NAIC CORPORATE GOVERNANCE
ANNUAL FILING GUIDANCE MANUAL

Maintained by the
Corporate Governance (E) Working Group
of the Financial Condition (E) Committee

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The instructions outlined in this Manual are based on the requirements of the NAIC Corporate Governance Model Act (#---). An insurer using this Manual should refer to the laws adopted by the insurer’s state of domicile when determining its requirements for filing corporate governance information with its domestic regulator.

I. **INTRODUCTION**

The purpose of this Manual is to provide guidance to an insurer and/or an insurance group of which the insurer is a member (herein referred to as “insurer” or “insurers”) with regard to reporting on its corporate governance practices as required by the domestic state’s version of the NAIC Corporate Governance Model Act (#---). Model # --- requires insurers to provide the insurance commissioner a summary of an insurer or insurance group’s corporate governance structure, policies and practices to permit the insurance commissioner to gain and maintain an understanding of the insurer’s corporate governance framework. This information is to be provided within a Corporate Governance Annual Filing (CGAF).

Insurers should consider the guidance provided in this Manual when preparing and compiling information for inclusion in its CGAF. As the information included in the annual filings will include proprietary information, the confidentiality of the filings is to be protected as described in Section 5 of Model #---.

A. **General Guidance**

Corporate governance can be defined as structures, policies and processes through which an organization or entity is managed and controlled. By describing the structures, policies and processes in place to govern their organizations, insurers can assist the commissioner in gaining, updating and maintaining an understanding of the insurer’s corporate governance on an annual basis. The filing, along with other filings (e.g., the Own Risk and Solvency Assessment (ORSA) Summary Report) may assist the commissioner in determining the scope, depth and minimum timing of risk-focused analysis and examination procedures. Therefore, insurers should be as descriptive as possible, with inclusion of attachments or example documents that are used in the governance process, since these may provide a means to demonstrate the strengths of their governance framework and practices.

As governance practices can vary significantly based upon the size, type, complexity and structure of an insurer, the information necessary to gain an understanding of the processes in place may differ from one insurer to the next. Therefore, the insurer is permitted discretion to determine how to best communicate its corporate governance processes within the annual filing. The information provided should be customized to communicate the most relevant information necessary to assist the commissioner in gaining an understanding of the corporate governance practices in place and how those practices address solvency risks the insurer is facing.

An insurer, or the insurance group of which the insurer is a member, shall, no later than June 1 of each calendar year, submit to the commissioner a Corporate Governance Annual Filing that contains the information described within the remaining sections of this document. The filing must include a signature of the insurer or insurance 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 that a copy of the filing has been provided to the insurer’s board of directors or the appropriate committee thereof.

For purposes of completing this filing, an insurer may choose 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, subsequently referred to as the “organization.” In determining which level of the organization is responsible for completing the filing, consideration should be given to the primary level at which decisions are made and oversight provided to the insurance activities of various entities within the organization. If the primary oversight is provided at the holding company or ultimate parent company level, then the filing should be completed at that level. However, if decision-making and oversight is provided separately for each legal entity or intermediate holding company, the filing should be completed and submitted at that level. Alternatively, if primary oversight is provided at the holding company or ultimate parent company level, but certain other legal entity governance also exists that helps to demonstrate further strength of the insurance group’s governance, discussion of these facts and basis for such may be helpful in demonstrating the strength of the governance framework and practices.

As outlined in Section 3 of Model #---, if the annual filing is completed at a holding company or ultimate parent company level, it must be filed with the lead state of the group as determined by the procedures outlined in the most recent Financial Analysis Handbook adopted by the NAIC. In these instances, copies of the annual filing must also be provided to commissioners of states in which the holding company group has a domestic insurance entity upon request.

In completing the Corporate Governance Annual Filing, the organization may avoid filing redundant information with regulators by providing or referencing other existing documents (e.g., ORSA Summary Report, Holding Company Form B or F Filings, Securities and Exchange Commission (SEC) Proxy Statements, foreign regulatory reporting requirements, etc.) to the regulator that may address the information requested in various sections of the annual filing. In these cases, the organization should clearly reference the location of the relevant information within the annual filing and attach the referenced document if it is not already filed or available to the regulator.

In recognition of the fact that the corporate governance framework and practices of an organization may not vary significantly from year-to-year, and to facilitate regulatory review of the filings each year, the organization is encouraged to file a redline version of the filing each year to track those items that have changed from the previous year. If no significant changes were made in the information or activities reported by the organization, the filing should so state.

**B. Procedures for Adopting Changes**

The following establishes procedures of the Corporate Governance (E) Working Group with respect to adopting changes to the NAIC’s Corporate Governance Annual Filing Guidance Manual.

1. The Working Group may consider only proposals to adopt changes to the Guidance Manual at its session of the Summer National Meeting, as scheduled by the NAIC.
2. Suggested changes and amendments to the Guidance Manual must be submitted to the Working Group prior to or in conjunction with the Spring National Meeting each year and must be subject to a 45-day public comment period, prior to being considered for adoption at the subsequent Summer National Meeting.

3. For changes to be adopted for inclusion in the Guidance Manual, they must be approved by a supermajority (75% or more) of members of the Corporate Governance (E) Working Group.

4. Changes to the Guidance Manual adopted by the Working Group will be finalized and posted to the Working Group’s webpage within 30 days of the conclusion of the Summer National Meeting to ensure sufficient time for organization’s to review and understand the changes impacting their next Corporate Governance Annual Filing.

C. Overview of Annual Filing Instructions

To allow the commissioner to achieve an understanding of the insurer’s corporate governance practices, the filing should include discussion of four major areas, which will be referred to as the following sections:

Section 1 – General Description of the Organization’s Corporate Governance Framework  
Section 2 – Description of Board of Directors and Committee Policies and Practices  
Section 3 – Description of Management Policies and Practices  
Section 4 – Management and Oversight of Critical Risk Areas

To assist the insurer in determining the level and extent of information to be provided in each section of the filing, additional guidance is provided in the remaining sections of this manual.
II. CONTENTS OF CORPORATE GOVERNANCE ANNUAL FILING

A. Section 1 – Description of Corporate Governance Framework

In completing Section 1 of the annual filing the organization should describe its corporate governance framework and structure, including a description of the Board of Directors and various committees ultimately responsible for governing the organization and the level(s) at which that oversight occurs (e.g., ultimate controlling parent, intermediate holding company, legal entity, etc.). The organization is encouraged to describe and provide rationale for the current Board size and structure.

In addition, the organization should describe 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.). The organization is also encouraged to describe 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.

B. Section 2 – Description of Board of Directors' and Committee Policies and Practices

In completing Section 2 of the annual filing the organization should describe the membership of its Board of Directors and significant committees. The organization is encouraged to describe how the qualifications, expertise and experience of the collective members of the Board meet the needs of the organization. In addition, the organization is encouraged to describe how an appropriate amount of independence is maintained on the Board of Directors and its significant committees.

The organization should also provide information regarding the number of meetings held by the Board and its significant committees over the past year as well as information on director attendance. This information is intended to assist the commissioner in gaining an understanding of the level of governance activity occurring within the organization. The organization is also encouraged to describe how this level of activity meets the governance and oversight needs of the organization.

The organization should describe its process to identify, nominate and elect members to the Board and its committees. The organization is encouraged to provide a sufficient level of detail to allow the commissioner to understand governance processes in this area, which may include a discussion of the following:

- Whether a nomination committee is in place to identify and select individuals for consideration.
- Whether term limits are placed on directors.
- How the election and re-election processes function.
- Whether a Board diversity policy is in place and how it functions.
The organization should describe 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. The organization is also encouraged to describe any Board or committee training programs that have been put in place.

C. **Section 3 – Description of Management Policies and Practices**

In completing Section 3 of the annual filing the organization should describe any processes or practices it has put in place (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. The organization should provide information on any specific positions that it has developed suitability standards for and provide a description of the standards employed. The organization should also provide information to the commissioner on any changes in an officer’s or key person’s suitability status as outlined by the organization’s standards.

The organization should describe its processes for performance evaluation, compensation and corrective action to ensure an effective level of senior management throughout the organization. The organization should describe the general objectives of each of the organization’s significant compensation programs and what the programs are designed to reward. This description should provide a sufficient level of detail to allow the commissioner to gain an understanding of how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking. Elements to be discussed may include descriptions of the following:

- The Board’s role in overseeing management compensation programs and practices.
- The various elements of compensation awarded in the organization’s compensation programs and how the organization determines/calculates the amount of each element of compensation paid;
- How compensation programs are related to both company and individual performance over time;
- Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels;
- 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;
- Any other factors relevant in understanding how the organization monitors its compensation policies to determine whether its risk management objectives are being met with respect to incentivizing its employees.

D. **Section 4 – Description of Management and Oversight of Critical Risk Areas**

In completing Section 4 of the annual filing, the organization should 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 organization’s business activities. This description should discuss how oversight and management responsibilities are delegated between the Board, its committees and Senior Management, and how reporting responsibilities are organized for each critical risk area. The description should also provide the commissioner an
understanding of the frequency at which information on each critical risk area is reported to and reviewed by senior management and the Board. This description may cover, but is not limited to, the following critical risk areas of the organization:

- Risk management processes (ORSA Summary Report filers may reference this filing).
- Actuarial function.
- Investment decision-making processes.
- Reinsurance decision-making processes.
- Business strategy/finance decision-making processes.
- Compliance function.
- Financial reporting/internal audit processes.
- Market conduct decision-making process.
III. **APPENDIX A – EXAMPLE ATTESTATION**

To the best of my belief and knowledge, the organization has implemented the corporate governance practices outlined within this Corporate Governance Annual Filing. In addition, a copy of this filing has been provided to the organization’s [INSERT BOARD OF DIRECTORS OR COMMITTEE AS APPROPRIATE] for review and approval.

(Signed)____________________________________________ (Date) _____________
(Chief Executive Officer/Corporate Secretary)