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Directors Concerned About Ability To Meet Duty

BY: **CRAIG HARRISON**

Company directors who sit on investment committees want to meet their fiduciary responsibilities, but some say they lack the knowledge and tools to do the job, says a survey by Global Manager Research, an investment manager and performance measurement databasee.

These directors find the complexity of their job intimidating and in some cases are embarrassed to admit their knowledge gap. They feel they do not get the full support of their boards to improve their skills. At the same time, they feel under heightened pressure from their boards and regulators to meet high standards of governance.

The survey of 215 insurance and non-profit endowment funds was conducted in 2020. GMR interviewed CEOs, CFOs, and company directors, to understand their governance practices and how their investment performance is analysed and monitored.

The research was undertaken to address a concern about gaps between regulatory demands and company practices. While investment income represents a growing portion of total returns for many organizations, understanding and monitoring performance is often poorly managed.[1] There is also a recognition that board members are selected for reasons other than their investment knowledge and find the reviews overly complex because of their lack of expertise. The result is gaps in oversight.

It found a need for best practices, but that investment governance is often not a priority and directors may lack knowledge. As a result, they tend to rely heavily on investment managers rather than seek broader input via discussion and third-party reports.

Mutual insurance companies made up 54 per cent of the sample (115 companies), universities another 36 per cent, and non-profits the remaining 10 per cent (23). Interviews were conducted by telephone or via an online survey.

A key finding was that 40 per cent of the sample wanted easy-to-read, conclusion-based reports. Some 60 per cent said conclusion-based reporting was somewhat, or very important to them. Only four per cent felt confident in their board's investment knowledge.

Among the issues worrying directors is that investment committees are so big there is limited opportunity for meaningful discussion of issues. Because members have differing backgrounds, the committees often rely on the company's investment manager, rather than on a combination of discussion, third party, and other reports.

Here are some other survey highlights:

- Many boards are too big to be effective.

The GMR sample had boards of directors of between eight and 20 people, with one board having 37 members. Effective investment governance becomes difficult with boards that size as noted by the Governance Centre for Excellence.[2] The centre found that boards between five and 16 members are optimal. It also notes that there is a tendency on large boards for members with advanced investment knowledge to dominate less knowledgeable members. GMR's findings support this view.

- Directors rely heavily on investment managers.

Broader input and data driven analytics, would improve decision-making and assist in building better governance plans as well as expand board participation and improve the discussion. This would allow for easier comparison, consistency, and help in comparing the investment manager's performance to a benchmark of the board's choice. The investment manager would not be able to 'control the conversation.'

- Ongoing director training is needed.

New directors attend orientation sessions to help them understand their duties but receive little training thereafter. GMR found a desire for more education through such things as tutorials and self-help web portals with FAQs and other resources. The findings complement existing research. Organizations such as the Canadian Association for Mutual Insurance Companies (CAMIC) and the Canadian Association of University Business Officers (CAUBO) may be a way to explore these options. GMR worked with CAMIC throughout the year in this regard, offering an online seminar which was attended by 40 mutual insurers.

To do investment governance well and meet fiduciary responsibilities consistently, companies need to develop best practices. The research found this is often not a priority even though given the regulatory climate, companies who ignore it do so at their peril."

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Craig Harrison
is president of Global Manager Research.

charrison@gmr.ca

1. Office of the Superintendent of Financial Institutions (OSFI). Corporate Governance. Osfi-bsif.gc.ca. (2018).
2. The Governance Centre of Excellence, Guide to Good Governance.pdf.