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FOCUSING

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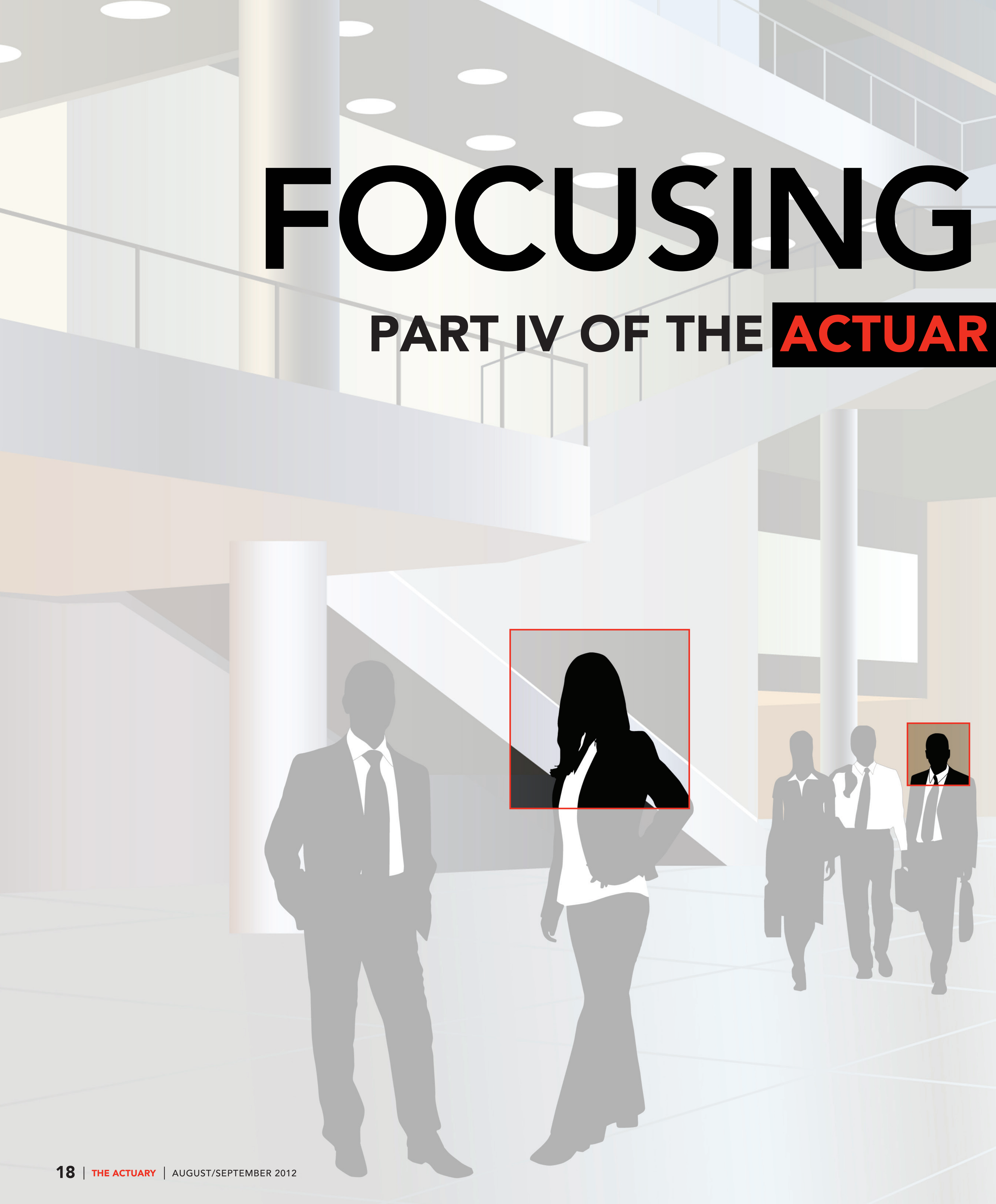


IN

IES ON BOARDS SERIES

THIS ARTICLE DISCUSSES WHERE ACTUARIES FIT ON BOARDS AND THE DUE DILIGENCE THAT IS IMPERATIVE BEFORE ASSUMING A BOARD POSITION. BY G.M. FILISKO AND MEMBERS OF THE SOA'S ACTUARIES ON BOARDS TASK FORCE

Actuaries' financial acumen should mesh well with the responsibilities of several committees …

Responding to calls for more corporate accountability, many companies have appointed new, highly credentialed members to add teeth to their corporate boards. This trend may present opportunities for savvy actuaries to strengthen corporations and benefit shareholders while promoting their personal expertise and raising awareness of the reputation of the actuarial profession as a whole. However, not all boards are beds of roses. It's wise to perform thoughtful due diligence before accepting a board position.

The Society of Actuaries (SOA) has formed the Actuaries on Boards (AOB) Task Force to research the best ways for actuaries to pursue this career path. Recently the task force interviewed more than 15 actuaries currently working as sitting members of various boards in the hopes of gathering advice for those who might someday consider seeking such a position. This is the fourth in a series of articles in which the information gleaned from those interviews will be presented.

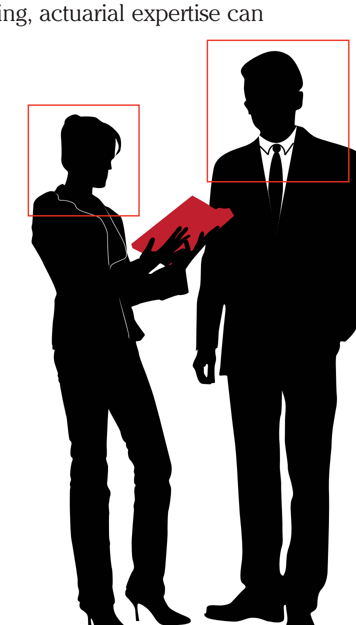
HOW AND WHERE ACTUARIES CAN HELP

Actuaries who've served on corporate boards say the typical actuary's strengths would benefit most boards. "Obviously, where actuaries have particular value is in the quantitative side of things," said Terri Vaughan, ASA, ACAS, MAAA, CEO of the National Association of Insurance Commissioners, who served on the Endurance Specialty Insurance and Principal Financial Group boards. "That involves understanding financial statements and the firm's financial condition, including how you think about that, what you look for, what you worry about, and the kinds of questions you ask. Capital adequacy is a big issue right now, especially on the boards of financial institutions. But not everyone on the board has the ability to think at a very deep level about that issue. Thinking about financial risk is something actuaries lend themselves to quite well."

Actuaries' financial acumen should mesh well with the responsibilities of several committees increasingly found on corporate boards. "Take a Fortune 500 or Fortune 1000 company, and which committees do those boards have?" asked Larry D. Zimpleman, FSA, MAAA, chairman, president and CEO of the Principal Financial Group. "All have an audit committee. Probably 60 to 65 percent of these boards have something called or similar to a finance committee. Maybe 25 percent have something that might be called a risk committee. As it becomes more common to have a finance or risk committee, that increases the opportunity for actuaries to take on board positions and focus on areas where their technical skill set would make them good contributors."

Boards are also increasingly being forced to shoulder more technical responsibility, and actuaries may be able to contribute on that front. "Whether it was originally because of the Sarbanes-Oxley Act and it's now to some degree because of the Dodd-Frank Act relative to financial companies, the job of boards is getting more focused around technical and risk management issues," added Zimpleman. "With Sarbanes-Oxley, it was more around accounting. With Dodd-Frank, boards are increasingly focusing now around risk management. I absolutely think this will be an opportunity that will emerge over the next couple of decades."

Because of the technical demands, corporations are increasingly considering CPAs for board roles. However, considering an actuary's rigorous training, actuarial expertise can be as or more effective. "Many companies are looking for CPAs to be on their boards," said Marla Glabe, FSA, who currently serves on the boards of Wintrust Wealth Management, First Insurance Funding Corp. and Northwest



Community Healthcare. She's also president of the North Shore United Way board of directors. "Primarily, or perhaps because of, the Sarbanes-Oxley Act, boards want accountants to populate their audit committee. Boards should also think about seeking actuaries to populate, if not their audit committee, at least their risk management committee. A board's finance committee would also be a natural for an actuary."

Executive compensation is also fertile ground for many actuaries. "You're actually seeing more and more actuaries work in the area of executive compensation," Zimpleman explained. "Most executive compensation isn't earned through base salary or an annual bonus. It's earned through long-term, deferred compensation. Actuaries are one of the few disciplines that can really understand how economic value is created, so the proper design of executive comp programs is something actuaries are well suited to do. Now shareholders are much more able to vote on whether an executive compensation program is appropriate. They have a vote, but they don't really have an understanding. Actuaries could play a very helpful role in helping investors and shareholders understand whether the design of executive compensation programs makes sense."

That contribution can also be broadened to employee benefits in general. "Actuaries can make a contribution not just in executive compensation, but in employee benefits," said Phil Briggs, FSA, MAAA, who began serving on boards in earnest after his retirement from MetLife. He has acted as a member of the board of directors for Trizec Properties, Interstate Bakeries and Blue Cross/Blue Shield, in addition to serving on several subsidiary boards during his career.

From One Leader To Another

THESE READING RECOMMENDATIONS come from SOA leadership including past presidents and board members.They are intended to be helpful to those looking to be more effective leaders.

- ***The Effective Executive*** by Peter Drucker
- ***The Path of Least Resistance*** by Robert Fritz
- ***The Little Green Book of Getting Your Way*** by Jeffrey Gitomer
- ***Execution: The Discipline of Getting Things Done*** by Larry Bossidy and Ram Charan
- ***Cut to the Chase*** by Stuart Levine
- ***Ready for Anything*** by David Allen

For the complete list, visit *www.soa.org/selfhelpreadings* A

"I'm thinking particularly of pension plans where management has frequently made really bad decisions, not understanding the implications of what they were agreeing to. An actuary should be able to bring some conservatism to those decisions."

On the same page is Mike DeKoning, FSA, FCIA, MAAA, president and CEO for Munich American Re, who has served on several other types of boards, including the MIB Group and the American Council of Life Insurers. "Specifically, I'm thinking of pension and post-retirement medical costs," he said. "I'll call it long-tail liabilities of non-insurance companies—and all insurance companies as well, obviously. One thing we were struggling with when I joined the MIB Group was an aging workforce; a lot of people who went there never left. It had a defined-benefit plan, which became increasingly costly as its employee population aged. Boards are struggling with what to do with legacy or even currently active defined-benefit plans. Those are areas where we can bring a fair amount to the table because actuaries are equipped to understand them better than the average board member would."

DUE DILIGENCE FIRST

It is clear that actuaries have much to offer the boards of corporate America. As with any opportunity, serving on a corporate board carries risks that must be carefully assessed.

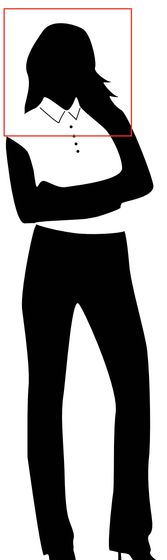
"There are a number of people who like the idea of being on a board for a variety of reasons—perhaps compensation, perhaps prestige, perhaps other things—so there's an inclination to accept rather promptly an invitation to come on a board," explained Brad Smith, FSA, MAAA, chairman at Milliman Inc., who has served as an advisor to commercial boards. "But there's real responsibility and also real liability on boards."

That's become especially true in the past five years, according to Kriss Cloninger, FSA, MAAA, president, treasurer and CFO of Aflac who has served on not only Aflac's board, but also the boards of Tupperware

Brands and TSYS. “The world has changed for board members,” he contended. “It used to be that boards weren’t held as accountable legally as they perhaps are today. You see a lot of press about legal exposure for board members. Most people would argue that as long as you’re performing your fiduciary function the way a prudent person would, you ought to be OK in terms of your legal exposure. Others, though, would say that if you’re in a certain position, such as a financial expert on an audit committee, and your company has a problem with an audit or a material weakness in its internal controls, you’re going to be held accountable because you didn’t oversee management properly. Do you want to take that kind of a risk at this point in your career and from a personal liability perspective?”

… be sure your due diligence analysis incorporates a worst-case scenario.

Smith suggested getting as much information about the company as possible before making that decision. “I’d advise any person who’s considering joining a board to be pretty careful because once you’re on, you’re on,” he said. “It’s not so easy to get off. You can always resign, I know, but it’s embarrassing. Do your homework before you accept.”



What does that homework encompass? Smith suggested starting with an Internet search to review the company’s financials, along with every nugget of news and press information you can unearth.

“It’s trying to find as much information as you can on the company,” said Dave Holland, FSA, MAAA, who researched IA American before he agreed to serve on its board. “IA American is a publicly traded subsidiary of IA Financial in Canada, so there was a fair amount of information available. I also had interviews with top management and discussions about what they were trying to do and where they were headed. Also, Munich has operations in Canada, so I knew people at Munich who knew people at IA, and they were able to say that it’s a top-rated, top-flight company.”

You need to ask questions, including how you’ll be compensated for your service. “I’m on a board that does compensate very well, and I’m on another board that doesn’t compensate very well, at least not at the moment,” said Cloninger. “With the latter, financial performance has been weak of late, so the company can’t be aggressive in increasing board compensation. You need to have your eyes open on the front end and realize that you want to be reasonably paid for any responsibility you take on and any risks you end up being exposed to.”

A related consideration is the time you’ll be required to devote. Ask how many board meetings there are each year and where they’re located. And if you’re offered a board position for a struggling company, multiply your time commitment by some factor that makes sense. “I’d prioritize a situation where the company, its strategy, and its management team is in a viable, ongoing mode,” said Zimpleman. “That’s where there aren’t large, well-known issues hanging out there about its business strategy or its ability to actually stay in business or get financing in the capital markets; or it hasn’t had significant accounting restatements or other things that would make its credibility a bit of a risk. Those are difficult, and you need to recognize how challenging that’s going to be. You’re not going to be paid any more. You’re just going to have to work a lot harder. Some actuaries might like that. I’d probably say, ‘I just don’t have the time and commitment to do that well.’ My goal would be to help a company get better. A fixer-upper situation would be a little bit more challenging.”

Also give other board members a once over. “Now I’m much more sensitive to the culture of the board,” said Vaughan. “That’s harder to get your arms around. But how well does the board get along? What are board members’ views of corporate responsibility? That gets to the ethics of the firm, the culture of the firm, and the interaction between the CEO and the board. That’s all very important because the reputational risk of being a director is huge, and you really need to understand what you’re getting yourself into. Is this a firm that you want to put your reputation on the line as being associated with?”

An individual seeking a board position would also be wise to discuss potential committee assignments in order to find the highest and best use of one’s strengths before accepting an opportunity.

Be wary of any board you sense is seeking your participation as a “trophy” board member. It is important to read as much as you can about the company and talk with individual board members. On some occasions you may learn that companies don’t always disclose to board members everything that’s going on. If you were the shiny, new actuarial or financial expert recently added to the board, this might display to the public that the company was completely pristine. However, some things may have been going on in the background that you didn't know about and you could likely be held responsible for stuff you had no idea was going on."

Finally, be sure your due diligence analysis incorporates a worst-case scenario. "You almost need to assume there's going to be some company crisis during the term of your board membership, and you're probably going to have to spend some extra time dealing with board responsibilities during that period," said Cloninger. "You want to be comfortable management has an appropriate tone at the top in terms of wanting to do the proper and ethical things and dealing with issues in a way that's satisfactory in terms of professional responsibility and ethics." The board has a significant role to play in the company's overall strategy when it comes to risk and their fiduciary responsibilities to shareholders. There is a balancing act to this role vis-à-vis management, and the boards of directors must assess management's strategy and know when, and how, to assert oversight of strategic plans.

The bottom line: Don't overestimate the risk, but don't dismiss it, either. "Unfortunately, the distribution of results on that is binomial," explained Dale Wolf, FSA, president and CEO of Jessamine Healthcare. Wolf has been a member of several boards, including Catalyst Health Solutions Inc. and Coventry when he was the company's CEO. "In 99.99 percent of the time, there's no realized risk to one's personal fortune. In that very small percentage of the time, it's a very bad answer. The secrets are obviously making sure there's the right kind of legal protection under Delaware or whatever law the corporation is governed by and making sure the company has separate insurance coverage for directors. There's no free lunch. Without the right homework, it's not worth the risk. With the right homework, I've obviously concluded it's worth the risk."

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