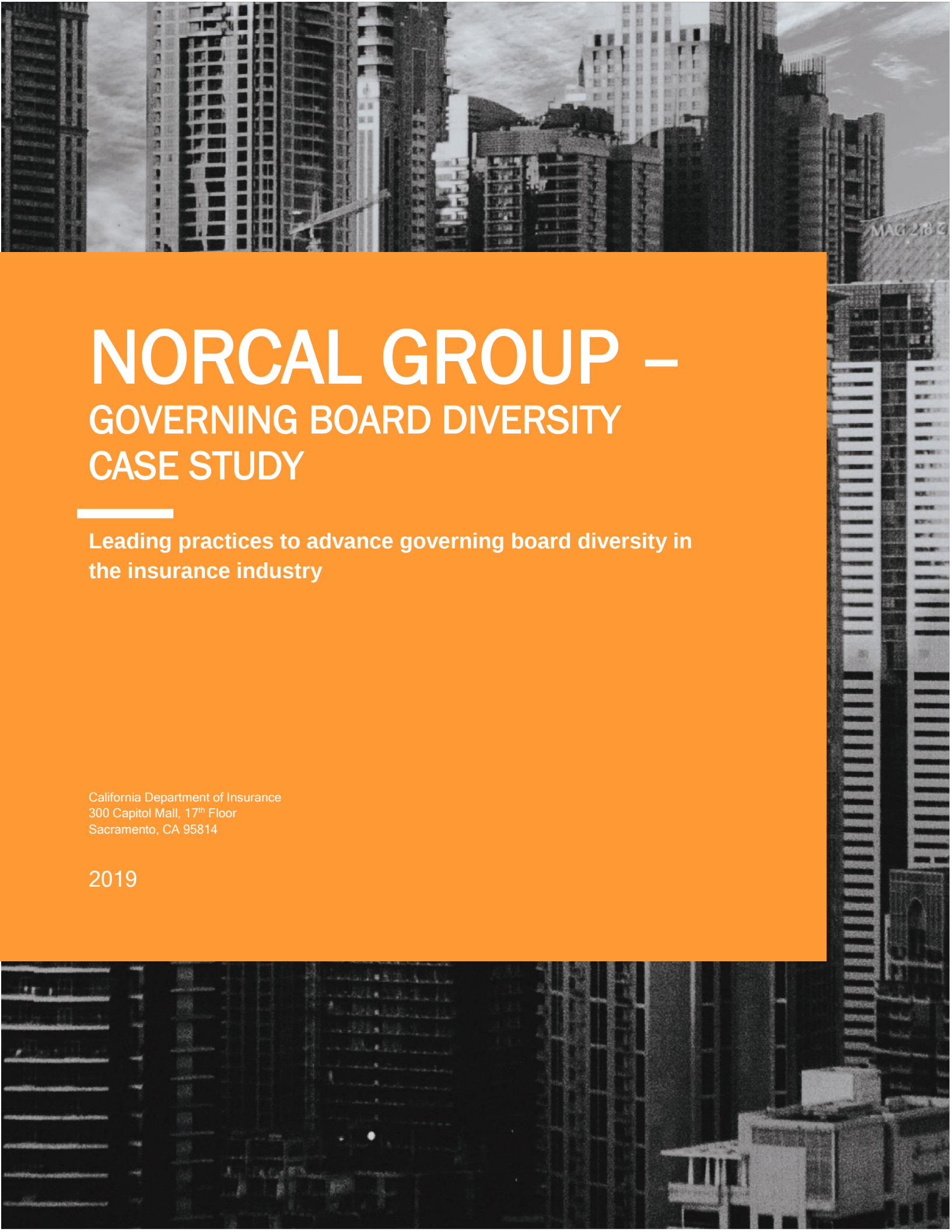




NORCAL GROUP – GOVERNING BOARD DIVERSITY CASE STUDY

Leading practices to advance governing board diversity in
the insurance industry

California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814

2019

ABOUT THE CASE STUDY

The following set of leading practices contained in this case study seeks to illustrate the practices that have been successfully implemented by NORCAL Group. It is meant to serve as an informational resource document.

ACKNOWLEDGMENTS

The case study was produced in collaboration with the NORCAL Group.



CALIFORNIA DEPARTMENT OF INSURANCE

Established in 1868, the California Department of Insurance is the largest consumer protection agency in California. Insurers collect \$310 billion in premiums annually in California, and the State is the 4th largest insurance market in the world and remains the largest insurance market in the United States.

California Department of Insurance
Office of Insurance Commissioner Ricardo Lara
Insurance Diversity Initiative
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
www.insurance.ca.gov/diversity

Questions in regards to the contents contained in this case study may be directed to the California Insurance Diversity Director - Chandara K. Phanachone at chandara.phanachone@insurance.ca.gov.

NORCAL GROUP – CASE STUDY

Company Background

Over 40 years ago, medical professionals in Northern California realized that the threat of rising medical liability costs necessitated a new way of doing business. In response, NORCAL Mutual (now known as NORCAL Group) was formed with the vision of a physician-directed insurance company to better understand, and serve the needs of practicing medical professionals. Since its inception, the company has grown, and in 2018, NORCAL Group (NORCAL) became the sixth largest national provider of Medical Professional Liability Insurance (MPLI). The company credits its MPLI growth to its ability to make decisions that reflect the evolving needs of physicians. Beginning in 2010, the leaders of NORCAL noticed the rising tide of women graduating from medical school. This prompted a series of intentional actions focused on the need to understand and meet the changing demographics of healthcare professionals. This case study takes a closer look at NORCAL's leading practices.

CORPORATE HEADQUARTERS

- SAN FRANCISCO, CALIFORNIA

FACTS AT A GLANCE



Direct Written Premium: \$342M

Number of Employees: 300+

Total Admitted Assets: \$1.545B

PolicyHolder Surplus: \$747M

PolicyHolder Count: 35,868 across 50 states, including the District of Columbia

Source: NORCAL Group 2018 Annual Report

ABOUT THE COMPANY

NORCAL Group provides medical professional liability insurance to physicians, health care extenders, medical groups, hospitals, community clinics, and allied health care facilities throughout the country. NORCAL comprises NORCAL Mutual Insurance Company, NORCAL Specialty Insurance Company, Medicus Insurance Company, FD Insurance Company, and the Preferred Physicals Medical Risk Retention Group; all of which hold an A.M. Best “A” (Excellent) rating for their financial strength and stability. For more information, please visit: www.norcal-group.com.

“Diversity is good for NORCAL, good for our customers, and good for the economy.”

Scott Diener, CEO & President – NORCAL Group



NORCAL GROUP – LEADING PRACTICE 1: Responding to a Changing Customer Base

A CLOSER LOOK

In June 2006, the Association of American Medical Colleges (AAMC) forecasted a shortage of physicians by the year 2020, largely due to the rapidly growing aging population and limitations on the support provided for physician training.ⁱ To address the projected shortage, the AAMC issued a set of recommendations to the medical school community to increase efforts to educate and train additional physicians. In 2010-11, women received 8,395 (48.4%) of the 17,361 medical degrees awarded, representing the largest proportion of women earning an M.D. of any national graduating class during that year.ⁱⁱ In 2011-12, women accounted for 47% of all matriculating medical students. These statistics did not go unnoticed by the Board of Directors at NORCAL.

“At the Board level, we had an awareness that our customer base was changing and in order to make decisions that were reflective of our customers, we, as a company, needed greater diversity.”

Scott Diener, CEO & President – NORCAL Group

In response to the increase in women joining the medical profession as physicians, NORCAL’s Board took action to ensure that it would be able to safeguard its policyholders from risks inherent with the changing tide of its customer base. NORCAL added a second woman to its board, Sandra L. Beretta, MD, a practicing obstetrician-gynecologist for nearly 23 years, and previous Department Chair of Obstetrics and Gynecology at Mills-Peninsula Hospital in Burlingame, California. In 2017, Dr. Beretta also became the first woman to serve as chair of NORCAL’s Board of Directors. As of 2018, NORCAL’s 9-member Board of Directors comprises 5 women and 4 male Board members.

NORCAL GROUP – LEADING PRACTICE 2: Creating a Culture that Values Diversity

A CLOSER LOOK

“At NORCAL, we value diverse ideas, thinking styles, backgrounds and skills. NORCAL seeks a board composed of directors representing a range of perspectives creating an environment of collaborative tension that is aligned with the strategic needs of NORCAL.”

- NORCAL Group Corporate Governance Guidelines

NORCAL understands that a deliberate commitment to governing board diversity (GBD) starts when diversity becomes a shared organizational value and priority. Since Scott Diener became CEO of then NORCAL Mutual in 2011, he has made increasing governing board diversity an intentional process. This process began with codifying diversity in its Board of Directors' Corporate Governance Guidelines to include an explicit statement of the impact of diversity on creating an environment of diverse ideas, thinking styles, backgrounds, and skills. NORCAL then established the requirement that its board be composed of directors representing a range of diverse perspectives by incorporating diversity as one of the key attributes in the formal evaluation criteria as part of its board review process, which is undertaken by the Board's Nomination and Governance Committee. The key differentiating factor is that these efforts were never focused solely on the simple addition of one diverse board member. Rather, the aim of diversity is to achieve meaningful impacts on the Board's ideas and outcomes by being deliberate in realizing the perspective of multiple diverse board members.

NORCAL GROUP – LEADING PRACTICE 3: Leading by Example

A CLOSER LOOK

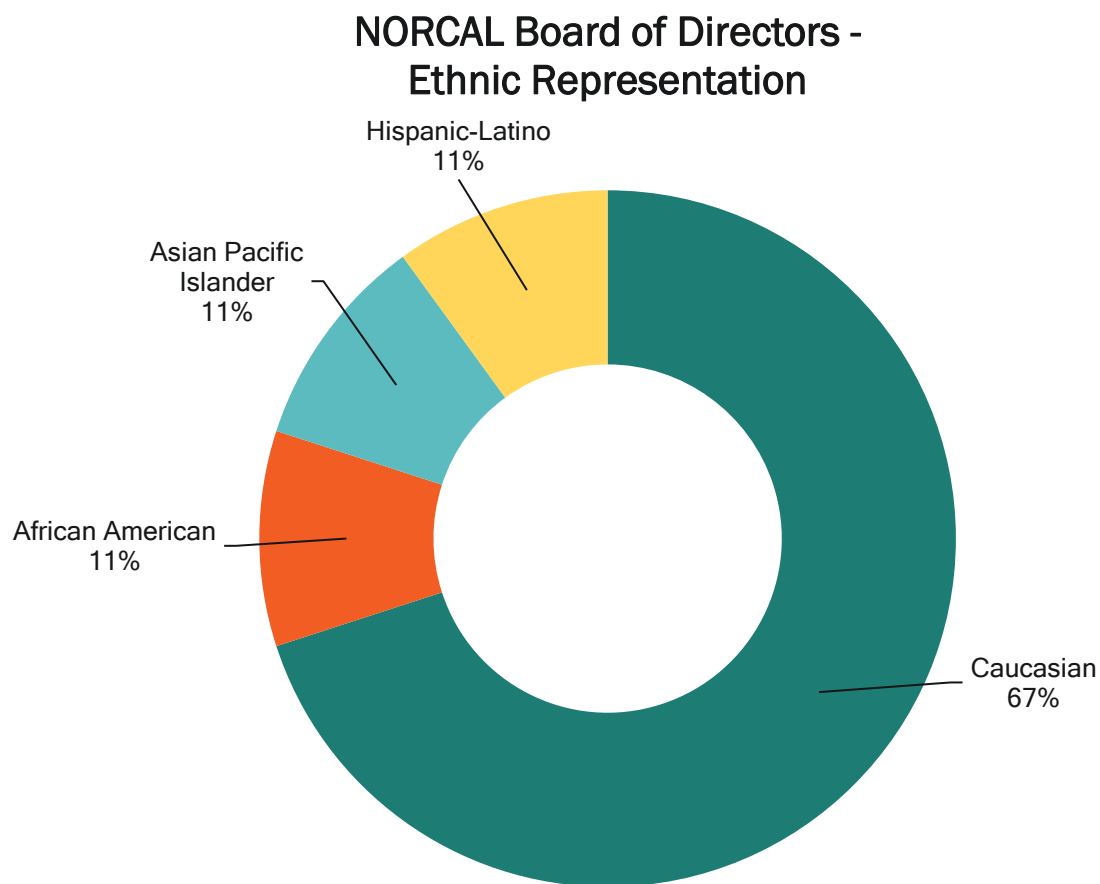
Governing board diversity is more than just demographic diversity; it is a focus on achieving a holistic set of skills, knowledge, ideas, and perspectives. This focus does not start and end with the board selection process. NORCAL believes in and invests in continuing leadership education for its Board members. A key practice is continually updating and refreshing Board members' knowledge. To achieve this goal, NORCAL provides financial and training resources for its board members to become actively involved with organizations such as the National Association of Corporate Directors (NACD), with the option of becoming certified NACD Fellows as part of the NACD Fellowship® - a comprehensive and continuous program of study that empowers directors with the latest insights, intelligence, and leading boardroom practices. NACD participation also provides the added benefit of expanding NORCAL's networks at the board level. This further helps broaden the scope of potential talent during the Board recruitment process and is especially useful in assessing the needs of the company in its governing board skills matrix, a useful tool that helps assess the skills, qualifications, and attributes of current and prospective board members with respect to the critical business priorities as determined by the company.

“Our company values tell our story. The structural components of our organizational culture inherently support our diversity & inclusion efforts, and have also enabled us to attract and retain top talent. It's in our DNA.”

Julie Burns, Chief Human Resource Officer – NORCAL Group

RESULTS & IMPACT

GOVERNING BOARD DIVERSITY – BY THE NUMBERS



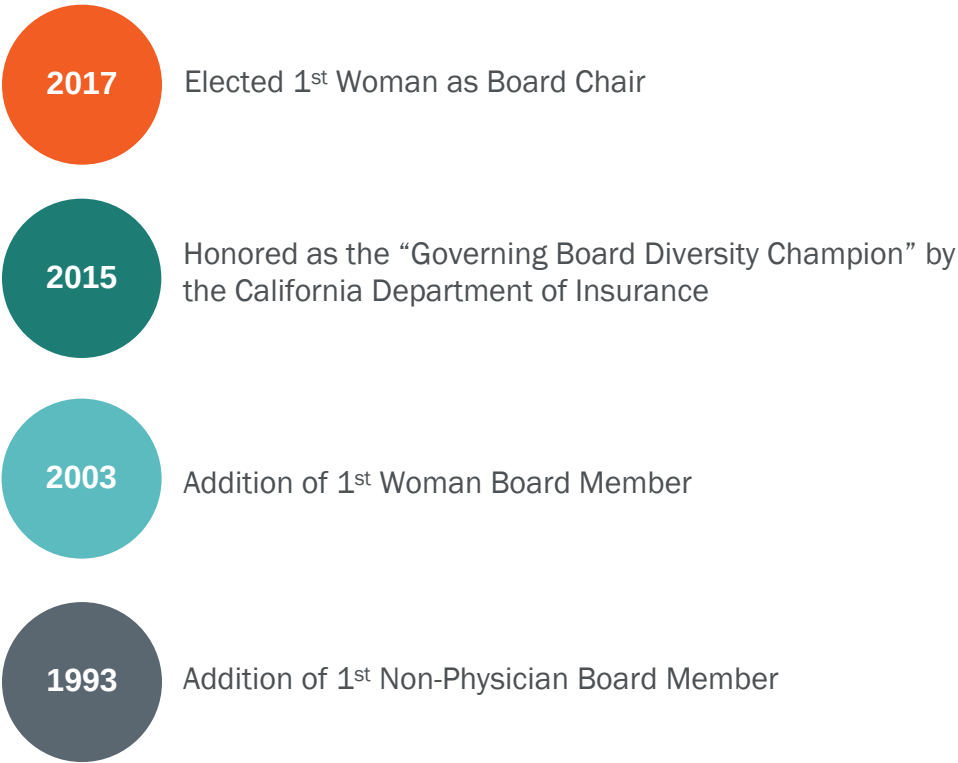
9 Total Number of Board Seats

KEY GOVERNING BOARD DIVERSITY HIGHLIGHTS

- 5 – Majority of Board members identify as women
- 1 – Board member identifies as African American
- 1 – Board member identifies as Hispanic-Latino
- 1 – Board member identifies as Asian-Pacific Islander
- 75% of Board committees are chaired by a woman

SPOTLIGHT ON SUCCESS

Success does not happen overnight. NORCAL's path to creating broader inclusiveness on its governing board has been a gradual process paved with critical milestones along the way.



A vertical timeline with four colored circles representing milestones. The circles are orange, teal, light blue, and dark grey, arranged from top to bottom. Each circle contains a year, and to its right is a description of the milestone.

2017

Elected 1st Woman as Board Chair

2015

Honored as the “Governing Board Diversity Champion” by the California Department of Insurance

2003

Addition of 1st Woman Board Member

1993

Addition of 1st Non-Physician Board Member

LESSONS LEARNED

KEY TAKEAWAYS ON ACHIEVING GOVERNING BOARD DIVERSITY



CONSIDER THE CULTURAL ALIGNMENT

“Culture eats strategy for breakfast”

– Peter Drucker, Published author & management consultant

This quote was popularized by the business management guru Peter Drucker, and also one that is resoundingly true for the leaders at NORCAL. Achieving governing board diversity and obtaining a competitive business edge cannot be broken down to a strategy exercise. Governing board diversity requires a deliberate commitment that is more likely to be reached if there is an alignment with organizational culture. NORCAL believes in promoting a culture that values diversity; a value that is enthusiastically reflected in its governing board.



CONSIDERATIONS PRIOR TO RECRUITMENT

“Think big and think outside the box.

Your initial move needs to make a big impact. If it does not make sense to add 1, then add 2 [members to the Board]. Be intentional.”

– Scott Diener, CEO & President, NORCAL Group

A deliberate and focused effort on advancing governing board diversity means that there are moments when you will need to think and act in innovative ways in order to realize the full potential of a diverse governing board. Achieving governing board diversity requires leaders to engage and take action.



MAXIMIZING THE VALUE OF BOARD DIVERSITY

“Listen.

Prize the synergy that comes from the dynamic tension produced by a collaborative governing board process focused exclusively on the best interests of our policyholders.”

– Sandra L. Beretta, MD, Board Chair, NORCAL Group

At the crux of NORCAL’s focus on diversity is its emphasis on creating value for and responding to the needs of its policyholders. NORCAL continues to ground itself on its purpose which is reflected in the company’s mission statement: “NORCAL safeguards our policyholders from risk, guides them through the unexpected and protects their practice of medicine.”

End Notes:

ⁱ Association of American Medical Colleges. “AAMC Statement on the Physician Workforce – June 2006.”

<https://www.aamc.org/download/55458/data/workforceposition.pdf>

ⁱⁱ Association of American Medical Colleges. FACTS: Applicants, Matriculants, Enrollment, Graduates, MD-PhD, and Residency Applicants Data. <https://www.aamc.org/data/facts/>.