Corporate Governance in Indian Banking Sector: A Study with special Reference to State Bank of India

Arpit Chhajer
Research Scholar
Faculty of Management Studies
Bhagwant University, Ajmer

DR. RITIKA MOOLCHANDANI
Assistant Professor
Faculty of Management Studies
Bhagwant University Ajmer

ABSTRACT

Corporate Governance in Today the concept of Corporate Governance has taken a new dimension due to globalization and liberalization. With the opening up of economy and to be in line with WTO requirements, if the Indian corporate have to survive and succeed amidst increasing competition globally, it can only be through transparency in operations. The excellence in terms of customer satisfaction, return, product and service, return to promoters and social responsibilities towards society and people cannot be achieved without practicing good corporate governance. The fundamental objective of Corporate Governance is to enhance the long-term shareholder value while protecting the interests of other stakeholders, maximizing long-term shareholder value in a legal and ethical manner, ensuring fairness, courtesy and dignity in all transactions within and outside the bank with customers, employees, investors, partners, competitors, the government and the society. The system of corporate governance is important for banks in India because majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system as well as in financial services system including Financial Institutions, Mutual Funds and other intermediaries Further, with restrictive support available from the Govt. for further capitalization of banks, many banks may have to go for public issues, leading to transformation of ownership. This paper focuses on corporate governance in banking sector and how they adhere to Corporate Governance practices. It further indicates the role and relationship of corporate governance with Indian Banking Sector. Both private and public sector banks are adhering to mandatory requirements of corporate governance attributes as a result it is bringing more transparency and minimizing the chances of fraud and malpractices.

INTRODUCTION

Corporate Governance in today's context:

-According to Milton Friedam, "Corporate Governance is to conduct the business in accordance with owner's or shareholders desires, which generally will be to make as much money as possible" but this context is based on marked maximization that underpins shareholder capitalism. But this context was further expanded by J.Wolfensohn, President, World Bank, has said that "Corporate Governance is about promoting corporate fairness, transparency and accountability.

LITERATURE REVIEW AND GLOBAL GENESIS OF CONCEPT OF CORPORATE GOVERNANCE:

The seeds of modern Corporate Governance were probably sown by the Watergate scandal in the United States. As a result of subsequent investigations, US regulatory and legislative bodies were able to highlight control failures that had allowed several major corporations to make illegal political contributions. This led to the development of the Foreign and Corrupt Practices Act of 1977 in USA that contained specific provisions regarding the establishment, maintenance and review of systems of internal control.

This was followed in 1979 by the Securities and Exchange Commission of USA's proposals for mandatory reporting on internal financial controls. In 1985, following a series of high profile business failures in the USA, the most notable one of which being the Savings and Loan collapse, the Treadway Commission was formed. Its primary role was to identify the main causes of misrepresentation in financial reports and to recommend ways of reducing incidence thereof. The Treadway report published in 1987 highlighted the need for a proper control environment, independent audit committees and an objective Internal Audit function. It called for published reports on the effectiveness of internal control. It also requested the sponsoring organizations to develop an integrated set of internal control criteria to enable companies to improve their systemic measures.

Accordingly COSO (Committee of Sponsoring Organizations) was born. The report produced by it in 1992 stipulated a control framework which has been endorsed and refined in the four subsequent UK reports: Cadbury, Rutteman, Hampel and Turnbull. While developments in the United States stimulated debate in the UK, a spate of scandals and collapses in that country in the late 1980s and early 1990's led shareholders and banks to worry about their investments. These also led the Government in UK to recognize that the then existing legislation and self-regulation were not working.

Companies such as Polly Peck, British & Commonwealth, BCCI, and Robert Maxwell's Mirror Group News International in UK were all victims of the boom-to-bust decade of the 1980s. Several companies, which saw explosive growth in earnings, ended the decade in a memorably disastrous manner. Such spectacular corporate failures arose primarily out of poorly managed business practices.

It was in an attempt to prevent the recurrence of such business failures that the Cadbury Committee, under the chairmanship of Sir Adrian Cadbury, was set up by the London Stock Exchange in May 1991. The committee, consisting of representatives drawn from the top levels of British industry, was given the task of drafting a code of practices to assist corporations in U.K. in defining and applying internal controls to limit their exposure to financial loss, from whatever cause.

GROWTH OF BANKING SYSTEM IN INDIA:

Banking system is the strategic building block of the economy. The challenge and complexity of implementing corporate governance can be well understood only if we can appreciate the size of the banking system. We need to appreciate that the Indian banking system has made commendable progress in extending its geographical spread and functional reach. The spread of the banking system has been a major factor in promoting financial intermediation in the economy. The divergent growth of the banking system has also been responsible for boosting domestic savings and in expanding credit reach. Banks are basically engaged in mobilizing resources for the purpose of lending to foster growth and development. The magnitude of growth of banking system can be indicated as follows:

Expansion of Banking Since Nationalization Year	**1969**	**1991**	**2007**	**2012**
1. No. of Commercial Banks (incl. RRBs and LABs)	73	272	182	173
2.No. of Bank Offices	8,262	60,570	74,563	1,01,261
2(a) Out of 2, no.of Rural and semi-urban bank offices	5,172	46,550	47,179	62,061
3.Population per office	64,000	14,000	15,000	13,000
4.Per capita Deposit of Scheduled Commercial Banks (SCBs)	Rs. 88	Rs. 2,368	Rs. 23,382	Rs. 51,106
5.Per capita Credit of SCBs	Rs. 68	Rs. 1,434	Rs. 1,7541	Rs. 39,909

Source: Reserve Bank of India

- Since nationalization of 14 major commercial banks in 1969, followed by nationalization of another 6 banks in 1980, Indian banking system has expanded rapidly.
- The number of banks now stands at 173 up from 73 in 1969. RBI is also now set to license more of private sector banks shortly opening up scope for further enlargement of the size of banking system.
- The number of bank offices increased from about 8,000 in 1969 to over 100,000 by 2012.
- The average population per branch office has sharply declined from 64,000 in 1969 to 13,000 today.
- Both per capita deposit and per capita credit have expanded about 600 times. Even accounting for inflation, this is significant expansion.

The total deposits of Scheduled Commercial Banks have reached Rs. 71 Trillion while the advances have touched Rs.54 Trillion. The Credit Deposit Ratio works out to 76.37 in June 2013. Administering such huge banking system with large branch network of over 1, 00,000 needs well calibrated governance, checks and balances at all levels so that implementation of corporate governance is made possible.

INDIAN SCENARIO

The corporate governance initiative in India was not triggered by any serious nationwide financial, banking and economic collapse. The initiative in India was driven by The Confederation of Indian Industry. In December 1995, CII set up a task force to design a voluntary code of corporate governance. The final draft of this code was widely circulated in 1997. In April 1998, the code was released. It was called “Desirable Corporate Governance: A Code”. Following CII‟s initiative, the Securities and Exchange Board of India (SEBI) set up a committee under Kumar Mangalam Birla to design a mandatory-cum-recommendatory code for listed companies. The Birla Committee Report submitted in February 2000 and it was approved by SEBI in December 2000. The report became mandatory for listed companies through the listing agreement and implemented according to a rollout plan. Following CII and SEBI, the Department of Company Affairs (DCA) modified the companies Act 1956, to incorporate specific corporate governance provisions regarding independent directors and audit committees.

Corporate Governance in Banks: - Corporate Governance has become very important for banks to perform and remain in competition in this era of liberalization and globalization. Banks in a broad sense are institutions whose business is handling other people’s money. A Joint stock bank also known as Commercial Bank which is nothing but a company whose business is banking. Protecting the interest of depositors becomes a matter of paramount interest to banks. In banking parlance, the Corporate Governance refers to conducting the affairs of a banking organization in such a manner that gives a fair deal to all the stake holders i.e. shareholders, bank customers, regulatory authority, society at large, employees etc. The significance of corporate governance in banking sector weighs very much due to very nature of banking transactions. Banking is the crucial factor effecting economic development of an economy. It is the life-blood of a country. It is responsible for the flow of credit and for maintaining the financial balances of the economy. In India, since the nationalization process banks emerged as a tool of economic development along with social justice. As per Basel committee Report 1999, Banks have to display the exemplary of corporate governance practices in their financial performance, transparency in the balance sheets and compliance with other norms laid down by section 49 of corporate governance rules. Most importantly, their annual report should disclose accounting ratios, relating to operating profit, return on assets, business per employee, NPAs, maturity profile of loans, advances, investments, borrowings and deposits. Similarly the audit reports of bank should highlight those disclosures which are in line with corporate governance rules. Hence, auditors should have the complete know how about all the features of the latest guidelines given by Reserve Bank of India (RBI) and ensure that the financial statements are made in a fraud free manner and should mirror the implementation of corporate governance. Apart from auditor's seriousness to bring those requirements appropriately in audit report, there should be adequate internal control systems in the operational activities of banks. It is very much essential for banks to devote adequate attention on internal control system so as to maximize their returns on each unit of capital inducted through an effective funds management strategy and mechanism. (Basel Committee Report, 1999)

OBJECTIVES AND METHODOLOGY

The objective of the research paper is to evaluate the corporate governance practice in banking sector through a case study of the State Bank of India. For evaluation purpose, this research paper divided into two parts. Based on different elements of and with the help of secondary data, this work has analyzed and evaluated the practice of corporate governance in State Bank of India. In the first part, the concepts of corporate governance like evolution of corporate governance in world and Indian scenario, role and importance of corporate governance in banking sector has been discussed. The second part analyses the practice of corporate governance as determined in State Bank of India with the help of elements like board practices, stakeholders and transparent disclosure of information.

CORPORATE GOVERNANCE IN INDIAN BANKING SECTOR

The corporate governance practice is important for banks in India because majority of the banks are in public sector, where they are not only competing with one another but with other players in the banking system. Further, 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 an integral part of the economy of the country and any failure in a bank might have a direct bearing on the financial health of the country. The Basel committee on banking 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 important 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.

Need for Corporate Governances in Bank

1. Since banks are important players in the Indian financial system, special focus on the Corporate Governance in the banking sector becomes critical.

2. The Reserve Bank of India, as a regulator, has the responsibility on the nature of Corporate Governance in the banking sector.

3. To the extent that banks have systemic implications, Corporate Governance in the banks is of critical importance.

4. Given the dominance of public ownership in the banking system in India, corporate practices in the banking sector would also set the standards for Corporate Governance in the private sector.

5. With a view to reducing the possible fiscal burden of recapitalizing the PSBs, attention towards Corporate Governance in the banking sector assumes added importance.

CORPORATE GOVERNANCE IN STATE BANK OF INDIA

State Bank of India is the country‟s largest commercial bank in terms of profits, assets, deposits, branches and employees. With over 200 years of existence, State Bank group has a presence in 33 countries and extensive network of more than 18,000 branches and 26,000 plus ATMs and 100 million accounts across the country. The only Indian Bank to feature in the Fortune 500 list, SBI 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 banking products and services with cutting edge technology and innovative banking model. State Bank of India is committed to the best practices in the area of corporate governance. The sound corporate governance practice in State Bank of India would lead to effective and more meaningful supervision and could contribute to a collaborative working relationship between bank management and bank supervisors. Based on different elements like boards practices, stakeholder‟s services and transparent disclosure of information the practice of corporate governance in state bank of India was assessed.

BOARD PRACTICES

Central Board The central board of directors was constituted according to the SBI Act 1955. The bank‟s central board draws its powers from and carries out its functions in compliance with the provisions of State Bank of India Act & Regulations 1955.

Its major roles include, among others, overseeing the risk profile of the bank; monitoring the integrity of its business and control mechanisms; ensuring expert management, and maximising the interests of its stakeholders. The central board has constituted seven board level committees.

Audit Committee of the Board: ACB provides direction as well as oversees the operation of the total audit function in the bank. Total audit function implies the organizational, operational, quality control of internal audit and inspection within the bank, follow-up on the statutory audit and compliance with RBI inspection. It also appoints statutory auditors of the bank and reviews their performance from time to time. ACB reviews the bank‟s financial, risk management, IS audit policies and accounting policies of the bank to ensure greater transparency.

Risk Management Committee of the Board: RMCB was constituted to oversee the policy and strategy for integrated risk management relating to credit risk, market risk and operational risk.

Shareholders'/Investors' Grievance Committee of the Board : SIGCB was formed to look into the redressal of shareholders‟ and investors‟ complaints regarding transfer of shares, non-receipt of annual report, non-receipt of interest on bonds/declared dividends, etc.

Special Committee of the Board for Monitoring of Large Value Frauds: The major functions of the committee are to monitor and review all large value frauds with a view to identifying systemic lacunae, if any, reasons for delay in detection and reporting, monitoring progress of CBI / Police investigation, recovery position and reviewing the efficacy of remedial action taken to prevent recurrence of frauds.

Customer Service Committee of the Board: CSCB was constituted to bring about ongoing improvements on a continuous basis in the quality of customer service provided by the bank.

IT Strategy Committee of the Board: With a view to tracking the progress of the bank"s IT initiatives, the SBI"s central board constituted a technology committee of the board. The committee has played a strategic role in the bank"s technology domain.

Remuneration Committee of the Board: It was constituted for evaluating the performance of whole time directors of the bank in connection with the payment of incentives, as per the scheme advised by Government of India. It is found that in SBI, these committees are providing effective professional support in the conduct of board level business in key areas.

STAKEHOLDERS SERVICES

The SBI strongly believes that all stakeholders should have access to complete information on its activities, performance and product initiatives.

Shareholders: The SBI is providing different types of services and facilities to the shareholders. Share transfers in Physical form are processed and returned to the shareholders within stipulated time. SBI has the distinction of making uninterrupted dividend payment to the shareholders at an increasing rate for many years. In accordance with the SEBI guidelines on green initiative in corporate governance, SBI is issuing annual report in electronic form to shareholders who opt for receiving the same in electronic form through their e-mails. To meet various requirements of the investors regarding their holdings, the Bank has a full-fledged department i.e. shares and bonds department and shares and bonds cells at the 14 local head offices.

Customers: With a large network and number of branches throughout India and abroad SBI is providing different types of services and facilities to the customers.

ATMs: State Bank group has in its stable, variants of ATMs. The number of ATMs of the SBI group was 25,005 in March 2011 and they increased to 27,286 in March 2012.

The number of ATMs of SBI was 20,084 in 2011 and they are 22,141 in 2012. The total debit cards issued by SBI were 728 lakhs in 2011 and they increased to 910 lakhs in 2012.

***Mobile Banking**:* There were 10.13 lakh registered mobile customers in 2011 and they increased to 36.45 lakhs in 2012. The customers were using the service with more than 1.20 lakhs daily transactions, around 46% of which are financial transactions amounting to Rs. 2.45 crores.

SBI has launched mobile technology based prepaid payment services under the brand name of State Bank Mobi Cash.

***Internet Banking**:* Internet banking service is available through www.onlinesbi.co.in for both retail and corporate customers of the bank.

The number of customers in March 2011 was 62.57 lakhs and they increased to increased to 2610.32 lakhs.

Foreign Offices: The SBI is operating 173 branches in 34 countries, including 2 OBUs in India to run their operations on a common banking applications software, with their databases connected to a central data centre backed up by a synchronized disaster recovery site. All foreign offices use internet banking channel and 130 ATMs at various locations abroad cater to the bank‟s overseas customers with most of the ATMs connected to the centralized ATM switch in India.

***Customer Complaints**:* The number of complaints received from the customers during the year 2010-11 was 30,904 and they increased to 462,381 during 2011-12.

Employees: The SBI had a total permanent staff strength of 2,15,481 in the March, 2012. Of this, 80,404 (37.32%) were officers, 95,715(44.42%) were clerical staff and the remaining 39,362 (18.26%) were sub-staff. It has been decided to recruit 9500 new clerical staff during the year 2012-13 to meet the growing business needs of the bank. The SBI has transferred Rs. 49,518 crores to the SBI employee‟s pension fund trust from the special provision account, during the year 2011-12. An amount of Rs. 4531.83 crores is recognised as an expense towards the provident fund scheme of the bank. The bank has implemented a defined contribution pension scheme (DCPS). The contributions of the bank of Rs. 452.47 crores have been retained as a deposit with the bank and earn interest at the same rate as that of the current account of provident fund. An amount of Rs. 4531.33 crores (previous year 4775.74 crores) is provided towards long term employee benefits.

Society: The executive committee of the central board has approved a comprehensive policy for corporate social responsibility in August 2011. During the year 2011-12 the SBI has spent Rs. 71.18 crores for various social service activities like supporting education (Rs. 35.33 crores), Healthcare (Rs. 15.03 crores) and donations (Rs. 5.50 crores).

FINDINGS AND CONCLUSION

The study found that, the SBI is implementing 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 aspect in terms of profits, assets, deposits, branches, employees and services to customers. The study found that the SBI conducted different board meetings regularly to provide effective leadership, functional matters and monitors bank‟s performance. It is found that the SBI established clear documentation and transparent management processes for policy development, implementation, decision making, monitoring, control and reporting.

Even though the SBI is showing good performance and implementing provisions of corporate governance, some lapses have to be rectified for increasing the performance. The SBI is operating nearly 10 crores of customer accounts. Among them the net banking operating customers are 89.63 lakhs, mobile banking operating customers 36.45 lakhs, customers using ATMs are 910 lakhs. Though the customers operating e-banking are increasing every year, they are using e-banking for normal or minimum services. It is suggested that consumer service committee must take initiative steps to increase online banking services through customer awareness programs and internet banking training programmes. It decreases customer"s pressure on branches and it is useful to reduce customers waiting time in all branches.

Finally, this study concluded that, the corporate governance practice in the State Bank of India should improve for best investment policies, appropriate internal control systems, better credit risk management, better customer service and adequate automation in order to achieve excellence, transparency and maximization of stakeholder's value and wealth.

REFERENCES

[1] State Bank of India Annual Reports

[2] Websites : www.onlinesbi.com

[3] V.Leeladhar "Corporate governance in banks" RBI Bulletin December 2004

[4] Dr. Meghashree Agarwal Dadhich : „"Online banking services: an empirical study of banker"s and customer"s awareness about obs" ICFAI University, An overview of Banking," Nagarjuna Hills Publication, 2006. [5] Krishna Lal Pandey, "Development of Banking in India since 1949," Scientific Book Agency, 1968.