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## **BANK SUCCESSION PLANNING: THE FACTS THAT MUST BE ADDRESSED**

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Prepared by:

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## **PART I: BANK SUCCESSION PLANNING**

As the Senior Leadership teams in the banking industry approach retirement, creating and developing the bank's succession plan is critical. Equally as important are the issues of retirement planning, estate planning and key employee retention. Stay with the Executive Benefits Network (EBN) as we take you through a three part series covering important topics including:

Part 1: Bank Succession Planning

Part 2: Retirement Planning for the Owners or Executive Leadership Team

Part 3: Employee Stock Ownership Plans (ESOP's)

The experts of (EBN) partner with banks to ensure that the topics listed above are discussed, explored and planned for. With EBN's guidance through this process, the end result is the development a succession plan that the bank, its leaders, and regulators are comfortable with.

The following are key topics that must be acknowledged and addressed to ensure a smooth transition and future viability of the bank.

- I. Short Term Succession
  - Preparing for the unexpected and emergency situations
- II. Long Term Succession
  - An ideal plan for the future encompassing the organization's long term goals
- III. Management Succession
  - Identify Key People
  - Management Retention
  - Development of Future Leaders
- IV. Shareholder Succession
  - Liquidity for buyouts
  - List of potential new shareholders
- V. Board Succession
  - Criteria for Board tenure
  - List of potential new Board members

**“Community  
Banks are  
falling behind  
in succession  
planning.”**

**- American Banker**

## **I. SHORT-TERM SUCCESSION:**

The purpose of short-term succession planning is to have a plan in place for the unexpected in order to keep the bank's operations running as smoothly as possible.

### Key Considerations:

- What if an executive suddenly leaves the organization, is unable to work or passes away?
- Who would the person or persons be that would assume the executive's position in the near term while being mindful of the bank's long-term goals?
- Is Key Person Insurance necessary to provide working capital to recruit a new executive and subsidize the earnings hit?
- What if something happened to a pivotal person in the day-to-day operations (non-Executive) of the bank?

It is critical to build a deep and strong bench to provide the bank solutions for when short-term situations require immediate actions. It is never too early to begin to develop your bench, and to continue to provide the depth, skills, and training these future leaders may require. When a commercial lender evaluates a loan for risks, the questions above must be analyzed. The bank must "practice what it preaches" and do the same evaluation internally.

## **II. LONG-TERM SUCCESSION:**

The purpose of long-term succession planning is to create an ideal plan for the future that takes into account the organization's goals, culture and philosophy. This is a fluid plan that is affected by many factors and consists of many subtopics (some of which are mentioned later). The ultimate goal however, remains constant – a smooth and strong transition.

**“It is never too early to begin to develop your bench.”**

## **II. LONG-TERM SUCCESSION (CONTINUED):**

### Key Considerations:

- How long should the transition period be?
- Is it better to “promote from within” or bring in outside talent?
- Would it be better to hire younger talent or someone more experienced? How will this affect the culture of the bank - good or bad?
- Who will mentor the team of future leaders and should the organization look to the outside for support?

One of the most critical decisions a Board must make is picking the right candidate or candidates. A wrong selection can ruin the culture of the bank and affect customer retention. Additionally, it is important for bank leadership and the Board to chart the future course the bank will take in its community and within the competitive landscape. The most important thing the Board can do is to paint a vision that the staff can buy into and support across the organization.

## **III. MANAGEMENT SUCCESSION:**

It is crucial for senior management to identify potential internal candidates to fill key leaderships positions, as well as developing these talented people in a systematic way that will help them succeed in carrying out the bank’s goals and objectives. Equally as important is to successfully retain the existing key officers while enhancing their skills, making the bank a better performing organization.

### Key Considerations:

- Key People
  - Who are the bank’s current key people?
  - What would happen in the event of death, disability or unexpected departure?

**“Companies that promote from within often outperform those that recruit outsiders.”**

**- Indiana University & A.T. Kearney**

### III. MANAGEMENT SUCCESSION (CONTINUED):

#### Key Considerations:

- Management Retention
  - What incentive and retention plans are in place now?
    - Cash/incentive bonuses, profit sharing, long-term and short-term deferred compensation, restricted stock, stock options, stock appreciation rights, phantom stock.
    - “Golden Handcuff Plans” – necessary for those critical to the success of the Bank.
  - What are the gaps in the existing plan(s)?
  - Are the talent and compensation aligned?
- Development of Future Leaders
  - Who are the bank’s future leaders? Are they at the bank now or does the bank need to look outside for talent?
  - What incentive and retention plans are in place now?
  - What are the gaps in the existing plan(s)?
  - What training, development and mentorship is being provided?

Clearly, your key people must be compensated differently to ensure their long-term continued employment. Utilizing incentive-based retention plans or traditional Supplemental Executive Retirement Plans (SERPs) are the most common forms of financially tying key executives to the organization. It is not uncommon to see multiple plan designs within a single organization to meet the needs of the different levels of responsibility. This is an important area that cannot be ignored.

Too often Boards and bank leadership will say that people work at their bank because of the culture, and they do not want to work in a big bank setting. That may work for many employees, but when a good competitor comes calling with the right amount of compensation offered, do not expect your best talent to stay just based on your culture.

**“It can cost up to 65% more to hire an outsider, while 40% of those leaders last just two years.”**

**- Indiana University & A.T. Kearney**

## IV. SHAREHOLDER SUCCESSION:

For community banks to survive, even for banks that are very closely held, it is critical to discuss how aging shareholders or the next generation who may not be interested in the banking business, are going to be cashed out and how new shareholders are going to be brought in.

### Key Considerations:

- Does the bank have the ability to buy-out large shareholders as they get older?
- Who would be potential new shareholders?
- For family and closely-held banks:
  - Who in the next generation will be involved in the bank?
  - Will everyone in the next generation obtain ownership?  
*(Objective: Transferring the **right property** (i.e., bank stock) to the **right people** (actives? inactives?) at the **right time**.)*
  - How is ownership transitioned in the most tax-friendly way? The more successful the bank, the more that estate taxes can be an obstacle.
  - Do existing shareholders feel secure in their retirement planning? Poor retirement planning can get in the way of effective shareholder succession.
- Does the bank need to explore the idea of an Employee Stock Ownership Plan (ESOP) to create liquidity, motivate employees, and remain locally owned?
- Should stock liquidity insurance be used and funded by the bank or bank holding company to provide the required liquidity in the event of a key shareholder's death?

Regardless of the type of bank ownership, communicating with your shareholders as to the bank's approach to shareholder liquidity and the disposition of bank stock will be one of the most important factors and maximizing the value of the bank stock upon a transfer. Communication with the shareholders on a regular basis takes away any uncertainty and keeps the shareholders supporting the organization. This is critical if a bank sale or merger is contemplated.

**“To ensure your bank passes to the next owner, it is important to begin planning now.”**

## **V. BOARD SUCCESSION:**

The Board of Directors needs to be comprised of the right people to reflect the strategic priorities of the shareholders. As the bank's long-term succession planning develops, it is important to ensure that the Board composition is in alignment.

### Key Considerations:

- What is the ideal Board size and composition?
  - Do Directors need to be added or eliminated?
  - Has diversity been adequately addressed?
- What is the criteria for Board tenure?
  - Desirable qualities and skills
  - Age limits
  - Term limits
- Who would be potential new Board members?
- What skill sets does the bank need?

As many bankers have discussed, the old days of bringing friends on the Board to rubber stamp senior leadership's decisions, are over. Regulators are too demanding to allow that to continue to happen. Each community has leaders who can provide the bank with unique skill sets that will provide depth to the bank management team and making key critical strategic decisions. It is often hard to say goodbye to a long-time Board member who has been a loyal backer of the bank; however, if the skill sets do not match the bank's needs, it is best to move forward.

## **CONCLUSION:**

Please join EBN as we dive into Part Two of bank succession planning. The area of retirement planning for the owners and the executive leadership team are often over-looked. Too many banks are forced to sell because of a lack of retirement planning foresight by Boards, CEOs and other senior leaders. EBN will provide some practical ways the bank can avoid this "forced sale scenario" and provide the bank with the best options to maximize the value of the bank going forward.

**“Communicating  
your plan is key -  
a plan no one  
knows about is  
no good.”**

## Contact us & more information!

Visit [www.ebn-design.com](http://www.ebn-design.com) for more developing information on this topic!

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### **About Executive Benefits Network – EBN:**

As the leading industry advisor, EBN specializes in the customized design, administration, and informal financing of Nonqualified Executive Compensation and Benefit Plans (Deferred Compensation Plans) as well as the procurement of Bank Owned Life Insurance (BOLI) programs to attract, retain, and reward key executive talent. We emphasize the importance of education and build long-lasting relationships with clients, we can service in all 50 states, and we have access to the highest rated insurance companies in the nation. Lastly, we believe that no two companies are alike in their needs; therefore, customization of executive benefit and compensation plans is paramount to a successful program.

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