

ROLE OF BOARDS AND INDEPENDENT DIRECTORS

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What is the role of a Board of Directors?

- What are the special features which differentiate a bank from other organisations?
- What are the specific areas to which a bank's board needs to devote attention?
- What are the characteristics of a good board and how can a bank obtain greater value from independent directors?

Corporate Governance is the system by which companies are directed and controlled

- Cadbury

- Direction
- Control
- Accountability
- Transparency
- Equality of Treatment

Chairman and MD

Arguments in favour of segregation

- Enhances internal control
- Creates a release valve for directors and large shareholders to voice displeasure and concerns
- Enables discussion at Board Meetings to be more open and purposeful
- Chairman becomes a focal point for independent directors
- Board agenda becomes more pro-active
- Helps rein-in excessive managerial compensation

Arguments against segregation

- Dilutes authority of Managing Director
- Could create too much interference in running of the entity

Factors which adversely affect Board performance

- Concentration of ownership creates unequal power in the Board
- Inadequate focus by Board members
- Shortage of experienced directors
- Inadequate information to the Board
- Cultural traditions

How are banks different?

- Primary stake holder not shareholder but depositor
- More inter-connected with other players in industry
- More regulated than other industries
- Subject to multiplicity of risks
- Deal in complex financial products
- Financial statements subject to high degree of management estimates and value judgements
- Increasingly resorting to outsourcing of operations
- I.T. permeates through all their operations

How are banks different? (continued)

- Large geographic spread of operations involving different jurisdictions
- Deal in large amounts of cash and cash equivalents
- Large off-balance sheet exposures which can escalate very fast
- Subject to regulatory inspection on regular basis
- Increasingly subject to competition from shadow-banking
- Strong links between financial economy and real economy

Some specific Areas which Bank Boards should address

Oversee strategy

Ensure Effective Risk Management

Monitor Performance

Oversight of subsidiaries

Succession Planning

Corporate Social Responsibility

Credit Policy and Authorisation

System of Audit and Inspection

Consumer Protection

Regulatory Compliance

Non- financial Reporting

Innovation

RBI Inspection reports

Winning Boards

- Display will to win and committed to success
- Alert to developments in the business environment and sensitive to market trends
- Anticipate events and confront realities
- Appreciate the difference between direction and management
- Care about their people and their customers
- Concentrate on the external, strategic and business development aspects of corporate governance
- Invest in director development and the professional selection, appointment and induction of directors

Losing Boards

- Lack drive and heart
- Perspective is essentially defensive and short-term
- Concentrate on internal policing and stewardship aspects of corporate governance
- Confuse the roles of directors, management and shareholders
- Know when to look away and not rock the boat
- Confuse operational and strategic issues
- Focus increasingly – often exclusively – on financial measures of performance and control of costs

Improving Effectiveness of Independent Directors

- Structured programme for director education
 - Knowledge about the business of the bank
 - Major risks to which the bank is exposed
 - Familiarity with second-rung of management
 - Critical factors which account for success or failure of the Bank
- Lead Director and separate meetings
- Performance evaluation of Board and individual directors
- Better system of selection