ABA BANKING JOURNAL DIRECTORS BRIEFING

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FDIC Urges Boards to Elevate Focus on Climate Change Risks

The winds of change are blowing, and small and midsize banks need to get their arms around climate risk, Acting FDIC Chairman Martin Gruenberg said at the ABA Annual Convention in October.

"As an initial step, boards of directors and senior management may wish to seek a better understanding about how climate change and climate-related financial risk are impacting the institution's business, customers and communities, and how this risk may evolve over time," Gruenberg said in a general session address.

He added that banks "may wish to consider developing appropriate sound governance frameworks and processes" that can incorporate climate-related financial risk in ways that reflect their size, complexity, and risk profile.

Gruenberg emphasized that the FDIC is not responsible for climate policy and "will not be involved in determining which firms or sectors financial institutions should do business with. These types of credit allocation decisions are responsibilities of financial institutions."

He said that because climate risk supervision is new territory for the FDIC, the agency intends to it in a "thoughtful and measured" way. He said the FDIC would "appropriately tailor any future supervisory expectations to reflect differences in financial institutions' circumstances, such as complexity of operations and business models."

Gruenberg noted that climate risk consists of both physical risks—harm to people and property resulting from acute events such as hurricanes, wildfires, and floods—and transition risks—the stresses that result a public investment, consumer, and business preferences shift and new technologies are implemented.

Climate risk and environmental, social and governance (ESG) issues more broadly have been an area of growing regulatory interest, particularly for public companies. [See related article on page 2.]

ABA has resources to support banks' efforts, including a Climate Task Force and an ESG Working Group.

It's important for banks to begin telling the story of how they are managing ESG risks, said Joseph Pigg, the ABA SVP who leads the association's climate change and ESG work. "Community banks in particular have a great story to tell investors," he said.

He noted there is little standardization about what banks should disclose, but they can quantify changes. A bank that has switched to LED light bulbs and adopted eco-friendly approaches to groundskeeping has some concrete actions it can point to.

FOCUS ON COMMITTEES

Board Plays Key Role in Aligning Tech, Strategy

There's no question that banks are speeding up their technology investment as they strive to stay in step with changing customer demand for more seamless mobile and remote banking experiences. Making day-to-day decisions about the technology needs of a bank is the job of management, but providing the budgetary framework as well as guidance is the board of directors' role. Discussions often germinate at the board level in a strategic planning or technology committee.

Committee Focus *(Continues on page 4.)*

In This Issue

In Conversation: Forbright Bank's ESG Chief Discusses Sustainability Frameworks and Emerging Best Practices

Norquist

Financing the transition to a sustainable, net zero economy isn't an abstraction for Forbright Bank. It's the centerpiece of the bank's strategy. Formerly known as Congressional Bank, Forbright realigned its mission last year and announced that by 2025 it would dedicate half its portfolio to financing companies, investors, and innovators that drive sustainability. In a recent conversation with *Directors Briefing*, Samantha Norquist, Forbright's chief ESG officer, discussed lessons the pacesetting bank has learned reinventing itself to focus on environmental, social and governance considerations.

Why should community banks think about ESG in the absence of any regulatory mandate to do so?

We believe proactively integrating a strong ESG framework into our bank makes us a better employer, a better business partner, and will drive profitable growth over the long-term.

'We believe proactively integrating a strong ESG framework into our bank makes us a better employer, a better business partner, and will drive profitable growth over the long-term.'

Rather than waiting on regulatory requirements, we view ESG integration — and specifically our sustainable finance activities — as an opportunity to be a part of the transition to a lower-carbon, more sustainable economy.

What questions should boards of directors ask management about ESG?

In an evolving and often ambiguous space, a clearly defined strategy, transparency, and accountability are critical. I think the board plays an important role in asking questions in the pursuit of clarity and holding teams accountable to the strategy they have articulated.

What does good reporting to the board on ESG topics look like?

This will look different for every bank depending on your ESG strategy and goals. For Forbright, we provide reporting to our entire board, and our board has an ESG and corporate governance subcommittee that meets regularly and receives detailed updates on our defined ESG goals, which are published as a part of our annual ESG report. They also receive forward-looking strategy and ongoing initiatives alongside a market and regulatory update. No matter what dashboard or metrics the board receives, having buy-in from the board about the value of our ESG strategy and related reporting is important.

Reporting on ESG hasn't been standardized. Are best practices emerging?

One best practice is conducting a materiality analysis of the most meaningful ESG topics to a company's unique business and stakeholders. This analysis should be informed by industry research, peer benchmarking and stakeholder feedback. Not all ESG topics are material to all businesses (or banks), and focusing on what is most important to the stakeholders of your business has proven to be a more effective strategy than trying to address a broad universe of topics haphazardly. ESG reporting can then focus on specific metrics, goals and progress against goals related to those topics determined to be material. Clarity, transparency and accountability are the important themes in ESG reporting, just as they are important to the underlying strategy.

DIRECTORS BRIEFING

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Spotlight: Board Support Gives Wayne Bank's New CEO a Smooth Transition into Leadership

Thirty years in banking gave James O. Donnelly the depth and breadth of experience needed to thrive as president and CEO of Wayne Bank, a role he assumed in May 2022. A smooth leadership handoff has enabled him to hit the ground running, and for that he credits the board of parent company Norwood Financial Corp., particularly his predecessor, Lewis Critelli.

In fact, Donnelly believes the groundwork was laid well before he joined the $2 billion-asset bank, which is headquartered in Honesdale, Pennsylvania.

A key to the leadership transition was that "Wayne Bank was transparent about a retirement date and succession plan for the CEO" a full six months before he joined, Donnelly said. Being open about the transition "took away the scariness that can come with change and allowed people to be ready for the new person," he said. "People commit to their leaders, and there is a strong emotional component when things change."

Another clear plus was that Critelli, who is now chairman of the board, was actively involved in recruiting his successor, and made a clean break from the CEO job. Donnelly has found him "incredibly respectful of our roles, and very supportive." When management questions arose, "he made sure everybody knew they were supposed to go to me and not him."

Donnelly, who started his career in the KeyBank management training program, came to Wayne Bank from Bangor Savings Bank in Maine, where he worked for seven years. Most recently, he was EVP and chief commercial officer at the $7 billion-asset bank, with eight lines of business reporting up to him.

His first week on the job, Donnelly made sure he went out to meet all the employees, starting with the most far-flung locations. "Some of our branches are three and a half hours away and those were the first ones I went to. They were also part of the last bank we acquired, so it was especially important to make sure transition was smooth and we all realized we were on the same team."

Donnelly has arrived at the bank at a historically challenging time, as the Federal Reserve is working to tame inflation by nudging interest rates higher.

"In the environment we're in, we are spending a lot of time talking about balance sheet management. We're talking more and more about how to prepare the bank for volatile economic times, and how to plan for a recession that may not be a typical jobs recession."

As interest rates have climbed, the bank's mortgage lending volume has felt the effects as refinancings withered. But, Donnelly noted, home equity lending is increasing, commercial lending is strong, and indirect lending for autos and boats is very brisk. "We're surrounded by lakes, so the recreational business is important," he said.

Keeping strategy and vision front and center can be challenging when economic pressures intensify, but Donnelly said the 12-member board is focused and has embraced his vision of where the bank needs to go next. One of the priorities is to invest in customer-facing technology that will reduce friction in lending processes. He has also looked around and made employee development a priority, "so we are building the future of the bank from within."

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Three Questions for...

Alan Kaplan

founder and CEO, Kaplan Partners, a retained executive search and board advisory firm

How can boards help a newly hired CEO to assimilate?

Don't ignore basics. Be ready with a meaningful onboarding plan that gives the new leader the exposure and information they need. Crucially, this includes one-on-one time with the senior team and board members.

How can boards help new CEOs build visibility?

Identify people and places they need to know. Every community is different. This might mean small meet-the-CEO gatherings, or getting in front of the Rotary Club or the United Way, or serving on the local library board. Directors have good insight into where CEOs need to be seen.

Any other tips?

Don't rush. Give them time to evaluate people. Let them get the lay of the land before you expect decisions on how to structure their leadership team. Three to six months is typical.

COMMITTEE FOCUS

(Continued from page 1.)

A key role of the board is to "align technology with strategy and ensure that the bank has the resources it needs to achieve its goals," according to the 2022 Technology Survey published by Bank Director.

It isn't always easy for banks to do that in an environment where, according to a 2021 study by Accenture, only 10% of bank directors have technology expertise. In the same report, Accenture puts the optimal level of tech know-how at 25% of the board. It's a safe bet that most community banks would consider a stretch goal.

> **'Technology allows us to generate growth with less reliance on bricks and mortar.'**
>
> – Mary Kay Bates, Bank Midwest

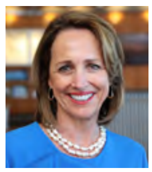
Thus, bringing more technology expertise on board is a much-talked about need. As Accenture noted in a study last year, "banks without technology expertise risk making mistakes and overlooking important issues when they develop technology strategy, evaluate vendors and roll out new systems."

Adding an expert isn't an instant fix, though. Board seats don't turn over every day, and recruiting tech experts isn't easy when they are such hot commodities.

Directors Briefing recently asked two bankers and an industry consultant for their thoughts on the following question:

How can a bank board most effectively align technology with strategy to ensure that the bank has the resources it needs to achieve its goals?

Their responses are excerpted below.



Mary Kay Bates
President & CEO
Bank Midwest,
Spirit Lake, Iowa

There was a time when we thought of technology as simply a necessary cost of doing business. Today we view technology as an investment that provides opportunities for growth, scalability, and security.

Technology is a critical driver of three of our four strategic priorities: profitable growth, customer experience, and digital transformation. Our goal is to not necessarily replace people with technology, but rather to use technology on both the front end and back end of the business to enhance the customer experience, deepen relationships, and build brand loyalty. Technology allows us to generate growth with less reliance on bricks and mortar.

We are currently preparing to launch a stand-alone digital bank with a targeted niche customer base. The investment is significant, but perhaps not as much when compared to the cost of an acquisition or opening a de novo branch. Technology also contributes to the customer experience in ways that can differentiate us from our competitors through various delivery channels, including mobile, online, and interactive teller machines.

There's a cost to any investment and as a community bank, management works closely with the board to carefully assess how we allocate our resources to technology for the best possible return. These discussions start with the annual budgeting process and continue with strategic updates throughout the year.

A strategic discussion topic is a standing agenda item on each monthly board meeting, and each quarter we take a deeper dive with our directors on one of our four primary strategic priorities. As a rule, those discussions include an allocation of technology resources. In recent years, we've increased the board's acumen in technology by ramping up training and adding a director with a doctorate in technology and cyber security.

James P. Helt
President & CEO
ACNB Corporation
and ACNB Bank,
Gettysburg, Pa.

At ACNB Corporation and ACNB Bank, we evaluated and planned for the conversion of the bank's core operating system for more than two years with a successful conversion in September 2021 despite the additional challenges presented by the ongoing COVID-19 impacts. The bank's board was well aware of this process from request for proposal through implementation and it approved the dollars associated with the project.

To provide the necessary focus and alignment for the board, the bank's core and digital banking transformation strategy and roadmap document was incorporated as a component of the corporate strategic plan, which is approved annually and reviewed in a board strategic planning session held on a quarterly basis. The board also approves the annual technology plan, with a midyear update on technology projects.

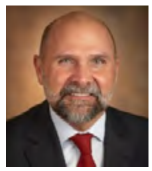
The core system conversion in 2021 was a major step in the organization's long-term core and digital banking transformation project.

'The first step of a bank's innovation journey should be adding technologists as board members who can articulate where the puck is headed in banking.'

– Michael Harrington, JAM FINTOP Network

However, the roadmap continues with new and enhanced ancillary systems targeted to improving the customer experience and increasing operational efficiencies internally.

The board engages in the quarterly strategic planning discussions, asking questions and sharing insights. This furthers the objective to build the necessary infrastructure for the bank's future growth and expansion, especially as consumer demands and expectations evolve in the sphere of online and mobile banking channels for anytime and anywhere convenience.



Michael Harrington
Head of Growth and Partnerships
JAM FINTOP Network, New York

For a bank board to find alignment on technology and strategy assumes the board has a vision for the future of banking. Our view is most bank boards are stuck with legacy branch-based mindsets that need to be replaced. The first step of a bank's innovation journey should be adding technologists as board members who can articulate where the puck is headed in banking.

With new technologies, a bank is no longer bound by geography and the possibilities of expanding into new business lines is endless. However, this is a very challenging task for management and bank boards because the stakes are so high for them as fiduciaries. It requires the prediction on the future state of banking and a plan to transform the business to support the strategy. Reaching this consensus takes a sustained, ongoing effort and acumen from all parties involved. It's not something that happens at a once-a-year board retreat.

Once consensus on strategy is reached, the issue then becomes devising a comprehensive plan that incorporates talent and technology to achieve the desired outcomes, and developing a financial model to justify what is typically a large and multi-year investment coupled with suboptimal short-term returns.

My experience is that boards need to commit the necessary time, money, and resources for a full transformation in the delivery of financial products. Bank boards can support management by acknowledging this will result in suboptimal returns in the short term to fund the investments needed for the future.

More importantly, when things do not go as planned, and they never do, boards must have the determination and conviction to stay the course, as change requires momentum and momentum cannot be self-sustaining without consistent application of effort.

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Survey: Consumers Want Advice on Coping with Rising Costs

Consumers overwhelmingly say the rising cost of living is affecting their everyday lives, and they are disappointed to have heard little from their banks, according to a survey from Personetics.

In the global survey of 5,000 banking customers, 93 percent said they were feeling the effects of rising costs. Yet 63 percent said they had heard nothing from their bank, and 20% had concluded that their bank doesn't care.

More than half (51 percent) of survey respondents said they want more help than they are currently getting from their bank in managing their money. But only a quarter (26 percent) said they had received help since the spike in the cost of living began to register with customers as a crisis earlier this year. And only 37 percent of those had received personalized messages, Personetics found.

More than half of survey respondents want more money-management help than they currently get from their bank.

Personetics found that nearly two-thirds of customers (63 percent) said they want proactive financial insights to help relieve their financial stresses, and 61 percent said they would welcome automated financial support with money management and financial decisions.

Strikingly, 58 percent said they would consider switching banks for better money-management support and personalized advice on how to cope with the cost of living crisis. This finding suggests both an opportunity and a risk for banks.

The money management advice customers want from banks is basic. Topics they'd like to hear more about include suggestions on how much they could be saving each month (30 percent), tips on overdraft fee elimination or forgiveness (29 percent) and alerts to subscriptions they forgot to cancel (25 percent).