Corporate Governance in the Indian Banking Sector: An Empirical and Conceptual Analysis at the Aggregate Sector Level

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Abstract: Corporate governance has emerged as a cornerstone of financial stability and ethical responsibility in India's banking industry. This paper examines the evolution and current state of corporate governance in the Indian banking sector, integrating both conceptual insights and empirical evidence. Using aggregate data from public sector banks (PSBs) for the financial years 2019–20 to 2023–24, the study analyses key performance indicators such as return on assets, non-performing assets, capital adequacy, and profitability in relation to governance reforms implemented by the Reserve Bank of India (RBI) and the Ministry of Finance. The findings reveal that enhanced board oversight, stricter regulatory frameworks, and improved disclosure standards have strengthened the governance environment, reflected in improved profitability and reduced non-performing assets (NPA ratio down to 3.12 per cent in FY 2023–24). Nevertheless, challenges persist in maintaining board independence, risk culture, and accountability mechanisms in state-owned banks. The paper concludes by recommending further institutional reforms, capacity-building for directors, and greater digital transparency to align the sector with global governance standards.

Keywords: Corporate Governance; Indian Banking Sector; Public Sector Banks; RBI Regulations; Non-Performing Assets; Financial Performance; Transparency; Governance Reforms.

INTRODUCTION

Corporate governance represents the framework through which organizations are directed and controlled, balancing the interests of stakeholders including shareholders, management, customers, regulators, and society. In India, the corporate governance landscape of the banking industry has transformed significantly since the liberalization reforms of the early 1990s. The Reserve Bank of India (RBI), SEBI, and the Ministry of Finance have strengthened governance standards through guidelines, fit-and-proper norms, and the introduction of the Banking Codes and Standards Board of India (BCSBI). The Indian banking sector, particularly public sector banks (PSBs), plays a vital role in supporting economic growth and financial inclusion. However, recurring governance lapses and the high incidence of non-performing assets (NPAs) in the early 2010s prompted major reforms. The P. J. Nayak Committee (2014) recommended depoliticizing bank boards and enhancing autonomy to strengthen corporate governance. This paper integrates both conceptual and empirical analyses to assess how governance practices have evolved at the aggregate sector level and how they correlate with financial outcomes between FY 2019–20 and FY 2023–24.

LITERATURE REVIEW

Global research (Macey & O'Hara, 2003; Caprio et al., 2007; Adams & Mehran, 2012) highlights that sound corporate governance in banks reduces systemic risk and promotes accountability. In India, the Narasimha Committee (1998) and the Nayak Committee (2014) were pivotal in redefining governance architecture. Ghosh (2020) observed that enhanced disclosure and independent audit mechanisms significantly improved profitability and stability. Kumar & Sharma (2022) confirmed that robust governance structures improved efficiency among Indian PSBs. However, there remains limited literature on sector-level governance performance after 2020, especially post- COVID-19, when banking operations faced stress yet showed remarkable resilience. This paper addresses this research gap by combining conceptual understanding and empirical sector-level analysis based on recent data (2019– 2024).

RESEARCH METHODOLOGY

The study is descriptive and empirical in nature, relying on secondary data sourced from the RBI's Financial Stability Reports (2019–2024), Public Sector Banks' Annual Reports, and the Department of Financial Services (DFS). The analysis covers aggregate sector-level indicators, including: - Net Profit (- Gross Non-Performing Asset (NPA) Ratio (%) - Capital to Risk-Weighted Assets Ratio (CRAR, %) - Provision Coverage Ratio (%) The study employs trend analysis and ratio comparison methods to explore the relationship between governance reforms and financial performance.

EMPIRICAL ANALYSIS

Empirical data reveal that PSBs' net profits grew from 31,820 crore in FY 2019– 20 to 1.41 lakh crore in FY 2023–24. The Gross NPA ratio declined sharply from 8.96% to 3.12%, reflecting improved asset quality. The CRAR improved from 13.0% to 14.83%, while the Provision Coverage Ratio rose to 93.87%. These improvements align with governance reforms introduced during this period — such as strengthened board oversight, the implementation of risk-based supervision, and enhanced transparency under RBI's revised governance framework (2022). This evidence demonstrates that governance reforms have played a critical role in improving financial soundness and public trust in PSBs.

DISCUSSION

Corporate governance reforms have effectively improved operational discipline, accountability, and regulatory compliance. Yet, challenges remain, such as limited independence of government-appointed board members and dual regulation between the Ministry of Finance and RBI. The post-2020 digitalization drive and environmental, social, and governance (ESG) initiatives are expected to redefine governance mechanisms further, making banks more resilient and socially responsible. There is also a need for continuous director training to strengthen ethical and strategic oversight.

CONCLUSION AND POLICY RECOMMENDATIONS

Corporate governance reforms have substantially enhanced the resilience and profitability of India's public sector banks. The empirical findings confirm that governance quality and financial performance are positively correlated at the aggregate sector level. Policy recommendations include: 1. Establishing a National Institute of Banking Governance for leadership training. 2. Increasing board independence and representation of professionals. 3. Integrating ESG principles into governance frameworks. 4. Strengthening accountability through digital audit trails. These measures will align Indian banking governance practices with international standards and ensure long- term sectoral sustainability.

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