



Box B

Governance Thematic Review

In September 2023 we completed a joint Governance Thematic Review with the Financial Markets Authority (FMA), on the foundational elements of good governance, including the frameworks, policies, processes and practices of boards of regulated entities. The aims of the review were to:

- determine the extent to which these are aligned to our regulatory requirements and guidance;
- understand how these allow boards to provide effective oversight; and
- promote effective board practices by outlining areas of good practice that all boards should consider, clarifying our expectations and highlighting areas for improvement.

The Review included assessment against legislative requirements, Reserve Bank and FMA guidance, as well as local and international guidance on good governance practices.

We reviewed a sample of 29 entities across the banking, insurance, non-bank deposit-taking and investment management sectors. Across the sample, we observed a variety

of governance practices. There were a number of examples of good practices, as well as some that were below our expectations, as highlighted in the Review.³⁰ There is still room for improvement in most entities to ensure robust and comprehensive governance frameworks, policies and processes are in place. While these foundational improvements are essential, it is equally important that boards give adequate attention to culture and behaviour to foster good governance.

A common theme running through the Review is the need for boards to be able to change and evolve, setting themselves up for success not only now but into the future. This includes proactively identifying opportunities for continuous improvement and formalising good practices into processes to foster transparency and accountability.

Having the appropriate processes, capabilities and culture in place allows boards to ask the right questions and provide appropriate direction, challenge and oversight.

While both the Reserve Bank and the FMA have issued guidance on governance, boards should be considering and adopting good practices over and above those minimum standards. Some of the key principles from the Review that all boards should consider include:

- the roles and responsibilities of boards, board and committee chairs and their members are clearly defined, understood and remain fit for purpose;
- boards maintain the collective skills and experience to guide and oversee the implementation of the entity's long-term strategy and to discharge their roles and responsibilities effectively;
- succession planning is a priority for the chair;
- boards have sufficient independence to support good decision making;
- boards have sufficient diversity to support their role;
- directors have sufficient capacity to fulfil their obligations;
- boards provide effective and appropriate challenge; and
- a focus on continuous improvement and regular evaluation drives board performance.

We encourage boards of regulated entities who did not participate in the review to assess their governance arrangements against our expectations and the good practices outlined in the report.

The findings from this Review will be considered in upcoming policy reviews such as the development of standards for the Deposit Takers Act 2023 and review of the Insurance (Prudential Supervision) Act 2010.