Corporate Governance Practices in Banking Sector- A Comparative Study of Selected Public and private Sector Banks at Shimoga City

Abstract

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Corporate governance has at its backbone a set of transparent relationships between an institution's management, its board, shareholders and other stakeholders. It, therefore, needs to take into account a number of aspects such as, enhancement of shareholder value, protection of shareholder rights, composition and role of board of directors, integrity of accounting practices and disclosure norms and internal control system. In a service industry like banking, corporate governance relates to the manner in which the business and affairs of individual banks are directed and managed by their board of directors and senior management. It also provides the structure through which the objectives of the institutions are set, the strategy for attaining them is determined and the performance of the institution is monitored.

Virtually every major industrialized country as well as the Organization for Economic Co-operation and Development and the World Bank has made efforts in recent years to refine their views on how large industrial corporations should be organized and governed. Academics in both law and economics have also been intensely focused on corporate governance. Oddly enough, in spite the general focus on this topic, very little attention has been given to the corporate governance of banks.*In this backdrop the present study focused on the comparing Corporate Governance Practices in selected private and public sector banks.*

Key Words: Corporate Governance, Public Sector Banks, Private Sector Banks

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1. Introduction:

Corporate Governance is the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. However he framework of rules and practices by which a board of directors ensures accountability, fairness, and transparency in a company'srelationship with its all stakeholders (financiers, customers, management, employees, government, and the community).The corporate governance framework consists of (1) explicit and implicit contracts between the company and the stakeholders for distribution of responsibilities, rights, and rewards, (2) procedures for reconciling the sometimes conflicting interests of stakeholders in accordance with their duties, privileges, and roles, and (3) procedures for proper supervision, control, and information-flows to serve as a system of checks-and-balances. Alsocalledcorporation governance.

2. Review of Earlier Works:

The based committee on banking supervision (2010) has had a long standing commitment to promoting sound corporate governance practices for banking organizations. The committees 2006guidence drew from principles of corporate governance that were published in (2004)by the organization for economic co-operation and development(OECD)the OECDs widely accepted and long established principles aim to assist governments in their efforts evaluate and improve their frame works for corporate governance and to provide guidance for participants and regulators of financial market

Reserve Bank of India Bulletin(2004) The literature on corporate governance in its wider connotation covers a range of issue such as protection of shareholder rights enhancing shareholders value board issue including its composition and role discoursers requirements.integrity of accounting practices the control system in particular internal control systems corporate governance especially in the co-operative sector has come into sharp focus because more and more co-operative banks inIndia both rural and urban areas. facing problems like mismanagement financial impropriety. Poor investment decisions and this purpose banks are adopting corporate governance for controlling of banks activity3.Ltrture review

Ankit Katrodia(2009) in his article discussed that the sound corporate governance would lead to effective and more meaningful supervision and could contribute to a collaborative working relationship between bank management and bank supervision banks need to ensure good corporate governance in order achieve excellence transparency and for maximization shareholders value and wealth with elements of good corporate governance sound investment policy appropriate internal control system better credit risk management focuses on newly emerging business commitment to better customer service adequate automation and proactive policies. Banks will definitely be able to grapple with these challenges and convert them into opportunities

Suman Kalian Chaudhary(2011) in this article focused that Indian economy itself is in the take off stage with the growth rates averaging in excess of8% for the last two decades the long term sustainability of the Indian economy success story depends critically on the state of corporate governance in the countryeconomic growth and development of any country depends upon a well knit financial institutions are enriched with the presence of both banking and non banking financial institutions namely commercial banks co-operative banks RBS.s development banks insurance and investment institutions including non-banking financial institutions and Indian financial system is strong by effective corporate governance

3. Statement of the Problem:

Banks exits because they are willing to take on and manage risk. Besides with the rapid face of financial innovation and globalization, the face of banking business is going a sea change. Banking business is becoming more complex and diversified risk taking and management is less regulated competitive market will have to be done in such a way that investor confidence is not enforced. Even in a regulated setup as it was in India prior to 1991,some big banks in the public sector and a few in the private sector had incurred substantial losses this along with the massive failures of non banking financial companies had adversely impacted investors confidence therefore the corporate governance practices are very important to banks in maintaining transparency accountability and code of ethics which will gain the investors' confidence so that the present study through light on comparing the corporate governance practices in a public and a private sector bank

4. Objectives of the Study

1. To study and understand the corporate governance practices in banking sector in India
2. To study the role of RBI in implementation of policies to banks in relation to corporate governance
3. To compare the corporate governance practices in selectted public sector and private sector banks

5. Research Methodology:

5.1 Scope of the Study:

The scope of the present study covers the corporate governance practices in banking sector in India. However the study area deals with the comparison of corporate governance practices between the private sector banks and public sector banks. The study covered syndicate bank, Canara bank and axis, ICICI banks in shimoga

5.2 Methods of Data Collection:

In order to reach above stated objectives the study used both primary and secondary data. Primary data is collected through questionnaire method and the secondary data is collected through published sources like books, magazines, e-sources

5.3 Sampling Techniques Adopted

For the study convenience sampling is used for the purpose of data collection

5.4 Sampling Unit : For the present study 10 managers of various banks are selected to collect the necessary information in shimoga, Canar Bank. Axis Bank. Syndicate Bank. ICICI Bank is used to collect the data

6. Results and Discussion:

6.1 Evolution of Corporate Governance in Banking Sector

There is complete uniformity now in the banking industry and the system therefore ensures responsibility and accountability on the part of the management in proper accounting of income as well as loan impairment. At the initiative of the regulators, banks were quickly required to address the need for Asset Liability Management followed by risk management practices. Both these are critical areas for an effective oversight by the Board and the senior management which are implemented by the Indian banking system on a tight time frame and the implementation review by RBI. These steps have enabled banks to understand measure and anticipate the impact of the interest rate risk and liquidity risk, which in deregulated environment is gaining importance. 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 31stMarch 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 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. Reserve Bank of India has taken various steps furthering corporate governance in the Indian Banking System. These can broadly 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 vis-à-vis the international standards, particularly in the area of risk management strategies and risk parameters, risk concentrations, performance measures, component of capital structure, etc. Hence, the disclosure standards need to be further broad-based in consonance with improvements in the capability of market players to analyze the information objectively. The off-site surveillance mechanism is also active in monitoring the movement of assets, its impact on capital adequacy and overall efficiency and adequacy of managerial practices in banks.

RBI also brings out the periodic data on “Peer Group Comparison” on critical ratios to maintain peer pressure for better performance and governance. There are three 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 these while the regulator refrains from putting pressure to initiate a rating system for corporate governance.Importance of Corporate Governance in Banking.

Banks are a critical component of the economy while providing financing for commercial enterprises, basic financial services to a broad segment of the population and access to payment systems. The importance of banks to national economies is underscored by the fact that banking is, almost universally, a regulated industry and that banks have access to government safety nets. It is of crucial importance therefore that banks have strong corporate governance practices. Banks are also important catalysts for economic reforms, including corporategovernance practices. Because of the systemic function of banks, the incorporation of corporate governance practices in the assessment of credit risks pertaining to lending process will encourage the corporate sector in turn to improve their internal corporate governance practices. Importance of implementing modern corporate governance standards is conditioned by the global tendency to consolidation in the banking sector and a need in further capitalization.

6.2 Relationship between Corporate Governance and Banking

Globalization of financial markets necessitates some basic international standards of corporate governance for financial institutions, it is also recognized that such uniform international standards may result in different levels of systemic risk for different jurisdictions because of differences in business customs and practices and institutional and legal structures of national markets. Each country will therefore need domestic regulations that prescribe specific rules and procedures for the governance of financial institutions that address national differences in political economic and legal systems while adopting international standards and principles. Banks are "special" as they not only accept and deploy large amount of uncollateralized public funds in fiduciary capacity, but they also leverage such funds through credit creation.

The role of banks is integral to any economy. They provide financing for commercial enterprises access to payment systems and a variety of retail financial services for the economy at large. The integral role that banks play in the national economy is demonstrated by the almost universal practice of states in regulating the banking industry and providing in many cases a government safety net to compensate depositors when banks fail. The largenumber of stakeholders whose economic well being depends on the health of the banking system depend on implementation of appropriate regulatory practices and supervision. Indeed in a healthy banking system the regulators and supervisors themselves are stakeholders acting on behalf of society at large. As regulators we do not act on behalf of shareholders or individual customers but on behalf of groups such as depositors policyholders or pension fund members who rely on the continued solvency of regulated institutions for their financial security but who are themselves not well placed to assess financial soundness. Banks unlike insurance companies are highly leveraged entities and asset liability mismatches are an inherent feature of their business. Consequently, they face a wide range of risks in their day-to-day operations. Any mismanagement of risks by these entities can have very serious and drastic consequences on a standalone basis which might pose a serious threat for financial stability. This dimension further strengthens our premise that effective risk management systems are essential for financial institutions and emphasizes the need for these to be managed with great responsibility and maturity. Good corporate governance, therefore, is fundamental to achieve this objective.

6.3 Role of Corporate Governance in Banking Sector

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, the issue has been that of safeguarding and maximizing the shareholders' value. In the case of banking, 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. Disclosure and transparency are thus key pillars of a corporate governance framework because they provide all the stakeholders with the information necessary to judge whether their interests are being taken care of. 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 accounting ratios relating to operating profit, return on assets, business per employee, NPAs, etc. as also maturity profile of loans, advances, investments, borrowings and deposits. At the initiative of the RBI, a consultative group, aimed at strengthening 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. Some of the important 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 tothem 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, they should be familiar with the road objectives of the bank, and the policies laid down by the govt. 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 any information relating to any constituent of the bank to anyone. In the past, when banks considered the issue of how best to differentiate 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. With Indian economic growth increase and major stock Indices reaching record level, the time has come to position corporate governance as a strategic force in Indian banks. Indian banks must drive growth and profitability while continuing to focus on enhancing corporate governance practices. Indian government has mandating corporate governance reforms at banks, 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, increasing competitiveness and permanently changing the competitive landscape of Indian banking environment. Due to rapidly changing banking environment, Indian banks must continue to implement strong corporate governance practices. They must now approach corporate governance as a competitive differentiator in an environment of strong foreign entrants and growing regional competitors.

Table 6.1Shows the Principles of corporate governance at Selected Banks

Sl.No	Principle of corporate governance	SBI Bank	CANARA Bank	ICICI Bank	AXIS Bank
1	High level of disclosure	YES	YES	YES	NO
2	Share holding patterns	NO	NO	YES	YES
3	Appropriate governance structure	YES	NO	YES	YES

4	Presence of a strong and independent BOD	YES	YES	YES	NO
5	Adequate committee structure	NO	NO	YES	NO
6	Means of communication	NO	YES	YES	YES

Source: Primary Data

Interpretation: From the above t is observed that all the Banks under study have shown the same principle on CG of transparency, accountability and fairness for performance and enhancing the shareholders value. However SBI does not have the principle of shareholding patterns, Adequate Committee structure and means of communication. Where as, CANARA bank does not have the principle of share holding pattern. Appropriate Governance Structure and Adequate Committee Structure. ICICI have all the above mentioned principles of CG. AXIS bank remains salient about High level Disclosure, Presence of Strong and independent BOD. Because all the three banks except AXIS bank believes that all their business operations and policies, and zero tolerance for any mall practices. ICICI remains salient about that aspect of CG in enhancing shareholders value. HDFC has taken special responsibility to take care of their assets and also emphasized on shareholders empowerment. SBI emphasized on effective management and control of business through CG.

Table 4.6.Shows the Committees of Corporate Governance at Private and Public Banks

SL.NO	**Committees**	**SBI Bank**	**CANARA Bank**	**ICICI Bank**	**AXIS Bank**
1	Audit committee of board	YES	YES	YES	YES
2	Share holders/investors grievances' committee	YES	YES	YES	YES
3	Compensation/remuneration committee	YES	YES	YES	YES
4	Business strategy committee	NO	YES	YES	YES
5	Credit committee	NO	YES	YES	YES
6	Nomination committee	NO	YES	YES	NO
7	Risk management committee	NO	YES	YES	YES

Source: Primary Data

Interpretation: From the above table it can be identified that the SBI bank has the committees like Audit, Shareholders grievance, compensation committees. Canara Bank has the committees like business strategy, Credit committee, nomination committee and risk management committee, in addition to the committees as the SBI have. ICICI bank also has all the committees, and AXIS bank also have all the committees except the nomination committee. There is a difference between the practices of public sector banks and private sector banks. The private sector banks have to face the competition posed by the public sector banks in India. Therefore they must have to have all the committees to develop their business and also to be accountable to its stakeholders.

Table: 4.7 Shows the means of communication with share holders.

SL.NO	Means of Communication with Share Holders	SBI Bank	CANARA Bank	ICICI Bank	AXIS Bank
1	Half yearly report sent	YES	YES	YES	YES
2	Publishing quarterly	YES	YES	NO	YES
3	Results in website	YES	YES	NO	NO
4	Displaying official news release	YES	NO	YES	YES
5	Others	YES	YES	YES	YES

Source: Primary Data

Interpretation: From the above information it is clear that public sector banks are disclosing their financial report in half yearly reports and they are providing the information through websites quarterly, But in case of the private banks they prefer half yearly report and also official news releases as the means of communication, which will reach customers and shareholders in time and effectively.

Table: 4.8 Share Holding Patterns at Selected Banks

Entities	SBI Bank	CANARA Bank	ICICI Bank	AXIS Bank
President of India	59.73	-	-	-
Government of India	-	79.17	-	-
LIC	-	-	-	10.4
Trust companies Americans	-	-	28.52	-
FIIs/NRIs/OCBs/FB/FC/FN	-	-	41.21	-
Insurance Companies	-	-	10. 75	
Banks and Financial Institutions	7.17	3.05	0.7	-
Mutual Funds	4.45	2.73	5.66	-
Bodies Corporate	-	1.24	5.88	-
NRIs/OCBs	-	0.04	-	-
Resident Individual/ HUF/ Trust etc	5.84	5.77	7.22	-
FIIs	-	14	-	-
Domestic Companies/ Trusts	3.22	-	-	-
Shruthi	-	-	-	27.18
HSBC IRIS Investment	-	-	-	4.95
Oriental Global Tamrind LTD	-	-	-	4.51
ICICI Prudential/ LICL	-	-	-	4.08
The Bank of New York	-	-	-	3.64
GIC	-	-	-	2.28
Other Banks/ Investment Company	-	-	-	9.13

Source: Annual Report Survey 2007-08

Interpretation: From the above table it is evidential 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. With a view to reducing the possible fiscal burden of recapitalizing the PSBs, attention towards Corporate Governance in the banking sector assumes added importance.

Table 4.9 shows the best corporate governance practices will enable banks to

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Increase efficiency of their activities and minimize risk	3	2	1	2	2	10
Get an carrier access to capital market and decrease the cost of capital	6	2	1	1	0	10
Increase growth rate	7	2	1	0	0	10
Attract strategic investors	5	3	2	0	0	10
Improve the standard of lending	6	3	1	0	0	10
Protects the right of minority share holder and other counter parts	5	4	1	0	0	10
Strengthen their reputation and raise the level of investors & clients trust.	7	3	0	0	0	10

Source: Primary Data

Interpretation: From the above table it is clear that the executives in the banks feel that the best corporate governance practices for both private and public sector banks are essential in order to enable the bank to protect the interest of the shareholders and get an axis to capital market and to decrease the cost of capital. And they also says that the corporate governance helps to the banks in attracting the shareholders and to increase the growth rate. However the sound policies in the corporate governance helps them in strengthening their reputation and raise the level of investors and clients trust.

Table 4.10 Showing Policies Followed by The Banks:

Statements	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**	**Total**
Separate report on corporate governance	4	3	2	1	0	10
Information of AGM of S.H / S.H information	6	3	1	0	0	10
Market price data	7	2	1	0	0	10
Accounting policies and standards	5	5	0	0	0	10

Whistle blower policy	7	3	0	0	0	10
External credit rating	7	2	1	0	0	10
Disclosure	6	4	0	0	0	10
AGM	6	2	1	1	0	10
Financial reporting	4	2	2	2	0	10
Code of ethics	3	4	2	1	0	10

Source: Primary Data

Interpretation: From the above it is clear that the activities in the banks opinions that the bank is maintaining sound policies in the issues of separate report on corporate governance and shareholders information disclosure, as the financial reporting and code of ethics why because in the banking sector the governance principles are very essential in order to protect the interest of the shareholders.

Conclusion:

Effective corporate governance is important for any company to be successful irrespective of the type of business it does. But for banks and financial institutions corporate governance assumes a greater level of importance. There may be a couple of reasons for this; firstly, banks form a very vital connection in the financial system which helps to mobilize and allot funds between borrowers and depositors. Efficient banks help create healthy economies as they are the back bone of any financial system. Therefore the present study made an attempt to study and compare the corporate governance practices at government and private banks. For the study two private and two public sector banks are taken and their policies and procedures regarding the corporate governance has been studied. However it is concluded that when compared to public sector banks in private sector banks have very sound corporate governance practices.

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