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INCLUSIVITY SPOTLIGHT: THE NEW FACE OF CORPORATE BOARDS

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By Margaret Resce Milkint, Managing Partner

THE NUMBER OF MAJORITY-MINORITY STATES IS ON THE RISE, THE “SALAD BOWL” IS QUICKLY REPLACING THE “MELTING POT,” AND THE EMERGING KALEIDOSCOPE OF GENDER, RACE AND ETHNICITY IS QUICKLY BECOMING MORE THAN JUST INTERESTING COCKTAIL CHATTER.

At long last, the face of insurance business talent is evolving to mirror today’s demographic reality. The emerging demographic shifts have brought the diversity, inclusion and intersectionality mandate to the forefront of today’s business strategy. In fact, as the population continues to diversify, insurance organizations are tasked with incorporating diversity of thought, experience and background not only into their company ranks, but their corporate boardrooms.

While insurers are increasingly aware of the need for inclusive hiring practices, board composition historically has not kept pace. However, with the challenges expected in the years ahead—including shifting economic trends, growing industry retirements, and the increasing impact of innovation and disruption—the mandate for board diversity and inclusivity is real. Boards that embrace and adopt diversity of gender, race and experience will be able to provide wise and informed decisions broadened by an enriched mix of viewpoints. The race for inclusivity is on. Boards now face the all-important choice: maintain their current status and risk falling behind, or rethink their composition in light of growing demands for inclusivity.

THE CURRENT STATE OF INDUSTRY BOARDS

Historically, insurance industry corporate boards have been predominantly homogenous—lacking in diversity of gender, experience, race and often business and world view. Unfortunately, this unvaried boardroom composition still exists today, despite increased diversity within the general workforce. While the industry recognizes the tangible and intangible benefits of board diversity, organizations have been slow to incorporate it.

The reality is that insurance industry boards are more aged and tenured then their counterparts in the overall economy. According to the National Directors Institute, the average tenure for S&P 500 board directors has now reached 8.6 years.[1] At this rate, the majority of directors will serve under a minimum of two CEOs during their tenure. This entrenched group of individuals is rapidly aging. Today, the median age of board directors is 64 compared to 61 years old in 2006. In addition, only four percent of board members are younger than 50 and nearly 20 percent are in their 70s. Even among new directors, the average age has increased to 58 years.

Today's boards also face a significant shortfall in gender diversity. According to a recent study, women make up only 12.5 percent of industy board seats, with 28 percent of insurers having no women on their boards of directors.[2] Organizations are aware of the growing need to address this lack of gender diversity. In fact, according to a study by Ernst & Young, nearly 50 percent of organizations believe they can achieve gender parity in the next 10 years.[3] Unfortunately, the World Economic Forum reports that this level of diversity will take 117 years to achieve at the current pace of change. Even if the pace increased and women were hired to boards at the same rate as men, it would still take until 2056 for women to reach parity on corporate boards.[4]

Similar to gender diversity, ethnic diversity on corporate boards remains a challenge for many organizations. Today, only 14.9 percent of board seats are held by minority individuals.[5] Taking an in-depth look, representation is particularly low for Hispanics and Asian-Americans who hold 3.9 percent and just one

percent of board seats, respectively. Unfortunately, despite efforts to remedy the situation, little progress has been seen in recent years. While white men realized a net gain of 21 seats during the past two years, women and minority men only saw a net gain of three seats.[6]

Diversity of skills and experience are also seemingly one-sided in the corporate boardroom. Currently, the majority of directors are being pulled from the highest corporate leadership positions. Today, nearly half of all directors in the S&P 500 come from senior executive positions.[7] A futher 21 percent occupy other corporate executive positions, including division and subsidiary presidents.

Combined, this lack of diversity in the boardroom is a challenge that must be addressed. Diversity of human capital is an accepted and time-honored business asset. It is evidenced by the rapidly changing demographic landscape and the increased globalization of the marketplace. Only by championing inclusion of gender, race, ethnicity and thought in the boardroom will organizations be able to find success in a business world where diverse opinions, perspectives and skills reign supreme.

BEST PRACTICES FOR PROMOTING INCLUSIVITY

Thanks to the emergence of new global trends and business imperatives, championing inclusion has become a burning organizational mandate. In the boardroom, however, diversity is relatively new. Despite progress made within the industry overall, boards appear to be stuck in neutral—resulting in a composition that lacks gender, racial, ethnic and sometimes even geographic or background diversity.

While many boards are working toward being diverse, they continue to struggle in achieving this goal. This must be remedied. Research has shown that diversity is key to ensuring future success. Companies with the highest percentage of female board directors far outperform their counterparts with lower female presence. This translates to an increase of 53 percent for return on equity, 42 percent for return on sales and 66 percent for return on invested capital.[8] In addition, companies in the top quarter for ethnic and racial diversity are 35 percent more likely to see financial returns above the national industry median.[9] The writing is on the wall—diverse boards are good for business.

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In order to achieve diversity, organizations and boards need to look toward inclusive recruiting practices. Boldly challenging and expanding their current horizons and casting a wider net when seeking potential candidates is a strong start. Boards should consider setting nominee slate targets for their nominating committees. These slate targets can establish expected numbers—for example, no less than one-half of all new board seats should match the board's definition of diverse—rather than make general statements about diversity.

Boards should also look beyond the traditional retired CEO and CFO when seeking to fill an open seat. There are a number of industry professionals whose expertise would provide valuable new perspectives and should be included as part of the candidate pool. Technology, digital marketing, human capital, insurtech, actuarial, data science and reinsurance professionals all bring multi-layered experiences and rich hands-on expertise that can provide an immediate and lasting impact to a board. Boards need to expand their thinking beyond the retired professional to working executives who are seeking their first board seats and even look at Millennial professionals who are looking to provide a fresh perspective. Expanding the search beyond the tried and true C-suite can inspire a board to develop fresh insights and weave diversity of thought into the board's goverance mandate.

Historically, board searches have relied heavily on personal networking and word of mouth. While this strategy of recruiting from within networks has helped to protect boards from unfamiliar and potentially risky directors, it has the unforeseen consequence of breeding stagnant and onedimensional thinking. Partnering with a search firm or a non-profit organization with a focus on promoting board inclusion can eliminate this problem and help organization's jumpstart the drive to a diverse board. Already, search firms are the source of 58 percent of board director recommendations—with 36 percent of female directors being recruited by an executive search firm. Make sure, when working with a search firm, to set slate targets to ensure the board is vetting diverse candidates. Boards should consider the "Rule of 3" which states that bringing on three diverse board members can help shift the cadence and even the culture of the board. The "Rule of 3" should be seen as an operative ideal that will help to elevate the tone of board discussions and disrupt the status quo.

In today's rapid-fire business reality of global markets, demographic revolution, technological innovation and digital advancements, the only safety valves for insurance organizations are diverse thought and forward-thinking leadership. Diversity and inclusion have evolved and are no longer just social issues, but business mandates. Now, more than ever, insurance organizations are rallying behind inclusion as a newfound safeguard for success. This includes inclusion as a defense against new and emerging risks, inclusion as an organizational differentiator and inclusion as a catalyst for innovation and even disruption. Only the bold, the curious and the untethered board will shine in today's spotlight where action and intiative win. ▲

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