# Aging And Board Limits

by Steve Brown Topics: strategic planning, performance

**Summary:** Banks are being forced to consider how long is too long for a board member. The average board member age is currently 63.6 years. We shed some light on this topic.

As aging occurs, the areas affected the most are the hippocampus (crucial for memory) and the prefrontal cortex (higher cognitive thinking). This is why 50% of people over age 85Ys fight against Alzheimer's disease. You can slow things down and keep the brain functioning longer though, with a healthy diet, getting enough sleep, exercising and staying creative.

Since Baby Boomers fill the ranks of many bank boards, issues around aging are becoming an issue. Banks are being forced to consider how long is too long to hold a spot on the board and still be effective. It's not an easy question to answer because people and boards are all different.

There are arguments on both sides of term/age limits (hereafter referred to simply as term limits), so we leave that to you and your board to discuss and determine what is best for your institution. That said, there are some things to consider.

In reviewing more than two dozen top financial institutions, corporate recruiter Spencer Stuart found the average board member age is currently 63.6Ys, and the median is 63.2Ys. Perhaps more telling is that none of the financial institutions it looked at had set term limits on board members. This is in contrast to 73% of all S&P companies that have age limits for their directors.

One of the biggest issues in turning over board members is the time required to do so. A search is a process and it simply takes time to identify, conduct due diligence on, and talk to candidates. During this process, the CEO and other key directors can be distracted or away from the bank for sporadic and perhaps unpredictable periods of time. Given the need for secrecy around the process for various reasons, other management team members may not have awareness to provide needed support for daily tasks. This is a potential issue, especially given the disruption and transformation banks are going through. Such a process can lead to unintended consequences, so planning and execution are critical to success.

On the flip side is that, without term limits, directors may become stagnant or cliquish. This can potentially stunt the progress of the bank itself. Further, long-term directors may be preventing a younger and more diverse crop of leaders to join the board. This could inhibit potential development for the bank and even restrain the bank's skills growth in some areas.

Other advantages to setting term limits include: the ability to add directors with specific skills, but who can only devote a few years of availability; avoids stagnation, group-think, boredom and loss of commitment perhaps; can serve to remix power concentrations within the group; avoids the potential for unhealthy insider attitudes; allows for a respectful and efficient way to remove ineffective directors; can provide more focus as new directors actively seek to add value and impact; brings in new ideas, perspective and contacts.

Disadvantages to setting term limits include: potential loss of expertise; loss of organizational memory; more time and resources required to recruit and educate new directors; board cohesiveness and continuity can be lost; losing strong supporters of the bank; and other factors.

No matter the path you choose around either term or age limits, know that not making a decision is the same as making one. Good luck in this endeavor as you go through your own aging process, just like the rest of us.

## BANK NEWS

### Libor Shift

Bank of England Governor Carney and Federal Reserve Bank of NY President Dudley both recently advised financial markets to speed up their move away from Libor as a benchmark rate. The Financial Conduct Authority will no longer collect daily rates to calculate Libor as of 2021.

### M&A Activity

1) Midwest Bank ($444mm, IL) will acquire Andalusia Community Bank ($40mm, IL) for an undisclosed sum. 2) Citizens Bank ($158B, RI) will acquire Franklin American Mortgage Co. (TN) for about $511mm in cash (100%) or about 1.1x tangible book. Franklin manages a $41B mortgage servicing portfolio. 3) Newly formed bank holding company First Capital Bancorp Inc. (KY) will acquire The First National Bank of Jackson ($104mm, KY) for an undisclosed sum. 4) Orrstown Bank ($1.6B, PA) will acquire First Community Bank of Mercersburg ($184mm, PA) for about $32.4mm in cash (15%) and stock (85%) or about 1.53x tangible book. 5) Armored car company The Brink's Co. (TX) will buy Dunbar Armored (MD) for $520mm in cash (100%). Dunbar is the 4th largest cash management company.

### Securities Settlement

Bank regulators have issued a rule that shortens the settlement cycle for investment securities from the day of purchase or sale to two days after a trade (T+2). The previous settlement was T+3 days.

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