



SOCIETY OF ACTUARIES

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THIS ARTICLE IS THE FIRST IN A SERIES MEANT TO HIGHLIGHT AND EXPLORE THE SKILLS AND KNOWLEDGE ACTUARIES HAVE TO OFFER AS MEMBERS OF A BOARD OF DIRECTORS, AS WELL AS WHAT IT TAKES TO GET THERE.

BY JOHN G. TURNER AND SARAH J. HAMBLIN



ON BOARDS

THE NUMBER-CRUNCHING and analysis skills of professional actuaries have long been invaluable to the life insurance industry, as well as in the areas of property & casualty insurance and pensions. While many actuaries will spend their entire careers in these areas of focus, many others are seeking to branch out and discover where else their actuarial talents might be appreciated. As a result, for the past couple of years the Society of Actuaries (SOA) has been working diligently to identify and create opportunities for actuaries outside of their traditional roles.

One prospect that has caught the attention of the SOA is the possibility of more actuaries serving on public company boards of directors, particularly now that government, media and other stakeholders are calling for stronger, more independent boards in the wake of the financial crisis and new financial regulations. Risk oversight and corporate governance are becoming increasingly important and actuaries have the ability to fill the knowledge gaps in areas such as enterprise risk management, financial management and executive compensation. To this

end, the Actuaries On Boards (AOB) Task Force was created to research the best ways for actuaries to pursue this career opportunity. "The idea was to see if there were ways to get more actuaries on boards, particularly public company boards, and how would we accomplish that, what would be the value proposition?" said S. Michael McLaughlin, FSA, CERA, FIA, MAAA, past president of the SOA (2009–2010). "I think that our actuarial skills would have really good application on boards, but as specialists in technical matters or, more importantly, as seasoned professionals with experience in risk management. This could be potentially in almost any industry, not just insurance."

The task force, chaired by W. James MacGinnitie, FSA, FCAS, MAAA, HonFFA, includes SOA members Nancy Bennett, FSA, CERA, MAAA, Max Rudolph, FSA, CERA, MAAA, Vinaya Sharma, FSA, CERA, Thomas Terry, FSA EA, FCA, MAAA, and John G. Turner, FSA, MAAA. Amanda C. Fox, principal, at Spencer Stuart, rounded out the task force with an executive search perspective. Last year, the task force interviewed more than 15 actuaries currently serving as sitting members of

various boards in the hopes of gathering advice for those who might someday consider going down this career path. This is the first in a series of articles in which the information gleaned from those interviews will be presented.

AN APPEALING CANDIDATE

In general, a spot on a public company's board of directors is not something one would apply for. It is a position offered by the board to the person on their radar deemed to be the best fit for the job. So how does one become an attractive candidate to a board of directors seeking new members? Unfortunately, it's not always an easy task.

"There's not a good formula for getting a board position," said Marla Glabe, FSA, who currently serves on the boards of Wintrust Wealth Management, First Insurance Funding Corporation and Northwest Community Healthcare. She is also president of the North Shore United Way board of directors.

Glabe said she began seeking board positions as a way of staying active in business after retiring from a senior executive position with Allstate. During this time she found that many people holding board positions saw actuaries as more of a behind-the-scenes technical person rather than a communicator. Luckily her broad range of experience brought more to the table than just her actuarial skills. The key, she said, was stressing that she is a business person with actuarial training, not the other way around. "I've built businesses and I've run businesses," she said. "I've dealt with customers. I've dealt with a whole cadre of situations whereas even a seasoned chief actuary's work experience might not be appropriate for a board."

Not that an actuary's skills should be discounted in the consideration process altogether. Analytical skills, understanding financials and understanding the economics of business are also critical skills in the eyes of a board of directors. "An actuary can quickly grasp new concepts and

EXTRA INFO

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A recommended reading for those looking to increase general business skills. Visit www.soa.org/selfhelpreadings

Volunteer opportunities to help grow leadership skills. Visit www.soa.org/about/volunteer/default.aspx

Earn CERA and FSA designations. Visit www.soa.org/education/exam-req/

National Association of Corporate Directors (NACD) offers discounts to SOA members. Visit www.nacdonline.org/soa 

new businesses, so even if they came out of, let's say, the health business, it would not be difficult for them to quickly understand the auto business or the annuity business," Glabe said. "This is just based on the way their minds work and the technical skills and the fact that they've been learning, hopefully, most of their careers."

MANAGEMENT EXPERIENCE

Phil Briggs, FSA, MAAA, also 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. "I think an actuary is expected in an insurance company or other insurance firm to have good judgment and objectivity, and I think those are two items which are very important for any company board," he said. "So from that point of view those are two strengths of an actuary which would be useful to nearly any company."

Briggs said being an actuary has always been useful in being considered for a board position, but has never been critical. Certain types of leadership experience are far more important. "I think general management experience and experience with boards is key to landing a board of director position," he said. "I think that was an extremely important part of it because you had to hire people, you had to set compensation plans, you had to deal with marketing, you had to deal with investments, you had to deal with every phase of the business and the actuarial part was frankly a fairly modest part of the job."

An actuary working in a traditional role would not generally gain this type of oversight experience. "Most actuaries are not very knowledgeable about governance," Briggs said. "They do not necessarily know much about the business practices of a company, and I think some basic knowledge of those things would be useful to an actuary who is interested in becoming a

member of a board." This is a reason actuaries should be sure to understand all aspects of their company's operations, even if their specific job responsibilities don't require it.

TOP LEVEL EXPERIENCE

Mike DeKoning, FSA, FCIA, MAAA, current president and CEO for Munich American Re, has served on several other types of boards, includ-

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ing the MIB Group and the American Council of Life Insurers (ACLII). He would take the management experience theory a step further to say actuaries who shoot for senior management positions can be great future board candidates. "I think you're seeing a couple of things with actuaries, one of which is that it's not common even for CEOs and CFOs of insurance entities to be actuaries anymore," he said. "I wonder to what degree the lack of board involvement of actuaries is reflective of the lack of actuarial people at the top of the house before even getting to the board level?"

DeKoning said as an industry, in his opinion, the actuarial field remains relatively insulated in that actuaries do not often branch out dramatically from insurance roles and when they do it is often to pension consulting and employee benefits. "But that is not typically a line to get to a board because my observation is that invitations to boards are typically offered to people who ran organizations, or large parts of organizations, as opposed to running large technical functions," he said. "And so my biggest concern around the actuarial side is that if we're not getting to the top of the house in the C-suite, I'm not sure how you turn the corner on getting more actuaries involved in board work."

One of the hurdles with actuaries being offered top-level roles is a lack of knowledge on the part of non-actuaries. "I think part of it, at least in the life insurance industry, is the black box syndrome," DeKoning said. "It's that nobody really knows how we come up with the numbers we come up with and if you try to nail an actuary down to a number, they're going to give you a range and that range can be

pretty wide. For people outside of the industry, or even on the periphery of the industry, that's hard to understand."

Dale Wolf, FSA, president and CEO of Jessamine Healthcare, has been a member of several boards, including serving on the board of Catalyst Health Solutions Inc. He was also a member of the Coventry board of directors when he was CEO of that company. Wolf would agree that boards are best served by participants having been a CEO at some point in their career. "Until you have sat in the chair and have known what the pressures are that a CEO is under, how do you respond to those pressures?" Wolf said. "The lack of that experience hurts the perspective of board members and so ... in terms of what helped me to be effective on boards, that experience, I think, was invaluable."

THE BROAD PICTURE

Wolf said the broader an actuary's experience in areas outside of the traditional actuarial role, the better. In particular he suggests focusing on accounting, finance and overall corporate strategy to stand above the rest when it comes to being a candidate for a board of directors. "I think more of the education that one would get in a business school environment as opposed to the actuarial training," he said. "You know, the

classic case methods of study, strategic discussions and strategic questions are obviously critical to a board and a company and tend to be the kind of things that go on in a board meeting. I think that actuaries have not historically had that formal education and could benefit from it tremendously. With the education and background required to be an actuary, it would be logical to expect that many actuaries could qualify as audit committee financial experts under the Sarbanes-Oxley Act.

Even getting to the top of the actuarial ladder is not enough without the broad range of other experience to accompany it. "I've known very senior actuaries and they did true actuarial work their whole career, be it in consulting or be it in companies, and I venture to say based on those folks that come to mind, they probably aren't very prepared to be on boards," Wolf said. "Obviously they can provide technical advice with respect to reserves or some audit stuff, but that's not most of what boards do and they usually get outside consultants to do that if it's needed on an ad hoc basis."

On the other hand, Wolf said actuaries who do take the time to learn about many aspects of running a business make wonderful board members.

"Those who have used the actuarial training and experience as a springboard to do much broader things in business—be it general management, be it finance, be it whatever—that grounding of actuarial training with the broadened experience that's outside of the pure actuarial field is the perfect combination if somebody's got it," he said. "I know actuaries who have done exactly that, who've taken the actuarial training, who've broadened it through experience and who can speak very eloquently to issues of strategy or executive compensation or risk management or a whole bunch of stuff

like that is what boards, and particularly public companies, are all about."

AN EXCITING PROSPECT

Monica Hainer, FSA, FCIA, MAAA, CEO of London Life Reinsurance Company and a member of several subsidiary boards, said it makes sense for actuaries to take more positions on corporate boards of directors, particularly with the current economic climate and the way businesses are moving forward.

"You need external board members, you need proper representation," she said. "The board members have to be able to speak to the business, have to be able to be interviewed by regulators and serve knowledgeably about the business of the company that they're on the board of, so the level of participation and knowledge is going to have to be at a high level and I think actuaries would make primary candidates for boards."

Hainer said actuaries would particularly come in handy when dealing with regulators. "If you're setting up models and the regulators are saying that they have the right to come in and talk to board members about the model, then make sure that the board has some level of reasonable knowledge about what the models do and how they do it. Who would be better than an actuary to answer these questions?"

Wolf also agreed this is a good time for actuaries to pursue board of director positions. "I think clearly in the last five or 10 years boards have become more likely to expand their rank with capable financial people," he said. "I think that to the extent that an actuary has broadened his skills beyond pure actuarial work and has become either a CFO of an organization or has the requisite skills to be a CFO of an organization, I think that set of skills is in more demand today than in the past. Therefore I think the likeli-

hood, if we ever figure out the mechanism that someone with that set of skills might get asked to serve on a board, is better today than it was in the past."

Any actuary willing to put in the work could have a shot at one day serving on a board of directors. The basic skills are there and that's what matters the most according to Hainer.

"It's only limited by how we want to limit it," she said. "I mean any board needs thoughtful people and actuaries can be thoughtful people and there's always numbers and finances to understand. Even a company that is pretty much just a production company ... has significant turnover issues and projections on how to maximize production and minimize time off. Why couldn't an actuary contribute to any of those kinds of discussions too? I mean I just don't think there's any limit where a smart person who has actuarial training could contribute if they wanted to." **A**

Next article: How industry contacts and networking can aid in the pursuit of board positions.

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