

## Requirements for Bank Directors Are Shifting

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The Feb. 8 *American Banker* article "CEO Succession Promises to Be Difficult" described the challenges banks face in finding capable successors for retiring executives. However, banks also need to redefine their qualifying criteria for board membership as they ready themselves for future leadership requirements.

I serve as an executive recruiter for banks of all sizes, including those with assets between \$1 billion and \$20 billion. One notable issue that is surfacing in this group is the need for board members with skill sets and empirical knowledge that are too often absent from their boards.

Many directors, chosen to enhance a bank's prestige and attract business, are incapable of dealing with the paradigm shift now under way in the financial services industry. The qualifying criteria for the next generation of board members should include the skills and experience required to grapple with the evolving complexities of banking. Specifically, I have observed a need for directors who have a more sophisticated understanding of information communication technology, government and regulator relationship management experience and an appreciation for checks and balances in loan origination functions to encourage caution and creativity in governance.

Let's start with technology, because most of today's bank board members were educated before personal computers existed or were

available in a classroom. Many still believe the main purpose of technology is merely to gain efficiencies in operations and supply management with information, and, of course, that belief is true. But the Internet has launched a revolution in the many ways banks discover, attract, serve and communicate with customers. How many incumbent bank directors can even imagine, much less understand, the impact of personal computing and communication devices on the sale and delivery of financial services? For bank boards to grapple with the technology revolution proactively, they will need a generation of directors who are on the brighter side of the digital divide and can embrace and exploit new technology.

Among the takeaways of our industry's most recent fiasco is that having internal checks and balances in place, especially in credit functions, is essential. Directors are now painfully aware of that. As so many smaller community banks expanded by leaps and bounds over the past 20 years, the same executive often remained in charge of loan production and approval processes. In the race for growth, cash bonuses rewarded production volume with marginal emphasis on credit quality. Boards watched share values rise as management pumped up sales with a wink and a nod to credit quality. Going forward, all banks must build effective checks and balances into their loan production and risk-related functions, and it is going to take a savvy board to spot the weak links in management and ensure they are covered before regulators throw the flag.

And speaking of regulators, they are, themselves, a potential source of new directors for the wise banks. More often than not, I am watching banks deal with regulators as adversaries. Many smaller regional banks treat regulators as a source of their problems rather than guardians for their protection. What some

bank boards are missing is a pragmatic perspective on how to establish and proactively sustain a rapport with them. Directors must recognize that regulators have their guns loaded and a license to kill, and it is wise to be empathetic when differences must be resolved. Now, I am in no way a proponent of more complex regulations, and I'm not saying banks shouldn't lobby aggressively for more flexibility to be profitable. But in the day-to-day interaction between banks and regulators, the board should treat the regulators like stakeholders. Having someone with regulatory experience on the board can help achieve more of a partnership attitude in the communication process.

While the bar is being raised for bank boards, the good news is that there are strong sources from which banks may recruit board members. Many retiring bank executives with extensive experience and veteran regulators are ready to be directors and make valuable contributions to a bank's success. Wise banks know that shareholders, analysts,

employees and customers as well as regulators are all paying closer attention to who's on their board. But it won't be as simple as watching local newspapers for retirement notices. The best and brightest candidates are rarely on the street looking for a job.

Banks must find directors who fit culturally as well as strategically. The next generation of board members must have genuine faith in the bank's potential, but just as important, in the values, traditions and principles that define an enduring institutional culture. Does the bank want to grow more aggressively in its existing footprint or expand into new markets with more products and services? Will more capital be required to survive or make acquisitions, or does the bank wish to be acquired? The best choice for a new board member will, in any case, be the one who can get on board, lend a hand, ride out the storms and set sail for new horizons.

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