

Need to Change our Governance Model for Sons of Norway

The Governance of Sons of Norway is an important topic that our International Board has been actively discussing for many years, but very actively in the past 18 months. We have talked about the pros and cons to both the Convention/Assembly structure vs. the Direct Election Structure. In preparing to communicate with key stakeholders the following has been captured to serve as a working document for discussion with delegates prior to a referendum vote.

Sons of Norway is a Fraternal Benefit Society that is regulated by the Minnesota Department of Commerce. This department is enacted by the State of Minnesota, has laws and regulations that guide their work. They are responsible to assure that insurance companies are solvent, thereby protecting the consumers of these products from financial loss.

Minnesota Department of Commerce mission statement: "Our mission is to protect the public interest, advocate for Minnesota consumers, ensure a strong, competitive and fair marketplace, strengthen the state's economic future; and serve as a trusted public resource for consumers and businesses."

Why the need for change?

- The Department of Commerce has continued to question the effectiveness of our current governance structure which is encumbered and slow. For both the fraternal and insurance businesses we have seen issues that needed a change in the Charter and Constitution that required a delegate vote. These issues were critical to our business operations as well as the operations of our local and district lodges. The last referendum took weeks to administer and of the 150 delegates, 44 did not vote. This is not a sustainable system of managing a financial company. Covid-19 prepared us to understand and use technology to handle business needs; however, many of our delegates did not adapt well to this method.
- The Department of Commerce has also noted our lack of consistent business and finance knowledge within our delegate pool. The issue with our current approach is the complexity of the insurance business and how ineffective it has been to conduct business with over 150 delegates spread over three countries. It is argued that most delegates lack the financial training and industry knowledge necessary to effectively guide and manage the organization. They would like our governance group to be a Board of Directors who have the technical and financial expertise to provide proper and timely oversight to the organization. Examples cited include the following: technical systems or regulations for insurance carriers, legal knowledge as it relates to the industry and financial knowledge.
- Sons of Norway has suffered financial losses the past three calendar years, including the first quarter of 2021. This is largely due to the lack of focus on sales of the financial products that supported the organization's fraternal activities in the past ten plus years. During this time the fraternal expenses remained high while revenue from product sales continued to decline.
- The new commerce commissioner for the State of Minnesota has met with our leadership and expressed concern. We are required to meet with the department quarterly to demonstrate our

efforts to rectify our return to profitability. We have been expressly asked to document how we will lower our expenses for the Fraternal department.

- While the organization has been successful in reviving insurance sales the past three years, we are still in a growth mode and must consider the strain on the organization to create this growth. Strain expenses include sales commission payments and additional reserves set aside to cover new business in force. The current block of insurance business does not support our current fraternal expenses. We have made significant budget cuts internally during the past 14 months. However, the expenses to revenue ratio is still not aligned and needs to be addressed.
- As of 2019 our expenses were fourth highest of all fraternal organizations. Our Fraternal department recorded a loss of \$750,000 in Q1 2021. This pattern of losses has drawn attention from our regulator, The Department of Commerce in the State of Minnesota.
- Keep in mind the regulators are not advocating that the governance of local and district lodges be changed. They simply want an improved governance structure for the business operations.
- Sons of Norway is one of the last fraternal organizations with the delegate/assembly structure. Fourteen fraternal have changed their governance structure from an assembly to direct election format recently. Three of these did so in 2020.

What is the current governance structure?

Convention/Assembly Structure

- The Convention is the supreme governing body of the society.
 - Districts elect delegates to serve as members of the Convention.
 - The Convention elects the Board of Directors.
- The Board of Directors governs the society between Convention meetings.
- **Pros:** Tradition, comfort.
- **Cons:** Not every benefit member has voice, there is a lack of focus by the delegates on running the business. Delegates lack skill sets and business knowledge to handle fast paced and dynamic issues required to operate a mutual insurance carrier; which maintains compliance throughout the U.S. and under the IRS and State of Minnesota fraternal code.

What is the proposed Governance structure?

Direct Election Structure

- The Board of Directors is the society's supreme governing body at all times.
- All benefit members elect the Board of Directors by direct mail/electronic ballot.
- Conventions are fraternal member meetings.
- **Pros:** Includes all members, re-focuses conventions, gives flexibility and expertise to run the business. Ability to manage business in a timely manner. Equip the board with the right disciplines and knowledge for the industry per our regulators.

- **Cons:** Change.

It is in the best interest of the business to change the supreme governing body of Sons of Norway from the delegates of the International Convention to the Board of Directors.

- Elected by vote of entire benefit membership.
- Bi-annual International Convention would be focused on heritage and culture with minor insurance updates.
- Board focus is on running the business.

Proposed Board Adjustments:

- The International Board to be elected in 2024 by all Benefit Members will be comprised of six (6) fraternal benefit members active in the Lodge system and six (6) benefit members that come from the business disciplines important to running an insurance business, including finance, accounting, legal, actuarial, information technology and insurance sales and operations.
- Four of the fraternal Directors will represent the eight (8) Districts of the Sons of Norway, with the remaining two fraternal Directors representing the membership at large.
- All International Board candidate credentials will be vetted by the International Nominating Committee of the Sons of Norway.
- Following passage of the referendum, a Special Governance Committee will be established to determine appropriate Charter and Constitution and Policy and Procedure changes arising from the referendum:
 - The committee will be comprised of selected International Board Directors and District Presidents and Chaired by International Vice President Mark Agerter.
 - The committee will submit their recommendations to the International Board of Directors for their consideration at the May 2022 Board meeting.
- The four International Officer positions and any open Board seats will be filled at the 2022 International Convention by the presiding international delegates.

Risks for current delegates of not changing:

As a delegate it is important to understand your Accountability and Liability in accepting this role as a Delegate for Sons of Norway:

Accountability and Liability – Business Judgment Rule

- The International Lodge, comprised of elected delegates, is the Supreme Governing Body, and between conventions, the International Board has authority to act as the Supreme Governing Body as provided for in the Charter and Constitution.

- The International Board derives its authority from, and is accountable to, the International Lodge; elected delegates are the Supreme Governing Body.
- As a fiduciary for a tax-exempt entity, the International Lodge is accountable to certificate holders, members, regulators, auditors and the general public.
- **Duty of Care-** requires that directors discharge their duties in **good faith**, in a manner the director reasonably believes to be in the best interest of the nonprofit corporation, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. This means active participation, committee work, board actions, and investigations, among others.
- **Duty of Loyalty-** requires that directors have an absolute duty of complete, undivided loyalty to the organization and should put its best interest first and avoid engaging in transactions from which the director will benefit. Duty of Loyalty is an obligation to the organization as a whole- a fraternal benefit society—Fraternal **and** Insurance.
- **Potential liability for directorial decisions. A director may be held personally responsible for:**
 - A board decision that results in a loss because that decision was ill-advised or “negligent;” or liability for a loss said to arise from an unconsidered failure of the board to act in circumstances in which due attention would, arguably, have prevented the loss.

What will happen with this upcoming referendum?

- Each delegate will receive the proposed referendum.
- This will be delivered via email by Survey Monkey as have the past several referendums.
- We will follow protocol for tallying votes and communicating results to the entire membership.