Pearl Meyer

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Getting the Most From Your Bank Advisory Board

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According to a recent Pearl Meyer survey, forty-percent (40%) of regional banks currently utilize advisory boards and over twenty-percent (20%) have used advisory boards in the past. Advisory boards are a mechanism to stay close to the local market, build a local brand and may provide a strategic advantage. We will outline current market practices for bank advisory boards including market prevalence, board structure, and compensation.

What is an advisory board?

Advisory boards are unlike legal bank boards, as they do not have legal and fiduciary responsibilities under corporate law. Banks often refer to these advisory boards as “community boards” or “regional bank boards.” Among other matters, these advisory boards provide advice specific to the regions and communities where branches are operating, and a regional bank may have multiple advisory boards, yet only a single legal board.

What are the benefits of an advisory board?

Those that are most effective typically consist of non-finance professionals and local thought leaders who can provide valuable local insights and recommendations. The members of the advisory board bring a diverse range of experience and a local understanding that may not be apparent to the legal board or management team. This insight can help the bank identify new opportunities, anticipate challenges, and strengthen its local brand. According to the Pearl Meyer survey (conducted in March 2023), the primary focus of advisory boards among respondents is to discuss the local community involvement (66%) followed by providing input on local customers (44%).

What is the structure of governance practices of advisory boards?

Most regional banks reported a median of eleven advisory boards with eight members per board (for a total of 88 advisory board members).

Two-thirds (66%) of the banks reported that their advisory boards have a written charter, which can be a critical success factor for the advisory board’s effectiveness. As a former commercial banker told us, “You really need to help these boards stay focused [on the areas] where they can add significant value.” A significant to-do item for those that don’t have a charter is to develop one. Eighty percent (80%) of advisory boards say they meet quarterly and almost 90% reported that the meeting duration is less than two hours.

How are advisory board members compensated?

Most advisory board members do not serve on the board in order to receive compensation. The reasons for participating vary but often include a desire to support the community, meet local leaders, share knowledge, and learn about the banking industry. In the "old days," advisory boards might be rewarded with a holiday party and a fall turkey! However, today all banks with advisory boards reported providing some cash compensation. The majority (78%) of advisory board members are compensated on a per-meeting basis.

Advisory Board Compensation	
Per-meeting fee	78%
Annual Retainer	11%
Restricted Stock/RSUs/Stock	22%

The median per-meeting fee is $250, with a range of $125 (low) to a high of $1,000 per meeting. Thus, a bank in the median range might pay each board member $1,000 per year in total. This means that for a regional bank the total advisory board compensation investment may be $80,000 to $100,000 per year. This is a modest investment and one that can pay off if the governance elements are in place.

What are the keys to effective advisory boards?

Some of the critical success factors for effective advisory boards include the following.

- Executive leadership commitment: Executive leadership must have a strong commitment to investing and supporting the work of the local advisory boards.
- Balanced, diverse boards: The advisory boards that bring a diverse mix of perspectives on the local community will be providing the richest insight.
- Written board charters: It is important to clearly define the responsibilities of the local board and where they should focus their time and energy.
- Effective board meetings: Effective advisory boards should maintain all the elements of fiduciary board meetings including well-formed agendas, advance reading materials, and clear action items.

Summary

Advisory boards can help a bank stay close to the local market and build the local brand. They can also help the bank build relationships with key stakeholders in the community and expand its network, potentially leading to new business opportunities and increased revenue. On balance, advisory boards require a very modest commitment of time and compensation and can offer a very good return on that investment.

About the Author

David Seitz is a managing director at Pearl Meyer. He has over 30 years' experience in executive compensation consulting and particular expertise in long-term incentive plan design. Additional areas of concentration include total compensation strategy, incentive performance metrics, executive retirement, and global compensation, among others.

About Pearl Meyer

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