



# TEXAS LIFE & HEALTH INSURANCE GUARANTY ASSOCIATION

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## **Board of Directors Corporate Governance Guidelines**

**Revised July 26, 2011**

The following Corporate Governance Guidelines have been adopted by the Board of Directors of the Texas Life and Health Insurance Guaranty Association (“Association”) to assist the Board in the exercise of its statutory and fiduciary responsibilities. These Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision-making both at the Board and management level. These Guidelines are not intended to change or interpret any law or regulation, including Tex. Ins. Code Chapter 463 (“Act”), Bylaws, Plan of Operation, Policies and Procedures of the Association, the Texas Open Meetings Act, or the Texas Public Information Act. The Guidelines are subject to modification from time to time by the Board.

### **BOARD COMPOSITION**

#### **1. Board Membership**

The Act governs membership of the Board including appointment of members by the Texas Commissioner of Insurance, qualifications for public and industry members, number and term of members, and vacancies.

#### **2. New Board Members**

The Association may submit qualified individuals as candidates for the Association’s Board to the Texas Commissioner of Insurance.

#### **3. Selection of Board Officers**

Article 4 of the Association's Bylaws specifies provisions for selecting Board officers.

### **BOARD RESPONSIBILITIES**

#### **4. Director Responsibilities**

The principal responsibilities of the Board include:

- a. Overseeing the management of the Association with respect to: providing benefits to insureds of member life or health insurance companies that are declared impaired or insolvent, the financial affairs of the Association, the assessment of member companies as provided by the Act, and reporting to the Texas Insurance Commissioner as required by the Act.

- b. Periodically reviewing, amending, and approving the Bylaws, Plan of Operation, Policies and Procedures, and other business plans and practices of the Association, including the annual operating budget, and monitoring corporate performance against such plans and practices.
- c. Engaging and supervising an Executive Director and other management personnel to carry out the Association's business plans and practices.
- d. Approving the Association's employee benefit programs and compensation of officers.
- e. Reviewing and approving a succession plan for the Executive Director and other key members of the Association's management.
- f. Adopting and periodically reviewing the adequacy of (i) policies promoting appropriate corporate conduct, including compliance with applicable laws and regulations and maintenance of accounting, financial, and other controls, and (ii) policies and procedures for and relating to members of the Association's staff, including those relating to work environment.
- g. Reviewing and/or approving material Association transactions and actions.
- h. Evaluating periodically the overall effectiveness of the Board.

In discharging their responsibilities, the directors shall exercise their business judgment in what they reasonably believe to be the best interests of the Association and the purposes for which the Association exists, and should be able to rely on the honesty and integrity of the Association's senior executives and the outside advisors and auditors of the Association and Board. The directors shall also be entitled to consider from time to time whether the Association should purchase reasonable directors' and officers' liability insurance on their behalf, and shall be entitled to the benefits of indemnification to the fullest extent permitted by law and the Association's Plan of Operation and Bylaws.

## **5. Committees**

Article 5 of the Bylaws authorizes the Board to create committees with specified responsibilities.

Standing Committees Section 5.7 of the Bylaws establishes the following standing committees and their purposes: (a) Executive Committee, (b) Audit Committee, (c) Assessment/Investment Committee, and (d) Personnel Committee. The Executive Committee has authority to act on behalf of the Board in certain situations. The authority of the other standing committees is limited to making recommendations to the Board unless the Board, via resolution, grants the committee special authority to act.

Ad Hoc Committees Section 5.8 of the Bylaws permits the Board to designate ad hoc committees, and to define the duration and scope of such committees. Ad hoc committees may include a compensation committee, personnel committee, benefits committee, or any other committees deemed appropriate by the Board.

## **6. Director Orientation**

All new directors shall be provided an Association orientation handbook, and are strongly encouraged to participate in the Association's orientation program, which Association senior management should endeavor to conduct within two months after a new director's appointment. This orientation will take place at the Association's office in Austin and shall include presentations by senior management to familiarize new directors with the Association's purpose; its significant financial, accounting, legal, and risk management issues; its compliance programs; its principal officers; current insolvencies and litigation; and the general state of the Association and the life and health guaranty system and life and health insurance industry. Directors shall also be advised that they may consult with board counsel should they have any questions regarding their responsibilities as a director of the Association. All other directors are invited to participate in the orientation program. This orientation is in addition to any orientation that is provided by the Texas Department of Insurance.

Directors are also encouraged to attend NOLHGA legal seminars, annual meetings, and Member Participation Council meetings for additional education and insight about the guaranty association system.

## **7. Evaluation of the Board**

The Board shall conduct a self-evaluation at least annually to determine whether the Board as a whole and its committees are functioning effectively and in the manner contemplated by the Association's Act, Bylaws, Plan of Operation, Policies and Procedures and these Guidelines. To this end, the Board shall receive comments from all directors. The Board shall determine at its October meeting the method of receiving comments from Board members for that year, including whether comments may be written, verbal, or anonymous. The Board chair or his/her designee shall compile the evaluations and share them with the Board at the next January meeting.

## **8. Attendance at Meetings**

Directors are expected to attend Board meetings and meetings of committees on which they serve, to spend the time needed, and meet as frequently as necessary to discharge properly their responsibilities. Directors are expected to participate actively in meetings of the Board and Board committees on which they serve, and to attend at least 75% of all Board and committee meetings. Directors are also expected to review any materials for a Board or committee meeting provided in advance of the meeting. The Executive Committee may ask a director who does not meet the foregoing level of participation to resign from the Board.

## **9. Conflicts of Interest and Antitrust Policy**

Each director shall be provided a copy of the Association's Policy Statement on Conflicts of Interest and Business Ethics and a copy of the Association's Antitrust Policy. Each director is

expected to comply with the prohibitions against conflicts of interest as stated in the Act, and to complete the Conflicts Questionnaire and Antitrust Certification each year. In addition, directors should always strive to refrain from actions that may be perceived as a conflict of interest. Directors may consult with board counsel if there are questions regarding conflicts of interest or antitrust.

#### **10. Resignation from Board**

In order to avoid impropriety or the appearance of impropriety, a director is strongly encouraged to resign from the Board if circumstances develop which could render the director's service on the Board improper or appearing improper. An example of such a circumstance would include when a director is an employee, officer, or consultant of a member insurer (or its affiliate) that is placed in a proceeding, whether administrative or judicial, by the Texas Department of Insurance or a Texas court in which the company may become an impaired or insolvent insurer as defined by Texas law. The Board shall also report to the Texas Insurance Commissioner when a director's service on the Board may be or appear to be improper.

#### **11. Meeting Schedule; Planning**

At the January meeting each year, the Board Chair will establish a schedule of regular meetings for the Board of Directors and the audit and assessment/investment committees for that year and a plan for addressing subjects to be discussed during the year (to the degree this can be foreseen). Each director is free to suggest the inclusion of items to be discussed by the board or the committees during the year.

#### **12. Board Interaction with Regulators, Press, and Others**

The Board believes that, except in extraordinary circumstances, the Executive Director should speak for the Association. Each director should refer all inquiries from regulators, the press, or others to the Executive Director.

### **ACCESS AND ADVISORS**

#### **13. Board Access to Management and Employees**

Directors shall have full and free access to the Association's management and employees. Any meetings or contacts that a director wishes to initiate may be arranged through the Executive Director or directly by that director.

Unless other arrangements are made, the Board requires regular attendance at each Board and committee meeting of the Executive Director, other senior management of the Association, the Association's counsel, and the Board's counsel. The Board or a committee may also request the attendance of other Association staff or advisors to attend all or part of a board or committee meeting.

Any employee of the Association is permitted and encouraged to bring to the attention of the Board Chair any information or issue that the employee considers material to the business of the Association, which involves the Executive Director. The Board Chair shall report the same to the Board. Employees shall bring issues that do not involve the Executive Director to the attention of their supervisor or the Executive Director in accordance with the Association's Employee Handbook. The Executive Director shall make this guideline known to all members of the organization's staff at least annually.

#### **14. Independent Advisors**

The Board, the Executive Committee, and the Audit Committee have the power to hire independent legal, financial, or other advisors as they may deem necessary for the Board or any of its committees to carry out their responsibilities without consulting any officer of the Association in advance. The Board currently has independent counsel to assist with making certain that it is fulfilling its statutory and fiduciary obligations.

### **LEADERSHIP DEVELOPMENT**

#### **15. Evaluation of Management**

On at least an annual basis, the Board will evaluate the Executive Director and other senior management based upon the input of the full Board and such other persons as the Board deems appropriate. The evaluation should be communicated to the senior management. The evaluation should be based on objective criteria, including performance of the Association, and will be used when considering the compensation of senior management.

At the end of each "executive session" of each Board meeting, the Board shall have the opportunity to discuss performance of Association senior management without the presence of Association senior management.

#### **16. Management Development**

There should be an annual report and recommendations to the Board by the Executive Director on the Association's program for management and staff training and development.