

## CORPORATE GOVERNANCE PRACTICES IN BANKING SECTOR: A COMPARATIVE STUDY OF SELECTED BANKS

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### ABSTRACT

The abstract underscores the crucial role of corporate governance (CG) in maintaining corporate excellence and integrity, especially in light of past corporate crises and scandals. In India, the significance of CG was highlighted by incidents such as the Harshad Mehta stock scam in 1992 and the Satyam Software Services Ltd. fraud in 2009. Legislative measures, including the Companies Act of 2013, were introduced to strengthen CG mechanisms to prevent corporate mismanagement and scandals. This study focuses on analyzing and comparing the CG frameworks of eight major Indian banks, divided into Public Sector Banks (PuSB) and Private Sector Banks (PvSB). Data were sourced from the latest annual reports of these banks, examining parameters such as board composition, mandate, and committee activities. Findings reveal that ICICI Bank Ltd. showcases higher levels of independence and transparency among PvSBs, while the State Bank of India (SBI) demonstrates proactive CG practices among PuSBs, notably through the active involvement of non-executive independent directors in various board committees.

### 1. INTRODUCTION

The introduction explores the evolution and importance of corporate governance (CG), with a particular focus on the banking sector. CG is vital for achieving organizational objectives and safeguarding against failures and fraud. It includes internal aspects, such as board structure and governance, and external aspects, involving shareholders and stakeholders. Effective CG ensures robust controls, governance structures, performance measurement, and succession planning. Global experiences with corporate scandals, including Enron and Satyam, highlight the necessity for stringent CG regulations to avert future failures and frauds. The introduction also traces the historical development of CG worldwide and its growing significance in India, particularly following the Harshad Mehta scam and the Satyam fraud. Legislative measures like the Companies Act of 2013 in India were introduced to reinforce CG mechanisms in response to corporate mismanagement and scandals.

#### Need for research

The need for research on bank corporate governance is crucial due to several reasons:

- 1 Importance of Banking: Banks are fundamental to all economies, serving as the backbone of financial systems by facilitating financial transactions and resource allocation.
- 2 Transparency and Public Trust: Banks hold public deposits and have social responsibilities. Strong governance practices enhance transparency and bolster public confidence in the banking system.
- 3 Risk Reduction and Efficiency: Effective governance structures reduce risks such as fraud and mismanagement, protecting depositors' funds and promoting efficient resource allocation.
- 4 Comparative Analysis: Comparing governance practices among public and private banks, or across different countries, reveals strengths and weaknesses, informing future strategies.
- 5 Research Contribution: Research in this field offers valuable insights into how banks can adopt best practices, benchmarking them to identify areas for improvement and highlight successful approaches.

#### Scope of your research

##### Board Composition and Operations:

Examine the diversity, expertise, independence, roles, and meeting effectiveness of boards.

##### Risk Management Practices:

Compare methods for identifying and mitigating risks, and evaluate internal controls and compliance.

##### Transparency and Disclosure:

Assess financial reporting transparency, clarity of stakeholder information, and communication channels.

##### Compensation Practices:

Compare executive pay structures, risk-linked allowances, and the role of compensation committees.

##### Comparative Analysis:

**Bank Selection:** Include public vs. private banks, banks from different regulatory environments, and various sizes and business models.

**Metrics and Methodology:** Use industry standards, quantitative data, and optional qualitative interviews to analyze governance strengths and weaknesses.

**Additional Considerations:**

**Regulatory Landscape:** Provide an overview of governance regulations in selected regions.

**Impact Analysis:** Investigate the impact of governance practices on performance and risk profile.

**Deliverables:**

Provide a detailed comparative study with evidence-based arguments. Offer recommendations for improvements and highlight best practices.

## 2. RESEARCH METHODOLOGY

This study analyzed eight major Indian banks: four public sector banks (SBI, Bank of Baroda, Punjab National Bank, and United Bank of India) and four private sector banks (Dhan Laxmi Bank, DCB Bank, ICICI Bank, and Lakshmi Vilas Bank). The sample was chosen based on market value and founding year. The study period is 2015-16, using data from the financial year 2015-16 annual reports and bank websites. The focus was on the "governance" section of the annual reports, examining key parameters such as the composition, mandate, and meeting frequency of the Board, Risk Management Committee, Control Committee, Shareholders' Committee, Remuneration Committee, and CSR Committee.

**Table-1:** Brief Description of Sample Selected under the Study

Name of Bank	Year of establishment	Market Capitalisation (INR)
<b>Private sector Bank</b>		
Dhan Laxmi Bank Ltd.	August 1994	11.77 Lakhs Crore
Laxmi Vilas Bank Ltd.	1994	7.70 Lakhs Crore
DCB Bank Ltd.	November 1985	3.56 Lakhs Crore
ICICI Bank Ltd.	1993	3.24 Lakhs Crore
IndusInd Bank	April, 1994	1.20 Lakhs Crore
<b>Public Sector Bank</b>		
State bank of India	July 1995	6.75 Lakhs Crore
Bank of Baroda	July 1908	1.37 Lakhs Crore
Punjab National Bank	May 1894	1.38 Lakhs Crore
Indian Overseas	Feb 1937	1.13 Lakhs Crore
United Bank of India	Nov 1950	1.0 Lakhs Crore

**Source:** From the official site of Bank and research firm like Money control

## 3. DATA ANALYSIS AND RESULTS

In order to understand the discharge practices and status of the selected banks, important parameters such as board structure, composition of key committees and frequency of meetings including audit committee, risk management committee, stakeholder committee, remuneration committee and board committee are analysed. The data analysis and results are explained below:

### Case Structure Summary

The study focuses on the role and composition of boards in corporate governance across eight major Indian banks, split between public sector banks (PuSB) and private sector banks (PvSB). Key points include:

#### 1. Board Composition:

- **CEO:** Primary role is directing and managing the business.
- **Non-Executive Director (NED):** External, not involved in daily management, acts as an overseer and whistleblower.
- **Independent Director (ID):** A type of NED with no ties to the company, ensuring good governance.

## 2. Regulatory Requirements:

- Clause 49 mandates that at least 50% of board members must be non-executives if the chairman is a NED; if the chairman is an ED, at least 50% must be independent directors.

## 3. Board Composition in Selected Banks:

- **Private Banks (PvSB):** Lakshmi Vilas Bank (LVB) has the highest board independence with 92% NEDs.
- **Public Banks (PuSB):** United Bank of India leads with 67% NEDs; UBI has 44% IDs, while DCB has 77%.
- **Highest Executive Directors (EDs):** ICICI (PvSB) at 38%, and Bank of Baroda (PuSB) at 30%.

## 4. Board Meetings:

- **Frequency:** DCB Bank held the fewest meetings (7 per year).
- PvSB typically have NEDs as chairmen, while PuSB often have EDs.

## 5. Women Directors:

- All banks meet the statutory requirement for women directors.

This analysis highlights the varied board structures and governance practices between public and private sector banks, reflecting their approaches to regulatory compliance and governance efficacy.

**Table-2 : Analysis of Board Composition**

Name of Bank	Total Directors	Non-executive directors Excluding Chairman	Independent Non-Executive Director	Women Non-Executive Directors	Executive Director Excluding Chairman	Women Executive Director	Number of Board Meetings	Is Chairman Executive
<b>Private Sector Bank</b>								
Dhan Laxmi Bank Ltd	11	10	6	1	1	0	12	No
DCB Bank Ltd.	13	11	10	1	1	0	7	No
ICICI Bank Bank	13	7	7	0	5	2	10	No
Axis Bank Ltd.	13	0	8	2	0	0	13	Yes
Laxmi Vilas Bank Ltd.	12	11	6	1	0	0	12	No
<b>Public Sector Bank</b>								
State bank of India	14	5	4	1	4	1	12	Yes
Bank of Baroda	10	2	4	1	3	0	13	No
Punjab National Bank	11	7	4	1	3	1	13	Yes
Indian Overseas	10	1	0	1	2	1	10	Yes
Union Bank of India	9	6	4	1	2	0	10	Yes

**Source:** Compiled by author from Annual Report 2015-16 of respective Banks (2016)

## Audit Committee Analysis (2015-16)

- Role: Ensures the accuracy, adequacy, and reliability of financial accounts.
- Meeting Requirement: At least four times a year.
- **Key Findings:**
- Highest Independence: ICICI (100% independent directors), SBI (50%).
- Lowest Independence: LVB (50%), PNB (20%).

- Most Meetings: Bank of Baroda with 12 meetings per year.

#### Risk Management Committee Analysis (2015-16)

Role: Assists the board in identifying, assessing, and mitigating key, operational, and external risks.

Key Findings:

- Highest Independence in PvSB: DCBL with 80% independent directors.
- Highest Independence in PuSB: SBI with 50% independent directors.
- Lowest Independence: LVB (33%), PNB (17%).
- Most Meetings: ICICI held the highest number of meetings during the year.

**Table-3 :** Analysis of Audit Committee and Risk Management Committee

Name of Bank	Audit Committee				Risk Management Committee			
	Total Director s	No. of ID	No. of ED	No. of Meetin g	No of meeting	No of meetin g	No of meetin g	No of meetin g
<b>Private Sector Bank</b>								
Dhan Laxmi Bank Ltd	5	4	1	8	3	2	1	4
DCB Bank Ltd.	5	3	0	5	5	4	1	4
ICICI Bank Bank	4	4	0	8	7	5	1	7
Axis Bank Ltd.	5	5	0	8	6	5	1	7
Laxmi Vilas Bank Ltd.	6	3	0	8	6	2	2	4
<b>Public Sector Bank</b>								
State bank of India	8	4	2	11	8	4	2	4
Bank of Baroda	5	2	1	12	5	1	3	5
Punjab National Bank	5	1	1	5	6	1	4	4
Indian Overseas	4	1	1	1	5	1	3	3
United Bank of India	7	3	1	9	NA	NA	NA	NA

#### Stakeholder Relations Committee Analysis

- **Role:** Manages shareholder relations, including share recognition, transfer, and handling shareholder queries/complaints.

**Key Findings:**

- **Highest Independence in PvSB:** DCBL with 100% independent directors.
- **Highest Independence in PuSB:** SBI and UBI, both with 60% independent directors.
- **Lowest Independence:** DBL (33%), PNB (25%).
- **Most Meetings:** PNB held the highest number of committee meetings among all the banks studied.

#### Corporate Social Responsibility (CSR) Committee Analysis

- **Role:** Oversees social sector development activities, ensuring compliance with the CSR policy under the Companies Act, 2013. Tasks include reviewing social activities, formulating policies, and monitoring implementation and compliance.
- **Key Findings:**
- **Highest Independence in PvSB:** DCBL with 60% independent directors.
- **Highest Independence in PuSB:** Only SBI has a CSR committee with 67% independent directors.
- **Most Meetings:** SBI and LVB held the highest number of CSR committee meetings among the selected banks.

**Table-4 :** Analysis of the Stakeholder Relationship Committee and CSR Committee

Name of Bank	Stakeholder Relationship Committee				CSR Committee			
	Number s of Member s	No. of ID	No. of ED	No. of Meetin g	No of meeting	No of meetin g	No of meetin g	No of meeti ng
<b>Private Sector Bank</b>								
Dhan Laxmi Bank Ltd	3	1	1	4	3	1	1	1
DCB Bank Ltd.	3	3	0	4	5	3	1	2
ICICI Bank Bank	3	2	1	4	4	2	1	3
Axis Bank Ltd.	5	5	0	4	4	3	1	2
Laxmi Vilas Bank Ltd.	5	2	0	3	5	1	2	4
<b>Public Sector Bank</b>								
State bank of India	5	3	2	4	6	4	2	4
Bank of Baroda	4	2	2	4	No			
Punjab National Bank	4	1	3	6	No			
Indian Overseas	4	1	1	1	No			
United Bank of India	5	3	2	4	No	NA	NA	NA

**Source:** Compiled by author from Annual Report 2015-16 of respective Banks (2016)

#### Compensation Committee

The foremost imperative work of the Recompense Committee is to authorize official stipend, trade and other benefits. Examination of information from the chosen banks appears that ICICI and SBI are the foremost free, naming an autonomous chief for 100% and 50% of the committee composition. On the other hand, PNB's recompense committee has as it were 25% free executives, taking off small freedom (see Table 5).

**Table 5:** Remuneration Committee Analysis.

Name of Bank	Numbers of Member	No. of ID	No. of ED	No. of ED
<b>Private sector Bank</b>				
Dhan Laxmi Bank Ltd.	3	2	0	4
Laxmi Vilas Bank Ltd.	4	3	0	5
DCB Bank Ltd.	4	3	1	3
ICICI Bank Ltd.	3	3	0	8
IndusInd Bank	3	3	0	4
<b>Public Sector Bank</b>				
State bank of India	4	2	0	1
Bank of Baroda	5	2	0	2
Punjab National Bank	4	1	0	1
Indian Overseas	4	1	0	1
United Bank of India	5	2	0	1

**Source:** Compiled by author from Annual Report 2015-16 of respective Banks (2016)

#### Board

The board usually deals with all matters within the competence of the central board. This may include real estate, insurance, commercial and PandL topics etc. Based on the available data of the selected banks, it is observed that SBI

and LVB held the highest number of committee meetings in the respective group of banks during the year. banks (see Table 6).

**Table 6 : Board Committee Analysis: Board Management.**

Name of Bank	Numbers of Members	No. of Meetings
<b>Private sector Bank</b>		
Dhan Laxmi Bank Ltd.	4	11
Laxmi Vilas Bank Ltd.	10	19
DCB Bank Ltd.	4	1
ICICI Bank Ltd.	NA	NA
IndusInd Bank	4	1
<b>Public Sector Bank</b>		
State bank of India	4+	52
Bank of Baroda	6	21
Punjab National Bank	7	18
Indian Overseas	6	20
United Bank of India	NA	NA

**Source:** Compiled by author from Annual Report 2015-16 of respective Banks (2016)

#### **Corporate Governance Practices in the Indian Banking Sector:**

##### **1. Composition and Structure of the Board:**

- Boards comprise senior executives and external directors.
- Responsible for strategic direction, oversight, and compliance with laws and regulations.
- Appoints key personnel and evaluates their performance.

##### **2. Independent Directors:**

- Play a crucial role in ensuring transparency, accountability, and objectivity.
- Regulated by the Companies Act, 2013, and SEBI regulations.
- Expected to bring diverse expertise and impartial monitoring, especially in risk management and compliance.

##### **3. Risk Management:**

- Essential for the stability and sustainability of banks.
- Governed by comprehensive guidelines issued by the RBI.
- Banks must have robust risk management systems covering various risks such as credit, market, liquidity, and operational.
- Risk management committees oversee risk management practices and ensure compliance with regulatory requirements.

#### **Disclosure, Transparency, Internal Controls, and Audit:**

##### **Disclosure and Transparency:**

- Essential for maintaining trust and confidence in the banking sector.
- Banks must disclose important information to shareholders, regulators, and stakeholders in a timely and transparent manner.
- Disclosure requirements include financial statements, annual reports, and other material information affecting stakeholders.
- SEBI's disclosure standards mandate transparency in corporate governance practices and related-party transactions.

##### **Internal Controls and Audit:**

- Crucial for ensuring compliance, safeguarding assets, and preventing fraud.



- Banks must establish effective internal control mechanisms, including policies, procedures, and systems for financial reporting, risk management, and compliance.
- Internal audit functions independently evaluate the effectiveness of internal controls and provide assurance to the board and senior management.

#### 4. CONCLUSION

This study focused on the composition of the board and the autonomy of various key committees, including the risk management committee, corporate responsibility committee, audit committee, compensation committee, and stakeholder grievance committee. Results were analyzed from the perspectives of both Public Sector Banks (PuSB) and Private Sector Banks (PvSB).

Among PvSBs, ICICI Bank has been a key player in maintaining a high degree of autonomy compared to other selected PvSBs. In contrast, DBL did not exhibit significant autonomy within its board committees. For PuSBs, the State Bank of India (SBI) was identified as the most proactive, with extensive involvement of non-executive independent directors across various board committees. On the other hand, Punjab National Bank (PNB) demonstrated a lack of independence due to a high proportion of CEOs participating in various board committees.

In terms of meeting frequency, ICICI and SBI were the most diligent, regularly holding meetings of their respective board committees. These findings suggest that other selected banks should re-evaluate their board structures in light of the new Companies Act of 2013 and create more opportunities for the inclusion of expertise through independent directors.

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