CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM: A COMPARITIVE STUDY

A DISSERTATION TO BE SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF LAWS

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BY

MS. VANDANA PANDEY

1200990031
SCHOOL OF LEGAL STUDIES
UNDER THE GUIDANCE

OF

MS. TRISHLA SINGH

ASSISTANT PROFESSOR
SCHOOL OF LEGAL STUDIES

BBD UNIVERSITY

SESSION : 2020-2021

CERTIFICATE

This is to certify that the dissertation titled**, ROLE OF CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM: A COMPARATIVE STUDY** is the work done by Vandana Pandey under my guidance and supervision for the partial fulfilment of the requirement for the Degree of **Master of Laws** in School of Legal Studies Babu Banarasi Das University, Lucknow, Uttar Pradesh.

I wish her success in life.

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Date 28th May, 2021 **MS. TRISHLA SINGH**

Place- Lucknow **ASSISTANT PROFESSOR**

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Date : 28th May, 2021

Place- Lucknow

VANDANA PANDEY

1200990031

LL.M. (2020-21)

CCL

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LL.M 2nd SEMESTER

UNIVERSITY ROLL NO. 1200990031

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ABSTRACT

Corporate governance is an age old concept which provides for a set of transparent relationships between an institutions management, its board, shareholders and other stakeholders. Corporate governance is gaining centre stage in the recent times due to failure of corporate and wide dissatisfaction among the people with the way corporate works and hence became a widely discussed topic worldwide. Corporate Governance is now recognised as a paradigm for improving competitiveness and enhancing efficiency and thus improving investors' confidence and accessing capital. Now corporate governance has become a more dynamic concept and a not a mere static one.

Bank and Financial Institutions are the backbone of the economic sector of any country. The healthy economic condition of a nation is depicted through the sound functioning of its banks. Banks form a crucial link of a country's economic sector hence they are universally regulated industry and their wellbeing is imperative for the economy. Working of banks is different from other corporate in many important respects, and that makes corporate governance of bank not only different but also critical.

Hence, Corporate Governance is conceptually different for banks. If a corporate fails, the fallout can be restricted to the stakeholders, but if a bank fails, the impact can spread rapidly through other banks with potentially serious consequences for the entire financial system and the macro economy. Thus, though various guidelines are provided for working of a bank, corporate governance cannot be overlooked or discarded. Regulations, guidelines and corporate governance are complementary to each other in banking industry.

HYPOTHESIS –

Government policy reform in banking sector underwent a radical change since 1991. Following the recommendation of **Narasimham Committee report** various measures were adopted that were aimed at rectifying the improvising productivity and poor efficiency in Indian Banking Sector. The period post banking reform show the advent of private banks this not only aspirated towards providing better services to be customised but also prevented throat competition for the public sector banks in terms of governance and work culture. This highlighted the importance of Corporate Governance in Indian Banking industries that was in a dilated condition with narrow customs or base and limited business opportunity. DE process of deregulation and

branch declining take the way for private sector and foreign banks to make presence in India dilated effect of this reform was that started to competence with another offering attractive rate of interest there by broadening their monetary resources which in turn afforded them inappropriate unity to make investment in various sector economy. The growing literacy and awareness about various banking products banks needed to devised and innovative method of managing and at the same time growing the hard earned of their depositors.

RESEARCH PROBLEM

The Reserve Bank of India has the responsibility of ensuring that the best Corporate Governance practices are followed by the banking sector. It is unquestionably due to these reasons, amongst many others that the Reserve Bank and SEBI have made the implementation of the Corporate Governance practise mandatory.

Corporate Governance for banks is also important as that affect the functioning of the entire corporate sector for the reason that they are the primary leaders to all organisations. These institution have set up committees like the **Narshima Committee (1991),Patil Committee (2001),Kumar Mangalam Birla committee and Ganguly Committee (2001)**for framing sound corporate governance practices for our organizations. Thus, it is apparent that the concept of corporate governance has been acquired through the various developments taking place outside India. In other words, it can be said that this concept does not have its origins in India.

Economic susceptibility, on the national scenes well as the international market, can rise due to inadequate corporate governance standards in banks and financial institutions. Detrimental developments takings place in one bank or financial institution can generate similar effects in other banks or financial institutions, which may affect the financial stability of the country, as well as the international market as a whole. Moreover , most of the funds that are used by the banks belong to the creditors of the banks who are mostly the depositors .Depositors are unable to shield themselves from the unfavourable developments taking place in the banks owing to lack of adequate information .And, it is on account for this reason that corporate Governance becomes indispensable for the continued existence of banks .Consequently, it becomes obligatory for the Banking Sector to adhere to mandatory corporate governance practices since unsatisfactory governance practices can result into ineffective risk management and financial instability . Thus, the importance of corporate governance, especially in the Banking Sector,

cannot be overlooked .Hence, the researcher has selected the **Topic "Corporate Governance in Indian Banking Sector: Comparative study.**

RESEARCH METHODOLOGY

Research can be classified in various ways. It can be divided on the basis of nature of data collection, interpretation of already available data, tools of data connection, purpose and other such criteria.

The purposive research is divided as:-

1. **Non- Doctrinal and**
2. **Doctrinal**

For the purpose of this research problem researcher has selected doctorial research methodology as many things can only be studied in empirical conditions.

Being an economic issue the research has got the status of socio- legal research. Hence the researcher things doctrinal method will hold the research in proper manner.

Researcher has studied the relevant literature available in books, case law and Internet.

Research Methodology is a systemized investigation to gain a new knowledge about the phenomena or problems. But wider since 'Methodology' includes the philosophy and practice of the whole research process.

LITERATURE REVIEW

Margaret Blair in her book **Ownership and Control:** Rethinking Corporate Governance for the Twenty-First Century defines Corporations as "legal devices for assembling and organising capital, labour and other resources to produce and sell goods and services."

In his article "The History of the Corporation, "Lee Drutman has a slightly different take on the definition of the corporation .He looks at the corporation from the dependence perspective and says **"**Corporations stand as the most dominant institutions in our society .They provide the products and services upon which most of us have come to depend .**"**

Corporations, thus, a legal entity that is owned and financed by a diverse group of owners known as the shareholders, who enter into a contact with professional managers to run the day to day operations of stakeholders, be it providing products and services to the consuming public, meetings the operational norms set by the government and regulatory bodies, providing employment opportunities or fulfilling social commitments in societies they operates in.

ABBREVIATIONS

ABBREVIATION	MEANING
V.V.V.	VALVE, VISION, VISIBILITY
SEBI	SECURITY AND EXCHANGE BOARD OF INDIA
BOD	BOARD OF DIRECTORS
CEO	CHIEF EXECUTIVE OFFICER
RBI	RESERVE BANK OF INDIA
NPAS	NON-PERFORMING ASSETS
ROA	RETURN ON ASSETS
HSBC	HONG KONG AND SHANGHAI BANKING CORPORATION LIMITED
GCG	GOOD CORPORATE GOVERNANCE
CAR	CAPITAL ADEQUACY RATIO
CAC	CUSTOMER ACQUISITION COST
INFC	THE INTERNATIONAL FINANCE CORPORATION
EU	EUROPEAN UNION
AGM	ASSISTANT GENERAL MANAGER
IPC	INDIVIDUAL PARTNERSHIPS AND CORPORATION
FCP	FOREIGN CORRUPT PRACTICES ACT
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
DFI	DEVELOPMENT FINANCE INSTITUTION
IMF	INTERNATIONAL MONETARY

	FUND
PLR	PRIME LENDING RATE
PSBS	PUBLIC SECTOR BANKS
DCA	DIRECTORS OF COMPANIES AFFAIRS
CSR	CORPORATE SOCIAL RESPONSIBILITY
SLR	STATUTORY LIQUIDITY RATIO

CHAPTER- I

INTRODUCTION

Banking System is the pillar of the economy. It has a significant addition towards the overall development of an economy. The health of an economy largely depends on the soundness of its banking system. In the liberalized and globalised world, the Indian Banking Sector cannot ignore the effect of corporate governance as it ensures sound business ethics and safeguards the interests of all stakeholders. Corporate Governance is a wider term which defines the rules, structure, procedure and means with which a company is managed and controlled .It increases long-term shareholder value by management accountability and also enhances firms performance .It removes the conflicts arising from the separation of ownership and control.

Governance: Governance, in general term, the process of decision making and the process by which decisions making and the process by which decisions are implemented (or not implemented) ,involving multiple factors.

Good Governance is one which is accountable, transparent, responsive, equitable and inclusive, effective and efficient, participatory and which is consensus oriented and which follows the rule of law.

With the faster pace of corporatization, the volumes of market capitalization have globally increased at exponential pace. More and more investors across the world explore equity markets for investments and profit earning opportunities. Innovative methods of accessing funds and efforts of leveraging their capital resources resulting in imbalanced exposure. Sometimes even to the unknown downside risks .Thus the influx of funds into the stock market from various sources has heighted the onus of regulators to protect investor interest thereby making the task much more challenging Ensuring that the end use of investor funds are prudent and are in conformity with the global best practices is tough task posing a sustained pressure on regulators to innovate better ways and means.

In this context ,corporate governance has come to occupy a leading position in modulating the conduct of the companies who raise funds through equity market .Public listed companies ,financial institutions banks and others corporate accessing funds from public have to be made to follow rigid discipline in its governance, more so in the application of funds to protect the long term and interests of the organisations.

Specific aspects of banks dominated Indian Financial System; effective financial intermediation is the continuous development of the economy.

Though we have multiple segments of banks such as Public Sector Banks, New Private Sector Banks and Foreign, Old Private Sector Banks, Corporative Banks, Regional Rural Banks about 70 percent of the banking business is held by Public Sectors Banks comprising of State Bank of India, its subsidiaries of the organisations.

Corporate Governance refers 'to the whole set of legal, cultural and institutions arrangements that determine what pubic corporations can do, who controls them ,how that controls is exercised ,and how the risks and return from the activities they undertake are allocated'**(Blair, 1995)**

The term '**Governance**' derived from the Latin word **'Gubernare'** which means 'to steer'. In the context of companies, governance means direction and control of a company. There is no single definition of corporate governance which is acceptable to all. Many experts have defined the term in their ways:

MEANING OF CORPORATE GOVERNANCE

The growing role of market in the world, i.e. market –oriented economy in the later part of the 20th century has led to the spread of capitalism, globalization, liberalization, privatization, demanding efficiency, corporate culture, model code of conduct and business ethics for the very survival of the corporate world. This concept of corporate governance emerged in the late 1980"s. When several companies collapsed in U.K. Due to inadequacy of operating control. This led to the setting up **"Cadbury Committee"** on corporate governance in 1991 by the London Stock Exchange. To get a proper view on the subject it would be prudent to give narrow as well as broad definition of corporate governance

In a broader sense-

Corporate governance means a set of relationships amongst the company's management, its board of directors, shareholders, auditors and other stakeholders. These relationships involve various rules and incentives, provide the structure through which the objectives of the company are set and the means of attaining these objectives as well as monitoring performance are determined. The key aspects of good corporate governance include transparency of corporate structures and operations; accountability of managers and the boards to shareholders; and corporate responsibility towards stakeholders.

However, good corporate governance- the extents to which companies are run in an open and honest manner- is important for all market confidence, the efficiency of capital allocation, growth and development of countries‟ industrial bases, and ultimately the nation's‟ overall wealth and welfare. It is important to note that in both the narrow as well as in the broad definitions the concepts of disclosure and transparency occupy centre-stage. In the first instance, they create trust at the firm level among the suppliers of finance. In the second instance they create overall confidence at the aggregate economy level. In both cases, they result in efficient contribution of capital.

The issue raised here is whether the recognition of claims of a wider set of stakeholders, than those of shareholders alone, is the legitimate concern of corporate governance. If it can be established that there are groups other than shareholders with legitimate claims on companies, and that their involvement in corporate decision making is both a right and also economically beneficial, then the task of policy makers is to consider. How the company should be regulated so as to increases its effectiveness as a mechanism for enhancing the overall wealth of all stakeholders.

DEFINITION OF CORPORTATE GOVERNANCE

Corporate Governance "is the relationship between corporate managers, directors and the providers of equity, people and institutions who save and invest their capital to earn a return. It ensures that the board of directors is accountable for the pursuit of corporate objectives and that the corporation itself conforms to the law and regulations". – **International Chamber of Commerce**.

Corporate Governance is essentially all about how corporations are directed, managed, controlled and held accountable to their shareholders. In India, the question of Corporate Governance has come mainly in the wake of economic liberalization and de-regularization of industry and business. With the rapid pace of globalization many companies have been forced to tap international financial markets and consequently to face greater competition than before. Policymakers and business managers have become aware of the importance of improved standards of Corporate Governance.

India has one of the good corporate governance laws but poor implementation together with socialistic policies of the perform era has affected corporate governance. Concentrated ownership of shares, pyramiding and tunnelling of funds among group companies mark the Indian corporate landscape. [1]

A corporation is a group of various stakeholders, namely customers, employees, investors, vendor partners, government and society. In this changed scenario an Indian corporation as also a corporation elsewhere should be fair and transparent to its stakeholders in all its transactions. This has become imperative in today's globalized business world where corporations need to access global pools of capital, need to attract and retain the best human capital from various parts of the world, need to partner with vendors on mega collaborations and need to live in harmony with the community. A corporation embraces and show ethical conduct it will not be able to succeed. Corporations need to recognize their growth requires the cooperation of the entire stakeholder and such cooperation is enhanced by the corporations adhering to the good Corporate Governance practice.

WHAT IS CORPORATE GOVERNANCE IN BANKS

Corporate governance of banks is an essential element of a country's governance architecture. It can have systemic financial stability implications and shape the pattern of credit distribution and overall supply of financial services. Hence the necessity and importance of enforcing effective corporate governance in the banking sector.

In banking sector India is changing fast to keep pace and competition with the international banking practice. As a result the banks in India have been asked to meet specific standards such as capital adequacy norms, classification of assets and income recognition Norms . The objective of this project is to introduce about the corporate governance and how the corporate governance workout in the Indian Banking Sector.

[1] Definition Of corporate Governance –International Chamber of Commerce

This project would also provide fundamental concepts to understand about the corporate governance and Indian Banking System. The project covers emergence of the concept of corporate governance in the manner in which it relates with banking sector rand its various issues, constituents and how it being implemented in the banking sector.

The focuses mainly on some specific aspects of codes of corporate governance and is application in the banking sector. Some of the parameters that may influence corporate governance it include ownership structure, board philosophy, industry segment, and maturity of business, management process, level of competition, international business participation, and size of the company. [2]

Much effort is being put both nationally and internationally in understanding and suggesting good practices that can improve governance of banking sector. In India also several initiatives have been taken up in understanding nuances of banking sector governance.

Corporate Governance is concern with the **Values, Vision, and Visibility (VVV**) it is about the value [i]orientation of the organization, ethical norms for its performance, direction of development and social accomplishment of the organization and the visibility of its performance and practices. In Indian banking sector the corporate governance takes more important role for their governance and growth.

Due to Liberalization, Privatization, Globalization and Information Technology currently changing the Indian Banking fully corporate governance takes more crucial role for their framework. Corporate governance of banks is an vital element of a county's governance architecture. [3]

It can have systematic financial stability implication and shape the pattern of credit distribution and overall supply of financial services. Hence the necessity and importance of enforcing effective corporate governance in banking sector.

Banks are critical part of any economy. They provide financing for commercial enterprises, basic financial services to a broad segment of the population and access to payments systems. In addition some banks are expected to make credit and liquidity available in poor market conditions. The importance of banks to national economies is underscored by the fact that banking is universally a regulated industry and that helps banks have access to government safety nets. It is of importance therefore, banks have strong corporate governance.

[2] What is Corporate Governance in Banks? By J S Saini

[3] CORPORATE GOVERNANCE and Banks - kartikganga

OECD, April 1999. "Corporate governance is about promoting corporate fairness, transparency and accountability".

OBJECTIVES OF CORPORATE GOVERNANCE

Good governance is essential to the existence of a company. It inspires and strengthens the investor's confidence by ensuring company's commitment to the higher level of growth and profits.

It seeks to achieve following objectives:

- A properly structured Board capable of taking independent and objective decisions in place at the help of affairs;
- The Board adopts transparent procedures and practices and come at decisions on the strength of adequate information;
- The Board completely and regularly monitors the functioning of the management team; and
- The Board has effective machinery to serve the concerns of all stakeholders;

The Board is balanced as regards the representation of adequate number of non-executive and independent directors who will take care of the interests and well-being of all the stakeholders. The Board keeps the shareholders informed of relevant developments impacting the company. The Board remains in effective and control the affairs of the company at all times.

CORPORATE GOVERNANCE – NEED OF THE HOUR

Corporate governance and economic development are inter- linked. Corporate governance systems encourage the development and robust financial systems. Banks plays a **crucial role in the flow of capital** and is an imperative constituent of any economy. Hence, proper governance of banks is important for growth and development of the economy and the country. **Failure of one institution may have a cascading effect resulting in significant costs to the economy.** Fundamentally banks must act in a way that **promotes "confidence" to its stakeholders**. Effective corporate governance and supervisory actions harmonize one another.

- **Growing Number of Scams**

Misuse of public money are happening everywhere i.e. stock market, banks, financial institutions, companies, and government offices. In order to avoid these financial irregularities, companies need to start using corporate governance.

- **Takeovers and Mergers**

In large there are many takeovers and mergers are going on in the business world. The need of corporate governance is to protect the interest of the parties during takeovers and mergers. The work load can be transfer to all the parties.

- **Comply with SEBI Requirement**

SEBI has made corporate governance compulsory for certain listed companies to comply with its provisions. This SEBI requirement protects the interest of the investors and other stakeholders. If any company doesn't comply with SEBI rules it can bring high penalty. If the companies do not work according to given provision they can face many problems. So it is very important for all listed companies[4]

- **Need of Social Responsibility**

In recent period, social responsibility is given a lot of importance. The Board of Directors (BOD) has to protect the rights of the customers, employees, shareholders, suppliers, local communities, government, etc. This thing is possible only when if they use corporate governance.

Hence, strong and effective corporate governance helps to grow a company culture of integrity, leading to positive performance and a sustainable business overall. Essentially it exists to increase the accountability of all individuals' teams within your company and working to avoid mistakes before they can even occur.

When a company has good corporate governance or in good position, it signals to the market that the organization is well managed and that the interests of management are aligned with external stakeholders. As a result, it can provide your company with a strong competitive advantage.

[4] Need of Corporate Governance in Banks- Dr.Rana Zehra Masood

NEED OF THE CORPORATE GOVERNANCE IN BANKS

Banks are important players in the Indian financial system; special focus on the Corporate Governance in the banking sector becomes critical. The Reserve Bank of India as a regulator and has the responsibility on the nature of Corporate Governance in the banking sector to the extent that banks have systemic implications, Corporate Governance in the banks is of vital importance that given the dominance of public ownership in the banking system in India. Corporate practices in the banking sector would also set the standards for Corporate Governance in the private sector.

It reducing the possible fiscal burden of recapitalizing the Public Sector Banks, attention towards Corporate Governance in the banking sector assumes added its importance

Importance of Corporate Governance for Banks

In banking industry perspective, corporate governance involves the manner in which their boards of directors and senior management govern the business and affairs of individual and affecting how banks set their corporate objectives run day-to-day operations. It consider the interests of various stakeholders, Align corporate activities with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations and protect the interests of depositors .

The importance of corporate Governance in Banks due to following reasons:

- Transparency in Board's processes and independence in the functioning of Boards. The Board should provide effective leadership to the company and management for achieving sustained prosperity for all stakeholders. It should provide independent judgment for achieving company's objectives.
- Accountability to stakeholders with a view to serve the stakeholders and account to them at regular intervals for actions taken, through strong and sustained communication processes.
- Fairness to all stakeholders.
- Social, regulatory and environmental concerns.
- Unambiguous and clear legislation and regulations are fundamentals to effective corporate governance. A healthy management environment that includes setting up of clear objectives and appropriate ethical framework, establishing due processes, clear enunciation of

responsibility and accountability, sound business planning, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures.

- Explicitly prescribed norms of ethical practices and code of conduct are communicated to all the stakeholders, which should be clearly understood and followed by each member of the organization.
- The company must be clearly documented in a long-term corporate strategy including an annual business plan together with achievable and measurable performance targets and milestones.
- A well composed Audit Committee to work as liaison with the management, internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures reporting to the Board related to issues.
- Risk is important element of corporate functioning and governance which should be clearly identified and analyzed for taking appropriate remedial measures. For this the Board should formulate a mechanism for periodic reviews of internal and external risks.
- A clear **Whistle Blower Policy** whereby the employees may without fear report to the management about unethical behavior, actual or suspected frauds or violation of company's code of conduct there should be some mechanism for adequate safeguard to employees against victimization that serves as whistle-blowers.[5]

CORPORATE GOVERNANCE PRINCIPLES

The Indian Operation of the bank will follow the corporate governance principles as required by the Head office and other regulatory bodies in India. The principles are as follows in points :

- The Indian Operation of the bank shall be headed by an effective, collegial and informed Management Committee.
- The approved persons must have full loyalty to the Bank.
- The Committees will have rigorous controls for financial audit and reporting, internal control, and compliance with law.
- Head office policy, the Indian Operations will establish a clear and efficient management structure and disclose its Corporate Governance.

[5] Corporate Governance Principles- Research Gate

CHAPTER –II

INCEPTION OF CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEM

Corporate governance conception emerged in India after the second half of **1996 due to economic liberalization and deregulation of industry and business**. The fast changing times, there was also need for greater accountability of companies to their shareholders and customers and depositors. The report of Cadbury Committee on the financial aspects of corporate Governance in the U.K. has increased the debate of Corporate Governance in India.

Importance for corporate governance arises due to the separation of management from the ownership. A firm success, it needs to concentrate on both economic and social aspect it needs to be fair with producers, shareholders, customers etc. It has various responsibilities towards employees, customers, communities and at last towards governance. It needs to serve its responsibilities at the best at all aspects.

HISTORICAL ANALYSIS-

The "corporate governance concept" dwells in India from the Arthshastra time instead of CEO at that time there were kings and subjects. Today, corporate and shareholders replace them but the principles remain same unchanged.

20th century witnessed the glossy of Indian Economy due to liberalization, globalization, and privatization. Indian economy for the 1st time was together with world economy for product,

capital and labour market and which resulted into world of capitalization, corporate culture, business ethics which was found important for the existence of corporation in the world market

Modern banking system in India could be traced back to the establishment of Bank of Bengal in 1809, the first joint stock bank sponsored by Government of Bengal and governed by the royal charter of the British India Government. In 1921 Imperial Bank of India was established by merging three presidency banks. It had various roles and responsibilities to be played and also functioned as a commercial bank, a banker to the government and a banker's bank. In 1935 Reserve Bank of India (RBI) was established, the central banking responsibility that the Imperial Bank of India was carrying out came to an end, leading it to become more a commercial bank.

By an act of parliament passed in May 1955, State Bank of India (SBI) was established in July 1955. In 1959, State Bank of India took place over the eight former state associated banks and its subsidiaries. The decade of 1960s also witnessed significant consolidation in the Indian Banking Industry with more than 500 banks functioning in the 1950s reduced to 89 by 1969. **In19 July 1969 was a landmark day for the Indian banking industry as on that day nationalization of 14 major banks was announced**.

Eight more banks were nationalised in 1980. Regional rural banks(RRB) came into being in 1976 which allowed the opening of specialised regional rural banks to exclusively cater to the credit requirements in the rural areas. The period following nationalisation was characterised by rapid rise in banks business and helped in increasing national savings. There was leapfrogged increase in savings rate, deposits and bank credits. Branch network also expanded significantly which lead to increase in the coverage of banking facilities very easy way.

Indian banking sector which experienced rapid growth following nationalisation, began to face pressures on assets quality by 1980s. Simultaneously, the banking world everywhere was gearing up towards new prudential norms and operational standards pertaining to capital

adequacy, accounting and risk management, transparency and disclosure etc. In the early 1990s, India embarked on an ambitious economic reform programme in which the banking sector reforms formed a very important role in banks. **The Committee on Financial System (1991) more popularly known as the Narasimham Committee** framed blue print of the reforms.

A few major aspects of reform included the following:-

- Moving towards international norms in income recognition and provisioning and other related aspects of accounting.
- Liberalization of entry and exit norms leading to the establishment of several New Private Sector Banks and entry of a number of new Foreign Banks helps to boost the economy.
- Freeing of deposits and lending rates (except the saving deposits rate).
- Allowing Public Sector Banks access to public equity markets for raising capital and diluting the government stake.
- Greater transparency and disclosure standards in financial reporting.
- Suitable adoption of Basel Accord on capital adequacy.

These major changes in the approach of the banks towards aspects such as competition, profitability and productivity and the need and scope for harmonization of global operational standards and adoption of best practices. Significant changes in the strength and sustainability of Indian banking sector was seen in addition to significant growth in business. Indian banks experienced sharp growth in profitability, greater emphasis on prudential norms with higher provisioning levels and reduction in the non-performing assets and surge in capital adequacy. As a part of the adherence to liberalisation of the financial services industry in the year 2009, Indian banking industry prepared for smooth transition towards more intense competition arising from liberalisation.

A CONCEPTUAL ANALYSIS

Corporate Governance has become one of the most commonly used phrases in the current global business vocabulary. This put up the question, **"Is corporate governance is a vital**

component of successful business or is it simply another fad that will fade away over time"?

Nations around the world are instigating far reaching programmers for corporate governance reform, as evidenced by the proliferation of corporate governance codes and policy documents, voluntary and mandatory both at the national and supranational level. We believe that the present focus on corporate governance will be maintained into the future and that over time, corporate governance issues will grow in importance, rather than fade into insignificance. So, corporate governance is helpful for all the countries to the to their increase growth in banking field and boost their economy.

The phenomenal growth of interest in corporate governance has been accompanied by a growing body of academic research. Present business world demands quality, ethics and excellence, properly injected into the organization at the level of person, process and product. To this change core competency is identified and leveraged for success and all this is made possible through corporate governance.[6]

Corporate Governance is an important tool for strengthening the overall effectiveness of corporate enterprise in the corporate world and helps to achieve the goals of corporate entities within the boundary of corporate environment. It is an effective component in a long term perspectives of companies and has a leading species of large genus namely, National Governance, Human Governance, Societal Governance, Economic Governance and Political Governance. Corporate Governance includes the policies and procedures which are usually adopted by a company or banks in achieving its objectives in relation to its shareholders, employees, customers and suppliers, regular authorities and communities at large.

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[6] Sonali Soni : HISTORICAL ANALYSIS 26 conceptual analysis

Corporate Governance establishes a structural framework which makes a healthy and competitive company with self – clearing and competitiveness by some strategies, transparency, motivation and social orientation.

Corporate Governance plays vital role to the very existence of a company, organization, Banking Sector, Corporate Entity. It inspires and strengthens investor's confidence by insuring company's commitment to higher grow and profits. The further need of corporate governance includes- Protecting the rights of shareholders, making confidence among the stakeholders, strengthening the Board of Directors, providing autonomy and responsibility to the Board of Directors providing protection to the financial and other lending institution, and to keep sustainability :economic, environment and social.

Corporate Governance is a way or a direction of overcoming these problems, as it seeks to minimize the mismanagement by the companies by establishing the system where more information about the transactions of the companies or decisions has been taken by the management is available to the shareholders and the public. In a corporate governance system Board of Director is the sole or single authority for merging the companies.

DIFFERENT DEFINITIONS OF CORPORATE GOVERNACE

1. In **A Board Culture of Corporate Governance**, **business author Gabrielle O'Donovan defines corporate governance** as "an internal system encompassing policies, processes and people, which serve the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity"

Corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. **O'Donovan** goes on to say that

the perceived quality of a company's corporate governance can influence their share price as well as the cost of raising capital. Quality is determined by the financial markets, legislation and other external market forces plus how policies and processes are implemented and how people are led.

External forces are to a large extent outside the circle of control of any board. The internal environment is quite a different matter and offers companies the opportunity to differentiate from competitors through their board culture. To date too much of corporate governance debate has centered on legislative policy to deter fraudulent activities and transparency policy which misleads executives to treat the symptoms and not the cause.

It is a system of structuring, operating and controlling a company or banks with a view to achieve long term plan goals and to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements apart from meeting environmental and local community needs.

2. **Report of SEBI committee (India) on Corporate Governance defines corporate governance"** as the acceptance by management of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal & corporate funds in the management of a company." The **definition is** drawn from the **Gandhian principle** of trusteeship and the Directive Principles of the Indian Constitution. Corporate Governance is seeing as ethics and a moral duty.

3. Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation such as, the board, managers, shareholders and

spells out the rules and procedures for making decisions on corporate affairs. By doing this it also provides it also provides the structure through which the company, banks objectives are set and the means of attaining those objectives and monitoring performance.

4. According to the **Institute of Company Secretaries of India**, “Corporate Governance is the application of good Management practices, Compliance of law in true letter and spirit and adherence to ethical standards for Effective Management and distribution of wealth and discharge of social Responsibility for sustainable development of all stakeholders”[7]

[7] Different Definitions of Corporate Governance- Gabrielle o’Donovan

CHAPTER-III

RELEVANCE OF CORPORATE GOVERNANCE IN INDIAN BANKS

Since the market control is not sufficient to ensure proper governance in banks the government does see reason in regulating and controlling the nature of activities, the structure of bonds, the ownership pattern, capital adequacy norms, liquidity ratios, etc. In the case of traditional manufacturing corporations issue has been that of safeguarding and maximizing or profit the shareholder's value.

In the case of banking sector the risk involved for depositors and the possibility of contagion assumes greater importance than that of consumers of manufactured products. Further, the involvement of government is discernibly higher in banks due to importance of stability of financial system and the larger interests of the public.

The RBI has made it clear that with the abolition of minimum lending rates for co-operative banks it will be incumbent on these banks to make the interest rates charged by them transparent and known to all customers. Banks have therefore been asked to publish the minimum and maximum interest rates charged by them and display this information in every branch it is mandatory. Disclosure and transparency are thus key pillars of a strong corporate governance framework because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care or not.

Another area which requires focused attention is greater transparency in the balance sheets of co-operative banks. The commercial banks in India are now required to disclose their accounting ratios relating to operating profit, return on assets, business per employees, NPAs(Non- Performing Assets), etc. has also maturity profile of loans, advances, investments, borrowings and deposits. At the initiative of the RBI, a consultative group aimed at strengthening or increased corporate governance in banks, headed by **Dr. Ashok Ganguli** was set up to review the supervisory role of Board of banks. The recommendations include the role and responsibility of independent non-executive directors, qualification and other eligibility criteria for appointment of non-executive directors, training the directors and keeping them current with the latest developments. [8]

Some of the major recommendations on the constitution of the Board are to participate in the meetings of the board regularly and ensure that their participation is effective & contributory they must study the reports submitted to them by the management team and enquire about follow up reports on definite time schedule. They should be actively involved in the matter of formulation of general policies and they should be familiar with the objectives of the bank and the policies laid down by the government and the changes in the various laws and legislations time to time.

They should be loyal to the bank and must remember that they should not reveal information relating to any constituent of the bank to anyone. to differentiate In the past when banks considered the issue of how best themselves from their competition. Good Corporate Governance was undoubtedly not applied. Due to the fallout from past corporate failures more and more banks are looking at good corporate governance from a new perspective.

Indian economic growth increase and major stock lead reaching record level the time has come to position corporate governance as a strategic force in Indian banks. Indian banks must drive

[8] Relevance of Corporate Governance in Indian Banks- By R S Nambi

growth and profitability while continuing to focus on enhancing corporate governance practices. Indian government has mandating corporate governance reforms at banks and can create the necessary infrastructure to ensure the continued flow of investment into the region.

Expanding global and regional banks, such as State Bank of India, Bank of Baroda, Bank of India, Punjab National Bank, ICICI Bank, HDFC Bank, Standard Chartered, HSBC, Citibank and others along with major investments by large institutional investor are enhancing corporate governance practices and increasing competitiveness and permanently changing the competitive landscape of Indian banking environment. Due to fast changing banking environment Indian banks must continue to implement strong or effective measures for corporate governance practices. They must now approach corporate governance as a competitive differentiator in an environment of strong foreign entrants and growing regional competitor

CORPORATE GOVERNANCE IN INDIAN BANKING SYSTEMS

RBI assumes a main job in defining and executing corporate administration for the financial segment in the nation. The corporate administration in the financial division system as pursued by RBI depends on three classifications for overseeing the banks these are as:-

- **Disclosure and straightforwardness:**

If any bank can't uncover their exchanges to the RBI that may evaporate with the long lasting ventures and reserve funds of the individuals the RBI through the need of routine revealing of monetary exchanges of the bank keeps watch on the exercises being attempted by the banks in India. In the case of any inability to submit to the necessities set out by RBI may prompt overwhelming fines might be forced alongside the wiping out of the permit of the concerned bank under the arrangements **of "Banking Regulation Act, 1949".**

- **Off-Site Surveillance:**

RBI normally play out a yearly **On-Site Inspection** of the records of the banks, off-site surveillance work was begun in 1995 for nearby exercises of banks. The essential point of convergence of this organization is to screen the cash related sufficiency of banks and RBI intends to make fortunate therapeutic move before things increase out of intensity. During December 1995 the essential tranche of off-site returns was given **"five quarterly returns"** for each business bank working in India and two half yearly benefits one each for related with the crediting and profile of ownership, control and the officials of banks. During June 1999, the second tranche of off-site returns was given "four quarterly returns" for checking the merits and commitment covering liquidity and advance expense chance for family unit and outside money related principles.

- **Prompt Corrective Action:**

RBI has set trigger focuses based on Capital to Risk Asset Ratio, non-performing Assets and Return on Assets (ROA). Based on these trigger focuses, the banks need to pursue called '**Required Action Plan**'. Next to Mandatory Action Plan, RBI has optional activity designs as well, a portion of the activities are fundamental to re-establish the budgetary soundness of banks must be obligatorily taken by the bank while different moves will be made at the prudence of RBI relies upon the profile of the bank. The special nature of banking institutions necessitates a broad view of corporate governance where regulation of banking activities is main or required to protect depositors. Corporate governance in the banking sector is not just a formality but urgent need of society. In almost every country in the world there is a watchdog like RBI which monitors all the transactions and activities undertaken by the banks and regulate the business of the bank by making them submit regular reports related to the business undertaken by them.

However, too much pressure on the banks must not be imposed on the banks in the name of corporate governance so much so that they feel harassed in the name of governance and their performance suffers leading to a slowdown of financial transactions and internal governance must be increased which must be formulated in a way that the efficiency of banks is not.

GOOD CORPORATE GOVERNANCE

Efforts should be taken by the bank in overcoming the obstacles or difficulties that occur in the setting of effective corporate governance as an effort to support risk management in the implementation of the precautionary principle are to establish .Appropriate committees ideal corporate governance principles, the audit function internal need to be implemented optimally and includes an assessment of the implementation of risk management, and the banks should implement an optimal risk management and information systems related to risk management should also be applied optimally.

- **Role and powers of Board**

Good governance is decisively the manifestation of personal beliefs and values which configure the organizational values, beliefs and actions of its Board. The Board as a main functionary is primarily responsible to ensure value creation for its stakeholders. The absence of clearly designated roles and powers of Board weakens accountability mechanism and threatens the achievements of organizational goals. Therefore, the foremost requirement of good governance is the clear identification of powers, roles, responsibilities and accountability of the Board, CEO, and the chairman of the Board. The role of the Board should be clearly documented in a Board Charter. It should be clearly mentioned without any misleading.

- **Legislation**

Clear and unambiguous legislation and regulations are fundamental to effective corporate governance. Legislation that requires continuing legal interpretation or is difficult to interpret on a day-to-day basis can be subject to deliberate manipulation or inadvertent misinterpretation. So it is understandable and or unburned in nature.

- **Management environment**

  Management environment includes setting-up of clear objectives and appropriate ethical framework, establishing due processes, providing for transparency and clear enunciation of responsibility and accountability, implementing sound business planning.And encouraging business risk assessment, having right people and right skills for the jobs, establishing clear boundaries for acceptable behavior, establishing performance evaluation measures and evaluating performance and sufficiently recognizing individual and group contribution. So, it is helpful in recognizing individuals or groups contribution in management.

- **Board skills**

  To be able to undertake its functions efficiently and effectively the board must possess the necessary blend of qualities, skills, knowledge and experience, decision making power. Each of the directors should make quality contribution. A board should have the following skills, knowledge and experience. Operational or technical expertise, commitment to establish leadership, financial skills, legal skills and knowledge of government and regulatory requirement.

- **Board appointment**

  To ensure that the most competent people are appointed in the board, the board position should be filled through the process of extensive search. A well-defined and open procedure must be in

place for reappointments as well as for appointment of new directors. Appointment mechanism should satisfy all statutory and administrative requirements which are mentioned. High on the priority should be an understanding of skill requirements of the Board particularly at the time of making a choice for appointing a new director. All new directors should be provided with a letter of appointment setting out in detail their duties and responsibilities. They should work according to their duties and responsibility.

- **Board induction and training**

Directors must have a broad understanding of the area of operation of the company's business, corporate strategies and challenges being faced by the Board in an effective way. Attendance at continuing education and professional development programs is essential to ensure that directors remain abreast of all developments, which are or may impact on their corporate governance and other related duties and their responsibility.

- **Board Independence**

Independent Board is necessary for sound corporate governance. This goal may be achieved by associating sufficient number of independent directors with the Board. Independence of directors would ensure that there are no actual or perceived conflicts of interest. It also ensures that the Board is effective in supervising and where necessary, challenging the activities of management. The Board needs to be capable of assessing the performance of managers with an objective perspective. Accordingly the majority of Board members should be independent of both the management team and any commercial dealing with the company or banks.[9]

- **Board meetings**

[9] Good Corporate Governance –I Pleader

Directors must devote sufficient time and give due attention to meet their obligations. Attending Board meetings regularly and preparing thoroughly before entering the board room increases the quality of interaction at board meetings. The Board meetings are the forums for Board decision-making. These meetings enable directors to discharge their responsibilities. The effectiveness of Board meetings is dependent on carefully planned agendas and providing relevant papers and materials to directors sufficiently prior to Board meetings. Also in the present world, Board meeting through modern means of communication like tele-conferencing, video conferencing may be expressly allowed under law. Board Resources Board members should have sufficient resources to enable them to discharge their duties effectively. It includes an access for director to independent legal and professional advice at the company's expense. The cost of supporting the Board should be transparent and reported.

- **Code of Conduct**

  It is essential that the organizations explicitly prescribe norms of ethical practices and codes of conduct are communicated to all stakeholders and are clearly realize and followed by each member of the organization. Systems should be in place to periodically measure, evaluate and if possible recognize the adherence to code of conduct.

- **Strategy settings**

  The goals of the company must be clearly documented in a long-term corporate strategy including an annual business plan together with attainable and measurable performance targets and milestones.

- **Business and community obligation**

  The basic activity of business entity is inherently commercial yet it must also take care of community's obligations. Commercial objectives and community service obligation should be

clearly documented after approval by the Board. The stakeholders must be informed about the proposed and on-going initiatives taken to meet the community obligations.

- **Financial and operational reporting**

The Board requires comprehensive, regular, reliable, timely, correct and relevant information in a form and of a quality that is appropriate to discharge its functions of monitoring corporate performance. For this purpose clearly defined performance measures-financial and non-financial should be prescribed which would add to the efficiency and effectiveness of the organization. The reports and information provided by the management must be comprehensive but not so extensive and detailed has to hamper comprehension of the key issues. The report should be available to Board members well in advance to allow inform decision-making. Reporting should include status report about the state of implementation to facilitate the monitoring of the progress of all significant Board approved initiatives.

- **Monitoring the Board performance**

Board must monitor and evaluate its combined performance and also that of individual directors at periodic intervals using key performance indicator beside peer review. The Board should establish an appropriate mechanism for reporting the results of Board's performance evaluation results.

- **Audit committees**

Audit committee is an inter alia responsible for liaison with the management internal and statutory auditors, reviewing the adequacy of internal control and compliance with significant policies and procedures, reporting to the Board on the key issues. The quality of audit committee significantly contributes to the governance of the company.

Risk management risk is an element of corporate functioning and governance. There should be a clearly established process of identifying, analyzing and treating risks which could prevent the company from effectively achieving its objectives and goals. It also involves establishing a link between risk-return and resourcing priorities. Appropriate control procedures in the form of risk management plan must be put in place to manage risk throughout the organization. The Board has the ultimate responsibility for identifying various risks to the organization, setting acceptable level of risk and ensuring that the senior management has taken steps to detect, monitor and these risks. The Board must satisfy itself that appropriate risk management system and procedure are in place to identify and manage risks. For this purpose, the company should subject itself to periodic external and internal risk reviews.

ROLE OF CORPORATE GOVERNANCE IN INDIAN COMPANY SECTOR: A SUMMARY

Corporate governance has appear as an important concept of empirical investigation due to the change in business objective from profit maximization for shareholders to value enhancement for different stakeholders. The recent exposure of corporate governance scandals across economies has made the importance of corporate governance more significant. Corporate governance has been driven across the world because of such failures, unethical business practices by big players, insufficient disclosures, lack of transparency, inefficient upper management in boards and neglecting the social responsibility.

Corporate Governance in India As per Companies Act 1956, the public limited companies were required to follow limited governance and disclosure standards. Corporate Governance reforms started in India since the liberalization of economy in 1991. First voluntary code of corporate governance was issued by the Confederation of Indian Industry (CII) in 1998and followed by a series of reforms introduced by Securities and Exchange board of India (SEBI)

based on recommendations by various committees set for corporate governance while the progress in introducing reforms is quite significant the impact was not that impressive. One of the main challenges for successful implementation of corporate governance reforms was that they are primarily based on Anglo Saxon Model of governance which is Commerce and Financial Review Punnet Goel Issue 1, 2018 and it is not suitable to Indian companies dominated by family business. Instead of a corporate governance model where management is responsible towards shareholders we need a model to discipline the dominant shareholders and protect the interest of minority shareholders.

Another problem in bringing efficient corporate governance model in Indian context is bad enforcement of corporate governance regulations which raises doubt in the mind of investors.[10]

Currently the corporate governance reforms are at cross roads where no doubt the intention behind the reforms is good but we need to find better solution for effective implementation to Indian model more effective addressing the specific challenges in Indian context.

The enactment of new Company Act 2013 has been done to enhance corporate governance disclosures, bring transparency in operations and protect the interest of minority shareholders and other stakeholders. Security Exchange Board of India (SEBI) has endeavoured to boost corporate governance structures in India.

EVOLUTION OF CORPORATE GOVERNANCE IN BANKING SECTOR

There is complete uniformity 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. 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

[10]Role of Corporate Governance in Indian Banking Sector- Puneet Kuaur,J.S Saini

which are implemented by the Indian banking system on a tight time frame and the implementation review by Reserve Bank of india.

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. Prudential norms in terms of income recognition, asset classification, and capital adequacy have 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.

In addition, 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. All the Indian banks barring one today are well above the stipulated benchmark of nine per cent and remain in a state of preparedness to achieve the best standards of CRAR as soon as the new Basel 2 norms are made operational.

Reserve Bank of India has taken many steps furthering corporate governance in the Indian Banking System. These can be classified into the following three categories: Transparency, Off-site surveillance and Prompt corrective action. However, there are many gaps in the disclosures in India visa-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 analyse the information objectively. The off-site surveillance mechanism is also active in monitoring the movement of assets and 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"** critical ratios to maintain peer pressure for better performance and governance.

There are three broadly major challenges facing governance ratings in India. Firstly there does not seem to be a clear objective in relation to the capital markets. The second challenge is that there is insufficient accumulated knowledge on corporate governance and a great amount of fluidity in the theory at present and the third challenge is to assign weightings to the companies in the context of global markets.

The rating agencies need to reflect on tthese while the regulator refrains from putting pressure to initiate a rating system for corporate governance. The RBI Advisory Committee on Corporate Governance has defined Corporate Governance as ,"he system by which business entities are monitored, managed and controlled. The Board of Directors occupies a pivotal place in the scheme of Corporate Governance".

The advisory group on banking supervision has emphasized the need for enhanced transparency and disclosures in respect of various aspects of board's constitution and functioning. Beginning with the composition of the Board of Directors and elaborating their various functions and duties and responsibilities the corporate governance code prescribes the procedures that make the functioning of Board more effective. These are as follows:-[11]

- The Board is accountable for the action of the company. It acts as a governing body that controls and channelizes the resources into productive and morally right ways. It is the responsibility of the Board to ensure that proper governance practices are took place in the company. It has to keep check of the going on in the company through active involvement at the strategic and policy-making level.
- The existence of outside independent directors enables the board to make an objective evaluation of company's activities. Their position as members of the board gives them access to information which will not be otherwise available to outsiders. The independent directors are in

[11] Evolution of corporate Governance –Dr. Bhawana Sharma

a greater position to stipulate a course of action. To increase the effectiveness of directors some of the experts have suggested the insurance of these directors for the risk they take in providing guidance or taking certain decisions.

- The board has to ensure that the management performs its duties with regard to day-to-day affairs within legal, moral and ethical bounds.
- Board is not to act as a kind of director. It should set goals for itself and evaluate its performance. It will set an example for other to follow their path in future.
- Board should be broad based. The directors should bring independent judgment to bear on issues of strategy, performance, resource planning and standards of conduct. They should be conversant with the banking business.

There should be an agreed procedure for directors to seek professional advice where considered necessary. Corporate Governance in India As per Companies Act 1956, the public limited companies were required to follow limited governance and disclosure standards. Corporate Governance reforms started in India since the liberalization of economy in 1991. First voluntary code of corporate governance was issued by Confederation of Indian Industry (CII) in 1998 followed by a series of reforms introduced by Securities and Exchange board of India (SEBI) based on recommendations by various committees set for corporate governance.

While the progress in introducing reforms is quite significant, the impact was not that impressive. One of the major challenges for successful implementation of corporate governance reforms was that they are primarily based on Anglo Saxon Model of governance which is not suitable to Indian companies dominated by family business.

Instead of a corporate governance model where management is responsible towards shareholders we need a model to discipline the dominant shareholders and protect the interest of minority shareholders. Another problem in bringing efficient corporate governance model in

Indian context is weak enforcement of corporate governance regulations which raises doubt in the mind of investors.

The corporate governance reforms are at cross roads where no doubt the intention behind the reforms is good but we need to find solution for effective implementation to Indian model more effective addressing specific challenges in Indian context. The enactment of new Company Act, 2013 has been done to enhance corporate governance disclosures, bring transparency in operations and protect the interest of minority shareholders and other stakeholders. Security Exchange Board of India (SEBI) has endeavoured to improve corporate governance structures in India and introduced new improved standards of corporate governance for listed firms in India.

NEED OF CORPORATE GOVERNANCE IN BANKS

Banks and development financial institutions of India particularly DFI's have important role in governance of companies and where they have their nominee directors. The main role of these nominee directors is to protect the interest of the institution and also as a member of the board be responsible as any other director. However in certain instances where irregularities or mistakes have been detected the role of nominee directors has attracted attention. However, it is felt in general that theses nominee directors have a duty to act in the larger public interest.

Banking is clearly a very special sub-set of corporate governance with much of its management obligations enshrined in law or regulatory codes. Governance is also a curiously two-side issue for banks since their funding and, often, ownership of other companies makes them a significant stakeholder in their own right. Corporate Governance in bank is a considerably more complex issue than in most countries including members of the **International Monitory Fund [IMF]** have experienced many issues within their Banking community from time to

time. The fact that these problems can still occur after the introduction and indeed implementation of both national and international standards and regulation gives the subject of corporate governance of banks crucial importance.

It is important to have a clear idea; to anyone in financial management whether micro or macro and interest in good market practice that banks are extremely important for development of a successful economy indeed the corporate governance of such institution is integral to that development. Banks are in separate position of effectively collecting a allowing the use of fund in given manner of enterprise. Where such funds are used in proper and secure manner, this can lead to stable market and lower the cost of capital and accordingly stimulate growth in an economy as whole.

Corporate Governance Guidelines to the bankers i.e. directors and senior management of the banks to allocate capital efficiently, to expert good and effective corporate governance in their own institutions and also to promote good practices for their customers. This finally helps to generate built in discipline in the relations bank and their customers.

Corporate Governance provides proper attention towards weak or improper supervision of banks which can have the disproportionate effect of destabilizing a county's economy and indeed reducing market confidence.

Corporate governance check on the various banking crises which are reasons for crippling economies, destabilized governments and in a macro sense held back the development of less sophisticated economies and emerging nations and this results in intensified poverty.

NATIONAL COMMITTEES ON CORPORATE GOVERNANCE AND THEIR RECOMMENDATIONS

The committees have played a important role in the evolution of corporate governance in Companies Law. Some of the committees are listed below.

Committee 1. CII Code of Desirable Corporate Governance (1998):

For the first time in the history of corporate governance in India, the Confederation of Indian Industry (CII) framed a voluntary code of corporate governance for the listed companies, which is known as CII Code of desirable corporate governance.

The main recommendations of the Code are summarised below:

Any listed company with an income or turnover of Rs. 1000 million and above should have professionally competent and acclaimed non-executive directors.

Who should constitute:

- At least 30% of the board, if the chairman of the company is a non-executive director, or
- At least 50% of the board if the chairman and managing director is the same person.
- For the non-executive directors to play a vital role in corporate decision-making and maximising long-term shareholder value.

They need to:

- Become active participants in boards, not passive advisors,
- Have clearly defined responsibilities within the board, and
- No single person should hold directorships in more than 10 listed companies. This ceiling excludes directorship in subsidiaries (where the group has over 50% equity stake) or associate companies (where the group has over 25% but no more than 50% equity stake).

Other recommendations of the Committee are:-

- The full board should meet a minimum of six times a year preferably at an interval of two months, and each meeting should have agenda items that require at least half-a-days discussion.

- As a general rule one should not re-appoint any non-executive director who has not had the time to attend even one-half of the meetings.

- Various key information must be reported to and placed before the board viz., annual budgets, quarterly results, internal audit reports, show cause, demand and prosecution notices received, fatal accidents and pollution problem, default in payment of principal and interest to the creditors, inter corporate deposits, joint venture foreign exchange exposures.

- Listed companies with either a turnover of over Rs. 1000 million or a paid up capital of Rs. 200 million, whichever is less, should set up audit committees within 2 years. The committee should consist of a least three members, who should have adequate knowledge of finance, accounts, and basic elements of company law. The committees should provide effective supervision of the financial reporting process.

- Consolidation of group accounts should be optional.

- Major Indian stock exchanges should generally insist on a compliance certificate, signed by the CEO and the CFO.

Committee 2. Kumar Mangalam Birla Committee (2000):

Another Committee named as K.M. Birla Committee was set up by SEBI in the year 2000. In fact, this Committee's recommendation culminated in the introduction of Clause 49 of the Listing Agreement to be complied with by all listed companies. Practically most of the recommendations were accepted and included by SEBI in its new Clause 49 of the Listing Agreement in 2000.

The main recommendations of the Committee are:-

1. The board of a company should have an optimum combination of executive and nonexecutive directors with not less than 50% of the board comprising the non-executive directors. In case, a company has a non-Executive chairman, at least one-third of board should be comprised of independent directors and in case, a company has an executive chairman, at least half of the board should be independent.

2. Independent directors are directors who apart from receiving director's remuneration do not have any other material pecuniary relationship or transaction with the company, its promoters, management or subsidiaries, which in the judgement of the board may affect their independence of judgement.

3. A director should not be a member in more than ten committees or act as chairman of more than five committees across all companies in which he is a director. It should be a mandatory annual requirement for every director to inform the company about the committee positions he occupies in other companies and notify changes as and when they take place.

4. **The disclosures should be made in the section on corporate governance of the annual report.**

- All elements of remuneration package of all the directors, i.e., salary, benefits, bonus, stock options, pension etc.

- Details of fixed component and performance linked incentives along with the performance criteria,

- Service contracts, notice and period, severance fees,

- Stock Option details, if any, and whether issued at a discount as well as the period over which accrud and exercisable.

5. In case of appointment of a new director or re-appointment of a director, the shareholders must be provided with the information:

- A brief resume of the director,

- Nature of his experience in specific functional areas, and

- Names of companies in which the person also holds the directorship and the membership of committees of the board.

6. Board meetings should be held at least four times in a year, with a maximum times gap of 4 months between any two meetings. The minimum information (specified by the committee) should be available to the board.

7. A qualified and independent audit committee should be set up by the board of the company in order to enhance the credibility of the financial disclosures of a company and promote transparency. The committee should have minimum three members, all being non-executive directors, with majority being independent, and with at least one director having financial and accounting knowledge. The chairman of the committee should be an independent director and he should be present at AGM to answer shareholder queries.

8. Finance director and head of internal audit and when required, a representative of the external auditor should be present as invitees for the meetings of the audit committee. The committee should meet at least thrice a year. One meeting should be held before finalization of annual accounts and one necessarily every six months. The quorum of the meeting should be either two members or one-third of the members of the committee, whichever is higher and there should be a minimum of two independent directors.

9. The board should set up a remuneration committee to determine on their behalf and on behalf of the shareholders with agreed terms of reference, the company's policy on specific remuneration package for executive directors including pension rights and any compensation payment. The committee should comprise of at least three directors, all of who should be non-executive directors, the chairman of the committee being an independent director.

10. A board committee under the chairmanship of a non-executive director should be formed to specifically look into the redressed of shareholder complaints like transfer of shares, non-receipt of balance sheet, declared dividends etc., The committee should focus the attention of the company on shareholders' grievances and sensitize the management of compensation of their grievances,

11. The companies should be required to give consolidated accounts in respect of all their subsidiaries in which they hold 51% or more of the share capital.

12. Disclosures must be made by the management to the board relating to all material, financial and commercial transactions, where they have personal interest that may have a potential conflict with the interest of the company at large. All pecuniary relationships or transactions of the non-executive directors should be disclosed in the annual report.

13. As part of the Directors' Report or as an additional thereto, a management discussion and analysis report should form part of the annual report to the shareholders,

14. The half-yearly declaration of financial performance including summary of the significant

15. Events in last six months should be sent to each household of shareholders,

16. The company should arrange to obtain a certificate from the auditors of a company regarding compliance of mandatory recommendations and annex the certificate with the Directors' Report, which is sent annually to all the shareholders of the company,

Committee 3. Naresh Chandra Committee (2002):

Consequent to the several corporate debacles in the USA in 2001, followed by the stringent enactments of Sarbanes Oxley Act, Government of India appointed Naresh Chandra Committee in 2002 to examine and recommended drastic amendments to the law pertaining to auditor-client relationships and the role of independent directors.

The main recommendations of the Committee are given below:

(a) The minimum board size of all listed companies as well as unlisted public limited companies with paid-up share capital and free reserves of Rs. 100 million and above, or turnover of Rs. 500 million and above, should be seven, of which at least four should be independent directors.

(b) No less than 50% of the board of directors of any listed company as well as unlisted public limited companies with a paid-up share capital and free reserves of Rs. 100 million and above or turnover of Rs. 500 million and above, should consist of independent directors.

(c) In line with the international best practices, the committee recommended a list of disqualification for audit assignment which included prohibition of:

- Any direct financial interest in the audit client,
- Receiving any loans and/or guarantees,
- Any business relationship,
- Personal relationship by the audit firm, its partners, as well as their direct relatives, prohibition of

- Service or cooling off period for a period of at least two years, and
- Undue dependence on an audit client.

ENFORCEMENT OF CORPORATE GOVERNANCE IN INDIA

The Companies Act

The Companies Act Companies in our country are regulated by the Companies Act, as amended up to date. The companies Act is one of the important legislation in India. The aims of the Act are quite long and touch every aspect of a company's insistence. But to ensure corporate governance, **the Act confers legal rights to shareholders to the following:-**

- Vote on every resolution placed before an annual general meeting;
- To elect directors who are responsible for specifying objectives and laying down policies; iii. Determine remuneration of directors and the CEO;
- Removal of directors and
- It take active part in the annual general meetings.

The Securities and Exchange Board of India (SEBI)

The first securities law in our country is the SEBI Act. Since its setting up in 1992, the board has taken a number of initiatives towards investor protection. One such initiative is to mandate information disclosure both in prospectus and in annual accounts. While the companies Act itself mandates certain standards of information disclosure, SEBI Act has added substantially to these requirements in an attempt to make these documents more meaningful.

The major objective of SEBI regulation is shareholder value maximization by putting corporate governance structures in place and through the reduction of information asymmetry between the managers and the investors of the company. Jensen (2000) also argues in favour of shareholder wealth maximization as the important objective function of any company.

The Reserve Bank of India established in 1935, is the central bank of India and is entrusted with monetary stability, currency management and supervision of the financial and payments systems and issue notes. Its functions and focus have evolved in response to India’s changing economic environment. RBI acts as the banker to the state and national governments the lender of last resort and the controller of the country’s money supply and foreign exchange.

The RBI supervises the operations of all banks and NBFCs in the country. It is responsible for monetary policy and setting benchmark interest rates, managing the treasury operations (both borrowings and redemption) for the government and as custodian and controller of the foreign exchange reserves. Criminal Actions under the Indian Penal Code the Indian Penal Code (IPC) provides a number of provisions under which governance related matters can be addressed. These include criminal breach of trust (section 406) and cheating (section 420) although these provisions do not target basic governance concerns they are sometimes used to address these concerns.

However, conviction rates are not very high (a concern found in many areas of the IPC and related criminal provisions) and hence the deterrent effect of these provisions is likely to be attenuated. Nonetheless the power to arrest is ubiquitous even if convictions are not. This particular equilibrium (easy arrest and difficult convictions) is troubling on multiple levels and is a matter that needs to be addressed before criminal laws can be used effectively in this area.

CLAUSE 49:

Clause 49 of the Equity Listing Agreement consists of mandatory as well as non-mandatory provisions. Those which are absolutely requirement for corporate governance can be defined with exact and which can be imposed without any legislative amendments are classified as mandatory. Others which are either desirable or which may require change of laws are classified as non-mandatory. The non-mandatory requirements may be implemented at the discretion of the company. However the disclosures of the compliance with mandatory requirements and adoption (and compliance) non-adoption of the non-mandatory requirements shall be made in the section on corporate governance of the Annual Report.

Salient points of Cause 49 are as follows:-

Mandatory provisions comprise the following:-

- Composition of Board and its procedure - frequency of meeting, number of independen
- directors, code of conduct for Board of directors and senior management,
- Audit Committee and its composition as well as its role,
- Provision relating to Subsidiary Companies,
- Disclosure to Audit committee, Board and the Shareholders
- CEO/CFO certification
- Quarterly report on corporate governance and
- Annual compliance certificate

Non-mandatory provisions consist of the following:-

- Constitution of Remuneration Committee,
- Dispatch of Half-yearly result
- Training of Board members
- Peer evaluation of Board members,
- Whistle Blower policy

As per Clause 49 of the Listing Agreement there should be a separate section on Corporate Governance in the Annual Reports of listed companies with detailed compliance report on Corporate Governance. The companies should also submit a quarterly compliance report to the stock exchanges within 15 days from the close of quarter as per the prescribed given format. The report shall be signed either by the Compliance Officer or the Chief Executive Officer of the company. Apart from Clause 49 of the Equity Listing Agreement there are certain other clauses in the listing agreement, which are protecting the minority shareholders and ensuring proper disclosures.[12]

CHAPTER-IV

INDISPENSABILITY OF CORPORATE GOVERNANCE IN INTERNATIONAL BANKING SYSTEM

CORPORATE GOVERNANCE

Corporate governance is the framework and the associations which govern corporate direction and performance. The board of directors have dominant power in corporate governance. Its relationship to the other primary participants, typically shareholders and management is critical. Other members include employees, customers, suppliers, and creditors. The corporate governance structure also depends on the legal, regulatory, institutional and ethical environment of the community. Usually corporate governance is described as the host of legal and non-legal principles and practices affecting control of publicly held business firms. In general speaking, corporate governance affects not only who controls publicly traded corporations but also the allocation of risks and returns from the firm's activities among the

[12] National Committees on Corporate Governance - Kiran N

various contributors in the firm including stockholders and managers as well as creditors, employees, customers, and even societies.

Many management scholars have recognized that powerful corporate governance is vital to resilient and vibrant capital markets and is a prime tool of investor protection. According to The Institute of Company Secretaries of India, "**Corporate Governance is the application of best management practices, compliance or jaw in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders". Cadbury Committee (U.K.), 1992** has defined **corporate governance as** "Corporate governance is the system by which companies are directed and controlled. It encompasses the entire mechanics of the functioning of a company and attempts to put in place a system of checks and balances between the shareholders, directors, employees, auditor and the management." Other group of scholars explained the term corporate governance as "process and structure by which the business and affairs of the company are directed and managed in order to enhance long term shareholder value through enhancing corporate performance and accountability, whilst taking into account the interests of other stakeholders".

It improves strategic thinking at the top by inducting independent directors who bring a wealth of experience, and a host of new ideas.

- It justifies the management and monitoring of risk that a firm faces globally.
- It limits the responsibility of senior management and directors, by carefully articulating the decision making process
- It assures the integrity of financial reports.
- It has long term reputational effects among main stakeholders, both internally and externally.

ADVENT OF CORPORATE GOVERNANCE IN INTERNATIONAL BANKS

The Basel Committee on Banking Supervision, the world's leading authority on banking regulation and banking supervision, its begins in 2015. Guidelines on Corporate Governance Principles for Banks with the words-'Effective corporate governance is critical to the proper functioning of the banking system and as the economy as a whole. The corporate governance of banks and other financial institutions has gained much attention after the financial crisis.

The idea of corporate governance is ensuring that investors receive a fair return on their investment by having a certain protection against management abuse or poor use of their investment capital. From the 1930's various regulations related to corporate governance have been made in the U.S.

The Securities Act of 1933 and the Securities Exchange Act of 1934 have been regarded as the first regulations about corporate governance, followed by FCPA in 1977 which had been the only regulation all over the world for the following 20 years.

The recent development related to corporate governance is the Sarbanes-Oxley Act of 2002. This act not only completely changed the regulatory landscape for companies that participate in U.S. capital market, but also affected other countries all over the world. By this act, the U.S. Congress imposed major corporate governance and disclosure reforms and created an entirely new regulatory scheme for the accounting profession among other things. Corporate governance will continue to be the main tool in protecting stakeholders' rights in the future as well. By examining the development of corporate governance **U.S., it can be stated that regulations related to corporate governance practices have become more organized and challenging.** Companies need to adopt themselves to these in order to deal.

U.S. CORPORATE GOVERNANCE

The Sarbanes-Oxley Act of 2002 is generally reflected the first major Corporate Governance legislative measure in the USA. It is also known as 'Public **Company Accounting Reform and Investor Protection Act'** and 'Corporate and Auditing Accountability and Responsibility Act' the legislation is also known informally as Sarbanes-Oxley, Soapbox or SOX. The act is named after its instigators Senator Paul Sarbanes and Representative Michael G Oxley. As in the UK legislative pressures developed from the uproar by media public and politicians in response to corporate outrages, specifically and particularly the criminal and vast failures in the late 1900s and early 2000s of Enron, Tyco, and WorldCom, which caused losses of $billions for investors, and severely undermined US economic stability, and in other major markets too.

The importance of Sarbanes-Oxley Act became federal law aimed to set standards for public company boards of directors, management, and the accounting firms responsible for auditing public companies. The act primarily- Increased the responsibility of management to certify accuracy of financial information. Increased penalties for corporate fraud. Increased necessary independence of auditors. Increased the formal legal responsibility of corporate boards of

directors for the oversight of the corporations activities decision making and accounting EU Corporate Governance legislation.

In the late 1900s and early 2000s, The European Union specialists tended to encourage member states to develop their own Corporate Governance standards and regulatory instruments rather than intercede directly or produce mandatory standards. Differences in national corporate laws especially concerning company incorporation and investors are naturally difficulties to the development of Europe wide Corporate Governance rules.

Different laws, codes, and institutional bodies became established across Europe on an individual nation basis to address Corporate Governance. These instruments continued to be refined through the 2010s and will extend to 2020s, until standards of Corporate Governance and mechanisms for compliance, monitoring, and remedial action are established effectively in response to the challenging dynamics of globalized commerce. The inability through the 2010s of international governments to counter large-scale corporate tax avoidance accounting schemes is a main example of how globalized business is several steps ahead of globalized regulatory control. During the early 2000s and 2010s EU commissioners began to produce reports, codes, and guidelines aimed at influencing and coordinating Corporate Governance regulations and instruments at national level.

EU interest and (non-enforceable) guidance during this period focused primarily on:-

- Directors' remuneration
- Non-executive Director's selection and appointment
- Auditing
- Corporations' commitment and adherence to transparent published statements of Corporate Governance

IMPORTANCE OF CORPORATE GOVERNANCE

The Organisation for Economic Cooperation and Development (OECD) the significance of good corporate governance in the global and domestic economic environment. According to OECD if countries are to reap the full benefits of the global capital market and if they are to attract long-term “patient” capital, corporate governance arrangements must be credible and well understood across borders. Even if companies do not rely primarily on foreign sources of capital adherence to good corporate governance practices will help to improve or maintain the

confidence of domestic investors which may reduce the cost of capital, and ultimately induce more stable sources of financing (Principles of Corporate Governance, 1990).

DEFINITION OF CORPORATE GOVERNANCE

The definition of corporate governance most widely used is “the system by which companies are directed and controlled**” (Cadbury Committee, 1992**). More specifically it is the framework by which the various stakeholder interests are balanced, or, as the IFC states, “the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders”

The OECD Principles of Corporate Governance states that Corporate Governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

WHY CORPORATE GOVERNANCE MATTER FOR INTERNATIONAL FINANCE CORPORATIONS

Corporate governance refers to structures and processes for the direction and control of companies. Corporate governance concerns the relationships among the management, board of directors, controlling shareholders, minority shareholders, and other stakeholders. Good corporate governance contributes to sustainable economic development by enhancing the performance of companies and increasing their access to outside capital and increases the development of the economy.

The **G20/OECD (2015) Principles of Corporate Governance** provide the framework for the work of IFC in this area identifying the key practical issues:

- The rights and equitable treatment of shareholders and key ownership functions;
- Institutional investors, stock markets, and other intermediaries;

- The role of stakeholders, disclosure, and transparency;
- And the responsibilities of the board. The principles are universally applicable to all types of corporate governance systems in countries at all levels of economy growth and development. The challenge for IFC is to take this structure of international best practices of corporate governance and use it to add value to the wide spectrum of our client companies in emerging market

WHY DOES CORPORATE GOVERNANCE MATTER FOR IFC CLIENTS?

Improving access to capital. Much of policymakers and academics attention to corporate governance issues in emerging markets has focused on the role of governance in improving emerging-market Company's access to global portfolio equity. An increasing volume of empirical evidence indicates that well-governed companies receive higher market valuations; however, improving corporate governance will also increase all other capital flows to companies in developing countries from domestic and global capital, from equity and debt, and from public securities markets and private capital sources.

- **Improving performance** -Equally important, good corporate governance leads to better performance for IFC clients. Upgrade governance structures and processes help ensure quality decision making, encourage effective succession planning for senior management and enhance the long-term prosperity of companies, independent of the type of company and its sources of finance.
- **Adding Value** - Adding value. Corporate governance is a main priority for IFC, because it presents opportunities to manage risks and add value to clients. Besides benefiting individual client companies, IFC's work to improve corporate governance also contributes more broadly to its mission to promote sustainable private sector investment in emerging markets. IFC collaborates with clients that identifies and manages environmental and social risks and that pursue environmental and social opportunities and outcomes in their business activities with a view to continually improving their sustainability performance. IFC recognizes the relationship that a strong culture of corporate integrity and governance has with sustainability performance and that a company's management and board of directors play important roles in driving risk management and sustainable growth. IFC believes that this approach helps improve the financial, social, and environmental sustainability of investments and enhances the public trust in its operations.

- **Reducing investment risk-** IFC's interest to reduce the risk of investments by improving the governance of investee companies. In the inferior corporate governance environments, poor standards and weak enforcement continue to be barriers to investment even for IFC with its mandate to work in frontier markets. Improving the corporate governance of investee companies allows IFC to work in higher-risk environments. It may also bring an increase in the market valuation of companies and attract more investors which together increase the opportunities for IFC to exit its equity investments on favourable terms. In present years, IFC has worked with some of our highest-profile clients to improve their governance and to make better communicate the quality of their governance to markets.
- **Avoiding reputational risk**- If IFC does not work to improve the corporate governance of client companies. It takes on not only investment risk but also a reputational risk for involvement with companies with poor governance or in the worst cases, corporate scandals. This reputational risk is particularly serious where stakeholders and equity investors stand to lose from governance abuses, such as with banks and insurance companies.
- **Creating capital markets**- Maintain corporate governance contributes to the development of the public and private capital markets. Poor standards of governance, particularly in the area of transparency and disclosure have been a major factor contributing to instability in the financial markets across the globe. This was seen in the 2008 financial crisis where corporate governance shortcomings arises particularly in the area of control environment (internal audit, internal controls, risk governance, and compliance) interrupted economic growth.

IFC'S COMPARATIVE ADVANTAGE IN CORPORATE GOVERNANCE

IFC'S EXPERIENCE

Although the term "corporate governance" has become widely used only in recent years, IFC worked on the key issues of corporate governance at the grassroots level for decade structuring client companies, appraising investment opportunities and nominating board members. This practical experience allows IFC to tailor global principles to the realities of the private sector in developing countries. Development banks and other investors working in emerging markets now look to IFC for leadership on corporate governance issues in developing countries.

Global leadership -

In addition to working directly with client companies, IFC plays a leading role in the global policy dialogue on corporate governance and provides technical assistance to regulators, stock

exchanges, and others, including the network of development finance institutions. IFC manages a set of large donor-funded technical assistance projects in Central and Eastern Europe, China, the Middle East, and other key emerging markets. IFC bring together corporate governance professionals worldwide. It co-sponsored the OECD Roundtables in Latin America and Eastern Europe and helped establish networks of Institutes of Directors in East Asia, Central and Eastern Europe and Latin America. IFC's methodology for evaluating corporate governance risks and opportunities has been distilled into the "Corporate Governance Development Framework," a common approach that was adopted by 35 development finance institutions for use in their investment processes.

The institutions that signed the Corporate Governance Development Framework cover most emerging markets around the world including Africa, Latin America and the Caribbean, Asia, Middle East, and Europe and Central Asia, and represent assets of more than $850 billion altogether.

Sustainability and Corporate Governance -

Corporate governance is one of the most important pillars of IFC's focus on sustainability, following environmental and social sustainability. Better corporate governance increases the likelihood that the enterprise will satisfy the legitimate claims of all stakeholders and fulfil its environmental and social responsibilities. Good corporate governance processes contribute to the long-term, sustainable growth of client companies. A company that is well-governed is one that is accountable and transparent and that engages appropriately with its shareholders and other stakeholders (including contracted workers, primary-supply-chain workers, suppliers and contractors, and local and international nongovernmental organizations and civil society organizations).

MEANING OF CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

Corporate Governance and Corporate Social Responsibility (CSR) are conceptualised by the Western countries, where their practices have developed tremendously in the last decade. During these periods the idea has been exported to other parts of the globe largely through the activities of multinational National companies. It may be noted that the Corporate Governance and CSR are two related and interwoven business concepts that are deeply embedded in

business practices. In this topic, an attempt is made to discuss the concept of CSR and Corporate Governance and their interrelationship within legal and regulatory framework in India.

EVOLUTION OF CSR IN INDIAN BANKING SYSTEM

The CSR Indian Banking Sector is aimed towards addressing inclusion , providing financial services to unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like, **poverty, eradication ,health ,medical care, rural area development, self-employment trading and financial literacy trainings, infrastructure development ,education and environment protection etc.**

PHASES OF CSR PRACTICES IN BANKS

The CSR phases and its development can be divided in to four phases are as follows:-

Phase 1 (till 1914)

CSR motivated by charity and philanthropy-

The oldest form of CSR was motivated by charity and philanthropy with direct influence from culture, religion, family, and trading and industrialisation process.

Phase 2 (1914-1960) -

CSR for India's soon deployment.

Dominated by the country's struggle independence and influenced fundamental by Gandhi theory of trusteeship consolidation and implication of soon development and Gandhi's reform program which included activates that sought particular abolition of untouchably women's empowerment and ruler development.

Phase 3 (1960-1980) -

CSR under the paradigm of the mixed economy.

The paradigm of mixed economy with the emergency of legislation on labour and Environment standards that affected the third phase of Indian CSR. This phase is also characterized by a shift from corporate self-regulation to strict legal and public regulation of business activities.

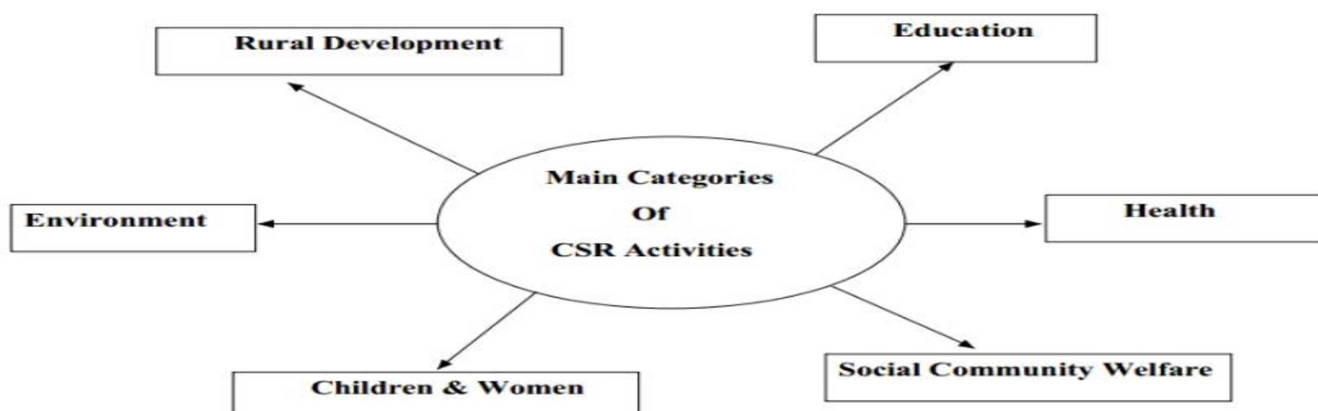
Phase 4 (1980-& onwards) -

CSR at the interface between philanthropic and business approaches.

Indian companies and stakeholders began abandoning traditional philanthropic engagement and to some extent, integrated CSR into a coherent and sustainable business strategy, partly adopting the multi stakeholder approach.

CSR PRACTICES IN INDIAN BANKING SECTOR

Corporate Social Responsibility presented in a chart form:-



So, these are the main categories of CSR activities

[13][14]ROLE OF BANKS TOWARDS CORPORATE SOCIAL RESPONSIBILITY

Schedule 7 of companies Act, 2013 sets out the activities which may be included in CSR and the banks in India are already working on it. These activities include poverty eradication,

[13] CSR Practice In Indian Banking Sector by Sneha D
[14] Evolution of Corporate social Responsibility in banks- Sunita Upendra Sharma

education, empowering women, environmental sustainability, ecological balance, protection of flora and fauna, animal's welfare, agroforestry, and conservation of natural resources and maintain quality of soil, air and water socio-economic development and relief and welfare of the schedule caste, the schedule tribes, other backwards classes, minorities and women.

Nationalization of banks in 1969(14 banks) and in 1980 (6 banks) the banks in India, whether it be in public or private sector domain apart from catering the needs of big industrial houses are also actively participating in the Priority Sector Lending target of which is 40% of the overall credit or credit equivalent of Off-balance Sheet exposure whichever is higher.

Indian Perspective

- The Sachar Committee was appointed in 1978 to look into corporate social responsibility is issues concerning Indian companies.
- The company must behave & function as a responsible member of society.
- Committee suggests openness in corporate affairs & behavior.
- Some business houses have must established social instructions like School, colleges, charitable hospitals etc.
- Corporate sectors have not made significant contributions. (Polluting Environment).[15]

[16]CORPORATE SOCIAL RESPONSIBILITY HIERARCHY MODEL

- **Stakeholders Model:**

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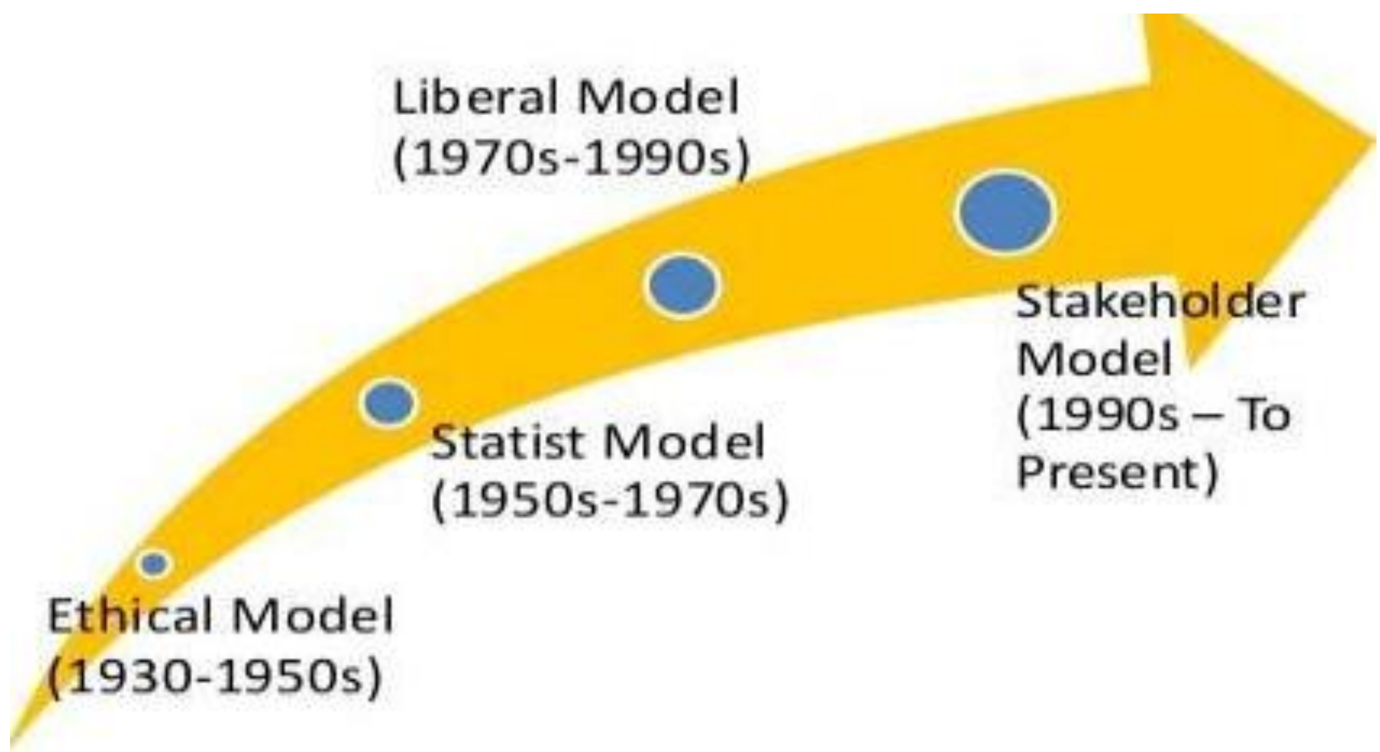
[15] Corporate Social Responsibility by –Mohammad Issam, Aly salama

[16] Corporate Social Responsibility Hierarchy model – Dezan Shira and Associates

The evolution of CSR in India has followed a chronological order of four thinking approaches through the stakeholder model came into existence during 1990's as a consequences of realisation that with growing economic profits and businesses also have certain societal roles to fulfil .The model expects companies to perform according to "**Triple bottom line**" approaches. The businesses are also focusing on accountability and transparency through several mechanisms.



CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY

The idea of CSR largely started as a philanthropic gesture by a few wealthy businessmen. However, during the last decade the CSR is becoming buzz word and there is no importance in the corporate sector. The changing conditions within which companies operate, shaped by environmental and globalization forces, affects the way that the role of business is perceived. Now days a growing number of companies worldwide have acknowledged the importance of CSR in doing business. There is no universally accepted definition of the word "CSR", the meaning and definition of CSR depends upon on mainly two factors;1) Firstly, context in which

it is used and 2) secondly, stakeholder. The difficulties in defining precisely CSR are in part reflective of the way in which this topic has developed and the conditions of its use.

It has grown out of corporate philanthropy with a clear emphasis on social improvements or strategic investment keeping in view long term goals. For others, CSR has a much broader definition and is closely related to the sustainable development and environment issues. CSR has been defined in many different ways. For the purpose of this paper, we will use three key definitions of the World Business Council for Sustainable Development, The European Union and the World Bank which covers all the important elements of CSR.

The change at that time was that industry accepted s social responsibility as part of the management of the enterprise itself. The community development and social welfare program of the premier Tata Company, **Tata Iron and Steel Company started the concepts of Social Responsibility.**[17][18]

WHY THERE IS A NEED FOR CORPORATE SOCIAL RESPONSIBILITY?

- **Secure Public Image-**
  Each firm must enhance its public image to secure more customers and better employees and higher profit. Acceptance of social responsibility goals lead to improve public image and their living.
- **Conversion of Resistances Into Resources -**
  If the innovative ability of business is turned to social problems than many resistances can be transformed into resources and the functional capacity of resources can be increased in many times.
- **Maximization of Profit long term -**
  A better society would produce a better environment in which the business may gain long term maximization of profit. A firm which is sensitive to community needs would in its own self-interest like to have a better community to conduct its business. To achieve this goal it would implement social programs for social welfare.
- **Avoiding Government Intervention -**
  Regulation and control are two costly to business both in terms of money and energy and restrict its flexibility of decision making. Failure of businessmen to assume social

[17] Concept Of Corporate Social Responsibility by Akhilesh Ganti
[18] Role of Banks Towards Corporate social responsibility –Dr. Rajeev Babel

responsibilities invites government to intervene and regulate or control their activities. The prudent course for business is to understand the limit of its power and how to use that power carefully and responsibly thereby avoiding government intervention.

[19]UNDERSTANDING CORPORATE SOCIAL RESPONSIBILITY (CSR)

Corporate social responsibility is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility and also called **corporate citizenship**. Companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social and environmental.

To involve in CSR means that, in the ordinary course of business. A company is operating in ways that enhances society and the environment instead of contributing negatively to them.

CSR is a long concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

As important as CSR is for the community. It is equally valuable for a company and CSR activities can help forge a stronger bond between employees and corporations boost morale and help both employees and employers feel more connected with the world around them.

For a company to be socially responsible it first needs to be accountable to itself and its shareholders. Often, companies that adopt CSR programs have developed their business to the point where they can give back to society. Thus, CSR is primarily a strategy of large corporations and also the more visible and successful a corporation is the more responsibility it has to set standards of ethical behaviour for its peers, competition, and industry.

[19] Why there is need for Corporate Social Responsibility by Roma Jain

Corporate social responsibility (CSR) refers to the self-imposed responsibility of companies to society in areas such as the environment, the economy, employee well-being and competition ethics. Many companies use internal CSR regulation as a form of moral compass to positively influence the ethical development of their business. Positive corporate social responsibility can also offer economic benefits.[20]

[21]BENEFITS OF CORPORATE SOCIAL RESPONSIBILITY

Some clear benefits of corporate social responsibility are in numbers of points:

- **Better public image -**

This is crucial as consumers assess your public image when deciding whether to buy from you. Something simple like staff members volunteering an hour a week at a charity shows that you are a brand committed to helping others. As a result you will appear much more favourable to consumers.

- **Creates an increased brand awareness and recognition -**

If you are committed to ethical practices this news will spread. More people will therefore hear about your brand, which creates increased brand awareness.

- **Cost savings -**

Many simple changes in favour of sustainability, such as using less packaging, will help to less your production costs.

- **Productivity and Quality -**

[20] Understanding the Corporate Social Responsibility by CS Surbhi Tomar

[21] Benefits of Corporate social Responsibility by- Ellie collier

Improved working conditions reduce environmental impacts or increased employee involvement in decision making which helps to increased productivity and defective rate in a companies.

- **Improved Financial Performance -**

Socially responsible business is linked to positive financial performances. Improved financial results are attributed to stable socio - political legal environment and increased competitive advantage through better corporate reputation and brand image and improved employee recruitment, retention and motivation and a more secure environment to operate in it.

- **Brand Image And improve Reputation -**

Company considered socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community increasing the company's ability to attract trading partners.

- **Access to Capital -**

The growth of socially responsible investing concept means companies with strong CSR performance have increased access to capital that might not otherwise have been available.

- **Enhance customer engagement -**

If you are using sustainable systems you should shout it from the tops. Post it on your social media channels and create a story out of your efforts. Furthermore, you should show your efforts to local media outlets in the hope they will give it some coverage. Customers will follow this and engage with your brand and operations.

- **More employee engagement -**

Similar to customer engagement, you also need to ensure that your employees know your CSR strategies. It's proven that employees enjoy working more for a company that has a good public image than one that does not. Furthermore, by showing that you're committed to things like human rights you're much more likely to attract and retain the top candidates.

- **Advantage for employees -**

There are also a range of benefits for your employees when you embrace CSR. Your workplace will be a more positive and increase productive place to work and by promoting things like volunteering you encourage personal and professional growth.

RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

The conceptualization of CSR was purely in terms of philanthropy or charity. However, the post-liberalization phase has seen a fundamental shift from this philanthropy-based model of CSR to stakeholder participation-based model. Furthermore, Corporate Governance Responsibility is gradually getting fused into companies Corporate Governance practices. Both Corporate Governance and CSR focus on the ethical practices in the business and the responsiveness of an organisation to its stakeholders and the environment in which it utilizes. Corporate Governance and CSR results into good image of an organisation and directly affects the performance of an organisation. The OECD principles on Corporate Governance UN Global Compact Participation throw light on CSR scheme but in India CSR by virtue of clause 49 of the listing agreement have been made totally optional. It is relevant to mention that transparency, disclosure, sustainability and ethical behaviour is central subject in both CSR and Corporate Governance.

Further, it is worthwhile to mention that CSR is based on the concept of self-governance which is related to external legal and regulatory mechanism. Whereas Corporate Governance is a widest control mechanism within which a company takes it management decisions.[22]

Furthermore, the objectives and benefits of CSR and Corporate Governance are similar in nature some of them are stated herein below:

- Rebuilding of public trust and confidence by increased transparency in its financial as well as non-financial reporting and thereby increasing the shareholder value.
- Establishing strong brand reputation of the company.
- Making substantial improvement in its relationship with various stakeholders.
- Contributing to the development of the region and the society around its area of operation.
- Addressing the concerns of its various stakeholders in a balanced way so as to maintaining a strong market position.

In addition it may be worthwhile to note that in case of unlisted companies there is not powerful system of corporate governance, although there are some provisions in the Companies Act, 1956 in this factor the relationship between Corporate Governance and CSR is very important and significant. In order to appraise present position of CSR and Corporate Governance, it would be necessary to examine the legal and regulatory framework dealing with CSR and Corporate Governance.

[22] Relationship between Corporate Governance and Social Responsibility by Dr.Pushkala Muralidharan

SUGGESTIONS RELATED TO CSR

The part of media in highlighting good cases of successful CSR initiative is accepted as it spreads good stories and sensitize the population about various on-going CSR-

- Broad perception towards CSR initiatives is essential, as non-governmental organizations and Government agencies usually possess a narrow out look towards the CSR initiatives of companies, often defining CSR initiates more as donor driver.
- Clear cut statutory advice or policy directives are required to give a correct direction to initiative of the companies.
- Consensus amongst implementing agencies regarding CSR projects is the need of the hour, because lack of Conesus often results in duplication of activities by corporate houses in areas of their intervention.
- The act does not provide any guidance on what constitutes acceptable reasons for which a company may avoid spending 2% on CSR. Hence it should be clarified.
- The companies in their CSR activities should give more preference for education, environmental issues, poverty elevations programs, employment generation, roads and powers etc.

SUMMING UP THE CORPORATE SOCIAL RESPONSIBILITY

Today the banking services are more effective in comparison with the past and the bank have also started working towards social banking that is CSR.

After the involvement of RBI the CSR becomes the chief part of Banking Sector but still more regulations and new policies are required to implement the concept of Corporate Social Responsibility in Indian Banking Sector.

RBI should made some criteria to distinguishes between the banks conducting CSR practices and those not activities not conducting on the basis of their involvement in social banking and some percentage must be set for spending on CSR activities by all established banks and a proper or strict monitoring is required by a committee on the working banks so that the banks work for their profit along with contributing towards the society as well.

Last but not the least; Corporate Social Responsibility is just not the charity but a practical implementation of ethical ideas towards the society. But it is too easy to say what the real influence of this act will be, especially given that passing it and enforcing it are too different things. Moreover, today the concept of CSR is firmly rooted on the global business agenda

CHAPTER- VI

COMPARATIVE STUDY OF CORPORATE GOVERNANCE IN BANKING SYSTEM BETWEEN INDIA AND THE U.S.

Establishment of policies and continuous monitoring of their proper implementation by the members of the governing body of an organization .It includes the mechanisms required to balance the powers of the members and their primary duty of increasing the prosperity and viability of the organization.

CORPORATE GOVERNANCE PRINCIPLE FOR BANKS

Effective corporate governance is critical to the proper functioning of the banking sector and the economy as a whole. Banks serves an important role in the economy by intermediating funds from saver and depositors to activates that support enterprise and help drive economic growth .Banks safety and soundness are a key to financial stability and the manner in which they conduct their business. Therefore, it is central to economic health and prosperity. Governance weakness a bank that play the significant role in the financial system can result in the transmission of problems across the banking sector and the economy as a whole of the country.

Background

According to Confederation of Indian Industries (CII),"Corporate Governance occupies mind space of the government, regulators, corporate, boards, markets, employees and investors almost the entire society as one of the most important business constituents given its all-pervasive characteristic". The corporate governance system is much more crucial in the banking sector due to Multifood reasons. Banks serve a crucial link in the nation's financial system banks are highly leveraged as they accept large amount of uncollateralized public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. Apart from these banks provide access to payment systems and a variety of retail financial services for the economy at large. Interrelatedness of transactions makes the problems of contagion a reality and consistently poor decisions by one bank can create serious issues for other banks. Banks more than other corporate have to match the conflicting interests of different stakeholders.

Modern banking system was introduced in India during British time with the concept of unlimited liability. General Bank of India was started in 1787 to act as banker of the Government. Bank of Hindustan was founded in 1771 in Calcutta; Joint stock of banking came into existence in 1860 with limited liability.

Seven banks were set up during 1870-1894 with the feature of limited liability clause. Swadeshi Movement in 1905 gave up a fill up to indigenous banks and during 1906-1913, 5 big banks and several small banks came into existence. The four big banks were: Bank of Baroda, Mysore Bank, Indian Bank and Bank of India. During World war-I and earlier to that nearly 54 small banks failed and nearly 34% paid up capital in banking sector was lost. By the end of 1923, total number of bank failures was 143. From the beginning of 20th century banking sector has been so developed that in fact, it has come to be called "life blood" of trade and commerce. During the post-independence era, the increasing tempo of economic activity led to the expansion of scope and direction of banking at a rapid pace.

NEED OF CORPORATE GOVERNANCE PRACTICES IN INDIAN BANKING SECTOR

The corporate world in general is following a relentless march towards better corporate governance standards and adoption of uniform accounting standards and disclosure requirements is necessary. These two requirements are particularly relevant to the banking sector where depositor's funds are many times higher than the equity of promoters. For effective governance, it has to be ensured that the conflicts of interest between the stakeholders are mitigated. Proper governance has emerged as an important benchmark for improving competitiveness and increasing efficiency and thus improving investors confidence and accessing capital , both domestic as well as foreign. Banks operate on trust and the funds they receive from depositors are on the basis of trust. Last but not the least, in case of public sector banks the importance of governance is further magnified because of their large share of the banking business and also because of the fact, that they are government owned entities.

[23]SUPERVISORY ROLE OF THE RESERVE BANK OF INDIA

Reserve Bank of India is the head body of the money market started their operations 1stApril 1935 in accordance with the provisions of the RBI Act, 1934.Often the institutional change was triggered by a banking crisis which hurt the reputation of the supervisors. Nevertheless it is an

[23] Supervisory Role of the Reserve bank of India- Isha Mitruka

ongoing debate whether the Supervisory structure should be reformed and if so in what direction. It can be said without any ambiguity that a flawless, efficient and effective supervisory model can be created if regulatory independence, supervisory independence, institutional autonomy and budgetary independence are free from the political interference and bureaucratic hassles. The risk based supervision provides major emphasis on risk where risk arises from the asset liability mismatch in the banking sector. A vital issue in the strategic bank planning is Asset and Liability Management (ALM). The objective of ALM is to maximize returns through efficient fund allocation given an acceptable risk structure. ALM is a multidimensional process, requiring simultaneous interactions among different perspectives. If the simultaneous nature of ALM is discarded, decreasing risk in one dimension may result in unexpected increases in other risks. The excessive off balance sheet exposure is another area of risk faced by the banks.

Emergence of Basel Framework

The Basel Committee formulates widely supervisory standards and guidelines and recommends statements of best practice in banking supervision in the expectation those member authorities and other nation's authorities will take more steps to implement them through their own national systems, whether in statutory form. The main purpose of Basel Committee on Banking Supervision is to encourage convergence toward common approaches and standards. The Committee is not a classical multilateral organization, in part because it has no founding treaty. BCBS does not issue binding regulation rather it functions as an informal forum in which policy solutions and standards are developed. The BCBS recommended that capital can be used to absorb losses and minimum capital requirements set a basic level of resilience against losses and help to protect a bank against insolvency. Hence ,banks should maintain certain capital adequacy ratio as a safety cushion.

SEBI Clause 49

The Security Exchange Board of India was established by a Government in 1988. The SEBI accorded statutory status on 21st February in 1992 as an autonomous, independent and quasi-judicial regulatory body. The SEBI has adopted several strategies to attract the retail investors in Indian capital market. When they are conducting different workshops, seminars through the SEBI certified financial resource persons to increase the awareness of individual investors. Simultaneously they are introducing gradually the stringent corporate governance regulations to win the confidence of the common (layman) investors. The Security Exchange Board of India appointed a committee on corporate governance on 7th May, 1999 with a view to promoting

and raising the standards of corporate governance. In accordance with the guidelines provided by SEBI, the Stock Exchanges in India have modified the listing requirements by incorporation in them a new clause (clause 49), so that proper disclosure for ensuring corporate governance is made by the companies.

Companies Act 2013

The Companies Act.2013 added a new dimension in the literature of corporate governance by way of introducing new definition and features like accounting standards, auditing standards, associate company, CEO, CFO, control, deposit, employee stock option, financial statement, global depository receipt, Indian depository receipt, independent director, interested director, key managerial personnel, promoter, one person company, small company, turnover, voting right so on.[24]

National Voluntary Guidelines on Business Responsibilities

The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business released by the Ministry of Corporate Affairs, Government of India in July 2011.

Nine Areas or Principle of business responsibility adopted by Governament in Banks which is presented in table form below:-

Areas	Business Responsibilities
P1	Business should conduct and govern themselves with Ethics, Transparency and Accountability
P2	Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle.
P3	Businesses should promote the well-being of all their employees.
P4	Business should respect the interests of and be responsive towards the stakeholders especially those who are disadvantaged, vulnerable and marginalized.
P5	Businesses should promote and respect human rights.
P6	Businesses should respect, promote and make efforts to restore the environment.
P7	Businesses, when engaged in influencing public and regulatory policies should do so in a responsible manner.

[24] SEBI clause – Priyanka Krishnasamy

P8	Businesses should support inclusive growth and equitable development.
P9	Businesses should engage with and provide value to their customer in a responsible manner.

EVOLUTION OF CORPORATE GOVERNANCE IN INDIAN BANKS

Committees that laid the foundation of Corporate Governance in Indian Banking System in chronological order:-

Year	Name of Act/Committee Report
1934	The Reserve Bank of India Act, 1934
1949	Banking Regulation Act, 1949
1969-1980	Nationalization of Commercial Banks
1991	Globalization of Banking Sector
1998	Narasimhan Committee on Banking Sector Reforms
2001	Ganguly Committee Report
2003	Verma Committee Report
2012	Banking Reform Bill
2014	Nayak Committee Report

[25][26]The Narasimhan Committee on Banking Sector Reforms

The Narasimham committee on banking sector reforms plays a vital role in the Banking sector growth and the government directed this committee 2 times once in 1991 and 1998 to improve the efficiency of the banking sector in the country.

In 1969, RBI has nationalized from then the expansion took place in a vast geographical area through the financial system. Within 1 year of time, many public sector banks and financial institutions were faced with losses.

[25] Evolution of Corporate Governance In Indian Banks - Poonam Rajharia
[26] National Voluntary Guidelines On Business Responsibility –Namrata Anand

There were many problems and could not sustain in a competitive world, hence the government of India took a decision to set up a committee under the chairmanship of former Governor Mr. M. Narasimham to suggest suitable changes in the banking sector.

Aims of the Narasimham Committee

The main aims of Narshimhan Committee of 1991 are as follows:-

- Operational flexibility was the first aim ensuring in a greater degree.
- Public sector banks to stand autonomously in the process of Decision Making.
- Professionalism in banking operations[27][28]

Recommendations of the Narasimham Committee of 1991

In 1991, the 9 member committee on the financial system submitted their report in November 1991 with the following recommendations.

- **Statutory Liquidity Ratio (SLR)**

The committee recommended that the government must reduce the SLR from 38.5% to 25% over the next five years.

- **Cash Reserve Ratio (CRR)**

The cash reserve ratio must be reduced from 15% to 3-5%. So, that banks can use more funds for advancing loans.

- **Directing Credit Programmes**

The Narshimham committee of 1991 recommended that the system of directed credit programs should be gradually phased out. The priority was given to farmers, rural, artisans, village and cottage industries, etc. to fix 10% aggregate bank credit.

- **Structure of Interest Rates**

[27] Narshimhan Committee –Research Gate
[28] Aims and recommendations of Narasimham Committee on Banking Sector – Chethan M

On the level and structure of interest rates, the committee recommended that they should be determined by market forces and all controls and regulations on interest rates should be eliminated.

- **Structural Reorganization of the Banking Sector**

The committee recommended that the banks should be restructured so as to create. 3 or 4 major and big bank could have an international character. 8 to 10 national banks with a nationwide branch network, local banks for regional operations, and rural banks at the bottom end.

- **Nationalization of Banks**

The committee recommended that there should be number- **Nationalization of banks** in the future.

- **Setting up of new Banks**

The committee said that RBI should allow the creation of new banks in the private sector, As long as they meet the minimum capital and other requirements.

- **Removal of Dual Control**

The Narasimham committee recommended that the dual form of banking system between RBI and the Banking Division of the Ministry of Finance should be ended immediately.

- **Foreign Banks**

The Narasimham committee recommended that the government should allow foreign banks to open offices or branches in India, either or as subsidiaries.

- **Autonomy to Banks**

This committee recommended that the public sector banks should be made free and autonomous. Hence, it increased the competition among the banks.

- **Disinvestment**

The committee recommended that a percentage of the shares of public sector banks should be disinvested like other Public Sector Banks (PSU's).

- **Rural Banking Subsidiaries**

Ever public sector should set up one or more rural banking subsidiaries to take over all its rural branches.

- **Recruitment of Staff**

The committee stated that appointments to the key posts should be kept safe from political favours and that the CEO of a bank should be appointed by a group of the independent panel of experts. They should be appointed by the panel of experts. This recommendation plays an important role in banking sector.

- **Computerization**

The committee recommended speeding up the computerization of banking services to improve their efficiency and to boost competition. Due to the computerization frauds become zero or less in number.

The committee which was set up under the chairmanship of **Narasimham with the name "Committee on Banking Sector Reforms" which is also known as "Second Narasimham Committee**". This committee submitted its report on 23rd April 1998. It covers various issues like bank mergers, recasting of bank boards, changing rules, and more. Some of the committees recommendations are as follows:-

- **Strengthening Banking System -**

The committee examined the strengthening of the banking system in the context of the convertibility of the Capital Account Convertibility. This would imply important inflows and outflows of capital and the consequent complications for the management of the exchange rate and internal liquidity. Hence, it recommended the merger of strong banks, point to be noted here is they were against the merger of strong and weaker banks.

- **Narrow Banking -**

The committee was focusing on the rehabilitation of weaker public sector banks with the accumulation of a high percentage of non-performing assets. The concept of narrow banking indicates that weak public sector banks should only invest in short-term risk-free assets and match their demand deposits with liquid assets. It also said that narrow banking may not be helpful to rehabilitate weak branches and closure of such banks should be examined.

- **Capital Adequacy Ratio -**

The Committee discussed the issue of increasing the capital adequacy ratio required to improve the intrinsic strength of banks and their ability to absorb risk and to propose higher capital adequacy requirements for banks and create an asset reconstruction fund to take over the bad debts of the banks.

- **Bank Ownership -**

The committee argued that the ownership of the government and the administration of the banks did not improve the authority and flexibility of the operation of public sector banks. Therefore, the committee recommended that the functions of the banking board be reviewed so, that they retain the responsibility of improving the value of the shareholders through the formulation of corporate strategies.

2 Ganguly Committee

The **Ganguly Committee recommendations** have been benchmarked with international best practices as enunciated in the Basel Paper as well as of other Committees and advisory bodies to the extent applicable to the Indian environment. RBI has also implemented most of the recommendations. In general these regulations have created an enabling framework for improving corporate governance in financial institutions. Subsequently, the circular issued on June 25, 2004 on '**fit and proper'** criteria for directors of banks enumerated a number of principles;

The following among them deserve special mention,

- Undertaking a process of due diligence on the part of the banks in private sector to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria;
- The process of due diligence should be undertaken by the banks in private sector at the time of appointment and renewal of appointment.
- The boards of the banks in private sector should constitute Nomination Committees to scrutinize the declarations.
- Banks should obtain annually, as on March 31, a simple declaration that the information already provided has not undergone change and where there is any change, requisite details are furnished by the directors forthwith.
- These principles, I believe would go a long way to ensure corporate governance in banks in India.

WORLD SCENARIO OF CORPORATE GOVERNANCE:

THE SEEDS OF PRESENT DAY CORPORATE (U.S.)

Anglo-US model The Anglo-US model is characterized by share ownership of individual, and increasingly institutional, investors not affiliated with the corporation known as outside shareholders or **“outsiders**” a well- developed legal framework defining the rights and responsibilities of three key players, namely: management, directors and shareholders and a comparatively uncomplicated procedure for interaction between shareholder and corporation as well as among shareholders.

Corporate governance is increasingly demanding our attention and has moved centre stage. The Enron and WorldCom scandals in the U.S have amply demonstrated the necessity of having a system of corporate governance even in the developed world. In a liberalising and deregulating country like India, corporate governance is all the more important. In this topic, it is indeed heartening to note that Bankers’ conference is devoting a full session on “Corporate Governance”. In this address let me touch upon the basic cornerstones of corporate governance in Indian banking sector.

Administration were most likely appeared by the Watergate embarrassment in these during 1972 to 1974 after that examined by US administrative and enactment mirrored the control disappointments that had enabled a few significant partnerships to make illicit political commitments and pay off government Authorities. “While these improvements in the US invigorated discussion in the UK, a progression of outrages and crumples in that nation in the late 1980s and mid 1990s drove investors” and banks to stress over their ventures such a large number Of organizations in the UK which saw unstable development in profit during the 1980s finished the decade in an importantly terrible way. The London Stock Exchange has settled up an advisory group under the chairmanship of Sir Arian Cadbury in the year 1991 help to increase the expectations of corporate Administration and the degree of trust in money related detailing and examining by setting up a council that explored the responsibility of the governing body to Investors and to the general public. This panel had presented its report and the "Code of best practices" in the long stretch of December year 1992 this report comprise the techniques for administration to keep up a legitimate harmony between the forces of the top managerial staff and their responsibility. Contemporary corporate administration had begun in the year 1992 with the “Cadbury report in the UK”.

Bank regulators have been aware of the importance of sound corporate governance practices of banking organizations and have recognized themselves as stakeholders. The Basel Committee on Banking Supervision, whose membership includes Japanese and American bank regulators, issued "Enhancing Corporate Governance for Banking Organisations" in 1999. Both Japan and the United States, however, have been slow in making legislation, regulations or guidelines for banking organizations based on "Enhancing Corporate Governance for Banking Organisations." In 2002, both countries enacted new corporate governance laws. Although these laws are applicable to all businesses, they can be helpful to bank regulators by urging banking organizations to promote sound corporate governance and improve their bank supervision function. When bank regulators make new regulations and guidelines regarding banking organizations' corporate governance, they should make sure that "Enhancing Corporate Governance for Banking Organisations" is reflected in them.

An international banking standard on corporate governance has been formed as one of the international banking standards that have been initiated by Basel Committee on Banking Supervision.' Global unification in banking regulation has been promoted by worldwide financial corruption and fears about ensuing political unrest in the financial services industry. As a part of such global convergence in banking regulation, the formation of what is known today as Basel Committee on Banking Supervision, which includes both Japan and thus USA. As its members, has been backed up by the Bank of International Settlements in Basel, Switzerland.

The Basel Committee issued "**Enhancing Corporate Governance for Banking Organisations"** in September 1999. Some of the salient points are:-

- Establishing strategic objectives and a set of corporate values that are communicated throughout the banking organization.
- Setting and enforcing clear lines of responsibility and accountability throughout the organization
- Ensuring that board members are qualified for their positions, have a clear understanding of their role in corporate governance and are not subject to undue influence from management or outside concerns
- Ensuring that there is appropriate oversight by senior management.

In the United States, there are many regulative authorities. The Comptroller of the Currency is the appropriate federal banking agency for national banks, district banks, and foreign banks.'" State member insured banks and bank holding companies and their nonbank subsidiaries are regulated by the Federal Reserve System's Board of Governors (FRB). 9 The FRB may also act in that capacity

for foreign banks" and lending companies."' The Federal Deposit Insurance Corporation (FDIC) is the corresponding federal banking agency only for the non-member state insured and foreign banks. "Additionally, state-chartered banks are regulated by state banking regulators. Fragmented banking and diversity among banking regulators in the U.S. can "be seen as resulting from two primary forces, popular dislike of large money centre banks and the political power of the small country Banks. The American preference that power is dispersed among institutions exemplifies the first, 25 while Congress's federal organization's preference for powerful small-town bankers exemplifies the second

INDIAN SCENARIO OF CORPORATE GOVERNANCE

The corporate administration started by the Confederation of Indian Industry. Toward the year end 1995, CII set up a team to plan an intentional code of corporate administration and last draft of this code was broadly coursed in the year 1997 and one year from now April 1998, the code was discharged as Attractive Corporate Governance: A Code". Following the CII drive, the "Securities and Exchange Board of India (SEBI)" set up a council under KM Birla ant structure a compulsory cum-recommendatory code for recorded organizations. "KM Birla Committee presented its report in February 2000 and it was affirmed by SEBI toward the year's end 2000".

Following the CII, SEBI and Companies Act

The Department of Company Affairs adjusted organizations through the posting concerning and executed by the Companies Act 1956, to fuse explicit corporate administration arrangements with respect to free executives and review boards of trustees. Later on, SEBI re-examined statement 49 in December 2003 and significant activity that the Companies Act 2013 to point of view. SEBI had given a counsel paper in January 2013 with its draft recommendations for changes in administration prerequisite relevant to recorded organizations in it.

Banking Sector & Corporate Governance:

The issues relating to Corporate Governance turns out to be progressively basic if there should arise an occurrence of the banks as the controlling intensity of the banks connect with the Government. Different administrations of some East-Asian nations after the financial emergency of 1997 have become proprietors of considerable resources through takeovers of indebted banks. In Malaysia, to balance out the monetary condition and boost the investor riches, the financial division experienced significant changes by solidifying residential banks and some budgetary establishments into just 10 stay customary household banks.

Revelation and straightforwardness is the key mainstay of a corporate administration system in the financial area. Because of the quickly changing financial condition, Indian banks must keep

on actualizing solid corporate administration rehearses. There are different essential standards of corporate administration which are as follows:-

- **Transparency and Disclosures**: Each affiliation and friends should clarify and make straightforwardly known the occupations and commitments of burden up and the administrators to outfit accomplices with a level of duty and exposure of material issues concerning the affiliation must be helpful and changed in accordance with ensure that every single monetary master approach clear, evident information . This is very important in field of banking sector .

- **Discipline in Operations**: It's called quality endorsement at each phase of indicator administrations and furthermore alludes to the powerful and ideal application and usage of the most recent innovation. Reconciliation and coordination in the whole framework are exceptionally required yet the prime necessity for the operational productivity and increased the discipline in operations.

- **Treatment of Shareholders**: Organizations constantly should regard and verify the privileges of investors. Associations Rights and Equitable may practice the privileges of investors in open and powerful imparting data and by energize for taking part all in all gatherings of the organizations.

- **Interests of different Stakeholders**: Organizations probably perceived that they contains each circle of the general public and economy as legitimate, legally binding, social, and market-driven commitments .So they should need to ensure the enthusiasm of partners like workers, loan bosses, providers, neighborhood networks, clients, and policymakers etc.

- **Role of the Board**: The board needs adequate important abilities and comprehension to survey and challenge the executives execution. It will be exceptionally needed the satisfactory size of the board and proper degrees of autonomy and duty.[29]

CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR AND RESERVE BANK OF INDIA

[29] INDIAN SCENARIO OF CORPORATE GOVERNANCE researchgate

RBI assumes a main job in defining and executing corporate administration for the financial segment in the nation. The corporate administration in the financial division system as pursued by RBI depends on three classifications for overseeing the banks these are in following points:-

- **Disclosure and straightforwardness:** If any bank can't uncover their exchanges to the RBI that may evaporate with the long lasting ventures and reserve funds of the individuals, the RBI through the need of routine revealing of monetary exchanges of the bank keeps watch on the exercises being attempted by the banks in India. In the state of any inability to submit to the necessities set out by RBI may prompt overwhelming fines might be forced alongside the wiping out of the permit of the concerned bank under the arrangements of "Banking Regulation Act, 1949". So this is the strict policy or rule which is necessary to be followed by every banks in India.

- **Off-Site Surveillance:** RBI routinely play out a yearly On-Site Inspection of the records of the banks, off-site surveillance work was begun in 1995 for nearby exercises of banks. The essential point of convergence of this organization is to screen the cash related sufficiency of banks and RBI intends to make fortunate therapeutic move before things increase out of intensity. "During June 1999" the second tranche of off-site returns was given "four quarterly returns" for checking the advantage and commitment covering liquidity and advance expense chance for family unit and outside money related principles.

- **Prompt Corrective Action:** RBI has set trigger focuses based on "Capital to Risk Asset Ratio", "Nonperforming Assets" and "Return on Assets (ROA)". Based on these trigger focuses; to the banks need to pursue called 'Required Action Plan'. Other to Mandatory Action Plan, RBI has optional activity designs as well, a portion of the activities are fundamental to re-establish the budgetary soundness of banks must be obligatorily taken by the bank while different moves will be made at the prudence of RBI, relies upon the profile of the bank.

PUBLIC SECTOR BANKS & CORPORATE GOVERNANCE:

A significant part of Indian Banking area is under the influence of open division banks in spite of the Globalization, Liberalization and Privatization and passageway of private and outside banks in the field. The present structure of open division banks isn't lined up with standards of good corporate administration on the grounds that the bureaucratic problems,

red tapes and demotivated work culture add further fuel to the fire. So far banks have been troubled with "Social Responsibility" and constrained to toe the line of speculation directed by the ideological group in control, the restraining infrastructure of PSB had shielded them from the challenge. The Corporate Governance in PSBs is significant, not just in light of the fact that PSBs happen to command the financial business, yet in addition they are probably not going to exit from banking business however they may get changed. To the degree there is open proprietorship in PSBs, the different destinations of the Government as proprietor and the perplexing head specialist connections can't be wished away so the PSBs can't be required to aimlessly as private corporate banks in administration however broad standards are similarly legitimate. To some things up, the issue of corporate administration in PSBs is significant and furthermore complex in the financial business viewpoint; the characteristics of corporate administration give rules to the chiefs and the top administration for overseeing the matter of banks.

Every one of the rules are identified with the foundation of banks, corporate points and do their exercises and minding the enthusiasm of partners and guarantee that the corporate exercises are meeting with the open desires that banks will work in a moral and lawful way subsequently securing the enthusiasm of its contributors. All these wide issues identifying with administration apply to different organizations likewise; however they expect more importance for banks since they manage open stores straightforwardly.

[30]**PRIVATE SECTOR BANKS & CORPORATE GOVERNANCE:**

On July 2, 2004, RBI gave draft rules on possession and administration in private part banks in India, these rules acquired the open space for more extensive discussion and criticism. The RBI gave last strategy rules on February 28 2005 subsequent to taking thought the open input. It has been viewed as important to set out a complete structure of approach in a straightforward way identified with corporate administration for
Indian private area banks as under:

- The extreme possession and control of private part banks are all around expanded to limit the hazard and abuse of utilized assets.

[30]Role of corporate governance in public sector bank - Mohammed Shafath KM

- The chiefs and CEO of the banks must be 'Fit and Proper' according to roundabout June 25, 2004 for watching sound corporate administration standards.
- Private Banks have ideal total assets for activity and precise security.
- Every approach and process must be straightforward and reasonable.

BASEL II COMMITTEE

Ensuring High Standards of Corporate Governance the Basel Committee on Banking Supervision is a committee, of banking supervisory authorities, established by the Central Bank Governors of the G10 developed countries in 1975. The Committee in 1988 introduced the Concept of Capital Adequacy framework, known as Basel Capital Accord, with a minimum capital adequacy of 8 percent. It also issued a consultative document titled “The New Basel Capital Accord” in April 2003, to replace the 1988 Accord, which re-enforces the need for capital adequacy requirements under the current conventions. This accord is commonly known as Basel II and is currently under finalization. The three pillars of Basel II Committee are:-

- **Pillar 1 – Minimum Capital Requirements**
- **Pillar 2 – Supervisory Review Process**
- **Pillar 3 – Market Discipline**

DIFFERENCE BETWEEN U.S CORPORATE GOVERNANCE AND INDIAN CORPORATE GOVERNANCE

The basic differences between the primary sources of Rules and Regulations are defined in the table below:-

Aspects of Governance	United States	India
Primary Sources of Rules and Regulations	• **State Corporate Laws** Governs the formation of privately held and publicly traded corporations.	• The regulatory framework for corporate governance in India consists of the Company Laws (through the

	Delaware is the most common state of incorporation. • **Federal Securities Law** On the Federal level, the Securities Act of 1933 and the Securities Exchange Act of 1934, addresses the issue of corporate governance primarily by mandating disclosure, rather than through normative regulation.	Companies Act) and SEBI laws (Clause 49 of the Stock Exchange Listing Agreements)

[31]

[31] KatherineSevilla : Anglo-US Model of Corporate Governance
Merits and demerits of corporate Governance in Indian Banking Sector by- Iqra Afsar, Disha Satsangi,Garima Chandra ,D. Prem Preethi

CHAPTER- VII

MERITS AND DEMERITS OF CORPORATE GOVERNANCE IN BANKING SYSTEM

Governance in Banks The potential of Corporate Governance to propel a business to greater commercial success is not generally well known. When you speak to those in business about how Corporate Governance works, you often get vague responses relating to policy, systems and processes that are established in an organization. But that explanation does not do justice to the subject of Corporate Governance. If a business is determined to grow (especially in the current lackluster business environment) then they should seriously think about introducing proper Governance into their organization.

Role clarity for the owners and management team Governance permits managers and owners to delineate their roles and separate the issues of ownership from the management of the business. This usually facilitates easily decision making and as it allows managers and owners to choose which 'hat' to wear depending on the issue or matter at hand.

Purposeful strategic direction Corporate Governance relies on the company defining and following a definitive strategic direction. This enables the owner's and or management to apply the right resources to the most beneficial opportunities. In turn this typically leads to the quicker achievement of company goals. While minimizing waste resources less important activities.

Retention of staff motivation increases when employees or staff is part of a business that has a well-defined and communicated vision and direction. This can improve staff retention which can become especially important when it comes to attracting and retaining senior talent.

The resulting systematic approach to producing data will foster confidence in your business from your funders/banks as well as your investors. Improved access to capital can be another flow-on benefit from sound Corporate Governance.[32]

ADVANTAGES OF CORPORATE GOVERNANCE

Good corporate governance can turn a good company into a great one. The leaders in any industry are at the helm of their respective industries, mainly because of outstanding corporate governance practices. Some of the advantages are mentioned below:-

[32] INDIAN SCENARIO OF CORPORATE GOVERNANCE researchgate

- **Compliance with various laws:** With corporate governance in place, compliance with various laws is taken care of easily, as corporate governance includes the rules, regulations and policies that enable a business to stay compliant throughout and function without any hassle or legal inconveniences whatsoever.
- **Lesser fines and penalties:** Since the legal compliance aspect is taken care of credit to the corporate governance practices, companies are able to save a fortune on unnecessary fines and compliances and possibly redirect those funds towards business objectives to achieve greater heights.
- **Operates Better management:** Since there is a structure in place with regard to how the entity operates, its day-to-day functioning, managing the activities and achieving targets becomes a whole lot easier. The work atmosphere also takes care of itself under good principles of corporate governance fostering teamwork, unity, efficiency and a drive for success.
- **Reputation and relationships:** Companies with good corporate governance are able to attract investors and external financiers with relative ease, going by their sterling reputation and brand image. One of the pillars of corporate governance is transparency, which is the practice of sharing key internal information with the stakeholders. This improves the relationship of the entity with its stakeholders and sows the seeds of trust between the company and society at large.

- **Lesser misleading and frauds:** The rules instilled in the workplace encourage the employees to be morally conscious in every situation that they encounter, thus eliminating the possibility of fraud and conflict between employees.

- ## DISADVANTAGES OF CORPORATE GOVERNANCE

When it comes to the matter of smaller corporations, there might be a bit of hassle where the shareholders may serve as the directors and managers, having no segregation as such. Some of the disadvantages of Corporate Governance are listed below:-

- **Burden of staying legally compliant:**

Corporates generally have loads of compliance that have to be followed, attracting different laws based on their industry. Corporate governance ensures legal compliance, but it does come at a very hefty price.

- **Increased costs**

Administrative costs for companies with corporate governance are pretty exorbitant, considering all the requirements to be met. Some of the documents the needs to be maintained are Stock sales and purchases, Legal compliance records, Annual registration etc.

- **Maintenance of segregation**

Irrespective of the size of the corporation, the adherence to all formalities and requirements must be met without any exceptions. Failure to comply with these rules leaves the company with huge exposure such as "piercing of the corporate veil", where the separate legal entity status of the corporation is ignored in order to understand the goings-on behind the closed doors.

- **Rise in conflict between the principal and the agent**

Large corporations have made it a common practice to appoint a well-known manager, one with a good track record to manage the day to day operations of the business. Unfortunately, this gives rises to a conflict between the shareholders and the managers as they both may have very different objectives and perspectives. This often leads to a clash between the two, thus

affecting the overall ability of the business to run its operations in a smooth and efficient manner.

CHALLENGES OF CORPORATE GOVERNANCE IN BANKS

There are several reasons for the absence of sufficient corporate governance mechanism in the Indian banking sector.

- **Multiplicity of regulations.**

Banks are governed by multiple enactments. For instance, private banks are governed both by the companies Act, 1956 and the banking companies' regulation Act and Bank nationalization Act, 1969. The state Bank of India and its associates are governed by the state Bank of India Act, 1949 The Regional Rural Banks are regulated by RRB Act, 1975, the co-operative banks by cooperative banking regulation Act, 1949 and Banking Laws Act, 1965. The RBI advisory group has opined that all the banks should be brought within the purview of a single act which prescribes the various practices to be followed by one and all.

- **Lack of synchronization among various corporate various corporate governance norms.**

Three different committees in India have dealt with the subject of corporate governance. These are: the Kumar Mangalam Birla committee report, 2000 that had been constituted by SEBI; CH Report, 1998 and the RBI Advisory Committee Report, 2001. There is no synchronization of the regulations. Each Report has dwelt on specific issues. It would be better if a common code is prescribed after harmonizing the recommendations of various committees.

- **Qualitative V. Quantitative.**

Banking norms are quantitative the Qualitative. Governance depends more on quality of adherence to the norms in addition to quantitative yardsticks.

- **Mix-up between ownership role and regulatory role**

In most of the financial institutions, the RBI has been a majority shareholder as well as regulator. Narsimhan committee on banking reforms raised the question as to whether regulator should be owners in the context of State Bank of India. Recently RBI has vacated its majority ownership role in Securities Trading Corporation of India Ltd. And discount and Finance House of India and is in the process of divestment. There is also no justification for a regulator like RBI to be represented on the board of those regulated.

- **Mismatch between ownership pattern and board level representation**

Previously, when government used to be the majority shareholder in many of the financial institutions, it could have a majority representation on its board. With diversified ownership, private shareholders have begun to be given board level representation. But private shareholders representation is not commensurate with the extent of their shareholding. For instance, even with the 40 per cent shareholding private shareholders' representation on the board may not exceed 10 to 15 per cent of the total board membership.

- **Lack of transparency in selection of board members**

It is anybody's guess as to what are the considerations that weigh in government's mind in making board level appointments. To have truly professional directors, there should be a process of transparent search.

- **Board accountability**

Accountability of directors in public sector banks is another aspect on which processes have to be put in the place. Directors must be made aware as to what they are expected to do on the

board. Their actual performance should be monitored and kept in view while reappointing them. Lack of timely appointment of directors sometimes takes a number of years for the government to reconstitute the board of some of the public sector banks.

SUGGESTIONS RELATED TO CORPORATE GOVERNANCE IN INDIA

The Reserve Bank of India required to place more emphasis on securing sound corporate governance of banks rather than to focus only on regulatory compliance. As the role of the board is crucial in developing sound corporate governance of banks, the RBI should check the performance of the entire board. This could be done by reviewing minutes of board meetings, by checking the board members' accessibility to necessary information and resources, observing board meetings of banks when it thinks it is appropriate, issuing strict warnings when necessary, and even asking the bank to reorganize its board framework and operational procedures in the interests of sound or good corporate governance. There is a basic difference between the **private and public sector banks** as far as the Reserve Bank's role in governance matters is concerned. The RBI's regulatory framework ensures, by and large, uniform treatment of both types of banks in so far as prudential aspects are concerned.

However, since public sector banks are governed by the respective legislations under which they were set up, some of the governance aspects of these banks are exempt from applicability of the relevant provisions of the Banking Regulation Act, although they have a bearing on prudential aspects. In regard to these matters, the Reserve Bank prescribes its policy framework for the private sector banks and suggests that the Government adopt the same for public sector banks. Corporate governance of banks cuts across the areas of banking .

Due to Supervision securities regulation. It would be in the interests of it would be in the interests of all concerned, that the RBI should in conjunction with Securities and Exchange Board of India (SEBI), to develop and publicize a code of corporate governance of banks, based on which banks could develop their own codes. Furthermore, the RBI could provide incentives for banks to improve their corporate governance. For instance, taking into consideration the suggested code mentioned above, the RBI could develop a rating mechanism for the corporate governance of banks. Such a rating can be designed either as a rating specifically focused on corporate governance, or as a part of a broader rating mechanism within

which factors regarding corporate governance play one of the major roles in determining overall rating.[33]

The method of the ratings of corporate governance of banks should be articulated as clearly as possible and should be announced well in advance in order to provide time for banks to reorganize their framework. SEBI could contribute to developing the criteria by providing its accumulated knowledge and experience about corporate governance. So, these are the following challenges which are faced by the corporate governance in Indian Banking Sector.

SUGGESTIONS RELATED TO NATIONALISED BANKS IN INDIA

It is observed that Nationalised Banks follow comparatively lower standards of disclosures as compared to Private Banks. Many banks are also of the opinion that the boards of Nationalised banks are still influenced by the government as a stakeholder which affects Board Independence. Many peoples also feel that these banks are averse and disinclined to change. These banks should form policies to encourage their directors to exercise unbiased and independent judgement during the decision-making process. Nationalised banks can improve their standards of disclosure and transparency by making the following disclosures:-

- Disclosing the selection criteria for the Board of Directors
- Disclosing the Remuneration Policy
- Disclosing the Remuneration paid to the Directors
- Disclosing the Whistle-Blower Policy
- Disclosing Information on Investor's Survey conducted.
- Disclosing the special resolutions passed during the Annual General Meeting
- Disclosing the Audit Committee Report
- Disclosing Risk Management policies
- Disclosing information related to training of board member

[33] Challenges n suggestions related to Corporate Governance in Indian Banks by Praveen Malla

So, the banks made such kind of policies which attract or encourage the directors to exercise their work without any problems or take decision in independent way. Nationalised Banks can improve their quality of work in the field of transparency and disclosure etc.

SUGGESTIONS RELATED TO PRIVATE BANKS IN INDIA

Private Banks As compared to Nationalised Banks, Private Banks follow comparatively higher standards of disclosures. However, the level of transparency and disclosures can be increased in Private Banks by encompassing the following:

- Disclosing the selection criteria for the Board of Directors
- Disclosing Information on Investor’s Survey conducted.
- disclosing the Remuneration paid to the Directors
- Disclosing the Audit Committee Report
- Disclosing Information on Investor’s Survey conducted.

SUGGESTIONS RELATED TO FOREIGN BANKS:

It has been observed that Indian corporate governance practices are not at par with international standards. However, it is suggested that Foreign Banks operating in India develop their own corporate governance codes with the assistance of the Reserve Bank of India and bring it into operation in India. These codes can encompass the practices that the banks follow in their parent country. This will greatly influence the corporate governance area in the Indian Banking Industry. It will also lead to increase in the standard of corporate governance practices that Indian banks follow consequently bringing the Indian Banking Corporate Governance scenario at par with international standards.

CONCLUSION AND SUGGESTIONS

CONCLUSION

In the present corporate world, corporate governance has taken important role due to **globalization and liberalization**. The issue of corporate governance in banking sector is more complex significance because of certain reasons. It is opined that the success of corporate governance in Indian banking sector depend upon well-constructed financial sector reform in line with corporate reconstructing. A piece-meal approach to such a vital sector of the economy would be of serious consequences. What is urgently required is to observe and well document of corporate governance rules and regulations. It helps the banking sector by an effective means of investors protection, fund raising ability, maximize shareholders value and finally, integrating Indian banking system with the world economy.

Banking Industry of India is an exceptionally expansive division which comprising 27 Public Sector, 21 Private Sector, 49 Foreign, 56 Regional Rural Banks, 1,562 Urban Cooperative Banks and 94,384 Rural Cooperative Banks. Considering these numbers, it is fair to say that Corporate Governance is an indispensable aspect in the modern Indian Banking System. As Banking System is the foundation stone of Economy of a Nation, Corporate Governance corroborates in the seamless functioning of Banks and narrowing the dependency on Government at the same time which. From its Inception, RBI has acted both as a Guardian and Observer of the Indian Banking System and all the related Financial Institutions. Corporate Governance assists the Central Bank to smoothen its process of monitoring which ultimately leads to a better and stable economy.

Furthermore, the multiple checks and numerous Audits employed in the Corporate Governance acts as a safeguard against the prevalent and potential malpractices which assists in improving the efficiency of the Banking System as a whole. The corporate administration is exceptionally helpful for the financial part to keep an ordinary beware of tax evasion, financing improper, criminal acts and unlawful exchange of cash.

The present study has significant implications for government and private research funding agencies, stock markets, policy-makers, in India. Generally, research funding agencies and academicians conduct research in corporate governance; however, there is no clear picture of the current status of corporate governance research in India. The present study provides a clear picture of the status of corporate governance in India that will enable funding research agencies and academicians to direct their future research towards inconspicuous areas ignored by prior studies.

Regulators and policymakers should revise the existing regulations of corporate governance and increase the disclosure and compliance levels with these regulations. This study brings reflective insights related to corporate governance mechanisms. The pertinent literature points to the existence of a gap in practice, not only in the issues of transparency and disclosure of corporate governance mechanisms but also the methods, sampling periods and the statistical tools that have been used by prior research. Further, corporate governance practices after the revised corporate governance code in India have not been covered adequately by research studies. Therefore, the present study adds to the existing stock of knowledge and the body of literature by providing an opportunity to understand the status of corporate governance research in India.

The corporate governance in banks becomes a matter of utmost importance because banks are more interlinked with one another than any other equivalent in any sector. Moreover, the priority of protection of the interest of depositors is more important than the protection of the

shareholders. Governance problem in any one major bank whether it is public or private has a cascading effect on the entire financial system of the country. Hence, the Regulators world-wide recognize need of very strong governance mechanism in banks than other corporate.

The banks differ in the size and the composition as in Public sector bank and the Private sector bank but no one is less than the other counterpart. It can be concluded that in few areas private sector bank are stronger than the public sector bank, more precisely ICICI is better than HDFC but in few areas SBI is better than HDFC, but it doesn't mean that public sector bank lacks in corporate governance practices. All banks are precise towards the mandatory compliances and had complied well but so far as discretional disclosures are concern still there exist an ample scope for development of self-code for the better disclosure for the protection of interest of shareholders and stakeholders at large

SUGGESTIONS

Below are some suggestions to augment the significance of Corporate Governance in Indian Banking System:-

- **Communication and interaction by the company with its investors and other stakeholders -**

The company's investors, employees and other stakeholders have a joint interest in stimulating the company's growth and ensuring that the company always is in a position to adapt to changing demands, thus allowing the company to continue to be competitive and to create value. Therefore, it is essential to establish a positive interaction not only between management and investors, but also in relation to other stakeholders.

- **Understand that the board employs the CEO -**

In most cases, one of the major functions of the board is to appoint, review, work through, and replace (when necessary), the CEO. The board/CEO relationship is crucial to effective corporate governance because it is the link between the board's role in determining the organization's strategic direction and management's role in achieving corporate objectives.

- **Monitor organizational performance -**

Monitoring of organizational performance is an essential board function which ensures legal compliance is a major aspect of the board's monitoring role. It also makes sure that corporate decision making is consistent with the strategy of the organization and with owners' expectations. As a board, the directors should establish an agreed format for the reports they monitor to ensure that all matters that should be reported are in fact reported.

- **Recognize that the governance of risk is a board responsibility as a whole -**

Establishment of a sound system of risk oversight and management and internal control is another fundamental role of the board. Effective risk management supports better decision making because it develops a deeper insight into the risk-reward trade-offs that all organizations face.

- **Keeping the Director apprised of all the information -**

Information is power and better information means better decisions. Regular board papers will provide directors with information that the CEO or management team has decided they need. But directors do not all have the same informational requirements, since they differ in their knowledge, skills, and experience. Briefings, presentations, site visits, individual director development programs, and so on can all provide directors with additional information. Above all, directors need to be able to find answers to the questions they have, so an access to independent professional advice policy is recommended.

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