DIRECTOR EDUCATION - COMMITTEES

by Steve Brown

Banks have lots of committees because there is too much work to be done to wait around for a monthly board meeting. Committees exist to delve deeper into special situations and make recommendations to the full board. In so doing, committees help move things along, while ensuring adequate time and consideration is given to explore major issues facing the bank. Committees serve an important function, so understanding what they are intended to do is critical to proper bank functioning and risk management.

The first committee to discuss is audit. This committee is responsible for monitoring bank compliance with board policies and laws/regulations. Best practices for banks are to have outside directors on this committee whenever possible to ensure independence. The audit committee is also responsible, as its name suggests, for supervising the audit function. Auditors should be hired directly by this committee and be independent of bank staff, so findings are objective. This committee should make sure auditors verify that the bank has comprehensive audit coverage and that management is making efforts to correct any deficiencies found (in either an audit or regulatory examination).

The next group we focus on is loan committee. This committee gets some of the greatest hype, particularly given the current industry stress. The goal of the loan committee is to make sure management is handling credit risk in line with policies and acceptable risk levels. It should make sure management is recognizing and addressing problem areas, understand adverse trends, take corrective action and make certain the loan loss reserve is adequate. The loan committee is not there to make decisions on every loan, but rather focus in on larger credits, overall exposures, etc. The goal is to make sure regulations are followed and awareness of exposures is being elevated.

At many banks, the asset liability management committee (ALCO) is a management-level committee. While board members can sit in whenever they wish, many will delegate this to management. No matter where ALCO resides within your bank, this group has the responsibility to oversee the bankÃ¢Â€Â™s actions relating to interest rate and liquidity risks. It must stay on top of exposures and identify strategies for liquidity positions, investment securities purchases/sales, hedging activities, deposit programs and other aspects related primarily to interest rate risk.

Risk management committees are becoming more common as well. Here, the committee is responsible for overseeing all the bankÃ¢Â€Â™s risks. While loan and ALCO are already in place, this group focuses on building an integrated approach to evaluate and monitor interrelated risks, complex activity and new products.

Compensation committees exist to make sure that pay and benefit packages are suitable and do not generate excessive risk. This group generally approves compensation packages for senior management and directors. These packages may include salaries, bonuses, vacations, termination benefits, profit-sharing plans, contributions pension plans, stock option/purchase plans.

Nominating committee generally recommends nominees for election as directors and may recommend a successor to a key senior management position. This committee also develops a management succession policy that specifies key positions and qualified potential replacements.

The technology committee is responsible for understanding, recommending and overseeing the bankÃ¢Â€Â™s investments in technology and the interface of the various electronic applications used by the bank. This group conducts cost-benefit analysis of investments in technology; recommends applications/hardware for investment; and evaluates the capabilities and the control environments of potential and existing service providers.

Committees tackle projects and issues as a key component of any well-functioning board. The good news is that since performance and regulation is so volatile right now, being a director requires participation on multiple committees, so staying informed is usually fairly easy.

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BANK NEWS

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Small Biz

A study by SEI finds 73% of small business owners say managing business risk takes more time than before and 67% say regulatory compliance has become a key priority.