Opening Remarks

of

Mrs Hemlata Sadhna Sewraj-Gopal

at the Talk on

Driving Board Excellence

Aunauth Beejadhur Auditorium

Bank of Mauritius

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First Deputy Governor, Board Directors of the Bank of Mauritius

Dr Chris Pierce, CEO, Global Governance Services Ltd

Mr Danny Balluck, chairman of MIoD

Mrs Sheila Ujoodha, CEO, MIoD

Board Members of Banks and Other Financial Institutions

CEOs of Banks and Other Financial Institutions

Compliance Officers of Banks

Members of the Press

Distinguished Guests

Ladies and Gentlemen,

A very good morning to you all. It gives me immense pleasure to welcome Dr Chris Pierce at the Bank today to address a very relevant theme, at least for us Central bankers, that is, 'Driving Board Excellence'.

I wish to thank the Chairman and CEO of the MIoD and their staff for partnering with the Bank in the organization of this event.

Let me first say that Corporate Governance is indeed an issue which is close to the heart of regulators and relevant in the current increasingly challenging, complex and evolving operating environment.

Ladies and Gentlemen, you will agree with me that we have not yet fully recovered from the COVID-19 pandemic. Mauritius, given its high reliance on the tourism sector, has been particularly impacted by the pandemic. The war between Russia and Ukraine has complicated matters. Not only have geopolitical risks increased but inflation is on a galloping trend worldwide as well as locally.

What is the relevance of these issues for Corporate Governance?

The COVID-19 pandemic was not only a health issue but an economic crisis as well. It brought numerous unprecedented challenges such as frauds and the threat of cyberattacks as people worked from Home during lockdowns. It also brought increased digitalization as people shifted to online shopping and digital payments.

After the pandemic, Climate Change and Environmental related financial risks have emerged as the next challenge on a global scale. We are being told to act now or it will be too late.

Indeed, Former President of the USA, Barack Obama said, *"We are the first generation to feel the effects of climate change and the last one to do something about it".*

At the Bank of Mauritius, as the regulator of the banking sector, we expect Board of Directors to have robust governance practices which would enable them to take on board these numerous challenges and assess their impact on their business. We expect them to review their business model and risk appetite accordingly.

We believe that only agile and flexible financial institutions are capable of adapting and turning these adverse conditions into new opportunities. Hence during the pandemic, in the wake of increased cyber threats, we expected Board of Directors to reassess their cybersecurity framework.

The cyber and IT environment have become more challenging not only due to the ongoing war but with digitalization, the high speed of development in technology, disrupting technologies increased use of cloud based services, I would say that Board of Directors should have their hands full.

The Bank of Mauritius has come up recently with a number of guidelines to address these issues namely guideline on the use of cloud based services, Guideline on cyber and technology risk management and guideline on stress testing.

I would urge Board Directors to get acquainted with these documents which have been crafted with the assistance of the IMF and are based on best international practice.

Climate change and environmental related risks are emerging risks which cannot be disregarded The last Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) released in August 2021 highlights that without immediate and deep emissions reductions across all sectors, limiting global warming to 1.5°C is beyond reach. Indeed, we have ourselves seen what climate change can do in terms of abrupt calamities with the torrential rains and floods in the past few weeks.

The Bank of Mauritius acknowledges the risks associated with climate change and has recently issued a Guideline on Climate change and Environmental-related Financial Risk after consultation with the banking sector. It requires financial institutions to embed climate and environmental related financial risks into their business risk, strategy and risk management frameworks.

Furthermore, Banks will be required to disclose their material climate and environmental related financial risks by December 2023.

Money Laundering/Terrorist Financing risks are also evolving and becoming complex with the on-going digitalization and sophistication of the financial landscape.

Ladies and gentlemen, these are only a few of the key challenges which have to be addressed by the board of directors of financial institutions. It is imperative for organizations to look into their operating models and take informed decisions which will minimize business disruptions and ensure their operational resilience.

Here, I would like to highlight that the Bank of Mauritius is no exception. We have had to adapt our internal operating models and take several bold and unconventional measures in the face of the COVID-19 pandemic.

Let's now dwell on the Importance of Corporate Governance for Bank Boards. As per the Financial Stability Institute(FSI) insights on Bank Boards-a review of post crisis regulatory approaches:

(1) The corporate governance of banks differs from that of non-financial firms, due to the vital role they play in an economy. Banks should be on higher standards than nonfinancial companies due to the unique role that they play in an economy and the nature of their stakeholders

(2) The GFC exposed shortcomings in banks' corporate governance practices

(3) Following the GFC, standard setting bodies have tightened bank governance standards.

At the level of the Bank of Mauritius, sound governance of financial institutions is on top of our priorities. The Bank expects that the board of directors exercises an effective oversight on the affairs of financial institutions and are well apprised of all the risks to which the business is exposed.

We have witnessed both locally and overseas instances, wherein financial institution have faced financial losses and other spill over effects on account of weak corporate governance practices.

This was indeed one of our key motivation in organizing today's event.

I am very confident that Dr Pierce will further enlighten us on how board of directors can steer through the challenges in their drive for excellence.

Before leaving the floor to Dr Pierce, I would like to say a few words on the views and expectations of the Bank of Mauritius in respect of the challenges that we face in the local context.

What is Corporate Governance?

The Organisation for Economic Cooperation and Development (OECD) describes corporate governance as a set of relationships between a company's management, its board, its shareholders, and other stakeholders. It provides a framework for establishing a company's objectives, means to achieve the objectives, and a monitoring process to gauge the progress being made.

At the level of the Bank of Mauritius, we have observed issues of corporate governance arising due to poor understanding of key risks, inadequate board oversight, insufficient challenge of senior management by directors, absence of well-defined risk appetite, lack of truly independent board members, ineffective board structures, undue influence from board members, dispute between board members, non-disclosure of conflict of interests. just to name a few.

The Bank of Mauritius issued the first guideline on corporate governance of banks as early as 2001 as the critical importance of corporate governance in banks became more and more prominent.

Here are some issues which we face time and again. The Independence of Directors is one of them.

The Bank of Mauritius has not only drawn from international best practices/standards on corporate governance but also from the local experience when it was developing its Guideline.

One of the additional requirements of our Guideline was the setting of a cap of six years on the tenor of office of non-executive directors to ensure renewal of the Board and mitigate the risk of impairment of their independence. We can here draw the analogy with the issue of Rotation of Auditors! Which is itself another requirement of the Bank of Mauritius.

At the Bank we believe that the board should be comprised of a sufficient number of independent directors as well as non-executive directors, capable of exercising independent judgment especially in instances where there is a potential for conflict of interest.

Having said that, considering that all directors are nominated by shareholders, I would like to emphasize on the duty of care and loyalty of directors as set out by the BCBS. (Basel Committee for Banking supervision.)

It is expected that board members exercise their 'duty of care' and approach the affairs of the financial institution in the same way as a 'prudent person' would approach his or her own affairs. Further, board members should also have a 'duty of loyalty' which prevents them from acting in their own interest, or the interest of another individual or group, at the expense of the financial institution and shareholders.

At the Bank we require a higher percentage of independent directors (50%) where the Chairman is not independent to ensure a proper balance for objective board decisions. The Bank also recommends that directors are not members of too many boards which may impact on their fiduciary duties.

Another overarching principle is that directors should also have an independence of mind so that they are able to challenge fellow directors and senior management in their approach and decisions, hence mitigating the risk of "groupthink". Along the same lines, directors should disclose their interest and not participate in decisions involving conflict of interest

Indeed, Board Directors have a duty of care towards their institutions and they should be able to devote sufficient time if they want to do justice to the post of Board Director.

Sadly, we find that some Board directors sit on a number of Boards and whether they devote sufficient time is questionable.

The Guideline on Corporate Governance emphasizes on the criticality of the Board to be comprised of directors endowed with a reasonable knowledge of the nature of risks inherent in banking business, in order to have the capability to set the proper strategy, policies and systems, risk management framework and controls for the overall stewardship of the bank. Hence our emphasis on banking experience for Board Directors!

Board directors should also possess the necessary balance of expertise, skills, experience, diversity and adequate knowledge and, collectively, they should have the appropriate qualifications in several areas (such as IT, AML/CFT, Risk Management, audit, compliance,) commensurate with the size, complexity and risk profile of the financial institution for a proper understanding of the risks and the threat landscape and for an effective ongoing oversight. I must say here that a number of our banks already have experts in IT and technology sitting on their boards.

The chairperson of the board plays a vital role in the proper functioning of the board. The chairperson should have the necessary experience, competencies and personal qualities to be able to provide leadership to the board and promote critical discussions and encourage directors to freely express their views. On a related note, each board member should be mindful of his attitude which should facilitate communication, collaboration, critical debate, smooth and healthy discussions between board members.

Risk Management

Another crucial component of an effective corporate governance framework is an independent risk management function. In this connection, the Bank of Mauritius requires banks to appoint a Chief Risk Officer to oversee the risk management function. The risk management function is responsible for, amongst others, identifying key current and emerging risks, assessing, developing risk appetite and measuring the exposure to these risks and the on-going monitoring and reporting to the board and senior management.

In this ever changing and complex business environment shrouded with much uncertainty, you will surely agree that a Chief Risk Officer is a sine qua non for the sustainability of an institution.

The development of a risk culture

The Bank expects that all new products and line of business should include consultations with the relevant risk / compliance functions such that the underlying risks are duly identified and mitigated. In other words, there should be a proper assessment of all the risks and measures for mitigating them.

The board and senior management should set the “tone at the top” in order to promote a sound corporate culture. Board members and senior management are expected to instil a strong risk culture and apply high ethical standards in the organisation and take into consideration the interests of all stakeholders.

Along the same lines, the board should ensure that the compliance function and internal audit which relate to the two lines of defence in an organization, are adequately staffed and have the requisite skills in light of the growing complexity of the operating environment. Only then would they to be able to provide Board of Directors with an independent assurance on the internal control framework and risk management practices.

Disclosure and transparency

Lastly, I would like to draw your attention to the importance of disclosure and transparency in an effective corporate governance framework. Not only does it ensure that shareholders, depositors, other stakeholders and market participants receive adequate information on the activities of the financial institution. but Disclosure also ensures that the board and senior management remain accountable with respect to the strategy, risk profile, risk management and governance structures.

Here, I would like to share that the Bank has issued a Guideline on Public Disclosure of Information and that as from December 2023, banks will also be required to make appropriate disclosure on material climate related and environmental financial risks they are exposed to, their potential impact and their approach to manage these risks.

Further, the international financial reporting standards body (the IFRS) is working with the International sustainability standard Board (ISSB) to ensure that going forward, companies and financial institutions would have to be compliant with the sustainability standards and disclosure requirements.

Ladies and Gentlemen, Change is occurring on many fronts and this brings along rising expectations for boards. Although there is no certainty on what will change, what we are sure about is that companies will require alert, effective and well-informed board members to help them manage uncertainty and build safe and sound and resilient institutions,

Board excellence has more than ever become a prerequisite for the sustainability of financial institutions.

Ladies and Gentlemen, I look forward to the presentation of Dr Chris Pierce who will share with us his thoughts on how to drive board excellence.

I thank you all for your kind attention.

Mrs Hemlata Sadhna Sewraj-Gopal
Second Deputy Governor

Bank of Mauritius
Port Louis
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