



## Role Of Management & Directors Reviewed

by [Steve Brown](#)

Relationships can be tricky. Consider that in the animal kingdom for instance, symbiotic relationships can be of mutual benefit, allow one species to benefit while the other is neither helped nor harmed or be one where one animal takes advantage of the other. Human relationships can be similar.

We bring this up because bankers and directors sometimes ask us to define a good management/board partnership and to point out exactly where the line is between the responsibilities of management and that of the board. This makes sense when you consider regulations indicate that while directors can delegate the day to day routine of conducting the bank's business to officers and employees, they cannot delegate their responsibility for unsound policies or practices. That ultimately puts the directors on the hook, so frequent questions of all sorts happen all the time. This responsibility is especially on the minds of directors given the litany of lawsuits that flew during the credit crisis and direct regulatory pressure to get more involved in understanding what risks their bank might be taking.

From a regulatory viewpoint, regulators expect directors to do a few key things in particular to effectively discharge their duties. These include: 1) selecting competent executive officers; 2) effectively supervise the affairs of the bank (using reasonable business judgment and devoting sufficient time to be informed); 3) adopt and follow sound policies and objectives (CEO needs a clear framework to operate); 4) avoid self serving practices (must make decisions that are impartial and ensure any loans are at arm's length as to terms, etc.); 5) avoid conflicts of interest (must fully disclose any conflicts and abstain from voting); 6) stay informed as to the bank's condition and management policies (encouragement to employ outside auditors to assist as needed); 7) follow all banking laws and regulations; 8) ensure the bank maintains reasonable capital levels; and 9) ensure services are conducive to well balanced economic growth in the community.

No matter what punch list your bank works from at each meeting, suffice it to say directors are likely more involved following the crisis. Passive participation is out and involvement is in, so management these days should expect to take more time during meetings to explain issues, solicit input and resolve potential conflicts as they arise. It is the role of the board to challenge management, question strategy, ask probing questions and think like an owner. As long as the process is conducted in a professional manner and everyone works to understand the issues at hand, this should be a healthy and valuable exchange of information between management and the board.

At its most basic level, the balance between directors and management is pretty straightforward. When working correctly, the board's role is to strive to understand, offer guidance, develop strategy and monitor risk. The role of management at a high level is to provide information requested by the board or that would help improve understanding, plus handle the strategic execution and the day to day affairs of the bank.

Finally, all good CEOs also share some common traits. These include but are not limited to: continually striving to keep the board fully informed of critical issues; being collaborative in the way they work; doing their best to share actionable information and asking directors for help when needed.

The interactions between management and the board can be tricky but mutual respect can go a long way toward building the underlying trust necessary to be effective. Nothing is perfect, some meetings are better than others, sometimes people aren't as prepared as they should be and sometimes things just happen. Our advice is to keep the communication channels open as you focus on a mutually beneficial approach to help build a strong partnership between management and the board.

# BANK NEWS

## **M&A Activity**

1) Opus Bank (\$4.7B, CA) will acquire escrow company Commerce Escrow (CA) and RPM Investments (CA) for about \$25mm in cash (45%) and stock (55%). Commerce offers escrow services on business transactions, commercial and residential property sales, tract sales, stock transfers, industrial facilities and developer site acquisitions. RPM operates as a "qualified intermediary" to facilitate 1031 tax-deferred exchanges. Together the companies have current escrow and exchange transactions on about \$700mm in deposit balances. 2) In a move to simplify its operations and reduce operating costs, Mercantile Bank (\$334mm, IL) will dissolve its investment asset management unit.

## **Branch Purchase**

Falcon International Bank (\$915mm, TX) will buy a branch from PlainsCapital Bank (\$8.6B, TX) for an undisclosed sum. The branch has about \$13mm in loans and \$52mm in deposits.

## **Customer Preferences**

A Celent report based on interviews with financial companies and solution providers finds the following: 67% of institutions offer account to account transfers using mobile; 40% of banks with assets \$50B+ utilize more than one branch technology environment; 40% of institutions surveyed say they expect customers to stop using branches at a pace of 10% per year; 33% of institutions leverage paperless account origination systems in the branch; 20% offer shopping coupons, discounts or online rewards programs and about 20% use targeted marketing messages through mobile.

## **More Sales**

A report from BuyBizSell finds 6% more small businesses changed hands in 2014 than 2013, driven by an aging population (sold and retired), general business climate improvement and an increasing number of qualified buyers.

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