

Small Business Compliance Guide for Regulation 31.04.23

What does this regulation do?

The purpose of these regulations 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 Insurance Article §4-501, Chapter 105, 2019 Maryland Session Laws.

Who does this regulation impact?

Insurance companies domesticated in Maryland and subject to the Commissioner's examination.

What must I do to comply with the new regulation?

The regulations provide significant detail on the preparation and submission of the CGAD report. Insurers are free to create their own format of the report that is as descriptive as possible and may include attachments or documents.

There are certain filing procedures outlined in the regulations which should be considered by an insurer who is required to file a CGAD, namely:

- A. The insurer may provide information regarding its corporate governance structure at:
 1. The ultimate controlling parent level;
 2. An intermediate holding company level; or
 3. The individual legal entity level.
- B. In determining the level, the insurer may consider:
 1. The level at which the insurer's or insurance group's risk appetite is determined;
 2. The level at which factors, such as earnings, capital, liquidity, operations, and reputation of the insurer, are overseen collectively, and at which level the supervision of those factors is coordinated and exercised; or
 3. The level at which legal liability for failure of general corporate governance duties would be placed.
- C. If the insurer determines the level of CGAD reporting based on the three criteria used in (B), the insurer must explain which of the three criteria is used to determine the level of reporting used in the CGAD.
- D. If the CGAD is completed at the insurance group level:
 1. The insurer must file with the lead state of the group according to the procedures outline in the NAIC financial analysis handbook; and
 2. A copy of the CGAD must be provided to another state, if the insurance group has a domestic insurer in that state, upon request by the state regulator.
- E. The insurer may comply with this regulation by referencing other existing documents if the insurer:
 1. Clearly references the location of the relevant information within the CGAD; and
 2. Attaches the referenced documents if not already filed or available.
- F. The existing documents that may be referenced include:
 1. An ORSA report;
 2. Holding Company Form B or F filings;

3. SEC proxy statements;
 4. Foreign regulatory reporting requirements; or
 5. Other similar documents acceptable to the Commissioner.
- G. Each year following the initial filing of the CGAD, the insurer must file an amended version of the previously filed CGAD which points out the changes.
- H. The required content of the CGAD report shall cover in detail:
1. The insurer's corporate governance framework and structure, including:
 - a. The Board of Directors ("Board") and various committees responsible for overseeing the insurer and the level at which that oversight occurs;
 - b. The rationale for the current Board size and structure;
 - c. The duties of the Board and its various committees;
 - d. How the Board and its committees are governed;
 - e. How the Board's leadership is structured; and
 - f. A discussion of the roles of the CEO and Chairman of the Board
 2. The insurer's policies and practices of the senior governing entity and significant committees, including:
 - a. How the qualifications, expertise, and experience of each Board member meets the needs of the insurer;
 - b. How independence is maintained on the Board and its committees;
 - c. The number of meetings held by the Board and its committees over the past year and the attendance record of the directors;
 - d. How the insurer identifies, nominates, and elects members to the Board; and
 - e. How the Board and its committees are evaluated.
 3. The insurer's description of the policies and practices for directing senior management, including:
 - a. The standard or process in place to ensure that officers and key persons in control functions have the appropriate background, experience, and integrity to fulfill their roles;
 - b. A discussion of the insurer's code of business conduct;
 - c. A discussion of the process in place for performance evaluation, compensation, and corrective action to ensure effective senior management throughout the organization;
 - d. The insurer's plans for CEO and senior management succession.
 4. The process 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. How the 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 the steps that senior management is taking to monitor and manage those risks; and
 - c. A description of how reporting responsibilities are organized for certain critical risk areas outlined in the regulation and the frequency and method by which information reported to and reviewed by senior management and the Board in the critical risk areas outlined in the regulation.

When do the new requirements go into effect?

December 31, 2019. First CGAD report is due June 1, 2020.

Is there an additional cost/fee to comply? If so, how much?

No fee is assessed related to the CGAD report filing with the Maryland Insurance Administration.

Who at the Maryland Insurance Administration can I contact if I have additional questions about the regulations and how to comply?

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