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Bank CEOs are getting older. That could drive M&A.

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Many North Texas banks are ready to be acquisitive as mergers in the industry steadily increase and the number of smaller banks continues to drop.

Though a myriad of factors contribute to M&A activity for financial institutions — low interest rates dampening traditional money-making methods, technology advancing at a presto pace and big banks getting bigger — there's a major, less economically-driven issue.

North Texas bank leaders all agree — a successful bank needs qualified successors.

One of the most important, and increasingly more obvious, aspects of current and upcoming deals is the question of "who will run the bank?"

As many community banks look to the future, some could be eyeing to sell because they don't have a succession plan. Others could be foregoing a succession plan because they're looking to sell.

Sam Susser, chairman and CEO of Susser Bank, said when he became chairman of the company three years ago, he met with at least 20 other Texas-based community bank leaders.

"Most of the banks that I met with, their plan was to sell out," Susser said. "They definitely were not worried about succession planning. Their succession plan was to consolidate. I definitely believe that's a trend...Because banks are wanting to exit, they're not focused on succession planning."

Susser, 57, took the reins as CEO earlier this summer, but said when a bank's goal is to stick around, knowing a potential successor is "mission critical."

Bank executives are getting older. The median age of a bank CEO is 58, and 70% are between the ages of 55 and 73, according to a report from Bank Director, a Tennessee-based research firm geared to the interests of bank leaders. The report included more than 300 bank leaders' responses to an April 2019 survey, and documents from more than 100 publicly traded banks.

Less than one-third of the banks surveyed have a designated successor.

Even banks that have successors in their pipelines are making choices in line with industry data. Several North Texas-based banks this year have seen chief executive turnover — including Susser Bank, Liberty Capital Bank, North Dallas Bank & Trust and Texas Capital Bank, among others. Only one of those appointments is under 55.

Liberty Capital Bank named Alan Morris as chief executive at the beginning of 2021, though he was tapped several years ago by the former heads of the company.

"Over the past five or six years, I think we'll continue to see that the whole industry is really transitioning to a new generation of leadership," Morris said. "We have a lot of bank CEOs and bank leadership teams that are in their 60s, and even 70s. And particularly for small banks, one of their biggest challenges is just not having options in terms of succession for the management team."

Morris said in the past year Liberty Capital went from a late-60s-aged C-suite to early-40s, but some banking executives said there's a lack of potential successors in the immediately younger generation because of historical trauma to the industry.

Following the Savings and Loan Crisis in the late 1980s and early 1990s, banking was less appealing for incoming professionals — who would now be between 40 and 50 years old. Morris even said he almost didn't pursue a career in banking.

Malcolm Holland, chairman, CEO and president of Veritex Bank, added he thinks there's a lack of qualified talent to take on the C-suite role because of the S&L crisis. And he said it's forcing banks to merge.

Brad Milsaps, an equity analyst who covers Texas banks at Piper Sandler, graduated college in 1999. He agreed there's an age gap in banking where people in his class didn't want to enter the industry. More banks also used to have training programs that have since evolved or dissipated, especially among smaller institutions, Milsaps said.

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Stephens equity analyst Matt Olney said snafus in succession are an accelerating trend, citing the same issue — a lack of talent with similar experience as current bank heads.

Doug Hutt, CEO of Dallas Capital Bank, said that though there might be fewer people in the banking industry with the same experience as current CEOs, there are plenty of candidates with the aptitude for the job if given necessary opportunity and training.

Several executives added talent acquisition is a major part of their overall longevity strategy.

"I think it's just important for us as industry leaders to be thinking about recruiting, developing and retaining that next generation of a banker and what that looks like, which can be very different than what it's looked like in the past," Morris of Liberty Capital said.

Larry Miller took the helm as CEO at North Dallas Bank & Trust Co. earlier this year after nearly 40 years in various positions at the company. He said his bank is focused on hiring top talent across age ranges to have a depth of young and middle-aged talent.

"When you look at the roster of our 160 bankers, one of the things we're most excited about is we're getting younger," Miller said. "If you look at the roster of any bank today, particularly the community bank space, you're going to see 55 and up. Then there's that void (of bankers 40-50)...Then below that, you begin to see the younger talent coming back into the marketplace."

Craig Scheef, founder, chairman and CEO of Texas Security Bank, said succession planning is an existential threat to banks' futures, and that institutions need younger leaders with new ideas, especially about topics like technology. Scheef said leaders need to be thinking a decade ahead — he's been cognizant of succession since he founded the bank 14 years ago.

Across the country, CEOs are getting older. According to Statista, the average age of a CEO has gone up nine years since 2005. In banking, where consolidation is already amping up, there could be larger implications for a bank's future.

Bank executives are also remaining overwhelmingly white and male. All of the chief executives of the largest locally-based banks are white men, including all of those appointed in the last year. According to data and analytics firm BoardEx, women hold 3% of CEO positions in the financial services industry. Chief executives are getting older, and are not rapidly diversifying.

Though for the banks that are planning to sell, choosing new executives doesn't have to be a priority. Some local leaders think that banks' desire to merge drives the lack of succession plan, and others think the lack of succession drives the desire to merge. But they all agree — without a succession plan, the only option is to merge.

North Texas bank leaders said that to prosper, a bank needs a viable plan for either an heir or an acquisition. Olney, the Stephens analyst, added CEO heirs, or lack thereof, are consistently a driving factor in bank M&A.

In the past 40 years, the number of banks has gone down by 70%. From 2008 to the end of 2019 alone the number of commercial banks dropped nearly 40% to 4,492. And no one thinks it's stopping, or even slowing, anytime soon.

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