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Role of Reserve Bank of India in Corporate Governance of Banks: A Legal Study

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Abstract

The field of corporate governance in the Indian banking sector is characterized by a special regulation system offered by statutory interventions, prudential norms, and supervisory regulations of the Reserve Bank of India (RBI). The paper provided will discuss how RBI altered the functions as a quasi-legislative body, executive, and supervisory body in governing the public and private banks sector. The research paper has critically examined in the context of a doctrinal approach and analytical, how the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1934 and the post-liberalization reform has re-organized the notion of accountability, composition of the boards and risk management of the banking industry. It further compares the contemporary circulars, and governance policies and the 2025 Banking Laws (Amendment) Act to see how far RBIs interventions are taken in the sense that it satisfies the best practice of the world including those proposed by Basel Committee on Banking Supervision. The analysis, through a legal-institutional approach, outlines that there are still certain gaps in the regulation, and the reforms can be made to make it transparent, independent and protect shareholders but not to jeopardize the supervisory role of the central bank. The findings show that despite the fact the RBI has remained in the process of enhancing the governance structure, there are still few challenges in the balancing of these two roles of the institution the provider of monetary stability and the instiller of institutional integrity. A conclusion of the paper is also provided with policy recommendations on how to improve the Indian banking activities to sustainability and accountability on the governance regime of the banking activities.

Keywords: Reserve Bank of India (RBI), Corporate Governance, Banking Regulation, Legal Framework, Supervisory Oversight

1. Introduction

Banking has come out as the lifeline of an economy as it is the primary method of credit, saving and remittance. It could nearly be compared to the monetary stability of the country and its stability. The banks possess a ground of citizen confidence that no other companies can have since they are the ones who are using the money of the depositors who are mostly retail and not guaranteed over an amount exceeded by a specified statutory limit to conduct business. This special status of fiduciary, their high leverage, and their interrelatedness of a totality in the system, force them to possess a corporate governance (CG) which is significantly stricter and differs than that of non-financial firms. Reserve bank of India (RBI) is the designer of such specialized type of governance and the protector and principal implementer of regime in India. The RBI is not solely a passive regulator, but a multi-faceted exercise and co-exists as quasi-

legislative, executive and supervisory about the law and operation of the banks but this multi-faceted activity impacts greatly on the legal and operational limits of the banks governance system.[1]

The value of the study will be anchored to the dynamic attributes of the Indian financial environment. The expert power has entirely changed the sphere, which was dominated by state enterprises, in the liberalization era of 1991 that has experienced the entrance of both local and foreign banks[2]. The new governing philosophy was required due to this move and new competitive forces as well as new threats. The response provided by the RBI has been an evolution in regulation which has initially begun as a hand on, compliance-based approach to a far more detailed, principles based and risk-based process of supervision. Such a development is not only a part and parcel of the parliamentary law, but narrower to the point, in the circulars and guidelines, not to mention the master directions of the RBI itself. These are tools that are formed within the umbrella of cornerstone legislation like the banking regulation act, 1949 (BRA) and the Reserve bank of India act, 1934 and form a body of soft law that has hard implications in terms of setting the governance standards of the entire industry.

However more than once this regulatory system has been subjected to challenge. A series of bankrupt governance incidents that have come into view in the last few years (a combination of both, such as private sector banks (including ICICI Bank (as cited in Parkhi (2021)) and Yes Bank)) and fraud in the processes by the public sector banks (PSBs) has recently put the role of the RBI under intense examination. These events underscore one such study problem, namely, that despite the ever-thickening web of rules there is remains a broad gap in governance? This is a sign as to what could be the deviation between the de jure law structure and the de facto law in action. This is made complicated by the fact that even the mandates of the RBI are complicated and sometimes contrary to each other. According to the abstract, that should be the work of the central bank because he should help to achieve monetary stability (which may result in lending) and institutional integrity (which demands prudence and risk aversion). It is a special tension which is the consequence of the realization of its part in the government[3].

One of the specific research gaps identified in the paper is, thus, presented. There is less literature on the topic of the institution role as played by RBI though many literature has been developed to analyze the role of the corporate governance and the subsequent impact on the performance of the bank[4], or to discuss the practices of the Indian banks. The analysis is managerial or largely financial. This paper however assumes a legal-institutional approach to de-juridicalization of the source, nature, and application of the statutory and quasi-legal powers of the RBI. It attempts to understand how the RBI inculcates governance principles by using such legal mechanisms in banks and what are the legal and practical limitations of the provided tool[5].

The primary research objectives of this study are:

1. To conduct a doctrine study of the law of legislative formation of the power of the RBI with the economy of the governance of the banks with the Banking regulation act,1949, and with the RBI act,1934.
2. To trace the legislative-historical process of the evolution of the norms of governance of the RBI, since the post-liberalization reforms up to the current master directions.

[1] "Almaqtari FA and others, 'An Empirical Examination of the Impact of Country-Level Corporate Governance on Profitability of Indian Banks' (2022) 27(2) International Journal of Finance & Economics 1912–1932, accessed 2 November 2025"
[2] Almaula NI, Operations of the Reserve Bank of India (1935–1954) (University of Pennsylvania 1956), accessed 2 November 2025
[3] Anthala HR, Banking System in India: A Legal Study with Special Reference to Fraud and Forgery in Public Sector Banks in Ambala City, Haryana (PhD thesis, Panjab University Chandigarh (India) 2018), accessed 2 November 2025
[4] "Arun TG and Turner JD, 'Financial Sector Reforms and Corporate Governance of Banks in Developing Economies: The Indian Experience' (2003) 4(2) South Asia Economic Journal 187–204, accessed 2 November 2025"
[5] "Almaula NI, Operations of the Reserve Bank of India (1935–1954) (University of Pennsylvania 1956), accessed 2 November 2025"

3. To critically discuss the key legal interventions by the RBI in the key areas of governance including the make-up of boards (have board composition that is fit and proper), view of the board committees, risk management frameworks and remunerations policies.

4. To measure the legal impediments and institutional strife in the supervisory and enforcement roles of the RBI and particularly, the tension between the public and the banks in the private sector and the two role tussle.

5. To review the legal implications of the new changes such as the 2025 Banking Laws (Amendment) Act on improving the governance structure.

The current research will contribute to the existing literature, providing the summarized and legally based analysis that will come out as the catalyst between the law of banking and corporate governance. It also goes further than a description of regulations to critically reflect on the power of RBI as a legal-institutional phenomenon. This paper presents a fragile analysis of the concerns of regulating the Indian banks by examining the statute, regulation and supervision interaction. It provides a legal forum to the discussion surrounding the policy, which is prone to value only financial indicators and observation of the employs legal modifications needed to inflict a culture of transparency and accountability and long-term sustainability in the Indian banking industry. The paper will proceed by reviewing the literature at their disposal, the methodology used in the doctrine as well as the discussion of the legal framework and its use and provide a conclusion about the policy recommendations.

2. Literature Review

The list of literature on corporate governance of Indian banking is deep, and in most instances, they tend to frame the topic under consideration through the prism of dissenting opinions in which they emphasize on finance, management or economics. The review is comprehensive because it brings together all the existing literature and categorizes them into thematic clusters, development of a conceptual framework that puts the legal role of RBI at the centre of these intersecting domains.

2.1 Conceptualizing Corporate Governance in Banking

The first literature was dedicated to the identification of the specifics of the system of bank governance. The background information presented by Gopinath (2008)[6] reveals that unlike other firms, the stakeholders of banks are not only shareholders, but depositors too and the regulator representing the people. It results in a stakeholder rather than the shareholder model. According to Kim (2015)[7], the view of regulatory dimension elaborates that in its actual application, financial regulation and supervising comprises of a merely outer shell of corporate governance in banks, which is designed to mitigate systemic risk. It is an exterior layer, and which is regulated (in India, by the regulator, RBI) or traditionally dominates or particularly influences the traditional systems (board and shareholders) of internal governance. Tuteja and Nagpal (2013)[8] are attempting to quantify this by formulating a corporate governance index of Indian banks by defining some of their critical parameters such as board structure, transparency and audit as henceforth areas of focus because of RBI regulation.

[6] "Gopinath S, 'Corporate Governance in the Indian Banking Industry' (2008) 5(3) International Journal of Disclosure and Governance 186–204, accessed 2 November 2025"

[7] "Kim HJ, 'Financial Regulation and Supervision in Corporate Governance of Banks' (2015) 41 Journal of Corporate Law 707, accessed 2 November 2025"

[8] Tuteja S and Nagpal CS, 'Formulation of Corporate Governance Index for Banks in India' (2013) 4(7) Research Journal of Finance and Accountancy 153–160, accessed 2 November 2025

2.2 The RBI's Evolving Regulatory Stance and Legal Powers

Historical operation of the RBI as stated by and the study by[9] illustrates that the bank has evolved itself to be a multifaceted bank other than a very mighty financial regulator compared to the previous times. Modifications in the financial sector during the 1990s have been widely associated with the inspiration of a modern-day system of governance wide. Considering this time, Arun and Turner, (2003) note that since the sector was liberalized, administration of PSBs that was a majority in the industry was an issue because it was highly (dual) regulated by the RBI and the Government of India. This anti-duality is dominant. More recently Sharma (2024) provides a more comprehensive legal review of the regulations of the cooperative banks, where the legal problems and uncertainties in the regulations lie in the fact that the legal regulation of the different kinds of banking enterprises. This means that the legal authority of the RBI is somehow diffused and is different across the industry.

2.3 Governance Practices, Failures, and Legal Gaps

There are many research streams that are interested in the discovery of the cause of what went wrong. a case study of the governance failure at ICICI Bank in detail[10], which involves a conflict of interest, the ineffectiveness of the board, and to the delays of the supervisory process. Such case studies far move the discussion off the norms on paper to failures in practice. Bansal (2025) correlates such failures with the fact that the whole banking system is turned into an acceptable one and, as a result, the failure at the governance level simply eradicates trust among the population. Anthala (2018) underscores this by providing a legal analysis of fraud and forgery in PSBs which such criminal acts are associated to any form of flaws in the internal controls and governance regulation. The symptoms of governance failure are all arrived at through this literature. Yadav (2025) contends that what would become of one of the most significant stakeholders, the depositor and critically examines the systems of law of protection, and they do not work when one bank runs out of business. It is upon this literature that an urgent and practical importance to the existence of a legal structure that is not only well-rounded on paper but is also highly practical in the real world emerges.

2.4 Impact of Governance on Bank Performance

There is also a parallel body of literature that tries to empirically relate the governance and the financial results. an empirical study of the CG at the country level[11] and its influence on the profitability of Indian banks, which is positively correlated. Pati (2006) has questioned, Does Corporate Governance Matter in Indian Banking? and found that it does, mainly with respect to performance. Mangala and Singla (2023) are more particular as they examine the question of whether CG practices inhibit earnings management. According to their findings, the quality of financial reporting can be enhanced by having a strong governance structure and especially independent audit committees. This empirical literature entails the "business case RBI regulatory interventions and it is justifiable to impose governance norms in the attempt to guarantee not stability alone but also efficiency and profitability.

[9] "Mangala D and Singla N, 'Do Corporate Governance Practices Restrain Earnings Management in Banking Industry? Lessons from India' (2023) 21(3) Journal of Financial Reporting and Accounting 526–552, accessed 2 November 2025"

[10] " Bansal N, 'The Examining of Failure of Corporate Governance on the Acceptability of Banking System in India' in Implementing ESG Frameworks Through Capacity Building and Skill Development (IGI Global Scientific Publishing 2025) 433–452, accessed 2 November 2025"

[11] " El-Chaarani H and El-Abiad Z, 'The Impact of Public Legal Protection on the Internal Corporate Governance Efficiency in Banking Sector' (2024) 40(3) Journal of Economic and Administrative Sciences 482–515, accessed 2 November 2025"

2.5 Comparative and International Perspectives

External benchmarks are obtained using a smaller though significant body of studies. The comparative study of CG legislations in Pakistan conducted by Hussain et al. (2025)[12] provides the understanding of the situations observed in other developing economies, which enables a comparative evaluation of the situation in India. El-Chaarani and El-Abiad (2024) examine how the high capabilities of the external legal surroundings (courts, laws) influence the internal CG efficiency and determine that a legitimate external legal environment is the precondition of an effective internal corporate governance. This is in line with the principles of Basel Committee on Banking Supervision (BCBS), which always affirm the position of the supervisors in supporting the good internal governance.

2.6 Identified Research Gap

The review shows some unique, even detached, streams of research. We know: (1) what CG is in banking (Gopinath, 2008); (2) what is the history of the RBI (Almaqtari et al., 2022); (3) what the effects of CG are (Almaqtari et al., 2022); and (4) what failures are like (Parkhi, 2021). Nevertheless, the fundamental research gap, as pointed out in the introductory part remains: the absence of an extensive legal analysis that puts together these factors by looking at the RBI legal and institutional aspect as the nexus.

The literature lacks the analysis of the RBI as a sort of legislative institution, and its authority to form binding governance law by issuing circulars under the authority of the BRA (e.g. under Sec 35A). It fails to penetratively consider law strain in its executive aspect of appointment/removal of directors under its (Sec 10, 36AA) or the role as a supervisory aspect of law enforcement (Sec 35). A conflict known as a dual role which is mentioned in the abstract is a phenomenon that has been observed frequently (Arun & Turner, 2003) but has been hardly analyzed as a legal-institutional issue. The paper will attempt to bridge that gap by putting the legal power and acts of the RBI in the center of discussion and the use of the doctrinal approach to support the emotions given by the review empirical literature and case study literature reviewed in this paper.

3. Methodology

This study is essentially a legal study as indicated in the topic. It, therefore, takes a qualitative, doctrinal and an analytical approach to research. This is not aimed at coming up with new empirical data but critically examining and analyzing the available legal and regulatory framework to determine the role of the RBI in the corporate governance of banks.

3.1 Research Design

The research design is founded on a doctrinal research design. This methodology, which constitutes legal scholarship, entails a rational study of legal rules, principles and laws. It is interested in the law as a body of doctrine that are in primary sources of the law. The intention behind this is to interpolate, interpret, and analyze the law, and finding any deviation or discrepancy, and giving recommendations on changes[13].

This prescriptive bone is complemented by a legal-institutional and analytical perspective. It goes beyond being a mere black letter description of the law to examine the way the law works by the institution of the RBI. It investigates the way in which the RBI uses its

[12] " Hussain M, Akhtar R and Mushtaq SA, 'A Comparative Study of the Implementation of Corporate Governance Legal Frameworks in the Banking Sector of Pakistan: Insights from Emerging Economies' (2025) 2(02) The Journal of Research Review 08–46, accessed 2 November 2025"

[13] " Jadhav N and others, The Reserve Bank of India's Balance Sheet: Analytics and Dynamics of Evolution (Reserve Bank of India 2003), accessed 2 November 2025"

statutory and delegated powers and takes a critical look at the interaction between the legal structure (the doctrine) as well as the institutional behavior (the practice)[14].

3.2 Data Collection

The research is based entirely on primary and secondary sources. No human subjects or new empirical datasets were used.

Primary Sources:

- **Statutes (The 'Doctrine'):** The core data consists of India's primary legislation. This includes:
  - The Reserve Bank of India Act, 1934 (especially provisions related to RBI's powers).
  - The Banking Regulation Act, 1949 (especially provisions on licensing, board composition, 'fit and proper' criteria, inspection, supervision, and power to issue directions).
  - The Companies Act, 2013 (to the extent it applies to banking companies, and for comparison).
  - The (hypothetical, as per abstract) Banking Laws (Amendment) Act, 2025, to analyze recent legal reforms.
- **Quasi-Legislative Instruments (Delegated Legislation):** These are the RBI's own pronouncements that have the force of law.
  - RBI Master Directions and Master Circulars on Corporate Governance.
  - Specific circulars related to the appointment of directors, CEO tenure, board committees (Audit, Risk Management), compensation policies (including malus/clawback).
  - Reports of various RBI-constituted committees (e.g., Ganguly Committee on Corporate Governance, Narasimham Committees on Financial Sector Reforms).
- **Policy and Supervisory Documents:**
  - RBI Annual Reports and Reports on Trend and Progress of Banking in India.
  - Publications from the Basel Committee on Banking Supervision (BCBS), particularly its "Principles for enhancing corporate governance."

Secondary Sources:

- **Academic Literature:** The 19 scholarly articles and books provided in the reference list (e.g., Yadav, 2025; Kim, 2015; Arun & Turner, 2003; Parkhi, 2021) form the core secondary data. These are used to establish the research gap, provide context, and support the critical analysis.
- **Legal Commentaries and Case Law:** Authoritative commentaries on banking law and relevant judgments from the Supreme Court of India or High Courts that interpret the RBI's powers under the BRA or RBI Act.

3.3 Analytical Techniques

The collected data was analyzed using the following qualitative techniques:

1. **Statutory Interpretation:** this refers to the strict reading and interpretation of the stipulations of the legal provisions on BRA and the RBI Act to describe the nature and extent of legal powers of the RBI with restraints.

[14] " Jain S and Nangia VK, 'Corporate Governance Disclosures: Emerging Trends in Indian Banks' (2014) 13(1) IUP Journal of Corporate Governance, accessed 2 November 2025"

2. **Content Analysis:** The content analysis was systematic of RBI circulars and guidelines. This involved adherence to the creation of the governance norms over the years- such as the compliance with the extending of the fit and proper requirements becoming more comprehensive or the introduction of risk governance rules since 2008.

3. **Critical Legal Analysis:** This is the analysis key method. It involves the criticism of the legal system according to its efficacy, reasonableness and one-sidedness. Dual regulation of PSBs and dual role conflict between the RBI and the promoter and the regulator are discussed using this approach, as an example.

4. **Comparative Analysis:** The principles of RBI are crossed against the principles of BCBS analytically to find out whether it is in line with or otherwise with international best practices as stated in the abstract. It helps in informing the policy recommendations.

The methodology can be replicated since it will be grounded on the documents published in the law and academic materials (that can be found publicly). The same procedure may be replicated by another investigator, that is, the same laws, organizations, and materials may be inspected and a decision arrived at to prove or discredit the facts that were employed in concluding this paper.

4. Results and Discussion

In this case, the primary section of the discussion of the paper can be given according to the multi-faceted legal role of RBI. It even bisects the legal foundation of the power of the RBI and discusses its quasi-legislative position of setting some norms of government and critical evaluation of its administrative or executive position in some of the norms[15].

4.1 The Legal Bedrock: Statutory Powers of the RBI

The powerful position in the corporate governance held by the RBI is not the perceived power; rather it is clearly conferred on it through two key acts of parliament.

- **The Banking Regulation Act, 1949 (BRA):** It is the greatest legal instrument. Some of the sections directly grant authority to the RBI with regards to the governance amidst the banks winning much under the companies act.
  - **Section 10A, 10B, 10BB:** These are sections which oversee the make-up of the bank boards. They entail most of the directors to have special knowledge or practice in the concerned areas and specifically bar directors who have interests in other competing businesses. Section 10B gives authority to the RBI to reconstitute boards.
  - **'Fit and Proper' Criteria:** The BRA involves the RBI to prescribe fit and proper criteria of directors and senior management which has been fully considered by the bank. It is an executive position, a gateway control before joining of an individual to a board.
  - **Section 35: The Power of Inspection:** This is the main essence of RBI overhead of supervision. It bestows on the RBI, the general power of conducting inspections on any bank and books and accounts. This is access legal overreach upon which its approach of oversight of supervision is established.
  - **Section 35A: The "Quasi-Legislative" Power:** This is likely to be the most influential legal measure. It empowers the RBI to provide direction to the banking firms in general or in a particular banking firm in the interest of the people or the interests of the banking policy. With this aspect, the RBI is able to easily legislate governance matters like the duration of the CEO tenure to risk management systems without necessarily amending the parliament.
  - **Section 36AA: The "Executive" Power to Remove Management:** Section, this provides a nuclear option that is drastic to dismiss any chairman, any other director or officer of a bank in one of the cases because they consider it in your best interest or to manage the bank in proper manner.

[15] " Nachane DM and others, Capital Adequacy Requirements and the Behaviour of Commercial Banks in India: An Analytical and Empirical Study (2000), accessed 2 November 2025"

- **The Reserve Bank of India Act, 1934:** It was an established Act that was anchored in the traditional approach of central banking of the RBI (monetary policy, currency) although it made the RBI the highest authority so mandated by law to achieve the monetary stability, to operate the currency and credit system in the best interest of the country. This broad law has been interpreted in such a way that it offers the RBI vested interest in the normalcy and governance of the entire banking system, and hence, authority.

Discussion: This law review confirm the justice that RBI is legally an over-regulator of the banks. Its mandate (as observed by Kim, 2015) is far more offensive than that of a normal sectoral regulator. As part of the aim of locating the RBI in the boardroom, executive authority to appoint (Sec 10B) is granted judiciously, legislative power to make rules (Sec 35A) and supervisory power to inspect (Sec 35)[16].

4.2 Judicial Interpretation of the RBI's Regulatory and Supervisory Powers

The courts have been on the frontline of interpretation and laying down the limits of the statutory and oversight powers of the reserve bank of India (RBI)[17]. The review of notable judicial decisions indicates that there is a long-standing standing of the court which is that the power of the RBI, its independence and its quasi-legislative mandate should not be encroached, however, the transparency and accountability of the functioning of the RBI should be taken into consideration. These judgments not only affect the legal meaning of the role of RBI, but they also justify the role of the RBI as the great engineer of the corporate governance system of the Indian banking system[18].

1. Central Bank of India v. Ravindra (2002) 1 SCC 367

One of the historic verdicts in this direction is the [19]**Central Bank of India v. In Ravindra (2002)** 1 SCC 367 the Supreme Court clarified that the banks can charge and compute interest as per the circular and guidelines of RBI. The Court ruled that the instructions given by RBI on how to calculate and capitalize interests were binding to all the banks and they were supposed to be followed to the letter. Principle: The Court interpreted that, the directions of RBI issued pursuant to the Banking Regulation Act, 1949, are not so-called advisory and have a statutory effect. Relevance: This decision favors the quasi-legislation authority of the RBI which demonstrates that the circulars and master directions made by the RBI are a delegation legislation having legal binding impact on all the banking institutions. It also ascertains that the RBI is provided with the benefit of the regulatory judiciousness through the courts on the financial aspect since it is also the statutory obligation of the RBI to provide monetary and institutional stability and also has the expertise in the same.

[16] " Nachane DM and others, Capital Adequacy Requirements and the Behaviour of Commercial Banks in India: An Analytical and Empirical Study (2000), accessed 2 November 2025 "

[17] " Parkhi S, 'Governance at Stake: A Case of ICICI Bank, India' (2021) 11(5) International Journal of Process Management and Benchmarking 693–706, accessed 2 November 2025"

[18] " Pati AP, 'Does Corporate Governance Matter in Indian Banking? Policy Implication on the Performance' in Policy Implication on the Performance: Indian Institute of Capital Markets 9th Capital Markets Conference Paper (2006), accessed 2 November 2025"

[19] *Central Bank of India v Ravindra (2002) 1 SCC 367 (Supreme Court of India)* ***https://indiankanoon.org/doc/1306839/*** *accessed 2 November 2025*

2. ICICI Bank Ltd. v. Official Liquidator of APS Star Industries Ltd. (2010) 10 SCC 1

Another landmark case that enlarged the authority of RBI in supervision is an equal case, [20]ICICI Bank Ltd. v. Official Liquidator of APS Star Industries Ltd. (2010) 10 SCC 1. The question of the case that the Supreme Court addressed was that the non-performing assets (NPAs) sold and transmitted between banks had to be approved by RBI. The Court determined that such transactions may only be acceptable as long as they do not go against prudential norms and directions issued by RBI. Principle: The Court recognised that the prudential principles and the guidelines that have been provided by RBI are also binding and can be resorted to in deciding how the banks are supposed to behave even in the course of the liquidation or restructuring process. Relevance: The case demonstrates that the RBI exerts a significant amount of control within the banking actions and hence it has both the supervisory and statutory powers to formulate guidelines of governance and risk management. The aggressive application of the RBI circulars as the legal basis of the decision made by the Court is the embodiment of the relocation of the regulatory means to the legal means of developing the enforceable principles of the government in the Indian law system.

3. Kihoto Hollohan v. Zachillhu (1992) Supp (2) SCC 65

Kihoto Hollohan v. zachillhu[21] involves a support of analogically the conceptual interpretation of the multi-dimensional roles of the RBI, a legislative, executive, and supervisory. Zachillhu (1992) Supp (2) SCC 651). It was not a direct banking law case, but the compromise of quasi-judicial and quasi-legislative power in constitutional and statutory organizations was determined in this decision. Principle: The Court coined the concept that certain bodies would undertake functions that were more than one organ of the State based on the kind of power that it would delegate to it. Relevance: Analogically, this helps in justification to argue that statutory empowerment of RBI by the RBI Act, 1934 to provide binding directions, executive to impose compliance and management being removed under Section 36AA and supervisory under Section 35. The hybridity of this authority of RBI thus results in jurisprudential validity in the constitutional separation of powers system.

4. Reserve Bank of India v. Peerless General Finance & Investment Co. Ltd. (1987) 1 SCC 424

Perhaps the greatest official affirmation of the institutional independence of RBI is to be found in Reserve Bank of India v. Pearl[22] less general finance and investment co. Ltd 1987 1 SCC 424. In the case, there was also the issue of validity of some of the directions made by the RBI under the Reserve Bank of India Act, 1934, which applied to deposit schemes. It was categorical to the Supreme Court that RBI is a professional organization with a very sensitive responsibility of ensuring monetary stability, financial discipline and its policy making process cannot be easily interfered with. Principle: As stressed in the case, the decisions of the RBI are based on limited economic and technical aspects that are prerogative of the entity. Relevancy: It is much pegged on a doctrinaire position that the courts have no right to inquire on what the policy of RBI is and what it does not do. It indicates the fact that the courts consider that RBI is the most significant central banking authority that could decide on binding policies which could ensure healthy administration in the financial market. This is fundamental still in concluding the boundaries between judicial and administrative rulemaking of RBI.

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[20] *ICICI Bank Ltd v Official Liquidator of APS Star Industries Ltd (2010) 10 SCC 1 (Supreme Court of India)* ***https://indiankanoon.org/doc/503155/*** *accessed 6 November 2025*

[21] ” *Kihoto Hollohan v Zachillhu (1992) Supp (2) SCC 651 (Supreme Court of India)* ***https://indiankanoon.org/doc/967230/*** *accessed 2 November 2025”*

[22] *Reserve Bank of India v Peerless General Finance & Investment Co Ltd (1987) 1 SCC 424 (Supreme Court of India)* ***https://indiankanoon.org/doc/1140647/*** *accessed 6 November 2025*

5. Jayantilal N. Mistry v. Reserve Bank of India (2016) 3 SCC 525

On the other hand, the courts too have resorted to judicial intervention to give transparency and accountability in the supervisory operations in the RBI as witnessed in[23] Jayantilal N. Mistry v. Reserve Bank of India (2016) 3 SCC 525. The case was referred to the Right to Information Act, 2005 in which RBI had not released some inspection and audit reports on the ground of confidentiality and fiduciary duty. This argument was unanimously rejected by the Supreme Court and came up with the idea that the RBI is regulatory and not fiduciary and therefore cannot withhold information to the majority in the name of protecting the interests of the banks. Principle: The Court has declared that transparency is an element and constituent of good governance and popular trust on regulation of finances. Relevance: This case has a direct correlation with the topic of the discussion of supervisory transparency in the present research as it points out that the role of RBI towards the masses is a significant factor of modern corporate governance. It is an appendix of the policy proposal of the paper of which it is recommended to disclose more of the supervisory evaluations to encourage market discipline and depositor confidence.

All these court decisions sketch up one trend of strengthening of legal power of the RBI and establishing the equilibrium between them and constitutional values of the transparency and fairness. The courts have found that the circulars and directives of RBI bear the character of subordinate legislation and are obligatory to all the financial institutions and this has supported its quasi-legislative and supervisory character. In the meantime, they have ensured that this liberty is conducted in the broader constitutional ethos of responsibility. This judicial interpretation of the powers of RBI thus adds to the doctrinal interpretation of the functions of RBI in its affairs with regards to corporate governance by presupposing that, even as much as the RBI must be independent in its regulating role, it must be transparent and accountable in its governance patterns simultaneously.

4.3 The RBI as "Quasi-Legislator": Building the Governance Architecture

RBI has taken advantage of its power particularly, Section35A, BRA, to establish a rich vibrant system of governance norms[24]. This development can be followed with the assistance of its key interventions:

1. **Post-1991 Reforms (Narasimham Committee):** Initially, the norms of prudence (capital adequacy, asset classification) rather than internal governance were focused on (Arun and Turner 2003). The prudential regulations and the market forces were believed to suffice.
2. **Ganguly Committee (2002):** It was the initial large scale step of RBI in the internal corporate governance. It implied the proper and appropriate qualifications of directors, creation of major board committees, in line with the global trends. This was change to institutional regulation, and not financial regulation.
3. **Post-2008 Global Financial Crisis (GFC):** The GFC demonstrated that risks could not be controlled efficiently unless there was financial prudence. RBI was retaliating by issuing stringent rules on:

a. **Risk Management:** This need to have Risk Management Committee on the board level and Chief Risk Officer (CRO) and report directly to the board.

b. **Compensation:** Issue of detailed policies on compensation of full-time directors/CEOs that need to be viable, as the compensation is pegged on risk-adjusted performance, and the need needs to be malus/clawback. This was a direct measure in order to prevent the erroneous incentives that aimed at producing the GFC.

[23] Reserve Bank of India v Jayantilal N Mistry (2016) 3 SCC 525 (Supreme Court of India) **https://indiankanoon.org/doc/72352279/** accessed 2 November 2025

[24] Sharma DS, 'Cooperative Banks in India and RBI: Study of Regulatory Framework' (2024) 6(4) International Journal of Legal Science and Innovation 209–333, accessed 2 November 2025

4. **Master Direction on Corporate Governance (2021):** It is to bring together decades of circulars in a single piece of legal material. It fixed the rules on the structure of the board, separation of the position of Chairman and the CEO (but this was delayed subsequently), the term of the directors and the term of the CEO and the work of the board committees (Audit, Risk, Nomination).

Discussion: That is, in part the RBI is acting in a quasi-legislative way. It has been proactive in coming up with a corporate law of governance. It is a fast and agile approach - the RBI can respond to the arising risks (like the GFC) much faster than Parliament. It also however means that the most significant sector in India is technocratically ruled by an unelected institution. It is a tradeoff of efficiency and democracy. In addition, as these rules (e.g., strong audit committees) are present and may, not necessarily, deter bad practices (e.g., earnings management), these rules have an enforcement gap as Mangala and Singla (2023) put it.

4.4 The RBI in Practice: "Executive" and "Supervisor"

This is whereby the de jure model is faced with the de facto reality. The legal authority of RBI is also legal, which is evident, yet its exploitation has been linked to numerous issues.

- **The Enforcement Gap and Governance Failures:** it is Enfoicer ICICI Bank (Parkhi, 2021) and the collapse of Yes Bank. The corruption of governance (conflict of interest, unsafe lending, lack of control over the board) did not appear at a certain moment in both of the cases, it had been long-standing and has been developing. Though the supervisory powers of the RBI are colossal as per the provision of Sec 35, early warning systems operated have failed (or executive option (Sec 36AA)) has been exercised too late. This means that one can have the risk of regulatory forbearance, where the regulator, despite his ultimate power, is too scared to act vigorously, perhaps because of the potential of inducing market panic and systemic volatility. This is closely related to so-called dual role conflict: the unwillingness to destabilize the situation (not acting) might become the conflict with the unwillingness to be honest (acting).
- **The Public vs. Private Sector Bank Dichotomy:** This is a central legal and institutional challenge.
  - **Private Banks:** RBI has plenary legal authority. It approves the appointment of CEOs, can sack directors and has its Master Directions.
  - **Public Sector Banks (PSBs):** The RBI has been traditionally quite weak following the idea of dual regulation (Arun and Turner, 2003). PSBs are also controlled by the majority of the government though via the Department of financial Services. Key posts (CEO, directors) are made by the government but in consultation. This creates a massive unfairness. Where the RBI on realizing that there is governance issue within one of the PSB directors, it cannot comfortably exercise the power of sec 36AA in the case of a privately owned bank. This legal grey area has, according to the suggestion of Anthala (2018), contributed to the level of poor governance and higher incidences of fraud in PSBs[25].
- **Harmonizing the "Dual Role":** It is correct in the abstract to observe that there exists a dilemma of balancing the two parameters of, the monetary stability and the custodian of institutional integrity. It is not some hypothetical conflict. To use an example; in case of recession; the monetary authority (RBI) can request the banks to lend out/give out more money to stimulate the economy[26]. Nevertheless, RBI (as regulator) will be forced to demand prudence which may result in a decline in lending. It is only played in a single institution which complicates its supervisory status making it contradictory in some instances in relation to the critics.

[25] Sharma MAM, 'Reinforcement of Indian Banking System Through Corporate Governance', accessed 2 November 2025

[26] Yadav CK, 'Legal Protection of Bank Depositors in India: A Critical Study in the Context of Recent Bank Run Incidents' (2025) 1(7) Journal of Advanced Interdisciplinary Studies 06–19, accessed 2 November 2025

4.5 The Path Forward: The 2025 Banking Laws (Amendment) Act

Even in case such legal reaction to the aforesaid challenges is not visible in the (hypothetical) Act of 2025, par. 2025, the Banking Laws (Amendment) Act, as presented in the abstract, must be examined. Based on them, this Act is likely to address the following gaps:

1. **Resolve the "Dual Regulation" of PSBs:** The most significant legislative reform would be to reform the PSB-specific legislation (like the SBI Act, or the Bank Nationalisation Acts) such as to give the board and management of PSBs the same legal and executive powers as it is to the board and management of the private banks. This would put the balance back on the legal system.
2. **Strengthen Depositor Protection:** The Act would likely improve the legal environment to depositor protection against the anxieties that have been expressed by Yadav (2025), where the insurance depth is likely to be increased or the time-sensitive pluck out may be enacted of the fallen banks in such a manner that the governance process is not that which is politically determined.
3. **Codify Supervisory Powers:** The Act may codify some of the RBI soft law powers (in circulars) into hard law (statute) giving them a greater degree of certainty and immunizing such to some extent against judicial review. As an example it could formally endorse the doctrine of fit and proper in the BRA itself, and the power of the RBI to do the same.

Discussion: This legal reform agenda—embodied by the 2025 Act—represents the next stage in the RBI's evolving role. It signals a move towards a more transparent, powerful, and *legally unambiguous* supervisory role, directly addressing the gaps exposed by the failures discussed by Parkhi (2021) and others.

5. Conclusion and Recommendations

The next step in the role of the RBI development is the formation of such a legal agenda as the 2025 Act is its symbol. It is the sign of a shift towards a more transparent, more powerful, and legally definite role of the supervisor that indirectly reacts on the gaps in practice exposed by the failures pointed out by Parkhi (2021) and others.

Summary of Main Findings:

1. **Statutory Foundation:** The authority of RBI is quite vast, and it is conferred in banking regulation act, 1949 and RBI act in 1934. Decision, such as, the authority to give directions in Sec 35A or the authority to examined in Sec 35 or authority to eradicate the management in Sec 36AA are extraordinary forces which are considerably beyond the ability of other corporations regulating authorities.
2. **Quasi-Legislative Role:** RBI has actually been effective with the identical capacity it has under the part 35A, which brings red and proactive as well as mass of governance law using the instruments of circulars and master directions. This has assisted it in reacting swiftly to emerging hazards (e.g. after GFC) by regulating laws on risk administration and payment which is consistent to the worldwide assumptions of BCBS.
3. **Supervisory and Enforcement Challenges:** It is a great legal structure with still notable problems. The failure in the administration of respectable businesses (ex: Yes Bank, ICICI Bank) suggests the absence of the relation between the text in the law and its implementation in reality.
4. **Key Legal-Institutional Frictions:** The research stated two fundamental frictions. One, being the grey area in the laws of the dual regulation of the Public Sector Banks (PSBs) by the government and the RBI that raises the issue of the hand of supervising the RBI. Secondly, the fact that RBI is two-sided in the position of the organizer of financial stability and the agent of the integrity of the institution is a conflict-generating characteristic itself, and thus, predisposes regulatory restraint.

Contributions and Implications: The article is impactful, in that it gives an overview of the legal institutional analysis of the role played by the RBI. It connects the financial/managerial literature with the legal scholarship as it provides the legal criticism of powers of RBI.

The result of this practical implication is evident: the rules of law are not enough. It is the governance that is challenged based on these rules that lack political interference and its application that is not filled with clashing internal rules.

Limitations of the Study: since it is a doctrinal and analytical paper, it is limited to the analysis of the legal norm and publicly available documents. The empirical part of describing the influence of the RBI interventions on the bank performance is not fulfilled by the former, and quantitative studies are effective to complete such an assignment (e.g., Almaqtari et al., 2022). Moreover, the decision making process, adopted by RBI in its supervisory units is a black box, and is not in the focus of this study.

Policy Recommendations: According to the analysis, the recommendations that will be made, concerning the policy reforms are as follows:

1. **End "Dual Regulation" of PSBs:** The (hypothetical) 2025 Banking Laws (Amendment) Act should be the vehicle to decisively end the dual regulation of PSBs. All banking institutions, regardless of ownership, must be brought under the *unequivocal* legal and supervisory authority of the RBI concerning governance, board appointments, and senior management.
2. **Strengthen the "Executive" Role:** The RBI must be politically and legally empowered to use its "executive" powers (like Sec 36AA) more pre-emptively. This requires strengthening the legal "fit and proper" framework to make it a continuous, not just an entry-level, assessment.
3. **Enhance Supervisory Transparency:** Although its supervisory inferences are seen as a secret, the RBI ought to be more transparent to the rest of society, maybe by anonymous and issue-abiding statements on the slacks of governance in the industry. This would allow a market-based incentive to conform.
4. **Formalize the "Twin Peaks" Model:** To resolve the "dual role" problem, the policy-makers will formally dual-track to a "twin peaks" model of regulation, where the monetary policy aspect of the RBI is official center-stage and formally separate to its prudential side and oversight side (which may be any other but co-ordinated authority). This would give the supervisory arm one mandate; institutional integrity.

Future Research Directions: It is possible to project future research direction, which would be applied to empirically analyse the effects of the Banking Laws (Amendment) Act of 2025 on the quality of the PSBs governance. Also, the comparative legal analysis of the executive power of the other central banks (e.g. the Federal Reserve in the USA, the Bank of England) that the bank management would need to be shoed in would have helped the bank management in being able to situate in the global picture as far as its legal standing is concerned.

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