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## CGAD – Board of Director Evaluation

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### Regulatory Outlook

States continue to adopt the National Association of Insurance Commissioners (NAIC) model act (#305) and regulation (#306) on Corporate Governance Annual Disclosure (CGAD) reporting requirements. Putting the Board and committee evaluation protocols in place now will better position your company to submit a robust report when it comes due.

As of December 6, 2019:

- The model act has been adopted in 46 states: AK, AL, AR, AZ, CA, CO, CT, DE, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MA, MD, ME, MI, MN, MO, MS, MT, NC, ND, NE, NH, NV, OH, OK, OR, PA, RI, SC, TN, TX, UT, VA, VT, WA, WI, WV and WY
- The model regulation has been adopted in 31 states: AK, CA, CO, CT, DE, FL, IA, ID, IL, IN, KY, LA, ME, MO, MS, MT, ND, NE, NH, NV, OH, OR, PA (via Memo & website), RI, SC, TN, UT (via Bulletin), VA, VT, WA and WY

The list of states on this page will be updated as legislatures and regulators adopt changes.

### Elements to be Considered

The purpose of CGAD is for companies to report on their existing practices so insurance regulators can gain an understanding of your governance framework; CGAD does not prescribe new standards or practices. This article looks at one of the reporting requirements – requiring each insurance group to describe the evaluation of its Board’s performance.

The insurer group should describe “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).” <sup>1</sup>

Following is sample of some of the elements to consider using in your description to *measure and improve performance*:

- The board sets annual goals and measures performance relative to these goals
- There is a director self-assessment, peer assessment, or independent assessment (independence helps increase objectivity) process in place
- Committee results are discussed with the full Board as part of ongoing performance monitoring
- The structure and exercise of Board leadership is assessed

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<sup>1</sup> NAIC Corporate Governance Annual Disclosure Model Regulation, Model 306, Section 5. C. (5)

- Board composition is reviewed
- Conclusions are drawn from the board performance review and director assessments. These conclusions tie to action plans for improvement that are monitored.
- The effectiveness of prior improvement initiatives
- Board training programs are outlined from any identified gaps in skills or knowledge

Documents and communications of the evaluation process are maintained. CGAD requires a description of the evaluation process and improvement opportunities. With an effective governance practice the same communication employed by the insurance group to its stakeholders is shared with the regulator. The overall process leads to a good story being shared.