

# Community Bank Director



From the ICBA Community Bank Director Program

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## TECHNOLOGY

### What Directors and CEOs Need to Know about Cyber-risk Management

By Kelly Pike

It's easy to think of cybersecurity as the domain of the information technology department or information security officer. They know the buzz words. They have the technical expertise. But they don't have the ultimate responsibility.

While IT officers and departments have a large role to play, U.S. Treasury Secretary Jack Lew and a slew of regulators are making it clear that responsibility for a bank's cybersecurity rests with senior management and its board of directors.

"If you are the leader of a business, you should know how strong your company's defenses are, you should know if there are response plans in place in case a significant security breach occurs, and you should be getting regular reports on cybersecurity threats and what your company is doing to respond to those threats," Lew said in a speech this past summer.

Passively managing information security isn't an option for today's community bank executives. Directors and management can't just review bullet points in a report or outsource

responsibility. Regulators are looking to see greater CEO and board involvement with an eye toward managing risk—including information sharing, incidence response plans and third-party risk.

"The Federal Financial Institutions Examination Council is really emphasizing risk assessments," says Cary Whaley, ICBA's vice president, payments and technology policy. "Here is a cyberthreat. What does it mean to the bank and how are you mitigating it? The regulators are emphasizing that this needs to be a corner office or board issue."

Despite this boardroom focus, "there's not a lot of guidance on it," says Gary Owen, principal with Promontory Financial Group LLC, a financial services consulting firm based in Washington, D.C. He instead suggests boards manage cybersecurity risk the same way they'd take on enterprise or operations risk. "The board more and more should be held accountable for it if there is any breach or significant challenge."

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## IN THE BOARDROOM

### Recruiting New Bank Directors—Is Your House in Order?

By Cathy Ghiglieri

Many community banks need to add new board members. Some of their directors are reaching mandatory retirement age, and some board members are leaving their posts after agreeing to stay on through the financial crisis. However, boards of directors need to keep in mind that their prospective board candidates will likely conduct due diligence on the bank, while the bank is conducting due diligence on the candidate.

In order to ensure your community bank can

attract top candidates for board positions, consider the following issues before beginning the recruiting process:

**(1) Needs assessment:** The board of directors should conduct a needs assessment to identify which qualities and skills new board members should have to augment the skill set of the current board members.

- Does the board need someone with steep knowledge of banking, such as a former banker or regulator?

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And while rates and fees typically drive mortgage lending, a bank that's fairly competitive can distinguish itself by service, says Haynie. Part of the service equation is education. A top-notch online mortgage site can effectively showcase different loan products, such as FHA or VA loans, and not just 30-year, fixed-rate products.

Michelotti is impressed by how easily online mortgage websites draw out key information from potential borrowers and model different potential loan options. "The paper applications can be daunting to some people," he says. "But [Community Bank of Bergen County's new system] walks you through question by question. It's customized to each person's scenario. If a scenario doesn't apply, it won't ask you that question again."

What's more, the bells and whistles on the bank's site are designed to attract new borrowers. Michelotti was pleasantly surprised by the site's rate-watch feature, which updates potential borrowers when interest rates hit a level that they set themselves. He believes that this reminder "will definitely bring us new business."

In the end, Haynie is convinced that offering a robust online mortgage site can help community banks in many ways, not the least of which is differentiating themselves from competitors. "If you have a technology tool that helps you provide good communication and a positive experience," he concludes, "that clearly gives you a competitive edge over the guy down the street." ■

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- Does the board lack knowledge of a particular product or service being offered by the bank?
  - Does the board need a local community leader?
- Identifying the knowledge and skills the board needs is critical to ensuring a satisfactory recruiting process.

**(2) Corporate governance:** While all potential board members will likely inquire first about the amount of the bank's directors and officers liability insurance coverage, the more knowledgeable candidates regarding banking will inquire about corporate governance practices—i.e., the manner in which the bank is overseen by the board of directors. The board should determine how answers to the following questions may affect the recruiting process:

- Does the bank have an outside, non-executive chairman of the board?
- What is the composition of the board by gender, skill set and number of outside directors?
- How are agenda items gathered for board meetings?
- Is there dialog between board members at the meetings, or do board meetings consist only of presentations made by management?
- Is there an executive session at each board meeting?
- On which committees would a new board member sit? How are the agendas for committee meetings set? What are the duties of each committee?
- How and when do board members receive information for the board meetings? Does the bank make it easy or difficult for board members to obtain information to make informed decisions? For example, do board members access board packages via a secure portal on the Internet a week prior to the board meetings, or is access to information made difficult by requiring board members to go to the bank to read the board packages?

**(3) Board training:** New board members need to make informed decisions from their first meeting, so how they get up to speed on the issues facing the bank is important.

- Is there an orientation session, complete with an orientation manual?
- Is there training for new board members on the banking industry in general?
- What kind of ongoing training is available to board members?

**(4) Strategic planning:** The Office of the Comptroller of the Currency's Semiannual Risk Perspective for spring 2014 states that "strategic risk remains high for many banks."

- Does the bank have a strategic plan and how often is it reviewed by the board?
- What strategic planning process is in place and how involved is the board?

**(5) Board assessments and peer evaluations:** Board assessments and peer evaluations are part of good corporate governance.

- Has the board completed a board assessment, which is an evaluation of how well the board is overseeing the operations of the bank? If so, what are the areas that have been identified for improvement?
- Has the board performed peer evaluations, which are evaluations of each individual director's performance on the board? If so, what type of assistance is given to directors in need of improvement?

There is no better time to get your house in order than when guests are due to arrive, and likewise, reviewing these five topics, and perhaps making some adjustments ahead of the search process, will pay dividends in attracting just the right board members for your community bank. ■

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