

Muhammad bin Ibrahim: Of directors and supply of talent

Remarks by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Launch of FIDE Forum Directors Register “Of Directors and Supply of Talent”, Kuala Lumpur, 1 April 2016.

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Today marks an important step forward for board talent management among financial institutions in Malaysia. The Directors Register will be launched this morning to address the financial sector’s need for a reliable supply of qualified individuals to meet the growing demand for high-calibre directors.

Financial institutions play a critical role in the economy, intermediating funds to support the real economy. Because of the criticality of the role, financial institutions must be led by directors who possess the necessary skills, experience and integrity to spearhead financial institutions in a competent and effective manner. Identifying, developing and retaining directors of high calibre are no easy task. We need to design a solution to achieve it. The Directors Register is therefore a timely initiative as this acts as a solution to expand the pool of potential directors for boards of financial institutions.

Demand imperatives

Being a director of a financial institution is highly demanding. The last financial crisis has shown the failure of board oversight in managing the affairs of financial institutions. Unbridled risks-taking, misaligned, incentives structures and failures in overall governance were just a few of the shortcomings that almost brought the global financial system to a standstill. Public perception and trusts for bankers were severely dented. Bankers became a figure of ridicule. We should not let this happen in Malaysia.

Both the law and the expectations of the central bank on directors’ role and responsibilities are very clear. Directors are responsible for ensuring the conformance of senior management to the strategies and policies set by the board. They are also ultimately accountable for the financial institution’s compliance with relevant laws and regulations. This includes overseeing the implementation of the financial institution’s governance framework and internal control environment, and periodically reviewing whether these remain appropriate in the light of changes to the size, nature and complexity of the institution’s operations. In addition to ensuring conformance, directors are also expected to drive performance through their oversight involvement in shaping the long-term direction of the institution, anticipating strategic challenges and mentoring senior management.

Directors have to achieve this while confronting international and domestic developments that are fundamentally changing the landscape in which Malaysian financial institutions operate.

The global economic outlook remains uncertain, with cyclical and structural weaknesses persisting in the advanced economies, more moderate growth in China and continued volatility in the global financial markets. For the last two decades, Malaysia has been becoming more integrated with the regional and global economy. The recent conclusion of the ASEAN Banking Integration Framework and Trans-Pacific Partnership Agreement, if properly sequence and implemented, provide further opportunities for Malaysian companies to expand abroad. But expansion beyond our shores poses new challenges as financial institutions will navigate unfamiliar territory. The operational environment will be different. The business model will require remodelling. Board members are therefore expected to familiarise themselves with the economic, financial and social environment of foreign markets if they are to be effective and successful.

Along with higher expectations, there has also been a noticeable increase in the absolute demand for financial institution directors in Malaysia. Since a decade ago, the number of directors in the Malaysian financial sector has increased significantly. This can be attributed to several factors. One reason is the increase in the number of financial institutions arising from the establishment of new Islamic banking and takaful entities within existing banking and insurance groups. Besides that, financial institutions have also progressively strengthened the composition of their boards. This was largely driven by the need to bring more diverse perspectives and skills to the board to meet the growing demands placed on it, and to better prepare for board succession.

In the process, we also saw independent directors forming a majority on boards of more financial institutions, including some of the largest domestic financial institutions in the country. It is important to emphasise that this growing demand has not been just about numbers; it is more importantly about the quality of talent that boards must have to perform their role effectively.

FIDE Forum and ICLIF – working together to increase their impact and influence

It is against this backdrop of growing demand that FIDE Forum has stepped in to offer financial institutions a platform to connect with potential directors from both within and outside Malaysia. The Directors Register achieves this in two ways. Firstly, by identifying board-ready individuals who already have the necessary skills, knowledge and experience. And secondly, by initiating into the talent pool individuals who have the calibre to serve on financial institution boards, but require development in certain areas, such as those specific to the banking or insurance industry. By significantly widening the supply sources, this initiative is in many ways a game-changing initiative to strengthen the talent pipeline for financial institution boards.

The Directors Register complements the education programmes that have already been introduced for financial institution directors under ICLIF. The FIDE programme has become a standard bearer for exceptional directors' education with its deep dive into the nuts and bolts of practical governance, its link to supervisory expectations, and a delivery approach that effectively combines the use of exceptional faculty and the rich experience, knowledge and insights of the participants.

To date, more than 600 directors from financial institutions, including directors from the regional offices of both foreign and domestic financial institutions, have attended the FIDE programme. This has had a visible impact that in bringing about important positive changes in how boards function and interact with senior management.

Both FIDE Forum and ICLIF are uniquely positioned to advance corporate governance in the financial sector. After all, they bring together those who represent the ultimate governing body of financial institutions, with great responsibilities and accountability. Such an opportunity must be capitalised and not wasted. FIDE Forum and ICLIF should therefore complement each other and avoid duplication. There are significant benefits to be gained from an effective partnership where resources can be channelled to increase the collective impact of programmes and initiatives by the two organisations. In my own engagements with the industry, over the years, coordination and cooperation among financial institutions can become game changers for the industry. In this respect, we should fully appreciate the distinctive purpose of ICLIF and the FIDE Forum and how they coordinate with each other within the space of directors' development. With close coordination and cooperation we can avoid the redundancies and wastage and realise the synergistic benefits from the alliance between the two organisation.

Being a director of a financial institution will demand a lot from the individual. It is a position of trust where integrity is the norm. It should be, given the critical role of financial institutions in any economy.

As a network of financial institution directors, FIDE Forum provides a valuable resource for directors as they navigate the heavy responsibilities that come with the position. FIDE Forum should continuously raise the bar on director performance by advocating best practices and providing support to its members in helping solve real problems confronting boards today. It should be a respected voice on important issues of corporate governance, an epitome of best practices of corporate Malaysia. Most importantly, it should build an enduring legacy for future leaders of financial institutions by representing within its collective membership the highest standards of integrity, professional conduct and intellectual integrity. Indeed, FIDE Forum's success must surely be measured not only by how well it serves its current membership, but also by how it expands its reach and influence to attract new leaders of the highest calibre to the financial industry. In short, being a director of a financial institution signifies the embodiment of a person's self-evident integrity and professionalism.

In this endeavour, FIDE Forum and ICLIF need to work collaboratively and exploit the synergies between them. FIDE Forum should leverage on the expertise that has been built within ICLIF in the design and delivery of high quality leadership programs. Similarly, ICLIF should continuously seek to understand the current and future concerns of directors through FIDE Forum, and reflect on how its role in education can help address those concerns. These are mutually reinforcing perspectives. The Directors Register is a good example of this.

Where development needs are identified through FIDE Forum's screening process, it should be able to refer candidates to the existing director education programmes provided by ICLIF, or work with ICLIF to develop new ones to respond to an unmet need. To my mind, this clarity of role and purpose will significantly enhance the potential impact and influence of FIDE Forum and ICLIF, to the overall betterment of the industry.

As members of FIDE Forum, directors have a critical role to play in setting its priorities and in driving future initiatives to ensure that FIDE Forum remains relevant and continues to add value. In this respect, members should be active in giving their views, including providing inputs to concept members, engage in propagating the common interest of the industry and enhancing the good image of the sector.

Conclusion

The Malaysian financial sector has taken important strides to strengthen boards, in particular through the ongoing education and increase in supply of top-quality directors. The success of ICLIF's FIDE Programme and the industry-led initiatives by FIDE Forum in pushing frontiers in developing, sourcing and attracting board-level talent would very much depend on the collective efforts of all. It is from this perspective that the FIDE Forum should be commended for initiating this effort. I encourage the industry to continue to use FIDE Forum as a platform for promoting board-level talent management and through it, to build an effective partnership with ICLIF as the centre of excellence for directors' education in the financial sector.

Moving forward, we all have a role to play to ensure that boards of financial institutions in Malaysia continue to be served by high-calibre directors who will guide our institutions on a path of sustainable growth in the service of the economy.