



# SUSTAINABILITY THROUGH CORPORATE GOVERNANCE

Gaps, Challenges, Goals

# What is Corporate Governance and Why is it Important?

Corporate Governance includes;

- the set of relationships between a credit union's Board, senior management, members and other stakeholders; and
- the structures through which the credit union objectives are achieved, and the means by which attaining those objectives and monitoring performance are determined.

It defines the way authority and responsibility are allocated among different parties, and how corporate decisions are made.

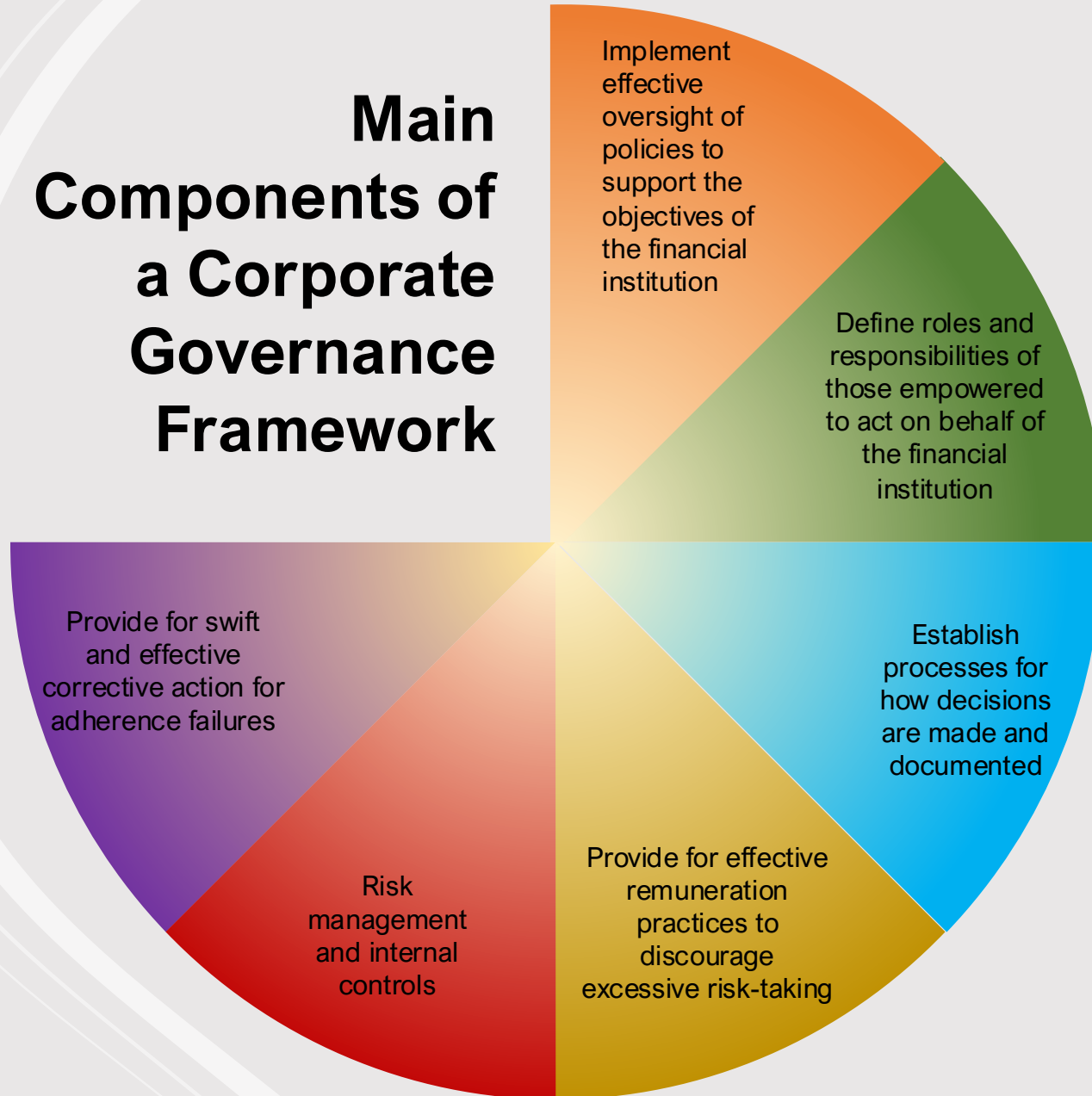


# Importance of Corporate Governance

Appropriate corporate governance is underpinned by clear lines of accountability at every stage of the decision-making process, which then provides a basis for the assessment of the performance of the institution and individuals against stated objectives.



# Main Components of a Corporate Governance Framework



# Main Duties of Board Members

Approve the selection of key senior managers and head of control functions and engage in succession planning

Monitor and manage conflicts of interest and balance competing demands on the credit union

Effectively oversee senior management, holding them accountable for conduct and performance

Determine policies to address capital adequacy, liquidity and regulatory compliance

Oversee for e.g. major capital expenditures and outsourcing arrangements

Develop and implement governance and internal controls that evolve according to the needs of the credit union

Determine the financial institution's risk appetite and identify, quantify and manage present and future risks

Set and exemplify values and behaviours that determine the culture of the credit union

Establish effective decision-making processes and exercise independent judgment

Act in the best interest of the credit union and its members

Define the purpose and objectives of the credit union, and adopt a strategy to reach those objectives

*To set the tone at the top of the financial institution*





# Main Duties of Board Members

- direct – the affairs of the institution, establish appropriate policies and procedures for corporate governance and risk management
- protect – the stakeholders, the entity's financial position and other assets
- connect – with each other to form a collegial group for decision making
- expect – appropriate governance and actions by management
- select – the CEO
- correct – the institution's course when circumstances require
- inspect – to ensure that policies and procedures are adhered to.



# Why a Consolidated Corporate Governance Guideline?

- The Barbadian credit union sector has grown in size and importance.
- The sector impacts almost every household in Barbados and in addition to being classified as Public Interest Entities, some credit unions are considered to be systemically important, thus highlighting the need for a more modern and comprehensive set of guidance.



# Why a Consolidated Corporate Governance Guideline?

- The Co-operative Societies Act was proclaimed in 2007, at that time there were 36 credit unions with \$1.1 billion in assets under management.
- At September 2023 there were 27 credit unions and assets under management of \$3.1 billion. [Compared to the domestic Insurance industry, \$3.95 million] – 2<sup>nd</sup> largest sector, the CU sector's largest CU is larger than all but one insurance company]
- CUs are different from other FIs in notable areas but there are core similarities and maintaining strong governance is one area. Good governance helps to preserve financial stability, client relationships, employee satisfaction and in the case of credit unions, protection of members' savings





# Rationale and Scope

Contribute to trust, transparency and accountability within the financial system

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Foster financial stability, business integrity and encourage long-term investment

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Helps ensure that financial institutions have clear policies, procedures and systems in place to guide how risks are managed

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Sets standards for the conduct of directors, senior management and other key personnel to reduce the likelihood of fraud, mis-management, financial crime and other unethical business conduct

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Protects the interests of shareholders, customers, employees and other stakeholders

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Mitigates against reputational risks stemming from weak internal oversight (both at the financial institutional level and the wider market)

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Ensure financial institutions are responsibly and prudently managed



# **Key Features of the Corporate Governance Guideline**



# Key Features of the Corporate Governance Guideline

The Board must establish standards of business conduct and a formal Code of Ethics for directors, senior management and other personnel of the financial institution.

## Section 4.9 of the Corporate Governance Guideline

- Must address conflicts of interest, lending to directors and officers and employees, etc.
- Promote zero tolerance for illegal and unethical practices such as financial misreporting, misconduct, fraud, money laundering, bribery, corruption or violation of consumer rights
- Require employees to perform their duties ethically and with due care and skill, in compliance with internal and external requirements
- Provide for mechanisms for good faith whistleblowing and reporting of legitimate concerns about illegal, unethical or questionable practices within the financial institution
- Provide for how and by whom material concerns are investigated and addressed



# Board Structure and Composition



Board Size

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Independence

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Importance of Board Independence

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Criteria for Board Independence

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Board Independence within Groups

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Board Diversity

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Fitness & Propriety

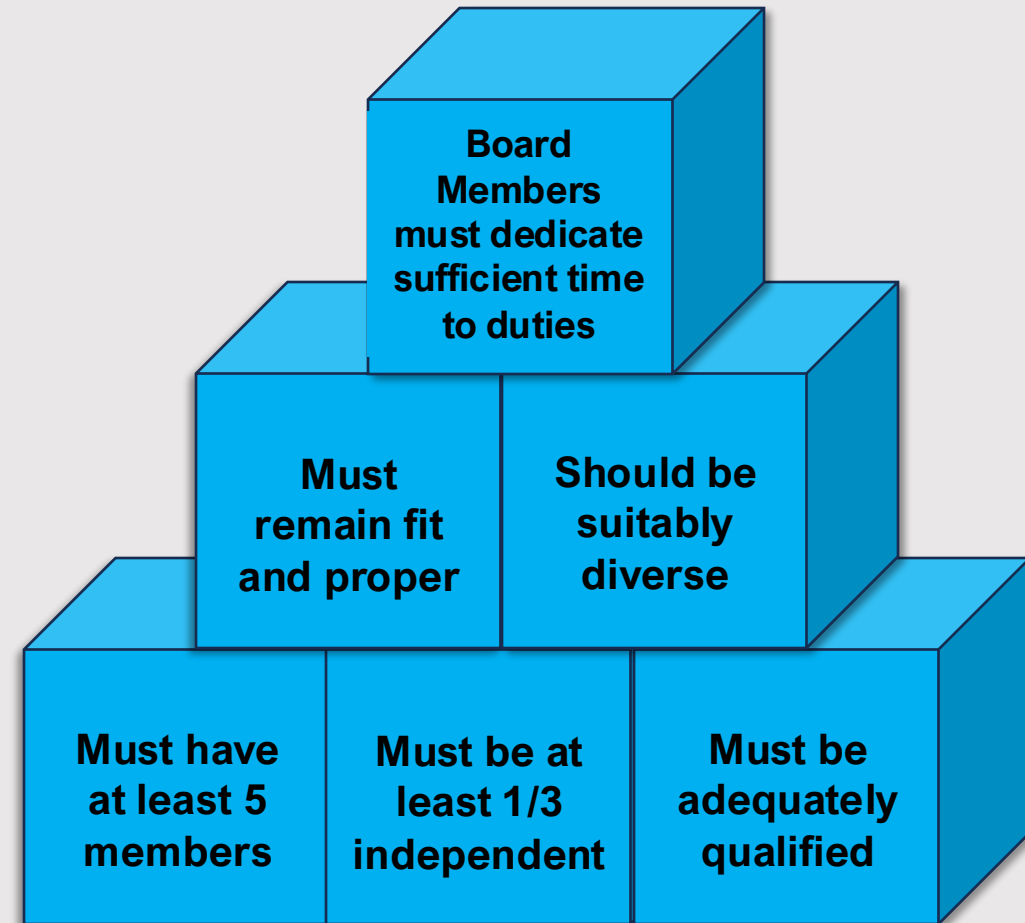
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Board Committees

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# Size, Structure and Composition of the Board



# Independence of the Board

## Why is Board Independence Important?

**Enables the board to exercise objective judgment and unbiased decision-making by reducing inhibitions arising out of concerns about personal monetary losses**

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**Protects shareholder interests because the board's first duty is to the financial institution and its shareholders**

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**Discourages the directors from acting in their own interests or that of related third parties to the detriment of the financial institution**

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**Helps to keep executive excesses under control**

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**Allows for more objective assessment of executive performance and adherence to the values and goals of the financial institution**

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**Promotes fresh ideas and perspectives for the financial institution**

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**Increases trust and confidence in the financial institution**

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# Criteria for Board Independence

Influences that may impair the independent judgment of the board include:

- ✗ Recent employment by or other business relationship with the financial institution, its subsidiaries or affiliates (within 5 years)
- ✗ Holding a material interest in the financial institution, e.g., as a shareholder
- ✗ Having immediate family members who are employed by or have material interest in the financial institution
- ✗ Being affiliated with a non-profit organisation that receives funding from the financial institution
- ✗ Having a material relationship with the auditor of the financial institution



# Fitness and Propriety

Directors must be fit and proper at the time of appointment, and remain so throughout the lifetime of their appointment

All financial institutions are required to adopt a **Fitness & Propriety Policy** that provides for the assessment of candidates at the recruitment stage and a re-assessment of fitness and propriety yearly.



# How is Fitness and Propriety Assessed?

## Honesty, Integrity & Reputation

Demonstrated through character, personal behaviour and business conduct throughout the individual's legal and regulatory history. It involves whether the individual has in his personal or professional capacity been convicted for wrongdoing involving fraud, embezzlement, breach of trust, money laundering, theft, etc.

## Competence and Capability

Individuals must satisfy relevant training and experience requirements to enable them to carry out their functions

## Financial Soundness

This involves whether individuals have been involved in situations, for example being the subject of a judgment debt or an arrangement with creditors or related matters such to bring their ability to effectively manage their financial position into serious question.



# Common Questions/Requests for Clarification

What is the board's  
duty of care?

The duty of care owed by directors  
requires them to act on a fully  
informed basis, in good faith and with  
due diligence, i.e. taking a “Prudent  
Person” approach.



# Common Questions/Requests for Clarification

What is the board's  
duty of loyalty?

This refers to the requirement that  
directors act in the best interests of the  
credit union first and foremost.



# Common Questions/Requests for Clarification

Is there a term limit  
for directorships?

No, the Guideline does not impose term limits for directors. The Co-operative Societies Act Cap. 378A makes term limits subject to the credit union's by-laws. However, a director is no longer considered independent after 10 years of serving in elected office.

