

Title 23. Public Utilities and Regulated Industries
Chapter I. State Insurance Department, Department of Commerce
Subchapter A. Generally
Part 6. Corporate Governance Annual Disclosure

Codification Notes. This part as promulgated prior to codification into the Code of Arkansas Rules provided as follows:

"SECTION 1. AUTHORITY.

This Rule is promulgated by the Commissioner pursuant to the authority granted by Ark. Code Ann. §§ 23-61-108, 23-63-2001, et seq., and 25-15-201, et seq.

SECTION 2. EFFECTIVE DATE.

This Rule shall become effective on January 1, 2020."

Subpart 1. Generally

23 CAR § 6-101. Purpose.

The purpose of this rule is to set forth the procedures for filing and the required contents of the corporate governance annual disclosure, deemed necessary by the Insurance Commissioner to carry out the provisions of the Corporate Governance Annual Disclosure Act, Arkansas Code § 23-63-2001 et seq.

Authority. Arkansas Code § 23-63-2010.

23 CAR § 6-102. Definitions.

As used in this part:

- (1) "Commissioner" means the Insurance Commissioner;

(2) "Insurance group" means those insurers and affiliates included within an insurance holding company system as defined in the Insurance Holding Company Regulatory Act, Arkansas Code § 23-63-501 et seq.;

(3) "Insurer" shall have the same meaning as set forth in Arkansas Code § 23-63-2003(3), except that it shall not include agencies, authorities, or instrumentalities of the United States, its possessions and territories, the Commonwealth of Puerto Rico, the District of Columbia, or a state or political subdivision of a state; and

(4) "Senior management" means any corporate officer responsible for reporting information to the board of directors at regular intervals or providing this information to shareholders or regulators and shall include, for example and without limitation, the:

- (A) Chief executive officer;
- (B) Chief financial officer;
- (C) Chief operations officer;
- (D) Chief procurement officer;
- (E) Chief legal officer;
- (F) Chief information officer;
- (G) Chief technology officer;
- (H) Chief revenue officer;
- (I) Chief visionary officer; and
- (J) Any other chief executives or equivalents.

Authority. Arkansas Code § 23-63-2010.

23 CAR § 6-103. Filing procedures.

(a) An insurer, or the insurance group of which the insurer is a member, required to file a corporate governance annual disclosure by the Corporate Governance Annual Disclosure Act, Arkansas Code § 23-63-2001 et seq., shall, no later than June 1 of each calendar year, submit to the Insurance Commissioner a corporate governance annual

disclosure that contains the information described in Arkansas Code § 23-63-2005 and 23 CAR § 6-104.

(b) The corporate governance annual disclosure must include a signature of the insurer's or insurance group's chief executive officer or corporate secretary attesting to the best of that individual's belief and knowledge that:

(1) The insurer or insurance group has implemented the corporate governance practices; and

(2) A copy of the corporate governance annual disclosure has been provided to the insurer's or insurance group's board of directors or the appropriate committee thereof.

(c) The insurer or insurance group shall have discretion regarding the appropriate format for providing the information required by this rule and is permitted to customize the corporate governance annual disclosure to provide the most relevant information necessary to permit the commissioner to gain an understanding of the corporate governance structure, policies, and practices utilized by the insurer or insurance group.

(d)(1) For purposes of completing the corporate governance annual disclosure, the insurer or insurance group 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, depending upon how the insurer or insurance group has structured its system of corporate governance.

(2)(A) The insurer or insurance group is encouraged to make the corporate governance annual disclosure disclosures at the level at which:

(i) The insurer's or insurance group's risk appetite is determined;

(ii) The earnings, capital, liquidity, operations, and reputation of the insurer are overseen collectively and at which the supervision of those factors are coordinated and exercised; or

(iii) Legal liability for failure of general corporate governance duties would be placed.

(B) If the insurer or insurance group determines the level of reporting based on these criteria, it shall:

(i) Indicate which of the three criteria was used to determine the level of reporting; and

(ii) Explain any subsequent changes in level of reporting.

(e)(1) Notwithstanding the provisions of subsection (a) of this section, and as outlined in Arkansas Code § 23-63-2004, if the corporate governance annual disclosure is completed at the insurance group level, then 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 National Association of Insurance Commissioners.

(2) In these instances, a copy of the corporate governance annual disclosure must also be provided to the chief regulatory official of any state in which the insurance group has a domestic insurer, upon request.

(f)(1) An insurer or insurance group may comply with this section by referencing other existing documents, e.g., own risk and solvency assessment summary report, holding company Form B or Form F filings, United States Securities and Exchange Commission proxy statements, foreign regulatory reporting requirements, etc., if the documents provide information that is comparable to the information described in Arkansas Code § 23-63-2005 and 23 CAR § 6-104.

(2) The insurer or insurance group shall:

(A) Clearly reference the location of the relevant information within the corporate governance annual disclosure; and

(B) Attach the referenced document if it is not already filed or available to the regulator.

(g)(1) Each year following the initial filing of the corporate governance annual disclosure, the insurer or insurance group shall file an amended version of the previously filed corporate governance annual disclosure indicating where changes have been made.

(2) If no changes were made in the information or activities reported by the insurer or insurance group, the filing should so state.

Authority. Arkansas Code § 23-63-2010.

23 CAR § 6-104. Contents of corporate governance annual disclosure.

(a) The insurer or insurance group shall be as descriptive as possible in completing the corporate governance annual disclosure, 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.

(b) The corporate governance annual disclosure shall describe the insurer's or insurance group's corporate governance framework and structure including consideration of the following:

(1)(A) The board of directors and various committees thereof ultimately responsible for overseeing the insurer or insurance group and the level or levels at which that oversight occurs, e.g., ultimate control level, intermediate holding company, legal entity, etc.

(B) The insurer or insurance group shall describe and discuss the rationale for the current board size and structure; and

(2) The duties of the board and each of its significant committees and how they are governed, e.g., bylaws, charters, informal mandates, etc., as well as how the board's leadership is structured, including a discussion of the roles of chief executive officer and chair of the board within the organization.

(c) The insurer or insurance group shall describe the policies and practices of the most senior governing entity and significant committees thereof, including a discussion of the following factors:

(1) How the qualifications, expertise, and experience of each board member meet the needs of the insurer or insurance group;

(2) How an appropriate amount of independence is maintained on the board and its significant committees;

(3) The number of meetings held by the board and its significant committees over the past year as well as information on director attendance;

(4)(A) How the insurer or insurance group identifies, nominates, and elects members to the board and its committees.

(B) The discussion should include, for example:

(i) Whether a nomination committee is in place to identify and select individuals for consideration;

(ii) Whether term limits are placed on directors;

(iii) How the election and reelection processes function; and

(iv) Whether a board diversity policy is in place and if so, how it functions; and

(5) 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, including any board or committee training programs that have been established.

(d) The insurer or insurance group shall describe the policies and practices for directing senior management, including a description of the following factors:

(1) Any processes or practices, 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, including:

(A) Identification of the specific positions for which suitability standards have been developed and a description of the standards employed; and

(B) Any changes in an officer's or key person's suitability as outlined by the insurer's or insurance group's standards and procedures to monitor and evaluate such changes;

(2) The insurer's or insurance group's code of business conduct and ethics, the discussion of which considers, for example:

(A) Compliance with:

(i) Laws;

(ii) Rules; and

(iii) Regulations; and

(B) Proactive reporting of any illegal or unethical behavior;

(3)(A) The insurer's or insurance group's processes for performance evaluation, compensation, and corrective action to ensure effective senior management

throughout the organization, including a description of the general objectives of significant compensation programs and what the programs are designed to reward.

(B)(i) The description shall include sufficient detail to allow the Insurance Commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking.

(ii) Elements to be discussed may include, for example:

(a) The board's role in overseeing management compensation programs and practices;

(b) The various elements of compensation awarded in the insurer's or insurance group's compensation programs and how the insurer or insurance group determines and calculates the amount of each element of compensation paid;

(c) How compensation programs are related to both company and individual performance over time;

(d) Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels;

(e) 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; and

(f) Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine whether its risk management objectives are met by incentivizing its employees; and

(4) The insurer's or insurance group's plans for chief executive officer and senior management succession.

(e) The insurer or insurance group shall describe the processes by which the board, its committees, and senior management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer's business activities, including a discussion of:

(1) How oversight and management responsibilities are delegated between:

(A) The board;

- (B) Its committees; and
 - (C) Senior management;
- (2) How the board is kept informed of:
- (A) The insurer's strategic plans;
 - (B) The associated risks; and
 - (C) Steps that senior management is taking to monitor and manage those risks; and
- (3)(A) How reporting responsibilities are organized for each critical risk area.
- (B)(i) The description should allow the commissioner to understand the frequency at which information on each critical risk area is reported to and reviewed by senior management and the board.
- (ii) This description may include, for example, the following critical risk areas of the insurer:
- (a)(1) Risk management processes.
 - (2) An own risk and solvency assessment summary report filer may refer to its own risk and solvency assessment summary report pursuant to the Risk Management and Own Risk and Solvency Assessment Model Act;
 - (b) Actuarial function;
 - (c) Investment decision-making processes;
 - (d) Reinsurance decision-making processes;
 - (e) Business strategy/finance decision-making processes;
 - (f) Compliance function;
 - (g) Financial reporting/internal auditing; and
 - (h) Market conduct decision-making processes.

Authority. Arkansas Code § 23-63-2010.

23 CAR § 6-105. Severability clause.

If any provision of this rule, or the application thereof to any person or circumstance, is held invalid, such determination shall not affect other provisions or

applications of this rule which can be given effect without the invalid provision or application, and to that end the provisions of this rule are severable.

Authority. Arkansas Code § 23-63-2010.