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Corporate Governance in Banking Sector in India

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Abstract - Corporate Governance has become a "buzz word" nowadays. All thanks to Liberalization and globalization that have led to the renaissance of the concept of Corporate Governance all across the globe. It is based on the dictum of accountability, transparency and quality. Banking as is different from other forms of business has commonly been treated as a matter of public interest given its overall importance to the economy both in regard to its linkages with the real sector and for providing a payments and settlement system. The constant efforts made by the Reserve Bank of India and the government to improve the state of governance in banking sector cannot be said to be nugatory but its efficiency is still surrounded by questions. This paper critically analyses the existing governance practices in the banks across the country in the light of the financial position of the banks in the last decade elaborating on the issues of governance in banks and the consequences the banks are facing on account of poor corporate governance in the banking industry. It also examines the viability of the existing legislative framework and the efficiency of the actions taken with regards to governance by the regulatory authorities.

Keywords - Corporate governance, economic crisis, regulatory bodies, legislative framework, etc.

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INTRODUCTION

The term "Corporate Governance" refers to a set of standards, which aim at improving the organization's image, productivity, adequacy and moral responsibility. It essentially relies on complete transparency, integrity and accountability of the management with an increasing attention on investor protection and public interest. The relevant works on corporate governance in its more extensive implication covers a range of issues, for example, protection of investors' rights and improving their worth, Board issues involving the matters related to its composition androle, disclosure requirements, integrity of accounting practices, the control mechanisms, especiallythe ones controlling internally.

In the words of Sir Adrian Cadbury, *"Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations, and society."*[1]

According to N.R. Narayana Murthy, Chairman, Committee on Corporate Governance, SEBI, "*The term 'corporate governance' is susceptible both to broad and narrow definitions. In fact, many of the codes do not even attempt to articulate what is encompassed by the term. The important point is that corporate governance is a concept, rather than an individual instrument. It includes debate on the appropriate management and control structures of a company. Further it includes the rules relating to the power relations between owners, the Board of Directors, management and, last but not least, the stakeholders such as employees, suppliers, customers and the public at large.*"[2]

So from the above it can be concluded that *Corporate Governance* is a system that includes the structures, processes, cultures that engender the successful operation of organizations.[3] In more extensive sense, it means to guard, promote and balance the interests of all stakeholders, shareholders, customers, employees, society, environment, and so on. As far as maintaining the high standards of corporate governance are concerned, the central role is played by the *Board of Directors*. It is accountable to the stakeholders and directs and controls the management. It

[1] Financial Reporting Council, London Stock Exchange, UK, "Cadbury Report on The Financial Aspects of CorporateGovernance", 14 (December, 1992)

[2] SEBI, India "Report of SEBI Committee on Corporate Governance", 5 (February, 2003).

[3] Md. Baharul Islam, "Corporate Governance in India: An Overview" 2 *International Journal of Law and LegalJurisprudence* 2 (2015).

stewards the organization, sets its strategic aim and financial goals and oversees their implementation. The *management* on the other hand has the responsibility to undertake the task of managing of the organization in accordance with the directions provided by the board, to set up an adequate controlling system and ensure their operation and to further provide information to the board on a timely basis and in a transparent manner to enable the board to monitor the accountability of management to it.

GENESIS OF CORPORATE GOVERNANCE

The genesis of the term corporate governance can be traced back to the late 1980's at the time when the *Watergate Scandal* in the USA came into limelight in which several companies had collapsed in U.K. because of inadequacy of operating control. *Cadbury Committee* set up in May 1991 by the London Stock Exchange under the chairmanship of *Sir Adrian Cadbury* came up with the concept of "*code of best practices*" wherein it spelt out the methods of governance needed such as regular meetings of Board of Directors, retaining of full and effective control over the company, monitoring the executive management, balance of powers of decision, etc.[4]

In India, the need for better corporate governance and disclosure norms was felt due to the string of scams and scandals that shook the country post 1990. Also, liberalization resulted in massive international competition. This also forced companies and financial institutions to adopt best standards. Since the mid- 1990s several major corporate governance initiatives have been launched in India such as- the first voluntary code of corporate governance by was by the *Confederation of Indian Industry (CII)* in 1998; the second major corporate governance initiative in the country was undertaken by *SEBI* by setting up of the *Kumar Mangalam Birla Committee* in the early 1990 thatresulted in incorporated into *Clause 49* of the Listing Agreement of the Stock Exchanges which was time and again revised followed by the *Naresh Chandra Committee*, appointed in August 2002 by the *Department of Company Affairs (DCA)* under the *Ministry of Finance and Company Affairs*to examine various corporate governance issues; constitution of *CII Taskforce on Corporate Governance* and the *Corporate Governance Voluntary Guidelines* of 2009.[5]

CORPORATE GOVERNANCE IN BANKING SECTOR

No doubt, the initiatives taken to introduce the concept of corporate governance apply to all the cooperatives whether financial or non- financial in general. But the key question here is that can banks be put at par with other cooperatives where clearly the banking sector requires higher degrees of governance in comparison to other cooperatives. The corporate governance in banks is quite different and unique from that of other cooperatives. There are certain *factors*[6] that make corporate governance in banks even more important than in any other companies and these are stated here below as follows:

- Unlike other corporations where shareholders are the main stakeholders, a bank's *main stakeholders are the depositors* as a bank is a highly leveraged entity. The depositors' risk appetite is significantly less compared to that of its shareholders and management. So, it can be said that *banks are more of peoples' organizations rather than business enterprises* that adopt professional managerial systems like the other co-operatives.

- A bank is systemically important player, both as a participant in the payment and settlement systems, and as a counterparty to other banks and non-bank corporations. A *crisis in a bank spreads much faster within the system than a crisis in any other corporation.*

- Banks are the *main conduit for the flow of credit in the financial system*. The collapse of even a single bank can cause significant problems to its borrowers.

- A bank *deals in large volumes of cash and non- cash substitutes* and has a vast geographical presence; that makes it relatively difficult to control operations and exposesit to frauds.

- A bank has a *vast variety of on- balance and off- balance sheet exposures* that can escalatevery fast.

- A bank deals with *complex financial products*, the risks related to these products are difficult to identify and

[4] All About Corporate Governance in Banking Sector, *available at: https://blog.ipleaders.in/corporate-governance-in-the-banking-sector/* (last visited on 21st December 2018).

[5] Puneet Kaur, "Role of Corporate Governance in Indian Banking Sector" 5 *International Journal of Management andCommerce Innovations* 566-68 (2017).

[6] Nidhi Prabhu, "Role of Board of Directors in a Bank" 2 (CAFRAL, 2012).

measure.

- Technology is being increasingly used in the field of banking. While this improves the operating efficiency of banks, it also exposes banks to a *higher possibility of fraud* and other risks like model risk.

- Value judgments and management estimates are much more frequent and subjective in banks.

- *Process outsourcing* is an increasing reality in the field of banking, which leaves it with much less control over the systems and processes.

- The failure of a bank can potentially need taxpayer funds to be used for bailing it out.

- The *activities of the bank are less transparent* than other organizations and thus, it becomes difficult for shareholders and creditors to monitor the activities of the bank.

So, corporate governance in banking sector weighs very much due to very nature of banking transactions. The fact that there is high degree of corporate governance that needs to be ensured in case of Banking Institutions as compared to any other cooperative was realized a little later and it was then that the issue of corporate governance was taken up and introduced especially with regards to the Banking Industry by way of Banking Reforms.

EVOLUTION OF CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR

The initiatives taken up by the various institutions in India as mentioned earlier were meant to be observed by all co-operatives and there were a few regulatory guidelines that were specifically related corporate governance of banks before the banking reforms were made. In India,the first announcement in regard to corporate governance was made in the year 2001 by the then RBI Governor- *Dr. Bimal Jalan*. An *Advisory Group on Corporate Governance* was formed under the chairmanshipof *Dr. R.H. Patil* which looked into issues relating to corporate governance in banks in India and made recommendations to bring the governance standards in India at par with the best international standards such as the *BASEL NORMS* and *OECD Principles.* Another *Consultative Group* was constituted in November 2001 under the Chairmanship of *Dr. A.S. Ganguly*, basically, with a view to strengthen the internal supervisory role of the Boards in banks in India and its report was forwarded to all the Banks and the Government for consideration. Subsequently, the *Advisory Group on Banking Supervision* under the chairmanship of *Shri M.S. Verma* also submitted its report in January 2003. Keeping all these recommendations in view and the cross-country experience, the Reserve Bank of India initiated several measures to strengthen the corporate governance in the Indian banking sector in order to bring it at par with international standards.[7]

NEED & SIGNIFICANCE OF CORPORATE GOVERNANCE IN BANKING SECTOR

The reason, corporate governance has assumed augmented significance in our country is globalization, which brought with it mounting competition. Today, banks face a more competitive and highly volatile global environment than other organizations.

Banks 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 andliquidity available in difficult market conditions. Since banks are important players in the Indian financial system, special focus on the Corporate Governance in the banking sector becomes critical. Inadequate corporate governance standards in banks and financial institutions result into economic susceptibility. Detrimental developments taking place in one bank or financial institution can generate similar cyclical effects in other banks or financial institutions and so the efficiency of corporate governance cannot be compromised or taken lightly.

Banking sector plays an important role of managing funds and its circulation. They have access to capital market as well to maintain the statutory requirement of having sound *Capital Adequacy Ratio* (CAR) providing *easy access to finance*. In this manner this way they also have open-ended investors from the capital market as well as major shareholders. Attracting investors is one and retaining them is another. Good corporate governance is important factor in retaining existing investors and attracting new investors. The degree of adherence to the basic principles of governance such as transparency, accountability and integrity by the banks at the corporate level *enhances the confidence of the investors* of those banks as shareholders and potential investors require access to regular and reliable information in detail for them to assess the management. Investors believe that a bank with good governance will provide them a safe place for investmentand also give better returns.

An adequate and strong disclosure therefore helps to attract capital and maintain confidence of investors which calls for *qualitative governance standards which* include standards such as *internal controls*, *composition and role of the*

[7] *Id.* at 569-70

Board, disclosure standards and *risk management.* High-quality communications reduce investors' uncertainty about the accuracy and adequacy of information being disseminated and thereby help the firms to raise adequate capital at a competitive cost. Corporate governance can be useful in providing the *appropriate structure in any system* by placing right objectives and goals in front of the organization and helping the organization to attain these goals. Better system of internal control brings out better profit marginsfor the company thus resulting in *improved financial and operational performance*.[8]

ROLE PLAYERS IN BANKING SECTOR

Corporate Governance is among the wide ranging powers of *Reserve Bank of India (RBI)* to regulate the financial sector provided by the *Banking Regulation Act, 1949.* Corporate Governance mechanism of RBI follows a *three-pronged approach*[9]:

- *Prompt disclosure and transparency norms*
- *Off- site surveillance*
- *Timely appropriate corrective action*

Other *Corporate Governance Mechanisms* include:

a) Apart from the jurisdiction of *RBI,* an additional adherence to *Clause 49 of SEBI (LODR)*on corporate governance by the listed banks, Non-Banking Finance Companies and other financial intermediaries.

b) *Various circulars and notifications issued by the RBI* that provide guidelines on composition, qualification, independence and remuneration of Board of Directors; roles, responsibilities and training of Executive Directors; resolution of conflict of interest in the case of related party transactions; constitution of Nomination Committee, Risk Management Committee and the Audit Committee.

RBI performs the corporate governance function under the *Board for Financial Supervision* (*BFS*) who inspects and monitors the banks through its **CAMELS** approach[10]. BFS was constituted in *November 1994*, as a committee of the *Central Board of Directors of the Reserve Bank of India* under the *Reserve Bank of India (Board for Financial Supervision) Regulations, 1994* with a primary objective of undertaking consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers. Along with providing guidance to the RBI, BFS also looks after the *Department of Banking Supervision (DBS)*, *Department of Non- Banking Supervision (DNBS)* and the *Financial InstitutionDivision (FID)*, in terms of issuing necessary directions for important regulatory matters.

Some of the *functions of BFS*[11] are mentioned below as follows:

- Fine-tuning the supervisory processes adopted by the Bank for regulated entities;
- Introduction of off-site surveillance system to complement the on-site supervision ofregulated entities;
- Strengthening the statutory audit processes of banks and enlarging the role of auditors inthe supervisory process;
- Strengthening the internal defences within supervised institutions such as corporategovernance, internal control and audit functions, management information and risk control systems, review of housekeeping in banks;
- Introduction of supervisory rating system for banks and financial institutions;
- Supervision of overseas operations of Indian banks, consolidated supervision of banks;
- Technical assistance programme for cooperative banks;
- Introduction of scheme of Prompt Corrective Action Framework for weak banks;
- Guidance regarding fraud risk

[8] Hemali Chokshi, "Corporate Governance in Banking Sector- Indicating Transparency or Translucency" 2 *Law Mantra Journal* 89 (2015).

[9] V. Leeladhar, "Corporate Governance in Banks" *Reserve Bank of India Bulletin* 1104 (2004).

[10] Structure and Mechanism of Corporate Governance in the Indian Banking Sector, *available at*: https://shodhganga.inflibnet.ac.in/bitstream/10603/71108/12/12_chapter%204.pdf (last visited on December 12, 2018).

[11] Board for Financial Supervision, *available at*: https://www.rbi.org.in/Scripts/AboutusDisplay.aspx#FS (last visited on December 12, 2018).

management framework in banks;

- Introduction of risk- based supervision of banks;
- Introduction of an enforcement framework in respect of banks; Establishment of a credit registry in respect of large borrowers of supervisedinstitutions; and
- Setting up a subsidiary of RBI to take care of the IT requirements, including the cyber security needs of the Reserve Bank and its regulated entities, etc.

RBI and the Government of India play a direct role in bank governance through bank regulation and supervision. Both work hand in hand to ensure sound corporate governance practices in the Indian Banking Sector. The current regulatory framework gives the same treatment to private banks and public sector banks. However, where governance aspects are concerned, the RBI prescribes only the policy framework for the private sector banks unlike the public sector banks where it also forwards suggestions based on the same to the Government for its consideration.

Even though regulatory bodies around the globe define standards for corporate governance, it is the primary responsibility of the bank to develop sound corporate governance practices for itself as these regulatory agencies only lay external pressure on the banks through rules and regulations and this alone does not suffice, the banks also have to actively take part by establishing an internal governance mechanism. Internal corporate governance is about mechanism for the accountability, monitoring, and control of the management with respect to the use of resources and risk taking. The Board of Directors and the senior management and the various committees together have to come up with policies that are in accordance with the legislative framework and the guidelines provided from time to time vide notifications issued by the RBI.

RBI's INITIATIVES TOWARDS ENSURING GOOD CORPORATE GOVERNANCE

The Banking Sector in India has definitely not remained unaffected to the developments taking place worldwide and has keenly adopted as well as incorporated some of them in its own banking structure. The *Cadbury Committee's "Code of Best Practices,"*[12] the *OECD Principles on Corporate Governance*[13]- the first global initiative in this respect and the *BASEL Norms* and *guidelines with regards to corporate governance in the Banks*[14] are important milestones that have greatly influenced the governance laws of our country.

Basel Norms refer to broad supervisory standards formulated by the *BCBS*. "*Basel I*", adopted by India in *1999,* focused almost entirely on "*credit risk*" defining capital and structure of risk weights for banks. In *2004,* came the "*Basel II*" which was based on the three pillars viz., "*Capital Adequacy Requirements* (*CAR*)" aiming at developing a better risk management mechanism to monitor and manage all kinds of credit, market and operational risks. These norms in India and overseas are yet to be fully implemented. *Basel III* is a rather *comprehensive set of reform measures to strengthen the regulation, supervision and risk management, released in 2010 in response to the financial crisis of 2008.* These guidelines aim to *promote a more resilient banking system* by focusing on four vital banking parameters viz. *capital, leverage, funding* and *liquidity*. RBI implemented these guidelines in phases and aimed to wholly implement it by the end of financial year 2018-19. BCBS has recently proposed reforms, referred to as "*Basel IV*" that include updates in ways banks calculate their capital requirements with the aim of making outcomes more comparable across banks globally.[15]

Numbers of steps have been taken by the RBI during the recent years to enhance the usefulness of good corporategovernance and some of these are:

- RBI is *issued licenses* to more and more banks exercising its power to issue license under the Banking Regulation Act of 1949;[16]
- *Greater independence is now given to boards of Public Sector Banks*;
- The *nominee directors increasingly replaced by independent directors* with a view to increase professional representation on boards of Public Sector Banks and increase the level of

[12] Cadbury Report on The Financial Aspects of Corporate Governance, *available at*: http://cadbury.cjbs.archios.info/report (last visited on November 14, 2018).

[13] OECD (2015), *G20/OECD Principles of Corporate Governance*, OECD Publishing, Paris, *available at*: *http://dx.doi.org/10.1787/9789264236882-en* (last visited at December 26, 2018).

[14] Corporate Governance Principles for Banks, *available at*: https://www.bis.org/bcbs/publ/d328.htm (last visited onDecember 12, 2018).

[15] History of Basel Committee, *available at*: https://www.bis.org/bcbs/history.htm (last visited on November12, 2018).

[16] The Banking Regulation Act, 1949 (Act 10 of 1949), s. 22.

competence;

- [The coverage of information and the timelines of this information and analytical content has been expanded to ensure *greater transparency*;

- To achieve *operational transparency*, emphasis has been laid on deregulation and operational freedom;

- With the *abolition of minimum lending rates for co-operative banks*, it is incumbent on 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;

- The commercial banks in India are 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. Similar disclosures are adapted for the co-operative banks];[17]

- Timely *guidelines* have been issued by RBI with respect to corporate governance;

- *Dedicated Information Desks* manned by trained personnel in Central Office and in each Regional Office, under the direct oversight of the Regional Director are proposed to be setup to which the common person may approach either through mail or telephone or fax or in person to get information or to clarify doubts;

- [*Compensation structures* for key management personnel and whole-time directors is the latest additions;

- Mandate has been imposed on the *banks to disclose the actual NPAs* so that the problem of NPAs can be addressed];[18]

- The *"Corporate Governance Reforms 2.0"*[19] - most recent initiatives taken up by the RBI.

Some of the key proposals of these reforms have been mentioned below as follows:

- further *professionalizing the boards* of PSBs;

- *bringing in experts* in risk management, information technology and human resource management. One of the suggestions is to reconstitute the management committee of the board which takes decisions on large value loans;

- *strengthening the risk-management committee*, which should be given a mandate to set a definite matrix for various credit underwriting activities;

- to *firewall the audit committee* of the board so that full-time directors are not a part of it;

- *a nomination and remuneration committee (NRC)* should be set up in banks, along the lines suggested by the Companies Act, 2013;

- for state-run lenders termed **EASE** — *Enhanced Access and Service Excellence* — the government had directed PSBs to draw up a board-approved strategic vision consistent with their risk-appetite framework;

- lenders to develop more focused *Performance Management Systems (PMS)* to incentivize and fast-track the promotion of top performers;

- an *objective framework for performance evaluation* and this should redefine the contours of corporate governance in PSBs with a focus on transparency, accountability and skills.

ISSUES OF GOVERNANCE IN THE BANKING SECTOR IN INDIA

In recent past, the graph depicting the financial position of the banks across the country has not been smooth rather it is full of curves that represent the various challenges the banks had to face and circumstances the banks had to go through which had impact on the function of the banks. The announcement of demonetization by the government on 8th November, 2016 swayed the banking sector completely, changing the functioning of the banks, their products as well as the services provided by them. It did not simply end here, the re-emergence of the old problem of

[17] Id. at 7.
[18] Editorial, "RBI mulling new rules on Corporate Governance; wants bank to disclose more" *The Economic Times*,Nov. 23, 2019.
[19] Editorial, "Corporate Governance Reforms 2.0 all set to change the face of Public Sector Banks" *The Economic Times*, Jan. 22, 2019.

farm loan waivers added to the burden the banks had already been carrying on their shoulders. The bad loan ratio for agriculture loans has risen sharply ever since loan waivers began to be announced. The recent merger of the banks followed since they were facing credit problems. Credit and deposit growth in banks have recently been slow. High volumes of non-performing assets (NPAs) in banks have eroded their capital base, and restricted their ability to lend.

After this slowdown of the country's economy, the existing COVID-19 crisis seems to shake the banking sector still making the financial position of the banking sector in India in today's time frame from bad to worse. [Economic activities of the country have come to a halt since the nationwide lockdown has been announced by the Prime Minister, Narender Modi. A sharp deceleration in the manufacturing activities and akeen deterioration in business conditions is expected which, when we look at does not auger well for the Indian Banks. The banks have started displaying distress prompts to the investors. It is being planned to set aside a portion of the total credit available with the bank to fight the COVID- 19 situation in the country as the financial crisis is on rise currently. The industry is now witnessing big shoot in bad loans but this stress might not be felt during the moratorium period but this cocoon will not encircle for long and moratorium period will end soon and bring out the real picture. The companies and the individual borrowers are still not in a position to repay the loans.

So, banks remain highly risk averse and presently set off with less than 70% of their dimensions. It won't be wrong to say that the Indian banks are currently in "abyss" and they are not coming out of it anytime soon. The banking sector's health is dependent on how early the economy reclaims in the country.

Some of the major problems faced by Indian banks especially the Public Sector Banks are as follows:

- Large Over-Dues
- Non-Performing Assets
- Advance to Priority Sector
- Competition from Non-Banking Financial Institution
- Gap between Promise and Performance
- Bank Frauds
- Compliance Issues

CONCLUSION AND SUGGESTIONS

The financial position of the banks in recent past has not been so good which can be clearly reflected from the headlines on *frauds*, *increasing NPAs,* etc. and it can be attributed to the *poor risk management systems and non- compliance with disclosure requirements* i.e., *lack of good governance practices in the banking system in the country*. The issues of governance have always been the same such as ownership issues, extent of disclosure, poor risk management, redressal mechanisms and so and the suggestions and recommendations have also always been the same, guidelines issued but we still stand in the same place because of non- compliance which is the root cause of every failed attempt that we have made towards improving governance standards in the banks. In the midst of the economic slowdown in the country we still somehow managed to attain financial stability in banks, controlled the *NPAs* to some extent but the recently struck corona virus pandemic situation is likely to hit the economy again paralyzing the banking sector that just started to stabilize.

The following suggestions are made by the researcher:

- Existing research thus suggests a strategy for authorities seeking to improve governance in banking. It is critical that the government recognizes and curbs any of their own behaviorsthat thwart the private sector's ability and incentive to monitor banks. Embarking on a program to reduce government ownership where it is pronounced would seem to be essential; without this step it is difficult to conceive of the success of other efforts to ameliorate the governance problem. To some extent, deregulation has been done but it isn't enough to meet the need of the hour.

- In order to directly reduce the opacity of banks by improving the flow of information, the authorities will need to engage in the unpopular task of shaking-up cozy relationships among powerful interest groups in their society.

- In addition to much greater attention to improving accounting and auditing, improvements to credit information will facilitate the expansion of banking by those interested in providing finance to groups that were previously excluded.

- Enhancing corporate finance reporting in the media, and education as to the importance of this issue in a wide swath of civil society, will help make a lasting contribution to better corporate governance. Broader antitrust activity may be necessary in order to make this work since same family groups that control banks may also control the media.

- Opening to foreign banks offers a direct mechanism for creating competitive pressures in banking in general and will lessen the reliance on family or conglomerate relationships. It will also improve access to credit, even by small and medium-sized enterprises.

- The potential monitors of banks - owners, markets (large creditors in particular) and supervisors - need clear and strong incentives to do their jobs well.

- The ability of authorities to influence inside owners and managers is enhanced if regulators can impose penalties when there is evidence of fraud or of improper conduct.

- The incentives of inside owners and managers will clearly be enhanced if small shareholders and debtors can confidently use an efficient court system that supports their rights.

- Compensation policies of directors and senior managers demand greater attention though some steps have been taken in this regard already but cannot be said to be sufficient.

- To improve corporate governance of financial intermediaries, policy makers must seek to enhance the ability and incentives of creditors and other market participants to monitor banks.

- RBI is not lagging behind in the task of coming up with policies and corporate governance reforms but as mentioned earlier that it is not regulation but the compliance with the regulation which is creating a problem. Even if the existing rules and regulations are implemented in true spirit, the governance mechanism can be strengthened. So, focus should be more on compliance and implementation. Starting from the board level, there is a need for banks to "astutely" follow the RBI's instructions and guidelines.

- The risk- management systems are not that efficient as far as ensuring the task of good corporate governance is concerned.

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