

30 October: Imagine you're a director of a large bank specialising in mortgage loans. You're sitting in the boardroom and you've seen the latest mortgage lending figures. The bank's profits are through the roof but you know that at least half your customers don't stand a chance of coping with their mortgage payments if the interest rate goes up. You also know that only a third of your bank's mortgage loans are covered by investor deposits and that the rest are financed out of a loan of billions of pounds your bank has obtained from another bank. This loan is shortly to expire and market rumours are that interest rates will be increasing. Do you put your hand up and say 'This is great but aren't we going to come unstuck here somewhere along the line?' or do you just keep quiet?

Given the systemic near collapse of our financial system, one can only surmise that many directors of our banks took the latter option. Yet directors who have the courage to ask questions in the boardroom – even ones that might seem silly or embarrassing – will be the ones that are valued in the future. The director is a steward of the company's assets and is responsible, with the other directors, for ensuring the fundamental reliability and security of the company's business model and the strategy. But if directors don't express their concerns in the boardroom, risk management becomes risk failure.

Boards also seem to have forgotten that their primary function is to look after the interests of the investors of the company. Investors have come under fire for not asking enough questions even though they are often overburdened with information. But if they take the lead during the board's self-evaluation process, this would put them in a much better position. By raising questions of the board and chairman about the evaluation exercise and the steps they may be taking to address any deficiencies in the way the board discharges its stewardship responsibilities, the investors can derive greater comfort that their interests are being properly looked after.

David Wilson, ICSA's Director of Policy and Strategy and a former member of the Turnbull Committee comments 'As the dust settles on the current crisis, issues of risk and internal control have emerged as the key reasons for the failure of companies. But it's not just down to the internal management processes for managing risk. The right people, that is the directors, haven't been testing those processes and asking the right questions. That is something which has to change drastically in the future'

For further information please contact Rosie Hamilton on 020 7612 7062 or pressoffice@icsa.co.uk

Editor's notes

The Institute of Chartered Secretaries and Administrators (ICSA) is the qualifying body for company secretaries and an authority on corporate governance. It publishes guidance notes and best practice guides and through its subsidiaries provides events, information and training, boardroom performance evaluation and dedicated software. The ICSA has 36,000 members worldwide and is represented in over 70 countries.