Corporate governance for banks

Banks in the UAE face challenges in keeping pace with changing regulations, competitive environment and maintaining an effective governance culture.

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KPMG’s ‘Corporate Governance for Banks’ provides a systematic approach to assessing the design and effectiveness of banks’ corporate governance framework.

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Introduction

Governance, regulatory and compliance matters continue to pose a complex business challenge. As new corporate governance codes, standards, guidelines, and regulations (such as Basel, SCA, IFRS, UAE Central Bank) are introduced and/or revised, their requirements compel boards to ensure greater levels of transparency, objectivity and professionalism.

Increased accountability and potential exposure to liability mean that directors must ensure that corporate governance standards are adhered to and robust compliance management systems are in place. Facing increasing commercial, shareholder and regulatory pressures, most banks gradually recognize the benefits of good governance including:

- Improved strategic and day-to-day decision-making and risk management
- Enhanced support provided to senior management while it executes its duties and responsibilities
- Implementation of strategic change in response to competition, technology, data, structure and regulation
Key regulatory and governance challenges facing the banking industry

Listed below is our perspective on some of the key regulatory and governance concerns most relevant to banks:

- Strengthening enterprise risk governance and culture
- Board and sub-committees approach with pace of technology change and increased cyber security risk while protecting consumer data privacy
- Transforming the effectiveness and sustainability of compliance
- Adjusting to the changing scope of consumer financial protection
- Examining possible new approaches to managing capital and liquidity
- Completeness and quality information provided to board and sub-committees to better understand and oversee the activities of the organization and the risks they face
- Managing the complexities of cross-border regulatory standards
- Availability of additional capital is dependent upon the companies meeting internationally accepted standards of governance disclosures
- Addressing pressures from innovators and new market entrants
- Managing compliance surveillance and financial crimes
- Reforming regulatory reporting
- Using risk data aggregation and reporting for improved enterprise risk management and transparency
How we can help

In order to address the above-mentioned challenges, we, at KPMG, first assist banks as they develop a wide-ranging vision and approach for their organizations’ governance, risk, and compliance processes.

The key focus is to help improve the sustainability, effectiveness, efficiency, and transparency for GRC processes, align the processes with the banks’ strategic goals and objectives whilst ensuring compliance with regulations and contribute to drive both competitive advantage and shareholder value. More specifically, we provide banks with the following governance solutions:

- Corporate Governance Maturity Assessment / Benchmarking
- Governance Culture Reviews
- Governance Framework Design/Development of Governance Policies and Procedures
- Development of Internal Control Framework
- Board and sub-committees Effectiveness Reviews
- Enterprise Risk Management (ERM) Framework Reviews and Implementation
- Board Training Programs
- Compliance Transformation
Building effective corporate governance in banks

As investors’ and regulators’ expectations for effective governance continue to increase, the role of the board of Directors keeps on evolving, whereby governance culture now requires permanent oversight. Banks are now expected to ensure that robust governance processes are set up across their organization. Based on our experience in assisting banks in establishing, reviewing, and implementing effective corporate governance, we have outlined below the key governance components for banks:

<table>
<thead>
<tr>
<th>Governance Operating Model</th>
<th>Terms of Reference of board and sub-committees</th>
<th>Executive management and management committees</th>
<th>Governance culture</th>
<th>Governance monitoring and reporting</th>
<th>Secretariat practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Matters reserved for Shareholders and board</td>
<td>Role of the Chairman and other members</td>
<td>Responsibility, accountability and authority of CEO</td>
<td>Employees’ knowledge and understanding of bank’s values</td>
<td>Board performance evaluation and professional development</td>
<td>Corporate secretaty policies and procedures</td>
</tr>
<tr>
<td>Structure and composition of board and sub-committees</td>
<td>Decision making structure and process</td>
<td>Organizational structure and three lines of defense</td>
<td>Employees’ competencies and practicality of KPIs/targets</td>
<td>Monitoring across 3 lines of defense</td>
<td>Convening general meetings of shareholders</td>
</tr>
<tr>
<td>Reporting lines of board and sub-committees</td>
<td>Agenda and board’s time allocation to various agenda items</td>
<td>Management committees and mandates</td>
<td>Belief and commitment to the bank’s risk management processes</td>
<td>Framework effectiveness reviews</td>
<td>Convening board and sub-committee meetings</td>
</tr>
<tr>
<td>Mandate of board and sub-committees</td>
<td>Quorum and attendance</td>
<td>Decision making structure and process</td>
<td>Incentives / performance/ and compliance</td>
<td>Reporting mechanism</td>
<td>KPIs and performance assessment process</td>
</tr>
</tbody>
</table>

- Minutes of meetings, action plans tracker and follow of action plans
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- Code of conduct, grievance and whistleblowing mechanism
- Annual governance report

KPMG
At KPMG, we recognize that instilling good governance principles within an organization requires commitment from the board, the management and staff. We believe that organizations that are able to embed good governance practices within their structure will ultimately demonstrate high levels of trust and provide the transparency that stakeholders, such as institutional investors and communities, demand from them. This should then improve organizational performance and shareholder value.

**Pillar 1**
**Leadership & Strategy**
Focused on providing optimum structure and objectives for the board of an organization depending on the nature of business.

**Pillar 2**
**Performance & Monitoring**
Focused on providing assistance in ensuring the achievement of objectives through the following:
- Performance management
- Skill sets assessment
- Skills development programmes

**Pillar 3**
**Accountability & Audit**
Focused on establishing framework and methodologies to ensure accountability and avoid gaps.
- Delegated authorities and management decisions
- Internal control framework / internal audit
- Risk, compliance, and AML framework
- IT / data governance

**Pillar 4**
**Communications with Stakeholders**
Focused on establishing guidelines and methodologies that enable adequate and timely communication with all stakeholders.
- Stakeholder management framework
- Sustainability reporting
Why KPMG?

Our team, which includes banking and corporate governance professionals, works with our global network of member firms to support local and foreign banks in their efforts to strengthen their Corporate Governance Framework and ensure its effectiveness.

Industry focus and experience:
KPMG’s current team comprises of highly experienced members with more than 20 years experience and the relevant skills who have undertaken Corporate Governance Reviews and Board Self-Assessment Reviews of various banks and financial institutions based in the UAE.
- We have delivered over 50 corporate governance engagements to the banking and financial services sector in the UAE.
- Together with clients, we have wrestled with the hard questions on corporate governance practices and provided practical solutions to enhance banks’ corporate governance frameworks and practices.
- By virtue of the depth and breadth of our services, we have been part of several corporate governance engagements involving development/diagnostic review of governance framework, terms of reference, benchmarking and maturity assessment of corporate governance etc.

Credentials and capabilities:
KPMG possesses strong credentials in providing assurance and non-assurance services including external audit, internal audit, corporate governance and risk assessment services to the banking and financial services sector both in the UAE and globally. This enables KPMG professionals to obtain insights and benchmark corporate governance practices.

Leading methodology and tools:
- KPMG’s tried and tested corporate governance methodology has been customized specifically to cater for the needs of the banking sector. Our approach and methodology used in assessing and implementing corporate governance principles are commensurate with the size, complexity, structure, economic significance, risk profile and business model of each bank we work with.
- Our approach includes reviews of existing governance documentation, independent/anonymous interviews with board members and management, and benchmarking corporate governance practices against local and global banks to provide value-added insights and recommendations.
- Our comprehensive board self-assessment questionnaire allows us to independently conduct board effectiveness reviews in an efficient manner.
- KPMG’s universe of leading corporate governance frameworks, terms of references (of the board, sub-committees and management committees) and policies and procedures allows us to benchmark practices against local and global peers.
- Repository of applicable regulatory requirements of UAE and leading corporate governance codes/guidelines.