

# Role of the Modern Bank Director

OBL/ILFI Joint Convention

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The logo for Dinsmore, featuring the word "Dinsmore" in a serif font. The "Din" is in brown, "sm" is in blue, and "ôre" is in blue with a blue accent over the "o". The logo is reflected below it.

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**Dinsmore**

# Topics

- › Board Composition
- › Succession Planning
- › Meaningful Agenda
- › Relationship with Regulators

# Board Composition – The Right Mix



"What I mainly want to get out of this meeting  
is myself."

# Common Board Composition Issues

- › Conflicts of interest
- › Personality clashes
- › Dominance by one/few director(s)
- › Gaps in skills/experience
- › Inattentiveness/complacency

# Characteristics of Good Directors

- › Independence
- › Time
- › Attention
- › Courage
- › Curiosity
- › Competence

# Skills/Experience Matrix

Skill	Importance (High/Med/Low)	[Name] (rate 1-5)	[Name] (rate 1-5)	[Name] (rate 1-5)	[Name] (rate 1-5)	[Name] (rate 1-5)
Risk Management						
Financial						
Audit						
Strategy						
Technology						
Compliance						
Business Development						
Banking Experience						
Diversity						
[Others–Bank Specific]						



# Skills/Experience Matrix

- › Scope of your bank's business, markets and strategic plans will dictate specific skills needed
- › A good board has a balance of skills, experiences, strengths
- › Have a system to find the gaps, and fill them

# Annual Assessment of Directors

- › Board seat is not a “right”
- › Assessment process managed by BOD, not CEO
- › Self-assessment and peer-assessment
- › Nominating committee
- › Have the courage to make the right call at the right time

# Succession Planning – Eye to the Future



***“This is a very dysfunctional company. No one will talk about the elephant in the boardroom!”***

# Succession Planning – Eye to the Future

- › More than senior management – what is the plan for BOD succession
- › The time to be thinking about succession is always NOW

# Succession Planning – Eye to the Future

- › Plan for the view in the windshield, not the rear-view mirror
  - » What do you need from the NextGen directors of your bank?
  - » Cultivate, train and develop NextGen directors
- › Is mandatory retirement right for your bank?

# Succession Planning – Eye to the Future

- › Identify candidates - Nominating Committee
- › Communicate with potential candidates:
  - » Expectations of the bank
  - » Expectations of the candidate
  - » Timing
  - » Risks of being a bank director – eyes open before joining board

# Meaningful Agenda – Roadmap for Success





**"I've got a board meeting in ten minutes  
and I can't find my hidden agenda!"**

# Meaningful Agenda

- › When last reviewed/revised your meeting agenda?
- › Deliver information not data to directors
  - » Dashboard of key information, ratios, metrics, etc.; tailored to your bank
  - » Detailed data only when truly needed
- › Focus on board committee and key management reports

# Meaningful Agenda

- › Encourage participation; empower directors to challenge and ask questions
  - » Lack of understanding is not a defense
  - » Role of directors is overall management of the bank – can't manage if don't understand
  - » But remember noses in, fingers out

# Meaningful Agenda

- › Board meeting is opportunity to educate
  - › Consider a brief educational piece at each meeting – industry developments, market developments, new/proposed regulation, etc.
  - › Follow up on questions from other formal (non-meeting) director training sessions
  - › Opportunity to showcase to BOD future leaders at bank

# Meaningful Agenda

- › Encourage Executive Session
  - » Structure forum for independent directors to have “parking lot” discussion as a group
  - » Regulators especially want to know independent directors voices are heard
  - » Chairman report post-mortem to CEO on executive session

# Relationship with Regulators – Knowing the Cops on the Beat



"We've considered every potential risk except the risks of avoiding all risks."

# Relationship with Regulators

- › Banking is a relationship business – now, more than ever, relationship with regulators (federal and state, as applicable) is critical
  - » Positive relationship fosters trust and confidence of regulators
  - » Regulator trust and confidence is “money in the bank” in good times **and more importantly** in bad
- › Management should always be primary point of contact –noses in, fingers out; but directors have important role to play



# Be Prepared

- › Understand regulator's mission, perspective and process
  - » essential mission has not changed – ensure safe and sound operations
  - » examination is risk-based; identification, assessment and management of risk is the core of examination
  - » examination also process based; laws, regulations, bulletins, guidance, exam manuals, checklists, etc. guide the exam process
  - » directors need general familiarity with exam process – read their playbook, understand how they think

# Be Prepared

- › Understand regulator's expectations of directors
  - » your focus is on shareholder value
  - » regulators expect your focus also on customers, communities, employees, deposit insurance fund, and the regulators
  - » culture of the bank is responsibility of the board – tone at the top
    - risk profile and management
    - governance
    - policies and procedures
    - accountability

# Be Prepared

- › *OCC's The Director's Book: The Role of a National Bank Director*  
(<http://www.occ.gov/publications/publications-by-type/other-publications-reports/The-Directors-Book.pdf>)
- › *FDIC's Pocket Guide for Directors*  
(<https://www.fdic.gov/regulations/resources/director/pocket/index.html>)

# Be Prepared

- › Know your bank
  - » more than your financial metrics, products and markets
  - » what are your strategic plans, risk tolerance, risk management infrastructure, economic environment in which you operate, external risks facing your bank
  - » every director able to articulate these when asked

# Be Involved

- › Get to know your regulators – examiner-in-charge, local office head, regional office head
- › Board representation (chairman and/or others) at exit meeting
- › Listen to both formal and informal communication and ask questions to clarify, when appropriate
- › Board speak with one voice and one message on regulatory topics; if board has decided on a message, dissenters stand down

# Be Involved

- › Keep your promises – e.g., commitments to corrective action; communicate in advance if you cannot; highly unlikely they will simply forget about it
- › Know the right way to disagree, and when and how to take disagreement up the regulatory chain of command; keep EIC in the loop



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