



Banking Agency Requirement for Formal Board Training: Is It Coming?

AABD Report on Bank Director Formal Training

The OCC's recently issued rule on heightened expectations on risk management oversight by large national or federal savings bank directors requires them to obtain formal training. This is the first time that federal banking agency rules require bank boards to obtain formal training.

Will this requirement migrate to directors of smaller banks?

History tells us that what starts with large banks often filters down to smaller banks. The formal training requirement may not show up in any rule or even a guideline. But its effect may be felt during examinations by the federal banking agencies.

The agencies already expect that bank directors obtain BSA/AML compliance training. No rule or written guidance specifically requires this but the agencies have interpreted the training component in the BSA program requirements to include directors.

In addition, it is not uncommon for training requirements to be imposed on problem banks through informal and formal enforcement actions. Bank directors of de novo banks often are required by the chartering authority to obtain formal training.

For directors of national and federal savings banks of \$50 billion or more, the training requirement is in place. They should begin to formulate a formal training process in their banks.

How about for other bank directors?

For those directors who want their banks to be ahead of the curve, they should consider the institution of a formal training program.

What would that program look like?

It should be designed for bank directors. Bank directors are not CEOs, CFOs, or CLOs; they are predominately outside directors – laypersons who have no specific backgrounds in banking. Their training needs to perform oversight responsibilities are distinct from the training needs of their bank’s officers.

That is why the American Association of Bank Directors established, in 1994, the Institute for Bank Director Education to formulate and implement the Bank Director Certification Program.

- The Program works with banks whose board members are AABD members to help establish a tailor-made formal training process.
- The Program consists of a core course and supplemental courses.
- The core course is a 6 hour course presented at the bank’s location and conducted by two qualified instructors affiliated with AABD.
- Supplemental courses can include a variety of subjects chosen by the bank to fit the needs of individual directors. AABD reviews and approves the subjects and providers.
- AABD issues Certificates of Completion and Maintenance. The Certificate of Completion is issued during the first year after the directors participate in the core course and six hours of supplemental courses. The Certificate of Maintenance is issued every year in which the director participates in at least 6 hours of supplemental course work.
- The banks whose directors participate in the Certification Program may qualify for discounts and/or better coverage on their D&O insurance policy.
- AmTrust, a national D&O insurer of banks, has agreed to provide credits of up to 15% to banks whose directors participate in the Certification Program.