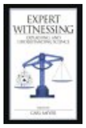
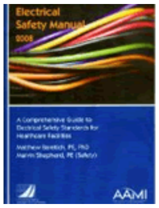
resources



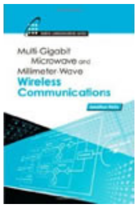
Expert Witnesses: Explaining and Understanding Science

Carl Meyer



Electrical Safety Manual 2008

Matthew Baretich, PE, PhD, and Marvin Shepherd



Multi-Gigabit Microwave and Millimeter-Wave Wireless Communications

Jonathan Wells

Share | 1

Bank Directors: Walking a Fine Line between Customer Service & Corporate Governance

By: Catherine Ghiglieri
Tel: (512) 329-5101
Email Ms. Ghiglieri

Website: www.ghiglieri.com

View Profile on Experts.com.

Directors in community banks are usually picked for two reasons: their expertise and their ability to bring business into the bank. Upon taking their places at the board tables, however, directors immediately learn that while bringing business into their bank is a laudable goal, they also have to ensure that their bank operates in a safe and sound manner. Directors, thus, walk a fine line between these two goals.

Bank directors know there is nothing like good customer service to engender goodwill among the bank's current customers and to promote positive word-of-mouth advertising to potential new customers. In 2012, the Group of 30 published a paper entitled "Toward Effective Governance of Financial Institutions" in which it examined the state of corporate governance in financial institutions and made recommendations on how to improve it. Regarding customer service, the report stated "[Financial Institutions] that wish to distinguish themselves through superior customer service should make customer service the highest priority of a person's time. This is a strategic choice, not a governance issue, which is then translated into operational discipline. The governance issues demanding board and executive attention concern the related issues of product suitability and business conduct, which manifest themselves in both the consumer and corporate segments...No [Financial Institution] can afford the reputational risk of marketing unsuitable product or engaging in slippery business conduct. Values and culture speak to both of these perils."1

Before a bank director can help bring new business into the bank, the director must understand the bank's products and service,s as well as whether or not the proper infrastructure is in place to support a particular product or service. This would include a board-level review of staffing, technology, capital support, projected profitability, physical facilities and risk management processes, to name a few. In addition, as noted in the Group of 30 publication, product suitability and business conduct should also be discussed at the board level.

In helping to bring in new business, bank directors need to know how far they can go in nudging new customers into the bank. Loan and deposit business are the types of products and services most frequently promoted by bank directors. Here are some safety and soundness issues to think about in the next discussion that a bank director has with a prospective customer:

Loans: When discussing loans with a potential borrower, bank directors need to make sure they do not usurp the underwriting process necessary in making sound loans. The directors should not make promises they cannot keep, such as suggesting that the bank might make a loan to an individual or company, or that the bank might make it at a particular or "good" rate. These decisions should come only after management conducts the proper underwriting procedures. The performance of proper credit analyses and background checks are critical to ensuring loans are made in a safe and sound manner. In addition, Fair Lending issues come into play in setting the rates on loans. Directors should 1 "Toward Effective Governance of Financial Institutions" at 79. steer any potential customers to bank management without talking about specifics in order to avoid these pitfalls as well as potential violations of law.

Deposits: When discussing new deposit accounts with potential customers, the directors should be mindful of the bank's asset and liability policies and restraints, if any. Many banks today are flush with deposits and are not actively looking to increase their deposit base by attracting new depositors. In addition, the Bank Secrecy Act's Know Your Customer requirements and other due diligence procedures need to be performed prior to allowing a customer to open a deposit account. Directors, again, should refer any potential customers to bank management in order to avoid such problems and potential violations of law.

Walking the fine line between bringing new business into the bank and ensuring that the bank operates in a safe and sound condition is made easier if the directors understand the bank's products and services, the infrastructure supporting them, the pertinent laws and regulations, as well as any restraints that the bank has. In this way, the directors can help promote good customer service, bring business into the bank while at the same time fulfilling their corporate governance responsibilities.

Share | 1

Catherine Ghiglieri is the former Texas Banking Commissioner and is President of Ghiglieri & Company based in Austin, Texas. She is co-founder of The Bank Directors' College which provides training to bank directors. See www.ghiglieri.com and www.thebankdirectorscollege.com.

ABOUT US
Our Story
Press Releases
Membership Information
FAQ

CONTACT US
Contact Information
Advertise
Request Expert
Our facebook Page

LEGAL
Terms of Use
Privacy Statement