CENTRAL BANK OF
TRINIDAD & TOBAGO

Report on the Corporate Governance Survey of the Banking Sector

August 2022

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EXECUTIVE SUMMARY

The Central Bank of Trinidad and Tobago ("Central Bank") is mandated by section 10 of the Financial Institutions Act, 2008 ("FIA") to *"issue guidelines on any matter it considers necessary to (a) give effect to this Act…"*

In keeping with this mandate, the Central Bank issued a revised Corporate Governance Guideline ("Guideline") on March 10, 2021[1], which *inter alia* reflects the most recent standards and principles of the Organisation for Economic and Cooperative Development, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors. The revised Guideline sets out emerging best practices for the strengthening of a financial institution's risk governance; promoting a strong risk culture; and for the establishment and implementation of the financial institution's risk appetite, in a manner that is commensurate with its size, complexity and risks.

To assess the licensees'[2] compliance with the Guideline, the Central Bank issued a Corporate Governance Survey ("Survey") to all licensees in September 2021.

Generally, based on responses received, licensees' compliance with the Guideline were rated as either "fairly compliant" or "highly compliant". Notwithstanding, there is room for improvement in the industry with regards to their corporate governance practices in several areas.

It should be noted that the Central Bank's assessment was based solely on responses to the Survey. No onsite examination or verification of licensees' corporate governance practices was conducted except where the institution's response was checked against the information displayed on its website.

Overall, the banks rated themselves highest in the areas of 'Role of Senior Management', 'Compliance', 'Internal Audit', 'Disclosure and Transparency' and 'Risk Governance Framework'. Noted areas for improvement were 'Corporate Governance Policy', and 'Board Structure and Practices'.

The non-banks' average scores were highest in the areas of 'Role of Senior Management', and 'Compliance', 'Risk Governance Framework' and 'Internal Audit'. However, similar to the banks, non-banks were weakest in 'Corporate Governance Policy' and 'Board Structure and Practices'

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1 The Corporate Governance Guideline March 2021 can be found on the Central Bank's website at https://www.central-bank.org.tt/sites/default/files/page-file-uploads/corporate-governance-guideline-march-2021.pdf.

2 A licensee is an institution licensed under the Financial Institutions Act 2008 to conduct business of banking or of a financial nature. Licensees include commercial banks (banks) and licensed non-bank financial institutions.

Some institutions in responding to the Survey indicated their commitment to closing identified gaps within specific timeframes. As such, it is probable that overall corporate governance practices and frameworks could have improved since the completion of the Survey in September 2021.

This Report on the Corporate Governance Survey of the Banking Sector ("Report") serves to document the results of the Survey and provide an overall assessment of the banking sector's compliance with the Corporate Governance Guideline. This Report also identifies the areas where licensees need to strengthen their corporate governance frameworks.

1. INTRODUCTION

The Central Bank of Trinidad and Tobago ("Central Bank") is mandated by section 10 of the Financial Institutions Act, 2008 ("FIA") to *"issue guidelines on any matter it considers necessary to (a) give effect to this Act…"*

In keeping with this mandate, the Central Bank issued a revised Corporate Governance Guideline ("Guideline") on March 10, 2021. The Guideline *"represents an update to the Corporate Governance Guideline, May 2007, and reflects emerging best corporate governance standards or principles as espoused by the Organisation for Economic and Cooperative Development, the Basel Committee on Banking Supervision, and the International Association of Insurance Supervisors. These standards pertain to inter alia, strengthening a financial institution's risk governance; promoting a strong risk culture; and establishing the financial institution's risk appetite, in a manner that is commensurate with its size, complexity and risks."*[3]

To understand the licensees' compliance with the Guideline, the Central Bank issued a Corporate Governance Survey ("Survey") to all licensees in September 2021 to assess the level of the industry's compliance with the Guideline.

2. SURVEY DESIGN AND METHODOLOGY

The Survey was divided into ten (10) sections, which mirrored the key provisions in the Guideline as follows:

i. Corporate Governance Policy;

ii. Role of the Board;

iii. Board Qualifications and Composition;

iv. Board Structure and Practices;

v. Role of Senior Management;

vi. Governance of Financial Groups and Financial Holding Companies;

vii. Risk Governance Framework;

viii. Compliance;

[3] See the Corporate Governance Guideline, March 2021 section 1.4.

ix. Internal Audit; and

x. Disclosure and Transparency.

Licensees were required to incorporate the Guideline into their policies, procedures, processes, and practices as appropriate.

Licensees (banks and non-banks[4]) within the same financial group were asked to submit one (1) survey response only. The Survey design enabled assessment of the ten (10) key areas outlined in the Guideline.

The response rate to the Survey was 100% as all institutions complied in a sufficiently timely manner. Responses were received from eight (8) commercial banks, three (3) of their affiliated non-banks and five (5) non-affiliated non-banks.

A scoring methodology was developed to rate the institutions. A rating key ranging from "Non-Compliant" to "Fully Complaint" was also developed to determine an overall institutional compliance rating as demonstrated in Table 1 below:

Table 1 - Survey Rating Key

Overall Rating
100% = Fully Compliant
>70% < 100% Highly Compliant
40% - 70% Fairly Compliant
>0% < 40% Low Compliance
0% = Non-Compliant

[4] Non-banks refer to nonbank financial institutions licensed under the FIA. Examples of licensed nonbanks include investment banks, merchant banks, finance houses, and trust and asset management companies.

3. Main Findings and Recommendations

Table 2 shows a summary of the scores based on the Survey responses. The table shows the sector's level of compliance with each section in the Guideline as well as the overall average compliance of the banks and nonbanks with the Guideline.

Table 2 - Sector's Level of Compliance

Section	Banks	Non-Banks	ALL
Corporate Governance Policy	46%	25%	36%
Role of the Board	73%	65%	70%
Board Qualification & Composition	66%	60%	63%
Board Structure and Practice	51%	47%	50%
Role of Senior Management	100%	100%	100%
Governance of financial groups and financial holding companies	99%	54%	77%
Risk Governance Framework	77%	76%	77%
Compliance	95%	100%	98%
Internal Audit	88%	79%	83%
Disclosure and Transparency	84%	74%	80%

Generally, licensees' compliance with the Guideline were rated as either "fairly compliant" or "highly compliant" based on their responses. Notwithstanding, there is room for improvement in the industry with regards to their corporate governance practices.

It should be noted that the Central Bank's assessment was based solely on responses to the Survey. No onsite examination or verification of banks' corporate governance practices was conducted except where the institution's response was checked against the information displayed on its website.

Overall, the banks' highest average scores were in the areas of 'Role of Senior Management', 'Compliance' and 'Internal Audit'. Banks also scored well in the areas of 'Disclosure and Transparency' and 'Risk Governance Framework', but responded weakest in the areas of 'Corporate Governance Policy', and 'Board Structure and Practices'.

The non-banks' average scores were highest in the areas of 'Role of Senior Management', and 'Compliance'. Non-banks' risk governance framework and internal audit functions were also considered highly compliant with the Guideline. Similar to banks, non-banks were weakest in 'Corporate Governance Policy' and 'Board Structure and Practices'.

The Survey has alerted the Central Bank and the institutions to gaps and shortfalls in their operations and a number of institutions would have indicated their commitment to closing identified gaps within specific timeframes. As such, it is probable that overall corporate governance practices and frameworks would have changed or improved since the conduct of the survey.

Based on the responses received as at September 30, 2021, the main findings and recommendations are as follows:

1. Corporate Governance Policy

It was observed that ten (10) licensees – 4 banks and 6 nonbanks - do not maintain a documented corporate governance policy. Some licensees include corporate governance provisions in separate operational policies and in one instance, the licensee adheres to the Trinidad and Tobago Corporate Governance Code. In most of these cases, the policies do not make reference to governance requirements stipulated in the FIA or the Guideline.

For those licensees that have documented corporate governance policies, they ensure that these are reviewed on at least an annual basis. However, several respondents indicated that their corporate governance policy did not contain the corporate governance structure showing reporting lines within the organization.

Recommendations

1. *Licensees should document and implement a comprehensive corporate governance policy that aligns with the requirements of the Guideline and the FIA. The corporate governance policy should be approved by the licensee's board.*

2. *Licensees should ensure that their corporate governance policy includes a clear governance structure, which reflects the reporting lines of the organization.*

2. Role of the Board

In general, it was noted from the responses that licensees' governance frameworks included policies that covered key areas such as credit risk, liquidity risk, market risk, AML/CFT, compliance, and risk management. However, several licensees (two banks and four non-banks) did not have policies that covered other pertinent areas - such as conflicts of interest, succession planning, recovery planning, and directors' training.

Recommendation

Licensees are required to review their corporate governance frameworks to ensure that key policies are developed, reviewed, and approved by their boards in accordance with the following requirements in the Guideline:

1. *Sections 3.2(b) related to the Board's responsibility to approve key policies and persons;*

2. *Section 3.6 for oversight and approval of the business continuity and disaster recovery planning of the financial institution;*

3. *Section 3.24 regarding formalization of a director's training programme;*

4. *Section 3.26 regarding continuous training for persons identified in the succession plan; and*

5. *Section 5.30 regarding development of a board approved conflicts of interest policy.*

Some licensees (five banks) responded that their boards are not responsible for the appointment of key officers within the institution - such as the Chief Executive Officer ("CEO"), Chief Auditor, Chief Financial Officer ("CFO"), or Chief Risk Officer ("CRO").

With regard to the Chief Auditor, section 5.15(e) of the Guideline requires the Audit Committee to approve the appointment or termination of the head of Internal Audit, and ensure that their primary reporting line is to the Board or the Audit Committee. Section 5.21 of the Guideline also requires the Board or Nomination Committee to appoint *inter alia* the CEO and members of senior management.

Recommendation

Licensees should ensure that their internal processes for the appointment of key positions/key control functions align with the requirements of the Guideline.

3. Board Qualifications and Composition

Licensees' responded that their board members were well qualified and possessed competencies in key skill sets such as banking, accounting, finance, risk management, investments, business, and law. However, four licensees' (one bank and three non-banks) boards did not have individuals with information technology knowledge.

However, given the increasing use of technology in the delivery of financial products and services as well as the emergence of cyber risk and cybersecurity threats on the landscape, licensees should include directors with information technology expertise/background on their boards as appropriate.

Section 4.5 of the Guideline requires the Board to comprise individuals with a diversity of skills, backgrounds, experience and expertise, who collectively possess the necessary qualifications commensurate with the size, complexity, and risk profile of the financial institution. Accordingly, licensees should have a process in place to assess the required competencies of their board on an ongoing basis to ensure adequate oversight of material current and emerging risks.

Recommendation

In accordance with section 4.4 of the Guideline, licensees' boards must develop, document, and regularly review the criteria and skill sets required of its members, both individually and collectively to facilitate effective oversight of the institutions in an evolving financial landscape.

The Chair of the Board of ten licensees were independent[5]/non-executive directors. There were two non-bank licensees though, where it was disclosed that the Chair was neither an independent/ non-executive director.

Recommendation

To promote effective governance, licensees should ensure that the Chairperson of the Board is an independent/non-executive director in accordance with section 4.2 of the Guideline. An independent or non-executive Chairperson promotes independence of thought and retains an objective view of the company.

4. Board Structure and Practices

The responses received in this section of the survey represented the sector's lowest level of compliance of all the areas surveyed*.* Gaps were identified as follows:

- Four responses (two banks and two non-banks) indicated that the entity's/group board charters do not require a periodic review of their committee membership in accordance with section 5.4 of the Guideline;
- For two non-banks, the Chair of the Board is also Chair of the Risk Management Committee. Section 5.11 of the Guideline states inter alia "*To promote robust and open deliberations by the Board on matters referred by board committees, the chairman of the Board must not chair* ***any*** *board committees*";
- Only one non-bank indicated that board committee members are rotated occasionally in accordance with section 5.11 of the Guideline;
- Three licensees (two banks and one non-bank) are not charged with approving or recommending to the Board, the appointment or dismissal of external auditors in accordance with section 5.15(d) of the Guideline;
- In almost half of the cases (5 banks and two non-banks), licensees' Audit Committees are not charged with approving the appointment or termination of the head of Internal Audit, assessing their performance, or ensuring that their primary reporting line is to the Board or Audit Committee in accordance with section 5.15(e) of the Guideline;

[5] See Section 36(6)(c) of the Financial Institutions Act, 2008.

- Five licensees (two banks and three non-banks) do not maintain an established Risk Management Committee in accordance with section 5.16 of the Guideline;

- Of the eleven licensees that maintain a Risk Management Committee, five were not tasked with examining whether incentives provided by their remuneration system takes into consideration factors such as the risk, capital, liquidity, and likelihood and timing of earnings in accordance with section 5.25 of the Guideline.

- Six licensees indicated that their Boards do not have a process for informing the Central Bank of actual, as well as, potential and perceived conflicts of interest of directors and senior management in accordance with section 5.31 of the Guideline; and

- Half of the responses indicated that the independent directors do not meet with the head of Internal Audit while three responded that the independent directors do not meet with the external auditor without the presence of the CEO/MD and other directors in accordance with section 5.33 of the Guideline. A majority (eleven or more) of licensees also indicated that the independent directors do not meet with the head of Legal or the head of Compliance in accordance with this section of the Guideline.

Recommendation

Licensees are required to review their board structure and practices and ensure that they align with the requirements outlined in section 5 of the Guideline.

5. Role of Senior Management

Most licensees were fully compliant in this area. Senior management was responsible and accountable to their Boards for the day-to-day operations of the institutions and also kept the Boards regularly and adequately informed of material matters.

6. Governance of Financial Groups and Financial Holding Companies

This section only applied to licensees considered to be a subsidiary within a financial group or financial holding company. Based on the responses in the survey, licensees were almost fully compliant. In one instance, a non-bank that is part of a financial group did not ensure that group wide policies and procedures are tailored to the institution's specific risks and business activities nor does it have input into group wide risk assessments and policies and procedures.

7. Risk Governance Framework

Licensees stated that they were highly compliant in this section but gaps still exist. For all commercial banks, the risk management function was independent of the business lines of the entity, however in some of the smaller non-banks, this function was not independent. Section 8.3 of the Guideline requires financial institutions to maintain an effective independent risk management function, under the direction of a CRO or equivalent officer, with sufficient stature, independence, resources, and access to the Board. For smaller entities where there is no capacity to facilitate a separate risk management function, it may be combined with the compliance function.

In almost half of the responses, licensees indicated that their risk management function did not have a direct reporting line to the Board or Risk Management Committee in accordance with section 8.10 of the Guideline.

Recommendation

1. *Licensees are required to ensure that the risk management function is independent or where appropriate combined with the compliance function.*

2. *Licensees should ensure that their risk management function maintains a functional reporting line to the Board.*

8. Compliance

Based on the responses to the survey, all licensees indicated that they were either highly or fully compliant in this section. In most cases, the compliance function was responsible for monitoring key aspects of the institution's operations including legislative developments, compliance with laws, regulations and guidelines, as well as compliance with internal policies.

9. Internal Audit

Licensees' responses indicated that they were highly compliant in this section. All institutions maintained an independent internal audit function that had a clear mandate, and reported to the Board. All licensees responded that the internal audit function was responsible for assessing the quality and effectiveness of the institution's internal controls, risk management, and compliance functions, as well as, its governance systems and processes. Licensees also responded that internal audit reports are submitted regularly to the Board or Audit Committee.

10. Disclosure and Transparency

Licensees responded that they were highly compliant in disclosure and transparency requirements. Most institutions disclosed material information on its objectives over key channels such as their websites and in their annual reports. It was however indicated in six instances that a comprehensive statement on corporate governance was not included in a clearly identifiable section of the licensee's annual report.

Section 11.7 of the Guideline states that financial institutions should have an annual corporate governance-specific and comprehensive statement in a clearly identifiable section of the annual report depending on the applicable financial reporting framework.

Recommendation

Where applicable, licensees should include a comprehensive statement on corporate governance as part of their annual report publication.

APPENDIX 1 –

COLLATION OF SPECIFIC GAPS IN BANKS AND NON-BANKS' CORPORATE GOVERNANCE FRAMEWORK

Corporate Governance Policy

Banks

- 50% of the banks do not maintain a documented Corporate Governance policy.
- 50% of the banks' with Corporate Governance Policies do not contain a corporate governance structure showing reporting lines within the organization

Non-Banks

- 6 of the 8 non-banks (75%) surveyed did not have a documented Corporate Governance Policy.

Role of the Board

Banks

- Two banks indicated that they did not maintain a corporate governance policy that included succession planning, conflicts of interest, or directors' training.
- Five banks indicated that their boards are not charged with the responsibility for appointing key officers such as the Chief Internal Auditor, Chief Risk Officer, or Chief Financial Officer.

Non-Banks

- Four non-banks responded that they did not maintain a governance framework that included liquidity risk, market risk, compliance, succession planning, conflicts of interest, directors' training, or recovery planning.

Board Qualifications and Composition

Banks

- One bank's board did not have any members with competencies in information technology.

Non-Banks

- Three non-banks' boards did not have any members with competencies in information technology.
- The Chair of the Board at two non-banks was not an independent/non-executive director.

Board Structure and Practices

Banks

- The board charter of two banks did not include any requirement for the membership of committees to be reviewed at specified intervals.
- Two banks did not maintain a risk management committee.
- Four banks did not include appointment and removal procedures for external auditors in their Audit Committee Charter.
- Five banks' Audit Committees were not charged with approving the appointment or termination of the head of Internal Audit, assessing their performance, or ensuring that their primary reporting line is to the Board or Audit Committee.
- Independent directors at five banks did not meet with the head of Internal Audit, external auditor, or the head of Compliance without the presence of the CEO/MD and other directors.

Non-Banks

- The board charter of two non-banks did not include any requirement for the membership of committees to be reviewed at specified intervals.
- Four non-banks' boards did not conduct formal self-assessments occasionally.
- The Audit Committees of two non-banks' were not charged with approving the appointment or termination of the head of Internal Audit, assessing their

performance, or ensuring that their primary reporting line is to the Board or Audit Committee.

- Independent directors at seven non-banks do not meet with the head of Compliance without the presence of the CEO/MD and other directors.

Risk Governance Framework

Banks

- At four banks, the risk management function does not have a direct or functional reporting line to the Board.
- The compensation of the CRO or other risk manager at four banks is linked to business performance.

Non-Banks

- At three non-banks, the risk management function does not have a direct or functional reporting line to the Board.
- The compensation of the CRO or other risk manager at three non-banks is linked to business performance.

Disclosure and Transparency

Non-Banks

- Three non-banks did not disclose a comprehensive statement on corporate governance in a clearly identifiable section of their annual reports.