DIRECTING BANKS THRU CORPORATE GOVERNANCE

by Steve Brown

As with everyone in the industry right now, bank directors are also under pressure. Not only do bank directors have to run the day-to-day operations of their own companies, but they must also direct the governance for the banking company they serve. That brings with it plenty of responsibilities beyond just shouting "Action!" into a plastic cone.

In simplistic terms, the board of directors has the primary responsibility to ensure that executive management running the bank is doing so in line with shareholder expectations. The board does this via corporate governance, by establishing policies to limit risk it deems unacceptable for stakeholders, periodically monitoring limits and ensuring management operates in the best interest of the company.

The term "corporate governance" is used often these days, so it is important to understand exactly what that means. Basically, corporate governance in banking refers to how a bank is governed or administered, according to policies, processes, laws and by its people. The bank is there to serve its stakeholders and good corporate governance is designed to direct and control activities to ensure good business practices are followed, as management and board objectivity, accountability and integrity are maintained. Corporate governance defines the relationship between shareholders, management, directors, employees, customers, regulators and the community in which the bank operates. These drive how the bank sets objectives and monitors performance.

Banks should embrace strong corporate governance, not only to ensure their company remains clean, but also because it delivers many additional benefits. For instance, banks with strong corporate governance usually experience better overall organizational risk management; have more efficient operations; have an easier time attracting high-quality directors; retain stronger confidence from stakeholders; find enhanced confidence from regulators; and may even see decreased fraud.

Banks that are serious about instilling strong corporate governance should know it will come at a cost, but the benefits will certainly be much larger. To design a thorough governance platform, banks should not only review financial disclosures to see if they need to be modified or expanded; but also put a process in place to ensure independent audits are regularly performed; beef up internal compliance and monitoring mechanisms; ensure board independence and focus on maintaining a robust commitment to internal controls and high standards. All of these are critical aspects of any well-built corporate governance program.

Regulators have also provided perspective on what they consider best practices when it comes to corporate governance. These include: having a majority of directors that are independent; recruiting board members for business, industry or financial expertise; ensuring an independent audit function is in place that reports directly to the board or audit committee; adopting a code of ethics that applies to all officers, board members and employees; establishing a whistleblower process to allow employees or customers to anonymously report concerns; adopting robust policies and procedures; establishing a committee structure that encourages independent director participation; verifying financial management through external audits; having a formal succession plan and conducting a rigorous self-assessment at least every 2Ys.

Corporate governance is everyone's responsibility. Banks with sound corporate governance have management teams that follow policies, procedures and have a culture that reinforces proper behavior. When strong corporate governance firmly takes hold, a bank can raise capital at a lower cost, has a better relationship with regulators and is more likely to improve long-term performance.

BANK NEWS

Wells Fargo

The 1st major bank to release 1Q earnings said net income was $3B, up from $2B for the same period last year. The bank reported $100B in mortgage loan originations during the quarter,

Stress Test

To circumvent normal 1Q corporate earnings, the Treasury department said it will delay the release of bank stress test results until after the quarter. Treasury may also limit disclosure to an overall summary of results.

TARP Eligible

The Treasury Department has confirmed that life insurance firms with bank holding company status may also tap into TARP.

No Thanks

Sun Bancorp ($3.6B, NJ) joins the ranks of community banks that have returned TARP.

Higher Rates

BofA will follow Citigroup, JP Morgan and Amex and increase credit card interest rates on those card holders that routinely carry balances that have less-than-perfect credit. Rates will go above 10% for more than 4mm customers.

Retail

Occupied space in 1Q dropped a net 8.7mm sq. ft, nationwide, pushing the vacancy rate to 9.1% (vs. 8.3% in 4Q).