

Corporate governance: journey of a Kenyan bank

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I&M's corporate governance structures have evolved considerably, driven in particular by the regulatory framework and I&M's aspiration to professionalize and enhance its governance framework. As acquisitions progressed, I&M gradually became a major regional player, with the need for enhanced corporate governance. Today, endemic corruption, the approach of regulators and disparate conditions of competition are the main challenges faced by the Bank.

PS&D

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Corporate governance

Simply put, corporate governance can be defined as "the processes, systems, practices, and procedures that govern organizations". The widely embraced definition of the Organisation for Economic Co-operation and Development (OECD) is "the system by which business corporations are directed and controlled." (OECD, 2004).

Good Governance Beginnings

In tandem with developments in Kenya and globally, corporate governance structures at I&M have evolved significantly over the last two decades. Several factors have been instrumental along this journey; key amongst them being (i) the regulatory framework and (ii) I&M's growth, expansion and aspiration to enhance and improve its corporate governance.

I&M evolved from humble beginnings 44 years ago. Incorporated in 1974, by the current Chairman

Mr. Suresh B. Raja Shah, to provide personalized financial services for Nairobi's business community, it then converted to a licensed financial institution in 1980. Before I&M became a Bank in April 1996, it had started its journey of institutionalizing the business and initiating sound corporate governance principles, with the appointment of independent directors on its board.

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From around 40 employees and one branch in Kenya in 1996, the Group has grown to over 1800 employees and a network of 76 bank branches spread across four countries in 2018. Today it boasts total assets of USD 2.46 billion, shareholders' funds of USD 441 million and a loyal and growing customer base of over 350,000.

The turning point

During the period 1999-2000, the Central Bank of Kenya issued several prudential guidelines (including corporate governance) under the Banking Act, to transform the sector and to force licensed banks to implement and uphold high standards of corporate governance. This was as a result of five bank failures in Kenya in 1998.

The Prudential Guidelines issued in 2000 outlined the code of conduct for directors, managers as well as other employees and in addition specified the duties and responsibilities of directors, chief executives and management.

I&M's first acquisition, in December 2002, was a turning point in its corporate governance journey. Having taken over the banking business of the erstwhile Biashara Bank of Kenya in exchange for shares in the Bank, I&M changed overnight from being a closely held entity to one with approximately 1,180 shareholders. In addition, the changes brought about the newly issued guidelines meant putting in place the necessary systems and structures.

Honouring Pioneer Stakeholders

The next significant milestone in I&M's journey of enhancing corporate governance was the coming on board of Proparco, first as a senior debt lender in 2004 and soon thereafter as a shareholder, following an equity injection (jointly with DEG) in 2007.

The five-year period 2003-2007 saw I&M Bank continuing to step up its corporate governance standards.

It did so by instituting its first set of board committees. It also formalized a five-year strategy with clearly defined strategic (medium term) and corporate (annual) objectives and KPIs. Among others, it strengthened management oversight and control; set up independent risk management and compliance functions, and a Strategic Planning Department; and initiated a process of board evaluation.

Stakeholders Join, Markets Open

As part of its five-year strategy, put in place in 2007, and during the period 2008-2012, I&M established itself as a regional player, establishing its presence in Mauritius, Tanzania and Rwanda. This entailed increasing its capital base, by opening its shareholding to high-net-worth individuals. This was accompanied by further strengthening its corporate governance practises.

These included increasing the number of board committees; formalizing the Group's corporate social responsibility structures and deepening its relationship with stakeholders, aimed at making a sustainable difference in the community; reviewing and strengthening its AML (Anti Money Laundering) policy and procedures; implementing a social and environmental risk management system; tightening and solidifying the Treasury and Asset Liability Management framework; redesigning its organizational structure, and consequently reviewing and revamping critical policies and procedures, to beef up enterprise risk management – especially market risk and operational risk; forming the Group Management Centre, with a CEO's office, with the responsibility of exercising strategic management and control and overseeing operations in the subsidiary banking entities; and launching an employee share-ownership scheme.

Consolidating, Going Public and Formalizing

The Group's listing on the Nairobi Securities Exchange, in June 2013, through a reverse takeover of City Trust Limited, and the simultaneous creation of I&M Holdings plc, a non-operating holding company, licensed and regulated by the Central Bank of Kenya, entailed the next step in bolstering its corporate governance framework.

The five-year period from 2013-2017 witnessed the Group formalizing a group reporting structure, with each subsidiary reporting to the holding company. An independent chairman and additional independent directors at the holding company level gave further credence to its governance processes.

Other noteworthy initiatives were improvements in financial reporting standards and enhanced public disclosures through the Bank's website, annual reports, investor briefings and I&M Foundation presentations.

More importantly, I&M upgraded its strategic management process in conjunction with a transformation strategy. This was aimed at digitizing its business model to create sustainable value for stakeholders.

In 2017 the Group contracted a recognized independent firm to undertake an annual governance audit.

Recognition Received

In 2016 I&M was awarded the Best Bank in East Africa for Corporate Governance at the third Banker Africa awards. The award, recognizing the Bank as a benchmark for high ethical standards, transparency and accountability across all levels of operation, was a significant achievement, set against the backdrop of three bank failures during that period.

As I&M steps forward with vigour and confidence, it looks back with humility and pride, noting its beginnings and achievements over the last two decades. Yet it would be remiss not to spotlight the support received from independent directors, DFI partners, correspondent banks, professional service providers, consultants, regulators and peer banks, locally and internationally.

Formed of Fire

Recollecting significant milestones, we realize that this has not been an easy journey, but as a wise man once said, "If you find a path with no obstacles, it probably doesn't lead anywhere".

Our story is a testimony to overcoming obstacles; yet some do remain. Endemic corruption, a "one size fits all" approach by regulators, coupled with a "box-ticking" attitude, and an uneven playing field are some of the key challenges faced by I&M. In Kenya, listed companies are undeniably

disadvantaged compared with many other corporate entities and organizations who are not required to follow similar or even any of the basic corporate governance principles. The result is a disparate situation, with too much information, unwarranted media attention - bordering on sensationalism - and over-analysis for the handful of listed entities.

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Another challenge is the relatively small pool of independent directors and an even smaller pool of those who are well versed in specialised fields such as enterprise risk management and other emerging areas including enterprise business technology governance, blockchain, distributed ledger systems and robotics process automation.

Good Government Benefits Broadly

We hope that the planned introduction of a code of corporate governance for private companies will remove this disparity. Only when private companies adopt corporate governance standards will there be a wider understanding and appreciation of the many benefits of doing so. The chief benefit will be sustainable high-value entities that are able to withstand the tests of time and cyclical economic fluctuations.