THE WALL STREET JOURNAL.

RISK & COMPLIANCE JOURNAL | Content by Deloitte.

The Wall Street Journal news department was not involved in producing this sponsor content.

June 27, 2024

Good Governance in Banking: What Does It Look Like?

As the FDIC looks to finalize its guidance on corporate governance and risk management, there are several steps boards can take to enhance their strategies

Against a regulatory backdrop of rule updates and a focus on enforcement priorities, many financial institutions continue to seek ways to enhance their governance strategies and frameworks.

"Regulatory postmortems and proposed new guidance from the Federal Deposit Insurance Corporation (FDIC) reinforce certain governance practices as foundational," says Michele Crish, a managing director with Deloitte & Touche LLP.

In a conversation, Crish speaks to Caroline Swett, a partner with law firm Debevoise & Plimpton, and David Wright, a retired director from Deloitte & Touche LLP and independent advisor to the firm. The conversation has been edited for length and clarity.

Crish: Given your work with bank boards, especially following the turmoil in 2023, what changes are directors making in how they operate?

Swett: Boards are dealing with a very challenging market and regulatory environment that is likely to increase their oversight and monitoring duties, while requiring greater agility and responsiveness. First and foremost, to adapt we've seen boards adding meetings to their cycles. The cadence has increased, which can be challenging because they already have a significant workload. Second, to become more nimble, some boards are expanding their informal and off-cycle engagement with management. They are also thinking more critically about their composition, experience, and expertise, as well as considering how committees can be used to boost efficiency. For instance, we're seeing committees, or just groupings of directors being assigned as first responders to deal with rapidly changing liquidity or market conditions.

Crish: How do you see the board's level of oversight changing with respect to enterprise transformation programs or remediation?

Wright: In terms of information overload and the overwhelming number of responsibilities directors have today, boards are increasingly creating ad-hoc or specialized subcommittees for technical topics such as cybersecurity, digitally-enabled transformation, or merger due diligence. With respect to formal enforcement actions, regulators often require boards to form ad-hoc compliance committees to oversee sustainable remediation efforts. That's also an opportunity to use subcommittees and specialized groups to give directors some relief. But in the end, there is only so much time in the day, and not everyone can be the ultimate expert.

Crish: What should boards be doing to balance business strategy, risk appetite, and financial planning?

Wright: The board has a responsibility to ask tough questions around coherence and whether incentives are aligned to bring strategy, risk management, and capital and liquidity together in a manner that is safe and sound. For instance, does a new strategy have some guideposts, such as risk-appetite measures, around it? What type of risk-management infrastructure is needed to support the strategy? Does it affect the financial composition of the firm in such a way that it creates new and unexpected vulnerabilities? Are there sufficient earnings and capital to support the strategy? Boards increasingly need to focus on whether a strategy is supported both by comprehensive risk management practices and a strong balance sheet and capital. It may be common sense, but it is not easy to do. Historically we've seen institutions focus more on the revenue side in detailing their strategies and much less on the risk and financial performance side.

Crish: What role does the board play in fostering accountability and a strong risk and compliance culture?

Swett: Accountability can be fostered in many ways by the board. But, at its core, it's about enabling robust inquiry and effective challenge of management's thinking, recommendations, and assumptions, including on issues of remediation or ongoing deficiencies. To build a strong risk and compliance culture, the board needs to engage management on relevant issues and encourage candid discussions. Simultaneously, management needs to make sure that information gets up to the board to facilitate accountability and questioning. There is also the matter of incentives. Risk needs to be embedded into performance management and compensation processes so that the rewards for financial performance are aligned with responsible risk management practices.

— by Darlene Fiscus, freelance writer, Executive Perspectives in The Wall Street Journal

This article is part of an ongoing series of interviews with executives. The executives' participation in this article are solely for educational purposes based on their knowledge of the subject and the views expressed by them are solely their own. This article should not be deemed or construed to be for the purpose of soliciting business for any of the companies mentioned, nor does Deloitte advocate or endorse the services or products provided by these companies.

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the "Deloitte" name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2024 Deloitte Development LLC. All rights reserved.