BankersHub *Getting from Here to There*

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SUCCESSION PLANNING - REPLACING BOARD MEMBERS

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Summary

The swift pace of change in financial institutions today has made it important for directors of community banks to spend much of their time focusing on revisions to banking laws, regulations, and supervisory expectations. Because of these priorities, bank directors and shareholders who elect those directors often overlook or ignore the need to have a board succession plan.

The time to discuss and develop a succession plan specific to the transitioning of a community banks board of directors isn't when facing regulatory scrutiny or when the bank may be financially underperforming.

The best time to research, identify, and develop a meaningful board succession plan should take place as part of the ongoing strategic objectives of the bank. Good board succession planning rarely just happens. That process allows for discussion about leadership development without any apprehension on the part of those involved. It is a product of the board's collective commitment to thoughtful planning and a willingness to hold themselves accountable.

Recruiting and Retaining Community Bank Directors

In the past, being selected to serve as a bank director was generally regarded as an honor, often signifying an individual's reputation as being successful in their business or professional careers. It also denoted their prominence in the community, and signified the bank shareholders' vote of confidence in their skills.

Governance practices are important to a sound compliance program regardless of whether a bank serves MSBs, payment processors or other potentially high risk entities. When expanding services, it is wise to review the corporate governance practices to evaluate whether improvements are warranted. The BSA Officer should maintain reporting of any open items of importance indicating whether self-identified, identified through the independent review or through engagements with contracted consultants, or through regulatory examination. The current list showing status of efforts to address, anticipated completion, and any issues closed since the prior Board meeting should be provided at each Board meeting or meeting of its compliance/audit committee.

Although still looked upon as an honor, today many individuals are weighing the benefits against the potential burden or personal liability they may be exposed to. Addressing those concerns means having candid discussions with the candidate about the bank and how she or he can contribute to the bank's future. It also includes discussing the benefits of serving as a director and giving reasonable assurances about the board's expectations of and commitment to each member.

Some areas to consider discussing with a potential candidate are:

Bank Profile

- Publicly available information of the bank
- Nonpublic information, subject to constraints of federal and state law
- Institutional value to the shareholders, employees and the community Director Profile
- How the candidate's background and talents align with the bank's needs
- How that knowledge and talent will add value to the board

Benefits of Service

- Give back to the community
- Continue to build upon existing skills and knowledge
- Stay abreast of local and national issues

Assurances

- Transparency in all aspects of the bank's operations
- Timely and sufficient information
- Appropriate training and educational opportunities
- Respect for their time
- Appropriate compensation and benefits, including liability insurance

What to Look for in a Director

There is no single profile of the perfect director. All good directors share certain characteristics. According to the OCC's "Director's Book," the principal qualities of an effective director are strength of character, an inquiring and independent mind, practical wisdom and sound judgement.

With those characteristics in mind, identifying individuals who provide business skills that otherwise don't exist on the board will also help the bank achieve its goals.

Over the past several years, many community banks have also been looking for directors who may also better represent a more diverse customer base. That diversification has been primarily thought of along racial, occupational or geographical lines. More recently, that search has started to include another area of diversification—age.

Although there is no replacement for tenured, experienced and knowledgeable directors, banks may want to consider adding Generation X and Millennial-aged individuals to its board to better reflect and complement its changing customer base.

Embrace Change

To remain strong and independent, community banks board of directors need to be comprised with skills that reflect the challenges of new revenue sources, new markets and market segments, new technologies and new media to connect with the consumer. Maintaining the status quo does not serve the main purpose of a board as a steward for the shareholder.
