

Issues and Priorities in Corporate Governance in AXIS Bank and SBI Bank in India

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ABSTRACT

Banks have some unique, features that make their corporate governance different from, and more complicated than, that of other firms. For e.g. their balance sheets are not very transparent, they are highly leveraged, they are heavily leveraged, they typically have short- term liabilities and longer- term assets, they are heavily regulated and have access to government safety nets, and they are systemically very critical organizations. This paper seeks to identify the major issues in corporate governance in banks in India and to provide suggestions for possible action by the Reserve Bank of India as banking regulator. These issues relate to the composition of the Board of directors and the duties of members, the functions of the board, the committees of the board, preventing abusive related party transactions and disclosures. The paper makes me suggestions as to the role of the Reserve Bank of India in strengthening corporate governance in Indian banks in the public as well as the private sector.

1. Introduction

The literature on corporate governance covers a range of issues such as protection of shareholder's disclosure requirements, integrity of accounting practices, the control systems, in particular internal control systems. The origin of modern corporate governance can probably be traced to a series of scandals and collapses in the UK in the late 1980s and early 1990s, which were widely attributed to poorly managed business practices (Leeladhar 2004). Although corporate governance deficiencies may not have been causal in the strict sense of the term, there can be no doubt that they facilitated, or at the very least, did not prevent, practices that resulted in poor performance. In May 1991, the London Stock Exchange set up a Committee under the chairmanship of Sir Arian Cadbury to help raise the standards of corporate governance and the level of confidence in financial reporting and auditing. The Cadbury Committee Report has since become the basic document for corporate governance all over the world. Corporate Governance is a dynamic concept, in terms of scope, thrust and relevance and should be viewed as an ongoing process subject to changes based on experiences and developments.

2. The Significance of Corporate Governance in the Banks

The most important factor for any economy's growth and development is ensuring effective governance. This is because corporate governance promotes the efficient use of scarce resources. It also makes these resources flow to those sectors or entities where there is efficient production of goods and services and the return is adequate enough to satisfy the demands of stockholders. In addition, corporate governance provides a board mechanism of choosing the best directors on board to govern this meager resource.

Various corporate governance structures for banks exist in different countries appreciating the diversity in structure of corporate governance mechanisms across the world, the Basel Committee in 1999, recommended four important forms of

oversight that should be included in the organizational structure of any bank in order to ensure the appropriate checks and balances.

- Oversight by the board of directors or supervisory board;
 - Oversight by individuals not involved in the day – to – day running of the various business areas;
 - Direct line supervision of different business areas;
 - Independent risk management and audit functions.
- The committee also emphasizes on the importance of key personnel being fit and proper for their jobs.

The problems of poor corporate governance are a matter of concern in most of the developing and underdeveloped countries. The situation is the same in India where corporate governance can be useful in providing the appropriate structure in many systems by placing right objectives and goals in front of the organization and helping the organization to attain these goals. Corporate Governance in banks also boosts the confidence of investors. It reduces the risk of capital outflow from an economy and at the same time, increases the flow of capital in the economy.

The main reason for corporate governance assuming augmented significance in our country has been globalization, which has brought with it mounting competition. Globalization has made an impact on all companies and banks, public and private today, banks face a more competitive and highly volatile global environment than other organizations. They are instrumental in providing finance for commercial enterprises. They also provide basic financial services to a broad segment of the population. Besides, some banks also make credit and liquidity available in difficult market conditions.

The corporate governance of banks is different and unique from that of the other organizations. This is because the activities of the bank are less transparent than other organizations. Thus, it becomes difficult for shareholders and creditors to monitor the activities of the bank. The situation becomes even more difficult when a major part of the share capital is with government. Additionally, banks also differ from

most other companies in terms of the complexity and range of their business risks, and the consequences if these risks are poorly managed.

3. Issues & Priorities in Corporate Governance in Banks

Numerous bodies are involved in ensuring sound corporate governance of banks. The primary responsibility for developing and implementing sound corporate governance of banks obviously rests with the individual bank itself.

Private bodies such as banking industry associations often play an important role in assisting boards of directors and senior management of banks in fulfilling their responsibilities. Banking supervisors have the responsibility to provide a regulatory framework and guidance in terms of corporate governance of banks; they should also monitor individual banks, taking necessary steps for the banking business. In addition, the corporate governance framework also includes capital market regulators and stock exchanges. The issues raised below are therefore relevant for a wide range of participants, including banks, Reserve Bank of India (RBI) as the banking sector supervisor, Securities and Exchange Board of India (SEBI) as the capital market authority and regulator, banking industry associations such as the Indian Bank's Association and the Indian Institute of Banking and Finance, and the two main stock exchanges. They are also extremely significant for the Government of India as the majority shareholder in the public sector banks, which account for the bulk of banking business in the country. These issues draw from the principles of sound corporate governance in banks as identified by the Basel Committee on Banking Supervision in 2006, and also from the recommendations made by the Ganguly Committee in 2002.

4. Responsibilities of Individual Members of the Board of Directors

Board members of banks need to be particularly conscious of their fiduciary duties- 'duty of care' and 'duty of trust' – to depositors because banks accept and manage other people's money. These duties cannot be fully, properly and effectively discharged without sufficient skills and personal abilities. It is critical that their skills and knowledge be enhanced and upgraded by ongoing training programs (provided by, for example, Reserve Bank of India, Securities and Exchanges or professional associations such as Indian Bank's Association, the Indian Institute of Banking and Finance, etc) that emphasize the professional, ethical and technical demands that the fiduciary duties impose upon a bank's board members.

5. The Composition of the Board

The Reserve Bank of India, in its role as banking supervisor needs to ensure that bank boards have developed and maintained an appropriate level of expertise as banks have grown in size and complexity (OECD 2006).

The Ganguly Committee (RBI 2002,) and recommended that bank boards be constituted by the blending of 'historical skills' set, (i.e. regulation –based representation of sectors like agriculture, small industries, cooperation etc.) In exercising its duties, the board should be able to exercise objectivity judgment. This will mean independence and objectivity with respect to management and controlling shareholders (including

the Government of India) with important implications for the composition and structure of the board. The Organization for Economic Cooperation and Development (OECD) Principles stipulate that the review of related party transaction should be undertaken by a sufficient number of non – executive board members capable of exercising "independent" judgment to ensure that such transactions are conducted at arm's length and in the interest of the bank.

The chairman should ideally not only be a non- executive but also an independent director so that the board which he/she chairs can make more objective, independent decisions. In the matter of 'fit and proper' status of non- executive directors and chief executives, RBI norms only seek to ensure that the candidate should not have come to the adverse notice of the law and regulations or any professional body. In the case of non- executive directors not satisfying the 'fit and proper' criteria, the RBI can disqualify such directors after due processes are followed. In regard to the CEOs of the private sector banks, since RBI approval is required for the appointment of the CEO, it can exercise its judgment on the suitability of the candidates proposed, and may seek removal also. These provisions are broadly consistent with global norms though there is scope for more effective implementation (Reddy 2006).

This is a matter to be decided only by the Government of India. The Government does, however, actively consult the Reserve Bank in regard to appointment of CEOs. Thus, by and large, there is de facto compliance with many governance requirements in public sector banks. The Ganguly Committee had also recommended the appointment of qualified Company Secretary as the Secretary to the Board and a Compliance with various regulatory / accounting requirements.

6. The Roles and Functions of the Board

The boards are required to be more involved in the broad strategy rather than becoming immersed in management of the routine activities of bank. More specifically, the board should focus on:

- (i) guiding and overseeing the bank's strategic objectives, corporate values and policies, an important aspect of which is the development of a code of conduct (or code of proper practice) for the bank employees, management, and the members of the board and
- (ii) Setting up of clear lines of responsibility and accountability throughout the bank and strict internal control systems. This will go a long way in ensuring effective oversight.

7. The Committees of the Board

The Based Committee also notes that it would be advisable to establish certain specialized committees, such as an audit committee, a risk management committee. The Ganguly Committee had further recommended that banks in India, which have issued shares/ debentures to the public, may form a Shareholder's Redressal Committee under the chairmanship of a non-executive director.

It had also suggested the constitution of Supervisory Committee for monitoring of the exposures (both credit and investment) of the bank, review of the adequacy of the risk management process and its up gradation, internal control

system, ensuring compliance with the statutory / regulatory framework etc.

8. Preventing Abusive Related Party Transactions

Banks should be careful about making decisions concerning related transactions because it is not always easy to judge whether they are on an arm's – length basis. Moreover, even if such transactions themselves are harmless, the mere appearance of conflicts of interest may undermine the ethical code of the bank. The Reserve Bank of India must strictly enforce the maximum percentage of lending exposure to a single client mandated by it (15 percent of capital funds in case of single borrower and 40 percent of capital funds in the case of a borrower group.) There could also be strong firewalls set up between the controlling ownership of financial and non-financial companies. Related party transactions should be reviewed and monitored by a sufficient number of independent directors. In addition, banks may whose membership is ideally made up exclusively of independent directors. In accordance with international accounting, auditing and non-financial disclosure norms, banks should disclose material related party transactions. There is also the option of prohibiting banks from engaging in certain specific types of related party transactions, such as personal loans to board members and controlling shareholders.

9. Disclosure

The importance of co-operation between the RBI, Securities and Exchange Board of India and the stock exchange cannot be over – emphasized. Even if the primary authority for ensuring proper disclosure of banks rests with the RBI, SEBI is not exempt from its responsibilities; it is required to exercise oversight and enforcement of standards for accounting, audit, and non – financial disclosure. Problems regarding disclosure by listed banks identified by either of the two regulatory bodies should be shared with the other organization as well, for possible corrective actions and sanctions.

10. Role of the Reserve Bank of India

The Reserve Bank of India needs to place more emphasis on securing sound corporate government of banks rather than to focus only on regulatory compliance. As the role of the board is crucial in developing sound corporate governance of banks, the RBI should assess the performance of the entire board.

This should be done by reviewing minutes of board meetings, by checking the board member's accessibility to necessary information and resource, observing board meetings of banks when it thinks it is appropriate, issuing warnings when

necessary, and even asking the banks to reorganize its board framework and operational procedures in the interests of sound corporate governance. Reddy (2006) points out that there is a basic difference between the private and public sector banks as far as the Reserve Bank's role in governance matters is concerned. However, since public sector banks are governed by the respects of these banks are exempt from applicability of the relevant provisions of the Banking Regulation Act, although they have bearing on prudential aspects. In regard to these matters, the Reserve Bank prescribes its policy framework for the private sector banks and suggests that the Government adopt the same for public sector banks.

It would be in the interest of all concerned, that the RBI should, in conjunction with Securities and Exchange Board of India, develop and publicize a code of corporate governance of banks, based on which banks could develop their own codes. Furthermore, the RBI could provide incentives for bank to improve their corporate governance. For instance, taking into consideration the suggested code mentioned above, the RBI could develop a rating mechanism for the corporate governance of banks, such a rating can be designed either as rating mechanism within which factors regarding corporate governance play one of the major roles in determining overall rating. Another example of incentives is the possible differentiated deposit insurance premium reflecting the rating.

The methodology of the ratings of corporate governance of banks should be articulated as clearly as possible and should be announced well in advance in order to provide time for banks to recognize their framework. SEBI could contribute to developing the criteria by providing its accumulated knowledge and experience about corporate governance.

AXIS Bank Ltd. AT A GLANCE

Name	:	AXIS Bank Ltd
Founded	:	1993
Head quarter	:	Mumbai, India
Product	:	Financial Services
Total Assets	:	800,997 Crore in 2019
Employees	:	72,000
Board of Director	:	total 12 Director (4 Independent and 8 non Independent)
Key Persons	:	Shri Rakesh Makhija – Chairman Mr. Amitabh Chaudhry – Managing Director & CEO

(Sources: annual reports of AXIS Bank Ltd. of the year 2019)

Table – 1
Progress of AXIS Bank Ltd. during the period from 2015 to 2019

Items	2015	2016	2017	2018	2019	Compound Growth (%)
No. of Branches	2589.00	2904.00	3304.00	3703.00	4050.00	1.56
No. of employees	42230.00	50135.00	56617.00	59614.00	61940.00	1.46
Deposits (Rupees billion)	322441.94	357967.56	414378.79	453622.72	548471.34	1.70
Advances (Rupees billion)	281,083.03	338,773.72	373069.35	439650.30	494797.97	1.76
Profit / Loss	7,357.82	8,223.66	3,679.28	275.68	4,676.61	0.63

(Sources: annual reports of Axis during the period from 2015 to 2019)

Above table–1 has been showing the progress of Axis bank ltd. it shows increasing trends during the period from 2015 to 2019. Numbers of branches of the bank were increased from 2,589 in the year 2015 to 4,050 in the year 2019. On the other hand number of employees also increased from 42,230 in the year 2015 to 61,940 in the year 2019. Deposits of the bank shows increasing trend. Deposits of the bank were Rs. 322,441.94 cr. in the year 2015 and it increased to rs. 494,797.97 cr. in the year 2019. In the case of profit of the bank also shows fluctuating trend from 2015 to 2019 from rs. 7357.82cr. to 4676.61 cr. So we can say that Axis bank ltd. is profit making bank with the efficient progress during the period from 2015 to 2019.

State Bank of India AT A GLANCE

Name	:	State Bank of India
Founded	:	1955
Head quarter	:	Mumbai, India
Product	:	Financial Services
Total Assets	:	36.80914Crore in 2019
Employees	:	257,252
Board of Director	:	total 14 Director
Key Persons	:	Rajnish Kumar – Chairman P K Gupta – Managing Director

(Sources: annual reports of SBI of the year 2019)

Table – 2
Progress of SBI during the period from 2015 to 2019

Items	2015	2016	2017	2018	2019	Compound Growth (%)
No. of Branches	16333.00	16784.00	17170.00	22414.00	22010.00	1.34
No. of employees	213238.00	207739.00	209567.00	264041.00	257252.00	1.20
Deposits (Rupees billion)	1300026.39	1463700.42	2044751.39	2706343.29	2911386.01	2.23
Advances (Rupees billion)	1576793.25	1730722.44	1571078.38	1934880.19	2185876.92	1.38
Net profit	-698.32	-6547.45	10484.10	9950.65	13101.57	-18.76

(Sources: annual reports of SBI during the period from 2015 to 2019)

Above table–2 has been showing the progress of SBI it shows increasing trends during the period from 2015 to 2019. Numbers of branches of the bank were increased from 16,333 in the year 2015 to 22,010 in the year 2019. On the other hand number of employees also increased from 213,238 in the year 2015 to 257,252 in the year 2019. Deposits of the bank shows increasing trend. Deposits of the bank were Rs. 1,300,026.39 cr. in the year 2015 and it increased to rs. 2,911,386.01 cr. in the year 2019. In the case of profit of the bank also shows fluctuating trend from 2015 to 2019 from rs. -698.32 cr. to 13,101.57 cr. So we can say that SBI is profit making bank with the efficient progress during the period from 2015 to 2019.

11. Conclusion

From the study, it concludes that Axis bank ltd. and SBI is having highest growth of net profit. Axis bank ltd. and SBI should try to maintain this profitability hence management should try to reduce its current liabilities also. Now it is becoming the today's oath to implement standard practices on "Good Corporate Governance" for AXIS bank ltd. and SBI bank to improve their administration, business and control system and as a result this will ensure them a competitive edge in the changed scenario under open market economy.

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