

370 Helen Joseph Street Pretoria 0002

+27 12 313 3911 / 0861 12 7272

www.resbank.co.za



SOUTH AFRICAN RESERVE BANK
Prudential Authority

Ref.: 15/8/2

G1/2022

To: All prospective co-operative financial institutions, registered co-operative financial institutions and co-operative banks

Guidance Note 1/2022 be issued in terms of section 45(e) of the Co-operative Banks Act 40 of 2007.

Meetings to be held during the 2022 calendar year with the boards of directors of co-operative financial institutions and co-operative banks

Executive summary

This guidance note serves to inform all co-operative financial institutions and co-operative Banks (hereinafter collectively referred to as ‘co-operative banking institutions’) of the flavour-of-the-year topics for the discussions to be held with the respective boards of directors (boards) of co-operative banking institutions during 2022.

A. Meetings

1. Introduction

1.1 To assist the Prudential Authority (PA) to discharge its supervisory responsibilities, the scope of the meetings with the co-operative banking institutions’ boards during the 2022 calendar year will include a discussion on the following flavour-of-the-year topic:

2. Succession planning

2.1 Background

2.1.1 Ongoing changes in the business and operating environment, transformation, market disruption, innovative technologies, new business models or other forms of competitive pressures, require a suitable level of continuity in corporate governance and organisational structures of financial institutions. This in turn will necessitate those co-operative financial institutions to continually identify suitably skilled and experienced individuals who are capable of strategically steering it through the challenges brought about by aforementioned changing conditions. Governing bodies, such as the board, board committees, executive committees, management forums and other key individuals/persons should also be agile and attuned to these changes and ensure that proactive succession planning is done to respond to expected and unexpected changes in the composition of boards, board committees,

senior management, and other key individuals/persons in financial institutions. Being unprepared for aforementioned changes could result in uncertainty, instability and pose a potential risk to financial institutions. While executive and senior management turnover is inevitable, unexpected occurrences can create uncertainty and disorder in any management team, particularly in the absence of an adequate and comprehensive succession plan/program/strategy.

- 2.1.2 Succession planning essentially entails strategically identifying and developing new and potential leaders and key talent who can move into leadership and/or key roles when they become vacant, and is therefore critical for boards, audit committee, board committees and management. It entails having a vision for the financial institution also retaining institutional knowledge for the business of the institution to continue running smoothly after a key role/person retires or leaves the institution.
- 2.1.3 Succession planning has implications on the strategy of a co-operative banking institution, its reputation, its sustainability, governance, and concern for the community. Poor succession planning inevitably could create a leadership vacuum at both a board, board committees and management level resulting in a potential loss of strategic focus. It is critical that a co-operative banking institution's succession strategy and plan is a living document that is active, current, includes a deliberate development and capacitation focus, and ideally has multiple potential candidates and developmental programs. It should be a multi-layered process involving a detailed assessment of the co-operative banking institutions needs relative to its resource and skill gaps, and an intentional focus on developing successor candidates, while promoting accountability through ongoing evaluation and should be a key point of discussion at the annual general meeting. It is the foundation to successfully address both planned and unexpected staff, board and audit committee changes and should be a continuous and well thought-through process.
- 2.1.4 The PA aligns its governance review with that of the International Credit Union Regulators Network (ICURN) guiding principles on Enhancing Governance of Co-operative Financial Institutions. The ICURN highlights the importance of an appropriate composition of board members through a succession plan for the board by "recruiting members from a broad population of candidates helping to enhance board perspective and ability to exercise objective judgment, independent of senior management and personal interests. In identifying potential board members, the board should ensure candidates are qualified to serve as board members and are able to commit the necessary time and effort to fulfil their responsibilities and to undertake any required training requirements within the timeframes established by the co-operative banking institution". On the appointment of management, the ICURN states that "the board or, where applicable, members should select and, when necessary, replace senior management and have in place an appropriate succession plan"
- 2.1.5 The model constitution of a co-operative banking institution, as published by the CIPC, CBDA and PA over the past years, includes a clause that states "The Board shall, at least 30 days prior to each AGM, appoint a nominating committee of not less than three members. It shall be the duty of the nominating committee to nominate one or more nominees for each vacancy to be filled by the elections". The nomination committee is critical in succession planning in identifying suitable candidates to assume key positions.

2.1.6 With reference to the PA's pre-emptive, outcomes focused and risk-based supervisory approach, it is important for the PA to assess and determine that co-operative banking institutions have robust, adequate, and efficient succession plans, practices, and policies in place, that are commensurate with its size, nature and complexity and will result in successors that are fit and proper are eligible in terms of relevant legislation. These assessment forms are an important component to enhance the PA's ability to effectively achieve its ongoing supervisory objectives and mandate. An open and prompt communication on succession related matters must be maintained between co-operative banking institutions and the PA.

22 **Format of discussion**

2.2.1 The chairperson of the board is required to make a presentation to the PA on succession planning. The duration of the presentation should be approximately 60 minutes.

2.2.2 The PA requires a copy of the presentation to be provided at least three weeks prior to the board meeting.

2.2.3 As a minimum, the following aspects, as it relates to the involvement of the board / management should be covered during the presentation:

- a. General overview of the institution's approach to succession planning with regards to the board, audit committee and management.
- b. Indication on the governance structure that has the mandate to discuss succession planning with the Managing Director (MD) and board and frequency of it, including whether any deviations are permissible to internal processes and mandates.
- c. Demonstrate that the board has in place a clear and robust succession strategy to identify, assess and select board, audit committee and management candidates, including reviewing whether the candidates possess the knowledge, skills, and experience to ensure that current and future competencies are aligned to the co-operative banking institutions strategy.
- d. Status of a formal succession plan for the board, and audit committees and MD and how it intends filling existing vacancies.
- e. Board continuity programme and succession planning considering the maximum terms allowed as prescribed in the co-operative banking institution's constitution and the Co-operatives Act.
- f. Skills and experience required of board members and management to effectively implement the co-operative banking institution's strategy.
- g. Processes in place to identify future board members from the membership and mentorship and development of future candidates.
- h. Development plans for successors, including training programs and assessment of performance against development plans.
- i. Communication plan (including consideration of regulatory requirements such as reporting to the PA and CIPC) to deal with any changes in the board, management and key roles.
- j. Indication of the challenges faced in attracting skilled candidates.
- k. Overview of nominations committee terms of reference in the recommendation of board appointments including frequency of review.

- l. Transformation considerations undertaken in succession planning and targets (if applicable).
- m. Board self-evaluation process and how succession planning is assessed as part of the evaluation.
- n. Retirement age of management and board members, including the policy that governs age and tenure.
- o. Issues relating to succession planning raised by audit committee and/or external audit in the past 2 years.

2.2.4 As a minimum, the following documents should be submitted:

- a. Agendas and minutes of the governance forums where succession was discussed.
- b. Terms of reference of the nominating committee.
- c. Copies of the formal succession plans in place for the board, MD and key roles. Ideally this should include emergency (unplanned vacancy), ready now, ready in 1-2 years, ready in 3-5 years.
- d. Board Directorship continuity program and rotation.
- e. Development plans for successors, including training programs and assessment of performance against development plans.
- f. Nominations committee appointment policy.
- g. Policy that governs retirement age and tenure.

2.2.5 The PA will closely monitor succession planning as part of its ongoing supervision and will continue to engage co-operative banking institutions on the matter through other prudential meetings such as the meetings with the Chairperson of the Board and MD of the co-operative banking institutions. Due to the sensitive nature of succession planning discussions, the PA may request closed sessions with the Board and/or the MD and auditor to discuss more pertinent details of a bank's formal succession plan, as and when needed. This will form part of the agenda of the meeting and co-operative banking institutions will be advised of this in good time prior to the meeting.

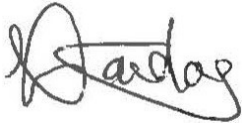
2.2.6 In preparation for the meeting with the board/management your institution may be requested to furnish the PA with certain additional documentation and/or information on succession planning (this will be communicated prior to engagements). Such documentation and/or information must be forwarded electronically to the PA prior to any meeting or engagement.

2.2.7 Further, in preparation for the meeting, the Board is required to ensure that only persons that are familiar with the succession plan are present for the discussion to not breach internal confidentiality.

2.2.8 The PA may consider communicating the thematic outcome of these engagements to the industry at an aggregated industry level.

B. Acknowledgement of receipt

1. Kindly ensure that a copy of this guidance note is made available to your institution's independent auditors and Board. The attached acknowledgement of receipt, duly completed and signed by both the MD of the institution and the said auditors, should be returned to the PA at your earliest convenience of the signatories.



Kuben Naidoo
Deputy Governor and CEO: Prudential Authority

Date: 11 March 2022

Encl. 1

The previous guidance note issue was Guidance Note 1/2020, dated 02 March 2020.