



# RULE-MAKING ORDER PERMANENT RULE ONLY

**CR-103P (October 2017)**  
**(Implements RCW 34.05.360)**

CODE REVISER USE ONLY

OFFICE OF THE CODE REVISER  
STATE OF WASHINGTON  
FILED

DATE: October 01, 2018

TIME: 2:25 PM

**WSR 18-20-090**

**Agency:** Office of the Insurance Commissioner

**Effective date of rule:**

**Permanent Rules**

- ☐ 31 days after filing.  
☒ Other (specify) January 1, 2019 (If less than 31 days after filing, a specific finding under RCW 34.05.380(3) is required and should be stated below)

**Any other findings required by other provisions of law as precondition to adoption or effectiveness of rule?**

- ☐ Yes ☒ No If Yes, explain:

**Purpose:** Adoption of rules consistent with the NAIC's corporate governance annual disclosure model rule.

**Insurance Commissioner Matter No. R 2018-02**

**Citation of rules affected by this order:**

New: 5  
Repealed:  
Amended:  
Suspended:

**Statutory authority for adoption:** RCW 48.02.060, and RCW 48.195.030.

**Other authority:** Chapter 48.195 RCW

**PERMANENT RULE (Including Expedited Rule Making)**

Adopted under notice filed as WSR 18-16-033 on July 24, 2018 (date).

Describe any changes other than editing from proposed to adopted version: The citations to session law enacting the Corporate Governance Act contained in the proposed rule have been amended to the codified RCW citations.

If a preliminary cost-benefit analysis was prepared under RCW 34.05.328, a final cost-benefit analysis is available by contacting:

Name:  
Address:  
Phone:  
Fax:  
TTY:  
Email:  
Web site:  
Other:

**Note: If any category is left blank, it will be calculated as zero.  
No descriptive text.**

**Count by whole WAC sections only, from the WAC number through the history note.  
A section may be counted in more than one category.**

**The number of sections adopted in order to comply with:**

Federal statute:	New	_____	Amended	_____	Repealed	_____
Federal rules or standards:	New	_____	Amended	_____	Repealed	_____
Recently enacted state statutes:	New	<u>5</u>	Amended	_____	Repealed	_____

**The number of sections adopted at the request of a nongovernmental entity:**

New	_____	Amended	_____	Repealed	_____
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**The number of sections adopted on the agency's own initiative:**

New	<u>5</u>	Amended	_____	Repealed	_____
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**The number of sections adopted in order to clarify, streamline, or reform agency procedures:**

New	_____	Amended	_____	Repealed	_____
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**The number of sections adopted using:**

Negotiated rule making:	New	_____	Amended	_____	Repealed	_____
Pilot rule making:	New	_____	Amended	_____	Repealed	_____
Other alternative rule making:	New	<u>5</u>	Amended	_____	Repealed	_____

**Date Adopted:** October 1, 2018

**Name:** Mike Kreidler

**Title:** Insurance Commissioner

**Signature:**



## CORPORATE GOVERNANCE ANNUAL DISCLOSURE

### NEW SECTION

**WAC 284-07-700 Purpose.** The purpose of WAC 284-07-700 through 284-07-740 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 48.195 RCW.

### NEW SECTION

**WAC 284-07-710 Definitions.** The definitions in this section apply throughout WAC 284-07-720 through 284-07-730 unless the context clearly requires otherwise.

(1) "Commissioner" means the insurance commissioner of this state.

(2) "Insurance group" means those insurers and affiliates included within an insurance holding company system as defined in RCW 48.31B.005.

(3) "Insurer" has the same meaning as set forth in RCW 48.31B.005, except that it does 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.

(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 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.

### NEW SECTION

**WAC 284-07-720 Filing procedures.** (1) An insurer, or the insurance group of which the insurer is a member, required to file a CGAD by chapter 48.195 RCW, must annually, no later than June 1st, submit to the commissioner a CGAD that contains the information described in WAC 284-07-730.

(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 has discretion regarding the appropriate format for providing the information required by WAC 284-07-700 through 284-07-730 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 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 either: (a) The ultimate controlling parent level; (b) an intermediate holding company level; or (c) the individual legal entity level, or any combination of (a), (b), or (c) of this subsection, 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 must 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 subsection (1) of this section, and as outlined in RCW 48.195.020, 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 National Association of Insurance Commissioners. 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 section 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 requirement, etc.) if the documents provide information that is comparable to the information described in WAC 284-07-730. The insurer or insurance group must 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 commissioner.

(7) Annually following the initial filing of the CGAD, the insurer or insurance group must 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 must so state.

## NEW SECTION

**WAC 284-07-730 Contents of corporate governance annual disclosure.** (1) The insurer or insurance group must 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 must 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 must describe and discuss the rationale for the current board size and structure; and

(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 must 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 must 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 process function; and

(iv) 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 into place).

(4) The insurer or insurance group must 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 respective roles, including:

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

(ii) 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:

(i) Compliance with laws, rules, and regulations; and

(ii) 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 must include sufficient detail to allow the commissioner to understand how the organization ensures that compensation programs do not either encourage or reward, or both, excessive risk taking. Elements to be discussed may include, for example:

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

(ii) 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;

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

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

(v) 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

(vi) Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine 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 must 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 discussion of:

(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 senior management is taking to monitor and manage those risks;

(c) How reporting responsibilities are organized for each critical area. The description must 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 follow critical risk areas of the insurer:

(i) 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 Act, chapter 48.05A RCW);

(ii) Actuarial function;

(iii) Investment decision-making processes;

(iv) Reinsurance decision-making processes;

(v) Business strategy/finance decision-making processes;

- (vi) Compliance function;
- (vii) Financial reporting/internal auditing; and
- (viii) Market conduct decision-making processes.

#### NEW SECTION

**WAC 284-07-740 Severability clause.** If any provision of WAC 284-07-700 through 284-07-730, or the application to any person or circumstance is held invalid, the remainder of WAC 284-07-700 through 284-07-730 or the application of the provision to other persons or circumstances is not affected.