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THE ROLE OF THE BOARD IN TECHNOLOGY

Bank boards are increasingly pressed to make strategic decisions about technology.

WHITE PAPER

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Jack Milligan is the editor of *Bank Director* magazine, a position to which he brings over 30 years of experience in financial journalism organizations.

Jack's professional background includes stints as editor in chief of U.S. Banker, a leading magazine covering the banking industry; editor in chief at SNL Financial, a research and publishing company specializing in financial services; and general editor at Institutional Investor, a prominent financial magazine.

For most bank boards, technology is a black hole of knowledge. Although they might be perfectly capable of programing their digital televisions or surfing the Internet with their tablets, bank directors generally don't understand technology in the broader context of how it impacts their institution's performance and profitability. And they're not alone, which only compounds the problem. "It's hard for the bank's executives to keep up with technology let alone the board," says Terence Roche, a principal at Cornerstone Advisors in Scottsdale, Arizona.

Unfortunately, the banking industry is changing so rapidly—and technology in many cases is actually *driving* that change—that directors need to engage in strategic discussion around technology and make that a priority at their regular board meetings. "You can't have a discussion about banking without having a discussion about technology," says Bruce A. Livesay, executive vice president and chief information officer for First Horizon National Corp. in Memphis, Tennessee.

Increased Spending

Certainly directors need to have an appreciation of where their banks are making significant technology investments. Celent, a New York-based research and advisory firm, released a forecast in January 2014 that total information technology spending for North American banks, including both U.S. and Canadian institutions, would increase approximately 4.5 percent in 2014 and 4.6 percent in 2015. And what will that money be spent on? Much of it will go towards the maintenance of existing systems and operations, although Celent was encouraged that new investment spending will rise an estimated 11 percent in 2014, which means that a proportionally larger share of every dollar of technology spending will go towards new systems, applications and operational capabilities.

Retail banking initiatives like application enhancements for smart phones and tablets, and the next generation of online applications, are expected to capture some of that increased investment spending, as are commercial banking initiatives like upgrades to existing cash management and treasury solutions as many larger institutions look to deepen their relationship with core business customers. A more demanding regulatory environment, particularly in critical areas like anti-money laundering, will also lead many banks to invest in various compliance-based solutions.

Making Decisions about Technology

Not only do boards need to understand where the technology expenditures are going, they also need to have an in-depth understanding of how technology either facilitates—or impedes—the bank's overall strategy. Livesay offers this example: The increased cost of regulatory compliance is causing some boards and management teams to consider whether they need to grow larger so they can spread those costs over a wider base. But the decision to grow larger can't be made in a vacuum. There are other issues that must be taken into consideration, including whether the bank's current technology platform can support a larger bank. "Can it scale to where we want to go?" says Livesay. If not, the bank could be facing a costly investment to build out its technology infrastructure to support a larger operation.

Another example of where corporate strategy and technology are beginning to intersect is the exploding popularity of smart phones and tablets and the impact this is having on retail delivery systems. In order to remain competitive, most institutions are going to have to make significant investments over the next three to five years to build out their mobile and online retail banking applications, and this also might require more scale to make those investments cost effective. If the board anticipates that it might sell the bank in that time frame, it probably won't make those investments. But if the board is committed to growing the bank and maintaining its independence for the next three to five years, those new spending initiatives on retail delivery need to be made now so it doesn't fall behind. "The board needs to look forward and decide where it's going and what the bank's technology needs are," says Cornerstone Senior Director Sam Kilmer.

How a Bank's Board Handles Technology

At $28-billion asset First Horizon, which has significant activities in retail and commercial banking, mortgage lending, capital markets and wealth management, the board is particularly focused on information security—or as Livesay puts it, "keeping the bank off of the front page of the newspapers." Protecting the security of customer data is so important that it has become a board level concern at the company. "Cyber-attacks are becoming more frequent and more destructive and that's not going to slow down, but will intensify," he says.

The First Horizon board also pays close attention to customer preferences in the digital space and how the growing demand for "anywhere, anytime, any device" capability is forcing the company to alter its retail delivery strategy. While banking is still a relationship-focused business, the retail model is beginning to change as an increasing number of customers make greater use of remote channels like mobile. This migration from branches to mobile has placed new demands on the bank's technology, requiring that it invest capital resources to keep pace with demand. What does the board worry about? "Where do we place our bets on innovation?" says Livesay.

If the board at First Horizon is comfortable having high level discussions that involve technology, it might be in part because in 2007 it recruited a director—Robert B. Carter, chief information officer at FedEx Corporate Services—who knows something about it. Livesay, who is a member of First Horizon's executive management committee and reports to the company's chief executive officer, also makes a presentation at every regularly scheduled board meeting on some aspect of technology. "Every board meeting I am on the agenda," he says.

Most boards do not become overly involved with technology decisions that are purely tactical, but increasingly they have become very engaged in decisions that are strategic in nature, or could pose a significant risk to the bank if not executed properly. For example, when First Horizon made a decision four years ago to in-source its data center after having used a third-party processor for a number of years, the board was very engaged because of the operational and strategic risks that undertaking entailed. The fact that building a new data center was the second largest capital expenditure in the company's history also captured the board's attention, Livesay says. "It was a big data project," he laughs.

With the exception of Carter, none of the directors on First Horizon's board is an expert on technology, but they still make it an important aspect of critical board discussions about strategy. And perhaps because they do understand the importance of technology in the overall scheme of things, they also make sure that Livesay has the necessary resources to do his job.

"When I go in with a technology issue, they'll ask, 'Do you have what you need?'" he says. "I don't think that is the case in every company."