



Measuring and Improving Board Effectiveness

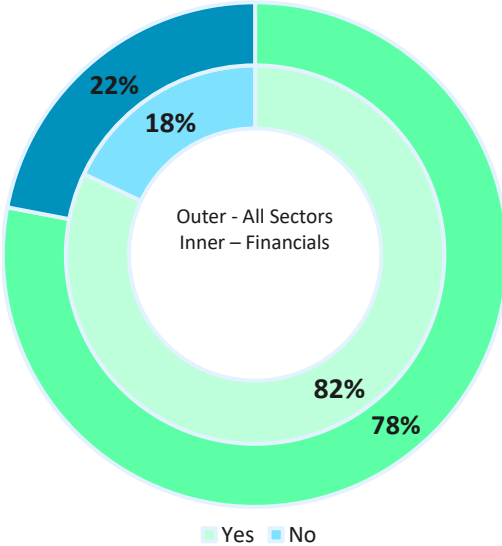
Kaley Childs Karaffa, Esq. – Head of Board Advisory for the Americas, Nasdaq

Brian Argrett – Chair and CEO, City First Bank

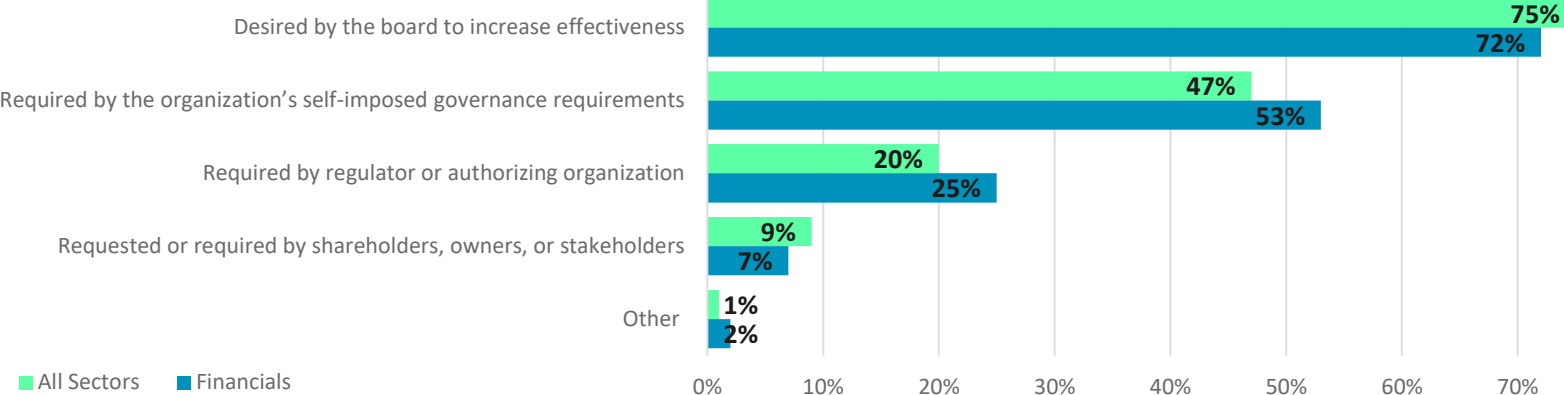
Jim Hale – Board Chair, Bank of Marin

Measuring Board Effectiveness

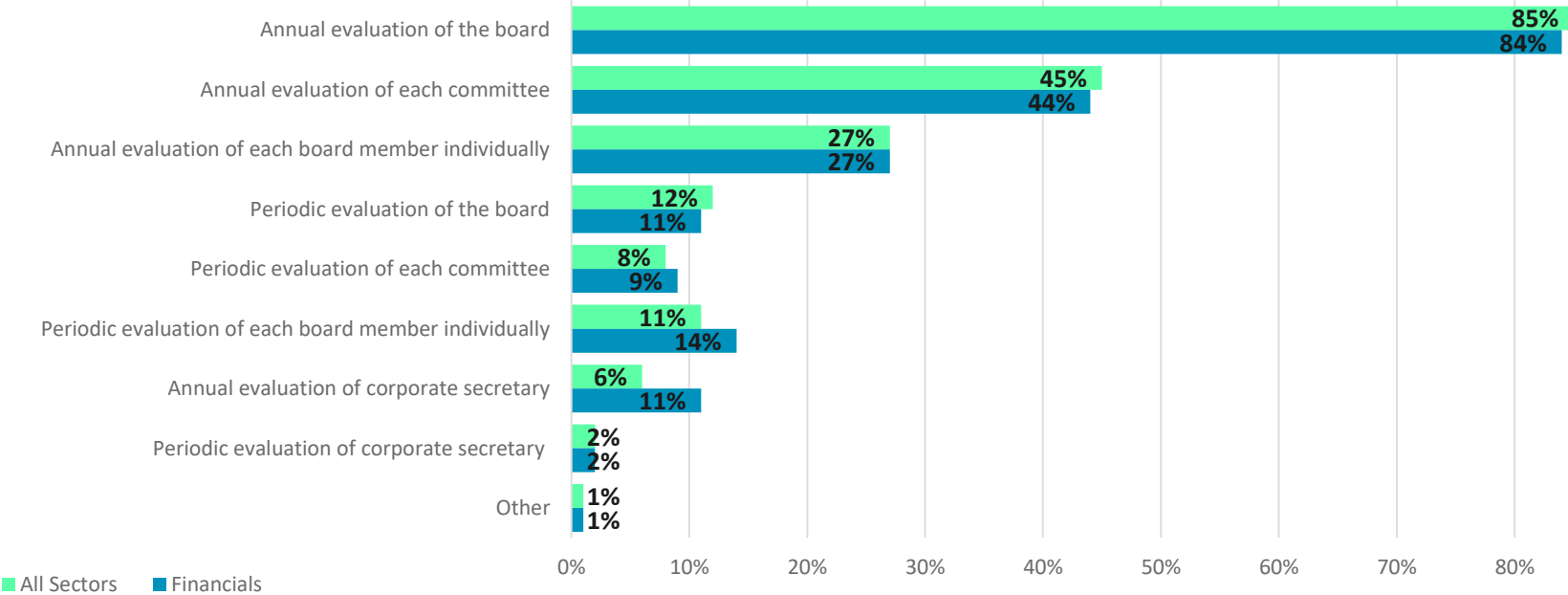
Does your board conduct a board evaluation/performance review (either self-evaluation or a third-party facilitated)?



Why does your board conduct a board evaluation/performance review?



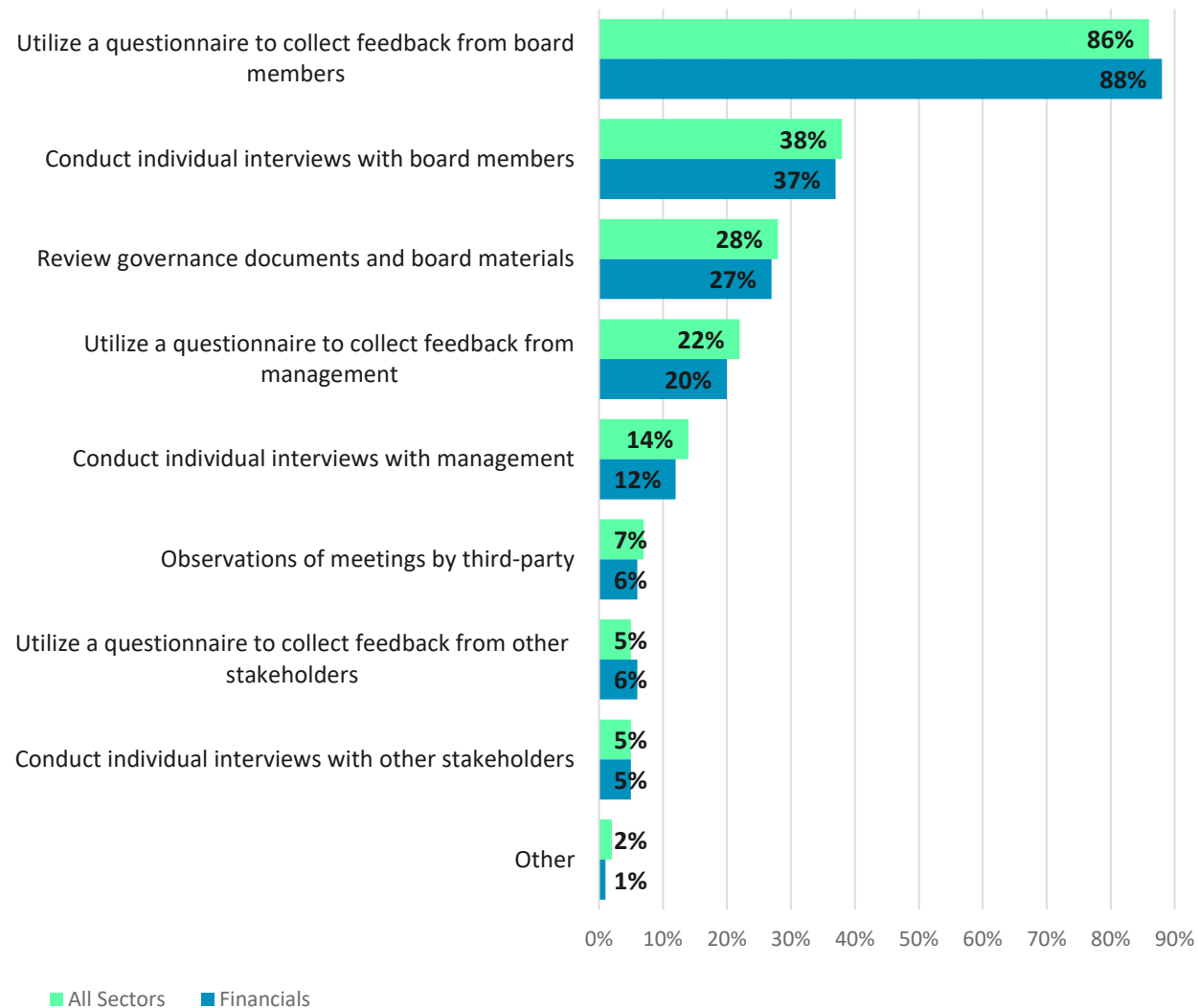
What is the typical scope of your board's evaluation/performance review process?



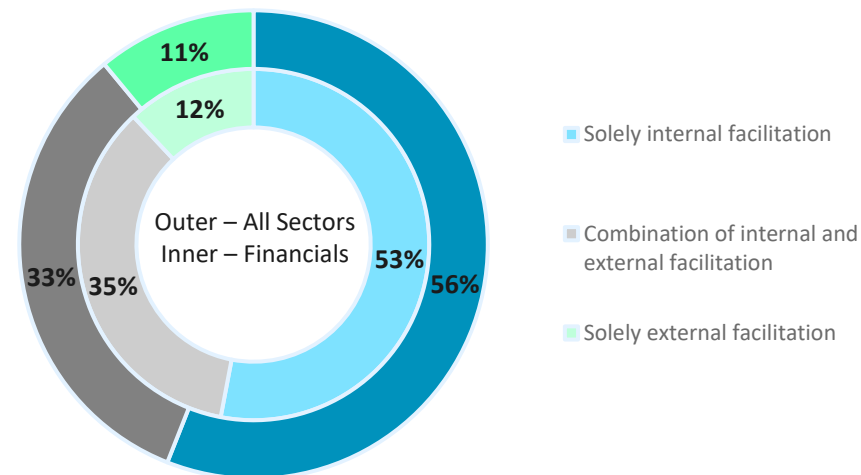
Measuring Board Effectiveness

Source: Nasdaq's 3rd Annual Global Governance Pulse Report

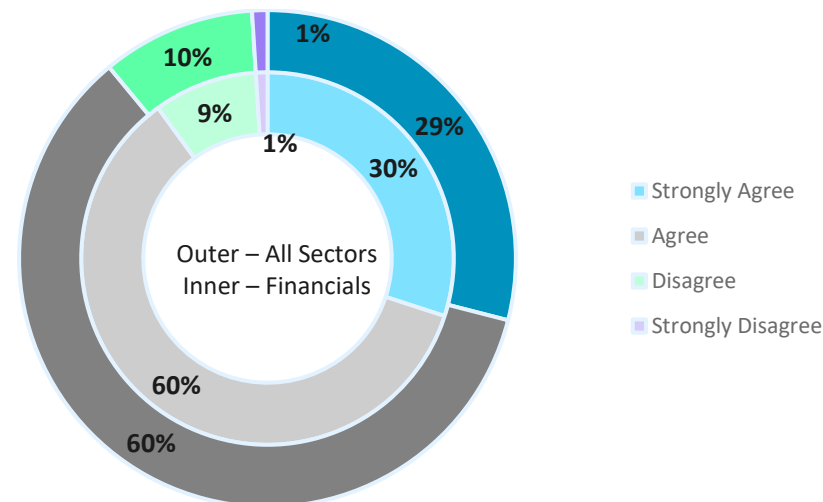
What method does your board use to facilitate its board evaluation process?



Does your board facilitate its board evaluation process internally, externally, or through a combination of both internal processes and external facilitation?



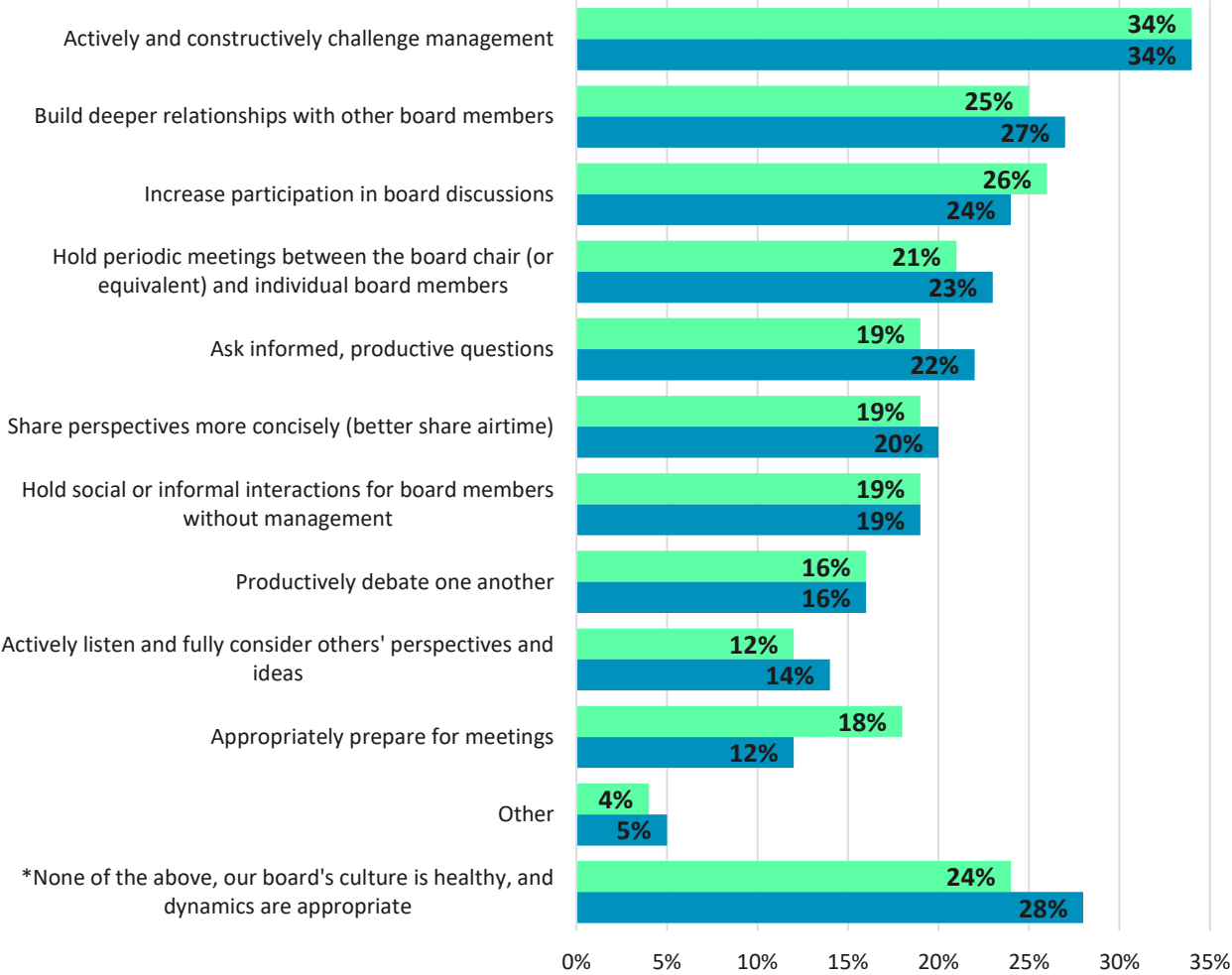
Our board develops a specific action plan to address key opportunities and risks and increase the board's effectiveness based on the board evaluation results.



Fostering Meaningful Board Engagement

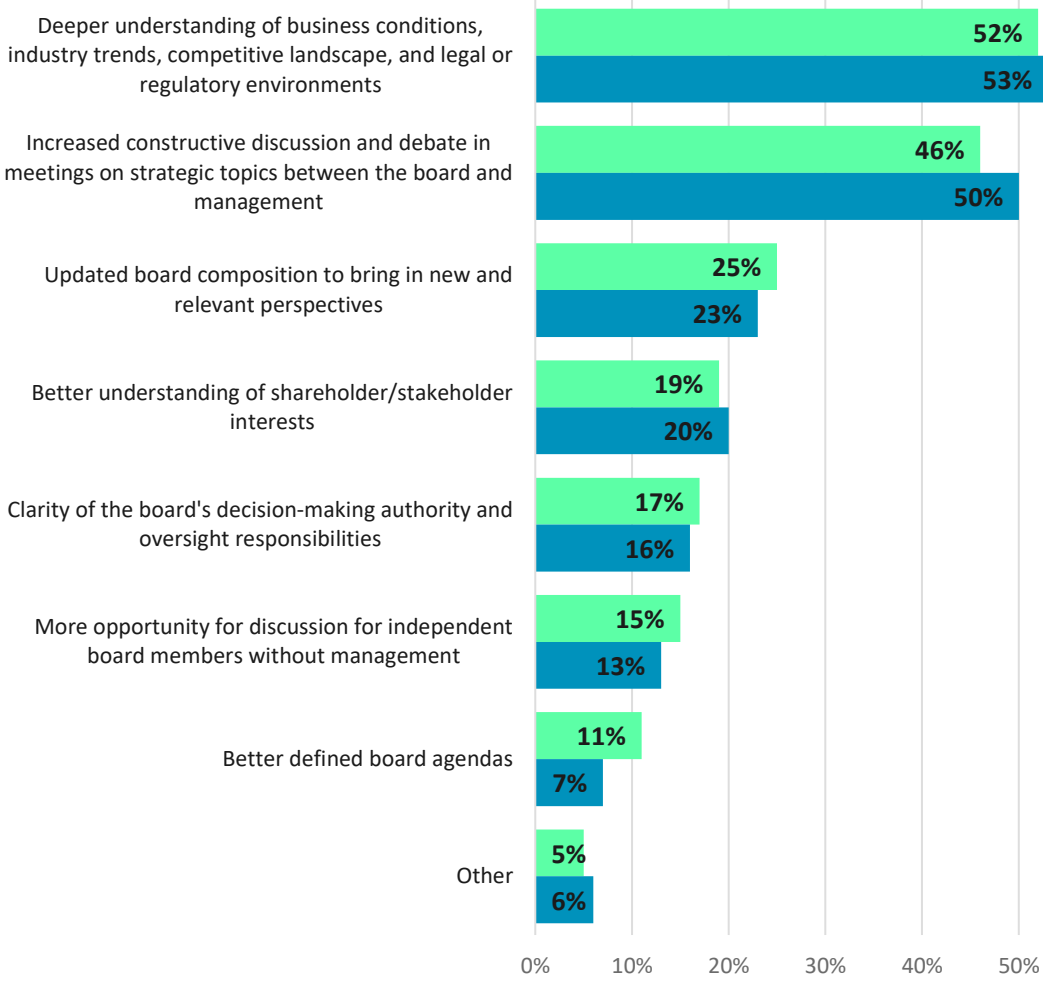
What changes would improve your board's culture and dynamics?

(select up to 3; "None of the above" is exclusive)



What changes would drive greater value from your board?

(select all that apply)



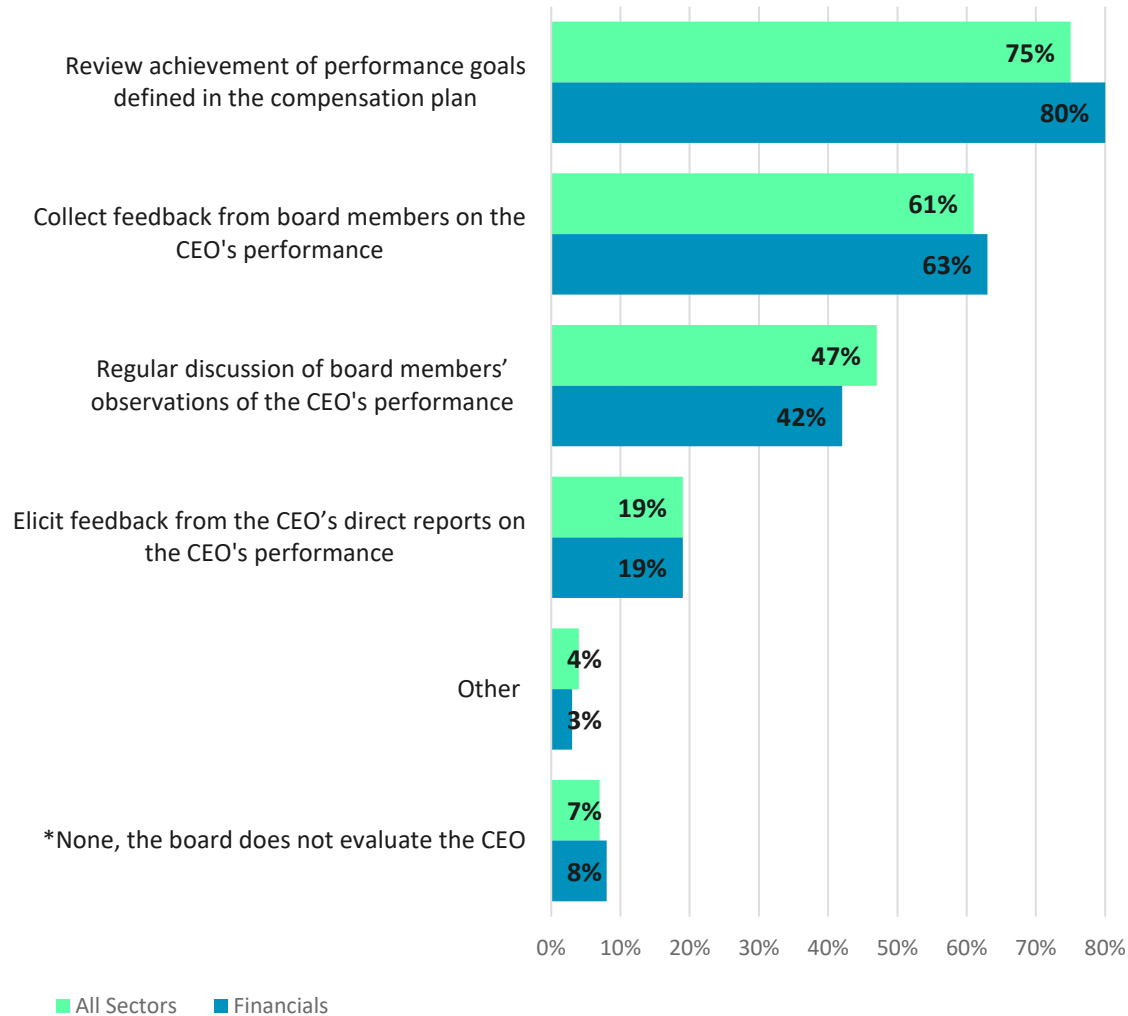
All Sectors Financials

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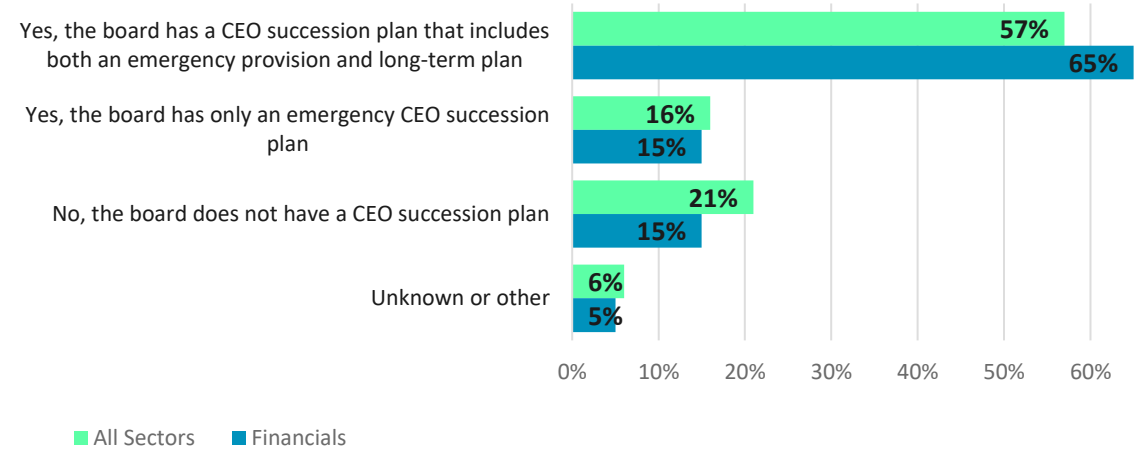


Fostering Meaningful Board Engagement

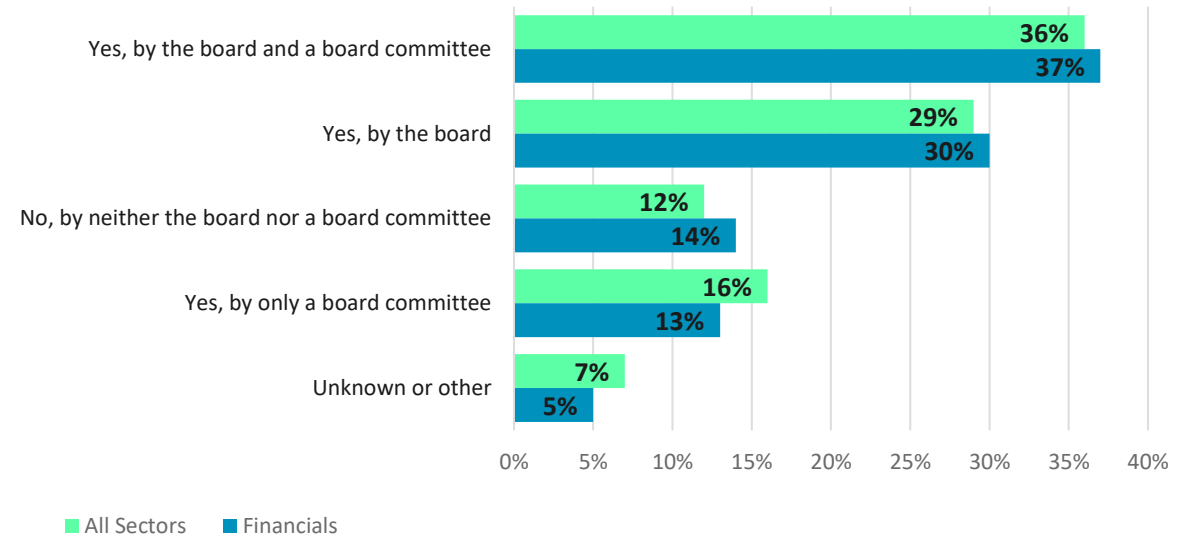
How does your board evaluate the CEO's performance? (Select all that apply. "None [...] is an exclusive answer.)



Does your board have a CEO succession plan?

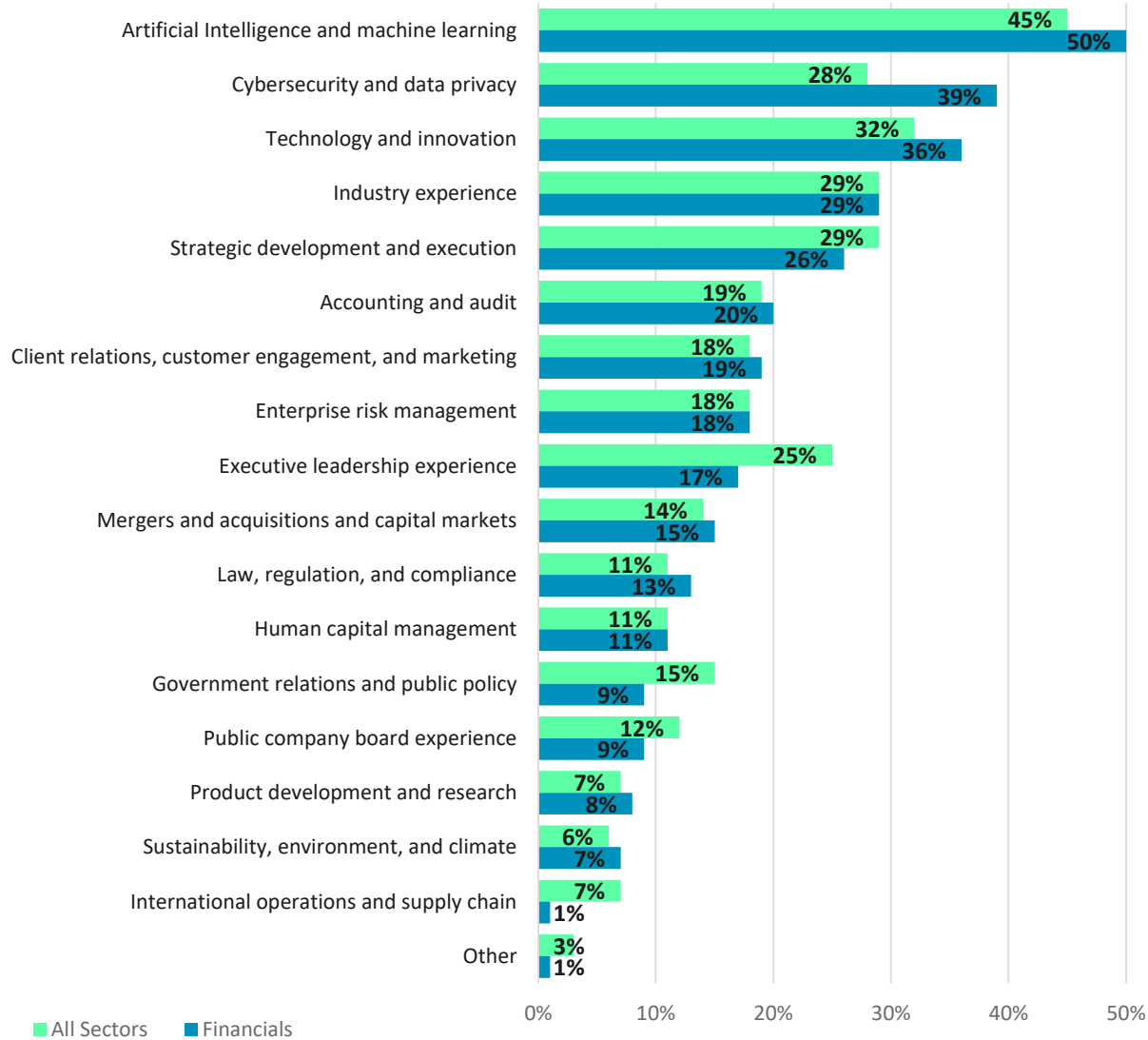


Does your board oversee management succession plans?

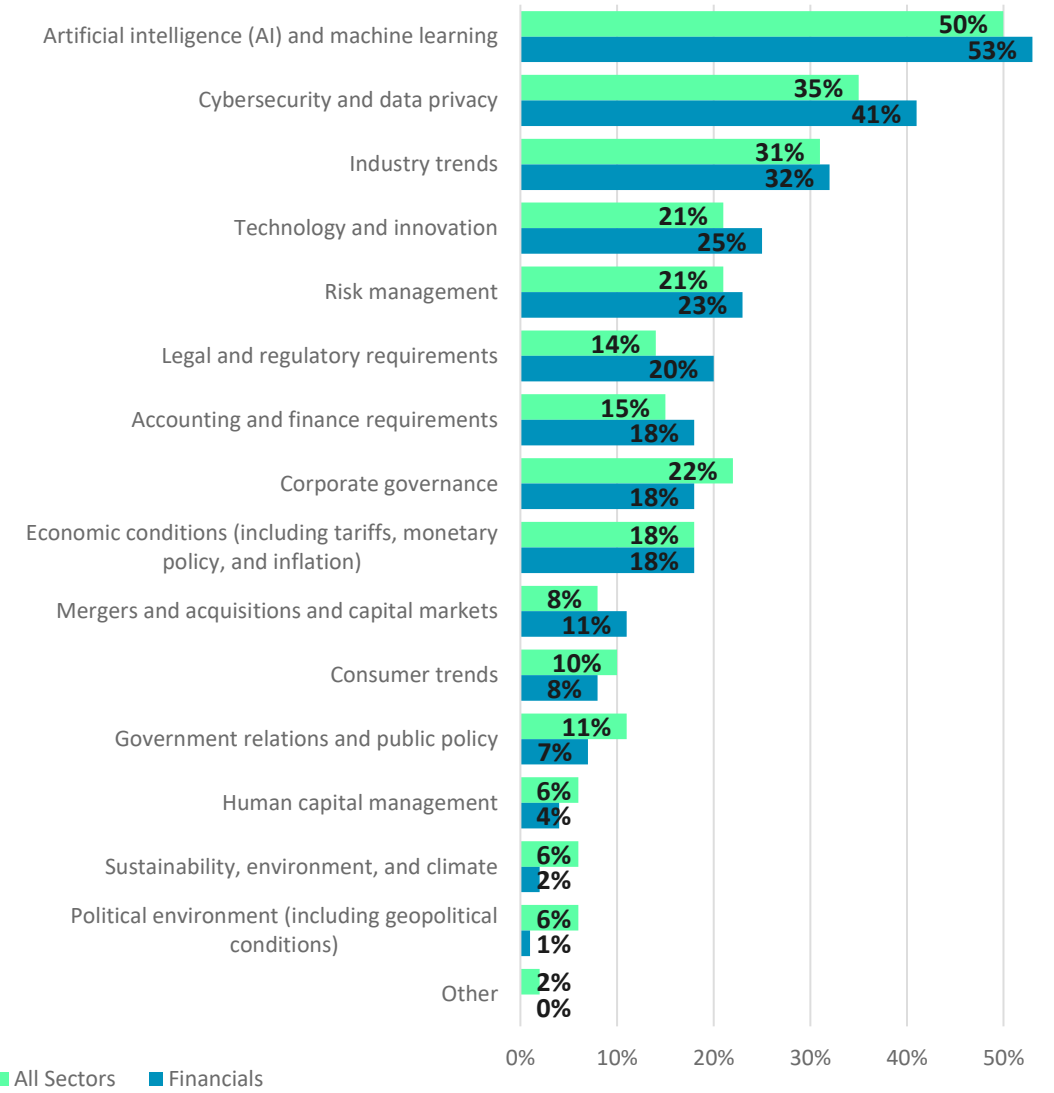


Evolving the Board with the Business

Which of the following skills and experience would most enhance your board's composition? (select top 5)

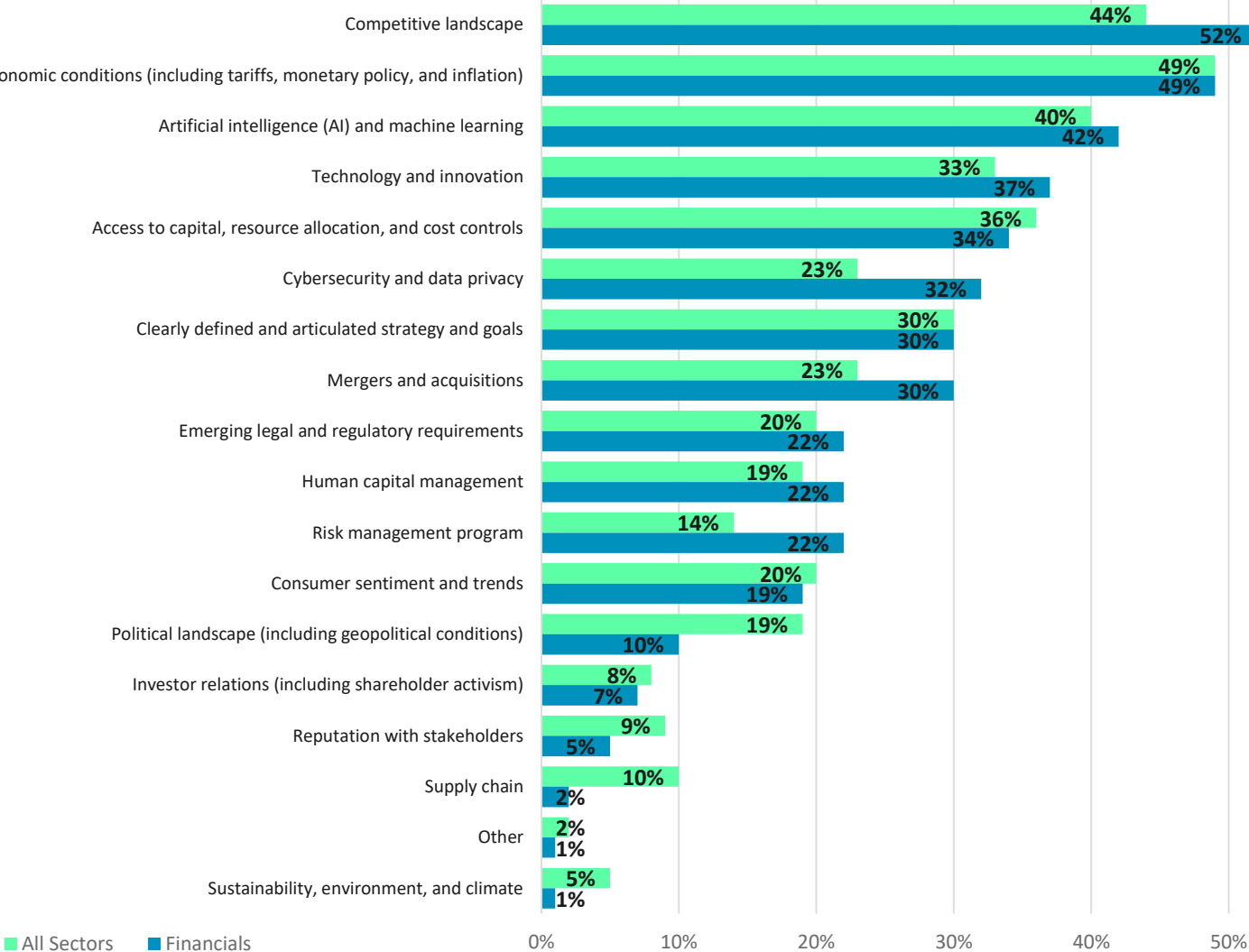


Which topics are most important for continuing education for your board? (select top 3)

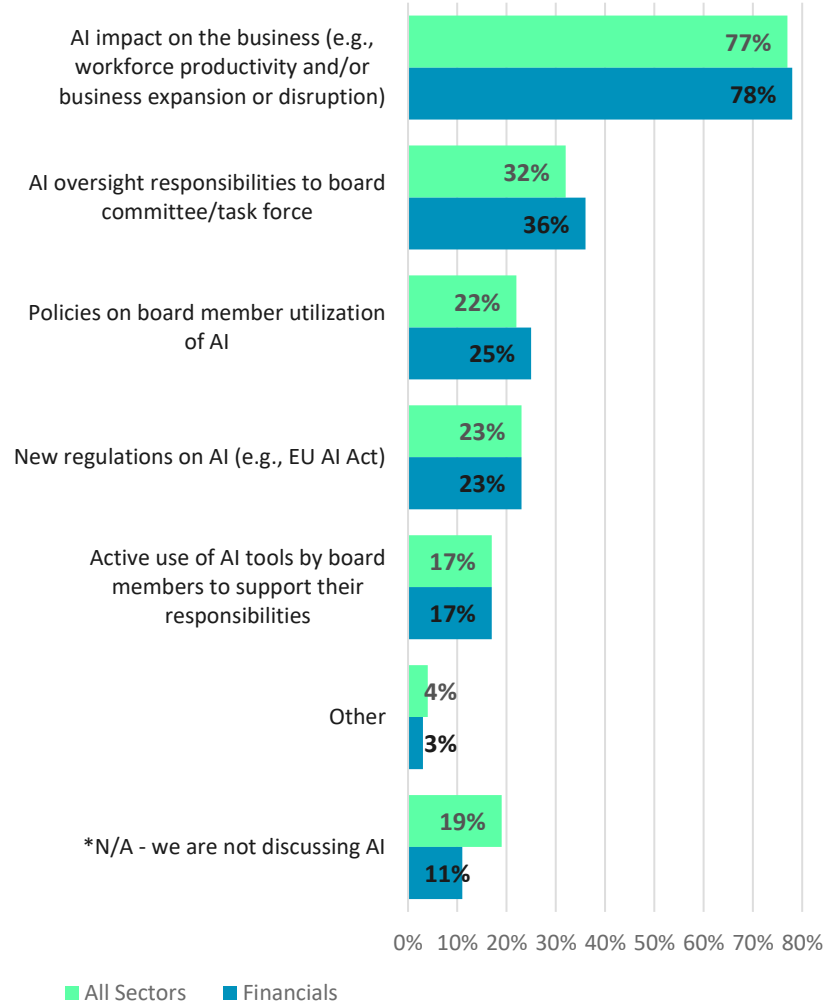


Evolving the Board with the Business

What are the top areas that will impact your organization in the next 12 months? (select up to 5)



What AI topics is your board currently discussing? (Select up to all that apply. "N/A" is an exclusive response.)





CS ADVISORS

NOT A SPECTATOR SPORT

AI Governance for Bank Boards

A Framework for Director Oversight, Accountability, and Strategic Readiness

May 2026

Jim Hale · CS Advisors

The Board's Imperative in the AI Era

AI is not the next wave of technology. It is a general-purpose capability that will reshape how banks compete, operate, serve customers, and manage risk. With trillions of dollars potentially at play, AI is closer to a reckoning than a trend — and that is why it is a board-level priority.

88%

of organizations use AI in at least one business function — yet board governance has not matched that pace.

66%

of directors globally report "limited to no knowledge or experience" with AI; 1 in 3 say AI does not appear on their agenda.

39%

of Fortune 100 companies disclosed any form of board-level AI oversight as of 2024, per McKinsey research.

MIT finding: Organizations with digitally and AI-savvy boards outperform peers by **10.9 percentage points in return on equity**, while those without AI-savvy boards are 3.8% below their industry average. (MIT CISR, 2025)

TWO PRIORITIES FOR BOARDS

1

Define the AI posture

Clarify how AI fits into the bank's strategic ambition. Without alignment, oversight becomes superficial or paralyzing.

2

Tailor governance to match that posture

Calibrate the board's role around where to engage, what to oversee, and the cadence to use.



Defining the Bank's AI Posture

Two strategic dimensions determine a company's approach to AI. Where the bank falls along each dimension defines its posture and shapes what the board must prioritize. The answer determines the governance approach, investment level, risk appetite, and oversight intensity.

HOLISTIC

INTERNAL TRANSFORMER

Holistic · Optimize

AI becomes the operating backbone. Multiple functions are rewired simultaneously. High complexity — requires deep board engagement on structural sustainability, cross-functional interoperability, and workforce change.

BUSINESS PIONEER

Holistic · Expand

AI drives new offerings, revenue streams, and competitive reinvention. Boards must scrutinize value pool defensibility, leadership capability, compute sustainability, data moats, IP, and regulatory exposure.

SELECTIVE

FUNCTIONAL REINVENTOR

Selective · Optimize

AI targets specific high-ROI workflows — fraud, AML, onboarding, reporting. Boards focus on scaling what works, defunding weak pilots quickly, and managing vendor lock-in.

PRAGMATIC ADOPTER

Selective · Expand

A fast-follower stance. Boards monitor competitor moves, track AI readiness internally, and ensure the bank can move quickly when an opportunity or threat materializes.

OPTIMIZE INTERNALLY ←

→ EXPAND STRATEGICALLY



What Bank Boards Should Do Next

Converting AI discussion into a practical, recurring board-level governance discipline

Six universal governance actions every board should take — regardless of AI posture

Codify AI governance policy: scaling rules, risk thresholds, vendor guardrails, escalation triggers

Only 15% of boards currently receive AI-related performance metrics — that must change

Six Governance Actions Every Board Should Take (1 of 2)

McKinsey's research across 75 boards identifies six universal actions, with the degree of pursuit varying by AI posture. The first three address strategic alignment and governance structure.

01

Align on AI Posture — and Review It Annually

Without clarity on posture, none of the other actions matter. Boards must first agree on how AI fits into the bank's strategy, then revisit that posture regularly as the competitive, regulatory, and technological environment shifts. Proactive posture reviews ensure the bank's stance reflects today's realities — not yesterday's assumptions. This annual review should not replace more frequent AI engagement.

02

Clarify Ownership of AI Oversight — Board and Management

Oversight fails without clear accountability. Boards must define which topics belong in full-board sessions (e.g., material investments to scale enterprise-wide AI), which in committees (e.g., risk frameworks and material vendor reviews), and which do not require significant board discussion. Without this specificity, ambiguity emerges, accountability breaks down, and precious agenda time is wasted.

03

Codify a Framework for AI Governance Policy

Fewer than 25% of companies have board-approved, structured AI policies. A credible framework must specify: scaling rules (when pilots earn capital to scale), risk thresholds (where human sign-off is required), vendor and data guardrails (IP protections, third-party audit rights, security, lineage standards), and escalation triggers (what incidents reach the board and how fast).



Six Governance Actions Every Board Should Take (2 of 2)

The final three governance actions address engagement quality, value measurement, and board capability. Only 15% of boards currently receive AI-related performance metrics — an immediate gap to close.

04

Engage More Broadly — and More Frequently — With Those Doing the Work

It is not enough to engage only with CEOs or CFOs. Directors should regularly interact with chief data and analytics officers, business leaders, and division heads who are embedding AI into operations. Quarterly pilot maps — covering every AI initiative, its progress, and whether weak pilots are being defunded — are a strong practice.

05

Tie AI Investment to Business Value

Boards should encourage management to quantify the opportunities and risks of AI adoption. Effective AI reporting should include: ROI by business unit, percentage of processes that are AI-enabled, resilience indicators (override rates, backup drill results), workforce reskilling progress, and regulatory alignment. This reframes AI oversight the way capital allocation and risk reviews are handled.

06

Build AI Fluency Across the Board

Directors do not need to be data scientists, but they do need sufficient understanding of how AI works and its role in creating opportunities and risks. Fluency is built through ongoing education, regular briefings, external training, and advisory panels. Directors should become comfortable using AI personally — for meeting preparation, reviewing public information, and analyzing proprietary information only in ways approved by general counsel.

