Pearl Meyer

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Bank Board of Directors' Pay, Policies, and Practices

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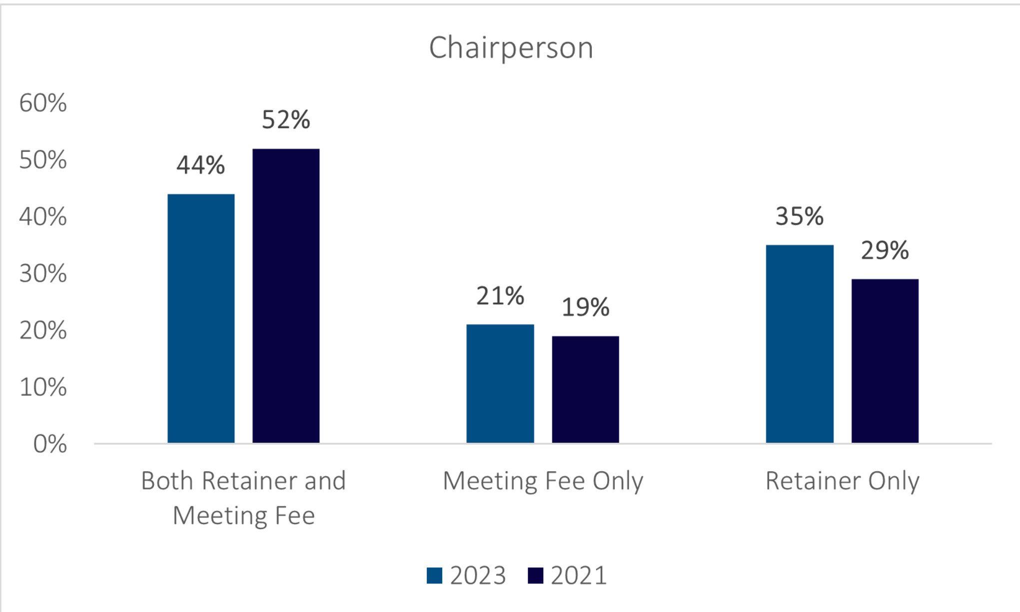
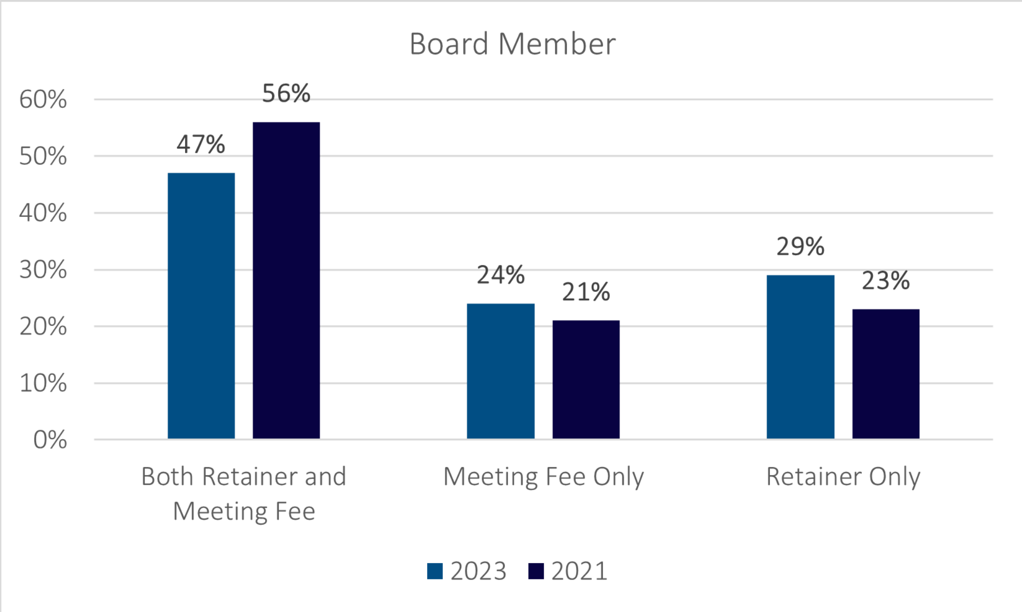
In May of this year, Pearl Meyer published the bi-annual [2023 Bank Director Compensation and Governance Practices Survey](). With the continued increase in participation, from 69 participating institutions in 2019 to 179 in 2023, it is clear that competitive board of directors' compensation and the associated pay practices and governance issues are of concern. This year's survey provides data on current practices for compensating quality board of director leadership as institutions work to maintain profitability during unpredictable economic conditions. The participating banks are comprised of public companies, private companies, mutual savings banks, and credit unions. Below are a few highlights from the 2023 report.

Board Compensation

Most institutions establish director compensation programs by reviewing and benchmarking to peer market data. It has become a challenge to determine the proper mix of compensation to attract board members and compensate them properly for their service (including the risks and time commitment involved) while also aligning with shareholder interest.

In our survey, director compensation is broken down into the following components: annual retainer, board and committee meeting fees, equity, and benefits. Typically, a cash retainer and/or cash meeting fees are the core compensation elements for directors, although we are seeing an increasing prevalence of equity awards. Forty-four percent of all institutions pay the chairperson both a retainer and a per-meeting fee for service and forty-seven percent pay board members a retainer and a per-meeting fee. Both percentages are slightly down since 2021.

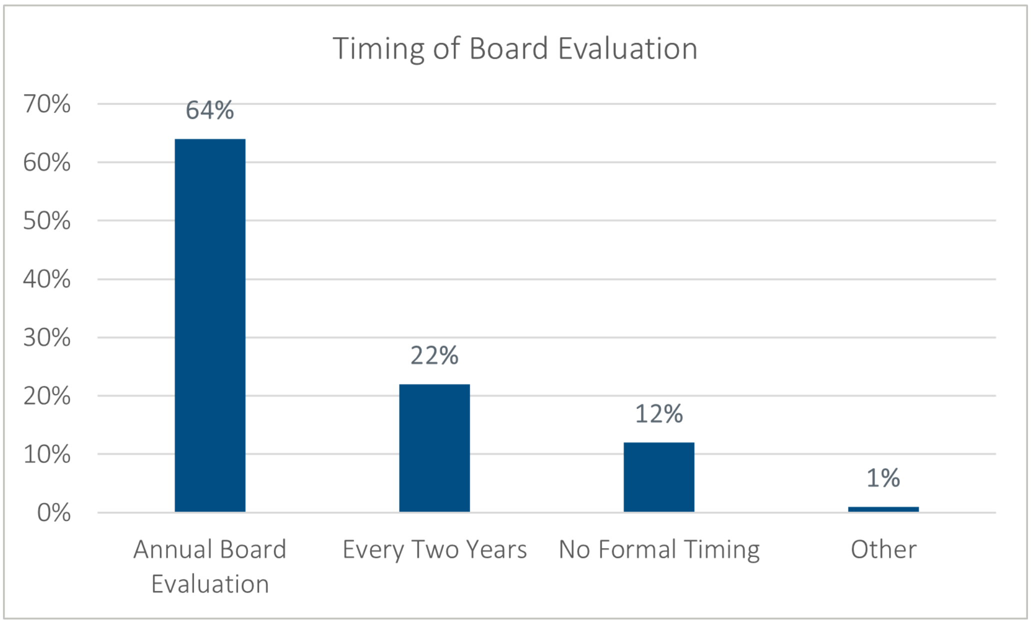




The survey offers additional detailed, in-depth data on board retainers, meeting fees, and committee compensation broken down by asset size, form of ownership, and board structure. In this year's report, average cash compensation pay per director ranged from $19,306 to $71,481 and average total board cash compensation ranged from $146,201 to $879,098, increasing upon asset size.

Board Evaluation

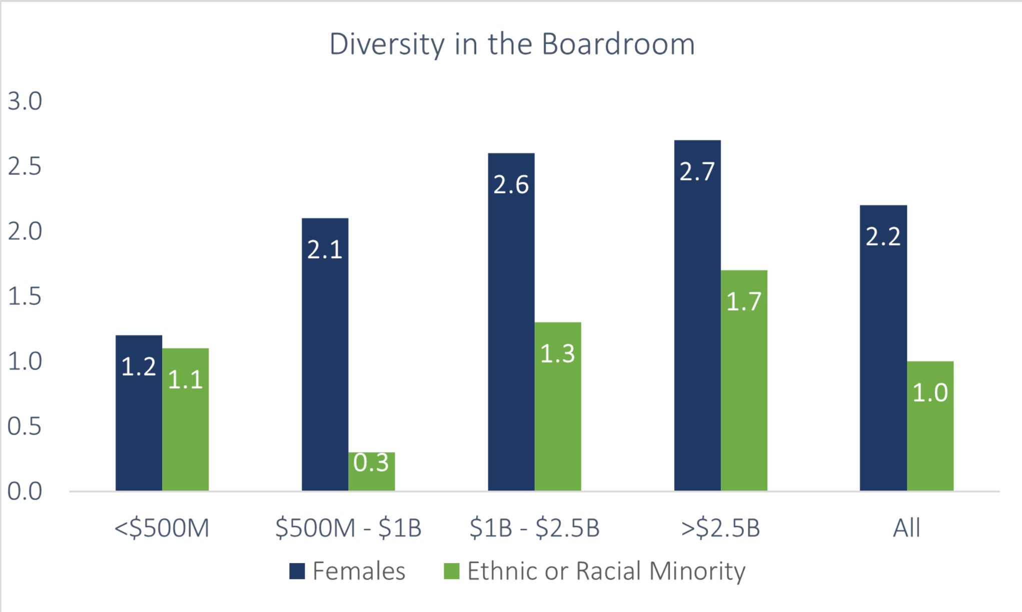
In today's climate of increasingly complex compliance and regulatory guidelines, boards are under pressure to be effective and achieve a multitude of goals. Board evaluations are a tool designed to review corporate governance practices and the effectiveness of the board and its committees. When conducted properly, board evaluations benefit stakeholders, directors, and the institutions by developing a stronger board that is a strategic asset to the bank and its management. Forty-five percent of participants conduct a formal evaluation of the board, and of these institutions, the majority (69%) conduct the evaluation themselves instead of using a third party (3%) or an evaluation tool developed by a third party (15%). Ten percent opt for both self-evaluation and that of a third party. As might be expected, board evaluations occur on an annual basis at most of the institutions conducting evaluations (64%) and evaluations of individual directors occur at only 20% of the participating institutions.



Each board should have its own unique set of objectives and goals by which to be measured. Evaluations can be a full board activity or fall under the purview of the compensation committee, as it increasingly covers leadership development, talent management, and sets board pay. An outside party can objectively assist the board to identify their strengths and weaknesses and to improve board performance.

Diversity in the Boardroom

With the continued spotlight on diversity, equity, and inclusion (or DE&I), institutions and boards are becoming more aware of the need to focus on creating diverse representation in the boardroom. “This is one of the many areas where bank boards increasingly focus when conducting board evaluations,” according to O’Rourke. Our 2023 survey reports on board representation by gender and ethnic or racial minority. While there is clear room for improvement, 99% of institutions that participated in our survey reported an average of two female board members, and 97% reported at least one board member of an ethnic or racial minority, up from 93% in the previous survey. Additionally, illustrating what a significant concern this is, there has been an increase in education surrounding DE&I (46% in 2023 vs. 35% in 2021), and environmental, social, and governance (ESG) issues (34% in 2023 vs. 23% in 2021).



Summary

All institutions are unique, and banking is an ever-evolving business. Successful banks require quality directors with a varied range of knowledge, skills, and abilities to navigate the most unpredictable of circumstances. Developing a compensation program that fits your board's needs and attracts knowledgeable directors can be a challenge. The Pearl Meyer 2023 Banking Board of Directors Compensation and Governance Practices Survey is a valuable resource and provides the most comprehensive look at board data, trends, and practices.

For information on purchasing the 2023 Banking Board of Directors Compensation and Governance Practices Survey please contact Jordan Gagnon or Rhonda Snyder.

About the Author

Rhonda is a senior survey account manager at Pearl Meyer. She joined the team in August of 2019 and she works as a liaison to the Southeast banking associations on banking salary surveys while also assisting many other state and national survey clients.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.