

## **Bwalya K E Ng'andu: Enhancing corporate governance among various stakeholders within the financial sector**

Opening remarks by Dr Bwalya K E Ng'andu, Deputy Governor (Operations) of the Bank of Zambia, to the Financial Sector Development Programme (FSDP) presentation of corporate governance model board charter to financial sector stakeholders, Lusaka, 25 October 2011.

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### ***Chief executive officers and senior management of financial institutions***

### ***Members of the FSDP Secretariat and Working groups***

### ***Distinguished participants***

### ***Ladies and Gentlemen***

Let me start by thanking the organisers of this meeting for inviting me to make opening remarks at the presentation of the corporate governance model board charter. As you are aware, corporate governance has been identified as one of the most important components of the Financial Sector Development Programme (FSDP). The reason for this is not difficult to discern. The relationship between financial institutions and the public is premised on trust. Loss of confidence and trust in even one financial institution can threaten the stability of the entire financial sector because feelings about one erring institution can be extended to other institutions. This fiduciary responsibility that financial institutions carry requires that all players in the financial sector are subjected to elaborate oversight. In this regard, the Boards of Directors are one organ that is vested with this responsibility of oversight.

Before I comment on the significance of board charters in augmenting good corporate governance in the financial sector, I think it is appropriate that I acknowledge the commendable work that has gone into implementing the FSDP through collaborative effort involving government and other institutions. The Government, working with the three financial sector regulatory bodies, namely, the Bank of Zambia, the Pensions & Insurance Authority and the Securities & Exchange Commission has continued to take the lead in implementing various reforms. This effort has been supported by private sector experts and representatives responsible for the technical aspects of implementing the FSDP recommendations.

This collaborative effort among a range of market players has resulted in positive milestones being achieved including:

- (i) Ongoing review and updating of the financial sector legislation, including the Banking and Financial Services Act; the Pensions Scheme Regulation Act; the Insurance Act; and the Securities Act targeted for legislation in 2012;
- (ii) Participation in the on-going review of the Companies Act whose comprehensive revisions under the Ministry of Commerce, Trade and Industry are scheduled for 2012;
- (iii) Resolution of weaknesses in the state owned financial institutions which have become profitable and innovative in terms of delivery of financial services;
- (iv) Introduction of a regulatory framework for the introduction of a credit reference bureau;
- (v) Development and issuance of anti money laundering guidelines and the establishment of a Financial Intelligence Unit;

- (vi) Development and issuance of the corporate governance guidelines by the regulators; and,
- (vii) Strengthening the autonomy and enhancing the supervisory capacities of the three financial sector regulatory authorities.

Through the FSDP, the BoZ is also working with stakeholders like the Institute of Directors (IoD) in enhancing corporate governance among various stakeholders within the financial sector. Under the first phase of the FSDP, IoD conducted seminars on core principles of corporate governance targeted at executives and senior officials in the financial and business sector.

In addition, the IoD provided input into the Corporate Governance Model Board Charter which has been developed with technical expertise from MTN Special Engagements led by Ms Mary Ncube. The outcome of this work is what will be presented to you today. The presentation will focus on the significant position that Boards of Directors occupy in the whole Corporate Governance process and how their role, functions and operations may be reduced into a charter that might guide their work., including;

- Powers, functions and delegations of the board;
- Board composition and mix – and the challenge in state-owned institutions;
- The Chairperson and CEO – and whether they should be different persons and why;
- Rights and duties of Directors – and that ultimately the buck stops here;
- The role of the Board Secretary – and how they can help drive the right agenda;
- Disclosure of conflict of interest and the challenge of ethical standards;
- Members' remuneration and expenses – and what is morally right?
- Corporate social responsibility; and,
- Evaluation of the Board's performance, etc.

But why do we need a Board Charter one may be tempted to ask? I think it is correct to say that second only to the articles of association, a Board Charter is probably the most important corporate governance policy document which defines the respective roles, responsibilities and authorities of the board and management in setting the direction, the management and control of an organisation.

It is a document that is useful to both old and new directors, particularly those who may not be familiar with how a company conducts its business and what is expected of them as directors. In this respect, the charter serves the following functions among many;

**One-source reference** – a board charter is a one-source document which clearly sets out how the board and directors are to perform their roles.

**As an induction tool** – a board charter acts as an induction tool for new directors and senior managers.

**Standard key board documentation** – it contains documentation templates for such things as the board meeting agenda and board paper format.

Having said this, I need to place a rider by stating that these charters that you will be examining this morning only set out minimum standards of what the boards are required to do. Some institutions present here may already have charters which are more elaborate than the model charters. That is fine as you will not be required to downgrade your existing charters. But for those institutions which might not have any charters, it may well be useful to consider customising the model charters. If in adopting model charters, some of you find certain provisions too onerous, it may be necessary to consider a phased approach to their adoption. In this way, the process of adopting model charters will not place on an

organisation undue difficulties. The model charters, it is hoped will act as guide for institutions to adopt elements that are applicable to their sub sector and industry and act as a benchmark, for you, and for assessing board and management and for assisting the oversight function by regulatory supervisors., such as ourselves. I expect that individual institutions requiring further advice will continue to engage us, as well as the consultants, to ensure that they extract maximum benefit from the work that has gone into this phase of the FSDP.

***I thank you all and wish you fruitful deliberations.***