



# CORPORATE GOVERNANCE IN INDIAN BANK

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**Abstract:** During the last decade, there have been major ups and downs in the Indian financial sector, especially in the Banking sector. According to the official statistics by the RBI, the ratios of gross and net non-performing assets (NPA) as a percentage of total advances have risen significantly from 2.3 per cent and 1.1 per cent, respectively, in 2007-08 to 9.1 per cent and 3.7 per cent in 2018-19 (RBI, 2019a). Additionally, the banking industry reported a total of 6,801 frauds in 2018-19, valued at INR 715.43 billion (RBI, 2019a). Of these, 53 per cent of these frauds (i.e., 3,606 frauds) are predominantly related to credit lending. In publicly available sources, insider involvement and management “dishonesty” or failure to conduct effective internal and statutory audits, the breach of regulatory guidelines, or the senior management’s failure to implement an effective governance strategy are hinted at as possibilities for these frauds. Therefore, it has served as an alarming bell to policy analysts and academic researchers, prompting them to re-examine the existing governance standards and identify the impact of governance and efficiency on Indian banking soundness.

Thus, there is a demand for stronger corporate governance as a result of the requirement for increased transparency toward business stakeholders. As a result of corporate failures and widespread discontent with the way many banks operated, which hurt the Indian economy, the need for better corporate governance emerged. The fundamental ideas of corporate governance place a great emphasis on management's total openness, integrity, and responsibility. Public orientation and investor interests are both growing in significance. In summary, the ideals, outlook, and visibility of corporate governance are problematic. It all comes down to the company's value orientation, ethical performance standards, organisational growth, social achievements, and the leadership's visibility. Practice and presentation

The banking sector is primarily responsible for allocating financial resources to all other sectors of an economy; hence, this paper focuses on the corporate governance issues facing the Indian banking sector. The topic has received media attention recently due to high-profile corporate governance failures in industrialised nations. In this research study, we examined corporate governance issues in light of the Basel and Birla committee's recommendations, and we also discussed the need and specifications for effective corporate governance in the Indian banking sector.

## 1.0 Introduction:

1.1 As of 1st April 2020, there are 12 public sector banks (PSBs) in which the GoI holds more than 50 per cent of the stake, 22 private banks (PBs), and 44 foreign banks (FBs). All public and private banks are listed except for three old private banks (the Catholic Syrian Bank, the Tamil Nadu Mercantile Bank, and the Bank of Nainital). Reserve Bank of India regulates banks under the Banking Regulation Act of 1949 (amended in 2017), which gives the industry a unified regulatory environment. Interestingly, governance regulations, especially concerning board composition, are separate for banks under distinct ownership types. Note here that even though efforts were made to harmonise the regulatory structure across ownership types, some differences still exist. Since the bulk of these banks are listed on the stock exchange in India. All banks are subject to comprehensive rules and regulations established by the Securities & Exchange Board of India and the Reserve Bank of India (RBI). All banks operate in comparable economic contexts; some of them perform well, while others do not. Other Business Units or Banks acquired some of the Private Banks. Similar to this, the Indian government had to inject funds to bail out some PSU banks. A need to tighten the relevant Corporate Governance arises in light of the failure of some Banks and/or substantial loan defaults in various circumstances.

1.2 Corporate governance is a popular term, but it is highly misleading because it incorporates a broad range of far-off economic, legal, philosophical, social, and political phenomena, as noted by Farrar (1998). Individual researchers and practitioners have developed their own definitions of corporate governance that fundamentally reflect their unique areas of interest in the field given the wide variety of viewpoints and methodologies on the subject. Some of them link corporate governance to

- (a) the work of the board of directors,
- (b) the accountability of senior management,
- (c) the corporation's governance norms, and

(d) the protection of shareholders. These have a narrow, operational focus.

1.3 In a similar vein, comprehensive definitions of corporate governance encompass a variety of issues pertaining to the entire web of formal and informal connections in corporate business organisations, as well as what they mean for society (e.g., Sullivan, 1998; Dalton et al., 2003). As a result, corporate governance is a multidisciplinary knowledge and practice that serves to safeguard the interests of a variety of stakeholders, including shareholders, employees, clients, suppliers, and the community. Since a string of international corporate failures and financial scandals in the late 1980s, worries about the standard of financial reporting and accountability have increased. The need for corporate governance, which was sparked by failures of businesses and a general dissatisfaction with how many firms run, has recently become a subject of wide-ranging and heated debate throughout the world. It is entirely dependent on the honesty, accountability, and transparency of management. Public interest and investor protection are both gaining importance. Corporate governance, as a whole, is encompassed by values, vision, and transparency. The key is to be value oriented. The organisation's development, social achievements, ethical criteria for its performance, and the organisation's performance visibility.

## 2.0 Indian Banking Sector

Since independence, the 200-year-old Indian banking industry has undergone numerous transformations. A banking institution is a fundamental tenet of contemporary civilization because it is necessary to a nation's economy. It serves as the foundation of the money market in a developed economy and is essential to a nation's economic development. In the past, public sector banks had a stranglehold on the banking industry and were protected entirely against unanticipated events by the government. Liberalization, privatization, globalisation, rapid information technology, and virtual banking, on the other hand, are fundamentally reshaping Indian banking. A paradigm shift toward more liberal and free-market dynamics was brought about by these developments. Banks have lost all of their conveniences due to the sudden change in the banking environment, and many are struggling mightily to handle the rigours in every corner of the country. Public sector banks have no choice but to innovate and compete in the new environment, as private banks have played a crucial role in enhancing customer-oriented goods. Despite considerable global changes to banking operations, financial stability has emerged as one of the most pressing policy issues for central banks worldwide. An increasing number of people are realising the importance of maintaining the safety and soundness of individual financial institutions, especially banks, given that financial systems in emerging nations are predominantly bank-based. The economic system is crucial for conducting business within the nation and for maintaining its long-term viability. Keeping the economy stable, Banking has traditionally been a protected industry in many economies, especially emerging economies. Even though there are still both regulated and unregulated parts of the money market, the institutions in the regulated segment have expanded significantly and now play a more critical role. Compared to most other businesses, the banking sector in India has a substantially higher number of regulators. A nation's economic development depends heavily on banks. Given that they are a crucial component of the money market, banking institutions are important in a contemporary growing society. The structured and unorganized segments of the Indian money market are separated. Nationalized banks dominate the Indian banking system. Except for state-owned banks, banks in India were mostly privately owned before nationalization. With a community and trade orientation, the Bank of India was in private hands. The nationalization of 14 banks in 1969 and another set of 6 banks in 1980 diminished the influence of private sector banks, and public sector banks began to play an all-important role in broadening the banking services.

## 3.0 Corporate Governance in Banks

3.1 **Introduction:** Corporate Governance has become crucial for banks to operate well and stay competitive in the era of liberalisation and globalisation. In a broad sense, banks are organisations that deal with other people's money. A commercial bank is just a business engaged in banking. Therefore, safeguarding depositor interests is of the utmost significance to these banks. Corporate governance, as used in the banking industry, is the practise of managing financial affairs in a way that ensures a fair deal for all parties involved, including shareholders, regulators, the general public, employees, and others. Because banking transactions are so significant, corporate governance matters a great deal more in the banking industry. Any nation's economic development depends a great deal on banking. It is a nation's life force. It is in charge of preserving the economy's financial stability and the flow of credit. Since the process of nationalisation, banks in India have become a vehicle for social justice and economic progress. According to the Basel Committee Report from 1999, banks must demonstrate the best corporate governance practises in their performance, transparency in their operations, and adherence to other standards outlined in Section 49 of the Corporate Governance Rules. Additionally, its annual report needs to include accounting ratios for operating profit, return on assets, revenue generated per employee, non-performing assets (NPAs), and a full breakdown of advances, loans, investments, deposits, and borrowings. Similar to this, the disclosures that comply with corporate governance regulations should be highlighted in bank audit reports. Therefore, auditors should be fully aware of the newest Reserve Bank of India (RBI) recommendations and ensure that the financial statements are prepared in a transparent manner that reflects the application of corporate governance. There should be proper internal control mechanisms in place for banks' operational activities in addition to the auditor's responsibility to include such requirements effectively in audit reports. For the banking system to optimise returns on each unit of capital introduced through an efficient funds management strategy and mechanism, a strong internal control system is required. (Report of the Basel Committee, 1999)

## 3.2 Need for Corporate Governances in Bank

- 3.2.1. Given the significance of banks in the Indian financial system, it is crucial to pay close attention to corporate governance in the banking industry.
- 3.2.2. As a regulator, the Reserve Bank of India is entirely responsible for corporate governance in the banking industry.
- 3.2.3. Corporate Governance in banks is very important to the extent that banks have systemic effects.
- 3.2.4. Because public ownership makes up the majority of Indian banking, corporate practises in the public sector banking also serve as a model for corporate governance in the private sector.
- 3.2.5. Attention to Corporate Governance in the banking industry has extra importance in order to lessen the potential fiscal cost of recapitalizing the PSBs.

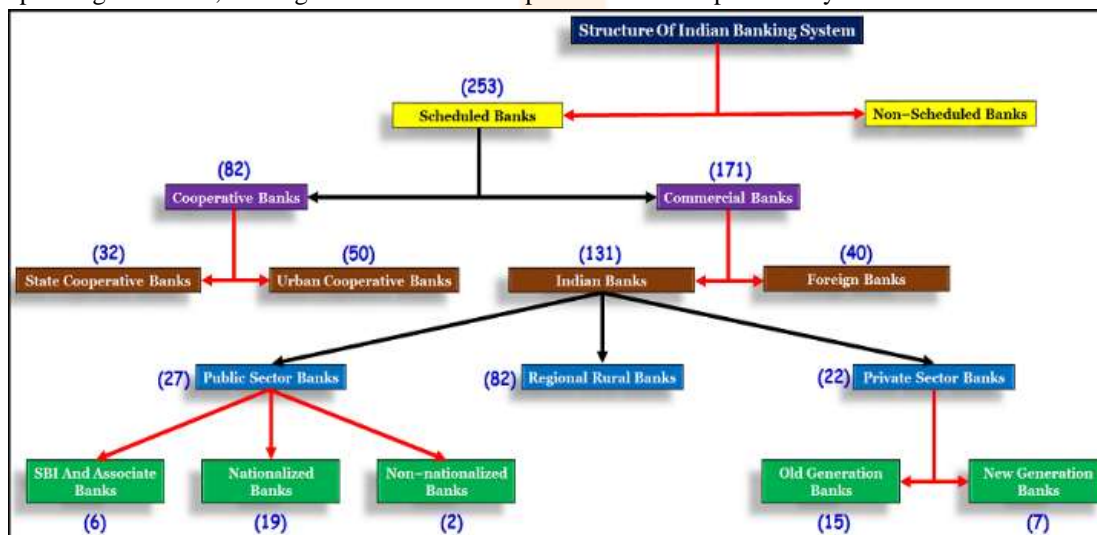
#### 4.0 Evolution of Corporate Governance in Indian Banking System

4.1 Given the significance of corporate governance, particularly in a liberalised environment, a number of advisory and consultative bodies were established to examine the banking industry and enhance efficient corporate governance.

- a) Advisory committee on corporate governance, chaired by Dr. R. H. Patil in March 2001, is one example of a significant body.
- b) A consultation committee was subsequently established in November 2001 under the leadership of Dr. A.S. Ganguly with the goal of enhancing the internal supervisory role of bank Boards.
- c) Shri M. S. Verma was appointed to lead an advisory group on banking supervision.

4.2 The RBI had implemented a number of initiatives to enhance corporate governance in the Indian banking sector based on experience with corporate governance around the world and the suggestions of these advisory bodies. A number of crucial issues were highlighted, including the clearly defined function of supervisors, establishing a favourable climate for solid corporate governance, effective organisational structure adjustments to have a more accountable board of directors, etc. These issues were further investigated due to the fact that government-controlled & managed banks (which includes public sector banks, nationalised banks, and rural banks, etc.) dominate the Indian banking system. Public sector banks were particularly affected by this problem because they account for a sizable portion of the industry's business. The Indian banking system's structure is shown in Figure 1 below.

4.3 Two significant statutory organisations with the authority to control and uphold the standards necessary for good corporate governance are the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI). The Basel Committee's 1999 global initiative also introduced crucial guidelines for bank corporate governance. Additionally, the Banking Regulation Act of 1949, the Foreign Exchange Management Act (FEMA), 1999, the Payment and Settlement Systems Act, 2007, and other directives, regulations, guidelines, and instructions periodically issued by the RBI and SEBI have fostered a favourable environment and expanded the potential for improving corporate governance in the future. Corporate governance has gone through an evolution phase as a result of the banking industry's experiences, which paved the way for development and the establishment of worldwide standards for corporate governance, making it more solid and sophisticated in the present day.



#### 5.0 RBI's Role in Ensuring Corporate Governance in Banks

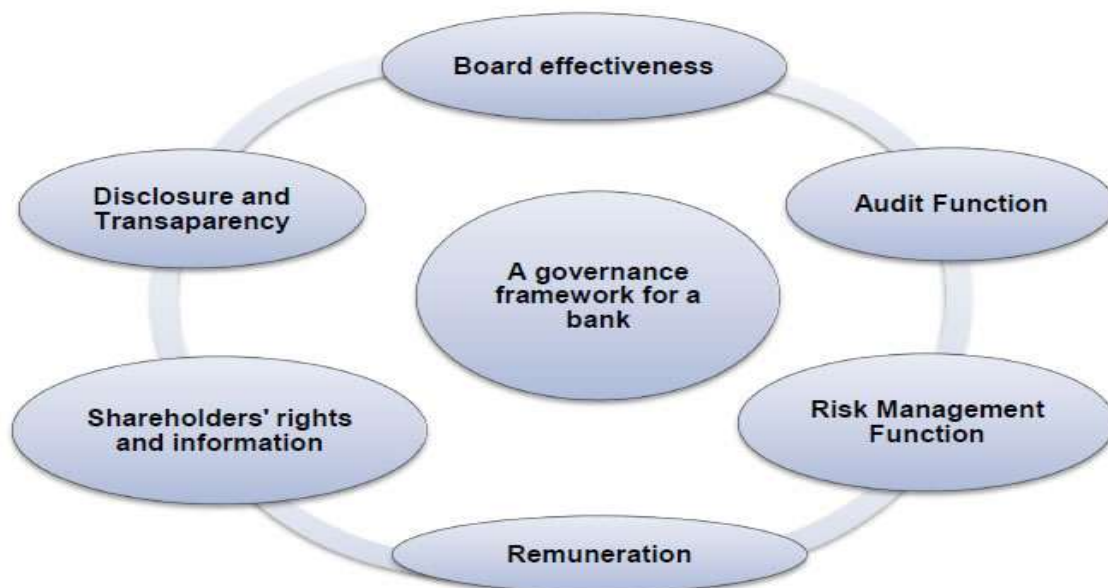
**5.1 Initial Responsibility:** The RBI plays a significant role in developing, implementing, and promoting corporate governance norms for India's banking sector, as the country's central bank and primary regulatory body for the industry. The RBI's initial responsibilities were controlling currency issuance, managing foreign exchange reserves, financing five-year plans, and developing specialised institutions to encourage saving and meet the needs of priority sectors.

**5.2 After Initial Liberalisation:** After the initial phase of liberalization, it also began concentrating on facilitating the effective operation of the capital and money markets, determining interest rates, and providing banks with the essential operational foundation for establishing various transparency and disclosure standards. Additionally, it emphasises financial system stability. In addition to its primary duties, the RBI has the authority to supervise and regulate public sector banks, private sector banks, regional rural banks,

foreign banks, non-bank financing companies (NBFC), the Small Industries Development Bank of India (SIDBI), cooperative banks, and other institutions created under special acts (including SBI Act, IDBI Act, Industrial Finance Corporation, NABARD Act, Deposit Insurance and Credit Guarantee Corporation Act and National Housing Bank Act). RBI also adheres to key directives issued by the Board of Financial Supervision (BFS), which uses its CAMELS technique to assess and oversee banks (capital adequacy, asset quality, management, earnings, liquidity, and systems & control). Here, the primary goal of BFS is to conduct comprehensive oversight of the financial sector.

**5.3 Current Status:** In terms of providing essential instructions for significant regulatory matters, it also oversees the Department of Banking Supervision, the Department of Non-Banking Supervision, and the Financial Institution Division. The RBI has discretion over issues such as bank licenses, asset liquidity, branch development, and techniques of merger and liquidation, within the scope of its regulatory and supervisory powers. RBI manages and maintains strong corporate governance through three key factors, including timely disclosure and transparency standards, off-site surveillance, and timely, appropriate corrective action.

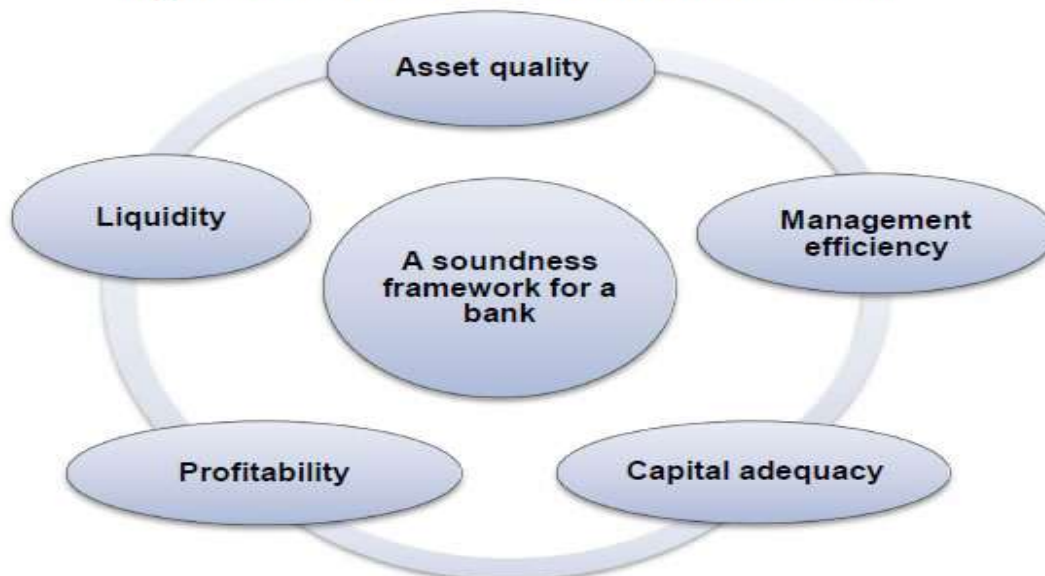
**Figure 6: A Governance Framework for a Bank**



**Source:** Authors' elaboration.

*Guidelines by RBI For Banks in India*

**Figure 7: A Soundness Framework for a Bank**



**Source:** Authors' elaboration.

RBI has laid down various guidelines for the governing bodies of Banks in India, which are broadly detailed below.

- 1) Guidelines on Ownership

- 2) Minimum Capital
- 3) Shareholding
- 4) Director and Corporate Governance
- 5) Foreign Investment
- 6) Foreign Direct Investment
- 7) Foreign Institutional Investor
- 8) Non-Resident Indians
- 9) Due Diligence Process
- 10) Transition Arrangement
- 11) Continuous Monitoring Arrangement

A comprehensive set of Guidelines as posted on the RBI website is given below

Table 1: Governance Structure of Banks in India  
(As of end March 2018)

Ownership type	Public Sector Banks (PSBs)	Private Banks(PBs)
Banks	11 Nationalised banks and State Bank of India	12 Old private and 10 New private banks
Regulatory framework	Banking Regulation Act, 1949 (amended in 2017)	Banking Regulation Act, 1949 (amended in 2017)
Legal framework	Nationalised banks: The "Banking Companies (Acquisition & Transfer of Undertakings) Acts of 1970 & 1980 (SBI: State Bank of India Act of 1955)	Companies Act of 1956 (amended in 2009, 2013),
Composition of board*	Nationalised Banks: 8 categories of directors on the board: Whole-time directors (Chairman & Executive Directors); Central Govt. officials directors; RBI director; workmen employee directors; officers, employee directors; Chartered Accountant directors; Central Govt nominee directors; and Elected Shareholders Directors, SBI: 7 categories, excluding Chartered Accountant directors	Three categories, with executive directors, part-time independent directors and part-time non-independent directors (earlier 5 categories)
Board Strength	Minimum of 10 and maximum of 15 directors (Inc. Nominee directors) for companies with a net worth of INR 15 crore	Minimum of two and maximum of 12 directors (excluding nominee directors).
Appointments of directors	By the GoI, through appointments Committee off the Cabinet, in consultation with RBI. RBI vide Their communication "DBOD.No.BC.No. 47.29.39.001/ 2007-08 dated 1.11.2007" notified banks to constitute the nomination committee of the Board of Directors. However, the role of the nomination/appointments committee is limited to elected/appointed shareholder directors	By the nomination/appointments committee of the board of directors, where the existing board of directors works with the CEO to appoint suitable new directors, and the final director appointment needs approval from the RBI
Board Meetings	At least 6 times in a year	At least 4 times in a year
Listing of banks	All banks are listed on the BSE and the NSE and governed as per the listing rules by the listing regulator -SEBI -under Clause 49 [LODR] Regulations, 2000 (amended in 2005, 2009, 2015 & 2017)	All new private banks and nine old private banks are listed on the BSE and the NSE. Also, governed as per listing rules by listing regulator -SEBI -under the Clause 49 [LODR] Regulations, 2000 (amended in 2005, 2009, 2015 & 2017)
Directorship in other companies or committees (Inter-locked directors)	A non-executive director on the board will be eligible to be a director on the boards of at most 6 other listed companies, and a whole time director on at most 3 companies	A non-executive director on the board will be eligible to be director on the boards of at most 7 other listed companies, and a whole-time director on at most 3 companies

Remuneration and Compensation	Until 2007. The remuneration for the whole-time directors in the PSBs was in accordance with government guidelines. By M/o. Finance Dept. of Economic Affairs (Banking Div.) notification F.No.20.1.2005-Bo-1. dated 09.03.2007 the "Corporate Governance Voluntary Guidelines Remuneration Committee, Corporate Affairs, and many banks constituted the Remuneration Committee of the Board of Directors. They recommended performance-linked incentives for the whole-time directors of PSBs, while non-executive directors will only be paid sitting fees for attending meetings, as per the Go rules.	Compensation or Remuneration committee of the board of directors incentivises top management (i.e. CEO) by their performance reflected through bank profits or returns through stock options while an independent director will not be entitled to any stock options and may receive a sitting fee as per the Go rules
Director's age	Minimum age of 35 and maximum age of 60 as per the Go rules	Minimum age of 21 and maximum age of 70 for directors of companies and the maximum age should be 65 for whole-time directors
Director's Tenure	The chairman shall be appointed on 5-year term tenure; whole-time and other directors for 3-year tenure with a maximum period not exceeding nine years. Chartered Accountant, Director for not exceeding 15 years	No non-executive independent director shall hold office for more than 10 years (2 consecutive terms)
<p>Notes: "The executive directors are inside or whole-time directors on the board, while the non-executive directors are outside or part-time directors who may be either independent or non-independent. The non-independent or affiliated or "grey" directors are generally former company officials, relatives of the officials, or those who have any existing business relationships with the company, while non-executive or non-affiliated or independent directors, other than the nominee director to the company, are those who perform advisory or fiduciary roles for the interest of shareholders.</p> <p><i>Source: Authors ' elaboration of various regulatory and legal acts and committee reports</i></p>		

## 6.0 Mandatory Recommendations of the SEBI's Committee on Corporate Governance

As part of the listing agreement issued by SEBI's circular SMDRP/Policy/CIR-10/2000 dated February 21, 2000, the Securities and Exchange Board of India (SEBI) had established a Committee on Corporate Governance. Based on the recommendations, all stock exchanges were advised to implement them by listed entities. Following is a list of the SEBI Committee's required recommendations that apply to banks:

- 6.1. The Committee advises a company's board to establish a qualified and independent audit committee.
- 6.2. The Committee urges the audit committee to convene at least three times annually (one necessarily every six months). Before the completion of the yearly accounts, one of them must be held.
- 6.3. The audit committee should have a quorum of two members or one-third of its members, whichever is higher, and it must have at least two independent directors.
- 6.4. As a board committee, the audit committee depends on board approval for its authority. The Committee suggests that these powers should consist of the following:
  - To look into any behaviour that falls under its established terms of reference.
  - To ask any staff for information.
  - To seek outside legal or other professional guidance.
  - To invite outside specialists in the pertinent subject if it is deemed necessary.
- 6.5. It is advised that the board establish a compensation committee with agreed-upon terms of reference to decide the company's policy on particular salary packages for executive directors, including pension rights and any compensation payments.
- 6.6. It also suggested that board meetings be held at least four times a year and that there should be no more than a four-month delay between meetings. The board should also have access to the bare minimum of information.

6.7. It is also advised that a director should not chair more than five committees while serving as a member of more than ten committees for all firms where he or she is a director. Every director is required to advise the firm on an annual basis about the committee positions he holds in other companies, as well as any changes to those roles.

6.8. As part of the management disclosure, the Committee advises include a Management Discussion and Analysis report in the annual report to shareholders, either as a replacement for or in addition to the directors' report.9. Its recommended that disclosures be made by management to the board relating to all material financial and commercial transactions, where they have personal interest, which may have a potential conflict of interest with the company at large.

6.9. Information such as quarterly results and presentations made by businesses to analysts may be posted on the company website if it is submitted in a format that enables the stock exchange where the business is listed to post it on its website.

6.10. The Committee suggests setting up a board committee with a nonexecutive director as chairman to focus on resolving shareholder grievances such as share transfers, missing balance sheets, and missed dividend payments, among other issues.

6.11. The Committee further suggests that in order to expedite share transfers, the board of the firm should give an officer, a committee, the registrar, or share transfer agents the authority to transfer shares. The delegated authority is accountable for attending share transfer formalities at least once every two weeks.

6.12. The Committee advises that annual reports from firms should include a separate part on corporate governance with a thorough compliance report. The amount to which the non-required recommendations have been implemented should be carefully stated, as well as any mandatory recommendations that have not been followed and the reasons why.

## 7.0 Strengthening Corporate Governance Norms in Banks

These regulations took effect on April 26, 2021, the day they were issued. However, banks were allowed to comply with these standards as late as October 1, 2021, to ensure a smooth transition to them. Additionally, as will be covered further in this paper, there are specific transitional relaxations.

### 7.1 Applicability of the Circular



### 7.2 Supplementary nature of the Circular

The Circular shall be read in conjunction with other controlling statutes and serve as an addition to current law. The harshest provision will take precedence over any conflicting language in any notices, orders, regulations, guidelines, instructions, etc., published by RBI prior to the Circular.

The Circular introduced the following rules surrounding the Chairperson and Board Meetings:

### 7.2.1 Chairperson –

Only Independent Directors will serve as the Board's Chair. The Banking Regulation Act of 1949 (section 10B) gives the Bank the choice of appointing a full-time or part-time chairman, provided that the following requirements are met in the event of a part-time chairman:

Only with the previous consent of the RBI may a managing director (or "MD") be appointed to oversee the management of the bank's business.

If the Chairperson of the Board is not an independent director, some transitional relief is given. The incumbent Chairperson will be able to finish the current term as authorised by the RBI, even if he is not an independent director. The board meetings shall be presided over by an independent director when the chairperson is not present.

### 7.2.2 Meetings of the Board

Board meetings will only be deemed to have an adequate quorum if:

- 1) At least three directors or 1/3 of the board's total membership must be present.
- 2) Additionally, independent directors must make up at least half of the attendees.

To ensure independence in Board discussions, this is necessary. According to these guidelines, banks must always have a majority of independent directors. Therefore, the Circular encourages banks to elect a Board that has a majority of independent directors.

### 7.2.3 Committees of the Board

Regarding the composition and functioning of the Board Committees, a stringent framework is recommended.

	<b>Audit committee('AC')</b>	<b>Risk Management Committee ('RMC')</b>	<b>Nomination and Remuneration Committee ('NRC')</b>
Composition	Only NEDs Minimum 2/3rd of the directors shall be IDs	Majority NEDs Minimum 1/2 of the directors shall be IDs	Only NEDs Minimum 1/2 of the directors shall be IDs
Chairperson	Independent Director	Independent Director	Independent Director
Restrictions on Chairperson	Cannot chair any other committee of the Board	Cannot chair the Board and/or any Committee of the Board	Cannot chair the Board
Qualification of Members	All members should have the ability to understand all financial statements as well as the notes/ reports attached thereto, and at least one member shall have the requisite professional expertise/ qualification in financial accounting or financial management	At least one member shall have the requisite professional expertise/ qualification in Risk management.	No specific provision
Meetings	One meeting in every quarter	One meeting in every quarter	As and when required
Quorum	Minimum three members, out of which 2/3rd should be IDs	Minimum three members, out of which 1/2 should be IDs	Minimum three members, out of which 1/2 should be IDs & at least one shall be a member of the RMC.

The majority of the proposals made in the Discussion Paper were kept by RBI; however, some were relaxed, with the requirement that the RMC and AC hold at least 6 sessions a year being reduced to 4. The NRC is allowed to meet as needed. This was done to avoid placing an undue strain on the company.

### 8.0 Status of Implementation of Guidelines

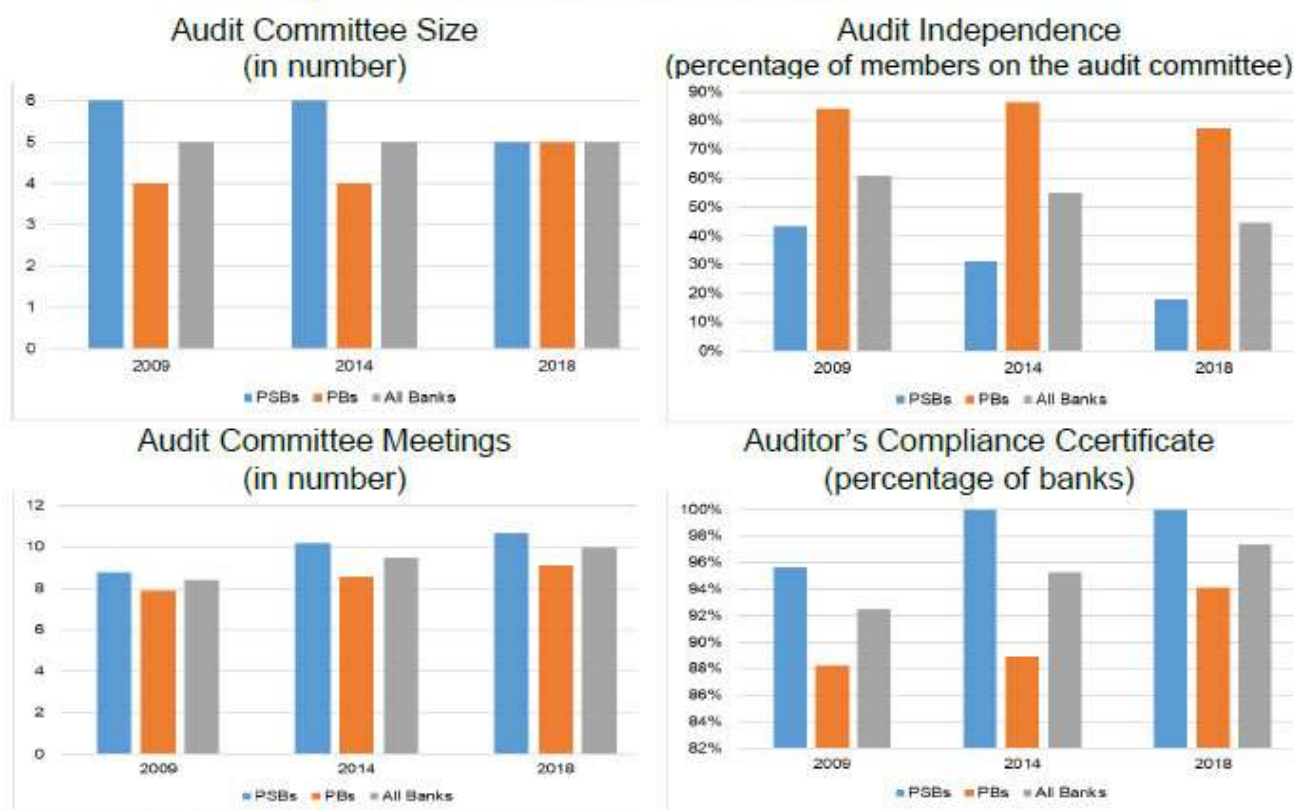
As per the data available on the RBI website, the status of other implementations is given below in graphical form.

**Figure 1: Selected Governance Characteristics across Bank Groups: Board Composition and Structure**



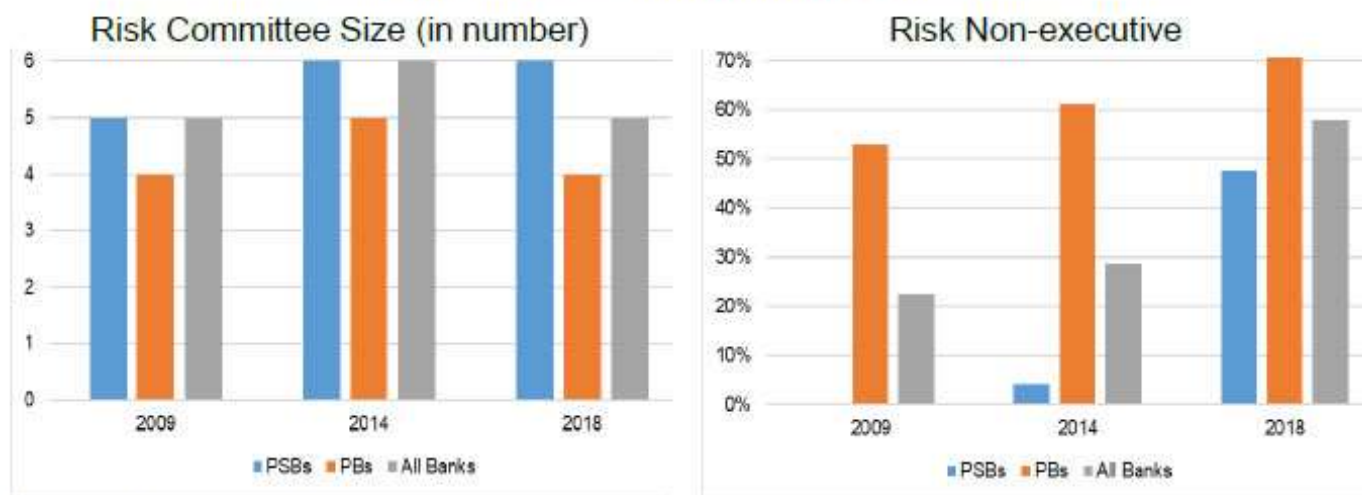
Source: Authors' elaboration.

**Figure 2: Audit Committee and Audit Function**



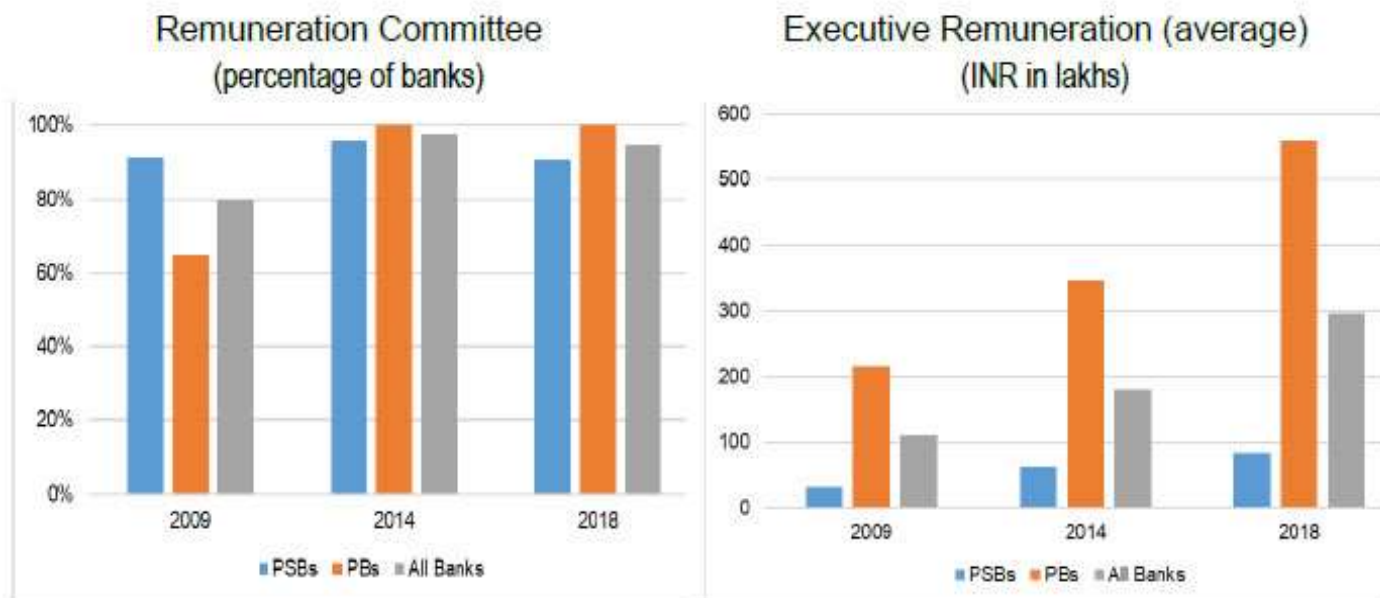
Source: Authors' elaboration.

**Figure 3: Risk Management Function**

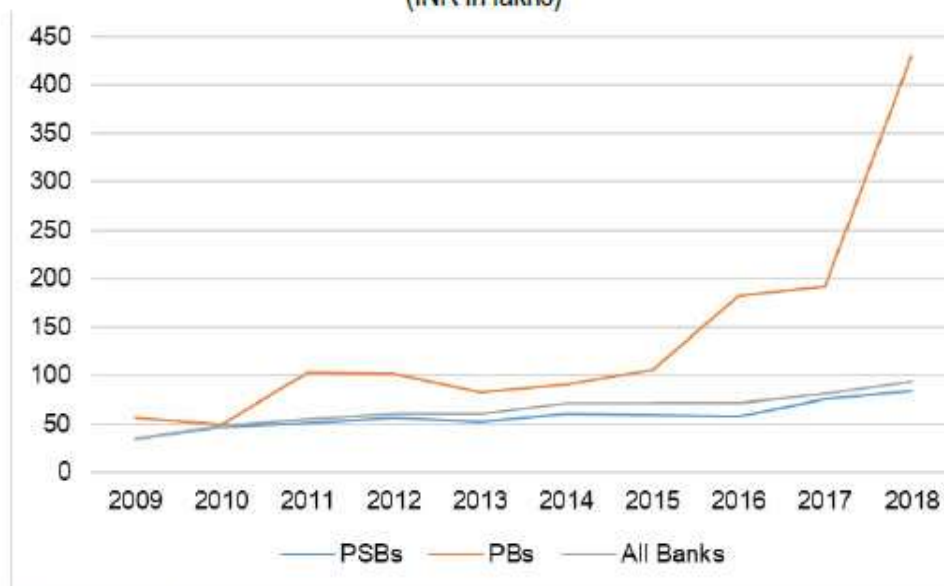


Source: Authors' elaboration.

**Figure 4: Remuneration Committee and Trends in Remuneration Practices**



**Trends in Executive Remuneration (Median) (INR in lakhs)**



**Source:** Authors' elaboration.

As per the Circulars of the RBI & SEBI, all listed entities are required to submit their quarterly compliance reports in the prescribed format. A copy of the same issued by the Indian Bank is enclosed as annexure-1

**9.0 Conclusion**

The Indian financial sector has experienced fast growth, which has led to an increase in complexity, necessitating a major improvement of corporate governance norms in regulated firms. It was deemed essential to reinforce the governance culture in banks because the financial sector suffered greatly because of many banks' failed governance systems, albeit some issues still need clarification.

Globalisation has an impact on every aspect of the economy, and the liberalisation of the banking industry is no exception. Banks are exposed to a variety of hazards at this time of revolutionary upheaval. The issues that banks will face in the future will be managing these risks that result from modernisation. Organisations that implement solid corporate governance and best practices will be better equipped to survive and achieve sustainable growth in a highly competitive business environment. In a deregulated climate, Public Sector Banks require more freedom to carry out their financial responsibilities. However, such autonomy needs to be complemented by increased shareholder accountability on the part of their boards. A well-written and organised corporate governance policy will be an efficient tool for accomplishing this objective. Corporate governance is successful when people are

aware of their own duties. Even if the law can govern and regulate specific behaviours, banks nonetheless have the onus of upholding the highest standards of morality and ethics. The following areas are looked explicitly into to pursue the moral and ethical route and judge the standard of corporate governance in a financial institution:

- A) The Board of Directors' Bylaws.
- B) Transparency.
- C) The Development of Policy.
- D) Internal Controls.
- E) The Board's Committees

Regulators can strengthen corporate governance by adjusting prudential criteria, and the RBI has taken several actions in recent years to enhance the value of strong corporate governance. However, since following prudential rules is the lowest level of compliance, and banks must meet higher standards for good governance, a lot must be done by the banks themselves. Corporate governance is successful when regulatory standards are minimised, and voluntary rules are adopted.

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