



**MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS
 OF THE
 ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**

TUESDAY, MARCH 8, 2022

Pursuant to a Public Notice dated February 10, 2022, the Annual Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on March 8, 2022, at 9:00 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 at 9:03 a.m.

Present at the meeting were the following members of the Board of Directors:

Sara M. Begley, Esq., CPCU	Chair
Ronald E. Malpiedi	Vice Chair and Treasurer
Noel Cole Young, Esq.	Secretary
Paul Matson, CFA, FCSI	Member
William P. Melchionni III	Member
Kathleen F. Oster	Member
Angela A. Doss, JD	Member
Sonya Bassaly	Member

Also present at the meeting were:

Evan G. Daniels	Director, Arizona Department of Insurance and Financial Institutions (DIFI)
Monique Coady	Arizona Assistant Attorney General
Tom O’Malley	Senior Vice President, Portfolio Specialist, Allspring Global Investments
Lori D. Nestor.....	APCIGF Executive Director
Christine Cohen	APCIGF Claims Manager
Maria Souza	APCIGF Controller
Sharyn Kerr	APCIGF Administrative Support Specialist

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

1. ANNOUNCEMENT CONCERNING ANTI-TRUST COMPLIANCE

The Chair announced that the Meeting would be conducted in accordance with the Anti-Trust Compliance Policy adopted by the Board of Directors and in compliance with Arizona law (A.R.S. §§ 38-501 to 38-511) concerning the disclosure of conflicts of interest with regard to any matter before the Board for consideration.

2. INTRODUCTION OF NEW BOARD MEMBER

The Chair recognized Executive Director Lori Nestor for the introduction of one new APCIGF Board member. Director Nestor introduced and welcomed Director Sonya Bassaly, Senior Counsel with Geico's Office of Legislative Counsel. Ms. Bassaly was appointed to the Board by the Governor of Arizona in September 2021.

3. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Secretary Noel Cole Young and seconded by Vice Chair and Acting Treasurer William Melchionni, the minutes of the Meeting of the Board of Directors held September 14, 2021 were unanimously approved as previously circulated.

4. REPORT CONCERNING DETECTION AND PREVENTION OF INSOLVENCY ACTIVITY, AND ANY DISCUSSION OR ACTION RELATED THERETO.

The Chair recognized Executive Director Nestor who reported that there was no news or items of concern as relayed to her by Mr. Kurt Regner, Assistant Director of the DIFI Financial Affairs Division (FAD), who was not present.

5. 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.

6. FINANCIAL REPORTS AND ANY DISCUSSION AND ACTION RELATED THERETO AS FOLLOWS:

- a. Review of the performance of the APCIGF investment portfolios through January 31, 2022;

The Chair again recognized Executive Director Nestor, who introduced Mr. Tom O'Malley, Senior Vice President, Portfolio Specialist, Insurance Solutions, Allspring Global Investments,

for a report regarding the performance of the APCIGF investment portfolios through January 31, 2022. Mr. O'Malley reported that on November 1, 2021 Allspring Global Investments assumed portfolio management for APCIGF and separated from Wells Fargo Asset Management. The same team is still managing the portfolios and the change has gone smoothly. Mr. O'Malley further reported that the fixed income and equity markets that the APCIGF portfolios are in have experienced a highly volatile time, but the APCIGF portfolios are managed to maximize the earned return within given guidelines. In early 2022, interest rates began to pick up from extremely low levels, which impacted the performance of the portfolios. January 31, 2022 found the market value of the P&C general portfolio at a little more than \$34 million, with an extremely high credit rating but an interest yield of .62%. Mr. O'Malley indicated that low interest rates attributed to the [COVID-19] pandemic pulled down the book and market yields, but the yields are now trending up due to higher interest rates. He reported that the APCIGF Worker's Compensation portfolio was similarly affected, although it has a longer average maturity. The market value of that portfolio stood at slightly over \$182 million with the maturity at approximately a year and a quarter, extremely high credit quality and a yield of .82% as of the end of January 2022. Mr. O'Malley indicated that it is expected that there will be an increase in the Federal Funds rate in the near future which will add to the yield of the portfolio. The economy is expected to experience near-term deceleration after a strong acceleration and increase in employment in 2021. The Allspring team also expects that the current 7% inflation rate will decrease in the second half of 2022 to around 4%, and that the market will see a calming of expansionary fiscal policy.

b. Review of the financial condition of APCIGF through January 31, 2022;

The Chair recognized Executive Director Nestor, who reported regarding a draft version of the APCIGF January financial statement as APCIGF staff was still finalizing the financial statements for year-end 2021. She indicated that the draft version of the financial statement contained claim, pension and OPEB liability estimates from December 31, 2020 as the information needed to calculate those estimates for the December 31, 2021 had not yet been received. Ms. Nestor indicated that two insolvencies occurred in 2021, however they did not present large enough exposures to the APCIGF to generate a large change in liability estimates for December 31, 2021. She stated that final versions of January's financial statement would be sent to all attendees once year-end financial statements were complete. Ms. Nestor reported that a year-to-date comparison of revenues and expenses demonstrated modest claims activity for January 2022 because Workers' Compensation claims were prefunded in December 2021 as part of the transition to the Fund's new claims adjusting and processing partner Broadspire Services, Inc., A Crawford

Company (“Broadspire”). The report also provided a year-to-year comparison of the Board’s receipts and expenses. There were no questions or comments from the Board regarding this report.

c. Report concerning the status of accrual-based year-end financials..

Director Nestor indicated that the accrual-based year-end financial reports had not yet been completed, but APCIGF staff was making progress in adjusting to the accrual-based accounting. She explained, for the benefit of new members, that the Fund was asked by the State of Arizona to change from a modified cash basis of accounting to an accrual basis of accounting to more easily align with the State’s comprehensive financial reporting. She reported that the Fund hired a consultant to assist with the transition in 2021, but APCIGF staff didn’t receive the training anticipated from that consultant. Ms. Nestor indicated that some assistance was received from the State’s auditors and APCIGF was in the process of attempting to create year-end financial statements on the accrual basis itself for the first time. There were no questions or comments from the Board regarding this report.

7. REPORT REGARDING CLAIMS ACTIVITY THROUGH FEBRUARY 28, 2022, AND ANY DISCUSSION, CONSIDERATION, OR DECISIONS RELATED THERETO:

Executive Director Nestor then recognized Christine Cohen, Guaranty Funds Claim Manager, for a report regarding APCIGF claims activity.

a. Auto Account;

Ms. Cohen reported that the bulk of the auto claims activity was related to ACCC Insurance, which was liquidated in December 2020. APCIGF received information to start working claims in January 2021. The total number of 400 claims received has been reduced to 36 open claims without the use of outside TPAs, despite it being a very challenging insolvency for a variety of reasons. Ms. Cohen also reported that the insolvency of Western General Insurance resulted in APCIGF receiving 64 claims, 13 of which remain open. Both insolvencies also resulted in claims for unearned premium, the bulk of which have been settled.

b. Other Account;

Ms. Cohen indicated that medical malpractice carrier Capson Physicians Insurance Company, remains the most active insolvency with the largest exposure to the APCIGF Other Account. All but one claim has been settled and the Fund is waiting for final court approval to finalize that claim. Although the insolvency of Bedivere Insurance Company did present a few claims to APCIGF, activity and exposure from them appears to be minimal.

c. Workers' Compensation Account (through December 31, 2021).

Ms. Cohen presented a workers' compensation claim report through December 31, 2021 as a result of the transition in claim handling partners. She indicated that workers' compensation claims in Arizona provide benefits "for life," so they don't resolve until the death of a claimant. However, the number of claims covered by APCIGF has declined from 773 in January 2018 to 557 in December 2021 as a result of the deaths of claimants. She indicated that the Fund might anticipate that the number of such closures may increase as a result of the advancing age of the injured workers involved. Ms. Cohen further commented on the procurement of the new Third Party Administrator (TPA), Broadspire, and opined that the change to this company should save the Fund money over time. However, there was a delay in transferring data from former TPA Integriion to Broadspire that was out of the control of Fund staff. She indicated that the claims are now set up with Broadspire and have been paid timely. In response to a questions on the subject, Ms. Cohen further advised that full and final settlements continue to be pursued wherever possible.

8. REPORT FROM THE EXECUTIVE DIRECTOR, DISCUSSION AND POSSIBLE ACTION REGARDING THE FOLLOWING:

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

- a. Ms. Nestor requested that the Board ratify her decision to pay 2022 annual dues to the National Conference of Insurance Guaranty Funds in the amount of \$104,622, as membership is vital as a source of information sharing regarding insolvencies. A motion was made by the Chair to ratify the payment of the dues, which was seconded by Director Young and carried unanimously by the Board.
- b. Possible modification to APCIGF Plan of Operation;
Executive Director Nestor recommended and presented proposed modifications to the APCIGF Plan of Operation, particularly to a change in the number of votes required for the Board to take action, in response to ongoing challenges in filling all seats on the Board. She indicated that such challenges could impact the Fund's operation. Ms. Nestor then presented the following proposed amendments to the Plan of Operation:
 - i. Article 2.C. – changing how the Plan is made available. The current version of the Plan mandates that it be made available in the office of the Fund during normal business hours. In light of the current virtual office environment, Ms. Nestor recommended that it be made available for inspection upon request. Director Young requested that contact

information and instruction for how to request review be added in the Plan language as well.

- ii. Article 3.D. – a change in the number of votes required for the Board to take such action(s) as borrowing money, issuing a refund, changing the Plan or calling an assessment, from the currently required eight-member vote to either a quorum or a super majority consisting of a percentage of sitting members. Arizona Assistant Attorney General Monique Coady recommended that Ms. Nestor consult with Assistant Attorney General Lynette Evans to ensure the legality of this proposed change under Arizona Revised Statutes before effecting the same. Director Young suggested that the current verbiage requiring a vote of 8 members be changed to require a super majority of 75% of the current, sitting board members.
- iii. Article 3.G. – a change to allow electronic notification of meetings so that the Board can continue to operate in a virtual environment. Attorney General Coady indicated no statutory requirement prohibiting this change, as it is an internal matter and not affected by public open meeting law.
- iv. Article 4.4.a. – a possible change in the verbiage regarding check issuance and signature to a “plain language” style to provide clearer meaning to the reader. Ms. Nestor also proposed a change to allow the Guaranty Fund Claims Manager to cosign claim-related checks in amounts up to \$150,000, as opposed to the current allowance of \$50,000, to allow for increased costs. She further suggested the addition of the Deputy Receiver as a fourth authorized signer to be available in the absence of other signers. Director Young inquired whether there have been problems with having signers available. The Chair indicated that it has occurred a few times per year and was not always ideal. However, she asked that Executive Director Nestor confer with the Arizona Attorney General’s Office regarding the potential for any conflict before the Board considers adding the Deputy Receiver as a signer for APCIGF checks. Director Malpiedi also expressed potential concern about adding a party outside APCIGF as a signer.
- v. Article 4.4.e. – a change to the wire transfer procedures to allow for an electronic payment procedure as well. She explained that ACH payments cost less than wire transfers and are somewhat safer. Director Young suggested stating “wire or ACH” instead of “wire and ACH”.

- vi. Article 4.F.5. – a change regarding the APCIGF claim filing deadline to reflect current statutory language outlining that deadline. The Chair suggested review by the Arizona Attorney General before the Board adopts the proposed language.
- vii. Article 4.H. – a change to language requiring that the Travel Policy and Guidelines be approved by the Director of DIFI, or in the alternative, the signature of the Director of DIFI on the document. The Chair indicated that she would like further review of the Travel Policy and Guidelines by the Board. Secretary Young, Director Evan Daniels and the Chair suggested changes to current language, ultimately to read “Board Members may receive reimbursement for expenses incurred by them as members of the board only in accordance with the written Travel Policy and Guidelines adopted by the Board and approved by the Director, unless otherwise approved by the Director”.

Director Nestor indicated that she would modify the Plan to incorporate the Board’s requested changes, submit the Plan to the Arizona Attorney General for review, and present a “red lined” version of the Plan with a copy of the Travel Policy and Guidelines to the Board for review, discussion and possible action at the next meeting.

- c. Report concerning a possible future change in claims software;
Director Nestor reported that a search for new claims software that is Guaranty Funds specific is still underway. The Fund will continue to use its current system, LightSpeed, for now, but it is somewhat difficult to manage and update, and is reliant upon an out-of-date platform. Director Nestor also indicated that information regarding software usage has been gathered from other guaranty funds.
- d. Change in Workers’ Compensation claim handling contractor;
Executive Director Nestor indicated that the APCIGF changed its claim handling contractor from Integrion to Broadspire as of January 1, 2022. The Chair expressed appreciation and thanks to Secretary Young and Director Bassaly for participating in the RFP process to secure the new contract with Broadspire.
- e. Report concerning change in investment portfolio custodian;
Wells Fargo has divested itself of its institutional and retirement trust business, which resulted in the custodian for APCIGF investment portfolios changing to Principal Custody Solutions as of February 22, 2022. The change to the new custodian is complete and Ms. Nestor is happy with the easier access to Funds information. No discussion followed.

f. Report regarding APCIGF cyber security measures.

Ms. Nestor advised the Board that the APCIGF benefits from the State of Arizona's cybersecurity measures and DIFI's implementation of them. APCIGF staff participates in required annual cybersecurity training and are required to work remotely through secured VPN. Director Daniels stated that a metric is used to measure the cyber security of state agencies, and DIFI scored the highest of any agency in the state. No discussion followed.

9. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

The Chair determined that there was no need for an Executive Session for the purpose of conferring with legal counsel.

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

It was decided that the Annual Meeting of the Board of Directors will be held on **Tuesday, September 13, 2022 at 9:00 a.m.** in person with an option to attend virtually.

11. CALL TO THE PUBLIC

The Chair made a call to the Public to which there was no response.

The Chair also opened the floor to DIFI Director Evan Daniels , who stated that he will be serving as Vice Chair on the newly formed NAIC "H" Committee for Innovation, Cybersecurity and Technology. He also mentioned that Arizona DIFI joined an amicus brief to at the Pennsylvania Supreme Court regarding the rehabilitation plan of Senior Health Insurance of Pennsylvania (SHIP). Director Daniels stated his appreciation to the Board members for their service.

There being no further business to come before the Board, without objection the meeting was adjourned at 10:39 a.m.

Dated this 11th day of March, 2022 and respectfully submitted,

APPROVED:

NOEL COLE YOUNG, ESQ.

SARA M. BEGLEY, ESQ., CPCU

SECRETARY

CHAIR OF THE BOARD