



# **Board Institute** ***Master Class***

## **Welcome!**



- **Self Introductions (staff, faculty, attendees)**
- **Enterprise Risk Management**



# Governance Risk

# Governance Risk

## Panelists

Todd Martin, Partner, Stinson Leonard Street, LLP

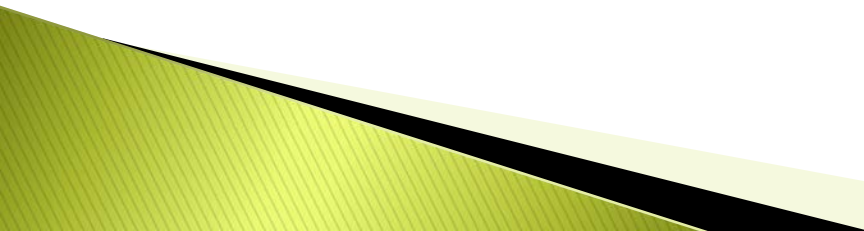
Gary Strohm, Managing Partner, Strohm Ballweg, LLP

# Governance Risk

## Segment Overview

- Fundamental Importance of Good Governance
- Intensifying Scrutiny on Governance
- Future of Fraternal Governance

# Fundamental Importance of Good Governance

- ▶ Governance is the process by which decisions are made in an organization.
  - ▶ Poor governance is the root cause of challenges in the fraternal system
  - ▶ Good governance is the catalyst for success
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# Fundamental Importance of Good Governance

- ▶ Decisions can impact the society for decades
- ▶ Fraternalists have little margin for error
  - Mature highly competitive industry
  - Changing demographics
  - Rapidly changing technology
  - Limits in raising capital
- ▶ The role of fraternal directors has never been more important or challenging

# Fundamental Importance of Good Governance

- ▶ Governance should be included in risk evaluation and management of the society
- ▶ Good governance can be a method to manage other risks (i.e. financial oversight)
- ▶ Risk of ineffective decision making should also be considered
  - Leadership competency
  - Decisions at the right levels
  - Accountability and oversight
  - Ability to promptly adapt to changes
  - Succession planning



# Governance Scrutiny

- Regulators recognizing that looking only at financials is primarily a focus on the past
- New focus on governance as a predictor of future performance
- New scrutiny on governance focused on:
  - Leadership competency
  - Decision making and oversight
  - Succession

# Governance Scrutiny

## *Risk Focused Examinations*

- Regulators going beyond financials to evaluate risk
- Includes evaluation of governance processes
- May include specific review of Board qualifications, policies and procedures, and effectiveness
- Will include interviews of key management and Board members

# Governance Scrutiny

## Corporate Governance Annual Disclosure Model Act

- Section 1 – General Corporate Governance Framework
- Section 2 – Board and Committee Policies and Procedures
- Section 3 – Management Policies and Practices
- Section 4 – Management and Oversight of Critical Risk Areas

# Governance Scrutiny

## Corporate Governance Annual Disclosure Model Act

**Critical Risk Areas** – that should be included, but not be limited to the following:

- Risk management processes (ERM or ORSA)
- Actuarial function
- Investment decision-making process
- Reinsurance decision-making process
- Business strategy/finance decision-making process
- Compliance function
- Financial reporting/internal audit process
- Market conduct decision-making process

# The Future of Fraternal Governance

## Trends

- Increasing competitive, financial and regulatory challenges
- Aging of committed fraternalists and challenges of engaging members
- Desire for authenticity and customer focus

# The Future of Fraternal Governance

- Board composition needs to match challenges
- Need to minimize risk of having the wrong leadership in the future
- Development important but only a part of the solution
- Societies need to be intentional about recruiting, vetting and succession planning (the right candidates may or may not land on your doorstep)
- Focus on the interests of membership as a whole

# The Future of Fraternal Governance

- Direct Election vs. Convention Structures
- Return on Investment for Fraternal Assemblies
- Focus on strategic planning and oversight

# The Future of Fraternal Governance

How do you get to the governance structure of the future while encumbered by a governance structure of the past?



# Governance Risk

## Alliance Governance Tools for Sale

- Board Self Assessment Survey
- Fraternal Governance Survey
  - Board Boot Camp DVDs

Ask the staff for details while you are at this meeting!