Governance in Financial Institutions (GFI)
For JAIBB

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Syllabus

Module-A: Concept of Governance
Basic Concept and Historical Perspective of Governance Need & Importance of Corporate Governance, Benefit of Good Governance in Banks. BASEL's Principles on Corporate Governance for Banks, Vision, Mission, Purpose, Brand Promise, Code of Conduct

Module-B: Board and its Responsibilities
Overall responsibility of Board, Board Members, Independent Members, Various Committees, Setting Strategic Objectives, Governance Framework and Corporate Culture, BB's Guidelines for Measuring Board Performance, Board Dissolve and Appointment of Observer.

Module-C: CEO and Senior Management
Tone from the Top; Composition and Qualification of CEO and Other Senior Managers; Senior Management Committees; Business strategy; Management Culture; Organization Culture; Changing CEO and Senior Management.

Module-D: Capital, Liquidity and Assets
Capital Adequacy, Liquidity Profile, Asset Composition, RWA, Liability and Asset Drives, Managing Problem Assets.

Module-E: Risk Management and Controls
ERMF, Risk Scanning and emerging Risks, Risk Appetite, Risk Culture, Managing Material Risks, Appropriate implementation of 03 (three) lines of defense, Strength and Independent functioning of 2nd line functions and Internal Audit, Regulatory compliance.

Module-F: Subsidiary and other business governance
Brokerage, Merchant Banking, Custodial Services, OBU, Islamic Window, MFS, Agent Banking

Module-G: Stakeholder Governance
Relationship with Regulators, Local Government Agencies; Regulations on Corporate Governance; Relationship with Shareholders; Relationship with Competitors and Market Conduct; Relationship with Customer, Complaint Management; Relationship with Media; Relationship with Civil Society; Relationship with Community and CSR. Disclosure and Transparency

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Module-H: Future Outlook of the Organization
Market Positioning, New Business initiatives, Digital Agenda, Systems and infrastructure capabilities, People Plan, Succession Plan, Recruiting and up scaling employees of future.

Module-A
Concept of Governance

Q-01. Define Corporate Governance with historical perspective?
Or, Corporate governance is the system by which business corporations are directed and controlled." Justify the statement in the context of financial Institutions. BPE-98th.

Corporate governance: Corporate governance is the framework of rules, practices, and processes by which a company is directed and controlled. It encompasses the mechanisms through which companies, and those in control, are held accountable. Corporate governance involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. Key elements include board composition, roles and responsibilities, risk management, internal controls, and transparency in reporting. Effective corporate governance ensures accountability, fairness, and transparency in a company's relationship with all its stakeholders. It provides the structure through which company objectives are set and the means of attaining those objectives while monitoring performance.

Historical Perspective of Governance:
World Scenario: Before 16th Century, there only existed partnership business. After forming regulated companies, there were no rules of corporate governance. The enactment of Foreign and Corrupt Practices Act in 1977 was the embryonic beginning of Corporate Governance in the world.
A lot of Fraudulent activities occurred in corporate sectors before 1980 in UK, USA and Asian Countries. This resulted huge loss in companies. Hence, to stop corporate fraud and scandals, the corporate experts introduced some policies through the Organization for Economic Cooperation & Development (OECD).

Bangladesh Scenario:
Pre-independence Stage: Most companies were dominated by large family conglomerates. There was no governance policy.

1980s – 2000s: Government introduced the Companies Act, 1994. From then, Companies were formed and operated as per the rules of this Act. Besides, after lots of scandalous issues in companies, Government formed Securities Exchange Commission (SEC) to govern the companies. SEC introduced the Corporate Governance Code in 2006.

2010s - Present: Bangladesh Securities & Exchange Commission (BSEC) introduced new guidelines in 2018 which are mandatory to follow for all the listed companies in stock market.

Q-02. Why good governs is so important in the financial institutions? BPE-96th. BPE-98th.

1. **Secures stakeholders' interests:** Good governance protects the rights and investments of all parties involved with a financial institution.
2. **Guarantees ethical operations:** It ensures that the institution's activities are conducted with integrity and in accordance with moral principles.
3. **Improves transparency and disclosure:** Good governance mandates clear reporting and openness, allowing stakeholders to make informed decisions.
4. **Strengthens effective risk management:** It involves identifying, assessing, and mitigating financial risks to prevent losses and ensure stability.
5. **Encourages long-term sustainability:** By promoting sound practices, good governance helps financial institutions remain robust and prosperous over time.

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6. **Efficiently channels funds from savers to investors:** Good governance ensures that the flow of funds in the economy is smooth and benefits both savers and investors.

In summary, good governance in financial institutions fosters transparency, accountability, risk management, stability, investor confidence, and regulatory compliance.

Q-03. What do you mean by corporate governance? BPE-97th.

Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government, and the community. For example, a school's board of directors deciding on its policies and ensuring it operates in a way that benefits students, teachers, and the community, is a form of corporate governance. This ensures the company operates fairly, transparently, and efficiently to achieve its goals and maintain accountability.

Q-04. Discuss about the purposes of Governance in Banks or Financial Institutions. BPE-98th.

Governance in banks or financial institutions serves several key purposes:

1. **Risk Management**: It ensures that the bank takes and manages risks wisely, like carefully choosing who to give loans to.
2. **Regulatory Compliance**: Banks must follow many laws and regulations. Good governance ensures they comply with these rules to avoid legal issues.
3. **Operational Efficiency**: It helps in making the bank's operations smooth and efficient, reducing costs and improving service quality.
4. **Trust Building**: Proper governance builds trust among customers and investors, showing that the bank is reliable and handles money responsibly.
5. **Financial Stability**: It contributes to the overall stability of the financial system by preventing careless or unethical practices that could lead to financial crises.

In essence, governance in banks ensures they operate safely, legally, efficiently, and ethically.

Q-05. Explain Several Aspects/Characteristics/principle of Good Governance.
Or, Discuss in brief the key aspects of good governance. BPE-98th.

1. **Transparency:** The bank should be transparent in its decision-making processes, financial reporting, and communication with stakeholders.
2. **Accountability:** The bank should have clear lines of responsibility and accountability. Individuals in positions of authority should be held responsible for their actions.
3. **Independence:** The bank should be independent of political influence or interference and should make decisions in the best interest of its stakeholders.
4. **Fairness:** The bank should treat all stakeholders fairly, without discrimination or bias.
5. **Ethics:** The bank should have a strong ethical culture, with clear values and standards that are enforced throughout the organization.
6. **Risk Management:** The bank should have robust risk management policies and procedures in place to ensure the safety and soundness of the institution.
7. **Board Oversight:** The bank's board of directors should provide effective oversight of the institution's operations, strategy, and risk management.
8. **Stakeholder Engagement:** The bank should engage with its stakeholders, including customers, employees, regulators, and shareholders, to understand their needs and concerns.

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Q-06. Way of developing Good Corporate Governance?
Or, How to achieve good corporate governance? Or, Way of good Governance. BPE-96th.

1. **Clear Policies and Procedures:** Establishing well-defined rules and guidelines that outline expected behaviors and decision-making processes.
2. **Independent Board of Directors:** Ensuring the presence of experienced and impartial directors who can provide objective oversight and guidance.
3. **Shareholder Engagement:** Encouraging active participation and communication with shareholders to address their concerns and align interests.
4. **Ethical Culture:** Fostering a culture of integrity, honesty, and ethical conduct throughout the organization.
5. **Risk Management Systems:** Implementing effective risk management frameworks to identify, assess, and mitigate potential risks.
6. **Transparency and Disclosure:** Providing timely and accurate information to stakeholders, enhancing transparency and building trust.
7. **Auditor independence:** Undue influence over the work of audit committees and independent auditors is a concern in terms of CG. Investors need to know that they can trust the financial reporting that an issuer makes, so independence is key to show that the reports are accurate and tell the true tale of the company

Q-07. Discuss the need and importance/ benefits of a good governance in banks?
Or, Good governance not only boosts the reputation of the bank, but also has several benefits to its progress."-Explain the statement in brief. BPE-98th.

1. **Better Decision-Making:** Good governance ensures that decisions are made based on research and analysis rather than personal interests or preferences.
2. **Improved Accountability:** Good governance requires transparency and accountability mechanisms that provide checks and balances to those in power.
3. **Increased Stakeholder Confidence:** Good governance builds trust and confidence in stakeholders, such as customers, employees, shareholders, and the public.
4. **Enhanced Reputation:** Good governance enhances the reputation of the bank by demonstrating responsible and ethical behavior.
5. **Reduced Risks:** Good governance results in the identification and mitigation of risks, reducing the potential for financial losses or damage to the bank's reputation.
6. **Increased Efficiency:** Good governance promotes effective and efficient management practices that lead to improved performance and profitability.
7. **Better Compliance:** Good governance ensures compliance with local and international laws, regulations, and standards, reducing legal and regulatory risks.

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Q-08. With the, rising number of banking frauds, what changes to corporate governance structure of banks does you suggest to tackle it? BPE-96th.

To tackle the rising number of banking frauds, changes in the corporate governance structure of banks can be beneficial:

1. **Stronger Internal Controls**: Implement stricter audit and monitoring systems to detect and prevent fraud early.
2. **Enhanced Transparency**: Make all operations more transparent, so it's easier to spot irregularities.
3. **Employee Training**: Regularly train employees on ethics and fraud detection to increase awareness and vigilance.

4. **Technology Upgrade**: Use advanced technology for security and fraud detection, like artificial intelligence and data analytics.
5. **Strict Compliance**: Enforce stricter adherence to laws and regulations related to banking operations.
6. **Independent Oversight**: Have an independent body or committee to oversee and review bank operations regularly.

These steps can help banks become more resilient against fraud and maintain trust among customers and stakeholders.

Q-09. Discuss the Basel principles on Corporate Governance of bank or financial institutions.
Or, Briefly describe the corporate governance principles issued by Basel committee on banking supervision. BPE-96th.

1. **Principle 1 - Board's overall responsibilities:** The board is in charge of overseeing the bank's strategic direction, governance framework, and the establishment of corporate culture.
2. **Principle 2 - Board qualifications and composition:** Board members are required to be appropriately qualified and maintain a deep understanding of their oversight and governance roles.
3. **Principle 3 - Board's own structure and practices:** It is the board's duty to define, implement, and review its own governance structures and practices to ensure effectiveness.
4. **Principle 4 - Senior management:** The board directs senior management to align the bank's operations with the agreed-upon business strategy and risk policies.
5. **Principle 5 - Governance of group structures:** The parent company's board must manage and establish a governance framework suitable for the group's structure and risks.
6. **Principle 6 - Risk management function:** The bank should have a robust, independent risk management function led by a CRO, with full access to the board.
7. **Principle 7 - Risk identification, monitoring, and controlling:** Ongoing risk management processes are required to match the bank's risk profile and external changes in the financial landscape.
8. **Principle 8 - Risk communication:** Clear communication channels within the bank are crucial for effective risk governance and reporting to the board and senior management.
9. **Principle 9 - Compliance:** The board oversees the bank's compliance risk, ensuring there are proper functions and policies in place for managing it.
10. **Principle 10 - Internal audit:** The board is responsible for the internal audit function, focusing on the management of the bank's compliance risk.
11. **Principle 11 - Compensation:** The bank's remuneration policies should reinforce sound governance and risk management.
12. **Principle 12 - Disclosure and transparency:** The bank is expected to be transparent in its governance to stakeholders and market participants.
13. **Principle 13 - The role of supervisors:** Banking supervisors guide and monitor corporate governance, requiring improvements and facilitating information exchange with other supervisors.

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Q-10. What are the main purposes behind the formation of different subsidiaries by the financial institutions? BPE-97th.

Financial institutions create different subsidiaries for several main reasons:

1. **Specialization**: Each subsidiary can focus on a specific type of financial service, like loans, insurance, or investment, becoming more skilled in that area.
2. **Risk Management**: By separating different activities into subsidiaries, the parent institution can limit risks. If one subsidiary faces problem, it doesn't directly affect the others.

3. **Regulatory Compliance**: Different financial services have different rules. Separate subsidiaries make it easier to comply with these specific regulations.
4. **Market Expansion**: Subsidiaries allow the institution to expand into new markets or regions more easily, adapting to local needs and laws.
5. **Financial Efficiency**: It can be more tax-efficient and can lead to better financial management across different services.

In summary, forming subsidiaries helps financial institutions manage risk, comply with regulations, specialize in services, expand their market reach, and operate more efficiently.

Q-11. What do you understand by Vision and Mission? BPE-98th.

Vision:
Vision is your "Where" and "How."
It's your desired future state.
It outlines your long-term goals and aspirations.
It inspires and motivates your team.

Example of Vision
Vision: To be a leading bank in the country, supporting the small and medium businesses and financial inclusion of the population of Bangladesh.

Mission:
Mission is your "What" and "Why."
It's your core purpose and reason for existence.
It defines what you do and who you do it for.
It guides daily actions and decisions.
Example of Mission
Mission: The mission of XYZ Bank is to contribute to the sustainable development of Bangladesh by providing responsible financial services and solutions to households small and medium enterprises, using best banking practices. We are committed to delivering value for our clients, shareholders, employees and the society at large.
Mission is a general statement of how you will achieve your vision.

Q-12. What is importance/purpose of mission statement?
A mission statement serves an important purpose for an organization by:

1. **Guiding Direction:** It provides a clear and concise statement of the organization's purpose, vision, and values, guiding decision-making and strategic direction.
2. **Defining Identity:** It establishes the organization's unique identity and differentiates it from others in the market.
3. **Inspiring and Motivating:** It inspires employees by conveying the organization's larger purpose, motivating them to work towards a common goal.
4. **Stakeholder Communication:** It communicates the organization's objectives and values to stakeholders, including customers, employees, investors, and the community.
5. **Alignment and Focus:** It aligns the efforts of individuals and teams within the organization, fostering a sense of unity and focus on shared goals.

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Q-13. Importance and Benefits of a Mission Statement.

1. **Clear Direction:** A mission statement provides a clear direction about the bank's purpose, guiding principles, and aspirations.
2. **Accountability:** It helps the bank to be accountable for its actions and decisions. It also ensures that all stakeholders understand and align with the bank's goals.
3. **Cultural Integration:** A well-crafted mission statement can help integrate the bank's values and culture, creating a unified and positive work environment for all employees.
4. **Competitive Advantage:** Having a strong mission statement can provide a competitive advantage, as it helps the bank stand out from its competitors and attract customers who share the same values.
5. **Performance Management:** A mission statement can be used to measure the bank's performance and ensure that it's meeting its goals and objectives.

Q-14. What do you understand by Brand Promise?

Brand can be defined as a name, term, design, symbol, or any other feature that identifies a particular good or service as distinct from those of others in the market or industry. The legal term for brand is trademark. A mission statement is created to describe what the company does from an internal perspective, often to inspire and motivate its' employees. A brand promise, on the other hand, is externally focused. It is crafted to hold the company accountable for delivering a consistent customer experience.

Q-15. Discuss the elements of an effective brand promise?

1. **Clarity:** The brand promise should be clear and concise for both customers and employees to understand.
2. **Consistency:** It should be consistent throughout all customer interactions and experiences.
3. **Authenticity:** The promise should be genuine and achievable, reflecting the core values and capabilities of the bank.
4. **Relevance:** The promise should address the needs and expectations of the target audience and be relevant to them.
5. **Differentiation:** The promise should set the bank apart from its competitors and highlight its unique offerings.
6. **Measurability:** It should be measurable, with key performance indicators to track progress and evaluate success.

Q-16. What is code of conduct?

A code of conduct is like a set of rules for how people should behave. Imagine you're part of a club or a team; the code of conduct tells you what is expected of you and everyone else. It includes guidelines on being respectful, honest, and fair. For example, in a school, a code of conduct might say students should not cheat on tests, should treat teachers and classmates with respect, and should follow the school's rules.

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In workplaces, a code of conduct helps employees know what is acceptable behavior, such as not using offensive language, avoiding conflicts of interest, and maintaining confidentiality. By following a code of conduct, everyone knows how to act properly, which helps create a positive, respectful, and efficient environment. It's like having a map that shows the right path to follow.

Q-17. Discuss the BIS of code of conduct?

Standard of conduct: In the interests of their professional standing, and to protect the reputation of the Bank, Members of Staff shall maintain the highest standards of conduct both at and outside the Bank.

1. **Basic principles members of staff:**

a. Act honestly and impartially
b. Devote their working hours to the interests of the Bank
c. Should treat all their colleagues with respect
d. Avoid any form of discrimination

2. **Avoidance of potential conflicts of interest:** Staff should steer clear of situations where personal interests could conflict with their responsibilities to the Bank. Gifts or hospitality must be modest and within the policy guidelines unless specified otherwise in the relevant documentation.

3. **External activities:** The privileges and immunities granted to Staff by the Bank's agreements are to ensure their independence and the Bank's unimpeded functioning, not for personal benefit.

4. **Contacts with the media and publications:** Only the General Manager, Deputy General Manager, or authorized Staff may engage with media or make public statements about the Bank's policies and activities.

Q-18. Audit committee comprises with directors who are not Members of Executive Committee of the Board of Directors."-Justify the statement. BPE-98th.

An audit committee is made up of directors who are not part of the executive committee to ensure independence and objectivity. This separation is crucial for several reasons:

1. **Unbiased Oversight**: Members not involved in daily operations can provide impartial oversight.
2. **Conflict of Interest Prevention**: Independent members help avoid conflicts of interest since they are not influenced by management.
3. **Enhanced Accountability**: They ensure management's actions are transparent and accountable to shareholders.
4. **Effective Monitoring**: Independent directors can effectively monitor financial reporting, internal controls, and the audit process without management pressure.

Having an audit committee with non-executive directors strengthens the integrity of financial oversight, builds trust with stakeholders, and upholds corporate governance standards.

Chapter End

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