ALABAMA DEPARTMENT OF INSURANCE
INSURANCE REGULATION
ADMINISTRATIVE CODE

CHAPTER 482-1-166
CORPORATE GOVERNANCE ANNUAL DISCLOSURE

TABLE OF CONTENTS

482-1-166-.01 Authority And Effective Date.

(1) This chapter is adopted pursuant to Section 27-29B-4, Code of Ala. 1975, as enacted in Alabama Act No. 2019-097.

(2) This chapter shall become effective upon its approval by the Commissioner of Insurance and upon its having been on file as a public document in the office of the Secretary of State for ten days.
Author: Commissioner of Insurance
Statutory Authority: Code of Ala. 1975, §§27-2-17, 27-29B-4.
History: New Rule: May 6, 2020; effective May 16, 2020. Published May 29, 2020 with LSA. Rule is not subject to the Alabama Administrative Procedure Act.

482-1-166-.02 Purpose. The purpose of this chapter is to set forth the procedures for filing and the required contents of the Corporate Governance Annual Disclosure (CGAD), deemed necessary by the Commissioner to carry out the provisions of Chapter 29B of the Alabama Insurance Code, beginning with Section 27-29B-1, Code of Ala. 1975.
Author: Commissioner of Insurance
Statutory Authority: Code of Ala. 1975, §§27-2-17, 27-29B-4.

History: New Rule: May 6, 2020; effective May 16, 2020. Published May 29, 2020 with LSA. Rule is not subject to the Alabama Administrative Procedure Act.

482-1-166-.03 Definitions. The following definitions shall apply for purposes of this chapter:

(a) CGAD. The Corporate Governance Annual Disclosure.

(b) COMMISSIONER. The Alabama Commissioner of Insurance.

(c) INSURANCE GROUP. Those insurers and affiliates included within an insurance holding company system as defined in Chapter 29 of the Alabama Insurance Code, beginning with Section 27-29-1, Code of Ala. 1975.

(d) INSURER. As defined in Section 27-29B-2.

(e) NAIC. The National Association of Insurance Commissioners.

(f) SENIOR MANAGEMENT. 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 Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Operations Officer ("COO"), Chief Procurement Officer ("CPO"), Chief Legal Officer ("CLO"), Chief Information Officer ("CIO"), Chief Technology Officer ("CTO"), Chief Revenue Officer ("CRO"), Chief Visionary Officer ("CVO"), or any other "C" level executive.

Author: Commissioner of Insurance
Statutory Authority: Code of Ala. 1975, §§27-2-17, 27-29B-4.
History: New Rule: May 6, 2020; effective May 16, 2020. Published May 29, 2020 with LSA. Rule is not subject to the Alabama Administrative Procedure Act. **Amended:** December 8, 2020; effective December 18, 2020. Published December 31, 2020 with LSA. Rule is not subject to the Alabama Administrative Procedure Act.

482-1-166-.04 Filing Procedures.

(1) An insurer, or the insurance group of which the insurer is a member, required to file a CGAD by Chapter 29B of the Alabama Insurance Code, beginning with Section 27-29B-1, shall, no later than June 1 of each calendar year, submit to the Commissioner a CGAD that contains the information described in Rule 482-1-166-.05.

(2) The CGAD 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 the insurer or insurance group has implemented the corporate governance practices and that a copy of the CGAD has been provided to the insurer's or insurance group's Board of Directors (hereafter "Board") or the appropriate committee thereof.

(3) The insurer or insurance group shall have discretion regarding the appropriate format for providing the information required by these regulations and is permitted to customize the CGAD 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.

(4) For purposes of completing the CGAD, 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. The insurer or insurance group is encouraged to make the CGAD disclosures at the level at which the insurer's or insurance group's risk appetite is determined, or at which 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 the level at which legal liability for failure of general corporate governance duties would be placed. If the insurer or insurance group determines the level of reporting based on these criteria, it shall indicate which of the three criteria was used to determine the level of reporting and explain any subsequent changes in level of reporting.

(5) Notwithstanding paragraph (1), and as outlined in Section 27-29B-3, if the CGAD 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 NAIC. In these instances, a copy of the CGAD must also be provided to the chief regulatory official of any state in which the insurance group has a domestic insurer, upon request.

(6) An insurer or insurance group may comply with this rule by 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.) if the documents provide information that is comparable to the information described in Rule 482-1-166-.05. The insurer or insurance group shall clearly reference the location of the relevant information within the CGAD and attach the referenced document if it is not already filed or available to the regulator.

(7) Each year following the initial filing of the CGAD, the insurer or insurance group shall file an amended version of the previously filed CGAD indicating where changes have been made. If no changes were made in the information or activities reported by the insurer or insurance group, the filing should so state.

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482-1-166-.05 Contents Of Corporate Governance Annual Disclosure.

(1) The insurer or insurance group shall be as descriptive as possible in completing the CGAD, 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.

(2) The CGAD shall describe the insurer's or insurance group's corporate governance framework and structure including consideration of the following.

(a) The Board and various committees thereof ultimately responsible for overseeing the insurer or insurance

group and the level(s) at which that oversight occurs (e.g., ultimate control level, intermediate holding company, legal entity, etc.). The insurer or insurance group shall describe and discuss the rationale for the current Board size and structure.

(b) 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 (CEO) and Chairman of the Board within the organization.

(3) 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:

(a) How the qualifications, expertise and experience of each Board member meet the needs of the insurer or insurance group.

(b) How an appropriate amount of independence is maintained on the Board and its significant committees.

(c) The number of meetings held by the Board and its significant committees over the past year as well as information on director attendance.

(d) How the insurer or insurance group identifies, nominates and elects members to the Board and its committees. The discussion should include, for example:

1. Whether a nomination committee is in place to identify and select individuals for consideration.

2. Whether term limits are placed on directors.

3. How the election and re-election processes function.

4. Whether a Board diversity policy is in place and if so, how it functions.

(e) 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 put in place).

(4) The insurer or insurance group shall describe the policies and practices for directing Senior Management, including a description of the following factors:

(a) 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:

1. Identification of the specific positions for which suitability standards have been developed and a description of the standards employed.

2. 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.

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

1. Compliance with laws, rules, and regulations.

2. Proactive reporting of any illegal or unethical behavior.

(c) 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. The description shall include sufficient detail to allow the Commissioner to understand how the organization ensures that compensation programs do not encourage and/or reward excessive risk taking. Elements to be discussed may include, for example:

1. The Board's role in overseeing management compensation programs and practices.

2. 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.

3. How compensation programs are related to both company and individual performance over time.

4. Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels.

5. Any claw back provisions built into the programs to recover awards or payments if the performance measures upon which they are based are restated or otherwise adjusted.

6. 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.

(d) The insurer's or insurance group's plans for CEO and Senior Management succession.

(5) 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 all the following:

(a) How oversight and management responsibilities are delegated between the Board, its committees and Senior Management.

(b) How the Board is kept informed of the insurer's strategic plans, the associated risks, and steps that Senior Management is taking to monitor and manage those risks.

(c) How reporting responsibilities are organized for each critical risk area. 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. This description may include, for example, the following critical risk areas of the insurer:

1. Risk management processes (An ORSA Summary Report filer may refer to its ORSA Summary Report pursuant to the Risk Management and Own Risk and Solvency Assessment Model Act).

2. Actuarial function.

3. Investment decision-making processes.

4. Reinsurance decision-making processes.

5. Business strategy/finance decision-making processes.

6. Compliance function.

7. Financial reporting/internal auditing.

8. Market conduct decision-making processes.

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482-1-166-.06 Severability. If any provision of this chapter, or the application thereof to any person or circumstance, is held invalid, such determination shall not affect other provisions or applications of this chapter which can be given effect without the invalid provision or application, and to that end the provisions of this chapter are severable.
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