Corporate Governance is Key to Better Corporate Image: A Study in the Banking Sector in India

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Abstract
The concept of corporate governance has been increasingly demanding our attention and has moved centrestage in the wake of corporate failures and widespread dissatisfaction with the way many corporates function, thus becoming a widely discussed topic across the globe recently. Corporate governance is now recognized as a paradigm for improving competitiveness and enhancing efficiency and thus improving investors’ confidence and accessing capital, both domestic as well as foreign. As a result, corporate governance has become a dynamic concept and not a static one. Banks form a crucial link in a country’s financial system because of which it is universally a regulated industry and their well-being is imperative for the economy. Corporate governance is however conceptually different for banks. The business model of financial intermediaries especially of banks envisages dealing in the financial resources of others and most of their liabilities constitute debt which is in the form of deposits. Banks are different from other corporates in important respects, and that makes corporate governance of banks not only different but also more critical. Banks are interconnected in diverse, complex and often opaque ways underscoring their “contagion” potential. If a corporate fails, the fallout can be restricted to the stakeholders. If a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy.
It would, however, be erroneous to conclude that regulatory oversight is a substitute to corporate governance. There exists complementarity between regulation and corporate governance in banking. This paper discusses the corporate governance as an internal mechanism in banks, its necessity in the banking sector, the history of corporate governance in the world as well as India, best practices of corporate banking incorporated in India and measures taken to implement them and the recent developments in this area in the banking sector.

Key words
Banking, Corporate Governance, Internal Mechanism in Banks

I. Introduction
Banks play a pivotal role in the financial and economic system of a nation. Hence, bank failure due to unethical or incompetent policies and management action is detrimental to the shareholders, the depositing public and the economy at large. Owing to this fact, a proper corporate governance system is crucial for banks and other financial institutions.

A. Indian Banking Sector
The banking industry is one of the most regulated industries in India. Since the opening up of the economy in 1991 the banking industry has experienced a gradual phased deregulation. A number of reforms have been initiated in this sector ranging from interest rate liberalization to restructuring of the public sector banks to increased competition and hence efficiency.

The banking sector in India has undergone structural changes during the last decade. Today, the public sector banks (PSBs) which earlier provided plain services are competing with a large number of private banks and foreign banks which utilize different innovative approaches and services.

B. Corporate Governance
Corporate governance is a term that refers broadly to the rules, processes, or laws by which businesses are operated, regulated, and controlled. The term can refer to internal factors defined by the officers, stockholders or constitution of a corporation, as well as to external forces such as consumer groups, clients, and government regulations.
Corporate governance has evolved from being a mere compliance issue to an important element which delivers value to businesses that adopt the best governance practices. This concept deals with the entire framework of legal, cultural and institutional arrangements what an organization like a bank can do, who controls them, how that control is exercised and how the risks and returns from the activities they undertake are allocated.

C. Importance of Corporate Governance
Corporate governance is the way by which companies demonstrate accountability to all of their stakeholders which is no longer aloof from society’s interest. The drivers of good corporate governance are the society, the institutional investors, shareholders, media and the regulators. Basically there are two main features that set banks apart from other business – the level of opaqueness in their functioning and the relatively greater role of government and regulatory agencies in their activities.
The opaqueness in banking creates considerable information asymmetries between the “insiders” – management – and “outsiders” – owners and creditors. The very nature of the business makes it extremely easy and tempting for management to alter the risk profile of banks as well as siphon off funds. It is, therefore, much more difficult for the owners to effectively monitor the functioning of bank management. Existence of explicit or implicit deposit insurance also reduces the interest of depositors in monitoring bank management activities.

1. Corporate Governance is Important in the Banking Sector Because of the Following Reasons
• It affects banks’ valuation and their cost of capital. CG of banks thereby affects the cost of capital of the firms and households they lend to.
• CG affects banks’ risk-taking and risks of financial crises, both for individual banks and for countries’ overall banking systems.
• Governance of banks crucial for growth and development since banks mobilize and allocate society’s savings. Especially in developing countries, banks can be very important source of external financing for firms.
• Banks exert corporate governance over firms, especially small firms that have no direct access to financial markets. Banks’
corporate governance gets reflected in corporate governance of firms they lend to.

**D. History of Corporate Governance**

The subject of corporate governance gained limelight after a string of collapses of high profile companies like Enron, the Houston, Texas based energy giant, and WorldCom, the telecom behemoth which shocked the business world with both the scale and age of their unethical and illegal operations.

Some corporate governance norms and standards present around the globe:

- The Sarbanes-Oxley legislation in the USA
- The Cadbury Committee recommendations for European companies: - Globally, Cadbury Committee was set up in May 1991, in the United Kingdom. It was set up, inter alia by the financial reporting Council, the London Stock Exchange. The Cadbury Report states “Corporative governance is the system by which companies are directed and controlled. The Boards of Directors is responsible for the governance of their companies”. Shareholders should be concerned with appointing the directors and auditors such that an effective governance structure is created.
- The OECD principles of corporate governance
- Blue Ribbon Committee was formed under the direction of the United States Securities and Exchange Commission. It was constituted to develop recommendations to enable “audit committees to function as the ultimate guardian of investors’ interests and corporate accountability”. The committee recommended enclosing ‘Statement of Disclosure by Audit Committee to the shareholders’, and certificate of Statutory Auditors regarding Independence’.
- Euroshareholders Corporate Governance Guidelines 2000 are more specific and detailed. It has given ten recommendations on disclosure of information in the annual reports. It states that “a company should aim at maximizing shareholders value in the long term. Companies should clearly state (in writing) their financial objectives as well as their strategy, and should include these important ones in the Annual Report”.
- Basel Committee on Banking Supervision (under the aegis of the BIS) published guidelines on corporate governance in banks in 1999. As an update, in July 2005, the Basel Committee has issued a Consultative Document on enhancing corporate governance for banking organizations, seeking comments by end October 2005.

**E. Corporate Governance in the Indian Scenario**

In addition to the Companies Act, 1956 which outlined a structure for Corporate Governance, defining the board’s authority and responsibility, and creating an arrangement of checks and balances with penalty for breaking the law, various other committees were set up to have a comprehensive code of corporate governance. In this regard in India, the Confederation of Indian Industry (CII) outlined a code of corporate governance in April 1988 followed by the Ramakrishna Commission on PSU corporate Governance and the recommendations of the Kumar Mangalam Birla Committee on Corporate Governance in December 1999 and the Narayana Murthy committee (SEBI) recommendations (2003). SEBI drafted the Kumar Mangalam Birla report on Corporate Governance with the primary objective being investor protection.

The initial move towards corporate governance in banks can be traced in the Advisory Group on Corporate Governance for the RBI Standing Committee on International Financial Standards and Codes, chaired by Dr. R.H. Patil, which submitted its Report in 2001. The Advisory Group on Banking Supervision for the Standing Committee on International Financial Standards and Codes, while looking into several areas in which internationally accepted best practices are already in place, probed into corporate governance as well.

The noteworthy minimum benchmarks noted by the Group relate to the following:

- Strategies and techniques basic to sound corporate governance;
- Organizational structure to ensure oversight by board of directors and individuals not involved in day-to-day running of business;
- Ensuring that the direct lines of supervision of different business areas are different;
- Ensuring independent risk management and audit functions;
- Ensuring an environment supportive of sound corporate governance; and
- Role of supervisors.

Recommendations of various committees on Corporate Governance in India

**II. Corporate Governance in the Indian Banking Sector**

Almost eighty percent of the total banking operation in India is under the control of the public sector banks consisting of the nationalized banks, the State Bank of India and its subsidiaries. The issues pertaining to Corporate Governance becomes more critical in case of these banks as the controlling power of these banks link with the Government. The Government is vested with simultaneous function of owner, manager and semi-regulator or even at times as a super regulator. Government ownership is one of the primary issues that can have a direct impact on the quality of corporate governance. In public sector banks, the rights of the private shareholders are considerably curtailed as their approval is not required for paying dividend or formalizing the annual accounts. The importance of Corporate Governance issues in public sector banks is important, due to two principal reasons. First, they constitute a huge share of business in the banking industry in India, and second, it is highly unlikely that they are going to be phased out in due course. Though the general principle of Corporate Governance is valid for the public sector entities, but they simply cannot imitate the private sectors banks in this respect. Things start getting worse, when uncertainties looms involving ownership issues, and the public ownership being treated as a transitional phenomenon. Further, expectation of change in ownership (dilution of Government Stake) can result in the change of institutional structure of significance difference.

When Government is the owner, it is accountable to the political institutions, which in turn may not have pure economic motives in mind. A mixed ownership structure can bring the different objectives of shareholding on a common platform and help in reconciling them. Issues relating to the separation of ownership and management in both private and public sectors banks needs to be addressed, in contrast to the traditional Corporate Governance issues stemming from the outside financial, in developing countries and especially in India, things are a bit different. Here, the grueling question is not how the outside financiers (shareholders) exert management control, but also as to how they can (including minority shareholders) exercise control over the big inside shareholders.
Table 1:

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<tr>
<td>a) For a listed company with turnover exceeding Rs. 100 crores, if the Chairman is also the MD, at least half of the board should be Independent directors, else at least 30%</td>
<td>a) For a company with an executive Chairman, at least half of the board should be independent directors else at least one-third.</td>
<td>a) There shall be no nominee directors. All directors to be elected by shareholders with same responsibilities and accountabilities.</td>
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<td>b) No single person should hold directorships in more than 10 listed companies.</td>
<td>b) Maximum of 10 directorships and 5 Chairmanships per person.</td>
<td>b) Non-executive director compensation to be fixed by board and ratified by shareholders and reported.</td>
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<td>c) Non-executive directors should be competent and active and have clearly defined responsibilities like in the Audit Committee.</td>
<td>c) Non-executive Chairman should have an office and be paid for job related expenses.</td>
<td>c) The board should be informed every quarter of business risk and risk management strategies.</td>
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<td>d) Audit Committee: Listed companies with turnover over Rs. 100 crores or paid-up capital of Rs. 20 crores should have an audit committee of at least three members, all non-executive, competent and willing to work more than other non-executive directors, with clear terms of reference and access to all financial information in the company and should periodically interact with statutory auditors and internal auditors and assist the board in corporate accounting and reporting.</td>
<td>d) Audit Committee: A board must have an qualified and independent audit committee, of minimum 3 members, all non-executive, majority and chair independent with at least one having financial and accounting knowledge. The committee should meet at least thrice a year -- one before finalization of annual accounts and one necessarily every six months with the quorum being the higher of two members or one-third of members with at least two independent directors.</td>
<td>d) Audit Committee: Should comprise entirely of “financially literate” non-executive members with at least one member having accounting or related financial management expertise. It should review a mandatory list of documents including information relating to subsidiary companies. “Whistle blowers” should have direct access to it and all employees be informed of such policy. All “related party” transactions must be approved by audit committee.</td>
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Table 2:

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<th>Other issues</th>
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<tr>
<td>Creditors’ Rights</td>
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<td>a) FIs should rewrite loan covenants eliminating nominee directors except in case of serious and</td>
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One of the dominant Corporate Governance issue relate to the minority shareholders. It is observed that conflict of interest arises between minority shareholders and the promoters of the bank. Thus in case of weak Corporate Governance structure, the risks associated with private ownership of banks needs to be studied before diluting Government stake.

The Public Sector banks in India are owned by the government in the majority. Out of 27 PSU banks 4 are owned 100% by the Government in total. Four of the associate banks of the State Bank Group are held entirely (i.e. 100%) by the State Bank of India and are not listed in the recognized stock indices. The remaining three are listed in the stock market. Thus information pertaining to 8 PSU banks in regard to actual number of shares is not available publicly.

It has been found that 68.76% of the shareholding lies with the government whereas only 31.24% of the shareholding is accounted by the non-governmental shareholders.

The governmental holding is composed of holding by the central government, by the RBI and by the President of India. Additionally the holding by FIs is also quasi-governmental holding. This leaves the non-government shareholders in a weak position. Further clarity is possible when we look into the holding by various bodies in the 27 Public Sector banks.

The problem of corporate governance is strong in these banks as there is no significant concentrated ownership to counter the government. The government is itself the regulator and so can act at its own discretion. The RBI itself holds the promoter stake in SBI and thereby holds the stake in the associate banks too. This puts RBI in the role of the majority stakeholder as well as the role of the regulator thus making it more liable to form policies that would help the banks in which it holds the stake.

A. Key Corporate Governance Parameters & Compliance Status in Indian Banks

Following are some important parameters that can help determine the implementation of corporate governance in Indian public and private banks:-

1. Bank's Philosophy on Corporate Governance
   - Commitment to uphold values that is based on the idea of a bond and togetherness among all interested parties, particularly close ties between the Bank and its many stakeholders-from customer and employees to its investors, institutions and society at large.
   - Overall objective is to optimize sustainable value to all stakeholders-depositors, Shareholders, customers, borrowers, employees and society through adherence to corporate values, codes of conduct and other standards of appropriate behavior.
2. Board of Directors

- Public sector banks are following Banking Companies Act 1970 as the Board of the Bank has been constituted under Section 9(3) of the Banking Companies (Acquisition & Transfer of undertaking) Act 1970 and Nationalized Bank (Management & Miscellaneous Provision) Scheme 1970.
- Similarly in private sector banks, Board of Directors have been constituted in compliance with the Banking Regulation Act, 1949, Companies Act, 1956 and listing agreements entered into with stock exchanges and in accordance with best practices in corporate governance.
- The Board functions either as a full Board or through various committees constituted to oversee specific operational areas. The practice of dual charge Managing Director and Chairman is seen in all the banks as it can help to remove the rivalry between the two positions and ensure governance function independently.

<p>| Table 3: Board Structure, strength and Size of Private and Public sector Banks in India |
|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|</p>
<table>
<thead>
<tr>
<th>Particulars</th>
<th>SBI</th>
<th>Canara Bank</th>
<th>Allahabad Bank</th>
<th>Bank Of Baroda</th>
<th>Bank Of India</th>
<th>Punjab National Bank</th>
<th>ICICI Bank</th>
<th>AXIS Bank</th>
<th>HDFC Bank</th>
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<tbody>
<tr>
<td>1. Total Number of Directors</td>
<td>9</td>
<td>13</td>
<td>11</td>
<td>14</td>
<td>15</td>
<td>8</td>
<td>16</td>
<td>11</td>
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<td>a) No. of Executive Directors (EDs)</td>
<td>2</td>
<td>3</td>
<td>3</td>
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<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>4</td>
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<tr>
<td>i) Promoters</td>
<td>2</td>
<td>3</td>
<td>3</td>
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<td>3</td>
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<td>3</td>
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<td>ii) Others</td>
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<tr>
<td>b) No. of Non-Executive Directors (NEDs)</td>
<td>7</td>
<td>10</td>
<td>8</td>
<td>11</td>
<td>12</td>
<td>5</td>
<td>13</td>
<td>8</td>
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<td>2. Total Number and Percentage of:</td>
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</tr>
<tr>
<td>i) Executive Directors (EDs)</td>
<td>22</td>
<td>23</td>
<td>27</td>
<td>21</td>
<td>20</td>
<td>38</td>
<td>19</td>
<td>27</td>
<td>25</td>
</tr>
<tr>
<td>ii) Non-Executive Dir.</td>
<td>78</td>
<td>77</td>
<td>73</td>
<td>79</td>
<td>80</td>
<td>82</td>
<td>81</td>
<td>73</td>
<td>75</td>
</tr>
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</table>

Source: Annual Report Survey, 2007-08

3. Committee of the Board

(i). Audit Committee

The Audit Committee is constituted as per RBI guidelines and complies with the provisions of Clause 49 of the Listing Agreement to the extent that they do not violate the directives/guidelines issued by RBI. In terms of Reserve Bank of India guidelines, the Audit Committee should have six members on the Board of Directors, including two whole time Directors, two official Directors (nominees of GOI and RBI), and two nonofficial, non-executive Directors. Meetings of the ACB are chaired by a non-executive Director.

The purpose of audit committee is to oversee the bank's financial reporting process and ensuring correct, adequate and credible disclosure of financial information.

Considering the aim of audit committee, the following objectives were laid down:-

- Reviewing with the management, the financial statements as per accounting policies and practices, compliance with accounting standards.
- Review the adequacy, quality and effectiveness of external and internal audit, internal control system.
- Audit Committee reviews the position with regard to issues raised in the Long Form Audit Report (LFAR).
- It follows up on all the issues/concerns raised in the Inspection Report of RBI.
- Audit committee also makes a review of reports received from Compliance Cell, Inter-
- Branch Account Reconciliation (IBAR) section, etc.

(ii). Investors’ Grievance Committee

The Investors’ Grievances Committee has been constituted in terms of Clause 49 of the Listing Agreement. The Committee takes care of investors’ grievances by doing some important functions. It approves and monitors transfer, transmission, splitting and consolidation of shares and bonds and allotment of shares to the employees pursuant to Employees Stock Option Scheme. The Committee also monitors redressal of complaints from shareholders relating to transfer of shares, non-receipt of Annual Report, dividends etc.

(iii). Remuneration Committee

Formation of remuneration committee in a bank is a non-mandatory requirement of the Clause 49 of the Listing Agreement. However, both private and public sector banks have set up a remuneration committee in their organizations.

II. Best Practices in Corporate Governance

By studying the global best practices of corporate governance, it can give an idea how investors are protected by improving the accuracy and reliability of corporate disclosures. A number of supranational organizations have drawn codes/principles of corporate governance. The most well known is perhaps the OECD principles of corporate governance of 1999.

The five basic pillars of OECD code are summarized here: -

- Protecting the rights of shareholders;
- Ensuring equitable treatment of all shareholders including having an effective grievance redressal system;
- Recognizing the rights of stakeholders as established by law;
- Ensuring the timely and accurate disclosure regarding the
corporation including the financial situation, performance, ownership and governance of the company; and

- Ensuring the strategic guidance of the company, effective monitoring arrangement by the board and the board’s responsibility to the company and the shareholder.

The Bank for International Settlement (BIS) in 1999 proposed the following seven principles to enhance corporate governance for banking organization:

- Establishing strategic objectives;
- Setting and enforcing clear lines of responsibility and accountability;
- Ensuring that the board members are qualified for their position and are not subject to undue influence from the management or outside concerns;
- Ensuring that there is appropriate oversight by senior management;
- Effectively utilizing the work conducted by internal and external auditors;
- Ensuring that compensation approaches are consistent with the bank’s ethical values; and
- Conducting corporate governance in a transparent manner.

In order to further the steps of corporate governance, the Reserve Bank of India has constituted a Consultative Group of Directors of Banks and Financial Institutions (Chairman: Dr. A.S. Ganguly) to review the supervisory role of Boards of banks and FIs. The Ganguly Consultative Group looked into the functioning of the Boards vis-à-vis compliance, transparency, disclosures, audit committees and suggested measures for making the role of the Board of Directors more effective. The Group submitted its recommendations in April 2002.

The major recommendations of the Group are the following:

- Government while nominating directors on the Boards of PSBs should be guided by certain broad “fit and proper” norms for the Directors, based on the lines of those suggested by BIS.
- The appointment/nomination of independent/non-executive directors to the Board of banks (both public sector and private sector) should be from a pool of professional and talented people to be prepared and maintained by RBI.
- It would be desirable to take an undertaking from every director to the effect that they have gone through the guidelines defining the role and responsibilities of directors, and understood what is expected of them.
- In order to ensure strategic focus it would be desirable to separate the office of Chairman and Managing Director in respect of large-sized PSBs.
- The information furnished to the Board should be wholesome, complete and adequate to take meaningful decisions. The Board’s focus should be devoted more on strategy issues, risk profile, internal control systems, overall performance, etc.
- It would be desirable if the exposures of a bank to stockbrokers and market-makers as a group, as also exposures to other sensitive sectors, viz., real estate etc. are reported to the Board regularly.
- The disclosures of progress made towards establishing progressive risk management system, the risk management policy, strategy, exposures to related entities, the asset classification of such lending/investments etc. should be in conformity with corporate governance standards, etc.
- Finally, the banks could be asked to come up with a strategy and plan for implementation of the governance standards recommended and submit progress of implementation.

IV. Implementation of Best Corporate Governance Practices

A. Measures Taken By Banks towards Implementation of Best Practices

1. Prudential norms in terms of income recognition, asset classification, and Capital Adequacy has been well assimilated by the Indian banking system

- In keeping with the international best practice, starting 31st March 2004, banks have adopted 90 days norm for classification of NPAs.
- Also, norms governing provisioning requirements in respect of doubtful assets have been made more stringent in a phased manner.
- Beginning 2005, banks will be required to set aside capital charge for market risk on their trading portfolio of government investments, which was earlier virtually exempt from market risk requirement.

2. Capital Adequacy

Most of the Indian banks are well above the stipulated benchmark of 9 per cent nowadays.

- They remain in a state of preparedness to achieve the best standards of CRAR.
- As of 31st March 2004, banking system as a whole had a CRAR close to 13 per cent

3. On the Income Recognition Front

there is complete uniformity now in the banking industry and the system therefore ensures responsibility and accountability on the part of the management in proper accounting of income as well as loan impairment.

4. ALM and Risk Management Practices

At the initiative of the regulators, banks were quickly required to address the need for Asset Liability Management followed by risk management practices. Both these are critical areas for an effective oversight by the Board and the senior management which are implemented by the Indian banking system on a tight time frame and the implementation review by RBI

These steps have enabled banks to understand, measure and anticipate the impact of the interest rate risk and liquidity risk, which in deregulated environment is gaining importance.

B. Measures Taken By Regulator towards Corporate Governance

The Reserve Bank of India has taken various steps to further corporate governance in the Indian Banking System. These can broadly be classified into the following three categories:

- Transparency
- Off-site surveillance
- Prompt corrective action

1. Transparency and disclosure standards

are also important constituents of a sound corporate governance mechanism. Transparency and accounting standards in India have been enhanced to align with international best practices. However, there are many gaps in the disclosures in India vis-à-vis the international standards, particularly in the area of risk management strategies and risk parameters, risk concentrations, performance measures, component of capital structure, etc. Hence, the disclosure standards need to be further broad-based
in consonance with improvements in the capability of market players to analyze the information objectively.

2. The off-site surveillance
mechanism is also active in monitoring the movement of assets, its impact on capital adequacy and overall efficiency and adequacy of managerial practices in banks. RBI also brings out the periodic data on “Peer Group Comparison” on critical ratios to maintain peer pressure for better performance and governance.

3. Prompt corrective action
has been adopted by RBI as a part of core principles for effective banking supervision. As against a single trigger point based on capital adequacy normally adopted by many countries, Reserve Bank in keeping with Indian conditions have set two more trigger points namely Non-Performing Assets (NPA) and Return on Assets (ROA) as proxies for asset quality and profitability. These trigger points will enable the intervention of regulator through a set of mandatory action to stem further deterioration in the health of banks showing signs of weakness.

V. Emerging Issues of Concern
Some of the emerging issues that must be considered with regard to corporate governance are:-

A. Basic Risk Management Failures Reflect a Failure of Corporate Governance
Financial issues are caused by excessive exposure concentration, lending to connected parties, poor credit policy and inadequate management of risk mainly foreign exchange risk.
1. RBI has been emphasizing the need for better understanding and oversight at the Board level of key banking risk
2. The Basel II proposals too underscore the interaction between sound risk management and corporate governance. For example, the IRB approach to credit risk sets out requirements for sound risk assessment processes, robust controls and transparency. In turn, the board and senior management are expected to understand and guide a bank’s overall risk management and performance.
3. Supervisors are required to ensure that all banks institute good governance practices irrespective of the capital approach adopted.

B. Issue Relating to Board Strategies
To ensure strong internal control systems including internal and external audit functions and other checks and balances.
• Independent audit committees can help in translating audit reports into meaningful action, both corrective and preventive.

C. Improving Transparency
Through more disclosures of information related to corporate governance. It is worthwhile examining the efforts of some companies to pivot their annual reports on corporate governance issues while making appropriate disclosures on each.

D. Conflict of Interest in Financial Sector
Four areas of the financial service industry have a high potential for conflicts of interest: underwriting and research in investment banking, auditing and consulting in accounting firms, credit assessment and consulting in rating agencies and universal banking. A combination of market discipline supplemented by mandatory disclosure of conflicts and supervisory oversight are generally considered necessary to contain the exploitation of conflicts of interest. These measures are intended to have positive impact on investor confidence, efficacy of the regulatory framework and, above all, the credibility of those associated with the financial services.

E. Need for Consultative Process to Harmonise
the approaches suggested by the Ganguly Committee of RBI and the Narayana Murthy Committee of SEBI.

VI. Current Happenings/Trends in Corporate Governance Area

A. National Foundation for Corporate Governance (NFCG)
With the goal of promoting better corporate governance practices in India, the Ministry of Corporate Affairs, Government of India, on 1st October 2003 set up National Foundation for Corporate Governance (NFCG) in partnership with Confederation of Indian Industry (CII), Institute of Company Secretaries of India (ICSI) and Institute of Chartered Accountants of India (ICAI). In the year 2010, stakeholders in NFCG have been expanded with the inclusion of ICWAI and the National Stock Exchange.

B. Many organizations
have started promoting good governance by taking initiatives such as organizing “Corporate Governance Week”. Recently, The Institute of Company Secretaries of India (ICSI) organized the first “ICSI Corporate Governance Week” from 8th to 12th August, 2011, during which programmes on corporate governance, sustainability, ethics and integrity, carbon foot-prints, good corporate citizenship and “Go Green” initiatives were organized at all ICSI centers across the country. The theme of the corporate governance conclave was “Integrating Sustainability into Corporate DNA”.

C. RBI Governor Calls on Bankers to Implement Corporate Governance as Their ‘Dharma’
Reserve Bank of India (RBI) governor Dr D Subbarao has emphasized the need for more effective and enlightened corporate governance to improve banking productivity, saying that the ideal of ‘dharma’ which is so much a part of Indian heritage and culture should guide corporate governance in Indian banks.

D. The RBI Governor
has pointed out that the Shyamala Gopinath Working Group has recommended that The Financial Holding Company model should be pursued as a preferred model for the financial sector in India. Regardless of the corporate structure, banks cannot be totally insulated from the risks of non-banking activities of their affiliates.

VII. Observations
1. Corporate Governance in banking sector is very much in demand due to global awareness regarding corporate governance and global banking to ensure transparent service to citizens. Proper and adequate corporate governance can handle many complex banking issues and will create a transparent globalized economic environment.
2. Major concerns like “Insider trading”, “selective release of sensitive information”, and “resorting to unfair accounting practices” are the biggest concerns from the Corporate...
Governance perspective. However adequate corporate governance practices implemented by banks helps bank to ensure shareholder’s interest in the long run.

3. “Ensuring transparency in financial statements” and “expected on ethical behaviors” and “Protecting shareholders’ interest” are the key attributes of good Corporate Governance. Adherence to those attributes ensures transparency of banking transactions and minimizes the chance of fraud and malpractices.

4. Corporate Governance is as important as other quantifiable factors, such as likely growth in earnings, from the point of view of investment decisions. Since the outcome of some attributes minimizes the chances of fraud, it enhances shareholder’s confidence; as a result increases share value.

5. The most important factor while studying Corporate Governance in a bank is the perceived integrity of financial statements. The facts that well governed banks are less likely to indulge in malpractice & mis-governance and more likely to protect the interests of minority shareholders. Not only that it protects the public fund by acting like a watchdog, it inculcates the habits of ethics in business.

VIII. Conclusion

The development of norms and guidelines are an important first step in a serious effort to improve corporate governance. There is a need for a strong culture of compliance at the top of the organization and it will be necessary to consider how management can respond appropriately to ethical or reputation concerns that come to their knowledge.

The bigger challenge in India, however, lies in the proper implementation of those rules at the ground level. Corporate governance does not end with commercial banks. It is imperative to extend the above principles of good corporate governance practices to cooperatives, PDs, NBFCs and other financial institutions. Even the most prudent norms can be hoodwinked in a system plagued with widespread corruption. Nevertheless, with industry organizations and chambers of commerce themselves pushing for an improved corporate governance system, the future of corporate governance in India promises to be distinctly better than the past.

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