

STATE LEGISLATIVE BRIEF



The NAIC Corporate Governance Annual Disclosure Model Act

- *The NAIC adopted the Corporate Governance Annual Disclosure Model Act and Regulation (#305/#306) in November, 2014 to collect more detailed information on insurers' corporate governance practices in response to growing regulatory needs and various international developments.*
- *The Model Act does not prescribe new corporate governance standards, but rather requires tailored, confidential reporting to ensure appropriate policies and procedures of insurers' Boards of Directors and internal oversight are in place and effective.*
- *The Model Act is expected to be required for NAIC accreditation as early as January 1, 2020.*

Background

In response to the 2008 financial crisis, growing regulatory needs and various international developments, the NAIC completed a comprehensive comparative analysis of existing corporate governance statutory requirements, regulatory initiatives and review practices of the state insurance departments, international supervisors, other U.S. functional regulators and the insurance industry. The analysis identified a need to collect additional information from insurers regarding their corporate governance practices. To address this need, the NAIC developed the *Corporate Governance Annual Disclosure Model Act* (#305) and the *Corporate Governance Annual Model Regulation* (#306).

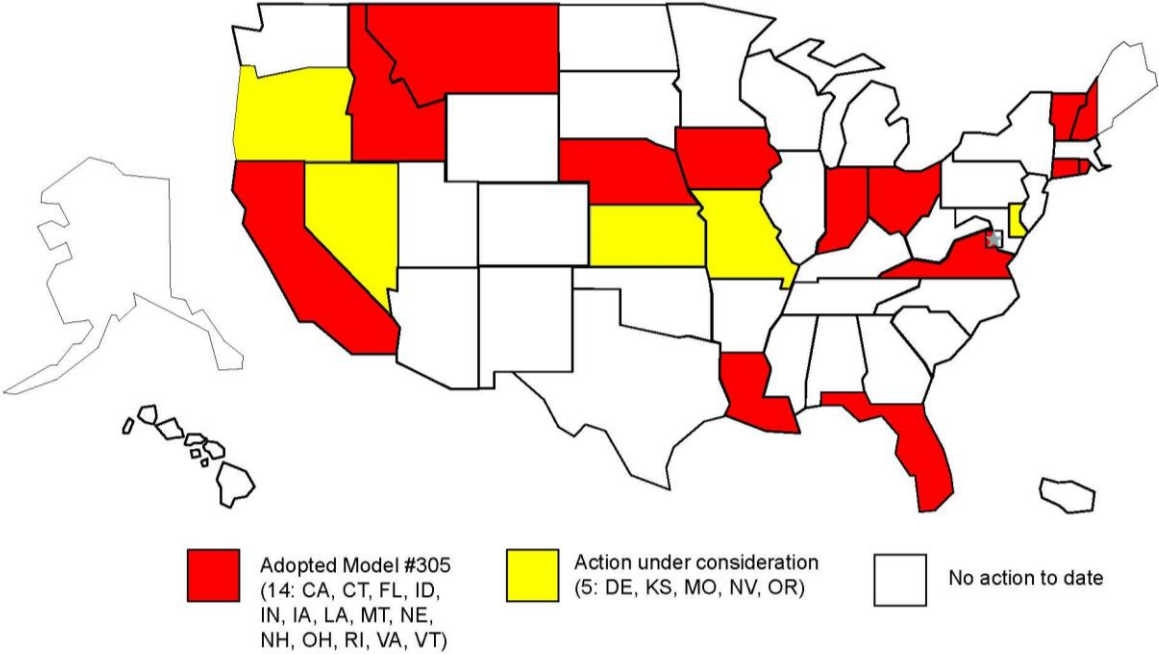
The Model Act and Regulation together require an insurer or group of insurers to provide a confidential corporate governance annual disclosure (CGAD) regarding its corporate governance practices to the lead state, and/or domestic regulator each year by June 1. The Model Act and Regulation do not prescribe new governance standards, but rather require the insurer to report on existing practices. Given the different structures of U.S. insurers, they are afforded discretion over the format of the filing and the level of the company responsible for the filing (for example, controlling parent or individual legal entity). However, the insurer should consider which level of the company actually determines the insurer or insurance group's risk appetite. At a minimum, the disclosure is required to address: 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.

To simplify the reporting process, the CGAD disclosure requirements outlined in the model allow reference to existing documents and filings, and provide guidance for filing changes from the prior year. Any insurer who fails, without cause, to timely file the CGAD as required may be subject to a penalty. Most insurers already summarize and describe their corporate governance practices to various stakeholders on a regular basis; as such, compliance costs for this model act will not be significant.

Key Points

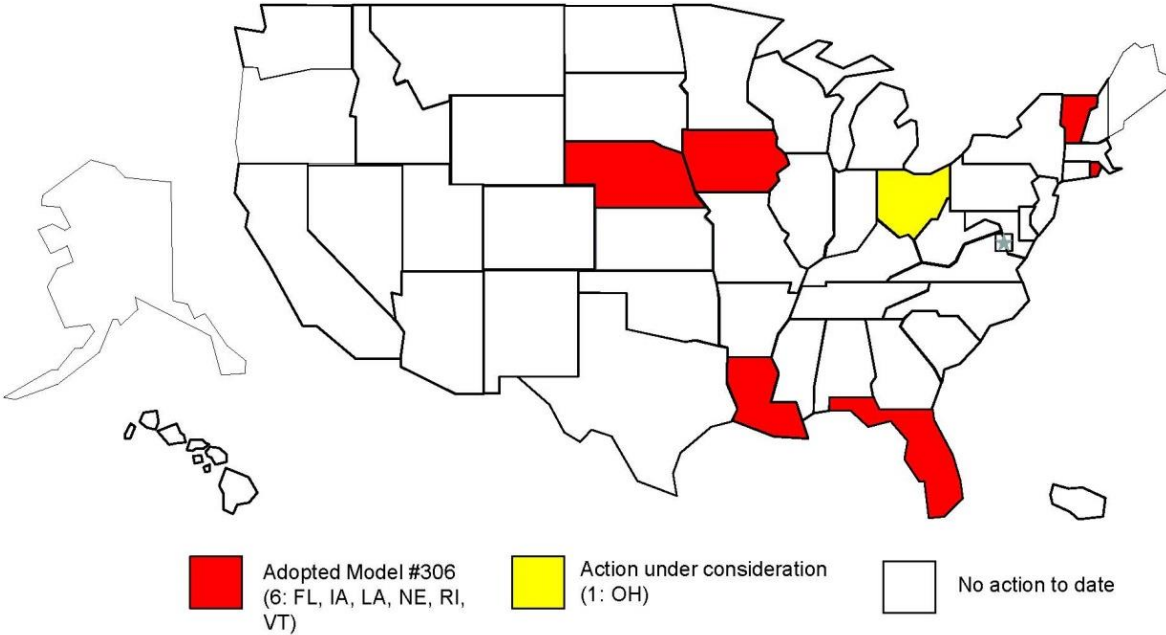
- ✓ To date, the NAIC *Corporate Governance Annual Disclosure Model Act* (#305) has been adopted in 14 states (CA, CT, FL, ID, IN, IA, LA, MT, NE, NH, OH, RI, VA and VT) and the *Model Regulation* (#306) has been adopted in six states (FL, IA, LA, NE, RI and VT).
- ✓ A detailed disclosure will provide regulators with needed information on the governance practices of insurers on an annual basis to allow for more frequent review, consideration and assessment. Currently, most of this information is only subject to review during periodic onsite examinations.
- ✓ The model act contains strong confidentiality protections in order to safeguard insurance company proprietary information.
- ✓ The required information provided to regulators through the CGAD will not significantly affect regulatory resources or costs. The model allows for a commissioner to retain, at the insurer's expense, third-party consultants as may be reasonably necessary to assist the commissioner in reviewing the CGAD and the insurer's compliance with this act.

Implementation of Model Act #305
Corporate Governance Annual Disclosure Model Act
[status as of March 27, 2017]



This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.

Implementation of Model Act #306
Corporate Governance Annual Disclosure Model Regulation
[status as of March 27, 2017]



This map represents state action or pending state action addressing the topic of the model. This map does not reflect a determination as to whether the pending or enacted legislation contains all elements of the model or whether a state meets any applicable accreditation standards.