

Sons of Norway Board Orientation

November 2014

The day opened with a presentation by International President Jon Tehven providing an overview of the Responsibilities and Obligations of a Board Member for Sons of Norway.

What is Sons of Norway?

Fraternal organizations are deemed “financial institutions” under legislation and are subject to the laws that govern those institutions. To meet the standard of a fraternal, a society must be set up with a fraternal purpose and a common bond, must have substantial fraternal activities, operate a lodge system and provide benefits to most of its members.

As a tax-exempt corporation, there is increasing government scrutiny on governance practices and reporting standards to ensure accountability standards are met. For federal tax purposes, donations to Local Lodges are NOT tax-deductible unless donations are segregated into a separate fund and used exclusively for charitable purposes. In Canada, we can make donations through the Foundation and tax receipts are issued from the Foundation because the Sons of Norway Foundation is considered a Public Charity.

Sons of Norway is an insurance company subject to similar regulations as commercial insurers which are regulated by state laws. Currently, insurance companies are under the spot light regarding governance, risk based capital (RBC – surplus funds available to cover unforeseen risks), unclaimed property (products), claim denial standards, solvency, and tax law issues.

Role of International Board of Directors.

The Sons of Norway Board Policy book goes into greater detail but, basically, Sons of Norway has a two-tiered management structure:

Corporate Governance is the processes, structure and relationships through which the Board of Directors adopts policies and oversees what its executives do, *and*

Corporate Management is what the executives do to implement the Board’s policies and to conduct the business operations.

Through this partnership, which must create mutuality and confidence between the partners, both groups carry out the objectives of the Corporation.

The International Board of Directors must have the following attributes: be engaged; be objective; make reasonable and informed decisions; set policies – short term and long term through strategic planning; monitor and oversee management’s execution of the policies; operate independent of management and limit active involvement in day-to-day operations; ensure the corporation is soundly managed. A strong Board is vital to a successful organization.

The International Board of Directors derive its power and authority from the International Lodge and is accountable to the certificate holders, members, regulators, auditors, other board members, and to the general public as a tax-exempt entity. Its legal duties include: duty of care; duty of obedience; duty of loyalty. A director must spend time to become familiar with the business of the society to meet the duty of reasonable care and loyalty. A board member must act in the best interests of the organization as a whole, not self-interest or interest of others, nor the interests of

the District or Lodges. Board members must safeguard information and not disclose information that is not already known by the general public or part of public records. Board members must give allegiance to the organization when making decisions and always act in the best interests of the organization while abiding by its mission, bylaws and policies and acting with appropriate and lawful behaviour. Each member must sign and abide by the Code of Ethics and Conflict of Interest Policy as set out by Sons of Norway. The annual signing of these documents does not end there. During ongoing operations, a board member must declare any conflicts that arise from current business at hand.

Legal protection covers board members who act in good faith with due care. This judgment rule protects against honest mistakes and errors **if** the member (1) acts and (2) acts with due care. Expectations of a board member include: participate actively; be knowledgeable and make informed decisions; speak in one voice and serve as an ambassador of the board; serve with honour, integrity and candour; work effectively as a team; and advise wisely.

A handbook outlining policies on such items as information privacy, anti-money laundering, whistle-blower policies, and dispute resolution provisions also binds Corporate Management.

A key role of the Board of Directors is to take on leadership and mentorship roles within the home District. All Lodges and the District Board may call on, and should call on, members of the International Board inviting them to participate in events or to provide guidance.

Risk Based Capital (RBC)

As noted earlier, Sons of Norway is an insurance company and must abide by insurance and financial institution laws and regulations. One of the major guidelines governing insurance companies is their ability to cover unexpected future events. Reserves and surplus are established to cover expected future events but there are also unknown or unexpected events that may arise. Expected events include asset default such as a drop in a bond or market portfolio, mortality/morbidity rates (insurance pays upon accidents or death), and inadequate pricing assumptions. Unplanned and unanticipated events may happen from time to time and RBC is a corporation's ability to deal with these events and still survive.

During the market crashes of 2001 and 2008, levels of surplus went down in most fraternal societies. There are new statues in place that regulate that action must be taken by external regulators if a fraternal's RBC ratio is (1) 200% or lower, or (2) RBC is under 300% and declined over the last three years. A 300% RBC means that a corporation holds \$3 of capital for every \$1 of risk. Normally, when the RBC reaches 100%, regulators will take control of the corporation and attempt to build up their surplus and their ability to cover unexpected events as well as cover the normal expected future events, or, decide to force a merger with a more stable corporation to protect the membership, or, stop issuing new business which often leads to closure of the insurance operations. At the close of 2013, Sons of Norway's RBC was over 400% so the Board must continue regular monitoring and working to keep expenses low while increasing earnings.

Other areas under regulations include financial reporting (solvency), insurance contracts (what must be included within the contract), agent licensing (agents licensed to sell in that state), and market conduct (what can be said in marketing products and projecting policy values). There is now emphasis on the insurance company to prevent unclaimed death benefits. In the past, it was

up to the beneficiary to contact the insurance company. Recently, companies were required to search for individuals who may have died and have an active policy. If non-compliance with this regulation is determined, a company could be sued for not checking on the deaths of their members.

Fraternal Board Training

An online education program through the American Fraternal Alliance was led by Joe Annotti.

Governance – the process of decision making in an organization. You will find information at BoardSource (boardsource.org) and Independent Sector (independentsector.org) that cite best practices within the corporate world.

Be strategic – leadership in developing overall direction for the organization

★Allocate resources toward achieving goals and objectives (short & long term)

★Partnerships and leaderships

Fiduciary – stewardship of high level oversight of use of assets

★Prepare and update budgets, audit to ensure statements are correct

★Understand financial statements and their meanings

★Evaluate progress on goals by establishing benchmarks and determining measures of success

Getting the right people requires diverse and highly qualified candidates. Once in place, the board should conduct assessments of itself to determine where there are strengths and where are the weaknesses. Each Director has a responsibility to increase her/his knowledge in areas of weakness and the corporation has a responsibility to provide education and training in areas that require improvements. A Director can only make good decisions when s/he have a strong understanding of the matters before her/him.

A Director has rights to carry out her/his duties: inspection of books and records; request additional information necessary for informed oversight; advance notice of meetings and materials. Board members have the right to a dissenting vote and to have it recorded, however, the member does not have the right to share confidential information, bring public criticism to the board or otherwise undermine the action of the board. Once a vote is taken, debate is closed and should not be taken any further and each director has a responsibility to support the decision of the board.

Board communications are vital to a successful board. Every board member has a fiduciary duty to express views and engage in discussion. Boards should encourage different points of view and all debate should be respectful. Contrary views should not be taken as personal attacks. Develop talking points to be distributed to all board members following each meeting or action, assisting the members with points they should be taking to their constituents.

Committees can be very useful in subdividing board tasks. Task a group with a short-term, specific task and once the task is completed, the group will end. This allows new people to get involved for a short period of time and allows them learn new skills or take on leadership roles.

Board Meetings need agendas that will lead to developing work plans. Ask these questions: “What is important?” “How will the Board spend its time?” “What are some areas where the Board can improve?” Attending a board meeting is not only being there but requires you to be prepared and to listen to what is being shared. Keys to becoming an expert in board governance

is to talk with other board members and seek outside sources; continually educate yourself; personal development; and become better at the role to which you were elected. Collect wisdom for the benefit of the entire board and use that wisdom to govern. During the meetings, establish what results and what acceptable costs of those results are justifiable for your organization. What are the acceptable costs that will help accomplish the mission and achieve the mission? Monitor that policies are being followed.

In a Corporate Governance and Corporate Management organization, boards set policies and create organizational budgets but they do not create basic programs and approve budgets for individual actions. It is the job of the CEO to run the day-to-day operations of the business. The CEO will manage the staff activities, needs, hiring and firing.

A good Director is prepared, remembers to identify with the membership, represents the entire membership and not just one group, and is responsible for the board's behaviour. Be proactive. Honour divergent opinions. Use your expertise to inform and improve the entire board's wisdom and be a bigger picture board member. Think upward and outward. Tolerate the issues that can not be quickly settled. Don't put off the big issues. Support the board's final choice. Do not mistake form for substance and do not obsess about the ends. Don't expect agendas to be built around the interests of any one board member. Focus on pre-set board criteria and not opinions of the criteria. A Director's commandment is "support the Chair".

Note: part of the Orientation included the Audit process as well as the Investment Management and Insurance Company Accounting. I have not included this information as it is very specific to International rather than District or Lodge level but if you wish more information, contact me directly.

Highlights from Annual Report 2013

- During 2013, nearly 20,000 lodge-sponsored community events took place
- More than 50 Sons of Norway Lodges participated in a community event every single day!
- Members contributed nearly 400,000 hours of community volunteer service
- Members gave more than \$1 million to Sons of Norway communities in NA and Norway
- Challenges remain in membership recruitment and retention
- Sons of Norway Foundation supported 70 youth, heritage and cultural projects totalling more than \$68,000
- Sons of Norway Foundation awarded \$72,000 in scholarships
- Sons of Norway assets – a \$353 million fraternal life insurance company = 5% increase over 2012
- Certificate reserves increased by approximately \$9 million
- Total surplus increased to \$12.5 million, primarily from the value of the Headquarters real estate holdings
- Total expense growth kept to less than 4% increase while expanding service and programs

Prepared by Gloria Benazic, International Director D#7