

# 2023 Governance Best Practices Survey

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### About Bank Director

Bank Director reaches the leaders of the institutions that comprise America's banking industry. Since 1991, Bank Director has provided board-level research, peer insights and in-depth executive and board services. Built for banks, Bank Director extends into and beyond the boardroom by providing timely and relevant information through *Bank Director* magazine, board training services and the financial industry's premier event, Acquire or Be Acquired. For more information, please visit [www.bankdirector.com](http://www.bankdirector.com).

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### About Barack Ferrazzano Kirschbaum & Nagelberg LLP

BFKN's Financial Institutions Group is one of the largest banking groups focusing on community and regional banks across the U.S. We represent financial institutions from de novo to acquisition, and everything in-between. Our group is relationship-driven — we treat our clients like you treat your customers. The Group has represented over 300 financial institutions in recent years, ranging from community banks to larger, publicly traded regional and super-regional banks. We have one of the largest practice groups in the country focused on servicing financial institutions, with many of our partners and associates devoting their full attention to the representation of financial institutions in corporate transactions, securities, regulatory, litigation, executive compensation and employee benefits, and other related matters. [www.bfkn.com](http://www.bfkn.com).

**BARACK FERRAZZANO**

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## EXECUTIVE SUMMARY



**Laura Alix** is the director of research for Bank Director, an information resource for directors and officers of financial companies. You can follow her on Twitter or get connected on LinkedIn.

**The vast majority of bank board members and CEOs believe their board proactively addresses the risks and opportunities facing their institutions, and that issues and challenges are adequately reflected in the board's agenda. But a lack of various skill sets and knowledge could mean the board is ill-equipped to ask questions about key risks or business opportunities at a time when the operating environment looks increasingly tough.**

Many boards, particularly at smaller banks, could be lacking expertise in critical areas that may be needed to address today's challenges, according to Bank Director's 2023 Governance Best Practices Survey, sponsored by Barack Ferrazzano's Financial Institutions Group. Many respondents representing banks below \$1 billion in assets see gaps in board-level expertise around risk, regulations and technology. Overall, just a third say their board possesses cybersecurity expertise, while 95% say their board has finance and accounting experience.

Given the nature of the industry, accounting and audit expertise aren't likely to be overrepresented on bank boards, says Robert Fleetwood, a partner in the financial institutions practice at Barack Ferrazzano. "The risk of not having specific technology or cyber expertise is that you don't have someone overseeing management who understands the lingo and knows if what's getting done is appropriate," he adds. "You're gonna have a board that might not have a true understanding of the possible significance of [data breaches or email hacks] and the practical effects of how to fix it if there is an issue."

Respondents feel confident about their board's ability to monitor risk, with 94% calling their board very or somewhat effective at executing that responsibility. When asked about duties specific to risk oversight, 81% say the board reviews, approves and monitors the bank's risk limits, and 73% say they hold management accountable for adhering to the risk governance framework. Two-thirds say their board reviews and approves the bank's risk appetite statement, which defines the level and types of risk a bank will take on.

While the board can't be expected to be experts on everything, a diversity of professional backgrounds can help the board as a whole to ask better questions and provide a credible challenge to management. In anonymous comments, an independent director at a Midwest public bank offered this view: "Director expertise is essential."

## KEY FINDINGS

### ➔ Focus On Asset/Liability Management

A majority of respondents (83%) say their board revisited its asset/liability management policy over the past 12 months. Almost all (93%) believe their board is somewhat or very effective at monitoring asset/liability risk.

### ➔ Stamp Of Approval

Sixty-four percent — primarily representing banks below \$10 billion in assets — say their board approves individual loans, either as an entity or via a board-level committee, while 36% say their board approves policies and limits but not individual loans.

### ➔ Finding New Directors

Fifty-six percent say their board or governance/nominating committee cultivates an active pool of potential board candidates, while over a third (34%) say it does not. When asked what their board does to attract potential directors, many share in anonymous comments that they rely on personal networks or referrals from existing board members.

### ➔ Turnover In The Boardroom

Almost half (49%) say that one or two new directors have joined their board since January 2020, while 22% say that three or four new directors joined in that time. Twenty percent say that no new directors have joined their board in that three-year period.

### ➔ Dialing Up Diversity

More than half (57%) of respondents say their board has three or more diverse directors, as defined by gender, race or ethnicity — up slightly from last year's survey. Another 36% this year say their board has one or two directors who fit that definition.

### ➔ Zooming In

Eighty-three percent of all respondents say their board has established guidelines around virtual meeting attendance.

# BOARD CULTURE

## 1. Does the board set expectations for individual directors in the following areas?

Respondents were asked to select all that apply.



Attendance



Respectful interaction with other board members



Participating in board training and education



Contributing to board-level discussions



Contributing to committee-level discussions



Preparation for meetings



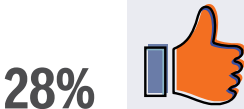
Engaging with bank executives



Using the bank's products and services



Engaging with shareholders/owners

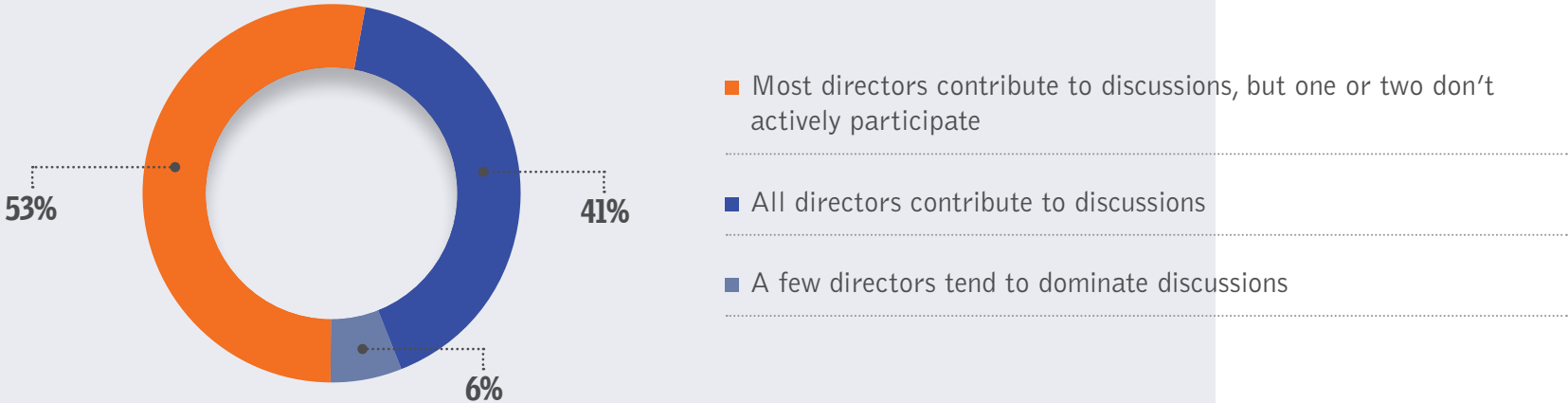


Engaging with bank employees



Engaging with clients

## 2. Do all board members actively contribute to board-level discussions?



### 3. How effective is your board at executing its responsibilities in the following areas?

Numbers don't add up to 100 due to rounding.

Holding management accountable for achieving strategic goals in a safe and sound manner



Meeting the board's fiduciary responsibilities to the bank's shareholders/owners



Setting the bank's strategy



Establishing/maintaining the bank's values, mission and vision



Providing a credible challenge to management



Monitoring risk across the enterprise



- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable

Setting the bank's risk appetite



Monitoring asset/liability risks



Supporting an independent audit/risk function



Establishing a succession plan for the CEO/key executives



Overseeing compensation practices



Reviewing/approving bank policies



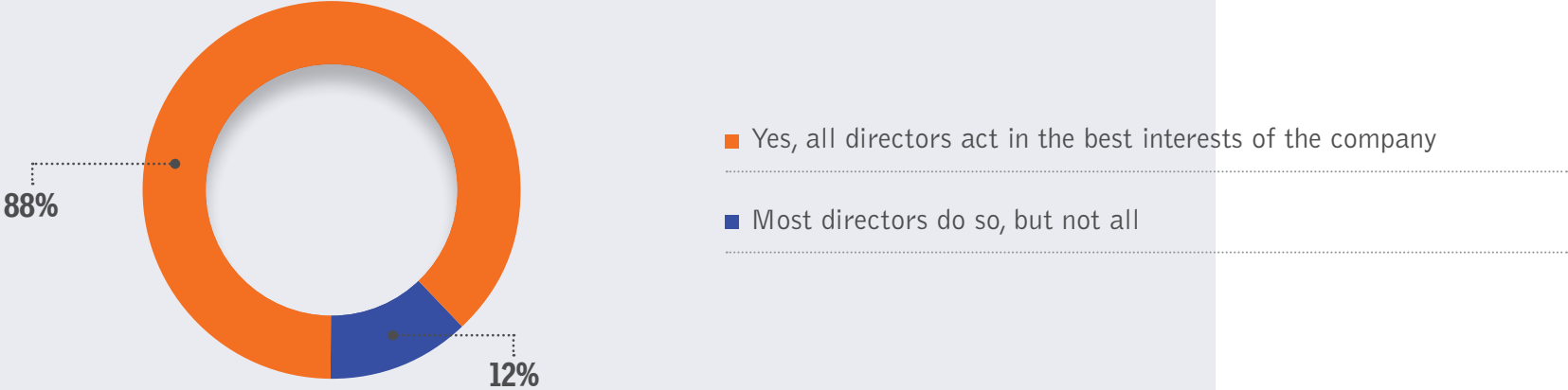
Establishing expectations for the bank's culture



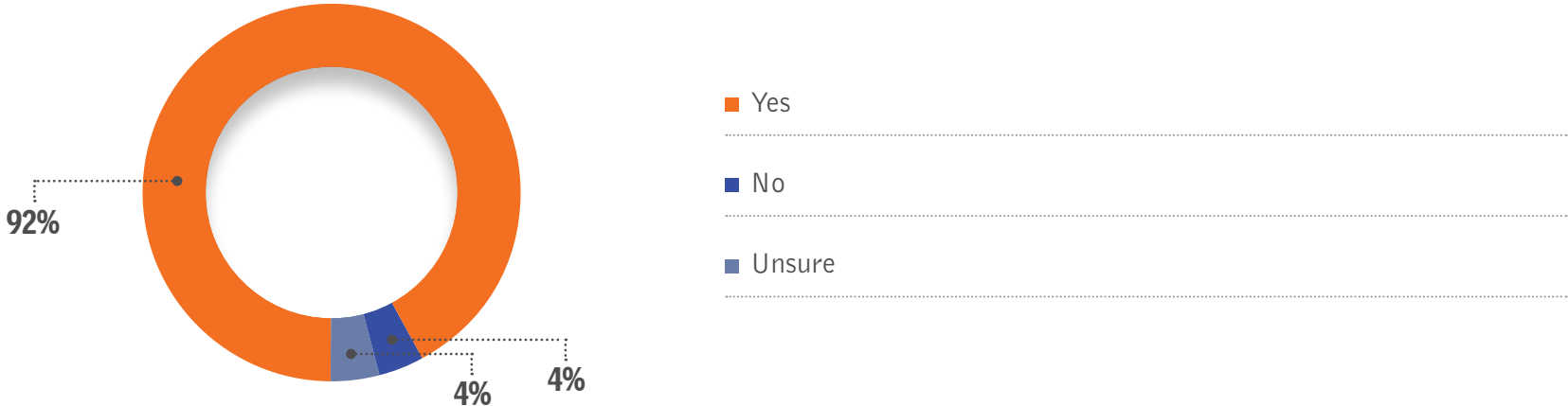
- Very effective
- Somewhat effective
- Somewhat ineffective
- Completely ineffective
- Not applicable



### 4. Do you believe that all directors act in the best interests of the bank and its shareholders?



### 5. As a rule, do you believe your board adequately addresses conflicts of interest in the decision-making process?



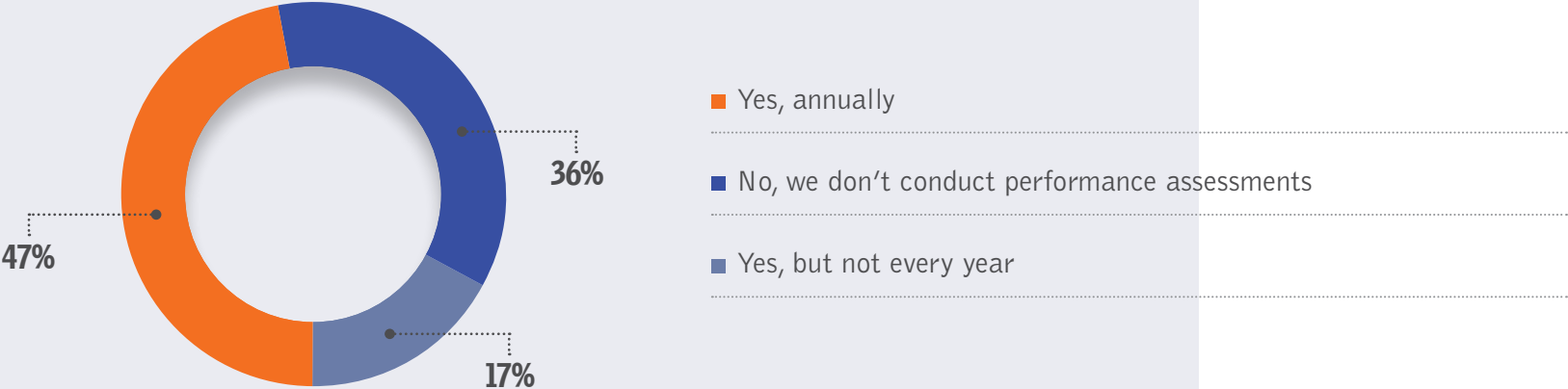
# 6. Does your board have guidelines in place that allow directors to attend board meetings virtually?

Numbers don't add up to 100 due to rounding.

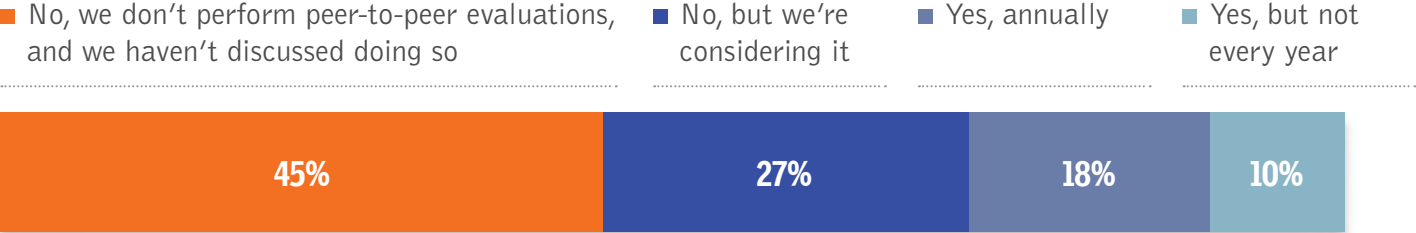


# EVALUATING PERFORMANCE

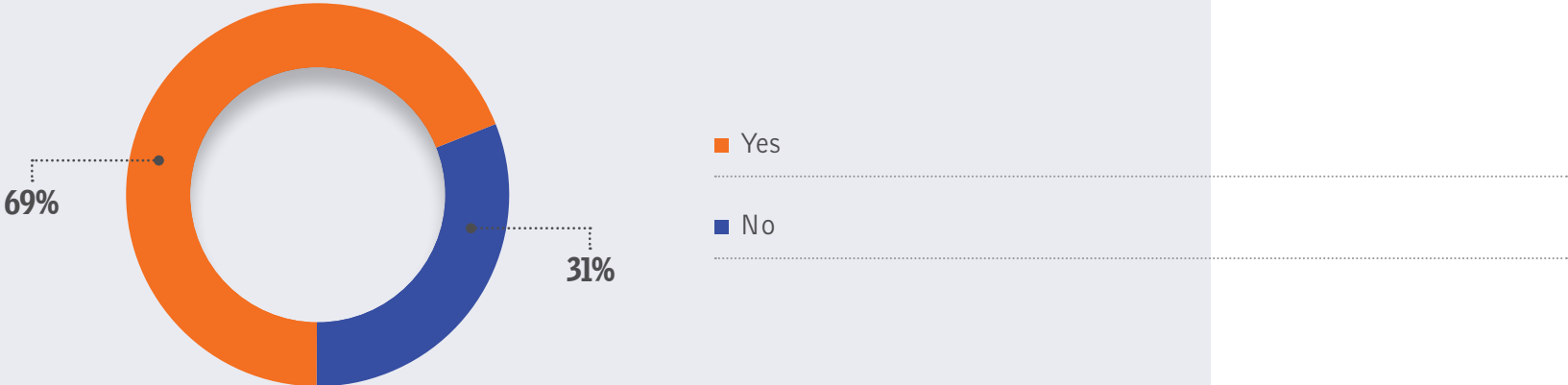
## 7. Does your board conduct performance assessments?



## 8. Does your board conduct peer-to-peer evaluations of its members?



### 9. Is the role of the director on your board clearly defined, including qualifications and criteria for membership?

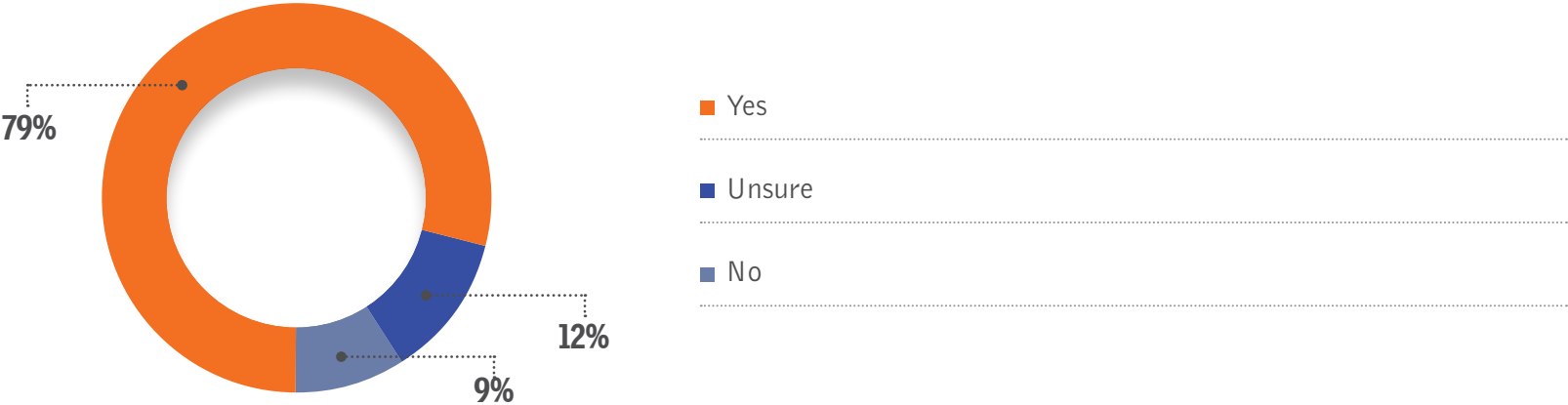


# DIRECTOR LIABILITY

## 10. What is your board’s practice regarding minutes?

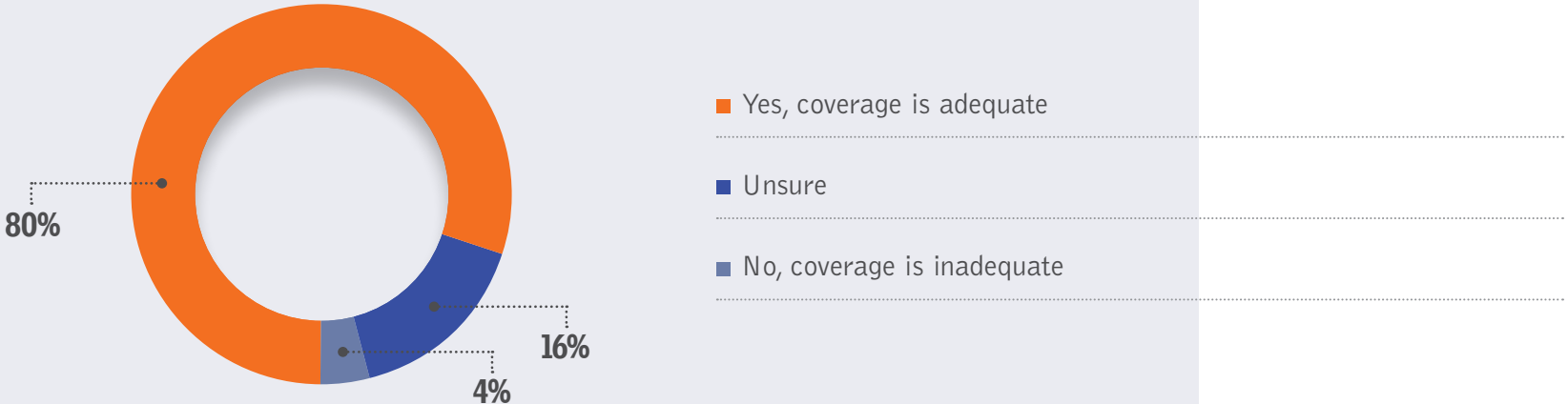


## 11. Does your bank have an indemnification provision that covers directors’ legal fees and any monetary judgments related to their role as a board member?



# 12. As a director, do you believe you have adequate coverage under your board’s directors and officers (D&O) insurance policy?

Question only asked of independent directors, chairs and lead directors. Numbers don’t add up to 100 due to rounding. \*Indicates a count of less than 10 within a category.

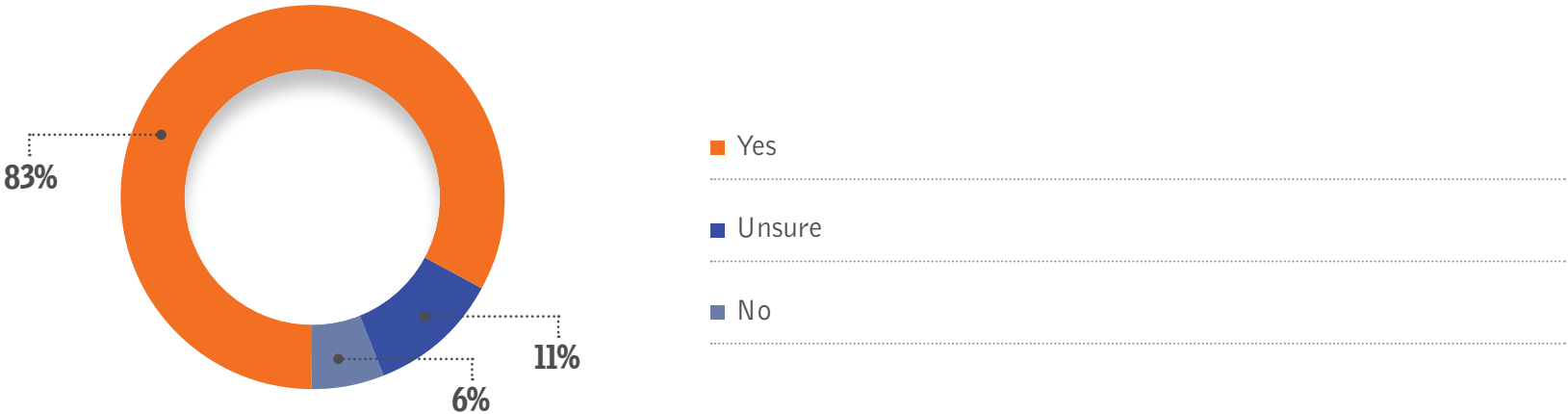


# RISK OVERSIGHT

13. Considering the challenges facing banks today, do you believe your board has been more proactive or reactive to emerging areas of balance sheet risk?



14. Do you believe the board’s meeting agenda adequately reflects the issues and challenges facing your institution?



## 15. Which of the following tasks and responsibilities are part of risk oversight by your board and/or the applicable committee?

Respondents were asked to select all that apply.

- 81%    Reviewing, approving and monitoring risk limits

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- 81%    Monitoring compliance with the risk governance framework

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- 79%    Ensuring that management can identify, measure, monitor, control and report about the risks facing the bank

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- 79%    Approving the bank’s risk governance framework

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- 77%    Regularly reviewing the bank’s risk profile

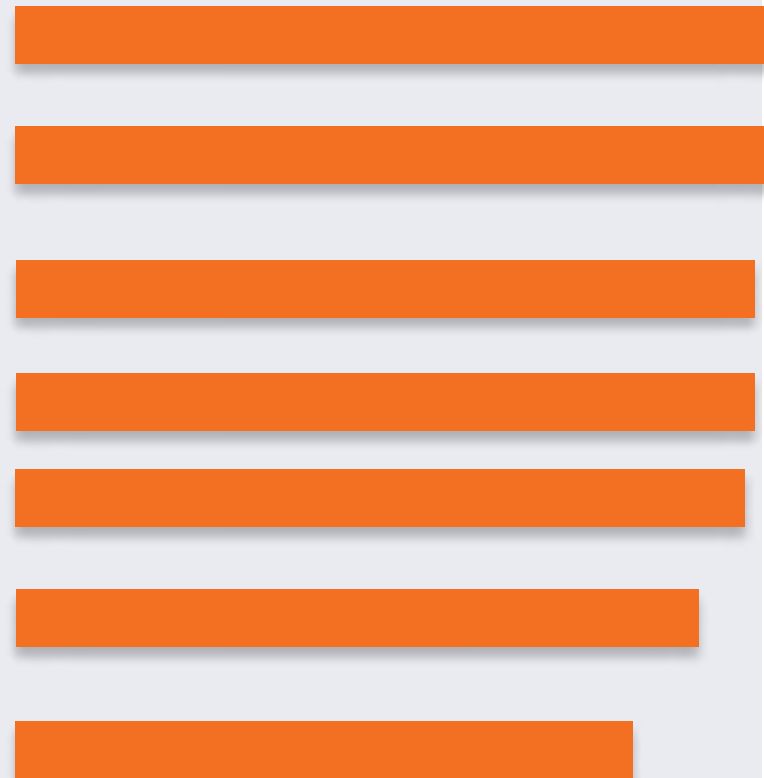
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- 73%    Holding management accountable for adhering to the risk governance framework

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- 66%    Reviewing and approving the bank’s risk appetite statement

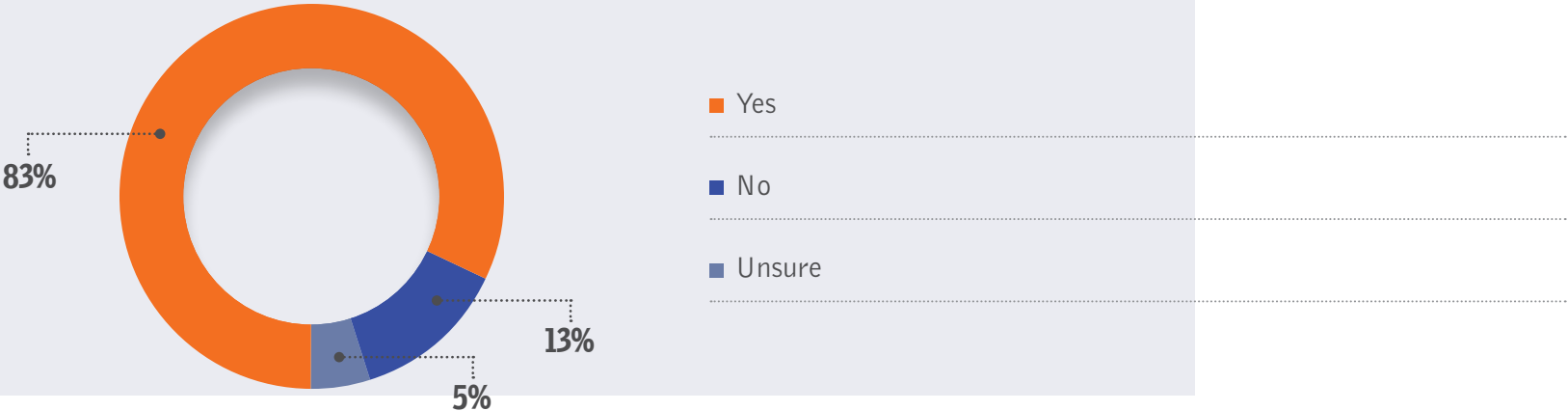
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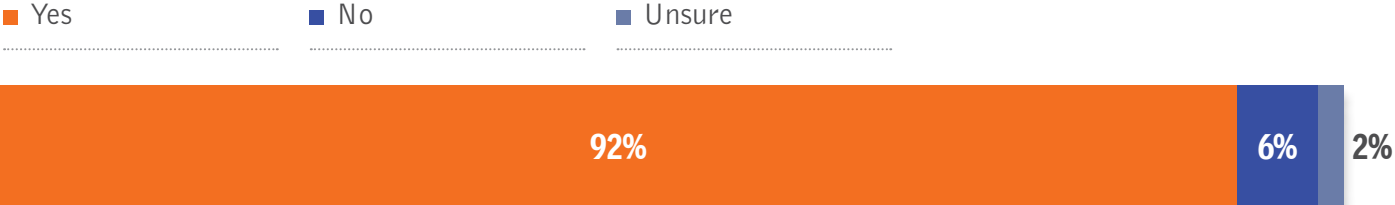
### 16. Over the past six to 12 months, has your board or a relevant committee revisited the bank’s asset/liability management policies, processes and programs?

Numbers don’t add up to 100% due to rounding.



### 17. Do the board and management team effectively use stress testing and other exercises to understand pressures to the bank’s liquidity and capital positions?

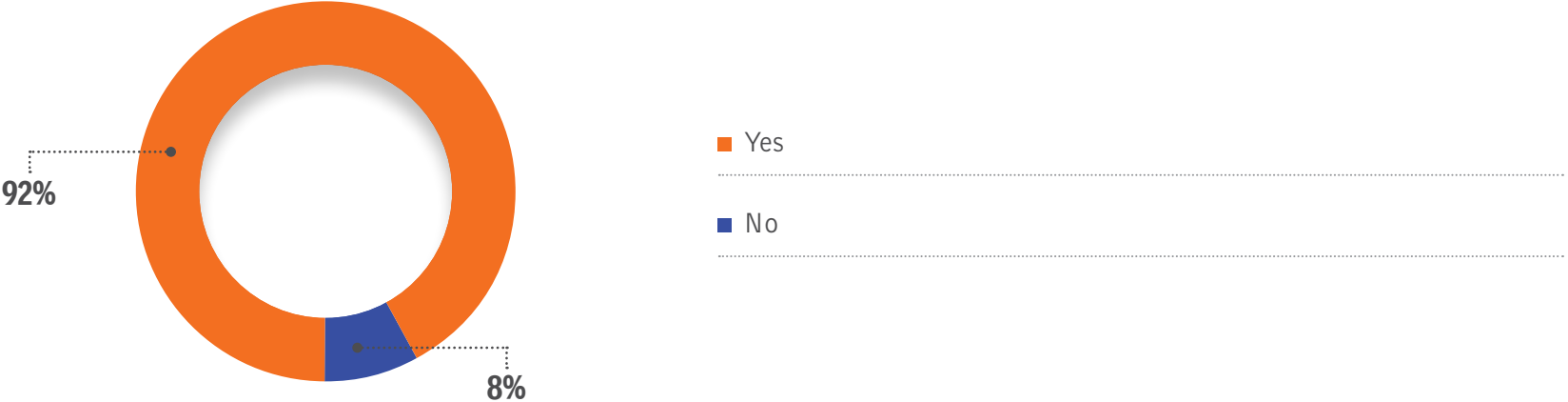
Question only asked of respondents indicating that their board effectively uses stress tests and similar practices.



### 18. Does the management team and board create effective plans and strategies to deal with adverse scenarios uncovered in stress testing and similar exercises?

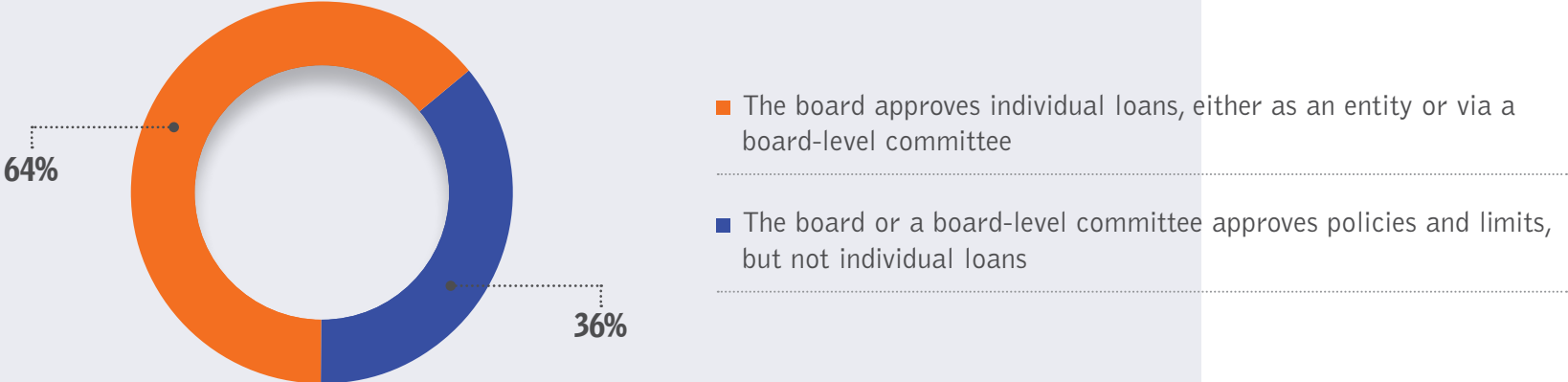


### 19. Does the bank have effective policies, procedures and infrastructure in place around risk governance and risk management practices to ensure effective oversight of the bank’s activities?



## 20. What is the board’s involvement in the loan approval process?

Respondents were asked to select the phrase that best describes their board’s role in loan approvals.



# 21. How are environmental, social and governance (ESG) issues comprehensively addressed in the boardroom?

Respondents were asked to select all that apply.

- 52%** The board doesn't discuss or oversee ESG
- 20%** The board and management team are developing or will soon develop an ESG strategy
- 19%** Responsibility for ESG has been assigned to one or more committees
- 19%** The board and/or management team engage with company stakeholders on ESG to understand their concerns
- 12%** The board and management team have developed an ESG strategy and defined goals for the organization
- 9%** The board and/or management team engage with company stakeholders on ESG to understand their concerns



# BOARD COMPOSITION & SUCCESSION

## 22. Does the board possess expertise in the following areas?

Respondents were asked to select all that apply.



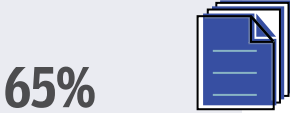
Finance/accounting



Audit



Risk



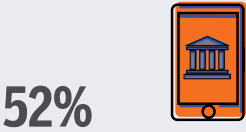
Legal



Human resources



Regulations



Technology



M&A



Marketing



Public company



Cybersecurity

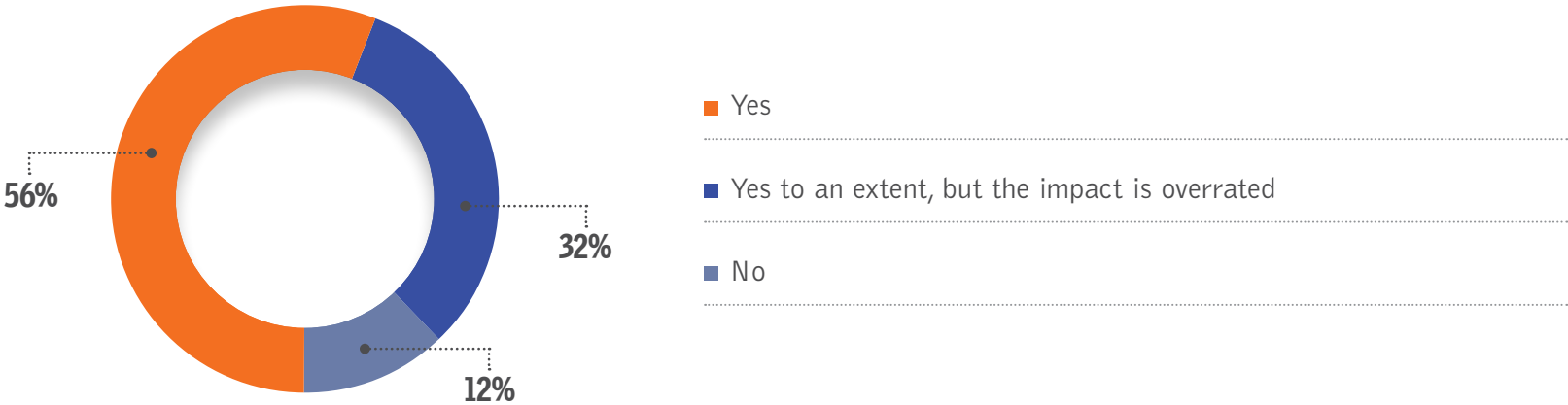
### 23. How would you characterize your board’s diversity as defined by race, gender or ethnicity?

Numbers do not add up to 100 due to rounding.

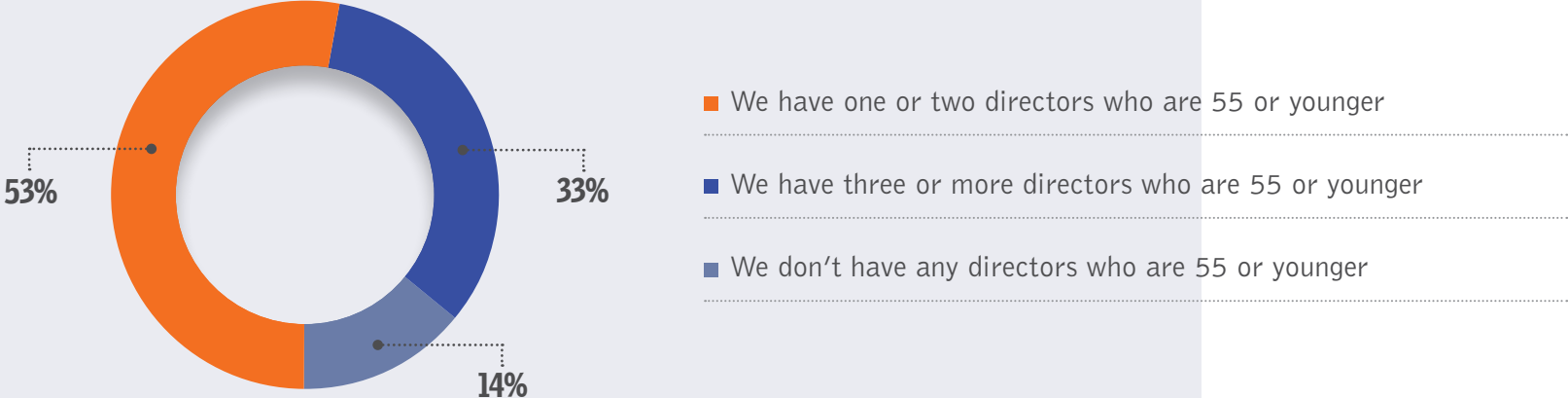
- We have three or more board members who fit that definition of diversity
- We have one or two directors who fit that definition of diversity
- We don’t have any directors who fit that definition of diversity



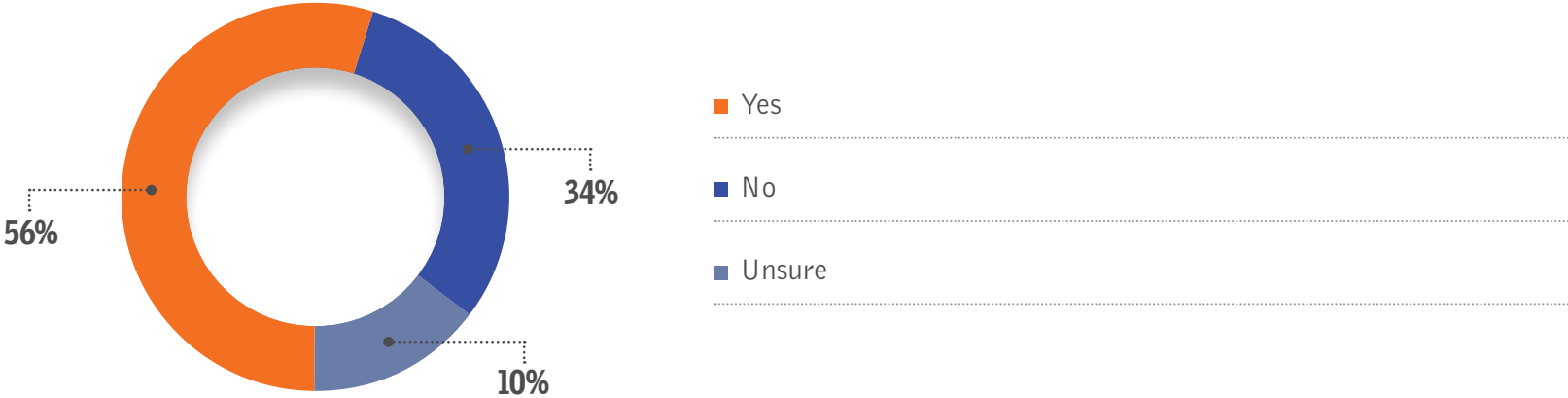
### 24. Do you believe that greater diversity, defined by race, gender and ethnicity, improves the performance of a corporate board?



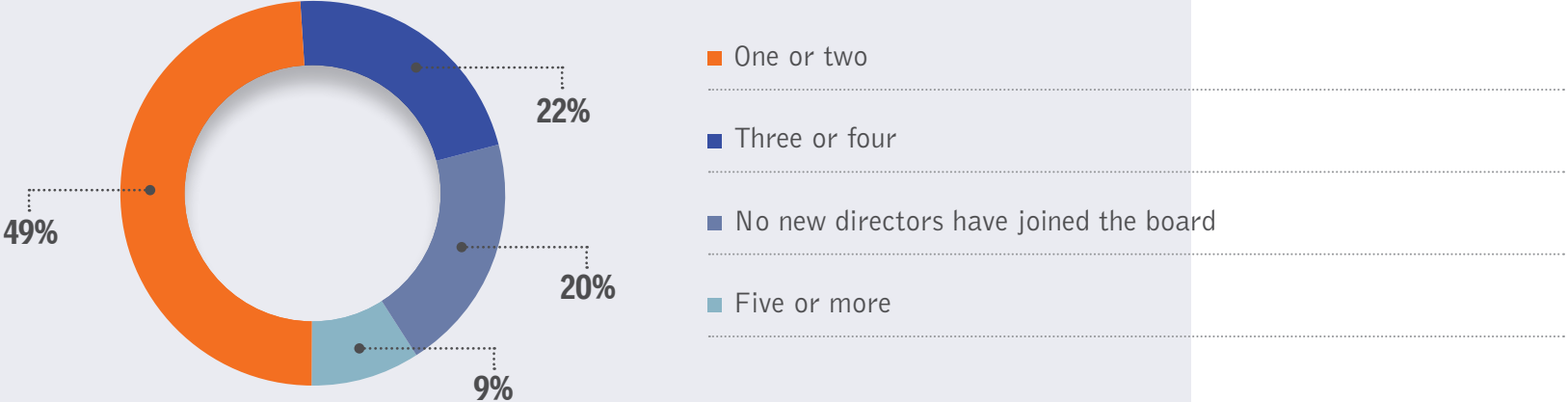
### 25. Are there any directors currently serving on your board who are under the age of 55 years old?



### 26. Does your board, or the governance/nominating committee, cultivate an active pool of candidates for board membership?



# 27. How many new directors have joined your bank's board since January 2020?

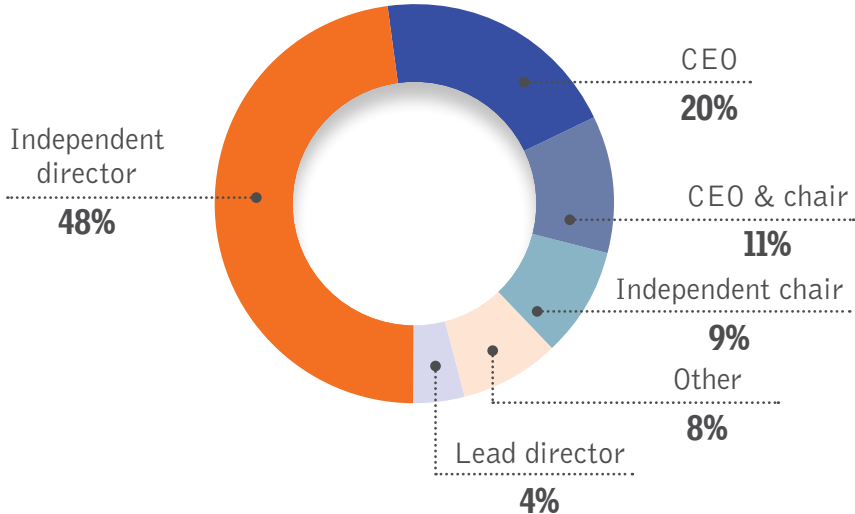




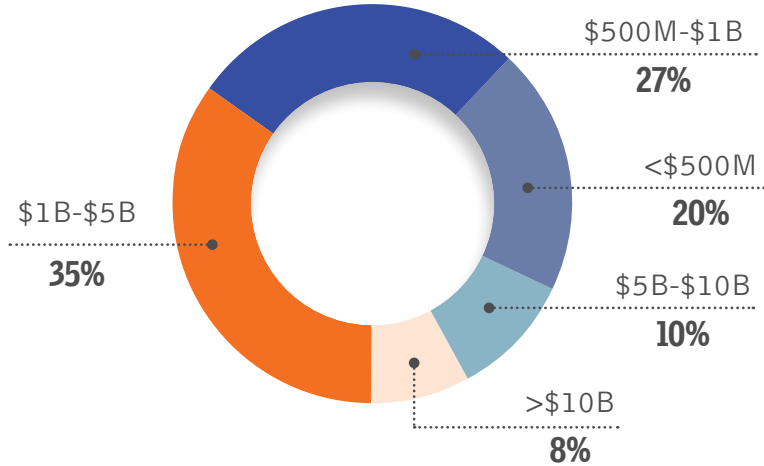
# ABOUT THE SURVEY

Bank Director’s 2023 Governance Best Practices Survey, sponsored by Barack Ferrazzano Kirschbaum & Nagelberg, surveyed 195 independent directors, chairs and chief executives of U.S. banks below \$100 billion in assets. The survey regularly explores the fundamentals of board performance, and this year examined risk oversight, director liability, and board culture, performance and composition. The survey was conducted in April and May 2023.

## TITLE

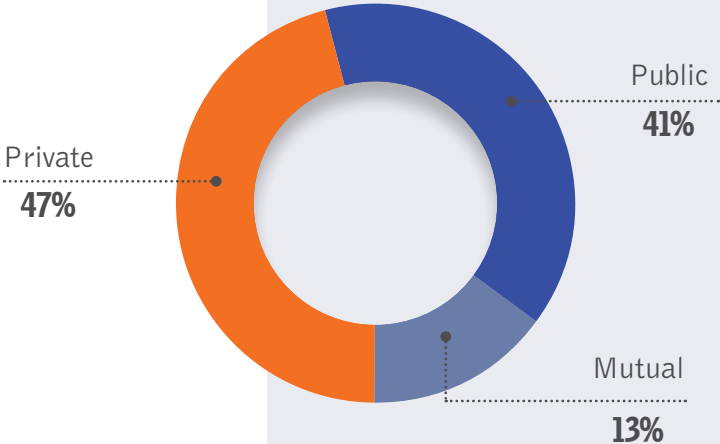


## ASSET SIZE

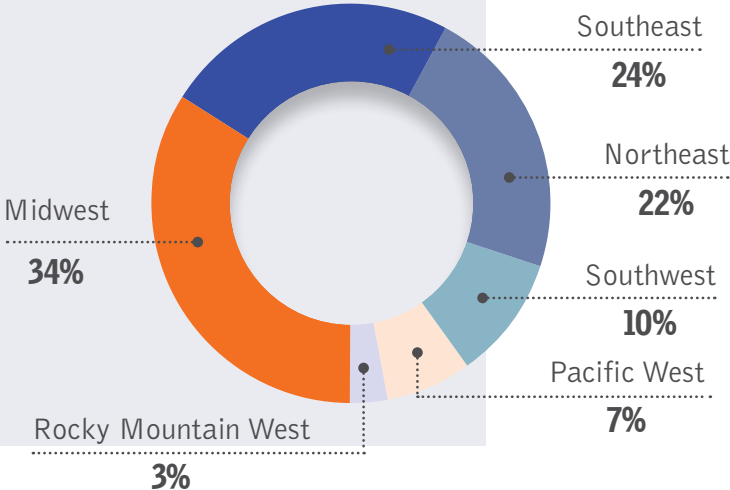


# OWNERSHIP STRUCTURE

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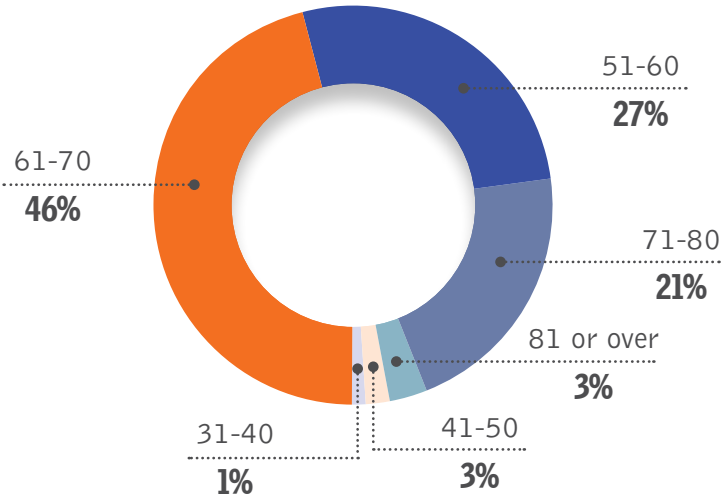


# REGION\*



# RESPONDENT AGE

Numbers don't add up to 100% due to rounding.



# BOARD TENURE

11

Median Years Served on the Board

\*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)