



SOCIETY OF ACTUARIES

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IF THE PERSONALITY FITS



PART III OF THE **ACTUARIES** ON BOARDS



SERIES

THIS ARTICLE DISCUSSES THE PERSONALITY TRAITS THAT LEND THEMSELVES TO BOARD MEMBERSHIP AND HOW YOU MAY BETTER FIT THE MOLD. BY G.M. FILSKO AND MEMBERS OF THE SOA'S ACTUARIES ON BOARDS TASK FORCE

Corporate boards often used to be compared to parsley on fish—decorative but useless. But near-death experiences will sharpen people's focus, and that's exactly what happened after the nation's financial crisis. Today, corporate watchdogs and regulators demand that board members do more than keep up appearances and instead perform true oversight. Who better to provide that accountability than an actuary?

With that in mind, the Society of Actuaries (SOA) has formed the Actuaries On Boards (AOB) Task Force to explore opportunities for actuaries to pursue board service. Recently the task force interviewed more than 15 actuaries who have board service experience to gather advice for those who might someday consider seeking such a position. This is the third in a series of articles in which the information gleaned from those interviews will be presented.

KNOW YOUR PLACE

Before you can pursue—or accept—a board position, you should be clear on what, exactly, corporate boards do. “It's important that board members understand what their roles are,” said Dan Neary, FSA, who has acted as chairman of the board and CEO of Mutual of Omaha and served as a board member of Valmont Industries. “I look at it significantly in terms of protecting the stockholders' interest, playing a strong fiduciary role, and maybe helping to keep management from making mistakes relative to risk—but to not cross over that line where we're also telling them how to manage the company. You al-

ways need to walk softly. The contribution you make needs to have sensitivity to the idea of, ‘Are we stepping over that line of protecting the stockholders' interest into telling management how they should actually manage the company, as well?’”

In other words, you should know what boards don't do. “Boards don't run companies,” explained Steve Steinig, FSA, formerly senior vice president and an actuary at New York Life, where he served on several subsidiary boards. “It's not their role to decide if my assumptions for my pricing are good or bad or whether I'm using a good projection of mortality or not and so on.”

Instead, Steinig said board members choose a CEO they believe can run the company. And though they often don't possess the skill sets of the company's senior officers, board members should be able to judge whether those senior officers are capable. “They need a forest-and-trees business perspective spanning the marketing functions of the corporation,” said Steinig, “along with just about everything the corporation is doing.”

The board needs that expansive perspective because another of its functions is to help chart the company's course. That doesn't require that you know everything about the company's business, said Kriss Cloninger, FSA, president, treasurer and CFO of Aflac who has served on not only Aflac's board but also the boards of Tupperware Brands and TSYS. However, you must be fluent in high-level business concepts.

“Clearly, I didn't know everything about the Tupperware organization when I got involved, but I did have good experience in managing direct-selling organizations that performed on an international basis,” explained Cloninger. “That's why they wanted me. TSYS has been a bit different because it's a technology company, and I'm not a person trained in technology. But I do know how they make money in terms of processing transactions for a fee and how they go about pricing ... and things like that. I don't know everything, but I know a lot of the high-level concepts, and that's the key. You have to be comfortable dealing with high-level concepts instead of needing to know all the details. You're acting in an oversight role, not a management role, and you have to get used to the difference in those two roles.”

THE RIGHT STUFF

How can you determine if you have the right “personality” to effectively perform oversight but not veer into management? There's no question that at some companies, you'll have a shot at a board seat only if you've broadened your experience and skills enough to reach the top of the corporate ladder.

“I'm biased because I've sat in the chair, but I really believe companies and boards are best served by participants having been CEOs,” said 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. “Obviously, that narrows down the number a lot. But until you know the pressures a

CEO is under and how to respond to those pressures, the lack of that experience can impact the perspective of board members. In terms of what helped me be effective on boards, that CEO experience was invaluable in every respect.”

However, Wolf admitted that it’s possible to get the broad range of skills CEOs typically possess without actually serving as a CEO. Perhaps the most important of CEO-level skills is the ability to quickly sift through and analyze a broad range of materials. “You have to be able to master information,” said Larry D. Zimpleman, FSA, chairman, president and CEO of the Principal Financial Group. “You have to be able to take in information, distill it, and find its essence.”

Then you need the ability to use relevant information to think strategically. That’s not something Terri Vaughan, Ph.D., ASA, ACAS, CEO National Association of Insurance Commissioners, who served on the Endurance Specialty Insurance and Principal Financial Group boards, had fully appreciated before she joined a board. However, she learned she enjoyed the opportunity to cultivate it. “I found other board members who had more corporate experience were much more prepared to think in terms of strategy,” she recalled. “I was prepared to think about risk, but that’s only part of what a board does. A lot of what a board does is think in terms of positioning the firm, strategy, and what market should we be in. I actually found that to be really a fun part of the job because it stretched me. I really had to learn new things and think about things differently. That was good.”

It is also important to know how to hit that sweet spot between being a watchdog and a lap dog. Pay too little attention to details, and board members are falling down on the

job. Pay too much, and they’re improperly getting into the weeds. Steve Batza, FSA, president and CEO of MTL Insurance, has encountered two examples of actuaries who appeared to be lost in the weeds, thus blowing their opportunity to serve on his company’s board.

The first actuary didn’t make it past the resume stage, Batza explained. The nominating committee determined based on his resume

management. As board members, we have to realize the function is more oversight than operations, and that might be for a lot of actuaries a little bit of a blind spot. Many technical experts want to get into the real excruciating details of things and may lose what the concept of oversight really means.”

Cloninger said, ultimately, you need to possess the best qualities of a skilled consultant. “It’s saying, ‘We’ll tell you as consultants what

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that he had too narrow a focus. The second was interviewed, but her head-buried-in-numbers focus was off-putting. “She was more focused on the accuracy of our financials, whether reserves are adequate, and whether our accounting systems are tightly controlled,” said Batza. “That’s as opposed to the real concerns the audit committee should have, which is whether management is being held accountable and doing enough on risk

our advice is, and then you need to make up your own mind as to whether it’s right for your company,” he said. “That’s, in a sense, the role of the board member. Board members might raise questions and make suggestions and then let management evaluate that input. Then board members can assess what management’s done with their comments or questions and whether management’s response appears to be adequate.”

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THE SOFTER SKILLS

You can have all the business and strategic intelligence in the world. However, you'll be successful in the boardroom only if you are able to build relationships with management and other board members and know when and how to effectively speak up.

"What's more important than anything else is your relationship with people and the ability to influence a board," said Claude Lamoureux, FSA, FCIA, former president and CEO of the Ontario Teachers' Pension Plan; he currently chairs the nominating committee of the Public Sector Pension Investment Board and The Learning Partnership. "Teachers, a lot of times, would appoint some younger people to the board, and they had a lot of trouble influencing other, more senior people. So it's the ability to deal with people and convince them that your point of view makes sense and to understand that things don't happen just in the boardroom—that you have to do a lot of work outside the boardroom if there's a critical issue. To me,

the transition from being an actuary to going on a board has to do with not how smart you are but how convincing you can be."

It's also critical to know when to communicate concerns and how to do that in a way that doesn't demean or diminish management or other board members. "You can have some environments whereby not much is asked nor is much received from board members," said Neary. "But if you bring on the right people, the dynamic that can exist on a board can be very beneficial to success, and it doesn't have to cross over that line of telling management what to do. It can just simply be, 'You know, I had this prior experience in my own career where these pilots had every earmark of success only to be disappointing later because we missed one or two assumptions. So could we go a little slower and validate some of these assumptions before we jump in?'"

Cloninger agreed diplomacy is a vital skill. "Boards like to have members who are going to be fairly collegial and get along with other board members," he said. "You have to develop the ability to listen. Yet you also need the ability to both discern what's valid information and what information might need to be probed. So you have to develop an ability to think critically without reflecting criticism, so to speak."

Reading people and being able to think on your feet will also serve you well. "While

other board members are important decision makers, they're likely not going to be subject-matter experts in whatever the particular issue is," according to Zimpleman. "You might have somebody who's a marketing expert. We've got a board member who's a Ph.D. in nutrition. They don't understand insurance, risk management, and so forth and so on. So communication and the ability to not overcomplicate issues are absolutely critical. That's where reading the audience and adjusting your message as necessary is important. You have to start at a very high level and then, hopefully, as you read the audience and see they're comprehending what you're saying, you can get slightly more granular. If you go too far too fast, you're going to lose them, and you're not going to be effective."

BUILDING A FOUNDATION

If you don't currently possess those skills, you'll have to begin working to develop them. While you're at it, also begin learning the fundamentals of corporate governance. "Most actuaries aren't very knowledgeable about corporate governance," said Phil Briggs, FSA, who began serving on boards in earnest after his retirement from MetLife. He has served as a board member for Trizec Properties, Interstate Bakeries and Blue Cross/Blue Shield, in addition to several subsidiary boards during his career. "They also don't necessarily know much about the business practices of a company. Some basic knowledge of those things would be useful



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to an actuary who's interested in becoming a member of a board."

Briggs himself lacked that knowledge and wished he'd acquired it earlier. "My regret with regard to board activity is that my company didn't encourage me to learn more about boards and governance and so on at an earlier stage in my career," he said. "I could have been a more effective board member and more effective for my company if I'd had some experience outside of my company, and I could have brought that knowledge to bear on our own board. A lot of things I learned after I retired were things I wish I had known before I retired."

Ultimately, however, the best way to prepare is to focus on continued growth and profes-

sionalism. "Just being an excellent professional and standing out among your peers is what's going to set you apart," contended Brad Smith, FSA, chairman at Milliman Inc., who has served as an advisor to commercial boards. "Your reputation, integrity and professional standing are what is going to appeal to a CEO or chairman of a board. I tell all our consultants that early in your career, you focus on getting your credentials. Then you focus on working in a company or consulting firm that's of high integrity and respected. Then 10 or 15 years down the road, when people start to call you as opposed to you calling them, it's because you've built your personal brand. The first year I was with Milliman, I got assignments because I was with Milliman. In the 15th year, I got assignments because I was Brad Smith.

"It's the non-actuarial skill set—the communications, the understanding of other disciplines like accounting, law, marketing and so forth—that is going to make a successful actuary at the higher level a candidate for a board position," Smith concluded. "I think you train to be excellent and well-respected in your profession. The rest follows." ■

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