

**CAS Board Task Force**  
**Outside Representation in CAS Governance Process**  
**March 2006**



**Task Force Members**

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## **INTRODUCTION**

In March 2005 the Board authorized the creation of the Task Force on Governance (Task Force) which was charged with considering the role of outside representation in the CAS Governance process. The Task Force was set up in June 2005 and instructed to report to the Board in March 2006.

The Board discussion creating that was reported in the Board minutes as follows:

*On Item 10, (Board Position Descriptions), there was discussion of whether the Board should include non-actuaries as members. It was suggested that the Executive Director might be added as a Board or EC member. Others suggested adding representatives of compliance or scientific organizations, and employers of actuaries. There was general approbation regarding the current “separation of powers,” wherein the Vice Presidents on the Executive Council are not members of the Board.*

*There was a motion to establish a Task Force to recommend the role of outside representation in the CAS governance process, and to report back to the Board in September 2005 (later revised to March 2006).*

In addition to the charge of the Board, the Executive Council asked this task force to *...evaluate whether the CAS will benefit from having an independent member(s) on the CAS Discipline Committee, and if so, to develop a process and desired skill set for identifying such potential members.*

The Task Force work included the following:

- We interviewed the following:
  - Recent CAS leadership
  - Academy Leadership
  - Other Organizations—CPCU, ASPPA, Institute of Actuaries
  - Other CAS members from the Long Range Planning Committee, Discipline Committee and CRUSAP
- We surveyed the current situation and intentions of other US/Canadian actuarial organizations
- We considered trends in associations generally
- We evaluated that information in light of our own experience with actuarial society and other organization Boards.

## **BACKGROUND**

Before considering recommendations, we note a few viewpoints that affect our recommendations:

1. The key role of the CAS Board is to set policy and strategy and monitor the how those policies and strategies are implemented.
2. The current “separation of powers” between the Executive Council role in managing the operations of the CAS and the Board in governing the CAS has

worked very well for the past 20+ years and we foresee that structure working well in the future, specifically

- a. The officers and staff—President, President Elect, Vice Presidents, Executive Director and key staff are management, charged with implementing strategy and policies of the Board.
- b. The Board consists mostly of “non-management” members.

Therefore we concur with the current policy of Vice Presidents not serving on Board.

3. There is an important difference between involving non-members in the CAS by asking for input from them, as we often do, versus asking them to sit at the table and help make decisions and recommendations on behalf of the CAS.

### **TASK FORCE RECOMMENDATIONS--SUMMARY**

The Task Force has the following six recommendations:

1. Appointed (Non-Actuary) Board Members

The Board recommend an amendment to Article V of the Constitution to create a class of Board Members (tentatively called “appointed members”) consisting of up to three additional Board Members to be elected by the Board as described later this material. We recommend initially the appointment be limited to two Members, the Academy Casualty VP (see recommendation #2) and one non-actuary Member.

2. Academy Role at CAS Board Meetings

Participation at CAS Board Meetings by the Academy Casualty Vice President of the American Academy of Actuaries should be formalized through policy or, if recommendation #1 is implemented, through an appointment to the Board.

3. Strategy Setting Process

The Board should participate more actively in development of strategy, probably though greater involvement with the activities of the Long Range Planning Committee. A task force drawn primarily from the Long Range Planning Committee and the Board should propose a method to accomplish this.

4. Procedures for the Board Chair

With non-actuary directors and the increase in Board size, new issues in managing the Board may arise and old issues may assume greater importance. We recommend that each Board Chair maintain notes on “best practices” and update a cumulative set of best practices to pass to successor Chairs.

5. Executive Director as Member of Executive Council

The Executive Director should be officially designated as a member of the Executive Council. This will require a change to the Constitution Article VI, which defines the membership and duties of the Executive Council, but we do not think it requires a change in the by-laws.

6. Discipline Committee

We recommend no change in the Discipline Committee.

We propose that the Board obtain a recommendation from the Discipline Committee chair regarding the use of legal counsel in the Discipline Committee deliberations apart from individual cases.

The first five recommendations are discussed more fully in the sections that follow. The final recommendation, regarding the Discipline Committee, is discussed in Appendix 1.

**RECOMMENDATION 1--DISCUSSION**

*Recommendation 1---The Board recommend an amendment to Article V of the Constitution to create a class of Board Members (tentatively called “appointed members”) consisting of up to three additional Board Members to be elected by the Board as described later this material. We recommend initially the appointment be limited to two Members, the Academy Casualty VP (see recommendation #2) and one non-actuary Member.*

There is no “killer reason” to make the change. The **considerations in favor** of the recommendations, loosely structured in categories of better decision-making, perception, dealing with practical concerns, other organizations and other points, follow:

Better Decision-Making

1. Broader input is always better in setting strategy and policy.
2. There will be some change in Board dynamics as Members need to see themselves from the eyes of the non-actuary Member(s). Overall this will be positive.
3. Actuaries think they can do anything. It is not true.
4. Most Board Members have grown up in the CAS management process and that, necessarily, has the risk of inward thinking.
5. It will provide more confidence that we are not limited by our actuarial view of the world.
6. It will provide someone to ask the “naïve” questions about why we do what we do, whether we have tried ideas from outside the profession, why the profession is organized the way it is, why we relate to other organizations the way we do, and so on.

Perception

7. Prevailing ideas of good governance applaud this approach.
8. Feedback from the people we interviewed suggests that people close to the Board say “don’t change”, but people further from the day-to-day say “why not change”.
9. It will position us in a forward looking way among professional societies, especially actuarial organizations. Non-members on Boards of professional societies are not the norm, but not extreme, either. Generally the number of

non-members is small (as we propose) and to a certain extent might be considered “tokens” (if viewed negatively) or “points of light” (if viewed positively). Particularly as a very specialized society (property casualty insurance, mostly US), an image of forward looking governance will be useful.

10. Public pressures will almost surely lead to the situation where the Academy will need non-members in the Discipline and Standards process. It may be helpful if we have experimented with the process of having non-members into the governance of the profession.
11. We will at least appear more “outward looking” than actuaries are generally credited with being which could be helpful if we have difficulties like those with which UK profession has had to deal.

#### Dealing with Practical Concerns

12. Consider this an experiment, say five to ten years to give it time, at which point the appointment of non-members to the Board can be ended by the Board without further membership vote.
13. We are better positioned to make this change than most of the other actuarial organizations. Our Board is primarily “non-management” already (unlike the Academy, ASPPA, and the UK Institute, for example, where ex-officio members make up a large portion of the Board) and not yet too large (17-18 under this recommendation).
14. Costs would not be high. For non-members we would offer to pay travel expenses and perhaps an honorarium to be determined by the Board, but say \$500 to \$1,000 per meeting-day (\$3,000-\$6,000/year typically).

#### Other Actuarial Organizations

15. The SOA is discussing a similar process.
16. The Actuarial Foundation has non-actuary members, with some degree of success.

#### Other Points

17. Over time this will give a number of influential people a stake in the success of the actuarial profession in a way they would not have otherwise.

Some of the **risks we face** in making this change are the following:

#### Waste Time/Bad Process

1. We will waste time with silly ideas.
2. There might be a tendency to bifurcate the Board agenda between “detail” suitable for the actuaries and “big picture” suitable for the non-actuaries. That could defeat the purpose of having non-actuaries on the Board. It could lead to more assignments of responsibility to the Executive Council and less to the Board.

3. A non-actuary with a particular area of interest could direct Board attention to his/her area of focus to the detriment of the issues that are really important to the CAS.
4. If the “optics” in adding a non-actuary Board Member were good, then the optics of eliminating the non-actuary Board Member would be bad, even if eliminating the position were the correct action.
5. The Board might need to spend too much time on the selection process.

It is not practical

6. Non-actuary Members will face a long learning curve, and therefore not be able make a useful contribution.
7. Many topics would put a non-actuary to sleep, e.g., the recent syllabus review.
8. It takes time to be effective; the non-actuary might not put in the time and/or have a long enough term to be effective.

Experience of other organizations

9. The Actuarial Foundation has not had universal success with non-actuary Board Members.
10. Most actuarial organizations do not do this.

There are actions that can **manage those risks**, as follows

1. With only one non-actuary Member, we are unlikely to go very wrong.
2. This is an experiment that we can terminate at any time by Board action (choose not to have a non-actuary Member)
3. With one year appointment non-attendance or counter-productive behavior can be ended quickly.
4. We put sufficient effort into identifying and educating the right person (especially in the first years when a pattern will be set). Learning how to do this will be an important experience.
5. We carefully explain the expected level of effort to prospective candidates.
6. We establish a plan to evaluate the results of this experience, e.g., Board survey at 3 and/or 5 year points, setting criteria to evaluate the “experiment”, setting a timetable for an affirmative vote to continue the process, and establish a time period each November to evaluate Board performance, including what we expect from non-actuary Board Members.
7. Use the time spent in discussing non-actuary candidates for this position to also improve the Board’s understanding of (a) what it expects from Board Members and (b) the nature of the strategic issues facing the CAS and the Board.

The task force also considered whether there are **alternatives that would reduce the “need” for non-members** on the Board, and we observe that more environmental scans,

especially if done with Board participation, would help. But we would still be limited to our own interpretation of those scans.

Finally, we identified the following as the types of people we should consider:

- 1. People who “ask questions” for a living**, e.g., an attorney involved with governance or corporate law or associations, or an academic “ethicist”.
- 2. People with particular expertise:**
  - Academic**--particularly for research or education input, but possibly with professional society experience with non-actuarial societies.
  - Insurance Executive**--from general management or a senior finance, underwriting or claims position who is either active or recently retired.
  - Regulator**--Deputy Commissioner responsible for solvency, policy and/or rate regulation.
  - Professional Societies**—People with leadership experience in other professional societies.
- 3. From either of the categories above, we would want people who would find value in participating in the CAS Board (as well as giving value to us).** Someone at the right stage in their career, e.g., early in their career and building a CV or later in their career interested in sharing their wisdom, might find it rewarding to serve, especially as the first such non-actuary on the Board.

While the task force recommends that the appointed positions be used for non-actuaries initially, it is not limited to non-actuaries. In time, the appointed position could be used for actuaries from regulation, Canada, or other countries if the Board considered that use of the position(s) helpful.

## **RECOMMENDATION 2—DISCUSSION**

*Recommendation 2-- Participation at the CAS Board by the Casualty Vice President of the American Academy of Actuaries should be formalized through policy or, if recommendation #1 is implemented, through an appointment to the Board.*

The proper functioning of the various actuarial organizations is critical for the long-term health of the profession. A well-functioning Academy is important to the CAS in dealing with regulators, legislatures (state and federal), and other influence centers.

The CAS view toward the Academy has traditionally been “they are us, and we are them.” The task force agrees with that view. Day-to-day events sometimes muddy that view, and having the Academy Casualty VP on the Board will help to assure that our actions are consistent with that view.

Appointing the Academy Casualty VP to the Board will also be a useful statement to our members, as well as to other actuaries and beyond, of the importance of the Academy to the CAS.

The concept of having the Academy Casualty VP as part of the Executive Council is at least 15 years old. It was rejected in the past because it appeared to require too much time

from the Academy Casualty VP. Putting the Academy Casualty VP on the Board is a better use of that person's time, closer to final decision-making.

We note that putting the Academy Casualty VP on the CAS Board raises the question of maintaining the right relationship to the Canadian Institute of Actuaries (CIA). The task force observes that the CAS relationship with the Academy is different from the CAS relationship with the CIA. We have not studied whether the CIA relationship needs particular improvements, but our impression is that it does not.

We believe action on the Academy recommendation is valuable enough that we propose that the Board immediately formalize the recent informal policy of inviting the Academy Casualty VP to all meetings, provide that VP with agenda and minutes prior to meeting (at the same time as other Board Members), and generally treat the VP as a Board Member in all respects other than voting.

Either as a Board Member or as an invited special guest, there will be times when the Academy Casualty VP cannot personally attend the Board meeting. Since the VP's role is important for the proper functioning of the CAS relationship with the Academy, we recommend permitting the Academy Casualty VP to send an appropriate alternate, e.g., the chair of COPFLR, to those meetings (as a special guest receiving Board material, but not as a voting Member). We would hope the Academy Casualty VP would attend all the meetings, but never less than half of the meeting days.

### **RECOMMENDATION 3--DISCUSSION**

*Recommendation 3--The Board should participate more actively in development of strategy, probably through greater involvement with the activities of the Long Range Planning Committee. A task force drawn primarily from the Long Range Planning Committee and the Board should propose a method to accomplish this.*

Unlike a "strong CEO" model, the CAS does not expect the President to develop a strategy which the Board approves. Instead, in the normal course, the strategy emerges from the Board, the Long Range Planning Committee and recommendations from the President and Executive Council. The task force believes this is desirable. The current process of selecting the President via the Nominating Committee (albeit with a safety valve of direct nominations if the membership is not satisfied), supports this model of Board-driven strategy. The alternative, competitive Presidential elections, would result in President-driven strategies that have the significant risk of varying widely from year to year.

Since the Board is responsible for strategy, it is important that the Board be fully engaged in the strategy setting and that the Board Members be in strong agreement with the strategy. In particular we observe that the centennial goals and SAM goals should be annually reviewed and ratified by the Board so that they are not "ownerless". More generally, we observe that for some issues there may be neither complete buy-in by the Board nor discussion of any such differences, e.g., our international direction.

#### **RECOMMENDATION 4—DISCUSSION**

Recommendation 4-- *With non-actuary directors and the increase in Board size, new issues in managing the Board may arise and old issues may assume greater importance. We recommend that each Board Chair maintain notes on “best practices” and update a cumulative set of best practices to pass to successor Chairs.*

The task force believes this is good practice with no downside other than a small amount of additional work for the outgoing past President.

#### **RECOMMENDATION 5—DISCUSSION**

Recommendation 5--*The Executive Director should be officially designated as a member of the Executive Council. This will require a change to the Constitution Article VI, which defines the membership and duties of the Executive Council, but we do not think it requires a change in the by-laws.*

Our Executive Director is effectively a member of the Executive Council already. This recommendation would formally recognize what is effectively the case now and position the role more in accordance with standard professional society practice.

Because we want to separate management from policy, we do not want to have the Executive Director on the Board. Looking at other Boards on this point is not particularly valuable, we believe, because, unlike the CAS Board, many Boards are constructed with appointments related to organizational affiliation or ex-officio roles. Nonetheless, it is not particularly unusual to have the Executive Director on the senior “management” committee but not the Board, e.g., the Executive Director of the Institute is on the management committee but not on the Board.

#### **RECOMMENDATION 6—DISCUSSION**

Recommendation 6-- We recommend no change in the Discipline Committee.

We propose that the Board obtain a recommendation from the Discipline Committee chair regarding the use of legal counsel in the Discipline Committee deliberations apart from individual cases.

Recommendation 6 is analyzed in Appendix 1.

#### **IMPLEMENTATION**

Some further implementation steps for recommendation 1 are as follows:

1. Prepare a draft Constitutional Amendment for extending the Board Membership.
  - a. Create the position of Appointed Board Member” with up to three such Members as determined by the Board
  - b. One year position, renewable for no more than two additional consecutive one-year terms
  - c. Elected by the Board

A draft of the required Constitutional changes is attached as Appendix 2.

2. Draft a Board policy statement for implementing the constitution change, covering key points including:
  - a. One non-actuary appointed to the Board initially
  - b. Nominating Committee to propose candidates to the Board
  - c. Nominating Committee to seek suggestions from CAS membership
  - d. A Board Task Force (not this task force) should assist the Nominating Committee in the first year in identifying the type of candidate, developing a process of reaching that type of candidate, and possibly searching for specific candidates.

## **CONCLUSION**

The task force appreciates the opportunity to have provided this input to the CAS Board. We request that this report be received by the Board and the task force dismissed.

## **NON-MEMBERS IN THE DISCIPLINE PROCESS**

In addition to the charge of the Board, the Executive Council asked this task force to *...evaluate whether the CAS will benefit from having an independent Member(s) on the CAS Discipline Committee, and if so, to develop a process and desired skill set for identifying such potential members.*

We recommend no change in the discipline process. Our rationale is discussed in below.

The CAS discipline process is embedded in the discipline processes of the ABCD and the CIA. There are three stages. First, the By-laws provide that complaints should: "... be referred to the national organizations responsible for profession-wide investigation, counseling and/or discipline, e.g., the Actuarial Board for Counseling and Discipline (ABCD) and the Canadian Institute of Actuaries."

Second, if required the matter from the ABCD or CIA is referred to a seven person panel drawn from the Discipline Committee. The Discipline Committee is composed of ten fellows appointed by the Board.

Finally, if the decision of the Discipline panel is appealed, the appeal body consists of five Members of the Board of Directors appointed by the CAS President from whom the subject actuary picks three to act on his/her appeal.

The CIA has non-actuaries in its disciplinary process. The UK Institute used historically used lawyers ("QC's") on its panels. The ABCD uses actuaries only.

The arguments for non-actuaries in the process relate to the credibility of the process. In particular a non-actuary on the Discipline Committee and on a panel might, perhaps, create the appearance that

1. There is some representation for a public interest, not just an "actuarial" interest
2. Non-actuary complainants will have a fair hearing of their complaint.
3. We consider issues "beyond the narrow actuarial ones".

On the other hand, the arguments against having non-actuaries on panels, include

1. Non-actuaries would not understand what actuaries do
2. The comfort that actuaries have that they are being evaluated by actuaries would be lost
3. The process would appear more adversarial, losing the "counseling" element that ABCD tries to create, (although, arguably that has already been lost if a case reaches the CAS discipline level).
4. The process is intended to provide the view of the profession about an actuarial work product, not a legal or consumer view.
5. There are courts and the Joint Board (for pension actuaries) as forums to resolve legal or consumer issues, and regardless of changes to our process.

We recommend no change for the CAS because we believe the reasons against the change are valid and outweigh the chance that a single non-actuary on a panel would change perceptions enough to achieve any significant benefit. We also note that

The more logical place for a change is in the ABCD or CIA process. Changes are the responsibilities of those organizations.

The final stage, an appeal to the Board over due process, seems appropriate.

In most cases the Discipline Committee panel is considering a matter that has already been packaged by the ABCD/CIA.

The CAS receives very few discipline cases, perhaps at the rate of one every five years.

Finally, we understand from our research that the Discipline Committee does not routinely, if at all, obtain any legal input to its deliberations about process. We propose that the Board obtain a recommendation from the Discipline Committee chair regarding the use of legal counsel in the Discipline Committee deliberations apart from individual cases.

## Draft of Required Changes to CAS Constitution

### Article V. – Board of Directors

#### Section 1.—Composition

##### Present

The Board of Directors shall consist of the President, the President-elect, the immediate past President and 12 other elected Fellows.

##### Revised

The Board of Directors shall consist of the President, the President-elect, the immediate past President, ~~and~~ 12 other elected Fellows, and up to three additional people appointed by the Board of Directors.

#### Section 2. Election and Term of Office—(No change)

Annually, in a secret mail ballot of the Fellows, four Fellows shall be elected to the Board of Directors for a term of three years. A retiring elected Director shall not be eligible for re-election for at least one year after the expiration of the term for which he was elected.

#### NEW - Section 3- Appointment and Term of Office

Annually, the newly constituted Board of Directors will appoint up to three additional Directors, each for a one year term. An appointed director is eligible for re-election for no more than two additional consecutive one-year terms and, after three terms, may not be reappointed for at least one year after the last term for which the director appointed.

#### Section 4—Duties

Same as existing section 3

Note—This needs legal review.