Opening Remarks by
Dato' Muhammad bin Ibrahim
Deputy Governor, Bank Negara Malaysia

Launch of "Performance Pays – A Study of Financial Institutions' Directors' Remuneration"

Multi Purpose Hall, Lanai Kijang
28 June 2010

Distinguished guests,
Ladies and gentlemen,

Thank you for being here today for the launching of "Performance Pays – A Study of Financial Institutions' Directors' Remuneration". This study is the result of the direct feedback from the participants of the Financial Institutions' Directors Education (FIDE) programme. We embarked on this initiative in recognition of the important roles that board members play in the oversight of financial institutions.

The Malaysian financial institutions have remained sound and stood up strongly to the challenges arising from the recent global economic downturn. As Asia leads the economic recovery, Malaysian financial institutions will be confronted with new opportunities as well as challenges. This requires that we remain focused on consolidating our competitive positions, while strengthening our capacity to manage risks associated with the more uncertain business environment and the challenge brought about by the strategy of expanding banking business beyond our borders.

Crucial to the long-term resilience and continued sustainability of financial institutions is the presence of an effective board to provide oversight, strategic guidance, and to inculcate strong governance and risk management culture within the organisation. As the demands and challenges for financial institutions are set to increase into the future, it is only appropriate that we continue to put efforts to attract and retain best talents to step into the roles of directorship of our financial institutions.

The FIDE programme is a key part of this initiative and is designed with the long term objective of developing high-impact boards in financial institutions. Based on feedback, FIDE has been well received by the financial industry. The programme has given directors new knowledge and insights and induced greater sense of urgency in improving board governance process, and this bodes well for our financial institutions.

To date, over 160 financial institutions' directors have completed the FIDE core programme. To ensure that FIDE remains relevant and adequately addresses the latest issues and challenges faced by directors, the core programme has been continually enhanced in terms of content and focus. It is encouraging to note that there is a high level of enthusiasm among financial institutions' directors to continually develop themselves. In support of requests from directors for training in specific areas, specialised board committee programmes (such as Audit Committee and Risk Committee programmes) and other technical programmes (such as Risk Management in Islamic Finance and Banking Insights for directors with limited experience in the financial sector) have been introduced. Several other programmes are also being considered that would be customised to the needs of the board members such as strategy, marketing, financial management and corporate finance.

In line with the philosophy of life-long learning, the FIDE programme is also supplemented with a series of special talks by renowned speakers and thought leaders, and roundtable discussions. More importantly, the FIDE programme has not only provided a suite of programmes for board members but also the opportunity to leverage on a rich network among fellow directors in the financial industry. Many past participants have commented that while they value the lessons, one of the practices cultivated through FIDE is the sharing and learning from each others' experiences and insights – a relationship that they wish to foster out of the classroom setting and into the boardroom. In this respect, we would leverage on technology to facilitate networking including the posting of interesting articles and news for the FIDE alumni.

The next step is to use FIDE as a platform to create a pool of potential independent directors. Experienced professionals and persons from the private and public sectors will be invited to enrol in the FIDE programme, where they will gain exposure on the business and risk management fundamentals of the financial industry, and gain insights on governance best practices and issues facing board of financial institutions today. This pool of talent would give financial institutions an additional source to recruit qualified, experienced and skilled board members.

To have an effective board, an appropriate level of investment will be required. After all, a board's performance is a function of the experience, expertise and capabilities of those sitting around the table. The FIDE programme only addresses one aspect, namely directors' education and development. Another key feature for boards to perform at the highest level is to have the right mix of board members with the necessary competence and ability, that is appropriate for the type of business undertaken and future direction of the institution.

This report “Performance Pays – A Study of Financial Institutions Directors’ Remuneration” which is being released today, is the product of a study commissioned under the FIDE initiative as part of on-going efforts to enhance board effectiveness and to attract the right talent onto financial institutions’ boards. One of the outcomes of this report, is a workable framework that can guide boards in the director selection process and in the design of remuneration policies that are directed towards meeting the objective of sustaining high level of board performance.

The same is true for the remuneration of Shariah committee members. As the demand for talent on boards and Shariah committee intensifies further, financial institutions need to relook at how Shariah members are rewarded. This issue is critical as demand for talented Shariah scholars heighten given the rapid development in Islamic finance worldwide. I would encourage you to leverage on this framework to further pursue improvements within your organisation.

On that note, I would like to take this opportunity to thank the members of the FIDE Steering Committee and all those who have participated and contributed to the production of this report.

Thank you.