



Is Your Board Tech-Savvy?

by [Steve Brown](#)

As technology becomes more central to banking, a new competitive issue is also emerging for community banks: A lack of strategic technological know-how at the top.

The banking industry is more reliant than ever on technology expertise to upgrade back office operations, improve customer-facing retail delivery, protect systems and mitigate the risk of intrusion, meet new compliance requirements, and basically carry financial institutions into a new and more efficient future. With worldwide IT spending expected to reach \$3.5T in 2017, the global economy seems driven by technology. Additionally, the financial services industry is one of the biggest spenders on IT, according to Gartner. However, the current state of technology expertise, or even technology understanding, at the top is pretty gloomy. This is true even for the big banks. According to a 2015 Accenture report, only 6% of boardroom members at the world's largest banks have professional technology experience, and 43% of large banks surveyed said that they did not even have a single board member with a professional technology background.

For smaller banks, which rely on technology as a great equalizer and tool for efficiency, this issue is even more pronounced. Lynn A. David, CEO of Community Bank Consulting Services Inc., says that in 30Ys of working with community banks, he has hardly seen any board members with enough technology expertise to be thinking ahead and asking the tough questions.

Further, once a board makes the decision to look for people to fill the technology vacuum, it may not be easy. You need to find the right balance between tech savvy and strategic. If someone gets too bogged down in the details of the networking servers, they won't be able to supply the bank with the high level technology roadmap needed. According to CIO magazine, the ideal traits for an effective IT professional include the obvious - understanding the data and loving technology but also - having the ability to explain issues in "non techie" terms, perceiving problems as learning opportunities as well as thinking outside of the box. Looking for someone with these traits won't be easy, but it is necessary.

The problem for community banks is not only of scarcity in finding this skill set in potential board members, but also often cutting through the tradition and red tape to put them in place, according to Jack Vonder Heide, who consults with community banks on technology issues. He says that each community bank has its own process by which to choose its directors. Most often, those chosen tend to be attorneys, CPAs and business owners. Further, a bank will often give board member seats to family members if the company is family-owned. Clearly, there hasn't been an emphasis on a technology background.

Things may be changing though. As Vonder Heide notes, "With varying levels of urgency, boards are looking for tech savvy board candidates." Looking for younger board members may help, as they can

often bring a more embedded level of technological understanding. While the search continues, community banks should also look at the possibility of educating current board members. Some may show an interest in leveraging their current knowledge, and others may have technology resources to share with the rest of the board. In working on both bringing in new technological expertise and providing internal training for their board of directors, community banks may find themselves in a greater competitive advantage and more prepared for the future.

BANK NEWS

M&A Activity

1) Multi-bank holding company First Busey Corp (\$5.4B, IL) will acquire First Community Financial Bank (\$1.3B, IL) for about \$235.8mm in cash (10%) and stock (90%) or about 2.1x tangible book. 2) Flagstar Bank, FSB (\$14B, MI) will acquire the correspondent residential mortgage lending platform of Stearns Lending LLC (CA) for an undisclosed sum. Flagstar captures 250 correspondent relationships producing about \$7B in annual agency and residential mortgage loan production.

Busted

The FBI and prosecutors have announced a guilty plea by a cybercrime group that stole \$1.2mm using malware to infect the PCs of people and then draining their bank accounts. The thieves ran an unlicensed money transmitting business and would use malware to infect computers, drain bank accounts, then wire the funds to a network of individuals based in the US and have some of them move the money overseas.

CFO Stability

Research by Spencer Stuart finds that in 2015 (the most recent period available), CFO turnover at Fortune 500 companies increased to 18% from 14% in 2014.

Scaling Back

Dutch banking giant ABN Amro said it will cut 60% of its senior management jobs and cut the number of top executives by 50%, as it moves to cut costs. The bank remains 70% owned by the Dutch government, after being rescued during the credit crisis.

Competition

Bank of America said it will open 50 to 60 financial centers focused on preferred and small business banking customers over the next 3Ys. Keep an eye out as no locations were named so they could pop up anywhere.

Get On Board

Fed PA President Harker said fintech companies should expect rising regulation & warned that some technology companies are "ultimately financial institutions" and as such, should "provide a layer of trust-building that regulation can offer."

ROE Analysis

FDIC data finds that over the past 10Ys the ROE for commercial banks with assets <\$100mm has eased 8% vs. 22% for banks with assets \$100mm to \$1B.

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