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Article Highlights:

- Some of the most pressing and serious concerns facing banks, its senior leadership teams and directors, include increased compliance requirements, cybercrime and pressures from growing non-traditional competitors.
- In today's business environment, cybercrime is not an issue solely for the Information Technology (IT) Department and should be addressed within the board as well.
- There is a growing trend regarding the emergence of financial tech companies and other non-financial organizations in the payment and lending spaces traditionally met exclusively by banks.

What Concerns Should Bank Directors Be Worried About?

Written by Mary Pat Kelsey

The global financial crisis of 2008 changed corporate governance and compliance for every organization large and small. Particularly in the financial industry, there have been more changes in the corporate governance arena in the last five years then there has been in a generation. Many financial institutions struggled with laws and regulations, slipping margins and significant changes in organizational structure and talent. The good news is that in many ways the banking industry is on more solid ground than it has been since 2008. We are inundated with articles and TV news reports that the economy is improving; with words like "recovery" and "rebound" gracing our screens on a daily basis. Yet as an industry, it seems as though the concerns and challenges that financial institutions face are even larger and more complex than ever before.

Some of the most pressing and serious concerns facing banks, its senior leadership teams and directors, include increased compliance requirements, cybercrime and pressures from growing non-traditional competitors. Thus, I am confident, that the best approach for continued recovery includes strong oversight from the directors guiding banks and other entities. By setting the right tone, concerns about security, compliance and long-term value will be limited because of the leadership of knowledgeable and engaged directors. If boards fail to recognize and address these notable challenges, continued improvement cannot be expected.

Effective corporate governance goes hand in hand with effective compliance

The entire board must face the issue of compliance head on. No longer is it acceptable for a board to just give an "all ok" to any or all compliance issues. Examiners will be reviewing board minutes for thoughtful, complete discussions on ALL compliance matters. They will be looking for all directors to be included in discussions and education in compliance and governance issues. The examiners will be looking for risk assessment and risk mitigation. Boards must address these issues in a thoughtful manner, incorporating detailed processes and executable plans.

Effective directors need to be connected and engaged with both the senior leadership team and the community at large. Meeting regulatory expectations requires management to focus on both risk management and compliance in regard to all issues. Full compliance is crucial to the proper functioning of a bank, the banking sector, local and national economies. Unfortunately, there is no single approach to good corporate governance. Each board and each director must strive to achieve robust, transparent risk management.

A second concern, and perhaps an even broader issue that faces financial institutions globally (along with all companies) is that of cybersecurity. Costs for both financial institutions and all US companies relating to cybercrime have risen dramatically. Security Magazine recently projected that spending by organizations to address cybercrime is expected to reach close to two trillion globally by 2019. Banks are particularly vulnerable to cybercrime. Increasingly sophisticated criminals are trying to steal assets, client personal information, or bank data at an alarming rate, despite the millions of dollars currently being spent. Directors must make this issue a priority.

Regulators are now requiring these issues be in the forefront of board agendas. By the end of this year examiners will start to require cybersecurity assessments be completed and approved by the board. It is a fair expectation that all financial institutions will be required to complete self-assessments and keep them updated annually. Members cannot and should not assume that the Information Technology (IT) department alone can handle these issues. Cybercrime is not just a technical issue given the evolving issue of computer hacks. It is, after all, the responsibility of the board to provide risk

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oversight working with the senior leadership of the institution. Directors must review annual budgets for cybersecurity protection measures, understand and evaluate those measures as examiners will require boards to play an active role in protection against cyber-attacks.

Other processes that the board will need to put in place include data protection requirements incorporated in third party contracts. It is commonly reported by security experts that one of the greatest risks to a data breech is the third party vendor relationship. With this in mind, the board should implement steps to protect the institution’s data. Unfortunately, there is no one size fits all solution.

As these trends continue, banks will be forced to devote even greater resources to their security. The board will have to be integral in those decisions and its own vigilance. Cyber protection must be part and parcel for every director along with every employee of the institution.

Perhaps the most significant risk that reflects a new reality for financial institutions has a multifaceted course. The first challenge is developing a plan to remain competitive against nontraditional sectors. There is a growing trend regarding the emergence of financial tech companies and other non-financial organizations in the payment and lending spaces traditionally met exclusively by banks. This is a major concern to directors as baby boomers retire. For some time, baby boomers have been the customer segment that community banks and other financial institutions relied upon for business.

As Millennials, now outnumbering baby boomers, become the main customer base, bank directors must recognize that these new, younger customers no longer look exclusively to community banks or financial institutions for business, construction, startup or real estate loans. They will be looking to financial tech companies to meet their needs. Millennials are a significant customer segment, and currently there are other more familiar and comfortable financial solutions options available to them. Thus, the second, critical concern becomes meeting the needs of these new consumers.

In order to move forward, modifying traditional models to retain customers, banks must focus on building and maintaining strong relationships. Broadening board composition to build the necessary networking may assist in addressing a mismatch in ideals. Directors as well as the senior leadership team should find a way to appeal to multiple generations; both baby boomers and millenniums alike. Bank technology will have to be innovative and continue on the digital path currently trending. Online banking, apps and other convenient technology will have to excel in order to keep the interest of future generations. These consumers have grown up with technology, are used to having information at their fingertips and no longer require the brick and mortar bank building to meet their financial needs.

As financial institutions continue to address issues of security and data management while trying to satisfy multigenerational consumer needs, it is clear that there are no easy solutions. In order to increase shareholder value, proper oversight, governance and leadership are essential. Ultimately, because the board will be held accountable for the overall success of the organization, it must ensure the safety and integrity of its business. Although difficult to execute, with the right composition, process and priorities, a strong board can be the resource needed to ensure long-term success.

About the Author

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Mary Pat Kelsey serves as Regional Director, Board Governance and Personal Leadership for XCEO, Inc. Prior to joining XCEO, Ms. Kelsey served in sales, management and marketing positions for leading companies in the Chicago land area. She has worked in various industries, including insurance, professional development and recruitment. In her previous positions, Ms. Kelsey was instrumental in creating marketing strategies and training programs for insurance agents throughout Illinois and the Midwest. She conducted research on insurance products and developed product information programs used for educating consumers. Ms. Kelsey also led a team that administered employee benefits for top companies throughout the Midwest. She conducted research on insurance products and developed product information programs used for educating consumers. Ms. Kelsey also led a team that administered employee benefits for top companies throughout the Midwest. As Business Development Manager for a leading professional development and recruitment firm, Ms. Kelsey developed and implemented all sales and marketing plans throughout the states of Illinois and Texas. Ms. Kelsey has worked with upper level executives of Fortune 500 companies in both benefit planning and recruitment for key executives.

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About Our Organization

At XCEO, Inc., we believe individual leadership is the driving force for inspiring creativity and ultimately maximizing intellectual capacity. We provide individual and corporate development in the principles of *Extreme Personal Leadership®*. We call this *X-Leadership* and it is the touchstone of our company.

In today's globally competitive world, intellectual property is a key indicator of long-term success. Corporations and individuals are seeking knowledge intensive solutions to sustain a competitive advantage. At XCEO, we offer *Professional Mentoring and Personal Leadership Development* programs, as well as *Corporate Governance and Board Leadership Development* programs, for high-aspiration individuals and forward-looking corporations.

Through our Professional Mentoring and Personal Leadership programs, we assist individuals in developing personal career and development plans to achieve senior executive-level positions. We also support corporations that recognize the need for a broad array of development options for their high-potential employees being groomed for senior leadership responsibilities.

As part of XCEO's pursuit of enlightened corporate governance, we have created *the Enlightened Corporate Governance Board Performance Evaluation Program* to support boards and directors in their pursuit of excellence. Through our program, we are leading the movement past compliance, toward principled action which maximizes shareholder value. We have designed a set of eight individual and board evaluation exercises which provide an exceptional opportunity for directors to take their boards to a whole new level of effectiveness.

XCEO is a unique research, development and consulting firm. We are committed to excellence and the pursuit of *Extreme Personal Leadership®*. We specialize in inspiration, and endeavor to inspire highly enlightened executives and high-aspiration individuals to pursue maximum personal achievement. We have a leadership team of highly trained and highly motivated colleagues who are eager to serve our clients. Excellence is our goal. We are located in the heart of Silicon Valley and we stand ready to help our clients achieve extraordinary levels of performance and success.