

# Get Smart

A new program from the Insurance Institute of Canada teaches company board members the foundational principles and concepts of property and casualty insurance, a move meant to answer an updated federal guideline and the trend of more board members outside the p&c insurance industry.



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The Office of the Superintendent of Financial Institutions's (OSFI) updated *Corporate Governance Guideline*, issued in 2013, underscores the importance of educating newly appointed, independent company board directors in the fundamentals of the property and casualty insurance business. The amendments to the guideline reflect international updates to best practices in corporate governance, fuelled by the global financial crisis in 2008. OSFI set January 2014 as a target date for compliance.

"Strong corporate governance is essential to the safety and soundness of Canada's financial institutions," OSFI superintendent Julie Dickson said when the guideline was finalized. "The revised guideline will help Boards of Directors and senior management to identify and manage risks being undertaken by their financial institutions."

The guideline's introduction happened concurrently with a number of industry activities that teach the foundational principles and concepts of p&c insurance to company board members, including new board members who do not have prior experience within the insurance industry.

Examples of such activities include the Insurance Institute of Canada's new P&C Insurance Essentials program, which focuses on new board

directors recruited from outside the p&c industry, and The Co-operators Director Development Program (DDP), geared to all of the company's board members.

## WIDE COVERAGE

The OSFI guideline notes a wide variety of governance models within financial institutions. Typically, a corporation is governed by a Board of Directors and senior management comprised of chief executives or executive vice presidents. The board is responsible for direction-setting and overseeing management, while senior management is accountable for implementing the board's decisions and overseeing management and operations of the company.

Senior company executives in financial institutions should have a strong working knowledge of their particular business areas, the guideline notes. This is also true of board directors, although board members will come from outside the p&c insurance industry for a variety of reasons.

"One reason why insurance boards are looking for non-insurance people is to give them a balanced perspective of what's going on," suggests Ross Totten, president and chief executive

officer of HRT Insurance Consulting Inc. “Board members from outside the insurance industry can provide insights about business across Canada and the general economy. They can also contribute knowledge they have gained from all walks of life.”

Robert Landry, a board member at Wawanesa Insurance, says insurers also recruit from outside the p&c arena to avoid the potential for conflicts of interest on their boards.

Good practices in corporate governance have effectively created a need to recruit board members more frequently, Landry says. “We know that boards are turning over, probably more than they’ve done in the past, because good governance these days has term and age limits, and that sort of thing, so quite possibly your new directors are not going to have a p&c understanding because they’re not going to come from the industry.”

Statistics are not available indicating precisely how many insurance company board members or managing executives are recruited from outside the p&c insurance industry.

OSFI’s updated guideline recognizes the advantage of having a balance of perspectives on the board. At the same time, “relevant financial industry and risk management expertise are key competencies for the [financial institution’s] board,” it states. “There should be reasonable representation of these skills at the board and board committee levels.”

## QUALITY OF OVERSIGHT

OSFI’s revised guideline does not mandate the education of board members recruited from outside the company’s core business activities. That said, it does strongly suggest education helps bolster the quality of corporate board oversight.

“Directors should seek internal or external education opportunities in order to fully understand the risks undertaken by the [financial institution], as well as developments in corporate and risk governance practices,” it notes.

One example of an internal educational opportunity includes The Co-operators

DDP. The company’s board, which identified the need for the program in its 2011 Governance Assessment, approved a proposal for the DDP in 2012 and the program was launched in 2013.

The Co-operators board structure is unique in that its 22 board members are democratically elected from its member-owner organizations (primarily co-operative and credit unions) from across Canada. “These elected board members are from small to large organizations across the country,” reports Richard Lemoing, chair of The Co-operators board. “A lot of our directors come to us with a fair bit of financial acumen, but they’re not from an insurance background, and that is the specific issue that we wanted to address.”

The DDP is built to address a number of competencies related to governance oversight of an insurance or financial services organization. A director is expected to complete the program during a three-year term. Modules cover core aspects of the business, including p&c and life insurance, risk governance and financial governance.

The Co-operators delivered the Knowledge of the Business p&c insurance module in late 2013, working in partnership with the Insurance Institute of Canada. Based on its work with The Co-operators, the Insurance Institute has developed a standalone P&C Insurance Essentials program designed to educate new board members recruited from outside the p&c industry.

The one-day program can be tailored to meet the needs of a wide variety of company board structures — public, mutual or co-operative models — as well as offer value to a variety of different p&c experience levels. The following six topic areas are addressed: foundational p&c insurance concepts; the p&c regulatory framework; distribution; underwriting and rating; claims; and capital and capacity.

To aid in learning, an interactive session — meant to benefit directors with varying levels of p&c insurance experience — presents a case study in which the program participants discuss the

strengths and weaknesses of proposed p&c strategies.

“Our entire board of directors participated in the DDP’s p&c module last year,” reports Kathy Bardswick, president and CEO of The Co-operators, who attended the workshop. “We had someone who was in a very senior management role all of his life in p&c insurance, 35 years in the business, and on the other end of the spectrum were new directors who joined our board in 2013.”

Johanne Charbonneau is one of seven new board members over the past year. Prior to joining the board, she was vice president and chief financial officer (CFO) at CBC-Radio-Canada. Her professional background includes 15 years at the Canada Deposit Insurance Corporation, the last eight of which she was the CFO.

Charbonneau says that the p&c module was particularly enlightening because people with varying experience levels were able to come together. “We were able to ask [senior managers] about their presentations and their perspectives. I found it very, very enriching.”

Lemoing, who was due to retire in April after joining The Co-operators board in 2000, says the open lines of communication observed during the workshop ultimately help to improve board oversight over the company.

“It represents additional hours the board is spending together in a slightly different context, with a certain amount of intensity,” he says. “An effective board needs to work together as a board, and also with management.”

Tino Corsetti, senior director of academic programs and product development at the Insurance Institute of Canada, was instrumental in the development of the P&C Insurance Essentials program. “Educating new board members without p&c backgrounds about the essentials of insurance will give new recruits the confidence and knowledge to contribute quickly and meaningfully to your board discussions,” Corsetti suggests.

“It will allow an organization to realize the board member’s full potential earlier in the orientation process.” ≡