

A Concise Discussion of Corporate Governance & Banks

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Abstract:

Corporate governance is the collection of mechanisms, processes and relations by which corporations are controlled and operated.

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the 'stakeholders' desires. ... Corporate Governance clearly distinguishes between the owners and the managers.

Corporate governance is therefore about what the board of a company does and how it sets the values of the company, and it is to be distinguished from the day to day operational management of the company by full-time executives.

In India, the Reserve Bank of India ("RBI") is the gatekeeper of Corporate Governance. RBI is the central bank of India which regulates all the major issues related to currency, foreign exchange reserves etc.

Through this article, author wants to discuss briefly about "*Corporate Governance & Banks*".

***Keywords;** Corporate governance, technique, stakeholder's, company, RBI.

Introduction:

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company or banks.

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place.

The responsibilities of the board include setting the company or banks strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship.

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In the UK for listed companies corporate governance it is part of the legal system as the UK Corporate Governance Code applies to accounting periods beginning on or after 29 June 2010 and, as a result of the new Listing Regime introduced in April 2010, applies to all companies with a Premium Listing of equity shares regardless of whether they are incorporated in the UK or elsewhere.



But good governance can have wider impacts to the non listed sector because it is fundamentally about improving transparency and accountability within existing systems. One of the interesting developments in the last few years has been the way in which the ‘corporate’ governance label has been used to describe governance and accountability issues beyond the corporate sector. This can be confusing and misleading as UK Corporate Governance has been built and developed to deal with the governance of listed company entities and not designed to cover all organisational types that may have different accountability structures.

Many academic studies conclude that well governed companies perform better in commercial terms.

Objectives of the Study:

The objectives of the study are;

- To study about ‘corporate-governance & Banks’ in brief..
- To highlights on needs & concepts of corporate governance.
- To find out the need of corporate governance for banks.

Research Methodology(RM)-

The present study is based on 'secondary data' only those are collected from the different related websites, eminent books, reputed journals, periodicals, magazines, newspapers also.

What is Governance:

"Governance, in general terms, means the process of decision-making and the process by which decisions are implemented (or not implemented), involving multiple actors. Good governance is one which is accountable, transparent, responsive, equitable and inclusive, effective and efficient, participatory and which is consensus oriented and which follows the rule of law".

What is Corporate Governance(C.G.):

Corporate governance is the collection of mechanisms, processes and relations by which corporations are controlled and operated. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and include the rules and procedures for making decisions in corporate affairs. Corporate governance is necessary because of the possibility of conflicts of interests between stakeholders, primarily between shareholders and upper management or among shareholders.

Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. These include monitoring the actions, policies, practices, and decisions of corporations, their agents, and affected stakeholders. Corporate governance practices can be seen as attempts to align the interests of stakeholders.

Concepts of Corporate Governance:

Governance has been defined as the rules of the political system to solve conflicts between actors and adopt decision (legality). It has also been used to describe the "proper functioning of institutions and their acceptance by the public" (legitimacy).



Good Board Practices
holds key to **Successful**
Corporate Governance

There are a few key concepts of good corporate governance in an organization:

1. Transparency:

‘Transparency’ is the first important concepts of good corporate governance. In a timely and accurate manner, the directors should disclose material information.

2. Accountability:

Secondly ‘accountability’, those who control the business (i.e. directors) should be accountable to those who own the business.

3..Responsibility:

‘Responsibility’ is the third concepts of corporate governance. The board of directors should ensure the organization complies with the relevant laws where it operates.

4.Integrity:

Next is ‘integrity’. While making decisions relevant to the organization, moral and ethical issues should be considered it.

5.Fairness:

The board of directors should treat all stakeholders as fairly and equitably.

6.Independence:

Each director should independent, which is the sixth concepts of it. There should be no conflict of interest. For example, it would not be good for a director to get involved in the sale of an asset to another company, if he/she was a director of that other company too.

7.Honesty:

At last, 'honesty' is the another important concepts of 'corporate governance'. The directors must protect the shareholders interests in the organisation, and should give confidence to the shareholders that thier interests are being protected.

The Basics of Corporate Governance:

To dictate corporate behavior. 'governance' refers specifically to the set of rules, controls, policies, and resolutions put in place. Governance are affected indirectly through stakeholders who are proxy advisors and shareholders, but these are not examples of governance itself. The board of directors is pivotal in governance, and it can have major ramifications for equity valuation.

Corporate governance is a key component of community and investor relations. On Apple Inc.'s investor relations site, for example, the firm outlines its corporate leadership—its executive team, its board of directors—and its corporate governance, including its committee charters and governance documents, such as bylaws, stock ownership guidelines and articles of incorporation. Shareholders, it is not enough for a company to merely be profitable; it also needs to Most companies strive to have a high level of corporate governance. For many demonstrate good corporate citizenship through environmental awareness, ethical behavior, and sound corporate governance practices. Good corporate governance creates a transparent set of rules and controls in which shareholders, directors, and officers have aligned incentives.

Need of the Corporate Governance:

Fundamentally, there is a level of confidence that is associated with a company that is known to have good corporate governance. The presence of an active group of independent directors on the board contributes a great deal towards ensuring confidence in the market. Corporate governance is known to be one of the criteria that foreign institutional investors are increasingly depending on when deciding on which companies to invest ..

In lieu of it, there are some important benefits of 'corporate governance', which are as follows;

1. Good corporate governance ensures corporate success and economic growth.
2. Banks had incurred substantial losses.
3. Strong corporate governance maintains investors' confidence, as a result of which, company can raise capital efficiently and effectively.
4. It lowers the capital cost.
5. Bank exists because they are willing to take on and manage risks also.
6. There is a positive impact on the share price.

7. It provides proper inducement to the owners as well as managers to achieve objectives that are in interests of the shareholders and the organization.
8. Good corporate governance also minimizes wastages, corruption, risks and mismanagement.
9. Bank's deal in people's fund and should therefore act as trustees of the deposit.
10. It helps in brand formation and development.
11. It ensures organization in managed in a manner that fits the best interests of all.
12. Sound corporate governance can contribute to a collaborative working relationship between bank management and bank supervisors.

Corporate Governance of Banks:

Corporate Governance refers to the way a corporation is governed. It is the technique by which companies are directed and managed. It means carrying the business as per the stakeholders' desires. ... Corporate Governance clearly distinguishes between the owners and the managers.

Corporate governance is the system by which companies are directed and controlled. The corporate governance of banks differs from the corporate governance of ordinary companies. This is due to the nature of the banking business, the complexity of its organisation, the uniqueness of banks' balance sheets, the need for protection of the weakest party in the chain (i.e. the depositors), and the systemic risks caused by bank failures.



The balance sheet of banks presents a much greater inherent opacity; it is difficult for outsiders to evaluate the quality of the assets which a bank holds and, therefore, its true financial position. Furthermore, a bank serves several conflicting interests, from equity holders, to borrowers or depositors and good governance is important for balancing those interests. Finally, the potential negative effects of bank failures are very damaging for both the economy and society, as was demonstrated vividly by the 2008 global financial crisis. For this reason, it is

now acknowledged that the corporate governance of banks should be addressed with specific recommendations, focusing more on the “internal governance” than the protection of minority shareholders.

The way that banks fund their operations means that, in comparison to other companies, their corporate governance needs to provide protection to a much broader pool of stakeholders, particularly depositors who do not usually have the possibility to influence the banks’ business decisions. This requires a much deeper involvement of the board in strategic issues and risk oversight, as it must fully understand the risks the bank is exposed to and be able to monitor them effectively. As a result, this requires that the balance of skills at the board level and the expertise of its members are regulated in detail and closely scrutinised by bank supervisors. There is greater emphasis and more detailed guidance on the internal control functions of the so-called “second and third line of defence” : i.e. risk management, compliance and internal audit, which are becoming mandatory for banks in an increasing number of jurisdictions. Banks are also subject to stricter disclosure requirements. In order to better address the specific circumstances of corporate governance in banks, regulators and standard setters have issued comprehensive guidance.

Principles of Corporate Governance for Banks:

“For the proper functioning of the banking system and the economy as a whole, effective corporate governance(C.G.) is very essential .The BCBS has been working on improving the governance framework of banks since the financial crisis, which resulted in the publication in October 2010 of the Principles for Enhancing corporate governance. Since then, banks have shown a strengthening of their corporate governance practices.



However, in view of the ongoing developments in the field and in order to incorporate the recommendations of the FSB, the BCBS decided to undertake a review of the 2010 guidelines and published the final Corporate governance principles for banks document, which are as mentioned under::

- To strengthen the Board's responsibilities relating to risk management.
- To strengthen the internal control mechanisms of banks.
- To define the specific tasks of the Board and its committees, senior management and supervisory bodies (including the Chief Risk Officer (CRO) and the internal audit function).
- Transparency in governance.
- To improve key elements of the corporate governance framework, such as risk culture, risk appetite, or regarding the ability of banks to take risks.

The technical note prepared by Management Solutions' R&D department summarizes the characteristics of the new framework and the main implications to be derived from its implementation”.

Prior regulation:

In lieu of it, there are some important prior regulations, which are as below:

- “Principles for enhancing corporate governance”, BCBS, October 2010.
- “Thematic review on risk governance”, FSB, February 2013.
- “Corporate governance principles for banks – consultative document”, BCBS, October 2014

“Basel Committee on Banking Supervision”

Corporate Governance & Reserve Bank of India (RBI):

Reserve Bank of India (RBI) performs the **corporate governance function** under the guidance of the Board of the Financial Supervision (BFS). The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising commercial **banks**, financial institutions and non-**banking** financial companies.

In India, the Reserve Bank of India (“RBI”) is the gatekeeper of Corporate Governance. RBI is the central bank of India which regulates all the major issues related to currency, foreign exchange reserves etc.

In brief;, ‘RBI’ is the bank who responsible for securing the monetary stability in India.

Conclusion:

In this way, in this paper, an effort has been made to analyze needs of corporate governance for banks. They provide the guidelines as to how the banks or a company can be directed or controlled such that it can fulfill its goals & also objectives in a disciplined & systematic manner which is beneficial for all stakeholders in the long term.

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