

# GOVERNANCE FRAMEWORK



4/6/2020

Approved by the Board of Directors

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## 1. PURPOSE

The Co-operators Governance Framework provides an overview of the corporate and co-operative governance structure, principles, policies and practices that enable the organization to meet the expectations of its various stakeholders, including member organizations.

The Board of Directors of The Co-operators Group Ltd. also serves as the board of the following companies:

Co-operators Financial Services Limited  
Co-operators General Insurance Company  
Co-operators Life Insurance Company  
COSECO Insurance Company  
The Sovereign General Insurance Company  
CUMIS General Insurance Company  
CUMIS Life Insurance Company

The Framework has been established to describe the governance approach for these organizations.

Certain subsidiary organizations within the group of companies are governed by their own board of directors, governance policies and practices. Individual differences or unique circumstances (e.g. ownership, regulatory, market and competitive advantage) may necessitate alternate approaches.

As a Framework, this document summarizes how the board and management fulfill their respective oversight responsibilities. As such, it does not review in great detail all aspects of the company's approach to corporate or operational governance. The Framework is supported by a Board Policy Monograph and Operational Policy Framework.

For additional information, please view our annual Integrated Report:

<https://www.cooperators.ca/en/About-Us/corporate-overview/annual-reports.aspx>

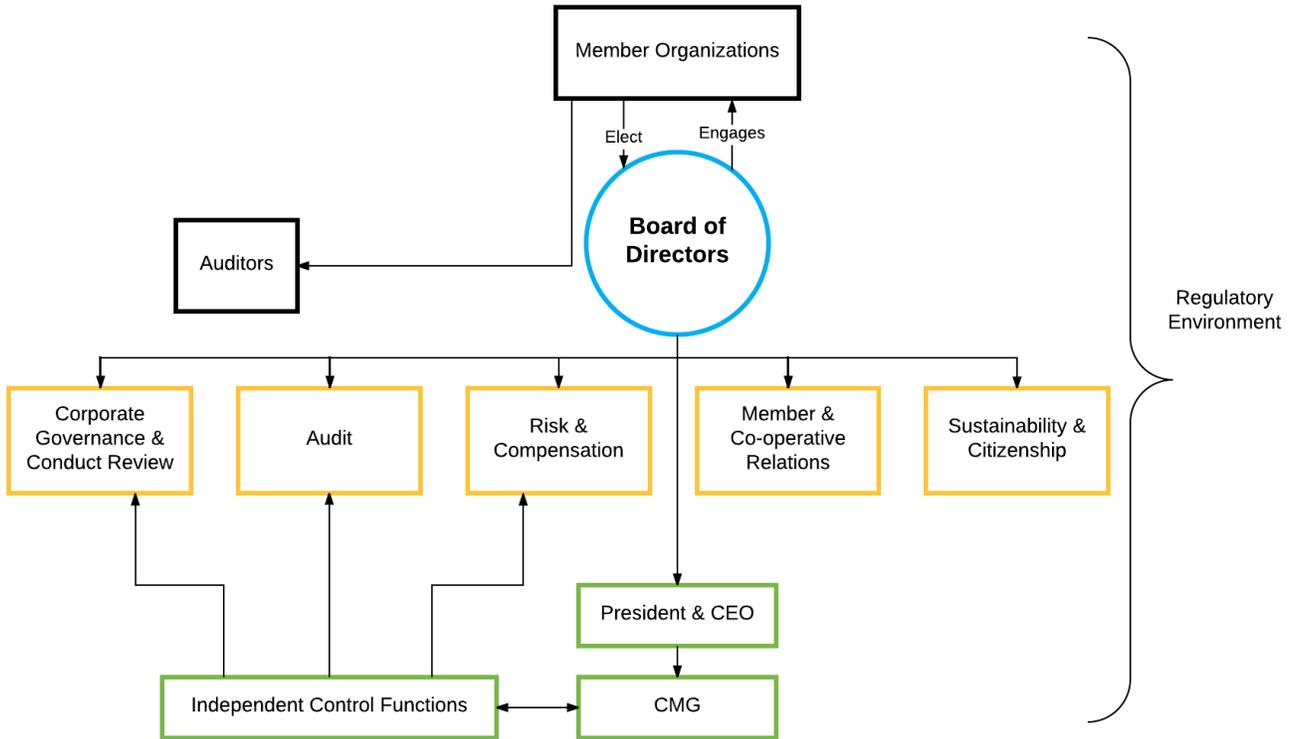
or, contact our Corporate Secretary: [carmel bellamy@cooperators.ca](mailto:carmel.bellamy@cooperators.ca)

*A corporate governance framework  
needs to reflect the culture, style and  
issues of the organization – “one size  
does not fit all”*

PwC

## 2. GOVERNANCE STRUCTURE

The relationship between The Co-operators board, its committees, senior management (including the independent control functions), member organizations and other stakeholders is illustrated below:



### 3. GOVERNANCE PRINCIPLES

The Co-operators approach to corporate governance is guided by the following core principles:



## 4. CORPORATE GOVERNANCE

### ROLE OF THE BOARD AND BOARD COMMITTEES

#### Role of the Board

The board is responsible for key governance issues including:

- articulating the mission, vision and values;
- setting the strategic direction;
- ensuring the organization's financial viability;
- the appointment, selection and performance management of the President and CEO; and,
- ensuring The Co-operators maintains a leadership role in the insurance industry and co-operative movement.

The board annually reviews and approves the financial statements and strategic business plans for the company, and monitors its progress in achieving these plans throughout the year.

#### Board Committees

The board has established five committees to assist in fulfilling its responsibilities:

- Audit Committee
- Corporate Governance & Conduct Review Committee
- Member & Co-operative Relations Committee
- Sustainability & Citizenship Committee
- Risk & Compensation Committee

Each committee is supported by a Terms of Reference which among other things sets out the committee's mandate, responsibilities and authority. Committee terms of reference are reviewed annually and changes are recommended to the board for final approval. An annual work plan is established for each committee to support it fulfilling its mandate and guide its activities throughout the year. Committees report on their activities at each board meeting by way of a verbal update from the committee chair and through their meeting minutes.

### BOARD COMPOSITION

The Co-operators 22-member Board of Directors (board) consists of individuals elected from its 45 member organizations across Canada. The board is comprised of 15 at-large directors and 7 directors representing the credit union centrals in seven geographic regions as follows:

At-large directors: BC (1); AB (2); SK (1); MB (1); ON (6); QC (2); AT (2)

Central Directors: Central 1, BC/ON (4); AB & MB Centrals (1); SK Central (1); AT Central (1)

## Director Qualifications

In addition to the requirements as set out in the Insurance Companies Act and Canada Business Corporations Act, individuals nominated to serve on The Co-operators board of directors must:

- have the qualifications necessary to serve on the board of any insurance company directly or indirectly owned or controlled by The Co-operators;
- have been nominated at a region meeting and have served as a delegate, an alternate delegate or a director of The Co-operators for at least one full year and have attended two region meetings within a twelve month period.

A Director Skills Matrix has been established to articulate and communicate the desired skills, knowledge and experience of members serving on the board and board committees. The matrix is reviewed and updated annually; the results support the identification of areas of strength and gaps, inform the director nomination process, and highlight training and development requirements.

## Chairperson of the Board

The Chairperson of the Board guides the board of directors in carrying out its responsibilities, providing leadership in areas such as policy development, interfacing with the co-operative community, the Chief Executive Officer and members. The chairperson assists in clearly relating board and management responsibilities, and helps maintain the delicate but essential balance in the board-management team effort. Along with the President & CEO, the chairperson also serves as the face of The Co-operators (on behalf of the Board).

## Vice-Chairperson of the Board

The Vice-Chairperson of the Board carries out the duties of the chairperson in the absence, disability, request or recusal of the chairperson, or as delegated by the chairperson. The vice-chairperson shall also have such other powers and duties as may be assigned to her/him by the board of directors. This role also assists in maintaining liaison with member organizations, co-operatives, or other organizations.

## Nomination and Election

Directors are nominated by members at the region committee meetings and elected at the Annual General Meeting held in April each year.

## Director Term

The term of office for directors is three years, which commences at the close of the AGM. Director terms are staggered to ensure continuity on the board and minimize turnover in any one year. No term limits have been established as the current approach has been effective in generating healthy turnover and board renewal.

## Populating Committees

The Chairperson of the Board; Vice-Chairperson and board committee composition are determined annually. Immediately following the AGM, the board meets to elect the chairpersons after which time the chairs populate the committees, giving consideration to director knowledge, skills, experience and interests, succession planning, continuity and renewal. All positions are elected for a one year term.

## Board Diversity

The board believes it important for the organization to be governed by a mix of highly qualified directors from diverse backgrounds that contribute a broad range of perspectives and experiences to its discussions and decisions, ultimately promoting the best possible corporate and co-operative governance. While diversity on all fronts (age; culture; ethnicity; geographic; gender and sectoral) is viewed as a prime consideration and cornerstone of success, the board identified gender diversity and director skills as priority areas of focus. With respect to gender, the board established a Representation of Women on the Board policy which includes the target of achieving 30% women by 2020 and 50% by 2025. While it is recognized that the contribution of individual directors will vary based on their particular qualifications and experience, the board collectively should bring a balance of expertise, skills, experience and perspectives reflecting The Co-operators strategy, risk profile and operations.

## ETHICS AND CONDUCT

A Code of Ethics and Conduct policy is in place to ensure the board collectively and its individual directors commit themselves to discharging their fiduciary duties with the utmost good faith and to the highest standards of conduct with a view to serving the best interests of the company and its stakeholders.

## INDEPENDENCE

All directors are independent from management and unrelated to the day-to-day operations of the business. As stewards of the organization, independence from management is fundamental to providing effective oversight to management including the independent control functions.

## Conflicts of Interest

As fiduciaries of the organization, directors are bound to disclose and to not benefit from personal interests which conflict with the interests of the company. The board's Conflict of Interest policy sets out the basic principles and parameters governing the disclosure and management of conflicts of interests for directors. As well, a Corporate Opportunities policy is in place to guide conduct and proper use of corporate property, information and the position of director with respect to opportunities for personal gain and direct or indirect competition with the company.

## Access to Independent Advisors

To assist directors and the board in carrying out their responsibilities, and to foster independence, support is provided for independent access to advisors including external legal advice. The board and individual directors have open access to the President & CEO, executive management team, independent control functions, management and staff of the organization as well as the external auditor.

## In-camera Sessions

The board and committees of the board hold regular in-camera sessions with the CEO, the heads of the independent control functions and also meet on their own to have candid discussion without any management present.

## BOARD AND DIRECTOR EFFECTIVENESS

### Board Policy Monograph

The board has established a Board Policy Monograph. The policies contained within the monograph describe how the board:

- complies with regulatory requirements;
- provides stewardship to the organization;
- executes its oversight of management; and,
- governs its operations.

All policies set-out the review period and identify the board committee and management key contacts. The Corporate Governance & Conduct Review Committee has overall responsibility for the monograph.

### Performance

The board has established processes to regularly assess the governance health of the organization (including board performance) as well as the performance of individual directors, committees of the board and chairpersons of the board. In the spirit of continuous improvement, the Corporate Governance & Conduct Review Committee oversees this activity ensuring action plans are developed and implemented to address the approved priorities.

### Orientation and Education

Upon joining the board, new directors are provided with an introductory two-day orientation session and a comprehensive Board Manual. To support the onboarding process, the chairperson arranges for another director to act as a mentor. To ensure a smooth integration and accelerate engagement, a mid-year follow-up orientation session may be held.

Individual directors have access to a budget to support professional development focused on enhancing their performance and contribution to the board. A comprehensive inventory of recommended external programs modeled on the Director Skills Matrix has been developed to support individual training and development goals. Directors are also encouraged to attend a committee meeting or committee

education session that they are not a member of to broaden their knowledge and exposure on the board.

Each year the board sets aside two days for educational sessions delivered by external experts and senior management to deepen their understanding of their role and responsibilities and expand their knowledge of the business including emerging trends and risks facing our industry. In addition to these formal sessions, educational presentations are regularly included in board meeting agendas; webinars and one-on-one sessions on specific subjects are available with internal experts and visits with various operational areas are arranged throughout the year. The board's portal also serves as a resource library which includes current and historical reference information.

## **OVERSIGHT AND DELEGATION TO MANAGE**

There is a clear delineation of roles and responsibilities between the board and senior management to ensure effective stewardship and oversight of the organization.

### **CEO's Power to Manage**

The key link between the board and management is the President and CEO, who is chosen and appointed by the board. The board delegates to senior management (through the CEO) the authority, responsibility and certain powers, including execution of strategy, to manage the operations of the company.

Management is responsible for the day-to-day management and operations of the company. Major decisions, such as significant investment transactions, acquisitions, business arrangements or alliances must be submitted to the board for prior approval.

### **Performance Management**

The board approves the annual performance goals of the President & CEO. and conducts an annual performance review of the President & CEO's performance against the goals. The board also receives an annual report from the President and CEO on the performance of the company's senior management team (CMG).

### **Corporate Development**

On an ongoing basis, the company explores potential acquisitions, joint ventures, financings and divestitures to support the organization's overall growth and strategic objectives. A Corporate Development policy is in place to govern this activity as well as set-out the authority delegated to management and associated board approval limits.

### **Subsidiary Governance**

In the spirit of providing effective oversight to significant operating subsidiaries within the group, a Subsidiary Governance policy has been established including the appointment of a director from the parent board (CGL) to serve on the subsidiary boards. As well, management is expected to provide the CGL board with a comprehensive report on each subsidiary operation at least once per year.

## Management Reports to the Board

To ensure the board receives timely and effective information and has an appropriate view of the business to fulfill its responsibilities a Management Reports to the Board policy has been established. As well, annual reports on key business functions including Compliance, Government Relations, Human Resources, Information Technology, Member and Key Client Relations, and Sustainability & Citizenship are provided to the board.

## Succession and Emergency Replacement Planning

The board receives an annual report from the President & CEO on the development of senior management and the succession plans and processes in place for the CEO and key management positions (CMG) including the independent control functions. As well, through discussions with the CEO, it satisfies itself that appropriate plans and emergency replacements for key leadership roles have been identified.

## 5. OPERATIONAL GOVERNANCE ROLE OF MANAGEMENT

### President & CEO

As the senior-most staff member of The Co-operators Group, the President and Chief Executive Officer (CEO) has accountability for the operations of the organization, with responsibility for managing the business and full authority to do so, subject to the general direction and control of the board of directors. The CEO leads and directs the senior management team and is accountable for the results of The Co-operators Group and each of its operating subsidiaries.

### CMG

The Co-operators Management Group (CMG) provides the common strategic and tactical direction, oversight, and monitoring of performance for The Co-operators group of companies.

Working as part of the multi-disciplinary team, CMG members ensure the integrity and fulfilment of CMG's purpose and further the best interests of the group of companies as an appointed leader representing a strategic operating area within the group of companies.

Members of CMG include the following:

- Executive Vice-President & Chief Client Officer
- Executive Vice-President & Chief Digital Marketing Officer
- Executive Vice-President & Chief Financial Officer
- Executive Vice-President & Chief Information Officer
- Executive Vice-President & Chief Operating Officer, CLIC and President & COO, The CUMIS Group
- Executive Vice-President & Chief Operating Officer, P&C Manufacturing
- Executive Vice-President & Chief Operating Officer, SGIC
- Executive Vice-President & President, Credit Union Distribution, The CUMIS Group
- Executive Vice-President, Member Relations, Governance & Corporate Services
- President & CEO, Addenda Capital

CMG is supported by two key management committees:

### **Management Capital Committee**

The Management Capital Committee (MCC) monitors, evaluates and recommends capital allocation and strategy decisions to CMG. At the discretion of the CMG, the MCC may be granted the authority to make decisions within pre-defined limits regarding the setting of performance targets, to approve capital allocation changes, and review acquisitions, financings, divestitures, joint ventures and mergers (where appropriate and subject to the Corporate Development policy).

### **Management Risk Committee**

The Management Risk Committee (MRC) oversees the enterprise risk management program and ensures that all associated processes and procedures are appropriate to the type and nature of The Co-operators various businesses and activities. The MRC provides risk oversight directly and through its many supporting risk-specific management committees; is responsible for monitoring the overall risk profile of CGL's insurance businesses relative to risk appetite, and reviews key risk-taking activities within the insurance business ensuring the adequacy of the risk management program on an aggregate basis.

### **Independent Control Functions**

The President & CEO and/or respective CMG members delegate certain responsibilities to the Independent Control Functions, namely the CFO; Appointed Actuaries and heads of the Risk; Compliance and Internal Audit functions.

The heads of the control functions (chief roles) are responsible for providing enterprise-wide oversight of operational management. The heads of the control functions have direct and unfettered access to the President & CEO; another control function; and the Board (through the respective board committees). This includes regular in-camera sessions with the President & CEO and respective board committees with no other members of management present.

The board (through its committee structure) oversees the control functions. Specifically, the committee(s):

- discusses with management the appointment of the chief role and his/her compensation and other terms of employment;
- approves the chief role mandate, resources and annual budget;
- seeks assurances from the chief role that oversight activities are independent of the operational management of the business and adequately resourced and have appropriate visibility throughout the company;
- holds periodic discussions with management on the performance of the chief role; and,
- through discussions with management, satisfies itself that succession plans are in place to ensure that a temporary replacement for the chief role will be available if needed and that a pool of qualified candidates exists for consideration for permanent appointment to the position.

Third party reviews of the independent control functions are conducted on a regular basis, or otherwise determined by the Board.

## REPORTING AND ESCALATION OF CRITICAL AND SIGNIFICANT ISSUES

Regular reports are provided to the Audit, Corporate Governance & Conduct Review and Risk & Compensation committees, as appropriate on critical and significant matters by the CFO, Appointed Actuaries, Chief Internal Auditor, General Counsel, Chief Compliance Officer and Chief Risk Officer. Critical issues are reported to the board by the respective board committee chair.

## CORPORATE POLICY FRAMEWORKS

Policies define board/management expectations and help further describe and communicate the company's risk tolerance in specific areas.

A Board Policy Monograph is in place to set out the policies that govern the board's oversight of the company as well as its own operations.

The Operational Policy Framework contains the enterprise-wide policies that govern how the business is managed and how business is conducted.

The Operational Policy Framework enables CMG to:

- identify which policies are enterprise-wide, or core to the organizations within the group of companies;
- identify criteria for exceptions (who's in/who's out)
- gain an understanding if/where any gaps exist;
- determine areas of concern or risk;
- develop an action plan to address gaps/areas of concern/risks to ensure consistency and compliance across the group of companies.

## 6. STAKEHOLDER ENGAGEMENT

The board and management have formal mechanisms in place to engage with key stakeholders such as regulators, government, member organizations, clients, staff and advisors.

As a co-operative, The Co-operators places a high priority on its relationship and engagement with its member organizations. A biennial survey is conducted to measure member engagement and a senior executive role has been established as the key liaison with members.

## 7. APPROVAL, RESPONSIBILITY AND REVIEW

Following consideration by The Co-operators Management Group (CMG) and recommendation by the Corporate Governance & Conduct Review Committee (CG&CRC) the Governance Framework was approved by the Board of Directors in April 2020.

The board approved Governance Framework is the responsibility of the Corporate Secretary and will be subject to review every two years or more frequently in the event substantive changes are required.

Future updates to the Governance Framework will be considered by the CG&CRC and ultimate approval by The Co-operators Board of Directors.