporate secretary attesting to the best of that individual’s belief and knowledge that the insurer has implemented the corporate governance practices and a copy of the disclosure has been provided to the insurer’s board of directors or the appropriate committee thereof.
- CICS 936.3(c) An insurer not required to submit a CGAD shall submit one upon the request of the commissioner.
- CICS 936.3(d) (1) For purposes of completing the CGAD, the insurer or insurer group has the discretion to provide information on governance activities that occur at the ultimate controlling parent level, an intermediate holding company level and/or the individual legal entity level, depending on how the insurer or insurer group has structured its system of corporate governance, (2) The insurer or insurer group is encouraged to make the CGAD disclosures at one of the following levels (A) at the level at which the insurer’s or insurer group’s risk appetite is determined, (B) at the level at which the earnings, capital, liquidity, operations, and reputation of the insurer are overseen collectively and at which supervision of those factors are coordinated and exercised, (C) at the level at which legal liability for failure of general corporate governance duties would be placed. (3)

If the insurer or insurer group determines the level of reporting, it shall indicate which of the three criteria was used to determine the level of reporting and explain any subsequent changes in the level of reporting.

CICS 936.3(f) Insurers providing information substantially similar to the information required by this article in other documents provided to the commissioner, including proxy statements in conjunction with Form B requirements or other state or federal filings provided to the department shall not be required to duplicate that information in the CGAD but shall only be required to cross reference the document in which the information is included.

CICS 936.5(a) The insurer or insurer group shall have discretion over the responses to the CGAD inquiries, provided the CGAD contains the material information necessary to permit the commissioner to gain an understanding of the insurer's or group's corporate governance structure, policies, and practices.

CICS 936.5(b) The insurer or insurer group shall prepare the CGAD consistent with the NAIC Corporate Governance Annual Disclosure Model Regulation. Documentation and supporting information shall be maintained and made available upon examination or upon request of the commissioner.

#### **Contents of the Corporate Governance Annual Disclosure**

- A. The insurer or insurer group shall be as descriptive as possible in completing the CGAD, with inclusion of attachments or examples of documents that are used in the governance process, since these may provide a means to demonstrate the strengths of their governance framework and practices.
- B. The CGAD shall describe the insurer's or insurer group's corporate governance framework and structure, including consideration of the following factors:
  - (1) The Board of Directors and various committees ultimately responsible for governing the insurer or insurer group and the level(s) at which that oversight occurs (e.g., ultimate controlling parent, intermediate holding company, legal entity, etc.). The insurer or insurer group shall describe and provide rationale for the current Board size and structure.
  - (2) The duties of the Board of Directors and each of its significant committees and how they are governed (e.g., bylaws, charters, informal mandates, etc.), as well as how the Board's leadership is structured, including a discussion of the roles of Chief Executive Officer and Chairman of the Board within the organization.
  - (3) How the corporate governance and structure facilitates each director and the board of directors acting: (1) in good faith; and (2) in a manner the director or board of directors reasonably believes to be in the best interests of the corporation.
- C. The insurer or insurer group shall describe the policies and practices of its Board of Directors and significant committees, including the following factors:
  - (1) The qualifications, expertise and experience of each board member including integrity, accountability, informed judgment, financial literacy, mature confidence, and high performance standards.

- (2) How the board as a whole possesses all of the following core competencies, with each candidate contributing knowledge, experience, and skills in at least one domain:
  - a. accounting or finance;
  - b. business judgment;
  - c. industry knowledge;
  - d. management;
  - e. leadership; or
  - f. vision and strategy.
- (3) A clear articulation of director responsibilities including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials;
- (4) How the board:
  - a. oversees the conduct of the corporation's business to evaluate whether the business is being properly managed;
  - b. reviews and, where appropriate, approves the corporation's financial objectives and major corporate plans and actions;
  - c. reviews and, where appropriate, approves major changes in, and determinations of other major questions of choice respecting, the appropriate auditing and accounting principles and practices to be used in the preparation of the corporation's financial statements and its risk management policies;
  - d. selects, regularly evaluates, fixes the compensation of, and, where appropriate, replaces the principal senior executives;
  - e. the effectiveness of the corporation's internal controls;
  - f. arrangements for providing adequate and timely information to directors; and
  - g. performs such other functions as are prescribed by law, or assigned to the board under a standard of the corporation.
- (5) Whether the insurer or insurer group has established, and reviews at least annually, corporate governance principles that address, at a minimum:
  - a. board leadership,
  - b. qualifications for directors,
  - c. director independence,
  - d. director responsibilities,
  - e. the structure and functioning of board committees and, where appropriate, charters for those committees,
  - f. board access to management and advisers,
  - g. director compensation,
  - h. director orientation and continuing education, and
  - i. management succession.
- (6) How an appropriate amount of independence is maintained on the Board of Directors and its significant committees.
- (7) The number of meetings held by the Board and its significant committees over the past year as well as information on director attendance.
- (8) How the insurer or insurer group identifies, nominates and elects members to the Board and its committees. The discussion may include but is not limited to:

- a. Whether a nomination committee is in place to identify and select individuals or consideration.
    - b. Whether term limits are placed on directors.
    - c. How the election and re-election processes function.
    - d. Whether a Board diversity policy is in place and how it functions.
  - (9) The processes in place for the Board to evaluate its performance and the performance of its committees, as well as any recent measures taken to improve performance (including any Board or committee training programs that have been put in place) including whether independent directors create and control the methods and criteria for evaluating individual directors.
  - (10) How these factors assist the board and management in meeting their responsibilities for governance and oversight, for the insurer's corporate governance transparency, competency and commitment, accountability and objectivity, independent board leadership, the insurer's ethics, integrity, and responsibility, attention to information and strategy, and policyholder and stakeholder communications.
- D. The insurer or insurer group shall describe the policies and practices directing Senior Management, including a description of the following factors:
- (1) Any processes or practices (i.e., suitability standards) to determine whether officers and key persons in control functions have the appropriate background, experience and integrity to fulfill their prospective roles, including a description of:
    - a. Any specific positions that it has developed suitability standards for and provide a description of the standards employed.
    - b. Any changes in an officer's or key person's suitability status as outlined by the insurer's standards.
  - (2) The insurer's or insurer group's code of business conduct and ethics that addresses, at a minimum:
    - a. conflicts of interest, corporate opportunities, and fair dealing;
    - b. confidentiality and protection and proper use of company assets;
    - c. compliance with laws, rules, and regulations; and
    - d. proactive reporting of any illegal or unethical behavior.
  - (3) The insurer's or insurer group's processes for performance evaluation, compensation and corrective action to ensure an effective level of senior management throughout the organization, including a description of the general objectives of each of the organization's significant compensation programs and what the programs are designed to reward. The description should be provided at a sufficient level of detail to allow the commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking. Elements to be discussed may include, but are not limited to, the following:
    - a. The Board's role in overseeing management compensation programs and practices.
    - b. The various elements of compensation awarded in the insurer's compensation programs and how the insurer determines/calculates the amount of each element of compensation paid;

- c. How compensation programs are related to both company and individual performance over time;
  - d. Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels;
  - e. Any clawback provisions built into the programs to recover awards or payments if the performance measures upon which they are based are restated or otherwise adjusted;
  - f. Any other factors relevant in understanding how the insurer monitors its compensation policies to determine whether its risk management objectives are being met with respect to incentivizing its employees.
- (4) The insurer's or insurer group's plans for developing CEO and senior management succession. This description should include:
- a. whether the board reviews the succession plans at least annually;
  - b. whether the board, or a committee, is charged with primary responsibility for the implementation and monitoring of the suitability and performance of the CEO and senior management;
  - c. the person or persons charged with organizing the board's evaluation of the CEO or other members of senior management; and
  - d. whether independent directors create and control the methods and criteria for evaluating the CEO, the board, and individual directors.
- E. The insurer or insurer group shall describe the processes by which the Board of Directors, its committees and senior management ensure an appropriate level of oversight to the critical risk areas impacting the insurer's business activities, including a description of:
- (1) How oversight and management responsibilities are delegated between the Board its committees and Senior Management;
  - (2) How the board is kept informed of the insurer's strategic plans, the associated risks, and steps that management is taking to monitor and manage those risks;
  - (3) How the board approves the insurer's risk profile;
  - (4) How the board is assured that the strategic plans conform to that risk profile;
  - (5) How reporting responsibilities are organized for each critical risk area. The names, positions, and reporting lines of all persons charged with formulating, implementing, and monitoring all risk reporting or risk control systems in critical risk areas. The description should be provided at a sufficient level of detail to allow the commissioner to understand the frequency at which information on each critical risk area is reported to and reviewed by senior management and the Board. This description may include, but is not limited to, the following critical risk areas of the insurer:
    - a. Risk management processes (ORSA Summary Report filers may reference this filing)
    - b. Actuarial function
    - c. Investment decision-making processes
    - d. Reinsurance decision-making processes
    - e. Business strategy/finance decision-making processes
    - f. Compliance function
    - g. Financial reporting/internal audit processes
    - h. Market conduct decision-making process.

F. Attestation

The undersigned as the Chief Executive Officer/Corporate Secretary of the reporting entity attests to his/her best belief and knowledge that the insurer has implemented the corporate governance practices and a copy of the disclosure has been provided to the insurer's board of directors or the appropriate committee thereof.

_____	_____	
Name	Chief Executive Officer/Corporate Secretary	
_____	_____	
Date Signed	Report As of Date	
_____	_____	_____
Company Name	NAIC No.	Group No.