



TEXAS LIFE & HEALTH INSURANCE GUARANTY ASSOCIATION

Policy Statement on Conflicts of Interest and Business Ethics Amended and Restated July 26, 2011

The Board of Directors of the Texas Life and Health Insurance Guaranty Association ("Association") is extremely proud of the high ethical standards exhibited by Association staff and others who work on Association matters. Our reputation for honesty and fair dealing is a justifiable source of pride to everyone affiliated with the Association.

Nevertheless, we all must recognize that there would be very little that could be done to damage our credibility and reputation more seriously than to have occasions come to light which exhibit an indifference to questionable practices. Our mission of protecting policyholders cannot be accomplished effectively if the Association's various constituencies (policyholders, regulators, the life and health insurance industry and the public) develop a perception that the Association cannot be trusted. In a very real sense, insurance products are a promise, and without a continued reputation for fair and ethical conduct, the Association could not hope to persuade people to trust it to provide the safety net for future financial security which they ought rightfully to expect.

That is why the Board of Directors wishes to reemphasize at this time the Association's continuing commitment to the highest possible ethical standards. Although much of what comprises these standards are matters of common sense, the Board wishes to underscore the Association's commitment to them by formalizing and supplementing current practices and procedures in this written Policy Statement.

ASSOCIATION COMMITMENTS

The primary responsibility of the Association is to discharge covered obligations owed to policyholders by impaired or insolvent member insurers. These responsibilities are carried out by the Board of Directors, Association management and employees, and Association consultants. It also involves six key relationships: policyholders and insureds, the Texas Department of Insurance, NOLHGA, member insurers, the public, and Association personnel. The following commitments serve as broad ideals for Association directors, management, employees, and consultants regarding these relationships.

- To policyholders and insureds we will be respectful, polite, and attentive, and strive to carry out fully our statutory obligations to them fairly, efficiently, and professionally.

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- To the Texas Department of Insurance we will be respectful, helpful, and work with a cooperative spirit.
- To NOLHGA we will strive to work cooperatively and always seek to secure the best solutions available to discharge our statutory obligations.
- To member insurers we will ensure assessment funds are in accordance with the law and spent only for purposes for which they are assessed.
- To the public we will strive to operate in a manner to promote trust and confidence.
- To Association personnel we will treat each other with dignity and respect and work together as a team.

ASSOCIATION VALUES

In order to fulfill these commitments, it is important for all Association personnel to be:

- Dedicated and loyal to the Association and its purposes
- Law-abiding
- Honest and trustworthy
- Responsible and reliable
- Accurate
- Fair and cooperative
- Economical in utilizing Association resources

CODE OF ETHICAL CONDUCT

No formal code of conduct, however well intentioned and detailed, is sufficient to achieve the high ethical standards an organization may set for itself. The Board feels that a few briefly stated, easily understood Rules are more effective than a highly detailed comprehensive list, which would invariably and unintentionally create loopholes.

More important than any words set forth on paper are the moral climate fostered within the Association, the expectations communicated by its management, and the examples set by its personnel at every level in the daily performance of their duties. The Board of Directors has the highest level of expectation that those working on Association activities will conduct themselves within both the letter and spirit of this Code of Ethical Conduct at all times.

The Board's aim is to cover not only actual conflicts of interest, but also those situations which reasonably could lead to a perception that a conflict of interest may exist. Accordingly, it is the Board's intent that this Code be interpreted broadly to that end.

Unless otherwise stated, the Rules are intended to apply to all Association staff employees and all Association board members. In addition, certain Rules specifically cover activities of

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consultants who are assisting the Association in various functions. When the phrase “Association personnel” is used in a Rule, it is broadly meant to cover persons serving the Association in any of the following capacities: (i) Board or Board Committee member, (ii) management and employees, and (iii) outside consultants. When these Rules by their literal terms require reporting to the Executive Director, by the Executive Director, the Rules shall be deemed to mean the Executive Director should report to the Board Chair.

Rule 1:

Unless appropriate approval is obtained, no Association employee may hold a position in or be associated with any outside activity, if such activity may result in a significant adverse effect on the time or attention required for the employee to fulfill his or her duties at the Association.

The Board has every right to expect all employees not specifically designated as temporary or part-time employees to devote their business activities principally to their Association jobs. However, this policy is not meant to prohibit staff from becoming involved with governmental, educational, charitable, religious, civic, professional or other nonprofit associations. Nor is it meant to prohibit staff from occasionally accepting outside board memberships or other positions in for profit organizations. Such affiliations can benefit the Association by increasing the level of the individual’s personal expertise. However, the time demands of such positions should not be significant and it must be made clear to the other organization that the individual in no way represents Association in that outside activity. Situations involving outside activities of Association employees other than the Executive Director should be reported to and approved by the Executive Director. Situations involving outside activities of the Executive Director of the Association should be reported to and approved by the Board Chair.

Rule 2:

Association personnel may not accept any gift, favor or other consideration, however nominal, which could reasonably be perceived as tending to influence any business decision made or to be made on behalf of the Association by the recipient. All gifts, favors and other considerations, which in the aggregate, have a fair value in excess of \$100 given to Association personnel in connection with an individual’s activities on behalf of the Association are to be reported to the Executive Director or the Board Chair, as appropriate.

It is, of course, against policy to offer or receive bribes or kickbacks of any sort. However, a gift, favor or other consideration need not be illegal for the Rule to apply. The standard the Board wishes to establish is this: If you are not absolutely sure it will look proper, don’t accept it. In any event, all gifts, favors and other considerations above the indicated threshold are to be reported, so that the situation can be monitored.

Rule 3:

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Association personnel may not use a position with the Association in a manner to derive a personal pecuniary benefit beyond any compensation or reimbursements provided for fulfilling the responsibilities of the position with the Association.

This Rule is meant to cover practices which present real possibilities for conflict or the perception of conflict, although not of the same direct nature as a gift or favor. For example, this rule would prohibit "reciprocal arrangements" whereby a person uses his position with the Association to benefit a third party for the purpose of gaining favors from the third party. This Rule does apply to frequent flyer miles, hotel credits, and similar benefits Association personnel may acquire while performing services for the Association.

Rule 4:

Association personnel may not utilize any nonpublic information acquired as a result of the performance of Association duties to derive any personal pecuniary benefit, through securities trading or otherwise, directly or indirectly. All such nonpublic information, if material, shall be disseminated only within the Association and its authorized agents on a "need to know" basis and under circumstances where the recipient of such information has committed to keep such information confidential and not use such information to derive any personal pecuniary benefit.

The Board cannot emphasize strongly enough that use of sensitive nonpublic information for personal benefit is not permitted. Association personnel are cautioned that, under certain circumstances involving securities trading, violation of this Rule can lead to severe monetary penalties to and criminal indictment of the individual, in addition to appropriate sanctions from the Association.

Generally, material nonpublic information should be safeguarded even if the Association has not been required to commit to a formal confidentiality agreement. Much of the information that the Association obtains about troubled, impaired, or insolvent insurers is nonpublic, including policyholder data, financial information and information on litigation. If there are any doubts about whether information is nonpublic, clarification should be sought from the Executive Director. Hallway gossip is to be avoided, as are "tips" to friends, relatives and business acquaintances. The appropriate communication of nonpublic information with and among Association staff and its authorized agents is of course necessary and encouraged, but sharing nonpublic information with industry members generally would normally not be necessary and would therefore not be permissible in most circumstances. "Materiality" will be defined on a case-by-case basis.

Rule 5:

All Association personnel shall immediately and fully disclose to the Executive Director or Board Chair, as appropriate, any interest in any matter which might reasonably represent a conflict of interest or the appearance of one within the context of the individual's duties for the Association. After discussion with the Executive Director or Board Chair, as

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appropriate, Association personnel may be requested to recuse themselves from participating in the matter, or in the Association altogether in extreme cases.

This catchall Rule is meant to pick up more subtle situations which are troublesome even though they may not involve any evidence of intentional self-dealing or favoritism. For example, it sometimes happens that an individual will inadvertently find him or herself in a position where an Association-sponsored activity in which the individual is participating could in fact result in an unintended personal benefit, such as where the activity will directly benefit a member of the industry in which the individual or a spouse is an officer or director. Another example would be where a firm with which the individual is affiliated is closely involved in the same transaction as the Association, but in a position adverse to the Association. In all such cases, the individual must make full disclosure to the Association, and the individual should recuse him or herself from the deliberations or negotiations or, in an extreme case, resign from the Association activity.

Rule 6:

Association personnel should never engage in any unlawful, improper or unethical conduct on the Association's behalf.

The Board is highly appreciative of the efforts put forward by employees and other individuals acting on the Association's behalf. The Board recognizes that everyone wants to do the best job for the Association that he or she possibly can. Nevertheless, that noble desire can never serve to justify unlawful, improper or unethical conduct, and in no event will the Association condone such activity.

Rule 7:

Association personnel who become aware of any violation or possible violation by someone else of any of these rules shall immediately report the facts and circumstances in confidence to the Association's Executive Director or Board Chair, as appropriate.

It is everyone's obligation not to tolerate or be indifferent to the creation or appearance of an atmosphere of unethical conduct. Where unethical conduct becomes known to a disinterested individual, he or she has a mechanism and obligation under this Rule to raise the issue with the Executive Director, who shall contact the Association's counsel to investigate the conduct while preserving the individual's anonymity. If the conduct involves the Executive Director, the individual shall raise the issue with the Board Chair who shall determine with the advice of Association counsel, Board counsel and others as needed the prescribed course of action, including investigation of the conduct while preserving the individual's anonymity.

Rule 8:

Association personnel shall not (a) corruptly alter, destroy, mutilate, or conceal any record, document, or other object, or attempt to do so, with the intent to impair the object's

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integrity or availability for use in an official proceeding, or (b) otherwise obstruct, influence, or impede any official proceeding, or attempt to do so.

This rule is a reminder that tampering with documents or obstructing official proceedings is not permitted. In fact, the activities described in the rule are a violation of federal law, subject to fines and imprisonment up to 20 years, or both. (18 USC 1512 (c)).

CONSEQUENCES OF VIOLATIONS

Violations of the Code of Ethical Conduct shall be treated as serious matters. Besides measures to remove the conflict, the Board may take whatever actions it shall deem appropriate under the circumstances, including without limitation, censure, a ban against the individual performing future activities for the Association, referral to law enforcement authorities, or, in the case of a Association employee, termination of employment.

GENERAL

Inquiries, concerns and other communications about this Policy Statement shall first be directed to the Executive Director, who shall immediately inform the Association's counsel and Board counsel, and the Board will be appropriately informed.

Reference to this Policy Statement shall be made in all engagement letters between the Association and outside consultants, and compliance herewith shall be made an express condition for the continuance of the engagement.

It shall be the responsibility of the Association management to insure that this Policy Statement is communicated to all Association personnel in the appropriate manner. Such communication shall include the obtaining of a signed statement upon beginning services that the person has read this Policy Statement and agrees to be bound by it and an annual questionnaire designed to elicit facts relevant to compliance. The forms of such statement and questionnaire shall be approved by the Executive Director. Except as otherwise stated herein, the Executive Director shall also be responsible for all administrative matters relating to the implementation, maintenance, and application of the policy contained herein.

Should any affected party disagree with the Executive Director's implementation, maintenance or application of this Policy Statement on Conflicts and Business Ethics, that party may raise the disagreement with the Board of Directors. For purposes of achieving uniformity in application, all questions of interpretation and other issues under this Policy Statement shall be decided finally by the Association Board of Directors.

The Board reserves the right to amend or supplement this Policy Statement at any time. Activities or situations prohibited herein which exist prior to its effective date may, upon full disclosure, be grandfathered at the Board's discretion, to prevent hardship.