The Board's Role In Avoiding The Perfect Storm

by Steve Brown

We all have heard the story of The Perfect Storm, when the Andrea Gail fishing boat found its way in the path of three converging storms and sunk at sea after a hard fight. As we watched the movie, most of us wondered why they ended up on this course of destruction when there were definite signs warning them of dangerous weather conditions. Could better guidance during this time of crisis made it possible they would have survived? In the banking world, the board of directors is often seen as providing guidance. Unlike the Andrea Gail, banks successfully navigated their own credit tsunami in past years and directors played an integral role.

Regulators have long placed considerable emphasis on banks having strong boards of directors, yet it's an area where some may still fall short. In the wake of recent events around Wells Fargo for instance, even community bank boards should take the time to review procedures and look for areas where improvement may be warranted.

Boards should start by reviewing risk management policies. Regardless of a bank's size, boards are ultimately responsible for managing risk. That means that board members need to know and understand the bank's top enterprise risks. They also need to have a system to evaluate risks prior to strategic decisions being made. This is especially true when it comes to offering new products and services.

Bank directors should also be paying close attention to sales practices. Post-Wells Fargo, expect regulators in upcoming exams to at least pay closer attention and ask more questions about sales practices. Engaged boards should get updates in coming quarters from management teams around risks in this area or at least understand why your bank is different.

Now is also a good time to review your board's structure perhaps. The very same Wells episode has resuscitated an ongoing debate over whether the chairman and CEO spot should be one and the same. Both sides of the argument have merit, and what works for one bank may not work well at another. What's important is to review your structure periodically to ensure that the current organization continues to serve the needs of your bank, its customers and shareholders.

Board preparedness to deal with issues that may arise is another important area to focus on. It's clear from recent Senate Banking Committee hearings that there's little patience for what's perceived as board inaction in a time of crisis. Boards need to ensure they are prepared to take swift action, as necessary, to prevent larger issues from erupting in times of difficulty.

Certainly, ongoing education is yet another important component of creating a strong board. Members usually come from a variety of industries, so ongoing education about best practices in all critical areas just makes sense.

Education can come from many places including this publication (drop it into the board package if something is of note), the regulators themselves (check websites for reports and information), and go to local or regional bank director workshops or attend webinars for bank directors from a variety of places.

For community banks, the Wells Fargo news underscores once again the importance of having an actively engaged board. You may not know all details about everything going on in the bank, but strong oversight and good strategic planning can help make sure your bank at least stays on course no matter what the weather conditions outside are.

BANK NEWS

Risk Overhang

Research by the Wall Street Journal from April found energy companies had $147B in unfunded credit lines from the largest banks. Given ongoing weakness in oil, analysts are monitoring draws closely for signs of future stress or even losses in the sector.

Online Banking

A survey by Fiserv finds 70% of households reported having used online banking during the previous month and the average number of times they did so during that month was eight.

Customer Impact

Research by cg42 finds about 14% of Wells Fargo customers say they plan to switch banks as a result of the fake account scandal.

Research

The Commerce Department reports private fixed investment in research and development (R&D) jumped 17% annualized in Q2, the best level since 2006.

Automation

Research by Bank of America Merrill Lynch finds 47% of all US jobs have the potential to be automated by robots and artificial intelligence in the coming years.

Small Biz

Research by JD Power finds 22% of small businesses categorized as fast growing (annual sales growth of 20% or more) have switched banks in the past year vs. 5% of other small businesses.

Housing Costs

Research by Trulia finds the most expensive metro areas in the country based on monthly mortgage payment as a percentage of income are: San Francisco, CA (52%); San Jose, CA (43%); Los Angeles, CA (42%); Orange County, CA (38%); Honolulu, HI (37%); Oakland, CA (36%); San Diego, CA (35%); Ventura County, CA (31%); New York, NY (30%); and Miami, FL (27%).