WORLD BANK
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FINANCIAL INSTITUTIONS

GOVERNANCE AND RISK
CULTURE: PILLARS FOR
SUSTAINABILITY

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AGENDA

1. Governance challenges faced by Development Financial Institutions (DFIs)
2. Risk Governance and a Risk Management Framework
3. Risk Culture, Human Capital Resources and Optimisation of Resources
4. Questions?
1. Governance challenges faced by Development Financial Institutions (DFIs)

1. Governance Challenges: Changes in Government priorities or policies, Board member/Senior Management tenure, lack of diversity on the Board, lack of transparency/disclosure/information to Board/Stakeholders, lack of a risk/compliance culture, no accountability for compliance and performance, ethics/conduct issues, communication of issues, incentive structures etc.

2. Elements of good corporate governance – G/20 OECD 2015 Corporate Governance Principles
   a) Ensuring the basis for an effective corporate governance framework
   b) The rights and equitable treatment of shareholders and key ownership functions
   c) Institutional investors, stock markets, and other intermediaries
   d) Role of stakeholders in corporate governance
   e) Disclosure and Transparency
   f) The responsibilities of the board - setting out the key functions of the board
      • Review of corporate strategy
      • Selecting and compensating management
      • Overseeing major corporate acquisitions and divestitures
      • Ensuring integrity of the DFI’s accounting and financial reporting systems
      • Risk management, tax planning, internal audit, whistleblowing
      • Board training and evaluation and consider establishing special board committees – remuneration, audit, risk management.

3. Good Corporate Governance: organisations with an integrated risk framework and strategy in place leads to creating value for the shareholders, customers and citizens. This leads to the growth of the organisation.
2. Risk Governance and a Risk Management Framework

A. Risk is “the effect of uncertainty on objectives” and “managing the uncertainty of future events”.

B. Risk management is the culture, processes and structures that are directed towards taking advantage of potential opportunities whilst managing potential adverse effects. Should always add value.


D. Risk Management is a major role, responsibility and tool of a DFI Board and should: Identify, Assess, Monitor and Manage Risk AND Identify Material Changes to the DFI’s Risk Profile.

E. The DFI Board’s key role: Set the Risk Appetite, Structure for Risk Management, Embed Risk into Governance Processes and Supervise, Monitor and Report Risk. This should be part of the Organisational Culture of the DFI and during Crisis Management situations.
2. Risk Governance and a Risk Management Framework cont.

F. The DFI Board sets the Risk Appetite – the amount of risk exposure (or potential adverse impact from an event) that the Board is willing to accept/retain to meet its goals.

G. Risk Appetite – the Board should ensure that the tolerance levels align to shareholder and other stakeholder expectations, organisation’s strategy/mission/vision and values, organisational capabilities, including risk culture, and the environment the organisation is operating.

H. There is no one best risk management framework to support the unique roles of DFIs. There are many different risk standards that can be used that are: category, industry, generic standards (such as AS/NZS ISO 31000 or COSO). It will be up to the Board taking into account the DFI, the environment it operates it, its customers and stakeholders.
3. Risk Culture, Human Capital Resources and Optimisation of Resources

A. A successful risk culture for DFIs would include: setting out a strong risk framework where risk is identified, assessed, monitored and managed; approval by Board and Senior Management of the framework and them leading by example; open reporting and effective internal communication of culture through the dissemination of the mission, vision and values, etc. periodic review of the effectiveness of the risk framework; incentives that take into account rewarding good risk management and compliance; building an ethical and risk aware culture through continuous training, monitoring and reporting; setting up appropriate risk, audit and compliance committees to consider these issues; implement codes of conduct, policies, whistleblowing, communication and escalation, etc.

B. The ideal compensation structure to inculcate risk and compliance awareness is to reward for risk awareness and where there are violations, to take disciplinary action which may include impact to incentives. This should be a part of the performance appraisal process of all staff including Senior Management and review performed by the Board.

C. Main challenges for DFIs to foster good corporate governance: buy in by management and staff; lack of accountability and reporting; lack of a clear articulated strategy and monitoring etc.
4. Questions??
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