



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

TUESDAY, SEPTEMBER 12, 2023

Pursuant to a Public Notice dated August 17, 2023, the Annual Meeting of the Board of Directors of the Arizona Property and Casualty Insurance Guaranty Fund (“APCIGF”) was convened on September 12, 2023, at 9:32 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:

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:

Barbara D. Richardson	Director, Arizona Department of Insurance and Financial Institutions (DIFI)
Lynette Evans	Assistant Arizona Attorney General
Zachary Howard	Assistant Arizona Attorney General
Jonathan Buenaventura	Portfolio Manager, Global Liquidity Solutions, Allspring Global Investments
Erik Persson	Vice President, Insurance Solutions, Allspring Global Investments
Jennifer Wisely aka Jennifer R. Tewhill, CPA	Certified Public Accountant, John C. Todd II, P.C.
Kurt Regner	Deputy Assistant Director, DIFI Financial Affairs Division
Liane Kido	Deputy Receiver, DIFI
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. APPROVAL OF PREVIOUS MINUTES

Upon a motion made by the Treasurer, Angela Doss, and seconded by Director Paul Matson, the minutes of the Meeting of the Board of Directors held March 14, 2023 were unanimously approved as previously circulated.

3. ELECTION OF OFFICERS AND APPOINTMENT OF STANDING COMMITTEES

The Chair first presented the following slate of current standing officers.

Chair	Noel Cole Young
Vice Chair	William P. Melchionni III
Treasurer	Angela Doss
Secretary	Kathleen F. Oster

The Chair opened the floor for any discussion or nomination and there was none. He then requested a motion to re-elect the current officers. A motion to re-elect the current standing officers for another year was made by Director Shinas. The motion was seconded by Treasurer Doss and passed unanimously.

By virtue of the provisions of the APCIGF Plan of Operation, and without additional discussion or objection, the Chair announced that the APCIGF Executive Committee would be comprised of the Chair, Treasurer Doss, and Secretary Oster.

Without objection and by unanimous consent, the Chair appointed members of the following standing committees of the APCIGF Board of Directors.

Claims Committee: Kathleen Oster

Sonya Bassaly

Investment Committee: Paul Matson

William Melchionni

Noel Cole Young

Internal Audit Committee: Angela Doss

Athan Shinas

4. FINANCIAL REPORTS AND ANY RELATED MATTERS

a. **Report concerning the results of the independent financial audit for the year ended December 31, 2022.**

The Chair recognized Executive Director Lori Nestor, who advised the Board that the Arizona Guaranty Funds had retained the CPA firm of John D. Todd, II to perform and audit of APCIGF's 2022 financial statements. She then introduced lead auditor, Jennifer Tewhill, CPA, to present the results of that audit.

Ms. Tewhill stated there was nothing negative in the financial statements related to performance. She mentioned that the Fund was in good standing cash-wise due to the funds that were received as a result of assuming handling Workers' Compensation claims, which continue to negate the need for an assessment. She also Ms. Tewhill then explained that the Management Discussion and Analysis section of the audit showed nothing out of the ordinary from prior years. Ms. Tewhill then mentioned that the report of Internal Controls over Financial Reporting portion of the report did indicate a finding regarding vendor payments and proper approvals, which seemed to be related to the execution of the change in TPA for the Worker's Comp Fund. She confirmed that Executive Director Nestor responded and provided information about corrections in procedures related to this finding. Ms. Tewhill indicated that the audit next year would include following up on this finding with an expectation that the problem won't be repeated. No discussion or questions followed.

b. Review of the Performance of the APCIGF Investment Portfolios through July 31, 2023.

The Chair again recognized Executive Director Nestor, who introduced Mr. Jonathan Buenaventura and 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 July 31, 2023. Mr. Persson provided an overview of the history of Allspring Global Investments and the services and products provided by the firm. Mr. Persson then recognized Mr. Buenaventura who provided an overview of the teams at Allspring that oversee the APCIGF investment portfolio. Mr. Buenaventura stated that the priority of the APCIGF portfolio is a return of principle versus return on principle so that cash is available when needed. He then provided a summary of “The Big Six” indicating better than expected growth in the economy, normalizing employment and concern that inflation is still a major factor. Mr. Buenaventura indicated the expectation that the Fed will hold back on raising interest rates and possibly make cuts in the first quarter of 2024, depending on what inflation is doing. He said that disinflation is an expected trend in the international arena.

Mr. Buenaventura went on to provide a “Short Duration Review”, which indicated that the yield curve has inverted with the high point being at six months. He presented a report regarding the Property and Casualty Portfolio performance, which indicated that the six month Treasury Bill index (the benchmark) has been outperforming the portfolio due to the effect of interest rates. He explained, however, that as the portfolio has shortened up in maturity, Allspring has reinvested at higher rates. Secretary Oster asked whether it would be better to invest in money market accounts, to which Mr. Buenaventura replied that money market accounts are more susceptible to changes in interest rates due to their short duration. The Chair asked what the yield currently was on the portfolio. Mr. Buenaventura replied that yield to maturity is currently approximately 3.19%. He went on to say that the Worker’s Compensation Portfolio performance benchmark is further out. The duration has been short of the benchmark duration but the portfolio has outperformed the benchmark. Mr. Buenaventura indicated that the yield overall has gone from close to zero prior to the COVID pandemic to now over 5%. Director Matson then requested that Mr. Buenaventura present a portfolio profile with regard to duration and credit of some other Allspring clients at the next meeting. Mr. Persson stated that he can potentially provide that information but will need to maintain client confidentiality in doing so.

c. Review of the financial condition of APCIGF through July 31, 2023.

The Chair recognized Executive Director Nestor, who stated that the financial statements through July 31, 2023 were provided to the board members prior to the meeting and included a Balance

Sheet, a Profit and Loss Year-to-Date Comparison, and a Profit and Loss Year-to-Year Comparison. She indicated that expenses are trending in line with 2022 expenses. Ms. Nestor pointed out that APCIGF had received slightly less receivership distributions and early access as of that time, but that she was working to release a deposit that will increase that amount. She further mentioned that investment returns were better than in 2022. There were no questions or discussion about these reports.

Ms. Nestor then presented the 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 July 31, 2023 were:

Auto Account	\$18,005,473.40
All Other Account	\$12,636,791.94
Administrative Account	\$2,649,249.92
Workers’ Compensation Account	\$174,836,848.72

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

Executive Director Nestor stated that it wasn’t necessary to move into Executive Session, as the Financial Affairs Division (“FAD”) of DIFI had conveyed that they knew of no companies of such concern that they felt a potential impact to the Guaranty Fund. FAD Assistant Director Kurt Regner confirmed.

6. REPORT CONCERNING THE DETECTION AND PREVENTION OF INSOLVENCIES

The Chair recognized Executive Director Nestor who stated that the Guaranty Fund has historically supported educational efforts to provide certain FAD employees the opportunity to gain additional knowledge and skill in the detection and prevention of insolvencies. She recognized Mr. Regner who reported that the 2023 Society of Financial Examiners Career Development Seminar was held in July 2023 in Louisville, Kentucky, and four FAD representatives attended. Mr. Regner stated that seminar presentations are designed to focus on insurance solvency regulation and the NAIC risk focus financial surveillance process. He explained that the seminar normally begins with a panel discussion of emerging and hot topics followed by subsequent sessions covering topics such as risk governance, cyber security, IT, third party risks and many others. FAD staff attended as many of those sessions as possible. Mr. Regner offered his thanks for the Guaranty Fund supporting what FAD considers to be a great educational opportunity. He indicated that the total cost of attendance was estimated to be approximately

\$11,175. That total had been typically split between the two Arizona Guaranty Funds, resulting in support from APCIGF of approximately \$5590.

Ms. Nestor requested that the Board ratify her decision to support the educational opportunity for the protection and prevention of insolvencies. A motion to ratify was put forth by Treasurer Doss and seconded by Vice Chair Melchionni. No discussion or objected followed and the decision was ratified.

7. CLAIMS ACTIVITY THROUGH JULY 31, 2023 AND ANY RELATED MATTERS

The Chair recognized APCIGF Claims Manager, Christine Cohen, who reported regarding claim related matters.

a. Auto Account.

Ms. Cohen indicated that claims from the insolvency of ACCC and Western General were in run-off mode and down to only 11 open claims. She stated that the open claims are in litigation and are adequately reserved for settlement. The courts were moving slowly with regard to minor conservatorships but when finally approved, the Fund would be able to provide payment. Ms. Cohen indicated that there were no new exposures anticipated for this account at this time.

b. Other Account.

Ms. Cohen stated that the APCIGF “All Other” account had been inactive for some time, however, a new insolvency had occurred in August. She explained that MutualAid eXchange (MAX) was declared insolvent on or around August 21, 2023. MAX policies consisted of mostly homeowners policies, and records indicated about 4,300 policies in Arizona with approximately \$850,000 in reserve for claims. Ms. Cohen shared that many policies are still active and won’t be canceled until September 21. She stated that APCIGF awaits the necessary data from the Receiver to be able to assist policyholders with open claims and damage to their homes. She further explained that the Receiver has agreed to advance funds for hardship cases in the meantime, is triaging cases, and that APCIGF had given them approval to hire appraisers, etc, when necessary to protect policyholders. Ms. Cohen confirmed that the first batch of MAX unearned premium data was received and notices were mailed to policyholders informing them so that they could submit a claim for unearned premium. She stated that approximately \$1 million in unearned premium was anticipated as a result of the insolvency of MAX . Ms. Cohen further indicated that policyholders who have open homeowners claims are finding it very difficult to obtain new insurance with another carrier. She expressed concern that reporting needs

to be done so that CLU reports reflect when policyholders' claims are closed. Executive Director Nestor suggested that Crawford & Company may be able to help in that regard.

c. Workers' Compensation Account.

Ms. Cohen reported that Worker's Comp (WC) claims were trending down, and that the change in TPA has resulted in a decrease in claim handling fees. She explained that there were no expected new insolvencies on the horizon, and that remaining claimants are generally elderly and claims are often closed when they pass away of natural causes. That trend, however, has been offset by an uptick in requests to reopen claims. Ms. Cohen went on to advise the Board that APCIGF just received a determination from the Center for Medicare & Medicaid Services (CMS) that APCIGF is no longer subject to Section 111 reporting, relieving the Fund of needing to address conditional payment demands from CMS. This will result in APCIGF savings as referrals to the specialty company that handles these conditional payment demands are expensive and will no longer be necessary.

8. REPORT OF EXECUTIVE DIRECTOR

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

a. Request for Redetermination from the Center for Medicare and Medicaid Services.

Executive Director Nestor reported that the Fund has obtained from CMS a letter that indicates that the Fund is not a primary payer, and therefore is not subject to Section 111 reporting, to Medicare conditional payment demands or set-asides. She indicated that CMS has traditionally considered guaranty funds to be responsible reporting entities responsible for reporting all liability, no fault and WC payments to Medicare Beneficiaries. The Fund had always been compliant, but will enjoy a savings in time and cost with the exemption from the CMS requirements.

b. NCIGF Fall Workshop November 15 – 16, 2023 in Phoenix, Arizona.

Executive Director Nestor advised that the NCIGF is holding its annual fall workshop at the Sheraton in Phoenix this year on November 15 and 16. She stated that the workshop provides opportunity to learn more about guaranty funds and how the funds work as a national network to address issues that they all face. She shared that all board members are welcome to attend. Reimbursement would be available, subject to Fund travel guidelines, and DIFI Director Richardson will be a speaker at the workshop.

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, March 12, 2024 at 9:30 a.m.**

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 approximately 10:48 a.m.

Dated this 12th day of September, 2023 and respectfully submitted,

APPROVED:

NOEL COLE YOUNG, ESQ.

KATHLEEN F. OSTER

CHAIR OF THE BOARD

SECRETARY