

# REGULATORS PERSPECTIVE FOR BOARDS (BANK)



## Regulators Perspective for Boards

One of the sessions of Egon Zehnder’s Directors Development Program looked at board governance from the perspective of the regulator, as well as how boards can be effective from a regulatory standpoint. On the panel were **Subhash Khuntia**, former chair IRDAI (Insurance Regulatory and Development Authority of India), and **N S Vishwanathan**, former deputy governor of RBI and currently chair of Axis Bank.

### Defining An Effective Board and Who It Is Responsible To

The conversation began with Khuntia and Vishwanathan outlining the components that make a “good” board, specifically in the financial sector.

“A good board is one which collectively has the required skills to be able to deliver the goods for its stakeholders.”

Vishwanathan said.

Added Khuntia: “A good board would be one which ensures good corporate governance for the company as a whole. And when we talk of good corporate governance, it would be kind of processes and rules and procedures that ensure the interest of the stakeholders is protected and also there is fair play in everything, including for the customers.”

As both comments suggest, the “stakeholders” whose interests the board must protect extend beyond just shareholders. Especially for financial institutions—which touch many aspects of society and people’s lives—it’s important to consider workers, customers, government, and the general public.

The discussion then turned to the ideal composition of who sits on financial institution boards. Vishwanathan detailed several key areas that certain directors should have expertise in, including risk management, auditing, and IT, with its ramifications on cybersecurity. Khuntia expanded this to areas such as corporate

social responsibility, policyholder protections, and ESG. “The composition should have diverse skill sets,” he said.

## Red Flags for Regulators

In order to effectively serve their organizations and not run afoul of regulators, boards must be able to deliberate over issues and challenges in a transparent, unbiased manner. And there are several “red flags” that regulators can point to which highlight a board not acting in best interest of its diverse stakeholders.

For instance, Vishwanathan said that packing an extremely long agenda into a relatively brief meeting is an indication that many items will not be adequately explored by the board. Another red flag is when the meeting minutes do not capture multiple views or debates over an issue, thus hiding dissent over controversial or delicate topics. This can also happen when one or two directors have an inordinate amount of influence over other board members and can sway decisions in their favor. Or when board chairs demand unanimous consent for decisions, which can suppress debate and dissenting views even when they are truly necessary.

**“So there must be dissent, and it must be properly recorded, and the person who is dissenting should be able to also explain why he or she is dissenting.”**

Vishwanathan said.

Vishwanathan also recommended that directors find a balance in their approach to meeting contributions by not being

overly pessimistic nor overly optimistic. Such an approach can then lead to a more balanced and informed overall discussion. “The point is we do not want to be seen as perpetual dissenters or perpetual approvals,” he said.

## The Blurry Line Between Boards and Management

An important regulatory consideration for directors is delineating between the responsibilities of the board and those of management. Yet this line can often be blurry, leading to an opaque understanding of where one ends and the other begins.

“I used to always say this: The role of the board is to govern, the role of the management is to run the organization,” said Vishwanathan. In other words, the board sets organizational policies that management must then carry out. But the board also must find a way to ensure management is holding up their end of the responsibility. Vishwanathan called this mechanism the “assurance function,” and its independence from management is critical.

“If the assurance function is not independent of the management, the feedback loop is likely to be contaminated,” he said. “So I would say that if the board is not ensuring that the assurance function is independent, then there is a problem at the board level.”

Audit committees are especially vital in this regard. Vishwanathan said that the independence of audit committees is enshrined in the regulatory framework, being composed of a majority

of independent directors. These committees can produce reports that offer critical feedback to the board, such as cataloging recurring complaints that show a pattern rather than being a one-off issue. Such reports should prompt action on behalf of boards to reconsider their policies or question company management.

**“For me, a good board is also one where there is a fair bit of friction, not animosity, between the board and the management. You need to ask questions of the management. And the management must be on its toes knowing that the board can come up with these questions.”**

Vishwanathan said.

Khuntia added a few other board-specific responsibilities that revolve around regulatory considerations. Among them were creating a company culture that advances ethical behavior, as well as ensuring government rules and regulations are strictly followed.

## **Balancing Compliance Items Alongside Many Other Board Responsibilities**

A common board challenge that was brought up in the session was trying to address compliance items along with the many other demands directors must confront. How can directors balance immediate compliance concerns with long-term planning?

Vishwanathan said that to help lessen this challenge, compliance items should be sent to the board as an agenda long before the board meeting, in order to allow directors adequate time to study and think over them.

“So it’s a question of managing the receipt of information, yes, but you have to read,” said Vishwanathan. “You will get 80 reports, and you have to read 80 reports. But if it is coming well in advance, we can ensure that we read them all.”

Another option is reserving a separate meeting for long-term strategic planning, to keep those broader deliberations distinct from more granular compliance items.

Khuntia offered the idea that for a company that is doing well on compliance to begin with, these items should not be too burdensome to talk about in each meeting. “So strictly speaking, if the company is performing well, it should not take any time at all, because you just do it like a checklist,” he said.

*For more information, contact:*



**Rahul Rana**  
New Delhi  
rahul.rana@egonzehnder.com



**Darpan Kalra**  
New Delhi  
darpan.kalra@egonzehnder.com



**Namrita Jhangiani**  
Mumbai  
namrita.jhangiani@egonzehnder.com



**Vineet Hemrajani**  
Mumbai  
vineet.hemrajani@egonzehnder.com

## **About Egon Zehnder**

Egon Zehnder is the world's preeminent leadership advisory firm, inspiring leaders to navigate complex questions with human answers. We help organizations get to the heart of their leadership challenges and offer honest feedback and insights to help leaders realize their true being and purpose.

We are built on a foundation that supports partnership in the truest sense of the word and aligns our interests with the interests of our clients. Our 560 consultants across 63 offices and 36 countries are former industry and functional leaders who collaborate seamlessly across geographies, industries and functions to deliver the full power of the Firm to every client, every time.

We partner closely with public and private corporations, family-owned enterprises, and non-profit and government agencies to provide a comprehensive range of integrated services, including executive search, leadership solutions, CEO search and succession, board advisory and diversity, equity & inclusion. Our leadership solutions cover individual, team and organizational effectiveness, development and cultural transformation. We work with world-class partners including Mobius Executive Leadership, a transformational leadership development firm.

We believe that together we can transform people, organizations and the world through leadership.

For more information, visit [www.egonzehnder.com](http://www.egonzehnder.com) and follow us on LinkedIn and Twitter.