



Planning for the Worst

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August 2008

Industry consultants stress that community banks should maintain formal crisis plans that map outboard members' roles, including what they can say and how management and directors can contact one another. It's essential to contact board members quickly and keep them informed during a crisis. As part of their disaster recovery plans, banks need also to ensure that directors know whom they should contact in a crisis; what they can say to shareholders, employees, regulators, the public and the media; and which bank employees to hand inquiries over to. Generally directors should refer inquiries to the CEO or public relations head. Maintaining good communications between bank management and board members over the long term is vital when it comes to effectively communicating during a crisis. Michael Nolan, CEO of Fifth District Savings, a New Orleans-based bank with \$375 million in assets, reported similar communications breakdowns due to the 2005 hurricane.

The best way to communicate during a crisis is to have a plan.

There's a saying that loose lips sink ships. This phrase, derived from advice given to World War II soldiers, is also an important message for bank directors to remember during a crisis. GIs often had minimal training on avoiding accidentally disclosing information to the enemy. So written instructions were devised providing soldiers with communications guidelines. Likewise, community bank board members should be amply advised about communicating during a crisis, and industry experts say written procedures and ongoing training are both beneficial.

Review and Response

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In addition to identifying and planning for various crises, "a critical part of the planning process should be to establish crystal-clear expectations and protocols for how management and the board will interact in a crisis," said Jon Goldberg, head of corporate affairs for public relations firm Porter Novelli.

At a minimum crisis communication plans should specify:

- when directors should be notified of emerging problems;
- how often directors should be updated during a crisis;
- how updates will be delivered;
- who is authorized to speak on behalf of the organization; and
- how involved the board should be in formulating the banks response.

"Agreeing on answers to such questions not only becomes exponentially more difficult in the heat of a crisis, but it also consumes precious time at a point when there's absolutely no time to waste," said Goldberg, a 25-year crisis management veteran.

Perceptions of how a community bank responds to a crisis can be just as important as the crisis itself, and often more so, Goldberg said.

Organizations that invest time in crisis planning "fare far better than those that attempt to set ground rules, establish roles and responsibilities and determine the right strategic course while customers, regulators and the media are already beating a path to the banks door," he noted.

Waterford Village Banks directors "don't have any question in their mind" about what to do during a crisis "because we clearly and effectively communicate our expectations," said Kathy Flemming, CEO of the \$62 million asset bank in Williamsville, N.Y. Upon joining the board, directors receive job descriptions covering communications, regulations and other topics. Waterford's disaster recovery plan is fully communicated with directors, and the plan is reviewed monthly to remind them of what they can and cannot say, Flemming said.

To reach board members during a crisis, the bank maintains phone and e-mail trees. Aiding emergency communications, nearly all Waterford's directors and employees live within 20 miles of the bank. Waterford has a natural gas generator, which can run the onebranch bank during a power outage. As a result, Flemming feels well prepared to communicate with directors in nearly any circumstance.

"Every community bank's board needs to recognize that its duties apply to the unexpected as well as to the everyday," said Dan Small, a lawyer in the banking service group with Stites & Harbison in Nashville, Tenn.

In conjunction with management, the board should assure that it has crisis response teams in place, Small said. Each board member should be given a written guide for responses to various types of issues, and it should be updated regularly. "The object is to be able to react rapidly," he said. "This is a goal that every board can achieve."

Deliberate and Determine

Although public relations executives and attorneys often advise bank management to respond quickly during a crisis, certain issues should be deliberated. Boards provide balance, said Bob Singer, a partner at Brooks Pierce, a Greensboro, N.C., law firm. "Sometimes, the board says, 'Let's slow down and look at the issues before responding/ That's one of the values of the board,'" Singer said.

The American Bankers Association provides crisis communications resources that community banks can use to educate their boards. For example, "A Guide to Crisis Communications," which includes a sample crisis communications plan, is posted in the members-only section of the ABAs Web site, ABA spokesman John Hall noted.

And you just never know when you'll need to put that plan into action. When a fire decimated Bank of Lancaster's Kilmarnock, Va., headquarters in 2002, CEO Austin Roberts leveraged the ABAs crisis plan. Following the fire, Roberts kept the \$350 million-asset bank's board informed via e-mail. He also stressed the importance of communications consistency, which was accomplished by relaying all inquiries to one person and agreeing on a single message each day.

While the board has responsibility to make sure preparedness for emergencies is done, "when an emergency takes place, like our fire, it's really not the spot for lots of people to get involved, unless it's requested," he said. "It just muddies the process."

While directors can be an excellent sounding board for public opinion and provide bank management with valuable feedback, the more board members get involved in a crisis, the more potential there is for things to go awry. In certain situations, the less they do, the better.

Lead and Leverage

Certainly, there are cases when board members need to be directly involved in the communications process. According to Rick Amme of Amme & Associates, a crisis communications firm in Winston-Salem, N.C., a bank's "small size may compel the board to become the crisis team because of insufficient experienced personnel in management to compose a quality team."

In some instances, directors may help with drafting press releases, issuing statements and other communications' components. For example, during an embezzlement incident, "the board, working through the president, became the crisis team, and we drafted actions and communications together," Amme said.

Directors can be particularly helpful in vetting materials, such as press releases written by employees. "Good boards don't do it in a confrontational manner," said attorney Singer. Instead the directors serve as "truth testers," commenting on how communications will be received by external audiences.

However, while board members may play a large communications role, particularly at smaller institutions, directors shouldn't overstep their authority, industry consultants warn. The bank board needs to be closely involved in monitoring the crisis and management's reaction to it, said Konrad Alt, managing director of Washington-based Promontory Financial Group. "It's very tempting for the board to step into the shoes of management," Alt said. However, "they should try to avoid turning the dials and moving the levers themselves."

Legally, over-involvement can increase liability. According to Singer, "You sometimes find the board getting more involved than they should," particularly at small, leanly staffed banks. Singer also stressed the importance of management being honest with its board, both in emergencies and slowly boiling situations. There's a tendency for management not to tell the board bad news, he noted.

Build and Better

Maintaining good communications between bank management and board members over the long term is vital when it comes to effectively communicating during a crisis. "Unless the CEO and board have built a solid working relationship based on trust and open communications, they'll quickly find that it's impossible to suddenly create that relationship in a crisis atmosphere," according to Mark Nadler, founder of Mercer Delta Consulting, a global management consulting firm.

Regularly updating directors verbally or in writing is a strategy many community bankers follow. "We communicate with the board at least one time a week, even when there isn't a crisis. Then I don't need to bring them up to speed with what's been going on," said Frank Sorrentino, CEO of North Jersey Community Bank, a \$320 million-asset institution headquartered in Englewood Cliffs, NJ.

Sorrentino has encountered a number of situations that were dire during his career. He quickly convened the board, laid out what he thought the problem was, presented potential remedies, and requested feedback. With directors' input, the remedies got "the square corners rounded off," Sorrentino said.

Community banks are well-suited to dealing with crises, in large part because they have boards, he said. Having a diverse group with varied perspectives is extraordinarily helpful, Sorrentino said. During a crisis, managers who perform poorly are those who are reluctant to seek help. "It's the same problem of the guys who never stop for directions," he said.

However, because banking is a highly regulated business, board members need to be cautious. A large number of directors' duties are codified, Singer cautioned. When there is a crisis in the banking world, there is often a structure that banks have to follow, and sometimes banks receive a written plan from the government, he said.

While regulations oblige bank chiefs to keep their boards informed during a crisis, directors need to be careful about passing on that information. According to Amme, "They [could] give comments to outsiders that, if published, can tarnish the banks reputation."

One of the keys to successful communications during a crisis, said Dan Cohen, founder of Full Court Press, a crisis communications firm in Oakland, Calif., is to "train the board on both the process and the key messages they can communicate - and impress upon them the limits of what they can say."

Although opinions vary, Singer believes that directors should never speak to the press. Patricia Rourke, CEO of Bankers Trust in Phoenix, a one-branch bank with \$30 million in assets, seconds that view. "The board of directors is our outside liaison with our customers, vendors, etc.," she said. "However, bank management handles all communication with the regulators, the press, external auditors and ownership."

Recover and Recoup

Even the best communications plans don't always work as hoped, especially when natural disasters strike. "The first thing that degrades during a crisis is communications," said Doug Gulotty, CEO of Wilber National Bank, an Oneonta, N.Y.-headquartered institution with \$830 million in assets.

For starters, cell phones get overloaded and power outages can curtail email access, preempting the ability to alert multiple board members simultaneously. For example, "communications were extremely difficult in the aftermath of Hurricane Katrina," said Stewart Ramsay, CEO of First Federal Savings & Loan Association in Pascagoula, Miss., a \$280 million-asset bank with five branches.

Although Ramsay has weathered many hurricanes in his four-decade career, Katrina was "by far the worst for us," he said. Communicating with the board quickly was simply impossible. Board members scattered and "had no reason to come back in a hurry," Ramsay recalled.

However, management felt a responsibility to get the bank running to the degree it could. So eight days after the hurricane hit, First Federal had re-opened all but its one destroyed branch. While the board gave management complete authority to act in the best interest of the institution after the storm, it was not a situation where the directors could sit down and discuss strategies. "You had to make decisions on the spur of the moment," Ramsay said, "you operated just like there was no board."

Michael Nolan, CEO of Fifth District Savings, a New Orleans-based bank with \$375 million in assets, reported similar communications breakdowns due to the 2005 hurricane. "After Katrina, we were frankly out of touch with some of our directors," said Nolan. "We took actions that normally I would consult with them [about]."

After a week, he was able to contact each director, but it took about a month before Fifth District held formal board meetings. Even then, some directors, including one whose home was destroyed, participated by phone. The greatest thing directors did was "let us deal with the situation," Nolan said. "They listened more than anything else and never tried to take control of circumstances."

Banks impacted by Katrina also turned to ABA for help. When there is a major event like Katrina, the trade group can become an information clearinghouse, said Doug Johnson, ABAs vice president of risk management policy. For instance, the ABA held daily calls with bankers that were impacted by the hurricane and provided guidance on various issues, such as fulfilling cash needs. "The bottom line," said Johnson, "is the bank succeeds when the community succeeds, and that's important for both bankers and directors."

Wagstaff's Wisdom for Bank Directors

David Wagstaff, offers these words of wisdom to bank directors as rules of thumb when dealing with a crisis:

- **Be informed. Good directors listen, seek to understand and conduct external research.**
- **Be inquisitive. Ask good questions, including potential ones that may be uncomfortable for management.**
- **Be productive in resolving crises. Always seek to find answers and not blame.**

- **Understand the distinction between management's role and the board's role. Be careful not to micromanage, but do seek to understand.**

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