

# FOREIGN EXPERIENCE IN IMPROVING CORPORATE GOVERNANCE IN BANKS

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**Abstract**— The article discusses the foreign experience of improving corporate governance in banks. The urgency of the problem, according to the author, corporate governance is associated with increasing the competitiveness of companies in the market, separation of powers between owners and shareholders, providing an effective mechanism for managing property, increasing the investment attractiveness of corporations.

**Index Terms**— governance, corporate Governance Code, Commercial banks, Effective governance, Basel Committee on banking supervision.

## 1 INTRODUCTION

The development of corporate governance in the banking sector began in 1999, when the Basel Committee on Banking Supervision published the first document containing relevant Corporate Governance Recommendations based on OECD principles.

Today, the principles of the BCBS are the standard, based on which the supervisory authorities of various countries have the opportunity to implement an appropriate corporate governance system in all credit organizations of their countries. Moreover, today many credit organizations and central banks of countries create their own corporate governance codes, which are mandatory for use by all credit organizations operating in the state.

The important role of banks for the national economy, the great desire of society to provide conditions for sustainable development has prompted many countries to create codes and recommendations in the field of corporate governance for banks. In addition, the incentives for the development of corporate governance practices for banks are also current trends associated with improving the quality of corporate governance in international companies, in order to meet current trends.

Special corporate governance codes dedicated to banks are currently adopted in 11 countries. Typically, these industry-specific corporate governance banking codes focus on risk management, board performance, and remuneration policies. In addition, there are international recommendations (for example, recommendations of the Basel Committee on Banking Supervision) on the

organization of corporate governance in credit organizations. Theoretical issues of Applying of artificial intelligence in the textile industry were researched by Ergashxodjaeva, S. J. and et.al. [4], Yuldashev N.[5] and others. Features of organization of production at light industry enterprises and improving logistics were studied by several scientific works of Tursunov B. [6;7;8;9;10;11;12;13;14]

## 2 OVERVIEW OF CORPORATE GOVERNANCE IN FOREIGN COUNTRIES

In a review of corporate governance in UK banks, the main directions of development of corporate governance practices in banks are formulated, a list of 39 issues requiring improvement of corporate governance in banks is formed.

The Corporate Governance Code for Georgian commercial banks is a set of recommendations on seven areas of corporate governance development, including: shareholder rights; administrative bodies (supervisory board, board, joint supervisory board); corporate secretary of the company; Internal control and risk management; Disclosure of information and transparency; Evaluation and remuneration of members of the Supervisory Board; conflict of interest. The final provisions of the Code are related to corporate governance issues in the holding company and Corporate Governance of related parties.

The Jordanian Code pays attention to the improvement of five areas of corporate governance, in particular: the functions of the board of directors, the creation of committees under the boards, environmental control (including the external and internal environment of the organization), shareholder rights and transparency, and information disclosure.

The Ireland CG Code focuses mainly on the structure and development of committees under the board of directors, as well as issues related to the appointment and candidacy of the Chairman, Chief

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The Italian Code of Corporate Governance points to the central role of the bank's governing bodies in determining corporate governance mechanisms that ensure the achievement of the goals set by the strategy.



Fig.1: Six macro themes and five banking businesses [15]

In this regard, the Bank of Italy in its code considers the adequacy of organizational and corporate governance mechanisms. The provisions also contain the principles for the formation of effective management in accordance with article 56 of the consolidated law "On Banking Activities", which are necessary to reflect in the Charter of banks.

The Central Bank of Qatar in 2008 adopted the KU Code with the aim of implementing the regulatory process and assessing the level of corporate governance efficiency in banks. The Code contains recommendations regarding the improvement of various areas of corporate governance, in particular transparency and disclosure of information, the rights of shareholders, the board of directors, governing bodies, internal and external audits.

The Singapore Corporate Governance Guidelines are designed for banks and other financial institutions to use the best global practices to achieve similar corporate governance results. For each individual principle, the Code provides guidance for banks, as well as clarifying comments in case of any questions.

The Nigerian Code of Ethics was adopted in 2014 and contains 6 main sections, including: the board of directors, shareholders and their rights, disclosure of information in the annual report, risk management, ethics and professionalism, conflict of interest and regulations.

The Dutch Corporate Governance Code applies to all banking organizations, including banks with

licenses issued in accordance with the Financial Supervision Act, regardless of the territory of which state the bank operates (in the Netherlands or in another member state), and regardless of whether the parent bank carries out this activity or a branch.

All banks annually present in their annual reports information on how they applied the principles of the Code in the previous year, providing a reasonable explanation in cases where it is impossible to apply one or another principle. In addition, the Code regulates the obligation of all banks to post a report on their websites.

The Morocco Code of Ethics includes such aspects of corporate governance as the responsibility of governing bodies, an internal control system, conflict of interest management, transparency and the dissemination of information.

Summarizing the above, it should be noted that all banking codes that are not currently accepted are necessarily include the following elements:

1. Responsibility and ensuring the effectiveness of the board of directors, as well as the creation of committees under the boards;
2. Issues related to the activities of the general meeting of shareholders - preparation, conduct, rights of shareholders;
3. Transparency and disclosure of information by public companies, including information on the reorganization of the company (mergers and acquisitions, etc.).

The legal status of different codes is also different in countries. In some countries, following the code is the main condition for listing on the exchange; for this, the issuer is obliged to publicly notify that the code is being followed or indicate the reasons for non-compliance with certain provisions of the code in accordance with the "comply or explain" rule.

It must be concluded that today countries are actively addressing the issue of introducing corporate governance practices in their banking systems, in connection with which they are developing state codes for banking corporate governance and oblige banks to comply with their provisions. However, the level of compliance by banks with these codes is still very low, as is the number of corporate governance codes created to date. In this regard, it is necessary to involve the banking community in the creation and development of codes and the dissemination of international best practices in this area in order to create a stable global banking system.

Despite the high level of development of KU systems in foreign banks, the practice of Russian KU is still at the stage of formation. In the course of

analyzing numerous publications and monographs related to the implementation of the concept of corporate governance in Russian banks, it was found that the level of corporate governance in Russian banks is at a fairly low level, far from all principles are followed by banks, moreover, the level of quality of explanations for non-compliance with provisions The Code of CG is also low. In this regard, the urgent issue is to increase the level of corporate governance in Russian banks.

Based on the results of the study, the author proposed the following directions for improving the corporate governance structure: 1. Using shares and financial instruments based on the shares of the company as a motivation for members of executive bodies and other key bank managers.

For example, in the USA, for example, the Stock Bonus and its modifications were widely used - Restricted Stock Units, Deferred Stock Units, Performance Stock Units, cash the equivalent corresponding to the increase in the value of shares, taking into account dividend payments (Phantom Stock) or without them (Stock Appreciation Rights).

Another motivation mechanism is the Employee Stock Ownership Plan (ESOP in the USA and Share Incentive Plan in the UK).

It is possible to provide deep motivation for employees not by an asset, but by the right to purchase shares. A participant in option programs receives only the right to buy shares of the bank at his own expense at a reduced price in the future.

2. The inclusion of independent directors in the committees created by the board of directors, the appointment of an independent director as the head of the remuneration committee, as well as the appointment of independent directors as the chairman of the board of directors, or the election of the senior independent director coordinating the work of independent directors and interacting with the chairman of the board of directors.

However, before the spread of the institution of independent directors in Russia, it is necessary first of all to clearly regulate the concept of "independent director" in order to avoid disagreements between market entities.

For example, the Association of Regional Banks offers the legislator and the Bank of Russia in accordance with the recommendations of the Basel Committee [1]:

- give a clear definition of the concept of "independent director", develop a normative document in which to indicate the qualification, age and other requirements that he must meet, clearly

define on behalf of whom he is elected and who has the right to nominate candidates for the position of such director, what material sources he may have income whose interests he must represent on the board;

- determine who will check whether an independent member of the board meets the established qualification requirements and whose real interests he defends, propose this definition for discussion by the banking community and make legislative proposals based on its results;

- give recommendations (rather than put forward mandatory requirements, as this is contrary to law) regarding the quantitative composition and structure

the board of directors of a credit institution: how many representatives from owners, from executive bodies, and other persons should be in it;

- determine (recommend) what powers, in addition to those established by law, should (may) be given to the advice of a credit institution;

- to consider other options of influence applied to the heads and owners of credit organizations that are not applicable to the distribution of profits that are used in international practice.

3. Empowering employees participating in general meetings with the right to express their opinions and ask questions of interest to them.

The implementation of this is possible by regulating the time for reports in internal documents, as well as the time for discussing these issues. It is also possible to use telecommunications facilities to provide shareholders with remote access to participate in general meetings.

4. Clear regulation of the mechanisms for determining the amount of dividends and their payments in internal documents.

5. Conducting a regular assessment of the work of the board of directors, committees and members of the board of directors through the involvement of external auditors or through self-assessment of individual members of the board of directors and the board of directors as a whole. It is also necessary to consider the results of these evaluations at an in-person meeting of the board of directors.

The implementation of this direction is possible by creating a methodology for assessing the quality of work of the board of directors.

6. Clear regulation and publication of information in sources open to shareholders and investors (for example, on the official websites of banks) on the compliance of the position of corporate

secretary with the requirements of the Code of Corporate Governance.

7. The internal audit unit to evaluate the effectiveness of the internal control system, evaluate the effectiveness of the risk management system, corporate governance system, as well as apply generally accepted standards of activity in the field of internal audit. This direction can be implemented through clear regulation at the legislative level and the timing of these assessments.

8. A fuller reflection by banks of information on the corporate governance system and practice, including detailed information on compliance with the principles and recommendations of the Code, in their annual reports. If there are ambiguities or questions from banks about the correctness of filling out certain tables, it is possible to send letters to the Bank of Russia in order to request clarification.

9. Development and implementation by banks of information policies that ensure effective information interaction between the company, shareholders, investors and other interested parties.

10. Clear regulation in internal documents of the rules and procedures related to the implementation of significant corporate actions by the bank.

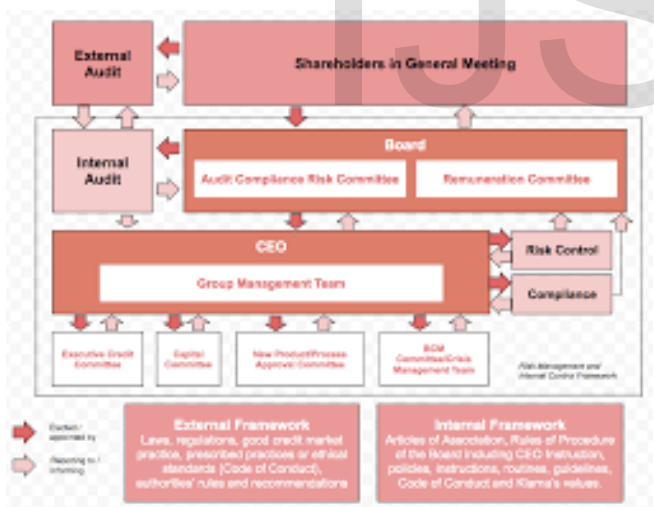


Fig.2. Corporate Governance [16]

In modern conditions in banking practice, innovative leasing, factoring, franchising, forfeiting, the provision of acquiring services, remote account management systems, the package provision of insurance services are no longer considered innovative. In addition, all technical innovations, as you know, are copied in the first six months of operation. That is why each bank seeks to develop a strategy for the introduction of new products or services so as not to lose in the competition or implement a competitive strategy using other forms of

competition (for example, strategic alliances, bank holdings).

Consider, as examples, the competitive corporate strategies of some foreign commercial banks:

1. Analytical and innovative strategy (Industrial and Commercial Bank of China - ICBC), which is based on an analytical assessment of positive international experience and a forecast regarding their strategic development in the field of optimizing bank management systems that determine the struggle for leadership.

2. The corporate strategy of JPMorgan Chase, aimed at identifying and achieving the optimal level of competitiveness by coordinating managerial, technological, economic, social and legal mechanisms, creating a new generation banking system with respect to optimizing the organizational architecture, improving technologies, increasing the adaptability and profitability of the banking structure.

3. Strategic initiatives and directions of HSBC Holdings plc, characterized by investments in the field of automation of banking processes; new computer technologies of self-service, remote servicing, virtual banking and financial technologies, data protection technologies. Integrated use of new information and communication technologies for electronic marketing.

4. Adaptive competitive strategy of Citigroup, implemented in the context of modifications of the management structure, structural and functional changes taking into account the optimization of the banking network, segmentation and changes in the work of branches.

For Russian banks, the current situation is characterized by high risks, because for a number of reasons there are no mechanisms and strategies to maintain competition with advanced foreign counterparties. It is worth noting that the Russian banking system loses in scale to Western competitors, where banking groups prevail.

New information and communication technologies, together with global strategic processes, are transforming banking. The role and place of a modern bank, tools, methods of achieving goals and goals themselves are changing. The domestic banking sector is changing with the arrival of competitors from other areas (MTS Bank, MegaFon. Bank), therefore, in order to withstand local and international competition and enter the international financial community, it must actively and effectively introduce banking innovations. In this case, ensuring the stable functioning and development conditions, increasing



competitiveness in the domestic and foreign financial markets, and strengthening the bank's interaction with the real economy continues to remain the priority tasks of Russian banks.

The peculiarities of managing innovative strategies of banks are taking into account the social aspects of innovations and changing their social significance over time, which may serve as the subject of further research directions. A large role in this belongs to the state, which, through the regulation of tax rates and the provision of benefits, can stimulate or restrain financing, as well as promoting innovation.

An attempt to implement effective corporate strategies of banks has become an urgent need for survival in international competition. In Russian practice, this is characterized by a number of features and areas of influence of the external environment: the integration of Russian banks in the global financial system; crisis and banking restructuring; state regulation of the parameters of commercial banks.

Global changes in the financial market are closely related to the creation of a single information field. The most important trends in this area include the spread of innovative banking technologies, competition at a new strategic technical level, and a change in the structure of the banking sector due to the growing number of mergers and acquisitions.

In the framework of numerous analytical studies, many reasons for the inefficiency of transactions in the implementation of the integration strategy are determined. Recently, among these reasons, the lack of effectiveness of the control function has gained particular importance.

Management diagnostics shows that, contrary to seemingly sound financial calculations and estimates, implementation of integration strategies creates bottlenecks that minimize the expected synergistic effect of transactions. The low efficiency of corporate and financial control and knowledge of the legislation can become a reason that impedes the creation of a single system of strategic development of an effective organization.

Among the key tasks in this area that should be worked out by the organization's management are the following:

- planning programs that will create a unified system of corporate and financial control;
- optimization of the organizational structure, taking into account the need to create special structural units;
- planning and conducting a system of measures to create a comfortable level of control in the organization;

- Introduction of systems of additional training for employees;
- building a single team.

It should be noted that the successful integration process involves the development and implementation of an information campaign preceding the reorganization. The maximum conclusion of each employee from the information vacuum is a prerequisite for the active inclusion of the employee in the implementation of organizational changes, maintaining the necessary level of his loyalty and effectiveness. The erosion of the goals and prospects of the organization as a whole, and of a particular employee in particular entails the immersion of personnel in conditions of uncertainty, accompanied by a decrease in the level of motivation and efficiency of employees, which leads to significant and tangible resistance to changes and control. In this sense, carrying out a transparent process of control is of key importance, which will remove or minimize serious emotional stress and, in addition, receive suggestions from the best employees on improving ways to implement the integration process.

If we turn to specifics regarding the forms and methods of integration in the banking sector and the need for state corporate control over them, it is worth noting that the participation of a credit institution in a bank holding as a global trend, which was mentioned above, is a source of significant risks, since in addition to banking risks arising in the activities of any credit institution, its participation in a bank holding entails the occurrence of the consolidated risks of a bank holding, to which they are exposed. Behold the participants.

As part of the supervision of a separate credit institution - a member of a bank holding company, it seems important that the supervisor considers the credit institution and its risk profile from different angles: on an individual and consolidated basis, taking into account the risks of other participants in the banking holding that can be transferred to the credit institution - member of a bank holding company. Participants in a bank holding company, especially those operating in the non-financial sector, may adversely affect the financial position, reputation, general security and reliability of a credit institution.

In the performance of their functions, supervisors should be able to monitor all risks arising in the activities of an individual bank, its affiliates, or at a higher level (banking group and bank holding).

### 3 Conclusions/Recommendations

In addition, it is worth noting the directions proposed by experts to improve the corporate governance structure.

Firstly, it is a matter of minimizing conflicts between all participants (shareholders, members of the board of directors, supervisory board, executive bodies, employees, creditors, depositors, other customers and counterparties). The board should play the role of a regulator, balancing the interests of owners and management. That is, if necessary, the Council should stand up for each side. At the same time, the opinion of minority shareholders is partially shared by the Exchange and the regulatory body. On the other hand, from the point of view of the majority shareholders, corporate governance is a problem for management and makes decision making difficult, creates a large amount of documentation without tangible benefits and limits the payment of services provided by the majority shareholder to subsidiaries. At the same time, one can observe a tendency for a correlation between effective corporate governance and higher capitalization and a decrease in risk and more informed decisions as a result of a more diverse composition of the board of directors.

Secondly, the issue of GS and cybersecurity. Today, there is an active development of information technology, in connection with which the management in banks should comply with modern trends.

Improving corporate governance will help strengthen the business reputation of the bank, optimize the structure of bank assets and liabilities, improve financial results, expand sources of investment funds, develop lending mechanisms and establish mutually beneficial relations between the bank and its counterparties, including investors, customers and other interested parties.

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