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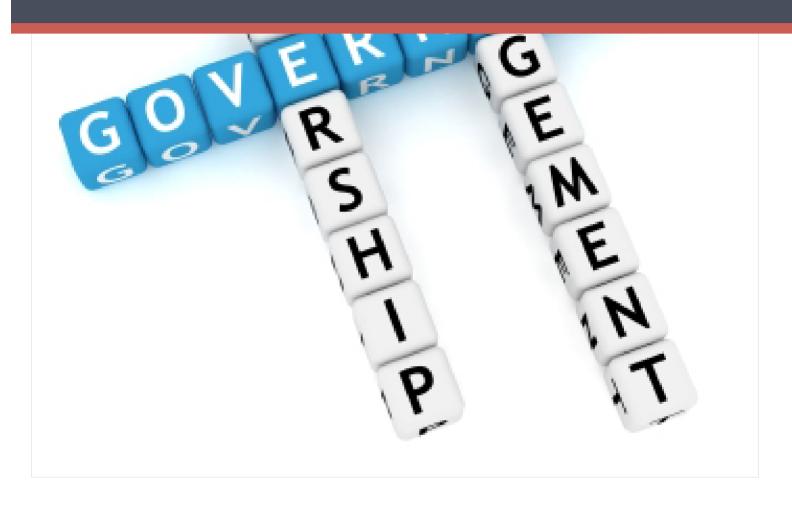
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Corporate governance is an increasingly key component of insurance regulatory reviews, with the National Association of Insurance Commissioners (NAIC) and state regulators targeting new reporting requirements at your corporate governance structure and practices. If you have not recently reviewed their appropriateness and effectiveness, the time to do so is now.

The NAIC undertook a multi-year self-examination of its regulatory framework for United States insurance companies, comparing existing governance requirements and best practices. The Corporate Governance Annual Disclosure Model Act (the "Act"), and supporting Model Regulation, were approved by the NAIC in November 2014 to become effective in January 2016. However, like all model acts, individual states must adopt the acts as part of their insurance regulations in order for them to be effective. Approximately 10 states have adopted the Act, although all states are

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The NAIC has routinely exempted small insurers (premiums < \$500 million) from other model acts or disclosure requirements. However, in this case, the NAIC made a definitive decision to include small insurers. The NAIC reiterated the need for small insurers to focus on improving their corporate governance structures, strengthening their risk management and updating the knowledge and qualifications of their Board members. Many smaller insurers typically have had very paternal or familial management or governance structures. While effective in a business sense, this type of structure is usually more informal than at large insurers and probably evolved over time as opposed to being part of a specific strategy.

The insurer has the discretion to choose a report format that is appropriate to their circumstances. They can customize the information to allow their state regulator to understand their governance approach. The NAIC does, however, require that the following items are addressed:

- The insurer's corporate governance framework and structure;
- The policies and practices of its board of directors and significant committees;
- The policies and practices directing senior management; and
- 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.

Some effective steps to take in order to make sure your company can comply with new reporting requirements:

• Educate senior management and Board members on the specifics of the new requirements and best practices of corporate governance.

o This could include NAIC White Papers, the Act itself or trade associations

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competencies:

o Is the mix of internal and independent Board members adequate?

o How functional is the balance between management and nonmanagement representation?

- Ensure that your governance structure is documented and accurately reflects your current practices and procedures.
 - o This should be a living document that is reviewed at least annually.

o The policies and practices should be up to date, relevant and effective in assisting the Board and senior management to oversee the critical business activities.

These NAIC disclosure requirements may be redundant for large insurers as they would have addressed most of these items in their ORSA (Own Risk and Solvency Assessment), Holding Company report or other SEC/regulatory filings. Small insurers, however, may find the assessment and documentation of their governance structure to be more time consuming and thought provoking. It may even prompt some structural or procedural changes.

Regulatory focus has changed for all companies, with regulators intent on understanding how companies are set up to operate going forward, as opposed to merely reviewing the financial results of the past. A well thought out governance framework that complements the insurer's operations, strategic plan and risk management will benefit both the regulator and the insurer. Insurers should monitor the adoption of the Corporate Governance Annual Disclosure Model Act by their domiciliary states and be prepared to comply. Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

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