Trends in bank board composition and structure: Navigating an evolving business and risk environment

KPMG Board Leadership Center and
Banking and Capital Markets Practice

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Corporate directors serving on bank boards face an array of challenges testing their oversight and governance processes, including downgrades in credit ratings, industry consolidation, inflation, rising interest rates, and increasing regulatory scrutiny and enforcement risks, in addition to those risks facing all companies, such as geopolitical volatility, cybersecurity and third-party risks, and human capital risks. To understand how bank boards are evolving amid the drastically changing business and risk environment, the KPMG Board Leadership Center in collaboration with the KPMG Banking and Capital Markets Practice analyzed trends in bank board composition and governance structure.

Using data provided by Equilar, a corporate leadership data firm, we examined the board composition and structure of the 250 Russell 3000 banks in comparison to the board practices of all Russell 3000 companies, which includes all industries and represents 96% of the investable US equity market.[1] Our key findings are detailed below:

Bank boards are generally larger than the average Russell 3000 board and have been increasing in size

Board size often increases with the size of the company. In addition, board size can be influenced by the complexity of the company's operations and its regulatory environment. Bank boards tend to be larger on average than boards of companies in other industries and similarly, tend to increase based on the size of the bank. While there are benefits to having a larger board, including drawing upon the skills, experience, and relationships of more directors and the ability to seat more board committees, there are also potential pitfalls to consider. Like any team, larger boards can find it more difficult to have effective deliberations and come to consensus, or they may develop factions within the board. Strong board leadership and governance practices can alleviate these concerns.

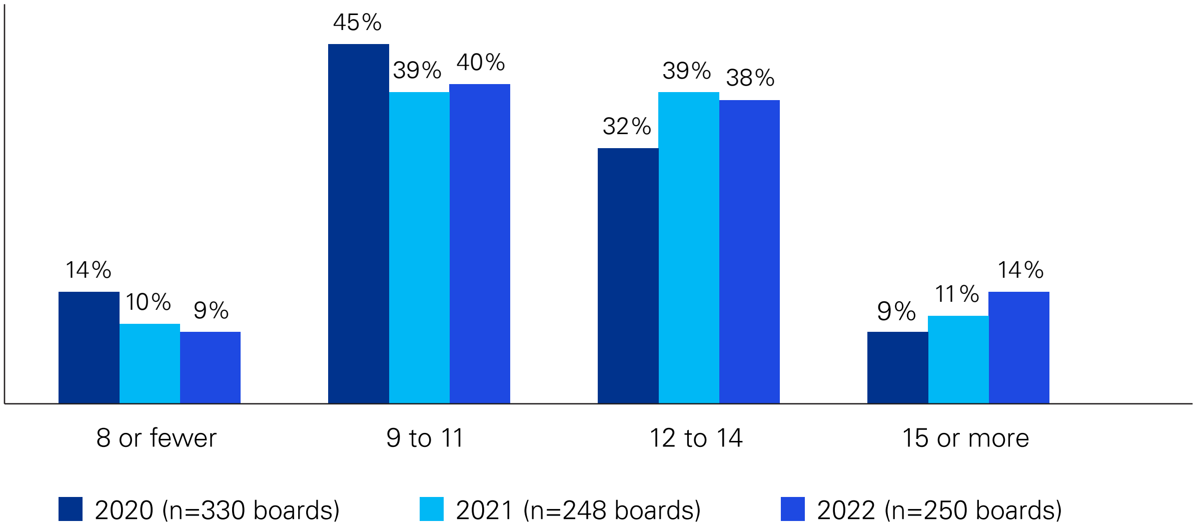
While the average Russell 3000 company board had 9 directors in 2022, the average bank board had 12 directors. Furthermore, bank boards are significantly more likely to be even larger, with 52% having 12 or more directors compared to only 14% of Russell 3000 boards. Among banks with $50B in assets or more, 73% have boards with 12 or more directors, compared to 34% of boards of S&P 500 companies.[2]

[1] FTSE Russell, Russell 3000 Index factsheet, p. 1.

[2] The Conference Board's Corporate Board Practices Dashboard, 2023.

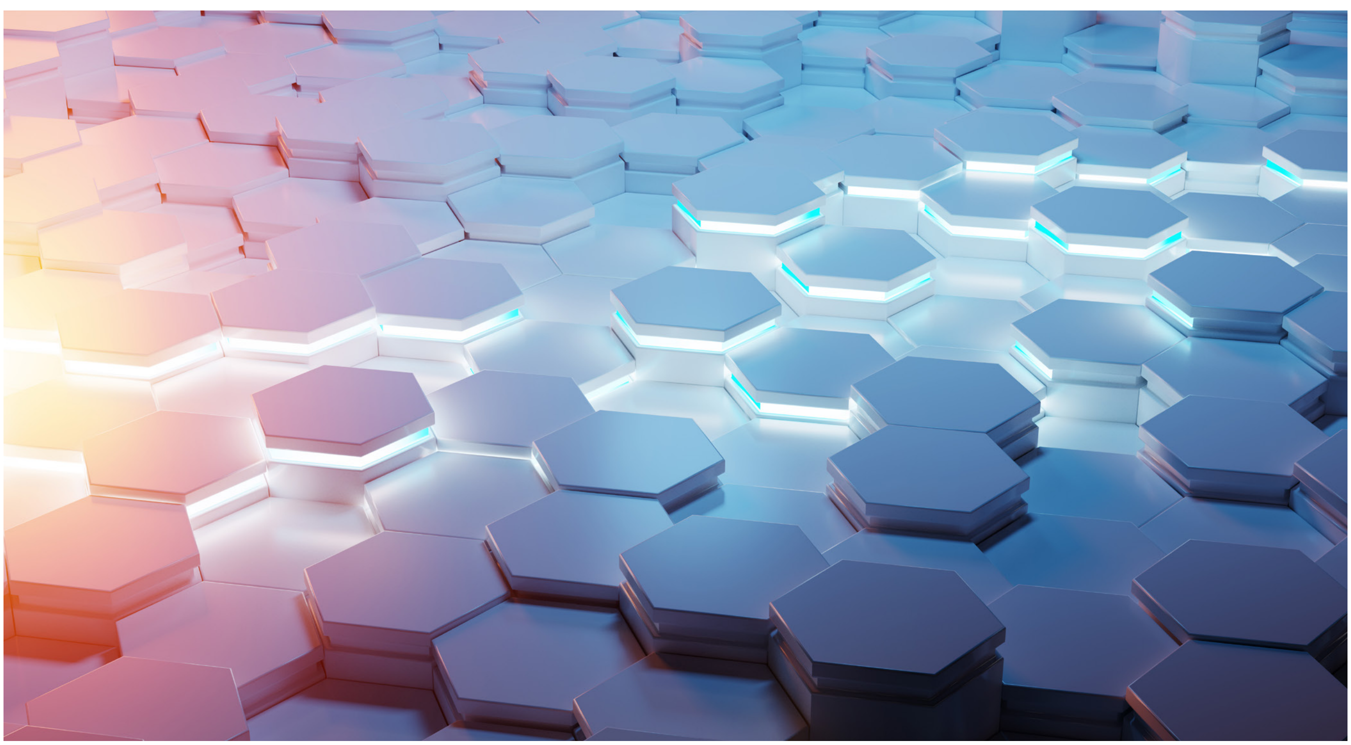
Bank board size

2020–2022



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc. Percentages may not equal 100% due to rounding.

In some cases, bank boards have increased in size as a result of mergers or acquisitions in the industry; the boards of the combined companies often include directors from both companies. In addition, expanding regulatory scrutiny, increasing geopolitical volatility, and evolving expectations from stakeholders have impacted the scope of the board's oversight responsibilities—e.g., the focus on board diversity, climate risk, and cyber risk—and may be contributing to an increase in board size over time. The average bank board grew from 11.2 directors in 2020 to 11.8 in 2022. In particular, the prevalence of bank boards with 15 or more directors increased consistently over the last three years, and now stands at 14%. This is in line with the growth of all Russell 3000 boards, which increased from an average size of 9.0 in 2020 to 9.3 in 2022.

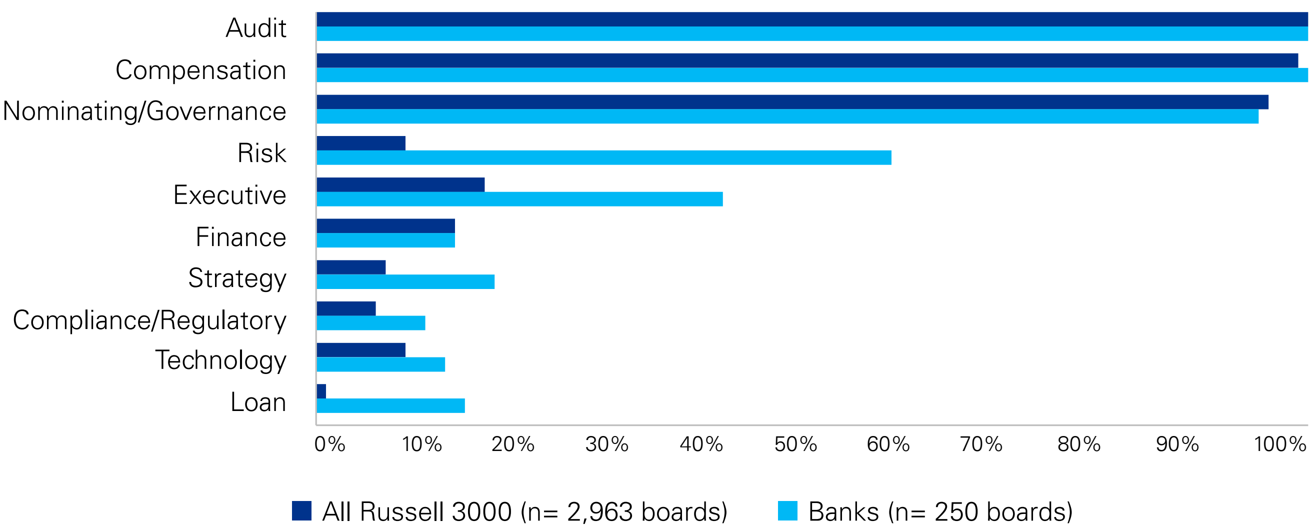


Bank boards have more committees and a greater prevalence of certain committee types compared to Russell 3000 boards

The heightened scrutiny of bank boards has not only impacted bank board size, but also the number and types of board committees. Boards use the committee structure to enable a smaller group of directors to focus on a specific aspect of the work of the board, allowing for deeper dives on the relevant topics. Committees may receive more in-depth presentations from management, and analyses and advice from external experts. While the boards of all Russell 3000 companies generally have three standing committees (Audit, Compensation, and Nominating/Governance), many boards have created additional committees. On average, bank boards have five standing committees, while Russell 3000 boards have four. Nearly one-third of bank boards (31%) have six or more committees compared to just 7% of Russell 3000 boards.

Prevalence of board committees

2022



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc.

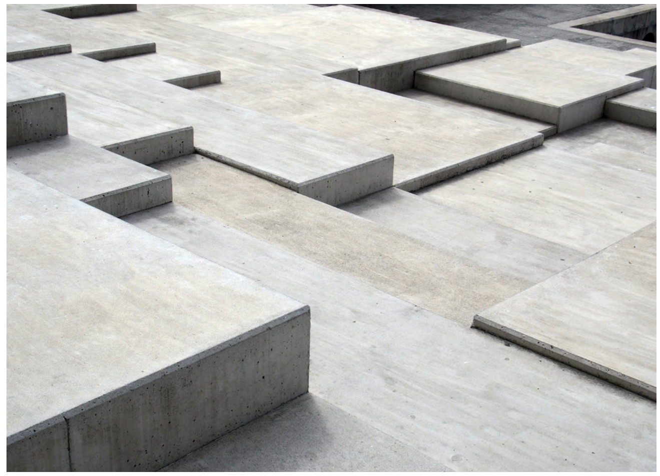
Publicly traded bank holding companies with $50 billion or more in assets are required to have a risk committee, so it is not surprising that more than half of bank boards had a risk committee in 2022.[3] Bank boards are also more likely to have an executive committee, strategy committee, loan committee, compliance/regulatory committee, and technology committee.

While there has not been a significant change in the prevalence of most bank board committees over time, the percentage of banks with a risk committee grew from 36% in 2020 to 58% in 2022. This may be due to consolidation in the industry, leading to fewer small banks, which are not required to have a board risk committee. In comparison, only 9% of all Russell 3000 boards had a risk committee in 2022.

[3] New guidelines proposed by the FDIC would extend the requirement to have a risk committee to include banks with $10 billion or more in assets. Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions With Total Consolidated Assets of $10 Billion or More, 88 Fed. Reg. 70391-70409, proposed October 11, 2023. (to be codified at 12 C.F.R. pts. 308 and 364).

The combined board chair/CEO leadership structure is declining in prevalence but is more likely to be used among larger banks

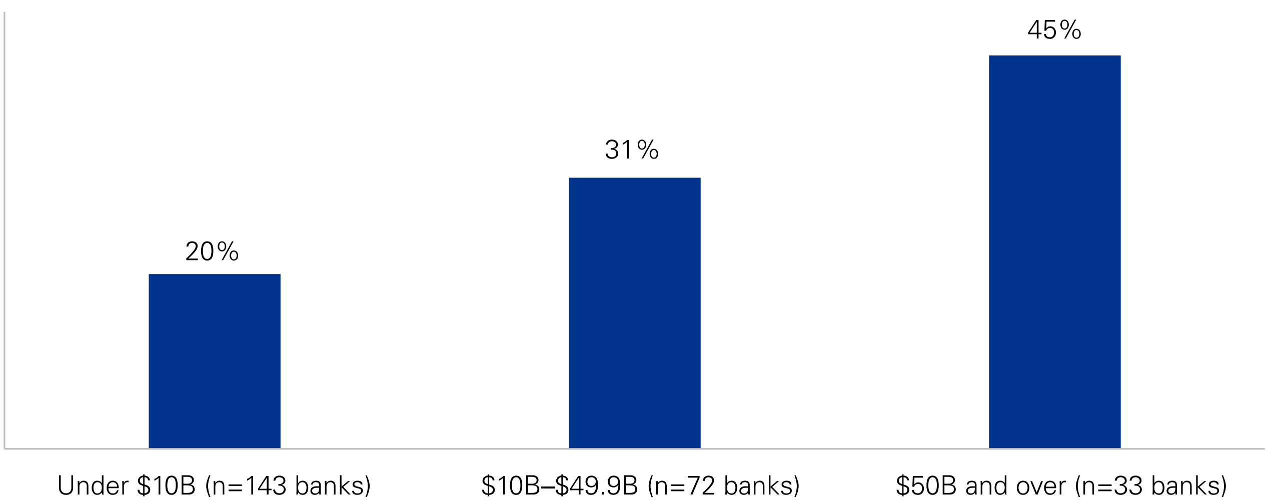
The optimal board leadership structure has long been debated. Some companies have one individual holding the combined roles of board chair and CEO, with another individual serving as the lead independent director. Other companies separate the CEO and chair roles, with an independent director serving as the board chair. While each company must determine which structure best suits its strategy, clearly conveying the company's rational for its decision is imperative. Shareholder proposals related to separating the roles were the most common type of governance proposal submitted during the 2023 proxy season. As of June 2023, 78 companies have seen such a proposal go to vote, with an average support of about 30%.[4]



The prevalence of the combined role among bank boards has declined from 38% in 2020 to 26% in 2022. This is similar to the overall Russell 3000 where 25% of boards have a combined chair/CEO. However, combining the chair and CEO roles is more prevalent at larger companies, including banks. Nearly half (45%) of the banks with $50B or more in assets have combined the roles, compared to just 20% of banks under $10B in assets.

Percentage of banks led by a combined chair/CEO

2022; Comparison by asset size



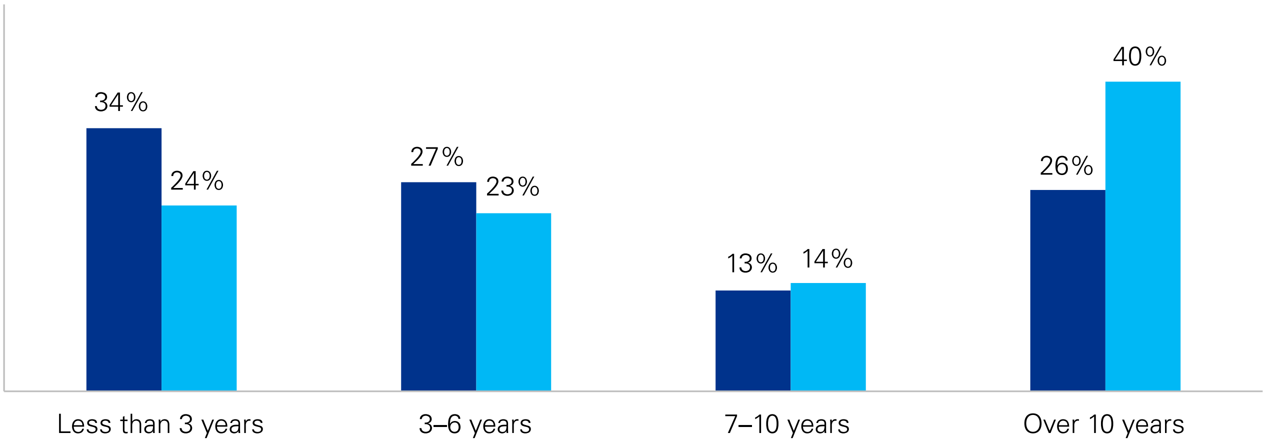
Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc.

[4] Freshfields, Trends and Updates from the 2023 Proxy Season, June 11, 2023, pp. 63 and 64.

Bank directors have longer tenures, and are older, when compared to all Russell 3000 directors

Director tenure

2022



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc. Data not available for 165 Russell 3000 board seats and 3 bank board seats. Percentages may not equal 100% due to rounding.

Having a mix of tenures on the board may reduce the risk of director entrenchment and lack of independence while maintaining institutional knowledge and continuity. Bank directors generally have longer tenures, with an average tenure of 10.2 years compared to 7.5 years for all directors. Forty percent of bank directors have served on their boards for more than 10 years, compared to 26% for all Russell 3000 directors.

Similarly, having a mix of ages among directors may contribute to diversity of experience among board members. Older directors bring more professional experience to the boardroom and younger directors can help bring a fresh perspective to the board. Bank boards tend to lag on age diversity, likely due to their longer tenures. The average age of bank directors was 63.3 years in 2022, compared to an average age of 60.9 years for all Russell 3000 directors. Only 31% of bank directors are under the age of 60, compared to 42% of all Russell 3000 directors.

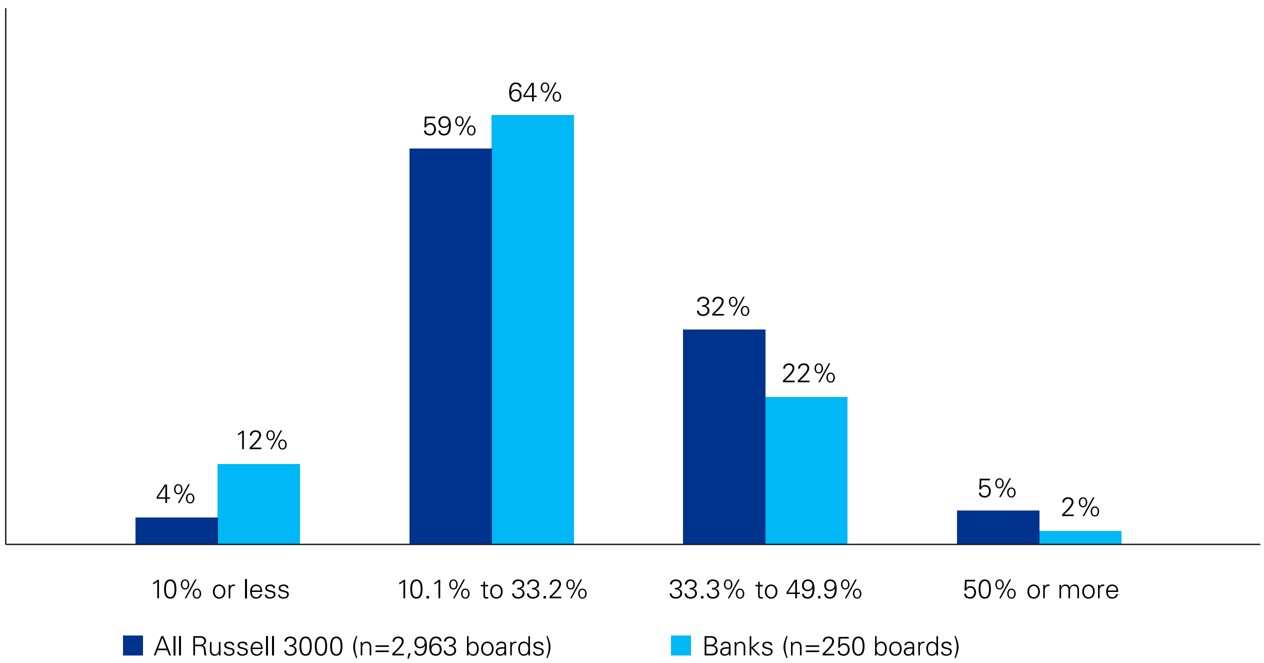
It's also worth noting that bank directors are likely to serve on only one board. Eighty-five percent of bank directors serve on just one public company board compared to 70% of all Russell 3000 directors. This may be an indication of the time commitment associated with serving on a bank board.

The percentage of female bank directors is increasing but remains slightly behind that of Russell 3000 boards

Board gender diversity has been a focus of companies, investors, and other stakeholders for many years. While progress has been made, there is still more opportunity to increase the prevalence of women in US boardrooms. The percentage of bank directors who are women increased from 20% in 2020 to 24% in 2022. However, this remains slightly below the percentage of Russell 3000 directors who are women, standing at 26% in 2022.

Percentage of board seats held by women

2022



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc.

Boards with at least 50% female representation remain rare: only 2% of banks and 5% of Russell 3000 companies achieved gender parity as of 2022. While it is common for banks to have more than 10% of their board seats held by women (88%), far fewer banks have women in at least one-third of their board seats (24%). In comparison, 37% of Russell 3000 boards have at least one-third of their board seats held by women.

Studies have shown that boards with at least three women outperform those with zero, one, or two female directors.[5] Although bank boards lag behind all Russell 3000 boards in the percentage of board seats held by women, bank boards are more likely to have more than three women compared to Russell 3000 boards—27% of bank boards versus 20% of Russell 3000 boards. While this may be due to the larger board size among banks, it nevertheless indicates progress toward greater board gender diversity. Proxy voting guidelines from many institutional investors and proxy advisory firms, as well as state mandates[6] and stock exchange listing requirements, call for boards to have a certain number of female directors, often based on board size.

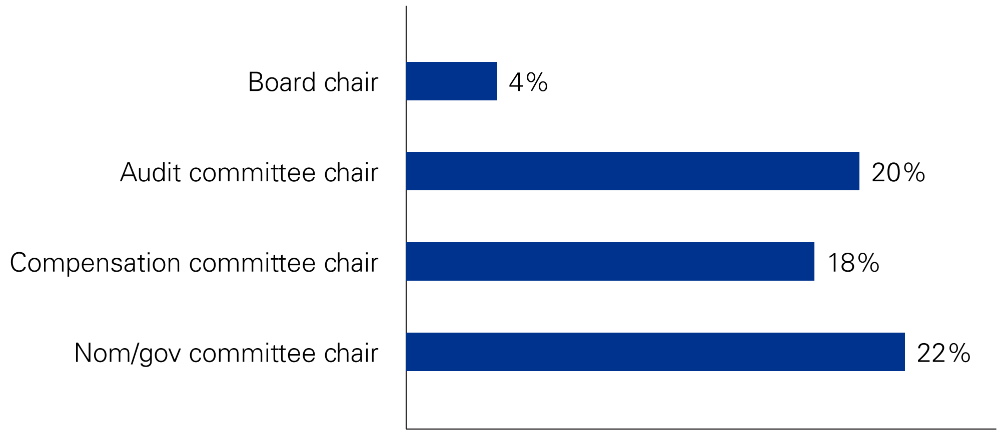
[5] MSCI, The Tipping Point: Women on Boards and Financial Performance, December 2016.

[6] While the California law SB 826—requiring public companies headquartered in California to have gender-diverse boards—faced litigation in 2022, Washington State SB 6037 requires public companies headquartered there to have at least 25 percent of their board seats held by women, or explain why they do not.

It is uncommon to see women in board leadership positions at banks, but the tide may be turning

Female bank board leadership roles

2022; n=250 boards



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc.

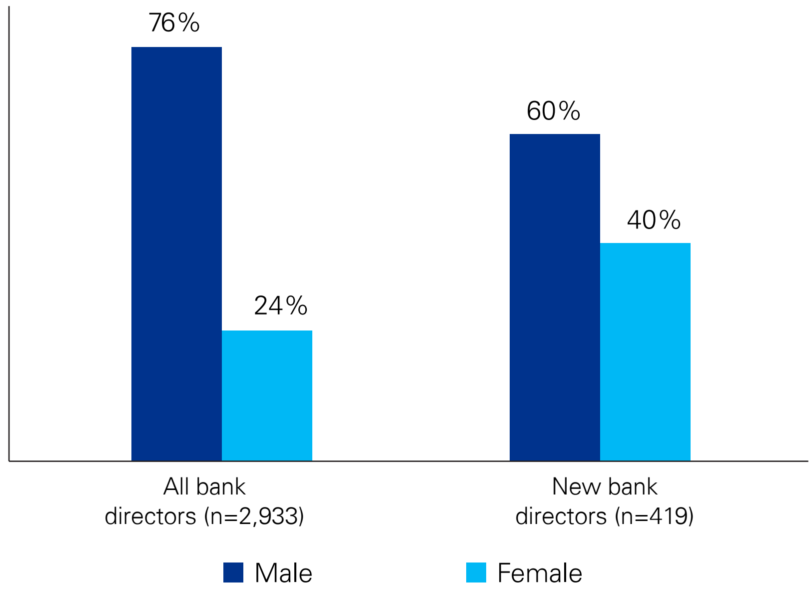
In 2022, only 4% of bank boards were chaired by a female director, and less than one-quarter of banks had a woman serving as chair of any of the three key committees. However, as the women serving on bank boards tend to be younger and shorter tenured than their male counterparts, women may be appointed to more board leadership positions the longer they serve on these boards. The average age of female bank directors was 60.5 years in 2022, compared to 64.2 for male bank directors. Female bank directors have served an average of 6.4 years, compared to 11.3 years for male bank directors.

Notably, while female bank directors do not have as many board leadership positions, they serve on more public company boards than their male peers, likely due to increasing stakeholder demands for gender-diverse boards. Twenty-four percent of female bank directors serve on more than one public company board, compared to 12% of male bank directors.

Directors recently added to bank boards bring greater demographic diversity

Gender of bank directors

Comparison of all bank directors to new bank directors added in 2021 and 2022; Data as of 2022



Source: KPMG Board Leadership Center analysis of data provided by Equilar, Inc.

Board refreshment provides an opportunity to increase diversity. Looking at the demographics of the directors recently added to bank boards, they are more likely to be female and younger compared to all bank directors. Among bank directors who joined their boards in 2021 and 2022, 40% were female and 54% were under age 60. In comparison, 24% of all bank directors are women and 31% are under age 60.

While the structure of bank boards—which are larger and have more standing board committees than all Russell 3000 companies—allows for heightened attention to risk, regulation, and compliance, the composition of bank boards is lagging in diversity when compared to peers in other industries. Bank directors are older, longer tenured, and more likely to be male in comparison to all Russell 3000 directors. The demographics of the directors most recently added to bank boards show that many banks are making progress and increasing board diversity.