



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

TUESDAY, MARCH 12, 2024

Pursuant to a Public Notice dated February 14, 2024, the Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on March 12, 2024, at 9:30 a.m. in a hybrid virtual and live conference format using Google Meet. Noel Cole Young, Esq., Chair of the Board, determined that a quorum was present and called the meeting to order.

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

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| Noel Cole Young, Esq. | Chair |
| William P. Melchionni III | Vice Chair |
| Angela Doss, JD | Treasurer |
| Kathleen F. Oster | Secretary |
| Kevin M. Kinross | Member |
| Athan M. Shinas | Member |
| Paul Matson, CFA, FCSI | Member |

Also present at the meeting were:

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| Barbara D. Richardson | Cabinet Executive Officer, Arizona Department of Insurance and Financial Institutions (DIFI) |
| Zach Howard | Assistant Arizona Attorney General |
| Erik Persson | Senior Client Advisor, Insurance Solutions, Allspring Global Investments |
| Dean Meddaugh | Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments |
| Jeff Weaver | Senior Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments |
| Liane Kido | Deputy Receiver, DIFI |
| Lori D. Nestor | APCIGF Executive Director |
| Maria Souza | APCIGF Controller |

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| Sharyn Kerr | APCIGF Administrative Support Specialist |
| Elizabeth Hodge Smith | Arizona Auditor General |

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

1. ANNOUNCEMENT CONCERNING ANTI-TRUST AND CONFLICT OF INTEREST 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 MEMBERS AND STAFFING UPDATE

The Chair stated that there are currently no new Board members, however, work is in progress to replace Paul Matson who will remain on the Board until the new member is appointed. The Chair then recognized Executive Director Lori Nestor who informed the Board of the resignation of the Fund's Claims Manager, Christine Cohen, effective February 16, 2024. Active recruitment is underway to fill the Claims Manager position.

3. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by Secretary Kathleen Oster and seconded by Vice Chair William Melchionni, the minutes of the Meeting of the Board of Directors held September 12, 2023 were unanimously approved as previously circulated.

4. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. Report of the performance of the APCIGF investment portfolios through January 31, 2024;

The Chair again recognized Executive Director Nestor, who introduced Mr. Erik Persson, of Allspring Global Investments fka Wells Fargo Asset Management (WFAM), for a report regarding the performance of the APCIGF investment portfolios through January 31, 2024. Mr. Persson began by introducing his colleagues, Mr. Dean Meddaugh and Mr. Jeff Weaver, who are now the primary portfolio managers for the Fund. Mr. Persson stated that he serves as the head client advisor while Mr. Meddaugh and Mr. Weaver are responsible for daily management of the portfolio.

Mr. Weaver provided a summary of his background and then began a review of the investment portfolio by addressing the increase in interest rates by “the Fed” over the past couple years with the last hike being in July 2023. It is expected that the Fed will slowly cut the rates in 2024, beginning in June then in September and again in December, as inflation continues to decrease to the 2% target. He indicated that these rate cuts will have an impact on the portfolio, so now is the time to lock in rates where they are.

Mr. Weaver then presented a “Big Six Summary” of the economy which indicated that growth is expected to return to trend-like pace with risks skewed to the upside. He indicated that the employment/labor market remains strong, which is keeping pressure on inflation and wage inflation despite an expectation that that market may begin to soften. Although the Fed would like to start cutting rates in June 2024, they need to ensure that inflation is continuing to trend down to the 2% target. Mr. Weaver indicated that on the international level, global central banks have been increasing rates to fight inflation. The U.S. has been quite strong compared to its developed-country counterparts, so those banks may be motivated to decrease rates before the U.S.

Mr. Weaver then provided a summary of the returns and yield ranges of various asset classes in the market over the last 12 months. December realized a dramatic rally in the bond market as it shifted from a Fed that was raising rates to a Fed that is likely to cut rates. Longer duration bonds outperformed shorter duration over the last three months. Yields decreased during this period, particularly in December 2023. He indicated an expectation that they will continue to decrease.

Mr. Weaver then recognized Mr. Meddaugh, who presented a performance overview of the Property and Casualty account. Fed rate increases had an impact, however, the account performed well against the benchmark during 2023. The duration of the Property and Casualty portfolio was short, .55 years compared to the benchmark of 1.87 years, but front end rates were higher yielding than longer rates which helped performance. Mr. Meddaugh said that investment in shorter duration instruments was driven both by performance expectation and liquidity needs. Now that those needs have been met, market trending would suggest movement into slightly longer duration investments. He indicated that the current plan is to extend the portfolio’s duration as items mature to lock in the yields before the anticipated decrease later in the year.

Mr. Weaver’s review of the performance of the Workers’ Comp account indicated performance similar to the Property and Casualty portfolio. He stated that the plan for this portfolio is the same as that for the Property and Casualty as well. As items mature, they will be reinvested in slightly longer duration instruments to get closer to benchmarks and lock in yields.

b. Review of the financial condition of APCIGF through January 31, 2024.

The Chair recognized Executive Director Nestor, who presented a Schedule of Cash Balances by Fund which illustrated how much cash was in each of the APCIGF accounts: Auto, Other, Administrative, and Worker’s Comp. The balances in the accounts as of January 31, 2024 were:

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| Auto Account | \$17,962,759.17 |
| All Other Account | \$10,526,952.71 |
| Administrative Account | \$3,286,659.63 |
| Workers’ Compensation Account | \$179,843,853.94 |

Ms. Nestor went on to highlight certain items on the financial reports that had been provided in the meeting materials. She explained that the total Workers’ Compensation, long term liabilities shown on the Balance Sheet did include the IBNR (Incurred But Not Reported) amount that was predicted by the actuarial roll forward study of reserves that was recently conducted by the INS Companies. The Balance Sheet further details the Fund’s assets, liabilities and equity, and reports current APCIGF claim liabilities of approximately \$7.4 million. Ms. Nestor explained that current liabilities are the amounts that APCIGF anticipates paying within the year, and said that in this case, it is comprised mostly of Workers’ Comp claim exposures. She said that at an estimated \$84.3 million, the Workers’ Comp exposures also comprise the lion’s share of APCIGF’s long term liabilities of approximately \$92,769,000. However, Ms. Nestor pointed out that the assets shown on the Schedule of Cash Balances by Fund appear sufficient to meet those liabilities with no immediate need to assess member companies.

Ms. Nestor then pointed out that the Profit and Loss Report provided reflects investment income of approximately \$712,000 in January 2024 and moderate claim expenses of about \$1.3 million in that same month. She also mentioned that the Year-to-Year Comparison Report indicates that the Fund is trending in line with 2023 expenses, however, as it is early in the year, no distributions appear there yet.

5. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

Executive Director Nestor stated that no representative from the DIFI Financial Affairs Division (FAD) was present, however, the division reported to Ms. Nestor that division staff continues to remain current in detection and prevention efforts by utilizing updates and roll outs to the NAIC insolvency monitoring and analysis tools they use. FAD had nothing else of significance to report with regard to detection and prevention of insolvency.

6. EXECUTIVE SESSION TO RECEIVE INFORMATION ABOUT THE FINANCIAL CONDITION OF ONE OR MORE MEMBER INSURERS.

Executive Director Nestor indicated that FAD had reported that they knew of no companies or groups of such concern that they anticipate imminent or foreseeable receivership, so they had no information to share with the Fund at this time. It was decided that no Executive Session was necessary as a result.

7. CLAIMS ACTIVITY THROUGH JANUARY 31, 2024 AND ANY RELATED MATTERS

The Chair recognized Executive Director Nestor, who reported the following regarding claim related matters.

a. Auto Account.

The Auto Account is down to six open claims, leaving not much activity to report.

b. Other Account.

Mutual Aid Exchange was declared insolvent in August 2023, resulting in the Fund receiving approximately 161 homeowners claims and 4,700 unearned premium claims. Unearned premium checks have all been issued and claims have been processed with 40 claims remaining open at this time. Ms. Nestor applauded the effort and work of the former Claims Manager, Christine Cohen, and the APCIGF team to accomplish this task.

c. Workers' Compensation Account.

This account had 472 open claims with a reserve of \$72,871,000 as of January 31, 2024. The APCIGF anticipates receiving new claims as a result of the insolvency of Arrowood Indemnity Company, the successor to Royal Sun Alliance, in November 2023. Exposure to APCIGF as a result of that insolvency consists mostly of 27 Workers' Comp claims with reported reserves of approximately \$1 million. Ms. Nestor explained that the Arrowood Order of Insolvency allowed for the Receiver to pay the claims until they are transferred to the Guaranty Funds and the Guaranty Funds begin paying them, however, there is no deadline for when this should occur. Though the Receiver is paying the claims now, APCIGF is expected to reimburse the Receiver for what has been paid since insolvency. Ms. Nestor reported that the National Conference of Insurance Guaranty Funds (NCIGF) and national guaranty associations are working to create a pre-payment agreement to enter into with the Receiver that will create the deadline for the Fund to receive the data and move forward with paying these claims.

8. REPORT OF EXECUTIVE DIRECTOR

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

a. **Payment of 2024 annual dues to the National Conference of Insurance Guaranty Funds (NCIGF).**

Ms. Nestor reported that APCIGF had paid the 2024 annual dues to the NCIGF in the amount of \$116,865. This amount is slightly higher than last year's, but it is expected that as Arizona grows and its proportional share of the national premium increases, dues will increase. Ms. Nestor requested that the Board ratify payment of the dues, and the Chair asked for a motion. Upon a motion made by Vice Chair Melchionni and second by Secretary Oster, the motion was carried.

b. **Arizona Insurance Guaranty Funds Financial Services contract and related Request for Proposal process.**

Ms. Nestor reported that a Request for Proposal (RFP) for Financial Services for both of the Arizona guaranty funds was submitted in October 2023. Negotiations are ongoing. Arizona State Procurement has recommended that the Fund consider using the State's current contractor for the banking services part of the contract only. The Treasurer's Office has confirmed that the contractor will honor the rate given to the state for banking functions. Despite use of the Treasurer's contract, Ms. Nestor indicated that APCIGF accounts would not be a part of the Arizona State Treasury or General Fund and separation would be maintained. Review is ongoing, and Ms. Nestor anticipates providing additional information at the next meeting.

c. **Audit of APCIGF 2023 Financial Statements.**

Ms. Nestor advised that the audit has commenced this week, and she anticipates providing a full report at the next meeting of the Board. Vice Chair Melchionni inquired if any action items resulted from the last audit. Ms. Nestor reported that the auditor had one finding in that the contractor, Broadspire, hadn't obtained authority before making payments over \$20,000 as per the guidelines. Broadspire has since been given the new standard, and it is anticipated that the finding has been corrected.

d. **Possible annual appropriation to the Department of Insurance and Financial Institutions (DIFI) for APCIGF administrative and technology costs.**

Ms. Nestor recognized DIFI CEO Barbara Richardson, who began by stating that in past years, APCIGF has been asked to provide funding to the agency (DIFI) in inconsistent amounts for

administrative and technology costs. Most recently, the APCIGF had authorized \$20,000 to DIFI. Ms. Richardson's recommendation was that a consistent, equal, annual amount be paid by both the APCIGF and the Arizona Life and Disability Insurance Guaranty Fund (ALDIGF) so that all parties know what to expect. She therefore requested an annual amount of \$15,000 from each of the Arizona guaranty funds. Upon the suggestion by Ms. Nestor that the Board take such action, the Chair entertained a motion to appropriate \$15,000 annually to DIFI for administrative and technology costs. The motion was made by Vice Chair Melchionni, seconded by Secretary Oster and carried unanimously.

e. **Review of APCIGF statutes and any recommended changes.**

Ms. Nestor reminded the Board that the topic of Guaranty Fund coverage for cyber insurance had been discussed at their March 2023 meeting. She stated that since that time, the NAIC (National Association of Insurance Commissioners) had adopted modifications to its recommended Guaranty Fund Model Act (the Act) that addresses cyber insurance coverage, and also addresses new statutes regarding business transfer/company division that have recently been enacted in several states. Ms. Nestor indicated that the concern around the business transfer/company division statutes arises from the definition of a "covered claim." Under current guaranty fund statutes, a covered claim is defined as one that arises out of a policy that was issued by an insolvent insurer. New business transfers and company division laws may allow policies to be moved from a solvent company to a now insolvent one, yet the policies themselves were issued by the company that remains solvent. The NAIC has suggested language that addresses this situation with the goal of ensuring Guaranty Fund protection if it existed when the policy was written, and excluding it if it did not. Ms. Nestor went on to recommend that a member of the NCIGF come and explain the concerns about the issue if the Arizona Guaranty Fund considers making statutory changes to address it.

Ms. Nestor indicated that cyber coverage concerns were mainly centered on how the Guaranty Funds would respond to claims for cyber insurance coverage. Guaranty Funds are not typically designed to provide the kind of coverage that cyber coverage often provides. One concern was whether the \$300,000 limit per claim could be challenged to extend to each claimant as opposed to being capped for each occurrence. Ms. Nestor pointed out that an article written by the CEO and counsel for the NCIGF on these topics was included in the meeting materials, along with a version of the Model Act in which the proposed modifications were highlighted. Ms. Nestor indicated that, while change wasn't necessarily suggested at this time, the Board should be aware of what is happening. The Chair stated that he would prefer that APCIGF wait to take action and

see how things develop. Secretary Oster stated that she agrees with the Chair after reading the material provided on the matter. No other questions or discussion followed.

9. EXECUTIVE SESSION TO CONFER WITH LEGAL COUNSEL

It was decided and agreed that an Executive Session was not necessary at this time.

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

It was decided that the next meeting of the Board of Directors will be held on **Tuesday, September 10, 2024 at 9:30 a.m.** Director Athan Shinas stated that he would not be able to attend that date.

11. CALL TO THE PUBLIC

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

There being no further business to come before the Board, without objection the meeting was adjourned at 10:26 a.m.

Dated this 12th day of March, 2024 and respectfully submitted,

APPROVED:

NOEL COLE YOUNG, ESQ.

KATHLEEN F. OSTER

CHAIR OF THE BOARD

SECRETARY