

Progress in Strengthening Senior Management Accountability through Responsibility Mapping

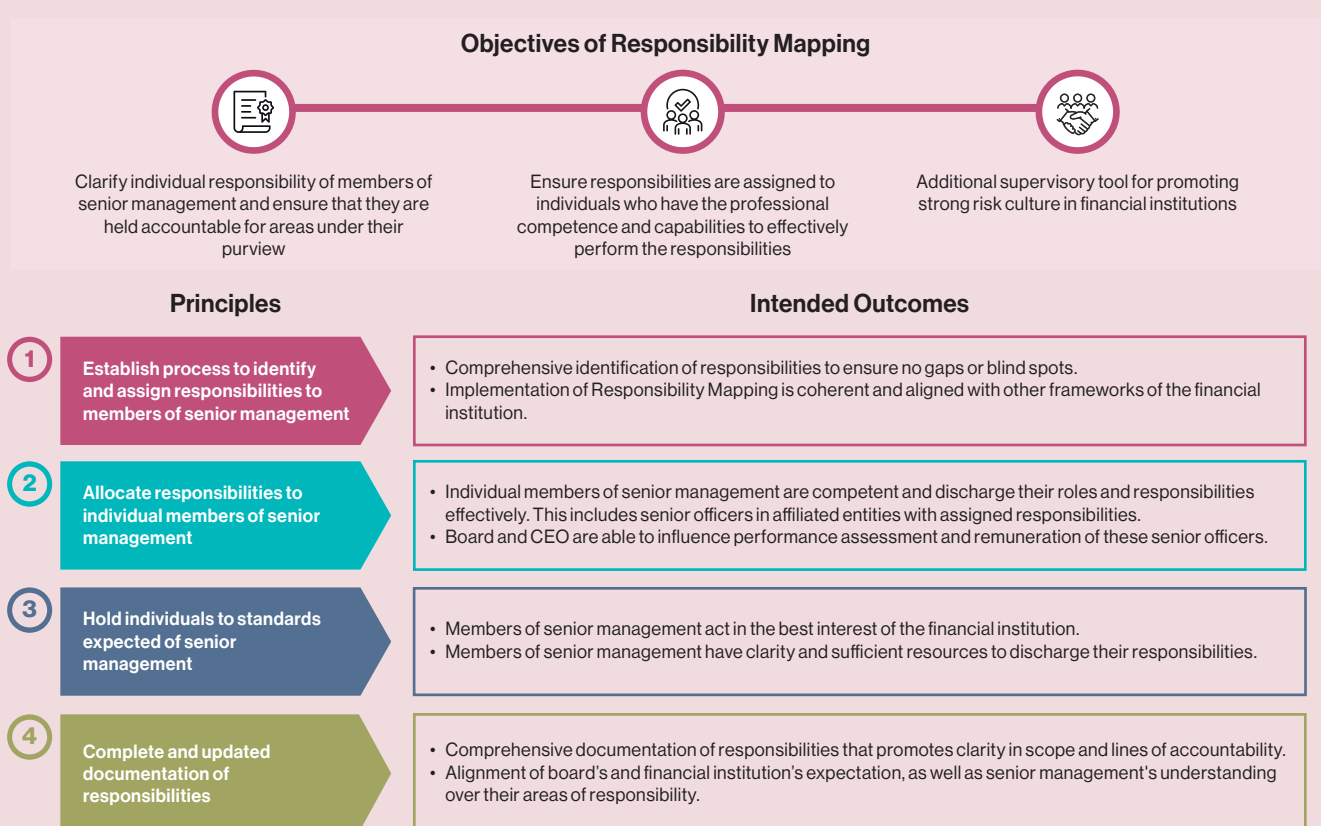
A culture of accountability is critical in financial institutions given the role they play in the economy. Accountability helps ensure that individuals entrusted with the management of financial institutions make decisions that serve the best interest of their institution, shareholders and customers, while supporting long-term sustainable economic growth.

Regulators often face difficulties in identifying and taking enforcement actions against individuals accountable for failures during financial crises or in episodes of misconduct and scandals.¹ This is mainly due to job descriptions often outlining responsibilities in broad and generic terms, rather than clearly specifying the individual who is accountable for the decisions and outcomes. This challenge is further complicated by collective decision-making through committees and processes that cut across the financial institution. Thus, policies that aim to clearly assign critical decision areas to specific members of senior management are crucial in ensuring specific persons are identified and held accountable. These policies promote a strong sense of individual accountability among senior management of financial institutions.

On 29 December 2023, Bank Negara Malaysia (BNM) issued the Responsibility Mapping policy document, outlining an accountability framework for members of senior management of financial institutions in Malaysia. This policy is set to take effect on 1 January 2026.

The policy document provides high-level principles for financial institutions to ensure clarity in the roles and responsibilities of senior management. This is particularly important in areas involving shared responsibilities, matrix reporting structures, collective decision-making forums and intricate reporting structures within financial groups, where reporting lines and individual accountability can be ambiguous. An overview of the policy document is illustrated in Diagram 1.

Diagram 1: Responsibility Mapping Policy Document Objectives, Principles and Intended Outcomes



Source: Bank Negara Malaysia

¹ Strengthening Governance Frameworks to Mitigate Misconduct Risk: A Toolkit for Firms and Supervisors. (2018). Financial Stability Board.

Financial institutions are making meaningful implementation progress

BNM engaged several financial institutions (including banks, insurers and takaful operators) on their progress in implementing Responsibility Mapping. These engagements focused on arrangements to support implementation of the Responsibility Mapping policy document, approaches to identify and assign responsibilities to members of senior management and challenges in documenting responsibilities.

Most financial institutions designate either the Chief Compliance Officer or Chief Human Resource Officer to lead the implementation of the Responsibility Mapping policy document. The designated lead works alongside a cross-functional team that includes representatives from human resource, compliance and risk management. This structure is essential to ensure that the accountability framework not only meets regulatory requirements but also aligns with the financial institutions' performance and incentive frameworks.

Overall, financial institutions are making steady progress in the identification and allocation of responsibilities to members of senior management. Most institutions began this process with a structured, bottom-up approach that involves identifying gaps in their existing governance framework and arrangements. These gaps were identified by reviewing existing organisation structure, reporting lines, job descriptions, committee terms of references, accountability matrices, and ensuring alignment with regulatory requirements. Several institutions complemented this with a top-down approach by analysing alignment between board expectations and senior management's actual span of control and influence.

Financial institutions acknowledged that the Responsibility Mapping exercise was useful in identifying blind spots, overlaps and ambiguities in responsibilities across their organisations. BNM observed that these issues varied depending on the institution's size, scale, risk profile and complexity.

In larger and more complex institutions, governance structures often involve multi-layered arrangements and matrix reporting that are designed to help maintain oversight and control, manage risks and meet regulatory requirements across their vast operations. Business functions are further segmentised into functional units or lines due to the sheer scope of responsibilities. Efforts of these institutions were often dedicated to understanding and capturing the interactions and dynamics between senior management and their direct reports. Tools such as the RACI² framework are commonly employed by financial institutions to clarify roles, distinguishing those responsible for task execution, those accountable for decision-making, those offering functional advice, and those who need to be kept informed regarding specific responsibilities.

In smaller institutions, where members of senior management may take on multiple roles,³ the gaps assessment often focuses on the responsibilities of individual senior management to ensure they can discharge their duties effectively, avoid conflicts of interests and maintain sufficient oversight. Where necessary, some responsibilities are reassigned to other members of senior management.

Some financial institutions leverage the talent and expertise of their affiliated entities, especially when in-house capabilities are limited. However, such reliance can pose challenges in ensuring adequate oversight and accountability for decisions and actions taken by affiliate employees. The Responsibility Mapping exercise enabled these institutions to review and strengthen their governance arrangements.

A common challenge across all financial institutions was finding the appropriate level of granularity when documenting responsibilities. This becomes more acute in governance arrangements involving collective decision-making forums, shared roles or responsibilities and matrix reporting within financial groups. Financial institutions should periodically review and test the accuracy, comprehensiveness and granularity of their documented responsibilities. This process may involve analysing past incidents or simulating hypothetical scenarios to trace lapses or issues back to individuals within senior management. Such exercises allow financial institutions to uncover accountability gaps and blind spots

² Responsible, Accountable, Consulted, Informed.

³ For example, roles in areas such as operations and information technology, and risk management and compliance.

within their organisation – typically occurring at role handover points or where responsibilities span multiple business functions – and across affiliated entities. This reflection enables institutions to evaluate their governance arrangements and make necessary changes to reporting lines to resolve identified gaps.

Despite these challenges, financial institutions reported that members of senior management have responded positively to the framework. This is in recognition of its role in clarifying lines of accountability when issues arise and in closing expectation gaps between the board and senior management. The Responsibility Mapping exercise also provided a more structured opportunity for senior management to highlight obstacles affecting their ability to discharge responsibilities and identify the support needed from the board to address those challenges.

Responsibility Mapping is not merely a compliance exercise

Responsibility Mapping should not be a one-off compliance exercise; it serves as an important governance tool that strengthens financial institutions' risk management and long-term resilience. Therefore, it is important for financial institutions to take active steps to critically evaluate the effectiveness of their existing governance frameworks. Designed to be an iterative exercise, BNM expects financial institutions to continuously enhance and strengthen their accountability culture and governance practices, which in turn elevates senior management to a higher standard of professional conduct.

When implemented effectively, Responsibility Mapping delivers a myriad of benefits across multiple stakeholders. At the leadership level, it provides the board with greater visibility into the roles and accountabilities of senior management, enabling more effective oversight and performance evaluation. For senior management, it reinforces better accountability culture through the consistent application of reasonable steps, ensuring responsibilities are actively managed, emerging risks are promptly addressed, delegated responsibilities are supervised with appropriate controls, and decisions are well-documented. BNM believes Responsibility Mapping will help financial institutions enhance public trust and consumer confidence in their commitment to a strong governance and accountability culture.