BankBCLP

2020 GOVERNANCE BEST PRACTICES SURVEY

Oct 15, 2020

Bryan Cave Leighton Paisner was pleased to partner with Bank Director on their first annual Governance Best Practices Survey. In my work with boards of directors over the years I've found that the most effective tool can be reference to what other well run companies are doing. Best practices are important in every industry, but of particular importance in the banking industry. I believe the information in this year's survey results will be very helpful to bank boards across the U.S.


Bank Director
2020 Governance Best Practices Survey
How Bank Boards Manage Their Business
KEY FINDINGS

DOWNLOAD SURVEY

The survey focused on the areas of process, independence, oversight, composition and refreshment. You will find from reading the survey results that there is a range of approach In the banking industry to certain key aspects of board governance. For example, not all bank boards have executive committees and among those which do there is not a uniform approach to the committee's functioning. There is also divergence of approach in whether the CEO also serves as the board chair. I tend to think that a lack of uniformity of approach in the industry is healthy. I am skeptical of those who advocate for rigid adherence to “best practices” in board governance but I agree that practices which have been effective for others can serve as a guide.

Boards are groups of people, and no two groups of people function in the same way. In my experience, the fundamental building block of an effective board Is careful selection of directors to fill roles within a board. It's not unlike how the best coaches recruit for talent based on specific needs of the team. Too often I see board rooms with essentially the same director sitting in all of the seats. Differences in business experience, life experience and perspective among directors can greatly benefit the quality of the board's collective insight and decision making.

Many of the process elements in board governance should be tailored to fit the composition of the board. If you are blessed with strong, active committees the full board may not have to meet as long in its monthly or quarterly board meetings. If your CEO has Jamie Dimon like qualities there is no sense in sticking to a rule of not allowing the CEO to also be the board chair. Again, to use a sports analogy, the best coaches change their approach to accentuate the strengths and compensate for the weaknesses of each team. Effective board governance process should be approached in the same way.

I can't emphasize enough the importance of active and ongoing oversight by a board of directors. Oversight should be proactive and not reactive. As discussed in the commentary to the Governance Survey results, transparency in the sharing of information with the board and a healthy measure of curiosity among board members are key ingredients in effective oversight. Many of the worst compliance and similar regulatory challenges I've seen were in plain sight, with plenty of time to address, if boards had recognized the warning signs and/or been prepared to challenge management assurances that all was well. Curiosity and courage under peer pressure may be the two most important qualities needed for board oversight.

I think you will find the section of the Governance Survey results on “Refreshment” to be of particular interest. It was good to see that almost half of the Survey respondents indicated their boards perform an annual assessment of performance. It was also interesting, but not surprising, to read of the lengthy median tenure of bank directors. Election to a bank board is not quite the lifetime appointment a Federal judge receives, but it is getting close. Given the reality of long service by bank directors it’s important to take steps to ensure continued focus and commitment over time. Board peer evaluations, coupled with one on one conversations between each director and the board chair or the lead director can help ensure continued board strength and vitality.

Our law firm has been serving the banking industry for over 100 years. Much of our success as a firm can be linked to the growth and success of our banking clients. We are glad to take part in initiatives which contribute to a continued strong banking system in the U.S. and we are pleased to share with you a copy of Bank Director’s 2020 Governance Best Practices Survey.

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James J. McAlpin Jr.

Atlanta

james.mcalpin@bclplaw.com
+1 404 572 6630

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