MFSA MALTA FINANCIAL SERVICES AUTHORITY

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Independent Board Members in Banks Play Key Role – ECB Panellist

Independent board members play a key role in challenging strategic decisions and in providing the checks and balances which are crucial for sound decision-making, an official from the European Central Bank said today.

Vesselka Paneva works within the ECB's Banking Supervision unit and is responsible for oversight of Malta's smaller banks – known as 'less significant institutions' due to their potential systemic impact.

Ms Paneva was referring to a review carried out by the ECB in 2021 which looked at governance in LSIs – the first such review of smaller banks.

The review found that on average across the 21 countries involved, only 48% of non-executive board members are formally independent (i.e. without any relationships or links that could influence their objective judgement and ability to take decisions independently), with several banks have board members with a very low level of independence. In comparison, 59% of non-executive board members in significant institutions are formally independent.

She was speaking during a panel session as part of a conference for banks' top management, organised as part of the Malta Financial Services Authority's outreach to outline its expectations and guide the banking sector on best practices.

The conference was opened by MFSA Chief Supervision Dr Christopher Buttigieg, who invited banks, external audit and advisory firms to be part of the debate around effective strategies for the future, stressing that regulators and the industry need to work together to achieve the best outcomes.

"The EU Single Rule Book for the regulation of financial services is today made up of over 680 documents, ranging from directives and regulations to guidelines, that amount to more than 15,000 pages and more than 23,000 articles. Geopolitical and economic developments, climate change, and financial market shocks create risks in the financial system that continue to be addressed through the refinement and further development of financial regulation.

"We need to work together to achieve a balance between increased resilience through regulation – and making sure Malta hosts a robust and thriving banking industry," Dr Buttigieg said.

Another keynote speaker was Oliver Bonello, the Deputy Governor of the Central Bank of Malta, who stressed that when it came to strategic planning, it was important that banks account for potential introduction of macroprudential tools to cater for emerging structural or cyclical vulnerabilities.

From discussions, it emerged that the banks have been operating in a challenging environment during the past two years, which – coupled with ever-increasing regulation – have put additional pressure on their boards to devise strategies which serve stakeholders well, and at the same time make commercial sense. In the meantime, regulators are expecting banks to improve their digital services to control costs so they can continue to meet capital requirements, improve risk management and anti-money laundering systems, as well as to invest in operational and cyber resilience.

Another event centred on corporate governance is planned for 21 June.