Corporate Governance Training for Banks

March 13th 2018

Governor's Speech

Banks' Board Chairmen and Directors,
Banks CEOs,
Fellow Colleagues,

It is my pleasure to welcome you all to the first corporate governance training, organized for Banks' Board members and CEOs. Let me take this opportunity to thank you for taking time off your busy schedules to attend this training; with special recognition to those who have managed to travel from abroad to be with us today. My appreciation also goes to our Financial Stability team for having organized this training that I consider highly topical given the reforms that are taking place in our financial sector.

Distinguished participants,

Corporate governance for the financial sector is one of the key factors that determines the health of the system and its ability to survive economic and any other shocks. As we are all aware, the financial system's health much depends on the underlying soundness of banks, the non-bank financial institutions and the payment systems. In turn, their soundness largely depends on their capacity to identify, measure, monitor and control their risks.

Banks face a wide range of complex risks in their day-to-day business, including risks relating to credit, liquidity, exposure concentration, interest rates, exchange rates, settlement, and internal operations not forgetting the reputation risk. The nature of banks' business particularly the maturity mismatch between their assets and liabilities, their relatively high gearing and their reliance on creditor confidence also creates particular vulnerabilities.

The consequences of mismanaging risks can be severe not only to an individual bank, but also to the system as a whole. This reflects the fact that the failure of one bank can rapidly affect another through inter-institutional exposures and confidence effects. And any prolonged and significant disruption to the financial system can have potentially severe effects on the wider economy. A case in point is the 2008 global financial crisis which was sparked off by a few poorly managed financial institutions. A substantial part of the blame for the numerous bank failures that occurred at the beginning and during the crisis has been put on weaknesses in financial institutions' corporate governance and failure at the Board level whereby:

- Boards didn't understand the risks being taken by management;
- Boards did not actively determine effective boundaries for risk taking;

- Internal structures and risk governance were substantially underdeveloped and therefore, could not raise critical red flags.

This clearly points to the fact that banks have a strong impact on sustained economic development, so much that their corporate governance is crucial for the growth of any economy.

Dear colleagues,

When we talk about corporate governance we broadly refer to the system by which companies are directed and controlled - a critical element for ensuring the long-term sustainability of any organization. This means that to achieve a sustainable financial sector specifically for banks, it is important that we reassert the role of the board of directors. While the day-to-day running of banks should certainly be left in the hands of the management, the board must play a leadership role in approving the objectives, strategy and business plans of the bank, monitoring the performance of management and ensuring that the internal control and risk management systems of the bank are in place and are effective.

The board must also make sure that the bank conducts its affairs with integrity and in accordance with high ethical standards. The board is part of the system of checks and balances that ensures that neither large shareholders nor management abuse their power and that decisions are taken with the bank's best interests in mind. If the board does not play its full part, a vacuum in leadership will be created. This vacuum may be filled by the shareholders becoming directly involved in running the bank's affairs, or by the executive management acting more or less in isolation. In either case, the board of directors is bypassed and checks and balances are lost leading to instability in the sector.

As we enhance corporate governance of regulated financial institutions in our economy, a new regulation on Corporate Governance was passed and gazette this year. This regulation which I am sure, you all contributed to its drafting, was enacted in a bid to increase Board oversight, responsibility and accountability, incorporating key principles good corporate governance:
Our team will be presenting to you the details of the regulation, but I want to stress that going forward we at BNR will strictly hold board members of financial institutions accountable, individually and collectively, for their decisions or negligence for that matter. The board composition where the regulation provides for more independent board members is meant to ensure full independence of the board. Unfortunately, our experience indicates that one or two non-independent members tend to dominate and influence the decisions of the board. It gets worse when it comes to subsidiaries of regional or international banks where the local board just acts according to instructions from the headquarters. We are here to tell you that this has to stop and stop now. One is either fit to be an independent board member that will act independently or should just resign before we classify you as unfit to serve in any position of responsibility in the financial sector.

Distinguished participants

As was presented in the financial stability statement last week, our financial sector is stable and sound and despite what I have just said above, we congratulate and thank you for that. However, there are three issues that I want to come back to and request you to give attention;

- Issue of NPLs; Our deep analysis indicates that most of the failing projects were not bankable in the 1st place…
- Linked to this issue of NPLs there's an emerging issue of claims of mafia in the disposal of securities through public auction. This was also highlighted in the recently concluded government retreat….
- Issue of cyber security….

Ladies and Gentlemen,

As I conclude, I want to remind everybody that the rapid changes brought about by globalization, derisking and technological advances are increasing the risks in the banking sector. More reason therefore to try to ensure that banks are properly managed with emphasis on a forward looking and innovative culture driven by the board of directors.

It's now my pleasure to declare the training officially opened.
Thank You!