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CORPORATE GOVERNANCE OF BANKS IN INDIA: A CRITICAL ANALYSIS

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Abstract: *Modern economies of the world have developed primarily by making outstanding use of the credit- availability in their systems. Indian economy is also on progress and Indian banks are playing a very significant role in this process. In this context, good governance of banks becomes a matter of vital concern. In banks, good governance practice generates higher profits, higher returns on equity and larger dividend yields. It may be also noted that good quality governance also shows up in such soft areas as employee motivation, work culture, corporate value system and corporate image. In case of banks, good corporate governance sets up the "rules of the game" and protects the interests of all stakeholders. Hence, corporate governance has become imperative for banks, but it is going to be even more significant in the future. Realizing the importance of good governance in banks, the Reserve Bank of India has appointed several committees in order to assess the existing state of corporate governance in India. The paper attempts to study the regulations and governance quality of different Banks of India. The paper highlights the present status of Corporate Governance of Banks in India. The paper tries to analyze the important issues and policies relating to Corporate Governance of Banks in India. The modest attempt of the paper is to examine the accountability, transparency and ethics followed by different Banks of India.*

Key Words: *Accountability, Credit Availability, Ethics, Imperative, Transparency.*

I. INTRODUCTION

Corporate governance confers about set of systems, principles and processes by which a company is governed (Thomson, 2009). This process helps to allocate corporate resources in a manner that maximizes value for all stakeholders i.e. shareholders, investors, employees, customers, suppliers, environment and the community at large (Raut, 2010). There are three important key constituents of corporate governance namely as: Board of Directors or Board, Shareholders and Management.

In case of Banks, Good corporate governance is not just a matter of prescribing particular corporate structures and complying with a number of hard and fast

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rules, but there is a need for Broad Philosophy along with principles and al1 concerned should then apply these flexibly and with common sense to the varying circumstances of individual companies. Good corporate governance also concern with the morals, ethics, values, parameters, conduct and behavior of the banks. The fundamental principles of corporate governance in banks revolve around three basic inter- related segments: Integrity and Fairness, Transparency and Disclosures (Ravi, 2007).

Corporate governance for banking organizations is arguably of greater importance than for other company (Bihari, 2009). Effective corporate governance practices are necessary for achieving and maintaining public trust and confidence in the banking system. Poor corporate governance may contribute to bank failures, which can pose significant public costs and consequences due to their potential impact on any applicable deposit insurance systems. It is also fact that poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a bank run or liquidity crisis. (Basel Committee on Banking Supervision, 2006).

Need of Corporate Governance of Banks in India

Good corporate governance is important for Public bans and private banks as well. Almost 80% of the total banking operation in India is under the control of the public sector banks. These banks are nationalized banks, State Bank of India and its subsidiaries. The issues pertaining to good Corporate Governance becomes more critical in these banks, because the controlling power of these banks link with the Government. Corporate Governance issues in public sector banks are extremely important rather than private banks, basically due to two principal reasons: (i) they constitute a huge share of business in the banking industry in India, and (ii). It is highly unlikely that they are going to be phased out in due course (Bihari, 2012).

We need to appreciate that the Indian banks have made commendable advancement in extending its geographical reach and functional reach. The spread of the banking system has been a key factor in promoting financial intermediation in the economy. The divergent growths of different Indian banks have also been accountable for enhancing domestic savings and in expanding credit reach. This is possible only for good corporate governance system in different banks of India.

In regard to corporate governance aspects of banking, the Reserve Bank prescribed its policy framework for the private sector banks. It has suggested to the Government the identical framework for adoption, as appropriate, consistent with the legal and policy imperatives in PSBs as well. Hence, the effort is to maintain uniformity and consistency in policy prescriptions to the best possible extent for all types of banks in India (Corporate Governance in Banks in India, 2010).

Corporate Governance is Important for different banks of India :(1).It affects banks' valuation, their cost of capital and capital structure. (2). It affects banks' risk-taking and risks of financial crises; both for individual banks and for countries' overall banking systems. (3).Corporate Governance of banks crucial for growth and development 4).Banks exert corporate governance over firms, especially small firms that have no direct access to financial markets.

II. LITERATURE REVIEW

The literature on corporate governance of banks in India is not numerous and it is scattered. Many researchers have studied Corporate Governance of Banks in India from different views and in different contexts. A larger number of studies have been carried out to procure knowledge of corporate governance of different banks of India. The available literatures related to topic are as follows:

Corporate governance principles and codes have been developed in different countries in different way (Raut 2010).Corporate governance in India are exceedingly different from those found in the Anglo-Saxon world. Indian corporate sector is that of disciplining the dominant shareholder, who is the principal block-holder, and of protecting the minority shareholders (Varma, 1997). But, the remarkable point is that the basic objectives of corporate governance in different countries are same. The vital objectives of corporate governance are to enhance and maximize shareholder value and protect the interest of other stake holders (Adrian Cadbury Committee, 1992).

The corporate governance was still in a growing stage in the Indian industry (Mukherjee and Ghosh, 2009). At present, corporate governance restructuring in India are at a crossroads and there are no precise guidelines for corporate governance in India. In this context, there is still a need to focus on developing good corporate governance system so that it can tackle the India-specific challenges more efficiently (Pande and Kaushik, 2012).

Good corporate governance principles are the foundation upon which the trust of Investors and lenders is built (Hasan and Butt, 2009). In high-quality corporate governance system, the performance of the board is evaluated at least once a year. Now a –days, Good corporate governance is more significant, because corporate frauds are increasing. In this situation, the role of Board had been transformed from being spectator to evaluating and monitoring the performance of management. The interesting fact is that the recent fall of big companies on account of corporate misdemeanors had put members of board under critical scrutiny of the regulatory bodies and investing community (Kumar and Zattoni, 2012).

Corporate governance plays a highly significant role in banks. It has found that the corporate governance revolves around the enhancing value and accountability at all levels. Good corporate governance helps for overall development of the banks. The remarkable point is that after Globalization and financial sector reforms, corporate governance has been receiving a lot of attention in the banking sector. (Bihari, 2013).

Strengthening of public confidence in banks is a vital requirement. Staying focused on fundamentals, adoption of utmost professionalism, conformity to prescribed norms of lending & investment, adherence to sound banking principles & ensuring optimum capital efficiency are vital for success & continued survival of banks (Katrodia, 2011).

Corporate governance of banks looks like to be more important than other industries. The reason is that the banking sector plays a crucial financial intermediary role in any economy. Poor corporate governance of the banks can drive the market to lose confidence in the ability of a bank to properly manage its assets, liabilities and deposits. This may create liquidity crisis and then it might lead to economic crisis in a country .This could affect the whole society at a large (Gowd *et al.*, 2013).

The survey of the existing literature indicates that there is limited no of comprehensive study on Corporate Governance of Banks in India. Research in the area of Corporate Governance of Banks in India is woefully inadequate. Only few papers and articles have been found on the matter of Corporate Governance of Banks in India .The regrettable point is that Corporate Governance of Banks are not capable to draw the attention of the researchers to any noticeable extent.

There is a considerable gap in the research area associated with the regulation, quality, issues and policies relating to Corporate Governance of Banks in India. There is also an extensive gap in the Accountability, Transparency and Ethics followed by different Banks of India. There is considerable variance in practices of corporate governance being followed by the different banks in India. Hence, a comprehensive study incorporating the above issues is felt necessary. Against this background, it is proposed to study the regulation, governance quality, accountability, transparency, ethics, issues and policies relating to Corporate Governance of different Banks of India.

Research Methodology

The study is based on secondary data. Therefore, in the course of analyzing the Corporate Governance of different Banks in India, a variety of text and references books, different Publications, press release and other published and unpublished documents relating to the study have been considered. The data and information have been collected from various websites as well. The books have studied on corporate governance of banks and then adequate number of information have been selected and analyzed carefully.

To know the present status of Asian Governance Regimes, Eight Asian countries have been selected. These countries are China, Hong-Kong, Indonesia, India, Korea, Malaysia, Singapore, and Thailand. While selecting the Eight Asian countries, due considerations have given on location, geography, size of the markets, etc. The data regarding to Asian Governance has collected from CLSA Asia-Pacific Markets: Asian Corporate Governance Association, available at *www.acgs.asia.org*.

The sample of study comprises of four different banks operating in India. These banks have been selected on the ground that they are renowned banks in the banking sector in India, and their scripts practically dictate the movement of the stock market in the country. Out of four banks, two are selected from private sectors and two are selected from public sectors. These banks are State Bank of India, Punjab National Bank (PNB), Industrial Credit and Investment Corporation of India (ICICI) Bank and Housing Development Finance Corporation (HDFC) Bank. The annual reports of different banks have analyzed to evaluate the structure and procedure of corporate governance adopted by banks in India.

The collected data have been analyzed and presented in different sections in a tabular form and percentage form, as and where necessary. To make the study more comprehensible, it has divided into four sections:

Section-I: Introduction, Need of Corporate Governance of Banks in India

Section II: Literature Review, Research Methodology

Section-III: Results and Discussions: Corporate Governance Regimes of Banks in Asian Countries with India, Regulation of corporate governance of banks in India, Corporate Governance in different Banks of India, Reasons for failures of corporate governance in Banks,

Section-IV: Enhancement of corporate Governance for banking organizations.

Section-V: Conclusion

III. RESULTS AND DISCUSSIONS

Corporate Governance Regimes of Banks in Asian Countries with India

Corporate governance has been on the pinnacle priority of Asian countries with most markets introducing comprehensive regulations. Even if, it cannot be called a fully pleased accomplishment from the evidence of its achievements, but the philosophy of corporate governance is yet to come out fully. The Asian financial crisis proved that conventional corporate governance mechanisms can have limited effectiveness in systems with weak institutions and poor property rights .Considering the importance of this matter, Asian Corporate Governance Association (ACGA) has made a report during 2004-05. The report is basically based on the state of affairs of corporate governance in Asian markets, focusing on some key determinants behind assessing corporate governance standards such as rules and regulations, enforcement, political and regulatory environment, the adoption of international accounting standards, and corporate governance culture (Deb, 2012). The Asian Government Regimes for Eight countries for the key determinants of rules and regulations, international accounting and auditing standards are as follows (Table 1):

The systemic changes in corporate governance in Asia over the past two years are more positive than negative. The main findings of Asian Corporate Governance Association, 2012 were: (i) Rising markets are mostly in Southeast and South Asia, including Singapore, Thailand, Malaysia, India, and the Philippines., (ii) Falling markets are mostly in North Asia, including: Japan, Taiwan and China., (iii) Hong Kong rose slightly, but remained second in the rankings after Singapore., (iv). Korea rebounded from its low base., (v) Indonesia slipped back (again) to the bottom of the survey (Asian Corporate Governance Association, 2012). In Asian countries, it is found that while government ownership does offer core strength to banks, the structural inefficiencies and lack of management autonomy appears to have weakened the ability of our public banks to compete effectively in the current market situation

During the last few years, Public Sector banks of Asia are slowly getting corporatized and consequently corporate governance issues in banks assumes greater significance in the coming years. Corporate governance facilitates Asia in terms of bringing more transparency and overall growth in banking sector. On the other hand, Asian crisis has shown that poor corporate governance contributed to the collapse of many banks and corporate firms in Thailand, Malaysia, South Korea and Indonesia. Since then, there has been a genuine effort to improve corporate governance in the crisis ridden countries (Jhonson, 2000).

Regulation of corporate governance of banks in India

The objectives of good Corporate Governance are to make sure commitment of the board in managing the company in a transparent manner. The good governance also makes best use of the long- term value of the company for its shareholders and all other partners. It integrates all the contributors involved in a process, which are both economic and social. The elementary objective of corporate governance is

Table 1
Asian Governance Regimes

Sl. No.	*CLSA/ACGA Country" Ranking Criteria*	*China*	*Hong-kong*	*India*	*Indone-sia*	*Korea*	*Malay-sia*	*Singa-pore*	*Thai-land*
(A) Rules and Regulations									
1	Most companies reports their annual results within 2 months?	N	N	N	Y	N	Y	Y	Y
2	Have reporting deadlines been shortened in the past 3 years?	N	N	Y	Y	N	Y	Y	S
3	Is quarterly reporting mandatory?	S	N	Y	Y	Y	Y	Y	Y
4	Do securities laws requires disclosure of ownership stakes above 5%	Y	Y	Y	S	Y	Y	Y	Y
5	Do securities laws require prompt disclosureof share transactions by directors andControlling shareholders?	Y	Y	Y	N	Y	Y	Y	Y
6	Are class-action lawsuits permitted?	S	N	N	N	Y	N	N	N
7	Is voting by poll mandatory for resolutions at AGMs?	N	S	N	N	N	N	N	N
8	Can shareholders easily remove a director who has been convicted of fraud or other serious corporate crimes?	S	S	N	S	N	S	Y	N
9	Will share option expensing become mandatory over the next 10 month?	N	Y	S	S	N	N	Y	N
(B) Accounting and Auditing									
1	Do the rules require disclosure of Consolidated accounts?	Y	Y	Y	Y	Y	Y	Y	Y
2	Do the rules require segment reporting?	Y	Y	Y	S	Y	Y	Y	Y
3	Do the rules require disclosure of audit and Non-audit fees paid to the external auditor?	Y	Y	Y	N	Y	Y	S	Y
4	Does the Government or the Accounting Regulator has policy of followingInternational standards on auditing?	Y	Y	S	S	S	Y	Y	Y

Source: Design by author, collected from, CLSA Asia-Pacific Markets: Asian Corporate Governance Association, Available from, *www.acgs.asia.org* to enhance shareholders' value and protect the interests of other stakeholders by improving the corporate performance, transparency and accountability (Corporate-Governance-in-India-Concept-Course-of-Action-and-Compliance, 2012).

The organizational framework for corporate governance initiatives in India consists of the Confederation of Indian Industry (CII), the Ministry of Corporate Affairs (MCA), and the Securities and Exchange Board of India (SEBI). MCA is the key authority for regulating and promoting efficient, transparent and accountable form of corporate governance in the Indian corporate sector. In 1998, CII, "India's premier business association," unveiled India's first code of corporate governance (Bhat & Varun, 2007). Soon after, SEBI selected and appointed the Kumar Mangalam Birla Committee to design the code of corporate governance. In 2000, SEBI accepted the proposals of the Kumar Mangalam Birla Committee and introduced Clause 49 into the Listing Agreement of Stock Exchanges. In 2003, SEBI set up the N.R. Narayan Murthy Committee to scrutinize India's corporate-governance framework and to enhance its effectiveness. SEBI has since included the recommendations of the N.R. Narayan Murthy Committee, and the latest revisions to Clause 49 became law on January 1, 2006 (Bihari, 2012).

The Legal framework for corporate governance consists of two components : i) Company Laws: MCA (Ministry of Corporate Affairs) play the vital role for regulating the entire corporate structure and for dealing with various aspects of governance in companies are Companies Act, 1956 and Companies Bill, 2004. These laws had been initiated and amended, from time to time, to bring more transparency and accountability in the provisions of corporate governance. ii) SEBI Laws: Corporate Governance is the key objective of the regulatory framework in the securities market. Accordingly, Securities and Exchange Board of India (SEBI) has made several efforts with a view to assess the adequacy of existing corporate governance practices in the country. It is implementing and maintain the standards of corporate governance through the use of its legal and regulatory framework (namely, The Securities Contracts (Regulation) Act, 1956, Securities and Exchange Board of India Act, 1992 and the Depositories Act, 1996).

The banking industry is one of the most synchronized industries in India. Since, 1991 the banking industry has experienced a stable phased deregulation. A number of restructuring have been initiated in this sector. Today, the public sector banks (PSBs) which earlier provided simple services are competing with a large number of private banks and foreign banks which utilize different innovative approaches and high-quality services. (Bihari, 2012). However, regulation and Corporate Governance of Banks in India were extremely difficult. Regulation and Corporate Governance of Banks are as follows: 1) Regulation has historically had a significant function in the evolution of corporate governance principles in the banking industry of India. Regulation can set off good corporate governance, but cannot substitute for it. 2) India has effected minor structural changes to improve the functioning of their financial institutions, to ensure the robustness of their risk management systems and to make their operations more transparent. 3) While regulation has a role to play in ensuring robust corporate standards in banks of India, the point to recognize is that effective regulation is a necessary, but not a sufficient condition for good corporate governance. Regulation can establish principles and lay down rules but the motivation to implement these principles and rules in their true spirit is a matter of Bank culture. (Subbarao D, 2011).

Status of Corporate Governance in different Banks of India

In the content of corporate governance, the Indian banking sector has a special role to play. Corporate Governance of Banks is unlike from other Corporate. The basic reasons are: (i). corporate governance of banks not only different but also more critical. Banks lubricate the circle of the real economy, are the conduits of monetary policy transmission and constitute the economy's payment and settlement system. By the nature of their business, banks are highly leveraged; they acknowledge large amounts of uncollateralized public funds as deposits in a fiduciary capacity and further leverage those funds through credit creation. The presence of a dispersed base of depositors in the stakeholders group sets banks apart from other corporate. (ii). Banks are interconnected in diverse, complex and oftentimes opaque ways underscoring their 'contagion' potential. If a corporate fails, the fallout can be restricted to the stakeholders. But the important point is that if a bank fails, the impact can spread rapidly through to other banks with potentially serious consequences for the entire financial system and the macro economy (Bihari, 2012).

The corporate governance practice is imperative for banks in India because majority of the banks are in public sector. Moreover, with restrictive support available from the Government for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership. The banks form a fundamental and integral part of the economy of the country. Any failure in a bank might have a direct bearing on the financial health of the country. The Basel committee on banking regulatory and supervisory authorities was established by the Central Bank Governors of the G10 developed countries in 1975. The Basel committee in the year 1999 had brought out certain essential principles on corporate governance for banking organizations which, more or less have been adopted in India. The minimum impact of recession on Indian economy was because of strong and effective nature of banking sector in India (Chilumuri, 2013). The status of corporate governance of four different banks (SBI, PNB, HDFC and ICICI) in India is as follows:

State Bank of India: This bank is the country's largest commercial bank in terms of profits, assets, deposits, branches and employees. State Bank group has a presence in 33 countries and wide network of more than 18,000 branches and 26,000 plus ATMs and 100 million accounts throughout the country. The bank has 5 Associate banks and 7 subsidiaries arguably the largest in the world. With millions of customers across the country, SBI offers a complete range of various banking products and services with cutting edge technology .The bank is committed to the best practices in the field of sound corporate governance. The sound corporate governance practice in this bank would lead to effective and more meaningful supervision and could contribute to a collaborative working relationship between bank management and bank supervisors (Chilumuri, 2013).

State Bank of India**,** improve management transparency and corporate governance.SBI recognizes that one of its most crucial Initiatives for Strengthening Corporate Governance management tasks is to build and maintain an organizational structure capable of responding quickly to changes in the business environment. The Bank Holdings' Board of Directors consists of 13 directors (as of June 27, 2008), and the bank has adopted the Executive Officer System to simplify and clarify the functions & responsibilities of Directors. Currently, 11 executive officers supervise and manage the execution of business affairs. These officers include the CEO (Chief Executive Officer) and Chief Financial Officer (CFO), as well as nine executive officers who manage each business division. SBI has built a flexible structure for executing business affairs that also facilitates quick responses to changes in the business environment. The Board of Directors convenes once per month to decide on relevant matters, and to scrutinize the status and progress regarding the execution of business operations. With four corporate auditors, the company strives to further support the effectiveness of its corporate governance through systematically combining various types of audits Department (Bihari, 2012).

Disclosure and transparency are the most important pillars of a corporate governance framework enabling adequate information flow to various stakeholders .The SBI was implementing all the provisions of corporate governance and disclosure in the important and confidential information. Table 2 & 3 shows confidential information of this bank as a part of transparent disclosure of information.

In the primary segment, the treasury segment includes the entire investment portfolio and trading in foreign exchange contracts and derivative contracts. The corporate /whole sale banking segment comprises the lending activities of corporate accounts group, mid-corporate account group and stressed assets management group. The retail banking segment comprises of branches in national

Table 2
SBI Primary Business Segments during 2011-12 &92010-11)(Rs. In crores)

	Primary Business Segment							
Business Segment	*(2011-12)*				*(2010-2011)*			
	Treasury	*Corporate /Whole sale Banking*	*Retail Banking*	*Total*	*Treasury*	*Corporate /Whole sale Banking*	*Retail*	*Total*
Revenue	23,874	42,773	54,091	1,20,739	21,665	32,935	42,062	96,662
Segment Assets	3,35,016	3,94,421	5,95,182	13,24,621	3,10,524	3,81,320	5,22,699	12,14,544
Segment Liabilities	1,96,222	3,81,202	6,28,479	12,05,903	1,62,149	3,67,495	5,85,015	11,14,659

Source: Design by author, collected from, Chilumuri, Srinivasa Rao (2013), "Corporate Governance in Banking Sector: A Case study of State Bank of India", Journal of Business and Management, 8, No. 1, pp. 15-20.

banking group, which primarily includes personal banking activities including lending activities to corporate customers. SBI Geographic Business Segments during (2011-12) & (2010-11) are as follows:

Table 3
SBI Geographic Business Segments during (2011-12) & (2010-11) (Rs. In crores)

Business			*Geographic Segments*			
Segment	*Domestic*	*Foreign*	*Total*	*Domestic*	*Foreign*	*Total*
Revenue	1,14,080	6,659	1,20,739	91,086	5,576	96,662
Segment Assets	11,55,176	1,80,342	13,24,621	10,82,387	1,41,348	12,14,544
Segment Liabilities	10,71,225	1,80,342	12,05,903	10,17,401	1,41,348	11,14,659

Source: Design by author, collected from, Chilumuri, Srinivasa Rao (2013), "Corporate Governance in Banking Sector: A Case study of State Bank of India", Journal of Business and Management, 8, No -1, pp -15-20

In this segment, domestic operations are branches/ offices having operations in India. Foreign operations are branches/offices having operations outside the country and offshore banking units having operations in India. The table-2 explains the revenue, assets and liabilities based on primary business segment with explaining treasury, corporate/wholesale banking and retail banking. Table-3, explains the geographic segment explains domestic and foreign areas performance during 2010-11 and 2011-12.

SBI is executing all the provisions of corporate governance according to the RBI/GOI directions. It is found that State Bank of India, the country's largest commercial bank, performed well in every facet in terms of profits, assets, deposits, branches, employees and services to customers. The corporate governance practice in the bank should further improve for best investment policies, appropriate internal control systems, better credit risk management, better customer service, transparency and maximization of stakeholder s value and wealth (Chilumuri, 2013).

Punjab National Bank (PNB): Punjab National Bank (PNB) was initially incorporated under the Indian Companies Act, 1882 (Act VI of 1882) in 1894 as Punjab National Bank Limited. The remarkable point is that Post nationalization in 1969, PNB has grown significantly in size and stature. The bank with over 6,000 branches and 6,698 ATMs (March 31, 2014) catering to a customer base of about 8.7 crore throughout the country. It is one of India's largest nationalized banks in terms of trade and number of branches. The GOI has been supporting PSBs including PNB with regular capital infusions. During 2013, GoI infused Rs.1, 248 crore of fresh equity in the bank. Moreover, during 2014, the Government was given 8,596,530 equity shares on preferential allotment in December 2013 increasing their shareholding to 58.87% from 57.87%.

The assigned CGR rating reveal PNB's transparent ownership structure marked by majority ownership with the Government of India (GOI), satisfactory Board processes & performance monitoring by the management. The rating also factors prudent disclosures to shareholders and depositors and definite organizational structure with qualified & experienced professionals at both the board level as well as other key positions in the Bank. The rating is however, constrained by systemic and structural issues facing Public Sector Banks characterized by, amongst others, limited managerial autonomy and susceptibility to state intervention in policy decisions of the bank. The key point is that Most of the members of Board of Directors of PNB are appointed/ nominated by the GoI. Moreover, PNB had 19 board level committees including Audit Committee, Remuneration Committee, Shareholder Grievances Committee and Management Committee (Care Assigns, Corporate Governance Rating to Punjab National Bank, 2013).

HDFC bank: HDFC Bank recognizes the significance of good corporate governance, which is generally accepted as a key factor in attaining fairness for all stakeholders. Corporate Governance Policy, therefore, is established to provide a direction and framework for managing and monitoring the bank in accordance with the principles of good quality of corporate governance. The Bank has infused the philosophy of corporate governance into all its activities. The philosophy of the bank is shareholder protection and maximization of their long term values.

The composition of the Board of Directors of the Bank is governed by the provisions of the Companies Act, 1956, the Banking Regulation Act, 1949 and the listing requirements of the Indian Stock Exchanges. The Board has eleven (11) Directors (as on March 31, 2014). All Directors, except three are non-executive directors. The Bank has six (6) independent directors and five (5) non-independent directors. None of the Directors on the Board, is a member of more than ten (10) Committees and Chairman of more than five (5) Committees across all the companies in which he / she is a Director. As requisite by the listing agreement, all the Directors have made necessary disclosures regarding Committee positions occupied by them in other companies.

The dividend policy has balanced the dual objectives of appropriately rewarding shareholders through dividends and retaining capital in order to maintain a healthy capital adequacy ratio to support future growth. It had a consistent track record of dividend declarations. Details of dividend declared by the Bank (2005-06 to 2013-14) are as follows (Table 4):

Table 4
Dividend declared by the HDFC Bank (2005-06 to 2013-14)

Sl. No.	*Year*	*Dividend*	*Remarks*
1	2013-2014	342.5%	Increases
2	2012-2013	275%	Increases
3	2011-2012	215%	Increases
4	2010-2011	165%	Increases
5	2009-2010	120%	Increases
6	2008-2009	100%	Increases
7	2007-2008	85%	Increases
8	2006-2007	70%	Increases
9	2005 - 2006	55%	Increases

Source: Corporate Governance,-HDFC Bank, Available from *http://www.hdfcbank.com/aboutus/cg/Corporate_Governance.htm*

The HDFC bank believes in adopting the best recognized corporate governance practices and continuously benchmarking itself against each practice. The bank understands and respects its fiduciary role and responsibility to shareholders. The bank trust the best board practices, transparent disclosures and shareholder empowerment are necessary for creating shareholder value. The bank has infused the philosophy of sound corporate governance into all its activities. The bank values the ethical business standard very highly and intends adherence thereto in every sector of the business (Bihari, 2012).

The bank was amongst the first four companies, which subjected itself to a Corporate Governance and Value Creation rating by the rating agency, The Credit

Rating Information Services of India Limited (CRISIL). The rating provides an independent appraisal of an entity's current performance and an expectation on its "balanced value creation and corporate governance practices" in future. The bank has been assigned a 'CRISIL GVC Level 1' rating for the next (second) consecutive year, which indicates that the bank's capability with respect to wealth creation for all its stakeholders, while adopting sound corporate governance practices is the highest.

ICICI BANK: It is the second largest bank in India in terms of assets and market capitalization. It offers a ample range of banking products and financial services for corporate and retail customers through a variety of delivery channels and specialized subsidiaries in the areas of investment banking, life, general HYPERLINK "http://en.wikipedia.org/wiki/Non-life_insurance"insurance, venture capital ,asset management etc.. The Bank has a network of 3,800 branches and 11,162. ATMs in India, and has a existence in 19 countries (Corporate Governance, 2012)

Corporate governance policies of HDFC recognize the accountability of the Board and the importance of its decisions to all our constituents, including customers, investors, employees and the regulatory authorities, and to demonstrate that the shareholders are the cause of and ultimate beneficiaries of country's economic activities. The functions of the Board and the executive management are well-defined and are different from one another. A series of steps have taken including the setting up of sub-committees of the Board to oversee the functions of executive management. These sub-committees of the Board which mainly consists of non-executive directors meet regularly to discharge their objectives (Bihari, 2012).

The Company is proficiently managed through the Board of Directors and committees of the Board. The Company ensures sound governance through the implementation of effective policies and procedures, which are regularly reviewed by the Board or the committee of the Board. In view of the RBI Guidelines, the Company further lays down the following set of guidelines: (a) the affairs of the Company shall be conducted with integrity, fairness, accountability and transparency. (b) The Board of Directors of the Company shall have right mix of executive and non- executive directors and independent Directors.(c) With the objective of attaining accountability, transparency and fairness, the various committees like Audit Committee, Risk Management Committee, Nomination Committee, Operations Committee, are constituted (d) The Board and the Audit Committee, Risk Management Committee shall meet at quarterly intervals and more frequently, if deemed necessary to conduct its business. (e). The performance reports pertaining to various businesses, internal / external audit reports, Reports on Capital Adequacy, Compliance Reports shall be placed before the respective committees on a periodic basis. (f)The Company shall file all the periodic regulatory returns in prescribed time limit and make transparent disclosures to the Board / Committees / Regulators.

Reasons for failures of corporate governance in Banks

Sometimes ,it is complicated for the Board to ask tough questions or at other times the right questions at the right time in order to serve the interests of the shareholders better .That's why, truly independent directors are rarely found in Indian companies (Murali, 2010). Serving on multiple boards is problematical because doing so can overburden directors, thus hampering their performance, and increase the potential for directors to experience conflicts of interest between the various corporations they serve . In few cases, it has been found that no proper training and orientation regarding the awareness of rights, responsibilities, duties and liabilities of the directors is provided to an individual before appointing him/her as a director in the Board. The directors on the board are mostly reliant on information from the management and auditors, with their capacity to independently verify financial information being quite limited, while auditors, as this case suggests, have also been equally reliant on management information. The significant issue here is the extent and the depth of auditors' effort in their exercise of due diligence. Excessive reliance on information from the management is symptomatic of the ownership or control of companies in India by business families, and that poses a particular challenge for corporate governance in India (Bhat & Varun, 2007).

The greatest problem of financial disclosures in India is the absence of detailed reporting on related party transactions. In addition, poor quality of consolidated accounting and segment reporting leads to misrepresentation of the true picture of a business group. Although, India's investor-protection laws are sophisticated, litigants must wait a long time before receiving a judgment .Delays in the delivery of verdicts, high costs of litigation and the lengthy judicial appointment process in courts make the lawful enforcement mechanism ineffective (Bhat & Varun, 2007).

In India, the two audit-related issues which are generally recognized are that of auditor independence, because of the large if segmented market in accounting services, and the perceived powerlessness of auditors in the face of corporate pressure. In lots of cases, they are ill-equipped to handle the needs of big companies, because in the face of an audit failure, it is extremely difficult to discern whether the auditors were complacent or they were pressurized by the concerted efforts of the insiders (Ravi, 2007). There is no appropriate system to supervise the work of audit firms or to review the accounts prepared by the company's statutory auditors.

Sometimes, there is unseen but the active participation of political class and for that also sound governance is exaggerated.

India has one of the best corporate governance laws but due to poor implementation together with socialistic policies has affected corporate governance in banking sector also. Indeed, banks and other financial companies may lose large amounts of money in a short period, in the case of events such as fraud. In addition, poor corporate governance can lead markets to lose confidence in the ability of a bank to properly manage its assets and liabilities, including deposits, which could in turn trigger a liquidity crisis or a run on deposits. It is found that banks usually have access to confidential customer information, which can potentially be misused by employees for personal gains (Bihari, 2012). On the other hand, the incentive system, loan recovery policy etc., are responsible for serious financial crisis in India. But, positive sign is that, since liberalization, however, serious efforts have been made at overhauling the system with the SEBI instituting the Clause 49 of the Listing Agreements dealing with good corporate governance. The admirable point is that corporate governance of Indian banks is also undergoing a process of change with a move towards more market-based governance.

IV. ENHANCEMENT OF CORPORATE GOVERNANCE FOR BANKING ORGANIZATIONS

Corporate governance helps in running corporate bodies in the more effective ways. Several Indian Companies like Pepsi, Infosys's,, Tata, Wipro, TCS, and Reliance are some of the global giants which have their flag of success flying high in the sky due to high-quality corporate governance .Corporate governance should also have approach of holistic sight, value based governance, should be committed towards corporate social upliftment, social responsibility and environment protection. It also involves creative, generative, constructive and positive things that add value to the various stakeholders that are served as customers. Be it finance, taxation, accounts, audits, banking or legal framework each and every place requires sound corporate governance (Soni, 2011).

Given the important financial intermediation role of banks in an economy, their high degree of sensitivity to potential difficulties arising from unproductive and ineffective corporate governance and the need to safeguard depositors' funds, corporate governance for banking organizations is of great importance to the international financial system and merits targeted supervisory guidance. The Basel Committee on Banking Supervision published guidance in 1999 to support banking supervisors in promoting the adoption of good corporate governance practices by banking organizations in their countries. It is found that this guidance refers to a governance structure composed of a board of directors and senior management.

The Committee recognizes that there are remarkable differences in the legislative and regulatory frameworks across countries as regards the functions of the board of directors and senior management. The Basel Committee recommendations can be implement for better corporate governance of Indian Banks.

Indian banking system consists of Public/Private sector banks having a basic difference between them as far as the Reserve Bank's role in governance matters pertinent to banking is concerned. The current regulatory structure ensures, by and large, homogeneous treatment of private and PSBs in so far as prudential aspects are concerned. However, a few of the governance aspects of PSBs, though they have a bearing on prudential aspects, are let off from applicability of the relevant provisions of the Banking Regulation Act, as they are governed by the respective legislations under which various PSBs were set up. In short, therefore, the approach of RBI has been to ensure, to the extent possible, uniform treatment of the PSBs and the private sector banks in view to prudential regulations (Corporate Governance in Banks in India, 2010).

Good corporate governance requires suitable and effective legal, regulatory and institutional foundations. An assortment of factors, including the system of business laws and accounting standards, can affect market integrity and overall economic performance. These factors, however, are often outside the scope of banking supervision. Supervisors are nevertheless encouraged to be aware of legal and institutional impediments to sound corporate governance, and to take steps to foster effective foundations for good corporate governance (Basel Committee on Banking Supervision, 2006).

The future lessons of corporate governance may provide suggestive agenda to PSBs to strengthen them to eventually imbibe global best practices, needed more in the context of integration of Indian banking system and with the rest of the world. Corporate governance in PSBs is more challenging as they are directed by the government on one side and RBI & SEBI on the other side. With banks now forging into other wealth management areas covering insurance and sale of third party products, many other regulators may also enter their domain. Balancing the needs and prescriptions of different regulators calls for enhanced prudence and stable ethical policies so that stake holder's interest is protected. The directors will have to play a restrained role to prevent any over governance (Corporate Governance in Banks in India, 2010).

The top level management and board of directors constantly work towards improving the quality of corporate governance in PSBs. One of the chief factors that impinge directly on the quality of corporate governance is the government ownership. It is desirable that all the banks are brought under a single act so that the corporate governance regimes do not have to be different just because the entities are covered under multiple Acts of the Parliament or that their ownership is in the private or public sector. The ownership of banks and accountability to run them should vest preferably with single agency. The future challenges will unfold a range of transformation in the system of corporate governance so that the quality of performance of banks and public confidence is maintained high (Corporate Governance in Banks in India, 2010).

V. CONCLUSION

The actual success of our financial sector reforms and regulations depend primarily on the organizational efficiency and effectiveness of the banks, for which initiatives will have to come from the banks themselves. At the present situation, Indian banking markets, banks can no longer look at corporate governance simply as a code of doing business but must utilize it as a tool lower risk and enhance shareholder value. There need to be a right balance between regulatory and voluntary corporate governance requirements. Again, good corporate governance system cannot merely be legislated by law, neither can any system of corporate governance be static. As competition increases, the environment in which companies operate also changes and in such a dynamic environment the systems of corporate governance need to evolve in banks. Banking supervision cannot work effectively, if sound corporate governance is not in place. Only sound corporate governance makes the work of supervisors infinitely easier. Sound corporate governance can provide to a mutual working relationship between bank management and bank supervisors. In different banks of India, this time require the well functioning Board, greater disclosure, better management practices, and a more open, interactive and dynamic corporate governance environment. Indian banks need to follow all the standards of corporate governance practices for attracting more investors.

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