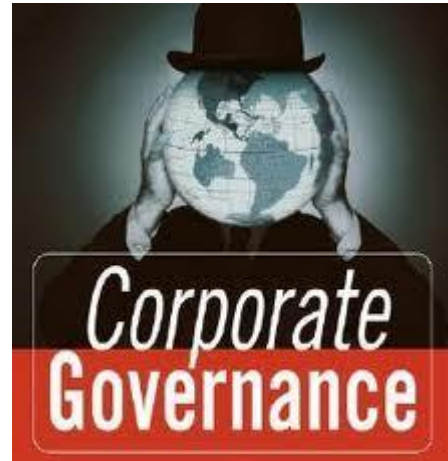


## ❖ INTRODUCTION:

INDIAS COMMITMENT TO CORPORATE GOVERNANCE IS DEMONSTRATED BY AN UNDERSTANDING THAT IN A GLOBALISED WORLD, CAPITAL FLOWS TO WHERE IT IS BEST PROTECTED AND BYPASSES PLACES WHERE PROTECTION IS LIMITED OR NON-EXISTENT. UNLIKE SOME COUNTRIES, EFFORTS TO COMPILE A CORPORATE



IRREGULARITIES. MOREOVER ,IT WAS INDIAN INDUSTRY THAT PROVIDED THE IMPETUS TOWARDS A CORPORATE GOVERNANCE CODE. THUS, WHEN THE SECURITIES AND EXCHANGE BOARD OF INDIA [SEBI] FIRST INTRODUCED A CORPORATE GOVERNANCE CODE IN 1999,IT PUT INDIA AHEAD OF MANY OTHERS, THE CLSA ASIA PACIFIC MARKETS AND ASIAN CORPORATE GOVERNANCE ASSOCIATION JOINT REPORT IN 2005 CONCLUDES THAT INDIA RANKS AMONG THE TOP THREE IN TERMS OF CORPORATE GOVERNANCE.

RECONGNISING THAT NEW INTERNATIONAL PRINCIPLES AND BEST PRACTICES NOW EXIST, IN 2005, SEBI AMENDED ITS CORPORATE GOVERNANCE CODE, OR CLAUSE 49 OF THE LISTING AGREEMENT, ENSURING THAT INDIAN COMPANIES MATCH THEIR BUSINESS COUNTERPARTS ANYWHERE IN THE WORLD. SUCH METICULOUSNESS HAS BROUGHT NUMEROUS PLAUDITS FROM INVESTORS AS WELL AS THE INSTITUTE OF INTERNATIONAL FINANCE [IIF],WASHINGTON D.C., WHOSE INDIA TASK FORCE RECENTLY AFFIRMED THAT INDIAN CORPORATE GOVERNANCE NORMS STRENGTHEN DOMESTIC CAPITAL MARKET.

❖ HISTORY:

CORPORATE GOVERNANCE IN BANK

CORPORATE GOVERNANCE IN BANK

## ❖ CORPORATE GOVERNANCE IN BANKS –AN OVERVIEW:

BANKS IN A BROAD SENSE, ARE INSTITUTIONS WHOSE BUSINESS IS HANDLING OTHER PEOPLES MONEY, A JOINT STOCK BANK, ALSO KNOWN AS COMMERCIAL BANK, IS A COMPANY WHOSE BUSINESS IS BANKING. THESE ARE MORE PARTICULARLY INSTITUTIONS THAT DEAL DIRECTLY WITH THE GENERAL PUBLIC, AS OPPOSED TO THE MERCHANT BANKS AND OTHER INSTITUTIONS MORE CONCERNED WITH TRADE AND INDUSTRY. THESE BANKS SPECIALIZE IN BUSINESS CONNECTED WITH BILLS OF EXCHANGE, ESPECIALLY THE ACCEPTANCE OF FOREIGN BILLS. A MERCHANT BANKER IS THUS A FINANCIAL INTERMEDIARY WHO HELPS IN TRANSFERRING CAPITAL FROM THOSE WHO POSSES IT TO FROM THOSE WHO NEED IT, MERCHANT BANKING INCLUDES A WIDE RANGE OF ACTIVITIES MANAGEMENT OF CUSTOMER'S AND APPRAISAL, UNDERWRITING OF SHARES AND DEBENTURES, ACTING AS BANKER OF REFUND ORDERS, HANDLING INTEREST AND DIVIDEND WARRANTS, ETC.

SOMETIMES BANKS ARE SETUP TO HANDLED SPECIALIZED FUNCTIONS FOR PARTICULAR INDUSTRIES SUCH AS THE IDBI (INDUSTRIAL DEVELOPMENT BANK OF INDIA), NABARD (NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT), AND (EXIM BANK) EXPORT – IMPORT BANK . THERE HAS BEEN A GREAT DEAL OF ATTENTION GIVEN RECENTLY TO THE ISSUE OF CORPORATE GOVERNANCE IN VARIOUS NATIONAL AND INTERNATIONAL FORUMS.

## ❖ **WHY CORPORATE GOVERNANCE IN BANKS?**

IF WE EXAMINE THE NEED FOR IMPROVING CORPORATE GOVERNANCE IN BANKS, TWO REASONS STAND OUT:

### 1. RISKS:

BANKS EXIST BECAUSE THEY ARE WILLING TO TAKE ON AND MANAGE RISKS, BESIDES, WITH THE RAPID PACE OF FINANCIAL INNOVATION AND GLOBALISATION, THE FACE OF BANKING BUSINESS IS UNDERGOING A SEA-CHANGE, BANKING BUSINESS IS BECOMING MORE COMPLEX AND DIVERSIFIED. RISK TAKING AND MANAGEMENT IN A LESS REGULATED COMPETITIVE MARKET WILL HAVE TO BE DONE IN SUCH A WAY THAT INVESTORS CONFIDENCE IS NOT ERODED.

### 2. SUBSTANTIAL LOSSES:

EVEN IN A REGULATED SET-UP, AS IT WAS IN INDIA PRIOR TO 1991, SOME BIG BANKS IN THE PUBLIC SECTOR AND A FEW IN ALONG WITH THE MASSIVE FAILURES OF NON-BANKING FINANCIAL COMPANIES (NBFCs), HAD ADVERSELY IMPACTED INVESTORS CONFIDENCE.

### 3. INTERESTS OF DEPOSITORS:

MOREOVER, PROTECTING THE INTERESTS OF DEPOSITORS BECOMES A MATTER OF PARAMOUNT IMPORTANCE TO BANKS. IN OTHER CORPORATE, THIS IS NOT AND NEED NOT BE SO FOR TWO REASONS: THE DEPOSITORS COLLECTIVELY ENTRUST A VERY LARGE SUM OF THEIR HARD-EARNED MONEY TO THE CARE OF BANKS. IT IS FOUND THAT IN INDIA, THE DEPOSITOR'S CONTRIBUTION WAS WELL OVER 15.5 TIMES THE SHAREHOLDERS' STAKE IN BANKS AS EARLY AS IN MARCH 2001. IN OTHER CORPORATES, BIG LENDERS DO EXERCISE THE RIGHT TO DIRECT THE

MANAGEMENT. IN ANY CASE, THE LENDERS'S STAKE IN THEM MIGHT NOT EXCEED 2 OR 3 TIMES THE OWNERS' STAKE.

#### 4. TRUSTEES OF THE DEPOSITORS:

BANKS DEAL IN PEOPLE'S FUNDS AND SHOULD, THEREFORE, ACT AS TRUSTEES OF DEPOSITORS, REGULATORS THE WORLD OVER HAS RECONGNISED THE VULNERABILITY OF DEPOSITORS TO THE WHIMS OF MANAGERIAL MISADVENTURES

CORPORATE GOVERNANCE IN BANKING

## ❖ CORPORATE GOVERNANCE IN INDIAN BANKS:

ALTHOUGH THE SUBJECT OF CORPORATE GOVERNANCE HAS RECEIVED A LOT OF ATTENTION IN RECENT TIMES IN IN.A, CORPORATE GOVERNANCE ISSUE AND PRACTICES BY INDIAN BANKS HAVE RECEIVED ONLY A SCANTY NOTICE. THE QUESTION OF CORPORATE GOVERNANCE IN BANKS IS IMPORTANT FOR SEVERAL REASONS.

1. BANKS HAVE AN OVERWHELMINGLY DOMINATE POSITION IN DEVELOPING THE COMPANY'S FINANCIAL SYSTEM, AND ARE EXTREMELY IMPORTANT ENGINES OF GROWTH.
2. AS THE COUNTRY'S FINANCIAL MARKETS ARE UNDERDEVELOPED, BANK IN INDIA ARE THE MOST SIGNIFICANT SOURCE OF FINANCE FOR A MAJORITY OF FIRMS IN INDIAN INDUSTRY.
3. BANKS ARE ALSO THE CHANNELS THROUGH WHICH THE COUNTRY'S SAVINGS ARE COLLECTED AND USED FOR INVESTMENTS.
4. INDIA HAS RECENTLY LIBERALIZED ITS BANKING SYSTEM THROUGH PRIVATIZATION, DISINVESTMENTS AND HAS REDUCED THE ROLE OF ECONOMIC REGULATION AND CONSEQUENTLY MANAGERS OF BANKS HAVE OBTAINED GREATER AUTONOMY AND FREEDOM WITH REGARD TO RUNNING OF BANKS.

WHEN QUESTIONED ABOUT UNETHICAL PRACTICES, MANY COMPANIES CLAIM THAT THE CONDITIONS IN INDIA ARE NOT CONDUCIVE TO ALLOW THEM THE LUXURY OF BEING COMPLETELY ETHICAL. THOUSAND OF UNDERHAND DEALS ARE STRUCK EVERYDAY AND GO UNREPORTED. THERE IS HARDLY A COMPANY WHICH HAS NOT AT SOMETIME OR THE OTHER BEEN EITHER INVOLVED OR SUSPECTED OF SOME FOUL PLAY. EVEN COMPANIES THAT STARTED OFF WITH INTENTIONS TO DO BUSINESS IN AN ETHICAL MANNER HAVE HAD TO COMPROMISE THEIR PRINCIPLES DUE TO THE HIGHLY POLITICIZED AND BUREAUCRATIC BUSINESS ENVIRONMENT IN THE COUNTRY.

## ❖ INDIAN COMPANIES FACE TWO TYPES OF CORRUPT PRACTICES:

1. POLITICAL CORRUPTION IN WHICH MONEY IS PAID FOR FAVOURS DONE,
2. ADMINISTRATIVE CORRUPTION. IN THE EARLY DAYS OF INDEPENDENCE, COMPANIES HAD TO GREASE THE PALMS OF BUREAUCRATS TO MAKE THEM DO THINGS THEY WERE NOT SUPPOSED TO DO, BUT NOW CORRUPTION HAS GRADUATED TO SUCH AN EXTENT THAT COMPANIES HAVE TO BRIBE BUREAUCRATS TO MAKE THEM DO THINGS THEY ARE SUPPOSED TO DO.

EXAMPLES OF THIS SORT OF CORRUPTION INCLUDE “GIFT” TO THE FACTORY INSPECTORS.

CORPORATE GOVERNANCE IN INDIA



CORPORATE GOVERNANCE

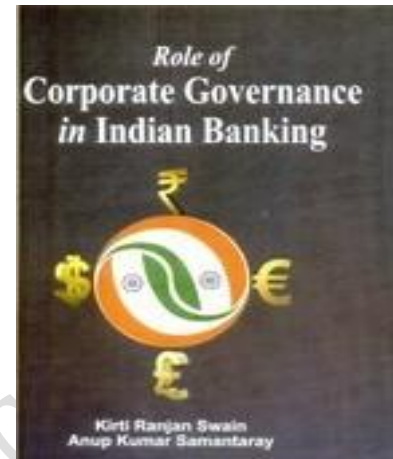
## ❖ THE GROWING IMPORTANCE OF CORPORATE GOVERNANCE IN BANKS:

1. BANKS HAVE AN OVERWHELMINGLY DOMINANT POSITION IN DEVELOPING-ECONOMY FINANCIAL SYSTEMS, AND ARE EXTREMELY IMPORTANT ENGINES OF ECONOMIC GROWTH.
2. AS FINANCIAL MARKETS ARE USUALLY UNDERDEVELOPED, BANKS IN DEVELOPING ECONOMIES ARE TYPICALLY THE MOST IMPORTANT SOURCE OF FINANCE FOR THE MAJORITY OF FIRMS.
3. AS WELL AS PROVIDING A GENERALLY ACCEPTED MEANS OF PAYMENT, BANKS IN DEVELOPING COUNTRIES ARE USUALLY THE MAIN DEPOSITORY FOR THE ECONOMY'S SAVINGS.
4. MANY DEVELOPING ECONOMIES HAVE RECENTLY LIBERALISED THEIR BANKING SYSTEMS THROUGH PRIVATIZATION/ DISINVESTMENTS AND REDUCING THE ROLE OF ECONOMIC REGULATION. CONSEQUENTLY, MANAGERS OF BANKS IN THESE ECONOMIES HAVE OBTAINED GREATER FREEDOM IN HOW THEY RUN THEIR BANKS.
5. DUE TO THE UNIQUE NATURE OF THE BANKING FIRM, WHETHER IN THE DEVELOPED OR DEVELOPING WORLD, REQUIRES THAT A BROAD VIEW OF CORPORATE GOVERNANCE, WHICH ENCAPSULATED BOTH SHAREHOLDERS AND DEPOSITORS, BE ADOPTED FOR BANKS. IN PARTICULAR, THE NATURE OF THE BANKING FIRM IS SUCH THAT REGULATION IS NECESSARY TO PROTECT DEPOSITORS AS WELL AS THE OVERALL FINANCIAL SYSTEM.
6. THE SEPARATION OF OWNERSHIP AND CONTROL HAS GIVEN RISE TO AN AGENCY PROBLEM WHEREBY MANAGEMENT OPERATE THE FIRM IN THEIR OWN INTERESTS, NOT THOSE OF SHAREHOLDERS.

## ❖ SEBI AND CORPORATE GOVERNANCE:

### ➤ SEBI'S ROLE IN PROMOTING CORPORATE GOVERNANCE:

G. N. BAJPAI, FORMER CHAIRMAN, SECURITIES AND EXCHANGE BOARD OF INDIA, CLAIMED IN AN INTERNATIONAL CONFERENCE IN 2003: "WITH THE OBJECTIVE OF IMPROVING MARKET EFFICIENCY, ENHANCING TRANSPARENCY, PREVENTING UNFAIR TRADE PRACTICES AND BRINGING THE INDIAN MARKET UP TO INTERNATIONAL STANDARDS, A PACKAGE OF REFORMS CONSISTING OF MEASURES TO LIBERALISE, REGULATE AND DEVELOP THE SECURITIES MARKET WAS INTRODUCED IN THE 1990S. THE PRACTICE OF ALLOCATION OF RESOURCES AMONG DIFFERENT COMPETING ENTITIES AS WELL AS ITS TERMS BY A CENTRAL AUTHORITY WAS DISCONTINUED.



ACCORDING TO SEBI'S FORMER CHAIRMAN, THE SECURITIES AND EXCHANGE BOARD OF INDIA HAS BEEN FOCUSING ON THE FOLLOWING AREAS TO IMPROVE CORPORATE GOVERNANCE:

- a) ENSURING TIMELY DISCLOSURE OF RELEVANT INFORMATION.
- b) PROVIDING AN EFFICIENT AND EFFECTIVE MARKET SYSTEM.
- c) DEMONSTRATING RELIABLE AND EFFECTIVE ENFORCEMENT.
- d) ENABLING THE HIGHEST STANDARDS OF GOVERNANCE.

### ➤ DISCLOSURE STANDARDS:

THE ERSTWHILE SEBI CHAIRMAN, G. N. BAJPAI, CLAIMS QUOTING ACADEMICIANS AND RESEARCHERS THAT DISCLOSURE STANDARD IN THE INDIAN REGULATORY JURISDICTION ARE AT PAR WITH THE BEST IN THE WORLD. ACCORDING TO HIM THIS IS A FEEDBACK FROM SEVERAL GLOBAL ORGANISATIONS, BOTH REGULATORY AND MARKET PARTICIPANT.

SEBI HAS ENSURED THAT A COMPANY IS REQUIRED TO MAKE SPECIFIED DISCLOSURES AT THE TIME OF ISSUE AND MAKE CONTINUOUS DISCLOSURES AS LONG AS ITS SECURITIES ARE LISTED ON EXCHANGE. THE STANDARDS FOR THESE DISCLOSURES INCLUDING THE CONTENT, MEDIUM, AND TIME OF DISCLOSURES HAVE BEEN SPECIFIED IN THE COMPANIES ACT, DISCLOSURE AND INVESTOR PROTECTION GUIDELINES, LISTING AGREEMENT REGULATIONS RELATING TO INSIDER TRADING AND TAKEOVER ETC. THESE DISCLOSURES ARE MADE THROUGH VARIOUS DOCUMENTS SUCH AS AN PROSPECTUS, QUARTERLY STATEMENTS, ANNUAL REPORTS ETC.

➤ **EFFICIENT AND EFFECTIVE MARKET SYSTEM:**

IN THE OPINION OF THE CHAIRMAN OF SEBI, THE INDIAN SECURITIES MARKET HAS A “LARGE INFRASTRUCTURE TO MEET THE DEMANDS OF A SUB-CONTINENTAL MARKET. PRESENTLY, THERE ARE 25 STOCK EXCHANGES AND ABOUT 10,000 BROKERS, 15,000 SUB-BROKERS, MORE THAN 10,000 LISTED COMPANIES, 500 FOREIGN INSTITUTIONAL INVESTORS, 400 DEPOSITORY PARTICIPANTS, 150 MERCHANT BANKERS, 40 MUTUAL FUNDS OFFERING OVER 450 SCHEMES, AND 20 MILLION INVESTORS. YET, THERE IS ONLY ONE REGULATOR. NOT ONLY THE NUMBERS ARE GIGANTIC BUT ALSO THE SYSTEMS AND INFRASTRUCTURE ARE EQUALLY ATLANTICAN AND SOPHISTICATED.



PROVISION OF TIMELY AVAILABILITY OF HIGH QUALITY PRICE SENSITIVE INFORMATION TO THE MARKET PARTICIPANTS TO ENABLE THEN TO MAKE INFORMED DECISION AND ENSURE EFFICIENT PRICE DISCOVERY.

ENSURING THAT THE MARKET IS FAIR, TRANSPARENT AND SAFE SO THAT ISSUERS AND INVESTORS ARE AT EASE TO CARRY OUT TRANSACTIONS.

➤ **RELIABLE AND EFFECTIVE ENFORCEMENT:**

SEBI AIMS AT ENSURING THAT NO MISCONDUCT GOES UNNOTICED OR UNPUNISHED. IT KEEPS AN EYE ON THE HAPPENINGS IN THE MARKET AND IDENTIFIES ANYTHING UNUSUAL OR UNDESIRABLE WHICH MAY ADVERSELY AFFECT THE EFFICACY OF THE MARKET. EVERY MARKET PARTICIPANT, IRRESPECTIVE OF HIS SIZE AND INFLUENCE IN THE MARKET OR IN THE POLICY, IS HELD ACCOUNTABLE FOR HIS MISDEEDS. THE PROACTIVE APPROACH OF THE REGULATOR IN ENFORCEMENT CAN BE GAUGED FROM THE FACT THAT DURING THE FINANCIAL YEAR 2002-2003, SEBI PASSED 561 ORDERS, OUT OF WHICH OVER 350 WERE PUNITIVE.

➤ **HIGHEST STANDARDS OF GOVERNANCE:**

SEBI HAS AVOWED THAT ITS REGULATION AND GUIDANCE OF THE COUNTRY'S SECURITIES MARKET WOULD SPELL SUCCESS IN THE AREA OF CORPORATE GOVERNANCE. THE KUMAR MANGALAM BIRLA COMMITTEE OF THE INDIAN JURISDICTION OUTLINED A CODE OF GOOD CORPORATE GOVERNANCE, WHICH COMPARED VERY WELL WITH THE RECOMMENDATIONS OF THE CADBURY COMMITTEE AND THE OECD CODES. THE CODE WAS OPERATIONALISED BY INSERTING A NEW CLAUSE (CLAUSE 49) TO THE LISTING AGREEMENT (LA) AND HAS BEEN MADE APPLICABLE TO ALL THE LISTED COMPANIES IN INDIA IN A PHASED MANNER.

THE INITIATIVE FOR IMPROVEMENT IN CORPORATE GOVERNANCE, ACCORDING TO G. N. BAJPAI, COME MAINLY FROM THREE SOURCES, NAMELY, THE MARKET, REGULATOR AND THE LEGISLATION.

THE MOST IMPORTANT INITIATIVE COMES FROM MARKET FORCE AND MECHANISMS, WHICH ENCOURAGE AND INSIST ON THE MANAGEMENT'S IMPROVING THE QUALITY OF CORPORATE GOVERNANCE. INDIAN MARKET HAS FORMALISED SUCH FORCES IN THE FORM OF A RATING CALLED "CORPORATE GOVERNANCE, AND VALUE CREATION RATING", WHICH ACCORDING TO SEBI CHAIRMAN IS QUITE UNIQUE IN THE WORLD AND IS SOUGHT AFTER VOLUNTARILY BY COMPANIES.

CORPORATE GOVERNANCE IN BANK

## ❖ CODE OF BEST PRACTICES IN BANK- RBI GUIDELINES

THE RESERVE BANK OF INDIA HAS ISSUED GUIDELINES FOR THE FORMULATION OF BEST PRACTICES CODE (BPC) BY BANK TO PREVENT FRAUDS. THE NORMS HAVE BEEN ISSUED TO BRING ABOUT A CERTAIN MINIMUM LEVEL OF UNIFORMITY WITH REGARD TO THE CONTENT AND COVERAGE OF THE CODE.



THE CODE SHOULD COVER ALL THE FUNCTIONAL AREAS LIKE CASH, SAFE CUSTODY OF OTHERS VALUABLE, DEPOSITS ACCOUNTS, INVESTMENT PORTFOLIO, CREDIT PORTFOLIO, FOREIGN EXCHANGES TRANSACTION AND TREASURY OPERATION. THE BPC MAY ALSO INCORPORATED PRACTICES THAT WOULD HELP PREVENTION OF LOSSES TO ITS CUSTOMERS AND INCLUDE SUITABLE GUIDANCE TO SUCH CUSTOMER.

THE INVOLVEMENT OF GOVERNMENT IS DISCERNIBLY HIGHER IN BANKS DUE TO IMPORTANCE OF STABILITY OF FINANCIAL SYSTEM AND THE LARGER INTERESTS OF THE PUBLIC.

## ❖ REASONS FOR HIGH DEGREE OF OVERSIGHT

### 1. LACK OF INFORMATION:

IT IS BELIEVED THAT DEPOSITORS CANNOT BE EFFECTIVELY PROTECT THEMSELVES AS THEY DO NOT HAVE ADEQUATE INFORMATION, NOR ARE THEY IN POSITION TO COORDINATE WITH EACH OTHER.

### 2. LACK OF TRANSPARENCY:

BANK ASSET USUALLY OPAQUE, AND LACK TRANSPARENCY AS WELL AS LIQUIDITY. THE CONDITION ARISES DUE TO THE FACT THAT MOST BANK LOANS, UNLIKE EACH OTHER PRODUCT AND SERVICES, ARE USUALLY CUSTOMIZED AND PRIVATELY NEGOTIATED.

### 3. CONTAGION EFFECT:

IT IS BELIEVED THAT THERE COULD BE CONTAGION EFFECT RESULTING FROM THE INSTABILITY OF ONE BANK WHICH WOULD AFFECT A CLASS OF BANKS OR EVEN THE ENTIRE FINANCIAL SYSTEM AND THE ECONOMY.

## **❖ MEASURES TAKEN BY BANK TOWARDS IMPLEMENTATION OF BEST PRACTICES:**

### **1. PRUDENTIAL NORMS:**

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 PRACTICES, STARTING 31 MARCH 2004, BANKS HAVE ADOPTED 90 DAYS NORMS FOR CLASSIFICATION OF NPAS.

### **2. CAPITAL ADEQUACY:**

ALL THE INDIAN BANKS BARRING ONE TODAY ARE WELL ABOVE THE STIPULATED BENCHMARK OF 9 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. IN FACT AS 31 MARCH 2004 BANKING SYSTEM AS A WHOLE HAD A CRAR CLOSE TO 13 PER CENT.

### **3. INCOME RECOGNISATION:**

ON THE INCOME RECOGNISATION FRONT THERE IS COMPLETE UNIFORMITY NOW IN BANKING INDUSTRY AND THE SYSTEM THEREFORE ENSURES RESPONSIBILITY AND ACCOUNTABILITY ON THE PART OF THE MANAGEMENT IN PROPER ACCOUNTING OF INCOME AND LOAN IMPAIRMENT.

#### **4. ALM AND RISK MANAGEMENT:**

AT INITIATIVES OF THE REGULATORS, BANKS WERE QUICKLY REQUIRED TO ADDRESS THE NEED FOR ASSET LIABILITY MANAGEMENT FOLLOWED BY RISK MANAGEMENT PRACTICES. BOTH THESE AREAS FOR AN EFFECTIVE OVERSIGHT BY THE BOARD AND THE SENIOR MANAGEMENT.

CORPORATE GOVERNANCE IN BANK

## ❖ MEASURES TAKEN BY REGULATOR TOWARDS CORPORATE GOVERNANCE

RESERVE BANK OF INDIA HAS TAKEN VARIOUS STEPS FURTHER CORPORATE GOVERNANCE IN THE INDIAN BANKING SYSTEM. THESE CAN BROADLY BE CLASSIFIED INTO THE FOLLOWING THREE CATEGORIES:

### 1. TRANSPARENCY:

TRANSPARENCY AND ACCOUNTING STANDARD IN INDIA HAVE BEEN ENHANCED TO ALIGN WITH INTERNATIONAL BEST PRACTICES. HOWEVER THERE ARE MANY GAPS IN THE DISCLOSURE IN INDIA VIS-À-VIS THE INTERNATIONAL STANDARDS, PARTICULARLY IN THE AREA OF RISK MANAGEMENT STRATEGIES AND RISK PARAMETERS, RISK CONCENTRATIONS, PERFORMANCE MEASURES. HENCE DISCLOSURE OF STANDARD NEEDED.

### 2. OFF-SITE SURVEILLANCE:

IT IS ALSO ACTIVE MECHANISM IN MONITORING THE MOVEMENT OF ASSET ITS IMPACT ON CAPITAL ADEQUACY AND OVERALL EFFICIENCY AND ADEQUACY OF MANAGERIAL PRACTICES IN BANK. RBI ALSO BRINGS OUT THE PERIODICALLY DATA ON “PEER GROUP COMPARISON” ON CRITICAL RATIO TO MAINTAIN PEER PRESSURE FOR BETTER PERFORMANCE AND GOVERNANCE.

### **3. PROMPT CORRECTIVE ACTION TRANSPARENCY:**

PROMPT CORRECTIVE ACTION HAS BEEN ADOPTED BY RBI AS A PART OF CORE PRINCIPLE FOR EFFECTIVE BANKING SUPERVISION.

CORPORATE GOVERNANCE IN BANK

## ❖ **GENERAL RECOMMENDATIONS FOR EFFECTIVE CORPORATE GOVERNANCE IN INDIA :**

1. SINCE BANKS ARE IMPORTANT PLAYERS IN THE INDIAN FINANCIAL SYSTEM, SPECIAL FOCUS ON THE CORPORATE GOVERNANCE IN THE BANKING SECTOR BECOMES CRITICAL.
2. THE RESERVE BANK OF INDIA, AS A REGULATOR, HAS THE RESPONSIBILITY ON THE NATURE OF CORPORATE GOVERNANCE IN THE BANKING SECTOR.
3. TO THE EXTENT THAT BANKS HAVE SYSTEMIC IMPLICATIONS, CORPORATE GOVERNANCE IN THE BANKS IS OF CRITICAL IMPORTANCE.
4. 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.
5. WITH A VIEW TO REDUCING THE POSSIBLE FISCAL BURDEN OF RECAPITALISING THE PUBLIC SECTOR BANKS ATTENTION TOWARDS CORPORATE GOVERNANCE IN THE BANKING SECTOR ASSUMES ADDED IMPORTANCE PREREQUISITES FOR GOOD GOVERNANCE.
6. A PROPER SYSTEM CONSISTING OF CLEARLY DEFINED AND ADEQUATE STRUCTURE OF ROLES, AUTHORITY AND RESPONSIBILITY.
7. VISION, PRINCIPLES AND NORMS WHICH INDICATE DEVELOPMENT PATH, NORMATIVE CONSIDERATIONS AND GUIDELINES AND NORMS FOR PERFORMANCE.
8. A PROPER SYSTEM FOR GUIDING, MONITORING, REPORTING AND CONTROL.

## ❖ THE BASEL COMMITTEE RECOMMENDATIONS:

THE BASEL COMMITTEE PUBLISHED A PAPER FOR BANKING ORGANIZATIONS IN SEPTEMBER 1999. THE COMMITTEE SUGGESTED THAT IT IS THE RESPONSIBILITY OF THE BANKING SUPERVISORS TO ENSURE THAT THERE IS AN EFFECTIVE CORPORATE GOVERNANCE IN THE BANKING INDUSTRY.



IT ALSO HIGHLIGHTED THE NEED FOR HAVING APPROPRIATE ACCOUNTABILITY AND CHECKS AND BALANCES WITHIN EACH BANK TO ENSURE SOUND CORPORATE GOVERNANCE, WHICH IN TURN WOULD LEAD TO EFFECTIVE AND MORE MEANINGFUL SUPERVISION.

THE OBJECTIVES OF THE BASEL COMMITTEE IS TO:

1. TO PROMOTE ADEQUATE CAPITALIZATION OF BANKS.
2. TO ENSURE BETTER RISK MANAGEMENT.
3. TO STRENGTHEN THE STABILITY OF BANKING SYSTEM.

## ❖ **STEPS TO BE TAKEN:**

TO OVERCOME FROM THESE CHALLENGES, BANKS ARE REQUIRED TO EMPHASIZE ON CERTAIN FACTORS, WHICH WILL INCREASE THEIR TRANSPARENCY AND LEAD TO HIGHER FOREIGN INVESTMENT.

### **1. SELF-APPRAISAL SYSTEM:**

GOOD GOVERNANCE IS LIKE TRUSTEESHIP. IT IS NOT JUST A MATTER OF CREATING CHECKS AND BALANCE BUT IT EMPHASIZES ON CUSTOMER SATISFACTION AND SHAREHOLDERS VALUE. THE LAW REGULATES CERTAIN RESPONSIBLE AREAS ON BORROWING, LENDING, INVESTIGATING, TRANSPARENCY IN ACCOUNTS ETC. THE DIRECTORS, THEREFORE, EVALUATE THEMSELVES THROUGH SELF-INTROSPECTION.

### **2. THE BOARD'S COMMITTEE:**

IT WILL BE DIFFICULT FOR A BOARD, WITH ALL THE MEMBERS ACTING TOGETHER ON SOME ISSUES, TO ACHIEVE ITS OBJECTIVES EFFECTIVELY AND WITH APT INDEPENDENCE. THE BOARD, THEREFORE, NEEDS TO BE ASSISTED BY THE SOME COMMITTEE.

### **3. TRANSPARENCY:**

TRANSPARENCY CAN REINFORCE SOUND CORPORATE GOVERNANCE. THEREFORE, PUBLIC DISCLOSURE IS DESIRABLE IN BOARD STRUCTURE, SENIOR MANAGEMENT, BASIC ORGANISATIONAL STRUCTURE AND INCENTIVE STRUCTURE OF THE BANK.



## ❖ **CONCLUSION:**

THE RESEARCH ON CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR PRODUCED SOME IMPORTANT RESULTS. BANKING HAS BECOME COMPLEX AND IT HAS BEEN RECOGNIZED THAT THERE IS A NEED TO ATTACH MORE IMPORTANCE TO QUALITATIVE STANDARDS SUCH AS INTERNAL CONTROLS AND RISK MANAGEMENT, COMPOSITION AND ROLE OF THE BOARD AND DISCLOSURE STANDARDS. CORPORATE GOVERNANCE HAS BECOME VERY IMPORTANT FOR BANKS TO PERFORM AND REMAIN IN COMPETITION IN THE ERA OF LIBERALIZATION AND GLOBALIZATION. THE SUCCESS OF CORPORATE GOVERNANCE RESTS ON THE AWARENESS ON THE PART OF THE BANKS OF THEIR OWN RESPONSIBILITIES. WHILE LAW CAN CONTROL AND REGULARIZE CERTAIN PRACTICES, THE ULTIMATE RESPONSIBILITY OF BEING ETHICAL AND MORAL REMAINS WITH THE BANKS.

CORPORATE GOVERNANCE

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.....VIPUL PRAKASHAN

CORPORATE GOVERNANCE IN BANK