Financial Institutions Management (Optional)

I. Subject Overview and Objective

Management of financial institutions (mainly financial intermediaries) needs specific management approach different from the management of other business entities as financial institutions have a wide macro –economic and public impact because of their specific business on money. The key to management of financial institutions is to build and preserve customer confidence in the ability of the institutions to fulfill their business transactions. When it comes to transactions in money which is an asset of one party financed by a liability of another party, the customer confidence becomes the key to the sustainability of transactions. To preserve the customer confidence, the integrity of employees , policies and systems is the crucial factor. In this regard, institutions management principles, best practices and legal requirements should be followed and adhered to. The lack of knowledge on such management by the employees and managers of the financial institutions leads to institutions failures and bankruptcies due to fraud and mismanagement. Therefore, this subject is designed to provide knowledge on broad areas and components of management of financial institutions to banking and financial professionals and assist them to perform and carry on their operations within the broad management framework. However, financial, human resource and marketing aspects in financial institutions management are not covered in this subject in order to limit this subject to core areas and they are covered in financial client's management subject of this programme.

11. Recommended Subject Coverage

(a) Incorporation: The procedure under the Companies Act, different types of companies' registration and required documentation

(b) Licensing of financial business institutions (commercial banks, specialized banks, finance companies, finance leasing companies, insurance companies, fund management companies, co-operatives, dealing and brokering companies, payment service providers, etc.)

(c) Shareholders: Their rights and responsibilities/duties in terms of Companies Act and other regulatory provisions and best corporate governance practices

(d) Group and Organization Structures: Identification of business lines, reporting lines appropriate for effective business oversight and Chinese Walls, organization chart, group companies

(e) Expansion Strategies: Financial super markets/ conglomerates (banking, insurance and securities trading), setting up of subsidiaries, mergers and acquisitions (objectives-scale and scope, cross-selling, market share, synergy, taxation, vertical integration, etc., market practices-friendly or hostile, statutory provisions, due diligence studies, financing methods-leverage buyouts, equity, success/failure factors)

(f) Financial Reporting and Analysis: Internal controls on financial information reporting, major disclosures in financial statements, financial performance analysis (financial/ accounting ratio analysis and preparation of risk-focused business performance reports)

(g) Audit: External and internal audit processes (audit charter, powers, duties, samples, communication, etc), audit methods (compliance-focused, risk –focused, performance focused, etc) major auditing standards, audit committee, reporting and resolution of issues/audit concerns

(h) Compliance: Objectives (culture of integrity and risk management), monitoring mechanism on the compliance with applicable laws, regulations, policies, processes and internal controls by the employees, non-compliance reporting and relevant disciplinary procedure, compliance officer, recent non-compliance issues reported in the world in banks and financial institutions

(i) Corporate Governance: Evolution in brief, definitions, principles-based governance and rules-based governance, Board of Directors(appointment, responsibilities, criteria for fitness and propriety, balance between independent directors and executive directors, Board meetings, remuneration, legal provisions), separation between the Chairman and Chief Executive Officer, Board-sub Committees(nomination, remuneration, audit, performance, risk management, etc), key management personnel, business model, business and operations policies by the Board and implementation by the key management, recent corporate scandals reported in the world, corporate social responsibility and practices

(j) Corporate/Strategic Planning: Setting vision, mission, values, objectives and goals, environmental scanning, SWOT analysis, business strategies, key performance indicators(KPIs), monitoring mechanism of KPIs

(k) Financial Fraud: Ponzi schemes (Goldern Key, Madoff), rouge dealings and breach of internal controls(Barings, Societe Generale, UBS,JP Morgan Chase), creative accounting and poor governance(hiding liabilities in the off- balance sheet –Enron, Lehman Brothers), card fraud, money laundering facilitation, miss-selling of products

(l) Risk Management: Various risks classifications (credit, liquidity, market, operation, strategy, external, etc) impact of risks on institutions, risk identification indicators and systems, risk reporting systems, risk mitigation processes (internal controls, risk committees, independent chief risk officer framework, internal and external supervision, macro- level risk cover such as risk-based capital), three lines of defense framework against risk (management control as the first line, risk, control and compliance oversight established by the management as the second line and independent assurance as the third line)

(m) Liquidation: Procedures under Companies Act and other applicable legislations