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IMPORTANCE OF CORPORATE GOVERNANCE FOR BANKS IN EMERGING ECONOMIES IN DEALING WITH MONEY LAUNDERING AND INFORMATION TECHNOLOGY PROBLEMS

Contrary to many perceptions emerging economies at present are not attractive sites for money laundering. A report by the International Narcotics Control Strategy Report (2006) provides an assessment of anti-money laundering activities in over 200 jurisdictions. They categorized countries/jurisdictions as: 1) 'Of Primary Concern', 2) 'Of Concern' and 3) 'Monitored'. Many nations within the category of 'Of Primary Concern' were not emerging economies. These nations were routinely classified as nations to be 'Monitored'. The principle reason justifying the classification of emerging economies as 'Monitored' is the lack of (a) banking information technology infrastructure, (b) global interconnectivity and (c) sizeable financial transfers and transactions across international boundaries. Persons and organizations involved in money laundering would naturally prefer to use financial structures that support high quantities of financial interaction and traffic. This is because in high traffic locations the transfer of large quantities of funds derived from illicit activities are likely to attract less attention when mixed with financial traffic of the same nature. As banks from emerging economies enter the international banking system in greater numbers and financial transactions from and to these banks intensify the attractiveness of such institutions to money launders becomes greater. Rather than follow the evolutionary path of banks in developed nations already prone to money laundering the banking sector in emerging economies need to be proactive in ensuring they have anti-money laundering practices and procedures in place before being enveloped with money launders. Banking sectors in emerging economies must forego the lure of increased busy and possible provide at the expense of actively safeguarding against money laundering.

Corporate governance concerns in firms with diffuse ownership is well documented and long established. The need for a strong corporate governance structure and culture, however, is a condition that should prevail through all organizations regardless of ownership structure. Whilst recent media attention surrounding corporate governance has usually focused on scandals involving large corporations with complex and often highly diffused ownership there are various scandals abounding involving organizations of various scales and type in which the failure can be linked to poor corporate governance.

The need for sound corporate governance structure and culture has, and continues to be, a pivotal source of sound business practices. For a financial institution such as a bank sound corporate governance structure and culture is of greater importance given the type of custodian responsibilities a bank holds in dealing with highly liquid assets. To effective combat money laundering, and to a lesser extent information technology problems requires a sound corporate governance structure and culture. Without an effective corporate governance structure the monitoring effectiveness of the bank is put at risk. If corporate management and employees of a bank are instilled in any environment that does not emphasize strong ethical values and practices chances increase they will side-step safeguards designed to prevent money laundering and intrusion via information technology. A strong culture of monitoring should be created at the top down throughout the organization. This will create the presence of strong monitoring that will likely have a greater chance of reducing money laundering and information technology problems.

Besides monitoring the corporate governance structure and culture should emphasize one capable of dealing with the increasing complexities of the new dynamic economic era. Whilst still a matter of contention having diversity in the corporate governance structure and culture enables greater flexibility in thinking and development of ideas than that which will be provided by a homogeneous group with similar thinking paths. Further, greater diversity in the corporate governance structure at the upper echelons will assist in building a heightened affinity and familiarity throughout the bank as a whole. Such diversity is of great importance for banks from emerging economies seeking to enter the international financial system. Great diversity within the corporate governance structure and culture of the bank will enable it to adapt more quickly to a new business environment and challenges this provides. Overall, with money laundering and information technology problems being highly dynamic events having greater diversity affords the opportunity for banks in emerging economies to adapt more rapidly.

Whilst a number of pronouncements have been made there is no magic number or wand that can create the perfect corporate governance structure and culture for a given enterprise whether that is a bank or industrial firm. The impression bantered about in various practitioner and even scholarly articles is there exists a magical ‘one fits all’ corporate governance structure and culture. Within an international setting the ability to develop a single ‘one fits all’ corporate governance model is intensified given the mix of such diverse and different cultural and institutional factors. The debate on whether corporate governance practices are converging or diverging is still a hot topic. But as practices currently differ it is best to suggest that in developing its corporate governance structure and culture each individual banks in emerging economies should consider their own specific conditions, needs and future aspirations before settling on a finalized (though flexible) corporate governance environment.

Though supporting a need for banks in emerging economies to developing their own corporate governance structure and culture to address issues such as money laundering and information technology problems on entering the international financial system, key basics should still prevail. Importantly it is imperative the concept of independence be prominent in the bank’s corporate governance structure and culture. For example, there should be a separation between the roles of chairperson of the board and chief executive officer, a strong presence of independent directors on the board and a limitation on the amount of non-audit services performed by the incumbent external auditor. To assist in the effective operations of the board and top management key board sub-committees – such as the audit, remuneration, nomination, risk management – should be established where applicable and with a strong presence of independence. In constructing key corporate governance mechanism – such as the board and its various sub-committees – the bank should strive to draw on resources (that is people) that herald from different background but which compliment bank's underlying nature and principles overall. Development of an organization mission statement is also imperative. Whilst a mission statement is recognized as one of the most commonly used management tools worldwide its actually application can range from highly relevant to non-existent. In developing a mission that is to support the bank's corporate governance structure and culture the objectives, aims and views outlined must 'actually' curtail to bank's corporate governance structure and culture. For example, ff the bank's corporate governance structure and culture is designed to emphasize independence and ethic responsibility then the mission statement should also advocate these overtures. If objectives of the mission statement conflict with the corporate governance structure of the firm the resulting corporate governance culture will be sending mixed messages. Finally, transparency is a serious requirement. Information on money laundering and information technology as it relates to each bank is only formally known insiders. However, as money laundering and information technology problems impacting on a bank can have ripple on effects to external parties the need to keep such parties informed is intensive. Reduction of information asymmetry concerns on money laundering and of information concerns will ensure the increasing information needs of a broader spectrum of investors, debtors and other stakeholders are met.

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